

**Blackstone**

# Macro Update

MAY 2020

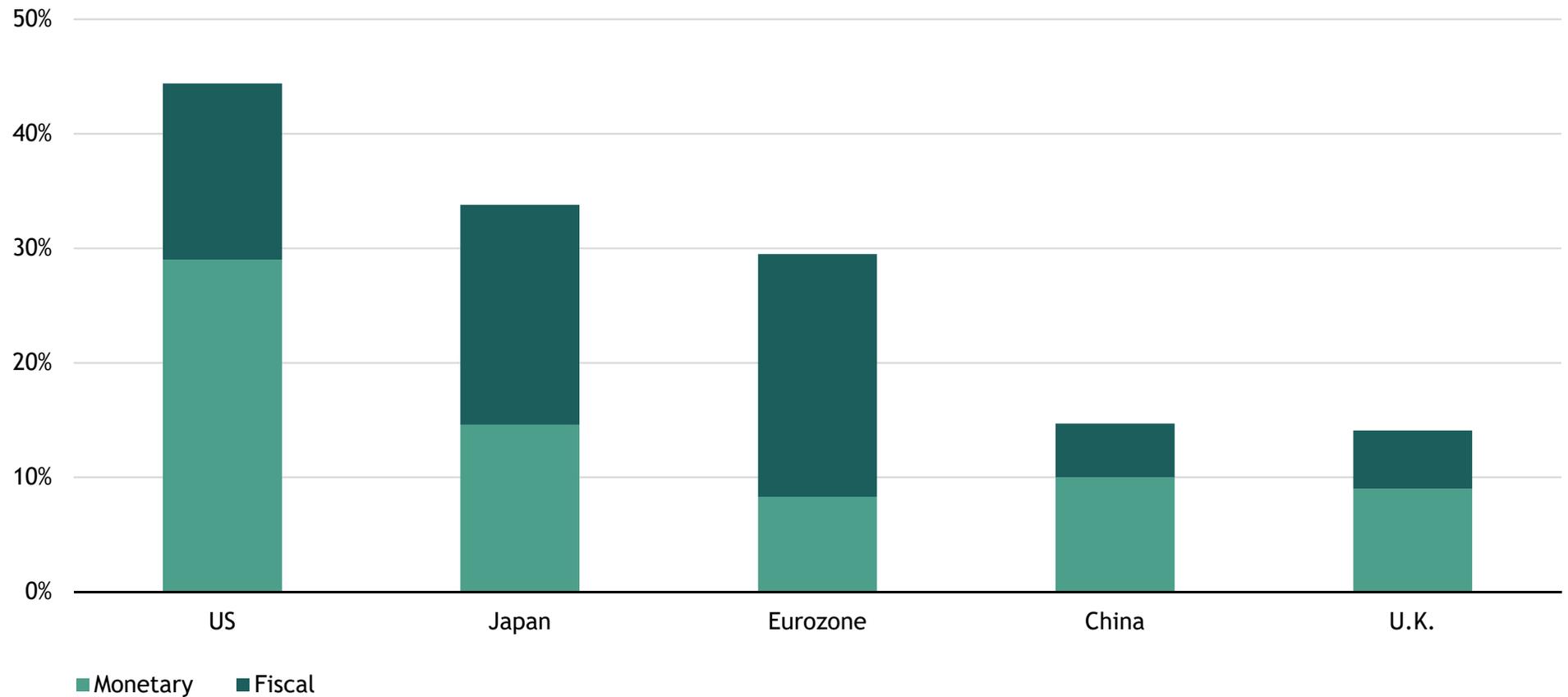
**Joseph Zidle**

Chief Investment Strategist and Managing Director, Private Wealth Solutions

# US leads major economies in announced fiscal and monetary stimulus, at 44% of GDP

## Monetary and Fiscal Stimulus Announced Between Feb. 2020 and Apr. 2020

(percent of each economy's respective 2019 GDP)

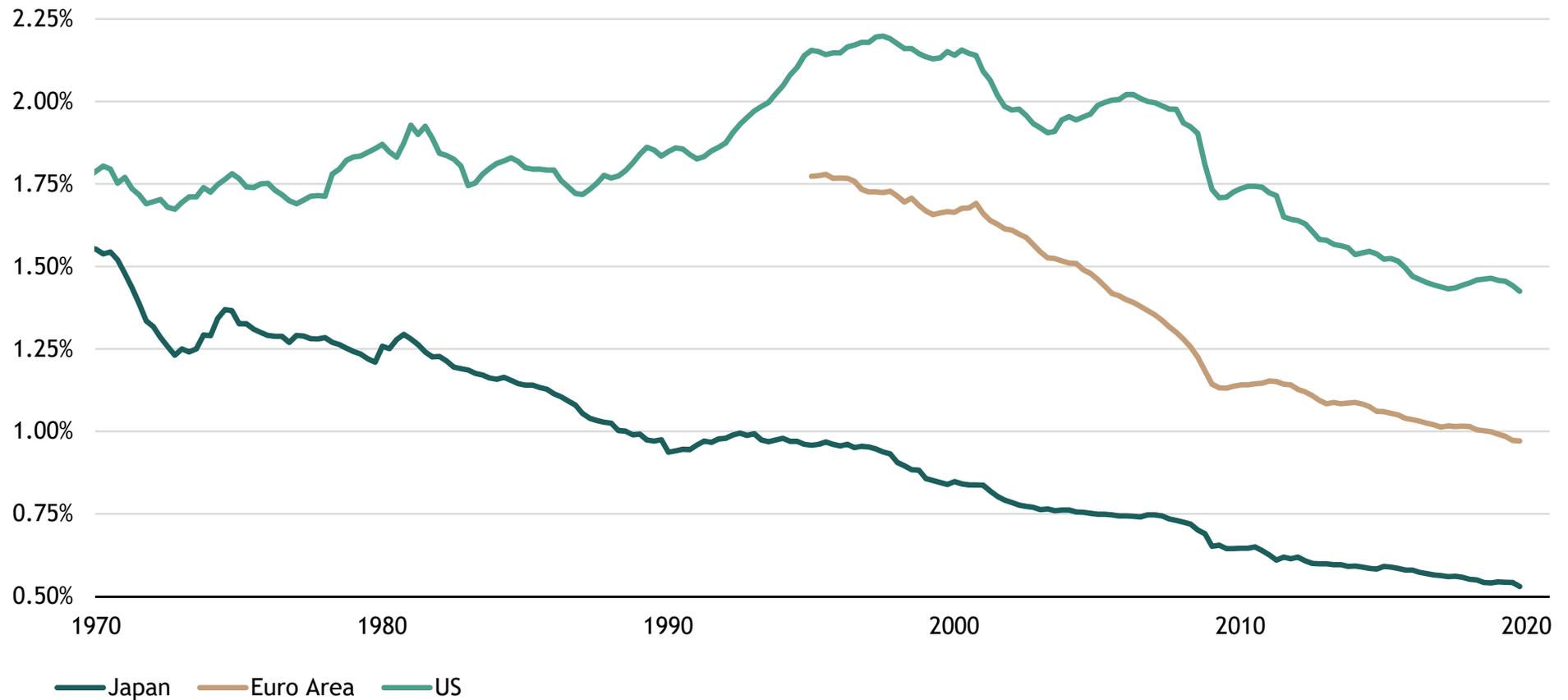


Source: Cornerstone Macro, as of 5/06/20.

# Low velocity of money means it takes more monetary stimulus to create the same level of growth

## Velocity of Money

(ratio of GDP to M2 money supply)

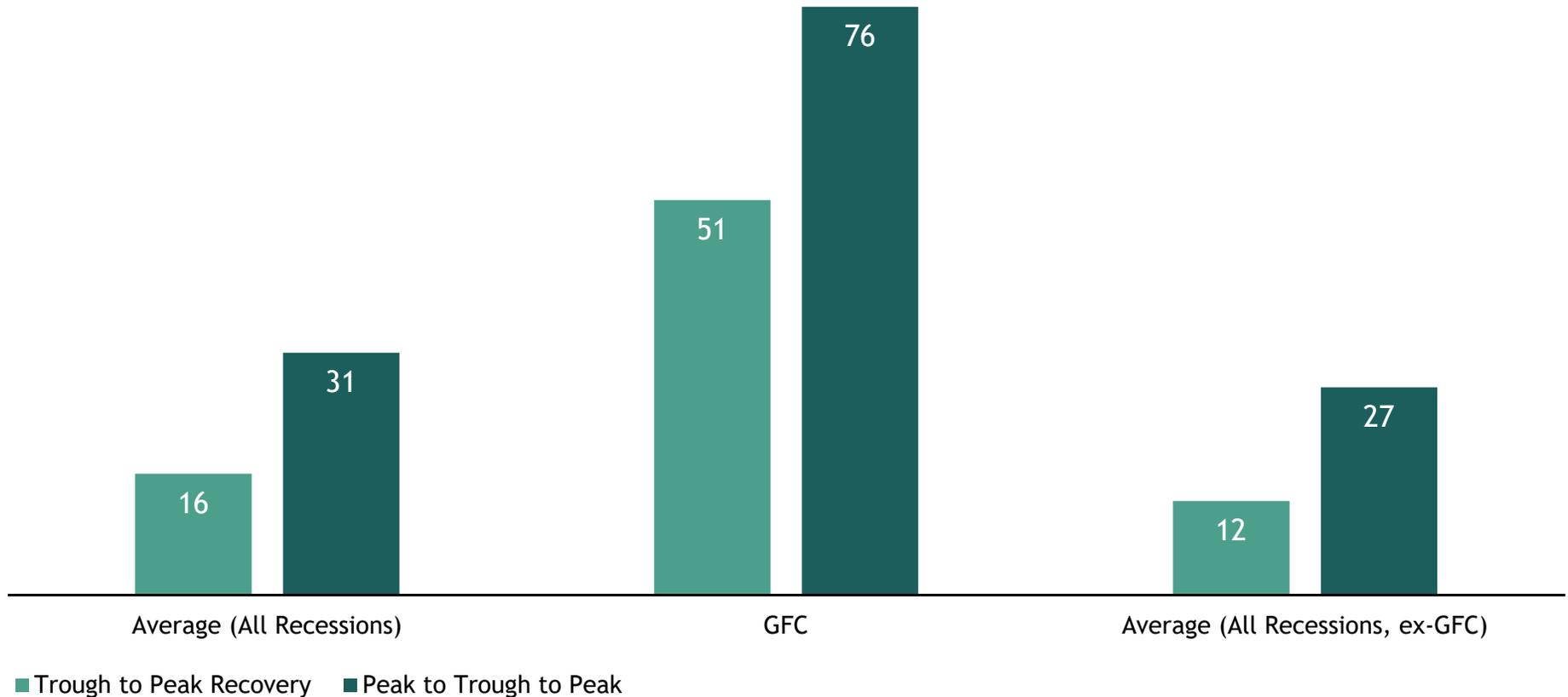


Source: Haver Analytics and Blackstone Investment Strategy, as of 12/31/19. Represents ratio of GDP to Money Supply (M2), seasonally adjusted.

