AXA Investment Managers

29 June 2022

Investment Institute Macroeconomics

Monthly Investment Strategy

A summer of discontent

Key points

- Our global outlook was more pessimistic than consensus at the start of this year but weakened materially after the Ukraine invasion. Consensus has converged towards our view in recent months
- We lower our forecasts modestly for the US, more for China and rebalance them in the Eurozone for a weaker 2023. We do not see recession as an inevitable outcome, but it is a risk in the US and even closer across Europe
- Inflation continues to rise as the war impacts food and energy prices, which risks spilling further into the summer
- But domestic developments dominate our long-term inflation outlook. Wages are rising in tight labour markets. Industrial action in several economies will exacerbate this trend. While highly visible price increases also risk dislodging longer-term inflation expectations
- Fears around expectations have spurred central banks to more forceful rate increase – a shift that has tightened financial conditions materially. The avoidance of recession will in part hinge on the scale of tightening from here

Global Macro Monthly

Summary *by David Page* 1
US *by David Page* 3
Eurozone *by Francois Cabau & Hugo Le Damany* 4
UK *by Modupe Adegbembo* 5
Japan *by Hugo Le Damany* 5
China *by Aidan Yao* 6
Canada *by David Page* 7
Emerging Markets *by Irina Topa-Serry* 7
Emerging Asia *by Shirley Shen* 8
Emerging Latin America *by Luis Lopez-Vivas* 8
Recommended asset allocation 9
Macro forecast summary 10

AXA Investment Managers

29 June 2022

A Summer of discontent

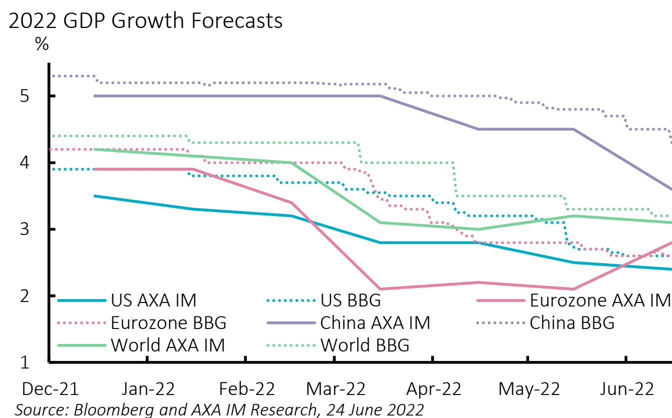
Global Macro Monthly Summary June 2022

David Page
Head of Macro Research
Macro Research – Core Investments

Weighing the risk of recession

We started 2022 more pessimistic than consensus and revised our global growth forecasts lower to 3.1% and 2.8% for this year and next after the invasion of Ukraine in March. Consensus forecasts were at 4.0% and 3.5%, but over the last quarter have converged towards our view and now stand at 3.2% for both years (Exhibit 1). This worsening growth outlook comes despite a stronger start to the year in many regions, including the Eurozone, Central and Eastern Europe, emerging Asia and Latin America. This highlights growing concerns about growth across the second half of 2022 – and in several economies, includes the fear of recession.

Exhibit 1: More downbeat than most, but is it enough?



Source: Bloomberg and AXA IM Research, 24 June 2022

Despite our relatively downbeat outlook in H1 2022, the question now is whether we are downbeat enough for H2 2022. In this Global Macro Monthly we detail a number of changes to our growth forecasts: Modest in the US, reducing to 2.4% for 2022 and 1.2% for 2023 (from 2.5% and 1.4%); greater in China where we allow more downside risk in our base case, cutting to 3.6% from 4.5%; and mixed in the Eurozone where we raise our 2022 outlook to 2.8% (from 2.1%), but lower 2023 to 0.7% (from 1.2%). We argue that recession will not occur in China, where a Q3 rebound is expected, and is unlikely in the US, but is more touch-and-go in Europe. These assessments assume that central banks will not deliver the currently envisaged market tightening.

Inflation has been the key driver of deteriorating growth. The impact of the Ukraine war is having a visible effect on energy markets. Oil reached $120/barrel as China's post-lockdown revival lifted demand, while European gas prices have surged to €132/MWh. Both are close to our respective $125 and €125 forecasts made in March. The oil outlook is mixed with tight supply and logistics issues trading off against discounted Russian oil and concerns of recession-induced demand destruction. The European gas outlook is more concerning. Current supply shortfalls are likely a harbinger of conditions this winter. The invasion has also contributed to rising food prices. Both could serve to drive inflation rates higher over the summer or keep them elevated into the winter months.

Inflation began with external shocks but requires internal dynamics to persist. Tight labour markets and rising inflation expectations raise the threat of persistent inflation which weighs on household and business real income growth. Fighting against this, wage growth has accelerated and industrial action could boost wages further, while also disrupting production. Train strikes are underway in the UK and Canada; others are threatened. In the Eurozone, Germany's IG Metall union submitted a 7-8% pay demand.

With many governments providing additional fiscal relief, central banks have little option but to tighten policy with inflation rates at many times target levels, and several are doing so at a faster pace as higher inflation, particularly in highly-visible items like food and petrol risks driving expectations higher. Acting to anchor expectations, the Federal Reserve hiked rates by 75bps in June – its biggest move since 1994. The Bank of Canada looks set to follow next month, the Swiss National Bank hiked by a surprise 50bps, while the Bank of England opened the door to a sharper move in August. The ECB has also signalled a 50bp hike in September.

