

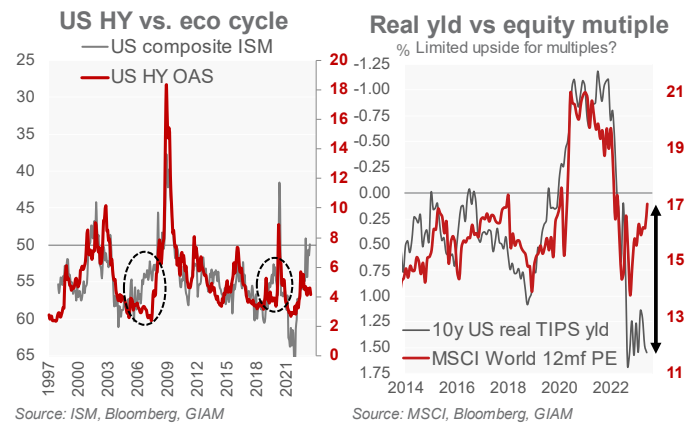
Investment View

No pain, no gain

June 29, 2023

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

- A false sense of calm dominates global markets as the curtain falls on 1H23, as the US economy defies gloomy expectations and financial volatilities across Equity, Credit and FX fall to suspiciously low levels. In-creasingly global markets look priced for Goldilocks: no recession this year, a strong rebound in earnings over the coming 18 months and a quick normalisation of inflation.
- AI, falling commodity prices and the normalisation of the supply chain support such benign scenario. But we do not think central banks will win the battle against inflation without a larger retrenchment in labour markets and final demand. Cracks in the credit space are widening: our economic forecasts are below consensus.
- Mind what you wish for: persistent pricing power in a new inflation regime would support further margin expansion and earnings, yet would inevitably lead to much higher terminal rates, and eventually a boom-and-bust scenario.
- We see outright value in elevated long-term US real yields, and relative value US inflation breakeven vs. EUR. Bond yields are skewed to the downside, if not much. We reduce our OW in IG and stay UW in HY credit. We reweigh Govies, and quasi even more as they should benefit from a narrowing in swap spreads. Volatilities are set to rise, except in Rates. We stay defensive towards equities, both in terms of allocation and factor.



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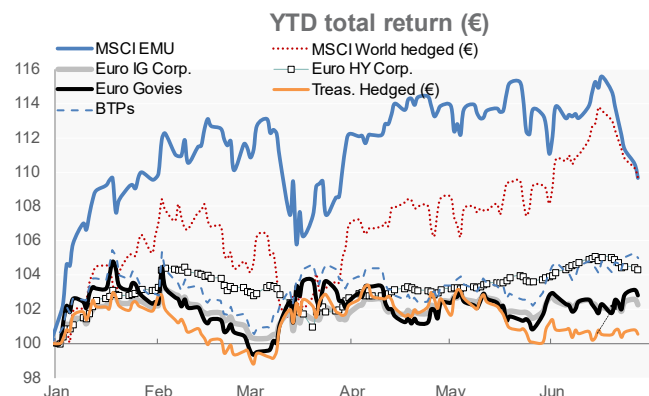
NO PAIN, NO GAIN

Vincent Chaigneau

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Unfinished business. As the curtain falls on 2Q23, a false sense of calm dominates global markets: asset prices are stuck in a range, and the global economy – especially the US – continues to show remarkable resilience in the face of the dramatic monetary policy tightening. The ongoing fall in implied volatility across asset classes, albeit still at elevated levels in Rates, only reinforces that perception (right-hand chart below). The SVB crisis that in mid-March was pointing towards more volatile conditions ahead, today appears as a head fake. No matter the US regional bank troubles, one of the most remarkable developments in Q2 was the outperformance of US stocks, partly on the AI frenzy, but also on the US economic outperformance. Stocks and bonds have continued to free themselves up from the toxic (positive) correlation observed in 2022: that vindicates our expectation that global markets this year would be driven by cyclical and risk appetite considerations, rather than just monetary policy.

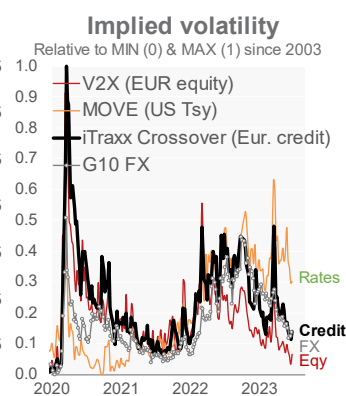
False sense of calm, as implied volatility across asset classes reaches suspiciously low levels



Source: Bloomberg, GIAM calculations



Source: Bloomberg, GIAM



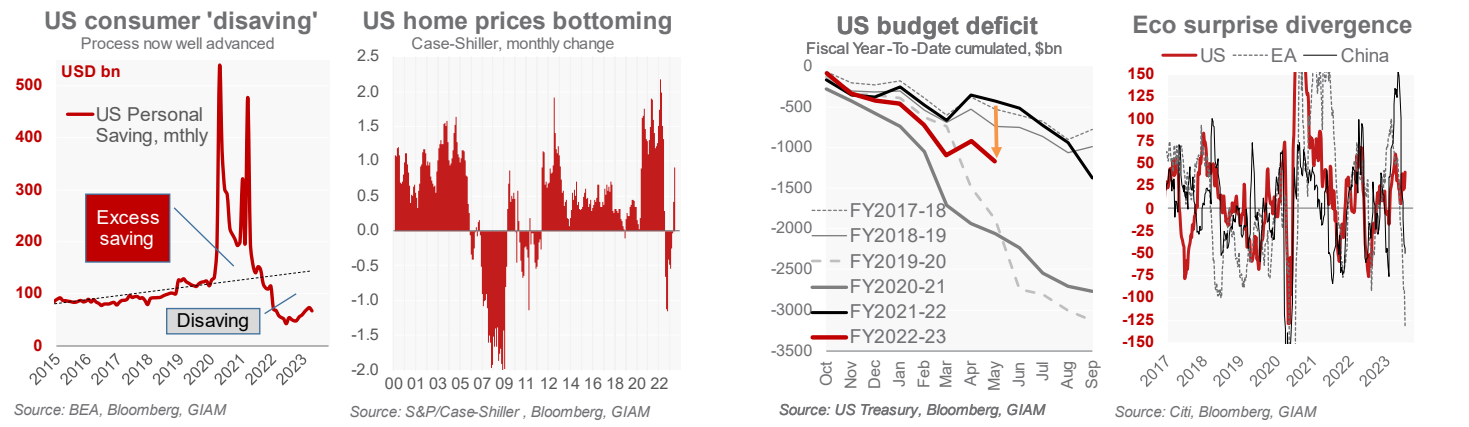
Source: Bloomberg, CBOE, JPM, GIAM calc.

Consensus is leaning towards Goldilocks

US economic resilience. The story of global financial markets, so far this year, lies in investors being proven wrong on excessive pessimism six months ago, and defensive positioning. We also feared that the most severe monetary tightening since the

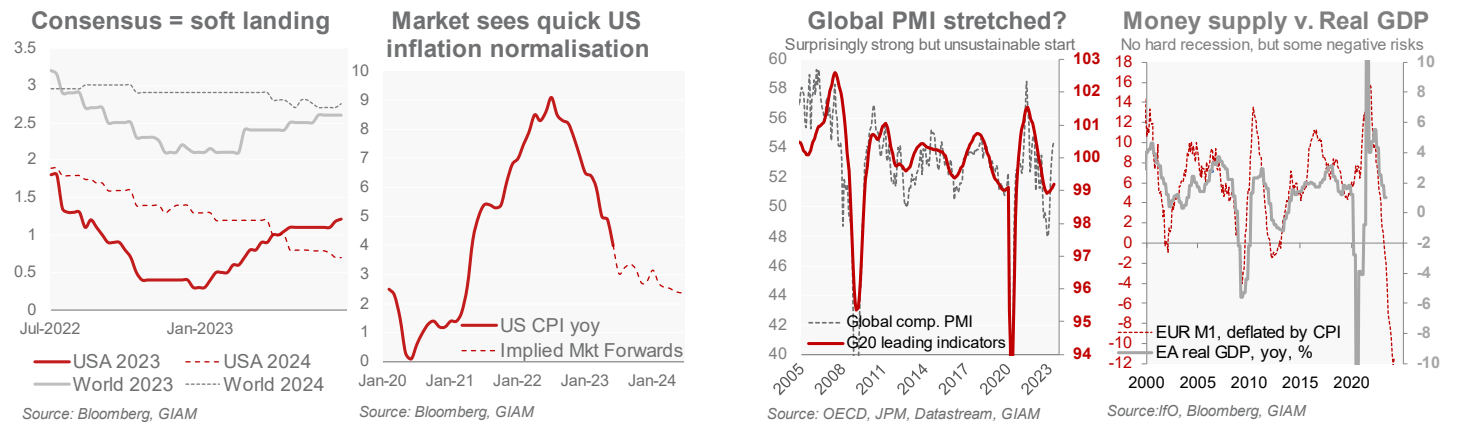
US economy shows greater resilience than Europe and China

eighties – Fed rates now up 500bp, and the ECB’s 400bp – would start biting. This has happened to some extent, especially in the Eurozone where a technical recession unfolded through the turn of the year; the latest data here still looks grim. China’s post-Covid recovery has also run out of steam. But the US economy has defied expectations. The US consumer is alive and well: we estimate that nearly half of the excess saving accumulated through the pandemic has been spent (left-hand chart below). The European consumer instead has barely touched it. Even US sectors that are most sensitive to interest rates, housing and durables, have been solid. 2022 was poor, but the past few months have seen a rebound in new homes sales, prices and homebuilder confidence – despite 30-year mortgage being around 7%. The pandemic-era bottlenecks, the low fixed rates locked in past years and fiscal support to the sector (infrastructure act of late 2021) are all helping. The fiscal support has played out to the broader economy: the federal deficit is up a whopping \$700bn compared to the same 8 months in the previous fiscal year (third chart). As a result, US economic surprises have stayed positive, in sharp contrast to those of the EA (crashing) and to a lesser extent China (top-right chart below).



Market pricing quick inflation normalisation, no recession and solid profit growth in the years ahead

Goldilocks in the price? The markets are not priced for perfection, but surely erring on the side of Goldilocks. Growth forecasts for 2023 have been revised to the upside – particularly so in the US – and the consensus sees a soft landing, no recession (left chart below). Forwards suggest that inflation will normalise quickly: even in the US, where the risk of overheating is likely larger, yoy CPI inflation is seen at 2.3-2.4% in 12 months (second chart below). Yet profits are seen rebounding powerfully, again more so in the US, with the consensus EPS for 2024 and 2025 around +11-12% each!



