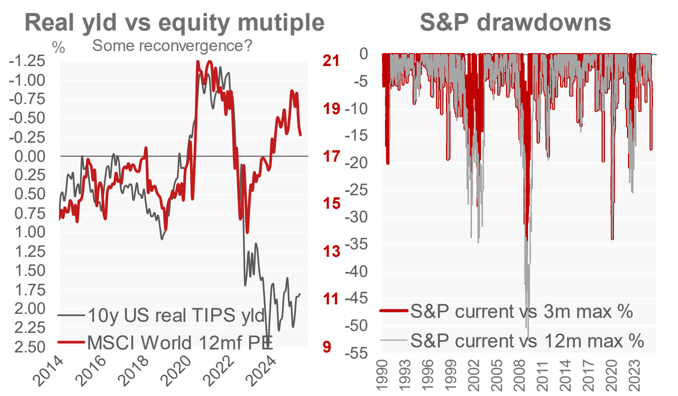
Investment View

The new world (dis)order

April 7, 2025

‘Investment View’ provides our quarterly macro & market outlook and investment recommendations

- **‘Liberation Day’ is wreaking havoc on global markets. The balance of risks appears *at best* balanced in the near term, as retaliation could lead to escalation, feeding recession fears. Later this year, as Republicans contemplate defeat at the mid-term elections, the balance will shift towards making trade deals to rescue the faltering economy.**
- **President Trump’s put surely still exists, but the strike is lower and uncertain. Likewise for the Fed put, given the inflationary impact of the tariffs. Still, in contrast to the GFC (following years of excess household leverage) and the pandemic (at first uncontrollable), this self-inflicted stagflationary shock *should be* easier to manage – notwithstanding the policy dogmatism. We would see a 25% drawdown in the S&P (4610) as a great buying opportunity.**
- **For now, better to keep the investor playbook simple. Cash and safe bonds will be favoured. IG Credit is still a safe haven, in our book, considering the health of corporate balance sheet relative to sovereign, while any credit spread widening can easily be offset by the fall in the risk-free rate. High Yield is obviously exposed for now, but by some measures has been more resilient than equities, partly because valuation looks relatively attractive.**
- **The fall in the US Dollar, most unusual in a risk-off episode, reflects cyclical (tariffs will cause a relatively larger drag on US GDP) and structural forces (German fiscal bazooka, fading US hegemony and tech exceptionalism). This is a silver lining, mechanically supporting *global* corporate earnings denominated in USD.**



Source: MSCI, Bloomberg, GenAM

Source: Bloomberg, GenAM calculations

CONTENT

THE NEW WORLD (DIS)ORDER

Vincent Chaigneau

- **‘Liberation Day’ is wreaking havoc on global markets. The balance of risks appears *at best* balanced in the near term, as retaliation could lead to escalation, feeding recession fears. Later this year, as Republicans contemplate defeat at the mid-term elections, the balance will shift towards making trade deals to rescue the faltering economy.**
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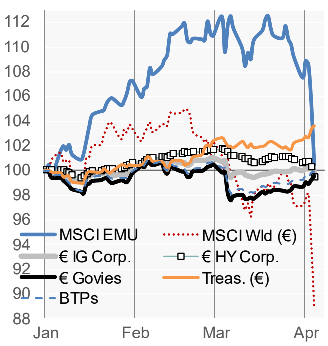
> The historical US retrenchment from international trade has sparked recession fears

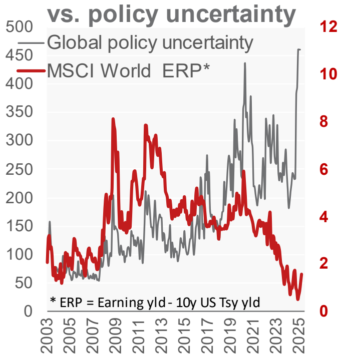
Hibernation day. Q2 has started with a bang, as President Trump’s ‘Liberation Day’ marked a historical US retrenchment from international trade. The average US tariffs rate will end up about 10 times the 2.5% level of end 2024. The S&P lost 10% in the following two days (Chart 1), which had happened only three times since WWII (1987, 2008 and 2020). Arguably, the rise in the equity risk premia has been limited relative to the extraordinary level of policy uncertainty (chart 2), which leaves us nervous about the near-term market outlook. US High Yield Option-Adjusted Spreads (OAS) are also up some 125bp from their late March tight of 3%, but even that is not so impressive relative to the equity move (chart 3). Likewise, equity has surged, outpacing credit vols (chart 4). Treasuries have played their role as both a safe-haven and a diversifier, with markets indeed now fully in a risk-off mode (left chart below).

2025 YTD total return (€)



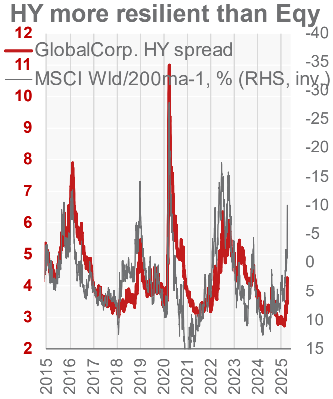
Source: Bloomberg, GenAM

MSCI Wld Eqy Risk Premium vs. policy uncertainty



Source: Baker, Bloom & Davies, BBG, GenAM

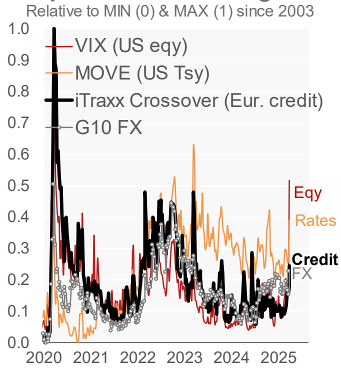
HY more resilient than Eqy



Source: Bloomberg, GenAM

Implied vol reconvergence

Relative to MIN (0) & MAX (1) since 2003

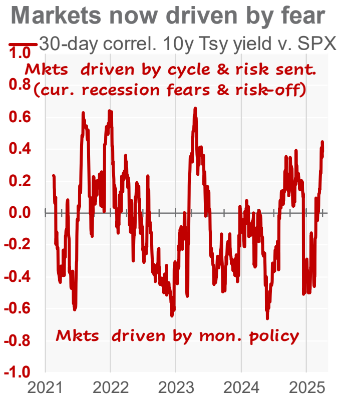


Source: Bloomberg, CBOE, JPM, GenAM calc.

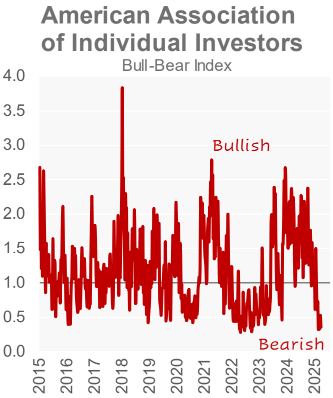
What from here? Equity positioning has been largely cleaned and reversed at the institutional level, though various measures suggest it is still far from being extremely short. US retail investors have turned very bearish, but they remain largely exposed (two middle charts below) and will be tempted to lighten up in this most uncertain environment. Near-term risks between escalation and de-escalation appears

Room for long-term real yields to fall relative to equity yields (rising, as multiples fall)

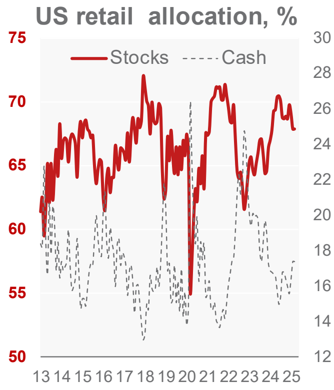
balanced, and recession fears may produce more damage to risk assets initially. We may see a partial reversal of the spectacular scissor effect on asset valuation over the past couple of years. The right-hand chart below highlights this decoupling, with equity multiples rising since 2022 even though long-term real yields jumped. We attribute this to various factors, such as fiscal profligacy, greedflation, and the AI/Mag7 rally. A partial reconvergence may be seen as the economy suffers both a negative supply shock and a tightening of US fiscal policy.



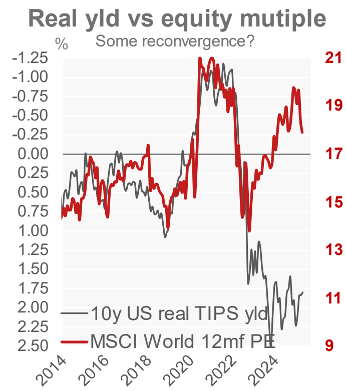
Source: Bloomberg, GenAM



Source: AAII, Bloomberg, GenAM



Source: AAII, Bloomberg, GenAM



Source: MSCI, Bloomberg, GenAM

Two key questions: will the US mitigate the fiscal tightening, and will trade “partners” retaliate?

The extent of that reconvergence will depend on two major questions.

- First, will tariffs be maintained, and will the tax receipts (estimated at some $500-700bn per year) be reinjected int the US economy via an offsetting fiscal easing? President Trump, contemplating the fierce market reaction, may seek quick trade deals to calm fears and appear as winning concessions.

- Second, will trade 'partners' retaliate? Retaliation is a lose-lose strategy, yet staying put while facing such an aggression would be seen as weakness.

Room for bonds to outperform until we see signs that regressive policies will be tamed

➔ **Just now, risks appear symmetrical at best**, as retaliation could lead to escalation, and recession. Later on (exactly when is impossible to predict), the balance will likely shift towards de-escalation, as Republicans try to alleviate economic suffering into the 2026 elections. If the tariffs are soon cut back, or if the tax receipts are quickly reinjected into the economy, the reconvergence between real bond yields and equity multiples will be limited. But for now, Trump has planted a seed of doubt in investors' mind, causing rising recession fears, which should support safe Fixed Income assets relative to equities.

Four tectonic plates

International trade is the elephant in the room, but at least three other structural changes are driving financial markets.

Four tectonic plates moving: international trade, German fiscal policy, global security architecture and AI acceleration beyond the USA

1/ The **German bazooka** was a historical turn in the country's fiscal policy. This has contributed to the sharp narrowing in US-EUR rate differentials, and the rebound of the euro. We estimate the cumulated growth benefit for Germany at about 1.5 point over 2025-27, if probably not large enough in 2025 to offset the drag from US tariffs.

2/ The **global military and security architecture is changing**. Since WWII, US hegemony has largely contributed to the dominance of the US dollar in the international financial system. The US disengagement implies a less US-centric world, as the current Administration claims this has proved too costly for the country.

3/ The **acceleration in non-US AI diffusion, especially in China**, may have damaged the US tech exceptionalism.

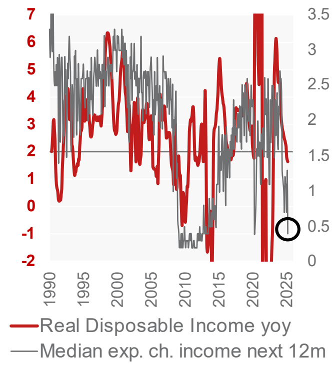
Those structural factors may feed the dollar pullback from its dear level, though of course nuance matters, for instance the CNY and other Asian proxies are likely to lag given the massive terms of trade shock there. A globally weaker USD is good news for global profits denominated in USD, which may slow the equity sell-off.

