

Investment View

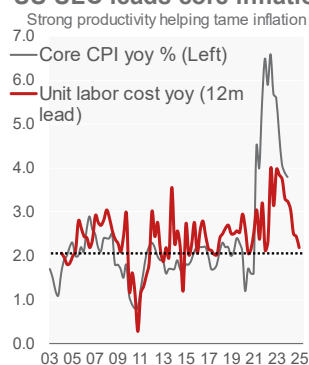
Goldilocks vs. Gridlocks

June 28, 2024

'Investment View' provides our quarterly macro & market outlook and investment recommendations

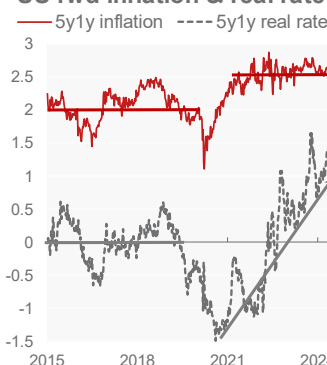
- The economic story of moderate growth and disinflation smells of Goldilocks, but the politics of gridlocks. A Trump victory would fan international trade tensions, while political troubles in Europe are not limited to just France.
- The global recovery appears slightly more entrenched, if still moderate. We are confident that inflation normalisation is proceeding again, making rate cuts more likely.
- Political developments often support thematic financial trends, e.g. our long-standing preference for IG Credit over Govies. But we try to avoid falling into the excessive influence of political crises, often the cause of temporary spikes. The French election may be a buying opportunity for OATs, unless a fully split parliament causes stalemate and makes fiscal consolidation impossible.
- Until the political fog lifts, we keep our equity overweight (OW) minimal, and High Yield and Financial credit neutral. We stay long non-financial IG Credit. We like to play the range in rates, still with a long duration bias. EM markets offer good diversification benefit (both in equities and HC credit), despite near-term dollar strength.

US ULC leads core inflation



Source: BLS, Bloomberg, GenAM

US fwd inflation & real rate



Source: Bloomberg, GenAM calculations

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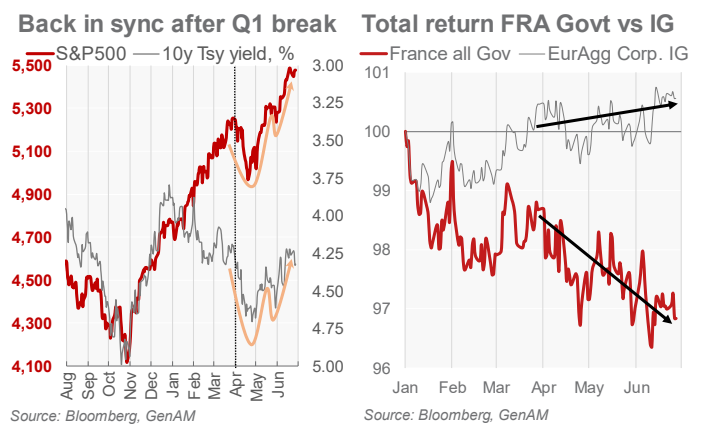
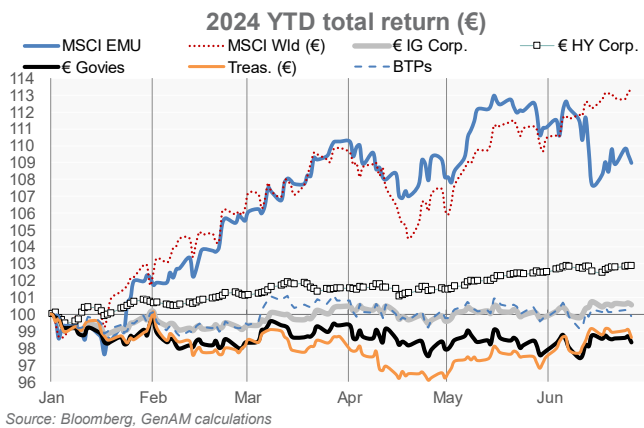
GOLDILOCKS VS. GRIDLOCKS

Vincent Chaigneau

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Global markets generally sanguine, but European equities suffering from heightened political uncertainty

Steady as she goes. Despite a poor start to Q2, global markets are closing the first half in decent shape. President Macron has just thrown a curveball, however, with the unexpected dissolution of parliament, fanning political uncertainty and erasing quarterly gains for European equities. The hawkish central bank repricing this year seems to have run its course, to the benefit of our call [three months ago](#) to initiate long duration positions. The pullback in yields (middle chart below) from the April high, has also helped global stocks: after a brief rupture in Q1, the bond-stock price correlation has switched back to positive – a generally strong pattern over the past year. Our long-lasting call to favour IG Credit over Govies has continued to pay off, and more so than usual in France, where OATs have suffered from the sudden political and fiscal uncertainty.



Moderate recovery proceeding

Global recovery slightly more entrenched, but still moderate

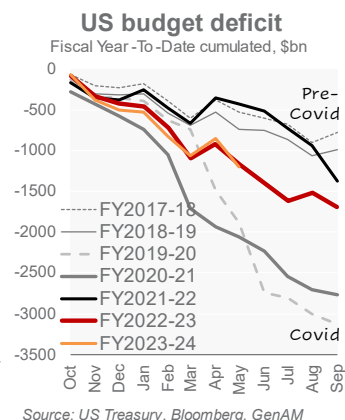
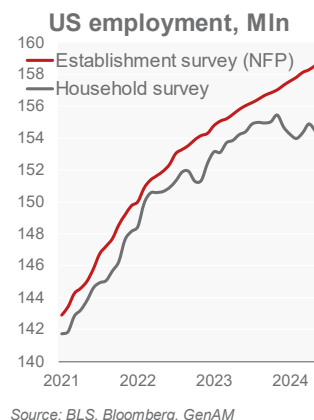
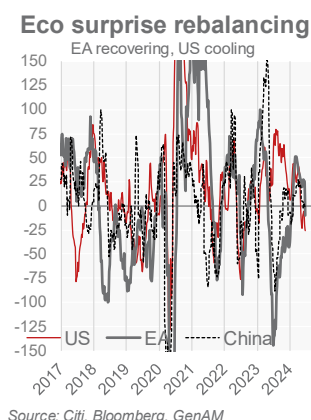
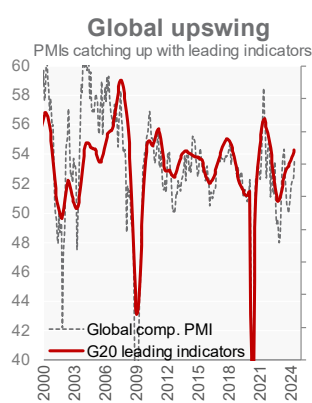
Geographical economic rebalancing questioned. The shape of this most unusual global economic cycle has not changed dramatically over the past three months. Hard landing fears have all but disappeared from most investors' mind, and the recovery appears slightly more entrenched (left chart below). But it is not booming. Recovery in manufacturing remains tentative, with the US ISM inventory/orders still signalling caution. The Euro Area (EA) economy finally got out of the tunnel in Q1, after

five quarters of stagnation. Economic surprise indices have suggested some geographical rebalancing, with the US slowing and China trading water. Yet as we go to press, a few EA reports have disappointed (PMI, IFO etc.), suggesting that growth remains modest. The French political crisis is not globally systemic but may be a negative confidence shock that matters for Europe.

The US economy has slowed from the speedy pace of 2H23, with conflicting forces at play. The delayed effects of rate hikes may still be filtering through, but the easier financial conditions and strong wealth effect provide good tailwind. Employment data is partly confusing (third chart below), though we see evidence of some cooling starting to infect consumer confidence and spending. Yet the coming rate cuts should support financial conditions, and fiscal policy remains broadly supportive, with the fiscal year-to-date deficit tracking along the high level of FY 2022-23 (right-hand chart).

China's momentum seems to have weakened in Q2, with May numbers adding to concerns. Policy support remains unimpressive, and structural headwinds (demographics, advanced urbanisation, leverage) will make it harder to turn the corner of the real estate crisis. Let us see if the third plenum (gathering of the Communist Party's Central Committee), much delayed to mid-July, brings any positive surprise.

EA out of the tunnel but still slow, US economy cooling but solid, China trading water



Inflation normalisation restarting

We are getting there. At the [turn of the year](#) we had warned about a difficult last mile, and 1Q24 delivered nasty inflation surprises indeed. But Q2 has seen an inflexion, and normalisation seems to be proceeding again, even in the US (where the output gap appears less conducive). It is not a trivial call, but we are relatively confident about further normalisation. Mostly importantly, the US labour market is cooling, e.g. small and medium companies (SMEs) are reporting diminishing difficulties to hire, and the quit rate has continued to fall (first 2 charts below). Both factors point towards cooling wage pressures, which have been instrumental to services inflation. 'Greedflation' and the steady rise in margins – another driver of the inflation crisis – is also likely to subside (see below). Solid productivity gains are also helping to protect margins, by reducing unit labour costs (third chart).

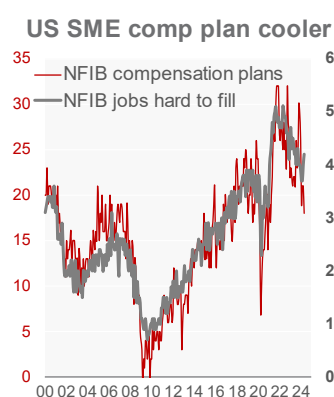
Of course, it is not a one-side story. For instance, shipping prices have rebounded steadily this year (right-hand chart below), partly because of the Middle East tensions. Supply chain indicators suggest a normalised situation but anecdotal evidence such as Airbus' profit warnings prove that shortages are still a reality. A Trump victory, and a new wave of tariffs may cause a one-off inflation shock again, though

Relatively confident about further inflation normalisation

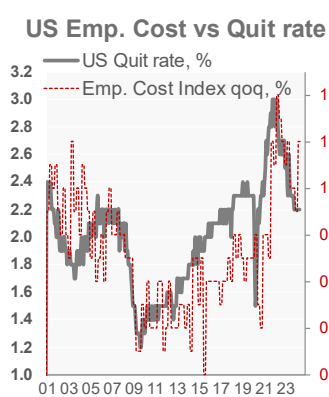
in the context of softening labour markets and increasingly populist western political environments, the pricing power of corporations may be lower (margin erosion a possibility). Also those trade tensions must be seen in the context of China manufacturing oversupply and deflation pressure that they tend to export again (US import prices virtually dormant).

