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 disturbancies 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

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