# In the US, it takes 31 months on average for employment levels to recover prior peaks (76 months post-GFC)

## Number of Months for US Employment to Recover Prior Highs

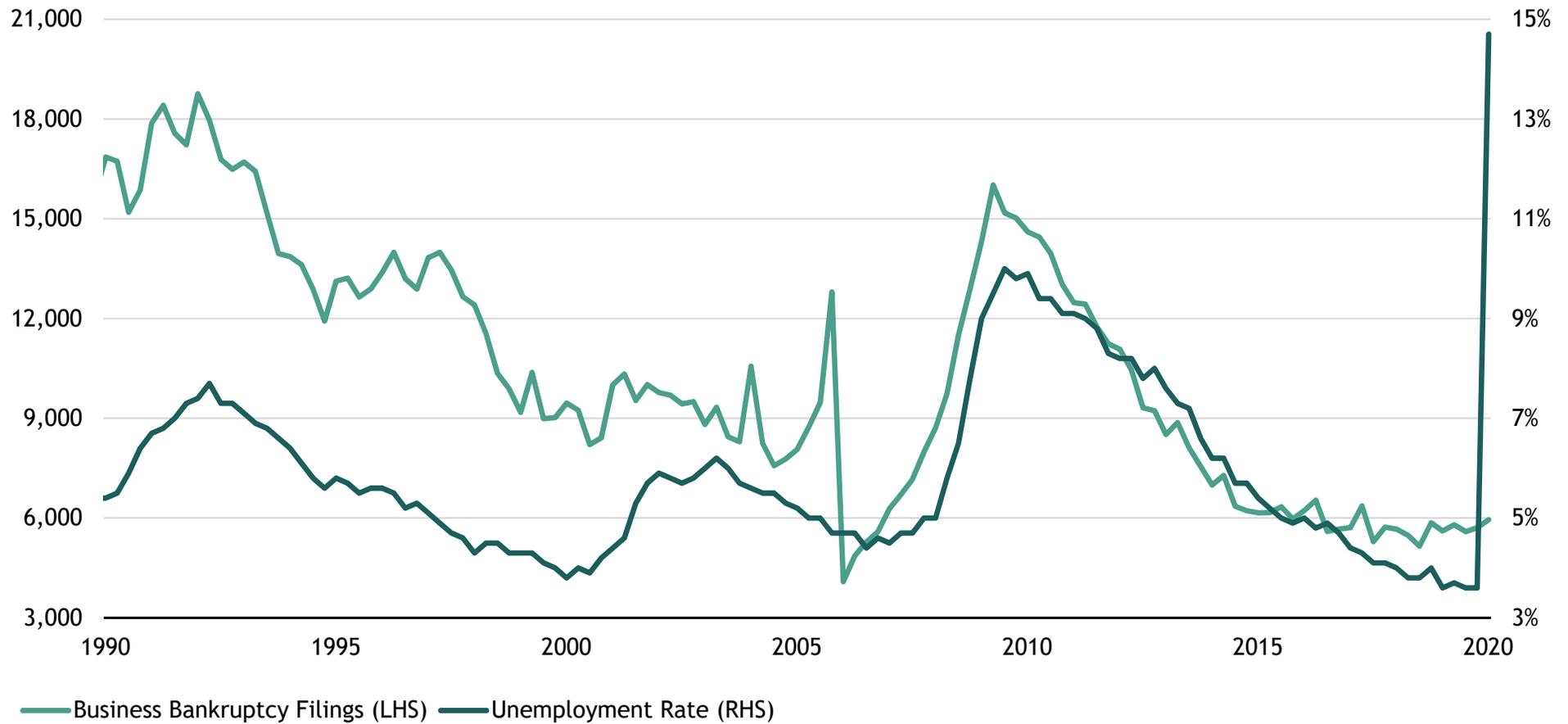
(based on total nonfarm payrolls)



Source: Bureau of Labor Statistics. Based on all recessions from 1939 through 2019.

# Many of the layoffs currently considered temporary could become permanent if bankruptcies rise

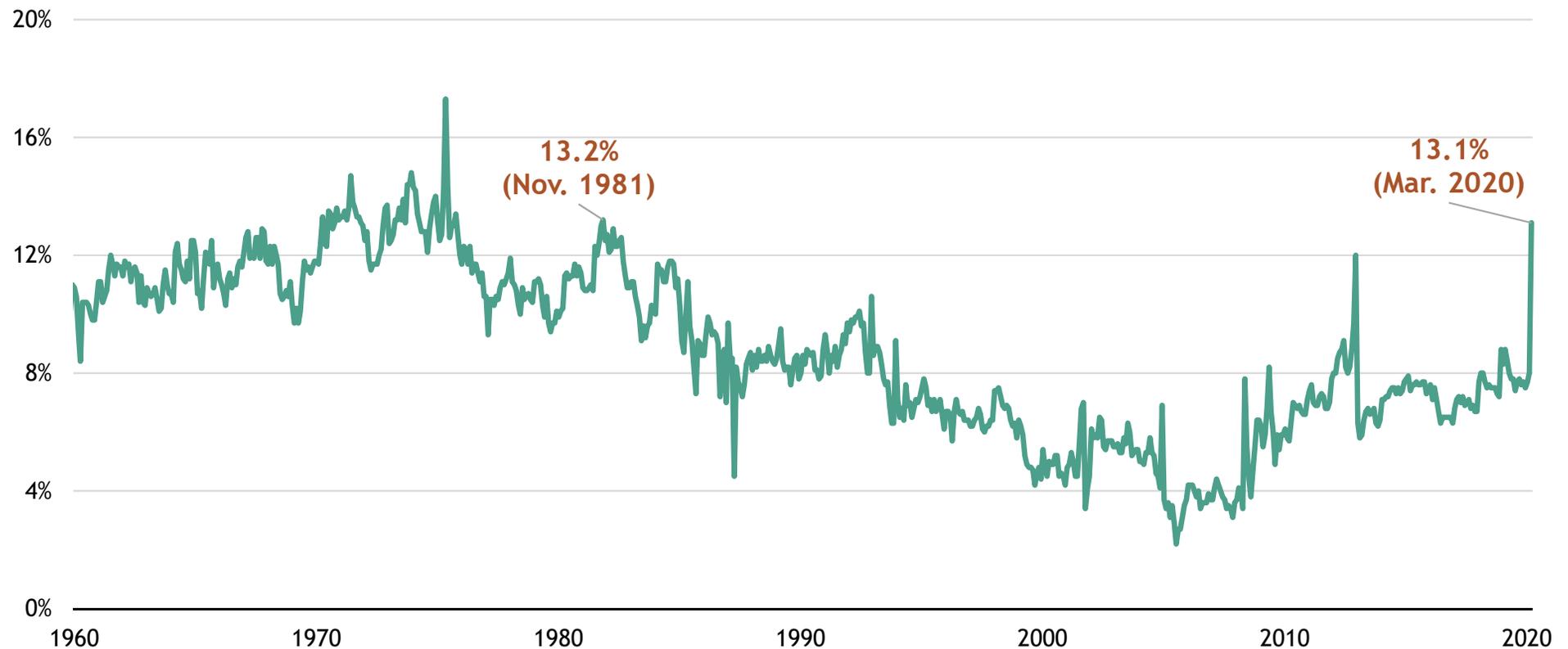
## US Business Bankruptcy Filings and Unemployment Rate



Source: Administrative Office of the US Courts, BLS, Haver and Blackstone Investment Strategy, as of 3/31/20.

