Amundi
Investment Solutions
Trust must be earned

Investment Institute

2025 Investment Outlook

Bright spots in a world of anomalies

NOVEMBER 2024 | Cross Asset Investment Strategy Special Edition

November 2024

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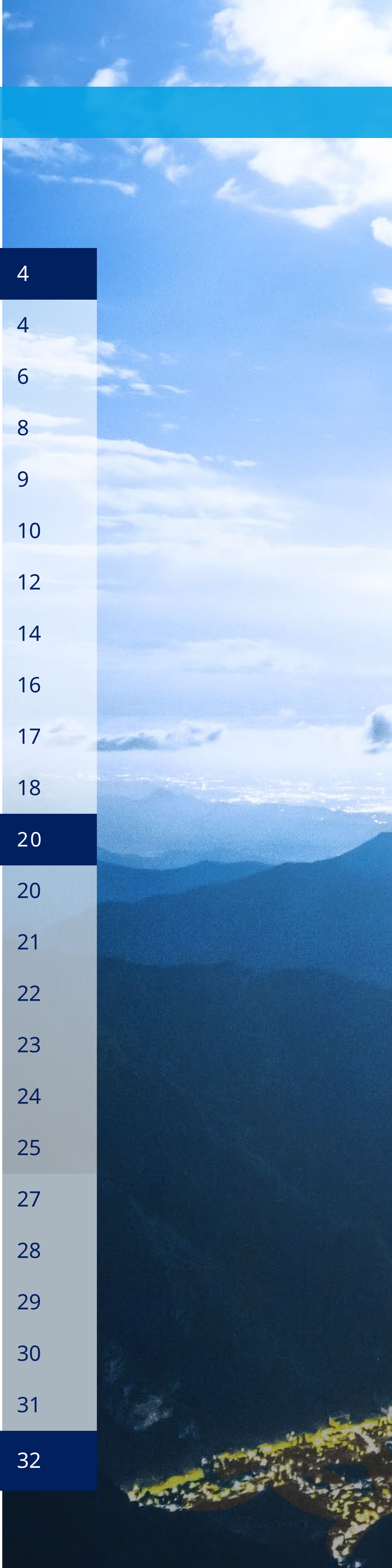


Marketing material for professional investors only

"In a world of anomalies, there are plenty of bright spots. Identifying the opportunities created by policy choices and geopolitical shifts will be as important as safeguarding against the risks they entail."

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

"Seizing opportunities in risk assets, while balancing inflation risks, will be key in 2025. Investors should broaden their exposure to equities beyond US mega-cap stocks, look for income across liquid and illiquid assets, and implement hedges in a more fragmented world."

VINCENT MORTIER
GROUP CHIEF INVESTMENT OFFICER

KEY INSIGHTS

Main convictions for 2025

We are in an unconventional economic cycle phase, characterised by a positive outlook alongside anomalies like market concentration and excessive debt levels. While global macro liquidity supports riskier assets, growing policy uncertainty and geopolitical tensions highlight the need for greater diversification.

1 A benign global economic outlook unfolds

The global economy is expected to soften in 2025. The US economy will moderate due to cooling domestic demand and labour market conditions. Disinflation may persist, but inflation risks loom and the Fed may need to adapt to a potential shift in US policy. Europe is positioned for a modest recovery, with strategic investments in focus. Emerging markets are likely to continue to command a growth premium over developed ones, and Asia remains a major driver of growth.

2 Emerging Asia posts robust growth, with growing regional ties

Emerging Asian economies are enjoying strong growth, driven by the dominance of their IT supply chain and supportive fiscal and monetary policies. External demand and trade within the region will enhance their resilience and connectivity. India and Indonesia are positioned as long-term beneficiaries, while we expect continuous re-routing and policy support to stabilise the Chinese economy and mitigate the possible negative impact from tariffs.

3 Geopolitics is increasingly shaping the economic backdrop

Escalating geopolitical tensions, increased economic frictions, and ongoing conflicts will require companies to form new partnerships and relocate their operations to mitigate risks. The global reordering will generate opportunities to identify new beneficiaries in the investment landscape, and support traditional safe havens such as gold.

2024 in REVIEW

	Macro views vs our 2024 outlook expectations	Financial markets views vs our 2024 expectations
EXPECTED	▪ Persistent **geopolitical** tensions ▪ Weak recovery in **Europe** ▪ Resilient **Emerging Markets** ▪ Strong growth in **India** ▪ **Moderating global inflation** ▪ **Low inflation in China**	▪ **Equities**: strong performance, low volatility ▪ **Bonds**: appealing yields and credit ▪ **Some commodities** sustained by geopolitics ▪ **Recovery in balanced allocations** ▪ **Strong USD in H1**, weak cyclical FX in H1
SURPRISE	▪ **Stronger US consumption** ▪ **Delayed rate cuts** by the Fed, ECB and BoE ▪ **Tightening cycle by the BoJ** ▪ **Policy shift in China** ▪ **Less dovish EM central banks**	▪ High volatility in bonds ▪ **Further concentration risk in equities** ▪ **High Yield outperformance** ▪ **Strong USD** in Q4 ▪ Multiple **Gold** high ▪ **Other commodities** on the weak side (oil, iron, steel, agricultural)

Source: Amundi Investment Institute as of 31 October 2024. DM: developed markets. EM: emerging markets. CB: central banks. Fed: Federal Reserve. ECB: European Central Bank. BoE: Bank of England. BoJ: Bank of Japan. Economy and markets expectations refer to our 2024 investment outlook.

4

Income gains traction

As inflation decelerates to long-term averages, central bank policy will continue to become less restrictive. The gradual return to neutral monetary policies, combined with the low probability of recession, will emphasise bonds' income-generating function given yields are higher than in the past. Opportunities are appealing in Investment Grade and short maturity High Yield credit, leveraged loans, EM bonds and private debt.

5

Beyond mega caps: looking at Japan, value in Europe and sectoral opportunities

A positive backdrop for earnings, coupled with good macro liquidity, is positive for equity. However, valuations are stretched, particularly in US mega caps. Investors should look at equal-weighted indices in the US, pockets of value in Europe and sectors such as financials, utilities, communication services, and consumer discretionary. Value investing and mid-caps are good hedges against possible declines in Growth and mega cap stocks. Opportunities will also be available in EM, with India in focus.

6

Private markets are lighting up, with infrastructure in focus

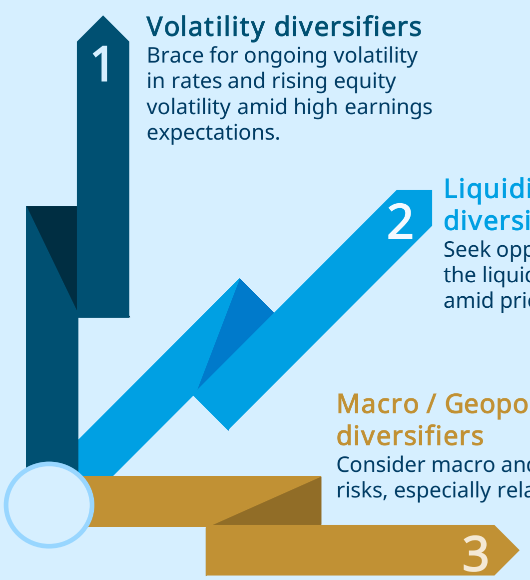
Private markets present attractive investment opportunities amid decelerating economic growth and expectations of more interest rate cuts, with a particular emphasis on infrastructure due to its strong growth outlook. Private debt offers appealing income, with companies still benefiting from strong bargaining power when negotiating lending contracts, while the outlook for the real estate market is expected to improve in 2025.

7

Time to be pro-risk and explore different axes of diversification

The economic backdrop offers bright spots in risky assets, but markets are underestimating the challenges. The macroeconomic outlook, high valuations and escalating geopolitical tensions warrant more nuanced diversification on multiple fronts. In particular, investors should be aware of the potential for geopolitical tensions to generate higher inflation and embrace risk diversifiers such as inflation-linked bonds and gold.

Exploring different axes of diversification



Volatility diversifiers

Brace for ongoing volatility in rates and rising equity volatility amid high earnings expectations.

Liquidity diversifiers

Seek opportunities across the liquidity spectrum amid pricey markets.

Macro / Geopolitical diversifiers

Consider macro and geopolitical risks, especially related to inflation.

1

Volatility diversifiers: Equity volatility strategies, market neutral **hedge funds** and **absolute return** strategies (equities, bonds, currencies)

2

Liquidity diversifiers: **leveraged loans, private debt** and **infrastructure**

3

Macro / geopolitical diversifiers: **money markets, gold, metals, inflation strategies***

*Inflation strategies include inflation-linked bonds and inflation breakeven.

SETTING THE SCENE

Opportunities in a reconfigured world

KEY TAKEAWAYS

The global economic outlook is benign as monetary policymakers have curbed high inflation without triggering a recession. Abating price pressures will allow major central banks to cut rates further but the easing cycle will end well before policy rates reach pre-pandemic lows.

Geopolitics and national policy choices are paving the way for more fragmentation, with the United States pursuing geostrategic competition and the European Union focusing more on strategic autonomy. Drilling into sectors that will benefit from big trends is important given this backdrop and valuations.

Anomalies, such as low equity market volatility at a time of uncertainty, are becoming marked and may not last. A reversal of such phenomena could see assets like inflation-linked debt and gold find more favour.

Halfway through the decade, new forces are reconfiguring the post-pandemic global economy. The big shocks that hit labour markets, supply chains, and energy prices in the past five years have largely worked their way through the system. **But geopolitics and national policy choices are creating a more fragmented world that may bring new surprises.**

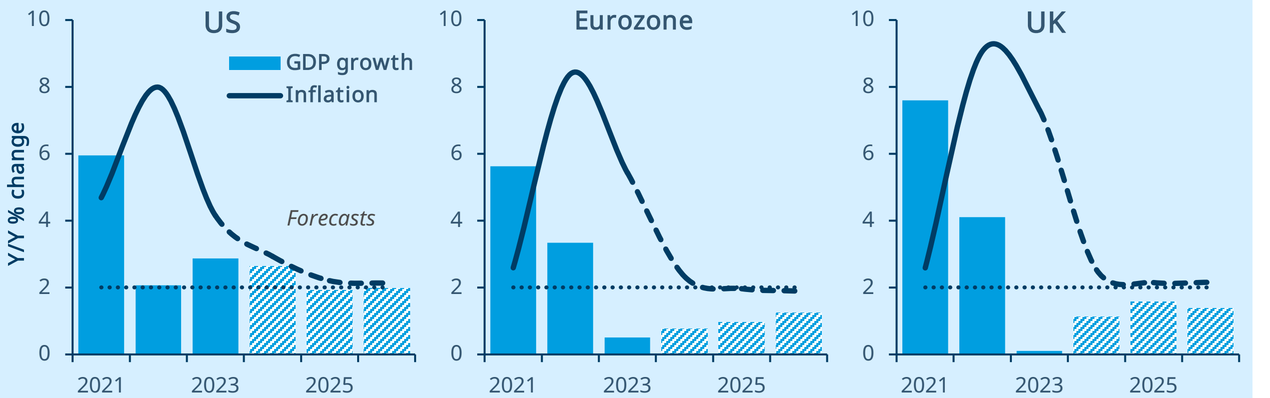
Monetary policymakers have so far done a good job of curbing high inflation without slamming the brakes on growth. The world economic outlook is therefore benign, with a slowdown in US activity unlikely to turn into recession. Meanwhile, global price pressures are expected to ease further. US policy shifts pose some upside risks, but ultimately, no one has an interest in seeing inflation surge.

This will allow major central banks to keep cutting interest rates and financial markets to build on the gains of the past year. Earnings prospects offer opportunities for the rally in equities to extend beyond US mega-caps. Such moves will be further fuelled if US campaign promises of deregulation and corporate tax cuts are fulfilled.

But there are a couple of caveats. First, investors have already anticipated a lot of good news. The best opportunities will therefore be found by drilling into sectors that will benefit from the big themes that will dominate the coming years. These include demographic trends, shifts in where global manufacturing takes place and who dominates such production, as well as the effects of climate change and the cost of energy transition or the re-routing of global supply chains.

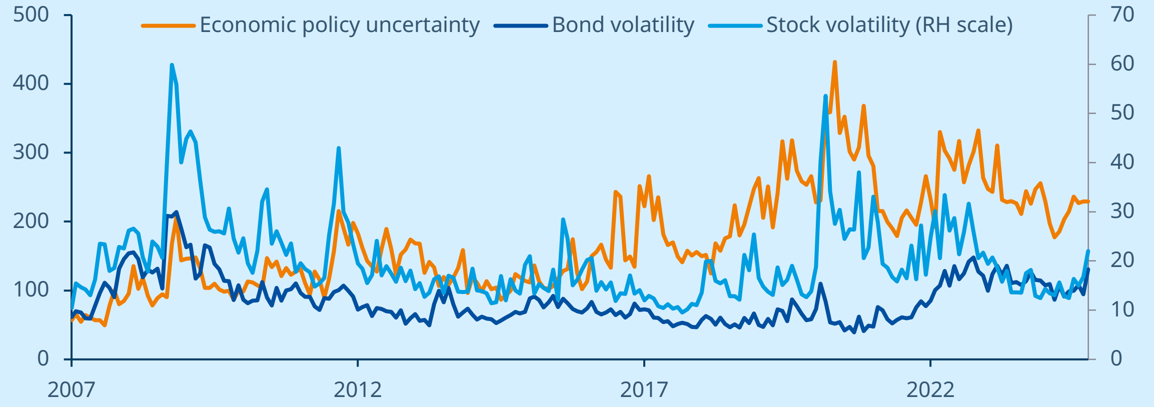
Second, the monetary easing cycle on which most developed economies have embarked will end well before policy rates reach pre-pandemic lows.

