

# iFlow

## WEEK AHEAD

February 25, 2024

## Coyness

*“Coyness is a rather comically pathetic fault, a miscalculation in which, by trying to veil the ego, we let it appear stark naked.” - Louis Kronenberger*

*“Had we world enough, and time, this coyness, lady were no crime...” - Andrew Marvell*

### Summary:

March comes in like a lion and goes out like a lamb. The current risk-on mood coupled with lower volatility and lack of urgency, even to chase trends, leaves many investors doubting the wisdom of seasonal sayings as “beware the ides of March” and more content to sit and wait like central bankers with carry and growth hopes rising into an early Spring. The difference between waiting patiently and frustration over lack of progress maybe central to how the week ahead plays out for investors. Lessons from the last week in the US markets – ongoing hawkish Fed speakers and FOMC minutes, stronger tech-earnings led by AI and little data other than better jobless claims and stronger existing home sales left investors resetting rates views, with US curve further inverting while the USD fell, and stocks set new records. The risks of bonds reflect fears of a larger US slowdown as the Fed patience becomes a frustration, but equity markets reflect the 4Q better than expected earnings and ongoing hope for soft-landing or no-landing. For FX, the lack of significant trading in G10 leaves the focus on Emerging Markets where pain in the carry trades shows up in South Africa and Mexico here election nag. The week ahead is going to focus on the Economic data again with US core PCE prices, ISM, EU and Japan CPI and global manufacturing PMIs – particularly from China – all are back as risks for rethinking policy pivots further, but all that will be tempered by geopolitics with the ongoing wars and peace hopes along with the US political season reheating as Super Tuesday primaries likely set up markets for a more defined Trump/Biden redux and with the US House back and flirting again with government shutdown risks. Month-end has an extra-day for February to contend with leaving many worried about back-loading the volatility of the week ahead and underestimating the seasonal troubles of the March month ahead.

### Key Themes:

- **FOMC patience = higher risk of recession.** The swing in confidence from soft landing to no landing to FOMC hike risk in the last 2 months stands out. Much of this will pivot on the data ahead with the core PCE next week essential to the shifting narrative. The higher for longer mantra of 2023 changed in October to high for longer with the Fed implicit end to tightening bias, but the rebound in financial conditions and consumer spending surprised. Key theme for month end revolves around asset price appreciation reflecting real economic strength. The 4Q earnings reports helped but uneven US economic data maybe under appreciated. The next GDP nowcast from the Atlanta Fed comes Tuesday, Feb 27 after durable goods orders. 1Q growth is expected around 2% down from 3.3%.
- **Global Recovery Hope = USD weaker.** The USD fell for the first week of the year as the global flash PMI reports show improvement in Australia, India, Europe while the US holds its expansion but at a slightly slower rate. The narrowing of US growth outlooks to the rest of the world, coupled with the asset valuation concerns drove money to value abroad – with many expecting month-end flows to reflect more of this theme. The EUR 1M kurtosis - a measure of one-month euro butterflies, or the cost of insuring short volatility positions against outlier moves, is at a two-year low. This divergence is unusual.
- **Overconcentration risk = US Mag 7, EU Mag 4, AI.** The US isn't the only country where 10 stocks dominate the market capitalization of equities – this is the market cap share by nation - US is 33%, China is 42%, Germany 57%, UK 50%, France 57%, Canada 45%. The risk of a pullback in tech and AI clearly is in play but post the 4Q earnings reports, this

has eased, and markets are talking about tipping points. The transformative event of the last week was NVIDIA earnings delivering more than expected. The next issue maybe about asset allocation into tech over bonds or commodities or cash. Nevertheless, Investors cut back global equities in the last week as shown by iFlow and by data from LSEG, with net outflows of \$2.64bn after \$10.32bn the previous week. Conversely, global bond funds attracted \$9.72 billion in net inflows, marking a ninth consecutive week of net buying.

- **Buffett and the “No candidates for capital deployment” outside US** – The theme of value and bubbles in the US economy won’t go away. The annual letter from Warren Buffett warned Berkshire Hathaway shareholders that there were very few deals that offer the kind of transformative impact past takeovers have had, such as its purchases of insurers Geico and National Indemnity or the BNSF railroad. The consequence of this is cash - \$167.6bn of the \$905bn company holdings up \$39bn on the year in 2023. The company said it bought back \$2.2bn worth of its stock in the fourth quarter, taking its total for the year above \$9bn. The company’s short-term Treasury portfolio and cash generated north of \$115mn in interest income for Berkshire’s insurance unit every week last year — or some \$6.1bn —, eclipsing the \$5.5bn it earned in dividends on stocks.

#### What are we watching:

1. **Economic releases:** Focus is on US core PCE as the goal post for FOMC easing ahead, The China PMI, US ISM, Japan CPI and EU flash CPI are all key for policy pivots.
2. **Central Banks:** BOI, RBNZ decisions along with Hungary MNB this week all interesting but unlikely to shift US or EU views.
3. **US Issuance:** 2-5-7Y bond sales will test the month end demand for front end paper.
4. **4Q Earnings:** Almost finished – focus is on Lowe’s, BMO, BNS, AutoZone, Salesforce, TJX, Baidu, RBC, HP, TD, Dell, Anheuser-Busch Inbev

#### • Monday, February 26 -

- **Economic releases:** US New Home Sales
- **Central Banks:** Bank of Israel rate decision, ECB Vujcic and Stournaras speeches, BOE Breeden and Pill, Fed Schmid speech
- **US Issuance:** Treasury to auction \$79 billion 3-month, \$70 billion 6-month bills, \$63 billion 2-year notes, \$64 billion 5-year notes.

