GENERALI INVESTMENTS

Market Compass

April 2025

MARKET OUTLOOK

- If fully implemented and followed by retaliation, the sanctions announced by the Trump administration would create a self-inflicted stagflation shock for the US economy and severely constrain growth in the Euro Area.
- We expect the Fed to look through the shock to the price level and act quickly to prevent recession. We now expect three rate cuts. We also increase to three the cuts the ECB will implement.
- Hopes of a short-term de-escalation are limited, but are more balanced medium term, especially as the 2026 US mid-term elections approach.
- Rising recession fears should support fixed income assets relative to equity (for which we further reduce overweight), we particularly like Investment Grade (IG) credit. Euro Area spreads should be well behaved as the bulk of the fiscal and military efforts are born by Germany. Neutral duration in Euro Area bonds, small long position in the US.

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

- (−) The new tariffs will drastically cut growth…
- (−) …and temporarily push up inflation
- (−) Political uncertainty likely to damp capex and hiring
- (!) The Fed should cut rates three times this year

EUROZONE

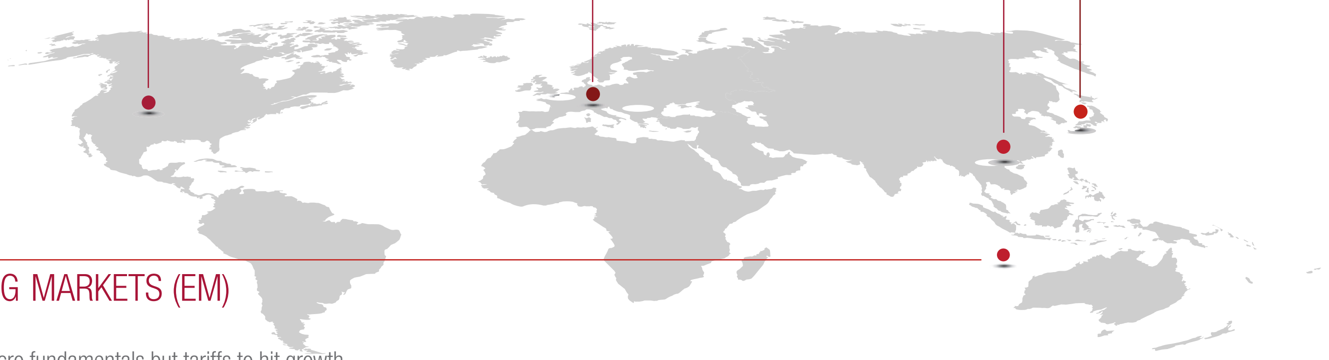
- (+) Indicators show recovery before tariff hammer
- (−) Trade war to drag on near term growth …
- (+) … but German bazooka to cushion fallout
- (!) ECB to keep cutting until July

CHINA

- (+) Economic activity is bottoming out
- (+) Positive sentiment shift with further consumer support
- (−) But high tariffs to substantially hit growth
- (−) More fiscal support and monetary easing needed

JAPAN

- (−) Tariffs will hit hard activity...
- (+) ... but solid wage gains could soften the blow in the short-term
- (!) Growth slowdown may lead the BoJ to pause rate hikes



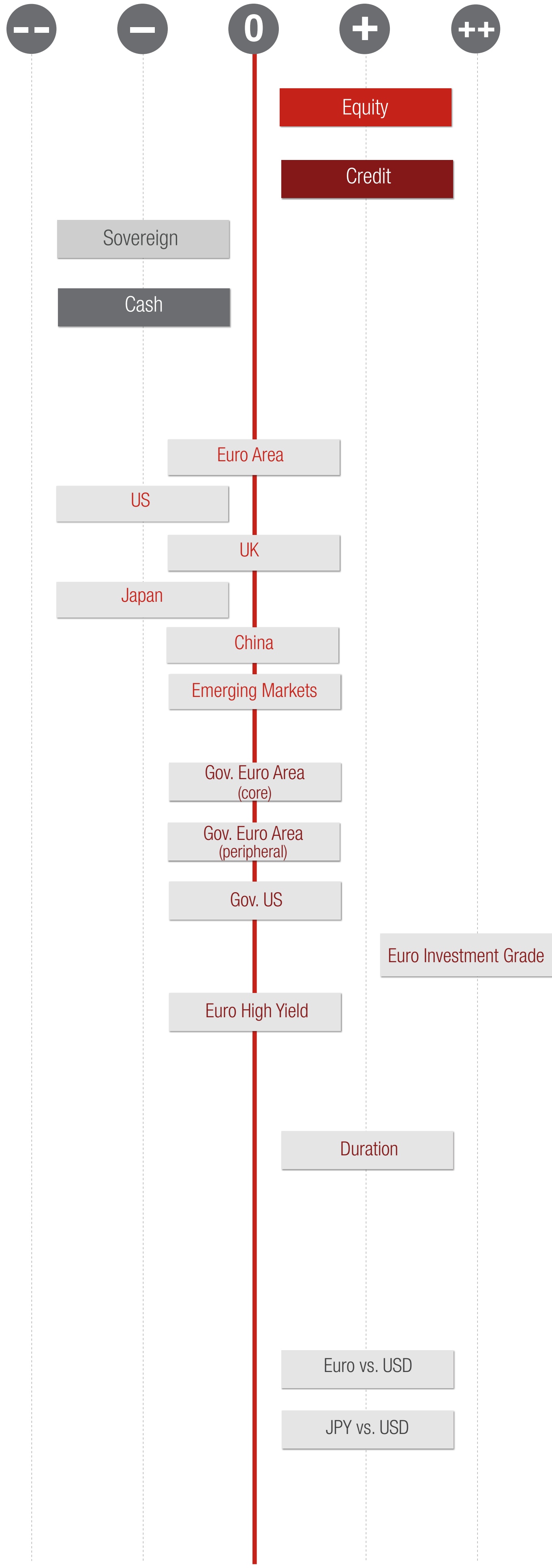
EMERGING MARKETS (EM)

- (+) Sound macro fundamentals but tariffs to hit growth
- (+) Weaker USD gives central banks leeway to ease
- (−) Asia to be vulnerable, LatAm is a relative winner, EMEA neutral

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

DIRECTION OF TRAVEL

- Trim already small overweight (OW) equity.
- Keep IG credit OW, marginally preferring non financials.
- Maintain underweight (UW) euro government bonds, especially core, and reduce duration. Go Neutral Treasuries.
- Keep UW Cash.



Equity

- Slightly underweight equities after Trump's recent decision on tariffs.
- Analysts may continue to slash earnings forecasts before any central bank's reaction.
- For these reasons, the market could experience a prolonged sell-off.
- Neutral EMU vs US. Overweight SMI and UK, India, Poland.

Bonds

- The fiscal paradigm shift will lead to a higher yield environment in the Euro Area. Regardless, disinflation and ECB rate cuts are seen to trigger lower yields initially.
- The decreasing Bund premium will support other fixed income assets. Low spreads for longer.
- IG performance will be boosted by falling policy rates and very low default risk.

Duration

- Neutral duration for Euro Area, moderately long duration for US.

Currencies

- Fading US exceptionalism and the damage of high US policy uncertainty on domestic growth and the USD safe haven status keep weighing on the greenback.
- Further fiscal support in the Euro Area is bolstering the EUR's outlook.

TOPICS TO WATCH

	Probability	Impact
Strong Retaliation to US tariffs leads to a full blown trade war.		
De-escalation in trade tensions as deals are found.		
Geopolitical surprises (Middle East, Ukraine, Taiwan).		

Probability: High ⟷ Low

Impact: High ⟷ Low

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