28 June 2023

Investment Institute Macroeconomics

Monthly Investment Strategy

A skip and a hop(e)

Key points

- Key event risk has faded: bank turmoil has stabilised and the US debt ceiling was resolved with little disruption.
- Focus returns to cyclical dynamics. Economic signals have been mixed. Eurozone history has been revised to a mild recession over the winter, but broadly activity has been more resilient than we had expected.
- The outlook remains weaker: we expect mild recession in the US, and risks of downturn in the UK and even the Eurozone, although we expect firming activity in China.
- Headline inflation has fallen in most jurisdictions, but core inflation remains stickier, not least with labour markets continuing to suggest second round effects.
- Central banks are being forced into delivering more restrictive policy, even if data-dependency risks being myopic and risks sharper downturns ahead.
- Sovereign debt concerns also rise in advanced economies.

Global Macro Monthly

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A skip and a hop(e)

Global Macro Monthly Summary June 2023

David Page
Head of Macro Research
Macro Research – Core Investments

Cyclical focus, structural causes

There is little evidence of any worsening of problems in the US – or global – banking system, for now anyway. Moreover, the US debt ceiling issue was resolved with far less disruption than we had feared; a deferral of the limit until 2025 in exchange for modest fiscal tightening, estimated to peak at around 0.25% of GDP next year. Moving beyond these key event risks, markets have refocused on cyclical dynamics.

We continue to expect a mild US recession with the first quarterly contraction possibly as soon as Q2, although we see the following quarter as more likely. However, data has been mixed, with surveys volatile, spending revised, aspects of housing rebounding and the labour market posting a bewildering divergence of signals. The Eurozone, by contrast, has seen significant data revision – it now shows there was a mild recession over the winter. We expect expansion in Q2, but by the smallest of margins, and see growth remaining subdued into 2024. The UK economy has also avoided recession so far, but with a so-called 'mortgage time bomb' increasingly in the public mind, risks of a downturn are rising.

Yet these downbeat assessments focus on future growth; recent experience has typically been more resilient - even in the Eurozone where we first considered a steep recession. Yet inflation remains sticky. In the US and Eurozone, headline inflation has fallen sharply as energy shocks unwind – the lagged pass-through of energy has delayed this dynamic in the UK. But core measures of inflation remain stickier, slowly easing to 5.3% in the US and Eurozone but rising to 7.1% in the UK.

This combination of elevated core inflation, tight labour markets and still-resilient economic growth is forcing central banks to deliver more restrictive monetary policy. We have raised expectations for the Federal Reserve – following the 'skip' at its latest meeting –, European Central Bank and Bank of England, and we expect a policy tweak from the Bank of Japan in July. Other developed economy central banks have also tightened further.

We also consider to what extent structural issues are prolonging this phase at the top of the policy cycle.

Confusing labour market trends, including strong employment growth despite stagnant economic expansion, plausibly reflect structural developments. US unemployment jumped in part on recovering labour supply; falling Eurozone hours worked reflects shifting employment composition; and recent strong UK jobs growth has been driven by rising self-employment. These combinations are resulting in weaker productivity growth, contrary to hopes of improvement following the introduction of new technologies during the pandemic. COVID-19 and its aftermath, ageing workforces and, in some cases, changing migration trends are impacting the ways labour interacts with the economy.

These structural shifts are underpinning concerns about stickier inflation and perplexing central banks. Most remain explicitly backward-looking – with a mantra of "data-dependency" – rather than relying on forward-looking forecasts. The BoE is so wary of its forecasts that it applies a risk-adjusted forecast to guide policy. This feeds our fears of eventual over-tightening and the prospect of a more meaningful correction when tightening finally gains traction.

We also monitor growing medium-term risks to advanced economies' sovereign debt in this edition's *Theme of the Month*. While the US successfully navigated the latest debt ceiling issue, the resulting Fiscal Responsibility Act has done little to change the longer-term, unsustainable path ahead. In the Eurozone, Portugal, Ireland and Greece have successfully improved their debt outlooks but rising interest rates will challenge others over the coming years against a background of the re-establishment of fiscal rules. Meanwhile rising policy rate expectations have lifted longer-term UK borrowing rates back to the highs of the September fiscal crisis under then-Prime Minister Liz Truss – although sterling strength belies the view that this marks the same loss of confidence as back then. Several economies face a daunting task of achieving debt reduction. Many run the risk of seeing markets lose confidence in their fiscal strategy. This presents the risk of further yield increases over the coming quarters.

