

# Fathom's Top 10 reads for 2022 Q4

12 January 2023

Sam Morris

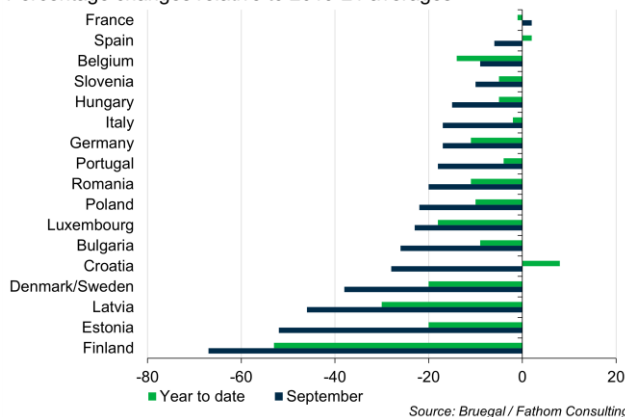


Recessions around the globe, a \$100 trillion investment in green assets, and growth-inhibiting economic policies from a short-lived UK prime minister — the world has been moving fast recently and Fathom has had plenty to say about it. Here we've put together a recap of Fathom's Top 10 most read research pieces for 2022 Q4, based on the level of engagement from our clients.

## Most read:

### European gas consumption

Percentage changes relative to 2019-21 averages



### EU gas use falls, without a recession - yet

“European gas consumption declined by a median of 20% this September... The drop has been more heavily concentrated in industry (median -25%) than in households (median -14%)... Households have benefited from unseasonably warm weather... Countries with Russian land borders have experienced the largest falls, suggesting that reduction in supply was particularly acute... EU GDP growth has thus far held up relatively well, avoiding contraction in 2022 Q3 and even growing by 0.2%.”

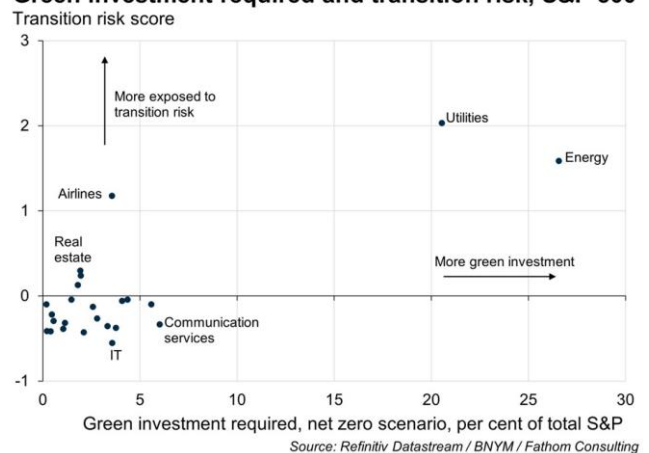
Kevin Loane, 9 November 2022

### An investor's guide to net zero by 2050: key takeaways

A pioneering Fathom and BNYM report found that “\$100 trillion needs to be invested in specifically 'green' assets for the goal of net zero by 2050 to be achieved... This investment will create enormous opportunities for businesses and investors... The biggest beneficiaries are likely to be the firms and sectors providing the inputs necessary for this investment... There are risks and costs, however, and nearly \$20 trillion of polluting assets will need to be scrapped or retrofitted... the utilities and energy sectors are most exposed to these so-called transition risks... Investing in a manner consistent with the Paris climate accord does not, therefore, require shunning the energy and utilities sectors...”

Brian Davidson, 25 October 2022

### Green investment required and transition risk, S&P 500





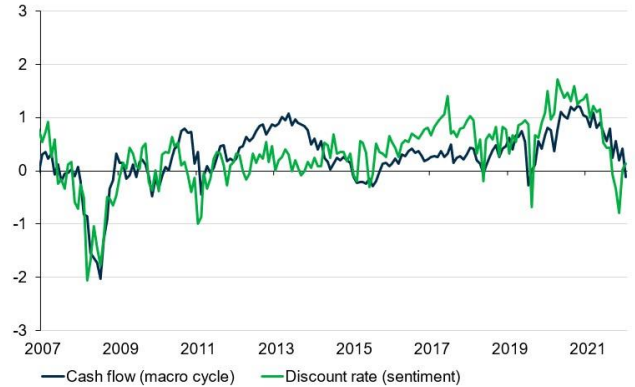
### Blinded by the pivot?