The quickening pace of monetary tightening is having a visible effect on global financial conditions, which in turn will weigh on global activity. Financial conditions in the US have already tightened beyond the point that has historically triggered a reverse from the Fed. We do not think the US is doomed to inevitable recession, but we do think the Fed will have to change course to avoid such an outcome. This is before we consider the risk of new virus outbreaks in China or elsewhere, or energy shortages in Europe. There are mounting challenges facing the global economy, from strikes, to cost-of-living crises, to the growth outlook. All threaten a summer of discontent for financial markets.

Global Macro Monthly – US

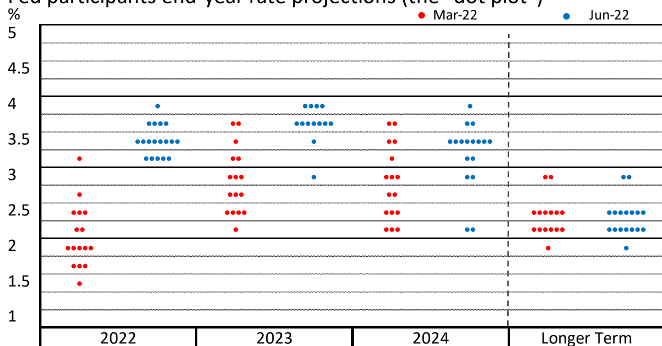
David Page
Head of Macro Research
Macro Research – Core Investments

Fed targets inflation, markets fear recession

Inflation set a new high in May, defying our expectation for it to have peaked in March. May's annual rate 'only' rose to 8.6% (relative to March's 8.5%) and barring a further surge in energy prices over the summer – which we cannot rule out – this should be the peak. Inflation rose by a monthly 1.0%, a rise that owed much to a 7.8% rise in motor fuel costs, as well as gains in other energy, food and shelter prices. Each looks set to rise again in June, but with some signs that energy prices are retreating from a peak, inflation should stabilise at elevated levels over the summer. We edge our forecasts higher to 7.8% for this year and 4.5% for next, from 7.6% and 4.0% last month (consensus 7.5% and 3.5%).

The Federal Reserve (Fed) reacted to the higher inflation reading. June's monetary policy meeting saw it raise the Fed Funds Rate (FFR) by 0.75% to 1.75%, having previously signalled an intention to raise it by 0.50% in June and July. As well as tightening policy at the fastest pace since 1994, the Fed adjusted its interest rate outlook ('dot plot') raising the median expectation of the FFR to 3.4% for this year and 3.8% for next (Exhibit 2). This was far higher than the 1.9% and 2.8% envisaged three months ago (not to mention December's 0.9% and 1.6%).

Exhibit 2: Hawkish dot plot to help anchor expectations



Source: FRB, June 2022

The Fed's shift doubtless reflected a lack of "compelling evidence" of inflation decelerating. However, concern about inflation expectations likely weighed heavier as Michigan University's 5-10 year inflation expectation measure rose to 3.3%, a 14-year high. The hawkish shift in Fed outlook attempts to anchor inflation expectations. While expectations remain broadly contained, the economic cost of restoring price stability – in terms of the scale of economic slowdown – should stay relatively low. If expectations rise, that cost would rise. As such, the Fed's hawkish profile likely seeks to anchor these expectations. We are not entirely convinced that it will have to deliver on those forecasts.

The Fed's new outlook expects to see a marked slowdown in growth, now projected at 1.7% by end-2022 and for 2023 (compared to 2.8% and 2.2%) in March. This also led the Fed to expect unemployment to rise gradually to 4.1% by 2024. Although the inflation outlook for 2022 was raised to 5.2% (from 4.3%), it was barely adjusted for the coming years at 2.6% and 2.2%, suggesting the Fed is still confident about restoring price stability in the policy-relevant time horizon. But confidence in the economic impact did not appear as strong. Fed Chair Powell said the goal was to restore price stability with a strong labour market, stating the Fed was not aiming to induce a recession. Yet Powell discussed "factors beyond our control" when asked about the recession outlook. Wider commentary is shifting from "risks of recession" to "increasing" risks, although few yet suggest recession as a base case. This also applies to our own view.

The Atlanta Fed GDP Now tracker currently points to Q2 GDP growth of 0.0%. After the 1.5% (saar) contraction in Q1 this would leave the economy perilously close to technical recession. However, Q1's drop was caused by a large net trade effect (exacerbated by a re-opening of US ports and surge in import backlogs) and a marked dropped in inventory, neither of which should be repeated at the same scale in Q2. Moreover, consumer spending appears to remain solid, although investment spending has softened. We forecast a return to growth in Q2, likely around 2% annualised, before growth slows below trend in the second half of the year.

However, signs of deceleration are increasing. We have previously highlighted slowdown in the housing market and recent declines in housing starts and home sales suggests this continues with residential investment likely to fall in Q2. Retail sales also fell in May – reasonably sharply when considered in real terms. As inflation pressures continue to weigh on household disposable income, we envisage slower broader consumption growth into H2 2022 – albeit still supported by household savings.

We continue to expect the economy to slow by more than consensus, edging our forecasts lower to 2.4% and 1.2% for 2022 and 2023 (from 2.5% and 1.4%). Consensus forecasts are also easing, currently at 2.6% and 1.9%. For now, we do not think the economy is in recession, nor doomed to such a future outcome. This, in part, reflects our view that as further signs of deceleration emerge – particularly in the labour market – the Fed will slow its tightening. We forecast the FFR to peak at 3.25% by year-end – below current projections. Financial conditions have already tightened by more than would usually prompt a Fed readjustment. If the Fed delivers its current projected policy hikes, conditions will likely tighten further and this would raise the likelihood of recession.

