

Slow Growth for Longer

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Blackstone

Introduction

Slow Growth for Longer

The current US economic expansion is just months away from being the longest on record, and investors are understandably nervous that it may finally be limping to its long-anticipated death. But expansions do not die of old age; they are murdered. We have traded a rapid recovery for a long, albeit slow, one. And as things stand now, the traditional signs of excess have not been spotted.

Central Banks Still Easing

As a response to slowing global growth, central banks have re-entered easing mode. The Fed, European Central Bank, Bank of Japan and People's Bank of China have loosened monetary policies, even offering outright stimulus. The consequence is bullish for markets, and for the global economy more generally.

What Could Go Wrong with Our Forecasts

Still, central banks may be acting too late to avoid a hard landing. In the U.S., the most recent yield curve inversion—this time by the 10Y/3M portion—reflects the market's view that the Fed has tightened too much. This time is not different, and we remain attentive to the risks. But we are wary of false positives. That is why we require a more reliable signal, or inversion by the rest of the curve, before we are ready to call time on this expansion.

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I. Ten Surprises and "Radical" Asset Allocation

The Ten Surprises of 2019

These surprises were announced Thursday, January 3, 2019. The definition of a surprise is an event that the average investment professional would assign a one out of three chance of taking place, but which I believe is probable, having a better than 50% chance of happening

1. The weakening world economy encourages the Federal Reserve to stop raising the federal funds rate during the year. Inflation remains subdued and the 10-year Treasury yield stays below 3.5%. The yield curve remains positive.
2. Partly because of no further rate increases by the Federal Reserve and more attractive valuations as a result of the market decline at the end of 2018, the S&P 500 gains 15% for the year. Rallies and corrections occur but improved earnings enable equities to move higher in a reasonably benign interest rate environment.
3. Traditional drivers of GDP growth, capital spending and housing, make only modest gains in 2019. The expansion continues, however, because of consumer and government spending. A recession before 2021 seems unlikely.
4. The better tone in the financial markets discourages precious metal investors. Gold drops to \$1,000 as the equity markets in the United States and elsewhere improve.
5. The profit outlook for emerging markets brightens and investor interest intensifies because the price earnings ratio is attractive compared to developed markets and historical levels. Continuous expansion of the middle class in the emerging markets provides the consumer buying thrust for earnings growth. China leads and the Shanghai composite rises 25%. The Brazil equity market also comes to life under the country's new conservative leadership.

The Ten Surprises of 2019 (Cont'd)

6. March 29 comes and goes and there is no Brexit deal. Parliament fails to approve one and Theresa May, arguing that a change in leadership won't help the situation, remains in office. A second referendum is held and the U.K. votes to remain.
7. The dollar stabilizes at year-end 2018 levels and stays there throughout the year. Because of concern about the economy, the Federal Reserve stops shrinking its balance sheet, which is interpreted negatively by currency traders. The flow of foreign capital into United States assets slows because of a softer monetary policy and a lack of need for new capital for business expansion.
8. The Mueller investigation results in indictments against members of the Trump Organization closest to the president but the evidence doesn't support any direct action against Trump himself. Nevertheless, an exodus of Trump's most trusted advisors results in a crisis in confidence that the administration has the people and the process to accomplish important goals.
9. Congress, however, with a Democratic majority, gets more done than expected, particularly on trade policy. Progress is made in preserving important parts of the Affordable Care Act and immigration policy. A federal infrastructure program to be implemented in 2020 is announced.
10. Growth stocks continue to provide leadership in the U.S. equity market. Technology and biotech do well as a result of continued strong earnings. Value stocks other than energy-related businesses disappoint because of the slowing economy.

“Radical” Asset Allocation

Asset Class	Allocation	
Global Large Cap Multinationals	5%	Fair value in terms of yield and multiple
Other U.S. Long Only	15%	Valuations attractive
European Long Only	5%	Slowing growth
Emerging Market Equities	10%	Relative growth attractive, dollar stabilizes
Japanese Equities	5%	Better opportunities elsewhere
Hedge Funds (all strategies)	10%	Selected strategies attractive
Private Equity	10%	Competition intense for deals
Real Estate	10%	Still finding opportunities
Gold	0%	No change
Natural Resources and Agricultural Commodities	5%	World standard of living rising
Non-conventional High Yield Fixed Income (Mezzanine, Leveraged Loans, Emerging Market Debt)	15%	Still some value in selective categories, willing to take credit risk over duration risk
Cash	10%	Residual, awaiting tactical opportunities
Total	100%	

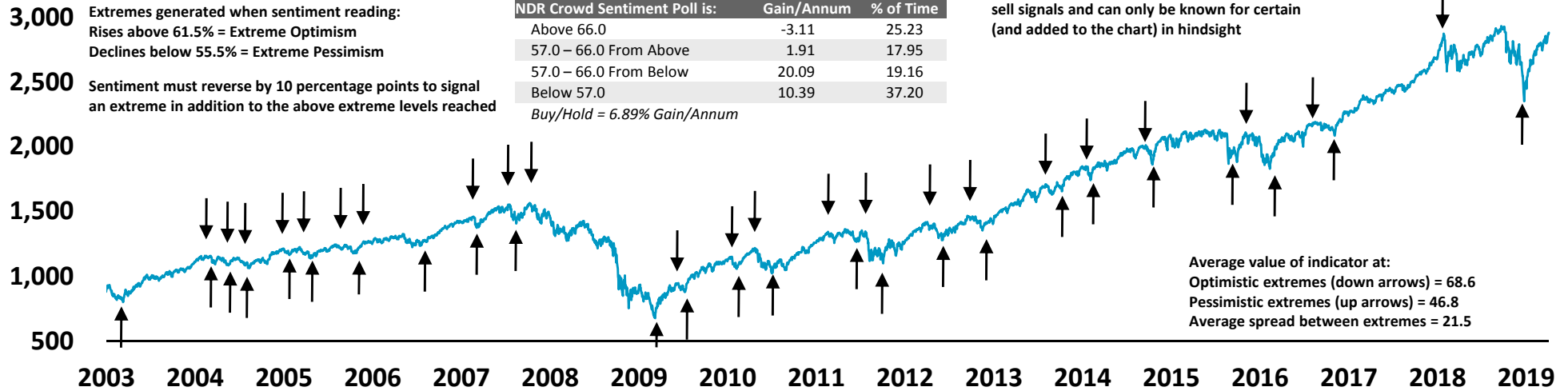
Note: As detailed in the “Disclaimers” section, the above reflects the personal views of Joseph Zidle, Managing Director and Byron Wien, Vice Chairman in the Private Wealth Solutions Group, and does not necessarily reflect the view of Blackstone itself.

NDR Crowd Sentiment Poll (7/31/2002 – 4/4/2019)

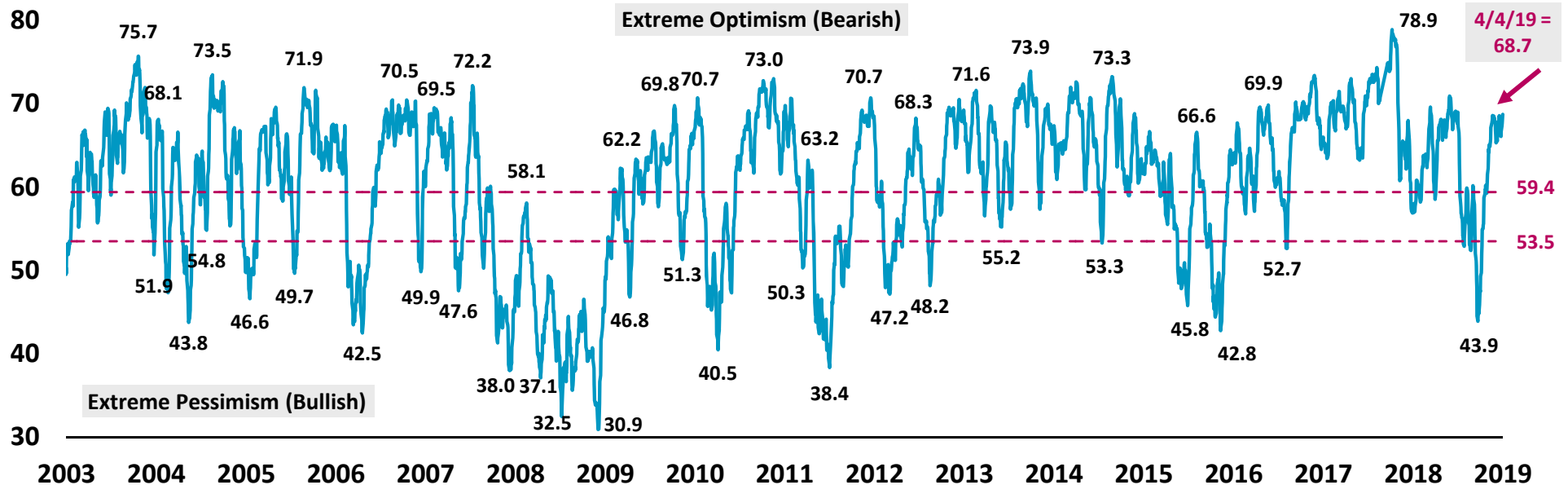
S&P 500 Composite Index

S&P 500 Index Performance Full History: 12/1/1995–4/4/2019		
NDR Crowd Sentiment Poll is:	Gain/Annum	% of Time
Above 66.0	-3.11	25.23
57.0 – 66.0 From Above	1.91	17.95
57.0 – 66.0 From Below	20.09	19.16
Below 57.0	10.39	37.20
<i>Buy/Hold = 6.89% Gain/Annum</i>		

Arrows represent extremes in optimism and pessimism. They do not represent buy and sell signals and can only be known for certain (and added to the chart) in hindsight



