AXA Investment Managers

25 January 2023

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Investment Institute Macroeconomics

Monthly Investment Strategy

2023 starts on a more positive note

Key points

- The broad shape of the outlook for 2023 remains intact: global growth looks set to slow, headline inflation should fall sharply and central banks should reach peak rates over the coming months around the world.
- Yet the start of 2023 has included a number of positive surprises, including a mild winter that could see the Euro area escape a winter recession, a faster removal of China's 'Zero-COVID policy' boosting growth prospects for later in the year and a more resilient US end to 2022.
- Markets have welcomed the more positive news. However, we think it comes with risks of slowing the overall disinflation expected over the coming years and threatening the need for further or more persistent tighter monetary policy from central banks.
- Moreover, the US economy still suggests the likelihood of falling into recession this year - albeit that the timing looks more uncertain. This may cause further tensions if growth cycles occur more asynchronously this year.

Global Macro Monthly

Starting the year with positive surprises

Global Macro Monthly Summary January 2023

David Page
Head of Macro Research
Macro Research – Core Investments

Broad outlook remains, but with key surprises

At the end of 2022, as presented in our Outlook, we forecast that 2023 would see global growth slow materially, including recession across the US and several European economies. This slowdown, we argued, would contribute to the longer-term disinflation that was likely to be a feature of 2023 – particularly the first half – and help reduce inflation rates back to central bank mandates, albeit only in 2024. It would also see central banks quickly reach peak policy rates in 2023, though we cautioned against expecting cuts this year.

This still appears the broad shape of activity for the coming year. However, the first few weeks of the new year have included some important surprises.

A mild winter. One of the most important developments of 2022 was the Russian invasion of Ukraine and the surge in energy prices. We had argued this left Europe facing a sharp recession this winter as it coped with elevated inflation and in some instances, outright gas shortages. However, the winter has proven to be far milder than usual – a risk we had recognised associated with a third consecutive La Niña weather system. This mild weather reduced gas consumption, alongside other energy efficiencies and an increased use of alternative fuels, including coal. In turn, the anticipated industrial squeeze has not materialised and the sharp contraction we expected this winter now may not even be a recession, while the constraints to rebuild gas storage may not be as restrictive. The European growth outlook is not as weak as we had feared.

China's rapid 'zero-covid' policy reversal. We had expected a gradual removal of restrictions after an increased medical preparation after October's National Congress. By the time of writing, China had removed its restrictions. The cost in terms of case numbers and deaths is somewhat opaque. But the disruption to economic activity suggested so far is less than we had feared, although we expect further underperformance in Q1 if Lunar New Year travel spreads the virus more broadly to rural communities. However, judging by international experience, the economy should benefit from a material re-opening boost from the spring. This adds to our already above-consensus 5% growth forecast for this year.

US momentum and recession. The US also looks to have closed 2022 much stronger than we had anticipated. Fed GDPNow trackers suggest Q4 growth of around 3.5% annualised with stronger consumer spending in turn underpinned by greater use of excess savings. This end of year momentum questions the timing of a recession we forecast for H1 2023 and we do see risks that such a downturn could occur later. Meanwhile, signals of recession seem to be rising, with our own model indicating a recession over the course of this year, and near-term survey data having turned sour in the latest weeks.

Growth, inflation, policy

These early surprises suggest firmer global growth for 2023 as a whole – certainly at the start of the year. This will likely impact the inflation outlook. The coming months are still likely to follow the recent trend of benign energy and easier supply chain conditions against strong base effects contributing to sharp declines in headline inflation. This will likely dominate the H1 2023. But stronger growth will slow any loosening in labour markets, adding to pressures on core inflation, and slow disinflation later this year and next. Moreover, the outlook for firmer Chinese growth raises the risk of increasing energy demand, something that we think will lift oil prices and could add to broader energy inflation.

This likely adds to the work that central banks will need to do to restore price stability. For the Federal Reserve (Fed), we still consider peak rates at 5%, but the recent momentum adds to upside risks to this call. It adds to our conviction that the Fed will not ease policy this year. The European Central Bank (ECB) has raised rates sharply and its outlook further, but firmer growth and ongoing core inflation pressure suggests the ECB could raise rates more than markets expect. Similarly, we view the prospect of easing before mid-next year as unlikely.

Stronger growth supports earnings outlooks and should dampen equity market headwinds. However, we still forecast a US recession and central banks will likely have to continue to tighten financial conditions further. Yet some economies require this tightening more than others and the impact on growth outlooks might be more asynchronous than we have seen in past slowdowns this century. This would create different opportunities in different markets, including in those that are intrinsically cross-market, including foreign exchange.

