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# Economic & Strategy Outlook 2024

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Soft landing ahead?





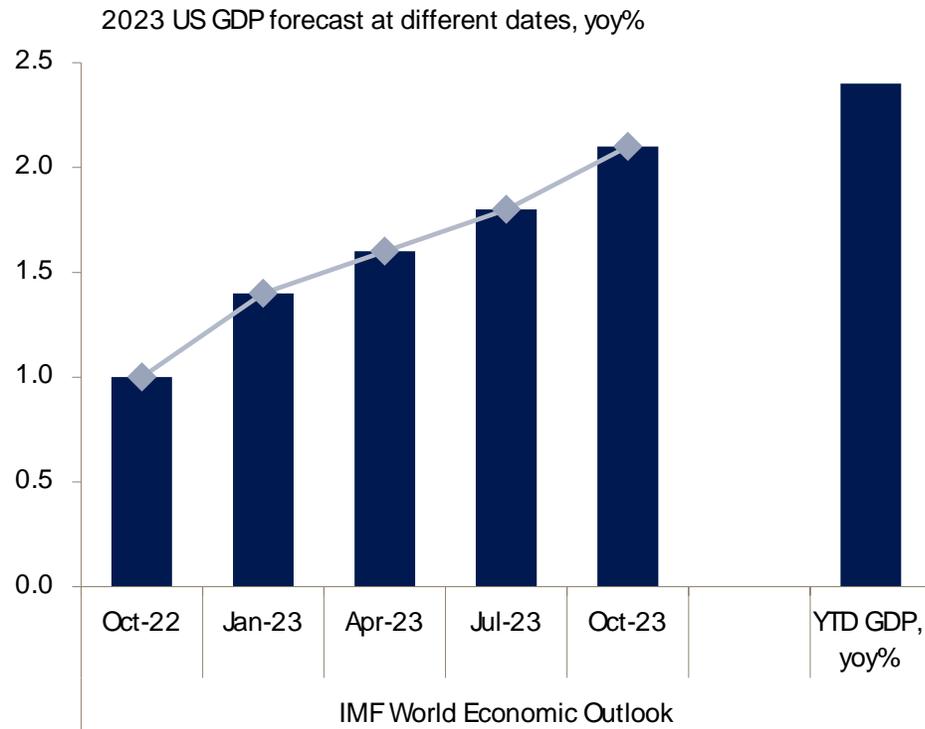
# The US economy is still flying at high altitude



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## US GDP was revised up steadily through 2023

## The US economy has not landed, yet



Source: Macrobond, Bank J. Safra Sarasin, 04.01.2024

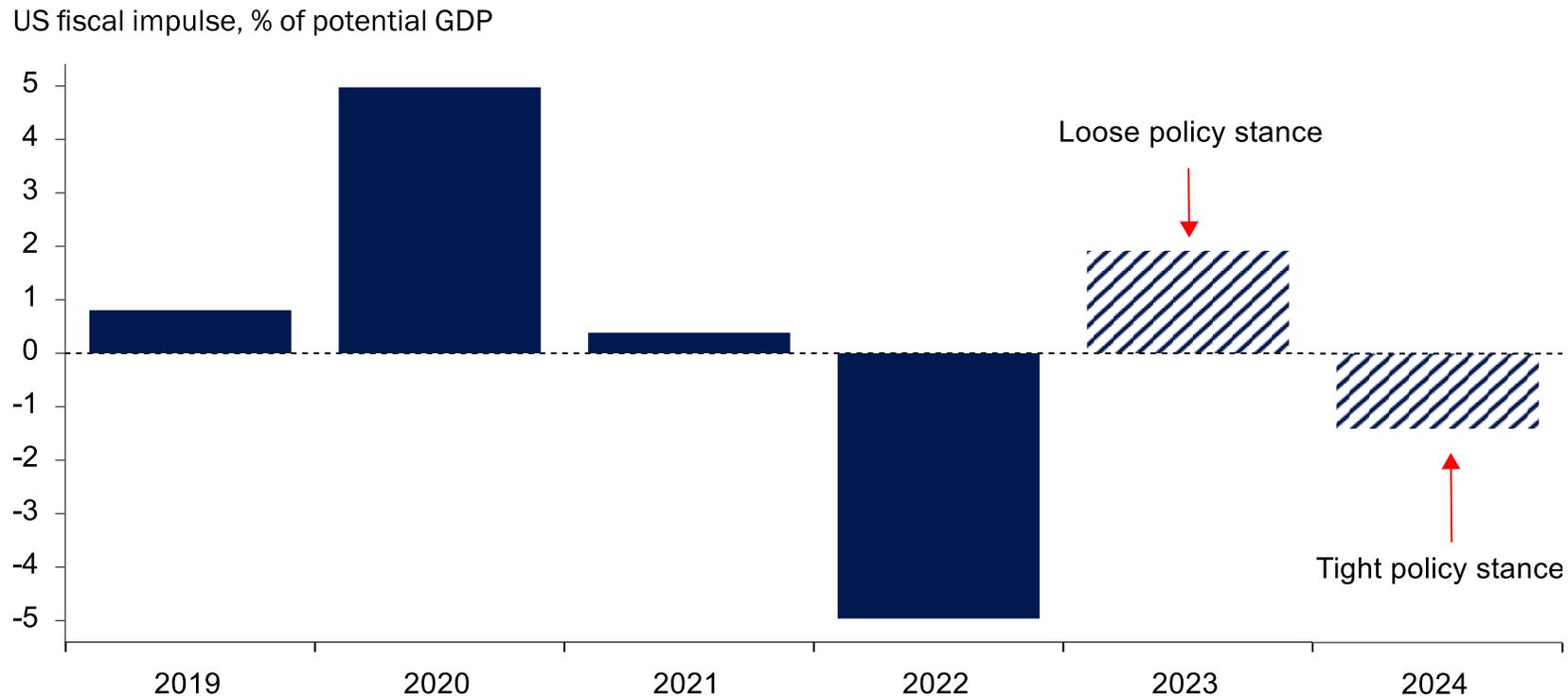


# Strongest fiscal thrust outside a recession



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## The fiscal impulse in the US was much stronger than expected in 2023



Source: Macrobond, Bank J. Safra Sarasin, 04.01.2024. Information containing forecasts are intended for information purpose only and are neither projections nor guarantees for future results and could differ significantly for various reasons from actual performance.

