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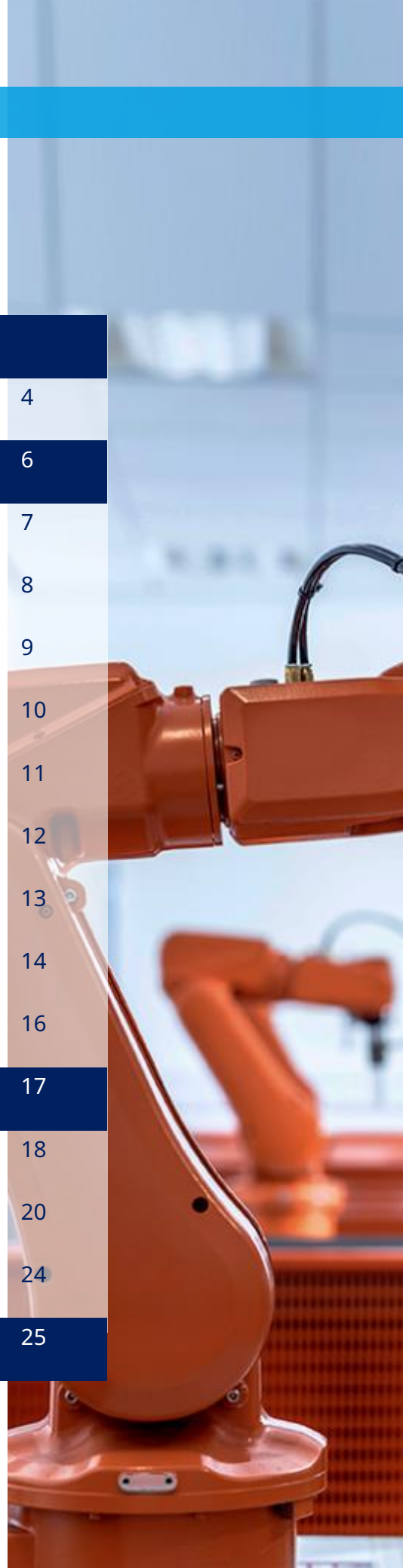
**Draghi's report:  
a call to action  
for Europe's  
competitiveness**

**CROSS ASSET INVESTMENT STRATEGY**

OCTOBER 2024 • Document for professional investors only

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**MONICA  
DEFEND**  
HEAD OF AMUNDI  
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*"The Fed gave strong forward guidance on rates, which is in contrast to its recent approach of staying data dependent (on inflation). This, coupled with some concerns on growth, led us to lower our terminal rate expectations."*

*"We would like to stay nimble because things could change fast if there is a downside surprise on growth, an upside surprise on inflation, or if geopolitical risks worsen."*



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TOPIC OF THE MONTH

# Draghi's report: a call to action for Europe's competitiveness

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KEY TAKEAWAYS

Mario Draghi's report on Europe's declining competitiveness poses a significant challenge for policymakers. While it has broad support, implementation will be hindered by fragmentation and a lack of political consensus.

A combination of low investment and low productivity has undermined Europe's competitiveness. Companies are hesitant to invest due to weak expected growth, creating a vicious cycle that is stifling further economic progress.

Draghi advocates significant structural reforms -- including a rethink of regulation and more financial market integration -- and a more flexible governance framework within the EU that will not stifle progress in the adoption of new technologies.

Draghi's report on Europe's declining competitiveness offers a comprehensive analysis, but many of its findings are not new. Yet, Draghi's stature may lend urgency to these recommendations. Those requiring EU funding or treaty changes are likely to encounter substantial political resistance. The report provides a clear direction of travel and some of the reforms that do not require new funding (e.g., regulatory changes) could move the dial sooner.

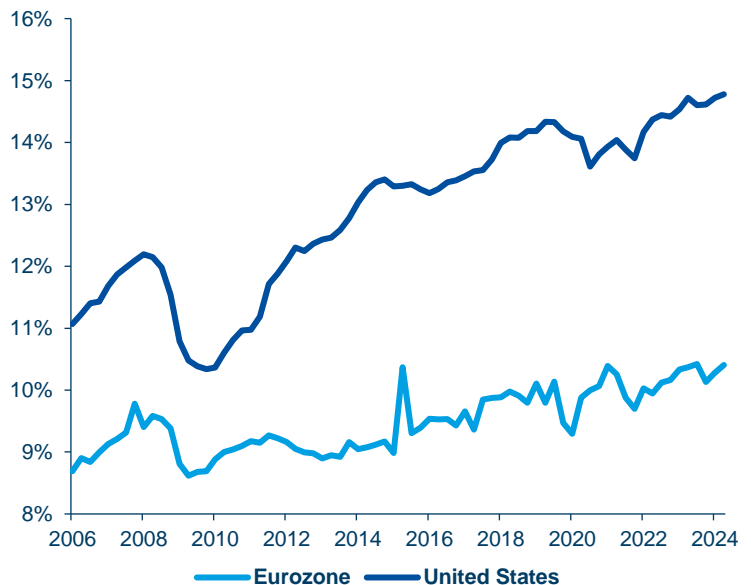
Key findings

Draghi's report is more than an economic analysis. It is framed within the broader European objectives of addressing climate change and preserving the continent's social model. Central to his recommendations are the themes of decarbonisation and inequality, which are not treated as afterthoughts, but as integral components of Europe's future.

The report highlights a critical dilemma: Europe's productivity and investment gap with the United States is not only large, but is also widening, and a similar trend is emerging in connection to China. The risk of Europe falling behind has already materialised and the threat of becoming irrelevant is escalating, particularly in light of advancements in the digital economy and artificial intelligence (AI). Europe's preparedness to tackle new geopolitical realities – including rising protectionism, changing supply chains and more aggressive industrial policies in other developed markets – is also in question.

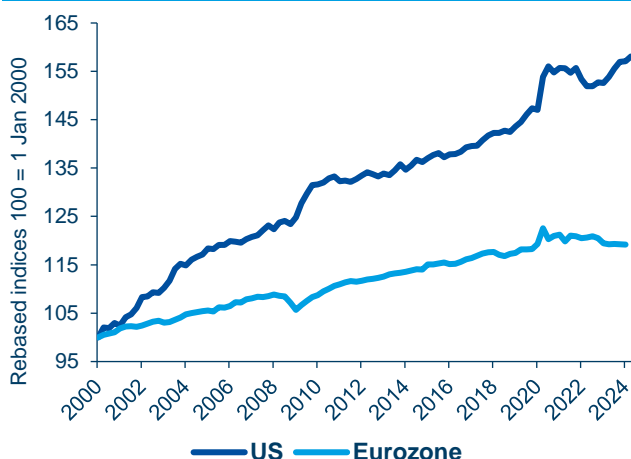
Reversing this decline will require higher growth and that, in turn, requires a governance and regulatory system that incentivises innovation and productivity improvements that can raise growth on a sustained basis.

Investments as % of GDP



Source: Amundi Investment Institute, Bloomberg. Date as of 24 September 2024.

## Labour productivity



Source: Amundi Investment Institute, Bloomberg. Date as of 24 September 2024.

### Challenges to competitiveness

The report highlights key factors undermining competitiveness, notably a lack of innovation, as the EU invests less in R&D than China. This issue is partly due to the incomplete single market, especially in services, limiting Europe's market scale compared to the United States and China.

Energy dependence on Russia has worsened Europe's competitiveness, leading to increased costs for manufacturing-heavy member states. Electricity prices vary significantly across the EU, with some countries paying up to 35% more, largely due to the absence of a unified electricity grid.

The US Inflation Reduction Act exacerbates the dilemma by attracting investment away from Europe, prompting major companies to delay EU investments in favour of better subsidies in the United States.

### Better financial market integration and a larger capital market could reduce the cost of capital

Completing the banking union by facilitating cross-border liquidity and mergers could lower bank financing costs. As larger banks typically have a lower cost of borrowing, they could lend at lower rates and this could help address the disadvantage EU firms face compared to US banks. Europe also needs an integrated capital market to channel savings into investments and reduce reliance on bank financing.

The Draghi report avoids difficult reforms like a uniform insolvency regime and tax system, which are necessary for enabling cross-border securitisation. Relaxing the EU's sustainable finance and ESG regulations could improve access to finance for SMEs, including in sectors like defence.

### The need for structural reforms and substantially increased investment

Draghi identifies a 4% GDP investment gap, requiring an additional €800bn yearly over the next decade. While most of this investment should come from the private sector, that in turn will depend on improved competitiveness and higher returns, hence his call for reforms. The report suggests a €100bn EU contribution for public goods like defence and energy infrastructure, but political feasibility for common EU debt remains uncertain, likely delaying initiatives until the next Multi-Annual Financial Framework in 2027.