Recession fears

Our central scenario still has moderate US growth in 2025, but the risks have shifted to the downside

Tariffs are a tax, paid partly by foreigners (via lower corp. margins), and mostly US companies & consumers: for the US, they thus create both a negative supply shock and a fiscal tightening, potentially causing stagflation. Some soothing might be coming (partial reversal of the tariffs and/or fiscal easing), but the long-term costs associated to the mere prolonging of past tax cuts and potential resistance from fiscal hawks in Congress may constrain the policy room. In the meantime, recession fears may grow, as already consumer and business confidence have plunged (two left-hand charts below). Our central scenario still has moderate US growth in 2025, but the risks have very much shifted to the downside.

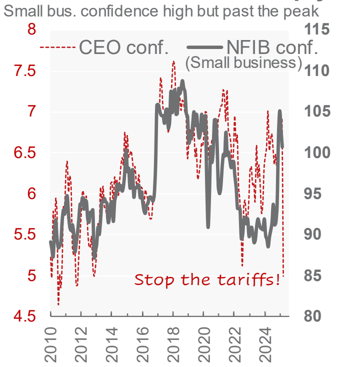
Hhold worried about income



Source: UoM survey, BLS, GenAM

US CEO conf. down sharply

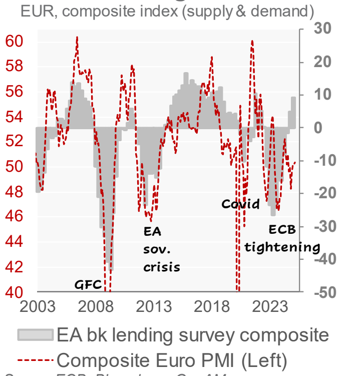
Small bus. confidence high but past the peak



Source: Chief Exec. Mag., NFIB, Bbg, GenAM

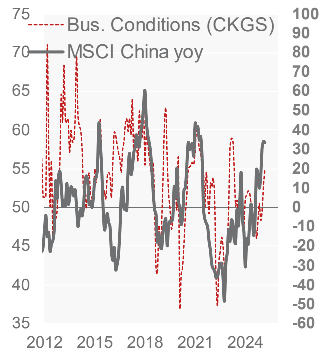
Better lending conditions

EUR, composite index (supply & demand)



Source:ECB, Bloomberg, GenAM

Bus. cond. vs MSCI China

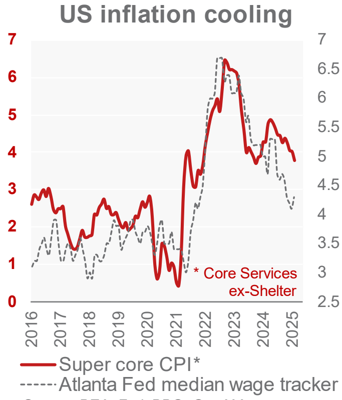


Source: Cheung Kong GS, MSCI, Bbg, GenAM

US tariffs expose small improvement in EA and China economies

For the rest of the world, US tariffs create a negative demand shock (in export markets), and in case of retaliation a negative supply shock too. Both in the euro area and China, the economic news had started to improve in Q1, along with the policy outlook (German bazooka, Chinese effort to support both the consumer and the private sector, not least Tech). The trade war is a serious setback, but we estimate that before retaliation US tariffs would take just about half a point off GDP growth in each of the two regions.

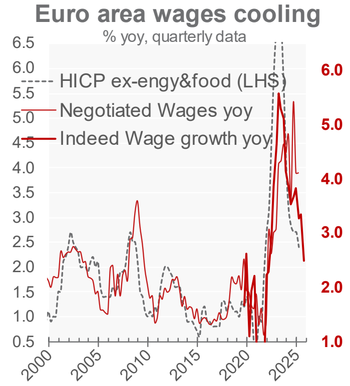
US inflation cooling



Source: BEA, Fed, BBG, GenAM

Euro area wages cooling

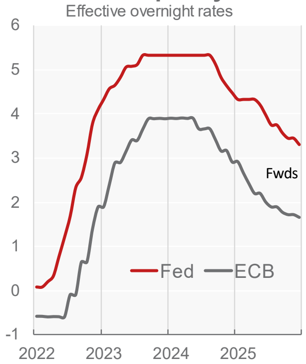
% yoy, quarterly data



Source:ECB, Bloomberg, GenAM

USD & EUR policy rates

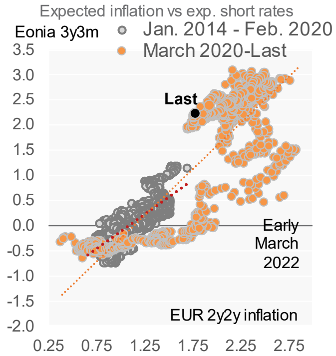
Effective overnight rates



Source: Bloomberg, GenAM

ECB reaction function

Expected inflation vs exp. short rates



Source: Bloomberg, GenAM

We expect three 25bp Fed cuts this year, but large risks exist on both sides. ECB cuts more certain.

Still room for the market to reprice the ECB rates lower in the medium run

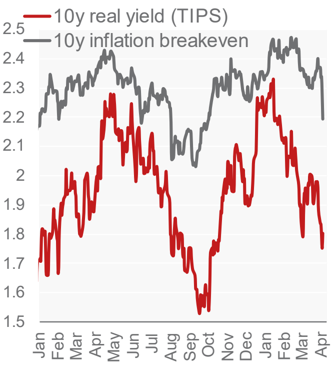
On the inflation side, the start of 2025 has seen further progress towards normalisation, not least on signs of cooling wages (two left charts above). Tariffs will boost US inflation significantly, which even the recent surge in 1-year US inflation swaps (around 3.30%) may underestimate. Outside the US, lower energy prices and the drag on growth will instead prove disinflationary, though retaliation may change that. The self-inflicted stagflationary shock creates a dilemma for the Fed. We think that it will look through the inflation shock, which is likely to prove more transitory than through the pandemic, given the lack of fiscal and real income impulse. We now expect three Fed cuts this year, and three more from the ECB too. The uncertainty of the forecast is far superior for the US. On the downside, market panic and deteriorating employment could accelerate the cuts; on the upside, the Fed may prove hesitant in the face of higher headline inflation and past credibility loss through Covid (prices up by more than 20% in just 4 years). The road for the ECB appears clearer, given the greater disinflation progress and potentially disinflationary impact from the tariffs. We note that EUR 2y2y inflation swaps have dropped to below 1.75%, and forward nominal rates remain relatively high (top-right chart above): there is still room for the market to reprice the ECB rates lower in the medium run.

What does this mean for bonds?

We retain our long duration bias in Treasuries for now, but acceleration in the USD fall is a risk

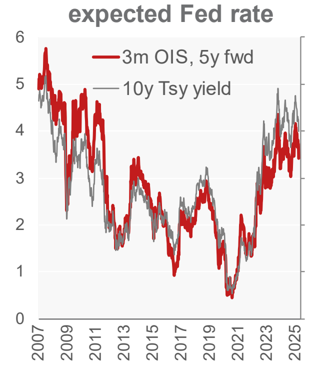
Recession fears dominate. The left chart below shows that, even as short-term inflation breakevens surged, long-term ones have come off sharply. With global markets being dominated by fear again, the diversification benefit of bonds rises again, making them a more attractive proposition in this most uncertain environment. The 5y3m OIS forward, a key driver of long yields which over the past few months we have argued was too high, has dropped towards 3.30%, now only marginally above the Fed's estimate of the medium-term neutral rate. With nearly five 25bp cuts priced for this year, the market is clearly starting to integrate the chance of a Fed move to address financial stability issues. That is a clear possibility, but the inevitable short-term inflation spike puts the bar higher (or the strike of the Fed put lower). Still, long-term yields do not need short-term Fed intervention to fall, and we retain our small long duration bias in Treasuries for now. We do not think the USD is falling hard enough to question that duration view; however a sharp acceleration would make the inflation outlook even more daunting and could hurt confidence in US assets – something worth watching in the context of transition towards a less USD-centric world.

10y US Tsy yield breakdown



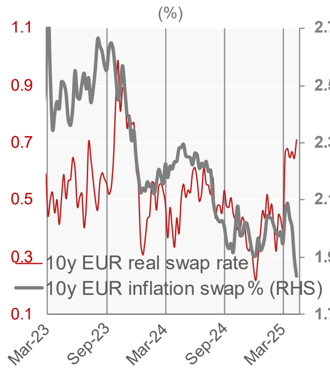
Source: Bloomberg, GenAM

10yT vs. mid-term expected Fed rate



Source: Bloomberg, GenAM

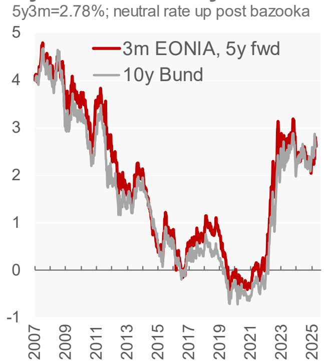
EUR Inflation & real rates



Source:Bloomberg, GenAM

10y Bund tracks 5y3m ESTR

5y3m=2.78%; neutral rate up post bazooka



Source: Bloomberg, GenAM

Some near-term downside in EUR long rates

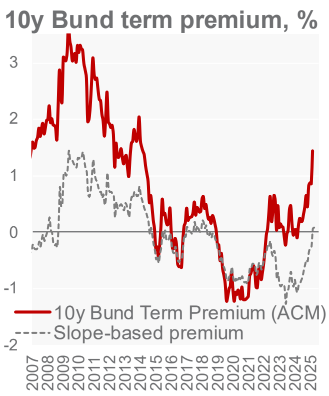
We had embraced a more neutral duration bias in EUR, in the context of the German fiscal bazooka. Market inflation measures have declined post-Liberation Day. More surprisingly, long-term real rates are not falling despite the clear downside risks to

In the new European new fiscal paradigm, the beta of country spreads to global risk should be lower than historically

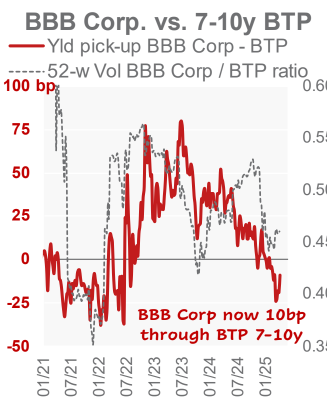
growth. This makes EUR inflation linkers rather attractive. With 5y3m ESTR around 2.60%, we see some downside in EUR long rates. Arguably, post German bazooka the ECB neutral rate may be higher than the previously estimated 1.75-2.25% range, but over-shooting to the downside is likely in this risk-off environment paved with greater recession risks. Long-term Bunds offer a term premium that suddenly appears attractive (left chart below).

