Macroeconomic trends impacting European public companies and how to respond

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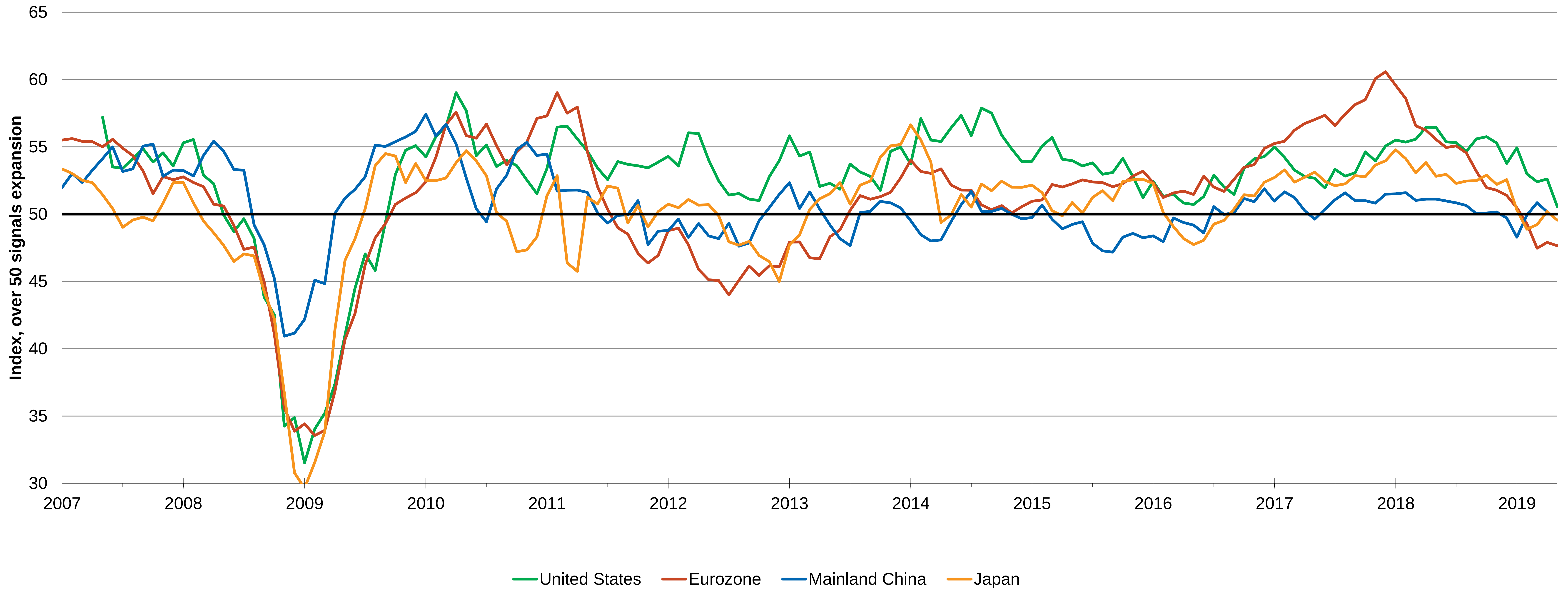
Global macroeconomic trends: Only modest slowdown as yet, but growing risks

Global overview: Manufacturing sectors are struggling, while service sectors are mostly holding up

- Two interrelated and very troubling developments are influencing the global economic picture.
- First, trade growth has slowed sharply—the IHS Markit Purchasing Managers' Index® (PMI®) for new export orders has been deteriorating since early 2018, indicating contraction since September.
- Second, the global manufacturing PMI highlights the stagnation in the industrial sectors—key economies whose manufacturing sectors are struggling include the eurozone, Japan, and China.
- While US protectionist policies are partly to blame, the industrial recession in China—brought on by the government's deleveraging campaign—is, arguably, a bigger drag.
- The good news: The Chinese government has (once again) begun to provide modest stimulus, and the manufacturing slump has – so far – not affected the services sector much.
- Key risks to global growth: Major escalation of the US-China trade war amid a breakdown of negotiations; escalating hostilities in the Persian Gulf; disruptions following a no-deal Brexit

IHS Markit manufacturing PMIs signal stagnation

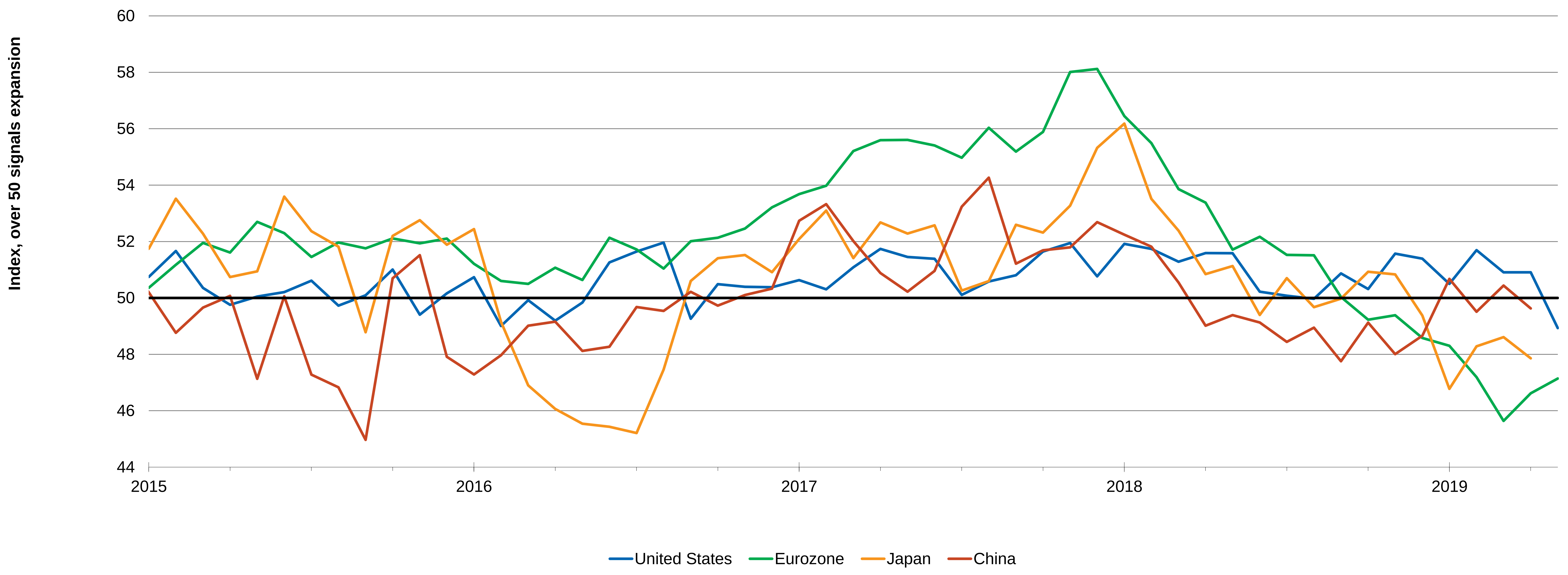
Purchasing managers' indexes



Source: IHS Markit

The IHS Markit new export orders PMIs are contracting

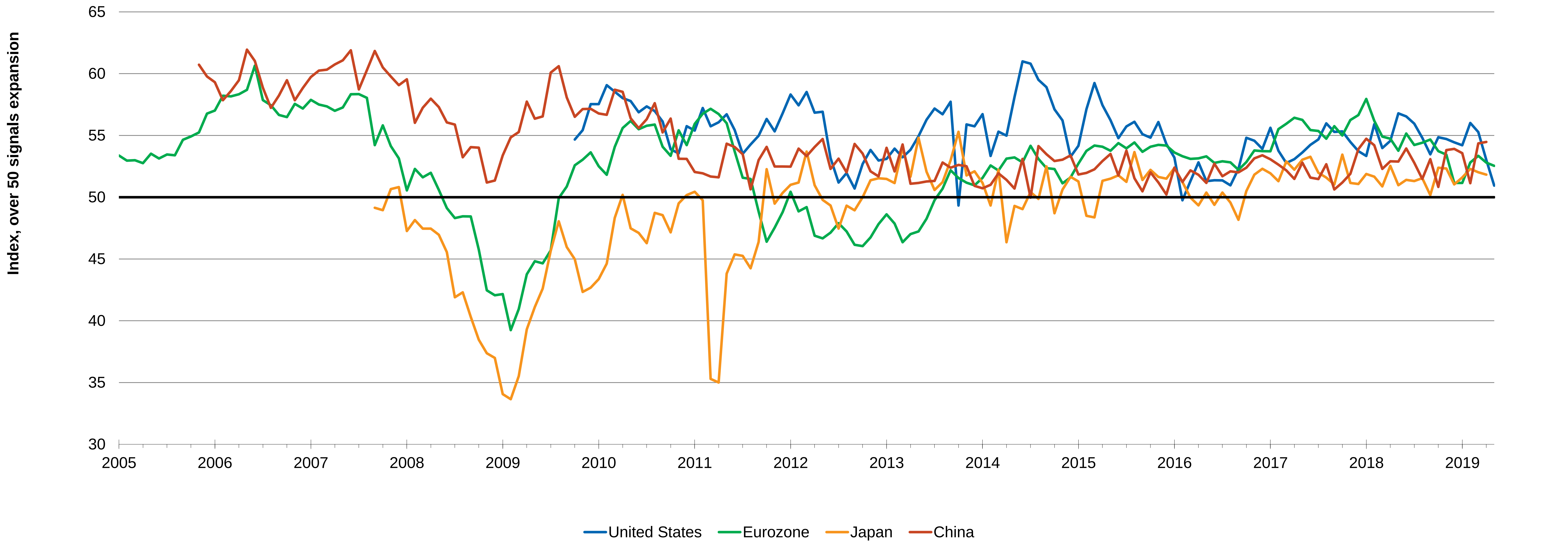
IHS Markit PMIs



Source: IHS Markit

IHS Markit service PMIs are holding up – except for the US most recently

IHS Markit PMIs



Source: IHS Markit

Global growth overview

- Growth has been slowing everywhere in the world, led by a slump in manufacturing.
- Policy uncertainty is the key underlying cause—trade wars, Brexit, China deleveraging, etc.
- The impact of US tariffs and retaliatory moves is estimated to already have hurt US real GDP to the tune of 0.4–0.6 percentage point—and the next round will do even more damage.
- Gradual removal of monetary accommodation has also played a part, but its role has been greatly exaggerated.
- In light of weaker growth, policymakers have begun to pause or reverse course, providing more stimulus—China is doing the most.
- All this means below-trend growth will probably not lead to recession.
- But, the vulnerability to shocks rises as growth falls.

