

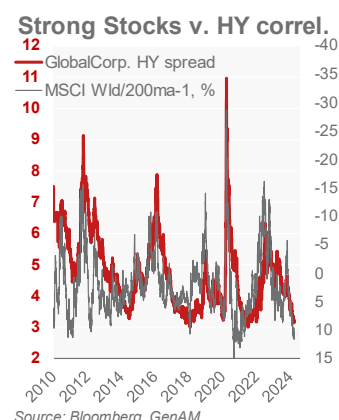
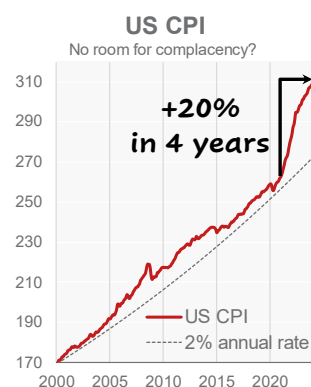
# Investment View

## New Normal or New Bubble?

March 28, 2024

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

- Hard landing fears are gone. Rising confidence about future economic prospects are helping global risk assets to charge ahead, even as rate cut expectations are being scaled back.
- Global markets may be frothy, but do not look exuberant. While both concepts are hazardous, the current market pricing may reflect a 'new normal' rather than a financial 'bubble'. Elevated public debt, permanent Central Bank puts, the reality of a considerable inflation shock (since 2022), and a larger debasement risk may support inflation assets, and lower risk premia vs. so-called 'risk-free' assets.
- Still, the collapse of risk premia across markets contrasts with persistent policy and geopolitical risks. A Trump 2.0 scenario may challenge both the policy rate cut consensus, and the geopolitical order.
- The pricing for near perfection, in this uncertain context, leaves our positions in stocks and High Yield as neutral. We keep a selective preference for cyclicals, small cap, and EM equity markets. We find risk asset volatility too low and recommend using it to either surf the bullish wave optionally or protect against unexpected shocks. We seize the back-up in yields to go moderately long duration and retain a large overweight in IG credit – the new 'haven'.



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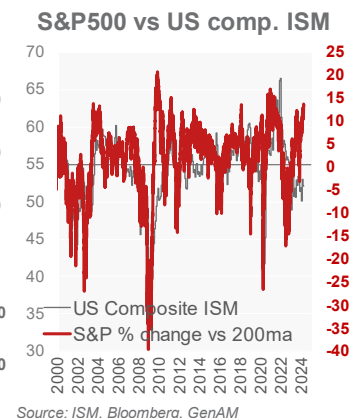
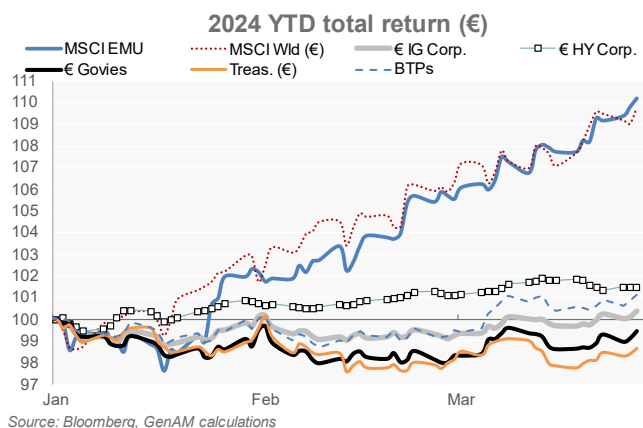
# NEW NORMAL OR NEW BUBBLE?

Vincent Chaigneau

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**Hard landing fears no more.** As 1Q24 ends, the hard landing fears are gone. Investors are hesitating between a ‘soft landing’ and ‘no landing’. Q1 indeed has been dominated by ongoing equity price gains, even as investors scaled back 2024 rate cut hopes and long yields backed up a bit. This has come in sharp contrast with the last 5 months of 2023 (positive stock-bond price correlation) and speaks of rising confidence about the economic outlook. Cyclical stocks have strongly outperformed Defensives, and Brent is up 12%. Despite the cyclical upswing, the USD has topped G10 rankings, thanks to US growth superiority, while the risk-on mood has left the CHF and JPY at the bottom. Our fear that the ‘last mile’ in the disinflation journey would be harder has been vindicated, but this so far has not stopped central banks from talking rate cuts up. The left chart below summarises financial performance in Q1, and the equity dominance. Equity concentration has remained a theme, however, including in Europe: the equal-weight MSCI EMU is up 5.7% YTD, 4.5pp less than the index itself.

1Q24 dominated by rising confidence about a cyclical upswing



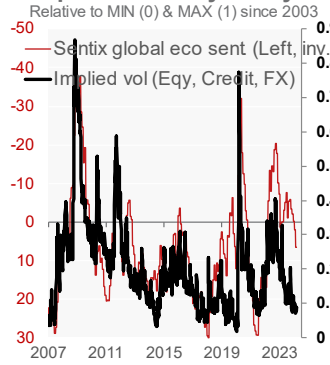
## The vanishing of risk premia: new bubble vs. new normal

**Priced for near perfection.** There are good reasons for the current investor optimism. While the US economy may still slow into summer (our core view), we also see light at the end of the tunnel for global manufacturing and the stagnant Euro Area (EA). Both in the US (middle chart above) and globally, the inventory cycle is turning,

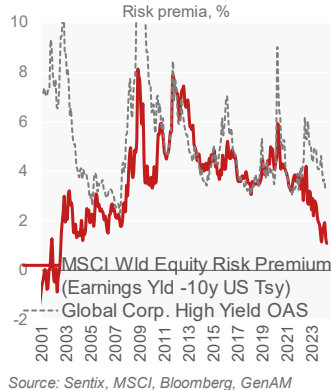
Risk assets have front run the cyclical up-swing, and risk premia have collapsed across the board

which bodes well for the global corporate earnings cycle. Rate cuts will support sentiment. Long-term yields have peaked, and the global real estate gloom may ease. Real wages are recovering from the inflation-induced drop. Hopes of an AI-driven productivity shock are rising. Yet equity markets seem to have largely front-run those positive cyclical developments (right chart above). More generally, **risk premia have collapsed across the board**, as the first three charts below show. Implied volatility in risk assets such as Equities, Credit and FX are at the low end of the historical range, as if the cycle was at its top (it has resisted to a steep tightening of monetary policy but is not quite vibrant just yet) and/or political risks were dormant (they are not, as we discuss below). Arguably, volatility is partly and artificially suppressed by the popular selling of options, to collect premia and boost returns. But it is not just vols that are suppressed. The equity risk premia have also dropped fast, to levels not seen in more than 20 years (though they were much lower still during the dot.com bubble). High Yield spreads have collapsed as equities have rallied. Partly the equity rally has come from the surge of the Tech sector. The latter has largely been supported by a surge in the sector's earnings, so that Price Earnings Ratios (PER) are still far below the peaks of 2000; but price to sales ratios do speak of great optimism about future growth and margins.

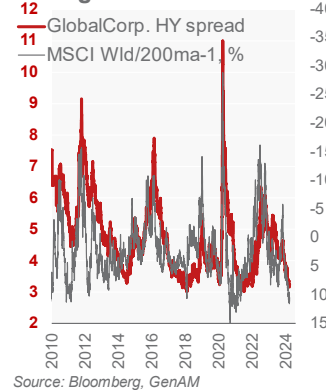
**Implied volatility vs. cycle**



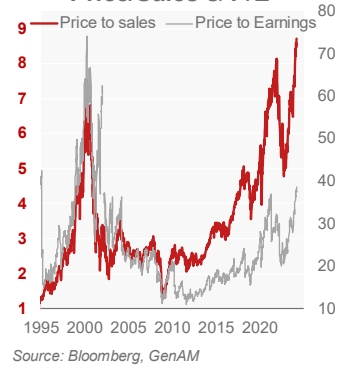
**MSCI Wid v. Global HY**



**Strong Stocks v. HY correl.**



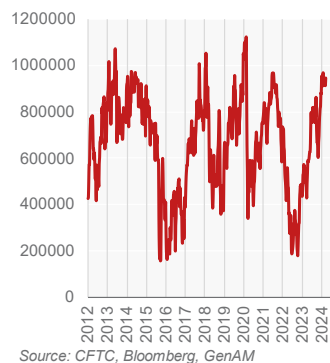
**S&P 500 Info Tech, Price/Sales & P/E**



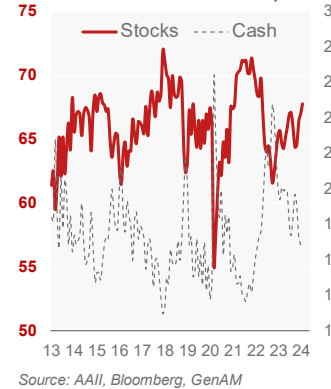
Financial markets are frothy, though not yet exuberant

**A U-turn on sentiment and positioning.** Such optimism is also reflected in investor sentiment and positioning. By early 2023, gloomy investors had a large under-weight in equities, and over-weight in Cash. No more. Surveys now show rising optimism about the growth cycle, and pro-risk positioning. Equity overweights are not extreme but large, both at institutional and retail levels (left-hand charts below).