Not all reforms require significant funding. Draghi argues that overly cumbersome and fragmented regulations along national lines deter investment and constrain the willingness of firms to spend on innovations, particularly in AI and the digital economy. Moreover, the stringent GDPR regime may be overly restrictive.

The EU's antitrust-focused competition policy limits mergers, perpetuating a landscape of smaller enterprises. Advancing towards a more integrated services market could yield substantial benefits.

Draghi calls for changes in the EU's governance framework, which requires unanimity for decisions and stifles reforms. He advocates for allowing subgroups of countries to implement agreements without full consensus.

### Looking ahead

While Draghi's report will take time to digest and implement, it will significantly influence the European Commission's legislative agenda over the next five years. In the near term, sentiment towards Europe could turn around if some of his less onerous recommendations are adopted.

### The diagnosis

At the heart of Draghi's analysis is the observation that Europe's growth has lagged significantly behind that of the United States since the Global Financial Crisis. This disparity has resulted in lower increases in per-capita incomes and living standards. The primary culprit is identified as the substantially lower levels of investment in Europe compared to the United States, leading to declining productivity. This combination of low investment and low productivity ultimately undermines Europe's competitiveness.

Draghi's message is clear: without substantial changes, Europe's competitiveness will erode further, ringing an existential alarm bell. Companies are hesitant to invest due to a lack of expected growth, creating a vicious cycle that is stifling economic progress.



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MACROECONOMICS,  
GEOPOLITICS,  
AND STRATEGY

MACROECONOMIC FOCUS

# If only LatAm’s fiscal policy could mimic its prudent monetary policy stance

While monetary policy in LatAm has been nothing short of prudent, both on the way up and down, LatAm’s post-Covid and post-elections fiscal consolidation has not, or not yet, gone sufficiently far enough. The situation appears most pressing and politically challenging in Brazil and Mexico as highlighted below.

In Brazil, President Lula’s early overhaul of the country’s fiscal framework has allowed fiscal spending to grow in real terms after a far more stringent stance under Bolsonaro. But it was the change in the fiscal targets earlier this year alongside very robust growth in spending (above the allowed ceiling) that has made markets uneasy about where things are heading – the country needs a bulky primary surplus in order to stabilise its already high debt ratio. Thanks to Haddad’s relentless efforts the 2024 (official) primary deficit target looks within reach (0.00%+/-0.25) with far more challenges ahead. Moody’s generous credit rating revision – to only one notch below IG and a positive outlook – will boost the FinMin’s political capital and likely make him even more determined to anchor Brazil’s fiscal expectations with Lula’s goodwill in place for longer.

In Mexico, AMLO’s\* fiscally austere stance survived the Covid years but not the elections, with the overall budget deficit expected to widen from slightly over 4% of GDP in 2023 to around 6%. AMLO’s Hacienda\* guided for a huge 3pp deficit reduction earlier this year which sounds highly unlikely in light of slowing growth and the new President’s ambitious social agenda and policy priorities. Still, we think Sheinbaum’s 2025 budget, out on 15 November, is likely to propose fiscal consolidation of at least 2pp leaving the rest for 2026. That would ease the markets’ concerns about the extended fiscal starting point with investors’ patience having already been heavily tested by the recent passage of the Judiciary reform.

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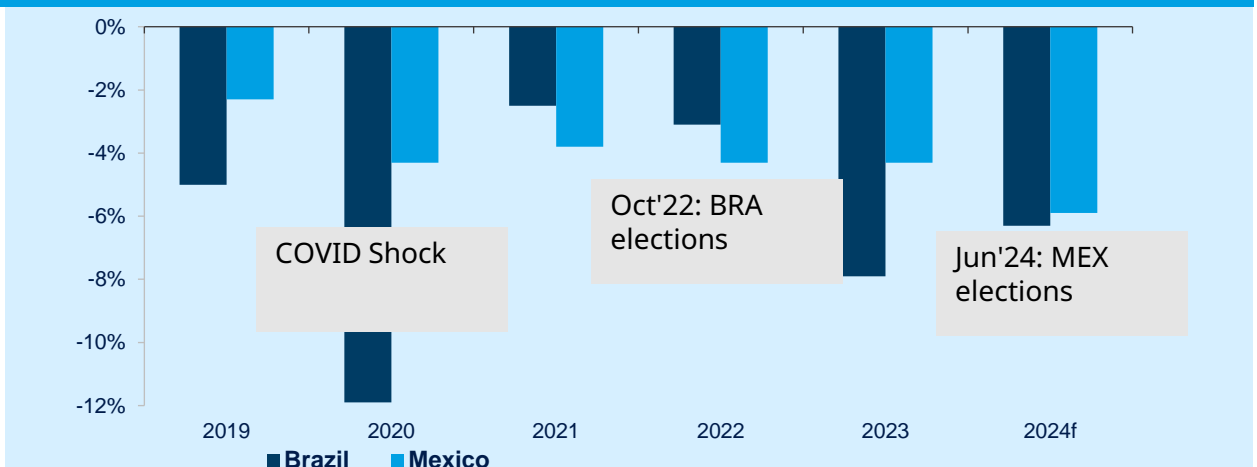
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*“In LatAm, fiscal consolidation efforts post-Covid and post-elections still have a long way to go.”*

\*AMLO refers to Andres Manuel Lopez Obrador, Mexico’s president from 2018 to 2024 and Hacienda refers to the Mexico’s fiscal authority.

CHART: LatAm: overall budget balance (% of GDP)

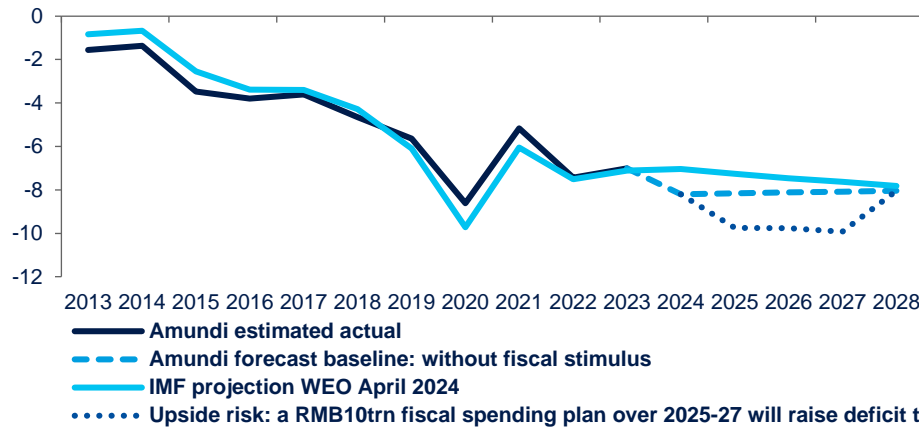


Source: Amundi Investment Institute, IMF. Data as of September 2024.

CHINA

# All eyes on fiscal policy

## China's fiscal balance (% of GDP)



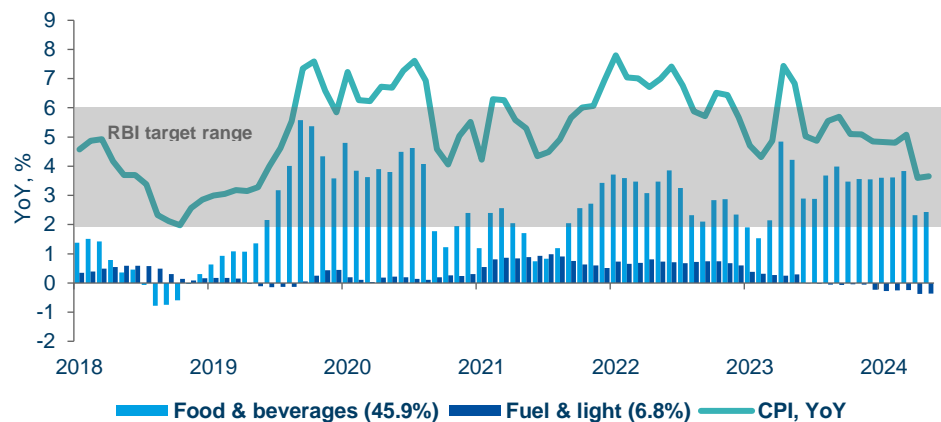
Source: Amundi Investment Institute, IMF as of 1 October 2024.

China's policy shifts have sparked market optimism, prompting us to become cautiously optimistic on Chinese assets. The monetary easing and housing policy adjustments signal a renewed effort to support the economy, but seem unlikely to single-handedly reverse the slowdown. While these moves should help stabilise market sentiment in the short term, the real test will come from whether fiscal measures follow. Details of fiscal spending are still missing, but consumer-oriented spending has to reach at least RMB 1tn (0.8% of GDP) to be effective in stimulating consumption and addressing deflationary pressures. Multi-child family subsidies and increased social security for low-income households are key areas to watch.

