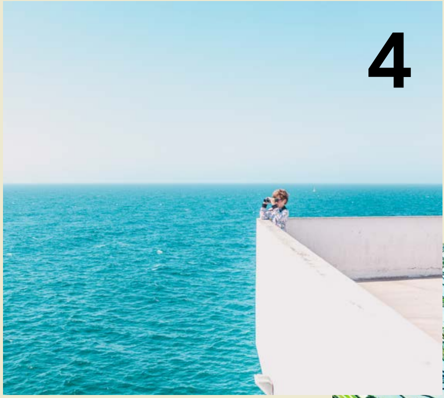
Vontobel

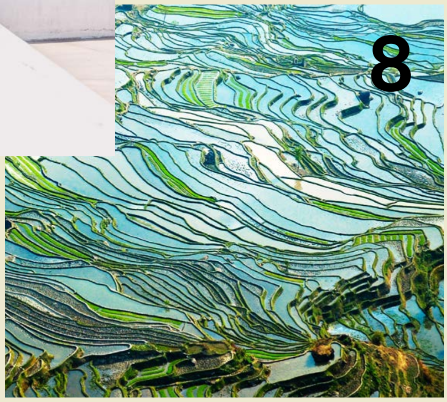
Investors' Outlook

Looking at the big picture

June 2023

Content





Imprint

Publishing by
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8022 Zurich

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Frequency
Ten times per year
(next issue July 2023)

Concept
MetaDesign AG

Creation & Realization
Vontobel

Images
Gettyimages,
Vontobel

Input deadline for this edition
June 2, 2023

Remarks
* See “Analyst confirmation” in “Legal information” on page 17

Looking at the big picture

—
Dan Scott
Head of Vontobel Multi Asset,
Vontobel

Dear readers,

Central banks' actions, inflation, and recession risks have captivated investors' attention for several months now. And while uncertainties remain, the view ahead seems to be slowly clearing. It's a good time to take a step back and highlight the bigger picture.

The economic brushes are painting a portrait that looks like it will depict monetary policy tightening has stabilized and tilts towards an easing as we move toward the end of the year, accentuated by declining inflation levels and increasing signs of a recession to come. This has been our expectation all along.

Our puzzle pieces currently form a solid frame, which is why we have made no changes to our asset allocation this time. Overall, we think it's not the right moment to lean out the window in terms of risk. But in search of returns, emerging markets offer a source of growth which developed markets don't.

On the gallery wall of geopolitics, risks remain elevated, and yet we feel there's no way to avoid investing in emerging markets. Even Group of Seven nations, which make up the world's biggest democratic economies, have softened their tone around Chinese relations, emphasizing de-risking without decoupling from China. That evolution reflects their attempt to strike a more diplomatic approach to a rising China and its importance for global supply chains and the economy.

With all eyes on economic indicators out of China, the world's growth engine, some investors may be worried about a waning post-pandemic recovery. While the initial spike we saw in the country's property markets and construction sectors is already softening, we see the longer-term trend tilting upwards as the rebound is driven by consumers. So, while the recovery may not be happening as fast as many had hoped for, and some months may be weaker than others, it's moving in the right direction and is transitioning into a consumer-driven economy. That's already been good news for European and US companies, which have tremendous exposure to Chinese consumers.

Speaking of the love of spending, in this edition of our Investors' Outlook, you can read our assessment of the environment for US consumers and why we see that space weakening and bringing inflation lower with it. We also discuss gold and why the rally still has some room to run, as well as what might be next for the US dollar. This month, our colleagues in the Conviction Equities Boutique examine the story behind Chinese stocks.

We're not losing sight of the bigger picture. We look at what matters and show you what we see.

→ **Webcast**
To view our webcast on recent market developments, click **here.**

—
Frank Häusler
Chief Investment Strategist,
Vontobel

Condensing the sea of details

Investors have followed a plethora of economic data and central bank officials' remarks to piece together a broader perspective on what to expect for the remainder of the year. With falling inflation, leading indicators suggesting a recession is on its way, and, most importantly, the likelihood of more accommodative monetary policy towards year-end, we feel well prepared and confirmed in our baseline scenario. After reviewing the current risks to markets, we have refrained from making any changes to our portfolio positioning.

We know the impact of tighter monetary policy seeps into the real economy with a lag. Signs of a long-awaited recession have been mounting, which we finally see coming in the second half of the year. Tighter financial conditions and stricter lending standards are not going to leave the economy unscathed. We also expect the US labor market to take a turn for the worse later this year.

These developments might have investors recalling the stock market adage "Sell in May and go away", which refers to the historically weaker performance over the summer months. At first glance, there sure are quite a few reasons that speak in favor of that theory. But adjusting the lens somewhat also shows a positive view. Inflation continues to inch lower, while signs have emerged that price pressure has eased, including in the services sector. We expect this trend to continue. Along with a recession and a weaker labor market, that opens a window for the US Federal Reserve to cut interest rates in the fourth quarter. Hints at a possible pause have already been dropped. We believe an eventual Fed pivot will be the most important driver for markets.

And while Chinese economic data has disappointed lately, growth momentum in emerging markets remains significantly stronger than in developed markets. We still feel comfortable with our overweight position in emerging-market stocks. See the details of our asset allocation on page 5.

