GENERALI ASSET MANAGEMENT

Market Perspectives

Election crossroads

November 2024

GenAM Macro & Market Research

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

- **The global growth environment is stabilizing as the US economy continues to show resilience while the 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.**
- **The elephant in the room for November, however, are the US elections. 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 so if backed by a 'red sweep'.**
- **We keep a prudent allocation stance into the elections and mostly favour the carry of Credit and EM over lower-yielding euro Govies for now. But given the overall conducive macro backdrop (moderate growth, easing inflation) we are leaning towards scaling further up our pro-risk stance after Nov. 5 uncertainties recede.**

Content

Global View – Election crossroads

Thomas Hempell

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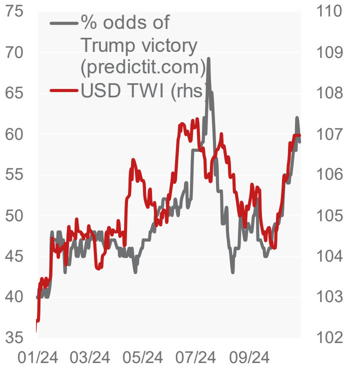
Markets are increasingly scrutinizing US polls and betting odds amid the tight race between Trump and Harris into the 5 Nov. elections. Model odds based on polls still see the outcome as a coin toss. But the recent slight shift in Republicans' favour has pushed betting markets on Trump's side. This had markets shunning Treasuries (10y yield up ~50bp in Oct.) and piling into the USD (+2.5%, left chaft).

Election bets and USD TWI



Source: predictit, BBG, Datastream, GenAM

Economic surprises

Source: Citi, Datastream, GenAM

An actual Trump victory may well propel these moves even further, as his agenda of punitive tariffs, tax cuts, immigration curbs and deregulation would be inflationary and may force the Fed to halt its easing cycle. US equities, notably in financials and US energy, would benefit. The move could be stronger still in case of a 'red sweep', i.e. Republicans securing control of both the House and the Senate. Watch, however, the recent talk of large spending cuts, which is true will cap bond yields – we tend to believe that 10y UST above 4.50% would be a buying opportunity. A Harris victory (not backed by a likely 'red' Senate) would see US yields and USD paring part of recent gains. That said, US yields are unlikely to reach the lows seen in September.

Indeed, apart from US politics, solid US data have also boosted yields and curbed rate cut expectations, with consumption proving very robust and Q3 GDP (+2.8% saar) still above potential growth. US economic surprises have bounced into the positive for the first time since early May (right chart). We therefore caution against going long US duration prematurely for now.

10-Year Gvt Bonds	Current*	3M	6M	12M
US Treasuries	4.26	4.25	4.10	3.80
Germany (Bunds)	2.30	2.25	2.20	2.20
Credit Spreads**				
EA IG Non-Financial	99	95	95	95
EA IG Financial	106	105	105	105
Forex				
EUR/USD	1.08	1.08	1.10	1.12
USD/JPY	153	151	145	140
Equities				
S&P500	5822	5880	5885	5890
MSCI EMU	165	166	168	170

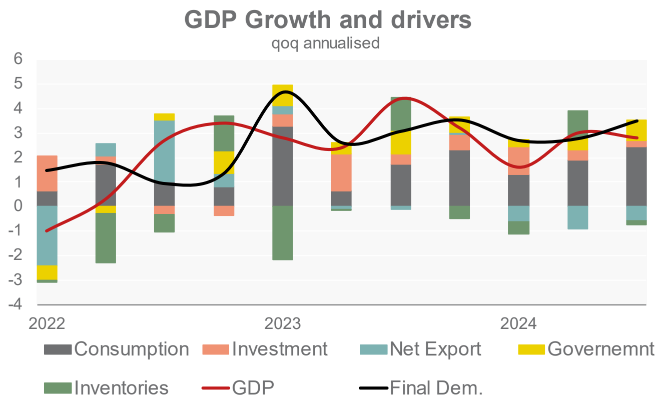
**3-day avg. as of 29/10/24 **ICE BofA (OAS)*

Prudent into the elections, pro-risk bias by year-end

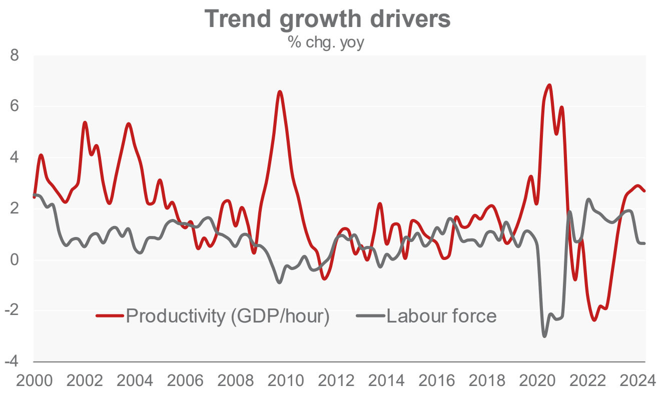
Acknowledging the outsized role of US elections, we keep a prudent allocation stance for now with a slight pro-risk bias, mostly favouring the carry of Credit and EM bonds over lower yielding euro area Govies and a small overweight in US equities. Yet we deem the overall macro environment still conducive for risk sentiment. China is about to announce details of its bold stimulus measure during its NPC standing committee (Nov. 4-8). Chinese equities rallied in September, but fears of disappointment grew in October. Yet the comprehensive measures already announced at least greatly reduce the risk of a global drag by China, and the rumoured CNY 10tn multi-year package looks rather encouraging. Europe is still suffering from lost competitiveness and ailing global manufacturing. Yet hard data for Q3 (GDP +0.4%) suggest that the EA is holding up better than sentiment indicators have suggested. And while tensions in the Middle East keep lingering, Israel's very targeted response to Iran's missile attack in early October has dampened acute escalation risks and sent the oil price back to levels prevailing a month ago. Overall, we are thus leaning towards taking a stronger pro-risk stance after Nov. 5 uncertainties recede.

United States

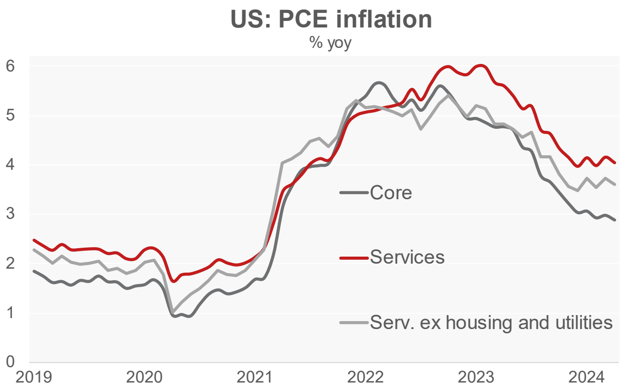
Paolo Zanghieri



Source: BEA, GenAM



Source: BEA, BLS, GenAM



Source:BEA, Refinitiv, GenAM

- **Q3 GDP rose by a solid 2.8% annualised. Evidence of a longer lasting productivity rise led us to revise our growth forecast to 2.7% for 2024 and 2.2% for 2025. The outcome of the election is clearly the main risk.**
- **Disinflation continues but remains slow and bumpy, core PCE inflation stays on course to moderate to 2.6% by year-end as labour costs cool.**
- **Strong data and inflation risks from Trump's agenda of tariffs, tax cuts and immigration have reduced market optimism on rate cuts. We stick to our forecast of 25 bps cuts this year and 125 bps next.**

The landing of the US economy looks even softer than expected. In Q3 GDP rose at 2.8% annualised, driven by an acceleration in consumption (3.7%), while non-residential investment offset the plunge in construction activity. Assuming a mild deceleration in Q4, this would translate into 2.7% growth this year. We revised up, to 2.2%, the forecast for 2025. An orderly rebalancing of the labour market and the Fed easing will prevent a rise in unemployment, and the normalisation of inflation will sustain purchasing power. Moreover, the recent upward revision of income and GDP data raised the saving rate which in August stood at 4.8%, only 0.4pp below the pracademic average: this would reduce the need to cut back on purchases. More structurally, the upside revision of the GDP and the persistent increase in productivity point to a stronger short term growth potential for the US economy. Of course, the forthcoming election poses a key risk for growth even though the impact on demand would not materialise before the last months of 2025, and would be sizeable only if one party controls both the White House and the Congress.

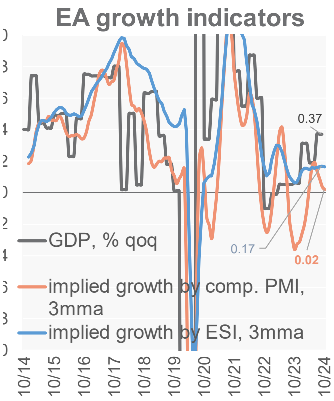
The gradual cooling of inflation continued in September. Core CPI surprised slightly to the upside (3.3% yoy), due to few sectors like airfares and motor insurance. Still the gradual easing in wage pressure will facilitate disinflation in services and we think that the 2.6% year-end target for core PCE inflation set by the Fed is attainable.