Yet market optimism persists for now with financial conditions easing to levels not persistently seen since last summer. In part this reflects equity market optimism as investors rush to price the impact of expected longer-term productivity gains from the implementation of artificial intelligence in different aspects of the economy. The impact and indeed timing of such an improvement remains perhaps the most uncertain of all the structural developments. But it is likely to be a topic to which we return to in the future.

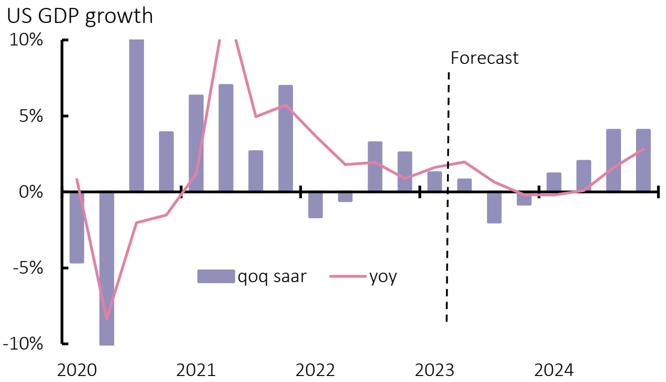
Global Macro Monthly – US

David Page
Head of Macro Research
Macro Research – Core Investments

Mixed messages

Our concerns over a potentially difficult summer have not come to pass, at least not yet. The Fiscal Responsibility Act – the bill that deferred the debt ceiling restriction into 2025 – came with modest fiscal tightening over the coming years but removed a key summer risk. Admittedly, the Treasury is now planning to rebuild its cash buffer at the Federal Reserve (Fed), via the Treasury General Account (TGA), aiming to increase it to $425bn by the end of June. This could reduce liquidity over these traditionally quieter months and weigh on markets. However, the rebuild was initially outpaced by unwinding reverse repurchase agreement holdings, and net liquidity was broadly balanced between the two over the first three weeks.

Exhibit 1: US GDP growth projections



Source: US Bureau of Economic Analysis and AXA IM Research, 22 June 2023

As a result, the focus is firmly back on the broader economic cycle. Signs of recession remain mixed. The Empire State Manufacturing Survey's sharpest decline in a month, outside of the pandemic, was more than reversed in the latest month. Other surveys remain weak but not in recession territory. Car sales and housing starts have risen, despite indications of tight credit conditions; the Atlanta Fed GDP tracker currently estimates growth of 1.9% annualised – about the long-term trend rate. Retail behaviour has also been volatile: The latest sales 'control' measure rose by 0.2% in May but March's 0.3% contraction was revised lower to 0.8%, suggesting a contraction in retail spending over Q2. With a marked deterioration in the trade deficit to weigh on growth and an expected further inventory reduction, Q2's outlook remains uncertain. We forecast a modest 0.8% annualised rise but a fall is possible.

The labour market has given out the most mixed messages. Payroll growth continues at a robust pace, with the 3-month average increasing in May to 283k (from 253k) – even if slower than over the last two years. Yet the household survey was weaker – employment falling by 310k, unemployment up 0.3ppt to 3.7% and average hours worked falling to the lowest since the pandemic. Other measures of labour activity remain mixed, including a rise in the timely jobless claims measures, but the NFIB small business survey is broadly flat over six months.

Recession concerns to cap rate hikes

In total, broad recession indicators – sharp yield curve inversion and tight credit conditions – as well as weak survey evidence continue to lead us to expect a mild recession. However, its timing remains uncertain. We forecast contraction in Q3 and Q4 resulting in a downturn similar in scale to the early 1970s and 2000s (Exhibit 1). Yet significant uncertainty remains around household excess savings. We forecast growth of 1.0% this year and 1.1% next; a firmer 2024 outlook now with an expected inventory rebound next year.