	UNDERWEIGHT significantly	UNDERWEIGHT slightly	NEUTRAL	OVERWEIGHT slightly	OVERWEIGHT significantly	
1 Liquidity		→				We remain tactically underweight in cash.
2 Bonds			→			We stay neutral on fixed income and keep our overweight on government bonds. Our base case scenario is centered around slowing growth, ebbing inflation, and a peak in central bank hawkishness. This combination argues for lower rates and wider spreads in the months ahead. At the same time, we believe that the combination of the housing downturn and banking crisis should pave the way for stricter lending standards and higher default rates going forward. We therefore continue to feel comfortable with an overweight view on government bonds and a negative view on high-yield bonds. We stay neutral on investment-grade credit and keep a small overweight on emerging-market debt in hard currency. As we consider it too early to add risk just now, we stick to our overall neutral view on fixed income, unchanged from last month.
3 Equities				→		We maintain our overweight stance on equities. We feel confirmed in our economic baseline scenario for 2023, i.e., we stick to our view that a recession should unfold by year-end, that inflation should continue its downward trend, and that the Fed might stop hiking rates in the second half of the year. For our Investment Committee's nine-month horizon, the latter should be the major driver and dictate stock markets' mid-term direction. In terms of positioning, investors remain very cautious on stocks, which is usually a positive sign for mid-term performance. At the same time, equity valuations have normalized, and the last reporting season came in slightly "less bad" than expected, resulting in a bottoming out of earnings surprises for the first time in more than two years. Heavyweight sectors in Europe and the US, such as consumer goods and technology, beat expectations and represent major drivers behind the year-to-date performance in both regions. While Chinese economic data has somewhat disappointed lately, growth momentum in emerging markets remains significantly stronger than in developed markets. We therefore think that a slightly positive view is still warranted. We stay neutral for all other regions.
4 Gold				→		We keep our overweight in gold. We have long argued that gold is an efficient hedge against recession risks and geopolitical uncertainty. This became evident once more during the latest banking turmoil. While, e.g., bond market volatility spiked, gold propelled higher. On top of that, we are getting closer to a dovish central bank turn—which has historically been positive for gold.
5 Commodities			→			In our view, the signs supporting a more positive view on the asset class, e.g., supply constraints, and the continued weakening of the US dollar, are more than outweighed by the looming recession risks and falling inflation. We therefore continue to feel comfortable with a neutral view on commodities.
6 Alternative strategies			→			We maintain our neutral view on alternative investments overall and reiterate all sub-asset class views, i.e., a modest underweight in hedge funds and neutral view on real estate.

Changes month-on-month: same → higher ↗ lower ↘

When has the US consumer consumed enough?

Pandemic, inflation, banking crisis, debt ceiling debate—the last three years have truly been full of negative events. US consumers, however, remained resilient. They continued to consume diligently, keeping the economic engine humming. Even so, there are now increasing signs that they will soon have to tighten their belts.

—
Stefan Eppenberger
Head Multi Asset Strategy,
Vontobel

—
Michaela Huber
Cross-Asset Strategist,
Vontobel

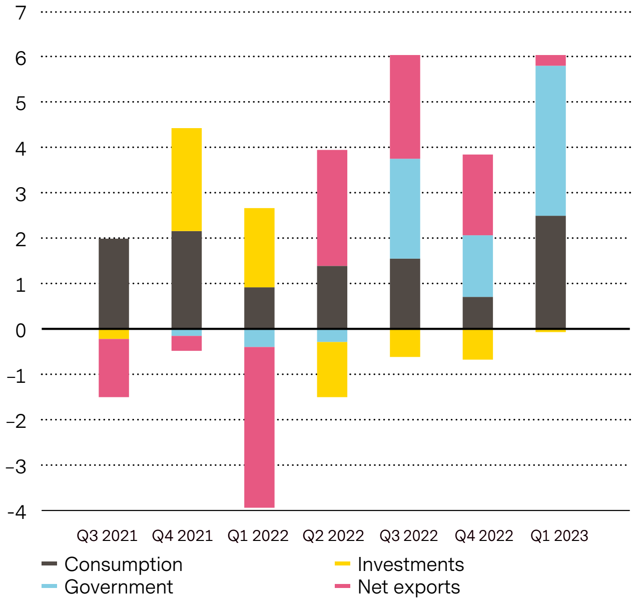
The big question before the release of US gross domestic product (GDP) for the first quarter (Q1) was whether the world's largest economy would finally contract, paving the way for the most anticipated recession ever. Once again, the answer was "no". While economic growth more than halved, US consumers rushed to the rescue, preventing a hard landing (see chart 1).

Strong demand for goods meets subdued demand for services

This resilience is remarkable but far from straightforward. At the start of the Covid-19 pandemic, real consumer spending plummeted. Then, a combination of generous stimulus measures, accumulated savings, and pent-up spending appetite saw consumers happily pull out their wallets again. Even lower real wages because of higher inflation did not dampen expenditures. Real consumer spending has now returned to the growth trend seen before the pandemic. A breakdown of spending shows that demand for consumer durables (such as automobiles, televisions, clothing, or jewelry) is significantly higher today than before the pandemic, while demand for services (such as public transportation, dental treatment, or leisure activities) has not yet caught up. It's also worth noting that US consumers' largest monthly expense is their mortgage, and many have locked in favorable 30-year fixed rates. This has contributed to the resilience of US consumers amid negative events.

Chart 1: A strong US consumer to the rescue

Key contributors to US real GDP growth*

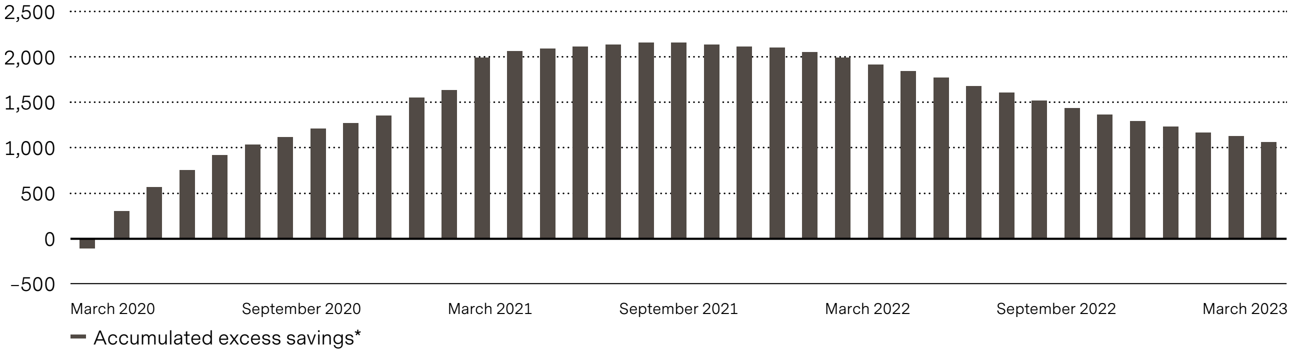


* Excluding inventory change, QoQ % change (annualized)