Fed cuts will continue

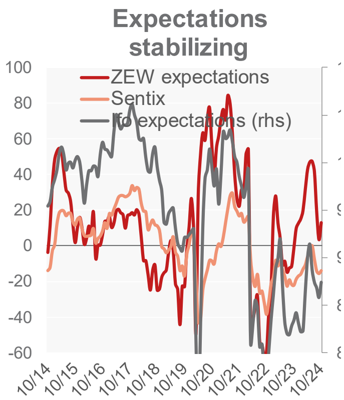
Markets have repriced up the path for key rates, after the solid activity data and anticipating the inflationary effect of the policies that might be enacted should the Republicans win both the With House and the Congress. The tone of the communication by FOMC members has not changed during the last weeks and still sticks to a positive assessment of inflation and a data driven approach. We stick to our forecast of two more 25 bps cuts this year and another 125 bps in 2025.

Euro Area

Martin Wolburg



Source: Datastream, GenAM



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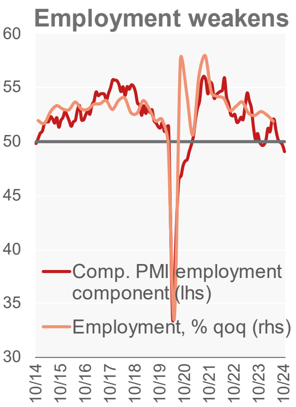
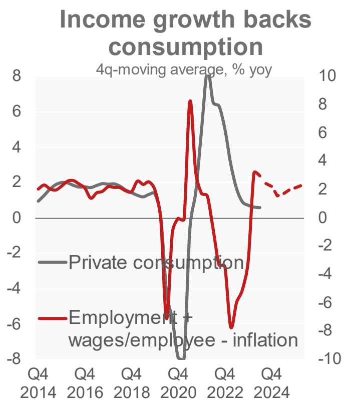


Source: Datastream, GenAM



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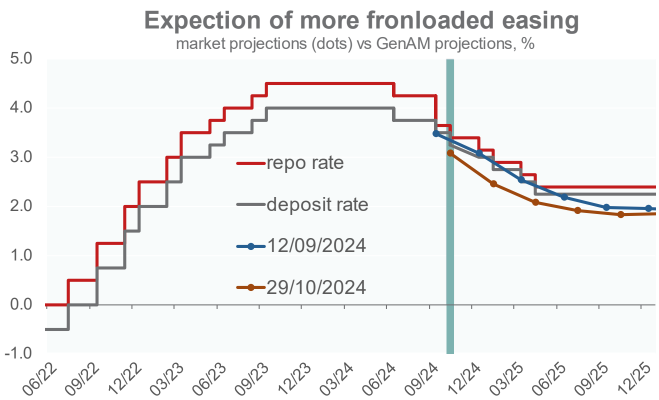


Source: Datastream, ECB, GenAM calculations

- **Activity indicators continued to come in weak but Q3 growth of 0.4% qoq surprised on the upside.**
- **Therefore, and because signs of improvement are at the horizon, with receding inflation playing a major role, we lifted our 2024 growth forecast to 0.8%.**
- **Amid headline inflation around target, core receding and muted activity, the ECB will frontload policy easing and cut rates at the coming meetings.**

Recent indicators continued to hint at weak activity in the euro area. However, the preliminary flash GDP for Q3 reported a strengthening of growth to 0.4% qoq, from 0.2%. This was at odds with key sentiment indicators and likely due to some special effects which triggering some payback in Q4. In October, the composite PMI remained slightly below the threshold separating contraction from expansion and the corresponding employment component heralds labour market deterioration.

That said, we see more and more silver lines at the horizon. The most powerful tailwind comes from ongoing disinflation amid solid wage growth. Headline inflation rebounded mainly on base effects to 2.0% yoy in October but will remain on a downtrend. Consumers adjusted their inflation expectations to the downside reducing the need for precautionary savings. Rising consumer confidence will increasingly translate into purchases while easing financing conditions support the housing market and investment spending. Moreover, some improvement of manufacturing sentiment, a very soft landing in the US and a big fiscal and monetary stimulus in China will also support activity.

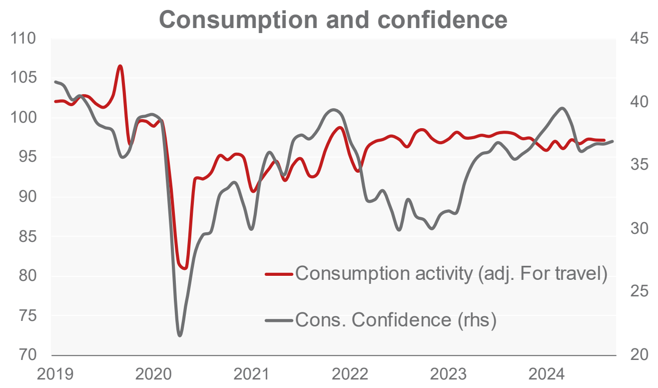
All in all, we expect some payback from the good Q3 numbers and see activity almost stagnating in Q4. At the outset of 2025 activity is set to strengthen lastingly. We now see annual growth rising from 0.8% (from 0.6%) in 2024 to 1.0% (from 0.9%) in 2025.

ECB to frontload policy easing

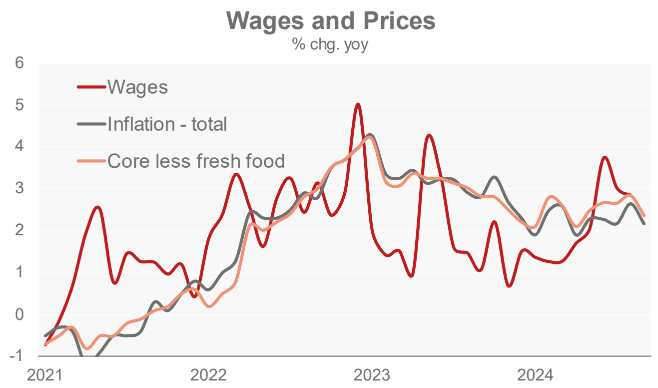
In October, the ECB unanimously decided to cut its key rate by 25 bps to 3.25% due to the combination of disappointing growth data and more favorable inflation readings. Its 2025 growth forecast of 1.3% is in our view still unrealistically high implying also additional downside risks to the corresponding 2.2% inflation forecast. In public speeches GC members made clear that policy easing continues. Our base case is a series of 25 bps cuts at each meeting until in April the terminal rate of 2.25% is reached thereby basically frontloading policy easing. That said, the risks are clearly tilted towards stronger and faster easing, especially should underlying inflation fall close to target faster than projected. As the key rate is currently still in restrictive territory we see a risk for bolder cuts at the December 12 meeting.

Japan

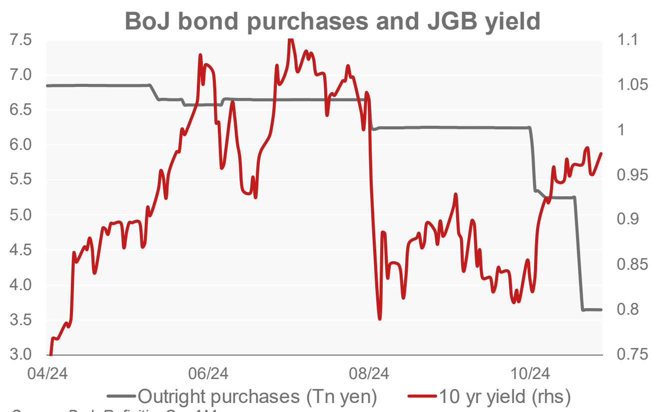
Paolo Zanghieri



Source: Boj, CAO, GenAM



Source: Refinitiv, GenAM



Source: BoJ, Refinitiv, GenAM

- **As real wage improvement has continued to lift consumption, GDP should grow by 0.2% in 2024 and 1.2% next year.**
- **Core inflation edged down during the summer. The core rate should slide further, and inflation should average 2.3% before drifting to below 2% in 2025.**
- **The ruling LDP party surprisingly lost its majority in the general election. This may delay the key rate rise we project for December to early next year.**

Macroeconomic data remained overall strong during the summer. Consumption is holding well on the back od solid real wages. However, the rise in consumer confidence stopped in October as fears over inflation inched up. The good news on investment shown by Q2 data seems to be confirmed by business surveys, especially in large firms. Trade constitutes the biggest risk for the short-term outlook, given the weakness of EU demand and the uncertainties on China. In September, goods export growth dipped from 12% to 2% yoy and the first indications for October point to a mild contraction. We expect GDP to increase by 0.2% this year and 1.2% next, with risks slightly tilted to the downside. The governing coalition led by the Liberal Democratic Party fared much worse than expected in the Oct 27 election and lost its majority, triggering a sharp Yen selloff. A minority government or a less likely larger coalition, will find it hard to continue with fiscal consolidation.