Quantifying the downside for risk assets

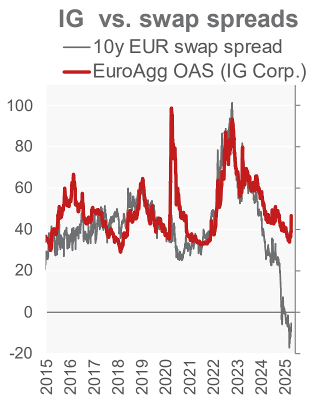
Spread products tend to suffer as recession angsts rise. In the sovereign space, the concentration of the European military effort and fiscal expansion in Germany boded well for country spreads. Now the recession risks have inevitably caused some spread widening, if only because they are a threat to the debt sustainability of the most indebted countries. Still, in the European new fiscal paradigm, we would expect the beta of country spreads to global risk conditions to be lower than historically.



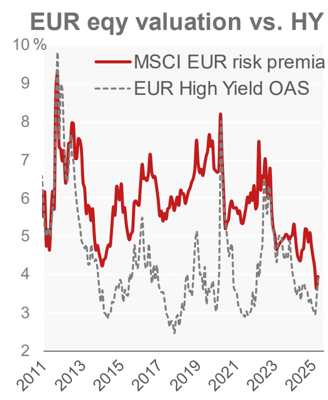
Source: Bundesbank, Refinitiv, GenAM calc.



Source: BofA, Bloomberg, GenAM calc.



Source: Bloomberg, GenAM



Source: Sentix, MSCI, Bloomberg, GIAM

Even though we recommend a cautious approach towards High Yield credit in the near term, valuation relative to equities is attractive

Still, for choice, **for an equivalent rating our preference still goes to IG Corporate Credit** over Govies. The second chart above shows that the EUR BBB corporate index is trading just 10bp in yield through the 7-10y BTP index. True, over 2022-24 it was offering a pick-up, not a give-up, but investors still get less than half the index price volatility. Unless Trump's pain point proves surprisingly far – in terms of accepting great economic damage and jeopardizing the Republican chances at the mid-term elections – the global economy should avoid the deep recession that would badly damage the credit asset class. As we showed at the start of the article, by some measures credit markets so far have been resilient relative to equities, and we expect this to continue, at least for IG credit. The latter is also less expensive than generally believed, relative to Govies, when considering the extreme swap spread levels (3rd chart above). Finally, even though we recommend a cautious approach towards High Yield credit in the near term, valuation relative to equities is attractive, as both basically offer the same yield at present (right-hand chart above).

Equities to trade defensively for now, but this is not 2008 nor 2020

For equities, no one wants to catch the falling knife for now. The equity sell-off vs. bonds implies already the expectation of a significant decline in the economic activity, but not an extreme one (left chart below). Likewise, the drawdown so far has been much smaller than the one recorded in extreme events, e.g. 2008 (GFC) and 2020 (Covid). That said, this crisis is self-inflicted, and although it is hard to know where the strike of the Trump put is, we still think it exists. Main Street cannot be completely decoupled from Wall Street. In other words, we do not see this crisis as incontrollable as that of the GFC and Covid. On the downside, however, we are less confident in

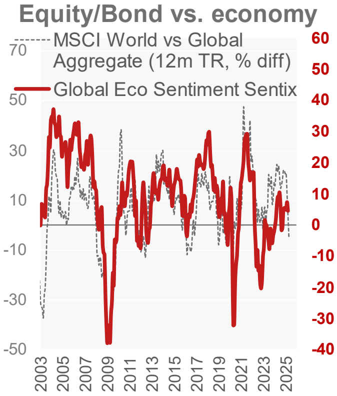
25% drawdown in S&P500 (4610) would be a buying opportunity

Dollar weakness, most unusual in risk-off episodes, is a silver lining for global equities

the Fed quickly throwing a lifeline, given the inflationary impact of the tariffs. So we expect equities to trade defensively for now, e.g. there is room for European multiples to pull back along with economic confidence. A 25% drawdown in the S&P500 would send it to 4610, which we would consider a buying opportunity in most circumstances, as we assume that President Trump would be more likely to make quick deals with trade partners.

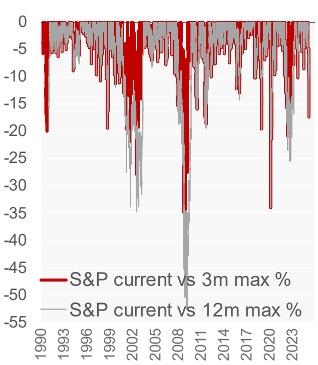
To finish on a positive note, the fall of the USD – unusual in such risk-off correction – has both cyclical (US tariffs may cause a drag on US GDP three times the size of that on the EA and Chinese economies) and structural roots (three moving tectonic plates above). A globally weaker USD will mechanically support global profits denominated in USD, which will caution the equity sell-off. The USD bias remains to the downside, with exceptions e.g. the very large terms of trade shock (likely stickier given that China poses the main strategic threat to the US) is still likely to weigh on Asian currencies.

Equity/Bond vs. economy



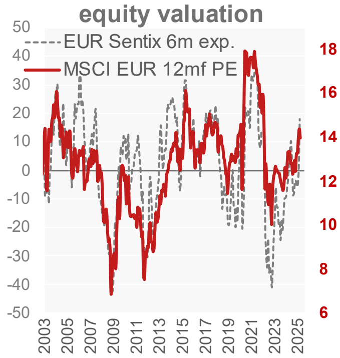
Source: Sentix, MSCI, Bloomberg, GenAM

S&P drawdowns



Source: Bloomberg, GenAM calculations

Eco sentiment drives EUR equity valuation



Source: Sentix, MSCI, Bloomberg, GenAM

EUR/USD vs. rate diff.

Source: Bloomberg, GenAM

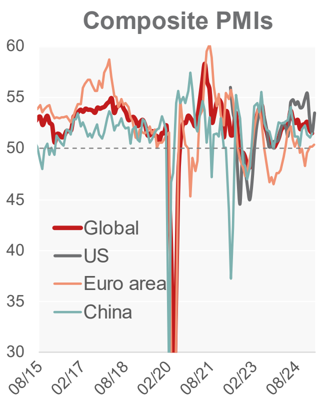
MACROECONOMIC OUTLOOK

Thomas Hempell, Guillaume Tresca, Martin Wolburg, Paolo Zanghieri

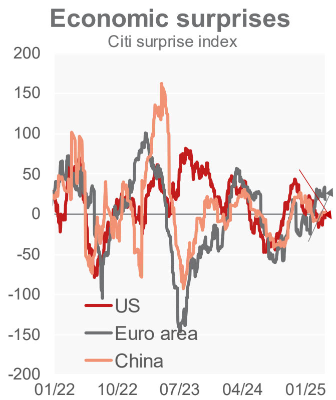
- **The unexpectedly harsh US tariffs will severely weigh on the global economy just when it expanded at cruise speed, underpinned by thus far resilient labour markets and solid consumption. Retaliation and tighter financial conditions may exacerbate the adverse effects further – before soaring economic pain may ultimately open the path toward negotiated relief.**
- **US growth will be significantly harmed with a non-negligible risk of a recession. The euro area will severely suffer from the tariffs and trade uncertainties. A strong German fiscal boost on defence and infrastructure will provide some relief with benefits to the euro area as a whole. China's economic rebound is fragile as deleveraging continues and US tariffs weigh on exports.**
- **Easing wage growth is conducive for receding inflation. Yet the tariffs are strongly stagflationary in the US while in the euro area disinflationary pressures are likely to prevail.**
- **The growth fallout from the trade war will trigger additional monetary policy easing. We now expect three further Fed and ECB 25 bps rate cuts. Risks are tilted to somewhat deeper cuts should the trade war intensify recessionary tendencies gain the upper hand.**

A strong stagflationary shock from US tariffs

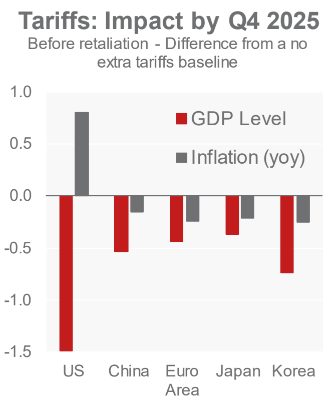
The unexpectedly bold US tariffs imposed by president Trump on April 2 are a severe blow to the global economy that reverse decades of globalisation. Some of the measures may still be subject to negotiations. Yet the short-term risks may be tilted towards an intensifying trade war if retaliation by key trading partners including China and the EU cannot be settled new trade deals but may be answered by the US with fresh tit-for-tat announcements. This will create a strong stagflationary shock in the US and primarily drag on growth in the rest of the world.



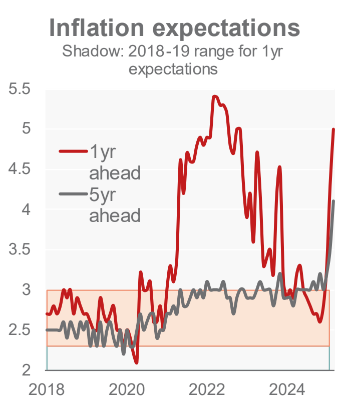
Source: Datastream, GenAM



Source: Citi, Datastream, GenAM



Source: GenAM



Source: Uni. Michigan, GenAM

The tariff hammer is hitting the global economy when it was expanding at cruise speed, with tentative signs of a recovery in manufacturing. Resilient labour markets and rising real disposable incomes are bolstering consumption while past (and some further) rate cuts support the investment outlook. Fiscal policy in Europe is turning supportive, mainly following Germany's about-face on the 'debt brake'. Chinese policy makers are likely to support their declared preference for boosting consumption by concrete policy measures.

Yet the threat of a trade war and the potentially severe damage from policy uncertainty on investment and consumption now heavily weigh on the global outlook.

Crucial for the damage of the trade war will be its length and the magnitude of tariffs as well as the speed and size of retaliation by the US' trade partners. Ultimately, we think that the economic fallout and nearing US midterm elections in 2026 will finally end it. Nevertheless, we significantly reduced our growth outlook and see the world economy losing momentum in 2026.

Central banks likely to focus on the adverse risks to growth amid the stagflationary tariff shock

The tariffs are set to reaccelerate price pressures in the US very soon. Much of the inflation spike may be temporary helping the Fed to ultimately focus on the significant deterioration of growth prospects. In the euro area, by contrast, the cyclical risks from the new US levies will likely further nurture the ongoing disinflation process, keeping the ECB on its easing path.

US: tariff to hit growth, steeper Fed cuts

The tariffs announced by the US administration amount to a steep implicit tax on US consumers and firms. Uncertainty already dampened Q1 growth, and higher import prices will take a toll quickly on activity in the coming quarters. We have tentatively cut our growth forecast for this year, from 2.4% to at most 1% assuming partial retaliation by trade partners on top of the 34% tariffs already announced by China. Job creation will come to a halt and layoffs begin in earnest, with the unemployment rate rising from the current 4.1% to 4.6% by year end. Uncertainty is high: in the short run retaliation in tit-for-tat action may lead to further tariff rate hikes and an even stronger hit to confidence, capex and job creation. Longer term, as the November 2026 midterm election approaches, the Republican party will have to deal with the economic damage. A reduction in tariffs and possibly more fiscal support, e.g. via recycling the tariff revenue into lower taxes and/or transfers is possible, towards the end of this year, which would greatly cushion the blow.