Uncertainties over the outlook are rising, as is common at the start of a year. What is encouraging after recent years' events is that so far these surprises have largely been positive.

25 January 2023

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Global Macro Monthly – US

David Page
Head of Macro Research
Macro Research – Core Investments

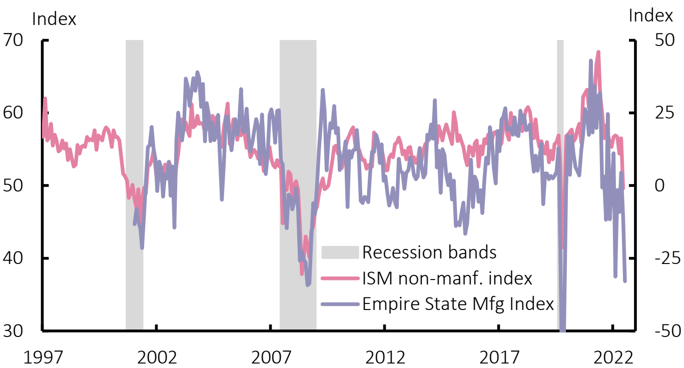
Ending 2022 strongly

Federal Reserve (Fed) GDPNow trackers suggest that 2022 ended strongly, growing around 3.5% (annualised). Consumption growth looks likely to have been strong, despite weak retail sales in December, buoyed by lower gasoline costs and consumers drawing more sharply on excess savings. We fail to reconcile all this strength and forecast a more modest 2.6% rise but this is more than we had expected two months ago and have raised our 2022 growth forecast to 2.1% from 1.9%.

A stronger close to 2022 questions our view that the economy will fall into recession as soon as the first half (H1) of 2023. A full consideration of the composition of growth will be necessary. However, broader signals of recession have grown. Our recession model now signals recession over the coming 12 months. Unemployment remains low having fallen back to 50-year lows of 3.5%, but widespread forecasts envisage this rising to over 4% this year – above the 0.5ppt gain that has historically coincided with a downturn. Moreover, key surveys have fallen into territory usually associated with recession (Exhibit 1), although we are cautious of placing too much weight on a single month's move. Overall, we expect a mild recession.

Exhibit 1: Survey data fall to recession levels

US - ISM non-manufacturers & Empire State mfg index



Source: ISM, Federal Reserve Bank New York and AXA IM Research, January 2023

A stronger 2022 means we have raised our 2023 growth outlook, albeit to around flat, but we have lowered our 2024 forecast to 0.8%. This is more in line with consensus forecasts of 0.5% and 1.2%.

Inflation has also eased sharply. From 9.1% in June, inflation fell to 6.5% in December, with the first monthly decline since May 2020 driven by a 12% drop in gasoline costs. Headline inflation is likely to continue to fall sharply across H1 2023 as base effects from supply-chain pressure – and energy and commodity prices – unwind. However, despite sharp falls in energy and core goods, shelter inflation remains high and core services elevated, with a risk that this will prove persistent while the labour market remains tight. We continue to forecast a slower decline inflation than consensus, predicting an average of 5.3% in 2023 and 3.5% in 2024, relative to consensus forecast of 3.7% and 2.5%.

Meanwhile labour market conditions remain tight. Low unemployment, still solid levels of employment growth (250k and 130k 3-month averages for the different labour report surveys) and elevated vacancy levels all suggest the market is tightening further amid constrained supply. There is some evidence of deceleration, both in employment growth and in the fall in average working hours, which has historically preceded a rise in unemployment. Average earnings growth has also softened closer to rates consistent with the Fed's long-term inflation goals. However, the trend in earnings swung sharply between November and December, questioning the pattern of the last two months and leaving any assessment tentative for now.

Against this background the Fed could not have been clearer. In December it forecast the Fed Funds closing 2023 above 5%. Minutes of the meeting stressed concerns about inflation persistence amid a tight labour market, considered an imbalance between labour supply and demand, and suggested a persistent period of below-trend growth was required to restore price stability. However, markets doubt the Fed's outlook and currently suggest a peak at 5% with rate cuts envisaged to begin in H2 2023. We also expect the Fed likely to peak at 5%, expecting two further 0.25% rate hikes in upcoming meetings. However, stronger growth and labour market resilience raise upside risks. We also expect slower disinflation in H2 2023 to delay any policy easing beyond 2023, something to which a slower emergence of recession would add. We forecast the Fed Funds rate at 3.75% in 2024.

