Vontobel

Investors' Outlook

Easing the sails

March 2023

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Easing the sails

Dear readers,

Markets roared into 2023, with investors feeling more confident about signs of slowing inflation in the US, indicating that the US Federal Reserve has likely completed most of its heavy lifting when it comes to interest-rate increases. Markets also benefited enormously on optimism that China's reopening will support the global economy.

Inflation levels and central banks' actions to fight it are still center stage, but the prospects for the global economy have improved from just a month ago, with inflationary pressures easing. Take the US labor market, for example, which has proven extraordinarily resilient, or consumer sentiment, which has been improving. While we still expect a recession and the Fed to cut rates by the end of the year, this backdrop increases the odds of a so-called "soft landing"—and, in turn, means that any easing of monetary policy by central banks is likely to start later than previously anticipated.

Two camps have formed. The bulls see a soft landing with low inflation, while the bears see a recession and persistently high inflation. The truth will probably lie somewhere in the middle. In any case, stock markets now price in a short and soft landing and may have gotten ahead of themselves somewhat. We now see more downside risks, fewer opportunities, and higher valuations and have reduced our equity positioning to neutral from overweight. Thus, we locked in some of the gains we've enjoyed since moving overweight at the end of September, and reinvested the proceeds into cash until we see an attractive entry point.

—
Dan Scott
Head of Vontobel Multi Asset,
Vontobel

In this Investors' Outlook, you will read our take on the most recent developments in the markets and economy. You can also find the details on our asset allocation, including our decision to trim our exposure to US stocks, stay neutral on fixed income overall and why we continue to prefer gold as geopolitical risks abound, as emphasized by the recent balloon incidents.

I invite you to read our deep dive into the role of unions and a review of current labor risks.

As February has shown, even a short month can be eventful. We are ready to navigate the markets as we head toward the end of the first quarter of 2023.

→ **Webcast**
To view our webcast on recent market developments, click **here.**

—
Frank Häusler
Chief Investment Strategist,
Vontobel

—
Mario Montagnani
Senior Investment Strategist,
Vontobel

Improving outlook, but…

Despite being the shortest month of the year, February was certainly not short on events. The Fed kicked things off with a hike of 25 basis points, bringing its federal funds rate to a target range of 4.5 to 4.75 percent. While Fed Chairman Jerome Powell acknowledged the early stages of disinflation, he flagged "a couple more" hikes in the months ahead. The European Central Bank and the Bank of England hiked their respective key rates by 50 basis points each.

The addition of a whopping 517,000 US jobs in January underscored the resilience of the labor market. This implies a later-than-expected Fed pivot only in the fourth quarter and a higher-than-anticipated "terminal rate", according to our assessment. There's a risk that good news becomes bad news here, especially as markets have gotten ahead of themselves.

After a good run since going overweight on stocks in late September—the stars aligned and markets were priced to near perfection—we have now locked in profits, pruning our exposure to US stocks. All other regional views remain intact. This results in an overall neutral view on equities, with the proceeds going into cash, which we're ready to redeploy once an attractive opportunity arises.

We continue with our neutral stance on fixed income overall and remain overweight on government bonds. We stand by our slightly positive view on emerging-market debt in hard currency, given its attractive spreads. While we still expect a recession, we acknowledge that corporate balance sheets are in solid shape. A better entry point to build up credit exposure should emerge later in the year, thus we are staying neutral on investment-grade credit and underweight high yield.

We remain neutral on commodities as they're weighed down by short-term fears about economic growth and overweight gold as a hedge. Finally, we stay neutral on real estate and negative on hedge funds. See the details on page 5.

	UNDERWEIGHT significantly	UNDERWEIGHT slightly	NEUTRAL	OVERWEIGHT slightly	OVERWEIGHT significantly	
1 Liquidity			↗			Following our tactical reduction of equities to neutral from overweight, we reallocate the proceeds into cash. As a result, cash moves up one notch, to neutral from underweight. We stay put for now but are ready to reinvest capital as soon as new attractive entry opportunities emerge.
2 Bonds			→			Over a 12-month horizon, we expect to see lower bond yields (which move inversely to prices), not only due to our outlook for a weaker US economy but also to our “peak inflation” conviction, as declining inflation has historically been followed by lower yields. We therefore maintain a neutral view on fixed income. We remain overweight on government bonds and keep our slightly positive view on emerging-market debt in hard currency given its attractive spreads. We stay neutral on investment-grade and negative on high-yield bonds, as we expect to see better entry opportunities later in the year.
3 Equities			↘			We have been overweight stocks since late September 2022. Ever since implementing the trades, the MSCI World Net Total Return Index and the S&P 500 Net Total Return Index have gained almost 18 percent and 15 percent, respectively (as of February 16, in USD). The rally was boosted by optimism that peak US inflation could pave the way for a less restrictive monetary policy going forward, along with a higher probability for a soft landing instead of a much-feared deep recession. But at corporate levels, earnings forecasts for 2023–24 have been revised down since September, and we expect this trend to continue in the near term. In the absence of short-term catalysts, the rally could run out of steam and lead to renewed stock market volatility. We therefore trim our exposure to US stocks to neutral from overweight, tactically locking in some gains amid our still cautious outlook for the global economy, expectation of a US recession and a later Fed pivot. All other regional views remain intact: we stay neutral on Swiss, European, Japanese, and emerging-market stocks. This results in an overall neutral weight on equities.
4 Gold				→		We stay overweight on gold. The yellow metal struggled to grind higher last year, as the Fed’s hawkish stance lowered inflation expectations, pushed up real yields, and boosted the US dollar. Gold should benefit from a Fed pivot later in the year and everything that comes with it, like a weaker US dollar. We also like gold as a hedge against escalating geopolitical risks. Take the Russia-Ukraine war or US-Chinese relations, which have soured after Chinese “weather balloons” repeatedly strayed into US airspace.
5 Commodities			→			We stay neutral on commodities. While commodities’ longer-term story remains intact due to years of underinvestment and their role in the transition towards a “greener” future (especially basic metals), their short-term story is still dominated by fears about global economic growth.
6 Alternative strategies			→			We remain neutral on alternative investments overall and reiterate all sub-asset class views (i.e., a modest underweight in hedge funds and a neutral view on real estate).

