



## ECONOMIC SITUATION AND STRATEGY

20 May 2022

### **Hanging by a thread: is the US heading for recession?**

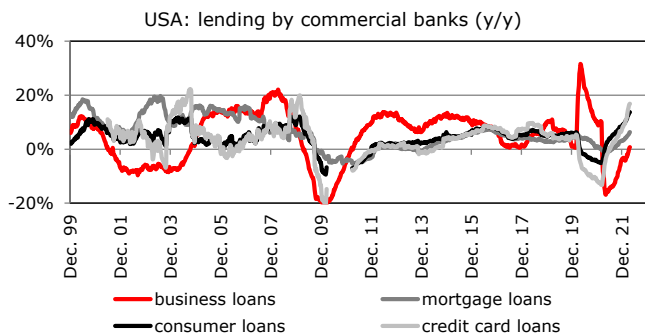
The global economic environment has changed more rapidly than ever before in the past three months. At the beginning of the year, a rosy-red scenario was still emerging for the global economy: Economic growth was again expected to be above average, as it was assumed that the supply and demand distortions caused by Corona would normalise, and at the same time there were good reasons for inflation rates to fall. Monetary and fiscal policy, it was concluded, would remain expansive. Economic catch-up effects would be the most likely scenario thanks to record-high order books, lavish savings rates on average for the population and healthy corporate balance sheets. The conclusion to be drawn from this was that interest rates might rise somewhat, but would basically remain very low, while corporate profits should rise significantly. For investors, a so-called "Goldilocks" scenario was emerging, i.e. good growth with low inflation at the same time. This would argue in favour of investing one's assets primarily in stocks, because they would offer greater opportunities for returns than bonds.

However, with the Russian invasion of Ukraine and the war actions that have been ongoing since the end of February, the tide has turned completely. Contrary to initial expectations, inflation rates have risen even further because energy and food prices have increased significantly and all other components of the commodity basket are now also showing strong price increases. In addition, there is the threat of a wage-price spiral that could perpetuate the high inflation rates. These developments have prompted the central banks to react to this scenario with a more restrictive monetary policy - in some countries

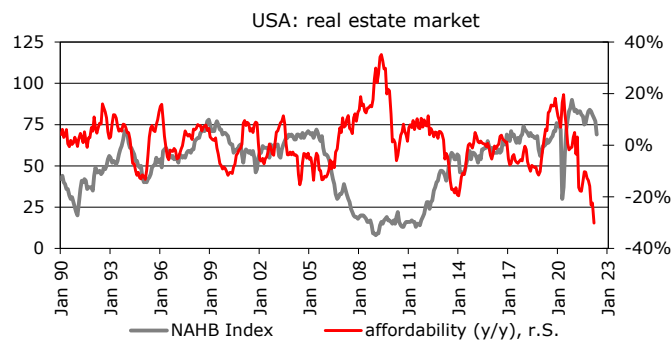
and regions at an inopportune time, as it is already foreseeable that the economy is cooling down. As a result, the capital markets suffered heavy price losses, from which almost no asset class was spared.

"Stagflation", i.e. the combination of more or less stagnant economic development and high rates of price increases, has become an economic reality in many countries. Germany and the rest of the Eurozone are already in this economic state, while the economic outlook in the USA is more positive so far. In contrast to the Eurozone, the USA is benefiting from its low dependence on foreign trade, the willingness of private households to spend and the lively investment activity of companies. Therefore, the USA will achieve a respectable growth rate in real gross domestic product in the second quarter. However, there are increasing signs of a noticeable economic slowdown in the USA as well. Consumption is suffering more and more from the fact that the high savings built up during the Corona pandemic have now largely been used up. In view of the immensely increased prices, more and more private households are forced to limit their consumption, switch to cheaper products or take out new loans. Despite regular nominal wage increases, real disposable incomes have been falling for about a year. This is probably the reason why the volume of outstanding consumer and (expensive) credit card loans is currently growing faster than it has for many years. Since interest rates on loans are also rising, interest and redemption payments will put a greater strain on household budgets in the future than is currently the case.

# Economic Situation and Strategy



Source: Refinitiv Datastream



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The rise in interest rates is also leaving its first traces on the US real estate market. The fact that house prices have risen until recently is mainly due to the fact that there are only a few properties for sale. However, demand for real estate is likely to decline significantly in the near future. An affordability index that takes into account house prices, disposable incomes and the level of mortgage interest rates has fallen significantly in recent months due to the combination of higher prices and rising financing costs. Year-on-year, the index has weakened by 30 per cent, the sharpest decline since the 1970s. The excess demand that can still be observed at present is therefore likely to be gradually reduced. Whether and to what extent property prices will come under pressure will depend above all on whether more houses are completed and offered for sale on the market in the near future. Although the number of building permits issued has risen almost continuously in recent years, a lack of intermediate goods and supply chain problems have meant that the number of completed houses has more or less stagnated for some time. The most important leading indicator for the real estate market - apart from building permits - is the NAHB sentiment indicator for the construction industry. At 69 points, it signals that the majority of the companies surveyed are still optimistic about the future, although we expect the index to move towards the threshold of 50 points in the coming months, which separates the optimists from the pessimists. Since household consumption and construction investment account for almost 75 per cent of total US economic output, we must assume that growth in the US will gradually slow down in the coming quarters.

US companies will probably have little to counter this downward pressure from consumers. Although companies are currently still investing heavily, the foreseeable decline in demand is likely to make them more cautious in the future. In addition, there is the risk that corporate profits and cash flows will deteriorate, a scenario that is not yet reflected in the expectations of companies and the analysts who follow them. Moreover, the low inventory levels caused by the Corona pandemic have now been fully made up by production, so no further catch-up effects are expected that would encourage companies to invest more.

