

# Six minute strategy Can we tame inflation without triggering a recession?

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11 August 2023



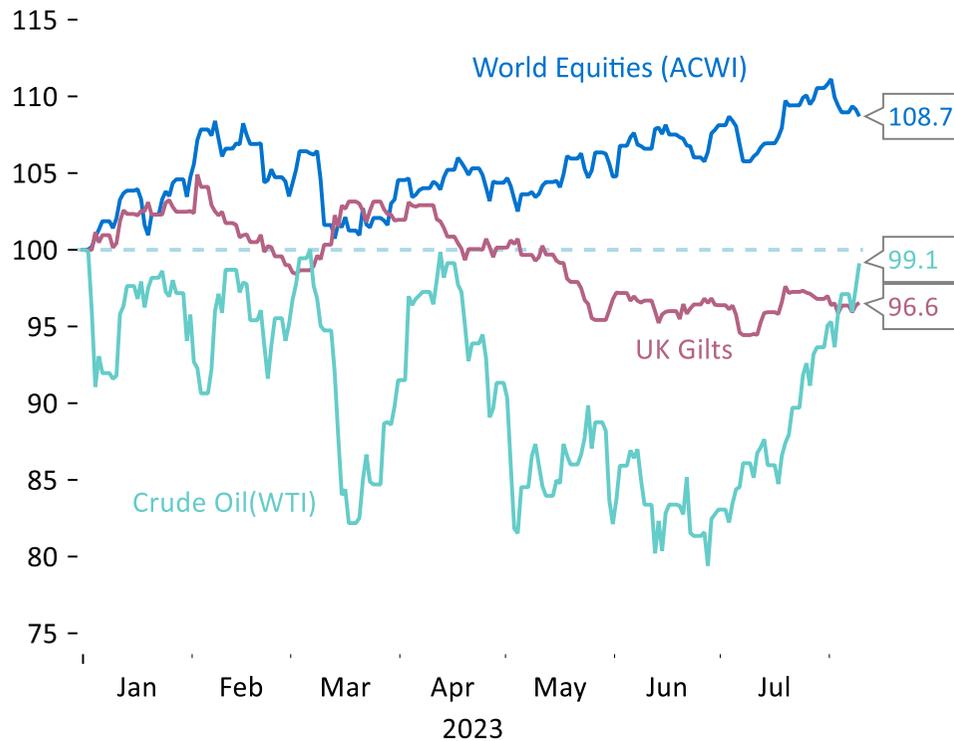
# 2023 global asset performance

UK gilt prices fall, crude recovers & equity returns positive - Market leadership starts to widen



