Market Perspectives

Growth headaches

August 2024

GenAM Macro & Market Research

'Market Perspectives' provide our monthly macro & market outlook and investment recommendations

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- **Markets have been quick in rebuilding rate cut expectations. These tailwinds for risk assets are increasingly overshadowed, however, by the questions about economic and earnings prospects and rising political worries (French and US politics, tensions in the Mid-East).**
- **We continue to concentrate our tactical overweights in the safer buckets of risk assets, notably IG Credit at the expense of Cash and short-dated Core Bonds. We keep our prudent overweight in Equities and warm up to the carry from HY Credit. We stick to a moderate long duration stance in Fixed Income.**

Content

1. Global View 2
2. USA 3
3. Euro area 4
4. Central and Eastern Europe 5
5. Government Bonds 6
6. Credit 8
7. EM Sovereign Bonds 9
8. Currencies 10
9. Equities 11
10. Asset Allocation 13
11. Forecast Tables 14
12. Imprint 15

Global View – Growth headaches

Thomas Hempell

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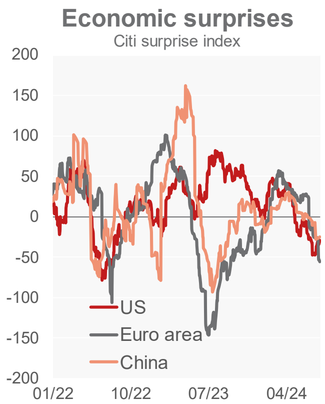
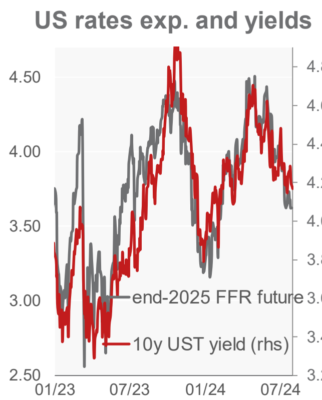
While global markets grew nervous about reaccelerating US inflation prints earlier in the year, we had flagged that – despite a bumpier last mile to target – the disinflation trend was intact. The latest US inflation prints corroborate this view, with the 3-month core CPI more than halving from 4.5% in March to 2.1% in June. Admittedly, services inflation remains sticky but on both sides of the Atlantic we expect building slack in the labour markets to cool wage and price pressures further. Rising shipping costs are a risk, but these make only for a tiny part of consumer prices, while oversupply in China and fallen commodity prices will keep global goods inflation muted.



Source: Citi, Datastream, GenAM



Source: Datastream, GenAM

Meanwhile, economic data have disappointed recently, turning markets and central banks' attention increasingly to the economic costs of their tight policies. The Fed had erred on the side of inflation caution thus far, but is likely to warm up soon to a first rate cut in September. Indeed, markets' rebuilt rate cut expectations have benefitted our prudent long-duration stance, with the end-2025 Fed Funds future down 80bp over the past two months (right chart). Chinese policy makers have cut rates to prop up domestic demand amid persistently stiff headwinds from the property sector.

10-Year Gvt Bonds	Current*	3M	6M	12M
US Treasuries	4.17	4.15	4.10	4.00
Germany (Bunds)	2.37	2.35	2.35	2.30
Credit Spreads**				
EA IG Non-Financial	105	100	100	100
EA IG Financial	116	115	115	110
Forex				
EUR/USD	1.08	1.06	1.09	1.11
USD/JPY	154	151	150	145
Equities				
S&P500	5453	5510	5505	5510
MSCI EMU	162	164	166	166

**3-day avg. as of 30/07/24   **ICE BofA (OAS)*

The persistent disinflation trend, prospects of rate cuts and overall decent corporate earnings should buffet broader risk sentiment. We have warmed up to some tactical exposure to riskier Credit segments. Also our proprietary ML tools render pro-risk signals.

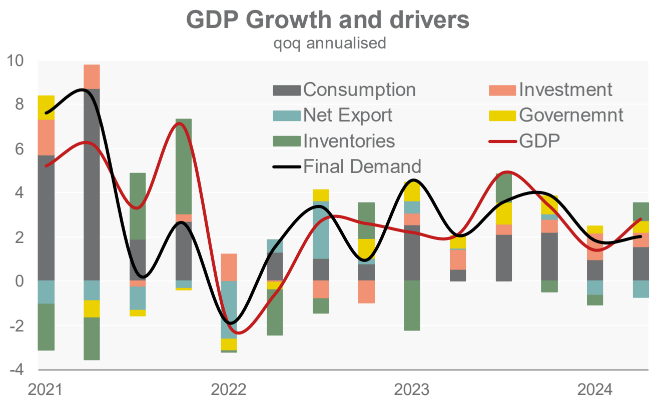
Watch recent soft patches in economic data

That said, we carefully watch the recent deterioration in various economic data. Thus far, this disappointment is largely confined to survey data (US ISM, euro PMI, Ifo), while overall hard data (except notably for Germany) have proven resilient. Q2 GDP still beat expectations on both sides of the Atlantic. Real disposable income is set to remain an important support to consumption, while falling rates will gradually encourage investment. But rising political risks may add to the recent drag in consumer and investment sentiment, with shaky French politics, US election uncertainties and rising risks of an escalation in the Middle East featuring prominently. Risk positioning remains elevated and very concentrated in the 'magnificent 7' US tech stocks, leaving markets vulnerable to new setbacks.

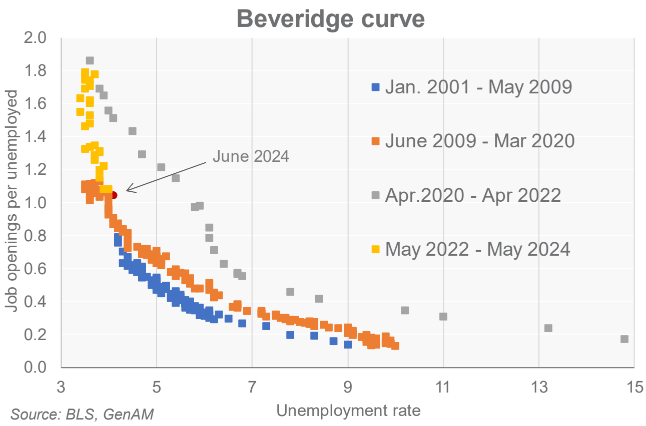
We thus continue to concentrate our tactical overweights in the safer buckets of risk assets while we stick to only a prudent overweight in Equities and warm up to the carry from HY Credit.. Receding inflation and further rate cuts keep the outlook for core yields tilted mildly to the downside, if not in a linear fashion. Political uncertainties from a fragmented French parliament may further widen EGB spreads and weigh on the EUR.

United States

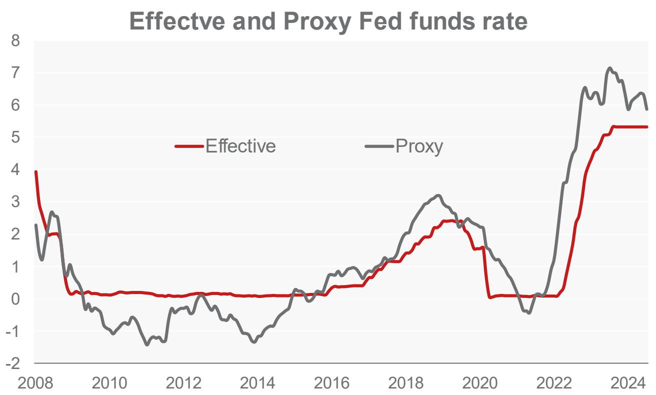
Paolo Zanghieri



Source: BEA, GenAM



Source: BLS, GenAM



Source: San Francisco Fed, GenAM

- **The Q2 GDP rebound was stronger than expected but higher interest expenditures will lead to a slowdown in H2. We expect growth at 2.6% this year.**
- **Core PCE remained weak in July (0.2% yoy), and the labour market continued to cool in an orderly way.**
- **The latest macro data further increase the likelihood that the Fed will start easing in September, followed by a series of quarterly cuts.**

