



Investment View

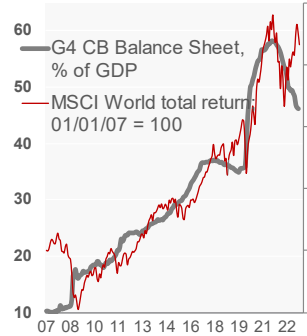
The (not so) great escape

September 28, 2023

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

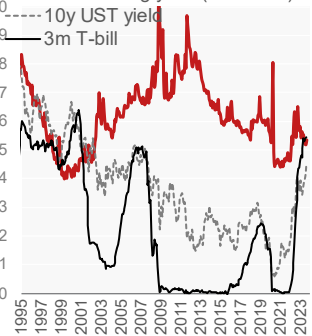
- By early summer, investors looked increasingly confident that the global economy was escaping the plague of stagflation. They are having a second thought – rightly so. The US economy has been exceptionally resilient to the 525bp Fed tightening but is now showing signs of fatigue. Surging oil prices may keep inflation high for longer.
- Market pricing seems disconnected from the significant economic and financial stability challenges associated with the delayed effects of massive rate hikes and ongoing Quantitative Tightening (QT). Risk asset volatility is too low, and earnings consensus too high. The rise in global equity multiples has made earnings yields unattractive relative to money market rates and bond yields.
- Our tactical asset allocation recommendation thus includes a preference for the safer segments of Fixed Income over Equity and High Yield. The key risk to our views lies in another supply shock causing higher energy prices into the all-important EU and US elections next year, and elevated bond yields for longer. Our medium-term views are more constructive for bonds and stocks, as the Fed will mull rate cuts by mid-2024.

G4 CB Balance Sheet & MSCI World



Source: MSCI, Bloomberg, GIAM

S&P vs bills & bonds, %



Source: S&P, MSCI, Bloomberg, GIAM

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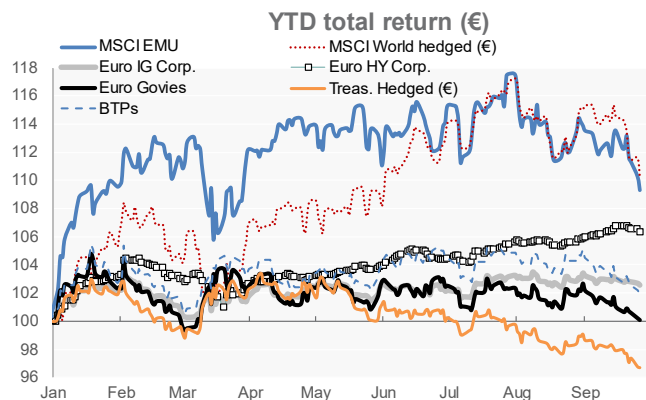
THE (NOT SO) GREAT ESCAPE

Vincent Chaigneau

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Late summer turning sour. As 3Q23 ends, there is a feeling of ‘d’jà vu’, with stocks and bonds selling off in tandem, like they did 2022 (see charts below). This is in contrast with the 1H23 market dynamics, when bond and stock prices mostly moved in opposite direction, with the latter outperforming. A positive correlation often reflects monetary policy dominance, while negative correlation is typical of cyclical and risk appetite dominance. In contrast to 2022, the recent joint sell-off has not been driven by fears of more rate hikes, but rather growing expectations that central banks (CB) – the Fed in particular – would not cut rates any time soon. Typically, the Dec. 2023 implied Fed Funds Rate barely changed in Q3, but the Dec. 2024 rate gained almost 75bp. In early summer, investors looked increasingly confident about a perfect scenario of US (and global) soft landing and disinflation. By late summer, more hawkish CB talk and a surge in oil prices are questioning this Goldilocks scenario. Indeed, we continue to believe that market pricing is failing to price a harsher reality: a more substantial economic slowdown will be required for inflation to move closer to target.

European stocks below late January levels as Goldilocks hopes sour in late summer



Source: Bloomberg, GIAM calculations



Source: Bloomberg, GIAM

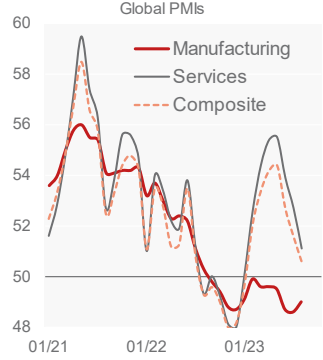
The global economy is wobbling

US engine impressive but tired. The global economy has been very contrasted in 2023, both at sector and geographical level. The manufacturing sector has been stuck in a mild recession for a year; global services instead have been hot but are now coming off the boil. Europe has languished in stagflation, China has disappointed, and

We see signs of economic US fatigue from the consumer, fiscal policy and rising rates

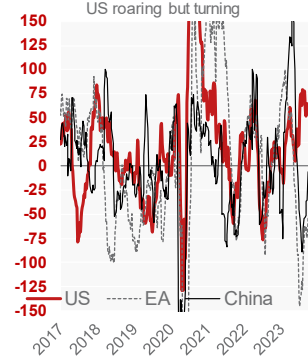
the US have proved remarkably resilient (see diverging economic surprises chart below). Yet we see signs of US fatigue. We did expect US consumers to tap into the ample excess savings accumulated through the pandemic and boy, how much have they: this has helped real consumer spending to stay on its long-term path, despite real income still trending well below the pre-Covid path (3rd chart below). With excess savings now mostly depleted, and consumer credit and employment trends both slowing, we fear that the saving ratio will rebound and tame spending, going forward. The second – far less predictable factor – has been fiscal policy, which despite the unemployment rate sitting near record lows, has been surprisingly expansive: ‘Bidenomics’ in the working. As we go to press the funding bill for the new fiscal year starting on 1 October is still elusive. A shutdown would hurt the economy – not much unless it lasts – but our main concern is that a deal will eventually include spending restraint that will cause a shift in the fiscal impulse (right-hand chart below).

Global Services off the boil



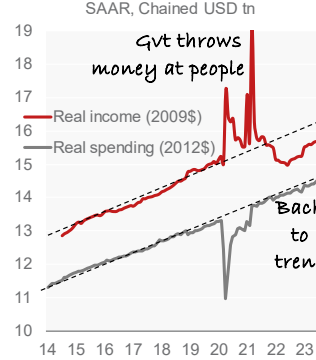
Source: JPM, Bloomberg, GIAM

Eco surprise indices



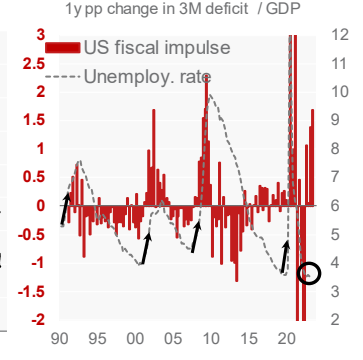
Source: Citi, Bloomberg, GIAM

US Real Inc. & Spending



Source: US BEA, Bloomberg, GIAM

US fiscal impulse



Source: US Treasury, Bloomberg, GIAM calc.

Debt rollover stress only delayed

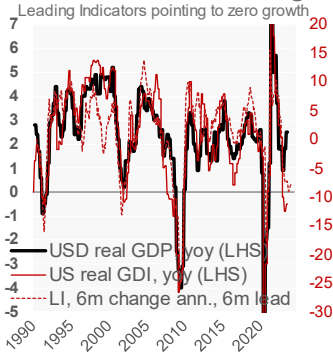
Rates a slow-burning poison. US resilience to a 525bp Fed tightening is impressive, but do not underestimate the lags. Ample borrowing at low yields and longer duration has only delayed the debt rollover stress. Take the example of mortgages, where rates have surged but the average yield on the outstanding has only started to rise (left chart below). In all, the US economy is still poised to slow – not so softly. Leading indicators continue to point towards zero growth. Gross Domestic Income (GDI) is already down yoy, suggesting the worm is already in the apple.

US mortgage rates, %



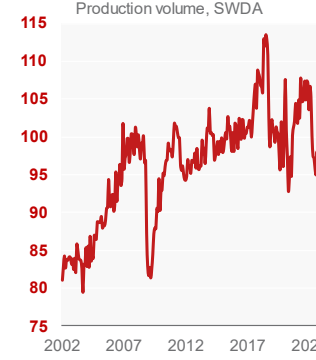
Source: BEA; Bankrate.com, Bbg, GIAM

US GDP miracle or mirage



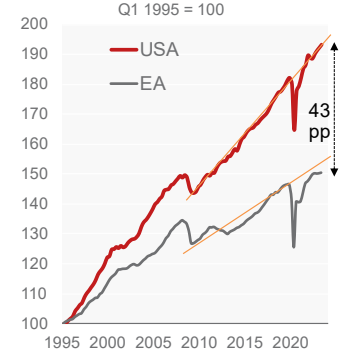
Source: Conf. Board, BBG, GIAM

German Chemical+Pharma



Source: German federal statistics, Bbg, GIAM

Real GDP, USA vs. EA



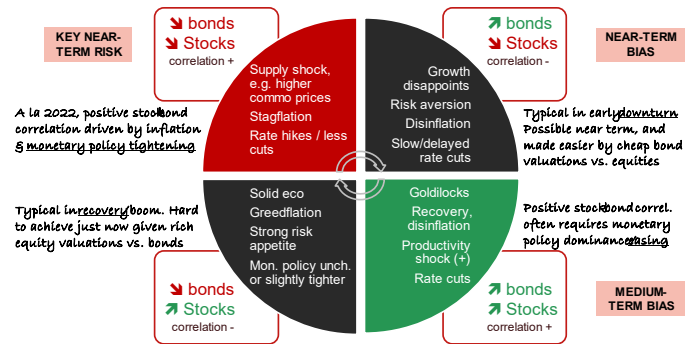
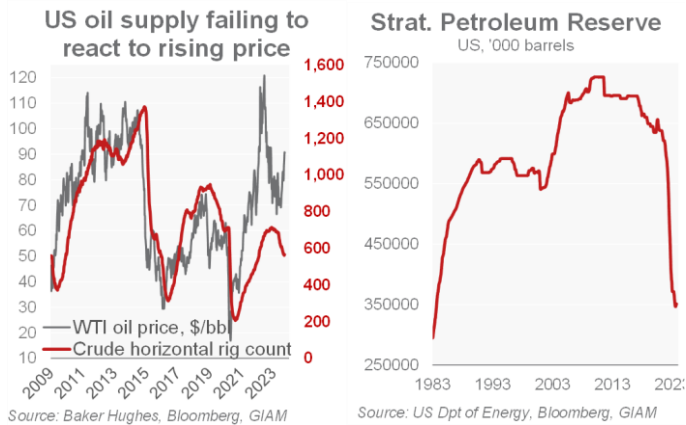
Source: BEA, Eurostat, BBG, GIAM

Europe flirting with recession, no Chinese bazooka. The war in Ukraine, as expected, has put disproportionate pressure on the Euro Area (EA) economy, which has failed to grow for the twelve months. Natural gas prices have normalised but remain

more than four times that of the US. Production in energy-intensive sectors has collapsed (3rd chart above). This has only added insult to injury, as weak productivity growth and a lack of innovation have caused a long-standing economic under-performance (4th chart). We see no reason for a sudden improvement. Instead, we see signs of stabilisation in the ailing Chinese economy, but a lack of determination for a policy bazooka that would revive demand. In all, do not expect China to rescue struggling western economies.

