



**Outlook 1H 2023**  
December 8, 2022

welcome



do your thing



## Economic Outlook: Recession followed by a shallow recovery

Peter Vanden Houte  
Chief Economist

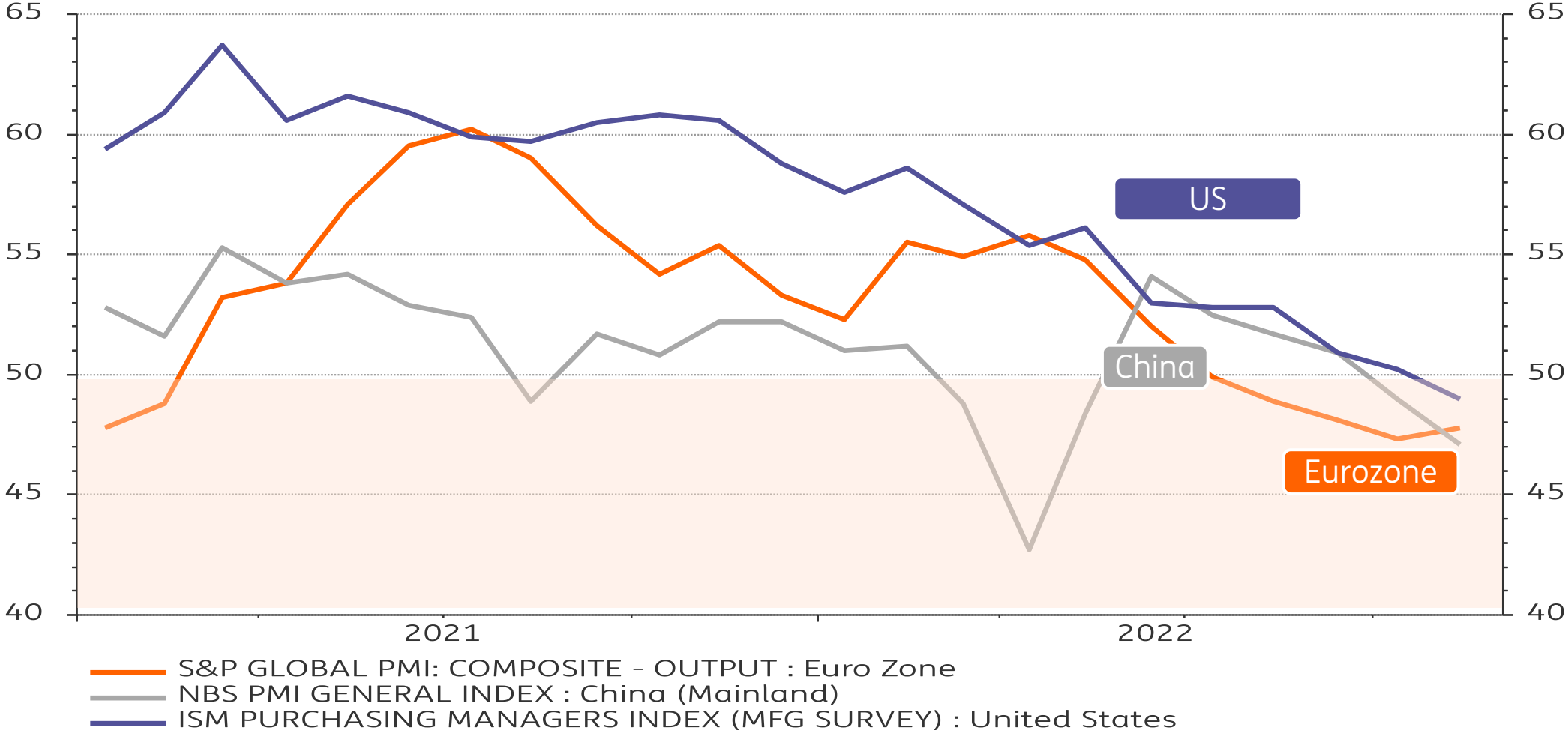
December 2022



do your thing

# The world economy is slowing rapidly

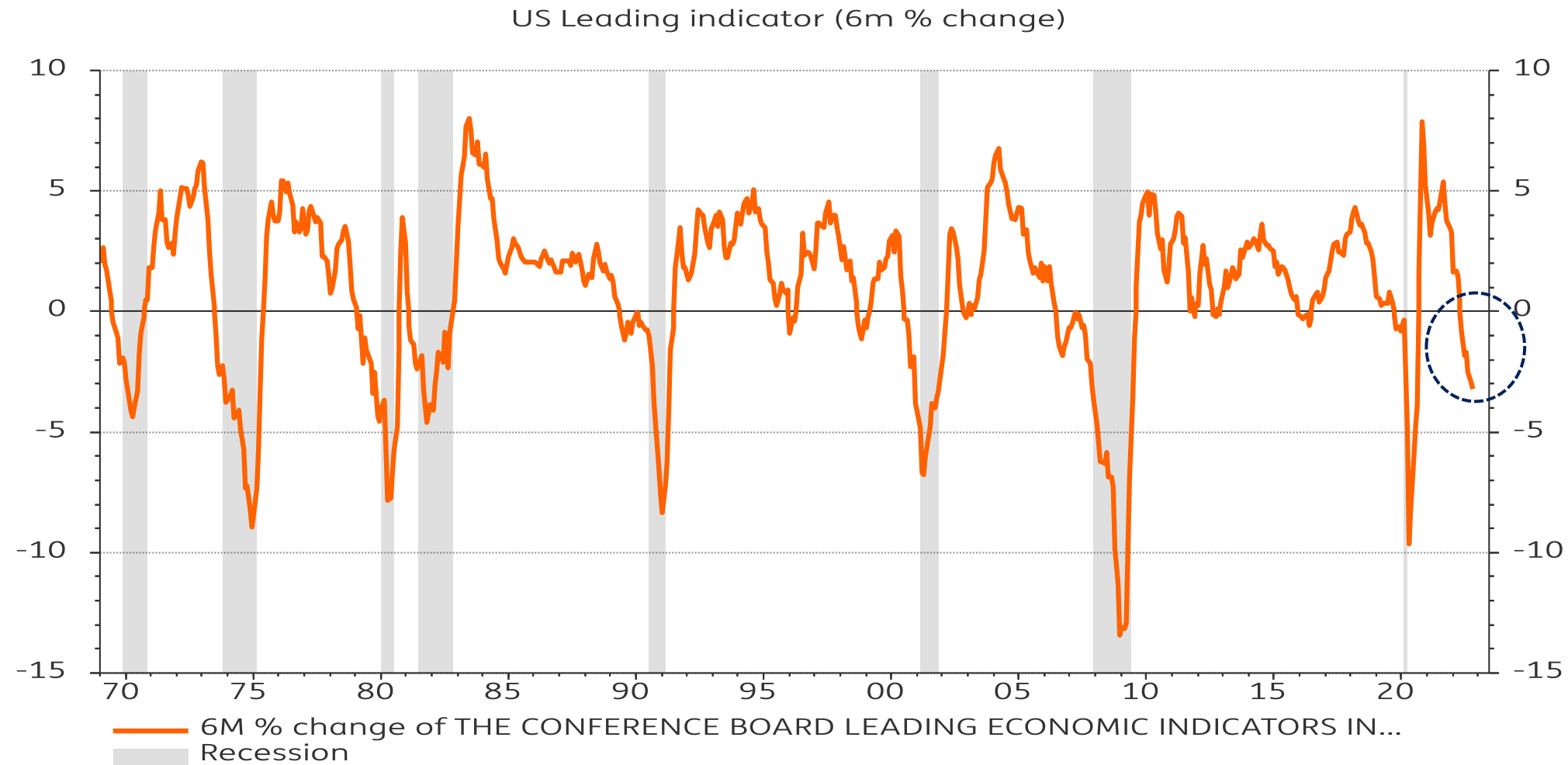
## Purchasing Managers Index



Source: Refinitiv Datastream, ING Economic Research

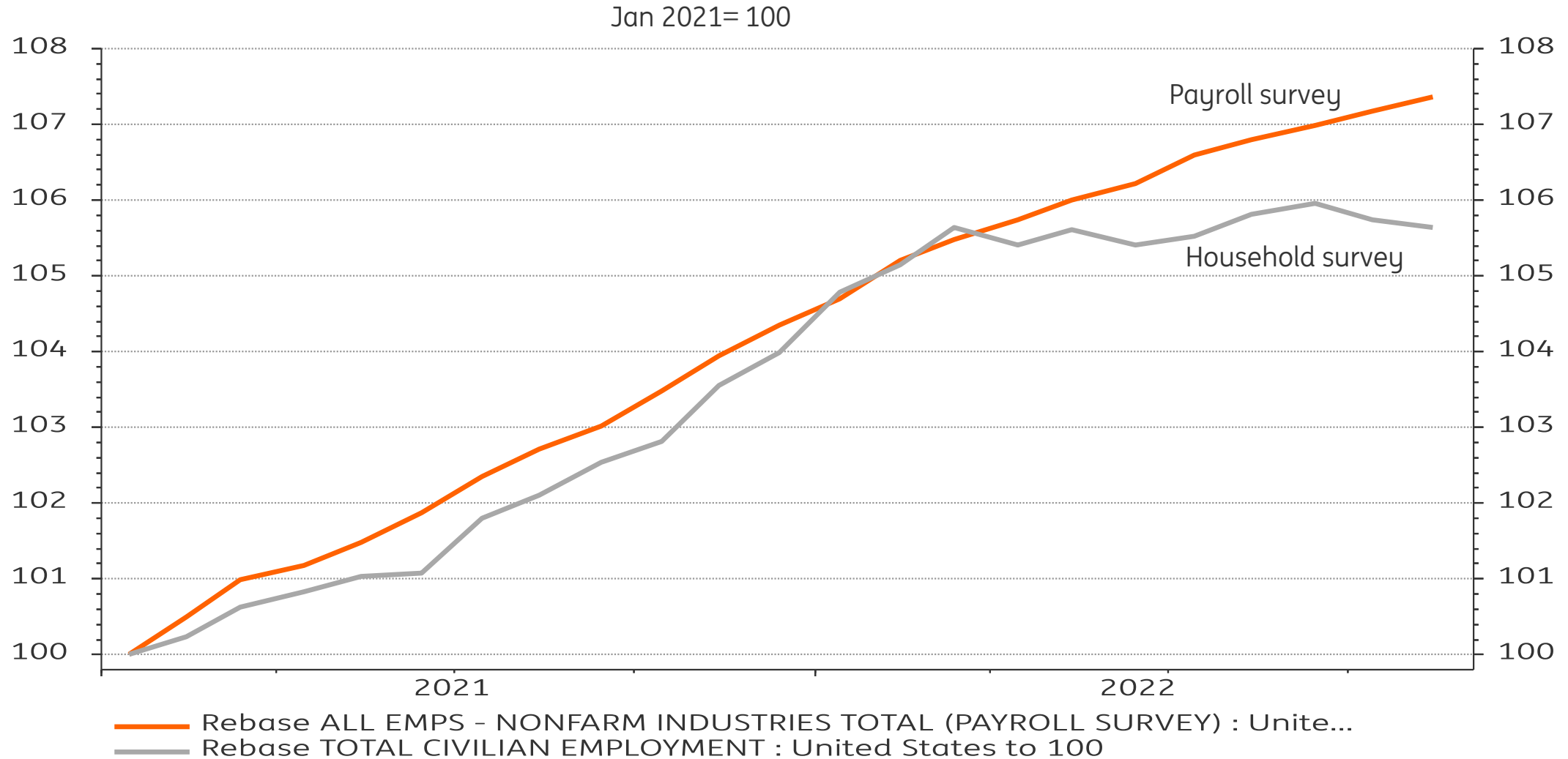


# US economy is losing steam, but not yet in recession



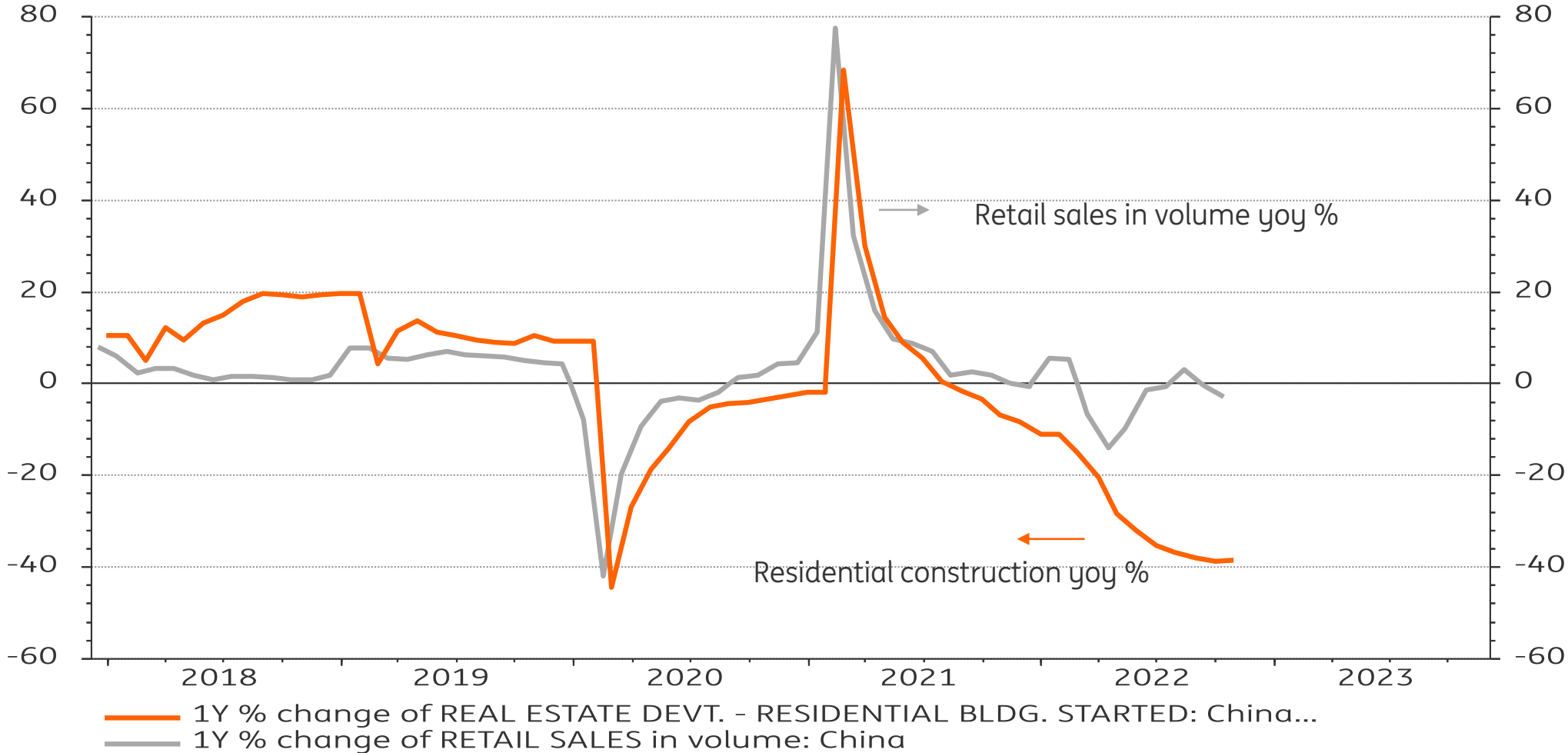
Source: Refinitiv Datastream, ING Economic Research

# Is US employment as strong as it seems?



Source: Refinitiv Datastream, ING Economic Research

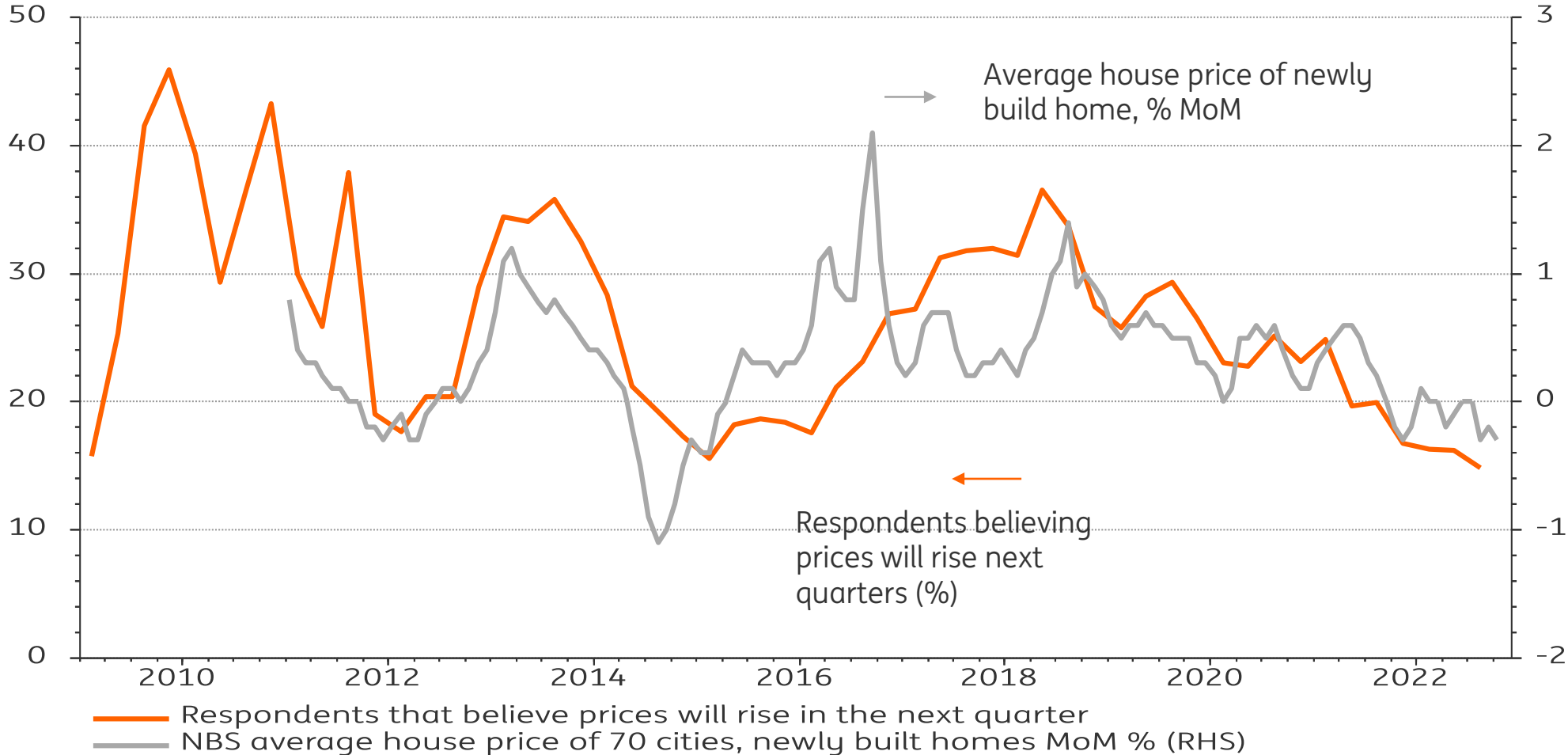
# Chinese economy still struggles with zero Covid and real estate crisis



Source: Refinitiv Datastream, ING Economic Research

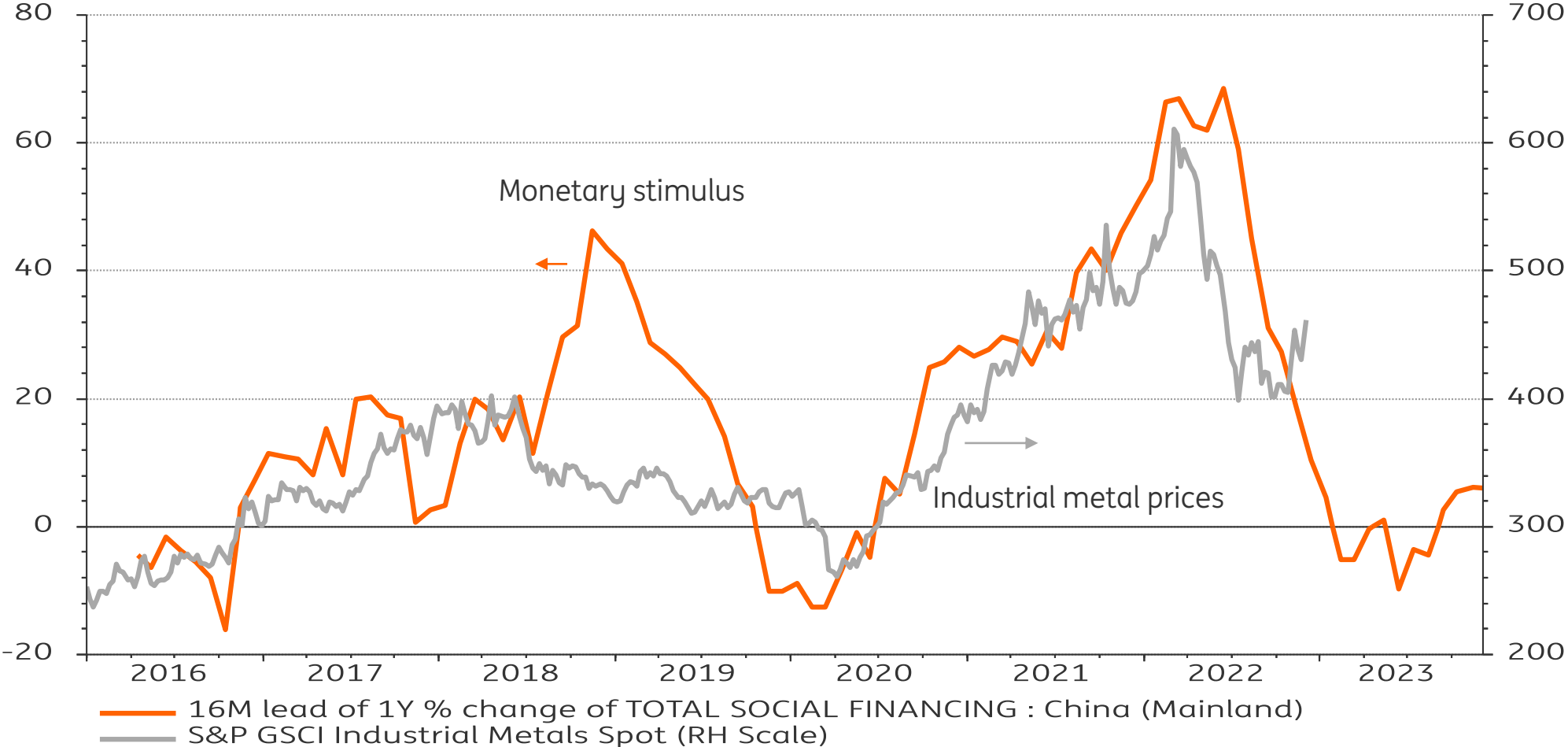
# Chinese real estate troubles are not over yet