**Net long US equity futures, institutional investors**



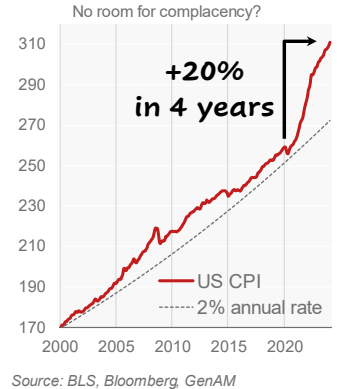
**US retail allocation, %**



**Public def. & Corp. profits**



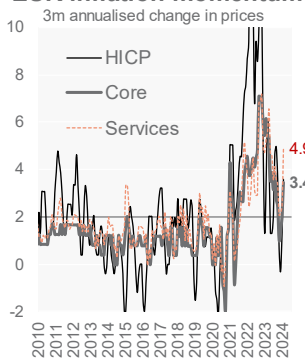
**US CPI**



A “new normal” with elevated public debt, permanent Central Bank puts, the reality of a considerable inflation shock (since 2022), and a larger debasement risk

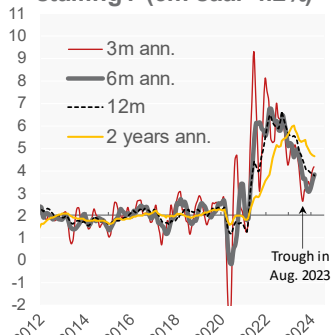
**New normal or new bubble?** The collapse of risk premia has surprised us, and it would be convenient to call it a bubble. Bubbles are never obvious until they pop up. While selected valuations appear stretched, and exposed to a near-term correction, they do not appear irrational. Low equity and credit risk premia may also reflect a ‘new normal’, whereby the concept of risk-free assets has become shakier. This new environment is characterised by elevated public debt, systematic Central Bank rescues (permanent CB put), the reality of a considerable inflation shock (since 2022), and a larger debasement risk. **In this new normal, inflation assets (including equities and riskier credit) may have become more attractive, ‘permanently’ reducing risk premia vs. “risk-free” assets.** This theory may have just been reinforced by a surprisingly dovish March FOMC meeting. Chairman Powell downplayed the recent higher inflation readings, even qualifying the January numbers as likely distorted by seasonal factors. Yet the recent uptick in inflation has not just been a US affair (charts below); disinflation in the goods sector is fading, while inflation in services has been somewhat sticky. Whatever the case, **there should be no room for complacency after US consumer prices rose 20% in just 4 years** (third chart below) – a grave threat to Fed credibility (ECB hardly in a better position, after an 18% rise).

**EUR inflation momentum**



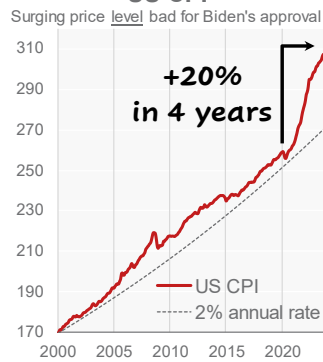
Source: ECB, GenAM calculations

**US core disinflation stalling? (3m saar 4.2%)**



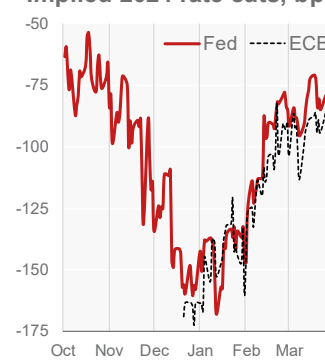
Source: BLS, Bloomberg, GenAM

**US CPI**



Source: BLS, Bloomberg, GenAM

**Implied 2024 rate cuts, bp**



Source: Bloomberg, GenAM

### Investment strategy

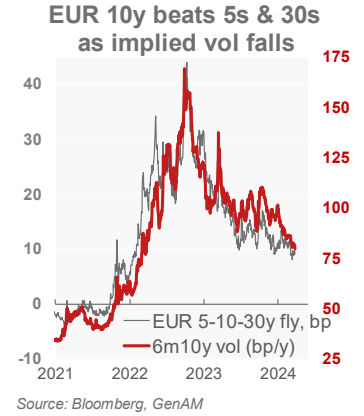
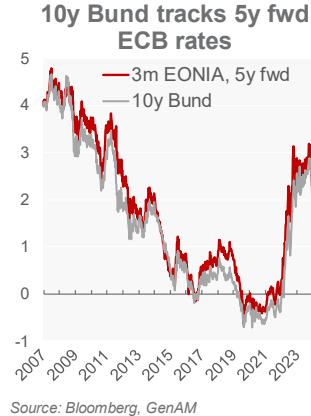
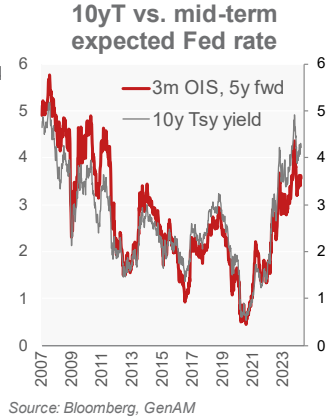
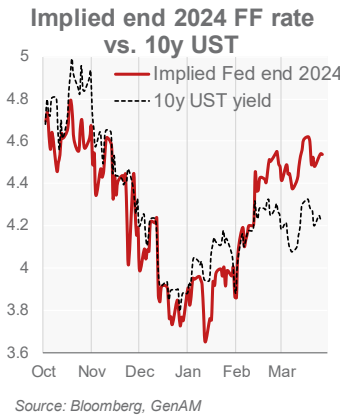
We see risks skewed toward a further scaling down of rate cut expectations

**Central bank pricing now more realistic; residual risk of disappointment.** We stressed in late 2023 that market expectations of between 6 and 7 cuts from the Fed and ECB in 2024 were exaggerated. Implied pricing has now corrected to 80bp and 94bp respectively (right chart above). Our central case sees resp. 75bp and 100bp, mostly aligned with the market. We see risks skewed toward a further scaling down, on continued upside inflation surprise, easy financial conditions, and signs of a more global pick-up in demand.

We like to use the moderate rebound of long-term yields in Q1 to move slightly long duration

**What does this mean for bonds?** Long-term bond yields are turning less sensitive to total 2024 rate cut expectations (left chart below). Although we still see risks skewed towards lower-than-expected rate cuts, we like to use the moderate rebound of long yields in Q1 to move slightly long duration. 10-year Treasury yields are still trading some 65bp above 5y3m OIS (a proxy for medium-term Fed equilibrium), a spread that will narrow as the Fed starts to cut rates. 5y3m OIS itself, above 3.50%, looks slightly high in our books. Arguably, the Fed long-term dots, at 2.60%, may be too low. We see the truth in between. The normalisation of 5y3m should support a small decline in long bond yields (2<sup>nd</sup> chart below). The case for Bunds is even less exciting, as 10-year yields trade perfectly in line with 5y3m ESTR, which itself, around 2.30%, looks fair. Still, as inflation slowly normalises and central banks deliver cuts,

we expect yields to decline slightly. Rates volatility has fallen as we expected, and we see further room as realised volatility continues to fall as the bond range trading continues. This should continue to **support the 10-year sector of the EUR curve, relative to 5s and 30s. We continue to find the 10-30y curve too flat in the context of falling vols.**

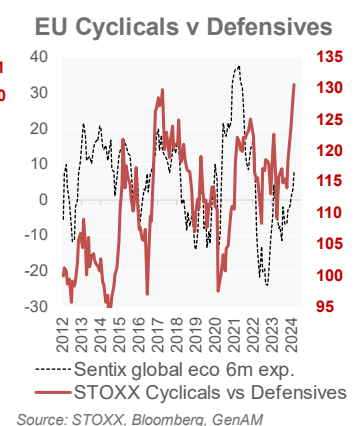
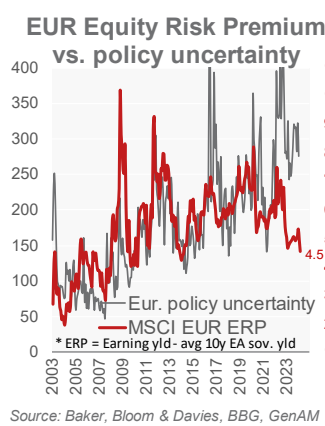
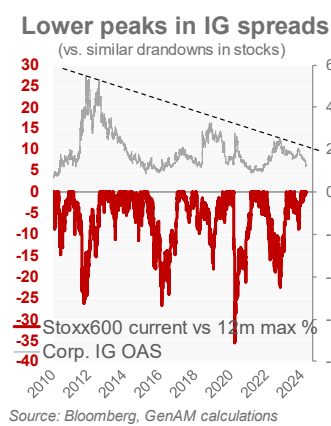
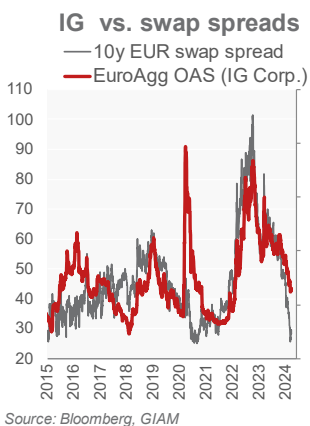


We see further downside in IG corporate bond spreads

**Credit spreads are tight; will go tighter.** At 115bp, the OAS of the EuroAggregate is back to the level seen before the war on Ukraine, and just 40bp above the post-GFC low, even though the share of BBBs in the index has been consistently rising. We see further downside. Corporate bonds do not appear as rich when compared to swaps. Swap spreads (swaps vs. Govies) have collapsed, partly because the ECB has released parts of its bond holdings (left chart below). Also in the context of outstanding public debt rising much faster than corporate debt, **Investment Grade bonds may increasingly be perceived as a new haven.** Since the GFC, at each crisis the peaks in IG spreads have consistently been lower, even as equities repeatedly suffered drawdowns of more than 20% (second chart below). High Yield spreads appear even richer than IG; we are neutral on HY as the technical picture is likely to deteriorate (leverage, supply), which may offset the positive cyclical influence.

The EUR ERP is not worryingly tight, though it may fail to reflect the current economic and policy risks

**Neutral equities, still positive 12-month.** We had predicted solid returns in EUR equities this year (high single-digit) but have been surprised by the speed of the Q1 rally. Concentration is such that the Stoxx50 index (+12.3% as we go to press) has largely outperformed broader indices. The EUR ERP, between 4 and 5% relative to average EA 10-year government bond yields, is not worryingly tight, though it may fail to reflect the current economic and policy risks (3<sup>rd</sup> chart below). While we see room for upside earnings surprises this year in Europe, confidence in a cyclical upswing



has already increased sharply (final chart shows the impressive outperformance of cyclical stocks vs. defensives). Our preference for cyclical is thus limited to selected lagging sectors (see equity section). We also start to prefer small caps vs. large, given the cheap valuation and signs that the M&A and IPO cycle is set to pick up again (lower yields, rising confidence, increased competition between private lending, bank loans and liquid high yield issuance). We also like to diversify into selected EM markets (Korean, Chinese and Mexican equities).

### Key risks

#### Three main risks: inflation, intensified global fracturing, financial accidents.

The latter risk has probably declined over the past couple of quarters. The sharp monetary tightening has not produced the economic and financial stress that many feared, and with global growth now finding its feet and the rate cycle turning, risks may be abating. Commercial real estate remains a global threat, but increasingly looks like a slow-burning problem rather than an accident in the making.

