

An asset-class scorecard and applying the Taylor Rule to the ECB

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As year-end approaches, this week's charts examine years of winners and losers in different asset classes. We track easing inflation in Europe, equity performance around historic inflation peaks, and examine an alternative US CPI that would reflect soft rents. The Taylor Rule shines a light on loose monetary policy for Germany, while another recession indicator is beginning to flash Stateside.

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Bitcoin and wine are anomalies in our eight year asset class scorecard

The following chart displays the annual performance of different asset classes from 2015 to 2022.

Several things stand out. First, Bitcoin returns have been “binary” over the last few years. For every calendar year in this time frame, it was either the best or worst asset class. The S&P 500 performs quite well most years, whereas emerging market equities and commodities, including gold and oil, are much more volatile.

Wine is another interesting case as it's one of the few remaining assets measured in GBP. Returns in sterling terms have been decent, but in USD, your cellar would have lost money due to the greenback's surge.

Asset Classes Annual Performance Ranking

Rank	2015	2016	2017	2018	2019	2020	2021	2022
1	Bitcoin 34 %	Bitcoin 124 %	Bitcoin 1369 %	Wine 0.62 %	Bitcoin 92 %	Bitcoin 303 %	Bitcoin 60 %	Oil 10 %
2	S&P 500 Growth 5.5 %	Oil 51 %	EM Equities 37 %	S&P 500 Growth -0.0094 %	S&P 500 Value 32 %	S&P 500 Growth 33 %	Oil 53 %	Wine 6.1 %
3	S&P 500 1.4 %	Wine 23 %	S&P 500 Growth 27 %	US Treasury -0.13 %	S&P 500 31 %	Gold 25 %	S&P 500 Growth 32 %	Gold -0.15 %
4	US Treasury 0.37 %	S&P 500 Value 17 %	S&P 500 22 %	Gold -0.93 %	S&P 500 Growth 31 %	S&P 500 18 %	S&P 500 29 %	S&P 500 Value -1.6 %
5	Wine -0.16 %	S&P 500 12 %	Oil 17 %	S&P 500 -4.4 %	Oil 22 %	EM Equities 18 %	S&P 500 Value 25 %	S&P 500 -13 %
6	S&P 500 Value -3.1 %	EM Equities 11 %	S&P 500 Value 15 %	S&P 500 Value -9 %	Gold 18 %	US Treasury 13 %	Wine 10 %	US Treasury -18 %
7	Gold -12 %	Gold 8.1 %	Gold 13 %	EM Equities -15 %	EM Equities 18 %	Wine 3.9 %	EM Equities -2.5 %	EM Equities -18 %
8	EM Equities -15 %	S&P 500 Growth 6.9 %	Wine 7.8 %	Oil -19 %	US Treasury 11 %	S&P 500 Value 1.4 %	US Treasury -3.3 %	S&P 500 Growth -24 %
9	Oil -35 %	US Treasury 1.3 %	US Treasury 4.9 %	Bitcoin -74 %	Wine -3 %	Oil -22 %	Gold -4.3 %	Bitcoin -63 %

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UK stands out as a weak market in commercial property scenarios

Real estate will be a key sector to watch in 2023 as interest rates rise. And in the office market, the long-term impact of the pandemic-driven shift to work from home is unknown.

The following chart compares commercial real estate values in different countries in 2021 with forecasts for 2023, courtesy of our newly extended partnership with Oxford Economics.

In any scenario, from a strong economic rebound to severe disruptions stemming from a renewed coronavirus outbreak to geopolitical conflict, the UK stands out as a weak market for commercial property.

The following chart can only be accessed with a subscription to Oxford Economics Real Estate data.

