



16 themes driving markets and economies

#PositiveImpact

Fast themes

Adjusting to higher inflation



Inflation is expected to slow but remain sticky. Broader effects such as the retreat of globalisation and an ageing workforce add to this. We prefer selective short-duration assets amid more market volatility.

Turning of the debt cycle / debt sustainability



We expect a default cycle to peak in 2024 after corporate profits bottom in 2023. Europe could fare better than the US in some areas. Asian leverage is underappreciated, particular as we believe credit spreads will rise.

China's recovery



More stimulus is likely, given relatively low inflation. That should help recoveries in real estate and risk assets. It also helps make China a hedge against recession in the West.

Private capital



Managers have not fully marked down the value of their portfolios. This could add significant stress should markets remain volatile in 2023. High exposure to software also rings alarm bells, given many investors are now overallocated to private markets.

Natural resources and energy security



While economic recovery, China's reopening, and renewable energy subsidies are bullish for commodities, there are worries about adoption timelines, particularly on electric vehicles. When coupled with the heavy reliance on a few countries for rare earth elements, we expect greater volatility in commodities.

New tech



Generative AI is likely to become cheaper and find commercial applications. Based on that, we see a boom-bust cycle for these investments. For the Big-Tech veterans, the 'growth-at-all-costs' model is out as investors focus on subscriptions and sustainable cashflows.

Return of volatility



We expect shorter economic cycles due to a smaller appetite for policy stimulus and greater geopolitical risk. This means greater equity market dispersion and volatility and more expensive hedging.

Revival of active investment



The end of the 'cheap money' era is the biggest driver of the return of stock pickers. We expect this to boost assets with strong fundamentals. The 60/40 portfolio will likely tilt towards >40% bonds to lower market beta.

Megatrend themes

Multi-polar world



Corporates will be squeezed if geo-political tensions escalate. The result could be: tariffs, capital controls, blocked tech and asset transfers, fights over tech standards, arms race, and poaching allies with economic deals.

Shift from private to public power



Either through monetary incentives or direct control, government laissez-faire policies towards companies are steadily reversing. This could hurt large corporates, particularly those relying on M&A or which have a strong customer-facing presence.

Demography & migration



An ageing population may boost demand for both equities and bonds. In addition, population and income growth in EMs may support DM assets along with commodities.

Clean energy transition



Energy self-sufficiency requires renewables. This makes more state-backed green incentives likely. Still, near-term investment in fossil fuels remains necessary. Big-Oil is constrained by the size of low-carbon projects.

Labour power



Short term, larger corporates will find it easier to pass on higher labour costs to customers. However, medium term, margins are at risk, meaning outperformers are likely to be stocks with lower sensitivity to wage rises and high revenue per employee.

Nearshoring & reshoring / supply chains



Geopolitical risk between the US and China has resulted in a 4x rise in corporates discussing reshoring initiatives. Still, there is no single substitute for China as a manufacturing powerhouse.

New forms of conflict and the weaponisation of trade



New forms of trade conflict seen in 2022 could expand to multi-country buyer cartels, rare earth and green transition commodities, nationalisation of foreign companies, restrictions on foreign workers and more.

Corporate ESG; the next step



Although enthusiasm has cooled after rapid growth, AUMs are still rising. And stricter regulation may bring further trust in the market. That comes as governments and customers will further force climate targets on to corporates.

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