# Monthly Investment Strategy

## Economic cross currents and central bank re-pricing

### Key points

- Despite a number of cross-currents, the global growth outlook for 2023 looks firmer. This is driven by a post-COVID re-opening acceleration in China, a better-than-feared winter in Europe, and a stronger-for-longer US.
- Inflation has fallen sharply, but mainly in headline terms. Core inflation – particularly services inflation – has remained more persistent and should remain elevated while labour markets are tight. Upside employment surprises in the US and Canada perpetuate this. Euro area inflation risks also look increasingly home grown.
- Central banks will have to respond to this persistence. The ECB has signalled further tightening and is about to begin to unwind its asset purchases. The Fed looks likely to hike by more and we continue to expect a further hike from the Bank of England and see some risk from the Bank of Canada, despite its "conditional pause".
- Rate markets have recognised this risk and repriced accordingly. The expected Fed pivot is all but removed.

### Global Macro Monthly

# Economic cross currents and central bank repricing

## Global Macro Monthly Summary February 2023

**David Page**
Head of Macro Research
Macro Research – Core Investments

### More positive growth trends persist

Two months into 2023 and the more positive growth outlook persists. In China, high-frequency data corroborates our expectation of a strong, services-driven post-COVID-19 re-opening rebound, with indicators rising above 2020 levels. We still await official data post-Lunar New Year. Moreover, and wary of divergence between official and high-frequency data last quarter, there is still scope for surprise. Looking ahead, we focus on the upcoming National People's Congress, and the announcement of the new national growth target.

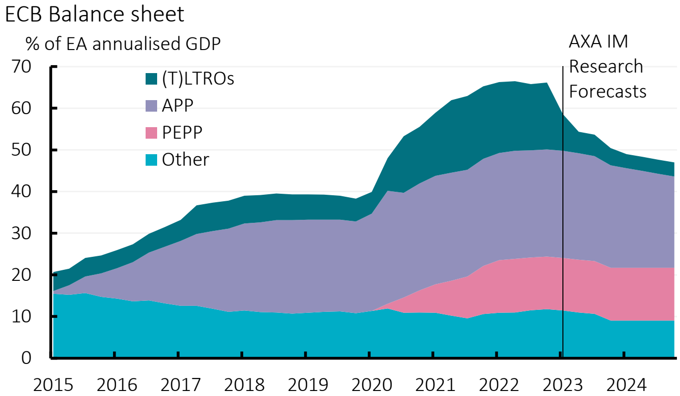
In the Eurozone, which avoided a sharp contraction this winter, the annual growth outlook has improved materially. Q4's meagre growth owed much to Ireland's 3.5% quarterly surge. Without this, the bloc's economy would have contracted, as many individual countries did, including Germany, Italy and Austria. But the outlook continues to be firmer. And resilience in the US's 2.9% (saar) Q4 GDP outlook, persisted in January's bumper employment gains and 3% monthly surge in retail sales, which could suggest a reacceleration of economic activity – rather than the mild recession we forecast for this year.

### Central bank forward guidance falters

With several economies facing cross currents in the economic data, central banks have become increasingly tentative about their next steps. The Bank of Canada announced a "conditional pause"; the Bank of England stated a pause would be consistent with its forecasts but risks skewed the outlook towards further tightening. Federal Reserve (Fed) Chair Jerome Powell reiterated the Fed's hawkish December outlook, before conceding it could follow a different path – something that spurred markets, convinced of a policy pivot in 2023. Meanwhile markets have been unsure of what to make of the newly announced Bank of Japan Governor Kazuo Ueda.

Only the European Central Bank (ECB) appeared to continue to commit to ongoing hikes over coming meetings. The ECB is also set to supplement rate increases with quantitative tightening (QT) from March and this month's *Theme of the Month* previews an upcoming research note detailing how this will further tighten financial conditions (Exhibit 1).

Exhibit 1: ECB set to begin its own QT programme




*Source: ECB and AXA IM Research, 20 February 2023*

With these uncertainties, rate markets have reacted to headline releases. Surprise employment increases in the US and Canada and data questioning the pace of disinflation in the US and Eurozone, have contributed to a marked re-pricing of rate outlooks and a rise in government bond yields. Recent moves in equities – particularly in the US – appear more consistent with post-recession recovery than a late cycle, pre-recession phase, more in line with rate market pricing and our view of the economic cycle – a tension that has persisted this year.

