



Market Compass

November 2023

MARKET OUTLOOK

- Major central banks have reached peak rates, which are set to maintain for long.
- A bleaker growth outlook and safe-haven flows amid geopolitical risks, may help yields to recede from recent peaks. But heavy supply and quantitative tightening will keep the decline modest.
- The relief on risk assets should be limited, given the deteriorating earnings outlook. The MSCI World, down 10% over the past three months, remains under pressure.
- We keep overweight in Investment Grade (IG) Credit and EM bonds and underweight in Equities and High Yield (HY) Credit, but slightly trim the extent of the positions. We favour a moderately long duration in core and quasi Govies.

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

- + Q3-2023 growth stronger than expected
- Choppy and slow disinflation
- + Wage growth moderation signal labour market rebalancing
- ! Peak Fed rate, but it will maintain at least until June '24

UK

- + BoE likely to hold Bank Rate constant at 5.25%
- PMIs remained in contractionary territory
- CPI inflation and wage growth remained rather sticky

EUROZONE

- Economic indicators show protracted weakening into Q4-2023
- + Inflation receded significantly (-2.9%) in October, lowest level since July 2021
- + Labour market remains solid...
- ... and then ECB to stick to peak rate for longer

CHINA

- + Q3 GDP growth surprised on the upside but other indicators were softer than expected...
- + ... Requiring fiscal policy support
- + Gradual recovery likely to continue

EMERGING MARKETS (EM)

- + Latest data confirm positive EM ex-China outlook
- + EM disinflation continues...
- + ... Giving central banks additional scope for cuts
- ! Geopolitical tensions and oil price spikes put most EMs at risk

- + Positive
- Negative
- ! Topics to watch

DIRECTION OF TRAVEL

- We further reduce our underweight (UW) in equity and High Yield
- We continue to prefer Investment Grade credit, as risk compensation is still attractive. Tilt towards financials.
- We have positive return expectations for US, EA, and EM Govies but trim the overweight (OW) given ongoing volatility
- Constructive outlook on Euro Area peripherals but growth concerns and ECB quantitative tightening (QT) may lead to spread widening
- Almost neutral on Cash

Equity

- Still cautious but reduced UW short term. Risks: macro slowdown, high yields, Israeli war and still high US valuations.
- Constructive view over 12 months: cheap ex-US valuations, bottoming US margins, lower positioning.
- OW Japan, Switzerland, China, India and neutral US vs EMU.

Bonds

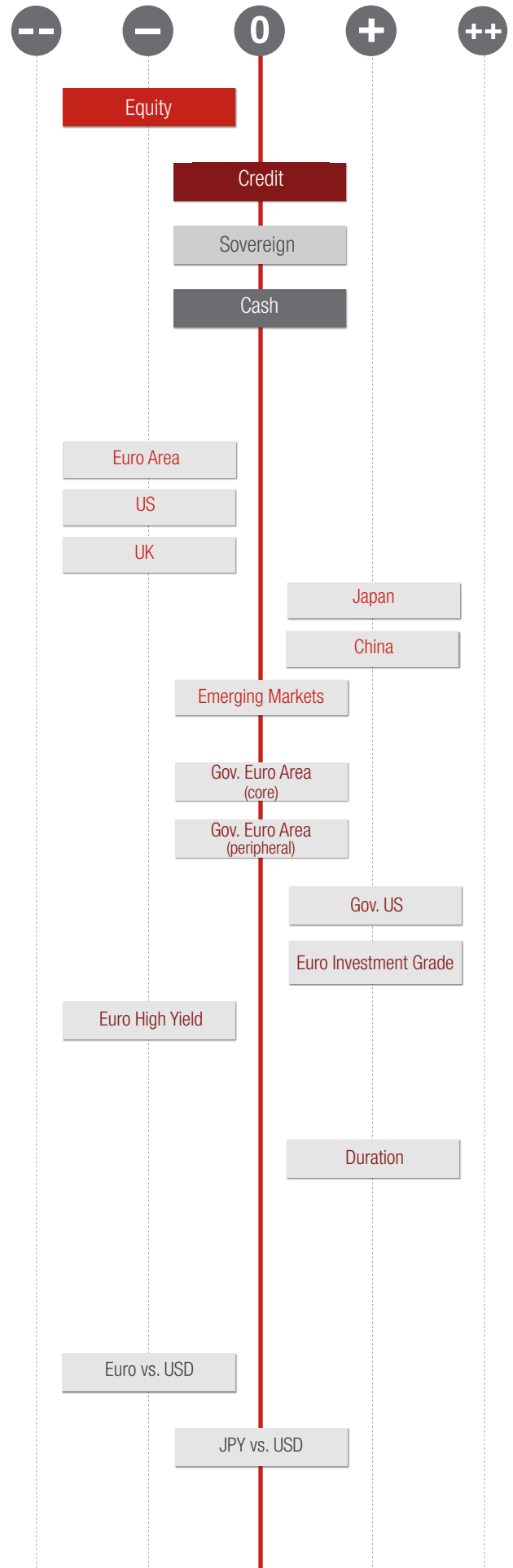
- Increase in US yields exaggerated amid a looming economic slowdown.
- No unwinding of PEPP in 2024 and the forecast drop in volatility support EA non-core spreads. However, challenging supply outlook and debt sustainability concerns offset this.