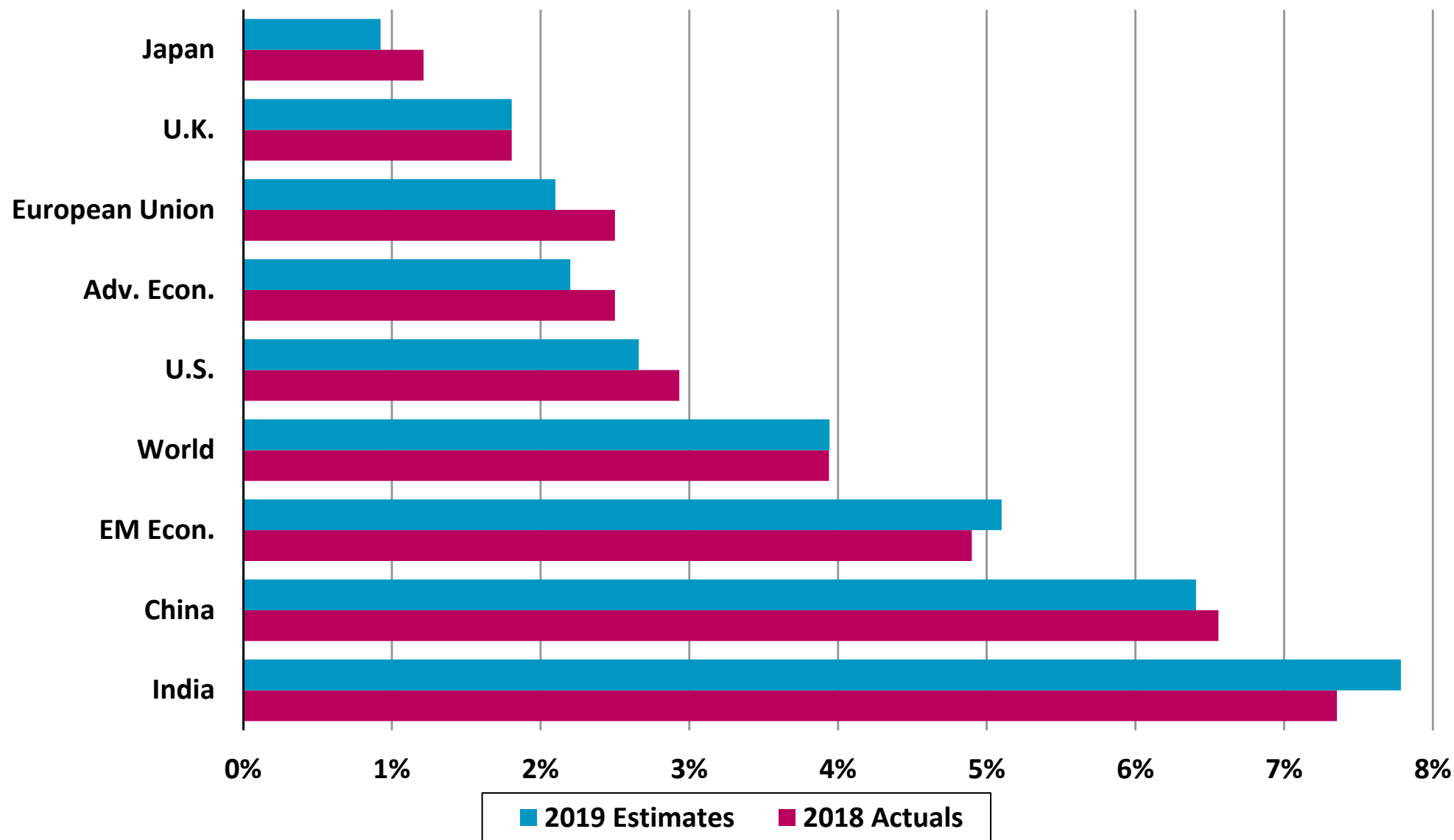
NDR Crowd Sentiment Poll



II. Global Monetary Easing Cycle

Most Major Economies to Slow in 2019

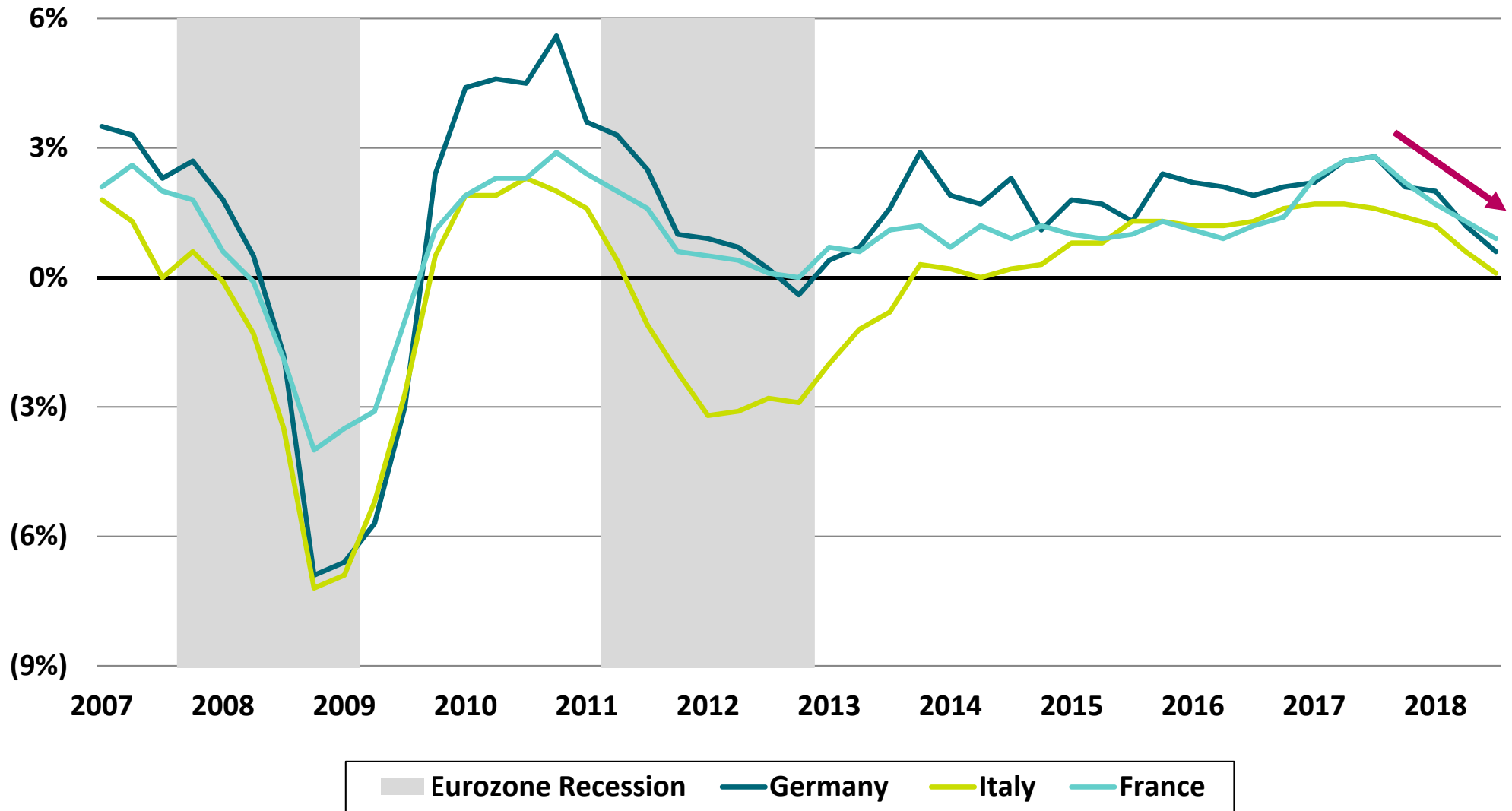
Real GDP Growth
(YoY % Change)



Source: Blackstone Investment Strategy and International Monetary Fund, most recent estimates as of 2/28/19.

Europe's "Big Three" in or Headed to Recessionary Territory

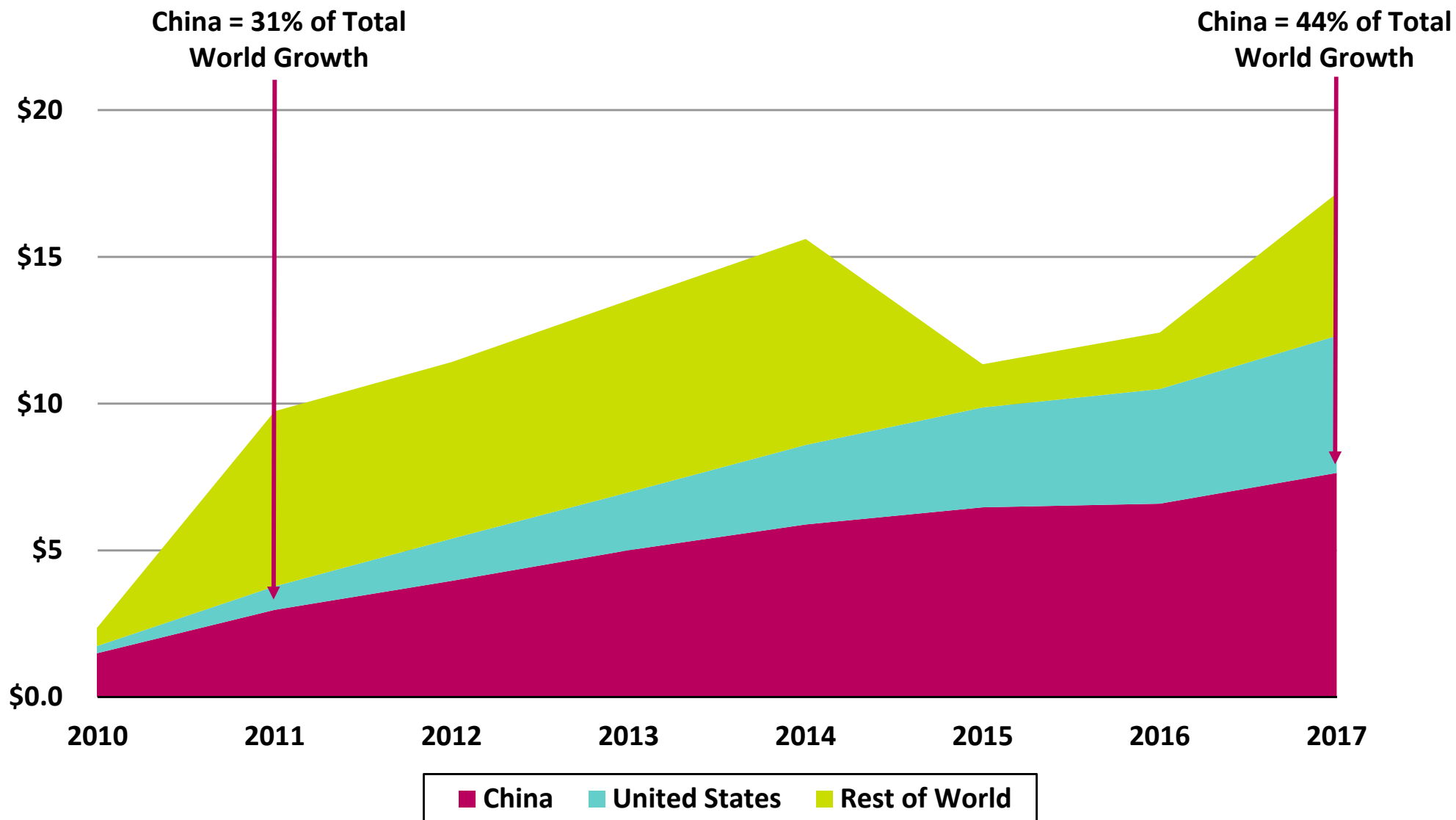
Real GDP Growth
(YoY % Change)



Source: Blackstone Investment Strategy and Bloomberg, as of 12/31/18. Recession shading based on Centre for Economic Policy Research chronology of Euro Area Business Cycles.

Global Growth Depends on China

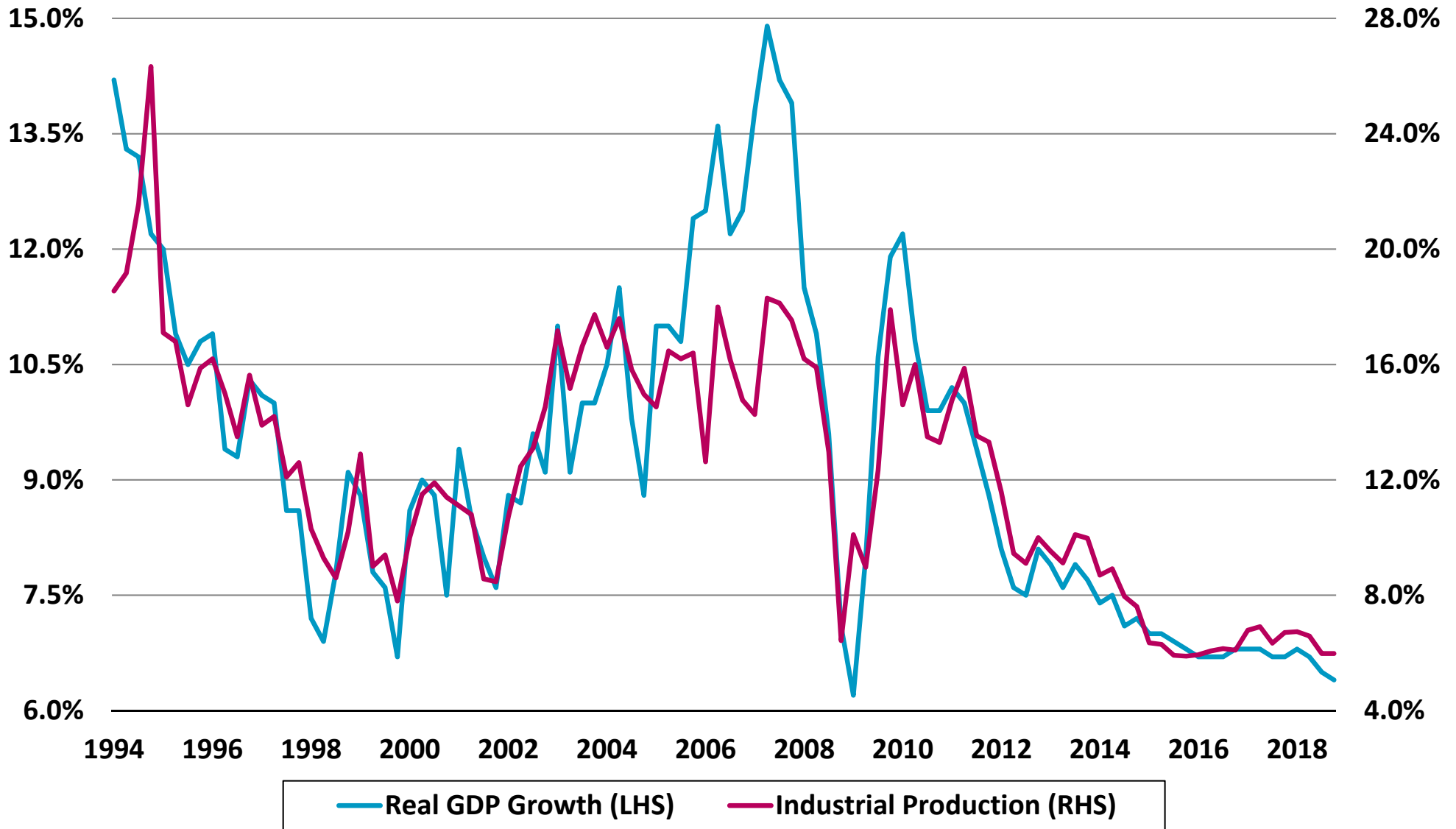
Cumulative GDP Growth (2010-2017)
(\$ in Trillions)



Source: Blackstone Investment Strategy, World Bank and OECD, as of 12/31/17.

China's Growth Testing Multi-Decade Lows

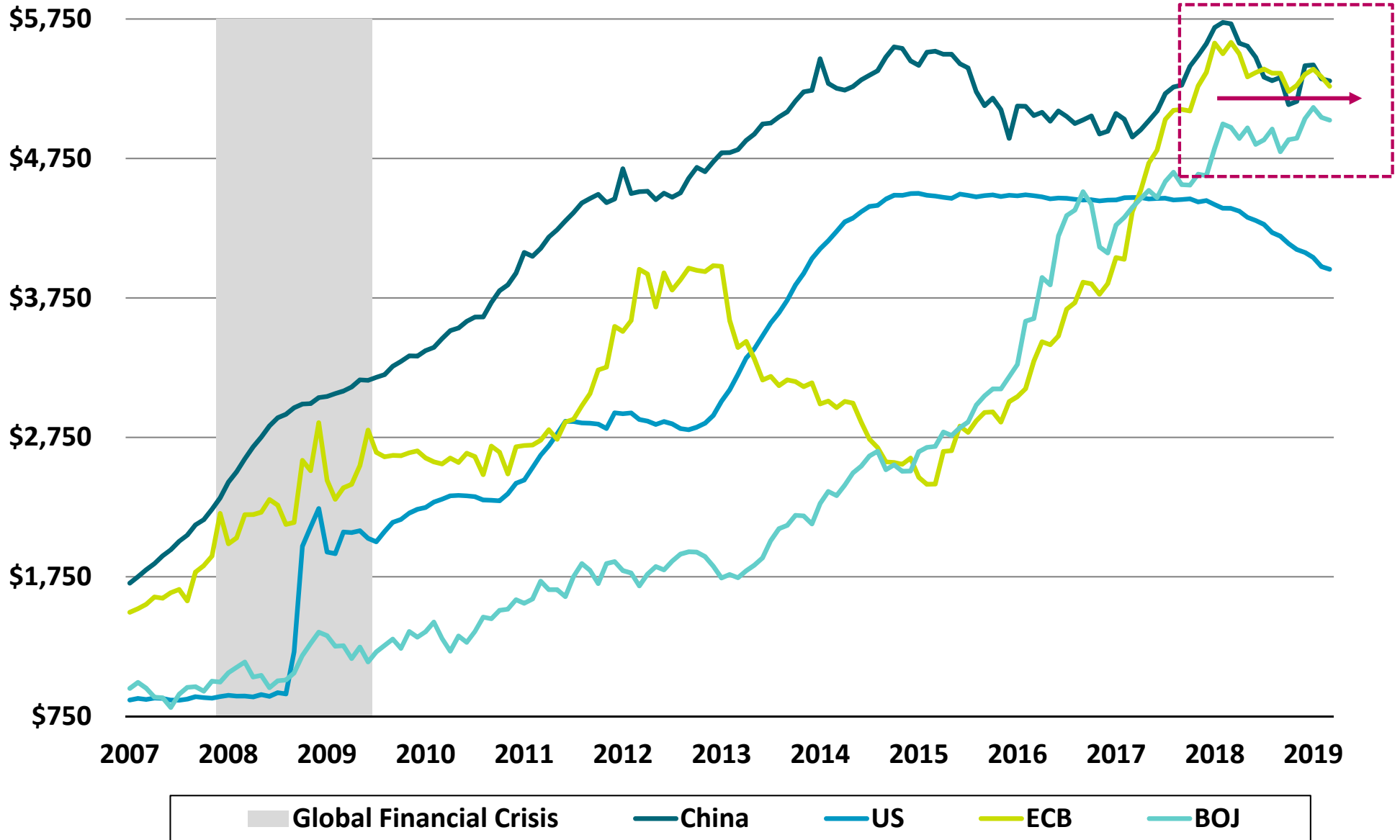
Real GDP Growth and Industrial Production
(YoY % Change)



Source: Blackstone Investment Strategy, Conference Board, OECD and Bloomberg, as of 1/31/19.

