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Monthly Macro Insights

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Global growth resilience expected in 2024 masks the continuation of sharp regional divergences. Although headline inflation in most G20 countries is projected to continue its normalisation, it is unlikely to be back to target before the end of 2025, and upside risks remain elevated. In fact, central banks may be forced to remain prudent to ensure that underlying inflationary pressures are durably contained.

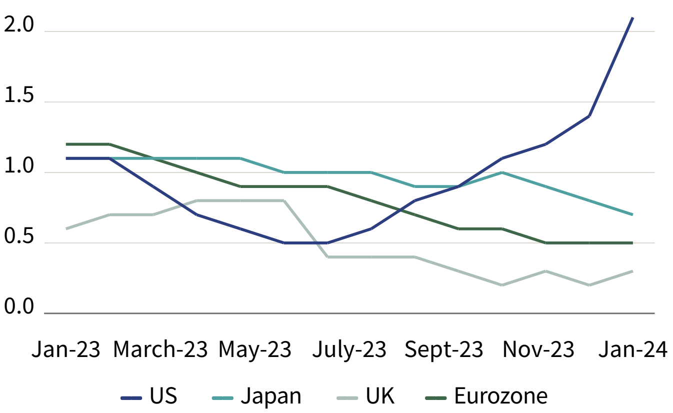
Challenges for the US...

Last year, growth was particularly buoyant in the US amid high government spending and strong household consumption. However, after two years of pent-up demand, fuelled in part by surging credit card debt, massive government stimulus and the run-down of the excess savings accumulated since the beginning of the pandemic, the consumption engine may lose steam this year despite lower inflation strengthening real wage growth.

Indeed, credit card delinquencies are rising, the moratorium on student-loan repayments has ended and the savings rate cannot fall much further. Although a month does not constitute a trend, consumers pulled back on spending in January as retail sales slowed by more than expected, declining -0.8 per cent m/m[1] while the prior month's growth was revised lower.

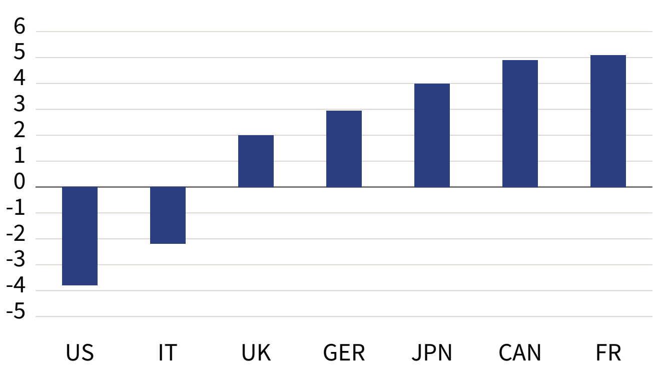
In fact, high-frequency activity indicators show the US economy started 2024 on a weaker footing. The ISM manufacturing business

Advanced economies - 2024 GDP growth forecasts
in %



Sources: Consensus Forecast, Rothschild & Co Asset Management, March 2024.

OECD - Change in excess savings
in p.p. disp. inc., change over 2 years Q3-23



Sources: OECD, Rothschild & Co Asset Management, March 2024.

(1) Source: Bloomberg, 29/02/2024

confidence index fell by 1.3 points to 47.8 in February [2] (thus remaining in contraction territory for the sixteenth month in a row) as the sub-indexes of new orders, production and employment contracted, suggesting that manufacturing is struggling for momentum. In the services sector, the ISM unexpectedly slipped -0.8 points to 52.6 [1] as businesses were concerned about inflation, employment and ongoing geopolitical conflicts.

Even though investors seem to underplay the downside risks for the US economy, inflation has generally surprised to the upside. Both core CPI and PCE indices accelerated in January from the previous month, both rising 0.4 per cent m/m (1), the fastest pace since April 2023 and January 2023 respectively. The producer price index also increased more than expected, climbing 0.5 per cent m/m, excluding food and energy. On the one hand, these inflation data may have been driven by some odd seasonal factors, which likely explains why investors remain optimistic. On the other hand, it may be a signal that inflation is stickier than expected, and that achieving the Fed's target will prove much more challenging.

In February, the ISM services prices sub-index was 58.6 [1], still above the pre-pandemic average. What's more, higher shipping costs due to trade disruptions in the Red Sea could have a non-marginal impact on inflation, and longer delivery time and potential supply chain disruptions constitute another upside risk. In addition, consumers' long-run inflation expectations were unchanged for the third month straight, according to a University of Michigan survey, remaining at the top of the range seen in the last three decades, keeping policymakers nervous about the risk of inflation expectations de-anchoring.

