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What to watch: Business insolvencies up again, markets pricing in a Trump win but forgot inflation, and shipping costs soaring ahead of trade frictions

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In summary

This week we look at three critical issues:

- **Business insolvencies: Up 10% in 2024.** As of mid-2024, most countries have been reporting a continuous upside trend in business insolvencies, supporting our forecast for a noticeable increase in half of the countries globally. Two out of three countries are set to end the year with the number of insolvencies above pre-pandemic levels. With sluggish growth, global business insolvencies are expected to accelerate by +10% in 2024. Germany should see a +21% increase for 2024, Italy +18%, France +12% and Belgium +11%. In 2025, we expect a moderate global increase (+1%), primarily driven by North America (+5%) and China (+4%), while the rest of the world would see a downward trend reversal as economic activity and financing conditions improve.
- **US elections: Markets repriced a Trump victory but forgot inflation.** Following the presidential debate and the assassination attempt, markets are now positioning for a Trump victory in November. If this happens, we would expect an increased supply of US Treasuries to finance the higher deficit and a relatively higher neutral policy rate, which would lead to higher yields, and higher inflation expectations, trends that are already starting to be reflected in market pricing. But current market pricing may be underestimating the stagflationary risks embedded in Donald Trump's campaign pledges (tariffs, fiscal, monetary, labor)[1], posing downside risks for fixed income and equity markets à la 2022.
- **Shipping costs: Preparing for trade war?** After three months of declines, containership freight rates have surged back to the highs not seen since 2022. Though recovering demand and supply frictions play a role in driving up shipping costs, together accounting for 15% of the price deviation in Q2, oil prices are no longer having an impact. The anticipation channel seems to be going full steam: Donald Trump's potential re-election is fueling concerns about US-China trade and both US and European companies are pulling forward demand to account for disruptions. As a result, China's trade surplus reached a record high of USD99bn in June and other Asian economies are also benefiting. As long as the tensions in the Middle East linger, shipping costs will remain elevated, pushing up short-term earnings prospects for the shipping industry.

[1] *Our recent report on Trumponomics explains these factors in depth: Trumponomics: the sequel (allianz.com)*

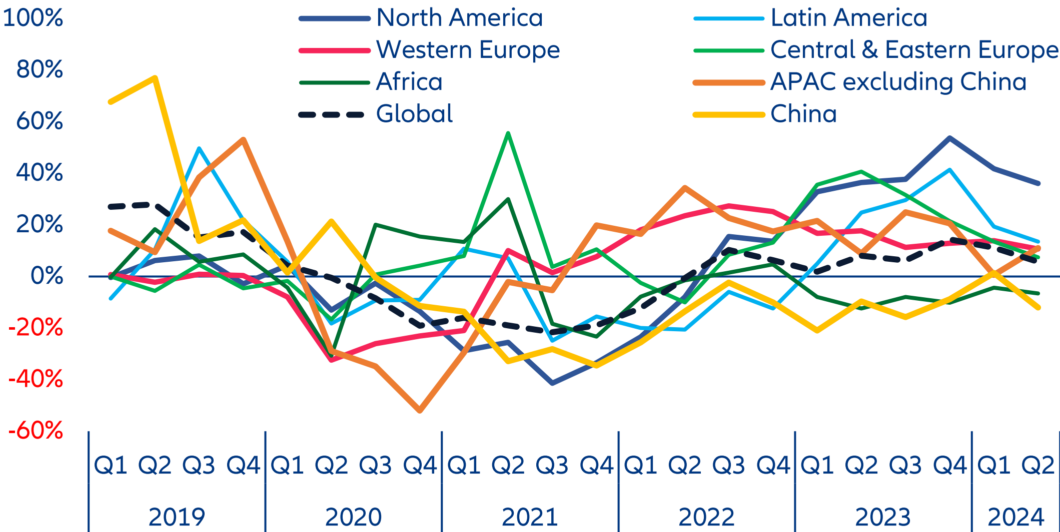
Business insolvencies: Up 10% in 2024

Halfway through 2024, the upside trend in business insolvencies continues in most countries. In Q1, our global insolvency index increased by +11% y/y, with all regions contributing to the rise except Africa. The most recent official registrations of business insolvencies for June (19 countries), May (16) or earlier (7) indicate that most are still experiencing a year-on-year rise in insolvencies over the latest month (two out of three), the latest three months (three out of four) or the year-to-date number (three out of four), with a noticeable number of double-digit increases. Looking at the year-to-date figures, Canada in the Americas (+79% y/y), Sweden (+48%) in Western Europe, Russia (+40%) in Eastern Europe and Singapore (+46%) in Asia-Pacific stand out with the largest increases. The exceptions are mainly certain emerging markets in Central and Eastern Europe (Bulgaria, Hungary, Lithuania, Turkey), Africa (South Africa) and Asia (India, Taiwan), while China continues to report a low number of business insolvencies compared to 2019-2023.

