# Perspectives: Should investors consider a global recession avoided or delayed?

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So the global economy has been very resilient over the last 6 to 12 months, more than what most economists had predicted, including ourselves. Some of these factors that are behind the resiliency we think may be fading.

One is the excess savings that consumers had accumulated both combined from the pandemic effect, where consumers were basically not able to spend.

[Full Depletion of Excess Savings

A chart showing excess savings in % of GDP for US vs. Canada. The y-axis for the chart shows “% of GDP” and ranges from –3 to 6. The x-axis show the date, and ranges from 2019 to 2023. The chart shows that for both the US and Canada, excess savings began rising in 2020 and attained or reached a peak until mid/late 2021, with Canada peaking at 5% and the US at just under 5%. These figures then began declining in mid 2021 for the US and late 2021 for Canada, with the US now showing about -2.5% and Canada about 0.5%

(Sources: Refinitiv-Datastream and CIBC Asset Management Inc. Based on data available as at July 11, 2023.)]

We also had governments giving handouts and that had created consumer and corporate savings.

[Timelapse of the Canada Parliament building. Sheets of Canadian $100 bills being printed. A stack of US $100 bills being counted by a machine.]

Commercial banks have not passed on the full rise in interest rates in the last 6 to 12 months.

[Office buildings in a financial district. An animated graphic of a line chart. A woman sitting on her bed looking at a financial chart on her phone. A person paying for something at a debit machine using their phone. A person typing their credit card number into a tablet screen.]

We see that gap closing over the next 6 to 12 months, which will have a bigger impact on the consumer.

And the last one element is more of a technical issue that was related to the fiscal cliff in the US that sort of prevented interest rates from rising. And again, that's behind us.

[12-month economic outlook]-

We still see that inflation is above central banks' targets. Central banks have been sending, recently, messages that they were not done raising interest rates and they will continue to maintain interest rates at a higher level. And so that should also in itself bring some continued deceleration in inflation and growth.

And so our economic forecast for the next 12 months is for continued deceleration in economic activity, continued deceleration in inflation, not quite yet to the targets.

And a difficult balancing act that central banks will face is to slow down the economy enough to bring inflation back to targets, but not create too big of a slowdown or creating a recession.

[Investment outlook: Fixed income]

Given this economic backdrop, what do we think investors should do in financial markets?

One is, keep optionality in your portfolio. That can be done by maintaining a low-duration bond portfolio to take advantage of rising interest rates and potentially equity market volatility.

In the fixed income space in particular you're getting much better return now than you had 1 to 2 years ago.

[US 10-Year Treasury Note

A chart shows the changing rates for US treasury notes. The y-axis measures yield percentage (0.0% to 5.0%) and the x-axis shows the date (from 2010 to 2022). In 2010 the yield percentage is at 4%, and fluctuates between 3.75% and 1.75% from 2010 to 2019. Then it dips down to about 0.5% in 2020, before shooting back up to 4.0% in 2022, where it stays currently.

(Sources: Bloomberg and CIBC Asset Management Inc. Based on data available as at July 11, 2023.)]

Particular opportunities as well in the emerging markets.

[Emerging Market Bond Yield to Maturity

A chart shows the changing rates for emerging market bond yields. The y-axis measures yield percentage (4.0% to 8.0%) and the x-axis shows the date (from 2010 to 2022). In 2010 the yield percentage is just above 7.0%, and fluctuates between 7.0% and 5.0% from 2010 to 2019. Then it dips down to about 4.25% in 2020, before shooting back up to about 7.5% in 2022. It currently stands at about 6.5%.)

(Sources: Bloomberg and CIBC Asset Management Inc. Based on data available as at July 11, 2023.)]

Some of these emerging markets have been starting their tightening cycle a year ahead of developed markets.

So some of these central banks, like in Brazil and Chile, in some parts of Asia, are already ready to start lowering interest rates over the next 6 to 12 months. And their interest rates are starting from a fairly high level. So, attractive opportunities in emerging market debt over the next 6 to 12 months.

[Investment outlook: Equities]

As for the equity markets, there's been a degree of optimism related to artificial intelligence, and there is no doubt that in the long term, AI is going to be creating a lot of investment opportunities, particularly from a productivity perspective.

[A person tapping on a touch screen titled “ChatBot AI”. A person sitting at a computer looking at code. A person driving down a road in a self-driving car, looking at their phone. A robotic arm picking an apple off a tree.]

But in the very short term, AI may not be boosting productivity as what markets are expecting at the present time. And so we're looking at exposure to equity markets that could be a bit more volatile in the second half of this year than in the first half of this year.

And one way to protect against that is obviously diversifying geographically, but also from your bond portfolio, having some optionality that we talked about, being able to take advantage of that equity market volatility that we may be experiencing in the next 6 to 12 months.

The other aspect to keep in mind is continued deceleration in economic activity and declining inflation will create a bit more challenging environment for corporations to continue to grow earnings.

And so we would want to be patient and take advantage of market volatility over the next 6 to 12 months to add to equity portfolios over time, not just in the US, but also in international markets and in emerging markets.

As mentioned earlier, emerging markets equity could also provide some attractive opportunity because central banks there are expected to lower interest rates and start a reinvestment cycle earlier than developed markets. So those are areas that investors will want to stay abreast and take advantage of over the next 6 to 12 months.

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