Market Commentary
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English Version

The IMF's WEO Update - some improvement, but challenges remain

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As is customary, at the end of July, the IMF published its update to the World Economic Outlook, which surprisingly portrayed a rosier outlook than previously expected, but still retained a tone of caution. Let us revise the main points of the report, the changes to its growth forecast, and our take on the report.

Firstly, the IMF highlighted that it now expects global growth to be 3.0% in 2023 and 2024 – a slight increase from its previous April estimate but still considered weak by historical standards. Moreover, the IMF considers that the economic recovery from the pandemic is slowing amid widening differences between economic sectors and regions. Global economic activity was resilient during the first quarter of the year, with that resilience stemming from the services sector. Still, the entity believes that the tilt toward services is about to be completed in advanced economies while it accelerated in several emerging and developing economies during that period, which leaves limited scope for further acceleration. On another note, the IMF stressed that nonservices sectors had shown weakness, with high-frequency indicators pointing to a broader slowdown in activity for the second quarter. Against this backdrop of softer demand, weak productivity, and a more challenging financial environment, companies have reduced their capex investments in major economies.

On the inflation front, the Fund highlighted that the variable remains high and with a divergent descent across economies and inflation measures. Against a backdrop of gas inventory buildup in Europe and weaker demand in China, we have seen energy and food prices coming off from their 2022 peaks but remain elevated. Meanwhile, core inflation has declined more gradually and remains above most central banks' targets. Therefore, several major central banks have stated their need to implement an even tighter monetary policy.

Regarding the US debt ceiling standoff and the Spring banking crisis in the US and Switzerland, the IMF considered that the crisis had remained contained. Moreover, the entity also highlighted that since the publication of the last WEO report in April, global financial conditions have eased, which means that financial markets are less worried about risks to financial stability stemming from the financial sector.

Lastly, the Fund pointed out that the Chinese economic recovery is losing steam. After seeing a rebound at the beginning of the year from the manufacturing and consumption of services in China, the IMF stressed that it is seeing a softening in momentum into 2Q23, against a backdrop of continued weakness in the real estate sector, foreign weak demand, and labor market weakness.

Regarding economic forecasts, the IMF expects a deceleration in global growth for 2023 and 2024, with a projected annual GDP of 3% for both years and equivalent to 0.5% less than in 2022. The new forecast for 2023 is above the IMF's previous April projections, but the figures remain below the historical average across broad income groups. Furthermore, the Fund considers that global growth bottomed out in 4Q22, but for some major economies, it is not expected to do so before 2H23.

For the economies we focus on, it is relevant to highlight the improvement in the US growth projection for 2023 on the back of resilient consumption growth in the first quarter. Nonetheless, the IMF stressed that it does not expect the momentum of consumption growth to last. Meanwhile, the Fund left the Euro Area forecasts relatively unchanged but stressed that Germany's weakness in manufacturing output and economic contraction observed in 1Q23 have led to a negative economic growth expectation for 2023. In the case of Japan, the Fund performed a slight upward revision due to pent-up demand and accommodative policies that should support growth in 2023, but once the stimuli fade in 2024, growth is expected to slow. For China, the IMF stated that even if its growth forecast for 2023 and 2024 remained unchanged, Chinese investment underperformed vs. expectations due to the real estate downturn observed in the country. Lastly, for Latin America and the Caribbean, the IMF highlighted that the rapid growth observed in the region during 2022, after the pandemic reopening, was fading, but the 2023 forecasts included a better perspective for Brazil and Mexico.

The IMF expects global inflation to fall steadily in 2023 and 2024 but will remain above pre-pandemic levels. Moreover, even if the Fund recognizes that the tighter monetary policy will weigh in on inflation, it estimates that the main reason for its decrease will be the decline in international commodity prices. Meanwhile, core inflation is expected to decline more gradually. Since it has been proving to be stickier than initially expected, core inflation forecasts for 2024 have been revised to the upside.

