Investment Managers

26 April 2023

Investment Institute Macroeconomics

Monthly Investment Strategy

Central banks gauge lagged effects

Key points

- Market sentiment towards banks improved over the last month as deposit flight and emergency liquidity provision in the US stabilised. We await key central bank surveys to gauge the impact on credit conditions.
- Central banks return to face the previous dilemma: continue to tighten policy despite signs of economic resilience and inflation persistence or pause to see the lagged effect of previous actions.
- A spectrum of central banks emerges. The Bank of Canada announced a "conditional" pause, while several EM central banks delivered less explicit breaks.
- The Federal Reserve and Bank of England look set to tighten further, with European Central Bank hikes expected into Q3. The Bank of Japan also looks set to gradually undo easy policy.
- Higher rates also apply pressure to sovereign issuers. The US debt ceiling is likely to impact over the summer. But other sovereigns may soon face tougher conditions.

Global Macro Monthly

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Investment Managers

26 April 2023

Central banks gauge lagged effects

Global Macro Monthly Summary March 2023

David Page
Head of Macro Research
Macro Research – Core Investments

Bank fears subside for now

A month ago, the burning question was whether bank failures marked the start of a bigger, systemic crisis, or were just idiosyncratic one-offs. We argued the case for the latter. It is still too early to tell but market sentiment has improved dramatically. The S&P 500 and Euro Stoxx 50 equity indices are 2% higher than at the start of the crisis, despite their bank sectors being down 20% and 8% respectively. Swift action by the US authorities helped stabilise deposits across small and large banks, while Federal Reserve (Fed) emergency lending has eased. With further tightening to go, pressures will remain on the banking system and broader areas of financial services over the coming quarters. But for now, calm has returned.

We now await the impact. Qualitatively, recent developments should make banks less willing to lend – a tightening in credit conditions – a similar effect to monetary policy tightening, which should reduce the need for a restrictive central bank policy. Quantitatively, it is difficult to estimate the scale of impact on lending. Over the coming weeks, the Fed will publish its Senior Loan Officers Survey and the European Central Bank (ECB) its Bank Lending Survey. Both will start to quantify the impact, and both could have a material impact on the policy outlook.

Gauging lagged effects

Notwithstanding this uncertain headwind, central bankers need to maintain focus on restoring price stability. Headline inflation has fallen sharply in most jurisdictions – the UK's 10.1% annual rate in March is an outlier and should fall to 8.1% next month. Core inflation has been stickier, although it has retreated in the US and Canada, somewhat in the UK, and appears past its peak in the Eurozone. But persistent inflation remains a risk with resilient economies and still tight labour markets.

This is perhaps no more so than in the Eurozone. Far from a severe contraction over the winter, recent surveys and hard data suggest a stronger pick-up than the mild rise forecast for Q1, in turn the product of industrial catch-up, a weather-related construction surge and a boost from net trade. Survey evidence alone suggests a robust quarter's growth, albeit not at a pace we expect to be sustained. Following a strong Q4, we also expect the US to post another solid quarter's growth, driven by consumer spending, in Q1. Admittedly, we still expect a weakening in Q2, but economic resilience continues to underpin a tight labour market for now.

Central banks face a dilemma: to tighten on resilient trailing strength or adopt a more forward-looking approach, gauging the lagged effect of action to date? Global central banks – including those in emerging markets – fall across a spectrum, varying by when they started and by how much they have tightened. The Bank of Canada announced a "conditional pause" at its last two meetings, as it explicitly watches the lagged pass through to mortgage payments despite ongoing labour market strength. In emerging markets, the Reserve Bank of India may also have reached a peak, Indonesia's central bank has paused and Uruguay's eased policy by 25bps.

