



Europe macro outlook

#PositiveImpact

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Key DB macro forecasts



	Current	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Dec-24
Real GDP Growth - %yoy							
United States		1.1	2.0	2.2	0.9	-0.6	2.2
Japan		0.9	1.6	0.9	1.1	0.4	1.2
Eurozone		1.4	0.2	-0.8	-1.0	-0.5	1.5
China		3.0	1.4	5.3	4.3	6.1	5.2
CPI (period avg) - % yoy							
United States		7.1	5.5	3.4	2.8	2.7	2.9
Japan		3.8	2.2	2.5	2.0	1.7	1.1
Eurozone		10.0	8.0	7.0	6.1	4.5	1.0
China		1.8	2.5	2.1	2.3	3.1	2.8
FX							
USD/JPY	128	131	129	125	123	120	115
EUR/USD	1.08	1.07	1.08	1.10	1.13	1.15	1.25
GBP/USD	1.22	1.21	1.23	1.25	1.27	1.28	1.32
USD/CNY	6.76	6.90	7.20	7.10	6.90	6.80	6.40
Rates							
US 10Y yield	3.50	3.87	4.00	3.95	3.65	3.65	
US official interest rate	4.375	4.375	4.875	5.125	5.125	4.625	3.125
Japan 10Y yield	0.53	0.42	0.50	0.50	0.75	0.60	0.60
Japan official interest rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	0.10
Eurozone 10Y yield	2.17	2.57	2.50	2.60	2.60	2.60	
Eurozone official interest rate	2.00	2.00	3.00	3.25	3.25	3.25	2.50
China 10Y yield	2.92	2.84		3.15		3.30	
China official interest rate	2.75	2.75	2.75	2.75	2.75	2.75	2.75

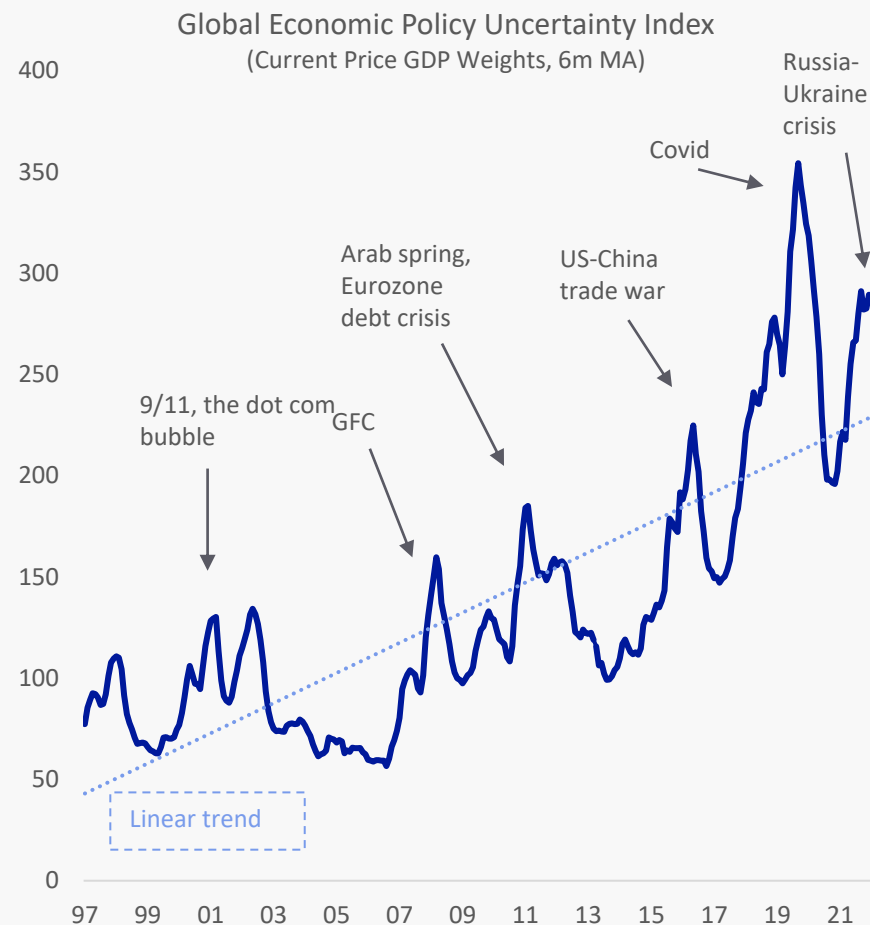


1. Economic

1. US recession
2. Stagflation in the eurozone
3. China reopening

2. Political

1. Changing geopolitical landscape
 1. Weaponisation of trade
 2. US-China stand-off
 3. Green policy and protectionism
2. Uncertainty in Ukraine
3. Antitrust and tech regulation



