Deutsche Bank
Research

The house view: snapshot

The Looming Recession

#PositiveImpact

Macro views

World

— The global outlook is moving in a stagflationary direction.

— Inflation momentum has continued to build, leading to central bank tightening that will slow growth across the key economies.

— Russia's invasion of Ukraine has disrupted key commodity markets and supply chains.

United States

— Growth slowing as a result of Fed tightening, which will ultimately trigger a recession beginning in Q3 2023. GDP growth troughs at -1.1% and the unemployment rate peaks at 5.5% in Q1 2024. This recession will help put inflation on a downward path back to the Fed's 2% target by 2025.

— Growth momentum has slowed materially with headwinds from prices, fading fiscal, tighter monetary and financial conditions, and geopolitical risks.

Europe

— The energy crisis will drive a moderate inflationary recession with a 0.6% decline in GDP in 2023.

— Gas rationing risks fade but high prices present a persistent real income and competitiveness shock. ECB tightening and US recession to hinder recovery until 2024. Inflation has now peaked but decline will be gradual with core inflation staying above 4% until late 2023.

Germany

— Recession will likely hit Germany in winter half-year 2022/23. In spring, the further abating gas supply concerns and the increasingly felt fiscal support should stabilise the economy. However, given the US backdrop, quarterly growth rates should only rise to about 0.3% in H2.

— For 2023, German GDP should shrink by 1%. The ongoing adjustment costs in energy supply will weigh on growth in 2024.

China

— China is now on a path to reopening. However, reduced mobility and slow growth from now to mid-2023 likely if China faces a major Omicron outbreak.

— After reopening in mid-2023, growth will recover to 4.5% in 2023 and 6.5% in 2024. The property sector will also rebound.

Emerging markets

— EM still faces considerable uncertainty driven by global policy tightening, risks to energy outlook, and China's zero-covid policy. Most of EM is approaching peak of its policy cycle as the Fed/ECB, and inflation momentum, is slowing down. China's reopening – pace, sequencing, and orderliness – key for 2023.

— Asia – Policy normalisation has been slow, China a significant drag. Poorer global demand outlook still a headwind.

— LatAm – Furthest ahead in normalising policy settings. Focus has shifted to the political cycle, and whether China reopening can support demand for commodities.

— CEEMA – CE3 most at risk from Ukraine developments; Turkey still facing large policy uncertainty; political noise rising in South Africa.

Key downside risks

H — High inflation likely to be persistent – If expectations become unanchored and inflation does not recede as expected, this would likely necessitate even more aggressive central bank tightening and a deeper economic slowdown/recession.

M — Earlier than expected US recession – We see a US recession in H2 2023, but the risk is that it comes earlier.

M — Elevated geopolitical risks – Russian strikes against Ukrainian power infrastructure suggest potential escalation paths. US-China strategic competition to intensify, with risk of Chinese retaliation against new US controls.

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Market views

Market	— Risk assets will struggle in H2 2023 given a US recession, although Treasuries will be supported into late 2023 by the Fed moving to cut rates.
Equities	— In the short-term we see the current bear market rally continuing into Q1. — As the recession begins in Q3, the S&P 500 to bottom at 3250, before recovering into year-end. — A year-end 2023 target of 4500 for the S&P 500.
Rates	— Neutral US front-end, have a mild bearish bias in EUR front-end, expect the UST-Bund spread and Bund ASW to tighten and term premia to rise globally. — 10yr UST at 3.65% by year-end 2023, and 10yr bund at 2.60%.
Credit	— Spreads should widen materially in H2 2023 as a US recession takes hold. — USD IG and HY spreads to end 2023 at +235bps and +860bps respectively. — EUR IG and HY spreads should finish at +245bps and +930bps respectively.
Oil	— Brent prices to end 2023 at $80/bbl. — Our bias is to the downside in price beyond the next quarter, as we see 2023 global inventory unchanged from Q4 2022 but higher versus the 2022 average. — Although supply disruption temporarily lifts Brent to $100/bbl in Q1 2023, prices resume their decline to Brent $80/bbl at year end of 2023.
Monetary Policy	— Fed: 50bps hike in December, followed by 25bps in February, March and May, taking the terminal Fed funds to just over 5% in Q2 2023. — ECB: 50bps hike in December and February, reaching a terminal deposit rate of 3% in May 2023. — BoJ: No change in rates. — BoE: 50bps move in December, February, and 25bps March and May, with terminal rate at 4.5%. — PBoC: No change in rates.

Key macro & markets forecasts

GDP growth (%)	2022F	2023F
Global	3.0	2.0
US	2.0	0.8
Eurozone	3.3	-0.6
Germany	1.7	-1.0
Japan	1.5	1.2
UK	4.5	-0.9
China	3.0	4.5

Central bank policy rate (%)	Current	Q4-22	Q1-23
US: federal funds rate	3.875	4.375	4.875
Eurozone: deposit facility rate	2.00	2.50	2.75
Japan: policy balance rate	-0.10	-0.10	-0.10
UK: bank rate	3.00	3.50	4.25
China: MLF 1Y interest rate	2.75	2.75	2.75

Key market forecasts	Current	Q4-22
US 10Y yield (%)	3.52	3.75
EUR 10Y yield (%)	1.84	1.95
S&P 500	4072	4200
Gold (USD/oz)	1777	1650
Oil WTI (USD/bbl)	81.6	91.0
Oil Brent (USD/bbl)	87.2	95.0

2022 Macro events calendar

December 2022			January 2023			February 2023		
14	US	Federal Reserve Decision	01	EZ	Croatia adopts the Euro	01	US	Federal Reserve Decision
15	UK	BoJ Decision	16-20		WEF Annual Meeting at Davos	02	EZ	ECB Decision
15	EZ	ECB Decision	18	JN	BoJ Decision	02	UK	BoE Decision

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