Central banks perform a tricky balancing act



Source: Economic forecasts are by Amundi Investment Institute as of 6 November 2024 and are based on current policy.

Market volatility fails to keep pace with economic policy uncertainty



Source: Amundi Investment Institute, Bloomberg. Data as 31 October 2024. Global Economic Policy Uncertainty Index by Baker Blooms and Davis. Bond volatility: MOVE Index. Stock volatility: VIX.

This is due to shifts in key growth drivers, which are boosting potential growth in countries like the US and India. Also, the global economy may be subject to more shocks from geopolitics, technological innovation, trade, and climate change. **Central banks may therefore have to respond more quickly and forcefully to such shocks than in the past if they are to keep inflation expectations anchored.**

Meanwhile, anomalies - such as the past year's low equity volatility in a time of high uncertainty, or the resilience of the US consumer in the face of the sharpest tightening cycle in decades - are becoming more marked and may not last. A reversal of such phenomena could see fixed-income, inflation-linked debt and gold find more favour.

The United States is likely to pursue a strategy of geostrategic competition and will grow more inward looking.

Political choices may also stoke demand for safe havens like gold. While 2024 was the year of the ballot box, those who were elected must now confront long-deferred problems in order to avoid more serious difficulties later in the decade.

For example, incoming US President Trump faces record levels of debt, big structural deficits, and rising interest payments. Pre-election pledges mean debt will keep piling up. **Investors are likely to keep faith with Treasuries as long as the US economy keeps growing but the fiscal outlook points to higher fixed-income volatility.** Market swings may be even more pronounced given sources of demand for US debt are in flux, with the Federal Reserve, commercial banks and investors in China and Japan absorbing a smaller proportion of overall issuance.

Washington is also likely to pursue **geostrategic competition.** This involves maintaining its lead in technology such as artificial intelligence, quantum computing and chips. It will also view certain manufacturing activities as a matter of national security. **The United States will therefore grow more inward looking.**

The ripple effects will be felt across the Atlantic and encourage European politicians to focus on **strategic autonomy.** They will also have to tackle the root causes of their region's widening productivity and investment gap with the United States. Mario Draghi's report contained a useful roadmap of how to do this but implementation will require more political commitment than is evident at the moment. This is especially true for some ideas, such as issuing common EU debt for specific purposes – a necessary step for radical change.

This is not a constraint for other regions. **Chinese policymakers have scope to deploy more fiscal stimulus** as they steer the economy on a more sustainable growth path. But the size, timing, and focus of such spending will determine its effectiveness. Meanwhile, **Gulf states will ramp up investment in infrastructure** that will benefit more of their citizens – a development that could create demand for a range of commodities.

Spotting the opportunities created by all these policy choices and geopolitical shifts will be as important as safeguarding portfolios against some of the risks they entail. In a world of anomalies, there are plenty of bright spots.

BRIGHT SPOTS...

Play dynamic asset allocation in a world of anomalies
An anomalous cycle calls for a frequent reassessment of the economic backdrop and dynamic allocation adjustments, with a focus on risk assets in H1 (equity and investment grade credit).

Uncover income opportunities across the board
With yields close to historic highs, central bank easing and no recession in sight, government bonds, credit, leveraged loans and EM bonds present attractive income opportunities.

Broaden the opportunity set in equities and look at sectors
While excessive valuations persist in US mega caps, we see bright spots appearing in Japan, Europe and the US market beyond the mega caps.

Embrace the power of Asia and EMs' comeback
India and Indonesia are long-term winners. In the short term, China may benefit from additional stimulus. EMs are expected to outperform DMs.

Explore transformative long-term themes
Balancing growth perspectives and valuations in artificial intelligence, clean energy, manufacturing re-insourcing, infrastructure, health care and an ageing population.

Diversify across different axes
Exploit volatility diversifiers (hedge funds and absolute return strategies), liquidity diversifiers (private markets) and macro/geopolitical diversifiers (gold).

...IN A WORLD OF **ANOMALIES**

Market anomalies abound, with extreme valuations in US equities, concentrated global equity markets and a stark contrast between low equity volatility and high bond volatility.

Macro anomalies

High costs of US debt
>$1.1 trillion will be spent on interest payments in 2024, highest on record[1]

Strong household finances
7.9x net wealth as a share of US disposable income, highest in the past two years[2]

Healthy liquidity
in a resilient economic backdrop contrasts with high perceived macro uncertainty

Market anomalies

High equity concentration
30% weight of top 7 stocks in the S&P500[3]

Stretched valuations
<3% of the time the S&P500 has been more expensive than now since 1881[4]

Diverging volatility trends
-21% in equity volatility in 2024 vs previous 10-year average
+34% in bond volatility[5]

Source: Amundi Investment Institute, Bloomberg. 1 US Treasuries data projection on gross interest payments. 2. Fed FOF, data as of 30 June 2024. Households and Nonprofit Organizations; Net Worth as a Percentage of Disposable Personal Income .3. Datastream as of October 2024. 4. Shillerdata.com, Robert J. Shiller. Refers to the Shiller CAPE. 5. Analysis on percentage change in average volatility levels in 2024 vs the 2013-2023 average. Bond volatility refers to levels of MOVE index (implied volatility indicator on the Treasury market), equity volatility refers to the VIX Index (implied volatility indicator for the S&P500).

HOT DEBATES

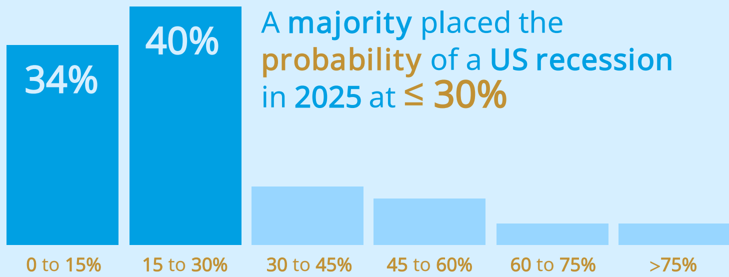
During the **Amundi Investment Seminar** that took place in September 2024, we asked our investment professionals questions to help us define a forecast for **what 2025 will be like for the economy and geopolitics.**

United States in the spotlight

The most important driver of US markets in 2025

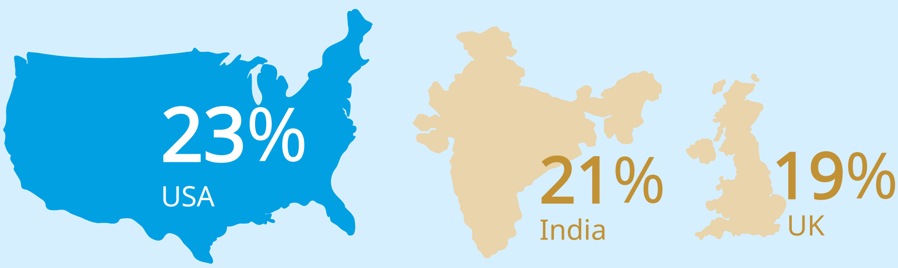
US Economic Performance

as voted by **62%** of our specialists



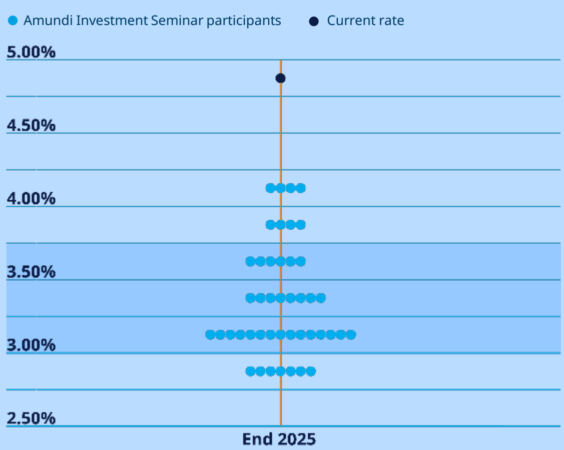
A **majority** placed the **probability** of a **US recession** in **2025** at **≤ 30%**

Where could the highest upside surprise in economic growth come from in 2025?



Focus on rates

Where will the Fed Funds target rate be at the end of 2025?



Upside inflation is the highest risk

as voted by **65%** of our specialists

Focus on geopolitics

Which geopolitical event will be most relevant for markets in 2025?

US-China trade war	36%
Ukraine-Russia peace deal	26%
US transition of power	20%
Middle East escalation	18%

Greatest risks arising from the US-China geopolitical rivalry

Trade barriers and increased tariffs

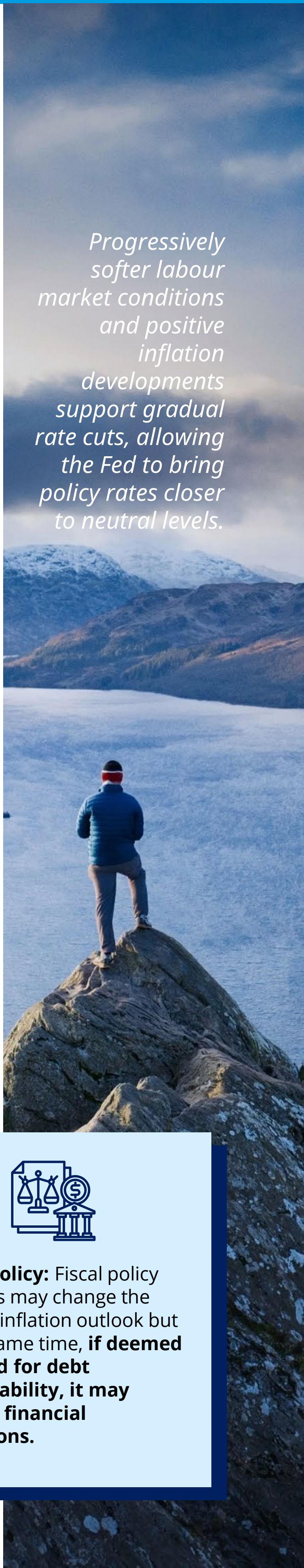
as voted by **42%** of our specialists

Threat of military conflicts

as voted by **36%** of our specialists

US CYCLE

The extraordinary US cycle is becoming more balanced



Progressively softer labour market conditions and positive inflation developments support gradual rate cuts, allowing the Fed to bring policy rates closer to neutral levels.

KEY TAKEAWAYS

The US economy is transitioning to slower growth, with a soft landing expected amid reduced imbalances and declining inflation. Non-residential investment, particularly in technology and AI, will continue to grow, while consumption should soften.

With the labour market stabilising, wage growth is moderating, which aids disinflation. The results of the US election will affect economic dynamics, making it likely that the Fed will adjust its course.

The US economy has undergone an **unusual cycle**, initiated by the Covid-19 pandemic. The recovery was unique, driven by significant monetary and fiscal measures that boosted activity and tightened the labour market. This was followed by an unexpected inflation surge in 2021-2022, influenced by supply chain disruptions, the war in Europe and substantial domestic policy stimulus (particularly the Inflation Reduction Act – IRA). The risk of inflation becoming entrenched compelled the Federal Reserve (Fed) to raise interest rates aggressively, to a level not seen since the Volcker era of the late 70s.

With this substantial tightening, a mild recession seemed almost inevitable last year, particularly in light of the banking turmoil. The anomalies in this cycle – such as high household wealth, fiscal stimulus and the Fed's swift response to regional banking issues – limited the crisis's impact. With targeted support, financial conditions improved and growth resumed. Disinflation also took hold, with inflation rates significantly declining and expectations remaining stable.

Growth

Our central scenario suggests a **soft landing.** The recent revisions to national accounts, savings and income dynamics portray an economic landscape less dominated by imbalances and bifurcations, and less vulnerable to sudden and dramatic corrections. Indeed, in the next 18-24 months, we still expect the **US economy to transition to a period of slower growth, possibly with a few below-par quarters, driven primarily by slowing domestic demand.**

Main triggers to watch that could affect the US cycle

Labour market: Labour turnover, wage growth, layoffs and immigration policy affecting labour supply. **Progressive labour market cooling, without sudden movements in layoffs,** underpins our central scenario.

Inflation: **Core services (shelter) and goods inflation** are crucial for the Fed's policy in the next 3-6 months. **Tariffs could increase inflation in goods,** countering current deflation, with effects depending on timing and scope.

Fiscal policy: Fiscal policy stimulus may change the growth/inflation outlook but at the same time, **if deemed too bold for debt sustainability, it may tighten financial conditions.**

Source: Amundi Investment Institute.

US CYCLE

On the investment side, we see a continuation of growth in non-residential investment driven by the intellectual property product (IPP) capex trend (technology and AI-related) and equipment investment, as manufacturing activity recovers. On the consumption side, recent data indicate that consumer behaviour has become more consistent and aligned with the dynamics of disposable income growth, which we expect to moderate progressively as the labour market cools. So far, the labour market has achieved a better balance with labour demand moderating without a significant rise in layoffs. As labour turnover continues to decrease, wage growth is expected to moderate as well. Thanks to improved productivity dynamics, wage growth will remain compatible with the disinflationary process, even stabilising at a slightly higher rate than in the past.

Inflation

The underlying core disinflation observed so far has been largely driven by deflation in core goods prices, linked to both normalising supply chains and cooling demand. This trend has also extended into core services, with some signs of moderation in shelter inflation. We expect this disinflationary trend to continue as domestic demand slows, provided there are no shocks to energy prices or disruptions to the supply chain.