AI, falling commodity prices and the normalisation of the supply chain help squaring the circle, only to some extent

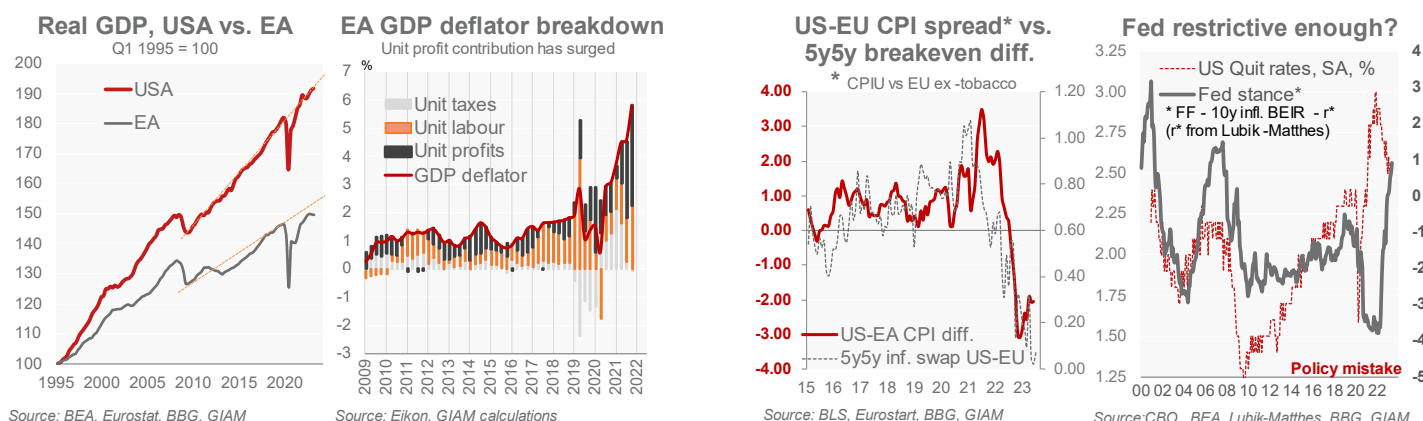
Central banks will not win the inflation battle without a larger re-trenchment in demand. Cracks in the credit space suggest this is coming.

Such a surge in earnings would require a positive productivity shock, and/or a sharp drop in costs and/or strong pricing power ('greedflation' for longer). AI will surely boost productivity, but will it be so much so fast? Surely no such productivity boom can be seen in consensus GDP forecasts. Some costs will fall (supply chain normalisation, lower commodity prices) but the largest costs in Services lie in wages, and second-round effects there are not over. Ongoing margin gains are possible if demand stays robust, but that seems to be missing from the forward pricing of inflation. In all, those inconsistencies make the Goldilocks scenario rather unlikely. Instead, we argue that central banks will not win the inflation battle without a larger retrenchment in demand.

Our economic views are generally more subdued. A lot of the US resilience comes from the policy excesses of the pandemic era, recently sustained by renewed fiscal profligacy. Yet we still expect monetary tightening to filter through. Cracks are already evident: delinquencies in auto loans and credit cards are picking up, and so are bankruptcies. Commercial Real Estate, arguably less systemic than Residential RE, is bleeding. Banks have tightened lending standards, and we see cracks developing in the [loan market](#). More generally, leading indicators are pointing towards more economic pain than is currently visible in the global composite PMI (third chart above). Monetary developments may be exaggerating the economic pitfalls, but surely point to the downside (top-right chart above).

Central banks: no pain, no gain

Either the economy hits the break, or central banks keep hiking. We assume Fed and ECB hikes in July, to respectively 5.50% and 3.75%, and no more. Risks are skewed to the upside, as inflation remains too high. The risks of overheating, potentially requiring rate hikes well beyond the neutral level, is likely higher in the US than in the EA: US GDP has already caught up with pre-Covid trend, while the EA has not. In other words, the output gap remains wider in the EA. Yet the EA is suffering from aggressive greedflation (second chart below), which the ECB will be tempted to fight by suppressing demand further. The market is thus firmly pricing two more ECB hikes, to 4%. Given the larger overheating risk in the US, we like to fade the recent fall in US inflation breakevens, relative to EUR (3rd chart below).



Is the Fed restrictive enough, already? Our Fed stance metrics, shown in the top-right chart above, suggests that rates may have reached the level require to tame inflation: the real Fed rate now stands some 100bp above neutral, while the US labour market is starting to cool off. There are two caveats with this analysis. First, no one knows exactly where the neutral rate is. Second, extraordinary policy easing (fiscal

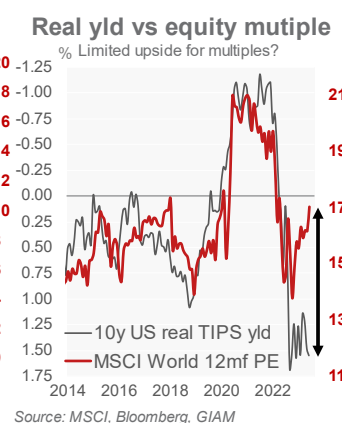
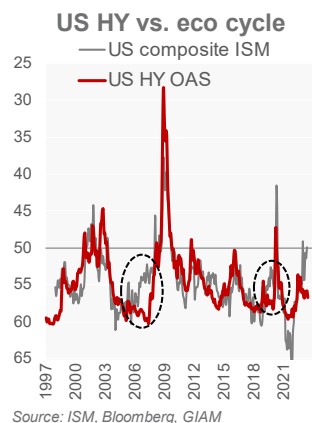
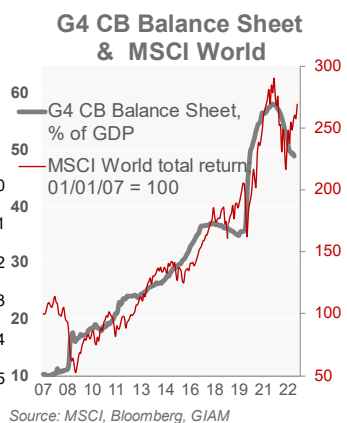
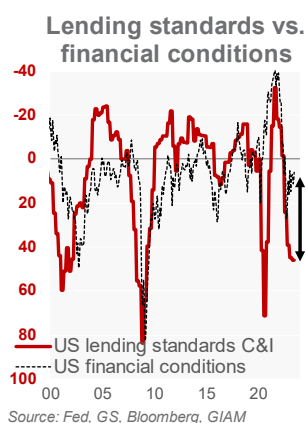
'Boom and bust' is where the key risk scenario: ongoing economic and financial resilience forcing the Fed to raise rates more aggressively

G4 CB balance sheet are still contracting, and the pace will pick up again this summer

Extreme financial dissonance suggests an unstable equilibrium

and monetary) through the pandemic has made this cycle different, at various levels (record excess savings, lower labour participation of older people etc.) Hence the Fed may need to go further in overshooting territory (above 'neutral') for inflation to finally get closer to target – like it did in 2006. This is where the key risk to our forecasts lies: ongoing economic and financial resilience forcing the Fed to raise rates more aggressively, making cash irresistible and eventually pushing both the economy and risk assets into a larger correction (boom and bust).

Financial dissonance. The four charts below reinforce our view that the Goldilocks scenario appears rosy, if not inconsistent. Financial conditions remain remarkably easy relative to bank lending conditions. Arguably, the loan, structured credit and private credit markets have picked the slack and reduced the pain from bank retrenchment. Yet, as discussed above, we also see signs of strain in the loan markets and expect rising default to shift the power away from borrowers and towards lenders. We also question the financial relief coming from a much slower central bank balance sheet contraction over the past few months. Temporary Fed support, around SVB, helped: Fed total assets are ending Q2 near the level of mid-March – a nice pause from the decline initiated in summer 2022. But G4 CB balance sheet are still contracting, and the pace will pick up again this summer. The ECB is even mulling a faster normalisation of its balance sheet. As such, the equity gains this year have marked a surprising break from the trend in CB balance sheets (second chart). Likewise, High Yield credit spreads – down some 100bp from the mid-March peak on both sides of the Atlantic – appear out of touch with the pick-up in defaults and the economic risks (third chart below). Finally, we note a spectacular disconnect between long-term real yields, still hovering around cycle peak, and equity multiples, up sharply this year (4th chart). Again, sustained positive shocks on productivity and margins may explain that, but this would likely call for a significant further policy tightening (unless a spectacular productivity largely dominates margin growth – which looks dubious). In all, we see too much financial dissonance in the system, and continue to treat risk assets with caution.



Favour low-risk yield enhancement in Fixed Income

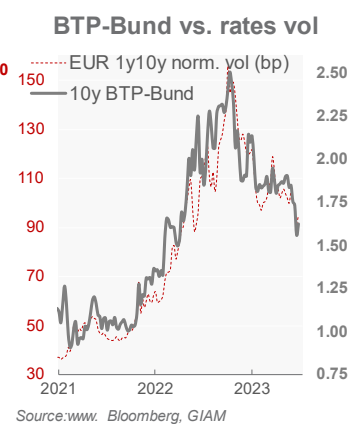
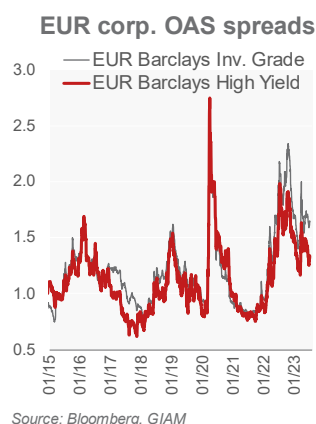
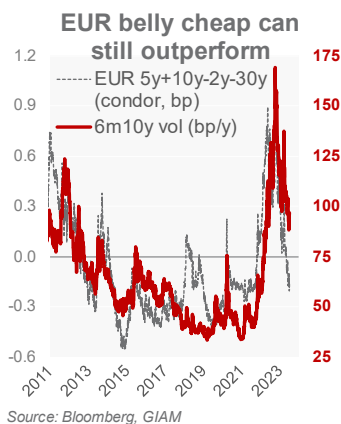
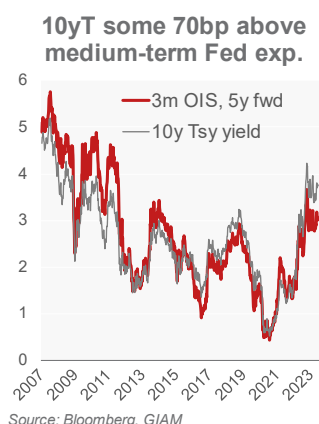
Bond yields skewed to the downside, if just so. We have no appetite for duration shorts, though aggressive rate hike surprises would of course continue to deteriorate carry at the long end of the curves. We suspect that unexpected further tightening would exert further flattening pressure, as the boom-and-bust scenario would become more likely. In our central case, CB tightening ends soon, and below-consensus growth eventually supports a soft pullback in yields. Although we see value in US 5y5y

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IG credit should benefit from a compression in swap spreads, as the large June TLTRO repayment releases collateral

inflation vs EUR (see above), we see greater value in Treasuries. 100-year real (TIPS) yields are trading above 1.5%, vs. 0% in Bund. Also 10-year UST yields, at 3.75%, are trading some 70bp above the 5y3m OIS, historically a comfortable margin (left chart below). Yet we expect market expectations about the medium-term Fed neutral rate to decline as the US eventually goes into a mild recession. In EUR, we continue to prefer the belly of the curve, vs. the wings. That strategy has delivered strongly already (2nd chart), but we see more space into the final innings of ECB tightening. Arguably the 2-5-10-30y condor has dropped faster than rates volatility but we expect the latter to catch up, rather than the opposite.