“Fathom’s views on the US interest rate outlook are close to consensus: we expect cuts before the end of next year... But equity investors are focusing too much on the pivot and not enough on the reason for it — the coming recession... Indeed, we maintain high probabilities of recession in the coming year, in the euro area (90%), the UK (90%) and the US (70%)... the UK is more at risk than most from an escalation of second-round effects... Our mean path for the S&P 500 shows the index bottoming in the first half of next year at a little over 3500, from where it stages a very gradual recovery...”

Kevin Loane, 12 December 2022

### **US monthly return shock decomposition\***

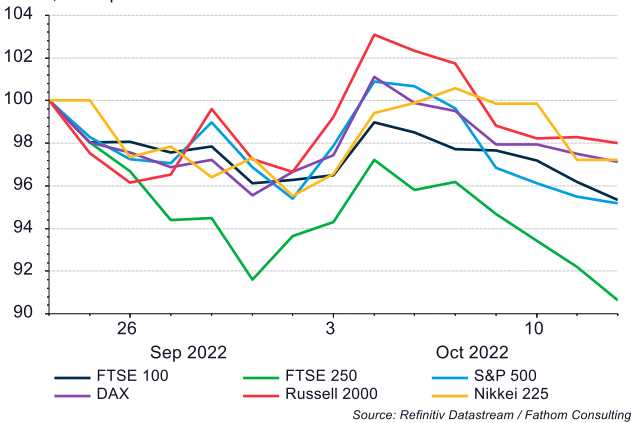
Estimated return shocks, percentage points



\*Smoothed series, generated as:  $MA_t(N) = 0.095N_t + (1 - 0.095)MA_{t-1}(N)$  Source: Fathom Consulting

### **Equity performance since UK 'mini' budget**

Index, 22 September 2022 = 100



Source: Refinitiv Datastream / Fathom Consulting

### The UK's degrowth plan

“The hit to investor confidence and to the UK government’s credibility caused by its ‘mini-budget’ will be hard to reverse... The financial losses... are likely to more than offset any boost to growth or inflation that the tax cuts themselves might cause... The upshot is likely to be less growth and lower inflation... That could mean fewer hikes in Bank Rate... In that scenario, sterling — currently supported by the expectation of sharp increases in Bank Rate — is likely to slide again... Mortgage rates have risen significantly since the budget, hurting the housing market and further dampening consumer spending.”

Brian Davidson, 13 October 2022

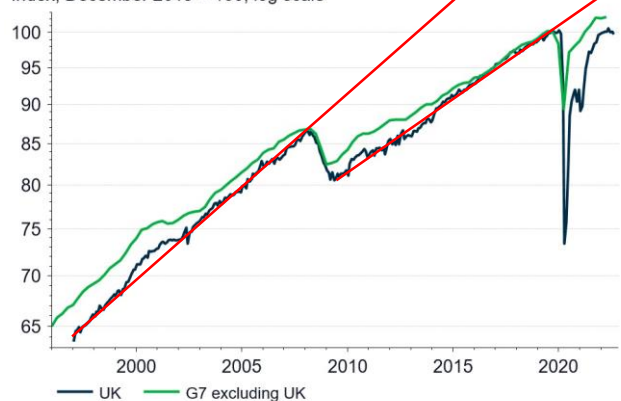
### Remember, remember

“Truss and Kwarteng placed a bomb under UK macro policy – it has since been removed, but the fragility of the policy framework has been exposed... UK macro policy needs a radical reset: it has been a disaster since the GFC at least... Fathom and Chatham House convened an Emergency Monetary Policy Forum to open the conversation... Monetary policy is taking unnecessary risks with credibility and will need to tighten further as a result; fiscal policy is in a similar bind... Policymakers should focus on retrieving a positive outcome from the current kerfuffle in the long run...”