Source: Refinitiv Datastream, Vontobel

Chart 2: Consumers' accumulated excess savings are still elevated

In bn USD



* Actual savings versus pre-pandemic trend

Source: Refinitiv Datastream, Vontobel

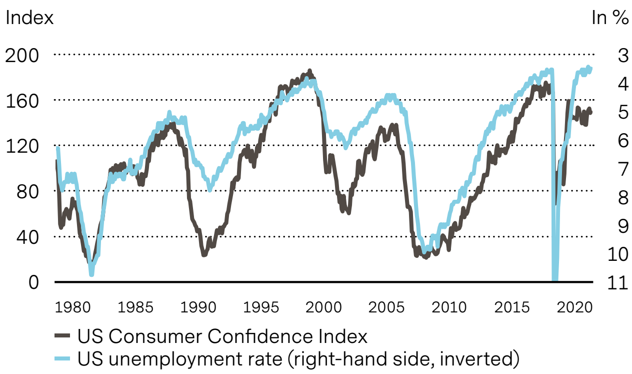
Time to tighten the belts?
In the short to medium term, private consumption could have some more room to run. Declining inflation levels are likely to have a slightly positive impact on purchasing power, and consumer savings are still high (see chart 2).

In the longer term, however, private consumption is poised to weaken. This is due to several factors. First, demand for consumer durables cannot grow above trend forever. At some point, all goods will have been replaced; the average consumer needs one, at most two cars—but not three or four. Secondly, it is questionable whether demand for services will return to trend levels in the foreseeable future due to the rise of working from home or the avoidance of crowds, for example. Thirdly, real consumer spending still exceeds real income. This means that Covid-19 savings will continue to dwindle in the coming months.

At the same time, data from the Federal Reserve Bank of New York shows that consumers are increasingly resorting to borrowing. Consumers normally accumulate credit card debt at the end of the year, especially during the holiday season, and then reduce it again at the start of the new year. In Q1 2023, for the first time in two decades, this was not the case; balances remained flat at 986 billion US dollars. This is not sustainable in the long run, especially considering the current average annual percentage rate on credit cards (20.9 percent). Such outstanding payments sound the alarm bell: while the overall delinquency rate remains low at 2.6 percent, the share of debt that is at least 30 days past due is rising for most types of loans, particularly credit cards (6.5 percent) and auto loans (6.9 percent).

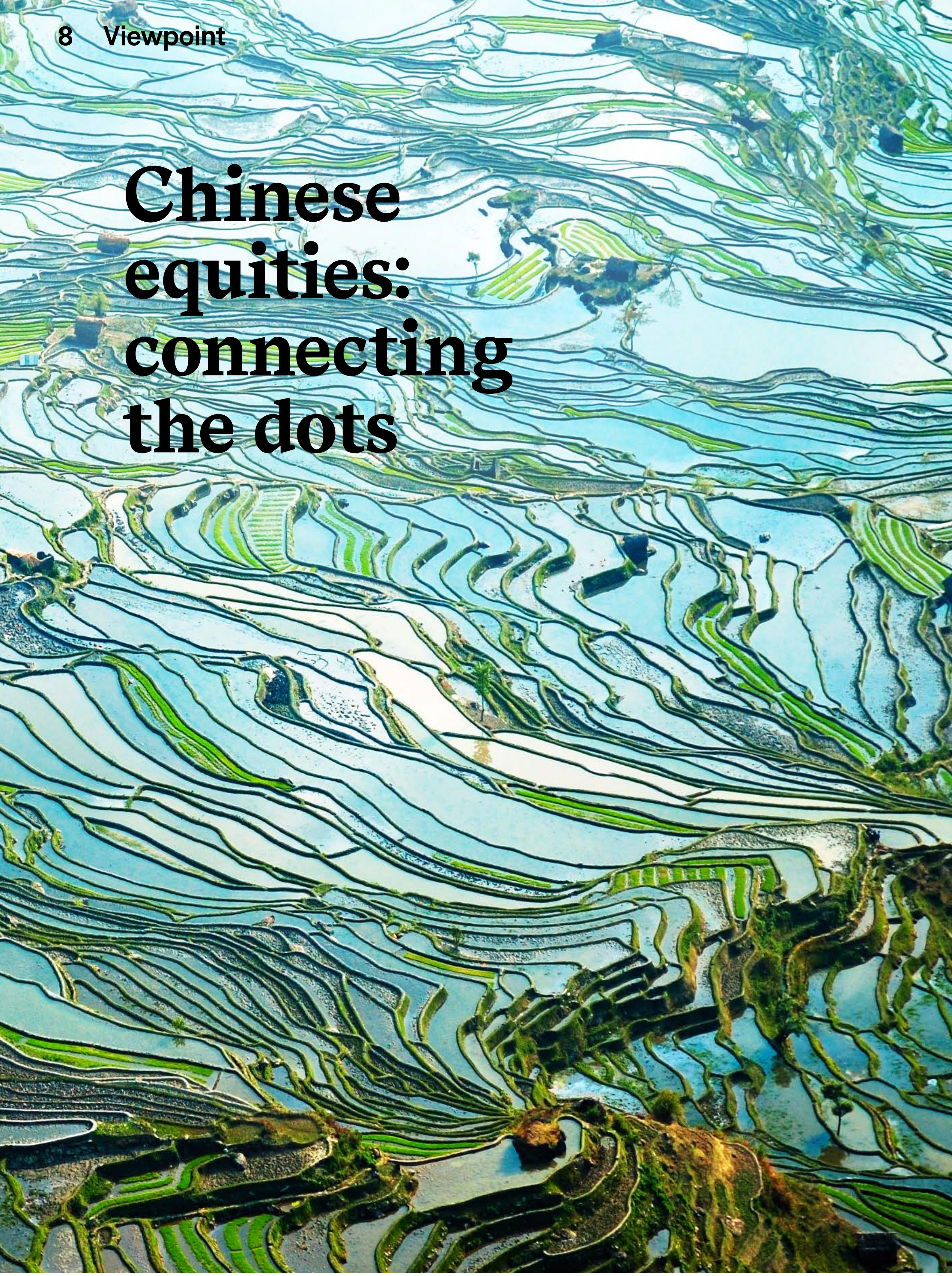
When the US labor market slows, consumer spending usually follows suit
When will this be the case? As soon as the US labor market cools noticeably and the most anticipated recession ever finally arrives. The labor market, along with inflation, is the decisive factor for consumer confidence and spending (see chart 3). In 2008, for example, the recession kicked in as soon as the labor market tanked, and the unemployment rate shot up. The consequence was, among other things, a decline in consumption growth.