Still favour IG credit, but less so. IG credit is exposed to a deterioration in risk sentiment, and we turn slightly more cautious towards the asset class, with a preference still for Non-Financial over Financial. But we find IG credit much more attractive than High Yield, with beta-adjusted spreads looking too tight in the latter (3rd chart). IG credit should also benefit from a compression in swap spreads, as the large June TLTRO repayment releases collateral. BTP-Bund spread could also benefit from swap spread narrowing, a further pullback in rates volatility and the large German economic underperformance (real GDP yoy differential now 2.4pp in the favour of Italy). That said, we favour con-core exposure at the short end, as deteriorating risk conditions could eventually take their toll on longer spreads.

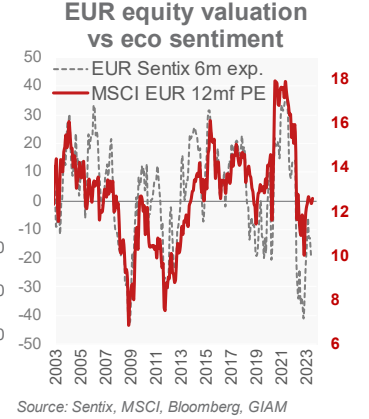
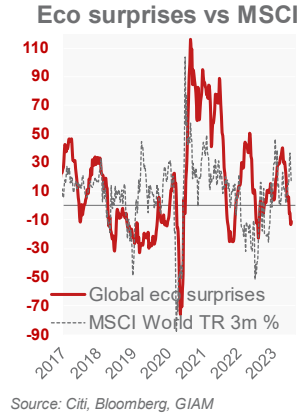
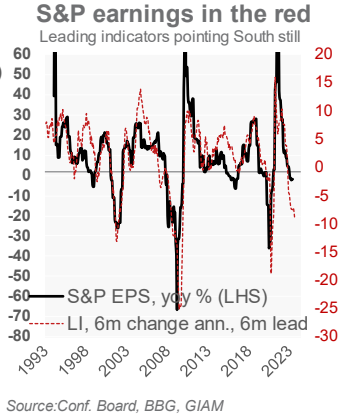
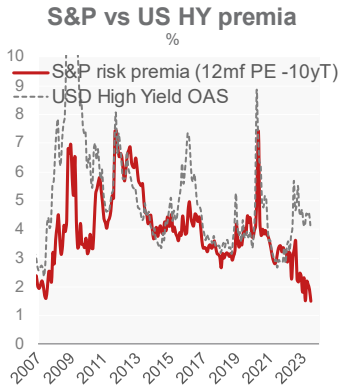


Sustained pricing power in a new inflation regime? Mind what you wish for

Still defensive towards risk assets

Stretched valuation. High Yield spreads have quickly recovered from the SVB-related widening and look out of sync with the deteriorating credit environment. Remarkably, risk premia have compressed even faster in equities (first chart below). Arguably there is a composition effect, with US equity indices heavier in Tech companies than HY Credit indices; such bias led to an even larger gap between HY and equity premia during the internet bubble. Still, this serves to highlight the relative dear valuation of both asset classes. The consensus is also looking for earnings to pick up from here, although leading indicators are calling for more pain (2nd chart below). Arguably, such historical relation may prove misleading if, for instance, companies enjoy a new inflation regime whereby they manage to retain a strong pricing power, even as the economy slows. This appears dubious, and again would trigger more policy tightening – which in turn would likely deflate equity valuations. Notwithstanding the resilience of the US economy, we expect the sharp downturn in global economic surprises to tame equities (third chart). Though equity multiples are not at stretched levels in the EA, the renewed deterioration in economic sentiment questions the near-term upside (final chart). We thus keep a measured under-weight in equities, with a

balance allocation skewed towards defensive sectors as opposed to cyclicals. The individual asset class sections of this report offer more granularity.



MACROECONOMIC OUTLOOK

Thomas Hempell, Christoph Siepmann, Martin Wolburg, Paolo Zanghieri

- Excess savings, solid labour markets and pent-up demand still underpin services in the advanced economies.
- Yet strong headwinds to bellwether manufacturing are set to persist as rate hikes and a credit crunch are feeding through, hopes of a sustained Chinese reopening boost are fading and global trade is in the doldrums.
- The US is headed for a H2 recession while the euro area will undershoot potential growth for several quarters.
- Headline inflation is set to fall further on base effects, lower energy prices and eased bottlenecks for goods. But elevated pricing power and rising wages will keep core rates uncomfortably high.
- We expect another rate hike by the Fed in the summer, with a pivot now unlikely this year. We also anticipate the ECB to deliver a final hike in July to a terminal rate of 3.75%, with the risks tilted to even a further hike.

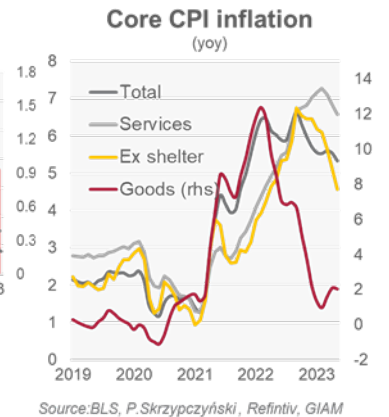
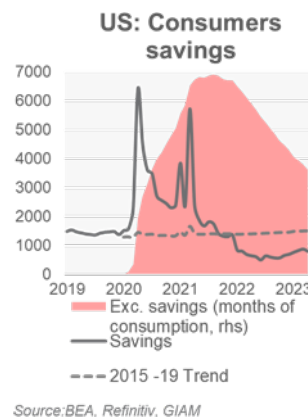
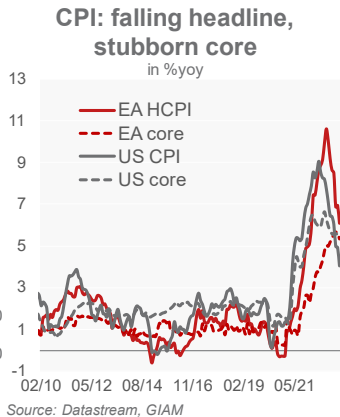
The US is headed for a moderate recession, while the euro area will see only subpar growth over the next quarters

Solid labour markets and pent-up demand amid residual excess savings still underpin services in the advanced economies (AEs). Yet amid stiff headwinds from rate hikes and a looming credit crunch the US is headed for a H2 recession, even if we see risks tilted towards a somewhat later start in Q4 given the resilience of the labour market and consumption. The euro area is likely to escape this, but the technical recession seen over the winter half is likely to be followed by several quarters of subpar growth.

Persistent headwinds to global manufacturing

The wide gap between services and manufacturing will close only gradually

The global manufacturing sector is already in the doldrums, notwithstanding a relief from lower energy prices and eased strains in supply chains. The gap between global PMIs in services and manufacturing is at its highest since the Great Financial Crisis. This gap may gradually narrow, but a bounce in global industrial production is unlikely any time soon. Global trade is set to remain subdued, as the cyclical drag from higher rates meets a structural fracturing of the global economy amid geopolitical tensions (Ukraine, Taiwan, US/China tech conflict). The Chinese reopening boost is already faltering, leaving downside risks to growth. Renewed policy support is in the offing but will be moderate and not provide major relief to the global economy.



Headline inflation is set to fall visibly. Strong base effects from last summer's price increases are kicking in. Lower gas and oil prices and eased bottlenecks are a significant relief. In the US, falling rents will help too. But there is no reason yet for central

A pivot by major central banks will be led by the Fed – but unlikely before the turn of the year

banks to declare victory. Price pressures in services remain high. Hot labour markets underpin the risk of an entrenched wage/price spiral. Firms' pricing power will ease only sluggishly while fiscal policy struggles to rein in support. Banking woes and financial stability concerns warrant prudence, but major central banks are still set to add final rate hikes over the summer and stick to their quantitative tightening. A near-term pivot is not in sight. The Fed is likely to lead the easing cycle amid a looming recession, but given sticky price pressures, this is unlikely to happen before early 2024.

US: Headed towards recession

Hard data in the US continued to surprise to the upside and led us to lift to 0.9% our growth forecast for 2023. We expect past rate hikes and the deterioration in lending standards to impact in full the economy in H2 when GDP will contract. We see the trough of the recession in Q4 as pent-up savings are providing a longer lasting support to disposable income. A sluggish recovery will follow, leading GDP to grow by just around 0.3% in 2024 due to the persistently tighter financing conditions. The last-minute deal on the debt ceiling entailed limited cuts to government expenditure, but a split and polarised Congress would unlikely legislate on any measure to soften the recession or speed up the recovery.

Activity has surprised to the upside but will contract in H2

Job creation is decelerating but remains strong: job offers and business surveys point to a sharp cooling in labour demand, and participation among those aged below 55 is increasing steadily. All this will relieve pressure, allowing for some of the needed cooling in wage growth as employment costs still rose 4.9% yoy in Q2. Labour hoarding may soften the impact of the recession on unemployment, which however we see up to around 5% by mid-next year. The latest data on inflation provide a mild relief as core inflation eased slightly to 5.3% yoy in May from 5.5% in April). The growth in new rents is abating and this will show up materially in the shelter CPI over the coming months, although the recent rebound in house prices, if protracted, may put a floor to rent growth. Over the next few months, base effects and low oil prices will push headline inflation down, but we do not see the core rate below 4% before the end of the year.

Fed to deliver only in part on its hawkish message, with one further hike in July

In the June Fed meeting the expected pause in rate hiking was accompanied by a hawkish surprise, as the FOMC now thinks that another 50bp of rate increases is needed to curb inflation and has ruled out even more forcefully the possibility of a rate cut this year. While conceding that the impact of credit tightening on the economy remains uncertain in terms of size and timing, chair Powell warned that inflation is falling too slowly. We expect only one further rate increase in July, given our below consensus growth forecast and now see the first cut at the end of Q1 2024.

