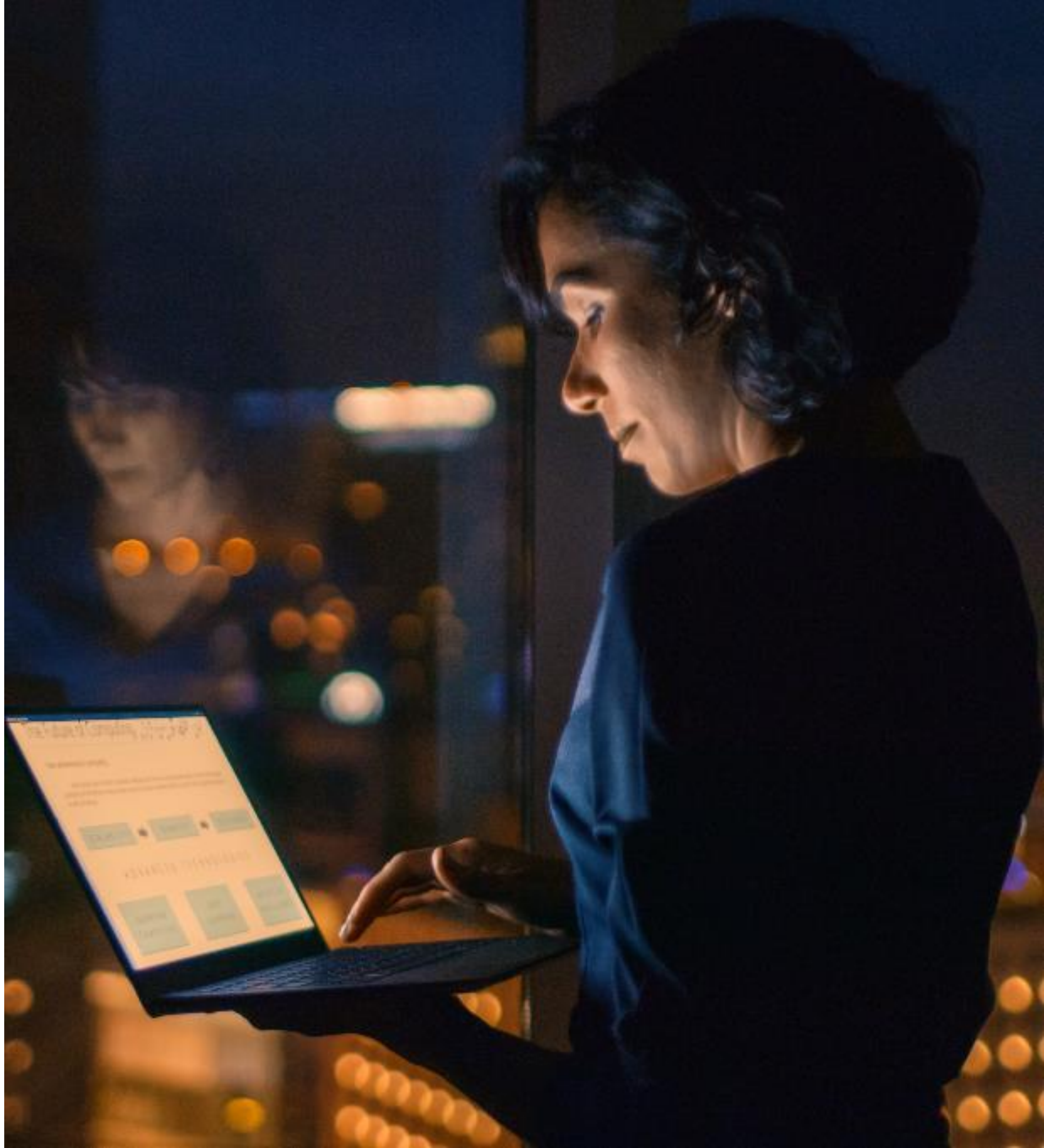
Lights out!
Energy crisis, policy mistakes and uncertainty

Allianz Research
Fall Economic Outlook

15 September 2022



Economic Outlook: Key Messages

- Our previous blackout scenario has now become the baseline scenario: lower growth/higher inflation compared to last forecasts (June) → **demand-driven recession after a supply-driven one**: global growth back in negative territory in Q4 (-0.1% q/q), followed by shallow recovery (1.5% y/y) in 2023.
  - **Eurozone**: slip into recession in 2023 (GDP: -0.8%) due to soaring energy prices and negative confidence effects; fiscal support makes recession shallower and shorter.
  - **United States**: slip into recession in 2023 (GDP: -0.7%) due to rapidly tightening of monetary and financial conditions.
  - **Emerging Markets**: several countries are at risk of balance-of-payments crises (esp. Pakistan, Turkey, Argentina, Colombia, Tunisia, Romania, Chile, Egypt, Kenya, Hungary and Poland)
- **Inflation will remain high until Q1 2023 when gas prices are expected to peak, with food and services adding upside pressure.** Global inflation to reach 5.3% in 2023 (after close to 8% in 2022)
  - **Eurozone**: reaches peak in Q4, at close to 10% and remain above 4% until Q4 2023 (5.6% in 2023)
  - **United States**: behind the peak but inflation should remain above 4% until Q1 2023 and fall below 2% only after Q3 2023 (average 2.9% in 2023)
- **Further monetary tightening before major central banks switch to aggregate demand support with several policy rate cuts after mid-2023.**
- **Key political events will bring further volatility and higher geopolitical tensions,** notably between US and China – to escalate further providing additional tailwind fuel to current decoupling tendencies.

Capital Markets: Key Messages

- **Capital markets**: still imply doubts about whether inflation-fighting central banks will hike economies into a deep(er) recession
- **Sovereign rates:** we expect shorter hiking cycle
  - Upside **risks to ST rates over near term** (above-neutral terminal rates of US: 4.0% (Dec. '22) and EZ: 2.25% (Feb. '23) but moderate rate cuts next year as inflation slows (ECB and Fed in June '23)
  - Persistent yield curve flattening (or inversion pattern) until year-end (US 10y: 3.25%, Bund 10y: 1.6%) before "bull steepening" next year (US 10y: 2.9%, Bund 10y: 1.4%)
- **Equities: under pressure until year-end** but upside potential next year (US: 8%, EZ: +7%).
- **Corporate credit spreads: contained widening** (esp. HY) but some spread compression next year (IG ~150bps and HY ~425bps).
- **EM sovereign risk: reaching dangerous levels;** nonetheless, there is room for further yields and spreads increase. Even if the adverse scenario is not triggered, an improvement in conditions for EM is not expected until late next year.

Corporate Outlook: Key Messages

- **Fading momentum.** While the latest earnings season was better than expected on the revenue side, forecasts and guidance indicate fading momentum: **Q3 revenue growth rates have been revised downwards for Latin America, APAC and emerging markets, and for 15 sectors globally**.
- **Cash buffers still high but declining.** Despite exceeding 2019 levels by 30% in Europe and 50% in the US as of Q2 2022, cash buffers are decreasing as **most firms in both the US and Europe have been burning cash in 2022.**
- **Inflation pushing up leverage in Europe.** Working capital requirements (WCR) climbed +6 days of turnover to reach 71 in the US and +10 days to 64 in Europe. **This has led firms to build up leverage**, with higher interest rates are also pushing up interest expenses, especially in Europe (+20% adjusted for change in long term debt).
- **Differentiated risk is back.** The energy crisis could be a major **blow in Europe for energy-intensive sectors** (Power, Paper, Metals, Railways, Chemicals etc.) while the strong dollar could harm **exporting sectors in the US**. Discretionary spending and construction are also at risk while oil & gas should continue to fare well – although it is at risk of facing political action (e.g. a "superprofit" tax).
- **Looking for support.** Higher fiscal support should **avoid a strong wave of business insolvencies** and an acceleration in severity rates. Corporate credit spreads should experience a contained widening but some spread compression next year.
- **A Eurozone recession could accelerate the rise in insolvencies.** +25pp for 2023 (to more than +40%) with **Germany up +16%, France up +29%, Italy up 31% and Spain up 25%.** This increases the probability of seeing extension and new (targeted) state aid measures that would avoid a strong wave of business insolvencies and an acceleration in severity rates.

The outlook remains skewed on the downside

Downside risks as central banks are likely to stay more restrictive for longer

- Resilience of increasingly "financialized" U.S. households will crucially influence magnitude and pace of monetary normalization

Higher deficit spending for crisis support will mitigate "scarring effects" but also raises debt sustainability concerns

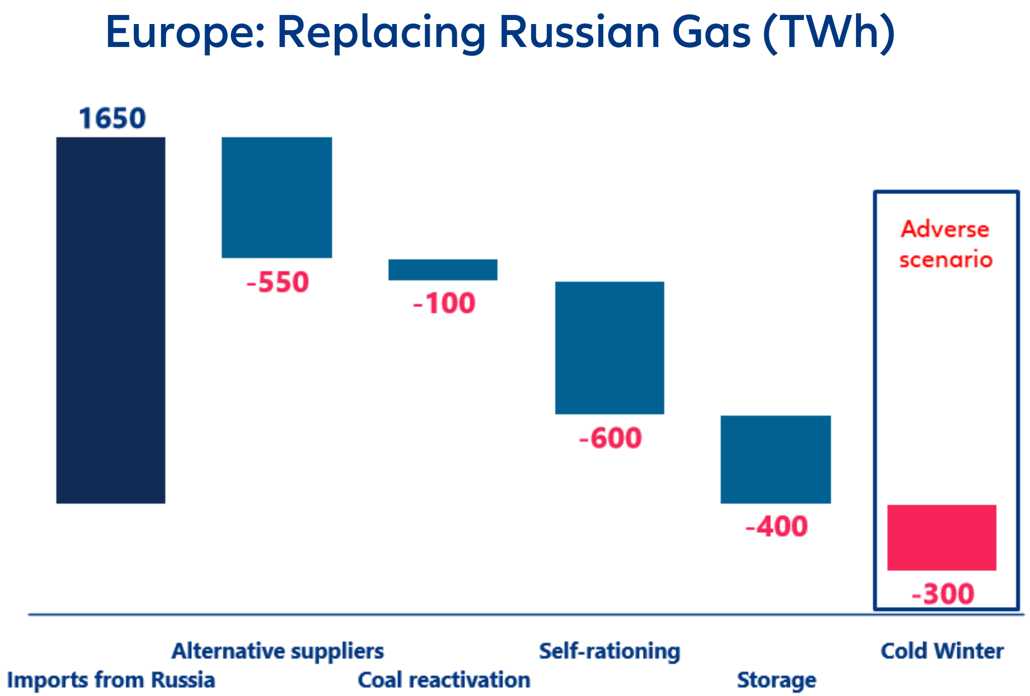
- Countries with higher debt levels at a time when interest rates are rising, increasing the pressure for a potentially painful fiscal adjustment, especially in emerging markets.

Developments in China could significantly alter the macro-financial outlook

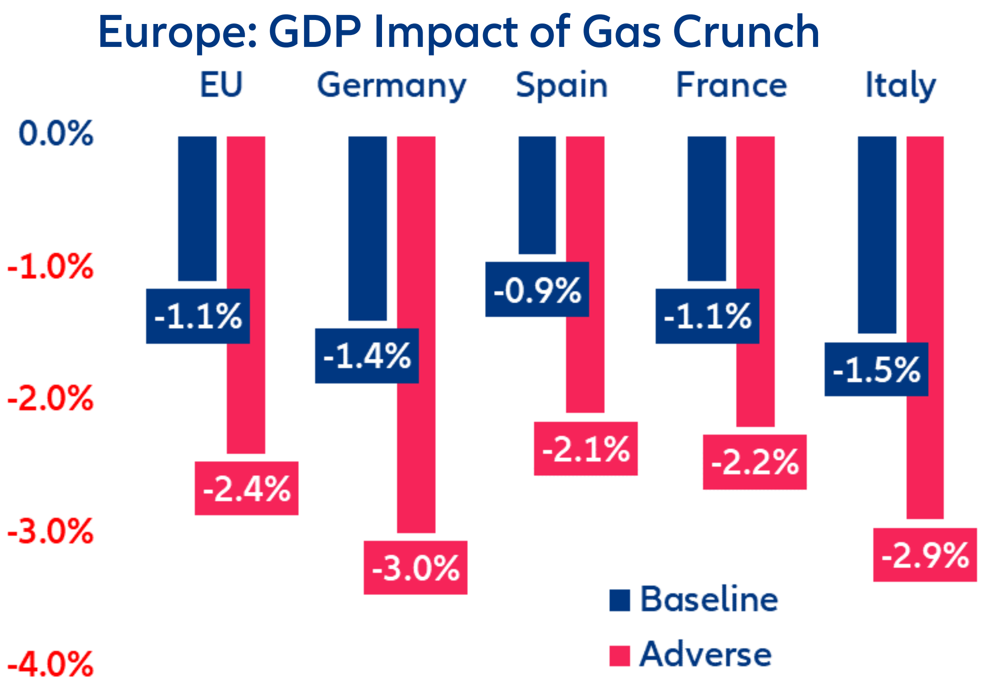
- China's low tolerance for Covid-19 outbreaks and the weakness in its property sector pose risks to its growth outlook.

Global Economic Outlook

Our blackout scenario became the baseline



Sources: National authorities, Allianz Research



Sources: National authorities, Allianz Research

Without a cold winter, we expect a small (and manageable) energy gap based on lower demand (-10%), higher alternative supply (LNG/coal) (+10%), and lower stocks (from 80-90% to 40%).

The recession is expected to remain moderate in 2023, but can double in 2024 in the absence of Russian gas, higher than expected energy consumption and lower alternative supplies

The fire is going out of global growth

GDP Growth Forecast

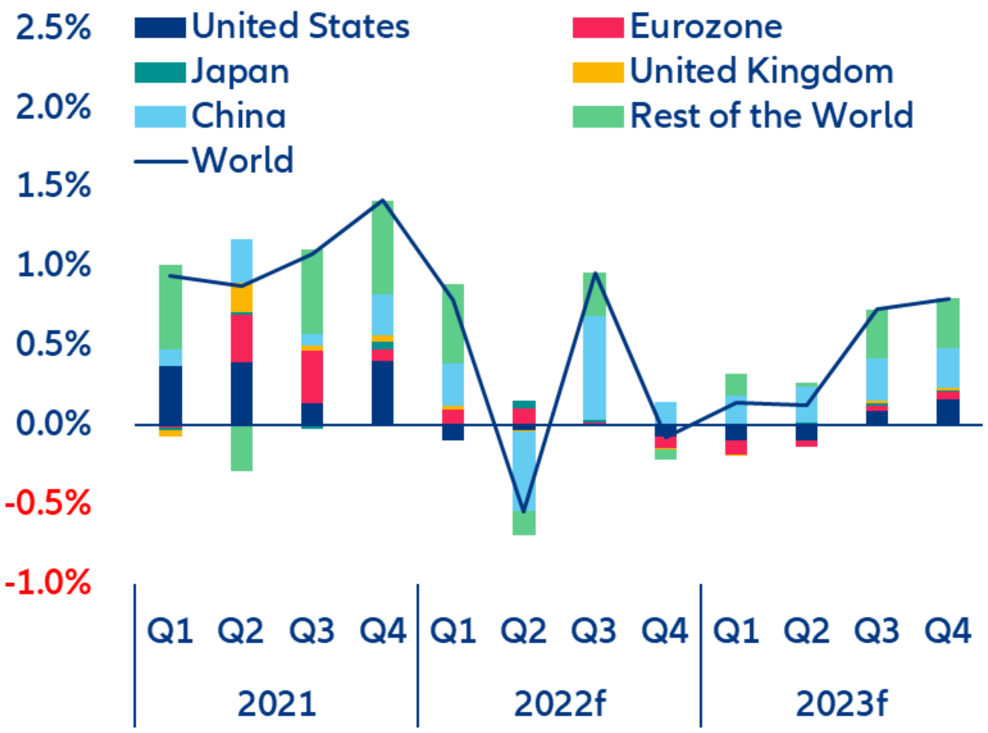
(quarterly: q/q% and yearly: y/y%)

