

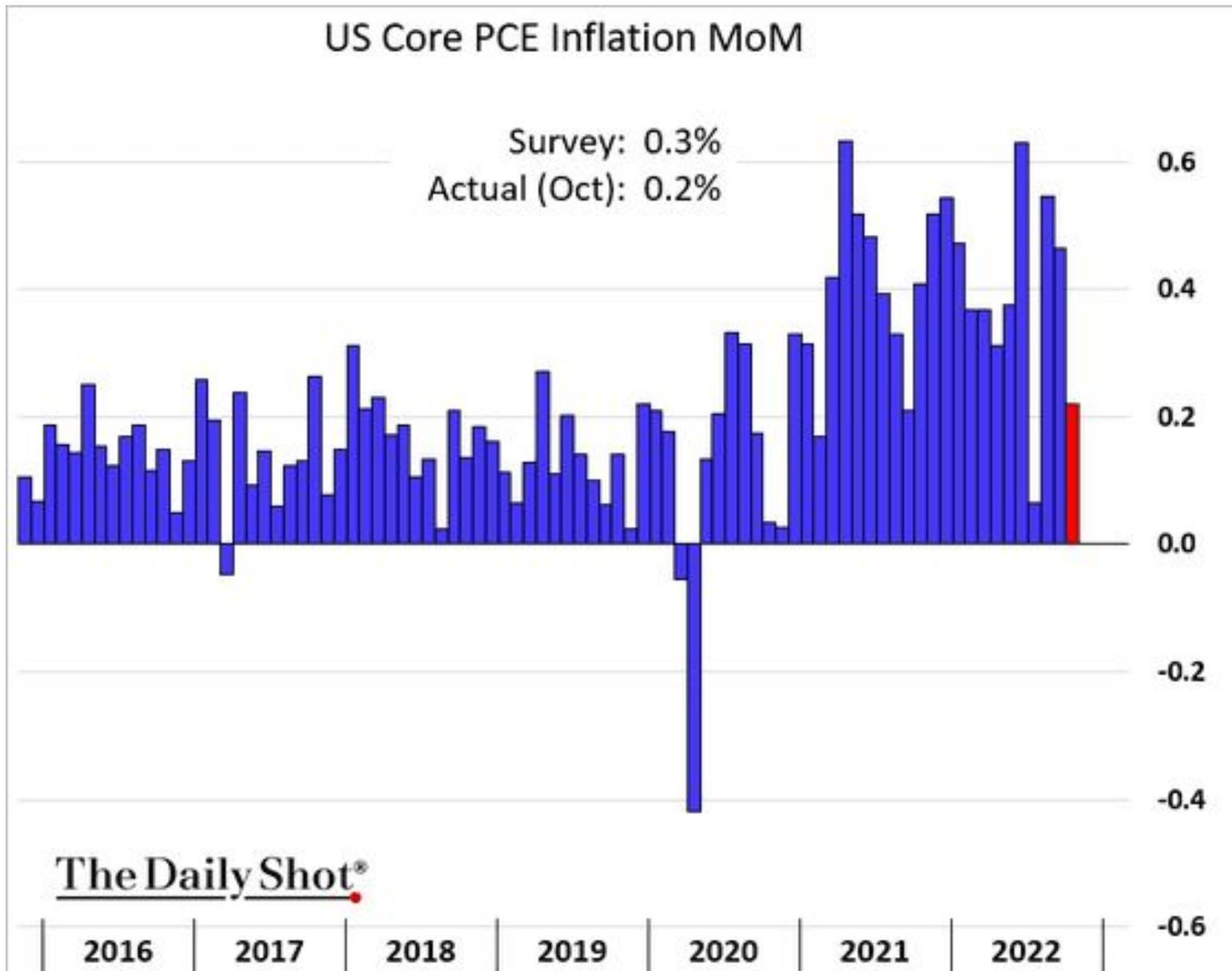


THE 2023 RECESSION THE WORLD HAS TO HAVE

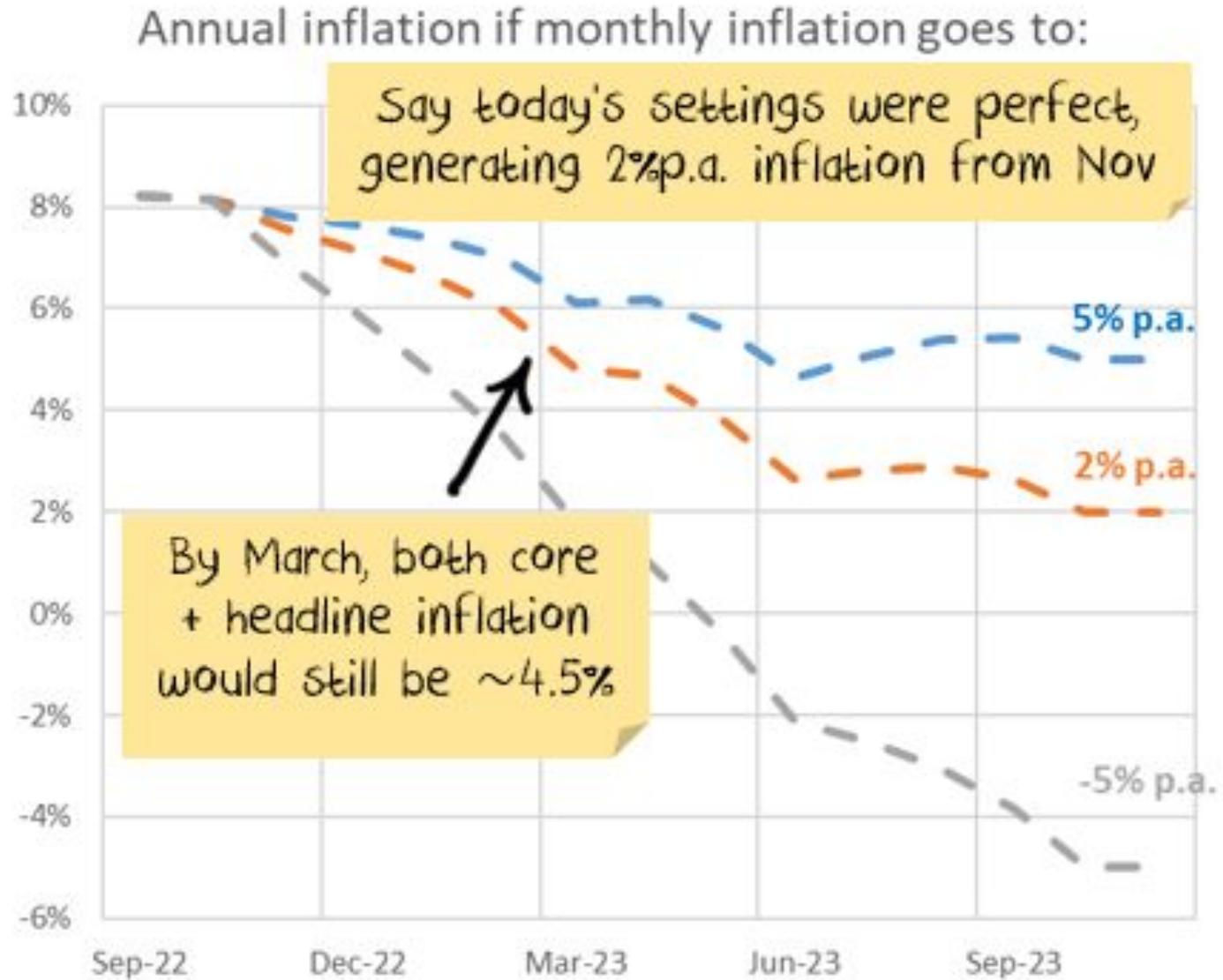
Agenda : The 2023 Recession The World Has To Have

- Inflation and Central banks
- Recessionary signs
- Valuation
- Company earnings
- Investment implications

