Global Outlook

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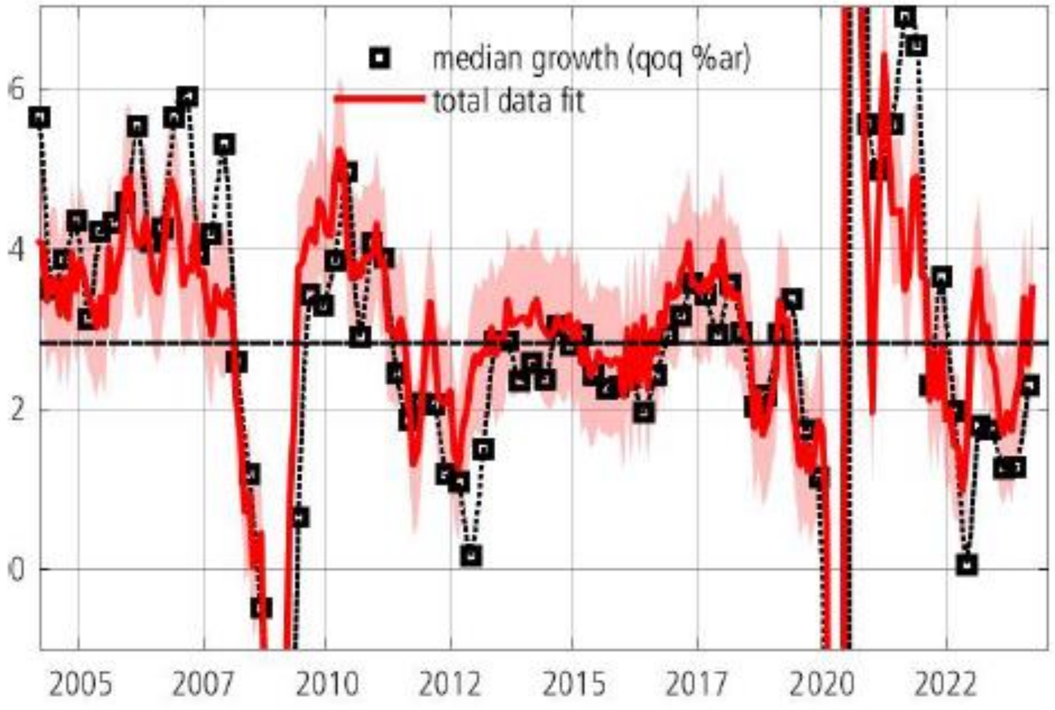
Global growth has picked up momentum YTD

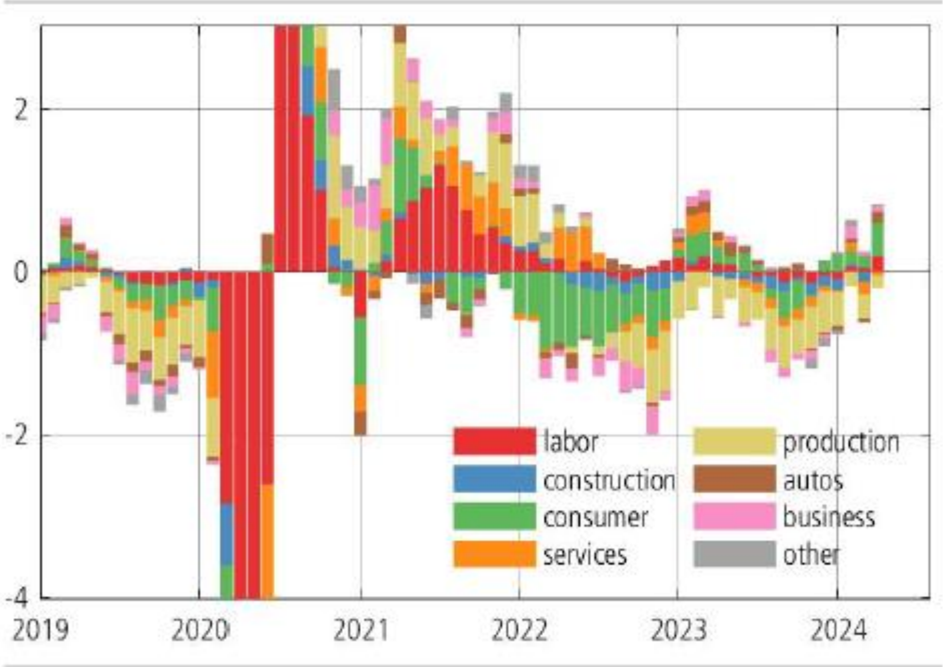
Figure 2: Global growth nowcast (3m3m saar) picks up from 2.1% (Dec) to 3.5% (April)



Source: UBS, Haver. Note: the black squares are actuals through Mar '24; the red line is a 3m/3m saar through April. Horizontal line is '96-'19 sample average.

Most of the improvement is in the 'consumer' part of the data

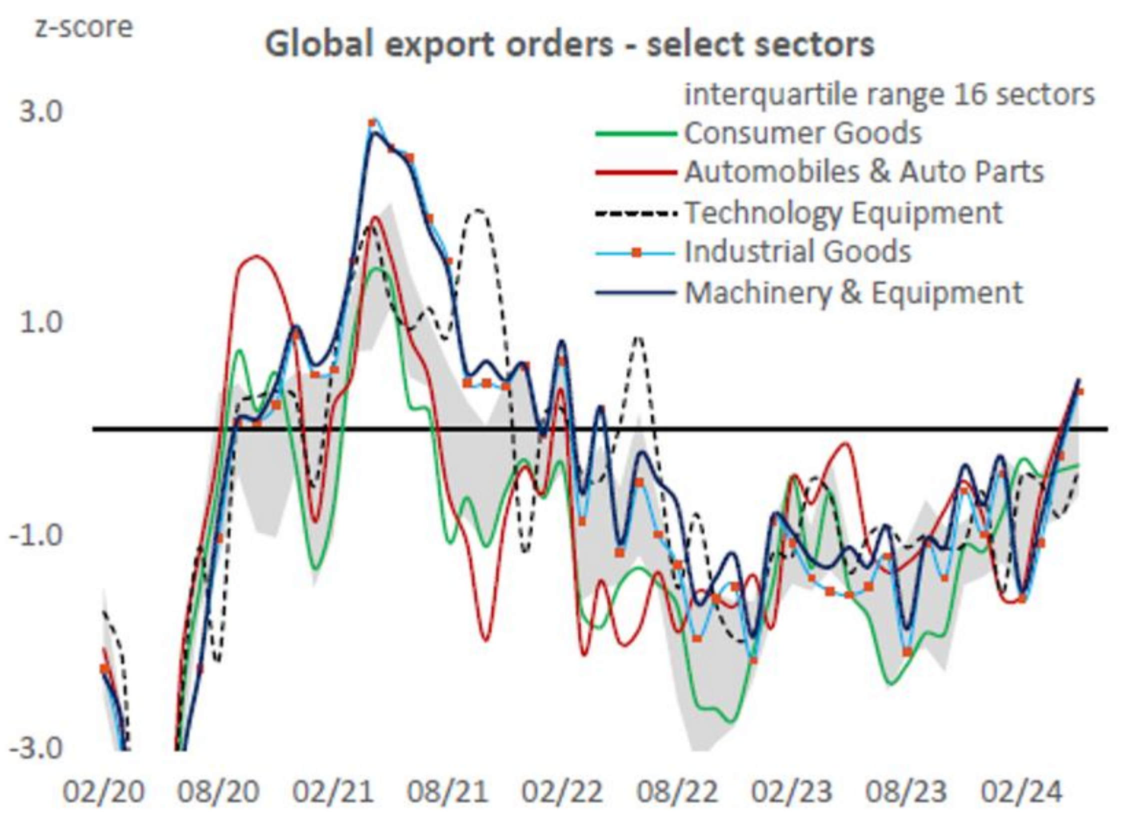
The largest pick-up in our global growth nowcast is coming from consumption



Source: UBS, Haver [chart shows deviations in growth contributions from the long run mean in percentage points]

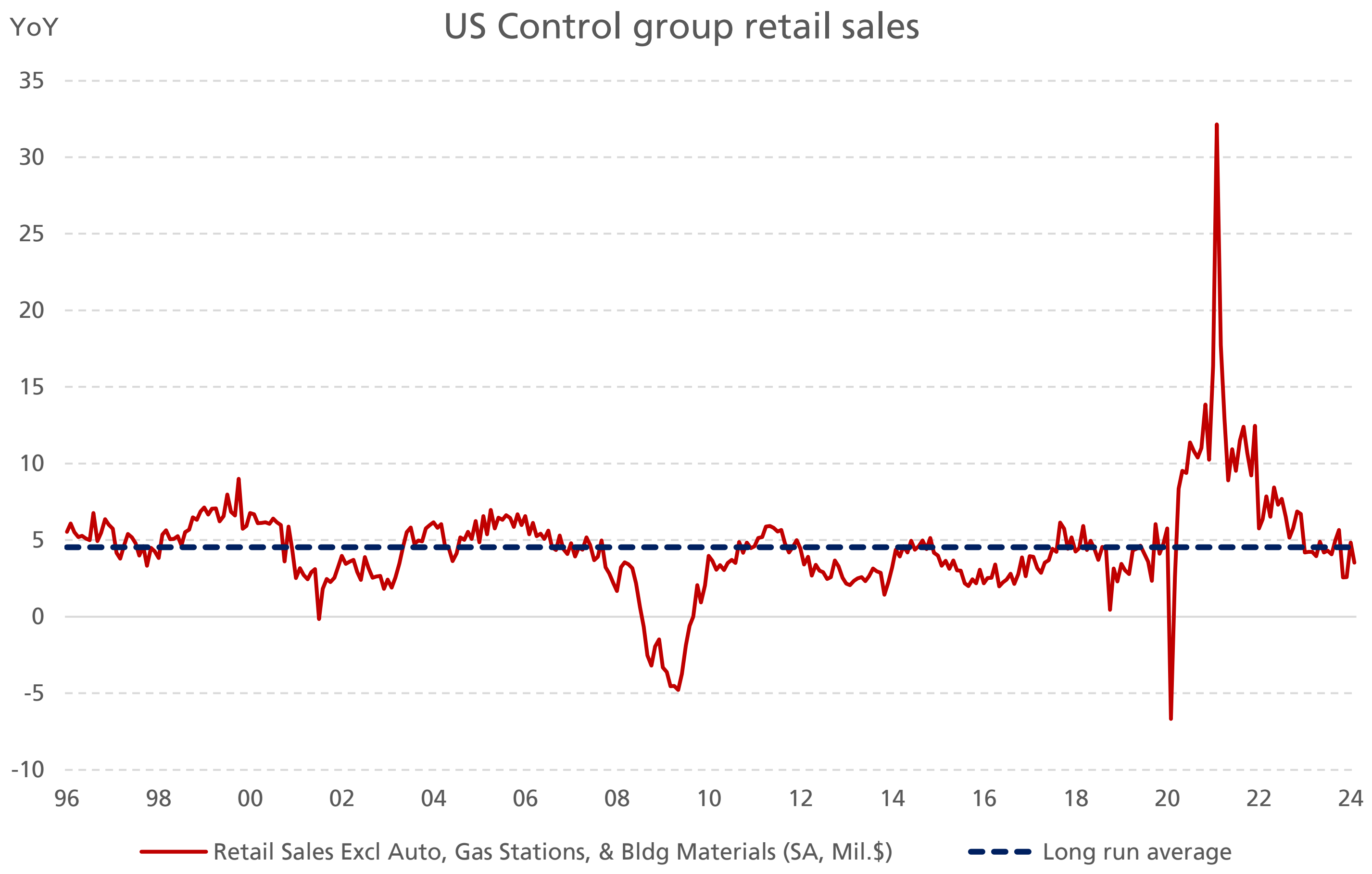
Global trade looks like it is starting to recover

Figure 13: Global PMI orders detail (34 sub-sectors)



Source: UBS, Haver.

