SARASIN
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Six minute strategy

Do we need a recession?

June 2022

US Federal Reserve Chairman Powell June press conference highlights:

1. Fed's mandate is inflation in the broadest sense.
   - 50bp or 75bp possible in July. However, 75bp looks likely because…
     - Gasoline and food prices are set to increase
     - Shelter inflation is rising
     - Base effects mean inflation very possibly remaining high till Sept / Oct.

2. Rates to be at neutral at end of summer, and moderately above neutral at 3.0% – 3.5% by end of year. The Fed's 2023 projections are for rates 3.5% – 4.0%.

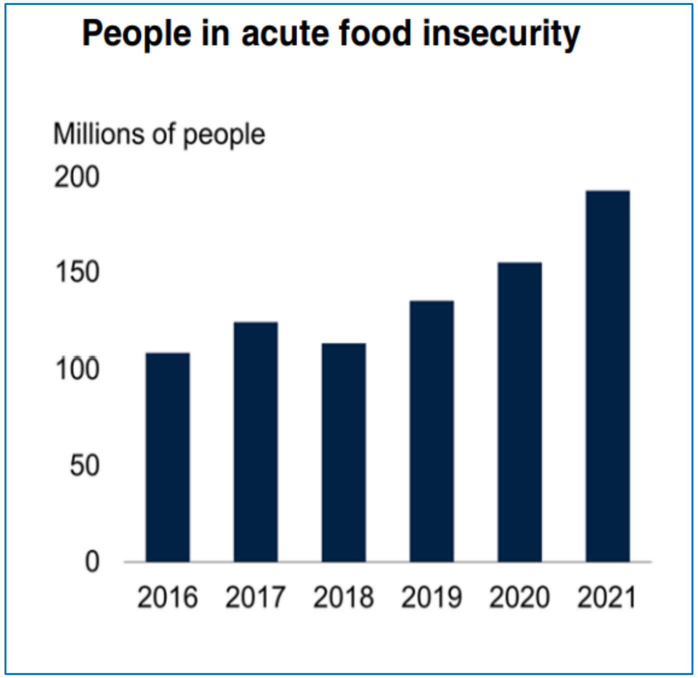
3. Very mild increase in unemployment
   - No Central Bank will forecast a sharp pick up in unemployment. Volker did not have to contend with dot plot.

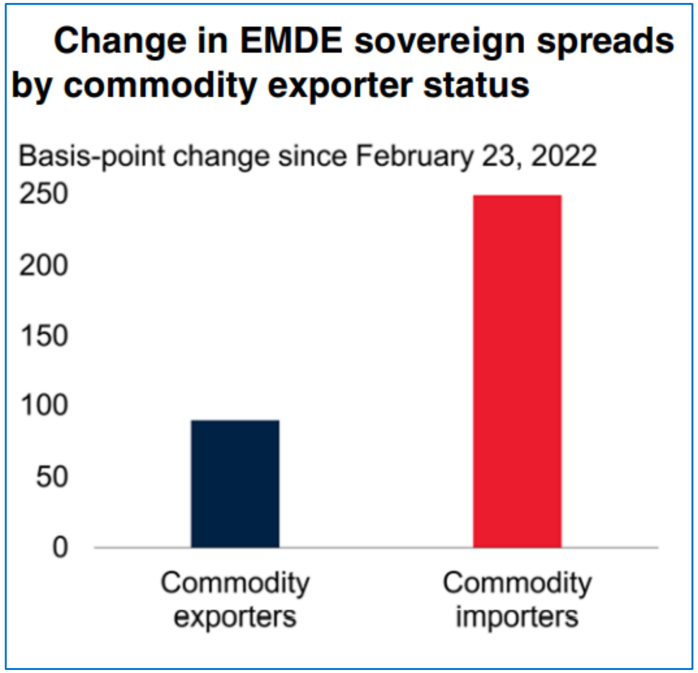
4. Supply vs Demand pressures
   - Fed is moving to curtail excess demand in the US economy.
   - Fed does not have much power to address the supply disruptions.
   - Repeated supply shocks could be enduring and possibly changing structure of economy. Too early to tell. Too uncertain. But might mean policy will need to be mindful of structural shifts.