Monetary policy

The job market is getting softer and inflation is improving, which supports the idea of gradually lowering interest rates. This would help the Federal Reserve bring rates closer to a neutral level. We expect the Fed to lower the federal funds rate to 3.5% by the summer of 2025. However, changes in policy direction after the elections could make the rate path less predictable next year, especially if markets have to absorb more debt.

Scenarios and **Investment** Implications

2025	Sharp slowdown and inflation back to target	Slowdown in growth and sticky inflation	AMUNDI Soft landing scenario	No landing and sticky inflation
GDP	≈ 0.5 - 1%	≈ 1% - 1.5%	2%	3%
Core Personal Consumption Expenditure	2%	≈ 3%	1.8%	3%
Unemployment	> 6%	5 - 6%	4.6%	4.1%
Fed Policy Rate	2 - 2.5%	4%	3.5%	4.5%
Govies Duration Yield curve	 ⇒ Positive ⇒ Steepening	 ⇒ Cautious ⇒ Flattening	 ⇒ Neutral ⇒ Steepening	 ⇒ Cautious ⇒ Neutral
Credit IG credit HY credit	 ⇒ Negative ⇒ Negative	 ⇒ Neutral ⇒ Negative	 ⇒ Positive ⇒ Neutral	 ⇒ Positive ⇒ Neutral
EM Debt HC bonds LC bonds	 ⇒ Positive ⇒ Positive	 ⇒ Neutral ⇒ Neutral	 ⇒ Positive ⇒ Positive	 ⇒ Negative ⇒ Negative

Source: Economic forecasts are by Amundi Investment Institute as of 6 November 2024 and are based on current policy. GDP = GDP growth YoY in 2025; Core Personal Consumption Expenditure YoY in 2025; Unemployment rate at end of 2025; Fed Policy Rate = Fed Funds rate Upper Bound at the end of 2025: EM: Emerging Markets.

Europe's growth will depend on continuing disinflation, less restrictive monetary policy, and a gradual recovery in consumption and demand.

EUROPE

Europe's path to recovery and transformation

KEY TAKEAWAYS

Europe's growth next year will rely on continuing disinflation and a less restrictive monetary policy, with fiscal support constrained by European Commission rules. We expect consumption and domestic demand to recover thanks to lower ECB rates and rising real incomes.

Investments are also expected to recover, driven by the implementation of delayed projects, green transition efforts and technological advancements. However, significant investments and strategic industrial policies are necessary to restore competitiveness in the long term. Following the outcome of the US election, the risks to external trade have increased.

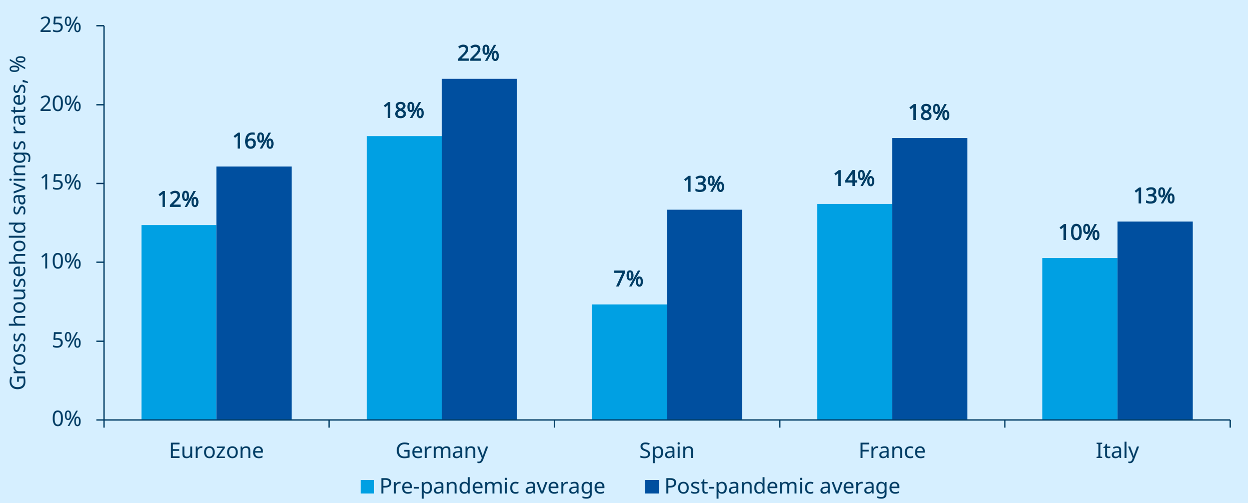
Growth will vary among the larger Eurozone countries due to different fiscal policies and levels of scarring from past shocks. Germany is projected to lag, while France and Italy will see modest growth, and Spain will outperform.

Europe's growth outlook next year will be overly dependent on continuing disinflation and a less restrictive monetary policy. **Fiscal support will be constrained** by the need to comply with the European Commission's fiscal rules. External trade – a saviour this year – is unlikely to contribute as much, especially amid rising protectionism.

With the significant easing that we expect from the European Central Bank (ECB), and a gradual increase in real incomes, we expect **consumption and domestic demand to recover** from unusually weak levels. And this should also begin to revive credit growth.

As a result, we expect a **gradual recovery towards potential growth** of 1 percent by the end of 2025, and only slightly higher in 2026. Inflation will continue to move lower, and hit the ECB target by mid-2025.

High savings rates across Europe should support consumption in 2025



Source: Amundi Investment Institute. Eurostat data as of 9 October 2024. The pre-pandemic average is computed from Q1 2015 through to Q4 2019 included. The post-pandemic average is computed from 2020 through to Q1 2024 included. Eurozone includes 20 countries as of 2023.

EUROPE

Beyond the near term, Europe faces substantial challenges. As the recent Draghi report identified, weak productivity and significant underinvestment translate into a loss of competitiveness that could become progressively worse, especially in light of advancements in the digital economy, artificial intelligence, rising protectionism and more interventionist industrial policies elsewhere. Significant investments will be needed to close the gap with the US, reduce fragmentation and regulation, and promote a strategic industrial policy.

Focusing on the near term, we continue to see a recovery in Eurozone growth. **The effects of monetary loosening will become more apparent next year,** and we are comforted by some early and timid signs of recovery in credit demand and credit growth.

So far, private consumption has been feeble and underwhelming, as savings rates have remained unusually elevated (almost 4% above the pre-pandemic trend) and confidence levels have been relatively weak. Looking ahead, we expect a **gradual recovery in consumer spending,** as growth in real incomes is expected to continue driven by solid growth in nominal income levels, easing inflation and a lower propensity to save as ECB rates come down. Risks to this outlook are primarily centred on the labour market. If the recent signs of a slowdown in job creation worsen beyond our expectations for relatively weaker employment growth next year, it could pose significant challenges.

Significant investments will be needed to close the gap with the US, reduce fragmentation and regulation, and promote a strategic industrial policy.

Investments are also expected to see a recovery starting in 2025, after having suffered significantly from the tight monetary policy environment that prevailed this year. Additional factors that could drive this recovery include the implementation of projects linked to the Next Generation EU plan that are often delayed, the push towards the green transition, the expansion of Industry 4.0 (and even 5.0) projects, and the need to address higher depreciation rates as technology evolves at an increasingly rapid pace (e.g., AI).

Among the larger countries, the lower interest rate environment should support higher growth, but the impact will vary due to the different levels of scarring caused by multiple shocks since 2020 across countries and sectors. Our projections continue to show heterogeneous performance across the Eurozone G4, with **Germany lagging behind, France and Italy experiencing modest growth, and Spain outperforming** the group even in 2025. Fiscal policy should be a significant distinguishing factor next year: Germany's fiscal restraint (governed by its own fiscal rules) and the ongoing consolidation in France and Italy will weigh on growth, as will consolidation in the five other countries required to reduce deficits and debt under the new rules.

Key **Investment** Implications

The outlook in 2025 favours European government bonds, as the ECB is set on its rate-cutting path, and 10-year bond yields typically fall as key interest rates (and funding costs) are cut. Peripheral bonds still supported.

Fixed income investors are poised to continue enjoying capital gains as well as carry in the quarters to come in view of lower yields, **but expect at least as much volatility** in bond markets as seen in 2024.

Equity valuations discount a weak economic scenario. **Positive catalysts could come from the implementation of NGEU** projects and China's recovery. With the ECB easing and growth holding up, **small and mid-caps** could benefit.

ASIA

The rise of regional connectivity in Emerging Asia

KEY TAKEAWAYS

- Asian economies are showing robust growth influenced by sectoral dynamics and policy stimulus measures, while moderate inflation levels have allowed for less restrictive monetary policies.

- Monetary policies across Asia are expected to become more accommodative in 2025, particularly in Indonesia and the Philippines. Governments are shifting from pandemic crisis management to strategic economic goals, such as sustainability and the digital transformation.

- External demand and exports remain key growth drivers for Asian economies, supported by integrated regional trade networks, like RCEP, that have enhanced resilience across countries and sectors.

Asian economies continue to demonstrate robust growth, albeit at varying rates, influenced by sectoral and industrial dynamics (value chain participation) and policy stimulus measures.

Furthermore, Asia's **dominance in the information and communication technology (ICT) supply chain has intensified.** In 2017, the region accounted for 75% of the global USD 2 trillion ICT goods market. By 2021, this share had risen to nearly 80% of the USD 3 trillion in shipments. Advanced East Asian economies alone trade 60% of global ICT goods annually, while emerging markets like Vietnam and Malaysia are rapidly increasing their share in this sector.

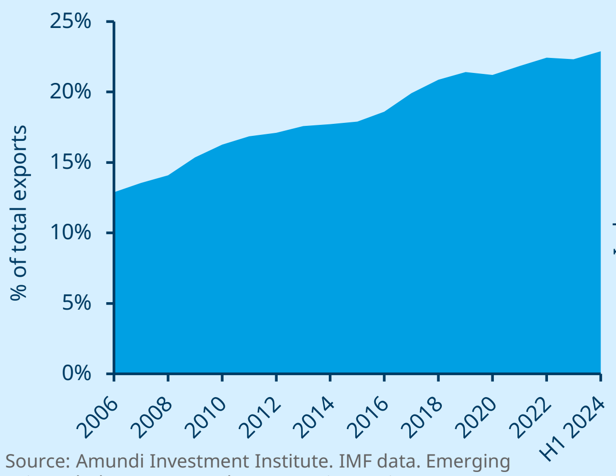
Fiscal and monetary policies, including stimulus packages and interest rate adjustments, have played a crucial role in supporting the recovery. Thanks to **relatively benign inflation trends across the region,** the monetary policy stance has never been as restrictive as in other Emerging Market regions. Therefore, the combination of more moderate inflation levels and less restrictive monetary policies has actually supported the growth recovery.

Asia's regional connectivity has increased further after the US-China trade war.

RCEP: The Regional Comprehensive Economic Partnership is a free trade agreement among the Asia-Pacific countries.

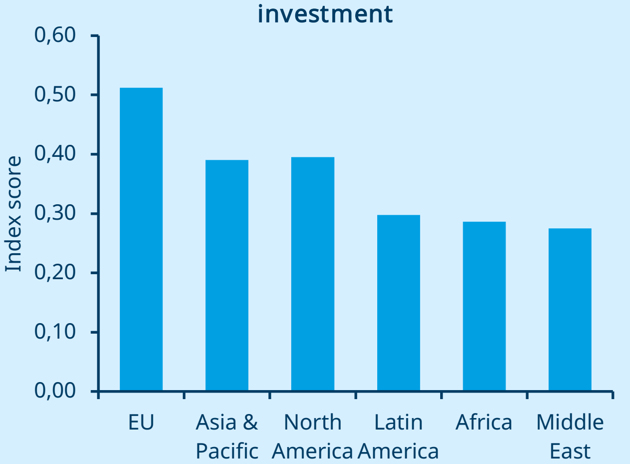
Higher inter-regional connectivity across Emerging Asia is reflected in trade dynamics

Emerging Asia interregional trade



Source: Amundi Investment Institute. IMF data. Emerging Asia excludes Japan, South Korea, Taiwan, Singapore, Hong Kong and Macau.

Regional integration in trade and investment



Source: Amundi Investment Institute. Asian Development Bank data for 2021. Dimensional index score for trade and investment across regions.

ASIA

In 2025, monetary policy will become incrementally more accommodative. **The easing cycle that just started should continue at a more moderated pace.** Bank of Indonesia and the Central Bank of the Philippines are expected to have the most room for easing. On the fiscal side, **several governments have shifted away from crisis management** (such as cash handouts) **to broader and more strategic economic goals** (such as long-term sustainability, digital transformation, upskilling the workforce and healthcare) with more targeted support programmes or tax incentives. While the fiscal measures remain an important support to growth, the return to more sustainable fiscal paths proves challenging. Even in countries with exceptionally strong growth or effectively managed expenditure controls, such as India and Indonesia, government debt ratios have only mildly decreased.

External demand and exports continue to be a key growth driver in the region, but could become a source of risk given new radical anti-trade measures. Far from further restricting trade, China still has scope at the Central level to smooth down new US tariffs. Over the years, **an integrated regional trade network** (the Regional Comprehensive Economic Partnership is one of the world's largest trading blocs) **has enhanced the regional resilience of several countries across several sectors:** not only for electronics and semiconductors, but also agriculture, and the automotive and textile sectors.

Key **Investment** Implications

Supportive outlook for equity in the region: positive growth and earnings (although slightly decelerating to high single-digit numbers) and declining inflation. Valuation is key, as well as the resilience of growth.

Our stable commodity prices outlook for 2025 offers support to Asian countries, mostly **commodity importers.**

In China favour the domestic market as less exposed to tariffs.

India and Indonesia are the region's best picks.

