

“For many people, 2023 will feel like a recession”

The International Monetary Fund has downgraded its growth forecasts and says risks to financial stability have increased. We read both conclusions as an endorsement of our prudent allocation strategy.

Growth forecasts cut and downside risks still high.

At its annual meetings, the IMF said it was again downgrading its forecasts for global growth, to 2.7% in 2023 after 3.2% in 2022. The main reasons cited were the ongoing war in Ukraine and its consequences for energy in Europe, the continued impact of inflation on purchasing power, and the worse-than-expected slowdown in China. More than a third of the world's economy is now expected to fall into recession either this year or next, including big hitters Germany and Italy. France is expected to continue growing at close to 1%. The report also sees a 25% likelihood global growth will fall below 2% in 2023, a low only hit during five crises since 1970. The IMF thinks inflation, while remaining stubbornly above previous estimates, will continue to fall back from the end of this year, from 8.8% in 2022 to 6.5% in 2023. Given this inflation path, central banks will look to tighten monetary policy further.

Worries about financial stability.

The IMF also pointed out that the combination of a harsher economic slowdown and more hawkish monetary policies brings additional risks. It listed a number of pinch points: risks to emerging economies' finances as lending terms tighten, the threat of turbulence in financial markets such as those still rocking the UK, and the risk China's property market crisis could spread to the country's banking sector.

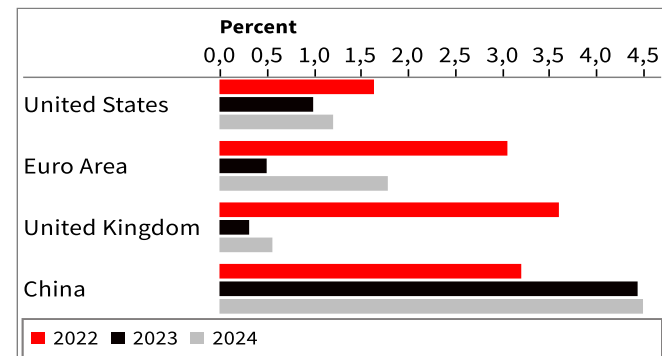
Prudence still guiding our investment strategy.

The “high-risk” picture painted by the IMF is a ringing endorsement of our decision to embrace prudence in our allocations. We are therefore sticking with our equity markets Underweight in nearly all regions and with our ample allocation to defensive and resilient sectors. The increased risk of economic slowdown and threats to financial stability are consistent with our Overweight to US bond markets. We think US yields offer attractive rates of return, particularly in real terms, and the asset class still plays as a safe haven if markets do come under pressure.



The IMF revised downward its GDP growth forecasts for 2023 and 2024

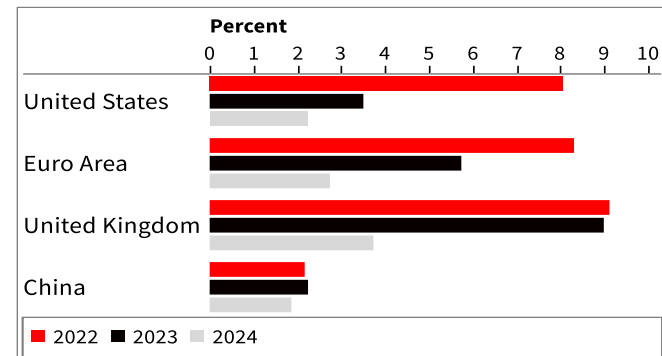
IMF: GDP Growth forecasts



Sources : SGPB, Macrobond, IMF, 14/10/2022

Inflation should remain at high levels, at least until 2023

IMF: Inflation forecasts



Sources : SGPB, Macrobond, IMF, 14/10/2022

Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg, Macrobond, (14/10/2022). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021

OUR MACRO COMMENTS

Events of the week



Turbulences in the UK financial markets resumed this week. In September, the Bank of England's announcement of a bond market support program had relieved markets. In recent days, confirmation of the program's non-renewal has rekindled pressure on rates, and may finally force the government to reverse further tax relief measures. Against this backdrop, the UK inflation published next Wednesday will be scrutinized.



The minutes of the last Federal Reserve meeting confirmed the intention of its members to focus on fighting inflation in the face of the threat of a potential recession. In addition, the inflation figures released on Thursday disappointed, as its non-volatile component (core inflation) increased again. An increase in rates of 75bps at the next meeting seems inevitable today.

