

Global Economic & Insurance Market Outlook

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How will 2023 look like?

1872 – 2008

What it will not be...

Key figures...

1 2 3

Global Economic Outlook: Economies have shown remarkable resilience, but the cumulative tightening of central banks will eventually hurt the economy

- 1 **Growth outlook:** Strong cyclical slowdown in 2023, including recession expected in the US from the second half of this year onwards
- 2 **Inflation:** Past the peak but underlying inflation is persistent. "Core CPI" and wages remain sticky
- 3 **Interest rates:** We are nearing the end of the interest rate hiking cycle. Negative nominal yield era is over.
- 4 **Risk outlook:** The unwind of the low-volatility, low-interest rate regime is exposing increasing financial stability risks

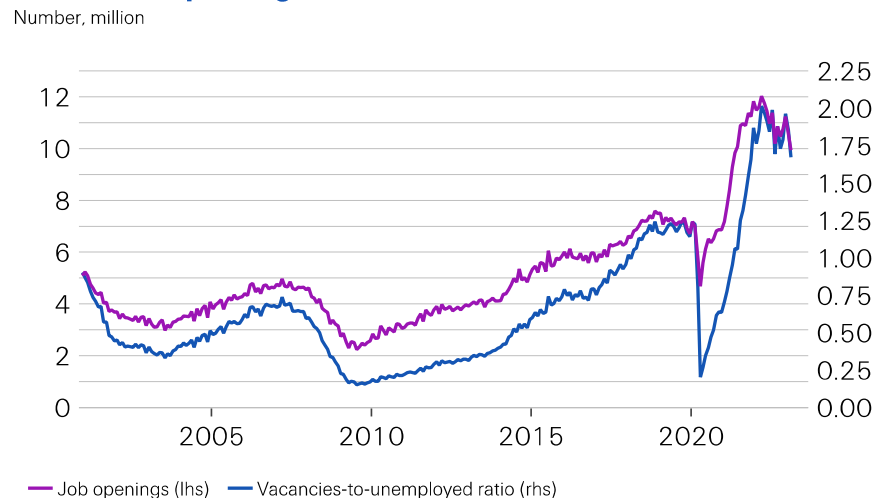
	Swiss Re Institute			Consensus	
	2022E	2023	2024	2023	2024
Real GDP (% change)					
US	2.1	0.9	0.8	1.0	1.0
Canada	3.4	0.5	1.6	0.6	1.2
Eurozone	3.5	0.4	0.7	0.5	1.2
China	3.0	5.5	4.9	5.3	5.0
CPI (% change)					
US	8.0	4.0	2.8	4.3	2.6
Canada	6.8	4.0	2.3	3.6	2.3
Eurozone	8.4	5.8	2.6	5.7	2.4
China	2.0	2.4	2.4	2.3	2.3
Central Bank Rate (%)					
US	4.38	5.13	3.63	5.05	3.60
Canada	4.25	4.50	3.00	4.35	2.98
Eurozone	2.50	4.00	3.25	4.10	3.35
China	2.00	2.00	2.10	N/A	N/A
10y Gov. Bond Yield (%)					
US	3.9	3.4	3.0	3.5	3.3
Canada	3.3	3.0	2.9	2.9	2.8
Eurozone	2.6	2.5	2.3	2.3	2.0
China	2.8	3.0	3.0	3.1	3.1

Source: Bloomberg, Swiss Re Institute

Note: SRI forecasts as of April 2023, Bloomberg consensus forecasts as of 28 March 2023.

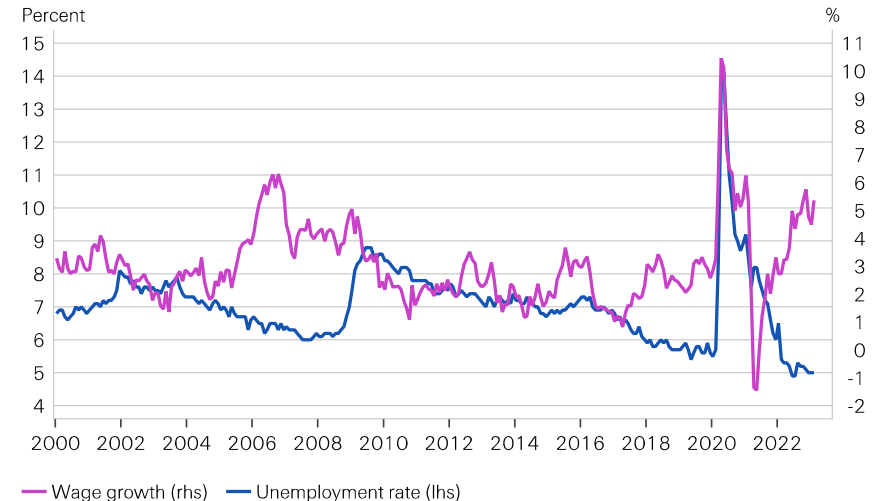
US and Canadian outlook: Tight labour markets underpinned a strong start to the new year, but consumer resilience is waning under the cumulative weight of higher interest rates