Changes month-on-month: same → higher ↗ lower ↘

Soft landing or recession?

The most important question for investors today is whether or not we are moving into a recession. Financial markets have been pricing out the probability of a recession in recent weeks, pointing to a soft landing for the economy. We maintain our recession scenario but admit that a soft landing has become more likely lately.

—
Stefan Eppenberger
Head Multi Asset Strategy,
Vontobel

The most anticipated recession ever is delayed
Predicting the future is inherently difficult. This also applies to anticipating recessions. Economists often react too late, or at least later than financial markets. This made the picture at the end of last year all the more interesting when the experts presented their forecasts for 2023. In fact, more than three out of four experts thought a recession was just around the corner. The same is true for us. But the "most anticipated recession of all time", as it was called among skeptics with a twinkle in their eyes, has not arrived.

Not yet, you might say, because the year is still young. But the likelihood of a recession has diminished in recent weeks. This can be deduced from the latest economic data, which have exceeded expectations. More and more often, the term "soft landing" is making the rounds, which refers to an economic slowdown without rising unemployment. Financial markets have already priced out a recession in recent weeks. For example, cyclical stocks have recently performed much better than defensive stocks (see chart 1). In summary, financial markets are clearly questioning the 2023 recession thesis.

Our base case scenario for 2023 is still a recession
At the end of last year, we had several reasons to expect a recession. First, the inverted yield curve pointed to a recession. Since 1955, recessions have almost always occurred when 10-year government bond yields traded below the US federal funds rate, with 1967 being the famous exception to the rule. With an inverted yield curve, bond investors expect lower yields in the future, as a weaker economy with lower inflation would force central banks to cut rates.

Interest rates that have risen too quickly and too sharply have also been our main argument as to why the economy will cool down significantly, likely affecting sectors that are particularly sensitive to interest rates. This is now clearly visible. Activity in the US housing market has collapsed, with new home sales as weak as in severe recessions. House prices are also falling in many countries around the world. In extreme cases, the weakness in the housing sector could trigger a vicious cycle and a harsh recession.

But higher interest rates also have an impact on other areas of the economy. According to the latest “Senior Loan Officer Survey” by the US Federal Reserve, banks are reporting the lowest demand for new loans since the financial crisis (see chart 2). The decline in demand is due, among other things, to a decrease in customers’ willingness to invest. Even banks themselves have tightened the conditions for credit amid the gloomy economic outlook. In our view, there is also a lack of the monetary or fiscal stimulus needed for a sustained economic recovery. Central banks are still in a cycle of interest-rate hikes due to high inflation. Governments around the world see little reason to waste their powder now, given the solid labor markets. Moreover, they do not want to get in the way of the central banks' inflation-fighting measures.

The case for a soft landing has strengthened

A recovery of the Chinese economy could challenge our scenario of a recession. In fact, the end of the “zero-Covid” policy and thus the reopening of the Chinese growth engine has happened much faster than we expected. Recent rising mobility data in China confirm the positive picture. The outlook for the Chinese real estate market is also brightening. This all translates into clearly positive prospects for the global economy.

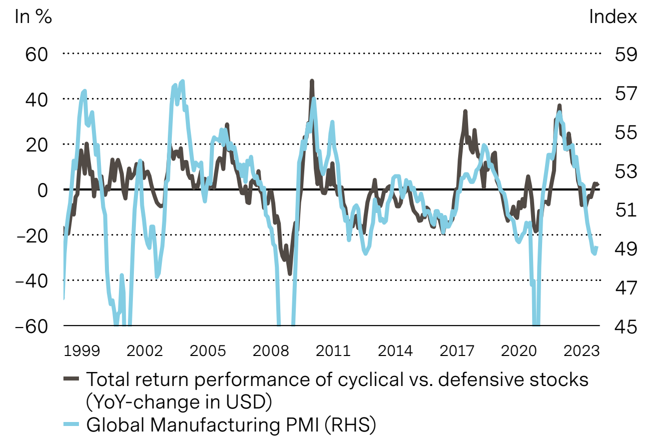
However, the Chinese growth impetus is unlikely to be enough to prevent a recession. The decisive factor will be whether the US consumer remains willing to spend enough money. This should be supported by falling inflation, which could boost real wages (see chart 3). However, the determining factor for the consumer will likely be the state of the labor market. If the weakening economy causes unemployment to rise, consumption is likely to suffer.

For the time being, the US labor market remains extremely strong. The latest unemployment figures fell to levels last seen in the 1960s, largely because the labor supply is significantly lower than before the pandemic due to early retirements, less immigration, and more people unable to work.