Source: Bloomberg Finance LP, Deutsche Bank

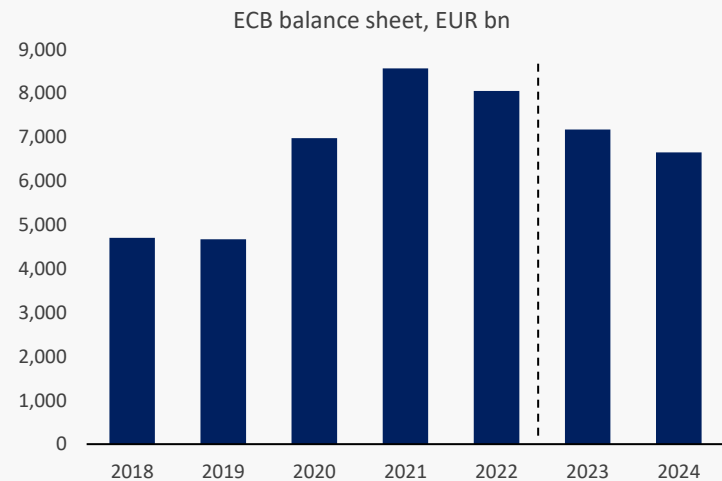
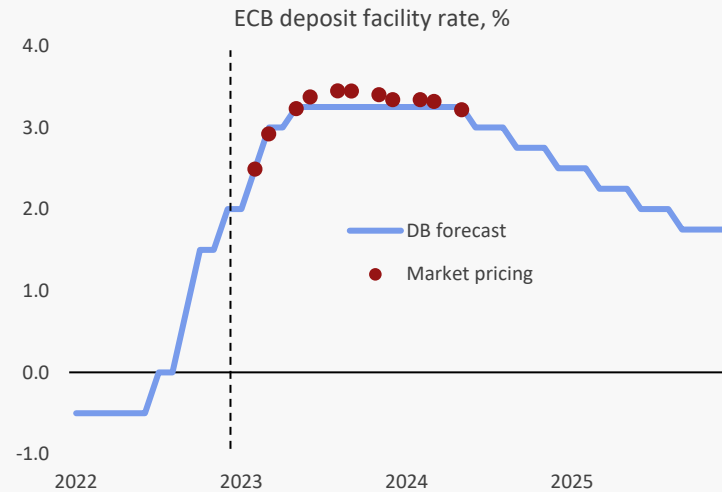
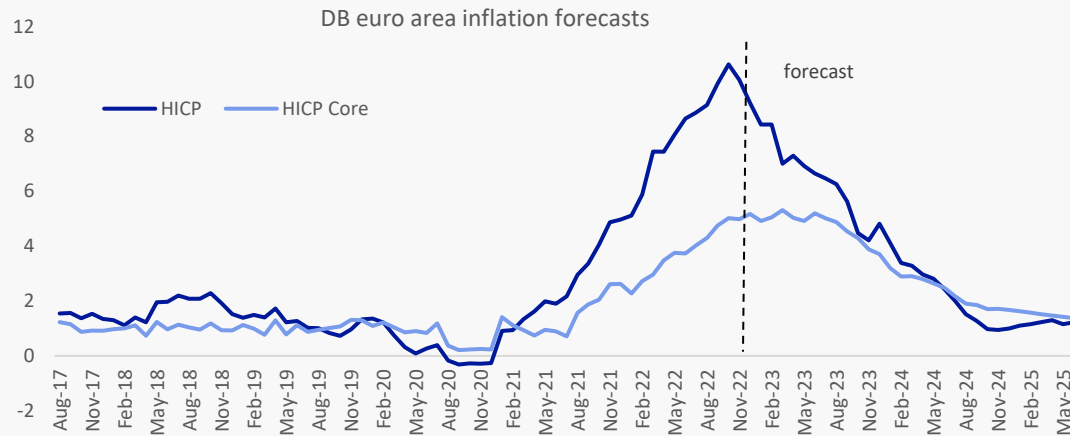


High inflation is a key concern:

A convincing peak in underlying inflation is unlikely before the end of summer.
Persistent inflation is a risk.

Monetary policy – the second stage of monetary exit:

Shifting from frontloading to a slower pace of hikes and balance sheet consolidation. ECB's terminal rate forecast at 3.25% (mid-23 to mid-24), followed by 150bp of cuts by end-2025 but ongoing QT.



Source: Haver Analytics, Eurostat, ECB, Bloomberg Finance LP, Deutsche Bank



Ongoing challenges to growth:

Recession threat in winter 2022/23 is receding, helped by mild weather, wind power and fiscal easing

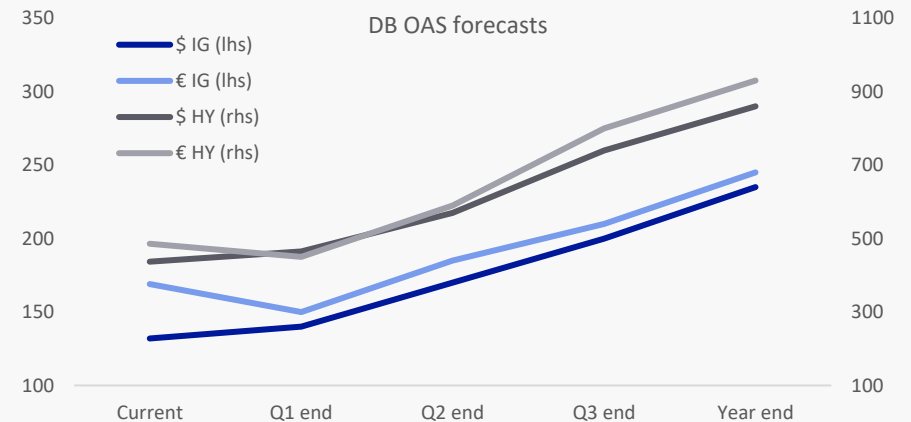
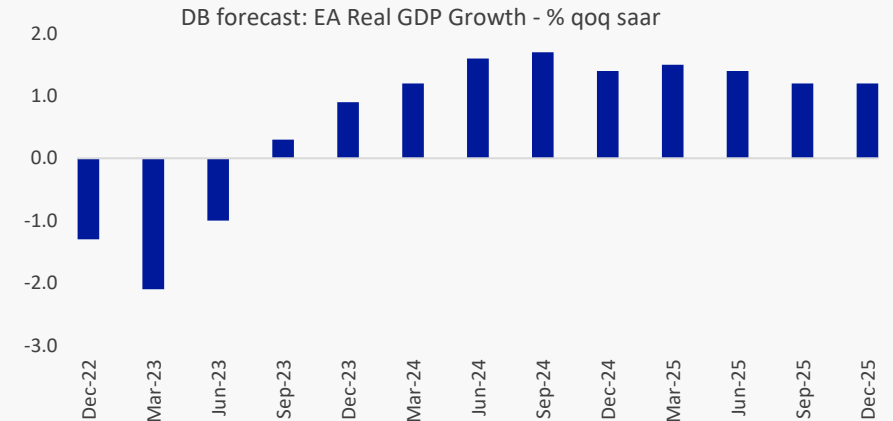
Risk of downturn shifting to late 2023, from US recession and lagged impact of ECB tightening