INDIA

# Mild economic softening to support rate cuts

## RBI close to pivot. Inflation YoY and contributions



Source: Amundi Investment Institute, CEIC. Data is as of 1 September 2024. In the chart legend, numbers between brackets are each component's weight in the CPI basket.

Indicators such as electricity generation, cement, and steel production show a mild economic softening over the summer. This trend aligns with GDP figures falling below 8% YoY, yet still robust compared to global growth at 6.8% YoY for CY24. Despite weak July and August data, inflation is expected to rise to around 5% YoY, returning to the upper bound of RBI target range from September and stay there for the rest of the year. Without reading too much into the latest inflation figures, we continue to expect RBI starting its easing in the current quarter, with 25bps of cut. At the same time, we reiterate the view that RBI has a limited room for easing if it wants to adhere to its neutral real rate, assessed in the range of 1.5%-2%.

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## MACROECONOMIC SNAPSHOT



The Fed shifted its focus from inflation to growth in an attempt to avoid a significant deterioration in employment. The US economy seems poised for a soft landing, with deceleration being driven by consumption and an easing labour market. Gains in productivity and softer demand should allow inflation to ease further – even for the sticky service component – and reach its target by mid-2025.



While we still expect Eurozone growth to gradually firm towards potential, activity indicators seem to be faltering, highlighting downside risks for the domestic demand outlook. Disinflation continues with some downside surprises. Growth and inflation patterns remain mixed across member countries, as do vulnerabilities to external factors.



The UK economy surprised on the upside in H1. Recent data revisions also pointed to past growth being somewhat firmer than previously assumed. We still expect some growth moderation in H2, associated with further disinflation, allowing a gradual easing of monetary policy.



Wages and inflation in Japan surprised on the upside, prompting us to revise up inflation forecasts. Core CPI gauge is now likely to settle at around 2% instead of moderating further, enabling the BoJ to hike more. Political uncertainties are expected to drop after the 27 October general elections, alleviating BoJ concerns about hiking in tight market conditions.

While September inflation data in Turkey declined from 52.0% YoY to 49.4%YoY, the drop was smaller than expected due to monthly growth remaining strong, at 3.0% MoM. The disinflationary path expected in Q4, as well as a prudent increase in the minimum wage for 2025, should drive a possible pivot by the CBT. The latest inflation data remains consistent with a first cut by December.



A few hours before the Fed delivered its first rate cut, Bank Indonesia (BI) started its easing cycle with a 25bp cut. A well-anchored inflation path – within the target range since June 2023 – and decent growth dynamics, allow the BI to proceed with its gradual easing cycle, taking rates in the 4.0-4.5% range from 6.0% currently.



Brazil's robust economy YTD has caught the attention of Moody's, who revised its rating one notch higher to be only one notch below IG. Inflation has been well-behaved, but the ongoing drought will add inflationary pressures over the coming months. BCB – which hiked hours after the Fed's 50bp cut – is likely to accelerate the tightening pace, also by 50bp at its next meeting. The budget review was a slight disappointment in terms of budget freeze announcements, but the 2024 target remained unchanged.



Mexico's economy did better in Q3, but this is likely to be a temporary bounce rather than the end of a soft patch that has lasted three quarters. In light of the soft growth outlook, the unwinding of the volatile components price spike and the Fed's easing, Banxico delivered a slightly more dovish than expected 25bp cut in late September. We see the CB cutting in clips of 25bp per meeting, at least in the near future, while policy continuity and more constitutional reforms by Claudia Sheinbaum will be in line with her inaugural speech.



CENTRAL BANKS WATCH

# Fed pivot paves the way for more easing across DM, while many EM CB remain in easing mode

## Developed markets

The **Fed** delivered a 50bp rate cut at its September meeting, bringing the Fed Funds rate to 4.75%-5.00%. Such a large cut underscores the Fed's willingness to pivot after the recent labour market softening and diminishing upside risks to inflation. We expect further 50bp cuts by year-end.

The **ECB** cut rates in September as well and – even if stickiness concerns remain – the case for further cuts has strengthened, given the recent moderation in wage growth and rising signs of slowing growth momentum. We expect further 50bp cuts by year-end.

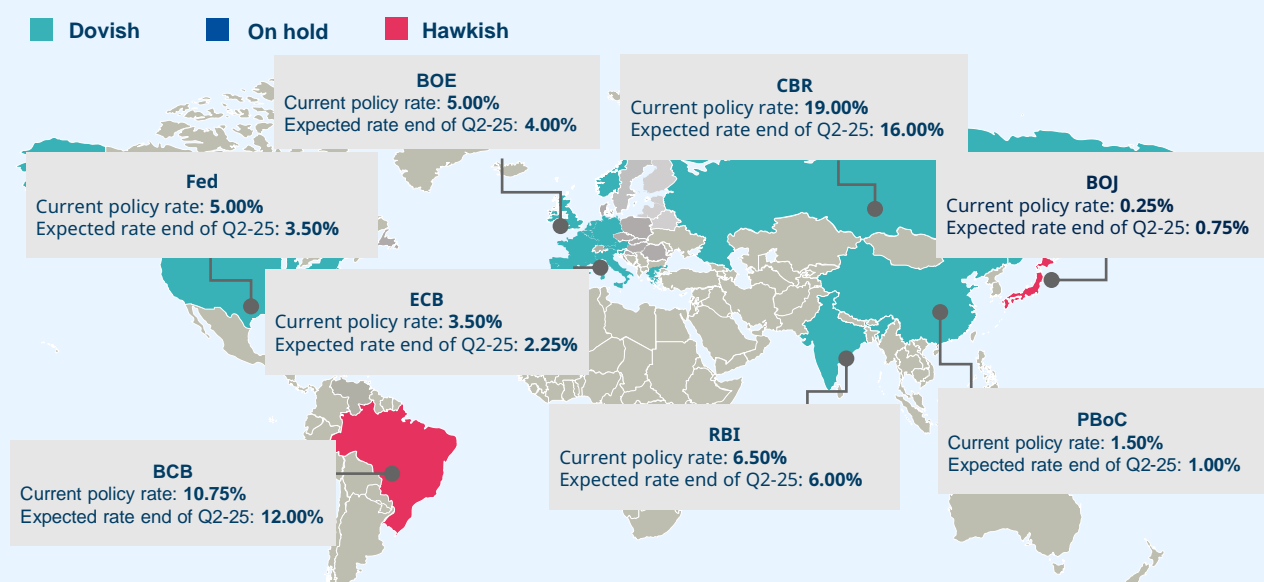
The **BoE** started cutting rates in August and – after keeping them on hold in September – is expected to keep reducing policy tightness with two further cuts before the year-end.

In contrast, the **BoJ** signalled it will resume hikes when uncertainties drop. We expect one 25bp hike by the year-end and another in May 2025.

## Emerging markets

The Fed's dovish pivot has not generated a wave of more dovish expectations across EM CB. The latter's action has continued in a business-as-usual way, with some further easing in the **Czech Republic, Peru, Hungary, South Africa, Chile and Mexico**, while **Brazil** and **Russia** hiked their policy rates as expected. The only surprises came from Asia: first, **Bank Indonesia** surprised by cutting rates a few hours before the Fed. However, easing was expected in alignment with the Fed's pivot. Second, the **PBoC** cut policy rates more than expected by 20bp and – surprisingly – cut RRR by 50bp at the same time. It also launched two liquidity programmes to support the capital market, leading to big rallies in equities. Switching to LatAm, for the second consecutive month fiscal noise got in the way of monetary policy: we adjusted our expectation for **Colombia** MP policy rates up by 50bp by year-end, frontloading a smaller cut.

## Upcoming rate decision meetings and Amundi's assessment for Q2 2025



Source: Amundi Investment Institute as of 25 September 2024. Amundi's assessment of central bank rates trend is based on Amundi Investment Institute's forward-looking judgement of policy rates direction, based on our intake from forward guidance and CB communication. For rates definition please see p. 25.

KEY DATES	17 October	7 November	7 November
	ECB Governing Council meeting	US Federal Open Market Committee (FOMC) meeting	BOE Monetary Policy Committee meeting

## GEOPOLITICS

### Growing risks require investors to adapt

Since Russia's invasion of Ukraine and the Hamas attack, we have seen worsening bilateral relations. More countries are contributing to higher geopolitical risk, which is evidenced by our [Geopolitical Sentiment Tracker](#). It is likely that the level of geopolitical risk will grow further this decade. First, there is the evolution of Russia's war goals: it is increasingly likely that Russia's ambitions are morphing from territorial expansion towards eroding the Western-led global order. In that regard, the growing Russia, Iran and North Korea ties are a game changer. For example, Russia's protection of North Korea at the UN Security Council, and its new military cooperation with North Korea, are allowing the latter to expand its nuclear capabilities without the ability of other countries to contain it. This is a tangible example of the growing risk caused by declining multilateralism and the messier world we are moving to. Protectionism, export controls, sanctions and tariffs will increase and cause more economic friction. The United States-China relationship will deteriorate further, no matter who sits in the White House; while Japan's new leader is seeking to create an Asian NATO, likely stoking tensions in the South China Sea. The situation in the Middle East carries a significant risk of further escalation. This overall dynamic will not change under Harris or Trump. As risks rise, investors and companies need solid frameworks to monitor risks, adjust and ensure they are positioned to benefit from the changes underway.