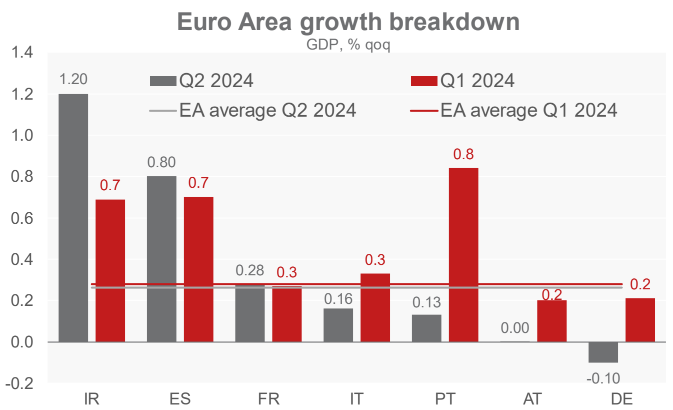
Solid consumption growth and restocking drove up GDP by a better than expected 2.8% qoq ann. in Q2. However, we still expect a slowdown in H2 as higher borrowing costs will ultimately weigh on consumption: interest expenditures are growing much faster than income. Consumers further drew down savings and the personal savings rate fell from 3.8% to 3.5% in Q2 (and further down to 3.4% in June). Still, with a strong labour market and receding inflation supporting real purchasing power, we do not expect consumption to collapse. Investment growth was surprisingly strong too (8.4% ann.) and broad-based, but this performance is unlikely to be repeated due to high borrowing costs and rising uncertainty. The strong performance of intellectual property capex bodes well for further productivity growth. We expect growth to moderate to just above trend at 1.7% annualised growth in H2, with 2024 GDP expanding at 2.6% in 2024 and decelerating to below 2% next year. July core PCE increased by 0.18% mom, bringing down the 3mth annualised rate to 2.1%. Very gradual disinflation will continue, and we see core PCE ending the year at 2.6% yoy, one tenth of pp below the June reading. The June rise in the unemployment rate to 4.1% raised fears of a sudden deterioration of the labour market: however much of this increase is the result of a larger labour force. Demand for labour continues to cool, without triggering job destruction.

First rate cut in September. The outcome of the election will affect the path for 2025

The latest data are more or less what the Fed wanted to see before cutting rates, and the recent Fed-speak has moved in this direction. Hints of weakening demand are a sign that financial conditions are too tight. We confirm our call of two rate cuts this year, in September and December, followed by quarterly cuts in 2025. The outlook for next year clearly depends on the outcome of the election, given the potentially strong inflationary implications of the Republican program. The almost certain appointment of vice-president Harris as Democratic candidate has moved only marginally polls numbers, which continued to show a slight lead for the Republicans.

Euro Area

Martin Wolburg



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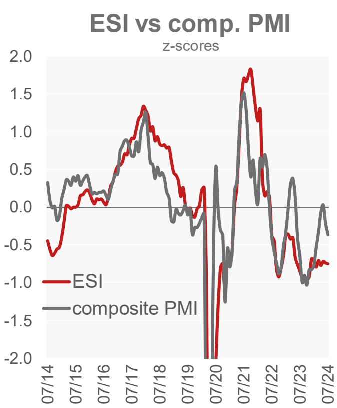

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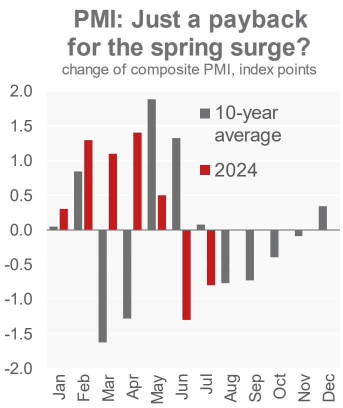
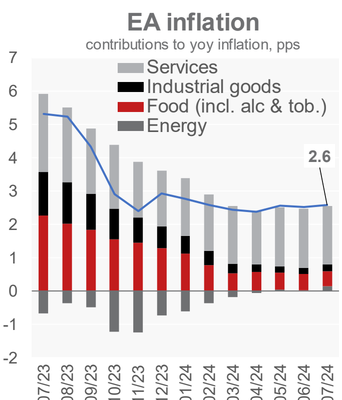


Source: Datastream, GenAM



Source: Datastream, GenAM calculations

Source: Datastream, ECB's SPF, GenAM

- **GDP growth stayed at 0.3% qoq in Q2 while key sentiment indicators disappointed in July. We keep our 2024 growth forecast of 0.8% for now thanks to continued real income growth and some monetary easing but acknowledge risen downside risks.**
- **Inflation surprisingly rose to 2.6% yoy In July. Sticky services inflation continued to keep underlying inflation at 2.9% yoy.**
- **The ECB unsurprisingly did not act in July, we keep looking for a further 25 bps cut in September.**

The euro area economy continued to expand with an undampened growth rate of 0.3% qoq in Q2 according to the preliminary flash estimate. This is in line with our projection but masks a strong heterogeneity among countries; most notably, Germany went into contraction (see top chart).

Looking ahead, some sentiment indicators for July imply that euro area activity is strongly losing momentum, e.g. the composite PMI fell to 50.1 signals approaching stagnation. We caution against too much pessimism (see mid charts): First, the EC's Economic Sentiment Indicator (ESI) that covers the economy more broadly and is less volatile was stable. Second, there is still seasonality in the comp. PMI. This year's pattern diverges from the medium term one and suggests some payback for the surge seen in May.

Even more important, with for instance the global manufacturing recession set to end and healthy real income growth to persist we see the fundamental ingredients for an ongoing recovery still in place. All in all, we stick to our 2024 growth forecast but acknowledge some downside risks.

ECB to stay on 'dialing back' trajectory

Headline inflation surprisingly rose to 2.6% yoy in July while underlying inflation stayed at 2.9% yoy on the back of highly wage-driven services inflation. However, there is ongoing disinflation in the pipeline, and we expect wage growth to moderate further down the road. Moreover, the inflation risks from the Survey of Professional Forecasters (SPF) became almost balanced now (see bottom chart).

At the July meeting the ECB unsurprisingly did not act but the Governing Council (GC) saw the latest inflation developments as in line with its projections and the rhetoric on wage growth sounded less concerned than in June. However, Mrs Lagarde pushed against indicating future action, emphasized that the GC was truly data dependent and that "*what we do in September is wide open*". While the July inflation data clearly give some ammunition to the hawks, we expect the 'dialing back' process to continue and look for quarterly key rate cuts by 25 bps until the deposit rate is brought down to 2.5%.

Central and Eastern Europe

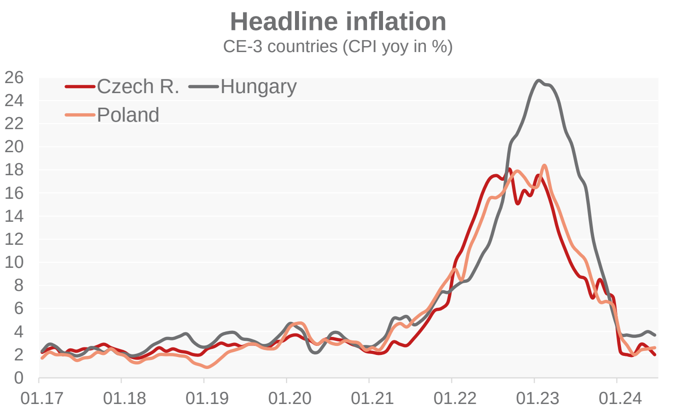
Radomír Jáč

- **June headline inflation in the CE-3 region remained within the target range.**
- **Central banks in Czechia and Hungary continued cutting rates but Hungary slowed the pace of rate cuts from 50 bps to 25 bps and Czechia may do the same step in August.**
- **Inflation in Poland also remained below the target, but July is likely to report CPI above 4% yoy due to higher electricity prices. The NBP is now expected to keep the key rate on hold at 5.75% in 2024.**

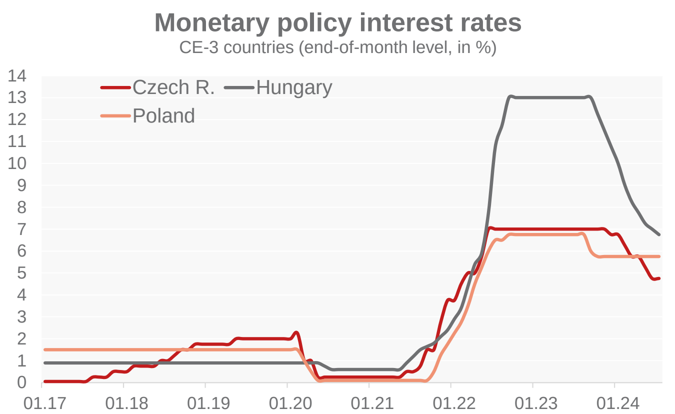
Headline CPI in the CE-3 economies behaved well in Q2 and remained within the target range in June. Czech inflation fell from 2.6% to 2.0% yoy (vs. an inflation target set at 2% +/- 1 pp) and may test the area below 2% in July and August. In Hungary, headline CPI declined from 4.0% to 3.7% yoy in June: while in Q3 it is likely to remain within the target range set at 3% +/- 1 pp, it may temporarily exceed 4% at the turn of the year. In Poland, inflation increased from 2.5% to 2.6% yoy in June (target: 2.5% yoy +/- 1 pp). However, July is likely to show headline CPI above 4% yoy, and the threshold of 4.5% may be exceeded later in H2 due to an increase in regulated electricity tariffs for households.