On the other hand, demand for labor is already cooling. Companies’ margins and profits have been falling for several months amid high inflation and the economic slowdown. How long companies can withstand this before they start laying off employees is difficult to predict. Surveys, at least, already show that the willingness to raise wages is declining. These are not good signs for consumer sentiment.

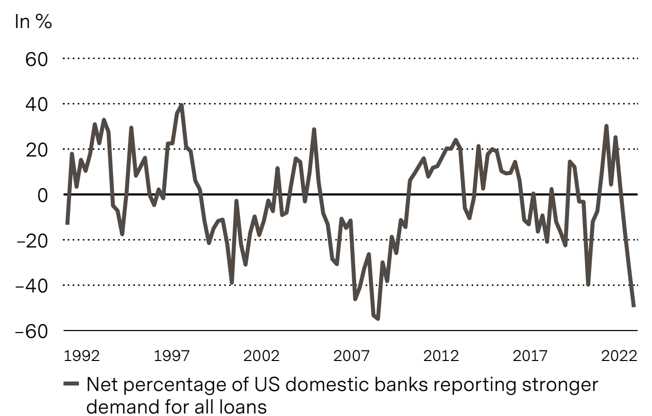
Whether a recession can be prevented, as currently priced in by financial markets, may ultimately depend on the policy of the US central bank. If inflation returns to the Fed’s target range, interest rates may even be cut in the course of the year. This would then be the monetary stimulus needed in a normal cycle to generate a sustainable economic upswing.

Chart 1: Equity markets have priced in a soft landing of the economy in recent weeks



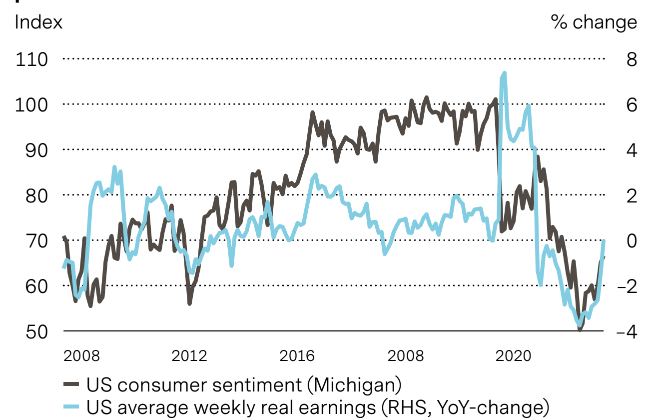
Source: Refinitiv Datastream, Vontobel

Chart 2: Demand for new loans in the US at levels last seen in the financial crisis



Source: Refinitiv Datastream, Vontobel

Chart 3: Higher real wages improve the purchasing power of the consumers



Source: Refinitiv Datastream, Vontobel

Unions 101: A review of current labor risks

The post-pandemic world ushered in a labor movement revival of sorts. Agitated over age-old concerns about pay and safety, front-line workers around the world raised their collective fists to push for better conditions. In these last few years, companies have faced rising labor costs both to fill vacant positions and to quell discontent among the existing workforce—from truckers to nurses, factory workers and baristas. Let's take a closer look at the key attributes of unions globally, what's behind the demand for unions, and how investors can identify risks.

—
Sudhir Roc-Sennett
Head of Thought Leadership &
ESG Quality Growth Boutique,
Vontobel

A drive to unionize global companies like Starbucks and Apple certainly makes the headlines. Such visibility has had an energizing impact on organizing efforts worldwide—but not all regions, sectors, or companies face the same threat or labor cost crunch. Pay disparities can lead to low morale, low productivity, and high turnover—which ultimately weigh down the value of a franchise. There are companies with a fully unionized headcount that can pass on rising labor costs to end customers.

The heyday of labor unions in most developed markets has long since passed. During the past 20 years (and since a membership peak in the 1950s), the proportion of union members has shrunk across the globe, except in North Africa and South America. While tight markets, Covid-19 and inflation sparked a rethink in some pockets (a 2022 Gallup poll showed the highest union approval in the US since 1965), the real risk of a labor power resurgence is in developing nations, where collective bargaining is alive and well.

There is a relationship between the coverage of collective bargaining within companies and profitability (see chart 1). The higher the coverage of collective bargaining, the lower the returns. What's more, the impact of a surprise increase in union membership can be significant for companies not able to pass through the new costs to their customers.

A recent example illustrates what's at stake for multinationals that downplay labor risk. Paris-based Teleperformance, the world's largest call center operator, counts 420,000 global employees. A high-profile scandal related to a relatively new "content moderation" business led to a sharp double-digit drop in share value and reputational harm. Media reports about its outsourced policing service against grisly images for social media clients generated genuine concern about the psychological impact on employees and pay, among politicians and investors alike. This enabled the global union federation UNI Global to successfully persuade management into a global agreement.

Why workers want to join a union

Unions are independent organizations designed to defend and further the interests of their members through negotiations with employers. Unions slowly evolved in industrialized economies after countless episodes of violence and suffering helped construct the "normal" working conditions we take for granted in wealthier markets: the 8-hour day, paid sick leave, paid vacations, safe working conditions, and the end of child labor. Unions helped reduce the need for blue-collar workers to compete against each other for a job, negotiating to the bottom. Unions represent a significant force with about 214 million members, plus a further 300 million in China, and have great potential for new membership across the developing world.

For workers at the low end of the wealth divide, collective bargaining can deliver straightforward absolutes, such as a living wage and safe working conditions. It's particularly valuable when there is a lack of enforced regulation—such as protection against fires in textile factories.

