GENERALI INVESTMENTS

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

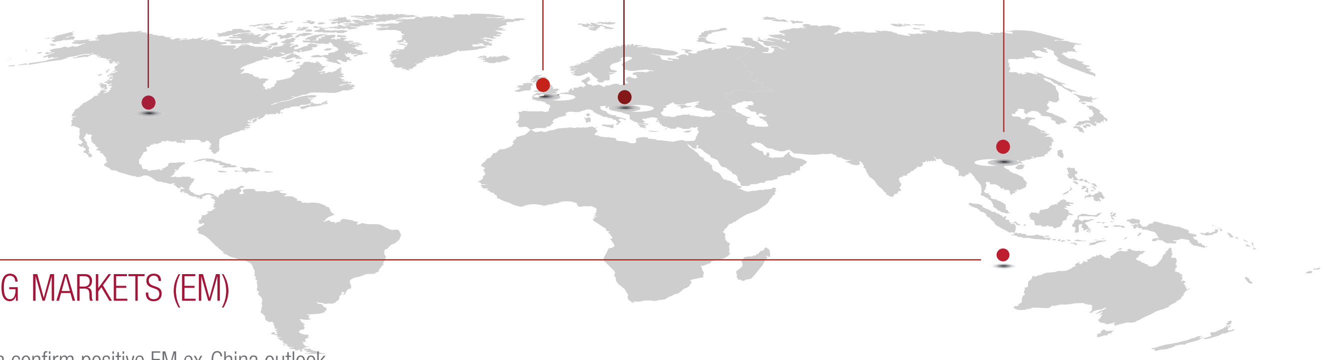
- (+) BoE likely to hold Bank Rate constant at 5.25%
- (−) PMIs remained in contractionary territory
- (−) CPI inflation and wage growth remained rather sticky

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

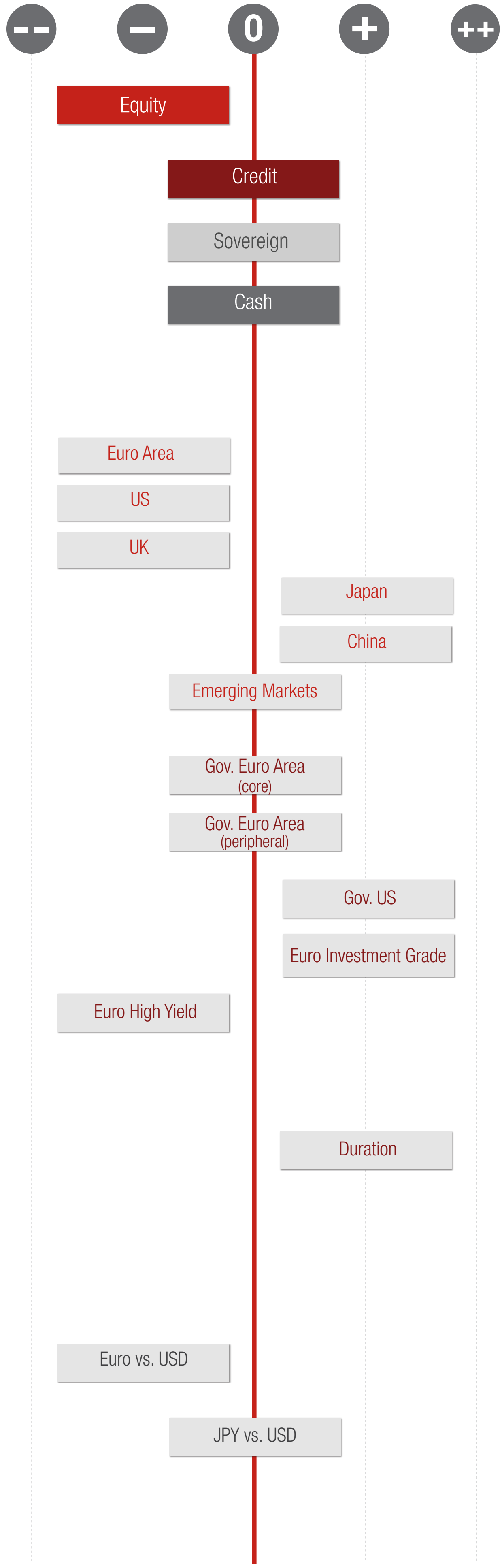
- Increase in US yields exaggerated amid a looming economic slowdown.
- No unwinding of PEPP in 2024 and the forecast drop in volatility support EA non-core spreads. However, challenging supply outlook and debt sustainibility concerns offset this.

Duration

- Long duration recommended.

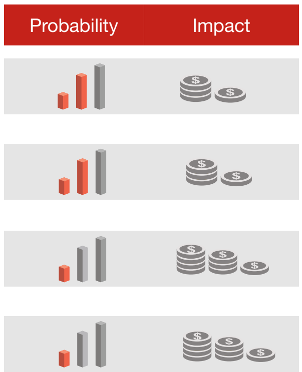
Currencies

- 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



Probability: High ⟷ Low

Impact: High ⟷ Low

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.

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