US consumption, however, is slowing from a high level



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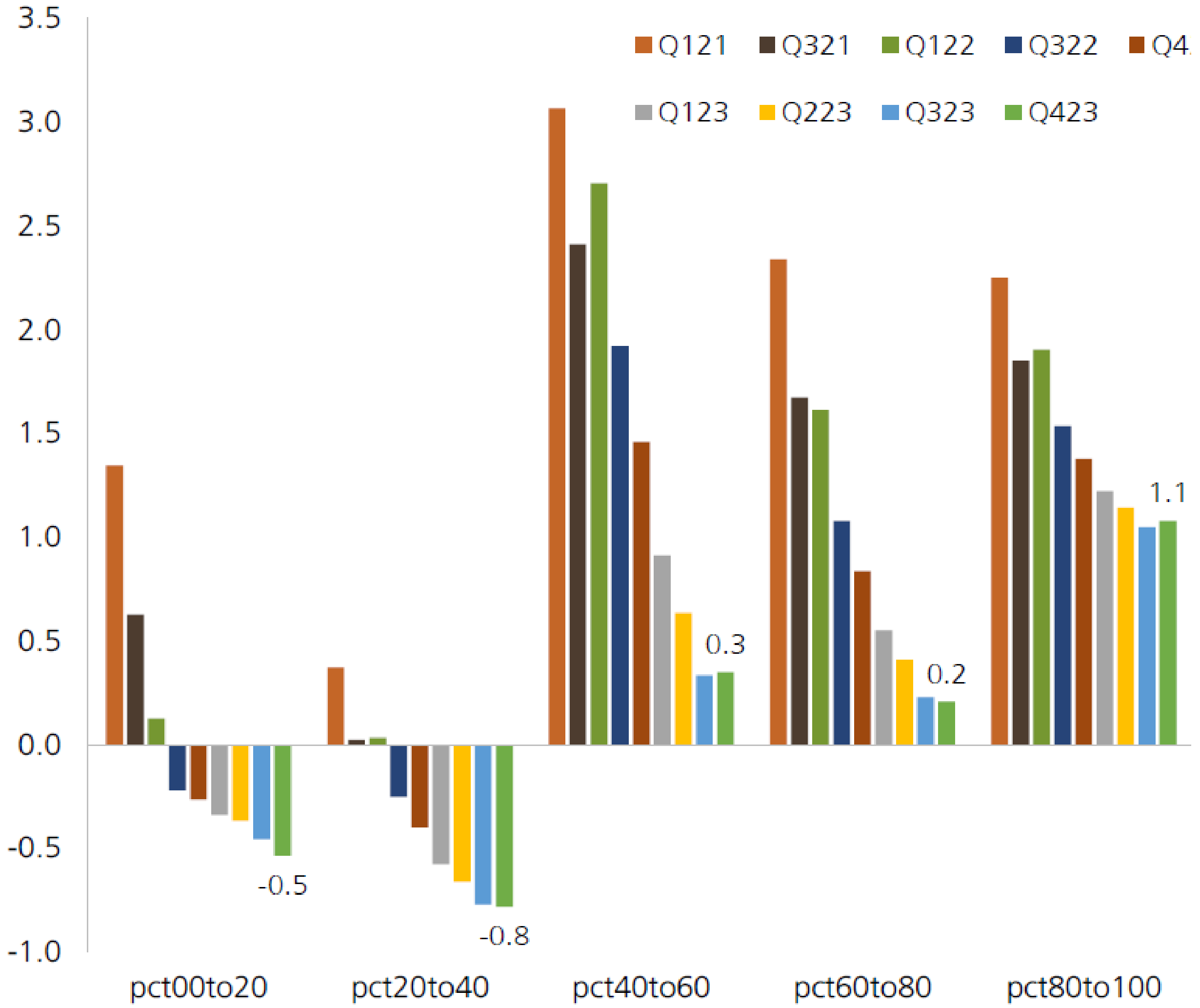
The demand base for US consumption is narrowing

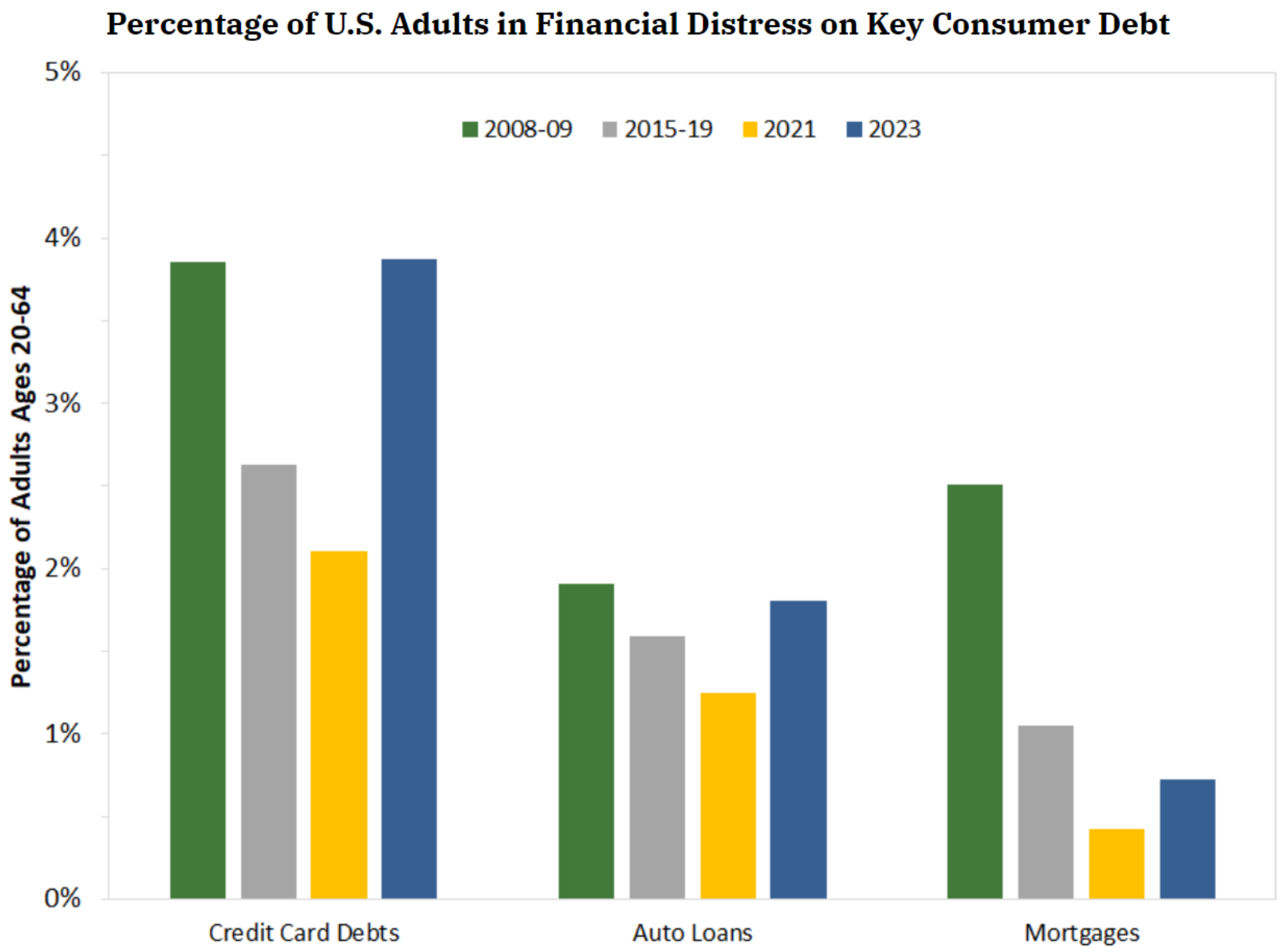
Deposits and money market fund shares (% PCE, z-score)



Source: BEA, Federal Reserve, Haver, UBS

UBS

But explains how there is simultaneously consumer distress and strong aggregate spending



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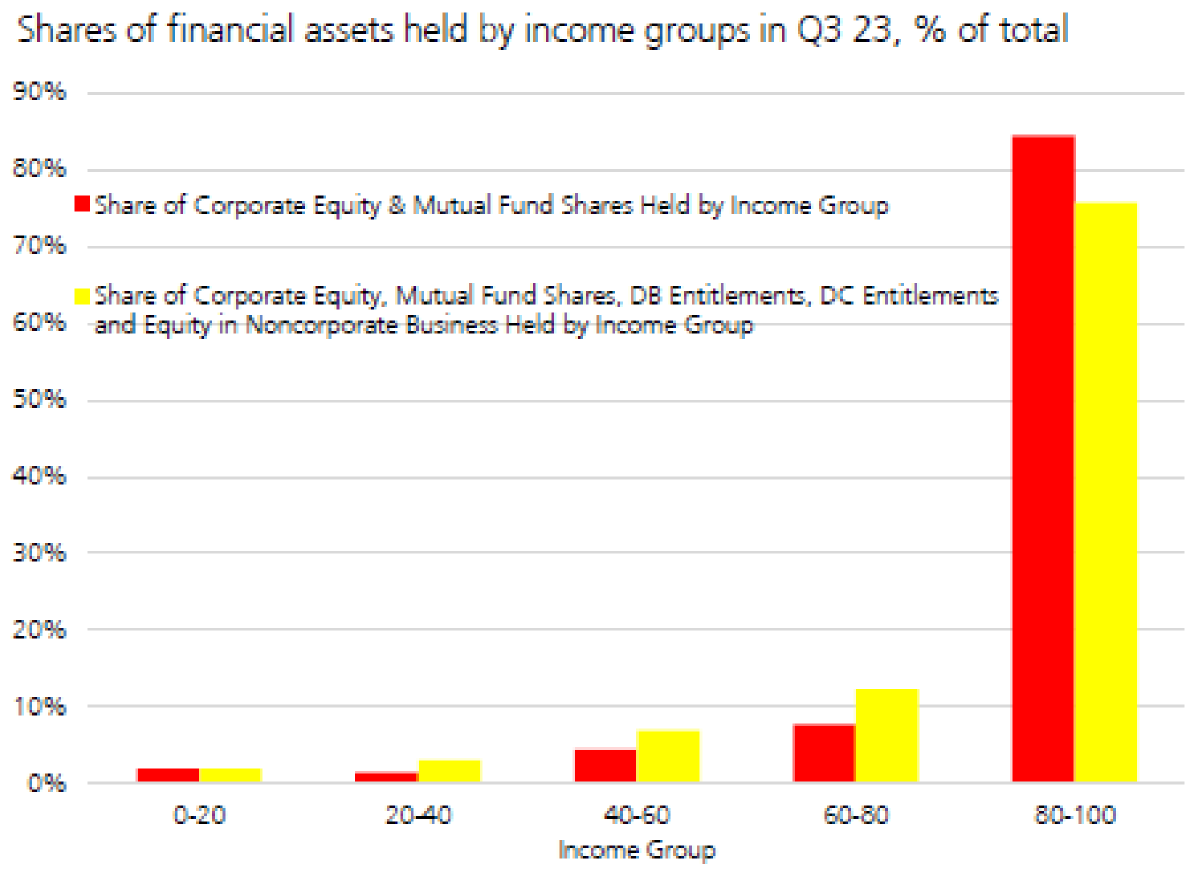
Mixed data on level of household distress