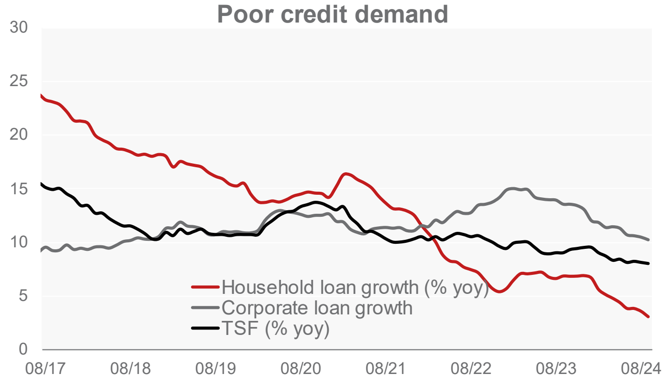
BoJ: December hike may be postponed, 1% neutral rate reached by 2026

Political instability and some uncertain macro data have cast doubt on the possibility of another rate rise causing the yield curve to steepen, also because of the announced slowdown in bond purchases by the BoJ. As expected, the BoJ stayed put at the October meeting, changed marginally its projection, mostly to account of the recent depreciation of the Yen, but still emphasized the need to normalize policy, as the current level of the policy rate (25 bps) is too low as actual inflation rears 2% and expectations are on the rise. Our baseline still has another 25 bps rate rise in December, but this could be delayed to January. The decision will depend on two factors subject to two major factors. First, the disastrous election result, the government will call for more caution about the pace of rate hikes. Second, a further strengthening of the USD will bring back the Yen as a major consideration for monetary policy

China

Guillaume Tresca

Poor credit demand

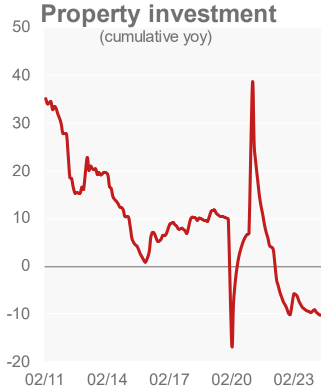


Source: Bloomberg, PBoC, GenAM

China: Housing sector has not yet recovered

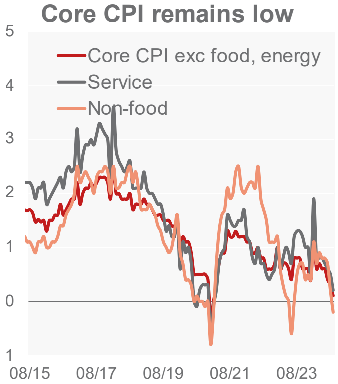
Source: Bllomberg, NBS, GenAM

Property investment



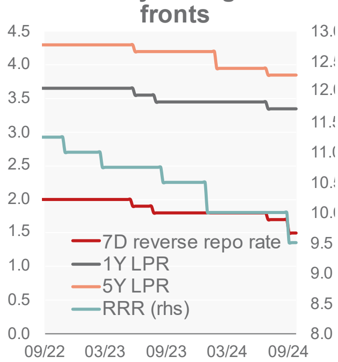
Source: Bloomberg, NBSC, GenAM

Core CPI remains low



Source: Bloomberg, NBS, GenAM

Monetary easing on all fronts



Source: Bloomberg, GenAM

- **Policymakers have adopted a new coordinated monetary and fiscal stimulus approach, reducing significantly negative downside risks to growth.**
- **Fiscal stimulus expectations are running high, keeping the risk of disappointment high. Stimulus will lead to a pickup in growth, but a decisive turnaround is far from given.**

After a piecemeal approach, the policymakers have made a rapid U-turn by unveiling a surprising coordinated monetary and fiscal stimulus, giving a large boost to risk sentiment. The idea is to create a confidence shock to boost flagging domestic demand. Full details on the size and form of the fiscal support are still awaited to gauge the chances of success but for sure authorities have put a floor under downside economic risks. First, the PBoC has cut the main key rates and importantly has opened the door for more in Q4 and Q1 25. Second, a program to support the stock market was announced. Third and fourth, a commitment was made to fix the housing market, along with the prospect of fiscal support to boost consumer demand and ease local government debt pressures. These last two points are the most controversial as details are lacking.

The awaited fiscal stimulus

Expectations are running high on the fiscal stimulus and some disappointment has already emerged. The NCP standing committee meeting on 4-8 November should clear uncertainty, providing details on the size and on how the fiscal stimulus will be used. We expect a small increase in bond issuance for Q4 (RMB0.5-1trn) and special issuance to increase bank capital (RMB1trn). More importantly, the timing after the US elections can allow authorities to announce a more significant fiscal easing for 2025 and if any it will provide further boost to sentiment. To be effective, it must target consumer demand. The stimulus should lead to a pickup in growth, but it is not clear yet if it will allow a meaningful turnaround.

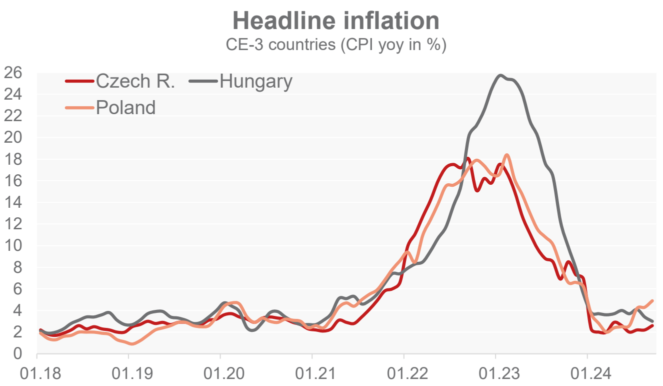
Some short term improvement in economic activity

Latest data released have been mixed confirming a partial improvement, but from a low base. Q3 GDP data showed that growth slowed to 4.6% yoy, from 4.7% in Q2. Retail sales growth rebounded, showing the positive fiscal impact of subsidies for consumer goods. Early anecdotal evidence from the Golden Week holiday points to an improvement in consumption while the decline in new and secondary home sales slowed. We maintain our growth forecast of 4.5% in 2025, waiting for all the details on the future fiscal stimulus but risks are skewed for a stronger figure.

Central and Eastern Europe

Radomír Jáč

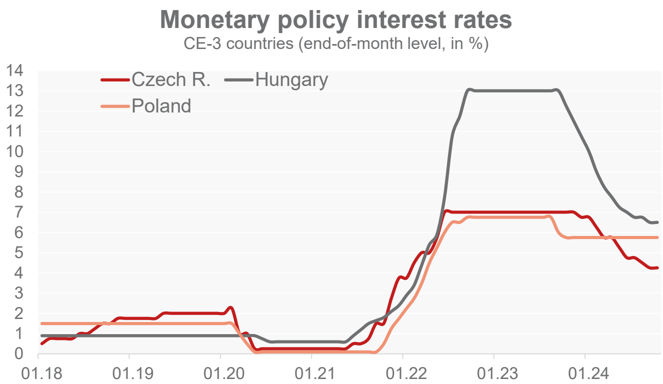
- **The final months of this year will under the influence of the base effects be marked by rising inflation in Czechia and Hungary. Deregulation of energy prices will increase inflation in Poland in early 2025.**
- **We hold the call that the Czech CNB will cut interest rates twice in Q4, Hungary only in December, and Poland will resume rate cuts in spring of 2025.**
- **The US elections represent uncertainty for the near future. The election results and their impact on global yields and the USD exchange rate will also affect markets and monetary policy in the CE-3 region.**



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

The CE-3 September CPI data were mixed. Czech headline inflation increased from 2.2% to 2.6% yoy (vs. a target set at 2% yoy +/- 1 pp). The increase was driven by food prices while core CPI moderated. Poland reported an increase in headline CPI from 4.3% to 4.9% yoy (target: 2.5% +/- 1 pp) with energy and healthcare prices as the key drivers. Headline CPI in Hungary eased from 3.4% to 3.0% yoy due to fuel prices and exactly to the target set at 3% yoy +/- 1 pp.

Headline inflation will be driven higher by base effects in Czechia and Hungary in Q4 but stabilization and subsequent decline in the headline CPI should follow in Q1 2025. Poland will see the peak only in Q1 2025 due to further deregulation of household energy prices, but headline CPI should start to moderate afterwards also in its case. However, the next steps of monetary policy in CE-3 will be driven not only by the inflation outlook, but also by the results of the US elections and their impact on global market sentiment. A rise in global yields with a negative impact on CE-3 currencies could lead to a more cautious monetary policy setting.



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

Monetary policy steps in the CE-3 region are mixed

The Czech CNB cut its key rate by 25 bps to 4.25% in September and we keep our call for 25 bps cut at both of this year's remaining monetary policy meetings (November and December). A possible weakening of the CZK in response to the outcome of the US elections could slow down interest rate cuts. In Hungary, the MNB cut the base rate by 25 bps to 6.50% in September but kept in on hold in October. This was the second pause in the current easing cycle after the first pause which took place in August. We expect a 25 bps cut at the December meeting when the new quarterly inflation forecast will be presented. Poland kept its key rate unchanged at 5.75% also in October. An increasing number of comments from the Polish MPC indicated that interest rate cuts may resume in March or in Q2 2025 after inflation, driven by the deregulation of energy prices, will reach its peak in the first months of the year.

