

## Carsten on a crisis avoided, at least for now

It's been a turbulent few weeks for global markets, and concerns over the potential for yet another financial crisis are on the rise. Our Global Head of Macroeconomics, Carsten Brzeski, says any talk of a market meltdown is overdone. Watch what he has to say and take a look at our 3 scenarios for the global economy, below



### Market turmoil: a crisis avoided, at least for now

*Watch ING's Carsten Brzeski's take on the recent market turbulence as he explains where we might be headed next*

[Watch video](#)

## Three scenarios for the global economy

### Scenario #1 (base case): Banking crisis eases but prompts central bank reality check

#### Banking sector

Economic slowdown reflects negatively on bank earnings and capital. Deposit flows stabilize, supporting liquidity positions of smaller lenders. As financial markets volatility eases somewhat, bond spreads stabilize but on higher levels to reflect higher bank risk.

#### Impact on corporates

Higher policy interest rates find their way to the real economy and are cyclically slowing down bank lending and consequently corporate investments.

#### Economic Impact

Tighter lending standards and already-weak business confidence leads to US recession through the middle of 2023. Unemployment rises. Europe narrowly avoids recession but the rebound is slow.

#### Wider market impact

Downward pressure on market rates dominates, with a tendency for curves to re-steepen, and for EU rates to converge on US ones.

#### Central banks

Federal Reserve hikes in May, but cuts rates by 75bp by year-end. ECB hikes by 25bp in May and June but signals no cuts in 2023.

Central bank – peak rate

5.25% 4.0%  
Fed ECB

Markets: End-2023 forecasts

1.15 3.00%  
EUR/USD US 10-year

Source: ING

### Scenario #2: Crisis eases quickly and central banks re-focus on inflation as medium-term risks build

#### Banking sector

The improving market sentiment supports volumes as lending and other activity picks up. Central bank rate hikes reflect as higher revenues, outpacing the increase in credit costs. Bank funding markets are wide open and secondary bank bond spreads perform.

#### Impact on corporates

Corporates can further tap financial markets for financing, supporting investments in energy transition, digitalisation and infrastructure.

#### Economic Impact

The US avoids recession, aided by resilient corporate balance sheets. Core inflation takes longer to fall as a result. Eurozone is more resilient than expected and inflation becomes a real demand-side problem.

#### Wider market impact

The upside pressure for market rates re-asserts, with curves re-inverting. Still convergence of EU to US rates, but less dramatic.

#### Central banks

Policy rates go another leg higher, and no major central bank cuts rates in 2023. But a deeper recession as result of monetary tightening prompts widespread easing in H2 2024.

Central bank – peak rate

5.75% 4.5%  
Fed ECB

Markets: End-2023 forecasts

1.10 3.25%  
EUR/USD US 10-year

Source: ING

### Scenario #3: Deepening crisis prompts recession and earlier rate cuts

#### Banking sector

Banks hit the breaks in lending and lower volumes pressure revenue development. Weak economy pushes up credit costs. Bank earnings and capital ratios take a dive. Bank funding markets face disturbances and spreads are pushed wider.

#### Impact on corporates

Bank lending channel is increasingly clogged, first affecting SMEs in the US but also Europe. Fully-fledged credit crunch and market uncertainty outweigh any additional market funding for corporates.

#### Economic Impact

A sharp tightening in credit conditions results in a swift rise in unemployment across the developed world. Recession is the base case, helping to bring inflation back to target more quickly.

#### Wider market impact

Market rates shoot to the downside and credit spreads widen as a deep recession elevates default risk significantly. Rates correlate lower.

#### Central banks

Rate hikes plans in May/June are mothballed. Rates cuts in US and Europe come before year-end to first restore financial stability and to then fight recession.

Central bank – peak rate

5.0% 3.5%  
Fed ECB

Markets: End-2023 forecasts

1.00 2.50%  
EUR/USD US 10-year

Source: ING

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

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