Energy costs skewed to the downside? Although close monitoring is required, we are confident about continued inflation normalisation. A Trump victory would also reinforce US fossil production, bad news for climate change but potentially good news for (lower) energy prices. OPEC+ has seen its market share steadily erode over the past couple of years, and its spare production capacity has risen to 4.5 million bpd, about 50% above long-term average. Hence the pressure to start increasing production again in 4Q24, a change of strategy that may exert downward price pressures.

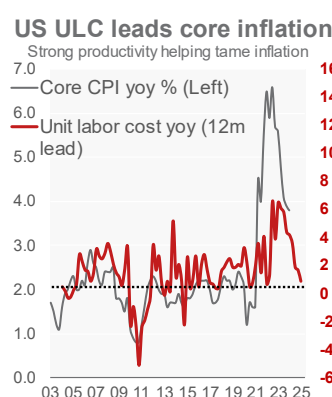
White swan... lower energy prices?



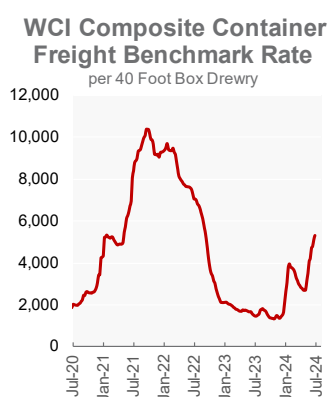
Source: NFIB, Bloomberg, GenAM



Source: BLS, Bloomberg, GenAM



Source: BLS, Bloomberg, GenAM



Source: Bloomberg, GenAM

Politics vs. Economics

Trump victory would fan international trade tensions; Europe, not just China, is exposed

Gridlocks. In all, the economic story of moderate growth and disinflation smells of Goldilocks. But the politics of gridlocks. Trump is now the clear favourite for the US presidential election, and although a red wave is far from assured (House may switch to Democrats, while the Senate turns the other way), this will likely result in heightened international trade tensions. The well-advertised tariffs on Chinese products – potentially up to 60% – shall not oblivate the broader 10% tariffs, with selected European sectors also in the line of firing (steel, autos, luxury & spirits etc.)

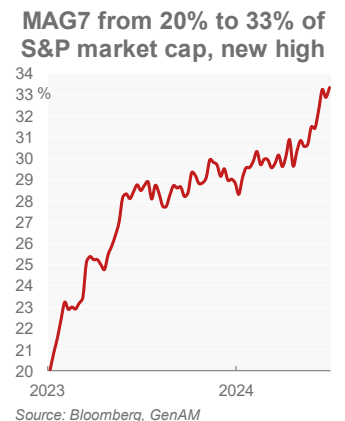
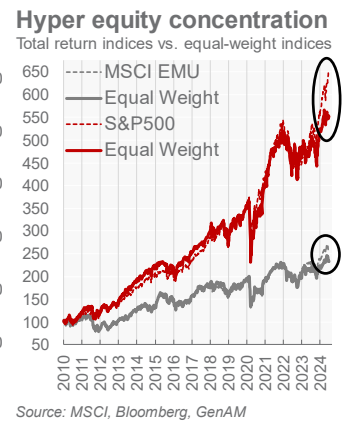
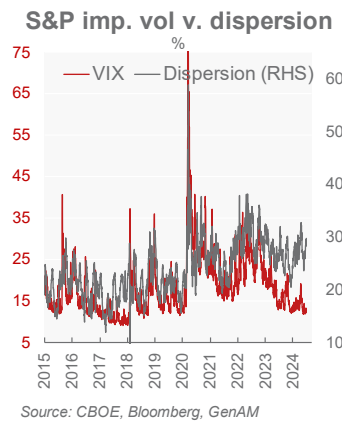
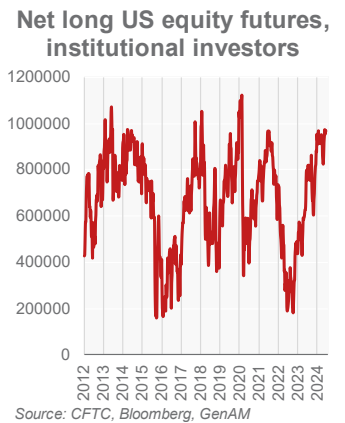
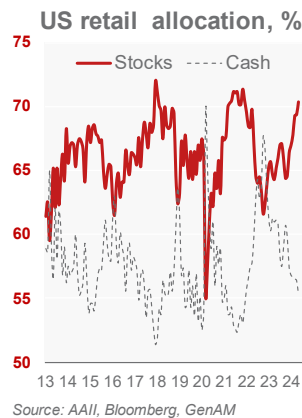
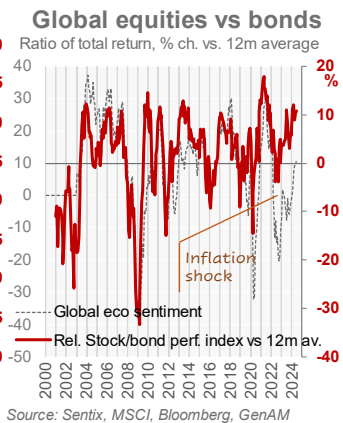
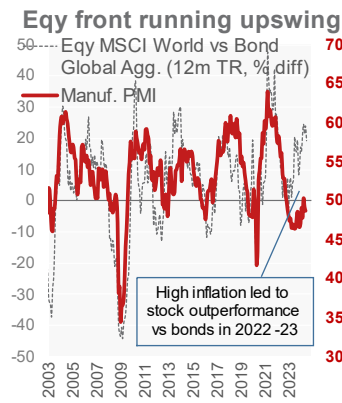
French political fragility? Yes, but also mind Germany

Europe's politics are also discomfoting. We go to press right ahead of the first round of the French general election, which we expect to end with an extreme-right majority or a split parliament that may open the worst constitutional crisis of the 5th Republic (born in 1958). While we would expect the National Rally to run a responsible fiscal policy – to avoid a Salvini or Truss scenario into the all-important presidential election of 2027 – the stalemate scenario is potentially more toxic for markets, given the much-needed fiscal consolidation. France is now under an Excessive Deficit Procedure, which would make it very hard for the ECB to activate its TPI (Transmission Protection Mechanism) unless the newly installed government takes credible measures to cut the deficit. While the focus is currently on France, it will turn to Germany in the coming year. The European election also showed strong gains for the extreme right there, and a lamentable performance of the ruling coalition. General elections are due in or before October 2025, and the very fragmented political scene will be another factor of uncertainty. Not the best environment for Europe to reverse its economic under-performance and tackle its deficient energy policy, digital lag, and defence imperatives.

Has the good news been priced already?

Fierce competition between lenders may further support credit markets in the near term, the economic cycle, and the appetite for “risky” assets

Cautious long recommended in equities. The positive economic environment and upcoming rate cuts make for a rather positive investment environment. We also see a fierce competition between lenders, as the High Yield market has reopened, whilst dry powder in Private Credit is estimated to near a record \$500bn and banks are trying to win market shares back (e.g. more Direct Lending is being refinanced via the Broadly Syndicated Loan market). This competition may further support credit markets in the near term, the economic cycle, and the appetite for “risky” assets. Arguably, the latter have front-run the cyclical improvement, as the two left charts below suggest. The inflation shock saw equities largely outperform bonds, and this broad outperformance has continued in the following disinflation phase – limiting the scope for further relative gains. Sentiment is also bullish and aggregated risk-on positioning rather significant, if not extreme. The two right-hand charts below suggest that both retail and institutional investors are long equities. As such, we recommend positioning cautiously, at least until the political fog dissipates a bit, especially in European markets. On a positive side, as central bank cut rates, some money will flow from money market funds (up from \$1.4tn to 6.1tn in the US over the past 18 months) into equity and bond funds.



Positioning and concentration suggest a cautious approach

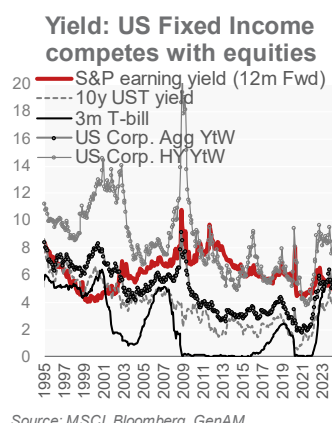
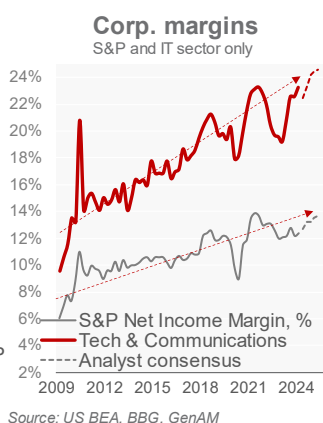
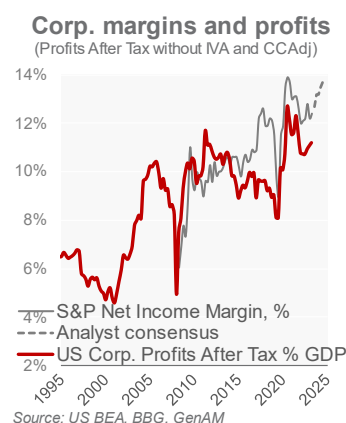
Extreme concentration. The US market is less exposed to the politics – a Trump victory is generally considered as bullish for stocks – but more to volatility emanating from extreme concentration. The first left chart above shows that, while implied index volatility is very low, dispersion between individual stocks is relatively large. The S&P500 has outperformed the equally weighted index by a record 27% over the past

18 months, with the market capitalisation of the Magnificent 7 now representing a third of the index (a new high). While this rally has been backed up by a surge in profits – we maintain it is not a bubble – the extreme concentration creates greater single-stock volatility risk. We recommend broadening the exposure, including to small caps that should finally benefit from a pullback in yields.

Fixed Income still appeals, especially Credit?

Equity not a bubble but faces stiff competition. In “[New Normal or New Bubble?](#)”, we questioned whether the low level of risk premia, especially in equities, was an anomaly. “The current market pricing may reflect a ‘new normal’ rather than a financial ‘bubble’. Elevated public debt, permanent Central Bank puts, the reality of a considerable inflation shock (since 2022), and a larger debasement risk may support inflation assets, and lower risk premia vs. so-called ‘risk-free’ assets.’ We stick to this view and add that a steady rise in corporate margins has contributed to the equity outperformance. Analysts expect that to continue (two left charts below), though a less buoyant US consumer may reduce corporate pricing power (the embedded optimism contributes to tempering our bullishness). The tech sector has obviously been a large contributor in the US. The low level of risk premia is reflected in the third chart: the average Yield-to-Worst in US IG Credit (5.40%) is now standing above the US earnings yields (4.75%, 1/PE based on next 12-month earnings) – for the first time in 20 years. US High Yields render near 8% yields on average. So fixed income offers good competition. The situation is very different in Europe, however, with the earnings yields of the MSCI Europe index around 8% (right-hand chart below), more than double the YtW in IG Credit. Longer term, European equities appear attractive.

