Global Macro Briefing: MT/LT hard landing recession risk remains. The worst of the growth and earnings slowdown still lies ahead, while inflation is persisting for longer warranting higher than expected cash rates ands yields. Stay defensive.

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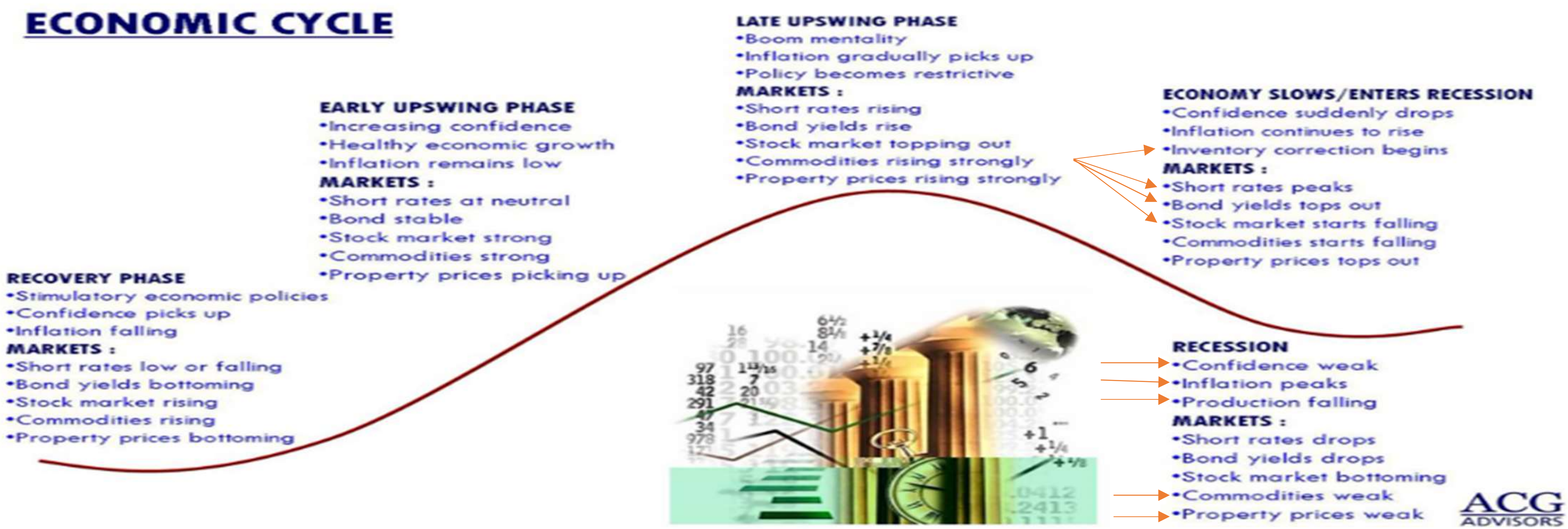
Where Are We In The Cycle Location – Between Economy Slowing & Recession Phase.

- 5 arrows now in slow growth phase and 4 are in recession cycle phase. This tells us that weaker growth momentum is building up and recession risks are rising. This warns to be UW growth assets and long defensive assets, especially government bond duration.

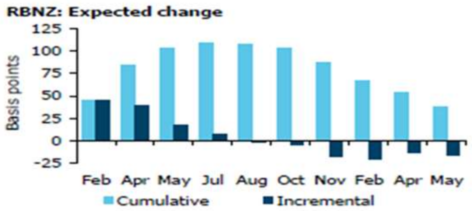


Where Are We In The Monetary Policy Cycle – Rates Rise More Than Expected. Stay Up Longer.

- While we are getting tom the last 6mths of rate hikes in most countries, hikes should continue deep into Q2 and to higher levels than originally envisaged by markets and CBs. Then, they will stay there for 6-9mths. Rate cuts are most likely a H1 2024 event.

New Zealand	Rate	Change from current
Current Rate¶	*4.25*	
Wed 22 Feb 23	4.70	0.45
Wed 5 Apr 23	5.09	0.84
Wed 24 May 23	5.27	1.02
Wed 12 Jul 23	5.34	1.09
Wed 16 Aug 23	5.33	1.08
Wed 4 Oct 23	5.28	1.03
Wed 29 Nov 23	5.12	0.87
Wed 28 Feb 24	4.91	0.66
Wed 10 Apr 24	4.78	0.53
Wed 22 May 24	4.63	0.38

¶ OCR announced after RBNZ meeting at 2pm Wednesday, takes effect from Thursday.