We have also revised sharply up the price outlook for this year. We now see core PCE inflation rise to 4.1% yoy by mid-year, as tariffs kick in, and end 2025 at a very high 3.6% (compared with our 2.8% pre-tariff forecast). Next year it could drop as low as 1.6% as the impact of the price level rise partially reverses. Our forecast assumes that the sharp rise in inflation does not excessively fuel expectation – but there are upside risks in case these inflation expectations prove less well-anchored.

Fed forced to cut by 75bps despite near 4% inflation

The strong growth downturn coupled with the inflation spike puts the Fed in a bind. We expect the Fed to largely look through the price level shock and become more attentive to the job market. We now expect three (from two) Fed rate cuts this year, tentatively scheduled for June, September and December. Next year should see the final cut, leading the policy rate to the neutral 3.25%-3.5% range. However, if the damage to activity and employment is deeper and long lasting, the Fed may be induced to go temporarily below neutral.

Euro area recovery in a tug of war between fiscal bazooka and tariffs

Cyclical recovery of euro area on track

Latest indicators hinted at an improving growth outlook for the euro area before the tariff hammer. The global manufacturing recession showed signs of petering out. Headline inflation has already come down to 2.2% yoy by March and is set to approach the 2% threshold around year-end. Moreover, monetary policy easing has helped to push loan growth to the strongest since July 2023. Unlike to previous concerns the labour market stayed strong and the unemployment rate fell the low of 6.1% in February.

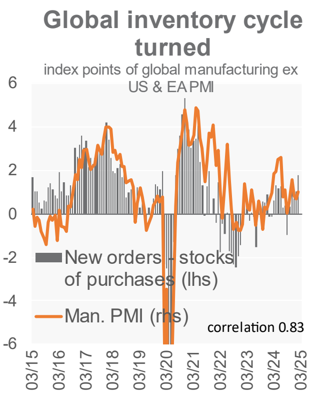
German fiscal bazooka and trade war effect tend to offset each other

Looking ahead, the German fiscal spending will be a significant support to activity. It consists of the exclusion defence expenditures above 1% of GDP from the debt brake, a € 500 bn infrastructure fund and giving the regions the possibility to run annual deficits of -0.35% of GDP. We expect these ~€ 1 tr over the next decade to phase in this year and to lift German growth especially in 2025-26. Over the 2025-2029 period we expect a cumulative push of GDP relative to the pre-boost scenario by 1.5 pp. The ReArm EU initiative has the potential to push euro area growth further up.

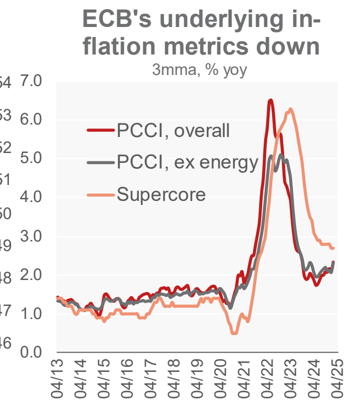
However, most recently the imposition of US tariffs of 20% on imports from the EU is weighing heavily on the outlook. Our simulations suggest that even without a further escalation via EU retaliation, euro area GDP may be dented by almost ½ pp of GDP on a one-year horizon. On balance, we think that the headwinds from tariffs dominate the fiscal tailwinds near-term and adjusted our growth forecasts up to 0.8% (from 0.9%) in 2025 and 1.3% (from 1.6%) in 2026. Risks seem tilted to the downside in case of a continued market sell-off and tighter financial conditions and/or a further escalation of the trade conflict.

ECB to stop easing cycle at 1.75% but trade war might trigger an even lower key rate

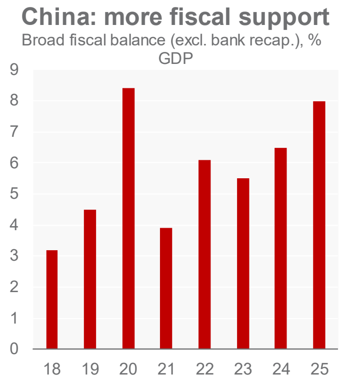
At its March meeting the ECB cut its key rate to 2.50% and considered it as “meaningfully less restrictive”. The German fiscal bazooka and tariffs had not yet been included in the updated macro projections. We expect that the trade war will trigger three further consecutive rate cuts to 1.75% (otherwise would be only two), the lower bound of the neutral policy range. Should the trade aggravate further, even more cuts into outright expansionary territory would be in the offing.



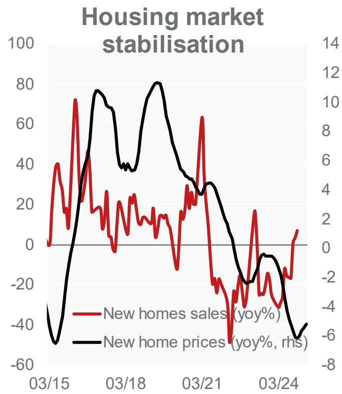
Source: Datastream, GenAM



Source: Datastream, ECB



Source: MoF, GenAM



Source: Bllomberg, NBS, GenAM

China: growing tailwinds despite better sentiment

Trade war skews Chinese growth risks further to the downside

While the Chinese macro environment had been improving, the US tariffs are a new headwind. With the previous hikes, tariffs will be close to 54% and it could shave a cumulative c. 1pp of GDP without further monetary and fiscal support. Risks are skewed to the downside given the impact on global demand that could also slowdown Chinese exports but also the limited ability to circumvent these tariffs with transshipment. The policymakers will have to ramp up in Q2 the fiscal support announced in early March to achieve their 5% growth target and easy further the key policy rate and the RRR rate. The next Politburo will be worth following for new support. Regarding reaction, we expect policymakers to adjust tariffs higher in retaliations to further US hikes rather than weakening the CNY. On the positive side, the economy is on a better stance. Sentiment and the macro environment have positively shifted. The symposium between President Xi and private investors confirms a change in attitude towards the private sector, significantly supporting local sentiment. Likewise, policymakers have confirmed their will to support consumption and both real estate sector data and credit data have stop deteriorating.

GOVERNMENT BONDS

Florian Späte

- **Since the beginning of the year, bond markets have experienced a rollercoaster ride in Europe and a strong rally in the US. The fiscal paradigm shift in Germany and the levying of tariffs by the US and possible countermeasures were the dominant topics. Despite the expected decline in euro area core yields over the course of the year, we forecast a lastingly higher yield environment in the euro area long term.**
- **In view of the potential recession in the US and further key rate cuts, long-dated US yields have leeway to fall moderately further in the coming months – despite higher inflation rates in the short term.**
- **Fiscal expansion in Germany, combined with speculation about joint euro area bond issuances, is creating a positive environment for EA non-core government bond spreads. In the short term, however, the trade conflict with the US will prevent spreads from narrowing.**

No dull moment on international bond markets! Until mid-March, euro area bond markets were dominated by the € 500bn infrastructure fund in Germany, the Europe-wide commitment to increase military spending and, finally, the EU Commissions' Re-Arm Europe of up to € 800bn. We regard this fiscal paradigm shift as lasting and forecast a higher growth potential and inflation expectations. Hence, we raised our expected medium-term ECB deposit rate to 2.00% -2.50%. The expectations component of our yield forecast rose accordingly.

Structural changes in the euro area bond market favour a "higher for longer" yield environment

The expected fiscal expansion has accelerated a trend that started at least two years ago. The 10-year Bund term premium has jumped to 70 bps and the convenience yield, i.e. the premium that investors are willing to pay for a liquid and safe bond, has fallen significantly. At around 70 bps, the 10-year term premium is still well below the peak of 150 bps reached in 2010. However, it has risen by 100 bps in the last 12 months alone. As bond market volatility, Germany's debt ratio and the volume of Bunds outstanding are among the key determinants of the term premium, we expect it to remain higher over the medium term. Indeed, average nominal growth is a good proxy for the equilibrium nominal yield, which has averaged 3.2% over the past 35 years. Although we think this is a bit high as a reference for the 10-year Bund yield, it does illustrate that investors should be prepared for a higher yield level. We attribute the fact that yields were well below the nominal growth rate in recent years mainly to the ECB's extraordinary monetary policy measures. In this respect, the recent market movement is more of a return to the normality that prevailed at the beginning of the century.

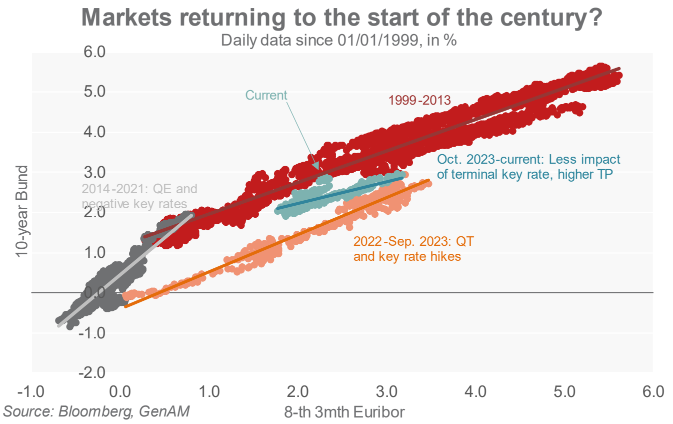
Trade conflict with the US to trigger lower euro area core yields in the short term

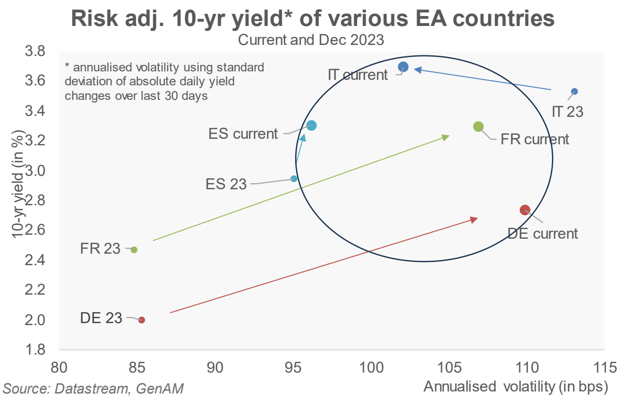
However, we forecast that the recent levying of US tariffs and expected countermeasures will lead to moderately lower euro area core yields in the short term. So far, the decline in nominal yields since the end of March has mainly been driven by falling inflation expectations. But, against the backdrop of a looming global recession, the slow implementation of the German fiscal package and considering the high degree of uncertainty regarding future political developments, we still see downside potential, especially for real yields. This should also be supported by three further ECB rate cuts. However, these have now been priced into the market and we expect the euro area yield curve to flatten slightly over the next three months.

