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Solid equity performances keep funding ratios on a high

Despite experiencing volatility in Q3 2024, markets demonstrated resilience with largely positive returns. The decrease in liability discounting rates in Q3 compensated these good performances, and funding ratios have been mostly stable over the period, still at comfortable levels.

Market review: Resilience despite some volatile periods

The third quarter of 2024 was characterised by a generally positive performance across most asset classes, with both equities and bonds delivering robust returns despite a volatility spike in August. Between June and October, the MSCI World Equity Index rose by +4.3% in net USD terms, with US equities leading the charge. The S&P 500 gained +5.9% in Q3, reaching an all-time high in mid-October before a sell-off at the end of the month. This **upward momentum** was supported by strong corporate earnings, particularly in the financial sector, which exceeded market expectations.

In the bond markets, the evolution of long-term interest rates played a crucial role in shaping market dynamics. Throughout Q3, US Treasury yields for long-term bonds experienced a significant decline, with the 10-year yield falling from 4.40% at the end of June to 3.78% by the end of September. This decline was largely driven by the Federal Reserve's decision to cut rates by 50 basis points in September, signaling a **more accommodative monetary policy** stance in response to weakening economic indicators. However, in October, stronger-than-expected economic data led to a reassessment of future rate cuts, with the 10-year yield rising to approximately 4.3% by the end of the month. This shift reflected **growing concerns** about inflation and the potential for a more aggressive monetary policy stance moving forward.

In the Eurozone, the European Central Bank (ECB) maintained a **cautious approach** to monetary policy, with the 10-year German Bund yield experiencing a similar trend. The yield fell from 2.6% end of June to around 2.1% by the end of September, but saw upward pressure in October as **inflationary concerns resurfaced,** leading to a rise in yields to 2.4%. The Euro experienced mixed performance against the US Dollar, strengthening by 3.9% in Q3 but facing pressure in October as the dollar rebounded.

In the UK, the Bank of England (BoE) cut its key interest rate by 25bps to 5.00% in August, marking its first reduction since the pandemic began. The yield on the 10-year UK Gilt also saw a slight decline (-20bps in Q3), reflecting the broader trend in long-term rates. However, as economic data improved, the yield began to rise in October, with a +45bps increase for the 10-year Gilt reflecting market expectations of a **more resilient economy.** The GBP weakened against the USD in Q3 but showed resilience in October, gaining 3.7% as the market adjusted to the reduced likelihood of rapid rate cuts.

Inflation and economic indicators played a **crucial role in shaping market** sentiment throughout the quarter. In the US, the Consumer Price Index (CPI) slowed to 2.5% in August, with core inflation at 3.2%. The labour market showed signs of strength, with unemployment at 4.1% in September. Following the election of Donald Trump, market **dynamics may shift** as investors assess the implications of his policies on fiscal and monetary strategies.

Low impact on pension funding ratios

As Figure 1 shows, these markets movements had a **limited impact** on pension funding ratios in the third quarter: On one hand, decreasing interest rates had a negative impact though the increased liabilities valuations, but good equity performance mostly compensated for these adverse conditions. All in all, funding ratios slightly decreased in Europe (-1%) and remained unchanged in the US during Q3. From end-September to mid-November, the rebound in interest rates, especially in the US due to Trump's election, combined with rather positive equity markets have **positively impacted pension funding.**

Figure 1: Pension Funding ratios

	31/12/2019	31/12/2020	31/12/2021	31/12/2022	31/12/2023	31/03/2024	30/04/2024	31/05/2024	30/06/2024	31/07/2024	31/08/2024	30/09/2024
Netherlands	104.30%	100.20%	114.30%	115.79%	114.60%	116.70%	117.50%	119.00%	120.39%	118.94%	119.52%	119.40%
UK	99.20%	95.50%	107.70%	136.47%	142.80%	146.50%	148.80%	149.41%	149.39%	148.50%	148.22%	148.43%
US	86.80%	87.90%	95.50%	98.20%	97.80%	100.20%	100.40%	100.70%	100.90%	100.80%	100.70%	100.90%

Sources: - UK data: Purple Book, PPF S179 funded status. - Netherlands data: Dnb - US data: Aon Pension Risk Tracker

The average situation of DB plans is still **very positive.** Currently, it seems that most plans will be able to pay their current pensioners rights with little or no additional contributions. Additionally, if we also consider the current shift from defined benefits to a defined contribution framework, future pension accruals (i.e. services cost) are on a downward trend. Indicators tend to show that the sustainability of the DB system is on course financially.