Hungary slowed pace of rate cuts, Czechia may follow

While the near-term inflation outlook remains favourable in Czechia and Hungary, both central banks already delivered sizeable cumulative declines in interest rates and their stance has turned more cautious. The Czech CNB cut its key rate by 50 bps to 4.75% in June, cutting rates by 50 bps at all policy meetings held in H1, but indicated slower rate cuts for H2. The first policy meeting in H2 will take place in early August and the CNB is likely to cut the key rate by 25 bps. We expect 25 bps cuts at each policy meeting in H2. In Hungary, the MNB cut rates by 25 bps in June and repeated the same step in July and set the key interest rate at 6.75%. The MNB indicated two more rate cuts (25 bps each) for the rest of 2024, their timing will be data-dependent. A slow process of rate cuts (25 bps in each calendar quarter) may follow in Hungary in 2025. The Polish NBP kept its key rate at 5.75% also in July and made clear that it does not expect rate cuts to be renewed this year. The central bank expects annual headline inflation to peak above 6% in early 2025 due to developments of energy prices for households and warns that there are more arguments against monetary policy easing at the moment including wage growth in the domestic economy and a relaxed fiscal policy stance.



Source: www.czso.cz, www.ksh.hu, www.stat.gov.pl, GenAM



Source: www.cnb.cz, www.mnb.hu, www.nbp.pl, GenAM

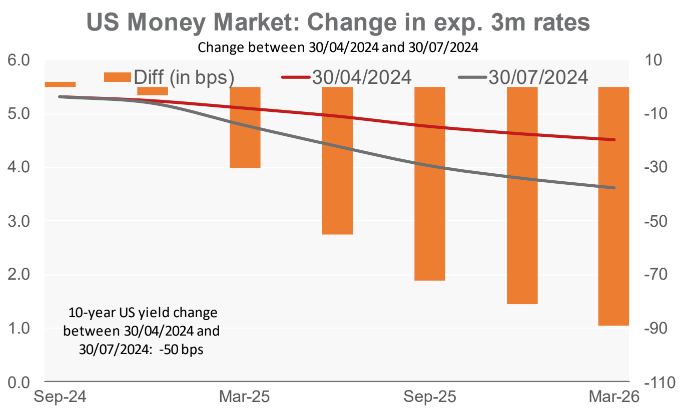
Main Forecasts

Czech Republic	2022	2023	2024f	2025f
GDP	2.9	0.0	1.0	2.8
Consumer prices	15.1	10.7	2.2	2.0
Central bank's key rate	7.00	6.75	3.75	3.00
Hungary	**2022**	**2023**	**2024f**	**2025f**
GDP	4.6	-0.7	2.0	3.3
Consumer prices	14.5	17.6	3.8	3.9
Central bank's key rate	13.00	10.75	6.25	5.25
Poland	**2022**	**2023**	**2024f**	**2025f**
GDP	5.3	0.2	2.6	3.4
Consumer prices	14.3	11.6	3.7	4.0
Central bank's key rate	6.75	5.75	5.75	4.75

Source: www.cnb.cz, www.mnb.hu, www.nbp.pl, GenAM

Government Bonds

Florian Späte



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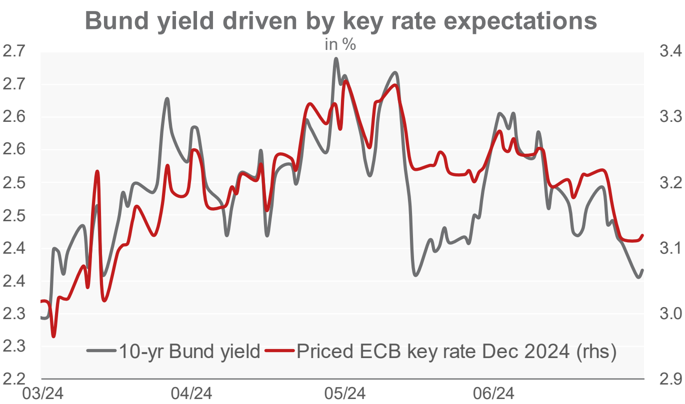

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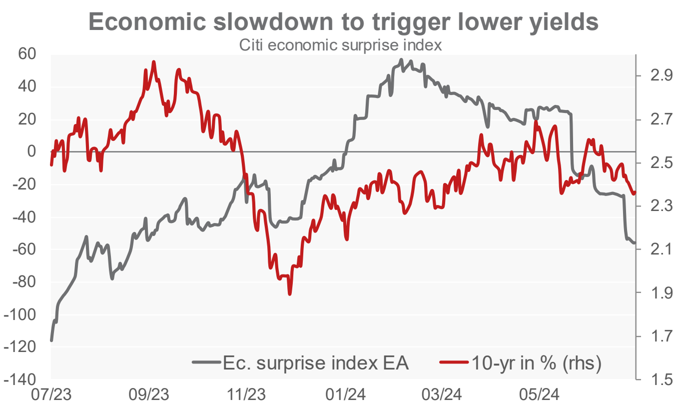


Source: Bloomberg, GenAM

- **Weak economic data and the associated growing expectations of key rate cuts contributed to a strong rally on government bond markets in July. The yield curves have steepened considerably.**
- **Although the scope for a further significant fall in core yields has therefore diminished, we expect that yields are skewed to the downside as key rate cuts approach.**
- **Political uncertainty and downside risks to growth are likely to continue to dominate the EA non-core government bond markets in the coming weeks. BTPs in particular appear vulnerable in view of their recent good performance.**

A combination of factors led to a strong rally in international bond markets in July. In the EA in particular, economic data surprised on the downside and raised fresh concerns about growth. In addition, inflation data showed that the downward trend was intact. The recent broad-based fall in commodity prices is also likely to contribute to a further decline in inflation. The resulting sharp adjustment in policy rate expectations has led to a noticeable bull steepening of the curve on both sides of the Atlantic.

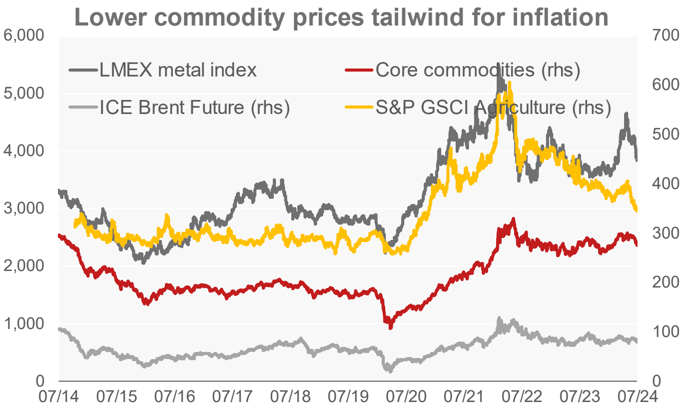
As our medium-term economic forecasts have not changed, we leave our 12-month yield forecast broadly unchanged. Accordingly, the scope for a further yield decline has now been reduced. However, we do not expect a pronounced and sustained countermovement. Rather, core yields should continue to trend slightly lower in the coming months.

Although EA GDP growth of 0.3% qoq in Q2 was well above zero for the second consecutive quarter, the disappointing PMI data in particular suggest that growth momentum in the EA is waning. We also expect the ECB to cut key rates by a further 25 bps in both September and December. In this context, it should be noted that although ECB president Lagarde stressed the data dependency of future rate decisions, she did not push back the rate cut for September, which was already largely priced in at the time.