At the same time, trade integration has created interdependencies that could lead to a chain reaction of negative consequences in the event of radical anti-free trade initiatives against one or more countries in the region. Nevertheless, and notwithstanding the challenges posed by US-China trade tensions, **Asia as a whole has become more connected and has sustained the strength of its exports.** In particular, intra-regional trade in emerging Asia has risen to 23% of total exports in H1 2024, up from 21% in 2018 and just 10% at the start of this century.

India's growth journey: Fostering development while maintaining financial balance

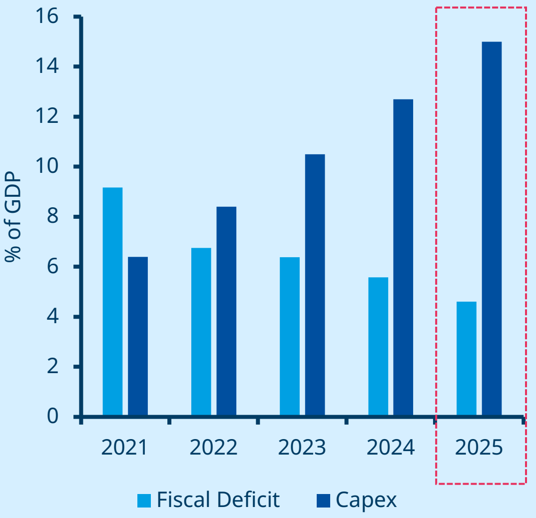
As we move towards 2025, India is experiencing a natural slowdown in its economic momentum. Weak performance in capital, infrastructure and construction production indicates a moderation in growth after the impressive gains of recent quarters. GDP growth is projected to settle between 6% and 7%, a **robust figure that underscores India's key role in driving global growth.**

The current account deficit, while deteriorating, is expected to remain manageable due to a lower oil bill and proactive efforts to enhance exports and integrate more deeply into the global value chain. However, ongoing investment cycles and infrastructure needs may keep the current account in deficit, estimated at around 1% of GDP.

Inflation, particularly its volatile food component, is anticipated to stay within the Reserve Bank of India's (RBI) target range into 2025, although the cost of living may rise towards the upper end of the range. To maintain a decent positive neutral rate, the RBI's room to ease monetary policy appears to be limited, in the order of 50bps-75bps.

In this evolving landscape, India aims to leverage its strengths to enhance its relevance in the global value chain and improve its infrastructure.

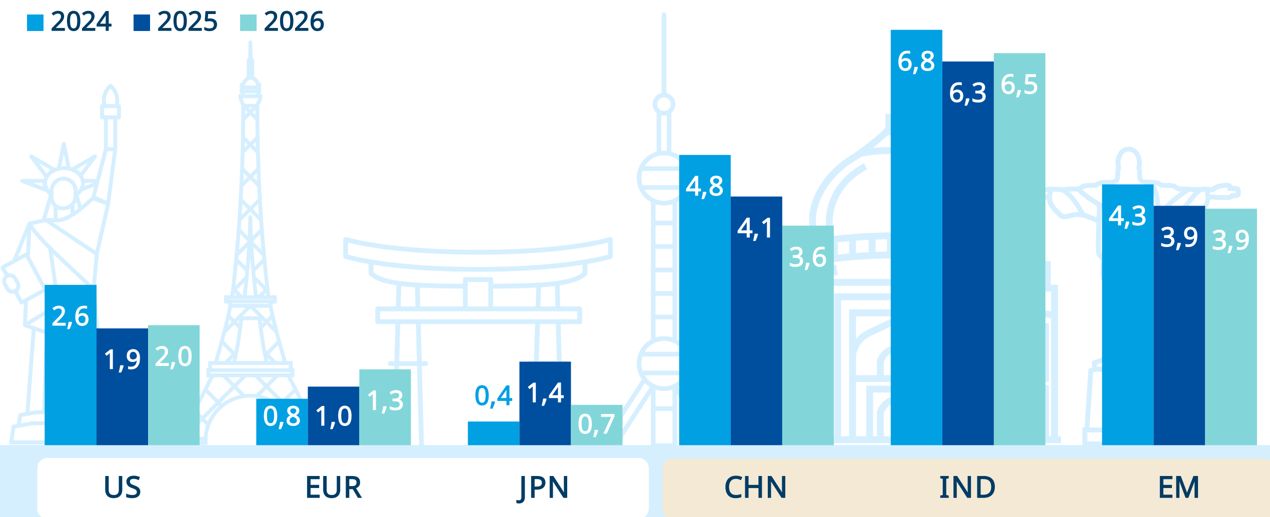
India: Between growth and macro financial stability



Source: Amundi Investment Institute, internal elaboration. Data as of 17 October 2024. Years refers to India's fiscal year.

Resilient multi-speed growth

Amundi Investment Institute Projections



UNITED STATES

Soft landing expected
The US economy is transitioning to slower growth amid reduced imbalances and declining inflation.

Trump 2.0 policies and inflation path.

EUROPE

Europe's path to recovery
Modest growth, inflation back to target. Fiscal rules address sustainability, while enabling investment in green transition and strategic autonomy.

Urgency for policy action to raise potential growth through productivity.

JAPAN

Going against the tide
Improved domestic fundamentals. Bank of Japan anchored inflation expectations, with global spillovers.

Political developments, and impact on economic policy.

CHINA

China's new normal
A step to reverse the structural economic slowdown with more policy support, promoting structural transformation.

Monetary policy on the right course; fiscal impulse will depend on its allocation.

INDIA

Resilient economic growth is expected to continue, normalising to potential growth (6.5% 2026) driven by domestic demand and investments.

Labour / fiscal reforms to upscale infrastructure and education.

EMERGING MARKETS

Robust and broad-based growth, with a substantial premium, still favours EM. Asia will continue to be a major driver of growth.

Tariffs developments, monetary policy, fiscal policy.

Source: Economic forecasts are by Amundi Investment Institute as of 6 November 2024 and are based on current policy. EM: Emerging Markets.

Main and alternative scenarios

	Probability 70% **MAIN SCENARIO** Resilient multi-speed growth	Probability 20% **DOWNSIDE SCENARIO** Renewed stagflationary pressure	Probability 10% **UPSIDE SCENARIO** More disinflation with productivity gains
GEOPOLITICS	▪ Rising tensions and ongoing geo-economic fragmentation including protectionism and sanctions. ▪ Disruptive trade policies and re-routing of global supply chains as a reaction to tariffs. ▪ Ukraine-Russia: ongoing fighting, but ceasefire odds increase. ▪ Middle East: talks and conflicts likely. ▪ China-US: decline of relations. ▪ US-Europe relations under pressure.	▪ Autarchical new alliances challenge advanced economy democracies: new & escalating conflicts. ▪ Countries forced to choose US vs China. Global trade begins to decline.	▪ Geopolitical risk subsides as conflicts come to a close. ▪ Shifting power dynamics reshape global trade, fostering balanced growth and prosperity.
INFLATION & POLICY MIX	▪ Disinflation trend to continue, but upside inflation risk remains. ▪ Developed Market central banks reaching their neutral rates in 2025. ▪ Most EM CBs at peak rates. ▪ Different fiscal policies: US might be under scrutiny with a second Trump presidency; EU consolidating; China expansionary.	▪ More persistent inflationary geopolitical trends advocate a U-turn in monetary policy. ▪ Fiscal debt ballooning fuels the cost of debt.	▪ Stabilisation of inflation around central banks' targets (and not an issue if slightly above as inflation expectations remain anchored).
GROWTH PATH	▪ Back to potential growth. ▪ Resilient multi-speed growth: modest recovery in Europe, mild US deceleration but higher potential growth. ▪ Growth gap still favours EM. ▪ India's growth potential revised up.	▪ Lower output, sharp migration reduction in advanced economies lowers labour supply, unwinds supply gains. ▪ Economic unbalances persist, further lowering potential growth (China, EU,...).	▪ Growth enhancing reforms lifting growth potential. ▪ Industrial / trade policies boosting investment and activity.
CLIMATE CHANGE	▪ Climate change hampers growth and exacerbates stagflationary trends. ▪ Chinese dominance in processing and supply of critical minerals; US trying to catch up.	▪ Further policy delays imply more adverse climate events, hampering economic dynamism.	▪ From zero to hero in the net zero transition: geo-engineering, globally coordinated policies.

Risks to main scenario

LOW — Probability — HIGH

	10%	15%	15%	20%
	Central banks quantitative tightening combined with structural shift in US Treasury buyers	Geopolitical crisis with global spill-overs	Market volatility rises sharply to reflect higher geo-economic uncertainty	Reacceleration of DM inflation, due to trade/geopolitical tensions
MARKET IMPACT	Positive for cash and gold. Negative for govies and expensive equities.	Positive for DM govies, cash, gold, USD, volatility, defensive assets and oil. Negative for credit, equities and EM.	Positive for cash and gold. Negative for risk assets.	Positive for TIPS, gold, commodity FX and real assets. Negative for bonds, equities, DM FX and EM assets.

Source: Amundi Investment Institute as of 7 November 2024. DM: developed markets. EM: emerging markets. CB: central banks. USD: US dollar. TIPS: Treasury inflation-protected securities. FX: foreign exchange markets.

GEOPOLITICS

Transitioning to a riskier, messier – and diversifying – world

KEY TAKEAWAYS

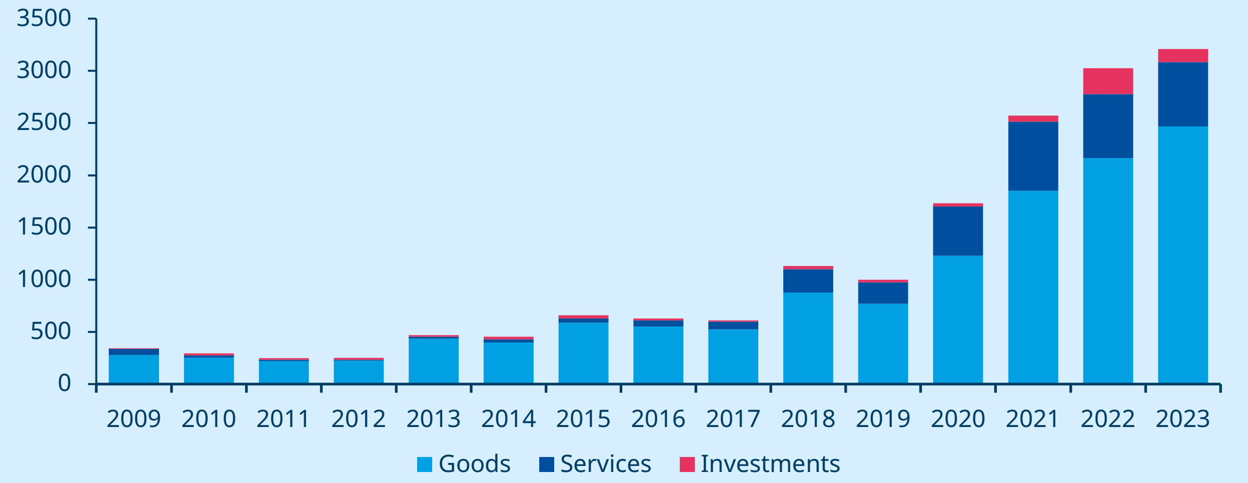
We expect geopolitical tensions to continue to rise in 2025. Economic frictions are likely to intensify and 'hot' conflicts to continue. Global powers will aim to expand their spheres of influence, while others will seek to improve their military and nuclear capabilities.

As geopolitics increasingly shapes the economic backdrop, companies and political leaders are adjusting by lowering their dependencies and diversifying their relationships. Investors must consider the impact of both short-term developments and longer-term trends on their portfolios.

Our analysis suggests that **the level of geopolitical risk will rise over the next few years.** The trends that lead us to this conclusion are likely to also play out in 2025. Our Geopolitical Sentiment Tracker shows that more countries now have poor bilateral relations, while Russia's ties with Iran, North Korea and China are deepening. **The 'Great Power Competition' between the US and China will persist.** Protectionism, sanctions, export controls and tariffs will create more **economic friction**. Even though we have not yet observed a slowdown in global trade, this could change if US President Donald Trump implements a plethora of tariffs. Diversification efforts will grow, with exports taking different routes to their end markets. **New multi-currency payment systems are being set up to lower dependencies on the US dollar-led system.** Similarly, efforts are being made to join alternative alliances to the West, such as BRICS[1]. Companies and political leaders are having to adjust to this new operating environment. Companies are dealing with political risks by enhancing their capabilities and altering their strategies. For example, Chinese and European, but also US Electric Vehicle (EV) firms are entering new partnerships to sidestep political pressures while ensuring access to materials, technology and markets. Some companies are relocating their headquarters or focusing on less politically fraught markets.

As tensions grow, companies' diversification – or 'coping' – strategies will become more apparent.

The number of global trade restrictions has been rising steadily



Source: Amundi Investment Institute. Global Trade Alert data as of 24 October 2024.

[1] Brazil, Russia, India, China, South Africa, Iran, Egypt, Ethiopia, and the United Arab Emirates.

GEOPOLITICS

Most **political leaders will continue to avoid choosing sides for as long as they can to maximise their bargaining power.** For example, India is now allegedly the second-largest supplier of restricted critical technologies to Russia. However, this strategy will be made more difficult if the Trump administration forces countries to take a stance in exchange for relief from tariffs or security protection. Nevertheless, **the countries benefitting from geopolitical changes will become more apparent** in 2025, for example, due to a surge in exports as they sit on new transit routes. Beyond these trends, today's geopolitical hotspots will remain in focus. US foreign policy will focus on the Middle East, either because the current conflicts are continuing and expanding, or because the involved parties are willing to negotiate: kicking off nuclear talks with Iran, attempts to achieve a two-state solution between Israel and Palestine, and efforts to normalise relations between Israel and some Arab states. A combination of both dynamics – ongoing hostilities and talks – is most likely.

