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# A flight to quality? Six minute strategy

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# 2023 Global asset performance

Asset markets broadly stable – gold and Nasdaq lead returns

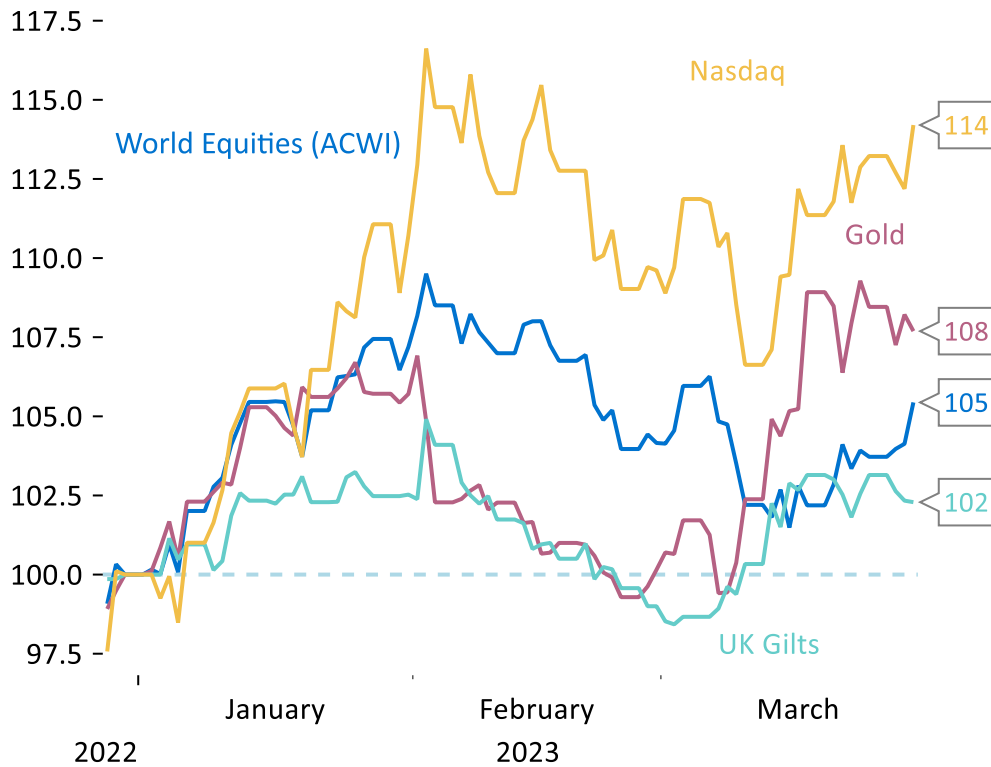


Global asset class returns stable in face of banking crisis



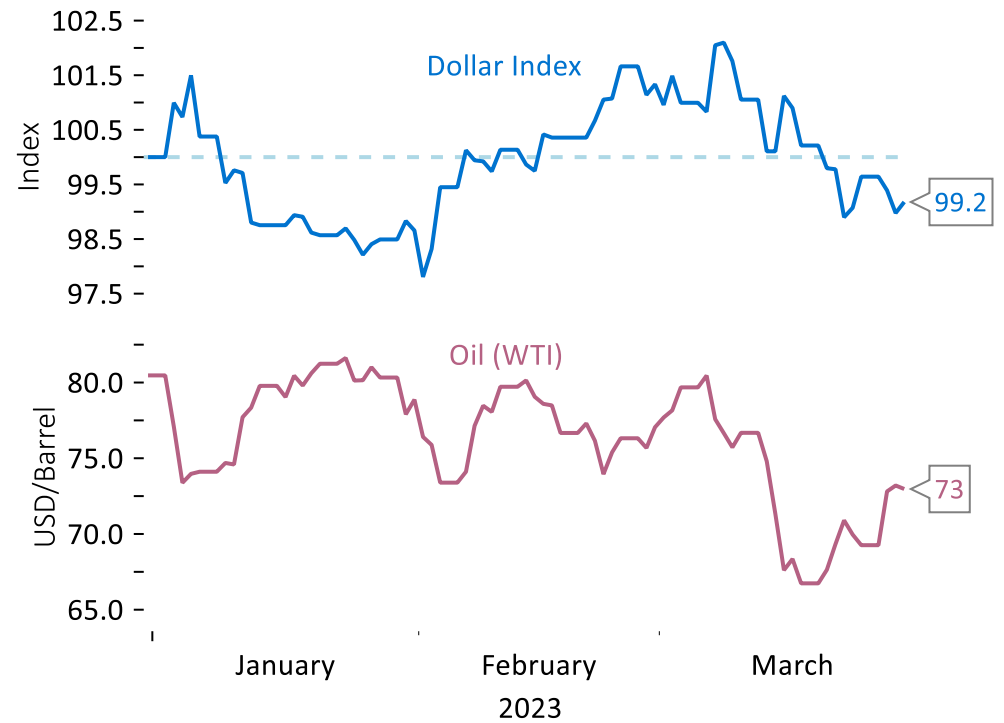
No significant dollar safe haven flows

Asset class performance 2023



Source: Macrobond, 30.03.23

Asset class performance 2023



Source: Macrobond, 30.03.23

# When the Fed lifts rates above neutral, recession normally follows

We expect a mild US recession in H2 2023 while Europe & UK will probably just avoid one