#### • Tuesday, February 27 –

- **Economic releases:** US Durable Goods, CB consumer confidence
- **Central Banks:** Bank of Hungary rate decision, Riksbank Thedeen speech, BOE Ramsden, Fed Barr on counterparty risk
- **US Issuance:** Treasury to auction \$80 billion 42-day bills, \$42 billion 7-year notes.
- **4Q Earnings:** Baidu

#### • Wednesday, February 28 –

- **Economic releases:** 4Q GDP revised.
- **Central Banks:** RBNZ rate decision, ECB Muller speech, BOE Mann, Fed Bostic, Collins and Williams speeches
- **US Issuance:** Treasury to auction TBA 17-week bills
- **4Q Earnings:** Salesforce (after the close)

#### • Thursday, February 29 –

- **Economic releases:** US core PCE, weekly jobless claims
- **Central Banks:** Fed Bostic, Goolsbee, Mester and Williams speeches
- **US Issuance:** Treasury to auction TBA 4-week bills, TBA 8-week bills
- **4Q Earnings:** Zscaler

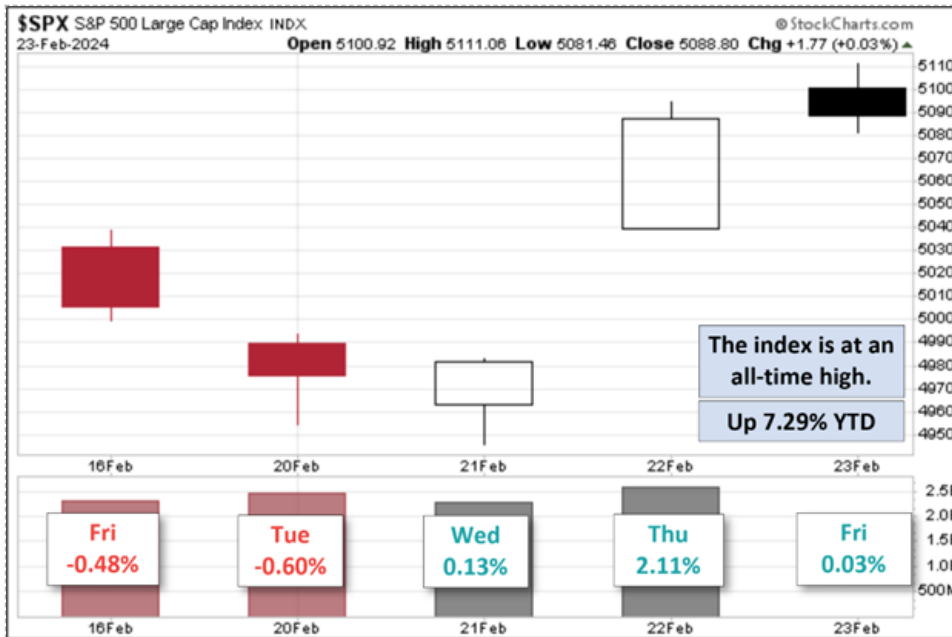
#### • Friday, March 1 –

- **Economic releases:** US Manufacturing ISM
- **Central Banks:** ECB Holzmann speech, BOE Pill speech, Fed Daly, Waller and Kugler speeches

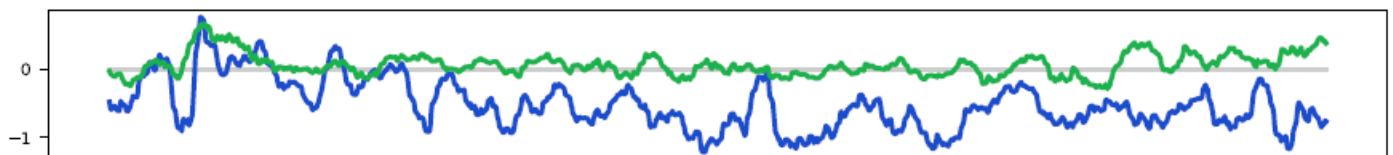
## What changed last week:

- **In Equities, the US markets closed at fresh record highs** – with the S&P 500 rallied during the back half of this week to reach a new all-time record close. The index is currently up 7.29% year to date and has set a new record closing high 13 times so far this year. The rally in the US markets was modest compared to the rebound in China – CSI 300 rose 3.67%, Italy MIB up 3.48%, French CAC40 up 2.98% while Mexico Bolsa fell 1.18% and Brazil Bovespa fell 0.02%. New records were made in Europe and notably by the Japan Nikkei breaking a 34-year high. By sector, globally only consumer discretionary had positive inflows for the week using iFlow, while information technology and health care saw increased outflows.