Equity and bond divergence continues – oil rallies

## Asset class performance 2023 (STG)



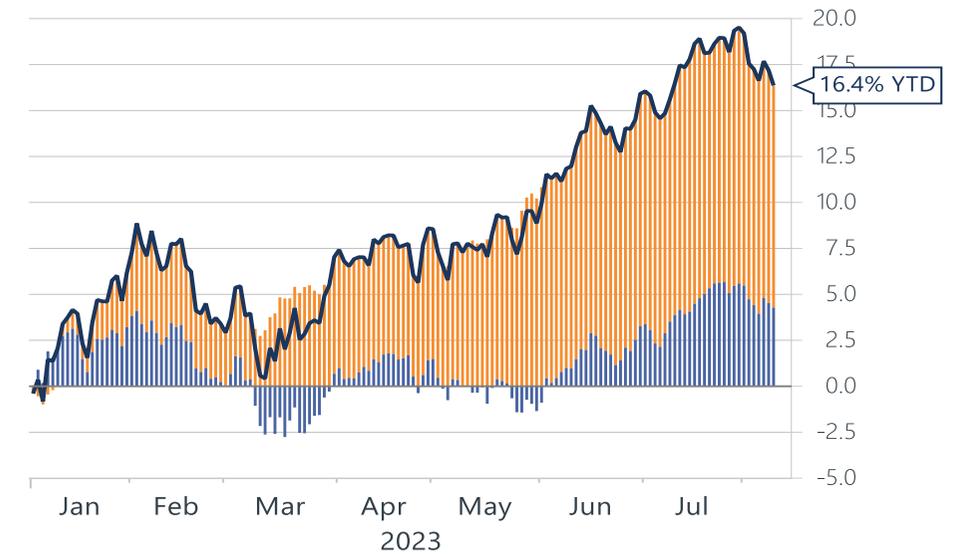
Source: Macrobond, 10.08.23



Unprecedented narrow leadership *starting to ease*

## Largest stocks are driving the current S&P rally

Source: S&P Global



— S&P 500 index ■ 10 largest stocks in mkt cap ■ Others - 490 stocks

Source: Macrobond, 10.08.23

**Apple, MSFT, Tesla, Nvidia, Alphabet, Amazon, Meta,  
United Health, Berkshire Hathaway, Exxon.**  
“The Magnificent Seven”

# Majority of economies are expected to avoid a recession

Despite dire predictions, a US or a global recession still has not occurred



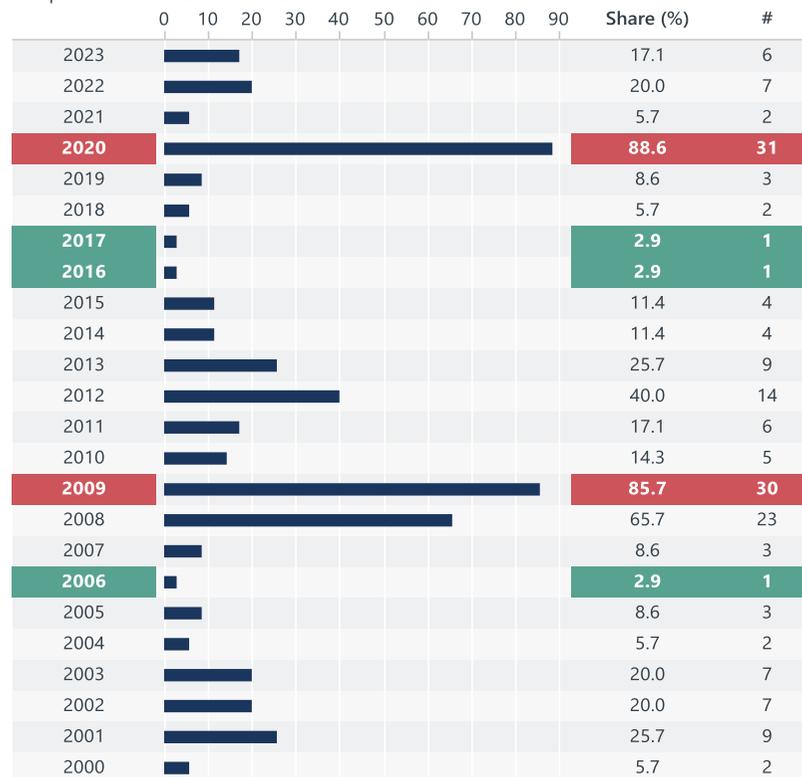
The number of economies actually suffering recession is low