In wealthier markets, however, as many basic worker conditions have become codified into law over time, unions have had to extend their offer to attract members willing to pay dues. Examples of popular angles include closing regulatory gaps between markets (e.g., the US is one of just two OECD nations without countrywide statutory paid sick leave for full-time employees, or providing benefits (e.g., in northern European markets such as Denmark, Sweden, and Finland, unemployment insurance is voluntary and not run by the government but offered by the unions).

For companies, what matters is the proportion of employees with "coverage" under a collective bargaining agreement. With coverage of 100 percent, it doesn't make a huge difference to a company if more employees join a union, as they are already covered on the big issues such as pay. Chart 2 compares the two measures. Markets with lower union density and lower coverage carry greater potential for new costs with rising union density.

Unions have gained toeholds in new markets using leverage from national and international union federations. Affiliated local unions form national federations, which in turn can be coordinated by a global federation umbrella organization. Each level brings specialization to negotiate with, or influence, different counterparties. There are at least nine major international federations, each focused on certain industries. For investors, these are the organizations to watch, as they have the heft and sophistication to support their local affiliated unions to match a multinational across their geographic footprint.

The US labor market

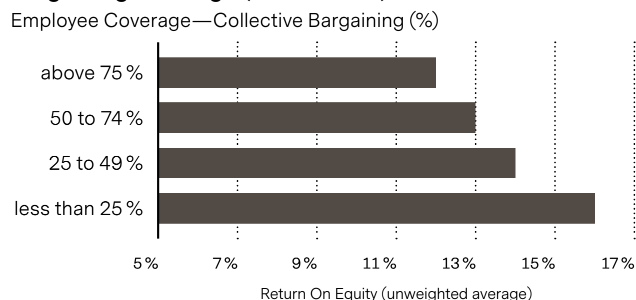
The world's largest economy has very low levels of union density and coverage. US workers have had a frustrating half century amid globalization, labor price competition in the form of imports, increased automation, and the rise of the gig economy. The proportion of workers in manufacturing jobs fell to 9 percent in 2019 from 22 percent in 1979. Even though blue-collar workers have not seen an increase in purchasing power, adjusted for inflation, in 47 years, the US Bureau of Labor Statistics recorded union participation across the country at 10 percent, the lowest level since records began in 1983, when it stood at 20 percent. What gives?

Aside from a lack of oversight that led union leadership to gain a poor reputation for governance (Jimmy Hoffa et al.) and manufacturing jobs that came under pressure from German and Japanese imports, the straw that seemed to break the camel's back for the US union movement came in 1981. That's when the Professional Air Traffic Controllers Organization (PACTA) dismissed a generous offer from the administration of a newly elected Ronald Reagan, overplayed their hand, and went on strike. A furious Reagan fired the controllers, and the tide turned. Union density has fallen since, supported by significant latitude provided to companies to discourage union organizing.

Today, a particularly important structure is the "Right to Work" laws, which ensure workers cannot be forced to join a union or pay union dues as a condition of employment. 27 of the 50 US states have "Right to Work" laws in place, covering just over half the population. These laws create state-level competition based on lower labor costs. One example of the fallout from these laws was seen in Detroit, where auto union jobs went south to "Right to Work" states, leaving the city a shell of its former self.

Chart 1: Return on equity by level of collective bargaining coverage (MSCI ACWI)

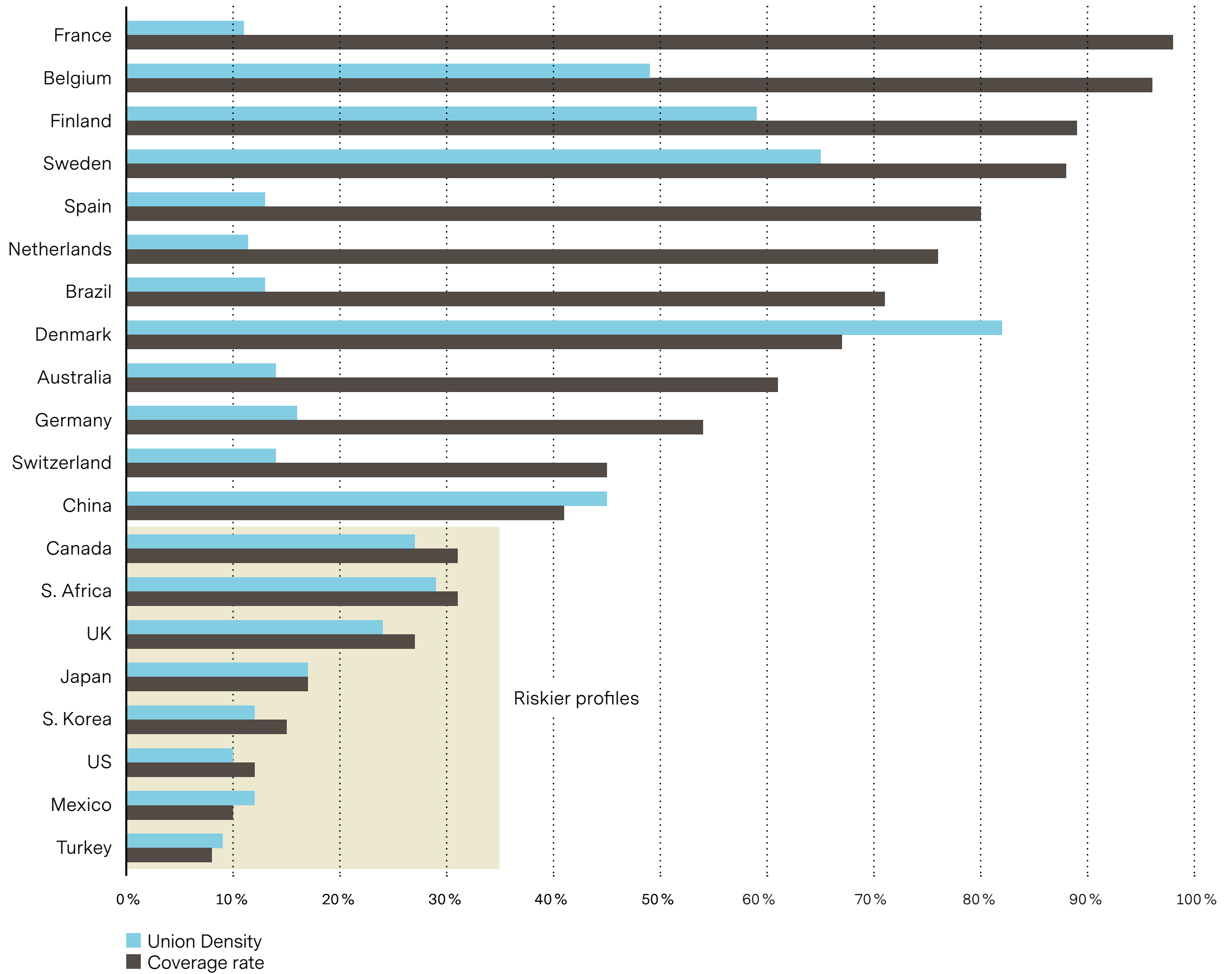
Employee Coverage—Collective Bargaining (%)