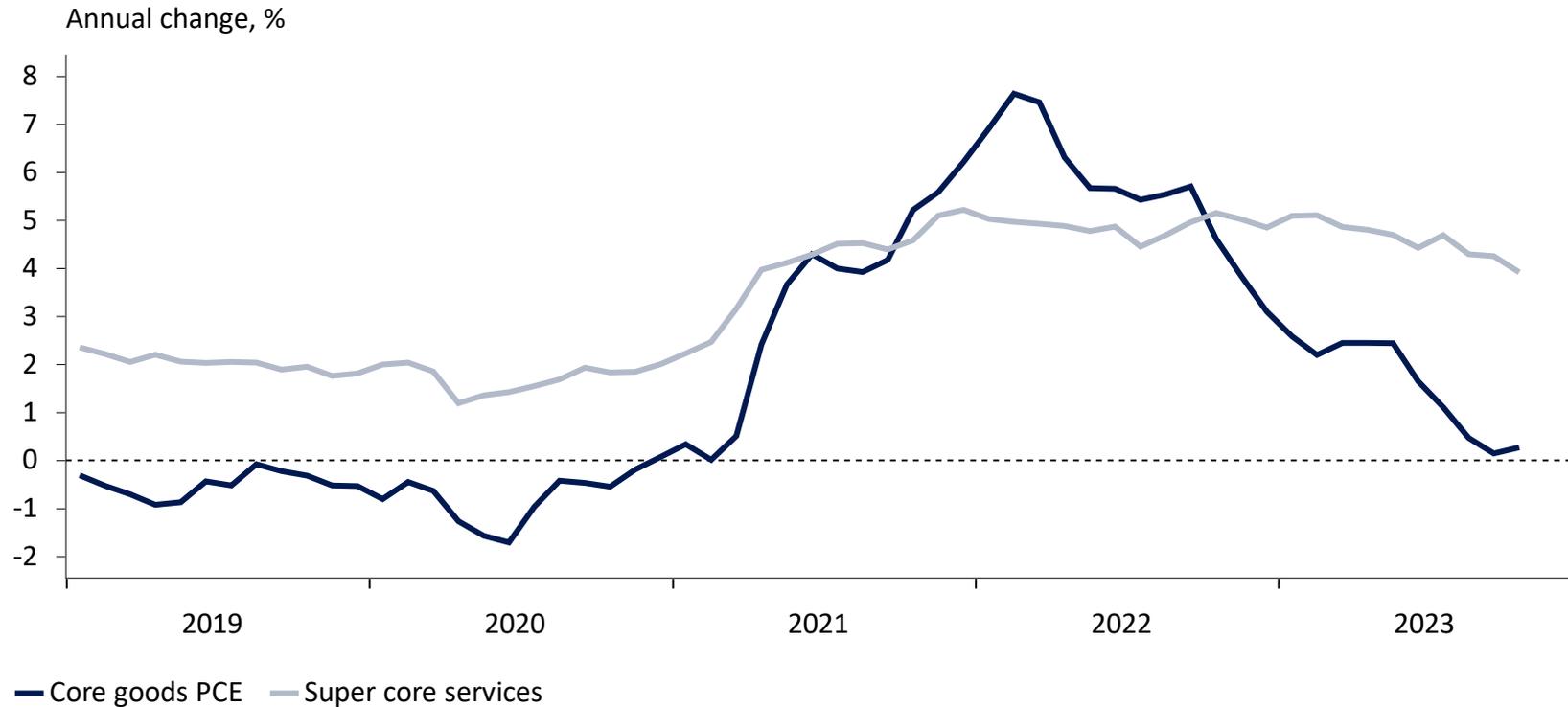


# Inflation has peaked and is trending down



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## Goods inflation has fallen but sticky services inflation remains elevated