In the **US**, where official figures are released only quarterly, US Courts confirmed in Q1 the upward trend that began in mid-2022. At the national level, Q1 2024 ended with 5,468 bankruptcies, representing a +35% increase y/y (+1% q/q). For Q2, alternative sources are all pointing to the same direction. BusinessBankruptcy.com suggests a +20% y/y increase according to their monitoring of Chapter 7 and 11, which, based on the Public Access to Court Electronic Records (PACER), represents roughly half of the national outcome based on historical perspectives. Focusing on the largest firms, S&P Global Market Intelligence records a +35% rise with 206 cases in Q2, and 346 overall in H1, with increases notably in the consumer discretionary, healthcare and industrials sectors.

In Western Europe, the official figures for **Germany** are lagging but they confirmed the on-going rebound from the very low level reached in 2021, with the cumulative last 12 months up by +28% y/y as of April 2024. Alternative sources are pointing to a softening in May and June but they still remain at a sustained level, with a strong increase for H1, according to the Humboldt-University of Berlin (+26% y/y), CreditReform (+30%) and IWH (+35%). Most other European markets have continued to record a rebound in insolvencies in the first months of 2024, notably **Sweden** (+58% y/y year-to-date), the **Netherlands** (+39%), **Austria** (+27%), **Ireland** (+25%), **France** (+21%) and **Italy** (+20%). However, it is worth mentioning the confirmation of the recent softening/downside trend reversals in Denmark (-21%) and to a lesser extent at this stage in the UK (-1%) – from relatively high levels in both countries. In Asia, excluding China, India and Taiwan, the upside momentum is continuing in **Japan** (+22% y/y for the latest six months), **Australia** (+24%), Hong Kong (+26%), **New Zealand** (+35%), **South Korea** (+37%) and **Singapore** (+48%).

Figure 1: Global and regional insolvency indices, quarterly, y/y change *



(*) Q2 2024 is based on last 3m or last Q period for countries lagging in reporting
Sources: National statistics, Allianz Research

Overall, most advanced economies are surpassing pre-pandemic infra-annual levels of business insolvencies, and the trend is spreading across sectors. For the last six months, Sweden has been leading the way (+61% compared to the same period of 2018-2019), followed by Finland (+30%), Switzerland (+37%), Austria (+29%), the UK (+28%) and to a lesser extent several others, including Spain, France, the Netherlands, Germany, Belgium and Denmark, as well as Canada (+101%), South Korea (+127%), Japan (+21%) and Australia (+24%). Notably, the US, Italy, Portugal and Norway have been exceptions so far, along with emerging markets in Asia (China, India, Taiwan) and Latin America (Chile). We still observe large disparities of momentum between sectors, due to uneven exposure to recent shocks and support measures (especially in transportation/storage, trade and accommodation & food services). In Europe, however, we still saw 60% of the eight main economic sectors of our sample of 26 countries (i.e. 123 out of 208 sectors) recording a y/y increase in insolvencies in Q1 2024 compared to 58% in Q4 2023 (119), 68% in Q3 (139 sectors), 61% in Q2 2023 (128). The countries with the highest number of sectors already surpassing pre-pandemic levels are mainly in Western Europe, particularly Spain, Sweden, the UK, Belgium and France).

Figure 2: Europe: Business insolvencies by sector, Q1 2024, y/y change in %

	Industry	Construction	Trade	Transport & storage	Accommod. & food service activities	Information & communic.	Finance, insurance, real estate, B2B activities	Education, human health & social work activities
Belgium	9	21	21	14	11	39	13	13
Bulgaria	-16	-44	-11	53	-46	-45	-20	-17
Czechia	22	14	-8	66	-18	157	21	100
Denmark	-25	-30	-33	-37	-10	0	-15	-28
Germany	39	22	22	13	25	20	41	13
Estonia	-9	11	80	0	150	100	-25	-67
Spain	28	70	61	34	59	62	55	18
France	8	28	17	34	10	6	30	10
Croatia	20	22	-6	-19	17	-7	1	-11
Italy	26	24	20	65	47	14	1	29
Latvia	67	100	-6	300	38	-33	78	-25
Lithuania	-9	-3	-48	242	-59	-67	4	10
Luxembourg	100	17	-15	-60	-17	83	-12	50
Hungary	9	3	10	4	-7	15	0	10
Netherlands	4	68	29	21	49	58	64	46
Austria	19	35	32	34	32	44	31	20
Portugal	61	-10	4	-21	9	120	-35	-25
Romania	-8	10	-7	28	10	34	5	6
Slovenia	15	0	50	16	-33	133	-30	20
Slovakia	-2	-3	0	-33	-42	200	7	-17
Finland	7	5	-7	-17	-3	14	13	-4
Sweden	31	58	20	43	76	83	58	77
Iceland	-4	-9	-12	-27	-23	-53	-17	-54
Norway	-23	-11	-1	-11	-30	61	-8	-25
UK	-11	-10	-12	0	3	22	4	-21