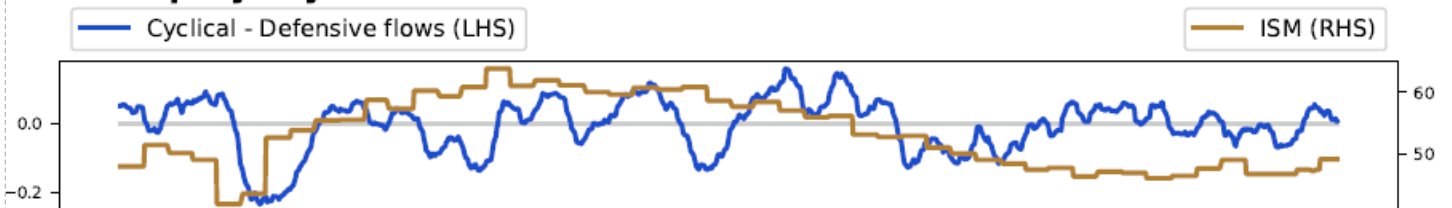
### US equity markets set new record highs but cyclical factor unclear



### US Flows



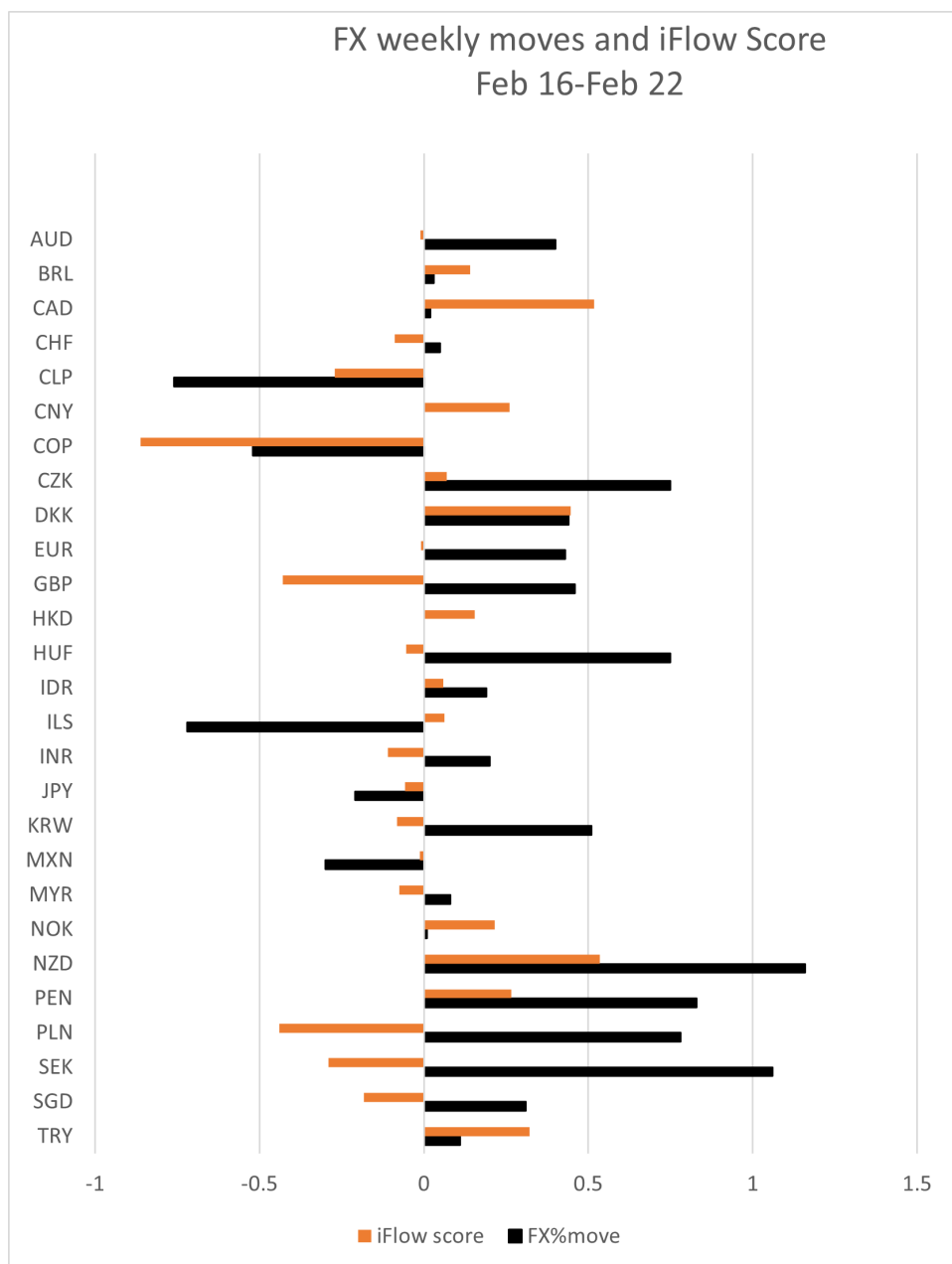
### US Equity Styles



Source: Bloomberg, iFlow, BNY Mellon

- **In FX, the USD slipped 0.3% on its index, the first weekly loss for the year.** In EM MXN had its first weekly loss in four weeks. Better global flash PMIs but lower US flash and lack of new data in US mixed with a hawkish FOMC minutes further inverted the US rate curve which returned with carry as a driver for FX. The biggest movers were NZD, Central European FX – PLN, HUF - and SEK while notable weakness in ZAR, ILS, COP, CLP and in G10 the JPY stood out with breach of 150.50. There was divergence in PLN and GBP between FX price moves and iFlow. EGP had the \$35bn UAE investment deal and positive IMF comments.