## China house prices and price expectations



Source: Refinitiv Datastream, ING Economic Research

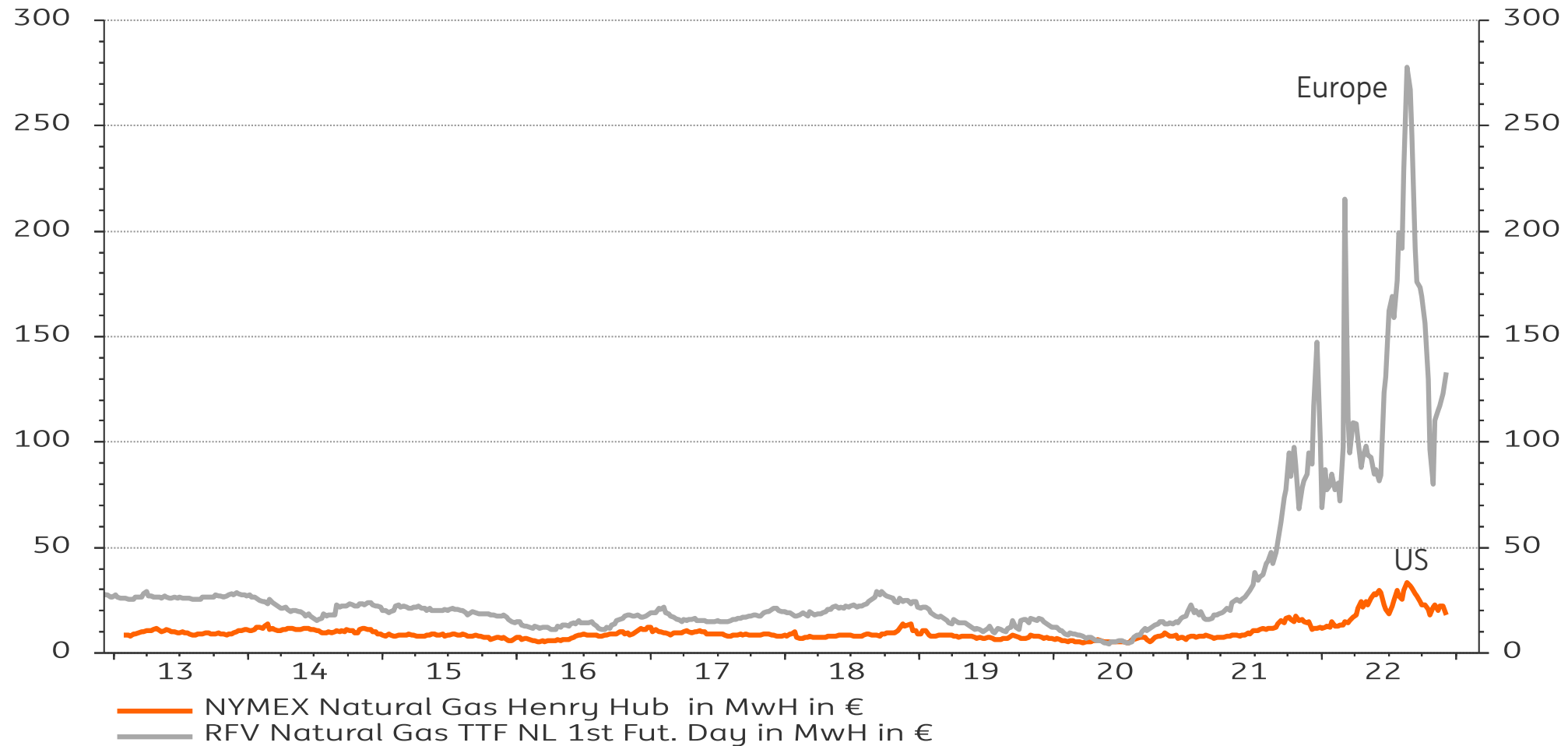
# Monetary stimulus will generate more Chinese growth in H2 2023 (but not now)



Source: Refinitiv Datastream, ING Economic Research



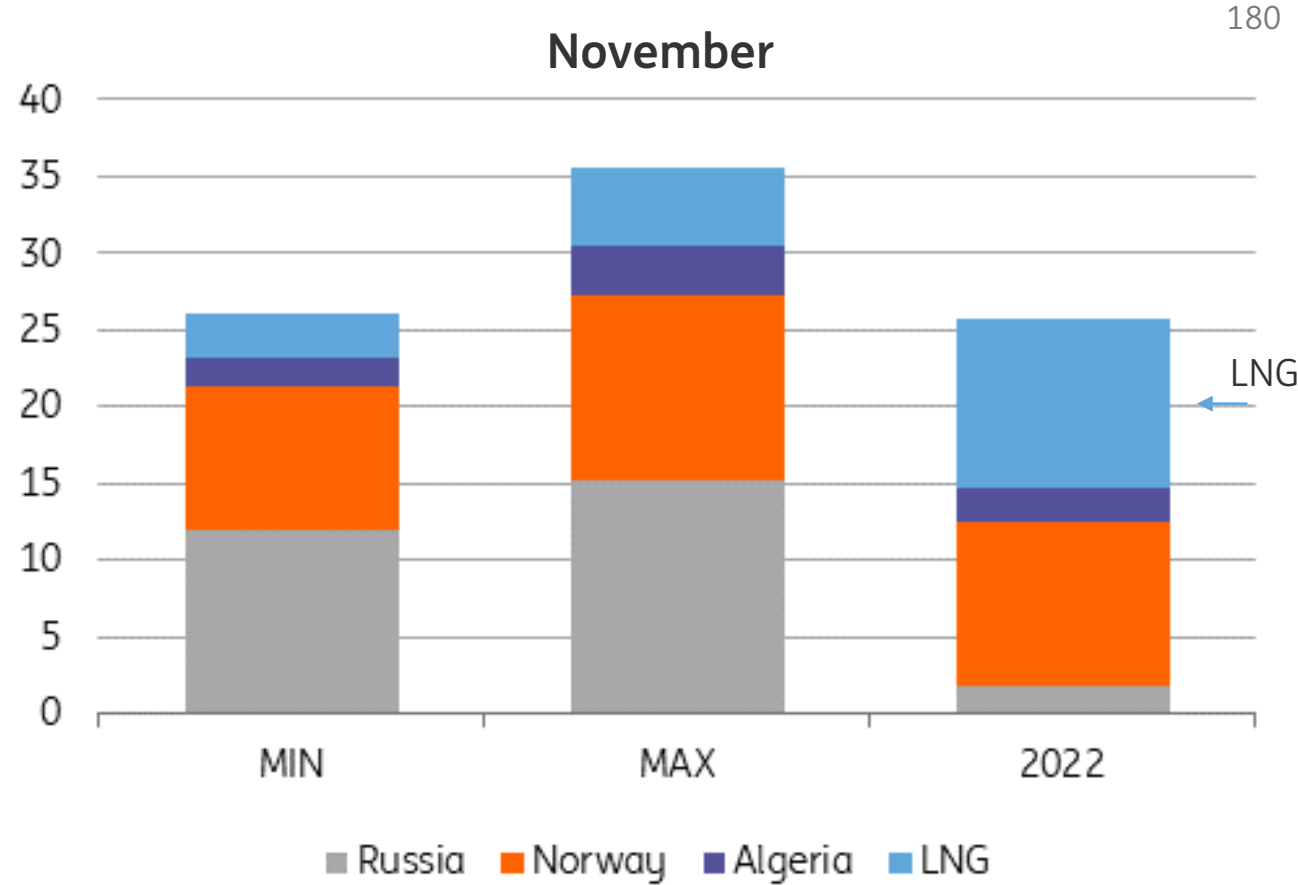
# Natural gas price remains problematic for Europe



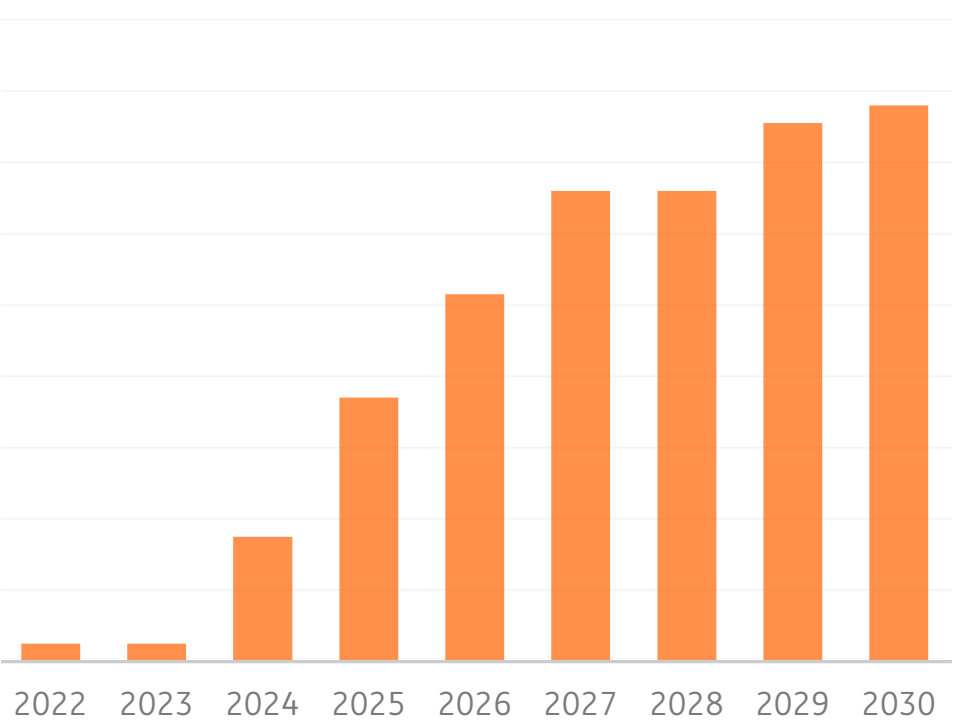
Source: Refinitiv Datastream, ING Economic Research

# The search for LNG

Natural gas imports Europe by origin (Min/Max 2015-2020)

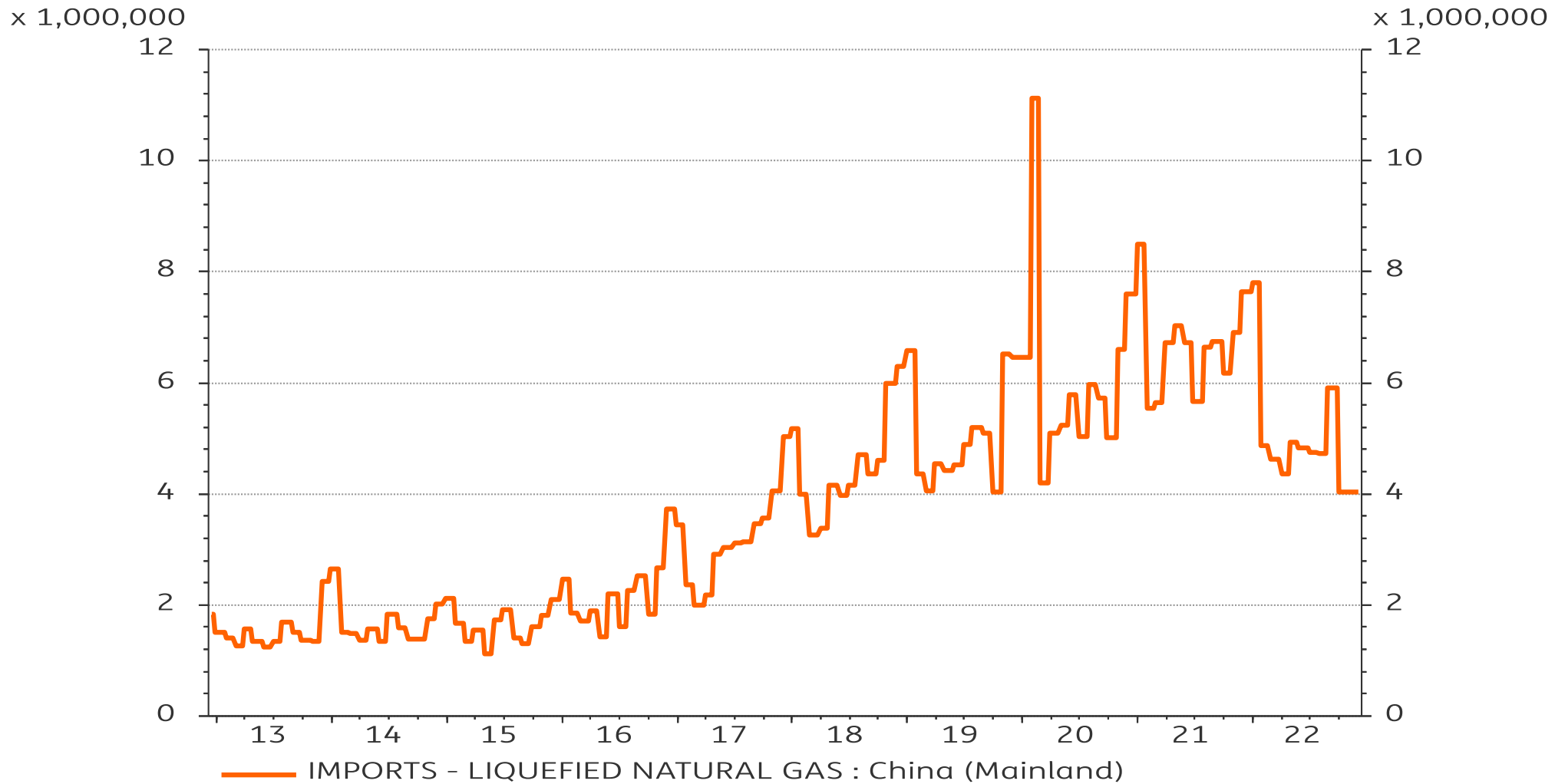


Expected global additional liquefaction additions (million metric tons)



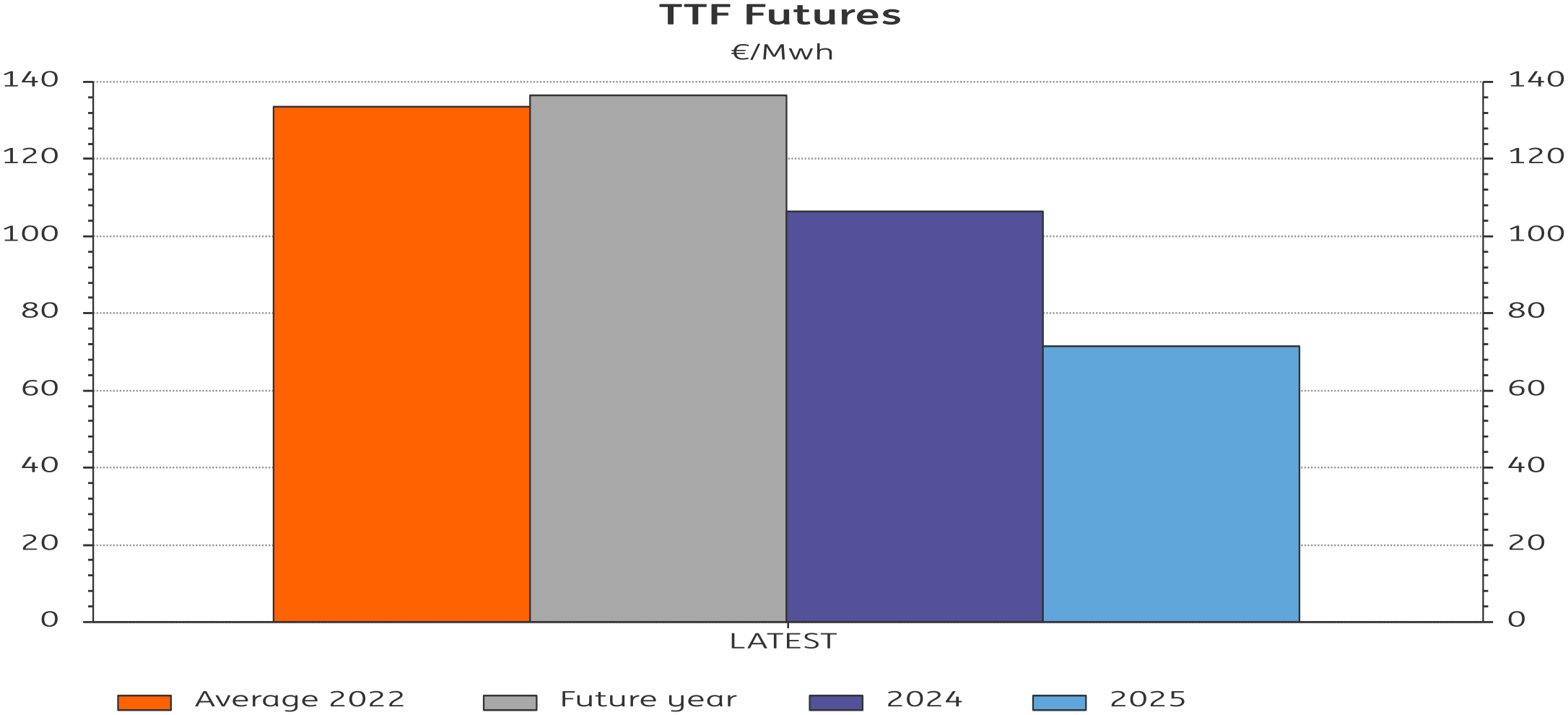
Source: Rystad Energy

# Because of the slowdown China has imported less LNG



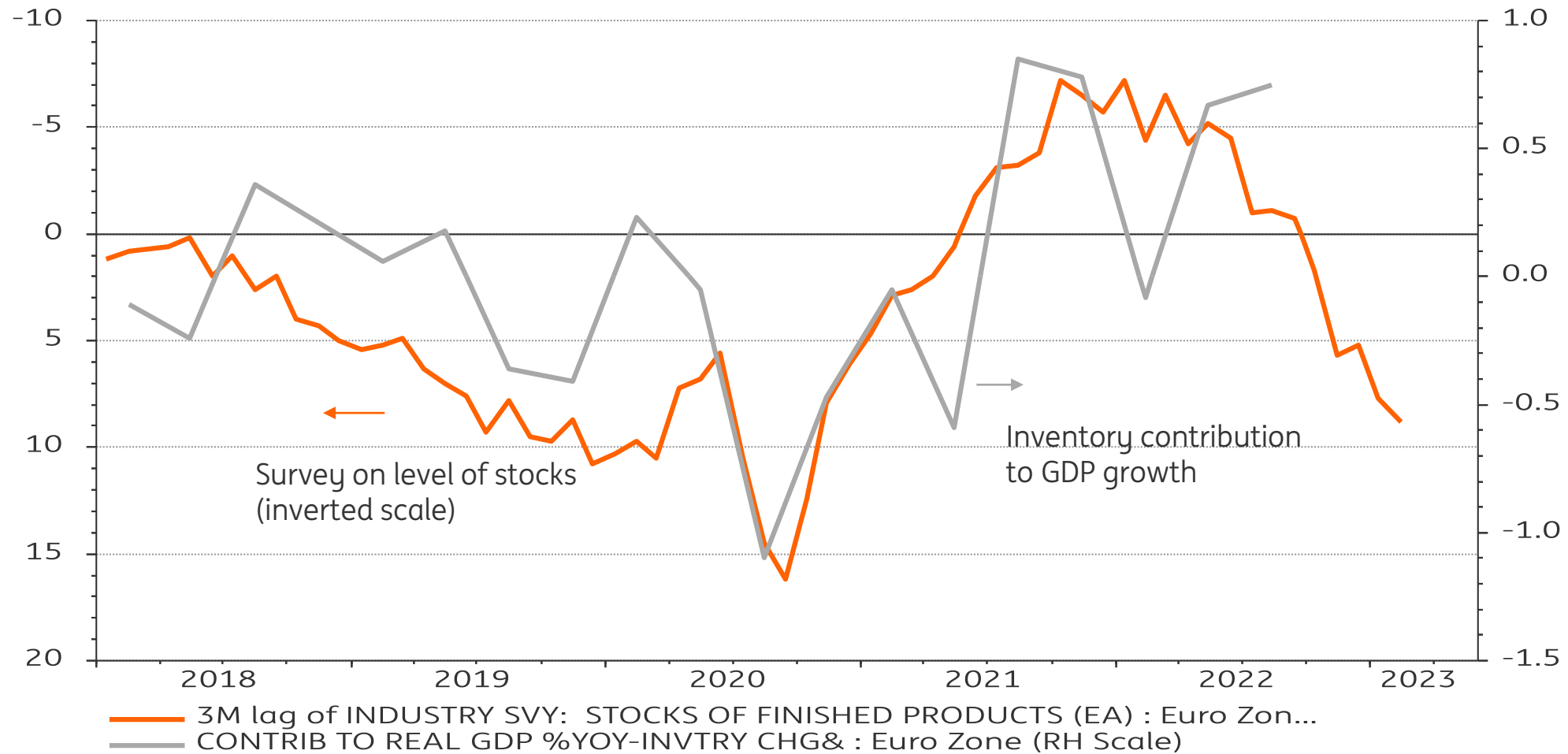
Source: Refinitiv Datastream, ING Economic Research

