The markets reassess the macroeconomic scenario

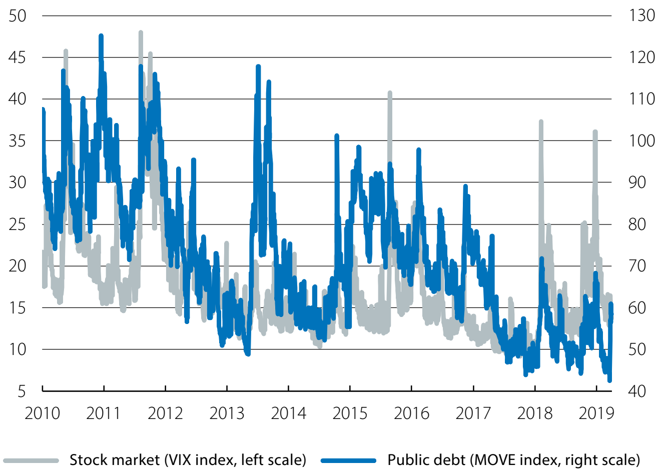
Investors doubt the global economic outlook. After the investor optimism of January and February, March was marked by a sense of greater risk aversion, especially due to the renewed concern among investors that the slowdown in the global economy could be more pronounced than expected. This concern, which at the end of 2018 had burst into the markets with sharp stock market corrections, returned to the scene more acutely with the meetings of the major central banks. The Fed, the ECB, the BoE and the BoJ all opted not to modify their monetary policies, highlighting the downside risks in the global economy and reiterating their intention to remain patient over the coming months. Thus, the interest rates of the main advanced economies dropped significantly, to the point that the sovereign yield curve of the US inverted in the 10-year and 3-month spread. In contrast, the stock markets maintained a relatively positive tone and, despite suffering losses in some sessions, managed to register gains in the month overall (albeit at a clearly slower pace than in January and February).

The Fed keeps rates unchanged and moderates the economic outlook for the US. Following March's Federal Open Market Committee (FOMC) meeting, the chairman of the Fed, Jerome Powell, reiterated that the US economy is in good shape, with a strong labour market, an inflation rate at around the 2% target and GDP growth rate somewhat above the potential. However, the members of the Fed revised their GDP growth projections for 2019 and 2020 down slightly (by 0.2 and 0.1 pps, respectively, down to 2.1% and 1.9%) and highlighted the presence of downside risks to the economic scenario. The Fed therefore reiterated the discourse of patience adopted since the beginning of the year and kept the reference rate within the current range of 2.25%-2.50%, by unanimous vote. As such, the new forecast table reflects the expectation that rates will remain stable in 2019 (whereas the projections provided at its meeting last December suggested two rate hikes). Lastly, the Fed also announced its intention to end the reduction in the size of its balance sheet next September (when it is expected to stand at around 3.5 trillion dollars) and, as soon as May, it will begin to slow down the pace of the reduction of its balance sheet.

The ECB lowers its forecasts for the euro area and announces new TLTRO programme. At its meeting in March, the institution presented an update of its macroeconomic projections table in which it revised its growth forecasts for the euro area for 2019 down (from 1.7% to 1.1%) due to the persistence of weakness and uncertainty factors (such as those related to the slowdown in international trade, Brexit and the dip in the automotive sector). However, the ECB reiterated that these drawbacks are temporary, indicating that the medium-term outlook is positive and the likelihood of a recession is low. In this context, the members of the ECB indicated their intention not to move interest rates at least until the end of