USA	Rate	Change from current
*Effective FFR^*	*4.58*	
Wed 22 Mar 23	4.88	0.30
Wed 3 May 23	5.13	0.55
Wed 14 Jun 23	5.29	0.70
Wed 26 Jul 23	5.35	0.77
Wed 20 Sep 23	5.32	0.74
Wed 1 Nov 23	5.27	0.68
Wed 13 Dec 23	5.16	0.57
Wed 31 Jan 24	4.99	0.40

^Effective Rate today 4.58%.

Policy Rate 4.5-4.75% range; Interest Rate on Excess Reserves 4.65%. *All dates are US time.*

Eurozone	Rate	Change from current
Current Rate#	*2.40*	
Thu 16 Mar 23	2.90	0.50
Thu 4 May 23	3.26	0.87
Thu 15 Jun 23	3.49	1.09
Thu 27 Jul 23	3.61	1.21
Thu 14 Sep 23	3.66	1.26
Thu 26 Oct 23	3.66	1.26
Thu 14 Dec 23	3.65	1.25

 # Bloomberg estimated O/N rate

€STRON wtd ave rate 2.400%

Target Rate 2.50%

Australia	Rate	Change from current
Current Rate Δ*	*3.31*	
Tue 7 Mar 23	3.55	0.24
Tue 4 Apr 23	3.76	0.45
Tue 2 May 23	3.95	0.64
Tue 6 Jun 23	4.13	0.82
Tue 4 Jul 23	4.14	0.83
Tue 8 Aug 23	4.24	0.93
Tue 5 Sep 23	4.25	0.94
Tue 3 Oct 23	4.27	0.96
Tue 7 Nov 23	4.26	0.95

** Policy Rate is 3.35%. Rate displayed is the weighted average rate that cash traded yesterday.*

Δ Rate announced after RBA meeting at 2.30pm Tuesday, takes effect from Wednesday.

Canada	Rate	Change from current
Current Rate	*4.50*	
Wed 8 Mar 23	4.54	0.04
Wed 12 Apr 23	4.63	0.13
Wed 7 Jun 23	4.74	0.24
Wed 12 Jul 23	4.74	0.24
Wed 6 Sep 23	4.75	0.25
Wed 25 Oct 23	4.76	0.26
Wed 6 Dec 23	4.68	0.18
Wed 24 Jan 24	4.60	0.10
Wed 6 Mar 24	4.47	-0.03
Wed 10 Apr 24	4.34	-0.16

UK	Rate	Change from current
Current Rate~	*3.93*	
Thu 23 Mar 23	4.16	0.24
Thu 11 May 23	4.36	0.43
Thu 22 Jun 23	4.49	0.56
Thu 3 Aug 23	4.56	0.63
Thu 21 Sep 23	4.57	0.64
Thu 2 Nov 23	4.52	0.59
Thu 14 Dec 23	4.48	0.55
Thu 1 Feb 24	4.41	0.48

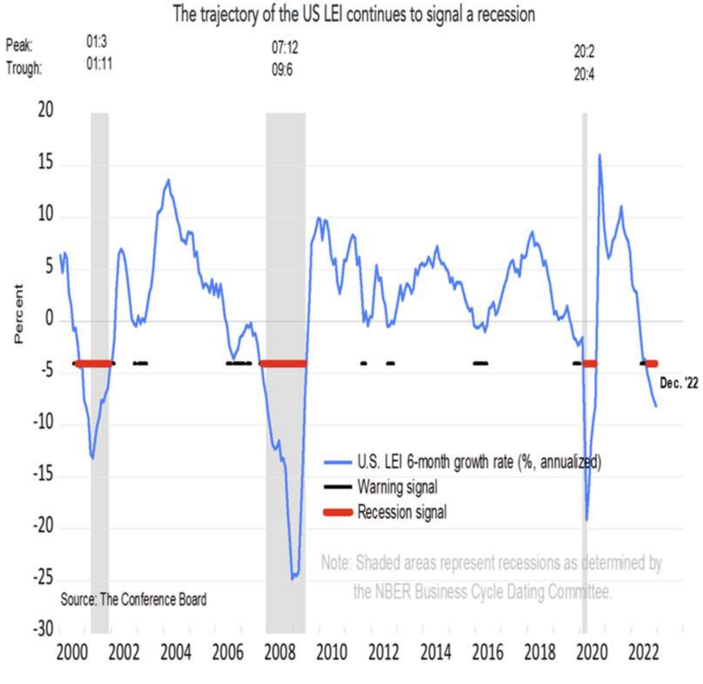
Current Policy Rate: 4.00%

~ SONIA rate (i.e. the effective overnight rate, which can differ from the policy rate).