# The forward curve suggests that 2023 will remain tight for the gas market



Source: Refinitiv Datastream, ING Economic Research

# Inventory correction will hurt Eurozone growth in Q1 2023

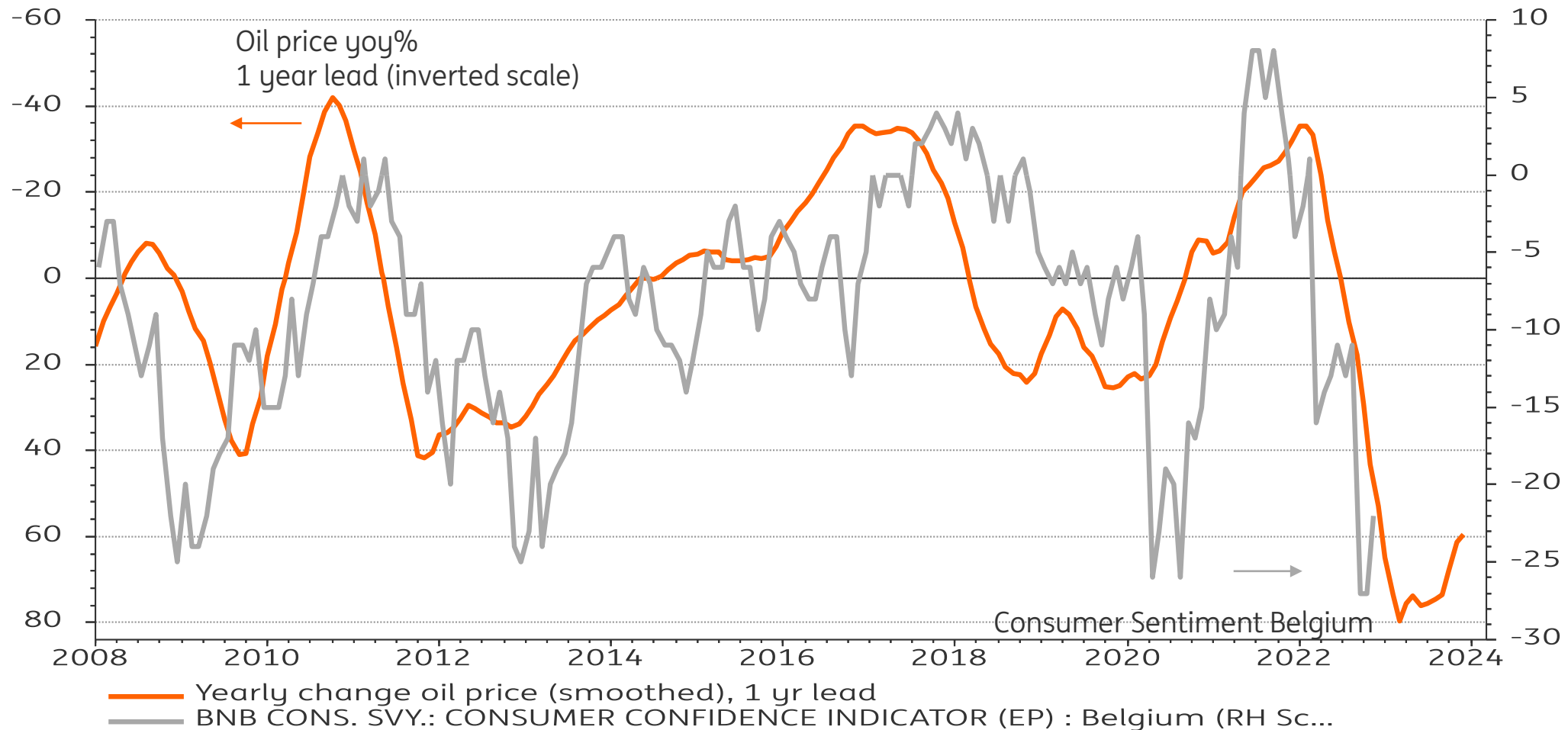


Source: Refinitiv Datastream, ING Economic Research

## Why the recovery will be weak

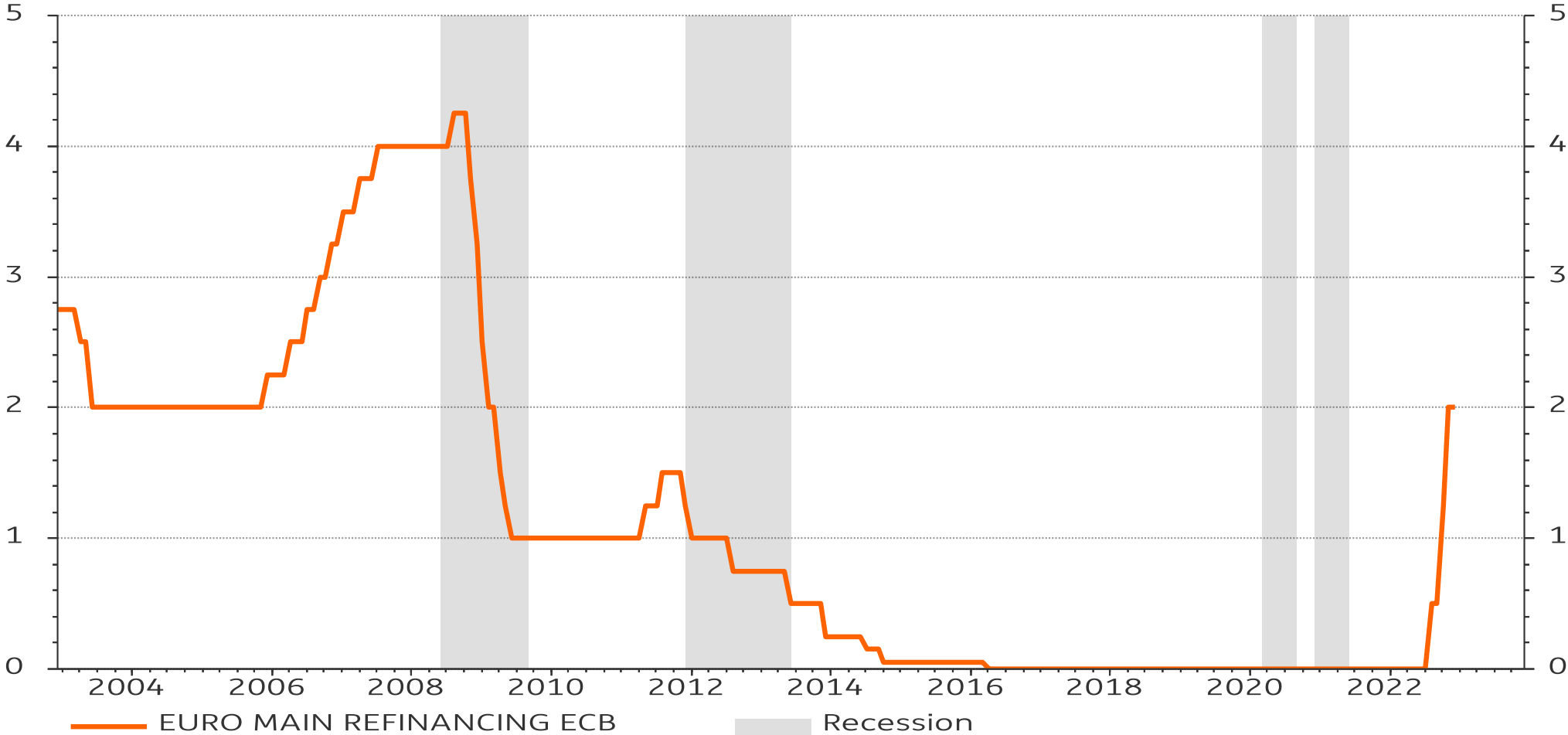


# High energy prices will continue to weigh on consumption throughout 2023



Source: Refinitiv Datastream, ING Economic Research

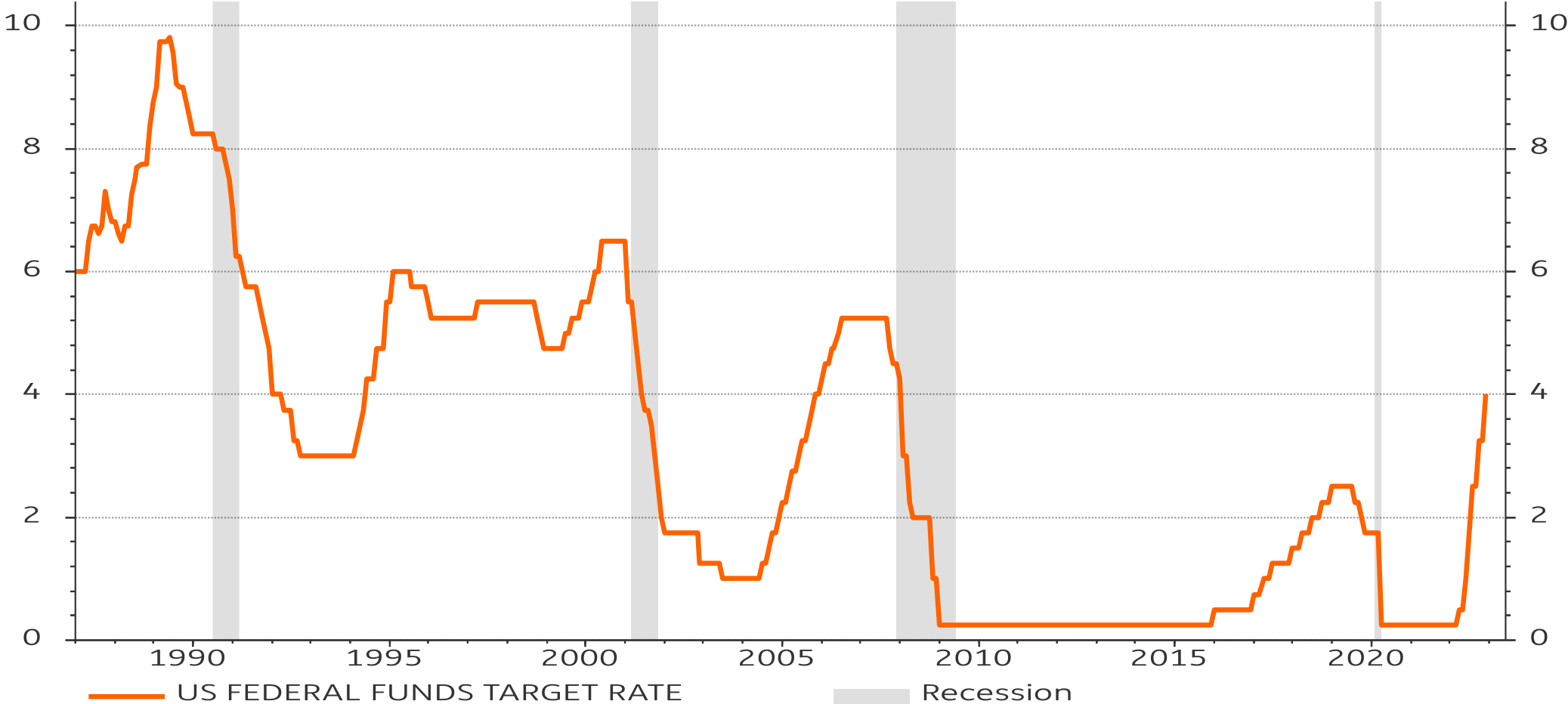
# In the past the ECB cut rates during the recession...



Source: Refinitiv Datastream, ING Economic Research

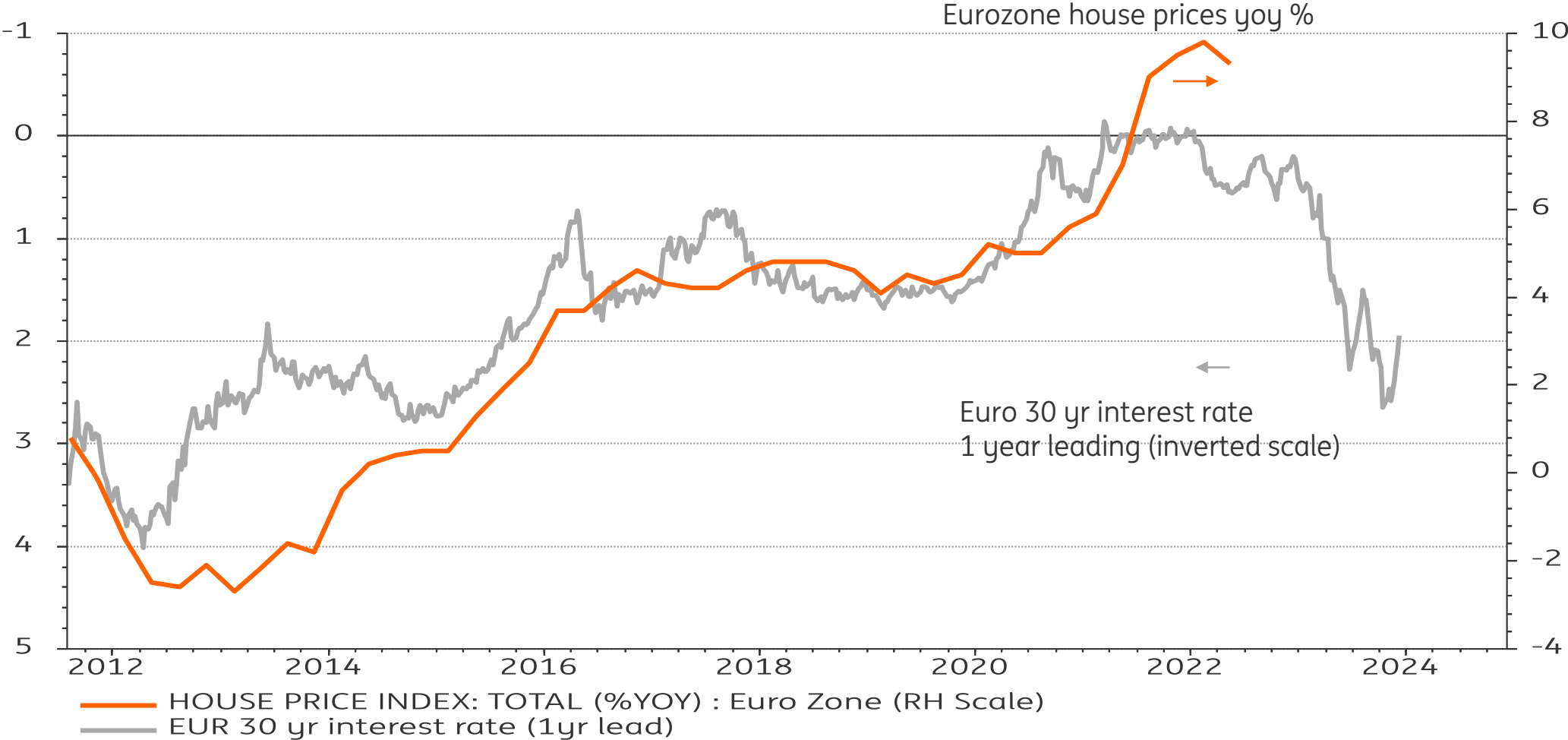


# ...just like the Fed



Source: Refinitiv Datastream, ING Economic Research

# Higher interest rates will hurt real estate prices (and construction!)



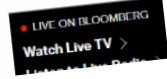
Source: Refinitiv Datastream, ING Economic Research



# Budgetary support: can it last?

## Spain to Trim Fuel Subsidies to Refocus on Low-Income Customers

By Alonso Soto and Rodrigo Orihuela  
28. November 2022 um 14:59 MEZ



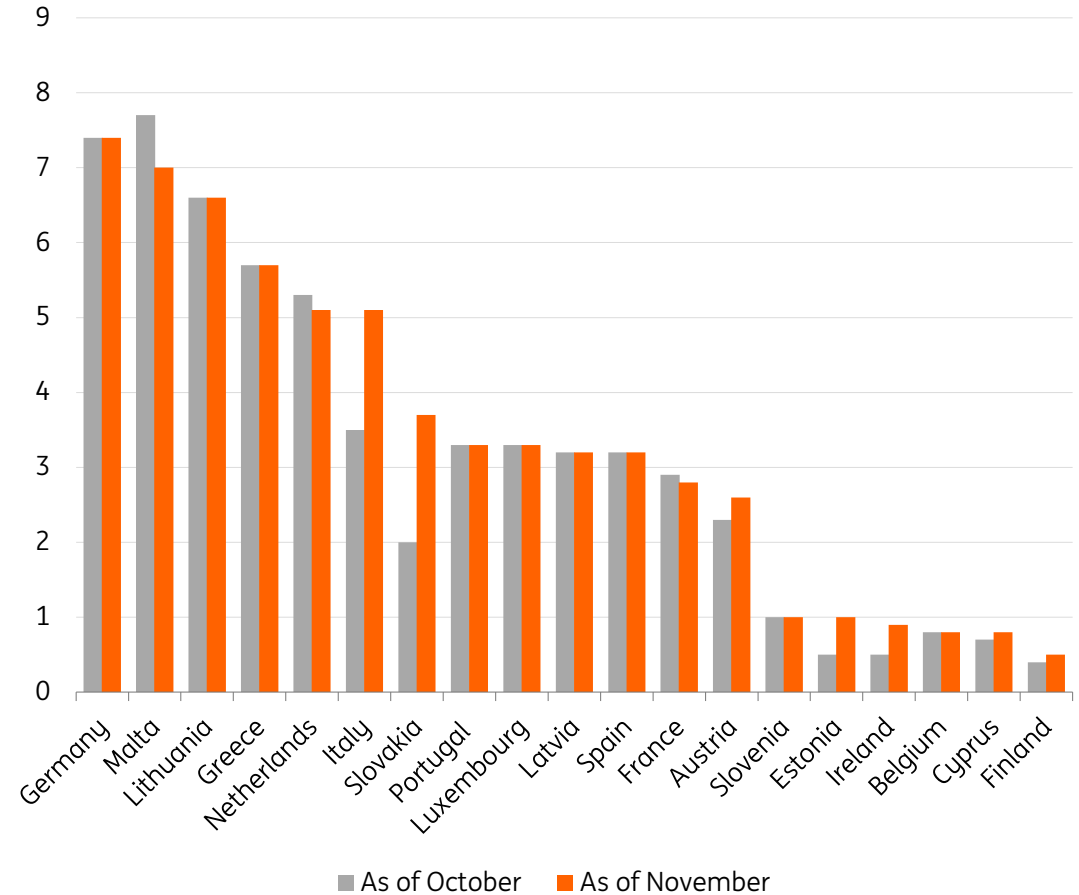
## German government approves price cap for gas and electricity

3 minute read · November 20, 2022 2:59 PM GMT+1 · Last Updated 9 days ago

## New Italian government's budget to boost spending to fight energy crisis

## Belgian government offers one-off tax-free bonus

Government spending to support households and businesses during the energy crisis (% of GDP)



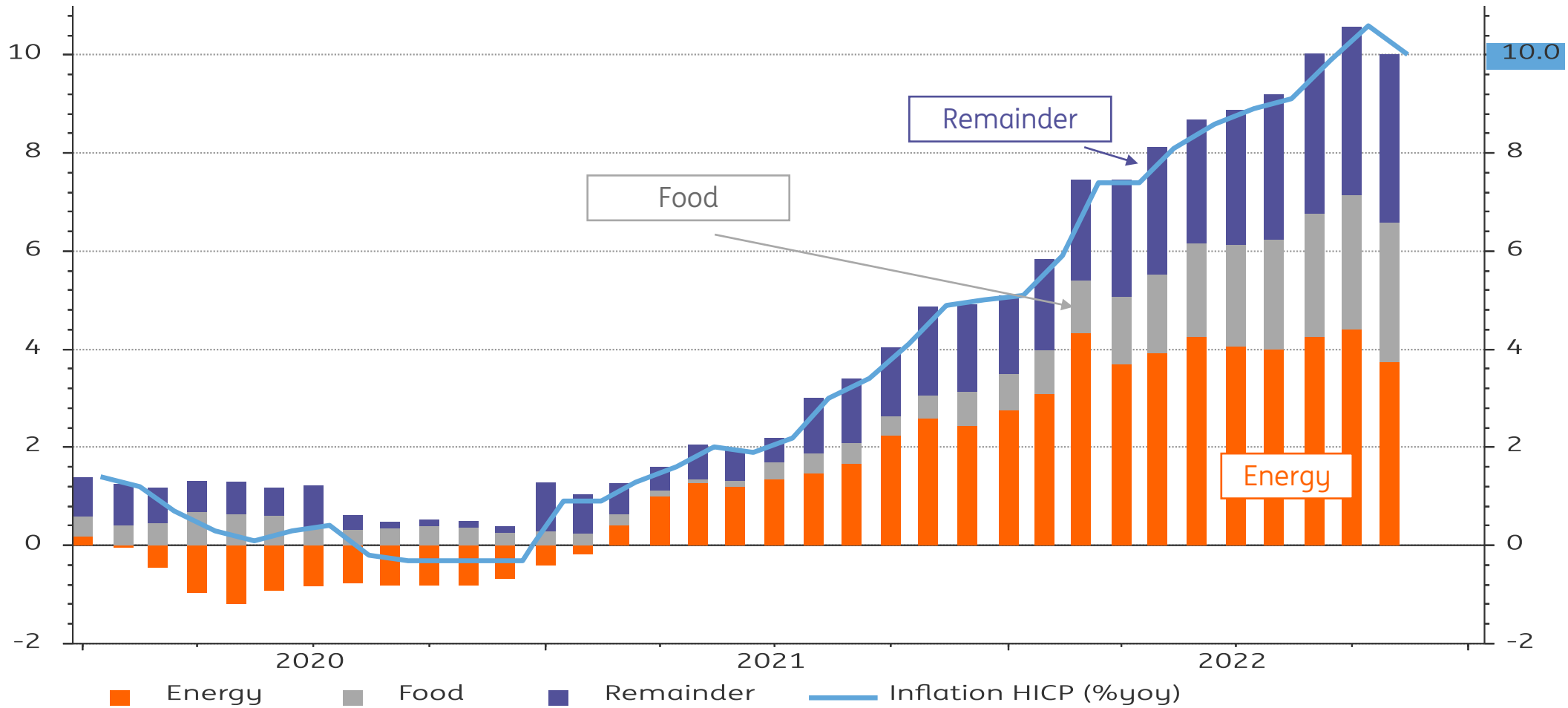
Source: Bruegel

# Growth expectations

	2020	2021	2022	2023
USA	-3.5	5.7	2.0	0.1
Eurozone	-6.8	5.4	3.2	-0.3
UK	-9.9	7.5	4.4	-1.3
Belgium	-6.2	6.1	2.9	-0.3
Japan	-4.5	1.6	1.5	1.1
China	2.4	8.8	2.1(?)	4.3(?)