Meanwhile inflation shows signs of progress. Headline CPI inflation fell to 4.0% in May; we expect it close to 3% in June then progress to stall over the second half with inflation remaining around 3-3.5%. Core CPI inflation has been slower to fall, now at 5.3% in May from the 6.6% peak in October. Recent core measures have been impacted by rises in used auto prices, which should reverse over the coming months. But broader risks to core CPI remain, with a still-tight labour market. We forecast CPI inflation to average 4.2% in 2023 and 3.1% in 2024. But with headline inflation closer to the Fed's mandate, it eases inflation expectations pressures for now.

These confused economic signals resulted in similarly mixed messages from the Fed at its June meeting. It left the Fed Funds Rate unchanged at 5.25% as expected but in its Summary of Economic Projections participants raised end-year expectations by 50bps to 5.75%. Fed Chair Jerome Powell described this as a "skip" – with connotations of following up with a hike – although he subsequently corrected this terminology. He also stated the decision had been taken to continue to slow (not end) the process of tightening and twice stated the next meeting in July was "live". We believe the Fed was telling us it would hike next month, not simply forecasting a need. We have raised our expectation for a Fed peak to 5.50%. However, our expectation for more convincing deterioration of economic data over the coming months leads us to expect makes us consider a further hike in September – much less November – unlikely. Markets remain even more sceptical, currently pricing a 70% chance of a July hike and only fully pricing one hike by November – short of the Fed's 5.75% projections.

Global Macro Monthly – Eurozone

François Cabau,
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Eurozone Economist
Macro Research – Core Investments

Our stagflation outlook is confirmed

Eurozone first quarter (Q1) GDP growth was revised down from the 0.1% initially estimated (on a quarterly basis) to -0.1%, putting the region in a technical recession. Over the past couple of quarters, private consumption has dropped a cumulative 1.3%, mainly a result of a squeeze on real disposable income and constraints on energy consumption.

Beyond the cyclical business surveys' bifurcation between manufacturing (low demand amid slowly improving supply chains) and services, more structural behavioural changes may be at work with goods consumption edging lower for more than a year, only partially offset by services. Likely led by another strong tourist season, the service sector remains afloat, but confidence has edged lower in May and June.

The sizeable fall in headline inflation, fiscal stimulus and accelerating wages in an ever-tightening labour market will likely support growth by the end of this year. And so, we do not expect the technical recession will continue. However, our 0.1%qoq projection for GDP growth for the remainder of the year, consistent with average 0.4% growth for 2023, also warns against expecting a strong rebound and is slightly below consensus (0.6%). If anything, we flag upside risks to this year's forecasts, related to any upcoming Chinese policy boost and uncertainty around the use of excess saving in the Eurozone. For 2024, we remain concerned by the simultaneous tightening of fiscal policy and lagged effect of monetary policy, consistent with downside risks to our average 0.1% quarterly forecast, yielding 0.5% for 2024 (consensus: 1.0%).

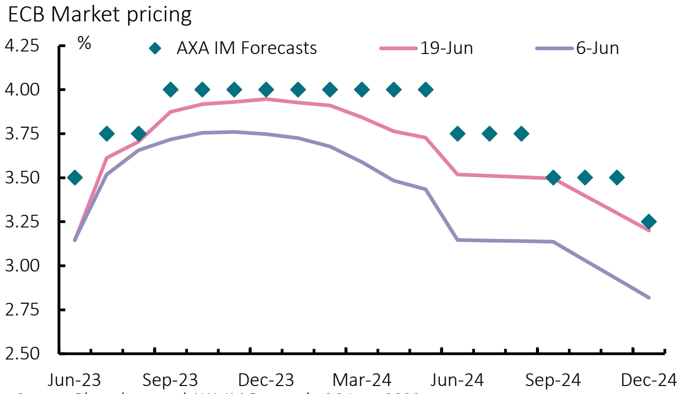
Inflationary labour market

Despite further labour force gains, now 2.6% above pre-COVID-19 levels, the Eurozone unemployment rate has edged lower to a new historical low of 6.6% in Q1. In turn, job creation has remained (surprisingly) dynamic, gaining 0.6% on a quarterly basis in Q1. Furthermore, although edging down, hiring intentions remain in positive territory, pointing to further gains at least for the current quarter. This creates two concerns. First, how much will labour market tightness translate into persistent wage growth? Second, persistent weak labour productivity growth implies a lower-than-previously-thought wage growth consistent with the European Central Bank's (ECB) 2% inflation target, with unit labour costs, rather than wage growth, being the long-term domestic inflation driver.