Elsewhere a tighter policy outlook dominates. US Fed members went into purdah ahead of their May meeting suggesting a further hike – although markets still focus on subsequent easing. The Bank of England also looks likely to deliver a further increase in May, but markets are pricing more beyond. And the ECB – later to start and having delivered fewer hikes – looks set to continue to tighten into Q3. There is perhaps no truer gauge of the shift in the monetary policy paradigm than to recognise that the Bank of Japan (BoJ) also appears to be preparing to unwind some of its ultra-accommodative policy. In this month's "Theme of the Month", we consider the first steps new BoJ Governor Kazuo Ueda is preparing to take in adjusting policy.

Sovereign debt focus

Higher interest rates also have implications for public finances. The US debt ceiling issue is increasingly in focus with April being the last big surge of tax receipts the Treasury will receive to eke out until the limit is raised. House Republicans are once again politicising raising the debt ceiling to achieve fiscal adjustment. Yet with longer-term Congressional Budget Office debt projections to 200% over 30-years, a genuine debate is needed.

Elsewhere rising rates could see other sovereign debt issues arise. Debate is underway across the Eurozone about the reintroduction of budget targets with member states due to agree budgets and fiscal programmes in June. The UK has already brushed with a sovereign debt crisis – albeit under trying political conditions. And the BoJ's impending steps of policy reversal are likely to see domestic borrowing rates rise for the world's most indebted government.

Investment Managers

26 April 2023

Global Macro Monthly – US

David Page
Head of Macro Research
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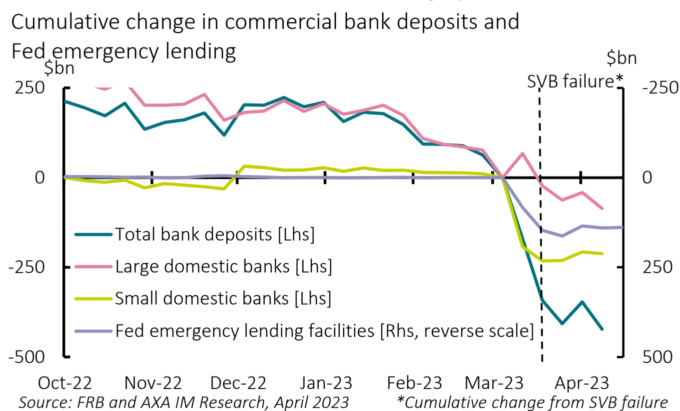
Banking fears subside for now

Last month's bank failures appear to have been contained. The collapses reflected accelerated deposit flight – initially from smaller banks, with some deposits going to larger banks and then also moving from larger banks as money market funds received large inflows. Total bank deposits are $422bn lower than before the failure of Silicon Valley Bank (SVB). Federal authorities' actions appear to have stemmed flows. Full compensation of insured and uninsured deposits helped stabilise deposits (Exhibit 1). The Federal Reserve's (Fed) emergency lending to the banking system, both through its Discount Window and new Bank Term Funding Program facilities, rose by $163bn at its peak, but has fallen back by $24bn in the past three weeks.

Exhibit 1: Stabilisation in the banking system



Source: FRB and AXA IM Research, April 2023 **Cumulative change from SVB failure*

It is premature to state that banking concerns have passed. The S&P Banks Select Industry equity index remains 20% below its pre-SVB level (8% for Eurozone and UK bank indices). With interest rates remaining elevated and unlikely to see relief this year, pressure is likely to persist. However, for now, negative market sentiment has faded. It remains to be seen how much this will impact credit conditions and lending; the Fed's Senior Loan Officer Opinion Survey (SLOOS) will be watched closely.

Additional headwinds to a still sturdy economy

At the time of writing, we expect Q1 GDP to rise in excess of the 2.0% annualised consensus, seeing US economic resilience persist into 2023. However, Q2 looks likely to deliver weaker growth and, depending on Q1, could even contract. Consumer spending surged in January, but has fallen back since – materially in March despite falling gasoline prices. A pickup in gasoline costs in April could crimp any rebound and in turn lead to a fall in household spending in Q2.

