GENERALI ASSET MANAGEMENT

Market Perspectives

Sailing MAGA 2.0

February 2024

GenAM Macro & Market Research

'Market Perspectives' provide our monthly macro & market outlook and investment recommendations

- **Trump's MAGA agenda keeps markets on edge. His reluctance to impose universal tariffs immediately after inauguration has provided some relief.**
- **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 increase duration exposure in the EA as the drag from lower inflation, economic stagnation and further ECB rate cuts will partially unwind the recent rise in yields.**

Content

1.	Global View	2
2.	USA	3
3.	Euro area	4
4.	Japan	5
5.	China	6
6.	Central and Eastern Europe	7
7.	Government Bonds	8
8.	Credit	10
9.	EM Sovereign Bonds	11
10.	Currencies	12
11.	Equities	13
12.	Asset Allocation	15
13.	Forecast Tables	16
14.	Imprint	17

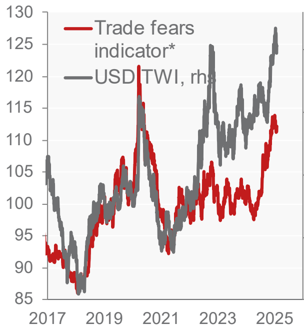
Global View – Sailing MAGA 2.0

Thomas Hempell

- **Trump's MAGA agenda keeps markets on edge. His reluctance to impose universal tariffs immediately after inauguration has provided some relief.**
- **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 increase duration exposure in the EA as the drag from lower inflation, economic stagnation and further ECB rate cuts will partially unwind the recent rise in yields.**

Trump's MAGA agenda keeps its tight grip on financial markets. Following a global bond sell-off in December amid US price and tariff worries, Trump's inauguration has brought some relief. European equities rallied in January and the USD took a breather (left chart) as Trump's flurry of executive orders avoided much-feared universal tariffs. This is in line with our expectations that, amid all uncertainty, Trump's may ultimately favour a transactional approach, using tariffs as a bargaining chip to extract concessions (as just done with Colombia over immigration). But there is no room for complacency: punitive tariffs on Mexico, Canada (25%) and China (10%) and a "global supplemental tariff" are on the table. Trump has also pledged to impose duties on chips, pharmaceuticals and steel. Expect volatility due to policy uncertainty as Trump's agenda is taking shape.

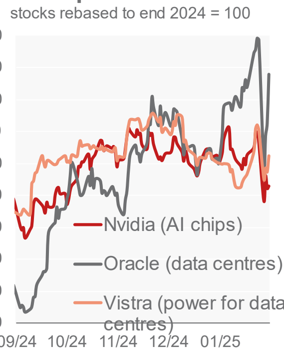
Trade war worries and USD



Source: Datastream, GenAM; *equally weighted Stoxx600 vs auto sector, Fathom US China Exposure Index (inv.), JPY/KRW and

DeepSeek tremor

stocks rebased to end 2024 = 100



Source: Refinitiv, GenAM

After moving largely in synch in 2024 (-100bp each), the paths of the Fed (on the sidelines for now) and the ECB (further sequential cuts amid economic stagnation and easing wage growth) have started to diverge. Disinflation is likely to remain sluggish, but price risks are more two-sided now in the US both due to the more resilient economy and the policy risks from Trump's MAGA agenda. Following the rise in yields to end-2024, we continue to warm up to higher duration exposure. Longer buckets of European fixed income now look attractive as 10y Bund yields hover around 2.5% despite entrenched disinflation, a stagnating economy and further ECB cuts in the offing. US fixed income, by contrast, requires a more prudent stance amid solid growth and two-sided risks on inflation.

DeepSeek opening a new AI chapter?

With Trump's first days in office barely digested, Chinese DeepSeek's powerful but low-cost AI model R3 has rattled stock markets. Investors fear a slump in demand for advanced chips and data centres, whose shares sold off (right chart), dragging down tech indices. The jury on DeepSeek's implications is still out, but we believe the emergence of low-cost alternatives could ultimately help to spur AI adoption and competition, undermining the winner-take-all dynamics in AI. This will benefit consumers and overall productivity. However, technological rivalry between the US and China may intensify. The market correction also laid bare concentration risks in US indices previously flagged, with Mag7 stocks accounting for a third of S&P500 market capitalization.

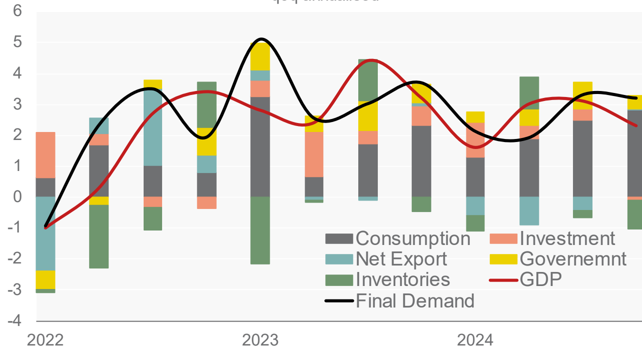
10-Year Gvt Bonds	Current*	3M	6M	12M
US Treasuries	4.54	4.55	4.45	4.25
Germany (Bunds)	2.55	2.45	2.30	2.10
Credit Spreads**				
EA IG Non-Financial	91	90	90	90
EA IG Financial	94	95	95	95
Forex				
EUR/USD	1.04	1.03	1.03	1.04
USD/JPY	155	154	152	150
Equities				
S&P500	6040	6085	6175	6355
MSCI EMU	172	173	175	184

**3-day avg. as of 29/01/25 **ICE BofA (OAS)*

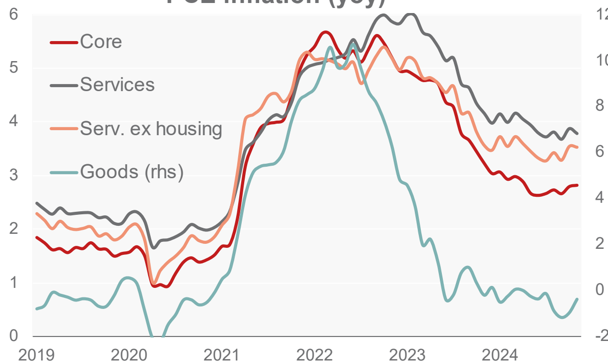
Amid an overall conducive global macro environment (resilient growth, receding inflation, monetary easing) we maintain a moderate pro-risk bias in the portfolios. Our preference is for EUR IG Credit (mainly on carry) and, more prudently, Equities, although we acknowledge risks from higher global yields. Political risks and the tremors in the tech sector strengthen the case for diversification both into small and mid-caps but also regionally into a more balanced transatlantic exposure. The USD should remain underpinned by US exceptionalism and the favourable carry, but strong positioning makes the outlook more two-sided for now.

United States

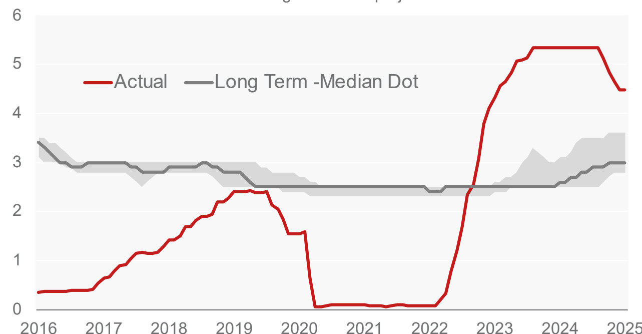
Paolo Zanghieri



Source: BEA, GenAM



Source: BEA, GenAM



Source: Federal Reserve Board, GenAM

- **In Q4 GDP rose by 2.3% ann., dragged down by inventories. Nowcasts for Q1 are in the same region. Hard data show positive development in capex. Politics remain the biggest source of uncertainty.**
- **December PCE inflation remained sticky, but the dynamics, especially in services, still point to a deceleration.**
- **The Fed is pausing further rate cuts, without abandoning the easing bias. We expect them to resume around mid-year.**

According to the first release GDP was up 2.4% in Q4,inventories dragged down inventory, but final demand increased by 3.2%. Nowcast for Q1 point to at least an equally stoting showing. We expect solid growth for 2025, 2.5%, assuming that the Trump administration does not impose quickly hefty tariffs, that would seriously dampen activity. In the first two weeks of activity the new government enacted several measures on various fronts, but decisions on tariffs will probably be made after the publication of a report on trade practices , due by April 1st .

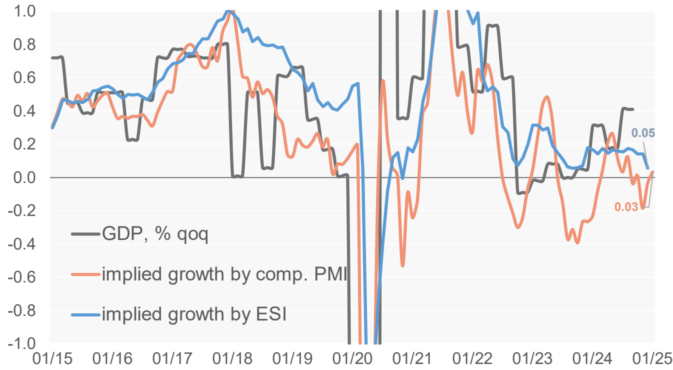
Consumption remained strong, with outlays up 4.2% ann. in real terms. The saving rate was down from 4.3% to 4.1%, Income growth is underpinned by labour market holding well, in the last three month of the year an average of 170K new jobs were added, a deceleration compared with the 190k of the first three quarters, but this is not accompanied by job destruction, with the layoff rate remaining close to the historical low. A decrease in a job offer and a moderation in the quit rate are taming wage creation (down to 4% yoy in Q4, after peaking at 5.9% in 2022). This will help moderate price inflation which is concentrated into labour intensive services. Core PCE remains at 2.8% yoy and the ex-housing component still at 3.5% growth. We expect a more material deceleration overt the coming months, but we do not see core PCE below 2.3% by year end.

