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Six minute strategy How deep is the crisis?

17 March 2023

If you are a private investor, you should not act or rely on this document but should contact your professional advisor.



Global asset performance

Market returns in 2023 bear the scars of the fight against inflation & Russia

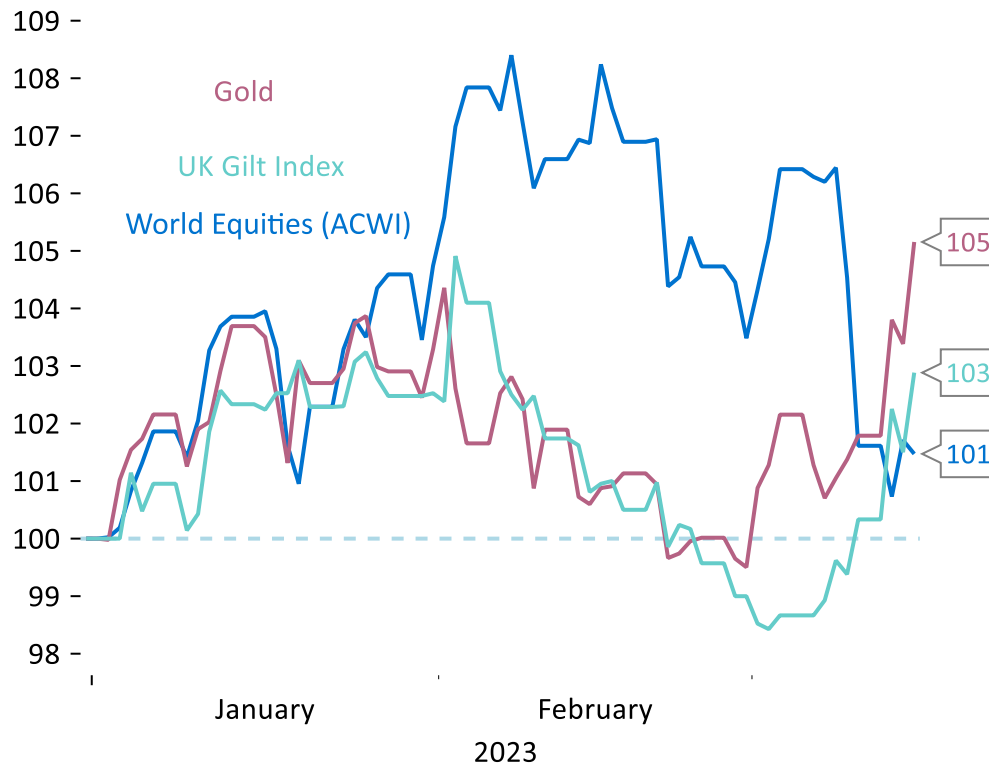


Gold leads - Global equity and bond returns still positive



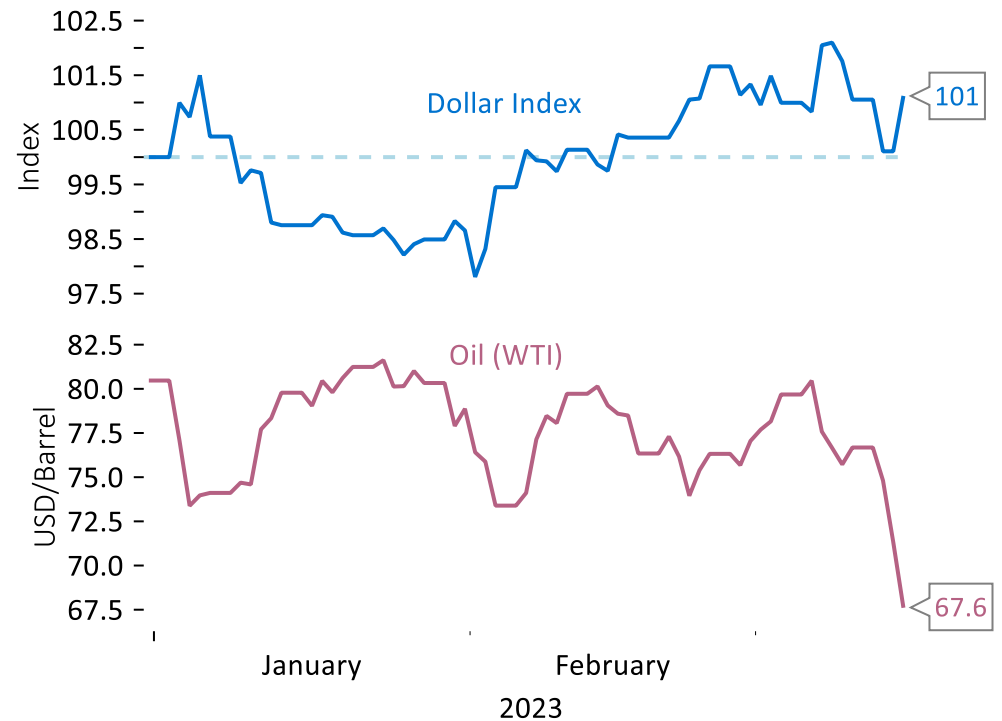
US dollar flat - Oil corrects sharply

Asset class performance 2023



Source: Macrobond, 16.03.23

Asset class performance 2023



Source: Macrobond, 16.03.23

