Amundi Investment Institute

Weekly Market Directions

19 January 2024

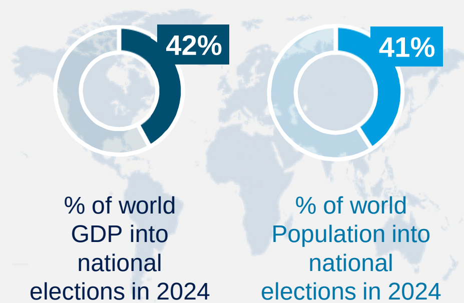
“We are witnessing a global realignment towards a multi-polar world, and geopolitics will be a crucial factor to watch for investors in 2024”

Monica Defend
Head of the Amundi Investment Institute

Geopolitics in an election-heavy year

- A large section of the world (around 42% of global GDP) will elect its political leaders this year, with the US in focus.
- Increasingly, internal politics in emerging powers such as China, India, and Latin America will shape global geopolitics.
- This realignment presents opportunities arising out domestic consumption, supply chain reallocation, near shoring etc.

2024: the biggest election year in history kicks off



Source: Amundi Investment Institute, Bloomberg Economics on IMF forecasts, Jan 2024.

2024 will see 40 countries going into national elections, representing over 40% of the global population (around half of the world if we also consider European parliament elections). People in the Americas (US, Mexico), Russia, and in Asia (India, Indonesia) will choose their leaders, and, as Donald Trump’s recent victory in the Iowa caucuses has shown, this will definitely not be a quiet year.

While the victory of China-hawkish DPP party in Taiwanese elections did not come as a surprise, this cannot be said with certainty about polls in other countries.

The outcomes of these elections would affect the future economic path, and international relations, of established leaders such as US/Europe and of emerging powers for instance in Asia and Latin America. Hence, investors looking for higher returns in EM should assess country-specific factors such as political stability, public finances and economic growth.

Actionable ideas

US bonds

Government bonds offer safety in times of slowing economic growth and high geopolitical risks in the form of tensions in the Middle East/Red Sea, Russia/Ukraine war. But the need to be active is high.

Emerging Market bonds

EM bonds for example in Asia and Latin America provide high yields to investors looking to boost their income. Importantly, EM show divergences in their growth path and hence selection is important.

This week at a glance

Equities were mixed and bond yields rose, as central bank comments led the markets to assess the timing and extent of policy rate cuts. Japanese stocks were up on interest from foreign investors and improving corporate governance. In commodities, oil prices rose on geopolitical risks in the Red Sea and Middle East.

Equity and bond markets

Asset class performance year to date and week to date

		YTD	WTD
EQUITIES	World	-0.4%	-0.06%
	United States	1.5%	1.17%
	Europe	-2.0%	-1.58%
	Japan	6.1%	0.63%
	Emerging markets	-5.2%	-2.55%
BONDS	Global aggregate	-2.4%	-1.42%
	Euro aggregate	-1.4%	-0.75%
	Emerging markets	-1.9%	-1.03%

Source: Bloomberg, data as at 19 Jan 2024
Please refer to the last page for additional information on the indices.

Government bond yields

2 and 10 years government bond yields and 1 week change

	2YR		10YR	
US	4.39	▲	4.12	▲
Germany	2.73	▲	2.34	▲
France	3.27	▲	2.83	▲
Italy	3.22	▲	3.88	▲
UK	4.30	▲	3.93	▲
Japan	0.03	▲	0.66	▲

Source: Bloomberg, data as at 19 Jan 2024
Trend represented refer to 1week changes. Please refer to the last page for additional information.

Commodities, FX and short term rates

Gold USD/oz	Crude Oil USD/barrel	EUR/USD	USD/JPY	GBP/USD	USD/RMB	Euribor 3M	T-Bill 3M
2029.49	73.41	1.09	148.12	1.27	7.19	3.96	5.35
-1.0%	+1.0%	-0.5%	+2.2%	-0.4%	+0.4%		

Source: Bloomberg, data as at 19 Jan 2024
Trend represented refer to 1week changes. Please refer to the last page for additional information.

Amundi Investment Institute Macro Focus

Americas

US retail sales outpaced expectations, for now

Headline retail sales number in December came in above consensus expectations at 0.6% (MoM) due to end-of-year discounts offered by companies. In particular, sales excluding cars and gasoline were up 0.6% and control-group sales (that exclude vehicles, gas, food and building materials) rose 0.8%. While this past data indicates that consumption is strong, we are not very confident of how well this strength can be sustained in the future.

Europe

Euro Area headline and core inflation diverged slightly in December

Headline inflation ticked up to 2.9% (vs. 2.4% YoY in November) but this was mainly because of fading energy base effects. Core inflation, however, decelerated to 3.4% (down from 3.6% in November), which is in line with our disinflationary views. This is also positive for the ECB which remains focused on bringing price increases back to its target.

Asia

China growth moderation to continue

China's GDP grew 5.2% in 2023, in line with our expectations. We stand by our view of a growth moderation in 2024 to 3.9%, diverging from the more optimistic views of the markets. A shift to a 3% growth rate over the next three years appears imminent. This deceleration is not merely a statistical inevitability; it is China's strategic recalibration towards a more sustainable growth model in the long term.

Key Dates

23 Jan	BoJ Monetary Policy, EZ Consumer Confidence
25 Jan	US & South Korea GDP, ECB Monetary Policy
26 Jan	US PCE, Mexico Trade Balance

NOTES

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Equity and bond markets (chart)

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

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

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

Source: Bloomberg, data as at 19 January 2024.

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

GLOSSARY

Core Inflation: change in the costs of goods and services, excluding food and energy sectors.

Disinflation: A temporary slowing of the pace of price inflation.

DPP: Democratic Progressive Party

ECB: European Central Bank

Fed: Federal Reserve.

GDP: Gross Domestic Product.

Headline inflation: change in the costs of goods and services.

Multi polar: Several countries having most of the power/many important global powers

Near shoring: Relocating business operations to a nearby country

MoM: month over month growth.

US PCE: US Personal Consumption Expenditure

YoY: Year over year growth.

YTD: Year to date.

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IMPORTANT INFORMATION

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