



Market Compass

February 2025



MARKET OUTLOOK

- Trump's MAGA agenda keeps markets on edge. A universal tariff does not seem on the cards, but relief is limited as uncertainty remains high.
- Political uncertainty and volatility will remain high, but our core assumption remains that Republicans will want to avoid creating another large inflation shock. We maintain a moderate pro-risk tilt amid a still conducive backdrop of solid global growth, further rate cuts and receding inflation.
- Our preference is for IG Credit and to a lesser extent for Equities, at the expense of Cash. We increased duration exposure in the Euro Area as the drag from lower inflation, economic stagnation and further ECB rate cuts will partially unwind the recent rise in yields.

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

- + Q4 data show very strong domestic demand...
- + ...but inflation slows down
- ! We expect only two rate cuts, in H2
- ! Trade policy key driver of eco/financial developments

EUROZONE

- + Sentiment shows signs of improvement despite political uncertainty (Germany, France)
- Tariffs to weigh on outlook ...
- + ...but monetary easing and lower inflation to help
- + ECB to stay in easing mode

CHINA

- Short-term activity has deteriorated marginally
- Tariffs in focus with retaliation expected
- Deflationary pressures require more monetary easing

JAPAN

- BoJ raised rates by 25 bps, another hike expected this year
- Stubborn inflation dampens real income gains
- ! Japanese investors are quickly reducing holdings of EA govies, putting pressure on yields

EMERGING MARKETS (EM)

- + EM activity has been resilient, disinflation a bit stickier
- Tariffs uncertainty to hit sentiment, especially in Asia
- + Policymakers have room to manoeuvre

- + Positive
- Negative
- ! Topics to watch

DIRECTION OF TRAVEL

- Keep moderate overweight (OW) equity, with equal weight to US and EMU.
- Keep IG credit OW, preferring non-financials.
- Maintain underweight (UW) euro government bonds, especially core, but increase duration. Neutral Treasuries.
- Moderately long USD against Euro.

Equity

- Three positive factors still at play: post-election cycle, dovish central bank stance plus the rotation out of US Tech via lower relative EPS growth.
- We keep an OW position and see 8% TR for the US and 10% for the EMU in 1 year.
- Neutral EMU vs USA, balancing risks (EMU riskier) with valuation (US expensive). Risks: US tariffs and sticky inflation.

Bonds

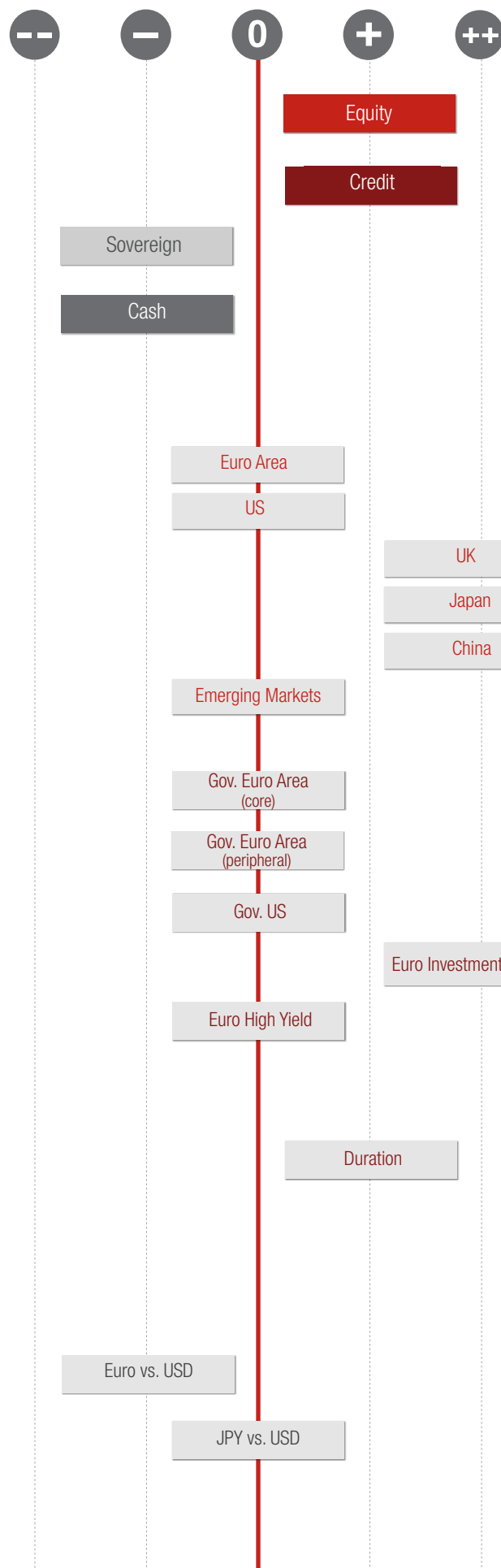
- The recent Euro Area core yield increase looks unsustainable. Lower key rates, falling inflation and concerns about the growth impact of US tariffs will trigger lower Euro Area core yields.
- We forecast a decline to 2.1% for 10-year Bund yields on a 12-month horizon.
- No further 2y/10y steepening.

Duration

- Long duration recommended.

Currencies

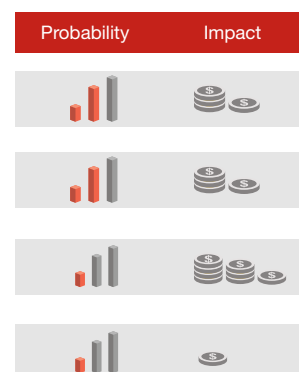
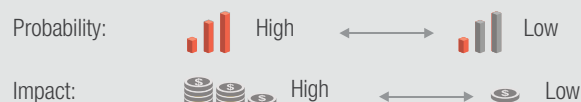
- The expensive US dollar retraced in January after Trump's early announcements fell short of immediate and broad punitive tariffs.
- Yet US protectionist measures are still on the table. With only reluctant Fed rate cuts likely this year, the USD will remain strong for longer. Crowded long USD positions imply more two-sided risks short term.



GENERALI
INVESTMENTS

TOPICS TO WATCH

- Two-sided risks to disinflation: rising oil prices (mid-east conflict) + sticky wages/services CPI vs. cyclical risks and China deflation.
- Intensified global fracturing (esp. China/US), notably on a Trump victory (punitive tariffs).
- Geopolitical surprises (Middle East, Ukraine, Taiwan).
- Goldilocks: broader recovery, ongoing disinflation, broadening of the Tech rally (far from a bubble).



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