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PERSPECTIVES

The DNA of the Global Economy 2023

Insights from BNY Mellon | Pershing

The global stock and bond markets have been disappointing this year as the Federal Reserve tries to combat inflation without sending the economy into further turmoil. With a series of rate hikes—including 75-basis point hikes in September and November—the Fed hopes to slow inflation and prevent a long, deep recession. It remains to be seen how much impact the Fed will have according to panelists at Pershing's recent Institutional Executive Forum.

The world and the markets have continued to evolve throughout the fall, including some recent (and possibly temporary) signs of relief in pricing pressures. The quotes below represent our panelists' views from mid-September.

The Fed Effect

"Fed policy for the next year will have minimal impact on inflation and a significant impact on the consumer as the ability for the consumer to dig deeper in their savings diminishes. More importantly the consumer will be squeezed from the embedded price pressures and the fact that wages will lag inflationary pressures," according to **Maria Ramirez**, President and Chief Executive Officer, MFR Securities. "Because the consumer is two-thirds of the U.S. economy, it will be hard to avoid a downward draft in GDP growth in the next 12 months."

Whether the U.S. economy can skirt a deep recession amidst tightening policy rates, global supply constraints, geopolitical risks, COVID-19 and high energy prices, the case for a soft landing appears very vulnerable. Despite a strong job market, **Peter Tchir**, Head of Macro Strategy, Academy Securities sees even more obstacles facing the economy including falling home and auto prices and rising inventories.

"The Fed's quantitative tightening directly impacts asset prices, which will make companies more conservative and fuel the growth slow down," Tchir said. "I see little hope of a soft landing. The wheels have been sent in motion in a market and economy too dependent on liquidity and financing. I think Fed will have to blink sooner than later, at least in terms of pace of hikes and maybe how they handle quantitative tightening.

Rising Rates in the UK and U.S.

Rising rates make it more difficult and expensive for borrowers. The 10-year U.S. Treasury stretched above 4% for the first time in more than a decade before easing recently. However, recent Bank of England announcements spurred a furious rally in both countries' government bonds. While the goals of the central banks of the U.S. and UK are seemingly the same, they are taking different approaches.

"The UK is taking a different course in stimulating the economy with supply side policies. Lowering taxes and supporting its currency trying to help the consumer with the pain of higher energy costs," Ramirez noted. "I doubt these tactics will be copied in the U.S. in the near term as raising taxes has been the way to pay for the trillions of dollars in additional fiscal spending. It all fuels more inflation."

Tchir agreed and pointed out while the challenges are similar in both countries, the approaches should be different by necessity. “The UK market has some unique characteristics, especially on how their pension funds buy debt,” he said. “However, in the U.S. our yield curve looks like a mess between 10 and 30 years, which doesn’t support the ‘U.S. is the best and most liquid’ narrative.”

Competition From China and India

On top of the other headwinds, China and India are looking to take advantage of any economic and political opportunities. “We need to accept that we are in a global competition for commodities with both,” Tchir offered. “In addition, the government and companies are pulling away from China. Even southeast Asia is coming under scrutiny given China’s influence in the region and ongoing increase in their naval power and reach.”

He also noted that India doesn’t want allies, but they can be worked with. “We need to embrace the possibility of cooperation while also accepting they have close ties to Russia and have not forgotten that we chose Pakistan over them for the past two decades after 9/11,” he said.

What’s on the Horizon?

Both panelists indicated that there is no short-term fix and market turmoil may continue for the near term. “The next shoe to drop is total disenchantment by consumers and, of course, voters in industrial countries,” according to Ramirez.

Tchir predicts an upcoming impact on jobs. “Look for outsourced spending to drop—putting pressure on those service providers—and potential layoffs to expensive middle management, which will make things worse,” he said.

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