Growth	2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	2023
Global	5.6	0.8	-0.6	1.0	-0.1	2.7	0.1	0.1	1.0	1.1	1.5
USA	5.7	-0.4	-0.2	0.5	-0.3	1.4	-0.4	-0.4	0.3	0.6	-0.7
Latin America	6.3	1.0	0.7	-0.2	-0.4	3.0	0.1	0.5	0.6	0.6	1.5
Brazil	5.0	1.0	0.5	0.4	0.0	2.8	-0.1	-0.1	0.3	0.6	0.7
UK	7.4	0.8	-0.1	0.1	-0.3	3.4	-0.2	0.0	0.4	0.4	-0.2
Eurozone	5.3	0.5	0.7	0.1	-0.5	3.1	-0.6	-0.3	0.2	0.3	-0.8
Germany	2.6	0.8	-0.0	0.1	-0.6	1.6	-0.8	-0.3	0.1	0.2	-1.3
France	6.8	-0.2	0.5	0.4	-0.3	2.5	-0.6	-0.3	0.4	0.4	-0.6
Italy	6.6	0.1	1.1	1.1	-0.4	3.4	-0.5	-0.2	0.2	0.2	-0.5
Spain	5.1	0.2	1.1	0.3	-0.7	4.3	-0.5	-0.2	0.5	0.7	-0.3
Emerging Europe	6.2	0.9	-1.8	-1.5	-0.8	-0.8	-0.7	1.3	1.1	7.0	-1.0
Russia	4.7	-0.3	-6.0	-4.5	-1.5	-5.4	-1.0	1.5	1.5	0.3	-4.1
Turkey	11.0	0.7	2.1	2.0	-0.5	5.8	-1.0	2.0	1.0	1.0	1.9
Poland	5.9	2.5	-2.1	0.0	-0.3	4.0	-0.5	2.0	1.0	1.0	1.0
Asia-Pacific	6.1	0.7	-0.5	2.0	1.6	3.4	0.9	0.7	0.9	1.1	3.9
China	8.1	1.4	-2.6	3.4	0.8	2.9	0.9	1.2	1.4	1.3	4.5
Japan	1.7	0.1	0.9	0.4	0.1	1.5	0.2	0.3	0.3	0.3	1.1
Middle East	3.8	1.5	0.7	1.0	0.7	6.2	1.2	0.7	0.9	0.8	3.5
Saudi Arabia	2.9	2.6	0.4	0.6	1.0	9.2	0.9	0.9	0.9	0.9	4.2
Africa	3.3	0.3	-0.3	0.7	1.0	3.2	1.1	1.1	1.0	0.9	3.1
South Africa	4.9	1.9	-0.7	0.0	0.4	1.8	0.5	0.5	0.4	0.4	1.5

Sources: Refinitiv Datastream, Allianz Research

Global GDP Growth,

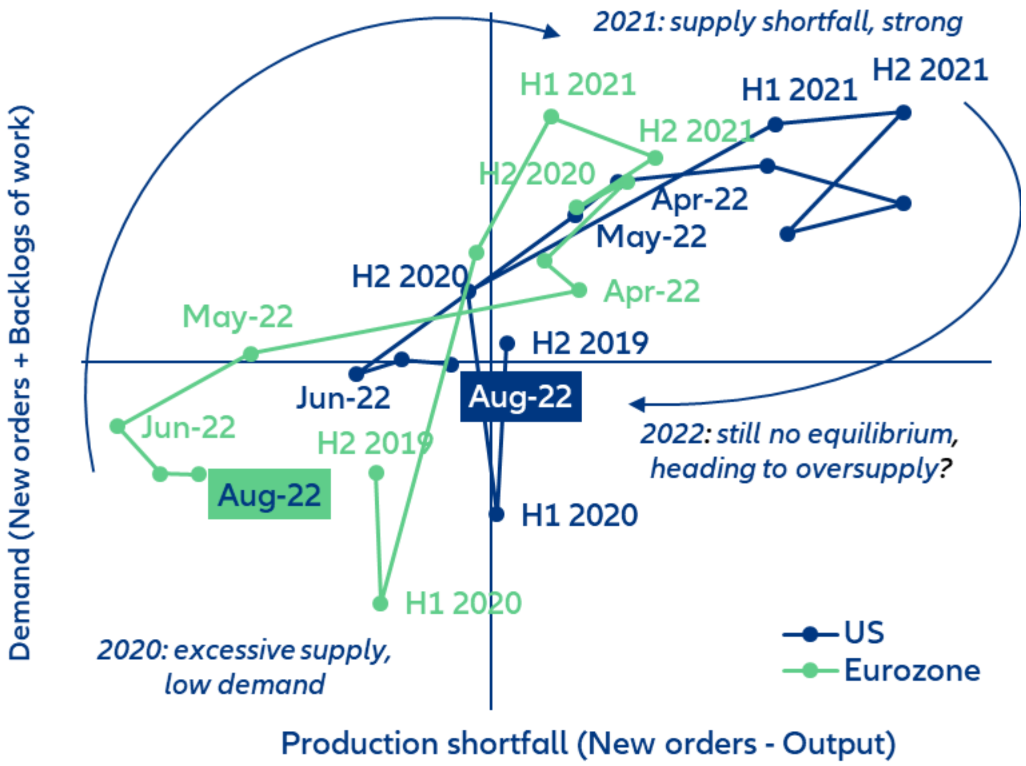
(% q/q, country contributions)



Sources: Refinitiv Datastream, Allianz Research

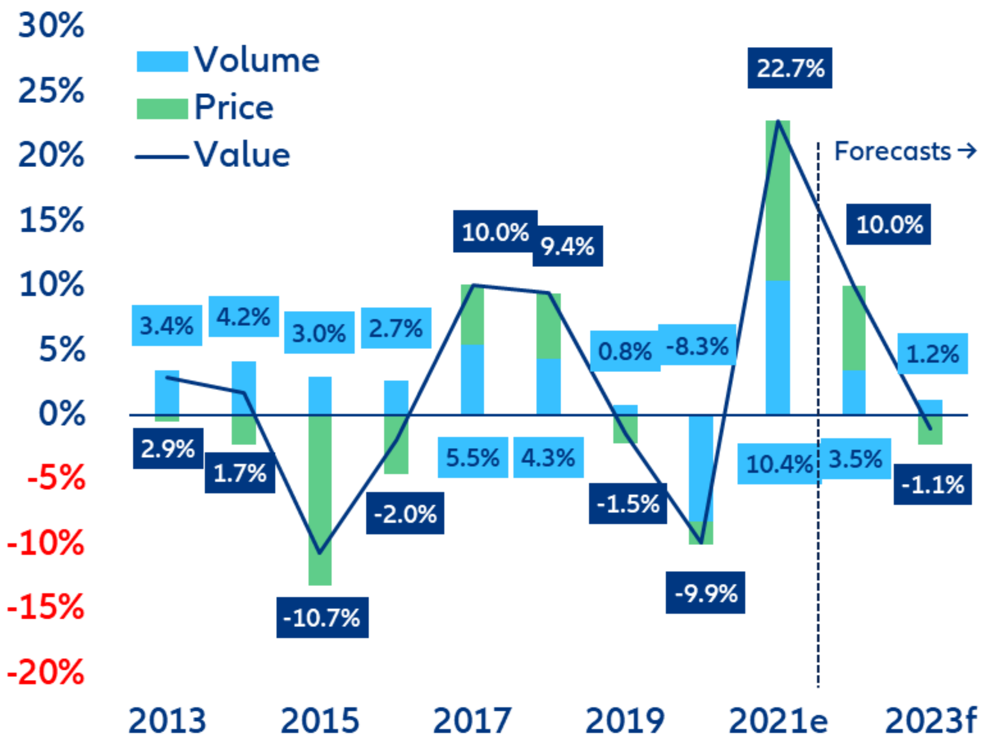
Inventory glut depress global trade growth to lowest level since 2019

Supply vs. Demand



Sources: S&P Global, Allianz Research

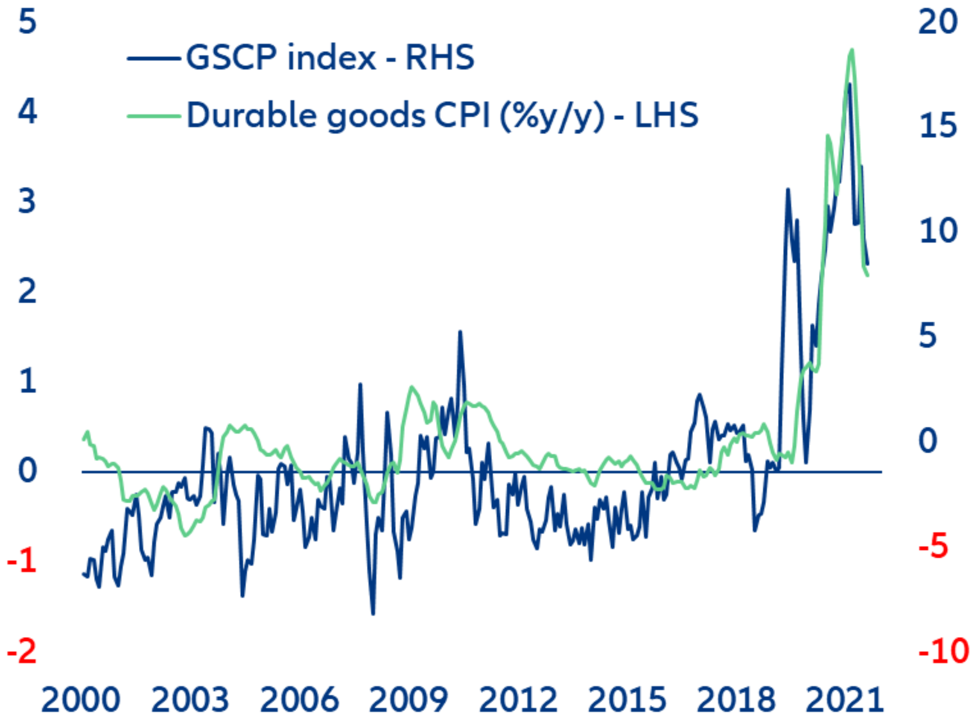
Global Trade Growth (%)



Sources: National authorities, Allianz Research

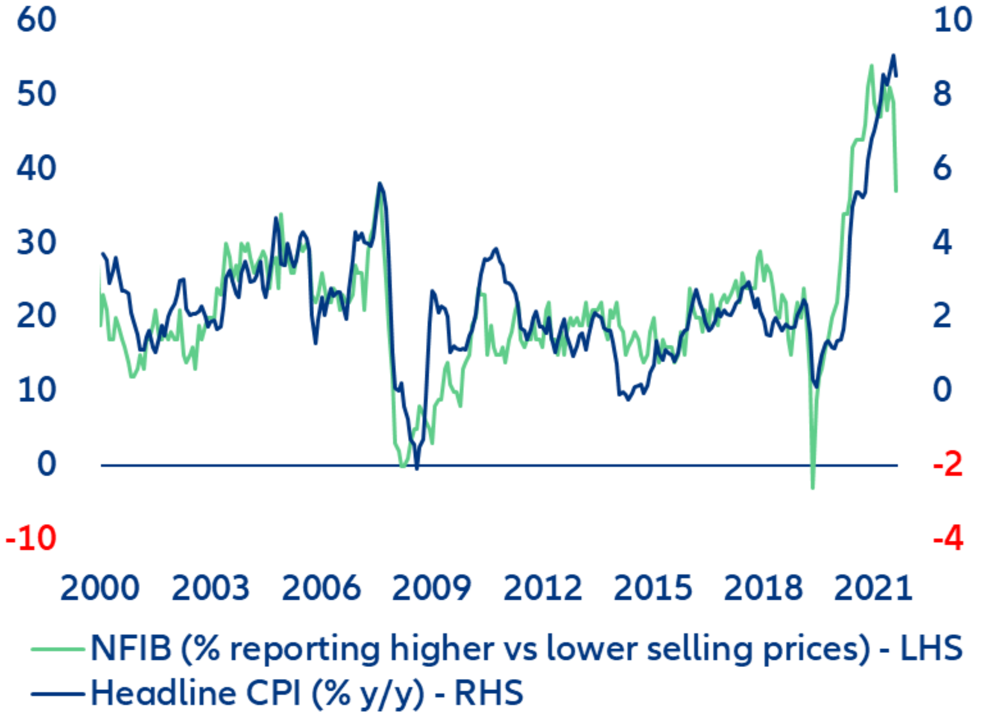
Lower upside pressures from the supply side

Global Supply Chain Pressure Index (GSCP) & US Durable Goods CPI



Sources: Refinitiv Datastream, Allianz Research

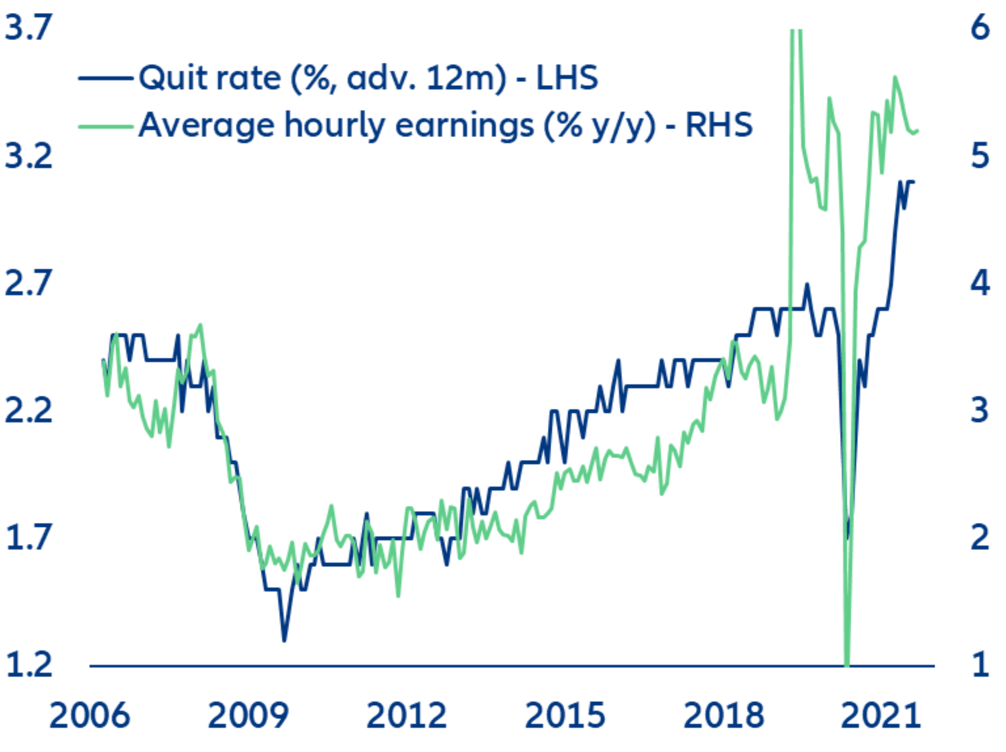
Small Business NFIB Survey & Headline US CPI



Sources: Refinitiv Datastream, Allianz Research

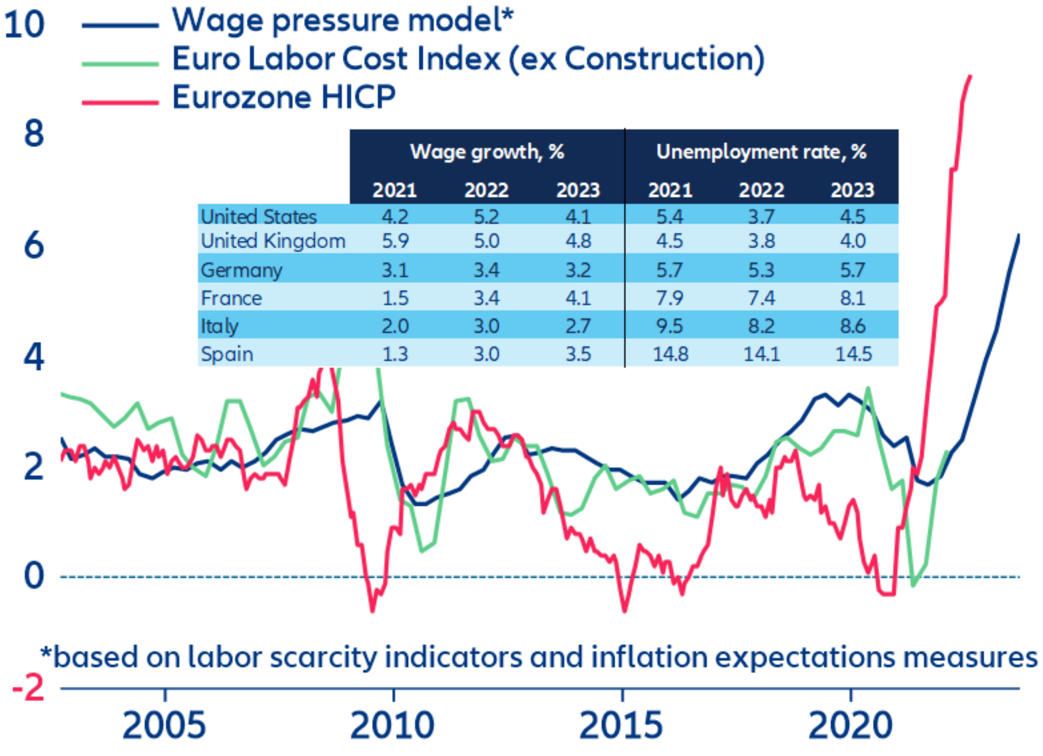
The risk of a wage-price loop remains high