A new supply shock? Finally, the recent surge in oil prices add new stagflation risks. Brent prices have surged some 25\$/bbl in the three months to late September – now just 3\$ below the 100\$ mark. This is most unwelcome as this will keep headline inflation higher in 4Q23 and hurt growth. The price pressure reflects a shortage of supply, after OPEC+ cut production targets, under the leadership of Saudi Arabia and Russia. This must be seen in the context of a moving geopolitical environment, with Saudi Arabia recently joining the BRICS group. Importantly, 2024 will see important EU parliament and US elections. Inflation (and immigration) are major concerns for the incumbents. Both the Biden Administration and Von der Leyen’s EC have run highly active energy transition policies, and it is not in the interest of the fossil energy industry to support their campaigns. Investors may thus face the risk of higher energy prices for longer into those crucial elections.

Risk of higher energy prices for longer into crucial 2024 elections (EU/June, US/November)



Cycle clock and valuation suggest allocation tilt towards Fixed Income

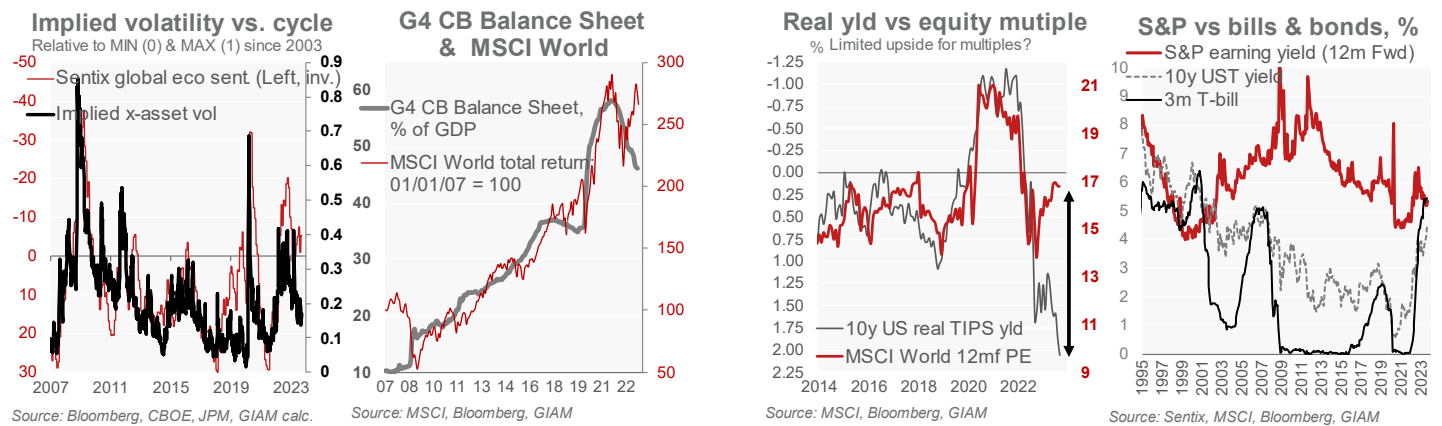
The investment clock pictured above looks at stock and bond performance from the correlation angle. Correlation is positive in the top left – bottom right diagonal, and negative in the other. Our central view is that markets will turn the year in the top-right corner, with the global slowdown capping bond yields and hurting a generous earnings consensus and equity valuations. Consensus currently has US corporate earnings up 12% for both 2024 and 2025, and +7% for Europe. This looks optimistic and subject to downward revisions. The key risk is that global markets turn the year in the top-left corner, as rising energy prices (and possibly food prices, as El Nino disrupts the agricultural complex) keep inflation high and central banks hawkish. Longer term, we expect a transition to the bottom right corner – more bullish within 6-12 months, as the Fed starts to consider rate cuts by mid-2024. Again, sustained commodity price inflation may well delay that transition, so it is too early to position.

Valuation gap. Our near-term defensive bias also lies in the valuation gap between 'risk-free' bonds and equities. See the four charts below. First, financial volatilities appear low at this more difficult stage of the economic cycle (left chart below). Arguably rates volatility has been high relative to equity credit and FX vols, and this has

Our central view: markets will turn the year in the top-right corner of the clock, with the global slowdown capping bond yields and hurting both the earnings consensus and equity valuations

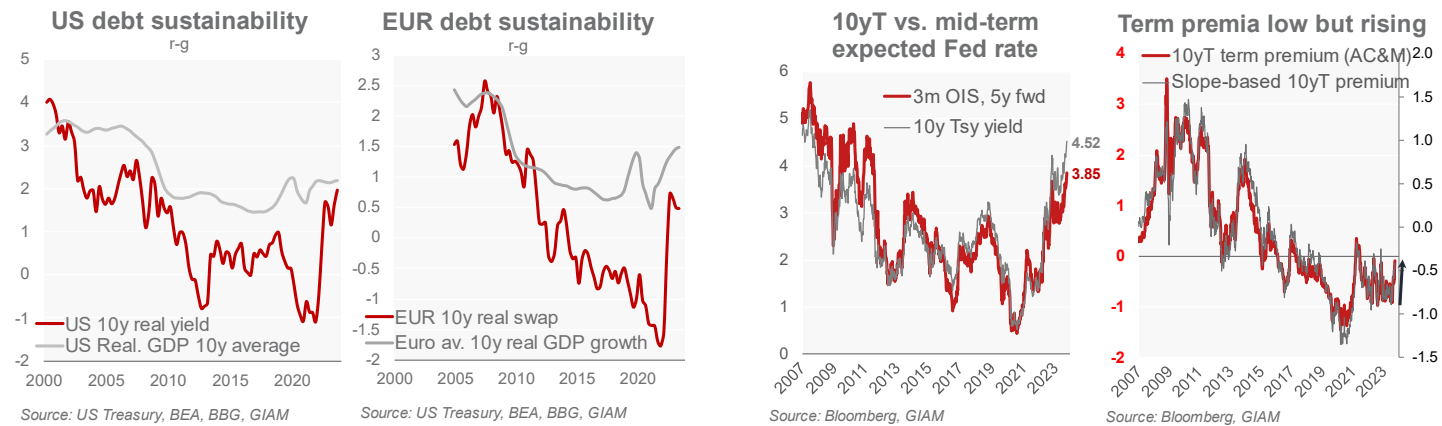
Risk asset volatility has been low, surprisingly so relative to economic sentiment. Ongoing QT exposes the YTD rise in equity multiples

played against bonds (e.g. risk parity funds). But risk asset volatility has been low, surprisingly so relative to economic sentiment (left chart). Second, equity markets delivered solid YTD gains into early summer in the context of a continued CB Quantitative Tightening (QT). The latter continues, with the risk of some payback to the QE-furled risk rally (chart 2 below). Third, the equity gains this year have come entirely from a multiple expansion this year. Both the 2023 and 2024 global earnings consensus have declined since the start of the year. This multiple expansion contrasts with the rise in long-term real yields, particularly in the US (3rd chart below). Remarkably, the S&P earnings yield (based on 12-month forward expected profits) has now dropped to below the 3-month T-bill yield. The Equity Risk Premium (ERP) relative to 10-year Treasury yield is also minuscule (4th chart). The ERP is more generous in Europe, but around 5% somewhat low given the cyclical weakness and policy uncertainty.



Risk-free yield now a shaky concept? Still, relative yields support a tactical allocation in favour of FI vs. equities

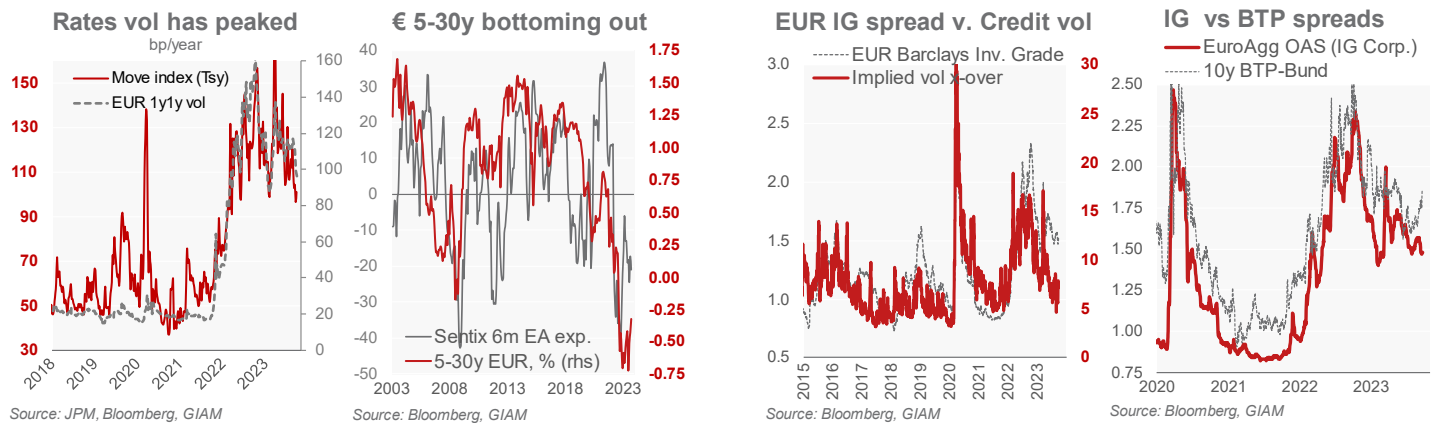
A new paradigm? The narrowing gap between equity earnings yields and bond yields may reflect a change of paradigm, whereby there is no longer such thing as 'risk-free' sovereign bonds. S&P and Fitch have already stripped the US from its AAA, and Moody's threatens to do the same in case of another shutdown. Sovereign debt has surged globally through the Great Financial Crisis (GFC) and the pandemic, while household and corporate debt has been more muted. The rise in real yields, and the convergence towards real GDP growth on both sides of the Atlantic bodes ill for public debt sustainability, unless governments start working harder on improving primary budgets. While this will deserve particular attention in the medium term, right now relative yields do support a tactical allocation in favour of Fixed Income vs. equities.



Fixed Income opportunities

Investors getting carried away on r-star. The recent rise in bond yields largely reflects a repricing of the expected level of central bank rates in the medium-term (3rd chart above). The market is now pricing that Fed rates in 5 years will lie in the 3.75-4.0% range. Some Fed members have recently repriced the medium-term dot to the upside, but the median FOMC estimate still lies at 2.50%. Are investors misguided? We think so. R-star remains an elusive concept, but our own tentative estimate puts it below 1% in the medium run, implying nominal Fed Funds around 3%. As the economy deteriorates, we expect 5y3m rates to retreat, and long yields along with them. Arguably there is still space for the term premia to increase (4th chart above), in the context of persisting inflation uncertainty, heavy government bond supply and QT, which will limit the bond rally. Still, at this level of yields we recommend to finally switch to a small long duration position.