Inflation: Weakening



Inflation: Weakening

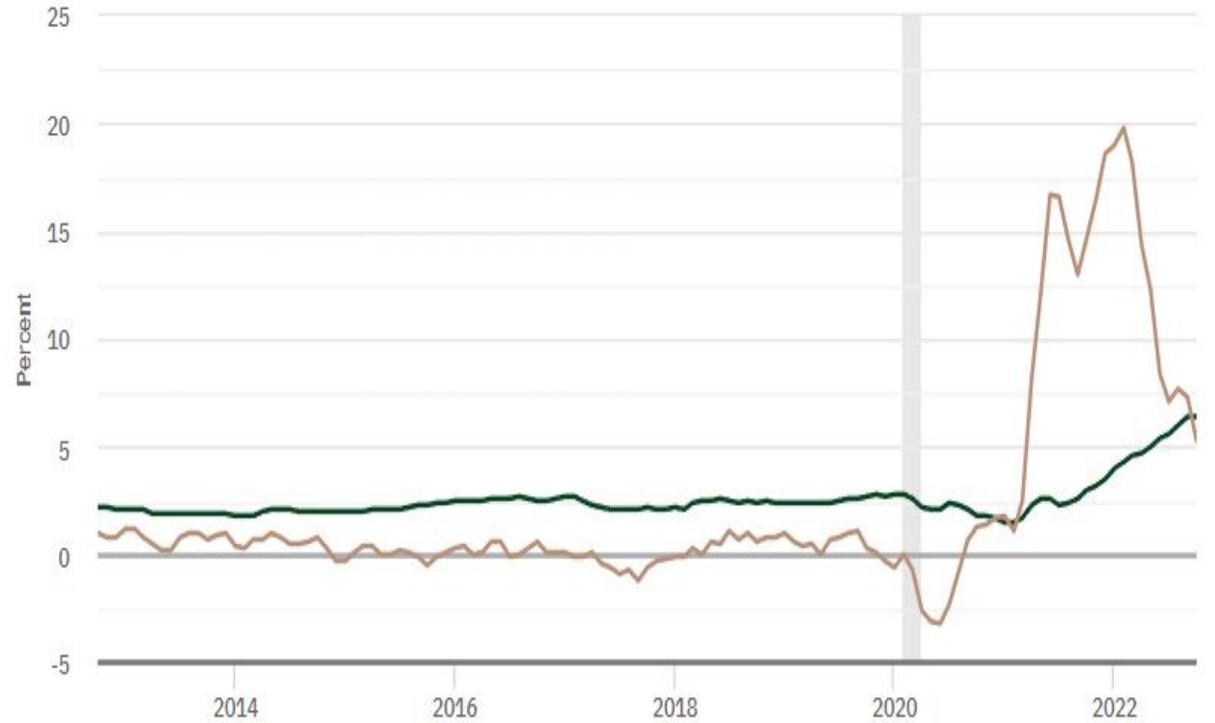


Source: BLS, Nucleus Wealth

Inflation: Core Flexible vs Core Sticky

12 month change

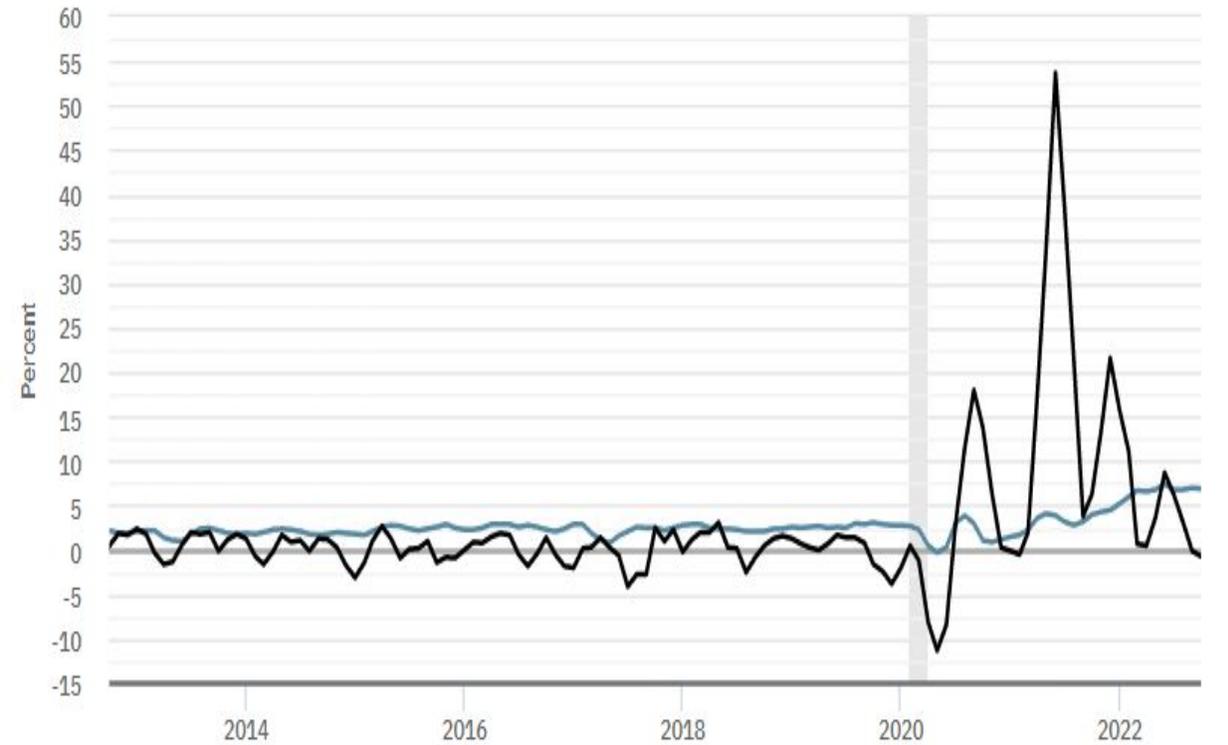
Sticky-Price CPI



Gray bars indicate periods of recession.
Source: Federal Reserve Bank of Atlanta