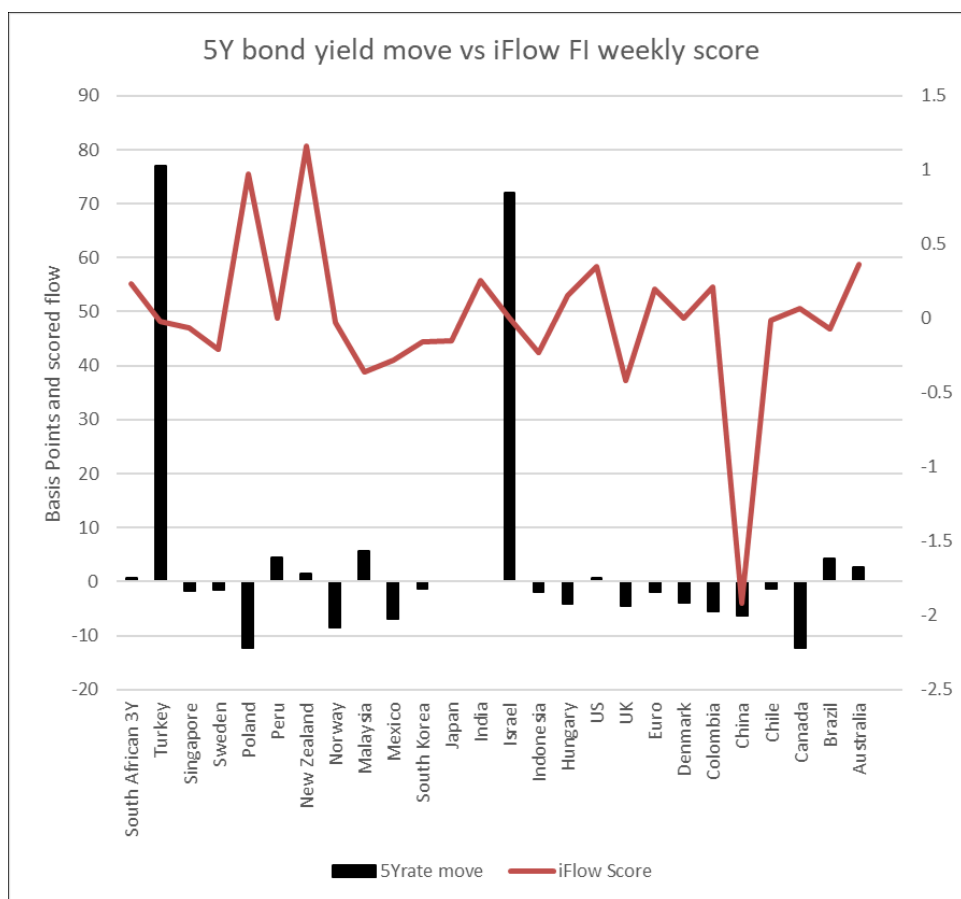
## FX markets first USD drop of the year



Source: Bloomberg, iFlow, BNY Mellon

- In Fixed Income, the US rate curve flattened** with 2/10Y in by 7.5bps to -44bps. A weak 20Y \$16bn sale and 30Y TIPS \$9bn sale didn't matter, with FOMC minutes and speakers clearly pushing further QT and later rate cut plans driving up front-end yields. The biggest mover was Canada as lower CPI pushed 10Y yields off 12.5bps, while Australia RBA minutes and flash PMI left 20Y there up 2.6bps. Other notable moves were in Mexico where lower CPI, weak 4Q GDP left Banxico cut hopes with 10Y yields off 12bps. Also, in EM notable moves in Israel and Turkey.

US Bond	High	Low	Current	% from Low	1W change
30Y	5.35	0.99	4.37	3.38	-0.07
20Y	5.44	0.87	4.56	3.69	0.00
10Y	5.26	0.52	4.25	3.73	-0.03
5Y	5.18	0.19	4.28	4.09	0.01
2Y	5.22	0.09	4.69	4.6	0.05
3M	5.63	0	5.39	5.39	0.02
FFR	5.41	0.04	5.32	5.28	0.00



Source: Bloomberg, iFlow, BNY Mellon

## News Agenda and Weekly Themes – US core PCE, EU flash HICP, Japan CPI, China NBS

In the upcoming week, investors will be keeping a close eye on US PCE price indexes, personal income, and spending data, alongside speeches by various Federal Reserve officials. Additionally, pivotal metrics such as the ISM Manufacturing PMI, the second estimate of GDP growth rate, durable goods orders, CB consumer sentiment, and new and pending home sales will be under scrutiny. Internationally, attention will be drawn to inflation rates in Japan, Australia, France, Spain, Germany, the Euro Area, and Italy. GDP growth rates for Turkey, Switzerland, India, Canada, and Brazil will also be in focus. Furthermore, manufacturing PMIs for pivotal countries such as China, Russia, Switzerland, Spain, and Canada will offer insights into the health of their respective industrial sectors. Lastly, markets will await the interest rate decision from New Zealand's central bank, and unemployment rates for Germany, Brazil, Mexico, Japan, Italy, and the Euro Area.