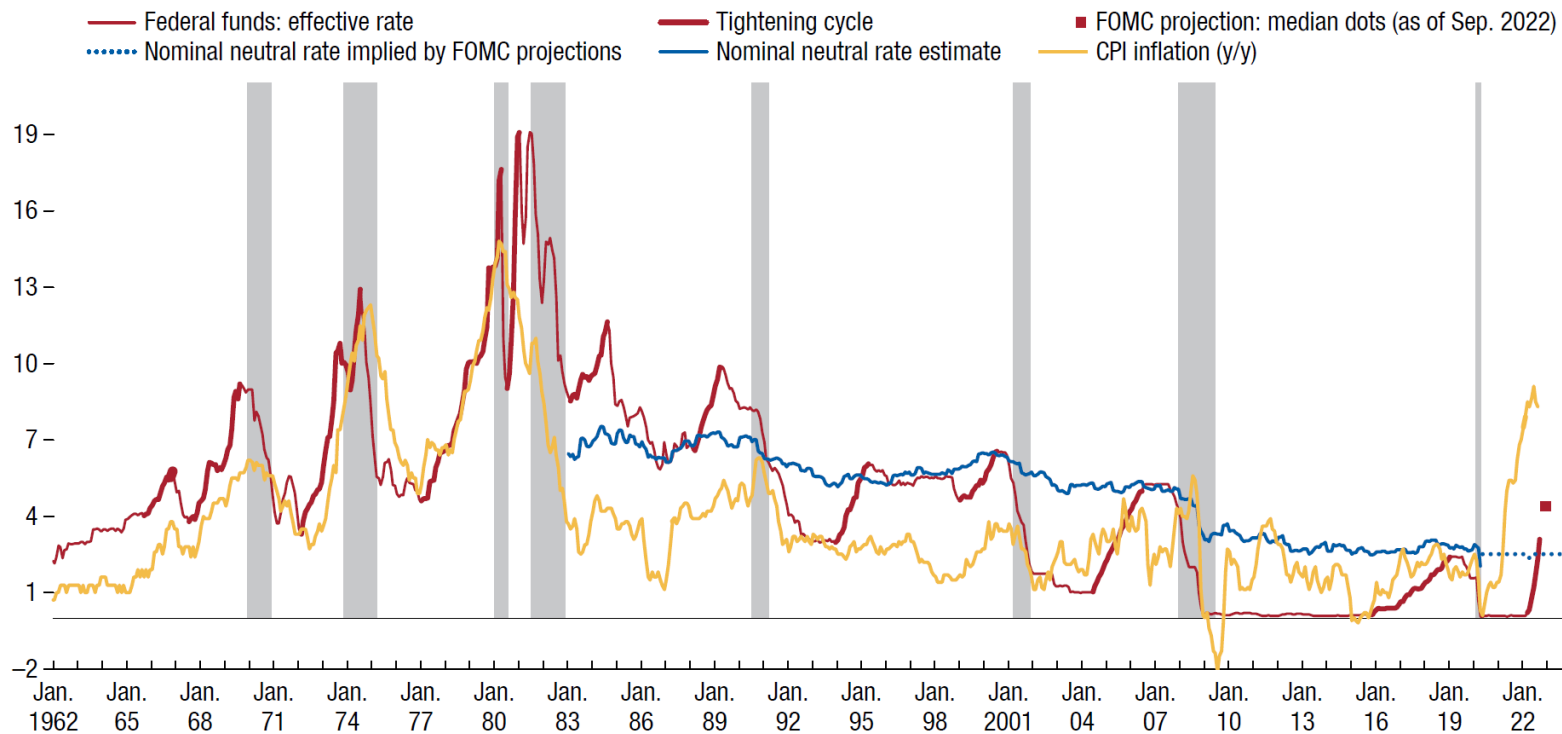


The exception was 1994 when inflation remained low and policy rates were cut within a year...

**Figure 1.11. Monetary Policy Tightening and Recessions: A 60-Year Record**

Historically, each time the Federal Reserve has raised the federal funds rate close to, or above, the neutral nominal rate, the US economy has entered a recession soon thereafter.

**1. US Monetary Policy Tightening Cycles, 1960 onward  
(Percent)**



Sources: Bloomberg Finance L.P.; Federal Reserve; US Bureau of Labor Statistics; and IMF staff calculations.

Source: IMF Nov 2023

# US liquidity conditions have been tightening on all fronts...

The Federal Reserve balance sheet will probably *expand* as bank support measures rise

