29 March 2023

Investment Institute Macroeconomics

Monthly Investment Strategy

Faith in the system

Key points

- Recent failures of US banks and the government-overseen takeover of Credit Suisse have raised concerns over the health of the global banking sector as monetary tightening to address run-away inflation impacts.

- Authorities moved quickly to stem contagion risks, but heightened uncertainty and behavioral changes, including shifts in deposits, risk further disruption. Bank concerns risk tightening credit conditions and acting as an additional headwind to economic activity.

- Most developed central banks continued with their pre-banking concerns paths. But beyond the immediate policy moves, most suggested that the outlook had become more uncertain, although the European Central Bank and the Federal Reserve still suggested "some" further tightening to come.

- However, outside of banking, economies have broadly been more resilient, with still tight labor markets and inflation apparently stickier, causing quite a dilemma for central banks.

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Investment Managers

29 March 2023

Faith in the system

Global Macro Monthly Summary March 2023

David Page
Head of Macro Research
Macro Research – Core Investments

Systemic or idiosyncratic?

Silicon Valley Bank's (SVB) collapse was the largest on US record – exceeding Washington Mutual in 2008. It was accompanied by Signature – the third largest – and Silvergate Bank, while pressure remains on First Republic Bank, which saw an organized $30bn deposit injection from the US's largest banks. Federal authorities acted quickly to contain contagion risks: The Federal Deposit Insurance Corporation swiftly moved to guarantee all deposits in the failed banks and the Federal Reserve (Fed) provided a Treasury-backed facility to extend lending to commercial banks more generously than via discount window lending. In Europe, Switzerland's 160-year-old institution, Credit Suisse, was swallowed up in a swift government-brokered takeover by UBS, creating the world's largest wealth manager and third-largest asset manager by assets under management.

These developments have shaken faith in the global banking system – particularly as since 2018 smaller US banks have been more lightly regulated. The chief concern is that events to date are the tip of the iceberg – not isolated but the start of a full-blown collapse in financial stability that will result in tighter lending conditions for the real economy and an associated sharp slowdown in economic activity, i.e. a repeat of 2008. Markets remain wary and US deposits continue to relocate.

There are reasons for concern. The sharp tightening in monetary policy has led to a material decline in asset valuations. For banks that conduct maturity transformation – financing long maturity assets with short-term liabilities – this is particularly painful. The National Bureau of Economic Research (NBER) recently estimated that US banks face a marked-to-market loss of c. $2tn on loan portfolios over the past year. By that metric, SVB was not particularly stand-out with 10% of banks facing larger losses and 10% not as well capitalized.

Yet there are also reasons to consider events as more idiosyncratic. Although many banks faced worse losses than SVB, SVB was unusual in its uninsured depositor holdings – 78% versus an industry average of less than 23%. Movement in these deposits started SVB's solvency issues. Moreover, the NBER does not account for interest rate hedges that would redistribute losses. Meanwhile, outside smaller US banks, most remain highly regulated and much better capitalized than before 2008.

To our minds, pain in the financial system is part of the monetary tightening process. We have repeatedly pointed to the inversion of the yield curve as a harbinger of recession. We do not think this is because markets are particularly good at spotting these things – it is not just a casual predictor. We argue that the inversion is important because it is a causal factor. It makes maturity transformation more costly, which in turn reduces credit creation and slows real activity. However, if this pressure is acute, as in the case of SVB, rather than distributed, then financial stability concerns arise.

Central bank direction

Banking turmoil occurred immediately before the latest central bank policy decisions. Central banks continued to tighten despite these concerns – and despite a mixed range of market views. But outlooks softened, even while continuing to suggest further tightening ahead. This makes sense against an economic backdrop that remains – in most jurisdictions – stronger and more resilient than expected. Labor markets in North America and Europe remain extremely tight. This makes it more challenging for central banks to restore price stability, even as headline inflation continues to fall, helped by further energy price drops against large base effects, as core inflation remains stickier and has even increased in some countries.