Source: Macrobond, Bank J. Safra Sarasin, 04.01.2024

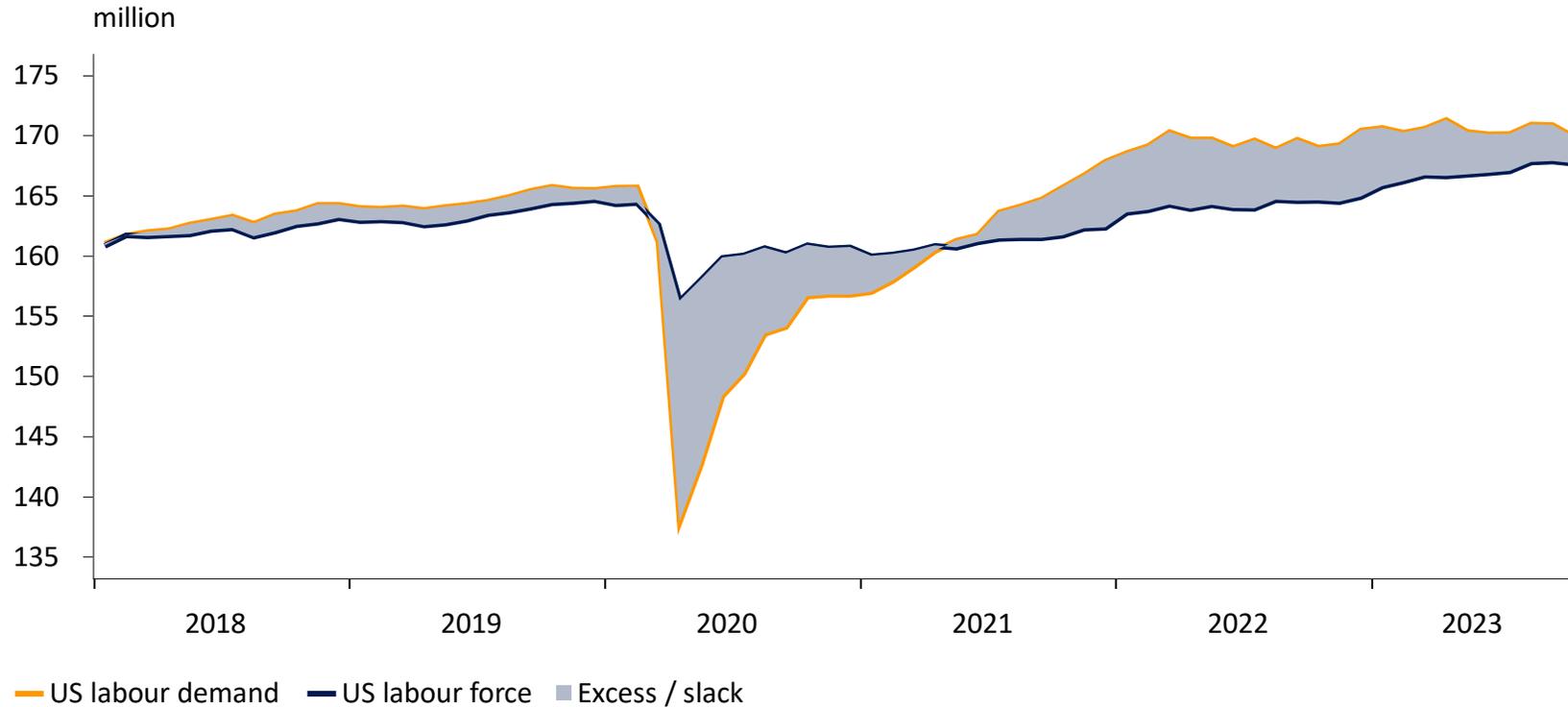


# The labour market remains tight



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## Sustained disinflation requires a better balanced labour market



Source: Macrobond, Bank J. Safra Sarasin, 04.01.2024



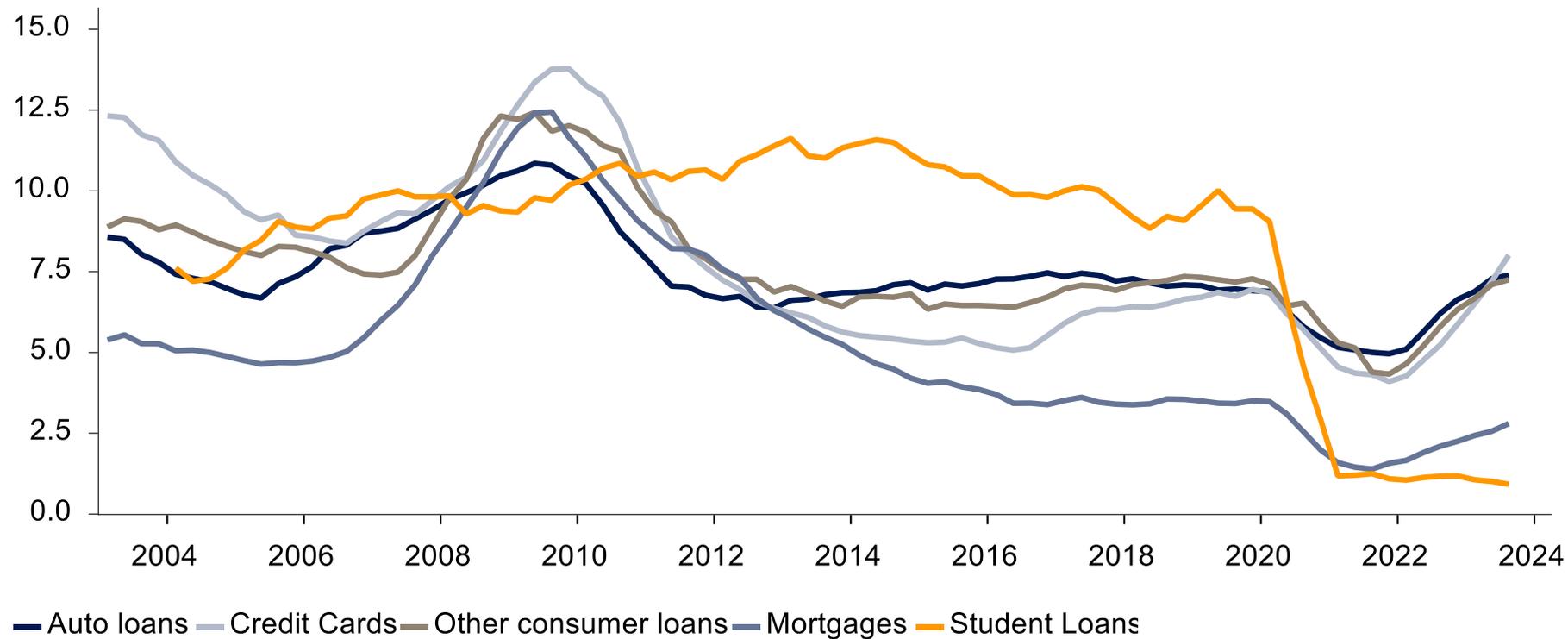
# A soft landing would be unusual: Household delinquency rates are climbing



