The long-term trends or secular drivers behind economic and asset market performance.

For questions and comments on this report, please contact:

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We remain more constructive than the market consensus on the near-term outlook for the global economy. This is due to our more rosy view for the cyclical buoyancy in DM economies and the strong consumer-in-China EM growth performance to be sustained. In the US, the added stimulus should provide a shot in the arm, delivering further near-term growth impetus. Similarly, the improving backdrop in the Eurozone and Japan augurs well for growth. We are also a little more sanguine on the near-term outlook for China, where we look for a slightly “shallower” slowing in growth momentum than the current market consensus. Global growth has responded to accelerates towards the upper end of the 3.75% to 4.0% range. The near-term risks are tilted to the upside. Consistent with this sustained above-trend growth momentum, we see upside risks to inflation relative to the market consensus. With strong cyclical growth, we expect capital costs to rise as the central bank normalization proceeds apace, though global financial conditions should remain favourable, providing a supportive backdrop for risk assets and commodity prices.

SUSTAINED, SYNCHRONIZED ABOVE- Trend Growth

The near-term risks associated with a misstep eventually leading to a global slowdown. With economic growth firming and cyclical inflation momentum beginning to reassert itself, we expect financial conditions should remain supportive for risk assets and commodity prices. Consistent with this sustained above-trend growth momentum, we see upside risks to inflation relative to the market consensus. Global growth is expected to accelerate towards the upper-end of the 3.75% to 4.0% y/y range. The near-term risks are tilted to the upside.

EMERGING MARKETS: Most EMs in Cyclical Sweet Spot, With More Room to Run

We remain constructive on EM, as cyclical growth prospects continue to improve thanks to lingering positive external conditions and more favourable domestic fundamentals. EM 2017 growth was largely driven by exports. In 2018, we expect EM domestic demand to become a more important growth driver, fueled by a turnaround in the credit cycle. Importantly, China is no longer seen as a major debtholder.

SYNCHRONIZED GLOBAL GROWTH

Global growth dynamics remain encouraging, sustaining the positive trend that has spread across most developed and EM DM economies. The nascent signs of an emerging global capex cycle suggest that the cyclical upswing may have more room to run.

CENTRAL BANK CONFIDENCE

We remain constructive on global financial conditions beginning to reassert itself, we expect a more synchronized post towards monetary policy tightening by DM central banks. While we expect this point to be gradual and digestible, from an economic perspective, we remain of the view that near-term risks associated with a misstep eventually leading to a global slowdown.

INFLATION RISK TO RISE

As the pace of global slack absorption accelerates we expect cyclical inflation pressures to begin building. These inflationary pressures should be more evident in Canada, the U.S. and the U.K. where consumer price inflation momentum is more advanced, particularly the second half of the year.

KEY GLOBAL MACRO

1. U.S. consumer confidence reaccelerates the next 12 months
2. The Canadian economy enters a recession in the next 12 months
3. Global protectionism rises owing to competitive devaluation and protectionism
4. A DM has had a downshift in the global business cycle over the next 12 months

RISK DIAL

RISK MONITOR

ON OUR RADAR

STRUCTURAL FACTORS

Changing global demographics, a weakening globalization impulse as well as ongoing deleveraging have been constraining forces on growth. Collectively, the net impact on interest rates and inflation has also been negative.

DISRUPTIVE TECHNOLOGY

The development and adoption of new revolutionary technologies is occurring at an unprecedented pace. The economic ramifications of these disruptive technologies are profound and they have the potential to transform the economic and financial market landscape in meaningful ways.

GEOPOLITICS

The geopolitical risk level remains elevated, especially as the wearhouse of a protective length lurches from the Trump Administration’s risk framework. Furthermore, the potential for a confrontation between the U.S. and China remains a non-trivial risk as tensions linger.

CENTRAL BANK POLICY

There is increased confidence among policymakers about the sustainability of growth and higher conviction around the need to begin removing policy support. The monetary pendulum is beginning to swing from synchronized global easing, to a synchronized, albeit global, tightening – a major post-crisis inflection point. Risk of a mis-step remains.