Chart 3: Consumer sentiment depends heavily on how many people have jobs



Source: Refinitiv Datastream, Vontobel

Chinese equities: connecting the dots





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The return to normal life following China's zero-Covid policy had been eagerly anticipated by the market for what feels like a very long time. In this article, we assess the buzz that occurred around China once the world's second-largest economy finally reopened, evaluate recent equity market weakness, and explain why we believe investors are likely to shift their focus to the fundamentals of Chinese corporates, such as earnings growth and profitability, in due course.

After one of the worst months on record in October 2022, Chinese equities staged a remarkable comeback following the country's decision to abandon its zero-Covid policy. In the space of only a few weeks, investor sentiment towards China swung wildly from incredibly negative ("Is China still investible?") to extremely positive, with investors quickly building up their positions in Chinese equities. Economic data following the reopening points to a bumpier road to recovery than many were expecting. Coupled with heightened political tensions, this has led Chinese stocks to underperform their regional peers once again. Even so, the country still appears on track to reach its target GDP growth rate of 5 percent for 2023 (compared with a consensus real GDP growth expectation of under 1 percent for developed markets).

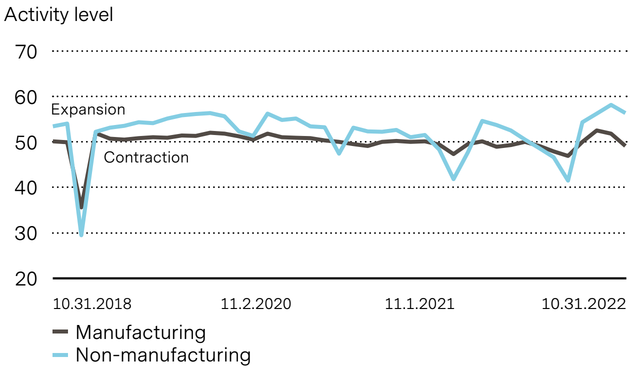
Between the end of October 2022 and the end of January 2023, Chinese stocks surged, with a return of more than 50 percent for the MSCI China Index, while the MSCI China A Onshore Index rose by almost 25 percent. Northbound equity flows to the Shanghai and Shenzhen stock exchanges surged by 245 billion renminbi (about 36 billion US dollars) between the end of October 2022 and the end of February 2023, according to data compiled by JPMorgan.

However, this euphoria was short-lived, with the MSCI China Index and MSCI China A Onshore Index dropping about 13 and 9 percent, respectively, from January 31 through May 19, 2023. In our view, such a reversal in performance has been overdone, and investors are being too pessimistic about the momentum around China's economic recovery. That said, we appreciate that concerns regarding the stickiness of inflation, future Fed rate hikes, the pace of the global economic slowdown, and geopolitical tensions have all combined to act as headwinds. Furthermore, we believe that the prior reactions to Chinese equities have been led by sentiment (initially, valuation expansion from very depressed levels, followed by disappointment regarding the pace of recovery); however, the next phase will likely be primarily driven by corporate earnings and profitability.

Evidence of an uneven recovery?

Investors have been eagerly assessing the economic data emanating from China. Chart 1 shows the Purchasing Managers Index (PMI), released by the National Bureau of Statistics of China, which is a major economic indicator. At the start of March, the highest monthly improvement in manufacturing activity in over a decade was recorded. A month later, services and construction activity data surged to its highest level since May 2011. However, since then, we have seen manufacturing slip back into contraction territory (likely a result of weaker global demand —consider the impact the slowdown has had on exports from other Asian economies, such as Taiwan), while services and non-manufacturing activity continue to stay firmly in expansion territory (albeit slipping back slightly). This analysis indicates that China is experiencing a recovery that is being driven by domestic consumption.

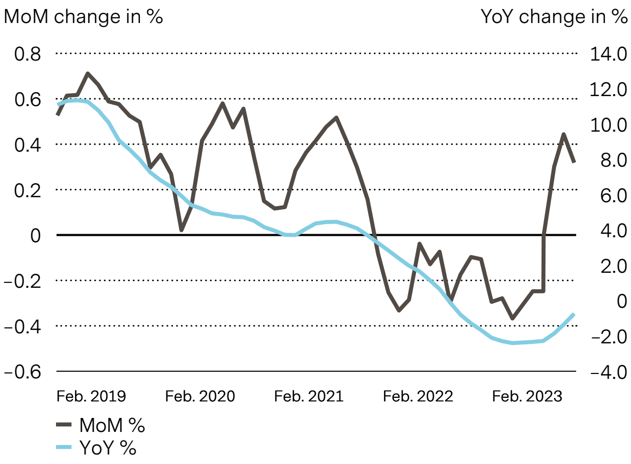
Chart 1: China's economic activity is being led by services