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## Delinquency rates on credit cards are back to levels last seen in 2011

New delinquency (30+ days) loan balances, % current balance



Source: Macrobond, Bank J. Safra Sarasin, 04.01.2024

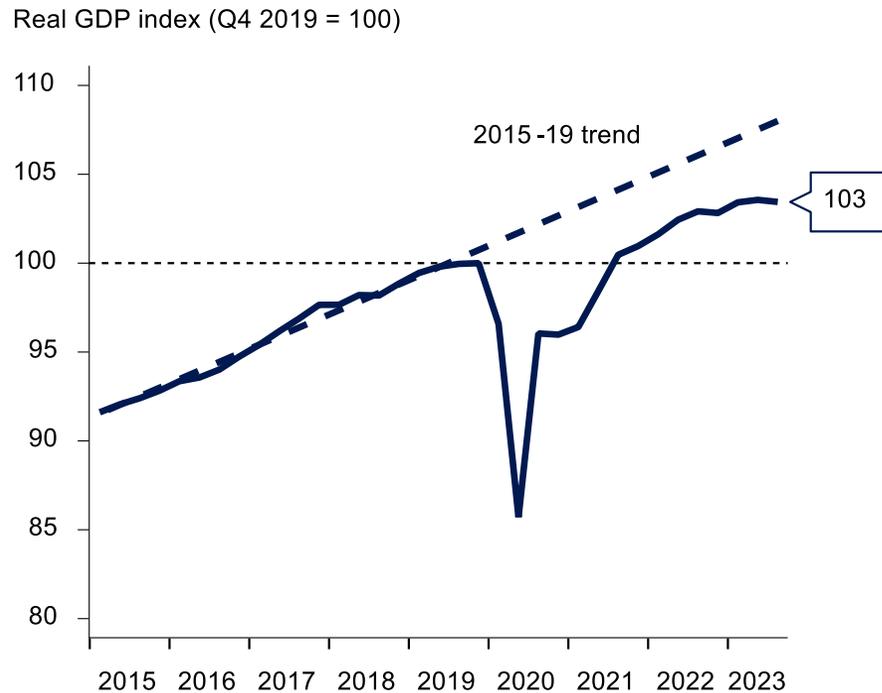


# Europe has never really taken off, making a hard landing unlikely



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## Growth has never really taken off post Covid



## Europe has never really taken off



Source: Macrobond, Bank J. Safra Sarasin, 04.01.2024

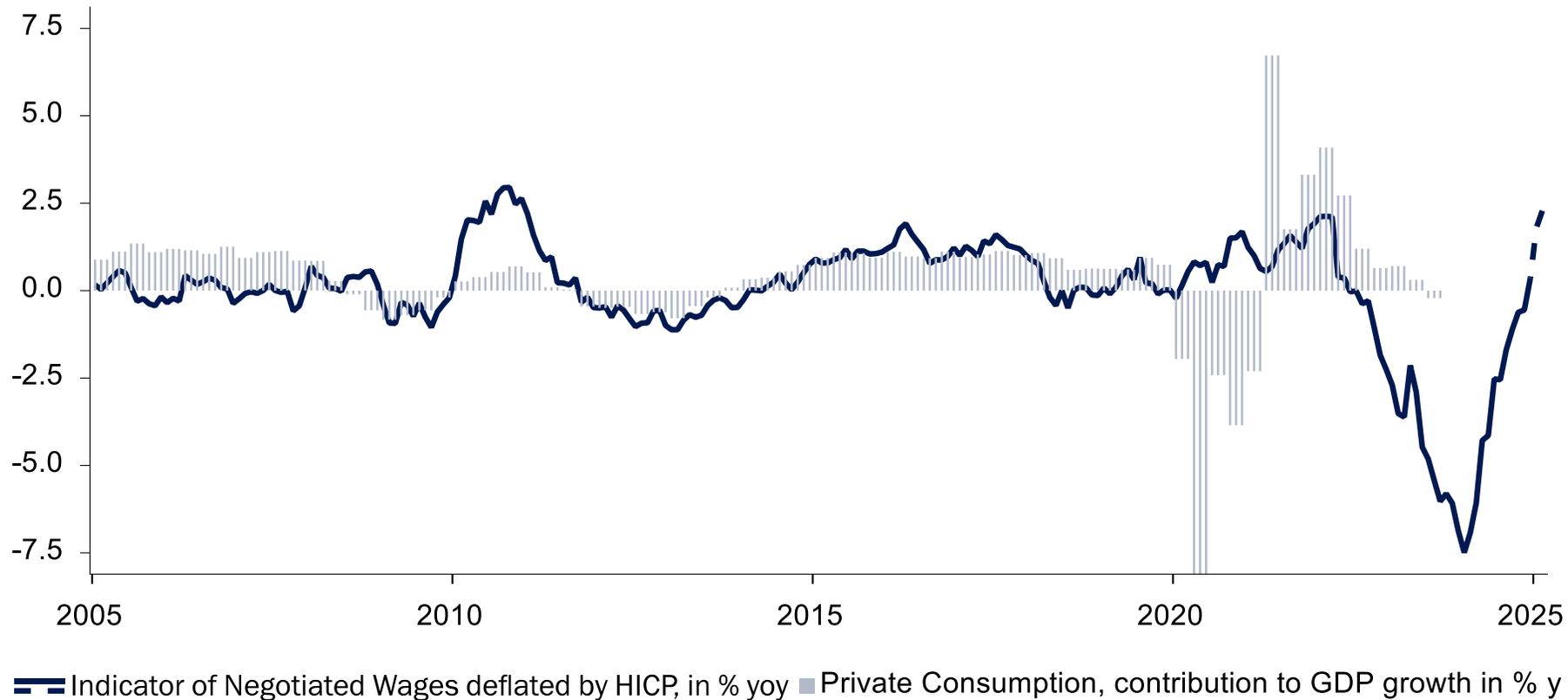


# Domestic demand in the euro area is rising as real wage growth is turning positive



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## Real wages and household income should rebound as inflation is coming down again