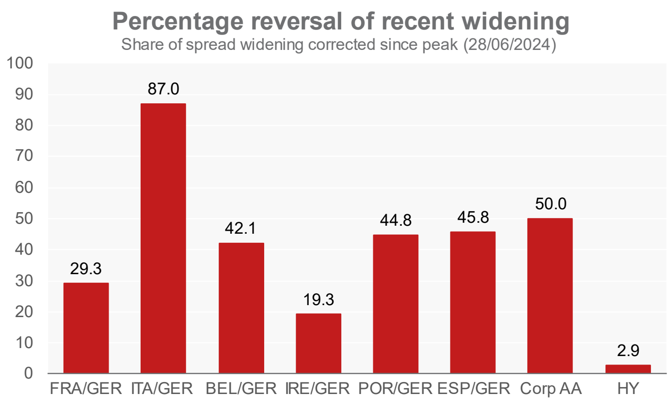
However, the scope for a further decline in yields is also likely to be limited. While we expect a total of 100 bps of key rate cuts over the course of the year, markets are already pricing in around 120 bps. We also see little scope for a further decline in the terminal key rate. At around 2.4%, the EA 5y3m OIS has reached a level that appears broadly appropriate and thus also counteracts a further decline in the 10-year Bund yield.

Overall, we therefore see relatively little downside potential in the short term for long-term EA core yields (although the lack of liquidity in the summer could lead to more significant

Government Bonds



Source: Bloomberg, GenAM



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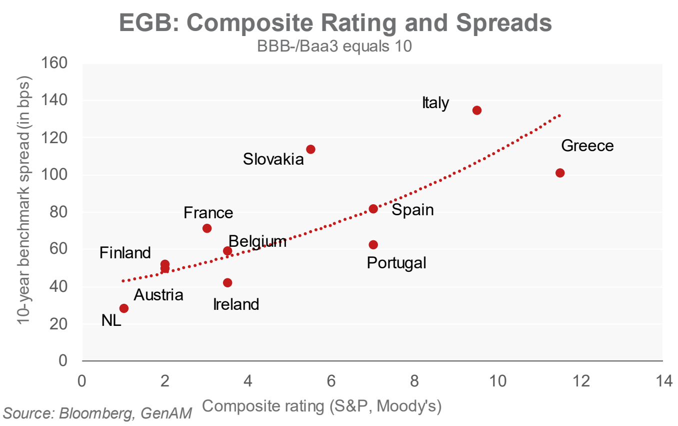


Source: Bloomberg, GenAM

movements in the short term). At 2.3%, our 12-month forecast for 10-year Bund yields does not show any significant downside either.

For 10-year US yields, the market correction is already well underway. Not only have yields fallen by around 50 bps since the end of April, but expectations for the March 2026 Fed funds rate have fallen by almost 90 bps (5y3m OIS have also decreased by around 50 bps over the same period). With 68 bps key rate cuts by the end of the year, we think the priced-in expectations look excessive. Accordingly, we expect a consolidation in the short term. In the medium term, however, with the potential for accumulative rate cuts of around 200 bps and considering that there is still a gap of 70 bps between 10-yr yields and 5y3m OIS, we see room for yields to fall further.

Fiscally strong EA non-core countries to be preferred

EA non-core spreads have narrowed noticeably since the end of June. However, this development masks the moderate widening since the middle of the month. In line with the weaker performance of risky assets, spreads have moved noticeably away from their lows. The striking exceptions are Italian and Greek bonds, which are still trading close to their pre-election levels.

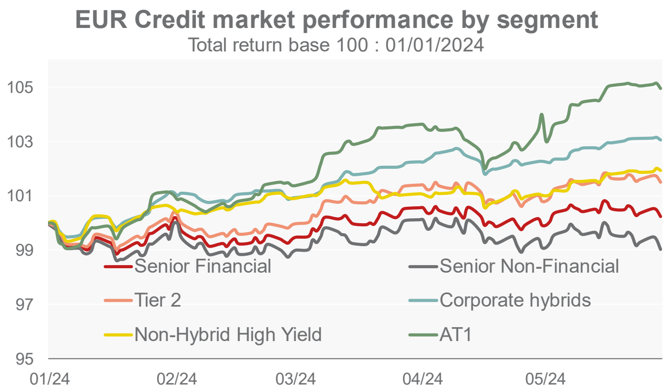
For the time being, the political uncertainty emanating from France during the quiet summer is likely to determine the performance of EA non-core government bond spreads. Plans backed jointly by the left and right to roll back pension reform have fuelled fears that parties on the fringes of the spectrum could work together in the future if it suits their purposes.

Although an actual reversal of the pension reform is still very uncertain, it has shown the markets that fiscally unsustainable measures could be implemented given the new parliamentary majority. The challenging fiscal situation in France is also in the spotlight as the share of non-domestic investors in OATs is very high (and has even risen in recent quarters) compared to other European countries at over 50% (and foreign investors are considered to be very sensitive to negative news). The litmus test is expected in autumn, when the French government will present its draft budget for 2025.

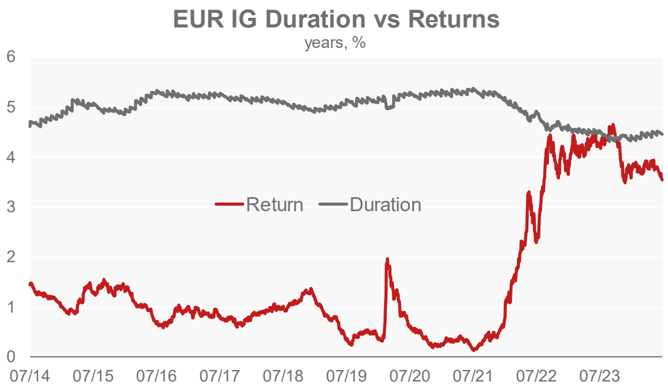
The recent disappointing economic data from the EA also calls for caution. In general, we recommend a more cautious positioning in the coming weeks as we expect spreads to widen. This is all the more true for the fiscally weaker countries whose bonds have nevertheless outperformed (e.g. Italy). Investors should favour countries that have both strong fundamentals and catch-up potential (e.g. Ireland).

Credit

Elisa Belgacem



Source: Bloomberg, BofAML indices, GenAM



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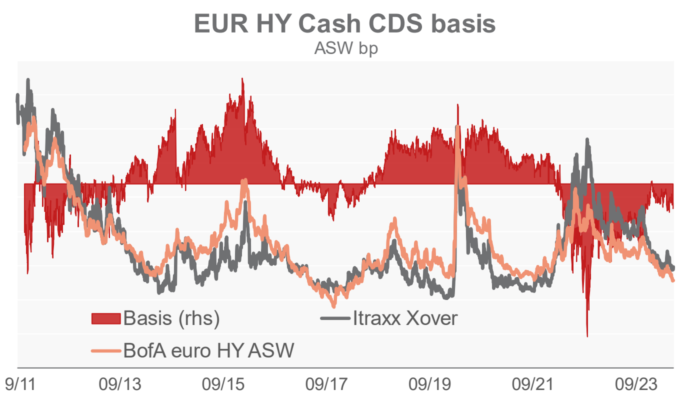


ce:Bloomberg, BofAML Indices, GenAM own calculations

- **Credit Carry remains attractive versus sovereign and we keep our long IG positioning.**
- **We increase high yield due from neutral to slight overweight as expected supply mitigated by the elevated carry and improving default outlook.**
- **CDS have under performed versus cash but remain rich in our view.**
- **Despite tightness, we continue to like corporate hybrids and AT1 as yield enhancement alternatives.**

Over the last few weeks, equities have been declining but credit in general has displayed extraordinary resilience. The total return of the MSCI Europe year-to-date currently stands at 9% vs 7% for AT1, 4% for HY and almost 2% for IG. CDS have been slightly more affected by the resurfacing equity volatility but we continue to consider current CDS levels as attractive for considering putting hedging strategies in place. We like to buy protection on the main and the iTraxx subordinated financials.

Credit is so far way more resilient than equities

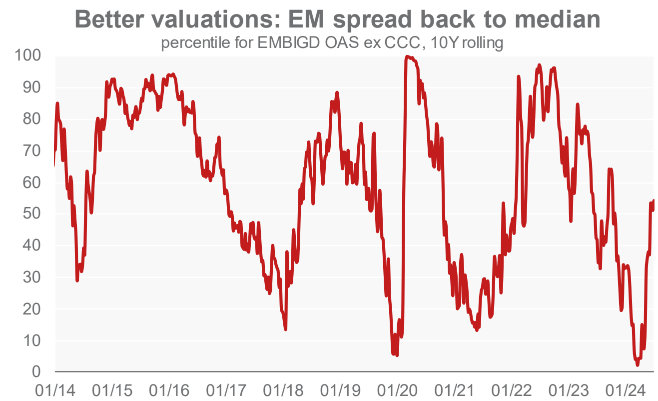
Corporate fundamentals are likely to face headwinds from here. This will lead rating agencies to continue to downgrade more companies than they would upgrade. However, the number of fallen angels moving from IG to HY should remain very limited. Therefore, despite tight valuations, the absolute yield offered by sub-investment grade bonds continues to drive demand, in particular as the pricing of central banks easing cycle is becoming more aggressive.