These issues were at the heart of the June ECB meeting, which continued its hawkish tone. Although the ECB emphasised the uncertain macro outlook, not committing beyond an additional 25 basis point (bp) hike in July, we think the marked upward revisions to the core inflation forecasts, boosted by higher unit labour costs, were key. Furthermore, President Christine Lagarde deemed that wages are now the major driver of inflation and are likely to further accelerate in the short term.

In turn, we have added another 25bp hike to our baseline, consistent with an ECB peak of 4% in September. We think higher core inflation in June/July (above May's 5.3% year-on-year), and further projected wage acceleration, peaking in Q3, implies tighter monetary policy. After an initially ambiguous reaction, short-end market pricing has adjusted higher, close to our revised baseline (Exhibit 2).

Exhibit 2: ECB: Destination 4%



Source: Bloomberg and AXA IM Research, 26 June 2023

Meanwhile, countries continue to disagree on the details of future Eurozone fiscal rules. Ahead of this week's European Council, 10 countries backed German Finance Minister Christian Lindner's demand that high-debt countries reduce public debt-to-GDP ratios by one percentage point every year.

While a final agreement would ideally be struck before the 2024 draft budget presentations (mid-September to mid-October), it will not be a walk in the park to get the new rules ratified before the European Parliament goes into recess in February ahead of next year's European Union (EU) elections. Furthermore, Spanish snap elections on 23 July may influence proceedings, with the country due to take the EU Council rotating presidency from 1 July. Otherwise, with Partido Popular gaining ground in the polls since the election announcement, we expect this to be a non-event

Global Macro Monthly – UK

Modupe Adegbembo
Junior Economist (G7)
Macro Research – Core Investments

BoE delivers larger-than-expected June hike

The Bank of England (BoE) delivered a 50 basis point (bp) hike – above both our own and consensus expectations of a 25bp raise – taking the Bank Rate to 5%. The seven majority who supported the hike saw it as "required" following consistent upside surprises in data and evidence of rising market inflation expectations.

May's inflation data, announced just a day before the Monetary Policy Committee's (MPC) decision, was likely key. CPI inflation remained at 8.7% in May (compared to market expectations of an easing to 8.4%). Importantly for the BoE's assessment of domestic inflationary pressures, services CPI rose to 7.4% – its highest level since 1992 – 0.5 percentage points (ppt) above the BoE's May forecasts. Overall, we now expect CPI inflation to average 7.1% this year and 2.5% in 2024 (up from 6.6% and 2.3%). April's Labour Force Survey also surprised on the upside. Unemployment declined unexpectedly to 3.8% from 3.9% (consensus 4%) as employment rose by 250k on the quarter and was only partially offset by a continued decline in economic inactivity. Annual growth in regular average weekly earnings rose by 7.6%, 0.5ppt above the BoE's May expectations.

Monthly GDP increased by 0.2% in April following a 0.3% decline in March. We expect growth to remain weak this year and next as the lagged impact of policy rate rises feeds through the economy. The longer length of household mortgage fixes has slowed the transmission of more restrictive policy, but this will quicken over the coming quarters with mortgage payments rising steadily as many more households with mortgages and renters face rising housing costs. As Bank Rate creeps higher, we see a growing risk of recession as the eventual mortgage impact accumulates in the economy. We forecast GDP growth to average 0.2% this year and 0.3% next year (0.6% prior).