EQUITIES

Valuations remain supportive

A robust global expansion is likely to support earnings growth. The fundamentals for equities remain favourable, underpinned by supportive financial conditions, strengthening economic growth, and a positive fiscal impulse.

FIXED INCOME

Slight Upside Bias to Yields

The combination of robust cyclical economic activity, bargain inflation pressures, and central bank tightening should provide a shift to yields over the next year. From a strategic perspective, however, fixed-income assets remain attractive given lingering secular headwinds to growth and inflation.

U.S. DOLLAR

Long Conviction

Our conviction on the medium-term USD outlook is low. Historically, strong global growth environments have coincided with a weakening greenback. If Europe and EMs continue to deliver positive growth surprises, we would expect a dollar to favor a weaker dollar. However, interest rate differentials remain supportively.

CREDIT

Risk-Reward Falls to Improving

Both DM and EM credit spreads remain anchored near the post-GFC cycle lows, and we are limited scope for further compression. We are watching for signs of stress in credit markets, as they will provide an early warning signal that investors are becoming more concerned about global economic and financial risks.

COMMODITIES

Hedging Demand to Support Prices

We are still constructive on commodities. Supply-demand dynamics for many commodities (particularly oil) are beginning to rebalance, global demand is firming, and a potentially sustained US weakening trend could provide further support. Financial demand may also rise, as investors seek more inflation protection.

OUTLOOK:

Slightly Bullish

OUTLOOK:

Neutral

OUTLOOK:

Slightly Bullish

OUTLOOK:

Neutral

OUTLOOK:

Slightly Bullish
Eyes on the World

The Ontario Teachers’ Tri-Cycle

1. Structural Trends
   - Long-term trends or secular regimes that define the investment environment, and influence the decision-making process of firms, households and non-market actors at both the individual and aggregate level.

2. Cyclical Dynamics
   - Forces related to fluctuations in the economy, policy and credit regimes that are driving forces behind economic and asset market performance.

3. Global Adjusting Forces
   - These forces define the avenues for spillovers across economies and regimes. In particular, they form the mechanism through which DM and EM economies and financial markets become integrated through trade and capital investment flows.

The Tri-Cycle reviews the directional impact of economic indicators ranging from structural trends like geopolitics and the regulatory backdrop to cyclical dynamics and global adjusting forces on the three key primitives – growth, inflation and interest rates. This is compared to our assessment of what the market is pricing in for these factors.

Our competitive edge stems from our unique access to key global decision-makers and a diverse platform of portfolio companies. This unique information gateway informs our view of the world, and provides a benchmark against which our global outlook (and associated risks) for growth, inflation and the discount rate (interest rates) can be judged. The underlying views are forged by an analysis of the interconnections between three key pillars of the economic infrastructure (namely the structural trends, cyclical dynamics and global adjusting forces) that shape the medium-term outlook for the global economy and financial market performance.

The Investment Outlook

- Financial Market Outlook
  - Global Macro Risk Monitor
  - Relative to Market

-The Competitive Edge
  - Portfolio companies
  - Hedge fund partners
  - Research community

The Ontario Teachers’ Global Macroeconomic Framework

- The Competitive Edge
  - Portfolio companies
  - Hedge fund partners
  - Research community

The Analytical Framework

- Cyclical Dynamics
- Structural Trends
- Global Adjusting Forces

Market Assessment and Outlook

- Cyclical Dynamics
- Structural Trends
- Global Adjusting Forces

The Global Macroeconomic Framework

- Cyclical Dynamics
- Structural Trends
- Global Adjusting Forces

Ontario Teachers’ Bias

- Relative to Market
- More Room to Run

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Unique Information Gateway

- The Ontario Teachers’ Global Macroeconomic Framework
- The Analytical Framework
- The Investment Outlook

The Ontario Teachers’ Pension Plan

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For more information, please visit:

ONTARIO TEACHERS’ PENSION PLAN
www.otpp.com
We remain more constructive than the market consensus on the near-term outlook for the global economy. This is due to our view that the cyclical upswing in global activity, together with synchronized determination among central banks, is likely to continue. We expect global growth to rise to the upper-end of the 3.75% to 4.0% y/y range. The near-term risks are tilted to the upside. Consistent with this sustained-above-trend growth momentum, we see upside risks to inflation relative to the market consensus. With strong cyclical growth and in an environment where we see less room to run for central banks, we remain more constructive on the near-term outlook for the global economy.

