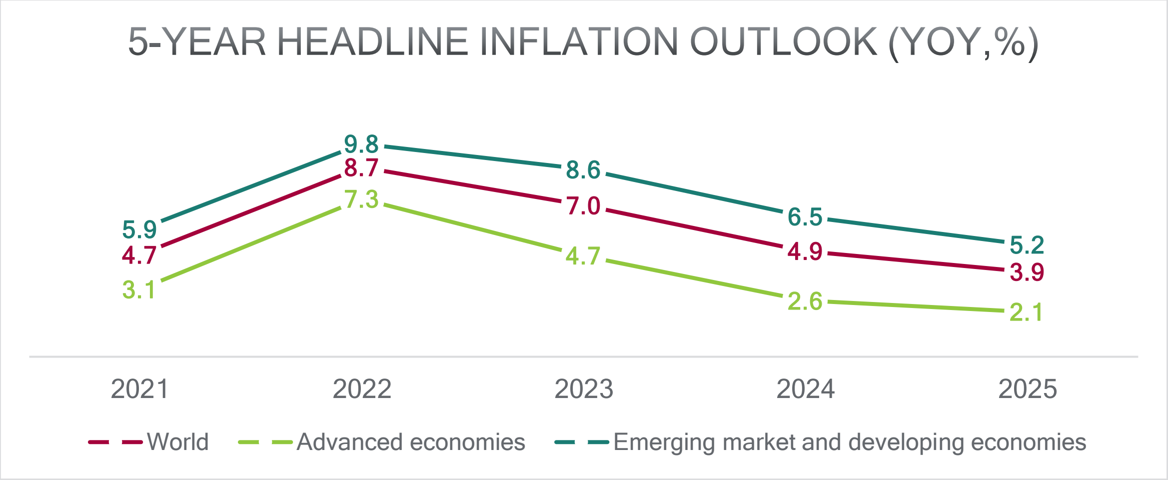
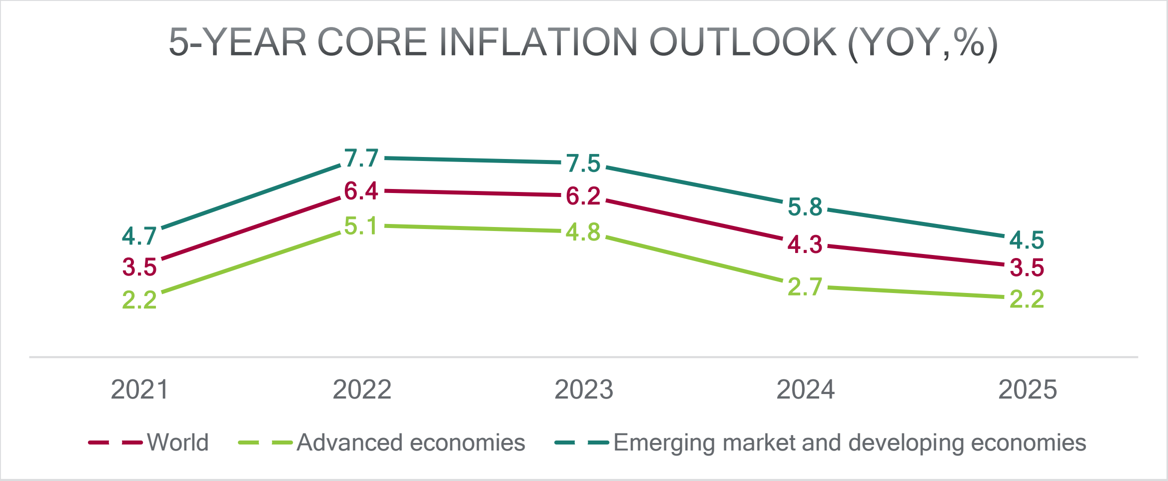
# MACRO OUTLOOK 2Q23


