

GOLDILOCKS AND THE THREE BEARS – AN ECONOMIC PARABLE FOR 2018

Featuring:

Goldilocks as	<i>The global economy</i>
The weather as	<i>Synchronised growth</i>
The temperature as	<i>Inflation</i>
The wind as	<i>Interest rates</i>
Singing birds as	<i>Rising equity markets</i>
Bowls of porridge as	<i>Quantitative easing</i>
Goldilocks' heart as	<i>The US or Chinese economy</i>
Three bears	<i>Taxpayers</i>



Adrien Pichoud
Chief Economist
Portfolio Manager

Once upon a time, there was a little girl named Goldilocks. She had just enjoyed a very nice day in the forest after eating an extremely satisfying breakfast at the expense of the three bears: four big bowls of porridge. Goldilocks loved porridge and had lots of it every day. Sometimes she wondered how she'd cope without porridge to sustain her.

On the day that had just passed (2017), everything had been perfect: the "weather" had been beautiful, the "temperature" just right (not too hot and not too cold), there had been a lovely gentle breeze ("wind") and the "birds had been singing". She had of course experienced other wonderful days before, but (2017) had been particularly delightful and she looked forward to enjoying more of the same the next day.

The next morning (2018), Goldilocks again went to the three bears' house for her breakfast. Very hungry, she sat at the bears' table, hoping to see four big bowls of porridge. She expected that, like the day before, all of the bowls would be full of porridge. But she was surprised to see that the first, which had 'Fed' written on the side, wasn't quite as full as the day before. And what was even worse was that as she prepared to tuck in, Goldilocks noticed something strange happening:

in two of the bowls – the one with 'Fed' written on the side and another one named 'PBoC' – the porridge was slowly disappearing...

Still, they were far from empty, so Goldilocks knew she would still have plenty to eat, even though it was less than what she'd come to expect. "Never mind", she thought, as there were still two full bowls waiting for her... Or were there? As she started eating from the 'Fed' and 'PBoC' bowls, something else strange happened: some of the porridge in the two remaining full bowls, which had 'ECB' and 'BoJ' written on them, also started to gradually disappear!

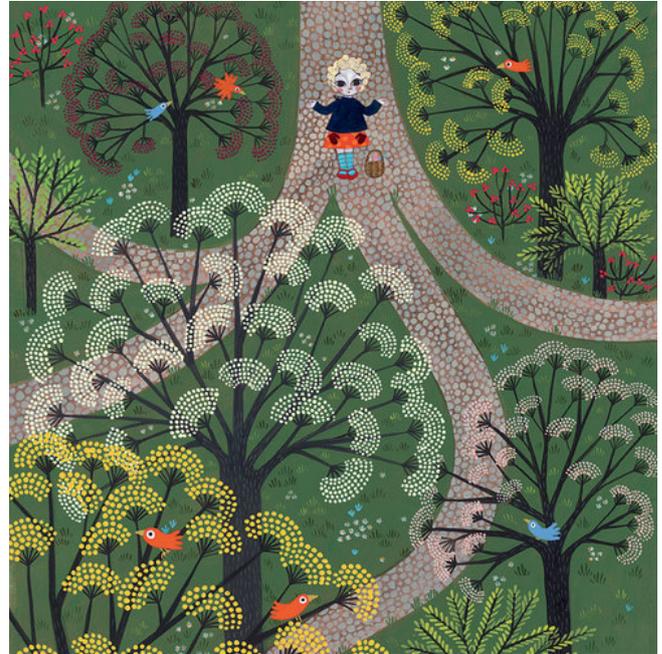
When Goldilocks had finished eating, she couldn't help but feel slightly disappointed as she'd had less porridge than she'd hoped for. Still, she felt full and went outside for another walk in the forest. Thanks to the porridge she'd eaten, Goldilocks had lots of energy and she once again enjoyed the beautiful weather [synchronised growth], ideal temperature [low positive inflation], gentle breeze [low rates] and singing birds [rising equity markets]. And what was particularly satisfying was that not only were the three bears nowhere in sight to complain about their porridge being eaten, but for many days now they had continued to fill up the porridge bowls for Goldilocks' benefit.