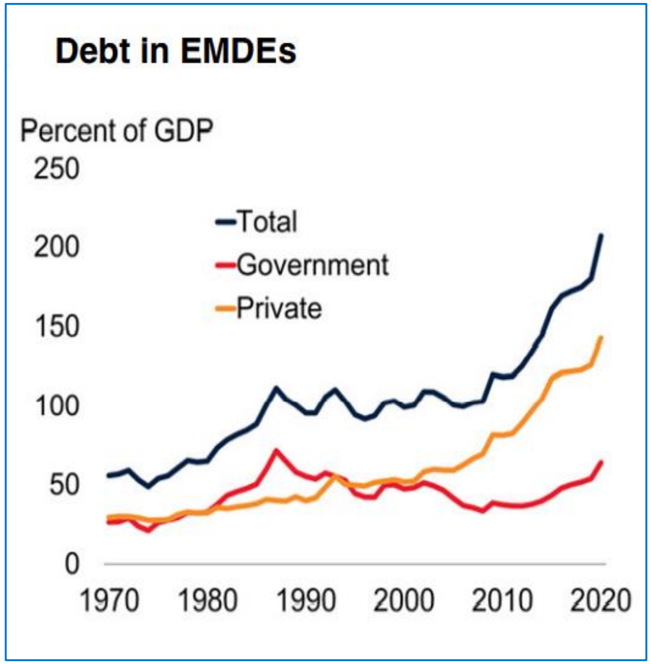
1. In the Developing World, economic crisis is already a reality

Greatest refugee flow since WW2 – Global food poverty – EM debt crisis now unfolding

Refugee flows unprecedented in 60 years - food insecurity already severe for the world's poorest – debt levels in EM soar







Emerging world total indebtedness is at a 50-year high - close to 60 percent of the poorest countries are already in debt distress or at high risk of it. Debt-service burdens in middle-income countries are at 30-year high *World Bank June 2022*

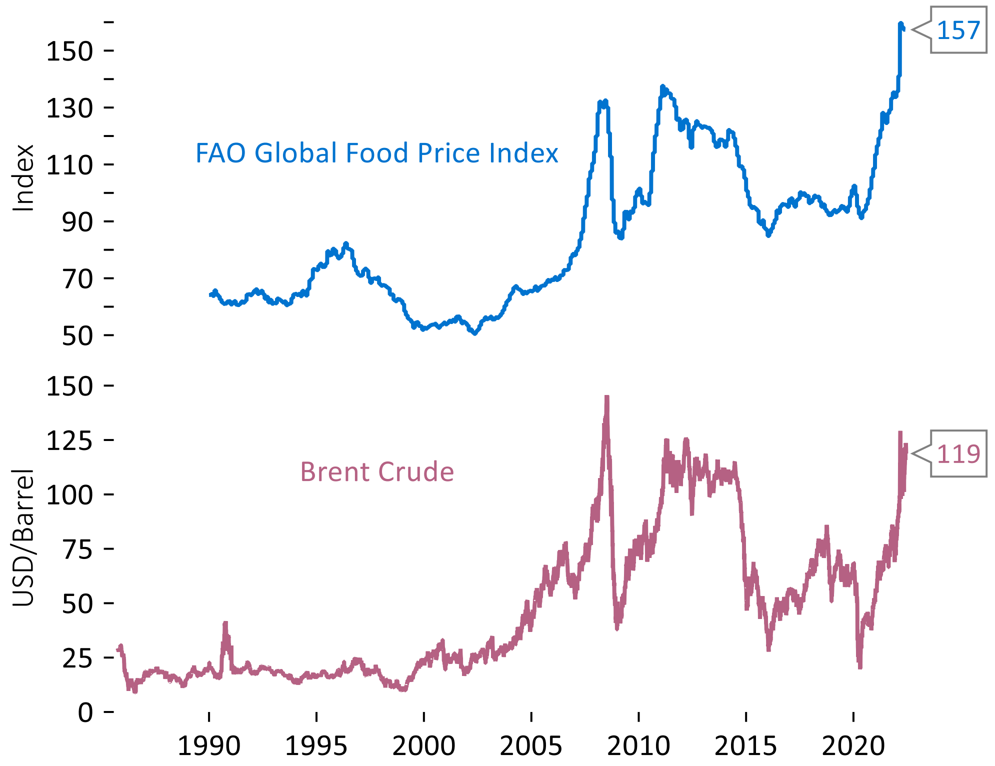
Source: World Bank and IMF June 2022 – EMDE = Emerging and Developing Economies