Commercial real estate still struggling to rebound from the pandemic

Source: Oxford Economics, % change in 2023 compared to 2021

	Baseline Forecast	Advanced Economy Recession	Pandemic Resurgence	Severe War Disruption	Post-War Rebound
Netherlands	-4.41 %	2.55 %	-13.54 %	2.12 %	7.62 %
Canada	-7.63 %	-13.83 %	-15.67 %	-12.83 %	-5.18 %
United States	-7.46 %	-10.87 %	-15.64 %	-12.35 %	-6.71 %
Malaysia	-4.69 %	-4.73 %	-6.77 %	-6.42 %	0.59 %
EU	-9.93 %	-11.10 %	-13.18 %	-9.39 %	1.13 %
Hong Kong	-14.51 %	-9.30 %	-18.75 %	-12.63 %	-5.36 %
New Zealand	-12.45 %	-21.65 %	-17.66 %	-21.99 %	-17.62 %
Singapore	-7.05 %	-2.05 %	-11.44 %	-2.75 %	2.54 %
France	-8.90 %	-13.46 %	-13.61 %	-13.75 %	-0.91 %
Spain	-7.93 %	-6.60 %	-9.46 %	-10.62 %	9.27 %
Euro Area	-9.93 %	-11.10 %	-13.18 %	-9.39 %	1.13 %
South Africa	-6.15 %	-1.25 %	-9.03 %	-1.13 %	4.24 %
Germany	-13.09 %	-4.69 %	-17.39 %	-4.55 %	3.83 %
Asia Pacific	-10.36 %	-9.11 %	-13.29 %	-9.65 %	-1.83 %
Australia	-9.48 %	-14.36 %	-14.28 %	-13.87 %	-6.24 %
Japan	-11.93 %	-7.58 %	-12.50 %	-8.28 %	0.79 %
World	-8.75 %	-10.07 %	-15.57 %	-11.27 %	-4.78 %
Belgium	-13.55 %	-11.60 %	-14.05 %	-3.63 %	0.59 %
United Kingdom	-19.50 %	-2.59 %	-27.64 %	-6.20 %	2.47 %

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US CPI inflation would be lower using market rental prices

Lagging indicators in economic data can lead to policy mistakes. With this in mind, it's interesting that real-time residential rents differ from shelter costs used in the US consumer price index (CPI).

The following chart displays US core CPI, which uses the cost of shelter index calculated by the US Bureau of Labor Statistics (BLS), and a hypothetical alternative that uses market-based rents.

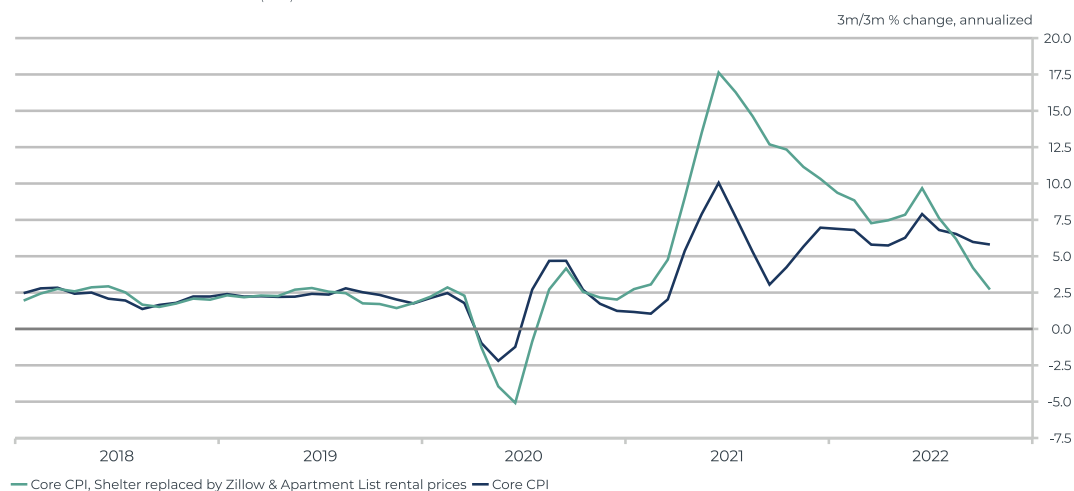
Core CPI would have been significantly higher last year using market-based rents, easily exceeding 10% throughout 2021. Now, however, the situation has completely reversed.

Consequently, the hypothetical core CPI would be close to the Fed's 2% target. The actual core CPI series is still above 5%.

If you use the BLS numbers, the Fed should stay hawkish. But market rents are suggesting that tighter policy has already had a significant impact on at least one segment of the economy..

United States Core CPI: what if shelter is replaced by rental prices?