We expect the MPC to hike Bank Rate by 25bp at its next meeting on 3 August, bringing Bank Rate to 5.25%. We think this will prove to be a peak, as we expect that by the next meeting on 21 September, an easing in core inflation and clear slowing in employment will allow it to pause. However, we continue to see the risks firmly skewed to the upside and as ever, the labour market and inflation data remain crucial. Continued signs of labour market tightness would likely see the BoE raise rates again in September.

Global Macro Monthly – Canada

David Page
Head of Macro Research
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BoC a bellwether, or more complicated?

The Bank of Canada (BoC) raised rates by 0.25% to 4.75% in June – a surprise but consistent with voiced concerns over persistent inflation. Q1 GDP added to this worry, rising more than expected (3.1% annualised). Strength was broad-based, particularly in consumer spending, up 5.6%. Inflation had also surprised; April's headline rate rose to 4.4% with underlying inflation down easing to 4.2%. The BoC concluded policy was "not sufficiently restrictive" and it would evaluate "whether the evolution of excess demand" is consistent with "target". This is less directional than April's rhetoric where it said it "remains prepared to raise the policy rate further if needed". Markets price another 50bp of tightening by year-end.

Yet developments in Canada will follow their own beat – in May disinflation recommenced. The headline rate fell to 3.4% and core below 4.0%. April's retail sales rose by 1.1% but by only 0.3% in volume terms. If May and June repeat this, volumes will fall in Q2 and broader consumption will likely be flat. We forecast soft Q2 GDP growth of around 0.5% (annualised) and expect growth of 1.2% this year and 1.0% next (consensus 1.0% for both). Employment fell 17k in May, with the second successive fall in full-time employment. While the BoC warned only a third of mortgage holders have seen any payment rise so far, it's wary of hiking too much before the full effects of previous rises bite.

Canada is unusual in that its growth reflects a surge in its now 40mn population, which rose by 1mn (or 2.7%) in 2022 alone. In May, the labour force rose by 17k and unemployment to 5.2%. This increased supply loosens the labour market and should dampen inflation pressures, even as headline growth remains firmer. That said, the population rise adds to persistent housing pressures and Canada's targeted migration has eased pressures in some sectors – finance, education and information services – but raised it for others.

The BoC must also take these dynamics into account. In its latest assessment it stated the economy remained "clearly in excess demand" and rebalancing was "taking longer than expected". This maintains the risk of further tightening. On balance, we expect the BoC to hold in July. We also expect softer activity in Q2 and Q3 to dissuade it from further hikes thereafter, leaving a 4.75% peak. But risks remain to the upside for the foreseeable meetings.

28 June 2023

Global Macro Monthly – Japan

Modupe Adegbembo
Junior Economist (G7),
Macro Research – Core Investments

BoJ on hold into July meeting

The Bank of Japan (BoJ) voted unanimously to leave all its policy tools unchanged at is June meeting, including yield curve control (YCC). The short-term policy rate remains at -0.1% and the long-term interest rate target of 0% yields on 10-year Japanese government bonds was maintained, with a tolerance band of +/-50 basis points (bp). This came in line with our own expectations and the general consensus. Communications from the BoJ have remained resolutely dovish, with Governor Kazuo Ueda reiterating the need to "patiently continue" with monetary easing. The minutes of April's meeting, released last week, discussed improvements in market dynamics and the potential for implementing a tweak to YCC. But overall, most members continue to believe the current policy of monetary easing should be maintained.

We continue to expect the BoJ to adjust its YCC policy in its 28 July meeting and to lower the tenor of its target to five years from 10. However, it remains cautious of the development of pricing dynamics, and we think data will be important. Momentum in inflation remains strong with May core CPI inflation rising to a new 42-year high of 3.2%. However, April's annual wage growth surprised to the downside, with base pay increasing by just 1.1%, below consensus expectations of a 1.8% rise. Strong Shunto spring wage negotiations have so far failed to lift broader wages. If this continues, the BoJ could delay any potential policy adjustment. It will be watching key data released between now and 28 July: May wages, June Tokyo CPI and July's Tankan survey.

Discussions of early elections have waned after Prime Minister Fumio Kishida recently ruled out dissolving the lower house for an election in July. This election does not need to be held until 2025, but Kishida faces a Liberal Democratic Party leadership race too, due to be held in September 2024, and is expected to shore up broader support through elections before then. Kishida's approval ratings had risen after the G7 leader's summit. However, of late he has faced scandals which have seen his approvals move lower. We continue to see a risk of early elections but suspect this will not be before the autumn.