Source: MSCI ESG Research, FactSet. As of January 2023.

Chart 2: Collective bargaining coverage vs. trade union density rates

Employee Coverage—Collective Bargaining (%)



Source: OECD. As of January 2023.
oecd.org/employment/ictwss-database.htm

So, how can investors spot red flags? There is no database that can provide a reliable red flag of labor trouble ahead in a timely fashion. The news of upset employees seems to be the best canary in the proverbial coal mine. Factors to consider include, but are not limited to, extended negative news flow of upset employees, high labor costs as a proportion of the full cost of goods sold, and low pricing power to pass through additional costs.

There is a mutual benefit for employees and business owners to find a sustainable balance between needs and wants. For investors, if a company treats its employees well enough to motivate them without a union, the franchise can operate uninterrupted by negotiations or avoidable friction. However, for companies not able to pass through pricing, the arrival or large expansion of a union can reduce value. With tectonic shifts ahead in the way we work and wages increasingly recognized as vital to economic growth, investors can no longer assume that the question of labor is just another line-item cost. Investors need to keep their ear to the ground—labor is big and evolving.

Read the full article here.
am.vontobel.com/en/insights/unions-101-a-review-of-current-labor-risks

Staying the course on fixed income

—
Christopher Koslowski
Senior Fixed Income & FX Strategist, Vontobel

Yields moved higher recently, and spreads widened as strong incoming data showed the road to target inflation could be a long and bumpy one. Investors have also pared back expectations of a hard landing.

Our overall outlook for fixed income remains neutral. We are overweight on government and emerging-market bonds in hard currency, neutral on investment-grade corporate bonds, and underweight on high-yield bonds.

Treasury yields will remain highly sensitive to the Fed's forward guidance, but already reflect weaker cyclical economic momentum and a sizable decline in long-term inflation expectations. The negative yield spread on the US curve points to heightened recession risk and declining global demand. The interest-rate spread between the three-month T-bill and 10-year US Treasuries first turned negative in October. Prior to this, the yield spread between the two-year and 10-year bond turned negative. The inverted yield curve signals investor anxiety about Fed rate hikes, which increase the chance of a recession.

Near-term bond yields are unlikely to move sustainably lower unless economic growth momentum deteriorates further.

Corporate bond spreads have tightened to levels that provide insufficient protection against declining growth momentum. Corportate bonds' recent performance versus government debt has been at odds with foward-looking growth indicators, at a time when the Fed is aiming to tighten monetary policy to restrictive levels to slow demand and cool off inflation. Restrictive monetary policy is typically not good for credit market returns.

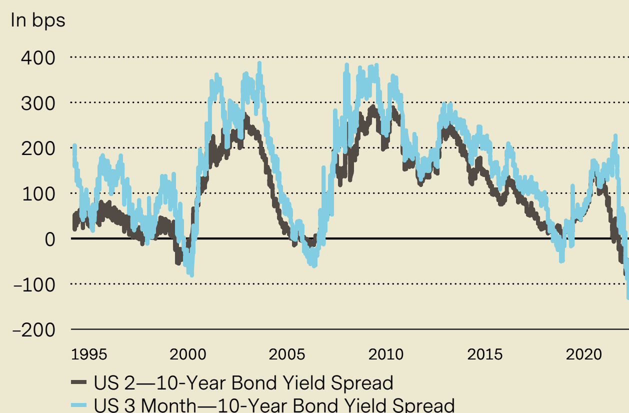
Lending standards are deteriorating (stricter lending conditions), which speaks for widening spreads

The lack of compelling valuations, increased cyclical risks to corporate profitability, and associated risks of corporate downgrades and defaults mean we are underweight on high yield.