Fixed income offers good competition: average Yield to Worst in US IG Credit (5.40%) now above the US earnings yields (4.75%)



Moderate long duration, play the range. The painful repricing of central banks this year – towards less cuts – seems to be over. If we are right about renewed disinflation, the trend may even reverse, as the market is not fully pricing the two cuts that we expect on both sides of the Atlantic in 2H24. This would support a moderate decline in bond yields – our core view. Fundamentally, the current market pricing of medium-to long-term yields appears close to fair. The second chart below shows that US inflation, 5-year down the road, has been repriced from about 2% before the pandemic to now 2.5%. We agree with structurally higher inflation, though this measure may converge closer to the 2% target. Also the 5y1y real OIS rate has increased from about 0% before Covid to now 1% - we too have revised [our estimates of the neutral rate](#). This relatively fair pricing implies that we are happy to capture the still elevate implied volatility in rates and sell OTM payers and receivers – playing the range. That said, for choice we see bond yields skewed to the downside, as 10-year Treasury

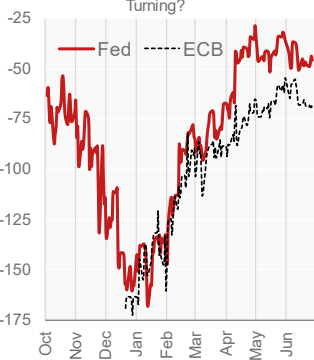
Play the range in Treasuries and Bunds, with a bias towards lower yields

We continue to overweight IG non-financial credit in the context of political gridlocks increasing the risk of public policy mismanagement

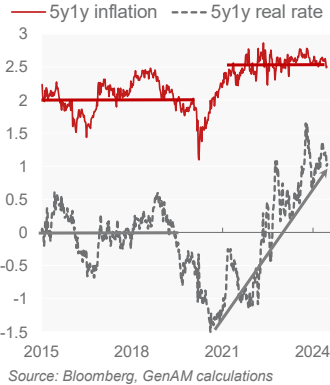
yields still trade about 75bp above 5y3m OIS (third chart below) – a relatively wide spread that will narrow as the Fed finally embarks into a rate cut cycle.

Similarly, we see EUR rates pricing as close to fair (final chart), and limited downside in Bund yields – keep a small long duration position. French OATs may offer a buying opportunity after the election, unless the latter delivers the worst-case scenario, a no-majority scenario implying stalemate, and a failure to deliver reforms and budget consolidation. We continue to overweight IG non-financial credit in the context of political gridlocks increasing the risk of public policy mismanagement, with a cautious stance however towards regulated business most exposed to populism. While the economic outlook supports the idea of also overweighting financial credit and High Yield, we wait for the political fog to lift. EM offers good alternatives and value, both in credit (hard currency sovereign debt) and equities (China cheap but risky, India, Korea, Malaysia), although near-term dollar strength is a headwind.

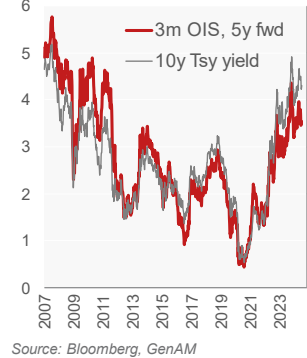
Implied 2024 rate cuts, bp



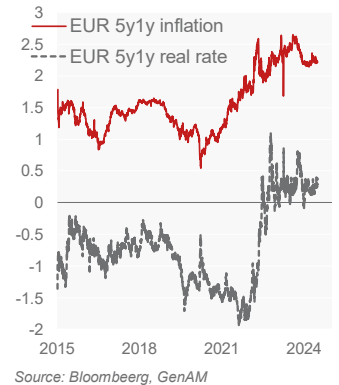
US fwd inflation & real rate



10yT vs. mid-term expected Fed rate



EUR fwd infla. & real rate



MACROECONOMIC OUTLOOK

Thomas Hempell, Martin Wolburg, Paolo Zanghieri

- **The outlook for global activity continues to brighten. Receding inflation and wage growth keep real incomes underpinned. Global manufacturing is emerging from a protracted period of stagnation, helped by rebounding trade growth and an easing drag from global monetary tightening.**
- **The recovery of the euro area has legs even though the pace of expansion will remain bumpy and growth will struggle to exceed potential. Political risks around French elections are raising fresh doubts about fiscal consolidation in the euro area but are unlikely to derail the moderate growth path.**
- **The US economy is headed for a softish landing in H2. The resilience of the economy reduces the risk that persistently high US rates choke off the global green shoots. China's muted recovery is supported by stronger policy support, though the ailing real estate sector will remain a structural drag.**
- **The disinflation path has become bumpier due to still strong wage growth and sticky US housing costs. Yet we continue to see inflation to gradually move closer towards central bank targets, allowing for further quarterly rate cuts by the ECB and a first move by the Fed in September.**

The global economic is brightening, even if very gradually so. Global growth will keep hovering around 3%, still short of any impressive recovery. Yet the regional and sectoral distribution is turning more balanced. After almost two years of stagnation, global manufacturing seems set to finally moderately grow again, supported by recovering trade. Also regionally, growth becoming distributed more evenly. After a year of US exceptionalism, the US economy is heading for a softish landing into summer. This will help to tame fears that a too hot US economy may force the Fed into renewed rate hikes to the detriment of the recovery in the rest of the world.

By contrast, green shoots emerge for the euro area. Admittedly, political uncertainties over France and a surprise drop of key indicators (incl. PMIs and Ifo) in June flag that the recovery will be muted and not a straight line. Yet the boost to real disposable income from rising wages and receding inflation will keep consumption underpinned. Less stringent credit standards by banks and further ECB rate cuts will further help the sharp drag from the past credit impulse turn into mild support. The tentative recovery of global trade is welcome too, even though Europe's eroded global competitiveness remains a structural worry.

Prospects in China remain burdened by the ailing property sector, with a heavy overhang of unsold houses weighing on prices. Recent policy measures (incl. relaxed buying restrictions and outright government purchases of property) may help to mitigate pressures in the near-term. But wealth effects from lower property prices keep consumer sentiment subdued and the savings rate high. This will keep consumption growth muted. Investment in real estate is unlikely to see a strong revival before the imbalances in the real estate sector are cleared – which will take time. Bolder fiscal policy measures already announced and corroborated by rising government bond issuance may keep investment in infrastructure and manufacturing underpinned over the coming months. And the export sector benefits from improving global trade. Yet the imbalanced growth in China (strong exports and manufacturing overcapacity contrasting subdued consumption) remains a structural source of concern and drag on the medium-term outlook.

A healthy rebalancing is underway, with a European recovery contrasting a soft landing of the US economy

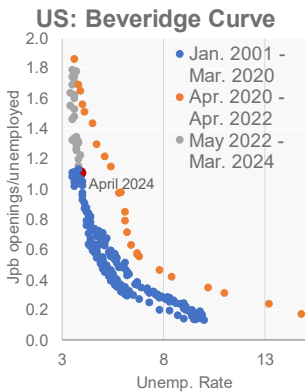
Policy stimulus in China bodes well short term, though the drag from the ailing property sector remains a longer-term challenge

Meanwhile, after nasty inflation surprises in Q1, we see the global disinflation trend to prove bumpier, but to remain intact. Notably, there are encouraging forward-looking indicators pointing to slowing wage growth, which will ultimately also mitigate still stubborn inflation in services. This will allow the ECB to proceed with quarterly rate cuts after its June pivot and the Fed to (finally) embark on monetary easing from September onwards.

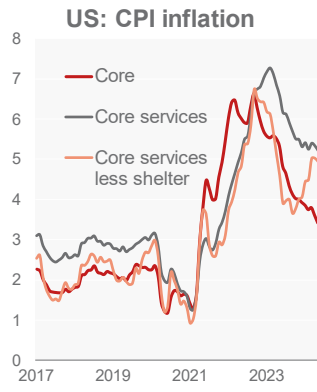
US: healthy growth, disinflation tentatively gathers pace

In the US, underwhelming Q1 GDP growth (1.4% qoq ann.) was dragged by a decrease in inventories. Domestic demand continues to grow at around 2%, driven by consumption and non-residential investment. While pandemic-induced excess savings are now depleted, households purchasing power remains supported by strong real income growth. Software investment keeps capex afloat despite high borrowing costs. The labour market has cooled since the beginning of the year with job creation slowing from 267k per month in Q1 to 218k on average in May and April. Moreover, the number of job openings per unemployed person has moderated to 1.1 in May, from 1.3 in January (it peaked at around 1.9 in March 2022). This has helped wage growth to cool, with the employment growth index decelerating to 4.2% yoy in Q1 (it peaked at above 5% in 2022). At the same time productivity gains, boosted by a tight labour market, are keeping a lid on unit labour cost growth.

GDP growth likely to expand by 2.4% this year



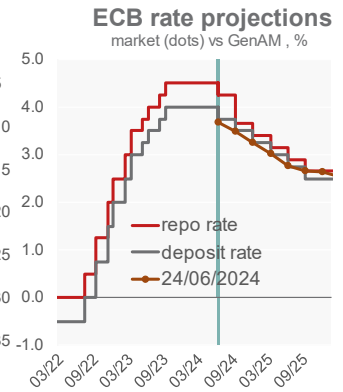
Source: BLS, GenAM



Source: Paweł Skrzypczyński, BLS, GenAM



Source: Datastream, GenAM



Source: Datastream, ECB, GenAM

All this bodes well for inflation, after the disappointing Q1 data. In May core CPI decelerated to 3.4% yoy, versus a Q1 average of 3.8%. We expect core PCE inflation (the measure targeted by the Fed) to recede from the current 2.8% yoy to 2.7% by the end of the year, implying annualized monthly prints close only slightly above 2%. Going forward, the evolution of the labour market will be key. So far, the cooling in labour demand has been accompanied by little job destruction. Unemployment claims have risen slightly in the spring, but layoffs remain at historically low levels. Labour hoarding will keep a lid on unemployment, allowing for a smooth deceleration in consumption growth. We see GDP up by 2.4% this year and 1.9% in 2025.