2. Little we can do about food & energy prices in the short term

Food & energy prices dependent on Ukraine – supply chains will take time to normalise

Food and energy prices *still climbing*

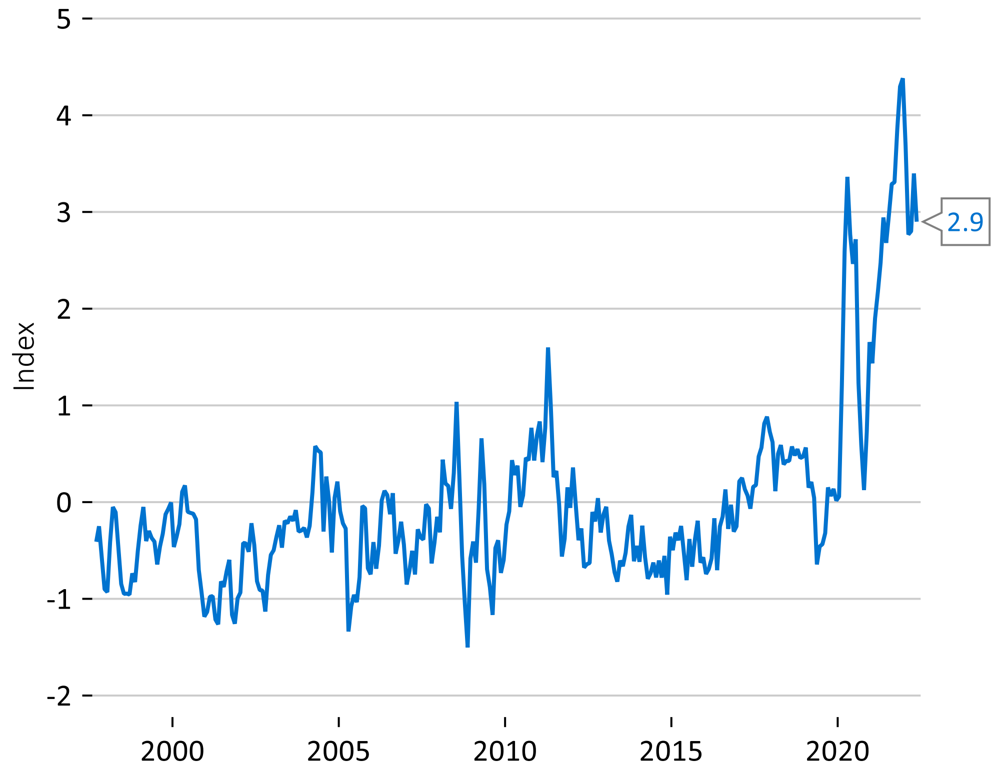
Global Food & Energy Prices



Source: Macrobond, 16.06.22

Global supply chains only slowly improving

Global Supply Chain Pressure Index

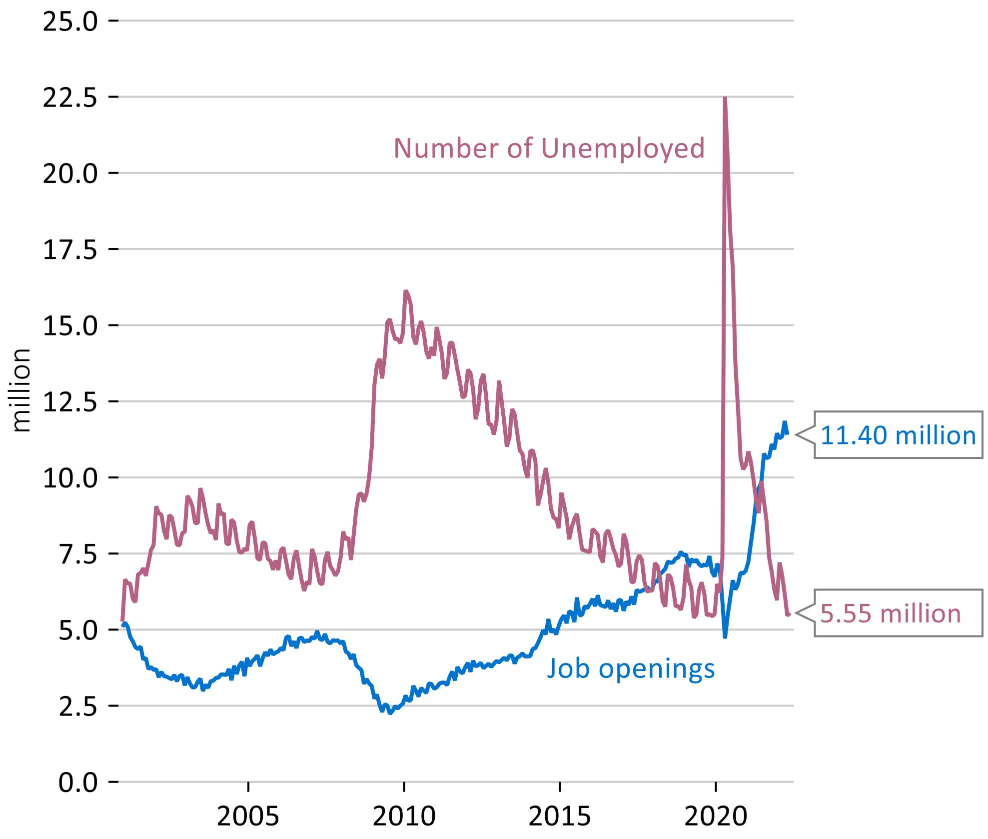


Source: Macrobond, 16.06.22

3. Too many jobs chasing too few people…

Need employment growth to pivot from +350K/month to -50K/month rapidly