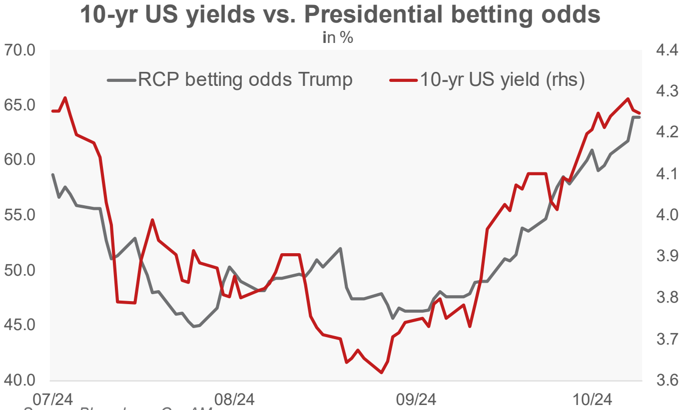
Main Forecasts

ublic	2023	2024f	2025f
	0.0	1.0	2.3
prices	10.7	2.4	1.9
nk's key rate	6.75	3.75	3.00
	2023	2024f	2025f
	-0.9	0.9	3.0
prices	17.6	3.8	3.9
nk's key rate	10.75	6.25	5.25
	2023	2024f	2025f
	0.2	3.1	3.2
prices	11.6	3.7	4.0
nk's key rate	5.75	5.75	4.75

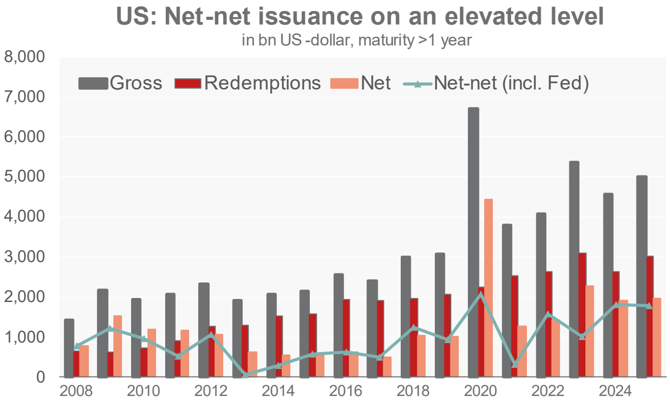
nb.cz, www.mnb.hu, www.nbp.pl, GenAM

Government Bonds

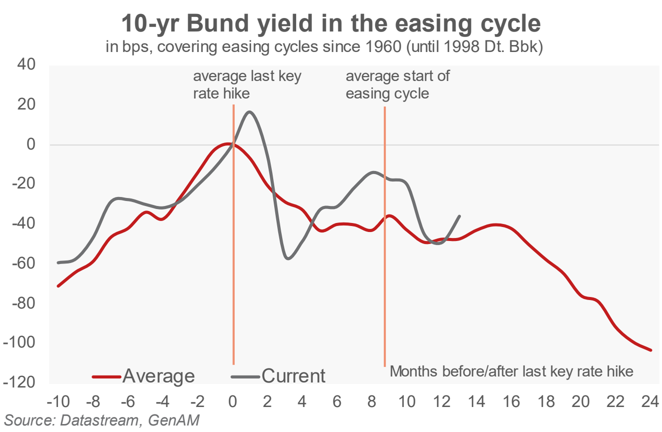
Florian Späte



Source: Bloomberg, GenAM



Source: Bloomberg, Datastream, GenAM calculations



Source: Datastream, GenAM

- **The US elections have the power to continue to influence international bond markets in the coming weeks. Fundamentally, there is downside potential for US yields in particular but the possible election of Trump as the next US president could prevent this, at least in the short term.**
- **By contrast, we expect core EA yields to move sideways in the coming weeks, with a slight downward bias, in the wake of further ECB rate cuts. However, the potential for a significant decline in yields is limited given the overly aggressive rate cut market pricing and the expectation of a modest economic recovery over the course of 2025.**
- **The environment for EA non-core government bonds is seen to remain supportive. However, the low levels achieved limit a further spread tightening. The difficult political and fiscal situation in France remains a burdening factor.**

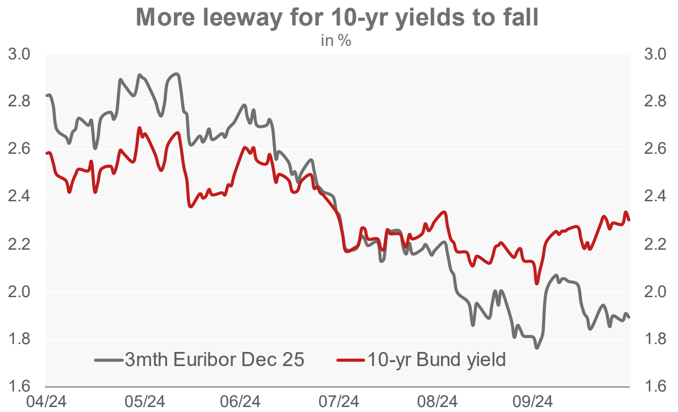
Stronger-than-expected US economic data, and the likelihood of a Trump victory has contributed to rising yields in recent weeks. In case he wins, this trend could continue for some time, especially if a Republican majority is achieved in Congress, which would make it easier to implement policies. Additional fiscal stimulus is likely to push up US yields at both the short and the long end of the curve, while the impact of potential tariff increases appears more uncertain, as a higher term premium will be at least partly offset by the slowdown in growth associated with the tariffs. However, it should be noted that Trump's increased chances of success have already contributed to a rise in yields (see chart), limiting the additional market reaction in the event of a Trump presidency.

Hence, while Trump's victory combined with a Republican sweep implies the highest yield levels, a Harris win in combination with a split Congress is likely to produce the lowest yields. However, it is important to note that both parties' policy platforms are characterised by unsustainable fiscal expansion plans. Depending on the political constellation, the budget deficit could rise to 7-9% by 2028, leading to a further increase in the debt/GDP ratio. Considering the fiscal deficit, the Fed's extraordinary monetary policy measures and the recent increase in the use of T-bills, the net-net supply of US Treasury securities will be around USD 1800bn in both 2024 and 2025. This value is close to its peak and will rise further in the following years, exerting structural upward pressure on US yields.

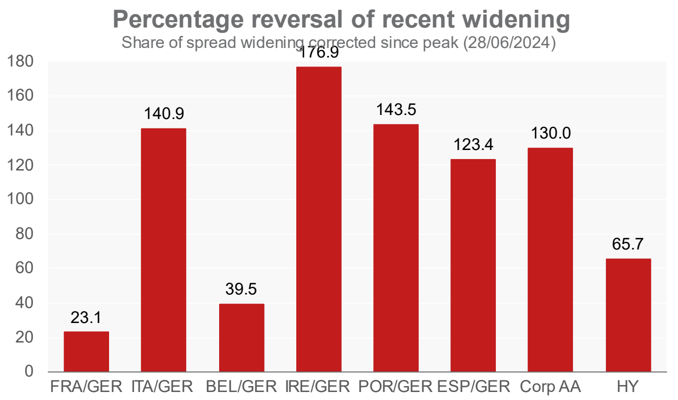
Fundamentally, we see downside potential for US yields amid falling inflation, slowing growth and further key rate cuts. Moreover, we regard the Fed pricing as too hawkish.

Government Bonds

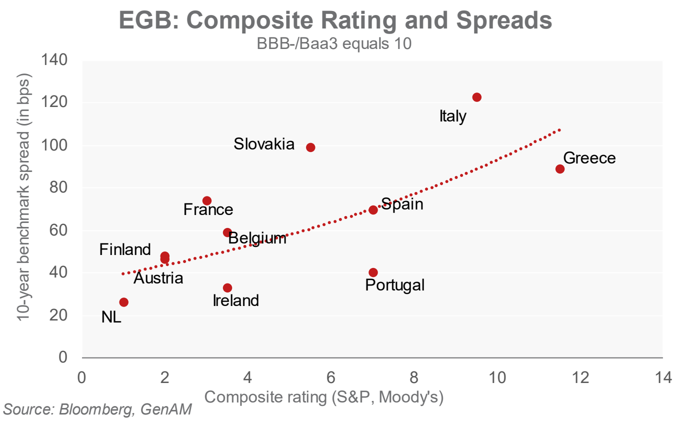
Florian Späte



Source: Bloomberg, GenAM



Source: Bloomberg, GenAM



Source: Bloomberg, GenAM

Contrary to financial markets, we expect the trough of the current key rate cycle at 3.0% (and not 3.5% as priced). Over a one-year period, we forecast a yield level of 3.8% for 10-yr Treasuries.

As 10-yr Bund yields have moved to the upper end of the trading range between 2.0% and 2.5%, we expect a slight downward trend in the coming weeks. The decoupling of long-term yields from key rate expectations is unlikely to last. Moreover, history suggests that Bund yields have further downside potential in a cycle of key rate cuts. On the other hand, our expectation of a deposit rate trough of 2.25% is above market expectations and is likely to discourage a sustained rally in the bond market. This is all the more true as the latest economic data point to a somewhat more positive economic scenario in the EA.

Supportive environment for EA non-core bonds

EA non-core government bond spreads tightened further in October. In some cases, they have reached long-term lows. They are also benefiting from a substitution effect, as risk aversion towards French (and Belgian) bonds has increased markedly and market participants are avoiding them.