Decoupling of euro area and US bond markets in Q1 – slightly lower yields on both sides of the Atlantic on a 1-year horizon

With yields falling sharply since the beginning of the year, the US bond market has developed fundamentally differently from its euro area counterparts. Nevertheless, at still close to 1.8%, the real yield on 10-year Treasuries appears to be too high. We have significantly lowered our growth forecast for the US to below 1% and see the US on the brink of recession. This is all the more the case if US Treasury Secretary Bessent succeeds in supporting demand for US Treasuries through general deregulation and a reform of the Supplementary Leverage Ratio. The efforts to reduce the budget deficit through savings and thus further reduce the US term premium should also be seen in this context. However, it should be noted that the US could use the higher tariff revenues to protect key industries from retaliation and to support US consumers. This limits the expected decline in US yields and puts a floor under US yields.

In the US, too, we believe that the key rate cuts now priced in by market participants are more than sufficient (until year-end 2025: 107 bps vs. GenAm: 75 bps), so that yields at the short end of the curve are likely to fall less than at the long end.





Higher defence spending for non-core bonds a double-edged sword

Fiscal expansion in Germany a welcome stimulus for the rest of the euro area

The higher volatility in the bond markets had little impact on the spreads of euro area non-core government bonds, but US tariffs have reversed the spread narrowing, resulting in a sideways trend since the beginning of the year. In principle, we see leeway for spreads to tighten. The fiscal expansion in Germany is a welcome economic stimulus (free of charge for the other euro area countries). The relative deterioration in Germany's fiscal situation should – as explained above – lead to a decline in the Bund premium compared to other fixed income assets. The speculation of future joint euro area bonds to finance increased defence spending also provides support. Finally, non-core bonds also look attractive from a risk/return perspective. Compared to end-2023, the volatility of Spanish and Italian bonds has fallen significantly, while the volatility of German (and French) bonds has risen. Despite a lower yield level, Bunds now have the highest volatility of the major euro area bond markets.

US tariffs to burden in particular export-oriented countries

However, the trade conflict with the US and the associated slowdown in growth (the fiscal stimulus in Germany will take time to take effect) are likely to prevent a spread tightening, especially in the short term. Additionally, so far, only € 150bn of additional defence spending has been earmarked at European level. If defence spending must be largely financed at national level, debt sustainability will increasingly come under the spotlight. Sentiment could also be dampened by the lengthy decision-making process at the European level and the possible lack of agreement.

Overall, however, we expect euro area non-core government bonds to do better than Bunds. We continue to favour countries with robust growth prospects and fundamentally sound fiscal positions – which continues to make French OATs unattractive.

CREDIT

Elisa Belgacem

- **Amid the uncertainty created by the trade war launched by the United States, our strategy maintains an overweight position in IG. We believe that spreads should remain relatively resilient although recessionary pressures are mounting. We also keep our mild long HY as we believe that rates component and will make it much more resilient than equities.**
- **Financials typically have a higher beta than non-financials, but their fundamentals are currently very strong and their exposure to tariffs is lower, hence we keep a neutral stance on financials versus non-financials.**
- **We believe credit spreads will remain supported by a still a strong appetite for credit as, despite uncertainty and relatively tight valuations, the all-in yield remains elevated to many types of investors and the total will be supported by lower interest rates in case of a bleaker than expected economic scenario.**
- **We recommend either extending duration in IG non-financial, the 5-7Y bucket, or preferring subordination risk to credit risk with AT1 corporate hybrids remaining more attractive than BBs.**
- **CDS will remain more volatile than cash, we prefer the latter in the current uncertain market environment.**

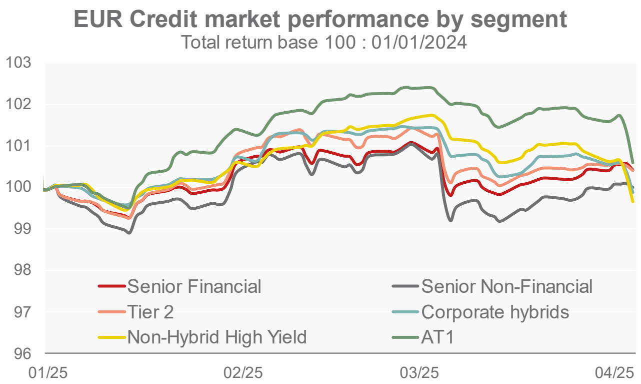
Over the last few days, the market reaction in response to the tariff announcement by the Trump administration setting a new landscape for the end of the year. A bleaker economic scenario but not a recession in our central scenario is still justifying a long credit positioning versus government bonds as we believe credit spreads will remain relatively resilient and total returns will remain supported by lower interest rates.

Recession still not our base case – justifying our long credit

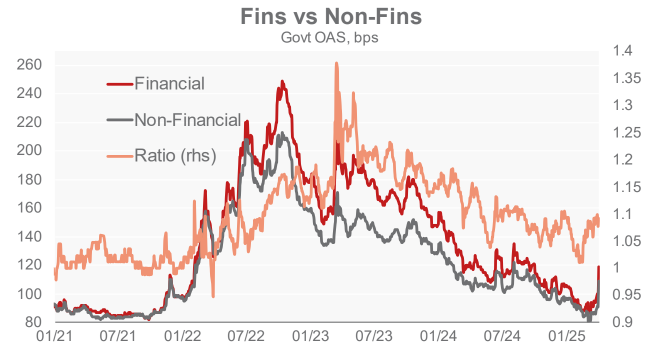
This year the demand for credit has been steadily growing despite relative richness of valuations giving little spread tightening perspective. The reason motivating this strong appetite for the asset class is, beyond relative benign default outlook, the elevated all-in yield that investors can get on their credit investments.

> IG spreads should remain relatively resilient

The negative impact on global growth is undoubtedly concerning, as it poses various challenges to economies worldwide. However, despite these challenges, we firmly believe that our case for a long recommendation on credit versus government bonds remains robust and intact. While a recession is not our central scenario, we anticipate that defaults will remain under control over the coming months, allowing for a more stable financial environment.

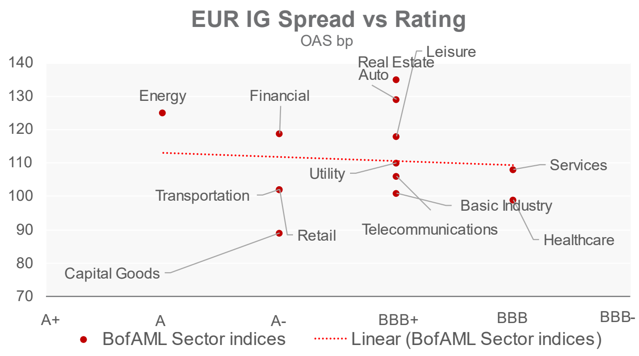


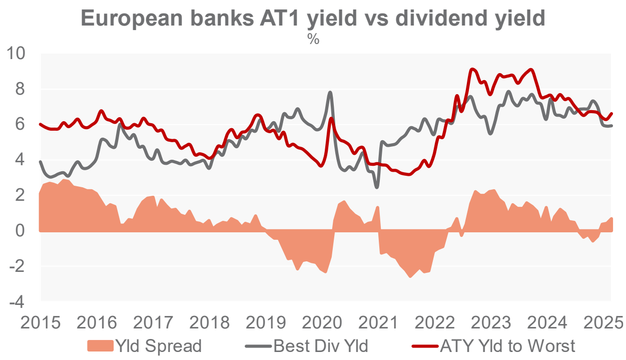
Source: Bloomberg, BofAML indices, GenAM



Source:Bloomberg, BofAML Indices, GenAM

In this context, we believe that amid lower interest rates, the demand for credit is likely to remain strong, particularly in investment-grade (IG) securities. These securities are generally considered safer and more reliable, making them attractive to investors seeking stability in uncertain times. On the other hand, high-yield (HY) securities, being more volatile and cyclical, are naturally more vulnerable to economic fluctuations. Nevertheless, we are confident that high-yield securities will exhibit greater resilience compared to equities, which tend to be more sensitive to market conditions and investor sentiment.





Source:Bloomberg, BofAML indices, GIAM own calculations

We retreat to the safest spots – safer and not that costly.

Single-As might outperform in spread terms but BBBs will deliver better total returns.

We generally position for defensive carry, within IG where we prefer BBBs versus single-As in total return terms. IG spreads should remain relatively resilient. With interest rates likely to fall on the back economic uncertainty, it makes sense to look to long-dated IG for enhanced credit returns, as we continue to expect the fallen angels risk to remains very limited despite the challenging environment

However, we believe that HY spreads are expensive but should be resilient near term, thanks the attractive all-in yield continues to attract strong demand. We believe that defaults have probably peaked already but, this cycle is very peculiar, and we expect that ratings will continue deteriorate nonetheless. It is particularly the case in the lower end of the rating spectrum in single-Bs and CCCS, whereas IG should remain relatively immune to that risk.

Neutral non-financials versus financial Financials typically have a higher beta than non-financials, but their fundamentals are currently very strong and their exposure to tariffs is lower, hence we keep a neutral stance on financials versus non-financials.

We remain long cash over CDS the latter will remain more volatile than cash, we prefer the latter in the current uncertain market environment.

Subordination risk still preferred to credit risk Similarly, we find subordinated bonds attractive relative to pure high yield, and we continue to prefer corporate hybrids to BB-rated companies and AT1s to single B-rated companies.

Overweight defensive sectors cyclical sectors are currently being under pressure given the worries on both the US and Euro Area growth. But the cyclicality premium in our view isn't yet large enough to justify buying the dips. The rating agencies have continued to upgrade cyclical companies, but we believe they will reverse course shortly. Hence we have a preference for Utilities, Telcos and also Real Estate.

EM SOVEREIGN BONDS

Guillaume Tresca

- **Despite earlier resilience in Q1, EM activity will be affected by the new US tariffs via the export and uncertainty channel, with Asia the most vulnerable region while LatAm will be less affected. However, EM macro fundamentals are sound and central banks have room to manoeuvre.**
- **We maintain a defensive approach and turn neutral external debt vs local debt. For external debt, we revise higher our spread forecast and prefer IG over HY.**
- **For local debt, we favour EM rates over FXs. Real yields levels are still compelling and central banks can ease in Asia and CEE if needed. FX wise, we will be underweight Asian FXs and prefer CEE FXs.**

Sound macro fundamentals provide some protection

Tariffs to hit despite earlier resilience After a period of relative resilience since President Trump's inauguration, EM growth will be challenged by the new US tariffs, which will affect all emerging markets to varying degrees. It is too early to accurately assess the impact on growth, given the risk of further retaliation or even the room for negotiation for certain countries (Mexico), but it is clear that growth will adjust. EM growth has always depended on global trade, and as in 2018/2019, a decline in global trade will follow, hurting EM exports. Similarly, the high level of uncertainty in the coming quarter will at least limit business sentiment and investment as questions about the position of the supply chain will prevail. In this new macro environment, there are at least three bright spots. First, EM macro fundamentals are more solid than they were during the first trade war in 2018/19, with limited external vulnerabilities and still fiscal space for major EMs. Inflation has continued to fall, and EM central banks still have room to ease monetary policy further. Second, fortunately, the weakening USD will give them even more room than in a traditional market sell-off, when higher risk aversion leads to EM FX weakness. Third, this time around, EMs are trading more with each other, with about 60% of EM exports going to other EM countries. Regionalization is deep, especially in Asia.