Fed pauses rate cuts until H2

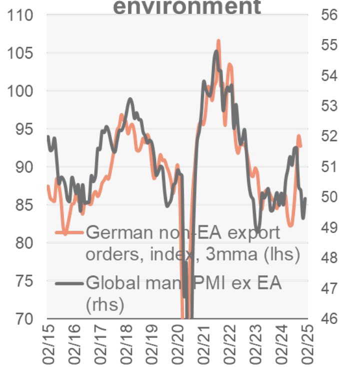
At the January meeting the Fed signalled that it is in no rush to cut rates, as downside risks for employment are minimal and inflation remains too strong. However, it has reaffirmed its bias towards cut, as the policy rate remains some 150bps above the neutral estimates. Given the projected strength of the economy in H1, we expect easing to resume in June at the earliest, with two cuts this year. The FOMC is considering the possible impact of the new administration's policies, but has yet to factor them in the projections as details are missing. QT continues at the current pace, and we expect it to end in spring.

Euro Area

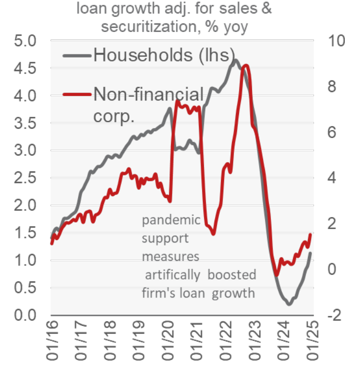
Martin Wolburg



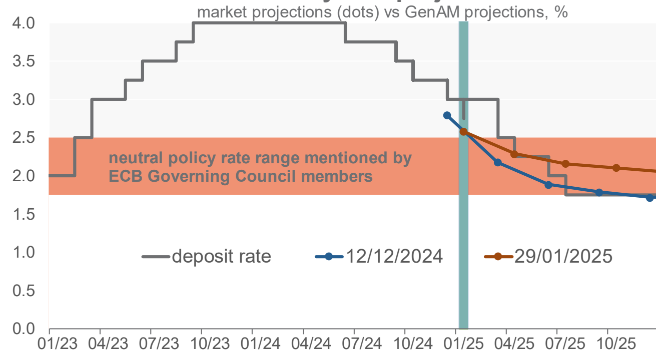
Source: Datastream, GenAM



Source: Datastream, GenAM



Source: Datastream, GenAM



Source: Datastream, ECB, GenAM calculations

- **Key sentiment indicators suggest that activity is improving at the start of the year amid a still weak global environment and risks from US tariffs.**
- **While higher energy prices likely kept inflation close to the Dec. peak, receding underlying price pressure and monetary policy easing will support activity.**
- **Following a Jan ECB rate cut to 2.75% we continue to expect further substantial easing until 1.75%, mainly due to weak 2025 growth of only 0.8%.**

There is some reason to be cautiously optimistic about euro area activity at the outset of the year. While in the final quarter of 2024 output stagnated, key sentiment indicators report improvement at the beginning of 2025. The Jan composite PMI is back into expansionary territory and forward-looking components also advanced.

Still, it is mainly the services sector driving growth. Albeit some improvement a muted global environment (see mid-lhs chart) will continue to drag on the manufacturing sector dampening the recovery especially in export-oriented economies like Germany. However, thanks to monetary policy easing financing conditions improved and helped to stimulate loan growth (see med-rhs chart). The labour market remained surprisingly resilient thus far as the unemployment rate stayed at the low of 6.3% in November and latest surveys do not hint at a significant deterioration. While headline inflation likely stayed around the Dec peak of 2.4% yoy, mainly due to energy prices, we see ongoing disinflation ahead spurring real income and consumption.

All in all, we continue to expect annual growth of 0.8% in 2025. Risks stay on the downside with the emergence of a US induced trade war being the elephant in the room.

ECB heading well into neutral territory

As widely expected, the ECB lowered its policy rate to 2.75% at its January meeting. At current levels rates were still assessed as restrictive. Amid a weak near-term outlook, the conditions for a recovery are still seen in place and the disinflation process considered “well on track” and “broadly in line” with latest projections. At the same time uncertainty regarding the potential impact from tariffs were highlighted. There was no discussion where to stop the easing cycle as this would have been “premature” and the direction of travel was known according to President Lagarde suggesting that further cuts are in the offing. While data-dependency and the meeting-by meeting approach were maintained, we look for another 25 bps cut by March and continue to expect a terminal rate of 1.75%, likely reached in July.

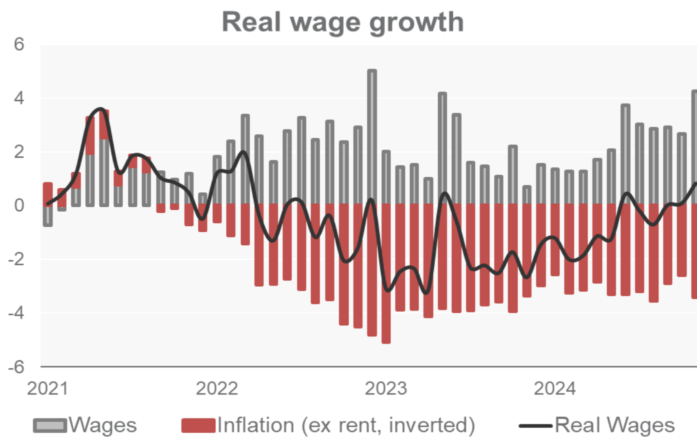
Japan

Paolo Zanghieri

- **The BoJ raised the policy rate to 0.5% and signaled its willingness to tighten further given the strength of wage growth. We expect another hike this year, most likely in June or July.**
- **Strong real growth has yet to boost consumption as real income stagnates and confidence remains low. Still, we expect growth to accelerate to 1% this year.**
- **Investors have accelerated their disposal of euro area sovereign debt on European political uncertainty and rising hedging costs.**

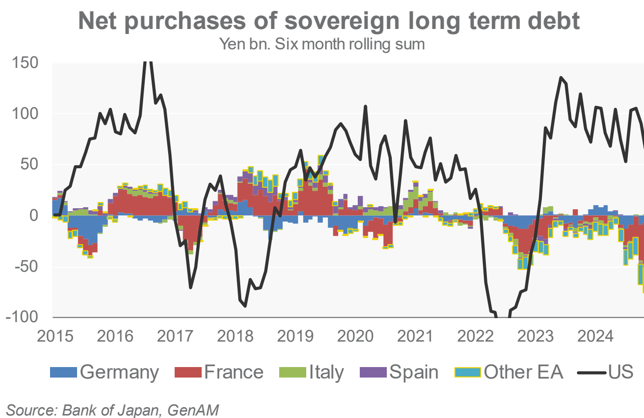
Source: Bank of Japan, GenAM

As widely expected, the BoJ raised in January the policy rate to 0.5% and signalled further. The prospects of achieving the 2% inflation target, have increased sufficiently to justify further normalisation of interest rates towards an estimated neutral level of 1% which should be achieved early in 2026. The BoJ now appears more confident that the outcome of the spring wage negotiations will be as strong as last year. Although the bank is still concerned about the uncertainties surrounding the new US administration's policies, there is currently little negative news calling for a pause in tightening.



Source: Refinitiv, GenAM

While prices for services and durable goods rose by less than 2%, food price inflation has continued to rise by more than 4% in recent months, pushed up by higher global prices and the lagged effect of the yen depreciation, driving inflation close to 3% yoy. Nominal wages have risen at a rate consistent with the medium-term inflation target, but high inflation has prevented a sustained increase in real wages Therefore, consumption is resilient but still lacks momentum, dragged down by weakness in non-durable consumer goods.. Moderating inflation should eventually lift real incomes allowing demand to pick up and GDP growth to reach 1% this year. The prospects of US tariffs is the biggest risk, but export diversification should make Japan less vulnerable than other big Asian countries.



Source: Bank of Japan, GenAM

Outflows from EA debt accelerates

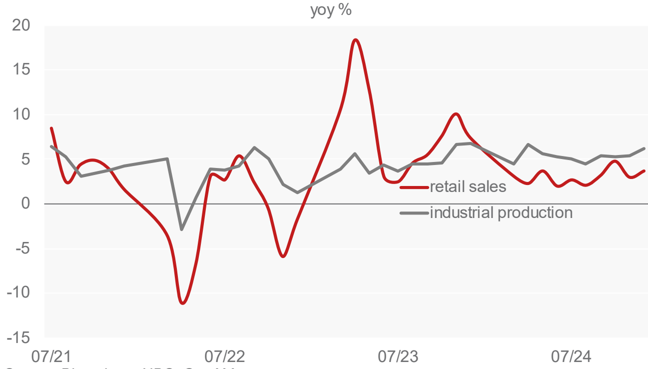
Higher JGB bonds, and FX hedging costs and the political turmoil in France and Germany have severely dampened Japanese historically high appetite for Euro area govies. Net outflows hawse started in 2023 but have accelerated since the past spring, reaching the fastest pace in ten years. This is adding upside pressure to Euro area yields despite the ECB accommodation. Outflows are mainly driven French bonds. On the contrary, demand for US Treasuries remains at historically high levels.