(*) non seasonally adjusted figures; colored figures indicate a higher number compared to 2016-2019 average
Sources: LSEG Datastream, Eurostat, ONS, DeStatis, SCB, Allianz Research

With the global economy not out of the woods yet, we now expect a bigger jump in business insolvencies in Germany (+21% for 2024), Belgium (+11%) and France (+12%) – with the latter subject to further adjustments as the political situation evolves after the national elections. We have revised upwards our estimates for business insolvencies in 21 countries, with the largest revisions in Sweden, Canada, Poland, New Zealand and South Korea. Conversely, downward adjustments were more limited (16 cases), notably touching Spain (now at +20% for 2024), Italy (+18%) and the UK (+6%). Overall, we expect a noticeable or strong increase in one out of two countries for 2024, with two out of three projected to end the year above their pre-pandemic numbers of insolvencies (2016-2019 average), compared to one out of two countries in 2023. Regionally, this trend would translate into increases across all regions, with North America leading at +29%, followed by Western Europe at +14%, and Asia at +3% with China (+8% without China). At the global level, this would result in another acceleration in insolvencies in 2024, reaching +10%, an increase of 1pp from the previous forecast of +9%, and following a +7% increase in 2023. In 2025, a moderate increase is expected globally (+1%), primarily driven by North America (+5%) and China (+4%), while the rest of the world is likely to see a downward trend reversal as economic activity and the financing context improve. European countries are expected to see the largest decreases, largely due to the strong bounce-back over 2021-2024 and/or from historically high levels.

Figure 3: 2024 expectations in business insolvencies, changes and levels

2024 expected change (y/y)	**Very low** (more than -15%)	**Low level** (-15% to 0%)	**High level** (0% to +15%)	**Very high** (+15% and more)
Strongly increasing (+20% and more)	Türkiye		Germany Ireland Netherlands U.S.	Canada Spain Sweden
Noticeably increasing (+10% to +20%)	Italy Latvia Russia	Portugal	Brazil Estonia New Zealand	Austria Belgium France Hong-Kong Morocco South Korea
Increasing (0% to +10%)	Czechia Lithuania	China Luxembourg Norway Romania	Japan India Singapore	Australia Finland Poland Slovakia Switzerland UK
Decreasing	Chile Taiwan	South Africa	Bulgaria	Colombia Denmark Hungary