Two rate cuts this year still possible despite the Fed's hawkish turn

Following the upside Q1 inflation surprises, the Fed urged caution on the future path of the policy rate at its June meeting, signalling that a slight majority of members was in favour of at most one rate cut this year, down from three foreseen in the March projections. Yet Chair Powell reiterated that two cuts are not off the table and indeed this remains our forecast, even though with risks tilted toward only one move. On a more hawkish note, the FOMC raised from 2.6% to 2.8% its estimated neutral policy rate.

A bumpy euro area recovery has started

Following five quarters of stagnation, the euro area economy has started to grow again. In Q1 GDP grew by 0.3% qoq on the back of recovering exports amid faltering investment and an ongoing drag from inventories. Looking ahead, we expect this pace of expansion to be maintained. Surveys suggest that the drag from inventories will also end as the global manufacturing stagnation will be overcome and firms need to restock. That said, domestic activity will remain the major growth engine. The unemployment rate receded to 6.4% in April, below the equilibrium (NAWRU) of 6.8%. Amid strong wage growth (compensation per employee up by 5.0% yoy in Q1) that exceeded inflation (2.6% yoy in May), real wage growth sets the stage for even stronger consumption growth (Q1/24: 0.2% qoq) as consumer confidence steadily improves. With production expectations inching higher and financing conditions improving as a result of monetary policy loosening, investment spending is also set to strengthen.

That said, the euro area recovery will remain bumpy. Financing conditions will improve only slowly, there are fiscal headwinds at work and political uncertainty recently rose in the wake of the European elections. Most importantly, the French snap elections are likely to rattle French politics (see also overview part) making governing for President Macron harder and sustaining headwinds from political uncertainty. All in all, we think that the euro area will be able to broadly sustain its current growth momentum resulting in an annual growth rate of 0.8% in 2024.

Euro area inflation has been trending down – currently hovering around 2.5% yoy – and underlying inflation receded to slightly below 3% yoy. A key factor preventing a quick convergence towards target is persistently high services inflation that fluctuates around 4% yoy since the end of last year. This big sector (with a share of 45% in the overall index) is in turn heavily driven by wage growth that is still very strong (negotiated wages up 4.7% yoy in Q1) as employees still seek compensation for the past inflation shock. However, indicators based on remuneration for new job offers report easing wage growth as suggested by the ECB's wage tracker. We therefore expect inflation to ultimately ease further. That said, one-off effects due to the end of government support measures to cap energy-related price increases and base effects from energy prices will continue to contribute to volatility in the months to come. All in all, we expect inflation to recede only slowly and to average 2.4% this year and 2.2% next year.

On the back of improved inflation data the ECB eased its policy rates by 25 bps in June. Looking ahead, the ECB stuck to its data-dependent approach and emphasized that wage data are playing a pivotal role. On the other hand policy rates are currently seen still much above the neutral rate. We think that with inflation slowly trending down the ECB will embark on quarterly key rate cuts until the deposit rate is down to 2.5%. This is now broadly in line with market expectations.

Solid Q1/24 GDP growth rate to be sustained

Inflation remains volatile, but will trend lower as wage growth is set to slow.

ECB easing cycle has started, with quarterly cuts likely to follow

GOVERNMENT BONDS

Florian Späte

- **Core yields have moved sideways in Q2, reflecting slightly improving economic data and only gradually declining inflation rates.**
- **We maintain our expectation of slowly receding inflation. This will enable both the ECB and the Fed to cut key rates by 25 bps in Q3. Accordingly, Bund and Treasury yields are seen to fall moderately. However, a strong downward movement is unlikely.**
- **EA non-core government bond spreads widened in Q2 due to political uncertainties triggered by the announcement of snap elections in France. In the short term, the news flow will continue to determine the direction of spreads. Only when the political turbulence subsides should the fundamentally supportive environment come back to the fore again and cause spreads to tighten – unless a fully split parliament makes budget consolidation impossible.**

Although economic surprise indicators have fallen sharply recently, economic data in both the EA and the US were solid in Q2. As inflation rates have not (yet) come down sustainably, the ECB's first key rate cut since 2019 has not led to a drop in yields on either side of the Atlantic. This is all the more true as the ECB has not committed itself to further steps but has signalled that future key rate steps will be data-dependent.

We do not forecast a strong move in either direction in Q3. Rather, yields are likely to remain in their trading range, as we wrote in the last Investment View. We see 10-year Bunds between 2.0% and 2.7% and their US counterparts between 3.9% and 4.7%.

Overall, we see some downside potential from current yield levels over the next three months. We think the market's expectation of only a 44 bps cut by year-end is a little too cautious. Although not an outright mispricing, we are a little more aggressive at 50 bps by year-end. Both central banks are expected to cut rates by 25 bps in September, which the market (especially for the Fed) has not yet fully priced in. This also reflects our conviction that inflation will move towards the central banks' targets in the third quarter. Although the disinflation process will remain bumpy, it should be enough for the Fed to start the key rate cycle.

The Fed's rate-cutting cycle should then also contribute to a reduction in the expected level of key rates over the medium term. Markets are currently pricing in 3.55% for the Fed and 2.57% for the ECB (based on 5y3m OIS). In our view, this is a little too high in both cases (although at least for the US, the level priced in has already fallen by more than 40 bps in the last two months). A correction should then also have an impact on long-term yields. Additionally, the spread over 10-year yields is seen to narrow once the Fed begins its rate-cutting cycle. While 10-year Bunds are trading close to 5y3m OIS levels, 10-year Treasuries are almost 80 bps above the medium-term priced key rate.

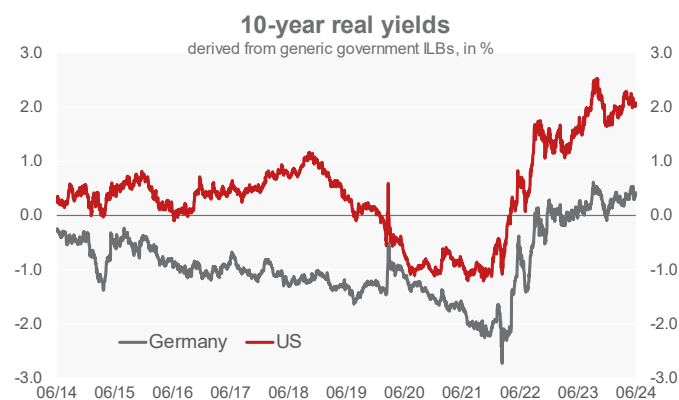
Finally, the level of real yields also appears too high. Indeed, medium-term inflation expectations in both the EA and the US have risen by around 50 bps in recent years compared with the second half of the '10s (although it is questionable whether the current level is sustainable). Real 10-year yields have risen significantly. They have risen to over 0.35% in the EA and to over 2.0% in the US (see chart below). Even considering that the years up to 2021 are characterised by too low levels, current real yield levels appear too high, especially in the US. As a result, we see downside

No directional moves in core yields in Q2 – nor in Q3

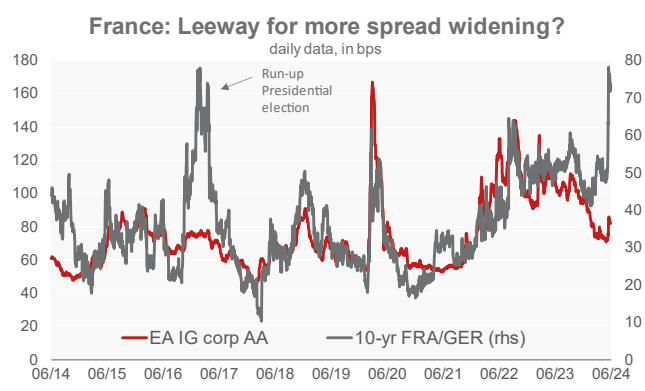
Yields to be skewed to the downside, but leeway rather limited

potential in yields (especially in the US) and therefore maintain our moderate long-duration positioning. Our 1-year forecast for 10-year Bunds and US Treasuries is 2.25% and 4.00%, respectively.

One caveat applies, however. A possible Trump victory in the presidential election, especially if combined with a Republican majority in Congress, limits the already moderate downside potential. The likely continuation of expansionary fiscal policy will lead to rising US debt and interest payments, which will ultimately contribute to an increased supply of US Treasuries.



Source: Bloomberg, GenAM



Source: Datastream, GenAM

No sustained stabilization in EA non-core bond spreads yet

The lack of sustainable fiscal consolidation had already contributed to the underperformance of French OATs in recent months, both versus corporate and other EA government bonds. The political uncertainty triggered by the announcement of snap elections then led to a further sharp spread widening, which, despite the idiosyncratic nature of the crisis, also affected other EA government bonds (but e.g., BTP/Bund spread still below the level of year-end 2023). In the short term, political news flow will continue to drive spreads. However, any new government – regardless of its political orientation – will face the difficult task of consolidating French public finances in times of rising yields. France has not had a budget surplus since 1974, and the interest payments of France alone will amount to 2% of GDP by 2024 (with an ascending trend). Noteworthy, in contrast to the 2017 presidential election, this time the focus is less on concerns about a possible "Frexit" and more on the worrying public debt situation. A significant narrowing of spreads will require either a (rather unlikely) centrist coalition government or an RN-led government that pursues a market-friendly fiscal consolidation path out of concern for the status of French government bonds.

The fact that the share of OATs held by foreigners rose from 46% in Q2 2022 to 52% in Q4 2023, which is very high by EA standards, complicates the situation as these investors tend to be more reactive than domestic investors.

The market's renewed focus on public finances is particularly relevant for countries with challenging public finances. E.g., Italy has a comparably high budget deficit and a debt ratio that is at least not declining. We therefore recommend overweighting fundamentally sound countries (e.g., Portugal, Ireland).

Once political turbulences fade sustainably, the fundamentally supportive environment (ECB rate cuts, moderate economic recovery, declining bond market volatility, well-progressing issuance activity) is seen to come to the fore again. However, we prefer short-term bonds for carry trades to minimise risks.

Necessary fiscal consolidation puts new French government between a rock and a hard place

CREDIT

Elisa Belgacem

- Our investment strategy maintains an overweight position in Investment Grade (IG). We like the carry versus government bonds.
- Ahead of the French legislative election we have downgraded financials and HY to neutral as the unstable political situation may affect those parts of the credit market to a stronger extent.
- Even after the slight widening in June, spreads remain historically tight. Yet we believe that overall there is still a strong appetite for credit as the all-in yield remains attractive for many types of investors.
- We recommend extending duration in IG non-financial Credit, the 5-7Y bucket, and to prefer subordination risk to credit risk with corporate hybrids remaining more attractive than BBs.
- CDS remain tight relative to cash, making credit protection an attractive option.