# In March 2020, US personal saving rate reached highest level since 1981

US Personal Saving Rate<sup>(1)</sup>



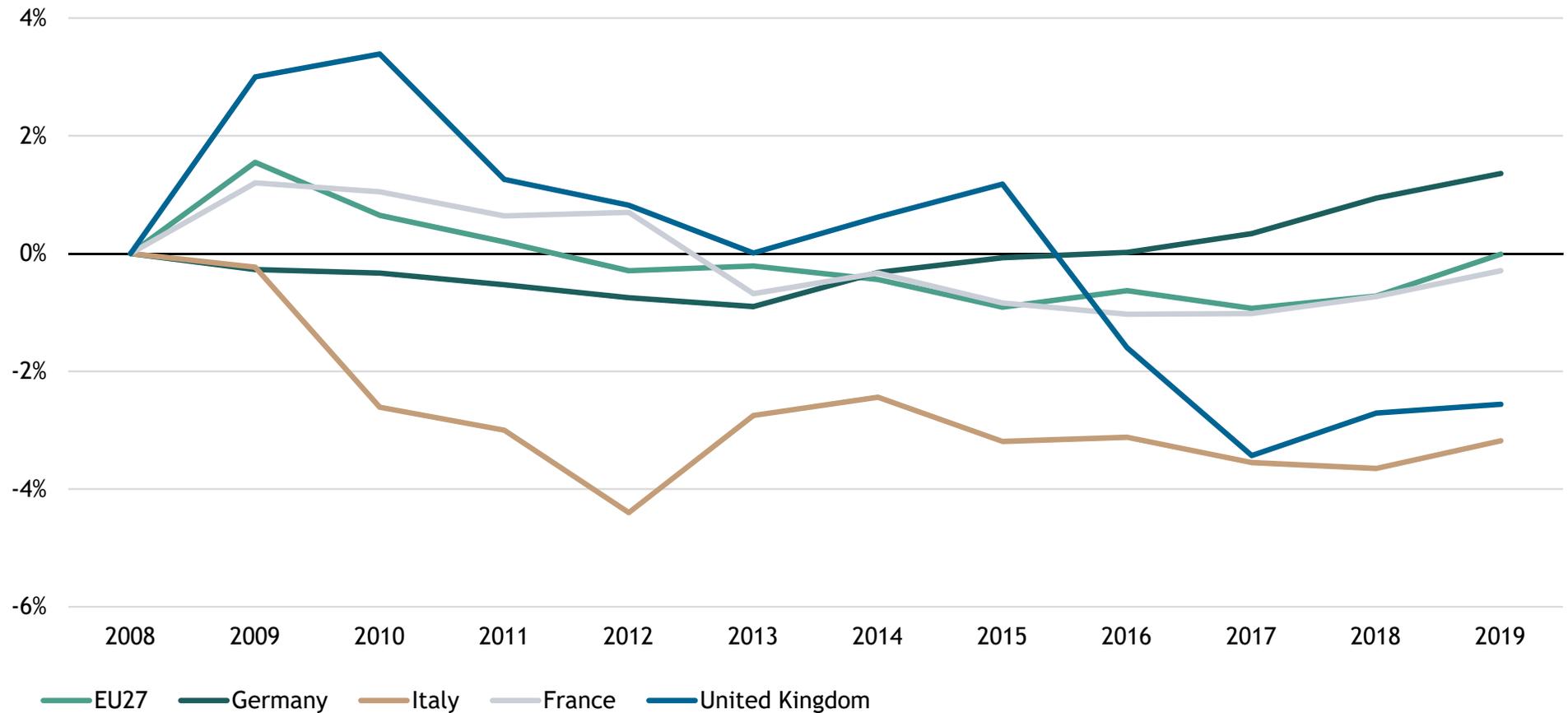
Source: Bureau of Economic Analysis, as of 3/31/20.

(1) Personal saving as a percentage of disposable personal income (DPI), frequently referred to as "the personal saving rate," is calculated as the ratio of personal saving to DPI.

# Savings rates may have troughed across major European economies and could trend upward

## Change in Gross Household Savings Rates<sup>(1)</sup>

(indexed to zero at 2008 levels)



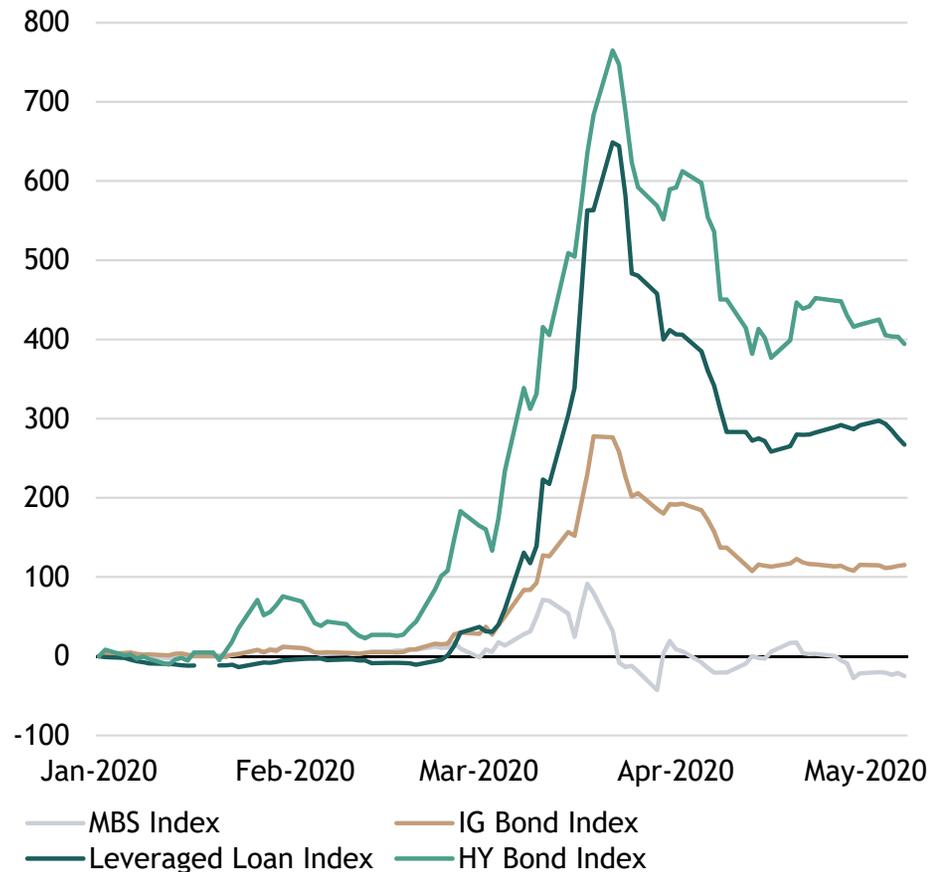
Source: Eurostat. Data for 4Q'19 as of 4/29/20.

(1) Includes non-profit institutions serving households. Gross saving rate is defined as the part of gross disposable income which is not spent as final consumption expenditure.

# Credit markets stabilized after the Fed’s March 23 announcement of new asset purchase facilities

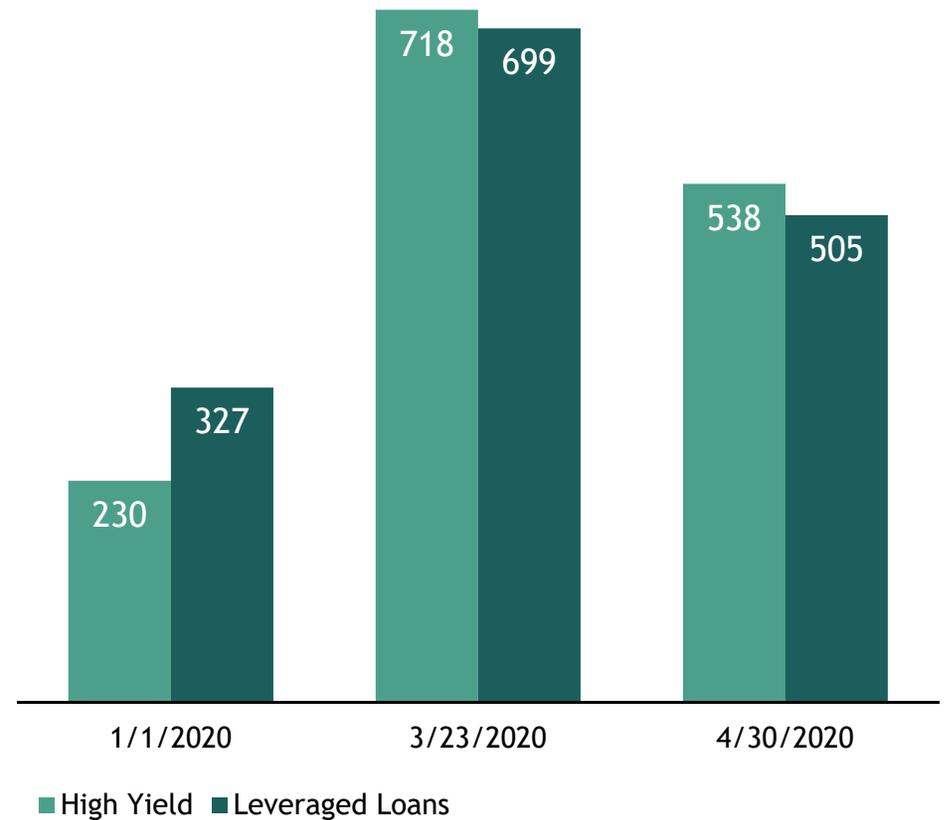
## Credit Market Spreads

(bps, 1/1/2020=0)



## Spreads Relative to IG Spreads

(bps)

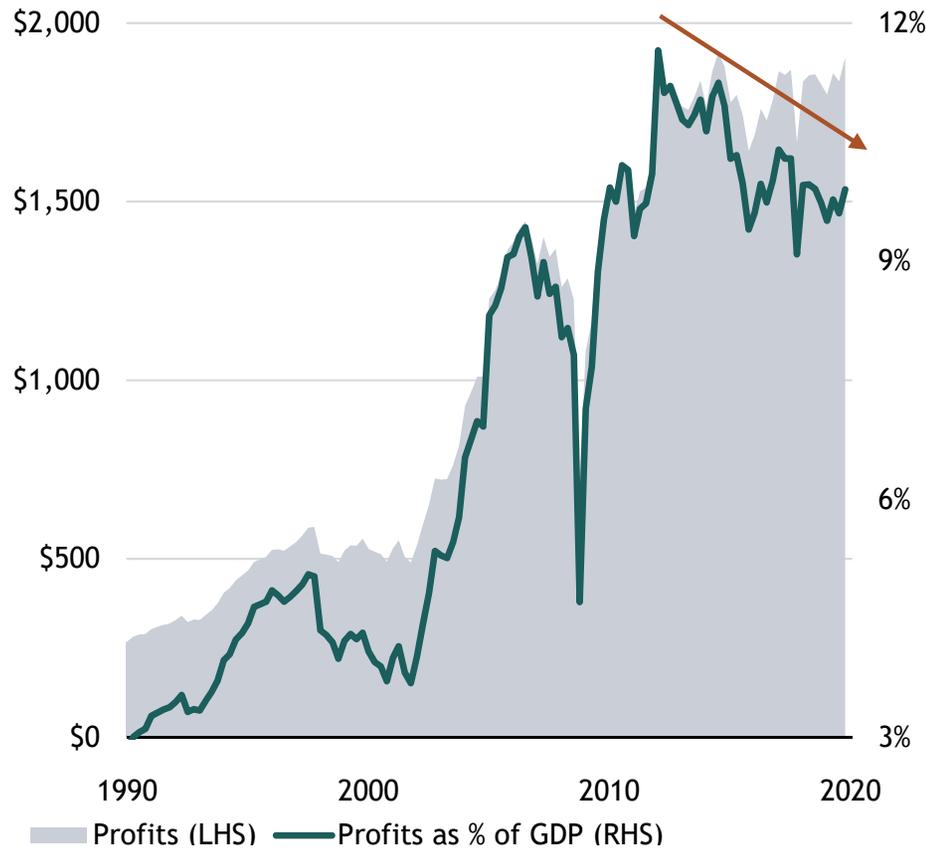


Source: S&P Global, Bloomberg and Blackstone Investment Strategy, as of 5/8/20. Represents the Bloomberg Barclays US Corporate Bond Index, the Bloomberg Barclays US High Yield Corporate Bond Index, Bloomberg Barclays US MBS Index and the S&P/LSTA Leveraged Loan Index. Spreads for IG, HY and MBS represent the yield to worst of each index relative to the generic 10Y UST yield. Spreads for the LL Index represent spread to maturity.