US: Wages & Quit Rate



Sources: Refinitiv Datastream, Allianz Research

EZ: Wage Pressure, Labor Cost Index vs. HICP



	Wage growth, %			Unemployment rate, %		
	2021	2022	2023	2021	2022	2023
United States	4.2	5.2	4.1	5.4	3.7	4.5
United Kingdom	5.9	5.0	4.8	4.5	3.8	4.0
Germany	3.1	3.4	3.2	5.7	5.3	5.7
France	1.5	3.4	4.1	7.9	7.4	8.1
Italy	2.0	3.0	2.7	9.5	8.2	8.6
Spain	1.3	3.0	3.5	14.8	14.1	14.5

*based on labor scarcity indicators and inflation expectations measures

Sources: Refinitiv Datastream, Allianz Research

High price pressures will remain in place until Q1 2023

Inflation Forecast

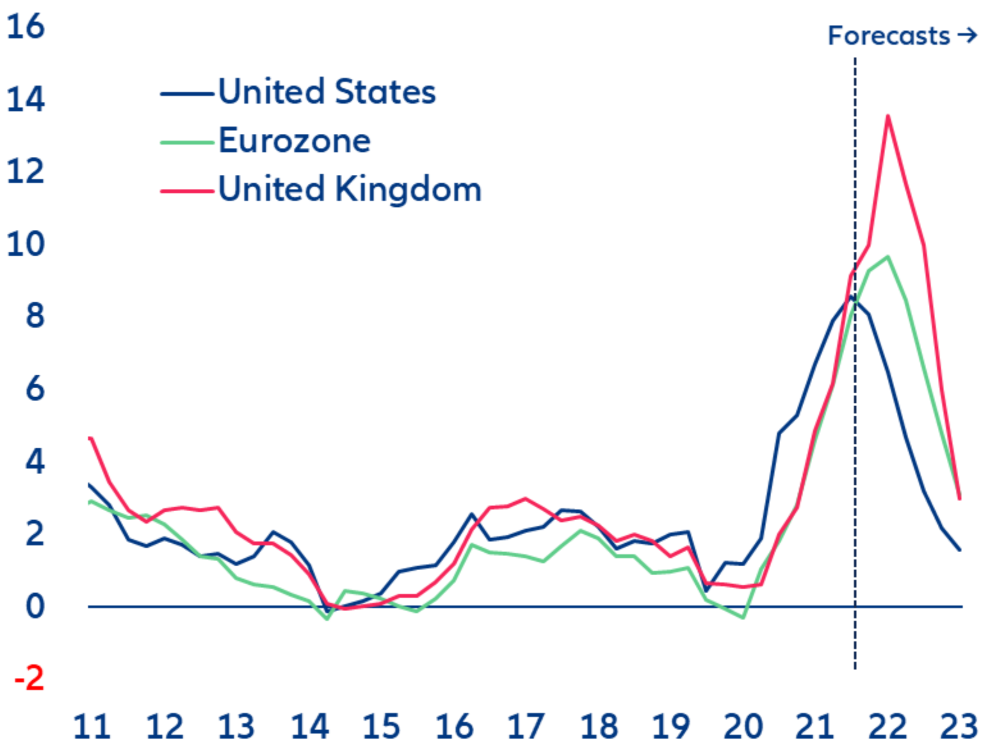
(12-month percentage changes – y/y%)

Inflation	2021	2022f	2023f
Global	4.2	7.9	5.3
USA	4.7	7.8	2.9
Latin America	13.9	17.6	13.4
Brazil	8.3	9.8	5.7
UK	2.6	9.8	7.5
Eurozone	2.6	8.3	5.6
Germany	3.1	8.5	6.2
France	1.6	5.5	4.3
Italy	1.9	7.2	5.2
Spain	3.1	9.0	5.7
Emerging Europe	8.1	23.7	14.0
Russia	6.7	14.5	12.0
Turkey	19.6	71.2	30.8
Poland	5.2	14.0	10.9
Asia-Pacific	1.6	3.5	2.9
China	0.9	2.1	2.2
Japan	-0.2	2.3	1.6
India	5.1	7.0	5.7
Middle East	15.8	20.5	19.0
Saudi Arabia	3.1	2.4	2.5
Africa	12.4	14.7	9.6
South Africa	4.6	6.8	5.0

Sources: Refinitiv Datastream, Allianz Research

Major Economies: Inflation Forecast

(12-month percentage changes – y/y%)

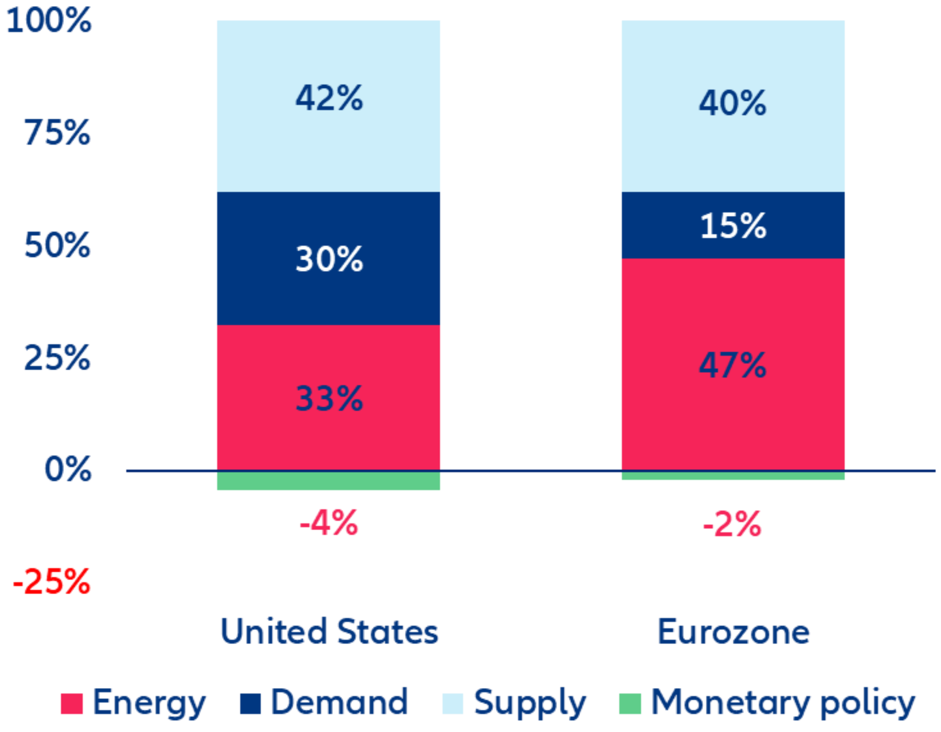


Sources: national authorities, Refinitiv Datastream, Allianz Research

Declining energy inflation will help deceleration in prices

US and Eurozone: Inflation Decomposition

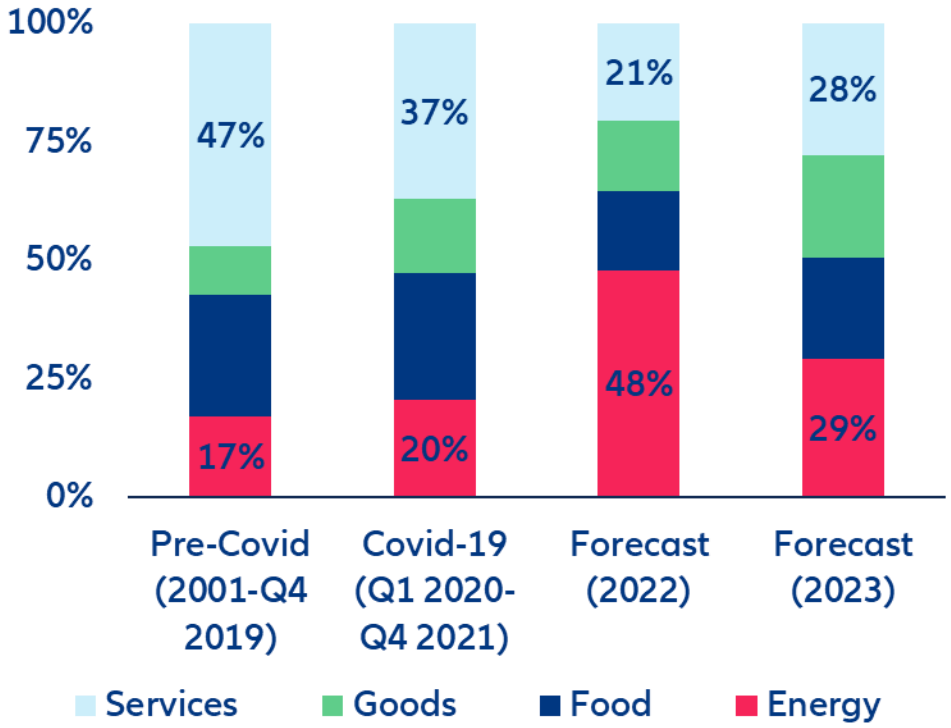
contribution to annual changes in CPI, %, July 2022



Sources: Refinitiv Datastream, Allianz Research

Eurozone: Inflation Decomposition

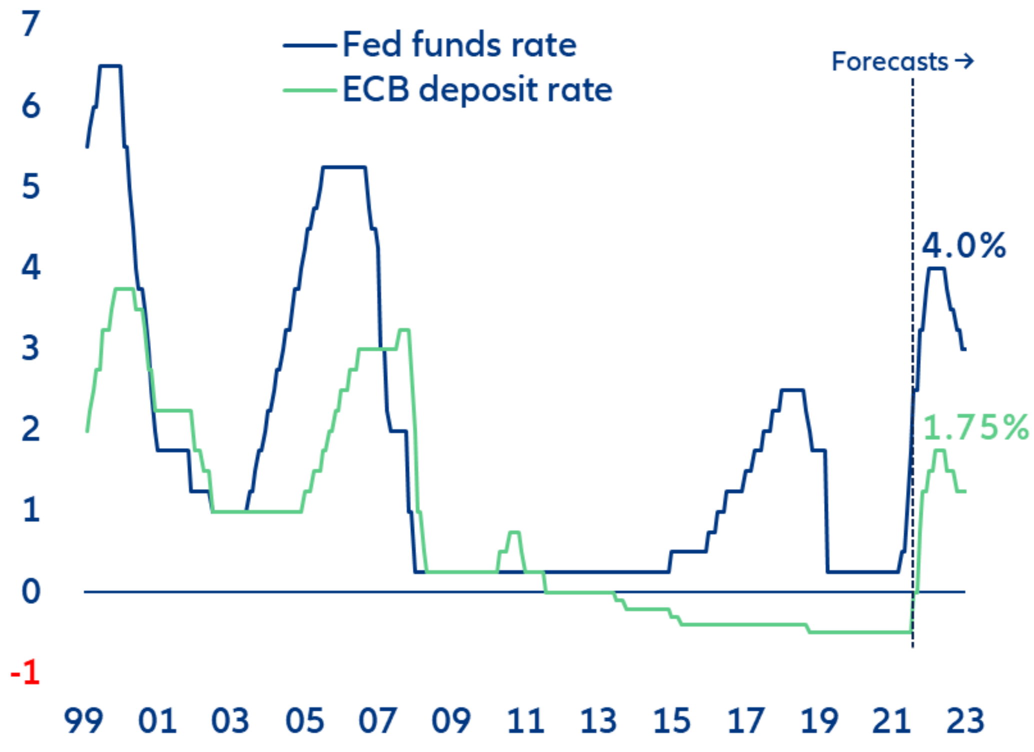
contribution to annual changes in CPI, %



Sources: Refinitiv Datastream, Allianz Research

Hiking cycles are expected to turn in early 2023

Eurozone and US: Effective Policy Rates (%)



Sources: Refinitiv Datastream, Allianz Research

Emerging Markets: Effective Policy Rates (%)

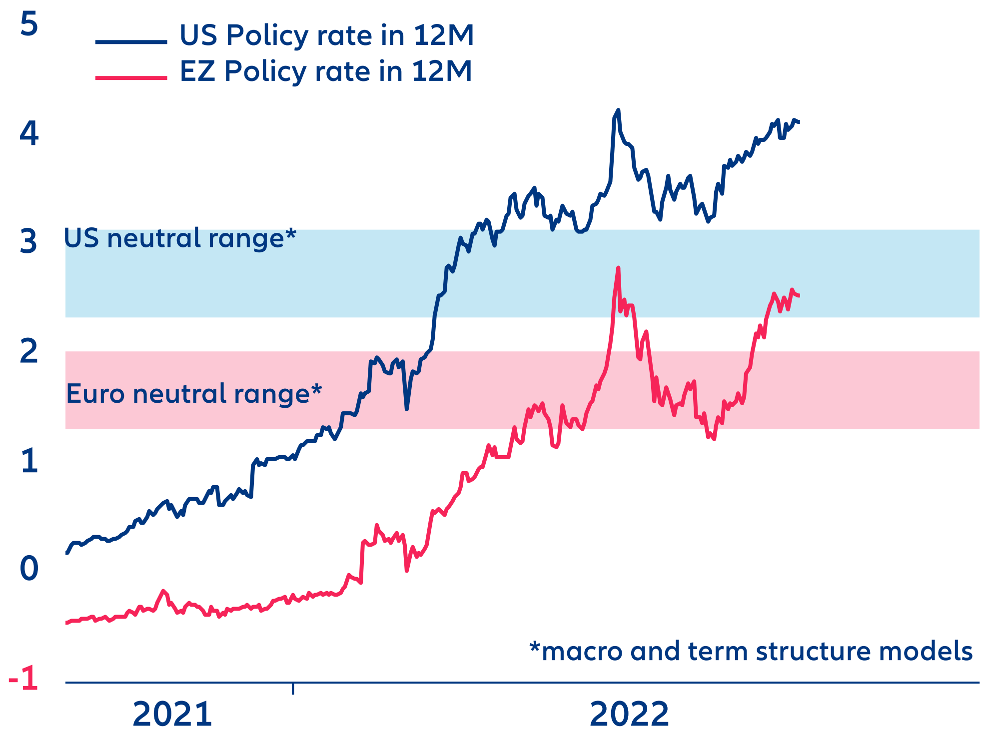
		Interest rate		Interest rate end-2022	
		Latest	2021 Average	AZT forecast	Implied market-based
LATAM	Argentina	69.50	38.00	50.00	
	Brazil	13.75	4.81	14.00	13.85
	Chile	9.75	1.29	10.50	11.00
	Mexico	8.50	4.42	9.50	9.35
	Colombia	9.00	1.94	9.75	10.90
	Peru	6.50	0.77	7.00	
Asia	China	3.70	3.85	3.70	
	Indonesia	3.75	3.52	4.75	
	South Korea	2.50	0.65	2.50	2.75
	Malaysia	2.25	1.75	2.50	2.40
	Taiwan	1.50	1.13	1.88	1.60
	Philippines	4.25	2.50	3.50	4.30
	Thailand	0.75	0.50	1.25	1.20
	India	5.40	4.00	6.00	5.88
	Pakistan	15.00	7.42	14.25	
Eastern Europe	Czech Republic	7.00	0.98	7.25	6.90
	Poland	6.75	0.37	7.25	6.80
	Romania	5.50	1.35	6.25	5.45
	Hungary	11.75	1.21	12.50	13.00
	Russia	8.00	5.98	7.00	
	Turkey	13.00	17.58	12.00	16.70
Africa	South Africa	5.50	3.54	6.50	6.25
	Kenya	7.50	7.00	9.00	
	Algeria	3.00	3.00	3.00	
	Morocco	1.50	1.50	2.50	1.56
	Egypt	11.25	8.25	14.50	
	Nigeria	14.00	11.50	15.00	
Middle East	Saudi Arabia	3.00	1.00	4.00	
	United Arab Emirates	2.40	0.38	3.40	
	Qatar	3.75	2.50	4.75	

Sources: Refinitiv Datastream, Bloomberg, Allianz Research

Higher rates & tighter financing conditions

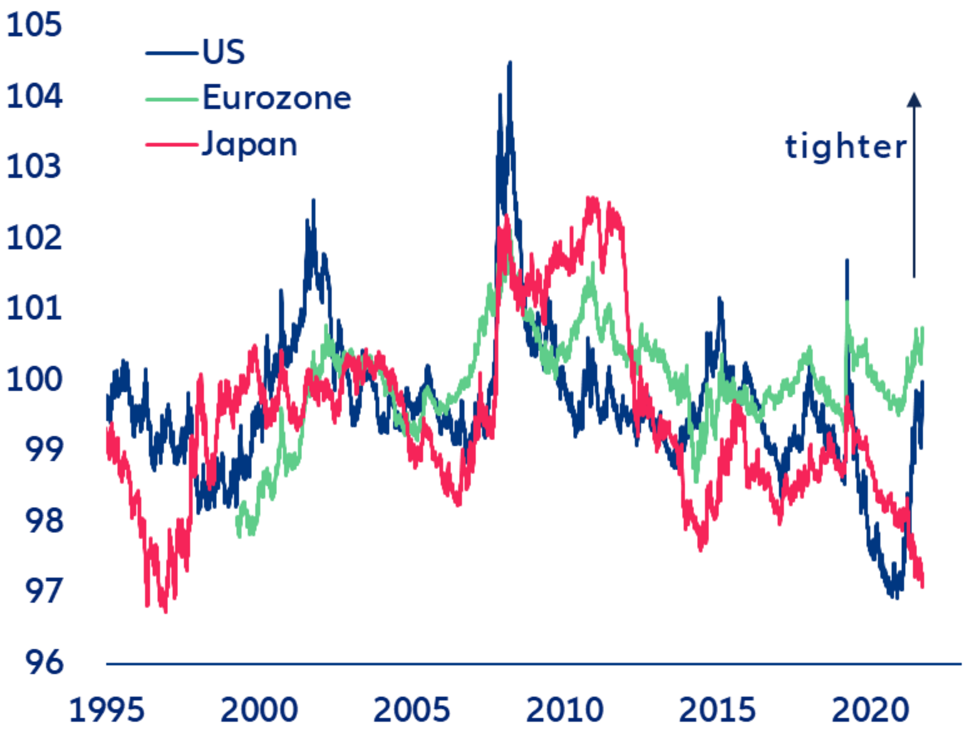
Pivot will happen – but from which level?