French elections likely going to trigger further volatility. In our central scenario, the French national assembly would not have a clear majority which would lead to potentially protracted political instability.

Moving underweight financials on French politics instability

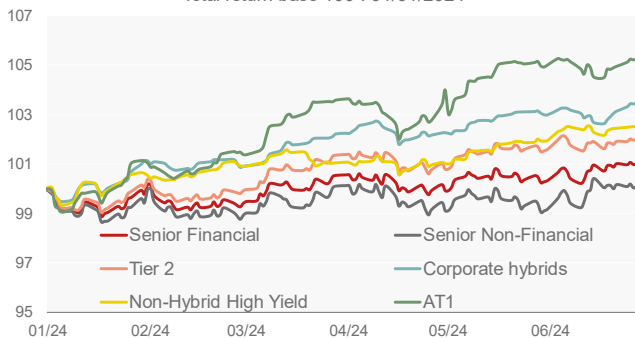
We had a neutral recommendation financials versus non-financials since the beginning of the year but after president macron's decision to dissolve the general assembly we decided to shift our allocation towards non-financials. Indeed, the ties between the financial sector and sovereign risk is stronger and historically financials always respond more to spike in sovereign yield and spreads.

Since the European election, it is fair to say that French credit has out-performed OATs underpinning our overall preference for credit over govies in general. Also, we have seen spread moves mostly in French banks CDS, being now approximately 30bps wider, also Lower Tier 2 and AT1 are substantially wider. Interesting to note also that subordinated peripheral bonds have been also under pressure as investors are considering that a French prime minister coming from the far left would weaken Europe increasing the risk of financial fragmentation between European countries. Yet, French senior bonds, both senior preferred and senior non-preferred have been relatively stable.

French financials could continue under-perform on the French political risk

EUR Credit market performance by segment

Total return base 100 : 01/01/2024



Source: Bloomberg, BofAML indices, GenAM

Fins vs Non -Fins

Govt OAS, bps

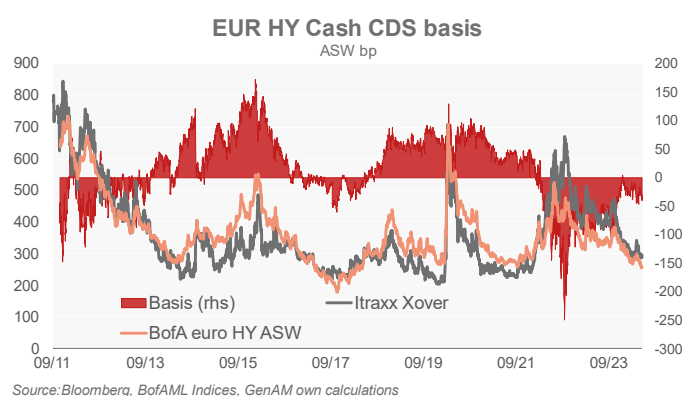
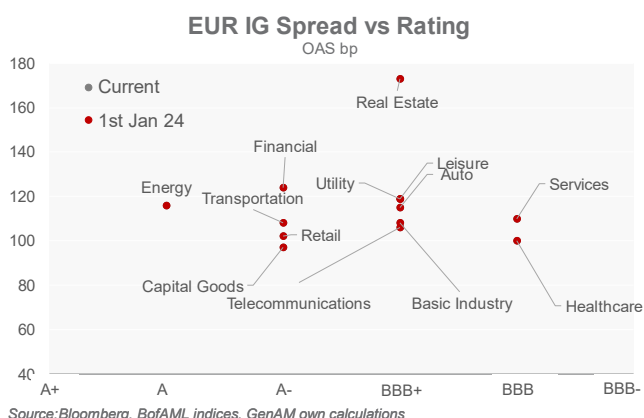


Source: Bloomberg, BofAML Indices, GenAM

The rating of France is not under immediate pressure in our view, but any downgrade would affect more directly financials than non-financials as rating agencies tend to have more difficulties to rate financial institutions higher than their own sovereign whereas it is easier on the non-financial side.

Moreover, French risk is larger in the financial index, with nearly 25% versus 20% in the non-financial index, with also a larger share of subordinated bonds making it more vulnerable to any increase in the level of volatility.

Consequently, we have decided to reduce our allocation in financials to the benefit of non-financials for the coming weeks.



We retreat to the safest spots – safer and not that costly.

Our scenario of slightly wider peripheral sovereign spreads versus core implies higher funding costs for peripheral issuers.

We generally prefer to trade up in quality in general, with one notable exception with IG where we prefer BBBs versus single-As. IG spreads are likely to fluctuate around current levels in the coming months. With interest rates likely to fall on the back of central bank rate cuts, it makes sense to look to long-dated IG for enhanced credit returns, even if credit curves are slightly inverted at the long end.

However, similarly to financials we believe that HY spreads could be more vulnerable near term, even though the attractive all-in yield continues to attract strong demand. We believe that defaults have probably peaked already but, this cycle is very peculiar, and we expect that ratings will continue deteriorate nonetheless. It is particularly the case in the lower end of the rating spectrum in single-Bs and CCCS, whereas IG should remain relatively immune to that risk.

Peripheral credit spreads will widen compared to core Our scenario of slightly wider peripheral sovereign spreads versus core implies higher funding costs for peripheral issuers.

We remain long cash over CDS as we believe that current expensive CDS valuation make it a good entry point for putting hedging strategies in place, in the iTraxx Main or iTraxx subordinated financials.

Subordination risk still preferred to credit risk Similarly, we find subordinated bonds attractive relative to pure high yield, and we continue to prefer corporate hybrids to BB-rated companies and AT1s to single B-rated companies.

Overweight defensive sectors cyclical sectors have done well recently on the positive european economic surprise but we believe that it has gone a bit too far. The rating agencies have continued to upgrade cyclical companies, but we don't think this trend will continue.

EM SOVEREIGN CREDIT

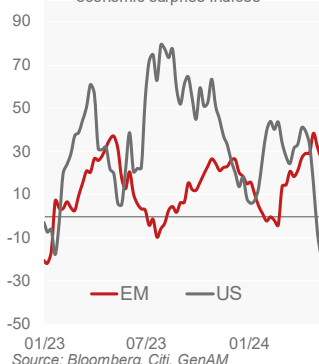
Guillaume Tresca

- **EM fixed income has benefited from a better macroeconomic environment; we have increased our overweight stance. Valuations have improved, albeit remaining tight.**
- **For external debt, we expect positive returns, c. 5% (EUR-hedged) by year-end, and advocate for low beta exposure. We like BBBs and the long end of the IG curves.**
- **The EM local debt backdrop remains mixed as we expect most of the upcoming return to be driven by rates rather than FX. The cycle will gradually turn more positive in H2 but carry trades appetite will remain subdued.**

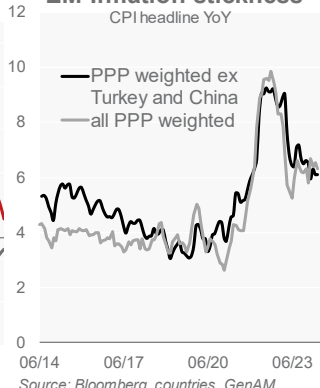
Better macroeconomic environment. After some concerns about the pace of disinflation in April, EM fixed income has been benefiting from a better macroeconomic situation and so we have increased our OW stance. Locally, growth has continued to accelerate in LatAm and CEE while real estate concerns in China have eased or at least have bottomed out with new supportive measures from the Chinese authorities. Globally, EM fixed income is fully benefiting from the disinflation in DM countries and the controlled US growth slowdown that paves the way for Fed rate cuts. In addition, the value proposal is better than before as the April sell-off and local political concerns have opened up more attractive opportunities. Idiosyncratic factors have taken more importance.

Therefore, we expect a positive return, 5% (EUR-hedged) for external debt by the end of the year, essentially driven by carry but also some modest spread compression given the better valuations. It remains that the EM performance still significantly hinges on lower US rates and the beginning of the Fed easing cycle. It is difficult to have a complete positive directional view and given still tight valuations, albeit improving, we maintain our preference for relative-value trades and low beta exposure. Recent local political developments also advocate for having a more local approach. In addition, the upcoming US elections will bring more volatility in late Q3, limiting the risk appetite and favouring relative value.

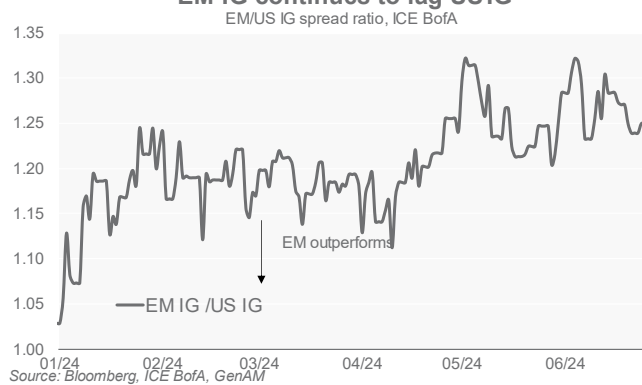
Positive macro surprises
economic surprise indices



EM Inflation stickiness
CPI headline YoY



EM IG continues to lag US IG
EM/US IG spread ratio, ICE BofA

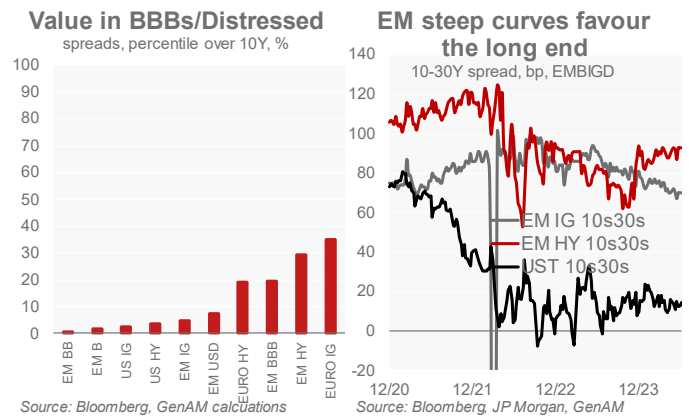
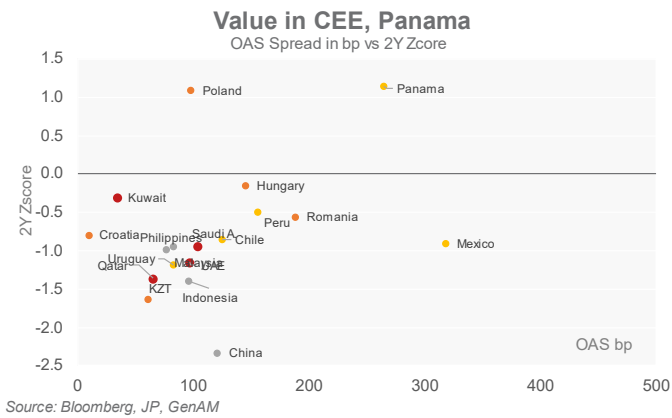


External debt: not everything is expensive

We maintain our slight preference for external debt over local debt given the UST prospects and the resilience of the global economy. Arguably, we have highlighted that historically valuations have been tight but there are pockets of value and not everything is expensive. For instance, EM IG has been lagging behind the spread

performance of US IG year-to-date and US crossover inflows have been sparse given the attractive level of US yields. However, eventually, the Fed cutting cycle and the decline in UST rates should bring inflows and lead to some compression.