The new session of Congress got off to a difficult start with Republicans struggling to elect a new majority speaker. Kevin McCarthy was eventually elected, after a post-Civil War record number of votes. However, the 'Freedom Caucus' extracted key concessions from McCarthy and now hold a disproportionate sway over the House. This makes the upcoming debt ceiling issue all the more perilous, with the Freedom Caucus demanding significant spending cuts to raise the ceiling. A US default if the ceiling is not raised is highly unlikely and President Joe Biden has threatened constitutional action if this appears likely. But a clash looks inevitable and may unnerve markets. The ceiling has now been reached but Treasury special measures will be possible, until at least early June, adding to our view that the issue will come to a head before the summer.

Global Macro Monthly – Eurozone


François Cabau,
Senior Eurozone Economist
Macro Research – Core Investments


Hugo Le Damany,
Eurozone Economist
Macro Research – Core Investments

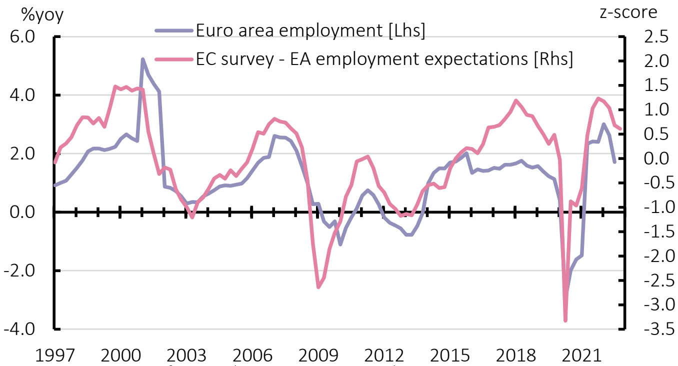
A shallow, short-lived recession at worst

Both soft and hard Eurozone activity indicators have surprised to the upside since November, consistent with the fact that the bloc may endure a short-lived, shallow recession at worst. In fact, we cannot rule out that it will avoid contraction entirely – Germany surprised with flat GDP growth for the fourth quarter (Q4), according to preliminary data. This is in stark contrast with our initial expectation that an energy-supply-led shock would heavily affect firms' output and household consumption.

Three main factors explain this turn for the better. First and foremost, on the energy front, temperatures have been significantly milder than usual, while gas saving measures and use of alternative sources of energy meant that very high gas storage ahead of the winter has seen only limited drawdown – storage levels are currently about 20 percentage points (ppt) higher than typical. Second, while energy-intensive industrial output in Germany did decline by 15% up to last November, reduced supply chain constraints generated a significant output rebound in car and chip-related industries. Eurozone industrial production Q4 carry over is only -0.1%[1] and has actually increased by 1.6% since last July when European Commission industrial production expectations were in negative territory.

Exhibit 2: Job market has 'never been as vibrant'

Euro area employment



Sources: Datasteam Refenitiv and AXA IM Macro Research, 23 January 2023

Finally, extended fiscal measures and a persistently strong labour market (Exhibit 2) have also likely supported demand, confirming the (excessive) pessimism suggested by consumer surveys. We look forward to the publication of member states' Q4 GDP data later this month to update our forecasts. Revised projections will also include lower energy price assumptions as well as a more upbeat view of China following the quicker reopening of the economy.

Better growth means higher rates for longer

Meanwhile, December's Eurozone headline inflation declined substantially to 9.2% year-on-year (-0.9 ppt), driven down by big one-off measures in Germany (gas bill reimbursement) and lower wholesale energy prices. But core inflation continued to increase and reached 5.2% (+0.2ppt). We believe core inflation will remain elevated and deceleration will be gradual, to average 5% in Q1 and 4.5% in Q2. The latest developments imply that risks to our inflation outlook are more balanced. If lower energy prices persist, this would directly reduce headline inflation and with it second-round effects. However, a better growth outlook, and especially a job market that has "never been as vibrant" – as described by the European Central Bank (ECB) President – could create more persistent pressure on core inflation via wages. Furthermore, upside could also come from higher energy prices: China reopening, Organization of the Petroleum Exporting Countries (OPEC) decisions to cut oil supply, etc.

All ingredients are seemingly gathered for a (more) hawkish ECB: Better growth prospects to generate further labour market tightness to support persistent wage growth and thus fuel more persistent core inflation pressures. Although too early to be definitive, recent developments point towards a possible shift from "bad" to "good" inflation[2]. This may explain why dovish members of the ECB Governing Council, such as Philip Lane and Pablo Hernández De Cos, have recently made hawkish comments. That said, the market rally in the meantime is unwarranted and as such some Council members – Lagarde, Lane, François Villeroy de Galhau and Klass Knot – have looked to fight against the recent easing of financial conditions generated by unnamed ECB sources pointing towards a 25-basis-point (bp) rate hike already from March, after a widely expected +50bps increase in February.