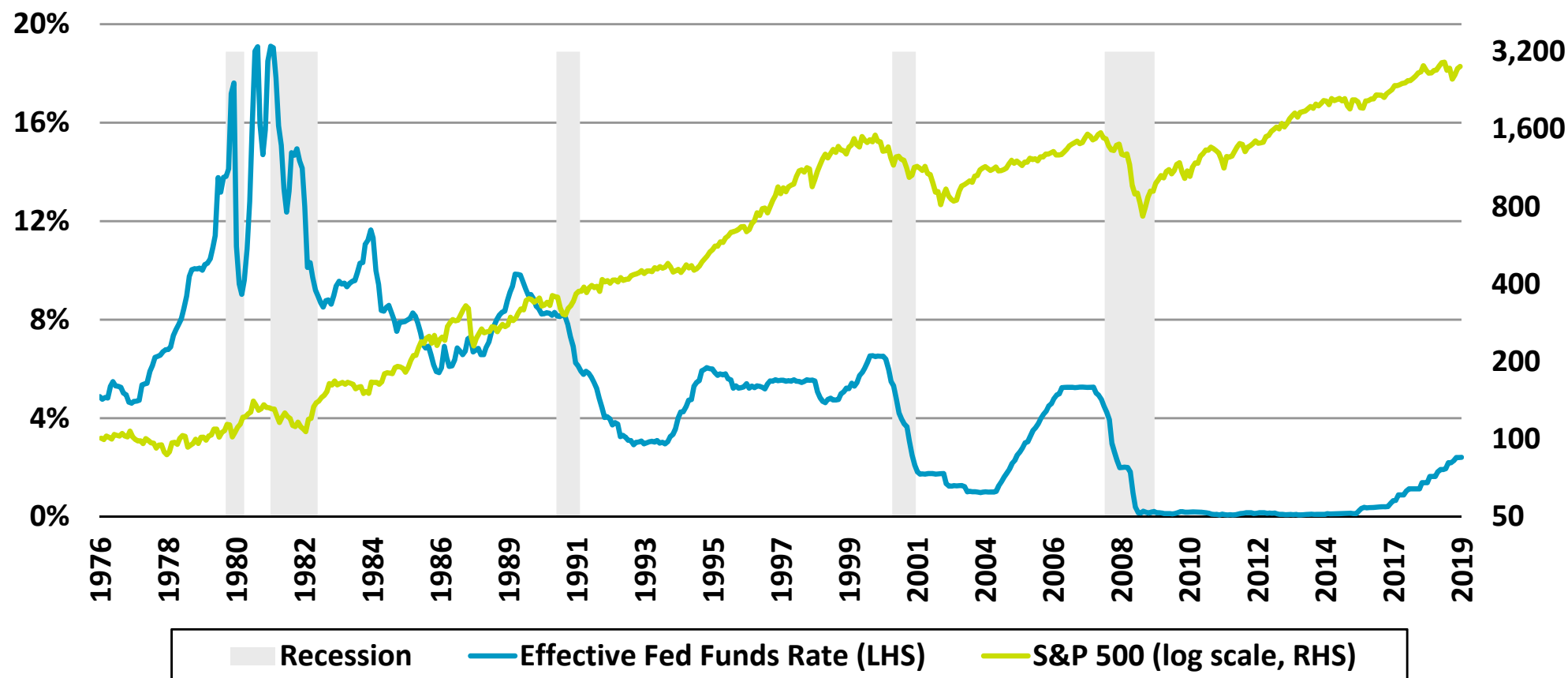
Central Banks Have Stopped Shrinking Balance Sheets

Central Bank Balance Sheet Total Assets
(\$ in Billions)



Source: Blackstone Investment Strategy and Bloomberg, as of 3/31/19. All balance sheet assets have been converted to USD.

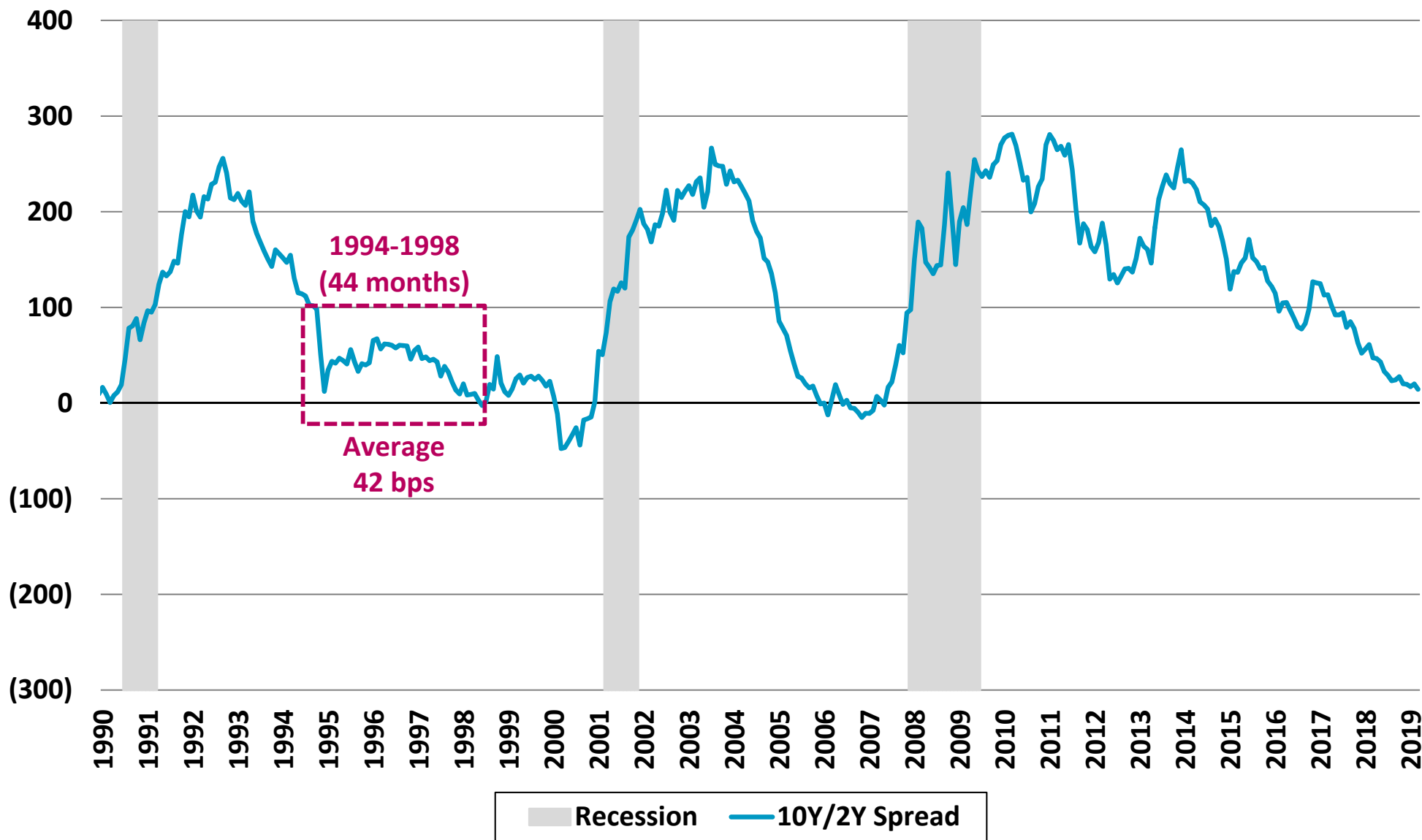
The Market Goes Up until the Fed Stops



First Fed Hike	S&P Level	Last Fed Hike	S&P Level	Return	Stock Market Peaked	Recession Started
12/1/1976	102.49	3/3/1980	112.5	9.80%	2/13/1980	Feb-80
8/7/1980	123.3	5/8/1981	131.66	6.80%	11/28/1980	Aug-81
3/29/1988	260.07	2/24/1989	287.13	10.40%	7/16/1990	Aug-90
6/30/1999	1,372.71	5/16/2000	1,466.04	6.80%	3/24/2000	Apr-01
6/30/2004	1,140.84	6/29/2006	1,272.87	11.60%	10/9/2007	Jan-08

Yield Curve Can Stay Flat for a Long Time

10Y/2Y Spread
(In Basis Points)



Source: Blackstone Investment Strategy and Federal Reserve, as of 3/31/19. Represents monthly generic bond yields for the 10-Year and 2-Year Treasury.

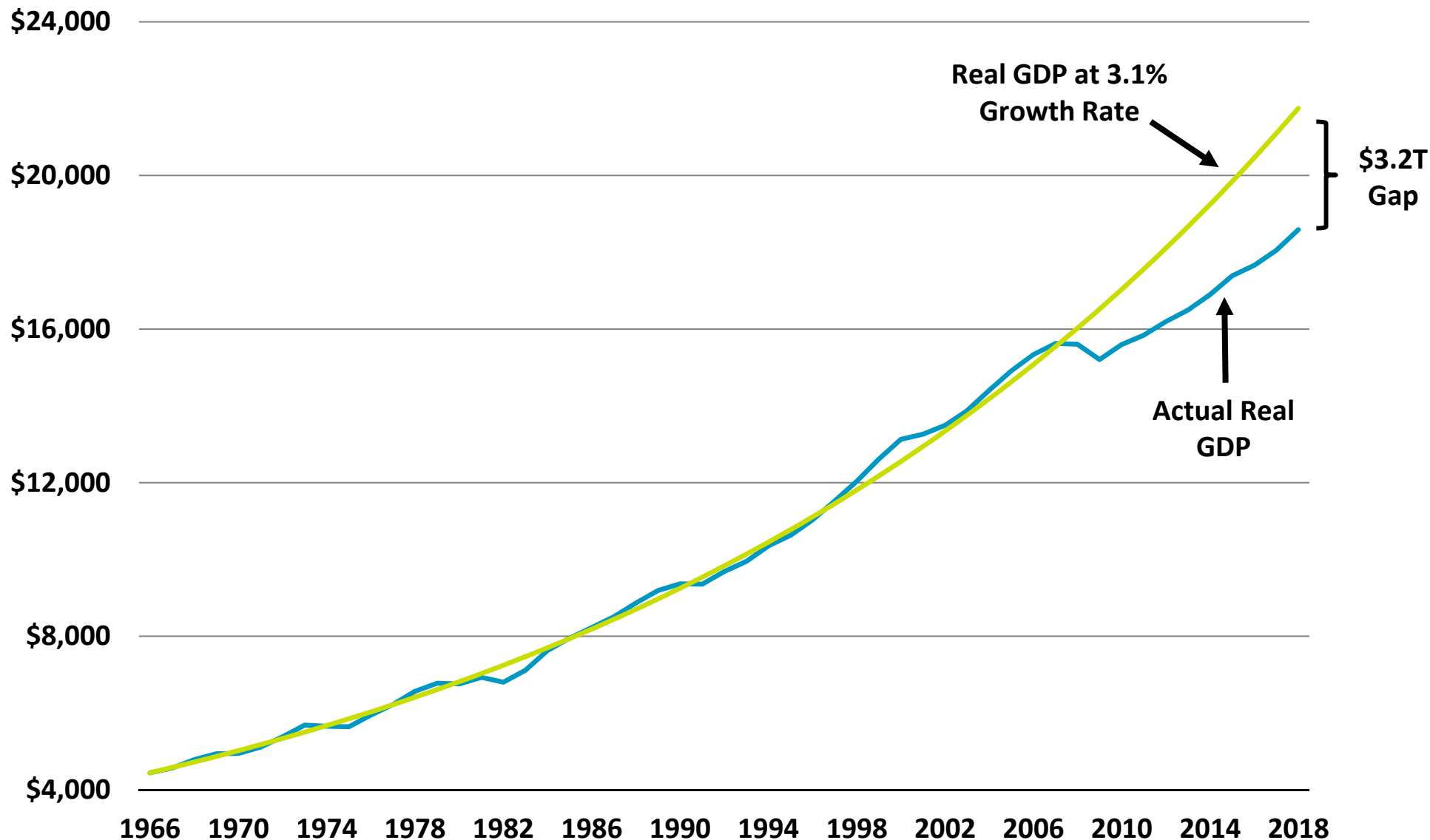
III. U.S. Soft Landing

Recession Monitor Checklist

Indicator	Note	2000	2007	Current
Average Hourly Earnings Growth	<ul style="list-style-type: none"> AHE growth of +4% creates inflation concern The Fed hikes to front-run inflation, and overtightens 	✓	✓	✗ (3.4%)
Leading Economic Indicators	<ul style="list-style-type: none"> Negative leading indicators precede recession Leading indicators have rolled over – though unclear if they have finally peaked 	✓	✓	✓
Yield Curve: 10Y/2Y Spread	<ul style="list-style-type: none"> Inversion of the 10Y/2Y portion of curve precedes recession by around 18 months 10Y/3M has inverted, but can have false signals 10Y/2Y spread flat, still positive (see slide 15) 	✓	✓	✗ (10Y/2Y positive)
Sentiment	<ul style="list-style-type: none"> Euphoric sentiment leads to speculative buying Reflected by wild price swings or extreme investor bullishness (see Crowd Sentiment poll, slide 7) 	✓	✓	✓

