



Global Monthly. Issue of September

# No double dip for the US economy

## Overview

Uncertainties on the strength of the US economy have led to high volatility in stock prices. Risk aversion is back at global level and we observe a fly to quality favorable to the Yen, Swiss Franc and the Dollar. In fact, these fears reveal the impatience of investors rather than the possibility of a double dip scenario for the US. Our scenario remains the same: a gradual but solid recovery. The 2Q10 earning season provides an illustration of the soundness of fundamentals of the US economy, pointing to a low probability of double dip for the US economy.

## Focus: No double dip for the US economy

For analyzing the trend of the US economy, we focus on its capacity to restart a new investment cycle and create jobs. Investment was the major contributor to growth in 2Q10. The private sector continues to create jobs, so the disappointing results of non-farm payrolls are only due to the public sector. Furthermore, the mortgage default and foreclosure rates are on the downside. All these elements reflect a positive dynamic is currently at work, outweighing the fluctuation of the market.

For studying the self-sustainability of this dynamic, we look into the recently announced the US 2Q10 corporate earnings. A high percentage of firms reported better than expected results, showing a gradual but solid recovery of profitability for the US corporate sector. Specifically, we believe:

- The positive dynamic of profits will probably last in the months to come due to better performances in terms of productivity, control of costs, and accumulation of cash.
- The good results in terms of profits have triggered a new investment cycle, visible in the 2Q10 GDP growth figures.
- This new investment cycle will be accompanied by an improvement of the job market, as the private sector have already made the proof of its capacity to create jobs.
- The progressive decline of unemployment rate will contribute to strengthen household consumption and stabilize the housing market
- The budgetary and monetary policies will continue to play their stabilizing role and are well designed for fostering this new economic cycle.

Even if stock prices could be volatile in the months to come due the time needed by the US economy to adjust, we remain confident in the quality and strength of the new profit cycle. The pattern of growth in the US is typical in a post crisis period. The flexibility of the labor market leads to an increase of productivity, then an acceleration of profits. The restart of investment and employment follow thereafter, allowing the economy to reach its potential. We are currently just before this consolidation period, which takes time as the size of the shock was tremendous. We expect US economy to grow by 2.8% YoY in 2010, compared to a decline of 2.6% YoY in 2009.

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## Investment rating system

Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
Stock rating	Buy	Relative performance over MSCI-China Index >20%
	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

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