3 month annualised change

Sticky-Price CPI

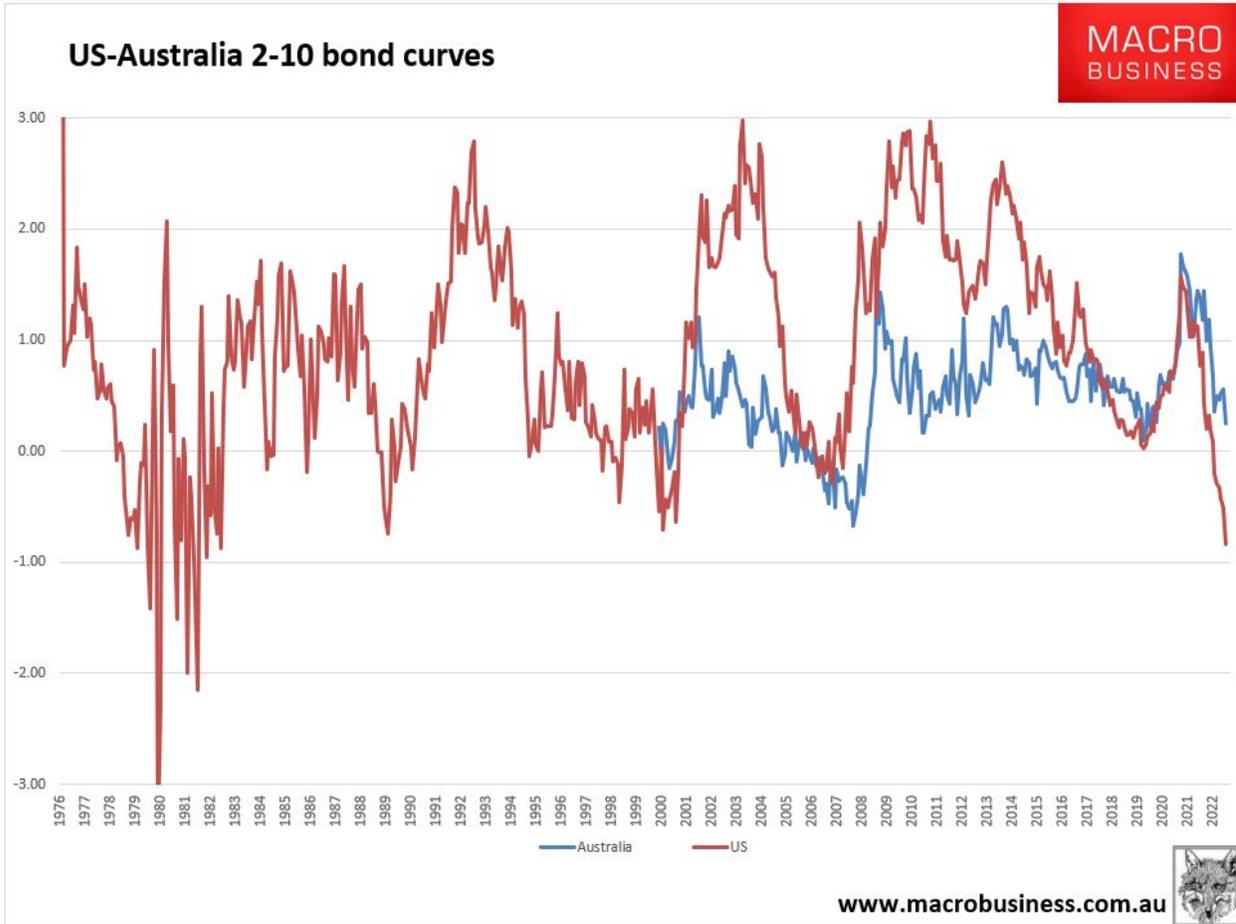


Gray bars indicate periods of recession.
Source: Federal Reserve Bank of Atlanta

Recessionary signs: Central banks

- Pivots across EM and DM
- Second derivative slowing so far
- Still jawboning hard
- Sticky inflation and too early pivot risk

