

United States: Expectations of recession are premature

The United States has not escaped the deteriorating economic outlook of recent months. With the economy suffering a general rise in inflationary pressures and an strong evidence of an overheated labour market, the Federal Reserve has embarked on a rapid cycle of monetary tightening. Rates are set to rise at least 200bp between March and September. This policy has already translated into an significant tightening of financial conditions, which will dampen the growth dynamic. A proof of this tightening is housing financing, with mortgage rates reaching their highest since 2013. Jerome Powell's latest comments provided further confirmation that the Fed is targeting more restrictive financing conditions and would be willing to impose "some pain" on the economy and on financial markets to achieve its goal of bringing down inflation. On this basis, financial markets have begun to price in a sharp economic slowdown, with a major correction to equities and fall in sovereign yields over recent week.

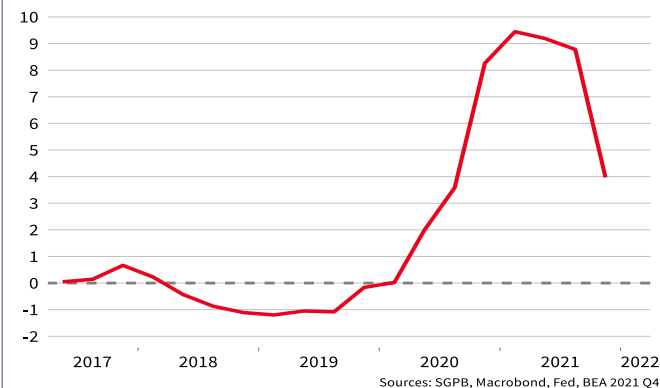
We, however, think the US economy should continue to grow for the next few quarters. First, households are still sitting on surplus savings built up in 2020 and 2021 (liquid savings amount to around 12 points of GDP) and this should sustain consumption despite some erosion of purchasing power by inflation (Chart 1). The decline in household indebtedness and low debt service ratios should also help families cope with less accommodative financing conditions. Second, the job market remains strong (Chart 2). Employment is back to pre-Covid levels, including in the services sector. The labour participation rate continues to improve and vacancies are still plentiful. Such a buoyant jobs market should allow consumption to remain dynamic and hence also growth in 2022. Third, the economy continues to benefit from its post-Covid bounce, with a substantial growth spurt already under its belt and consumption patterns continuing to rebalance from goods to services. The end of pandemic restrictions should continue to support the recovery by service sectors – which make up 65% of consumption and 40% of GDP – and hence sustain economic growth.

Turning to 2023, however, the outlook is riskier, particularly if inflation fails to move back toward target quickly enough. In this case, which for the moment remains a stress scenario, the Fed would more than likely keep hiking rates to take financing conditions into more restrictive territory in order to tame domestic demand. With fiscal policy also set to be more restrictive and the fading of the post-Covid bounce, this could actually translate into a contraction of the US economy.



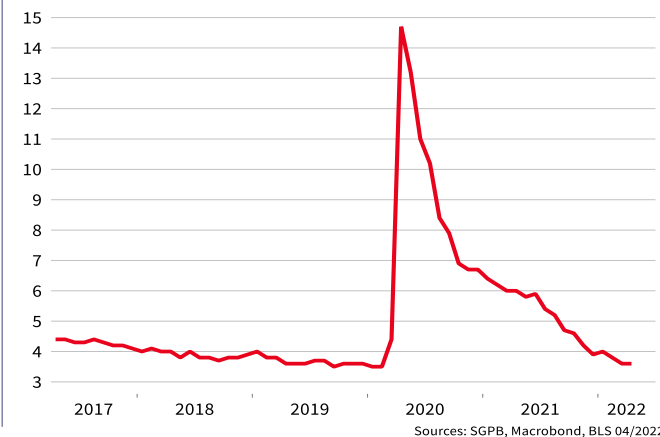
U.S. households have accumulated a large savings surplus during the pandemic

United States: variation of households' bank deposits
Change over 1 year, percentage points of GDP



In the United States, the labour market has returned to its pre-crisis level and robustness

United States: unemployment rate, in %



Past performance should not be seen as a guarantee of future returns.

All data taken from Bloomberg, Macrobond, (25/05/2022). In accordance with the applicable regulation, we inform the reader that this material is qualified as a marketing document. CA012/H1/2021

OUR MACRO COMMENTS

Events of the week



In Davos for the World Economic Forum, the Governor of the Bank of France, François Villeroy de Galhau, suggested that two rate hikes were to be expected by the third quarter in the Euro area: a rise in July and a rise in September. This confirms Christine Lagarde's statement on Monday that the era of negative rates should be over by the end of September.



The Nasdaq composite, the stock index of US technology companies, continues to fall this week after this Monday's release of the Snap Group's results. The downward revision of the Snapchat network's parent company's expected profits has caused the group to lose 40% of its market valuation and has also led in its wake other big names of the US tech sector.

