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I. US Economic Cycle
Most Reliable Recession Signal is Flashing

10Y/2Y spread inverted before each of the past seven recessions

10-Year to 2-Year Treasury Yield Spread

Source: Federal Reserve, as of 8/14/19. Note: The 3-year Treasury yield is used prior to June 1976, when the 2-year Treasury was introduced.
US Growth Slowing

Leading economic indicators and growth declining

Leading Economic Indicators and Real GDP Growth
(YoY % Change)

Source: Bureau of Economic Analysis, Conference Board and Bloomberg, as of 6/30/19.
Consumers Confident, CEOs Skeptical

Consumer confidence elevated, but CEO confidence is slipping

(1) Source: University of Michigan Consumer Sentiment Index, as of 7/31/19.
(2) Source: Chief Executive Magazine and National Federation of Independent Business, as of 6/30/19.
As Goes Small Business, So Goes the Economy

Sales expectations trending down; we are watching carefully

Source: Bureau of Economic Analysis and National Federation of Independent Business, as of 6/30/19.
Businesses Reducing Capital Spending

Growth in capital spending in 2019 forecasted to be lowest since 2016

US Real Fixed Investment Spending\(^{(1)}\)
(YoY % Change)


\(^{(1)}\) Represents real private fixed investment, seasonally adjusted annual rate.
Corporate Profits Under Pressure

Flat-to-negative earnings are a risk to the market outlook

Source: I/B/E/S data from Refinitiv, as of 7/12/19.
(1) All data for 2Q'19 and after are forecasts.
Labor Market Remains Strong

Unemployment and jobless claims remain at lowest levels in 50 years

Unemployment and Jobless Claims

(1969-2019)

Source: Bureau of Labor Statistics and US Employment and Training Administration, as of 7/31/19. Figures are monthly, seasonally adjusted.
Consumers Remain in Good Shape

Consumer income and spending rising; debt burden remains low

Real Income and Spending Growth (YoY % Change)\(^{(1)}\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Personal Income</th>
<th>Consumption Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Household Debt Payments as % of Disposable Personal Income\(^{(2)}\)

- Source: The Federal Reserve Board, as of 3/31/19.
II. Risks to the Global Outlook
Europe in Recessionary Territory

Leading indicators at levels not seen since the last Europe-wide recession

Leading Economic Indicators
Euro Area and “Big Three” Economies

Source: Organisation for Economic Co-operation and Development, as of 6/30/19.
Tariff Hikes a Drag on Global Growth

As tariffs are escalated, there are incremental costs to the global economy.

Impact on GDP and Trade by 2021
From Decrease in Chinese Domestic Demand Growth\(^{(1)}\)

<table>
<thead>
<tr>
<th></th>
<th>Trade Growth</th>
<th>Economic Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade excl. USA &amp; CHN</td>
<td>(2.0%)</td>
<td></td>
</tr>
<tr>
<td>World Trade</td>
<td>(1.6%)</td>
<td></td>
</tr>
<tr>
<td>World GDP</td>
<td>(1.2%)</td>
<td></td>
</tr>
<tr>
<td>China GDP</td>
<td>(0.8%)</td>
<td></td>
</tr>
<tr>
<td>USA GDP</td>
<td>(0.4%)</td>
<td></td>
</tr>
</tbody>
</table>

\(\text{Tariffs plus higher global risk premia}^{(2)}\)

\(\text{Tariffs extended to rest of USA-CHN trade}^{(2)}\)

\(\text{Current Tariffs}\)

Source: OECD Calculations, as of 11/21/18. Represents the percent difference from baseline forecasts.

\(^{(1)}\) Note: Simulated impact of a decline of 2 percentage points per year in domestic demand growth in China for two years.

\(^{(2)}\) Note: The “Extended to rest” scenario shows the additional impact if tariffs of 25% are imposed on all remaining bilateral non-commodity trade between China and the U.S. from July 2019. The “Global risk premia” scenario shows the additional impact of related uncertainty resulting in a rise of 50bp in investment risk premia in all countries in 2019-2021.
## Trade War Will Impact Consumers

Tariffs on final $325B of Chinese imports include key consumer products

<table>
<thead>
<tr>
<th>Chinese Product Type</th>
<th>2017 US Import Value ($ in Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile Phones</td>
<td>$45</td>
</tr>
<tr>
<td>Laptop Computers</td>
<td>$37</td>
</tr>
<tr>
<td>Toys(^{(1)})</td>
<td>$12</td>
</tr>
<tr>
<td>Video Game Consoles &amp; Machines</td>
<td>$5</td>
</tr>
<tr>
<td>Computer Monitors</td>
<td>$4</td>
</tr>
<tr>
<td>Solid State HDDs</td>
<td>$4</td>
</tr>
<tr>
<td>Flat Panel TVs &gt;34.29 cm</td>
<td>$4</td>
</tr>
<tr>
<td>Multifunction Office Machines</td>
<td>$2</td>
</tr>
<tr>
<td>Knitted Cotton Apparel</td>
<td>$2</td>
</tr>
<tr>
<td>National Flags</td>
<td>$2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$117</strong></td>
</tr>
</tbody>
</table>

Source: KKR Global Macro & Asset Allocation and Blackstone Investment Strategy, as of 7/11/18.

\(^{(1)}\) Other than bicycles, puzzles and models.

\(^{(2)}\) Assumes even distribution of costs for 10% of the US population based on population size of 330 million in 2018.

$20.5 billion price increase in phones & laptops, assuming 25% tariff rate

Over $620 per American, assuming 10% of population purchases a new phone or laptop per year\(^{(2)}\)
Global Trade to GDP

Economies heavily reliant on trade are vulnerable to demand and export shocks

Source: World Bank, as of 12/31/18. Data for certain economies as of 12/31/17, based on availability.
Shift in Monetary Policy

Central banks are easing monetary policy as a response to slowing growth

Global Central Balance Sheets
(US Dollars in Billions, 12M Change)

Source: Strategas Research Partners, as of 7/31/19.
III. Bubble in the Bond Markets?
Global Debt Levels Rising

Total debt reached $247T in 2019, non-financial corporates comprise 30%
Negative Yielding Debt on the Rise

Global debt with negative yields increased by $10 trillion in past 10 months

Source: Bloomberg, as of 8/9/19. Includes sovereign and corporate debt.
Investors Racing to Get a Slice

Bond funds have had $265B in inflows in 2019 YTD

US Long-Term Mutual and ETF Flows (USD in Billions)

Source: Investment Company Institute, as of 7/31/19.
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