We reconed to finally switch to a small long duration position



Fixed Income preferences. As expected, rates volatility has started to retreat from the elevated levels reached in 2022 and early 2023. We expect the Fed and ECB to be done with rates hikes – a tight call, but the end of the rate hike cycle is close in any way: our analysis suggests policy is now restrictive. Inflation surprise indices are also subsiding, which also helps rates volatility come off the boil. Falling vols tend to support steepening at the long end of the curve. The EUR 5-30y slope for instance remains deeply inverted (-32bp in swaps), and we like to position for (bull) steepening as we expect the curve normalisation to extend beyond forwards. In the spread complex, we continue to prefer IG credit, relative to both peripheral spreads and High Yield. IG spreads are tight, but still appear large relative to credit volatility (arguably set to rise, see 3rd chart above). The higher risk-free yields are also supporting carry in the asset class, with spreads likely to prove resilient in a not-so-hard landing. In contrast, we find High Yield spreads disconnected from the tough economic reality, which has already led to a rise in defaults (see Credit Strategy section). Finally, we continue to prefer IG Credit to peripheral sovereign, in the context of persistent fiscal slippage and elevated level of public debt (4th chart above). Peripheral spread widening is moderate in our central scenario, but risks are skewed to the upside.

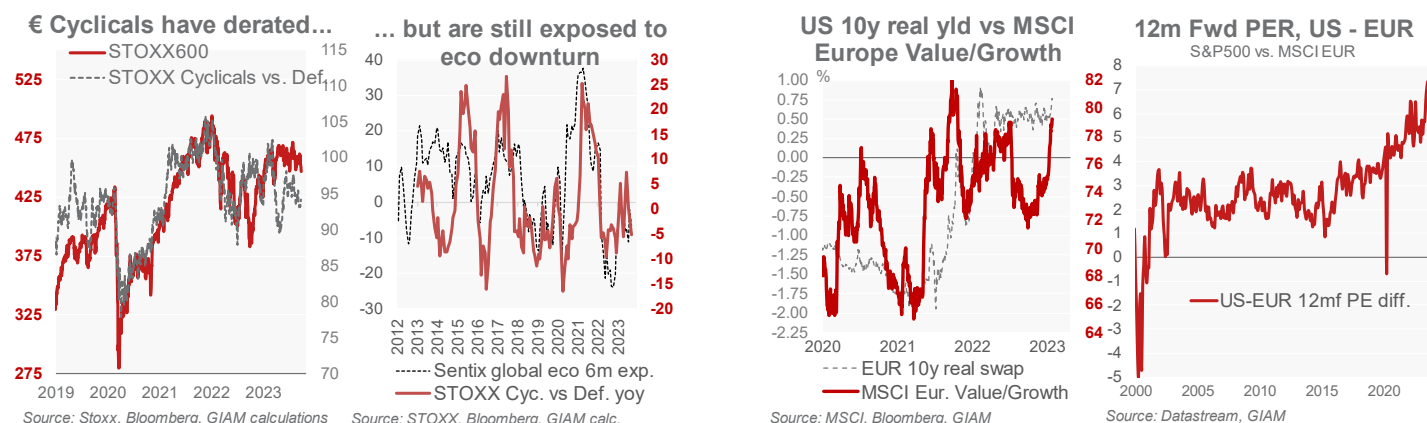
Defensive towards equities

Slightly reduced equity underweight. We stick to our underweight equity, but slightly reduce it following the late summer correction. The MSCI World seems headed to the plateau seen in Spring (circa 2800), after markets had recovered from the SVB crisis. A break of this support area would mean that the correction from the

Cautiously long duration, belly best positioned to benefit from slowdown, long end exposed to falling rates volatility, prefer IG to peripheral sovereigns

A bias towards defensive stocks; do not follow through recent bounce in Value stocks

late July top has extended to 10%, a very distinct possibility. European cyclicals have already derated but remain exposed to further global growth disappointment (first two charts below). We do not eschew all cyclical sectors and stocks, e.g. for the reasons discussed above it makes little sense to short energy stocks. Banks are also trading at a deep discount already. Still, overall, we prefer defensive sectors such as Food Retail, Health Care Equipment and Utilities. Value stocks have recovered nicely over the past couple of months, from a sharp drawdown over March-May; we do not have a strong style preference there, but Growth stocks are better positioned to benefit from a pullback in yields. European stocks now look extremely cheap relative to US ones (final chart). Some convergence between the region's economic surprise indices may support a correction, but for choice we stick to a small preference for US stocks. For unhedged investors, we also see more tailwind for the anti-cyclical US dollar near term, despite fundamental valuation richness. We also like diversification into EM equities such as China, where much bad news is priced in already (Mind the Taiwan election in January), and India. You will find more details in our Equity Strategy section, and throughout this report. Enjoy the reading.



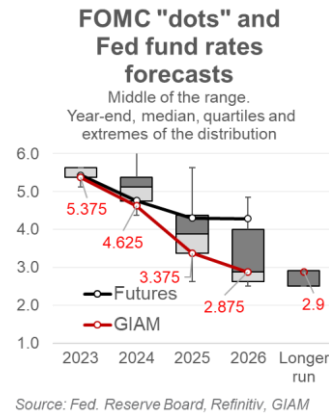
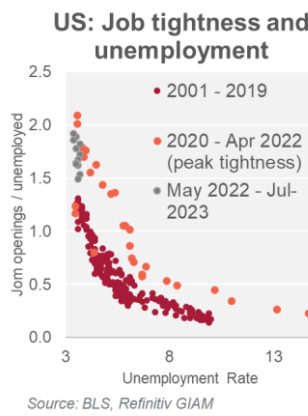
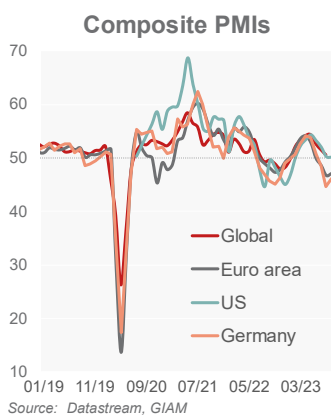
MACROECONOMIC OUTLOOK

Thomas Hempell, Christoph Siepmann, Martin Wolburg, Paolo Zanghieri

- Robust US economic data has contrasted with faltering growth in the euro area (EA) and China over the summer.
- Ultimately the US economy will also feel the pain from lagged effects of high rates, tight credit conditions and fading support from excess savings and fiscal stimulus. In the euro area, pent-up demand in services is set to fade, with a recession looming in Germany.
- Chinese policy makers only reluctantly address the strong headwinds from the property crisis and depressed consumer confidence. However, a bottoming inventory cycle should help to stabilize industrial production.
- Inflation is set to subside, yet only sluggishly so amid sticky wage pressures in the euro area and resurgent house prices in the US. Rising energy costs significantly add to upside risks.
- Central banks' dilemma (stubborn inflation vs. faltering growth) is deepening – especially so for the ECB, which has likely reached peak rates after the September hike as its growth projection still look too optimistic. We neither foresee further rate hikes by the Fed amid a weakening labour market. Yet sluggish disinflation makes a pivot before mid-2024 unlikely.

The US have weathered the headwinds from drastic rates hike strikingly well thus far...

Economic resilience has dominated large parts of the global economy over the summer. The US economy has weathered the headwinds from the sharp monetary tightening particularly well thus far. Amid a robust Q2, we raised 2023 forecasts also for Japan (which enjoyed a post-Covid reopening), Latin America and the CEE region. Yet this contrasts with much more muted data in the euro area, where the manufacturing recession – led by Germany – intensified, while the pent-up demand in services (tourism in particular) showed signs of faltering lately. At the low end of the spectrum, China has suffered from a fast-fading post-Covid boost while woes in the bellwether property sector intensified sharply. Amid these opposed moves, we only slightly upgraded our 2023 global growth forecast by 0.1pp to 2.6%.



... but the costs of eradicating sticky inflation pressures will still become visible

Yet this resilience has mostly delayed, not sidestepped a still looming global slow-down. Continued disinflation will require economies to cool more significantly. In the US, high rates, tight credit conditions and depleting excess savings are yet to bite, even if a full-blown recession may be avoided. In the euro area, we anticipate a moderate recession in Germany alongside stagnation for most other peers. Our deepest cut in 2024 growth projections for major economies, however, applies to China, where

the property crisis and the only lukewarm policy response will slow growth to below 4%, which would be the weakest rate since 1990 barring the 2020 pandemic year.

Inflation in the advanced world is set to ebb further, but only sluggishly so with the last miles towards target likely to prove the hardest. Labour markets are still tight and wage pressures – notably in Europe – remain high. Central banks are facing a deepening dilemma between faltering growth (bearing the risk of overtightening) and the need to keep a firm hand on still too high price increases. The recent bounce in energy prices amid OPEC+ production cuts complicate the picture further. Also, long run inflation expectations, while not excessive, still question central banks' credibility regarding their 2% target. While key Western central banks have likely reached peak rates, they will need to stick at current restrictive rates for longer, keeping a lid on the prospects for a 2024 recovery.

US: surprising Q3 growth, but deceleration looms

In the US, domestic demand is proving much more resilient to inflation and higher rates than expected, and Q3 GDP is set to grow by more than 2% qoq annualised. The erosion of the large stock of financial savings and the tilt towards services allowed consumption to keep growing at a strong pace. Yet, the large recourse to credit, despite historically high rates, and the increase in delinquencies show that some cracks in households balance sheets are emerging. Non-residential investment was kept afloat by expenditure on immaterials (less sensitive to interest rates) and fiscal incentives to manufacturing construction (e.g. plants for chip production), but the boost will not be structural. The end of the grace period on student loans repayment and of the pandemic related childcare funds will constitute further headwinds to disposable income. We expect growth to get closer to zero and then to become slightly negative in Q1 2024. Afterwards, still punitive financial conditions will slow down the extent of the rebound, with growth returning to trend by the end of next year. Slower demand will help bring inflation down, but we expect a very slow transition, with the core CPI rate still at 2.4% yoy at the end of 2024. Upside risks remain substantial: a prolonged period of very high oil prices will likely spill over to the core rate and the recent rebound in house prices and rents will hamper a fast disinflation.

At the September meeting, the Fed provided another hawkish surprise without raising rates. It left the possibility of another hike by year-end on the table and slowed significantly the predicted pace of rate easing, with only a total of 50 bps cuts for 2024. This is based on a very rosy forecast for unemployment, based on the continuation of the current trend that the fall in demand for labour (job openings) is not matched by a rise in unemployment. It is not sure whether this will continue in case of a serious growth slowdown, and we forecast no more rate rises and 75 bps easing for next year. Another important message aimed at cementing the expectation of higher for longer policy rates was the hint that the neutral policy rate may have risen over the last quarter: this would put a higher floor to monetary accommodation.