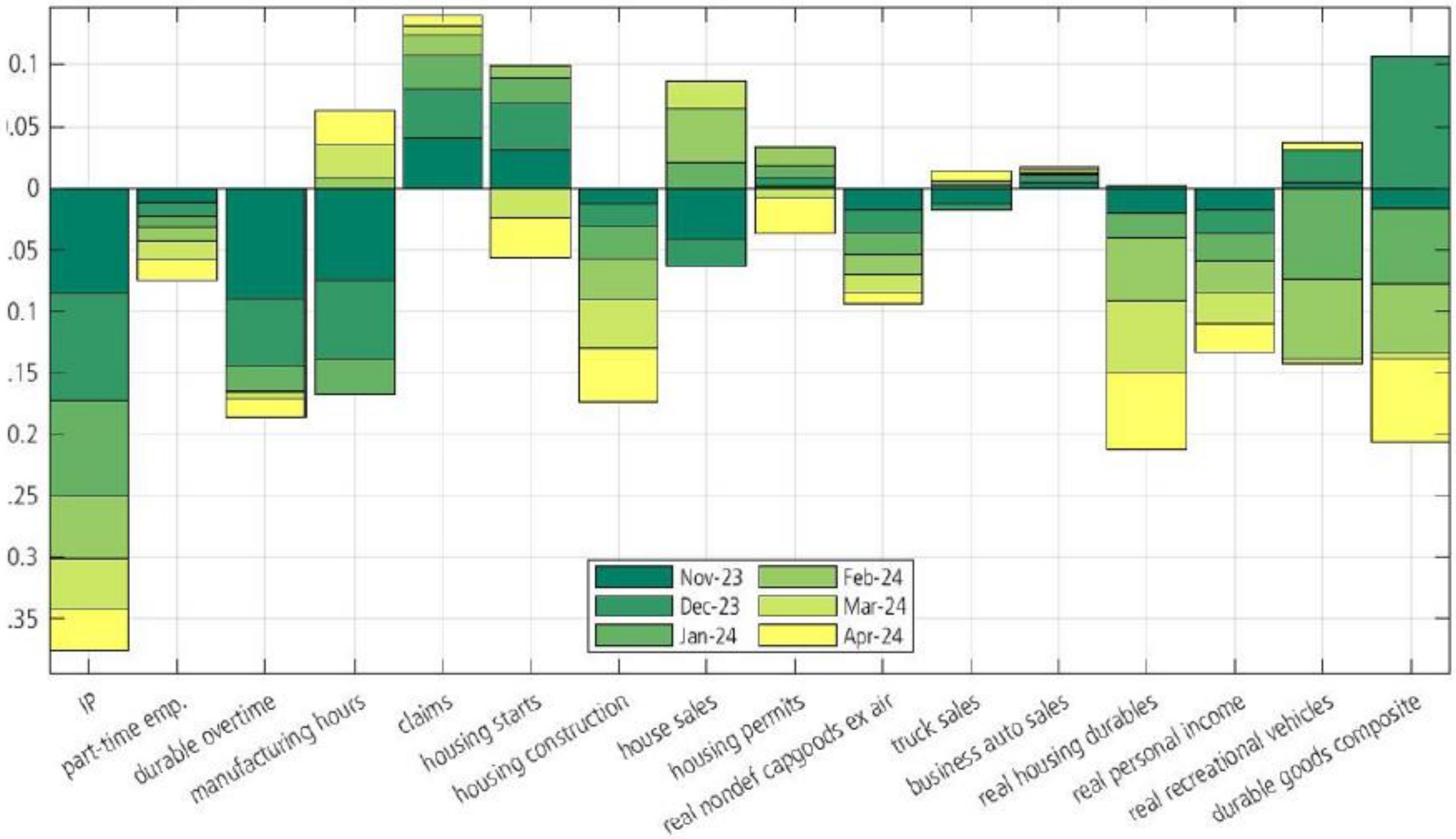
Figure 60: Upper income households share of holdings



Source: Federal Reserve, UBS

US recession probabilities – hard data contributions

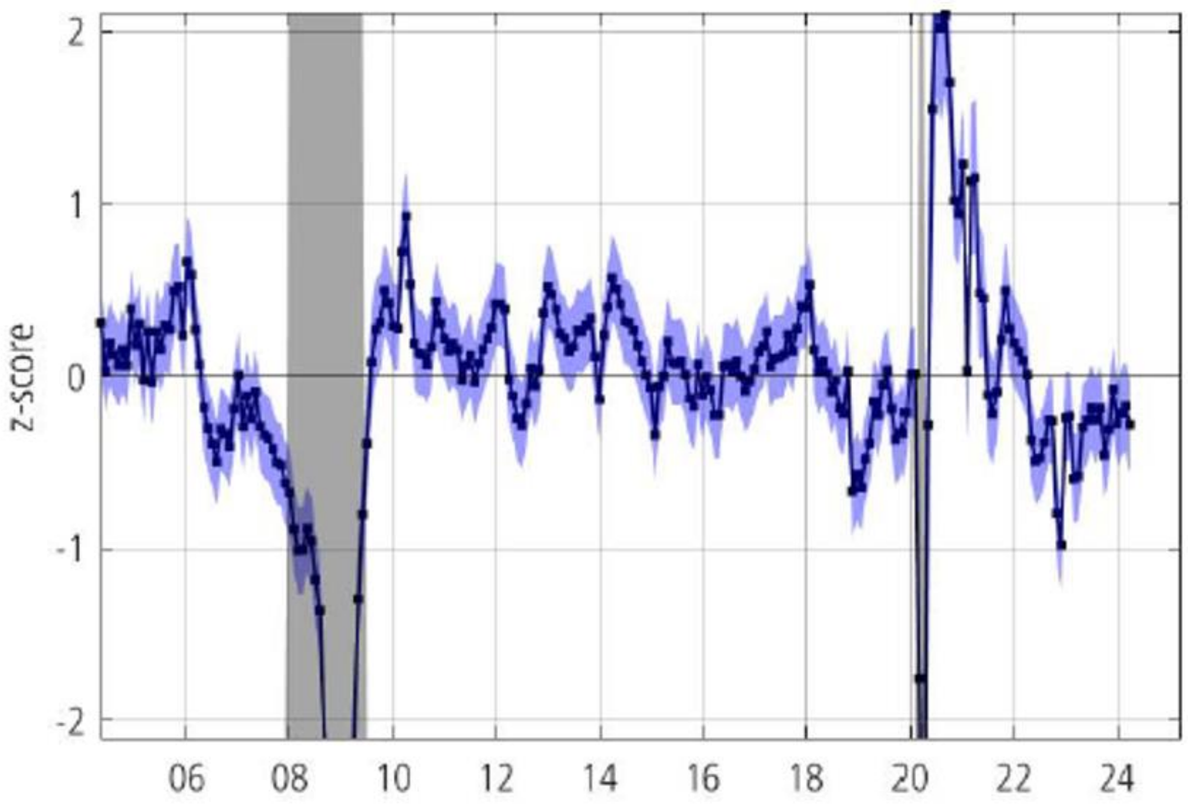
Figure 6: The April weakness in the factor was broad-based, with only some labor inputs offsetting the generalized drag.



Source: Haver, UBS calculations

The average of the 16 leading indicators in our recession model have been moving sideways

Figure 4: The hard data factor fell further below zero...



Source: Haver, UBS calculations

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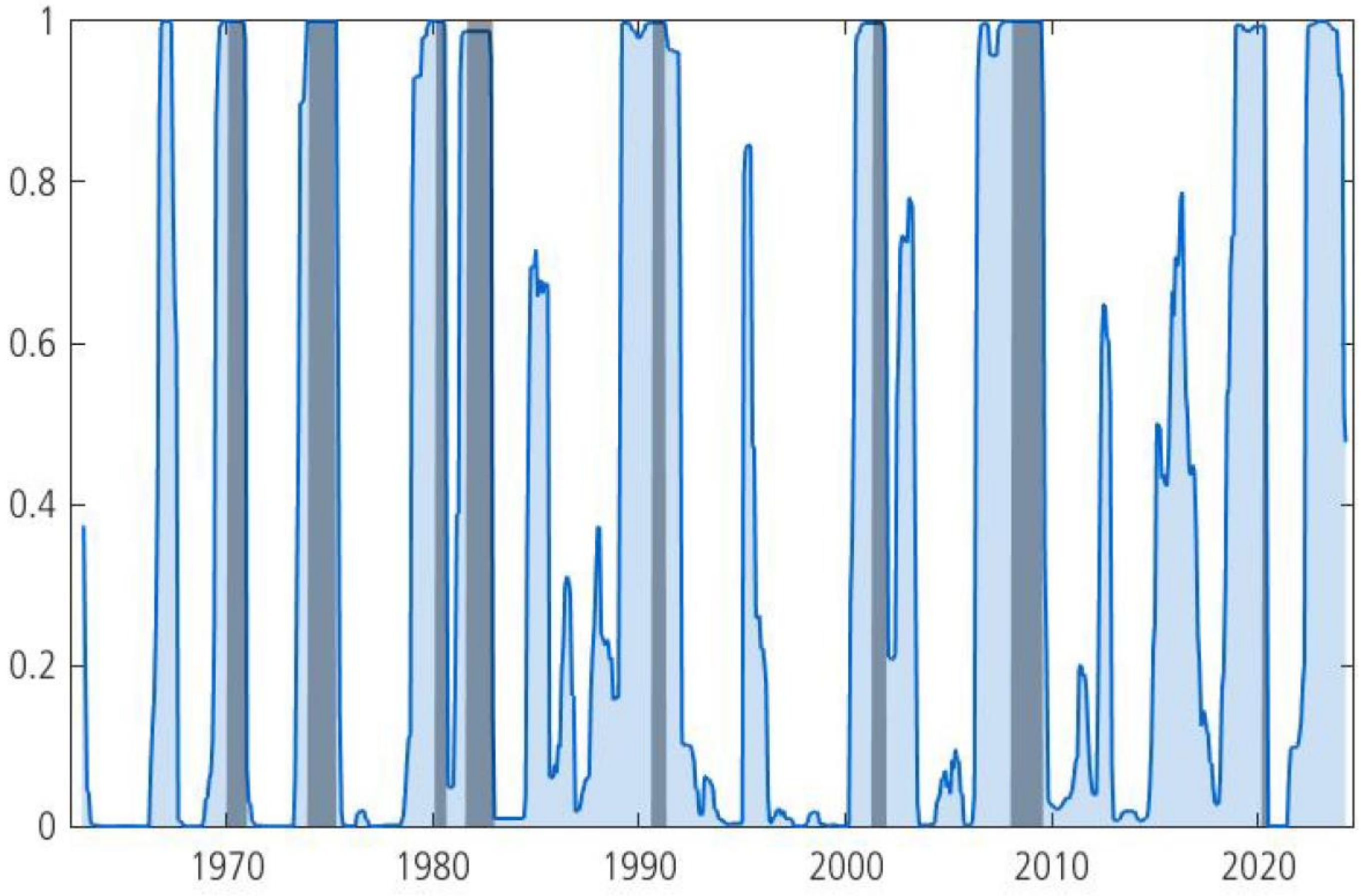
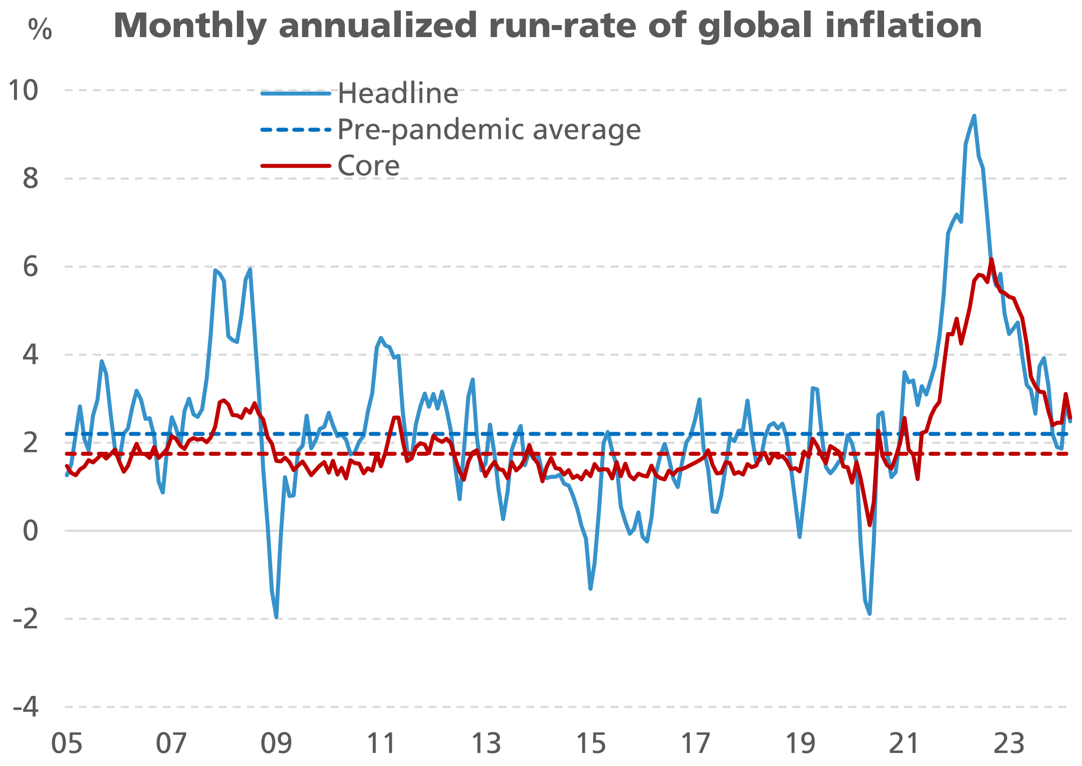
The US hard data recession probability has been moving lower as the average of the leading indicators has inched higher