Source: Macrobond, Bank J. Safra Sarasin, 04.01.2024. Information containing forecasts are intended for information purpose only and are neither projections nor guarantees for future results and could differ significantly for various reasons from actual performance.

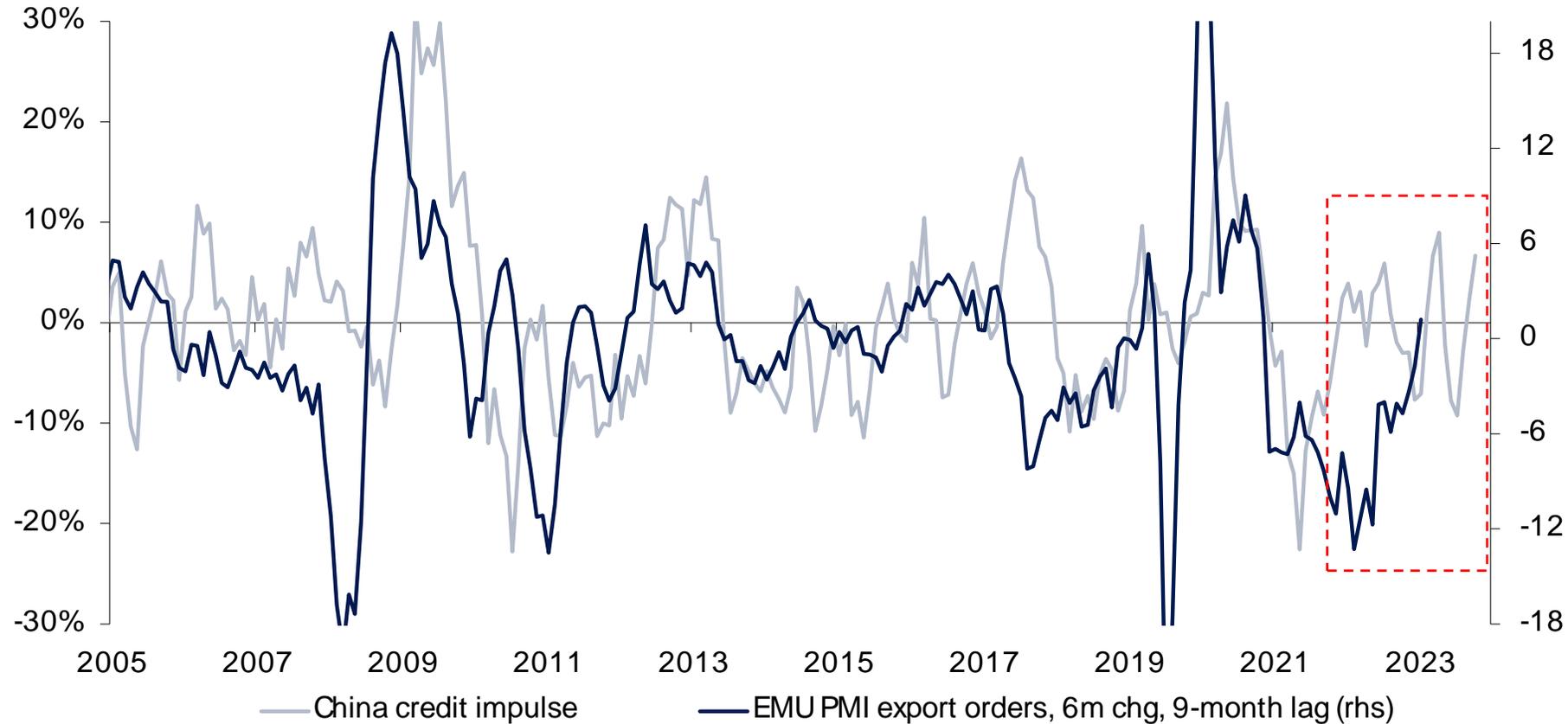


# External demand is improving as the Chinese cycle is stabilising



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## Stimulus in China tends to lift European manufacturing cycle