The growing policy gap between Japan and other major counterparts has seen the yen weaken further. The yen has slid past the ¥143 per dollar level moving closer to the ¥146 level that saw Japanese officials intervene in September 2022. Adjustment to the BoJ's YCC policy in July would like provide material support.

Global Macro Monthly - EM Europe

Irina Topa-Serry,
Senior Economist (Emerging Markets),
Macro Research – Core Investments

Disinflation confirmed in Central Europe, for now

May's consumer prices showed a broad-based slowdown. Base effects, weaker energy and food prices were generally helpful. Overall, both headline and core prices are better behaved. Strong foreign exchange performances are likely a supportive factor, helped in some instances by helpful administrative measures, for example in Hungary. Additionally, supply-side pressures appear to be receding, with producer price inflation slowing now to 3%-3.5% in Poland while the Czech Republic peaked at 25%-30% last summer. Inflation rates reached 13% year-on-year in Poland (from 14.7% in April), 11.1% (12.7%) in the Czech Republic, 21.5% (24%) in Hungary, and 10.6% (11.2%) in Romania. While the disinflation trend is likely to continue in the short run, already leading to monetary policy easing in Hungary and likely in Poland, reaching inflation targets in the medium term could prove challenging. Wage growth is strong across the region, as labour markets remain tight, and services inflation appears stickier and harder to tame. All in all, we believe while the door is open for policy rates adjustment as of the second half of 2023, the pace of easing is likely to be prudent and very much dependent on the speed of disinflation and the relative strength of the currencies.

Turkey embarks on orthodox policies but disappoints

Following the re-election of incumbent President Recep *Tayyip* Erdoğan, the new economic team run by Treasury and Finance Minister Mehmet Şimşek and the newly appointed Governor of the Central Bank Hafize Gaye Erkan was given the task to tackle the various imbalances accumulated by the Turkish economy these past years. The most pressing include an overheated credit-fuelled economy; excessively high inflation and de-anchoring of inflation expectations; massive external financing needs; insufficient reserves at the central bank; significant slippage of public finances and accumulating contingent liabilities. The first-rate hike (+650 basis points to 15%) came as a disappointment given market expectations for policy rates at 20%, which should be followed by a partial removal of restrictions on the banking sector. The bank signalled additional rate hikes will follow in a gradual manner, hinting for a muddle-through scenario until local elections next year, raising the odds of a possible incomplete and insufficient policy normalisation.

Global Macro Monthly – EM Asia

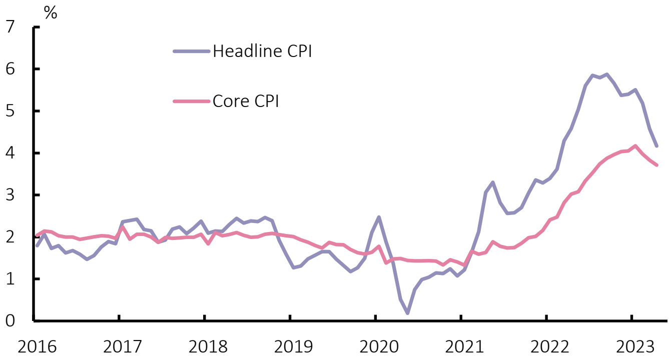
Shirley Shen,
Economist (Emerging Asia)
Macro Research – Core Investments

Disinflation is now mainstream

Headline inflationary pressures have continued to ease over recent weeks (Exhibit 3). In many instances, inflation figures fell below market consensus. Indonesia's and India's annual CPI declined to 4% and 4.3% in May from 4.3% and 4.7% in April, respectively. These are in large parts due to favourable base effects, coupled with slowing core and food prices.