US: Job openings have declined but remain elevated



Sources: BLS, NFIB, Macrobond, Swiss Re Institute

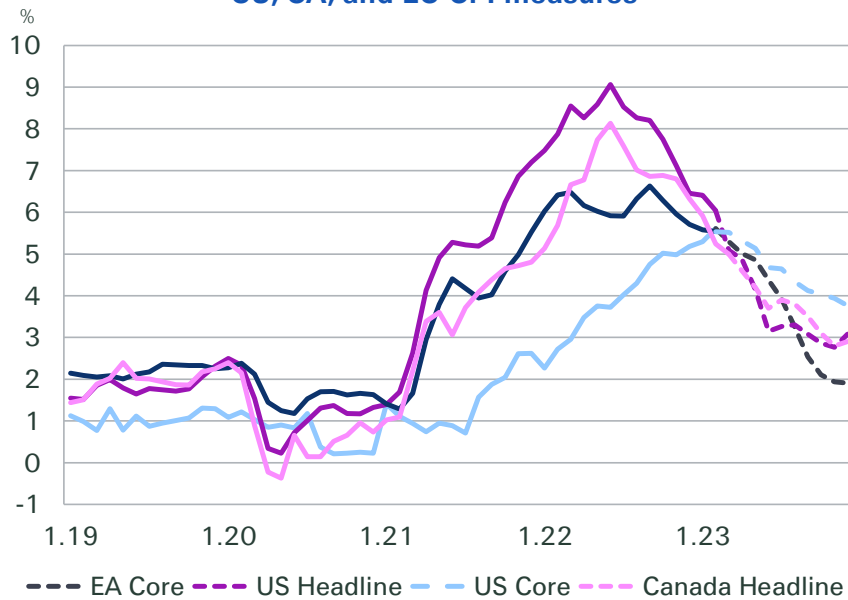
Canada: Low unemployment supports strong wage growth



Source: StatCan, Macrobond, Swiss Re Institute

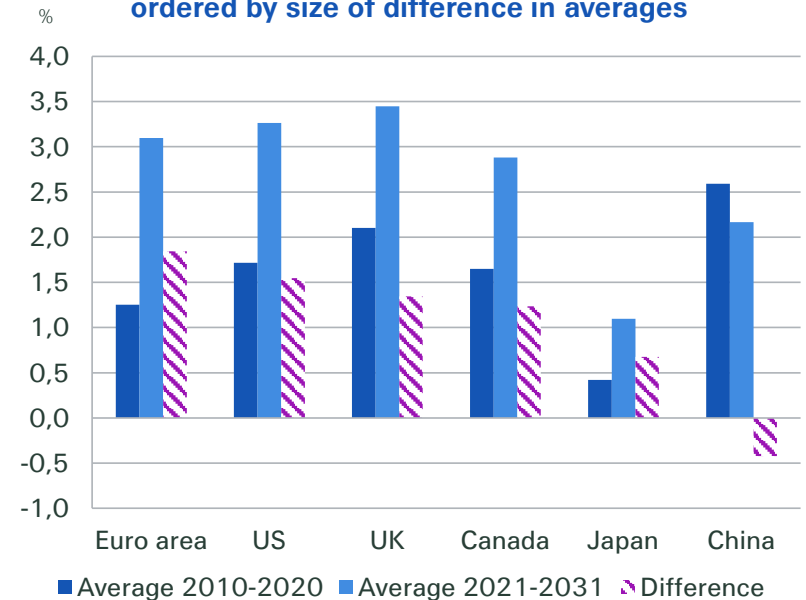
Inflation: Global headline inflation is moderating, but underlying core inflation will remain sticky. Inflation is likely to be structurally higher over the longer term too