China

Guillaume Tresca

- **Hopes for new policy support have faded, with the risk of no action until early March.**
- **Short-term economic indicators have been mixed. 2024 GDP surprised to the upside, but deflationary pressures remain.**
- **Initially, President Trump's comments have eased tariff concerns somewhat, but this may be short-lived. Headline volatility on tariffs will remain high.**

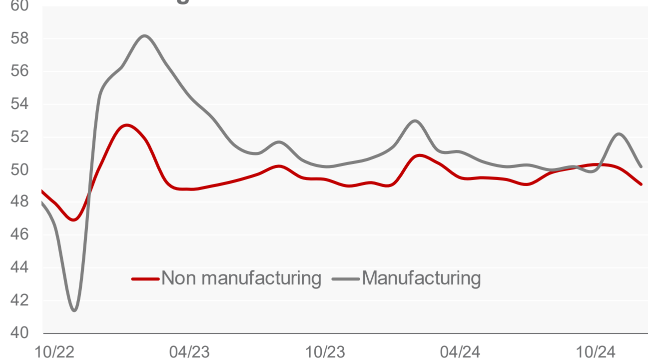
Last year's rising hopes for bold policy support have faded and disappointment has set in. Indeed, since the batch of announcements in September and October, concrete fiscal and monetary support has fallen short of expectations. This may continue, as we sense a vacuum until the traditional two meetings on 5 March, when growth forecasts are announced. Uncertainty about the stance of relations with the US and the risk of tariffs may further delay the implementation of new supportive policies. The post-Lunar New Year holidays will provide relevant clues on the state of the economy, but the risk is a lack of action until March.



Source: Bloomberg, NBC, GenAM

Still mixed economic indicators

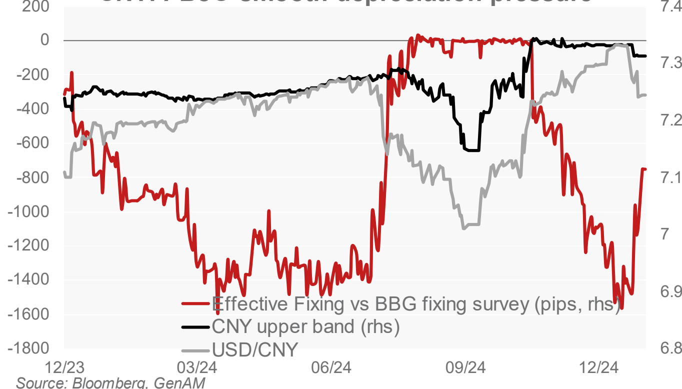
Surprisingly, GDP growth was 5.0% in 2024, with growth accelerating in Q4 (+1.6% qoq). Similarly, retail sales rebounded in December after a poor November reading and industrial profits surged, supported by policy support for equipment upgrades. However, short-term indicators of economic activity such as the PMIs have slowed, hovering close to 50 and failing to show a meaningful recovery in business confidence. More problematic still are the persistent domestic supply/demand imbalances and deflationary pressures, which show no signs of improvement. The rhetoric remains bold: the Central Economic Work Conference (CEWC) in December prioritised "boosting consumption" and promised a "moderately loose" monetary policy for the first time since 2011. As a result, we have lowered our forecast for policy rates and now expect the 7D reverse repo rate to be cut by 40 bps to 1.10% and the RRR by 150 bps by year end.



Source: Bloomberg, CFLP, GenAM

Tariffs: no relief yet

The lack of any announcement on tariffs from President Trump during the inauguration provided some relief. The outlook is still very uncertain. The US reports due on 1 April are an important milestone in the tariff process, but this does not mean that tariffs could not be implemented before then. It appears that President Trump is open to further negotiations and could impose tariffs to gain concessions. Meanwhile, pressure on the CNY has eased, but we continue to expect further gradual depreciation.



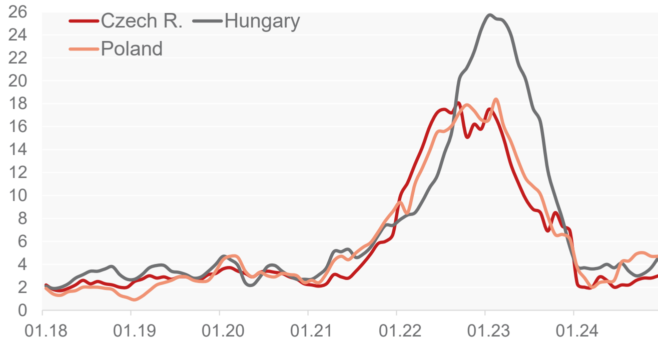
Source: Bloomberg, GenAM

Central and Eastern Europe

Radomír Jáč

Headline inflation

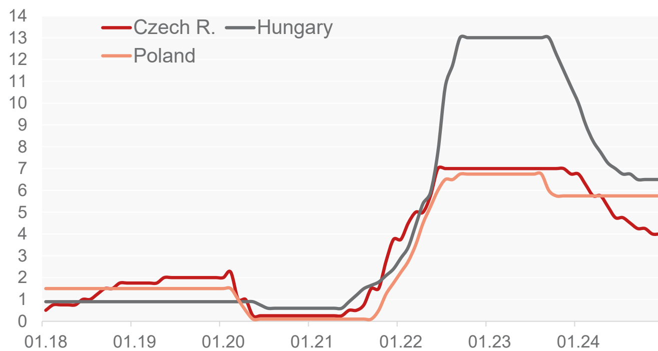
CE-3 countries (CPI yoy in %)



Source: www.czso.cz, www.ksh.hu, www.stat.gov.pl, GenAM

Monetary policy interest rates

CE-3 countries (end-of-month level, in %)



Source: www.cnb.cz, www.mnb.hu, www.nbp.pl, GenAM

Main Forecasts

Czech Republic	2023	2024e	2025f	2026f
GDP	0.1	1.0	2.3	2.8
Consumer prices	10.7	2.4	2.0	2.0
Central bank's key rate	6.75	4.00	3.00	3.00
Hungary	**2023**	**2024e**	**2025f**	**2026f**
GDP	-0.8	0.6	2.5	3.3
Consumer prices	17.6	3.7	4.1	3.3
Central bank's key rate	10.75	6.50	5.50	4.50
Poland	**2023**	**2024e**	**2025f**	**2026f**
GDP	0.1	2.4	3.0	3.2
Consumer prices	11.4	3.7	4.3	3.0
Central bank's key rate	5.75	5.75	4.75	3.75

Source: www.cnb.cz, www.mnb.hu, www.nbp.pl, GenAM

- **Preliminary data for Q4 2024 pointed to a quite solid GDP growth in Hungary and Poland, but detailed statistics are yet to be reported across the region.**
- **In December, the annual inflation exceeded the forecast in Hungary but came in slightly below expectations in Czechia and Poland.**
- **The Czech CNB took its first pause in the easing cycle in December, but rate cuts could resume in February. Hungary may not cut rates until March at the earliest, while Poland is unlikely to cut rates before July.**

So far, only Hungary has reported preliminary GDP data for Q4 2024 in the CE-3: GDP growth reached 0.5% qoq. The full-year 2024 growth was reported at 0.6%. Poland's GDP increased by 2.9% in 2024 in unadjusted terms according to a preliminary estimate. This implies a GDP increase of approx. 1.0% qoq for Q4. We keep our forecast for GDP increase by 2.4% in working day-adjusted terms. The Q4 GDP estimate, incl. working day-adjusted data for the full-year 2024, is due in mid-February. Czech GDP is expected to have increased by 0.5% qoq in Q4: the same pace as in Q3 2024. This would put the full-year growth at ca. 1%.

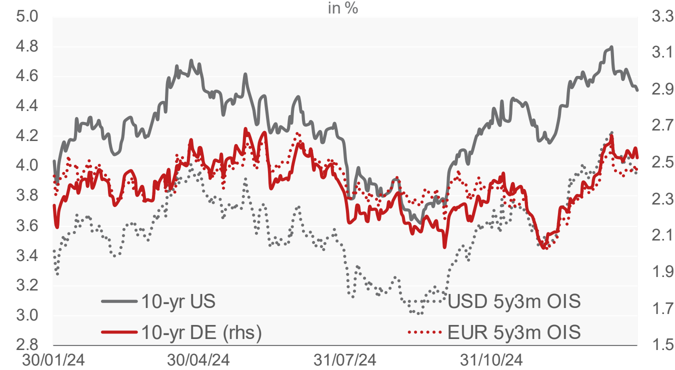
Base effects from food and fuel prices led to an increase in the headline inflation in December in Czechia – from 2.8% to 3.0% yoy (vs. a target set at 2% yoy +/- 1 pp), and in Hungary – from 3.7% to 4.6% yoy (target: 3% yoy +/- 1 pp). Polish inflation remained unchanged at 4.7% yoy (target: 2.5% yoy +/- 1 pp). While Czech inflation is likely to start decreasing from January and may approach the target level already by early spring, CPI in Hungary and Poland is yet to peak in January or February and the target range can be reached only later this year, as inflation in both countries stands above the upper limit of the range.