Mercury Capital Management

St Andrews, UK

# Inflation



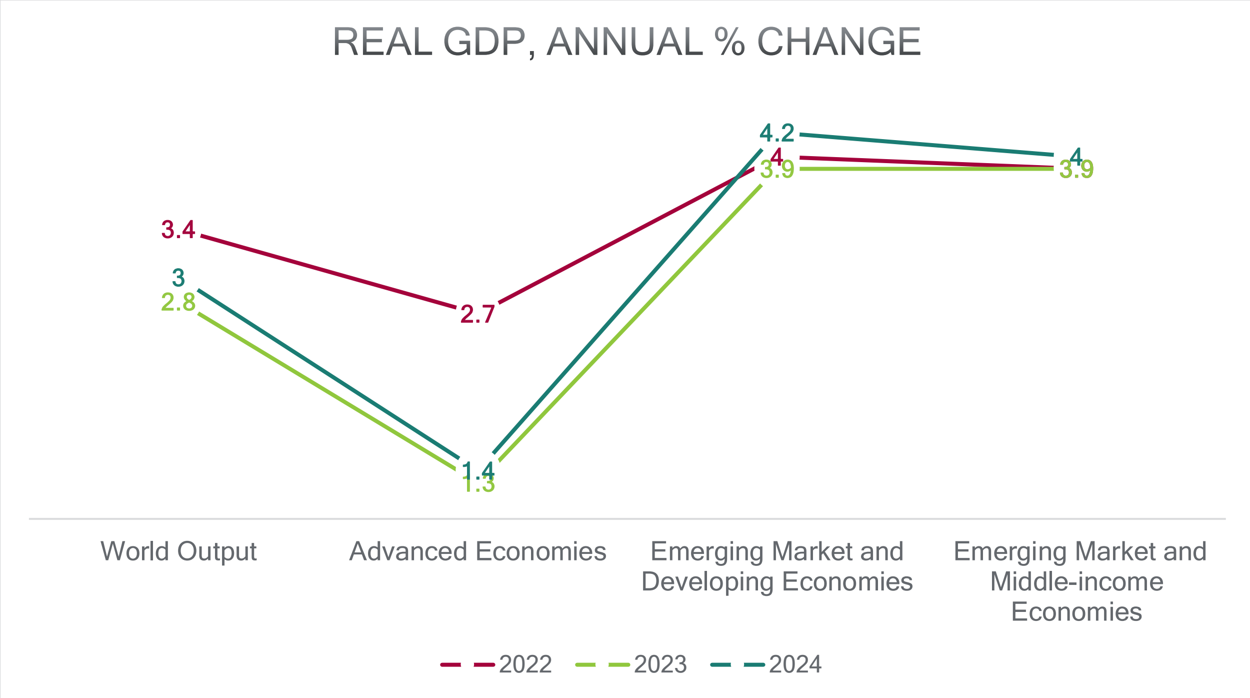

FY22 was dictated by inflation and global rate hikes were the chosen remedy by most nations' central banks. The consensus among analysts has been three primary drivers of inflation; Goods, Housing and Services.

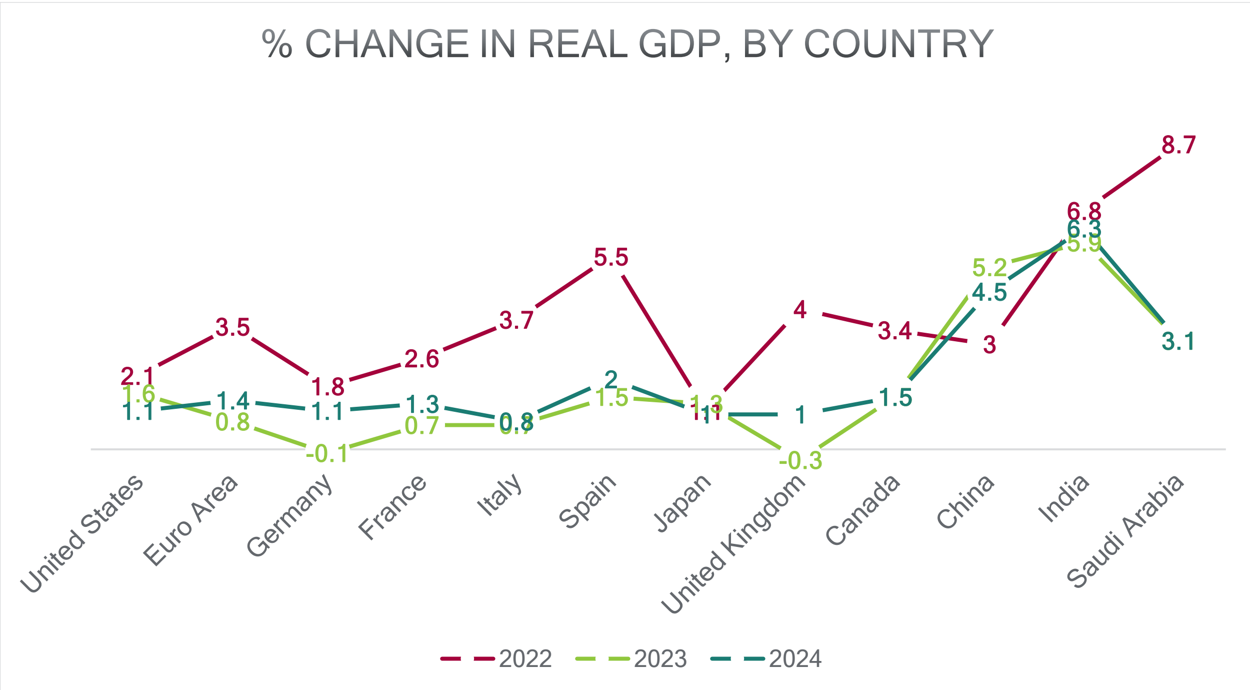
Pandemic-induced supply chain disruptions continued to push input prices higher despite COVID subsiding, mounting pressure on a global base of manufacturers.