One area of concern is the Fed's most recent "Senior Loan Officer Survey on Bank Lending Practices". This report indicated that loan officers are tightening their lending standards, which makes it harder for some firms to access commercial and industrial (C&I) loans, possibly translating into higher yields and spreads. Tighter lending standards have historically correlated with higher spreads (see chart 2). C&I loans can provide emergency financing for companies if needed. Without that potential lifeline, it could make it harder for some companies to service existing debt.

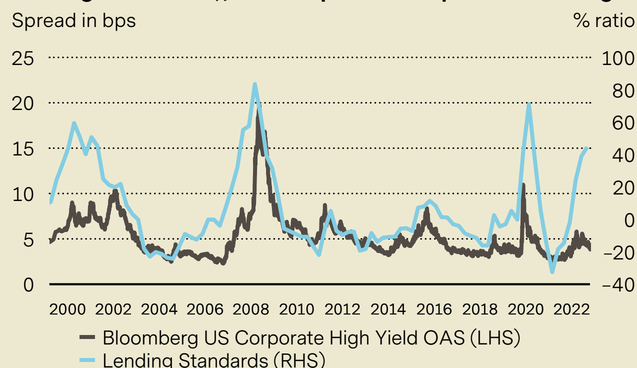
Valuations of emerging-market bonds are improving and are now in attractive territory, with breakeven spreads offering some protection. Given the exceptional mix of high yields, appealing valuations, and a global environment that is more favorable for fixed income in general, the outlook for emerging-market debt is looking more constructive.

Chart 1: Treasury yields already reflect weaker cyclical economic momentum



Source: Bloomberg, Vontobel

Chart 2: Lending standards are deteriorating (stricter lending conditions), which speaks for spread widening



Source: Bloomberg, Vontobel

"Should I Stay or Should I Go"—time to take a breather

—
Mario Montagnani
Senior Investment Strategist,
Vontobel

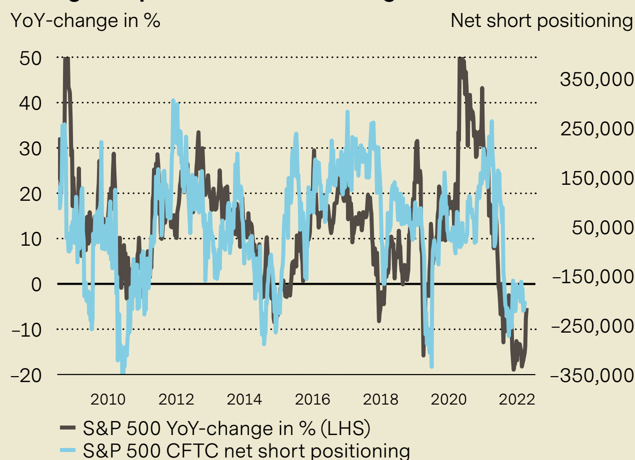
The legendary song by English punk rock band the Clash was written in 1981, almost one year after US consumer price inflation peaked at more than 14 percent in March 1980. Over that period, the S&P 500 climbed by more than 30 percent in absolute terms. Since the peak of US inflation in late summer 2022, we have witnessed something similar. Is it time "to go" and lock in some gains?

Equity markets enjoyed a substantial rally since the end of September 2022 due to a number of positive factors, including signs of moderating inflation in the US and Europe, a weaker US dollar, the reopening of the Chinese economy, the easing of supply chain constraints, better-than-expected economic data, falling energy prices along with a milder-than-expected winter season across Europe and—last but not least—a modest uptick in aggregate central bank liquidity. These factors raised the odds for a soft landing instead of a much-feared (though widely anticipated) deep recession. This favorably impacted the predominantly negative investor sentiment on the eve of the new year, which was reflected in their short positioning in stocks (see chart 1).

Since early January, declining yields, along with a less-hawkish-than-expected February Federal Open Market Committee meeting, have triggered a substantial rotation into more (early) cyclical and growth-oriented sectors, including technology, consumer discretionary, and industrials, to name a few. At the same time, growth, quality, and small size outperformed value, yield, and momentum styles, playing in favor of European and US equities, followed by emerging markets (see chart 2). At corporate levels, earnings forecasts for 2023–24 continued to trend down since September, despite a mildly encouraging start to the reporting season and outlook for 2023. Without any real support on the fundamental side, this inevitably resulted in a substantial re-rating in valuation multiples across most markets.

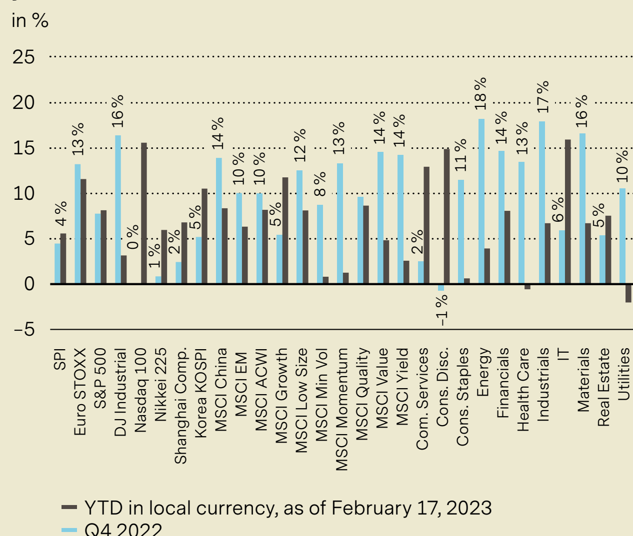
On the one hand, technical indicators for stock markets remain moderately favorable in the short term. On the other hand, further deterioration is expected in economic growth. This should weigh on earnings and sentiment, resulting in stock market volatility. As a result, we rather lean toward the "to go" camp for now, given our still cautious outlook for the global economy, which encompasses the likelihood of a US recession and the scenario of a later-than-expected Fed pivot. In an opportunistic move, we're locking in some gains by trimming our position in equities to neutral after going overweight in late September.