The odds of a ceasefire between Russia and Ukraine next year are higher, even though there are still many avenues for a continuation of the conflict. Nevertheless, a ceasefire is a possibility under Trump. While this would be a positive development for Europe, as local firms stand to benefit from Ukraine's reconstruction, concerns would loom over the longevity of such an agreement and Russia's aspirations. **US efforts to 'contain' China's economy will aggravate tensions between the two powers.** Although trade issues will likely be the main focus, tensions in the East and South China Seas will grow.

Key **Investment** Implications

Geopolitical developments are increasingly shaping the background against which leaders make market-moving decisions and the reasons behind trends affecting asset classes.

Economists must reflect geopolitics in their projections, and investors should work with forecasters and forecasts that do so, and consider position adjustments and hedging options.

Geopolitics is also responsible for the strong performance of safe haven assets, such as gold.

The EU will struggle with opposing dynamics: demand for more spending on defence and the green transition clash with the desire for fiscal prudence; calls for more political integration clash with nationalist tendencies; and the need for global EU leadership faces the reality of weakened political leaders. On top of this, the **EU faces political pressure to distance itself from China, while having to manage a likely trade war with the US.** The EU will also face anxieties over the US's willingness to provide military protection; Trump's attitude towards the EU, and the EU's response, will likely erode the transatlantic relationship. However, Trump has the potential to lower the dial on some geopolitical risks. For example, as a condition for a ceasefire in Ukraine, **renewed relations between the US and Russia could erode Russia's ties with Iran and North Korea.**

Higher oil volatility due to geopolitics is unlikely to offset weaker fundamentals

Outages due to strikes on Iran's oil infrastructure are a plausible outcome, as both Israel and Iran become accustomed to direct confrontations. Such risk will come and go and implies a premium of about USD 5, far below a 'broad-contagion' premium reflecting threats to regional oil infrastructure, lower availability of spare capacity and, as a last resort, a blockade of the Strait of Hormuz.

Following Trump's election, the negative impact on the price of oil from higher domestic output is likely to be offset by pressure on Iran's crude exports, and delayed energy transition legislation.

We see more frequent volatility spikes in oil markets in 2025, but supply should remain the driving force. Saudi Arabia's willingness to accept lower prices to restore OPEC credibility and regain market share, and growing non-OPEC output, both point to a weaker price equilibrium, in the low range of our USD 75 to USD 80 Brent target.

16 out of **20**

oil-shocks since the 60s only had a temporary effect on supply, with exceptions in the late-70s and early-80s

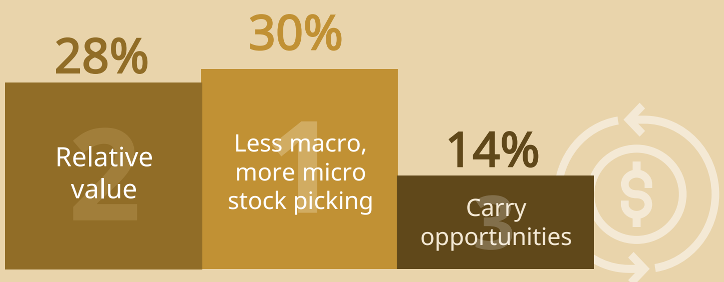
Source: Amundi Investment Institute. Analysis of 20 oil shocks. Temporary effect defined as a shock in supply reduction lower than 5% of supply overcome in less than one year.

INVESTMENT CONVICTIONS

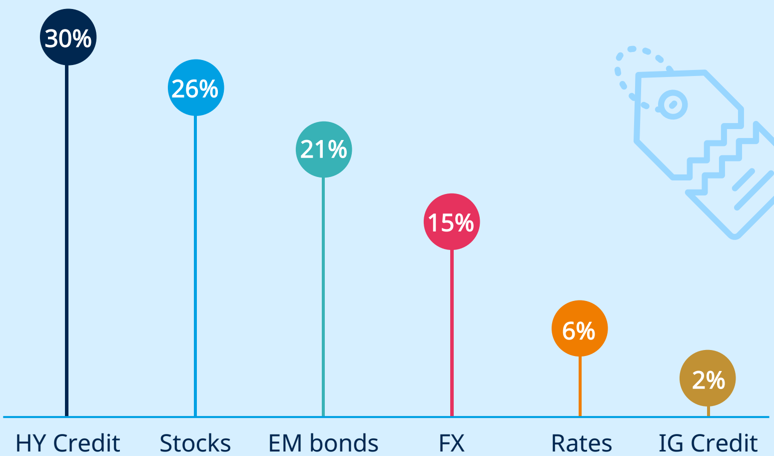
During the **Amundi Investment Seminar** that took place in September 2024, we asked our investment professionals questions to help us define a forecast for **what 2025 will be like for investments.**

Where can investors find superior returns in 2025?

According to our investment professionals ...



Source: Amundi Investment Institute

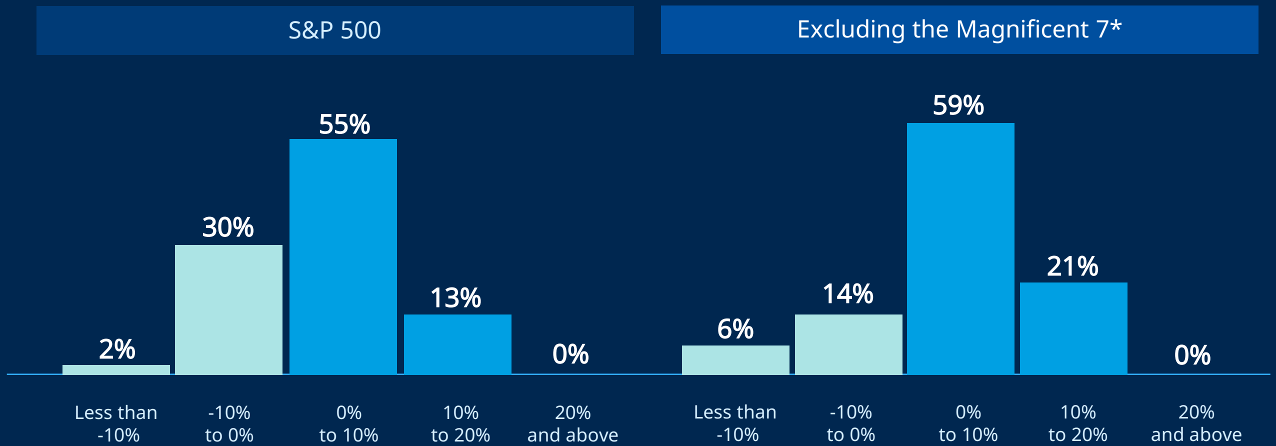


Source: Amundi Investment Institute

Which asset class is most mispriced, relative to its fundamentals?

High-Yield Credit was voted as the most mispriced asset class according by our panelists.

What S&P 500 performance do you expect over 2025?



*Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia and Tesla
Source: Amundi Investment Institute.

In this unusual late-cycle outlook, we see opportunities in risk assets while also looking at inflation-resilient assets to hedge against inflation risks.

DYNAMIC ASSET ALLOCATION

Seizing opportunities in risk assets, while balancing inflation risks

For 2025, our dynamic asset allocation models indicate a high probability (around 60%, as shown in the chart below) that we are in a prolonged "late cycle“, with an almost 80% probability that the inflation battle has been won.

From an asset allocation perspective, this backdrop remains supportive of risky assets, as this prolonged late cycle is accompanied by accommodating central bank policies and abundant liquidity – an anomaly at this stage of a still resilient economic environment – that supports risk sentiment. We therefore favour a mildly positive risk stance for 2025, with a preference for investment-grade credit and select opportunities in equities. Here, excessive valuations in US mega-caps call for a globally diversified approach. Additionally, **as inflation slows, government bonds are becoming more appealing as diversification tools**, further favouring cross-asset investing in 2025.

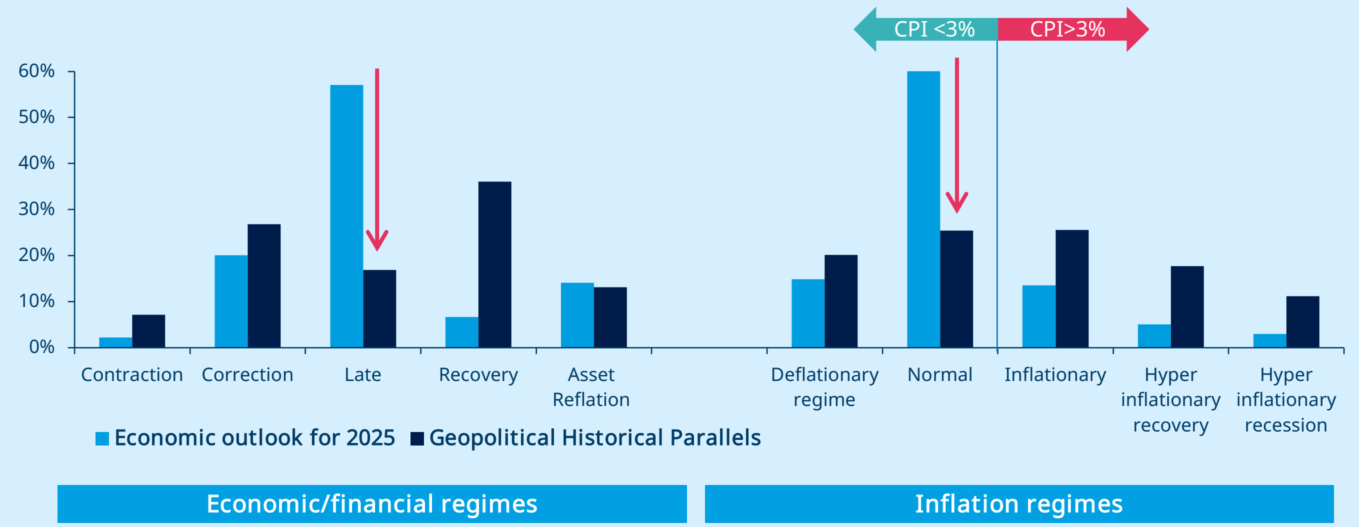
These bright spots should be balanced with a careful assessment of risks, with **inflation risk being the most relevant in an era of major geopolitical shifts**. In this regard, our analysis of "Historical Geopolitical Parallels" suggests that the likelihood of remaining in a prolonged late cycle could significantly decrease as we move into 2025, putting the inflation battle at greater risk.

Given the current market environment may be overly optimistic regarding inflation, **we are balancing our mildly pro-risk stance for 2025 with inflation-resilient assets such as cyclical base metals and infrastructure**, which also benefit from long-term trends and **inflation-linked strategies**. **Leveraged loans** are also attractive due to their floating rate nature. In equities, the **dividend space is worth considering** to balance the more cyclical view, as dividend stocks tend to be more resilient to inflation.

A geopolitical perspective on the potential cycle evolution

We have analysed historical geopolitical parallels to gain insights into how this cycle could evolve. While these past periods share similarities with projected 2025 dynamics, each had a unique context. In addition, the world in 2025 is likely to face new challenges and opportunities, particularly in AI, climate change and shifting global power dynamics.

Regimes probabilities for 2025



Geopolitical Historical Parallels: 1. Late 1940s/Early 1950s: US-Soviet tensions (similar to current US-China dynamics), technological race, forming of new global alliances. **2. 1970s:** Oil crises, superpowers competition, environmental concerns gaining prominence, **3. Late 1980s/Early 1990s:** Major geopolitical shifts (end of Cold War), rapid technological advancements, emergence of new global players, **4. Early 2000s:** Focus on non-state security threats (terrorism), debates over globalisation's impacts, shifts in global economic power, **5. 2010-2015:** Rising tensions in specific regions, increased focus on cyber warfare and digital influence, climate change becoming a major geopolitical factor. Source: Amundi Investment Institute. Probabilities derived from Amundi proprietary models “Advanced Investment Phazer” and “Inflation Phazer. Normal inflation is with US CPI between 2 to 3%. Inflationary regimes are with US CPI >3%.

AMUNDI INVESMENT INSTITUTE INFOGRAPHIC

Amundi asset class views

	Asset class	Stance as of 6 November 24	Direction of views for H1 2025	
EQUITY PLATFORM	United States	=	=	Stable
	US equal weighted	=/+	+	Improving
	Europe	=/+	=	Deteriorating
	Japan	=/+	+	Improving
	China	=	=	Stable
	Emerging Markets ex-China	+	=/+	Deteriorating
	India	+	+	Stable
FIXED INCOME PLATFORM	US govies	=	=	Stable
	US IG corporate	=	=/+	Improving
	US HY corporate	-	=	Improving
	EU govies (core)	=/+	=/+	Stable
	EU govies (peripherals)	=	=	Stable
	EU IG corporate	+	+	Stable
	EU HY corporate	=	=	Stable
	China govies	=	=	Stable
	EM bonds HC	=/+	+	Improving
	EM bonds LC	=	+	Improving
OTHER	Gold	=/+	=/+	Stable
	Oil	=	=	Stable
	Currencies (USD vs G10)	=/+	=	Deteriorating

Source: Amundi Investment Institute, as of 6 November 2024. DM: developed markets. EM: emerging markets. Summary of views expressed at the most recent global investment committee held on 16 October 2024.