Global Macro Monthly – Eurozone

François Cabau,
Senior Eurozone Economist
Macro Research – Core Investments

Hugo Le Damany,
Eurozone Economist
Macro Research – Core Investments

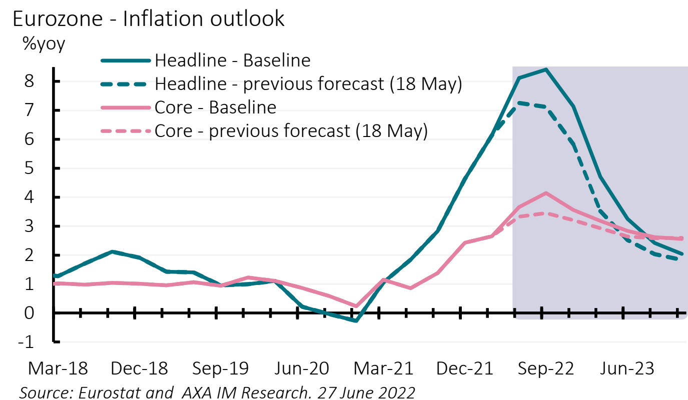
Subdued growth outlook

Business and consumer surveys for June have given further grounds for our subdued, below-consensus growth outlook. Most crucially, Eurozone Purchasing Managers' Indices have dropped to 16-month lows, led by a drop in the services sector from 56.1 to 52.8 in June. At 51.9, the reading for the composite index is now only moderately above the 50 breakeven level. Furthermore, forward-looking indicators suggest more downside is in the pipeline. Meanwhile, consumer confidence has dropped further.

We have postponed our expected slight contraction in the economy to the turn of the year, from Q2 initially. Eurozone Q1 GDP growth was revised up to 0.6%qoq, and the reopening of the economy implies that Q2 growth should be decent, projected at +0.2%qoq, mainly driven by private consumption. This is largely why we have revised up our 2022 average growth forecast to 2.8% (Bloomberg consensus: 2.7%) from 2.1%. However, we think domestic demand is likely to dwindle, bottoming around the turn of the year, both from private consumption and investment. This would reflect lower domestic demand, less support from fiscal policy, a moderate uptick in the unemployment rate and much tighter financing conditions. Meanwhile, the Eurozone's main export markets seem unlikely to provide decisive support. Receded, but still high inflation, much higher financing costs and neutral fiscal policies imply a below-potential growth rate on average in 2023. We now project Eurozone 2023 GDP growth to average 0.7% (from 1.2% previously; Bloomberg consensus: 2.0%).

Inflation is likely to stay high for longer. Our latest update shows inflation still exceeding 8% until September and above 7% until year-end, pushing the 2022 average to 7.4% (from 6.6%) (Exhibit 3). Despite some stabilisation in goods prices as bottlenecks are improving, we anticipate an acceleration in service prices. Continued pressure on input costs (energy, fertilisers) should also continue to push food prices higher. Prices at the petrol pump have stabilised at high levels, but natural gas prices have surged again after Russia drastically cut its deliveries. Our 2023 inflation outlook has also been upgraded on the back of more sustained second-round effects (3.1% from 2.4%). We continue to believe the balance of risks is skewed to the upside.

Exhibit 3: Inflation – high for longer



Source: Eurostat and AXA IM Research. 27 June 2022

ECB: Removing hurdles to hike swiftly

The European Central Bank (ECB)'s Governing Council (GC) surprised markets on the hawkish side at its June meeting, fuelled by a medium-term inflation outlook slightly above its target (2024: 2.1%) and continuously worried about the risk of inflation expectations de-anchoring. Its overhauled forward guidance suggested this would justify hiking rates faster than 25 basis points (bp). We think the ECB is likely to hike its deposit facility rate (DFR) by 25bps in July, 50bps in September and October, and another 25bps in December ending the year at 1.0%, broadly in line with market expectations. This would bring ECB's DFR at the lower end of the neutral rate range mentioned by Banque de France Governor.

We think the GC is likely to offer more detail on its new anti-fragmentation tool at its 21 July meeting. Managing to bridge the significant technical, legal and political difficulties would give reassurance that the ECB is able to normalise its monetary stance at a swift pace.

ECB executive GC member Isabel Schnabel[1] offered a useful perspective of the ECB's likely response: "Our commitment to the euro is our anti-fragmentation tool. This commitment has no limits.". Holistically, we think the tool is likely to look similarly to Outright Monetary Transactions, with neither precise timing nor envelope, but with (light) conditionality, and self-triggered by the ECB. On top of full flexibility, it is likely to also include sterilisation.

As we flagged[2], French legislative elections have resulted in an unprecedented challenge for President Emmanuel Macron and his coalition as they failed to obtain an absolute majority. The risk now is that key policies and reforms, such as purchasing power law, may be delayed in order to get enough support.