**The risk of intensified global fracturing stays high**, given the persistent hot spots (Ukraine, Middle East, Taiwan) and the upcoming US election. Trump is leading the polls slightly, and appears to be ([YouGov](#) survey) more credible to the public on key election themes (inflation, the economy, China, immigration). A Trump victory may see a wave that would support the chance of a red sweep (unified government in Washington DC). The associated policies (extended tax cuts and tariffs) are inflationary, hence our cautious duration stance. A Trump win also carries the risk of further Ukraine disengagement, leaving Europe with the difficult if not impossible task of supporting Ukraine on its own. Our tactical preference for European equities over US is also greatly limited by this risk scenario.

Finally, **sticky inflation may still be the single most important risk**. It would mean less key rate cuts, if any, which may eventually put pressure on both stocks and bonds, in a reverse move of the late 2023 'everything rally'. The front-end repricing failed to break stocks in Q1, but further 'towel throw-in' on central banks may still challenge the recent stock euphoria.

There is also space for a Goldilocks scenario where inflation starts normalising fast again, while global economic prospects continue to improve. That space looks much tighter now, given how much good news has been priced in already. Still, investors may **take advantage of the low risk-asset volatility to position optionally for further upside surprise, and/or to hedge vs nasty surprises** – an increasingly tempting strategy given the rosy consensus.

Financial stability risk may be ebbing as the cyclical risks and rate cycle turn

A Trump victory a threat to long duration and European equities

Sticky inflation may still be the single most important financial risk

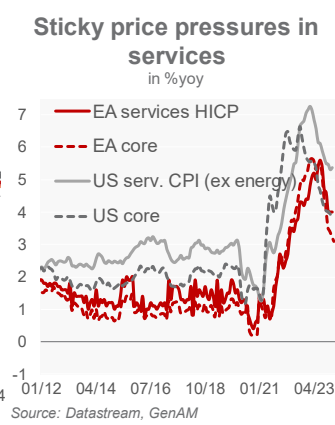
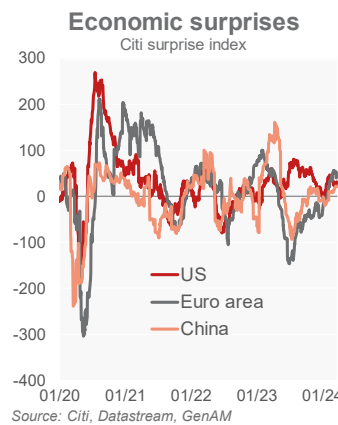
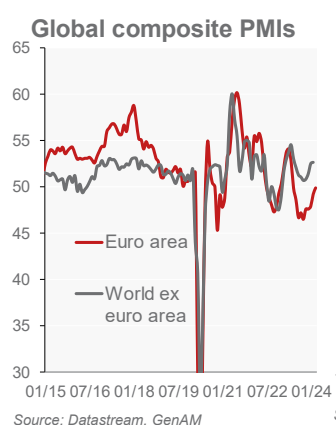
# MACROECONOMIC OUTLOOK

Thomas Hempell, Christoph Siepmann, Martin Wolburg, Paolo Zanghieri

- **Global green shoots are mounting as real disposable income is underpinned by solid wage growth and easing inflation. The inventory cycle is bottoming and the headwinds from drastic rate hikes in 2022/23 are fading. This will largely offset the drag on consumption from depleted excess savings in the US. We now expect a soft landing of the US economy, while the euro area will gradually return to expansion over spring.**
- **Inflation is set to ease further. But the pace of disinflation is slowing as the support from base effects, lower energy prices and eased supply chains are weakening while strong wage growth and pent-up demand keeps underpinning price pressures in the services sector.**
- **We anticipate a lukewarm recovery in China helped by further policy stimulus. Yet persisting trouble in the property sector will make GDP growth struggling to reach the official 5% target while inflation will remain very low.**
- **Central banks are preparing the ground for rate cuts. But they will resist calls for quick moves and await more reliable evidence of sustained disinflation, notably in services. We now expect both the Fed and ECB to pivot in June with cumulative 75 bps (Fed) and 100 bps (ECB) cuts by year-end. Given continued economic resilience in the US and more sluggish disinflation, we see the risks tilted towards later and slower cuts for the Fed.**

Better prospects of a US soft landing and a euro area recovery brighten the economic outlook

The global economic outlook has brightened over the first months of 2024. Worries about a US recession have receded, and we now expect a soft landing amid continued solid economic data. Green shoots in the euro area (rising real disposable income, a recovering inventory cycle) suggest that after six quarters of stagnation, the euro area is headed for a mild recovery from Q2 onwards. The fading drag from last year's steep tightening of monetary policy will give way to tailwinds from rate cuts – even as mildly tighter fiscal policy and an only lukewarm recovery in China will keep a lid on the global growth acceleration from 2.8% 2023 to 2.9% this year.



Inflation will continue to ease, but stubborn price pressures in services pose the biggest risk around the 'last mile'

The global inflation shock continues to ease, with global inflation to recede from 3.8% in 2023 to 2.9% this year. But in most advanced economies, concerns about the 'last mile' of disinflation have grown lately. Much of the decline in inflation since the 2022 peaks has been due to the easing of energy prices (notably gas in Europe) and eased supply bottlenecks as the disruptions from the pandemic have continued to fade. The trickiest part to address is the still elevated price pressures in services (close to 4% in EA, above 5% in the US). Tight labour markets and the passthrough of rising wages keep services inflation elevated, with surveys even pointing to the risk of a reacceleration. Slower disinflation is unlikely to derail central banks' easing from

June onwards, but we see the risks around our base forecasts of 75/100 bps cuts by the Fed/ECB this year tilted towards slower and potentially even later rate cuts. The BoJ bucks the global easing trend. Following its March rate hike, however, we do not expect rapid further hikes any time soon given the still fragile recovery of inflation and wages in Japan following years of deflationary pressures.

We see persistently high inflation as the key risk to the overall market-friendly macro outlook, if central banks feel forced to keep rates high for much longer. The US elections, even if still seven months distant, bear the risk of intensifying US/China tensions with much higher US tariffs triggering a new trade war. We also carefully watch ongoing financial risks notably in the commercial real estate sector.

### US: a very soft landing

Activity continued to surprise to the upside, with GDP up by 3.9% annualised in Q4. The first indications for 2024 are consistent with growth slightly exceeding 2% in Q1. Consumption has likely decelerated, as the excess savings stock has been almost fully depleted. Yet we do not expect it to slump, as real income remains strong and wealth effects allow the savings rate to remain low. We have raised our GDP forecast for this year, and see annual growth at 2.5%, thanks to a big carryover (1.3 pp) from 2023. The labour market is gradually finding a balance with demand and supply. The number of job offers per unemployed has dropped in January to 1.3, from a peak of 2.3 in April 2022. Wage growth remains strong (the employment cost index grew by 4.2% yoy in Q4), but surging productivity – largely thank to strong past investment and firm' reaction to a tight labour market – is mitigating the impact on unit labour costs. The evolution of labour costs is critical for the inflation outlook as continued disinflation progress will be increasingly dependent on what happens to labour-intensive services. Inflation overshoot expectations at the beginning of the year, with the core CPI rate at 3.8% yoy in February, but residual seasonality and specific components like financial intermediation have been playing a big role. We expect core PCE (the measure targeted by the Fed) at 2.4% by year-end.

At the March meeting, the Fed confirmed its intention to cut rates by 75 bps this year, but raised its inflation and growth forecast, showing a more patient approach to sticky inflation: FOMC members also raised slightly the estimate of the long-term policy rate, to 2.6%. A 75 bps cut this year remains our baseline. We expect the first cut in June. Risks are tilted to the upside (a later first cut or less significant easing), should inflation prove even stickier. The May meeting should provide more information about the evolution of the balance sheet runoff. The announced slowdown of bond disposal should begin in May or June and the process should stop around the turn of the year.

### Euro area to start growing again amid further falling inflation

After having narrowly avoided a recession in the second half of last year, activity is set to improve. In Q4/2023 weak private consumption and de-stocking were the key factors that had prevented the economy from expanding. Latest surveys suggest that the inventory cycle is turning. Together with a somewhat stronger global economy this will support manufacturing activity. That said, these impulses will not be enough to pull the industry out of recession. However, sentiment in the domestically driven services sector indicates stronger expansion ahead. A key driver is the resilient labour market with the January unemployment rate at a low of 6.4% while wage growth remains strong, according to the *Indeed* wage tracker close to 4% yoy in Q1. Amid receding inflation and improving financing conditions ahead of widely anticipated ECB rate cuts we see activity returning to slight expansion in Q1 and gaining more traction

GDP up by 2.5% in 2024, with inflation proving sticky.

Fed to cut by 75bps this year, with risks tilted to slower easing

Activity to gain traction with the inventory cycle, wage growth and lower inflation being key factors.



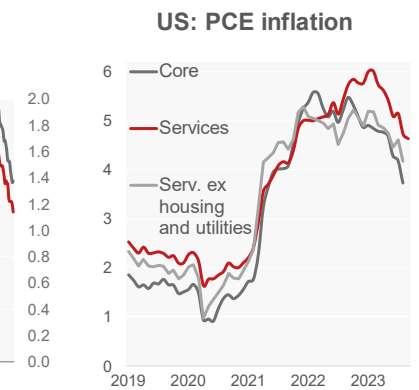
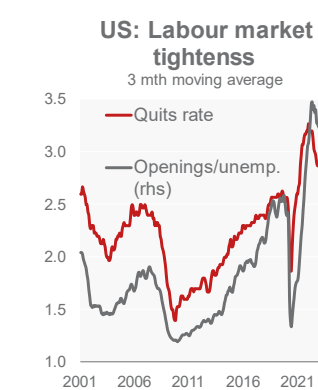
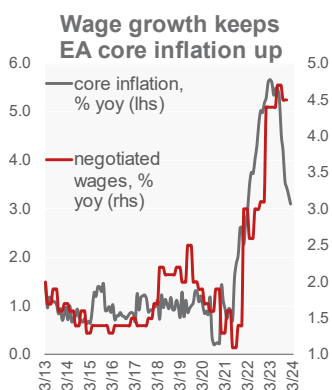
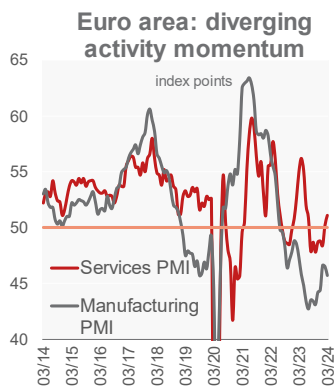
Inflation to come down further but wage growth remains an important upside risk.