The Czech CNB is expected to cut rates in February

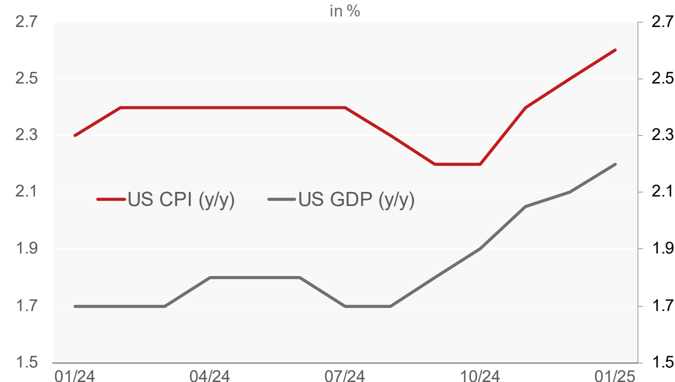
The Czech CNB kept its key rate at 4% in December. This was the first pause in the easing cycle launched at the end of 2023. However, the CNB stated that the door is still open for further rate cuts. We expect rate cuts by 25 bps per quarter in 2025, the first one at the next meeting in early February. In Hungary, the MNB kept the base rate at 6.50% in Q4 2024 and in January due to the volatile HUF FX rate and the near-term inflation outlook. The MNB could cut rates by 25 bps per quarter in 2025 with the first cut in March, but development of inflation and FX rate will have a strong impact on the MNB steps. Poland left its key rate at 5.75% in January after keeping it on hold through 2024. Several MPC members have recently mentioned the possibility of resuming rate cuts at the July, i.e., after the presidential election scheduled for late May/early June.

Government Bonds

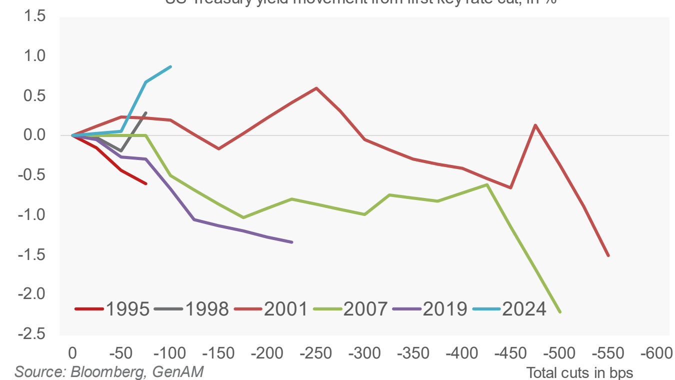
Florian Späte



Source: Bloomberg, GenAM



Source: Bloomberg, GenAM



Source: Bloomberg, GenAM

- **Since the beginning of the year, long-term government bond yields have evolved very differently on either side of the Atlantic. While US yields have fallen slightly, 10-year German yields have risen markedly.**
- **We do not consider this to be sustainable and expect especially long-term Bunds yields to move lower in the coming months. However, the development of the term premium remains a risk factor.**
- **The large supply of new government bonds has been well absorbed by the market. In fact, spreads have narrowed somewhat since the beginning of the year.**

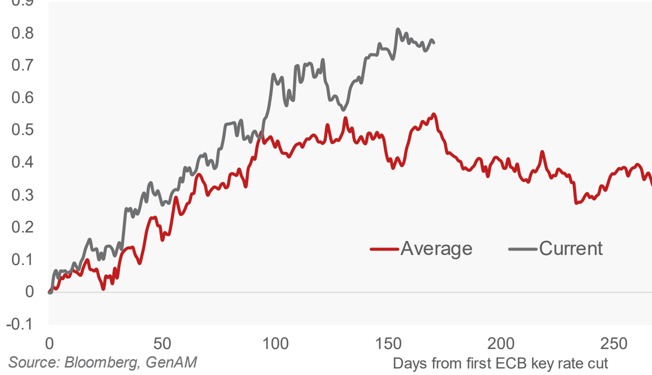
After rising almost continuously since mid-September, slightly lower than expected US inflation data have led to a correction in long-term Treasury yields over the last two weeks. Overall, we see the upward trend in US yields as fundamentally justified. Since September, the economic outlook and inflation expectations have moved noticeably higher (see chart). In line with this, medium-term interest rate expectations (as measured by the 5y3m OIS) have risen by 120 points to over 4.2%. Recently, this exaggeration has been reduced to a current (still too high) 3.9%. Ultimately, we believe that US yields will not be able to escape further key rate cuts by the Fed (we forecast 50 bps in 2025) in the medium term and are likely to trend lower. The policy of the new US administration remains a wild card. However, initial decisions suggest that President Trump is well aware of the inflationary impact of some of his plans and is therefore likely to implement them only partially. As a result, we expect US yields to stabilise around current levels in the short term before trending lower (12-month target for 10-year US yields: 4.25%).

We see further downside potential for US long-term yields in the coming years, given further key rate cuts (we expect a key rate range of 3.25% to 3.50% medium term). However, a persistently high term premium is likely to prevent a sustained decline below 3.7%. In our base scenario, the US budget deficit will remain at least 6% of GDP, as interest payments alone will rise permanently to over 4% of GDP in 2026.

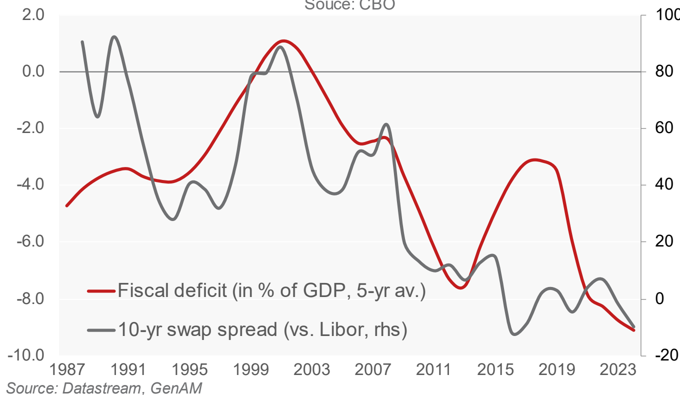
As US yields have increased, so have yields on 10-year Bunds. In the last two months they have risen by 50 bps to 2.55%. This is all the more remarkable given that, in contrast to the US, inflation and growth forecasts for the euro area have not risen but have deteriorated. Additionally, given the downside risks to growth and the intact disinflationary trend, we expect a further four key rate cuts by July to a deposit rate of 1.75%, which is below the neutral level. Financial

Government Bonds

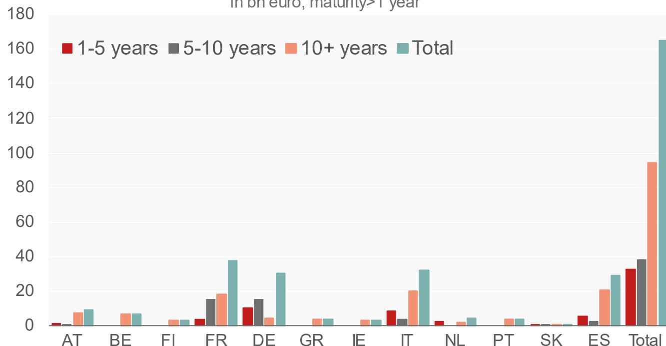
Florian Späte



Source: Bloomberg, GenAM



Source: Datastream, GenAM



Source: Datastream, Bloomberg, GenAM calculations

markets are currently pricing in only 70 bps. The adjustment in market expectations that we anticipate should also put pressure on the long end of the euro yield curve.

The mispricing is particularly evident in real yields. At 0.5%, the 10-year real yield is close to its peak marked in October 2023 – a period when core inflation was still above 4% and the ECB had just raised the deposit rate to 4%. We, therefore, lengthen our duration recommendation.

Although we forecast more key rate cuts than the market is currently pricing in, we do not expect the 2-year/10-year curve to steepen further. With a steepening of almost 80 bps since the first key rate cut, the curve has already become significantly steeper than the average of the ECB's easing cycles (see chart).

Similar to the US, the development of the term premium in the euro area remains a risk to our forecast. Global political uncertainty and the ECB's increased QT (the central bank has been operating full QT for both the PSPP and the PEPP since January), combined with constrained banks' balance sheets, which limit the demand for government bonds, could lead to a further increase in the term premium. Overall, we see the 10-year Bund yield level falling to 2.10% over a 12-month period. Accordingly, the transatlantic yield spread should widen again after the correction in January.

Diverging fundamentals in a low spread environment

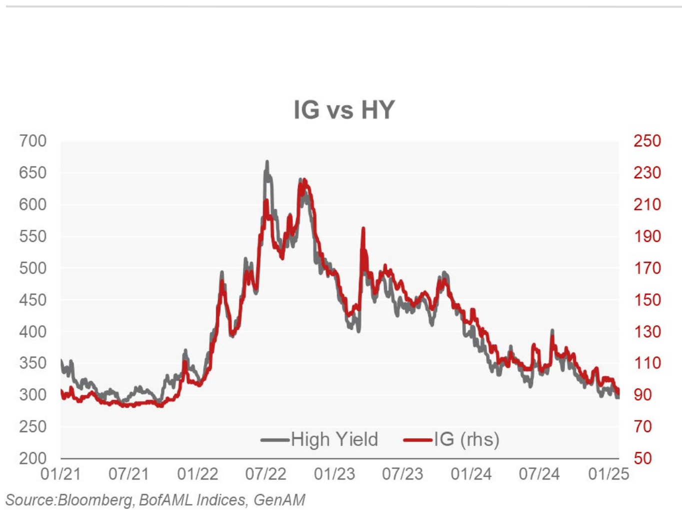
Euro area non-core government bonds benefitted from the risk-on sentiment in January. Spreads tightened moderately further from already tight levels.