Real GDP growth in major economies

Real GDP					
Percent change	**2017**	**2018**	**2019**	**2020**	**2021**
World	3.3	3.2	2.9	2.8	2.8
United States	2.2	2.9	2.7	2.1	1.8
Canada	3.0	1.8	1.4	1.8	1.9
Eurozone	2.5	1.9	1.2	1.1	1.2
United Kingdom	1.8	1.4	1.2	1.0	1.4
China	6.7	6.6	6.4	6.0	5.9
Japan	1.9	0.8	0.7	0.5	0.7
India*	7.2	7.1	7.0	6.9	6.8
Brazil	1.1	1.1	1.3	1.6	1.6
Russia	1.5	2.3	1.7	1.9	1.8

* Fiscal years starting 1 April
Source: IHS Markit

US growth: Downshifting to 2%

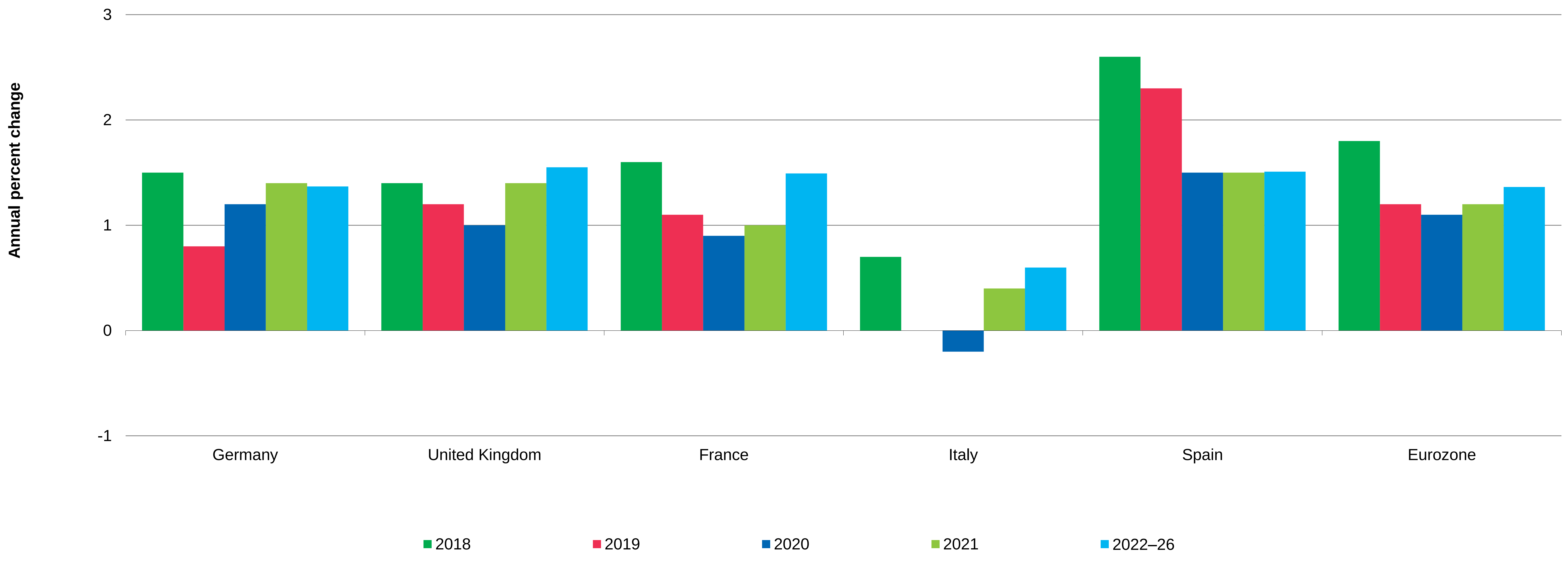
- While first quarter growth was a strong 3.2%, temporary factors accounted for about half the increase.
- Growth is forecast to slow from 2.9% in 2018 to 2.7% in 2019 and 2.1% in 2020, as the boost from fiscal stimulus first peaks and then fades (even risk of necessary pro-cyclical fiscal tightening).
- GDP growth is projected to ease further to an annual average rate of 1.7% in 2021–23; the unemployment rate, after bottoming out at 3.5% in the second half of 2019, is forecast to drift higher.
- The planned tariff hikes by the United States and China will likely shave another 0.1 percentage point off growth in the next two years—and potentially much more if the conflict escalates.
- Thanks to the Fed’s more dovish stance, financial conditions have improved of late.

Europe: More evidence of weak growth, but a recession is not the most likely outcome

- Eurozone growth in 2018 slowed down to 1.8%, compared with 2.5% in 2017.
- IHS Markit projects a further growth deceleration to 1.2% in 2019 (despite the better than expected first quarter) and 1.1% in 2020.
- The relative openness of European economies makes them more vulnerable to trade shocks.
- The risk of an economy-wide recession stems from ongoing political and policy risks, as well as persistent weakness in the banking sector.
- Nevertheless, growth supports include rising household real income, easing fiscal policies, continued monetary support, and a rebound from event- and sector-specific drags in the second half of 2018 (e.g., weather and new car emission tests in Germany).
- Meanwhile, because of Brexit-related uncertainty, UK real GDP growth decelerated from 1.8% in 2017 to 1.4% in 2018, and is projected to downshift to around 1.0% in 2019-20—the risks remain overwhelmingly on the downside (especially if there is a no-deal Brexit).

Real GDP growth in Western Europe—Diverging fortunes

Real GDP



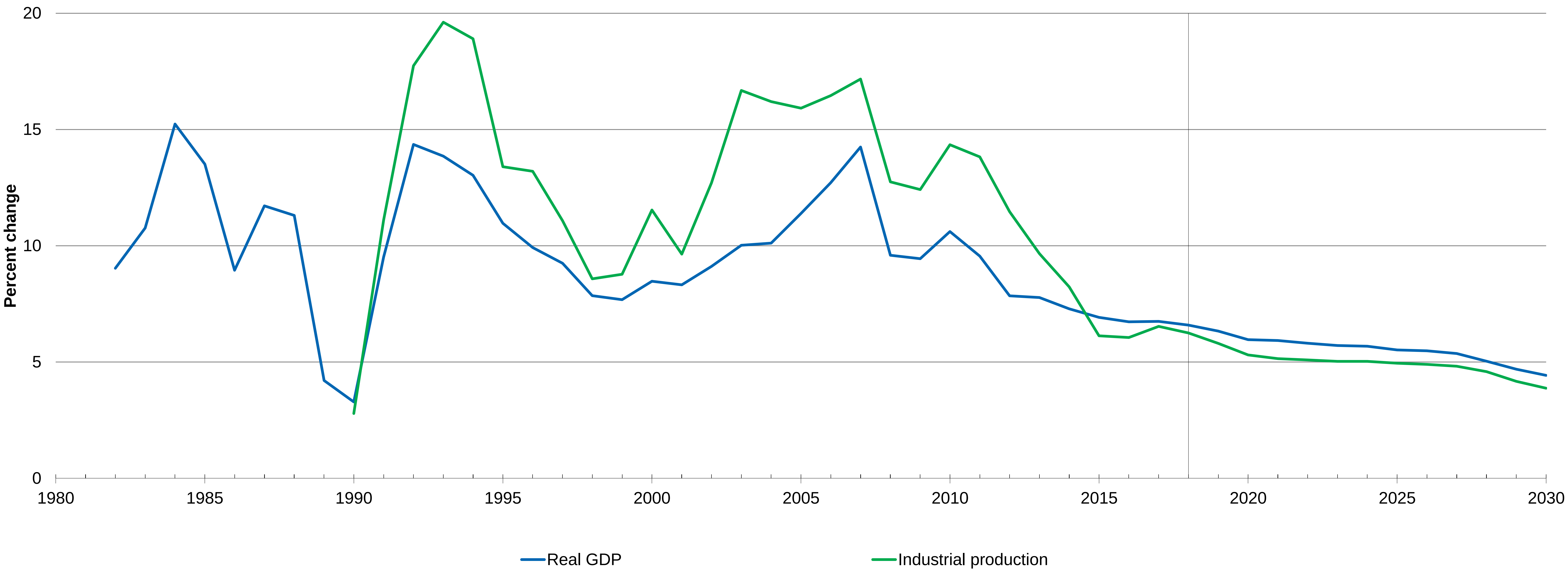
Source: IHS Markit

China: The Lunar New Year distorted the data, but underlying fragility persists despite near-term stabilization

- January and February economic data were distorted by the Lunar New Year; however, recent data mostly show the economy has stabilized.
- The Chinese government has lowered the real GDP growth target to 6.0–6.5%.
- IHS Markit predicts 6.2% for 2019 and 5.9% for 2020—with growth being lowered by 0.2 percentage point because of the impact of tariffs.
- A recent Brookings study suggests “true” annual growth during 2008-16 (adjusting for estimated misreporting by local officials) was 1.7 percentage points lower each year.
- Growth momentum will continue to moderate, because of stagnant industrial sectors and weakening real estate markets—mostly the result of the government’s deleveraging campaign.
- On the other hand, faster growth in infrastructure investment and tax cuts will help to counter the slowdown—the government’s foot is off the brake and back on the accelerator.