ECB to pivot in June and likely to cut key rates by 100 bps in 2024

from Q2 onwards. We see 2024 annual growth at 0.6% and expect an improvement to 1.3% next year.

Over the past months both headline and underlying inflation have been trending down. With the value-chain problems largely solved, energy prices stable or even somewhat weaker and import prices easing, there is more disinflation in the pipeline. But at 3.1% yoy in February, core inflation remains clearly above readings consistent with the ECB's 2% inflation target. Highly wage-sensitive services inflation has remained close to 4% since November. Strong wage growth bears the risk of keeping underlying inflation stubbornly high. Whether core inflation comes further down crucially depends on the outcome of wage negotiations in spring and whether firms lift prices in response to wage increases. If covered by productivity gains or if firms are willing to accept lower profits, the effect of higher wages on inflation would be less impactful. All in all, we think that also underlying inflation will recede further and fall below 3% by mid-year and move towards the 2% target by mid-2025.

Against this backdrop, the ECB signalled that it would embark on rate cuts soon. We look for a first 25 bps cut by June and see cumulative cuts of 100 bps in 2024 and a further 50 bps in 2025. However, with the (deposit) rate being brought down to 3.0% by year-end a restrictive policy stance will still prevail for somewhat longer. If upside risks to inflation materialize, the pace or the magnitude of rate cuts will be reduced.



China: more fiscal and monetary help needed to achieve growth target

### China: Drag from property market to dampen activity

China's National People's Congress announcements remained within expectations, setting the official growth target "around 5%", the budget deficit at 3% plus 0.8% of GDP additional central government long-term bond issuance. Nevertheless, the fiscal impulse is likely a bit higher than previously expected on de-facto less expenditure than provisioned last year. Moreover, China unveiled a 20-point plan for upgrading equipment and consumer goods to lift domestic demand and foster the green transition until 2027. But those plans have lacked so far quantitative backing. More support for domestic demand could become decisive if Trump were to become the next US President and would raise tariffs on Chinese goods to 60%. Real activity data of the first two months in 2024 came in better than expected, but the contraction in the property sector continued and will likely remain a drag on growth despite more (incremental) support from fiscal policy. We see growth this year at 4.7% while CPI inflation is likely to stay low at 0.7%. We expect the PBoC to further cut the RRR by 25 bps around mid-year and see a 10 bps cut in the MLF rate.

# GOVERNMENT BONDS

Florian Späte

- **The correction of exaggerated rate cut expectations led to a noticeable rise in yields on both sides of the Atlantic in Q1.**
- **We expect yields to remain within a fairly narrow corridor in the coming months. As yields are currently at the upper end of the trading range, we expect them to decline slightly going forward. In the longer term, we see more potential for a decline, particularly for US yields.**
- **EA non-core government bond spreads have continued to tighten in the course of the favourable market environment. Despite the levels reached, we do not expect spreads to widen significantly in the short term. We therefore recommend investing in riskier government bond segments to earn the carry.**

After speculations about imminent key rate cuts continued to grow in Q4 2023, realism returned in Q1 2024, and the exaggerated expectations were corrected. At the end of 2023, financial markets were still pricing in more than 150 bps of key rate cuts by the Fed and even more than 160 bps by the ECB throughout 2024. This has since been revised down to around 75 bps (Fed) and less than 90 bps (ECB) – broadly in line with our current forecast (removing the main driver of higher yields in Q1). As a result, yields have risen across all maturities on both sides of the Atlantic. In addition, the unexpected resilience of the US economy combined with surprisingly high inflation rates also contributed to the rise in yields.

There are opposing effects regarding the future development of core yields. In this respect, we do not expect a clear trend and the absolute change is likely to remain within a relatively narrow range. Overall, we see the evolution of yields skewed to the downside.

Although the exact timing of the key rate cuts is still uncertain, central banks have indicated through corresponding dovish comments that they are confident in cutting key rates this year, despite hot inflation prints. We assume both the US and the EA to make their first key rate cuts in June, as the first G10 country, Switzerland, kicked off the cycle already in March. Furthermore, although the decline in inflation is forecast to remain bumpy, we see the downward trend prevailing in the months to come. Additionally, the US economy should eventually pay tribute to the high yield levels and cool down somewhat (although a hard landing should be avoided).

Accordingly, core yields are likely to move away from the upper end of the trading range, but a bond market rally and a significant decrease in yields are not on the cards. The currently priced cycle trough of 2.25% for the ECB leaves little scope for sustainably lower yields. Furthermore, the structural and geopolitical developments (defence spending, supply chain disruptions, green transition of the economy) are inflationary. Overall, we forecast 4.15% for 10-year US yields and 2.30% for 10-year EA yields over the next three months.

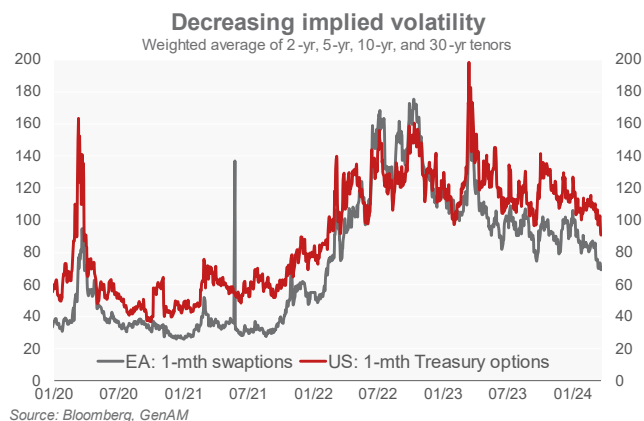
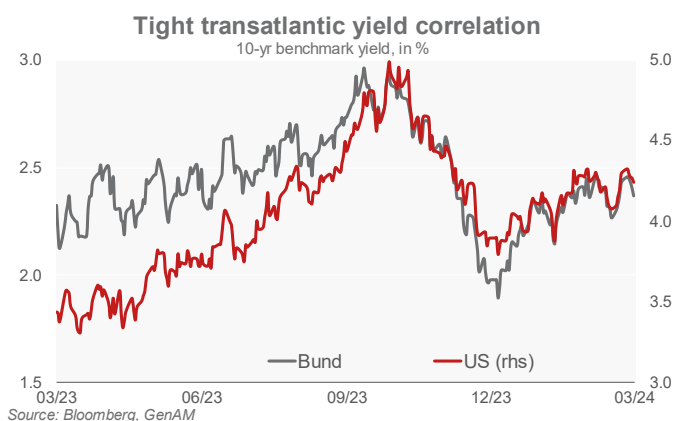
Although there is limited potential for EA yields to decline further over the next 12 months, there may be more room for US yields. This is due to 10-year US yields trading around 4.2% which is well above the medium-term key rate expectations of 3.6% – and 5y3m OIS itself appears to be too high. Hence, our 12-month forecast for 10-year US yields is 3.85%. This would also reduce the 10-year transatlantic yield spread from its current level of 190 bps, which is unsustainable considering the much smaller gap in  $r^*$ .

Core yields to remain range-bound in the coming months – trend is downwards

A renewed Trump presidency and a Republican majority in Congress could counter the expected downward trend in US yields

One caveat remains. If Trump becomes the next US President and imposes tariffs, this will dampen growth, but above all, it will also push up inflation. With rising inflation expectations and a vigilant Fed, the yield decline will be smaller than in the base scenario. If a Republican majority in Congress allows for a higher budget deficit offsetting the growth-dampening effect of tariffs, US yields could even move sideways from current levels. In this case, market participants should be prepared for higher inflation expectations and a higher term premium.

Separately, we expect bond market volatility to continue to fall. Despite the decline in recent months, it remains at a historically high level. Falling inflation rates and declining inflation volatility, combined with upcoming key rate cuts, should contribute to this. Accordingly, we still see some potential for lower swap spreads. In addition to the decline in bond market volatility, the record-high 12-month rolling net issuance of Bunds, combined with the expected steepening of the yield curve, also points to somewhat tighter swap spreads. Accordingly, we recommend government bonds that carry a premium and are likely to benefit from the favourable market environment (e.g., SSA bonds).



Buoyant issuance activity in Q1 well absorbed by domestic and non-domestic investors.

### Friendly market environment supports investment in EA non-core bonds

EA non-core government bonds continued the strong performance seen in Q4 2023. The narrowing of spreads was almost sufficient to compensate for the rise in the underlying yields.

In a very active market, over € 400bn of sovereign bonds have already been issued, accounting for more than 30% of the expected annual volume. Year-to-date net issuance is very high at over € 175bn. Even considering the ECB's QT, almost 35% of the net-net issuance volume has already been placed on the market. In combination with the aforementioned decline in bond market volatility, a modest economic recovery, and upcoming ECB key rate cuts this provides significant technical support for EA non-core government bonds. Compared with other risky fixed income asset classes EA non-core government bonds do not appear overvalued and the low spread volatility implies still rather attractive risk-adjusted spread levels. With no catalyst for a sustained turnaround in sight, we recommend investing in EA non-core bonds to benefit from the friendly market environment and to earn the carry.

A slight spread widening will likely be more than compensated for by the higher carry. Accordingly, we still expect non-core bonds to outperform core bonds in the short term. In the medium term, however, some countries will continue to face fiscal challenges in particular.

# CREDIT

Elisa Belgacem

- Credit remains a good carry trade, even at that level of spreads. Our investment strategy maintains an overweight position in Investment Grade (IG). Overall, we recommend a trade up in quality.
- We believe that US credit is more expensive and more vulnerable than European credit.
- We recommend either extending duration in IG, despite the already flattened yield curves, or preferring subordination risk to credit risk.
- Rating migration will mostly be concentrated at the lower end of the rating spectrum and in very cyclical sectors. BBB should be less affected than during Covid as the fundamental trend is decent.
- CDS remain tighter than cash, making credit protection an attractive option.