### Geopolitical risks and the Ukraine war one year on

Beyond the macroeconomic and monetary policy market drivers, geopolitical tensions continue to brew beneath the surface. North Korea has resumed missile tests and paraded long-range rockets as it rails against US joint military exercises. The International Atomic Energy Agency has found close-to-weapons-grade enriched uranium in Iran, the second surprise this month. And the US cancelled Secretary of State Antony Blinken's planned trip to China after an alleged spy balloon was spotted and destroyed over the US. The two countries did meet this month in Germany, but this did little to ease tensions.

Yet all of this takes place against the background of the one-year anniversary of Russia's invasion of Ukraine. The subsequent war has not unfolded as anyone expected. Western allies continue to supply Ukraine with arms to defend itself and have imposed sanctions on Russia. But Russia appears to be preparing for a renewed assault. This remains a humanitarian disaster. The risks of escalation persist and could have material economic consequences that continue to provide additional threats to the global outlook.

# Global Macro Monthly – US

**David Page**
Head of Macro Research
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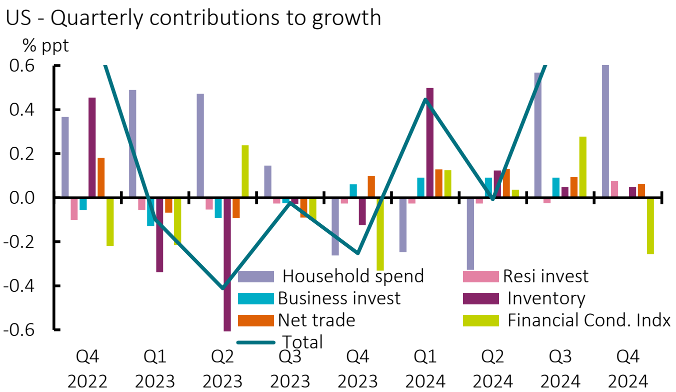
## Cross currents

"Wow". That was the reaction from San Francisco Federal Reserve (Fed) President Mary Daly's to January's employment report. The first week of February built on last month's view that the economy closed 2022 with more momentum which may spill into 2023. January's labour market data showed employment grew by 517k on the month, unemployment fell to a 53-year low of 3.4%, and wage growth, which had been described as slowing to 4.1% 3-month annualised in December, was revised to 5.0% and still 4.6% in January. Other labour market reports corroborated this strength, including an unexpected rise in December's job vacancies and ongoing declines in jobless claims.

Stronger momentum is also seen in spending data. December's retail sales pointed to consumer retracement but strong auto sales and a robust 3.0% rise in January's retail sales – 2.3% excluding auto sales – suggest greater longevity. Indeed, stronger employment gains have improved our outlook for real income growth over coming quarters.

Exhibit 2: Asynchronous slowdown could avoid recession




*Source: Bureau of Economic Analysis, Goldman Sachs and AXA IM Research, 21 February 2023*

Yet this stronger momentum must be considered against ongoing headwinds. The housing market continues to correct sharply with total home sales now below their pandemic low and house prices likely to fall in annual terms. Business investment rose in Q4, but the negative corporate profit outlook leaves us expecting falls in 2023 – albeit with uncertainty around energy investment after 2022's energy shock and the Inflation Reduction Act. These headwinds reflect the material tightening in financial conditions in 2022, which, despite some easing over the last four months, is still likely to weigh on activity. Finally, some of Q4's GDP strength was the result of temporary factors, including inventory gains and a net trade contribution. These could unwind later.

Taken together, we still consider a mild recession this year – our recession model signalled a greater probability this month. Yet we appear to be experiencing an asynchronous slowdown. Different sectors are weakening at different times (Exhibit 2) with corporate stress likely over the coming quarters, but household stress expected towards year-end. Recessions usually occur with synchronised slowdowns. Without this, there is more chance that the economy muddles through, either avoiding consecutive quarters of contraction, or at least the National Bureau of Economic Research's labelling as in H1 2022.

Our conviction for recession is lower, although it remains our central view. We also delay the expected timing of a downturn, now forecasting the first dip in Q2. This delay shifts our view for annual growth; after 2.1% in 2022, we forecast 0.8% in 2023 (from 0.1%) but have lowered our 2024 forecast to 0.3% (from 0.8%). Consensus forecasts are 0.5% and 1.2% respectively.