By contrast with recent market pricing, we think subtly edging towards more demand-push inflation means higher rates for longer. In the wake of the ECB's December meeting, we flagged that the deposit facility rate could go as high as 3.50% by June – our baseline expectation is the terminal rate will be reached at 3.25% in May. Not only could it materialise sooner, but the risk to the terminal rate is also skewed to the upside.

[1] Q4 qoq change assuming flat print in December

[2] See speech by ECB executive board member Fabio Panetta, 24 November 2021

25 January 2023

Global Macro Monthly – UK

Modupe Adegbembo
Junior Economist (G7)
Macro Research – Core Investments

More BoE tightening to come

November GDP figures surprised on the upside, with output up by 0.1% on the month compared to expectations of -0.2%. This follows October's 0.5% rise and means the UK may yet turn out to have avoided a technical recession in 2022. On balance, we still expect this to have been the case, with fourth quarter growth seen at -0.1% after -0.3% in Q3. Despite the somewhat stronger GDP numbers, other indicators remain weak, retail sales fell sharply in December and strikes may have impacted other consumer spending. We expect GDP growth of 4.1%, -0.7% and 0.8% in 2022, 2023 and 2024, respectively.

Inflation continues to ease from October's peak, falling to 10.5% in December but this is likely to be of little comfort for the Bank of England (BoE)'s rate-setting Monetary Policy Committee (MPC) as core inflation remains high at 6.3%. Falls in core goods prices are being offset by considerable rises in services inflation. The recent decline in wholesale gas prices could see energy prices fall below the government's £3,000 cap in the second half of 2023. We now forecast inflation to average 7.2% in 2023 and 2.3% in 2024 (down from 7.6% and 2.8%) but this will be highly dependent on energy prices. The labour market also remains tight and wage growth continues to push higher.

Prime Minister Rishi Sunak has ushered in a period of normality in British politics, fostering more agreeable relations between the UK and European Union (EU). That was signalled by an initial agreement on sharing data as part of Northern Ireland (NI) Protocol talks. Despite the positive developments, the Democratic Unionist Party remains unhappy with the Protocol and its members are refusing to return to the NI executive. The government still hopes to break the impasse and is allowing a six-week window to decide whether to call fresh elections in NI.

The MPC faces an economy that appears more resilient than it had anticipated, with more signs of persistent inflationary pressures including firmly rising wages and services inflation. We think the MPC will continue to act cautiously and lean against these pressures, hiking Bank Rate by 50 basis points (bp) at their next meeting on 2 February though this is likely to be a close call between 25bps and 50bps. Following this, we expect the MPC to hike again in March by 25bps, leaving the Bank Rate at 4.25%. We think the Bank will begin unwinding these hikes as the labour market adjustment continues, pencilling in one cut in Q4 2023 to 4%.

Global Macro Monthly – Canada

David Page
Head of Macro Research
Macro Research – Core Investments

Hawkish BoC vindicated

The Bank of Canada's (BoC) stronger-than-expected 50bp hike in December appears vindicated by recent data. While Q4 GDP is yet to be released, monthly data suggests a firmer 2022 close. The breakdown is unknown, but we suspect ongoing export growth added to persistent consumer spending, the former helped by a surprisingly more resilient global economy, particularly the US and Europe. We have edged up our forecast for Q4 GDP growth to 1.6% (annualised) and now see the economy having expanded by 3.6% in 2022 (from 3.3%) and suggest a stronger increase in 2023 – to around 1%. We lowered our outlook for 2024 to 1%. Consensus is for 0.5% and 1.5% in 2023 and 2024 respectively.

Broader data echoed this. The labour market posted a second upside surprise for the quarter, the 104k rise in December adding to October's 108k rise, taking employment growth for the quarter to 222k – its strongest outside of COVID-19 rebounds in 2020-2021. This strong employment growth drove unemployment lower to 5.0% despite improvements in labour supply – close to its mid-2022 record low of 4.9%.

Inflation was also relatively sticky. Headline inflation fell to 6.3% in December, down from June's 8.1% and a touch lower than the just-below 7% seen August to November. This was echoed in the BoC measures of core inflation, which have remained steady since May. Inflation did not start to rise sharply until early 2022 and as such, recent base effects have been soft. From January, these have risen steeply and headline inflation should drop markedly. We forecast inflation to average 4.3% and 2.4% for 2023 and 2024 (consensus 4.0% and 2.2%).