US: Unprecedented dislocation in labour markets



Source: Macrobond, 16.06.22

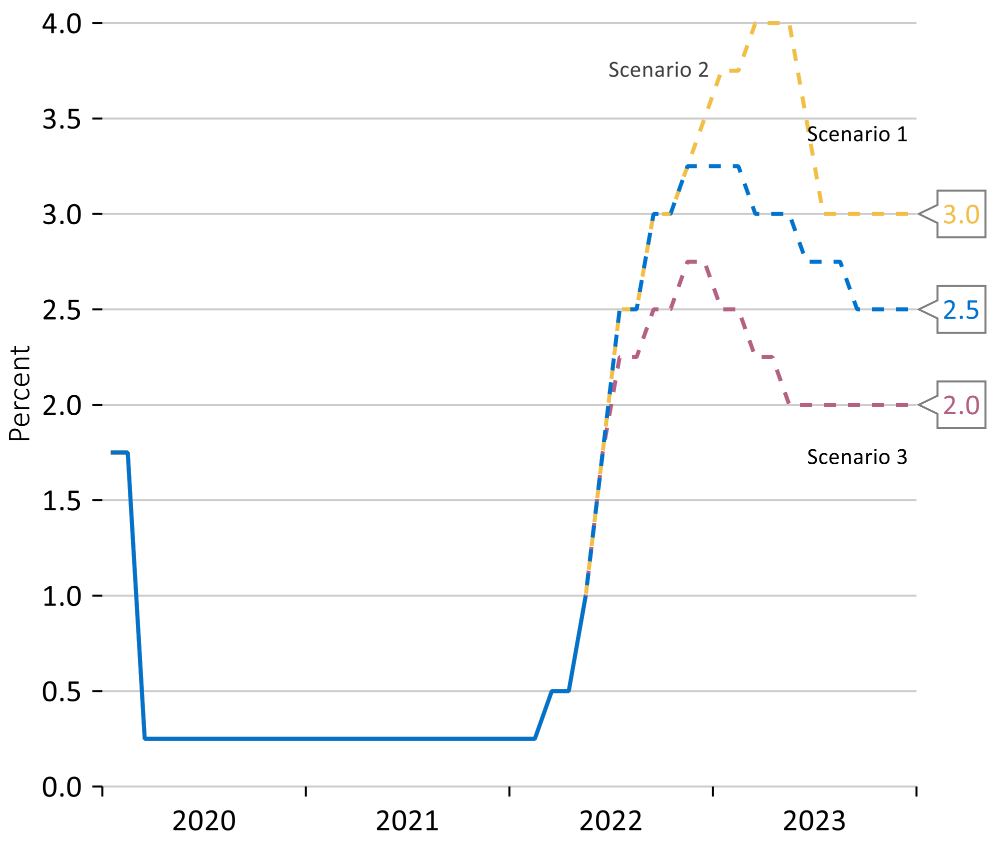
UK: The tightest labour market in UK history

UK Unfilled Job Vacancies

Source: Macrobond, 16.06.22

Recession was base case, now bringing forward to Q4 2022

Trajectory of interest rates



Source: Macrobond, 16.06.22

Scenario 1: Early recession by end Q4 2022

Fed rate increases lead to a fast adjustment in the economy: unemployment increases to create sufficient slack in the labour