Exhibit 3: Growth figures show mixed picture

Asia excluding China headline and core inflation



Source: CEIC and AXA IM Research, 19 June 2023

However, upside risks remain. Countries such as India, the Philippines and Indonesia are vulnerable to weather impacts. This is particularly true with an El Niño weather system developing, traditionally associated with reduced rainfall across East Asia and inflationary pressure, not least from reduced rice production. In addition, removals of price controls as well as any reversals in oil prices could push prices higher again.

Overall, with growth softening, further declines in inflation should mark the end of monetary tightening for many Asian central banks. Many already appear to have got there – Bank Indonesia and Bangko Sentral ng Pilipinas kept policy unchanged at 5.75% and 6.25% respectively. The Reserve Bank of India also kept its repo rate on hold at 6.5% but remains cautious to ensure inflation aligns with the target while supporting growth. We do not rule out cuts this year; however, the trajectory will depend on external developments and the transmission of previous rate hikes. One exception remains the Bank of Thailand, which will likely see one more 25-basis-point hike, following a services-led boost to growth.

Global Macro Monthly – EM LatAm

Luis Lopez Vivas,
Economist (Latin America),
Macro Research – Core Investments

Disinflation progresses but core inflation lingers

Latin America's headline inflation is showing a sustained decline across major countries, even amid resilient economic activity. As inflation comes down so should policy rates. However, the exact timing of monetary easing is unclear as core inflation remains stubbornly sticky.

In May, Mexico's inflation rate cooled to 5.8%, marking the lowest reading since September 2021 and falling below market expectations. The drop was mainly the result of lower electricity and gas prices. Meanwhile, core inflation continues to fall, but at a slower pace and remains high at 7.4%. Despite these positive developments, the Mexican central bank is unlikely to consider any rate cuts until Q1 2024. In contrast, Chile may start easing as early as July, prompted by the persistent downside surprises in inflation, which reached 7.8% in May. The central bank's latest policy statement acknowledges the possibility of near-term rate cuts, reflecting Chile's rapid disinflation and sluggish economic performance.

In Brazil, headline inflation surprised to the downside in May, falling to 3.9%, the lowest reading since November 2020. However, inflation is expected to accelerate again in the second half of the year as tax cuts on fuels are gradually removed. Moreover, core inflation has been slow to fall due to a tight labour market and higher fiscal transfers. Inflation also came below expectations in Colombia reaching 12.4% in May, thanks to a moderation of food prices. Adding to the good news, the reduction in the country's current account deficit and reduced political risks are contributing to a strengthening of the peso, which should aid the disinflation process in the coming months.

In contrast to other countries in the region, Peru has experienced slow disinflation. Inflation reached its peak at 8.8% in June last year and has only declined by one percentage point since then to 7.9% in May. This slow progress reflects adverse weather and politically related shocks that the country has endured since the start of the year. As such, the easing cycle will likely be postponed until Q4 of this year.

Despite the region's progress in disinflation, inflation remains above target in most countries. In addition, risks for the inflation outlook remain biased to the upside due to potential price shocks coming from the global economy and the effects of El Niño which could exacerbate already-high food inflation.

Key market calls

Our Directional views across assets in key market (3-month horizon)

CURRENCIES	weaker	neutral	stronger
Euro		● ◀	
Yen			●
GBPEUR		▶ ●	

CURRENCIES

Risks look more symmetric for EUR while long positioning and rich valuation also limit upside. Short CHF may be a good proxy for EUR downside. JPY potential for a rebound, as foreign rates peak-out. GBP's fate is harder to read.

EQUITY	lower	neutral	higher
US equity	●		
EU equity		●	
EM equity		●	

EQUITY

We retain our negative view on the US, as we expect a recession to inevitably manifest. We favour Europe, and particularly Quality, in this macro context. Policy support and persistent growth headwinds in China leave us neutral on EMs.

RATES	higher	neutral	lower
US rates short	●		
US rates long		●	
EU rates short	●		
EU rates long	●		

RATES

US monetary policy expectations repriced materially as the banking shock faded and markets moved from widespread crisis to non-systemic event. Yield curve suggests recession, while risky assets suggest a soft- or no-landing scenario.