Euro area: On the verge of recession

The euro area fell into technical recession over the winter half. But indicators suggest that activity expanded thereafter again. However, looking into the second half of the year we expect activity to moderate again bringing the common currency area on the verge of recession. Key headwinds emanate from the global environment that keep manufacturing on a downward trajectory. At the same time, financing conditions will continue to deteriorate further as past monetary policy tightening takes its toll. Within the euro area the strongly export-oriented economies like Germany and the Netherlands are especially hit.

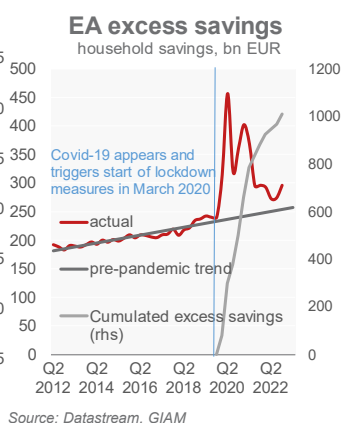
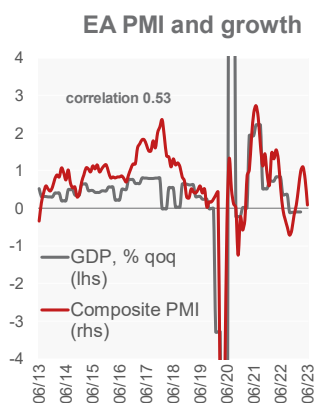
Signs of weakening activity in H2 with risk of recession

We expect headline inflation to come down to below 3% yoy mostly on lower energy prices towards the end of the year and annual inflation to fall from 5.4% in 2023 to

2.5% in 2025. The labour market is set to remain tight (due to labour hoarding and retiring baby boomers) while wage growth will remain elevated. This supports domestic activity. Moreover, there are still huge excess savings (of about € 1 tr) on the shelf that could at least partly be deployed. All in all, we still deem it more likely than not that a relapse into a technical recession can be avoided, although acknowledging that the downside risks have clearly risen. Our forecast output increase of 0.5% for 2023 and 0.6% foresees growth well below potential.

The ECB lifted its policy (deposit) rate to 3.5% in June while maintaining a hawkish tilt. A further hike to 3.75% by July seems highly likely. However, we doubt that the ECB will go higher. Underlying inflation will clearly stay much too high, fostered by strong wage growth. But according to the ECB, there is little evidence of second-round effects. And pipeline inflation pressure is easing. Furthermore, at the September meeting the ECB will likely need to adjust its rosy activity outlook to the downside, which assumes growth returning to potential and staying there. Therefore, we think that the ECB adopt a hawkish wait-and-see stance after July for at least until mid-2024. That said, the risks remain tilted towards further hikes.

ECB set to stop hiking in Q3 but to stay on hold at least until mid-2024



The drag from real estate and sluggish export will keep the Chinese recovery muted

China: Waiting for more fiscal support

After a strong, but uneven start into Q1, China's growth dynamics have been slowing. Data have been blurred by strong base effects from the Shanghai lockdown one year ago while PMIs diverged. While especially service consumption remains the main support factor, real estate and exports turned into a drag. Exports are likely to continue to suffer from the global slowing. Real estate investment will need more government help, and fiscal policy is reported to prepare support for the sector. We consider a package of targeted measures to be the most likely outcome, given China's high non-financial sector credit to GDP ratio and the still unwelcome leverage in the real estate sector. Defaults of developers cannot be excluded.

Monetary policy has already taken more action. The PBoC lowered the 7-day reverse repo rate and the 1y medium-term lending facility (MLF) by 10 bps to 1.9% and 2.65% respectively, which was also been felt in the Loan Prime Rate. We expect monetary policy to ease further by a 25 bps cut in the reserve requirement rate (RRR) as well another 10 bps MLF cut, especially also to guide mortgage rates lower. Quantitative tools will play a major role. CPI inflation will not stand in the way, as it remained very subdued with 0.6% yoy of late. All in, we see CPI inflation at 0.9% in 2023 and 2.2 % in 2024. We keep our 2023 GDP growth rate at 5.7% (4.8% in 2024) but acknowledge downside risks.

GOVERNMENT BONDS

Florian Späte

- **The moderate upward move in core yields and the curve flattening seen in Q2 are unlikely to be sustainable going forward. We expect the combination of weak growth and (slowly) receding inflation to pave the way for a moderate decrease in international core yields.**
- **This applies in particular to the US. Contrary to the Fed dots we forecast only one more hike in July. Moreover, the recession we anticipate for H2 should prove the Fed's growth forecast to be too optimistic.**
- **The bond market volatility has more leeway to fall amid a maturing key rate cycle supporting more risky fixed income assets. However, the challenging fundamental outlook, accelerating Quantitative Tightening, and rich valuations are likely to gain the upper hand leading to a moderate spread widening of EA non-core bonds.**

Yield curves bear flattened in Q2 driven by hawkish central banks. The BoE, in particular, has tightened its stance given a further increase in the core inflation rate. By the end of 2023, markets expect UK key rates now to exceed 6% (160 bps more than at the end of March). In the US and the EA, however, the annual inflation rate has slowed somewhat. Nevertheless, the Fed and the ECB have reaffirmed their commitment to fight inflation. Accordingly, key interest rate expectations by the end of the year rose by 90 bps (Fed) and 50 bps (ECB) during Q2. This also influenced the long end of the curve. Especially in the US, the yield on 10-year bonds rose noticeably given robust economic data, while recession concerns largely prevented a rise in the 10-year Bund yield.

With a key rate cycle maturing (we forecast one additional hike by the Fed and the ECB in our base scenario), there is little leeway for yields to rise sustainably. This is all the more true as the expected deterioration in risk sentiment in Q3 is likely to increase demand for safe assets. Amid an inevitable recession in the US, the economic scenario drawn by the Fed appears too optimistic. Market participants are particularly advised to watch out for a softening of the labour market (note initial jobless claims as an early indicator). Unlike the dots, given our more cautious economic outlook, the Fed will not raise key rates twice. Fundamentally, long-dated US Treasuries appear already rich. The gap between 10-year yields and the medium-term expected key rate (approx. by 5y3m OIS) has risen to more than 70 bps. If anything, amid the US heading for a recession this equilibrium level will fall going forward. Hence, we forecast 10-year US yields to decrease by around 15 bps in Q3 and to fall further on a 12-month horizon (3.30%). This decline is seen to be driven by real yields. Financial markets price already a rather benign inflation environment but 10-year real yields above 1.50% look too high.

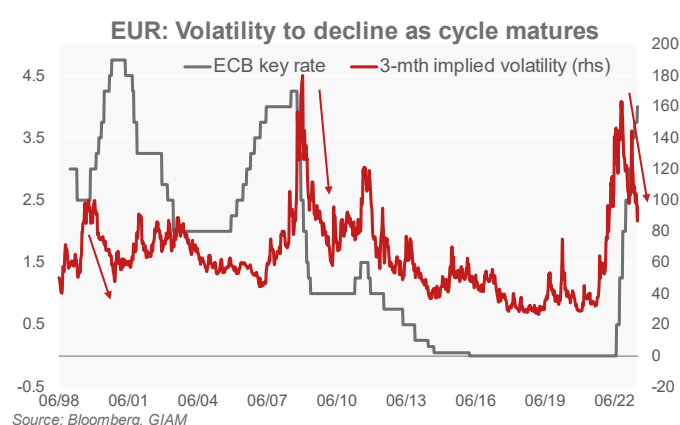
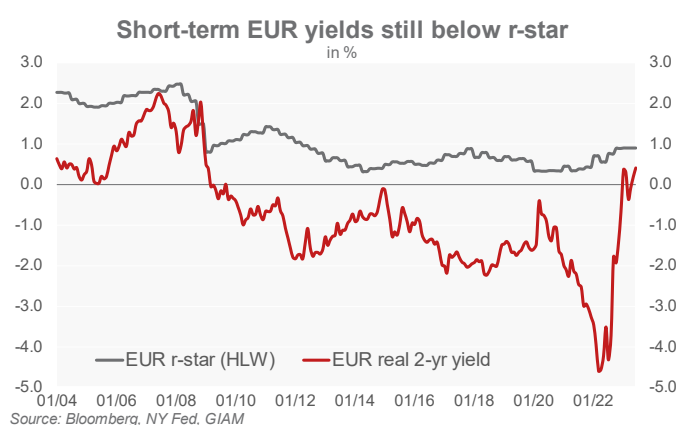
There is some leeway for long-dated Bund yields to decrease as well – but to a lesser extent. The EA economic data flow has surprised on the downside in Q2 (contrary to the US). Given the levels reached a continuation of this trend looks unlikely – notwithstanding meagre growth in the coming quarters. This applies even more as a recession in the EA is not our base scenario. While we do not exclude a second key rate hike in Q3, financial markets appear too optimistic regarding the ECB's willingness to cut rates. We expect the ECB to remain on hold at least until the end of H1 2024 and forecast only up to two cuts (25 bps each) in H2 2024 (financial markets forecast three cuts). Stubbornly high inflation will prevent the ECB from easing monetary policy too soon. Currently, 2-year EA real yields remain well below r-star (see chart below, in the US 2-year real yields are 150 bps above r-star). Hence, the

Increase in US yields not sustainable – US Treasuries to benefit from forecast gloomier sentiment and deterioration in macro news flow

Bund yields will not escape the downtrend, but ECB in no hurry to cut rates and more realistic valuation dampen downside potential

monetary stance does not appear particularly restrictive and leaves less leeway to cut going forward. Finally, 10-year Bund yields are currently already 10 bps below the medium-term expected key rate cushioning any drop in long-term yields.

Overall, we forecast 10-year Bund yields to gradually decrease in Q3 and to fall to 2.20% on a 1-year horizon. Hence, the transatlantic yield spread is forecast to tighten again as the strong US/EA divergence of macro surprises is seen to decrease and the Fed will initiate the rate-cutting cycle earlier. Regarding the EUR 10y/30y gap, we consider the recent flattening to be a good entry point to put on steepeners. The expected further decrease in bond market volatility (see below) is seen to support the belly of the curve.



EA non-core government bonds: fundamentals urge caution medium term

EA non-core government bonds and SSA (supranational, sub-sovereigns, agency) bonds performed well in Q2 supported by a stable risk appetite and a carry-friendly environment. It can be assumed that the setting will also be quite robust in Q3. A further decline in the inflation rate and its volatility combined with reaching the peak of the ECB key rate cycle should further reduce bond market volatility. In combination with an increasing supply of Bunds (Germany is lagging in European comparison), a steepening of the yield curve, and the ongoing reduction of the ECB's balance sheet (TLTRO repayments and accelerating QT) we see leeway for swap spreads to tighten further. This will benefit in particular SSA bonds which are priced versus swaps. As we forecast the risk environment to deteriorate in Q3 we prefer high-rated SSA bonds which are still attractively valued.

