



# World Outlook: The Race Against Time...

#PositiveImpact

In our World Outlook for 2024, we outline how we've had a fairly consistent macro narrative over the past 2-3 years and we continue to see this as a classic policy-led boom-bust cycle that will culminate in a US recession. Ultimately, the impact of rapid rate hikes are yet to take effect in full, and QT is still continuing in the background. That will make early 2024 a challenging environment, and we expect a mild US recession in H1 2024. Meanwhile in the Euro Area, we think that a mild recession has already begun that will stretch into the start of 2024.

We called this outlook "The Race Against Time...", which refers to the fact that higher rates have caused funding to dry up or tighten considerably for various parts of the economy. Looking forward, the question is now whether lending standards can loosen and yields can fall quickly enough to avoid a funding accident that leads to wider contagion. The risk is that non-linearities kick in, which could turn a mild downturn into a deeper recession.

Given the subdued backdrop, we think that several central banks will start to cut rates from next year. Over 2024, we see the Fed cutting rates by 175bps in total, along with 100bps of cuts from the ECB. But overall growth is still likely to be weak in 2024, coming in at 0.6% in the US, and 0.2% in the Euro Area.

When it comes to asset prices, we see 10yr US Treasury yields ending 2024 at 4.05%, and 10yr bund yields at 2.6%. And at the front end, 2yr yields should see a sharper decline given the rate cuts we anticipate, with US 2yr yields down to 3.15%. In FX, we see EUR/USD remaining broadly range-bound, ending the year at 1.10, although policy divergence will be a key factor. In credit, we see spreads trading resilient through Q1, before weakness concentrated in Q2 and Q3. Finally in equities, the year-end target for the S&P 500 stands at 5100.

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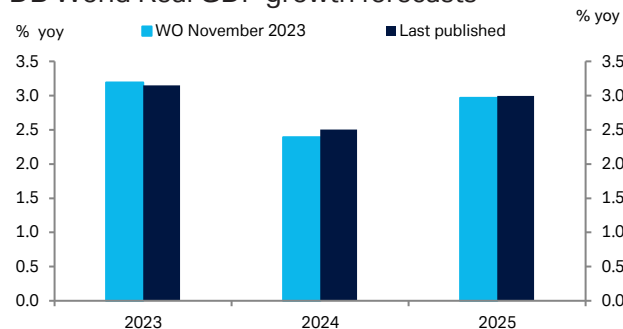
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More broadly, geopolitics and the US election will be two important themes in 2024. The peace dividend over recent decades is fraying at the edges, and macroeconomic effects are beginning to show through. Meanwhile, lots of countries will be holding elections in the next year, and the US election could be the biggest story in financial markets by summer 2024.

Finally, even though our forecasts suggest a sober outlook, there is still room for optimism over the medium-to-longer term. In particular, the next 12 months could see more evidence that AI will revolutionise productivity growth later in the decade. So the medium-term future looks more promising than it's done for some time.

## DB World Real GDP growth forecasts



Source: Deutsche Bank

Clients of Deutsche Bank Research can access the full report [here](#).