Chart 1: Short positions in Q4 near levels only seen during Europe's debt crisis or the global financial crisis



Source: Refinitiv Datastream, Vontobel

Chart 2: The tech-heavy Nasdaq had its best start to the year in two decades



Source: Refinitiv Datastream, Vontobel

Outlook for oil: short-term headwinds, long-term tailwinds

—
Michaela Huber
Cross-Asset Strategist,
Vontobel

Oil found itself on the sunny side of life over the last two years. After the pandemic-related slump in 2020 when the oil price even fell into negative territory to minus 37 US dollars per barrel, the so-called "black gold" climbed back to around 75 US dollars at the end of 2021—and even jumped to over 120 US dollars at times last year. However, clouds have increasingly been gathering on the horizon for some months now.

Recession fears, solid inventories, and Russian production as short-term headwinds

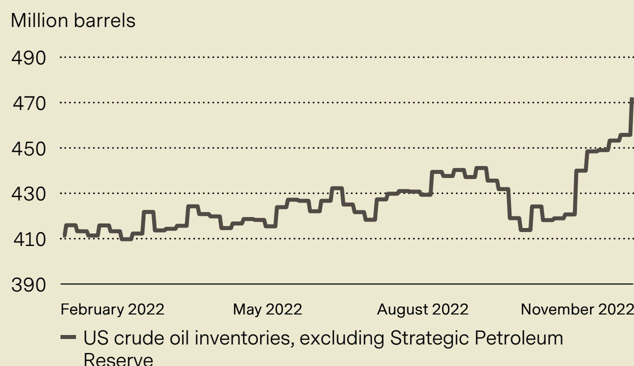
In addition to ongoing recession concerns, well-filled oil inventories are also weighing on the price of the black gold. China still has sufficient reserves after years of its "zero-Covid" policy. The US also has a solid supply: the US government recently announced that it would release a further 26 million barrels from its Strategic Petroleum Reserve onto the market. Inventories outside the Strategic Petroleum Reserve have also increased significantly (see chart 1).

Another headwind is likely to be found in Russia. Despite all expectations, Russian oil production did not decline last year but increased by a full two percent (to 535 million tons, or 10.7 million barrels per day). While Western countries steered clear of Russian Urals, India and China took advantage of the steep price discount. As a result of the price cap and sanctions, Russia's revenues from the oil and gas sector have dropped significantly. Against this backdrop, the recently announced production cut of 500,000 barrels per day makes sense (as a tightening of supply is likely to push up oil prices).

Continued underinvestment should support oil prices in the longer term

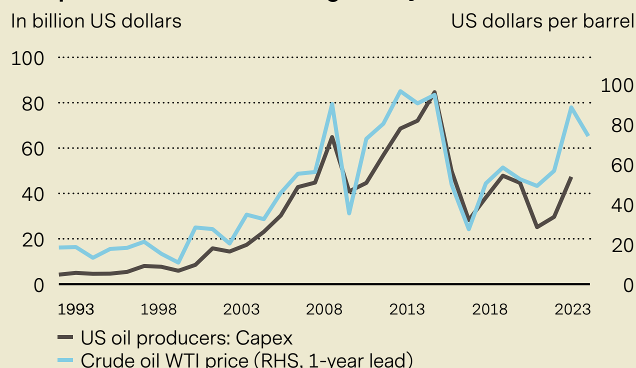
Notwithstanding these near-term headwinds, the longer-term outlook for oil remains constructive. Although "Big Oil" companies more than doubled their profits last year (to 219 billion US dollars), they seem reluctant to invest in new production capacity in the face of increased regulation and other factors (see chart 2). Instead, the focus is on keeping investors happy with lavish dividends and share buyback programs. This is likely to perpetuate years of underinvestment in the sector, posing a longer-term upside risk for oil prices.

Chart 1: US oil inventories have been swelling recently



Source: US Department of Energy, Vontobel
As of February 17, 2023

Chart 2: Capex growth set to remain muted as companies focus on returning money to shareholders



Source: Refinitiv Datastream, Vontobel
As of February 17, 2023

What is behind the US dollar rally?

—
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The dollar continues to quietly reclaim some of the heavy losses seen since October. The move has clearly been driven by the reassessment of the Fed cycle, where the "higher for longer" camp is dominating the narrative. But what is the underlying trend?

Most investors are now expecting US rates to remain higher for a longer period than previously anticipated amid the continued hawkishness emanating from the Fed. The ECB's hard-nosed rhetoric is also encouraging a positive euro yield, but the relative euro-US differential has softened, and that is keeping the euro-dollar exposed after a yield-driven rally over the past three months.

Financial markets are listening to the Fed hawks and making these substantial adjustments to the Fed cycle as US economic activity and price data are coming in stronger than expected. We think the current dollar rally is probably a correction to an underlying bear trend in 2023.

Overall, we expect the USD Index to move sideways in the next few weeks amid a lack of clarity on the big moving parts, while the risks remain skewed towards US dollar weakness rather than a sustained push to higher levels. A more sustainable US dollar rally would require a significant deterioration in the global macroeconomic outlook.