Implicit volatility in the financial markets

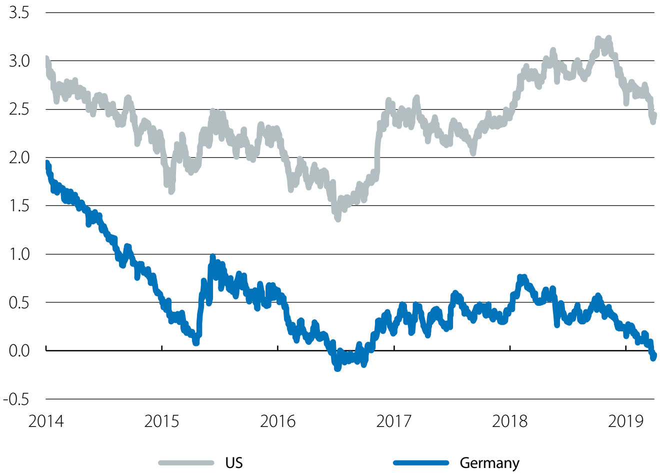
Index *Index*



Source: *CaixaBank Research, based on data from Bloomberg.*

Yield on 10-year sovereign bonds

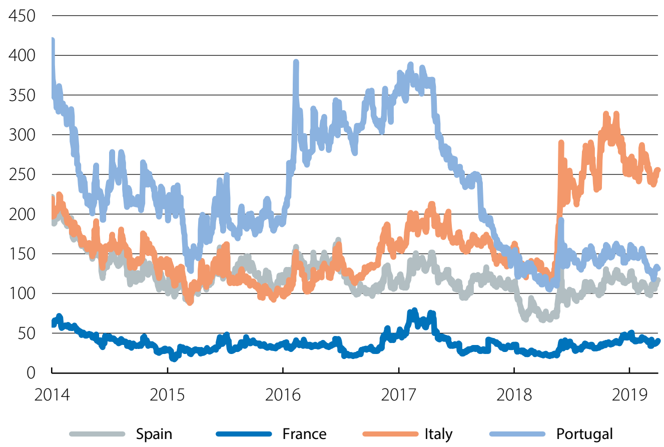
(%)



Source: *CaixaBank Research, based on data from Bloomberg.*

Euro area: risk premiums of 10-year sovereign bonds

(bps)



Source: *CaixaBank Research, based on data from Bloomberg.*

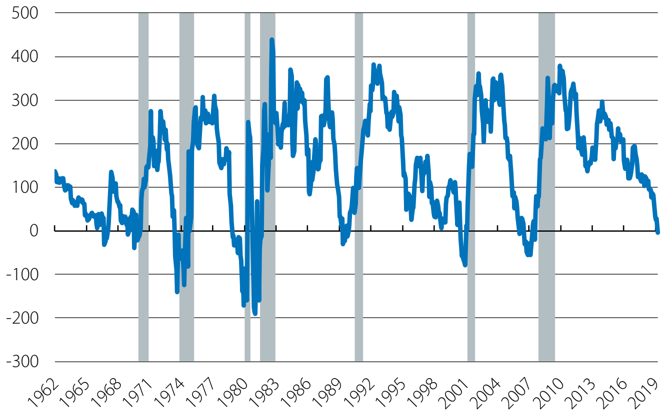
2019 (in previous meetings the timeline indicated was until after the summer of 2019). They also announced the start of a new round of TLTRO (targeted longer-term refinancing operations) starting in September, with a quarterly issuance up until March 2021. With these measures and the reinvestment of the maturities of assets on the balance sheet, the ECB reiterated its intention to maintain an accommodative financial environment to support the recovery of inflation in the euro area.

Sovereign interest rates plummet. With the backdrop of the meetings of the major central banks, yields of fixed-income securities worldwide, which had been relatively stable in the year to date, dropped sharply in March. The long-term sovereign rates of the US and Germany fell to levels not seen since late 2017 and 2016, respectively. In the case of the US, there was also an inversion of the sovereign yield curve, as the yield on 10-year bond fell below the 3-month rate for the first time since 2007. Notably, this is something that historically has predicted the onset of a recession in the US about a year in advance (see the Brief Note «On the inversion of the yield curve: a prelude to recession?» available at www.caixabankresearch.com). In addition, in Germany, the yield of the bund entered in negative territory. The risk premiums of the euro area periphery, meanwhile, remained close to the levels of January and February, favoured by announcements from the rating agencies (S&P upgraded Portugal's rating to BBB and maintained Spain's at A–, while Moody's maintained Italy's rating at Baa3).