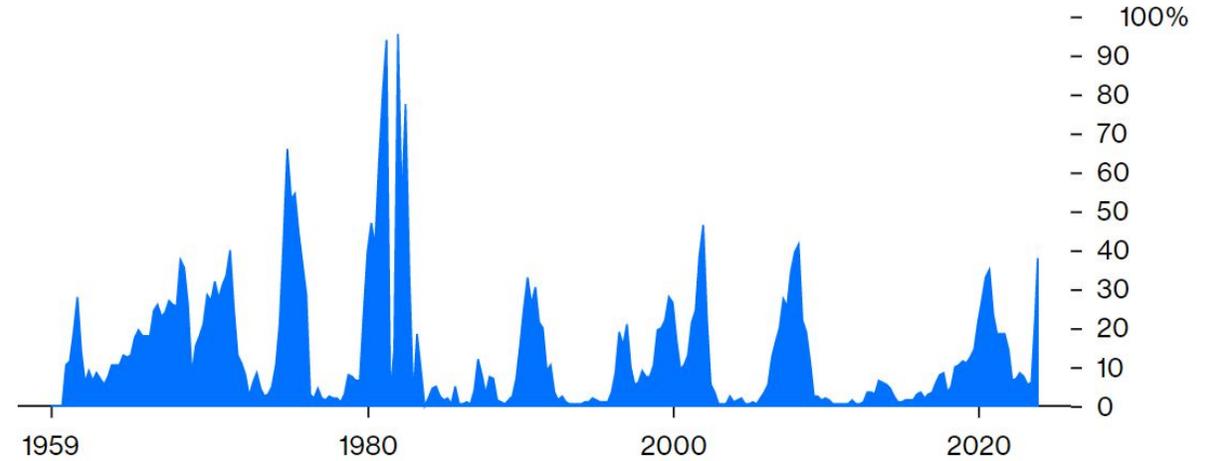
Recessionary Signs: Yield Curve



High Probability

The odds of a recession happening in the next 12 months is elevated

■ New York Fed Recession Probability Index

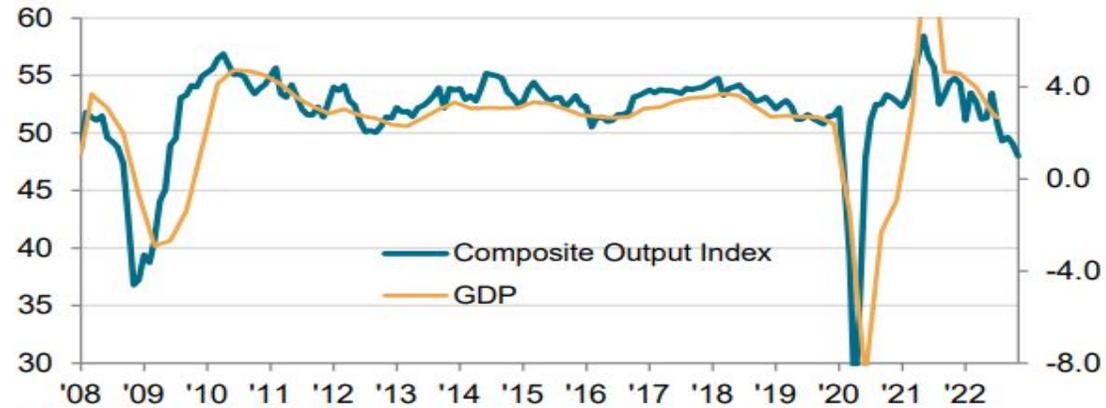


Sources: Federal Reserve Bank of New York, Bloomberg

Recessionary Signs: PMIs, trade

J.P.Morgan Global Composite Output Index

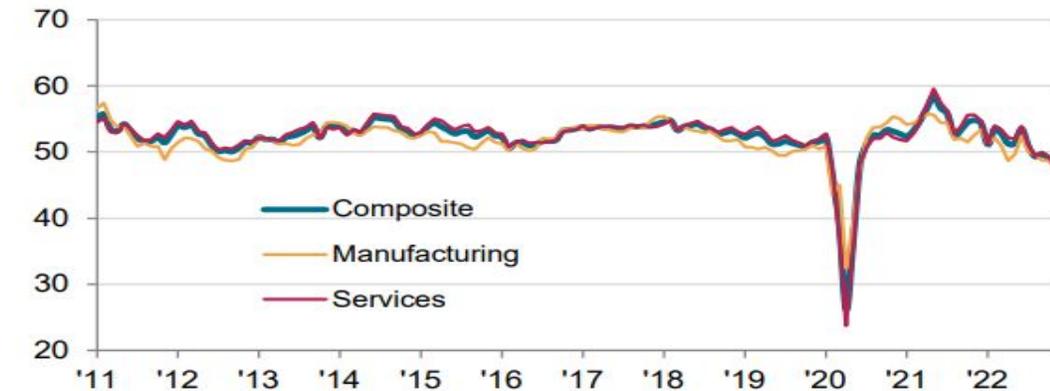
sa, >50 = growth since previous month



Source: J.P.Morgan, S&P Global.

- Composite Output Index
- Manufacturing Output Index
- Services Business Activity Index

sa, >50 = growth since previous month



Sources: J.P.Morgan, S&P Global.

Composite Index summary

sa, 50 = no change over previous month. *50 = no change over next 12 months.