## Risk of more, not less, Fed

We consider a softer economy and looser labour market as necessary for the Fed to restore price stability in 2024 – its overriding priority. Admittedly, inflation has fallen sharply – reaching 6.4% in January – and we expect it to fall to around 3.5% by mid-year. However, the headline rate looks set to remain sticky above 3.5% over the second half of 2023, particularly if oil prices rise on China's expected acceleration. Moreover, the ongoing tightness of the labour market is likely to keep services inflation elevated. We lowered our CPI inflation forecast for this year to 4.3% and 3.0% for 2024 (from 4.9% and 3.2%). Consensus expects 3.8% and 2.5%.

The economy's cross-currents make forecasting more difficult – a particular issue for the Fed. In February's meeting, the Fed suggested "ongoing increases" were likely appropriate and Fed Chair Powell reiterated that a tight labour market caused risks to restoring price stability. This was consistent with 'dot plot' projections for a Fed Funds peak at 5.25%. However, Powell failed to deny that a pause had been discussed at that meeting and suggested the market's pivot view could emerge if inflation fell more quickly. Market conviction for a pivot surged but quickly reversed after the strong employment report and January's inflation – year-end rate expectations have risen by 70bps since the first week of February. We acknowledge the greater economic resilience in our forecast and lift our rate peak expectation to 5.25% in May, but at this stage, a 5.50% peak looks more likely than 5.00%. We still consider rate cuts unlikely before 2024; this is fast becoming the market view as well and we expect rates to close next year at 3.75%.

![AXA Investment Managers]

23 February 2023

# Global Macro Monthly – Eurozone


**François Cabau,**
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## Near-term activity improved, outlook still subdued

The economic environment has been more resilient than anticipated but the outlook remains subdued. This has translated into better-than-expected fourth quarter (Q4) GDP growing by 0.1% quarter-on-quarter (qoq) for the euro area. However, the details available so far are far from rosy. Excluding Ireland, which posted strong 3.5% growth, euro area GDP would have been slightly negative. Net exports contributed positively to growth, but these were led by imports falling more than exports. We only have expenditure details for France and Spain where private consumption fell by -0.9% and -1.8%qoq respectively. But the euro area as a whole saw an important decline in retail sales as December data dropped by 1.1% on the month, reducing the carry over for the current quarter. Euro area industrial production momentum weakened (-1.1%mom), pushed down by weak figures in Germany (-3.2%) for which all components were down: Manufacturing (-2.1%), construction (-8.0%) and energy (-2.6%).

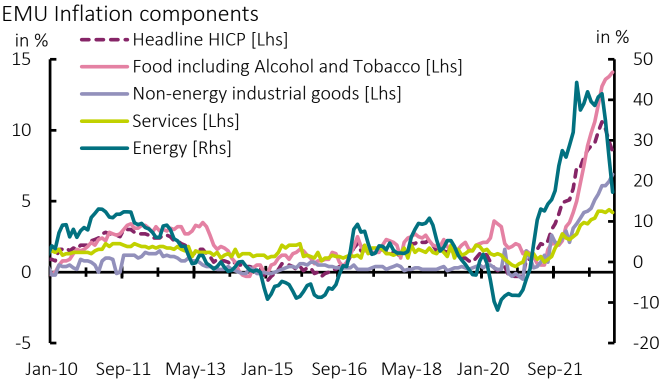
Eurozone Purchasing Managers' Indices returned to expansionary territory in January, rising to 50.8 in services sector, and 50.3 for the composite – both up one percentage point. Economic activity is likely to be slightly positive at best across the euro area, but we cannot exclude another negative quarter in some countries such as Germany. Beyond the current quarter, we remain convinced headwinds will be important. Financing conditions continue to tighten and will weigh on already-weak demand, as suggested in the most recent European Central bank (ECB) Bank Lending Survey which anticipate another fall in loan demand in Q1. A slowing US is another risk, while China reopening may only partially compensate. Overall, while energy supply disruptions caused fewer issues than feared, we still expect subdued growth, below potential on a sequential basis throughout this year. We adjust our forecast GDP growth to +0.8% in 2023 and 0.7% in 2024 (from -0.2% and 0.9%), with further fine tuning likely as more detail emerges. Consensus forecasts 0% and 1.2%.

## Mixed signal from prices

Consumer prices continue to send mixed signals. January's headline inflation eased to 8.5% (year-on-year) from 9.2% in December. But this is likely to be revised to 8.6%-8.7% when the German Harmonised Index of Consumer Prices (HICP) is included in Eurostat's final estimate. The drop is due to lower wholesale energy prices (Exhibit 3). Final core inflation may also be revised up to 5.3% from a flash reading of 5.2% (unchanged from December), showing goods and services price pressures remain elevated. We believe that core has reached, or is very close to, a peak – but we do not expect a fast drop as concerns over labour cost rises are gradually replacing supply chain issues and rising energy costs.