Central banks face the challenging judgment of how much more disinflationary impulse remains from the monetary tightening already in place – including an assessment of the impact through the financial system. Our view is that non-systemic banking developments remove *some* of the need for tighter policy in the face of greater economic resilience. Yet in the cases of the Fed, European Central Bank, and Bank of England we think it leaves additional tightening likely in the months ahead.

This poses challenges for financial markets. Banking turmoil has resulted in a material re-pricing of rate expectations, although these have been very fluid over the last two weeks. Most now see sooner rate peaks, and some consider rate cuts before year-end. Our outlook is for a rather smaller disinflationary impact from current banking developments and a consequently larger need for restrictive policy. We expect rates will be higher for longer than current market expectations. Such a re-pricing will likely result in tighter financial conditions, which in turn will keep pressure on the banks and the broader economy.

Global Macro Monthly – US

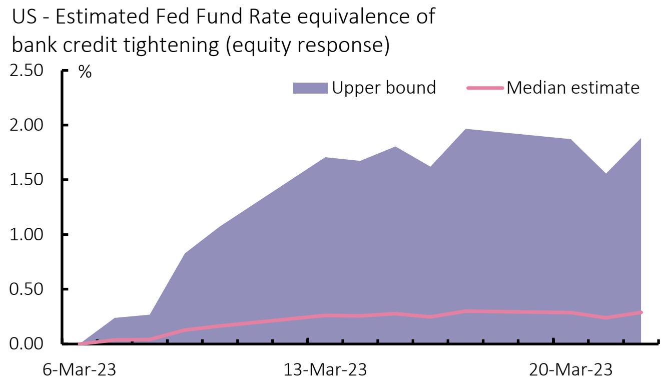
David Page
Head of Macro Research
Macro Research – Core Investments

Another round of bank turmoil

The collapse of Silicon Valley Bank (SVB), Signature Bank, and Silvergate Bank saw a return of turmoil to the sector in the US. The causes of the collapse appear idiosyncratic, with SVB having an extremely high level (76%) of deposits uninsured, high client sector concentration and significant asset duration. Federal authorities moved quickly to restore confidence: The Federal Deposit Insurance Corporation said it would cover all deposit losses in the failed banks in a bid to stem a broader deposit flight. Meanwhile the Federal Reserve (Fed) and Treasury created a new term lending facility with more generous terms than the discount window, and the two provided $165bn to banks in the first two weeks of the crisis.

However, pressure on the broader system remains and is a feature of the Fed's monetary policy tightening. The US National Bureau of Economic Research estimated that since March 2022, Fed tightening had resulted in a $2tn impact on commercial banks' loan portfolios (Exhibit 1). These losses, it said, were concentrated in smaller banks – although it did not account for interest rate swaps, which would alter the distribution of such losses, including potentially outside the US banking system.

Exhibit 1: Estimated banks' impact on rate outlook



Source: Bloomberg, Goldman Sachs and AXA IM Research, 27 March 2023

The outlook for the banking system and economy is highly uncertain and depends on any other problems, sentiment, and behavior. Increased bank pressure – higher funding costs and greater incentives to raise capital – are likely to lead to a tightening in lending standards that will reduce loan growth to the real economy and weigh on activity (Exhibit 1). This should be mitigated by improved liquidity conditions, which due to increased bank lending added over $300bn in excess reserves – around three-quarters of the Fed's total quantitative tightening since June. The impact of these offsetting factors will depend on their eventual magnitude and persistence.

Additional headwinds to a still sturdy economy

We estimate the impact of the banking turmoil seen to date will reduce GDP by around 0.3ppt over the next 12 months, although we recognize there is significant uncertainty around this. Yet this additional headwind comes against signs of ongoing resilience in the broader economy. Household spending continued to show signs of strength: Retail sales rose 3.2% in January and barely retraced in February (-0.4%). The housing market posted signs of revival – existing sales were up 14.5% on the month in February, housing starts up 9.8% and mortgage applications rose strongly in March. We have again raised our quarterly growth outlook and the Atlanta GDPNow tracker reads 3.25% for Q1. Together, the impact of a firmer short term and softer medium term is to raise the outlook for this year to 1.0% (from 0.7%) and lower next year's to 0.3%.

