TOPIC OF THE MONTH

IMF spring meeting take-aways: short-term resilience, but no reacceleration in the mid term

AUTHORS

ALESSIA BERARDI
HEAD OF EMERGING MACRO STRATEGY – AMUNDI INVESTMENT INSTITUTE

KEY TAKEAWAYS

The IMF outlook highlights the remarkable resilience in growth and declining inflation in most countries. However, the medium-term outlook remains subdued when compared to the pre-pandemic growth average.

Although inflation is softening, its reduction remains a priority and central banks need to calibrate monetary policy at a country level.

The tremendous optimism in financial markets based on the soft-landing narrative presents challenges: inflation persistence, compressed volatility and high correlation across assets with elevated fundamental uncertainty.

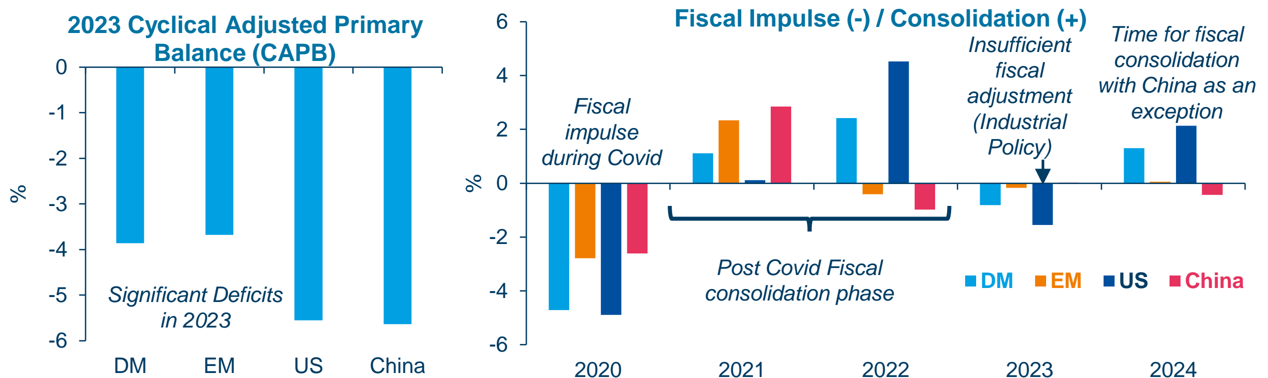
Remarkable short-term economic resilience

In recent months, the IMF and other economic forecasters have raised **their growth projections for 2024**. The April World Economic Outlook showed revisions (+0.3% Global) that primarily affected the US, China and Emerging Markets (EM). These revisions were based on expectations of less **economic scarring** from the recent crisis, **insufficient fiscal adjustment** supporting short-term growth and less effective **monetary policy transmission** compared to the past.

To further support economic performance, many countries have reintroduced **industrial policies, driven by both economic and non-economic factors**. Moreover, the IMF advocates the use of fiscal measures when necessary. These measures aim to enhance competitiveness, address climate change, strengthen supply chain resilience and bolster national security. The main sectors targeted are advanced technology, military/civil dual-use industries, low-carbon technology, steel and aluminium.

Since October 2023, **the short-term risk of recession** (with global growth at 2.0%) **has decreased from 15% to 10%.** While the various risks to the baseline scenario are generally balanced, it is worth noting that EM appear to be in a relatively **better position than advanced economies**. The only exception to that relates to the risk of deflation **in China,** due to the larger global economic slack and China's excess capacity in the goods sector.

CHART: 2023 was expansionary, 2024 will see increasing regional differences



Source: Amundi Investment Institute, IMF Fiscal Monitor April 2024. Fiscal Impulse is the change in CAPB. While the 2023 starting point is expansionary, 2024 will see increasing regional differences, particularly the US moving into fiscal consolidation.

Inequality is increasing not only within countries but even among countries.

An important exception to this remarkable resilience can be observed in low-income countries where the effects of the recent crisis still persist. Growth projections for these countries have been revised downward, while inflation has increased. Inequality is increasing not only within countries but even among countries. The Common Framework for debt restructuring remains largely absent and market access is very limited. Meanwhile, **the IMF's lending efforts are progressing in large Frontier countries such as Argentina, Egypt and Pakistan. However, the IMF needs to refine its lending toolkit and improve its effectiveness,** while also considering a more robust approach to prevent a long list of serial users. The current global macro environment presents challenges for maintaining IMF programmes, as financial conditions have tightened and geopolitical volatility is affecting risk premiums.

Lack of medium-term economic acceleration

Although the medium-term outlook still appears decent, global GDP growth is projected to oscillate between 3.1% and 3.2% until 2029. This highlights a **lack of significant economic acceleration compared to the pre-pandemic average growth of 3.8%**. **The main culprit for this sluggishness is the decline in total-factor productivity (TFP)** caused by the misallocation of resources, with the exception of the **US (US Exceptionalism)**. Additionally, **the current reliance on fiscal stimulus may** become **a future concern if the necessary buffers are not adequately replenished**. It is important to note that the potential positive **impact of Artificial Intelligence** on the economy, which is not accounted for **in the IMF's baseline projections, could act as an upside risk**. While the dichotomy between technological progress and labour displacement should affect advanced economies more in the short run, EM are likely to reap fewer benefits in the medium term.

