GENERALI INVESTMENTS

Market Compass

November 2024

MARKET OUTLOOK

- The global growth environment is stabilizing as the US economy continues to show resilience while momentum in China and the euro area is bottoming.
- Central banks are easing policy as inflation normalises and the risks subtly shift from inflation to the activity side. Overall, this Goldilocks environment remains mildly conducive to risk exposure.
- President Trump's agenda of tariffs, tax cuts and immigration curbs would prove inflationary in the US, initially sending US yields, the USD and selected US equity baskets higher, especially as it is backed by a 'red wave'.
- We keep a prudent allocation stance, mostly favouring carry from credit and EM over lower-yielding euro govies for now. But given the overall conducive macro backdrop (moderate growth, easing inflation) we lean towards scaling up risk exposure with US election uncertainties now largely out of the way.

Edited by

MACRO & MARKET RESEARCH TEAM

A team of 13 analysts based in Paris, Cologne, Milan and Prague runs qualitative and quantitative analysis on macroeconomic and financial issues.

The team translates macro and quant views into investment ideas that feed into the investment process.

US

- (+) Q3 GDP up by 2.8%. Consumption remains strong
- (+) Slower wage growth helps disinflation
- (+) Fed will likely continue to cut by 25bps per meeting until March
- (!) Economic impact of the Trump administration to be felt by end 2025 at the earliest

EUROZONE

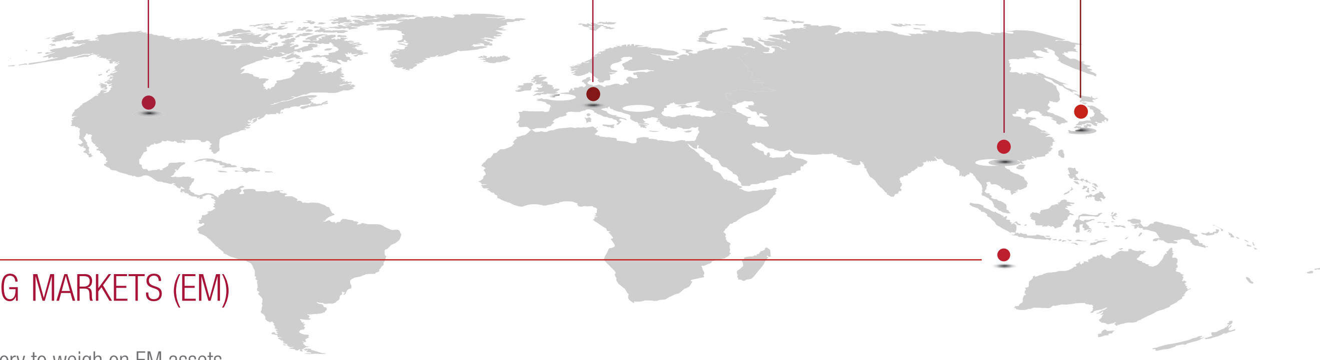
- (−) Weakening sentiment across the board
- (−) Political uncertainty high, esp. in Germany and France
- (+) Inflation down to 1.8% in September
- (+) ECB to ease stronger and faster

CHINA

- (+) Slight improvement in activity but from low levels
- (+) Awaited fiscal stimulus details
- (+) Further monetary easing expected
- (−) Trump victory to increase uncertainty and weigh on Chinese assets

JAPAN

- (+) BoJ kept rates unchanged
- (+) Stronger real wages to boost consumption
- (!) LDP electoral defeat to trigger uncertainty



EMERGING MARKETS (EM)