However, some factors suggest caution concerning EA non-core government bonds. The strong performance has erased the attractive valuation of EA non-core bonds. Spreads have fallen to several-month lows and are already pricing in a benign scenario. While the issuance activity is well advanced (in the case of Italy supported by a large BTP Valore subscription alleviating fears of future BTP absorption), QT will roughly double in H2 and continue to rise in the future (from 2024, PEPP QT will also come into focus). Although debt sustainability risks are low currently, the fundamental situation looks challenging for some EA non-core countries (e.g., Italy, Spain, and France). Stalling fiscal consolidation, elevated yield levels and weaker nominal growth further down the road make for a challenging medium-term outlook.

Overall, we forecast a moderate spread-widening trend from very low levels in Q3. However, some idiosyncratic factors have the potential to overlay the trend and influence country spreads (e.g., pricing of a potential upgrade of Greece to IG in Q4, elections in Spain, and further delay in disbursement of NGEU funds).

Supportive technicals for now, but challenges remain further down the road

CREDIT

Elisa Belgacem

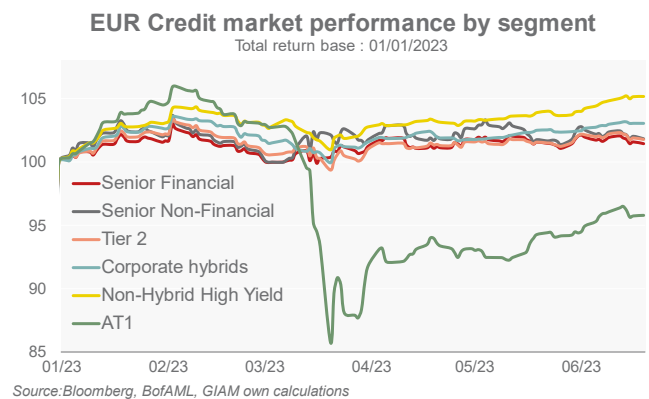
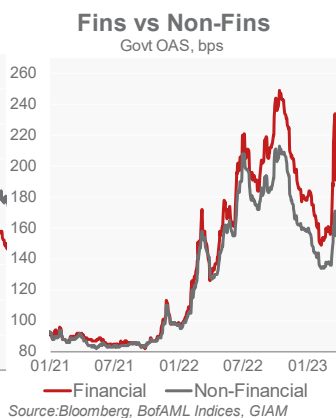
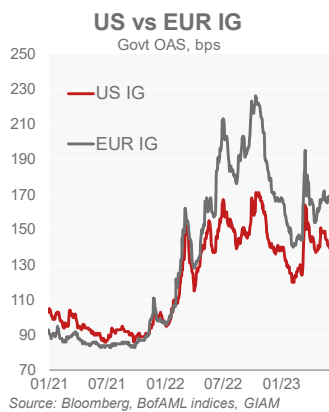
- We maintain a tactical overweight position in Investment Grade (IG), mostly in non-financials. Yet we reduce the size of the overweight as we approach the start of a recession in the US. We see US credit as more expensive and more vulnerable compared to European credit.
- However, caution is warranted on High Yield (HY). We believe current valuations do not properly reflect the challenging economic landscape, and we anticipate a significant deterioration in both fundamentals and technical factors. Defaults and downgrades are likely to increase, particularly among smaller, more cyclical companies.
- We recommend either extending duration in IG, despite already flattened yield curves, or favouring subordination risk over credit risk. However, we call for caution regarding the real estate sector.
- CDS are tighter than cash, making credit protection an attractive option.

The recession expectations have been postponed a few times in recent months, but we believe that decompression across the credit space is imminent. Valuation metrics indicate that European Investment Grade (IG) is currently the cheapest compared to US IG and both European and US High Yield (HY).

US credit is more expensive and more vulnerable than European credit

Prefer Euro over US credit

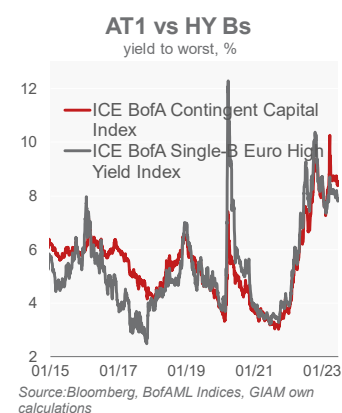
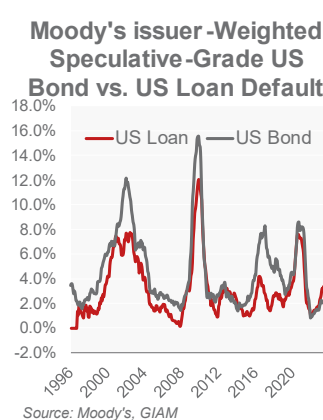
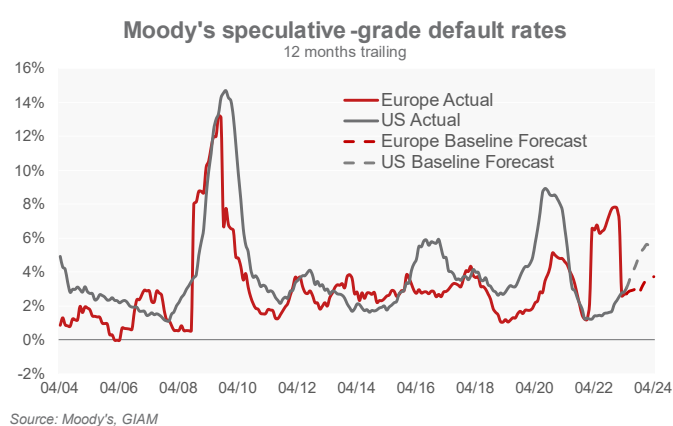
US credit is now much more expensive than EU credit due to the impact of the Ukrainian conflict in 2022, which led to substantial widening of spreads in European IG. The situation has changed now, with Europe likely avoiding a recession while the US may potentially enter one later this year. Technical factors are expected to be relatively neutral in European IG, with Quantitative Tightening (QT) acting as a negative factor in the first half of 2023. However, supply should also be limited, especially in non-financials. On the contrary, US credit is experiencing outflows, possibly due to money market yields closely aligning with IG yields. As a result, we see strong potential for European outperformance compared to the US in the coming months. Never-



theless, a scenario that could alter this outlook would be a decision by the ECB's governing council to accelerate balance sheet reduction, potentially selling assets. However, we consider this highly unlikely for now, although they may start reducing corporate bonds as planned issuances are expected to be lighter compared to previous years.

Big companies will be more resilient

We anticipate that larger companies will demonstrate greater resilience during tighter financial conditions, which historically leads to a pick-up in defaults approximately nine months later. While the US economy has become less bank-intermediated, with structured finance playing a significant role, we believe that deposit flight from smaller banks to larger banks, coupled with the prudence of larger banks, will result in weaker credit creation. Additionally, commercial real estate exposure in the US is predominantly concentrated in smaller banks, leading us to anticipate further stress in the US sector. However, we expect this stress to remain manageable. In Europe, we foresee fewer issues due to relatively stable deposits compared to the US, commercial real estate exposure primarily concentrated in Nordic banks, and a higher probability of a recession on the other side of the Atlantic.



Defaults will likely jump from around 2% currently to above 4.5% and 5.5% in Europe and the US respectively by the end of 2023

We anticipate that HY ratings will deteriorate more than IG ratings, particularly for smaller companies that are most at risk. Consequently, we expect defaults to double in both the US and Europe, reaching 5.5% and 4.5%, respectively, from the current levels above 2%. Despite the declining cost of risk and provisioning reported by banks during the last reporting season, we believe that higher interest rates will no longer compensate for weaker asset quality. As a result, we remain underweight financials compared to non-financials in spread terms.

Decompression trade still on

We prefer to trade up in quality in general, with one notable exception with IG where we prefer BBBs versus single-As. IG spreads should oscillate around current levels in the coming months. However, the valuation of the HY market does not reflect the elevated economic risks, leading us to anticipate spreads widening by nearly 100bp in the first half of 2023 before ending the year slightly tighter compared to current levels. We find credit protection attractive, with CDS spreads tighter than cash. With rates likely plateauing and high uncertainty regarding HY defaults, it makes sense to go for long-dated IG for enhanced returns in credit even if credit curves are slightly inverted at the long-end. Similarly, we find subordinated bonds attractive compared 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.

EM SOVEREIGN CREDIT

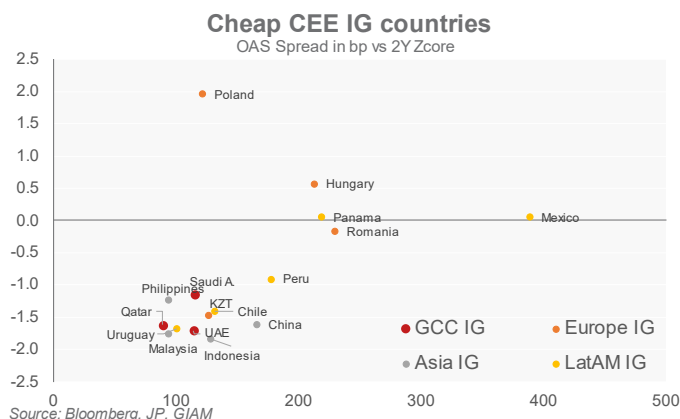
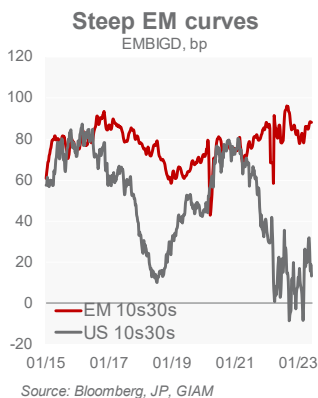
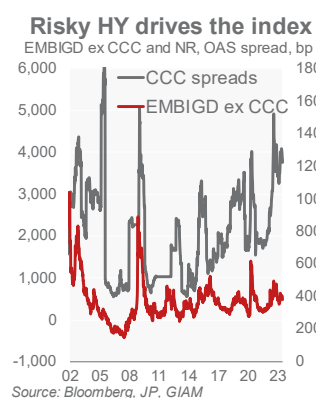
Guillaume Tresca

- The EM environment has been improving, and we maintain our OW for EM external debt in our global allocation. Inflation is declining, and growth has proved more resilient. The first rate cuts in EM are expected to occur in Q3/Q4.
- We still anticipate a widening of EM spread, but the total return will be positive in the second half of the year driven by duration and carry. Valuations remain tight, but we prefer EM IG over HY. Small EM HY countries are still at risk of default, but without any systemic impact.
- Local debt offers a better risk-reward. Even when FX-hedged, local yields are higher than external ones. We favour EM duration in the 2-3 year part of the curve. Prospect for EM FXs is less attractive and we favour high-yielders.