Exhibit 3: Inflation is only driven down by energy

EMU Inflation components



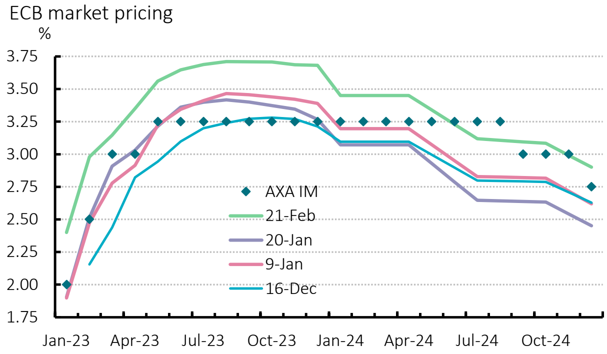

*Source: Eurostat and AXA IM Macro Research, January 2023*

## ECB to stay the course

We were surprised by the market reaction to the ECB's February meeting. We think the Governing Council maintained a hawkish message by committing to a 50-basis-point (bp) hike in March while determining the future path as "data dependant". Despite acknowledging inflation risks are more balanced, "it remains primarily on the upside" so risks that the ECB may go higher are still intact. Therefore, our baseline expectation is that the ECB will hike by another 25bps in May, with the risk of adding 25bps in June, consistent with a terminal rate at 3.5%, as we have highlighted since December. That would be in line with most recent sharp market repricing (Exhibit 4).

Exhibit 4: ECB terminal rate pricing is drifting higher

ECB market pricing




*Source: Bloomberg and AXA IM Research, 21 February 2023*

# Global Macro Monthly – UK

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

## BoE closes in on peak

The economy narrowly avoided recession in 2022, with growth remaining flat in Q4 2022 - above our expectations of a -0.1% contraction. But the UK economy remains weak as evidenced by the recent deterioration in consumer and business surveys. We expect a further decline in 2023 shifting our expected timing of recession to Q2 2023. Overall, in 2022 GDP growth averaged 4%, following 7.1% growth in 2021. We expect growth to average -0.7% this year and 0.8% in 2024 (consensus -0.8% and 0.8%).

Price pressures have continued to ease but remain uncomfortably high with CPI inflation at 10.1% in January. Importantly, core and services inflation also fell; services inflation declined to 6% from 6.8% – a development the Bank of England (BoE) will welcome. However, the labour market remains tight and though demand has shown signs of moderating with vacancies falling for the seventh consecutive month, we have only begun to see a small rebound in supply which is needed to create some slack in the labour market.

The Monetary Policy Committee next meets on 21 March. Additional labour market and inflation reports will be released before this time. We continue to expect one more 25-basis-point (bp) hike, bringing the Bank Rate to 4.25%, despite the BoE hinting at an earlier pause. We suspect it will remain cautious in the face of only nascent signs of easing price pressures and a still-tight labour market. We expect the BoE to stop at 4.25% but to begin to unwind at the end of 2023 as the labour market loosens. We have pencilled in a 25bp cut per quarter from Q4 2023 to Q4 2024, bringing Bank Rate to 3%.

Nicola Sturgeon announced her resignation as First Minister of Scotland and leader of the Scottish National Party. Her exit leaves considerable uncertainty over the Scottish independence movement which has been strong under her leadership. It is unknown who will replace her, but their appeal may have a broader impact on UK politics. Separately discussions between the UK and EU have progressed following the government's decision to delay Northern Ireland elections until 2024. Prime Minister Rishi Sunak is expected to meet EU leaders in a final push for an agreement on Northern Ireland. Even if a deal can provisionally be agreed, it will still face considerable challenges in being accepted by the Democratic Unionist Party and many within the Conservative Party.

# Global Macro Monthly – Canada

**David Page**
Head of Macro Research
Macro Research – Core Investments

## BoC signals a "conditional" pause

After the Bank of Canada's (BoC) latest meeting, Governor Tiff Macklem summarised its decision, stating "it is time to pause and assess whether monetary policy is sufficiently restrictive to bring inflation back to 2%". Since this pause, recent employment data showed the labour market remains tight, leaving the risk of further tightening.

Employment rose by 150,000 in January, well above our own and consensus expectations of a 15,000 rise. However, despite the large rise in employment, unemployment remained at 5% (consensus 5.1%) due to a large increase in labour force participation. Moreover, annual wage growth slowed slightly to 4.5% from 4.7% in December.