# Drivers of inflation

## Eurozone

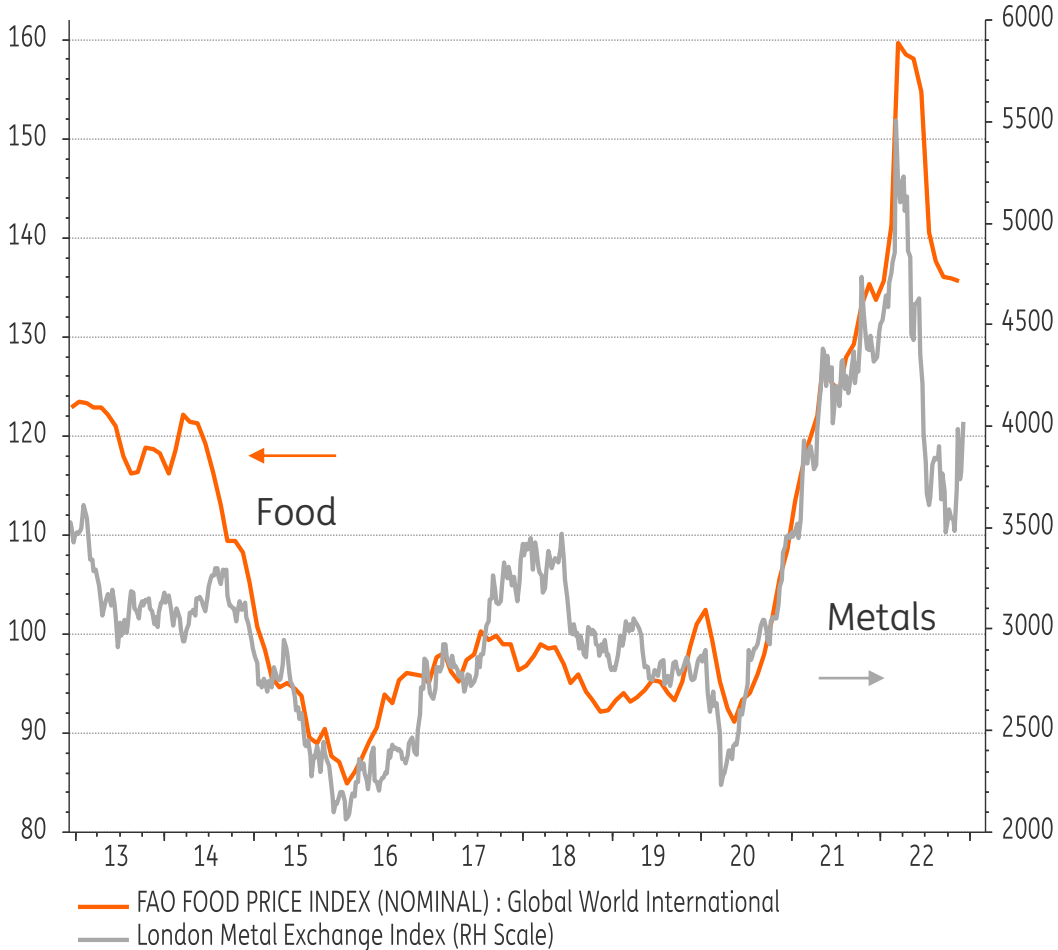


Source: Refinitiv Datastream, ING Economic Research

# Commodity prices have come down

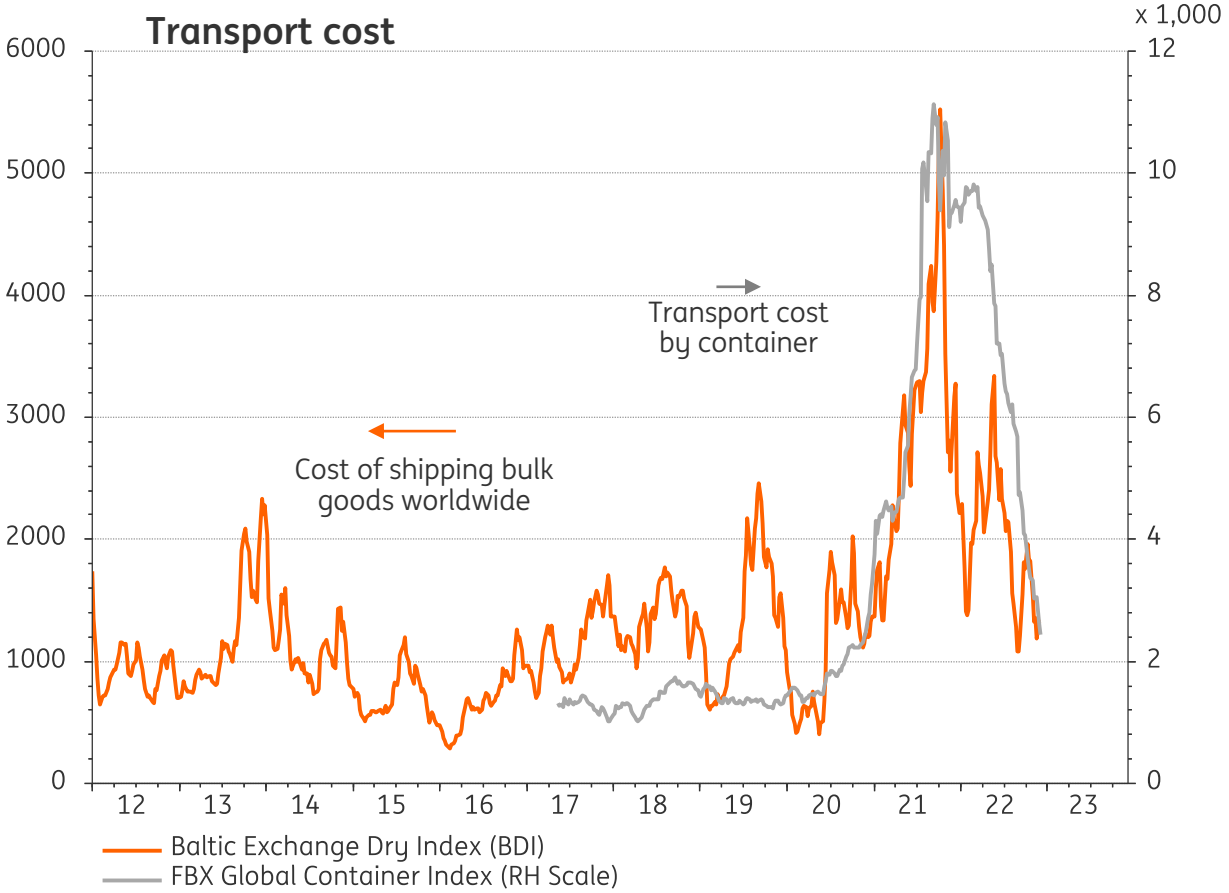


Source: Refinitiv Datastream, ING Economic Research

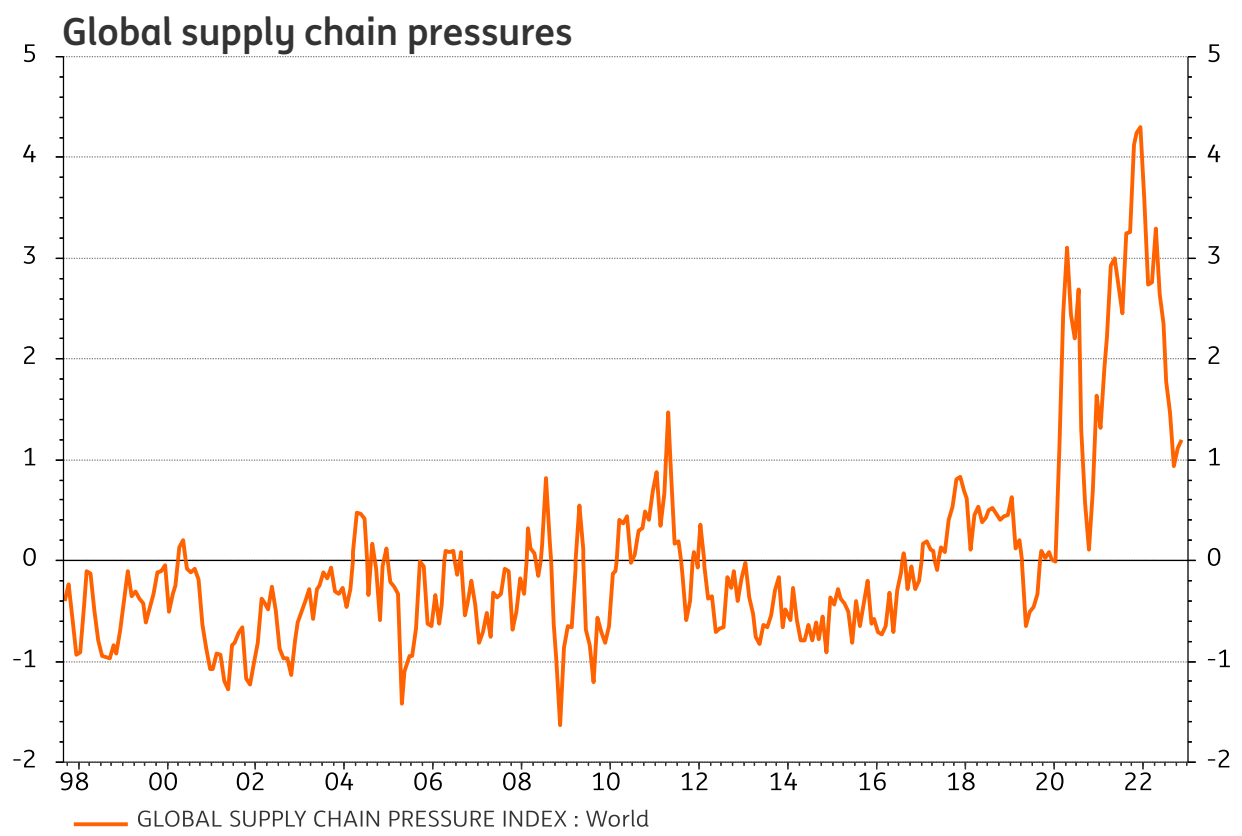


Source: Refinitiv Datastream, ING Economic Research

# Global supply-side pressures are easing

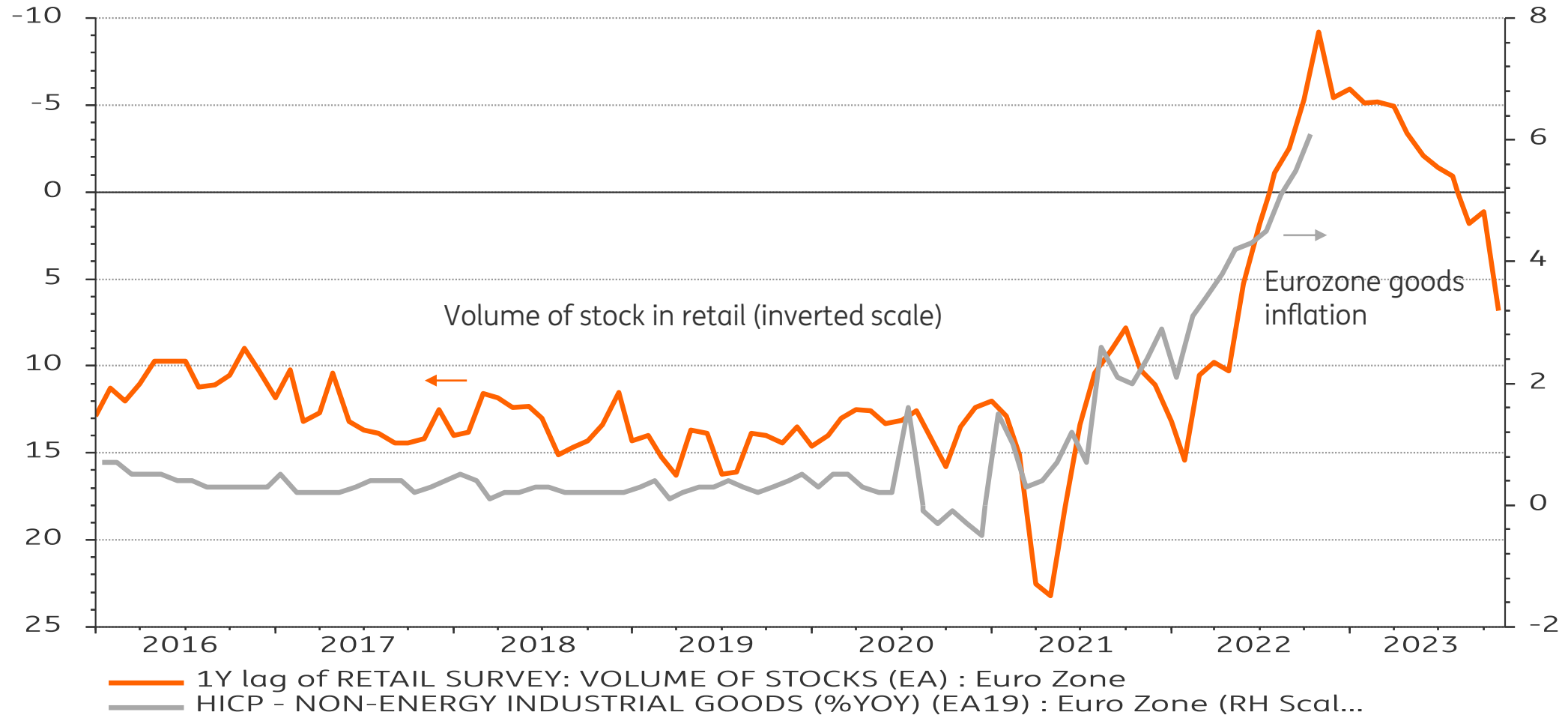


Source: Refinitiv Datastream, ING Economic Research



Source: Refinitiv Datastream, ING Economic Research

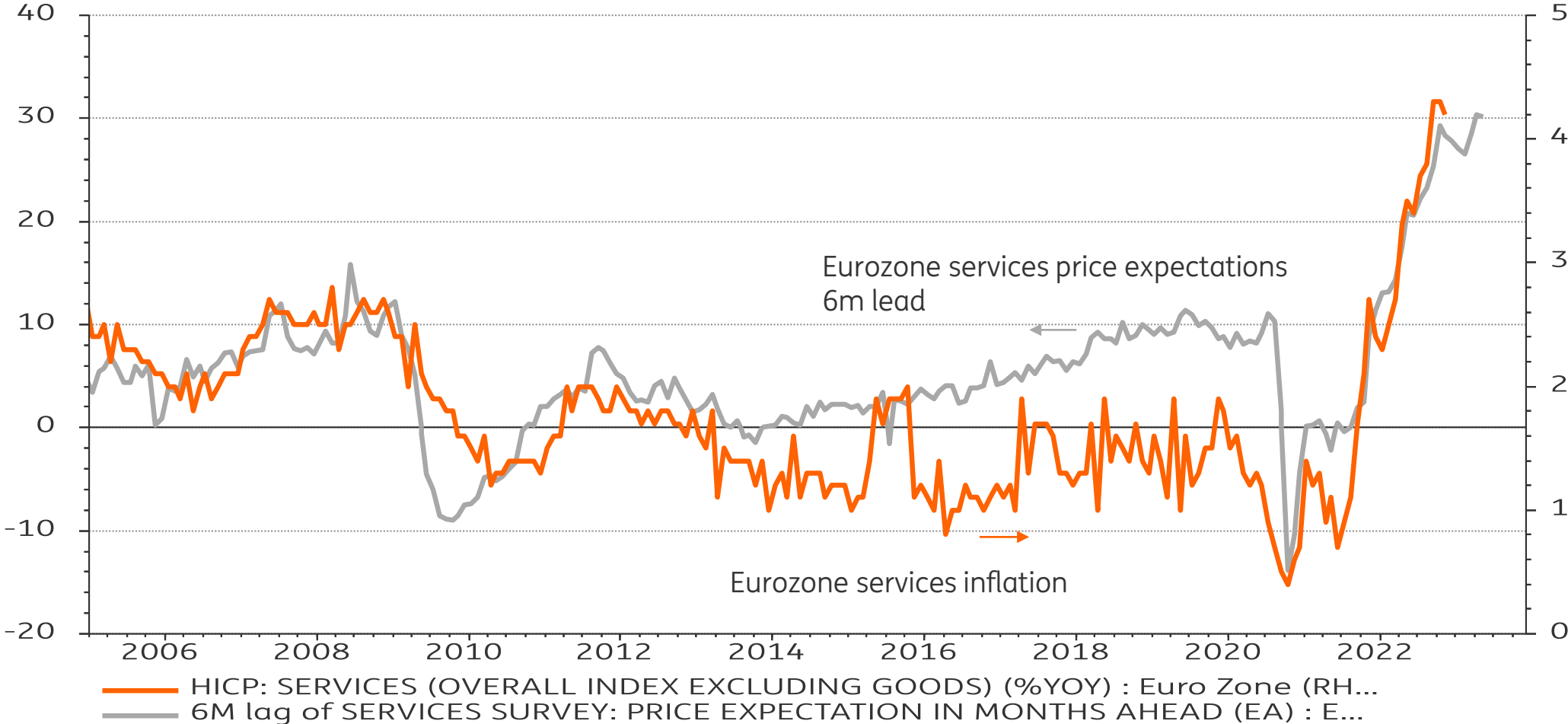
# High retail inventories will push down goods inflation in Europe