Risks are declining but we still expect wider spreads

The EM environment has been improving of late, and we maintain our overweight stance for EM external debt in our global allocation. Hurdles remain, but some concerns have been partially easing, and uncertainty has declined somewhat.

Firstly, the confirmation of the disinflationary trend in EM countries is opening the doors for the first rate cuts, with LatAm central banks likely being the first ones (Brazil, Chile). Similar to the previous cycle, EM central banks can start cutting rates before the Fed. However, the disinflation trend will be bumpy, and we do not expect a synchronized rate-cutting cycle. Secondly, both DM and EM growth have proved to be resilient eventually. We do not rule out a slowdown, but it may come later than expected and would be shallow. Thirdly, we maintain a negative view of the USD. The main source of disappointment and concern remains China, where the rapid reopening boost has faded quickly, and hopes of a large fiscal stimulus plan have diminished, with only targeted measures likely. In our view, a lot of negative news has been priced in, and the disappointment is partially offset by the upside risks to US growth.



High carry and duration to lead to positive return despite risks

Positive returns for EM external debt despite tight valuations

This balance of risks leads us to expect external debt spreads to be wider at the end of the year but less than before, + 35bp to reach 370bp (DGOV index). However, this does not imply that the total return will not be positive. The spread widening will be more than offset by the high carry and significant positive duration effect resulting from declining UST rates. The total return for the remainder of the year is likely to range between 4% and 5%.

Valuations remain very tight, particularly for EM IG and HY low-risk countries, compared to historical levels and US credits. Despite these valuations, we maintain our

preference for EM IG over HY. Indeed, given the growth risk and the end of the economic cycle, we are reluctant to move lower in the rating scale. Some EM countries remain fragile, with almost a third of the main index comprising distressed territories. In the IG space, Europe IG still offers some value (Romania, Poland) and to a lesser extent in Latin America (Mexico). Asia IG bonds are priced tightly, but their fundamentals remain solid. In the HY segment, Brazil is still considered expensive despite reduced political risks, while we see value in Colombia where we observe improvements in macroeconomic conditions.

In terms of relative value, EM yield curves are expected to ultimately flatten, and the current steepness favours the long end of the curve (except for Mexico, Israel, and HY bonds). Similarly, the yield pickup offered by EUR bonds compared to USD bond equivalents has significantly declined back to its historical long-term average.

Local debt to trump external debt

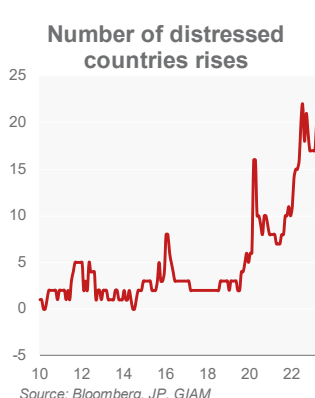
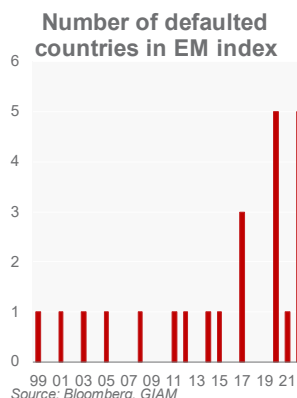
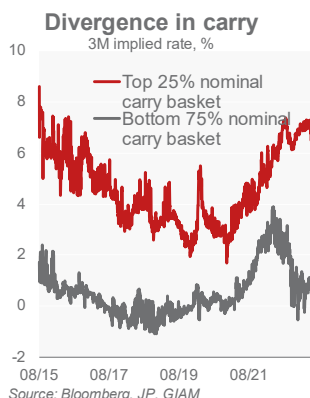
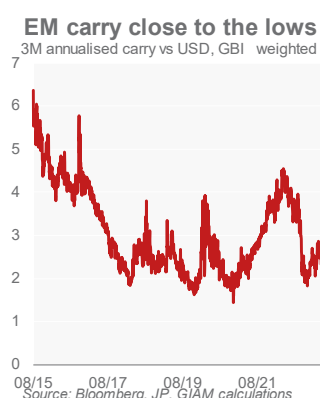
In the EM space, we continue to prefer EM local debt over external debt. The inflation decline and the expected EM central bank easing cycle will push lower EM rates. Local yield, even FX hedged, is on average higher than external debt yields, especially in Asia. Arguably, there is a risk to see EM central banks postponing their easing cycle given the inflation stickiness but the risk is oriented to cuts than new hikes. Historically, it is better to be cyclically early. The front-end of EM curves is already pricing in significant cuts and the risk premium is low (except for South Africa) and so we prefer EM duration in the 2-3Y part. That said, the view on EM FX prospects is less straightforward. In our opinion, EM FX has less room to perform. It is the EM FX pairs with the largest carry that have outperformed YTD, but EM carry has steadily declined, and dispersion is high. Only a few FX pairs still offer attractive carry. We prefer LatAm FX (BRL, MXN) over Asia (low carry) and some EMEA pairs (HUF).

Fragile HY countries: defaults close to the peak

Despite the improving backdrop, the EM index remains a story of two halves with large resilient EM countries and a bucket of numerous small risky countries. We still expect more defaults, albeit less than before, and only small countries with no systemic risk. Indeed, 2024 will see very large maturities and it is small frontier markets that are at high repayment risk with markets payments (ex-IMF) peaking in 2026. At the current yield, there has historically been no issuance for B countries. Tunisia, Pakistan, and Argentina are candidates. Several countries are already engaged with the IMF but the funding provided is often insufficient. It remains that most countries are resilient with better twin deficits than during the past tightening cycles. The decline in UST rates and weaker USD will ease the funding pressure globally.

We prefer local debt that benefits from higher yield and positive duration effect

Frontier countries are still fragile but we do not see systemic risks



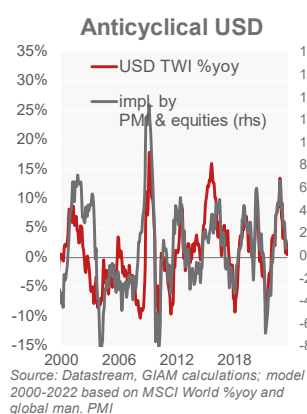
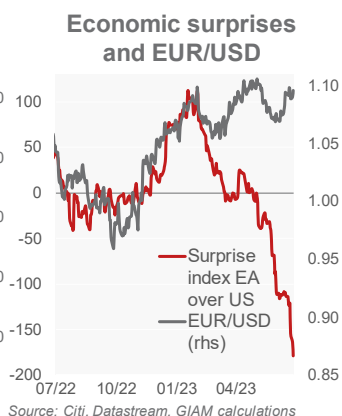
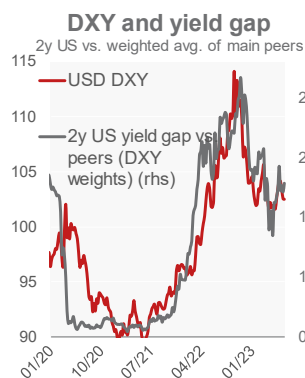
CURRENCIES

Thomas Hempell

- **Hawkish Fed communication and global growth worries have temporarily halted the USD decline.**
- **Short-term, the fragile global outlook, disappointing euro area data and risk aversion may still render some support to the countercyclical greenback. Yet by year-end, the still dear USD is set to weaken. Easing inflation and reduced rates uncertainty will remove a key driver of past USD strength. A looming US recession will make the Fed lead a global policy pivot, narrowing yield gaps.**
- **Reserves diversification structurally works against an overvalued USD, while the EUR is backed by recovered terms of trade. We expect the EUR/USD to settle above the 1.10 threshold more lastingly.**
- **The JPY keeps suffering from the BoJ's maintained policy accommodation. Yet lower US yields and the BoJ's need to finally tweak its YCC amid recovering inflation is still likely to take the JPY higher by year-end.**
- **The CHF is bolstered by safe-haven bids and the SNB's continued inflation fight, aiming for a stable real exchange rate and thus nominal appreciation.**

Near term, cyclical worries and shaky risk sentiment may still give the USD a breather

Following the steep USD decline since the autumn, banking woes in March and ultimately a repricing of Fed rates expectations have helped the USD to flatten out in Q2 (left chart). Short term, the greenback may still enjoy sustained demand among a more fragile growth outlook, disappointing data in Europe (2nd chart), and the BoJ's unwillingness to twist its yield curve control. More generally, a more shaky global risk backdrop alongside the headwinds to global growth we are foreseeing for H2 tend to even support the USD as a countercyclical currency (3rd chart).



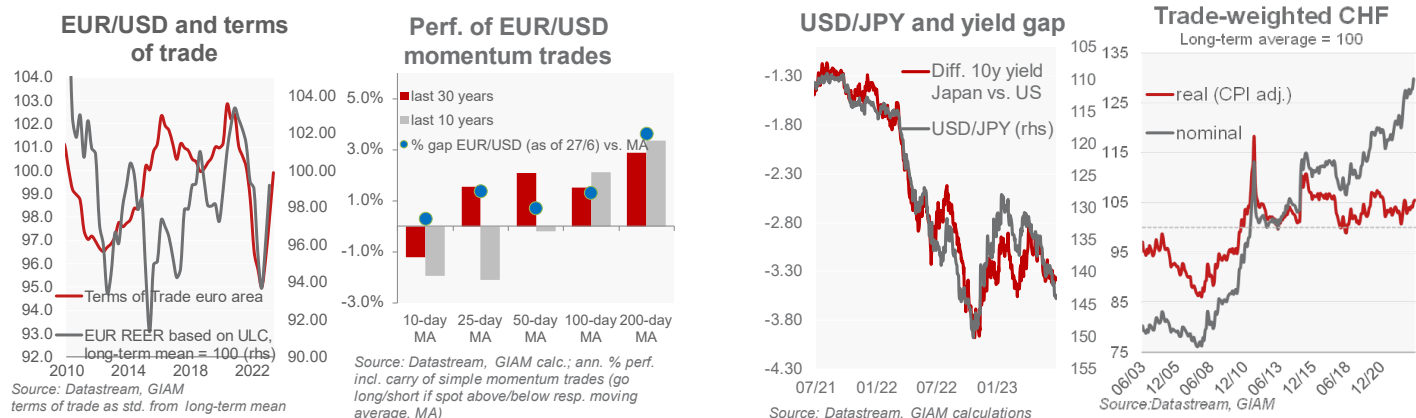
USD headed for more downside by year-end

Receding rates uncertainty and the Fed's lead in an easing cycle will weigh on the USD

Yet we still believe that the downside forces on the USD are set to prevail by year-end. Underlying price pressures will prove stubborn. But with the Fed reaching peak rates over the summer and headline inflation receding visibly, rates uncertainty is likely to ease, thereby removing a key pillar of USD support since 2022 (right chart). Furthermore, with the credit crunch set to drive the US into moderate recession over H2, the US central bank will be leading the global monetary easing cycle, eroding the yield advantage of the USD. The still strong USD overvaluation (the real effective USD is 16% above long-term averages) and ongoing global reserves diversification away from the USD will weigh more structurally.