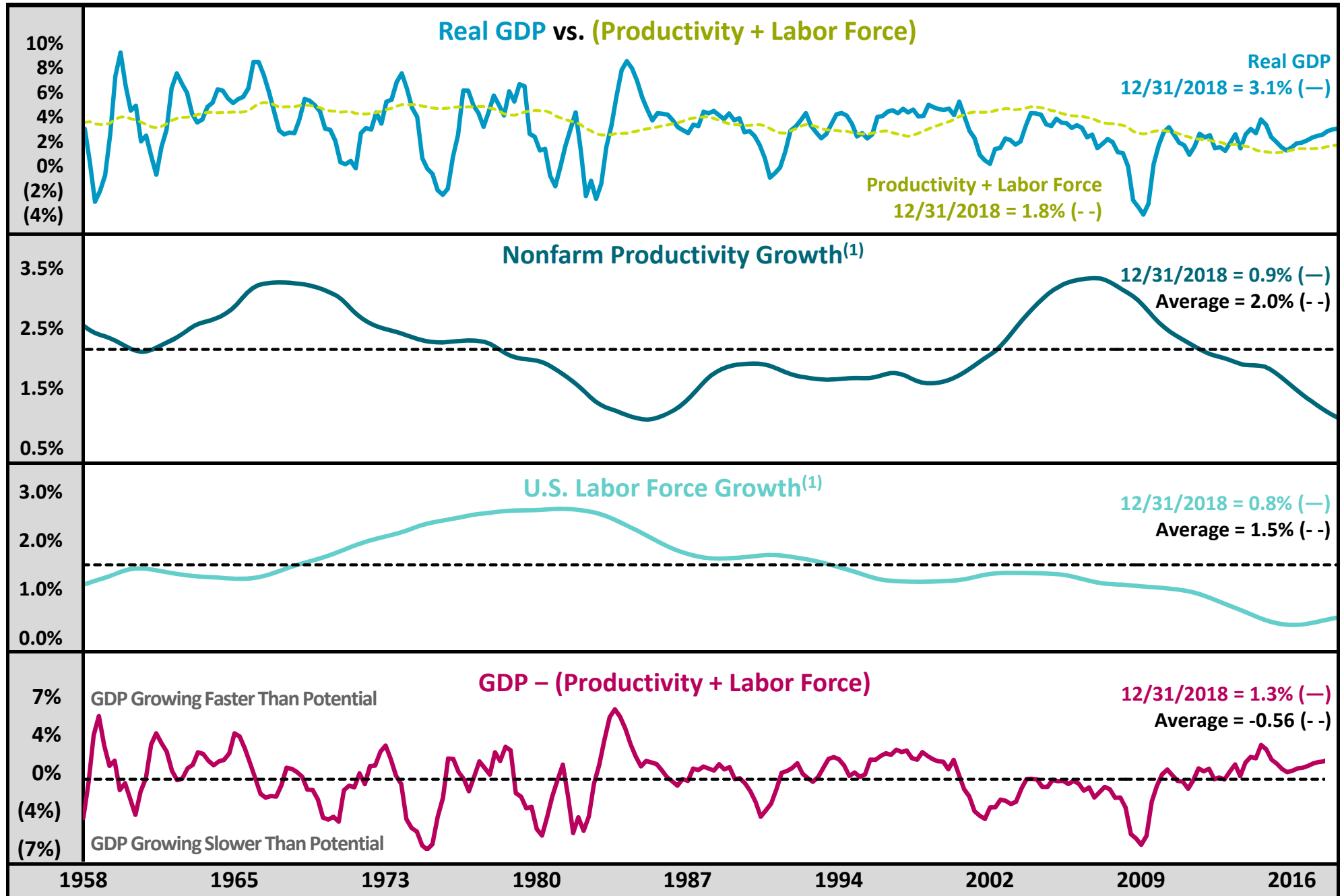
Mature Economy Grows at 2%

U.S. Real GDP Growth
(\$ in Billions)



Source: Blackstone Investment Strategy and Bureau of Economic Analysis, as of 12/31/18. Actual Real GDP based on chained 2012 dollars, not seasonally adjusted.

Long-Term Composition of Real U.S. GDP Growth

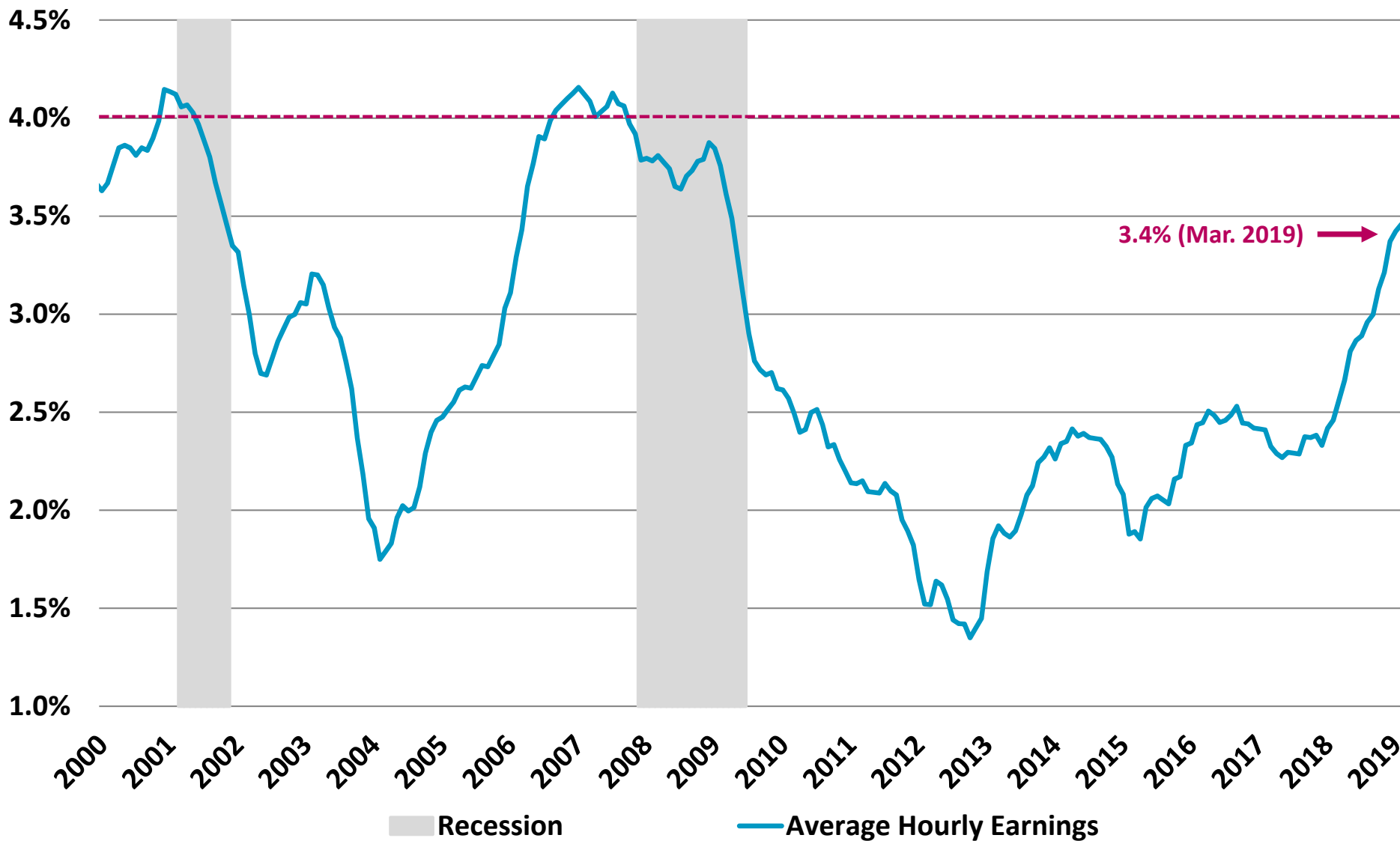


Source: Blackstone Investment Strategy, Ned Davis Research and Bureau of Labor Statistics, as of 12/31/18. All percentages are year-over-year growth rates.

(1) Rolling 5-year averages.

More Help for U.S. Consumer Spending

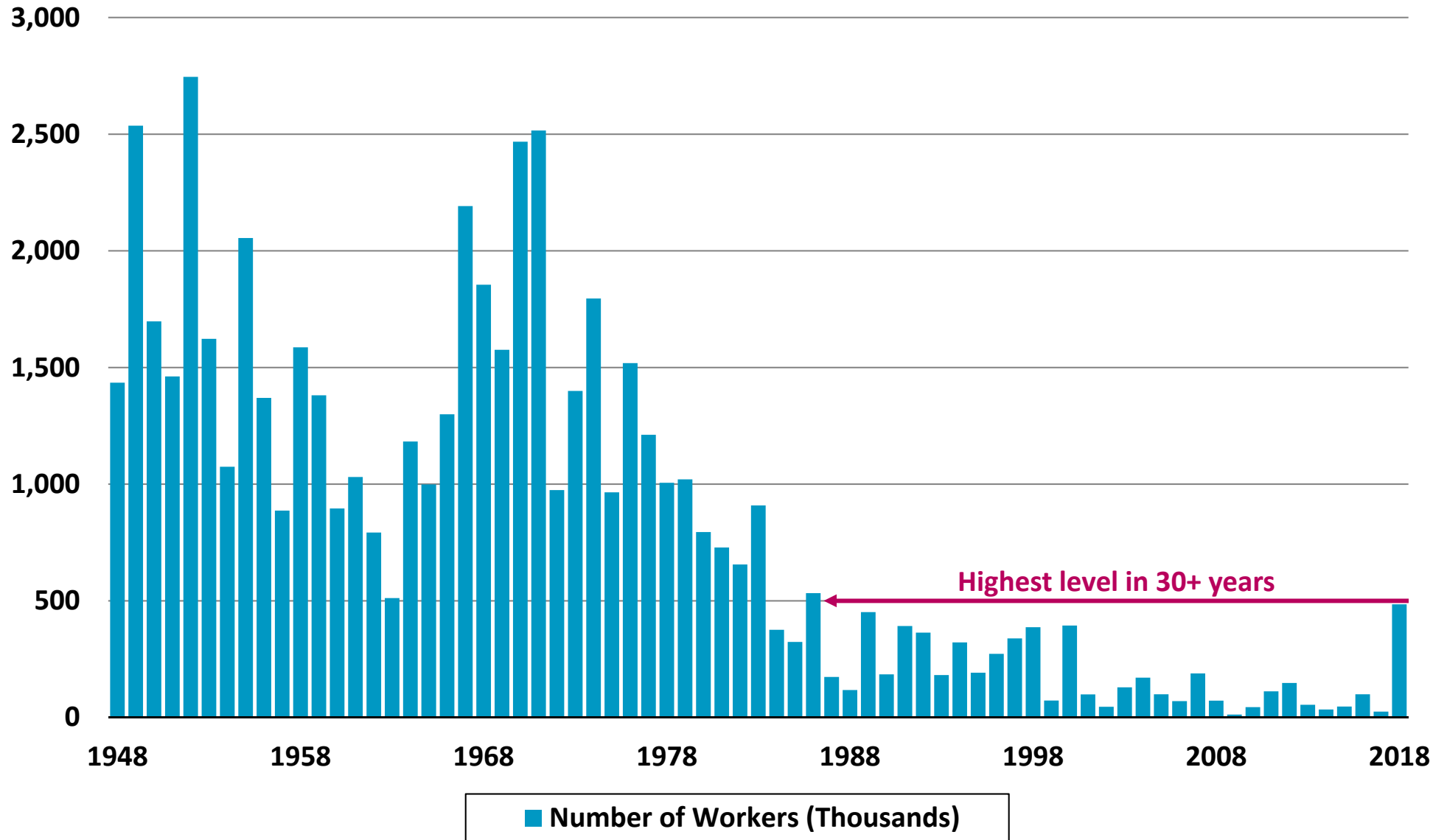
**U.S. Average Hourly Earnings
3-Month Average (YoY %)**



Source: Blackstone Investment Strategy and Bureau of Labor Statistics, as of 3/31/19. Represents 3-month YoY average of average hourly earnings of production and nonsupervisory employees: total private, seasonally adjusted.

Workers Flexing Their Muscles

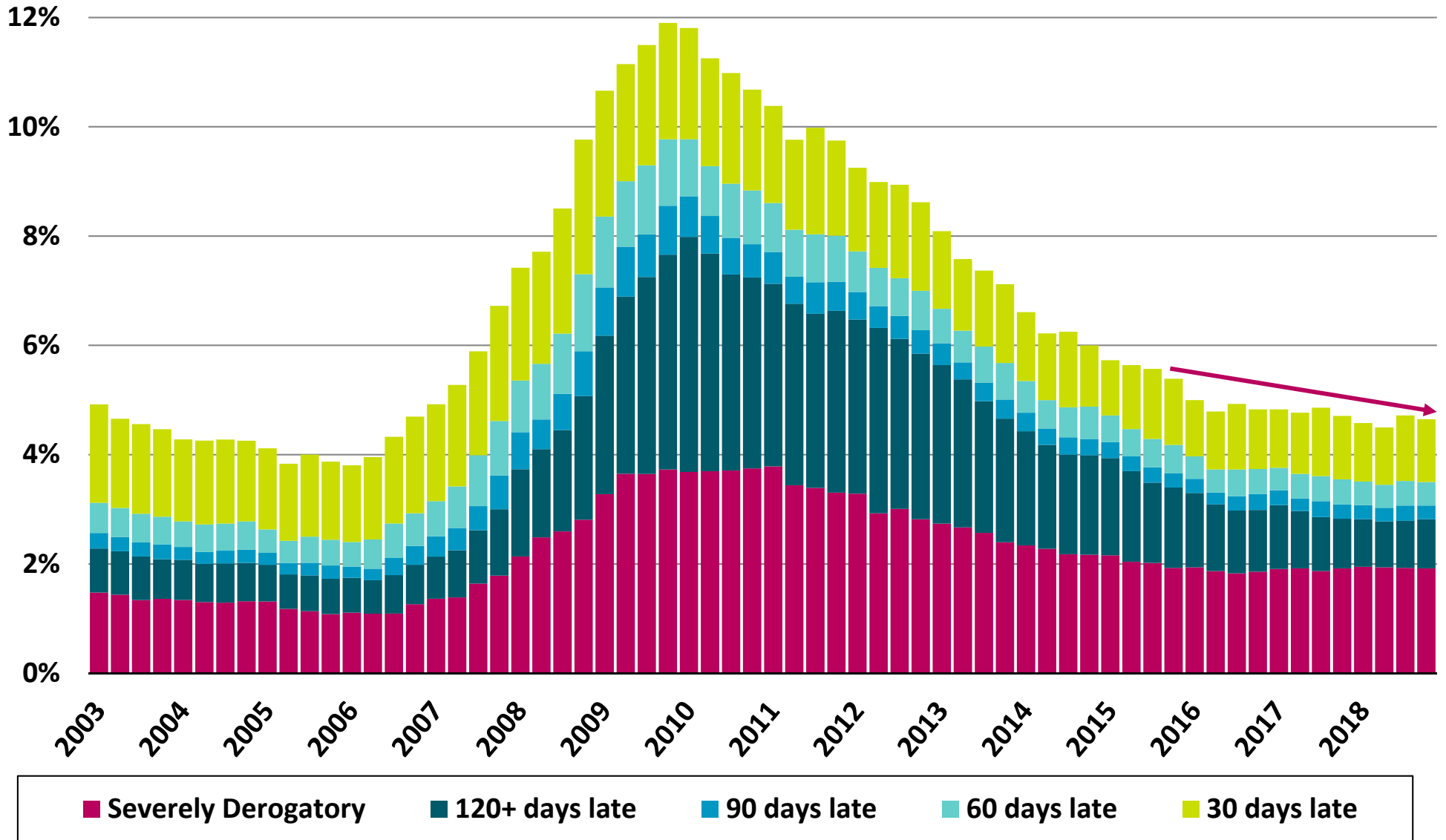
Annual Work Stoppages Involving 1,000+ Workers (1948-2018)



Source: Blackstone Investment Strategy and Bureau of Labor Statistics, as of 12/31/18.