Euro area undergoes a period of weakness

A string of disappointing euro area activity data has increased the risk of a recession for the second half. Q2/23 growth was revised down to 0.1% qoq (from 0.3% initially), mainly due to the drag from trade. Moreover, over Q3 the composite PMI fell below the critical threshold of 50 (averaging 47.7) implying contraction, a message supported by hard data like retail sales and industrial production. That said, latest sentiment data advanced from muted levels. Looking further down the road we continue to see leeway for improvement as the labour markets stay firm and receding inflation

Rising energy costs and sticky wage pressures complicate central banks' tasks

Still strong growth during the summer, but GDP should contract in Q1

Fed signals to keep rates higher for longer expecting minimal impact on employment

Risk of a recession in the second half of 2023

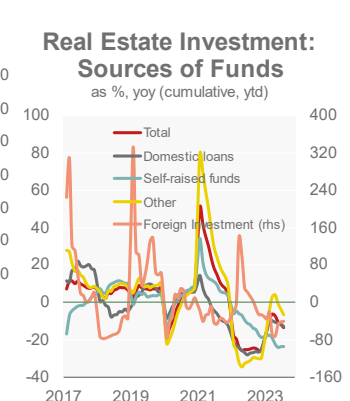
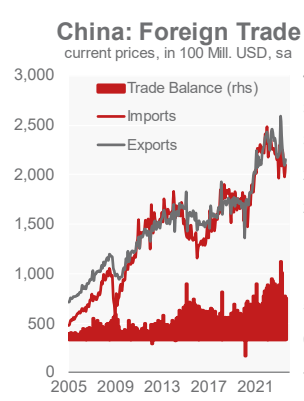
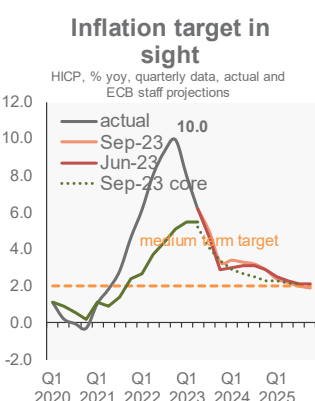
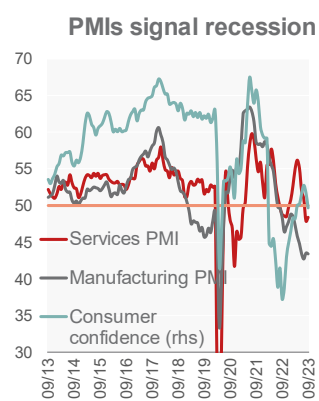
will be conducive to real income growth and consumption. Nevertheless, consumers are reluctant to deploy excess savings at a larger scale so far and tight financing conditions are biting. All in all, we see the euro area in 2023/24 by 0.4%/0.5%, vs. consensus of 0.6%/0.8%, and see risks on the downside with a non-negligible risk of a recession.

Inflation will continue to trend down. August inflation has more than halved to 5.2% yoy from the 10.6% yoy peak in October last year. Over the coming months fading pipeline pressures will help to bring price increases further down. Likewise, favourable base effects from last year's energy price spike are at work. However, the latest rise in oil prices, the withdrawal of government support schemes against high energy prices and the outcome of future wage negotiations keep uncertainties around the disinflation path high. We slightly lifted our 2023/24 annual inflation expectations to 5.6%/2.6%, 0.1 pp above consensus.

The ECB lifted its (depo) rate to 4.0% in September, as inflation was still seen as too high for too long while concerns about some indicators of inflation expectations were expressed. Nevertheless, the Governing Council set a high bar for a further increase in rates by stating that current rates sustained for a sufficiently long time may be enough to bring inflation back to target. In our view the ECB's growth projections are still too optimistic and its proprietary inflation projections see the 2% target broadly reached by the end of the forecast horizon. The discussion will now shift to the timing of the first rate cut which we have for September 2024 in our books.

Disinflation to continue but upside risks especially in the short term

ECB reached peak key rate level, first cut likely in September 2024



Are China's August data first green shoots?

China had a very weak start into Q3 but August data stabilised a bit. On average, manufacturing PMIs turned into slightly expansionary territory. Nevertheless, China faces still strong headwinds: Exports continued receding and the global PMI suggest more weakness ahead (although the global inventory cycle stabilised). On the domestic side, fixed asset investment kept slowing year-to-date with property investment the main drag. New construction has been ailing, cutting into self-financing of developers. Thus, we expect more "bad news" from the sector. Recently, policymakers have clearly tried to revive property demand. Overall, fiscal policy resorted to a flurry of incremental measures. Retail sales responded to support for car purchases of late, but the Caixin services PMI weakened again. Moreover, Chinese household have not yet started to deploy their Covid excess savings. In sum, we see a growth recovery rather L-shaped (4.8% in 2023, 3.8% in 2024) and inflation to increase to an average of 1.5% next year, after 0.4% in 2023. Monetary policy will likely add some support with a 25 bps RRR cut and a 10-20 bps cut in the medium-term lending facility.

China's fiscal policy resorted to a flurry of incremental measures but no bigger package

GOVERNMENT BONDS

Florian Späte

- **With global growth wobbling and key rate cycles coming to an end, bond yields on core government bonds are likely to decline in the coming months. While US real yields have downside room amid weakening economic data, in the euro area (EA) the potential for lower yields rather comes from currently elevated inflation expectations.**
- **We expect a further rise in the term premium to contribute to a steepening of the curve and to slow the decline in long-term yields, though it should stop the overall directional trend to turn more constructive.**
- **The widening of EA non-core bond spreads that started in early September is likely to continue in the coming months. Despite the challenging fundamentals, especially in the larger EA countries, the widening is expected to take place in an orderly manner.**

Global core government bond yields rose sharply across the curve in the third quarter (except for UK yields which fell driven by a re-pricing of the future BoE course). Several markets reached new long-term peaks given the expectations of higher key rates for longer. Noteworthy, the increase was mainly driven by real yields. Inflation expectations rose only slightly.

Looking ahead, we expect the environment for government bonds to improve for several reasons. To start with, financial markets are split with respect to future key rate policies. While there is a probability of almost 50% for a final Fed hike, even for the ECB financial market participants price another key rate step with a probability of more than 20%. Although the issue is quite tight for the Fed in particular, in our base scenario we assume that the Fed and the ECB have completed their policy cycle. This usually goes hand in hand with the peak in long-term yields. In fact, in the case of 10-year Bund yields, the highest level is marked on average 5 months in advance (see chart).

Furthermore, we also see a clear downward need for medium-term central bank expectations. The 5y3m OIS is above 3.8% in the US and 3.0% in the EA. We consider these levels to be too high by about 100 bps (in the US) and 75 bps (in the EA). Since the yield on 10-year bonds usually shows a high correlation with 5y3m OIS, a correction would have a corresponding impact on yields. In addition, the 10-year US yield is about 70 bps higher than the current mid-term key rate expectation (in the EA the premium is -20 bps). This indicates downward potential, especially for the US.

We no longer expect a technical recession in the US, but we stick to our view of a slowing economy and forecast one quarter of negative growth as the key rate hikes will take their toll. Real yields are above 2% across the curve. This appears unsustainable amid the economic outlook (especially considering a level of R-star below 1%). In the EA, we expect the downward pressure to be more related to the inflation component. Long-term inflation expectations in the EA have caught up with those in the US, although in the long term, US inflation expectations are around 60 bps higher. This can certainly be attributed to the more advanced fight against inflation in the US and sticky wages in the EA. However, it is unlikely to last. All in, there is downward potential for yields both in the US and in the EA. However, in the US we forecast the lower yield level to be mainly driven by real yields, and in the EA the inflation component is likely to be the main driver.

One caveat applies. The term premium has gained substantially over the past months, but it remains rather low. According to our models, current term premiums

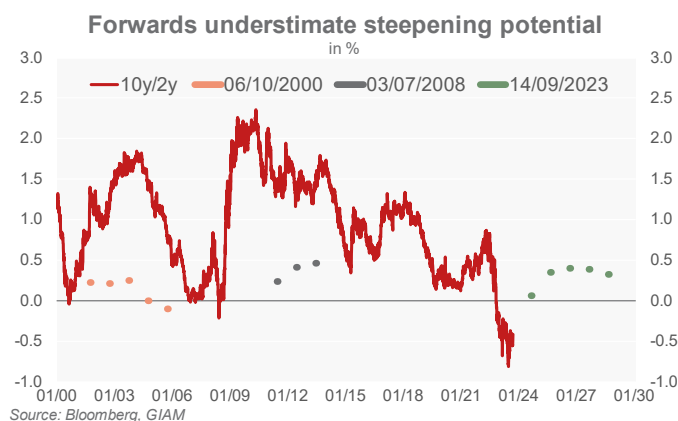
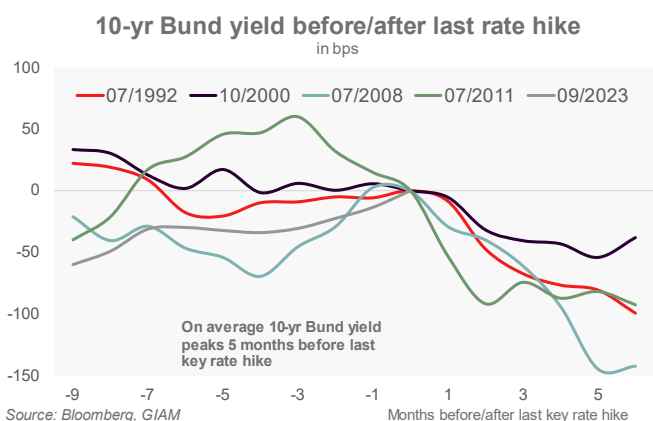
Core government bond yields flying high and marking new long-term peaks across the curve – but the high point is probably close.

Despite the increase, the term premium remains below its fair value – further increases are expected.

remain below their fair value and have further upside potential. In addition, issuance activity will remain at a high level. The BoJ's tweaking of the YCC and lower accumulation of FX reserves will reduce the demand for safe-haven government bonds. QT will further deteriorate the supply/demand mix. On the contrary, decreasing bond market volatility and receding inflation will likely slow the rise in term premiums.

Overall, we expect that the US and EA yield curves will continue to steepen in the months to come. Usually, the 2-year/10-year curve becomes steeper after the end of the key rate cycle (even beyond forward pricing).

On a 3-month horizon, we forecast 10-year US yields to decline to 4.35% and on a 1-year horizon to 3.85%. The respective forecast for Bunds is 2.65% and 2.40%, respectively.



Weak growth and persistently high budget deficits are weighing on EA non-core government bonds. Further spread widening is in the offing.