Source: Refinitiv Datastream, ING Economic Research

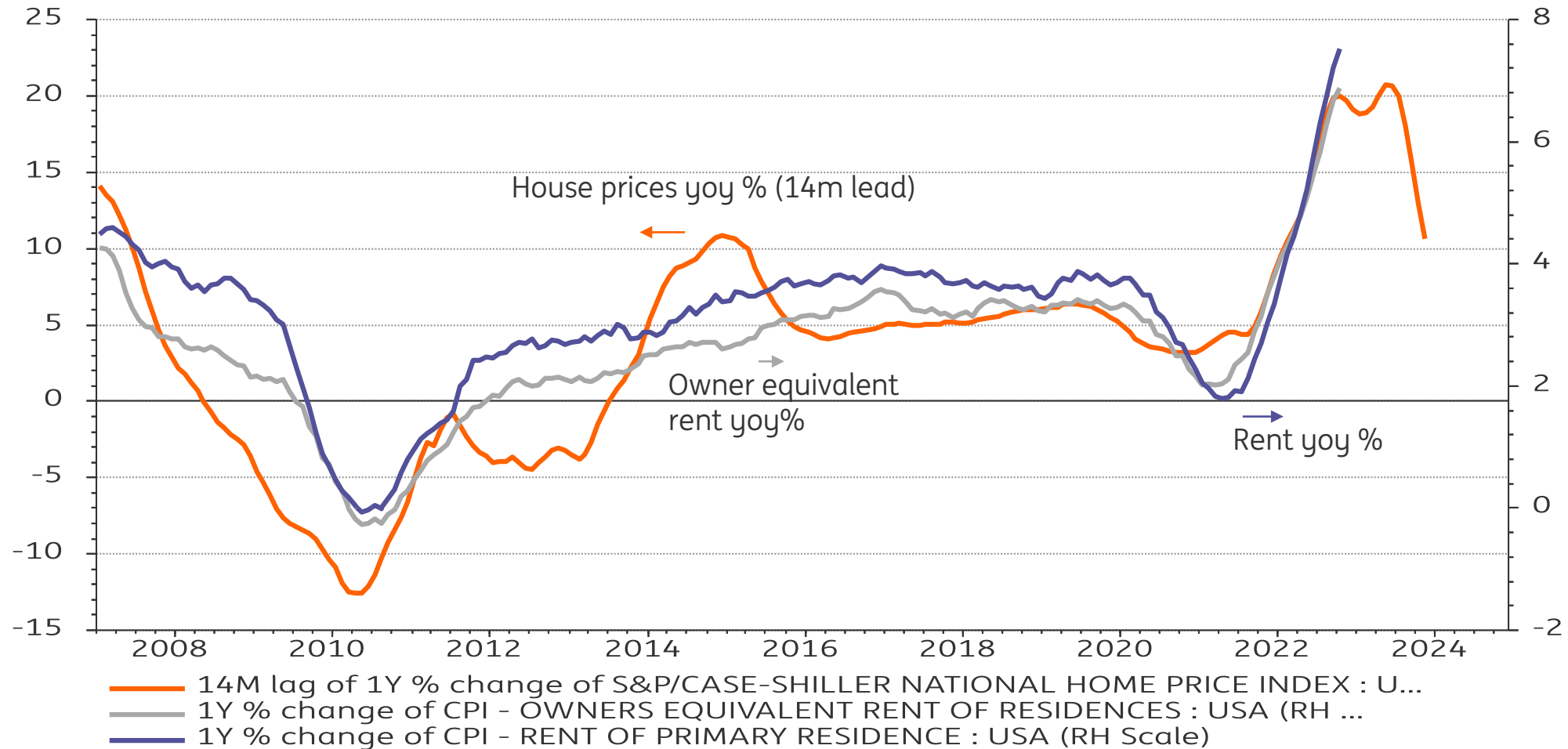


# Services inflation seems to be more sticky



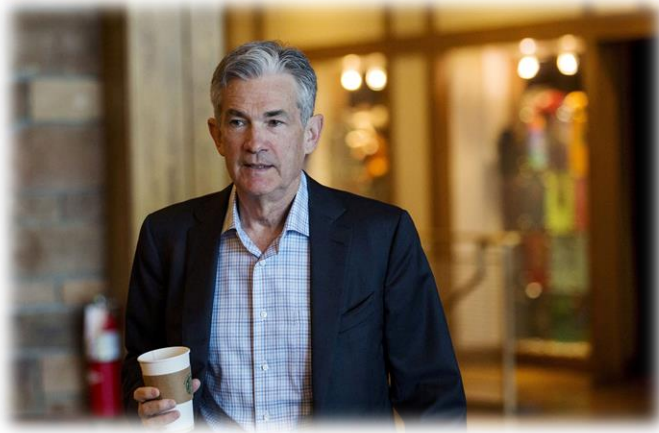
Source: Refinitiv Datastream, ING Economic Research

# Housing market correction will contribute to fall in US inflation



Source: Refinitiv Datastream, ING Economic Research

## Hawkish central bankers



Jay Powell (Federal Reserve):

“We still have some ways to go, and incoming data since our last meeting suggest that the ultimate level of interest rates will be higher than previously expected”. (Until now Fed saw rates peaking at 4.625%)



Christine Lagarde (ECB):

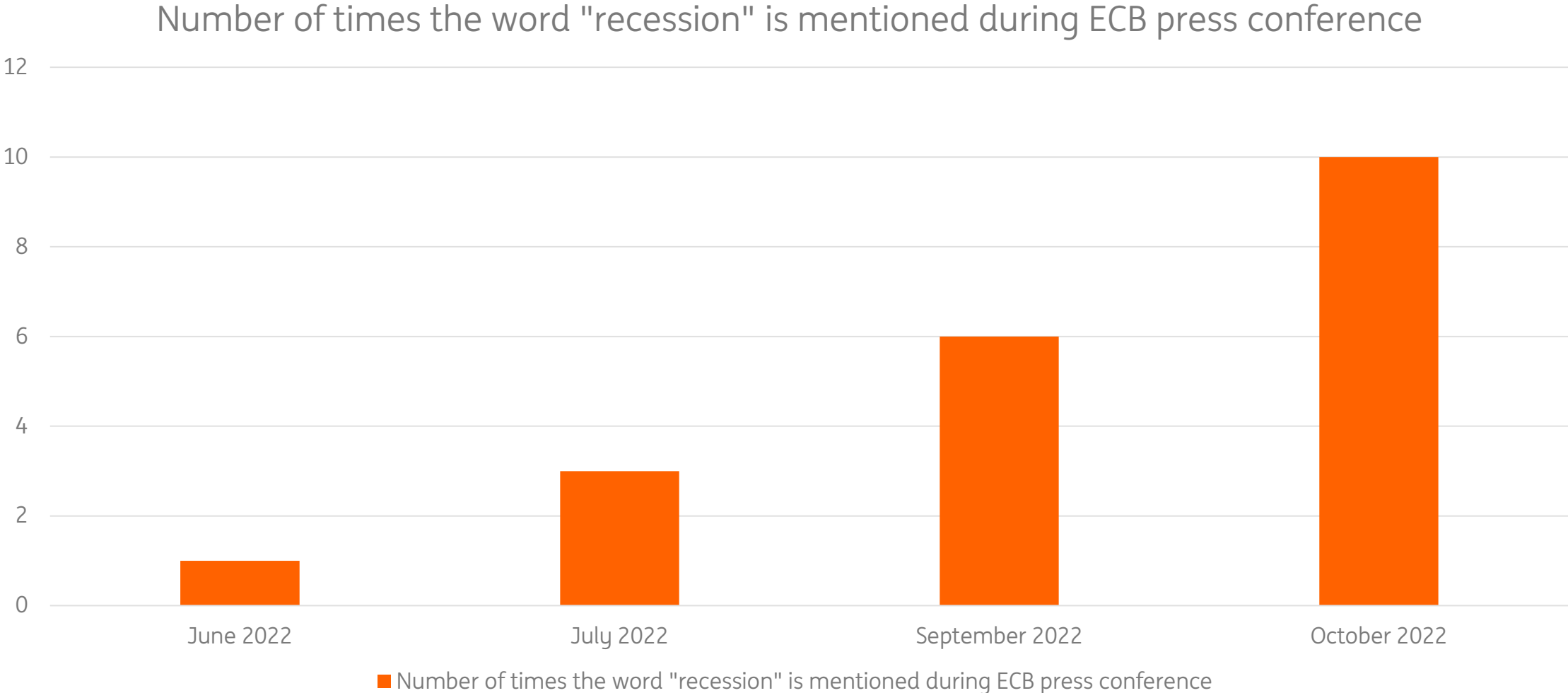
“We will have further rate increases in the future so the normalisation process continues. At some point in time, we will have of course to identify the rate which will deliver the 2% medium-term target that we have.”

## Neutral nominal rate of 2% in the Eurozone?

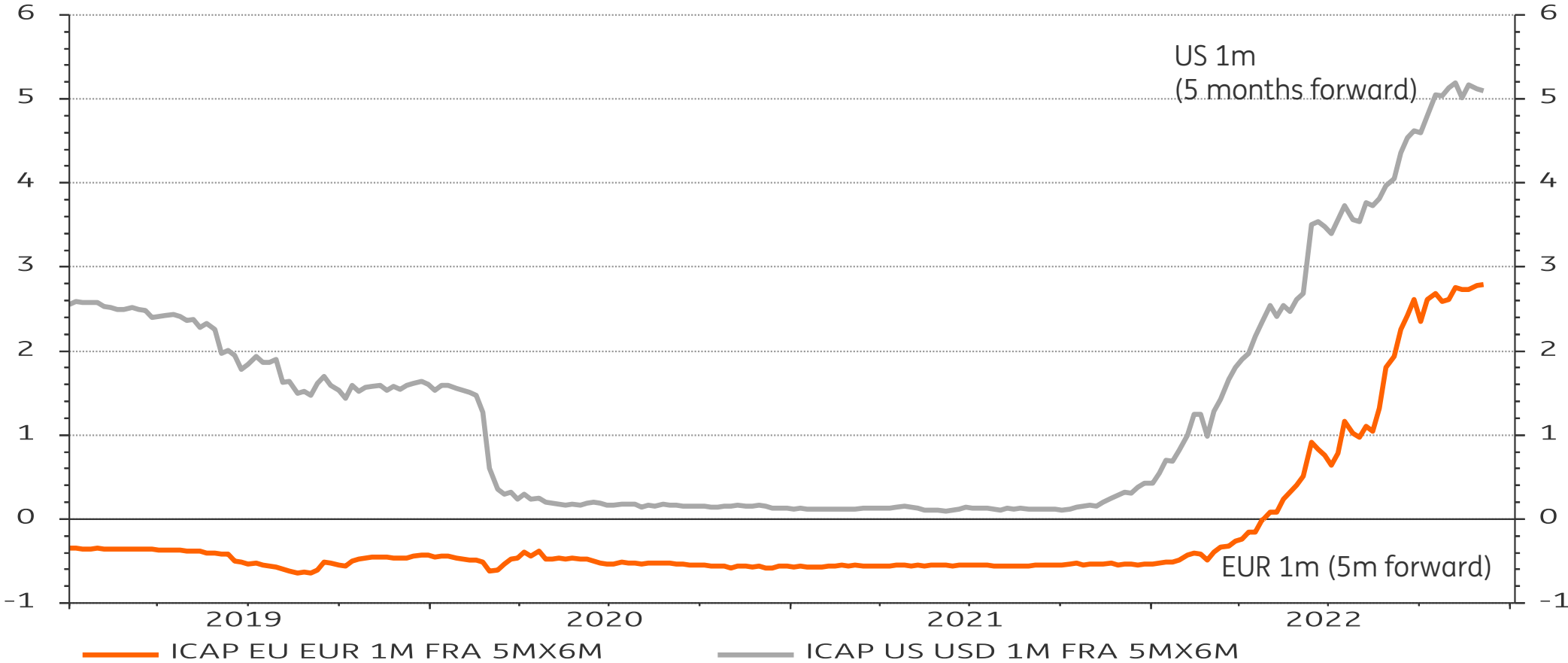


We have an important intermediate step on rates which is the so-called [#neutral rate](#). **Our estimate is around 2 per cent nominal**. Up to the neutral it is normalisation phase and we have to go quickly, we should be there **by the end of the year**. Beyond the neutral rate it is a possible tightening. It doesn't mean we should stop hiking at the neutral rate, but it would be at a more flexible and slower pace (François Villeroy 22 October 2022)

# A sign that a recession is (already) here?



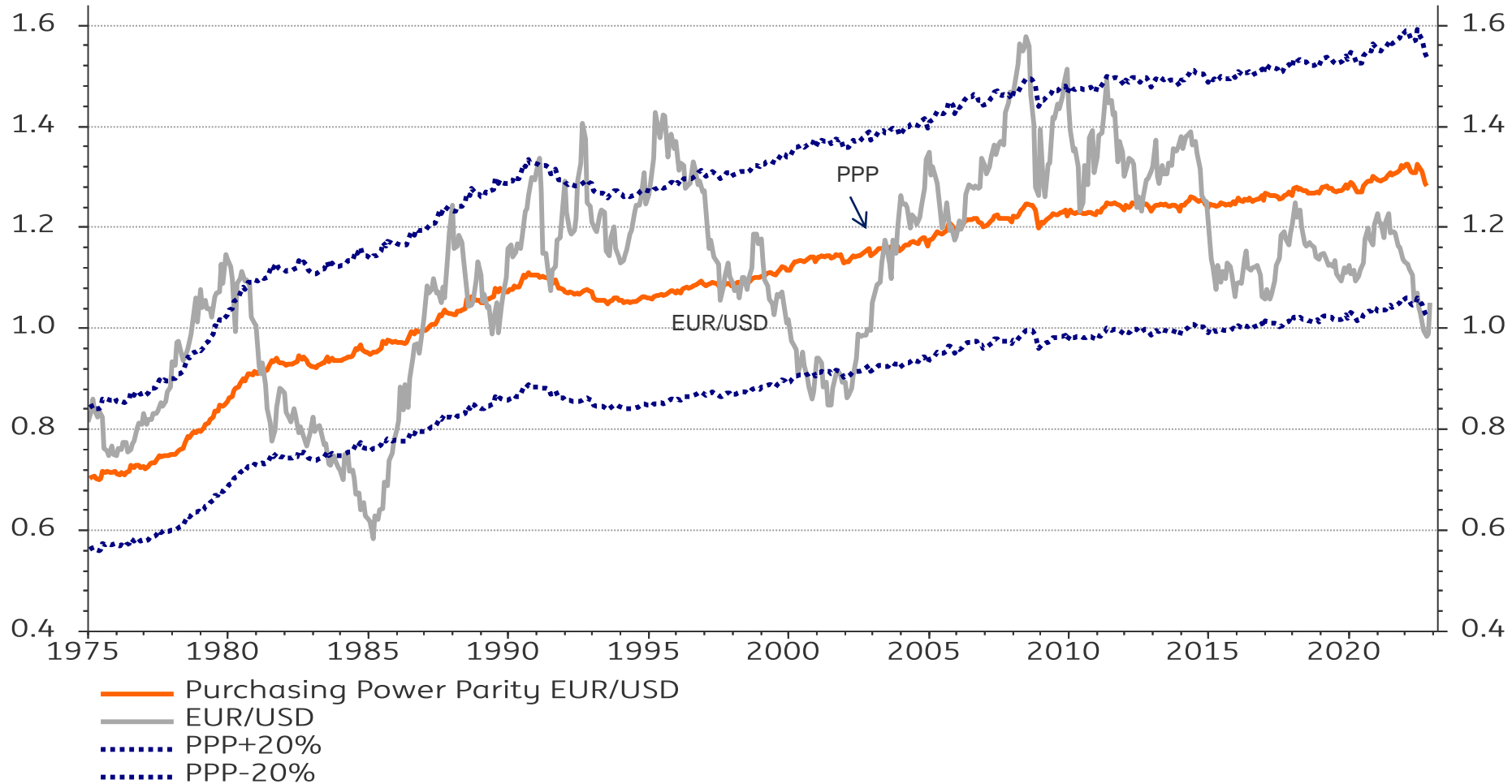
# Yield curve already anticipates further rate hikes



Source: Refinitiv Datastream, ING Economic Research

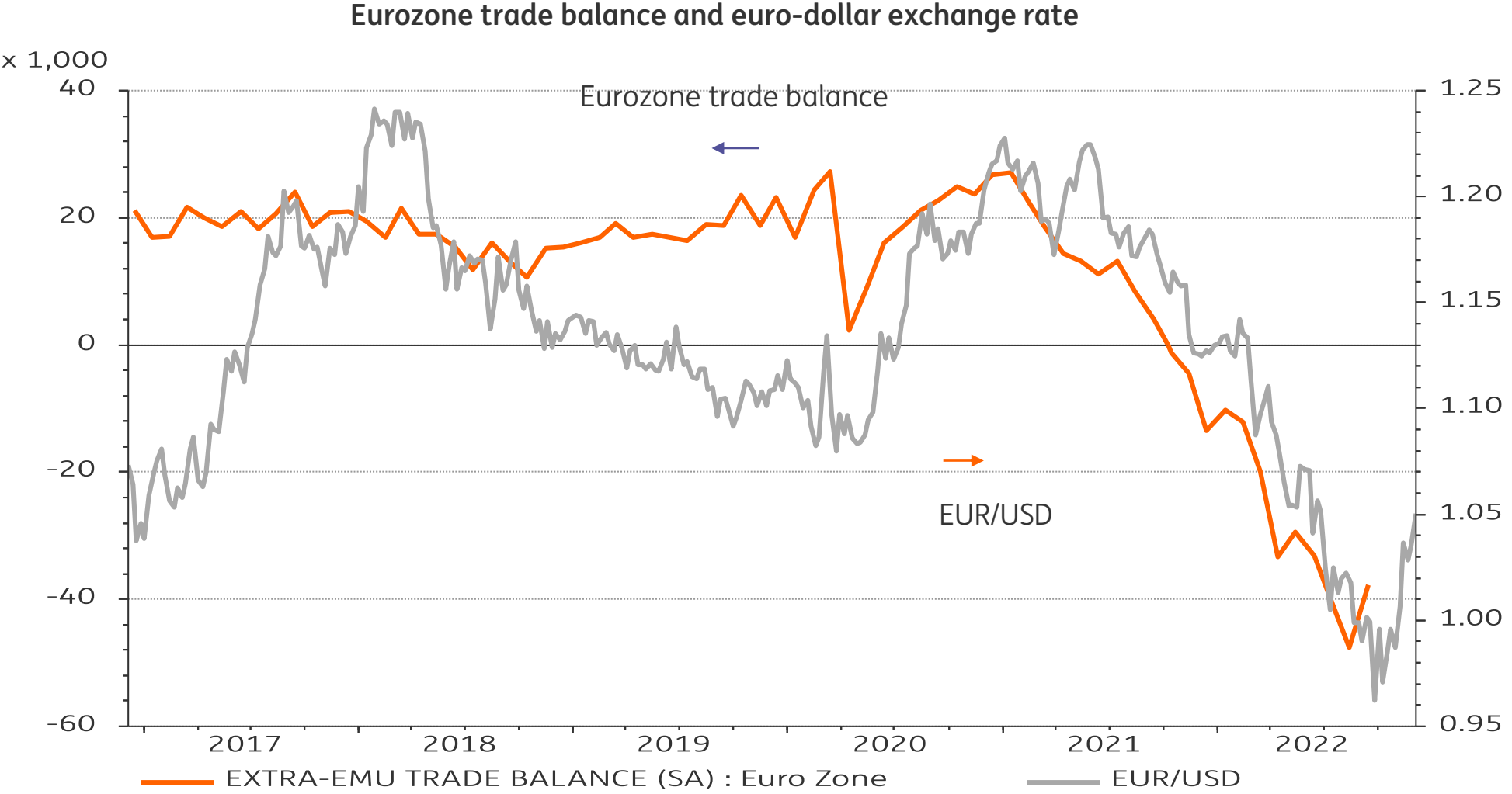
We expect rates to peak around 5% for the US, around 2.5% for the Eurozone