Household Credit Delinquencies Remain Subdued

**U.S. Household Credit Delinquencies
(Percent Delinquent)**

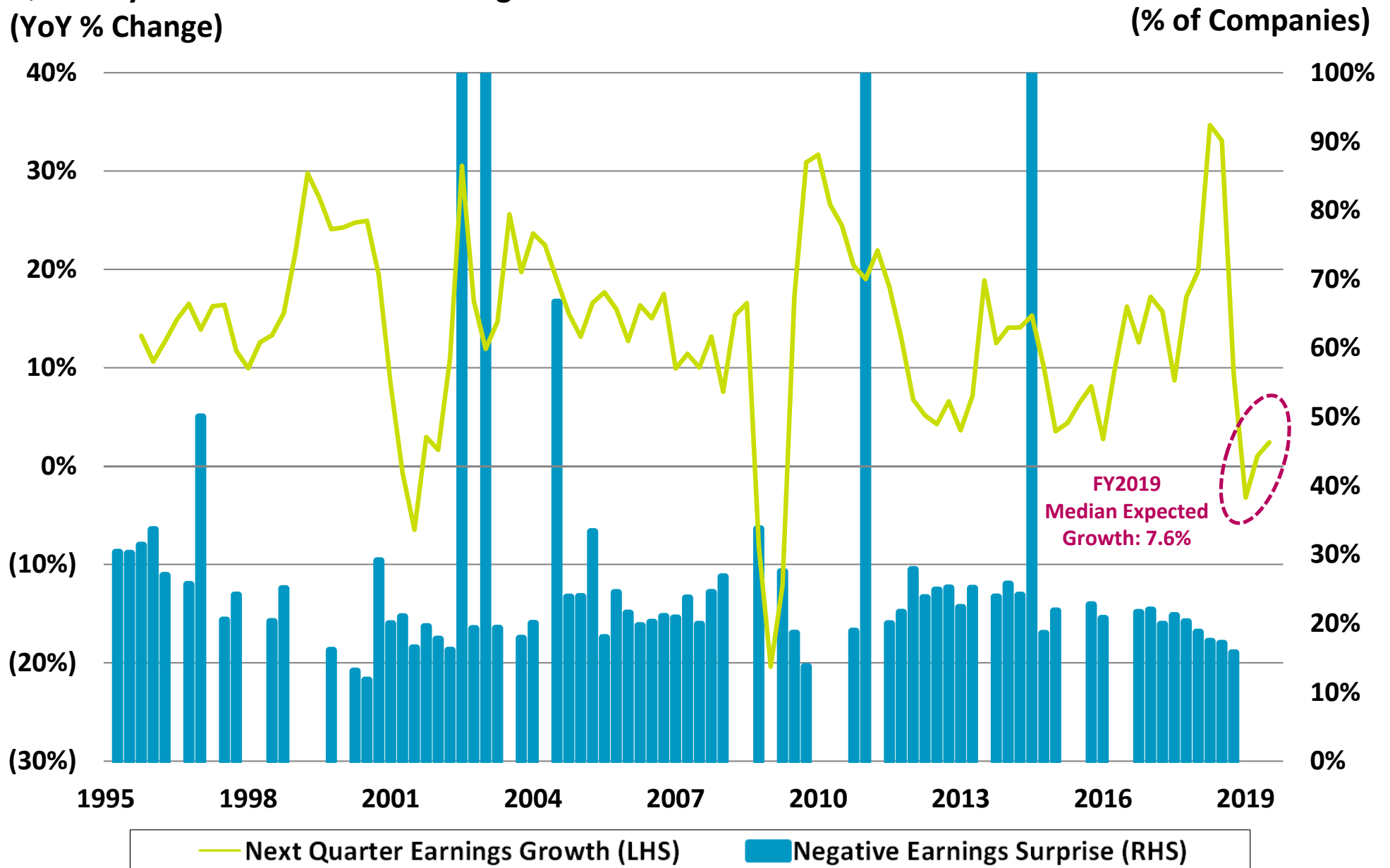


Source: Blackstone Investment Strategy, Federal Reserve Board of New York Consumer Credit Panel and Equifax, as of 12/31/18. Includes mortgage, automobile, credit card, student, house equity revolving, and other types of debt.

IV. Corporate Profits Slowing

Earnings Expectations Fall for 2019

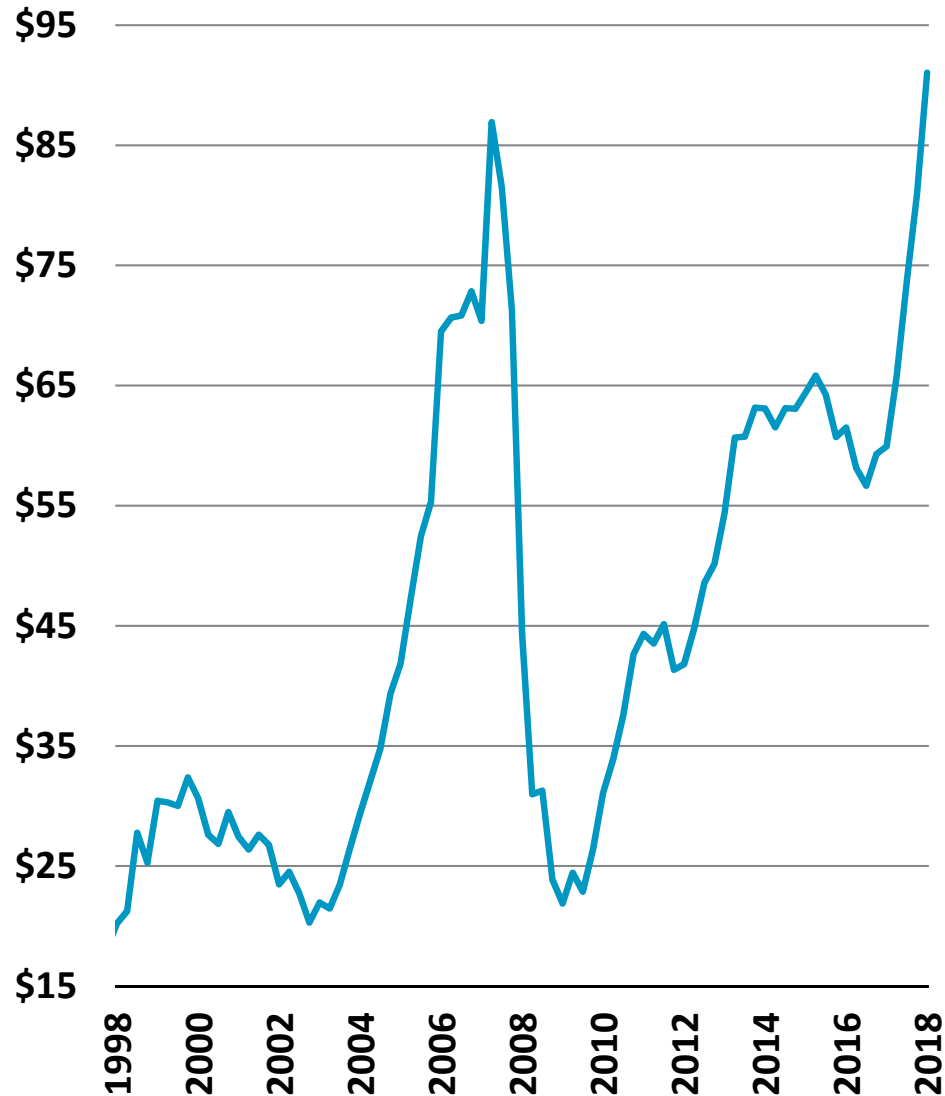
Quarterly Historical S&P 500 Earnings Data
(YoY % Change)



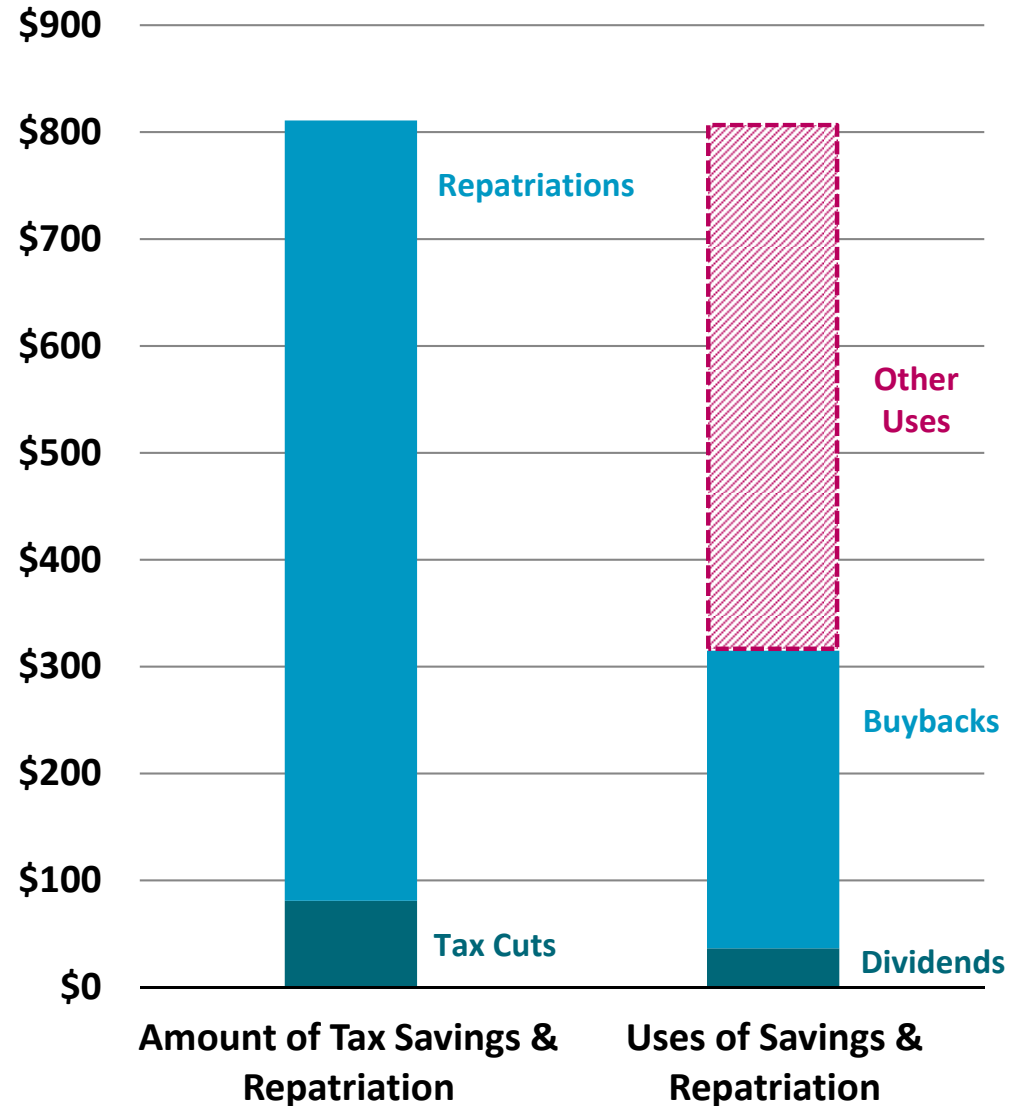
Source: Blackstone Investment Strategy, Ned Davis Research and Bianco Research. Estimates for 2019 earnings are as of 3/15/2019.

Buybacks Reach All-Time High – But Don't Blame Tax Reform Only

Repurchases of Corporate Stock⁽¹⁾
(S&P 500, Dollars Per-Share)



2018 Tax Savings & Repatriation⁽²⁾
(\$ in Billions)



(1) Source: Blackstone Investment Strategy and Bloomberg, as of 12/31/18.

(2) Source: Blackstone Investment Strategy and Strategas Research Partners, as of 3/31/19.

