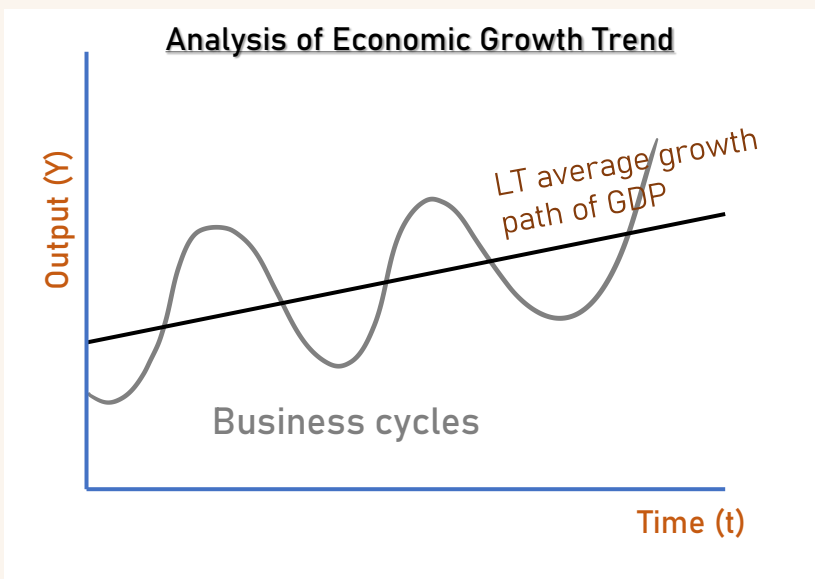


CFA® Exam Tips – LEVEL III

Study Tips

Capital Market Expectation #3



Analysis of Economic Growth

1. Key points:

Need to understand the trend (LT) and the cycles (shorter-term movements and the turning points)

2. Growth Analysis & Capital Market Expectations

- Expected trend growth rate (g) a key input to DCF models of expected return
- Country with $\uparrow g$ implies \uparrow equity return
- $\uparrow g$ allows actual economic growth to be faster
- Average level of real government bond yields links to g , faster trend growth implies higher average real yields



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