



Market Compass

June 2024

MARKET OUTLOOK

- We expect the combination of a mild global recovery and a continued disinflation trend to persist into the summer. The ECB is set to deliver its first rate cut in June, with the Fed likely to follow in September.
- This backdrop tilts the outlook for core yields mildly to the downside. Solid earnings and the outlook of lower rates may keep risk sentiment underpinned.
- That said, an advanced equity rally, depressed volatility and elevated investor positioning in risk assets reflect a very high degree of market optimism that keeps the risk of temporary setbacks high.
- We maintain a neutral stance on Equities and High Yield (HY) Credit and concentrate our tactical overweights in the safer buckets of risk assets, including Investment Grade (IG) Credit and Southern European debt, at the expense of Cash and short-dated core bonds. We keep a moderate long duration stance across Fixed Income classes.

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

- + Q2 growth to rebound as domestic demand remains strong
- + Core inflation slides down very gradually
- + A cooler labour market tames wage growth
- ! Fed to cut by 50bps from September. Risks tilted to less accommodation

UK

- In April inflation fell by less than expected, especially in services
- + Improvement in expectations and still elevated real wage growth bodes well for consumption
- Snap election will take place on July 7th. The results should not change the medium term (problematic) fiscal outlook

EUROZONE

- + Recovery to continue after good Q1
- + Turnaround in manufacturing sector gains traction
- + May inflation increase to prove temporary
- + We expect quarterly ECB cuts by 25 bps from June onwards

CHINA

- + Export and industrial production are holding well...
- ...but retail sales are still depressed by low confidence
- Housing activity keeps contracting
- + The announced stepping up of the implementation of announced fiscal measure should improve sentiment

EMERGING MARKETS (EM)

- + Resilient EM growth with easing of Chinese concerns
- ! Central banks turn more cautious as inflation stalls
- + Still positive expected return for EM fixed income

- + Positive
- Negative
- ! Topics to watch

DIRECTION OF TRAVEL

- We confirm our neutral stance on Equity and HY Credit.
- We keep the overweight (OW) on IG credit adding Southern European govies...
- ...increasing the underweight (UW) in cash and short dated core bonds.
- Our bias towards long duration in bonds is confirmed.

Equity

Bonds

Duration

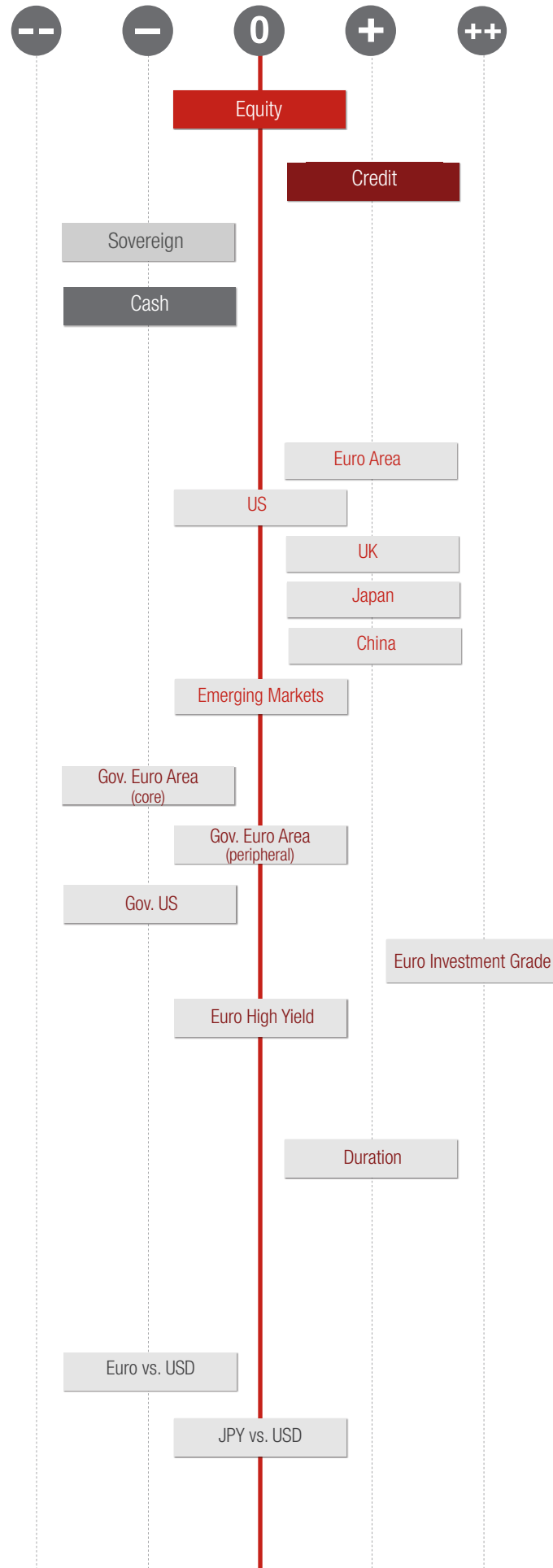
Currencies

- The good Q1 reporting season helped to support sentiment.
- Short term, we are more cautious due to topish Fed's bank reserves, weaker ISM, increased positioning, and choppy disinflation trend.
- On account of our good earnings growth for 2024-25, we remain constructive in 12 months and expect a positive 12-month TR: 4% SPX and 6% for EMU.

- Increase in EA core gov. bond yields appears overdone as the ECB will very likely cut key rates in June (and another 50 bps until year-end). EA headline inflation to approach 2% in late summer.
- Tight trading range of EA non-core bond spreads and outperformance vs. core bonds to continue.

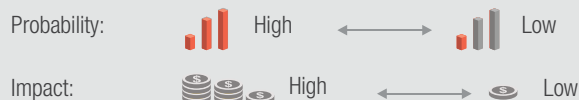
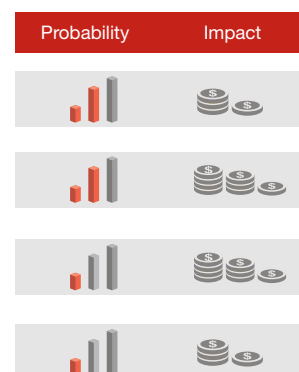
- Moderately long duration.

- With little scope for a narrower transatlantic yield gap, EUR/USD has only muted upside in the wake of fading US exceptionalism and easing rates uncertainty.
- Tactically, we would not be surprised by a mild USD bounce in the wake of a first ECB rate cut in June.
- The cheap JPY will keep struggling until the Fed delivers its first rate cut in September.



TOPICS TO WATCH

- A more stubborn last mile of disinflation (wages, sticky services inflation, energy prices) delaying rate cuts further.
- Intensified global fracturing (esp. China/US), notably on high odds of Nov. 5 Trump victory (punitive tariffs).
- Cracks in financial stability as tighter conditions feed through (Commercial Real Estate defaults, banking, housing, non-bank liquidity...).
- Flaring geopolitical stress (Taiwan, Iran).



GLOSSARY

ISM

The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of US economic activity based on a survey of purchasing managers at more than 300 manufacturing firms. It is considered to be a key indicator of the state of the US economy.



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