Despite leading indicators predicting a sharp US slowdown

## Recession Tracker

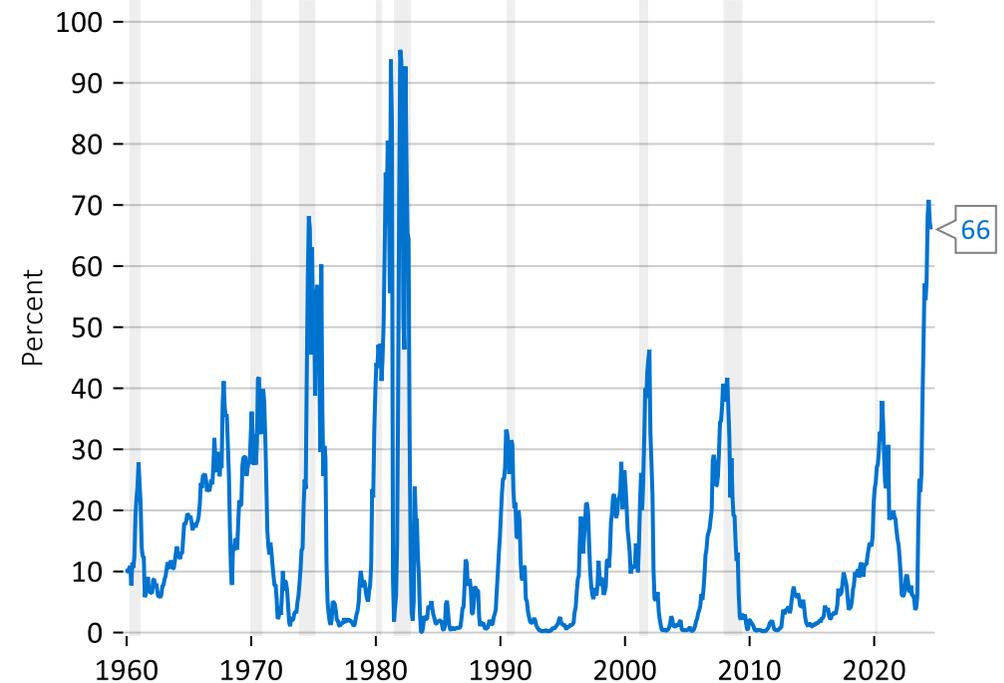
Number of countries in recession per year  
Sample universe across 35 OECD nations



Source: National Sources 10.08.23

## Recession Probability

US Federal Reserve Bank of New York



Source: Macrobond, 10.08.23



# Global: Inflation momentum is slowing...

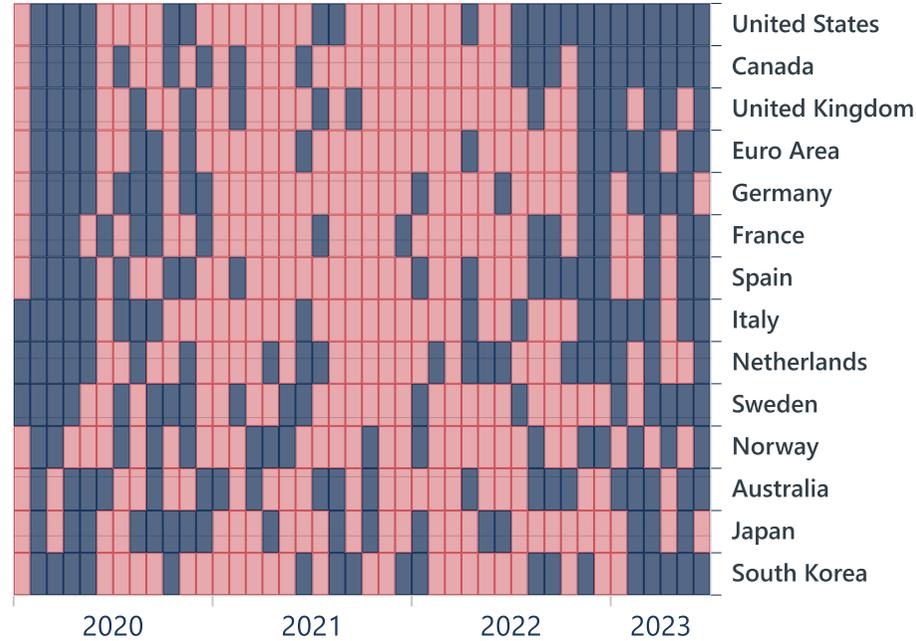
## China's economy slips into deflation in July