How strong the economic headwinds will be depends above all on the further course of action of the Federal Reserve. As long as there are no indications that the inflation rate will fall significantly, the Fed will raise interest rates - and thus also accept an economic slowdown and lower share prices as collateral damage. Whether it succeeds in bringing about a "soft landing" remains to be seen, but in the past strong interest rate hikes have almost always led to a significant economic slowdown, if not to a recession. On the one hand, it is good news that it will take a while before a recession occurs, given the good labour market situation and the interest rate hike cycle that has just begun in the USA. On the other hand, however, it indicates that the US Federal Reserve will not leave it at just a few interest rate hikes. The danger that US monetary policy will cause a recession is therefore great. Investors should remain on their guard for the time being and not take any major risks.

## Market data

	As of 20.05.2022 10:43	Change versus				
		12.05.2022 -1 week	18.04.2022 -1 month	18.02.2022 -3 months	18.05.2021 -1 year	31.12.2021 YTD
<b>Stock markets</b>						
Dow Jones	31253	-1,5%	-9,2%	-8,3%	-8,2%	-14,0%
S&P 500	3901	-0,7%	-11,2%	-10,3%	-5,5%	-18,2%
Nasdaq	11388	0,2%	-14,6%	-15,9%	-14,4%	-27,2%
DAX	14071	2,4%	-0,7%	-6,5%	-8,6%	-11,4%
MDAX	29426	4,4%	-4,1%	-10,8%	-8,8%	-16,2%
TecDAX	3091	3,9%	-3,4%	-3,8%	-7,3%	-21,2%
EuroStoxx 50	3682	1,9%	-4,3%	-9,6%	-8,1%	-14,3%
Stoxx 50	3575	1,2%	-5,5%	-3,8%	4,1%	-6,4%
SMI (Swiss Market Index)	11352	-1,3%	-9,0%	-5,5%	1,9%	-11,8%
Nikkei 225	26739	3,8%	-0,2%	-1,4%	-5,9%	-7,1%
Brasilien BOVESPA	107005	1,2%	-7,5%	-5,2%	-13,0%	2,1%
Russland RTS	1307	14,6%	41,1%	-6,1%	-17,0%	-18,1%
Indien BSE 30	54064	2,1%	-5,4%	-6,5%	7,7%	-7,2%
China CSI 300	4078	3,0%	-2,1%	-12,3%	-21,4%	-17,5%
MSCI Welt	2652	0,4%	-10,2%	-11,1%	-9,5%	-18,0%
MSCI Emerging Markets	1015	2,7%	-8,3%	-17,6%	-23,9%	-17,6%
<b>Bond markets</b>						
Bund-Future	153,88	-88	-107	-1246	-1494	-1749
Bobl-Future	127,22	-88	-52	-422	-714	-602
Schatz-Future	110,27	-33	-28	-161	-176	-177
3 Monats Euribor	-0,37	21	22	21	19	22
3M Euribor Future, Dec 2017	0,75	23	41	0	129	1
3 Monats \$ Libor	1,48	7	42	100	132	127
Fed Funds Future, Dec 2017	2,68	12	31	0	260	2
10 year US Treasuries	2,87	4	0	93	123	137
10 year Bunds	0,98	11	17	81	109	116
10 year JGB	0,24	0	0	3	16	17
10 year Swiss Government	0,73	4	-12	48	85	87
US Treas 10Y Performance	613,32	-0,5%	-1,1%	-8,8%	-9,7%	-12,2%
Bund 10Y Performance	595,21	-1,3%	-1,4%	-7,1%	-9,4%	-10,1%
REX Performance Index	463,30	-0,6%	-0,6%	-3,8%	-5,6%	-5,6%
US mortgage rate	0,00	0	0	0	0	0
IBOXX AA, €	1,97	12	40	99	162	149
IBOXX BBB, €	2,88	10	56	129	212	201
ML US High Yield	7,81	14	117	195	302	290
Convertible Bonds, Exane 25	6830	0,0%	-7,0%	-10,1%	-16,8%	-16,6%
<b>Commodities</b>						
MG Base Metal Index	460,14	2,5%	-13,4%	-7,1%	1,8%	-0,2%
Crude oil Brent	111,65	3,7%	-0,2%	19,6%	62,2%	42,4%
Gold	1845,19	0,2%	-7,0%	-2,6%	-1,2%	1,3%
Silver	21,60	3,3%	-17,1%	-9,8%	-23,1%	-7,2%
Aluminium	2838,76	4,7%	-13,2%	-14,0%	16,0%	1,2%
Copper	9250,10	1,6%	-10,2%	-7,6%	-10,9%	-5,0%
Iron ore	131,92	0,0%	-15,2%	-6,5%	-38,1%	17,3%
Freight rates Baltic Dry Index	3289	5,5%	53,9%	67,5%	17,7%	48,4%
<b>Currencies</b>						
EUR/ USD	1,0576	1,6%	-2,8%	-6,9%	-13,5%	-6,6%
EUR/ GBP	0,8472	-0,5%	2,2%	1,5%	-1,5%	0,9%
EUR/ JPY	135,40	1,2%	-0,7%	3,7%	1,7%	3,9%
EUR/ CHF	1,0298	-0,8%	1,1%	-1,5%	-6,1%	-0,3%
USD/ CNY	6,6744	-1,7%	4,8%	5,5%	3,9%	5,0%
USD/ JPY	128,23	-0,1%	1,0%	11,5%	17,8%	11,4%
USD/ GBP	0,80	-2,0%	4,3%	8,9%	13,9%	8,6%

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