Deutsche Bank
Research

The house view: snapshot

The Race Against Time

#PositiveImpact

Macro views

World

- We expect global growth to slow down from 3.2% in 2023 to 2.4% in 2024.
- Stagnation is expected in G10 as a mild US recession arrives in Q1 2024, and euro area growth softens due to recession in H2 2023. China's rebound disappointed, and trend growth has shifted downward in recent years.
- Inflation seems to have peaked, but risks are to the upside as inflation remains persistent.
- Geopolitical risks elevated in the Middle East, Ukraine and US-China competition continues to intensify.

United States

- Our baseline is a mild recession beginning in Q1 2024. Soft landing prospects have improved but we continue to expect the economy as slowing into intensifying headwinds.
- Inflation has softened materially but full return of inflation to 2% could prove difficult without some economic softening.
- Labour market coming into better balance on moderating demand and inflation has shown broad-based deceleration. If it were to stabilise here, a soft landing is likely, but we expect further weakening in the months ahead.

Europe

- The euro area is expected to contract slightly in Q4 2023 and Q1 2024 resulting in a mild technical recession.
- Overall, we expect recovery to be delayed until mid-2024 when Europe benefits from the US rebound and an ECB easing cycle.
- Inflation remains above target but is declining faster than anticipated. We see inflation to be back at 2.0% yoy in Q3 2024.

Germany

- The economy should record a technical recession in H2 2023.
- The confidence shock from the federal constitutional ruling and likely enforced budget cuts will be major headwinds. We expect only modest recovery in H1 2024.
- With potential growth falling below 0.5% over the next 10 years, economic resources will become extremely tight, increasing socio-political risks.

China

- China's economy is operating below potential, but it lacks the endogenous momentum to close the negative output gap.
- Additional policy support will be key to China's recovery in 2024 and beyond. 1.5-2% fiscal expansion combined with 45bps more in PBoC cuts could lift 2024 GDP to 4.7%, up from 4.1% in 2022-23.
- We see inflation rising modestly to slightly over 1% to the end of 2024.

Emerging markets

- EM growth should outperform DM, as central banks will get more space to ease as DM cycle turns lower. A harder China pivot could provide additional tailwinds.
- Asia – Lowest carry but highest beta to a soft landing. Local central banks likely to hold out longest on easing.
- LatAm – Still normalising rates but with fiscal risks.
- CEEMEA – Risks now even for price-indexed rate cuts. Many country idiosyncrasies.

Key downside risks

- M — A sharper deterioration in growth – Growth stagnating in G10, with a mild recession for the US economy in Q1 2024.
- M — Renewed inflationary pressures – Inflation remains firmly above target in both the US and Europe, and upside risks remain due to strong oil prices and an impending El Niño event.
- M — Elevated geopolitical and election risks – Risk of escalation of conflict in Israel/Gaza. The Ukraine-Russia conflict will continue in 2024. US-China strategic competition to intensify, risk of further tit-for-tat restrictions. Election risk as nearly 50% of the world's population vote in 2024.

marion.laboure@db.com
thehouseview@list.db.com
cassidy.ainsworth-grace@db.com
http://houseview.research.db.com
jim.reid@db.com

December 2023

Market views

Market Sentiment

— The US economy has demonstrated undeniable resilience in the last nine months.
— However, as the lagged effects of monetary policy are increasingly felt, we expect the US economy to be pushed into a mild recession starting in Q1 2024.
— Risk assets will struggle in Q1 2024 given this US recession.

Equities

— Year-end 2024 target of 5100 for the S&P 500.
— Earnings already growing solidly; we see 2024 S&P 500 EPS at $250 with upside scenario at $271.
— At the sector level, we are: (i) Neutral mega-cap growth & Tech; (ii) Overweight Financials, Consumer Cyclicals, and Materials; and (iii) Neutral Industrials and Energy.
— Across regions, we are overweight Europe, neutral US and EM, and underweight Japan.

Rates

— 10yr UST to decline to 4.05% and 10yr bund to reach 2.60% by the end of 2024.
— Significant steepening with 2yr UST declining to 3.15% and 2yr bund to 1.97%.

Credit

— $IG and $HY spreads to peak at 210bps and 745bps, €IG and €HY at 215 bps and 725bps in Q3 2024.
— Our base case remains a hard landing with global spreads hitting our peak targets in Q3 2024.
— Higher real rates for longer and tall 2025+ maturity walls should drive a longer, albeit flatter, default cycle than prior forecasts

FX

— EUR/USD at 1.10 by Q4 2024.
— EUR/USD to remain range-bound until Fed easing cycle starts in mid-2024

Oil

— Brent at USD 90/bbl in 2024.
— 2024 Brent forecast unchanged at USD 90/bbl after November's 1mmb/d of extra voluntary supply cuts by OPEC+ and the extension of Saudi's 1 mmb/d cut.

Monetary Policy

— Fed: No further hikes; terminal rate at 5.375%; 175bps of cuts in 2024 from June.
— ECB: No further hikes; terminal rate at 4.00%; 150bps of cuts in 2024 from April.
— BoJ: To abandon YCC in January.
— BoE: No further hikes; terminal rate at 5.25%; 75bps of cuts in 2024.
— PBoC: Further easing by cutting the MLF rate by 45bps before mid-2024.

Key macro & markets forecasts

GDP growth (%)	2023F	2024F
Global	3.2	2.4
US	2.4	0.6
Eurozone	0.4	0.2
Germany	-0.3	-0.2
Japan	1.7	0.6
UK	0.5	0.3
China	5.2	4.7

Central bank policy rate (%)	Current	Q1-24	Q4-24
US: federal funds rate	5.375	5.375	3.625
Eurozone: deposit facility rate	4.00	4.00	3.00
Japan: policy balance rate	-0.10	0.10	0.10
UK: bank rate	5.25	5.25	4.50
China: MLF 1Y interest rate	2.50	2.35	2.05

Key market forecasts	Current	Q4-24
US 10Y yield (%)	4.18	4.05
EUR 10Y yield (%)	2.24	2.60
S&P 500	4567	5100
Gold (USD/oz)	2027	1950
Oil WTI (USD/bbl)	72	85
Oil Brent (USD/bbl)	77	88
USD IG	106	180
EUR IG	145	185

2023 Macro events calendar

January 2024		
01	EU	Belgium assumes European Council Presidency
01		BRICs+ expanded with 6 new members
13	TW	Taiwan Presidential Election
23	JN	BoJ Decision
25	EZ	ECB Decision
31	US	Federal Reserve Decision

February 2024		
01	UK	BoE Decision
08	PAK	Pakistan Presidential Election
14	IDN	Indonesia General Election

March 2024		
07	EZ	ECB Decision
17	RU	Russia Presidential Election
19	JN	BoJ Decision
20	US	Federal Reserve Decision
21	UK	BoE Decision

Recent editions

— The Race Against Time, 05 December 2023
— A Cloudy Mountain Top 10 October 2023
— The Clock is Ticking 14 June 2023

Analyst Certification

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