Figure 13: Hard data recession probability has dropped but is volatile and uncertain.



Source: Haver, UBS calculations

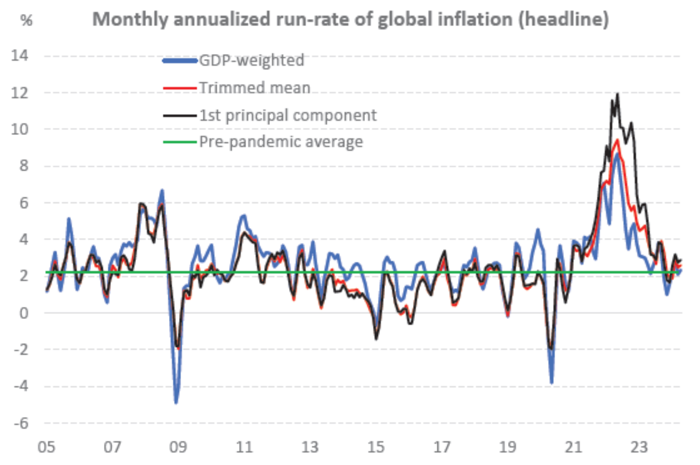
The run-rate of global inflation – both headline and core – are nearly back at their pre-pandemic average



Source: UBS, Haver

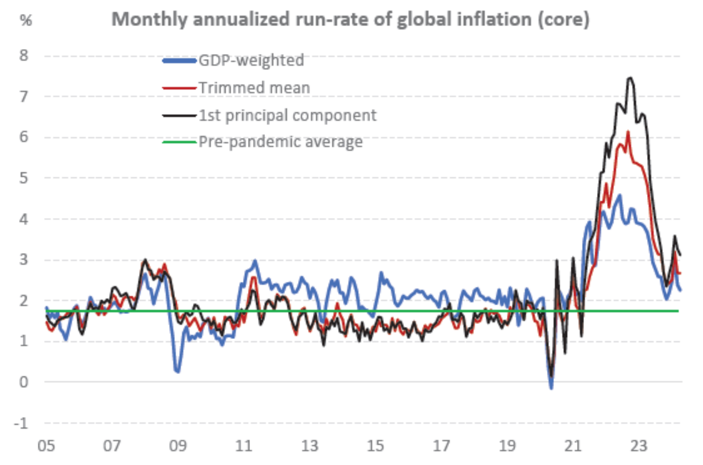
3m mov avg annualized run-rate of global inflation components (47 EM & DM economies)

Figure 1: Global headline inflation - monthly annualized rate



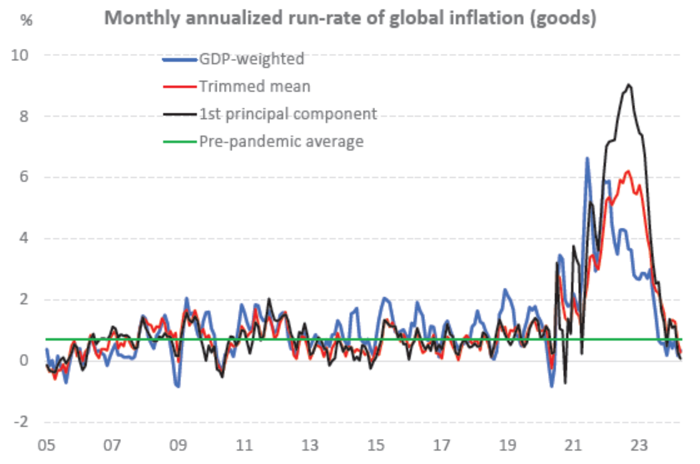
Source: UBS, Haver

Figure 2: Global core inflation - monthly annualized rate



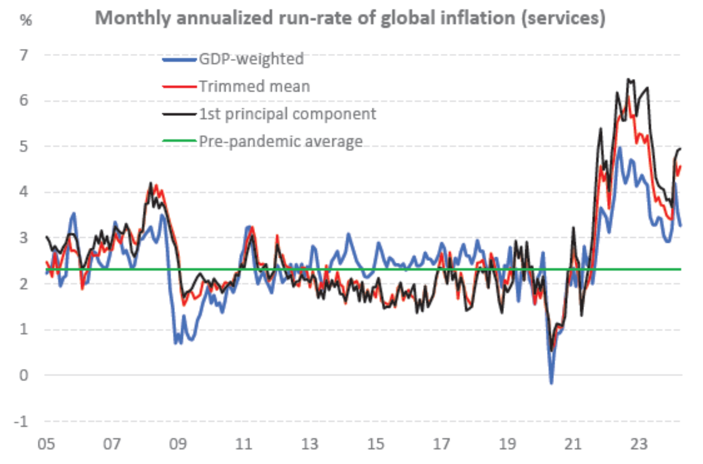
Source: UBS, Haver

Figure 3: Global goods inflation - monthly annualized rate



Source: UBS, Haver

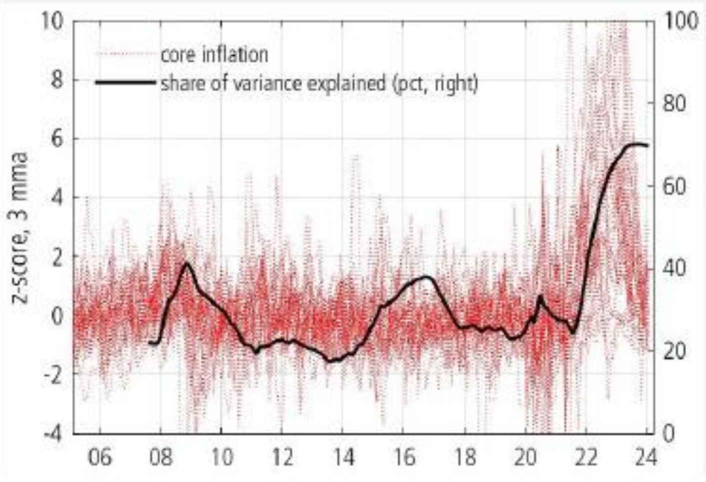
Figure 4: Global services inflation - monthly annualized rate



Source: UBS, Haver

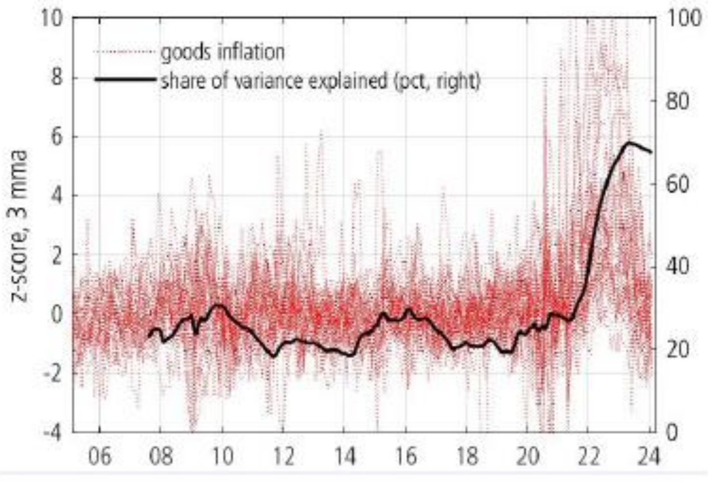
Inflation remains highly correlated globally

Figure 17: The co-movement in core inflation attributable to the 1st PC (70%) is likewise still near the highs



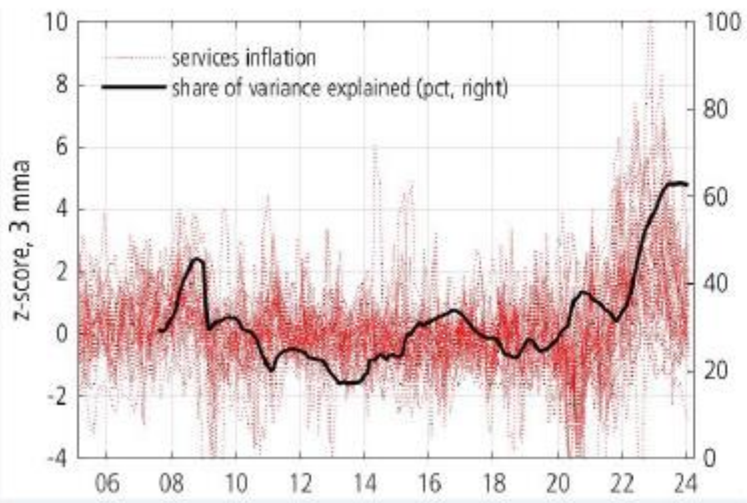
Source: UBS, Haver

Figure 18: The 1st PC in goods inflation explains 67% of the variance across countries