Yet growth continue to moderate, in line with our expectations. Monthly GDP in November rose by 0.1% and we expect fourth quarter (Q4) GDP to increase by 0.4% on the quarter, before slowing further over the coming quarters. We forecast annual GDP growth of 3.6%, 1% and 1% for 2022, 2023 and 2024 respectively. On balance, we expect Canada to narrowly avoid recession. By contrast, consensus expectations are for growth of 3.5%, 0.5% and 1.5% — a view which implicitly suggests recession in 2023.

Following the January BoC meeting, the Bank published for the first time a summary of its "monetary policy deliberations". The summary highlighted the key debate between leaving the policy rate unchanged and a 25-basis point (bp) hike in January. It also noted the importance the Governing Council placed on the forward guidance for future meetings – signalling a pause at this meeting.

We believe the BoC has peaked in its rate hiking cycle. However, we recognise the importance of the labour market in these deliberations. Recent employment data has continued to show strength – although previous strength has also been revised. This adds to the uncertainty of whether the BoC will have to carry out further tightening (with the biggest risk being a further 25bp-hike, but only in April). We do not presently expect the BoC to begin cutting rates this year and pencil in 150bps of cuts in 2024, bringing rates to 3% by year-end.

# Global Macro Monthly – China

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Senior Economist (China)
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## Strong start to the Year of the Rabbit

Following a depressing end to 2022, the Chinese economy has entered the Year of the Rabbit on a much stronger footing thanks to the faster-than-expected COVID-19 policy pivot. The Lunar New Year (LNY) has provided a useful window to observe the economic recovery post-reopening, and the picture is broadly encouraging. Most notably, mobility metrics have continued to improve following the removal of pandemic-related restrictions. Traffic congestion and subway ridership in the largest cities have rebounded strongly in the lead up to, and after, the LNY to above 2019 levels. The Baidu migration index, which captures the full spectrum of public and private transportation use, shows that post-LNY travel in 2023 was the strongest in five years.

Part of the recovery in mobility reflects increased tourism activity during the holiday. Official data shows the number of trips and tourism revenue jumped 23% and 30% respectively compared to the same period last year. The domestic flight operating rate has risen further since the LNY to its highest level in three years. The hotel occupancy rate has also climbed, although remains around 40% below the pre-COVID-19 level.

One of the most popular holiday destinations during the LNY was Hainan, known as China's Hawaii. Besides soaking up the sunshine on the beaches, people also rushed to duty-free shops, driving a 21% increase in same-store sales compared to last year, and more than three times the figure recorded in 2019. Offline entertainment also saw strong growth, with box office sales rising to their second-highest level on record. Restaurant and catering sales jumped 25% year-on-year and were 2% higher than 2019 levels.

Overall, consumption data suggests Chinese consumers have opened their wallets and been particularly generous to services spending. This is consistent with our expectation of a services-led economic recovery after having observed the reopening of other countries. The sharp rebound in the services Purchasing Managers' Index (PMI) in January to a seven-month high corroborates with the LNY data (Exhibit 5).

However, the recovery is not without weak spots. The housing market has been slow to regain strength after the holiday. While the latest weekly sales have improved somewhat, the overall level of activity remains lacklustre especially considering the multiple policy supports already implemented.

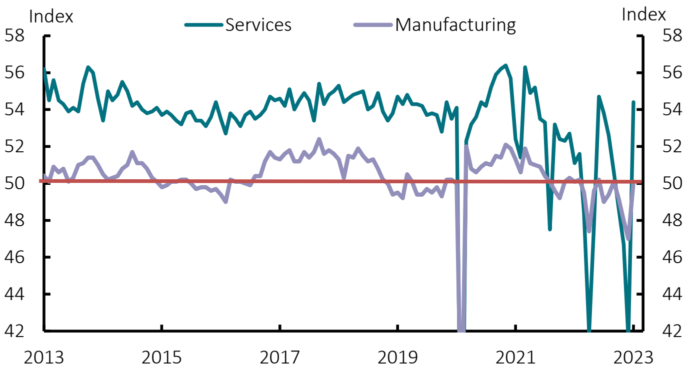
Indeed, falling mortgage rates have so far not generated the 'animal spirits' that propel massive new home purchases. Instead, many have chosen to refinance or pay down their existing and more expensive debt. While mortgage refinancing when interest rates fall is entirely reasonable, these behaviours – of deleveraging balance sheets instead of re-leveraging – do underscore continued caution among households, particularly when it comes to buying new homes. The road to a property market recovery will likely remain treacherous and uncertain.