Low supply should support spreads over summer months

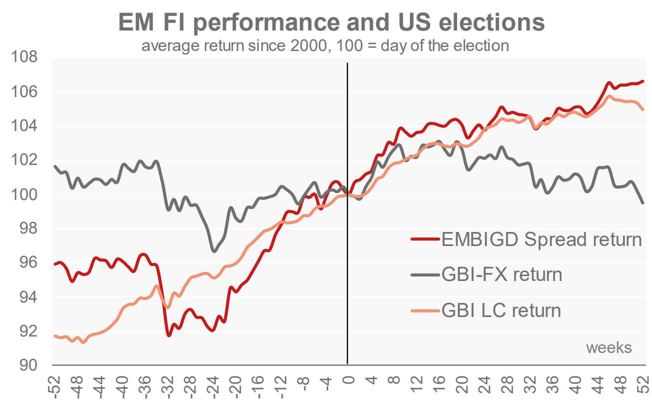
We expect IG spreads to hover around current levels in the coming months, keeping carry elevated. Valuation considerations also lead to a preference for Europe over the US. We prefer long IG and subordination risk to pure HY. With rates likely to plateau and HY defaults declining but at an uncertain pace from here in the HY space, a strategic move would be to play leveraged IG to enhance credit returns. While extending duration may not be favourable from a spread perspective, a positive view on rates justifies a long position, especially in the 5-7 year bucket. AT1 has been the best performing asset class within credit so far this year and despite the limited spread tightening potential going forward, we continue to favour it in particular versus single-Bs.

EM sovereign bonds

Guillaume Tresca



Source: Bloomberg, JP, GenAM



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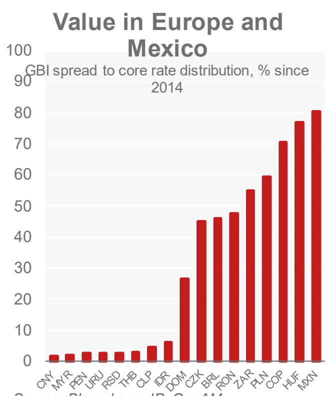

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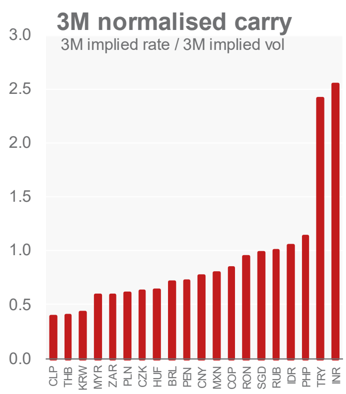


Source: Bloomberg, GenAM

- **EM fixed income benefits from a better economic environment and improving valuations.**
- **We prefer external over local debt and favour EM BBBs. We like Morrocco with an upgrade potential.**
- **EM local debt return will come from rates rather than FX. Increasing volatility will cap the appetite for carry trades.**

EM fixed income has been benefiting from a resilient macroeconomic environment. It should lead to positive returns even if we keep a prudent stance given the expected higher volatility. First, unlike in developed countries, EM economic data have continued to surprise on the positive side, especially in LatAm while disinflation is still on track on average. The message sent by China is eventually mixed. Q2 GDP and recent data are disappointing, the Third Plenum did not bring anything new, but expectations were low. The surprising 7D repo rate cut boosts sentiment and we expect more supportive measures this summer. Second, the value proposal is better than before with almost a 100bp widening in Q2 for external debt of EM ex-CCC countries, and local market sell-offs have opened up more attractive opportunities. However, the upcoming US elections will bring more volatility, limiting the risk appetite and favouring relative value trades. If anything, the withdrawal of Biden is marginally EM positive as the Trump chance is declining and so is the risk for a stronger USD and higher rates.

External debt: not everything is expensive

We maintain our slight preference for external over local debt but the gradual slowdown in US growth, and disinflation coupled with a less bright USD look makes local debt more attractive than before. For external debt, valuations are improving, and EM IG is still lagging US IG YTD. It should attract crossover fund inflows when the Fed cuts. At a more granular level, we prefer BBBs like Romania, Hungary, and Panama (relief rally). In HY, only the CCCs are cheap but driven by idiosyncrasies. We now like Morrocco with an upgrade potential. BBs are tight historically, but good fundamentals should maintain spread flat.

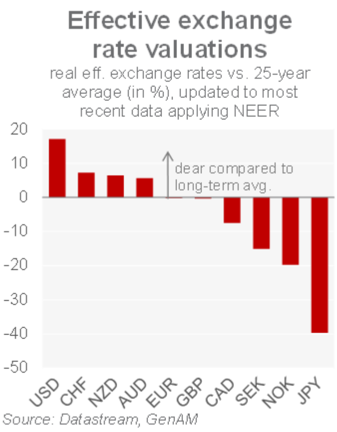
EM local debt: carry hangover

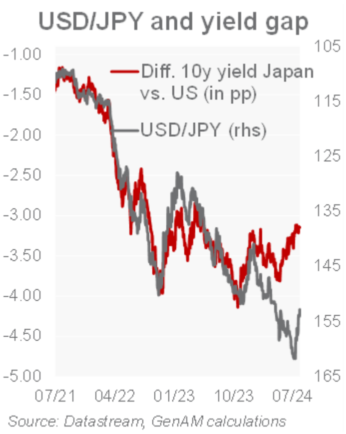
Upcoming positive returns will be driven by rates rather than FX. At the rate level, valuations have been improving after a series of global and local selloffs. For FX, the US elections are the elephant in the room and higher volatility does not bode well for carry trades. At the region level, we see value in LatAm rates (Mexico, Colombia) and EMEA (Hungary, Romania). In Turkey, we note a real turnaround, but it remains more a FX trade than a bond trade so far.

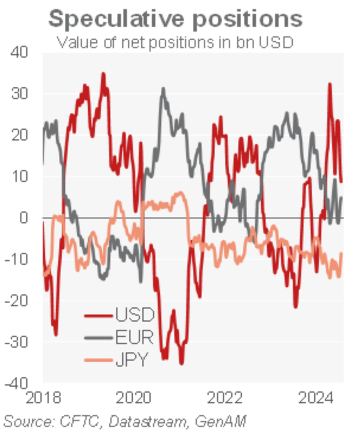
Currencies

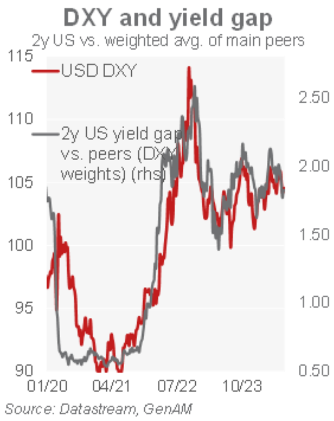
Thomas Hempell

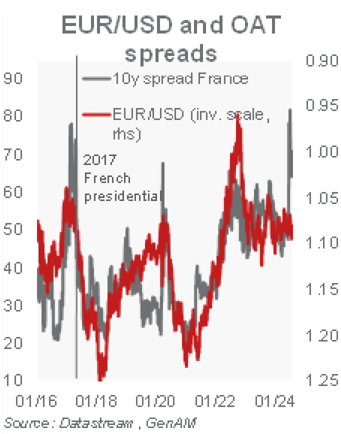
- **The battered and undervalued JPY has finally staged a recovery as a perfect storm of a Japanese rate hike and FX intervention, higher risk aversion and lower US yields have undermined JPY-funded carry trades.**
- **Looking ahead, after some consolidation, we see more JPY upside in the medium term, though the path is likely to be choppy and subject to setbacks.**
- **We see some moderate value in USD exposure for European investors amid French political uncertainties and risks of sharply rising trade frictions in case of a Trump victory in the November US presidential elections.**

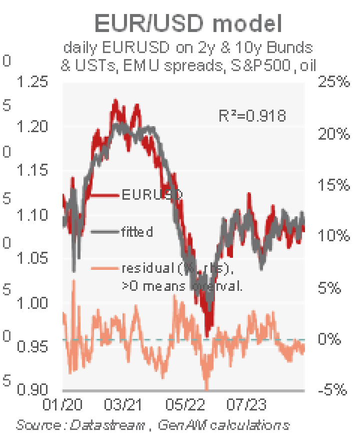












A perfect storm of falling US yields, rising political risk, a Japanese rate hike, FX intervention and higher risk aversion has finally helped the battered and deeply undervalued JPY to recover some ground. Investors rushed to unwind JPY-funded carry trades in the second half of July, sending the USD/JPY from around 162 to close to 150 this morning. The BoJ's July rate hike and plans to taper its huge bond purchases contrast most other central banks' monetary easing bias, pointing to moderately more JPY upside in the medium term. The currency remains fundamentally cheap. Even adjusted for inflation differentials, the trade-weighted yen is trading with a 40% discount; current yield gaps with the US also leave more upside potential for the yen (top charts). And while JPY speculative short positions have been pared, there is still scope for a further correction (left mid chart).

