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Monthly Macro Insights

Marc-Antoine Collard
Chief Economist,
Director of Economic Research
Rothschild & Co Asset Management

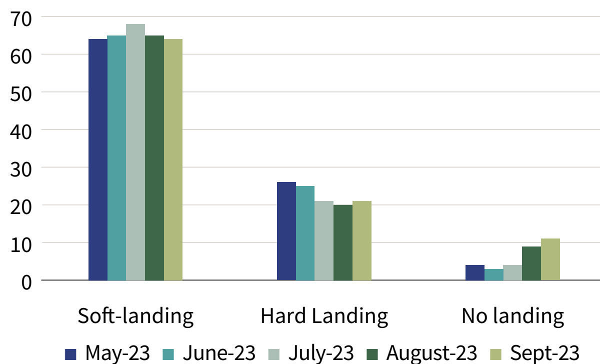
Most investors continue to foresee the resilience of the global economy despite the fastest global monetary policy tightening in four decades. However, not only the impacts of the latter are increasingly visible on economic activity, but the rise in crude oil prices and higher bond yields since midyear have raised new concerns regarding the goldilocks scenario.

Regional divergences persist

Helped by lower energy prices, a substantial fiscal stimulus and China's decision to abandon its zero-Covid policy, the global economy surprised to the upside in the first months of 2023, convincing investors that monetary policy was not such a blunt tool to cool off economic activity. In fact, narratives dominated by central bank tightening producing an inevitable recession to curb inflation have faded from the scene. However, the resilience in global growth seems to have been short-lived.

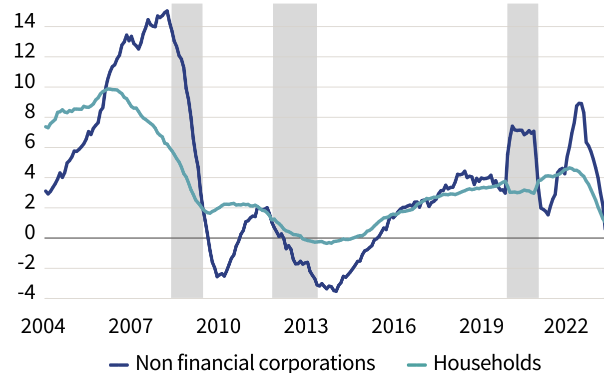
In the Eurozone, growth has broadly stagnated since Q4-2022, reflecting the lagged effect on incomes from high inflation and the comparative importance of bank-based finance in many economies. Indeed, the ECB raised interest rates for the tenth time in a row in September to the highest level since the introduction of the euro. Correspondingly, the credit's dynamics slowed markedly in the past few months, the growth rate of loans to the private sector decreasing to 0.6 per cent y/y in August, the slowest pace since 2015[1]. In fact, according to the S&P Global business

World – Global fund manager survey
in %, global economic scenario



Sources: Bank of America, Rothschild & Co Asset Management, October 2023.

Eurozone – Credit to private sector
in %, y/y



Sources: Macrobond, Rothschild & Co Asset Management, October 2023.

(1) Source: Eurostats, October 2023.

confidence index, the Eurozone GDP could drop by -0.4 per cent q/q in Q3-2023 if past historical correlations hold, which differs from investors' expectations of a small rise.

In a very close vote (5-4), the Bank of England (BoE) left its monetary policy unchanged in September, ending a string of fourteen consecutive rate hikes as policymakers noted mixed developments in the past months. On the one hand, pay growth remains incompatible with a swift return of inflation to target, which supports more rate hikes. On the other hand, GDP surprised to the downside in July (-0.5 per cent m/m), the unemployment rate rose in August, and core inflation (excluding food and energy prices) fell unexpectedly to 6.2 per cent from 6.9 per cent[2], although this was in part driven by falls in the often-erratic cost of overnight accommodation and air fares. What's more, in the latest PMI survey, businesses reported that output fell at the sharpest rate since March 2009, outside the lockdown years. Manufacturers experienced a rapid fall in pipelines of work, and the backlogs sub-index shrunk at the fastest pace since February 2009. Overall, the BoE is seeing increasing signs of the restrictive impact of tighter monetary policy on the labour market and activity more broadly, and thus decided to pause, although it's very clear that another hike remains on the table if needed.

