Special Report

Q2 2023 Global Macro Report

August 2023

Contents

GLOBAL MACRO OUTLOOK

Global economic growth to slow and inflation to decline

There is a global slow down as the effect of rate hikes in the developed world becomes apparent

- According to July's World Economic Outlook, the IMF projects global growth to fall from an estimated 3.5% in 2022 to 3.0% in 2023 and remain the same in 2024. The organization expects inflation to decrease to 6.8% in 2023 and 5.2% in 2024.
- The global recovery is reeling, with growing disparities between economic regions and sectors. The increase in central banks' policy rates to tame inflation negatively impacts the economic growth.
- China's economic activity slowed with consumption faltering and sectors, such as real estate, struggling. Investors increasingly expect the Chinese government to provide a fiscal stimulus.
- Monetary tightening by major central banks is resulting in declining inflation levels.

Advanced economies expected to have subdued growth in 2023

- IMF estimates that advanced economies to face substantial growth slowdown in 2023, with overall growth falling from 2.7% in 2022 to 1.5% in 2023. About 93% of advanced economies are expected to record slow growth in 2023, whereas 1.4% growth is anticipated in 2024.
- Growth in the US will drop from 2.1% in 2022 to 1.8% in 2023, an upward revision of 0.2% from the April's IMF prediction.
- Euro area growth is expected to fall sharply from 3.5% in 2022 to 0.9% in 2023.
- Growth in the UK is estimated to fall from 4.1% in 2022 to 0.4% in 2023.
- Japan is an exception to the downward trend with growth expected to increase from 1.0% in 2022 to 1.4% in 2023.

Growth is projected to decline marginally in emerging and developing economies

- IMF expects emerging and developing economies to grow at 4.0% in 2023, the same as in 2022.
- China's economic growth expected to rise from 3.0% in 2022 to 5.2% in 2023 due to eased COVID-19 restrictions.
- Growth in India is expected to fall from 7.2% in 2022 to 6.1% in 2023.
- Russia's growth to increase from −2.1% in 2022 to 1.5% in 2023.
- Latin America and Caribbean is expected to expand 1.9% in 2023 from 3.9% in 2022. Brazil's growth anticipated to decline from 2.9% in 2022 to 2.1% in 2023.

Inflation easing since H2 2022, but remains above target levels

- IMF expects global inflation to slow. However, core inflation may decline slower.
- The risks to world economic growth remain high. Shocks, such as weather-related occurrences or an escalation in the Russia–Ukraine war, may cause inflation to increase, forcing policymakers to continue restrictive polices. Unresolved real estate issues could delay China's recovery, with detrimental cross-border ripple effects.
- Alternatively, domestic demand may prove resilient and inflation may decline quicker than anticipated, allowing a loose monetary policy.

Source: *International Monetary Fund*

GLOBAL MACRO OUTLOOK

2023 economic growth to be slower than that of 2022 for most economies

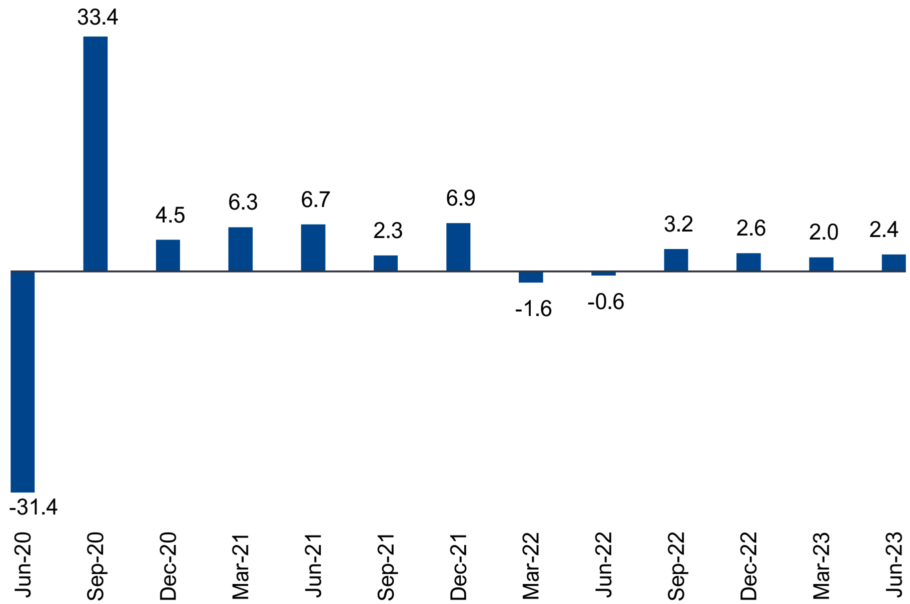
Country	GDP Growth (%)			Inflation (%)			Unemployment Rate (%)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
Brazil	5.00%	2.90%	2.10%	8.30%	9.28%	5.03%	13.20%	8.10%	8.40%
Canada	5.00%	3.40%	1.70%	3.40%	6.80%	3.90%	7.40%	5.10%	5.20%
China	8.40%	3.00%	5.20%	0.85%	1.88%	1.99%	5.10%	5.50%	5.20%
France	6.40%	2.50%	0.80%	2.07%	5.90%	5.05%	7.90%	7.20%	7.07%
Germany	2.60%	1.80%	-0.30%	3.21%	8.67%	6.19%	3.60%	5.50%	5.63%
India	9.10%	7.20%	6.10%	5.51%	6.67%	4.95%	7.90%	8.30%	7.70%
Japan	2.20%	1.00%	1.40%	-0.24%	2.50%	2.73%	2.80%	2.53%	2.60%
Russia	5.60%	-2.10%	1.50%	6.69%	13.77%	7.03%	4.80%	3.77%	3.53%
UK	7.60%	4.10%	0.40%	2.59%	9.07%	6.84%	4.50%	3.70%	3.80%
USA	5.90%	2.10%	1.80%	4.68%	7.99%	4.52%	5.40%	3.60%	3.57%

Source: *International Monetary Fund, Bloomberg*

GDP GROWTH

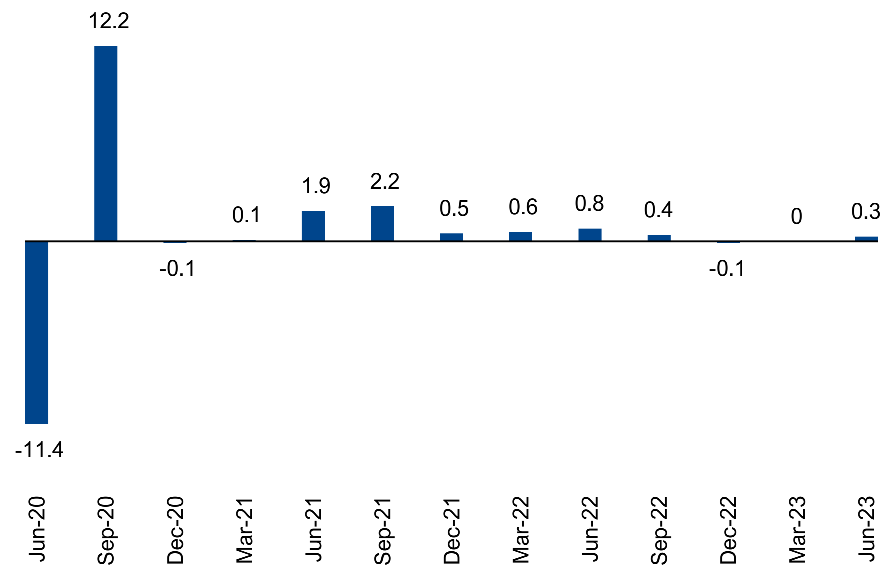
US and Eurozone economies proved resilient in Q2 2023

US GDP GROWTH (%)



- The US real GDP grew 2.4% y/y in Q2 2023, an increase from 2.0% y/y growth in Q1 2022. A surge in consumer spending, private inventory investment, federal, state, and local government spending, as well as non-residential fixed investment, were contributing factors to the real GDP growth. However, these increases were somewhat offset by declines in exports and residential fixed investment. Imports also reduced. Rising costs for goods and services resulted in increased consumer spending.