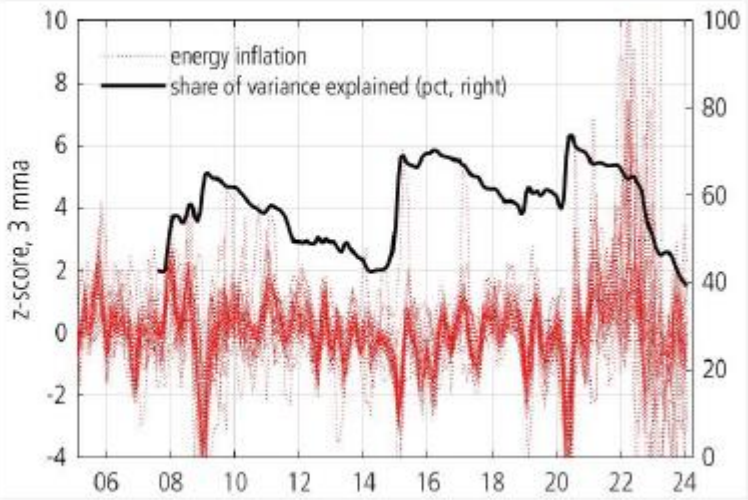
Source: UBS, Haver

Figure 19: While in services that percentage is 63%



Source: UBS, Haver

Figure 20: The co-movement in energy (39%) has however fallen to low levels

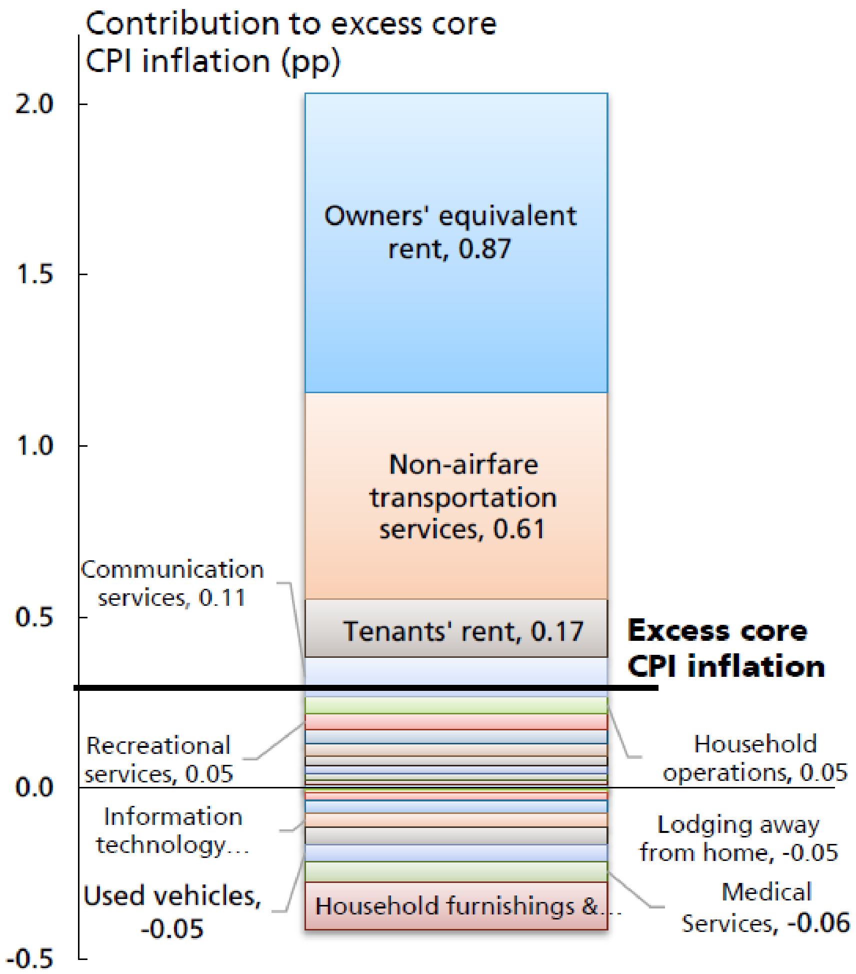


Source: UBS, Haver

UBS

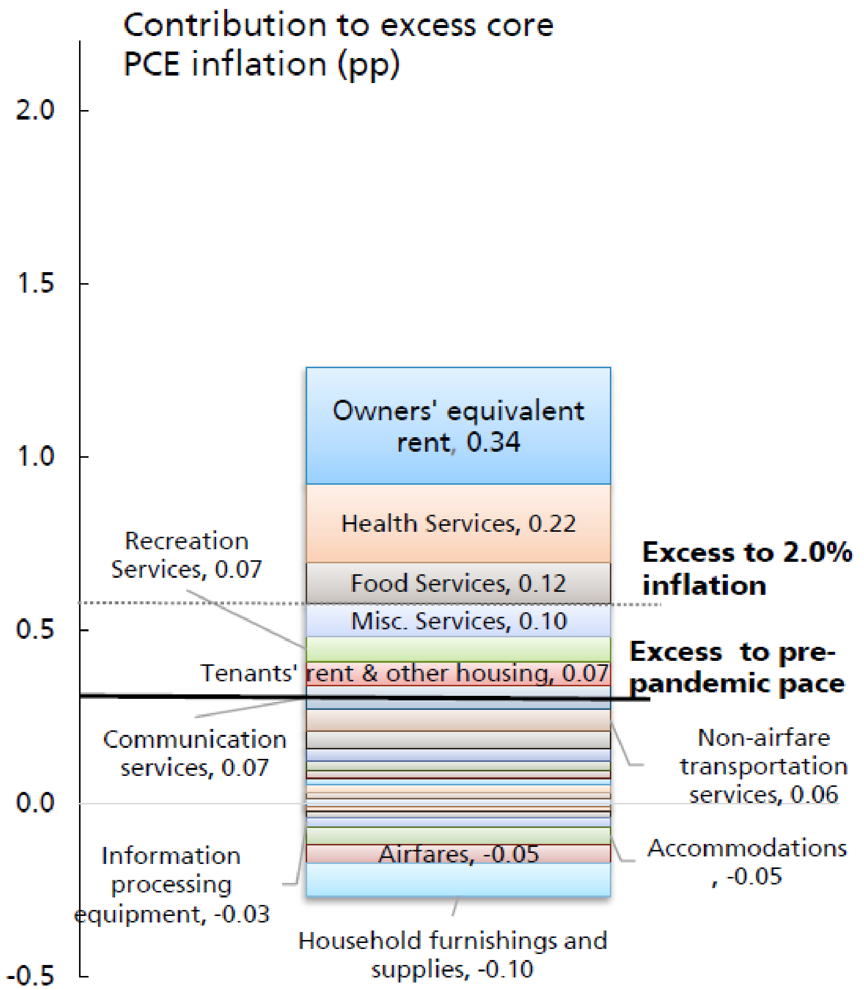
The US is only above its pre-pandemic inflation rate because of 2 categories

Figure 10: The difference between current core CPI inflation and the average in the 3 years prior to the pandemic can be almost entirely accounted for by housing rents and non-airfare transportation services



Source: BLS, UBS

Figure 11: Core PCE inflation in excess of the FOMC's 2.0% inflation target can be entire accounted for by OER, health services, and food services



Source: BEA, UBS

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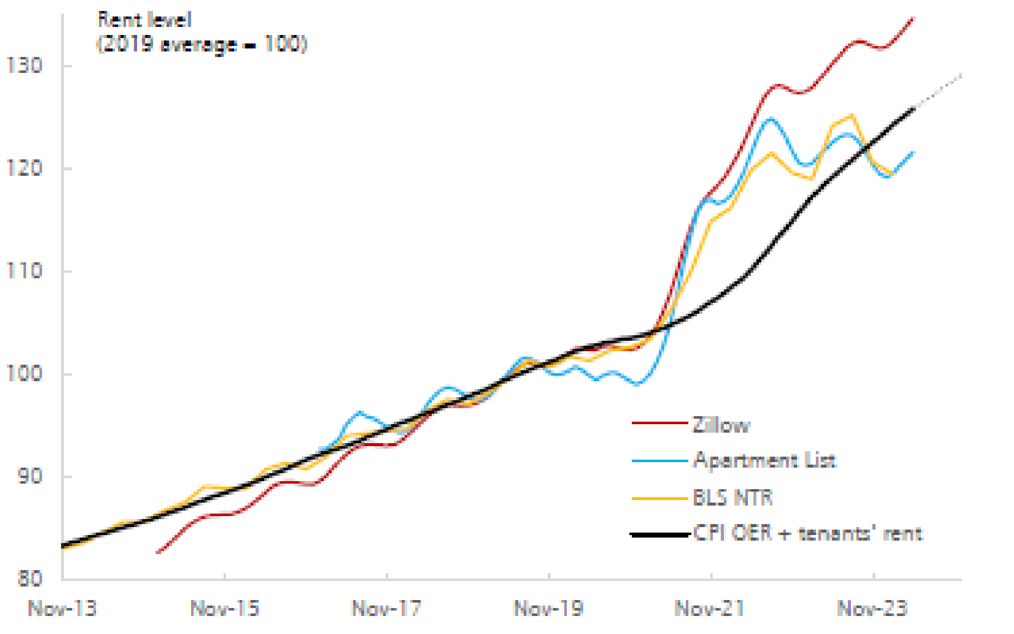
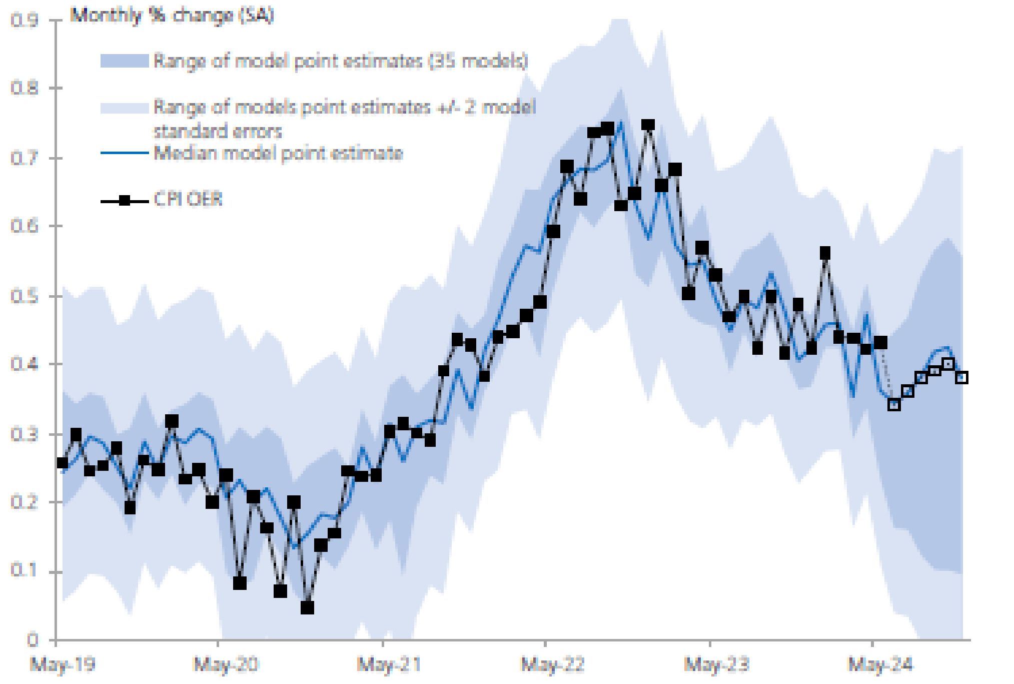
Rents are now lagging the models by 6m or so; they should have already slowed

Figure 12: Zillow data suggest that OER needs to continue to increase strongly to catch up with the increase in market rents since the start of the pandemic. The BLS NTR and Apartment List suggest it has already gone too far.