While the BoC appears justified in its hawkish close to 2022, it now faces a tougher call. It will update its economic projections at its 25 January meeting but in December had envisaged the economy would "essentially stall". In broad terms we expect this outlook to persist despite the firmer short-term momentum. Given the ongoing tightness of the labour market and still-elevated inflation we retain our forecast for a further 0.25% hike to 4.50% this month. However, a weakening economy and the lagged impact of policy tightening increasingly obvious in areas including housing should see this as the BoC's last. However, continued upside labour market surprises would add to the risk of a further increase. We do not expect a rate cut this year.

Global Macro Monthly – China

Aidan Yao
Senior Economist (China)
Macro Research – Core Investments

A depressing end to 2022

Official activity data confirmed a depressing end to a challenging year for the Chinese economy in 2022. Surging COVID-19 cases following Beijing's U-turn on its 'zero-Covid' policy disrupted supply chains, hampered mobility, and held back consumer and business spending. GDP barely avoided a double dip following its earlier contraction amid Shanghai's lockdowns. Annual growth collapsed to 3% from 8.4% in 2021, only beating the 2.2% in 2020, making it the second-worst reading in more than four decades.

However, the data was not as grim as expected and that has raised questions. For example, the narrowing growth decline of services output and retail sales in December was counterintuitive given that the surge in COVID-19 cases had reduced social mobility. The official data also showed a strong rebound in fixed asset investment growth from 0.7% to 3.1%. While it is possible the policy push to complete unfinished projects had helped housing construction, the gains in manufacturing and infrastructure investment were at odds with the weak PMI and third-party data. Only industrial production growth softened sequentially to 1.3% from 2.2%, but this decline was still mild relative to evidence of supply disruptions caused by the virus resurgence.

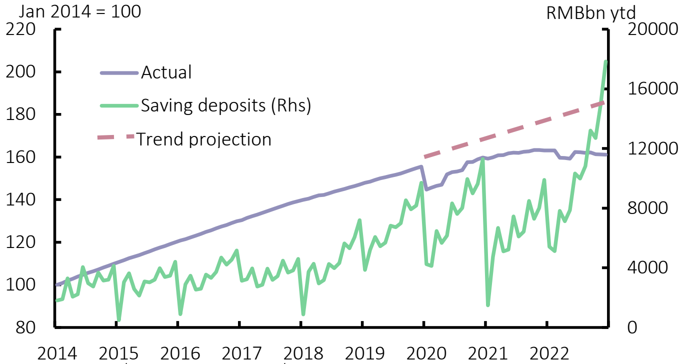
Signs of the economy turning a corner

These discrepancies could be resolved by future data revisions. For financial markets, Q4 data was water under the bridge; what investors need to pay attention to are forward-looking indicators that project the economy in the coming months. And the picture here has brightened considerably. Daily data on traffic congestion, subway ridership, freight volumes and house sales all bottomed in the middle of December and a recovery has since taken hold. These improvements were led by regions that had already passed the peak of infections. And as others follow suit, the growth momentum should continue to build. At the current rate, it is likely the majority of the country would pass the peak wave by late January or early February, paving the way for a more broad-based and sustained recovery thereafter.

With the much faster reopening, frontloading the recovery, we now see the balance of risks to our 5% growth forecast for 2023 biased to the upside. This recovery is expected to be led by consumption and services activities, which have been hit hard by the on-and-off COVID-19 restrictions in the past three years. The banking sector data suggests that households have accumulated trillions of yuan in deposits that can be unleashed to support spending after the reopening (Exhibit 3).

Exhibit 3: Households reduce spending and raise savings

China retail sales and household deposits



Source: CEIC and AXA IM Macro Research, January 2023

Our forecast also assumes broad policy stability over the rest of this year. But improved policy transmission – following the economic reopening and stabilisation in the property market – could provide further impetus to the recovery. Some marginal changes – such as raising the on-budget fiscal deficit to 3% from 2.8% or adding one to two trillion yuan to local governments' bond issuance limits – are entirely possible, although these are marginal changes, not enough to move our forecast. However, if Beijing were to introduce more aggressive stimulus at the upcoming National People's Congress, an upgrade to our forecast would be warranted.

On the flipside, the near-term risks from the spread of COVID-19 still bear watching. The transmission of the virus in rural China is of a particular concern given the limited medical infrastructure in many inland provinces. Such social risks could have an economic impact if migrant workers delay their return to cities after the lunar new year as they may have to look after the sick. Beyond the near-term, a pertinent downside risk is if consumption does not recover briskly and strongly. This could be driven by a slower normalisation in the labour market, less excess savings (and hence pent-up demand) than expected or scarring in the economy that manifests in household balance sheet impairment. With declining exports and limited upside for investment growth, the lack of a strong consumption revival could spell trouble for the economy against optimistic market expectations. These downside risks require close monitoring, but also need to be assessed against the growing, and now larger, potential for economic growth to surprise on the upside.