## POLICY

### Many challenges for the new EU commission

**The NGEU payments must be finalised by end-2026. However, loan repayment will not begin until 2028 and will run until 2058.** Assuming that all the envelopes have been mobilised by end-2026, the EU budget will repay the NGEU subsidies (€421bn) to the Member States (MS), as well as the corresponding interest. Meanwhile, the NGEU loans (€386bn) -- computed as off budget -- will be transferred to the MS that have used them, and the interest on these loans will have to be repaid directly by these MS.

**Reflection on the EU's finances post-2027 is ongoing.** A number of key issues are on the table for the new Commission: repayment of the principal and interest on the debt for NGEU subsidies, additional funding requirements (for defence and security), and the introduction of new sources of revenue for the EU budget.

**The question of financing the debt burden is a very sensitive one.** The debt burden will depend on the future path of interest rates paid by the EU. The total bill could amount to over €220bn (0.6% of the EU's estimated GDP for 2021-58). From 2028 (the new budget cycle) the EU budget will also have to include provisions for repaying the EU's debt, in addition to interest charges.

**Additional revenues will be needed.** Otherwise, countries will either have to cut other expenditure or increase their national contributions. It remains to be seen whether the MS will be able to agree on new borrowing to finance the interest on the debt.

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*Companies and  
investors have  
to become  
increasingly  
astute in  
monitoring and  
adjusting to  
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*Financing the  
NGEU debt  
burden will be a  
test of cohesion  
for Europeans.*

# Main and alternative scenarios

	Probability 70%	Probability 20%	Probability 10%
<b>MAIN SCENARIO</b> Resilient multi-speed growth	<b>DOWNSIDE SCENARIO</b> Renewed stagflationary pressure	<b>UPSIDE SCENARIO</b> More disinflation with productivity gains	
<b>GEOPOLITICS</b>	<ul style="list-style-type: none"> <li>Widening conflict in the Middle East.</li> <li>Ukraine-Russia conflict prolonged.</li> <li>More protectionism and increased retaliation to protectionist measures.</li> </ul>	<ul style="list-style-type: none"> <li>De-escalation/ceasefire in Ukraine.</li> <li>Permanent ceasefire between Israel and neighbours.</li> <li>Lower energy/food prices.</li> </ul>	
<b>INFLATION &amp; POLICY MIX</b>	<ul style="list-style-type: none"> <li>Disinflation trend strengthening, including core inflation: services still sticky.</li> <li>Fed, ECB, and BoE to cut another 50bp by end-2024.</li> <li>Most EM CB at peak rates.</li> <li>Different fiscal policies: restrictive stance in the EU; still supportive in the United States; moderate targeted measures in China.</li> </ul>	<ul style="list-style-type: none"> <li>Sticky or resurging inflation leads to tighter financial conditions.</li> <li>Financial stress.</li> <li>CB deliver less easing than expected.</li> <li>Inflation reappears because of oil prices and supply-chain disruptions.</li> </ul>	<ul style="list-style-type: none"> <li>Faster disinflation.</li> <li>More rate cuts than in the central scenario.</li> </ul>
<b>GROWTH PATH</b>	<ul style="list-style-type: none"> <li>Resilient multi-speed growth: slow recovery in Europe, mild US deceleration;</li> <li><b>China</b>: more decisive stimulus to contain downside.</li> <li>Growth gap still favours EM.</li> </ul>	<ul style="list-style-type: none"> <li>Recession risks resurface; US unemployment above 5%.</li> </ul>	<ul style="list-style-type: none"> <li>Growth returning to potential earlier.</li> <li>US potential growth revised up.</li> </ul>
<b>CLIMATE CHANGE</b>	<ul style="list-style-type: none"> <li>Climate change hampers growth and exacerbates stagflationary trends.</li> </ul>	<ul style="list-style-type: none"> <li>Further policy delays imply more adverse climate events.</li> </ul>	<ul style="list-style-type: none"> <li>More decisive policy measures to address transition to Net Zero.</li> </ul>

## Risks to main scenario



LOW Probability HIGH

10%	10%	15%	20%
Market disruption triggered by credit event or other accidents	CB wrongly calibrating monetary policy leading to a recession	Reacceleration of US inflation	Geopolitical crisis with global spill-overs

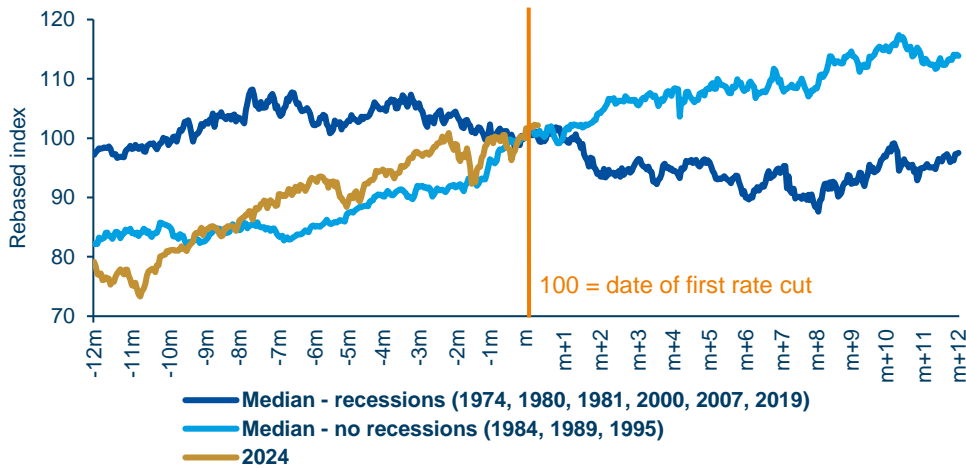
<b>MARKET IMPACT</b>	<p><b>Positive</b> for US Treasuries, cash, and gold.</p> <p><b>Negative</b> for credit.</p>	<p><b>Positive</b> for cash, JPY, gold, quality vs. growth, and defensives vs. cyclical.</p> <p><b>Negative</b> for risky assets and commodity exporters.</p>	<p><b>Positive</b> for TIPS, gold, commodity FX, and real assets.</p> <p><b>Negative</b> for bonds, equities, DM FX, and EM assets.</p>	<p><b>Positive</b> for DM govies, cash, gold, USD, volatility, defensive assets, and oil.</p> <p><b>Negative</b> for credit, equities, and EM.</p>
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Source: Amundi Investment Institute as of 2 October 2024. DM: developed markets. EM: emerging markets. CB: central banks. USD: US dollar. TIPS: Treasury inflation-protected securities. FX: foreign exchange markets..

EQUITIES IN CHARTS

# DM: The Fed’s first cut, a binary outcome for equities

## S&P 500 before and after first rate cut

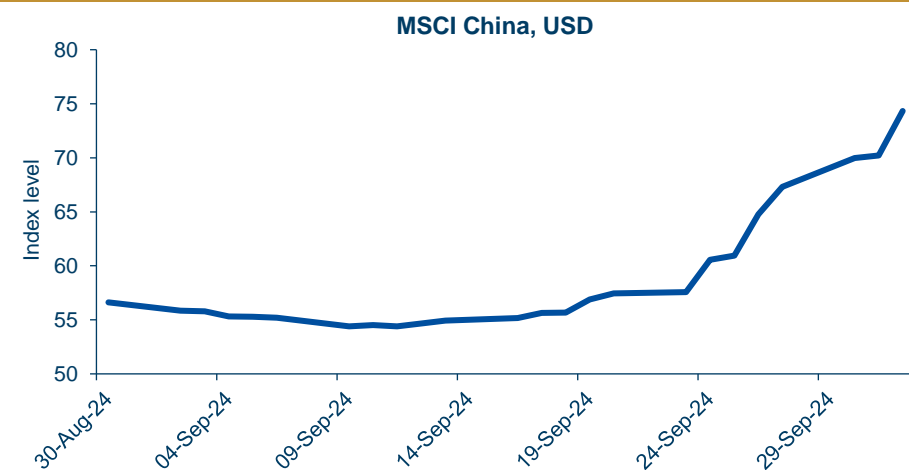


Source: Amundi Investment Institute, LSEG Datastream. Data is as of 27 September 2024.