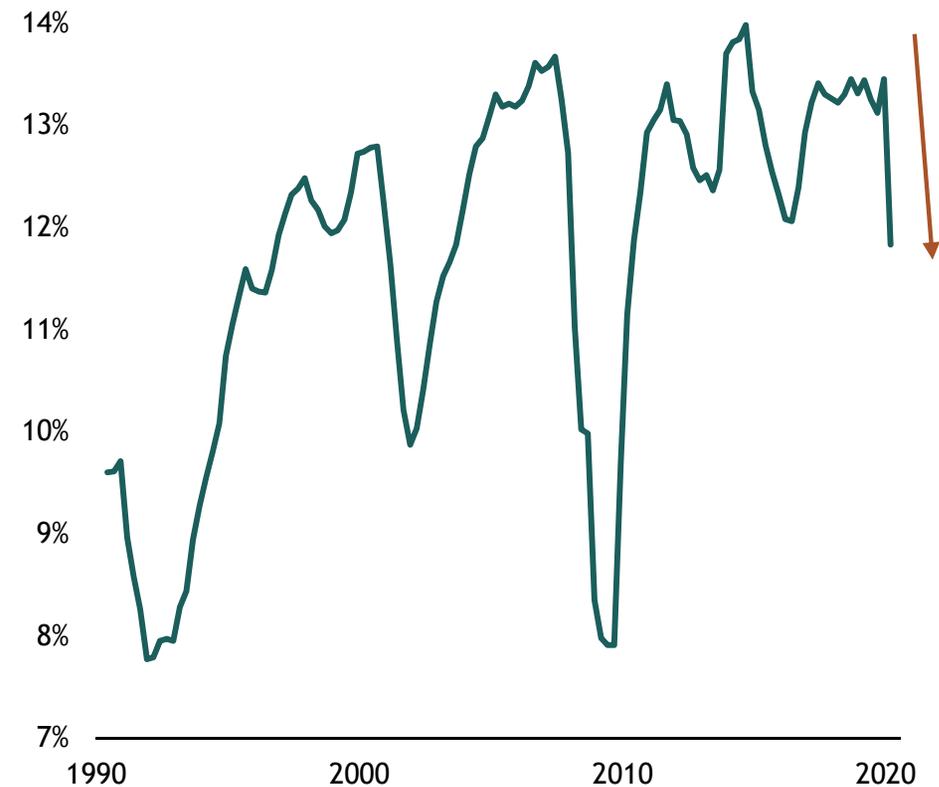
# Corporate profits had been declining; profit margins will be further challenged by slowing growth

## Post-Tax Corporate Profits<sup>(1)</sup>

(\$ in billions)



## S&P 500 Operating Margin



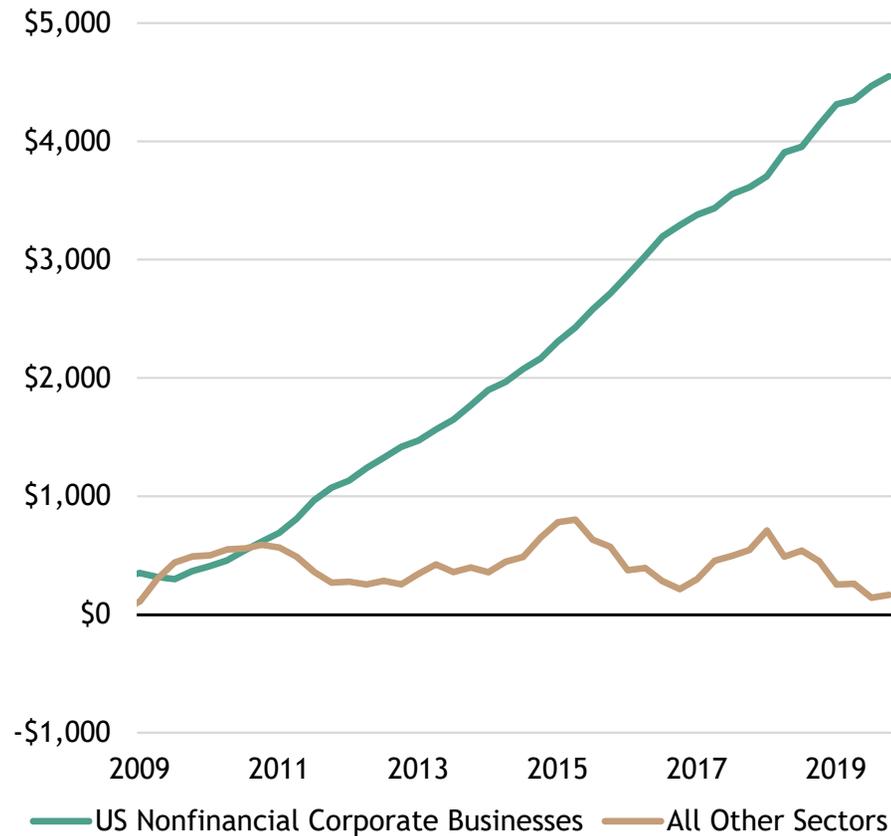
Source: Bureau of Economic Analysis, Bloomberg and Blackstone Investment Strategy. Post-tax corporate profits data as of 12/31/19; S&P 500 data as of 3/31/20.

(1) Based on corporate profits after tax (seasonally adjusted annual rate), without inventory valuation or capital consumption adjustments.

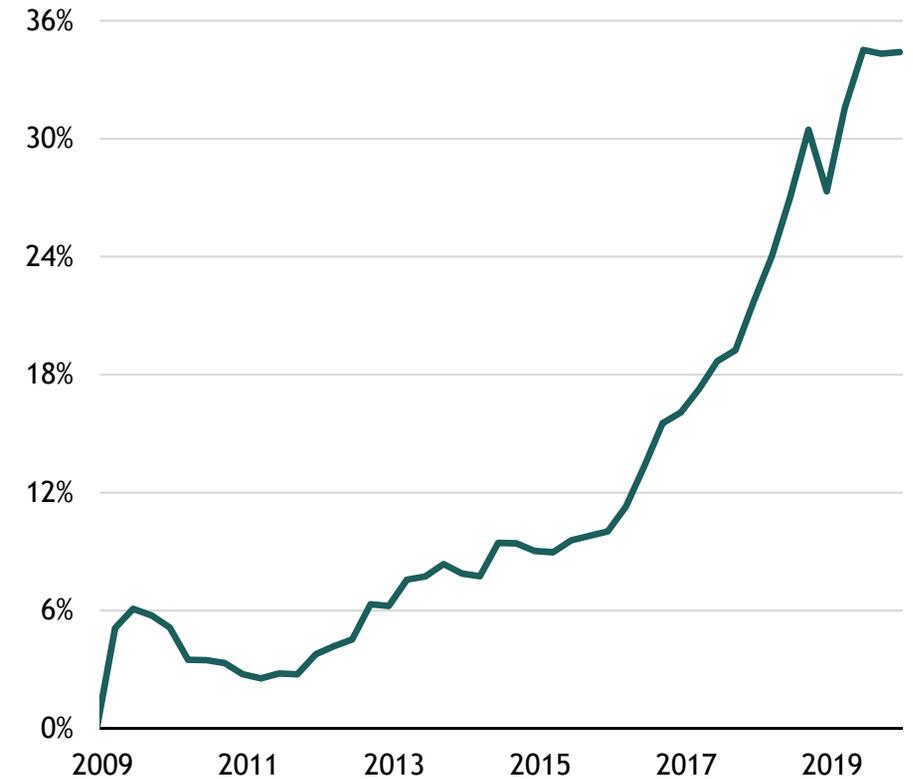
# Since 2009, corporate buybacks total over \$4.5 trillion; net purchases from all other sectors total \$165 billion

## Cumulative US Equity Purchases<sup>(1)</sup>

(US\$ in billions)



