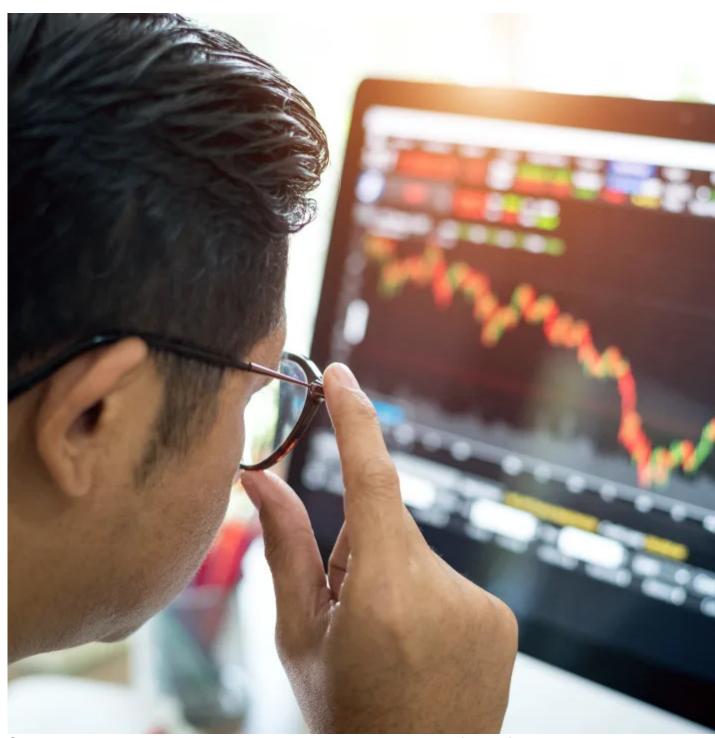


BlackRock: Prepare For Recession "Unlike Any Other"... And What Worked Before "Won't Work Now"

Description

The world's largest investment manager has gone all in – and says a global recession is right around the corner. What's more, the financial tricks deployed by Central Banks in the past 'won't work this time.'

According to BlackRock, the global economy has entered a phase of elevated volatility, and that a recession is imminent due to central banks aggressively boosting borrowing costs to tame inflation. Their actions, according to a team of BlackRock strategists, will ignite more market turbulence than ever before.



Stock markets and corporate earnings expectations have yet to fully reflect even a modest recession, according to BlackRock.Virojt Changyencham/Getty Images

- The global economy has entered a period of elevated volatility, and previous investing approaches won't work anymore, BlackRock said.
- A recession is imminent but central banks won't be able to support markets this time by loosening policy, according to the money manager.
- "Recession is foretold as central banks race to try to tame inflation. It's the opposite of past recessions," BlackRock strategists said.

A worldwide recession is just around the corner as central banks boost borrowing costs aggressively to tame inflation — and this time, it will ignite more market turbulence than ever before, according to BlackRock.

The global economy has already exited a four-decade era of stable growth and inflation to enter a period of heightened instability — and the new regime of increased unpredictability is here to stay, according to the world's biggest asset manager.

That means policymakers will no longer be able to support markets as much as they did during past recessions, a team of BlackRock strategists led by vice chairman Philipp Hildebrand wrote in a report titled 2023 Global Outlook.

"Recession is foretold as central banks race to try to tame inflation. It's the opposite of past recessions," they said. "Central bankers won't ride to the rescue when growth slows in this new regime, contrary to what investors have come to expect. Equity valuations don't yet reflect the damage ahead."

The prospect of limited policy support means investors need more dynamic methods — involving more frequent portfolio changes and taking a more "granular view on sectors, regions and sub-asset classes" — to navigate the volatility ahead, according to BlackRock.

`Regime of greater macro volatility'

"What worked in the past won't work now," the strategists said. "The old playbook of simply 'buying the dip' doesn't apply in this regime of sharper trade-offs and greater macro volatility. We don't see a return to conditions that will sustain a joint bull market in stocks and bonds of the kind we experienced in the prior decade."

Wall Street banks from Morgan Stanley and Bank of America to Deutsche Bank have warned that US stocks could plunge by more than 20% in 2023 due to an economic downturn and liquidity risks fueled by the Federal Reserve's interest-rate increases. Goldman Sachs CEO David Solomon sees just a 35% chance that the US economy avoids a recession.

A slowdown in the housing market, delays in corporate investment plans, a decline in consumers' savings and deteriorating CEO confidence are early signs of the oncoming economic slump, according to BlackRock.

Still, the stock market hasn't yet factored in the potential magnitude of the impending economic

downturn, the strategists said.

"We don't think equities are fully priced for recession," they added. "Corporate earnings expectations have yet to fully reflect even a modest recession. This keeps us tactically underweight developed market equities."

The S&P 500 index of large-cap US stocks is up more that 12% from a 23-month low reached in October, spurred mainly by expectations that the Federal Reserve will slow the pace of its interest-rate increases after a recent retreat in inflation.

by Anil Varma

Category

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Date Created

12/11/2022