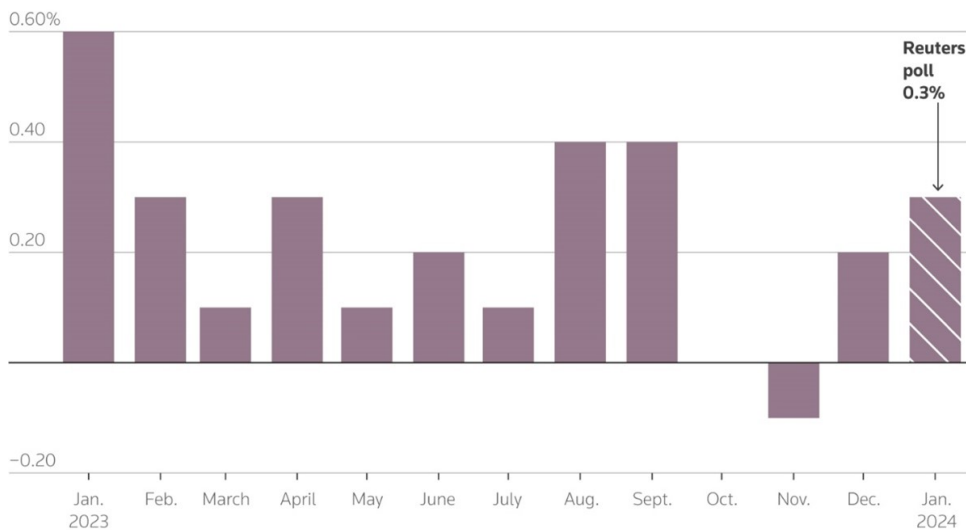
**1. US Core PCE = Key for FOMC easing outlooks.** US inflation is back in the spotlight on Thursday, with the personal consumption expenditures (PCE) price index set to give investors another look at an economy that has been stronger than many had expected. Recent data such as [consumer prices](#), [producer prices](#) and [employment](#) show the world's largest economy continues to grow faster than its neutral rate despite months of elevated interest rates. One consequence of the data has been an increasingly cautious set of Fed speeches and the FOMC minutes themselves pushing back on expectations of an imminent rate cut. In the last 2 weeks, the market has moved to match the FOMC forecasts for rates. [Bond yields](#) have rebounded and the dollar has edged higher but not consistently – as we learned this week. The SOFR options market is now priced in a small risk for a Fed hike in 2024.

**US Core PCE will drive FOMC rate expectations**

## Poll sees slight uptick in January PCE

Economists polled by Reuters expect a 0.3% increase in the U.S. personal consumption expenditures (PCE) price index for January from the previous month.

### CHANGE FROM PREVIOUS MONTH



Sources: LSEG Datastream, Reuters polling

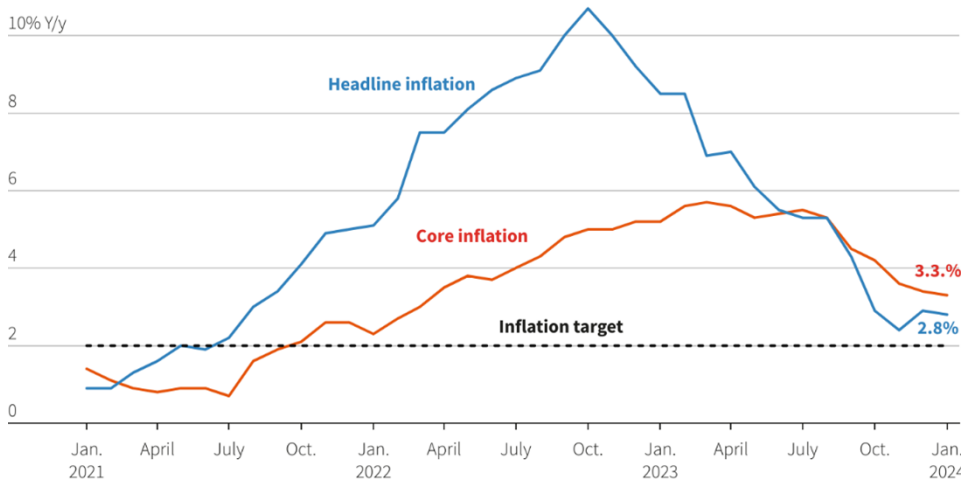
Prinz Magtulis • Feb. 21, 2024 | REUTERS

Source: Reuters, BNY Mellon

**2. Eurozone flash CPI = key for ECB easing talk.** The upcoming flash February numbers on March 1 should show Eurozone inflation, which soared to double-digits in 2022, moving back towards its 2% target. The reading slipped to 2.8% y/y in January from 2.9% in December and is cooling quickly with growth anemic and retreating energy prices. ECB vice-president Luis de Guindos says time and more data are needed before policymakers can say comfortably that record-high rates have done their job. Wage growth meanwhile has slowed but remains above levels consistent with 2% inflation.

## Euro zone inflation is moving back towards 2% target

Flash inflation data comes ahead of the March 7 ECB meeting



Source: LSEG Datastream | Reuters, Feb. 22, 2024 | By Vineet Sachdev

Source: Reuters, BNY Mellon

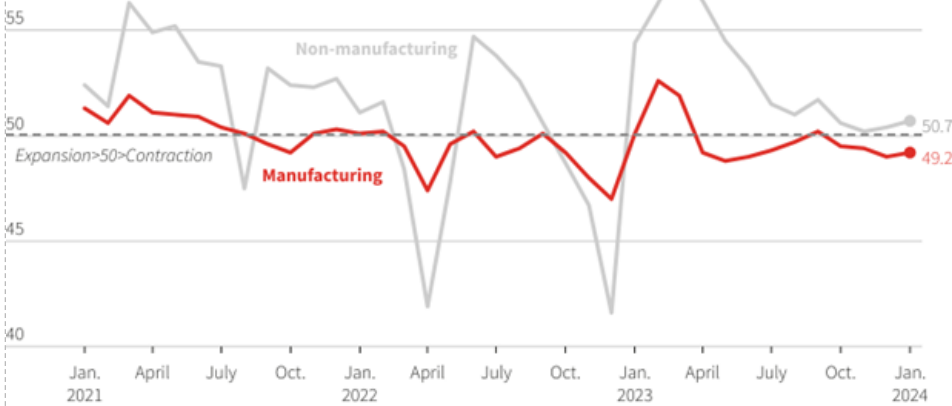
**3. China Recovery and NBS PMIs** – In China, authorities have grown increasingly desperate to shore up a fragile economic recovery after delivering the biggest ever reduction in the benchmark mortgage rate last week by cutting the 5Y LPR 15bps to 3.95% and ramping up regulatory pressure to revive an ailing stock market basically preventing any short selling. Friday's PMI data will provide more clarity on how effective Beijing's support measures have been. In the meantime, though, investors remain unimpressed.