Source: ANZ Research estimates, Bloomberg, ICAP, Reserve Bank of New Zealand, Reserve Bank of Australia, United States Federal Reserve, Federal Reserve Bank of New York, Bank of Canada, European Central Bank, Bank of England

Where Are We In The Recession/Growth Slowdown Cycle? – Recession Coming Closer.

- Recession odds are rising (chart 1) but stocks don't know it yet. Valuations remain lofty, guarantee low single digit 10yr returns from here (chart 2) and earnings model suggest a -20% EPS fall.



Note: The chart illustrates the so-called 3D's rule which is a reliable rule of thumb to interpret the **duration, depth, and diffusion – the 3D's –** of a downward movement in the LEI. Duration refers to how long-lasting a decline in the index is, and depth denotes how large the decline is. Duration and depth are measured by the rate of change of the index over the last six months. Diffusion is a measure of how widespread the decline is (i.e., the diffusion index of the LEI ranges from 0 to 100 and numbers below 50 indicate most of the components are weakening). The 3D's rule provides signals of impending recessions 1) when the diffusion index falls below the threshold of 50 (denoted by the black dotted line in the chart), and

US Shiller PE vs Subsequent 10 Year S&P 500 Returns (Inverted)

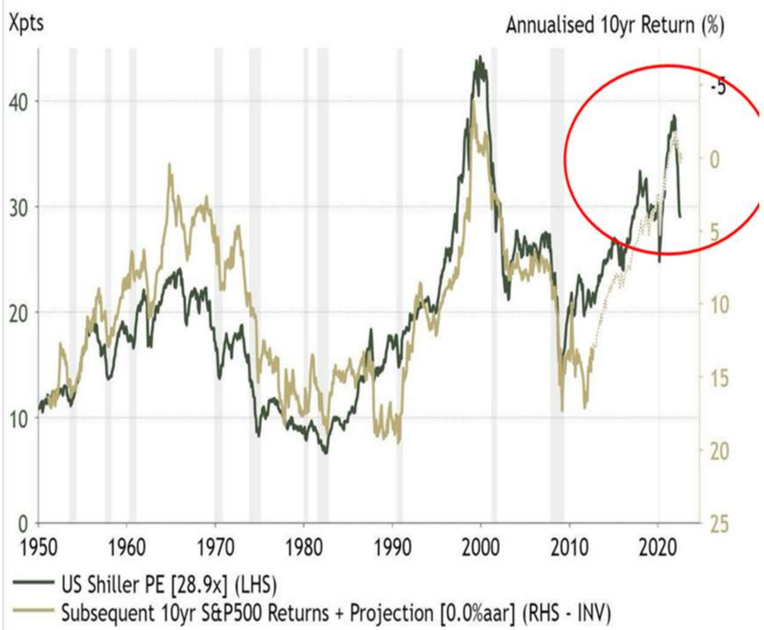
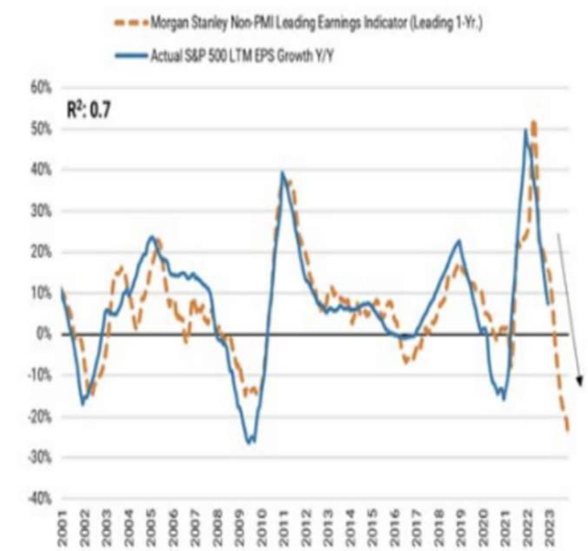


Exhibit 1: Our earnings model has been very accurate over time...



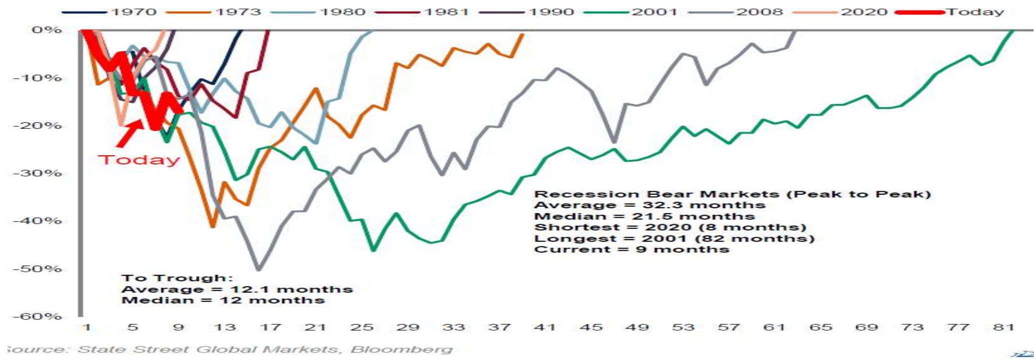
Source: Haver Analytics, FactSet, Morgan Stanley Research