## Cumulative S&P 500 EPS Growth in Excess of S&P 500 Net Income Growth<sup>(2)</sup>



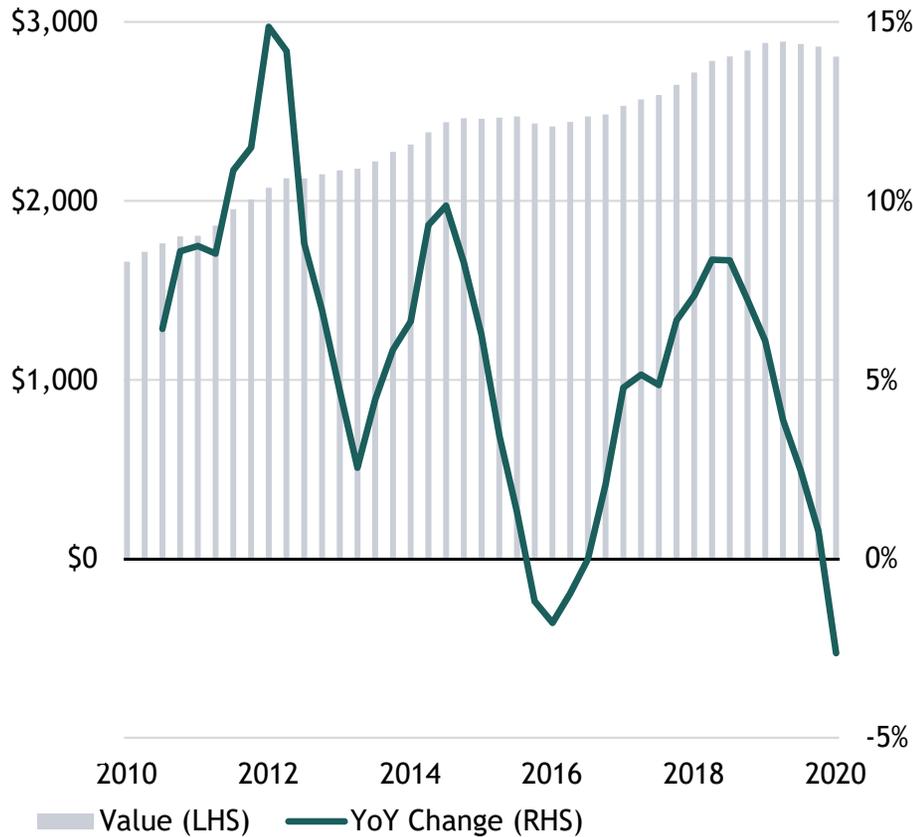
(1) Source: Federal Reserve, Haver and Blackstone Investment Strategy, as of 12/31/19. "US Equity Purchases" represents all US corporate equities, including shares of exchange-traded funds, closed-end funds and real estate investment trusts. "All other sectors" includes all domestic sectors (ex-US nonfinancial corporate business) and foreign sectors.

(2) Source: Strategas Research Partners, as of 12/31/19.

# Capex has been declining; energy sector capex represents nearly 1% of US GDP

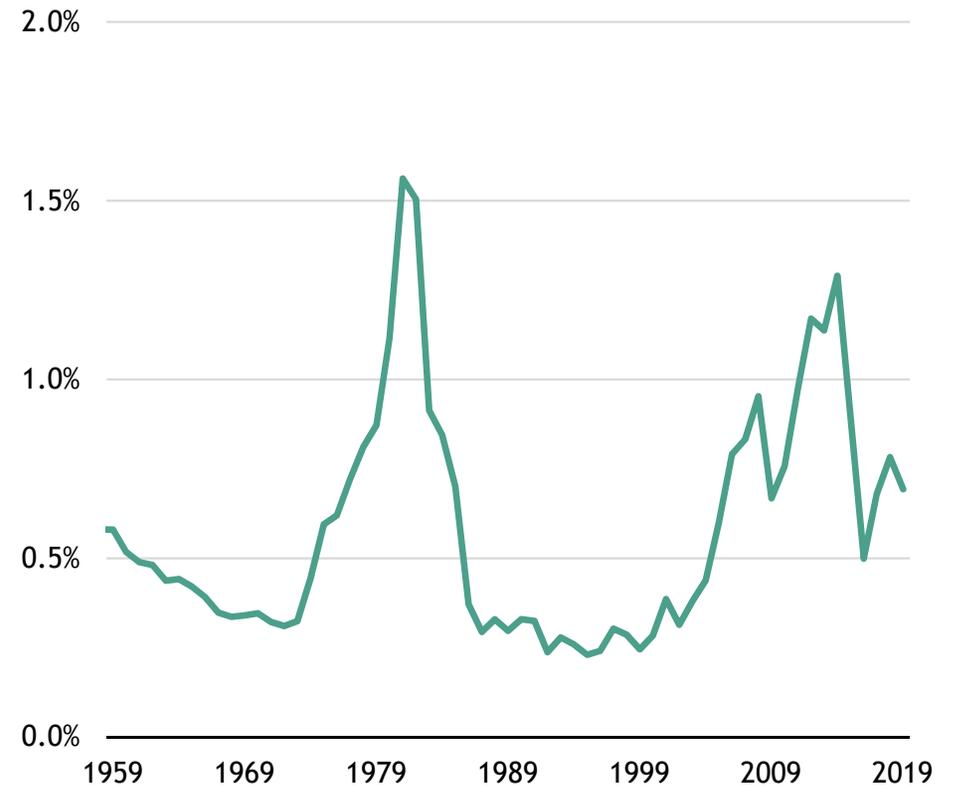
## Private Nonresidential Fixed Investment

(US\$ in billions)



## Private Fixed Investment: Energy Sector<sup>(1)</sup>

(percent of US GDP)



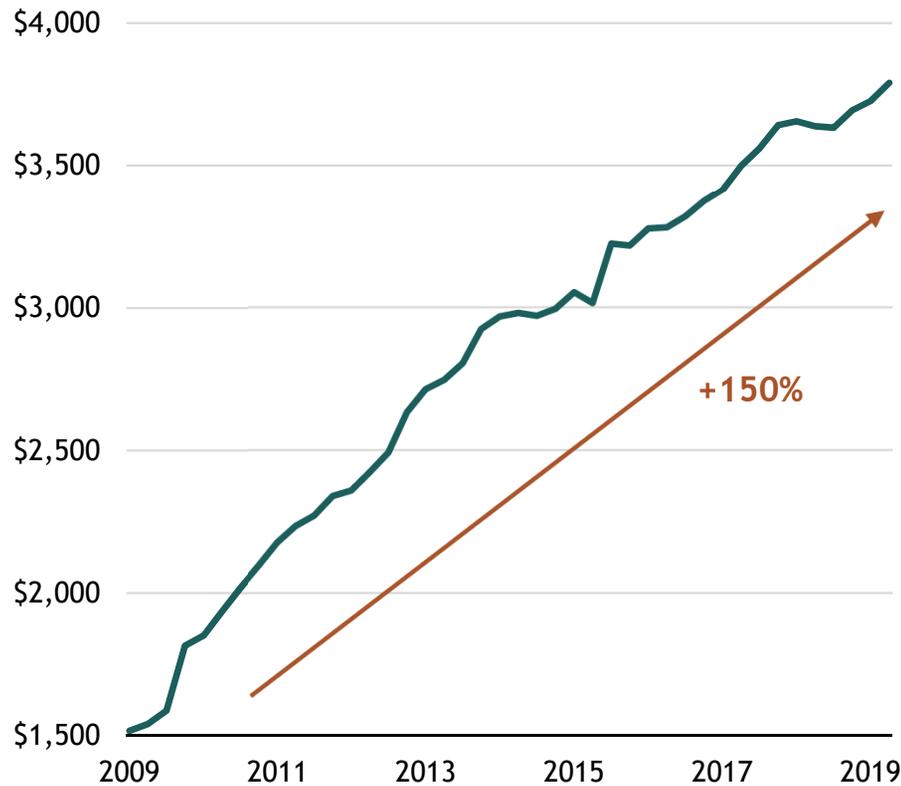
(1) Source: Bureau of Economic Analysis, Haver and Blackstone Investment Strategy, as of 3/31/20.

(2) Source: Bureau of Economic Analysis and Blackstone Investment Strategy, as of 12/31/19. Represents private nonresidential fixed investment in structures (mining exploration, shafts and wells) and in equipment and software (mining and oilfield machinery.)

# US\$-denominated debt has increased significantly over the past decade, while the US\$ has strengthened

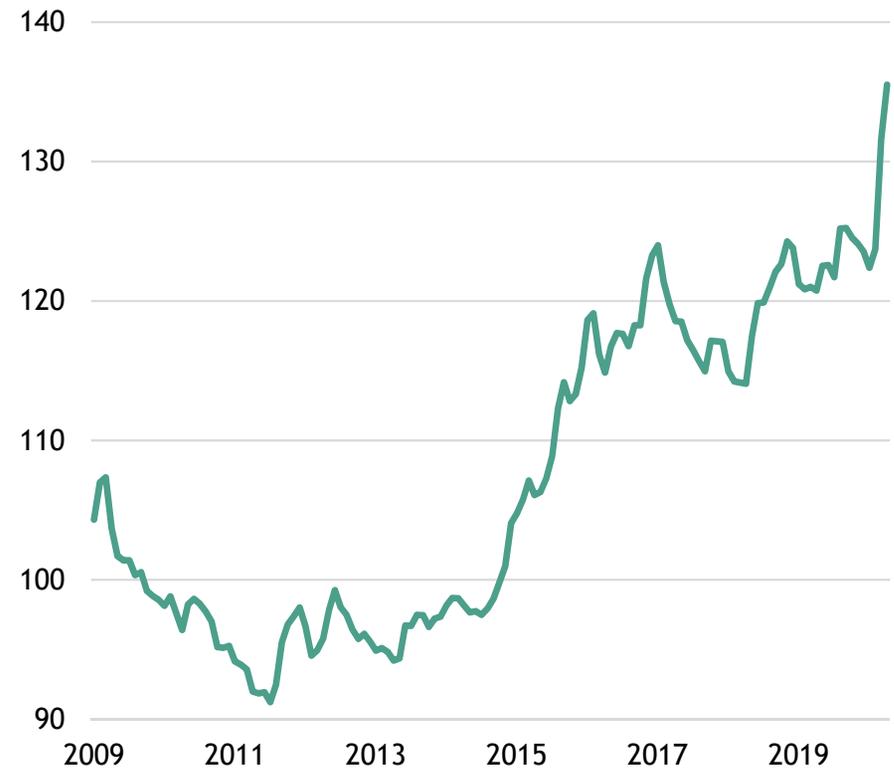
**US\$-Denominated Debt Issued by EM<sup>(1)</sup>**

(US\$ in billions)



**EM Trade-Weighted Dollar Index<sup>(2)</sup>**

(2006=100)



Source: Bank for International Settlements, Federal Reserve and Blackstone Investment Strategy.

