GENERALI INVESTMENTS

Market Compass

October 2024

MARKET OUTLOOK

- The rate cut cycle is up and running, as inflation converges to target. Governments face challenges, such as large twin deficits in the US, a property overhang in China, a broken economic model in Germany and unsustainable fiscal trends in France.
- The financial outlook partly depends on the results of the US elections. A split government is the most likely outcome. A full Democrat victory would be bearish USD, while a Republican sweep would challenge our 'buy the dips' approach to Treasuries.
- The global growth cycle should prove resilient and the announced fiscal stimulus in China has reduced tail risks. We now see upside and downside medium term risks for inflation. Rates should become less volatile and normalise but may not return to the pre-Covid lows.
- The pricing of aggressive rate cuts into end 2025 has pushed bond yields lower. We see them skewed to the downside over the coming year. We continue to prefer credit over government bonds. We would use the usual pre-election correction to increase long positions in stocks.

Edited by
MACRO & MARKET RESEARCH TEAM

A team of 13 analysts based in Paris, Cologne, Milan and Prague runs qualitative and quantitative analysis on macroeconomic and financial issues.

The team translates macro and quant views into investment ideas that feed into the investment process.

US

- (+) Q2 GDP revised up to 3.1%
- (+) The slow descent of core inflation continues…
- (+) …but layoffs remain at historical lows
- (+) Fed to cut by another 50bps this year and 125bps in 2025

UK

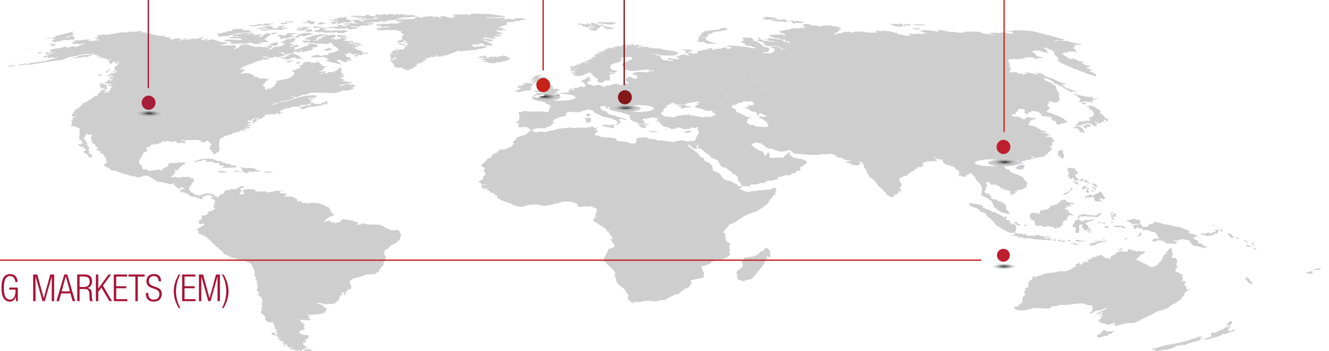
- (+) Q2 GDP (0.5% qoq) stayed strong
- (+) Sentiment suggests ongoing expansion
- (+) BoE to cut rates further
- (−) Poor public finances might warrant a tougher 2025 budget

EUROZONE

- (−) Weakening sentiment across the board
- (−) Political uncertainty high, especially in Germany and France
- (+) Inflation down to 1.8% in September
- (+) ECB to ease stronger and faster

CHINA

- (+) Surprising coordinated monetary and expected fiscal stimulus
- (+) A boost to confidence that cut downward risks to growth
- (−) Details of fiscal stimulus still to be announced
- (−) Macro data still on the weak side



EMERGING MARKETS (EM)