Source: Refinitiv, Bank J. Safra Sarasin, 04.01.2024



# China is refurbishing its decade-old growth model

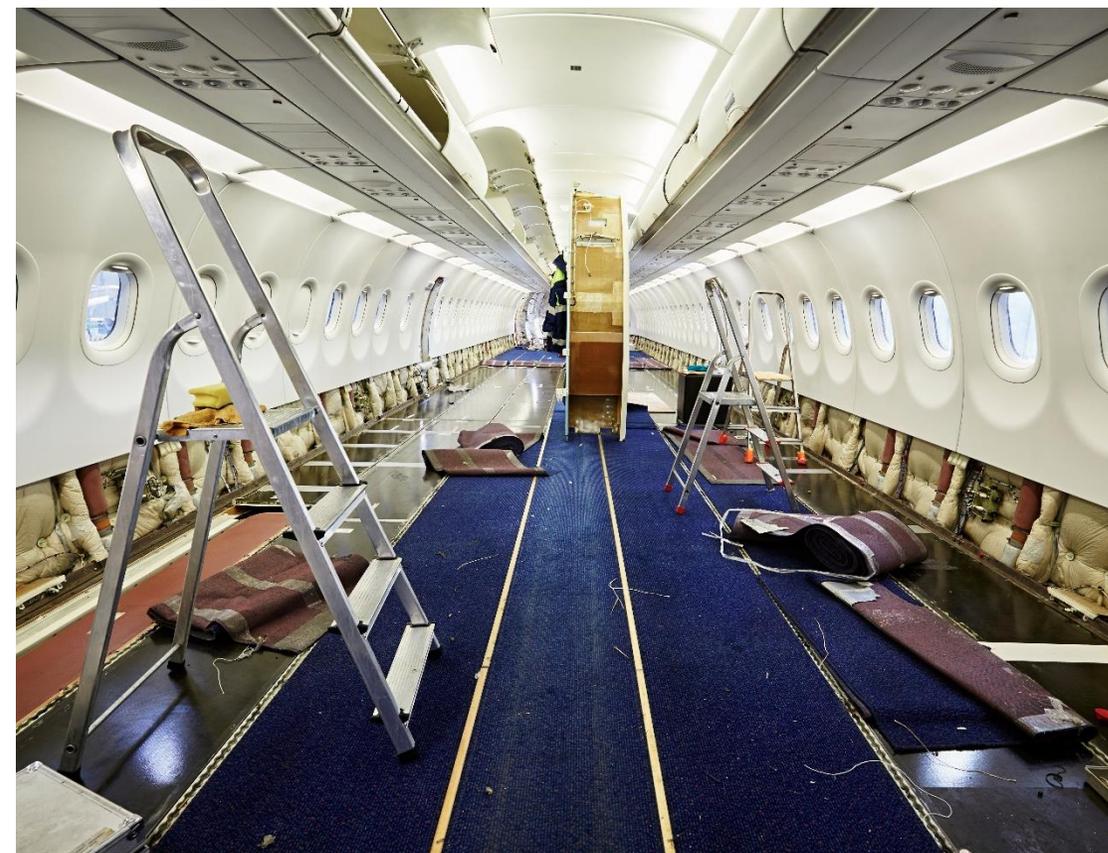
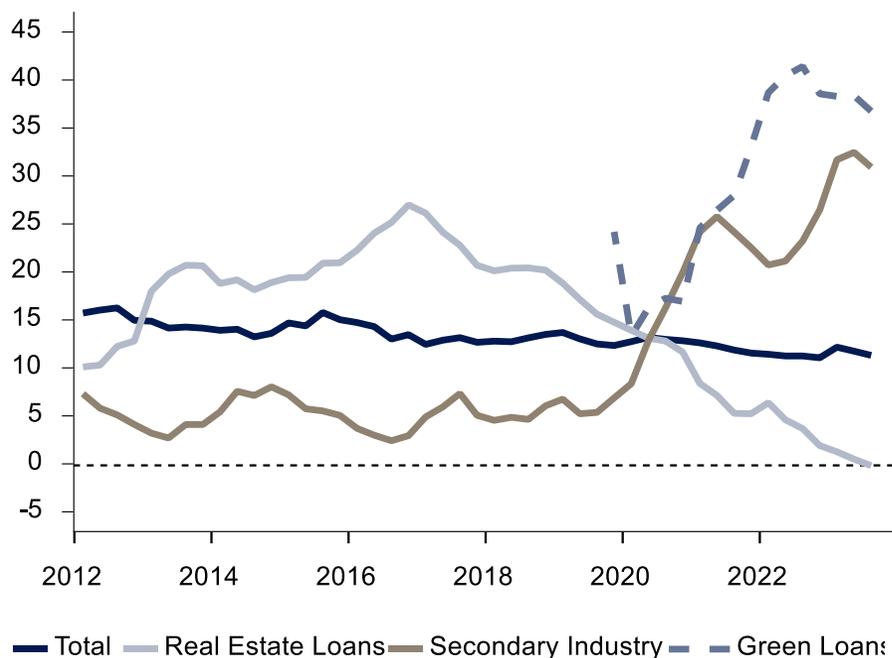


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As real estate investment is fading, strategic sectors are receiving a boost