After the first Fed cut, the behaviour of the S&P 500 index generally depends on whether the landing is recessionary (negative) or non-recessionary (positive). In general, it also takes a few months for the S&P 500 to choose sides. Will this happen around the time of the US election?

# EM: Second positive reporting season in a row confirms earnings recovery

## Q2 2024 reporting season - results (still partial)



Source: Amundi Investment Institute, Factset. Data is as of 3 October 2024.

China’s recent policy shifts have sparked market optimism and a rally in Chinese assets. The monetary easing and housing policy adjustments signal a renewed effort by China’s leadership to support the economy. However, we prefer to keep a neutral approach, waiting for more details on fiscal spending to be unveiled.

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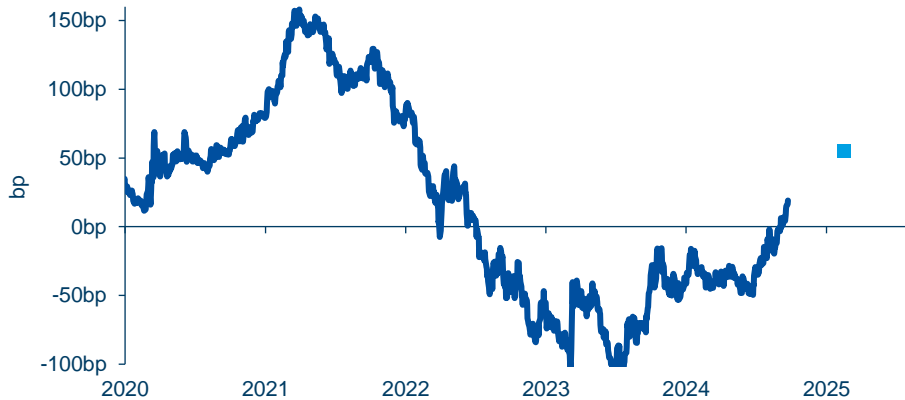
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BONDS IN CHARTS

# Fed rate cuts favour a steepening of the US curve

## US 2/10-year spread

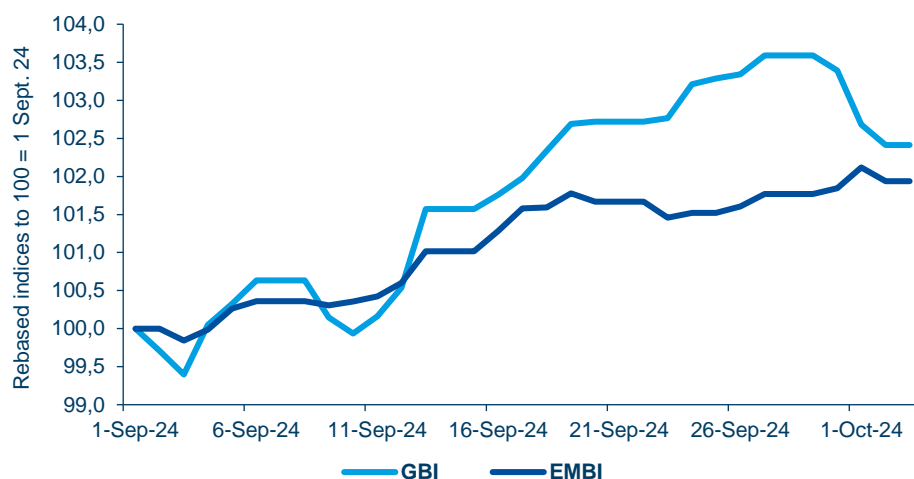


Source: Amundi Investment Institute, Bloomberg. Data is as of 26 September 2024.

The US yield curve stayed consistently inverted for the first half of 2024, as stronger-than-expected payrolls figures pushed out rate cut expectations. That situation changed in the summer and, as a result, the curve has started to normalise and is now positive (just) between 2-year and 10-year. We think this trend will continue at a fast pace over the next six months, as our forecasts (blue squares) show.

# EM hard-currency bonds to remain resilient

## Recent performance of EM bonds



Source: Amundi Investment Institute, Bloomberg. Data is as of 4 October 2024. GBI: Global Bond Index. EMBI: Emerging Markets Bond Index.

Recently, EM local-currency bonds have suffered from dollar appreciation following the conflict escalation in the Middle East. Meanwhile, EM hard-currency bonds show a much sounder performance and their volatility is the lowest among GEM asset classes.

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AMUNDI INVESTMENT INSTITUTE MODELS

# EMFX process: macroeconomic variables

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When assessing the preference for a currency, key macroeconomic variables play a crucial role, as they can provide insight into the currency's health and help seize potential appreciation/depreciation. These are some of the most relevant macroeconomic tools in our EMFX process:

**1. Macro momentum** includes a broad-based set of indicators to assess the short-term forward momentum building in an economy. It includes:

- **Growth momentum**, based on GDP expectations and domestic/external demand momentum. Strong growth momentum points to a healthy economy, supporting the currency. Conversely, declining growth momentum can lead to depreciation. Liquidity conditions are indicative of policy expansion or tightening, ultimately contributing to growth momentum.
- **Stability momentum** refers to policy stability sheltering the currency in times of high volatility. It refers to fiscal balance momentum (how healthy is the balance of the budget) and inflation momentum (are inflation targets being effectively pursued).

**2. External vulnerability index**, built on four pillars: balance of payments, external debt position, reserve adequacy and domestic conditions (CB mandates). A low value reflects a positive currency performance thanks to higher/stable inflows compared to high external vulnerability positions.

**3. Real policy rate** is the nominal interest rate adjusted for inflation. It is crucial for assessing a currency's value and appeal. Higher levels offer better returns on investments denominated in that currency, attracting foreign capital and boosting the currency. Conversely, a negative real policy rate may prompt capital flight and a depreciation of the currency.

*Macro momentum, the external vulnerability index and real policy rates contribute to identifying opportunities in the EM FX space.*

## October macroeconomic variables outcome:

Country	Macro momentum	External vulnerability	Real policy rates
Brazil	Green	Green	Green
Chile	Blue	Red	Blue
Colombia	Blue	Red	Green
Mexico	Blue	Blue	Green
Peru	Green	Green	Blue
India	Blue	Green	Blue
Indonesia	Green	Blue	Green
South Korea	Green	Green	Blue
Malaysia	Green	Red	Blue
Philippines	Green	Green	Blue
Taiwan	Green	Green	Blue
Thailand	Blue	Blue	Blue
China	Blue	Green	Blue
Czech Republic	Green	Blue	Blue
Hungary	Red	Red	Blue
Poland	Blue	Red	Blue
Romania	Blue	Red	Blue
Israel	Blue	Blue	Blue
South Africa	Blue	Red	Green
Turkey	Blue	Red	Red

- If any outcome falls into the **green area**, this is a supportive signal for the currency.
- On the other hand, if any outcome is in the **red area**, this is a signal of non-support for the currency.
- Otherwise, the overall call is for a **neutral position (blue in the table above)**.

Source: Amundi Investment Institute, Bloomberg, CEIC. Data is as of 4 October 2024.

## COMMODITIES

Gold 

We see gold range-trading in the short-term, as long positioning has become consensual and reflation forces shake up rate expectations. Risk remains on the upside though, given the alignment of medium-term catalysts. We maintain our current target at \$2,700/oz.

Oil 

Monetary easing and stimulus in China are good news but no game changers for oil. Risk of outage due to Israel-Iran retaliations deserves a premium lower than a 'broad-Middle East contagion' premium. We maintain our ST Brent target at \$80/b and our MT target in the \$75-80/b range.

Industrial Metals 

Stimulus in China, and to some extent DM monetary easing, lifted a key cap for metals. Some digestion is needed as investors seek stimulus confirmation and a reality check. Yet, we remain of the view that building a core allocation to key metals provides an attractive MT risk/reward.

*Gold and metals still offer attractive medium-term risk/reward potential.*

## CURRENCIES

Euro 

Weak domestic growth and softer headline inflation figures are short-term headwinds for the EUR, given the potential for policy divergence between the Fed and the ECB. However, as interest rates settle at higher levels than pre-pandemic and as China attempts to boost economic confidence, we expect a strong EUR through 2025.

Dollar 

Dovish Fed pricing relative to most central banks has weighed on the USD since Q2. In our view, this is the first step towards a structural depreciation, but the road remains bumpy. Should the market reassess the Fed, the USD may appreciate over the short term, opening up better levels to exploit the trend.

Sterling 

The BoE held steady in September, while issuing hawkish signals compared to the FOMC, driving the GBP to YTD highs. Although a substantial divergence from peers seems unlikely, we believe that further cuts may not weaken the GBP, which we expect to outperform in a weaker USD environment.