Credit – expect tactical resilience, especially in Europe:

Q1'23 €IG and €HY spread targets 150bps and 450bps

Prefer higher quality going into a recession

Prefer European credit over US credit due relative cheapness



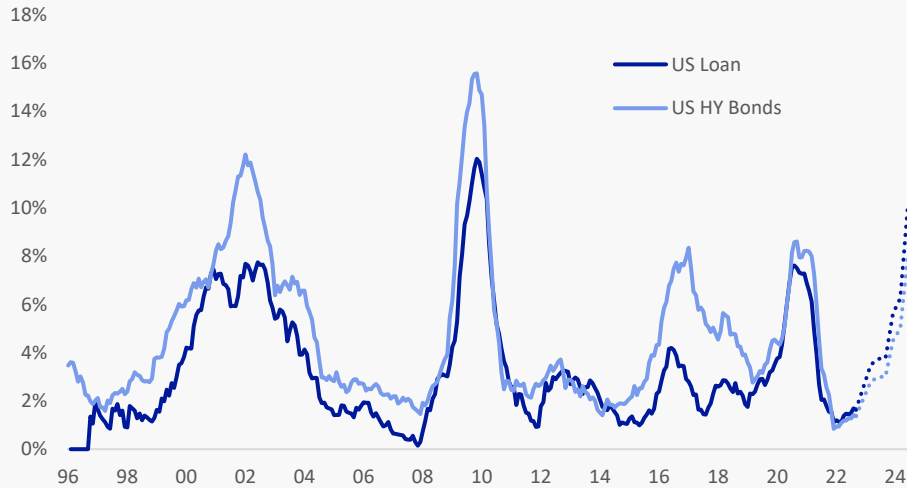
Source: Bloomberg Finance LP, Deutsche Bank



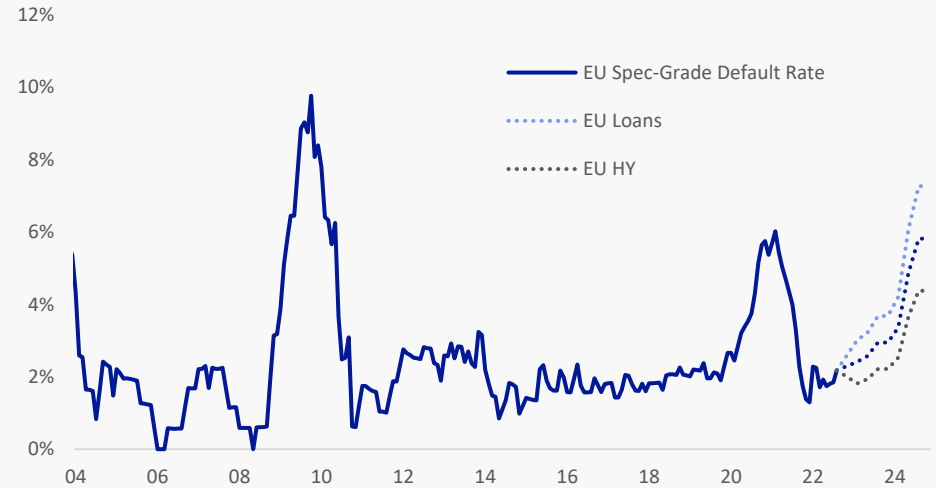
Default rate forecast

Major DM economies are due a default cycle after a decade of relative stability, cheap credit and abundant central bank support. Default rates will only slowly rise in 2023, but we expect a sharper rise in 2024.

Default rates: US



Default rates: Europe



Market	Current	Q2'23	YE'23	Q2'24	YE'24
\$ HY	1.4%	3.0%	4.5%	8.0%	9.0%
\$ Lev Loan	1.6%	3.8%	5.6%	10.0%	11.3%
€ HY	2.2%*	2.0%	2.2%	3.7%	4.3%
€ Lev Loan	2.2%*	3.2%	3.7%	6.1%	7.1%

