



18 August 2023

Charts of the Week

A HAVER ANALYTICS commentary and podcast

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AUGUST 18TH, 2023

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Sour, bitter and sweet but not that spicy

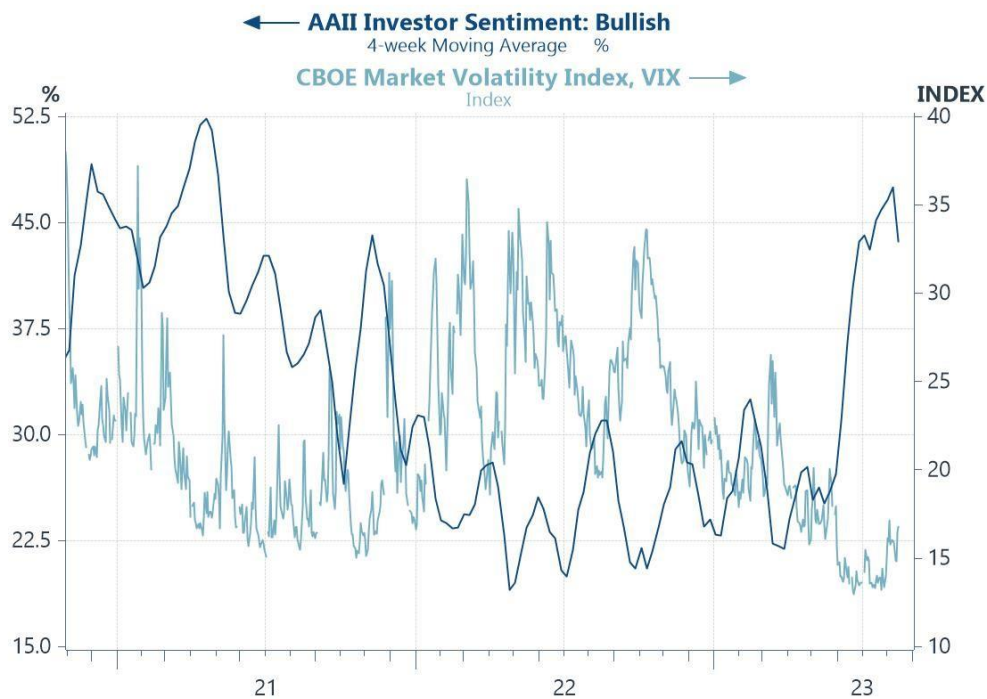
Summary

The mood in financial markets has soured over the past few days thanks to some downbeat messages from the global dataflow and most notably from China. The minutes released from the Fed's July FOMC meeting further contributed to this negativity. These minutes specifically suggested that most officials are more concerned about inflation as opposed to growth, amplifying the prevailing investor pessimism. Our charts for this week offer additional insight. They demonstrate that the recent downturn in global equity markets has unfolded against a backdrop of unusually low volatility and highly positive investor sentiment (chart 1). Consensus forecasts for US profits had, until quite recently, also been falling at the same time as forecasts for long-term interest rates had been rising (chart 2). The economic outlook for next year for most major economies has also darkened in recent weeks according to the latest Blue Chip survey of economic forecasters (chart 3). Pessimism about the UK has, in particular, become fairly acute and has possibly now been further magnified following this week's spate of economic data (chart 4). On a brighter note, this week's Q2 GDP data from Japan were much stronger than forecasters had anticipated notwithstanding less favourable underlying details (chart 5). Finally, and sticking with some more upbeat news, geopolitical risks have continued to ebb in recent weeks and, according to one metric, have now returned to levels that pervaded prior to the conflict in Ukraine (chart 6).

Investor sentiment

Two contrarian indicators of financial markets have lately moved to levels that suggest the recent trend toward risk averse behaviour seen of late may not be a big surprise. For example, the American Association of Individual Investors' (AAII) recent surveys had previously indicated unusually high levels of bullish sentiment about the path that stock prices might take from here. Equally, latest data for the Chicago Board Options Exchange's (BCOE) VIX index had suggested unusually low implied market volatility, another gauge that suggested investor sentiment was high (chart 1).