[1] "United in diversity – Challenges for monetary policy in a currency union", ECB, 14 June 2022

[2] Cabau, F. and Le Damany, H., "French elections: Wait until Summer", AXA IM Research Insights, 5 April 2022

29 June 2022

Global Macro Monthly – UK

Modupe Adegbembo
Junior Economist (G7)
Macro Research – Core Investments

BoE opens door to 50bp hike in August

Price pressures continue to mount in the UK economy. In May inflation rose to 9.1% – setting a new 40-year high. Food prices, which increased by 1.5% between April and May alone, drove the rise, and we see food inflation increasing further over the coming months. We now expect inflation to average 7.7% this year and 3.6% next (consensus 8.2% and 4.4%). The impact of rising prices is being felt throughout the economy. The transport workers union took industrial action during June, causing disruption to train services across the country. Other unions are expected to follow suit in the coming months as workers see more evidence of their incomes being eroded by rising prices.

GDP unexpectedly declined in April, by 0.3%, as the unwind of the government's coronavirus testing programme weighed on growth. We now expect growth of -0.3% in Q2, versus previous expectations of 0.0%, as the extra bank holiday in June this year and a subdued activity outlook will also have an impact. By contrast, Q3 GDP is expected around 0.6% and will likely be boosted by the bank holiday adjustment and now the fiscal boost to offset energy pressures due in July. We forecast growth at 3.7% this year and expect growth at 0.9% next year (consensus 3.7% and 1.2%).

Recent labour market data have been mixed and provide tentative evidence that some of the heat in the labour market is coming off. Whilst employment and vacancies continue to rise, the latest month showed nascent signs of slack emerging as unemployment edged higher. More widely we expect a gradual loosening in the labour market over the coming quarters as growth slows and this will be key for the Bank of England (BoE) to pause hiking rates.

The Monetary Policy Committee (MPC) hiked rates by 25bps in its June meeting, bringing rates to 1.25%. The MPC also raised the possibility of a 50bp move in future meetings, stating it stands ready to "act forcefully" against persistent inflationary pressures. We expect the MPC to continue to hike by 25bps in upcoming meetings in August, September and November bringing rates to 2% as signs of domestic slowdown, including in recent retail spending, emerge. But signs of further labour market tightening, higher commodity prices or rising inflation expectations would likely steer the MPC towards a sharper move next month – particularly if wage growth continues at the high monthly rate posted in April.

Global Macro Monthly – Japan

Hugo Le Damany,
Economist (Japan),
Macro Research – Core Investments

Japan is re-synchronising: For better or for worse

Short-term economic indicators remain consistent with growing activity, at least for the coming weeks. June's services PMI rose for the fourth consecutive month, by 1.6 points to 54.2. But the manufacturing PMI declined -0.6 to 52.7. All components were down (output, new orders, stock of purchases) despite improving delivery times and a resilient employment index. Supply constraints appear to be improving, but demand for goods is now clouding manufacturers' perspectives.

In Q3, there is a risk of the service sector running out of steam as tourism and travel contends with the government's reluctance to open borders. Conversely, China's reopening could boost external demand. Beyond Q3, the outlook is less rosy. Despite having a limited impact on purchasing power so far, inflation is expected to reach 3% this summer and could remain elevated until the end of this year. After decades of low inflation, the changes in prices are impacting consumer confidence. The large amount of savings should cushion this blow to incomes in the short term, but we pencil in a significant deceleration in private consumption from Q4.

How long can the BoJ hold this position?

The yen has lost 6%-7% against the dollar since last month, due to the growing gap between the Federal Reserve and Bank of Japan's (BoJ) planned normalisation paths. Fears of a US recession have recently eased some pressure on the dollar/yen exchange rate even if it remains at 30-year lows (¥135 per dollar).

Following June's meeting, the BoJ renewed its commitment to maintain a "very" accommodative policy and kept all tools unchanged. The BoJ is concerned that a premature tightening could jeopardise economic recovery and the long-term convergence of inflation towards its target. Easing the pressure on the yield curve control (YCC) is also becoming a hot topic. We acknowledge the pressure on 10-year Japanese government bonds (JGBs) is becoming unmanageable under YCC and we no longer exclude the possibility that the BoJ may signal its readiness to adjust its stance by shortening the YCC and/or extending the range on the 10-year JGB. But we believe this would be conditional on a resilient economic outlook. However, as recession risks build in the Eurozone and, to a lesser extent, in the US, we continue to believe that the BoJ will wait some months before starting any normalisation of its monetary policy.

AXA Investment Managers

29 June 2022

Global Macro Monthly – China

Aidan Yao
Senior Economist (China)
Macro Research – Core Investments

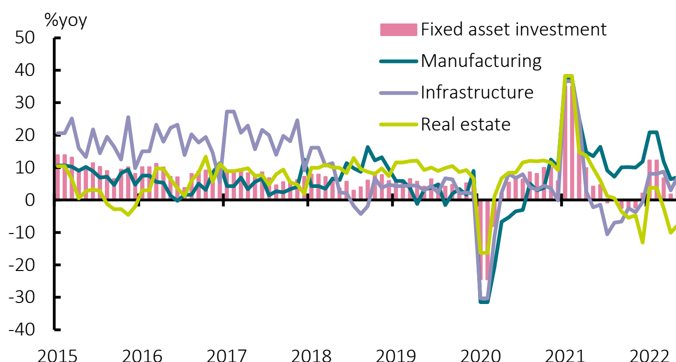
Uneven recovery underway

May official data, which echoed other high-frequency indicators, confirmed that the worst of the COVID-19 shock has passed. Sequential growth improved notably in May thanks to improving virus conditions and Beijing recalibrating containment policies to ease supply-chain and logistics bottlenecks. Industrial output growth surged 5.6%mom, led by a strong recovery in mining and manufacturing activity.