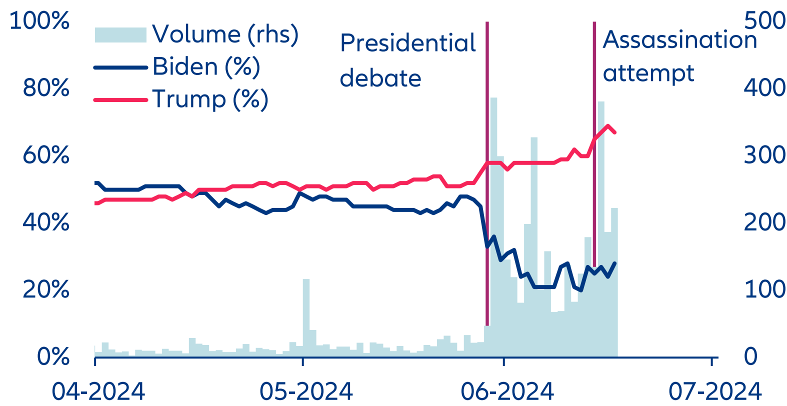
2024 expected level compared to 2016-19

Sources: National statistics, Allianz Research

US elections: Markets repriced a Trump victory but forgot inflation

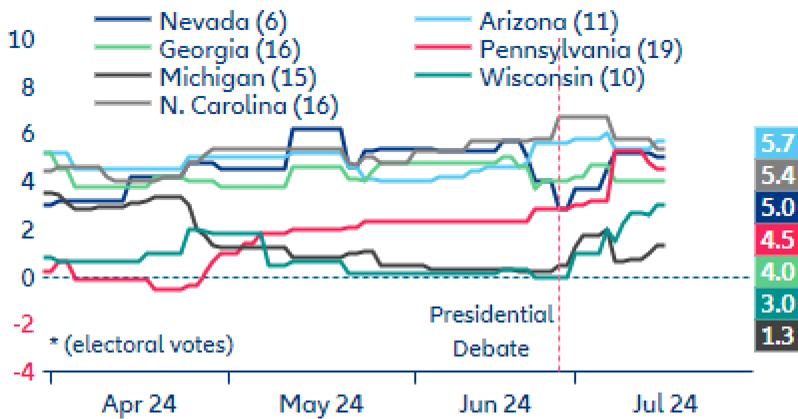
Following the presidential debate and the attempted assassination attempt, markets are now positioned for a Trump victory in the November elections. The presidential debate on 27 June confirmed that no matter who wins the elections, US deficits are likely to remain large. This combined with voter sentiment shifting towards the Republican party – polls were showing Trump's growing advantage in swing states even before the debate – and the assassination attempt on 13 July have prompted markets to reposition for a Trump victory in November. Sectors and assets expected to benefit from Trump's policies have performed strongly (including energy, financials, bitcoin), while renewable energy has underperformed. These market movements suggest that capital markets are unlikely to wait for January to reposition in case of a Republican victory (Figure 6).

Figure 4: Election presidential betting odds - Trump vs Biden (%)



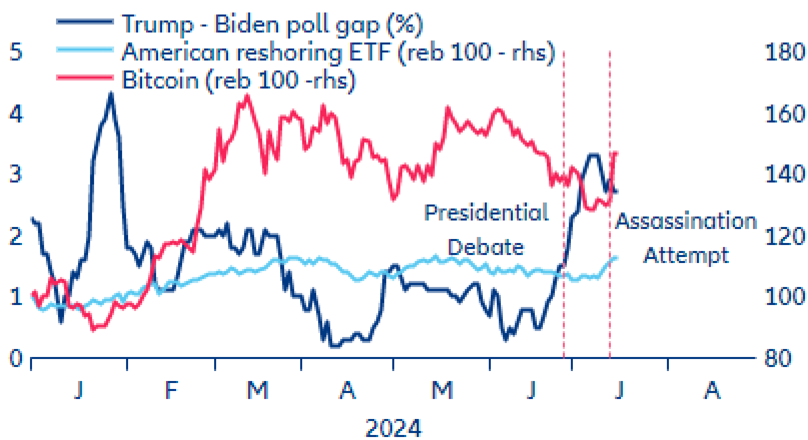
Sources: PredictIT, LSEG Datastream, Allianz Research

Figure 5: Elections polls Trump vs Biden in the key swing states (in pps difference)



Sources: RealClearPolitics, LSEG Datastream, Allianz Research

Figure 6: Risky assets vs polling

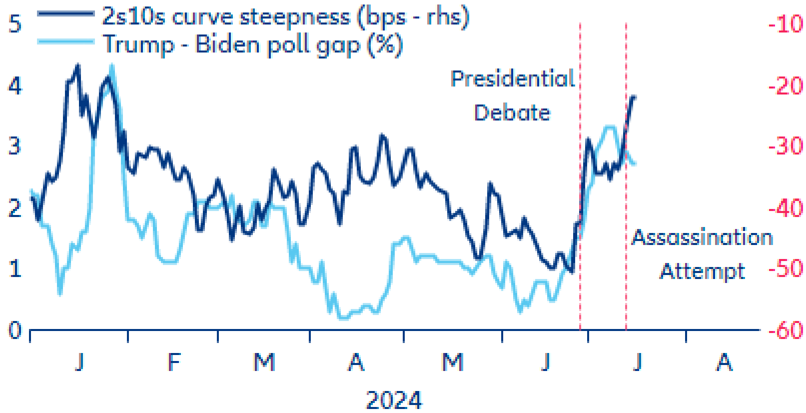


Sources: RealClearPolitics, LSEG Datastream, Allianz Research

If Trump wins, we would expect an increased supply of US Treasuries to finance the higher deficit and a higher neutral policy rate, which would in turn result in higher term premiums and yields, steeper curves and wider