Source: National Bureau of Statistics, as of April 30, 2023

But what about higher-ticket items such as real estate? We know that many domestic investors are still somewhat lacking confidence in China's recovery due to the fragility of the real estate sector. Given that it accounts for some 20 percent of China's GDP, its recovery is considered essential by many. To date, real estate has also provided some positive early signs of recovery. Chart 2 shows that real estate prices are showing some signs of stabilization, with home sales in 70 medium- and large-sized cities in China rising modestly for three consecutive months between February and April 2023 (January 2023 was flat). While this is an important first step, we understand the market's scepticism regarding a sustained recovery in the real estate sector and agree that momentum will only gather pace when confidence has been fully restored for the Chinese consumer. For this reason, one could expect some volatility in these figures in the months ahead. In some respects, this is almost a self-fulfilling prophecy that needs to be addressed by the Chinese authorities and ultimately might be the area they eventually focus on when it comes to policy stimulus.

Chart 2: A modest rise in China's home sales



Source: UBS, as of April 30, 2023

Finally, China's Q1 2023 GDP figures were notably above expectations, with the economy growing 4.5 percent year on year (vs. 2.9 percent year on year in Q4 2022), confirming that the data is starting to show a pattern of recovery. While Chinese equities experienced strong inflows at the beginning of the year (about 22 billion US dollars into onshore equities during January and February), we have recently seen a strong pullback, and China / Hong Kong remains a neutral weight for most global emerging-market equity strategies. A reacceleration in corporate earnings and further evidence of a recovery in domestic consumption would likely lead more emerging-market portfolio managers to start overweighting China.

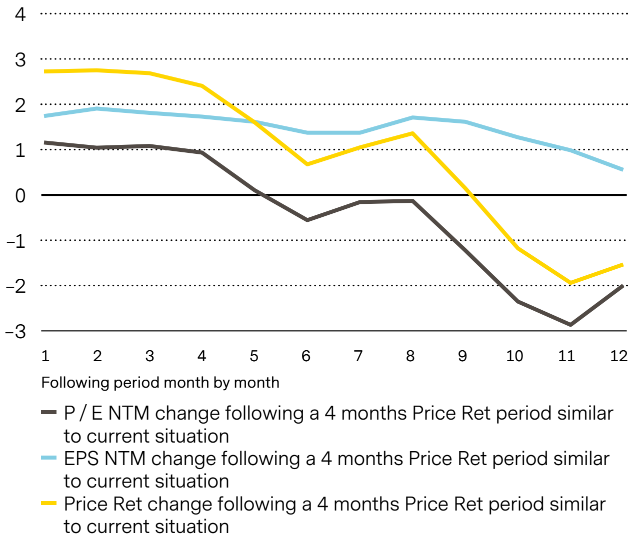
What can history teach us?

While the reopening of the world's second-largest economy following a pandemic-prompted lockdown is thankfully not a common occurrence, history can provide us with valuable lessons on market behavior. We analyzed the returns of the Chinese onshore market over the past 19 years and found that strong periods of performance were usually followed by a further period of price-to-earnings (P / E) expansion and earnings growth (see chart 3). The effect of P / E expansion lasted, on average, four months longer, followed by a reversal. However, we observed that earnings continued to rise for longer following these strong periods of performance, typically expanding for a further 12-month period.

While history is no guarantee of future performance, the pattern of performance seen over the last 19 years of China's onshore market indicates that positive earnings from Chinese companies now need to come through to convince a greater number of investors. It also shows how important momentum is for Chinese equities. Of course, caution is called for here, as China is in a very different situation today, both economically and politically. Growth rates are lower, and there is greater political uncertainty today than 10 years ago.

Chart 3: MSCI China A: Historically, earnings continued to grow after a period of P / E expansion

Change in %



Source: Vontobel, Factset, as of March 15, 2023

What's next for Chinese equities?

We remain positive on the outlook for Chinese equities for the following reasons:

- China's leaders appear to have set a new political tone. The focus is on stable and sustainable economic growth. It also seems that large-scale regulatory intervention in the economy is no longer a top priority, and this will likely prompt global investors to start refocusing on the fundamentals of Chinese companies.
- Chinese consumers and corporates need to regain confidence, and if achieved, this could result in a significant proportion of excess pandemic savings being dipped into for big-ticket item consumption or investments. Currently, these excess savings are being used to reduce debt. In addition, China needs to create new jobs and create an environment that sees rising incomes, especially for lower earners. We believe these items are high on the agenda for the government, particularly the high youth unemployment rate. Policy going into the latter part of 2023 and into 2024 could very well be focused on addressing these issues.
- We expect Chinese consumers to experience incremental improvements in confidence as the shift from zero-Covid to normal life progresses. Chinese equities could be set to experience an upward trajectory in their return cycle, which will become more evident in corporate earnings and macro data (both lagging indicators) as time passes. Should economic activity in the US cool down, given the Fed's significant rate hikes and concerns around the health of the US banking sector, the relative attractiveness of China may come to the fore (in general, emerging-market equities are trading at a significant discount to developed market equities).
- As bottom-up stock pickers, we believe that company fundamentals ultimately drive stock price returns over the long term. It has been difficult for investors to focus on the fundamental health of Chinese companies over the past few years, yet we believe the recent developments discussed in this article significantly increase the odds of investors focusing more on fundamentals.

