

Blackstone has issued the following press release.

Byron Wien Announces Ten Surprises for 2018

New York, January 2, 2018 – Byron R. Wien, Vice Chairman in the Private Wealth Solutions group at Blackstone, today issued his list of Ten Surprises for 2018. This is the 33rd year Byron has given his views on a number of economic, financial market and political surprises for the coming year. Byron defines a “surprise” as an event that the average investor would only assign a one out of three chance of taking place but which Byron believes is “probable,” having a better than 50% likelihood of happening.

Byron started the tradition in 1986 when he was the Chief U.S. Investment Strategist at Morgan Stanley. Byron joined Blackstone in September 2009 as a senior advisor to both the firm and its clients in analyzing economic, political, market and social trends.

Byron’s Ten Surprises for 2018 are as follows:

1. China finally decides that a nuclear capability in the hands of an unpredictable leader on its border is not tolerable even though North Korea is a communist buffer between itself and democratic South Korea. China cuts off all fuel and food shipments to North Korea, which agrees to suspend its nuclear development program but not give up its current weapons arsenal.
2. Populism, tribalism and anarchy spread around the world. In the United Kingdom Jeremy Corbyn becomes the next Prime Minister. In spite of repressive action by the Spanish government, Catalonia remains turbulent. Despite the adverse economic consequences of the Brexit vote, the unintended positive consequence is that it brings continental Europe closer together with more economic cooperation and faster growth.
3. The dollar finally comes to life. Real growth exceeds 3% in the United States, which, coupled with the implementation of some components of the Trump pro-business agenda, renews investor interest in owning dollar-denominated assets, and the euro drops to 1.10 and the yen to 120 against the dollar. Repatriation of foreign profits held abroad by U.S. companies helps.
4. The U.S. economy has a better year than 2017, but speculation reaches an extreme and ultimately the S&P 500 has a 10% correction. The index drops toward 2300, partly because of higher interest rates, but ends the year above 3000 since earnings continue to expand and economic growth heads toward 4%.

5. The price of West Texas Intermediate Crude moves above \$80. The price rises because of continued world growth and unexpected demand from developing markets, together with disappointing hydraulic fracking production, diminished inventories, OPEC discipline and only modest production increases from Russia, Nigeria, Venezuela, Iraq and Iran.
6. Inflation becomes an issue of concern. Continued world GDP growth puts pressure on commodity prices. Tight labor markets in the industrialized countries create wage increases. In the United States, average hourly earnings gains approach 4% and the Consumer Price Index pushes above 3%.
7. With higher inflation, interest rates begin to rise. The Federal Reserve increases short-term rates four times in 2018 and the 10-year U.S. Treasury yield moves toward 4%, but the Fed shrinks its balance sheet only modestly because of the potential impact on the financial markets. High yield spreads widen, causing concern in the equity market.
8. Both NAFTA and the Iran agreement endure in spite of Trump railing against them. Too many American jobs would be lost if NAFTA ended, and our allies universally support continuing the Iran agreement. Trump begins to think that not signing on to the Trans-Pacific Partnership was a mistake as he sees the rise of China's influence around the world. He presses for more bilateral trade deals in Asia.
9. The Republicans lose control of both the Senate and the House of Representatives in the November election. Voters feel disappointed that many promises made during Trump's presidential campaign were not implemented in legislation and there is a growing negative reaction to his endless Tweets. The mid-term election turns out to be a referendum on the Trump Presidency.
10. Xi Jinping, having broadened his authority at the 19th Party Congress in October, focuses on China's credit problems and decides to limit business borrowing even if it means slowing the economy down and creating fewer jobs. Real GDP growth drops to 5.5%, with only minor implications for world growth. Xi proclaims this move will ensure the sustainability of China's growth over the long term.

Also-rans:

Every year there are always a few Surprises that do not make the Ten because either I do not think they are as relevant as those on the basic list or I am not comfortable with the idea that they are "probable."

11. Investors recognize that the earnings of companies in Europe, the Far East and the emerging markets are growing faster than those in the United States while the price earnings ratios in those regions are lower than those in America. Global investments become more broadly represented in institutional portfolios.
12. The Mueller investigation of the 2016 presidential election fails to implicate any members of the Trump family in collusion with Russian operatives.

13. Artificial intelligence gains visible momentum. Service sector jobs are automated, particularly clerks in legal and finance professions, as well as workers in fast food outlets and healthcare. Economists begin to question the unemployment data because the rate drops below 4% while so many people still appear to be out of work and seeking government assistance.
14. Cyberattacks become more prevalent and begin to affect consumer confidence. A major money center bank suspends deposits or withdrawals for three days because its system is penetrated. Numerous retail organizations report that customer personal information has been obtained by hackers. Those invading corporate information systems appear to be smarter and more innovative than the internal employees protecting the computer data, suggesting that the systems themselves need to be upgraded.
15. The regulatory authorities in Europe and the United States finally get concerned about the creative destruction of Internet-related businesses. As a result of pressure from retailers and traditional media companies, they begin an investigation of anti-competitive practices at Amazon, Facebook and Google. The public begins to think these companies have too much power.
16. The risks in Bitcoin are so great that regulatory authorities restrict trading. Among their concerns are: no regulatory oversight; no safety and soundness measures; no recourse in the event of mistaken or miscalculated transactions; high cyber risk; no deposit insurance. (Risk source: Morgan Stanley.)

About Blackstone

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The views expressed in this commentary are the personal views of Byron Wien, Vice Chairman in the Private Wealth Solutions group at Blackstone, and do not necessarily reflect the views of Blackstone itself. The views expressed reflect the current views of Mr. Wien as of the date hereof and neither Mr. Wien nor Blackstone undertakes to advise you of any changes in the views expressed herein.

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