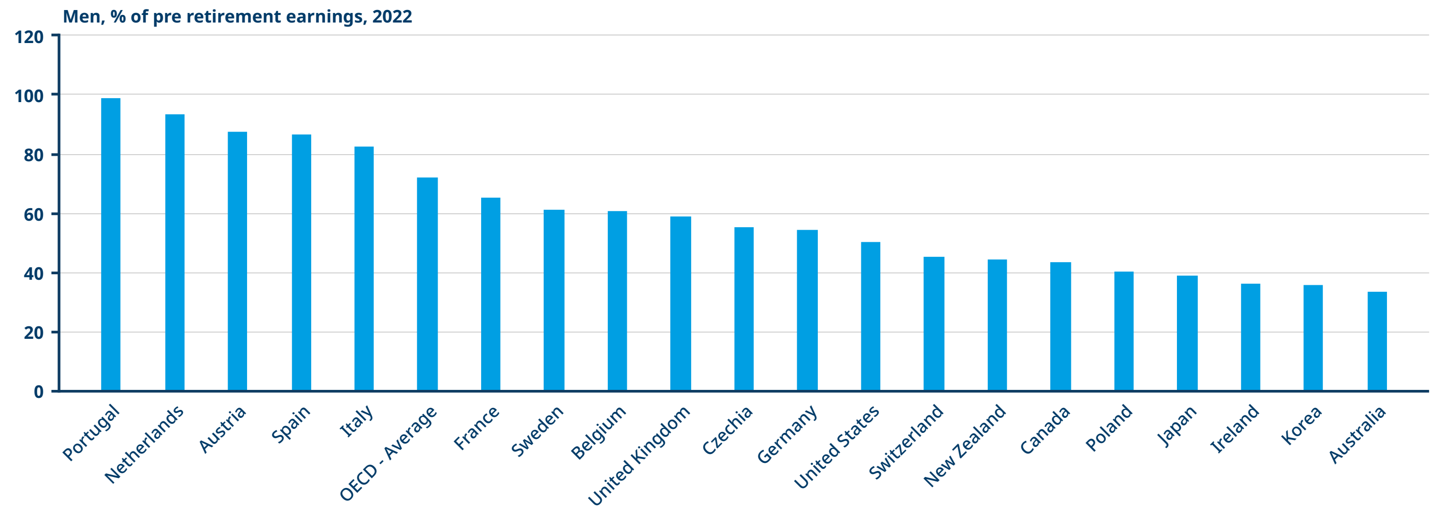
Lack of standardised pension adequacy measures for DC Schemes

But these funding indicators only address part of the retirement system. We still **lack international** standardised and commonly accepted **indicators for defined contribution** plans. In the DC universe, risks are supported by the members. Thus, the major issue is the level of pension they will be able to secure at retirement. Will it be enough to **ensure good living standards?** The "pension adequacy" concept refers to this issue. The measure of expected replacement ratio can be a good indicator: For example, by considering all pillars of the pension system, what monthly pension can be secured at retirement as a proportion of final salary?

But we face **several hurdles** to derive a synthetic pension adequacy measure: As an illustration, DC pensions are individualised, and aggregation can hide huge discrepancies within a population. Secondly, the calculation of the **expected pot at retirement** heavily depends on investment choices and capital market assumptions, which can **vary significantly** from one provider to another. In addition, the **adequacy concept can differ** from one country to another depending on the relative importance of the first, second and third pillars.