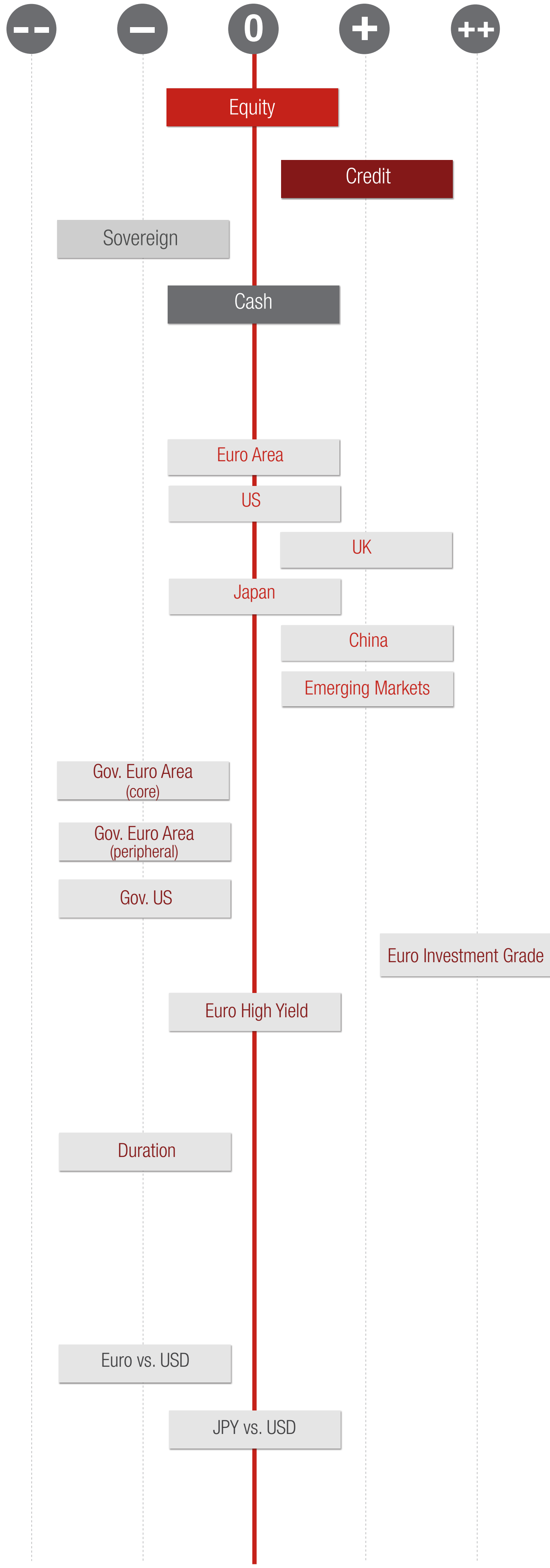
- (+) Still supportive macro environment but growing risks
- (+) EM assets benefited from the Fed easing but tight valuations
- (−) More volatility with the US elections advocates for lower beta

(+) Positive
(−) Negative
(!) Topics to watch

Your Partner for Progress.

DIRECTION OF TRAVEL

- Keep moderate overweight (OW) equity, increase it after the US election. Prefer US, Japan over Euro Area.
- In credit keep IG overweight, prefer Euro Area and non financials.
- Underweight (UW) government bonds, especially short duration.
- OW USD against Euro given uncertainties in Europe.



Equity

- After the bounce back, we are neutral for the next month, due to negative global macro surprises and possible higher volatility prior to US elections.
- We OW due to rate cuts, improving financial conditions, and very high net corporate cash-flows.
- We see TR for S&P 500 at 4% and 7%-to-15% for EMU over the next 12 months.

Bonds

- Current rally to run out of steam given excessive key rate pricing. Medium term, lower inflation and lackluster growth pave the way for lower yields - particularly in the US.
- For Euro Area non-core bonds differentiation is key. Overweight countries with solid fiscal stance and robust growth record.

Duration

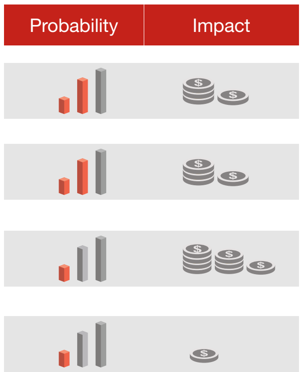
- Negative duration.

Currencies

- A partial correction of excessive Fed rate cut expectations and relief about a US soft landing may provide some respite for the USD.
- Meanwhile, renewed cyclical worries and political uncertainties in the euro area will keep a lid on the EUR.
- The JPY's ascent may flatten out near term, but may resume into 2025 amid ongoing monetary policy divergence.

TOPICS TO WATCH

- Two-sided risks to orderly disinflation: sticky wages & services inflation, tariffs vs. downside growth risks and China deflation.
- Intensified global fracturing (esp. China/US), notably on a Trump victory (punitive tariffs).
- Geopolitical surprises (Middle East, Ukraine, Taiwan).
- Goldilocks: broader recovery, ongoing disinflation, broadening of the Tech rally.



Probability: High ⟷ Low

Impact: High ⟷ Low

GLOSSARY

BUY THE DIPS

«Buy the dips» is a common phrase investors and traders hear after an asset has declined in price in the short-term. After an asset's price drops from a higher level, some traders and investors view this as an advantageous time to buy or add to an existing position. The concept of buying dips is based on the theory of price waves. When an investor buys an asset after a drop, they are buying at a lower price, hoping to profit if the market rebounds.

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