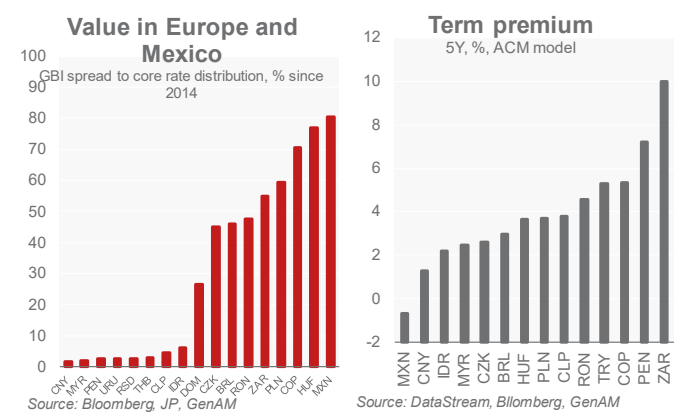
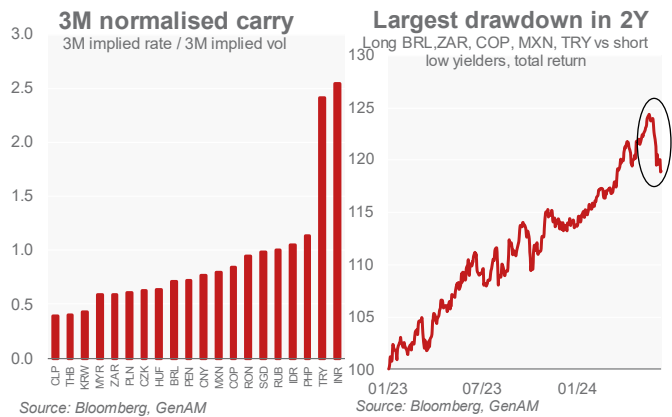
At a more granular level, in the IG space, we like the long end of the curves given the steepness. We prefer BBBs like Romania and Hungary but dislike Peru. Mexico has cheapened but a higher risk premium is required now. Panama will likely be downgraded further but can benefit from a relief rally. High-rated countries like GCC offer limited spread buffer and are expensive. In HY, only the CCCs are cheap but it is purely driven by idiosyncrasies, and we focus on strong Bs. BBs are tight historically, but good fundamentals should maintain spread flat. We like there Brazil and Morocco.



EM local debt: carry hangover

The EM local debt backdrop has been mixed as we expect most of the upcoming return to be driven by rates rather than FX. At the rate level, valuations have been improving after a series of global and local selloffs. That said, EM disinflation has been losing steam and EM central banks will turn more cautious in their easing prospects. We would expect the cycle to gradually turn more positive in H2 within a disinflation and growth slowdown environment. At the region level, we see value in LatAm rates (Mexico, Colombia) and EMEA (Hungary, Romania). In Turkey, we note a real turnaround with the continuity of orthodox policies but given the disinflation risks it remains more an FX trade than a bond trade so far.

The EM FX view is less supportive and heterogenous. Despite high implied yields, carry trades are less attractive. Local risks and recent losses will dent risk appetite. In addition, more volatility ahead of the US elections will not help.



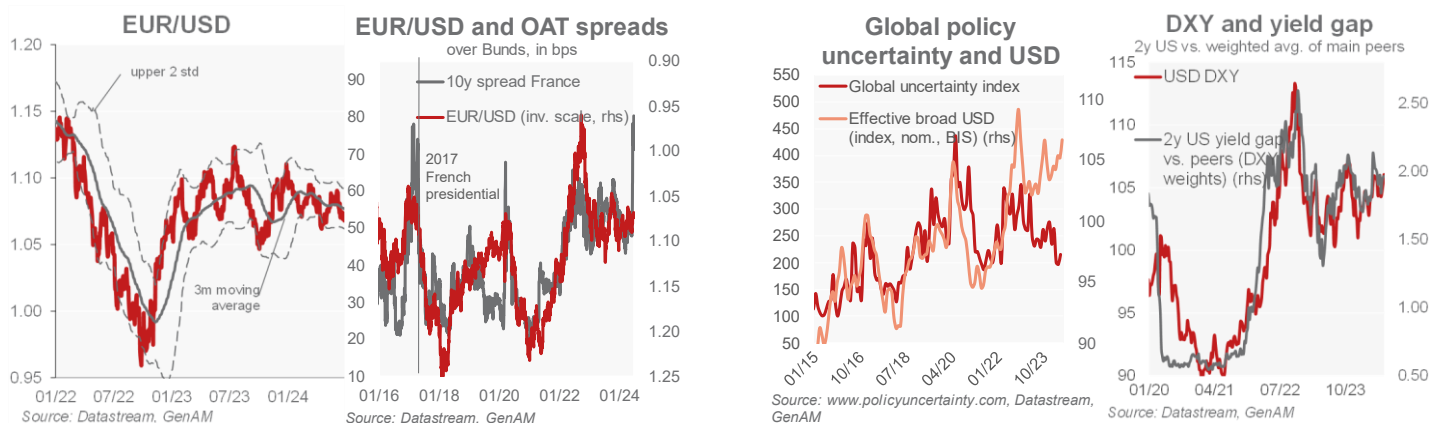
CURRENCIES

Thomas Hempell

- We tactically favour some USD exposure in the short term. Political uncertainties surrounding France, the ECB's lead in the easing cycle and the significant odds of a Trump win in the US Presidential elections may keep demand for the USD underpinned.
- Our medium-term outlook for the USD, however, is more prudent. The greenback remains dear on fundamental grounds, is set to face headwinds from diminishing rates uncertainty as disinflation proceeds and the US growth exceptionalism fades.
- The battered yen bears significant appreciation potential in the mid- to long term, but amid a lack of triggers and a depressed carry we caution against larger exposure in JPY for now.
- The risks around our flattish EUR/GBP outlook are mildly tilted to the favour of GBP thanks to the support from the higher carry, tailwinds from higher risk appetite and a prospective pro-European twist of the likely new government.

Political uncertainties around France keep weighing on the EUR

Amid persistently low FX volatility, EUR/USD has remained range bound, trading within 1.06-.09 for most of this year (left chart). Over the coming weeks, we suspect the USD will test the lower bounds of this range and we tactically favour some moderate exposure in the greenback. For one, political uncertainties around the snap elections in France have the potential to further weigh on the EUR. Centrist parties seem headed for significant losses of seats in parliament to the favour of the extreme left and right. A period of political deadlock with no political block securing a majority



Trump victory in US Presidential elections would likely benefit the USD

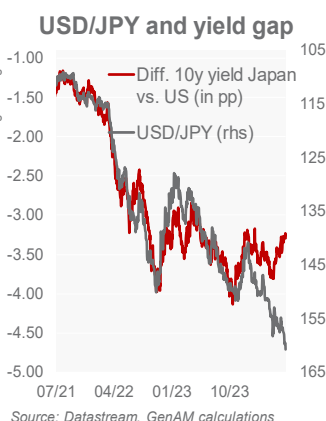
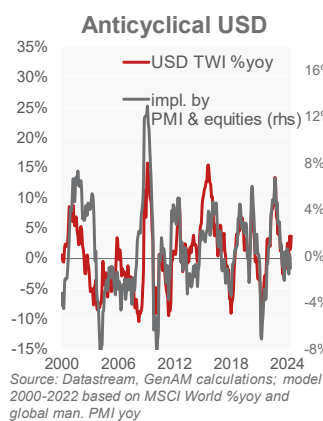
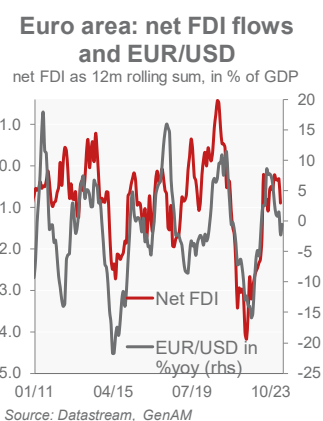
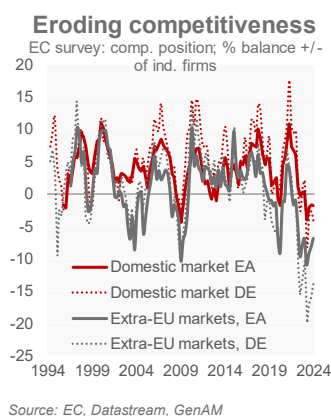
would bode ill for the needed adjustments in the 2025 budget in autumn, while a far-right or far-left government may raise fiscal concerns and worries about a clash with the European Commission. A further rise in OAT/Bund spreads would probably mean more downside for the EUR (2nd chart) especially if this would be associated with a higher risk premium also on other EGBs.

Political risks in the US also favour the USD as a hedge. Polls for the popular vote shares in the November Presidential election show Biden and Trump neck-and-neck. But in the current voting system, this may still favour Trump as the winner. Rising political uncertainty and new tariffs would support the USD (3rd chart) even though the strong USD may already price some of these uncertainties.

The US yield differential vs. major peers is set to diminish far less visibly than we expected earlier this year. Nasty Q1 inflation surprises have made the Fed much more cautious in lowering rates, with the ECB now in the lead in the monetary easing cycle. This will keep yield differentials vs. other major FX (right chart prev. page) more resilient for longer (except for Japan, see below). And while the euro area may benefit from capital inflows amid its continued recovery, its striking loss of competitiveness will cap investors' appetite for the single currency (left two charts below).