China's growth will downshift in the long run

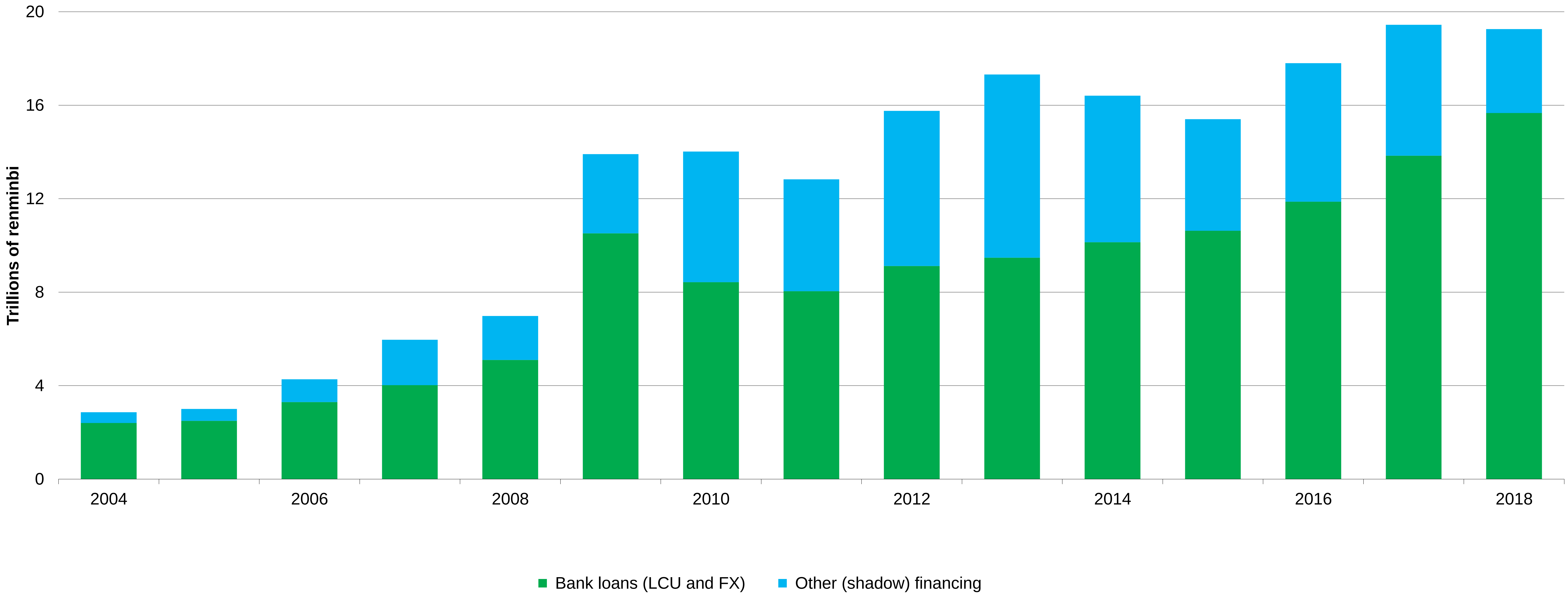
Real GDP and industrial production



Source: IHS Markit

China’s bank lending has increased in 2017–18 as shadow financing has diminished

Lending flows



Source: People’s Bank of China, IHS Markit

Emerging markets: Feeling the strain

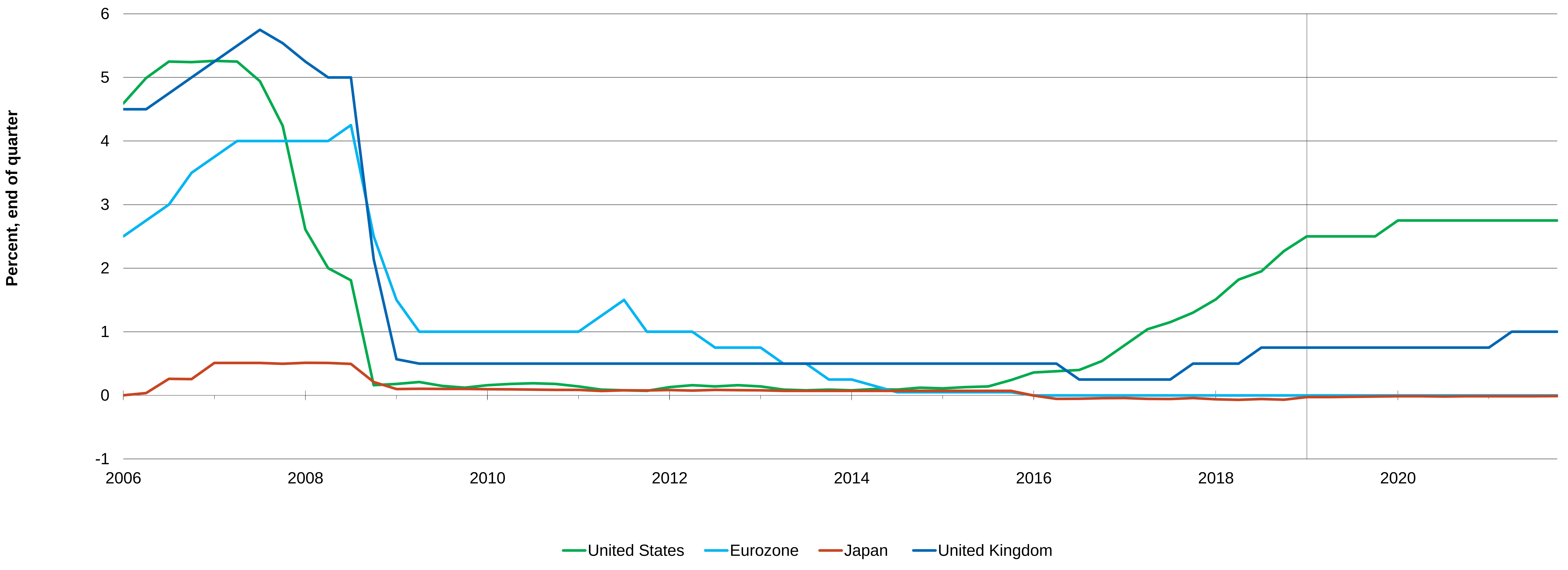
- Some emerging markets, such as Argentina, Iran, and Turkey, have already slipped into recession.
- Others, such as Brazil, India, and South Africa, have seen growth fall below expectations.
- While a few countries (e.g., India) will continue to grow at an above-average rate, others will struggle to grow above 1.0%—the latter group includes Brazil, Saudi Arabia, and South Africa.
- Headwinds include much slower growth in the developed world, the US-China trade war, flat commodity prices, and industrial weakness in key economies, especially China.
- Geopolitics is a risk, especially the threat of an India/Pakistan war.
- On the positive side, more global monetary accommodation will help: some emerging-market central banks have cut interest rates—others will likely follow.

The near-term risks of a recession depend on policymakers' ability and willingness to provide more accommodation

- By pivoting away from a tightening trajectory, the US Federal Reserve has already delivered a "positive shock."
- The US rate hikes, so far, and the reduction in the Fed's balance sheet have moved the needle from extremely accommodative to slightly accommodative—US monetary policy is still hardly tight, as measured by real interest rates.
- Nominal rates in the Eurozone and Japan are negative—even more negative in real terms—and any rate hikes are in the distant future (the European Central Bank (ECB) in 2022 at the earliest).
- The ECB has begun to provide more targeted long-term financing for the banking sector.
- There is more scope for fiscal stimulus in Europe, and Japan may postpone the sales tax hike again.
- China has already eased monetary policy (by cutting required reserve ratios) and fiscal policy (via cuts in income and value-added taxes).