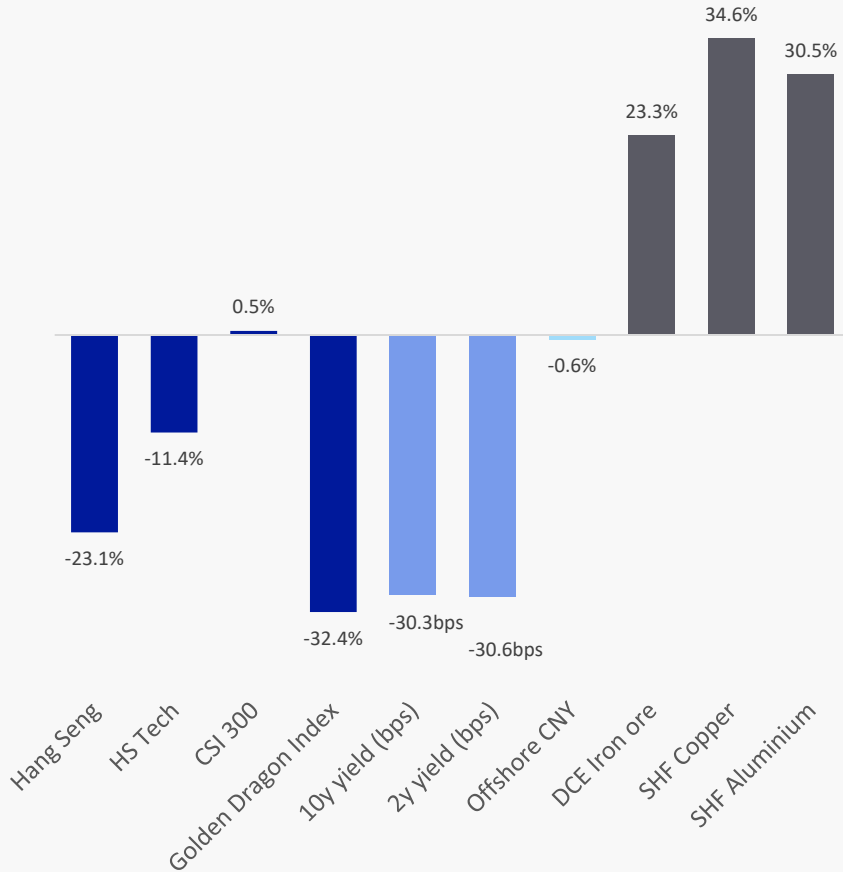
Source: Bloomberg Finance LP, S&P LCD, Deutsche Bank. Note: * = Spec-Grade in Total

China macro

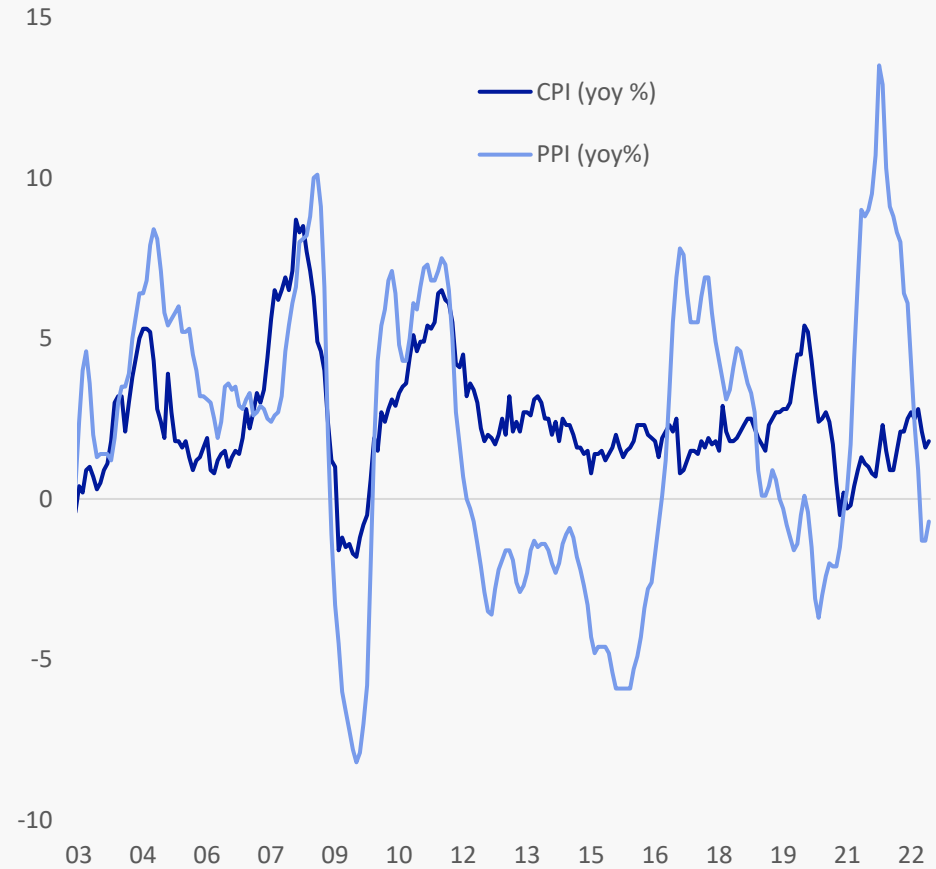
China's rapid reopening is a major wildcard for the global economy as the US and Europe are expected to enter a recession this year. It may also have important effects for commodities demand just as headline inflation cools in DM.