The refurbishment of China's economy is in full swing

China, Bank Loans, % yoy

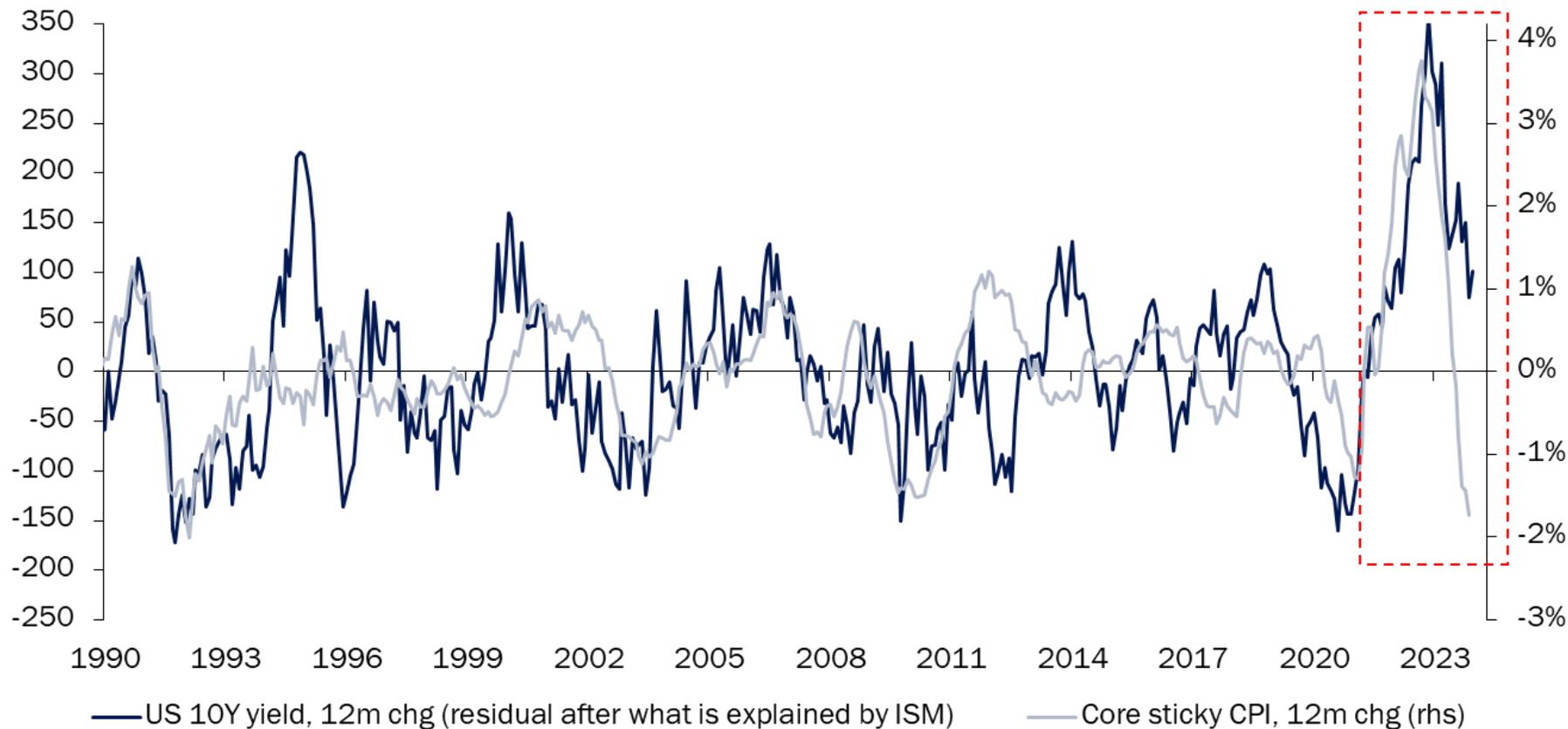


Source: Macrobond, Bank J. Safra Sarasin, 04.01,2024



## Rates: Bond yields in the US are set to fall further

### The decline in inflation puts downward pressure on US 10-year yields





## FX: US dollar is set to depreciate

The US dollar real exchange rate has remained far above its long-term average

USD REER, CPI based, deviation from 30y mean, in %





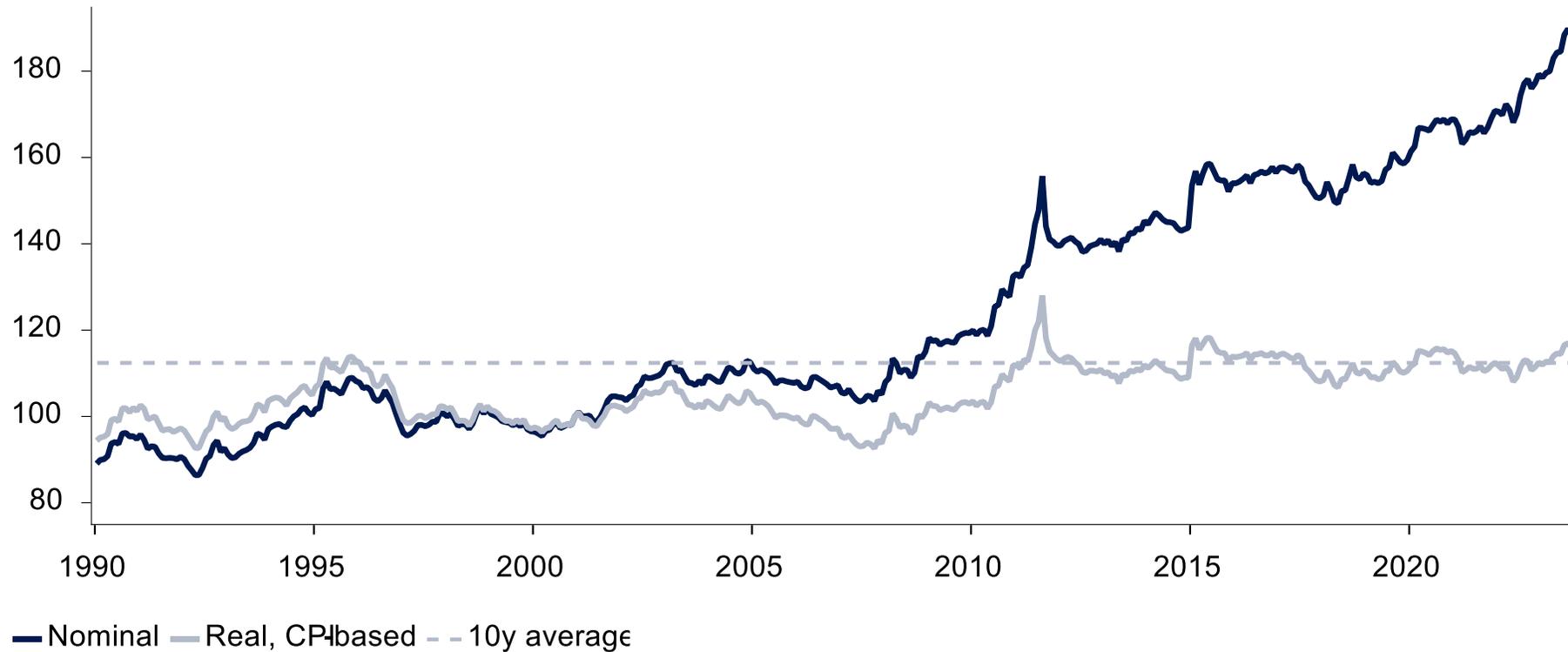
# Swiss franc to appreciate further in 2024