Nominal policy interest rates – no return to pre-2008 levels any time soon

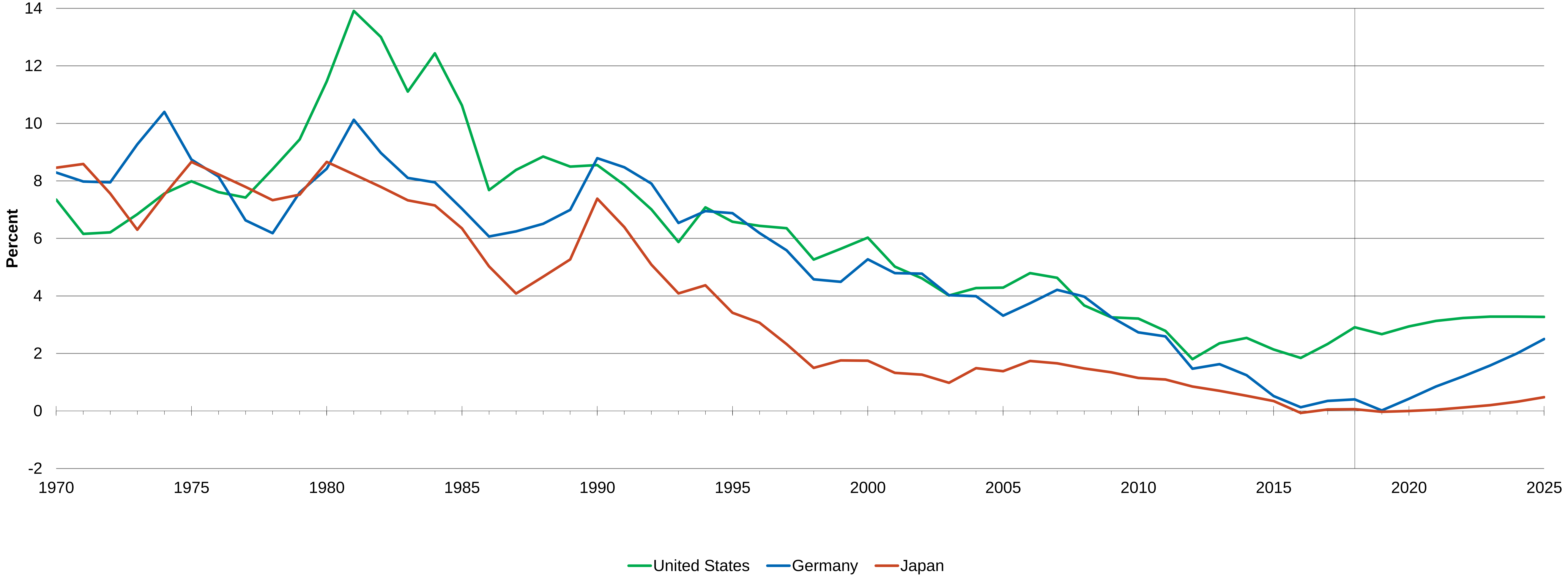
Policy interest rates



Source: IHS Markit

Long-term government bond yields

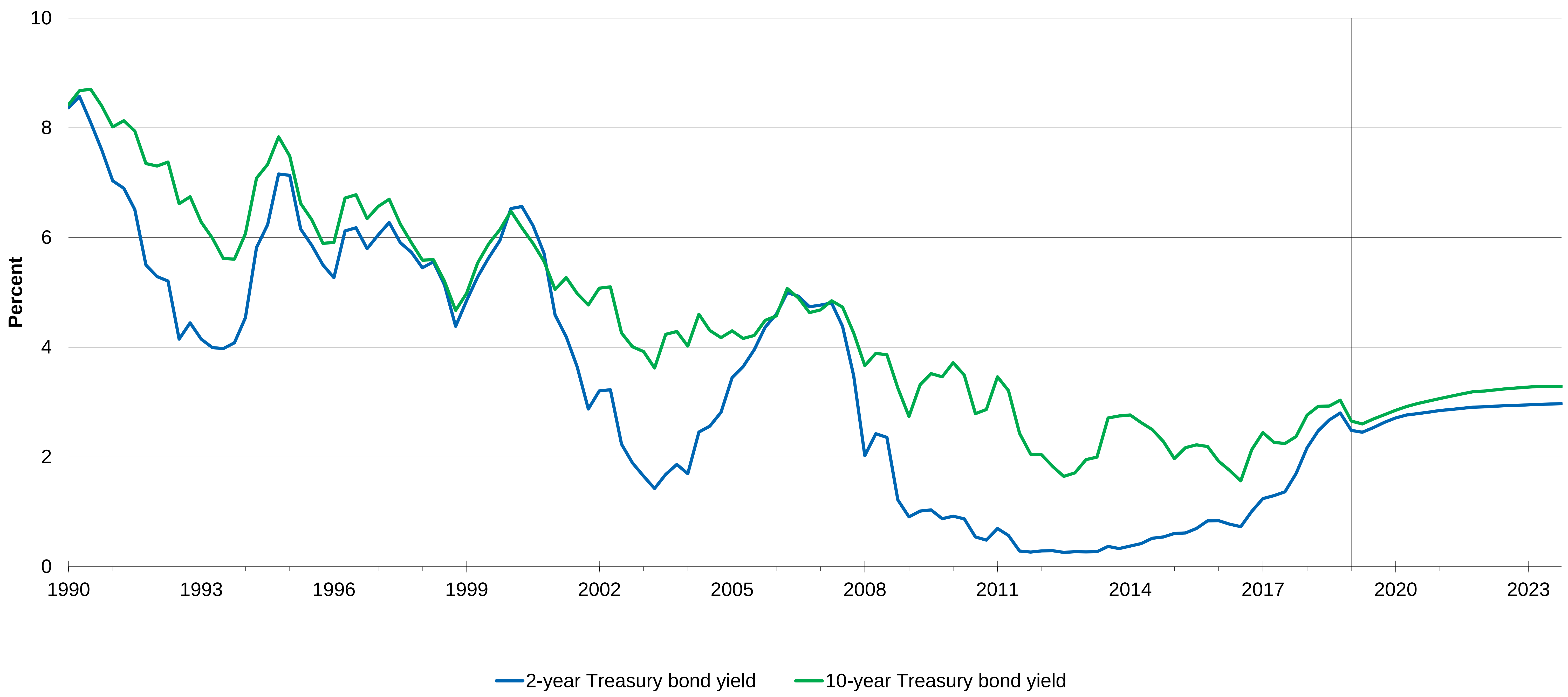
Ten-year government bond yields



Source: IHS Markit

The US Treasury yield curve has flattened – and will stay flat for some time now

Interest rates

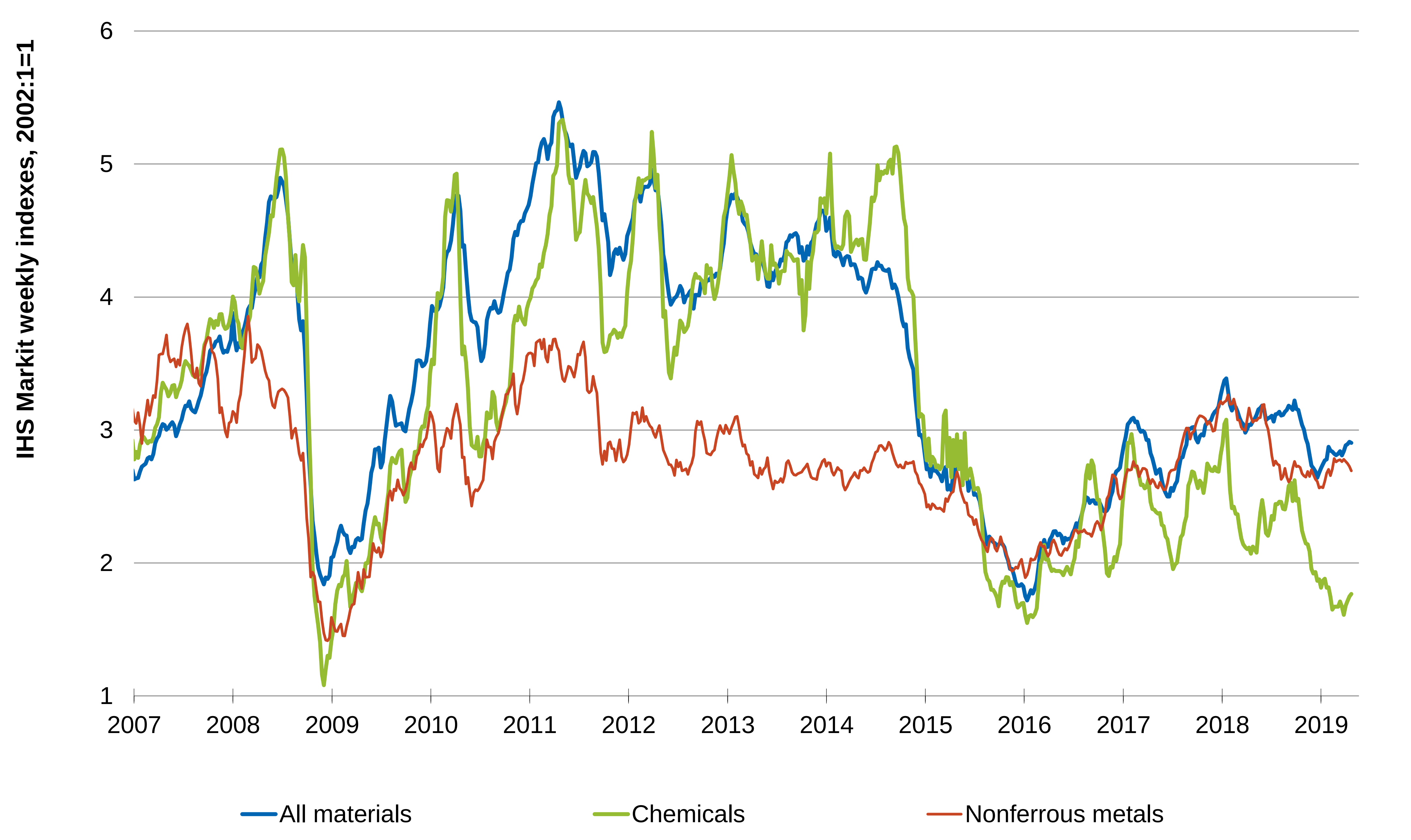


Source: IHS Markit

Implications for commodity prices (1): Industrial materials prices will remain well below their peaks

- Commodity markets have become a little more upbeat lately, mostly reflecting optimism about the Fed's policy pivot …
- … But the slump in manufacturing is hurting, and trade wars are a big downside risk.