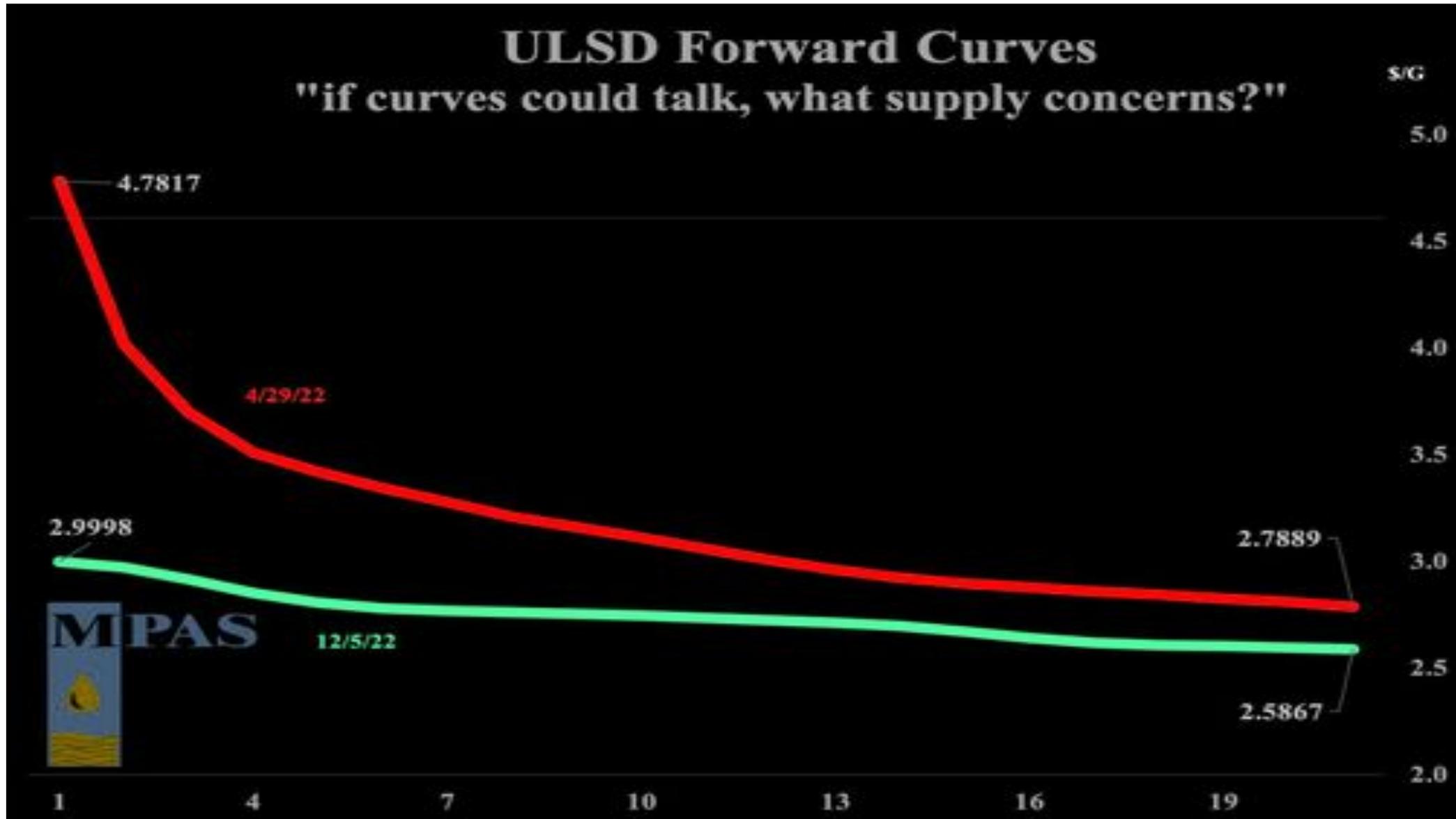
Index	Oct-22	Nov-22	Interpretation
Output	49.0	48.0	Decline, faster rate
New Business	49.1	47.8	Decline, faster rate
New Export Business	46.4	46.6	Decline, slower rate
Future Output*	58.5	60.1	Growth expected, better optimism
Employment	51.0	50.3	Growth, slower rate
Outstanding Business	48.2	47.9	Decline, faster rate
Input Prices	64.1	63.0	Inflation, slower rate
Output Prices	56.5	55.7	Inflation, slower rate

Korean exports

- Total, y/y%
- Total, WDA, y/y%



Recessionary Signs: Oil



Economic Outlook: US

- Headwinds mounting in property and industry
- Inventory unwind beginning slowly
- Services wages still booming
- Likely recession on inventory unwind alone