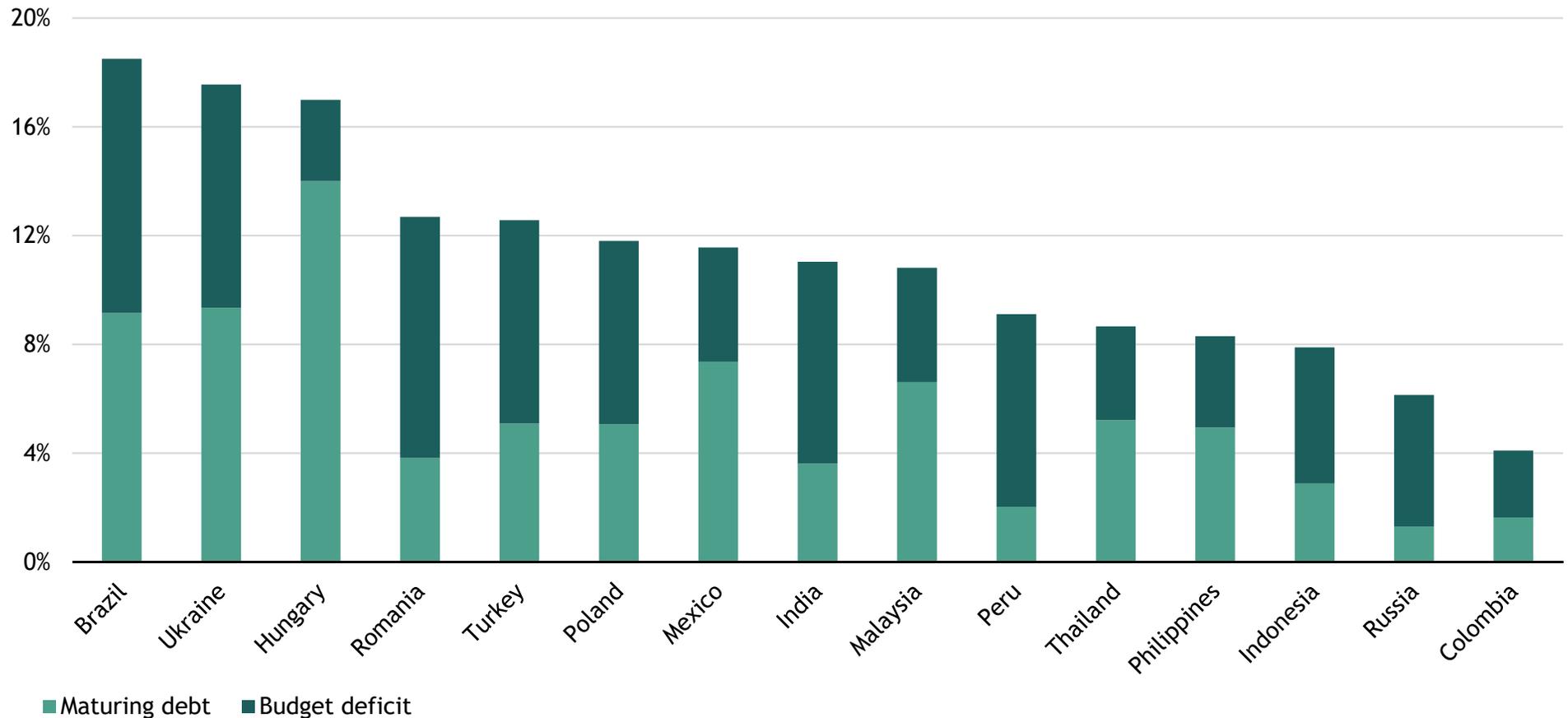
(1) Represents total credit to non-bank sectors, by residence of borrower, for the period 6/30/09 to 9/30/19.

(2) Represents the Nominal FRB Emerging Market Economies Trade-Weighted Dollar Index, for the period 1/01/09 to 6/30/20.

# Emerging markets with large gross financing needs are at risk of a surge in refinancing costs

## Gross Government Financing Needs in 2020: Selected Emerging Markets

(percent of each economy's respective 2020 GDP)

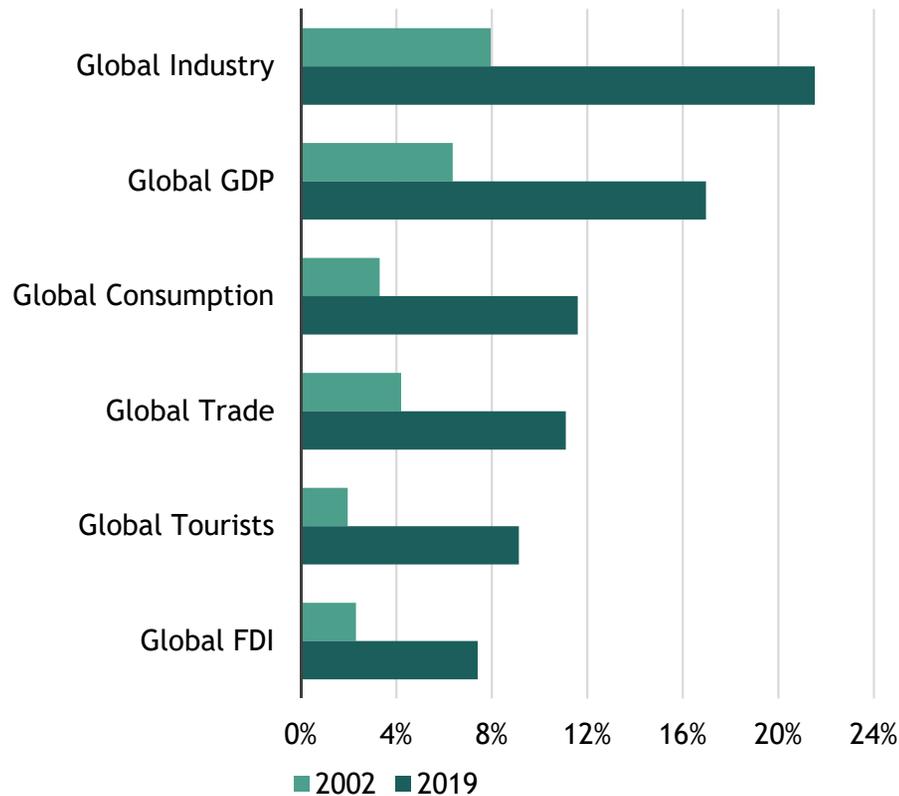


Source: International Monetary Fund and Blackstone Investment Strategy, as of April 2020.

# China's global share of activity and commodity demand has increased over the past two decades

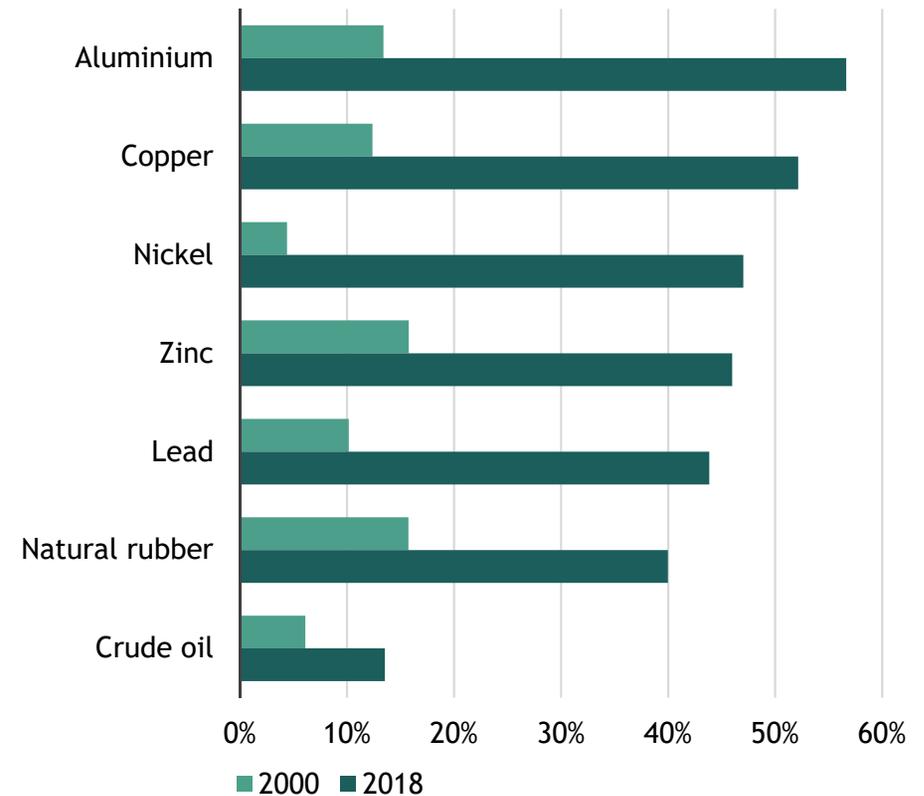
## China's Share of Global Activity

(percent of world)<sup>(1)</sup>



## China's Share of Commodity Demand

(percent of world)