Source: BLS, Apartment List, Zillow, UBS

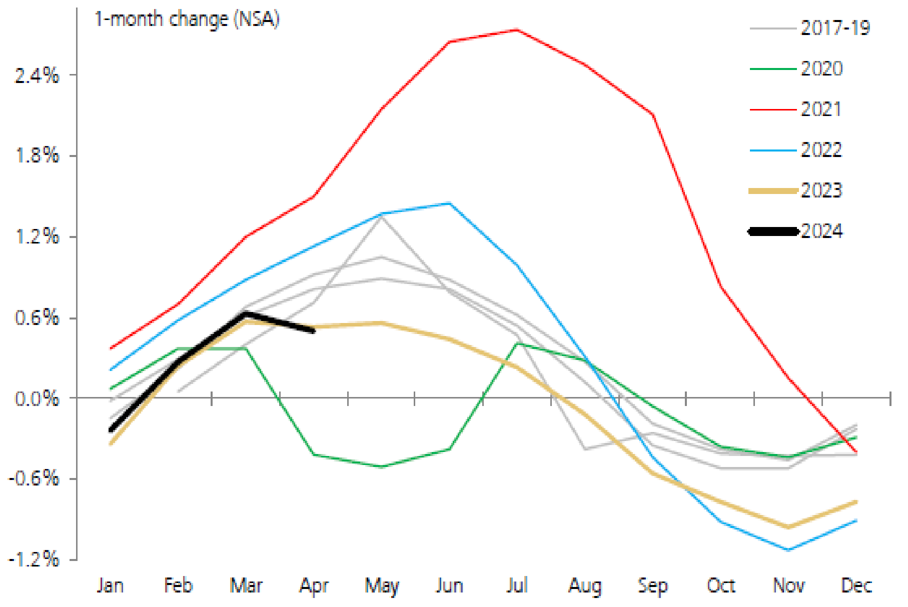
Figure 13: Our forecast for OER roughly follows our models with the slowing in June and then a pickup. However, the uncertainty range is large



Source: BLS, UBS

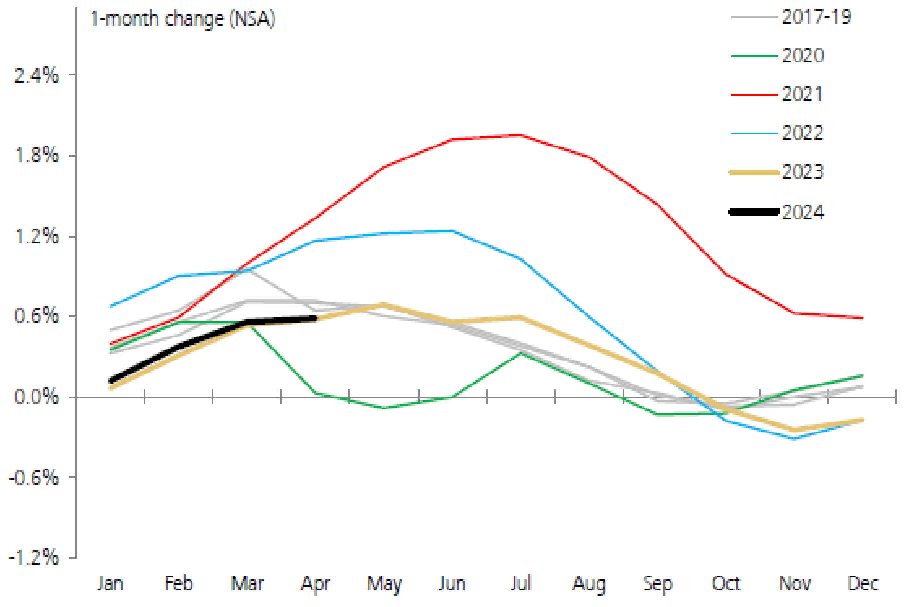
Well behaved market rents give some confidence the slowdown is coming

Figure 8: Apartment List's measure of rent for new leases has seen monthly changes at or below the pre-pandemic pace every month since autumn 2022



Source: Apartment List, UBS

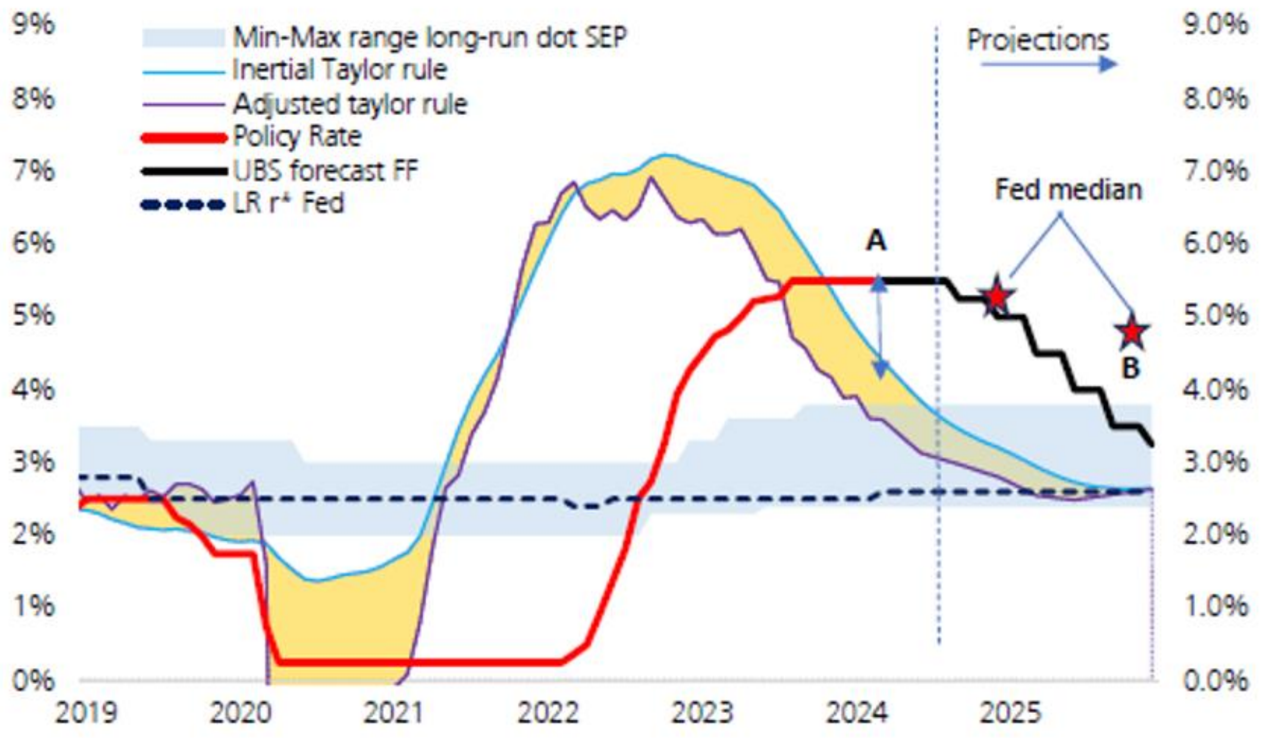
Figure 9: Zillow's new tenant lease rent index has moved similarly to its pre-pandemic pace since autumn 2022



Source: Zillow, UBS

The Fed is lagging its own policy rules

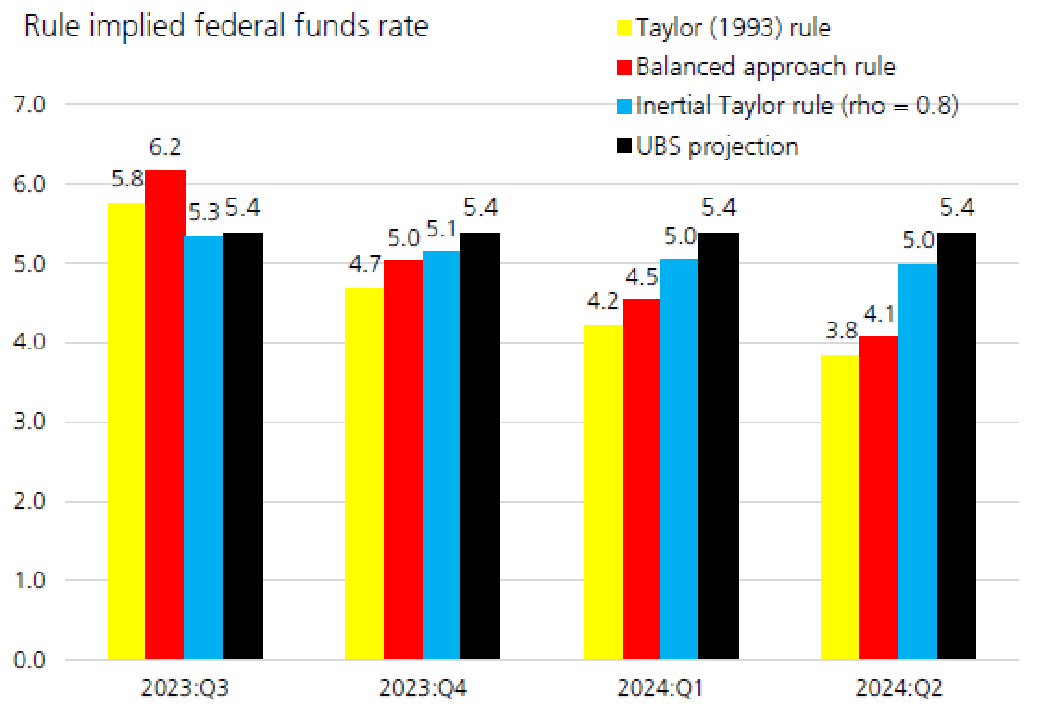
Figure 51: The fed funds rate is significantly above the Fed's own policy rules and its long run 'dot'