This has implications for the inflation outlook. Annual inflation fell to 6.0% in February and with energy prices softening further, we still expect the headline to reach around 3.5% by June. Core inflation remained stickier, dipping to just 5.5%. Slower core disinflation appears associated with a tight labor market. February's payrolls posted another strong 311k, with the 3-month average accelerating to 351k – a five month high. Admittedly, wage growth slowed to a 2-year low of 3.6% (3m ann) and labor participation rose to a post-pandemic high of 62.5%. With unemployment at 3.6% and vacancies still at an elevated 10.8m, despite falling in the latest month, the labor market still appears incredibly tight.

Banking turmoil has affected the monetary policy outlook. Based on stronger economic news, we had raised our peak rate outlook to 5.50% by June – arguing that a labor market slowdown and tighter financial conditions would emerge – but still considering risks to the upside. At the latest Fed meeting the policy rate was raised to 4.75-5.00% and the Fed's "dot plot" of expectations suggested one further hike this year – an outlook that was less hawkish than had been suggested in the weeks before. Fed Chair Jerome Powell said that Fed members now explicitly assumed some impact of tighter credit conditions that would be equivalent to policy hikes. Our current estimate is that the impact should see a tightening in credit conditions equivalent to just over 0.25% of rate hikes. As such, we lowered our outlook for peak rates back to 5.25%. However, if banking conditions evolve broadly as we expect, we still believe stronger economic momentum and sticky core inflation will see the Fed leave the Funds Rate on hold into 2024 – a view now in line with the Fed's outlook, but which differs from the market.

Global Macro Monthly – Eurozone

François Cabau,
Senior Eurozone Economist
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Hugo Le Damany,
Eurozone Economist
Macro Research – Core Investments

Upside risks to growth while the dust settles

Eurozone Q4 GDP growth was revised down by -0.1 percentage points to 0.0% quarter-on-quarter (qoq), mainly due to downside revisions to Ireland and Germany (the latter moving from -0.2% to -0.4%) – with the bloc only avoiding a contraction by a very small margin. Expenditure details revealed a negative picture of domestic demand, across private consumption, investment, imports – even after discounting the drop in energy consumption and volatility in intellectual property investment.

The latest indicators point to a (surprising) growth pick-up. The flash Eurozone Purchasing Managers' Index (PMI) composite rose more than two points in March to 54.1, above its long-term average. Although only driven by services, improvement in new orders, and employment sub-indices suggest more than a one-off uptick, while the situation in the manufacturing sector remains challenging, amid low demand and high inventories.

March PMIs suggest upside risks to our 0.1% quarterly Q1 GDP growth forecast, consistent with a flat reading in Germany which may thus avoid two consecutive negative quarters. While domestic demand should remain in contractionary territory – though less than in Q4 – we look for net exports to save the day (again), benefiting from the ongoing resilience in the US economy and the reopening of China.

A significant consumer purchasing power squeeze in the first half of the year, the lagged effects of monetary policy tightening and the fiscal stance normalizing towards neutral – to be felt mainly from the second half of the year onwards – means we keep our conservative view on the economy. We project only a meager growth path of 0.1% on average every quarter this year, consistent with 0.7% average growth for this year as a while and 0.6% next (consensus is 0.5% and 1.2%).