Liquidity conditions tightening across the US

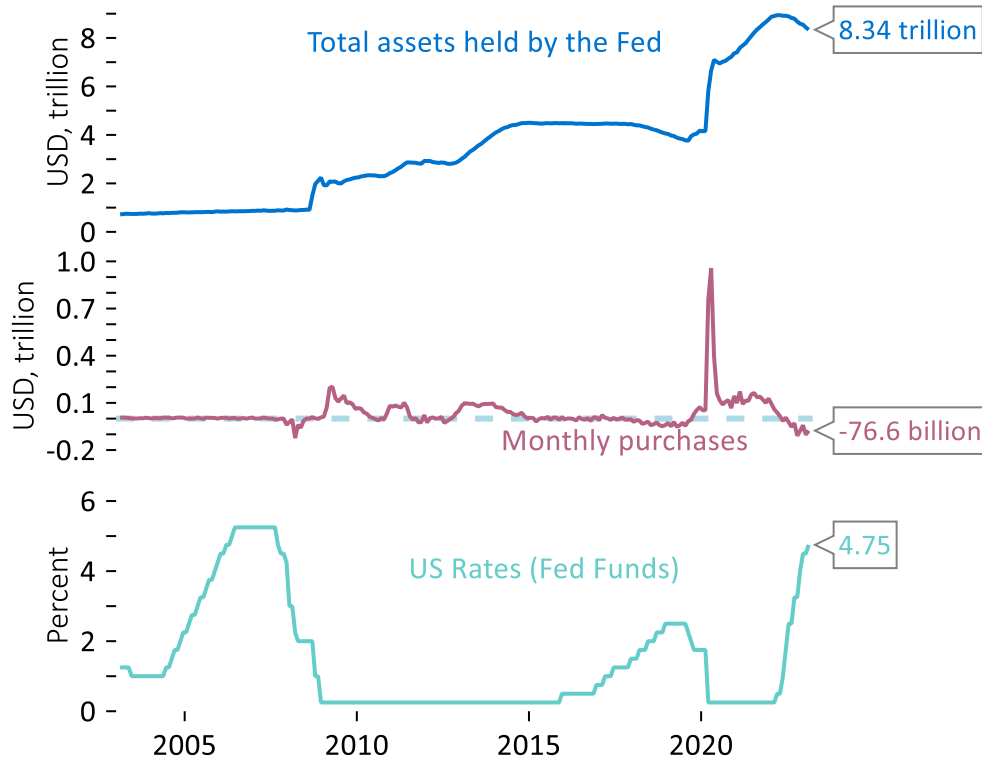


US liquidity conditions tightening as QE goes into reverse



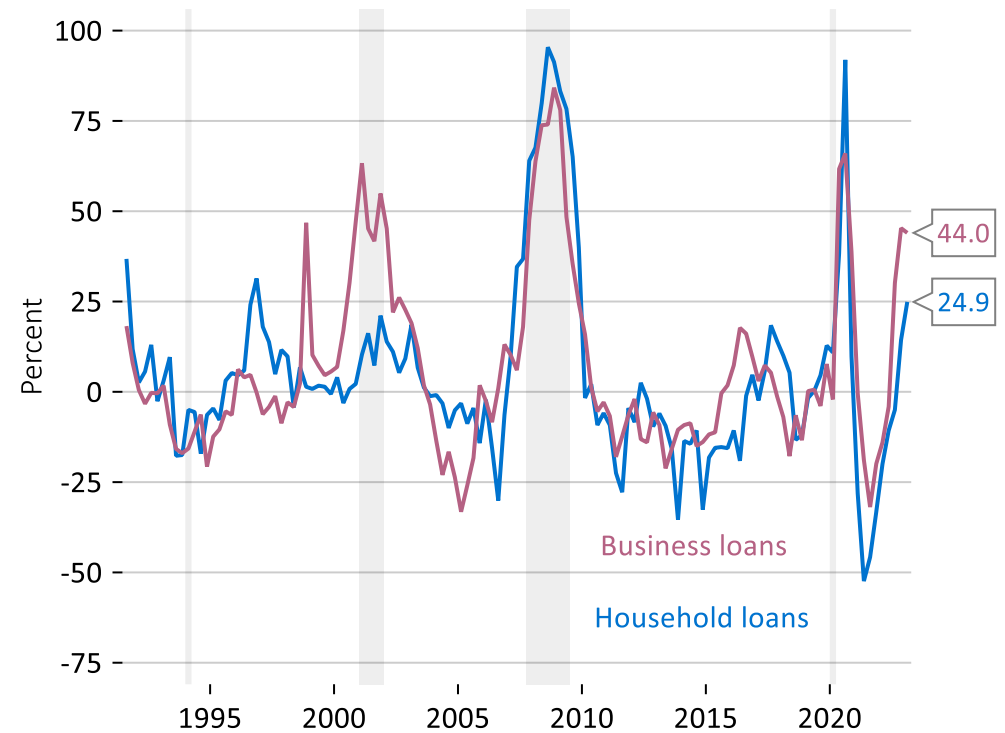
Banks are tightening loan conditions

US Federal Reserve Balance Sheet & Rates



Source: Macrobond, 16.03.23