**China NBS PMI will matter to recovery hopes**

## China's factory activity has contracted since October

February's purchasing managers' index (PMI) data will provide an indication of the economic trajectory

### NBS Purchasing Managers' Index (PMI)



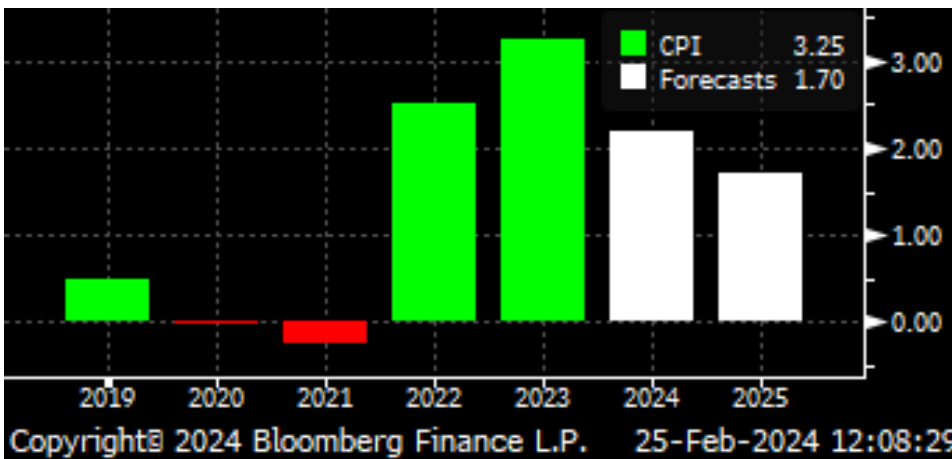
Note: PMI is an index compiled through the results of the monthly survey of purchasing managers in enterprises and shows whether market conditions are expanding, staying the same, or contracting.

Source: LSEG Datastream | Reuters, Feb. 22, 2024 | By Kripa Jayaram and Pasit Kongkunakornkul

Source: Reuters, BNY Mellon

**4. Japan CPI and the BOJ normalization.** Inflation figures for Japan are due on Tuesday - and expectations that consumer prices have cooled again in January might give the Bank of Japan (BOJ) one less reason to exit negative rates quickly this year. The central bank faces a recessionary backdrop and sluggish consumer spending, but maintaining ultra-easy policy would mean more pain for the yen and trouble for the government. The CPI is expected to drop to 1.8% y/y – the first time back below the 2% BOJ target zone since March 2022 – but most expect this to be a base-effect story with wages and import inflation driving the BOJ to end zero rate policy in March or April – albeit with no urgency to get overnight rates to a more normal 1% fast.

### Japan CPI and BOJ policy about forecasts



Source: Bloomberg, BNY Mellon

## Economic Data and Events Calendar February 26-March 1:

### Central Bank Decisions

- **Israel Bol (Feb 26, Monday)** – The Bol is expected to continue its easing cycle with an additional 25bp cut to 4.50%. However, there is a case for some degree of anchoring of inflation expectations given the extraordinary spending taking place in the economy is expected to continue for the foreseeable future. Inflation figures are relatively flat for now which will provide room for easing, the Bol will need to acknowledge that data (e.g., the near-20% contraction in GDP on an annualised basis) not comparable to a conventional policy framework and would need to tread carefully. ILS may also struggle in the near term if dollar rate expectations find support.



- **Hungary MNB (Feb 27, Tuesday)** – Rates are expected to fall by another 100bp in Hungary as inflation has fallen back into a target range. However, wage growth is running at extremely high levels signally lack labour market slack, and pass-through risk remains high. If the ECB is also set on pushing back or carefully restraining its easing cycle, it would also constrain the MNB’s room for manoeuvre. HUF is currently unprofitably overhyped in iFlow and additional unwinding is the most likely outcome.
- **New Zealand RBNZ (Feb 28, Wednesday)** – We believe expectations for a hike by the RBNZ are overdone. New Zealand’s current inflation impulse is domestically driven, and the economy faces the same labour market constraints seen elsewhere. However, it is too early to state that there is a new round of a wage-inflation spiral due and forward inflation expectations are still quite well-anchored for now. NZD valuations also look excessive on a relative basis relative to the growth outlook, so some pullback is needed. Having already generated the highest yields in G10, simply maintaining a higher-for-longer stance would support the RBNZ in maintaining tight financial conditions by global standards.