Dividend Discount Model

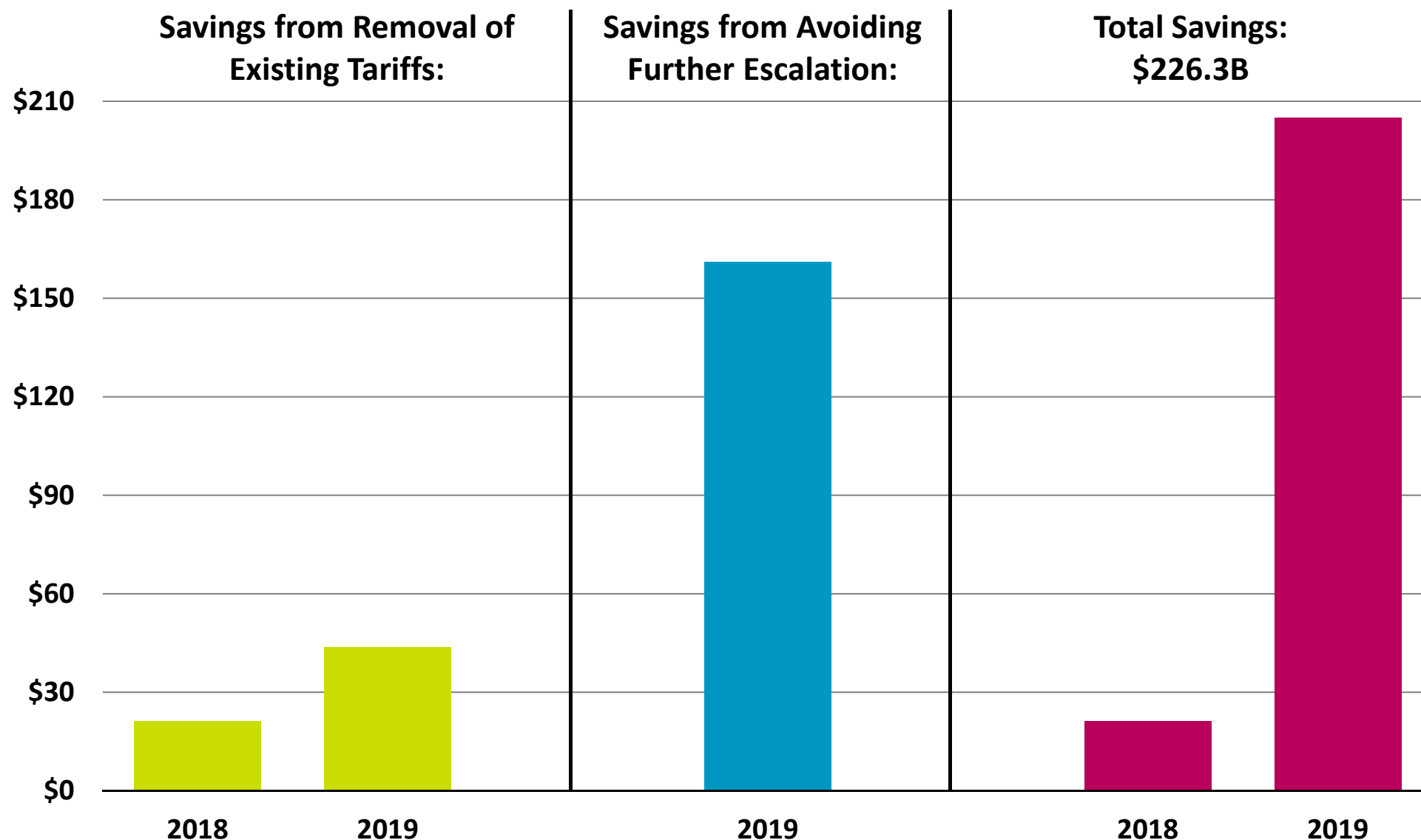
<u>1 Year</u>	<u>10 Year Treasury Yield</u>												
	<u>EPS \$</u>	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%
160	23,360	11,680	7,787	5,840	4,672	3,893	3,337	2,920	2,596	2,336	2,124	1,947	1,797
162	23,652	11,826	7,884	5,913	4,730	3,942	3,379	2,957	2,628	2,365	2,150	1,971	1,819
164	23,944	11,972	7,981	5,986	4,789	3,991	3,421	2,993	2,660	2,394	2,177	1,995	1,842
166	24,236	12,118	8,079	6,059	4,847	4,039	3,462	3,030	2,693	2,424	2,203	2,020	1,864
168	24,528	12,264	8,176	6,132	4,906	4,088	3,504	3,066	2,725	2,453	2,230	2,044	1,887
170	24,820	12,410	8,273	6,205	4,964	4,137	3,546	3,103	2,758	2,482	2,256	2,068	1,909
172	25,112	12,556	8,371	6,278	5,022	4,185	3,587	3,139	2,790	2,511	2,283	2,093	1,932
174	25,404	12,702	8,468	6,351	5,081	4,234	3,629	3,176	2,823	2,540	2,309	2,117	1,954
176	25,696	12,848	8,565	6,424	5,139	4,283	3,671	3,212	2,855	2,570	2,336	2,141	1,977
178	25,988	12,994	8,663	6,497	5,198	4,331	3,713	3,249	2,888	2,599	2,363	2,166	1,999
180	26,280	13,140	8,760	6,570	5,256	4,380	3,754	3,285	2,920	2,628	2,389	2,190	2,022
182	26,572	13,286	8,857	6,643	5,314	4,429	3,796	3,322	2,952	2,657	2,416	2,214	2,044
184	26,864	13,432	8,955	6,716	5,373	4,477	3,838	3,358	2,985	2,686	2,442	2,239	2,066
186	27,156	13,578	9,052	6,789	5,431	4,526	3,879	3,395	3,017	2,716	2,469	2,263	2,089
188	27,448	13,724	9,149	6,862	5,490	4,575	3,921	3,431	3,050	2,745	2,495	2,287	2,111
190	27,740	13,870	9,247	6,935	5,548	4,623	3,963	3,468	3,082	2,774	2,522	2,312	2,134

Note: Model assumes that S&P 500 Earnings per Share start the period growing at the short-term rate indicated in the rows. The growth rate declines linearly over 2 years to a 4% nominal growth rate then remains there in perpetuity. Analysis assumes the dividend payout ratio remains at the current level of 37% and the equity risk premium is a constant 3.25%.
Source: Blackstone Investment Strategy, as of 3/31/19.

V. Driving the Last Leg of This Cycle

Tariffs: Tax Increase or Tax Cut

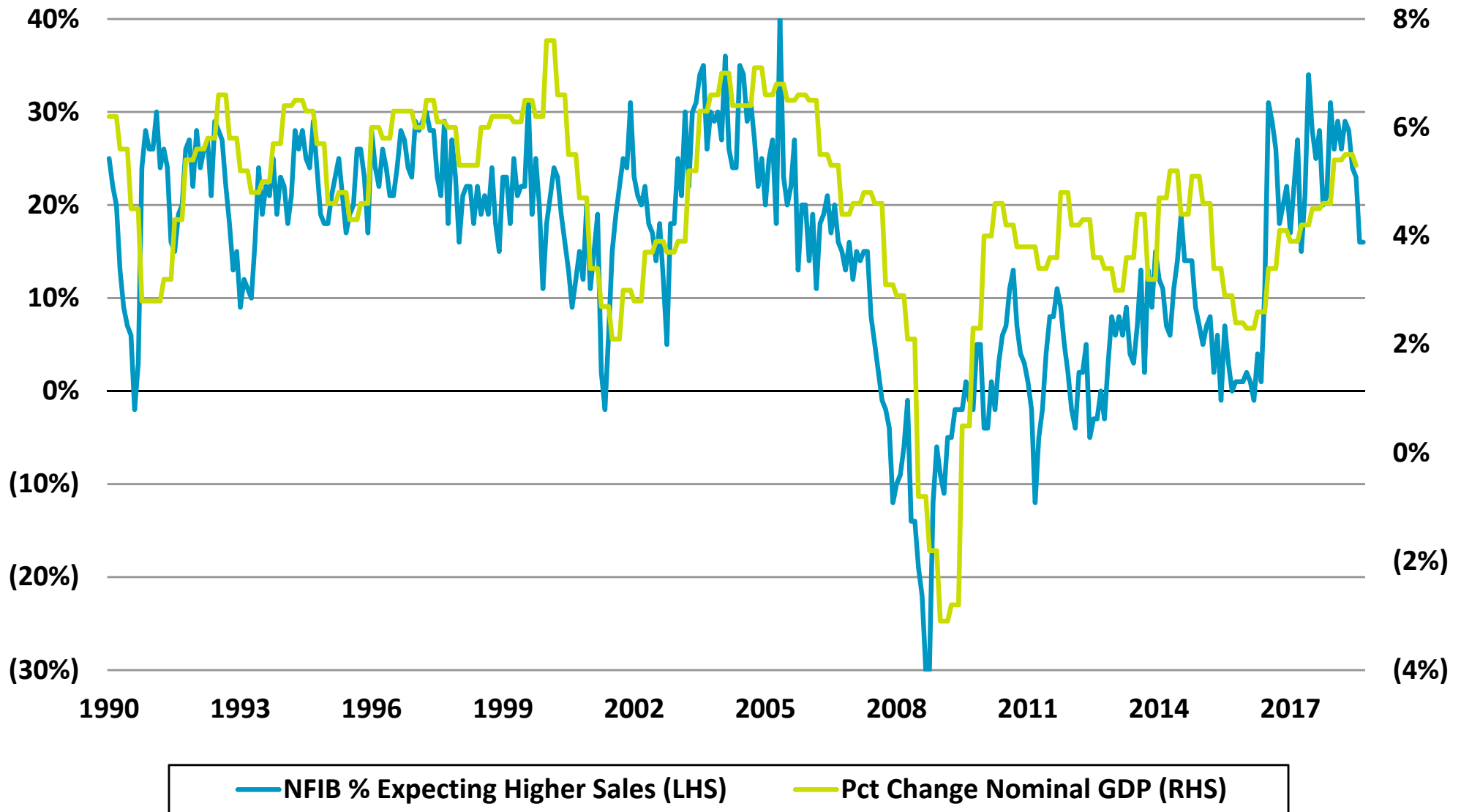
Potential Savings from U.S.-China Trade Resolution (\$ in Billions)



Source: Blackstone Investment Strategy and Strategas Research Partners, as of 3/31/19.

Small Business Sales Growth Expectations & GDP Growth

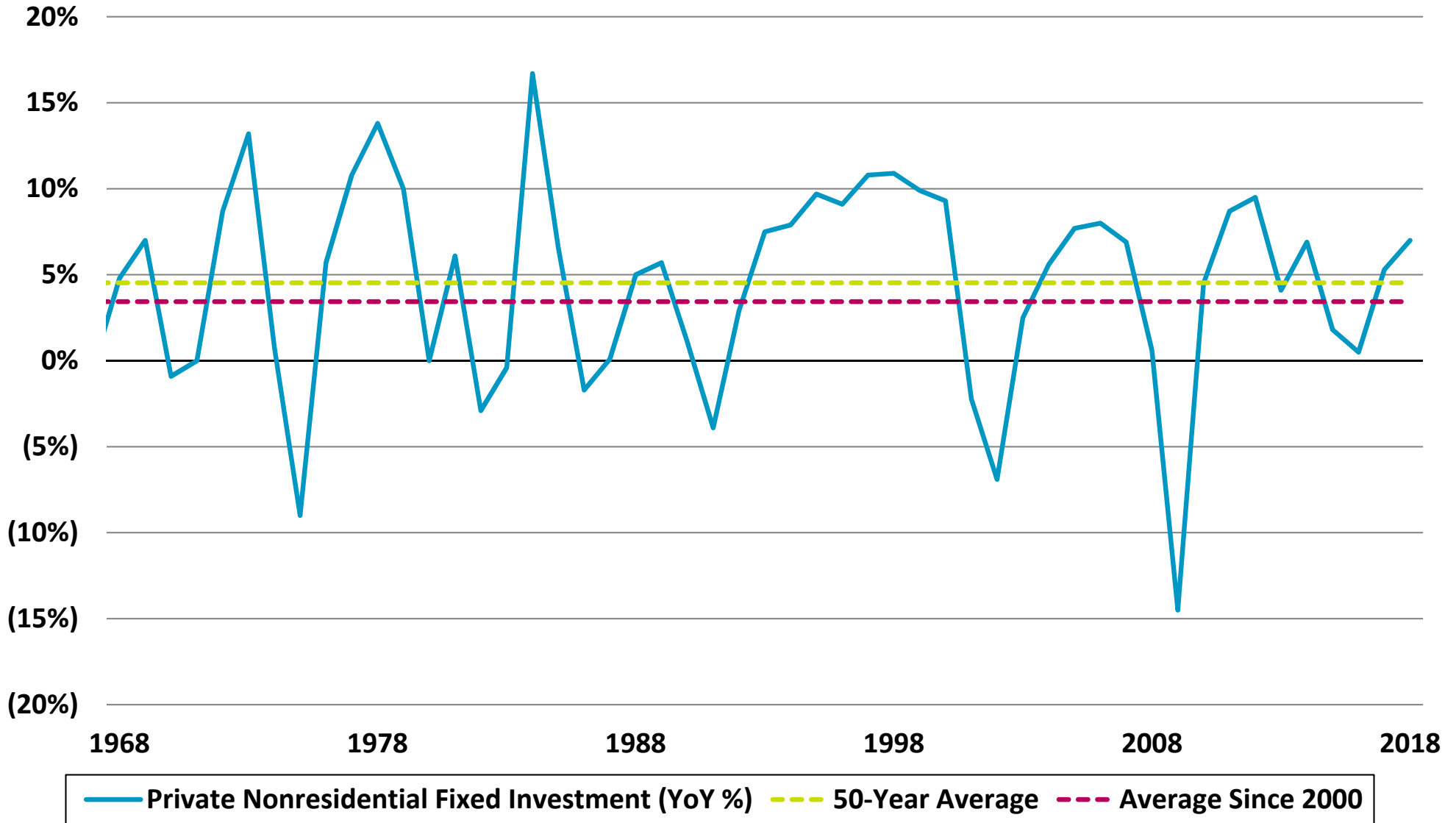
NFIB Small Business Sales Expectations and Nominal GDP Growth (YoY % Change)



Source: Blackstone Investment Strategy, Strategas, Bureau of Economic Analysis, National Federation of Independent Business (NFIB) and Bloomberg, as of 12/31/18. GDP growth represents quarterly YoY change.

Capital Expenditures Rising

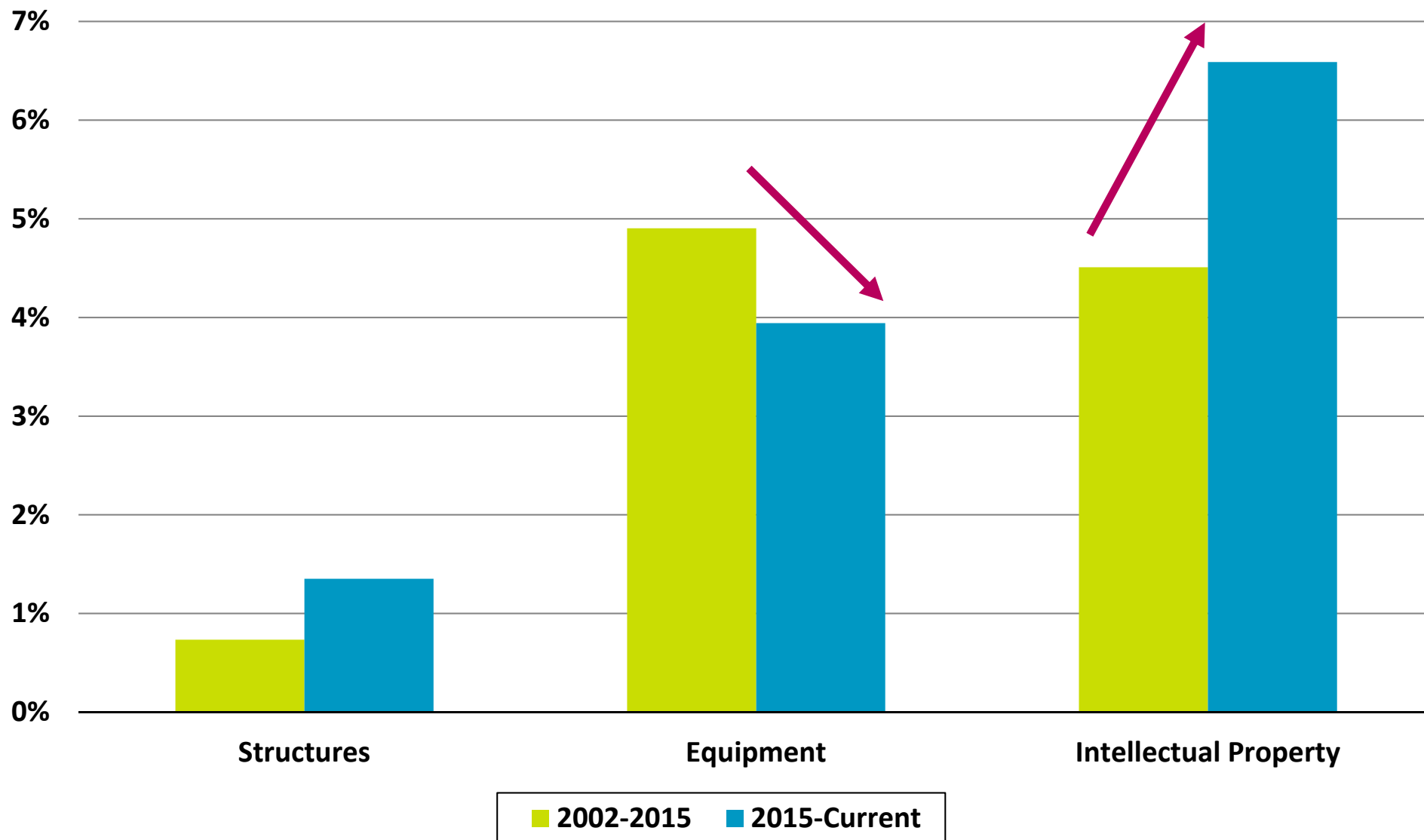
Real Private Nonresidential Fixed Investment
(YoY % Change)



Source: Blackstone Investment Strategy and Bureau of Economic Analysis, as of 12/31/18. Based on real gross private domestic investment: fixed investment: nonresidential. Data series not seasonally adjusted.