Automobile sales also bucked the trend, recording a sharp sequential growth decline in January. The earlier LNY this year played a role, but frontloaded purchases at the end of 2022 to beat the expiration of government subsidies was a more important driver of the weakness. Major auto makers have recently cut prices to offset the subsidy changes but it remains to be seen if that can put a floor under the market. Another weak spot is exports, which continue to struggle against waning global demand. Ocean freight costs for cargo bound to the US have fallen precipitously against anecdotal evidence of empty containers piling up at ports. With darker days still to come for developed economies – we still expect recession in the US – Beijing has work to do to ensure domestic demand is strong enough to pick up the slack from reduced sales to overseas. Downside risks from weak exports should not be overlooked.

In all, the limited data so far suggests that China's economic recovery has proceeded largely as expected in both strength and composition. However, Beijing needs to attend to the lingering headwinds and take actions to limit their impact. Further policy supports are warranted at the upcoming National People's Congress to solidify the foundation of the economic recovery and reinforce confidence in financial markets. We now see the balance of risks to our 5% annual growth forecast biased to the upside.

Exhibit 5: PMIs rebound led by services activity

China manufacturing and services PMI




*Source: CEIC and AXA IM Research, 16 February 2023*

23 February 2023

# 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 – EM/CEE

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## Food inflation raises concern

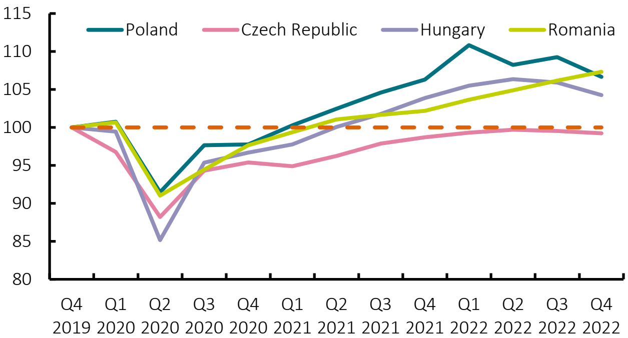
After several months of easing price pressures, most emerging markets (EM) saw their rates of inflation accelerate in January. Headline inflation rates have not even reached their year-on-year peaks in Colombia (13.3%), Hungary (25.7%) and the Philippines (8.7%). In January, price resets, administrative price adjustments, methodological and basket changes were implemented. Still, volatile food prices seemed to have pushed inflation higher in Central Europe but also in India where cereal inflation reached 16% compared to a year earlier. The good news is that food prices are likely to start a significant descent and support a sharp fall in headline inflation across EMs: The United Nations Food and Agriculture Organization food price index peaked in March 2022 and has since fallen by 19%, back to summer 2021 levels, and the continuous fall in gas prices is likely to continue to support this trend. The focus will increasingly turn to core inflation in order to assess the stickiness of this episode and gauge the capacity of central banks to start easing their policies at a time when sluggish growth is taking its toll on many EMs.

## CEE endures technical recession in late 2022

Having avoided energy shortages this winter, growth in Central and Eastern Europe (CEE) has nonetheless weakened. Preliminary GDP estimates show Hungary and Czechia in technical recession at the end of 2022 (Exhibit 6), the latter still not having recovered to its pre-pandemic levels. This may have well been the trough in GDP, but expectations of a strong recovery will remain impaired by high inflation weighing on domestic demand while export growth may remain weak.

Exhibit 6: Trough in GDP in CEE in Q4 2022?

GDP index in Central Europe (Q4 2019 = 100)




*Source: Refinitiv Eikon and AXA IM Research, February 2023*

23 February 2023

# Global Macro Monthly – EM Asia

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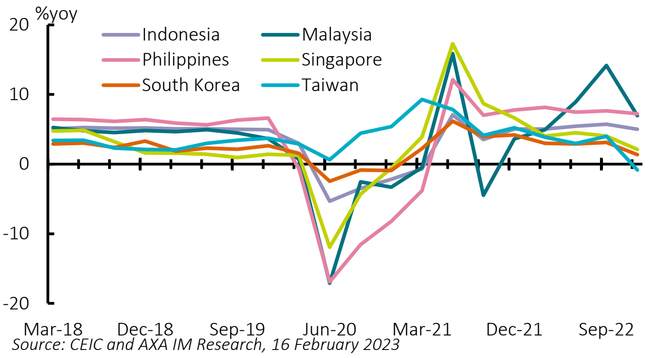
## Growth momentum slows

Following a soft start to the year, several Asian economies have reported their GDP figures for Q4 2022 (Exhibit 7). Apart from the few yet to be released, all have seen year-on-year GDP growth rates fall compared to the previous quarter. For the export-dependent economies such as Korea and Taiwan, GDP numbers have weakened considerably due to slowing exports. Malaysia's GDP expanded on an annual basis but saw a sequential contraction of -2.6%, weighed down by private consumption as well as less supportive exports. On a more positive front, Indonesia saw a sequential acceleration led by private consumption and exports. Singapore's Q4 growth surprised the market as the services sector gained momentum.

