EULER HERMES: GLOBAL LEADER IN TRADE CREDIT INSURANCE

- Founded in 1893
- AA S&P Rating and A+ AM Best Rating
- Global leader in credit insurance with 34% market share
- Offices in 52 countries providing coverage in over 200 foreign markets
- Backed by blue-chip ownership of the Allianz Group
- 6,000 employees and 52,000 clients worldwide
- Insure over $150 Billion in US sales and over $1 Trillion globally.
- Pay 85,000 claims per year
- International Risk Database monitors over 85 million companies worldwide

Credit Insurance: Protection against bankruptcy and slow payment losses
- Safer sales growth in the US or overseas
- Knowledge to better manage risk
- Improved borrowing options
- Credit function support
- Reduce bad debt reserves
- Get paid for what you sell
Looking Ahead in 2020

THE GLOBAL OUTLOOK

2020

2019

2018

01
GDP, Gross Domestic Product is our broadest measure of economic health. It’s a $ value of everything produced by the economy, historically grows ~ 3.3% annually.

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</table>

Global growth to weaken again during the coming quarters. Some quarters of zero or negative growth possible, in the US, the UK, Japan, South Korea, Russia and Asian export hubs.

Recession (two quarters of contraction) or borderline ones (one quarter of contraction) in Germany, France, Italy, the UK, South Korea, Singapore, Hong Kong, Turkey, Brazil, Mexico, Argentina and South Africa.

Sources: IHS, Euler Hermes, Allianz Research
Looking Ahead in 2020

THE U.S. OUTLOOK 2020
The near-term outlook is pretty good...

- Low interest rates and inflation
- Small business confidence
- Services strong
- Easy financial conditions
- Housing market recovering
- Consumer confidence high
- Income, consumption positive
- Strong labor market
- Fed cutting rates
- GDP forecast positive at 1.6% for 2020

...but the long-term outlook suggests slowdown

- Consumer worried about future
- Income slowing
- Fiscal and monetary policy
- Labor market slowing
- Consumer delinquencies on rise
- Manufacturing, transportation in contraction
- Corporate profits weak
- Several indicators flashing warnings
- Bankruptcies rising
- Trade war, divided govt, global weakness
- GDP forecast only 1.6% for 2020
GOOD BUSINESS CONDITIONS WITH LOW INTEREST RATES AND INFLATION

Looking Ahead in 2020

Sources: IHS Global Insight, BLS, Allianz Research

Inflation

- Consumer Price Index
- CPI core

Interest Rates

- Fed Funds
- 30 yr mortgage
- 10-yr mortgage
- prime

Sources: IHS Global Insight, BLS, Allianz Research
National Federation of Independent Business, Small Business Optimism Survey

Overall optimism (L) remains historically high

% saying now is a good time to expand (R) historically high

Sources: IHS Global Insight, National Federation of Independent Business, Allianz Research
Looking Ahead in 2020

GDP, lead by services, has been positive (but sliding).

GDP Growth

ISM Services (85% of the economy)

<50 means contraction

New orders

Services
Looking Ahead in 2020

FINANCIAL CONDITIONS ARE EASY

Kansas City Fed Financial Stress Index

St. Louis Fed Financial Stress Index

Net % of Banks Increasing Spreads on Large C&I Loans

Sources: IHS Global Insight, FRED, Fed, NBER, Allianz Research
Looking Ahead in 2020

Housing Market Recovering

New & Existing Home Sales
3mo Ave Seasonally Adjusted Annualized Rates

- New sales (L) 21% y/y
- Existing sales (R) 6% y/y

Housing Starts and Permits
3mo Ave Seasonally Adjusted Annualized Rates

- Permits; 11% y/y
- Starts; 22% yy

National Association of Homebuilders Index

Sources: IHS Global Insight, BEA, NAR, NAHB, Allianz Research
Looking Ahead in 2020

HOUSING MARKET RECOVERING

MBA Purchase Index NSA

- 2011—2012
- 2013
- 2014
- 2015
- 2016
- 2017
- 2018
- 2019
- 2020

The Daily Shot*

MBA US Refinancing Index SA

Latest: 2,975.7

Sources: MBA, Allianz Research
CONSUMERS 70% OF THE ECONOMY, BUT NERVOUS ABOUT THE FUTURE

Conference Board Consumer Confidence
(down 4/5 months)

Consumer Confidence survey:
future expectations - present situation
shaded areas are recessions

Sources: IHS Global Insight, Conference Board, Allianz Research
Looking Ahead in 2020

THE TOTAL SPENDING HAS BEEN HELD DOWN BY WEAK INCOME, WAGE GROWTH

Real Personal Consumption Expenditures & Disposable Personal Income, y/y % growth rate

- tax cut (fiscal stimulus) wearing off, slowing after tax income
- (this will reverse next mo.)

Job and Wage Growth, y/y

Sources: IHS Global Insight. BEA, BLS, Allianz Research
AND THAT SLOWING JOB CREATION IS WORRISOME

Sources: IHS Global Insight, BLS, NBER, Allianz Research
Looking Ahead in 2020

Especially since other labor market indicators also suggest a slowdown.

