GENERALI INVESTMENTS

# Market Compass

December 2024

## MARKET OUTLOOK

- The US economy keeps outpacing major peers in developed markets. While high implementation uncertainties remain, Trump's policy agenda is likely to sustain US exceptionalism well into 2025.
- Acknowledging risks from trade and geopolitical frictions, risk sentiment should remain underpinned by tailwinds from resilient global growth, receding inflation and central bank rate cuts.
- Yet regional differentiation matters. Our mild overweight (OW) in equities is tilted towards outside the Euro Area.
- But we are warming up to higher duration in the Euro Area while keeping a preference for Credit. The US dollar seems poised to stay stronger for longer.


Edited by

MACRO & MARKET RESEARCH TEAM


A team of 13 analysts based in Paris, Cologne, Milan and Prague runs qualitative and quantitative analysis on macroeconomic and financial issues.

The team translates macro and quant views into investment ideas that feed into the investment process.

### US

- (+) Consumption keeps supporting >2.5% growth…
- (−) …but prevents a quicker disinflation
- (!) Fed to slow down the pace of cuts
- (!) First decision of the new administration key driver for 2025 growth

### EUROZONE

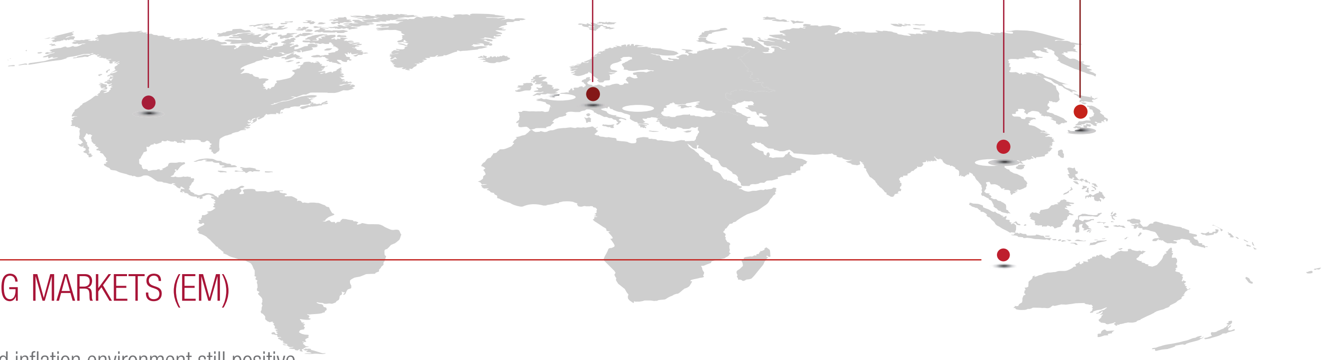
- (−) Business sentiment remains extremely weak
- (−) Political uncertainty in Germany (snap elections) and France (risk of government breakdown)
- (+) Inflation up to 2.3% in November
- (+) ECB to ease stronger and faster

### CHINA

- (−) Disappointment on the new stimulus plan
- (+) High-frequency indicators are improving
- (+) More hints on the stimulus expected in December
- (+) US policy and tariffs to boost stimulus measures if needed

### JAPAN

- (!) BoJ likely to raise rates in Dec/Q1 2025 at the latest...
- (+) ...but strong real income will underpin consumption
- (!) Japanese investors turned net seller of sovereign bonds, excluding Treasuries