IHS Markit Materials Price Index

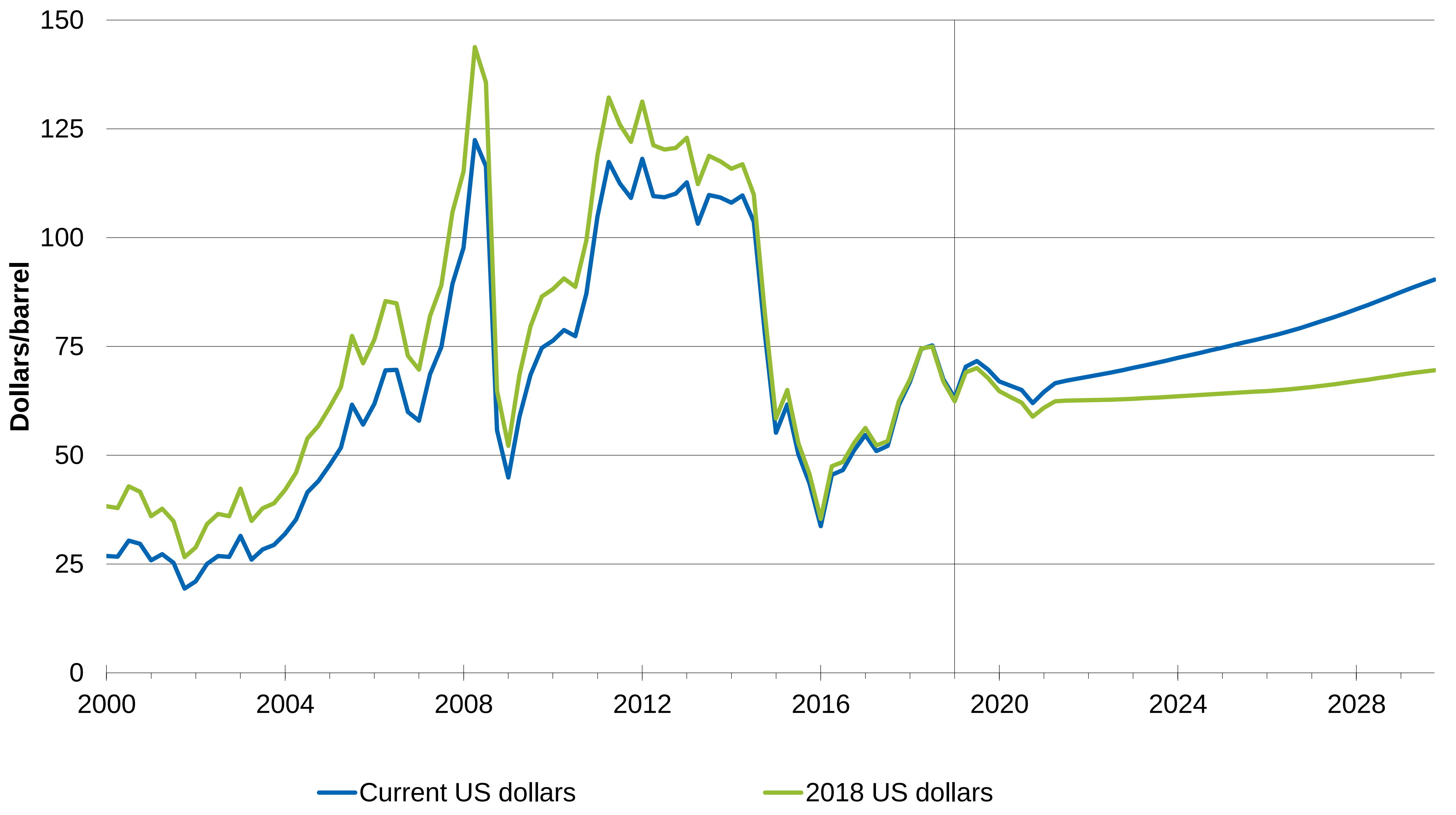


Source: IHS Markit

Implications for commodity prices (2): Rising US supply will restrain crude oil prices

- Oil prices will rise in the near term because of Saudi output cuts, falling Venezuelan production and Iran sanctions
- Prices will retreat by next year as US production accelerates.