Source: U.S. Bureau of Labor Statistics (BLS)



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Recession risk is creeping higher with US industrial production in focus

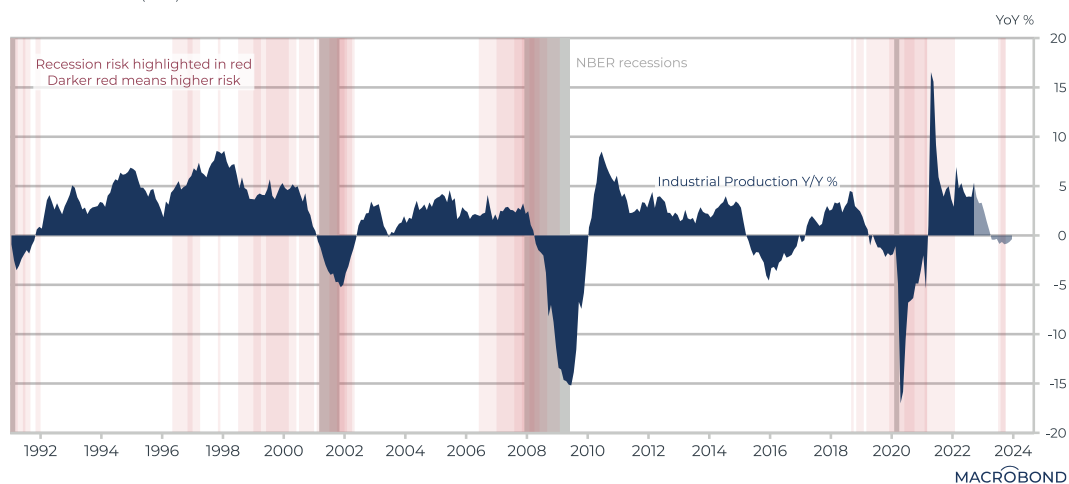
The following chart tracks US industrial production against a backdrop of recession risk – based on a model estimated by the New York Fed using the yield curve, which historically has been a good indicator of future economic downturns. Darker shaded areas mean higher risk.

As one can see, we are currently edging toward higher recession risk; the US yield curve has been inverted for quite some time. The Energy Information Administration is forecasting a decline for industrial production by the start of next year.

There is a broad consensus that even if a recession is avoided in 2023, the US economy will slow significantly as a result of tighter monetary policy.

United States: Industrial production vs recession risk

Source: NBER (National Bureau of Economic Research), Federal Reserve Bank of New York, Energy Information Administration (EIA)



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Stocks tend to follow a trend before and after inflation peaks

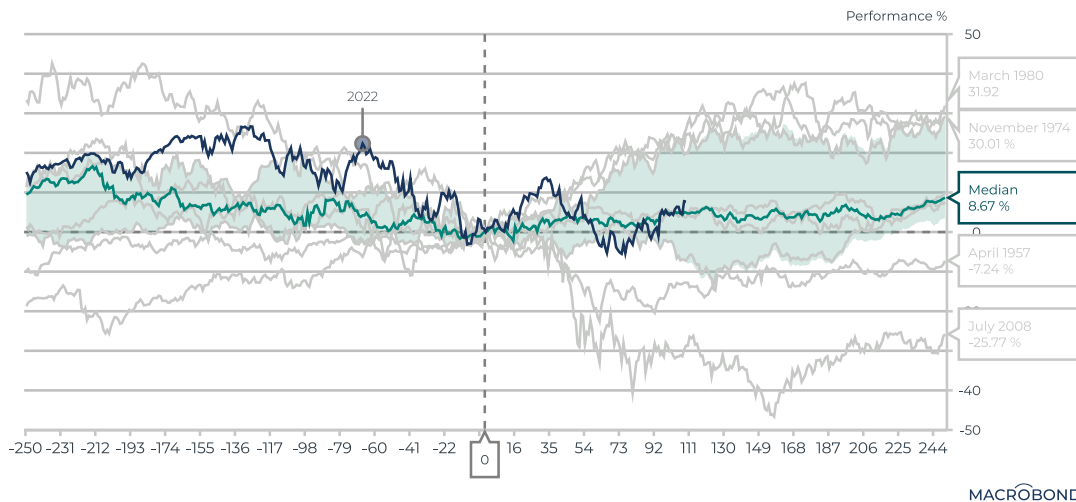
As one of our previous charts showed, [high-inflation environments](#) can hamper stock-market performance. Tighter monetary policy brought in to tame that inflation can have a knock-on effect on equities, as can looser policy once inflation eases.

The following chart displays the S&P 500's performance 250 days before and after inflation touched a peak.

The market's median performance is extremely strong after inflation peaks. But there are severe outliers – especially 1957 and 2008 – when equities suffered substantially.

S&P 500 return around inflation peak

Rebased at the end of the month where Y/Y CPI peaked



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Applying the Taylor Rule to Germany

The European Central Bank must set policy for the whole eurozone, but it has been arguably too loose for the continent's largest economy.