Looking ahead into S224, high-yield issuances should surpass IG in relative terms, reflecting a higher share of bonds to be refinanced in the sub-investment grade. Indeed, IG corporates have issued more in 2023 and continue to display high cash levels on their balance sheets, which will gradually start to be less remunerative with both the Fed and the ECB expected to cut rates significantly this year. For HY corporates, there were relatively few maturities to be refinanced in 2023, and Treasurers have been opportunistic waiting for lower rates in 2024 to come to the market. Over the last two years, we have also seen private credit substituting the HY market for M&A or LBO refinancing. We think this trend should slow down and issuers will look more at the public market as it is currently attractive again to issue bonds. Also, loans and private markets are floating instruments versus HY being a fixed-rate product should be supportive in terms of flows as investors will be willing to secure higher fixed rates ahead of the expected rate cuts.

## Cash Euro IG is our preferred segment

US vs EUR IG

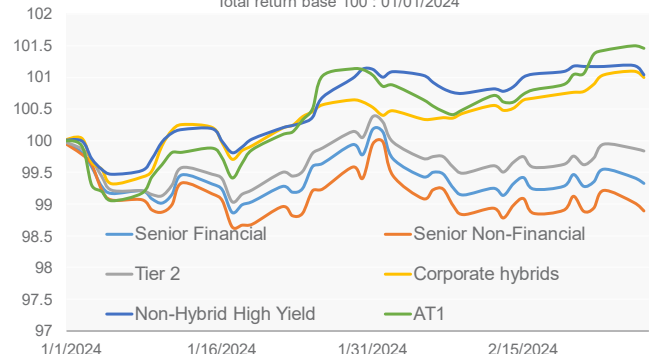
Govt OAS, bps



Source: Bloomberg, BofAML indices, GenAM

EUR Credit market performance by segment

Total return base 100 : 01/01/2024



Source: Bloomberg, BofAML indices, GenAM own calculations

**Favour Euro over US credit** on valuation grounds indeed, metrics continue to suggest that European investment grade (IG) is currently the cheapest relative to US IG and both European and US high yield (HY). As a result, we see strong potential for European outperformance relative to the US over the coming months. However, the

Long IG credit remains a very attractive carry proposition.

result of the US election could be relatively detrimental to the US versus Europe in a scenario in which Trump wins, with a Republican sweep.

**Prefer cash to CDS** With the iTraxx roll now behind us, we see the potential for CDS spreads to significantly underperform cash, making credit protection an attractive option.

### Deteriorating fundamentals will favour IG, core, and subordinated.

**Default will decrease from here** Defaults have probably peaked below 4% in Europe and below 6% in the US and will start decreasing from now. The question is whether this will also apply to loans and private credit.

**Yet Rating deterioration will continue** and will mostly be concentrated at the lower end of the rating spectrum and in very cyclical sectors. BBB should be less affected than during Covid as the fundamental trend is decent.

### Enjoy the carry

**We generally prefer to trade up in quality in general, with one notable exception with IG where we prefer BBBs versus single-As.** IG spreads are likely to fluctuate around current levels in the coming months. With interest rates likely to plateau and high uncertainty around HY defaults, it makes sense to look to long-dated IG for enhanced credit returns, even if credit curves are slightly inverted at the long end.

We believe IG spreads will oscillate around current levels for the months to come, ensuring elevated carry. Valuation considerations also lead to a preference for Europe over the United States. While extending duration may not be favourable from a spread perspective, a positive rates view justifies a long position, particularly in the 5-7 year bucket. Tougher conditions ahead, but we argue against turning “all defensive” too early. Global growth will continue to run above potential in H2, while the policy exit is set to be a very cautious and slow process).

### We remain neutral on Non-financials versus financials

In January, the concerns about commercial real estate, especially in the US, resurfaced. Within European financials, a few players particularly exposed have been weaker, dragging with them the whole financial credit space for a week or two. But this didn't last. The subordinated bonds of Aareal and Deutsche Pfandbriefe bank are still pricing a very likely restructuring but this risk is now perceived as idiosyncratic by the market. The rest of the financial space feels immune for now. Hence, we don't change our neutral recommendation between financials and non-financials as we believe that on one side, financial fundamentals will face less tail risk in terms of asset quality deterioration because of lower interest rates, and financial spreads are still very generous compared to non-financials. But on the other hand, financials issuances will be heavier to refinance the expiring TLTRO.

**Subordination risk still preferred to credit risk** We do prefer long IG and subordination risk to pure HY. In the context of likely plateauing rates and uncertainty surrounding defaults in the HY space, a strategic move is proposed to play leveraged IG to enhance credit returns. While valuations are more compressed versus senior, we find subordinated bonds attractive relative to pure high yield, and we continue to prefer corporate hybrids (excluding real estate) to BB-rated companies and AT1s to single B-rated companies despite tighter valuations. We believe that in a setback scenario, they will be much more resilient, and the current yield dive-up is minimal.

We do prefer long IG and subordination risk to pure HY.

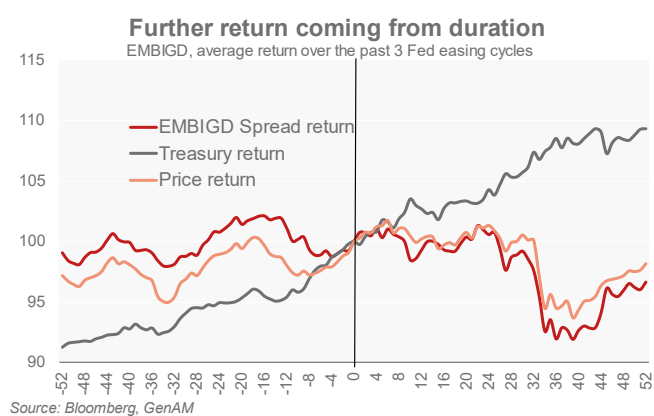
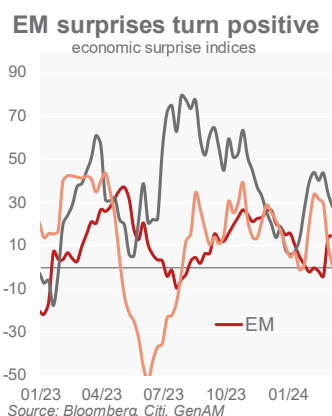
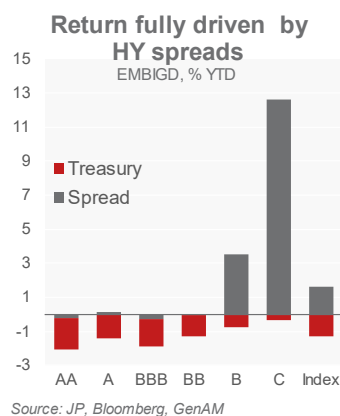
# EM SOVEREIGN CREDIT

Guillaume Tresca

- The EM environment will remain resilient, but the room for manoeuvre is limited. We still expect positive re-turns in the short term driven by duration, but are reducing our beta exposure in favour of relative value and carry trades.
- EM external debt spreads will widen, with value only in the low-rated HY space. Within IG, we continue to favour the BBG segment (Romania) and EUR bonds over USD bonds.
- We are neutral on EM local debt versus external debt. The cycle is becoming less favourable for local debt. The second half of the year will be more favourable as the Fed cuts. We continue to favour CEE, Mexico and Colombia.

**EM government bonds at a crossroads.** After a strong rally at the end of last year, the EM environment has been resilient, supported by positive surprise EM macro data and the easing of US hard landing concerns. Primary markets have also reopened widely for low-rated countries and some idiosyncratic resolutions (Egypt) have further supported sentiment. The question is whether this Goldilocks scenario can continue, given that valuations are already stretched. In short, we still expect positive returns in the medium term, but given the minimal spread buffer, we are reducing our beta exposure and favouring relative value and carry trades in both local and external debt. If history is any guide, the last three Fed easing cycles show that the return after the first rate cut comes from the duration component rather than the spread component. Spreads may tighten marginally over the next quarter, but the bulk of the return will continue to come from carry and duration as we expect the US 10-year rate to fall to 4.15%.

Small positive return provided by duration



## Don't chase the spread rally

**External debt spreads are tight by all measures,** and we expect some spread widening in the short term as risk appetite is stretched. Our new econometric fair value model, based on a multiple panel regression, shows that spreads are too tight to fair value.

External debt : spread value in low-rated HY

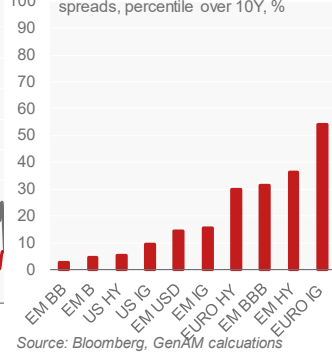
At the rating level, the only remaining potential is in the B and CCC segments, where a few countries are still historically cheap. In other words, further index tightening, if any, will be driven mainly by the low-rated names and idiosyncratic factors. At the macro level, only new positive growth surprises without a re-acceleration of inflation could push spreads tighter, but even in this scenario, the impact will be marginal.

In the IG space, we continue to favour the BBG segment and EUR bonds over USD bonds. There has been anecdotal evidence of new crossover fund inflows, but these are likely to remain limited and focused on the higher yielding IG countries such as Romania. Indeed, the current focus is on yield rather than spreads, and so far US Treasuries remain attractive, offering a compelling risk-return pairing. In IG, we prefer the CEE region (Romania), which is historically cheap due to the EU slowdown and Ukraine. We prefer Chile to Peru. In HY, Panama is attractive. SSA countries can perform, but they need better fiscal fundamentals.

