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Fitch: US Slowdown Looms Amid Heightened Political and Geopolitical Uncertainty

Fitch Ratings-New York/London-29 July 2024: US rate rises in 2023 have begun to show some effect on the labour market and demand, while politics remains an area of high uncertainty, and geopolitical risk is here to stay, Fitch Ratings says in a new report.

Signs of a slowdown in the US are evident in weak credit growth and slowing consumer spending. This should continue in 2H24 with headline real GDP growth materially decelerating though clearly remaining well above recession territory in our base-case forecasts.

Continued disinflation and the beginning of a global monetary policy pivot have reduced the probability of a major negative credit risk scenario stemming from continued monetary tightening. The ECB made its first rate cut in early June, following earlier moves by the Swiss National Bank and Bank of Canada, with the latter cutting for the second time in late July. While we now expect a slightly slower pace of rate cuts in 2024 from the Federal Reserve than our expectations at end-2023, the latest US inflation and labour market data support our view that two reductions are likely in 2H24.

Politics is an area of high uncertainty, as demonstrated in the string of elections in large economies in 2Q24 and early July, including France, the UK, India, Mexico and South Africa, as well as for the European Parliament. Incumbents lost ground or lost outright in all elections but Mexico. The forthcoming US election in November will be particularly relevant for global credit as it could mark a pivot point for policy in several important areas.

Wars in Ukraine and between Israel and Hamas have continued as have simmering tensions in other hotspots. The broader context of geo-strategic friction between major powers remains a key long-term theme. The greatest risk to credit would come from a direct conflict in one of these hotspots. However, broader geopolitical tensions are likely to continue to feed into such diverse areas as trade and investment policies, capital flows, supply chains and FDI.

'Risk Headquarters - 3Q24' can be accessed at [fitchratings.com](https://www.fitchratings.com)