Even if the growth perspective portrayed in this July edition of the WEO was more positive than last quarter, the IMF highlighted several risks to its outlook. In terms of upside risks for global growth, the Fund stated that inflation could decrease faster than expected and together with a decline in job vacancies could reduce the need for tighter monetary policy, thus allowing a soft landing to take place. Other upside risks could stem from consumers utilizing the remainder of their savings and sustaining consumption momentum and additional, stronger policy support in China. However, these last two risks could reignite inflation and inflation pressures while jeopardizing the inflation-taming process that has been underway.

Regarding downside risks, the Fund highlighted a potential persistence in inflation, a repricing in the monetary policy expectations that could tighten financial conditions, China's recovery underperforming, and a deeper geoeconomic fragmentation. Lastly, the IMF considered that the main priority across countries is to achieve sustained disinflation while ensuring financial stability. This underpins the need for central banks to remain focused on restoring price stability while strengthening financial supervision and risk monitoring.

When comparing the IMF's projections to our estimates released in our latest quarterly call, it felt reassuring to see our forecasts pointing in the same direction. Moreover, the fact that the Fund expects emerging markets to overperform advanced economies also leads us to believe that our thesis of having exposure to this market has paid off. Furthermore, we are also in agreement with the Fund that the main priority across countries should be to tame back inflation – a task that is being properly addressed by central banks, with some like Brazil and Chile already reaping the benefits of having started tightening early, and thus being able to cut rates before their peers. Advanced economies still have a way to go, which will probably dent their growth for this year and the next.

We continue to prefer a more cautious approach, favoring quality and defensive sectors within portfolios. Still, it gives us peace of mind to do so against a backdrop of mildly better economic forecasts, even if central banks still have some work to do. ■

WEO's and Insigneo's Growth Projections

Source: IMF

COUNTRY / REGION	2022	2023		2024
(Real GDP, annual % change)		Insigneo	IMF	IMF
World Output	**3.5**	**2.6**	**3.0**	**3.0**
Advanced Economies	**2.7**		**1.5**	**1.4**
US	2.1	1.4	1.8	1.0
Euro Area	3.5	0.4	0,9	1.5
Germany	1.8		-0.3	1.3
France	2.5		0.8	1.3
Italy	3.7		1.1	0.9
Spain	5.5		2.5	2.0
Japan	1.0	1.1	1.4	1.0
UK	4.1		0.4	1.0
Canada	3.4		1.7	1.4
Other	2.7		2.0	2.3
EM & Developing Economies	**4.0**		**4.0**	**4.1**
EM & Developing Asia	**4.5**		**5.3**	**5.0**
China	3.0	5.5	5.2	4.5
India	7.2		6.1	6.3
EM & Developing Europe	**0.8**		**1.8**	**2.2**
Russia	-2.1		1.5	1.3
Latam and the Caribbean	**3.9**		**1.9**	**2.2**
Brazil	2.9		2.1	1.2
Mexico	3.0		2.6	1.5
Middle East & Central Asia	**5.4**		**2.5**	**3.2**
Saudi Arabia	8.7		1.9	2.8
Sub-Saharan Africa	**3.9**		**3.5**	**4.1**
Nigeria	3.3		3.2	3.0
South Africa	1.9		0.3	1.7

House Views Matrix

	TACTICAL (UP TO 3 MONTHS)	CYCLICAL (UP TO 12 MONTHS)
US Equities[1]	NEUTRAL	UNDERWEIGHT
European Equities	OVERWEIGHT	OVERWEIGHT
Japanese Equities	OVERWEIGHT	OVERWEIGHT
Emerging Market Equities	NEUTRAL	OVERWEIGHT
Chinese Equities	OVERWEIGHT	NEUTRAL
US Treasuries[2]	NEUTRAL	OVERWEIGHT
Investment Grade Fixed Income	NEUTRAL	NEUTRAL
High Yield Fixed Income	NEUTRAL	UNDERWEIGHT
Emerging Market Sovereign	NEUTRAL	NEUTRAL
US Dollar	UNDERWEIGHT	NEUTRAL
Energy[3]	OVERWEIGHT	NEUTRAL
Precious Metals	UNDERWEIGHT	UNDERWEIGHT
Cash	NEUTRAL	OVERWEIGHT

[1] *Relative to global equities in USD*
[2] *Relative to aggregate fixed income markets in USD*
[3] *Relative to an overall commodity allocation*

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