Neutral rate ranges vs policy rate pricing (in %)



Sources: Refinitiv Datastream, Allianz Research

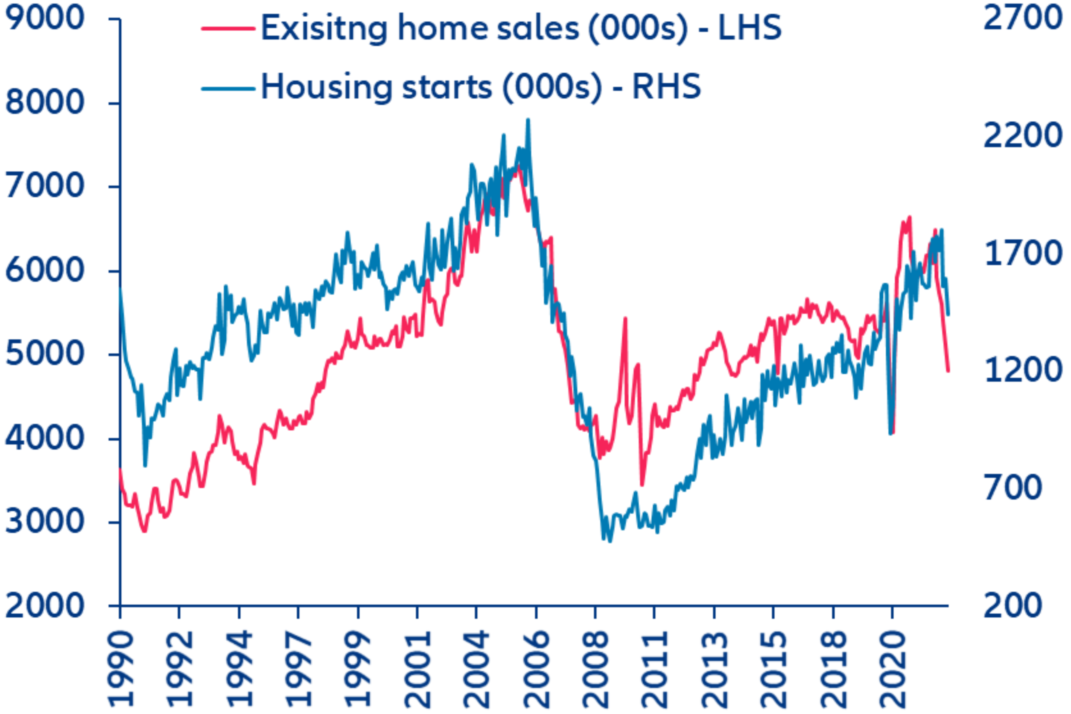
Financial Conditions Index



Sources: Bloomberg, Goldman Sachs, Allianz Research

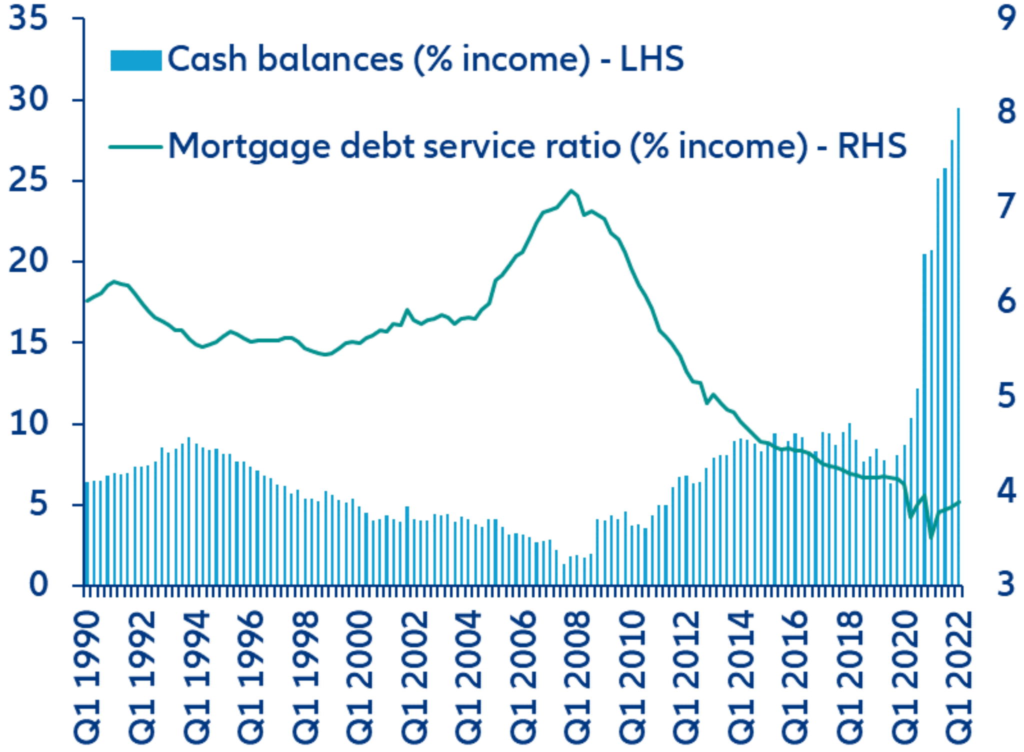
(Moderate) housing market correction

US housing market



Sources: Refinitiv Datastream, Allianz Research

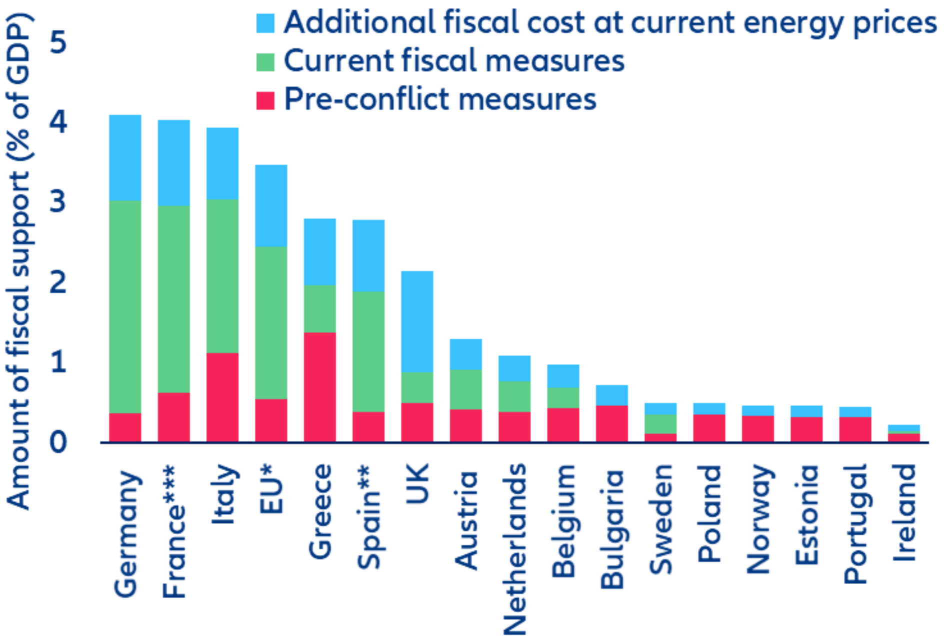
US households' finances



Sources: Refinitiv Datastream, Allianz Research

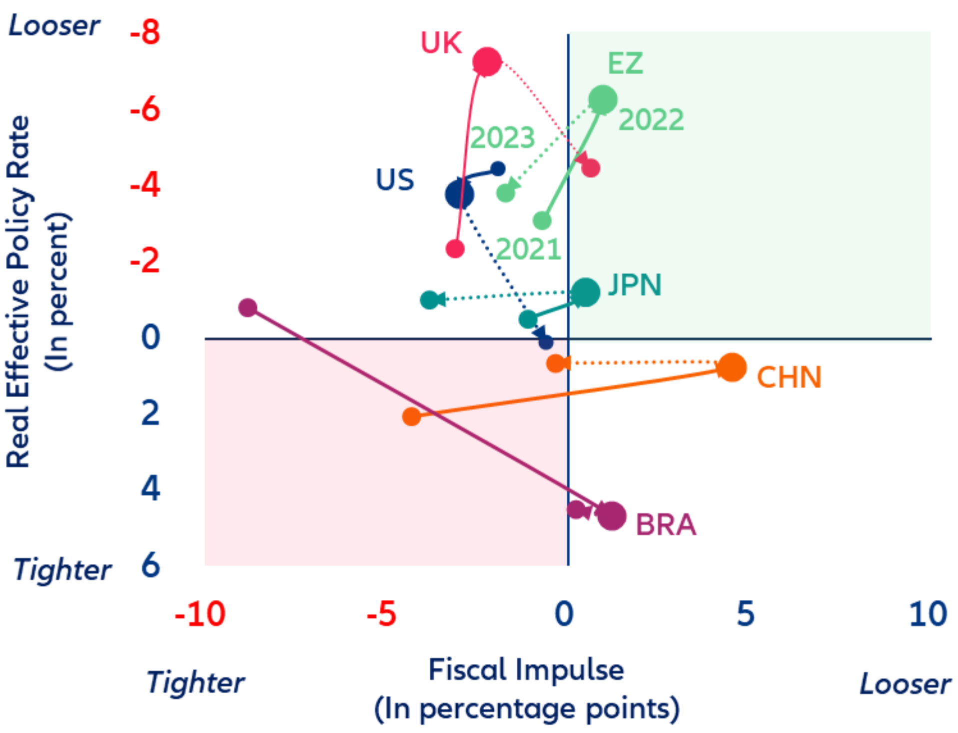
Scaled-up fiscal support cushions the blow

Europe: Fiscal Measures to Address the Impact of the Energy and Cost-of-Living Crisis



Sources: national authorities, Refinitiv Datastream, Allianz Research.
Note: "Additional fiscal cost" relates to planned support measures if electricity prices remain at current levels, with spillover effects into 2023; */ EU is approximated as the GDP-weighted average of the sample countries; /** assumes an energy subsidy of €150 for 11.5mn (lower-income) households; ***/ includes the current €56 bn package but do not consider additional measures being proposed.

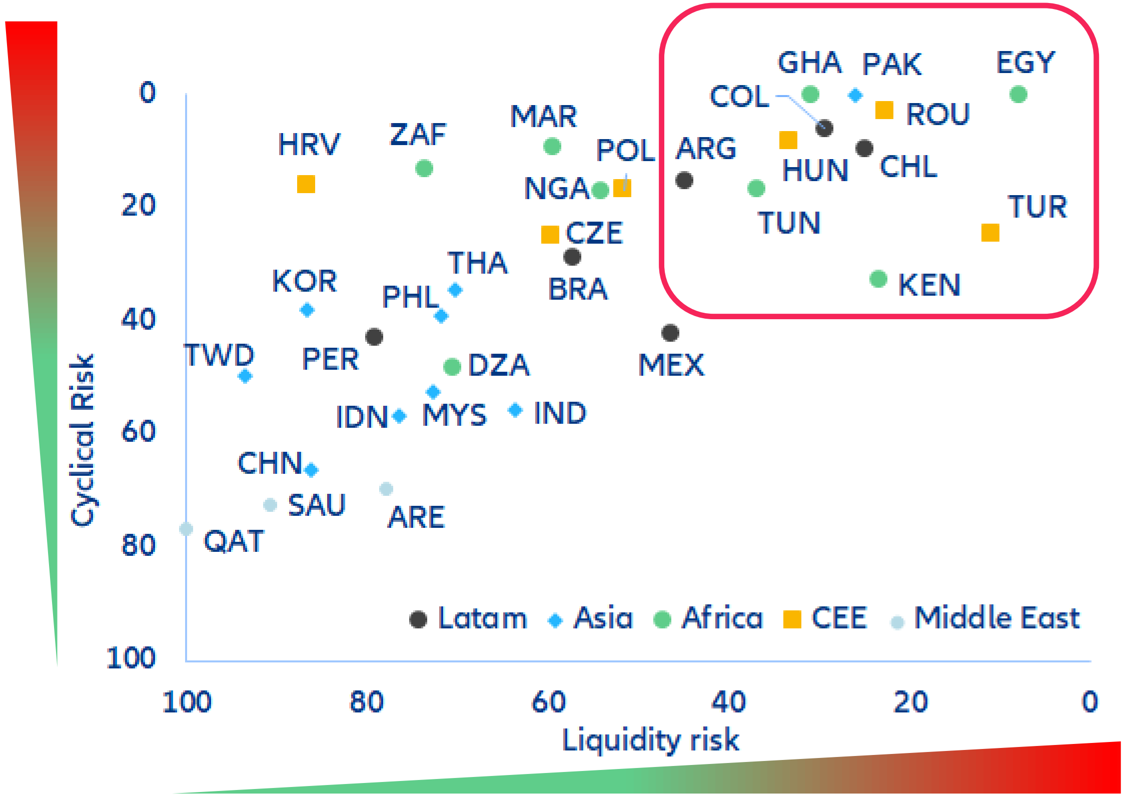
Largest Economies: Fiscal and Monetary stance