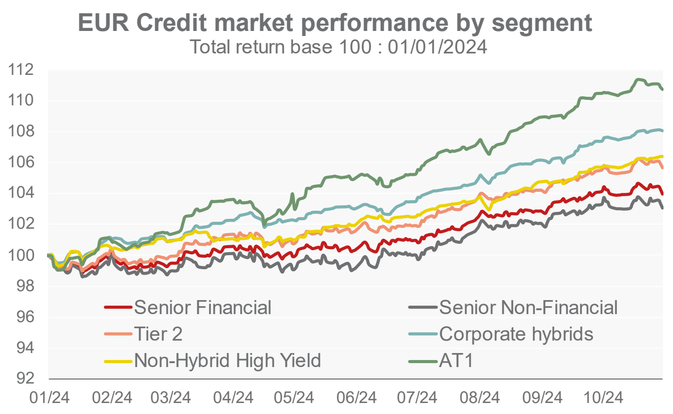
The general environment for EA non-core government bond markets is seen to remain friendly. The issuance of new bonds for 2024 has already been largely completed (robust demand from both retail and institutional investors). Further ECB rate cuts help, and growth is seen to gain momentum in H1 2025 again. However, investors should not rely on market momentum alone. While some countries have made significant progress in terms of growth and fiscal consolidation (e.g., Portugal, Ireland, Greece), others continue to face challenging fundamentals. In this respect, good selection is critical to success.

The ambitious French budget draft (including savings of around 2% of GDP) was not sufficient to calm markets sustainably. The French government does not have a stable majority. It will probably have to resort to Article 49.3 to adopt the 2025 budget. The medium-term financial plan does not envisage a return to the 3% fiscal target until 2029. A vote of no confidence is possible, but its success is uncertain.

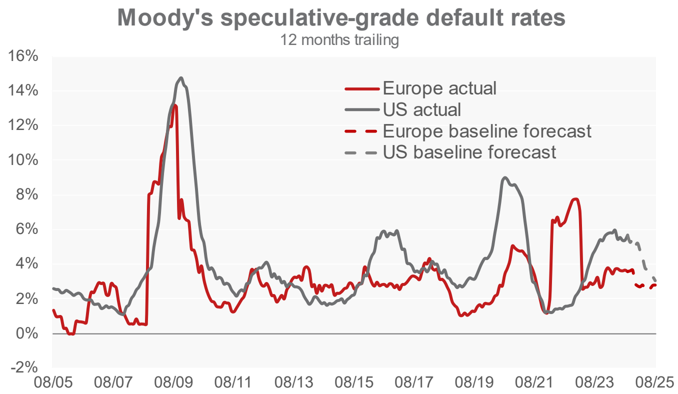
Although OATs are trading at least two notches below the current rating and risk aversion is already very high, the upcoming rating decision by S&P (November 29) poses an additional risk (Moody's kept the rating on October 25 but changed the outlook to negative). Overall, we regard the risk/reward ratio of OATs to be still unattractive as limited spread tightening potential are offset by significant risks in the event of adverse developments.

Credit

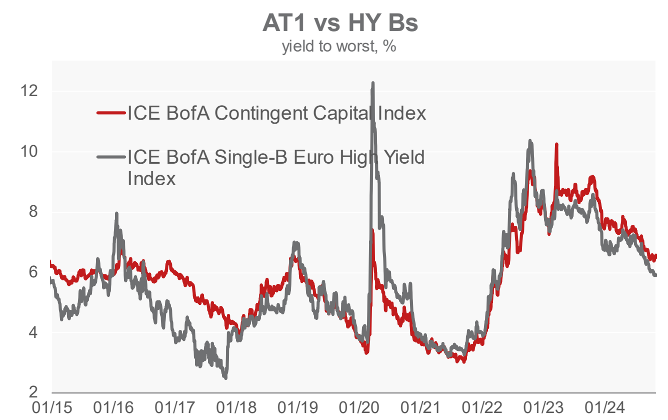
Elisa Belgacem



Source: Bloomberg, BofAML indices, GenAM



Source: Moody's, GenAM



Source:Bloomberg, BofAML Indices, GIAM own calculations

- **The persistent strong demand for credit, coupled with anticipated further decreases in central bank rates, supports our long position in investment-grade (IG) securities.**
- **Despite high yield (HY) underperforming IG in spread terms since this summer, the carry remains attractive. We maintain a slight overweight in HY, bolstered by an improving default outlook.**
- **Cyclical sectors, particularly Autos, continue to face pressure. We recommend a defensive sector positioning through the end of the year.**
- **We favor non-financials over financials due to ongoing French political risks as we approach year-end.**

In recent weeks, credit spreads have tightened significantly due to lower supply during the reporting season. However, demand remains elevated as investors are drawn to the high all-in yield, particularly with the expected decline in yields on monetary products over the coming months.

Defensive sector positioning is warranted

Rating agencies have begun to adopt a cautious stance on the most cyclical European companies, either by downgrading ratings or revising outlooks downward. This is especially evident in the Automobile sector, where the transition to electric vehicles, intense competition from Chinese manufacturers, and sluggish demand from China are creating significant challenges.

Spreads are less appealing but carry still is

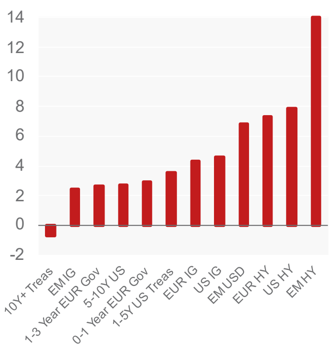
Spreads are less appealing, but the carry remains attractive. We expect credit spreads to hover around current levels in the coming months, keeping carry elevated. Valuation considerations also lead to a preference for Europe over the US. We prefer long IG and subordination risk to pure HY, but keep a slight HY overweight. With HY defaults declining but fundamentals under slight pressure, a strategic move would be to leverage IG to enhance credit returns. While extending duration may not be favorable 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. Despite limited spread tightening potential going forward, we continue to favor AT1, particularly versus single-Bs.

EM sovereign bonds

Guillaume Tresca

EM FI: gentle returns ytd

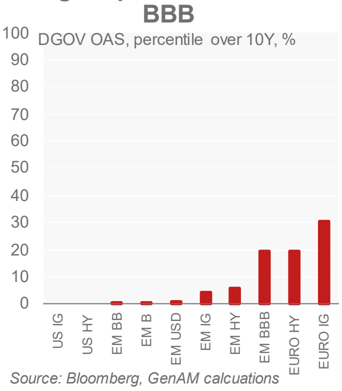
perf ytd, %



Source: ICE, Bloomberg, GenAM

Tight spreads: value in BBB

DGOV OAS, percentile over 10Y, %



Source: Bloomberg, GenAM calcuations

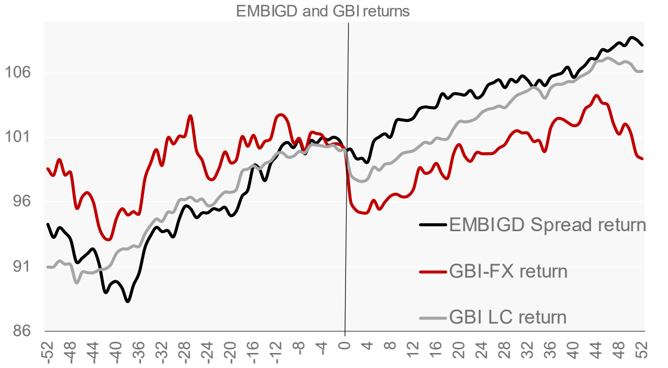
Impact of possible Republican policies on Emerging Markets

Policies	Decisions	Winners	Losers	Trades
Tarriff and trade	Higher tariffs with China and EM with trade surplus	Mexico (rerouting)	AXJ, Mexico (USCMA), CEE exporters (tariffs), EM importers (stronger USD), AGOA and CAFTA at risk	long USD/CNH, KRW, USD/MXN, Asia rate receivers
Foreign	Less financing support and push for deals. More opportunistic approach. Pressure on Iran	Ukraine and CEE (ceasefire), KSA, Turkey	Ukraine (less support), Gulf (higher premium), Israel	Sold Israel, buy Gulf CDS
Immigration	Lower migrants to the US and lower remittances	Brazil (vs. Mexico)	Central America, Mexico	Sell CAC sov. Bonds, Buy BRL/MXN

Source: GenAM

2016: external debt did well

EMBIGD and GBI returns



Source: Bloomberg, GenAM

- **EM environment remains supportive with better US macro data, resilient EM activity and improving prospects in China. We maintain our overweight.**
- **The short-term outlook will be more volatile, and we maintain a low risk and beta exposure, favour external debt over local debt.**
- **A Republican sweep can lead to an EM consolidation in the short term but the bar for surprise is high. EM FX higher yielders are the most vulnerable.**

The EM environment has remained resilient with even some improvement led by the better US macroeconomic data and the Chine policymaker's turnaround in their stimulus approach. EM economic activity has also kept improving with positive surprises on average while disinflation has not lost steam. The dovish Fed easing and the ECB rate cuts provide more room to EM central banks to fine tune their easing cycle Thus, we maintain our overweight stance on EM fixed income. However, the outlook could turn a bit more challenging and volatile with the US elections and the implementation of the Chinese stimulus plan. Indeed, EM assets are likely the most vulnerable to the US elections while the NPC standing committee meeting in China will at last provide details on the fiscal stimulus as market expectations are running high. Uncertainty is higher than before, and valuations are still tight. So, we would keep a low risk and beta exposure with a maintained preference for external over local debt and EM IG over HY. That said, the EM fundamentals have been solid and stronger than before (no EM default year-to-date) and if risk aversion rises, we would rather expect a consolidation than a correction.