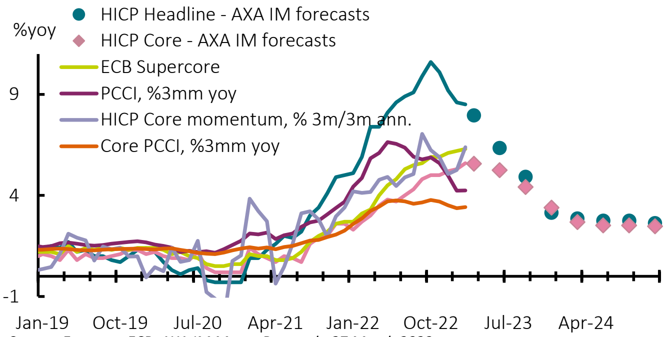
Banking sector turmoil on both sides of the Atlantic supports our cautious outlook. Waiting for the dust to settle, we have yet to make any adjustment to our growth forecasts. Our team of in-house credit analysts has confirmed a recent *upgrade* to its outlook for the European banking sector, aligned with reassuring signals made by European Central Bank (ECB) officials. Above and beyond daily moves in credit default swaps, equity prices and banks' refinancing costs we will particularly pay attention to March M3 money supply data and the next ECB bank lending survey, both released on 2 May.

Core inflation stickiness remains a crucial issue

In February, food prices overtook energy as the main source of inflation in the Eurozone. Base effects and recent muted developments suggest further retrenchment ahead for the latter. Meanwhile, we think core inflation dynamics are still skewed to the upside: Not that we see the peak as much higher, but that it will take several months more before a significant and persistent downward trend emerges. We project Eurozone core inflation hovering between 5% and 5.8% until July before closing the year around 3.2% (Exhibit 2).

Exhibit 2: Core inflation persistence is crucial

ECB underlying inflationnary pressures and AXA IM research



Source: Eurostat, ECB, AXA IM Macro Research, 27 March 2023.
NB: PCCI stands for Persistent and Common Component of inflation

ECB in a hawkish wait-and-see mode

At its March meeting, the ECB Governing Council took a three-step approach, broadly in line with our expectations. First, they hiked rates by 50 basis points (bp), bringing the deposit rate to 3.0% – fully justified by the inflation outlook. Second, they entirely removed any form of rate forward guidance, focusing on data dependence since the banking turmoil came after their forecast cut-off. Third, during the press conference, and reiterated in recent speeches, the Council agreed that if its baseline scenario were to persist, "we will still have more ground to cover." In other words, should there be only modest macro ramifications from troubles in the banking sector, further rate hike(s) would come.

While bank sector turmoil has caused relatively little damage for now, we think it will leave scars, notably in terms of risk re-appreciation that will filter through banks' funding costs, and in turn to lending. All in, we now see the ECB hiking the deposit rate by 25bp in May, June and July consistent with a terminal rate of 3.75%. We maintain our upside bias, notably for the next meeting. If the current shock takes longer to filter through, a 50bp hike remains a distinct possibility.

Global Macro Monthly – UK

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

BoE not done just yet

Inflation surged unexpectedly in February, rising to 10.4% from 10.1% in January, 0.5 percentage points (ppt) above consensus forecasts. Services and core inflation also picked up, reversing previous declines. The headline increase is unlikely to be sustained as energy price contributions drop out of the annual measure over the coming months, but we see some risk that core may remain elevated for longer. We forecast inflation to average 6% this year and 2.3% next (up from 5.8% and 2.2%).

The wage outlook has improved, with growth starting to slow. Average growth in weekly earnings fell to 6% in February and Bank of England (BoE) Agents suggests 2023 settlements will stay around this level. Overall, the labour market remains tight: vacancies have eased in recent months but are still around two-thirds higher than pre-pandemic; and three-monthly employment growth remains firm at 65k in the latest reading.

Activity indicators suggest upside risks to our forecast of first quarter GDP growth at -0.1%. The services Purchasing Managers' Index remains in expansionary territory and although manufacturing continues to struggle it is a more minor driver of UK GDP. Consumers have also shown signs of resilience. Retail sales rose by 1.2% in February from January, bringing volumes back to pre-pandemic levels. But overall, the outlook remains weak and GfK consumer confidence is close to historic lows despite gradually improving.