EURO AREA GDP GROWTH (%)



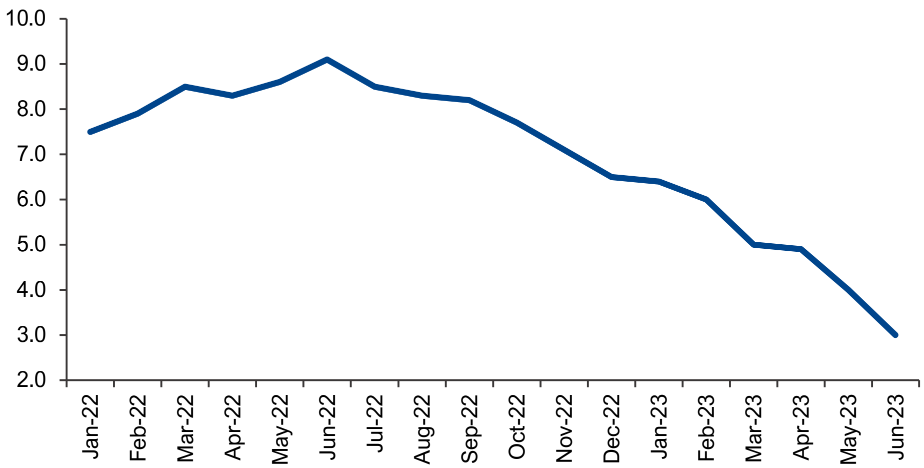
- In Q2 2023, the Euro area recorded a real GDP growth of 0.3%, compared to no growth in Q1 2023. The recovery was driven by high growth rates in France and Spain, while a stagnation in Germany offset the recovery, Euro area growth suffered due to consumer price inflation, primarily driven by rising energy and food prices. Additionally, the European Central Bank's (ECB) sharp rate of policy tightening contributed to the challenges faced by the region's growth.

***Source:** BEA, Eurostat*

INFLATION

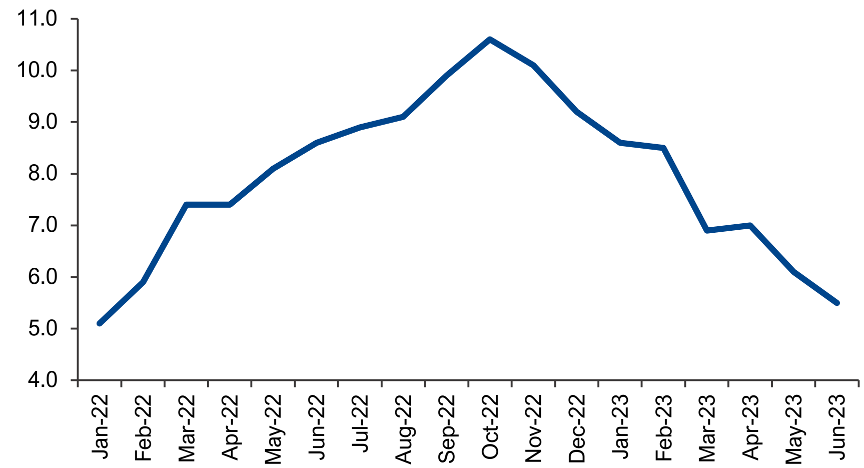
US and Eurozone inflation declined in Q2 2023

US INFLATION (%)



- Inflation in the US steadily declined in Q2 2023. On an annualized basis, CPI rate fell from 5.0% in March to 3.0% in June. The June reading is the lowest since March 2021. The US core consumer price inflation, which excludes volatile items such as food and energy, decelerated to 4.8% in June 2023, the lowest since October 2021. A slowdown in food and fuel prices, as well as the prices of used cars and trucks was the primary reason for the fall in inflation.

EURO AREA INFLATION (%)



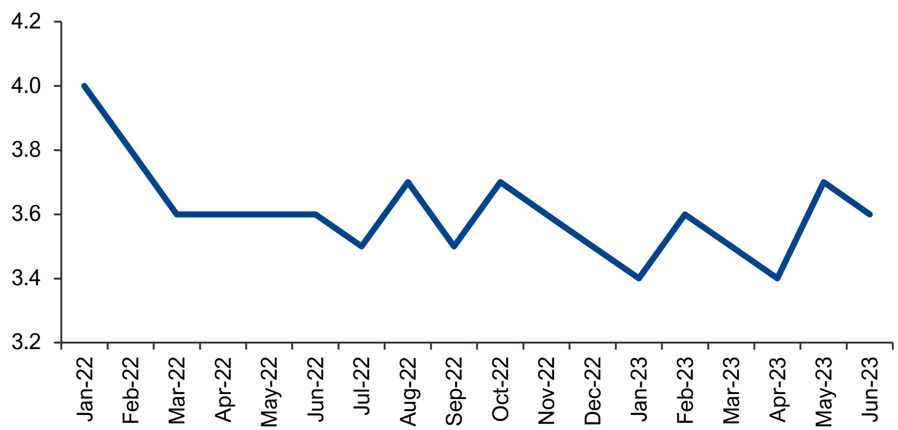
- Euro Area inflation is decreasing since October 2022. On an annualized basis, the inflation rate declined from 6.9% in March to 5.5% in June. This marks the lowest inflation reading since January 2022. However, the core inflation rate, remains high and rose to 5.4%, supporting the view that ECB policymakers are likely to raise rates in the upcoming months. Falling energy prices were a significant contributor to the decline in headline inflation.

Source: *U.S. Bureau of Labor Statistics, Eurostat, Bloomberg*

UNEMPLOYMENT

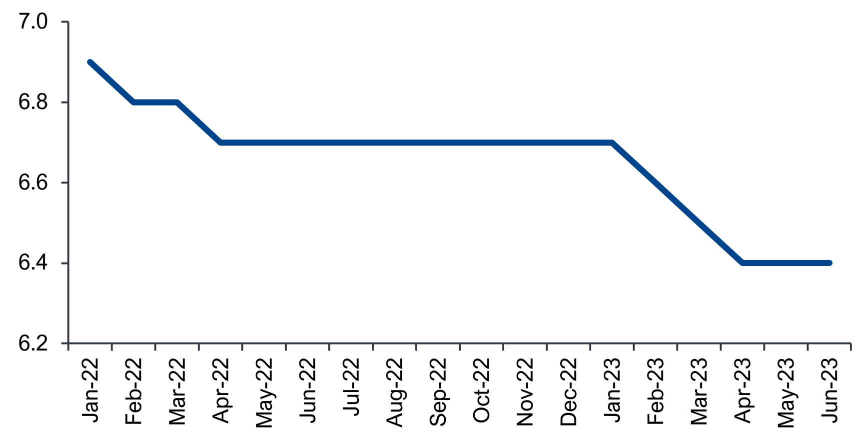
Euro area unemployment hits record low

US UNEMPLOYMENT (%)



- The US unemployment rate rose to 3.6% in June from 3.5% in March. Despite the significant increase in interest rates, the unemployment remained largely steady since March 2022, indicating the strength of the US labor market. In June, the number of unemployed persons declined by 140,000 to 5.96 million and the number of employed people rose by 273,000 to 160.99 million. The labor force participation was 62.6%. The average hourly wage for all employees on private nonfarm payrolls increased 0.4% to USD 33.6.

EURO AREA UNEMPLOYMENT (%)



- Euro area's unemployment rate declined in Q2 2023 to a record low of 6.4% in June from 6.6% in March. Despite the weakness in the region's economy, the labor market remained strong as indicated by declining unemployment. The number of unemployed declined to 11 million, which is the lowest unemployment in Euro area since 1995, when the records began.