Source: Bloomberg, IMF, CPB, GenAM

Source: Bloomberg, IMF, CPB, GenAM

Asia vulnerable, LatAM more immune. We expect increasing differentiation across EM regions, with Asia being the most affected. On average, Asia has tariffs above 20% and it exports more than 15% of its exports to the US. However, Asian central banks have been conservative and have ample room to ease. CEEMEA countries will benefit from their relative integration into the EU value chain and their lower direct export exposure to the US. LatAm countries are more immune as Mexico benefits from the USMCA for certain exports and Brazil's exports to the US are limited. That said, there is a risk of a secondary impact on Chile and Peru's mineral exports to China if China slows down significantly.

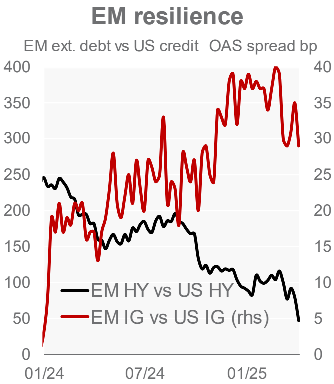
Maintain a defensive approach

Defensive play. EM fixed income returns were resilient in Q1 and even during the recent tariff-induced sell-off, returns were positive due to a supportive duration effect. This performance will be hard to sustain and will only happen if US interest rates do not rebound and the current US growth slowdown does not turn into a recession. We therefore maintain a defensive approach and turn neutral external debt vs local debt. EM local debt has proved more resilient than initially expected. Indeed, a particular feature of the recent environment has been the weakening of the USD, which has benefited EM FX strongly, but its continued weakness also remains a strong hypothesis.

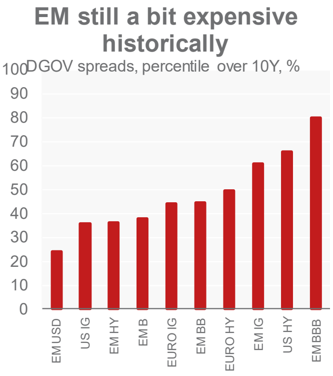
Wider spreads but duration decline to support the total return

External debt: we maintain our preference for EM IG over HY. The direct impact of tariffs on EM credit is limited, but EM credit is mainly affected by the broader risk markets and especially via the US credit spread widening. We have seen some spread decompression recently and the risk is that we will see more if the US credit widening continues to expand. We are not yet at recessionary EM spread levels and given the tight historical levels, investors may prefer to wait for better entry points. We have therefore raised our spread forecasts by 35bp. At the rating level, we prefer IG over HY. EM IG has outperformed US IG, while EM HY is expensive both historically and relative to US credit. In the IG space, the spread widening will be more limited and the impact on the final total return may be partially offset by the decline in US rates. We like Chile over Peru, UAE and Bulgaria, which can join the eurozone in 2026. In HY, we avoid B and distressed names that will decompress and where positions are overcrowded. We focus on BBs where fundamentals are improving. Morocco offers value, we still like Serbia, while other Western Balkans offer a good long-term risk/reward.

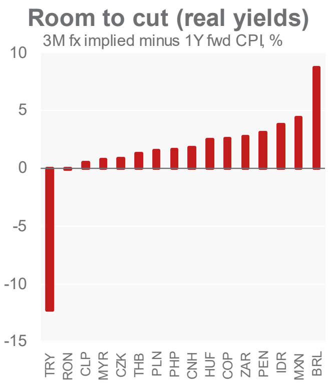
Favour EM rates over EM FXs. We prefer EM rates as central banks, especially in Asia, have room to ease. Even in CEE, inflation dynamics allow for easing, while in LatAm, especially Mexico, real rates are still high. In Brazil, fiscal problems and higher inflation expectations limit the scope for easing. In FX, we will be underweight Asian FXs given their over-exposure to the tariff impact and prefer CEE FXs supported by the new German fiscal stance and high yielders such as the TRY and the EGP. In LatAm, we maintain our preference for BRL over MXN, but it is less compelling. We avoid CLP and PEN given the risks of a slowdown in China and the commodity exposure..



Source: Bloomberg, ICE, GenAM



Source: Bloomberg, GenAM calcuations



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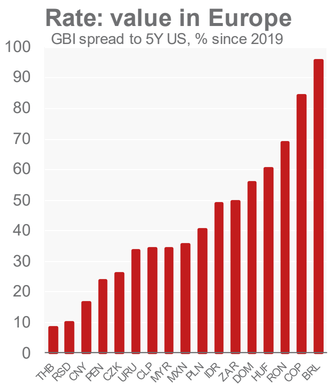


Source: Bloomberg, JP, GenAM

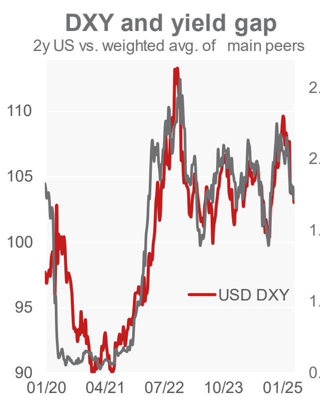
CURRENCIES

Thomas Hempell

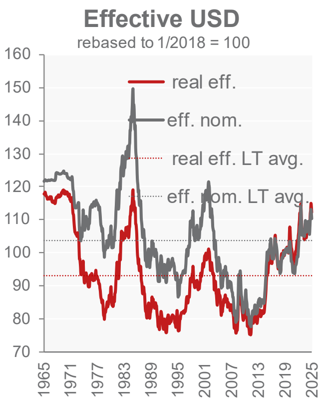
- **The US dollar's recent weakness is marking a turning point. US exceptionalism is fading as the massive tariffs create huge uncertainties that heavily weigh on the US growth outlook and erode the US dollar's safe haven status. Amid conflicting stagflationary forces from the tariffs the Fed may be more willing to look through a price surge and resume its rate cuts soon.**
- **USD strength on entrenched US outperformance is challenged further by a significant fiscal response underway in Europe, led by Germany. Increased defence spending will make the EU allow for wider fiscal deficits while even new joint funding for military purposes cannot be ruled out.**
- **An improved relative growth outlook and resuming capital inflows support the EUR – which may strengthen not only vs. USD but also GBP. The CHF, however, may hold up as massive trade policy uncertainties persist.**
- **Short term, however, risks for the EUR are more two-sided following its recent bounce and the sharp reversal of speculative positions. The JPY is set to benefit from persistent monetary policy divergence and repatriation flows.**
- **The tightly managed Chinese CNY may suffer from the bold US tariffs, but broader USD weakness and a dovish Fed should keep a lid on the prospective rise in USD/CNY.**

USD downside as US exceptionalism wanes

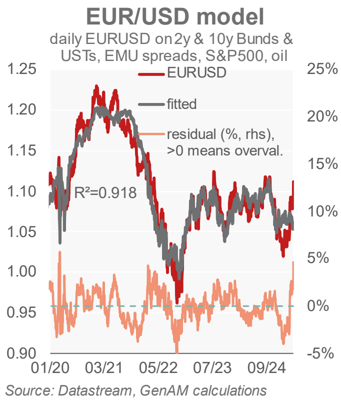
The US dollar weakened sharply over Q1 as the 'Trump trade' (higher US rates, outperforming US equities, rising USD) backfired after inauguration on January 20. With early tariff announcements targeting Mexico and Canada as key trading partners, US policy uncertainty rose sharply. Tanking consumer and business confidence raised US rate cut expectations, narrowing the US yield gap vs. main peers (left chart below). The USD DXY slump deepened after the April 2 tariff announcements sending it to 5% lower year-to-date. With US exceptionalism eroding fast and the effective USD still dear (2nd chart above), we expect the USD to retrace further over the coming months. Amid rising cyclical worries, the Fed will turn more willing to look through the inflationary impacts from tariff and keep a dovish bias to the detriment of the USD.



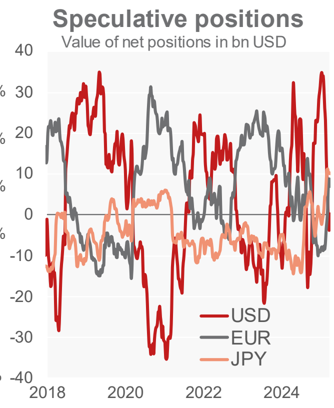
Source: Datastream, GenAM



Source: BIS, Datastream, GenAM



Source: Datastream, GenAM calculations



Source: CFTC, Datastream, GenAM

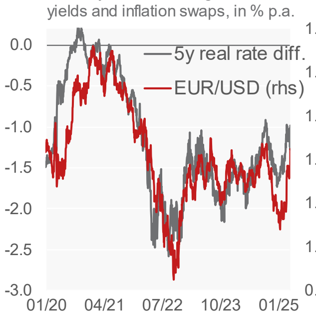
Fading US exceptionalism a drag for a dear USD

An improving euro area outlook amid fiscal support underpins the EUR…

The USD has also been challenged by the surprise German fiscal bazooka orchestrated by incoming chancellor Merz. It will fuel a wider European push to ramp up defence spending to compensate for fast eroding US military guarantees. The reform of the German debt rule for raising defence spending has been coupled with a 500bn infrastructure and climate package. The EC will relax EU fiscal rules, too, and provide cheap loans for defence purpose. Given tight national budgets the discussion may pivot towards joint borrowing for defence projects before long. An escalating trade war with the US may raise the inclination to open the fiscal taps even further. A higher fiscal impulse and tighter European integration bode well for the EUR which may have some further upside vs. the USD. We also see modest further upside in the GBP/EUR, but more modestly so in EUR/CHF as high trade policy uncertainty keeps underpinning demand for the safe-haven Swiss franc.

Euro/US real yield gap and EUR/USD

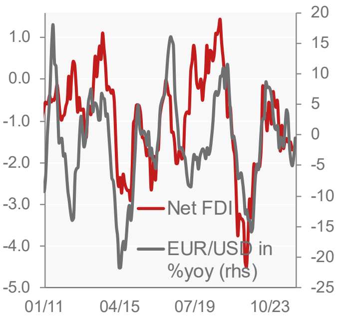
real yield based on gov't bond yields and inflation swaps, in % p.a.