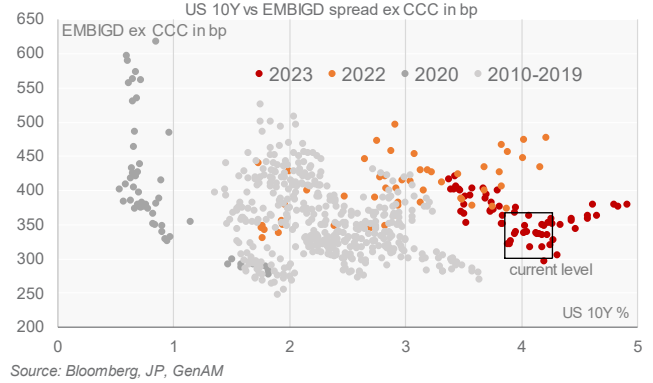
### All countries are expensive



### Tight valuations everywhere



### Risk reward not attractive for crossover funds

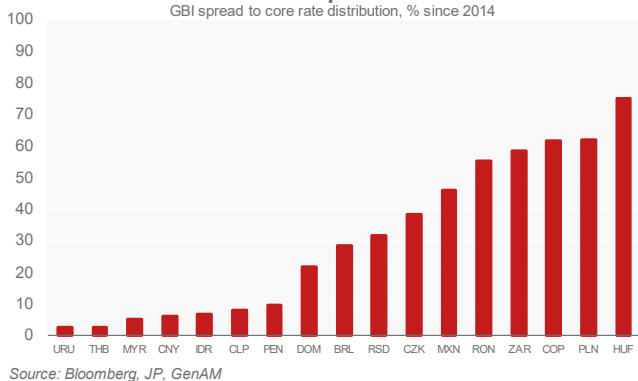


## EM local: Turning neutral vs external debt

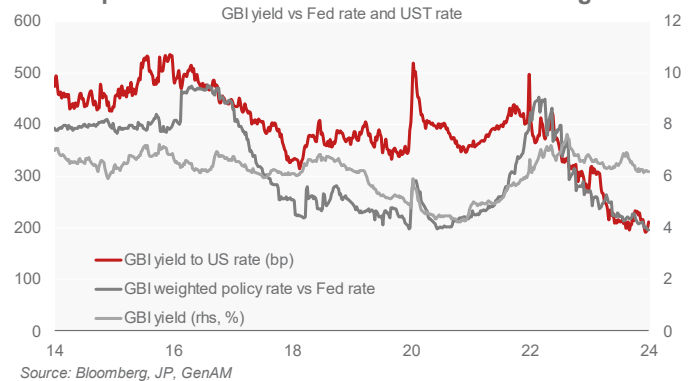
We move from overweight to neutral on EM local debt vs external debt as valuations have tightened, core EM disinflation is losing steam and risks to US rates are more symmetric. Indeed, EM policy rates vs. US rates have reached all-time lows and the market is perfectly pricing in the EM easing cycle. For a further rally, the decline in EM local rates will depend on lower US rates. Indeed, EM local spreads are low because US yields remain high.

Moreover, the cycle is becoming less favourable for local debt, which tends to perform in mild recessions, versus external debt, which benefits from the current soft landing. The second half of the year will be more favourable as the Fed cuts and US growth slows. Alongside this tight spread valuation, the FX carry has fallen and we will continue to hedge FX risk, except in high yield. At the country level, we continue to favour CEE, Mexico and Colombia, where spreads still offer some value over core rates. In Asia, we will favour FX over duration given the low level of interest rates.

### Value in Europe and Mexico



### Spread at the lows because US rates are high

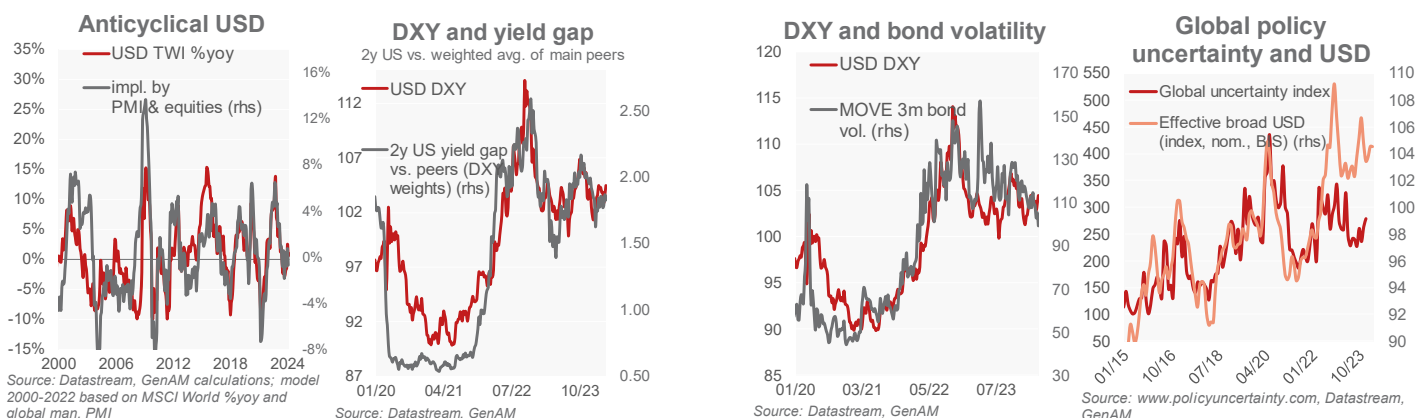


# CURRENCIES

Thomas Hempell

- We benefitted tactically from the USD bounce in the first months of 2024 as market pared exaggerated rate cut hopes. Following this correction, we are now turning more cautious on the further prospects for the dollar.
- Cyclical forces (risk sentiment, global growth) and yield differentials are still in the driving seat for the USD, which fundamentally remains dear. Prospective Fed easing points to somewhat tighter yield differentials and lower rates uncertainty over 2024 – both of which acting as USD headwinds.
- Short-term, choppy risk sentiment and geopolitical risks will keep any USD weakness moderate. The November US elections are a key wildcard are. If markets start to price a Trump victory and rising trade/geopolitical tensions, the USD will be cushioned by safe-haven flows.
- The JPY will benefit once US rates retrace more visibly over H2. Easing Swiss inflation will help the SNB tolerate some further CHF weakness following the weakness in the wake of the March rate cut.

We entered 2024 with the prediction of a weaker dollar over 2024, but favoured tactical USD longs at the start of the year. Indeed, the USD bounce played out nicely as markets unwound excessive rate cut expectations. The paring of speculative short USD positions added to the tailwinds to the USD.



## Time to turn more cautious on USD

Green shoots in Europe, a narrowing yield gap and easing rates volatility will start to burden the USD

Now, however we are turning more cautious on the USD. Cyclical forces, incl. both the global economic cycle and risk sentiment (1<sup>st</sup> chart above), and yield differentials remain in the driving seat for the fundamentally dear USD. Regarding the former, we expect the global economic green shoots in the euro area to dampen the demand for the greenback. The US economy is still proving resilient, but we expect growth to slow to below potential, which contrasts the mild acceleration we expect for Europe. Risk sentiment is vulnerable to setbacks but is unlikely to materially boost safe-haven demand for the USD.

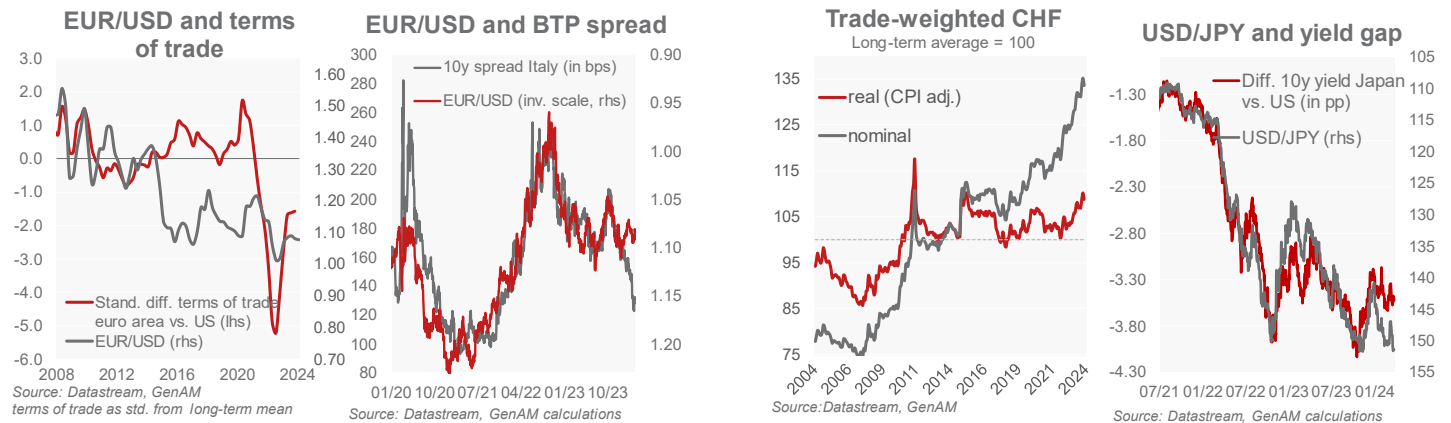
The case for an eroding USD yield advantage has weakened somewhat since December, as we now expect a first Fed rate cut only for June and a slower pace of easing over H2. Yet regarding the total amount of rate cuts we have in our books over the next two years, prospective Fed easing (-225bp) still exceeds the ECB's (-150bp). This leaves scope for a narrowing yield gap and a weaker USD (2<sup>nd</sup> chart). Furthermore, we anticipate rates volatility to recede further once central banks actually



The outcome of the US elections in the November is a key wildcard for the USD outlook

implement easing steps, which would remove another pillar of USD strength (3<sup>rd</sup> chart prev. page).

A key risk to the outlook of USD weakness emanates from the November US elections. A Trump victory would likely trigger new US tariffs and a rise in global policy uncertainty, which would favour the USD (4<sup>th</sup> chart above). If coupled with a Republican control of Congress and new tax cuts, rising capital inflows into the US may even revert the outlook of the US towards fresh strength compared to current levels.



### Moderate tailwinds for the EUR

The **EUR** is likely to benefit as the euro area recovers from six quarters of stagnation. Thanks to fallen energy bills (notably for gas imports) also the terms-of-trade shock is fading. (1<sup>st</sup> chart above). And the greatly reduced risk perception regarding Southern European debt still leaves scope for a catch-up (2<sup>nd</sup> chart). Overall, we anticipate the EUR/USD to move closer to the 1.10 threshold, even if the path will still be choppy in the near term.

The EUR/CHF seems headed for parity as over 2024 with the SNB warming up for a weaker franc amid eased price pressures

We see the **EUR/CHF** headed to reach parity after the SNB confirmed its dovish stance by a first rate cut in March. Swiss inflation has eased materially, and with the Swiss exchange rate still dear (3<sup>rd</sup> chart), we expect the SNB to tolerate a further rise in the EUR/CHF. We anticipate **EUR/GBP** to keep trading in a relatively narrow range, with risks mildly tilted to the upside. The slightly stronger GBP has defied the marked improvements in relative economic surprises for the EA vs. UK and the tighter GBP yield advantage. Yet mind that the prospects of a Labour victory in the general elections (widely expected for H2) elections may help improving ties with the EU and alleviate GBP headwinds. It may also trigger fiscal expansion and thereby strengthen the BoE's reluctance on fast rate cuts, keeping a lid on EUR/GBP.