A deceleration in Q2 would be consistent with our ongoing outlook for a mild recession this year, but labour market trends will be critical to this outlook. Payroll gains averaged 340k/month in Q1 (550k for household survey), neither suggest weakness. However, we have argued that this has ended a period of catch-up employment, with future gains likely to soften in line with GDP growth. Broader measures of the labour market including the Job Openings and Labor Turnover Survey (JOLTS) survey of vacancies, Challenger Job Cuts report and continuing jobless claims already suggest a softening. Such a slowdown would reduce household income growth at a time when we think households are exhausting excess savings built up over the pandemic. The precise path of growth will also be determined by the more erratic inventory and net trade components. An expected firmer start to the year has lifted our outlook and we forecast GDP growth of 1.1% this year, before a mild recession delivers a weaker 0.3% in 2024. This is weaker than the consensus outlook for 1.1% and 1.0%.

Despite resilient growth, the Fed will take solace from the deceleration in headline inflation to 5.0% in March (despite core slowing just 1ppt from peak to 5.6%) and slower wage growth – March's average hourly earnings were up 3.2% annualised. However, March's Fed rates outlook is still for one more hike, rather than for further rises, which reflects banking system concerns. Federal Open Market Committee member John Williams said he still expects credit conditions to be tighter, an effect similar to Fed policy tightening and hence requiring less policy action. He stressed that it was too soon to judge the scale of the impact and that the Committee will also monitor the Senior Loan Officer Opinion Survey (SLOOS) report closely. We forecast one further hike from the Fed in May to 5.00-5.25%. However, we continue to believe that elevated inflation will see the Fed delay loosening policy until early 2024, when we forecast rate cuts to 3.75%.

Debt ceiling trauma looms

A debt ceiling standoff is also coming into view. Tax receipts in April 2023 appear to be undershooting previous years. This risks leaving the Treasury with less of a reserve buffer for the coming months and thus the prospect of running out of cash - the 'X-date' – sits earlier than the mid-August we had previously anticipated, now most likely in late July, but plausibly in early June. The Treasury is likely to make an updated statement in early May. This will prompt political brinkmanship and although we ultimately expect a compromise to avoid an unprecedented voluntary default, financial market volatility looks likely to be a feature, rather than a side-effect of the process.

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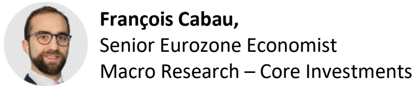
Global Macro Monthly – Eurozone


François Cabau,
Senior Eurozone Economist
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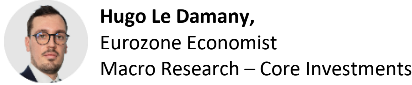
Hugo Le Damany,
Eurozone Economist
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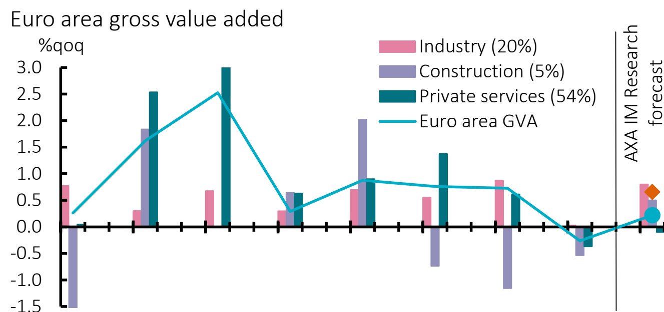
In doubt: (Large) Q1 growth rebound has legs

Recent economic indicators continued to display buoyant Eurozone activity. Large upticks in February's industrial production and Purchasing Managers' Indices (PMI) confirmed the upside risks to our 0.1% quarter-on-quarter Eurozone first quarter (Q1) GDP baseline forecast, highlighted last month.