Sources: national authorities, Refinitiv Datastream, IMF, Allianz Research

Most at risk from a liquidity squeeze and political unrest

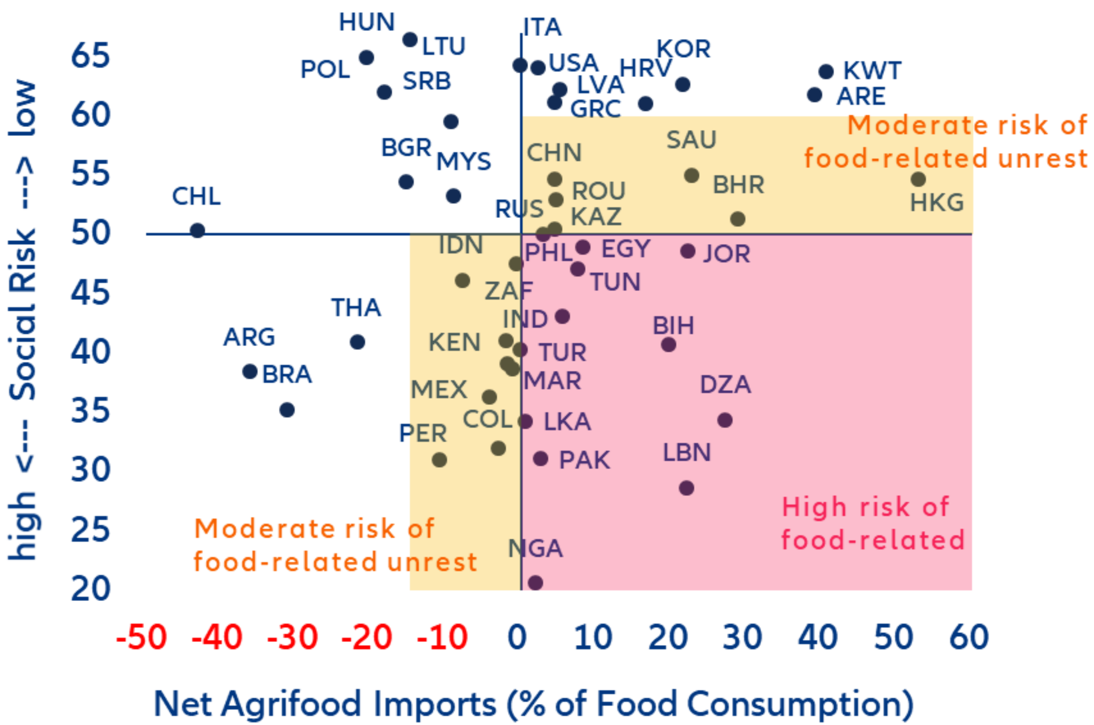
Vulnerabilities to sharp AE's monetary tightening



Sources: Refinitiv Datastream, Allianz Research

11 EMs at high risk of a food crisis

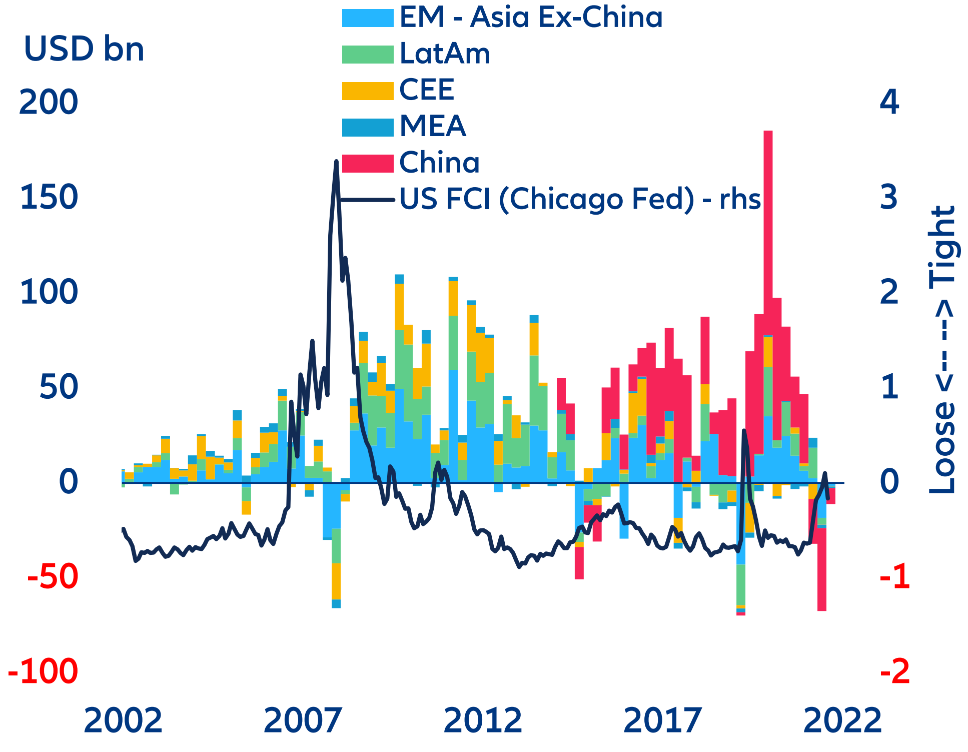
Scale: 0 = high risk to 100 = low risk



Sources: Various, Allianz Research calculations
Note: Social risk measured by our proprietary Social Risk Index

Selectivity will be key as EMs are in high-risk territory

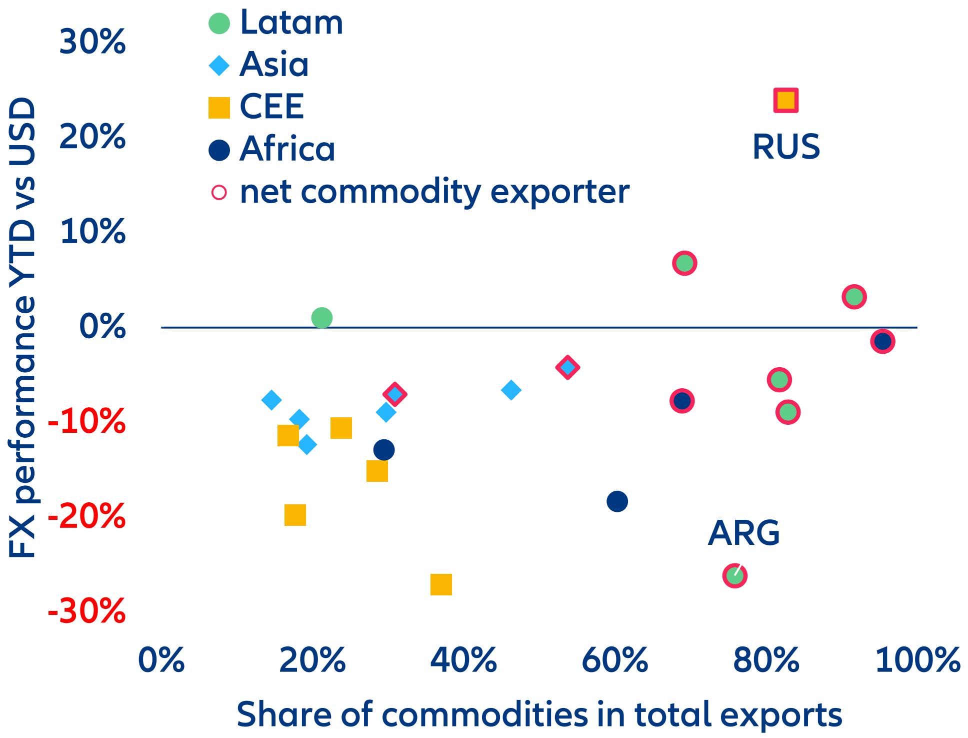
Record net foreign portfolio outflows as financial conditions tighten



Sources: IIF, Datastream, Allianz Research.
Note: Monthly flows aggregated by quarters. Flows are aggregated as soon as they are reported, but different countries report the data with different lags.

Commodities exporters relative outperformance

Threatened by weakening global demand



Sources: Refinitiv Datastream, Allianz Research

Key political events could worsen geopolitical tensions & decoupling trend

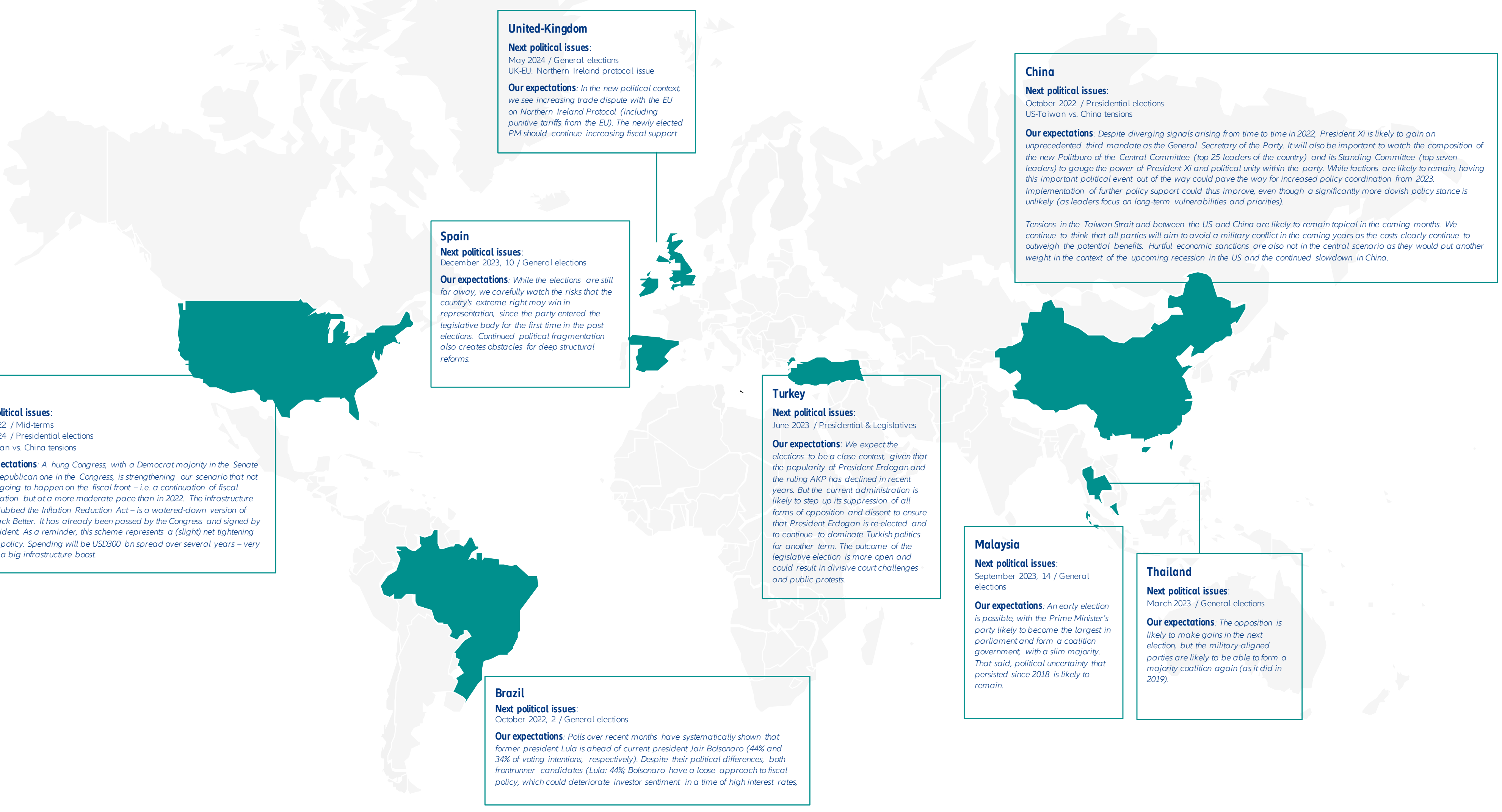
Italian Elections (25 Sept.): we expect Eurosceptic parties to emerge as frontrunners – should already provide an idea on whether the European electorate sees Europe as a solution or part of the problem of current economic woes, as well as whether the ECB's spread-fighting Transmission Protection Instrument is deemed credible by the market or not.

Tensions in the Taiwan Strait and between the US and China are likely to remain topical in the coming months

- **China's Party Congress** (16 Oct.): President Xi is likely to gain an unprecedented third term as the Secretary General
- **US Mid-term Elections** (8 Nov.): Congress likely to continue to be split, suggesting continued fiscal consolidation (but at a more moderate pace than in 2022). The Inflation Reduction Act – as a watered-down version of Build Back Better Framework – represents a (slight) net tightening of fiscal policy.

Brazilian Presidential Elections (2 Oct.): Polls over recent months have systematically shown that former president Lula is ahead of current president Jair Bolsonaro (44% and 34% of voting intentions, respectively). Despite their political differences, both frontrunner candidates (Lula: 44%; Bolsonaro have a loose approach to fiscal policy, which could deteriorate investor sentiment in a time of high interest rates, high debt and especially lower economic growth.

Rising (geo) political risk will bring further volatility



United-Kingdom

Next political issues:
May 2024 / General elections
UK-EU: Northern Ireland protocal issue

Our expectations: *In the new political context, we see increasing trade dispute with the EU on Northern Ireland Protocol (including punitive tariffs from the EU). The newly elected PM should continue increasing fiscal support*

China

Next political issues:
October 2022 / Presidential elections
US-Taiwan vs. China tensions

Our expectations: *Despite diverging signals arising from time to time in 2022, President Xi is likely to gain an unprecedented third mandate as the General Secretary of the Party. It will also be important to watch the composition of the new Politburo of the Central Committee (top 25 leaders of the country) and its Standing Committee (top seven leaders) to gauge the power of President Xi and political unity within the party. While factions are likely to remain, having this important political event out of the way could pave the way for increased policy coordination from 2023. Implementation of further policy support could thus improve, even though a significantly more dovish policy stance is unlikely (as leaders focus on long-term vulnerabilities and priorities).*

Tensions in the Taiwan Strait and between the US and China are likely to remain topical in the coming months. We continue to think that all parties will aim to avoid a military conflict in the coming years as the costs clearly continue to outweigh the potential benefits. Hurtful economic sanctions are also not in the central scenario as they would put another weight in the context of the upcoming recession in the US and the continued slowdown in China.

Spain

Next political issues:
December 2023, 10 / General elections

Our expectations: *While the elections are still far away, we carefully watch the risks that the country's extreme right may win in representation, since the party entered the legislative body for the first time in the past elections. Continued political fragmentation also creates obstacles for deep structural reforms.*

USA

Next political issues:
Nov. 2022 / Mid-terms
Nov. 2024 / Presidential elections
US-Taiwan vs. China tensions

Our expectations: *A hung Congress, with a Democrat majority in the Senate and a Republican one in the Congress, is strengthening our scenario that not much is going to happen on the fiscal front – i.e. a continuation of fiscal consolidation but at a more moderate pace than in 2022. The infrastructure plan – dubbed the Inflation Reduction Act – is a watered-down version of Build Back Better. It has already been passed by the Congress and signed by the President. As a reminder, this scheme represents a (slight) net tightening of fiscal policy. Spending will be USD300 bn spread over several years – very short of a big infrastructure boost.*

Turkey

Next political issues:
June 2023 / Presidential & Legislatives

Our expectations: *We expect the elections to be a close contest, given that the popularity of President Erdogan and the ruling AKP has declined in recent years. But the current administration is likely to step up its suppression of all forms of opposition and dissent to ensure that President Erdogan is re-elected and to continue to dominate Turkish politics for another term. The outcome of the legislative election is more open and could result in divisive court challenges and public protests.*

Malaysia

Next political issues:
September 2023, 14 / General elections

Our expectations: *An early election is possible, with the Prime Minister's party likely to become the largest in parliament and form a coalition government, with a slim majority. That said, political uncertainty that persisted since 2018 is likely to remain.*

Thailand

Next political issues:
March 2023 / General elections

Our expectations: *The opposition is likely to make gains in the next election, but the military-aligned parties are likely to be able to form a majority coalition again (as it did in 2019).*

Brazil

Next political issues:
October 2022, 2 / General elections

Our expectations: *Polls over recent months have systematically shown that former president Lula is ahead of current president Jair Bolsonaro (44% and 34% of voting intentions, respectively). Despite their political differences, both frontrunner candidates (Lula: 44%; Bolsonaro have a loose approach to fiscal policy, which could deteriorate investor sentiment in a time of high interest rates,*

Preparing for a different world

1 **Globalization: Great Disentangling**
Reconfiguration of global supply chains and geostrategic onshoring?
De-dollarization of reserves and financial markets?
West decoupling from China?

2 **Inequality: Great Widening**
Global divide exacerbated by Covid-19 and Ukraine war? New approaches to development (e.g., renewable energy, south-south cooperation)?

3 **Climate Change: Great Transformation**
Energy security vs. pace of de-carbonization?
Capital-intensive growth through climate investment and carbon pricing will raise the natural rate (again) and require a new monetary-fiscal policy mix.

