

Fathom's Top 10 reads for 2023 Q3

5 October 2023

Elizabeth Shepherd



In the last three months Fathom has supplied in-depth research and analysis on the likelihood of a global recession, China's economic trajectory and its moves to increase its overseas influence, the energy suppliers of the future, and on a wide range of other pressing topics. Here we've put together a recap of our Top 10 Fathom research pieces from 2023 Q3, based on the level of engagement from our clients.

Most read:

US house prices and construction spending



Recession Watch: realistic optimism

“This does not mean that the dangers of a downturn have passed. Analysing and disentangling the macroeconomic forces at play has arguably become even more important in order to decipher how policy action, such as higher rates, can translate into economic outcomes. As we have argued for a while now, higher interest rates have a habit of breaking things and this time is unlikely to be different. Yet, each economic and hiking cycle comes with its own characteristics. This one appears to be increasingly defined by a much greater uncertainty over how quickly and by how much the economy will respond to the higher rates already implemented.”

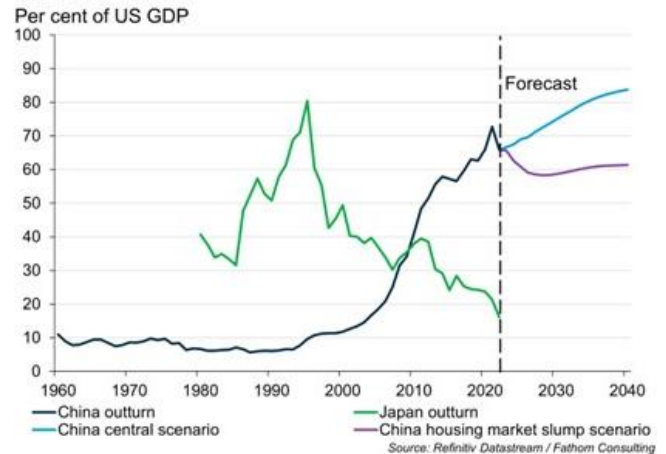
Andrea Zazzarelli, 12 July 2023

In brief: internally China slows, while its reach grows

“China has continued to strengthen economic ties with most of the global economy, and the US has mostly acted alone in its sanctions on China. While the US's actions will weigh on China's already faltering economy, our central scenario suggests that China will continue to catch up, challenging the US-led global order. However, China's housing market is a key risk and has the potential to not only cause near-term pain but to reverse China's catch-up. Even so, this would pale in comparison to Japan's tanking share of US output following its peak in the 1990s. At a time when many comparisons are being drawn, this serves as a timely reminder of the differences between Japan, as it was back then, and China today...”

Joanna Davies, 23 August 2023

Nominal GDP



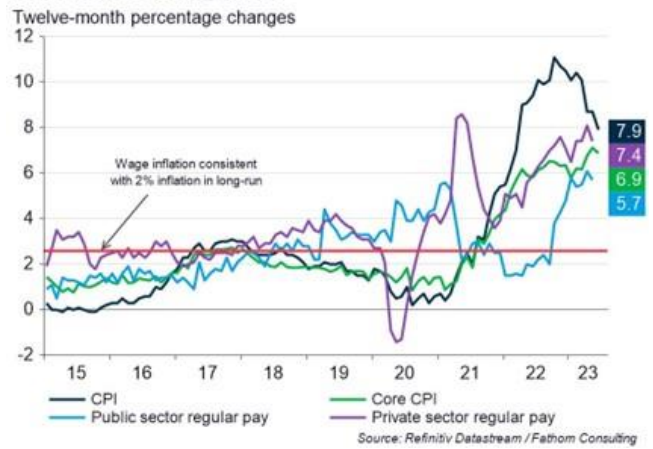


Recession Watch: longer debt maturities are no panacea

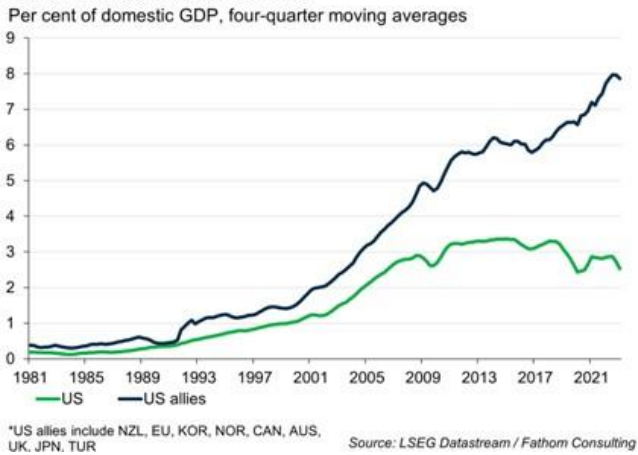
“There seems to be an emerging view that longer debt maturities mean that... many major economies can avoid recession. This seems wrong to us... To the extent that longer debt maturities mean that monetary policy is less effective than before, the quid pro quo is simply that interest rates will need to rise further. Moreover, when firms and households do refinance, the impact will be larger than it would have been otherwise. Longer debt maturities protect the borrower from interest rate risk, but at the same time they expose the lender. There is no free lunch here. When rates rise unexpectedly, the firm or household that chose to borrow long term will experience relief. But the lender sitting on the other side will experience regret to just the same degree.”