CapEx Increasingly Being Spent on Intellectual Property

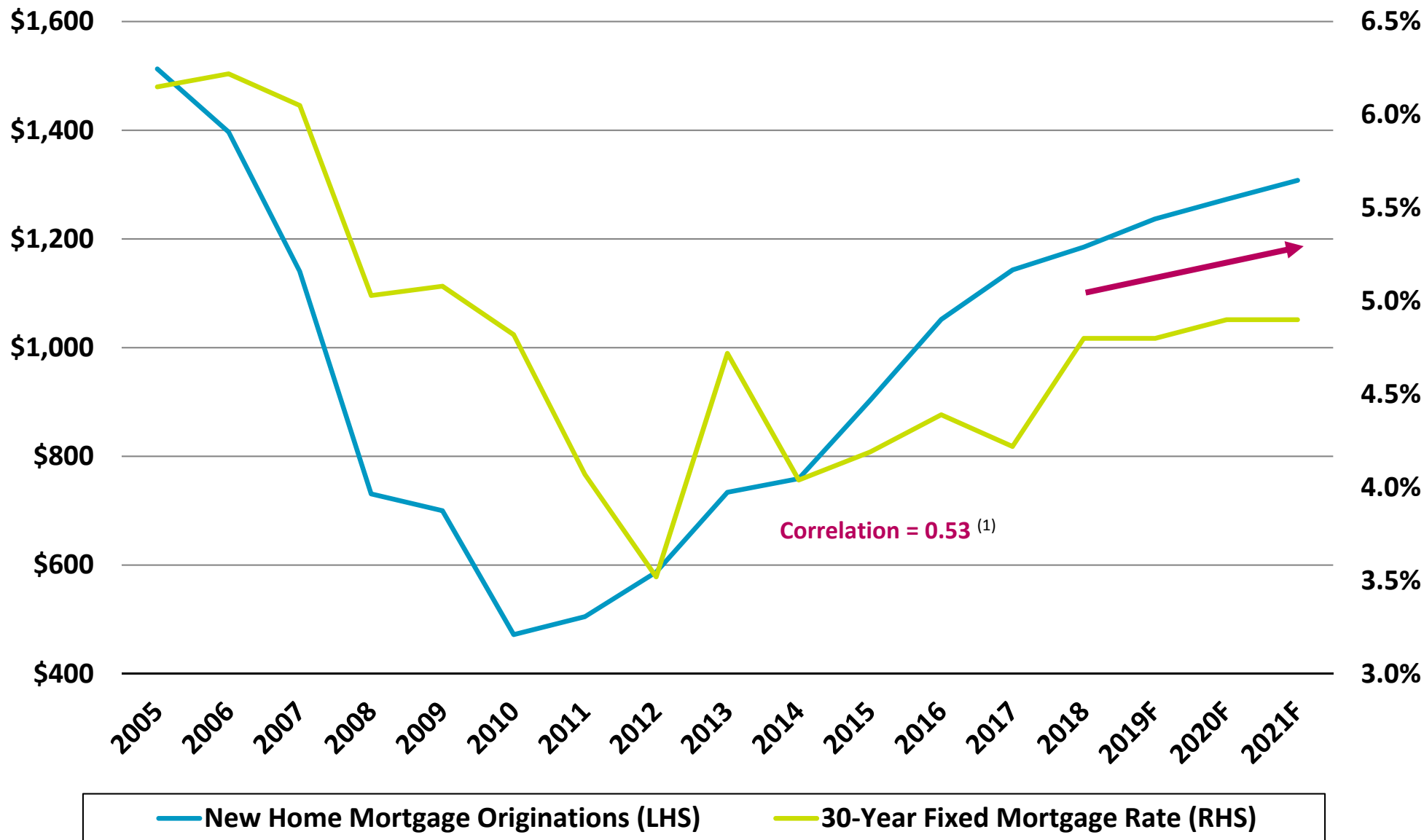
Real Private Nonresidential Investment
(Compound Annual Rate of Growth)



Source: Blackstone Investment Strategy and Bureau of Economic Analysis, as of 12/31/18. Based on real private domestic fixed investment (nonresidential). Data series not seasonally adjusted.

Housing to Continue to Pick Up Steam

Mortgage Originations and Rates
(\$ in Billions)



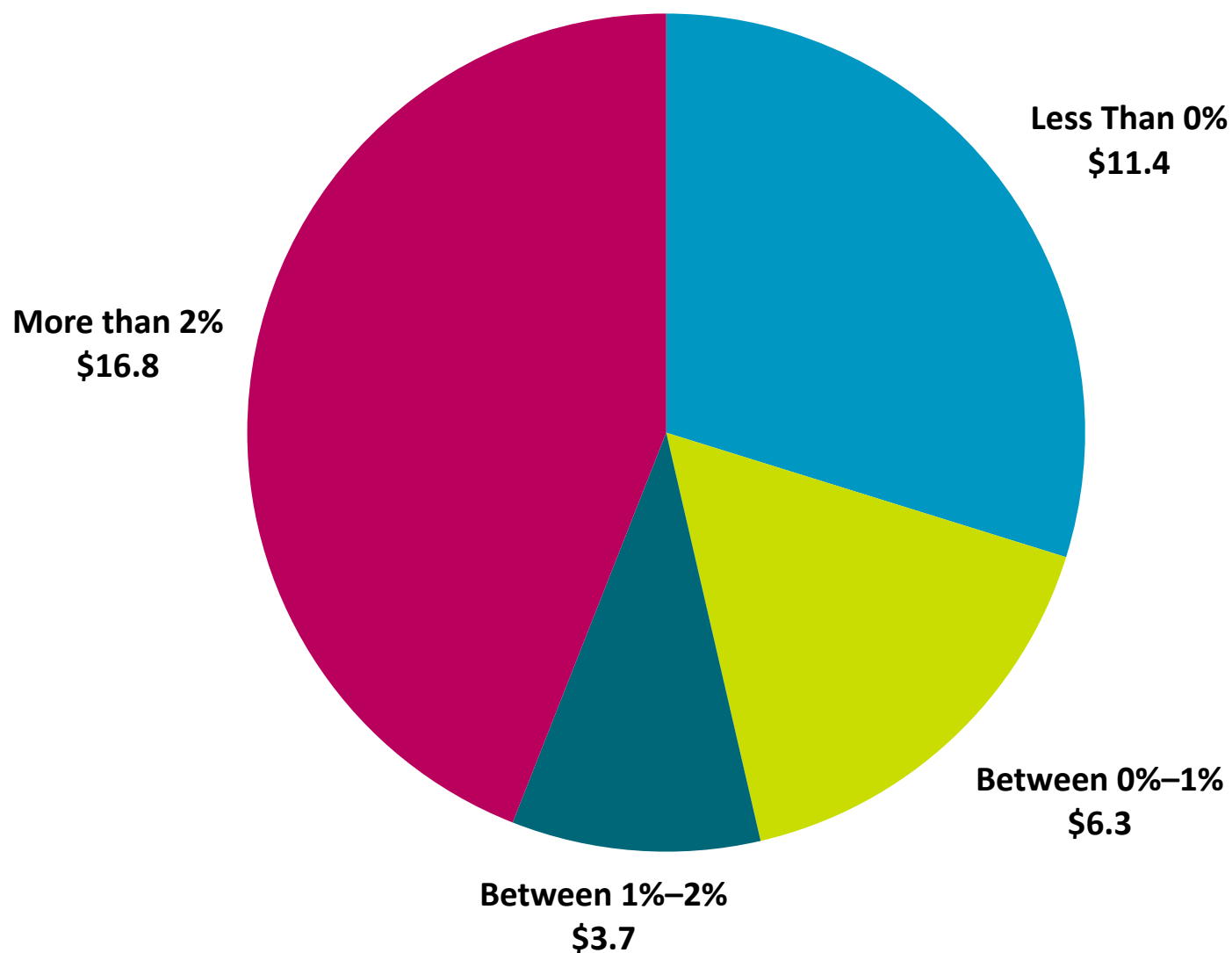
Source: Blackstone Investment Strategy, Mortgage Bankers Association and Bloomberg, as of 2/28/19.

(1) Based on monthly observations.

VI. Other Trends to Watch

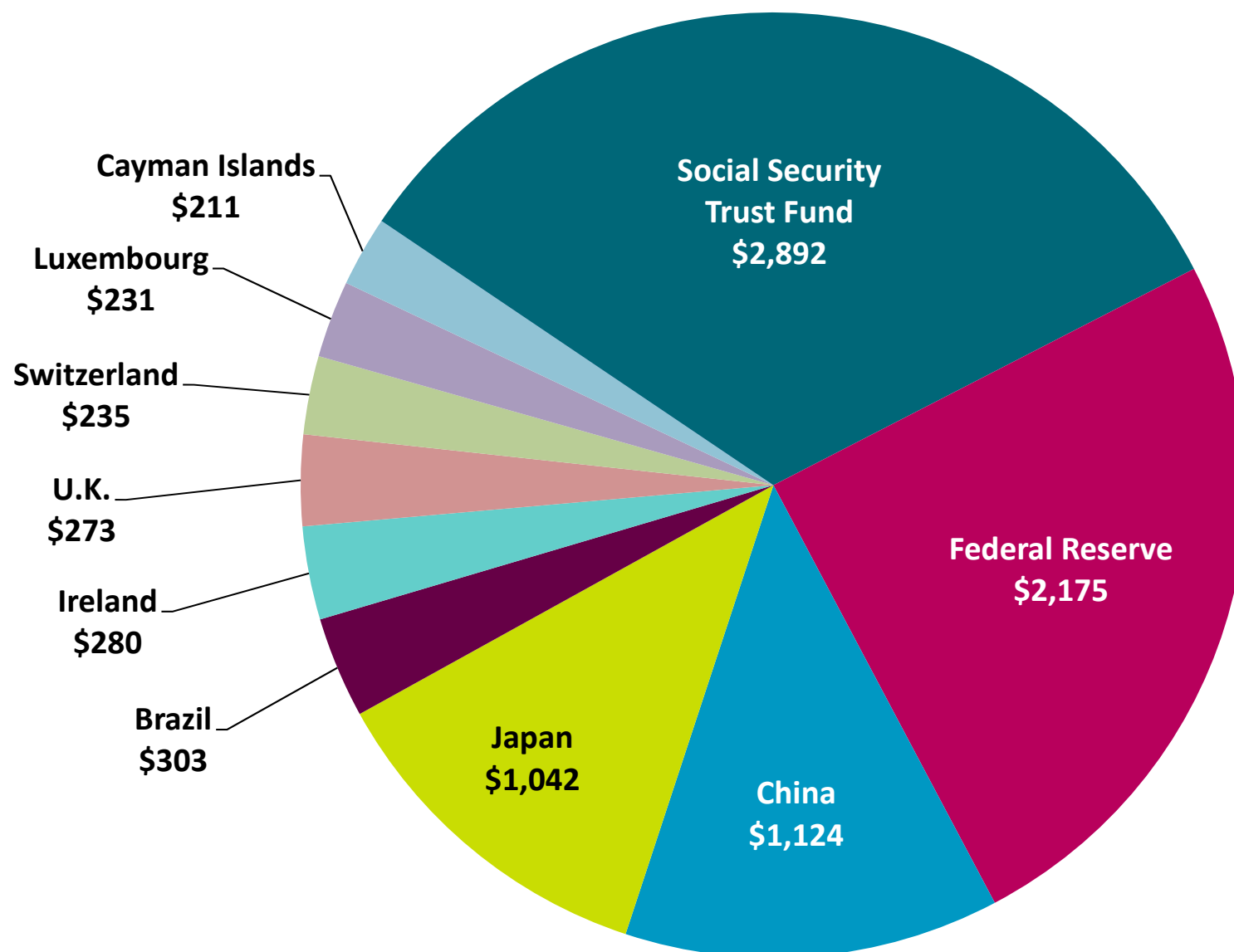
Most Global Debt Yields Less Than U.S. Treasuries

Total Outstanding Global Debt = \$38.24 Trillion
(\$ in Trillions)