Selected Chinese assets
% change Dec'19 to Dec'22



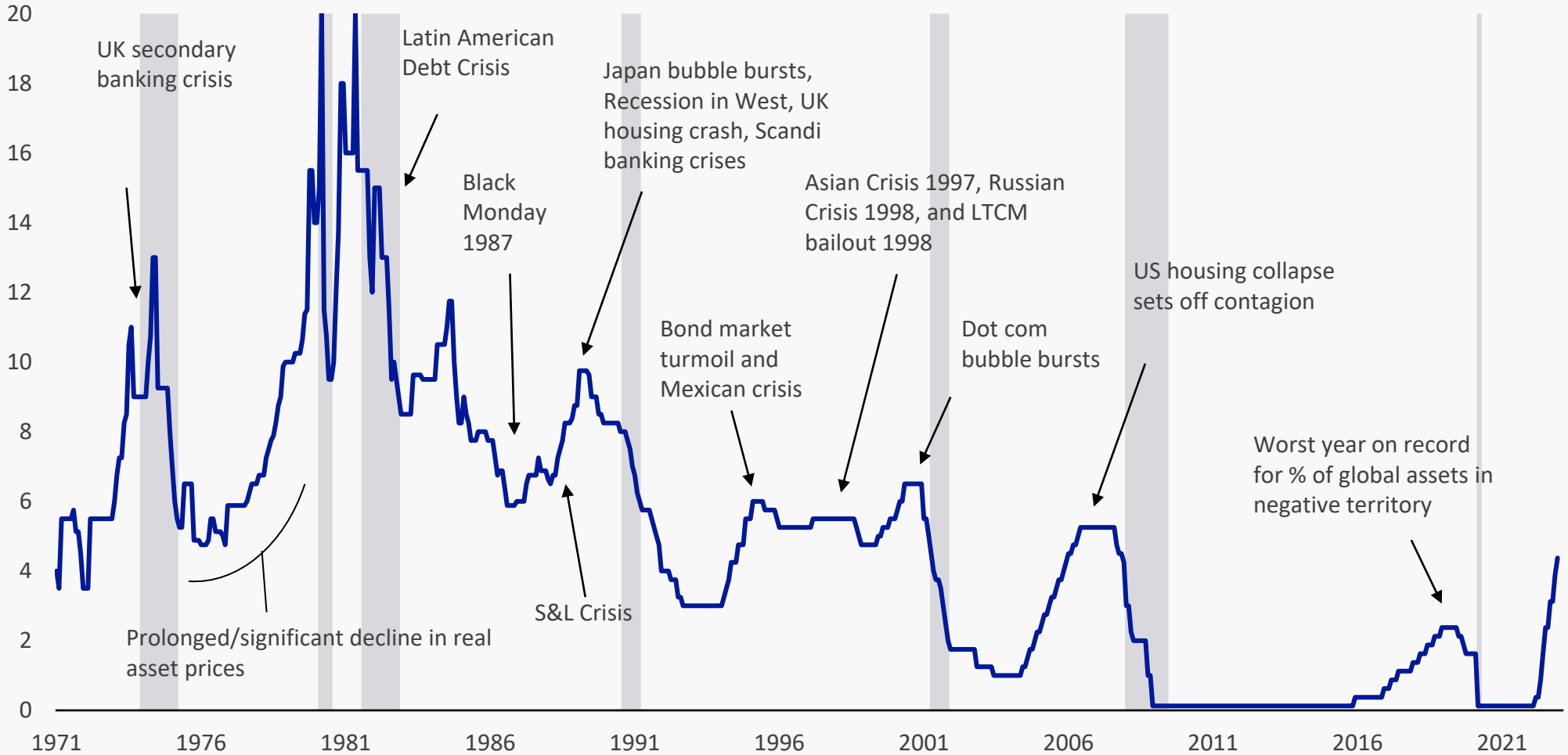
Chinese inflation: CPI remains low despite very volatile PPI figures



Source: Bloomberg Finance LP, Deutsche Bank. Note: total returns for equities and prices for commodities in local currency