Exhibit 7: Q4 GDP figures were weaker

GDP growth for the major Asian economies




*Source: CEIC and AXA IM Research, 16 February 2023*

Similarly, headline manufacturing Purchasing Managers' Indices continue to suggest an ongoing divergence between the economies that are domestically-oriented – India and Philippines - and countries that are more trade-reliant e.g., Korea, Taiwan and Malaysia.

Price pressures in general remained subdued in Asia, with the exception of the Philippines. Both headline and core inflation figures remained elevated in January, marking the 11th consecutive month of inflation acceleration. India's recent Consumer Price Index reading surprised many due to higher-than-expected food prices. In the recent Monetary Policy Committee meeting, the Reserve Bank of India (RBI) hiked the repo rate by a smaller magnitude of 25 basis points and kept the stance unchanged i.e., withdrawal of accommodation while continuing to prioritise bringing down inflation. Interestingly though, the RBI has lowered its inflation projection hinting that the end of rate hike cycle may be just around the corner.

# Global Macro Monthly – EM LatAm

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## Running out of fuel

The latest data from Latin America suggests that economic activity is losing momentum across the region, with Q4 GDP figures released for Colombia and Mexico indicating a deceleration on a year-on-year basis. Colombia registered a steep slowdown with growth coming in at 2.9%, significantly down from 7.7% in Q3 and below consensus expectations. The country's central bank faces a challenge as weak growth will test its commitment to curb inflation, with both headline and core remaining in double-digits despite a 1,100-basis-point hiking cycle. In Mexico, the economy grew at a steady 3.5%, albeit lower than the 4.3% expansion recorded in Q3. More positively, supply-side data showed a more even distribution of growth across all three main sectors of the economy.

Analysing monthly economic activity data for Peru, Brazil, and Chile, we also see a deceleration in growth during the last quarter of 2022. Peru's economic activity index slowed for a third consecutive month in December to 1.2% on an annual basis. The figure marked the worst result since February 2021 as political turmoil, high inflation and tight monetary policy all weigh on the economy. Political instability will likely persist until the interim President resigns and new elections can be called. In Brazil, economic activity remained flat at 1.5% year-on-year in December, after seeing a peak of 5.6% in July. The Brazilian economy had benefitted earlier in 2022 from higher government spending in the run-up to elections in October. However, without this aid, the economy is running out of fuel, weighed down by the central bank's hawkish monetary policy. The Chilean economy, meanwhile, shows no signs of picking up. In December, the economic activity index contracted for a fourth consecutive month on an annual basis. Declines in retail sales and manufacturing were the main drivers behind the contraction in December.

All things considered, this recent economic data just confirms the growth slowdown that we expected as a result of a cooling global economy, tighter financial conditions and lack of domestic growth drivers. Nevertheless, China's quicker-than-expected reopening could be a silver lining for the region this year. The positive impact is likely to be more restricted this time, as China's growth is anticipated to be more inward-looking, resulting in limited effects on commodity prices.

# 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** | | | |
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| 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 22 February 2023*