US, CA, and EU CPI measures



Source: Macrobond, Swiss Re Institute

Headline CPI, historical and forecasts, ordered by size of difference in averages



Source: Bloomberg, Swiss Re Institute

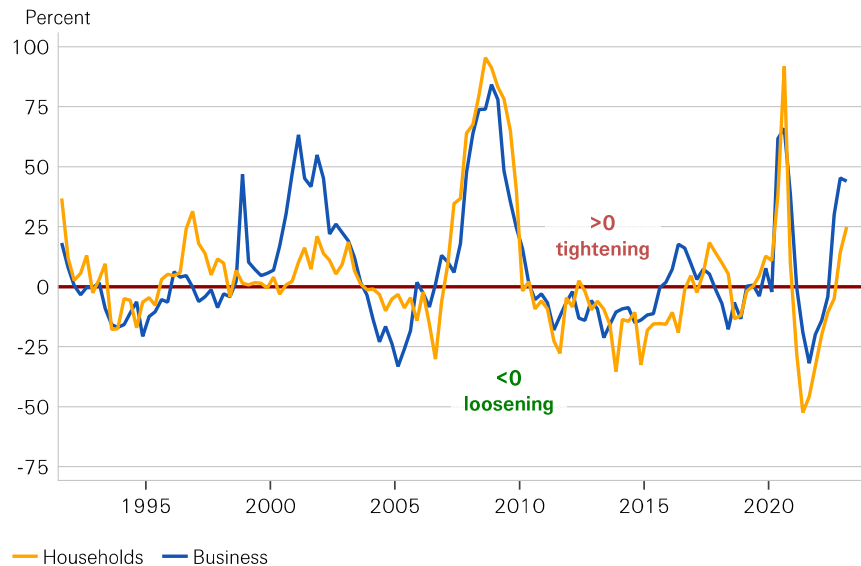
Remember!

TINA

out of town and...

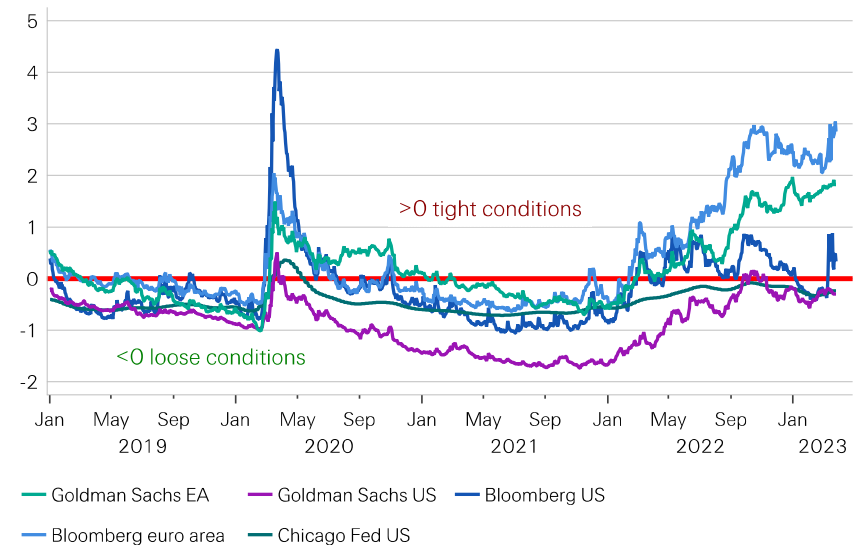
Latest banking sector turmoil: Tightening lending standards enforce higher Fed interest rates with credit crunch risk increasing