Breaking points

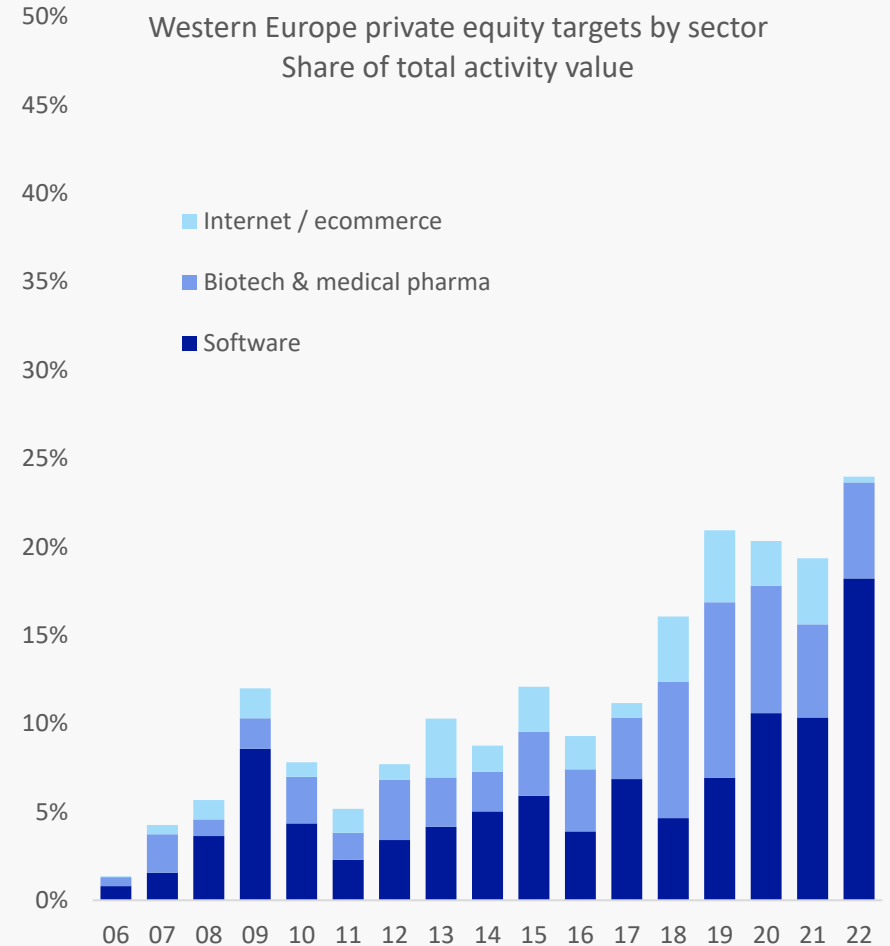
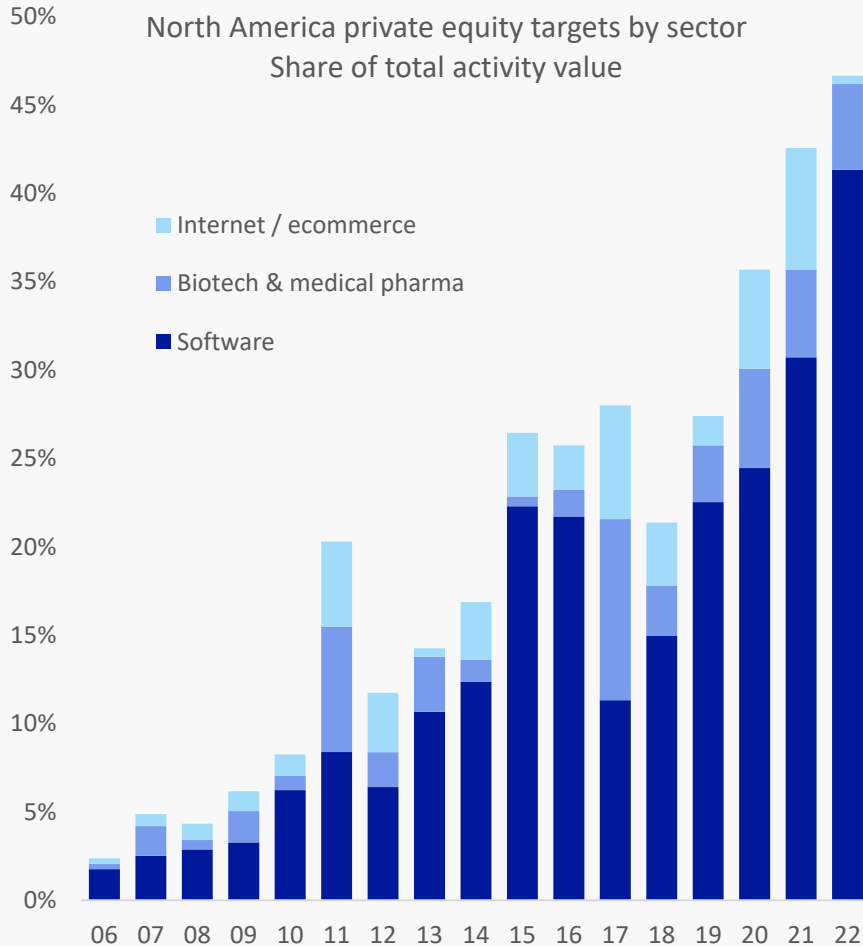
Every Fed hiking cycle in the fiat high debt era has led to some kind of financial crisis somewhere across the world



Source: Bloomberg Finance LP, Haver Analytics, Deutsche Bank

Where are the risks?

Credit and private capital have been increasingly concentrated in technology and other risky industries such as biotech. There has not been such level of exposure to intangibles-intensive industries in a credit cycle yet.



Source: White & Case, Mergermarket, Deutsche Bank. Note: includes buyouts and secondary buyouts.

Geopolitics

The US-China standoff, trade weaponisation and effects of green policy on international competitiveness are among the key themes. Taiwan, Eastern Europe and the Middle East are among the key potential flashpoints.



2008

Political events viewed as unlikely shortly before they occurred

- 2010: China-Japan standoff and subsequent rare earth mineral restrictions
- 2010/11: Arab Spring
- 2014: Russia: Annexation of Crimea
- 2016: US – Election of President Trump
- 2016: UK – Brexit referendum
- 2017: France – Election of Macron smashed the traditional two-party system
- 2021: Germany – First post-war election where the two biggest parties did not win a majority of the vote
- 2021: US withdrawal from Afghanistan
- 2022: Russian invasion of Ukraine