Figures of the week



- Production Prices (MoM, September)
- Inflation (YoY, September)
- Core inflation (YoY, September)
- Retail sales (MoM, September)
- Michigan Consumer Sentiment Index (October)



- Industrial production (MoM, August)



- Inflation (YoY, September)



- Unemployment rate (August)



- Current balance (August)

	Actual	Forecast	Previous
	0.4% ↑	0.2%	-0.2%
	8.2% ↓	8.1%	8.3%
	6.6% ↑	6.3%	6.5%
	0% ↓	0.2%	0.3%
	59.8 ↑	59	58.6
	1.5% ↑	0.6%	-2.3%
	2.8% ↑	2.8%	2.5%
	3.5% ↓	3.6%	3.6%
	¥58.9B ↓	¥120B	¥229B

Sources : Macrobond, 14 October 2022.

The week ahead

Monday



Beginning of the 20th National Congress of the Communist Party

Tuesday



GDP Growth (Q3), Industrial production (September)



ZEW Economic sentiment (October)

Wednesday



Inflation (September)

Thursday



Trade balance (September)

Friday



Consumer confidence (October), retail sales (September)



Inflation (September)

MARKET PERFORMANCES

Interbank rates	Last.	-1W	-3M	YTD	-12M
€STER O/N	0,66	0,66	-0,58	-0,59	-0,57
USD SOFR O/N	3,05	3,00	1,53	0,05	0,05
JPY TONAR O/N	-0,02	-0,07	-0,01	-0,02	-0,02
GBP SONIA O/N	2,19	2,19	1,19	0,19	0,05
CHF O/N	0,63	0,60	-0,13	-0,71	-0,72

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	2,89	2,49	1,77	0,20	0,21
10Y Bund	2,15	2,12	1,30	-0,21	-0,14
10Y BTP	4,69	4,22	3,19	1,17	0,96
10Y JGB	0,23	0,24	0,20	0,07	0,08
10Y Bonos	3,49	3,05	2,41	0,56	0,51
10Y Swiss	1,35	1,16	0,82	-0,13	-0,07
10Y Gilt	4,49	3,93	2,15	1,02	1,19
10Y UST note	3,89	3,67	2,99	1,52	1,61

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	3,31	3,01	2,05	0,33	0,22
EUR Corporate Baa	4,75	4,44	3,28	0,66	0,54
GBP Corporate Baa	5,81	5,24	3,29	1,52	1,52
USD Corporate Aaa	4,82	4,67	3,79	2,13	2,13
USD Corporate Baa	6,02	5,86	5,02	2,60	2,49
USD EM aggregate	8,17	8,11	7,25	4,33	4,31

Brent, USD/BL	95,91	8,1%	-9,7%	21,3%	14,7%
Or, USD/oz	1 668	-1,8%	-3,8%	-8,8%	-4,9%
Copper, USD/metric ton	7 586	2,4%	-0,7%	-21,6%	-19,9%
Platinum, USD/oz	899	3,9%	1,6%	-7,0%	-13,1%
Palladium, USD/oz	2 182	-0,4%	1,6%	10,3%	0,4%
Silver, USD/oz	19,83	2,1%	3,2%	-14,1%	-12,0%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	0,97	-0,7%	-4,0%	-14,4%	-16,2%
EUR/CHF	0,97	-0,2%	-1,8%	-6,4%	-9,5%
USD/GBP	0,91	2,1%	7,6%	22,6%	23,3%
USD/JPY	145,71	0,9%	6,0%	26,5%	28,6%
USD/BRL	5,21	0,4%	-2,7%	-6,5%	-5,7%
USD/CNY	7,15	0,6%	6,5%	12,6%	10,9%
USD/RUB	63,02	5,3%	0,5%	-15,9%	-12,1%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	941	-0,9%	-6,8%	-18,9%	-15,3%
Eurostoxx 50	3 357	0,4%	-3,3%	-21,9%	-17,6%
Dax 40	12 273	0,5%	-4,4%	-22,7%	-19,3%
CAC 40	5 841	0,8%	-2,6%	-18,3%	-11,1%
FTSE 100	6 959	0,7%	-3,3%	-5,8%	-2,6%
SMI	10 263	-0,3%	-6,9%	-20,3%	-12,8%
SP500	3 612	-1,8%	-6,3%	-24,2%	-17,2%
TOPIX	1 907	3,2%	-0,4%	-4,3%	-4,5%
iBovespa	115 941	-0,2%	18,1%	10,6%	3,4%
Hang Seng	17 217	0,8%	-18,5%	-26,4%	-32,0%
Sensex 30	57 991	2,1%	6,6%	-0,5%	-3,6%
CSI 300	3 721	-2,2%	-14,6%	-24,7%	-24,6%

Source: Bloomberg, on 14 October 2022.

-1W = 1-week change, -3M = 3-month change, -12M = 12-month change, YTD = year-to-date change. Equities; total return in local currency. Government bonds = 10-year returns. Figures are rounded.

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