Forecasts state the brunt of housing inflation will surface through FY23. Shelter inflation, caused by higher mortgage rates and lower demand for emerging housing markets can explain the inflation spread between countries.

Tighter labour markets have had a knock-on effect on expected wages and salary floors, with consumers bearing the burden in inflated services.

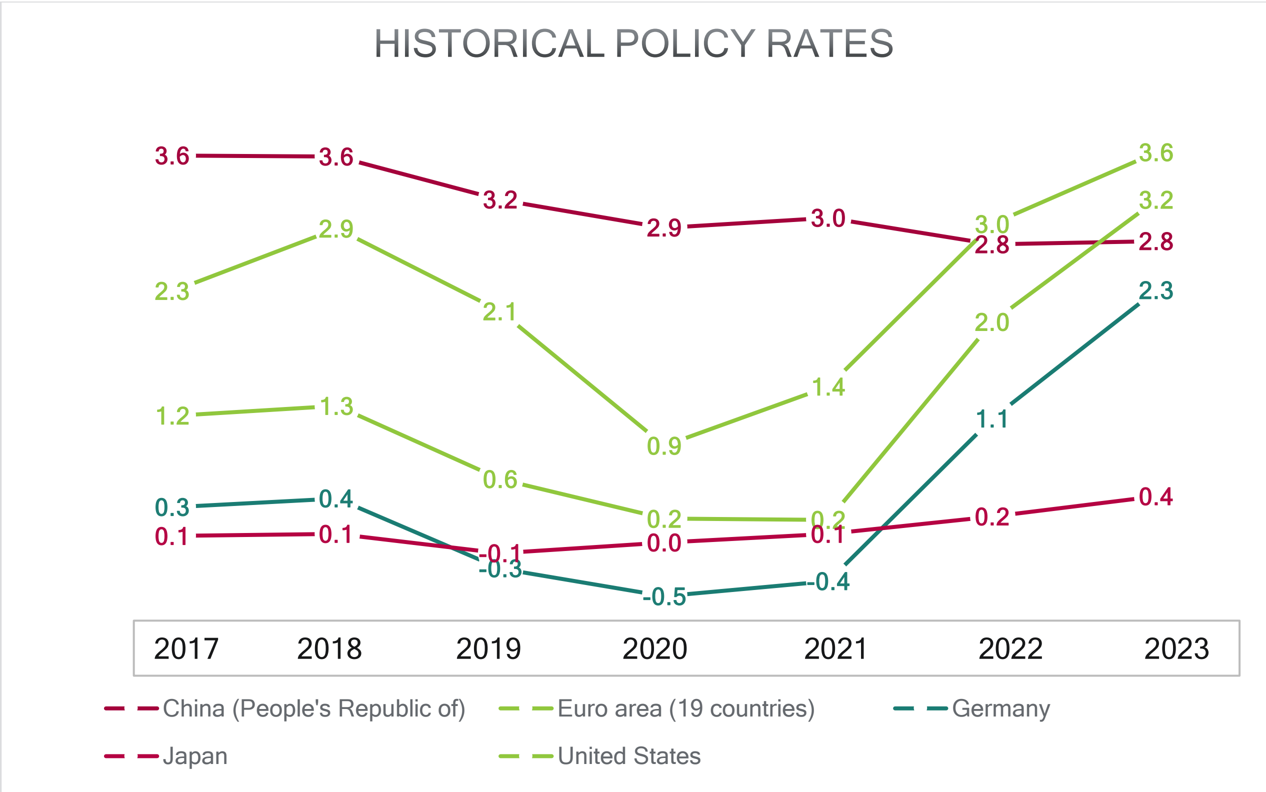
# Real GDP




When adjusted to keep prices constant, our outlook predicts falling volumes of output across the board for economic powerhouses, emerging markets and low-middle income countries. An exception being China, who despite stagnating trade partners, has ramped up production and expects fiscal/monetary support for this turnaround.