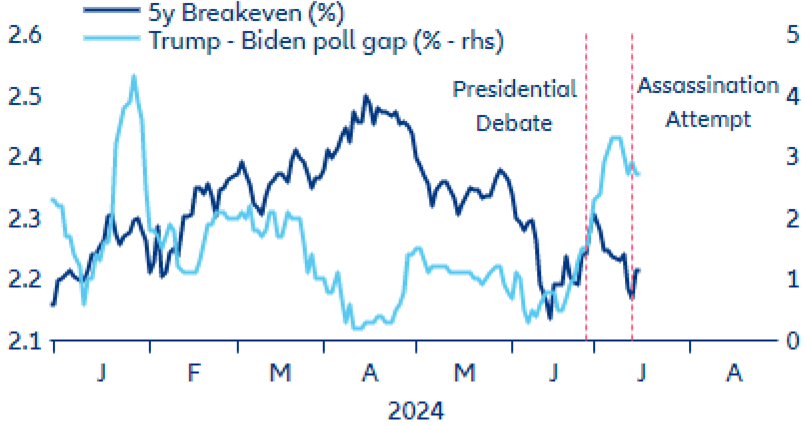
inflation breakevens. However, the outlook for markets will also depend on how the Fed reacts to expected policy shifts. Easier fiscal policy would historically call for a more restrictive path of short-term rates relative to a higher neutral rate, which would exert flattening pressure on the curve and offset some of the effects of rising term premiums. Indeed, the minutes from the June FOMC meeting highlighted expansionary fiscal policy as an upside risk to economic activity and inflation (Figures 7 & 8).

Figure 7: UST curve steepness and polling



Sources: RealClearPolitics, LSEG Datastream, Allianz Research

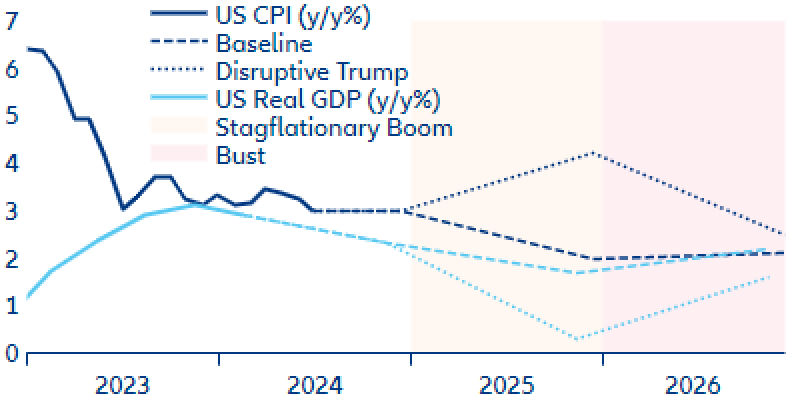
Figure 8: 5y Inflation breakeven and polling



Sources: RealClearPolitics, LSEG Datastream, Allianz Research

However, markets may be underestimating the potential impact on inflation, monetary and fiscal policies should Trump decide to double down on his more disruptive campaign pledges. This could in turn lead to unexpected market reactions down the road. Several of Trump's policies could set the stage for a significant and disruptive stagflationary shock, which could result in negative surprises for the economy and capital markets (Figure 9). In the most extreme scenario, inflation could rise to 4% by 2025, with growth dropping to around 0% in 2025. This could lead to market conditions similar to those of 2022, with bond yields reaching previous highs and a sell-off in risky assets. While we do not see this as the most likely scenario (5% probability), the reality could still go beyond current market expectations, suggesting that there is potential for a slightly greater market adjustment if the Republican party wins, especially if the result is a Republican sweep.

Figure 9: CPI and Real GDP growth scenarios

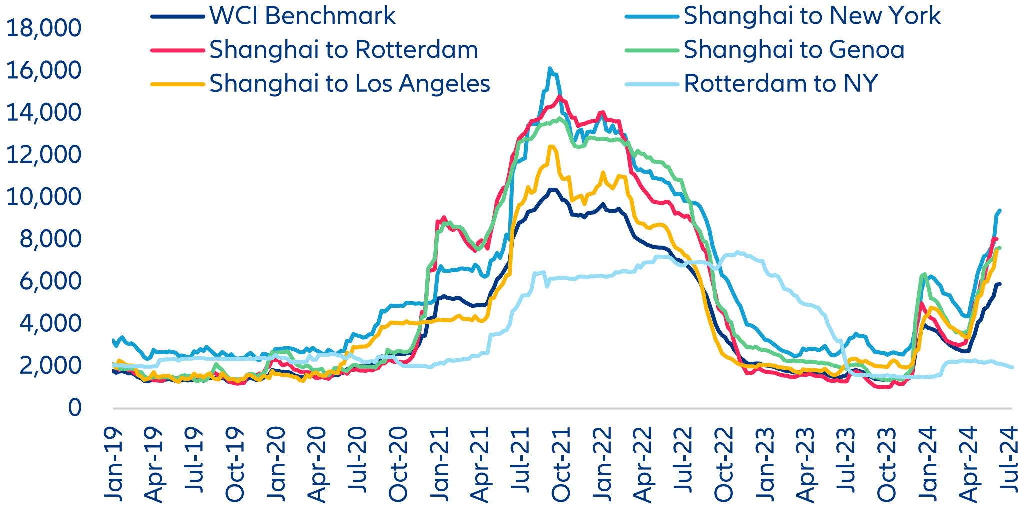


Sources: LSEG Datastream, Allianz Research

Shipping costs: Preparing for trade war?