Andrew Brigden, 9 August 2023

UK wages and prices



Gross trade with China



In brief: the US fails to friend-shore

“Friend-shoring, which would involve the US rerouting its trade with China to its allies, could help offset some of the economic pain associated with... de-risking, thereby encouraging allies to join forces. But there is little evidence of friend-shoring to date: the US’s trade deficit with China has narrowed, while US allies have failed to benefit. Instead, the deficit between the US and the rest of the world excluding China has widened considerably, implying that countries not historically considered as being close US allies have benefited the most from the re-routing of US supply chains. It is likely that this is a reflection of the type of goods that China produces, and the alternative producers of those.”

Joanna Davies, 27 September 2023

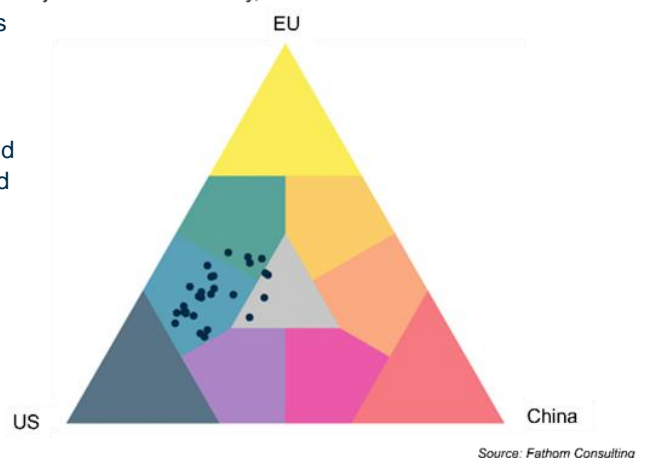
In depth: China rising in Latin America

“In recent years Latin America has started to pull away from the US, and instead become increasingly dependent on China. Analysis through the lens of Fathom’s Centrality Tracker suggests that Latin America’s dependency on China has increased most in those countries able to strengthen China’s supply chains in transition minerals and food. It also appears that China uses foreign policy and trade to court countries that the US takes for granted. The increased Chinese presence in Latin America is affecting the region’s policies in China’s favour — these trends shown through the Centrality Tracker are significant and show no signs of slowing.”

Linnéa Hjelm, 11 August 2023

Trilateral dependency scores

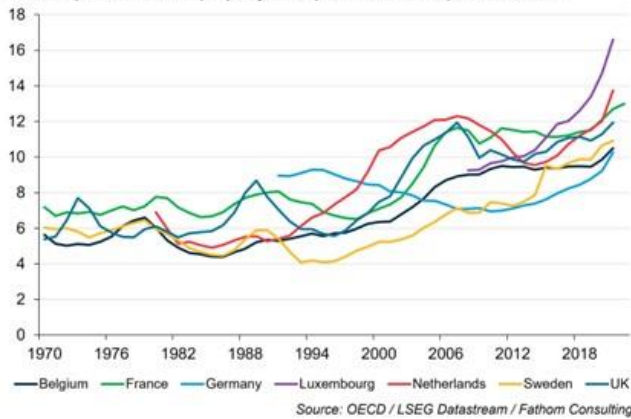
By Latin American country, 2005





House-price-to-income ratios

Ratio of price of 100m2 property to disposable income per household



In brief: why are houses so expensive?

“The house-price-to-income ratio used to be a popular yardstick for assessing whether UK residential property was ‘cheap’ or ‘expensive’. Over the period from 1970 to around the turn of the century there were booms and busts in the UK housing market, but the house-price-to-income ratio always returned to the same, well-defined mean. The chart [to the left] uses internationally comparable data from the OECD to show that this same pattern has been repeated across many European economies. Statistical tests confirm that for the period 1970–1999 house-price-to-income ratios were stationary, with a constant mean across all countries included in our chart; while for the period 1970 to 2022 they were not.”

Andrew Brigden, 13 September 2023

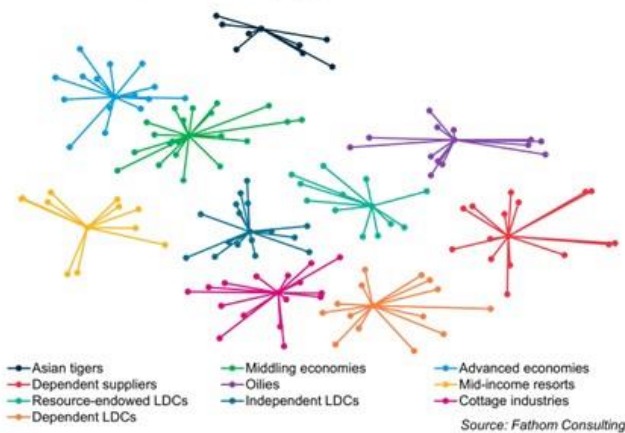
Thank Fathom It’s Friday: coffee with a different kind of Perk

“Having grown up watching zillions of re-runs of Friends on TV, I always felt that every coffee shop in the world ought to have a nice big leather sofa like the one in Central Perk. It’s somewhere for all those zany best pals to laze about, joking, teasing and simply goofing around. That sofa and armchairs are central to what the best coffee houses are all about, aren’t they? But wait a minute — maybe not! Earlier this week, I took a slight detour from my regular commute into the Fathom office to try out Blank Street, a new coffee chain I’ve noticed popping up in various locations across the city.”