- 50/50 chance Fed has to overshoot to 6% terminal

Economic Outlook: Europe

- In recession now
- New energy shock building for H1, 2023
- ECB overcooking it, wages firm not tearaway

Economic Outlook: China

- Recession imminent as reopening delivers COVID shock through Q1, 2023
- Reopening boom afterwards on YOLO
- Signs of letting property rip but tough to turn around

Economic Outlook: Australia

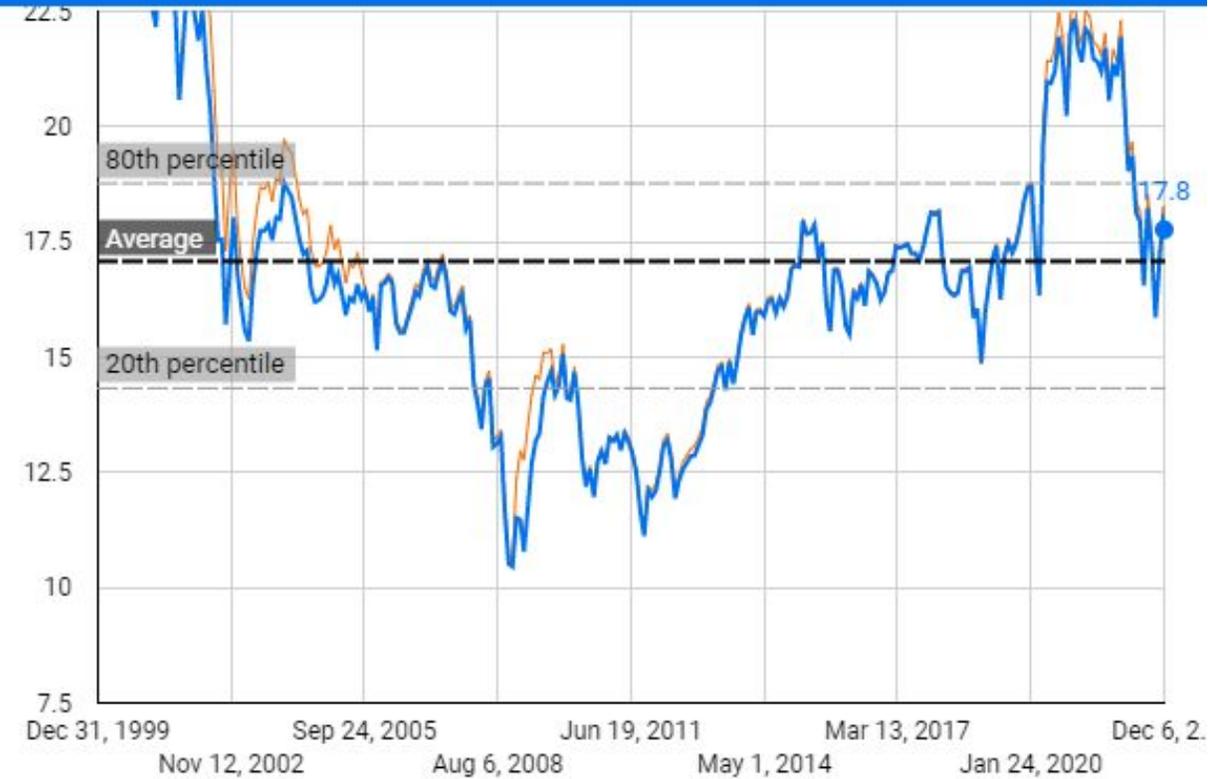
- Nowhere near as strong as research thinks
- Very interest rate sensitive
- Mortgage reset massive for consumption, business investment (which is all services) will follow
- Energy rescue at last, commodity boom worthless
- RBA all but done, already overcooked it