**Key data/releases**

Date	GMT	EST	Country	Event	Period	Cons.	Prior
02/26/24	14:00	09:00	IS	Base Rate	Feb-26	4.25%	4.50%
02/26/24	15:00	10:00	US	New Home Sales	Jan	684k	664k
02/26/24	23:30	18:30	JN	Natl CPI YoY	Jan	1.90%	2.60%
02/27/24	12:00	07:00	BZ	IBGE Inflation IPCA-15 MoM	Feb	0.80%	0.31%
02/27/24	13:00	08:00	HU	Central Bank Rate Decision	Feb-27	9.00%	10.00%
02/27/24	13:30	08:30	US	Durable Goods Orders	Jan P	-4.50%	0.00%
02/27/24	15:00	10:00	US	Conf. Board Consumer Confidence	Feb	114.8	114.8
02/27/24			UK	Nationwide House Px MoM	Feb	--	0.70%
02/27/24			UK	Nationwide House Px NSA YoY	Feb	--	-0.20%
02/28/24	01:00	20:00*	NZ	RBNZ Official Cash Rate	Feb-28	5.50%	5.50%
02/28/24	07:00	02:00	TU	Trade Balance	Jan	-6.20b	-6.04b
02/28/24	12:00	07:00	US	MBA Mortgage Applications	Feb-23	--	-10.60%
02/28/24	13:30	08:30	US	GDP Annualized QoQ	4Q S	3.30%	3.30%
02/28/24	23:50	18:50	JN	Industrial Production MoM	Jan P	-7.00%	1.40%
02/29/24	00:30	19:30*	AU	Retail Sales MoM	Jan	1.60%	-2.70%
02/29/24	07:00	02:00	SW	GDP QoQ	4Q	0.00%	-0.30%
02/29/24	12:00	07:00	SA	Trade Balance Rand	Jan	-4.4b	14.1b
02/29/24	13:00	08:00	GE	CPI YoY	Feb P	2.60%	2.90%
02/29/24	13:00	08:00	GE	CPI MoM	Feb P	0.40%	0.20%
02/29/24	13:30	08:30	CA	Quarterly GDP Annualized	4Q	1.00%	-1.10%
02/29/24	13:30	08:30	US	Personal Income	Jan	0.50%	0.30%
02/29/24	13:30	08:30	US	Personal Spending	Jan	0.20%	0.70%
02/29/24	13:30	08:30	US	Initial Jobless Claims	Feb-24	--	201k
02/29/24	23:30	18:30	JN	Jobless Rate	Jan	2.40%	2.40%
02/29/24	23:30	18:30	JN	Job-To-Applicant Ratio	Jan	1.27	1.27
03/01/24	00:30	19:30*	JN	Jibun Bank Japan PMI Mfg	Feb F	--	47.2
03/01/24	01:30	20:30*	CH	Manufacturing PMI	Feb	49.1	49.2
03/01/24	01:45	20:45*	CH	Caixin China PMI Mfg	Feb	50.7	50.8
03/01/24	07:00	02:00	TU	S&P Global/ICI Turkey Manufacturing PMI	Feb	--	49.2
03/01/24	07:30	02:30	SW	Swedbank/Siif PMI Manufacturing	Feb	--	47.1
03/01/24	08:00	03:00	CZ	GDP YoY	4Q P	-0.20%	-0.20%
03/01/24	08:00	03:00	PD	S&P Global Poland Manufacturing PMI	Feb	--	47.1
03/01/24	08:30	03:30	CZ	S&P Global Czech Republic Mfg PMI	Feb	42.9	43
03/01/24	08:55	03:55	GE	HCOB Germany Manufacturing PMI	Feb F	42.3	42.3
03/01/24	09:00	04:00	EC	HCOB Eurozone Manufacturing PMI	Feb F	46.1	46.1
03/01/24	09:00	04:00	NO	DNB/NIMA PMI Manufacturing	Feb	--	50.7
03/01/24	09:30	04:30	UK	S&P Global UK Manufacturing PMI	Feb F	--	47.1
03/01/24	10:00	05:00	EC	CPI MoM	Feb P	0.60%	-0.40%



03/01/24	12:00	07:00	BZ	GDP YoY	4Q	2.20%	2.00%
03/01/24	13:00	08:00	BZ	S&P Global Brazil Manufacturing PMI	Feb	--	52.8
03/01/24	14:30	09:30	CA	S&P Global Canada Manufacturing PMI	Feb	--	48.3
03/01/24	14:45	09:45	US	S&P Global US Manufacturing PMI	Feb F	--	51.5
03/01/24	15:00	10:00	US	U. of Mich. Sentiment	Feb F	79.6	79.6
03/01/24	15:00	10:00	US	ISM Manufacturing	Feb	49.2	49.1

#### Key speeches/events

Date	GMT	EST	Country	Event
02/26/24	08:00	03:00	EC	ECB's Vujcic Speaks
02/26/24	09:00	04:00	UK	Bank of England Deputy Governor Sarah Breeden speaks
02/26/24	11:00	06:00	UK	BOE Chief Economist Huw Pill speaks
02/26/24	11:30	06:30	EC	ECB's Stournaras Speaks
02/27/24	00:40	19:40*	US	Fed's Schmid Gives Speech on Economy, Monetary Policy Outlook
02/27/24	07:00	02:00	SW	Riksbank's Thedeen speaks at event in Norrkoping
02/27/24	13:40	08:40	UK	BOE Deputy Governor Dave Ramsden speaks
02/27/24	14:05	09:05	US	Fed's Barr Speaks on Counterparty Credit Risk
02/28/24	01:00	20:00*	NZ	RBNZ Monetary Policy Statement
02/28/24	09:00	04:00	EC	ECB's Muller Speaks
02/28/24	15:30	10:30	UK	BOE policymaker Catherine Mann speaks
02/28/24	17:00	12:00	US	Fed's Bostic Participates in Fireside Chat
02/28/24	17:15	12:15	US	Fed's Collins Gives Remarks, Fireside Chat
02/28/24	17:45	12:45	US	Fed's Williams Delivers Keynote Remarks
02/28/24	19:10	14:10	NZ	RBNZ Governor at Parliament Select Committee on MPS
02/29/24	01:30	20:30*	JN	BOJ Board Takata Speech in Shiga
02/29/24	02:00	21:00*	NZ	RBNZ Governor News Conference After OCR Decision
02/29/24	15:50	10:50	US	Fed's Bostic Participates in Fireside Chat
02/29/24	16:00	11:00	US	Fed's Goolsbee Gives Remarks on Monetary Policy
02/29/24	18:15	13:15	US	Fed's Mester Speaks on Financial Stability and Regulation
03/01/24	00:05	19:05*	NZ	RBNZ Governor Orr Speaks to Canterbury Chamber
03/01/24	01:10	20:10*	US	Fed's Williams Participates in Moderated Discussion
03/01/24	10:00	05:00	EC	ECB's Holzmann Speaks at Austria's Art. IV Consultation
03/01/24	14:00	09:00	UK	BOE Chief Economist Huw Pill speaks
03/01/24	15:15	10:15	US	Fed's Waller Discusses Paper at US Monetary Policy Forum
03/01/24	17:15	12:15	US	Fed's Bostic Speaks on Economic Outlook, Real Estate
03/01/24	18:30	13:30	US	Fed's Daly Participates in Panel Discussion w/ Fed's Schmid
03/01/24	20:30	15:30	US	Fed's Kugler Speaks on the Dual Mandate