The BoE's Monetary Policy Committee (MPC) hiked the Bank Rate by 25 basis points (bp) on 23 March, in line with our expectations and those of most in the market. It considered the outlook for the UK banking system to be resilient. However, the outlook for broader global banking sentiment from here is highly uncertain and could have a marked impact on the policy outlook. That said, we raise our expectation for the Bank Rate, adding a further 25bp hike to 4.5% at the next meeting in May. The MPC remains wary of inflation persistence and BoE contacts in industry points to the labour market remaining tight in coming months, which suggests the appetite for tighter policy will remain. May's meeting will also see a full forecast update, in which growth will likely be firmer than in February, adding to medium-term inflationary pressures and the risk of additional tightening. We consider this a close call and see data released between now and the May meeting, as well as any sustained banking concerns, as central to this decision.

Global Macro Monthly – Canada

David Page
Head of Macro Research
Macro Research – Core Investments

Bank concerns also affect BoC outlook

The Bank of Canada (BoC) looks to be the most prescient of developed market central banks in light of the banking sector's concerns. Its decision to leave policy unchanged at 4.50% in March fulfilled the "conditional pause" suggested in January, despite strong employment growth. Its focus appeared to move from the labour market/inflation to the housing market and other lagged effects of policy tightening.

Yet risks persist. Deputy Governor Carolyn Rogers said more evidence was required to assess whether policy was "restrictive enough." She highlighted an economy in excess demand with a "surprisingly tight labour market," while weak productivity and a softer currency made it harder to restore price stability.

Recent economic news added to those doubts. Q4 GDP was softer than forecast, flat on the quarter, but an inventory unwind exaggerated the weakness, while consumption remained solid. Moreover, a -0.1% monthly dip in December was offset by a strong 0.3% preliminary rise in January, suggesting a firmer Q1. We continue to forecast 1.0% growth in 2023 and 2024 (consensus 0.7% in 2024 and 1.5% in 2024). CPI inflation slowed to 5.2% in February, down from 5.9% on energy base effects. The BoC expects inflation to fall to "around 3%" by mid-year but core inflation has been more stubborn – the median rate at 4.9%, broadly stable over the past 10 months. Employment growth slowed in February to 22k but did not unwind January's 150k rise. Unemployment remained at 5.0%, around record lows. Average earnings rose firmly in February, suggesting a wage growth pick-up again in Q1 2023.

Yet banking concerns now affect the BoC's outlook. Canada's banking sector does not appear to be under direct pressure and Finance Minister Chrystia Freeland celebrated Canada's "strong institutions." Yet US banking doubts will impact, directly through the currency and indirectly through activity spillovers.

We had considered risks to the upside to our outlook of a further pause at the BoC's next, 12 April meeting. Depending on the resonance of the banking turmoil, such risks may be delayed. We continue to forecast a 4.50% peak and do not expect rate cuts until 2024. But unless the labor market shows more visible signs of softening, the BoC may yet raise rates again. That said, money markets are now pricing rate cuts in July and December of this year.

Global Macro Monthly – Japan

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

Wage talks may herald yield curve control tweak

On 17 March, the first-round results of the Shunto spring wage negotiations were released by the Japanese Trade Union Confederation (Rengo). The results suggested an expected overall wage increase of 3.8% (2.3% in base pay) which would represent the biggest settlement in over 30 years. This came well above expectations for a 3% hike. The results point to a real improvement in price dynamics and strengthen the case for the Bank of Japan (BoJ) to make its yield curve control policy (YCC) more flexible. The first-round aggregates results from 11% of all unions covered by Rengo, so further rounds could see some downward revision, but the direction of travel appears clear.

Policy intervention has pushed headline consumer price index (CPI) inflation down; CPI rose 3.3% in February down one percentage point (ppt) from January. This decline was driven by government measures to hold down household energy costs. In fact, BoJ core CPI (ex-fresh food and energy) continued to rise, picking up to 3.5% from 3.2% prior. Looking ahead, we expect CPI inflation to gradually lose momentum as contributions from food and energy increases fade. However, rising wage (and price) dynamics mean it may remain sticker than in previous episodes.