Source: *U.S. Bureau of Labor Statistics, Eurostat, Bloomberg*

MANUFACTURING PMI

Manufacturing output contracts in June

Country	2022												2023					
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Global	53.2	53.7	53.0	52.3	52.4	52.2	51.1	50.3	49.8	49.4	48.8	48.7	49.1	49.9	49.6	49.6	49.6	48.8
Brazil	47.8	49.6	52.3	51.8	54.2	54.1	54.0	51.9	51.1	50.8	44.3	44.2	47.5	49.2	47.0	44.3	47.1	46.6
Canada	56.2	56.6	58.9	56.2	56.8	54.6	52.5	48.7	49.8	48.8	49.6	49.2	51.0	52.4	48.6	50.2	49.0	48.8
China	50.1	50.2	49.5	47.4	49.6	50.2	49.0	49.4	50.1	49.2	48.0	47.0	50.1	52.6	51.9	49.2	48.8	49.0
Eurozone	58.7	58.2	56.5	55.5	54.6	52.1	49.8	49.6	48.4	46.4	47.1	47.8	48.8	48.5	47.3	45.8	44.8	43.4
Germany	59.8	58.4	56.9	54.6	54.8	52.0	49.3	49.1	47.8	45.1	46.2	47.1	47.3	46.3	44.7	44.5	43.2	40.6
India	54.0	54.9	54.0	54.7	54.6	53.9	56.4	56.2	55.1	55.3	55.7	57.8	55.4	55.3	56.4	57.2	58.7	57.8
Japan	55.4	52.7	54.1	53.5	53.3	52.7	52.1	51.5	50.8	50.7	49.0	48.9	48.9	47.7	49.2	49.5	50.6	49.8
Russia	51.8	48.6	44.1	48.2	50.8	50.9	50.3	51.7	52.0	50.7	53.2	53.0	52.6	53.6	53.2	52.6	53.5	52.6
UK	57.3	58.0	55.2	55.8	54.6	52.8	52.1	47.3	48.4	46.2	46.5	45.3	47.0	49.3	47.9	47.8	47.1	46.5
USA	57.6	58.4	57.0	55.9	56.1	53.1	52.7	52.9	51.0	50.0	49.0	48.4	47.4	47.7	46.3	47.1	46.9	46.0

Source: *Bloomberg*

ASSET CLASSES PERFORMANCES

Equities provide strong returns; bond performance moderates; gold declines

Equity markets – Despite a good start slow growth could weigh on global equities in the second half of the year

- In Q2 2023, the rally in global equities was primarily due to substantial returns in the US. Most large cap tech stocks rallied, buoyed by the AI theme, which contributed to the considerable returns of the US and global indices.
- The banking turmoil, which started in March with the fall of Silicon Valley Bank, was controlled through government guarantees and liquidity support by the US Federal Reserve (Fed).
- China's recovery slowed, leading to sluggish Chinese equity performance. China, which forms the largest component of the MSCI Emerging Markets (EM) index, was also largely responsible for the EM equity underperformance.
- Equity valuations face the risk of further earnings downgrades as the economy slows.

Investment grade bonds poised for a rebound, whereas high-yield bonds may face headwinds

- Bonds performance slowed compared to Q1 2023, as the widely expected moderation in Fed policy failed to materialized. This factor has also postponed a bond rally further into the future.
- Bonds are well positioned with high yields providing good entry points limited downside. Additionally, the possibility of rate cuts may help returns as yields decline. We expect IG bonds to provide investors attractive returns.
- Credit spreads are likely to widen in 2023 as recession/slowdown risk increases, with rating downgrades and debt defaults. Additionally, high-yield bond spreads are below their average historical levels, which provides an unfavorable risk–reward and may increase downside risk.

Currency markets – Dollar faces downside pressures and narrowing rates differentials; will drive DM currencies to increase

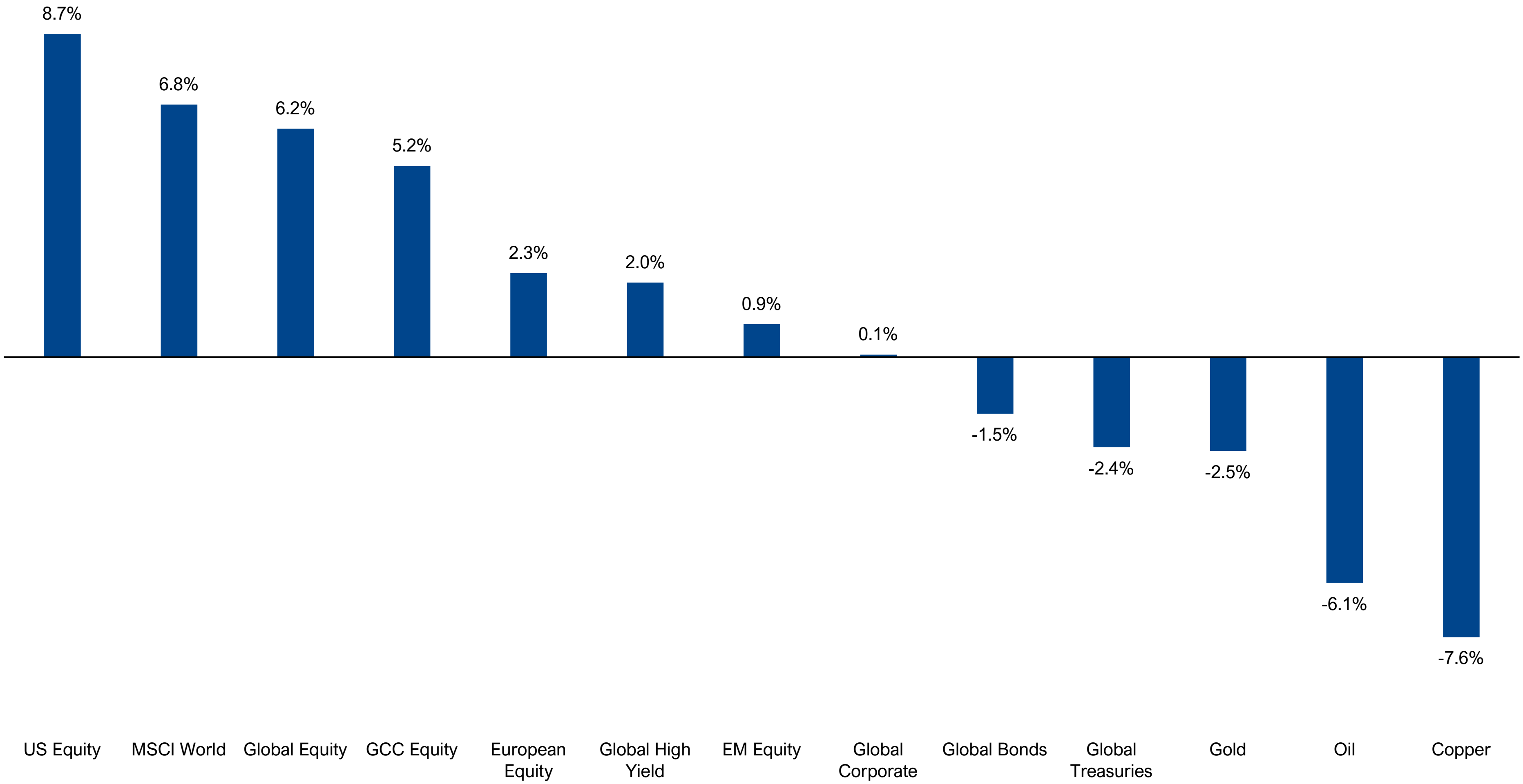
- The US dollar index rose in Q2 2023 owing to the continuation of the hawkish Fed monetary policy.
- The Euro and GBP strengthened against the USD as the ECB and Bank of England (BOE) were expected increase rates to control high inflation. The inflation problem is especially pronounced in the UK as high inflation is worsening into a wage-price spiral, which may mean the BOE may have to make more rate hikes.
- Major EM currencies showed a mixed performance. The TRY weakened due to lack of investor confidence in the policies of the re-elected Turkish President. The Russia–Ukraine war continues to weaken the Ruble.