Chart 1: Investor sentiment and market volatility

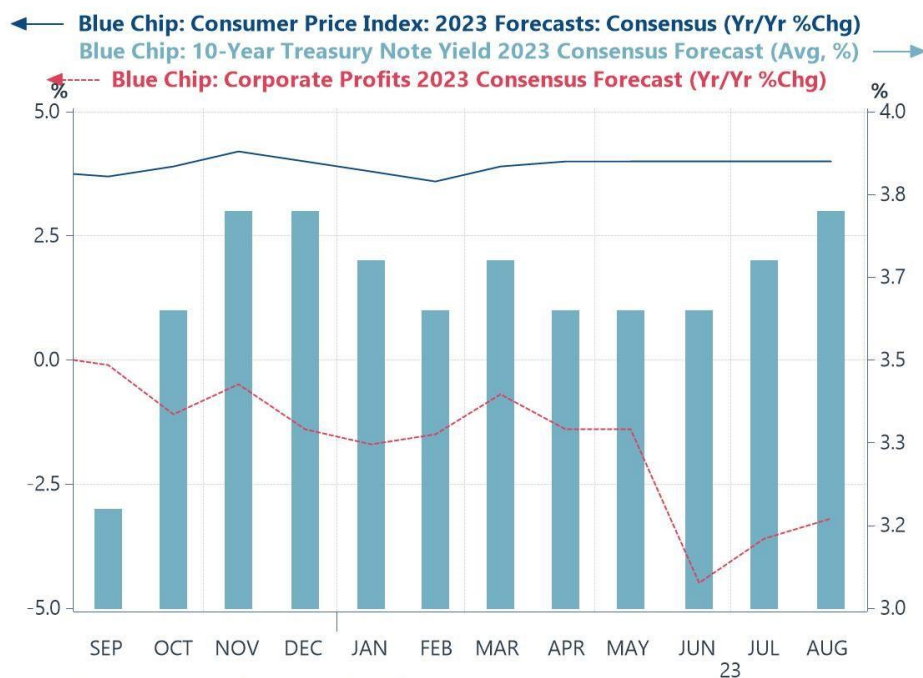


Sources: Barron's, Chicago Board Options Exchange/Haver Analytics

The US consensus

The latest Blue Chip Economic Indicators survey, in the meantime, has offered mixed messages about the economic outlook in the US in the period ahead. For example, although expectations for US corporate profitability have edged up over the last two months, they have done so from a very weak base. In the meantime and notwithstanding a spate of weaker-than-expected inflation data, consensus forecasts for CPI inflation in 2023 have been locked at relatively high levels for several months. And this, in turn, is arguably one reason why expectations for long-term interest rates have been shifting up over the last couple of months as well (see chart 2).

Chart 2: Blue Chip consensus forecasts for profits, inflation and long-term interest rates in 2023

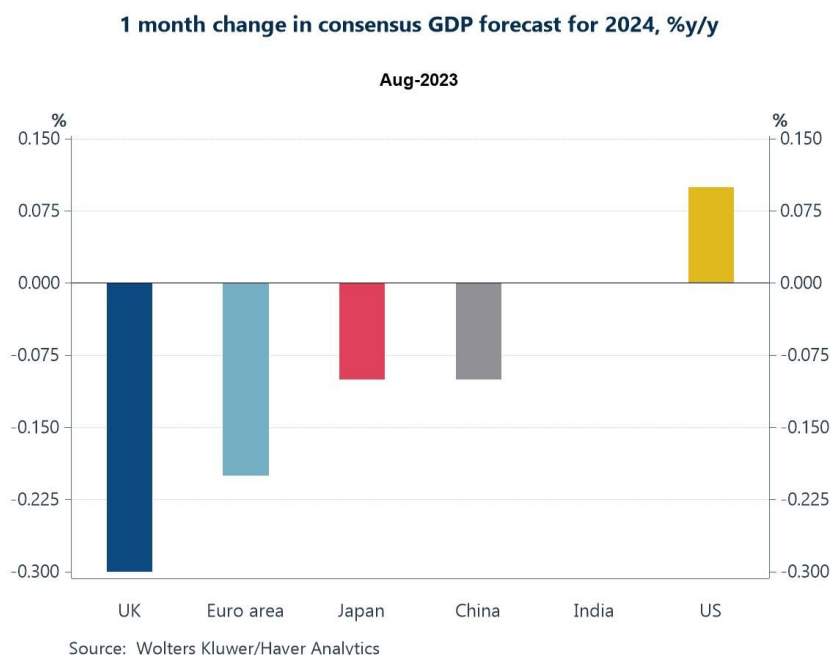


Source: Wolters Kluwer/Haver Analytics

Consensus growth expectations for 2024

The messages about the outlook for global growth from the latest Blue Chip survey were arguably more downbeat. Consensus GDP forecasts for 2024, for example, were marked down for most major economies with the notable exception of the US. The scale of the downgrades to the UK GDP outlook next year were particularly acute compared with elsewhere (chart 3).