### EMERGING MARKETS (EM)

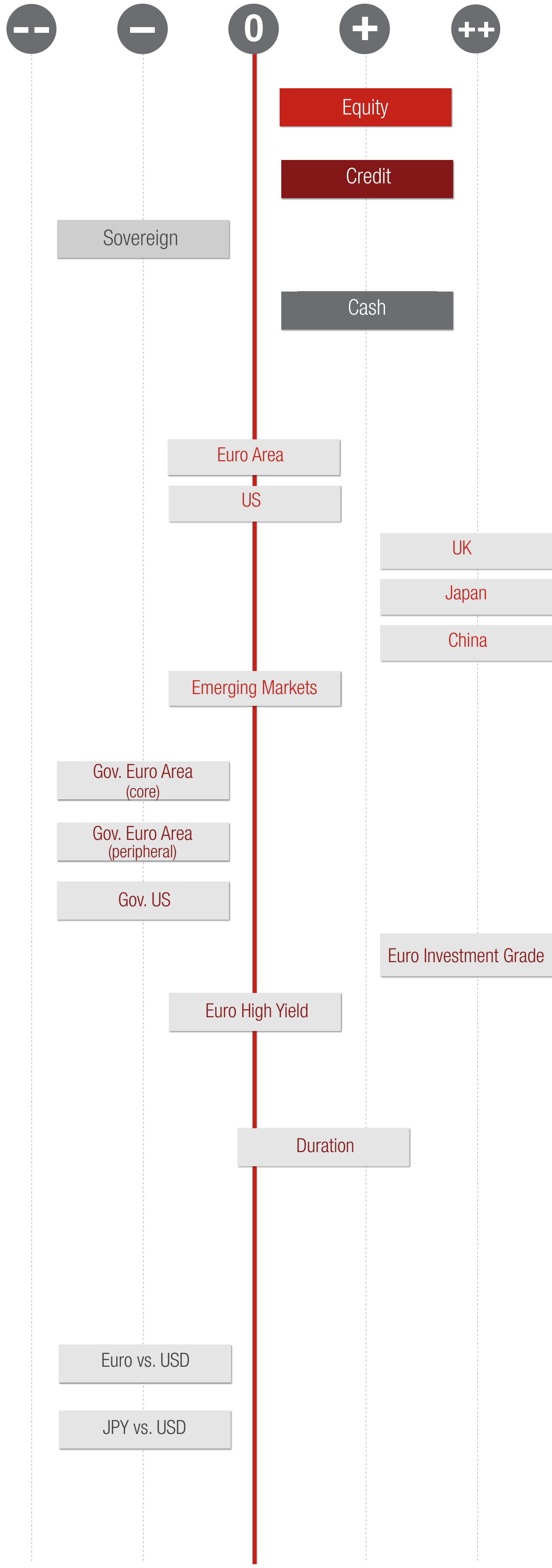
- (+) Growth and inflation environment still positive
- (−) Fear of new US tariffs weigh on Emerging Forex
- (−) Trump victory to weigh on business sentiment and investment

(+) Positive
(−) Negative
(!) Topics to watch

Your Partner for Progress.

## DIRECTION OF TRAVEL

- Increase OW equity, as inflation and monetary policy eases. Tilt allocation towards US and Japan.
- Keep IG credit overweight as default rate is stable. Prefer Euro Area and non financials.
- Maintain UW government bonds, especially Euro core. Keep OW in Cash.
- Overweight USD against Euro given increasing uncertainties in Europe.




### Equity

- Resolved election uncertainty adds to dovish central banks and decent macro trends, especially in the US.
- EMU is more at risk but should see improving momentum in the next few quarters.
- We see 9-17% TR for EU and 4-8% for the US in 12 months, plus a fundamentally driven rotation out of US IT into other sectors and ex-US countries.

### Bonds

- The transatlantic yield spread widening has leeway to extend further. Key drivers: more rate cuts, moderating inflation pressures.
- Supportive environment for Euro Area non-core bonds to prevail, but French OATs are likely to continue to perform weakly.

### Duration

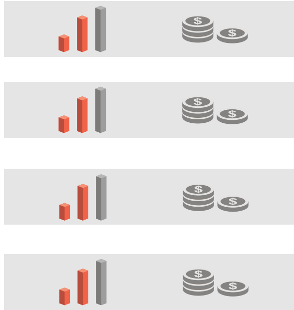
- Moderately long duration.

### Currencies

- Stronger for longer USD on higher inflation risk, continued global uncertainty and foreign direct investment inflows following tariffs.
- Further weakening of the EUR/USD. Parity looks possible if radical tariffs are implemented.

# TOPICS TO WATCH

| Probability | Impact |
|---|---|



- Inflation risks: higher in the US (due to tight housing and labour market, plus new Trump tariffs), and more balanced in the Euro Area (wage growth is still high in the services sector but goods prices could decline faster due to the knock-on effect of Chinese weakness, which would increase supply).
- Trump swiftly introduces highly punitive tariffs.
- China delivers bold fiscal stimulus package boosting consumption and property.
- Geopolitical stress two-sided: escalation risk vs. ceasefire odds (Ukraine, Middle East).

Probability: High ↔ Low

Impact: High ↔ Low



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