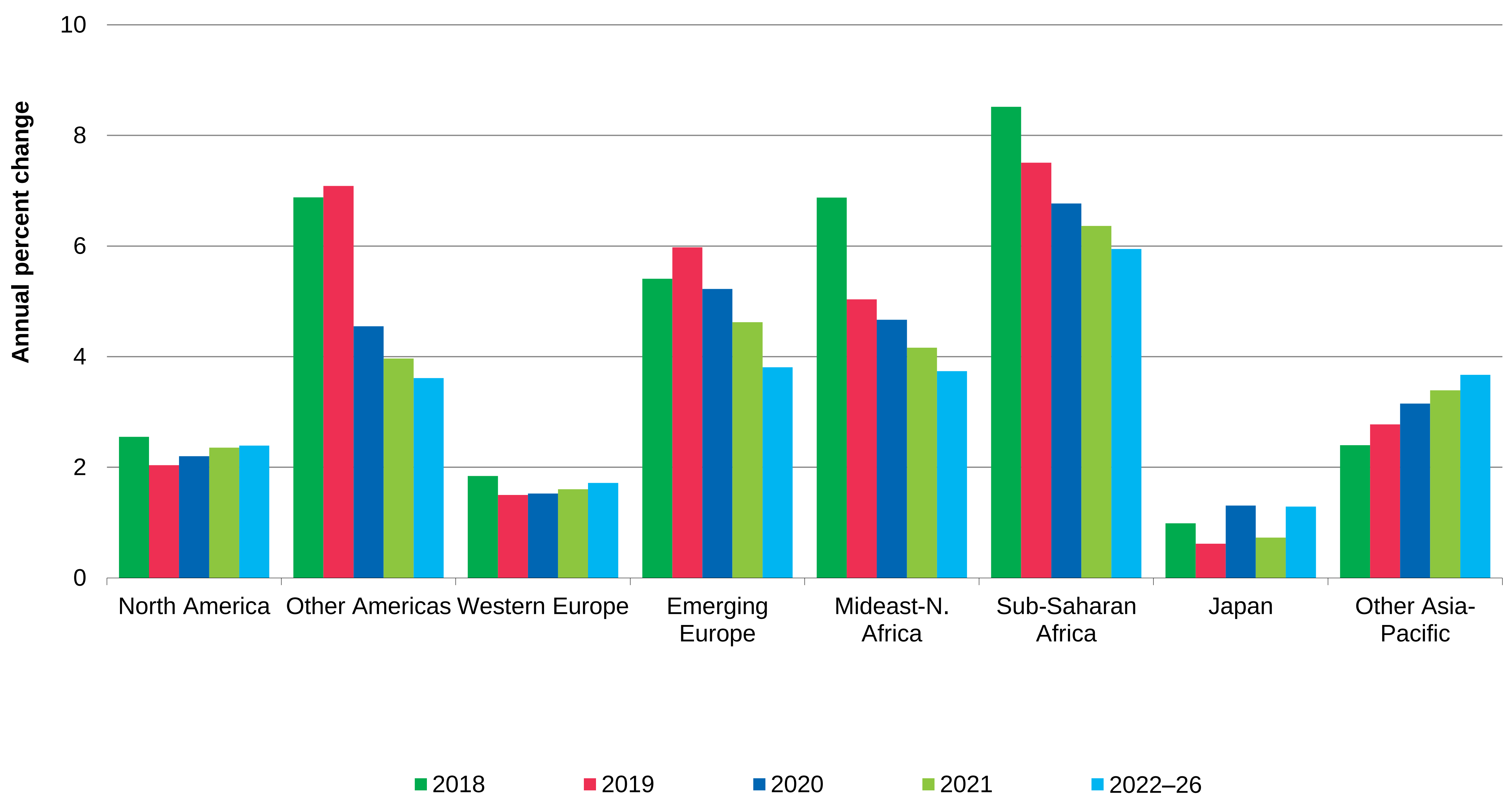
Price of Dated Brent crude oil



Source: IHS Markit

Implications for consumer price inflation—mostly low or easing

Consumer price inflation



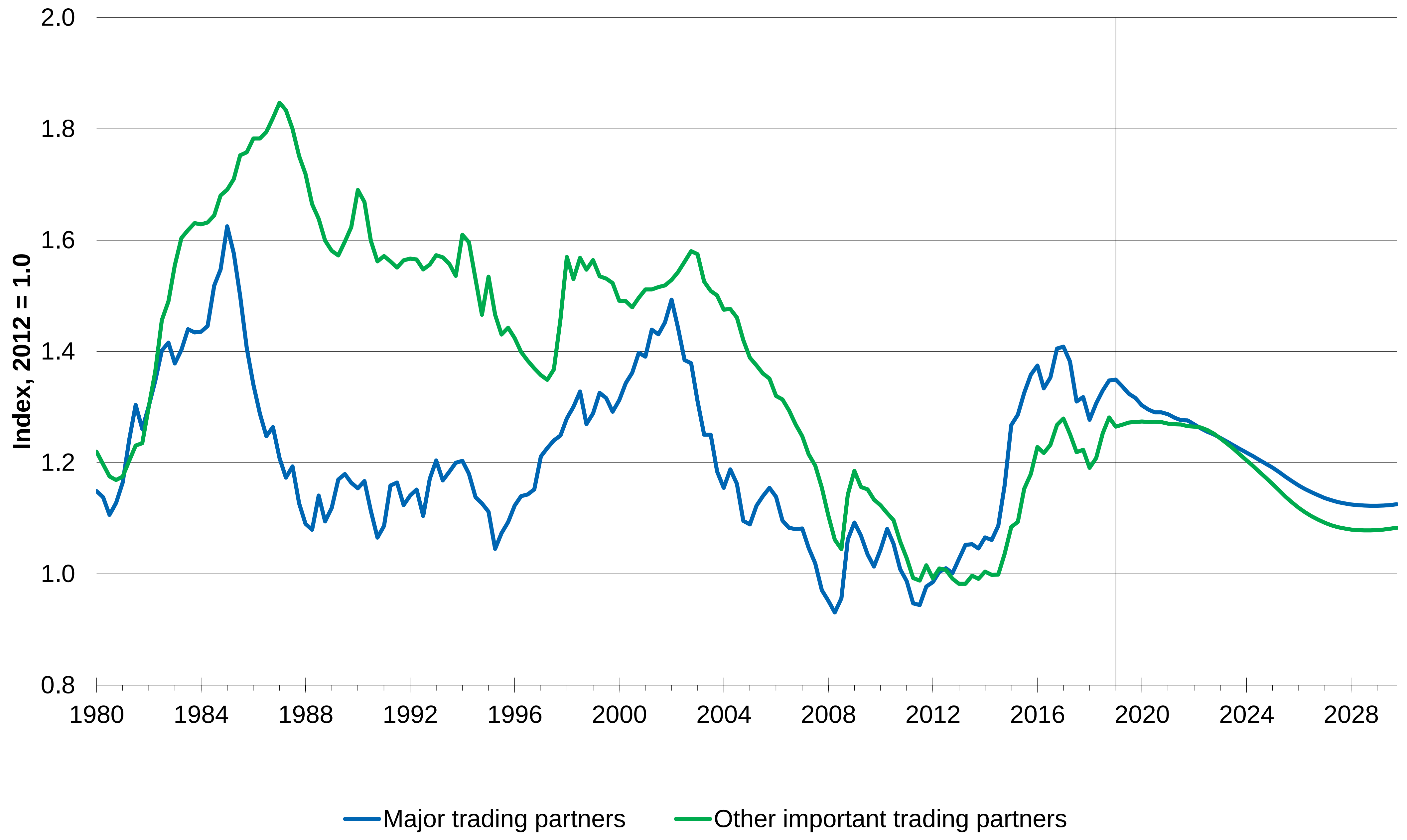
Note: Venezuela is excluded from Other Americas
Source: IHS Markit

- While wage inflation is drifting up in the developed world, price inflation is not.
- The sharp drop in Chinese factory inflation seems to be fading.

Implications for exchange rates: The dollar’s real trade-weighted exchange value is expected to decline only gradually in the medium- to long-term

- The US dollar is still the “best of a bad bunch” for now—while US growth is slowing, near-term fragilities elsewhere (China, UK, various EM) are even greater.
- Even though the Chinese renminbi could come under pressure, it is unlikely to (be allowed to) depreciate much, since it is at the heart of the US-China trade accord—unless there is an all-out trade war.

Real trade-weighted dollar index



Source: IHS Markit

Bottom line: Slow growth, but no recession for the next year or two

- Thanks to the willingness of policymakers in key economies to be more accommodative, the risks of a recession in 2019 and (possibly) 2020 will remain contained.
- In particular, China's inclination to provide more stimulus will ease the pressure on its manufacturing sectors and help industries elsewhere.
- Nevertheless, risks of a policy mistake remain high, especially vis-à-vis trade.
- Moreover, fiscal and monetary authorities have a limited array of tools available for the next downturn—the US has severe constraints on fiscal stimulus, while the eurozone and Japan have extremely limited room to maneuver on monetary policy.
- So, while a recession probably can be avoided in the next couple of years, the global economy remains vulnerable to "low-probability/high-impact risks" (especially geopolitical and trade-related).

The New Rules of Engagement

After MiFID II, the “DIY" Model for Investor Relations Takes Off

Agenda

- MiFID II Impact Corp Access
- MiFID II Impact IR
- Early Adoption of Hybrid Workflow
- Tips for Success From IROs
- Buy-Side Recommendations
- IHS Markit Advisory

MiFID II & Impact on Corporate Access Practices

The adoption of MiFID II regulations in Europe in January 2018 had a paradigm-shifting impact on the practice of investment research and corporate access.

Transparency in Research Costs	Asset Managers Taking Costs on P&L	Cost & Value Scrutiny
Unbundling of Broker Relationships	Significant Reported Cost Savings	Buy-Side Seeking Global Reform & Savings

MiFID II Impact on Corporate IR Teams

Impact & Response Varies Widely

Size of Company & IR Team main determinants

Time, Planning & Costs Rising to Execute

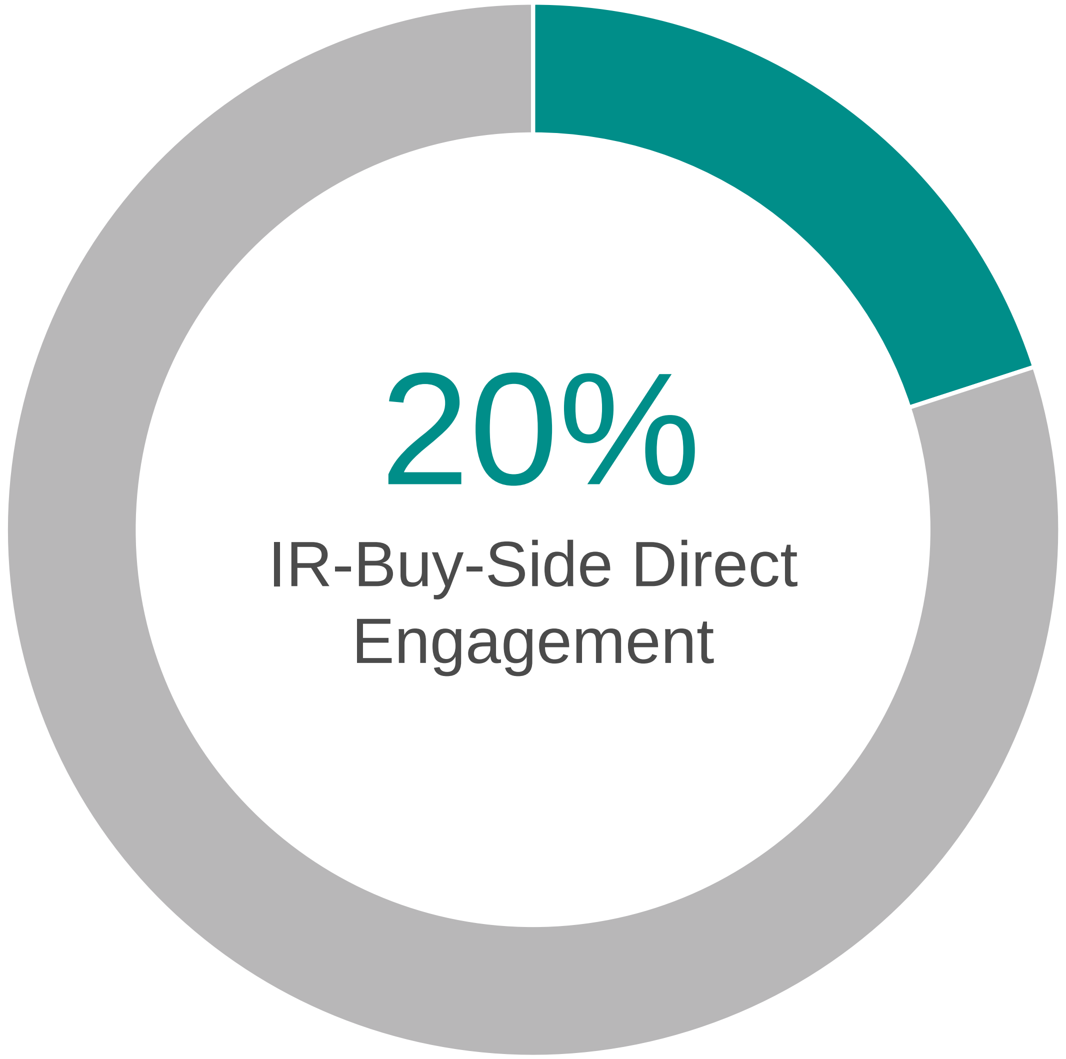
Effort Increasing as the Status Quo Changes. More Effort for Same Result…