-- - Negative = Neutral + ++ Positive

FIXED INCOME

Central banks to help bond yields fall further

KEY TAKEAWAYS

Inflation is decelerating back to the average levels of the mid-1990s – 2019 period, so there is no reason for central banks to maintain a restrictive stance. The gradual return to neutral monetary policy should support carry trades, even if capital gains are likely to be limited.

With the Fed and ECB expected to cut policy rates all the way to long-term neutral levels by mid-2025, US Treasuries are expected to lead performance among government bonds, while investment grade credit will also benefit.

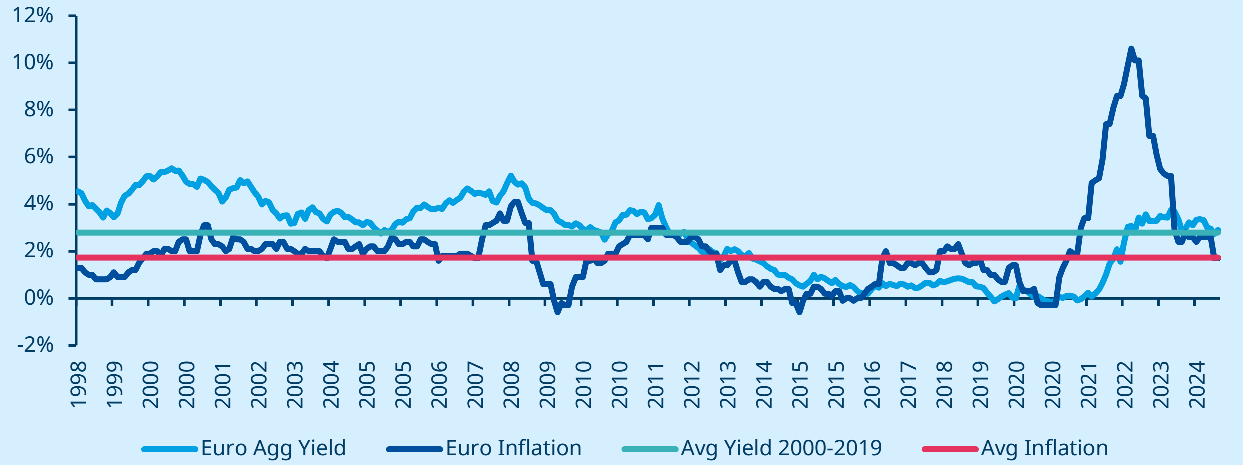
The low recession probability and non-restrictive fiscal policies (at least in the US) suggest bonds will be key to portfolio diversification, fulfilling their income-generating function with relatively high yields.

Money markets have benefitted over the past two years from central banks' rate hikes and their subsequent hold on rates. Yet, the mood has shifted: rate cuts have begun to favour a rotation into fixed income that will continue in 2025. We see three main themes for bond investors moving ahead:

1. **Curve movements**: we expect continued interest rate cuts in Europe and the US to push 2-year yields lower, increasing the slope between the 2- and the 10-year parts of the curve.
2. **Income is expected to be the main driver of performance.** Investment grade credit is expected to perform better than government bonds, with volatility that could remain low given a negative correlation between spreads and yields. High yield bonds could benefit from stronger corporate cash flows, but may suffer from the continued volatility of interest rates. EM bonds will benefit from appealing yields and rates trending lower.
3. **Regional opportunities:** US bonds are expected to be the best performer across major countries, with gains for Treasuries that could be the best since 2023. Europe is also expected to deliver appealing returns. The one exception to this positive outlook is Japanese Government Bonds, where we continue to keep a cautious stance moving into 2025.

Higher yields in comparison to the past decade and further small capital gains suggest another good year for fixed income.

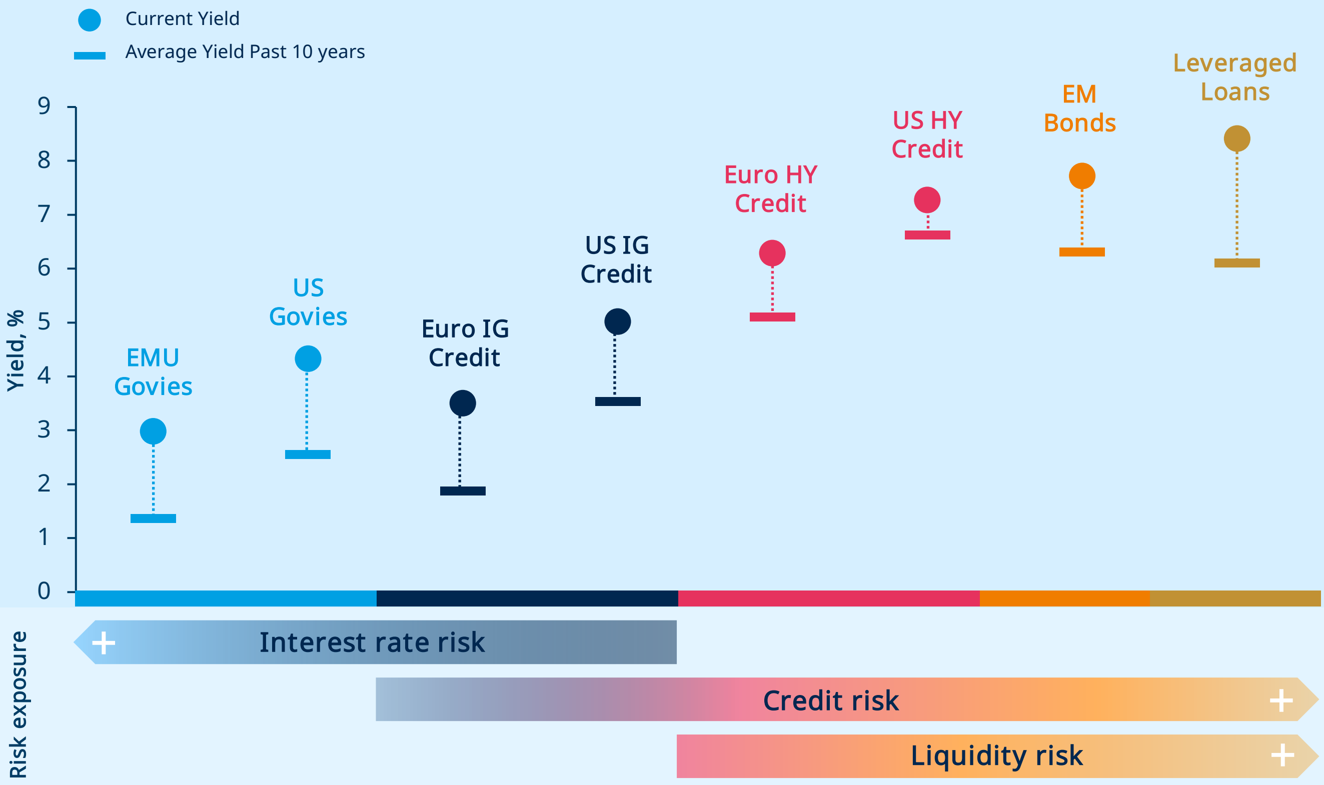
Euro inflation back to 25-year average and bond yields slightly higher



Source: Amundi Investment Institute. Bloomberg data as of 31 October 2024.

The yield appeal

Yields in bond markets are currently attractive compared to their average over the past decade. A soft-landing economic outlook also supports credit markets, as defaults are expected to remain contained, with emerging market bonds benefiting from a potentially more dovish stance from central banks in those regions.



Investment Views

Govies	Credit IG	Credit HY	EM Bonds	Leveraged Loans
▪ Current yields are attractive from a historical perspective. ▪ Volatility may persist into 2025 amid uncertainty about US policy and the potential implications for inflation and the Fed.	▪ Corporate fundamentals remain solid, particularly in Europe. ▪ Rate cuts from the Fed and ECB should provide support.	▪ The impact of rising rates on the fundamentals of BB and B companies seems contained. ▪ CCC issuers are weak but stabilising. ▪ We remain selective, favouring higher-quality names.	▪ Constructive on HC space amid a supportive macro backdrop and attractive yields, with a selective preference for HY over IG. ▪ Local Currency debt could also benefit from more dovish EM CBs. We remain focused on areas with appealing real yields.	▪ This is an income story with credit selection in focus ▪ Loan fundamentals should remain stable with defaults near current levels ▪ This asset class could become even more appealing if inflation risk resurges, because floating rates will reset higher and carry will improve.

Source: Amundi Investment Institute, Bloomberg, analysis by Amundi Investment Institute. Data is as of 1 November 2024. Index providers: government bond and EM bond indices are from JPMorgan; corporate bond indices are from Bloomberg; leveraged loans index is from Morningstar and refers to the US market. All indices used to represent asset classes are in local currency. **Past performance is no guarantee of future results.**

EQUITY

More room for stocks to move higher

KEY TAKEAWAYS

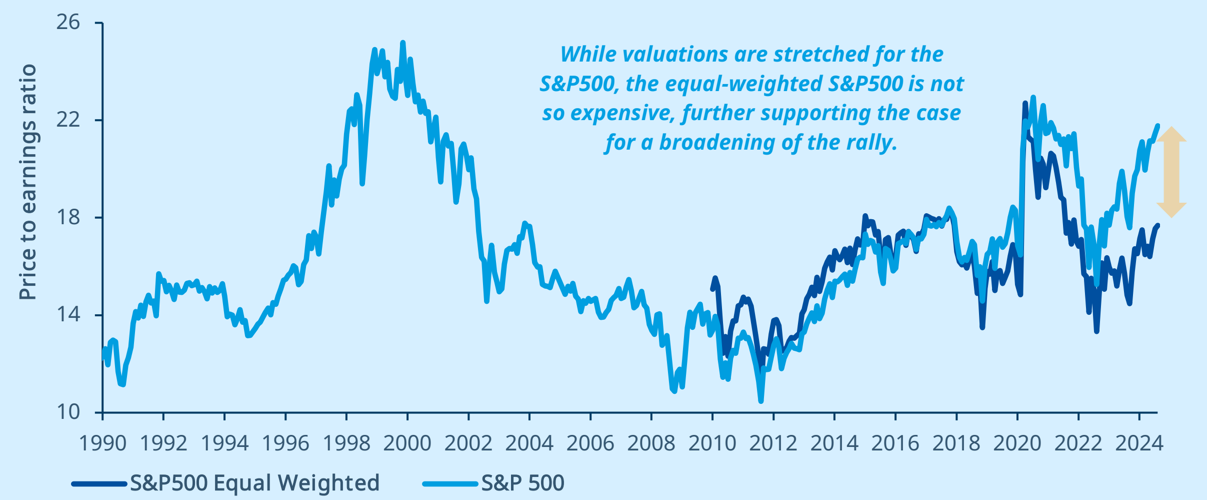
- US earnings forecasts and valuations look aggressive, yet past soft landings have driven strong equity gains. We remain optimistic about 2025 and we expect a mid-high single-digit return.
- The convergence of earnings growth should support a broadening of the rally in favour of US equal-weighted stocks. Opportunities to be found primarily in Japan.
- Sector allocation will be more critical than country allocation, emphasising a shift towards cyclicals, particularly consumer discretionary. AI, defence upgrades and manufacturing re-shoring will continue to be key themes.

A US soft-landing, synchronised lower rates in the US and Europe, and a stimulus package in China bode well for equities in 2025. There is room for the broadening of the bull market to continue.

Our US economic scenario echoes two periods of history: the 1950s, when the end of the Korean war also ended a negative supply shock, and the mid-1990s, when the Fed engineered a soft landing. In both periods, what felt like the end of an economic cycle turned out to be an extension. We believe history could very well rhyme, leading to another year of positive stock market performance in 2025. **A US soft landing, synchronised lower rates in the US and Europe and a stimulus package from China support this scenario, but investors should be mindful of aggressive valuations and earnings expectations.**

Admittedly, earnings expectations for 2025 are high, even in light of our relatively optimistic views about how US GDP growth will recover by the second half of next year, but **in the absence of a hard landing, earnings should continue to grow in 2025.** Following the result of the US presidential elections, discussions on the evolution of corporate and capital gains taxes, and policy decisions about tariffs and immigration are likely to overshadow earnings trends. US stocks have already enjoyed their strongest performance during an election year since 1980, but the clear election outcome opens the door for a more procyclical stance.

Valuations of the S&P500 equal-weighted vs S&P500



Source: Amundi Investment Institute, Bloomberg, as of 31 October 2024. Bloomberg Estimates Price/Earnings Ratio.

EQUITY

Broadening of the rally to continue

If the first half of 2024 was dominated by the Magnificent Seven (Mag7) US tech stocks, the second half of the year has witnessed a broadening of performance. The correlation between individual S&P500 stocks and the index has fallen from 60% a year ago to around 40% now. In addition, the convergence of earnings growth between the Mag7 and the S&P493 is expected to materialise in 2025, favouring the equal-weighted index over the market-cap-weighted one. We expect this broadening trend to continue.

European challenges are more than discounted, but opportunities tied to yen dynamics in Japan are more appealing for now

Continental Europe faces vulnerabilities from worsening geopolitics and trade restrictions, as major European companies rely heavily on exports. Yet **these risks may be more than discounted.** The gap between the forward P/E for the S&P500 and the Stoxx600 indicates that **Europe is particularly appealing as a value play** at the moment. Here, we favour a combination of Value with Quality and have **a positive stance on Small Caps**, where selection is key as the stabilisation is still fragile.

Within Europe, we favour the UK as a hedge against the Middle East crisis. The UK market is defensive, offers high dividends, and is more resilient to rising energy prices compared to the Eurozone. However, we plan to rotate out of the UK into more cyclical markets once the US cyclical extension is confirmed.