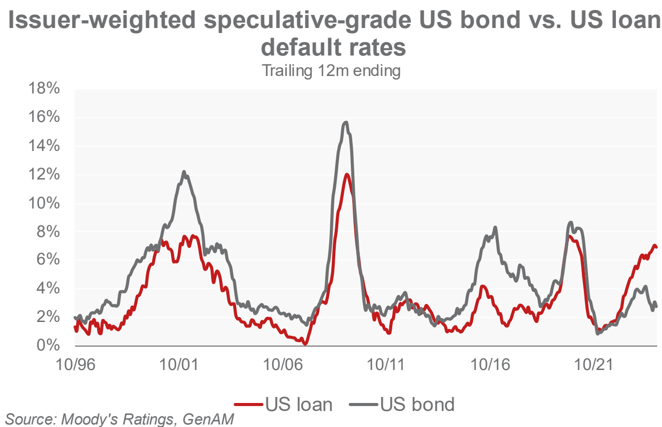
As usual, treasuries issued a lot of new debt at the beginning of the year. At just under € 1300bn, the market will once again have to absorb a very large volume this year. However, the € 165bn or so issued so far met with strong demand and were easily received by the market. Order books have been large and bid-to-cover ratios have been strong. Issuance activity is set to continue in the coming weeks (including another Italian retail issue).

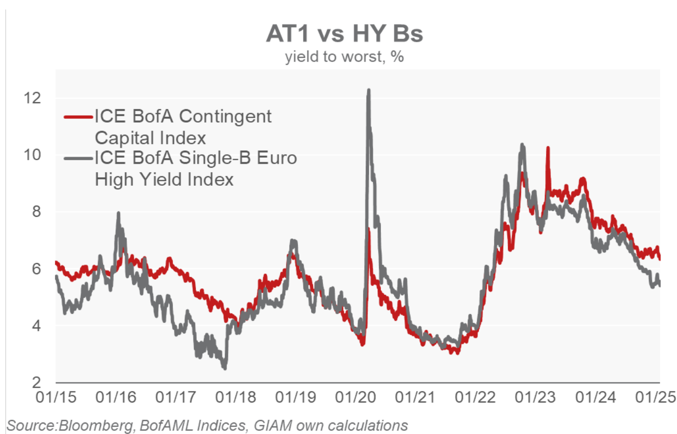
The outlook remains fundamentally positive. This is all the more so as the market is still underestimating the ECB's upcoming key rate cuts (see above). However, given the spread levels reached, the air is getting thinner, and we do not expect any major tightening. Investors should therefore become increasingly selective. We underline our focus on the diverging fundamentals of the euro area countries. Portugal, Greece, Ireland and (to a lesser extent) Spain still appear to be good carry opportunities despite low spread levels. On the contrary, we see spreads widening on Italian BTPs and especially OATs amid the uncertain parliamentary situation in France, despite some recent stabilisation.

Credit

Elisa Belgacem







- **The persistent strong demand for credit, coupled with anticipated further decreases in central bank rates, supports our long position in investment-grade securities.**
- **Despite high yield underperforming IG in spread terms since this summer, the carry remains elevated. We maintain a slight overweight in HY, bolstered by an improving default outlook.**
- **We continue to recommend a balanced sector allocation with a long position in Utilities, Autos and Real Estate.**
- **We continue to favor non-financials over financials due to ongoing French political risks.**

In recent weeks, credit spreads have tightened significantly due to lower supply than expected. However, demand remains elevated as investors are drawn to the high all-in yield, particularly with the expected decline in yields on monetary products over the coming months.

Balanced sector positioning is warranted

Rating agencies have begun to adopt a cautious stance on the most cyclical European companies, either by downgrading ratings or revising outlooks downward. This is especially evident in the Automobile sector, where the transition to electric vehicles, intense competition from Chinese manufacturers, and sluggish demand from China are creating significant challenges. We believe that the demand for cyclical sector is increasing already now, before fundamentals have turned.

Spreads are less appealing but carry still is

Spreads are less appealing, but the carry remains attractive. We expect credit spreads to hover around current levels in the coming months, keeping carry elevated. Valuation considerations also lead to a preference for Europe over the US. We prefer long IG and subordination risk to pure HY, but keep a slight HY overweight. With HY defaults declining but fundamentals under slight pressure, a strategic move would be to leverage IG to enhance credit returns. While extending duration may not be favorable from a spread perspective, a positive view on rates justifies a long position, especially in the 5-7 year bucket. AT1 has been the best-performing asset class within credit so far this year. Despite limited spread tightening potential going forward, we continue to favor AT1, particularly versus single-Bs.

GENERALI ASSET MANAGEMENT

EM sovereign bonds

Guillaume Tresca

- **EMs have so far been resilient to the new US administration, but uncertainty and the risk of tariffs continue to weigh negatively.**
- **EM activity indicators have been resilient and can benefit from the US exception. The medium-term outlook is supportive.**
- **We maintain our preference for external over local debt and for IG over HY. EM FX should be on the back foot.**

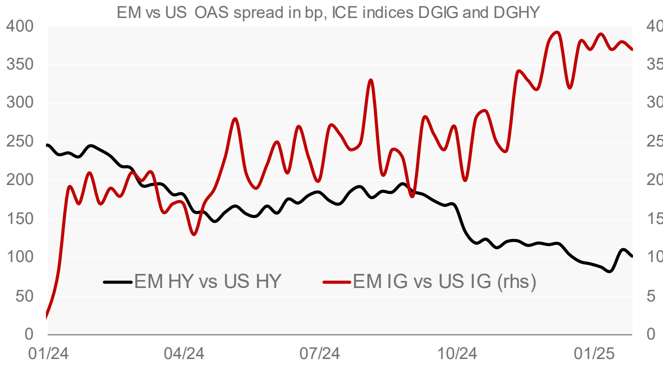
Since the inauguration of President Trump, EM assets have performed cautiously. We have reduced our underweight and become more positive but remain cautious. This reduction in caution has more to do with the recent rise in US Treasury rates and the risk of higher rates than with a change in the global EM outlook. Indeed, EM economic indicators have shown little slowdown in activity. US exceptionalism can benefit EM with stronger exports and the inflation outlook is not threatening. That said, we are still in an environment where President Trump's policies can create significant volatility for EM, especially for local debt, through the threat of tariffs (e.g. China, Mexico), immigration and taxes on remittances. Some of these concerns have eased, but volatility will remain, at least until the first trade recommendations are released, which are due by 1 April.

External debt: more immune

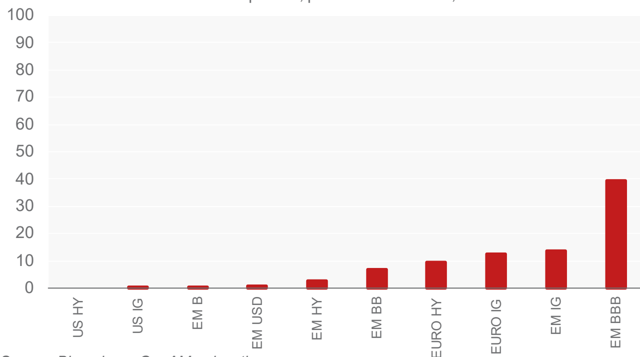
We maintain our preference for external debt. It remains the most immune EM asset class to the ongoing uncertainty and volatility and is well positioned to benefit from strong US growth. Nevertheless, uncertainty and tariff risks will lead to a modest widening of spreads, but not enough to derail the positive total return. The widening will be limited by the anchor provided by US credit. At the rating level, HY has become expensive, and we still prefer IG to HY, especially the BBB bucket. We are neutral on Romania and Mexico, where valuation will soon be attractive. In HY, value remains in B and CCC. Colombia is cheap, while Morocco and Serbia may benefit from further rating upgrades.

Local debt: negative EM FX, positive CEE rates

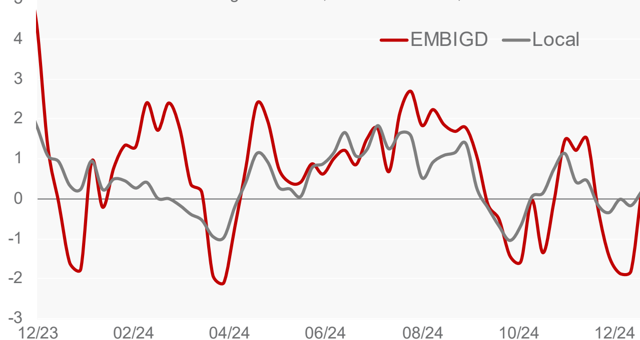
The recent outperformance of local debt has been driven by post-inauguration relief in the US and light positioning. It remains sensitive to renewed tariff headlines. We maintain our negative view, especially on EM FX. The best way to express this view is through a long USD/CNH position and North Asian currencies. The TRY can still benefit from carry trade flows. On rates, a higher premium to US rates is needed, but on average EM rates will decline. We like CEE rates, especially the front and the belly of the curve.