Our preference for the USD remains largely tactical for now, as the greenback remains fundamentally dear and subject to headwinds as a US soft landing contrasts a moderate global recovery – all the more so as the USD already looks dear vs. the improving global cycle and risk appetite (3rd chart). As inflation (gradually) eases and the Fed will follow other major peers in cutting rates, also rates volatility is set to recede to the detriment of the USD. On a 12-month view, we thus still foresee some USD weakness (closer towards 1.10 for EUR/USD), even though this foreseen depreciation is largely offset by the USD's higher carry from a total return perspective.

Despite its tactical appeal, the USD remains dear and may suffer from more balanced global growth and easing rates volatility in the medium term



JPY with upside, but lacking a trigger

The yen is extremely cheap, but still lacking a trigger for a recovery

The outlook for **JPY** remains geared toward a recovery: it is extremely cheap (real effective JPY trading at a 35% discount vs. historical norm); it defies the improved trade balance; and it increasingly defies the support from lower US yields (right chart). Markets have also largely ignored renewed FX intervention threats by the MoF. This leaves quite some upside for the battered yen in the mid- to long term, but we struggle a trigger for the coming weeks. More likely, a renewed BoJ rate hike later in the year and a first Fed rate cut in September may bring some relief.

We envisage a flattish **EUR/GBP**. But sterling's high carry and the balance of risks to the outlook provides some appeal to GBP. The UK's external balance has been improving, providing some support. Our expectation of a mild pro-risk environment usually also pays off for sterling. And a new Labour government, potentially emboldened by a landslide victory, may help to warm relations with the EU. The **CHF** has been bid as a safe haven amid the political worries around France, and some further gains in the near term cannot be ruled out. Yet, as evidenced by its second consecutive rate cut in June, the SNB feels increasingly on track in reaching its inflation goal, which implies also tolerance for a somewhat weaker franc to the relieve of exporters. We still see EUR/CHF approaching parity on a 12-month view.

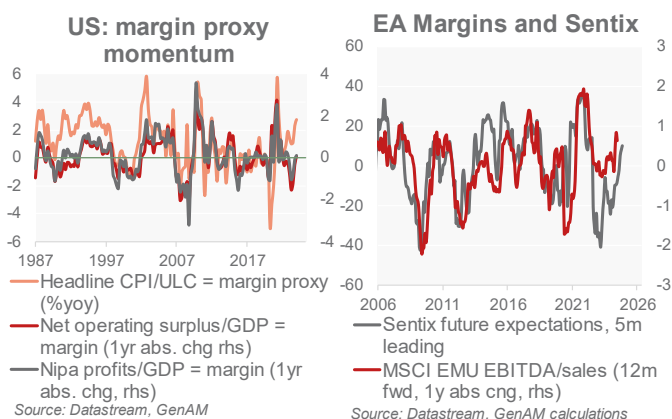
EQUITIES

Michele Morganti and Vladimir Oleinikov

- Our cycle indicator points to resilient corporate margins in 2H24, which is typical in an expansion phase, in which stocks usually outperform fixed income. This should be supported by improving ex-US confidence and growth indicators, and decent earnings growth of about 5-7% in 2024-25.
- We see positive total returns (TR) over the next 12 months: +7.5% for ex-US, +4.5% for the S&P 500.
- That said, there are short-term risks that prevent us from taking a full OW position. We expect higher short-term volatility for MSCI EMU triggered by the upcoming French elections. Additionally, we see declining Fed's bank reserves, a highly valued S&P 500, elevated positioning, and geopolitical tensions.
- Still, free cash flow momentum remains upbeat along with negative net issuances. As for the AI / US Tech (neutral), earnings momentum remains solid in the short term, but will likely normalise in 2025, while the S&P 493 should see a pick-up. The AI sector now looks only slightly overvalued, but still far from dotcom levels.
- We reduced OW EU vs. the US after the EU elections. OW SMI and UK, reduce Japan and India OW, keeping OW on China and Korea. We see Malaysia increasingly attractive. Within EU sectors, OW Banks, Durables, Energy, Food Bev. Tob., HC Equipment, Defense, Materials and Transportation, and small caps.

We see positive total returns (TR) ahead – ex-US +7.5% over 1 year, 4.5% for the SPX, with higher short-term volatility for EMU due to French elections. Positioning is higher and US PE toppish, but the global macro cycle and quant models are supportive for equities. Positive surprises from Q1 earnings (EPS) results add to better ex-US confidence and growth indicators – albeit recently more uncertain. Our models see good earnings growth for EMU and the US, this year and the next (5-7%). EMU quarterly profits have most probably reached a cyclical bottom. With euro area activity back in expansionary territory, we expect positive earnings growth in 2024, with the main risk coming from uncertain decline in wage growth. On the contrary, better global momentum and trade-weighted (TW) euro are tailwinds. Both quant models and cross-asset analysis also point to a positive Equity vs Bonds performance ahead.

Positive TR ahead – ex-US +7.5% over 1 year. Higher short-term volatility for EMU



12m targets (as of 26.06.24)

Market Index	composite LT models (Shiller approach for US)	of which: PE-based valuation	CAPE yield gap vs real yield 1yr fwd spread, % to avg since 2003
S&P 500	5.000 - 5.500	-6.9%	-1.6%
MSCI EMU	4.6%	14.1%	-0.5%
FTSE 100	10.3%	13.5%	0.6%
SMI	4.1%	9.4%	-0.1%
TOPIX	5.7%	7.1%	-0.5%

Source: Datastream, Bloomberg, GenAM calculations
 Note: LT models: PE tgt (US 18.2x, EMU 13.4x, JP 14.3x), Fed model, EY-BY, DDM, and 3-stage eps growth model
 excess CAPE yield = 1/CAPE - (10yr rate - avg inflation over 10yr)

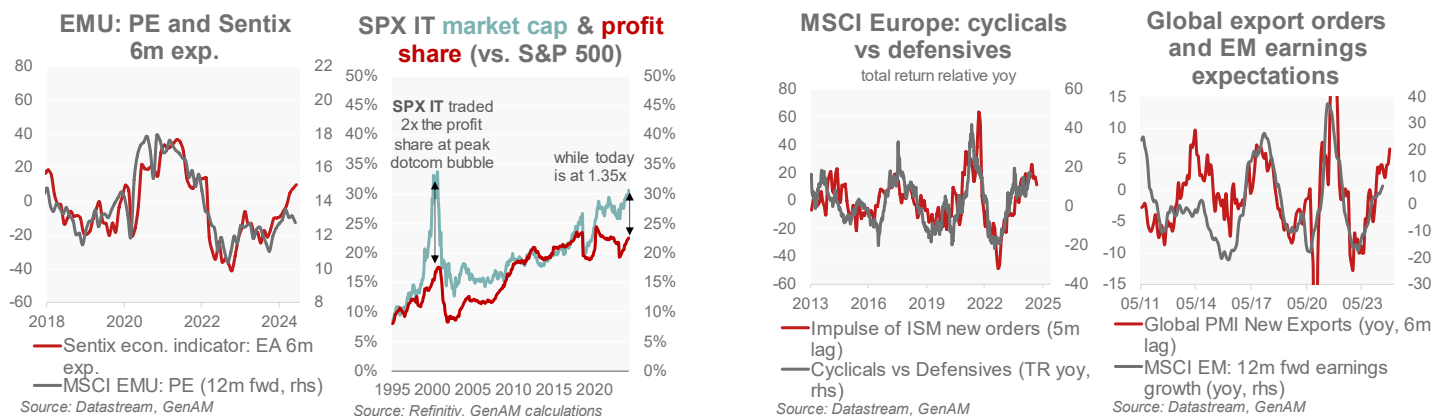
Finally, the free cash flow momentum remains upbeat together with market technicals: net issuances remain negative as IPOs stay very low in the cycle, while buybacks are healthy. This in turn translates into a very low demand for new money to investors. Furthermore, the corporate cash-flow-minus-capex momentum is increasing (MSCI EU free-cash flow yield is around 5%), and for G4 countries, such positive

AI / US Tech: good short-term earnings momentum, but normalisation in growth in 2025

gap (CF minus capital expenditures) is quite large vs. history. It was very negative in the year 2000 and 2007 and nearly zero in 2018. Furthermore, the M2 impulse is increasing and banks' lending standards are improving.

As said, there are short-term risks which keep us refraining from exploiting a full overweight position: French elections as well as topish Fed's bank reserves and geopolitical risks. High SPX valuation and investors' positioning do not help either. Lastly, the choppy disinflation trend could keep central banks nervous for longer.

We reduce the OW EU vs. the US after EU elections. Short-term, investors may postpone the timing of the EU reform process, keeping the EMU equity risk premium (ERP) vs. that of US at a high level as uncertainty persists. MSCI France look expensive vs. EMU by nearly 5% but improving Sentix should help to limit losses.



As for the AI / US Tech, we still see good short-term earnings momentum, but normalization in growth in 2025, while the S&P 493 should see a pick-up. The AI sector results only slight overvalued, but still far from dotcom levels. Mag. 7 PEs are now higher than in March and above historical average even when considering 2025 Earnings. That said, lower US growth momentum and peaking 10-year yields are supporting factors for growth sectors. Concentration: IT remains far from dotcom bubble levels. At the peak (2000), the tech sector traded at 2x its profit share in the S&P 500, compared to 1.35x today. Also looking at 3-yr fwd PE: the sector is at much lower levels than those reached in the dotcom bubble: 1.3x the S&P 500, compared to 2x in March 2000. Sources of concern are instead anti-trust, tariffs and geopolitical risks.

EM equities and US-EU sectors: diversification is key as GDP growth is broadening.

OW Korea, China, India (slight). EU small, EU-ex EMU, AI 7 are good on PEG (PE adjusted for growth). While EM equities are quite undervalued vs DM, they have headwinds represented by weak macro surprises and a strong USD. That said, global export orders have just come into expansionary territory. We stay focused on Korea (deep undervaluation), China (undervalued and supported by policy) and India (fast growing albeit more expensive). Malaysia is increasingly attractive due to valuation and probable increasing direct foreign investments related to technology chain.

EU Sectors: "goldilocks" EA macro - declining CPI and increasing global leading indicator - but topish US ISM translates into a balanced cyclicals / defensives allocation. OWs: Small caps, Banks, Durables, Energy, Food Bev. Tob., HC Equipment, Defense, Materials and Transportation. UWs: Comm. Prof. Svs., Insurance, Media, Pharma, Software, and Telecom.

