



## Weekly round up (Week 16)

Escalating geopolitical risks in the Middle East and elsewhere sparked renewed volatility on financial markets last week, despite improved global growth prospects.

Risk assets were particularly hard hit: in the US, the S&P 500 index fell by 3% and the Nasdaq by 5.5%. Japan's Nikkei index fared even worse, falling by 6.2%. Credit markets were not spared, with option-adjusted spreads on US high yield bonds widening by 14 basis points (bps) to 339 bps, although triple-B corporate bonds remained relatively firm, widening by just 4 bps over the week.

### Inflationary policy

On April 12, the UK and the US announced an extension of the ban on metal exchanges accepting Russian-produced aluminum, copper and nickel, while prohibiting imports of these metals. This news led to a strong week for industrial metals, with the price of aluminum rising by almost 5%. The United States and the European Union are also preparing new sanctions against Iran in response to its missile and drone program.

Meanwhile, the trade war between the US and China continues. U.S. President Joe Biden has called for a tripling of tariffs on Chinese steel and aluminum imports, to protect the U.S. steel and shipbuilding industries from China's "unfair practices". On the other hand, during his meeting with German Chancellor Olaf Scholz in Beijing last week, President Xi Jinping asserted that Chinese exports were helping to curb global inflation and support the energy transition.

### Spring in Washington

Growth took center stage last week at the annual spring meeting of the World Bank and the International Monetary Fund (IMF), held in Washington DC. During the event, the IMF released revisions to its global economic outlook, generally upwards, with a few exceptions (**see this week's chart**).

Global growth was raised by 0.1% to 3.2% in 2024. Advanced economies are now expected to grow by 1.7%, and the US by 0.6%, to reach 2.7%. The IMF said that most indicators point to a soft landing in the US, although its projections for the Eurozone are more pessimistic, lowering its growth forecast for 2024 from 0.9% to 0.8%.

Prospects for emerging markets look more favorable, with emerging and developing economies expected to grow by 4.2% this year. Improved growth in India and Brazil contributed to this revision. Asia should account for 60% of global growth this year, driven by India.



China's estimated growth remained unchanged at 4.6%, although given the better-than-expected economic data, a revision of the IMF's next economic outlook cannot be ruled out. In the first quarter, China's economy grew by 5.3% year-on-year, well above the 4.6% consensus of economists polled by Reuters. This suggests that the Chinese economy is building on the momentum of Q4 2023, when it grew by 5.2%.

## **Fiscal leeway**

The IMF has dropped its fears of an imminent recession and said it was positively surprised by the resilience of the banking systems and emerging countries. Inflation and debt are the main concerns. While still expecting central banks in advanced economies to meet their inflation targets, the IMF warned that recent headline and core inflation figures called for continued vigilance.

In the long term, the IMF is concerned about fiscal largesse. Global public debt is expected to reach 98.8% of GDP by 2029, up from 93.2% in 2023, and the IMF is urging the US and China to act. China's public debt is set to rise from 83.6% of GDP at the end of 2023 to 110.1% in 2029, and that of the USA from 122.1% to 133.9% over the same period. If nothing is done, the IMF warns that China's debt could double over the next 30 years, while that of the USA could rise by 70%.

Forecasts for US rate cuts have been revised downwards in recent weeks, which the IMF attributes to fiscal slippage. "A lax US fiscal policy could make the final stage of disinflation harder to achieve while exacerbating the debt burden," said the IMF.

Last week, members of the US Federal Open Market Committee (FOMC) stepped up their communications, as the recent trend of upward inflationary surprises continued, this time with regard to retail sales. Excluding auto-related receipts, retail sales rose by 1.1% month-on-month, the highest figure since January 2023 and well ahead of expectations of 0.4%.

The FOMC's basic assumption remains that it will begin to remove restrictive policy this year. However, given current economic events, the committee may need more time to reach its inflation target, and restrictive policy may prove necessary for longer. The overnight interest-rate swap market is forecasting just one more 25bp cut in key rates this year, in November.

As we noted in last week's market commentary, the European Central Bank (ECB) is in a different position. Last week, Robert Holzmann, Governor of the Austrian Central Bank and one of the most prominent hawks on the ECB Council, admitted: "If inflation develops as expected and, above all, if geopolitical problems do not worsen, a majority will probably emerge in favor of an interest rate cut in June."