Source: Bloomberg, ICE, GenAM



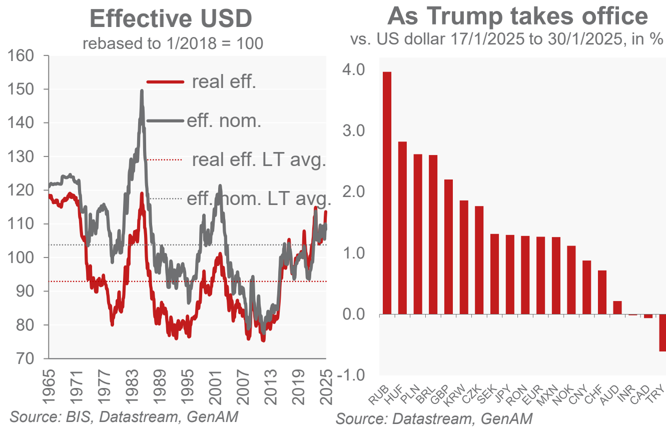
Source: Bloomberg, GenAM calcuations

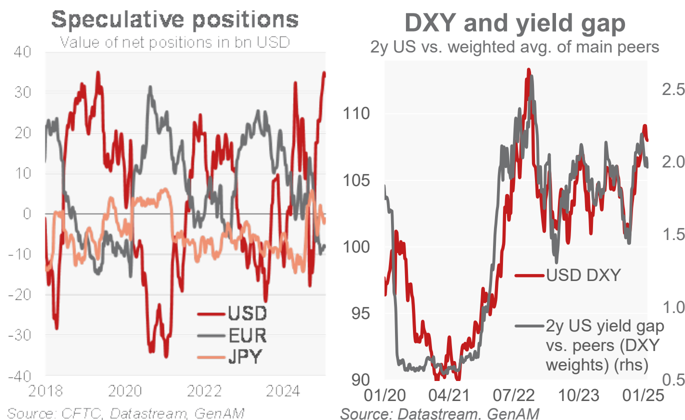


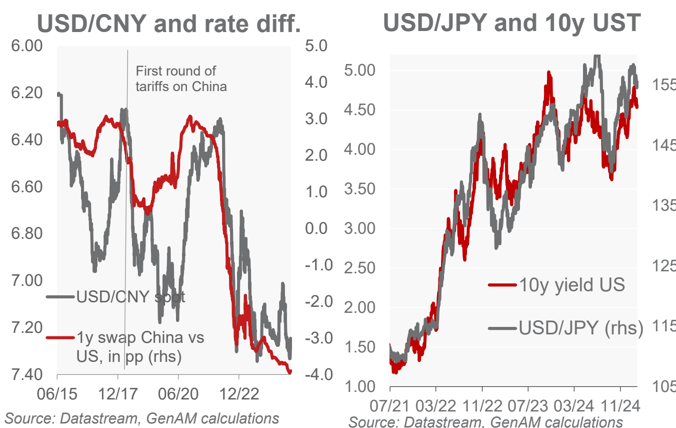
Source: Bloomberg, JP, GenAM

Currencies

Thomas Hempell







- **After Trump's inauguration announcements fell short of immediate and broad punitive tariffs, global FX took some relief vs. a dear US dollar.**
- **Yet US protectionist measures are still on the table. Together with only very reluctant Fed rate cuts this year, the USD will remain strong for longer, incl. vs. the EUR. Crowded long USD positions, however, induce more two-sided risks short term.**
- **The JPY is supported by the BoJ tightening bias. Yet it remains mostly in the hand of US yields, which are likely to prevent a fast JPY ascent. A weaker CNY will neither help.**

Trump's victory in the US elections has taken the USD to its dearest valuations in real effective terms since the 1985 Plaza Accord (top left chart) in late 2024, with the USD soaring almost 8% in Q4/24. As during Trump's first term, fears of a protectionist and reflationary policy agenda have been running high. With Trump refraining from instituting punitive tariffs on his inauguration, though, markets reacted with relief and the USD mildly retraced (top right). Indeed, Trump 2.0 worries are already deeply priced in the USD. Speculative USD longs have reached their highest level since 2019 (mid left). This induces more two-sided risks short-term, especially on any (even if temporary) renewed relief on the tariff front.

Yet the USD will remain underpinned by US exceptionalism. The US economy is set to expand at three times the speed of the euro area economy. And while the ECB is likely to add another 100bp cuts to this week's rate cut in 2025, upside risks to US inflation will make the Fed ponder much more carefully on its monetary easing. This will leave the US rate gap elevated vs. its major peers (mid right).

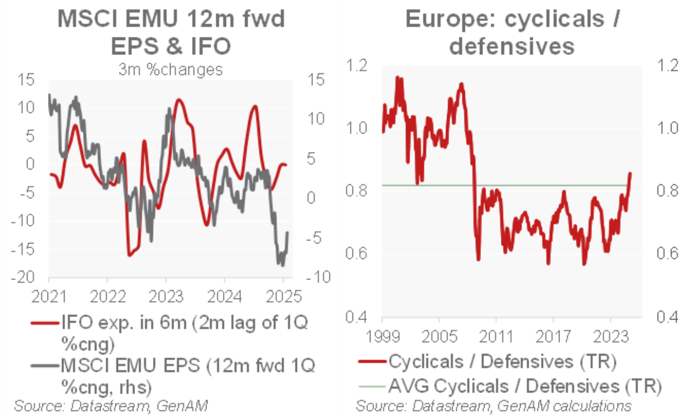
Meanwhile, we will likely still see sharper US trade restrictions, notably against China. Chinese authorities will be keen to continue to cushion headwinds to the CNY. But new sizeable US tariffs would still weigh markedly on the yuan, which is already burdened by weak Chinese growth and wide yield gaps vs. the US (bottom left).

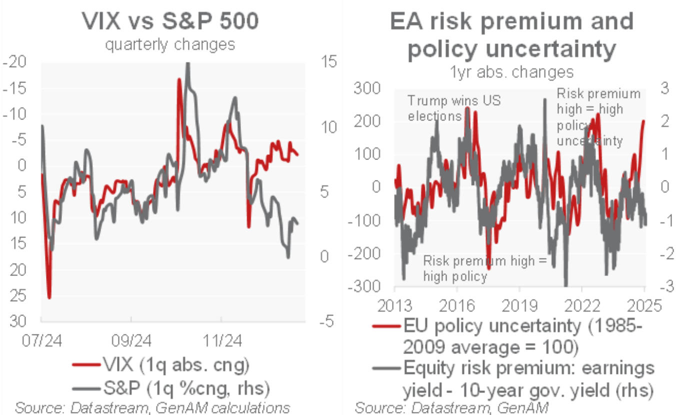
Moderate USD strength though in a non-linear fashion

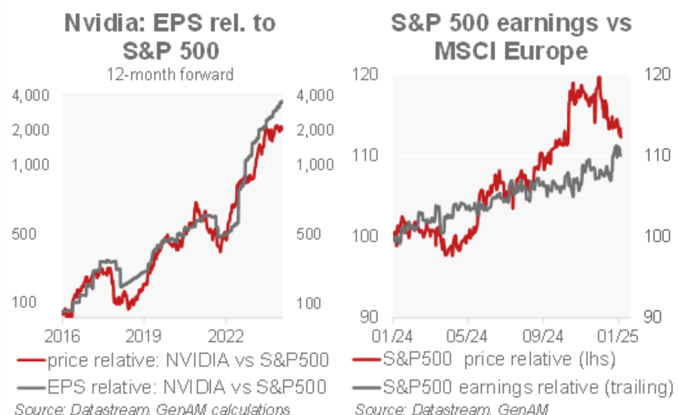
We thus continue to expect moderate further USD strength vs. most peers over the coming months, even if in a non-linear fashion. The EUR/USD may test again levels below 1.03, though breaking parity would likely require a severe escalation of US trade tensions with the EU. The JPY stands out as an exception, supported by the BoJ's unique tightening bias. But the JPY remains mostly in the hand of US yields, which are likely to prevent any fast JPY ascent, while the regional drag from a weaker CNY neither helps.

Equities

Michele Morganti and Vladimir Oleinikov







- **The 3 positive legs are fading a bit but still working: post-election cycle, dovish CB stance plus the rotation out of US Tech via lower relative EPS growth.**
- **Additional positives are: large free cash flow gap vs. CAPEX, rising M2 and M&A, good outlook on credit, positive equity-bond ML models. The VIX trend also remains supportive, while increased policy uncertainty is not, albeit already near a cyclical peak.**
- **The EA should benefit from lower CPI, ECB cuts, a weaker euro and increased savings, plus a possible Trump induced ceasefire and China stimulus (March).**
- **The US Q4 EPS season shows a positive surprise of 6.8%. EMU revisions have already been downgraded substantially. We expect decent Q4 results for both.**
- **We maintain an overweight position and see 6%-10% TR for the US and 6%-13% for the EMU in 12 months.**
- **Neutral EMU vs USA, balancing risks (EMU riskier) with valuation (US expensive). Neutral US IT. OW EU ex-EMU, Switzerland especially, EU small cap, Japan, slight China and India (getting cheaper). Diversify US (S&P 500) into equal-weight SPX & Russell 2000.**
- **EU sectors: OW cyclicals/defensives. OWs: Financials, A&D, Construction, Pharma, RE, Semis. UWs: Comm. Prof.Svs., Cap. Goods ex-A&D, Staples, Materials, Media, Transportation, Utilities.**

Amid an overall supportive global macro picture - resilient growth, receding inflation, monetary easing - we keep a moderate OW on Equities and on cyclicals vs. defensives. We expect that Trump and the Republicans will not go all in on inflationary policies, given the electoral costs, which supports the assumption of a gradual approach to tariffs. The 3 equity positive legs are fading a bit but still working: post-election cycle, more dovish CB stance plus the rotation out of US Tech due to rebalancing of relative earnings (EPS) growth. Uncertainty on 10-year yields and tariffs is likely to persist, but global growth still holds well. US ISM looks bottoming, the global LDI trend firm. US small firms' sentiment (NFIB) and the Fed's Beige Book see the economy accelerating also due to a still positive fiscal impulse. Additional positives are: large free cash flow gap vs. CAPEX, rising M2, good outlook on credit, positive equity-bond ML models. VIX trend is also supportive for equity returns, while policy uncertainty is currently not, as it has risen sharply recently. That said, it reached a cyclical peak already and increasing talks on a possible war ceasefire could eventually trigger a decline in policy uncertainty trend going forward.

