Amundi Investment Institute

Weekly Market Directions

22 December 2023

Trust must be earned

Amundi

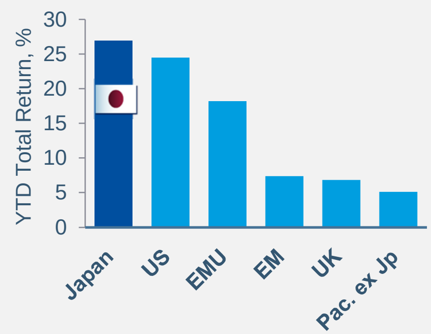
"Japanese equities may further benefit from the major transformations in the country's economy and markets."

Monica Defend
Head of the Amundi Investment Institute

Japan's equities surfing on the end of deflation

- The Bank of Japan has paved the way for an exit from its Negative Interest Rates Policy (NIRP) in Q1 2024.
- Japan's exit from deflation is transforming the behaviour of corporations and households.
- These changes, combined with recent reforms should continue to support Japanese equities, after their strong 2023 rise.

Japan is leading YTD equity market performances globally



Source: Amundi Investment Institute, Bloomberg. Data at 22 December 2023, on MSCI indices in local currency.

As expected, the Bank of Japan kept major policies stable at its December meeting. However, it also projected a positive trend in wage growth and inflation, paving the way for a very probable end of its negative interest rate policy in Q1 2024.

More broadly, the exit from the long entrenched Japanese deflationary trend is bringing major changes in terms of behaviour of Japanese corporations (towards more investment) and households (towards directing savings to more risky assets). Moreover, the Tokyo Stock Exchange has been conducting a major reform aimed at improving corporate governance.

This sets a new, promising backdrop for Japanese equities whose valuations, even though they have risen, remain reasonable by long-term standards.

Actionable ideas

Japanese equities

Japanese equities are benefitting from improving domestic activity and the country coming out of deflation. We believe that this asset class may bring value to an equity allocation.

Global equities

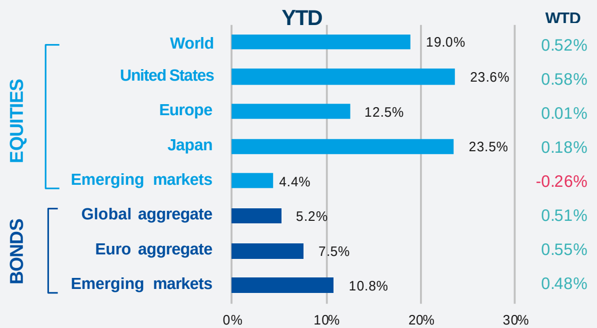
The global equity markets may offer investors the opportunity to widen the investment universe and explore value in multiple regions/countries, such as Japan.

This week at a glance

Bond yields continued to retreat this week, with US 10 year back to this Summer's level while German 10 year broke below 2%. Equities, for their part, were mostly flattish, consolidating after several weeks of sharp rises. Oil prices recovered significantly from their large drop since end-November.

Equity and bond markets

Asset class performance year to date and week to date



Source: Bloomberg, data as at 22 Dec 2023
Please refer to the last page for additional information on the indices.

Government bond yields

2 and 10 years government bond yields and 1 week change

	2YR		10YR	
US	4.32	▼	3.87	▼
Germany	2.41	▼	195	▼
France	2.93	▼	2.45	▼
Italy	2.92	▼	3.53	▼
UK	4.03	▼	3.50	▼
Japan	0.04	▼	0.61	▼

Source: Bloomberg, data as at 22 Dec 2023
Trend represented refer to 1week changes. Please refer to the last page for additional information.

Commodities, FX and short term rates

Gold USD/oz	Crude Oil USD/barrel	EUR/USD	USD/JPY	GBP/USD	USD/RMB	Euribor 3M	T-Bill 3M
2068.21	74.59	1.10	142.02	1.27	7.13	3.93	5.20
+2.4%	+4.4%	+1.3%	-0.1%	+0.4%	+0.1%		

Amundi Investment Institute Macro Focus

Americas

Inflationary forces moderating in the US, labour market still tight according to Flash PMIs

Services Output Price Flash PMIs remain in expansionary territory but the pace of improvement is slowing according to the last print. The momentum for disinflation seems positive. Flash PMIs also hint at resilience of the labour market (expansion).

Europe

Flash PMIs indicate weakness in growth and in the labour market

Germany's and France's (and more broadly Eurozone's) HCOB Flash Composite Output PMI data point to a further deterioration in the composite level for December compared to the November reading. Employment Flash PMIs also signaled weakening in the European labour market.

Asia

Bank of Japan: policy unchanged, but hints that NIRP will soon come to an end.

The BoJ's December meeting unfolded with few surprises. Major policies were kept stable, yet the accompanying statement stressed the rise in inflation expectations and major price indices. Even though it has not provided explicit forward guidance, the BoJ is very likely to bring NIRP to an end in Q1 2024. However, unlike the market, we do not believe that it will rise rates above 0% in 2024.

Key Dates

26 Dec Macro data, USA
Case-Shiller Index

28 Dec Macro data, USA
Adv. Goods Trade balance

29 Dec Macro data, USA
Chicago PMI

Discover Amundi Investment insights on our Research Centre.

NOTES

Page 2

Equity and bond markets (chart)

Source: Bloomberg. Markets are represented by the following indices: World Equities = MSCI AC World Index (USD) United States = S&P 500 (USD), Europe = Europe Stoxx 600 (EUR), Japan = TOPIX (YEN), Emerging Markets = MSCI Emerging (USD), Global Aggregate = Bloomberg Global Aggregate USD Euro Aggregate = Bloomberg Euro Aggregate (EUR), Emerging = JPM EMBI Global Diversified (USD)

All indices are calculated on spot prices and are gross of fees and taxation.

Government bond yields (table), Commodities, FX and short term rates.

Source: Bloomberg, data as at 22 December 2023 at 3.40 PM CET.

*Diversification does not guarantee a profit or protect against a loss.

GLOSSARY

BOJ: Bank of Japan.

Dovish monetary policy is aimed at promoting economic growth. Inflation is not a concern.

ECB: European Central Bank.

GDP: Gross Domestic Product.

HOBC: Hamburg Commercial Bank (HCOB) is the new endorsing brand of various Purchasing Managers' Index (PMI).

Purchasing Managers' Indices (PMI): PMI Indices are economic indicators derived from monthly surveys of private sector companies. A reading above 50 indicates an improvement, while a reading below 50 indicates a decline.

NIRP: Negative Interest Rates Policy

YTD: Year to date.

IMPORTANT INFORMATION

Date of first use: 22 December 2023.

Doc ID: 3297357

Document issued by Amundi Asset Management, “société par actions simplifiée”- SAS with a capital of €1,143,615,555 - Portfolio manager regulated by the AMF under number GP04000036 – Head office: 90-93 boulevard Pasteur – 75015 Paris – France – 437 574 452 RCS Paris – www.amundi.com

Photo credit: ©iStock/Getty Images Plus