Momentum is adding to the upside forces for the EUR/USD

The EUR keeps struggling to gain momentum following a sway of disappointing economic data. Headwinds from tight credit and a challenging external backdrop (US recession, fading Chinese reopening bounce) will keep a lid on the single currency. Yet even if energy price may rise somewhat, they are likely to remain much below the 2022 crisis levels, relieving the euro area's terms of trade and the EUR (left chart below). Mind also that the EUR/USD is a very much momentum driven pair. The EUR/USD is still well above its 200-day moving average (MA), historically also a decent hint to remain long the EUR (2nd chart).



Lower US yields and ultimately a twist in the BoJ's yield curve control point to a stronger JPY, even if only in the medium term

We ultimately also expect USD weakness to become visible against JPY. Yet the Japanese currency has been suffering strongly by the new BoJ Governor Ueda's adherence to ultra-accommodative monetary policy. Even with headline inflation rising and Japanese wages finally inching out of stagnation, the BoJ has given no indication that it is planning to phase out its powerful yield curve control (YCC), that effectively keeps capping 10-year Japanese yields at 0.5%. This is likely to change into next year, though, with the risk of even a marked strengthening of the yen. The Japanese trade balance, which has recovered from the shock of an exuberant import bill on rising energy prices will also help. Risk of Japanese FX intervention is rising too. Finally, the USD/JPY still hinges on the level of US interest rates (with Japanese ones barely moving): Our outlook of receding US yields also points to JPY recovery (3rd chart above).

SNB still supporting CHF, stagflation risk in the UK keep a lid on GBP

The SNB still prefers a strong CHF in its inflation fight

In Europe, we still like tactical exposure to CHF, that may feel more tailwinds from souring risk sentiment. Furthermore, the SNB has not given up on a strong franc policy amid falling headline inflation, but stubbornly high core price pressures. Pursuing a stable real effective exchange rate implies targeting a moderately strong nominally franc, as inflation abroad (notably in the euro area) continues to exceed the Swiss readings (right chart). This means that the SNB will continue to also use outright FX intervention to keep a lid on the CHF.

The GBP may feel continued support from the high yield gap. Yet market pricing of a peak rate of above 6% looks exaggerated. Furthermore, while high inflation prints have for long boosted the GBP on rate hike speculation, stagflation worries will feature more prominently going forward. GBP rose on the upside surprise of reported June inflation only in a knee-jerk reaction, before weakening soon after. This means that the damage to growth from the massive BoE tightening is increasingly worrying FX markets. The pound has likely some upside vs. a broadly weaker USD, but we see it rather stable against the EUR.

EQUITIES

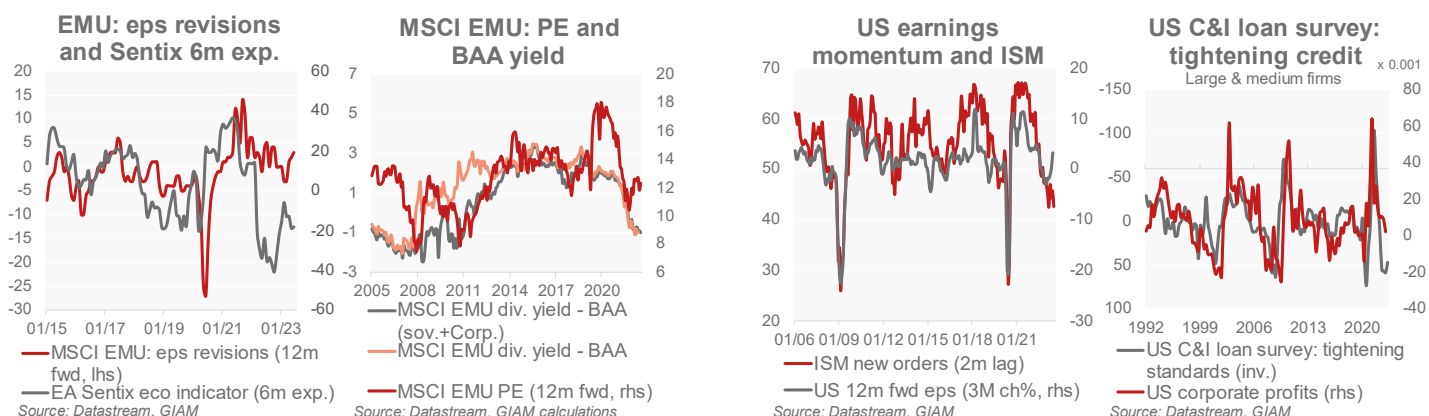
Michele Morganti and Vladimir Oleinikov

- We remain cautious short term as credit conditions tighten and macro indicators are pointing south. A negative yield curve and plunged money aggregates contribute to keeping the risk of a slowdown high. PEs are exuberant vs. real rates, credit spreads and GDP growth, especially in the US.
- We see a mild slowdown in earnings growth in 2023 (-2%), with a cyclical trough in H2 2023. We forecast a decent growth thereafter in 2024 and 2025, on average +6% (for EMU and the US), even if our forecasts are below consensus by 5% in 2024 and 9% in 2025.
- We overweight (OW) Japan, SMI, China, and India and only slightly US vs EMU. Sector OWs: Consumer Durables, Food Staples Retail, FBT, Healthcare Equipment, Software, Materials. UWs: Capital goods, Insurance, Media, Telecoms, Transportation. We expect positive 12-month TR returns (2%-6%), favouring ex-US indices.

We are still cautious on equities short term due to sticky core inflation, tightening credit conditions and macro indicators pointing south (especially in the euro area, EA). Negative signals come also from the inverted yield curve and plunged money aggregates (M1 and M2, in the US and the EA). Furthermore, positioning is not low any longer but rather neutral. Finally, PEs look exuberant vs. real rate levels, credit spreads and GDP growth (especially for the US).

US earnings: lending standards and low confidence to trigger a decline in estimates and margins

We see a slowdown in earnings growth in 2023, not a pronounced one: the bottom should be -3% yoy for both US and EA in Q3-Q4. We see a better momentum thereafter, still remaining below consensus in 2024 and 2025 (by -5% and -9%, respectively). The main reason on which we base our expectation of some decrease in pricing power, margins and ultimately profits is the fading of the main exceptional circumstances which led to their increase. Monetary policy's disinflationary power acts with a lag of some quarters. In this respect, in H2 2023, till most probably Q1



2024, the economy should still feel the hit. In particular, we see post-pandemic strong demand to stabilize, global growth to go through a soft patch, household saving to normalize as well as much lower mismatches in demand and supply. The stronger trade-weighted euro will not help the EA, too, though its negative effects may be alleviated by declining energy prices. Finally, the ECB's Corporate Telephone Survey (CTS, Q2 2023) reports large non-financial (NF) companies to expect margins' deterioration and weakening demand outlook. The mentioning of the latter has also increased as a keyword in the EA Q1 earnings calls.

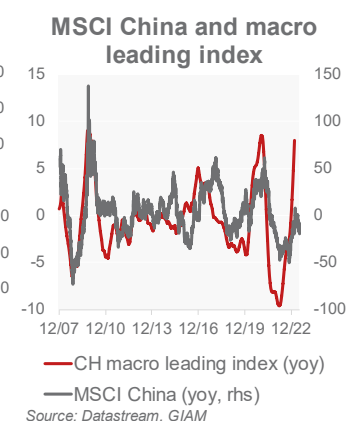
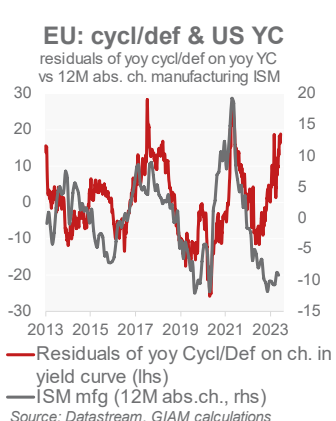
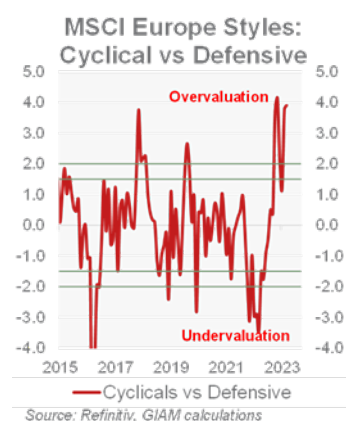
We OW Defensives and Growth vs Cyclical, slightly US vs. EMU, Japan, Switzerland, China and India. Cyclical sectors are not supported by our quant models based on Machine Learning (ML), relative earnings strength and falling industrial confidence. Headwinds are also represented by weaker global Sentix economic expectations and EA macro surprises plus our expectations of decreasing yields.

European sectors: cyclical still in a dangerous zone. OW China, India, SMI, Japan and US vs. EMU

Sector OWs: Durables, HC Equipment, Food and Food retail, Software, Materials; UWs: Capital goods, Insurance, Media, Telecoms, Transportation. We upgrade banks to neutral: credit spreads remain under pressure but with limited negative risks from here. On the other side, extremely low valuation should offer some support vs. deteriorating fundamentals. We refer to capped 10-year yields, lower growth, higher defaults and cost-push inflation. We increase Materials and Durables to a slight OW: benefits from possible China support package, improving relative valuations. We increase the UW on Telecoms.

We OW Japan due to high expected earnings growth for 2023 and 2024, shareholder-friendly restructuring (cash to stockholders, higher ROE etc.), high country score (appealing composite valuation rank) and attractive excess CAPE (cyclically-adjusted PE) yield vs. real rates.

We OW China mostly based on very attractive valuations. GDP growth dynamics is slowing but our forecast of 5.7% is kept untouched, while acknowledging downside risks. We expect more policy support ahead: China is considering a broad package of stimulus measures to boost its economy. On Switzerland (OW SMI index), earnings and GDP growth remain sustained with also attractive PEG (PE/earnings growth) when adjusted further for the level of ROE and cost of equity. Finally, we maintain an OW on India which shows an increasing GDP growth (albeit at a slow pace), inflation peak passed, good Q1 reporting season, improving FDIs, and a better adj. PEG when compared to the EA.