Yen 

The win by Ishiba in the LDP presidential election revived appetite for the JPY, given the new leader's support for monetary policy normalisation. If this aligns with our lower USD/JPY forecasts, we believe more is needed for substantial cross-JPY adjustments (i.e., a US recession or tighter BoJ policy).

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*Firmer Fed pricing from here poses a short-term risk but does not alter the trend.*



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GLOBAL INVESTMENT  
VIEWS



GLOBAL INVESTMENT VIEWS



# Fed rate cut boosts the markets, but for how long?

Capital markets whipsawed between a weakening US labour market and hopes that the Fed would steer the economy towards a soft landing. Markets are interpreting optimistically the latest policy action, which could potentially boost consumption and investment. The other narrative is that the Fed would not have implemented a big cut without having apprehensions on the economic front. Our view is that truth lies somewhere in between: a combination of the two narratives is likely to play out, depending on:

- **The United States being on a deceleration path, downside revision to Eurozone.** We maintain our views of only a mild deceleration. Labour markets, consumption pattern, and savings rate remain key to monitor the extent of the slowdown. In the Eurozone, we trimmed our real GDP growth forecasts for 2025 from 1.2% to 1.0%, due to weak domestic demand.
- **A Fed that is inclined to cut rates deeper would give more leeway to the ECB and the BoE to reduce their own policy rates.** Higher number of Fed rate cuts means lower terminal rates for the Fed, with ripple effects on the ECB and BoE.
- **United States seems less concerned (for now) about fiscal deficits.** The political leanings of Kamala Harris and Donald Trump are different, but neither of them seems to be bothered by high deficits. In Europe, it's the opposite and has caused investment and productivity gaps with the United States over the years.
- **China's monetary stimulus is a boost to market sentiment.** The monetary easing and changes to housing policy signal a renewed effort by the country to support the economy, but we await clarity on fiscal stimulus.

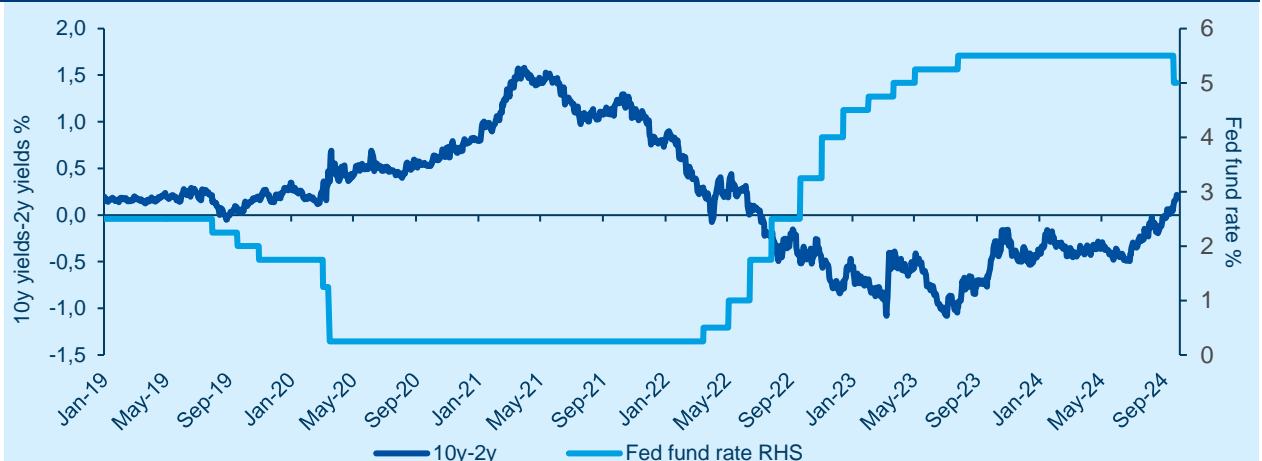


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## Fed rate cuts, along with high fiscal deficit, support the case for US curve steepening



Source: Amundi Investment Institute, Bloomberg, as of 25 September 2024. 10-2y above zero means steep yield curve.


\*From beginning of September to the end of the year.

A mildly positive risk stance is the way forward as the economy is unlikely to enter a recession and inflation declines, leading CB to progress on their easing cycles. **However, monetary easing alone would be unable to boost the markets sustainably.** Rate cuts would take time to disseminate to the broader economy. We need favourable growth, strong corporate earnings, and investments to enhance productivity for market performance in the long run. We see opportunities in following categories:

- **Cross asset.** We are constructive on duration and explore global divergences across the curves. While staying positive on the United States and Europe (slightly less so than before); we turned optimistic on the United Kingdom. In general, DM yield curves would continue to steepen, but some near-term differences will prevail. In EM debt, yields are attractive, but noise around US tariffs could affect segments with tight valuations. We are exploring entry points in equities and remain marginally positive on the United Kingdom and Japan. Gold provides resilience in times of high geopolitical uncertainty, particularly when CB are cutting rates.
- **Tactical and active on government bonds, positive on carry in credit.** Yields on USTs are attractive from a long-term perspective, allowing us to stay close to neutral. An active approach is crucial as CB normalise rates in the United States and Europe at different speeds. We upgraded UK duration amid receding inflationary pressures and persisting growth concerns. In US credit, we prefer financials over non financials, and in the EU, we like financials and subordinated debt, but are cautious on consumer and retail sectors.
- **Prioritise fundamentals/valuations in equities.** The transition to an economic recovery should help the markets. Until that happens, markets will be less directional and more dependent on rotations and valuations. We await a broadening of earnings outside mega caps and stay balanced in the United States, exploring high-quality defensives and value over growth. Even in Europe, we aim for a balanced stance through quality cyclicals and defensives.
- **Global policy easing supports the case for EM.** We like hard-currency bonds and are more selective on local currency where we are exploring markets that have seen excessive selling recently and hence are attractive. Country wise, we like Brazil, Colombia and Peru. On equities, Asia presents abundant opportunities, and we remain selective.

*We would like to stay nimble because things could change fast if there is a downside surprise on growth, an upside surprise on inflation, or if geopolitical risks worsen.*

## Overall risk sentiment

**Risk off**  **Risk on**

In an environment of no recession and central banks in an easing mode, we remain slightly positive on risk assets.

### Changes vs. previous month

- Fixed income: Less positive on Japanese duration and more constructive on UK government bonds.
- FX: slightly positive on GBP.

*Overall risk sentiment is a qualitative view towards risk assets (credit, equity, commodities) expressed by the various investment platforms and shared at the global investment committee (GIC) held on **25 September 2024**. It reflects views over a one month horizon, from one GIC to the other. Our stance may be adjusted to reflect changes in the market and economic backdrop.*

ECB= European Central Bank, DM= Developed Markets, EM = Emerging Markets, CBs = central banks, IG = investment grade, HY = high yield, BTPs = Italian government bonds, JGBs = Japanese government bonds. For other definitions see the last page of this document.

## Three hot questions

1

### After the jumbo Fed rate cut in September, have you changed your policy expectations?

We believe the Fed will ease policy by another 50bp this year (75bp previously expected), equally split between its two remaining meetings. We also added one rate cut to our expectations for next year, reducing our terminal rate forecasts from 3.50% to 3.00% which should be reached by September 2025. A dovish Fed makes it easier for other central banks such as the ECB to reduce their rates. For the ECB, we have penciled in an additional 25bp rate cut for next year, taking our terminal rate expectations to 2.25% by April. We also lowered terminal rates for the BoE by 25bp to 3.50% by 2025-end.

#### Investment implications

- Duration: close to neutral on US and slightly positive on core Europe. Turning constructive on UK.

2

### How do you explain the divergence of the BoJ with the Fed?

Japanese core CPI accelerated in August, and we now expect it to stabilise around 2% for the next year instead of a mild decline as we thought earlier. The BoJ indicated its intention to raise rates if its economic forecasts are achieved. We think the bank would monitor wage growth, incoming data and external market stability which are all important factors for Governor Ueda to consider before he tightens policy. Accordingly, we believe the BoJ will hike rates in December and in May 2025 by 25bp each, but we do not change our terminal rate forecast.

#### Investment implications

- Cautious on Japanese government bonds.

3

### What is the impact of China's monetary stimulus on the country's economic growth?

The PBoC implemented monetary easing and liquidity-enhancing measures. It reduced policy rates, cut the reserve requirement (the amount of capital banks must hold as reserves) and made it easier for people to buy second homes. This seems to have infused new life into the markets. We welcome these measures and await more clarity on fiscal measures which could address the problem of high leverage in the economy and could encourage consumers to spend more. For a sustainable improvement in growth and market performance, it is essential that consumer sentiment and employment situation get better.

#### Investment implications

- We stay close to neutral on Chinese equities for now and are monitoring the situation closely.