John Taylor gave his name to an equation used as a rough guideline for the Federal Reserve's response to inflation.

Typical formulations of his rule include the concept of a "natural" rate of interest. In the chart below, applying the Taylor Rule to Germany, we used two assumptions: In the first, we assume the natural rate $r^* = 2$, and in the second we assume that $r^* = 0$.

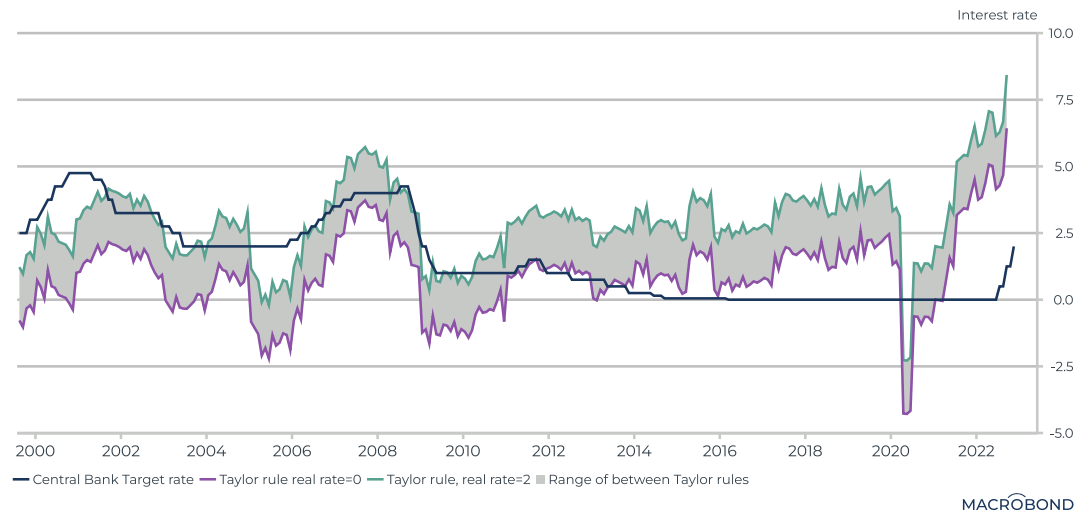
Even the more dovish version would have called for tighter policy for Germany than what was actually in place from 2014 to 2020. This looseness likely contributed to the real estate boom the country experienced, even pre-pandemic, after decades of stagnating prices.

With inflation at a record high and the economy arguably running near its potential, the Taylor rule prescribes an interest rate of more than 5% for the German economy right now. The ECB's policy rate is only 2%.

Tip: this chart allows for the [change region](#) function.

Germany: Taylor Rule

Source: German Federal Statistical Office (Statistisches Bundesamt), ECB (European Central Bank)



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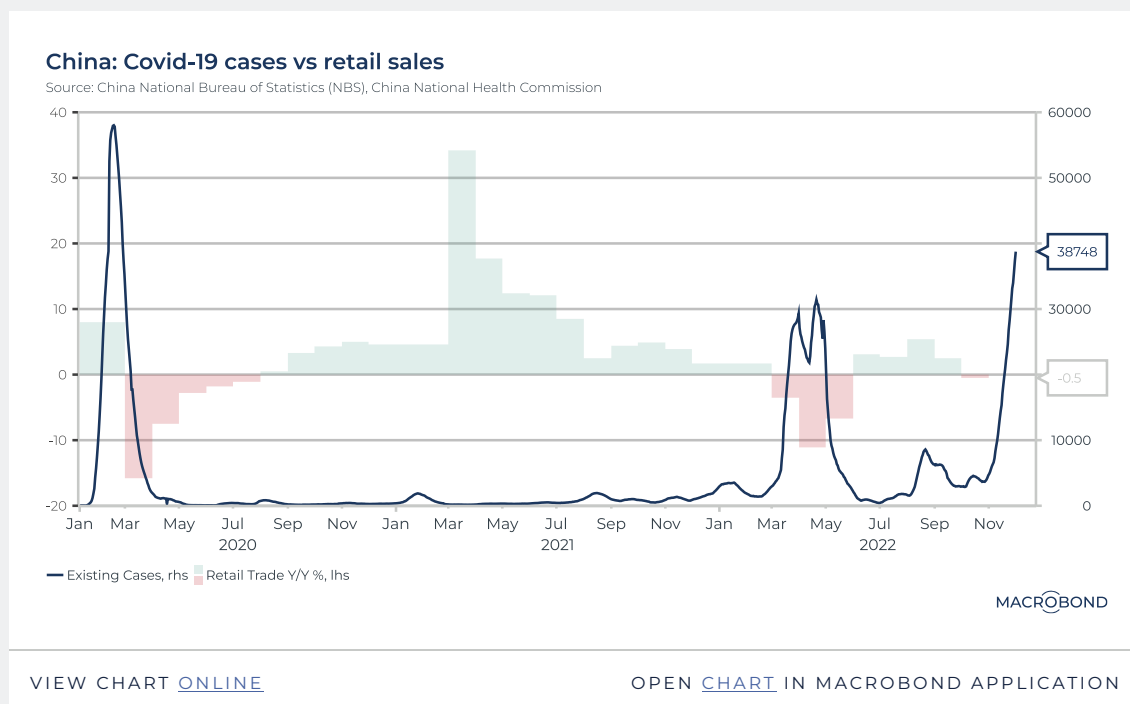
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China Covid cases and retail sales