Commodities – Heavily influenced by global economic growth and geopolitical factors

- Crude oil prices fell in Q2 2023, as market participants grappled with concerns of oversupply, driven by expected low demand due to the combined effect of a slowdown in western countries and a patchy recovery in China.
- The global economy's slowdown in 2023 is expected to exert downward pressures on energy prices, resulting in reduced demand.
- Precious metals, such as gold and silver, declined as the Fed's hawkish stance continued.
- Global demand slowdown is likely to impact base metal prices negatively in 2023, as reduced economic activity results in reduced demand.

ASSET CLASS RETURNS IN Q2 2023

Most asset classes generated positive returns in Q2 2023

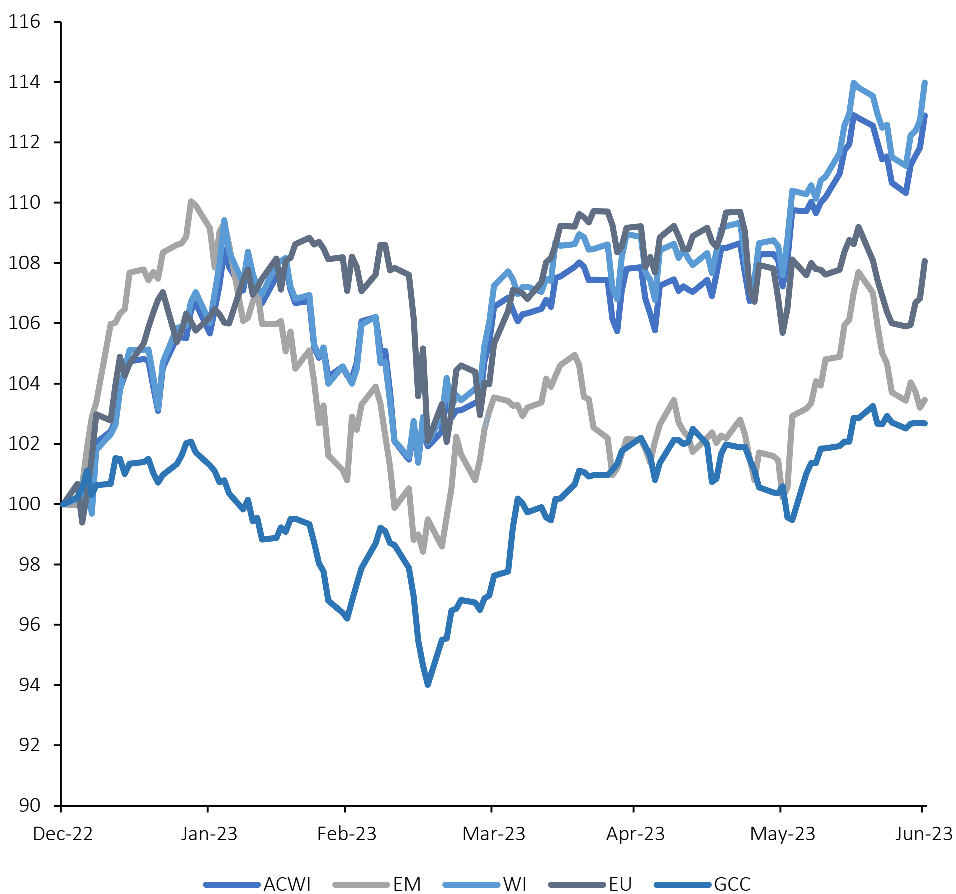


Source: *Bloomberg, Reuters*

EQUITY MARKETS

Global equity markets rose in Q2 2023

Global Equity Indices (Rebased)



Source: *Reuters*

- 2022 was a challenging year for global equities amidst geopolitical tensions, high inflation, tightening monetary policy, and ultimately earnings risks that look unavoidable as the economy slows.

- Following the sharp fall in global equity in 2022, equities recovered in the first half of 2023. Developed market equities delivered 14% gains H1 2023 and 6% in Q2 2023, amidst moderating inflation and peaking interest rates, receding worries of further turmoil in banking sector, and stronger than expected economic data releases.

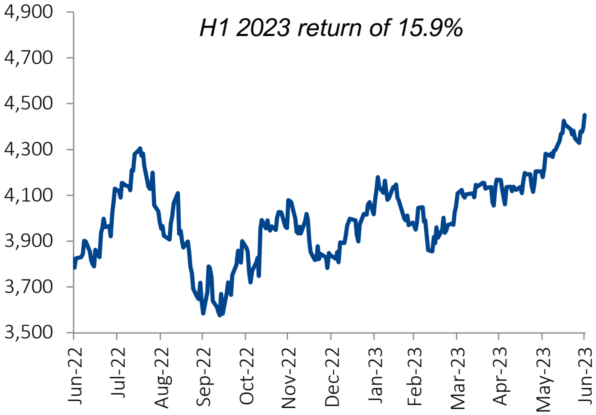
- Emerging markets (EM) equities recorded a modest rise during the first half of 2023, lagging those of developed markets. MSCI EM rose 4% in H1 2023 and delivered a negative performance in the Q2 2023. EM underperformance was influenced by tension between the US and China as well as worries over China's weak economic recovery. The US debt ceiling uncertainty added to the negative mood, although this was resolved in early June.

- GCC equities also recorded positive returns, due to rising crude oil prices and as the US debt ceiling negotiations concluded in early June.