Erik Britton, 7 November 2022

### **GDP**

Index, December 2019 = 100, log scale

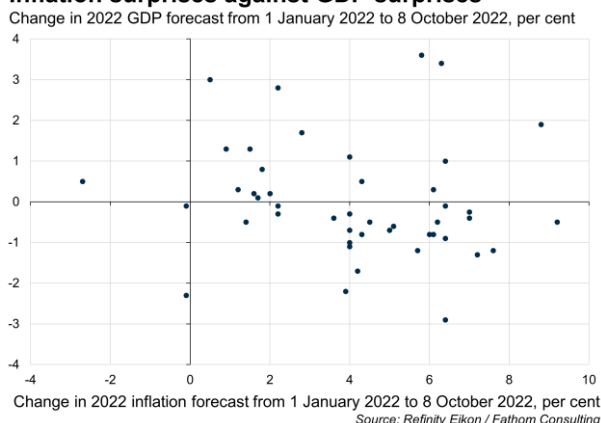


Source: Refinitiv Datastream / Fathom Consulting





### Inflation surprises against GDP surprises



### Recession Watch: no rescue from excess savings

“Major economies are facing a policy-driven recession... Excess savings are unlikely to provide much protection – they are concentrated in the richest quartile, where they have been offset by falling equity prices... Recession will squeeze out overheating aggregate demand... support is unlikely to be forthcoming, with the Fed signalling further rate hikes to come.”

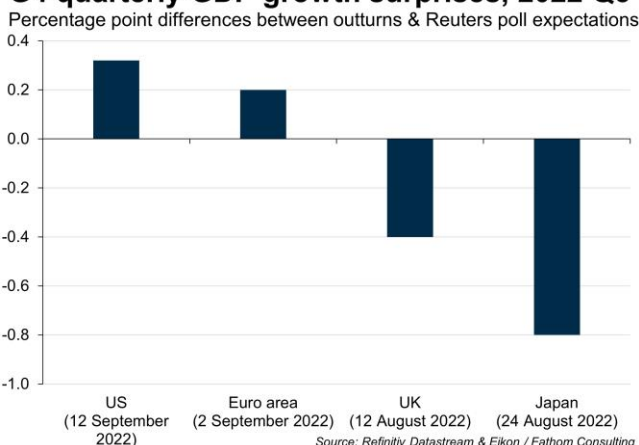
Erik Britton, 9 November 2022

### Recession Watch: markets two steps ahead of the data

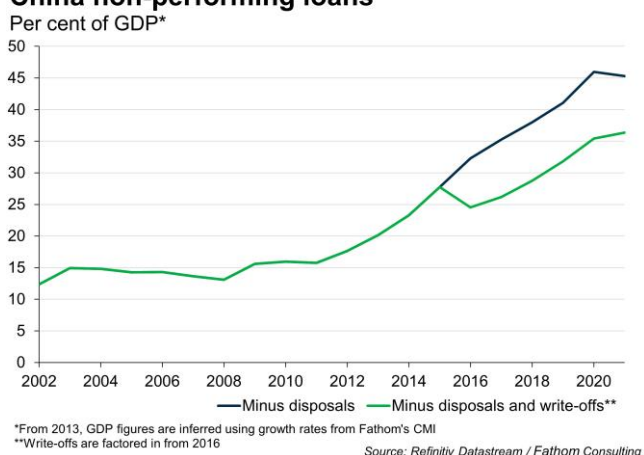
“We have had positive news, if with caveats, in the euro area and US — upside GDP surprises, downside inflation surprises and impressive energy substitution in Europe — but a global recession remains our central forecast... According to the Fathom Macro Portfolios, investors seem to be two steps ahead of the data, not only looking beyond a recession before it even decisively shows up, but also in increasingly pricing in a pivot from central banks... The risk of complacency is high; sticky inflation could trigger a sobering reassessment of rates, growth and market returns...”