Many tools have been developed by providers to simulate the individual outcomes of DC plans. The UK government started the pension dashboard program, to provide each individual a centralised, but personal portal[2]. Meanwhile, Dutch pensions are facing the reverse problem, namely the translation of defined benefits to a current lump sum in the context of their pension reform[3]. Also, many studies have been performed concerning this pension adequacy issue in the aggregate countrywide populations[4], mostly for the current retirement age cohort **(see Figure 2)**. But a **reactive and standard measure** like for DB pension funding ratios has **yet to be developed for DC.**

Figure 2: Net pension replacement rates for mandatory schemes only



Source: OECD Data Archive

2. See https://www.pensionsdashboardsprogramme.org.uk/
3. See Amundi Pension Funds Letter 18 for context on this reform
4. See European Union 2024 pension adequacy report for example

2025 Outlook

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. Europe is positioned for a modest recovery, with strategic investments in focus. Emerging markets are likely to maintain a growth premium over developed.

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.

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 in the new beneficiaries.

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.

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.

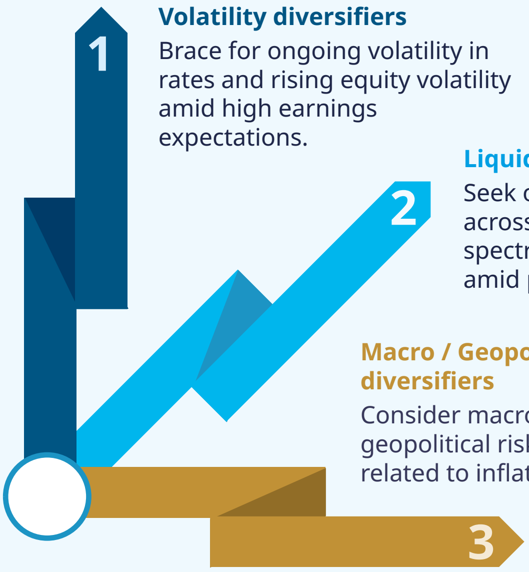
6. Private markets are lighting up, with infrastructure in focus

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.

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.

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***

Read the full Outlook

2025 Outlook

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.	• Lower output, sharp migration reduction in advanced economies lowers labour supply, unwinds supply gains. • Economic unbalances persist, further lowering potential growth (China, EU, etc.).	• 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

PROBABILITY: LOW → 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	for DM govies, cash, gold, USD, volatility, defensive assets and oil	for cash and gold	for TIPS, gold, commodity FX and real assets
MARKET IMPACT – Negative	for govies and expensive equities	for credit, equities and EM	for risk assets	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.

2025 Outlook

Amundi asset class views

	Asset Class	Stance as of 6.11.2024	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.

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Negative view Neutral Positive view

▼ Downgrade vs. previous month
▲ Upgraded vs. previous month

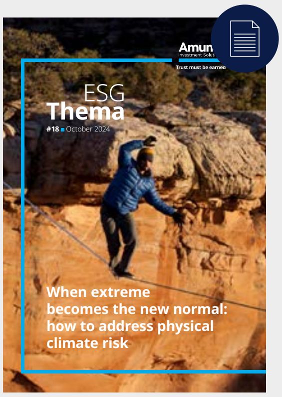
To go further: The Amundi Research Center

Amundi Investment Institute

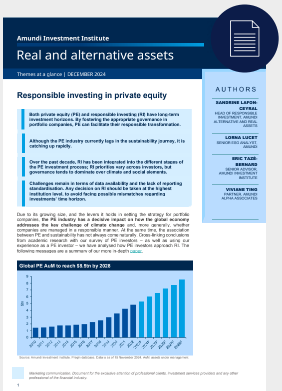
In an increasing complex and changing world, investors need to better understand their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios. This environment spans across economic, financial, geopolitical, societal and environmental dimensions. To help meet this need, Amundi has created the Amundi Investment Institute. This independent research platform brings together Amundi's research, market strategy, investment themes and asset allocation advisory activities under one umbrella; **the Amundi Investment Institute**. Its aim is to produce and disseminate research and Thought Leadership publications which anticipate and innovate for the benefit of investment teams and clients alike.

To find out more, please visit: research-center.amundi.com

Responsible Investment



Thematic Papers



Outlook 2025

IMPORTANT INFORMATION

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