Global Macroeconomic Outlook

**SUSTAINABLE, SYNCHRONIZED, ABOVE-TREND GROWTH**

Global growth dynamics remain encouraging, sustaining the positive thrust that has spread across advanced and emerging DM and EM economies. The recent signs of an emerging global capex cycle suggest that the cyclical upswing may have more room to run.

**INFLATION RISK TO RISE**

As the pace of global slack absorption accelerates we expect cyclic inflation pressures to begin building. These inflationary pressures should be more evident in Canada, the US and the UK, while the euro area cycle remains elevated, particularly during the second half of the year.

**EMERGING MARKETS:**

We remain constructive on EMs as cyclical growth prospects continue to improve thanks to lingering positive external conditions and more favourable domestic fundamentals. EMG 2017 growth acceleration was largely driven by exports. In 2018, we expect EM domestic demand to become a more important growth driver, fuelled by a turnaround in the credit cycle. Importantly, China is no longer seen as a major destabilizer.

**RISK REVIEW**

We maintain a strong cyclical growth momentum beginning to reassess itself, we expect a more synchronized pivot towards monetary policy tightening by DM central banks. While we expect this pivot to be gradual and digestible, from an economic perspective, we are mindful of the medium term risks associated with a mis-step eventually leading to a global slowdown.

**CENTRAL BANK CONFIDENCE**

With the unprecedented pace of global tightening momentum beginning to reassess itself, we expect a more synchronized pivot towards monetary policy tightening by DM central banks. While we expect this pivot to be gradual and digestible, from an economic perspective, we are mindful of the medium term risks associated with a mis-step eventually leading to a global slowdown.

**Global Economic & Market Update**

**RISK DIAL:**

**OUTLOOK:**

**BULLISH:**

**NEUTRAL:**

**BEARISH:**

**LOW RISK:**

**MEDIUM RISK:**

**HIGH RISK:**

**GLOBAL ECONOMIC & MARKET UPDATE**

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As the central bank normalization proceeds apace, though global growth is expected to accelerate towards the upper-end of the 3.75% to 4.0% y/y range. The near term risks are tilted to the upside.

We remain more constructive than the market consensus on the medium-term outlook for the global economy. And while the economic backdrop has been strong across a number of DM and EM economies, the near term outlook, particularly in China, where we look for a slightly "shallow" slowing in growth momentum than the current market consensus. Global growth has rebounded to accelerate towards the upper end of the 3.75% to 4.0% range.

Inflation dynamics are occurring at an unprecedented pace. The combination of robust cyclical economic activity, burgeoning inflation pressures, and central bank tightening应该 begin to shift towards synchronized tightening. However, the risks of a disorderly adjustment are limited by central banks' willingness to adjust their policy stance to the economic reality. That said, we are mindful that a change in the balance of risks for inflation could quickly alter their reaction functions.

Inflationary pressures should be more evident in financial conditions. We expect rates to increase gradually and digestible, from an economic perspective, we are mindful of the medium-term risks associated with a risk-off eventually leading to a global slowdown.

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The long-term trends or secular drivers are important as they influence the regimes that are driving forces behind economic and asset regimes that are driving forces behind economic and asset markets. These secular trends are cyclical dynamics and global adjusting forces.

Cyclical Dynamics

Cyclical Dynamics refer to fluctuations in the economy, policy and credit regimes that are driving forces behind economic and asset markets. In particular, they form the mechanism through which DM and EM economies and financial markets become integrated through trade and capital investment flows.

Global Adjusting Forces

The forces that are driving the averages for spills over across economies and regimes. In particular, they form the mechanism through which DM and EM economies and financial markets become integrated through trade and capital investment flows.