Senior Loan Officer Survey (Net Tightening Conditions) Shaded = US Recessions



Source: Macrobond, 16.03.23

Financial shocks occur when rates rise fast

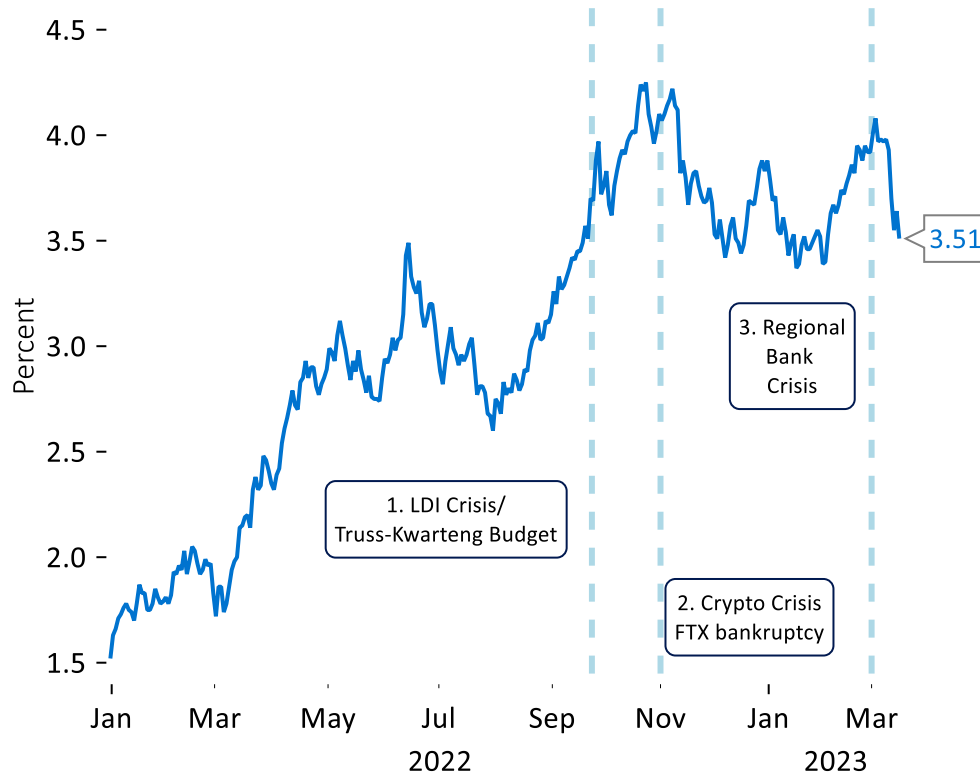


Financial shocks and US T-Bond yields 2022 – to date



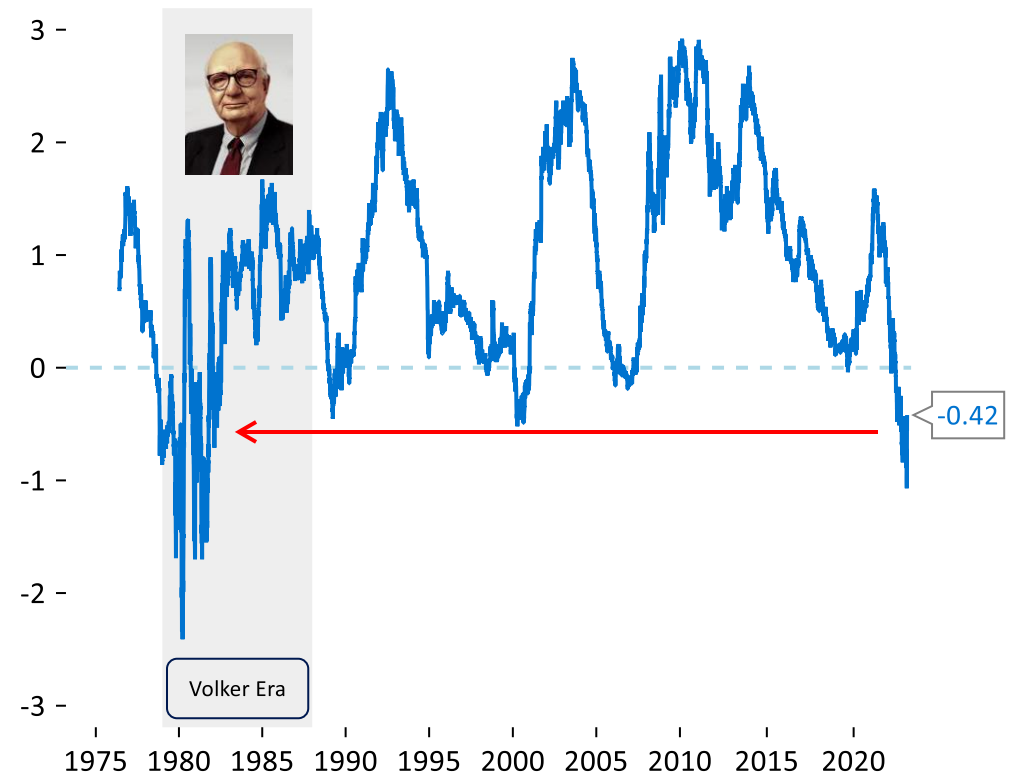
One week ago US yield inversion was the steepest in 40 years

