



World Outlook: The Waiting Game...

#PositiveImpact

Deutsche Bank Research has just released the latest World Outlook, featuring updated views on economics and markets. They have called this edition "The Waiting Game..." because they maintain their call for a US recession in Q4 as the lags from tighter monetary policy really start to hit. That weak outlook is evident elsewhere too, and their forecasts don't expect any G7 country to grow by more than 0.8% in 2024. However, when it comes to the long term they are very enthusiastic about the prospects of AI changing the nature of our economies in the years ahead, which could offer some optimism after a very challenging start to the decade.

Here are some of the highlights:

- The US is on track for its first genuine policy-led boom-bust cycle in four decades, induced by a significant increase in the money supply over 2020-21, unleashing high inflation and an aggressive policy response. The next stage is the US recession that we were the first to forecast early last year. We always thought it would take until the latter part of 2023 for this to materialise and although there is a risk it's delayed until H1 2024, we continue to believe it starts in Q4 2023. Since we made our prediction, the consensus has priced in an earlier and milder downturn. Our prediction is for a -1.25% peak to trough US GDP decline, milder than the average post-WWII recession, but aggressive versus the consensus.
- After 10-15 years of zero/negative rates and near continuous QE, businesses, consumers and investors are a long way from fully adjusting to the recent rate shock and accidents like we have seen with UK LDI, crypto, US regional banks and Credit Suisse remain a big risk to the outlook. The rate hiking cycle is not over yet, with the Fed, ECB and BoE likely to hike once, twice and three times more respectively and with the risks on the hawkish side. Core inflation is proving too high for comfort and recessionary conditions may be the only way of returning it to target.
- While the US is leading this cycle, we also anticipate a soft patch in the Euro area until mid-2024 and a possible recession in late 2023/early 2024. No G-7 country sees 2024 GDP growth above 0.8% in

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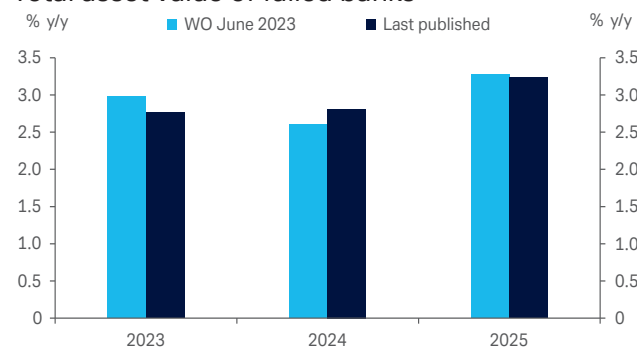
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2024 on our forecasts. China's recovery is expected to pivot in the second half, driven by a rebound in property, employment growth, and the lag effect of strong credit growth. If correct, the decoupling of growth from the western cycle seen since Covid could continue.

- A recession but with sticky core inflation encourages our rates strategists towards forward steepeners rather than outright long duration. The dollar decline should resume but only around the end of the year when the Fed pivot approaches. In credit, we think a default cycle is brewing with spreads likely to widen sharply around the turn of the year. Our equity strategists are more optimistic though, flagging only a short sharp correction as the recession arrives.

The research team ends the World Outlook report by saying how very enthusiastic they are about the prospects of AI changing the nature of our economies in the years ahead. Given a poor cyclical outlook, low productivity, and declining demographics, they highlight how desperately we need a new source of growth. They believe this is unlikely to help us out this cycle, but it's a hope they cling on to as we progress through this decade, after a very challenging start to the 2020s.

Total asset value of failed banks



Source: Deutsche Bank

Clients of Deutsche Bank Research can access the full report [here](#).