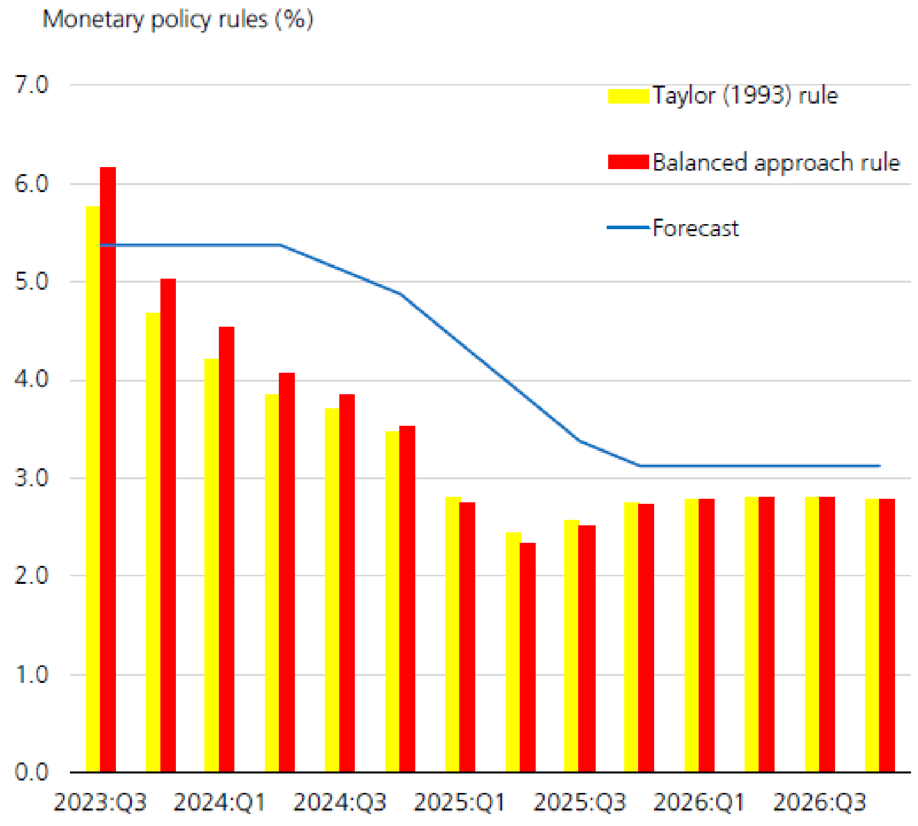
Source: UBS [chart shows rates in nominal terms]

The Fed is lagging its own policy rules (we expect them to catch up next year)

Figure 4: Funds rate already higher than Fed's own rules

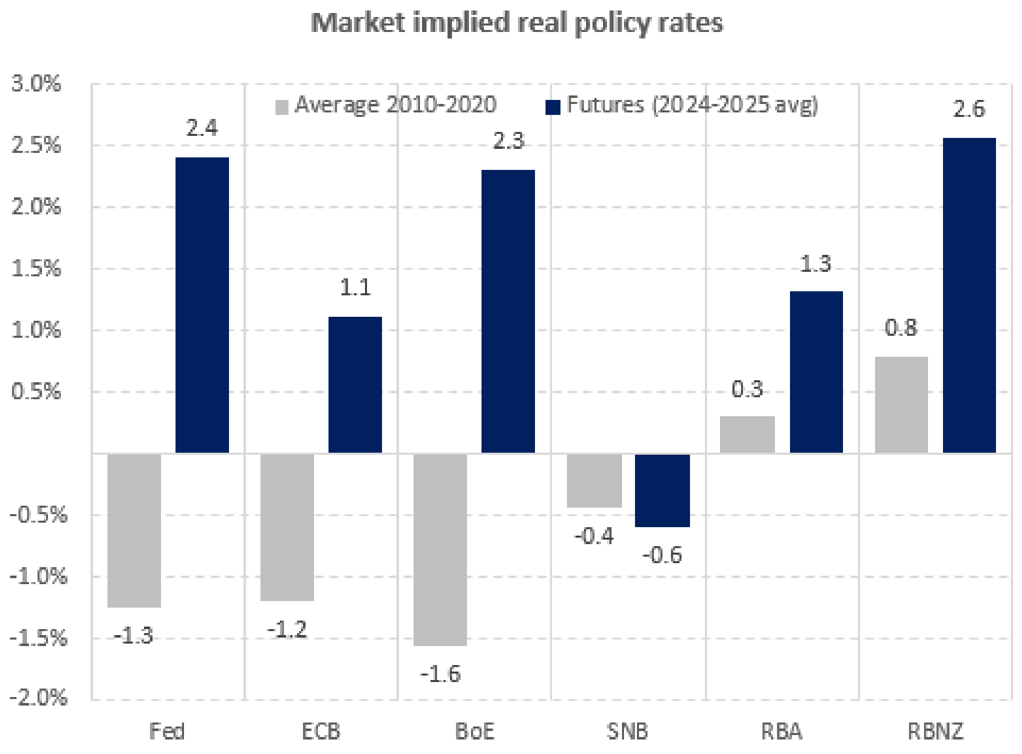


Source: Federal Reserve, UBS



source: Federal Reserve, UBS calculations

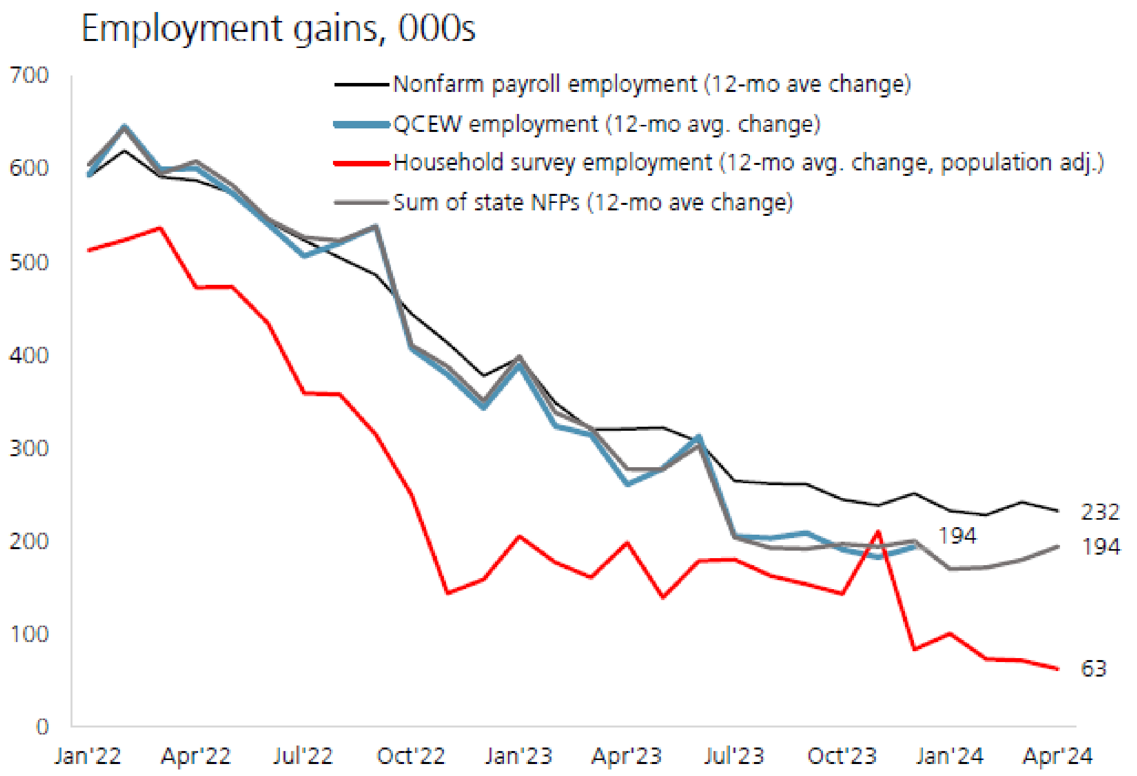
The market is still pricing a regime shift in real rates



Source: UBS, Bloomberg

One of the complications for the Fed is the mixed labour market data

Figure 5: NFP is running ahead of everything else

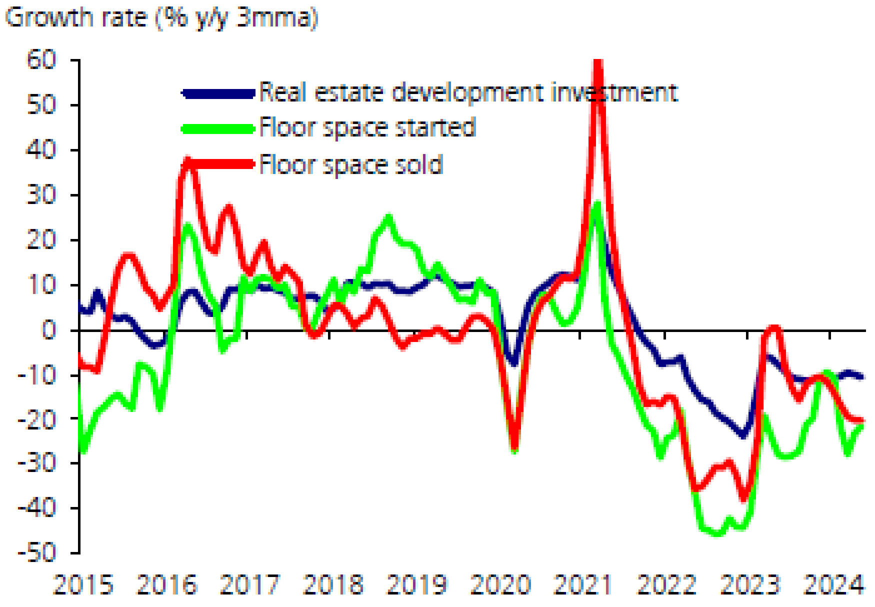


Source: BLS, Haver, UBS

UBS

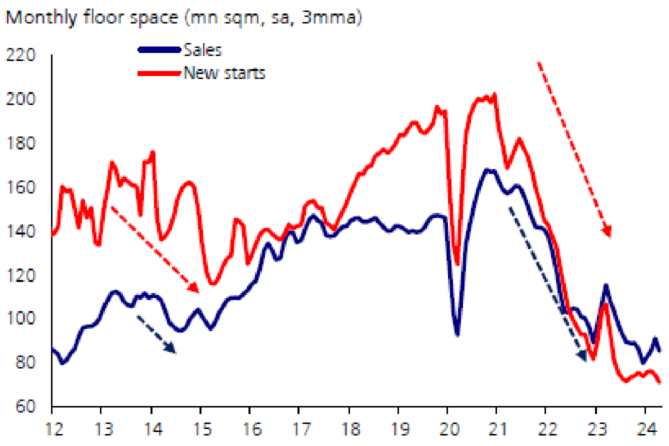
China

Figure 4: Property activities stayed in deep y/y decline



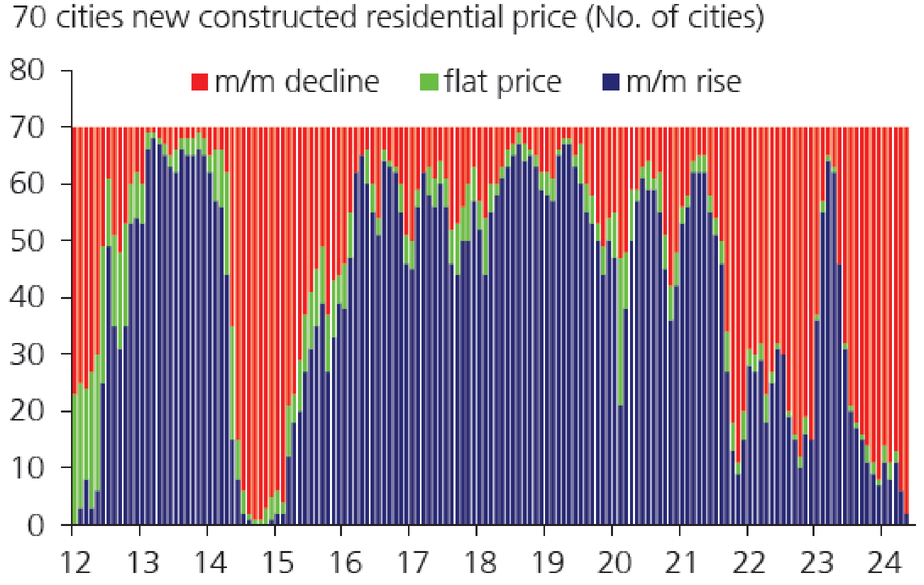
Source: CEIC, UBS estimates

Figure 22: Property activities weakened sharply since Q2 2023



Source: CEIC, UBS estimates *chart is 3mma basis

Figure 5: 70-city housing price decline accelerated in May



Source: CEIC, UBS estimates

China

Excluding the property sector, China's growth has averaged 7% the last 3 years, compared to 6.5% in the 20 years pre pandemic.