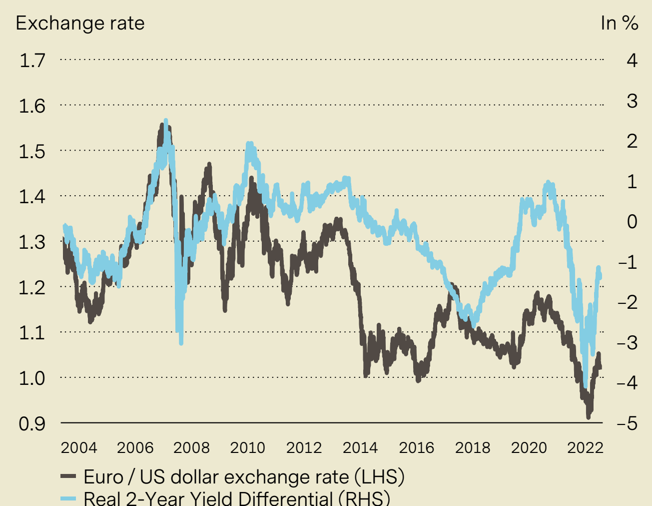
And the euro?
The euro has appreciated on the back of increasing evidence that the regional economy weathered the energy crisis far better than many had feared, and this threat has now faded. More recently, though, the euro has consolidated.

The ECB reiterated at its last policy meeting that it remains in "the process of raising rates significantly and at a steady pace". Indeed, after lagging behind the Fed in the aftermath of the pandemic, the ECB is now determined to increase interest rates to get inflation under control. This is a net positive for the euro, as it will have a lot more to discount in terms of higher rates compared to the US dollar.

Chart 1: The dollar reclaims some of the heavy losses seen since October

Source: Bloomberg, DB, Vontobel

Chart 2: Still ample support for the euro from the trend in interest rate differentials



Source: Bloomberg, DB, Vontobel

Economy and financial markets 2021 – 2024

The following list shows the actual values, exchange rates and prices from 2021 to 2022 and consensus forecasts for 2023 and 2024 for gross domestic product (GDP), inflation / inflationary expectations, key central bank interest rates, ten-year government bonds, exchange rates, and commodities.

GDP (IN %)	2021	2022	CURRENT[1]	2023 CONSENSUS	2024 CONSENSUS
Global (G20)	5.6	2.6	2.4	2.1	2.6
Eurozone	5.3	3.3	0.1	0.4	1.2
USA	5.9	2.0	1.0	0.6	1.2
Japan	2.3	1.1	0.6	1.2	1.1
UK	8.5	4.1	0.0	–0.7	0.9
Switzerland	4.3	2.0	0.7	0.6	1.5
Australia	5.3	3.6	0.6	1.8	1.6
China	8.4	3.0	0.0	5.2	5.0

INFLATION	2021	2022	CURRENT[2]	2023 CONSENSUS	2024 CONSENSUS
Global (G20)	3.5	7.3	6.6	5.1	3.4
Eurozone	2.6	8.4	8.5	5.6	2.4
USA	4.7	8.0	6.4	3.8	2.5
Japan	–0.3	2.5	4.0	2.1	1.2
UK	2.6	9.1	10.1	6.8	2.5
Switzerland	0.6	2.9	3.3	2.1	1.3
Australia	2.9	6.5	7.8	5.2	3.0
China	0.9	2.0	2.1	2.4	2.2

KEY INTEREST RATES (IN %)	2021	2022	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR	–0.50	2.00	2.50	3.33	3.21
USD	0.25	4.50	4.75	5.10	4.30
JPY	–0.10	–0.10	–0.10	–0.09	–0.08
GBP	0.25	3.50	4.00	4.25	3.95
CHF	–0.75	1.00	1.00	1.48	1.45
AUD	0.10	3.10	3.35	3.65	3.45
CNY	3.80	3.65	4.35	4.30	4.25

GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2021	2022	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR (Germany)	–0.2	2.6	2.45	2.34	1.97
USD	1.5	3.9	3.81	3.62	3.29
JPY	0.1	0.4	0.51	0.61	0.60
GBP	1.0	3.7	3.49	3.30	3.01
CHF	–0.1	1.6	1.45	1.53	1.51
AUD	1.7	4.1	3.81	3.67	3.31

FOREIGN EXCHANGE RATES	2021	2022	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS END OF 2024
CHF per EUR	1.04	0.99	0.99	1.00	1.01
CHF per USD	0.91	0.94	0.92	0.92	0.92
CHF per 100 JPY	0.79	0.72	0.69	0.72	0.74
CHF per GBP	1.23	1.12	1.11	1.13	1.15
USD per EUR	1.14	1.06	1.07	1.09	1.12
JPY per USD	115	130	134	127	124
USD per AUD	0.73	0.67	0.69	0.71	0.73
GBP per EUR	0.84	0.88	0.89	0.89	0.89
CNY per USD	6.37	6.91	6.86	6.75	6.60

COMMODITIES	2021	2022	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
Brent crude oil, USD per barrel	79	86	88	88	93
Gold, USD per troy ounce	1,829	1,824	1,845	1,839	1,873
Copper, USD per metric ton	9,720	8,372	8,988	8,525	9,163

[1] Latest available quarter
[2] Latest available month, G20 data only quarterly
Source: Vontobel, respective statistical offices and central banks; as of February 20, 2023

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