A JPY recovery hinges very much on a prospective decline in US yields

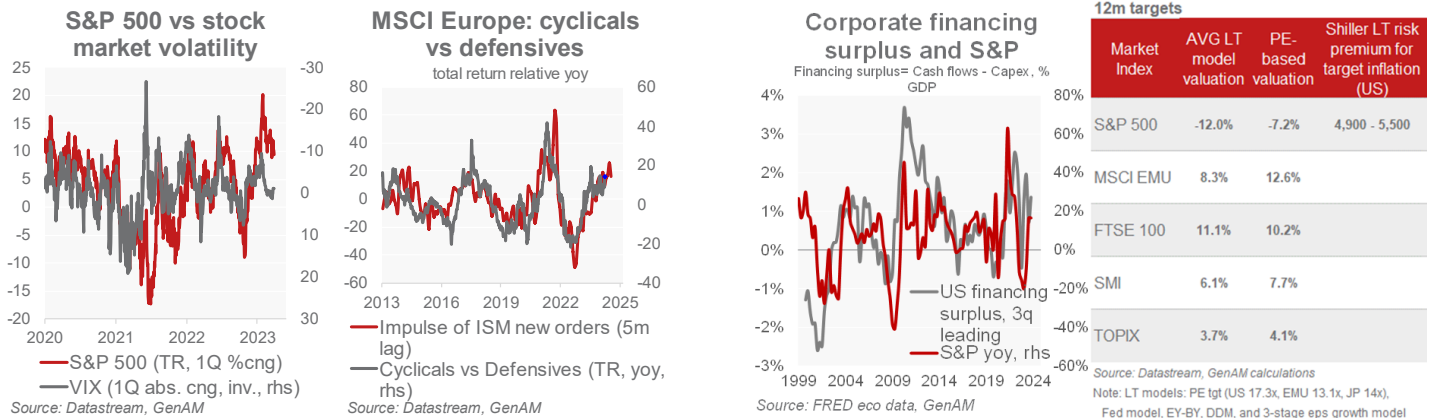
The **JPY** has failed to benefit from the BoJ's decision in March to terminate its zero-interest rate policy (ZIRP) and abandon its yield curve control. This was mainly due to the dovish bias attached to the decision, with bond purchases set to continue at the current pace. The further slide of the yen in the wake of the decision has raised the odds of FX interventions rising as officials warned about considering 'decisive steps' against disorderly yen moves. While intervention support usually proves short-lived, the opposed policy paths of the Fed and BoJ still point to a yen recovery, with a more visible decline in US yields foreseen over H2 to prove a main trigger.

# EQUITIES

Michele Morganti and Vladimir Oleinikov

- We are tactically neutral on equities, but still expecting 12-month total returns (TR) in the high to mid-single digits for ex-US indices, +7% for EMU. The medium-term outlook remains decent, but prone for short-term setbacks.
- Among positives, we see a better macro outlook, easier financial conditions, Cash-Flow minus Capex spread and strong tech earnings. The Q4 reporting season surprised positively and our earnings forecasts are encouraging.
- That said, we see some risks in the short term: increased positioning, (>80% percentile), bottoming VIX, peaking S&P 500 quarterly price changes, neutral to negative quant models, slightly dear Tech PEG (PE over expected LT earnings growth), pension funds probably ready to rebalance their asset exposure vs. bonds after the equity rally, geopolitical risk. Lastly, we see the SPX approaching the upper band of our 12-month target range: 5,500.
- OW: SMI, EMU vs. US, Japan, China (slight, slowly accumulating positions), Korea, and India. Still OW Jap (lower OW after the rally): corporate restructuring, increasing ROE, buybacks, good valuation rank, attractive CAPE yield vs. real rates. 12m TR (LC): EMU +7%, US +4%, Japan 6%, EM +9%. Neutral cyclicals/defensives, OW Defense sector and small caps.

Over the last quarter, developed market equities rallied, gaining almost 10%. This was due to strong AI earnings growth, a wave of rate cut hopes as well as exceptional US growth resilience and better global macro surprises. The latter triggered the out-performance of cyclicals vs defensives.



## Equities: tactically neutral. OW: SMI, Japan. Prefer EMU vs US

The mid-term outlook is decent, but prone for setbacks short term: positioning, VIX, quant models, US valuation

A better macro-outlook, easier financial conditions, the CF capex spread and strong IT earnings are among the positive factors. The reporting season also surprised on the upside. The mid-term equity outlook is decent, but prone for setbacks short term: positioning (>80% pc), bottoming VIX, overbought market, deteriorating ML/quant models, possible pension funds rebalancing into bonds after the strong equity rally, and geopolitical risks. Lastly, the valuation of the S&P 500 is approaching the upper band of our 12m target range: 5,500. We are tactically neutral.

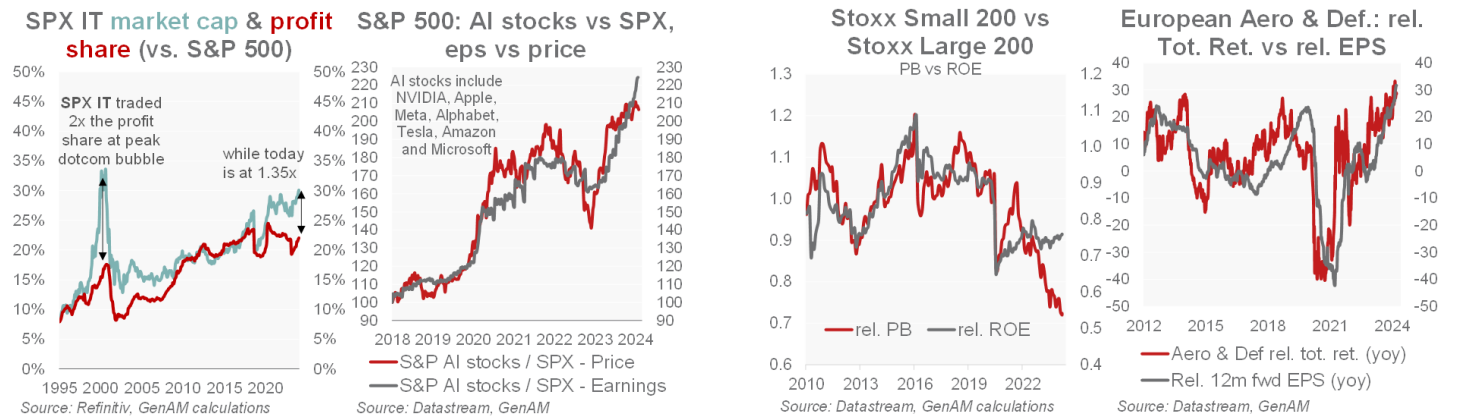
Beyond the short term, the stabilizing macro cycle, which is set to rebound in H2, plus lower yields and a more dovish monetary policy would benefit equities. Thus, our 12-month view remains positive, expecting 4% to 9% total returns (TR) for the US and ex-US indices, respectively. We are still OW on Japan, which has been reduced after

the rally: corporate restructuring, increasing ROE, buybacks, good composite valuation rank, and attractive CAPE yield gap vs. real yields. S&P yoy earnings growth has likely bottomed out in Q323. Financing conditions have improved, and leading indicators are becoming more supportive.

The magnificent 7 are still supported by a strong earnings growth and their PEG does not show a bubble yet (stay neutral). EA earnings are resilient, notwithstanding a weak macro momentum: we forecast positive earnings growth in 2024, slightly above consensus. Indeed, sentiment improved in Q1 in line with expectations that the EA economy will strengthen into the spring and accelerate later in the year. That said, risk comes from margin trend. Current capacity utilization, CPI/ULC trend and Mfg PMI remain very weak, while, on the contrary, wages growth stays high (above 4% yoy). US PE expansion has slightly anticipated a more dovish monetary policy. We see some stabilization, but, judging from our forecasts of Fed's assets trend, we don't expect a significant repricing, unless earnings rise faster than expected.

Aerospace & Defense: a long-term structural trend – higher EU defense spending ahead

EU sectors: we have a tilt on cyclical laggards and value. Overall, we are neutral cyclical/defensive. Higher global PMIs support the earnings momentum, albeit some cyclical sectors look crowded and dear, anticipating an activity bounce. We OW Aero&Defense (A&D) and Small vs Large cap. Small caps look undervalued and should benefit from lower yields, better economic momentum, and picking up M&A cycle. A&D stocks are supported by the structural shift in defence spending, while growth-adjusted valuation is not yet dear. OWs: Banks, Durables, Energy, Food, Pharma, A&D, Materials. UWs: Auto, Comm. Prof. Services, Insurance, Media, RE, Software, Telecoms.



**EM Equities: maintain neutral stance. OW China, Korea, and India**

EMs earnings are likely to remain weak. Global export orders are still in contractionary territory and our model expects an earnings growth of around 4% in 2024, which is low for EMs. That said, we are neutral as EMs have depressed valuations (at almost 1 st.dev. vs MSCI World). China (accumulate slowly) discounts a lot of negative news and M2 impulse is becoming more supportive, thus offsetting some risks we see in the short term as economic policy has few chances to become too aggressive. OW India (defensive growth) and Korea (lowest global valuation, industrial recovery and possible market reforms after the elections in April 2024).