EA non-core government bonds: more leeway for wider spreads

After a very tight trading range over the summer, EA non-core government bond spreads have started to widen since early September. Several factors contributed to this and most of them are seen to be important going forward. Most of all, debt sustainability concerns have come into focus again. Upward revisions for budget deficits and the expectation that the next year will not bring a strong turnaround (complex discussion with the EU looming in Q4) in combination with low growth rates do not bode well for riskier EA government bonds. The ECB's QT does not help either. This is all the more true if the QT contributes to a general deterioration in risk sentiment.

Then again, there are also some supportive factors. The issuance of EA government bonds activity is well advanced. The remaining net issuance looks manageable (even considering the ECB's QT). This applies even more as retail demand appears strong for now. Moreover, the further pullback in bond market volatility, the (likely) peak of the ECB and the ECB's TPI (Transmission Protection Instrument) are supporting factors. Additionally, the ECB has committed to full reinvestment of PEPP bonds at least until the end of 2024. Furthermore, the spread widening erased dear valuation. Finally, political tensions and the release of forthcoming NGEU fund tranches remain a risk but appear manageable for now.

To sum up, we forecast the spread widening to continue. Particularly weaker countries and those with more fragile fundamentals look vulnerable. However, the movement is seen to happen in an orderly manner as the ECB stands ready to intervene to ensure orderly market conditions. The 10-year BT/Bund spread is forecast to widen to 205 bps and the 10-year OAT/Bund spread to go to 60 bps on a 12-month horizon.

CREDIT

Elisa Belgacem

- Our investment strategy maintains an overweight position in Investment Grade (IG), mainly in non-financials. Overall, we recommend a trade up in quality.
- We find US credit more expensive and more vulnerable than European credit.
- Current HY valuations do not accurately reflect the challenging economic environment; we expect a significant deterioration in both fundamentals and technicals. Defaults and downgrades are likely to increase, especially among smaller, more cyclical companies.
- We recommend either extending duration in IG, despite the already flattened yield curves, or preferring subordination risk to credit risk; however, not in the real estate sector.
- CDS remain tighter than cash, making credit protection an attractive option.

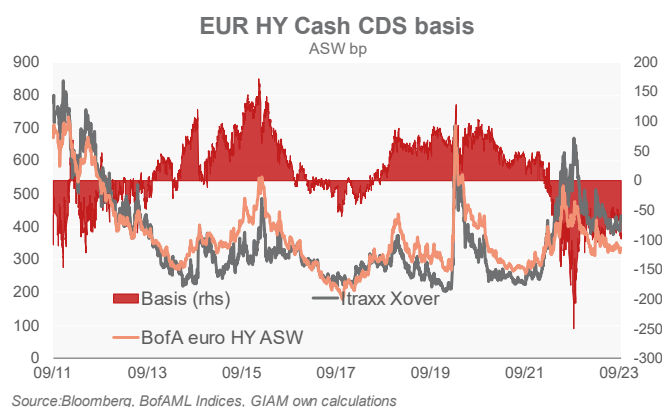
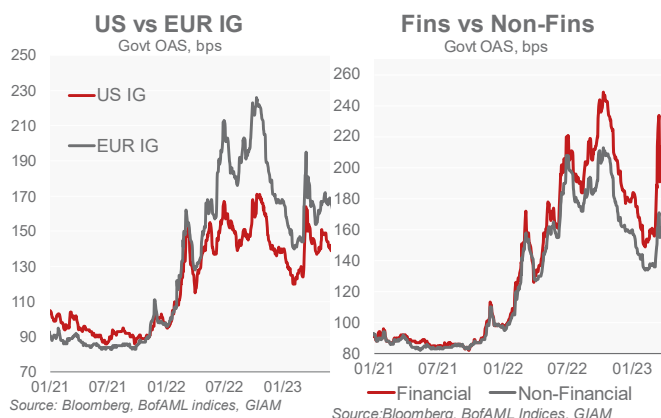
Technicals have been playing an important role year to date leading to valuations distortions that will be partly normalised heading into year end.

Cash Euro IG Non financials is our preferred segment.

Favour Euro over US credit on valuation grounds indeed, metrics continue to suggest that European investment grade (IG) is currently the cheapest relative to US IG and both European and US high yield (HY). As a result, we see strong potential for European outperformance relative to the US over the coming months. However, one scenario that could change this outlook would be a decision by the ECB Governing Council to accelerate the reduction of its balance sheet, potentially involving asset sales, which is not yet part of our base case.

Prefer cash to CDS With the iTraxx roll now behind us, we see the potential for CDS spreads to significantly underperform cash, making credit protection an attractive option.

HY is expensive both in the US and in Europe

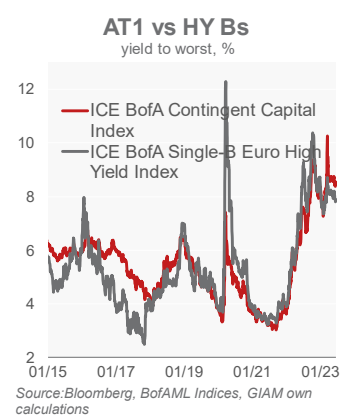
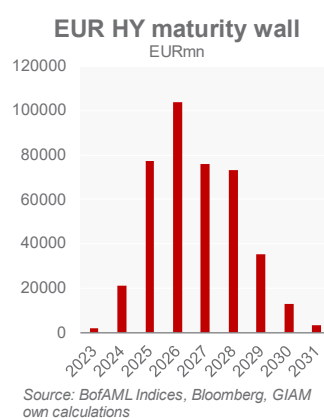
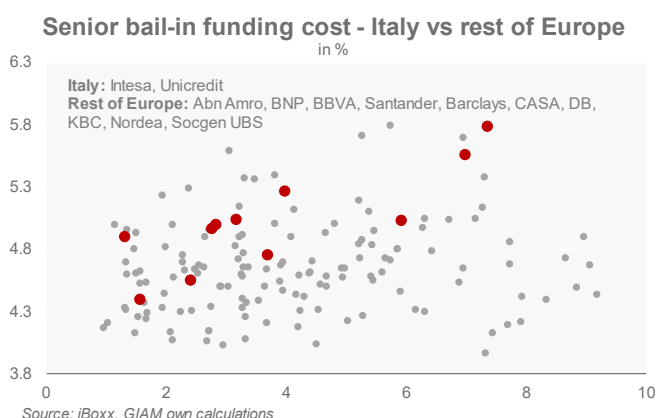


Decompression will favour IG, core and subordinated.

Weak credit creation will have a lasting impact We expect larger companies to be more resilient as financial conditions tighten, which historically leads to a pick-up in defaults around nine months later. While the US economy has become less bank-intermediated, with structured finance playing a significant role, we believe that

deposit flight from smaller banks to larger ones, coupled with prudence on the part of larger banks, will lead to weaker credit creation. In addition, commercial real estate exposure in the US is predominantly concentrated in smaller banks, leading us to expect further stress in the US sector. However, we expect this stress to remain manageable. In Europe, we expect fewer problems due to relatively stable deposits compared to the US, with commercial real estate exposure concentrated mainly in Nordic banks.

Default rates set to rise further In this context, we expect default rates to double from current levels in both the US and Europe, reaching 5.5% and 4.5% respectively, from current levels above 3% in Europe and 4% in the US.



Our scenario of slightly wider peripheral sovereign spreads versus core implies higher funding costs for peripheral issuers.

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

We generally prefer to trade up in quality in general, with one notable exception with IG where we prefer BBBs versus single-As. IG spreads are likely to fluctuate around current levels in the coming months. With interest rates likely to plateau and high uncertainty around HY defaults, it makes sense to look to long-dated IG for enhanced credit returns, even if credit curves are slightly inverted at the long end.

However, the valuation of the HY market does not reflect the elevated economic risks, leading us to expect spreads to widen by almost 100bp in the first half of 2023, before ending the year slightly tighter compared to current levels.

Peripheral credit spreads will widen compared to core Our scenario of slightly wider peripheral sovereign spreads versus core implies higher funding costs for peripheral issuers.

We remain long Non-financials over financials as smaller companies are the most vulnerable. Despite declining risk costs and provisioning reported by banks in the latest reporting season, we believe that higher interest rates will no longer compensate for weaker asset quality. As a result, we remain underweight financials relative to non-financials in terms of spreads.

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 (excluding real estate) to BB-rated companies and AT1s to single B-rated companies.

Overweight defensive sectors cyclical sectors do not compensate for lower growth prospects. The rating agencies have continued to upgrade cyclical companies, but we don't think this trend will continue.

EM SOVEREIGN CREDIT

Guillaume Tresca

- The EM environment has proven resilient amid the rise of core rates and China-related concerns. We maintain our OW for EM external debt but take a cautious and nimble approach in the volatile late-cycle environment.
- EMs can cope with higher core rates if they reflect a resilient economic activity. The weakest frontier economies are most at risk, but the peak of defaults is likely behind us.
- Valuations remain stretched everywhere, however. In the external space, our focus remains on IG-BB names We still favour local debt, which benefits from high real yields.

The EM environment has ultimately been resilient to the combination of China-related concerns and higher DM rates, with only a modest widening of external debt spreads over the summer. We remain overweight in our global allocation as the risk of a rapid economic slowdown in DM countries, particularly the US, has receded and DM central banks are nearing the end of their monetary tightening. Disinflation in the EM continues at a fast pace and EM central banks have surprised to the downside. However, we cannot escape the fact that we are close to the end of the cycle, and therefore volatility prevails. We still expect a positive total return of 1.5-2.0% by the end of the year, but a cautious approach is required and we avoid directional trading. Most of the performance will continue to come from carry.

