# Macro Outlook Summary

January 2023

January saw widespread investor optimism that the outlook for falling inflation was bright, that central banks would promptly slow their tightening moves and that the real economy might escape a recession. This extended the thinking of 4Q22 but has now reached levels which leave many investors puzzled and cautious. To be sure there are grounds for optimism. The energy crisis of three months ago has most likely passed so one cyclical driver has now turned downwards. Supply chain bottlenecks have largely eased or normalised with for example the chip industry swinging rapidly from famine to glut.

China's reversal of zero Covid is central to this story, easing manufacturing and port bottlenecks as well as releasing the domestic economy from lockdown. Last year Chinese authorities signalled an easing of policy towards property debt restrictions and an end to their assault on the giant Chinese internet players, gauging that their message had been heard. The pace and scale of China's rebound may be surprisingly rapid and strong and the immediate spillover into the rest of Asia will be tangible. As a nation the Chinese are practiced and committed consumers, American style, with no appetite for conservative wealth accumulation Japanese style. So we think a strong consumer rebound of 'revenge spending' is highly likely. Overseas tourism will undoubtedly accelerate in the Spring as the tourism industry finds its feet and rebuilds services. All Asian destinations look likely to benefit but perhaps none more than Japan which in Feb'23 opened fully.

Pre-Covid Japan welcomed 10m Chinese tourists and 35m in total. Completely switching off this economic stimulus and injection of demand hurt the Japanese economy considerably so the reversal of that effect with a much cheaper Yen forms part of a bullish case for Japan as well. While these are some of the positives there remain a number of notable negatives.

Most economists are coming round to the idea that inflation is going to be harder to extinguish than previously thought. Sticky is the popular caption. That view aligns better with all central banker messaging which is still led by the US Fed and Chair Powell. As we have frequently mentioned, higher for longer is the most likely outlook for rates and this really doesn't square with the unbridled optimism of January's markets, particularly in credit. Food price inflation is proving troublesome. Persistently bad weather for farming and high transport costs have contributed to further pressures. Reshoring industrial production and manufacturing further exacerbates tight labour market conditions while labour market unrest because of inflation creates the circularity we saw in the seventies.