# ASSET ALLOCATION

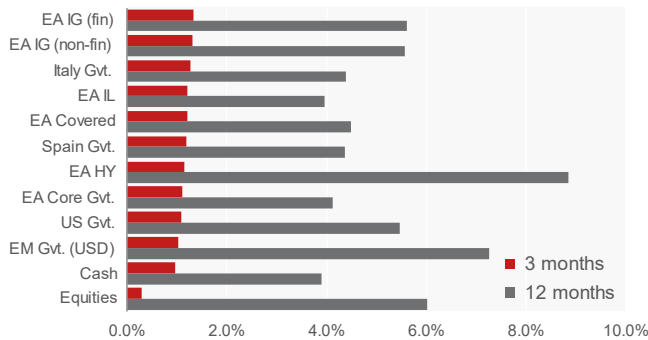
Thorsten Runde

- 2023 was ending with a rally – on the equity as well as on the bond side – as markets were pricing a Goldilocks scenario with many and early rate cuts discounted. We deemed these market expectations too sanguine and positioned ourselves for a correction. Yet it only materialised for bonds. Equity markets defied the headwinds from rates and continued their rally encouraged by cyclical optimism and the AI euphoria.
- With disinflation slowing we expect central banks to refrain from rushed rate cuts, a development potentially reinforced by the continued economic resilience. As markets also corrected their rate expectations, our near-term outlook for yields is balanced. But we warm up to lengthening duration as for the remainder of the year yields should only slightly fall.
- An improving macro outlook is supportive for risk assets, yet the continued and concentrated Equity rally bears the risk of setbacks. Against this backdrop, we just neutralise our already very small underweight positions in Equities and HY Credit too. We favour the carry from IG Credit and non-Core euro area Government Bonds in the medium- to long-dated buckets over Cash and short-dated Bonds. We become more cautious with respect to USD exposure.

The year 2023 was ending with equity and bond markets rallying in lockstep. Yet, the anticipated setback triggered by a hawkish repricing of rate cut expectations only affected the bond side. Equities proved remarkably resilient backed by AI-euphoria and rising optimism about the economy. Although we do not consider the AI-hype a bubble we acknowledge direct setback-risks and risks stemming from potentially stricter regulation to fight market concentration. With central banks preparing the ground for rate cuts from June onwards we expect yields to fall throughout the year only moderately. The risk is on the upside with disinflation somehow stalling and with a presidency of Trump generally associated with inflationary policy measures.

Aggregated Total Return Forecasts

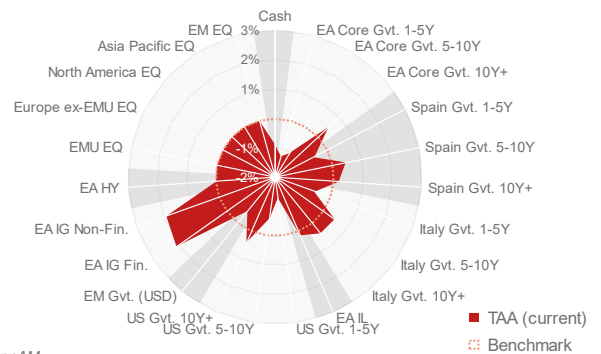
(hedged into EUR)



Source: GenAM

Balanced MtM Model Portfolio

(active positions in pp)



Source: GenAM

Against this backdrop we raised our exposure in Equities, but just to a neutral level. The same holds for HY Credit as default risks have peaked but valuations appear stretched across the rating spectrum. We still like the carry from IG Credit and increase our OW further staying neutral on financials versus non-financials. We overweight medium- to long-dated non-Core euro area Govies at the expense of short-dated Bonds in general and Cash. All in, this leads to a slightly long duration stance. We expect some headwinds for the USD due to tighter short-term yield differentials and lower rates uncertainly over the remainder of the year. We switch to an UW for the greenback. The same holds for USD-denominated EM Govies primarily on hedging cost grounds.

# FORECASTS

## Macro Data

Growth	2023	2024		2025		2026
		forecast	Δ vs. cons.	forecast	Δ vs. cons.	
US	2.5	2.5	0.4	1.7	0.0	1.9
Euro area	0.5	0.6	0.1	1.3	- 0.0	1.2
Germany	- 0.1	0.1	- 0.2	1.6	0.5	1.9
France	0.9	0.8	0.1	1.5	0.2	1.7
Italy	0.7	0.6	0.1	0.5	- 0.5	1.1
Non-EMU	0.2	0.5	0.0	1.5	0.1	2.0
UK	0.1	0.3	0.0	1.3	0.2	2.1
Switzerland	0.8	1.1	0.0	1.6	0.0	1.8
Japan	1.9	0.7	- 0.0	0.9	- 0.1	0.5
Asia ex Japan	5.2	4.8	- 0.0	4.8	0.1	4.6
China	5.2	4.7	0.1	4.4	0.1	4.1
CEE	2.5	2.2	0.1	2.8	0.5	2.8
Latin America	2.2	1.4	0.0	2.1	0.0	2.2
<b>World</b>	<b>3.0</b>	<b>2.8</b>	<b>0.1</b>	<b>3.0</b>	<b>0.1</b>	<b>2.9</b>

Inflation	2023	2024		2025		2026
		forecast	Δ vs. cons.	forecast	Δ vs. cons.	
US	4.1	2.6	- 0.0	2.2	- 0.0	2.1
Euro area	5.5	2.4	0.1	2.2	0.2	2.0
Germany	6.0	2.5	0.0	2.3	0.2	2.0
France	5.7	2.5	0.1	2.2	0.3	2.0
Italy	5.2	2.1	0.2	2.1	0.3	2.0
Non-EMU	6.5	2.3	- 0.1	1.9	- 0.0	2.0
UK	7.4	2.4	- 0.2	2.1	- 0.0	2.0
Switzerland	2.2	1.6	0.0	1.2	0.0	1.5
Japan	3.3	1.9	- 0.4	1.6	0.0	1.4
Asia ex Japan	2.1	2.0	- 0.1	2.5	0.2	2.6
China	0.2	0.7	- 0.2	1.6	- 0.0	2.0
CEE	20.4	17.3	- 0.4	8.3	- 8.6	6.6
Latin America	5.1	4.0	0.0	3.1	0.0	3.0
<b>World</b>	<b>5.3</b>	<b>3.7</b>	<b>- 0.1</b>	<b>2.9</b>	<b>- 0.6</b>	<b>2.8</b>

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

## Financial Markets

Key Rates	Current*	3M		6M		12M	
		Forecast	Forward	Forecast	Forward	Forecast	Forward
US (upper bound)	5.50	5.25	5.14	5.00	4.76	4.50	4.09
Euro area	4.00	3.75	3.65	3.25	3.28	2.75	2.56
Japan	-0.10	0.00	0.11	0.00	0.18	0.00	0.35
UK	5.25	5.25	5.00	5.00	4.71	4.50	3.98
Switzerland	1.50	1.50	1.25	1.25	1.06	1.00	0.91
<b>10-Year Gvt Bonds</b>							
US Treasuries	4.23	4.15	4.21	4.05	4.20	3.85	4.20
Germany (Bunds)	2.35	2.30	2.33	2.25	2.30	2.25	2.29
Italy	3.66	3.65	3.69	3.65	3.71	3.70	3.77
Spread vs Bunds	131	135	136	140	141	145	149
France	2.83	2.80	2.84	2.75	2.83	2.80	2.85
Spread vs Bunds	48	50	51	50	53	55	56
Japan	0.73	0.70	0.81	0.70	0.85	0.65	0.94
UK	3.97	3.95	3.95	3.85	3.93	3.65	3.96
Switzerland	0.66	0.65	0.62	0.65	0.61	0.65	0.60

\*3-day avg. as of 26/03/24  
\*\*ICE BofA (OAS)

Credit Spreads**	Current*	3M		6M		12M	
		Forecast	Forward	Forecast	Forward	Forecast	Forward
EA IG Non-Financial	108	110	110	110	100		
EA IG Financial	120	120	120	120	110		
EA HY	349	375	375	375	340		
EM Sov. (in USD)	260	284	303	284			
<b>Forex</b>							
EUR/USD	1.08	1.09	1.09	1.11	1.09	1.13	1.10
USD/JPY	151	147	149	144	147	142	144
EUR/JPY	164	160	162	160	161	160	158
GBP/USD	1.26	1.27	1.26	1.29	1.26	1.31	1.27
EUR/GBP	0.86	0.86	0.86	0.86	0.86	0.86	0.87
EUR/CHF	0.97	0.98	0.97	0.99	0.96	1.00	0.95
<b>Equities</b>							
S&P500	5,219	5,210	5,270	5,380			
MSCI EMU	166.7	164.0	167.0	173.5			
TOPIX	2,791	2,780	2,825	2,915			
FTSE	7,926	7,900	8,015	8,255			
SMI	11,656	11,525	11,815	12,300			

## Forecast Intervals

### 3-Months Horizon

10-Year Gvt Bonds	US Treasuries	3.63	<b>4.15</b>	4.67
	Germany (Bunds)	1.55	<b>2.30</b>	3.05
	UK	3.31	<b>3.95</b>	4.59
	Switzerland	0.23	<b>0.65</b>	1.07
Credit Spreads*	EAIG Non-Financial	95	<b>110</b>	125
	EAIG Financial	102	<b>120</b>	138
	EAHY	326	<b>375</b>	424
	EM Sov. (in USD)	255	<b>284</b>	313
Forex	EUR/USD	1.06	<b>1.09</b>	1.12
	USD/JPY	142	<b>147</b>	152
	GBP/USD	1.25	<b>1.27</b>	1.29
	EUR/CHF	0.96	<b>0.98</b>	1.00
Equities	S&P500	4,935	<b>5,210</b>	5,485
	MSCI EMU	156	<b>164</b>	172
	TOPIX	2,645	<b>2,780</b>	2,915
	FTSE	7,599	<b>7,900</b>	8,201
	SMI	10,988	<b>11,525</b>	12,062

\*ICE BofA (OAS)

### 12-Months Horizon

10-Year Gvt Bonds	US Treasuries	2.77	<b>3.85</b>	4.93
	Germany (Bunds)	0.56	<b>2.25</b>	3.94
	UK	2.31	<b>3.65</b>	4.99
	Switzerland	-0.38	<b>0.65</b>	1.68
Credit Spreads*	EAIG Non-Financial	68	<b>100</b>	132
	EAIG Financial	74	<b>110</b>	146
	EAHY	242	<b>340</b>	438
	EM Sov. (in USD)	223	<b>284</b>	345
Forex	EUR/USD	1.07	<b>1.13</b>	1.19
	USD/JPY	133	<b>142</b>	151
	GBP/USD	1.27	<b>1.31</b>	1.36
	EUR/CHF	0.97	<b>1.00</b>	1.03
Equities	S&P500	4,851	<b>5,380</b>	5,909
	MSCI EMU	157	<b>174</b>	190
	TOPIX	2,647	<b>2,915</b>	3,183
	FTSE	7,620	<b>8,255</b>	8,890
	SMI	11,238	<b>12,300</b>	13,362

\*ICE BofA (OAS)

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

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