Meaningful rebounds in industrial and construction output earlier this year likely supported the bulk of this accelerated growth from flat GDP in Q4 2022. Continued supply chain easing has been conducive to a rise in motor vehicle production, while energy-intensive sectors are recouping from an easing of Q4 constraints. Alongside an easing energy situation, benign weather has driven a healthy recovery in the construction sector (Exhibit 2).

Exhibit 2: Q1 GDP – A meaningful rebound is on the cards



Source: Refinitiv, AXA IM Research, April 2023. NB: Number in parenthesis corresponds to sector weight in gross value added (GVA). Orange diamond represents extent of upside risks to our Q1 GDP baseline forecast.

Meanwhile, the services PMI output index gained over five points between December and March. It accelerated further in April, 3.8 points above its long-term average. We suspect lags in monetary policy transmission and fiscal support underpin such buoyant activity.

All in all, we think Eurozone Q1 GDP may well again surprise on the upside. Based on the output approach, we cannot rule outgrowth of up to 0.7% on the quarter.

This begs two questions. First, how strong was domestic demand in Q1? And second, is this headline growth pace sustainable? We will assess whether a surprisingly strong Q1 was driven by net trade – a rebound in exports, coinciding with China's reopening amid still depressed imports – or whether a fall in headline inflation or still-high fiscal support fuelled a strong positive contribution from private consumption. We think the former is more likely. In other words, domestic demand is likely to remain weak.

To the second question, we answer a definite no. A large share of the Q1 GDP rebound – the pickup in industrial and construction output and China's reopening – is likely to be short-term. We continue to forecast the US economy entering recession in Q2. Moreover, fiscal policy is too supportive as the energy terms of trade shock reverses – the Eurozone trade balance showed a surplus in February. Governments need to focus on debt sustainability-related concerns, which implies at best a more neutral fiscal stance in the quarters to come, unwinding support. Finally, we are still in the early days of monetary policy tightening, with full effects yet to show.

In doubt: ECB hawkish compromise to dominate

Following the banking stress in March, European Central Bank (ECB) communication has focused increasingly on data dependence. While market stress has eased, key data has yet to be published. On 2 May, March M3 money supply data, and the Q2 bank lending survey will be critical to gauging whether commercial banks have begun, or plan, to translate increased funding costs and uncertainty into tighter lending conditions. Flash April Harmonised Index of Consumer Prices and Q1 GDP data will also be critical for the next meeting's decision.

Several underlying inflation measures edged down in March. This is consistent with our core inflation forecast that the peak is most likely behind us, but the road to the ECB's 2% target is still long. The latest developments on the wage front concur. A planned minimum wage increase in May in France, and public sector wage negotiations in Germany signal reduced, but still persistently high, wage pressures amid ongoing tightening of job markets, according to business surveys.

Given the latest communication from ECB officials, there is little doubt of rate increases in May and beyond. Pending the release of the above-mentioned data, we think May's decision is likely to resemble that of December. A hawkish 25-basis point (bp) hike seems in order, slowing the pace from 50bp (though a 50bp hike cannot be entirely ruled out), coupled with guidance that there is more ground to cover on the rate front. We think that the pace of Asset Purchase Programme (APP) reinvestment is likely to further slow after June. We continue to see the ECB policy rate peak at 3.75% in July, but the risks remain skewed to the upside.

Investment Managers

26 April 2023

Global Macro Monthly – UK

Modupe Adegbembo
Junior Economist (G7)
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Fears of persistence to seal the deal

Consumer Price Index (CPI) inflation eased to 10.1% in March, down from 10.4% in February, driven by falls in fuel prices – but rises in food and recreation prices kept inflation elevated and 30 basis points (bps) above consensus estimates. This challenges the Bank of England (BoE)'s view that the reacceleration in inflation seen in February was a "one-off". Although we expect the headline rate to drop to 8.1% in April as utility prices fall, we now expect inflation to average 6.6% in 2023 and 2.4% in 2024, with risks skewed to the upside.