Duration

- Long duration recommended.

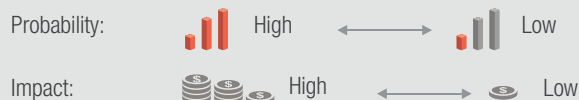
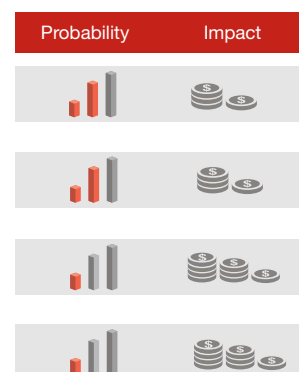
Currencies

- A weak global growth outlook and vulnerable risk sentiment point to some further USD upside. The EUR is burdened by recession worries and high energy prices for now.
- The Yen will keep scrambling for a boost for a while. A sustained JPY recovery will require markedly lower US yields or a material adjustment on the BoJ's policy.



TOPICS TO WATCH

- Two side risk for monetary policy (need to tighten further vs overtightening leading to recession)
- Extreme weather events severely impact on the growth-inflation mix
- Extension of Palestine conflict to Iran curb oil and gas supplies. Other political tension (ie. Ukraine/Taiwan) may affect gas and IT
- Tight monetary policy leading to financial instability



GLOSSARY

PANDEMIC EMERGENCY PURCHASE PROGRAMME (PEPP)

The ECB's pandemic emergency purchase programme (PEPP) is a non-standard monetary policy measure initiated in March 2020 to counter the serious risks the outlook for the Euro Area posed by the coronavirus (COVID-19) outbreak. The PEPP is a temporary asset purchase programme of private and public sector securities aimed at reducing government and corporate borrowing costs. Asset purchases have stopped as the situation normalized, but the ECB has yet to decide when to reduce its holdings, which would raise Euro Area interest rates.



This document is based on information and opinions which Generali Insurance Asset Management S.p.A. Società di gestione del risparmio considers as reliable. However, no representation or warranty, expressed or implied, is made that such information or opinions are accurate or complete. Generali Investments Partners S.p.A. Società di gestione del risparmio, distributor of this document, periodically updating the contents of this document, relieves itself from any responsibility concerning mistakes or omissions and shall not be considered responsible in case of possible changes or losses related to the improper use of the information herein provided. Opinions expressed in this document represent only the judgment of Generali Insurance Asset Management S.p.A. Società di gestione del risparmio and may be subject to any change without notification. They do not constitute an evaluation of any strategy or any investment in financial instruments. This document does not constitute an offer, solicitation or recommendation to buy or to sell financial instruments. Generali Investments Partners S.p.A. Società di gestione del risparmio and Generali Insurance Asset Management S.p.A. Società di gestione del risparmio are not liable for any investment decision based on this document. Generali Investments may have taken, and may in the future take, investment decisions for the portfolios it manages which are contrary to the views expressed herein. Any reproduction, total or partial, of this document is prohibited without prior consent of Generali Investments Partners S.p.A. Società di gestione del risparmio. Generali Investments is part of the Generali Group which was established in 1831 in Trieste as Assicurazioni Generali Austro-Italiache. Generali Investments is a commercial brand of Generali Investments Partners S.p.A. Società di gestione del risparmio, Generali Insurance Asset Management S.p.A. Società di gestione del risparmio, Generali Investments Luxembourg S.A. and Generali Investments Holding S.p.A.

Find out more:
www.generali-investments.com