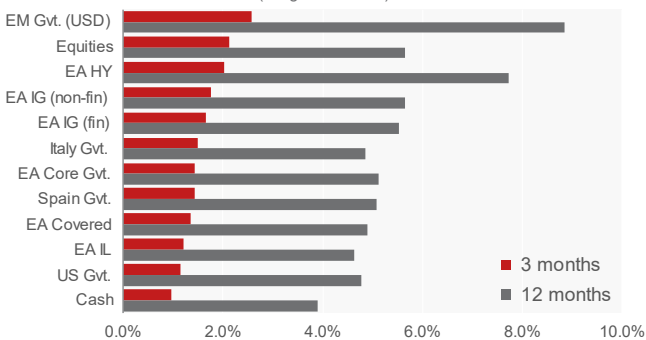
ASSET ALLOCATION

Thorsten Runde

- Our last quarter’s upgrade of Equities from an underweight to neutral was a move into the right direction. While a further repricing of rate expectations sent yields higher and EMU equities lower, the strong performance of the tech sector underpinned the US Equity market somewhat further.
- The global economic outlook continues to brighten. The US is expected to experience a soft landing. Given the recovery of the euro area, the risk of persistently high US rates nipping the upswing in the bud is reduced. Together with forthcoming rate cuts and resilient corporate earnings, this should work in favour of risk assets. That said, the risks stemming from an already advanced rally in Equities and political imponderables (e.g., snap elections in France) cannot be ignored.
- Against this backdrop we only slightly raise our Equity exposure to an overweight position with a preference for the US. On the Credit side we stay neutral in EA HY and reduce EA IG Financials to benchmark level in favour of IG Non-Financials. We underweight government bonds overall. Preferring the long over the short maturity buckets, we keep a moderately long duration stance. We turn slightly positive for the USD given the higher EMU political risks and the ECB leading the easing cycle.

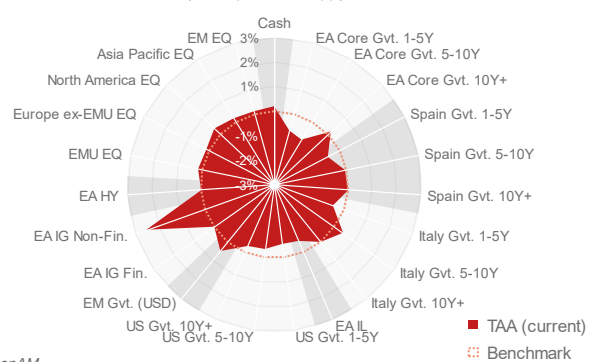
After a temporary correction in April Equity markets continued their rally unimpressed. Thus, our move from an underweight towards neutrality proved correct but was far too cautious. Despite the risks of setbacks given the continued rally in Equities we generally carry on increasing our risk exposure slightly against the backdrop of a brightening global economic outlook. That said, we prefer the US to the euro area as risk assets belonging to the latter are particularly vulnerable to negative effects from the French snap elections.

Aggregated Total Return Forecasts
(hedged into EUR)



Source: GenAM

Balanced MtM Model Portfolio
(active positions in pp)



Source: GenAM

All in, as the US is heading for a soft landing and the recovery of the euro area is gaining strength we slightly increase our exposure to Equities from neutral to a moderate overweight. With EA HY Credit and EA IG Financial Credit being particularly exposed to the political risks in France we stay neutral in the former and reduce the latter to neutrality too. We increase our exposure to EA IG Non-Financials as these are less correlated to sovereign risk and still provide some attractive carry. Given the expected receding inflation and central banks kicking off the easing cycle there is still some mild tilt to the downside for core yields. Thus, we keep a moderate long duration. The French election worries and the ECB’s lead in the easing cycle should temporarily support the USD. We tactically turn the position from an under- to an overweight.

FORECASTS

Macro Data

Growth	2023	2024		2025		2026
		forecast	Δ vs. cons.	forecast	Δ vs. cons.	
US	2.5	2.4	- 0.0	1.9	0.2	2.1
Euro area	0.5	0.8	0.2	1.4	0.0	1.2
Germany	- 0.1	0.1	- 0.1	1.3	0.1	1.5
France	0.9	0.7	- 0.1	1.3	0.0	1.6
Italy	0.9	0.6	- 0.2	0.8	- 0.2	0.7
Non-EMU	0.2	0.7	0.0	1.4	0.0	1.9
UK	0.1	0.5	0.0	1.1	0.0	1.9
Switzerland	0.8	1.2	0.0	1.6	0.0	1.8
Japan	1.9	0.6	0.1	0.9	- 0.3	0.8
Asia ex Japan	5.2	5.0	- 0.1	4.8	0.1	4.6
China	5.2	5.0	0.1	4.5	0.1	4.1
CEE	2.9	3.0	0.4	3.1	0.5	2.8
Latin America	2.2	1.4	0.0	2.4	0.0	2.5
World	3.0	3.0	0.0	3.1	0.1	3.0

Inflation	2023	2024		2025		2026
		forecast	Δ vs. cons.	forecast	Δ vs. cons.	
US	4.1	3.1	- 0.1	2.4	0.1	2.3
Euro area	5.5	2.4	0.1	2.2	0.3	2.0
Germany	6.0	2.4	0.0	2.3	0.2	2.0
France	5.7	2.3	- 0.2	2.2	0.3	2.0
Italy	5.6	1.3	- 0.2	1.7	- 0.1	1.8
Non-EMU	6.5	2.4	0.0	2.0	0.0	2.0
UK	7.4	2.5	0.0	2.2	0.0	2.1
Switzerland	2.2	1.4	0.1	1.1	0.0	1.2
Japan	3.3	2.3	- 0.2	1.6	- 0.3	1.7
Asia ex Japan	2.1	1.9	- 0.1	2.3	- 0.1	2.6
China	0.2	0.4	- 0.3	1.3	- 0.2	2.0
CEE	20.4	18.7	0.2	9.9	- 0.7	6.7
Latin America	5.1	4.1	0.0	3.6	0.0	3.0
World	5.2	3.9	- 0.0	3.0	- 0.1	2.8

Regional and world aggregates revised to 2015 IMF PPP weights; Latin America Inflation excluding Argentina and Venezuela

Financial Markets

Key Rates	Current*	3M		6M		12M	
		Forecast	Forward	Forecast	Forward	Forecast	Forward
US (upper bound)	5.50	5.25	5.16	5.00	4.79	4.50	4.16
Euro area	3.75	3.50	3.46	3.25	3.21	2.75	2.69
Japan	0.05	0.10	0.19	0.25	0.28	0.25	0.45
UK	5.25	5.00	4.99	4.75	4.75	4.25	4.15
Switzerland	1.25	1.25	1.05	1.25	0.97	1.25	0.89
10-Year Gvt Bonds							
US Treasuries	4.26	4.20	4.25	4.10	4.23	4.00	4.22
Germany (Bunds)	2.43	2.35	2.43	2.30	2.41	2.25	2.41
Italy	3.95	3.90	3.98	3.85	4.01	3.75	4.10
Spread vs Bunds	153	155	155	155	160	150	169
France	3.15	3.15	3.16	3.10	3.17	3.00	3.19
Spread vs Bunds	73	80	74	80	75	75	79
Japan	1.01	0.95	1.08	0.90	1.14	0.85	1.25
UK	4.10	4.05	4.10	4.00	4.09	3.90	4.12
Switzerland	0.61	0.60	0.56	0.60	0.55	0.60	0.53

*3-day avg. as of 26/06/24
**ICE BofA (OAS)

Credit Spreads**	Current*	3M		6M		12M	
		Forecast	Forward	Forecast	Forward	Forecast	Forward
EA IG Non-Financial	114	110		105		105	
EA IG Financial	125	125		115		110	
EA HY	347	350		340		340	
EM Sov. (in USD)	270	260		245		245	
Forex							
EUR/USD	1.07	1.06	1.08	1.09	1.08	1.11	1.09
USD/JPY	160	158	158	155	156	148	152
EUR/JPY	171	167	170	169	168	164	166
GBP/USD	1.27	1.26	1.27	1.28	1.27	1.29	1.27
EUR/GBP	0.85	0.84	0.85	0.85	0.85	0.86	0.86
EUR/CHF	0.96	0.96	0.95	0.98	0.95	1.01	0.94
Equities							
S&P500	5,465	5,535		5,535		5,545	
MSCI EMU	163.8	166.0		168.0		168.5	
TOPIX	2,777	2,810		2,845		2,880	
FTSE	8,252	8,320		8,390		8,480	
SMI	12,086	12,335		12,555		12,550	

Forecast Intervals

3-Months Horizon

10-Year Gvt Bonds	US Treasuries	3.70	4.20	4.70
	Germany (Bunds)	1.63	2.35	3.07
	UK	3.43	4.05	4.67
	Switzerland	0.21	0.60	0.99
Credit Spreads*	EAIG Non-Financial	95	110	125
	EAIG Financial	106	125	144
	EAHY	303	350	397
	EM Sov. (in USD)	230	260	290
Forex	EUR/USD	1.03	1.06	1.09
	USD/JPY	153	158	163
	GBP/USD	1.24	1.26	1.28
	EUR/CHF	0.94	0.96	0.98
Equities	S&P500	5,257	5,535	5,813
	MSCI EMU	158	166	174
	TOPIX	2,682	2,810	2,938
	FTSE	7,995	8,320	8,645
	SMI	11,776	12,335	12,894

*ICE BofA (OAS)

12-Months Horizon

10-Year Gvt Bonds	US Treasuries	2.92	4.00	5.08
	Germany (Bunds)	0.54	2.25	3.96
	UK	2.53	3.90	5.27
	Switzerland	-0.40	0.60	1.60
Credit Spreads*	EAIG Non-Financial	72	105	138
	EAIG Financial	73	110	147
	EAHY	244	340	436
	EM Sov. (in USD)	182	245	308
Forex	EUR/USD	1.05	1.11	1.17
	USD/JPY	139	148	157
	GBP/USD	1.25	1.29	1.34
	EUR/CHF	0.98	1.01	1.04
Equities	S&P500	4,993	5,545	6,097
	MSCI EMU	152	169	185
	TOPIX	2,623	2,880	3,137
	FTSE	7,810	8,480	9,150
	SMI	11,433	12,550	13,667

*ICE BofA (OAS)

*The forecast range for the assets is predetermined by their historical volatility. The volatility calculation is based on a 5-year history of percentage changes, equally weighted in the case of the 12-month forecast and exponentially weighted in the case of the three-month forecast. The length of the bars within each asset group is proportional to the relative deviations from their mean forecasts.

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