Adding to signs of inflation persistence, the wage outlook remains elevated. Private sector wages rose to 7.3% year-on-year, unwinding three consecutive months of declines. Though the single month figure can be volatile, it will be hard for the BoE's Monetary Policy Committee (MPC) to look through such a sharp rise given developments in CPI and the ongoing tightness in the labour market. Employment growth also remained above levels consistent with a moderation, rising by 169,000 over the quarter to February 2023.

Monthly GDP remained flat in February on the month, below consensus estimates of a 0.1% rise. This followed a 0.4% rise in January. Industrial action across sectors was a considerable drag on output but despite this, growth is just about holding up. On balance, we think the UK will avoid entering a technical recession in the first half of this year, in line with the improvement we have seen in output surveys, but underlying growth momentum remains weak. We expect the economy to continue to move sideways rather than rebound meaningfully. We lift our expectations of growth in the first quarter to 0% (up from -0.1% previously). We now expect GDP to average 0% this year (up from -0.3%) and continue to see growth at 0.5% next.

The MPC next meets on 11 May. We expect it to hike the Bank Rate by 25bps to 4.5%. Following the strength of recent labour market and inflation data, markets are now pricing the possibility of the Bank Rate approaching 5% by the end of this year. On balance, we think that sharp upcoming falls in headline inflation as household energy drops out of the annual comparison will give the MPC space to pause its hiking cycle following a hike in May. However, signs of continued wage pressures may warrant further action. We still expect the BoE to begin to cut rates by the end of this year, but such a view is dependent on a more convincing turn in the labour market. We forecast the Bank Rate falling to 3.25% by end-2024.

Global Macro Monthly – Canada

David Page
Head of Macro Research
Macro Research – Core Investments

BoC focuses on the future

Canada's economy stagnated in Q4, with GDP flat on the quarter. Monthly data suggests a brighter start to 2023, up 0.5% in January and a preliminary 0.3% in February. Although prone to revision, these suggest Q1 GDP should grow solidly – we see 2.8% annualised. Household spending appears the key driver, with retail sales rising by a sharp 1.6% in January (-0.2% February). In turn, this was underpinned by household income growth, supported by tax credit and pension increases as government provided energy shock support. Strong employment income growth should further support Q1.

This bright start should fade. Household mortgage payments will increasingly reflect higher policy rates, with the Bank of Canada (BoC) suggesting peak impact would only be reached in Q3. This could be partly cushioned by excess saving drawdown, which has to date been less than in the US. This year is also likely to see weaker business investment and net trade, reflecting softer external demand and a rise in imports. In total, we expect quarterly growth to slow in Q2 and contract in Q3 – but for now only expect a fall in one quarter, hence avoiding technical recession. We forecast GDP growth of 1.2% in 2023 and 0.9% in 2024, a delayed slowdown compared to consensus forecasts of 0.7% and 1.3%.

CPI inflation fell again in March to 4.3% – 4ppt below last June's peak. Core measures also eased, although the 4.6% median rate is still only 0.7ppt below its peak. The headline rate should slow to around 3% by mid-year, but we see it stuck around this level in H2 2023, with core inflation more persistent, reflecting a still tight labour market. The latter has posted noteworthy strength in recent months – although unemployment has remained stable, with labour supply buoyed by immigration.

The BoC announced a "conditional" pause in January and has left the policy rate unchanged at 4.5% at its last two meetings. Economic resilience, and the labour market in particular, add to risks that the BoC may raise its policy rate again. However, the Bank has become less focused on trailing economic resilience and more focused on the lagged headwinds of its own tightening. On balance, we forecast the BoC to remain on hold at 4.5% with a latent bias to more restrictive policy being more likely expressed in a slower reversal of current hikes. We do not expect the BoC to start easing policy until January next year, but then forecast rates easing to 3.0% by year-end.