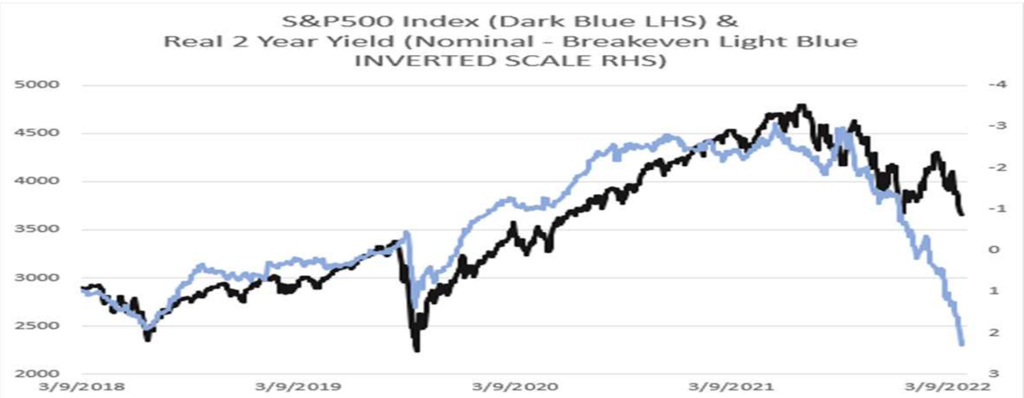
What Are Markets Doing? Yields Still Rising, Stocks Completing Bear Market Rally Phase

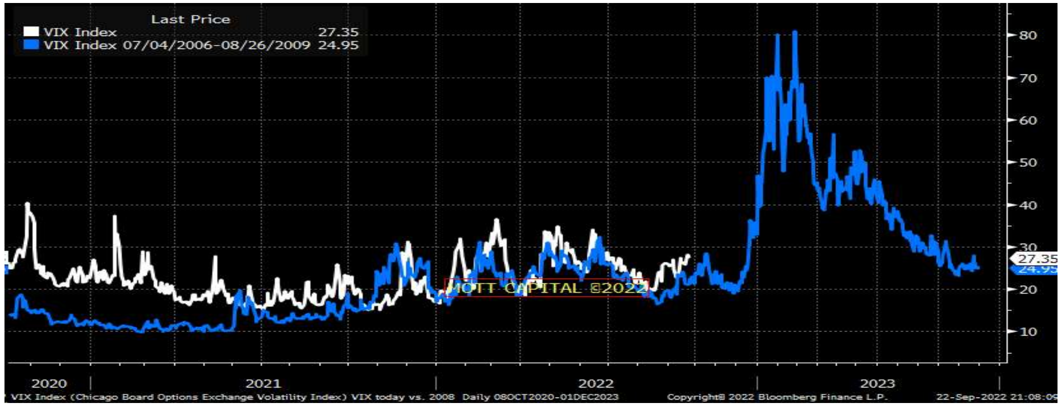
- Global bond yields have not stopped rising yet (chart 1) we expect them to move higher as cash rates also rise further yet. This will drag on stocks (chart 2) as the S&P dividend yield of 1.5% is dwarfed by a 4.25% 10yr yield. AUD has risen on China re-opening & now is settling down (chart 3).

Have Stocks Fallen Enough? Or Do They Have Further To Fall? Probably Further To Fall.

- While PE ratio's have fallen from 23x to 19x in the US & 19x to 15x on the ASX, earnings are only now falling. In recessions they normally do, by -10/-20%, so this could drive stocks a further -20-30% lower from here. The decline so far for a recession cycle looks too short (chart 1), 2% positive real 2yr yields imply sub 3000 S&P (chart 2). The 2008 cycle is instructive (chart 3) and the VIX has not yet had a blow off peak (chart 4).







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What Is The Chance We Can Avoid Recession? Ummm….Not Good. Stay Defensive.

- Inflation ALWAYS brings rate hikes, rate hikes ALWAYS produce slowing GDP growth, rising U/E and recessions. The thing to remember is there is a 12-18-24mth lag from rate hikes to recession and slowing growth. It takes time to happen. Don't be fooled by a 2 quarter long equity rally, the recession is still coming.