

WEEKLY ANALYSIS

M. Alain Freymond—Partner & CIO



POSITIVE OUTLOOK FOR US ASSETS IN 2023

GDP decline in Q1 2023. Deterioration of leading indicators. Recession inevitable in H2 2023? Consumption slows down. Inflation under control? End of monetary tightening looms. Weakening of the dollar. Opportunities in capital markets. Positive outlook for equities.

Key points



- Strong Q3 GDP before a year-end dip
- Is recession inevitable in 2023?
- Slowdown and moderate recession in H2
- Leading indicators deteriorate further
- Inevitable slowdown in consumption
- The end of monetary tightening is in sight
- Is inflation finally under control?
- Opportunities in the capital markets
- Dollar set to weaken
- Positive outlook for equities in 2023

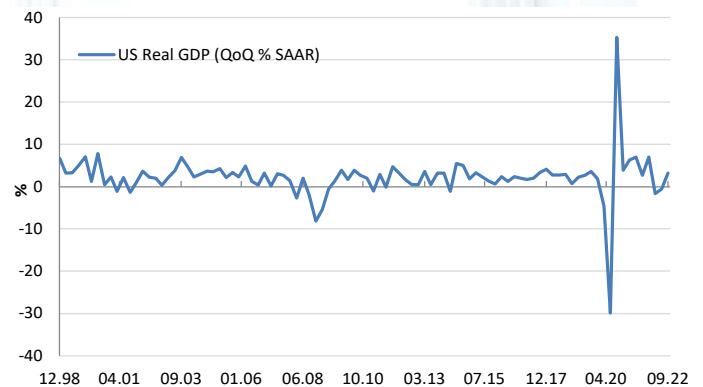
Strong Q3 GDP before a year-end dip

With a few days to go before the end of the year, the US economy seems to have experienced a technical recession between Q1 (-1.6%) and Q2 (-0.9%), but it could well end the year on a very positive note. Real growth in Q3 of +3.2% turned out to be stronger than initially expected (+2.9%), mainly due to a better performance of consumption and investment spending. Despite inflationary developments and interest rate hikes, personal consumption proved resilient, rising by +2.3% thanks to services. The state of the labour market remained strong in Q3 despite a rising Personal Consumption Expenditures (PCE) index up +4.7%. This development is, however, relatively consistent with our economic activity at the end of September, although it is expected to weaken in the final quarter. The outlook for GDP growth in Q4 has been revised and now suggests a further increase in the US economy of around +1%. If this forecast is confirmed, the US could finally enjoy growth of almost +2% for the year 2022 as a whole. This result will be enough to satisfy the Federal Reserve, which believed that the strength of the economy would easily allow it to support the monetary tightening implemented by the central bank in 2022.

While technically the US did enter a recession in the first half of the year, the debate on whether or not a recession will emerge in 2022 is likely to be concluded by experts on a different conclusion.

Since the start of the monetary tightening in March 2022, fears of a hard landing have hung like a sword of Damocles over investor sentiment at almost every turn. However, it has to be said that these risks are still far from being confirmed by the available economic data. The soft landing of the economy, which was our main scenario for 2022 and the beginning of 2023, seems to be the order of the day.

Quarterly GDP growth - United States



Sources: Bloomberg, BBGI Group SA

Is recession inevitable in 2023?

The Fed's monetary tightening in 2022 was one of the fastest and most aggressive in history. Could such a massive increase in policy rates not have a significant impact, even if delayed, on the economy?

We saw in 2022 that rising inflation had caused a massive adjustment in bond yields and yield curves in anticipation of a likely tightening of monetary policies. A sharper rise in yields on the short end of the yield curves fairly quickly triggered yield curve inversions that are generally synonymous with future recessions.