The production resumption in Shanghai and the broad Yangtze Delta region was particularly important for high value-added manufacturing, such as auto, machinery, and electronics. Together with easing logistics pressure and port congestion, these helped firms to fill backlog orders, boosting export shipment growth to 16.9%. However, given the one-off nature of this supply boost, we think export growth is likely to fall back to single digit in the coming month or two.

Exhibit 4: Not all have benefited from policy easing

China: FAI breakdown



Source: CEIC and AXA IM Research, 23 June 2022

Domestic demand improved less than exports, but the recovery there looks set to last longer. Fixed asset investment (FAI) growth accelerated modestly to 4.5%yoy, but the tepid headline figure masks a wide divergence among the subcomponents (Exhibit 4). At one end of the spectrum, real-estate investment growth continued to contract at a concerning pace. This is despite growing actions by local authorities and banks to ease purchase restrictions and cut funding costs for home buyers. Major-city house sales appear to have stabilized at low levels, but there are few signs of revival yet. More policy easing will help, but to what extent can it rekindle a market whose long-term supply and demand dynamics have fundamentally changed is unclear. We think property construction will likely struggle for a while longer.

At the other end of the spectrum, infrastructure investment growth rebounded to 7.2%, continuing to benefit from a fiscal push. After President Xi called for an 'all out' effort to support infrastructure build-up, the State Council has requested local governments to complete this year's special bond issuance (RMB3.65tn) by end-June and put the money to work by end-August. Beyond that, Beijing also signalled a frontloading of next year's infrastructure spending budget for the second half of this year. The financial backing for infrastructure investment is therefore robust. The intention of the government to use it to backstop the economy is also strong, given that infrastructure FAI has become one of few policy transmission channels that still functions in light of COVID-19 controls. We see robust activity in this sector in the coming months.

The household sector saw some signs of life too, although the improvement there was relatively small. The decline in retail sales growth narrowed from -11.1%yoy to -6.7% in May. Online sales improved more notably thanks to normalizing transportation and delivery networks. Services spending, however, remained depressed, even though June could deliver better results as Shanghai and Beijing exit lockdowns and social restrictions elsewhere ease more notably. Apart from the impact of the pandemic, worsening labour market conditions have also contributed to households' reluctance to spend. With the unemployment rate at near record highs, Beijing needs to respond quickly and forcefully to prevent economic scarring and potential instability in the society.

In summary, May data shows: 1) sequential growth improved notably but not enough to recoup all of April's losses; 2) the recovery is uneven, with supply normalizing faster than demand, and exports recovering quicker than domestic activity; 3) some strength will prove transitory (exports), while others (FAI) more long-lasting; and 4) policy stimulus is having an impact in some areas (infrastructure) but not others (property). Hence, despite a sweeping beat of expectations, May's data is far from delivering the all-clear of economic risks. The recovery is so nascent and fragile that even a small flare-up of COVID-19 could send a large swarth of the country back to renewed restrictions, undermining confidence and disrupting production/logistics operations.

Reflecting these in our forecast – even though we are comfortable with our near-term call of GDP contracting in the second quarter (Q2) followed by a rebound in Q3, a further acceleration of growth in Q4 now looks optimistic given Beijing's reluctance to ease COVID-19 and economic policies aggressively. We have therefore decided to bring onboard some downside risks previously highlighted into a new base case. The new forecast assumes a slower growth recovery after Q2's contraction, with full year growth at 3.6%, below the current market consensus at 4.5%.

AXA Investment Managers

29 June 2022

Global Macro Monthly – Canada

David Page
Head of Macro Research
Macro Research – Core Investments

Near-term inflation dominates BoC outlook

Rising oil prices contributed to a 1.7% rise in May's producer prices – raw materials were up 2.5%. Revisions to the CPI basket were also included in May, increasing the gasoline weight to 4.28% from 3.57% and adding used car prices. In total, CPI inflation rose 7.7% in May – a 40-year high. Inflation will likely rise further in June and remain elevated, before falling from Q1 2023. We forecast inflation at 6.7% (from 6.2%) in 2022 and 3.4% for 2023 (consensus 6.2% and 2.8%).

The labour market remains tight, creating domestic inflation pressure. Employment rose by 39.8k in May; the unemployment rate set a new low of 5.1% while wage growth accelerated to 3.9% from 3.3% in April. Outright pay growth does not appear excessive but unit labour costs are high reflecting weak productivity growth. The Bank of Canada (BoC) warned that Canada faces labour and skills shortages. Moreover, labour unions are driving higher pay claims. Seven union settlements averaged 3.1% since March – the highest since 2008 – train drivers have just gone on strike and the main Federal employee union is seeking a 4½% increase. Canada has around 30% of its labour force unionised so this represents a bigger threat than in other economies.

The US Federal Reserve's 0.75% rate hike weakened the Canadian dollar, adding to BoC pressure to act further. In June, it raised the overnight rate by 0.5% to 1.5% and said it was prepared to act "more forcefully". Governor Macklem recently clarified this meant "more or bigger rate hikes", while Deputy Governor Beaudry said the chance of exceeding the 2-3% neutral range had increased. The BoC will likely match the Fed's 0.75% hike in July. As such we have raised our BoC forecast to 3.25% by year-end.

The impact of monetary tightening is starting to show. House sales fell by 8.6% on the month in April and Canada's Real Estate Association said a correction it had anticipated over two years had taken place over two months. The BoC's Financial System Review said it was too early to say if the slowdown would "deepen", adding that household mortgage debt was a major vulnerability to the economy. Consumer confidence dropped to its lowest since 2008. Governor Macklem echoed Fed Chair Powell stating a "soft landing" was the BoC's goal, but returning inflation to target was their "number one priority". The risk of recession is rising. We maintain our growth outlook for 3.5% this year, and 1.7% in 2023 (consensus 3.8% and 2.4%).