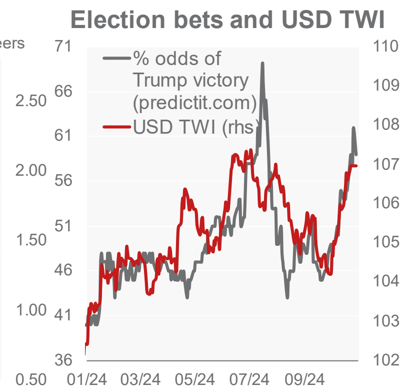
US elections: EM FX sensitive, external debt more resilient

Based on the political agenda, a Republican sweep would be the worst scenario for EM. If history is any guide, 2016 offers a template but the bar for surprise this time is much higher. Initially EM FX high-yielders and local rates performed poorly but both external and local debt recovered in 2017 with even tighter spreads despite higher US rates. EM began to suffer afterward when the macro implications of protectionism became apparent. So far, a Republican win seems to be the dominant narrative and EM assets have performed gently. So, in the short-term, we would not expect a Trump victory to hurt meaningfully EM assets while a Harris win can provide some relief. High-yielders and open economies FXs like the CZK, KRW should move the most. External debt would be more immune with the spread reaction to be contained but the expected core rate rebound in a Trump win scenario would affect the total return.

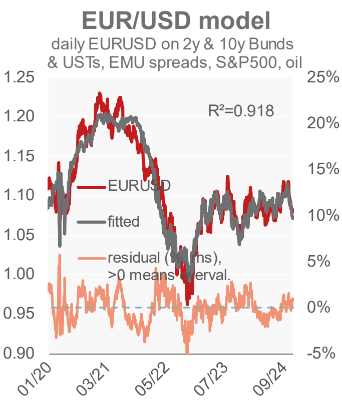
Currencies

Thomas Hempell

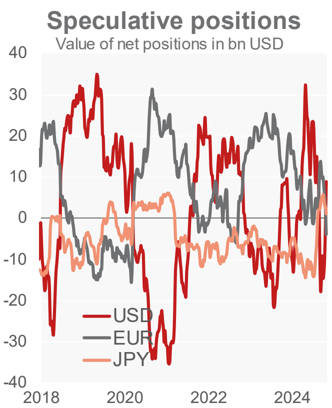
Source: Datastream, GenAM



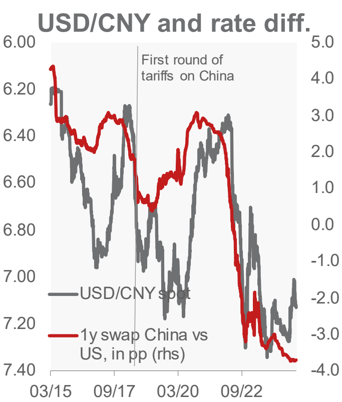
Source: predictit.com, Bloomberg, Datastream, GenAM



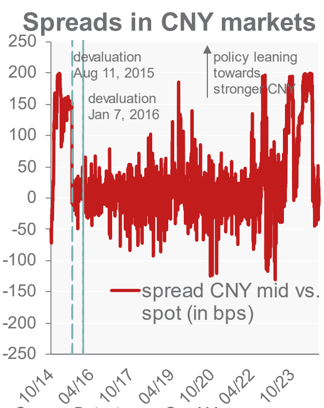
Source: Datastream, GenAM calculations



Source: CFTC, Datastream, GenAM



Source: Datastream, GenAM calculations



Source: Datastream, GenAM

- **The outlook for the USD is at the election crossroads: a 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.**
- **Conversely, if Harris prevails, global relief about more likely US policy continuity may see EUR/USD climbing back above 1.10.**
- **China and the CNY would be impacted severely by tariffs under Trump. That said, we expect Chinese policy makers to cushion headwinds to the tightly regulated CNY on a Trump victory on fears of outsized capital outflows.**

Resilient US data and rising market odds of a Trump victory have boosted the USD in October, corroborating our bullish tactical stance on the greenback. The US elections outcome will be pivotal for the USD direction. A Trump victory will support the USD, notably vs. EUR, CNY and MXN. The threat of stringent tariffs and their inflationary US impact will likely force the Fed to slow or even halt its easing cycle, widening the US yield advantage. Furthermore, US tax cuts and Trump's political 'suasion' on global exporters to extend production shares in the US may boost net FDI.

Trump victory would extend recent USD rally

The USD has already rallied on rising betting odds of a Trump victory (top left chart). But yield gaps may widen further if Trump wins and still leave scope for the USD to catch up (top right). USD speculative positions have switched from short to mildly long, but these are not extreme. And our EUR/USD model does not show any FX-specific Trump premium beyond levels consistent with rates, EMU risk and risk sentiment combined (mid charts). The EUR/USD may fall below 1.05 if Trump prevails but would settle above 1.10 in case of a Harris victory in a reverse move and amid relief about assumed US policy continuity.

The CNY outlook is closely tied to the election outcome, too. Trump's tariffs on China sent the yuan much weaker in 2018 (bottom left). With much more punitive measure on the cards this time, depreciation pressures on CNY are likely to build faster in the wake of a Trump victory. Chinese authorities will need to walk a fine balancing act. On the one hand, a weaker CNY (together with likely bold fiscal measures) will help to bolster the adverse economic impact on China. On the other, a too sharp depreciation may risk triggering unwarranted outsized capital outflows. The spread between the official USD/CNY mid-point vs. spot is already signalling Chinese efforts to stabilize the CNY amid recent USD strength and they will likely cushion further downside pressure. Conversely, it would not come as a surprise if the USD/CNY breaks below 7.00 on a Harris victory.

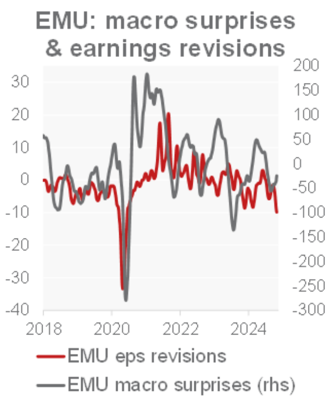
Equities

Michele Morganti and Vladimir Oleinikov

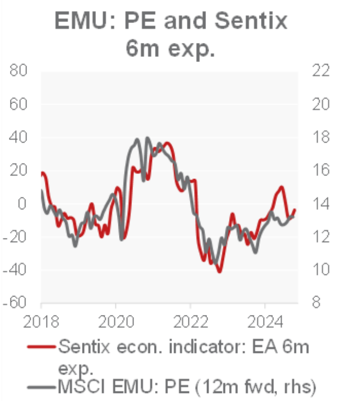
- **We remain constructive over the next 3-12 months. We see 7-15% TR for EU and 3-8% for the US in 12 months, plus a fundamentally driven rotation out of US IT into other sectors and ex-US countries.**
- **Neutral US IT, and EMU vs. US. OW EU ex-EMU, EU small cap, UK FTSE 250, Japan, EM (China, India, Korea). Diversify US into equally-weighted SPX and US small cap (Russell 2000).**
- **Better macro surprises, rate cuts and improving financial conditions should ease fears about a macro slowdown, high US valuations in the short term and political uncertainty.**
- **Three positive engines are at work. Both the US and EMU equities should gain post-election as uncertainty drops, in this case helped further by policy easing. Internal equity rotation out of Tech is to help further.**
- **The US Q3 reporting season shows a positive EPS surprise of 7.4% (4.7% for EU) and resilient margins.**
- **EU sectors: OWs: Banks, Aero&Defense, Cons. Staples, Insurance, Materials + Construction, Real Estate, Semis, Retailing. UWs: Autos, Cap. goods ex A&D, Comm. Prof. Svs., Durables, Energy, Media, Telecoms, Utilities.**

In our base scenario, we are constructive over the next 3-12 months, as rate cuts should ease EMU slowdown fears, political uncertainty and high short-term US valuations. Financial conditions are improving via lower real yields and credit spreads, CB cuts, rising M2, bottoming credit cycle, ample firms' cash-flow gap vs. capex. We add the good market technical: low IPOs, ongoing buybacks, and sector rotation out of Tech (higher market breadth). Ex-US, valuations are attractive, too. Finally, macro surprises are improving, and firms' EBITDA margins look overall safe in the Q3 reporting season.