Source: UBS calculations, Haver

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China

New FDI inflows into China do not suggest corporates are exiting China

Source: UBS calculations, Haver

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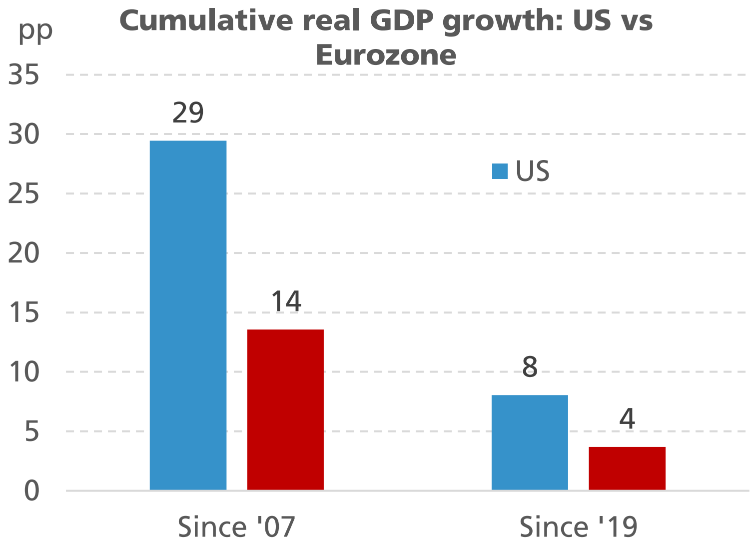
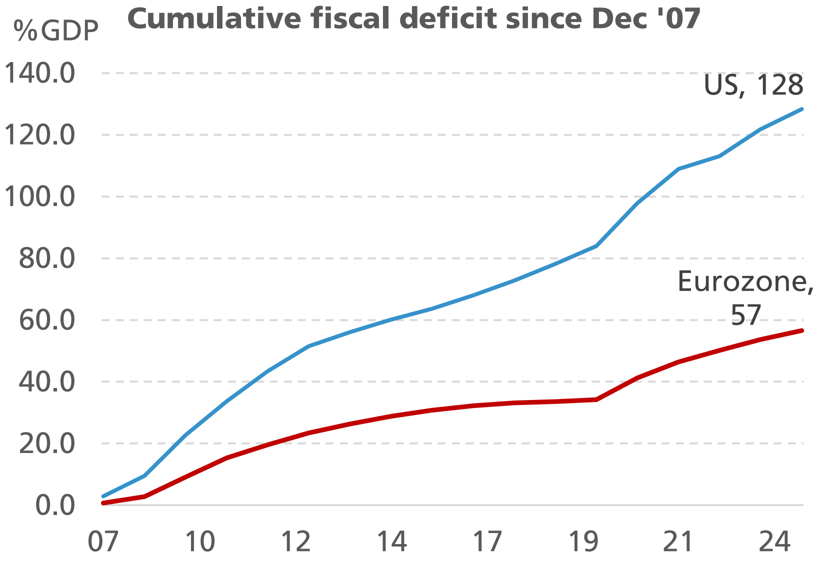
US Fiscal



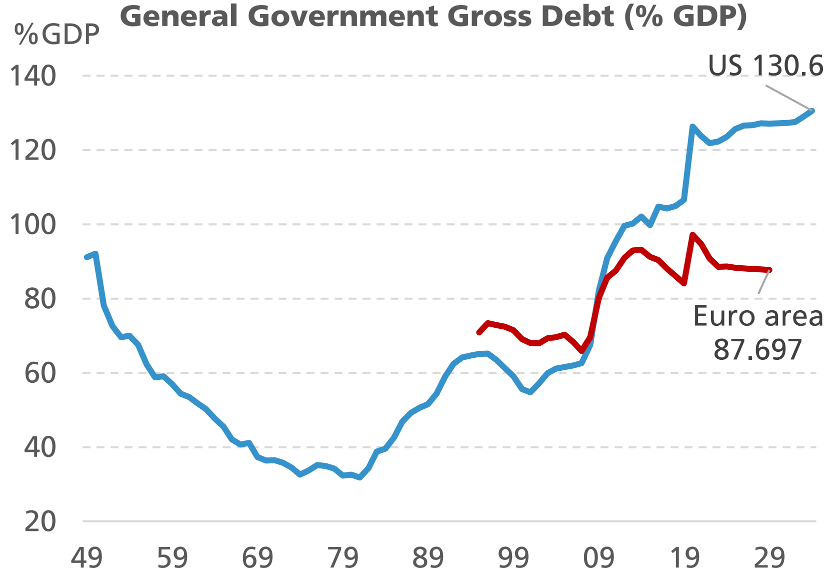
Source: UBS, Haver



Source: UBS, Haver

The US has run a cumulative fiscal deficit of 128% of GDP since 2007. that is 71pp of GDP more than the Eurozone.

Over the last 4 years, the US has increased its debt by 16% of GDP (12pp more than the Eurozone) to grow just 4pp faster than the Eurozone.

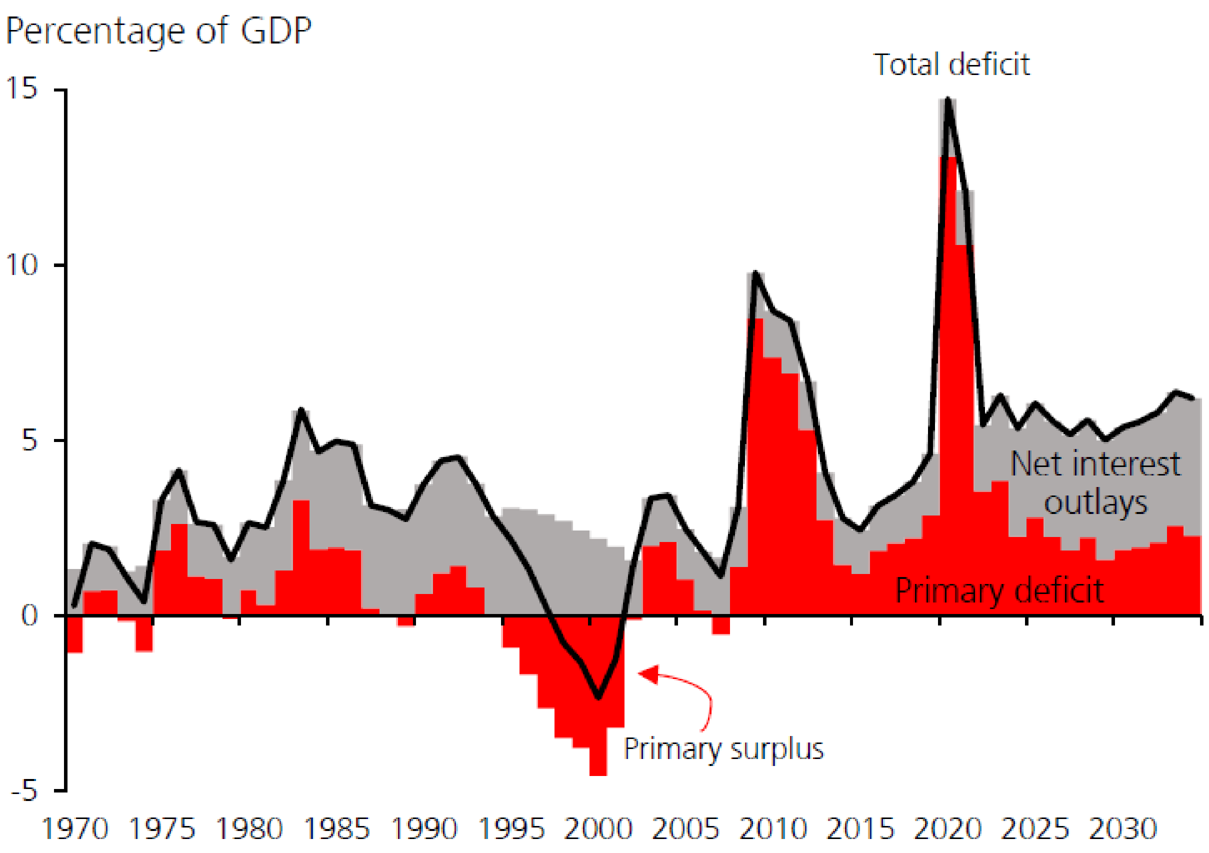


Source: UBS, Haver

UBS

US Fiscal

Figure 9: CBO baseline shows no primary surplus this expansion



Source: CBO, Haver, UBS

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Risk Statement

Risks of multi-asset investing include but are not limited to market risk, credit risk, interest rate risk, and foreign exchange risk. Correlations of returns among different asset classes may deviate from historical patterns. Geopolitical events and policy shocks pose risks that can reduce asset returns. Valuations may be adversely affected during times of high market volatility, thin liquidity, and economic dislocation.

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Buy	FSR is > 6% above the MRA.	52%	38%
Neutral	FSR is between -6% and 6% of the MRA.	40%	38%
Sell	FSR is > 6% below the MRA.	8%	35%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 December 2023.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
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	UBS Terminology	**Rating Category** [1]	**Time Horizon**	**Definition**	**Coverage** [2]	**IB Services** [3]
Credit Outlook	Positive	Buy	Up to 6 months	UBS' expected trend in a company's creditworthiness	<1%	<1%
	Stable	Hold			<1%	<1%
	Negative	Sell			<1%	<1%
	UBS Terminology	**Time Horizon**		**Definition**		
Credit Rating	AAA, AA, A (+/-)	Up to 12 months		UBS' assessment of a company's creditworthiness. Credit Ratings are only used in the evaluation of Swiss corporates.		
	BBB, BB, B (+/-)					
	CCC, CC, C (+/-)					
Security Recommendations						
	UBS Terminology	**Time Horizon**		**Definition**		
Bond Recommendation	Outperform	Up to 3 months		A corporate bond's expected relative performance versus a defined reference		
	Marketperform					
	Underperform					
	UBS Terminology	**Time Horizon**		**Definition**		
CDS Recommendation	Buy Protection	Up to 3 months		Recommendation to hedge a company's creditworthiness		
	Sell Protection					

Note: Bond recommendations may be defined as 'Tactical', as in Tactical Outperform or Tactical Underperform, where there is a near term catalyst(s) taken into account.
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Source: UBS. Rating allocations are as of 31 December 2023.
1. To satisfy regulatory requirements, we assign Buy, Hold and Sell in our Credit Outlook ratings distribution table for our Issuer Rating system.
2. Percentage of companies under coverage globally within this rating category.
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