

## Stagflation, sort of

China's slowdown, Evergrande contagion worries, supply chain disruptions, energy price surges, an appreciating dollar, rising Treasury yields, US debt ceiling anxiety, lingering Covid issues, North Korea firing missiles - this doesn't really feel like an optimal backdrop as we head into the fourth quarter...



Source: Shutterstock

### Arise pessimists!

Those of you who know me well will know that I am not a glass-is-half-full type of person. I prefer to think of myself as a "dirty glass is cracked, filled with warm effluent and with a dead spider floating in it".

This psychological profile has been a great benefit during a life in financial markets, though I do have to regularly check my self-selecting indicators of impending doom against the rose-tinted worldview of the rest of the market - in particular, equity investors.

But this morning, it feels as if I have a few more members joining me in "Team-spider". US equities have not been having a bad time recently, but have certainly been struggling to go higher. Overnight, there was a substantial drop, with the S&P500 down around 2%, and the Nasdaq down closer to 3%.

Asian equity futures are, not surprisingly, looking a deep shade of red this morning, and it is hard to see what is going to turn that around in trading today. That said, this does feel like the equity market catching up on reality with other markets, FX and bonds, rather than anything substantially new to insert into our understanding of what is going on.

For example, EURUSD did decline a little further, but not much. It sits at about 1.1685 at the time of writing. It was just below 1.17 this time yesterday. That's an insignificant move. We've seen more movement in Asian FX, though not in China's currency, which should provide an anchor for much of the rest. We are seeing some further considerable weakness in some of the region's current account miscreants - THB, PHP (though not so much the IDR). But the weakest currency in our region over the last 24 hours was the JPY, which you would have expected to rally if this was all a big risk-off move with equities at the centre. Instead, this smells more like a rate differential move, with equities at the periphery adjusting to catch up.

Further fuelling that rate differential idea are the latest comments from St Louis Fed President, James Bullard. He told Reuters yesterday that he could see a case for two rate hikes next year. We've had further comments from Powell overnight attesting to more inflation being non-transitory, and 10Y US Treasury yields have gained further ground, pushing up to 1.537%, though the 2Y UST yield increase has slowed a bit now yields have reached 0.3%, and only added a further 0.5bp overnight.

Dataflow from the US last night was a mixture of positive inflation news and soft activity indicators. On the inflation front, the S&P Case Shiller house price inflation measure reached within spitting-distance of 20%YoY. If that doesn't alarm you, you have ice in your veins. On the growth side, we got more falls from the Conference Board consumer confidence indicator and a soft Richmond Fed manufacturing index too.

## Stagflation mentions rising

While I can think of a lot of reasons why the term is inappropriate, the rest of the world seems to be getting more concerned about the idea of "stagflation". I quickly reminded myself how to do a trend search on Google this morning, and once I had convinced the engine that I didn't live in Vietnam, it spat out a chart that shows stagflation mentions moving up sharply in September.

However, it is hard to fully sign up to the stagflation argument when the split between temporary price-level adjustment and entrenched higher price and wage-setting behaviour remains unclear. And the "stag" bit of the term is relative. Absolute growth levels are actually very good (all things considered). But they are just down a bit from the height of expectations. Nonetheless, there are bits of what is going on that do fit the stagflation bill, so we might do well to at least consider this in the Stagflation-lite camp?

I mentioned in the summary at the beginning the litany of stuff that could be making you nervous about holding risk-on investment positions right now. They include the China growth slowdown, Evergrande contagion fears, supply chain concerns, energy price surges, food price spikes, an appreciating dollar, rising Treasury yields, US debt ceiling anxiety, lingering Covid issues, and North Korea firing missiles. There are certainly elements of this that you could slot into a stagflation hypothesis.

Optimists, quoting from 80s pop-band "D-ream", would have you believe (in contradiction to the second law of thermodynamics) that from this point, things can only get better. Team-spider

would draw different conclusions. Where do you stand?

## Author

**Robert Carnell**

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

## 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 <http://www.ing.com>.