Total return to be positive by year-end driven by the carry

Expected positive return despite spread widening

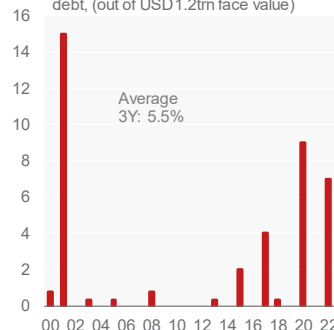
3M TR for different rate and spread scenarios, Dgov index

OAS spread	US 8Y	current							
	4.08%	4.23%	4.38%	4.53%	4.68%	4.83%	4.98%	5.13%	
214	17.4%	11.0%	10.0%	8.9%	7.8%	6.8%	5.7%	4.7%	
234	16.0%	9.6%	8.6%	7.5%	6.4%	5.4%	4.3%	3.3%	
254	14.6%	8.2%	7.1%	6.1%	5.0%	4.0%	2.9%	1.9%	
274	13.2%	6.8%	5.7%	4.7%	3.6%	2.6%	1.5%	0.5%	
294	11.8%	5.4%	4.3%	3.3%	2.2%	1.2%	0.1%	-0.9%	
314	10.4%	4.0%	2.9%	1.9%	0.8%	-0.2%	-1.3%	-2.3%	
334	9.0%	2.6%	1.5%	0.5%	-0.6%	-1.6%	-2.7%	-3.7%	
370	6.4%	0.0%	-1.0%	-2.1%	-3.1%	-4.2%	-5.2%	-6.3%	
390	5.0%	-1.4%	-2.4%	-3.5%	-4.5%	-5.6%	-6.6%	-7.7%	
410	3.6%	-2.8%	-3.8%	-4.9%	-5.9%	-7.0%	-8.0%	-9.1%	
430	2.2%	-4.2%	-5.2%	-6.3%	-7.3%	-8.4%	-9.4%	-10.5%	

Source: Bloomberg, GIAM calculations

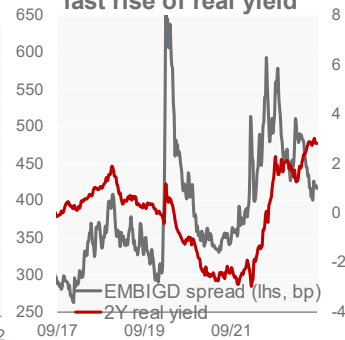
Defaults have peaked

default rate % of EM EUR and EUR sov. debt, (out of USD 1.2tm face value)



Source: BofA, GIAM calculations

Spreads immune to the last rise of real yield



Source: Bloomberg, GIAM

The higher for longer: a financing challenge for the weakest EMs only

The main change and threat to the EM environment is the rise in core rates, but this should not be a game changer for EMs if it reflects resilient economic activity. Historically, a rise in real yields coupled with lower breakevens leads to lower EM spreads. The higher for longer scenario will only affect B to CCC names and the impact would be limited for IG and BB names. For the weakest frontier economies, interest expenditure would continue to rise due to lagged effects from past high interest rates and current high financing rates. It was 2% of GDP for CCCs in 2010 and is now close to 4%. However, the peak in defaults is probably behind us. Indeed, the absolute financing yield is falling compared to 2022 and the weakest countries have found alternative sources of financing thanks to the new IMF financing facilities.

More differentiation as spreads remain tight

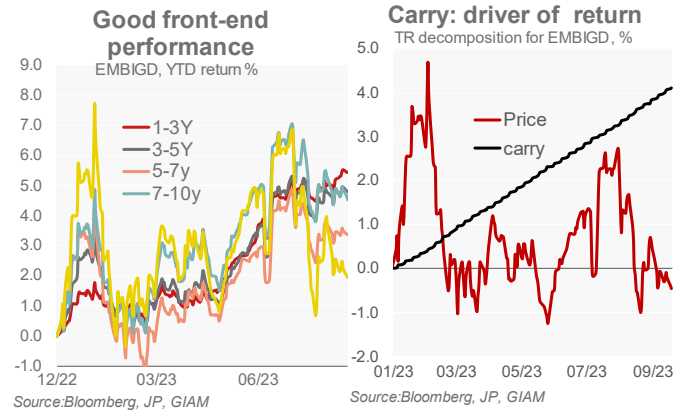
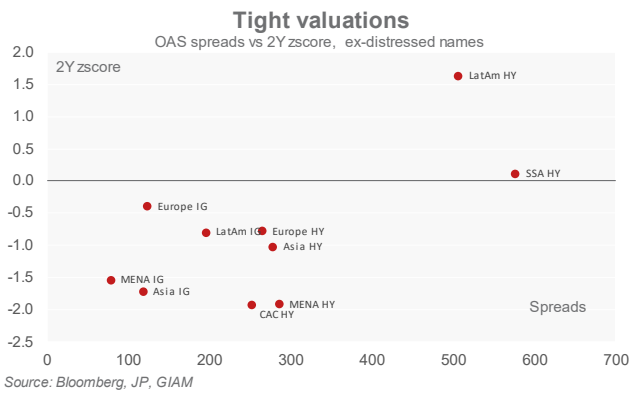
Spread valuations remain unattractive on a historical and relative basis, although the recent widening and tensions in Africa have opened up some modest space. We

Higher rate will affect only the weakest EMs, but peak of default is likely behind us

Spread to modestly widen. We favour IG-BB names

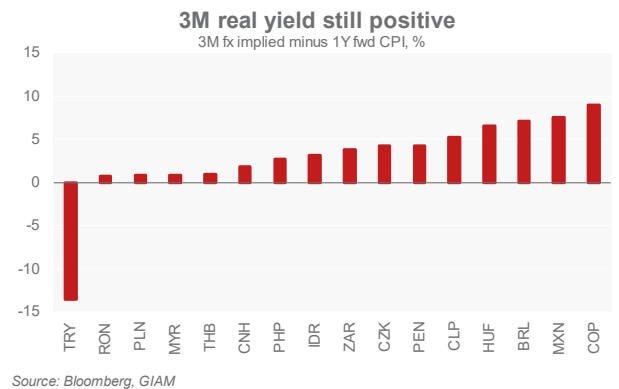
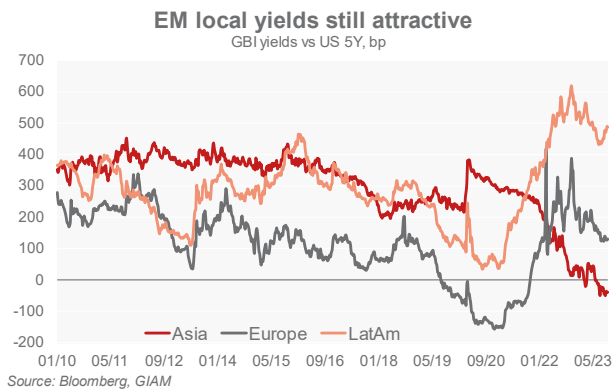
still expect some spread widening, albeit modest (+30bp in six months), so more differentiation is needed. In an uncertain and late cycle environment, carry is the best trade to protect against spread widening and negative duration impact. We focus on the shortest part of the curve (lower duration and EM central banks having ended their hiking cycle).

In terms of ratings, the quality barbell (high IG and distressed) looks less compelling. The IG-BB names therefore remain the least attractive area, where performance will be driven by duration and lower real rates. Admittedly, with very tight spreads, there is a risk of wider spreads if duration does not recover (beta exposure). However, they offer protection in a slowing economic environment. B is the riskiest area due to the higher-for-longer scenario and limited access to the primary market. Performance is only linked to the ability to source alternative funding. At the other end of the spectrum, the distressed area is the one that can drive down the spread of the global index. However, it has already been the best performing area YTD, so we will only buy on dips.



EM local debt still supported by high real yields

The environment for EM local debt remains more attractive. Receiver positions in LatAm and CEE remain compelling. Indeed, EM real yields are still high compared to the tight valuations in EM external debt. Front-end prices are well priced for rate cuts, but risk is skewed to the downside. EM central banks have surprised to the downside and we focus on the belly of the curve. However, we dislike Asia duration (positioning and sensitivity to oil prices). EM FX outlook is more dispersed and cautious. USD is resilient and carry trades should remain funded in JPY or CNH. EM FX hedging costs are too punitive. Therefore, EM local debt exposure should come with FX exposure.



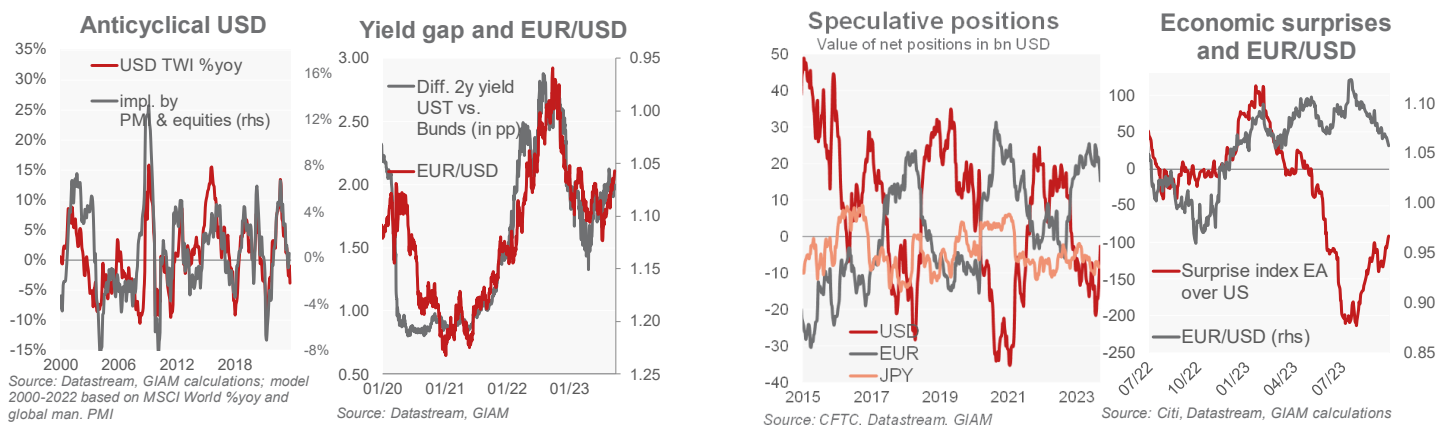
CURRENCIES

Thomas Hempell

- We expect USD to remain bid for now amid near-term resilience in the US, weaker global growth, higher risk aversion and a still favourable yield gap of the US vs. the rest of major economies.
- Conversely, the EUR is exposed to faltering growth and a rising peripheral risk premium, keeping the EUR/USD tilted to the downside short-term.
- Yet we still expect USD weakness to resume in 2024. The Fed is likely to lead next year's Developed Market (DM) easing cycle, helping yield gaps to narrow. Furthermore, bond volatility is set to decline further as the monetary policy cycle turns, eroding a key driver of USD strength since last year.
- We anticipate the JPY to recover from deeply undervalued levels only gradually, helped by a decline in US yields and mounting prospects of a first rate hike by the BoJ in 2024. Yet more CNY weakness may also keep a lid on the JPY over the coming months.
- Curbed BoE rate expectations weigh on the outlook for GBP, while it may prove more stable vs. a similarly burdened EUR.

Drivers of the recent USD rebound have not yet fully run their course

Over the summer, the USD has recovered more than half of its >7% decline incurred over the nine months to July. The drivers of this respite may not have run their course yet. For now, US economic resilience contrasts with faltering growth in the euro area and China, where a short-lived post-Covid bounce has given way to woes in the property sector. Higher risk aversion and global growth worries are still key ingredients for a boost to the anticyclical USD (left chart below). The more hawkish forward guidance by the Fed has also re-widened the yield gap to the favour of the USD (2nd chart), even if this driver is unlikely to extend much further.



Conversely, the EUR looks vulnerable, with a correction of stretched long positions under way (3rd chart). And while economic surprises for the EA have bottomed, they continue to severely undershoot US readings (right chart). Short-term, the outlook for EUR/USD is tilted to the downside, even if much of the mentioned forces seem already priced.

