




Macroeconomic  
Comment

  
FTSE-100  
7587,85  
-0,14%

  
CAC-40  
6037,11  
-0,09%

  
Stoxx-Europe-50  
3436,34  
+0,02%

OMX Schweden  
OMXC 20 Dänemark  
PX Tschechien  
RSE Sensex

# The global economy weakens further

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May 30, 2023, Peter von Elten

The global economy's growth continues to be depressed by multiple shocks and stressors, such as the pandemic, the Russian invasion, the energy crisis, inflation, drastic tightening of monetary policies, sharp rises in government debt, and geopolitically induced restrictions on world trade. We've moved from a world of abundance – where prices remained stable for the most part – to a world of scarcities. Companies able to reduce these shortages will benefit. This holds true for sectors such as water, food, green energy, and raw materials – particularly those required in decarbonization and electrification processes. Likely winners in these circumstances are companies that can satisfy the growing security needs of individual nations for critical goods – either by bringing goods production back home, or at least to a friendly region. In times of growing geopolitical tensions, there is a growing effort to reduce dependencies, which often requires substantial government subsidies. Supply security takes precedence over efficient productivity – yet this comes at a price in the form of higher costs.

The International Monetary Fund has announced that the global economy is facing its weakest medium-term growth since 1990. This year's IMF forecast is 2.8%, yet growth below 2% cannot be ruled out. While industrial production is already in a clear decline, the service sector is flourishing. Consumption has held up well so far, benefiting from pent-up demand and substantial government subsidies. These factors – which are also declining – have at least partially offset the loss of real purchasing power caused by high inflation.

The three largest economic regions – the US, China, and Europe – generate 70% of the world's gross national product of app. USD 100 trillion. With both the US and Europe on the brink of recession, many hopes are pinned on **China**. After abandoning its Zero-Covid policy at the end of last year, the nation has managed robust growth in the first quarter of 2023, in line with expectations. However, in April, China's figures turned out to be a grave disappointment, putting a damper on the growth euphoria. Imports fell, credit growth weakened significantly, and industrial production and retail sales were far below expectations. In addition, China is grappling with systemic problems, such as high unemployment (20%) among university graduates and other young people, and increasing household debt. The Financial Times reports of a vast gap between the nation's rosy market expectations and the clouded reality. China is distracting from its domestic difficulties through aggressive geostrategic expansion, aiming to establish a multipolar world order intended to replace the unipolar dominance of the US. The aim is to give significantly more

weighting to the “global South”. However, the question increasingly arises whether this policy will lead to China overextending its own resources – as has been the case with other world powers.

In the **US**, markets can breathe a sigh of relief due to the agreement in principle between Democrats and Republicans to raise the debt ceiling. Details of the compromise are not yet available. The House of Representatives (Republican majority) and the Senate (Democrat majority) have the week of May 29<sup>th</sup> to reach an agreement. So far, leaks indicate that compromise includes cuts to social services, while some Democrat demands, such as higher taxation on the rich to fund social improvements, are off the table. Military spending and President Biden’s environmental program are safe from cuts.

The 44-year-old governor of Florida, Ron DeSantis, has announced his run as Republican candidate for the **US** presidential campaign in the fall of 2024. This means he will be competing in the primaries against his former patron, Donald Trump. Known to be a staunch conservative, it is unlikely that he will reverse the radicalization that has driven the party for the past 30 years. Unlike Trump, he has his temper in check, acts rationally, and is considered intelligent, professional, and highly organized. He does not question NATO, but will probably demand more commitment from allies for the war in Ukraine. Many independent voters – including moderate Republicans – regard him as a dynamic decision-maker who has demonstrated firm leadership in Florida. His candidacy poses a dilemma for Democrats, who expected to have good chances in a renewed campaign between the two “old men”, Biden and Trump. Currently, it is unlikely that a Democrat candidate will run in the primary against the incumbent president, who is up for re-election. In a campaign between Ron DeSantis and Biden, however, the young and dynamic DeSantis is widely thought to have much better chances.

The EU Commission expects growth of 1% for **Europe** this year. However, **Germany**, the EU’s economically largest country, is technically in a recession right now, after two negative quarters (growth of -0.5% in Q4 2022, and -0.3% in Q1 2023). High order backlogs have now been worked off. Key pillars of the German economy, such as the automotive and construction industries, are struggling with structural problems. A prime example is the global market for electric vehicles. Here, China has achieved a share of 28% in 2022, while the revered car-nation Germany has fallen to 4%. Germany’s rapid implementation pace for a “green transformation” has unsettled large sections of the population. In addition to many other burdens, the impending costs of legally mandated heating conversions, building insulation, and solar panel roofs are likely putting a damper on people’s consumption.

To quote JPMorgan on its view of this year’s markets:

“A bad year for the economy, a better one for markets.” Many would like to see a mild recession in the US, as a pre-emptor for further recovery in the stock markets ahead of an eased monetary policy.

Peter von Elten



**Peter von Elten**

Belvoir Capital AG, Macro Advisor

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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