News Release

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Global Recession Risk Remains High According to Latest IACPM Survey; Wider Credit Spreads Forecast and Credit Defaults Seen Rising in Europe, North America, Asia and Australia

New York, NY – Respondents to the latest IACPM Credit Outlook Survey overwhelmingly expect global economies to fall into recession either later this year or sometime in 2024. Sentiment in the survey is widespread with 14% of respondents saying Europe and the UK are already in a recession, 65% expecting these regions to be in recession by the end of the year, and another 19% forecasting a recession sometime in 2024. At the same time, 56% of respondents believe the US economy will be in a recession before the end of this year, with 33% forecasting a recession in 2024.

To be sure, survey respondents have expected a global economic slowdown since Central Banks started raising interest rates at the end of 2021 in response to rising inflation. The surprise is that many parts of the world seem to have avoided a recession thus far. Indeed, respondents point out credit default levels are still relatively benign, consumer spending is reasonably healthy and unemployment has remained low in many regions.

Still, the biggest factors which were expected to lead to economic slowdowns remain in place. Inflation has declined from recent levels but is still higher than targets set by Central Banks in the US, Europe, the UK and Australia. Both the US Federal Reserve and the Bank of England are expected raise rates two more times in the near future. The European Central Bank has also indicated it may raise rates again. China, on the other hand, appears more worried about deflation as producer prices there have risen nine months in a row.

"Maybe because of all the government support rolled out to fight the financial effects of the pandemic, many parts of the world are faring reasonably well. In fact, we hear law firms in the UK which ramped up to handle insolvency cases haven't yet seen a pick up in business," commented Som-lok Leung, Executive Director of the International Association of Credit Portfolio Managers. "That said, we are beginning to see higher corporate defaults, somewhat slower retail sales and Central Banks' statements that they aren't finished fighting inflation. All of this adds up to a weaker economic outlook."

Indeed, survey respondents expect to see rising credit defaults globally over the next 12 months. Eighty three percent of respondents believe corporate defaults will increase in North America, 85% see an increase in Europe and 76% forecast a rise in Australia. Fifty five percent of respondents believe defaults will also rise in Asia, while 45% expect defaults to stay at current levels.

"Retail defaults are also expected to increase," noted Mr. Leung, "but Commercial Real Estate is probably attracting the most attention. A wall of maturity is coming due in the next 12 to 18 months and global regulators have made it clear they are paying close attention to the sector."

Credit spreads are expected to widen over the next three months in another sign of weaker credit conditions. The IACPM Major Markets Credit Spread Outlook Index is minus -63.4 in the latest quarter which indicates a large number of survey respondents expect spreads to widen.

While a large majority of survey respondents expect global economies to fall into recession in the relatively near to medium term, there is some disagreement as to when and how that will happen. A number of respondents expect Central Banks to continue to focus on fighting inflation which would be expected to hinder economic growth, while, at the same time, others think the banks will be looking more closely at unemployment levels and high debt loads. A rise in either category could cause the banks to cut rates sooner than later, thus priming economic growth.

The Credit Outlook Survey is conducted among members of the IACPM, an association of more than 130 financial institutions in 30 countries around the world. Members include portfolio managers at many of the world's largest commercial banks, investment banks and insurance companies, as well as several asset managers. Members are surveyed at the beginning of each quarter.

Survey results are calculated as diffusion indexes, which show positive and negative values ranging from 100 to minus -100, as well as no change which is in the middle of the scale and is recorded as "0.0." Positive numbers signify an expectation for improved credit conditions, specifically fewer defaults and narrower spreads, while negative numbers indicate an expectation of deterioration with higher defaults and wider spreads.

About IACPM

The IACPM, with over 130 member institutions located in 30 countries, is a professional association dedicated to the advancement of credit portfolio management. The organization's programs of meetings, studies, research and collaboration are designed to increase awareness of the value and the function of credit portfolio management among financial markets worldwide, and to discuss and resolve issues of common interest to its members.