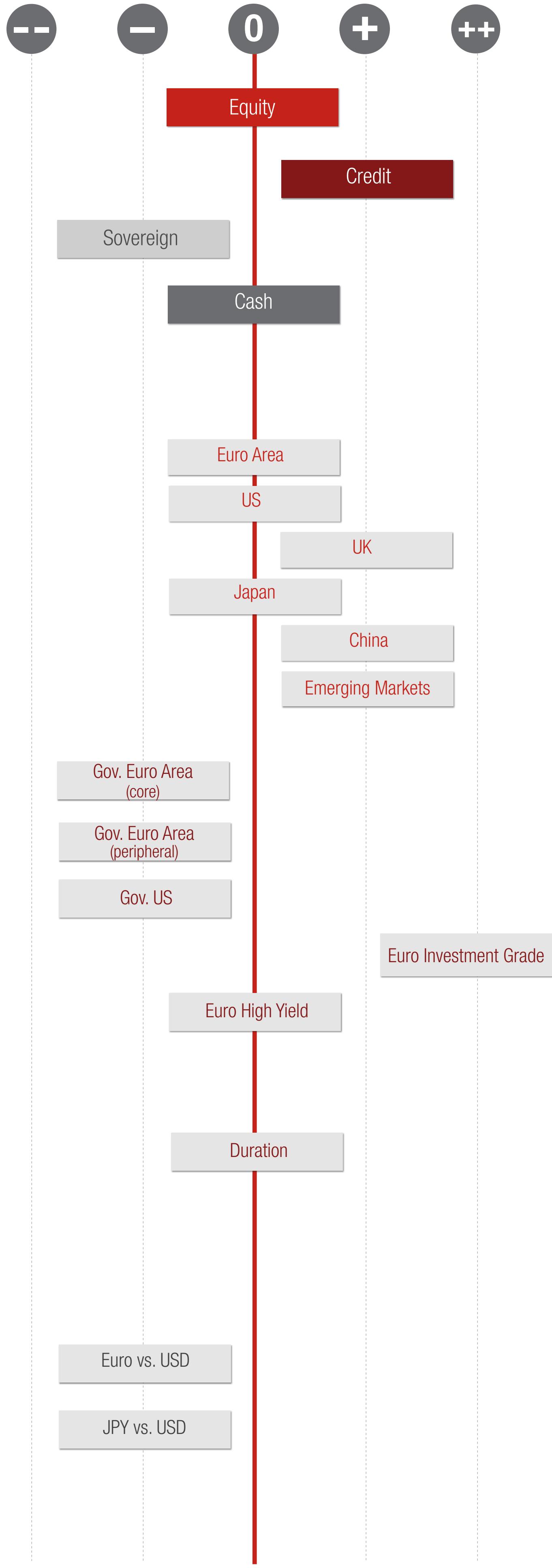
- (−) Trump victory to weigh on EM assets
- (−) Open economies, Mexico and China to lose from a Trump victory
- (+) But positive macro environment with resilient activity and disinflation

(+) Positive
(−) Negative
(!) Topics to watch

Your Partner for Progress.

DIRECTION OF TRAVEL

- Raise overweight (OW) equity, after the US election. Prefer US, Japan over Euro Area.
- Keep IG credit overweight, prefer Euro Area and non-financials.
- Underweight (UW) government bonds, especially short duration.
- Overweight USD against Euro given increasing uncertainties in Europe.



Equity

- The removal of political uncertainty (US elections) is supportive for the usual post-election rally, which is likely to be contained due to elevated US valuations and rising real yields.
- We see positive 3m and 12m TR for both the US and EU (higher risk profile), driven by macro fundamentals, central bank easing and a continuing rotation out of tech.

Bonds

- The Trump victory in combination with a Republican sweep in Congress may lead to somewhat higher US yields. However, markets had largely priced in a Trump presidency limiting any further yield increase.
- Leeway for higher Euro Area core bond yields more limited amid the negative growth impact of US policy.

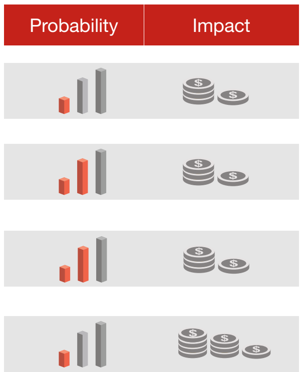
Duration

- Neutral duration.

Currencies

- The Trump victory may extend the greenback's recent surge even further: the EUR/USD may fall below 1.05 on worries about stringent US tariffs, stickier US inflation and a less dovish Fed.
- With the outlook for US yields still tilted to the upside short-term, JPY remains vulnerable to a further correction.

TOPICS TO WATCH



- Fast deterioration of the business cycle, forcing a steeper path of rate cuts.
- Political gridlock in France weighs on sovereign rating and adds to woes on EU integration, delaying pro-growth policies.
- Trump victory raises the risk of protectionist policies accelerating global fracturing.
- Tighter credit eventually feeds through the economy worsening financial conditions.

Probability: High ⟷ Low

Impact: High ⟷ Low

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