US lending standards have tightened as loan availability shrinks



Source: Fed, Macrobond, Swiss Re Institute

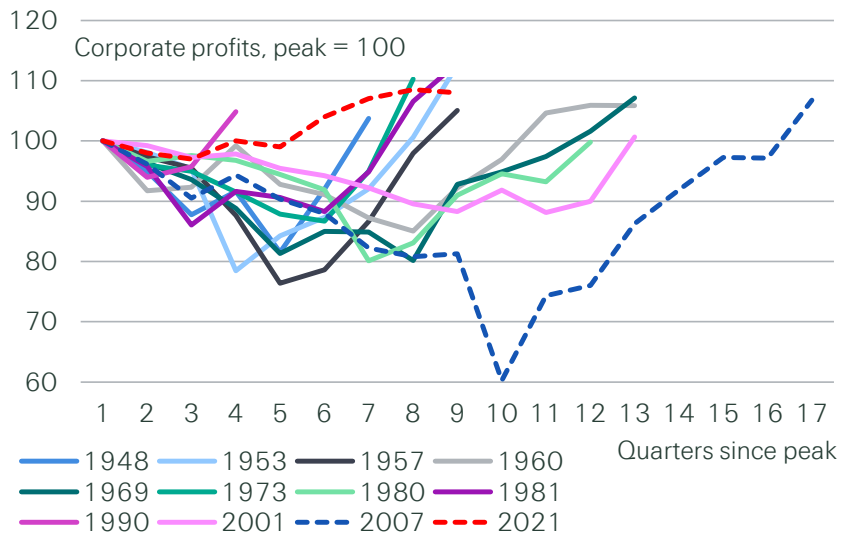
Financial conditions have tightened, but durability is unclear



Source: Goldman Sachs, Bloomberg, Chicago Fed, Macrobond, Swiss Re Institute

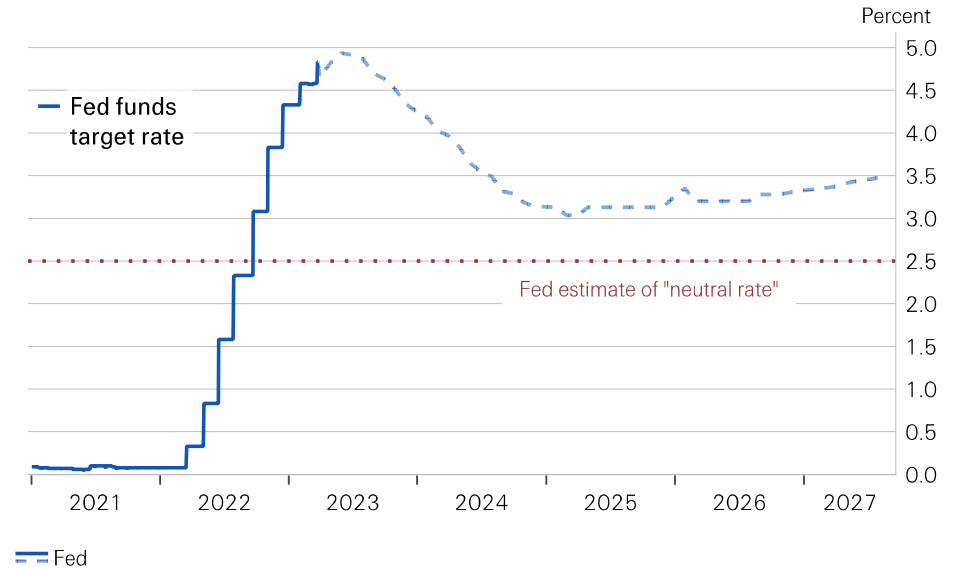
Financial market pricing: Recession risks yet to be priced