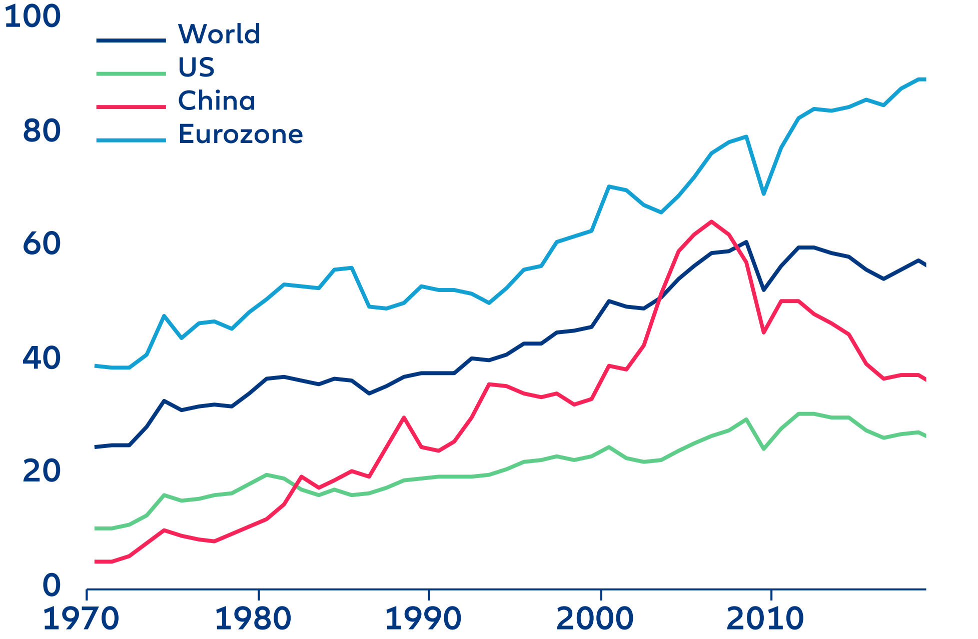
4 **State Support: Great Intervention**
More pressure on fiscal policy to secure external (energy, defense, technology) and internal security (inequality, pension crisis). Diminished market-based resource allocation leading to less innovation and competition?

5 **Central Bank: Great Complication**
Monetary policy complicated by supply rather than demand shocks pushing up inflation (Covid, Ukraine, climate)

6 **European Union: Great Unification**
Can shared focus on preserving peace and freedom help overcome entrenched national positions? Disintegration or more pooling of resources (political, fiscal, defense)?

Globalization on pause, not retreating

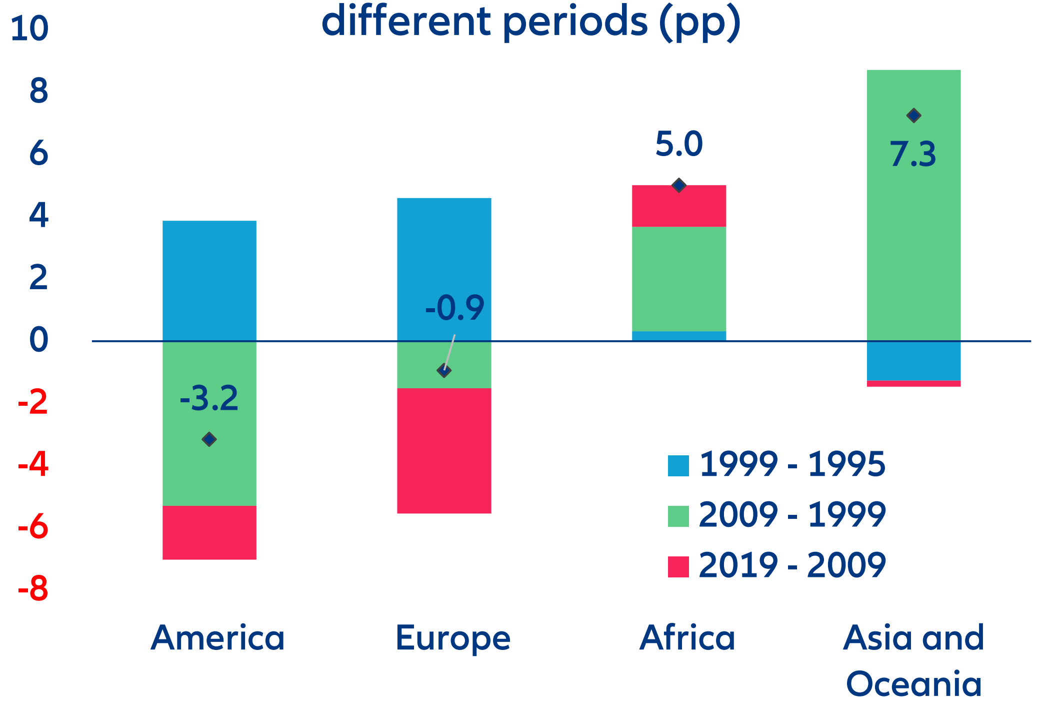
Trade in goods and services, as % of GDP



Source: Refinitiv Datastream; Allianz Research

Globalization as measured by the world's total trade as a share of GDP increased from 25% in 1970 to a peak of 61% in 2008. It has shown a timid declining trend since, on the back of a very visible decline in the share of China's trade in its GDP (36% in 2019 vs. a peak at 64% in 2006).

Intra-regional trade as share of total: change over different periods (pp)

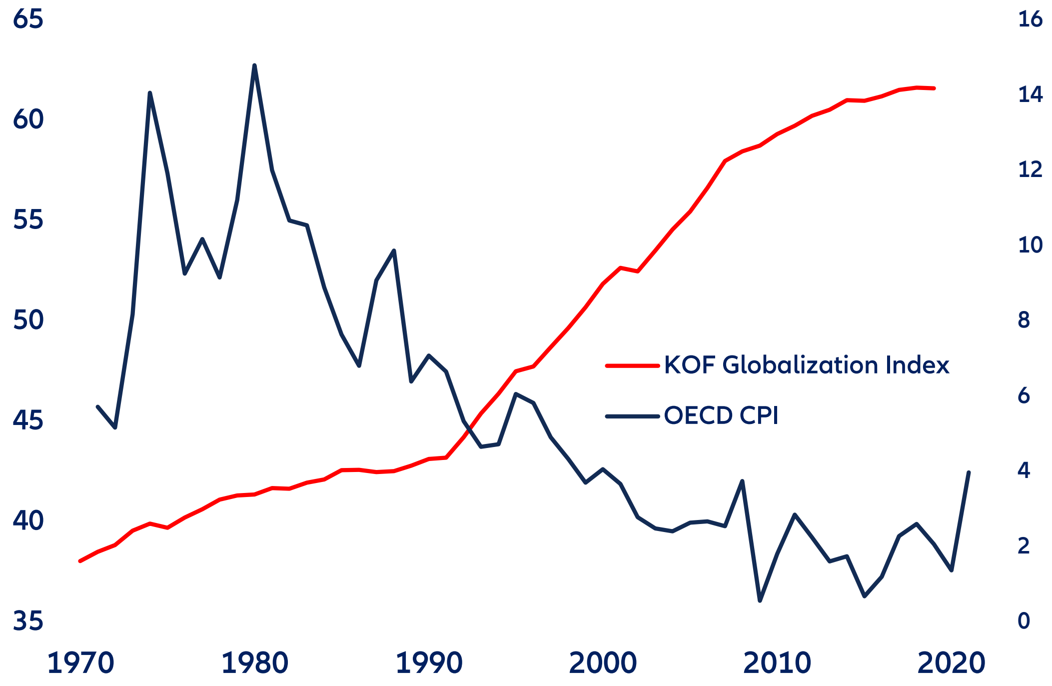


Sources: UNCTAD, Allianz Research

Intra-regional trade has been gaining ground over the past decades in Asia-Pacific and Africa.

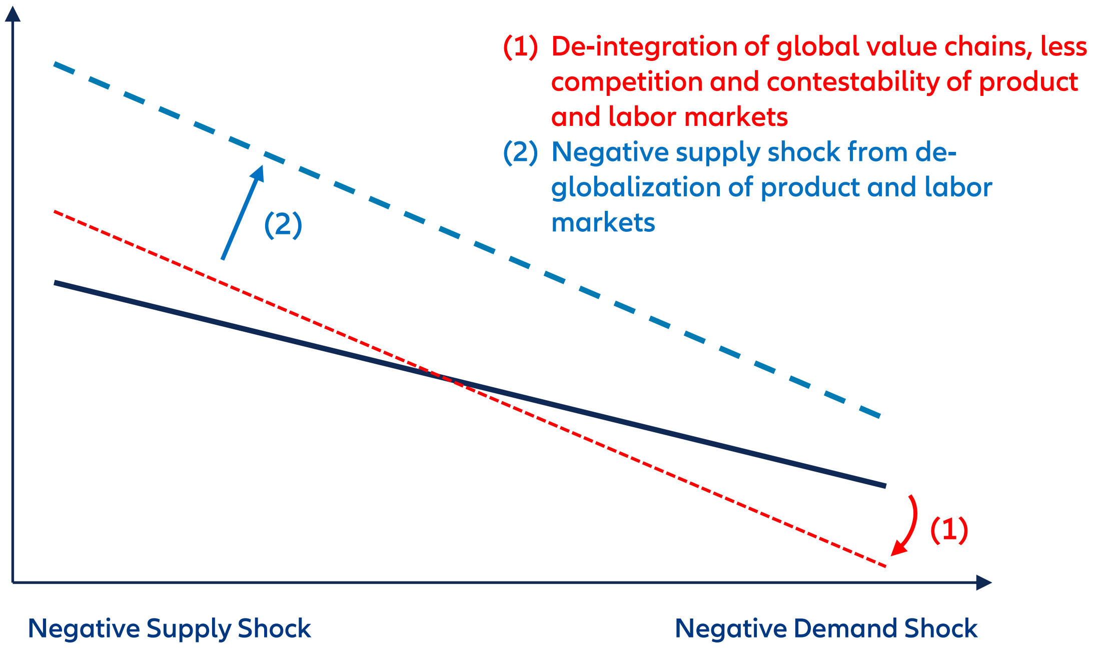
Inflation due to de-globalization?

De-globalization: OECD inflation vs. KOF



Sources: Refinitiv, Allianz Research

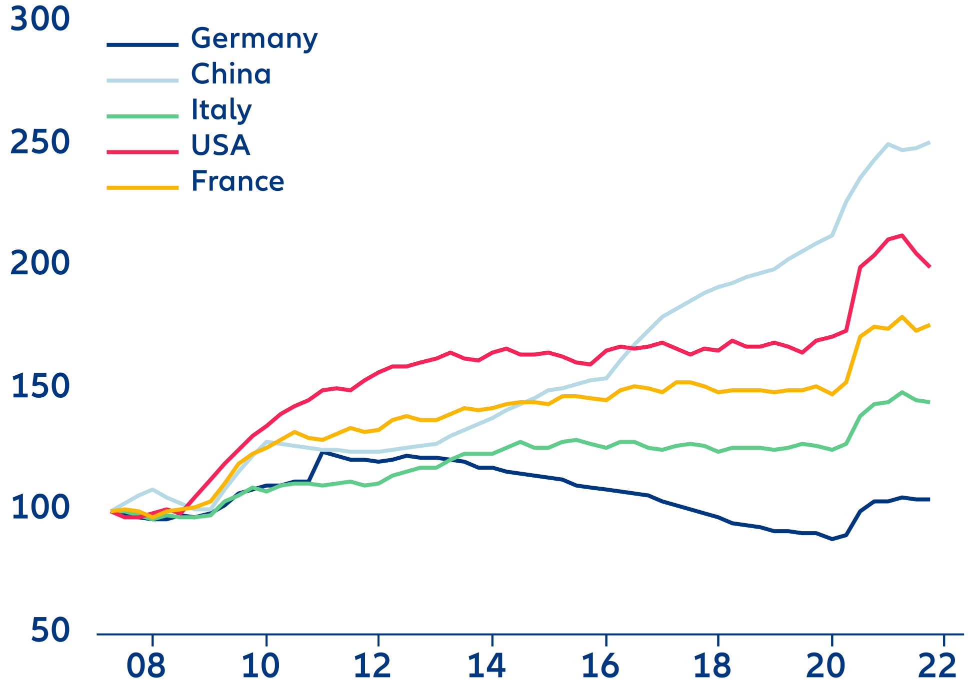
Re-steepening of the Phillips Curve



Sources: Refinitiv, Allianz Research

Reality-check for fiscal policy

Sovereign Debt (Index: 100=Q1 2007)



Source: Refinitiv Datastream; Allianz Research (as of Q3 21)

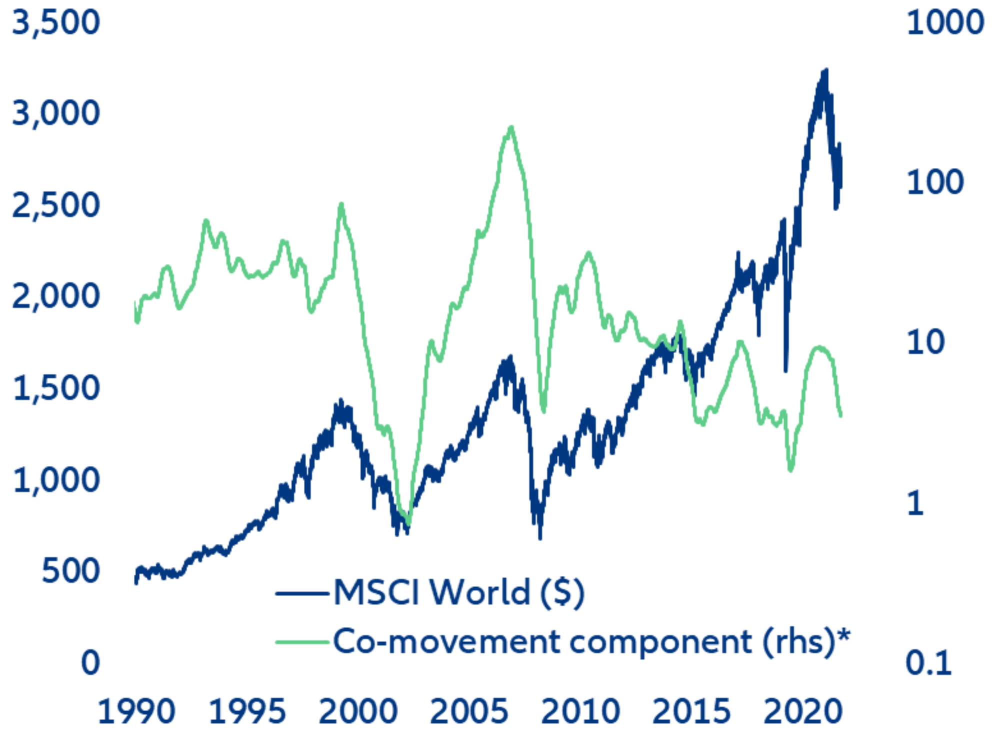
How can mounting demands on fiscal policy be met going forward?