Figures of the week



- S&P Global Composite PMI (preliminary, May)
- Durable goods order (monthly variation, April)



- S&P Global Manufacturing PMI (preliminary, May)
- S&P Global Services PMI (preliminary, May)



- IFO survey : business climate (May)
- S&P Global Manufacturing PMI (preliminary, May)
- GDP (in quarter on quarter variation, Q1)



- S&P Global Composite PMI (preliminary, May)

	Current		Consensus	Previous
	53,8	↓	55,5	56
	0,4%	↓	0,6%	0,6%
	54,6	↓	55,1	55,8
	51,8	↓	57,3	58,9
	93	↑	91,4	91,9
	54,7	↑	54	54,6
	0,2%	→	0,2%	0,2%
	54,9	↓	55,3	55,8

Sources : Bloomberg, on May 25th, 2022.

The week ahead

Monday



Consumer confidence survey (May)



Inflation (May)

Tuesday



Inflation (May)

Wednesday



Caixin Manufacturing PMI index (May)



Retail sales (April)



ISM Manufacturing PMI index (May)

Friday



Retail sales (April)



ISM Services PMI index (May)

MARKETS PERFORMANCE

Interbank rate	Last.	-1W	-3M	YTD	-12M
€STER O/N	-0,59	-0,59	-0,58	-0,59	-0,57
USD SOFR O/N	0,30	0,80	0,05	0,05	0,01
JPY TONAR O/N	-0,02	-0,02	-0,02	-0,02	-0,02
GBP SONIA O/N	0,94	0,94	0,44	0,19	0,05
CHF O/N	-0,78	-0,78	-0,78	-0,78	-0,80

Long term sov. rates	Last.	-1W	-3M	YTD	-12M
10Y OAT	1,51	1,44	0,72	0,20	0,16
10Y Bund	0,96	0,99	0,21	-0,21	-0,12
10Y BTP	2,99	2,84	1,91	1,17	1,02
10Y JGB	0,23	0,24	0,20	0,07	0,08
10Y Bonos	2,10	1,99	1,24	0,56	0,54
10Y Swiss	0,66	0,75	0,23	-0,13	-0,14
10Y Gilt	1,96	1,73	1,45	1,02	0,92
10Y USTnote	2,86	2,88	1,92	1,52	1,61

Credit & EM	Last.	-1W	-3M	YTD	-12M
EUR Corporate Aaa	1,77	1,66	0,88	0,33	0,26
EUR Corporate Baa	2,62	2,48	1,34	0,66	0,55
GBP Corporate Baa	2,89	2,64	2,15	1,52	1,19
USD Corporate Aaa	3,72	3,72	2,76	2,13	2,11
USD Corporate Baa	4,74	4,68	3,38	2,60	2,43
USD EM aggregate	6,54	6,58	5,00	4,33	3,89

Commodities	Last.	-1W	-3M	YTD	-12M
Brent, USD/BL	113,33	0,4%	16,5%	43,4%	65,6%
Or, USD/oz	1 853	1,6%	-2,6%	1,4%	-1,4%
Copper, USD/metric ton	9 480	2,8%	-4,3%	-2,1%	-4,1%
Platinum, USD/onz	969	3,3%	-10,3%	0,2%	-16,8%
Palladium, USD/onz	2 013	4,1%	-14,7%	1,8%	-28,1%
Silver, USD/onz	22,09	4,3%	-7,0%	-4,3%	-20,1%

FX rates	Last.	-1W	-3M	YTD	-12M
EUR/USD	1,07	2,3%	-6,0%	-5,9%	-12,7%
EUR/CHF	1,03	-1,5%	-0,8%	-0,6%	-6,0%
USD/GBP	0,80	-2,5%	8,2%	7,7%	12,6%
USD/JPY	127,66	-1,1%	11,2%	10,9%	17,4%
USD/BRL	4,80	-5,1%	-5,5%	-13,9%	-9,8%
USD/CNY	6,65	-2,0%	5,0%	4,7%	3,6%
USD/RUB	58,01	-9,9%	-26,7%	-22,6%	-21,1%

Equity indices	Last.	-1W	-3M	YTD	-12M
MSCI AC World (USD)	1 077	0,6%	-5,7%	-7,2%	-4,7%
Eurostoxx 50	3 708	0,6%	-7,0%	-13,7%	-8,1%
Dax 40	14 175	1,5%	-3,8%	-10,8%	-8,2%
CAC 40	6 359	0,2%	-6,3%	-11,1%	-0,8%
FTSE 100	7 513	0,7%	0,4%	1,7%	6,5%
SMI	11 466	-1,8%	-3,6%	-10,9%	2,1%
SP500	3 974	-0,9%	-8,6%	-16,6%	-5,3%
TOPIX	1 895	1,7%	-0,8%	-4,9%	-1,0%
iBovespa	110 346	2,0%	-1,2%	5,3%	-11,0%
Hang Seng	20 470	2,6%	-15,3%	-12,5%	-28,0%
Sensex 30	54 289	2,5%	-5,9%	-6,8%	7,2%
MOEX	-	-	-	-	-
CSI 300	4 054	2,5%	-12,5%	-17,9%	-21,4%

Source: Macrobond, on May 25th, 2022.

1wk = 1-week change, 3mth = 3-month change, 12mth = 12-month change, YTD = year-to-date change, YoY = year-on-year change, BAML = Bank of America Merrill Lynch, JPM = JP Morgan, IG = Investment Grade, EM = emerging markets. * Price return for MICEX equity index. Equities; total return in local currency. Government bonds = 3-7-year returns. Figures are rounded.

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