2022

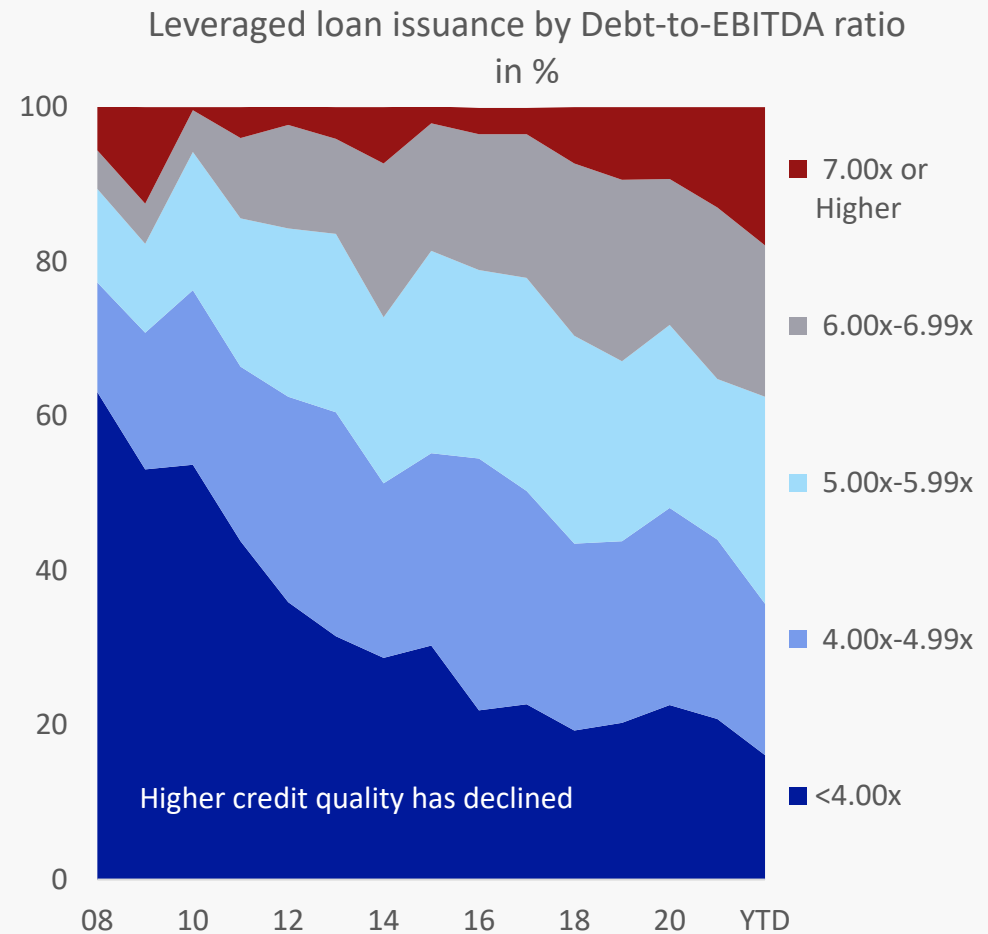
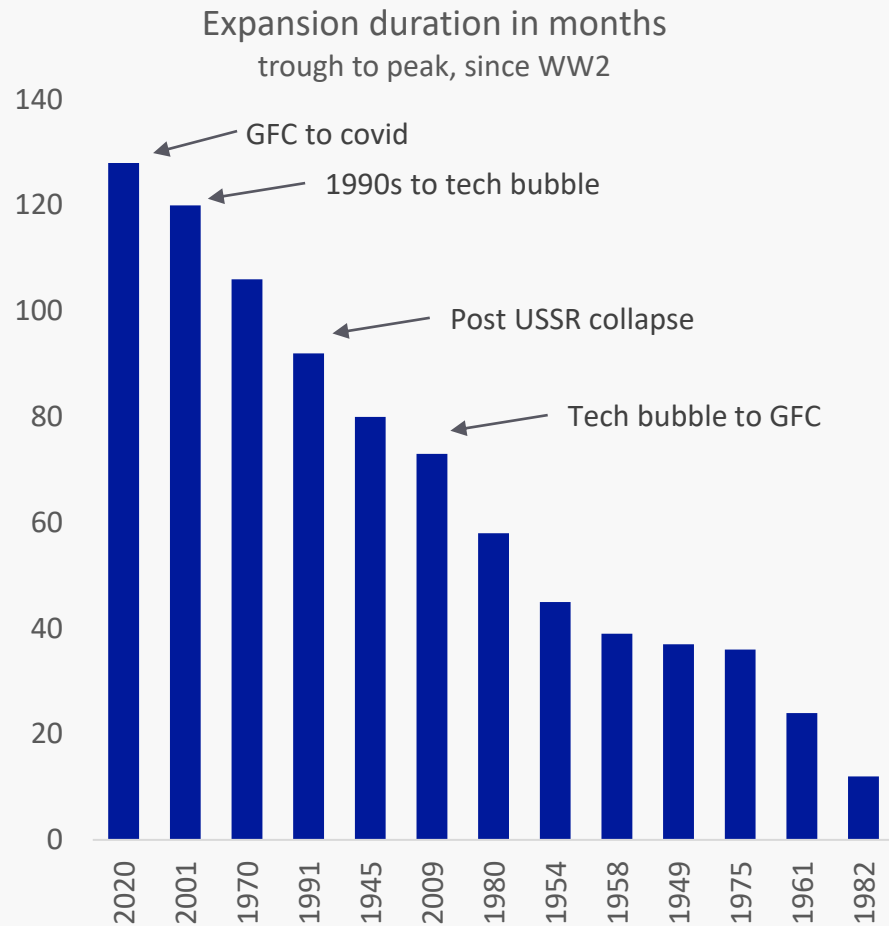
What issues most impact your 5 year outlook?