Global Macro Monthly – EM

Irina Topa-Serry,
Senior Economist (Emerging Markets),
Macro Research – Core Investments

Strong start for Central Europe, but clouds ahead

Economic growth has undeniably held up better than expected in Central European economies since the start of the Russia-Ukraine war. GDP data for Q1 was strong, leading to mechanical upward revisions to our 2022 annual averages across the region. The Polish economy grew by 2.4% quarter-on-quarter, the second-strongest reading since Q1 2007 (only the Q3 2020 lockdown bounce-back was better). In Hungary, Q1 2022 GDP rose by 2.1%. Even the Czech Republic, where quarterly growth was 'only' 0.7%, beat expectations and outpaced Germany and the Eurozone's 0.2% expansions. Romania recorded the strongest growth, surging 5.2% after a poor Q4 when the country was undergoing a massive wave of COVID-19 infections.

However, early signs of slowing activity have emerged. Consumer confidence has fallen sharply throughout the region. This has included a stark deterioration in savings expectations in the Czech Republic, a collapse in purchases expectations of major items in Hungary, and a rather bleak outlook for employment prospects in Poland, to name a few. The current inflation spike – particularly strong in Central and Eastern Europe – is undeniably impairing household incomes. Worryingly, there is no sign of a stabilisation in inflation yet: Producer prices are pushing above 20% annual rates, price momentum remains badly oriented, core inflation is accelerating and exchange rates are weak or weakening (particularly the Hungarian forint). The region has a natural workforce deficit which exerts structural pressures on the labour market and wages. The ongoing refugee crisis, which particularly affects this region, is unlikely to offer a solution as most refugees are women and children, while the normal inflow of Ukrainian workers that has partially alleviated these pressures in past years is unlikely in the current context.

As such, inflation will not leave many options for policymakers in the short run, other than to deliver more hikes. We see the peak in policy rates in Q3 at 8% in Poland and Hungary, and 7.5% in the Czech Republic. All in all, tighter financial conditions – both global and locally – are clearly squeezing domestic demand. We think that the economic slowdown has been delayed rather than avoided, hence we raise our annual 2022 growth forecasts on the back of a strong start, but likely deceleration over the rest of the year leads us to cut our 2023 expectations.

Global Macro Monthly – Asia

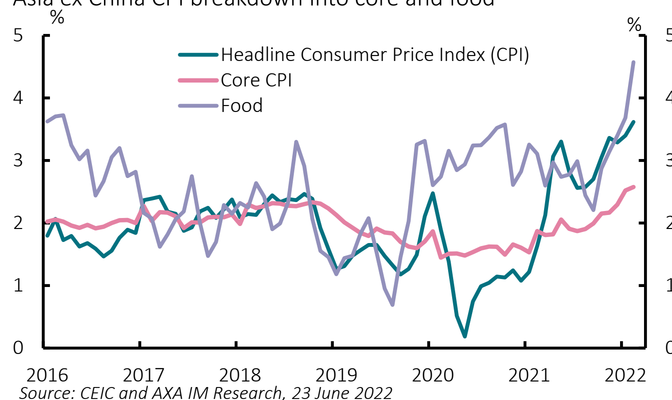
Shirley Shen,
Economist (Emerging Asia)
Macro Research – Core InvestmentsIrina

Inflationary pressures remain

For most of Asia, Q1 GDP data reflected the post-pandemic recovery story and resilience in domestic demand served as the main driver for the region's growth. In particular, the key trend across several emerging Asian economies was the easing of COVID-19-related restrictions and opening of borders, which have benefited economies that rely heavily on tourism and domestic consumption.

As growth has recovered, inflationary pressures have picked up in the region. Headline Consumer Price Index (CPI) inflation has risen above 7% in India and Thailand and to multi-year highs in other economies. Looking ahead, apart from surging energy prices, we expect food prices to drive domestic inflation even further (Exhibit 5), especially considering the region's high skew towards food prices in the CPI basket.

Exhibit 5: High food prices to keep inflation elevated



Source: CEIC and AXA IM Research, 23 June 2022

The mix of improved domestic conditions and rising price pressures has led to policy responses across Asia. So far, central banks in Korea, Malaysia, India, the Philippines, Singapore and Indonesia have all begun policy normalisation. Most recently, Taiwan and India hiked by 12.5 basis points (bp) and 50bps to 1.5% and 4.9% respectively. The Reserve Bank of India's timing wasn't a surprise but was more aggressive than envisaged. Echoing a more aggressive Fed, Asian central banks are expected to act more forcefully to dampen down price pressures. We see more tightening to come by year-end and this should continue throughout 2023.

Global Macro Monthly – LatAm

Luis Lopez-Vivas,
Economist (Latin America),
Macro Research – Core Investments

Solid Q1, but growth to fade over rest of year

GDP data for Q1 was broadly positive across major Latin American economies, as countries benefitted from the ongoing reopening of economies, higher commodity prices and some fiscal impulse. On a quarterly basis, growth accelerated in Brazil (1.0%), Mexico (1.0%) and Peru (0.9%). While growth slowed in Colombia, it still beat market expectations and expanded by a healthy 1.0%. In contrast, Chile contracted -0.8%, marking its first contraction after six consecutive quarters of stimulus-fuelled gains.