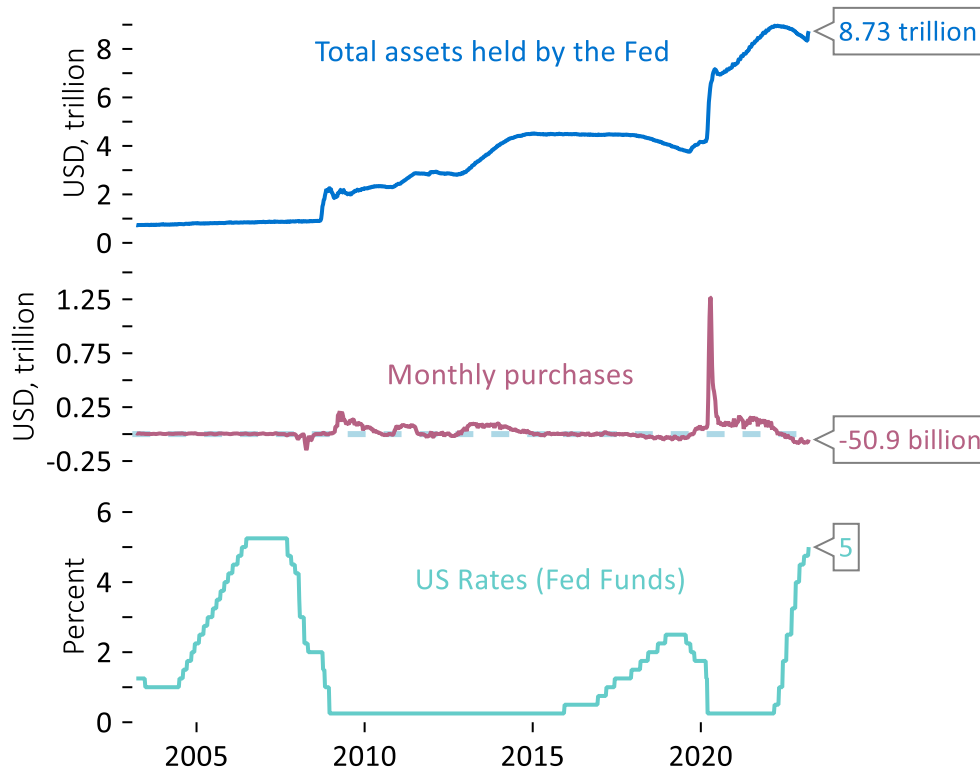


Fed balance sheet starts to contract - rates rise sharply



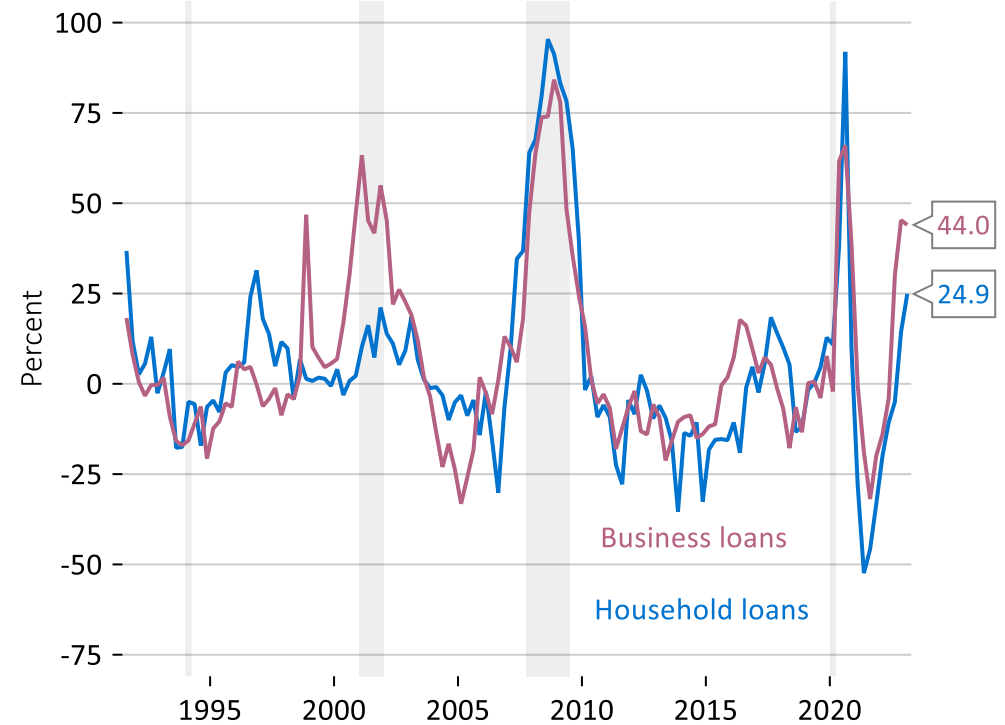
Commercial banks are tightening loan conditions

## US Federal Reserve Balance Sheet & Rates



Source: Macrobond, 30.03.23

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



Source: Macrobond, 30.03.23

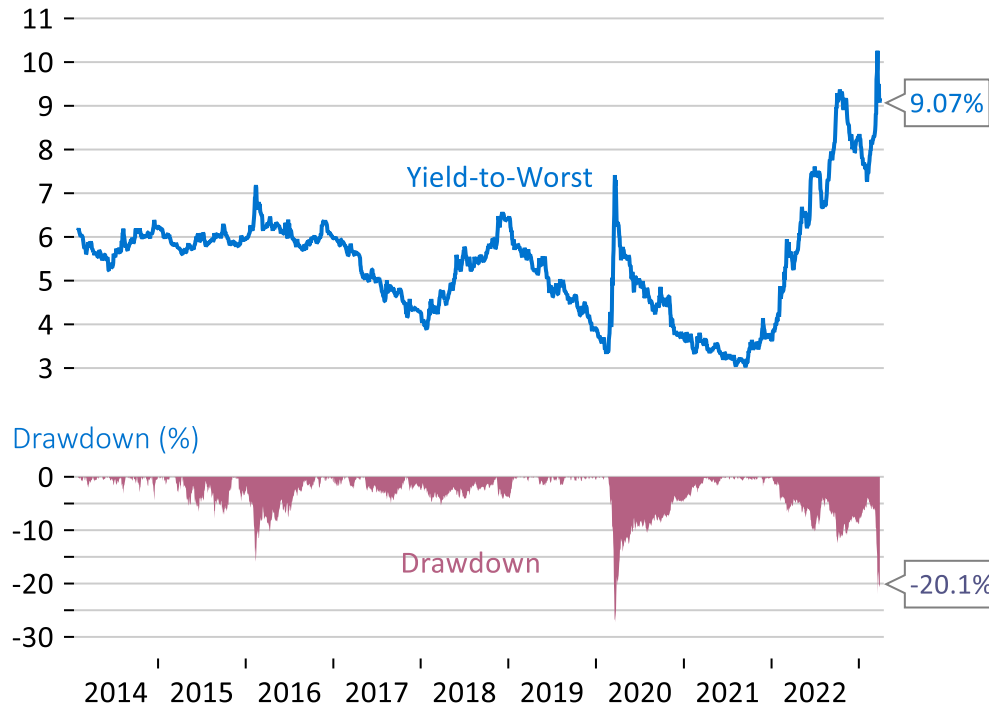
# Risk 1. Bank contingent capital may now be fairly priced