The Japanese market is also good value relative to the US, although rising inflation complicates the situation by prompting the Bank of Japan to raise rates, which then strengthens the yen and impacts earnings. **Nonetheless, the end of deflation and reforms in corporate governance are positive signs,** and we would consider a more positive stance if the FX market stabilises. The stronger USD post US elections is a good sign.

Lastly, the Pacific ex-Japan market may be poised to reverse its long-term underperformance, with the strength of the Australian dollar suggesting a potential recovery. This would probably also need some confirmation regarding the strength of the China stimulus package.

Opportunities across and within sectors

Across global sectors, **we favour a balanced stance between early cyclicals and rate-sensitive defensives**, with a preference for Financials, Communication Services and Utilities.

Financials, especially Banks, look particularly cheap and should continue to benefit from returning capital to shareholders. We like **Communication Services, mostly in the US**, given strong earnings and reasonable valuations. **Utilities**, while also attractive, look even cheaper and should benefit from lower yields across regions. Additionally, **Utilities have some exposure to the AI theme** in the US.

Looking ahead, we are likely to shift more towards a cyclical exposure, with consumer discretionary in focus, as the battle between slower earnings growth and lower Fed rates will be more engaged. Additionally, several sectors may benefit from trends that are independent of the economic cycle. **AI will remain a long-term theme**, but it's important to approach investments in this area with caution due to the high valuations of the largest companies. The transition is expected to favour **software**. In the industrial sector, **Defence** will likely benefit from geopolitical tensions, while manufacturing re-shoring will provide broader support.

Main Developed Market equity convictions as of early November 2024

REGIONS

	--	--/-	-	-/=	=	=/+	+	+/++	++
USA					◆				
Europe					←	◆			
EMU					◆				
UK					←	◆			
Japan						◆	→		
Pac. ex Jp					◆				

GLOBAL STYLES

	--	--/-	-	-/=	=	=/+	+	+/++	++
Growth					◆				
Value							◆		
Small caps						◆			
Quality							◆		
Low Vol.					◆				
Momentum					◆				
High Divid.					◆				

GLOBAL SECTORS

	--	--/-	-	-/=	=	=/+	+	+/++	++
Financials						◆			
Cons. Discr.					◆	→			
IT					◆				
Industrials					◆	→			
Materials					◆				
Energy					◆				
Cons. Staples				◆					
Health Care					◆				
Comm. Serv.						◆			
Utilities						◆			
Real Estate					◆				

Source: Amundi Investment Institute, as of 6 November 2024. Global styles and Global Sectors refers to views on MSCI World factor and sectors indexes. Views on a 9 scale level. The diamonds indicate the current stance ad 6 November 2024, the arrows indicate the direction of change in H1 2025.

FACTOR INVESTING FOCUS

Broadening of factors performance

Adjustments in market anomalies favour factor rotations

The significant and sudden factor rotations in 2024 were a clear illustration of the market instability that occurs when multiple small-risk sources align with each other. During this period, the concentration within the equity market reached an all-time high (since 1987), with the top 10 US stocks by market capitalisation accounting for more than 30% of the S&P 500 Index. This **extreme rise in stock concentration has contributed, somewhat, to an unstable market environment.**

Recently, the leadership of the Mag7 has finally started to fade and dispersion in the US market has significantly increased. **Risk repricing is underway.**

We are seeing a broadening of the factors that are contributing, as well as a reversal in the contribution of some. Contrary to what has occurred in the past, **Value, Low Volatility and Low Momentum factors have become the biggest positive contributors** to the growing dispersion, while High Beta and Large Cap factors have become the most negative ones. **Greater dispersion usually creates more opportunities for factor investors**, who will also benefit from increased diversification among factors.

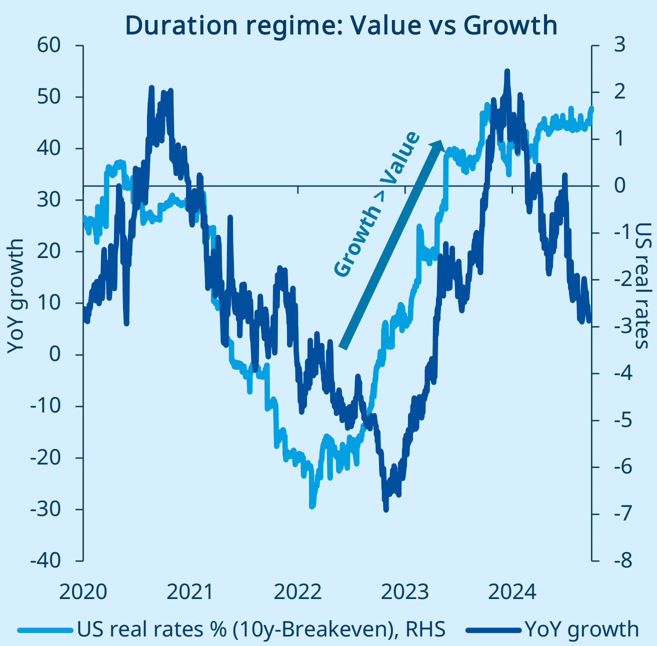
Factor expectations for 2025

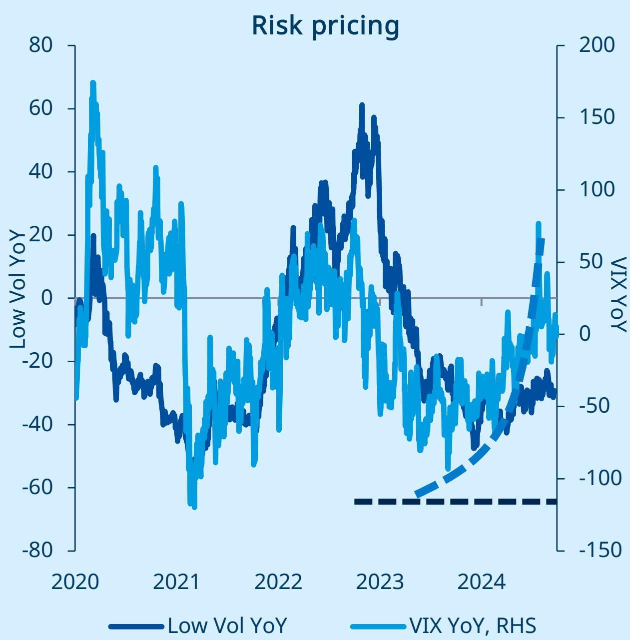
In 2024, the level of the "Low Volatility" premium has rarely been so low, both on 1- and 5-year horizons. We have reached levels that have historically triggered a mean reversion. In addition, higher volatility in 2025 would support the Low Volatility factor, which has performed well during turbulent periods in 2024.

Turning to the Growth versus Value factor outlook, Growth / Value rotations have been driven by real interest rate dynamics during the last 4 years: Growth outperforming Value with increasing real rates and vice-versa.

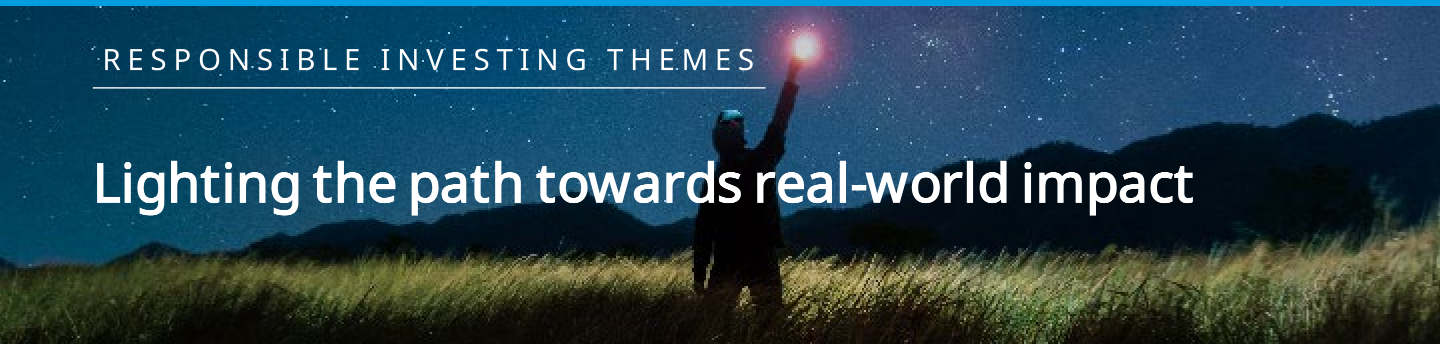
In 2025, **we expect that stabilising and / or declining real rates will be a tailwind for Value.** Furthermore, Value and Mid Cap factors could provide a good hedge if the bubble in Growth and Big Cap factors deflates. Although short-term rallies may occur among low-quality companies, robust performance should be better achieved when combining Value and High-Quality stocks.

Value and Low Volatility in focus in 2025





Source: Amundi Investment Institute, Bloomberg as of 6 November 2024.



RESPONSIBLE INVESTING THEMES

Lighting the path towards real-world impact

2024 has been a year of real-world progress. The energy sector is gathering speed with solar panel sales outpacing demand, while electric vehicle (EV) sales have seen increased penetration. Meanwhile, companies have been moving forward, with an additional 2,000 commitments towards climate targets (a 30% increase versus 2023).[1] Regulation is picking up speed and driving change, but it is also increasing complexity for investors. This progress is reflected in the rising demand for investment solutions aimed at real-world impact. Transition finance, biodiversity solutions and engagement activities are in the spotlight, in this respect. For 2025, we see several themes at work for responsible investors, such as:

First, renewable energy (RE) growth is accelerating. The International Energy Agency (IEA) expects that renewables will account for almost half of global electricity generation by 2030.[2] Investors can capitalise on this growth by investing in RE energy operators and suppliers of equipment for the wind, solar or hydro markets. We favour utilities operating in regulated environments that support the cost recovery for retiring coal plants and transitioning to clean energy. Also, equipment suppliers are experiencing strong structural demand growth that is expected to continue, particularly given the advances in AI technologies. These technologies have huge energy usage and will increase the demand for data centre equipment.

Second, copper demand is expected to double by 2035.[3] It is the preferred mineral for electricity networks that link homes/businesses to renewable sources, while it is also critical in the making of solar panels, wind turbines and EV batteries. Meanwhile, copper supply is inelastic given: the long lead times for new mines, the grade depletion of existing mines and supply shock events (e.g. a mine shutdown). A strong copper price is expected over the medium term, benefiting mining companies.

Third, EV sales growth is driving robust demand for EV batteries. Global sales rose by an annual 30.5% in September, albeit growth has varied across regions. While Europe and the US have reached 14% and 9% penetration rates respectively, China remains the main driver of this market (+50% penetration), and there is cause for optimism for a further acceleration in 2025.[4]

Overall, the net zero journey continues to offer investment opportunities. Transition frameworks are effectively directing capital towards solutions that mitigate risks and enhance performance. While achieving this balance is not guaranteed, investors can focus on what aligns with their mandates. The relationship between the transition and physical climate risks is complex; rising temperatures increase physical risks, while delays in introducing transition policies reduce transition risks. Notably, the economic impact of rising temperatures may outweigh that of carbon pricing or policy changes. As we advance, investors must stay adaptable to navigate the evolving climate finance landscape.

Key Investment Implications

Investments in renewable energy suppliers and operators include wind turbine manufacturers, utilities that are phasing out coal by 2027, and capital goods firms supplying electrical equipment to data centres.

Net zero is driving copper demand and prices could reach historical peaks in a net zero emissions scenario. We explore opportunities in emerging markets, for example, those among the Chilean miners.

Robust EV battery growth in emerging markets presents interesting opportunities. In particular, we favour a high-quality Chinese manufacturer that achieves economies of scale and benefits from strong domestic demand.

[1] Science Based Targets initiative. [2] International Energy Agency, October 2024. [3] International Energy Forum, "How copper shortages threaten the energy transition", January 2024. [4] Reuters and EV Market Monitor – Cox Automotive Inc. (September 2024).

PRIVATE MARKETS

Infrastructure shines bright

Private Markets: infrastructure is favoured due to the energy transition; private equity is recovering; private debt is benefiting from strong bargaining power; the real estate market has stabilised.

Against a backdrop of mildly decelerating economic growth, weakening domestic demand and interest rate cut expectations, the private market and real estate asset classes can offer relatively attractive investment opportunities as well as risk and return diversification.

We favour infrastructure investment due to its strong growth outlook and steady cash flow. Although volumes remain lower than a few years ago, the market is active. Lower interest rate expectations are supporting activity while the energy transition will continue to drive growth in the years ahead. Governments are supportive of private capital, as it is needed to complement public funding in building renewable energy infrastructure, meeting transport electrification targets and digitalising activities, as well as supply chains.

Turning to **private equity**, volumes are progressively ticking up, helped by interest rate cuts, while **pricing has stabilised.** Trading is taking place in high-quality, non-cyclical sectors (e.g. business services, healthcare and software areas). These are profiting from strong structural growth, pricing power and robust cash flow generation. Meanwhile, high valuation multiples in the listed market ensure that the private market's relative valuation levels are offering more attractive entry points than they were a year ago.
As regards **private debt, companies are still benefiting from strong bargaining power in negotiating lending contracts**, partly due to bank financing remaining constrained (albeit this constraint has eased somewhat, over the last six months).

Concerning **real estate, the outlook for 2025 is more attractive than it was for 2024.** Although investment turnover in European commercial real estate is still low, it has increased year-on-year over H1 2024. This was helped by the repricing that had taken place. In particular, we have seen signs of stabilisation in prime real estate yields and expect the year-on-year investment volume growth achieved earlier this year by this sector to persist in 2025. However, we anticipate that it will not reach the 2021 level, and the market should remain very segmented. In the leasing sector, rents should benefit from the relatively scarce supply of the most sought-after assets; conversely, the rent outlook for non-prime offices is weak. Finally, ESG issues are key, and investors are factoring these into investments' cash-flow forecasts.