 Global inflation momentum slowing - led by the US

 China faces both weak growth and low inflation

### Inflation tracker for developed markets

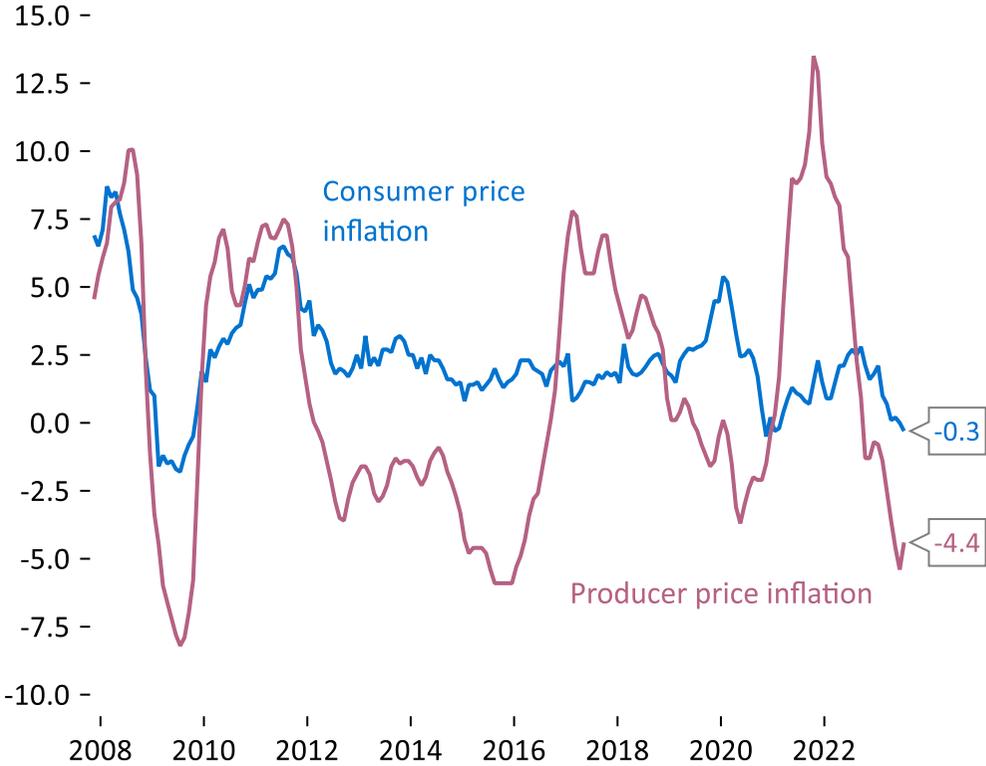
Inflation momentum, measured as the monthly change of the YoY % change  
 Red: accelerating. Blue: decelerating.



National Sources 10.08.23

MACROBOND

### China inflation & money supply



Source: Macrobond, 10.08.23

# US: Inflation data continues to ease

Commodities and used car prices falling – inflation expectations well anchored – wages strong