More JPY upside in the medium term

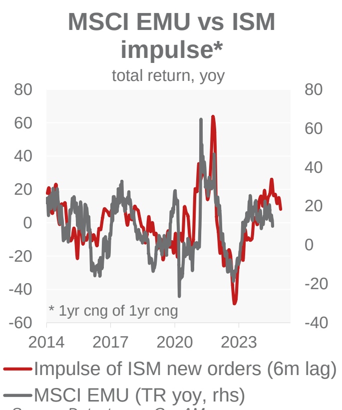
That said, further JPY upside will still be subject to volatility and setbacks. We caution against writing off global risk sentiment prematurely. And while the gap vs. yield differentials is substantial, we expect a more gradual decrease in US yields from here. We have lowered our 3- and 12-month USD/JPY targets to 151 and 145.

While the USD may cede some more ground vs. JPY, we tactically still favour the greenback vs. most other currencies incl. the EUR. Markets have considerably raised their US rate cut expectations, with the end-2025 Fed Fund future down by 80bp over the past two months to 3.6%. This is now even slightly lower than our own Fed rate projections. We also suspect that increased political uncertainties (notably in the Mid East, but also risks of a new trade war in case of a Trump victory) will favour the USD. And the political stalemate in France and data disappointment in the euro area have not been fully appreciated by markets (bottom left). Against broader financial market yardsticks, however, the EUR/USD does not look particularly misaligned yet (bottom right). We thus see some moderate tactical value in USD exposure for European investors.

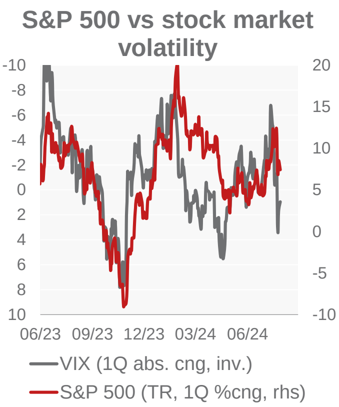
Equities

Michele Morganti and Vladimir Oleinikov

- **While a US soft landing seems confirmed so far, euro area macro momentum looks more at risk short term, meaning that negative earnings revisions and volatile markets can linger for a while.**
- **On the positive side, disinflation, increasing rate cut expectations, resilient global PMIs and labour markets reassure that global growth could have slowed, but will not be derailed.**
- **The reporting season is doing decently well, with positive earnings surprises and a declining gap between US IT growth vs. other sectors/country ones: increasing chance of a performance rotation.**
- **We maintain a slight OW on equities, not adopting a more aggressive stance due to risks such as: toppish ISM, negative macro surprises, high US PE, declining Fed' liquidity, and higher investor positioning.**
- **We expect a positive 12-month TR: 4% SPX and 7% for ex-US indices. Tactically N EMU vs. the US (N US Tech). OW EU ex-EMU, Japan, India, Korea, and accumulating China. EU sectors: OWs: Banks, Energy, Food Bev. Tob., Defense, Materials, Semis, Transport, Utilities. UWs: Auto, Cap.Goods ex A&D, Comm.Prof.Svs., Retail, Telecom, Media, Software.**



Source: Datastream, GenAM



Source: Datastream, GenAM

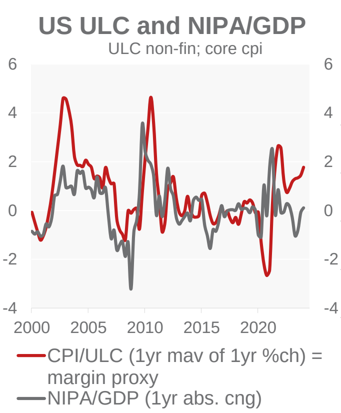
Analysis of the median stock: Q2 2024 reporting season

Median stock	Earnings Growth		Sales Growth		margin trend *		availability
	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q2 2024
S&P	8.3 %	7.7 %	4.1 %	5.0 %	4.2 %	2.8 %	41.2%
Stoxx	1.2 %	5.4 %	1.1 %	2.3 %	0.1 %	3.1 %	35.7%
Euro Stoxx	(2.9)%	1.8 %	0.2 %	1.6 %	(3.1)%	0.2 %	33.2%
Topix	17.2 %	10.1 %	5.6 %	5.9 %	11.5 %	4.2 %	14.6%

Median stock	Earnings Surpr		Sales Surpr		margin trend *		availability
	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q1 2024	Q2 2024	Q2 2024
S&P	5.2 %	4.0 %	0.8 %	0.3 %	4.4 %	3.8 %	41.2%
Stoxx	4.0 %	2.5 %	0.1 %	0.4 %	3.9 %	2.2 %	35.7%
Euro Stoxx	1.8 %	2.7 %	0.1 %	0.1 %	1.7 %	2.6 %	33.2%
Topix	7.3 %	3.7 %	0.4 %	1.2 %	7.0 %	2.6 %	14.6%

Note: numbers for Q1 are calculated only for the companies which have so far reported in Q2
proxy for margin trend = earnings growth - sales growth

Source: Bloomberg, GenAM calculations



Source: Datastream, GenAM

12m targets (as of 30.07.24)

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	-7.4%	-1.6%
MSCI EMU	6.7%	16.5%	-0.4%
FTSE 100	8.4%	11.9%	0.5%
SMI	2.8%	8.2%	-0.1%
TOPIX	6.9%	8.6%	-0.4%

Source: Datastream, Bloomberg, GenAM calculations

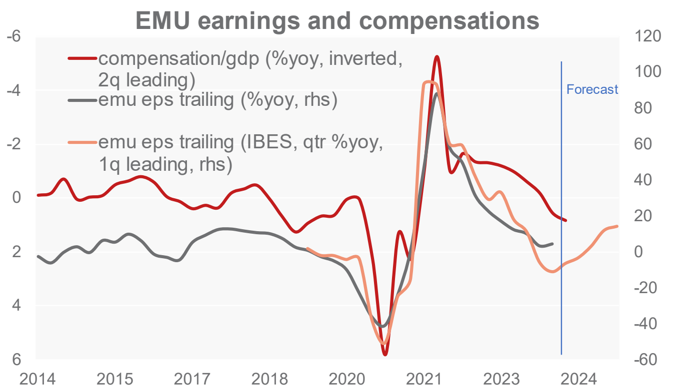
Note: LT models: PE tgt (US 18.2x, EMU 13.4x, JP 14.3x), Fed model, EY-BY, DDM, and 3-stage eps growth model
excess CAPE yield = 1/CAPE - (10yr rate - avg inflation over 10yr)

While US soft landing seems confirmed so far, euro area (EA) macro momentum looks more at risk short term. It was already more fragile vs. the US one, but probably politics - French political chaos, Trump's repeated announcements on trade tariffs and lingering wars - are putting pressure on the EA firms' confidence (weak PMI, IFO, INSEE, etc.). This adds to the recent increase in input prices (global freight + port strikes) and lingering weakness in Chinese economy. So, negative macro surprises (UK being the only positive exception) means negative revisions and volatile markets can linger for a while. On the positive side, disinflation is progressing, and central banks are becoming increasingly accommodative. Resilient global PMI and labour markets plus increased real income, reassure that global growth could have slowed, but not derailed yet. Market volatility (VIX) increased noticeably, still not reaching levels which would cause negative quarterly market returns.

Additionally, the reporting season is doing decently well, and US unit labour costs look supportive for firms' margins. Political risks and softer macro surprises could affect guidance, though the latter has so far looked better than in Q1 for earlier reporters. After 206 US firms' results, earnings (EPS) surprises are positive by +4.0% (vs. +5.2% in Q1). In the EA, EPS surprises are +2.7% (vs. +1.8% in Q1). We see 2024 EPS growth at 9% for the US and 7.5% for EMU.