EM Equity: OW through MSCI China, via low valuations and increasing Sentix investment sentiment

On a 12-month horizon we see positive mid-single digit total returns, favouring ex-US indices. Both continuing decline in inflation and bond volatility (MOVE index) plus increasingly appealing equity earnings yield gap vs. 10-year real rates look supportive for equities. We add to this the usual good behaviour of risky assets once investors are finally convinced that peak rates are reached, plus our constructive historical analysis of S&P 500 fair value based on the lower risk premium requested by investors as we move in time to lower inflation ranges (2.5%-3.5% versus 3.5%-5%). Upside risks: Positioning not exuberant, declining MOVE and low VIX, plus Chinese supportive policy. Downside risks: credit event (though CBs would step in), pronounced slowdown, higher rates with lingering hawkish CBs.

ASSET ALLOCATION

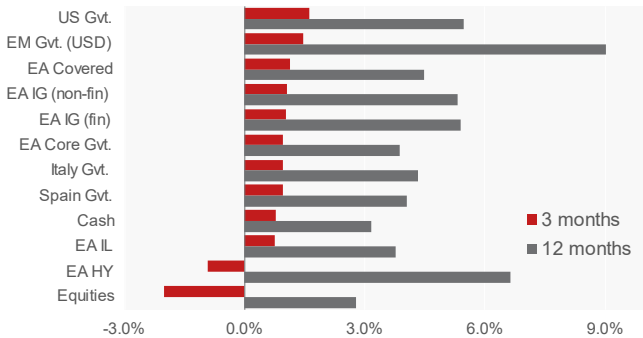
Thorsten Runde

- We retain an overall prudent risk exposure in our portfolio. Headwinds to manufacturing will persist as muted global trade is adding to the cyclical drag from higher yields, tighter banking lending standards and fading support by the Chinese reopening. That said, services are still benefiting from strong labour markets and excess savings.
- In H2, we expect the credit squeeze to trigger a moderate recession in the US while the euro area is headed for several quarters of only for subpar growth in the wake of the technical recession seen over the winter half.
- All in, we do not consider the current economic backdrop too supportive for risk assets. Our outlook for rates is tilted towards the downside, particularly for the US. The maturing key rate cycle together with receding volatility paves the way for a carry-friendly environment.
- Thus, we keep our underweight positions in Equities and EA HY. From a carry perspective we keep overweighting EA IG Credit with a slight preference for non-Financials over Financials. Among government bonds we primarily prefer US Treasuries and EMs (both on a hedged basis) as well as the belly of EA core bonds and short to medium-dated Italian BTPs. In total we keep a neutral duration stance with yields skewed to the downside.

While the service sector in the advanced economies is still experiencing some support from solid labour markets, excess savings and pent-up demand this does not hold for manufacturing. Indeed, as rate hikes and a credit crunch are taking their toll and the boost of the Chinese reopening is proving less sustained than generally expected global trade is offering no relief.

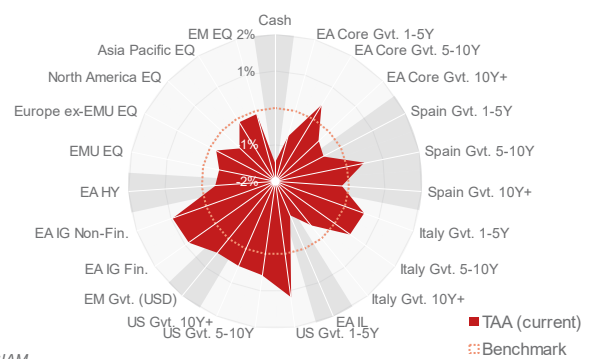
Given our expectation of a US recession in H2 and the sub-par growth in the EA,

Aggregated Total Return Forecasts
(hedged into EUR)



Source: GIAM

Balanced MtM Model Portfolio
(active positions in pp)



Source: GIAM

we renew our prudent allocation stance with respect to Equities and EA HY Credit. We continue to favour EA IG Credit on carry grounds with a slight preference for the non-financial segment. We expect US Treasuries to deliver attractive returns across the curve due to a decent carry and a higher downside tilt in yields compared to the EA. This also feeds through to EMs and is clearly dominating the spread risk. With respect to EA Govies our stance is somewhat more differentiated with a clear focus on the belly of the curve. This holds for Core Govies as well as for Bonos and BTPs, whereby also the short end is attractive for the latter. In total we keep a neutral duration stance with yields skewed to the downside. Structurally, we consider the case for a weaker USD intact. Thus, we recommend to hedge USD-denominated investments.

FORECASTS

Macro Data

Growth	2022	2023		2024	
		forecast	Δ vs. cons.	forecast	Δ vs. cons.
US	2.0	0.9	- 0.2	0.3	- 0.3
Euro area	3.3	0.5	- 0.2	0.6	- 0.3
Germany	1.8	- 0.3	- 0.4	0.3	- 0.8
France	2.6	0.3	- 0.3	0.4	- 0.5
Italy	3.9	1.0	0.2	0.7	- 0.2
Non-EMU	3.6	0.1	0.1	0.9	- 0.1
UK	4.1	0.0	0.1	0.7	- 0.1
Switzerland	2.1	0.8	0.1	1.4	0.0
Japan	1.2	1.0	- 0.0	0.9	- 0.2
Asia ex Japan	4.1	5.1	- 0.1	4.9	- 0.2
China	3.0	5.7	- 0.1	4.8	- 0.1
CEE	1.9	1.6	0.8	2.3	0.1
Latin America	3.7	0.9	0.0	1.6	- 0.0
World	3.3	2.5	- 0.0	2.5	- 0.2

Inflation	2022	2023		2024	
		forecast	Δ vs. cons.	forecast	Δ vs. cons.
US	8.0	4.3	0.1	2.8	0.2
Euro area	8.4	5.5	- 0.0	2.5	0.1
Germany	8.6	6.1	- 0.1	2.7	- 0.1
France	5.9	5.3	- 0.1	2.5	- 0.1
Italy	8.2	5.2	- 0.9	2.4	0.0
Non-EMU	8.1	6.7	0.6	2.5	- 0.0
UK	9.1	7.6	0.9	2.7	- 0.1
Switzerland	2.8	2.5	0.0	1.5	0.0
Japan	2.5	2.9	0.3	2.0	0.6
Asia ex Japan	3.5	2.4	- 0.5	2.9	- 0.0
China	1.9	0.9	- 0.9	2.2	- 0.2
CEE	28.4	16.9	- 1.0	11.6	0.1
Latin America	7.8	5.9	0.8	4.0	0.6
World	7.7	5.1	- 0.2	3.7	0.1

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)	5.25	5.50	5.31	5.50	5.19	4.75	4.30
Euro area	3.50	3.75	3.80	3.75	3.88	3.75	3.39
Japan	-0.10	-0.10	-0.04	-0.10	-0.02	0.00	0.05
UK	5.00	5.50	5.76	5.50	6.16	5.25	5.84
Switzerland	1.75	2.00	1.86	2.00	1.97	2.00	1.95
10-Year Gvt Bonds							
US Treasuries	3.74	3.60	3.72	3.50	3.68	3.30	3.63
Germany (Bunds)	2.34	2.30	2.33	2.25	2.30	2.20	2.24
Italy	3.98	4.00	3.96	4.00	3.99	4.05	4.03
Spread vs Bunds	164	170	164	175	169	185	179
France	2.87	2.85	2.87	2.80	2.86	2.80	2.85
Spread vs Bunds	53	55	54	55	56	60	61
Japan	0.36	0.45	0.43	0.50	0.47	0.65	0.54
UK	4.33	4.30	4.32	4.20	4.29	4.10	4.25
Switzerland	0.92	0.90	0.86	0.90	0.84	0.85	0.83

*3-day avg. as of 27/06/23

**ICE BofA (OAS)

Credit Spreads**	Current*	3M		6M		12M	
		Forecast	Forward	Forecast	Forward	Forecast	Forward
EA IG Non-Financial	149	155		160		155	
EA IG Financial	180	190		200		195	
EA HY	450	525		540		515	
EM Sov. (in USD)	335	360		370		350	
Forex							
EUR/USD	1.09	1.10	1.10	1.11	1.10	1.12	1.11
USD/JPY	144	141	142	136	140	132	136
EUR/JPY	157	155	155	151	154	148	151
GBP/USD	1.27	1.28	1.27	1.29	1.27	1.30	1.27
EUR/GBP	0.86	0.86	0.86	0.86	0.87	0.86	0.88
EUR/CHF	0.98	0.97	0.97	0.99	0.97	1.03	0.96
Equities							
S&P500	4,352	4,260		4,305		4,410	
MSCI EMU	145.1	141.5		145.0		149.5	
TOPIX	2,260	2,215		2,270		2,365	
FTSE	7,459	7,230		7,380		7,640	
SMI	11,169	10,980		11,285		11,590	

Forecast Intervals

3-Months Horizon

10-Year Gvt Bonds	US Treasuries	3.10	3.60	4.10	
	Germany (Bunds)	1.43	2.30	3.17	
	UK	3.53	4.30	5.07	
	Switzerland	0.34	0.90	1.46	
Credit Spreads*	EAIG Non-Financial	131	155	179	
	EAIG Financial	159	190	221	
	EAHY	454	525	596	
Forex	EM Sov. (in USD)	319	360	401	
	EUR/USD	1.07	1.10	1.13	
	USD/JPY	137	141	145	
	GBP/USD	1.26	1.28	1.30	
	EUR/CHF	0.95	0.97	0.99	
	Equities	S&P500	4,009	4,260	4,511
		MSCI EMU	134	142	149
TOPIX		2,122	2,215	2,308	
FTSE		6,900	7,230	7,560	
SMI		10,408	10,980	11,552	

*ICE BofA (OAS)

12-Months Horizon

10-Year Gvt Bonds	US Treasuries	2.35	3.30	4.25	
	Germany (Bunds)	0.51	2.20	3.89	
	UK	2.66	4.10	5.54	
	Switzerland	-0.35	0.85	2.05	
Credit Spreads*	EAIG Non-Financial	109	155	201	
	EAIG Financial	139	195	251	
	EAHY	382	515	648	
Forex	EM Sov. (in USD)	270	350	430	
	EUR/USD	1.07	1.12	1.17	
	USD/JPY	124	132	140	
	GBP/USD	1.25	1.30	1.35	
	EUR/CHF	1.00	1.03	1.06	
	Equities	S&P500	3,930	4,410	4,890
		MSCI EMU	134	150	165
TOPIX		2,161	2,365	2,569	
FTSE		6,983	7,640	8,297	
SMI		10,533	11,590	12,647	

*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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Issued by: Generali Insurance Asset Management S.p.A.
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