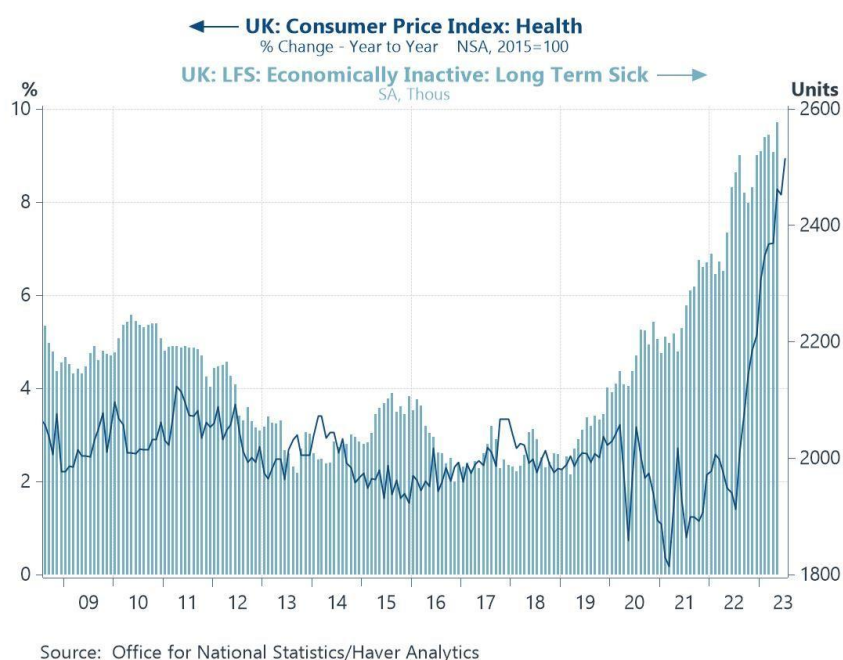
Chart 3: 1-month change in Blue Chip GDP forecasts for 2024



UK supply side bottlenecks

Those downgrades to the UK outlook, however, certainly chime with the latest dataflow released this week. Softer-than-expected labour market activity, coupled with firmer-than-expected wage and core inflation pressures were the key headlines. But the underlying details were equally discomfiting. For example, firming service sector inflation is being led higher by intensifying healthcare costs. And this is combining with record numbers citing long-term sickness as a key reason to steer clear of the labour market. The UK more generally is also now one of the only major economies where output has yet to re-claim pre-pandemic levels.

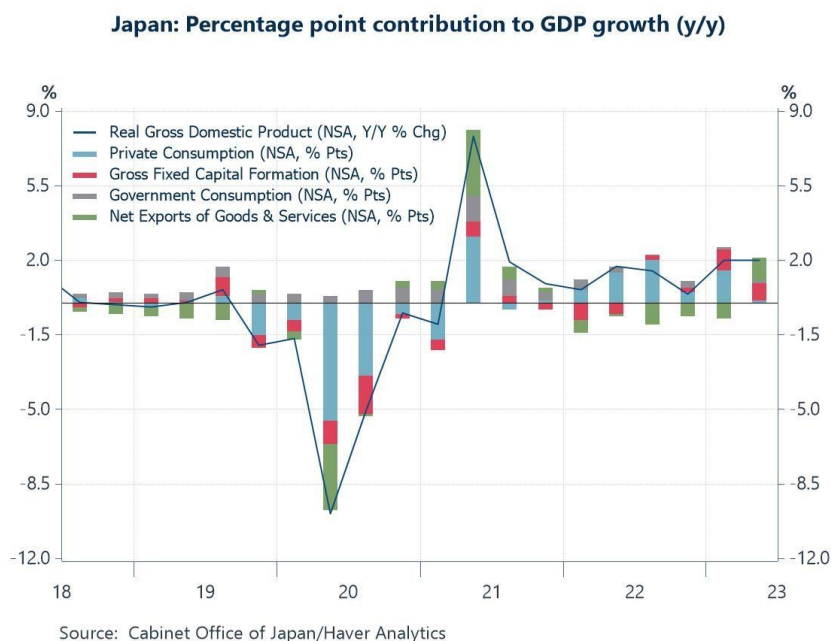
Chart 4: Headline CPI inflation: 1-month annualised growth rates in selected major economies