Finding value in Treasuries and emerging-market debt

—
Christopher Koslowski
Senior Fixed Income & FX Strategist, Vontobel

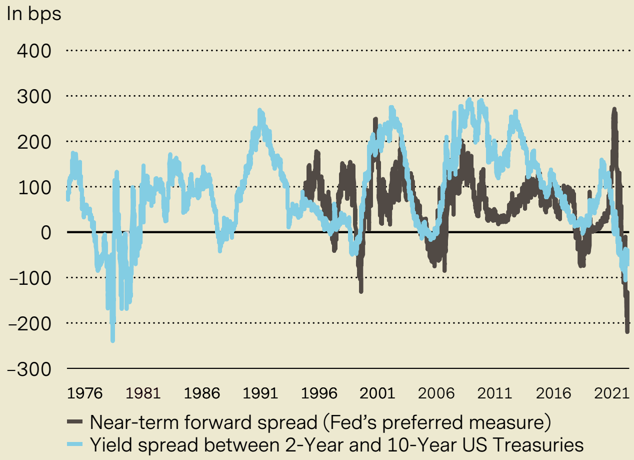
Against growing evidence that the Fed has probably delivered its final rate hike and will likely turn more accommodative towards year-end, yields on 10-Year US Treasuries should trend rangebound in the coming months before heading down towards the end of 2024.

In line with recent months, our overall outlook for fixed income remains neutral. We prefer the higher-quality end of the fixed-income market, such as government bonds, although we also see opportunity in emerging-market bonds. We maintain a defensive stance on overall credit allocation, with a neutral position in investment-grade bonds and an underweight recommendation on high-yield.

The bond market sees a recession
When the Fed began hiking rates in March of last year, Chair Jerome Powell said that the front end of the curve had "100 percent of the explanatory power of the yield curve." His view was that "if it's inverted, that means the Fed's going to cut, which means the economy is weak." Well, the near-term forward spread, the Fed's favorite metric for gauging recessions, has plummeted by 450 basis points since his comments. That measure is currently flashing in recessionary red. The Fed's own research regards minus 110 basis points as close to a 90 percent chance of a recession (see chart 1).

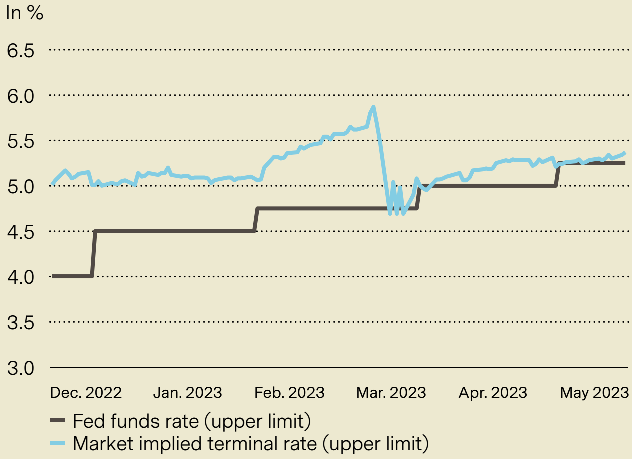
Fed funds peak rate reached?
2023 has been remarkable in terms of interest rate volatility and continued shifts in market sentiment. In January, investors concluded that a Fed pivot was close at hand, and Treasury yields and terminal rate pricing moved lower across the curve. Then in February, employment and inflation data came in stronger than expected, and Treasury yields and terminal rate pricing rose sharply again. This trend continued into the first part of March, with terminal rate expectations reaching close to 6 percent before the regional banking crisis led to a substantial drop in the expected path for Fed funds rate. As expected, the Fed raised its key interest rate by 25 basis points on May 3. The Fed has likely carried out its final hike and will instead tread cautiously in the months ahead (see chart 2).
As bond yields are a reflection of future Fed policy, our assumption of rate cuts later this year argues for lower yields and a steepening of the curve—i.e., short-term rates fall faster than long-term rates as the eventual easing cycle comes into play.

Chart 1: The bond market sees a recession—yield curve deeply inverted



Source: Bloomberg, Vontobel

Chart 2: Fed funds peak rate reached



Source: Bloomberg, Vontobel

Considering the glass half full

—
Mario Montagnani
Senior Investment Strategist,
Vontobel

Bull markets took a rest in May, with most indexes stalling around levels seen at the end of April. An encouraging reporting season in the US and Europe led analysts to flip their expectations, though, with most of them now more upbeat on their full-year estimates.

In developed markets, one impressive characteristic so far this year has been the lack of breadth at index levels: a small number of equities account for most of the year-to-date performance. In the US and Europe, just a few stocks (less than five in the US and less than 20 in Europe) have contributed to this achievement. All are either focused on or linked to the technology or consumer goods sectors. Most of the remaining constituents in those indexes barely performed. And yet, their valuations remain quite attractive. This means investors are looking at the glass as either half full or half empty.

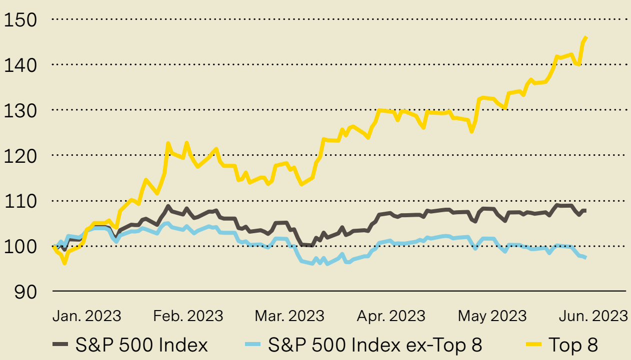
It is hard to look at markets these days without considering the growing polarization that has occurred over the last few years. This makes it tricky to compare historical cycles with stock markets and could lead to wrong investment conclusions, as markets today a) are structurally different from just 10 – 15 years ago; technology stocks now dominate in the US (see chart 1), while almost 40 percent of the eurozone's profitability and market capitalization comes from technology and consumer companies, b) have lower debt and are less leveraged c) display better cashflow generation, offering better earnings visibility.