Private Markets views for H1 2025

	Infrastructure	Private equity	Private debt	Real estate
2025 outlook	++	=	+	+/=
Inflation protection	++	=	++	+
Diversification benefit	+++	+	+	++

Source: Amundi Investment Institute, as of 6 November 2024.

HEDGE FUNDS

Rising alpha opportunities

The hedge fund (HF) industry delivered 7% year-to-date (HFRI FoHF as of September 2024) with healthy alpha generation. HF also remain an attractive source of diversification.

The current phase of the cycle, essential for identifying the sources of future alpha, will influence the preference for various hedge fund strategies. An exceptionally polarised combination of positive factors – such as robust macro liquidity and a low risk of recession – exists alongside anomalies and tail risks, including elevated valuations, fiscal challenges and geopolitical tensions. This situation suggests a cycle phase characterised at the same time by a series of shocks, resulting in brief economic phases and some features of an early cycle.

Alpha is likely to remain abundant in Long / Short (L/S) Equity, supported by a broadening in stock markets, low stock correlation and an increased focus on companies' fundamentals. Alpha potential could be constrained by lower dispersion though. We believe investors should continue to add directionality, rebalancing **L/S Neutral** with a more **L/S Diversified bias.**

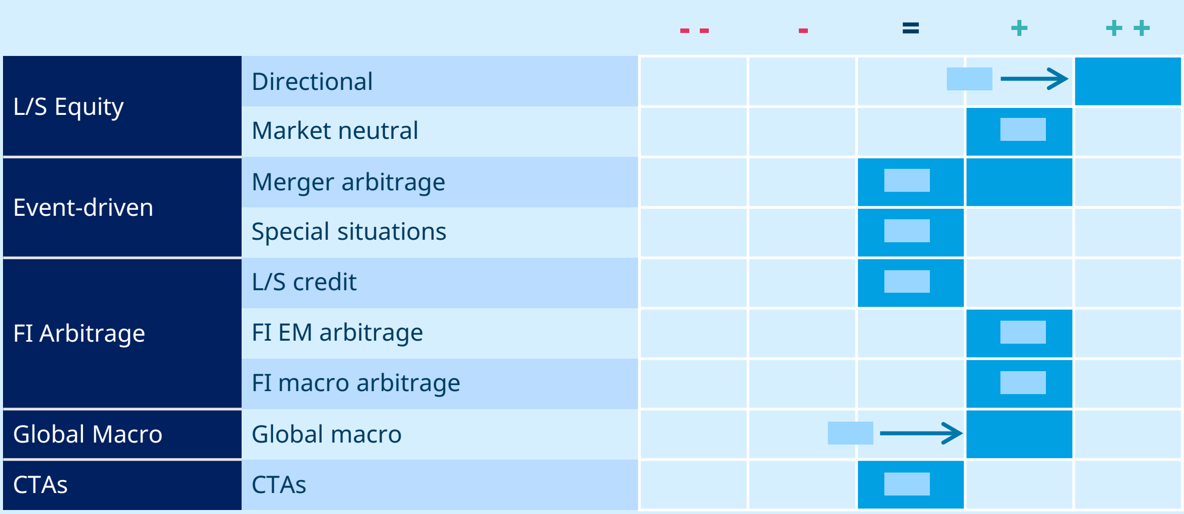
The Merger Arbitrage strategy is likely to unleash greater potential under the new Trump administration. Easier regulations, more tax and business-friendly corporate policies, resulting in greater corporate activity, would provide impetus. Cheaper European targets are likely to lure increased interest as well.

Amid elevated equity valuations, healthy liquidity and benign credit conditions, carry within credit remains appealing. **L/S Credit HF continue to provide an appealing gateway at affordable risk.** We would move the cursor in favour of **EM-focused managers at the expense of DM-focused,** where valuation and dispersion now provide more limited alpha opportunities.

Multiple cycle inflections and frequent investor scenario reassessments in recent months have been challenging for Global Macro. With monetary easing having started, moderating macro uncertainties and a focus on more traditional growth drivers, **the backdrop is becoming more favourable for Global Macro,** which has been revised up while staying neutral on CTAs.

As we move to the next phase of the cycle, alpha engines should gradually turn. We would make room for more directionality in L/S Equity, EM L/S Credit, with a Global Macro revival.

Hedge fund views for H1 2025



Source: Amundi Investment Institute, as of 6 November 2024.

Stance at Nov 2024 | Direction of change | Stance for H1 2025.

CURRENCIES

Developed Markets

Following Trump's victory in the US elections, **three main transmission channels may lead to a stronger US dollar and higher foreign exchange (FX) volatility in the near term:**

1. A hostile approach to foreign trade including tariffs may lead to a decline in world trade, causing export-led economies to suffer more than the US, which is more domestically focused;
2. China's excess capacity may induce further disinflation in Europe, if the US opts for broadly applied tariffs on Chinese imports. This could stoke concerns about policy divergences with the Federal Reserve, in turn supporting the USD.
3. The new administration's policies may lead to higher inflation in the US, and therefore greater uncertainty regarding the Fed's path. A lower USD requires a bull-steepening of the US yield curve.

While each of these could credibly support the USD, we believe a resurgence in US inflation and a spike in interest rate volatility are the only scenarios that would necessitate substantial upside for the USD from this point. However, **we find it difficult to believe that such a trend can be sustained, and expect the USD to eventually weaken in 2025.** The negative growth shock from higher tariffs could eventually weigh on the US economy and the need for interest rate cuts is more evident than ever, given the already worrying state of public finances and associated interest expenses. We see increased confidence on rate cuts as a trigger for a lower USD.

Emerging Markets

We remain selective regarding Emerging Market (EM) currencies. The path may be bumpy, with high volatility and temporary support for the USD, but **EM FX serve as the ultimate shock absorber in the event of external shocks,** such as a wave of tariffs. Additionally, we should not underestimate the potential for a more **medium-term competitive devaluation** as a means for EM governments to protect exports.

Our base case still sees EM central banks continuing to cut rates to support domestic economies, which, together with expected price stabilisation, should translate into **higher real rates,** particularly for Latin American countries. The risk of a surge in global inflation (in both core and EM countries) could narrow the room for monetary policy and, therefore, the attractive carry associated with it.

The **Brazilian Real** appears to be favoured, supported by high real policy rates from the recent hiking cycle, and its attractive valuation. We are also positive on some **high-carry currencies,** such as the Indonesian Rupiah (IDR) and the South African Rand (ZAR). For domestic policy reasons, we are slightly constructive on the **Chinese Yuan** (CNY), as the currency is supported by the fiscal package announced by the government. While we cannot rule out some CNY weakness or volatility in response to external shocks (such as tariffs), that should not be the preferred method of retaliation; instead, the Chinese authorities will continue to seek currency stability, intervening in cases of excessive weakness.

COMMODITIES

Gold

Risk remains on the upside given the alignment of medium-term catalysts including ongoing monetary easing, fiscal slippage and deteriorating debt sustainability, central banks' purchases especially from dollar-non-aligned countries, continued US-China tensions and geopolitical risks, and modest mining growth. However, the upside is likely to be modest as gold increasingly defies gravity: valuations are rich and long positions are consensual while price-elasticity puts pressure on jewellery demand. With prices flirting with record highs, setting targets is more art than science. **We maintain our 2025 target at USD 2,800/oz.** Cheap gold miners are attractive too.

Industrial metals

The ongoing Chinese deleveraging and the energy transition pace remain the two colliding forces for metals. While stimulus in China is unlikely to reverse the secular trend, particularly in property markets, it does help minimise systemic threats and downside risks for metals. As world growth stabilises around cruising level – supported by monetary easing – incremental metal demand is likely to be driven by the energy transition (mainly from electric vehicles) and price-demand elasticity. Tight supply continues to pose an upside risk to the price of **copper**, expected to average **USD 10,500/t** in 2025. **A core medium-term allocation** remains attractive in our view.

FORECASTS

Macroeconomic forecasts

Macroeconomic forecasts						
Annual averages, %	Real GDP growth, YoY, %			Inflation (CPI), YoY, %		
	2024	2025	2026	2024	2025	2026
Developed countries	**1.6**	**1.6**	**1.6**	**2.7**	**2.2**	**2.0**
United States	2.6	1.9	2.0	2.9	2.2	2.1
Eurozone	0.8	1.0	1.3	2.3	2.0	1.9
Germany	*0.1*	*0.7*	*0.9*	*2.4*	*2.1*	*2.0*
France	*1.1*	*0.9*	*0.9*	*2.6*	*2.0*	*2.0*
Italy	*0.8*	*0.8*	*0.8*	*1.3*	*1.8*	*2.0*
Spain	*2.8*	*1.8*	*1.8*	*3.3*	*2.3*	*2.0*
United Kingdom	1.1	1.6	1.4	2.5	2.1	2.2
Japan	0.4	1.4	0.7	2.6	2.4	1.9
Emerging countries	**4.3**	**3.9**	**3.9**	**5.5**	**4.1**	**3.4**
China	4.8	4.1	3.6	0.4	0.7	0.6
India	6.8	6.3	6.5	4.9	5.7	5.4
Indonesia	5.2	4.9	5.0	2.4	2.7	3.3
Brazil	3.0	2.1	2.4	4.3	4.3	3.8
Mexico	1.2	0.9	1.6	4.7	4.9	3.9
Russia	3.5	1.0	2.0	8.0	8	6.2
South Africa	0.9	1.4	1.5	4.6	3.9	4.4
Turkey	3.7	2.8	3.3	59.9	28.8	19.1
World	**3.2**	**3.0**	**3.0**	**4.4**	**3.3**	**2.9**

Central banks' official rates forecasts, %					
	08 November 2024	Amundi Q2 2025	Consensus Q2 2025	Amundi Q4 2025	Consensus Q4 2025
United States*	4.75	3.50	3.70	3.50	3.30
Eurozone**	3.25	2.25	2.25	2.25	2.00
United Kingdom	4.75	4.00	4.00	3.50	3.55
Japan	0.25	0.75	0.50	0.75	0.70
China***	1.50	1.00	1.35	1.00	1.30
India****	6.50	6.00	5.85	6.00	5.70
Brazil	11.25	12.50	12.00	12.50	11.00
Russia	21.00	19.00	17.80	16.00	14.10

Source: Amundi Investment Institute. Forecasts are as of 8 November 2024. CPI: consumer price index. *: Upper Fed Funds target range. **: Deposit rate. ***: One-year loan prime rate. ****People's Bank of China Reverse Repurchase Notes 7 Day Rate. Q2 2025 indicates end of June 2025; Q4 2025 indicates end of December 2025. Current rates and Consensus are from Bloomberg.

FORECASTS

Financial market forecasts

Bond yields

Two-year bond yield forecasts, %

	8 November 2024	Amundi Q2 25	Forward +6m	Amundi Q4 25	Forward +12m
United States	4.2	3.7	4.1	3.7	4.1
Germany	2.2	2.0	2.0	2.0	1.9
United Kingdom	4.4	3.8	4.3	3.7	4.0
Japan	0.5	0.9	0.6	1.0	0.6

Ten-year bond yield forecasts, %

	8 November 2024	Amundi Q2 25	Forward +6m	Amundi Q4 25	Forward +12m
United States	4.3	4.3	4.4	4.3	4.4
Germany	2.4	2.3	2.5	2.3	2.5
United Kingdom	4.5	4.1	4.5	4.0	4.5
Japan	1.0	1.2	1.1	1.3	1.2

Equities forecast at Q4 2025

MSCI Index levels at	US	Europe	EMU	UK	Japan	Pacific ex-Japan	World	World AC
6 November 2024	5 657	2 016	286	2 330	1 674	1 403	3 752	855
Lower bound	5 630	2 100	280	2 390	1 580	1 390	3 770	840
Upper bound	6 500	2 300	340	2 610	1 980	1 610	4 230	990

Exchange rates

	6 November 2024	Amundi Q2 25	Consensus Q2 25	Amundi Q4 25	Consensus Q4 25
EUR/USD	1.08	1.13	1.12	1.16	1.12
EUR/JPY	165	159	158	150	158
EUR/GBP	0.83	0.84	0.84	0.84	0.84
EUR/CHF	0.94	1.01	0.96	1.02	0.96
EUR/NOK	11.72	11.44	11.21	11.09	11.21
EUR/SEK	11.56	11.61	10.98	11.27	10.98
USD/JPY	153	140	141	130	141
AUD/USD	0.67	0.71	0.70	0.73	0.70
NZD/USD	0.60	0.63	0.64	0.64	0.64
USD/CNY	7.14	6.89	7.01	6.76	7.01

Source: Amundi Investment Institute. Forecasts are as of 6 November 2024. Q2 2025 indicates end of June 2025; Q4 2025 indicates end of December 2025.

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DEFINITION ABBREVIATIONS

Currency abbreviations: USD – US dollar, BRL – Brazilian real, JPY – Japanese yen, GBP – British pound sterling, EUR – Euro, CAD – Canadian dollar, SEK – Swedish krona, NOK – Norwegian krone, CHF – Swiss Franc, NZD – New Zealand dollar, AUD – Australian dollar, CNY – Chinese Renminbi, CLP – Chilean Peso, MXN – Mexican Peso, IDR – Indonesian Rupiah, RUB – Russian Ruble, ZAR – South African Rand, TRY – Turkish lira, KRW – South Korean Won, THB – Thai Baht, HUF – Hungarian Forint.

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