Geopolitical tensions are driving containership freight rates back to the peaks last seen in mid-2022. After three months of consecutive weekly declines, maritime transport prices have started to soar again since May, reaching USD 5,901/forty ft box (+121% YTD and +297% y/y)[2] last week, a level not seen since August 2022 (Figure 10). Since it remains unclear how long the protracted conflict in the Middle East will last, companies are starting to worry about securing their supplies for the second half of the year, when demand is expected to bounce back. This is particularly the case for European companies, which have been destocking at lower prices to avoid the costs of hording inventories (Figure 11).

Figure 10: Container freight rates (USD/FEU)



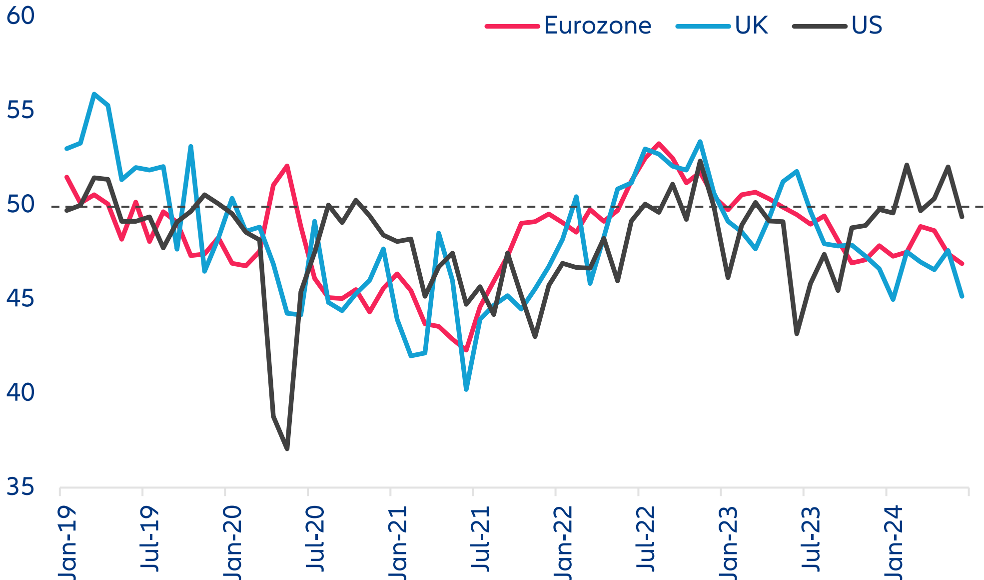
Sources: Bloomberg, Allianz Research

European companies – unlike their US peers – are also more exposed to trade with Asia, and more vulnerable to blockages at major choke points. While the cost of moving cargo from Rotterdam (Europe) to New York (US) has increased by only +30% year-to-date, shipping prices from Shanghai (Asia) to Rotterdam have soared by +383%. This is particularly worrying for European firms because 22% of the EU's imports come from China (vs. 16% before the pandemic) and 40% from Asia. This means that the margin recovery in the second half of 2024 is at risk for

[2] Using the World Container Index (WCI) as reference, which is provided on a weekly basis and is a composite indicator of container freight rates for eight major trade routes between Asia, Europe and North America.

sectors highly dependent on trade with Asia, such as machinery & equipment, automobiles and auto-parts, household equipment, electronics and apparel.