Japan's economy

On a brighter note Japan saw its GDP climb by 1.5% q/q in Q2. That was roughly twice the rate of growth that had been forecast and marked the biggest rise in almost three years. The underlying details were nevertheless not as auspicious. Looking at the contributions to GDP growth over the past 12 months reveals an outsized contribution from net trade, which much of that impulse, in turn, a function of sluggish import demand in Q2. That though can be traced in part to a negligible contribution to economic growth from consumer spending as well as because of the recent weakness of the yen.

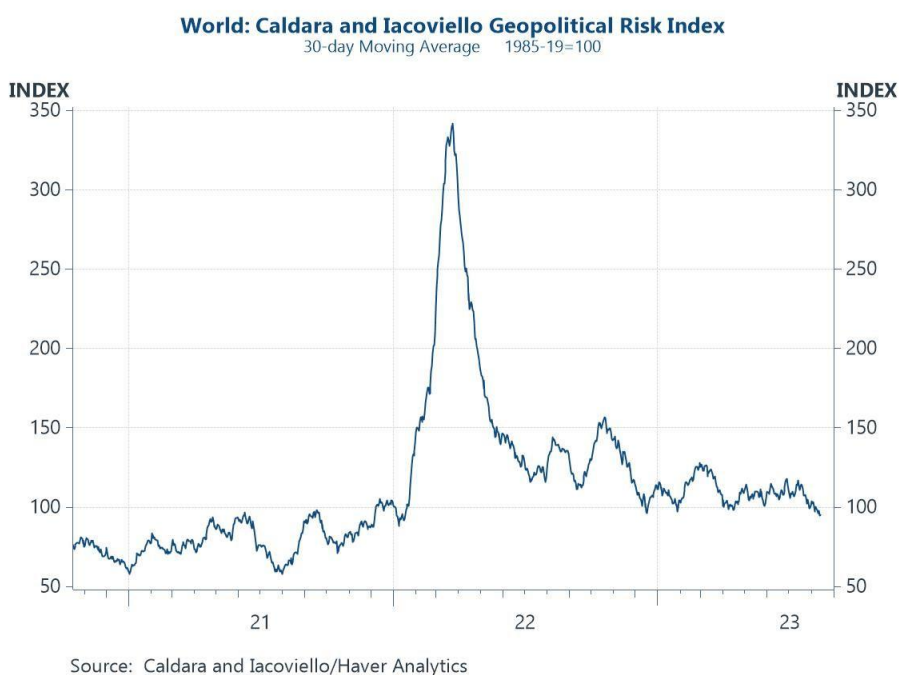
Chart 5: Contributions to Japan's GDP growth



Geopolitical risk

Lastly we note that geopolitical risk has been declining and is now hovering close to levels that prevailed prior to Russia's conflict with Ukraine. That at least is the message from the latest reading for the Caldara and Iacoviello geopolitical risk index (chart 6). For the record, this index is calculated by counting the number of articles in 10 well-known global newspapers that are related to adverse geopolitical events in each month.

Chart 6: Geopolitical risk has declined to multi-month lows



ABOUT THE AUTHOR

Haver Analytics is pleased to bring [Andrew Cates's](#) commentaries on the state of the global economy to its clients.

Andy Cates has more than 25 years of experience forecasting the global economic outlook and in assessing the implications for policy settings and financial markets. He has held various senior positions in London in a number of Investment Banks including as Head of Developed Markets Economics at Nomura and as Chief Eurozone Economist at RBS. These followed a spell of 21 years as Senior International Economist at UBS, 5 of which were spent in Singapore. Prior to his time in financial services Andy was a UK economist at HM Treasury in London holding positions in the domestic forecasting and macroeconomic modelling units.

He has a BA in Economics from the University of York and an MSc in Economics and Econometrics from the University of Southampton.