market. Risks are for a greater increase in unemployment. The cadence of rate increases are: 75, 50, 25.

Scenario 2: Sticky inflation / higher neutral

Inflation remains sticky on account of supply adjustments. Terminal rate is higher as rate increases need to go far higher to slow economy. The cadence of rate increases are: (75, 50, 25, 25, 25)

Scenario 3: World falls apart

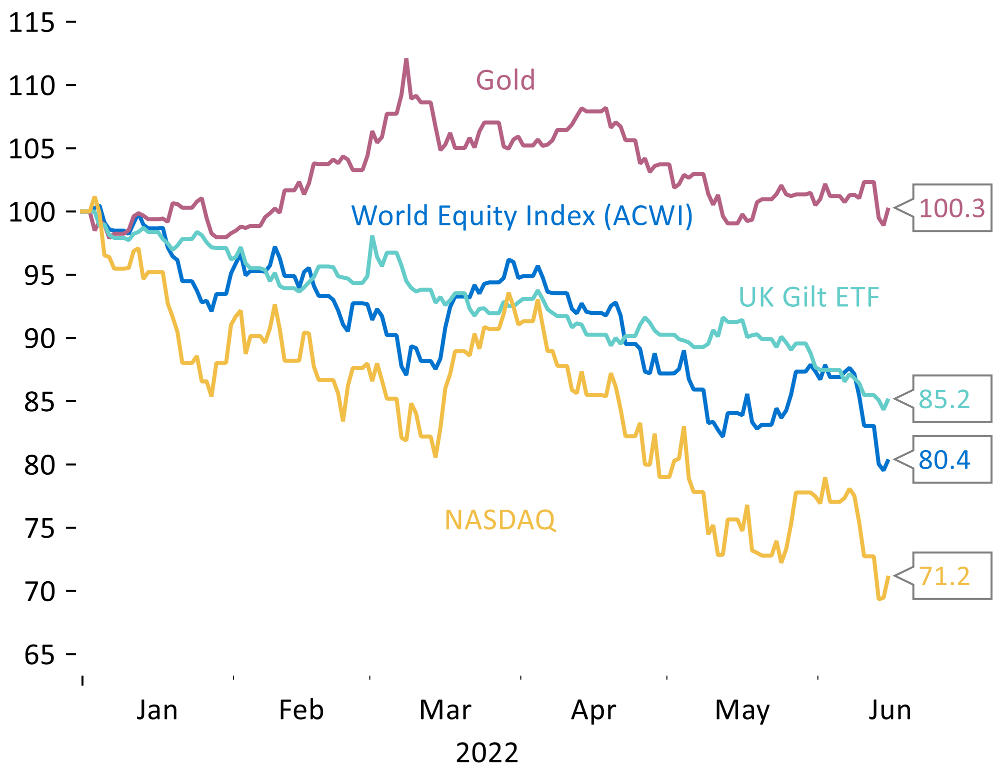
Major market dislocation curtails normalisation (EM, Crypto, Shadow bank). The cadence of rate increases are: (50, 25,25)