US: Equities are not priced for a classic recession



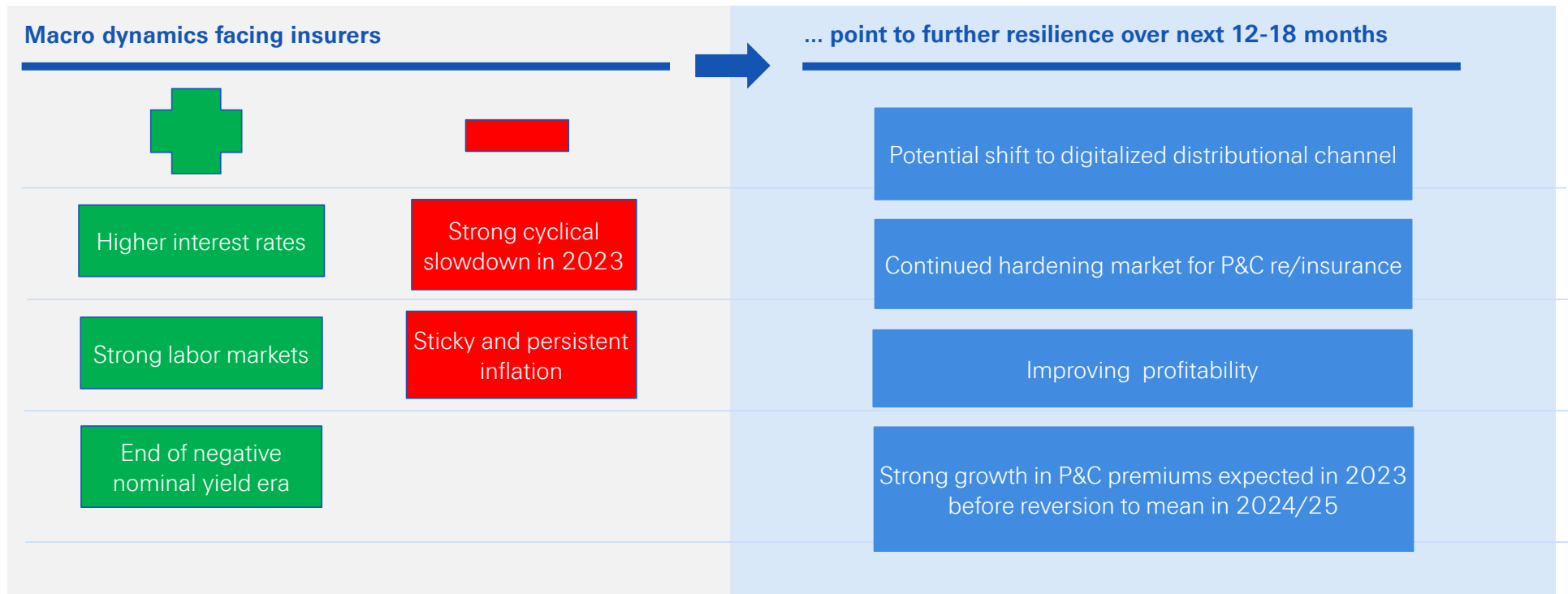
Source: BEA, S&P, Swiss Re Institute

Market-implied Fed policy rates, in %



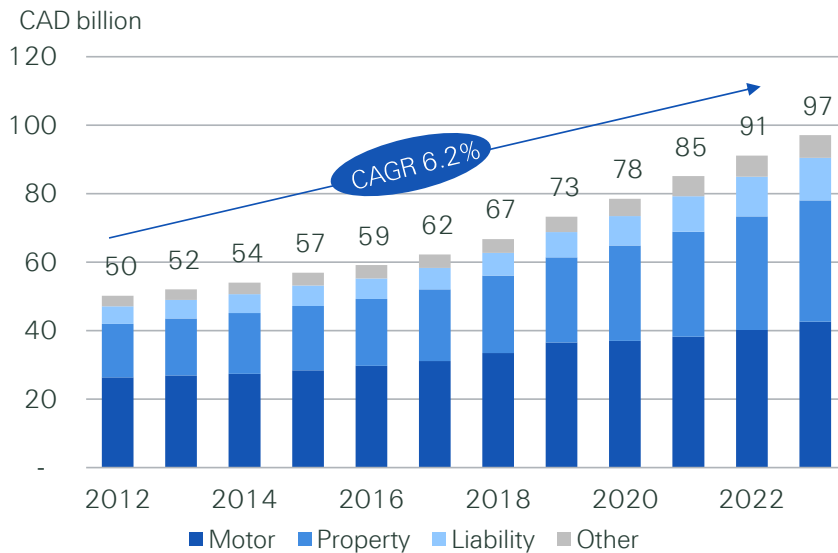
Source: ICE, Federal Reserve Bank of New York, CME Group, Macrobond, Swiss Re Institute