Global Macro Monthly – Japan

Modupe Adegbembo
Junior Economist (G7),
Macro Research – Core Investments

BoJ delivers a dovish surprise

At its January meeting the Bank of Japan (BoJ) voted unanimously to leave policy unchanged – including the +/-50 basis point (bp) band around its 0% 10-year Japanese Government Bond (JGB) target. Market expectations for a further tweak to the Yield Curve Control (YCC) policy had grown considerably since it surprised markets with an expansion to YCC bands in December following market dysfunction. The steps failed to address the problem and the BoJ spent ¥14tn ($11bn) in the week before its January meeting – taking total spending to 6% of GDP since December – to keep JGB yields below the new upper limit. Governor Haruhiko Kuroda continues to push back on market expectations of an imminent policy change and alongside this month's decision, the BoJ expanded additional operations to defend YCC increasing its funding facilities.

Inflation continued to edge higher, keeping pressure on the BoJ. The core Consumer Price Index (CPI), excluding fresh food and energy, rose to 3% in December – well above the 2% target. Yet despite the rise in inflation driven by higher processed food prices and a weak yen, domestic pressures remain subdued, underlying the BoJ's commitment to maintaining its accommodative stance. We continue to expect inflation to fall below 2% this year. We forecast BoJ core CPI to average 2.6% in 2023 and 1.7% in 2024.

In our view, the timing of policy change will hinge on two key factors: The outcome of spring wage negotiations and the new BoJ leader. These wage negotiations are key as the outcome of the discussions tends to set the pace for wage increases throughout the economy. Unions have already indicated they will bargain for higher settlements than before and an indication of the outcome will become clearer from mid-March. The new Governor will set the direction of policy and is expected to be announced to the Diet on 10 February. They will formally take over on 8 April. Current Deputy Governor Masayoshi Amamiya and former Deputy Governors Hiroshi Nakaso and Hirohide Yamaguchi are seen as the most likely candidates but each offers a potentially different path for BoJ policy.

In our base case we expect the BoJ to end YCC in 2024. We think the new leadership will delay any change until they can be sure inflationary pressures have risen sustainably. In 2023 we expect them to be wary of concerns of a slowdown in external demand and domestic consumption driven by falling real wages. But the risk of an earlier end to YCC remains high.

Global Macro Monthly – CEE

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A later, albeit still uncertain, disinflation path

Eurozone economies seem to have passed the inflation peak, yet Central and Eastern European (CEE) countries may face a different pace of disinflation ahead. Headline inflation has reached higher absolute levels compared to other European countries (excluding Turkey), as well as versus big Latin American or Asian peers. Hungary's Consumer Price Index (CPI) was the highest in the region at +24.5% year-on-year at end-2022. December readings elsewhere came in better than consensus expectations, with headline inflation slowing more than anticipated in Poland and the Czech Republic. Yet there is ongoing evidence of price pressure diffusion into the core components of CPI which is corroborated by some evidence of inflation expectations de-anchoring, which may slow the pace of disinflation.

Furthermore, governments in the region will readjust prices as they slowly end measures to protect consumers from the recent inflation spike. As such, we expect another acceleration in inflation with the peak likely to be reached later, sometime in the first quarter (Q1) of 2023. Many questions remain concerning the pace of the disinflationary path from spring: Fiscal support will continue to fuel consumer prices ahead of elections in Poland; wage claims are likely to remain strong in the context of structural supply shortages in the labour market; consumer demand has remained resilient – at odds with sentiment surveys which were pointing to a more downbeat mood; and inflation expectations appear unanchored.

A more positive development is the recent strength in the region's currencies. This will limit the extent of imported inflation but cannot choke off the strong underlying pressures. Inflation will not converge towards target in 2023-2024, pressuring central banks for a 'tighter-for-longer' monetary policy stance. We have noticed an increasing appetite for central banks to use currency interventions, rather than monetary policy tightening, throughout the region. Still, we believe current expectations are leaning on the dovish side, anticipating significant rate cuts across 2023 to the tune of 675 basis points (bp) in Hungary, more than 100bps in the Czech Republic, and even some in Poland. While still forecasting a recession in the first half of 2023 and a disinflationary path into the second half of the year, we tend to think that CEE central banks may need to be more careful about the timing and the calibration of their policy pivot.