US 10 year bond yield & financial events



Source: Macrobond, 16.03.23

US 10-2 year government bond yield



Source: Macrobond, 16.03.23

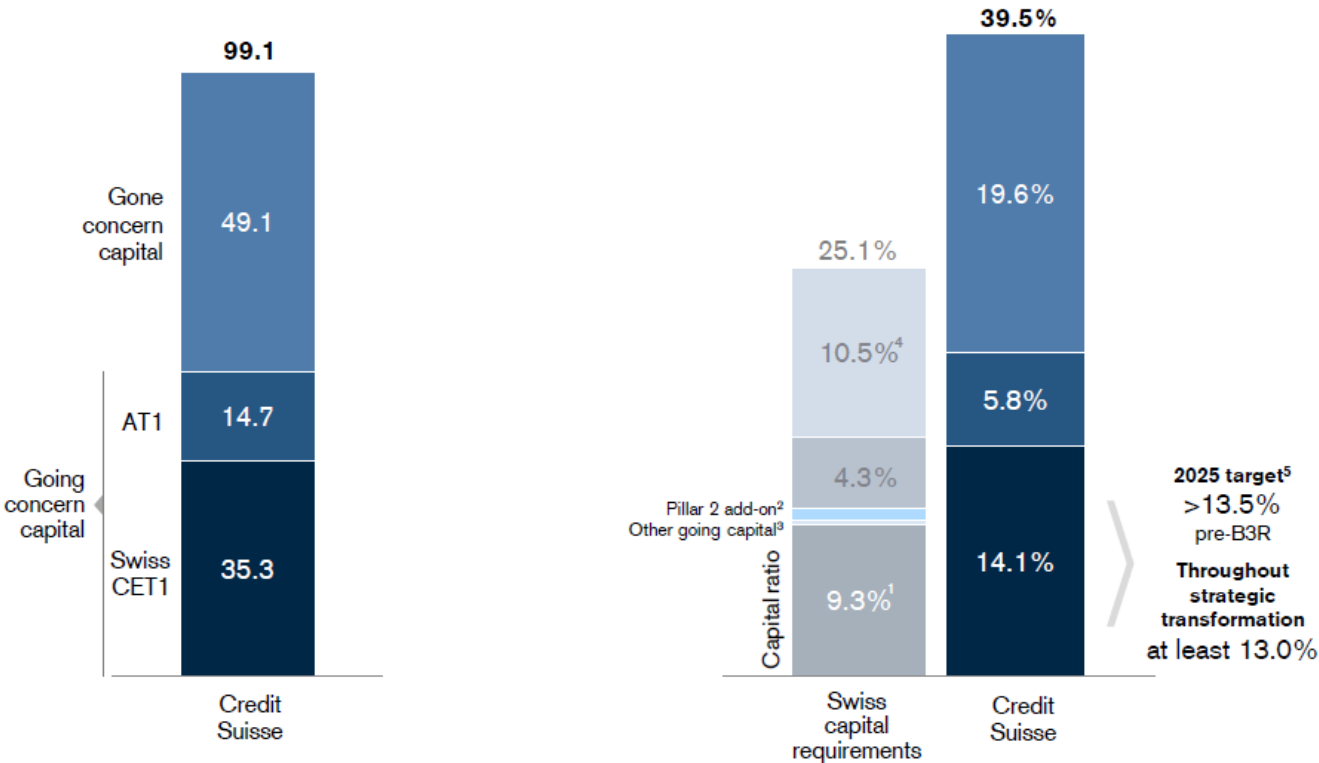
Note: Inadequate hedging of SVB balance sheet left bank exposed to extreme bond market moves

Credit Suisse (CS) Capital clearly exceeds regulatory requirements despite SNB help