## US inflation tracker - Inflation forecasts for July 2023 US CPI + 3.3% & CPI Core + 4.7%

### United States: Inflation tracker

Color-coded based on rolling 3 year z-score

	8/2023	7/2023	6/2023	5/2023	4/2023	3/2023	2/2023	1/2023	12/2022	11/2022	10/2022	9/2022	8/2022
<b>Economic Measures</b>													
PCE Y/Y %			3.0	3.8	4.3	4.2	5.0	5.4	5.3	5.7	6.1	6.3	6.3
Core PCE Y/Y %			4.1	4.6	4.6	4.6	4.7	4.7	4.6	4.8	5.1	5.2	4.9
CPI Y/Y %			3.1	4.1	5.0	5.0	6.0	6.3	6.4	7.1	7.8	8.2	8.2
Core CPI Y/Y %			4.9	5.3	5.5	5.6	5.5	5.5	5.7	6.0	6.3	6.6	6.3
PPI Y/Y %			0.2	1.0	2.2	2.7	4.8	5.7	6.4	7.4	8.2	8.5	8.7
Core PPI Y/Y %			2.4	2.6	3.0	3.4	4.7	5.0	5.7	6.2	6.9	7.2	7.2
Atlanta Fed Wage Growth		5.7	5.6	6.0	6.1	6.4	6.1	6.1	6.1	6.4	6.4	6.3	6.7
Manheim Used Vehicle Y/Y %		-11.6	-10.3	-7.6	-4.4	-2.4	-7.0	-12.8	-14.9	-14.2	-10.6	-0.1	8.4
<b>Inflation Expectations</b>													
Expected Inflation, Fed Cleveland, 1 Year		2.5	1.4	2.7	2.7	2.1	2.6	2.7	2.9	3.2	2.9	4.2	3.4
Expected Inflation, Fed Cleveland, 2 Year		2.3	1.6	2.4	2.4	2.2	2.4	2.5	2.5	2.8	2.6	3.2	2.7
Break-Even Inflation, 5 Year	2.3	2.3	2.2	2.1	2.2	2.4	2.5	2.2	2.2	2.3	2.6	2.1	2.6
Break-Even Inflation, 10 Year	2.3	2.3	2.2	2.2	2.2	2.3	2.4	2.2	2.2	2.2	2.5	2.1	2.4
Conference Board, Inflation expectations		5.7	5.8	6.1	6.2	6.3	6.2	6.7	6.6	7.1	6.9	6.8	7.0
<b>Commodities</b>													
GSCI Commodities Y/Y %	-1.2	-5.0	-14.2	-24.1	-15.1	-10.0	-0.3	12.8	26.0	37.4	24.7	23.6	42.2
GSCI Industrial Metals Y/Y %	-0.1	1.8	-3.8	-17.5	-17.0	-21.0	-15.7	-1.9	-7.6	-3.7	-15.9	-13.2	-10.2
GSCI Softs Y/Y %	11.3	22.9	11.6	7.5	9.1	-1.0	3.3	1.0	-2.0	-0.7	-9.9	-0.2	13.7
Baltic Dry Index Y/Y %	18.5	-40.5	-51.3	-61.9	-34.4	-41.1	-51.5	-52.0	-31.7	-55.1	-58.4	-65.9	-76.6
Lumber Futures Y/Y %				-47.4	-66.2	-61.5	-69.9	-46.5	-67.4	-47.9	-22.0	-32.7	5.4

■ Standard deviations above mean shaded in darker red ■ Close to mean ■ Standard deviations below mean shaded in darker blue

