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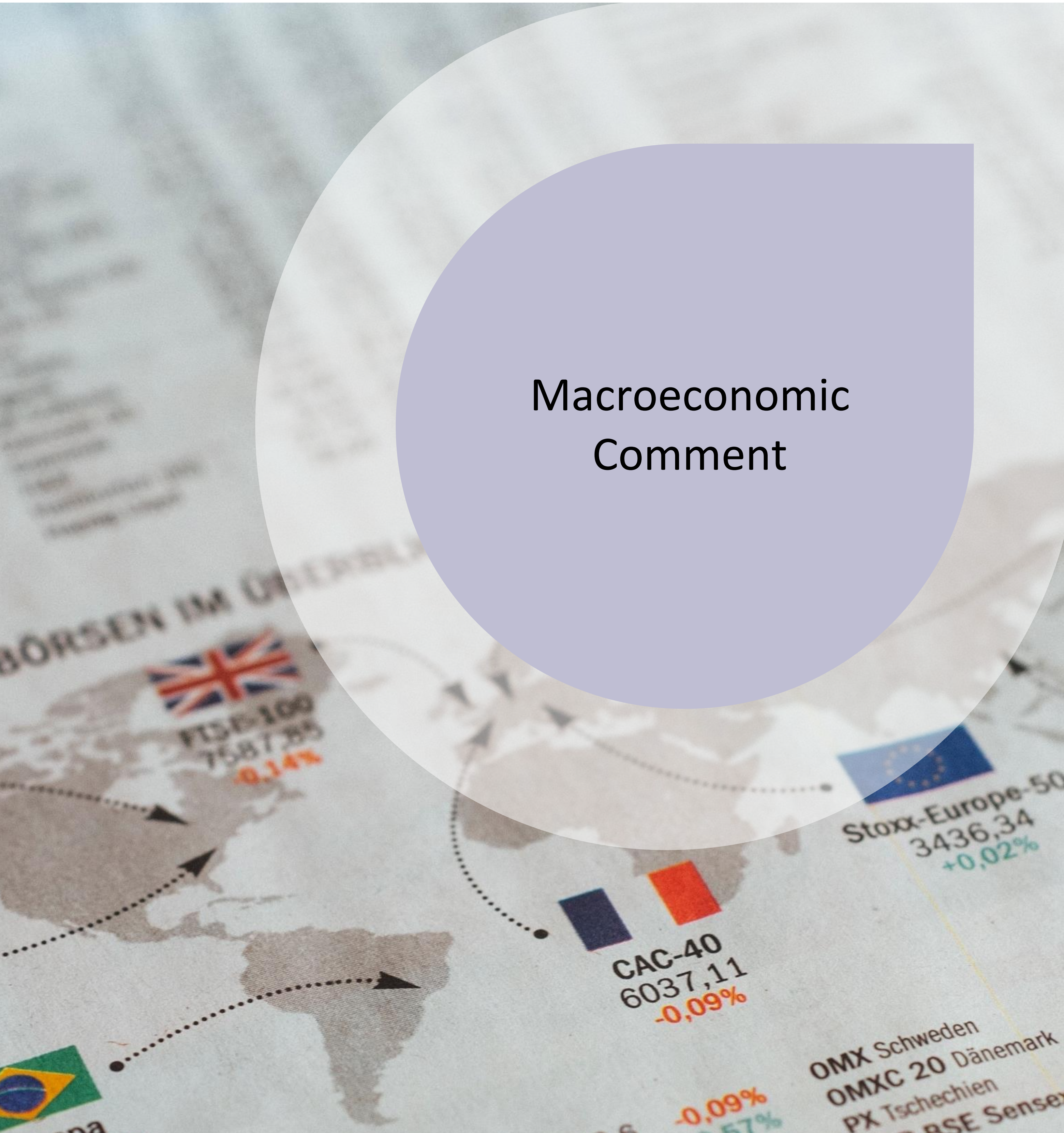


Macroeconomic Comment

Dampened growth expectations

April 28, 2023, Peter von Elten

In April, the **global economy** proved its **resilience** once again, despite stubborn inflation and soaring interest rates. This was boosted by a steadfastly robust labor market. China's growth has been stronger than expected in the first quarter, pulling emerging Asian economies along with it. The US and Europe are teetering on the brink between growth and contraction. As central banks have misjudged inflation dynamics, they've been forced into delayed action that has been all the more forceful, with rapid and large interest rate hikes. Of course, this has led to the destabilization of interest rate-sensitive sectors, such as finance and real estate. The unusually long period of extremely low interest rates favored speculative investments, which now need to be cleared up. The **bank runs** seen in the US and at Credit Suisse are a disturbing reminder of how quickly these system-threatening developments can occur, even in this age of digitalization.