Meanwhile, growth in China has lost momentum, with the initial impetus from reopening fading, although activity data from August suggest that the economy's slump may be starting to bottom out. Industrial production growth accelerated 4.5 per cent y/y from 3.7 per cent in July, and retail sales surprised to a larger extent, jumping 4.6 per cent y/y compared to 3 per cent expected[3]. While optimism is slowly building that the authorities' recent efforts to boost the economy are starting to bear fruit, some challenges remain, especially as structural problems in the property sector continue to weigh on domestic demand.

By contrast, the US economy has so far proved unexpectedly resilient, with household spending supported by a run-down of excess savings accumulated during the pandemic. Furthermore, fiscal policy played an unappreciated role. After record spending in 2020 and 2021 to combat the impact of the pandemic, the federal deficit dropped by the greatest amount ever in 2022, falling from close to $3 trillion to roughly $1 trillion[4]. But rather than continuing to fall to its pre-pandemic levels, budget experts now project that it will probably double, rising to about $2 trillion for the current fiscal year.

Higher for longer

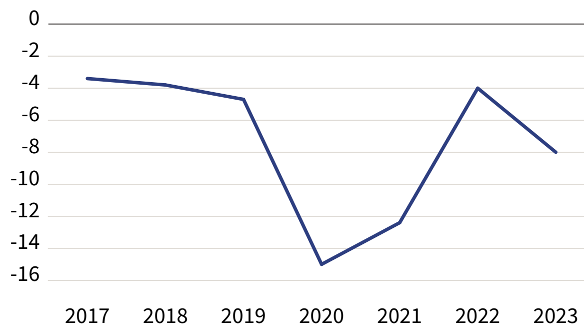
Although headline inflation in most G20 advanced economies has roughly halved from peaks seen in 2022, most of the adjustment is explained by commodity prices' base effects. In fact, core inflation has yet to turn down decisively, held up by cost pressures and high margins in some sectors. Therefore, central banks have insisted monetary policy would remain tight for some time, despite investors somewhat downplaying the warning. The recent rise in sovereign yields suggest that the message is finally sinking in.

In addition, higher commodity prices could give new impetus to headline inflation. The energy markets remain tight amid historical low level of inventories, and the potential for disruptions to supply remains high. Furthermore, food prices will be determined by how El Niño adversely affects some food crops in the coming year and

China – Fixed assets investment
ytd, in %, y/y, real estate sector

Sources: Macrobond, Rothschild & Co Asset Management, October 2023.

US – Federal deficit
in % of GDP



Sources: Committee for Responsible Federal Budget, Rothschild & Co Asset Management, October 2023.

(2) Source: Bank of England, October 2023.
(3) National Bureau of Statistics of China, October 2023.
(4) Taxe policy Center, October 2023.

prompts more export restrictions. The war in Ukraine also retains the potential to generate renewed pressures on the prices of several commodities.

The rise in yields can also be explained by risks regarding public finances. Rising public indebtedness has been a global phenomenon, with the average government gross debt of G7 economies rising from 76 to 131 per cent of GDP over the first 23 years of this century[(5)] , thus reaching generational highs. Most governments have struggled to rebuild their fiscal resilience during the interludes between the Great financial crisis, the European debt crisis, the pandemic and the energy shock in the wake of Russia's invasion of Ukraine, while they are faced with mounting fiscal pressures from additional spending on ageing populations, the climate transition and defence.

