BBGI GROUP Global Investments

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Investments - Flash

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AND IF A US RECESSION WAS ONCE AGAIN ON THE CARDS?

A new environment conducive to lengthening durations

Over the past few quarters, we have witnessed several changes in economic scenarios, which have greatly increased bond market volatility. After fearing further rate hikes up to October 2023, the last quarter saw the opposite extreme scenario, with optimism betting on six key rate cuts in 2024. The last few months have seen yet another major change in the scenario, with the Fed now envisaging only one cut in December, due to the resilience of the economy and inflation.

However, a number of recent developments are worth considering, which could once again completely reshuffle the deck. Growth in Q1 came in well below expectations, a weakness that perhaps seems to be confirmed by the very recent rise in jobless claims and the decline in job creation. Wage growth is following a similar trend, while the latest ISM (Institute for Supply Management) leading indicators show that the services segment is losing momentum to an alarming degree, slipping below 50, as was already the case for the manufacturing index. The fall in consumer credit also raises fears of a potential drop in private demand, and contributes to the resurgence of worries about a less positive trend in US growth. The scenario of cyclical weakness is now reinforced by these factors, which may even resurrect fears of recession. A weaker services sector could contribute to a downward revival in inflation, which would once again upset the prospects for Fed rate cuts and bond yield adjustments. This environment is conducive to the lengthening of USD bond maturities.