Given the improving wage and price dynamics, we think the BoJ will take steps to exit YCC sooner than anticipated. We expect it to tweak YCC by July with a view to removing the policy altogether later this year. Currently the BoJ commits to keeping the 10-year government bond at zero (+/- 0.5%). On balance, we expect it will reduce the tenor of its target to five years from 10 year as a further widening of the band around 10 years would do little to improve market functioning. We expect the removal of the negative interest rate policy to be delayed until 2024 as the BoJ will likely want to see further evidence of persistent improvement in price dynamics, including from the next spring wage negotiations, and see how the economy weathers the adjustment in YCC first.

Despite this, we still expect the BoJ to remain cautious, driven by considerations around weakening global growth and the potential for rapid yen appreciation, particularly in the more risk-averse environment triggered by banking concerns. We expect global growth to remain subdued this year and weakening external demand could slow Japan's fragile recovery. In addition, growing expectations for tightening of policy could trigger sharp moves in the yen and we think the BoJ will be wary of rapid yen appreciation and the impact that would have on muting inflation.

Global Macro Monthly – EM

Irina Topa-Serry,
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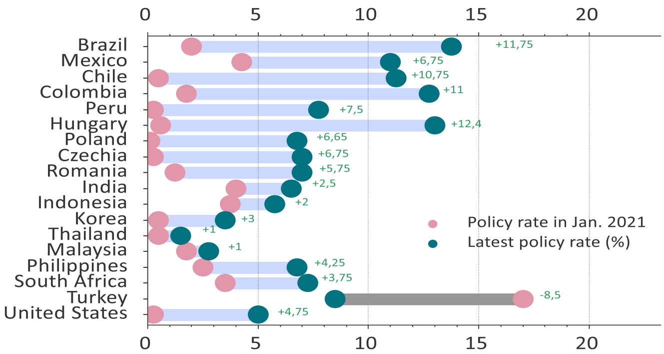
At the core of the matter…

As global central banks' efforts to fight inflation translated into a tightening of financial conditions and turmoil erupted in the global banking system, signs of relative hawkishness emerged among various emerging markets (EM) central banks. These included an unexpected hike in Taiwan, a less dovish pause in Brazil, no additional rate cut in Turkey, and a higher-than-expected hike in Mexico. These developments appeared to reflect less concern over domestic banking but rather caution over the retreat in inflation.

Exhibit 3: EM central banks hiking cycle
EM policy rate changes since 2021 (ppt change)



Source: Refinitiv Datastream and AXA IM, March 24 2023

Having started the rate hiking cycle early (Exhibit 3), EM central banks showed caution in the face of sticky inflation and currency volatility induced by risk-aversion dollar swings. Banks remain ready to react if needed. For now, inflation appears to have peaked across the regions with some notable outliers such as Central European (CE) countries, the Philippines and Colombia. Stubborn core inflation (with the notable exception of Thailand whose annual core rate fell below 2%) may limit disinflation this year, delaying expectations for policy easing.

While growth resilience has been rather impressive, signs of a slowdown are growing as higher interest rates filter into the rate-sensitive sectors of the economy. However, policy transmission varies between countries, depending on banks' role in the financing of the economy, the structure of loans offered (fixed or variable) and, more broadly, the degree of indebtedness of each country – as credit-to-GDP ratios can vary from 224% for Korea to 40% for Mexico or Indonesia.

29 March 2023

Global Macro Monthly – EM Asia

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

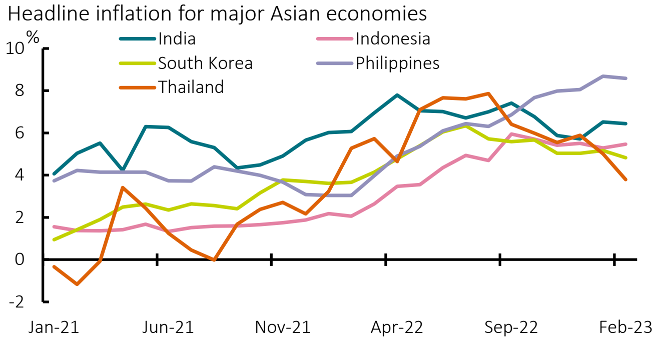
Rate hike cycle approaching an end for many

Inflationary pressures for most parts of the region seem to have peaked already. An easing of global energy prices has been the key contributor. Acknowledging the downturn in both global and domestic economic backdrops, some central banks such as the Bank of Korea and the Bank of Indonesia have signalled an end to their hiking cycle. In addition, the State Bank of Vietnam (SBV) cut its policy rate by 100 basis points (bp) in mid-March, rolling back half the total hikes made during 2022. The cut was done to ease the liquidity stress and also the fact that inflation has been under control below SBV's 2023 target.