For earnings visibility or predictability, luxury goods makers are a great example as they exert strict control on output volumes and display very low demand elasticity on price increases. That creates waiting lists that can extend beyond five years. Simply think of high-end Swiss watches or exclusive car manufacturers (see chart 2). As Enzo Ferrari once famously said, the carmaker would always deliver one car less than the market demands. That concept underscores exclusivity and desirability but also means firms need demand to grow before supplying it or they risk destroying a brand's exclusivity. Firms with strong competitive advantages will benefit from strong visibility on their order books and sound earnings predictability. The same goes for technology stocks, which benefit from good visibility on recurring revenues stemming from "asset light" business models.

While we are far from designating sectors like technology and consumer goods the golden standard across stock markets, considering the concept of index polarization and valuations, we tend to see the glass delete as half full in our tactical allocation, hence our overweight.

Chart 1: S&P 500 performance driven by eight large stocks

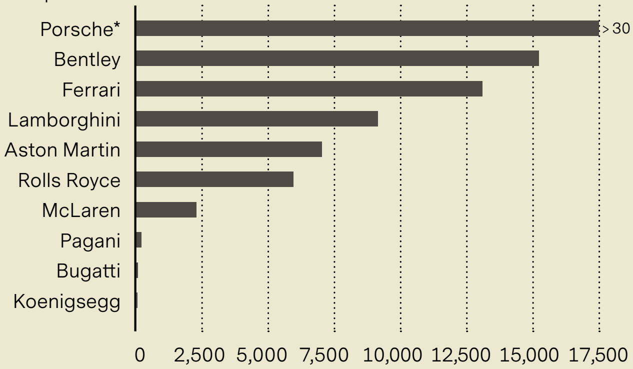
YTD performance of the S&P 500 Index (indexed Jan 1, 2023)



Source: Refinitiv Datastream, Vontobel

Chart 2: Exclusive luxury cars: scarcity spurs desire

Unit production 2022



* Unit production with retail prices > EUR 150,000

Source: Vontobel estimates, Company reports

A challenging backdrop for commodities

—
Michaela Huber
Cross-Asset Strategist,
Vontobel

Commodity markets have experienced a volatile first half of the year (see chart 1).

Oil has had to contend with some headwinds. Recession concerns and disappointing economic data out of China weighed on demand. On the supply side, there were increasing signs that significantly more oil than expected was being brought to the market.

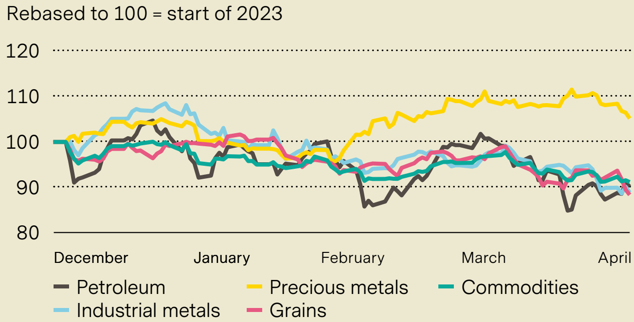
According to the International Energy Agency, Russia produced 9.6 million barrels per day in April alone, "only" 200,000 fewer than before the announced 500,000 barrel-per-day cut. It appears that Russia is trying to make up for lower prices with higher volumes. Other sanctioned countries—Iran and Venezuela—have also produced more than expected. If the Organization of Petroleum Exporting Countries and its allies (OPEC+) manage to fully implement the announced production cuts, this would support oil prices. The US plan to refill its Strategic Petroleum Reserve (albeit by only 3 million barrels) and seasonal conditions should also have a supportive effect.

A closer look at metals

Industrial metal copper had a strong start to the year. However, after Chinese economic data recently disappointed—especially data on the real estate market, which failed to meet expectations—investors' initial euphoria evaporated.

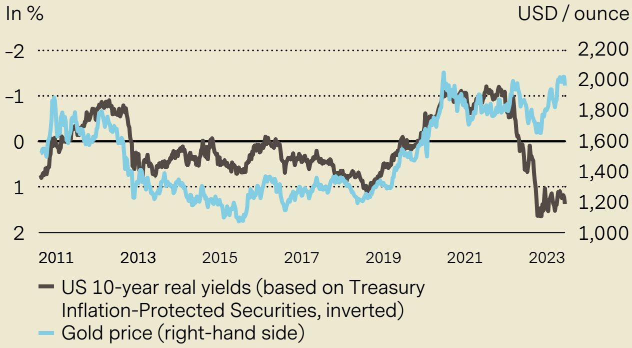
Other metals, however, were able to shine: first and foremost, gold, which seemed to effortlessly break through the psychologically important 2,000 US dollar mark. This was not only due to ongoing recession worries but also due to the debt-ceiling debate in the US, which fueled fears of a default of the world's largest economy. It is also interesting to note that gold's decoupling from US real yields, which we have observed since early 2022, has continued (see chart 2). In the past, gold and real yields were inversely correlated, meaning that gold prices rose when real yields declined and vice versa. One possible reason for the decoupling could be in-creased central bank demand. Central banks in emerging markets started to diversify their reserves after the sanctions against Russia's central bank. Going forward, the yellow metal could have some more room to rally. The end of the Fed's hiking cycle and everything that comes with it (e.g., a lower US dollar) have historically been supportive for gold.

Chart 1: A wild ride for last year's high flyer



Source: Refinitiv Datastream, Vontobel

Chart 2: Gold and real yields have decoupled since early 2022



Source: Refinitiv Datastream, Vontobel

The Fed may shape the US dollar's path

—
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Tighter credit conditions in the US as a result of the banking crisis increase the likelihood of a recession and a deeper Fed easing cycle. These developments bolster the case for a weaker dollar.

The dollar continues to face headwinds. Growth and interest rate differentials are becoming less supportive and it's possible that US economic data will deteriorate in the coming months, which will only serve to exacerbate this trend. Growth prospects could be further hampered by tighter credit conditions brought on by the stress in the US regional banking sector.

