



Market Compass

April 2024

MARKET OUTLOOK

- Hard landing fears are gone. Rising confidence about future economic prospects are helping global risk assets to charge ahead, even as rate cut expectations are being scaled back.
- Global markets do not look exuberant. The current pricing may reflect a 'new normal' rather than a financial 'bubble'. Elevated public debt, permanent Central Bank puts and a considerable inflation shock (since 2022) may support inflation assets and lower risk premia.
- Still, the collapse of risk premia across markets contrasts with persistent policy and geopolitical risks. A Trump 2.0 scenario may challenge both the policy rate cut consensus, and the global trade order.
- We then remain neutral in stocks and High Yield (HY). We keep a selective preference for cyclicals, small cap, and EM equity. Risk asset volatility looks too low and can be used to either surf the bullish wave or protect against unexpected shocks. We seize the back-up in yields to go moderately long duration and retain a large overweight in Investment Grade (IG) credit – the new 'haven'.

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

- + Q1 growth slows but remains above 2%
- ! Core inflation stickier than expected...
- + ...but a cooler labour market and higher productivity limit upside risks
- ! Upside risks to 75bps rate cuts forecasts

UK

- UK was in recession in H2/23...
- + ... but composite PMI signals growth in Q1
- Core inflation with 4.5% yoy in 02/24 still very high
- Comments from Monetary Policy Committee (MPC) members suggest that BoE rate cuts are still distant

EUROZONE

- + Further improvement of economic sentiment
- + Signs for easing wage growth
- + Mounting signals of an ECB rate cut
- + We deem a June cut most likely

CHINA

- + Manufacturing activity is stabilising...
- ...but real estate data is not out of the doldrums
- + Large government support to manufacturing in the pipeline
- ! Domestic demand prospects remain very uncertain

EMERGING MARKETS (EM)

- + EM growth data surprised to the upside
- + Disinflation to lose steam but rate cuts continue
- Spreads tightened meaningfully

- + Positive
- Negative
- ! Topics to watch

DIRECTION OF TRAVEL

- We turn neutral on the riskiest parts of our portfolio (Equities, HY).
- IG Credit remains our favorite asset class. We increase the overweight (OW) as spreads can tighten further.
- We OW medium to long-dated non-Core euro area Govies at the expense of short-dated Bonds and Cash (cut to Underweight).
- We switch to an UW for EA core bonds, US Treasuries and USD-denominated EM Govies primarily on hedging cost grounds.

Equity

- Markets discount better macro data and future rate cuts. Positioning has increased visibly and the S&P 500 is near the upper band of our target range. The volatility - VIX - remains suspiciously low and geopolitical risks are not abating.
- We stay neutral and see 8% returns in 12 month for ex-US countries especially.

Bonds

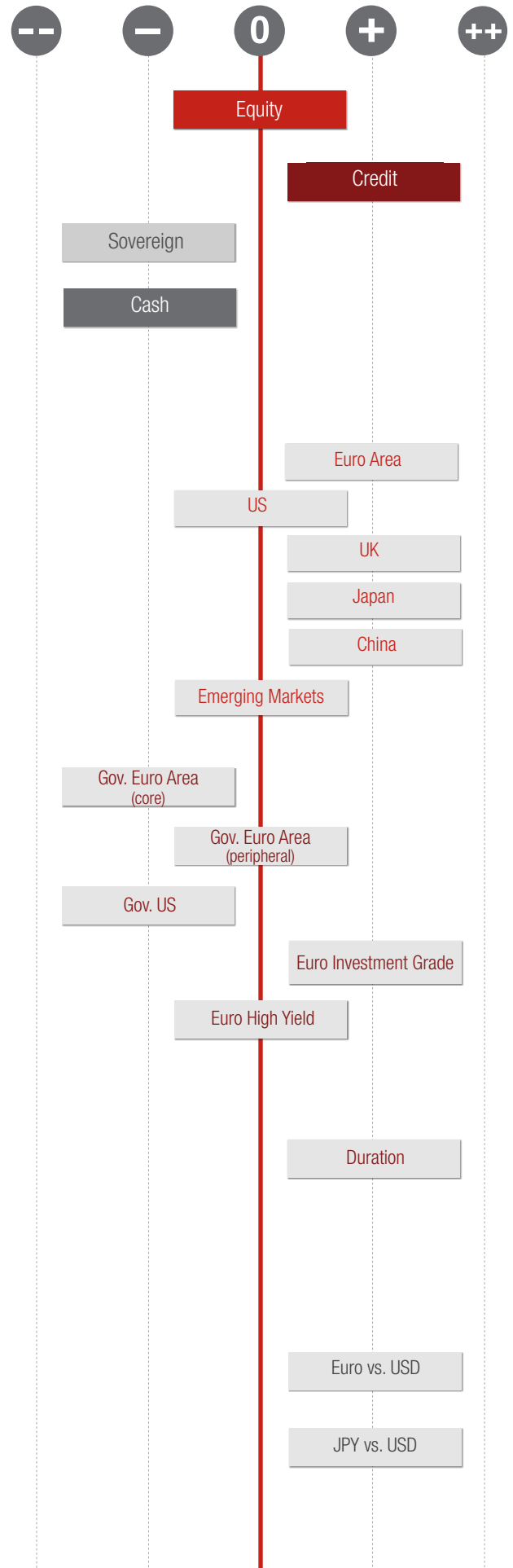
- Core gov. bond yields to remain in a trading range for the time being, skewed to the downside as key rate cuts are on the horizon and inflation is forecast to trend downwards.
- EA non-core government bond spreads to remain on a low level amid a further decrease in bond market volatility.

Duration

- Moderately long duration.

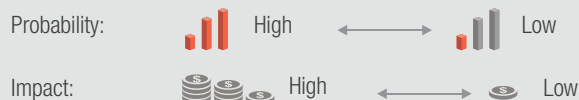
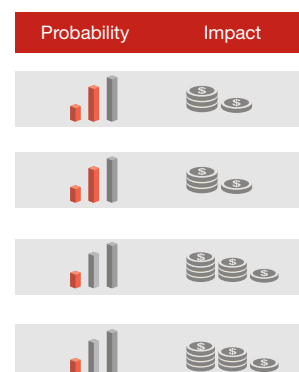
Currencies

- Cyclical forces and yield differentials keep driving the fundamentally expensive USD. Prospective Fed easing points to somewhat tighter yield differentials and lower rates uncertainty over 2024 – both of which acting as moderate USD headwinds.
- The JPY will benefit once US rates retrace more visibly over H2.



TOPICS TO WATCH

- A more stubborn last mile of disinflation (wages, sticky services inflation, energy prices) delaying rate cuts further.
- Intensified global fracturing (esp. China/US), notably on grown odds of Nov. 5 Trump victory (punitive tariffs).
- Cracks in financial stability as tighter conditions feed through (CRE defaults, banking, housing, non-bank liquidity...).
- Geopolitical stress up (Ukraine, Middle East, Taiwan).



GLOSSARY

PMI

The PMI (Purchasing Managers Index) is a leading indicator of overall economic activity. It is based on a monthly survey of supply chain managers across industries, covering both upstream and downstream activity. The value and movements in the PMI and its components can provide useful insight to business decision makers, market analysts, and investors.



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