Fairytales usually have happy endings, and this one is no exception. Let's however consider our Goldilocks story under a few different scenarios and how it could impact the happy ending.

Once upon a time, there was a little girl named Goldilocks. She had just enjoyed a very nice day in the forest after eating an extremely satisfying breakfast at the expense of the three bears: four big bowls of porridge. Goldilocks loved porridge, and had lots of it every day. Sometimes she wondered how she'd cope without porridge to sustain her.

On the day that had just passed (2017), everything had been perfect: the weather had been beautiful, the temperature just right (not too hot and not too cold), there had been a lovely gentle breeze and the birds had been singing. She hadn't enjoyed such a wonderful day in a long time and looked forward to enjoying more of the same the next.

The next morning (2018), Goldilocks sat down for breakfast, very hungry, at a table with four big bowls of porridge.



Bear 1 Scenario

But as Goldilocks was about to start eating, the porridge in the 'Fed' and 'PBoC' bowls started to disappear rapidly, as if someone was draining it away. And soon after, the 'ECB' and 'BoJ' bowls also started to look much less full!

Goldilocks was horrified, and rushed to eat the porridge that remained in the bowls. But she was still hungry – it wasn't enough!

Deeply disappointed, she went outside, but it also was much less pleasant than the day before: the wind had started to blow harder and the birds had fallen silent. Feeling weak, Goldilocks lay on the ground, wanting to go to sleep.

But suddenly, a familiar, reassuring smell wafted into her nostrils. What was it? She crawled back into the bears' house, hauled herself up to the table and found all four bowls full of porridge again.

She ravenously ate the porridge in all four.

Bear 2 Scenario

But as Goldilocks was about to start eating, she felt a growing ache in her chest. It was as if her heart [the US or Chinese economy] was tiring of supporting Goldilocks' body for all these years after eating such copious amounts of porridge.

Goldilocks began to feel weak: how could she survive if her heart wasn't in good shape?

Notwithstanding concerns about her heart, as the four bowls were all full, Goldilocks went ahead and as usual gulped down the porridge they contained. Goldilocks had experienced such pain before (as recently as 'six days' ago in 2011, in fact), and when she did she always turned to porridge.

She knew that she was gaining weight by eating so much porridge and that it wasn't the solution to her chest ache, but she ate it anyway and did indeed feel better – for now.

Bear 3 Scenario

But as Goldilocks was about to start eating, a howling gale suddenly rose outside, blew through the window and knocked the four bowls of porridge to the ground! How had this happened? It had become very hot outside, and the change in temperature had caused the wind to pick up dramatically.

Goldilocks was struck with panic. She was hungry without the bears' porridge and had not experienced such a storm of high winds and swinging temperatures for a long time.

She suddenly felt very weak, and everything darkened as clouds were now hiding the sunshine. Poor little Goldilocks hid out of sight and was shaking all over!

Fortunately, the storm passed quickly and with that the wind died down and the temperature returned to normal. Goldilocks was already starting to feel a bit better and came out of her hiding spot when she realised that the four bowls were once again full of porridge – the three bears must have filled them up while she was hiding! With the bears nowhere to be seen, she gobbled it all up and felt much stronger – everything had turned back to normal.

And this new day was fine again thanks to the eventual four full bowls of porridge. The beautiful weather [synchronised growth], mild temperature [low positive inflation], gentle breeze [low rates] and singing birds [rising equity markets] cheered little Goldilocks' mood once more.

The story above was adapted by Adrien Pichoud, SYZ Asset Management's Chief Economist.

SYZ's Investment Strategy Group recently shared its macroeconomic, asset valuation and market risk views for 2018: please go to www.syzassetmanagement.com to read and/or watch the video of our team's "Opportunities and Threats in 2018" assessment, which includes our outlook for 'Goldilocks' and all the other cast members in the story above over the coming year.