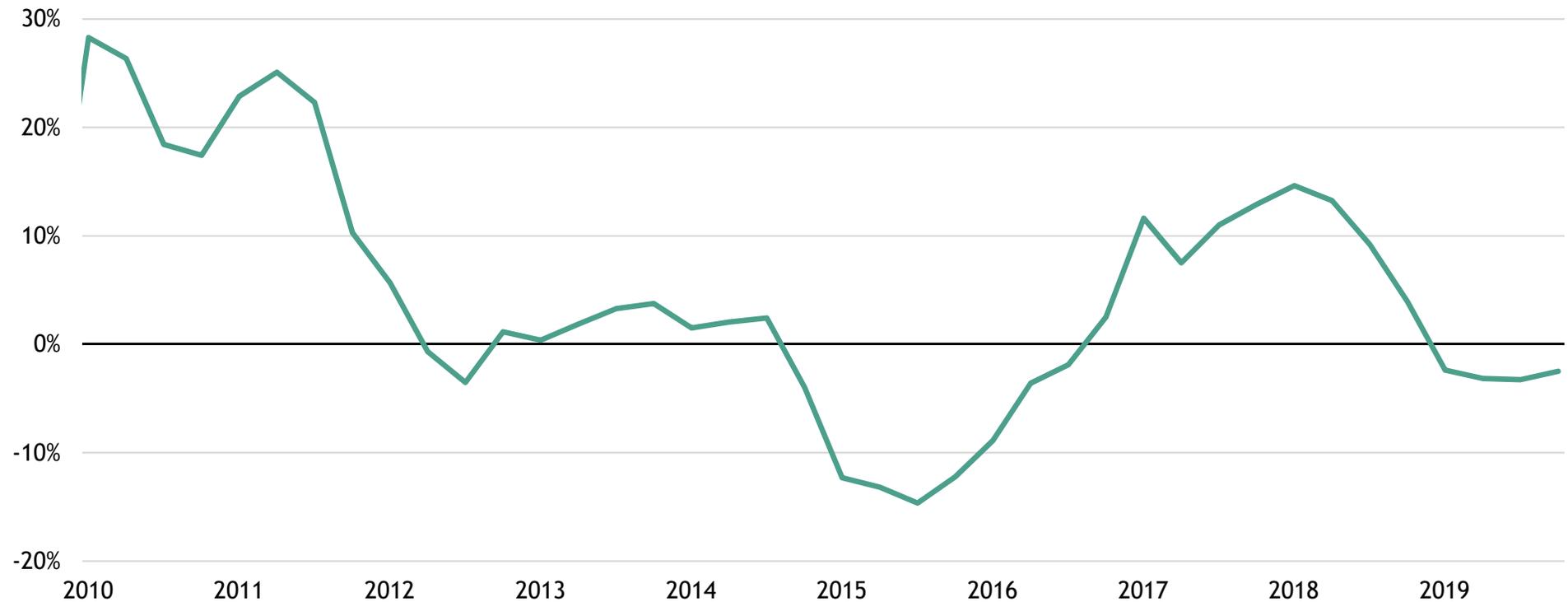
Source: Organisation for Economic Co-operation and Development, World Bank and Blackstone Investment Strategy.

(1) Note: Share of industry, GDP and trade in constant U.S. dollars. Share of consumption and foreign direct investment ("FDI") in current U.S. dollars. Global Industry data on a value-added basis and include the construction sector. Data for tourism is from 2002-2017, global consumption from 2002-2018 and FDI from 2005-2018.

# Global trade volume growth has fallen from +15% in 2Q'18 to -3% in 4Q'19

## Growth in Global Trade Volumes

(YoY % Change)

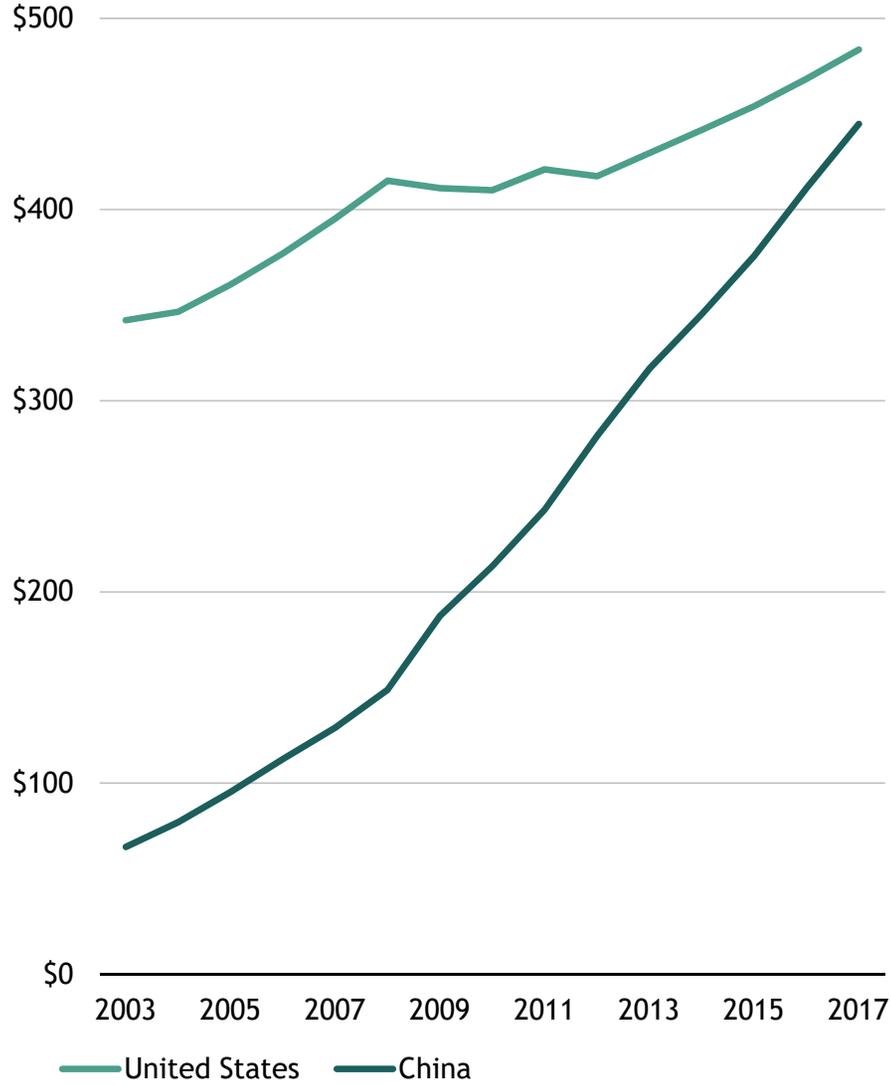


Source: IMF and Blackstone Investment Strategy, as of 12/31/19.

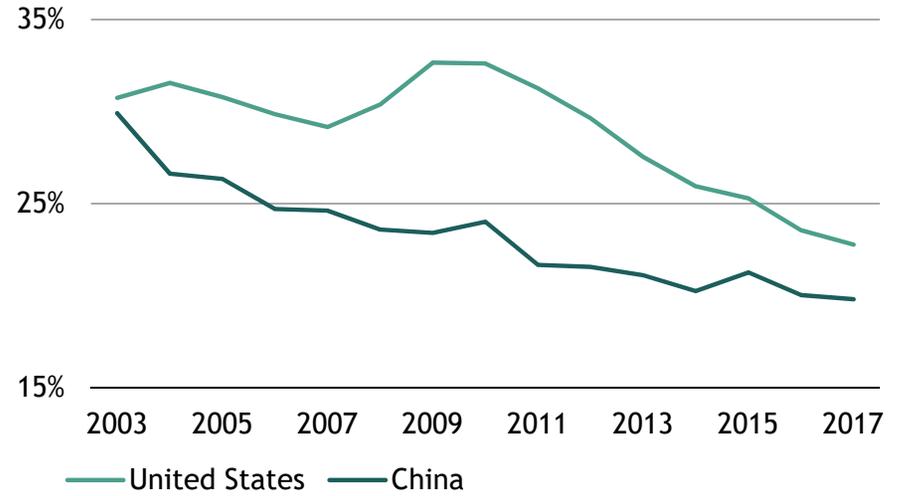
# R&D SPENDING

## U.S. and China Total R&D Spending

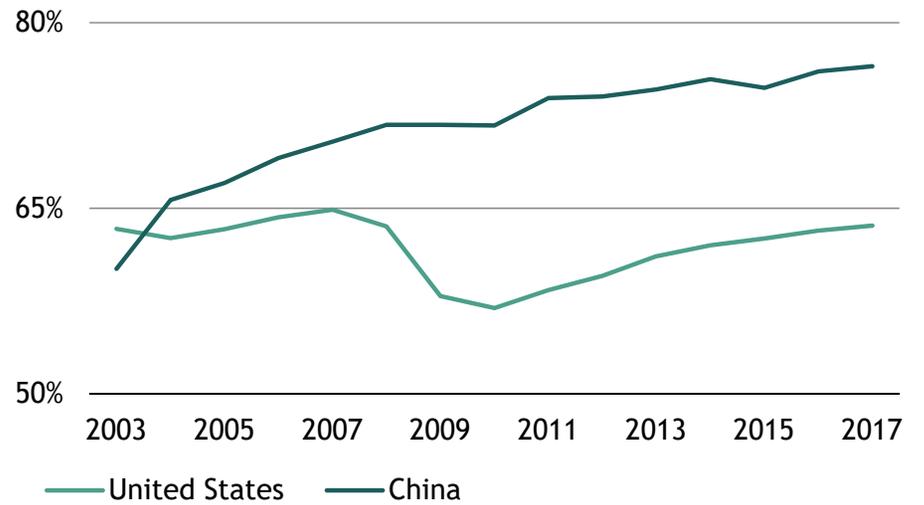
(constant 2010 US\$, in billions)