![Generali Asset Management]

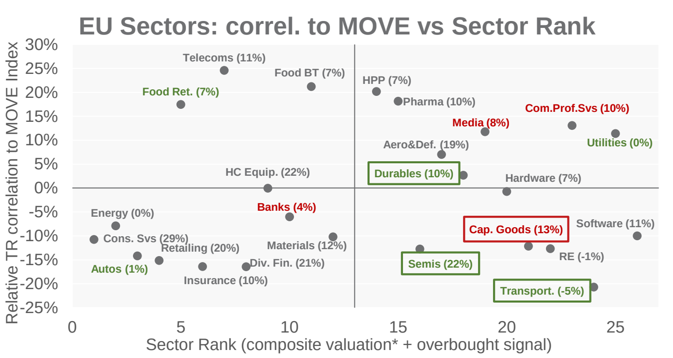
Equities



Source: LSEG, I/B/E/S, GenAM calc

as of 24/07/2024	2024 EPS growth	2025 EPS growth	12m fwd PE	2025 PE	Avg 12m fwd PE since 1995
S&P 500	10%	15%	21.4	19.8	16.8
SPX (median stock)	7%	11%	18.0	17.1	17.5
Mag. 7 (median stock)	31% ->	14%	31.1	29.5	26.2
SPX 493 (median stock)	7% ->	11%	17.9	16.9	17.2
AI Basket 175 (ex. Mag 7)	7% ->	14%	21.1	19.1	16.9
MSCI US IT	19%	21%	29.8	27.3	21.4
MSCI EMU	3%	11%	12.9	12.2	14.4
MSCI EUROPE	4%	10%	13.6	12.9	14.5

PE are Price / 12m fwd EPS and 2025 YE EPS. Median values are computed on the individual components of the index or index subset, considering current S&P 500 members. Values for the indexes are computed on consensus index estimates.
AI Basket 175 is a proprietary basket which includes 175 AI-related companies (60% US, 40% RoW), value refer to the median stock.
Source: Datastream, IBES Estimates, GenAM calculations



*includes Fed Model gap, exp. TR, PEG adj. (for ROE and COE), Shiller PE, 3-stage EPS growth model, mkt multiples, PE vs hist. avg. excl. bubble years. 12m EPS growth = 12m fwd EPS vs 12m trailing EPS
Green/Red name = positive/negative machine learning (ML) models
in (X%): 12m EPS growth
= Best performing models
Source: Refinitiv, GenAM calculations as of 29/07/2024

For 2025, we see 9% EPS growth for US and 5% for EMU. For the latter, while we will probably need to revise slightly down our ’24 estimates, we think that yoy EPS variation have reached a cyclical bottom. G4 Cash Flow minus Capex spread remains high and positive, net equity issuances low, while buybacks linger. Central banks are becoming more accommodative, triggering better financing conditions ahead, helping the cycle to remain upbeat. Ex-US valuations are attractive and US ones less expensive on a 1-year horizon.

All the cited arguments render a positive market assessment, thus supporting a positive 12-month TR and a slight OW position in equities. In the short term we do not exploit a bolder OW position due to rising risks: toppish ISM momentum, negative macro surprises, high US PE, declining Fed' banks liquidity, and higher investor positioning. That said, increasing certainty about accommodative monetary policy ahead, reducing pressure from market yields, a consequent probable declining MOVE (US bonds’ vol), plus a reduction in the gap of EPS growth (US IT vs. the rest of the market), are finally backing a rotation from US IT vs. other sectors and countries. We remain neutral on US IT as well as on EMU vs. the S&P 500. We OW EU ex-EMU, India, Korea, China and Japan.

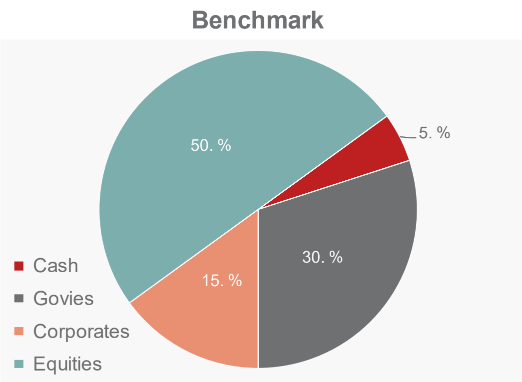
We also OW EU small cap and UK FTSE 250. The latter should benefit from a relative significant undervaluation on the backdrop of better domestic activity, and imminent BoE easing cycle. Overall, UK equities should benefit from the announced pro-growth policy and better UK macro surprises.

European sector allocation

EU is still in goldilocks phase (declining CPI; increasing global leading indicator), which would favour cyclicals vs. defensives. But the ISM impulse looks toppish, and the EA GDP is slowing while macro surprises are negative. We adjust our sector allocation maintaining a neutral cyclical vs. defensive stance and an unchanged overall sensitivity to MOVE, but looking at earnings revisions, ML models, and fundamentals momentum. We upgrade utilities and semis to a slight OW, move Durables to neutral and Cap. Goods ex-A&D to UW. We stick to a neutral weight on US IT (good short-term earnings momentum and enjoying peaking rates but slight overvaluation, normalization in relative growth in 2025, plus antitrust risks). OWs: Banks, Energy, Food Bev. Tob., Defense, Materials, Semis (new), Transportation and Utilities (new). UWs: Auto, Cap.Goods ex A&D (new), Comm.Prof.Svs., Retailing, Telecom, Media, Software.

Asset Allocation

Thorsten Runde



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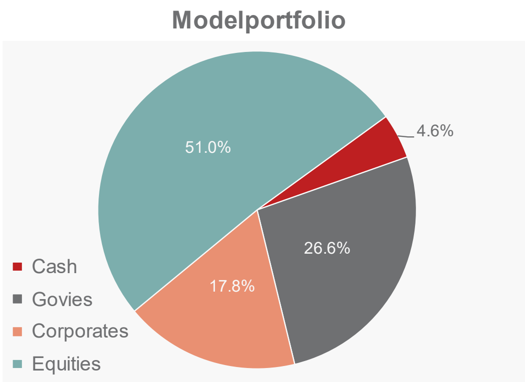
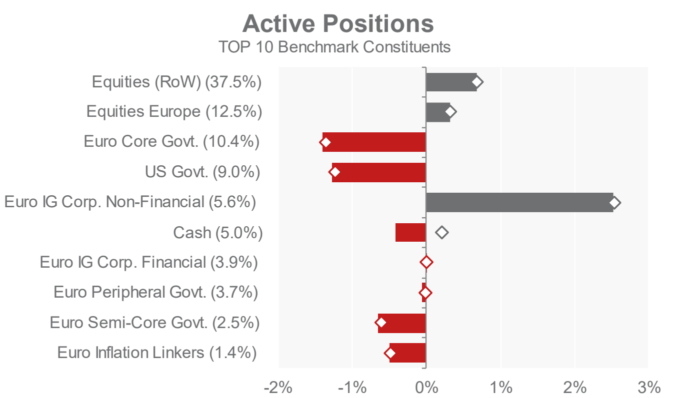


Source: GenAM



Source: GenAM; Benchmark weights in parentheses, diamonds indicating previous recommendations

- **In July 2024 (30.07.24), apart from the MSCI Europe ex EMU all our actively covered equity markets find themselves in negative territory, whereas the opposite is true on the fixed income side.**
- **The bottom of the performance ranking is held by the MSCI Asia Pacific (-0.9%) and the MSCI EM (-0.3%).**
- **The top is dominated by long-dated EA government bonds, with BTPs ranked best (+4.2%) followed by Bonos (+3.3%) and Core Govies (+2.7%).**
- **Overall, EA HY Credit slightly underperformed EA IG by -39 bps. Within IG, non-Financials were moderately superior to Financials (+18 bps).**
- **A still resilient growth outlook (despite recent setbacks in key indicators), decent corporate earnings, and forthcoming rate cuts should brighten risk sentiment. Yet the advanced rally still bears risks as recent market turmoils indicate.**
- **We stick to our prudent OW in Equities and slightly increase EA HY at the expense of Cash. We keep our OW in EA IG non-fin and stay neutral in EA IG fin. With respect to duration, we keep a moderately long stance.**

In July 2024 (30.07.24) our model portfolio could nearly keep up with its benchmark (-0.3 bps). All in, the OW positions in EA Credit paid off the most throughout (+2.4 bps for IG and +1.0 bps for HY). By contrast, underweighting Cash proved most painful (-0.9 bps). July was characterised by two completely opposing market developments. While Equities still led the performance ranking in the first half of the month and almost any fixed income asset class were in negative territory (in relative terms), this picture reversed in the second half of July. The same is true for the model portfolio performance (+2.1 bps 1st half; -2.4 bps 2nd half).