The stock markets suffer swings, but remain slightly up. In the first few weeks of March, the stock markets continued the gains of the past few months, supported by the positive tone of the trade negotiations between China and the US and the stabilisation of business profit forecasts (which had been declining for the past six months). Nevertheless, after the surge in volatility resulting from the central bank meetings, stock prices fell (especially in the financial sector), wiping out much of the gains. In any case, for the month as a whole, the main US and European equity indices managed to close slightly up.

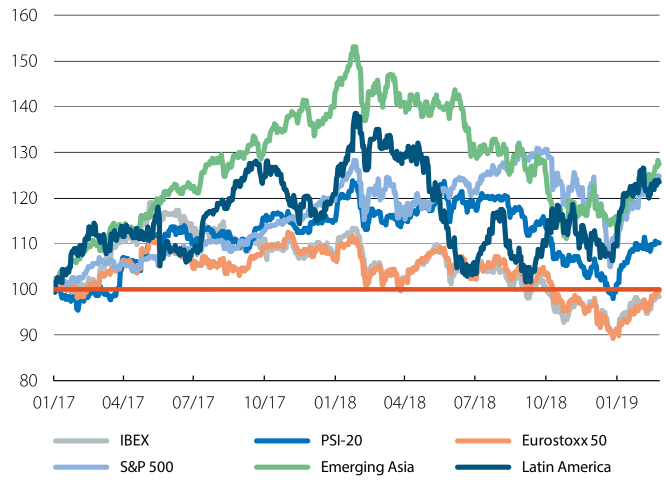
Emerging currencies weaken again and the oil price climbs. Fears of a sharper slowdown in the global economy also impacted prices in the financial markets of emerging economies, whose currencies had otherwise performed positively so far this year. Especially pronounced were the depreciations of the currencies in Argentina and Brazil, as well as in Turkey, where there was a spike in financial instability in the lead-up to local elections. The price of Brent crude oil, meanwhile, continued its rising trend and reached 68 dollars a barrel, favoured by the production cuts with which OPEC and its partners (most notably Russia) are managing to prevent oversupply in the market.

US: recessions and the slope of the interest rate curve
(bps)



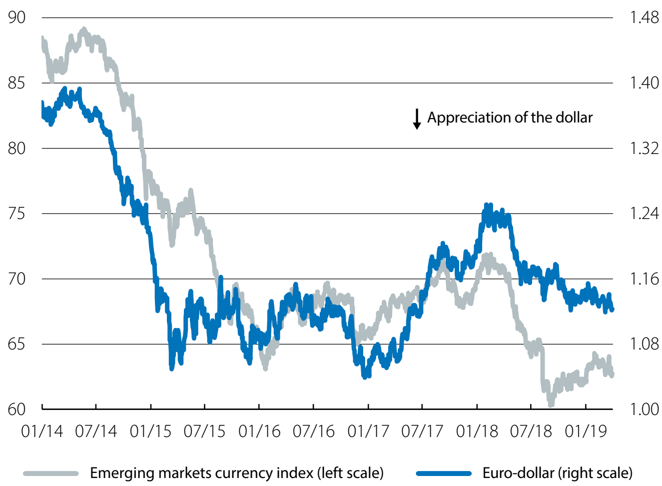
Note: *The shaded areas denote periods of recession. We show the difference between 10-year and 3-month sovereign interest rates.*
Source: *CaixaBank Research, based on data from Bloomberg and NBER.*

Main international stock markets
Index (100 = January 2017)



Source: *CaixaBank Research, based on data from Bloomberg.*

International currencies against the US dollar
(Index) *(Dollars per euro)*



Source: *CaixaBank Research, based on data from Bloomberg.*