Equities

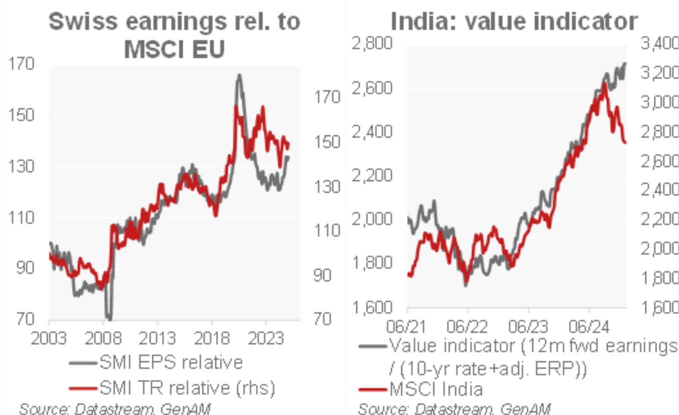
S&P 500	141 reported	151 reported				
Sector	earnings growth, yoy		sales growth, yoy		margin trend *	
	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024
Industrials	-33.9%	-10.6%	-3.9%	-4.1%	-30.0%	-6.5%
Consumer Discretionary	2.9%	-0.1%	6.2%	3.8%	-3.3%	-3.9%
Financials	7.8%	24.0%	6.6%	11.1%	1.2%	12.9%
Information Technology	31.3%	20.5%	8.5%	12.0%	22.9%	8.6%
Communication Services	8.5%	31.4%	2.4%	7.5%	6.1%	23.9%
S&P 500	**3.6%**	**12.4%**	**3.9%**	**5.1%**	**-0.2%**	**7.3%**
Median, ex. Energy & Materials	6.2%	3.6%	5.5%	7.5%	0.7%	-3.9%

Sector	earnings surprise %		sales surprise %		margin trend *	
	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024
Industrials	1.0%	-3.0%	-0.1%	0.3%	1.0%	-3.3%
Consumer Discretionary	10.3%	6.0%	3.0%	2.0%	7.3%	4.0%
Financials	9.9%	13.9%	2.1%	2.1%	7.8%	11.8%
Information Technology	4.3%	3.3%	1.2%	1.4%	3.1%	1.9%
Communication Services	4.3%	12.8%	-0.1%	1.7%	4.4%	11.2%
S&P 500	**6.0%**	**6.8%**	**0.8%**	**1.1%**	**5.2%**	**5.7%**
Median, ex. Energy & Materials	4.3%	3.3%	1.2%	1.4%	3.1%	1.9%

Source: Bloomberg, GenAm calculations
Note: proxy for margin trend = earnings growth - sales growth

Market Index	expected 1-yr TR: composite LT models (Shiller approach for US)	expected 1-yr TR: of which: PE-based valuation	PEG adj.*	CAPE yield gap vs real yield (1yr fwd), bps to avg since 2003	CAPE premium / discount vs history since 1993
S&P 500	**6,000 - 7,000**	**2%**	**2.1**	**-203**	**44%**
MSCI EMU	**6%**	**13%**	**2.7**	**-55**	**13%**
FTSE 100	**12%**	**13%**	**2.8**	**13**	**-1%**
SMI	**14%**	**15%**	**1.8**	**14**	**12%**
TOPIX	**13%**	**11%**	**2.1**	**-24**	**5%**
China	**n.a.**	**n.a.**	**1.3**	**267**	**-24%**

Source: Datastream, Bloomberg, GenAM calculations
Note: LT models: PE tgt (US 21x, EMU 13.5x, JP 14x), Fed model, EY-BY, DDM, and 3-stage eps growth model
PEG is PE divided by expected long-term EPS growth. PEG adj. (higher = expensve): PEG is modified by the ratio COE/ROE, which signals the ability to produce a return on equity (ROE) higher than the cost of it (COE).
excess CAPE yield = 1/CAPE - (10yr rate - avg inflation over 10yr)



Source: Datastream, GenAM
Source: Datastream, GenAM

For the EA, lower CPI, ECB cuts, weaker euro and increased savings should help, too, while EMU revisions have already been downgraded well beyond what the IFO and PMI indicators would have suggested.

DeepSeek news this month posed a threat to some big Tech like Semiconductor, as it launched the full competition on chatbots. But the latter can ultimately increase final demand and productivity in the long term through lower costs and final prices: positive for equity markets in the mid-term.

The Q4 EPS season had a solid start, and it is expected to remain so in both the US and EU. The 150 US firms showed a yoy EPS growth of 12.4%, with surprises at +6.8%.

We are neutral on EMU vs USA, balancing risks (EMU riskier) with valuation (US more expensive) and already very pessimistic view/positioning on EU stocks. Our ML models also back a continuation of the relative positive performance of EMU vs. the US. We see 6-13% TR for the EU and 6-10% for the US in 12 months. EMU could benefit also from possible Trump-induced ceasefires and CH stimulus (March). We overweight EU ex-EMU, Switzerland in particular, where we see a very attractive global composite valuation score, positive ML results and increasing relative EPS trend. OW EU small cap, Japan, slight China, India (less vulnerable to tariffs and now cheaper after the recent underperformance).

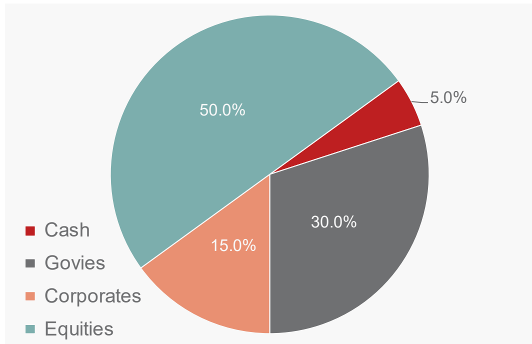
We also suggest to diversify US (S&P 500) into equally-weighted SPX & Russell 2000 and being neutral on US Tech as risks (lower rel. growth, antitrust etc.) are balanced by still good EPS momentum and a fair valuation when adjusted by expected growth and positive ML models. We also find interesting the EU made in the US basket (EU firms producing in the US, with less risks from tariffs) and M&A candidate baskets as such activity is bouncing back and should continue to do so. On EU sectors we maintain a cyclical bias (financials, A&D, Semiconductors, small cap, real estate).

European sector allocation: OW cyclicals vs. defensives

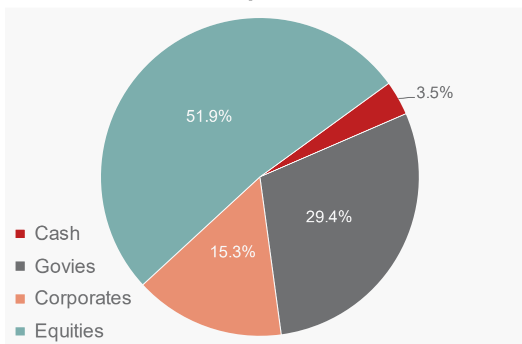
Our cycle indicator still signal "goldilocks", given the trend in disinflation, global LDI and ISM. This support a slightly more cyclical allocation. The changes in sector allocation were mostly driven by our composite valuation rank and revisions' momentum. We increased to neutral Autos (restructuring, less negative news flow) and Durables (better China spending and US consumers). We decreased Cap. Goods ex-A&D, HPP, Food Retail and Transportation. Still OW Small vs Large Cap (lower rates, M2 Impulse). OWs: Financials, A&D, Construction, Pharma, Real Estate, Semis. UWs: Comm. Prof.Svs., Cap. Goods ex-A&D, Staples, Materials, Media, Transportation, Utilities.

Asset Allocation

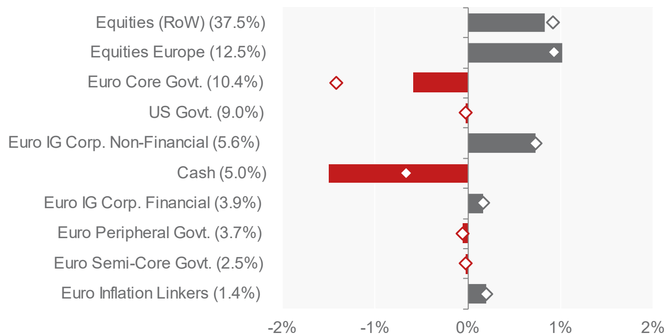
Thorsten Runde



Source: GenAM



Source: GenAM



Source: GenAM; Benchmark weights in parentheses, diamonds indicating prev. recommendations

- **In January 2025 (29.01.25), Equites were dominating the performance ranking, with Europe (around +4.5%) outperforming the US (+1.4%). Just the MSCI Pacific slightly dropped below the zero line.**
- **EA Govies showed negative returns throughout, with the long end of the curve clearly underperforming. EA Core Govies marked the lower end of the ranking (-2.3%) followed by Spain and Italy (around -1.3%).**
- **EA HY Credit outperformed EA IG by +48 bps on average. Within IG, non-Financials underperformed Financials by -35 bps also showing a negative overall performance.**
- **Starting into 2025 economic conditions appear quite solid in general. That said, there remain striking differences, particularly between the US and the euro area. For the US we expect robust growth whereas the EA economy is burdened by high policy imponderables (DE, FR) but also by Trump's policy measures.**
- **We still see a conducive backdrop for risk assets and stay moderately overweight in Equities and EA HY. We keep our preference for EA IG Credit over Govies on carry grounds. We lengthen our overall duration stance.**

In January 2025 (29.01.25) our model portfolio outperformed its benchmark by +7.7 bps. The OW in Equities proved most rewarding by contributing +5.6 bps to the result, followed by the UW in medium to long-dated EA Core Govies (+2.5 bps) and Cash (+1.9 bps). The overweight positions in EA Credit (IG and HY) proved most painful with -2.0 bps.