Source: Macrobond, 10.08.23

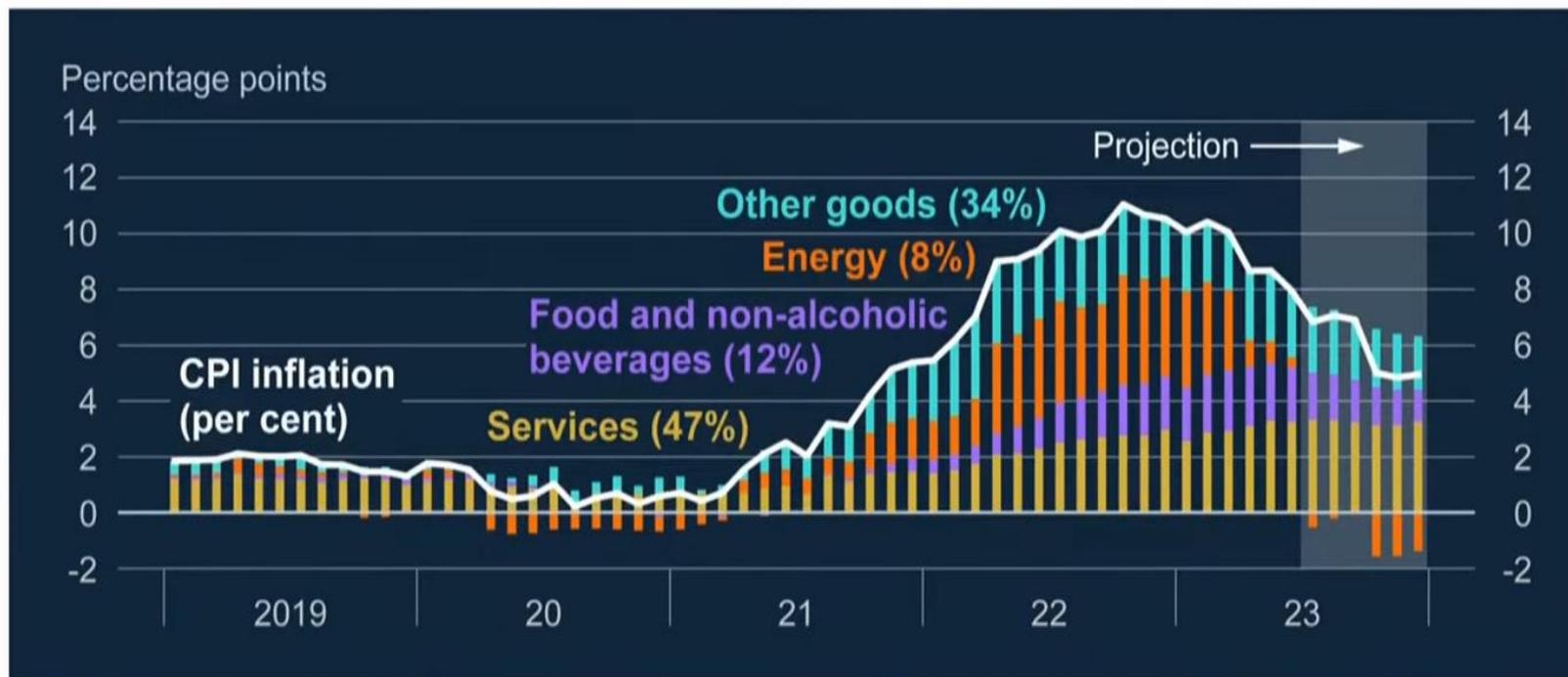
# UK: Inflation near term outlook

Inflation to fall to 5% by year-end and 2% by mid-2025 – service sector prices are the challenge



Bank of England's forecast – inflation to fall less rapidly, in part reflecting judgements about “persistence”

## Contributions to consumer price inflation



Source: Bloomberg Finance L.P., Department for Energy Security and Net Zero, ONS and Bank calculation