We still deem the growth and disinflation paths intact despite recent "setbacks" in key figures and indicators (primarily for the euro area). Together with forthcoming rate cuts and decent corporate earnings, this should lend support to risk assets in general.

Keep a prudent pro-risk tilt

Acknowledging the downside risks, we just confirm our moderate overweight position in Equities and increase our exposure to EA HY to a marginal OW at the expense of cash. We keep our OW in EA IG non-fin as our largest active position while staying neutral in EA IG fin. We stick to our preference for long-dated over short-dated bonds, thus maintaining our moderately long active duration stance.

Forecasts

Macro Data

Growth[1]	2023	2024 forecast	2024 Δ vs. cons.	2025 forecast	2025 Δ vs. cons.	2026 forecast
US	2.5	2.6	0.3	1.8	0.1	2.1
Euro area	0.5	0.8	0.1	1.4	0.0	1.2
Germany	- 0.1	0.0	- 0.2	1.3	0.1	1.5
France	0.9	0.9	- 0.0	1.3	0.0	1.6
Italy	0.9	0.8	- 0.1	0.8	- 0.2	0.7
Non-EMU	0.2	0.9	0.0	1.4	0.0	1.9
UK	0.1	0.8	0.0	1.1	0.0	1.9
Switzerland	0.8	1.4	0.0	1.5	0.0	1.8
Japan	1.9	0.3	0.2	1.2	- 0.1	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	3.1	0.2	2.8	0.2	2.8
Latin America	2.2	1.4	0.0	2.3	0.0	2.5
World	**3.0**	**3.0**	**0.0**	**3.0**	**0.1**	**3.0**

1) Regional and world aggregates revised to 2020 IMF PPP weights

Inflation[1]	2023	2024 forecast	2024 Δ vs. cons.	2025 forecast	2025 Δ vs. cons.	2026 forecast
US	4.1	3.1	- 0.0	2.4	0.1	2.3
Euro area	5.5	2.4	0.0	2.2	0.2	2.0
Germany	6.0	2.4	0.1	2.3	0.2	2.0
France	5.7	2.4	0.0	2.1	0.3	2.0
Italy	5.6	1.3	0.1	1.7	- 0.0	1.8
Non-EMU	6.5	2.4	0.0	2.0	0.0	2.0
UK	7.4	2.6	0.0	2.3	0.0	2.1
Switzerland	2.2	1.4	0.1	1.1	0.0	1.2
Japan	3.3	2.3	- 0.2	2.0	- 0.1	1.7
Asia ex Japan	2.1	1.9	- 0.0	2.3	- 0.0	2.6
China	0.2	0.4	- 0.2	1.3	- 0.2	2.0
CEE	20.4	19.6	0.4	11.7	0.9	8.4
Latin America[2]	5.1	4.1	0.0	3.7	0.0	3.0
World	**5.2**	**4.0**	**0.0**	**3.2**	**0.1**	**2.9**

1) Regional and world aggregates revised to 2020 IMF PPP weights ; 2) Ex Argentina and Venezuela

Financial Markets

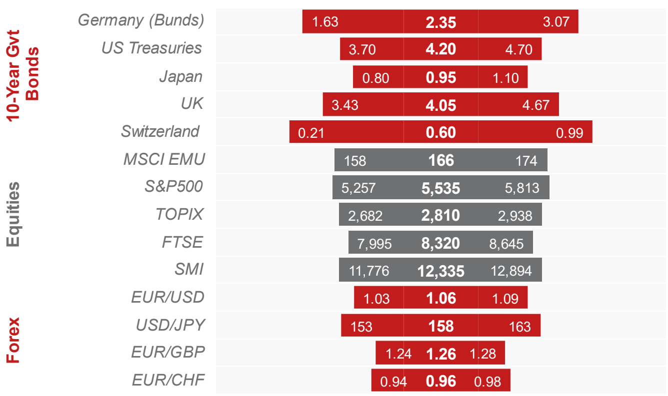
Key Rates	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
US (upper bound)	5.50	5.25	*4.94*	5.00	*4.40*	4.50	*3.73*
Euro area	3.75	3.50	*3.34*	3.25	*3.01*	2.75	*2.36*
Japan	0.25	0.25	*0.25*	0.35	*0.35*	0.50	*0.51*
UK	5.25	5.00	*4.85*	4.75	*4.57*	4.25	*3.94*
Switzerland	1.25	1.25	*0.98*	1.00	*0.84*	1.00	*0.71*
10-Year Gvt Bonds							
US Treasuries	4.17	4.15	*4.17*	4.10	*4.16*	4.00	*4.19*
Germany (Bunds)	2.37	2.35	*2.35*	2.35	*2.34*	2.30	*2.34*
Italy	3.73	3.75	*3.77*	3.80	*3.80*	3.80	*3.89*
Spread vs Bunds	*136*	*140*	*142*	*145*	*146*	*150*	*155*
France	3.08	3.05	*3.05*	3.05	*3.06*	3.05	*3.10*
Spread vs Bunds	*71*	*70*	*71*	*70*	*73*	*75*	*76*
Japan	1.03	1.05	*1.10*	1.05	*1.16*	1.00	*1.26*
UK	4.07	4.05	*4.07*	3.95	*4.06*	3.90	*4.12*
Switzerland	0.50	0.50	*0.45*	0.50	*0.44*	0.50	*0.43*

**3-day avg. as of 30/07/24*
***ICE BofA (OAS)*

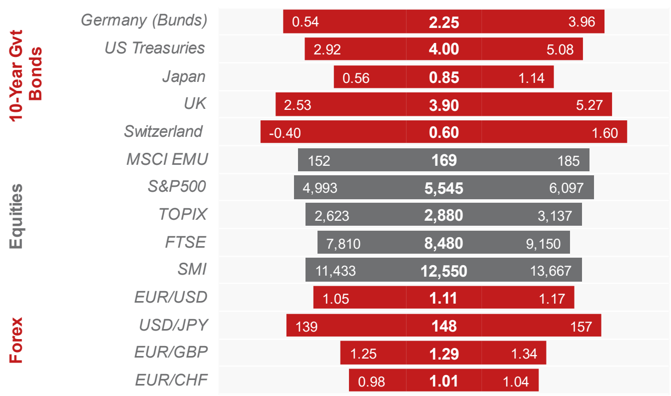
Credit Spreads**	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
EA IG Non-Financial	105	100		100		100	
EA IG Financial	116	115		115		110	
EA HY	347	340		340		340	
EM Sov. (in USD)	270	265		250		245	
Forex							
EUR/USD	1.08	1.06	*1.09*	1.09	*1.09*	1.11	*1.10*
USD/JPY	154	151	*152*	150	*150*	145	*147*
EUR/JPY	166	160	*165*	164	*164*	161	*162*
GBP/USD	1.28	1.26	*1.29*	1.28	*1.29*	1.29	*1.29*
EUR/GBP	0.84	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	5,453	5,510		5,505		5,510	
MSCI EMU	161.5	164.0		166.0		166.0	
TOPIX	2,738	2,765		2,800		2,840	
FTSE	8,284	8,370		8,440		8,490	
SMI	12,246	12,530		12,740		12,700	

Forecast Intervals

3-Months Horizon*



12-Months Horizon*



**Forecast ranges of ±1 stdv. centred around point forecasts; based on historical volatilities; length of bars indicative only*

GENERALI ASSET MANAGEMENT

Imprint

Issued by: **Generali Asset Management S.p.A. Società di gestione del risparmio | Research Department**

Head of Research: **Vincent Chaigneau**

Head of Macro & Market Research: **Dr. Thomas Hempell, CFA**

Team:
Elisabeth Assmuth | Research Operations
Elisa Belgacem | Head of Cross-Asset Quant & Dev, Senior Credit Strategist
Radomír Jáč | GI CEE Chief Economist
Jakub Krátký | GI CEE Financial Analyst
Michele Morganti | Head of Insurance & AM Research, Senior Equity Strategist
Vladimir Oleinikov, CFA | Senior Quantitative Analyst
Dr. Thorsten Runde | Senior Quantitative Analyst
Dr. Christoph Siepmann | Senior Economist
Dr. Florian Späte, CIIA | Senior Bond Strategist
Guillaume Tresca | Senior Emerging Market Strategist
Dr. Martin Wolburg, CIIA | Senior Economist
Paolo Zanghieri, PhD | Senior Economist

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