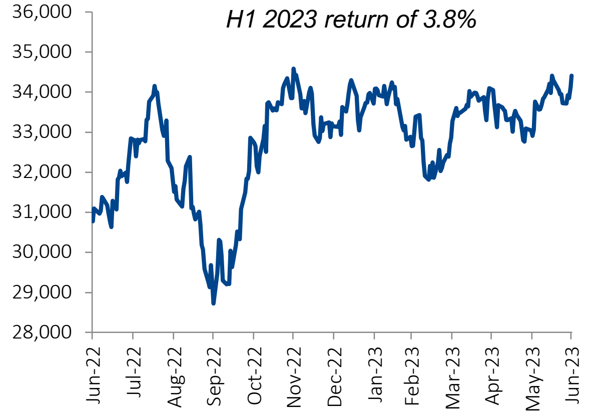
EQUITY MARKETS

DM equities recorded strong performance

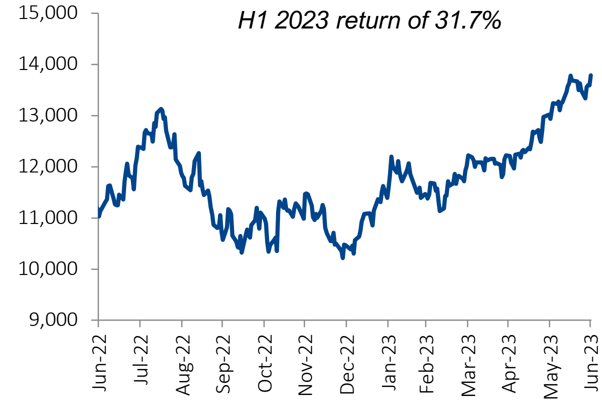
S&P 500



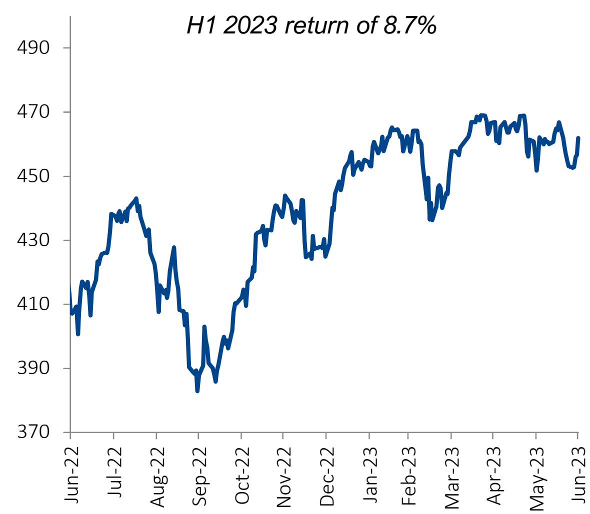
DOW JONES



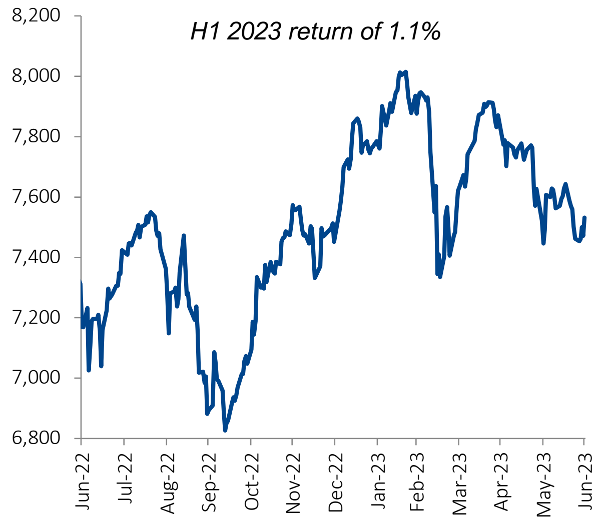
NASDAQ



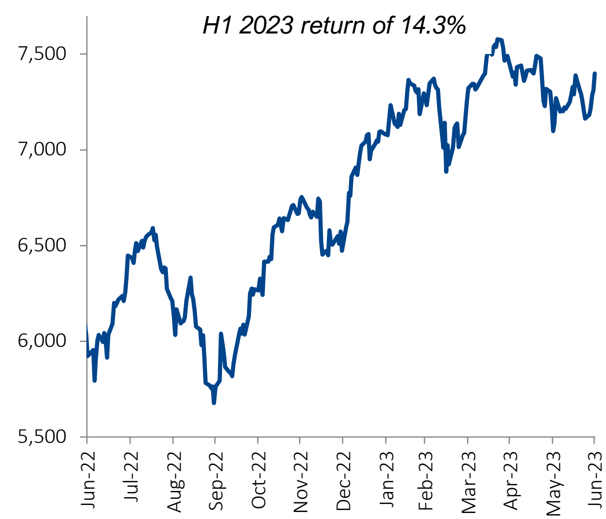
EURO STOXX



FTSE 100



CAC 40

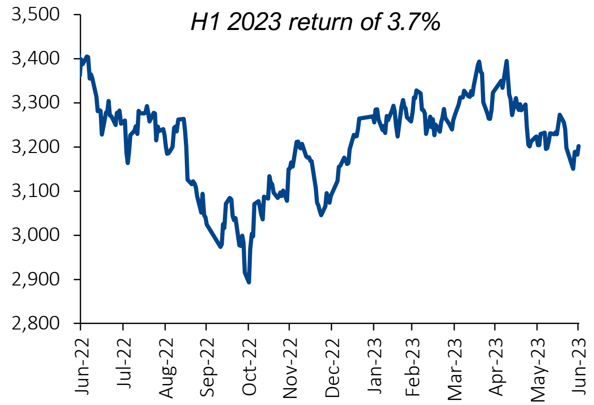


Source: *Reuters*

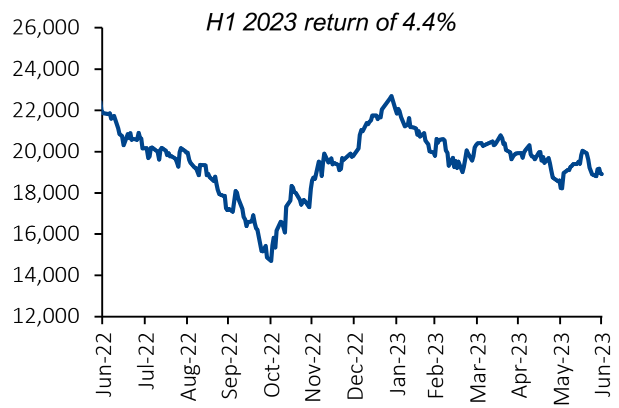
EQUITY MARKETS

EM markets gave positive returns in H1 2023

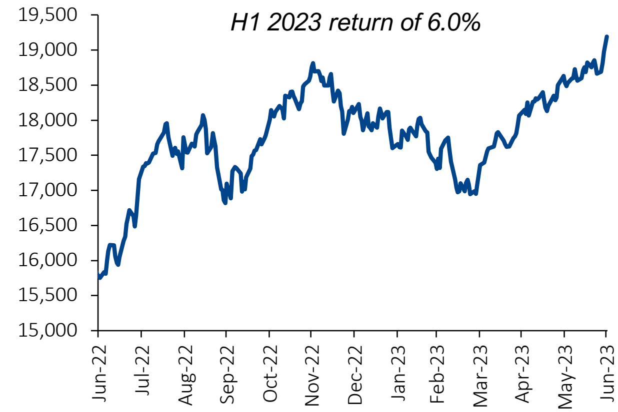
SSE COMPOSITE INDEX



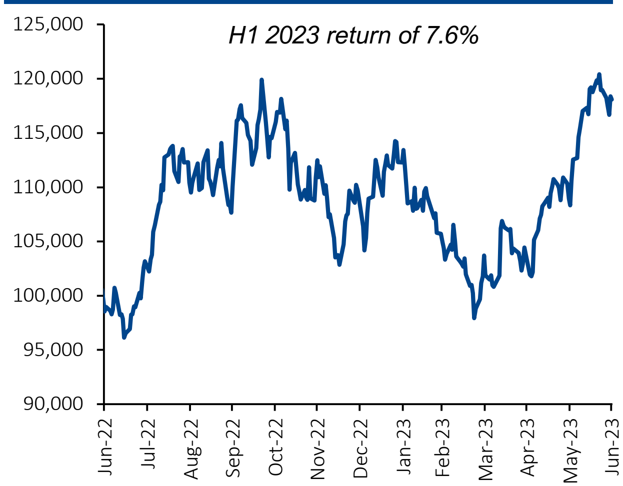
HANG SENG



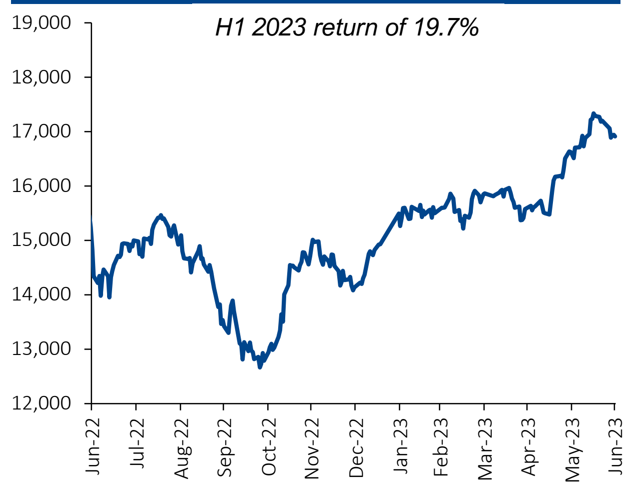
NIFTY 50



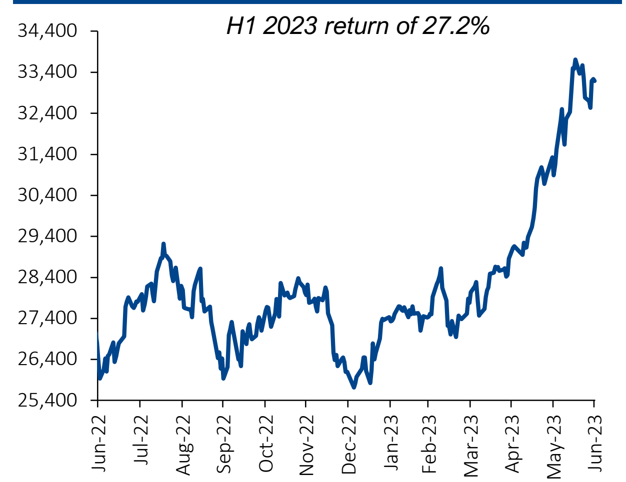
BRAZIL - IBOVESPA



TAIWAN– TAIEX



NIKKEI 225

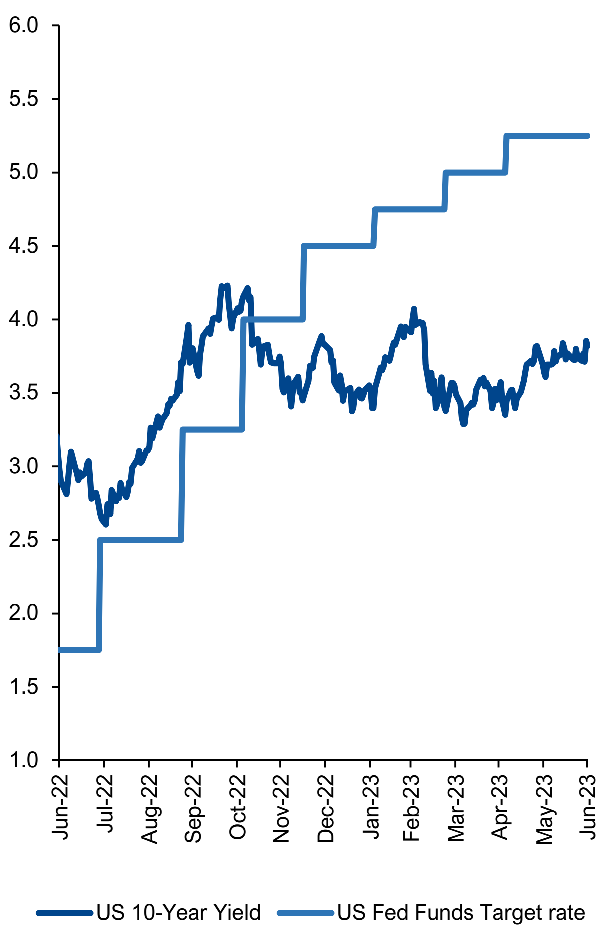


Source: *Reuters*

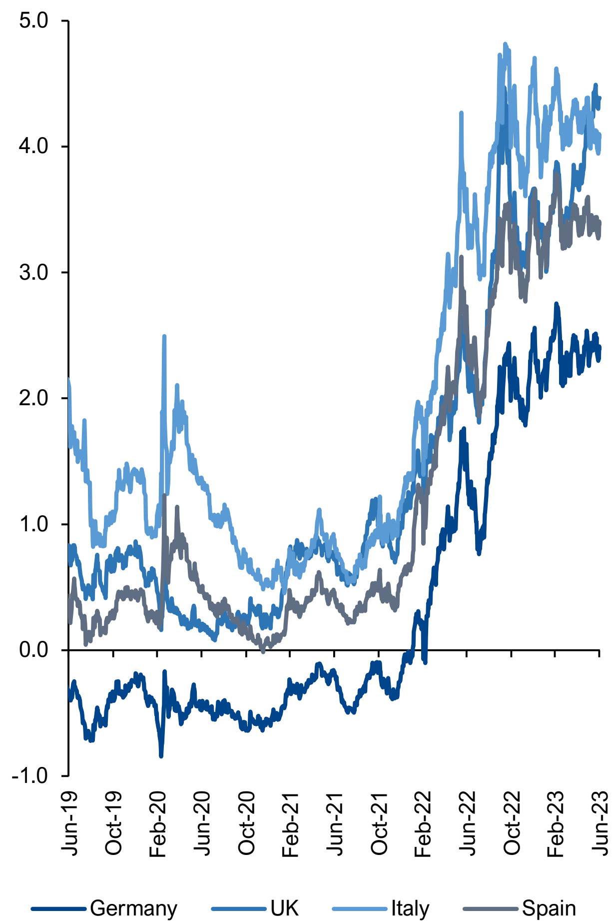
BOND MARKETS

Treasury yields rose in Q2 2023