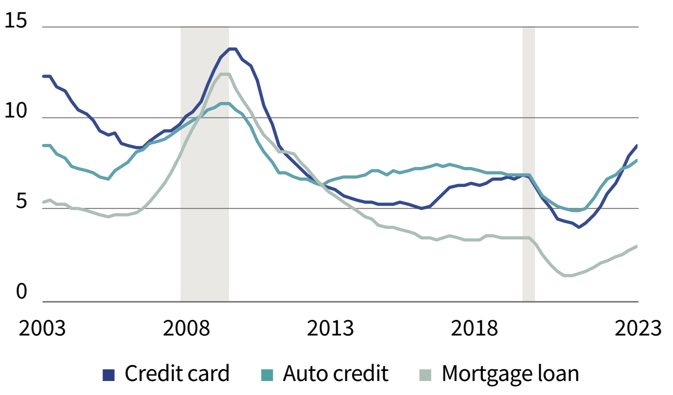
...and for the Eurozone

At the end of 2023, Eurozone GDP was broadly at the same level as in the third quarter of 2022 [2]. Contrary to the US, consumption and investment barely moved last year, while the weak positive contribution to growth of external demand was driven by imports falling more than exports.

Looking ahead, the European Commission economic sentiment index unexpectedly fell in February, suggesting no imminent rebound in GDP amid the fastest tightening cycle in the history of the Eurozone. Conversely, according to the latest PMI[4], the Eurozone's economy moved closer to stabilisation in February (49.2) as service providers (50.2) recorded a fractional improvement in economic activity for the first time in seven months, which was in part offset by a further fall in manufacturing (46.5)[5]. For now, investors have decided to favour the PMI signal, expecting GDP growth will accelerate as soon as Q2-2024, namely on the premise that monetary policy will be eased and that the accumulation of excess savings from the pandemic – which is estimated at around EUR 1 trillion in Q3-2023 [2] – would eventually support consumption growth. Yet, several factors call for caution.

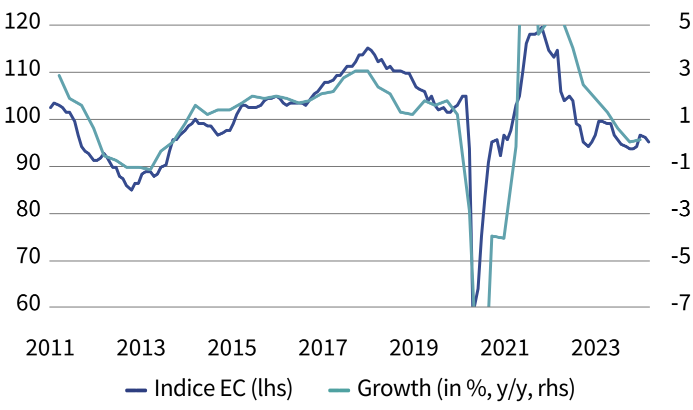
Indeed, the allocation of savings across liquid assets, illiquid assets and loans is central to understanding how this persistently large stock of excess savings might be affecting household consumption. Households that recently used mortgage borrowing to purchase a home may have had to do so with higher deposits. Furthermore, rising interest rates have increased the opportunity cost of consumption as banks have increased interest rates on

US – Delinquencies rates
in %, 30 days



Sources: Macrobond, Rothschild & Co Asset Management, March 2024.

Eurozone – Growth and confidence
index and in %



Sources: Macrobond, Rothschild & Co Asset Management, March 2024.

(2) Source: U.S. Bureau of Labor Statistics, February 2024.
(3) Source: IMF, World Economic Outlook, January 2024.
(4) Purchasing Managers' Index, an indicator reflecting the confidence of purchasing managers in a sector of activity. Above 50, it indicates an expansion in activity; below 50, a contraction.
(5) Source: S&P Global, February 2024.

deposits, while tightening credit as reflected in the ECB's Bank Lending Survey. As a result, households re-allocated their savings towards higher-yielding illiquid assets.

Correspondingly, investors' view that a significant unleashing of excess savings will provide an extra boost to consumption could be misplaced, as households have not decided to hold money in cash or bank deposits, which they can easily liquidate to buy goods and services, but rather have invested in long-term, more illiquid financial assets, such as equities and bonds, or buying non-financial assets such as housing. What's more, households at the top of the income distribution are holding the bulk of the excess savings, and also have the lowest propensity to consume, i.e. tend to spend less out of each additional euro of disposable income.