2022 has seen declines in almost every global asset class

Equities & bonds fall – Gold returns positive – Dollar soars

The sell-everything market

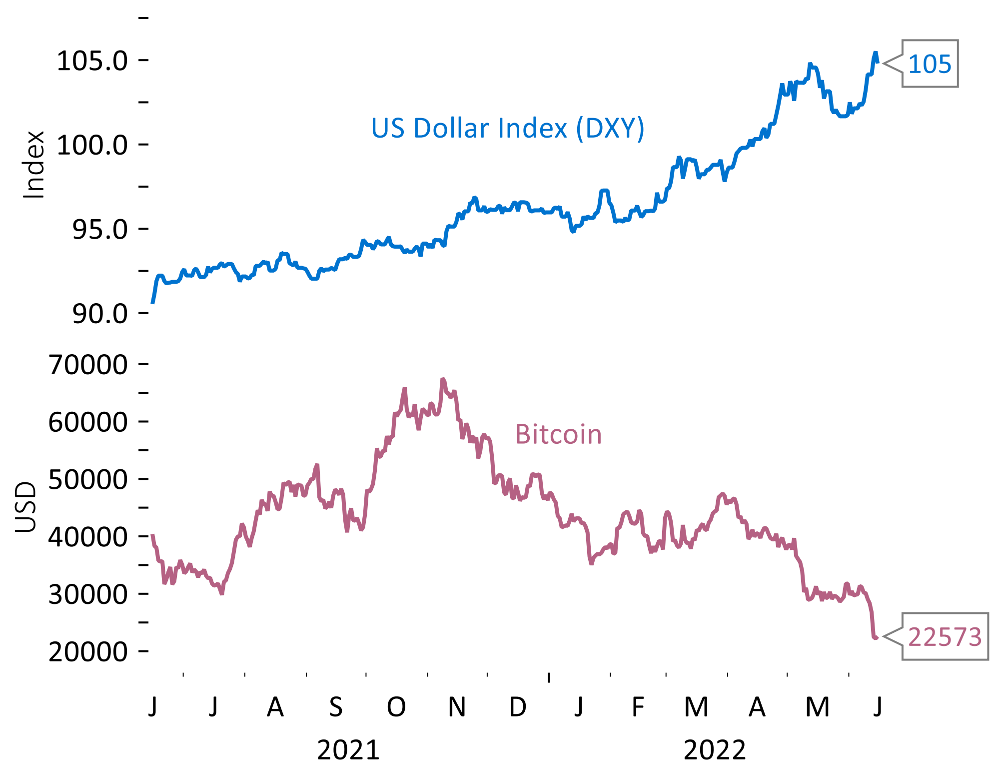
Global Asset Performance 2022 to date



Source: Macrobond, 16.06.22

Dollar rallies to near 20 year high – bitcoin collapses

US Dollar index & Bitcoin



Source: Macrobond, 16.06.22

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