Andrea Zazzarelli & Andrew Harris, 14 December 2022

### G4 quarterly GDP growth surprises, 2022 Q3



### China non-performing loans



### Don't underestimate China's bad loan problem

“Xi Jinping is set to be confirmed as China’s leader for an unprecedented third term this week, but the road ahead is unlikely to be smooth... An important entry on the list of China’s economic woes is its ballooning problem with non-performing loans (NPLs)... After suspecting... that China’s official estimate of NPLs was significantly understated, Fathom created its own measure... This suggests that the stock of NPLs was as high as 35% to 45% of GDP at the end of 2021... With NPLs this high, authorities will be... writing off loans gradually in a bid to avoid a banking crisis... [which could] reduce China’s economic output by around 10 per cent after just three years.”

Jonathan Ashworth & Kris Takoor, 21 October 2022



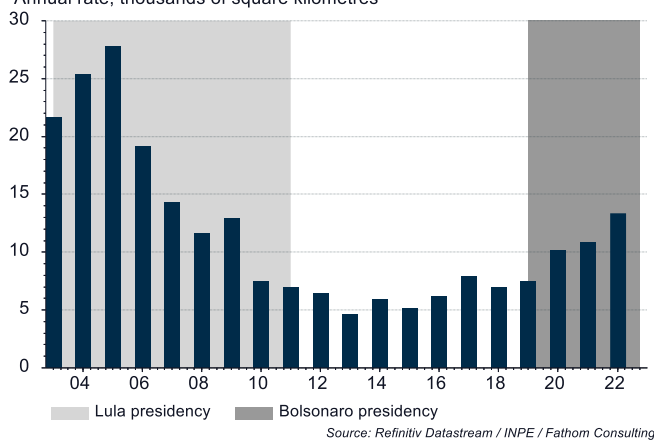
## Why blood is free

"A few weeks ago, UK scientists reported that they had given laboratory-grown blood to humans for the first time ever. Their clinical trial is aimed at boosting the supply of very rare blood types, and helping those suffering from blood conditions such as sickle cell anaemia. Amazing, right? But it also got me thinking about how incredibly dependent the healthcare system is on the willingness of average citizens like you and me to roll up our sleeves and donate blood regularly. Considering that we humans aren't very prone to acts of altruism, at least according to standard economic theory, it is interesting that such a system (more or less) works!"

Linnéa Hjelm, 18 November 2022

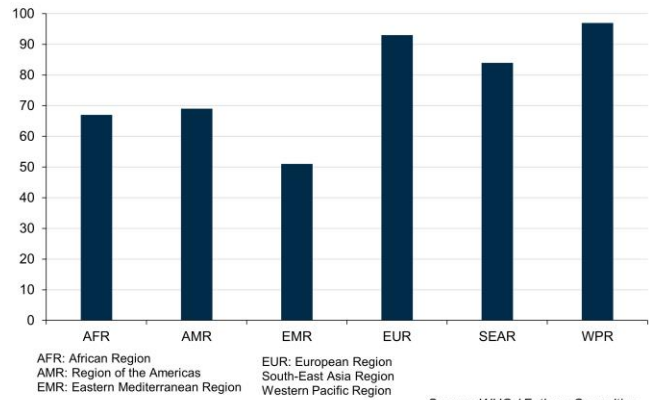
## Amazon deforestation

Annual rate, thousands of square kilometres



## Voluntary non-remunerated blood donations

Per cent of total, by WHO region, 2013



## Election for the future of the Amazon

"The outcome of the runoff in Brazil's presidential election... will have important implications for the Amazon rainforest... and consequently for the speed at which the world continues to warm... Amazon deforestation has steadily increased under President Jair Bolsonaro's rule since 2019... Mr Lula, meanwhile, has pledged to... reduce deforestation... we estimate that the emissions difference between a Bolsonaro and a Lula presidency, from Amazon deforestation alone, would amount to approximately 1.3 gigatons of CO<sub>2</sub> – between three and four times as much as the UK emits annually."

Linnéa Hjelm, 5 October 2022

## Further reading

### Fathom's Top 10 reads for 2022 Q3



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