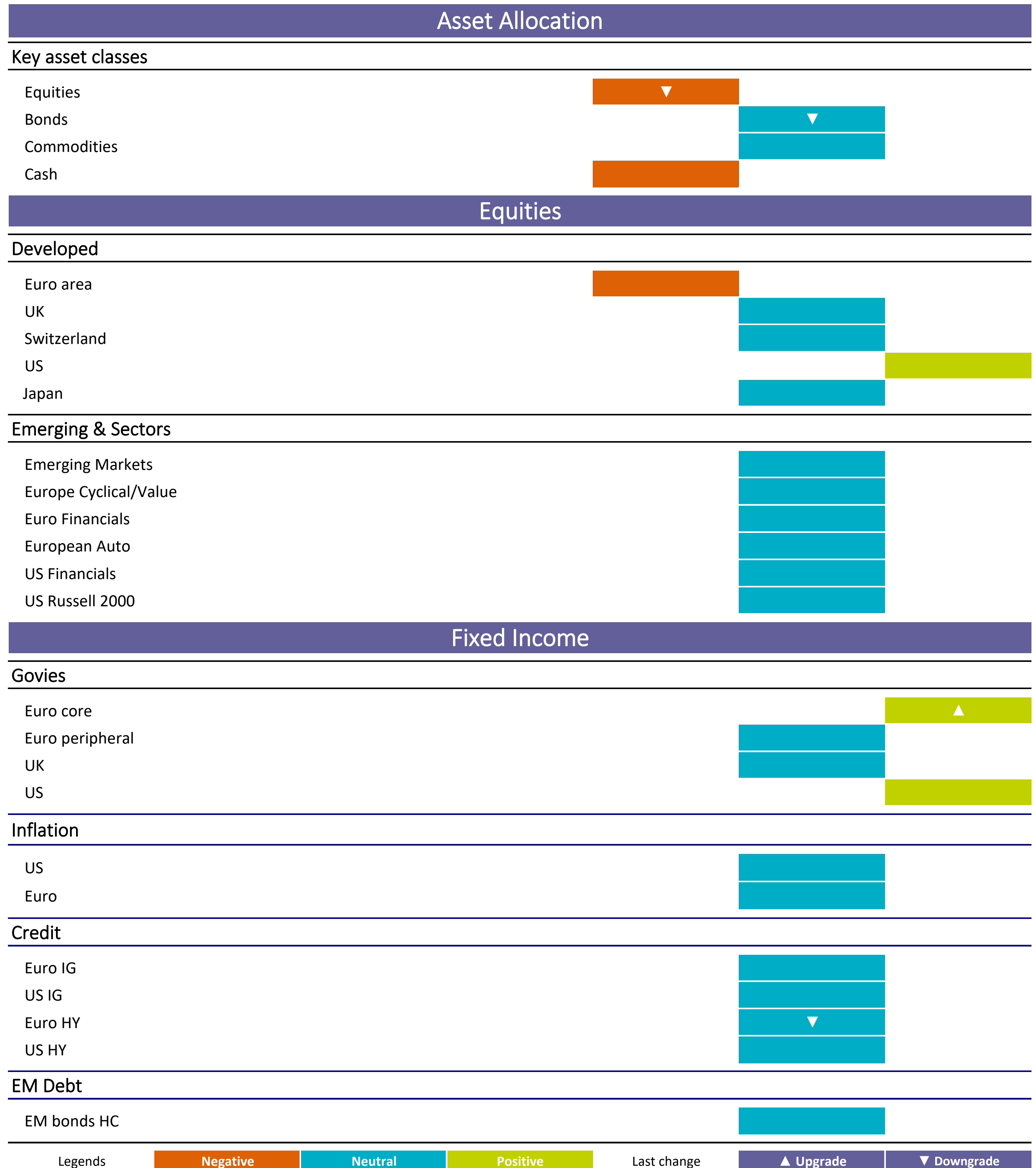
Despite this seemingly good news, near-term growth prospects are less auspicious for most countries in the region. In Brazil, growth should stagnate or contract slightly in the following quarters as galloping inflation (May Consumer Price Index inflation was 11.7% year-on-year) erodes consumers' income, while tight monetary policy is likely to restrict the economy and political uncertainty could dampen investment. Similarly, Mexico's economic outlook for 2022 continues to deteriorate. Slowing US growth, hawkish monetary policy and a lack of investment will keep the economy subdued – it is still below pre-pandemic levels. However, perhaps no Latin American economy is decelerating faster than Chile. Lower copper production, slowing consumption and heightened political uncertainty around the upcoming constitutional referendum are all undermining economic activity.

On a more positive note, strong household consumption and high oil prices look set to allow Colombia to be the fastest growing economy in the region this year. Recent high-frequency data shows that the economy is gaining steam in Q2. In April, both retail sales and industrial production accelerated for a third consecutive month and reached double-digit growth on an annual basis. Adding to the good news, Peru's economy is also gaining momentum. Additional government subsidies and pension fund withdrawals are boosting consumption. Nevertheless, continued political wrangling and social conflict due to high inflation continue to be significant headwinds for the country.

Adding to the region's challenging macro backdrop, the possibility of a recession in the US remains a significant risk for Latin America. Although China surpassed the US in recent years as the region's main trading partner, a contraction in the US could still trigger a recession in Latin America's already-battered economies.