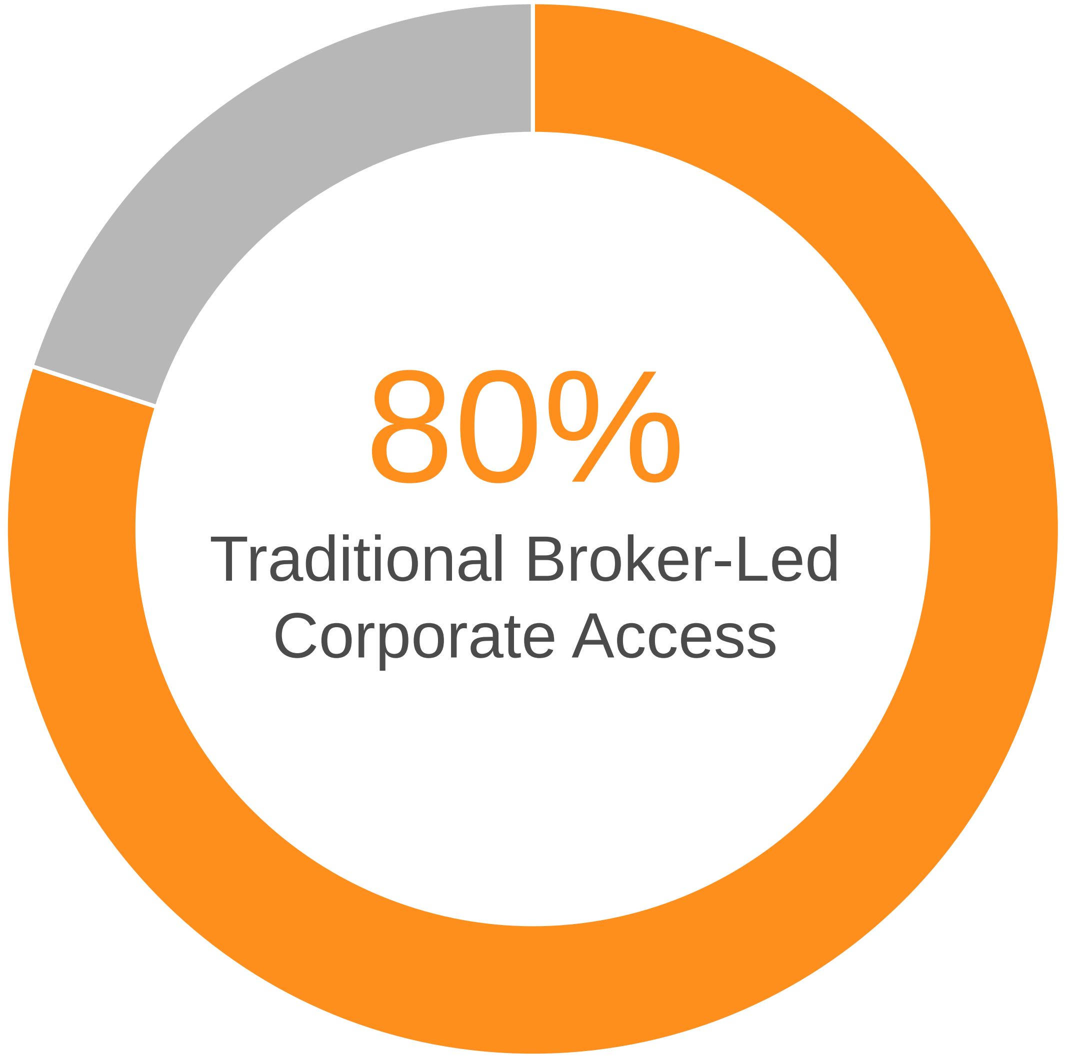
Hybrid Approach Gaining Momentum

Driven by Targeted Programs and Buy-Side Meeting Requests

Broker-Led Corporate Access Still Accounts For Majority of Contact

Direct Engagement Efforts Remain the Minority, But Are Growing

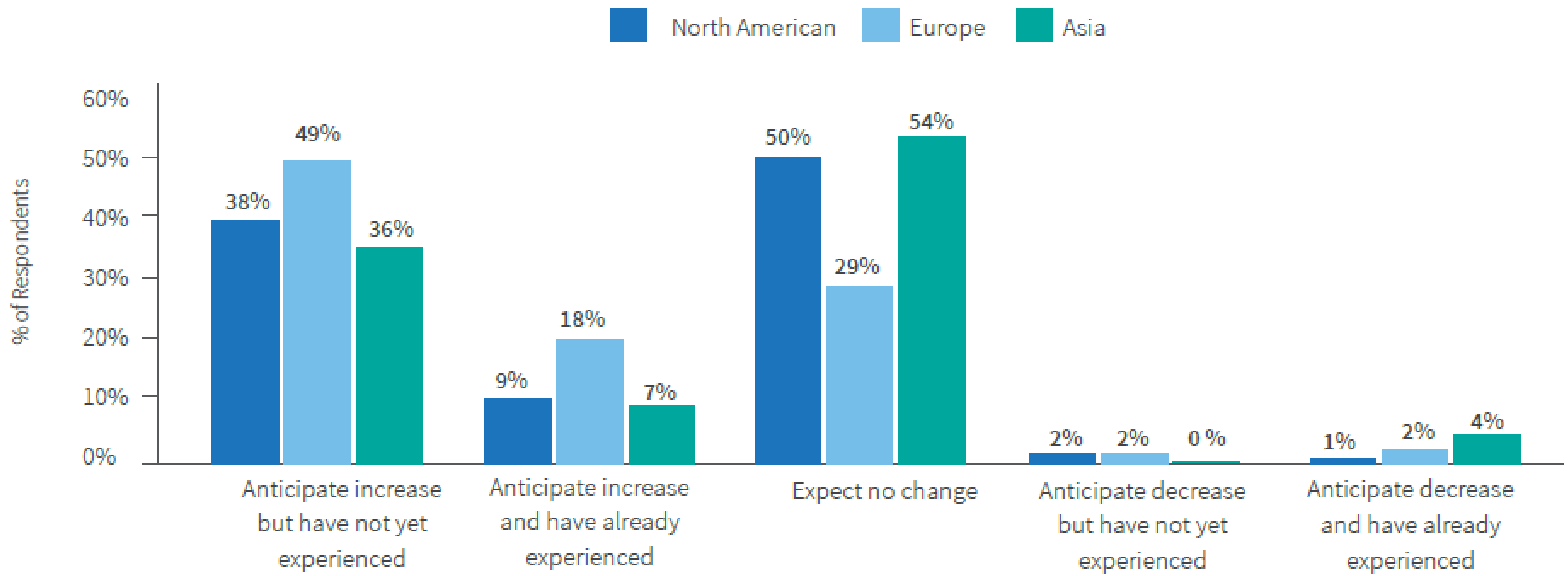




Source: IHS Markit 2018 Corporate Access Study – European Focus Group

European Issuers Anticipate & Are Planning For Increase in Direct Access

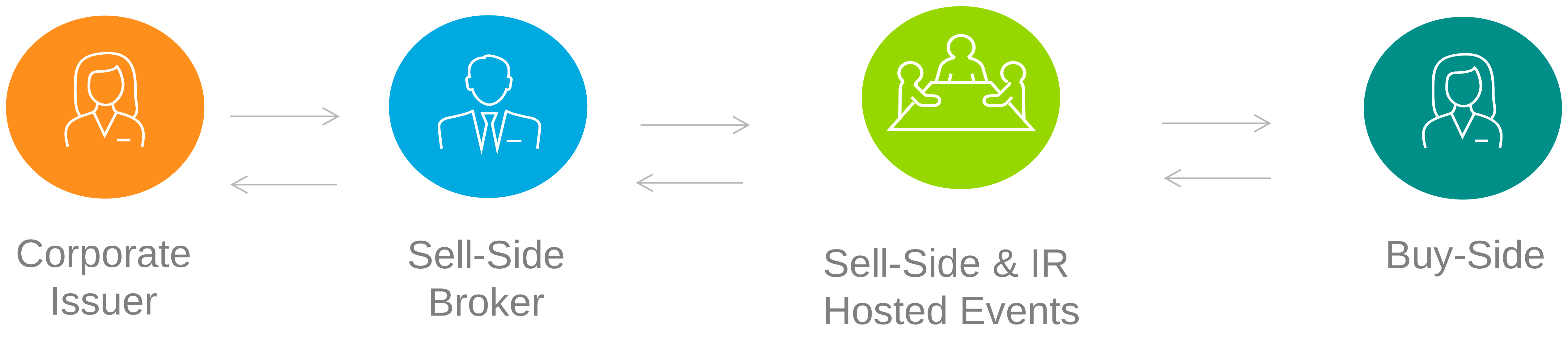
~70% of European Respondents Anticipate an Increase or Have Already Experienced