Inflation is the priority: need for vigilant and asynchronous policies

Monetary policies should be implemented asynchronously.

Inflation is expected to continue to moderate, although the **final stage of disinflation may prove more challenging** due to factors such as persistent services inflation and tight labour markets. Central banks are therefore encouraged to remain vigilant and patient. This implies that monetary policies should be implemented asynchronously among both Advanced and Emerging economies. **The Fed should be more patient and not market-driven, while the ECB may act more quickly. EM central banks should continue with their easing cycle, in most cases starting from a position of tight conditions**, in order to tackle inflation on both domestic and import fronts. **However, each CB should take into account the Fed's patient approach when determining its own monetary policy stance.**

Amundi Investment Institute vs IMF	Amundi Investment Convictions
▪ We expect a softer landing compared to the IMF (which sees higher growth), with similar inflation stickiness. ▪ We expect central banks to be more dovish compared to the IMF and market consensus, but we recognise high uncertainty, as inflation risk remains tilted towards the upside. ▪ Similar to the IMF, we expect a gradual and granular economic impact from AI in the medium term with differences across emerging economies (see our annual Capital Market Assumptions publication).	▪ A soft-landing scenario supports a preference for risky assets but a lot is already priced into the market. Favour equity vs credit and look at opportunities globally. ▪ Current yield levels are attractive for bond investors (US Treasuries) but we expect volatility to persist. In EM, while HC looks safer in the short term, more compelling valuations in Local Debt could offer opportunities moving ahead. ▪ In a sticky inflationary backdrop, enhance diversification with Alternative Asset Classes, but be selective amid areas of stretched valuations. ▪ On a medium-term view, consider thematic opportunities for example linked to gains from AI.

AII* CONTRIBUTORS

SERGIO BERTONCINI
SENIOR FIXED INCOME STRATEGIST

POL CARULLA
INVESTMENT INSIGHTS AND CLIENT DIVISION SPECIALIST

UJJWAL DHINGRA
INVESTMENT INSIGHTS AND CLIENT DIVISION SPECIALIST

SILVIA DI SILVIO
CROSS ASSET MACRO STRATEGIST

PATRYK DROZDIK
SENIOR EM MACRO STRATEGIST

DELPHINE GEORGES
SENIOR FIXED INCOME STRATEGIST

GIAUSA GABRIELE
JUNIOR MACRO STRATEGIST

KARINE HERVÉ
SENIOR EM MACRO STRATEGIST

SOSI VARTANESYAN
SENIOR SOVEREIGN ANALYST

DESIGN & DATA VISUALIZATION

CHIARA BENETTI
DIGITAL ART DIRECTOR AND STRATEGY DESIGNER, AII *

VINCENT FLASSEUR
GRAPHICS AND DATA VISUALIZATION MANAGER, AII*

CHIEF EDITORS

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

VINCENT MORTIER
GROUP CIO

MATTEO GERMANO
DEPUTY GROUP CIO

EDITORS

CLAUDIA BERTINO
HEAD OF AMUNDI INVESTMENT INSIGHTS AND PUBLISHING, AII*

LAURA FIOROT
HEAD OF INVESTMENT INSIGHTS & CLIENT DIVISION, AII*

DEPUTY EDITORS

FRANCESCA PANELLI
INVESTMENT INSIGHTS & CLIENT DIVISION SPECIALIST

TRISTAN PERRIER
MACROECONOMIST AND INVESTMENT INSIGHTS SPECIALIST

GIANLUCA GALLARATE
INVESTMENT INSIGHTS & PUBLISHING

* Amundi Investment Institute

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Amundi Investment Institute

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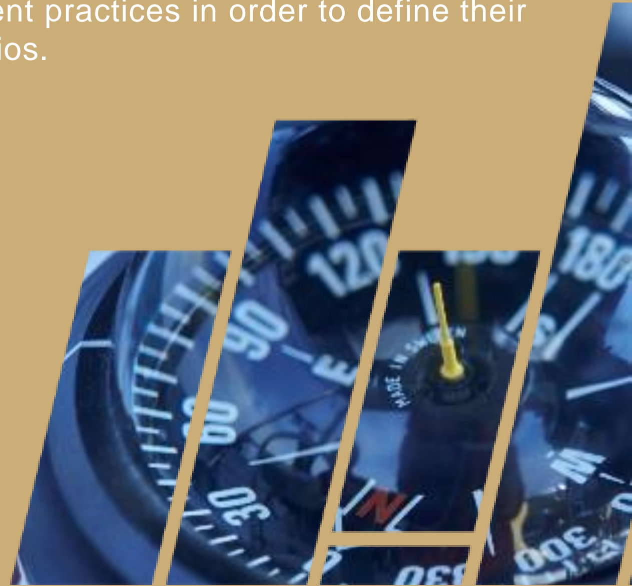

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