Valuation: Global

Global 12m Forward Price to Earnings Ratio



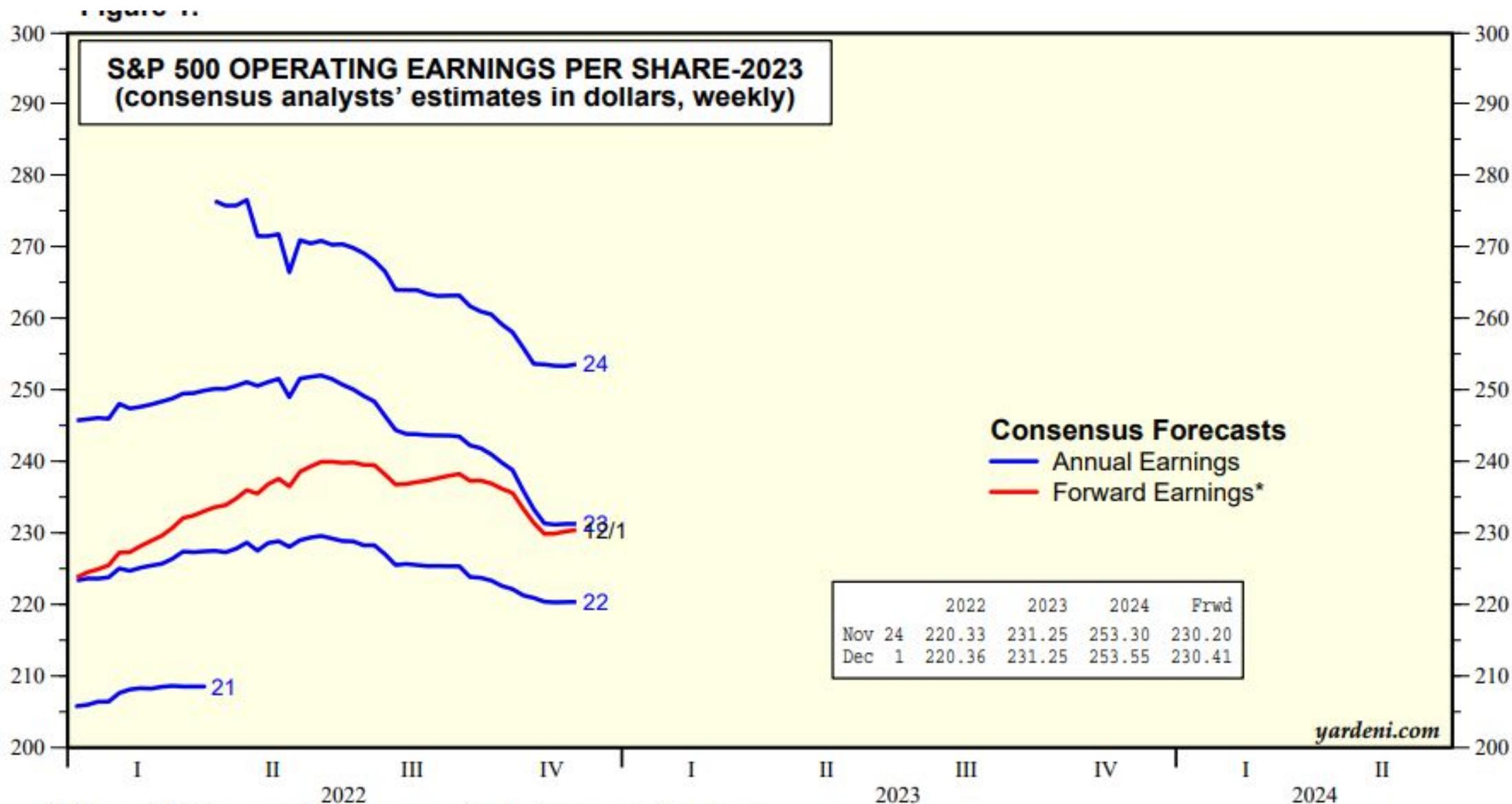
Global 12m Forward P/E ex Banks, Mining, Energy, Insurance