CS shock pushes AT1 yields sharply higher

## ICE BofAML World Contingent Capital Index

Yield-to-Worst %



Source: Macrobond, 30.03.23



Bank equity returns flat since COVID outbreak

## MSCI World Banks USD [rebase -3y=100]



Source: Macrobond, 30.03.23

## 2. Growing risk in the corporate sector argues for quality

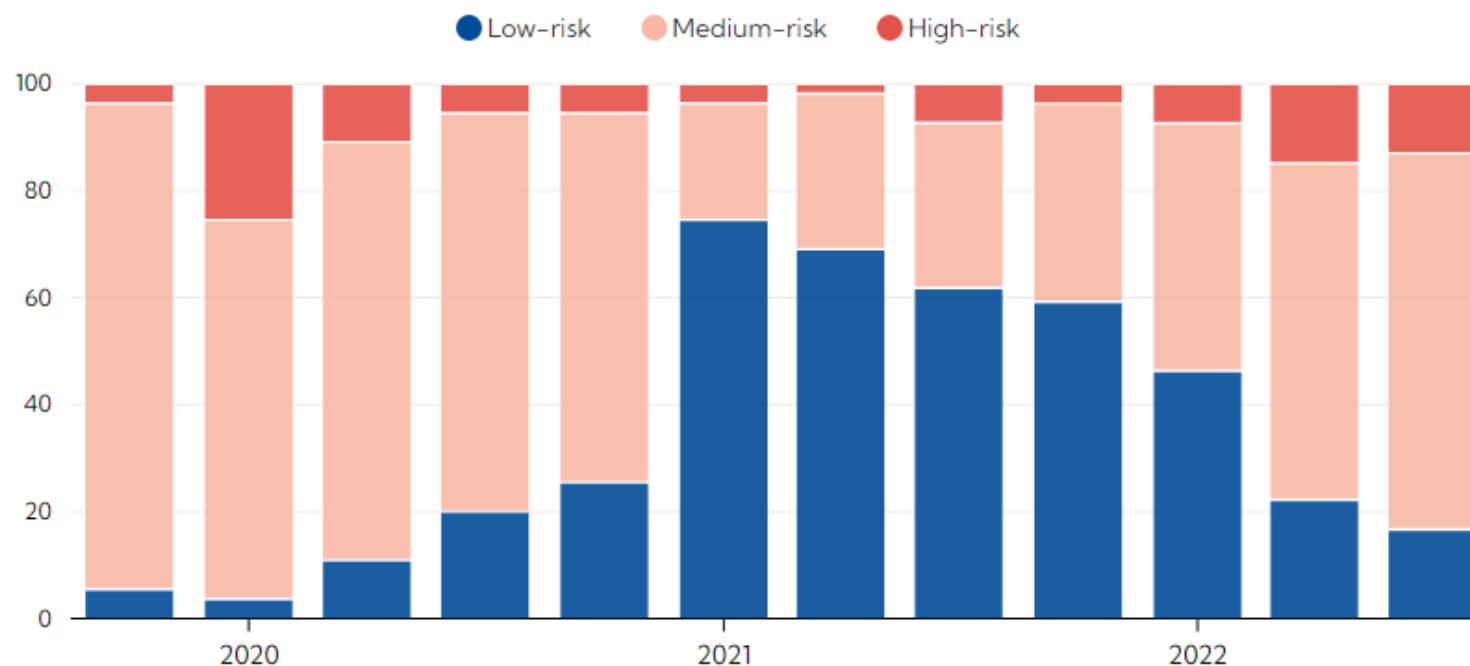
Corporate debt rose by more than \$12 trillion during the pandemic



Index of corporate stress (50 indicators across 50 countries since 1955 – IMF)

### Rising corporate risk

The number of countries at risk from corporate–distress spillovers has risen after a decline in 2021. (risk of systemic corporate distress, percent)



Source: IMF staff calculations. Note: Out of 55 advanced and emerging economies until Q3 2021 and out of 54 excluding Ukraine thereafter due to data limitations.