Insurers' outlook is positive despite challenging macro dynamics

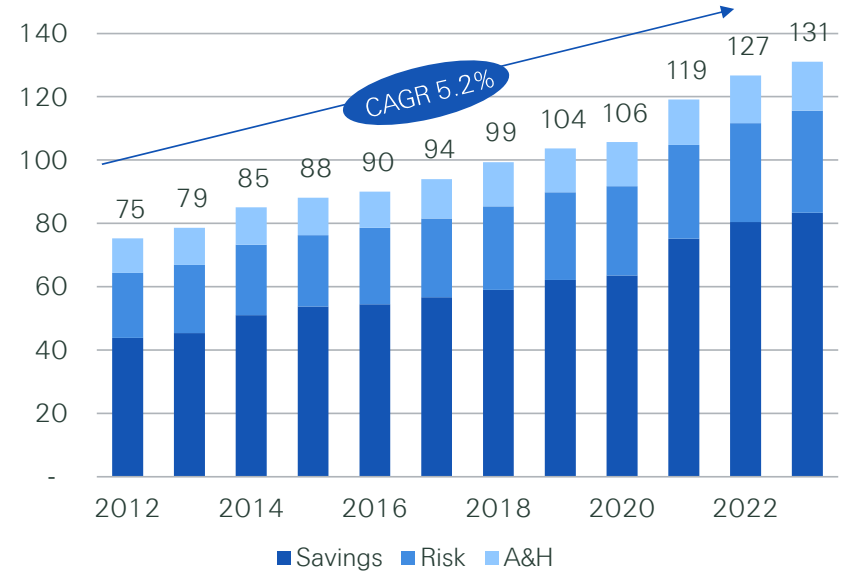


The Canadian insurance market registered robust growth in 2021 and 2022, supported by strong savings premium growth

Non-life direct insurance premiums

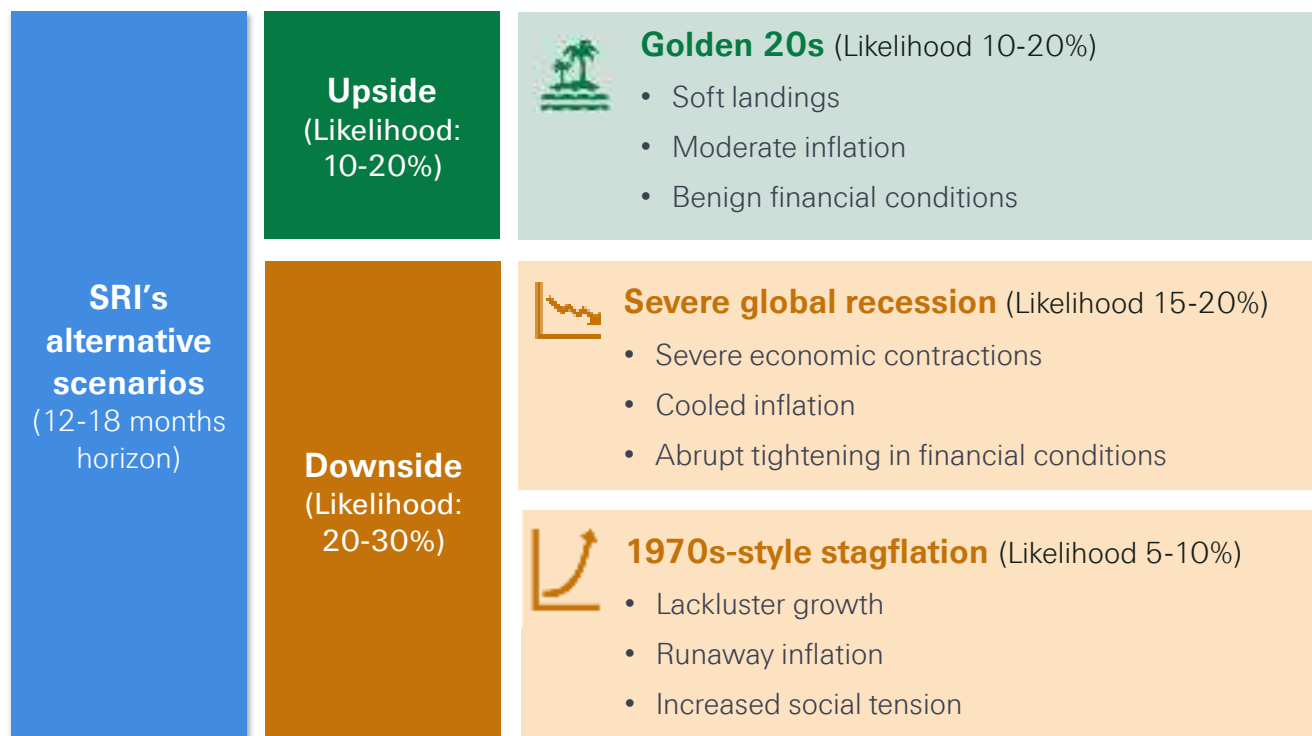


Life direct insurance premiums



Source: Swiss Re Institute

Theme 1: Alternative scenarios: The risk landscape remains to the downside with uncertainty elevated, but the likelihood of an optimistic scenario playing out has increased