A struggling franchise that was vulnerable to deteriorating sentiment & ongoing negative headlines

 CS seeks circuit breaker with SNB CHF50bn credit line - management now need to build a simpler, less complex, more robust financial institution

Total loss-absorbing capacity
as of end-4Q22, in CHF bn



Source: Credit Suisse 14.3.2023

Notes: Gone Concern Capital is bail-in debt in a resolution, CET1 Pure equity (purest form of equity) , AT1 can be bailed in before resolution. Left panel shows loss-absorbing capacity as a percentage of risk weighted assets

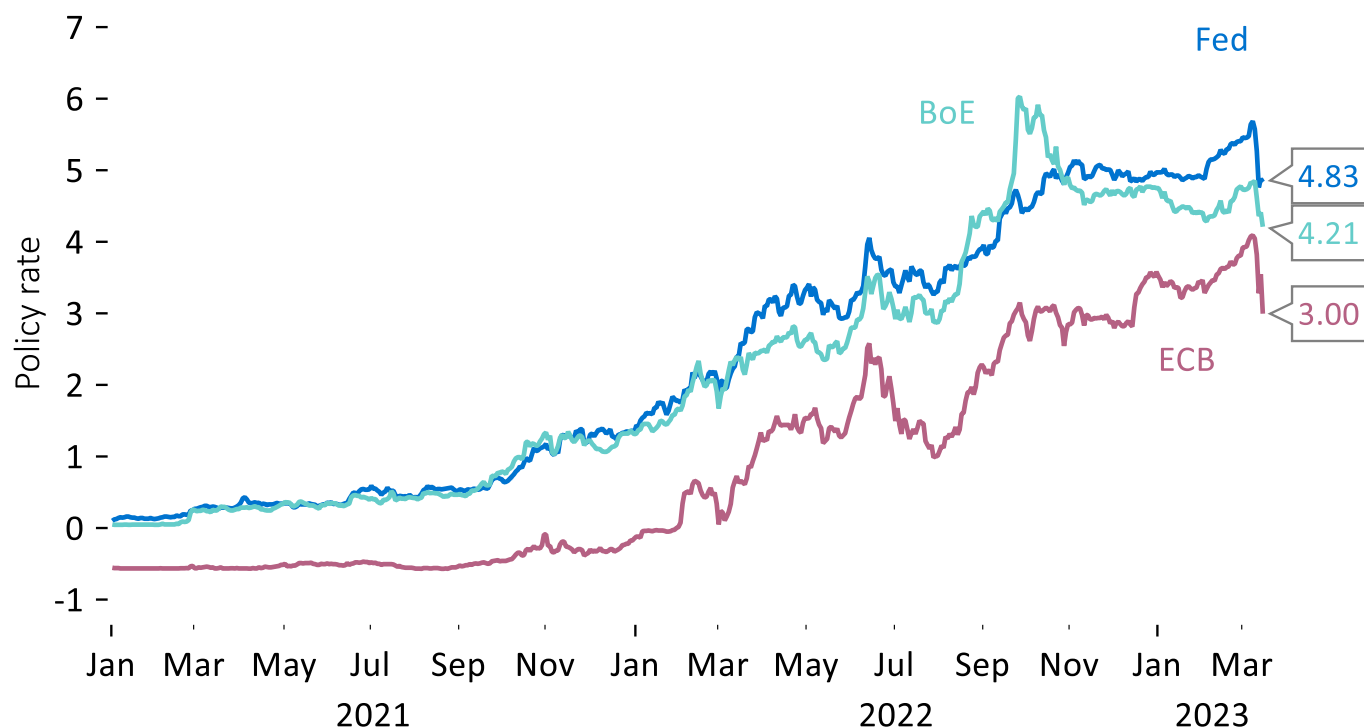
The expected peak in global rates falling sharply



Market expectation of peak rates may be rolling over – ECB notably more hawkish (1% to nearly 4% in just 6 months)

Terminal rates: Fed, ECB BoE

The market expected peak of policy rate



Interest rates today:

US Fed Funds 4.75%

UK Base Rate 4%,

ECB Deposit 2.5%

Source: Macrobond, 16.03.23

Global recession watch

The most anticipated recession not with us yet...