Investment Managers

26 April 2023

Global Macro Monthly – Japan

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

All eyes on Ueda's first meeting at helm of BoJ

Market focus is once again turning to the Bank of Japan (BoJ) as the long-awaited first meeting under the new governor approaches. Kazuo Ueda's first meeting at the helm of the BoJ will take place on 27-28 April – to be held alongside the publication of updated BoJ forecasts in its Outlook Report. This will include updates to the Bank's inflation projections and first estimates for the fiscal year ending 2025. This forecast will indicate whether board members think a policy change could be imminent. Whilst we cannot rule out a surprise move to tweak yield curve control (YCC) as soon as next week; we do not expect changes to any BoJ policy tools. The BoJ is likely to announce a policy review at this meeting, looking at the impact of its current monetary easing. However, the new governor has affirmed his commitment to maintaining the BoJ's ultra-easy monetary policy and we think the Bank will be careful to manage market expectations of a rapid change in policy.

Signs of improving wage dynamics underscore our view that the BoJ will soon be ready to adjust its policy. Wage growth has remained subdued in recent decades, limiting domestic inflationary pressures, but this year's Shunto wage negotiations indicate a change to this trend. Figures from the Japanese Trade Union Confederation RENGO, released on 13 April, confirmed average pay hikes of 3.7%, of which 2.1% is base pay – marking the fastest outcome for spring wage talks in more than 30 years.

Headline inflation continues to moderate as base effects weigh in, but measures of underlying inflation are still rising. The Consumer Price Index eased to 3.2% in March from 3.1%, but the BoJ's preferred measure of core, excluding fresh food and energy, rose to 3.8% — a 0.3 percentage point increase on the month.

Going forward, we think it is only a matter of time before the BoJ tweaks YCC given improving wage dynamics and a consideration of the side-effects of its policy. In its July meeting, we expect the BoJ to reduce the tenor of its target to five years from 10 as an interim step before fully removing YCC – though this move could plausibly come earlier, in June. We anticipate a removal of the negative interest rate policy to be delayed until 2024. The BoJ is likely to want to see the impact of its first policy adjustment – with potentially material consequences for 10-year yields and the real economy. Further evidence will also be required of an improvement in price dynamics, including from next spring's wage negotiations, before the central bank takes any further steps.

Global Macro Monthly – EM

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

China to the forefront…

As concerns about global banking eased, better-than-expected Chinese first quarter (Q1) GDP provided some good news. China's economy grew by a quarterly 2.2% in Q1 2023, led by the services sector while manufacturing lagged. The real estate recovery remained very soft, and the sector should remain a drag on growth this year, although less so than last year. We expect consumers to remain the main engine of economic recovery as labour market conditions normalise and support income and spending, particularly in services. A weaker external demand backdrop should limit exports in the second half of the year. As such, China's reopening is likely to have a weaker effect on other emerging market (EM) countries than in past Chinese recovery cycles, which were more manufacturing- and commodity-intensive. Still, there will be some positive spill-over effects, even if this is restricted to a recovery of Chinese tourism.

EM disinflation continues – end of hiking cycle

Meanwhile, headline inflation has passed its peak in EM countries and disinflation is advancing at various speeds. Food price inflation remains a challenge, as illustrated in the March Consumer Price Index (CPI) in South Africa. Conversely, while energy will still soften annual rates of inflation, its three-month-on-three-month change has stabilised. Core inflation has also peaked in most countries, although it is more difficult to contain in Central Europe where renewed core price pressures were reported in Hungary and Poland.

Central banks have now paused at what may prove to be peak rates of the cycle, remaining wary of the difficult task of bringing inflation decisively within target ranges by 2024. Yet, the first signs of dovishness are appearing: Uruguay's central bank unexpectedly cut policy rates by 25 basis points. India's left policy rates unchanged in April at 6.5%, at odds with forecasts of an additional final hike, and may well end up being the peak despite it hinting at only a pause for now. Indian inflation in March was already within the central bank's target range (below 6%). Hungary's central bank Deputy Governor Barnabás Virág recently announced a cut in the upper bound of the interest rate corridor to 20% (from 25%) and to converge in time towards the base rate (13%) on the back of lower growth that should start impacting the inflation profile if the currency allows for such an adjustment.