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The Swiss franc's long-term uptrend is set to continue as inflation is anchored

SNB tradeweighted CHF exchange rate (EER) indices

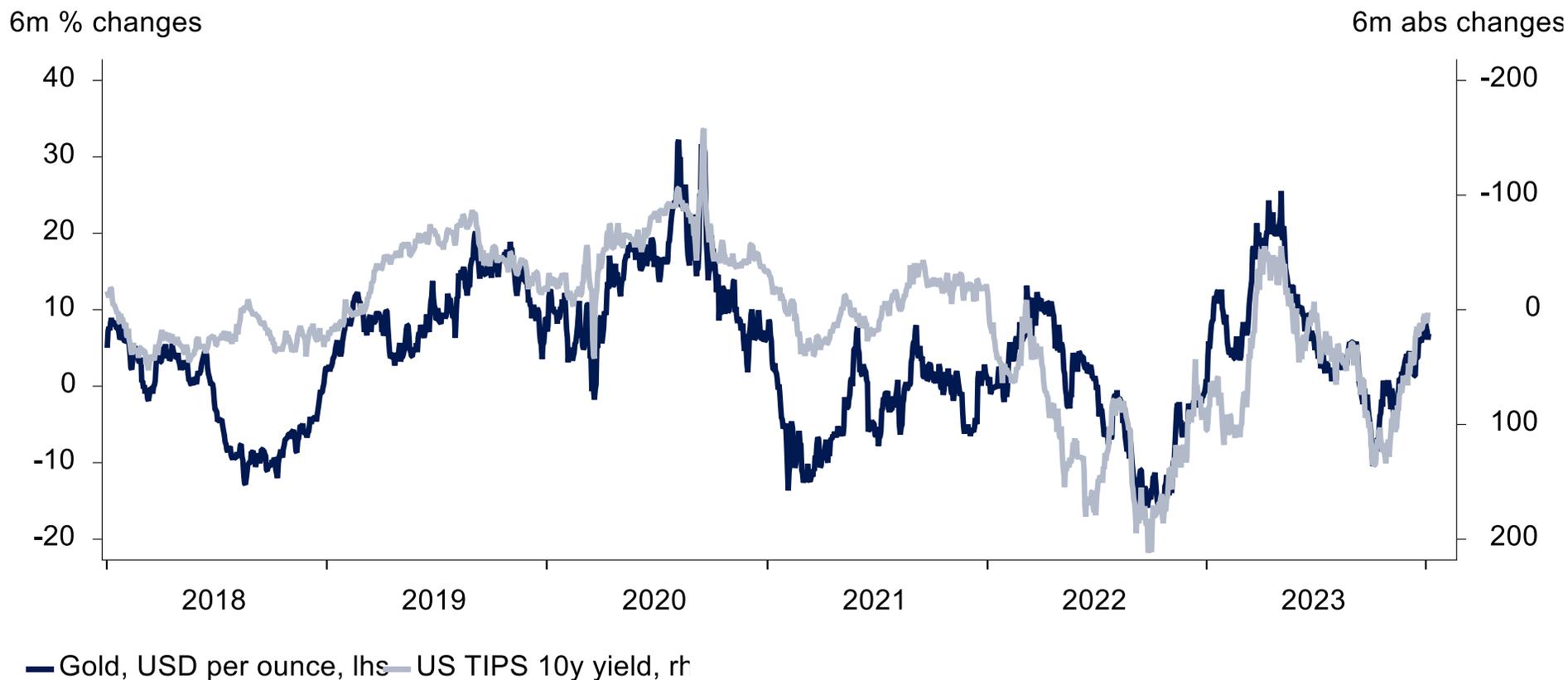


Source: Macrobond, Bank J. Safra Sarasin, 04.01.2024



# Gold: Substantial rise as real yields drop

Until Q4 24, a 100bp drop in US real yields could push gold by around 15% higher



Source: Macrobond, Bank J. Safra Sarasin, 04.01.2024



# Equities: Priced for a very favourable economic backdrop

US equities yield barely more than US Treasuries over the next 12 months



Source: Refinitiv, Bank J. Safra Sarasin, 04.01.2024



## Summary: Soft-landing the economy will be difficult

### Inflation crosswinds make an immaculate soft landing of the economy difficult



- We expect the US economy to slip into recession as a soft landing of the US economy remains unlikely
- The labour market has to cool further and the cycle to slow meaningfully to bring inflation back to target
- Bond yields are set to decline, driven by a gradual slowdown in the cycle, combined with falling inflation
- Equity markets are set to be choppy but the Fed has room to support if a larger correction were to happen

#### Investment Ideas

**1** Bonds remain attractive as yields will likely trend lower

**2** US dollar is set to weaken as the US economy is slowing

**3** Equity markets to remain choppy with upside in second half of the year

Source: Bank J. Safra Sarasin Ltd, 22.12.2023. Image: Wikimedia (under Creative Commons CC-BY-SA-3.0 license).

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