## Conclusions: Politics and the fear of trade wars and other wars

Political concerns are going to be important in the week ahead. Saturday delivered the South Carolina Republican Primary with Trump beating Haley as expected with 20% margin. The March 5<sup>th</sup> Super Tuesday votes maybe the critical turning point for the Republican nomination and with it the way markets focus on November risks. The ability for the US government to avert a shutdown may be the next question with March 1 vote on budget key. Failure to remain open will test the Moody's rate cut warnings for US debt. It will also likely test the USD and its reserve status as many nations beyond China and Russia would like alternatives. The \$10bn investment flows into Bitcoin ETFs is an example of such along with the rise in Gold – however neither were trending in the last week. The week ahead may try this patience over US political risks, but these extend to the rest of the world and drive the global trading picture.

**Rising protectionism and geopolitical conflict** have cast a pall over world commerce, which last year grew just 0.2% - its weakest rate in five decades outside global recessions. What can the World Trade Organization, which starts its minister-level meeting in Abu Dhabi on Monday, do about it? Little as the world seems stuck with nationalism dominant in a year of elections. The WTO itself is hampered by disputes among member countries and above all by domestic politics that have turned sour on the free trade, which the WTO was set up to promote. Ahead of November US elections, there is little chance of Washington removing its roadblock on new appointments to the WTO's top appeals bench - meaning its trade dispute arbitration body will remain idle.

**The Russia war in Ukraine marked its 2<sup>nd</sup> year** and the conflict continues to shape global politics, commodity markets and economies like no other in recent history. Prices for energy and many commodities are back below pre-war levels, though gold - is above February 2022 prices – reflecting inflation and dollar weaponization concerns. As Reuters noted, outgunned, outnumbered and facing growing concerns over the prospect of international aid, Ukraine is coming under increasing pressure. The International Monetary Fund warns that "timely support" for Ukraine from the US and other international donors is needed to ensure the country's fiscal viability let alone its ability to fight a war. Meanwhile Russia, already severed from global financial system following swathes of sanctions, is facing fresh curbs from Washington, Britain and others following the death of opposition leader Alexei Navalny and the war entering its third year. This conflict continues to divide world efforts to solve other issues – with China, Iran, North Korea and others facing further pushback on their support for Putin.

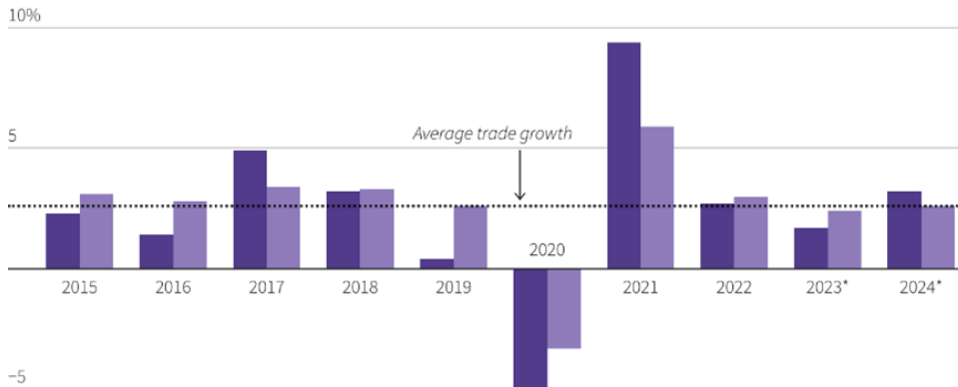
**Bottom Line:** The week ahead may bring more trouble than calm – as March starts with a world concerned about sticky inflation, doubting the wisdom of waiting central bankers and fearing larger conflicts leading to further global trade disruptions. There is less insurance policy to fix the world should there prove to be a shock, while the ongoing strident divisions over politics provide little room for joy in any compromise. The contradiction of lower commodity prices reflecting less global demand and higher inflation fears reflecting sticky service costs is leaving many worried about the split between asset market inflation and the global real economy, with the USD and its role as the key reserve currency suffering on the forward curve of confidence.

## World Trade uncertainty matters to investors

### Outlook for global trade remains uncertain

The pace of trade expansion for 2023 and 2024 has struggled to keep up with recent averages

● World merchandise trade volume ● World GDP



Note: Figures for 2023 and 2024 are projections.

Source: WTO and UNCTAD for historical trade data, WTO for trade forecasts, and consensus estimates for GDP.

Source: Reuters, WTO, BNY Mellon

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