In particular, US firms - 232/500 reported - show earnings (EPS) surprises of +7.4% (+4%, the median stock) and 9% yoy growth (5.6%, median stock). In Europe (SXXP, 199/600 rep.), EPS surprises are also positive (+4.7%, or 2.4% median stock) and growth near 4.7% yoy (5.3% median stock). We see a total return (TR) of 4% for the S&P 500 (6,000, with risks on the upside due to high chances of sec-tor rotation, lingering strong growth and high margins) and 7% to 16% for the EMU over 1 year. OW EU ex-EMU, small cap, EMs, neutral EMU vs SPX. US valuation (i.e. CAPE) is quite high relative to history. Thus, investors should diversify portfolios both outside and inside the US space: Russell 2000 index and the equally weighted S&P 500 index. Concerning US elections, historically, both US and EMU



Source: Datastream, GenAM calculations



Source: Datastream, GenAM

Analysis of the median stock: Q3 2024 reporting season

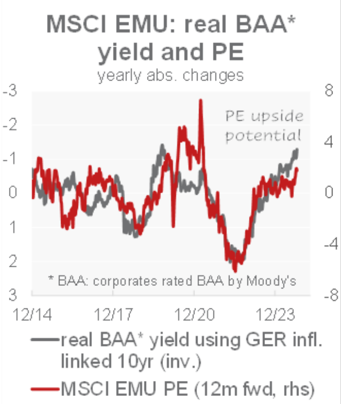
Median stock	Earnings Growth		Sales Growth		margin trend *		availability
	Q2 2024	Q3 2024	Q2 2024	Q3 2024	Q2 2024	Q3 2024	Q3 2024
S&P	8.6 %	5.6 %	5.6 %	5.1 %	3.0 %	0.5 %	46.4%
Stoxx	5.1 %	5.3 %	2.0 %	1.9 %	3.1 %	3.4 %	38.6%
Euro Stoxx	2.8 %	2.9 %	1.6 %	1.5 %	1.3 %	1.4 %	35.7%
Topix	8.1 %	2.3 %	6.1 %	5.0 %	2.0 %	(2.7)%	20.3%

Median stock	Earnings Surpr		Sales Surpr		margin trend *		availability
	Q2 2024	Q3 2024	Q2 2024	Q3 2024	Q2 2024	Q3 2024	Q3 2024
S&P	4.1 %	3.7 %	0.4 %	0.7 %	3.8 %	3.1 %	46.4%
Stoxx	2.5 %	2.4 %	0.6 %	(0.3)%	1.9 %	2.7 %	38.6%
Euro Stoxx	2.5 %	1.8 %	0.1 %	(0.5)%	2.4 %	2.3 %	35.7%
Topix	9.4 %	(3.9)%	1.1 %	0.0 %	8.3 %	(4.0)%	20.3%

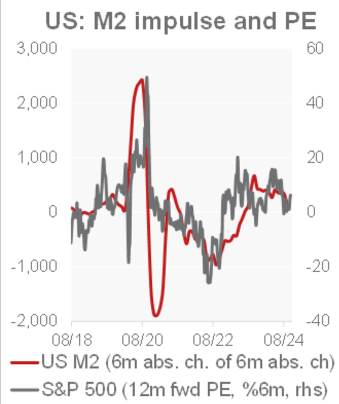
Note: numbers for Q1 are calculated only for the companies which have so far reported in Q2

proxy for margin trend = earnings growth - sales growth

Source: Bloomberg, GenAM calculations

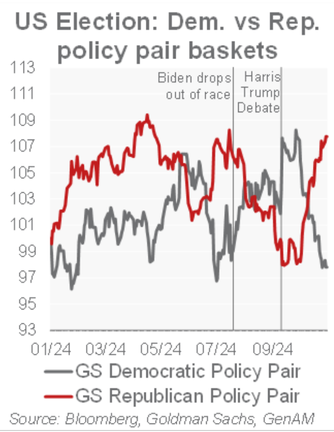


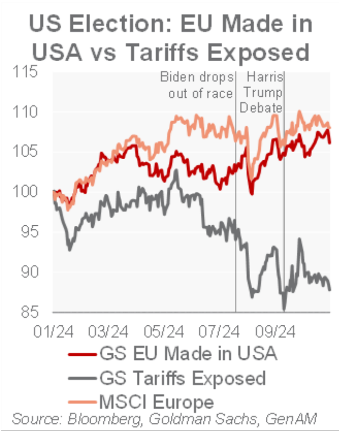
Source: Datastream, GenAM

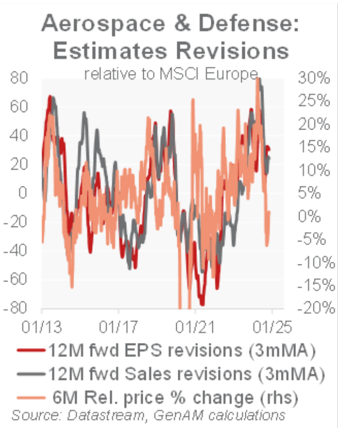


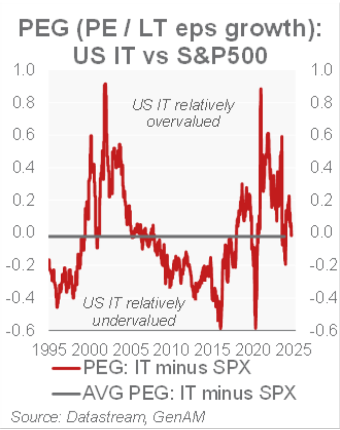
Source: Datastream, GenAM

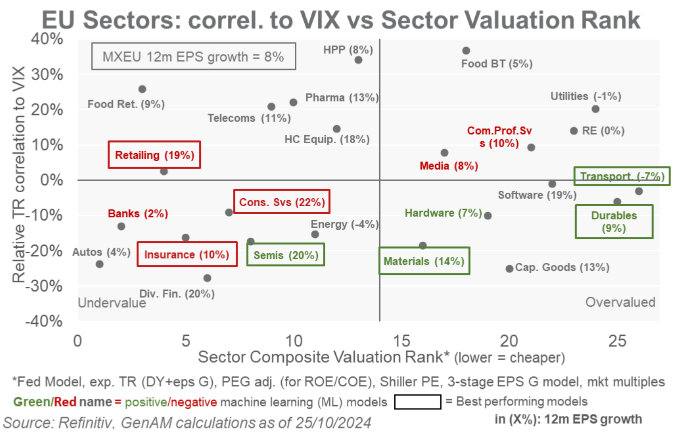
Equities











equities tend to gain after the results are released. Of course, the market has already anticipated some of the gains, with the US up 24% and EMU up 11% YTD. By the way, this time, the CB easing cycle represents an additional tailwind. Indeed, since 1995, excluding the GFC, the +12-month historical average performance following the first Fed cut has been 8-10%. In a Trump split scenario, we see positive 3m and 12m TRs. EMU has a higher risk profile, could underperform initially, but with higher 12m TR potential as more undervalued.

GS Trump basket has recovered massively since mid-September (+10%, and 8% YTD, cyclicals such as energy-comm., fin., domestic ind.), betting on increased chances of a Trump win. In both Rep. sweep and Trump split cases, the basket should continue to perform well. The Democratic basket (renewables, HC, Infrastructure) is lagging behind (-9% since mid-Sept., -2% YTD) and has less chance of recovery (mainly under a Harris win).

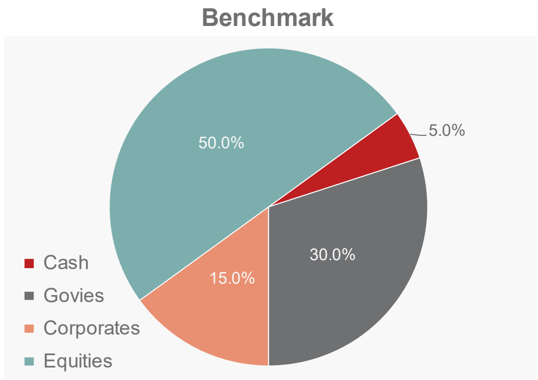
The EU's net exporters (Auto, Electr. equipm.) suffer, being -10% YTD, and we see no particular appeal for them in the prospect of a Trump victory . Concerning EU cyclicals vs. Defensives, our trade fear indicator suggests a potential risk for the former notwithstanding the good relative performance achieved YTD. That said, we suggest a balanced allocation between cyclicals and defensives: first, post-election sentiment tends to improve and there is a higher chance of a more positive ISM momentum. Second, the ECB easing cycle should last until the end of 2025 and, third, the Chinese stimulus could alleviate some of the current negative sentiment on EMU GDP momentum. EU firms based in the US (Ind., HC, staples) are expected to perform in line with EMU. EMs are to benefit from improving investment sentiment, increasing macro surprises and the new China's stimulus. Trade war risks are in part offset by lower valuation vs. 2016. OW Korea, China, and India.

European sector allocation

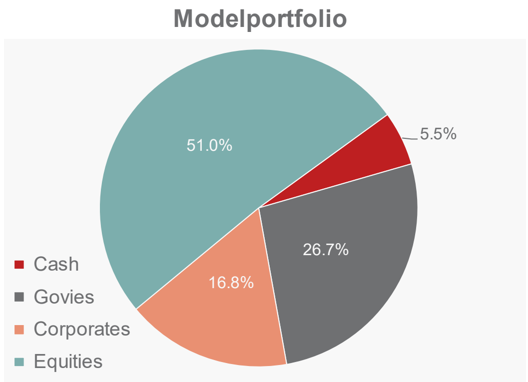
Better global macro surprises support adding some cyclicality to our allocation, which remains overall balanced. We increase exposure to rate sensitive sectors, good revisions' momentum and negative correlation to lower equity volatility (VIX, after elections). We increase construction and RE (lower rates and increasing mortgage demand), Aero&Defense (EPS revisions). We lower Energy, Utilities, Telecoms and Commercial Services. Still OW Small vs Large Cap (lower rates, M2 Impulse). Additional OWs: Banks, Cons. Staples, Insurance, Semis, Retailing. UWs: Autos, Cap. goods ex A&D, Comm. Prof. Svs., Durables, Energy, Media, Telecoms, Utilities. Neutral US IT: valuation fair-to-slightly cheap but risks from growth normalization, antitrust and trade frictions.