# Euro is still very cheap...



Source: Refinitiv Datastream, ING Economic Research

# ... but energy prices remain a problem



Source: Refinitiv Datastream, ING Economic Research



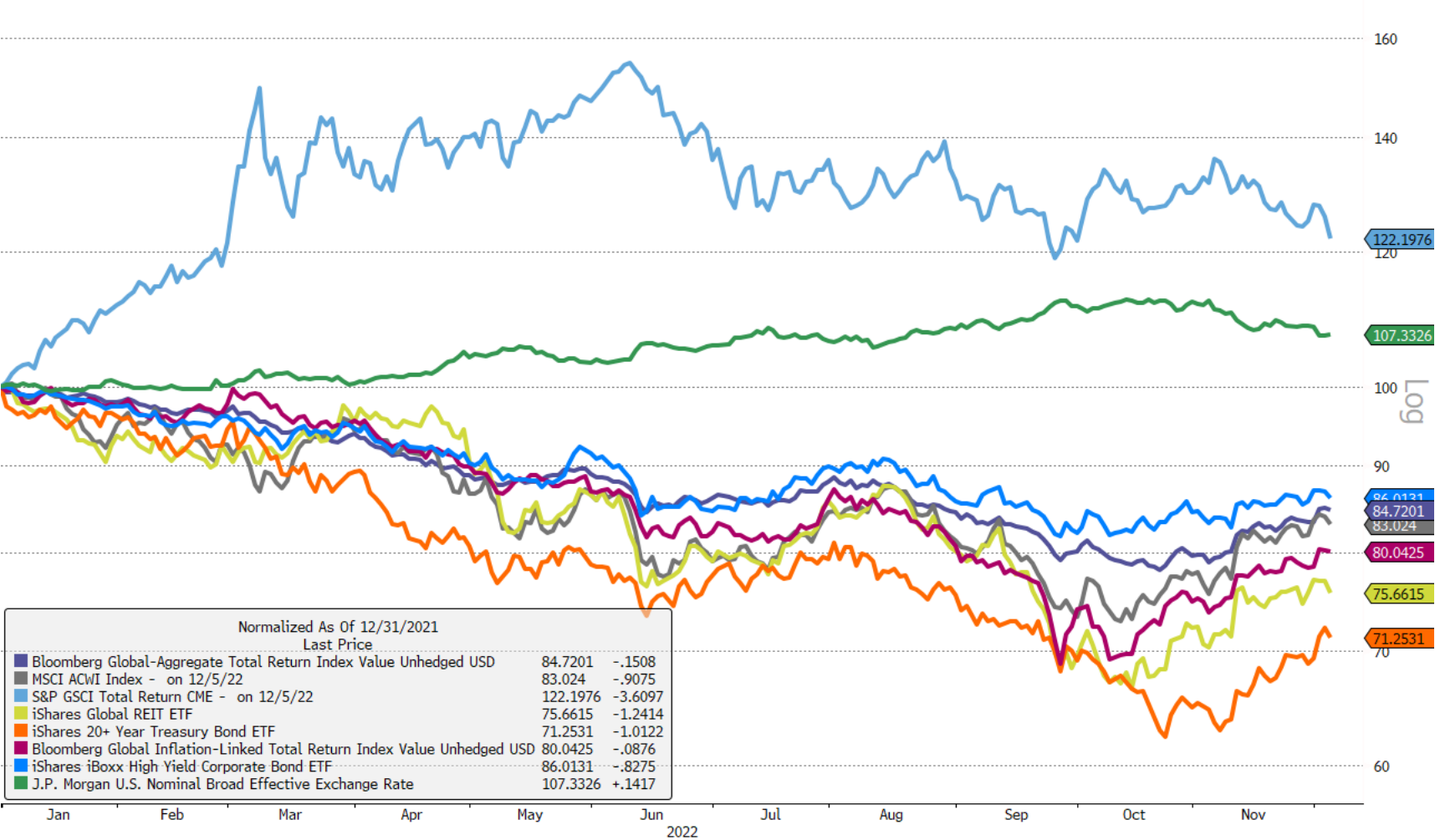
# The “Old Normal”

Steven Vandepitte  
Strategist



thinkforward

# Scores on the Doors

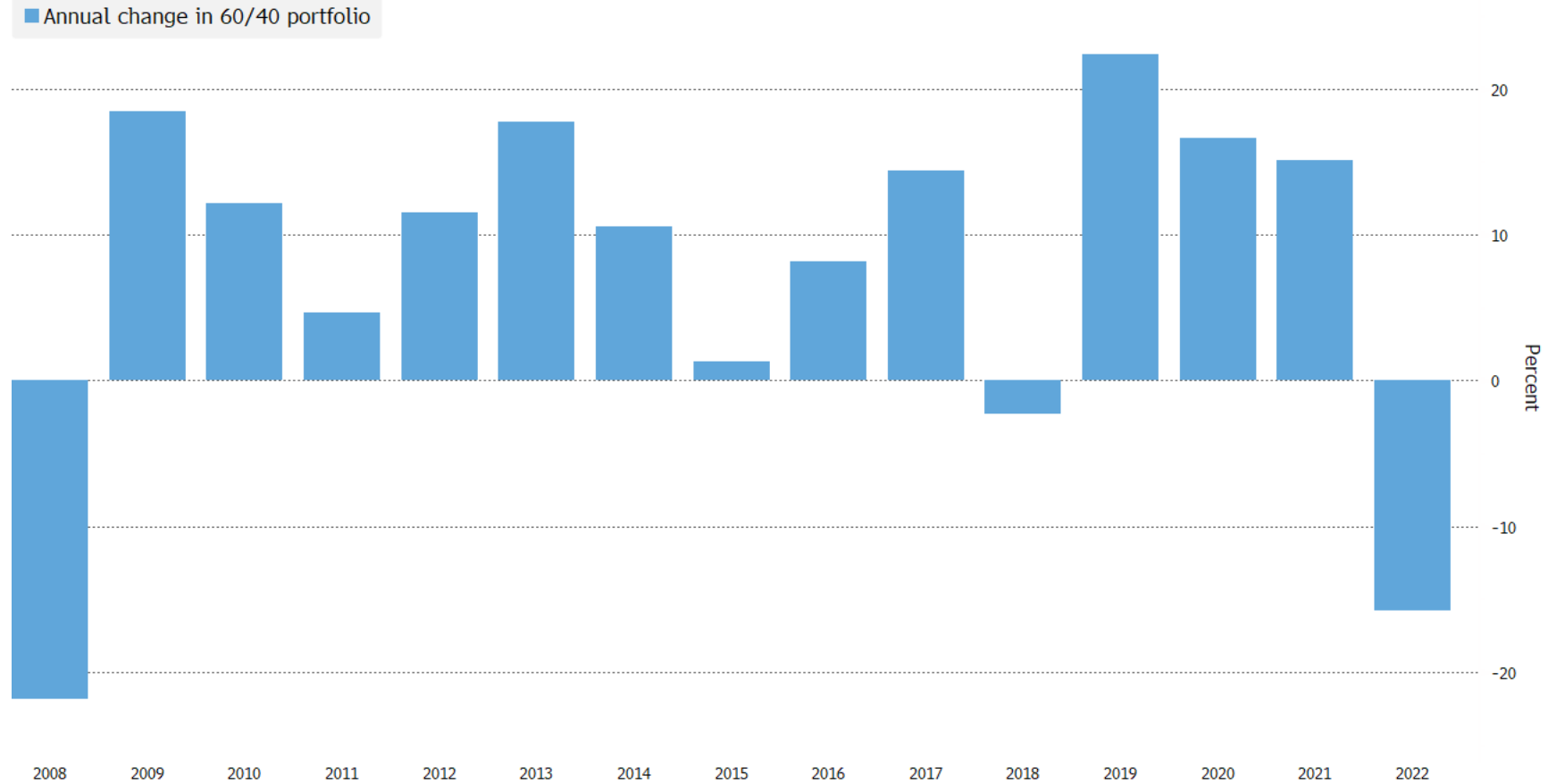


LEGATRUU Index (Bloomberg Global-Aggregate Total Return Index Value Unhedged USD) perf 5 com 18 +arkk Daily 31DEC2021-06DEC2022 Copyright© 2022 Bloomberg Finance L.P. 06-Dec-2022 11:51:21



# 60/40 portfolio has taken a rare hit

60/40 worth another look after worst year since 2008



Source: Bloomberg

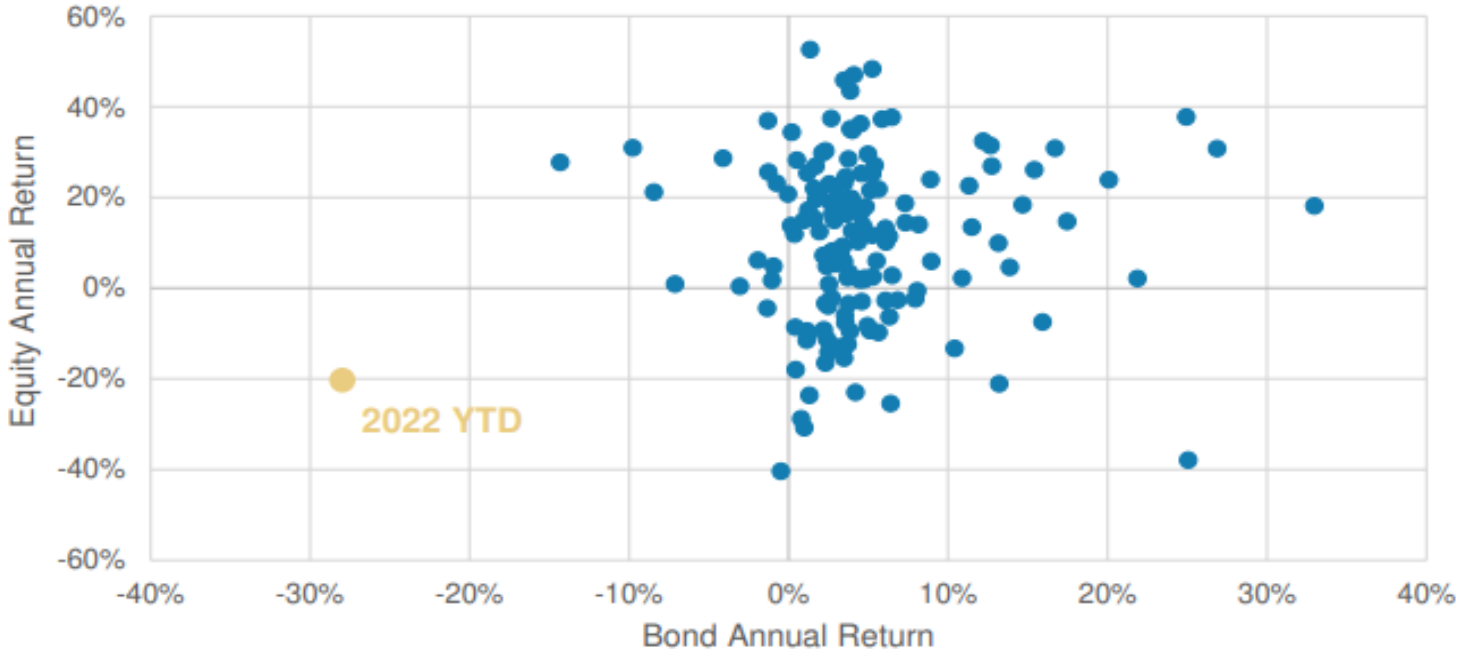
BMA6040 Index (Bloomberg US EQ:FI 60:40 Index) 60/40 yearl Performance Yearly 22NOV2002-17NOV2022

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06-Dec-2022 11:51:39

# The potential for mean reversion next year is definitely present

**Exhibit 1:** Underperformance in both bonds *and* equities is rare – 2022 was unprecedented

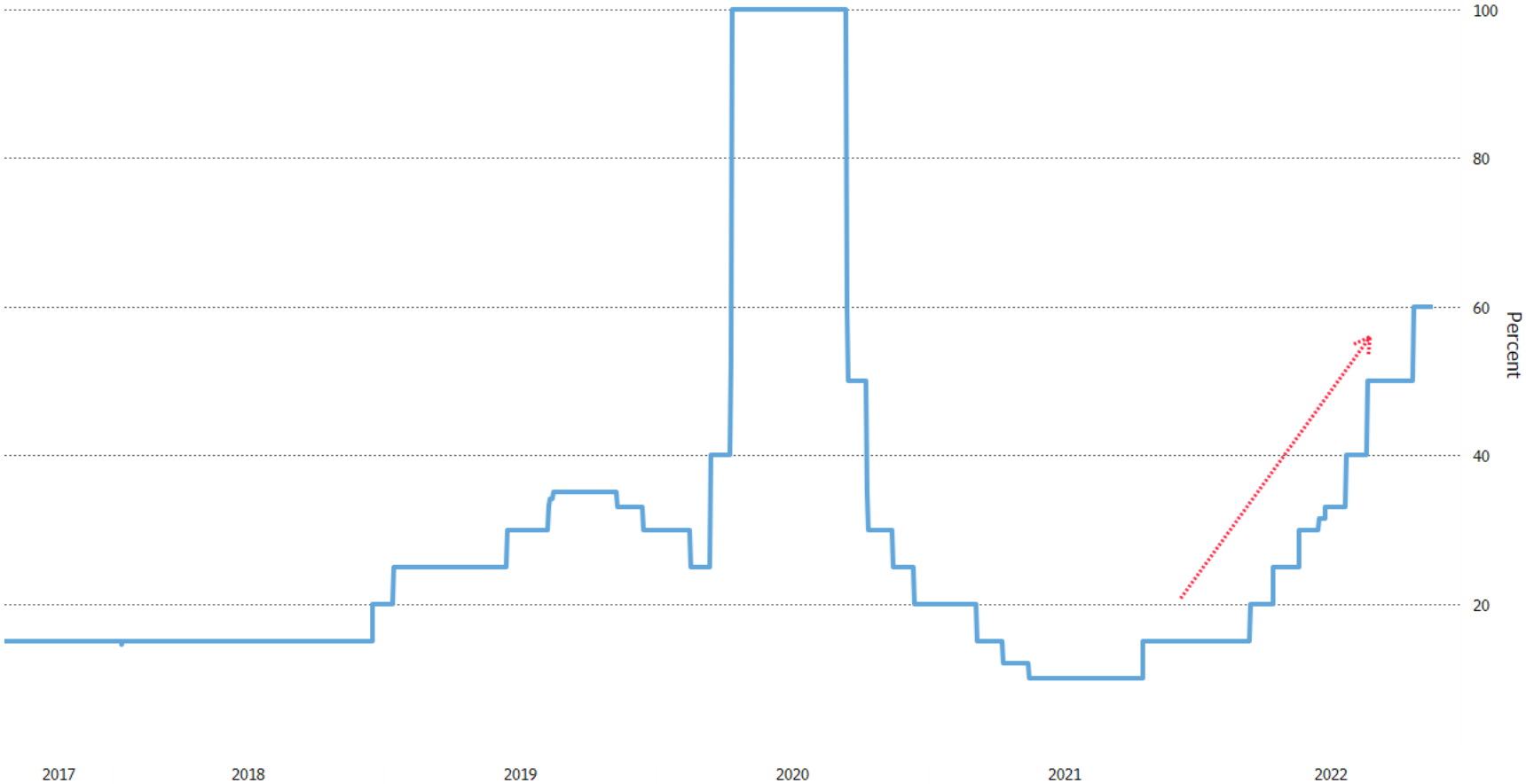


Source: Bloomberg, NBER, Jordà-Schularick-Taylor Macrohistory Database, Morgan Stanley Research;  
Note: Data back to 1871. Bond return is return on long-maturity UST. As of November 9, 2022.

# Where are we in the cycle?

Bloomberg gauge of US recession probability hits 60%

■ United States Recession Probability



Source: Bloomberg

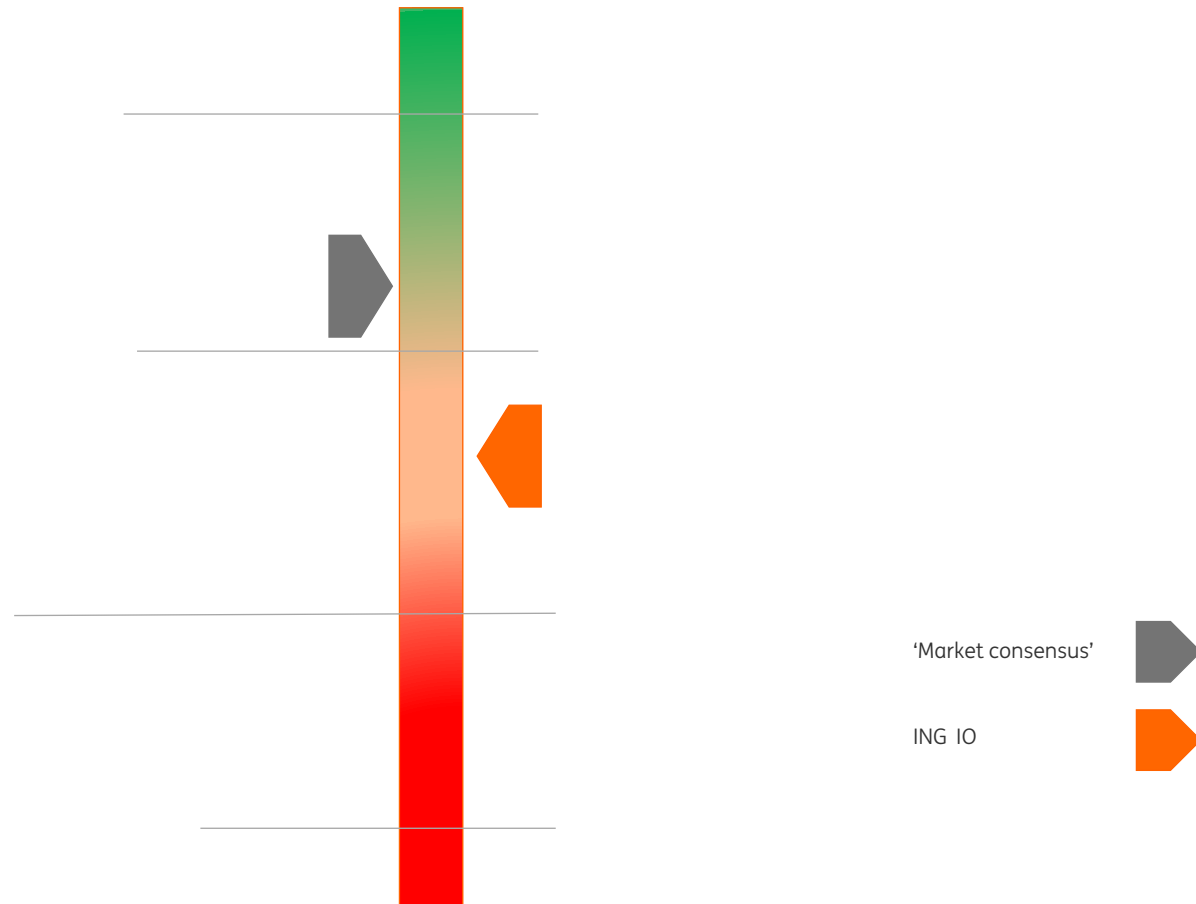
ECRPLUS 1Y Index (United States Recession Probab) BBG recession probabill Daily 07AUG2017-09NOV2022

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# What scenario is priced in stock market ?

- “Goldilocks” – soft landing
- “Short & shallow” recession
- Full blown recession