G20 quarterly GDP reports

G20: The wait for recession continues...

Q/Q change (%)

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Argentina		1.7	1.0	1.0	2.0	3.9	-0.8	3.5
Australia	0.5	0.7	0.9	0.6	3.7	-2.0	0.8	2.1
Brazil	-0.2	0.3	0.9	1.3	1.1	0.3	-0.3	1.0
Canada	0.0	0.6	0.9	0.6	1.7	1.4	-0.6	1.3
China	8.5	6.6	7.6	-17.3	9.6	3.0	12.3	-17.7
Euro Area	0.0	0.4	0.9	0.6	0.6	2.3	2.0	0.0
France	0.1	0.2	0.5	-0.2	0.6	3.3	1.1	0.1
Germany	-0.4	0.5	0.1	0.8	0.0	0.8	1.9	-1.5
India	3.5	3.6	-8.9	6.8	5.5	10.3	-16.3	8.1
Indonesia	0.4	1.8	3.7	-0.9	1.1	1.6	3.3	-0.9
Italy	-0.1	0.4	1.0	0.1	0.9	2.9	2.4	0.5
Japan	0.0	-0.3	1.2	-0.5	1.1	-0.4	0.3	-0.2
Mexico	0.5	0.9	1.1	1.2	1.2	-1.1	0.7	0.4
Russia		0.4	-5.2	0.4	1.1	0.5	1.6	0.3
Saudi Arabia	4.6	4.7	-1.3	-2.3	7.7	7.1	-2.5	-3.8
South Africa	-1.3	1.8	-0.8	1.6	1.4	-1.8	1.4	0.8
South Korea	-0.4	0.3	0.7	0.6	1.3	0.2	0.8	1.7
Turkey	3.6	10.7	8.1	-16.5	4.1	14.7	7.9	-15.0
United Kingdom	0.0	-0.2	0.1	0.5	1.5	1.7	6.5	-1.1
United States	0.7	0.8	-0.1	-0.4	1.7	0.7	1.7	1.5