Meanwhile, for countries like India and the Philippines, calming inflation has been more challenging. While headline inflation slowed in both countries in February, it remains elevated at above their central banks' comfort ranges and much higher than in other major Asian economies (Exhibit 4. Part of the concern is still stubborn food prices – a large contributor to the Consumer Price Index basket for these two economies. If high food prices remain embedded in household inflation expectations, their central banks will likely require further policy tightening. This is already underway in the Philippines, where a further 25bp increase was made in March.

Exhibit 4: The Philippines and India still show persistent inflationary pressure

Headline inflation for major Asian economies



Source: CEIC and AXA IM Research, 21 March 2023

Interestingly, despite a growth recovery in Thailand from a services sector rebound, headline inflation eased significantly in February, with food price serving as the main contributor. However, we highlight the risk in services inflation due to effect of price pass-through from tourism sector rebound. Overall, we still maintain our expectation of further rate hikes from the Bank of Thailand in anticipation of the economy's recovery.

Global Macro Monthly – EM LatAm

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

Has inflation finally peaked?

February Consumer Price Index data showed that annual inflation was stable in Colombia at 13.3%, reflecting the ongoing slowdown in economic activity. This was the first time since last May that inflation did not increase. As such, it seems that inflation has finally peaked in most major economies in the region, with the notable exceptions of Argentina and Venezuela. Although Colombian inflation should start falling quickly in the coming months as its economy falters, Colombia's central bank will likely deliver one last 50-basis-point (bp) hike, taking the policy rate to 13.25%.

In general, February's inflation figures were benign across the region. In Mexico, inflation slowed to 7.6%, resuming its downward trend after January's increase. Annual price revisions at the start of the year had driven inflation higher in January. Adding to the good news, core inflation fell to 8.3% from 8.5%. These positive developments will allow its central bank to slow the pace of tightening in its next two meetings. The central bank will likely raise the policy rate to 11.5% with two 25bp hikes and stand on hold for the rest of 2023.

In Chile, headline inflation declined for a third consecutive month, to 11.9% (Jan: 12.3%). Consumer prices posted a monthly decline in February – the first since June 2020. However, annual core inflation accelerated for a second consecutive month. As a result, despite a stagnant economy, the central bank will probably have to wait until the second half of the year to start cutting rates (which have been on pause at 11.25% since October). Disinflation also remains on track in Peru, but at a slow speed. Massive protests across the country and weather conditions have boosted food prices in recent months. Despite this, inflation edged down to 8.6% from 8.7% in January. Like in Chile, rate cuts will only come in the second half of the year.

Brazil also saw inflation decline in February, to 5.6%. However, the low rate is misleading. Disinflation in Brazil is not only the result of tight monetary policy but also a temporary exemption on fuel taxes that expires this month. Therefore, inflation should pick up in the coming months, constraining the central bank's ability to cut rates in the short term. Moreover, President Luiz Inácio Lula da Silva's plan to introduce a new (and more permissive) fiscal framework this year will further complicate the central bank's job.

Investment Managers

29 March 2023

Key market calls

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

CURRENCIES	weaker	neutral	stronger
Euro			●
Yen		●	
GBPEUR		●	

CURRENCIES

Banking troubles clouding central bank inflation fighting. Cyclical advantage in Europe & US centric banking concerns suggest EUR upside near term. Less so in JPY on BoJ inaction. Sterling caught between inflation pressures and growth concerns.