10-year Treasury Yield vs Policy Rate



10-year European Bond Yields



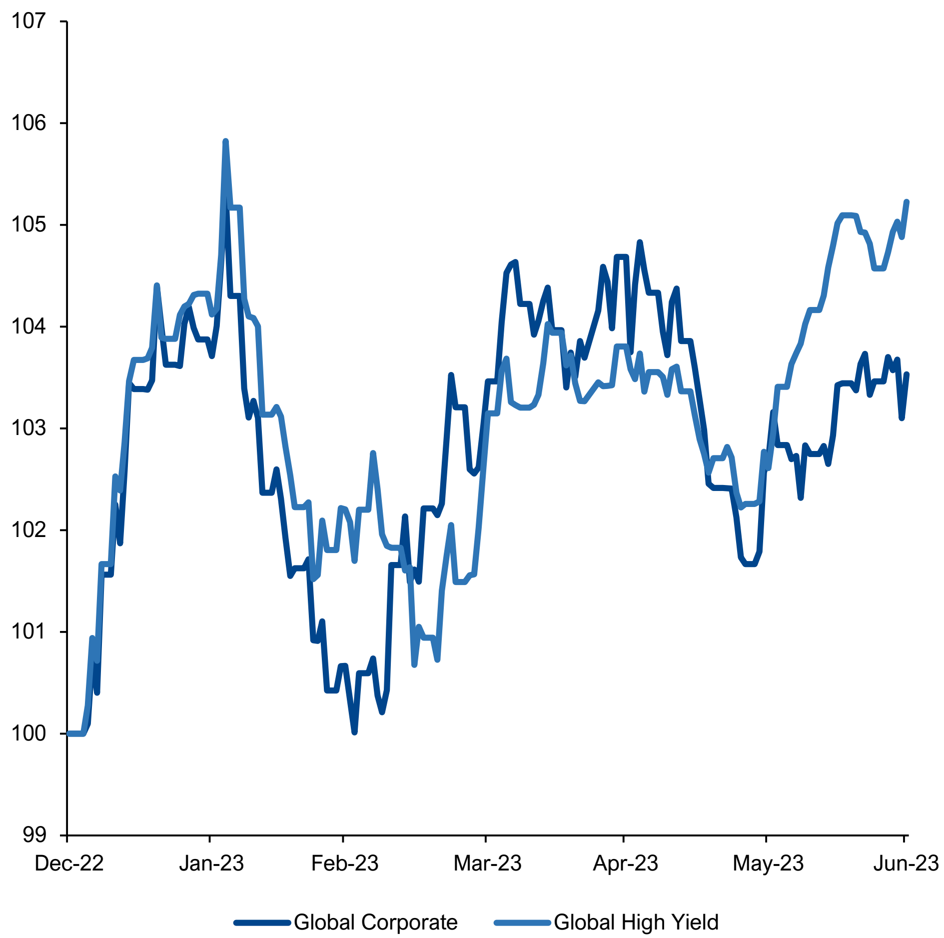
- US Treasury yields rose in Q2 2023, as resilient economic activity, elevated inflation fueled expectations of further rate hikes from the central banks.
- In its June meeting, the Federal Open Market Committee (FOMC) decided to keep interest rates unchanged. This decision was a temporary pause as investors expect the Fed to increase rates at least once before stopping.
- The 10-year UST yield rose 38bps during the quarter to 3.8% on June 30, 2023. The 10-year and 2-year spread continued its inversion, 2-year yield rose to 4.87% at the end of June 2023, 105bps higher than 10-year yield.
- European yields also rose as ECB and the Fed policies diverged and the ECB hiked rates by 25bps to 3.5%. Yields demonstrated volatility, given the anticipation of a shift in interest rate expectations from the ECB.

