



The House View: Prepare for a hard landing

Snapshot

MACRO VIEWS

WORLD

- The global outlook has darkened dramatically.
- Russia's invasion of Ukraine has significantly pushed up commodity prices and exacerbated above-target inflation.
- Central banks will need to move aggressively to retain their credibility. This will be just enough to keep long-term inflation expectations anchored.

EUROPE

- The Ukraine shock has been somewhat mitigated by fiscal easing, but we see growth in 2022 at 2.8%.
- A near-term recession is possible if the flow of Russian energy is disrupted.
- By late 2023, we expect ECB tightening and the Fed-induced US recession to pull growth in Europe down sharply, although we think an outright recession will be avoided.

CHINA

- We forecast 4.4% GDP growth in 2022. Consumption growth will remain subdued due to more restrictive Covid-19 containment measures.
- Covid-19 remains the biggest downside risk to the near-term growth outlook.
- On the upside, the government may implement additional policy easing to aim for its 5.5% annual growth target.

UNITED STATES

- Near-term growth should remain resilient, but the economy will decelerate sharply in H2 2023. The Fed tightening bites more forcefully, meaning that the economy will fall into recession, with contractions in Q4 2023 and Q1 2024.
- We expect annual headline CPI to be 7.2% this year, with core CPI inflation remaining at or above 3% until 2024.
- We expect the Fed will raise rates by 50bps at each of the next three meetings, followed by 25bp moves at the remaining meetings this year. Beyond that, it will rise to 3.6% by June 2023.

GERMANY

- With the Ukraine war having delivered another shock to consumers and corporates, we now expect 2022 GDP growth at 2.3%.
- Under more severe assumptions, e.g., if Russian natural gas is shut off, Germany would almost certainly fall into a severe recession.

EMERGING MARKETS

- Emerging markets face many headwinds, including the stagflationary impact of the Ukraine conflict via commodity prices, tightening by DM central banks, and downside risks to China growth.
- Asia is under pressure, given relatively high terms of trade exposure to commodities, delayed/slow policy normalization, and China's struggles with its zero Covid strategy.
- LatAm is furthest ahead in normalising policy settings. With fiscal policies also largely reversed, the region stands out cheap versus other EM.
- CEEMEA is highly differentiated as a region. CE3 is most at risk from Ukraine developments; South Africa a balance between better terms of trade and a gradualist central bank; Turkey still subject to large policy unpredictability.

KEY DOWNSIDE RISKS

- H** **Higher-than-expected inflation** – If expectations become unanchored and inflation does not recede as expected, this would necessitate even more aggressive central bank tightening and a deeper economic slowdown/recession.
- M** **Escalation in Ukraine** – Stronger aggression by Russia could drive a major step up of the Western response in terms of sanctions and military support to Ukraine.
- L** **New Covid-19 variants** – Much of the world is returning to pre-pandemic normality, but a more severe variant could throw this progress off course.

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MARKET VIEWS


	MARKET SENTIMENT	<ul style="list-style-type: none"> Difficulties ahead as US enters recession in 2023. Equities will continue to advance in 2022, and longer-term interest rates will move higher. But a US recession in 2023 will lead to equity declines that year and wider credit spreads, as well as a decline in longer-term interest rates.
	EQUITIES	<ul style="list-style-type: none"> Our year-end 2022 targets see the S&P 500 at 5250, and the STOXX 600 at 550.
	RATES	<ul style="list-style-type: none"> Yields to move higher through 2022. The Ukraine war has created an upside shock to inflation and a downside shock to growth, and created a structural shift higher in fiscal policy, particularly in Europe.
	FX	<ul style="list-style-type: none"> EUR/USD to end the year at 1.17. Further Fed repricing is becoming incrementally less beneficial to the dollar. The ECB has exceeded our (hawkish) expectations and Europe's fiscal response to offset the near-term growth impact looks sizeable.
	CREDIT	<ul style="list-style-type: none"> Spreads will begin to widen in the spring of 2023 and more forcefully over the rest of that year. Growth will be OK this year and the recent backup in spreads will tempt investors in at higher all-in yields while the cycle is still ongoing.
	OIL	<ul style="list-style-type: none"> Brent prices this year will be supported near the USD 95-100/bbl level. Tight oil market conditions preceded the Ukraine conflict. Steadily declining commercial oil inventory broke the bottom of the five-year range last year, and prospects for restocking are low.
	MONETARY POLICY	<ul style="list-style-type: none"> Fed: 50bp hikes in May, June and July; with terminal rate up to 3.6% around mid-2023. ECB: Liftoff in September and a terminal deposit rate of 2% by end-2023. BoJ: Rates on hold. BoE: Four more hikes (May, June, August, Feb-23) take the terminal rate to 1.75%. PBoC: Expect 1Y MLF rate to be cut to 2.65% in Q2.

KEY MACRO & MARKETS FORECASTS

GDP growth (%)	2022F		2023F		Central Bank policy rate (%)			Key market forecasts		
	2022F	2023F	Current	Q2-22	Q4-22	Current	Q4-22	Current	Q4-22	
Global	3.3	3.1	US: Federal Funds Rate	0.375	1.375	2.625	US 10Y yield (%)	2.89	3.30	
US	3.0	1.8	Eurozone: Deposit Facility Rate	-0.50	-0.50	0.00	EUR 10Y yield (%)	0.94	1.55	
Eurozone	2.8	2.3	Japan: Policy Balance Rate	-0.10	-0.10	-0.10	EUR/USD	1.08	1.17	
Germany	2.3	3.0	UK: Bank Rate	0.75	1.25	1.50	USD/JPY	128	117	
Japan	1.5	1.3	China: MLF 1Y Interest Rate	2.85	2.65	2.65	S&P 500	4392	5250	
UK	3.8	0.7					Gold (USD/oz)	1978	1800	
China	4.4	4.7					Oil WTI (USD/bbl)	105.5	96.0	
							Oil Brent (USD/bbl)	110.6	100.0	

2022 MACRO EVENTS CALENDAR

April 2022			May 2022			June 2022		
18-24		IMF/World Bank Spring Meetings	04	US	Federal Reserve Decision	09	EZ	ECB Decision
24	FR	French Presidential Election (Round 2)	05	UK	BoE Decision	15	US	Federal Reserve Decision
28	JN	BoJ Decision	05	UK	UK Local Elections	16	UK	BoE Decision
			21	AU	Australian Federal Election	17	JN	BoJ Decision
						23-24	EU	European Council meeting
						26-28		G7 Summit
						27-29	EZ	ECB Forum on Central Banking

	RECENT EDITIONS	<ul style="list-style-type: none"> Prepare for a hard landing 20 April 2022 Navigating perilous waters 11 January 2022 Barrelling back to stagflation? 10 November 2021 The New World: Moving Beyond Covid 8 September 2021
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