Source: IMF March 2023

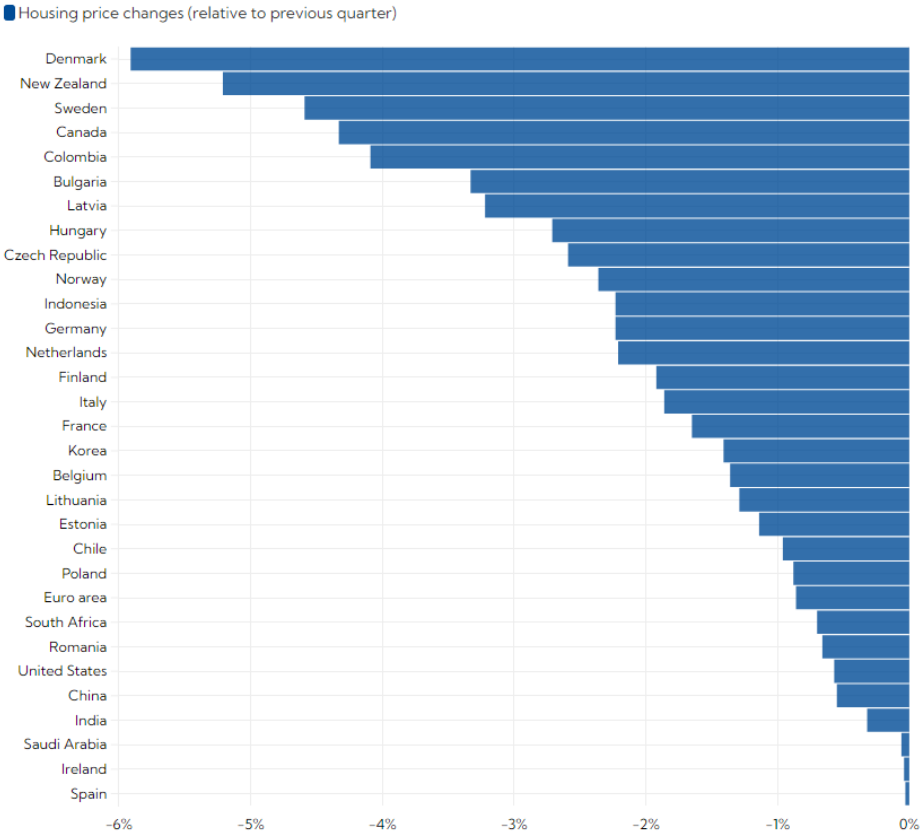
# 3. Global house prices start to mirror declines in commercial

Global commercial property market stalls – issues growing in world housing markets

## House prices retreating after years of steady gains

### On the retreat

Two-thirds of the economies for which the OECD tracks housing prices saw declines for their most recent quarter of available data.



Source: Organisation for Economic Cooperation and Development. · Note: 31 of the 46 economies included in the OECD dataset are displayed in the chart. Housing prices rose in the other 15 economies.