Valuation: Australia



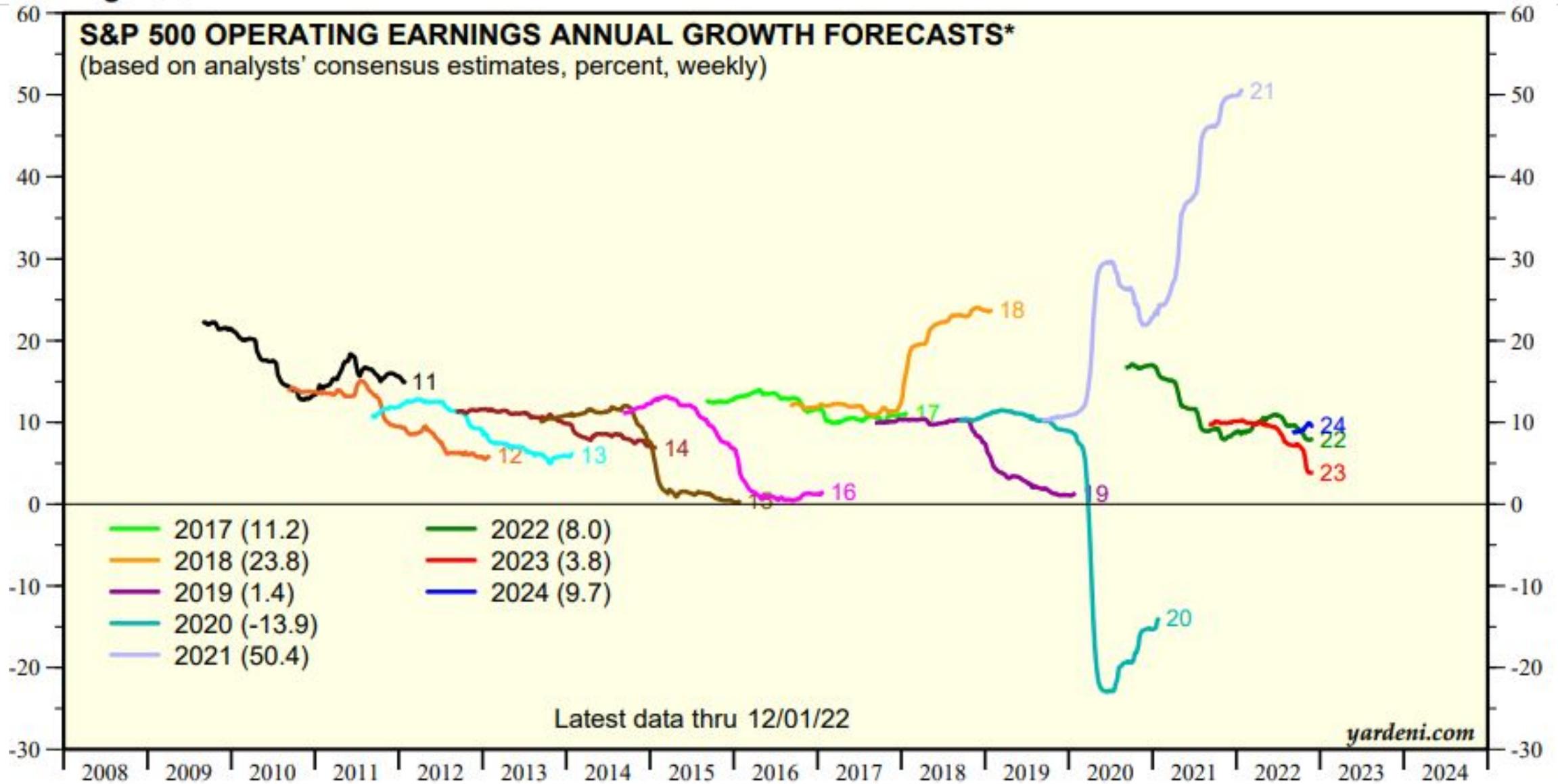
Earnings:



* Time-weighted average of the consensus estimates for current and next year.

Source: I/B/E/S data by Refinitiv.

Earnings:



Source: I/B/E/S data by Refinitiv.

Viewer question of the week:

What is the most important thing to watch for 2023?

Drop your answers in the comments

Investment Implications:

- Bonds boom
- Stocks down: long defensive, short cyclical
- AUD bottom in but further weakness likely
- Property bust has another six months at least then RBA cuts
in H2

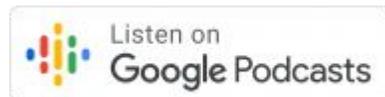
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