Source: Datastream, GenAM calculations

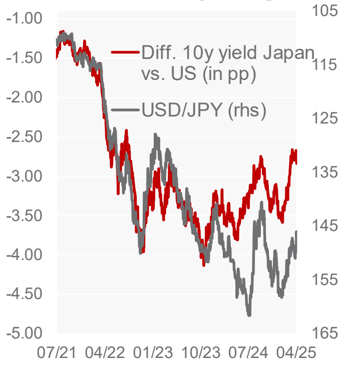
Euro area: net FDI flows and EUR/USD

net FDI as 12m rolling sum, in % of GDP



Source: Datastream, GenAM

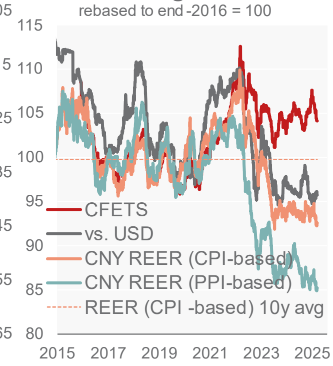
USD/JPY and yield gap



Source: Datastream, GenAM calculations

Trade-weighted CNY

rebased to end-2016 = 100



Source: Datastream, GenAM

Mid-term upside for EUR/USD, but short-term prudence

… even though more prudence is warranted near term

Short-term, the outlook is more two-sided, however. The EUR/USD is already trading at a high premium vs. rates and risk sentiment. Crowded USD long positions have reversed sharply (right charts prev. page). And given Trump's track record of surprise swings in policy announcement, we cannot rule out a more conciliatory tone towards negotiations which could help to mitigate some of recent USD losses.

In our baseline, however, we anticipate tailwinds for the EUR/USD to prevail. The real yield gap points to some further upside potential. Easing FDI outflows from the euro area should prove mildly supportive (left charts above). And a ceasefire in Ukraine – even if still looking distant for now – may render some EUR support on easing energy uncertainties and hopes of reconstruction orders benefitting European companies.

The USD has also already lost much of its shine as a safe haven with the greenback selling off amid the recent global risk-off spot. We also expect the US yield gap vs. major peers to erode further. This is an important catalyst for some further advances in the JPY which continues to trade at a discount to Japan/US yield differentials. As the BoJ keeps bucking the global trend of monetary easing, higher Japanese yields will keep favouring repatriation flows by Japanese pension funds.

More CNY weakness though less visibly so vs. USD

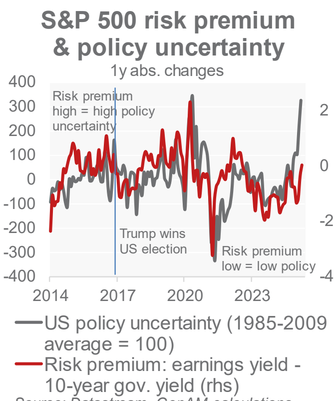
The Chinese CNY has held up well against the USD despite the 54% total tariff imposed by the US. The latest announcements have barely lifted the USD/CNY which is now almost flat year-to-date. This is much less owing to genuine CNY strength but rather reflecting weakness in the broader USD against which the Chinese exchange rate is tightly managed. In trade-weighted terms the CNY has weakened (right chart). With China a strategic rival to the US we expect a much less transactional approach by Trump. Thus, a meaningful relaxation of recent tariffs in a process of negotiations does not seem very likely. This keeps the CNY biased to further weakness even if less materially so vs. the US dollar which itself is exposed to further headwinds.

EQUITIES

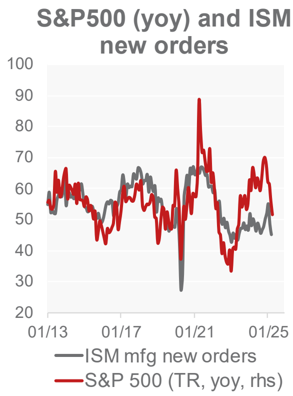
Michele Morganti and Vladimir Oleinikov

- **Following Trump's recent tariff hikes, we have turned tactically slightly underweight on equities. Short-term retaliation against US goods could prevail, leading analysts to slash macro and earnings forecasts faster than central banks can react. This may cause the S&P 500 and EMU to drop further.**
- **That said, the EA GDP should be impacted less by tariffs than the US one, and would benefit, beyond the short-term, from German reflationary policy, smoother green transition for Autos, and EU fiscal flexibility on military spending. Lower CPI, three more ECB cuts (at least), increased savings, plus the China stimulus and a possible war ceasefire add to the relative positives.**
- **For the time being, our mid-term view – assuming some de-escalation during the year and no full recession – remains constructive, albeit with lower total returns than previously estimated.**
- **We see TR to be at risk in the short term (slightly negative) but potentially achieving decent positive returns over the next 12 months if trade frictions alleviate and a global recession is avoided.**
- **EU sectors: adopt a more defensive bias through an OW on utilities, and maintain some exposure to financials, Aero&Defense, Pharma, Real Estate, and Telecoms.**

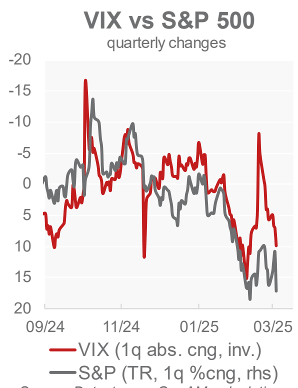
Following the recent Trump's decision on tariffs, we have become more cautious for the short term on equities. While future negotiations are still possible, news of retaliation against US goods and escalation could prevail short term. In such circumstances, analysts will continue to slash macro and earnings forecasts, faster than central banks react. For these reasons, the market could experience a further draw-



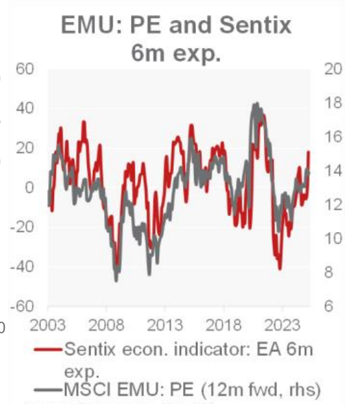
Source: Datastream, GenAM calculations



Source: Datastream, GenAM calculations



Source: Datastream, GenAM calculations



Source: Datastream, GenAM

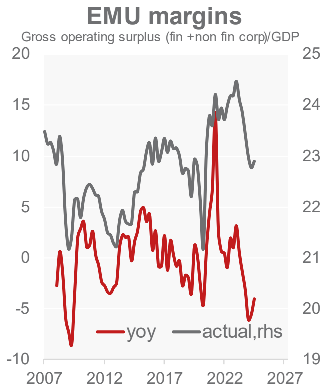
> Potential short-term retaliation and escalation could lead to a significant market drawdown (25% from peak)

down bringing the S&P 500 further down to discount a recession this year. Our market trough assessment is based on adverse movements in investors' positioning (reaching a low range of its band), earnings (EPS) decline coherent to a -1.5% in current GDP forecasts, lower Fed reserves, weaker ISM and higher risk premium via policy uncertainty. This scenario still excludes a recession, which would be triggered by long lasting high tariffs plus further escalation, bringing the SPX down around 25% from peak (to 4610). **Can Europe outperform?** Not likely in the short term, especially in the case of a severe US slowdown/recession triggered by Trump, in which other global markets won't stay immune. Despite increased recession risks, we expect some de-escalation in the year (base case). In the meanwhile, notwithstanding the recent outperformance, inflows in EU equity funds have only begun to recover the huge net outflows vs the US, which occurred since 2022. Furthermore, EU relative earnings (EPS) momentum, could benefit from the announced economic policy impulse this year and the next: EU defence expenditures, infrastructure measures in Germany, fiscal and monetary impulse in China.

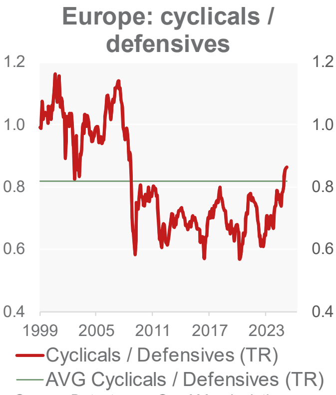
Monetary policy should see also three more ECB cuts to 1.75%, with potential for deeper cuts, should geopolitical risks linger for longer.

Potential for more than 3 ECB cuts if geopolitical risks persist

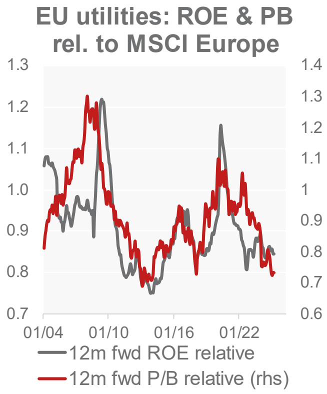
In case of abating trade risks, and no recession, we see a fair value of EMU PE in one year (12-month forward PE) at 13.5X (LT average ex-2000 bubble), still lower than our previous estimate of 14.5X. Our previous EPS growth estimates could be reduced from 8% yoy to zero in 2025, maintaining a contained rebound at +6% in 2026, a quite cautious assumption. The EMU index would be set to show a TR of +14% in one year. As for the US, by slashing current year's EPS growth from +8% to zero, and using a cautious rebound in 2026 as well (+6%), we come up with an index



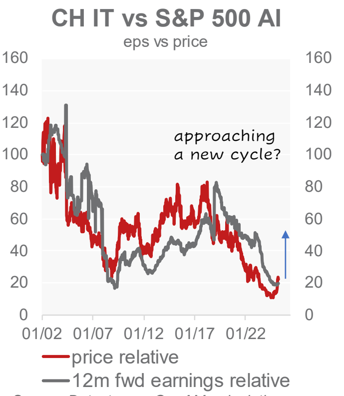
Source: LSEG, GenAM calc.



Source: Datastream, GenAM calculations



Source: Datastream, GenAM calculations



Source: Datastream, GenAM calculations

floor target of 4,900 in one year. This uses a 19X PE target below both the current market 19.5X and our previous target of 20.7X. As an alternative approach, using the long-term risk premium series by Shiller, we would come up with 5,900 target. So, 4,900-5,900 could represent the new fundamental-based valuation range, with a 12m target of 5.600. Despite high risks and volatility, beyond short term, we remain more constructive on EMU equities as a fiscal expansion looks more on the cards. With possible future tariff de-escalation, the environment would look supportive again (albeit to a lesser extent compared to our previous estimates): a resilient US economy from the end of 2025, EMU manufacturing bottoming, slower wage growth, increased savings and better trends in both bank loans and M&A.

China is just entered in the retaliation phase, which can increase its risk premium, with possible negative returns as well in the short term. On a longer term perspective, China is deregulating the IT market by relaxing antitrust measures, supporting AI development, and encouraging domestic tech. Additionally, the government aims to stimulate consumption. CH Tech valuation remains attractive vs. US IT and we believe a new Chinese Tech EPS cycle may have started.

Slight UW equities: neutral EMU vs SPX. OW SMI and UK, MDAX, India, Poland (valuation, correlation to weaker USD). Diversify US into equally-weighted SPX (or SPX 493) and US mid cap. Within EU sectors, we added utilities (defensive) to our overweights (OW), lowering our cyclical tilt. We focus on best valuation rank and weaker USD correlation. We overweight Financials, A&D, Energy, Materials, Pharma, Real Estate, Semis, and Utilities.