## Chart of the week

### IMF updates GDP growth forecasts (annual percentage change)

|                                                 | April outlook |       |       | January outlook |       |       |
|-------------------------------------------------|---------------|-------|-------|-----------------|-------|-------|
|                                                 | 2023          | 2024F | 2025F | 2023F           | 2024F | 2025F |
| <b>World</b>                                    | 3.2           | 3.2   | 3.2   | 3.1             | 3.1   | 3.2   |
| <b>Advanced economies</b>                       | 1.6           | 1.7   | 1.8   | 1.6             | 1.5   | 1.8   |
| US                                              | 2.5           | 2.7   | 1.9   | 2.5             | 2.1   | 1.7   |
| Euro area                                       | 0.4           | 0.8   | 1.5   | 0.5             | 0.9   | 1.7   |
| Germany                                         | -0.3          | 0.2   | 1.3   | -0.3            | 0.6   | 1.6   |
| France                                          | 0.9           | 0.7   | 1.4   | 0.8             | 1     | 1.7   |
| Italy                                           | 0.9           | 0.7   | 0.7   | 0.7             | 0.7   | 1.1   |
| Spain                                           | 2.5           | 1.9   | 2.1   | 2.4             | 1.5   | 2.1   |
| Japan                                           | 1.9           | 0.9   | 1     | 1.9             | 0.9   | 0.8   |
| UK                                              | 0.1           | 0.5   | 1.5   | 0.5             | 0.6   | 1.6   |
| Canada                                          | 1.1           | 1.2   | 2.3   | 1.1             | 1.4   | 2.3   |
| Other advanced economies                        | 1.8           | 2     | 2.4   | 1.7             | 2.1   | 2.5   |
| <b>Emerging market and developing economies</b> | 4.3           | 4.2   | 4.2   | 4.1             | 4.1   | 4.2   |
| Emerging and developing Asia                    | 5.6           | 5.2   | 4.9   | 5.4             | 5.2   | 4.8   |
| China                                           | 5.2           | 4.6   | 4.1   | 5.2             | 4.6   | 4.1   |
| India                                           | 7.8           | 6.8   | 6.5   | 6.7             | 6.5   | 6.5   |
| Emerging and developing Europe                  | 3.2           | 3.1   | 2.8   | 2.7             | 2.8   | 2.5   |
| Russia                                          | 3.6           | 3.2   | 1.8   | 3               | 2.6   | 1.1   |
| Latin America and the Caribbean                 | 2.3           | 2     | 2.5   | 2.5             | 1.9   | 2.5   |
| Brazil                                          | 2.9           | 2.2   | 2.1   | 3.1             | 1.7   | 1.9   |
| Mexico                                          | 3.2           | 2.4   | 1.4   | 3.4             | 2.7   | 1.5   |
| Middle East and Central Asia                    | 2             | 2.8   | 4.2   | 2               | 2.9   | 4.2   |
| Saudia Arabia                                   | -0.8          | 2.6   | 6     | -1.1            | 2.7   | 5.5   |
| Sub-Saharan Africa                              | 3.4           | 3.8   | 4     | 3.3             | 3.8   | 4.1   |
| Nigeria                                         | 2.9           | 3.3   | 3     | 2.8             | 3     | 3.1   |
| South Africa                                    | 0.6           | 0.9   | 1.2   | 0.6             | 1     | 1.3   |
| Emerging market and middle-income economies     | 4.4           | 4.1   | 4.1   | 4.2             | 4     | 4     |
| Low-income developing economies                 | 4             | 4.7   | 5.2   | 4               | 5     | 5.6   |

  

|           |
|-----------|
| Up        |
| Down      |
| No change |

#### Disclaimer:

DC Advisory issues this report as general information only, without taking into account the circumstances, needs or objectives of any of its readers. Readers should consider the appropriateness of any recommendation or forecast or other information for their individual situation and consult their investment advisor.

The views and opinions expressed herein reflect the views of the authors of the content as of the date of the publications and are subject to change based on market and other conditions. Any reference to securities, sectors, regions and/or countries is for illustrative purposes only. The value of investments and the income from them may go down as well as up. Exchange rate fluctuations may cause the value of investments in foreign currencies to rise or fall.

DC Advisory shall not, nor its employees, associates or agents, be responsible for any loss arising from any investment based on any recommendation, forecast or other information herein contained. The contents of this publication should not be construed as an express or implied promise, guarantee or implication that the forecast information will eventuate, that readers will profit from the strategies herein or that losses in connection therewith can or will be limited. Any investment in accordance with the recommendations in an analysis, can be risky and may result in losses in particular if the conditions or assumptions used for the forecast or mentioned in the analysis do not eventuate as anticipated and the forecast is not realised.

DC Advisory utilises financial information data providers and information from such providers may form the basis for an analysis. Data collected from third parties is provided without warranty of any kind. DC advisory and the Data Provider assume no liability in connection with the Third Party Data and accepts no responsibility for the accuracy or completeness of any information herein contained.

Past performance is not indicative of future performance and may not be repeated.  
20240423 © DC Advisory