Global Macro Monthly – Asia

Shirley Shen,
Economist (Emerging Asia)
Macro Research – Core Investments

Asia starts 2023 on a softer note

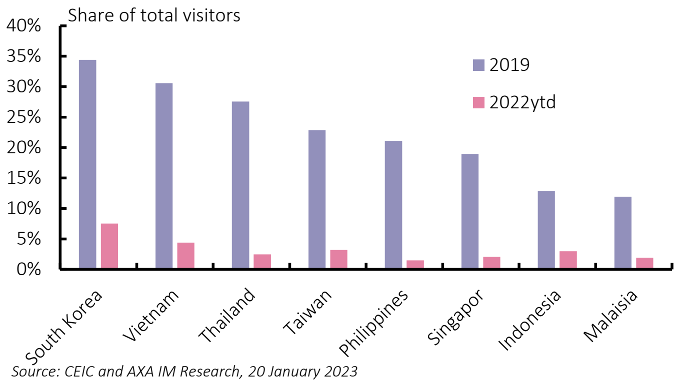
Asia in general proved to be rather resilient last year amid easing COVID-19 restrictions, the recovery of domestic activities and a boost from pent-up demand. Yet 2023 has begun on a much softer note from the continuous weakening of trade, in turn due to easing global demand, the lagged impact of rising interest rates and financial market volatility.

December's headline manufacturing purchasing managers' indices (PMIs) suggested a much faster contraction, especially in the export-driven economies (Korea, Taiwan and Singapore). Looking ahead, these economies will face challenges including a soft global electronics cycle and higher interest rates curbing domestic demand. In the more domestically-focused economies, headline PMIs remained much more resilient although new export orders pulled back across the board, hinting that trade recession could be around the corner.

Fortunately, China's much quicker-than-expected border reopening will help to offset some of the export drag from developed markets. Since 8 January, opportunities for international trips have risen as Chinese travellers are no longer restricted by returning quarantine and test requirements (Exhibit 4). Thailand will likely be one of the largest beneficiaries as the return of its biggest customer base will serve as a strong foundation for the country's post-pandemic recovery. Elsewhere in Asia, commodity exporters (Indonesia and Malaysia) as well as economies that are more intertwined with China will also benefit from higher export demand from the world's second-largest economy.

Exhibit 4: China tourists inflow recovery to boost services

Chinese tourists to major Asian economies



Source: CEIC and AXA IM Research, 20 January 2023

Global Macro Monthly – LatAm

Luis Lopez-Vivas,
Economist (Latin America),
Macro Research – Core Investments

New year, same political turmoil

After a busy electoral calendar in 2022 with contentious elections in Brazil, Chile and Colombia, we expect 2023 to be a relatively quiet year for politics in the region. Argentina will be the only large country in Latin America to hold presidential elections this year (23 October). Unfortunately, the region is off to a complicated start. Political polarisation in Peru and Brazil has erupted into violence while uncertainty will remain high in Chile as the country will start a second constitutional process.

Peru declared a state of emergency in its largest cities after weeks of protests against interim President Dina Boluarte that left dozens of people dead. The mass demonstrations started in early December after then-President Pedro Castillo was removed from power after illegally attempting to shut down Congress to prevent an impeachment vote against him. Castillo's followers are demanding that Boluarte, who hails from the same left-wing party as Castillo, steps down and calls an election immediately. Elections are scheduled for April 2024, but it is unclear whether Boluarte will be able to cling to power until then. While the economy had been largely immune from Peru's long-running political crisis, the current bout of protests could disrupt the vital mining sector as demonstrators have halted ground transport across the country.

In Brazil, thousands of supporters of former President Jair Bolsonaro stormed and vandalised the country's Congress, the Supreme Court and the Presidential Palace on 8 January. The rioters claimed October's elections were fraudulent and demanded the military overthrow President Luiz Inácio Lula da Silva who was inaugurated on 1 January for a third term. Although the attacks did not pose a serious threat to Lula, the potential for additional social turmoil could push the government to further delay a vital, but unpopular, long-term fiscal adjustment programme. Failure to tackle the country's fragile fiscal situation could spark fear among investors and raise already-high financing costs.

On 11 January, Chilean lawmakers voted to kick off a new rewrite of the constitution. This renewed attempt comes only four months after voters emphatically rejected a proposed first draft. This second draft is expected to be much more moderate to boost its chances of being ratified in December's referendum. Until then, political uncertainty will continue to loom over Chile and keep investment subdued.