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

EQUITY

More constructive on Europe, due to growth resilience and appealing valuation, while we see an uptick in growth downside in the US. Profit margin pressures ahead point to further downside in profits' momentum. Not the best mix for stocks.

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

RATES

Market moves in rates remain extraordinary. Bar a full blown banking crisis, short end yield moves appear excessive. Long end yields better anchored by drop in peak policy rates and higher growth downside. Short end yields likely to rebound higher.

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

Source: AXA IM Core Investment Research, as of 27 March 2023

CREDIT

Spreads are caught in no man's land. Wider on banking troubles but not wide enough to compensate for recession risk. Banking risks more systemic in the US than in Europe. Tail risk for spreads more broadly is towards widening.

29 March 2023

Macro forecast summary

Real GDP growth (%)	2022*		2023*		2024*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.5		2.7		2.7	
Advanced economies	2.7		1.0		0.7	
US	2.1	1.9	1.0	0.7	0.3	1.1
Euro area	3.5	3.2	0.7	0.4	0.6	1.2
Germany	1.9	1.7	0.2	-0.1	0.6	1.4
France	2.6	2.5	0.6	0.4	0.6	1.2
Italy	3.8	3.7	0.6	0.4	0.5	1.0
Spain	5.5	4.5	1.3	1.2	0.9	1.9
Japan	1.6	1.5	1.7	1.1	1.3	1.1
UK	4.0	4.4	-0.3	-0.8	0.5	0.7
Switzerland	2.3	2.1	0.6	0.6	1.3	1.6
Canada	3.5	3.4	1.0	0.6	0.8	1.5
Emerging economies	3.9		3.7		3.8	
Asia	4.2		5.0		4.6	
China	3.0	3.1	5.3	5.2	5.0	5.1
South Korea	2.6	2.6	1.5	1.2	2.0	2.2
Rest of EM Asia	5.7		5.0		4.4	
LatAm	3.9		1.5		2.1	
Brazil	3.0	2.9	1.0	1.0	1.5	1.8
Mexico	3.1	2.9	1.2	1.1	1.8	1.8
EM Europe	1.6		0.0		2.2	
Russia	-2.1		-3.8		2.0	1.2
Poland	5.0	4.9	0.1	0.8	2.4	3.0
Turkey	5.6	5.1	0.5	2.2	1.4	2.4
Other EMs	4.8		3.0		3.4	

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

CPI Inflation (%)	2022*		2023*		2024*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	7.3		4.7		2.8	
US	8.0	8.1	4.5	3.9	3.2	2.5
Euro area	8.3	8.5	5.8	5.5	2.8	2.4
China	2.1	2.1	2.3	2.4	2.5	2.3
Japan	2.5	2.4	2.7	2.1	1.3	1.2
UK	9.1	9.0	5.8	6.7	2.2	2.9
Switzerland	2.8	2.9	2.0	2.2	1.3	1.2
Canada	6.8	6.8	3.8	3.7	2.7	2.3

Source: Datastream, IMF and AXA IM Macro Research – As of 27 March 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	Q2-23	Q3-23	Q4-23
United States - Fed	Dates	5	2-3 May 13-14 Jun	25-26 Jul 19-20 Sep	31-1 Oct/Nov 12-13 Dec
	Rates		+0.5 (5.25)	unch (5.25)	unch (5.25)
Euro area - ECB	Dates	3.00	4 May 15 Jun	27 Jul 14 Sep	26 Oct 14 Dec
	Rates		+0.5 (3.5)	+0.25 (3.75)	unch (3.75)
Japan - BoJ	Dates	-0.10	27-28 Apr 15-16 Jun	27-28 Jul 21-22 Sep	30-31 Oct 18-19 Dec
	Rates		unch (-0.10)	unch (-0.10)	unch (-0.10)
UK - BoE	Dates	4.25	11 May 22 Jun	3 Aug 21 Sep	2 Nov 14 Dec
	Rates		+0.25 (4.50)	unch (4.50)	-0.25 (4.25)

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

These projections are not necessarily reliable indicators of future results

Download the full slide deck of our March Investment Strategy

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

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