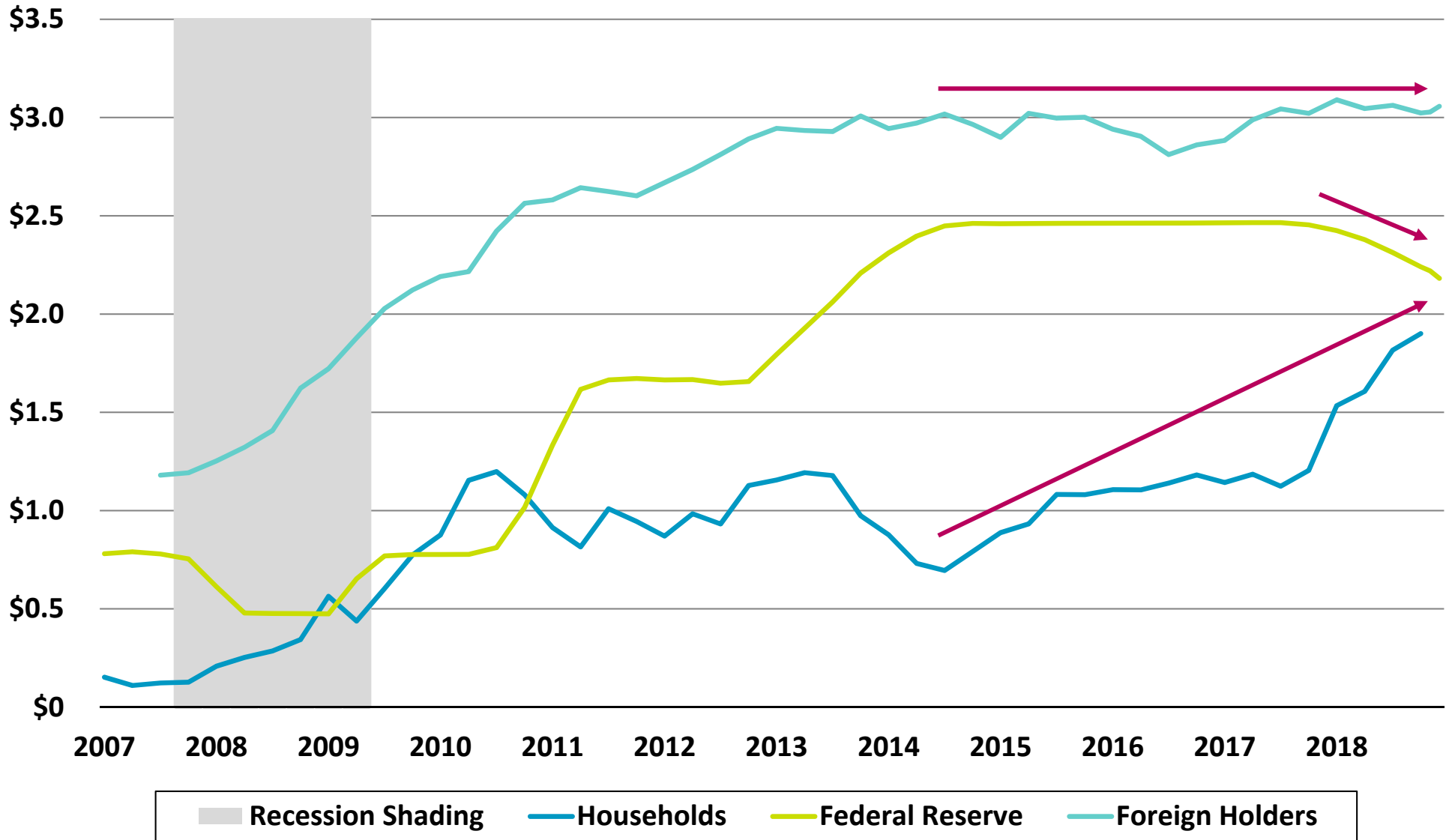
Selected Major Holders of U.S. Treasury Debt

Selected Holders Account for \$8.8T in U.S. Treasury Debt, of Which China and Japan Comprise 25% (\$ in Billions)



Treasury Demand Depends on Private Sector

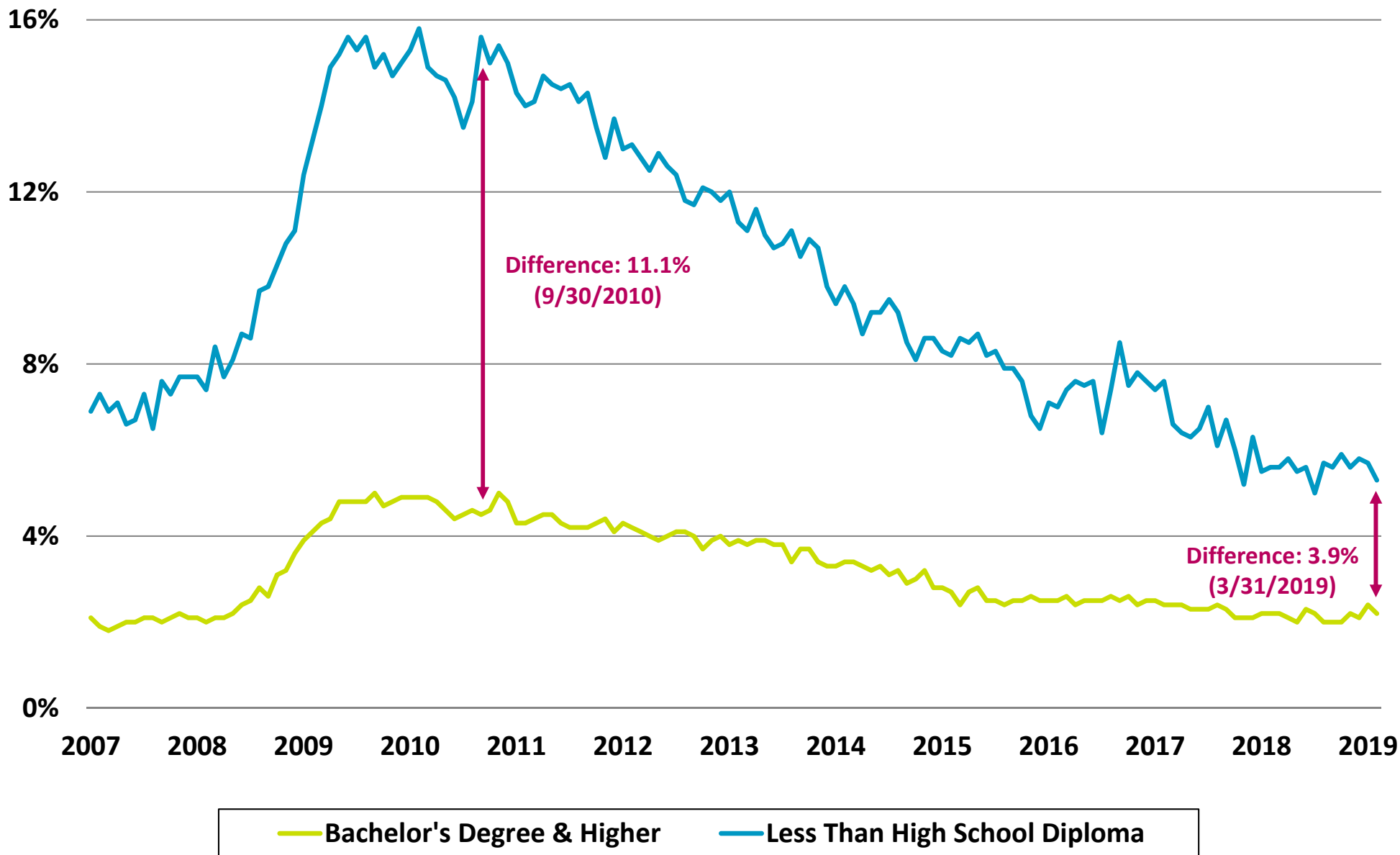
Treasury Securities by Holder Type
(\$ in Trillions)



Source: Blackstone Investment Strategy and Federal Reserve, as of 12/31/18. "Households" also includes nonprofit organizations.

A Broad-Based Recovery

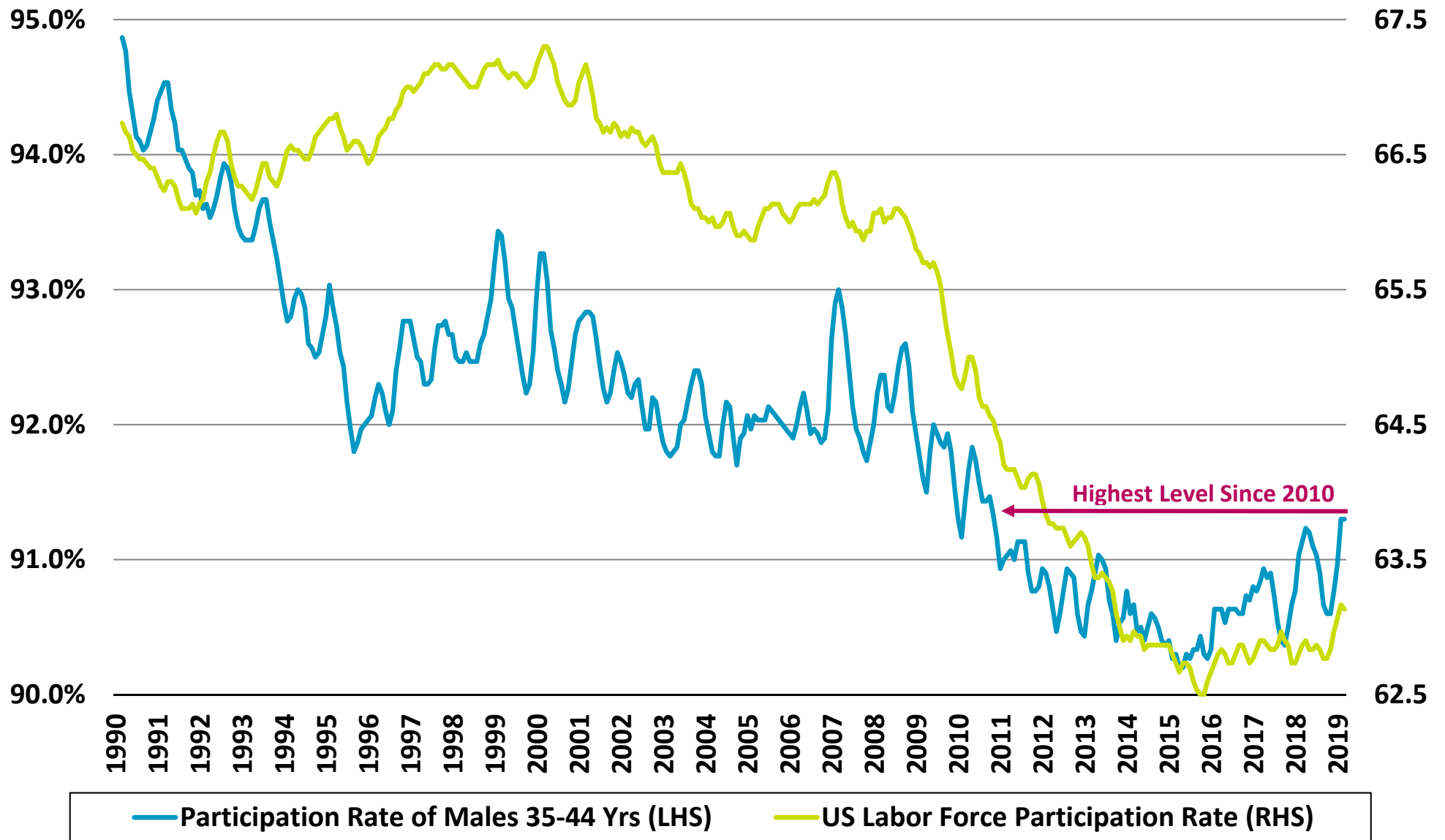
Unemployment Rates by Educational Attainment



Source: Blackstone Investment Strategy, Bureau of Labor Statistics and Bloomberg, as of 3/31/19. Numbers are seasonally adjusted.

Comeback of the “Prime Age” Male Worker

Labor Force Participation Rates
(3-Month Rolling Averages)



Source: Blackstone Investment Strategy, Bureau of Labor Statistics and Bloomberg, as of 3/31/19. Numbers are seasonally adjusted.

VII. Life's Lessons

Life's Lessons

Here are some of the lessons I have learned in my first 80 years. I hope to continue to practice them in the next 80

1. Concentrate on finding a big idea that will make an impact on the people you want to influence. The Ten Surprises, which I started doing in 1986, has been a defining product. People all over the world are aware of it and identify me with it. What they seem to like about it is that I put myself at risk by going on record with these events which I believe are probable and hold myself accountable at year-end. If you want to be successful and live a long, stimulating life, keep yourself at risk intellectually all the time.
2. Network intensely. Luck plays a big role in life, and there is no better way to increase your luck than by knowing as many people as possible. Nurture your network by sending articles, books and emails to people to show you're thinking about them. Write op-eds and thought pieces for major publications. Organize discussion groups to bring your thoughtful friends together.
3. When you meet someone new, treat that person as a friend. Assume he or she is a winner and will become a positive force in your life. Most people wait for others to prove their value. Give them the benefit of the doubt from the start. Occasionally you will be disappointed, but your network will broaden rapidly if you follow this path.
4. Read all the time. Don't just do it because you're curious about something, read actively. Have a point of view before you start a book or article and see if what you think is confirmed or refuted by the author. If you do that, you will read faster and comprehend more.
5. Get enough sleep. Seven hours will do until you're sixty, eight from sixty to seventy, nine thereafter, which might include eight hours at night and a one-hour afternoon nap.
6. Evolve. Try to think of your life in phases so you can avoid a burn-out. Do the numbers crunching in the early phase of your career. Try developing concepts later on. Stay at risk throughout the process.

Life's Lessons (Cont'd)

7. Travel extensively. Try to get everywhere before you wear out. Attempt to meet local interesting people where you travel and keep in contact with them throughout your life. See them when you return to a place.
8. When meeting someone new, try to find out what formative experience occurred in their lives before they were seventeen. It is my belief that some important event in everyone's youth has an influence on everything that occurs afterwards.
9. On philanthropy my approach is to try to relieve pain rather than spread joy. Music, theatre and art museums have many affluent supporters, give the best parties and can add to your social luster in a community. They don't need you. Social services, hospitals and educational institutions can make the world a better place and help the disadvantaged make their way toward the American dream.
10. Younger people are naturally insecure and tend to overplay their accomplishments. Most people don't become comfortable with who they are until they're in their 40's. By that time they can underplay their achievements and become a nicer, more likeable person. Try to get to that point as soon as you can.
11. Take the time to give those who work for you a pat on the back when they do good work. Most people are so focused on the next challenge that they fail to thank the people who support them. It is important to do this. It motivates and inspires people and encourages them to perform at a higher level.
12. When someone extends a kindness to you write them a handwritten note, not an e-mail. Handwritten notes make an impact and are not quickly forgotten.
13. At the beginning of every year think of ways you can do your job better than you have ever done it before. Write them down and look at what you have set out for yourself when the year is over.
14. The hard way is always the right way. Never take shortcuts, except when driving home from the Hamptons. Short-cuts can be construed as sloppiness, a career killer.

Life's Lessons (Cont'd)

15. Don't try to be better than your competitors, try to be different. There is always going to be someone smarter than you, but there may not be someone who is more imaginative.
16. When seeking a career as you come out of school or making a job change, always take the job that looks like it will be the most enjoyable. If it pays the most, you're lucky. If it doesn't, take it anyway. I took a severe pay cut to take each of the two best jobs I've ever had, and they both turned out to be exceptionally rewarding financially.
17. There is a perfect job out there for everyone. Most people never find it. Keep looking. The goal of life is to be a happy person and the right job is essential to that.
18. When your children are grown or if you have no children, always find someone younger to mentor. It is very satisfying to help someone steer through life's obstacles, and you'll be surprised at how much you will learn in the process.
19. Every year try doing something you have never done before that is totally out of your comfort zone. It could be running a marathon, attending a conference that interests you on an off-beat subject that will be populated by people very different from your usual circle of associates and friends or traveling to an obscure destination alone. This will add to the essential process of self-discovery.
20. Never retire. If you work forever, you can live forever. I know there is an abundance of biological evidence against this theory, but I'm going with it anyway.

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