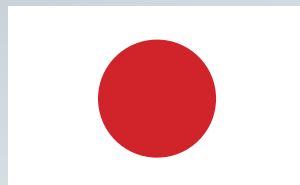


Inflationary pressures easing as global slowdown spreads to U.S.



## Highlights:

### U.S.

#### Core stability

Core inflation remained static, defying predictions of a pickup in response to faster wage growth. The annual increase in the Consumer Price Index, excluding food and energy, was 1.9% in November, below the Federal Reserve's 2.0% fourth-quarter forecast.

### China

#### Profits weakness

Industrial profits fell by 1.8% year to date through November, the first annual contraction since 2015, reflecting limp economic growth and slowing producer prices. Economic weakness intensified at year end, with manufacturing Purchasing Managers' Indices falling below 50.

### Japan

#### Muted recovery

Industrial output bounced back after third-quarter disruption due to bad weather, but underlying momentum appears weak, with the manufacturing Purchasing Managers' Index well down year over year. Consumer confidence has also eroded.

### Eurozone

#### Weak economy

Purchasing Managers' surveys signaled a further loss of economic momentum in the fourth quarter, following shock German and Italian GDP contractions in the third quarter. The survey-based Composite Output Index fell to a 49-month low in December.

### UK

#### Unemployment rise

Brexit worries contributed to a further fall in business investment and a slowdown in hiring. Unemployment rose by 20,000 in the three months to October while the number of people claiming unemployment-related benefits is the highest since 2014.

### Emerging markets

#### Policy tightening

The trend toward higher interest rates continued, with inflation and currency concerns outweighing softer economic data. Central banks in Chile, Czech Republic, Indonesia, Korea, Mexico, Philippines, South Africa and Thailand hiked official rates last quarter.

## Trends to watch:

### U.S.

#### Profits slowdown

Corporate profits continued to expand solidly in the third quarter, but equity analysts cut earnings forecasts in late 2018, reflecting concerns about top-line sales and wage costs. A profits slowdown would feed back into business investment and wider economic weakness.

### China

#### Policy easing

Policymakers are cutting taxes, boosting infrastructure spending and trying to encourage bank lending to private companies. Further easing measures are likely in early 2019. Watch money trends – currently still weak – for evidence that policy stimulus is gaining traction.

### Japan

#### Inflation slowdown

The Bank of Japan's core inflation measure eased to 0.3% in November, far below its 2% "price stability target." Yen strength suggests a further decline. Will the central bank admit defeat and downgrade the target in 2019?

### Eurozone

#### Unemployment reversal?

The unemployment rate fell from 8.7% to 7.9% year to date to November 2018, but recent weak GDP growth may feed through to a turnaround in early 2019 – contrary to the European Central Bank's forecast of a continued decline.

### UK

#### Economic weakness

Money growth and local share prices both fell during 2018 – historically a signal of poor GDP performance in the following year. Brexit uncertainty will remain a drag on economic prospects even if a no-deal crash-out is avoided.

### Emerging markets

#### Currency stabilization

EM currencies could rally if a U.S. slowdown causes the Federal Reserve to shelve tightening plans. A recovery would ease inflationary pressures and create scope for policy easing, supporting local currency bond markets, with equities suppressed by weaker export earnings.

## Key Market Data

Equity Market Returns for Q4 2018 (%)	Qtr Local Currency	YTD Local Currency	Qtr Sterling	YTD Sterling	Qtr Dollar	YTD Dollar
S&P 500®	-14.0	-6.2	-11.9	-0.4	-14.0	-6.2
Japan: Topix	-17.8	-17.8	-12.9	-10.4	-14.9	-15.6
Euro area: Euro Stoxx	-13.2	-14.8	-12.5	-13.8	-14.5	-18.9
FTSE All Share	-11.0	-13.0	-11.0	-13.0	-13.1	-18.0
MSCI Far East ex Japan (US\$)	-	-	-8.0	-12.1	-10.2	-17.2
MSCI Emerging Markets (US\$)	-	-	-5.6	-11.5	-7.9	-16.6

Source: Thomson Reuters Datastream, Janus Henderson Investors, index price returns as of December 31, 2018.

### Constituents:

Euro area: EU member states using euro currency (currently 19)

Asia: China, Hong Kong, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam

BRICs: Brazil, Russia, India, China

World: G10, Eastern Europe & Africa, Asia, Latin America, Middle East

Consensus GDP Growth Forecasts (%)	2018	2019	2020
U.S.	2.9	2.6	1.9
Japan	0.9	0.9	0.5
Euro area	1.9	1.6	1.5
UK	1.3	1.5	1.6
Asia ex Japan	6.0	5.7	5.6
BRICs	5.7	5.6	5.5
World	3.7	3.5	3.3

Source: Bloomberg, economic forecasts as of January 7, 2019. Forecast GDP = Real Gross Domestic Product

Bonds	12/31/18 Yield	Qtr Return (%)	YTD Return (%)
U.S. 10-year Treasury	2.69	3.81	-2.90
Japan 10-year government bonds	0.00	1.32	0.72
Germany 10-year Bund	0.25	2.24	2.87
UK 10-year Gilts	1.27	2.77	0.61
Corporate bonds: (Barclays Global Aggregate Corporate Index \$)	-	-1.05	-5.35
High Yield: (Merrill Lynch Global High Yield \$)	-	-3.79	-3.33
Emerging market debt (JPM Global Emerging Markets Debt \$)	-	-1.19	-4.61

Source: Thomson Reuters Datastream, Janus Henderson Investors, as of December 31, 2018.

The above data is intended for illustration purposes only and is not indicative of the historical or future performance or the chances of success of any particular strategy. References made to individual securities should not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase the security.

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	Forecast P/E		Forecast EPS Growth (%)	
	2018	2019	2018	2019
World	13.8	12.9	15.3	7.5
Developed	14.3	13.3	15.8	7.2
Emerging markets	11.3	10.4	11.9	9.0
UK	11.9	11.2	10.4	6.3
U.S.	15.6	14.5	24.0	7.8
Eurozone	12.4	11.3	4.3	9.2
Japan	11.2	10.8	38.9	3.2

Source: Thomson Reuters Datastream, Janus Henderson Investors' calculations, and IBES (Institutional Brokers' Estimates System) estimates for MSCI Indices, as of December 31, 2018. Forecast P/E = Price-to-earnings ratio; Forecast EPS= Earnings per share

Consensus Inflation Forecasts (CPI %)	2018	2019	2020
U.S.	2.4	2.2	2.2
Japan	1.0	1.1	1.4
Euro area	1.7	1.7	1.6
UK	2.5	2.1	2.0
Asia ex Japan	2.4	2.5	2.6
BRICs	2.6	2.8	2.8
World	3.8	3.3	3.1

Source: Bloomberg, economic forecasts as of January 7, 2019. Forecast CPI = Consumer Price Index

Currencies and Commodities	12/31/18	Qtr Change (%)	YTD Change (%)
Yen/\$	109.72	-	-
Yen/£	139.73	-	-
\$/£	1.27	-	-
Euro/\$	0.87	-	-
Euro/£	1.11	-	-
S&P GSCI Total Return Index \$	-	-22.94	-13.82
Brent oil (\$/barrel)	-	-35.83	-20.24
Gold bullion (\$/Troy oz)	-	7.54	-1.70

Source: Thomson Reuters Datastream, Janus Henderson Investors, as of December 31, 2018.

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