CREDIT	wider	neutral	tighter
US IG		●	
EU IG		●	
US HY	●		
EU HY	● ◀		

Source: AXA IM Core Investment Research, as of 26 June 2023

CREDIT

Risk appetite across global credit incl EM recovered strongly in past month. This constructive tone may be complacent and merits caution. Mean reversion shows spread widening over 3-12M and decompression in HY/IG, consistent with recession.

Macro forecast summary

Real GDP growth (%)	2022		2023*		2024*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.4		2.7		2.8	
Advanced economies	2.7		0.9		0.9	
US	2.1	2.1	1.0	1.1	1.1	0.6
Euro area	3.6	3.2	0.4	0.7	0.5	0.9
Germany	1.8	1.8	-0.5	0.1	0.3	1.1
France	2.6	2.6	0.6	0.6	0.5	0.9
Italy	3.7	3.8	1.2	0.8	0.4	0.9
Spain	5.5	5.5	2.0	1.6	1.0	1.6
Japan	1.1	1.0	1.5	1.0	1.3	1.1
UK	4.0	4.0	0.2	-0.1	0.3	0.8
Switzerland	2.1	2.1	0.7	0.7	1.0	1.4
Canada	3.4	3.4	1.3	0.9	0.9	1.2
Emerging economies	3.9		3.8		3.9	
Asia	4.3		5.0		4.6	
China	3.0	3.0	5.3	5.8	5.0	4.9
South Korea	2.6	2.6	1.5	1.1	2.0	2.1
Rest of EM Asia	6.0		5.0		4.4	
LatAm	4.0		1.5		2.3	
Brazil	2.9	2.9	1.0	1.2	1.5	1.6
Mexico	3.1	3.1	1.2	1.8	1.8	1.7
EM Europe	0.9		1.5		2.3	
Russia	-2.1		1.7		1.3	1.3
Poland	4.9	4.9	1.0	0.7	2.9	3.1
Turkey	5.6	5.6	2.1	2.2	3.1	2.6
Other EMs	4.9		3.1		3.7	

Source: Datastream, IMF and AXA IM Macro Research – As of 27 June 2023
**Forecast*

CPI Inflation (%)	2022		2023*		2024*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	7.4		4.7		2.7	
US	8.0	8.0	4.3	4.2	3.0	2.6
Euro area	8.4	8.5	5.6	5.5	2.8	2.4
China	2.1	2.0	2.3	1.8	2.5	2.4
Japan	2.5	2.5	2.7	2.6	1.3	1.4
UK	9.1	9.1	7.1	6.7	2.5	2.8
Switzerland	2.8	2.8	2.4	2.5	1.5	1.5
Canada	6.8	6.8	3.9	3.6	3.0	2.2

Source: Datastream, IMF and AXA IM Macro Research – As of 27 June 2023
**Forecast*

These projections are not necessarily reliable indicators of future results

Forecast summary

Central bank policy Meeting dates and expected changes (Rates in bp / QE in bn)		Current	Q3-23	Q4-23	Q1-24
United States - Fed	Dates	5.25	25-26 Jul 19-20 Sep	31-1 Oct/Nov 12-13 Dec	30-31 Jan 19-20 Mar
	Rates		+0.25 (5.50)	unch (5.50)	-0.25 (5.25)
Euro area - ECB	Dates	3.50	27 Jul 14 Sep	26 Oct 14 Dec	25 Jan 7 Mar
	Rates		+0.50 (4.00)	unch (4.00)	unch (4.00)
Japan - BoJ	Dates	-0.10	27-28 Jul 21-22 Sep	30-31 Oct 18-19 Dec	Jan Mar
	Rates		unch (-0.10%)	unch (-0.10)	unch (-0.10)
UK - BoE	Dates	5.00	3 Aug 21 Sep	2 Nov 14 Dec	1 Feb 21 Mar
	Rates		+0.25 (5.25)	unch (5.25)	unch (5.25)
Canada - BoC	Dates	4.75	12 Jul 6 Sep	25 Oct 6 Dec	Jan Mar
	Rates		unch (4.75)	unch (4.75)	unch (4.75)

Source: AXA IM Macro Research - As of 27 June 2023

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28 June 202

Our Research is available online: www.axa-im.com/investment-institute
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