*As it became more confident of taming inflation, the Fed gave strong forward guidance on rates, which is in contrast to its recent approach of staying vigilant/data dependent (on inflation). This, coupled with some concerns on growth, led us to lower our terminal rate expectations.*

MULTI-ASSET

# Opportunities across DM yield curves

Economic growth is moderating, but not collapsing across the developed world and inflation is falling in line with CB targets, indicating that the central bank put is firmly in place. As a result, we are mildly positive on risks and aim to ensure that all elements for enhancing long-term returns and portfolio resilience (hedges and duration) are well-explored. **On the latter, we are diversified across the curves and actively adjust this stance to accommodate regional nuances, taking into account opposing pressures (falling inflation, growth, fiscal deficits) on yields.**

Our slightly constructive view on DM equities is maintained through the United Kingdom and Japan, but we are neutral on the United States and the EU. The United Kingdom provides a good balance of domestic and international dynamics and high dividends. Its exposure to the energy sector could provide support in times of heightened tensions in the Middle East. In Asia, Japan could benefit from improvements in corporate governance and is also a diversification play. We are exploring other developed and emerging markets which provide a good balance of valuations, volatility, and potential rewards.

We are positive on US duration and core Europe, but have partly reduced our views on the latter in favour of the United Kingdom -- which should benefit from slowing inflation and fiscal discipline -- and Italian BTPs also present room for further gains. Given the movements in the Canadian curve over past months, we believe the scope for the curve to steepen further is limited. In the medium term, yield curves in major DM should steepen. In Japan, the BoJ's policies are likely to keep bonds under pressure.

In corporate credit, EU IG is attractive and shows strong fundamentals and low leverage. EM debt maintains its yield advantage over US, particularly in local currency. We remain constructive on EM debt, but reduced this view slightly. In some parts, tight valuations could come under pressure from any possibility of a Trump victory (protectionism) in the United States. We are marginally positive on USD, but vigilant as it might be affected by Fed cuts. The AUD is attractively priced and could benefit from any improvement in China growth. In EM, we like BRL/EUR and INR/CNH.

Gold has benefitted from Fed easing and it continues to provide strong protection from geopolitical tensions. But to further strengthen portfolio safeguards, it is important to explore hedges on bonds and equities.

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*In range-bound markets, we stay diversified and look to accumulate in segments where risk-reward is symmetric.*

## Amundi Cross-Asset convictions

		--	-	=	+	++	
Equities	DM				◆		◆ Current stance
	EM				◆		
Credit					◆		➡ Change vs previous month
Duration	DM					◆	
	EM					◆	
Oil					◆		
Gold					◆		

Source: Amundi. The table represents a cross-asset assessment on a three- to six-month horizon based on views expressed at the most recent global investment committee held on 25 September 2024. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/++). This assessment is subject to change and includes the effects of hedging components. FX = foreign exchange, BTP = Italian government bonds, BoJ = Bank of Japan, JGB = Japanese govt. bonds, BoE = Bank of England, NIRP = Negative interest rate policy, DM = Developed markets, EM = Emerging markets. For other definitions and currency abbreviations see the last page.

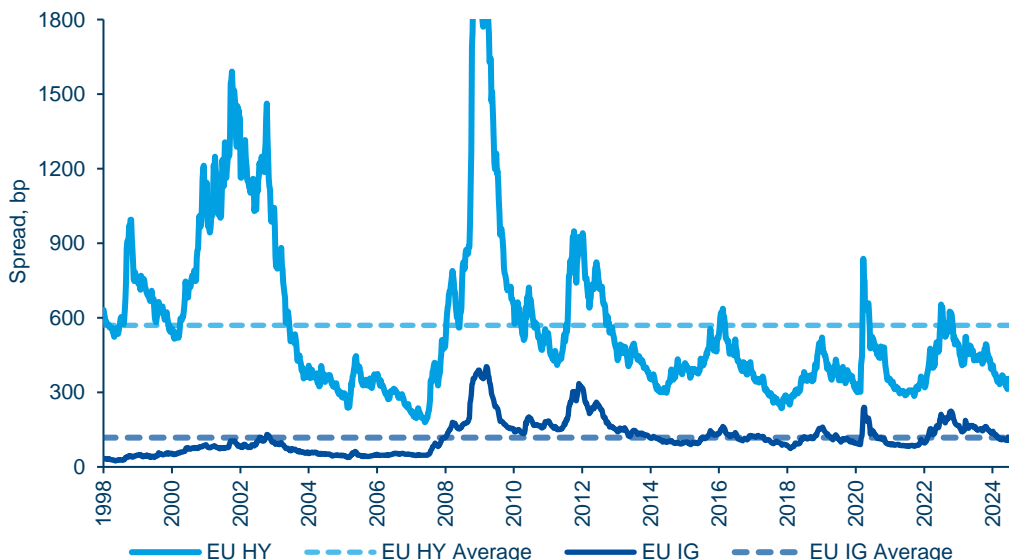
FIXED INCOME

# Carry is attractive, but tilt towards quality

US elections have re-ignited the focus on fiscal deficits and debt not just domestically, but also in other parts of the developed world. Hence, while it is important to maintain a long-term focus on duration and how deficits could put upward pressure on bond yields, investors should not ignore the near-term market dynamics. On the monetary side, we are seeing a continuation of the rate cut cycle by the ECB, the BoE and the Fed, coupled with a no-recession scenario. This means there is value to be explored in credit but the case for differentiation is particularly strong as episodes of volatility could re-emerge. It is the quality businesses with robust fundamentals that would be better able to withstand potential market stress. Thus, balancing the need for carry with quality and liquidity is important across the US, Europe and EM.

Global and European fixed income	US fixed income	EM bonds
<ul style="list-style-type: none"> <li>We are active on duration with divergences across countries, with a slightly positive view on Europe. We turned positive on the United Kingdom given receding inflation, but are cautious on Japan amid the BoJ's indications of hiking rates sooner rather than later.</li> <li>Expectations of rate cuts and strong corporate fundamentals allow us to stay positive on credit through EU financials.</li> <li>We like selective non-cyclicals segments.</li> </ul>	<ul style="list-style-type: none"> <li>The long end of the US yield curve remains expensive owing to continued deficit spending, but the intermediate part looks attractive.</li> <li>The Fed may be able to engineer a smooth sailing outcome for the economy but we stay prepared, maintaining our quality bias in credit. In particular, we favour financials over non-financials.</li> <li>In securitised credit, agency MBS are attractive compared with other quality spread sectors.</li> </ul>	<ul style="list-style-type: none"> <li>Declining US inflation and Fed cuts are positive for the asset class but wide divergences across EM, volatility around the Fed and potential tariffs discussions lead us to be selective.</li> <li>Notably, EM central banks have the flexibility to relax monetary policies.</li> <li>In local currency, we are exploring high carry debt for instance in Mexico which has been oversold. We like Brazil and Colombia in LatAm. In hard currency, we prefer HY.</li> </ul>

## IG spreads still close to long-term average, unlike high yield



Source: Amundi Investment Institute, Bloomberg, as of 30 September 2024. ICE BofA indices. To better show the current spreads, the extreme movements during the 2008 financial crisis have been hidden.

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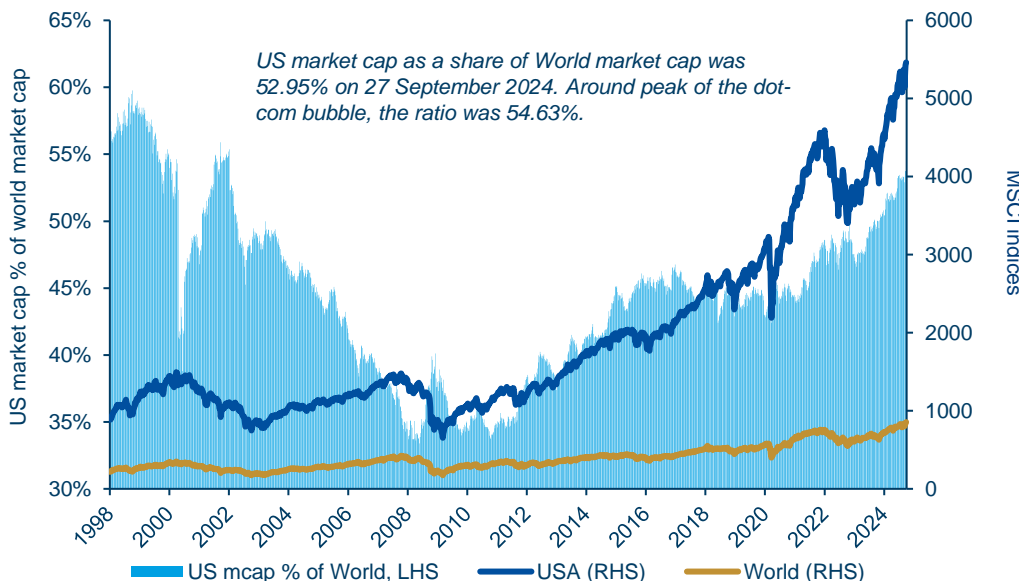
EQUITIES

# Participate and prioritise valuations

Weakening US data is consistent with a soft landing, but any probability of a worsening environment is not priced in by the markets. With this slowing economy, it is difficult to see margin expansion and we believe earnings forecasts are likely to come down. On the other hand, some companies are generating strong cash flows and that has been supportive of share buybacks, which are supporting markets particularly in the US, and boosting positive sentiment. In the medium term, however, these high valuations do not form a strong basis of sustainable returns. As a result, we explore segments where earnings assumptions, pricing power and dividend prospects are robust but believe investors should be careful not to overpay. We see such businesses in Europe, Japan, and EM.