The greatest economic risks are likely to come from **real estate**. In many markets, real estate prices, particularly in the commercial sector, have already fallen by over 10%. In the US, prices in the office sector are now expected to fall by as much as 20%. Higher interest rates, spiraling construction and energy costs, as well as tightening environmental regulations, have all led to a concerning decline in construction activity. Hence, this has ceased to be a mainstay of economic growth. With the rise of the key US interest rate to between 4.75% and 5%, we're back to 2008 rates – the dawn of the last US real estate crisis. This shake-up of the real estate market will take longer, as the interest rate shock will have a delayed effect on loan renewals. The sharp rise in prices of tangible assets has added to rising consumption during the long period of rock-bottom interest rates; likewise, the asset losses and the higher interest costs now being suffered will depress consumption.

India – a nation of great untapped potential

The Western world (including Japan) views **India as the democratic counterpart** to the power ambitions of the China-led autocratic bloc. However, the West is also concerned that Prime Minister Narendra Modi's government is curtailing democratic rights. In this clash of systems, India is being courted by rival blocs led by the US and China – both geopolitically and economically. India has made opportunistic moves between the blocs. On the one hand, the country benefits from close economic ties with China and cheap energy and military equipment from Russia. On the other hand, it has relied on Western efforts to help it reduce its strong dependencies on China. Companies such as Apple are in the process of expanding their presence and production sites in India, which is attracting new suppliers to the country. Inordinately high bureaucracy makes access to the Indian market difficult, but this won't deter US or European companies from entering this rapidly growing and relatively low-cost market. India also serves as an advantageous bridge to the Asian market via its British legacies, such as English as a business language and jurisdiction based on British Common Law.

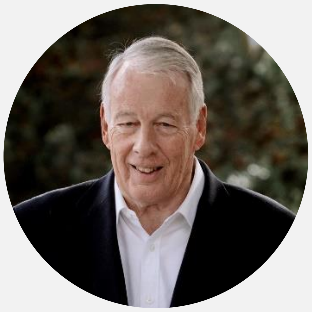
The **US** has recently promised India extensive support in developing a domestic chip industry, as well as other cutting-edge technology. It has also offered support for India's military armament and space-travel ambitions.

China's expansionist approach in South Asia, as well as its recurring military skirmishes with India over the Himalayan border, are straining the geopolitical relationship between the two nations. Being the source of ten rivers, China's strategic importance as Asia's "water tower" continues to grow due to increasing water shortages.

India, now the world's most populated country, is currently the **world's fifth-largest economy,** in terms of gross domestic product (GDP). Thanks to its growth prospects, it will surpass Japan and Germany to become the third-largest economy in just a few years' time. A better indication of its economic potency can be seen in the development of its GDP per capita. Here, India's per capita GDP is currently about USD 2,300 per year – far below China's USD 13,000 or that of the US (USD 70,000). India's rapidly growing and relatively young population is integrating into the labor process, which offers opportunities as well as risks. The nation is under pressure to push education and health care, alongside expanding its still weak infrastructure – its main aim being to effectively combat unemployment, which currently stands at 7.5%. Important drivers of growth, which should surpass 6% this year and in the coming years, are the financial and insurance sectors, real estate, telecommunications, as well as IT and other consulting services.

Prime Minister Modi is hoping to **establish a new world order**. This January, India hosted a "Global South Summit" with over 100 developing and emerging countries. In September, India will host the G20 summit in New Delhi and demonstrate its claim to power to the rest of the world.

Peter von Elten



Peter von Elten

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Mr. von Elten has decades of experience in the banking industry. Since 2008 he has been a member of the advisory board of BSZ AG, which took over IFP AG in 2014 and thus became Belvoir Capital AG. He enjoyed an international career at JP Morgan for close to 30 years. He returned to Switzerland as General Manager of Schroder & Co Bank AG from 1995 to 2003. Further-more, Mr. von Elten's passion is art; he is a co-founder of the gallery Elten & Elten.

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