Unsurprisingly, Covid-19 outbreaks result in tough business conditions for retailers.

The following chart tracks retail trade figures and coronavirus cases in China. There is quite a tight correlation between the two due to China's zero-Covid strategy, which has seen entire metropolitan areas locked down.

Cases are now rising rapidly as we move into winter, and we could have a repeat of the retail downturn we saw during the start of the summer.



European producer price inflation is mostly easing

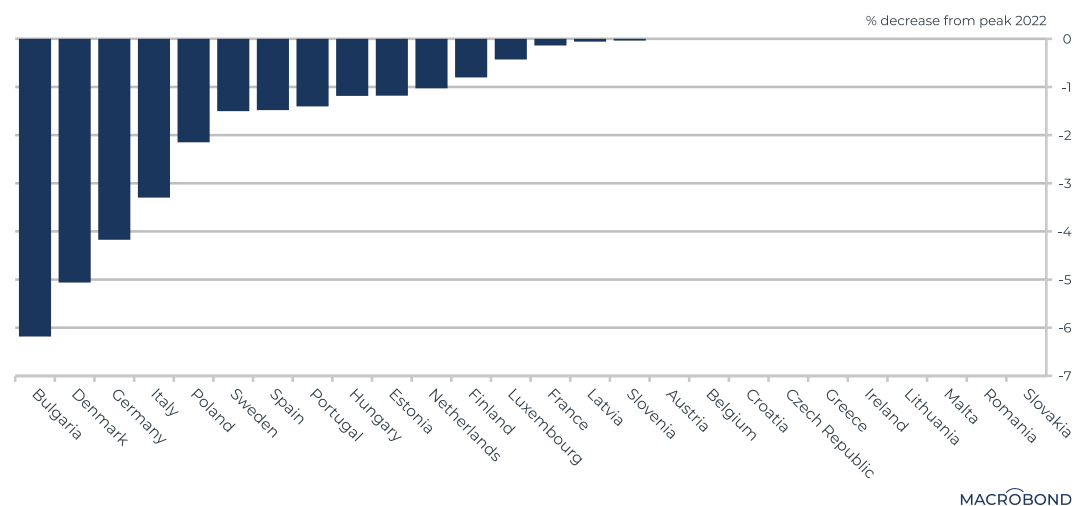
Inflation – as measured by the price companies pay for their inputs – is easing in Europe. And this should pass through into consumer prices going forward. But the continent isn't a monolith.

The following chart focuses on producer price index (PPI) readings across Europe, measuring how much they have fallen from their 2022 peak in percentage terms. This year was notable for soaring energy prices and global supply chain disruptions.

About half of Europe is seeing significant drawdowns, including Germany and Italy. France is the biggest economy to have experienced little relief by this metric.

Producer prices drawdown since peak during 2022

Source: National sources



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We're extending our partnership with Oxford Economics to include real estate forecasting.

With interest rates rising, real estate is posing an ever-greater risk to the economy. [Oxford Economics' Real Estate Economics Service \(REES\)](#) has never been more timely and is now available to Macrobond's customers.

[Request demo](#)

Macrobond webinar: Emerging markets, real estate and the macro environment – changing narratives for 2023

Are previous macroeconomic narratives obsolete? Will emerging markets return to the form of past decades? Can China retool its economic model? How far does real estate have to fall in a world of rising rates? Macrobond customers will give us their in-depth look at what they forecast for 2023.

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