Economic Growth

1. What is the outlook for global economic growth in the wake of the dramatic monetary policy normalisation of 2022?

Global economic growth will likely remain subdued in an environment of persistent and volatile inflation, even if a recession is narrowly avoided in major economies (Exhibit 1). Growth may dip in the latter quarters of the year as the lagged impact of interest rate rises take hold. Of the three principal headwinds that severely impacted global economic growth in 2022, at least two appear to be fading in 2023. First, energy prices, which spiked following the Russian invasion of Ukraine in February 2022, have declined sharply, with both Brent Crude and European Natural Gas now trading below pre-invasion levels. Second, the world's second-largest economy, China, has dramatically re-opened following a multi-year COVID-related lockdown. Even the third headwind, rising interest rates in the US and other parts of the developed world, appears to be nearing its final innings, albeit with a high degree of uncertainty attached.

Despite dismal consensus 2023 growth forecasts made in Q4 2022 calling for the global economy to be on the verge of a recession, economic activity indicators so far this year have consistently surprised to the upside.

The most recent economic outlook from the IMF calls for global growth to fall from an estimated 3.4% in 2022 to 2.9% in 2023, then rise to 3.1% in 2024. The 2023 estimate represents a +0.2% upward revision to their October 2022 prediction, and given the strength of recent leading economic indicators in the US, Europe and the UK, has scope for further upward revisions. Even the UK, which was the only major economy expected to fall into recession, is now looking like it may escape with moderately positive growth this year.

The major risk to the above outlook comes from the future path of interest rates which itself depends on the extent to which the residual sources of inflation in the economy remain sticky. The big question facing investors is whether inflation will decline enough for central banks to declare victory and end this tightening cycle, or will it remain stubbornly elevated forcing them to embark on a second round of more aggressive policy tightening which could precipitate an even deeper recession in 2024. We detail our inflation outlook further below, but regardless of the potential for near-term disinflation, our conclusion is to expect long-term inflation levels to remain both highly volatile and elevated relative to the subdued levels of past decades as both monetary and fiscal authorities struggle to adjust policy to support growth in times of high inflation and high deficits.

The implications of the above paradigm shift point towards greater volatility in fundamental economic variables such as growth, inflation and interest rates over the next decade compared to the 'Great Moderation' experienced in previous decades. We are likely to see more boom/bust cycles reminiscent of the '80s, '90s and even 1940's. This will make the jobs of fiscal policymakers, central bankers and investors more difficult and dynamic. This context points toward the need for greater portfolio diversification, use of uncorrelated assets and active management, not only as a defense against volatility but also as a means to play offense to capture ongoing dislocation opportunities.

Exhibit 1

Economic growth is expected to be slow despite receding recession risks

	2023							2024						
Real GDP Growth (%)	**US**	**Euro Area**	**UK**	**China**	**DM**	**EM**	**World**	**US**	**Euro Area**	**UK**	**China**	**DM**	**EM**	**World**
Domestic Central Bank Forecasts[1]	0.5%	0.5%	-0.5%	n/a	n/a	n/a	n/a	1.6%	1.9%	-0.3%	n/a	n/a	n/a	n/a
OECD (November 2022)	0.5%	0.5%	-0.3%	4.6%	0.8%	3.3%	2.2%	1.0%	1.4%	0.2%	4.1%	1.4%	3.8%	2.7%
IMF (January 2023)	1.4%	0.7%	-0.6%	5.2%	1.2%	4.0%	2.9%	1.0%	1.6%	0.9%	4.5%	1.4%	4.2%	3.1%
World Bank (January 2023)	0.5%	–	n/a	4.3%	0.5%	3.4%	1.7%	1.6%	1.6%	n/a	5.0%	0.6%	4.1%	2.7%
Bloomberg Consensus	0.7%	0.4%	-0.7%	5.2%	1.4%	4.1%	2.4%	1.2%	1.2%	0.9%	5.0%	2.0%	4.4%	2.9%
Expert View (February 2023)[2]	1.3%	0.4%	-0.8%	5.6%	0.9%	3.7%	2.4%	0.8%	1.0%	0.8%	5.2%	0.9%	4.2%	2.7%
Average	**0.8%**	**0.4%**	**-0.6%**	**5.0%**	**1.0%**	**3.7%**	**2.3%**	**1.2%**	**1.5%**	**0.5%**	**4.8%**	**1.4%**	**4.1%**	**2.8%**

1 Federal Reserve (December 2022), European Central Bank (December 2022) and Bank of England (February 2023).

2 Expert view is mean of forecasts from: Barclays, Capital Economics, Deutsche Bank, Goldman Sachs, JP Morgan and Morgan Stanley.

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