## Risks rising from rates, climate and work-from-home

### US Commercial Property Prices (Green Street Advisors)



Source: Macrobond, 30.03.23

# 4. Leveraged loans and private debt

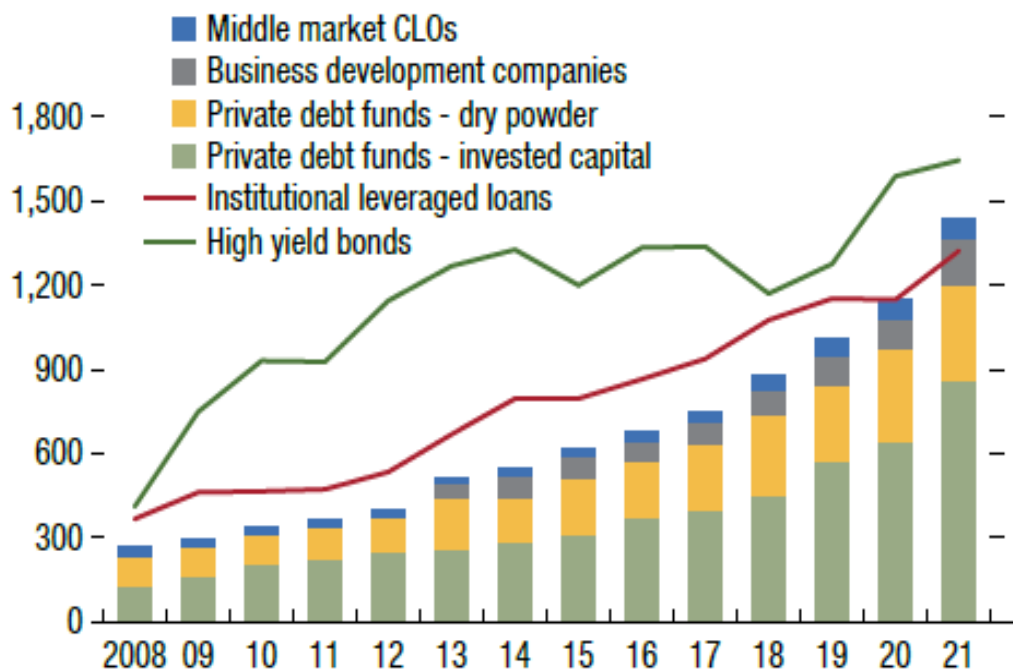


Private credit has become significant for risky firms

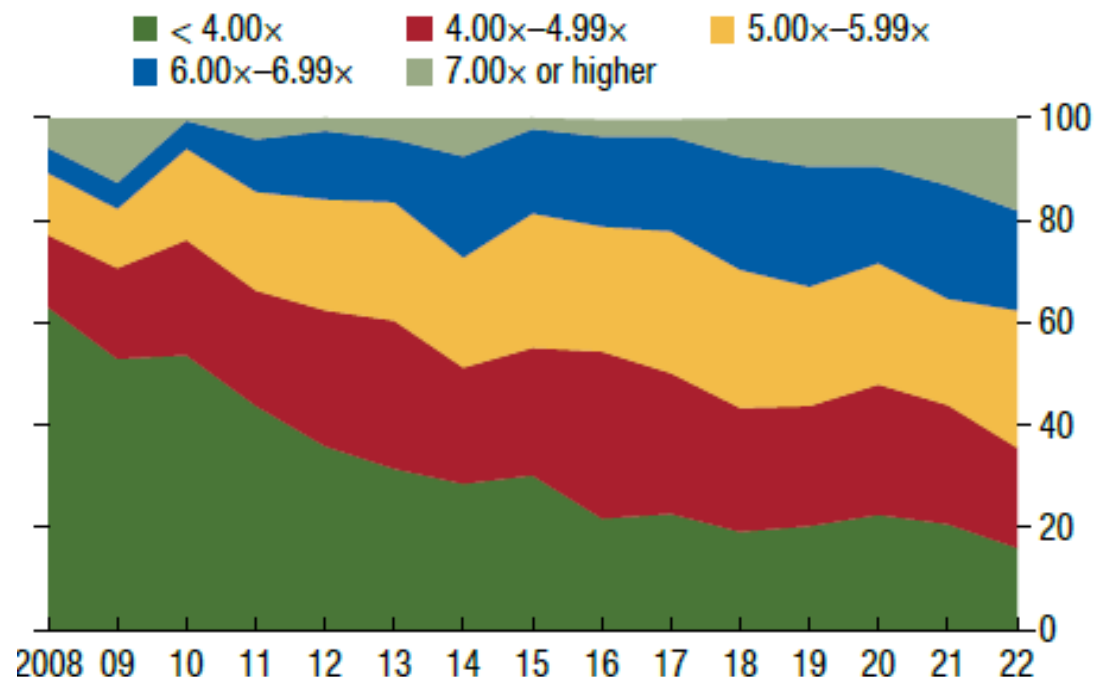


Credit quality is clearly deteriorating

1. Private Debt Assets under Management and US Leveraged Loans and High-Yield Bonds Outstanding (Billions of US dollars)



2. Leveraged Loan Issuance by Debt-to-EBITDA Ratio (Percent)



Source: IMF October 2022



# Key portfolio risks

As global money policy continues to tighten where are the key vulnerabilities?

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1. Bank debt – impact already felt – value appearing
2. High levels of corporate debt concentrated in fragile economies
3. Commercial real estate - can decline further
4. Global residential real estate prices now starting to correct
5. Private debt markets, high yield and leveraged loans all vulnerable

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