FORECASTS

Macro Data

Growth	2024	2025 forecast	2025 Δ vs. cons.	2026 forecast	2026 Δ vs. cons.	2027 forecast
US	2.8	1.0	- 1.0	1.5	- 0.5	2.0
Euro area	0.9	0.8	- 0.1	1.3	0.1	1.4
Germany	- 0.2	0.2	0.0	1.4	0.2	1.4
France	1.0	0.7	0.0	1.2	0.2	1.4
Italy	0.7	0.3	- 0.3	0.6	- 0.3	0.5
Non-EMU	1.0	1.2	0.0	1.9	0.5	1.5
UK	0.9	0.9	0.0	1.9	0.7	1.5
Switzerland	1.4	1.2	0.0	1.6	0.0	1.2
Japan	- 0.1	0.4	- 0.8	0.7	- 0.2	0.6
Asia ex Japan	5.0	4.8	0.0	4.6	- 0.1	4.5
China	4.8	4.5	- 0.0	4.1	- 0.1	4.0
CEE	3.3	2.2	- 0.1	2.1	- 0.2	2.4
Latin America	1.8	2.0	0.0	2.1	0.0	2.6
World	**3.2**	**2.8**	**- 0.2**	**2.9**	**- 0.1**	**3.0**

Inflation	2024	2025 forecast	2025 Δ vs. cons.	2026 forecast	2026 Δ vs. cons.	2027 forecast
US	2.9	3.5	0.6	1.8	- 0.8	2.1
Euro area	2.4	2.1	- 0.1	2.0	0.1	2.0
Germany	2.4	2.1	- 0.2	2.2	0.1	2.0
France	2.3	1.3	- 0.1	1.5	- 0.1	2.0
Italy	1.3	1.8	- 0.0	1.8	0.1	2.0
Non-EMU	2.3	2.4	0.0	1.9	- 0.2	1.9
UK	2.5	3.1	0.0	2.1	- 0.3	2.0
Switzerland	1.4	0.5	0.0	0.8	0.0	1.0
Japan	2.3	2.4	- 0.4	2.1	0.3	1.8
Asia ex Japan	2.0	2.4	0.6	2.4	0.2	2.5
China	0.4	1.3	0.7	1.5	0.4	2.0
CEE	19.4	12.9	0.7	8.3	0.0	6.5
Latin America	4.7	4.5	0.0	3.8	0.0	3.0
World	**4.0**	**3.6**	**0.4**	**2.8**	**- 0.0**	**2.7**

Regional and world aggregates revised to 2015 IMF PPP weights; Latin America Inflation excluding Argentina and Venezuela

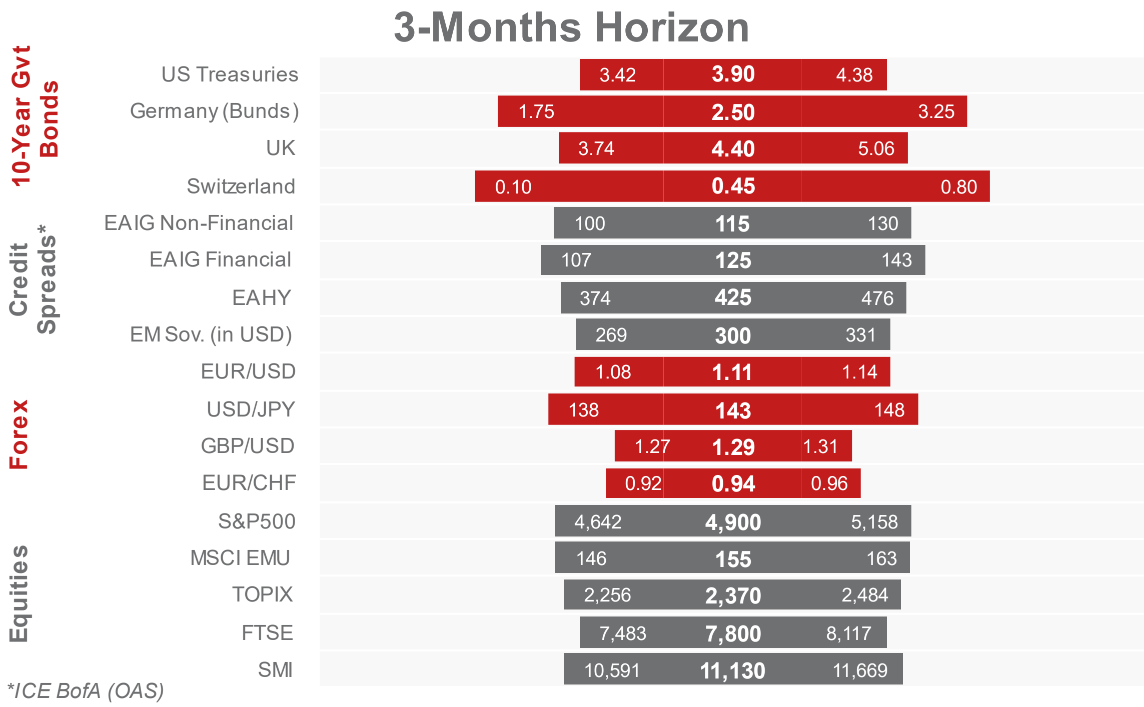
Financial Markets

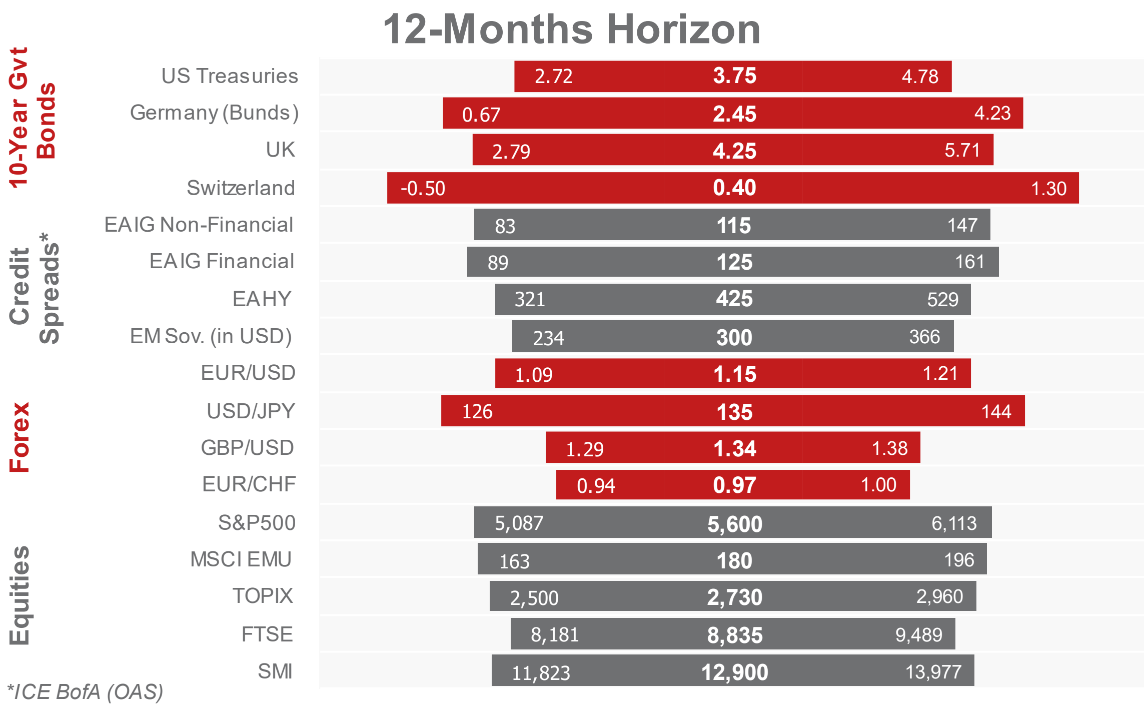
Key Rates	Current*	3M Forecast	3M Forward	6M Forecast	6M Forward	12M Forecast	12M Forward
US (upper bound)	4.50	4.25	*3.92*	4.00	*3.45*	3.50	*3.07*
Euro area	2.50	1.75	*1.98*	1.75	*1.77*	1.75	*1.62*
Japan	0.50	0.50	*0.54*	0.75	*0.59*	0.75	*0.68*
UK	4.50	4.25	*4.13*	4.00	*3.87*	3.50	*3.56*
Switzerland	0.25	0.00	*0.04*	0.00	*-0.00*	0.00	*-0.01*
10-Year Gvt Bonds							
US Treasuries	4.01	3.90	*4.04*	3.85	*4.07*	3.75	*4.14*
Germany (Bunds)	2.57	2.50	*2.62*	2.45	*2.66*	2.45	*2.75*
Italy	3.76	3.70	*3.80*	3.60	*3.88*	3.55	*4.05*
Spread vs Bunds	*119*	*120*	*118*	*115*	*122*	*110*	*130*
France	3.32	3.25	*3.35*	3.25	*3.41*	3.25	*3.53*
Spread vs Bunds	*76*	*75*	*73*	*80*	*75*	*80*	*78*
Japan	1.18	1.25	*1.22*	1.30	*1.27*	1.35	*1.36*
UK	4.45	4.40	*4.46*	4.35	*4.48*	4.25	*4.56*
Switzerland	0.46	0.45	*0.43*	0.40	*0.45*	0.40	*0.50*

*04/04/25
**ICE BofA (OAS)

Credit Spreads**	Current*	3M Forecast	3M Forward	6M Forecast	6M Forward	12M Forecast	12M Forward
EA IG Non-Financial	109	115		115		115	
EA IG Financial	119	125		125		125	
EA HY	379	425		425		425	
EM Sov. (in USD)	280	300		300		300	
Forex							
EUR/USD	1.10	1.11	*1.10*	1.12	*1.11*	1.15	*1.12*
USD/JPY	147	143	*144*	140	*143*	135	*141*
EUR/JPY	161	159	*159*	157	*158*	155	*157*
GBP/USD	1.29	1.29	*1.29*	1.30	*1.29*	1.34	*1.29*
EUR/GBP	0.85	0.86	*0.85*	0.86	*0.86*	0.86	*0.87*
EUR/CHF	0.94	0.94	*0.94*	0.96	*0.93*	0.97	*0.92*
Equities							
S&P500	5,074	4,900		5,135		5,600	
MSCI EMU	163.5	154.5		163.0		179.5	
TOPIX	2,482	2,370		2,480		2,730	
FTSE	8,055	7,800		8,145		8,835	
SMI	11,649	11,130		11,780		12,900	

Forecast Intervals





*The forecast range for the assets is predetermined by their historical volatility. The volatility calculation is based on a 5-year history of percentage changes, equally weighted in the case of the 12-month forecast and exponentially weighted in the case of the three-month forecast. The length of the bars within each asset group is proportional to the relative deviations from their mean forecasts.

IMPRINT

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