Figure 11: Manufacturing PMI – Inventory levels

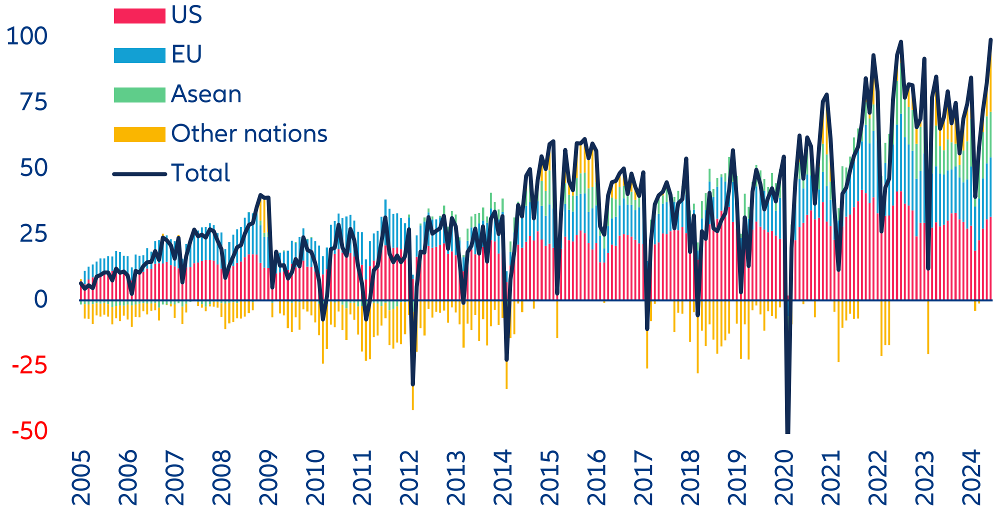


Sources: S&P Markit, Allianz Research

The Red Sea disruptions may be the biggest driver of surging freight rates but the recovery of seaborne trade in general is also playing a role. After remaining muted for most of 2023, a timid trade recovery is certainly underway, fueled by recovering demand. The international trade balance index – which tracks the volume of the merchandise trade balance – grew by +2% y/y in April, 1.1x above pre-pandemic volumes. Moreover, despite the geopolitical tensions and tariffs on Chinese exporters, China's trade surplus continues to soar, reaching USD99bn in June, a level never seen before (Figure 12). Beating expectations, Chinese exports grew by +8.6% last month, totaling USD307.8bn, with steel, home appliances, ships and automobiles as the fastest-growing categories. Indeed, Chinese passenger-car exports showed a remarkable upsurge of +29% y/y in June. Other Asian nations are also adding to the trade rebound. South Korea's export volume index grew by +2.6% in June, a similar rate as India's, while Taiwan's exports rose +23.5% annually, with noticeable improvements for trade in computers, electronics and semiconductors. We find that both demand and supply have been contributing to rising containership freight rates as of Q2 2024 (Figure 13), though they only account for about 15% of the price deviation, with the rest explained by the Red Sea disruptions. Oil prices have declined considerably from the peak observed in 2022 and are no longer contributing to increasing shipping costs[3].

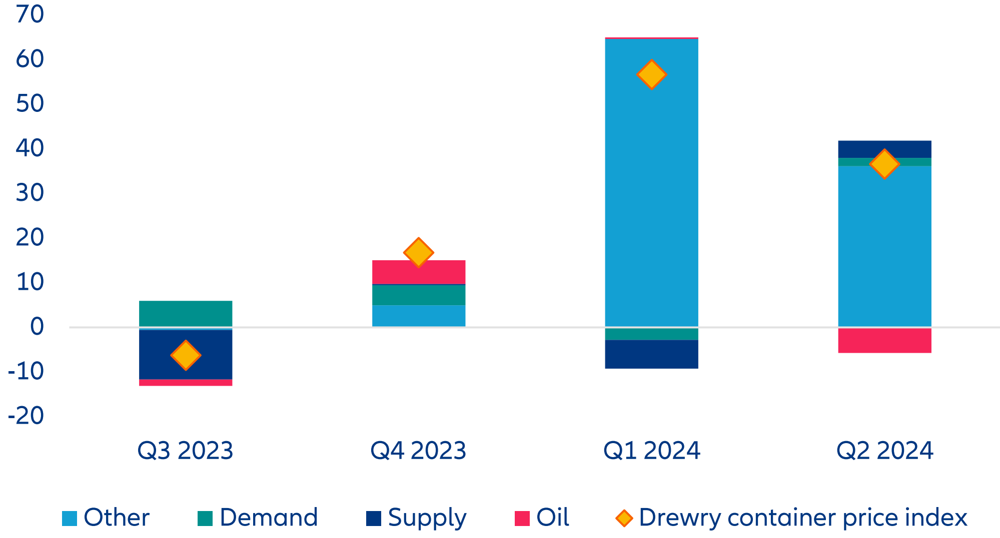
[3] It is worth noting that the likelihood of Donald Trump's re-election has also fueled some concerns regarding US-China trade going forward, and we cannot exclude the role of speculative behavior from players in the shipping business.