European equities	US and global equities	EM equities
<ul style="list-style-type: none"> <li>We aim to achieve an optimum balance between quality defensives and cyclicals. In defensives, we trimmed our view slightly through staples, but a pullback in health care is presenting ideas in specialised pharma names.</li> <li>We also selectively like quality banks with strong franchises, capital buffers.</li> <li>In addition, themes such as electrification, green transition, expansion of data center capacity present good opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>Weak nominal growth and high valuations is not a great combination for returns. Hence, we like to benefit from the rally but are tilted towards quality.</li> <li>Defensives outperformed cyclicals so far this quarter but this could change, underpinning our approach of identifying defensives with reasonable valuations. At the other end, we like quality materials, industrials and banks.</li> <li>We favour Value over Growth, and stay cautious on mega caps.</li> </ul>	<ul style="list-style-type: none"> <li>China news has been overwhelming, and we stick to assessing how the stimulus could affect domestic consumption patterns, the real economy and other EM exporters such as Brazil, Mexico. For now, we stay neutral on China.</li> <li>Elsewhere, we are positive on financials in Indonesia, and on Brazil despite some concerns on fiscal environment in the country.</li> <li>At a sector level, we like real estate and consumer staples.</li> </ul>

## Cautious on valuations, positive on earnings resilience



Source: Amundi Investment Institute, Bloomberg as of 27 September 2024. MSCI Indices on right vertical axis.

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## VIEWS

## Amundi asset class views

## In focus this month

- **UK government bonds:** The potential for interest rate cuts by the Bank of England is underpriced by the markets and CPI is also getting less sticky. This makes us positive on UK bonds. Overall on G10 countries, we are neutral on govies.

## Equity and global factors

Regions	Change vs. m-1	--	-	=	+	++	Global Factors	Change vs. m-1	--	-	=	+	++
US				◆			Growth				◆		
Europe					◆		Value						◆
Japan					◆		Small caps					◆	
EM						◆	Quality						◆
China				◆			Low Volatility				◆		
EM ex China					◆		Momentum				◆		
India					◆		High Dividend				◆		

## Fixed income &amp; FX

Govies	Change vs. m-1	--	-	=	+	++	Credit	Change vs. m-1	--	-	=	+	++
US				◆			US IG				◆		
EU core					◆		US HY			◆			
EU periph.					◆		EU IG					◆	
UK	▲				◆		EU HY			◆			
Japan	▼			◆									
EM Bonds	Change vs. m-1	--	-	=	+	++	FX	Change vs. m-1	--	-	=	+	++
China govt.				◆			USD					◆	
India govt.					◆		EUR				◆		
EM HC					◆		GBP	▲				◆	
EM LC				◆			JPY					◆	
EM corp.					◆		CNY				◆		

Source: Summary of views expressed at the most recent global investment committee held on **25 September 2024**. Views relative to a EUR-based investor. Views range from double minus to double positive, = refers to a neutral stance. This material represents an assessment of the market at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product. FX table shows absolute FX views of the Global Investment Committee.



## FORECASTS

## Macroeconomic forecasts

Macroeconomic forecasts as of 4 October 2024						
Annual averages, %	Real GDP growth, YoY, %			Inflation (CPI), YoY, %		
	2023	2024	2025	2023	2024	2025
<b>Developed countries</b>	<b>1.5</b>	<b>1.6</b>	<b>1.6</b>	<b>4.7</b>	<b>2.8</b>	<b>2.2</b>
United States	2.5	2.5	1.9	4.1	3.0	2.2
Eurozone	0.5	0.8	1.0	5.4	2.5	2.2
<i>Germany</i>	-0.1	0.1	0.7	6.1	2.4	2.3
<i>France</i>	1.1	1.1	0.9	5.7	2.6	2.0
<i>Italy</i>	1.0	0.8	0.8	5.9	1.3	1.8
<i>Spain</i>	2.5	2.7	1.8	3.4	3.3	2.3
United Kingdom	0.1	1.1	1.6	7.3	2.5	2.1
Japan	1.7	0.5	1.4	3.3	2.6	2.4
<b>Emerging countries</b>	<b>4.3</b>	<b>4.3</b>	<b>3.8</b>	<b>5.8</b>	<b>5.5</b>	<b>4.1</b>
China	5.2	4.8	3.7	0.2	0.4	0.5
India	7.8	6.8	6.2	5.7	4.9	6.0
Indonesia	5.0	5.2	4.9	3.7	2.4	2.7
Brazil	2.9	3.0	2.1	4.6	4.3	3.8
Mexico	3.2	1.3	1.3	5.6	4.9	3.9
Russia	3.6	3.5	1.0	6.0	8	6.2
South Africa	0.7	0.9	1.2	5.9	4.7	4.1
Turkey	5.1	4.5	2.8	53.4	59.9	30.0
<b>World</b>	<b>3.2</b>	<b>3.2</b>	<b>2.9</b>	<b>5.3</b>	<b>4.4</b>	<b>3.4</b>

Central banks' official rates forecasts, %					
	4 October 2024	Amundi	Consensus	Amundi	Consensus
		Q1 2025	Q1 2025	Q3 2025	Q3 2025
<b>United States*</b>	5.00	4.50	4.05	3.00	3.45
<b>Eurozone**</b>	3.50	2.50	3.15	2.25	2.65
<b>United Kingdom</b>	5.00	4.25	4.40	3.75	3.85
<b>Japan</b>	0.25	0.50	0.40	0.75	0.60
<b>China***</b>	1.50	1.15	1.35	1.00	1.30
<b>India****</b>	6.50	6.25	6.10	6.00	5.85
<b>Brazil</b>	10.75	12.00	11.75	11.75	11.00
<b>Russia</b>	19.00	17.00	18.20	14.00	14.85

Source: Amundi Investment Institute. Forecasts are as of 4 October 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. Q1 2025 indicates end of March 2025; Q3 2025 indicates end of September 2025. Current rates and Consensus are from Bloomberg.

## FORECASTS

## Financial market forecasts

## Bond yields

## Two-year bond yield forecasts, %

	4 October 2024	Amundi Q1 2025	Forward + 6m.	Amundi Q3 2025	Forward + 12m.
United States	3.96	3.40	3.76	3.20	3.71
Germany	2.22	2.00	1.90	1.90	1.77
United Kingdom	0.41	3.40	0.47	3.30	0.51
Japan	4.17	0.90	3.96	0.95	3.73

## Ten-year bond yield forecasts, %

	4 October 2024	Amundi Q1 2025	Forward + 6m.	Amundi Q3 2025	Forward + 12m.
United States	4.02	3.95	4.04	3.75	4.08
Germany	2.23	2.05	2.24	2.00	2.28
United Kingdom	4.17	3.80	4.19	3.40	4.21
Japan	0.94	1.20	1.05	1.30	1.15

## Exchange rates

	4 October 2024	Amundi Q1 2025	Consensus Q1 2025	Amundi Q3 2025	Consensus Q3 2025
EUR/USD	1.10	1.13	1.12	1.16	1.12
EUR/JPY	163	159.00	157	151.00	157
EUR/GBP	0.84	0.85	0.84	0.84	0.84
EUR/CHF	0.94	1.02	0.96	1.03	0.96
EUR/NOK	11.78	11.57	11.17	11.31	11.17
EUR/SEK	11.37	11.58	11.12	11.37	11.12
USD/JPY	149	140.00	138	130.00	138
AUD/USD	0.67	0.70	0.70	0.73	0.70
NZD/USD	0.61	0.62	0.63	0.63	0.63
USD/CNY	7.07	6.92	7.06	6.75	7.06

Source: Amundi Investment Institute. Forecasts are as of 4 October 2024. Q1 2025 indicates end of March 2025; Q3 2025 indicates end of September 2025. Current yields/rates and Consensus are from Bloomberg.

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