For most of the past decade, the fiscal burden of governments' elevated debt stock was offset by falling interest rates and low inflation, which kept interest payments modest. Yet, both trends have suddenly reversed over the past year, and the weight of servicing debt is rising fast as low-yielding debt matures and is replaced by new higher-yielding issuance. Correspondingly, efforts to rebuild fiscal space and credible medium-term fiscal plans seem inevitable to ensure debt sustainability and calm the global bond selloff.

The upshot is that the policy mix[(6)] divergence – tight monetary policy, and loose fiscal policy – is ending with the tailwind on the economy from fiscal largesse fading rapidly. Although the lags might have lengthened, some investors might end up being caught off guard when the full impact of monetary tightening is reached.

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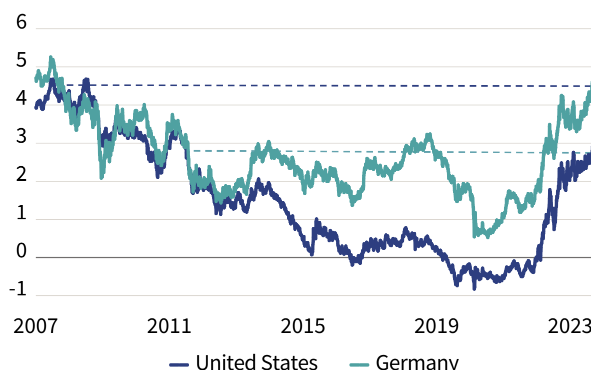
World – Sovereign yield
in %, 10-year



Sources: Macrobond, Bloomberg, Rothschild & Co Asset Management, October 2023.

US – Core inflation services excluding shelter
in % core PCE

Sources: Macrobond, Bloomberg, Rothschild & Co Asset Management, October 2023.

(5) ONS UK, October 2023.
(6) Articulation between a country's monetary and fiscal policies.

Performance of the indices and interest rate levels

	Price as of 30/09/2023	1 month % change	2023 % change
Equity markets			
CAC 40	7 135	-2.5%	10.2%
Euro Stoxx 50	4 175	-2.8%	10.0%
S&P 500	4 288	-4.9%	12.3%
Nikkei 225	31 858	-2.3%	22.1%
Currencies			
EUR/USD	1.06	-2.5%	-1.2%
EUR/JPY	157.93	0.1%	12.5%

Interest rates	Price as of 30/09/2023	1 month bp[1]	2023 bp[1]
3 month			
Eurozone	3.81%	17	205
United States	5.45%	1	110
10 years			
Eurozone	2.84%	37	27
United States	4.57%	46	70

(1) Basis point.

Source: Bloomberg. data as of 30/09/2023. Performances in local currency.

Past performance is not a reliable indicator of future performance and is not constant over time.
Index's performance is calculated on the basis of net dividend reinvested.

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As the specialised asset management division of the Rothschild & Co group, we offer personalised asset management services to a broad client base of institutional investors, financial intermediaries and distributors. Our development is focused on a range of open-ended funds, marketed under four strong brands: Conviction, Valor, Thematic and 4Change, and leveraging our long-term expertise in active management with conviction as well as in delegated management. Based in Paris and established in 9 European countries, we manage more than 27 billion euros and employ nearly 160 people. More information at: www.am.eu.rothschildandco.com

Contacts

FRANCE

Paris

29, Avenue de Messine
75008 Paris

+33 1 40 74 40 74

SWITZERLAND

Geneva

Equitas SA
Rue de la Corraterie 6
1204 Geneva

+41 22 818 59 00

GERMANY – AUSTRIA

Frankfurt

Börsenstraße 2 - 4
Frankfurt am Main 60313

+49 69 299 8840

BELGIUM – NETHERLANDS – LUXEMBOURG

Brussels

Avenue Louise 166
1050 Bruxelles

+32 2 627 77 30

ITALY

Milan

Via Santa Radegonda 8
Milano 20121

+39 02 7244 31

SPAIN

Madrid

Paseo de la Castellana 40 bis
Madrid 28 046

+34 91 053 70 43

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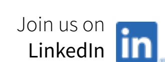

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