Capital Markets Outlook

Markets are not positioned for deep structural recession

Systemic risk remains low

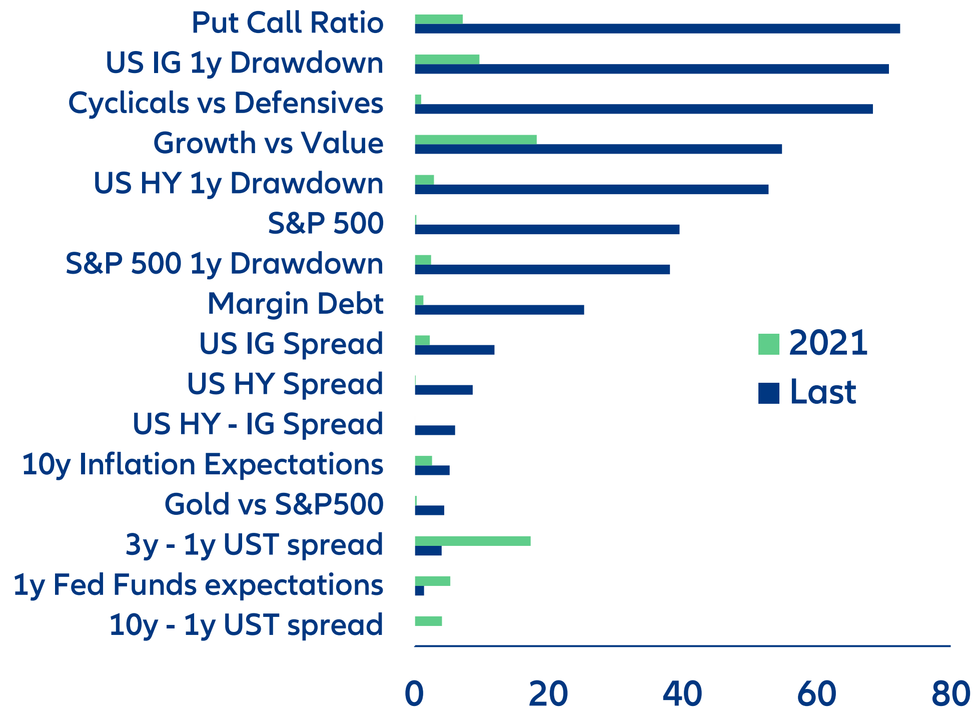
co-movements based on 40 assets – EQ & Commodities



Sources: Refinitiv Datastream, Allianz Research.
Note: * Co-movement component of the third-order moment across 40 assets (EQ & Commodities)

Markets have partially committed to a recession

US recession probability in %

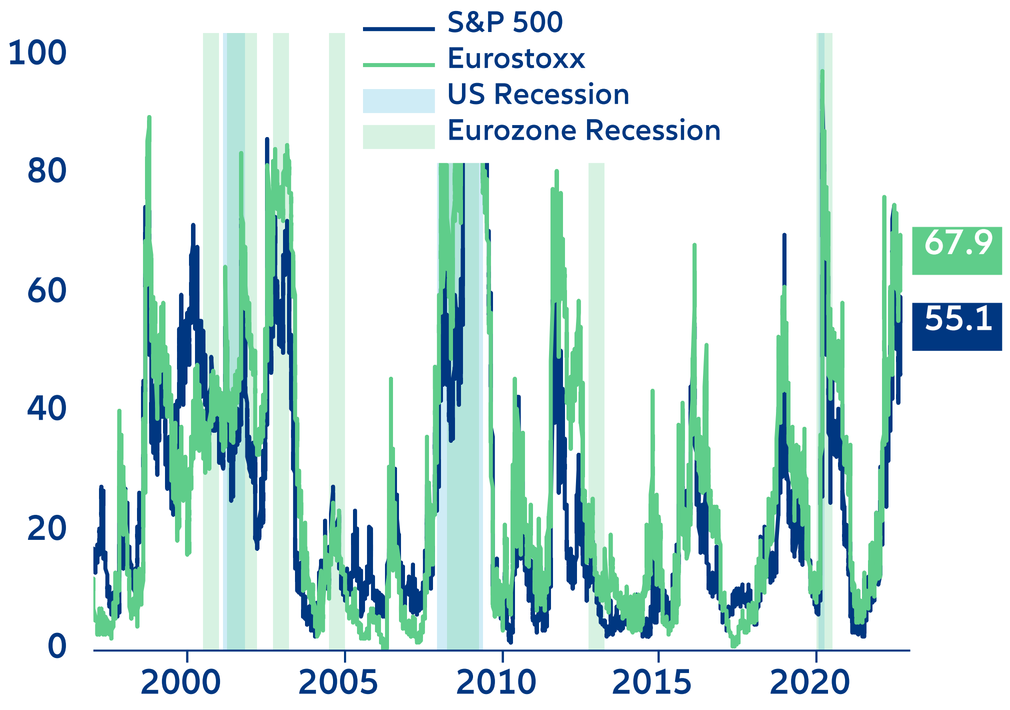


Sources: Refinitiv Datastream, Allianz Research

Next 12m critical in determining the severity of the downturn

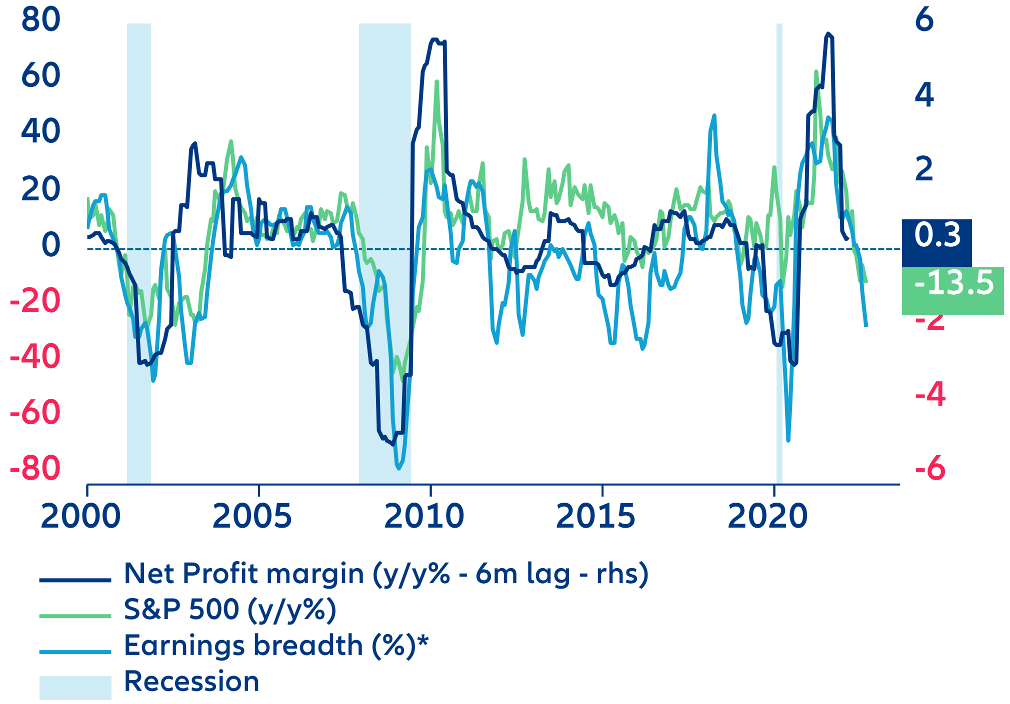
EQ markets getting close to recession territory

percentage of stocks below -20% from 250day maximum



Sources: Refinitiv Datastream, Allianz Research

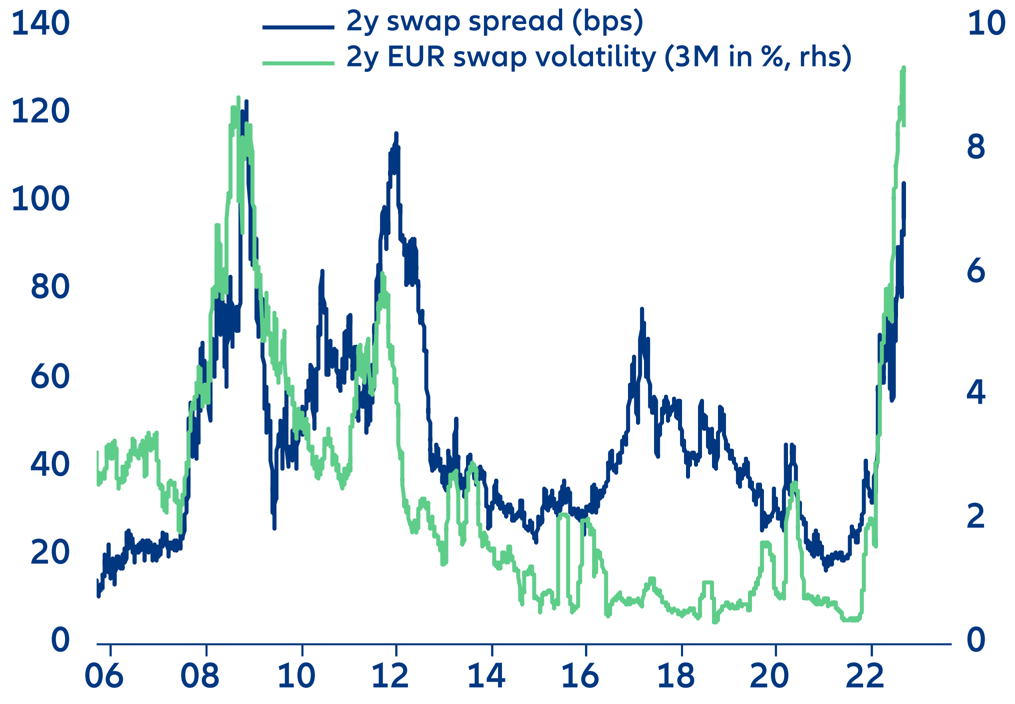
Markets price in a cyclical but not structural recession



Sources: Refinitiv Datastream, Allianz Research
* # of EPS upward revisions - # of EPS downward revisions as a % of total # of estimations

EUR liquidity is deteriorating but we do not see risks building up in peripherals

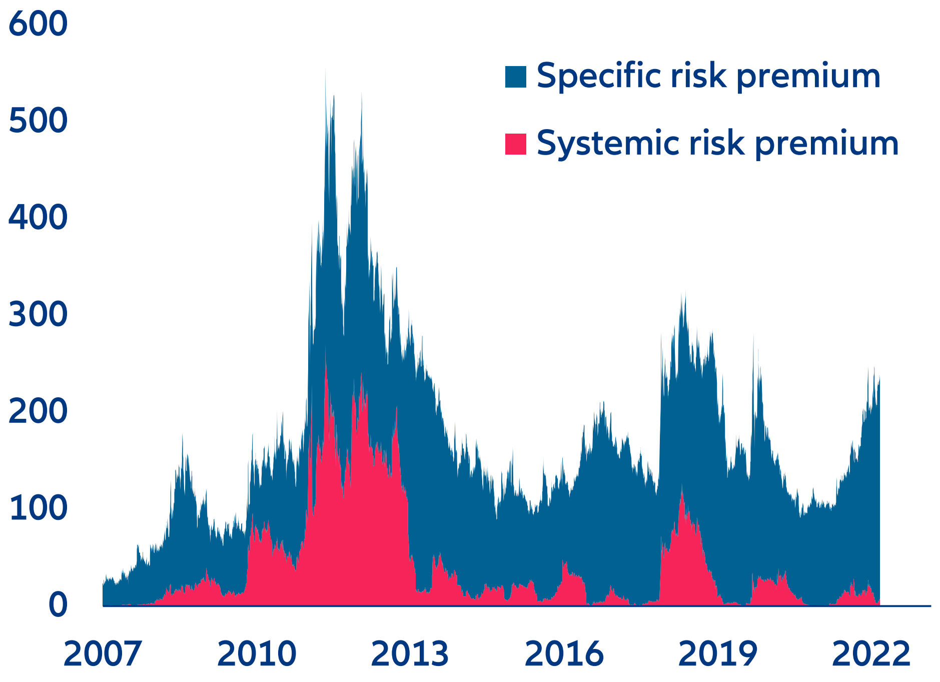
EUR liquidity conditions are in stress territory



Sources: Refinitiv Datastream, Allianz Research

Italy's systemic risk component has not substantially increased

(Spread vs 10y Bund)



Sources: Refinitiv Datastream, Allianz Research
Note: based on variance decomposition

Capital markets remain under pressure until year-end

Capital Markets: Eurozone and US

year-end figures

year-end figures	Last	Unit	2021	2022f	2023f
Eurozone			2021	2022f	2023f
Government Debt					
Policy rate (deposit rate)	0.75	%	-0.50	1.50	1.25
Policy rate (MRO)	1.25	%	0.00	2.00	1.75
10y yield (Bunds)	1.73	%	-0.20	1.60	1.40
10y EUR swap rate	2.51	%	0.30	2.40	1.80
Italy 10y sovereign spread	226	bps	136	245	225
France 10y sovereign spread	56	bps	37	65	50
Spain 10y sovereign spread	113	bps	77	80	70
Corporate Debt					
Investment grade credit spreads	192	bps	98	180	145
High-yield credit spreads	534	bps	331	550	450
Equity					
Eurostoxx (total return p.a.)	-14.8 ytd	%	23.4	-15	7

US			2021	2022f	2023f
Government Debt					
Policy rate (upper)	2.50	%	0.25	4.00	3.00
10y yield (Treasuries)	3.42	%	1.50	3.25	2.90
Corporate Debt					
Investment grade credit spreads	146	bps	98	150	130
High-yield credit spreads	468	bps	310	475	400
Equity					
S&P 500 (total return p.a.)	-16.6 ytd	%	28.7	-13	8

Sources: Refinitiv Datastream, Allianz Research

Capital Markets: UK, Emerging Markets, FX

year-end figures

year-end figures	Last	Unit	2021	2022f	2023f
UK			2021	2022f	2023f
Government Debt					
Policy rate	1.75	%	0.25	2.50	3.00
10y yield sovereign (Gilt)	3.17	%	1.00	3.00	2.25
Corporate Debt					
Investment grade credit spreads	200	bps	115	200	150
High-yield credit spreads	601	bps	390	600	475
Equity					
FTSE 100 (total return p.a.)	3.1 ytd	%	18.4	2	4

Emerging Markets			2021	2022f	2023f
Government Debt					
Hard currency spread (vs USD)	319	bps	295	370	320
Local currency yield	6.9	%	5.7	7.3	6.5
Equity					
MSCI EM: total return p.a. in USD	-18.3 ytd	%	-2.2	-17	9

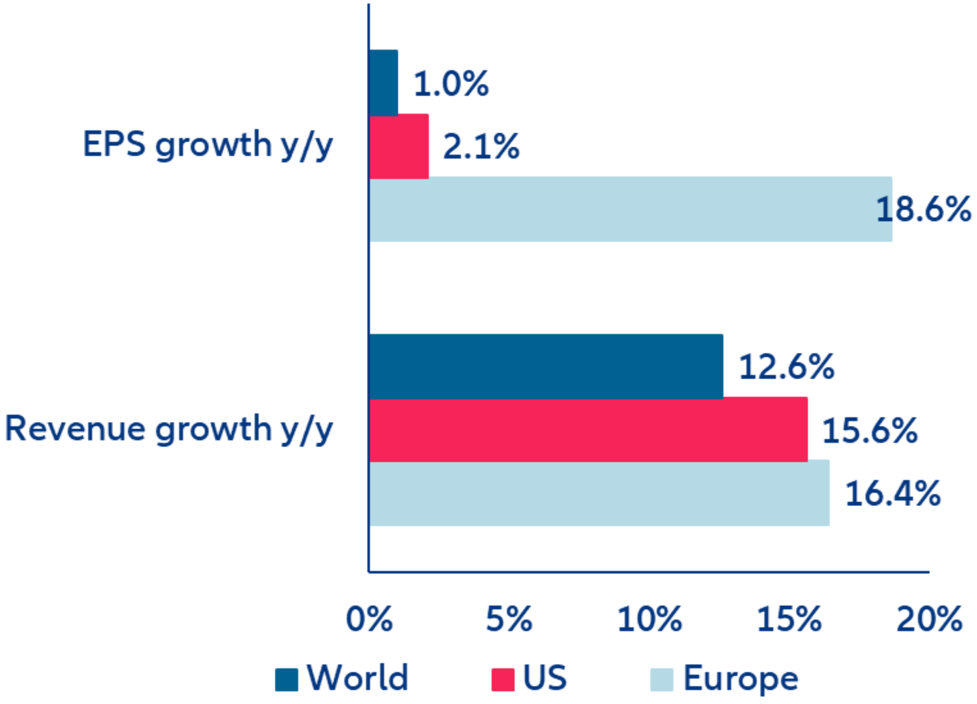
Others			2021	2022f	2023f
Foreign Exchange					
EURUSD	1.002	$ per €	1.137	1.01	1.10

Sources: Refinitiv Datastream, Allianz Research

Corporate Sector Outlook

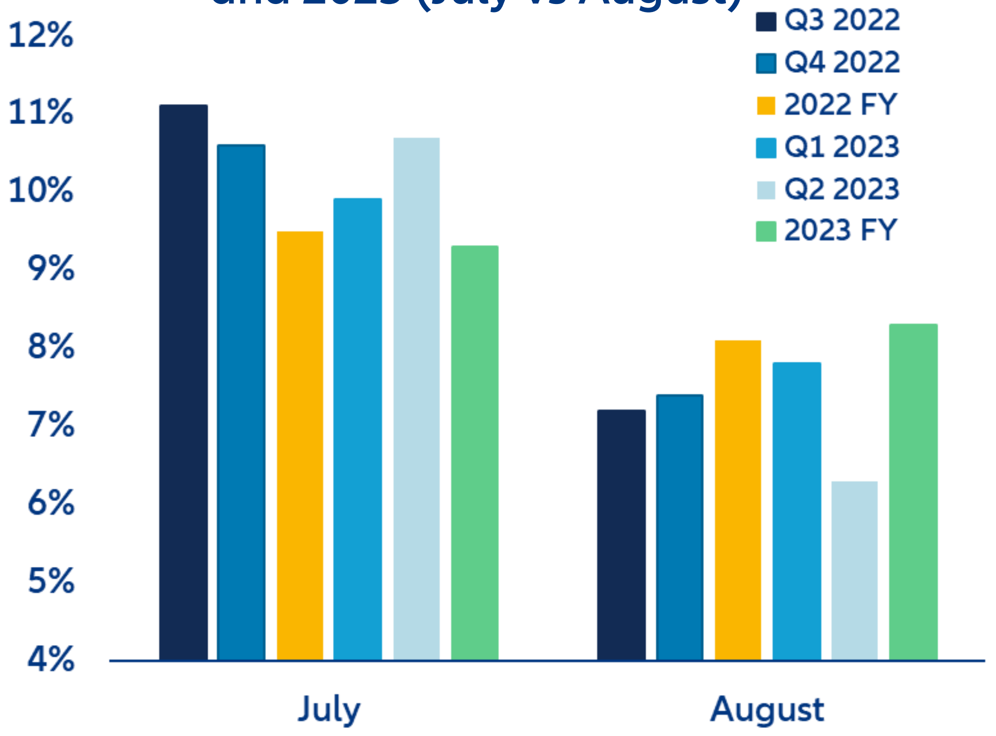
Despite a good first half of the year, momentum is fading

