Deutsche Bank
Research

The house view: snapshot

The gathering storm

#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

— The fallout from Fed tightening will likely tip the economy into recession in H2 2023. That will also lead to a higher unemployment rate, which peaks near 5.5%.

— We expect the weaker labour market will guide inflation closer to target by 2024, although we still anticipate a nearly half percent overshoot then, with PCE still at 2.5% in Q4 2024.

— We expect the Fed will raise rates by 75bps at the July meeting, followed by 50bp moves in September and November, before downshifting to 25bp increments in December.

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.

Germany

— With the Ukraine war having delivered another shock to consumers and corporates, we now expect 2022 GDP growth at 2.3%.

— CPI inflation may fall back in June due to the temporary reduction of the energy tax on fuels and the introduction of a subsidised public transport ticket. However, given strong producer cost pressures, the inflation surge is far from over.

China

— We forecast 3.3% 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 in H2.

Emerging markets

— Emerging markets face many headwinds, including the stagflationary impact of higher commodity prices, aggressive 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 likely necessitate even more aggressive central bank tightening and a deeper economic slowdown/recession.

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

M — Escalation in Ukraine – Downside scenarios centre on stronger aggression by Russia beyond the Donbass, and on the intensification of Russia's energy war with Europe.

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Market views

Market sentiment	— Difficulties ahead as US enters recession in 2023. — Equities should recover towards year-end, whilst longer-term interest rates will move higher. But the US recession in 2023 should lead to further market disruption, including wider credit spreads and a decline in longer-term interest rates.
Equities	— Our year-end 2022 targets sees the S&P 500 at 4750, although an imminent recession would see the S&P 500 fall to 3000.
Rates	— Yields to move higher through 2022, reflecting a view that the Fed will hike rates more aggressively than previously anticipated. Term premia should rise further to reflect high inflation and higher inflation risks, as well as shifts in supply and demand.
Credit	— Spreads will begin to widen in the spring of 2023 and more forcefully over the rest of that year. — Our YE 2022 forecast for credit spreads sees a moderate amount of tightening from here across IG and HY markets. But then we see a widening in spreads as we reach 2023 and the US recession hits.
Oil	— Brent prices to remain around $110/bbl over H2 2022. — Russian supply will decline further as the EU embargo phases in although we see decelerating oil demand growth as global GDP growth slows. Brent will then fall back to $90/bbl by H2 2023.
Monetary policy	— Fed: Another 75bps hike in July, then 50bps in September and November, and then 25bps from December, taking the terminal Fed funds up to 4.125% in Q1 2023. — ECB: Liftoff with 25bps hike in July, then 3 further 50bps moves (Sep, Oct, Dec), and then 3 further 25bp moves in early 2023, taking the deposit rate to 2%. — BoJ: Rates on hold. — BoE: 50bp moves in August and September, and a 25bps move in November. — PBoC: Rates on hold.

Key macro & markets forecasts

GDP growth (%)	2022F	2023F	Central bank policy rate (%)	Current	Q3-22	Q4-22	Key market forecasts	Current	Q4-22
Global	3.1	3.1	US: federal funds rate	1.625	2.875	3.625	US 10Y yield (%)	3.14	3.85
US	2.4	0.7	Eurozone: deposit facility rate	-0.50	0.25	1.25	EUR 10Y yield (%)	1.64	1.55
Eurozone	2.8	2.3	Japan: policy balance rate	-0.10	-0.10	-0.10	S&P 500	3760	4750
Germany	2.3	3.0	UK: bank rate	1.25	2.25	2.50	Gold (USD/oz)	1835	1800
Japan	1.1	1.2	China: MLF 1Y interest rate	2.85	2.85	2.85	Oil WTI (USD/bbl)	104.3	107.0
UK	3.5	0.6					Oil Brent (USD/bbl)	110.1	110.0
China	3.3	5.7							

2022 Macro events calendar

June 2022			July 2022			August 2022		
23-24	EU	European Council Meeting	21	JN	BoJ Decision	04	UK	BoE Decision
26-28		G7 Summit	21	EZ	ECB Decision	25-27	US	Jackson Hole Economic Symposium
27-29	EZ	ECB Forum on Central Banking	27	US	Federal Reserve Decision			

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— Barrelling back to stagflation? 10 November 2021