# Macro forecast summary

| Real GDP growth (%) | 2022* | | 2023* | | 2024* | |
|---|---|---|---|---|---|---|
| | AXA IM | *Consensus* | AXA IM | *Consensus* | AXA IM | *Consensus* |
| World | 3.4 | | 2.6 | | 2.7 | |
| Advanced economies | 2.7 | | 0.9 | | 0.7 | |
| US | 2.1 | 1.9 | 0.7 | 0.3 | 0.3 | 1.1 |
| Euro area | 3.5 | 3.2 | 0.8 | 0.0 | 0.7 | 1.2 |
| Germany | 1.9 | 1.7 | 0.3 | -0.5 | 0.8 | 1.4 |
| France | 2.6 | 2.5 | 0.6 | 0.2 | 0.8 | 1.2 |
| Italy | 3.9 | 3.7 | 0.6 | 0.0 | 0.4 | 1.1 |
| Spain | 5.5 | 4.5 | 1.1 | 0.9 | 0.9 | 2.0 |
| Japan | 1.6 | 1.5 | 1.7 | 1.2 | 1.3 | 1.1 |
| UK | 4.1 | 4.4 | -0.7 | -1.0 | 0.8 | 0.6 |
| Switzerland | 2.3 | 2.1 | 0.6 | 0.5 | 1.3 | 1.7 |
| Canada | 3.5 | 3.4 | 1.0 | 0.4 | 1.0 | 1.6 |
| Emerging economies | 3.9 | | 3.6 | | 3.8 | |
| Asia | 4.2 | | 4.8 | | 4.5 | |
| China | 3.0 | 3.1 | 5.0 | 4.6 | 4.8 | 5.3 |
| South Korea | 2.6 | 2.6 | 1.5 | 1.2 | 2.0 | 2.2 |
| Rest of EM Asia | 5.7 | | 5.0 | | 4.4 | |
| LatAm | 3.7 | | 1.5 | | 2.3 | |
| Brazil | 3.0 | 2.9 | 1.0 | 1.0 | 2.0 | 1.8 |
| Mexico | 2.2 | 2.9 | 1.0 | 1.1 | 2.0 | 1.8 |
| EM Europe | 1.2 | | 0.0 | | 2.2 | |
| Russia | -3.0 | | -3.8 | | 2.0 | 1.2 |
| Poland | 4.4 | 4.9 | 0.1 | 0.8 | 2.4 | 3.0 |
| Turkey | 5.9 | 5.1 | 0.5 | 2.2 | 1.4 | 2.4 |
| Other EMs | 4.8 | | 3.0 | | 3.4 | |

*Source: Datastream, IMF and AXA IM Macro Research – As of 21 February 2023*
**Forecast*

| CPI Inflation (%) | 2022* | | 2023* | | 2024* | |
|---|---|---|---|---|---|---|
| | AXA IM | *Consensus* | AXA IM | *Consensus* | AXA IM | *Consensus* |
| Advanced economies | 7.3 | | 4.7 | | 2.7 | |
| US | 8.0 | 8.1 | 4.3 | 3.8 | 3.0 | 2.5 |
| Euro area | 8.3 | 8.5 | 5.7 | 5.9 | 2.8 | 2.4 |
| China | 2.1 | 2.1 | 2.3 | 2.3 | 2.5 | 2.3 |
| Japan | 2.5 | 2.4 | 2.7 | 1.9 | 1.5 | 1.2 |
| UK | 9.1 | 9.0 | 6.4 | 7.2 | 2.3 | 3.1 |
| Switzerland | 2.8 | 2.9 | 2.0 | 2.2 | 1.3 | 1.2 |
| Canada | 6.8 | 6.8 | 4.3 | 3.7 | 2.4 | 2.2 |

*Source: Datastream, IMF and AXA IM Macro Research – As of 21 February 2023*
**Forecast*

These projections are not necessarily reliable indicators of future results

# 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 | 4.75 | 21-22 Mar | 2-3 May<br>13-14 Jun | 25-26 Jul<br>19-20 Sep | 31-1 Oct/Nov<br>12-13 Dec |
| | Rates | | +0.25 (5.00) | +0.25 (5.25) | unch (5.25) | unch (5.25) |
| Euro area - ECB | Dates | 2.50 | 16-Mar | 4 May<br>15 Jun | 27 Jul<br>14 Sep | 26 Oct<br>14 Dec |
| | Rates | | +0.5 (3.00) | +0.25 (3.25) | unch (3.25) | unch (3.25) |
| Japan - BoJ | Dates | -0.10 | 9-10 Mar | 27-28 Apr<br>15-16 Jun | 27-28 Jul<br>21-22 Sep | 30-31 Oct<br>18-19 Dec |
| | Rates | | unch (-0.10) | unch (-0.10) | unch (-0.10) | unch (-0.10) |
| UK - BoE | Dates | 4.00 | 23-Mar | 11 May<br>22 Jun | 3 Aug<br>21 Sep | 2 Nov<br>14 Dec |
| | Rates | | +0.25 (4.25) | unch (4.25) | unch (4.25) | -0.25 (4.00) |

*Source: AXA IM Macro Research - As of 21 February 2023*

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**Download the full slide deck of our February Investment Strategy**

23 February 2023

Our Research is available online: www.axa-im.com/investment-institute




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