Figure 12: China's trade surplus, monthly (USD bn)



Sources: Bloomberg, China's General Administration of Customs, Allianz Research

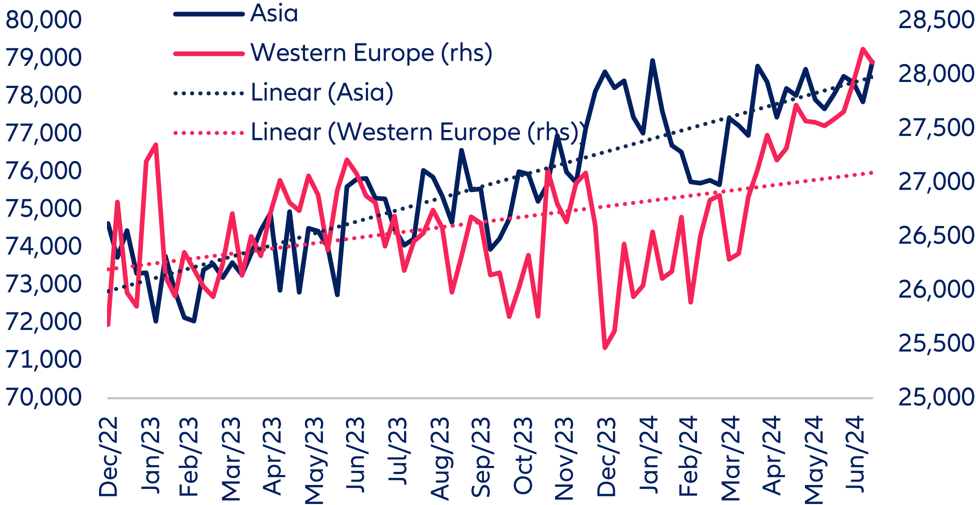
Figure 13: Historical decomposition of shipping costs (pp deviations from trend, contributions)



Sources: Allianz Research. Notes: The decomposition is based on an VAR model that employs: total shipping containers, Drewry World Container Index of shipping costs, bunker oil prices and PMI data on new orders. The model is estimated on monthly data from January 2013 to May 2024

Against this backdrop, supply chains continue to adapt to new delivery times, tightening port congestion in Western Europe and Asia. While the number of vessel calls in Asia has started to move up (+8% since China's re-opening), in Western Europe the number of port calls started to jump (+10% YTD) since the beginning of the Red Sea crisis (Figure 14). The Western Mediterranean region has been the most impacted, with port calls increasing +51% year-to-date in Spain, +30% in Italy and +15% in France, while disruptions from strikes at Germany's biggest ports continue to extend regional delays (Hamburg is the third-busiest container port of Europe).

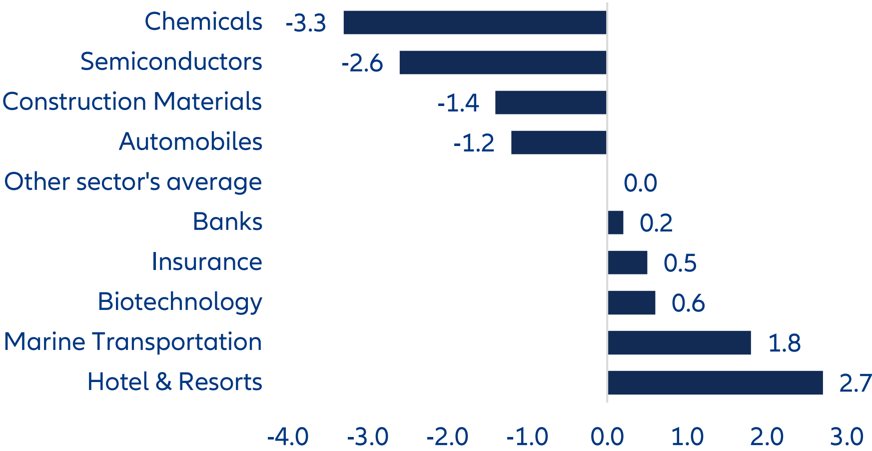
Figure 14: Port calls – number of ships stopping at a port – by region (weekly)



Sources: Bloomberg, Allianz Research

As long as the tensions in the Middle East linger, shipping costs will remain elevated, boosting earnings for companies. While the first peak in marine transportation rates was justified by the longer distance (and therefore higher fueling costs) incurred by taking a detour to avoid the Suez Canal, today's peak is above shipping companies' breakeven points. Consequently, earnings prospects for global container liners have improved compared to three months ago (Figure 15). Together with hotels, shipping is now the sector with the highest upwards earnings revisions. However, heavy rainfall and storms raging across South Africa have recently forced some vessels to seek shelter or even alter their course, which could add pressure to the shipping sector and extend delays further.

Figure 15: Earnings revisions (three months change, %), by sector (worldwide scope)



Sources: Bloomberg (as of 16 July 2024), Allianz Research

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