The global economy appears quite robust starting into 2025. However, the dichotomy between the US and the EA remains intact. We have robust growth in the US and expect just a modest recovery in the EA given the political/trade burdens. The surge in yields until mid-January seems overdone, particularly for the euro area, given its sluggish growth and an ECB heading for continued rate cuts.

Keep OW in risk assets and increase duration

We keep our overall Equity exposure remaining prudent thereby equalising the active positions between the US and EMU. We keep our OW in EA IG-Credit and thus our overall preference for Credit over Govies (mostly on carry grounds) and for non-Financials over Financials given the uncertain political situation in France. We increase our duration for the EA (also through allocating exposure from Cash) and close the gap in the US. We stay moderately long USD given the economic situation and the carry.

Forecasts

Macro Data

Growth[1]	2023	2024 forecast	2024 Δ vs. cons.	2025 forecast	2025 Δ vs. cons.	2026 forecast
US	2.5	2.8	0.1	2.6	0.6	2.3
Euro area	0.5	0.7	- 0.1	0.8	- 0.2	1.4
Germany	- 0.1	- 0.2	- 0.1	0.2	- 0.2	1.1
France	0.9	1.0	- 0.1	0.5	- 0.3	1.1
Italy	0.9	0.7	0.2	0.6	- 0.2	0.6
Non-EMU	0.2	1.0	0.0	1.4	0.0	1.9
UK	0.1	0.9	0.0	1.3	0.0	1.9
Switzerland	0.8	1.4	0.0	1.3	0.0	1.8
Japan	1.9	- 0.1	0.1	1.2	0.0	0.9
Asia ex Japan	5.3	5.0	- 0.1	4.8	0.1	4.6
China	5.2	4.8	- 0.1	4.5	0.0	4.1
CEE	3.1	2.9	- 0.1	2.1	- 0.2	2.3
Latin America	2.1	1.8	0.0	2.2	0.0	2.5
World	**3.2**	**3.1**	**- 0.0**	**3.1**	**0.1**	**3.1**

1) Regional and world aggregates revised to 2024 IMF PPP weights

Inflation[1]	2023	2024 forecast	2024 Δ vs. cons.	2025 forecast	2025 Δ vs. cons.	2026 forecast
US	4.1	2.9	- 0.0	2.6	0.2	2.3
Euro area	5.5	2.4	0.0	2.1	0.2	2.0
Germany	6.0	2.4	0.1	2.0	- 0.0	2.0
France	5.7	2.3	0.2	1.7	0.3	2.0
Italy	5.6	1.3	0.2	1.8	0.1	1.8
Non-EMU	6.6	2.3	0.0	2.1	0.0	1.9
UK	7.4	2.5	0.0	2.6	0.0	2.1
Switzerland	2.2	1.4	0.3	0.6	0.0	1.0
Japan	3.3	2.3	- 0.3	2.4	0.1	2.0
Asia ex Japan	2.2	2.0	0.1	2.4	0.4	2.7
China	0.2	0.4	0.0	1.3	0.4	2.0
CEE	18.9	18.9	- 0.4	11.4	- 0.2	7.4
Latin America[2]	5.1	4.7	0.0	4.1	0.0	3.1
World	**5.1**	**4.0**	**- 0.0**	**3.3**	**0.2**	**2.9**

1) Regional and world aggregates revised to 2024 IMF PPP weights ; 2) Ex Argentina and Venezuela

Financial Markets

Key Rates	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
US (upper bound)	4.50	4.50	*4.21*	4.25	*3.99*	4.00	*3.84*
Euro area	2.75	2.25	*2.33*	1.75	*2.14*	1.75	*2.04*
Japan	0.25	0.50	*0.51*	0.75	*0.63*	0.75	*0.78*
UK	4.75	4.50	*4.33*	4.25	*4.15*	3.75	*3.96*
Switzerland	0.50	0.25	*0.29*	0.25	*0.11*	0.25	*0.16*
10-Year Gvt Bonds							
US Treasuries	4.54	4.55	*4.57*	4.45	*4.59*	4.25	*4.65*
Germany (Bunds)	2.55	2.45	*2.57*	2.30	*2.59*	2.10	*2.64*
Italy	3.65	3.60	*3.71*	3.50	*3.77*	3.35	*3.90*
Spread vs Bunds	*110*	*115*	*114*	*120*	*118*	*125*	*126*
France	3.29	3.25	*3.34*	3.15	*3.38*	3.05	*3.47*
Spread vs Bunds	*75*	*80*	*77*	*85*	*78*	*95*	*82*
Japan	1.20	1.20	*1.26*	1.20	*1.31*	1.15	*1.39*
UK	4.61	4.60	*4.65*	4.45	*4.67*	4.20	*4.73*
Switzerland	0.45	0.40	*0.44*	0.40	*0.46*	0.35	*0.48*

**3-day avg. as of 29/01/25; Key Rates as of 30/01/25*
***ICE BofA (OAS)*

Credit Spreads**	Current*	3M Forecast	3M Fwd	6M Forecast	6M Fwd	12M Forecast	12M Fwd
EA IG Non-Financial	91	90		90		90	
EA IG Financial	94	95		95		95	
EA HY	300	300		300		300	
EM Sov. (in USD)	221	230		240		245	
Forex							
EUR/USD	1.04	1.03	*1.05*	1.03	*1.05*	1.04	*1.06*
USD/JPY	155	154	*153*	152	*152*	150	*149*
EUR/JPY	162	159	*161*	157	*160*	156	*159*
GBP/USD	1.24	1.23	*1.24*	1.24	*1.24*	1.25	*1.24*
EUR/GBP	0.84	0.84	*0.84*	0.83	*0.85*	0.83	*0.86*
EUR/CHF	0.94	0.93	*0.94*	0.93	*0.93*	0.94	*0.92*
Equities							
S&P500	6,040	6,085		6,175		6,355	
MSCI EMU	172.4	173.0		174.5		184.0	
TOPIX	2,764	2,755		2,845		2,980	
FTSE	8,532	8,530		8,735		9,130	
SMI	12,467	12,350		12,670		13,490	

Forecast Intervals

**Forecast ranges of ±1 stdv. centred around point forecasts; based on historical volatilities; length of bars indicative only*

Imprint

Issued by: **Generali Asset Management S.p.A. Società di gestione del risparmio | Research Department**

Head of Research: **Vincent Chaigneau**

Head of Macro & Market Research: **Dr. Thomas Hempell, CFA**

Team:
Elisabeth Assmuth | Research Operations
Elisa Belgacem | Head of Cross-Asset Quant & Dev, Senior Credit Strategist
Radomír Jáč | GI CEE Chief Economist
Jakub Krátký | GI CEE Financial Analyst
Michele Morganti | Head of Insurance & AM Research, Senior Equity Strategist
Vladimir Oleinikov, CFA | Senior Quantitative Analyst
Dr. Thorsten Runde | Senior Quantitative Analyst
Dr. Christoph Siepmann | Senior Economist
Dr. Florian Späte, CIIA | Senior Bond Strategist
Guillaume Tresca | Senior Emerging Market Strategist
Dr. Martin Wolburg, CIIA | Senior Economist
Paolo Zanghieri, PhD | Senior Economist

"Edited by the Macro & Market Research Team. The team of 14 analysts based in Paris, Cologne, Trieste, 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."

This document is based on information and opinions which Generali Asset Management S.p.A. Società di gestione del risparmio has obtained from sources within and outside of the Generali Group. While such information is believed to be reliable for the purposes used herein, no representation or warranty, expressed or implied, is made that such information or opinions are accurate or complete. The information, opinions estimates and forecasts expressed in this document are as of the date of this publication and represent only the judgment of Generali Asset Management S.p.A. Società di gestione del risparmio and may be subject to any change without notification. It shall not be considered as an explicit or implicit recommendation of investment strategy or as investment advice. Before subscribing an offer of investment services, each potential client shall be given every document provided by the regulations in force from time to time, documents to be carefully read by the client before making any investment choice. Generali Asset Management S.p.A. Società di gestione del risparmio may have taken or, and may in the future take, investment decisions for the portfolios it manages which are contrary to the views expressed herein. Generali Asset Management S.p. A. Società di gestione del risparmio relieves itself from any responsibility concerning mistakes or omissions and shall not be considered responsible in case of possible damages or losses related to the improper use of the information herein provided. It is recommended to look over the regulation, available on our website www.generali-am.com. Generali Asset Management S.p. A. Società di gestione del risparmio is part of the Generali Group which was established in 1831 in Trieste as Assicurazioni Generali Austro Italiche.

This document was completed on January 31, 2024