The dollar's course may be shaped by the Fed's decisions. The latter now has more to consider with recent bank turmoil and the prospect that financial conditions will tighten due to stricter credit rules as well as higher policy rates. Now that the Fed has essentially indicated a halt in the tightening cycle, the divergence in monetary policy between the Fed and other developed market central banks will likely pave the way for more dollar weakness (see chart 1). Investors' ongoing anxiety is also poised to lead to wider trading ranges for the dollar.

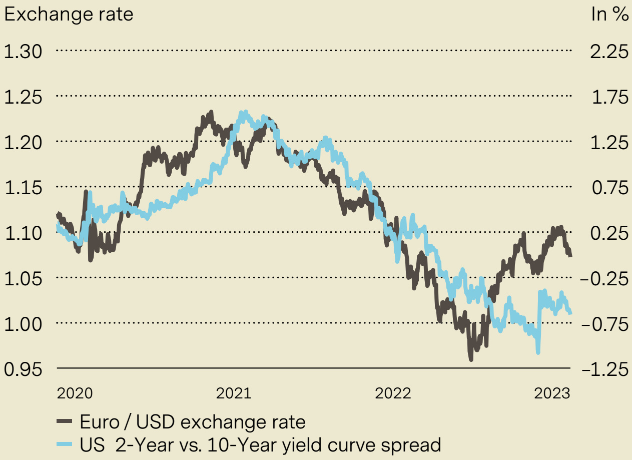
The euro is set to strengthen
The European Central Bank (ECB) is in a similar situation as the Fed but is ahead in its path towards policy normalization through rate increases. Like the Fed, the ECB has suggested a desire to slow down the pace of its hikes. However, data has challenged this thesis, as inflation has peaked but is not falling as quickly as desired. Meanwhile, the labor market remains very tight.

On a positive note, the energy situation is less negative in the near term, and the global growth backdrop should be supportive, driven by a better outlook for China. As the market contemplates the next phase of the cycle in the US, we expect continued disinversion of the yield curve. This is all consistent with our economic outlook and medium-term dollar negative / euro-dollar positive exchange rate view (see chart 2). The lows for the euro appear to be in place, but data can be noisy in this environment. This should create tradable ranges for the euro in the near term.

Chart 1: The dollar retreats

Source: Bloomberg, Vontobel

Chart 2: Steeper US yield curve means more euro-dollar upside



Source: Bloomberg, Vontobel

Economy and financial markets 2021 – 2024

The following list shows the actual values, exchange rates and prices from 2021 to 2022 and consensus forecasts for 2023 and 2024 for gross domestic product (GDP), inflation / inflationary expectations, key central bank interest rates, ten-year government bonds, exchange rates, and commodities.

GDP (IN %)	2021	2022	CURRENT[1]	2023 CONSENSUS	2024 CONSENSUS
Global (G20)	5.6	2.6	2.0	2.4	2.3
Eurozone	5.3	3.5	1.3	0.6	1.0
USA	5.9	2.1	1.6	1.1	0.8
Japan	2.3	1.1	1.3	1.0	1.1
UK	8.5	4.0	0.2	0.0	0.9
Switzerland	4.3	2.0	0.8	0.6	1.5
Australia	5.3	3.6	2.7	1.7	1.6
China	8.4	3.0	4.5	5.7	5.0

INFLATION	2021	2022	CURRENT[2]	2023 CONSENSUS	2024 CONSENSUS
Global (G20)	3.5	7.3	6.3	5.3	3.7
Eurozone	2.6	8.4	7.0	5.6	2.5
USA	4.7	8.0	4.9	4.2	2.6
Japan	–0.3	2.5	3.5	2.6	1.5
UK	2.6	9.1	10.1	6.8	2.5
Switzerland	0.6	2.9	2.6	2.5	1.5
Australia	2.9	6.6	7.0	5.6	3.1
China	0.9	2.0	0.1	2.0	2.3

KEY INTEREST RATES (IN %)	2021	2022	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
EUR	–0.50	2.00	3.25	3.7	3.37
USD	0.25	4.50	5.25	5.25	4.25
JPY	–0.10	–0.10	–0.10	–0.09	–0.07
GBP	0.25	3.50	4.50	4.65	4.10
CHF	–0.75	1.00	1.50	1.85	1.64
AUD	0.10	3.10	3.85	3.90	3.65
CNY	3.80	3.65	4.35	4.30	4.25

GOVERNMENT BOND YIELDS, 10 YEARS (IN %)	2021	2022	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS END OF 2024
EUR (Germany)	–0.2	2.6	2.49	2.4	2.08
USD	1.5	3.9	3.74	3.46	3.29
JPY	0.1	0.4	0.40	0.63	0.68
GBP	1.0	3.7	4.12	3.55	3.23
CHF	–0.1	1.6	1.06	1.38	1.19
AUD	1.7	4.1	3.65	3.62	3.31

FOREIGN EXCHANGE RATES	2021	2022	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS END OF 2024
CHF per EUR	1.04	0.99	0.97	1.00	1.01
CHF per USD	0.91	0.94	0.90	0.91	0.91
CHF per 100 JPY	0.79	0.72	0.65	0.71	0.72
CHF per GBP	1.23	1.12	1.12	1.14	1.15
USD per EUR	1.14	1.06	1.08	1.11	1.12
JPY per USD	115	130	138	129	127
USD per AUD	0.73	0.67	0.66	0.70	0.71
GBP per EUR	0.84	0.88	0.87	0.89	0.89
CNY per USD	6.37	6.91	7.05	6.75	6.70

COMMODITIES	2021	2022	CURRENT	CONSENSUS IN 3 MONTHS	CONSENSUS IN 12 MONTHS
Brent crude oil, USD per barrel	79	86	77	87.5	89
Gold, USD per troy ounce	1,829	1,824	1,959	1,960	2,000
Copper, USD per metric ton	9,720	8,372	8,128	8,800	8,991

[1] Latest available quarter
[2] Latest available month, G20 data only quarterly
Source: Vontobel, respective statistical offices and central banks; as of May 23, 2023

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