Recommended asset allocation

Asset Allocation	Negative	Neutral	Positive
Key asset classes			
Equities	■		
Bonds			■
Commodities		■	
Cash		■	
Equities			
Developed			
Euro area	■		
UK		■	
Switzerland		■	
US	▼		
Japan		▼	
Emerging & Sectors			
Emerging Markets		■	
Europe Cyclical/Value		■	
Euro Financials		■	
European Auto		■	
US Financials		■	
US Russell 2000		■	
Fixed Income			
Govies			
Euro core		▼	
Euro peripheral		■	
UK		■	
US		■	
Inflation			
US		■	
Euro		■	
Credit			
Euro IG		■	
US IG		■	
Euro HY		■	
US HY (short duration)		▼	
EM Debt			
EM bonds HC			▲

Legends: Negative | Neutral | Positive — Last change: ▲ Upgrade | ▼ Downgrade

Source: AXA IM Macro Research – As of 25 January 2023

Macro forecast summary

Real GDP growth (%)	2022*		2023*		2024*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.2		2.3		2.8	
Advanced economies	2.6		0.3		1.0	
US	2.1	1.9	0.1	0.2	0.8	
Euro area	3.2	3.2	-0.2	-0.1	0.9	
Germany	1.7	1.7	-0.6	-0.7	0.8	
France	2.4	2.5	0.0	0.1	0.8	
Italy	3.6	3.7	0.0	-0.1	0.6	
Spain	4.5	4.5	0.3	0.8	1.3	
Japan	1.6	1.5	1.7	1.3	1.3	
UK	4.1	4.4	-0.7	-1.0	0.8	
Switzerland	2.3	2.1	0.6	0.5	1.3	
Canada	3.5	3.4	1.0	0.4	1.0	
Emerging economies	3.6		3.5		3.8	
Asia	4.1		4.8		4.5	
China	3.0	3.1	5.0	4.5	4.8	
South Korea	2.3	2.6	1.5	1.3	2.0	
Rest of EM Asia	5.5		4.9		4.4	
LatAm	3.5		1.7		2.4	
Brazil	2.7	2.9	1.0	1.0	2.0	
Mexico	2.2	2.8	1.0	1.1	2.0	
EM Europe	0.5		-0.9		2.1	
Russia	-3.0		-3.8		2.0	
Poland	4.4	4.8	0.1	0.8	2.4	
Turkey	5.9	5.2	0.5	2.2	1.4	
Other EMs	4.5		3.6		3.6	

Source: Datastream, IMF and AXA IM Macro Research – As of 23 January 2023 *Forecast

CPI Inflation (%)	2022*		2023*		2024*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	7.4		5.0		2.8	
US	8.0	8.1	4.9	4.1	3.2	
Euro area	8.4	8.5	5.8	6.3	2.8	
China	2.1	2.1	2.3	2.4	2.5	
Japan	2.5	2.4	2.7	1.8	1.5	
UK	9.1	9.0	7.2	7.3	2.3	
Switzerland	2.8	2.9	2.0	2.3	1.3	
Canada	6.8	6.8	4.3	3.8	2.4	

Source: Datastream, IMF and AXA IM Macro Research – As of 23 January 2023 *Forecast

These projections are not necessarily reliable indicators of future results

25 January 2023

Forecast summary

Central bank policy						
Meeting dates and expected changes (Rates in bp / QE in bn)						
		Current	Q1-23	Q2-23	Q3-23	Q4-23
United States - Fed	Dates	4.50	31-1 Jan/Feb 21-22 Mar	2-3 May 13-14 Jun	25-26 Jul 19-20 Sep	31-1 Oct/Nov 12-13 Dec
	Rates		+0.5 (4.75-5.00)	unch (5.00)	unch (5.00)	unch (5.00)
Euro area - ECB	Dates	2.00	2 Feb 16 Mar	4 May 15 Jun	27 Jul 14 Sep	26 Oct 14 Dec
	Rates		+1.0 (3.00)	+0.25 (3.25)	unch (3.25)	unch (3.25)
Japan - BoJ	Dates	-0.10	9-10 Mar	27-28 Apr 15-16 Jun	27-28 Jul 21-22 Sep	30-31 Oct 18-19 Dec
	Rates		unch (-0.10)	unch (-0.10)	unch (-0.10)	unch (-0.10)
UK - BoE	Dates	3.50	2 Feb 23 Mar	11 May 22 Jun	3 Aug 21 Sep	2 Nov 14 Dec
	Rates		+0.75 (4.25)	unch (4.25)	unch (4.25)	-0.25 (4.00)

Source: AXA IM Macro Research - As of 23 January 2023

These projections are not necessarily reliable indicators of future results

Download the full slide deck of our January Investment Strategy

17 June 2022

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