Ellen Ó Fríol, 15 September 2023



China hub personality types



Viewpoint: tracing dependency and trading it

“A new steady-state pattern is emerging as the economic disturbance of the pandemic and its aftermath subsides. It looks like China has already passed its peak. The EU and the UK are in or close to recession, with more rate rises on the cards, especially in the UK. But the US looks relatively well set, at least for now, with inflation falling, rates probably close to their peak and growth just about holding up. What does that mean for other countries? Fathom has developed a tool that assesses the patterns of dependency of every economy on the three principal hubs of economic activity: the US, China, and the EU plus the UK. It turns out that this tool might be useful in helping to build a long-short equity trading strategy that delivers excess returns.”

Erik Britton, 3 August 2023





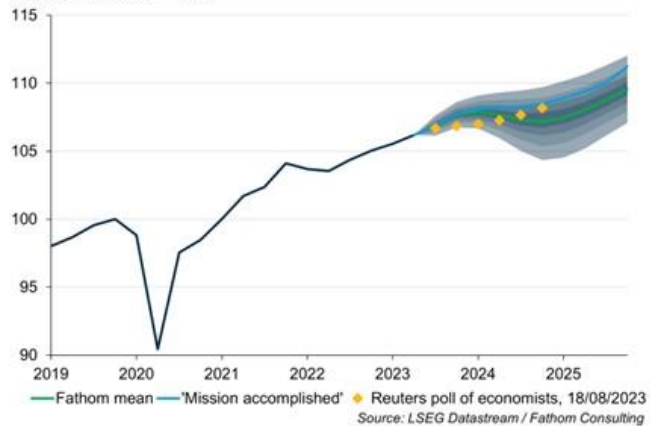
Global Outlook, Autumn 2023: diverging fortunes

“The past three months have evolved broadly as we laid out in Fathom’s *Global Outlook, Summer 2023*. With the worst of the cost-of-living crisis behind us, we do not expect a global recession this year. Growth in economic activity has remained above trend in the US and accelerated in Japan, but has slowed in Europe. Against this broadly resilient backdrop, real wages have risen further in the US, and have stopped falling in the UK and possibly in the EU too. We remain concerned by China. The housing troubles there have never gone away, and have resurfaced in recent weeks. They continue to underpin a Chinese economic outlook that is skewed heavily to the downside.”

Andrea Zazzarelli, 31 August 2023

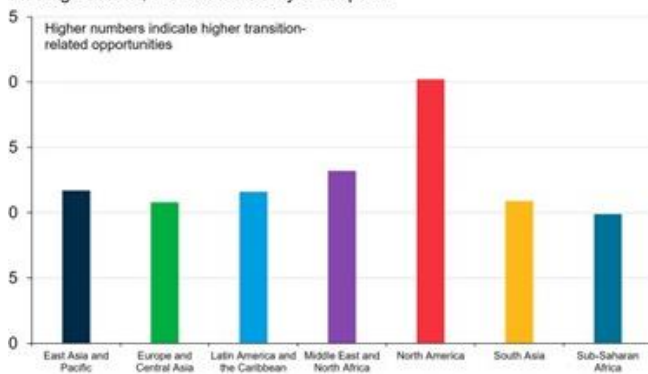
US GDP

Index, 2019 Q4 = 100



Transition opportunity scores, by region

Average scores, without the ability to respond*



*Our dataset includes scores with and without the 'ability to respond', which measures a country's ability to manage risk and take advantage of opportunities presented by the transition. The scores presented here do not include the ability to respond. The ability to respond of most African countries is below average, meaning that if this were included its opportunity score would be relatively lower and risk score relatively higher.

Source: Fathom Consulting

In brief: is Africa the energy supplier of the future?

“Several recent press articles have explained how Africa is poised to become a big player in energy markets due to its renewable energy potential and its development of new fossil fuel projects; Fathom’s new dataset, which scores each country on its opportunities and risks from the energy transition to net zero emissions, adds more nuance to this suggestion. With reliable year-round sunshine, North Africa is certainly a great place to put solar panels and its proximity to Europe means that it has a big customer for electricity or green hydrogen on its doorstep.”

Brian Davidson, 3 August 2023



Further reading

[Fathom's Top 10 reads for 2023 Q2](#)

[Fathom's Top 10 reads for 2022 Q4](#)

[Fathom's Top 10 reads for 2022 Q3](#)



Fathom Consulting
47 Bevendens Street
London
N1 6BH
Tel: +44 (0)20 7796 9561



Contact information
elizabeth.shepherd@fathom-consulting.com
www.fathom-consulting.com

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