Tactically short EUR/USD, but renewed USD weakness looming for 2024

Pressures on the USD will grow again

That said, the USD bounce is likely to prove temporary. For 2024 we see the pressures on the greenback growing again. We expect the US economy to trough in

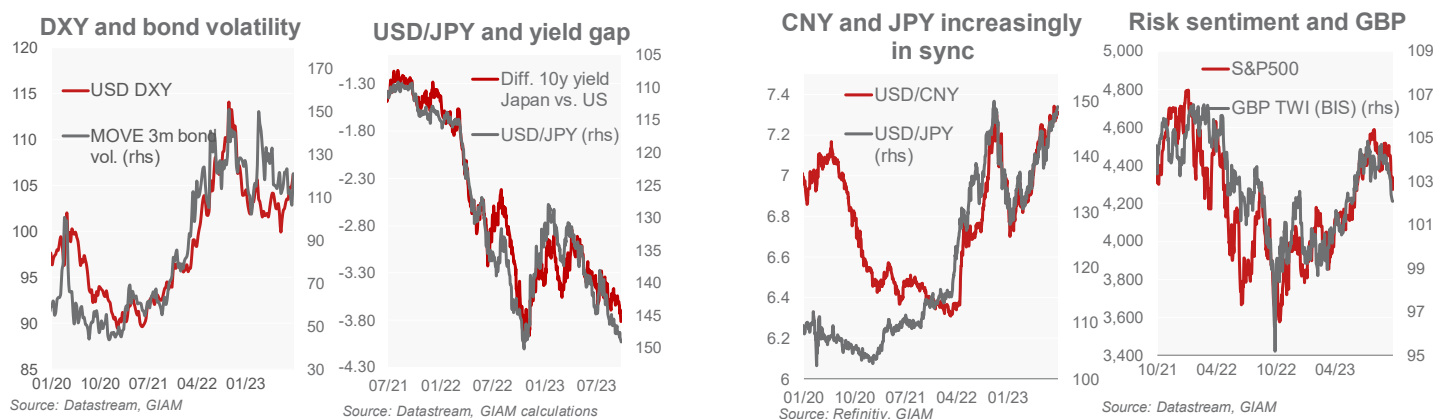
Q1/2024 while the euro area and China may start to gradually recover by then. Furthermore, markets will start to discount the prospective lead in the global easing cycle, eroding the US yield advantage. Finally, yield volatility is set to recede further, removing a key driver of the USD ascent in the later phase of the pandemic (left chart below).

The JPY has suffered tremendously from the sharp rise in US yields this year (-12% vs. USD year-to-date), with the twists in the BoJ's yield curve control providing only muted relief. This leaves the JPY deeply undervalued on fundamental grounds. It also raises the odds of renewed FX interventions by the BoJ (on MoF decisions), even though we generally deem the effectiveness of these measures as generally short-lived. The outlook of lower US yields points to some upside for the yen. We also observe a wider gap between JPY and yield moves (2nd chart below) and the recent improvements in Japan's trade balance and terms of trade.

JPY outlook overshadowed by CNY weakness

Yet the JPY has also become increasingly tied to the Chinese yuan (CNY) which remains burdened by rate cuts, policy uncertainties and capital outflows amid woes in China's property sector (3rd chart). These headwinds are likely to persist for somewhat longer. An outright slide of the tightly controlled yuan exchange rate is unlikely as Chinese policy makers will continue to use the countercyclical buffer for slowing the yuan's decline. But while the USD/CNY hit an almost 16-year high, the trade-weighted yuan (CEFTS basket) is still trading moderately above its post-2015 average. Given China's economic challenges and divergent monetary policy, this leaves scope for further weakness short term. And this drag will also limit the scope of any JPY recovery over the coming months.

Lower US yields are likely to help the yen recover some ground



The British pound (GBP) was headed for its worst month since last year's sell-off over PM Truss' 'mini Budget' as fears that high rates will tip the UK economy into recession resurfaced. Interest rate expectations have been largely scrapped in the wake of the BoE's September decision to keep rate on hold. We anticipate further GBP weakness going forward, but mostly so vs. USD, while the outlook vs. the similarly burdened EUR is more balanced. That said, the broader GBP (trade-weighted) remains linked to global risk sentiment (right chart above). We anticipate a milder equity correction in the near term, but any stronger bouts of market volatility would also burden the outlook for sterling more materially.

Scrapped rate expectations and recession worries burden the outlook for sterling

EQUITIES

Michele Morganti and Vladimir Oleinikov

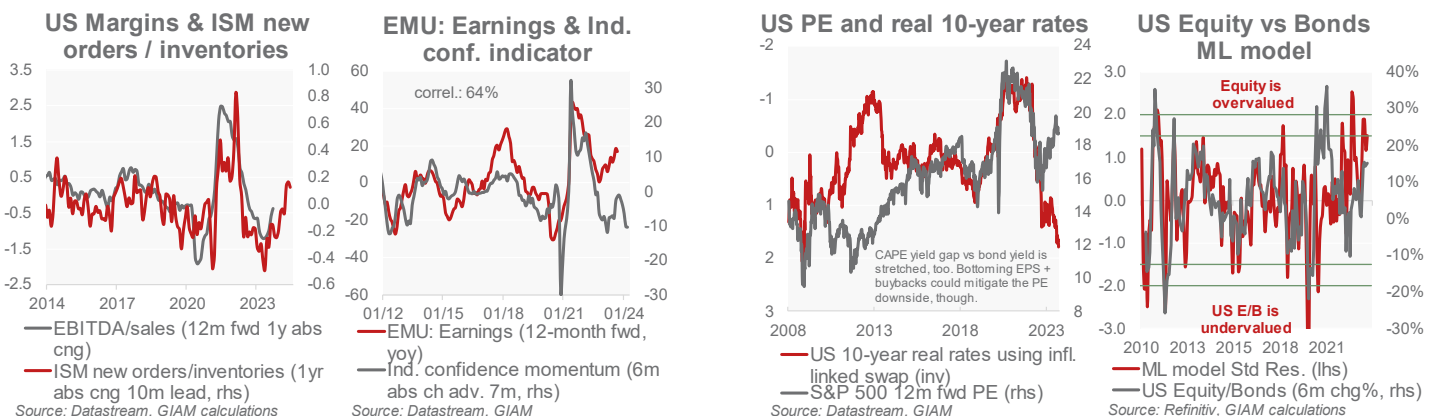
- **Stay underweight (UW), if slightly less so after the late summer correction: sticky inflation, hawkish central banks and the macroeconomic slowdown could keep risky assets endangered in the short term. Our machine-learning equity-bond models are heavily tilted in favour of bonds and PEs are vulnerable to high real yields.**
- **US margin proxies are supportive of the US earnings momentum bottoming out in the next months, while EMU ones look more at risk. For both areas, we remain 6pp below analysts' earnings consensus in 2024.**
- **Positive 12-month view: 4% to 9% total returns for the US and ex-US indices, respectively. This backs our reduced UW position in equities; other reasons being attractive EU and EM absolute valuations, historical equity performance post Fed peak rates, and neutral investors' positioning. Finally, while US AI stocks look expensive and risky due to high yields, superior margins, earnings growth and return-on-equity seem to justify the current valuation premium. Regionally: overweight (OW) Japan, SMI, China, and India and slightly US vs EMU.**

We remain slightly underweight equities in the short term. Sticky inflation, hawkish central banks (CBs) and the macroeconomic slowdown we expect in the coming months could keep earnings' forecasts and risky assets at risk with higher volatility. Furthermore, economic headwinds in China and EMU as well as weak global trade represent additional negative triggers in the short term. Finally, PEs are vulnerable to high real yields, M2 momentum is pointing south (M2), and our machine learning (ML) equity-bond total return models are heavily tilted towards bonds.

Equities at risk short term: slowdown and stretched equity/bond models

The resilience of the US economy so far is leading to higher-than-expected yields, which are now weighing on tech stocks in particular. US GDP growth should remain solid in Q3, which is a positive for the US Q3 reporting season, but still not for the euro area (EA). As far as profits are concerned, US margin proxies (ISM new orders, CPI/ULC) and the trade-weighted (TW) USD are increasingly supportive of the S&P 500 (SPX) earnings growth bottoming out in the coming months as economic

We have a constructive 12-month view, forecasting positive TR between 4% and 9%



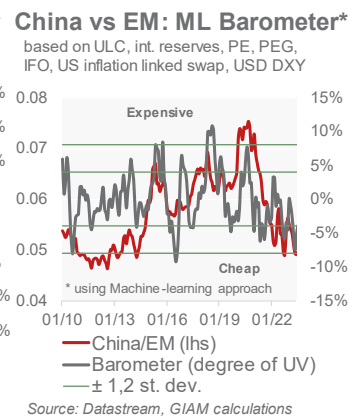
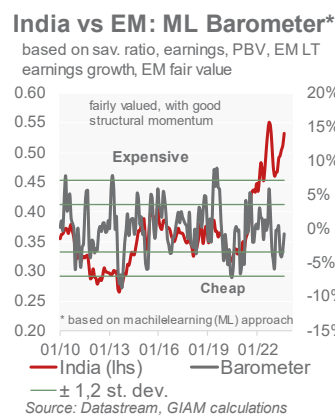
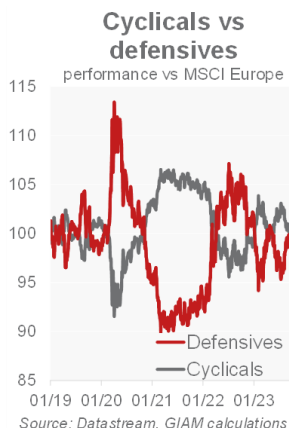
momentum will reach the cyclical trough. On the contrary, the EMU margins look more at risk: weak Sentix, PMI and industrial confidence, as well as a stronger TW euro trend. However, some macro indicators (capacity utilisation momentum, PMI-based input/output) suggest that EA margins should not fall off the cliff either. For both areas, we remain 6% under analysts' consensus in 2024.

Margin proxies stabilizing in the US, still fragile for EMU

Equities: slight UW. OW: Japan, SMI, China, and India. Prefer US vs EMU

Our 12-month view remains positive: 4% to 9% total returns (TR), for the US and ex-US indices, respectively. This is one of the reasons why we recently reduced the underweight position. Besides the attractive valuations in EU and EM, we cite the positive historical seasonality for the S&P500 in Q4 and the positive market trend after the Fed's peak rates and before the first cut, as well as the positioning, which currently looks rather neutral. Finally, while US AI stocks look expensive and at risk due to high yields, on the other hand, earnings growth, margins and return-on-equity (ROE) fully justify the current premium to the S&P500 index. Our regional preference: OW Japan (composite valuation), SMI (comp.val.), China, and India (eco) and slightly US vs EMU.

Over the summer, cyclicals underperformed defensives, and now their relative performance looks aligned since 2019. While cyclicals still look exuberant relative to confidence surveys, a bottoming of the EA manufacturing PMI could reduce the negative pressure going forward. Overall, our ML models do not show a strong style preference. We therefore recommend a balanced sector allocation. Sector OWs: Diversified Financials, Food Retail, HC Equipment, Pharma, Software, and Utilities. UWs: Capital goods, Insurance, Media, Telecoms, and Transportation. We are constructive on energy and banks. However, the overly euphoric price action for the former and the risk coming from a weakening GDP growth for banks lead us to maintain a neutral stance on both in the short term.