Asset Allocation

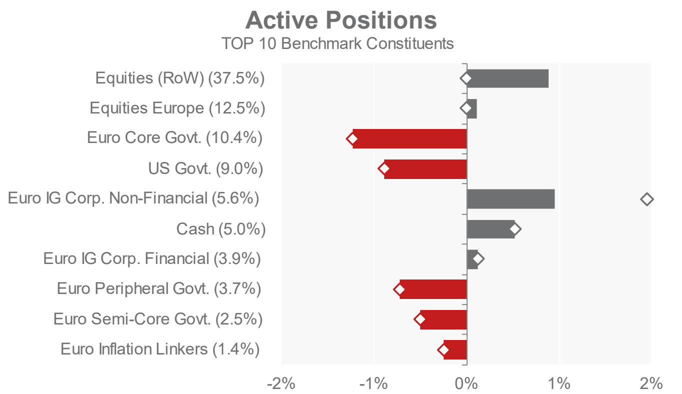
Thorsten Runde



Source: GenAM



Source: GenAM



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

- **Most of our actively covered asset classes terminate October 2024 (as of 29.10.24) in negative territory or at least very close to the zero line.**
- **Medium to long-dated US-Treasuries mark the bottom of the performance ranking with -3.0% and -5.9% respectively.**
- **The top of the performance ranking is dominated by North-American (+1.4%) and Asian (+1.0%) Equities.**
- **EA HY Credit outperformed EA IG by +58 bps on average. Within IG, Financials outperformed Non-Financials by +11 bps.**
- **Given the uncertainties around the US elections and their potentially strong impact on financial markets, we maintain our overall prudent tactical positioning with a moderate pro-risk tilt.**
- **We selectively raise our exposure to EQ ex-EMU from neutral to a small OW. We also amend our tactical short duration closer to neutral, primarily for the euro area. We keep our preference for EA IG Credit over Govies in general and for EA IG Non-Fins over Fins in particular.**

In October 2024 (29.10.24) our model portfolio outperformed its benchmark +6.8 bps. The underweight position in medium to long-dated US-Treasuries paid-off particularly well (+5.4 bps) driven by the recent sharp repricing in yield expectations. All in, our overall short duration stance proved rewarding, as well as our preference for EA IG Credit over Govies.

The upcoming presidential elections in the US bring a lot of uncertainty with them in terms of the outcome and potentially severe market reactions. Thus, for the time being, we stick to an overall prudent tactical positioning. Given the CB's expected series of rate cuts we raise our overall short duration position towards neutrality, primarily in the euro area, which is plagued by cyclical worries, less so for the US, due to solid data and upside risks in case of a Trump victory.

Prudent overall tactical positioning

Apart from the adjustments made to the duration stance, we just recommend some minor tweaks to the tactical positioning preserving its overall prudence. We reallocate from EA IG Credit Non-Fin (remaining the largest OW in the model portfolio) to ex-EMU Equities. We stay neutral in EMU Equities for the time being.

Forecasts

Macro Data

Growth[1)]	2023	2024 forecast	2024 Δ vs. cons.	2025 forecast	2025 Δ vs. cons.	2026 forecast
US	2.5	2.7	0.2	2.2	0.5	2.1
Euro area	0.5	0.8	0.1	1.0	- 0.3	1.4
Germany	- 0.1	0.0	- 0.0	0.5	- 0.3	1.4
France	0.9	1.0	- 0.1	0.8	- 0.3	1.3
Italy	0.9	0.8	- 0.0	0.8	- 0.1	0.7
Non-EMU	0.2	1.1	0.0	1.4	0.0	1.9
UK	0.1	1.0	0.0	1.2	0.0	1.9
Switzerland	0.8	1.4	0.0	1.5	0.0	1.8
Japan	1.9	0.2	0.2	1.2	- 0.0	0.8
Asia ex Japan	5.3	4.9	- 0.2	4.9	0.2	4.7
China	5.2	4.8	- 0.0	4.5	0.1	4.1
CEE	3.1	3.2	0.0	2.7	0.3	2.7
Latin America	2.1	1.5	0.0	2.2	0.0	2.6
World	**3.2**	**3.1**	**- 0.0**	**3.2**	**0.1**	**3.1**

1) Regional and world aggregates revised to 2024 IMF PPP weights

Inflation[1)]	2023	2024 forecast	2024 Δ vs. cons.	2025 forecast	2025 Δ vs. cons.	2026 forecast
US	4.1	2.9	- 0.1	2.4	0.2	2.3
Euro area	5.5	2.3	- 0.1	2.1	0.1	2.0
Germany	6.0	2.3	- 0.0	2.2	0.1	2.0
France	5.7	2.3	- 0.0	1.9	0.1	2.0
Italy	5.6	1.3	0.1	1.8	- 0.0	1.8
Non-EMU	6.6	2.4	0.0	2.1	0.0	1.9
UK	7.4	2.6	0.0	2.4	0.0	2.1
Switzerland	2.2	1.4	0.2	1.0	0.0	1.0
Japan	3.3	2.3	- 0.2	1.8	- 0.3	1.7
Asia ex Japan	2.2	2.0	0.1	2.4	0.1	2.7
China	0.2	0.4	- 0.1	1.3	0.0	2.0
CEE	18.9	19.5	0.9	11.0	0.8	8.0
Latin America[2]	5.1	4.5	0.0	3.7	0.0	3.1
World	**5.1**	**4.0**	**0.1**	**3.2**	**0.1**	**3.0**

1) Regional and world aggregates revised to 2024 IMF PPP weights ; 2) Ex Argentina and Venezuela

Financial Markets

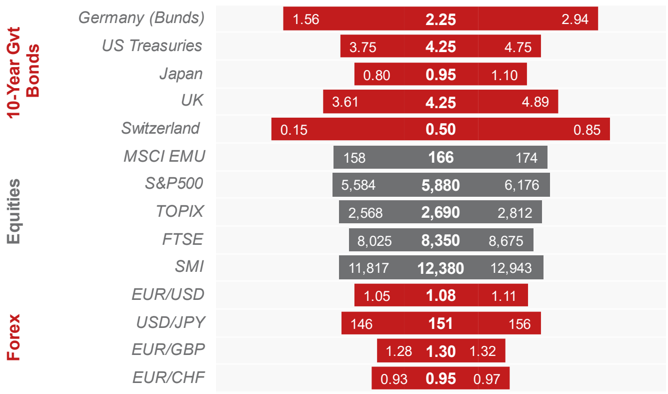
Key Rates	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
US (upper bound)	5.00	4.50	4.24	4.00	3.87	3.50	3.54
Euro area	3.25	2.75	2.56	2.25	2.08	2.25	1.78
Japan	0.25	0.50	0.38	0.50	0.45	0.75	0.55
UK	5.00	4.50	4.40	4.25	4.05	4.00	3.72
Switzerland	1.00	0.75	0.57	0.50	0.32	0.50	0.22
10-Year Gvt Bonds							
US Treasuries	4.26	4.25	4.28	4.10	4.30	3.80	4.35
Germany (Bunds)	2.30	2.25	2.32	2.20	2.33	2.20	2.38
Italy	3.52	3.50	3.53	3.50	3.58	3.55	3.71
Spread vs Bunds	122	125	122	130	125	135	133
France	3.04	3.05	3.05	3.05	3.08	3.10	3.17
Spread vs Bunds	74	80	73	85	75	90	79
Japan	0.97	0.95	1.03	0.90	1.08	0.90	1.18
UK	4.27	4.25	4.27	4.05	4.28	3.75	4.31
Switzerland	0.46	0.50	0.41	0.50	0.41	0.50	0.43

***ICE BofA (OAS)*

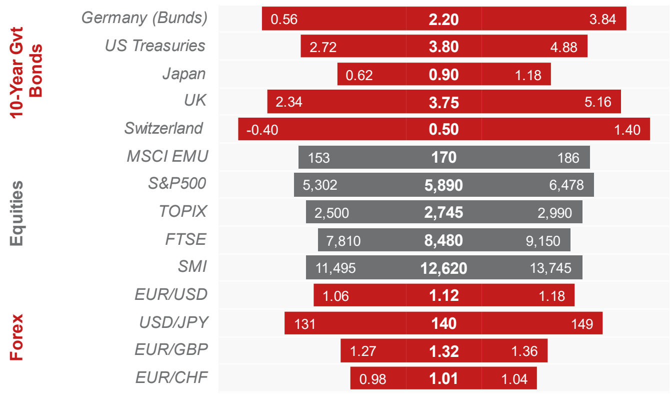
Credit Spreads**	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
EA IG Non-Financial	99	95		95		95	
EA IG Financial	106	105		105		105	
EA HY	322	325		325		325	
EM Sov. (in USD)	226	240		240		245	
Forex							
EUR/USD	1.08	1.08	1.09	1.10	1.09	1.12	1.10
USD/JPY	153	151	151	145	150	140	147
EUR/JPY	165	163	164	160	163	157	162
GBP/USD	1.30	1.30	1.30	1.31	1.30	1.32	1.30
EUR/GBP	0.83	0.83	0.84	0.84	0.84	0.85	0.85
EUR/CHF	0.94	0.95	0.93	0.97	0.93	1.01	0.92
Equities							
S&P500	5,822	5,880		5,885		5,890	
MSCI EMU	165.0	166.0		167.5		169.5	
TOPIX	2,653	2,690		2,680		2,745	
FTSE	8,251	8,350		8,360		8,480	
SMI	12,174	12,380		12,235		12,620	

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*

Imprint

Issued by:	**Generali Asset Management S.p.A. Società di gestione del risparmio | Research Department**
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This document was completed on October 31, 2024