Source: National sources

Source: Macrobond, 16.03.23

Source: Macrobond/IMF March 2023

UK: Pay pressure should moderate as inflation eases in H2

Current inflation expected to be the main driver of pay settlements in 2023

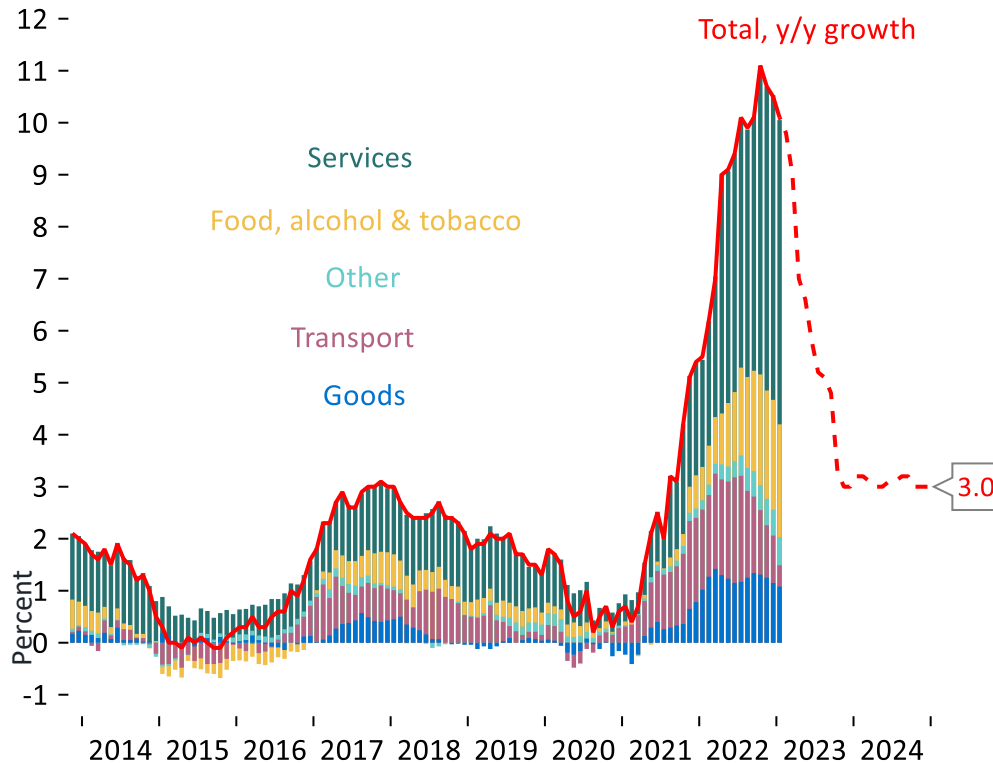


UK inflation will fall fast as surge in service costs slows



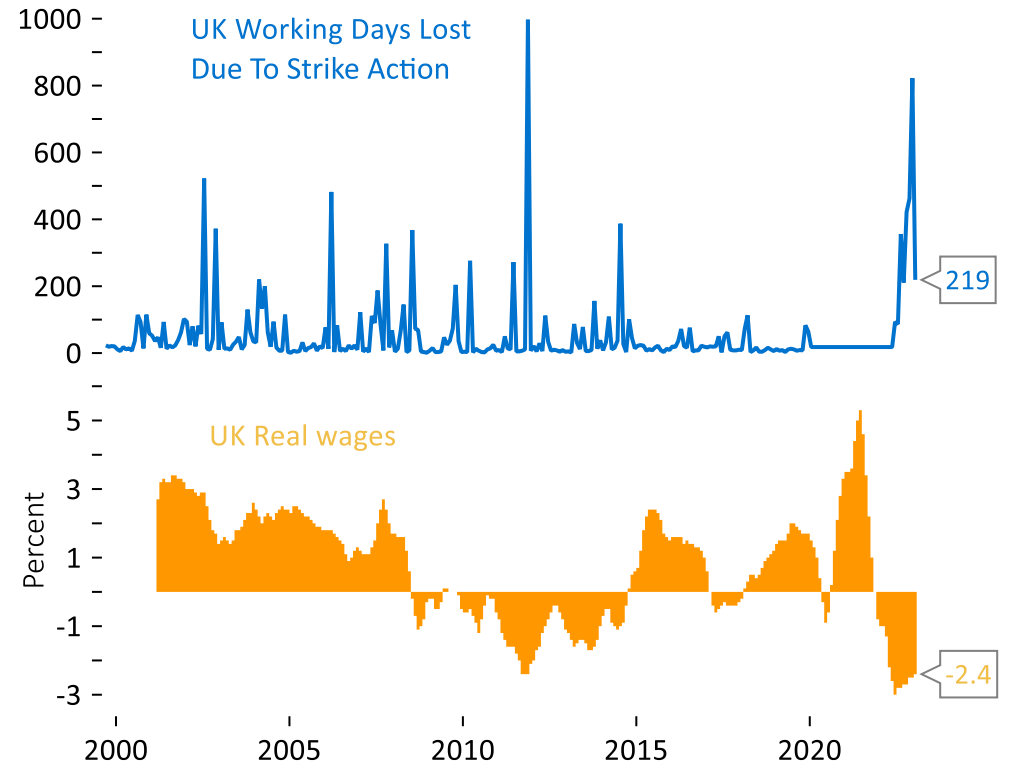
High inflation today is driving real wage demands

UK Consumer Price Inflation



Source: Macrobond, 14.03.23

UK real wages & strike action



Source: Macrobond, 14.03.23

Important information

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