# Interest Rates



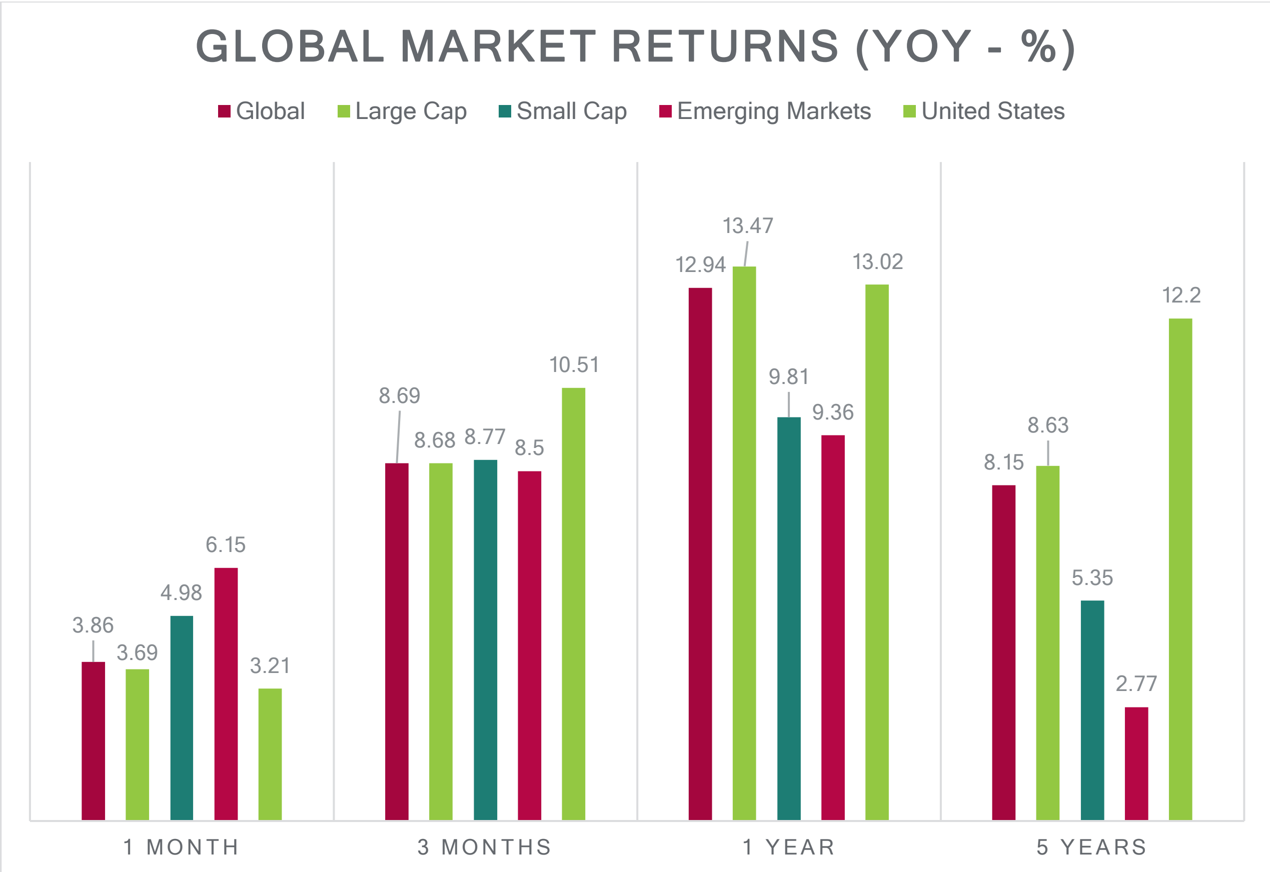

Consistent rate hikes post FY-21 acted as counter-measures to saturated labour markets globally. The Fed feels a reversal is bound only when growth converges to mean levels, causing labour markets to ease.

Conversely, China has opted to ease rates with the hope of striking equilibrium between their debt and economy's growth. With public demand booming and a  flailing private sector, lower rates aim to generate organic growth from sources other than state-driven investments and stimuli.

Japan has opted for hikes consistent with its past, imposing 0.5% upper/lower yield limits on its bonds to stabilise markets. The Bank of Japan believes in the conventional inflatory benchmark at 2% for sustained economic growth.

Despite bleak growth prospects facing Europe, recoveries in natural gas stockpiles has helped mitigate energy risks, reducing the chances of a recession. Despite this breakthrough, the ECB's balance sheet has taken a hit due to elevated inflation levels and rate hikes in response.

# Equities




Clarity regarding sovereign debt cycles in emerging markets has surfaced in recent times. Usually, inflated commodity prices and a weakening USD proves beneficial for net exporters operating in EM's. These developments can attest to short term EM returns approaching US equity benchmarks. China's normalisation to a pre-Covid era, conclusion of rate hikes and a slowdown of economic growth paint a more consistent forecast for these markets.

High equity returns across tickers on the S&P and NASDAQ reflect a transition in market focus towards the AI-sphere, as well as earnings and growth potential expected once financing costs and monetary policies converge to averages. Fed hikes to unprecedented levels were less than proportionate to resultant market returns. Macro indicators including core CPI have responded as expected whereas key recessionary indicators such as broad based layoffs are yet to react.