Theme 2: Risk increased, but not resilience. More can be done to close protection gaps, including greater private provision to supplement public provision of health costs

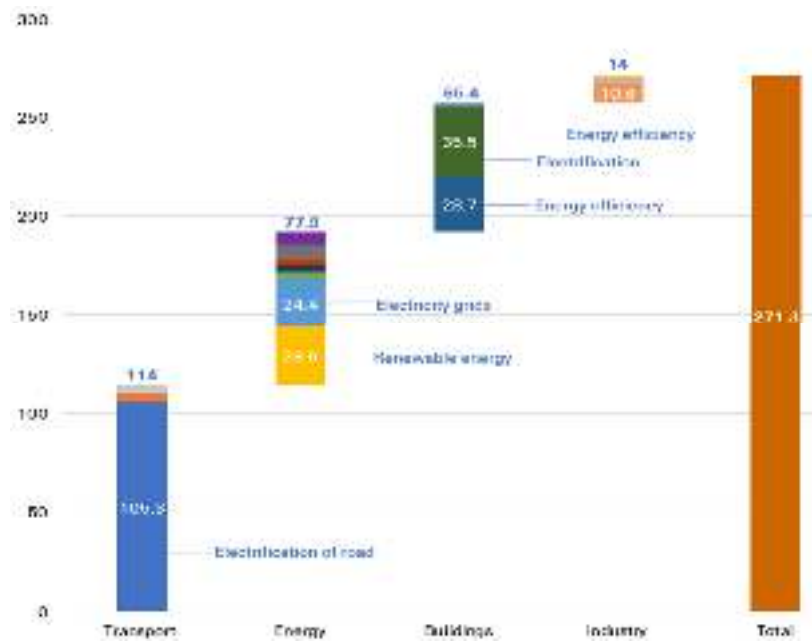
Swiss Re 2022 Resilience Index report

	Global	
 Nat Cat protection gap 2021:	USD 251bn*	▲
 Health protection gap 2021:	USD 737bn*	▼
 Mortality protection gap 2021:	USD 433bn*	▲
<hr/>		
 Total global protection gap 2021:	USD 1.42trn*	▲

Price increases in 2022 could translate into a USD 55bn widening in the global insurance protection gap for 2021

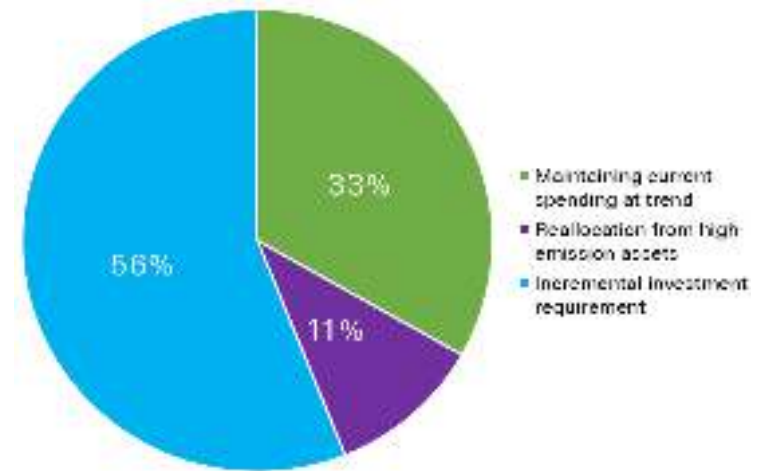
Theme 3: Net Zero economy needs more private assets. We estimate a USD 271 trillion investment gap to net zero by 2050

Investment gap as of 2022 for net zero by 2050 (USD trillion)



Source: Swiss Re Institute

Contributions to closing the USD 271 trillion investment gap (in %)



Source: Swiss Re Institute

Key takeaways



Inflationary recessions are in the making. A tightening in lending standards raises further hard landing risks



Financial stability risks have risen. Continued financial and credit market tensions are likely to be accompanied by sticky inflation and high policy rates for longer



More can be done to close protection gaps, including greater private provision to supplement public provision of health costs. The net-zero economy needs more private assets

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