Source: USCBC 2022 Member Survey, Deutsche Bank

Shorter economic cycles and greater volatility

Unpredictable political and international backdrop may exacerbate macro volatility, especially amid the build up in leverage in the past decade across countries and sectors, as liquidity consolidates

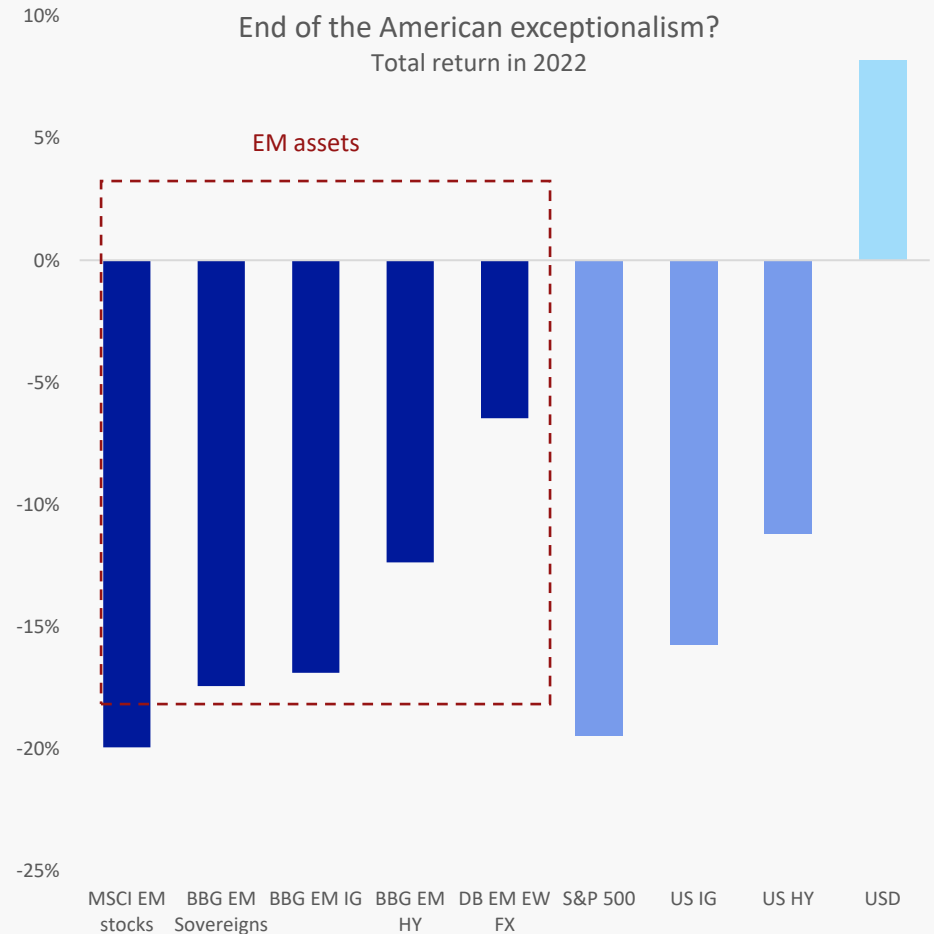
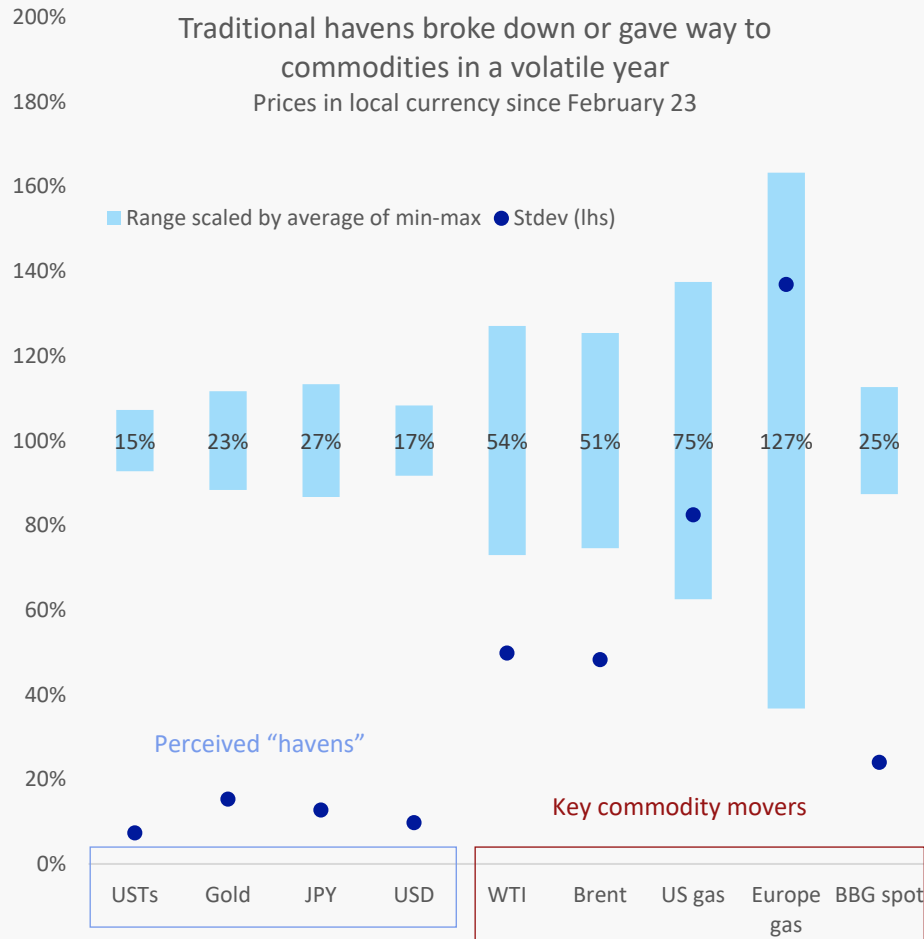


Source: NBER, IMF, Deutsche Bank



This means greater market swings and rethinking of safe havens

In credit, investors may move up in quality and become more disciplined when it comes to credit metrics – reversing last decade’s careless risk loading supported by low rates and central bank puts



Source: Bloomberg Finance LP, Deutsche Bank

Appendix 1

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