Source: *Bloomberg, Reuters*

BOND MARKETS

Corporate bond indices gave positive returns in Q2 2023

Global Corporate Bond Indices (Rebased)



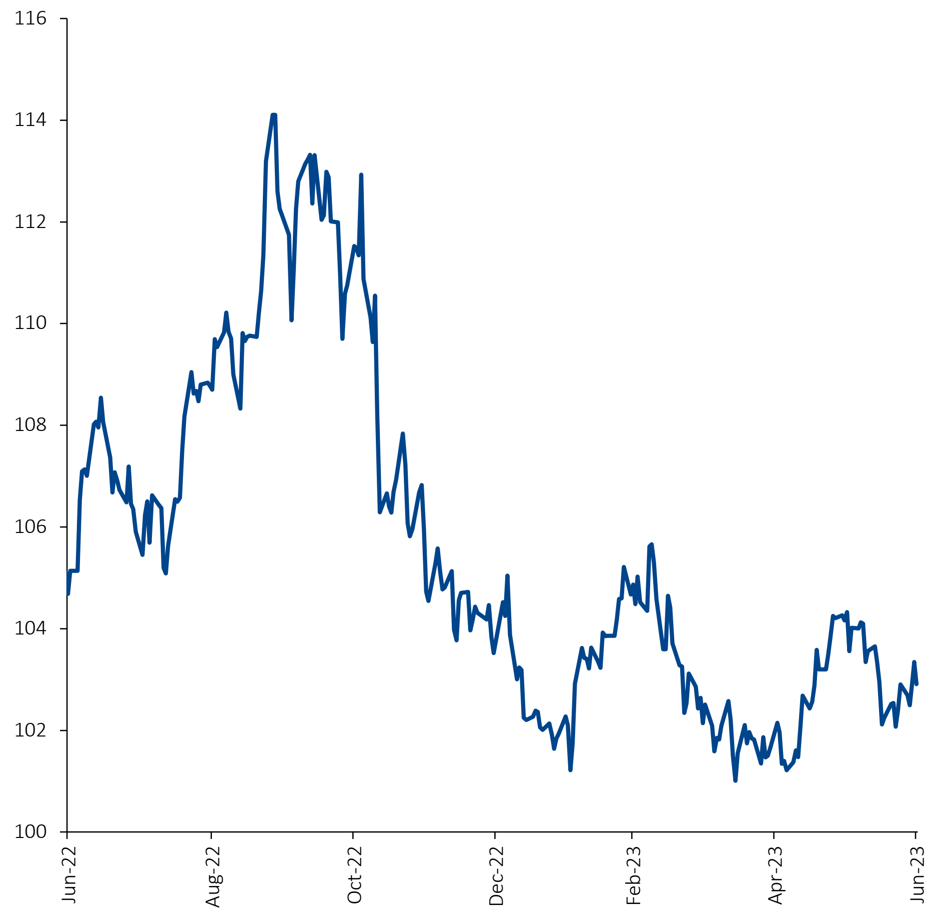
Source: *Bloomberg, Reuters*

- Corporate bond indices gave positive returns during the quarter and the year. The Bloomberg Global Aggregate Corporate Bond Index rose 0.1% during the quarter and 3.5% in H1 2023.
- High-yield bonds, as represented by the Bloomberg Global Aggregate High-Yield Index, outperformed corporate bonds during the quarter and year, with the index rising 2% QoQ and 5.2% in H1 2023.
- Investment grade corporate bonds are well positioned to take advantage of peaking and eventually, reducing rates. Additionally, investors can currently benefit from the available high yields.
- High-yield bonds, however, may have an unfavorable risk–reward with the possibility of spreads increasing significantly as the economy slows and companies facing earnings downgrades.

CURRENCIES

USD strengthened amid a hawkish Fed

DXY Index



Source: *Bloomberg*

- After rapid appreciation in 2022, the US dollar remained relatively flat in H1 2023. This stability came as markets started pricing in an end to the Federal Reserve's hiking cycle, which had previously contributed to the dollar's gains. Additionally, investors began to expect that other G10 central banks had room to increase interest rates. These expectations influenced market sentiment and contributed to the US dollar's steadier performance during H1 2023.

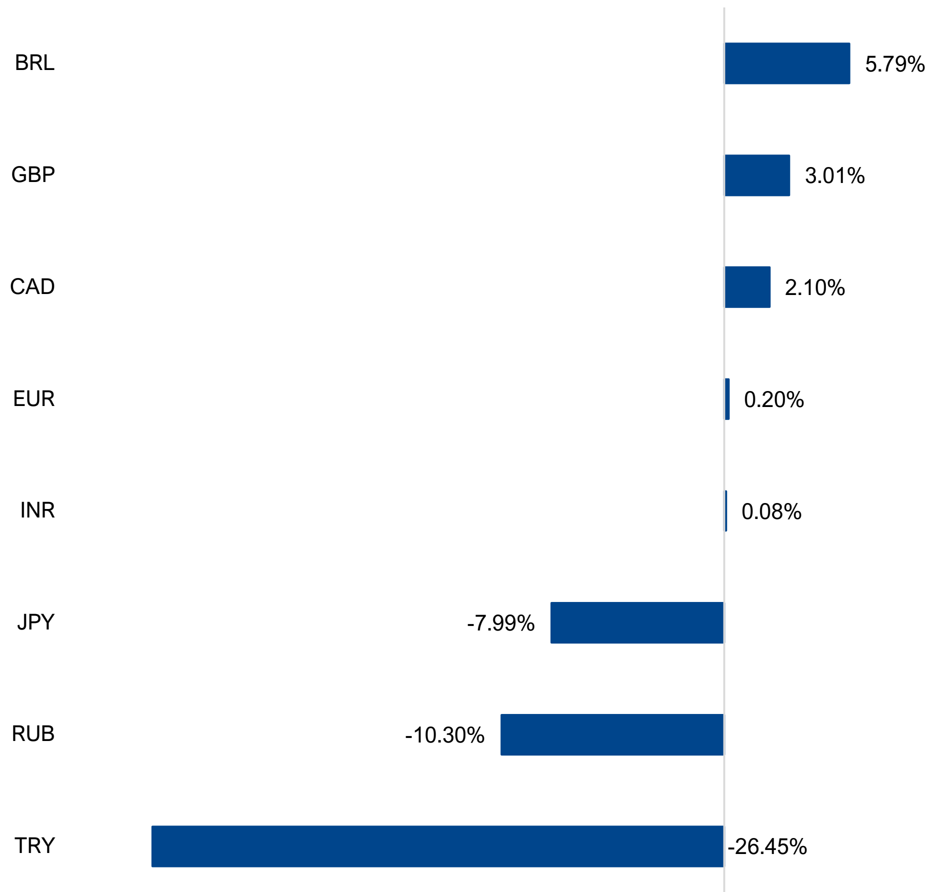
- The combination of strong GDP growth and a tight labor market indicates that the US economy is effectively managing high borrowing rates. This successful coping mechanism alleviates concerns about an imminent recession and prevents the dollar from weakening.

- Concerns over global recession and demand for safe-haven assets may provide some support to the USD, marginally offsetting the impending weakness in the currency.