Global Macro Monthly – EM Asia

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

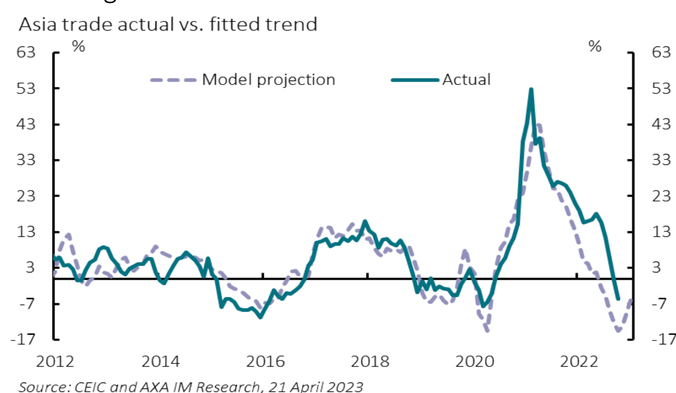
Weakening demand takes a toll

Asia has so far shown resilience to global banking concerns. With limited direct exposure to US regional banks, and less aggressive domestic policy tightening, Asian financial conditions tightened less than in developed regions. That said, the Korean financial regulator had to react to what it called “groundless rumours” of difficulties in two local banks.

However, a softening global environment has taken a toll on Asia. Headline manufacturing Purchasing Managers’ Indices (PMIs) continued to show a mixed picture with domestically-oriented economies remaining in expansionary territory, whereas more export-oriented economies – Korea, Singapore and Thailand – remained in contractionary territory, with a more apparent weakening in new export order indices. Most export-dependent economies in the region are seeing accelerating contraction.

Our in-house Asian export monitor continues to confirm this weakening trend in regional export growth (Exhibit 3). However, unlike previous months, many March advance estimators now hint at some improvement. The most recent outturn suggests a slight improvement from February, in turn implying that we could perhaps be nearing a trough in terms of the Asia export cycle. We expect export growth will remain in contraction territory until Q3 this year as external demand weakness persists – and measured in annual change terms impacted by last year’s base effects.

Exhibit 3: Regional export growth remains in contraction reflecting continued external demand weakness



Source: CEIC and AXA IM Research, 21 April 2023

Global Macro Monthly – EM LatAm

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

Southern (fiscal) blues

After much anticipation, the Brazilian government finally presented its proposal for a new fiscal framework to replace the country’s spending cap. The old fiscal rule limited growth in government spending to the previous year’s inflation rate. As such, this “zero real growth” rule is in direct conflict with President Luiz Inácio Lula da Silva’s plans for Brazil, which rely heavily on higher social spending.

The new fiscal framework would allow real primary expenditure growth to equal 70% of the real growth in revenues. In addition, real primary expenditure growth will be limited by lower and upper bounds of 0.6% and 2.5%, respectively. The government also unveiled its primary balance targets. According to the government’s rather optimistic plan, the primary balance would reach -0.5% of GDP this year and improve gradually until reaching a 1.0% surplus by 2026, allowing debt to stabilise by then. If the government fails to meet its target in a given year, the following budget can only increase expenditures by 50% of revenue growth.

While there are still many details missing, this first announcement was reasonably well received by markets. However, in our view, the new framework is too contingent on boosting revenues rather than curtailing expenditures. Similarly, even if the ambitious targets are met, it will likely be insufficient to stabilize debt in the next three years as projected.

Meanwhile in Argentina, the country is entirely reliant on International Monetary Fund credit disbursement to meet its foreign currency debt payments. The IMF granted approval of Argentina's fourth review under the Extended Fund Facility (EFF) program, as expected. As a result, Argentina gained access to an additional $5.4bn, bringing the total amount received by the country under this programme to $28.9bn.