Sources: IHS Global Insight, BLS, NBER, Bloomberg, SF Fed, Allianz Research
Looking Ahead in 2020

CONSUMER ALSO UNDER A DEBT BURDEN. CREDIT CARD RATES AVE. 17%. DELINQUENCY RISING.

Non-mortgage interest payments / personal outlays

$ Delinquent (>90 days) Debt as a% of Disposable Personal Income (DPI)

Sources: IHS Global Insight, NBER, BEA, Federal Reserve, Allianz Research
Looking Ahead in 2020

MANUFACTURING IN CONTRACTION, BUT SMALL SIGNS OF REBOUND

Sources: IHS Global Insight, Census, ISM, Allianz Research

Real Business Investment

Manufacturing Industrial Production (y/y) and ISM Manufacturing Index (<50 is contraction)

Sources: IHS Global Insight, Census, ISM, Allianz Research
Looking Ahead in 2020

TRANSPORTATION INDICATORS
LEAD ECONOMY, TURNING DOWN

Sources: IHS Global Insight, Cass Systems, Association of American Railroads, city ports, Allianz Research

Cass Indexes, Trucking Freight

Railroad Traffic, y/y

Container Shipments
12 months y/y%, (Long Beach, LA, NY)
The Treasury Yield Curve vs. GDP

Yield spread: 10yr-3 mo Treasuries (bps)

Real GDP Growth, Y/Y % Change

average lead about 3-5 qs

Source: IHS, Federal Reserve, BEA, Euler Hermes
Looking Ahead in 2020

CURVE INVERTED, OR WENT NEGATIVE, BUT NOT IN ISOLATION

Treasury Yield Curve, 10 yr - 3mo, bps

- 4 hikes in 2018 to slow hot economy and inflation
- September ‘18: unemployment drops from 3.9% to 3.7%; blistering ISM; hawkish Powell
- Jan 3rd, 15 bps, then wages steady, ISM drops sharply, Powell softens
- Fed: done for the year (weak economy)
- New tariffs
- Fed cuts but not enough
- Phase 1 not enough
- Coronavirus
- Trade fears ease
- Trade talks stop

source: IHS, Federal Reserve, Euler Hermes, Allianz Research
Looking Ahead in 2020

In 5 of past 7 recessions, curve went positive before recession.

Sources: IHS Global Insight, Fed, NBER, Allianz Research
Looking Ahead in 2020

THE STOCK MARKET ONLY GAVE A WARNING IN 3 OF 11 PAST RECESSIONS

Sources: IHS Global Insight, BEA, NBER, S&P, Allianz Research
Looking Ahead in 2020

Earnings, Profits Weak

S&P 500 Total Return Attribution
- P/E Multiple
- 12m EPS Consensus
- Dividend
- Total Return

2019 stock market returns not from the economy…
…it was all PE expansion

Source: Bloomberg

Corporate Profits Before and After Taxes, y/y%
tax cut, fiscal stimulus, wearing off

2015 2016 2017 2018 2019 YTD

2011 2013 2015 2017 2019
MORE EVIDENCE OF A COMING SLOWDOWN

Index of Leading Indicators

Index of Leading Economic Indicators

Sources: IHS Global Insight, Conference Board, Allianz Research
U.S. Business Bankruptcy Filings, y/y % change

-30% -20% -10% 0% 10% 20% 30% 40% 50% 60% 70%


recession

recession ends

9 yrs of falling bankruptcies coming to an end

Sources: IHS Global Insight, US Courts, Allianz Research
• 20% on Canadian softwood. Prices soar.
• 20% on washing machines, going to 50% after 1.2mil units. Prices rise 15%.
• 30% on solar panels resulting in $2.5b cancelled contracts, 10ks job losses.
• 25% on steel and 10% on aluminium. Steel rose 36% (now down on weak demand)
• 10%-25% tariffs on $7.5B of EU goods
• 100% on $2.4B French goods in February.

Even after phase 1, most tariffs still in place
PHASE 1 TRADE DEAL: IT’S NOT QUITE A “NOTHING-BURGER”

• China agrees to buy an additional $200bn of imports from the US over 2 years. This could be unrealistic as it represents about a 50% increase over 2017 and 2018 levels.
• China pledges to not use coercion, forced technology transfer, or IP theft. But China has said this before and there have been no changes to Chinese law.
• China lowers barriers for US companies going into some Chinese markets.

• US removes 15% tariffs on $160bn of Chinese imports… that were never there in the first place.
• US reduces tariffs on the last tranche $120bn from 15% to 7.5%.

• BUT, US keeps in place 25% tariffs on the first $250bn of imports (just under half).
• AND, China keeps in place its 5%-25% tariffs on $110bn of US goods.
• So the trade “feud” is not over.
• Still costing something like 0.3%-0.5% of GDP per year.
US SUMMARY: SOME STRONG INDICATORS NOW, BUT FUTURE WORRIES

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