## Percent of R&D Financed by Government



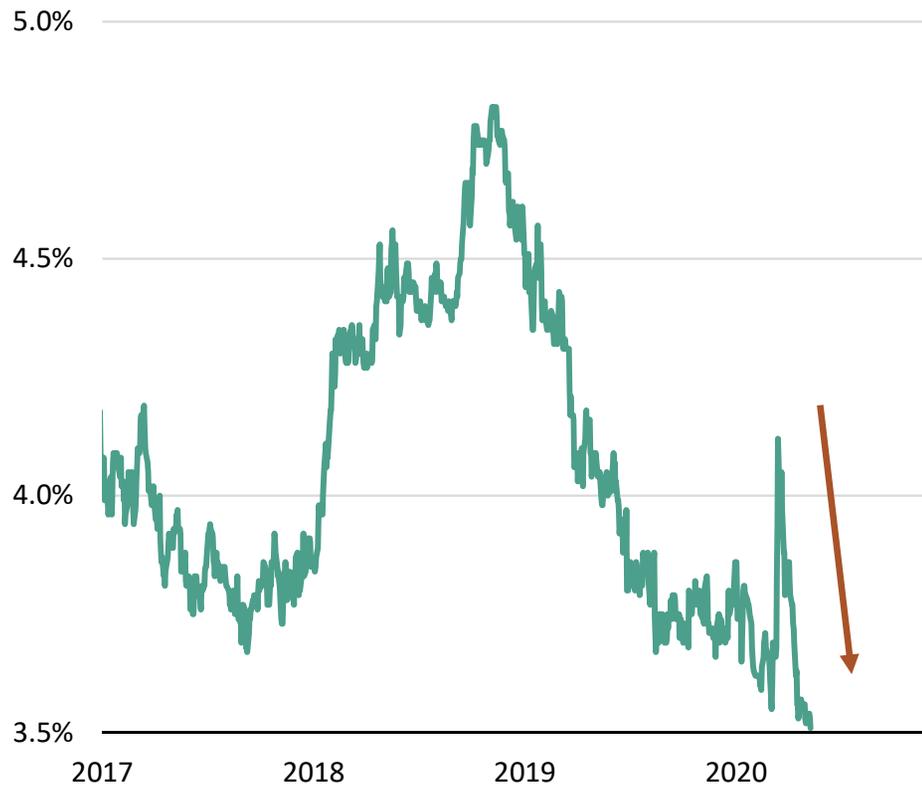
## Percent of R&D Financed by Business



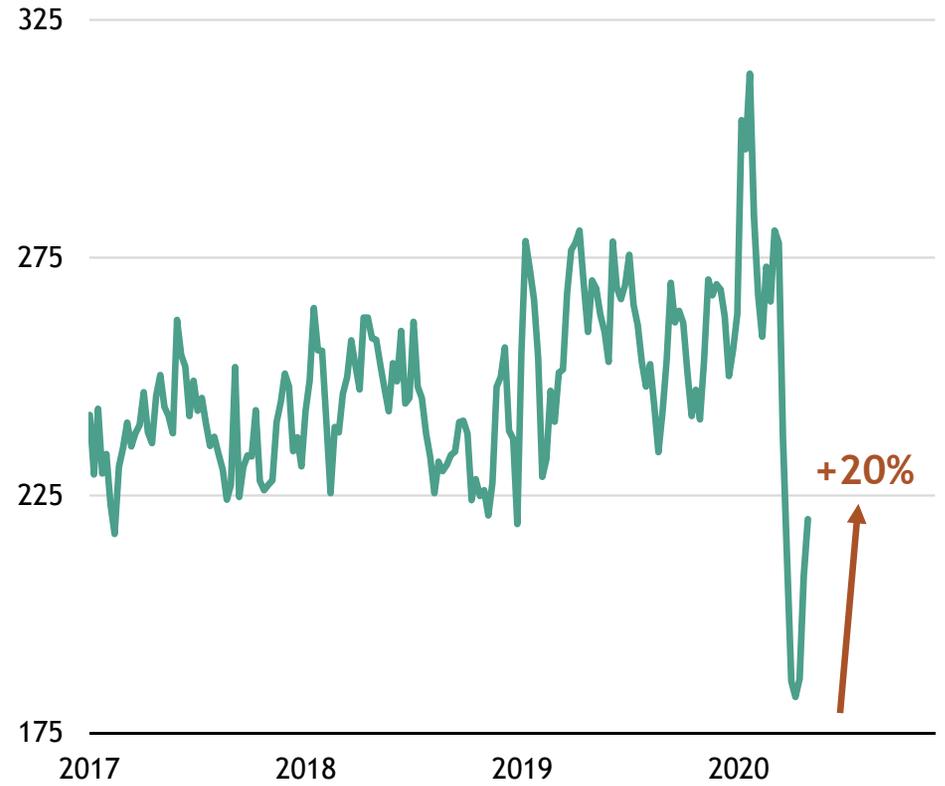
Source: Organisation for Economic Co-operation and Development and Blackstone Investment Strategy, as of 12/31/17.

# Mortgage rates at historically low levels, while mortgage purchase applications may have troughed

30-Year Mortgage Rates<sup>(1)</sup>



Mortgage Loan Originations for Purchase<sup>(2)</sup>



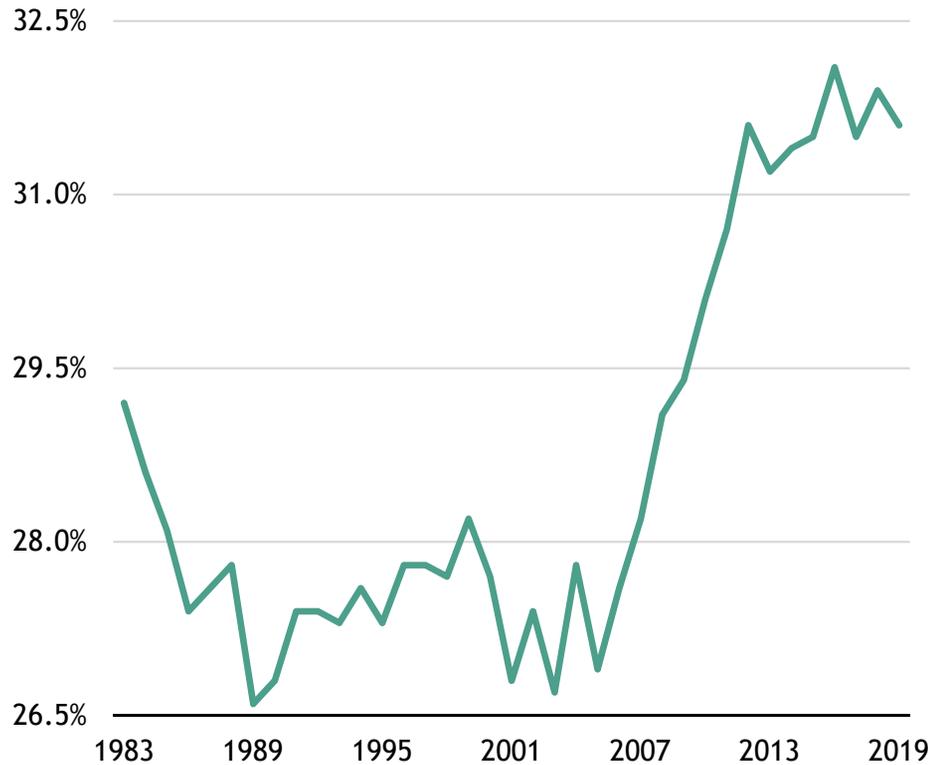
(1) Source: Bloomberg, Bankrate.com and Blackstone Investment Strategy, as of 5/8/20.

(2) Source: Mortgage Bankers Association, Bloomberg and Blackstone Investment Strategy, as of 5/1/20. Single family housing permits shown as a three month rolling average, in thousands. Mortgage loan originations are quarterly estimates for home purchase for one- to four-unit structures.

# Long-term fundamentals may provide secular tailwind for housing markets

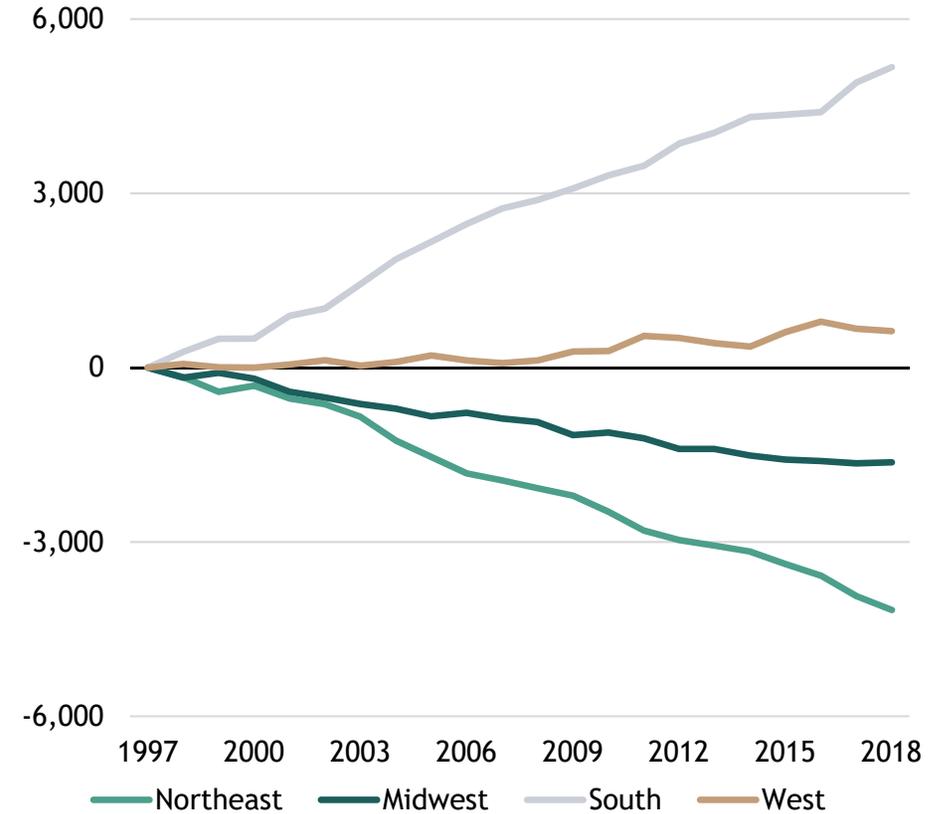
## US Young Adults Living at Home<sup>(1)</sup>

(share of total population aged 18-34)



## Domestic Net Migration by Region<sup>(2)</sup>

(in millions, 1997=0)



(1) Source: Census Bureau, Haver Analytics and Blackstone Investment Strategy, as of 12/31/19. Represents adult children of householders.

(2) Source: Census Bureau and Blackstone Investment Strategy, as of 12/31/18.

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