

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

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information

purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.