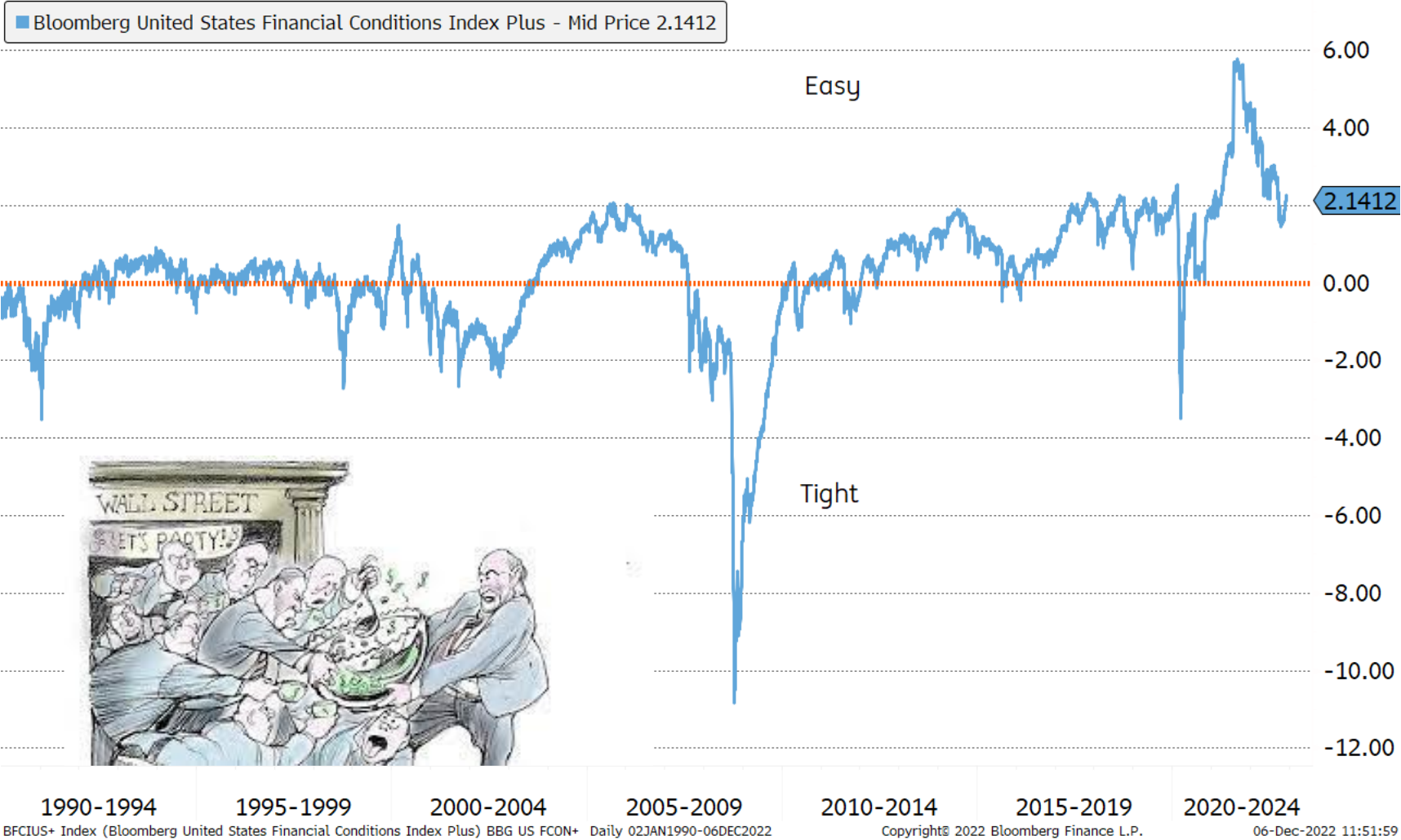


# The \$64,000<sup>(\*)</sup> question : Volcker or Burns ?



(\*) before inflation

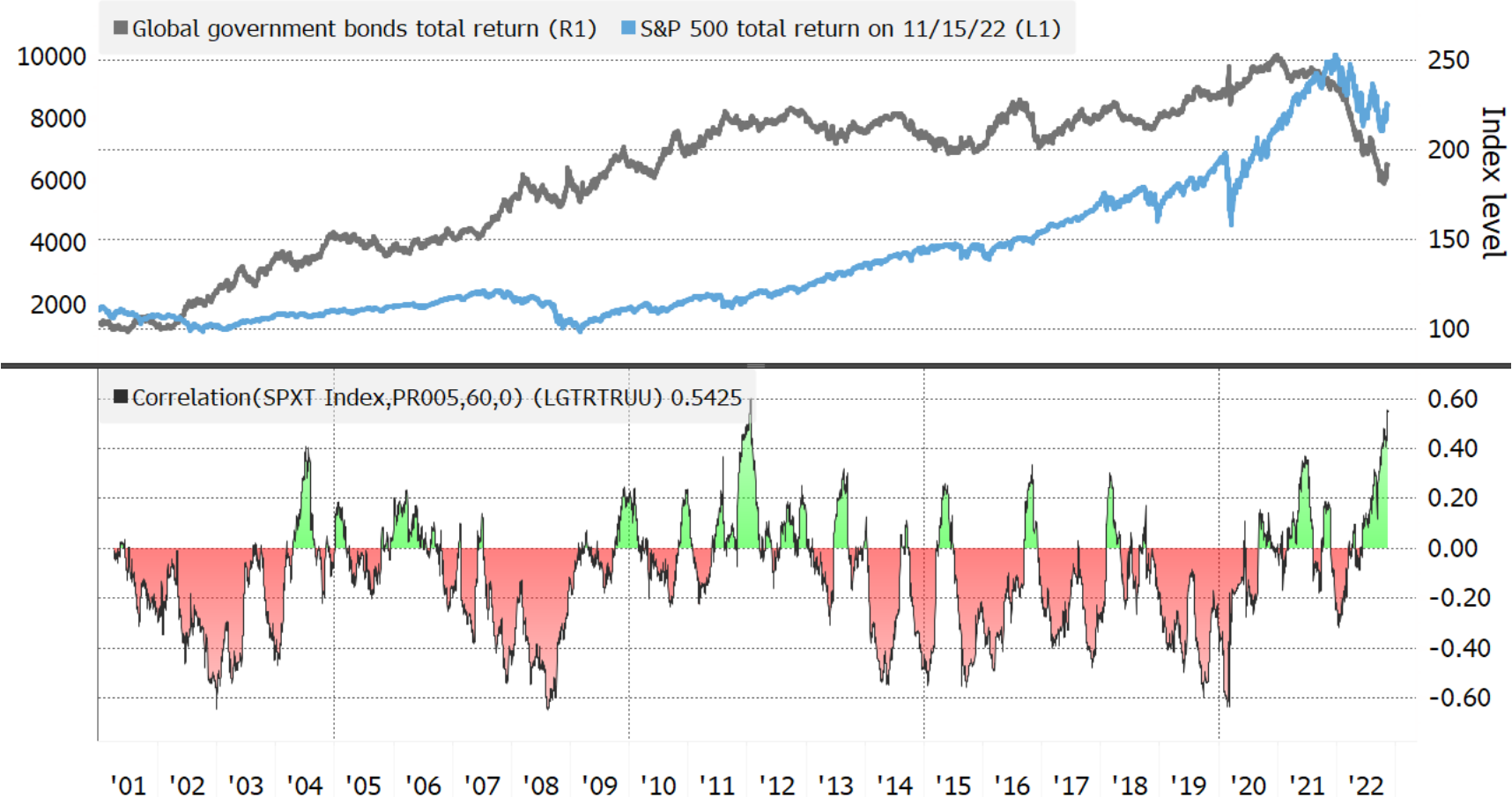
# Fed to take further aim at financial conditions





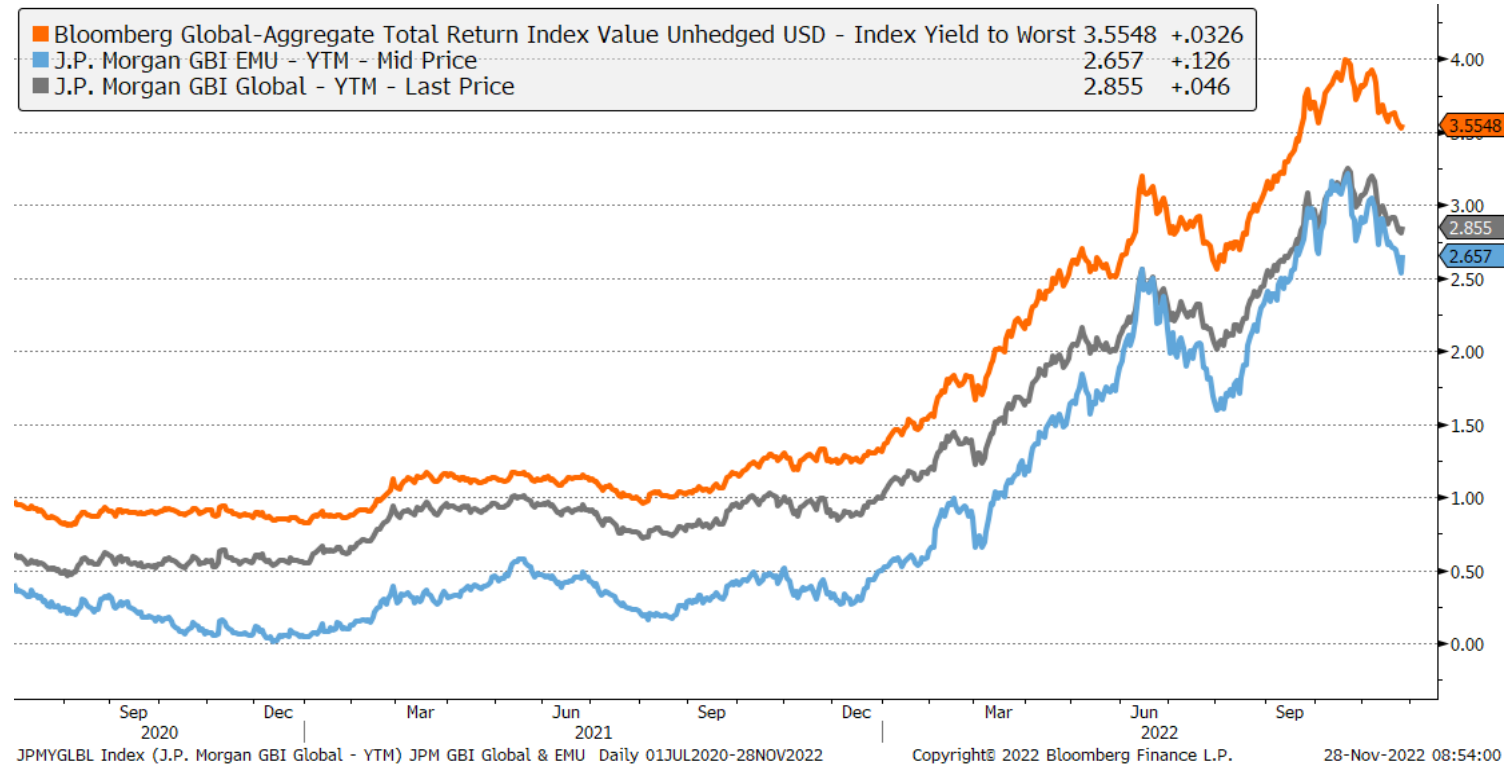
# THE chart to monitor

## Correlation to S&P 500 rarely been this high



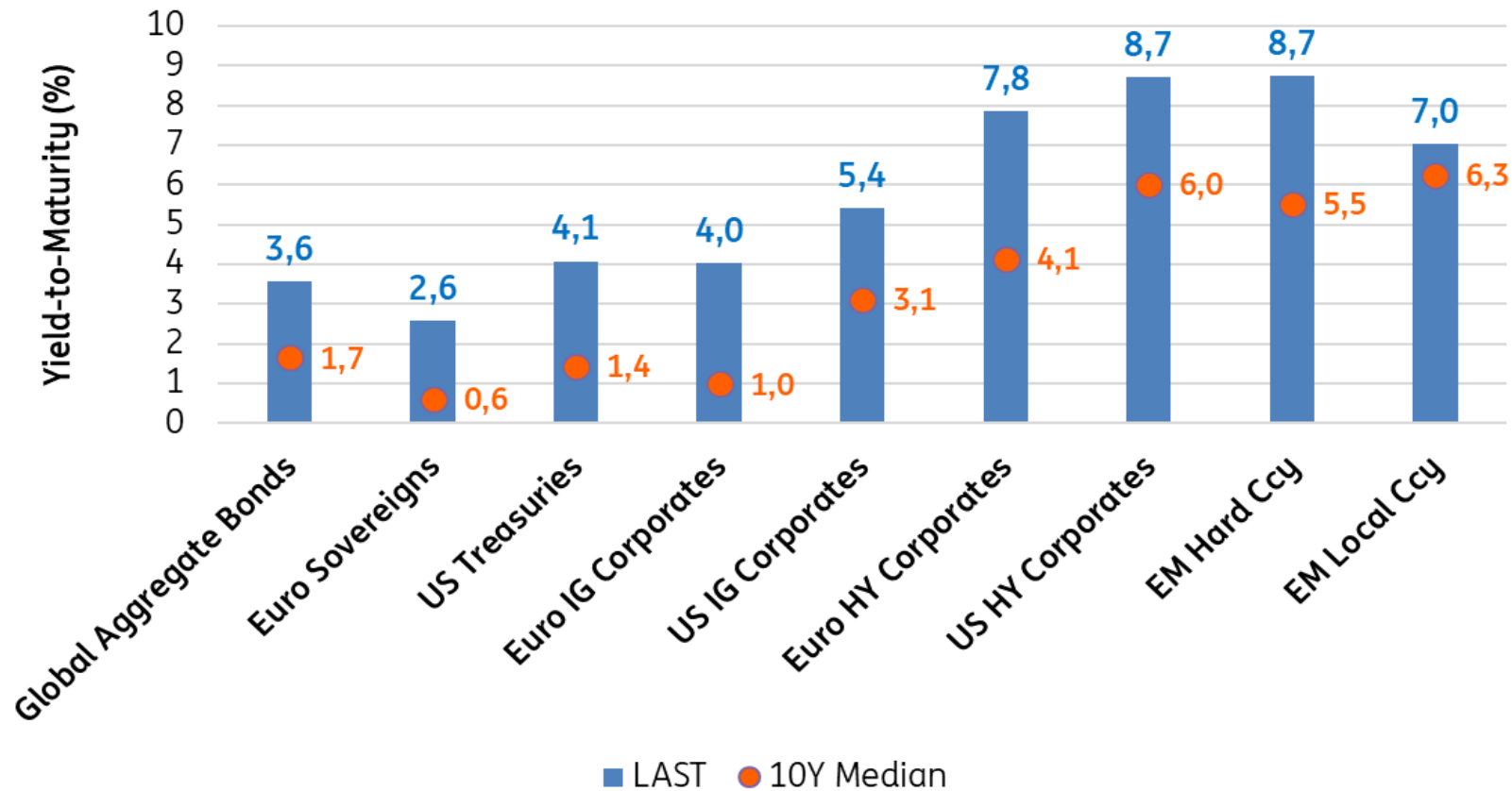
Source: S&P, Bloomberg  
LGTRTRUU Index (Bloomberg Global Agg Treasuries Total Return Index Value Unhedged USD) stocks bonds correlation Daily 02JAN2001-16NOV2022 Copyright© 2022 Bloomberg Finance L.P. 16-Nov-2022 15:50:11

# Bond benchmark yields are up... a lot



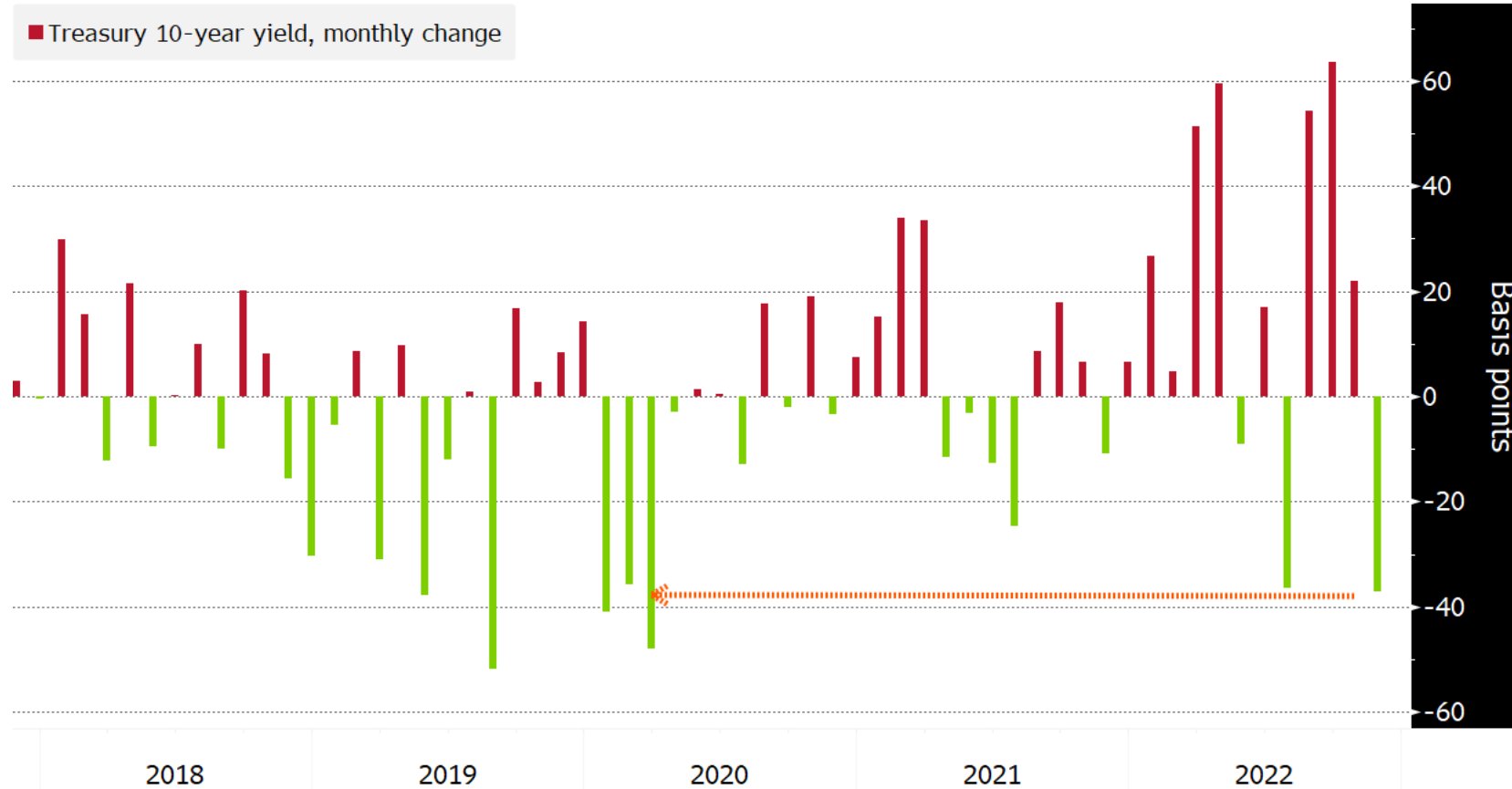
# “The Great Reset” at warp speed!

## Yield-to-Maturity across fixed income segments



# Fast and outsized moves are a feature of today's markets

## Steep Drop Treasury 10-year yields head for biggest monthly fall since 2020



Source: Bloomberg

USGG10YR Index (US Generic Govt 10 Yr) US10Y move Monthly 26NOV2017-25NOV2022

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# Goodbye and good riddance



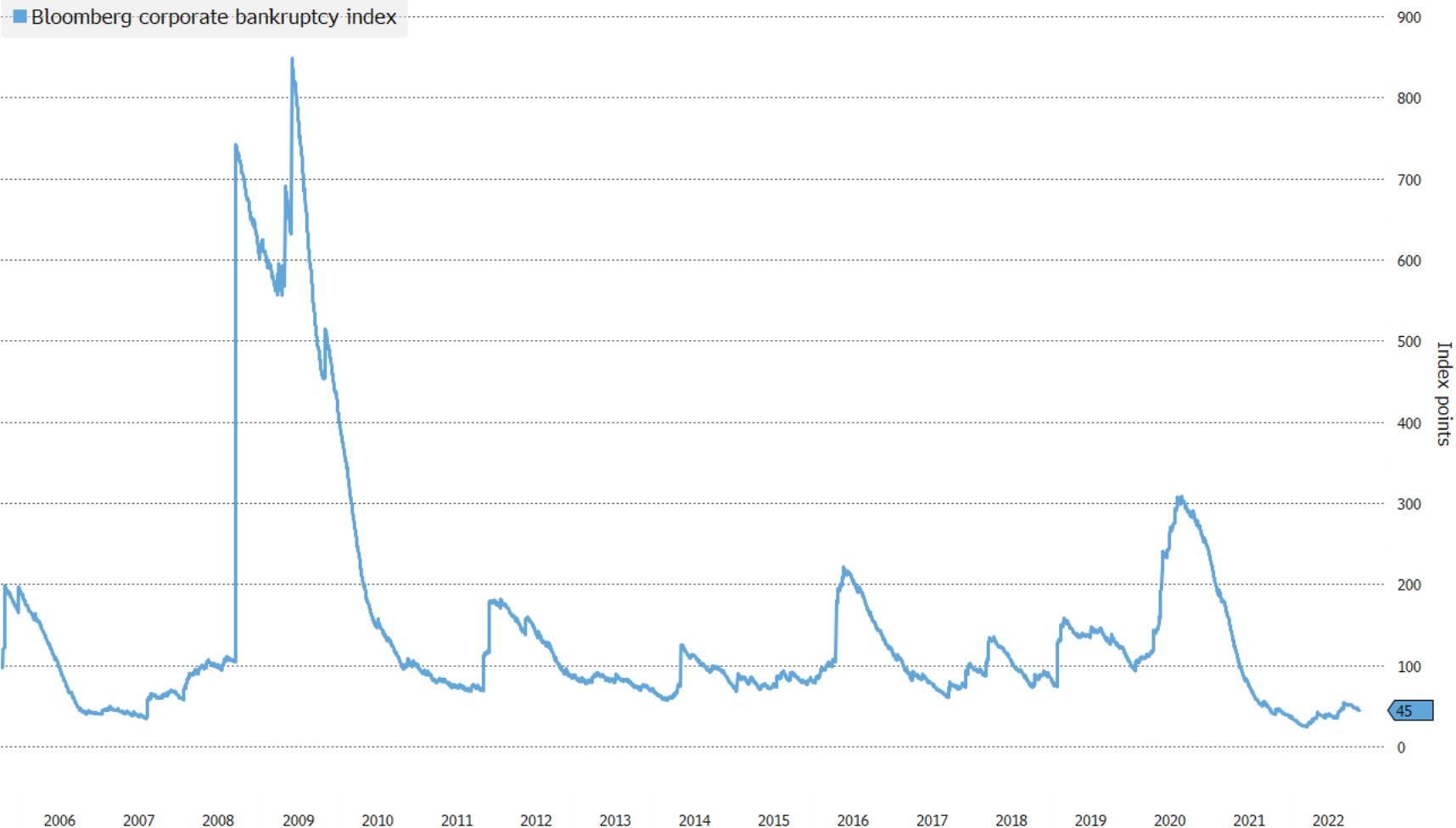
Source: Bloomberg indexes

I32550US Index (Bloomberg Global Aggregate Negative Yielding Debt: Corporates) negative yielding corp Daily 26APR2013-25APR2022

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06-Dec-2022 12:05:07

# Low starting point for what is expected to be a mild default cycle.



Source: Bloomberg  
BNKRINDX Index (Bloomberg Corp Bankruptcy Index) Bankruptcy # Daily 30SEP2005-28NOV2022

