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Macro Roundup Artcile

Headline: The Risks of a Higher Rate Regime

Article Link: https://www.gspublishing.com/content/research/en/reports/2023/10/08/ca87887b-20be-4d1e-b59c-fb6c52837e8f.html

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Tweet: A @GoldmanSachs analysis argues that, if equity valuations were to fall towards historical norms, there would be a large hit to GDP growth.

Summary: The main implication of the further tightening in financial conditions led by rising rates is that the drag on GDP growth will last longer. Our financial conditions index (FCI) growth impulse model now implies a roughly -½pp hit to growth over the next year, meaningful but much less than last year and too little to threaten recession. In financial markets, the key risk is that valuation measures that are benchmarked to interest rates are now higher for some assets, most importantly stocks. We estimate that if the equity risk premium fell to its 50th historical percentile, the hit to GDP growth over the following year would be 1pp. If it fell to its average level in the pre-GFC years, the hit would be 0.75pp. Related: What Have We Learned About the Neutral Rate? and Measuring the Natural Rate of Interest After COVID-19 and In Search of Safe Havens: The Trust Deficit and Risk-free Investments!

Primary Topic: Financial Markets

Topics: Business Cycle, Financial Markets, GDP, Other Source

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