EM Equity: keep neutral. Slight OW on China, OW India

EM Equities: structurally weaker China's growth a challenge

Weaker global trade is affecting the EM earnings momentum together with Chinese woes. A weakening dollar should be supportive for EMs over 12 months. We remain neutral on EM, with overweight (OW) on China (reduced) and India. China has already discounted a lot of bad news, remains significantly undervalued and has the best proprietary country score. But money growth is weak, and policymakers will stick to a piecemeal approach rather than a bold package (which cannot be ruled out entirely). In China, we expect an L-shaped recovery and a prolonged accommodative monetary policy, both of which are positive for the market in the longer term. We are OW on India, based on our good composite country score and attractive ML model, as well as improving economic and earnings growth.

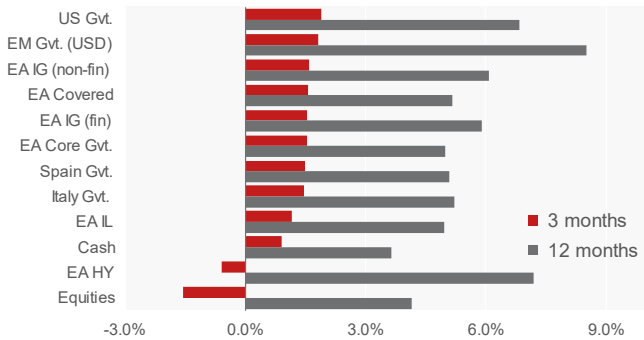
ASSET ALLOCATION

Thorsten Runde

- The US economy has proven strikingly resilient despite the sharp monetary tightening. Yet high rates, a looming fiscal drag and depleting excess savings of households point to a more material slowdown in activity towards the turn of the year.
- For the euro area recession risks have increased given global headwinds arising from high export orientation, fading pent-up demand, and higher rates.
- Last quarter’s fading hopes of a sustained Chinese reopening have been confirmed meanwhile by the strong headwinds from the property crisis and depressed consumer confidence
- In the face of this increasingly unfavourable environment risk assets proved resilient this year, but are finally showing signs of cracks. All the more reason to maintain a cautious position with regard to Equities and HY. Expecting a mild decrease in yields, we keep our OW in US Treasuries and reallocate exposure to longer-dated EA govies. On balance we confirm our preference for EA IG Credit primarily offering value on its carry. All in, we recommend taking a moderately long duration stance.

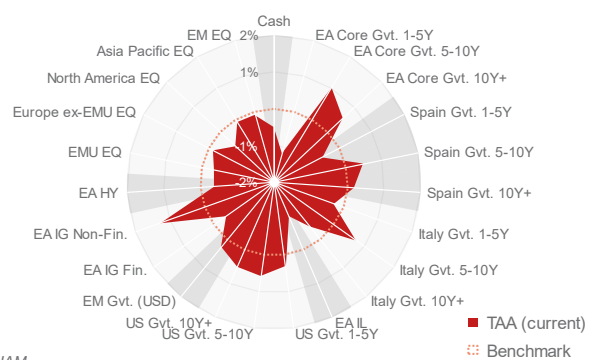
Divergent economic conditions in the US and in the euro area will persist until autumn. That said, we still see a recession in the US towards the turn of the year and also recession risks rising for the euro area. Furthermore, the growth outlook for China has darkened due to a quick fading of the post-pandemic re-opening bounce and increasing woes in the property sector. Given this economic backdrop, risk assets have been remarkably resilient so far. The risks of a correction have increased all the more and thus call for a cautious allocation stance in the short term.

Aggregated Total Return Forecasts
(hedged into EUR)



Source: GIAM

Balanced MtM Model Portfolio
(active positions in pp)



Source: GIAM

Consequently, we renew our prudent positioning with respect to Equities (though slightly reduced) and EA HY Credit. We basically maintain our positive stance for EA IG Credit on carry grounds with a relative preference for the non-financial segment against the backdrop of a credit quality deterioration in most SMEs. The higher carry compared to the euro area and a tightening transatlantic yield spread let us expect US Treasuries to deliver attractive returns across the curve. Expecting only a moderate spread widening, this also feeds through to EMs in which we will keep our OW position. With the rate hike cycles likely having reached their ends in the US and the EA yield development is generally pointing rather south. All in, we have positive return expectations for all EA govie markets with a clear preference for the longer-dated maturity buckets. Duration should thus be moderately extended to a small long-position. Growth divergence and higher risk aversion tactically favour the USD.

FORECASTS

Macro

Growth	2022	2023		2024	
		forecast	Δ vs. cons.	forecast	Δ vs. cons.
US	2.0	2.1	0.2	0.8	0.0
Euro area	3.3	0.4	- 0.2	0.5	- 0.3
Germany	1.8	- 0.5	- 0.2	0.5	- 0.4
France	2.5	0.3	- 0.4	0.8	- 0.1
Italy	3.9	0.7	- 0.3	0.6	- 0.1
Non-EMU	3.5	0.1	- 0.0	0.7	0.1
UK	4.1	0.1	- 0.1	0.5	0.1
Switzerland	2.1	0.7	0.0	1.4	0.0
Japan	1.2	2.0	0.6	1.0	0.0
Asia ex Japan	4.1	4.7	- 0.2	4.3	- 0.6
China	3.0	4.8	- 0.5	3.8	- 0.9
CEE	1.9	2.1	0.7	2.5	0.6
Latin America	3.7	1.5	0.0	1.4	- 0.0
World	3.3	2.7	0.0	2.4	- 0.2

Inflation	2022	2023		2024	
		forecast	Δ vs. cons.	forecast	Δ vs. cons.
US	8.0	3.8	- 0.3	2.4	- 0.2
Euro area	8.4	5.6	0.1	2.6	0.1
Germany	8.6	6.1	0.1	2.7	0.1
France	5.9	5.3	0.2	2.6	0.1
Italy	8.2	5.2	- 0.8	2.4	0.1
Non-EMU	8.0	6.7	0.1	2.8	- 0.0
UK	9.1	7.5	0.2	3.0	- 0.0
Switzerland	2.8	2.3	0.0	1.5	- 0.0
Japan	2.5	3.0	0.0	1.9	0.2
Asia ex Japan	3.5	2.1	- 0.1	2.4	- 0.2
China	1.9	0.4	- 0.4	1.5	- 0.5
CEE	29.6	20.7	2.1	14.3	0.3
Latin America	7.8	5.2	0.0	4.0	0.0
World	7.8	5.3	0.1	3.7	- 0.1

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

Financial Markets

Key Rates	Current*	3M		6M		12M	
		Forecast	Forward	Forecast	Forward	Forecast	Forward
US (upper bound)	5.50	5.50	5.45	5.50	5.35	5.00	4.73
Euro area	4.00	4.00	3.96	4.00	3.89	3.75	3.33
Japan	-0.10	-0.10	-0.00	-0.10	0.07	0.00	0.23
UK	5.25	5.25	5.34	5.25	5.35	5.25	4.85
Switzerland	1.75	1.75	1.76	1.75	1.79	1.50	1.71
10-Year Gvt Bonds							
US Treasuries	4.51	4.35	4.50	4.20	4.48	3.85	4.46
Germany (Bunds)	2.78	2.65	2.77	2.55	2.75	2.40	2.72
Italy	4.66	4.60	4.69	4.55	4.72	4.45	4.81
Spread vs Bunds	188	195	192	200	198	205	209
France	3.33	3.20	3.36	3.15	3.36	3.00	3.38
Spread vs Bunds	55	55	59	60	61	60	65
Japan	0.74	0.75	0.80	0.75	0.85	0.80	0.94
UK	4.30	4.15	4.31	4.05	4.30	3.85	4.30
Switzerland	1.09	1.00	1.04	0.95	1.03	0.90	1.03

*3-day avg. as of 26/09/23

**ICE BofA (OAS)

Credit Spreads**	Current*	3M		6M		12M	
		Forecast	Forward	Forecast	Forward	Forecast	Forward
EA IG Non-Financial	138	140	145	140	140		
EA IG Financial	161	165	170	165	165		
EA HY	425	500	515	500	500		
EM Sov. (in USD)	321	335	350	330	330		
Forex							
EUR/USD	1.06	1.06	1.06	1.08	1.07	1.11	1.08
USD/JPY	149	148	146	140	144	137	140
EUR/JPY	158	157	156	151	154	152	151
GBP/USD	1.22	1.22	1.22	1.24	1.22	1.29	1.22
EUR/GBP	0.87	0.87	0.87	0.87	0.88	0.86	0.88
EUR/CHF	0.97	0.95	0.96	0.97	0.95	1.01	0.94
Equities							
S&P500	4,310	4,245	4,220	4,460			
MSCI EMU	142.1	139.0	138.0	150.0			
TOPIX	2,378	2,330	2,305	2,530			
FTSE	7,645	7,430	7,325	8,045			
SMI	10,994	10,870	10,735	11,630			

Forecast Intervals

3-Months Horizon

10-Year Gvt Bonds	US Treasuries	3.80	4.35	4.90
	Germany (Bunds)	1.74	2.65	3.56
	UK	3.43	4.15	4.87
	Switzerland	0.43	1.00	1.57
Credit Spreads*	EAIG Non-Financial	119	140	161
	EAIG Financial	139	165	191
	EAHY	438	500	562
	EM Sov. (in USD)	297	335	373
Forex	EUR/USD	1.03	1.06	1.09
	USD/JPY	143	148	153
	GBP/USD	1.20	1.22	1.24
	EUR/CHF	0.94	0.95	0.96
Equities	S&P500	4,003	4,245	4,487
	MSCI EMU	132	139	146
	TOPIX	2,225	2,330	2,435
	FTSE	7,108	7,430	7,752
	SMI	10,334	10,870	11,406

*ICE BofA (OAS)

12-Months Horizon

10-Year Gvt Bonds	US Treasuries	2.74	3.85	4.96
	Germany (Bunds)	0.50	2.40	4.30
	UK	2.42	3.85	5.28
	Switzerland	-0.40	0.90	2.20
Credit Spreads*	EAIG Non-Financial	98	140	182
	EAIG Financial	116	165	214
	EAHY	376	500	624
	EM Sov. (in USD)	254	330	406
Forex	EUR/USD	1.06	1.11	1.16
	USD/JPY	129	137	145
	GBP/USD	1.24	1.29	1.34
	EUR/CHF	0.98	1.01	1.04
Equities	S&P500	3,976	4,460	4,944
	MSCI EMU	135	150	165
	TOPIX	2,305	2,530	2,755
	FTSE	7,382	8,045	8,708
	SMI	10,606	11,630	12,654

*ICE BofA (OAS)

*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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