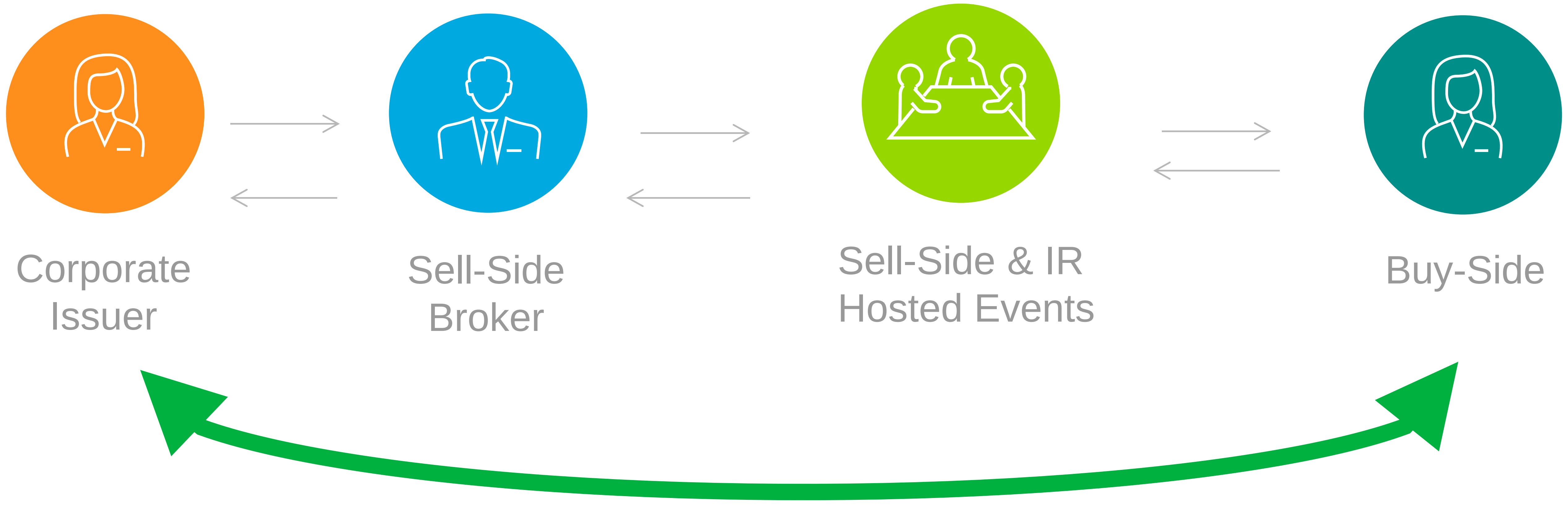
Source: IHS Markit 2018 Corporate Access Study – European Focus Group

The Emerging Hybrid Workflow

Legacy Corporate Access Model



Emerging Corporate Access Model



‘JUST TAKE THE SHOT’: TIPS FOR SUCCESS FROM IROs

Best-In-Class Suggestions

- Balance the Role of Marketer and Educator
- Keep it Simple and Offer Access
- Invest in IR Website & Digital Tools
- Expect to Follow Up
- Stay in the Role Long Enough to Develop Relationships
- ‘You are the Driver’
- The buy-side Increasingly Favors this Outreach

“The biggest difference for self-directed NDRs is purely logistics. Since you are coordinating your own meetings, the person putting together the cars and reservations is not the person making the trip, making it harder to coordinate in real-time during the meeting days. Test it out on an IR-only roadshow first, and if it’s successful move forward with management-ready.”
- IR Team at Procter & Gamble

‘JUST TAKE THE SHOT’: TIPS FOR SUCCESS FROM IROs

Best-In-Class Suggestions

- Don’t Overload Outreach / Gauge Interest First
- Call vs. Email
- Trial IR Only
- Start Planning Early
- Use Targeted Approach
- Ensure You Have The Right Data

“People who are new to the role need to understand that they have more power than they believe. You are driving the car, not the other way around. You can say no or adjust your meeting lists and how you’re spending your IR time. “

- Rebecca Grady, SVP IR at GreenSky Inc

Investor Feedback on the Effect of MiFID II and the Firms' Engagement Practices

+30 Investors

- Asset Managers
- Hedge Funds
- Pension Funds
- Family Office
- Analysts
- Portfolio Managers
- North American
- European

Strategies

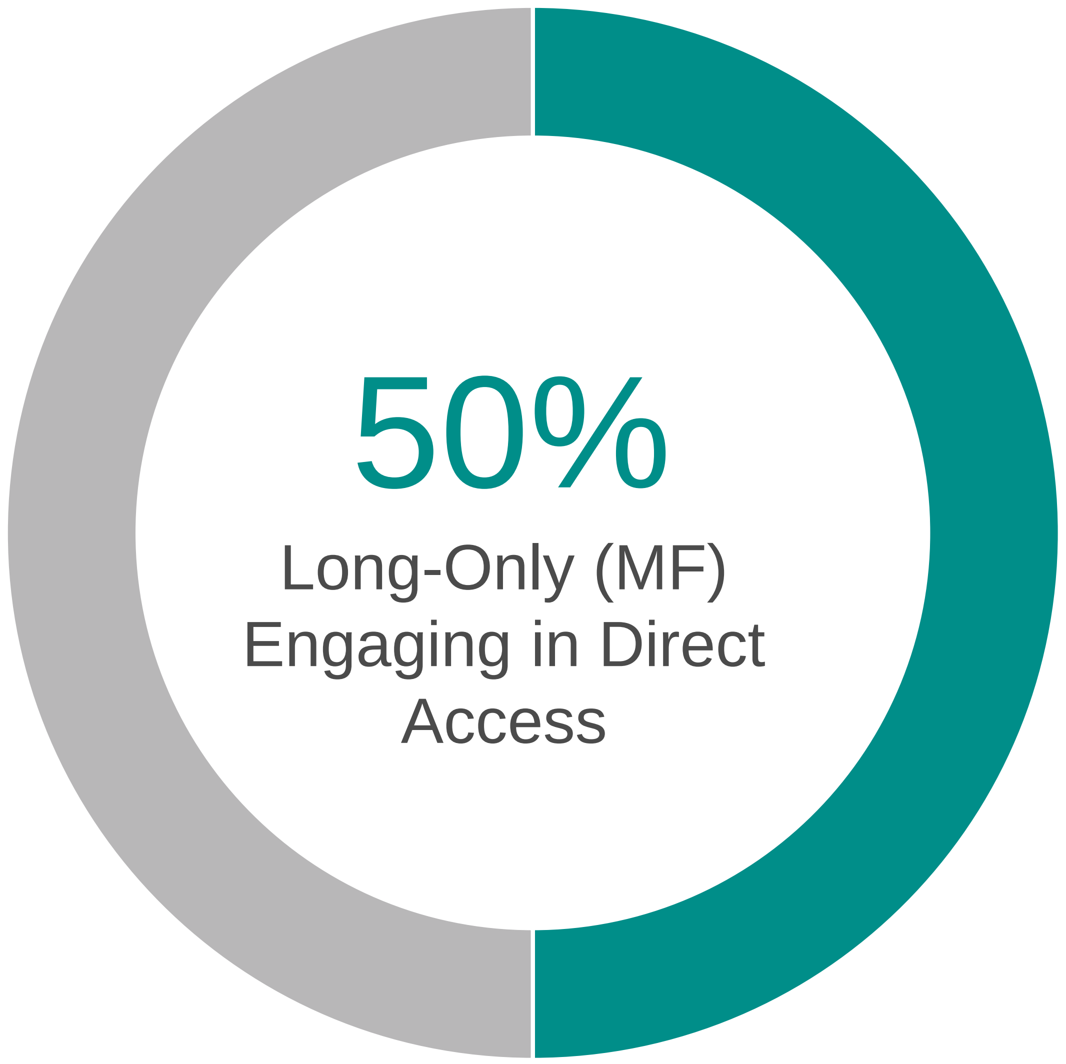
- Long-Only
- Event-Driven
- High Growth
- Long/Short
- Sector-Based
- Directional
- Deep-Value

Assets

$1.8T Assets Under Management

Transparency is Key: Insights from the Buy-Side

Investor Feedback on the Effect of MiFID II and Their Firm’s Engagement Practices



Transparency is Key: Insights from the Buy-Side

Key Takeaways From Buy-Side Respondents:

- The Right Timing & The Right Contact
- Make Sure You Leverage the Available Technology
- Spend Time With The Investors You Want to Make Up Your Base
- Hedge Funds Encourage Corporates To Broaden Their Outreach

"Companies should be engaging directly with their shareholders or the investment community who are not their shareholders. With today's technology, one would expect that the company could engage shareholders and non-shareholders directly to set up meetings. One of the difficult aspects of our job is dealing with various brokers, all of whom want to bring the company in to see us. It just multiplies the number of brokers we have to deal with."
Portfolio Manager at a $7.1B (EAUM) Value-Based Investment Manager

Advice from IHS Markit Corporate Solutions

Research & Planning Pay Off

- Drive Your Sell-Side Partnership Strategy
  - Engage Coverage Teams in Annual Exercise
  - Mutually Determine Their Greatest Area of Coverage or Expertise (Conference, NDR, HQ Visit, Regional Coverage)
  - Don’t commoditize the relationship

Advice from IHS Markit Corporate Solutions

Research & Planning Pay Off

- Directly Engaging the Buy-Side
  - Self-led NDRs vs. Self-led HQ Meeting
  - Test Flight is IR Only
  - Start w/ Familiar City
  - Leverage Real-Time Data / Expertise

Advice from IHS Markit Corporate Solutions

Research & Planning Pay Off

- Where to go and who to see
  - Annual Calendar Planning Process
  - Clear KPIs for Success
  - Mathematical Exercise of Time & Coverage
  - Remain Nimble
  - Contingency Planning

Advice from IHS Markit Corporate Solutions

Research & Planning Pay Off

- Expand the Discussion to Drive Efficiency
  - Investors Across Capital Structure (Equity & Fixed Income)
  - ESG Factors Growing
  - Grow Your Relationships At Each Asset Manager
  - Break Down Corp. Silos (Treasury, Corp. Secretary)

Q&A

Thank You