Monetary Policy Report Press Conference, August 2023

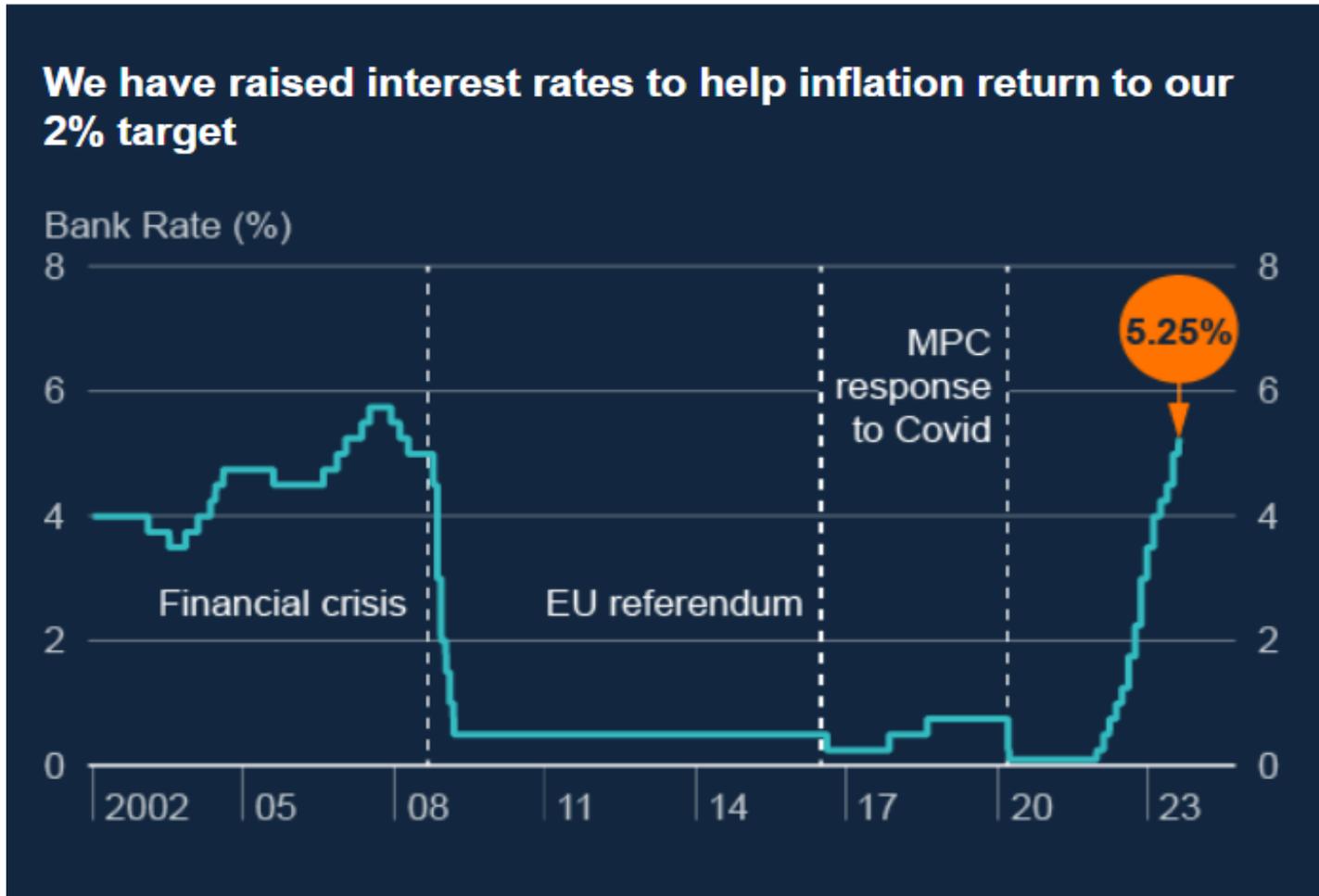
Source: Bank of England August 2023

# UK: Policy rates to be sufficiently restrictive to tame inflation

Market now sees the peak in UK policy rate being 5.75%



20 year history of UK interest rates



*“The MPC will ensure that Bank Rate is sufficiently restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term, in line with its remit”*

Monetary Policy Summary  
August 2023

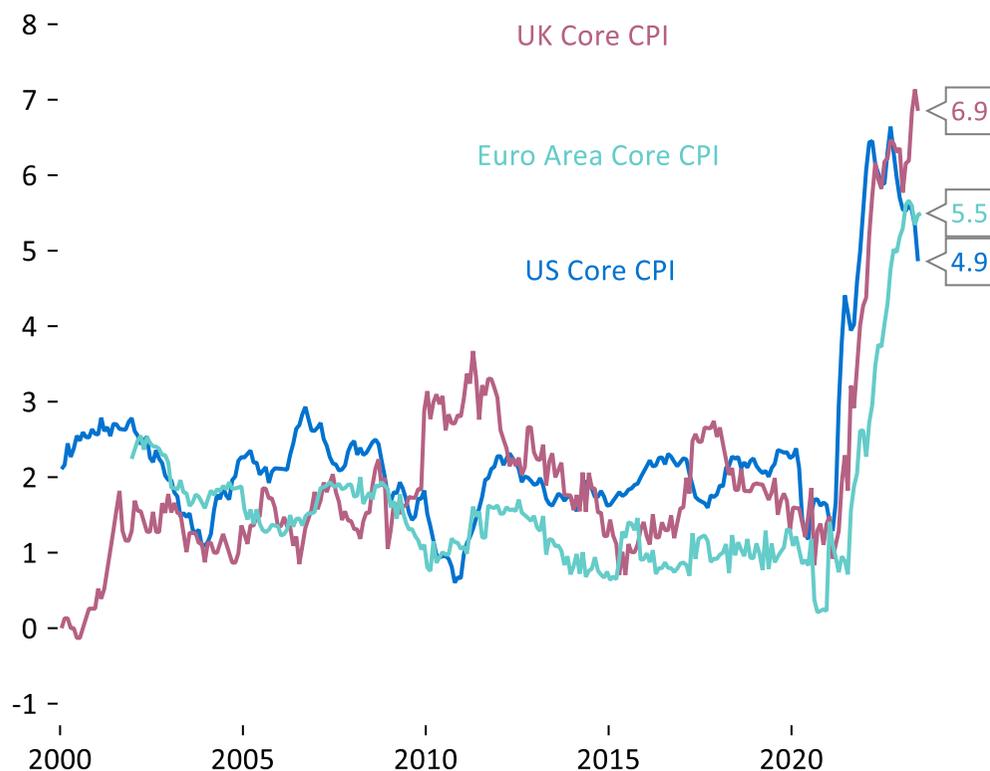
# Stubborn core inflation a risk but soft landing still our base case