In addition, the ECB could upset investors' hopes of significant rate cuts in 2024. The inflation surprised to the upside in February and, more fundamentally, the combination of mediocre productivity and elevated wage growth implies the unit labour cost growth remains above rates compatible with medium-term inflation objectives.

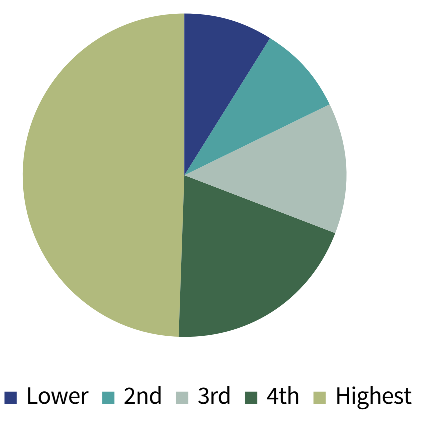
Murky outlook in China

The growth target and macroeconomic policy stance have been revealed at the National People's Congress. The 2024 growth target was set at 5 per cent, the same as in 2023, though this will be much harder to achieve given the more challenging base effect. By setting the bar high for this year, the authorities might have signalled their plans to provide stronger support for the economy, or instead tried to boost consumer and business confidence.

According to the NBS business confidence index, weak demand remains an obstacle for the economy with China's factory activity shrinking for the fifth month straight in February, the index falling to 49.1. However, the Caixin [5] PMI manufacturing index edged up to 50.9 in February, thus sending a conflicting signal. Inflation fell -0.8 per cent in January [6], the fastest pace since the global financial crisis, piling pressure on the government to stepup support as the economy faces persistent deflationary pressure.

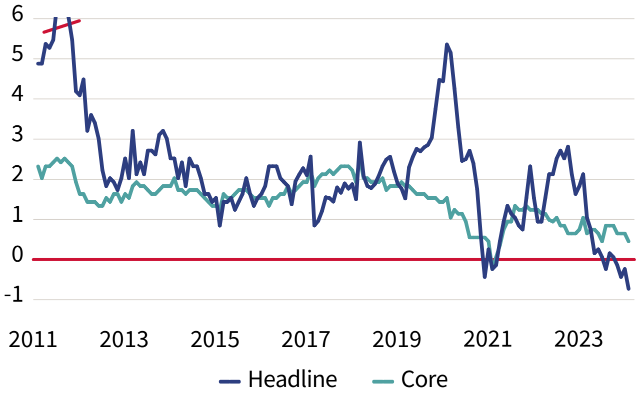
Completed writing on 7 March 2024

Eurozone – Accumulated excess savings
in % by income quintile



Sources: ECB, Rothschild & Co Asset Management, March 2024.

China – Inflation rate
in %, y/y



Sources: Macrobond, Rothschild & Co Asset Management, March 2024.

(5) Source: S&P Global, February 2024.
(6) Source: National Bureau of Statistics of China, March 2024.

Performance of the indices and interest rate levels

	Price as of 29/02/2024	1 month % change	2024 % change
Equity markets			
CAC 40	7 927	3.5%	5.1%
Euro Stoxx 50	4 878	4.9%	7.9%
S&P 500	5 096	5.2%	6.8%
Nikkei 225	39 166	7.9%	17.0%
Currencies			
EUR/USD	1.08	-0.1%	-2.1%
EUR/JPY	162.06	2.0%	4.1%

Interest rates	Price as of 29/02/2024	1 month bp(1)	2024 bp(1)
3 month			
Eurozone	3.85%	5	19
United States	5.38%	2	3
10 years			
Eurozone	2.41%	14	24
United States	4.25%	34	3

(1) Basis point.

Source: Bloomberg. data as of 29/02/2024. Performances in local currency.

Past performance is not a reliable indicator of future performance and is not constant over time.
Index's performance is calculated on the basis of net dividend reinvested.

About Rothschild & Co Asset Management
As the specialised asset management division of the Rothschild & Co group, we offer personalised asset management services to a broad client base of institutional investors, financial intermediaries and distributors. Our development is focused on a range of open-ended funds, marketed under four strong brands: Conviction, Valor, Thematic and 4Change, and leveraging our long-term expertise in active management with conviction as well as in delegated management. Based in Paris and established in 9 European countries, we manage more than 31 billion euros and employ nearly 160 people. More information at: www.am.eu.rothschildandco.com

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