Although it was essential for Argentina to pass the program's fourth review, its objectives alone are unlikely to bring about a significant improvement to the country’s economy. The program’s conditions are just not rigorous enough to stabilise the economy, nor bolster policy credibility. Moreover, as the presidential elections in Argentina approach (scheduled for October 23), the government will likely face growing pressure to deviate from the program's already-weak targets.

Key market calls

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

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

CURRENCIES

Peak dollar narrative has room to run as higher hard landing odds raise bar for further Fed hikes. EUR has more upside potential and ditto for JPY but in the second half of the year. If BoE does not fulfil what priced by markets; GBP can weaken.

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

EQUITY

Earnings expectations are key for 2023 returns. A strong start to the year may create complacency as central banks still hawkish & macro risks. Margin pressures already at play mainly due to wage growth. China rebound momentum underpins EM.

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

RATES

Rates volatility remains elevated while market expectations for central banks may be too dovish, raising the risk of a market correction. Further banks headlines more of a risk for the US, implying more rebound potential higher for EU yields.

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

CREDIT

Spreads have sailed through the March bank troubles and are again underpricing recession risks even if balance sheets are in good health. Some caution warranted given the unappealing risk reward although yield levels still attractive.

Source: AXA IM Core Investment Research, as of 24 April 2023

Macro forecast summary

Real GDP growth (%)	2022		2023*		2024*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.4		2.7		2.7	
Advanced economies	2.7		1.0		0.7	
US	2.1	2.1	1.0	1.0	0.3	0.9
Euro area	3.6	3.2	0.7	0.6	0.6	1.1
Germany	1.8	1.8	0.2	0.0	0.6	1.3
France	2.6	2.6	0.6	0.5	0.6	1.1
Italy	3.7	3.8	0.6	0.6	0.5	1.1
Spain	5.5	5.5	1.3	1.3	0.9	1.8
Japan	1.1	1.0	1.7	1.0	1.3	1.1
UK	4.0	4.0	0.0	-0.5	0.5	0.7
Switzerland	2.1	2.1	0.6	0.7	1.3	1.6
Canada	3.4	3.4	1.2	0.6	0.9	1.4
Emerging economies	3.9		3.8		3.8	
Asia	4.3		5.0		4.6	
China	3.0	3.0	5.3	5.3	5.0	5.2
South Korea	2.6	2.6	1.5	1.1	2.0	2.2
Rest of EM Asia	6.0		5.0		4.4	
LatAm	4.0		1.5		2.3	
Brazil	2.9	3.0	1.0	1.0	1.5	1.7
Mexico	3.1	3.0	1.2	1.3	1.8	1.9
EM Europe	0.9		0.9		1.8	
Russia	-2.1		1.7		1.3	1.3
Poland	4.9	4.9	0.1	0.8	2.4	3.0
Turkey	5.6	5.1	0.5	2.1	1.4	2.8
Other EMs	4.9		3.1		3.7	

Source: Datastream, IMF and AXA IM Macro Research – As of 26 April 2023
**Forecast*

CPI Inflation (%)	2022		2023*		2024*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	7.4		4.8		2.7	
US	8.0	8.0	4.5	4.2	3.1	2.6
Euro area	8.4	8.5	5.7	5.6	2.8	2.4
China	2.1	2.0	2.3	2.3	2.5	2.4
Japan	2.5	2.5	2.7	2.3	1.3	1.3
UK	9.1	9.1	6.6	6.4	2.4	2.9
Switzerland	2.8	2.8	2.0	2.5	1.3	1.4
Canada	6.8	6.8	3.8	3.7	2.7	2.3

Source: Datastream, IMF and AXA IM Macro Research – As of 26 April 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	5.00	2-3 May 13-14 Jun	25-26 Jul 19-20 Sep	31-1 Oct/Nov 12-13 Dec
	Rates		+0.25 (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 24 April 2023

These projections are not necessarily reliable indicators of future results

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26 April 2023

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