Inflationary Risks: (1) Wages (2) Service sector inflation (3) Return of high oil and grain prices



Core inflation starting to ease but still very elevated

## Core Inflation Rates

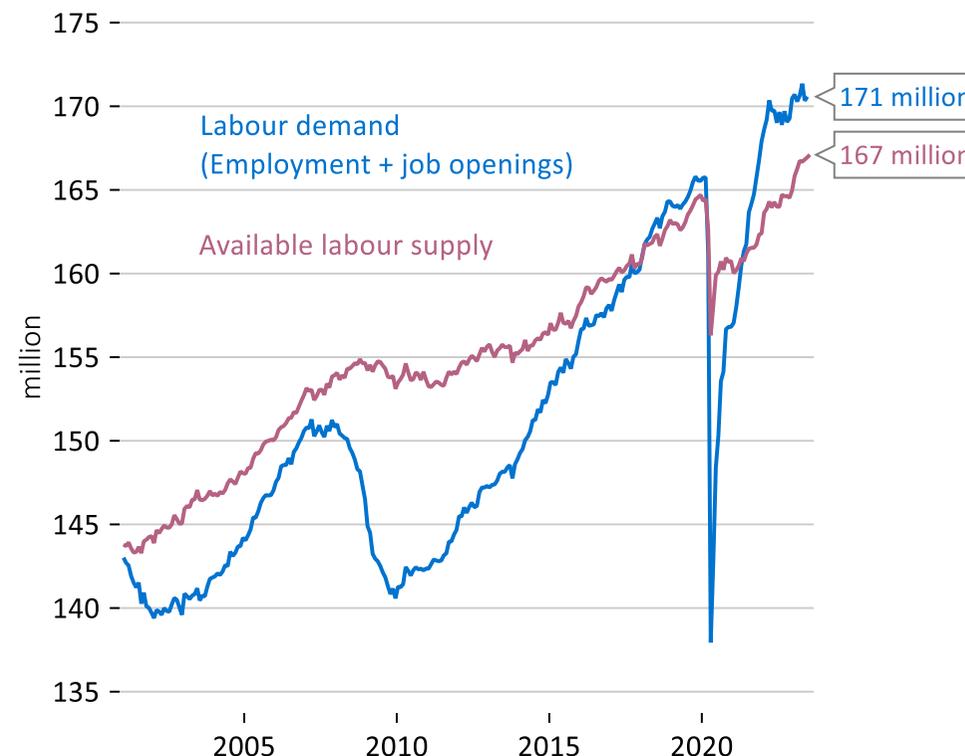


Source: Macrobond, 10.08.23



US labour markets still very tight

## US Labour Markets



Source: Macrobond, 10.08.23

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