ECONOMIC RESEARCH | 5 July 2022

Investments - Flash

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RECESSION FEARS JUMP

Fixed income markets also anticipate a decline in inflation

The release of the Atlanta Fed's GDPNow indicator surprisingly indicated a sharp drop in a few days in the US GDP from +0.72% on June 28 to -2.07% on July 1st. The U.S. economy would therefore have already entered a recession by June 30, according to this indicator, thus upsetting current expectations of an economic slowdown, which rather envisage a risk of recession later in the year. The Citi Economic Surprise Indicator also continues to decline, returning to levels reached in April 2020, while the July 1st ISM indicators underscore the same trend of serious economic softening. In this uncertain environment, the interest rate markets already seem to be more concerned about recession fears than about inflationary risks, which were considered the main threat only a few days ago. The publication of the CPI YOY of +8.6% on June 10 had indeed caused an exceptional rise in 10-year U.S. Treasury rates from 2.98% to 3.49% in three days and pushed the Federal Reserve to raise its key rates by 0.75%, also causing a drop of about -10% in equity markets.

Today, the return of ten-year rates below 3% (2.88%) is a sign that inflation is no longer as much on the agenda in the likely context of a global economy already in sharp decline. The 5-year breakeven inflation rate (USA) continued to fall, while energy prices also seemed to have entered a phase of adjustment to the less robust economic conditions, suggesting that inflationary pressures will soon diminish.

The Fed will have to quickly reassess its policy in light of these two forces at its next meeting in July. The financial markets, which are already anticipating a rate cut in early 2023, will remain attentive to these expected adjustments.