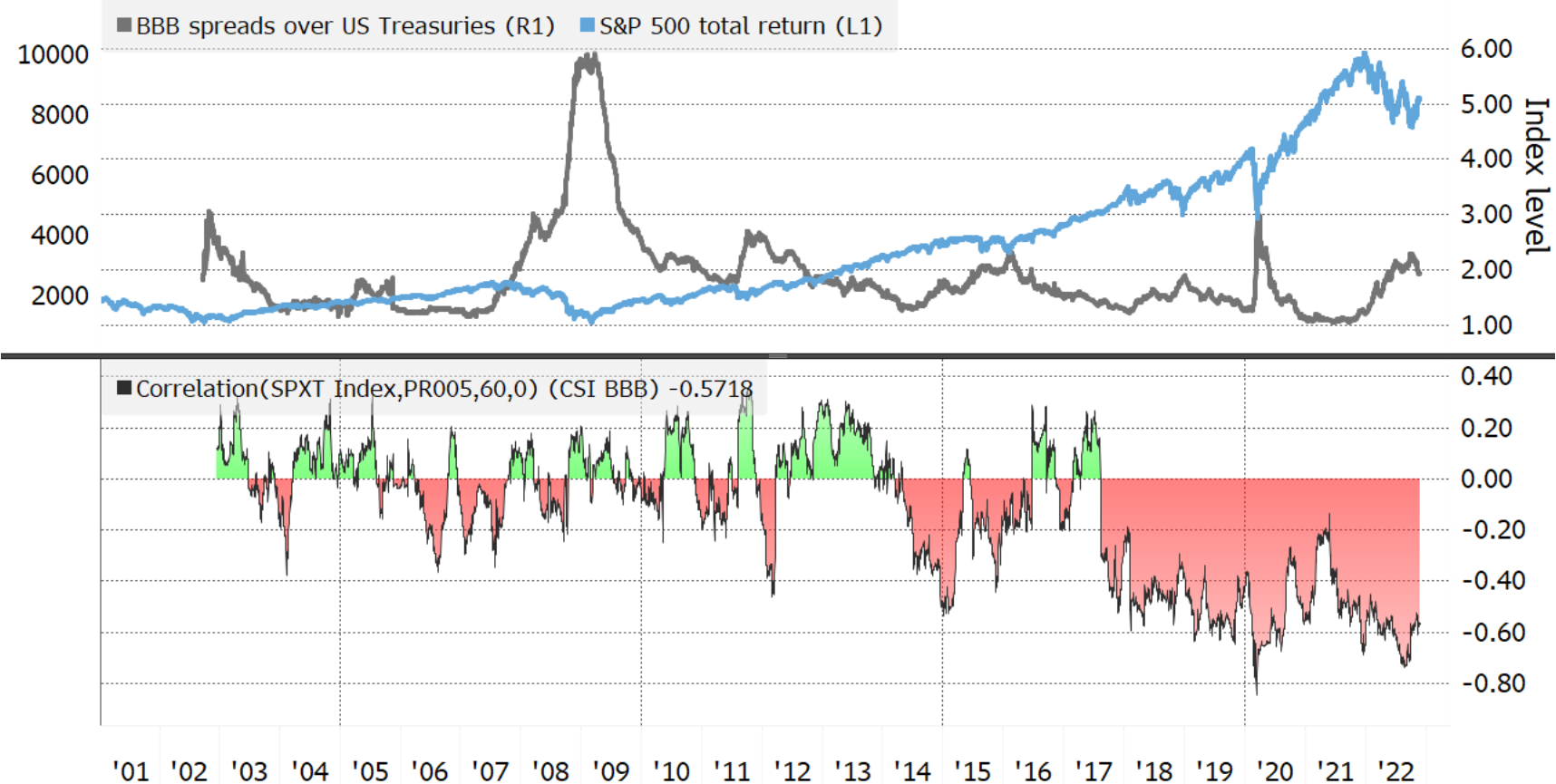
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# Preference for quality in corporate bonds as they now track equities closely

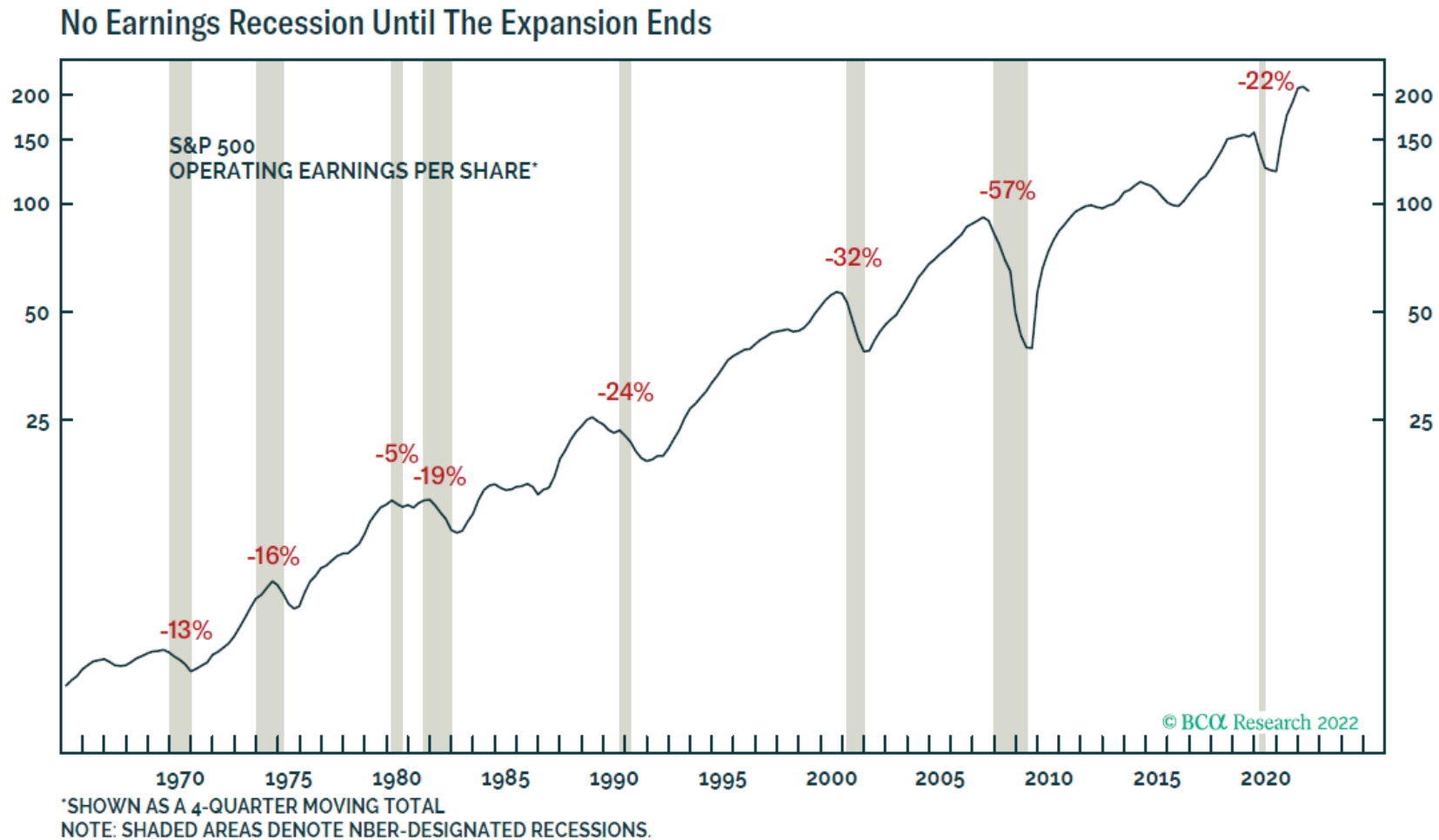
## Stocks up & spreads down Correlation to S&P 500 has been firmly negative for years



Source: S&P, Bloomberg  
 CSI BBB Index (US Corp BBB/Baa - Treasury 10 Year Spread) stocks spreads corr Daily 02JAN2001-29NOV2022  
 Copyright© 2022 Bloomberg Finance L.P. 29-Nov-2022 09:10:18

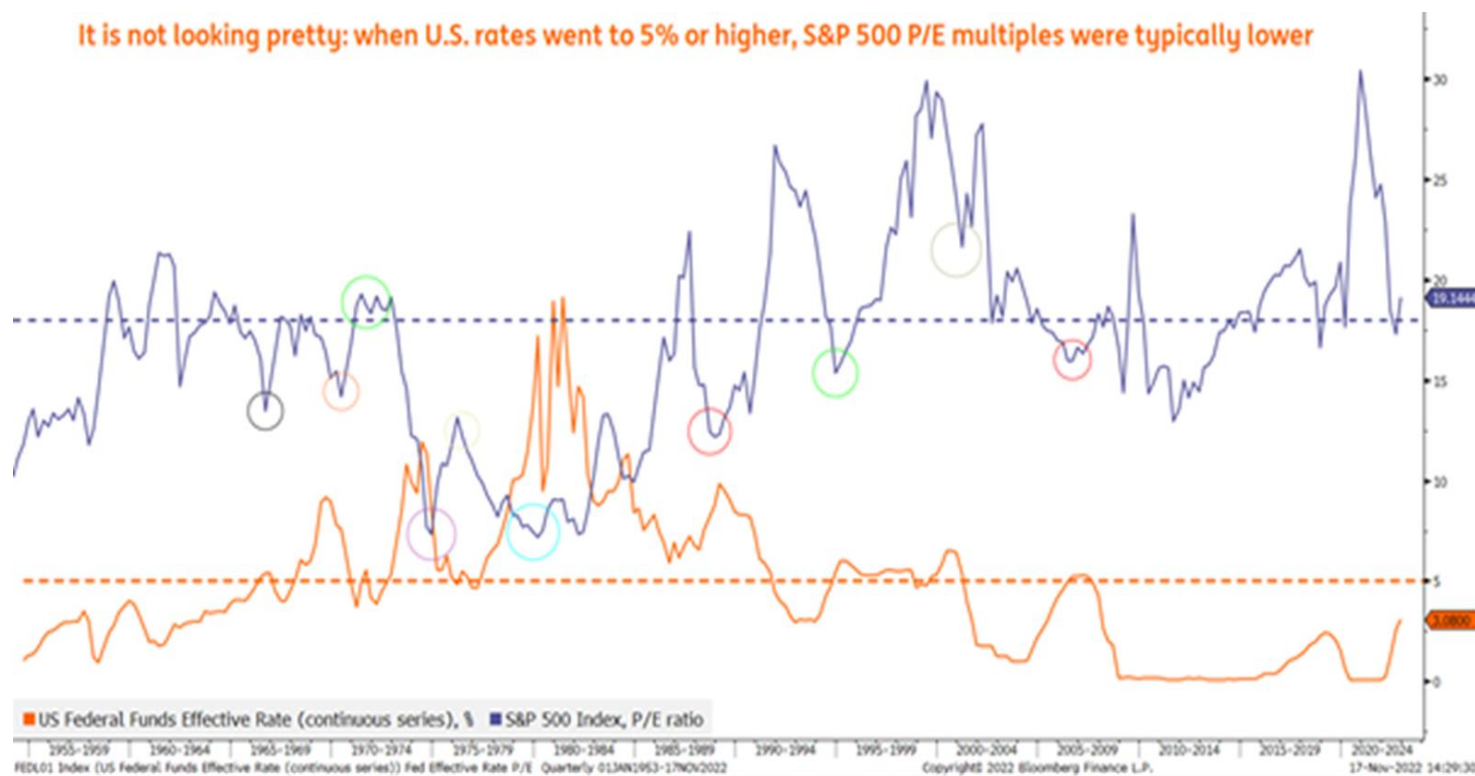


# US earnings really only drop when the recession strikes

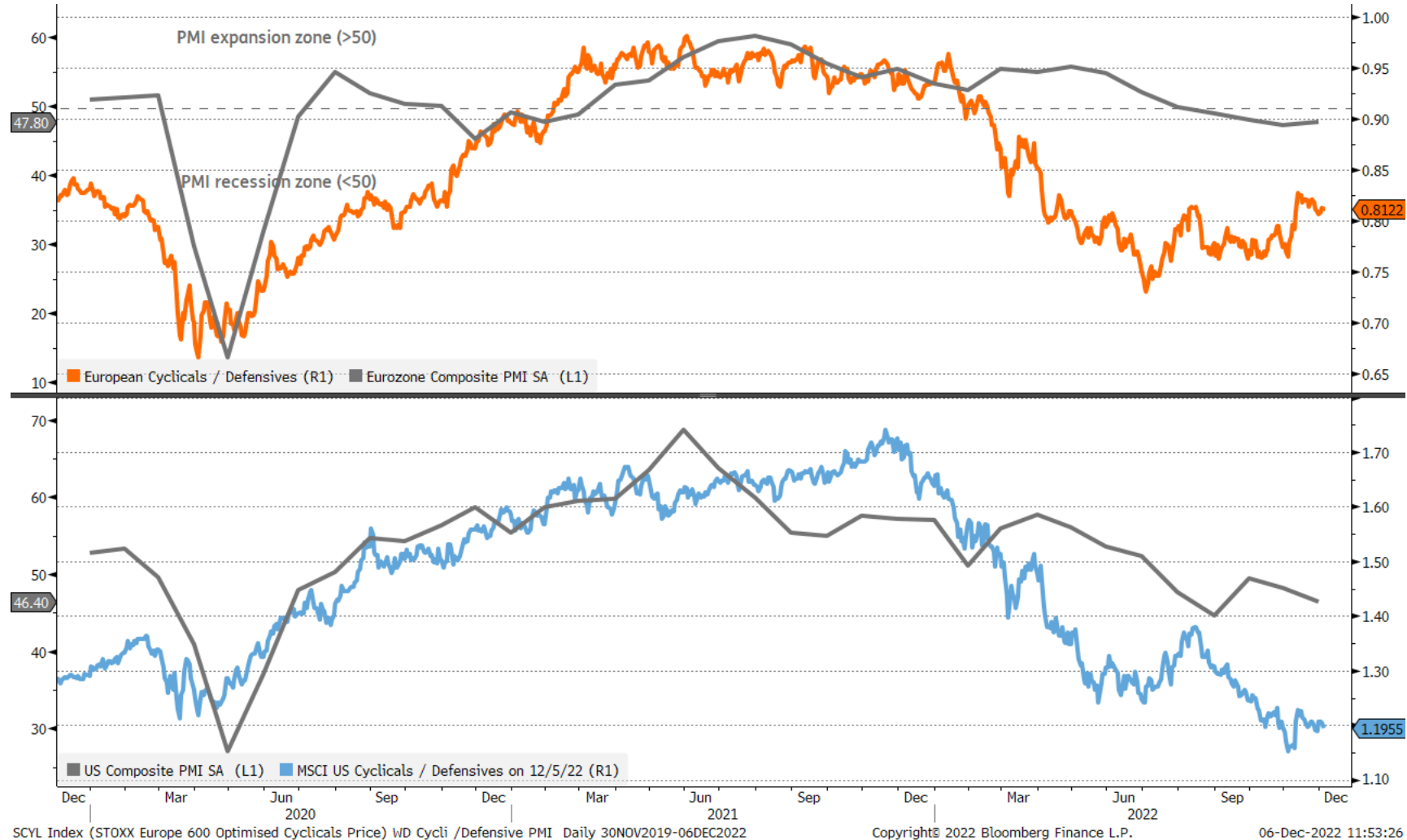




# US valuations are on the expensive side for the expected rate environment

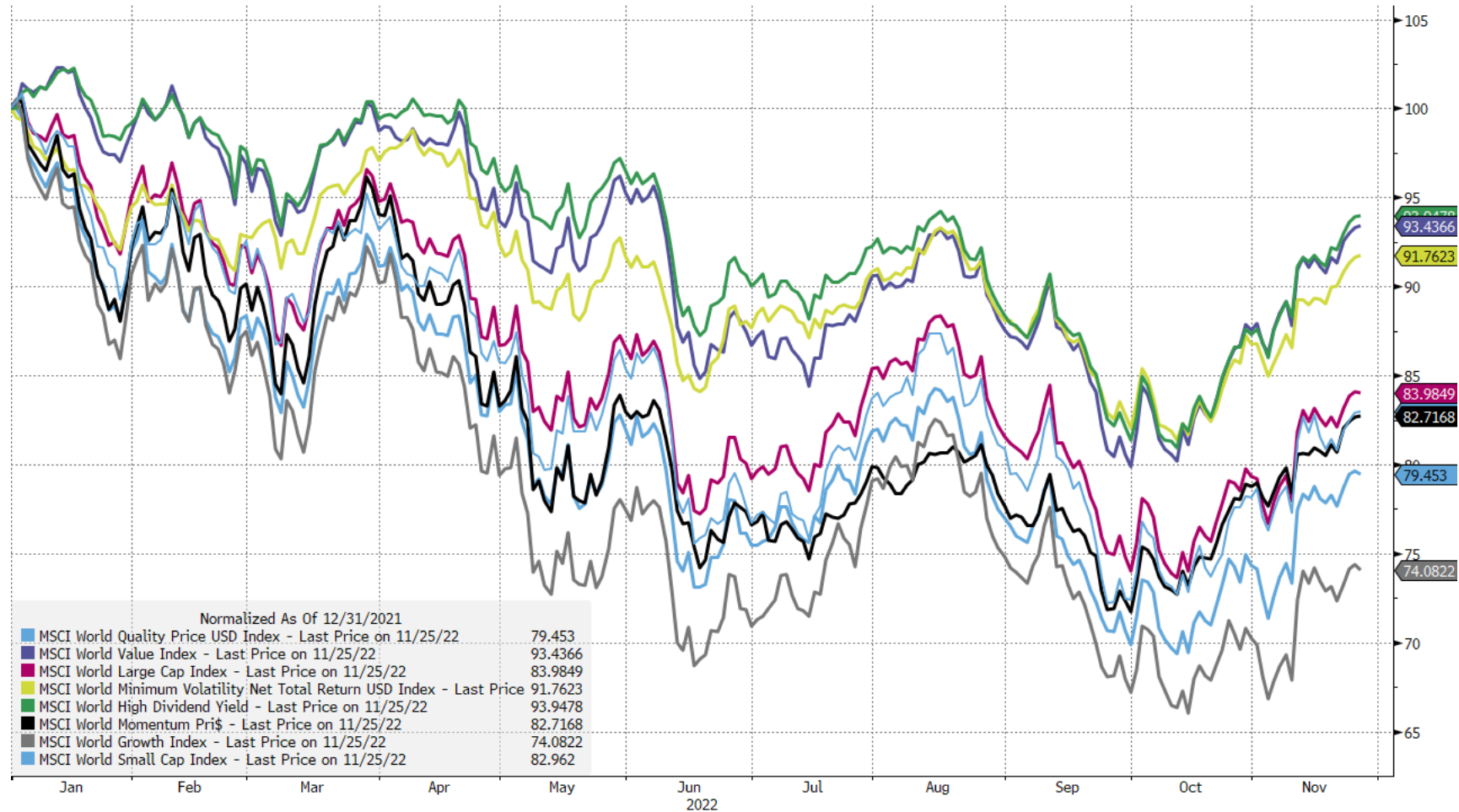


# No trough yet in PMI's should see defensives outperform



# Factors to watch : value, high div, low vol

Evolution of investment styles



MXWOQU Index (MSCI World Quality Price USD Index) quality 21 Daily 31DEC2021-28NOV2022

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28-Nov-2022 14:24:03

# Overview of positioning

■ 22/11/2022   
 ■ Previous allocation

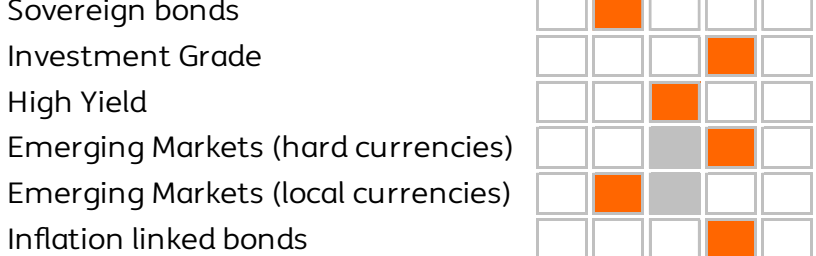
### Asset Allocation



### Regional Allocation



### Bonds Allocation

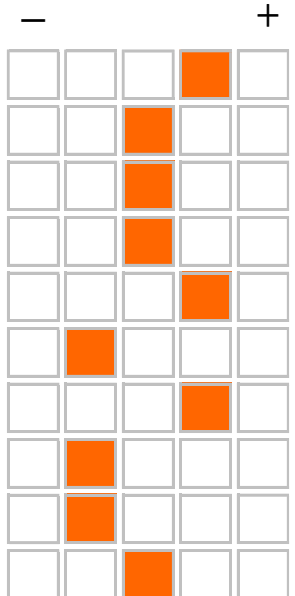


# Sector positioning :

■ 22/11/2022   
 ■ Previous allocation

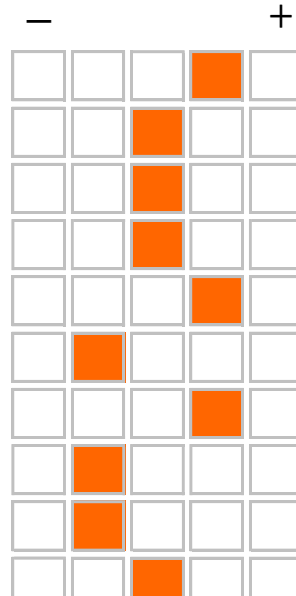
### Sector Allocation Europe

- Financials
- Information technology
- Communication services
- Durable consumer goods
- Healthcare
- Utilities
- Energy
- Materials
- Industrial goods
- Daily consumer goods



### Sector Allocation US

- Financials
- Information technology
- Communication services
- Durable consumer goods
- Healthcare
- Utilities
- Energy
- Materials
- Industrial goods
- Daily consumer goods



# Key takeaways

- A very mild recession may be the market's base case, but will “short & shallow” be the new “transitory”?
- TINA no more. Time to put cash to work and return to bond markets. Quality first.
- Equities to break their unusual correlation with rates before reaching a final bottom but we have already priced a lot of bad news
- Preference for defensives, low volatility, high dividend and value

# Q&A



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