Quarterly results by region



Sources: Refinitiv Eikon as of 8 September 2022, Allianz Research
(Europe includes 32 countries)

S&P 500 profit-growth estimates for 2022 and 2023 (July vs August)



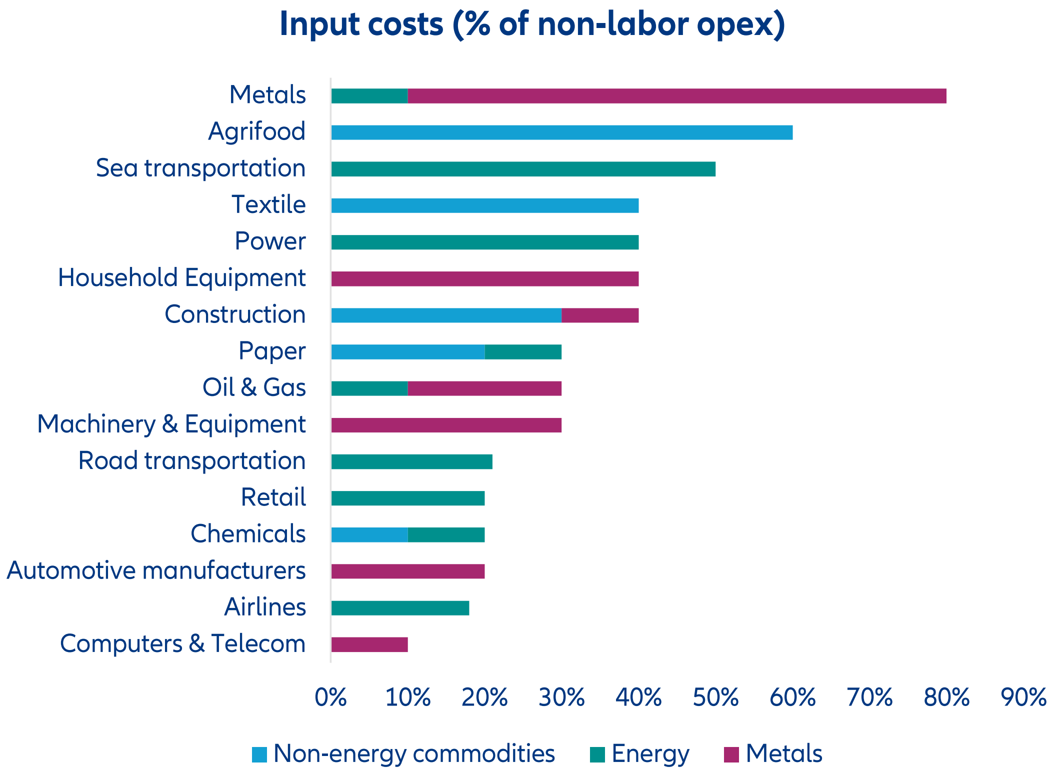
Sources: Refinitiv Eikon, Allianz Research

Corporate risk is back

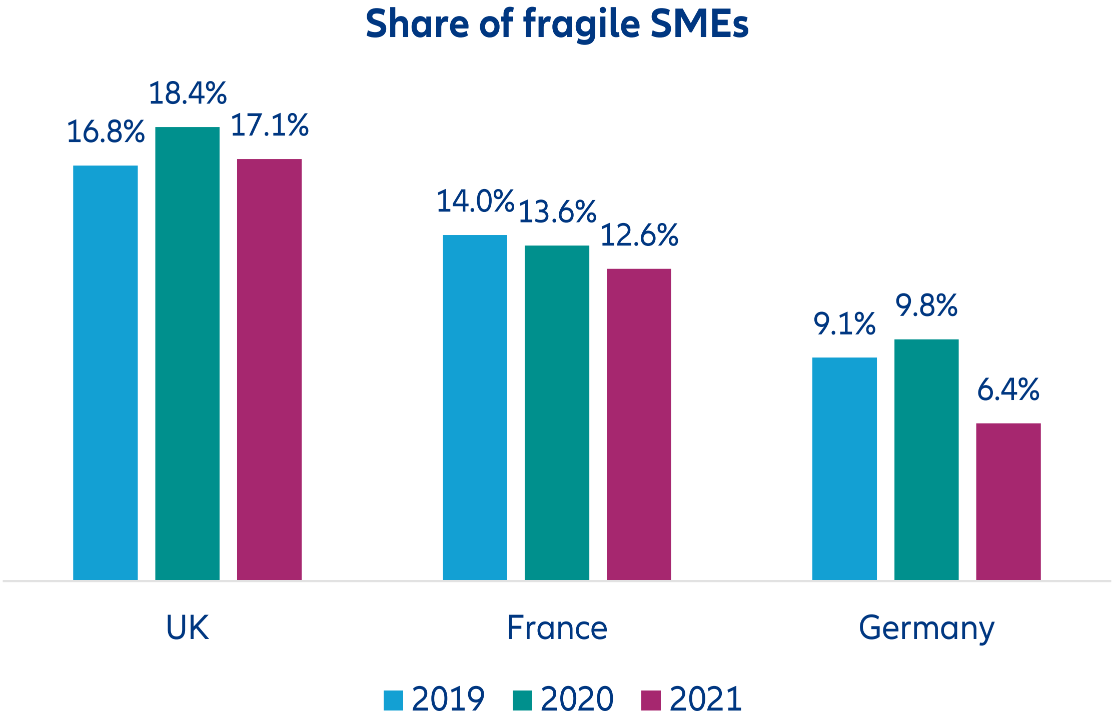
Risk	Most vulnerable sectors
Rising interest rates	Construction (US/Europe) Airlines (US/Europe) Machinery & Equipment (US/Europe) Transportation (US/Europe)
Energy crisis in Europe	Paper (Europe) Metals (Europe) Chemicals (Europe) Railway (Europe) Telecoms (Europe) Power (Europe)
Slowing economic growth	Retail (US/Europe) Construction (US/Europe) Household Equipment (US/Europe) Electronics (US/Europe) Textile (US/Europe) Automotive (US/Europe) Machinery & Equipment (US/Europe)
Strong dollar	Electronics (US) Machinery & Equipment (US) Household Equipment (US) Computer & Telecom (US)
Further increase in non-energy commodity prices & Strong dollar	Agrifood (US/Europe) Metals (US/Europe) Machinery & Equipment (US/Europe) Automotive (US/Europe)
Political risk	Oil & Gas (US/Europe)

Sources: Allianz Research

SME risk is rising but will depend on fiscal support



Sources: BLS, Eurostat, Allianz Research



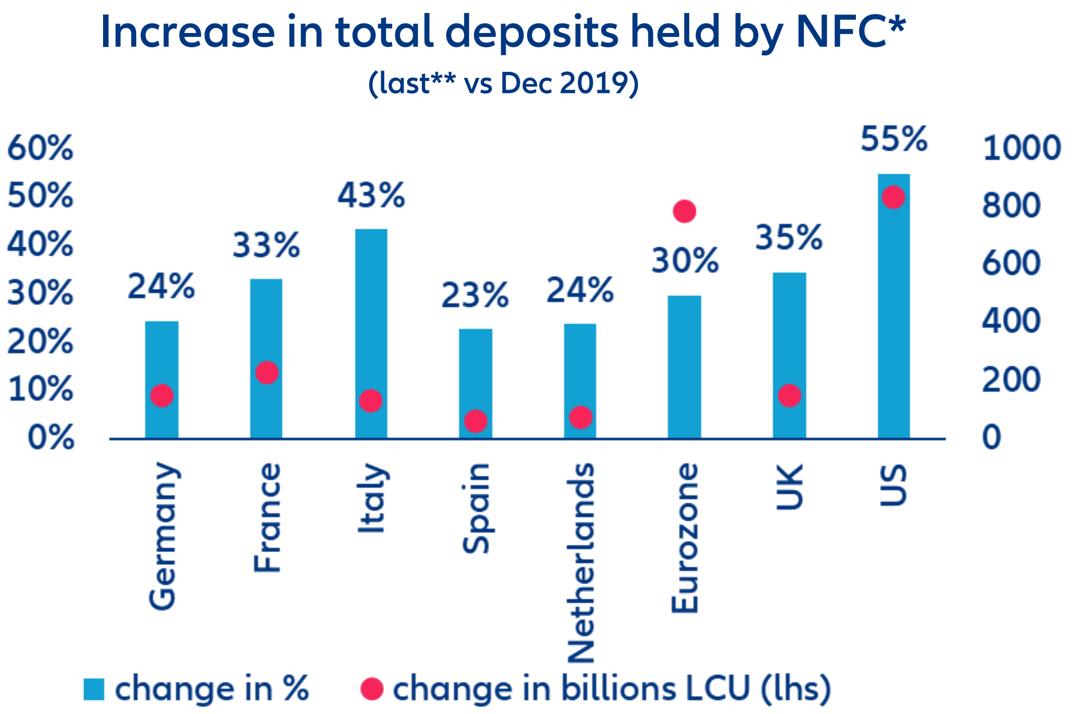
	Germany	France	UK
Profitability (ROCE)			
EBIT / (Net Financial Debt + Equity)	7%	6%	7%
Capitalization			
Equity / Total Assets	21%	23%	22%
Interest Coverage			
EBIT / Interest Expense	0.8	1.1	0.9

NB: Definition of fragile SMEs

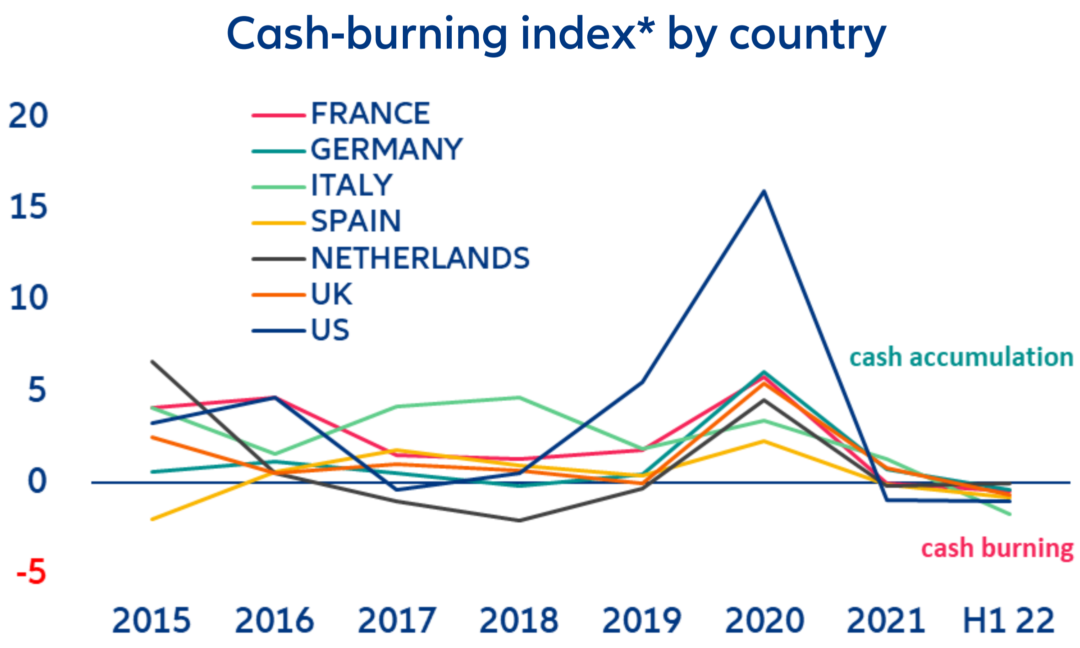
Sources: Allianz Research

CORPORATES

Cash buffers are still high but waning



Sources: ECB, BoE, FRED, Allianz Research
*** Non-financial companies**
**** July for the Eurozone countries and the UK, Q1 for the US**



Sources: ECB, BoE, FRED, Allianz Research
* The cash-burning index, calculated at the country level, is the difference between the change in activity (using nominal GDP as proxy) and the change in net cash position (the latter measured by the difference between NFC deposits and NFC new loans). A negative figure indicates a cash-burning period while a positive figure indicates a period of cash accumulation.

Despite exceeding 2019 levels by 30% in Europe and 50% in the US as of Q2 2022, cash buffers are decreasing as most firms in both the US and Europe have been burning cash in the course of this year.

The increase in inventories contributed to 66% of the rise in WCR in Europe (where inventories were up +7 days compared to end of 2021) and 75% in the US (up +5 days).

Business insolvencies: A normalization in frequency, not severity

Global and regional insolvency indices

quarterly, y/y and YTD change

	Last 3m	Last 6m	Last 12m	Ytd vs 2021	Ytd vs 2019
Global	**9**	**3**	**-6**	**2**	**-25**
North America	-8	-16	-27	-15	-42
Latin America	-13	-6	-8	-6	-26
Western Europe	25	19	13	17	23
Asia	8	2	-5	-1	-27

Insolvencies

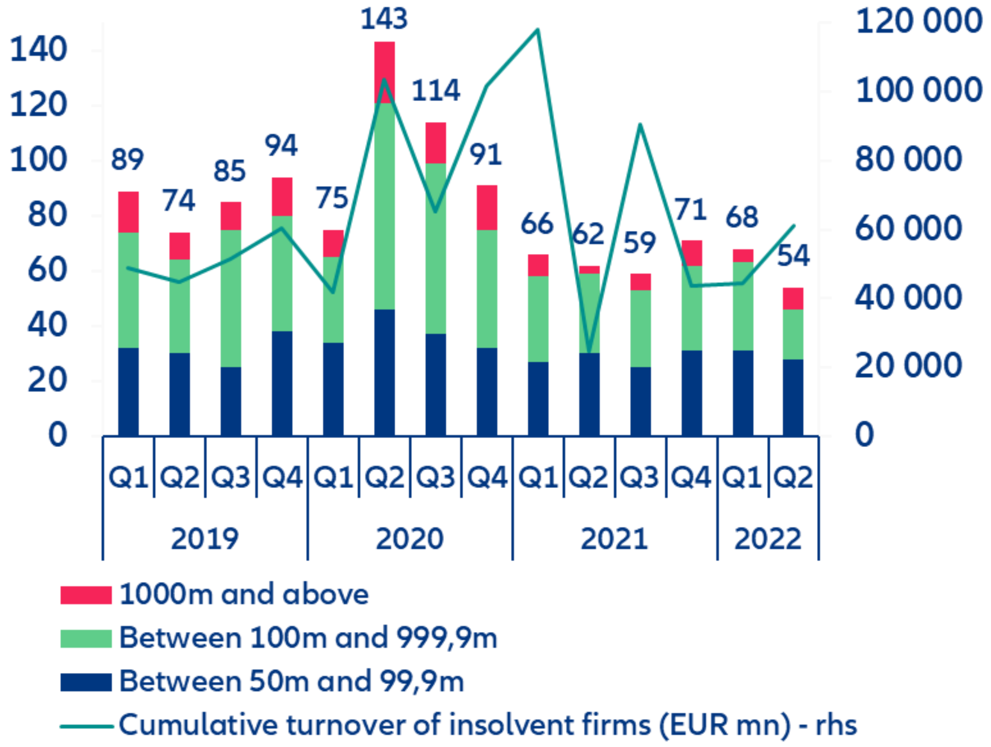
Amount and % change

	Yearly change (%)				Amount		Change since ... (%)	
	2020	2021	2022	2023	2022	2023	2022 vs 2019	2023 vs 2019
United States	-5	-34	4	37	14851	20334	-35	-11
United Kingdom	-29	4	43	7	23365	24900	6	13
Germany	-16	-12	5	16	14633	17000	-22	-9
France	-38	-12	46	29	41030	53000	-20	3
Italy	-32	19	-2	31	8338	10950	-21	4
Spain	-5	30	12	25	5750	7200	38	73

Sources: National sources, Allianz Research

Major insolvencies globally

quarterly number, by size of turnover (in EUR)



Sources: National sources, Allianz Research

Thank you!