29 June 2022

Recommended asset allocation



Source: AXA IM Macro Research – As of 28 June 2022

Macro forecast summary

Real GDP growth (%)	2020	2021*		2022*		2023*	
		AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
World	-3.1	6.1		3.1		2.9	
Advanced economies	-5.0	5.1		2.6		1.2	
US	-3.4	5.5	5.6	2.4	2.8	1.2	2.1
Euro area	-6.4	5.3	5.1	2.8	2.7	0.7	2.2
Germany	-4.6	2.9	2.7	1.5	2.0	0.7	2.4
France	-8.0	6.8	6.6	2.3	2.9	0.8	1.7
Italy	-9.0	6.6	6.3	2.7	2.5	0.2	1.8
Spain	-10.8	5.1	4.7	4.2	4.4	0.6	3.0
Japan	-4.9	1.7	1.8	1.6	2.0	1.9	1.9
UK	-10.0	7.2	7.0	3.7	3.8	0.9	1.0
Switzerland	-2.5	3.5	3.5	2.5	2.6	1.0	1.8
Canada	-5.2	4.4	4.6	3.5	4.1	1.7	2.6
Emerging economies	-1.9	6.7		3.5		3.9	
Asia	-0.7	7.0		4.3		5.0	
China	2.2	8.1	8.0	3.6	4.7	5.2	5.1
South Korea	-0.9	4.1	4.0	1.5	2.7	1.6	2.4
Rest of EM Asia	-4.2	6.1		5.5		5.2	
LatAm	-7.0	6.8		2.4		2.1	
Brazil	-3.9	4.6	4.7	0.9	0.8	1.6	1.4
Mexico	-8.2	4.8	5.6	1.5	1.7	1.0	2.2
EM Europe	-2.0	6.7		-0.8		0.4	
Russia	-2.7	4.7		-6.0		-3.5	
Poland	-2.5	6.0	5.3	6.0	4.2	2.0	3.2
Turkey	1.6	11.5	9.9	4.6	2.2	2.0	2.8
Other EMs	-2.5	5.4		4.2		3.7	

Source: Datastream, IMF and AXA IM Macro Research – As of 24 June 2022
* Forecast

CPI Inflation (%)	2020	2021*		2022*		2023*	
		AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	0.7	3.2		6.7		3.4	
US	1.2	4.7	4.6	7.8	7.2	4.5	3.3
Euro area	0.3	2.6	2.5	7.4	6.8	3.1	2.6
China	2.5	0.9	0.9	2.1	2.2	2.3	2.3
Japan	0.0	-0.2	-0.2	2.2	1.7	1.0	1.1
UK	0.9	2.6	2.5	7.7	7.8	3.6	4.3
Switzerland	-0.7	0.5	0.5	2.0	2.1	1.0	1.0
Canada	0.7	3.4	3.4	6.7	5.7	3.4	2.9

Source: Datastream, IMF and AXA IM Macro Research – As of 24 June 2022
* Forecast

These projections are not necessarily reliable indicators of future results

Investment Managers

29 June 2022

Forecast summary

Central bank policy						
		Meeting dates and expected changes (Rates in bp / QE in bn)				
		Current	Q3-22	Q4-22	Q1-23	Q2-23
United States - Fed	Dates	1.50-1.75	26-27 July 20-21 Sep	1-2 Nov 13-14 Dec	31-1 Jan/Feb 21-22 Mar	2-3 May 13-14 Jun
	Rates		+1.00 (2.50-2.75)	+0.5 (3.00-3.25)	unch (3.00-3.25)	unch (3.00-3.25)
Euro area - ECB	Dates	-0.50	21 July 8 Sep	27 Oct 15 Dec	2 Feb 16 Mar	4 May 15 Jun
	Rates		+0.75 (0.25)	+0,75 (1.00)	unch (1.00)	unch (1.00)
Japan - BoJ	Dates	-0.10	20-21 July 21-22 Sep	27-28 Oct 19-20 Dec	Jan Mar	May Jun
	Rates		unch (-0.10)	unch (-0.10)	unch (-0.10)	unch (-0.10)
UK - BoE	Dates	1.00	4 Aug 15 Sep	3 Nov 15 Dec	Feb Mar	May Jun
	Rates		+0.50 (1.75)	+0.25 (2.00)	unch (2.00)	unch (2.00)

Source: AXA IM Macro Research - As of 24 June 2022

These projections are not necessarily reliable indicators of future results

Download the full slide deck of our June Investment Strategy

29 June 2022

Our Research is available online: www.axa-im.com/investment-institute

DISCLAIMER

This document is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities.

It has been established on the basis of data, projections, forecasts, anticipations and hypothesis which are subjective. Its analysis and conclusions are the expression of an opinion, based on available data at a specific date.

All information in this document is established on data made public by official providers of economic and market statistics. AXA Investment Managers disclaims any and all liability relating to a decision based on or for reliance on this document. All exhibits included in this document, unless stated otherwise, are as of the publication date of this document.

Furthermore, due to the subjective nature of these opinions and analysis, these data, projections, forecasts, anticipations, hypothesis, etc. are not necessary used or followed by AXA IM's portfolio management teams or its affiliates, who may act based on their own opinions. Any reproduction of this information, in whole or in part is, unless otherwise authorised by AXA IM, prohibited.

Issued in the UK by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales No: 01431068. Registered Office: 22 Bishopsgate London EC2N 4BQ

In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.

AXA Investment Managers SA
Tour Majunga – La Défense 9 – 6 place de la Pyramide 92800 Puteaux – France
Registered with the Nanterre Trade and Companies Register under number 393 051 826