CURRENCIES

Euro, GBP appreciated in Q2 2023

Currencies Performance in Q2 2023



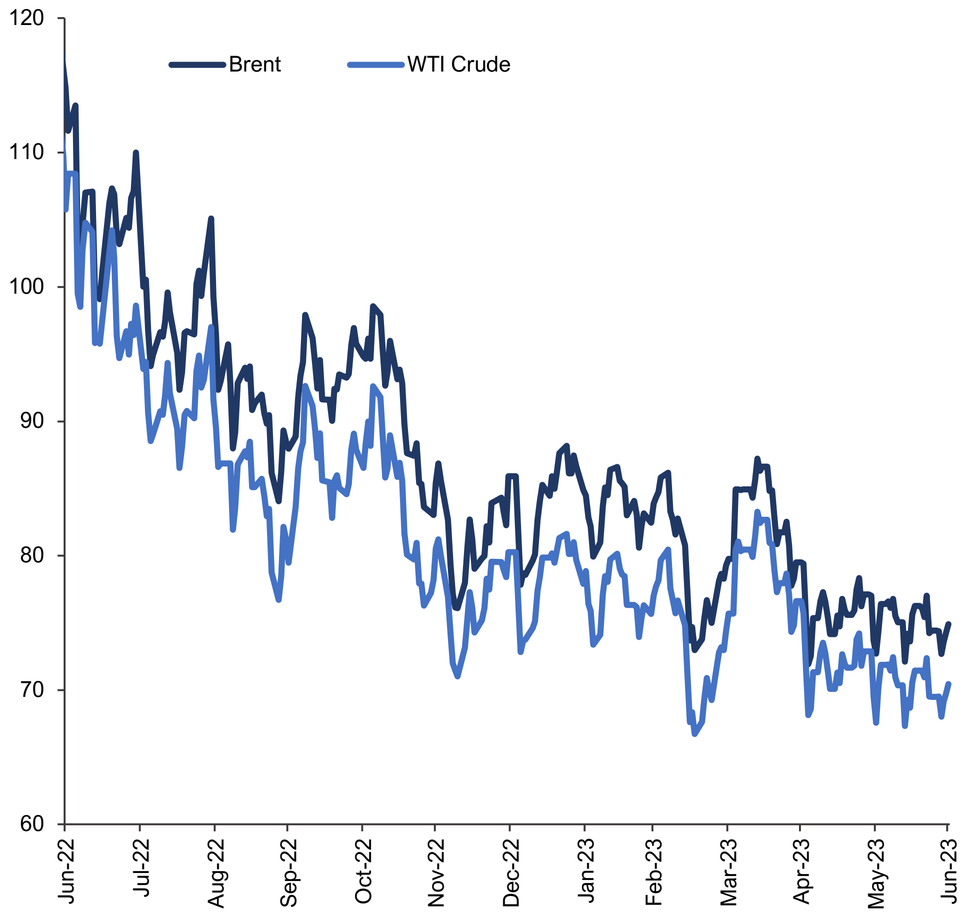
- The EUR and GBP strengthen against USD in Q2 2023. The appreciation of the EUR was driven by market expectations of the ECB continuing to implement rate hikes in July and beyond. The GBP's appreciation was triggered by increased expectations of a hawkish policy stance by the BOE.
- The Japanese Yen (JPY) depreciated against the USD in Q2 2023. The weakening of the JPY could be attributed to the loose monetary policy followed by the Bank of Japan (BOJ).
- The Turkish Lira (TRY) depreciated in Q2 2023, due to the inadequate monetary policy of the Turkish central bank to control high inflation as well as its lack of independence.
- The Ruble (RUB) weakened amid political volatility, stalling Russian exports followed by a rising fiscal deficit.

Source: *Bloomberg*

COMMODITIES – CRUDE OIL

Crude oil prices declined in Q2 2023 amidst slowing global economic activity

Oil Prices (USD per barrel)



Source: *Bloomberg*

- Brent and WTI Crude prices declined 6.1% and 6.9%, respectively, in Q2 2023. The decline could be attributed to oversupply concerns amidst a global economy slowdown and continuing draw down from the Strategic Petroleum Reserve by the US government.
- The hawkish monetary outlook by central banks raised concerns about a potential recession, leading to worries about reduced oil demand.
- A strong recovery in China was expected to offset the decline in demand from western countries, thereby supporting prices. However, the sluggish recovery reduced the probability of this scenario, causing prices to dampen.
- Production cuts from OPEC+ helped in supporting oil prices.

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COMMODITIES – PRECIOUS METALS

Precious Metals declined in Q2 2023 due to a hawkish Fed

Gold and Silver (USD per ounce)

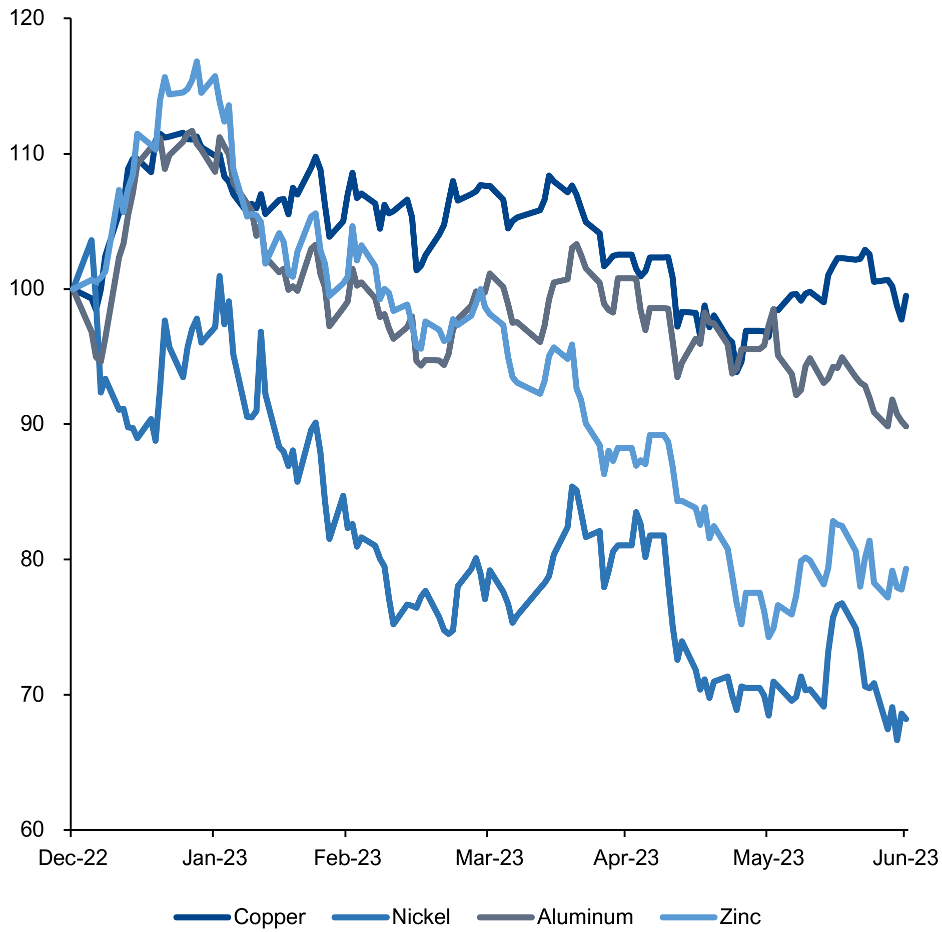
Source: *Bloomberg*

- After a stellar run in Q1 2023, gold price declined 2.5% in Q2, falling 2.5%. The commodity's performance could be attributed to the expectations of a more hawkish monetary Fed policy as the Fed continues increasing rates amidst a resilient US economy.
- The US 10-year TIPS yield rose from 1.2% in March to 1.6% in June, contributing to the decline in gold price.
- Silver price declined 5.0% during the quarter, underperforming gold.
- Concerns over global recession and demand for safe-haven assets may provide upside to precious metal prices but hawkish central banks and continued rate hikes are a major downside risks.

COMMODITIES – BASE METALS

Negative performance in Q2 2023; dim prospects for 2023

Base Metal Prices



Source: *Bloomberg*

- Base metals prices decreased in Q2 2023 with zinc price declining the most and copper price the least. Prices also reduced on H1 2023 basis with copper price declining the least and nickel price declining the most.
- In Q2 2023, copper price dipped by 7.6%, followed by aluminum, which fell 11.2%, followed by nickel, declining 13.9%. Zinc price decreased the most by 19.2%
- Copper and aluminum prices are said to be the gauge of economic activity and growth. However, as high interest rates take effect and the global economy slows, demand for base metals may decrease and prices may decline.

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