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**Germany's path
ahead**

CROSS ASSET INVESTMENT STRATEGY

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Marketing material for the exclusive attention of professional clients, investment services providers and any other professional of the financial industry

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**MONICA
DEFEND**

HEAD OF AMUNDI
INVESTMENT INSTITUTE

“The Fed in easing mode might be forced to reassess the speed and timing of its rate cuts if fiscal policy becomes too expansionary and creates problems for the former’s inflation objective.”

“As Germany approaches its February election, many parties are proposing to reform the debt brake rule. While a major fiscal stimulus plan is not expected next year, even modest reforms could positively influence investor sentiment.”



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TOPIC OF THE MONTH

Germany's path ahead

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KEY TAKEAWAYS

The German economy has been lagging behind other Eurozone countries due to structural changes in its economic model and global trade. A huge investment effort would be needed to relaunch it. Economists recommend making up the lost ground within ten years by making massive infrastructure investments.

Ahead of February's election, many parties are proposing to reform the debt brake rule. While a major fiscal stimulus plan should not be anticipated next year, even modest reforms could influence positively investor sentiment, particularly if paired with a new off-budget fund for defence spending.

The Constitutional Court ruling of November 2023 does not rule out the possibility of new off-budget funds in Germany. While the court emphasised that special funds must serve their intended purpose, the successful €100bn defence fund established after the invasion of Ukraine implies that similar initiatives could be pursued to address pressing needs.

In Germany, the poor economic performance of the last two years has taken centre stage.

No demand components seem capable of supporting the economy in the short term

The rise in wages recorded in the third quarter is significant (+8.8% YoY), but is primarily the result of one-off bonuses aimed at offsetting past inflation. Greater wage moderation is already perceptible in key sectors such as metallurgy and the labour market has begun to weaken. Exports, industrial production and the construction sector are weighing on economic activity. **With the federal elections scheduled for 23 February 2025, political uncertainty should weigh on household spending and business investment at the start of the year**, especially as credit conditions remain restrictive. The Bundesbank expects a large number of business failures in 2025.

Not a temporary weakness

German real GDP has been stagnating for five years (up by just 0.1% since 2019). The German economy is underperforming the other Eurozone economies because of structural changes. Its automotive sector is in crisis and global trade is no longer as supportive of its exports as it was in the past. **Germany is facing a number of challenges simultaneously: industrial competitiveness is suffering from rising energy costs and increasing competition from high-quality products from China**; the rapid ageing of its population – faster than in the rest of the Eurozone – is also eroding its economy's potential growth, estimated at 0.8%.

Donald Trump and the threat to the German industry

If tariffs are implemented, they could cost the German economy 0.6pp of growth, according to the Bundesbank. **Disagreement over the budgetary measures to be taken to deal with threats and challenges is largely responsible for the break-up of the ruling coalition.** The German government forecasts a rebound in real GDP of 1.1% in 2025 (after a decline of around 0.1% in 2024), thanks to the favourable trend in real disposable household income. However, downside risks have increased. The European Commission is more cautious, with 0.7% growth expected in 2025. On 13 December, the Bundesbank revised its own GDP growth forecasts from 1.1% to 0.2% for 2025 and from 1.4% to 0.8% for 2026. This strong revision is intended to encourage an expansionary fiscal policy.

A huge public investment deficit

Several German institutes have estimated that the investment deficit amounts to €600bn, representing 14% of GDP in 2024, without taking into account defence spending requirements, which are estimated at €30bn a year (0.7% of GDP). This lack of investment may threaten Germany's future. Economists recommend making up the lost ground within ten years by making massive infrastructure investments.

To achieve this goal, the government would need to stimulate its economy by 1.5% of GDP every year, but this is currently impossible due to the debt brake rule. The problem of under-investment is not only linked to a lack of available funds; excessive bureaucracy is also considered to be largely responsible for the backlog of public investment.

An increasingly contested fiscal rule

Germany is currently at a budgetary impasse. Enshrined into the German Constitution in 2009, the debt brake rule limits the structural (i.e., cyclically adjusted) budget deficit to 0.35% of GDP per annum. Suspended since 2020 because of the health crisis, this rule was reinstated in the 2024 budget. In a stagnating economy, there is a need to reform this rule. Several reform proposals, of varying degrees of ambition, have been put forward. With a public debt representing 63% of GDP in 2024 (vs around 110% in France), Germany has a great deal of budgetary leeway to increase investment without putting its public debt on an unsustainable path.

The idea of reforming the debt brake to support investment spending is gaining backing from many parties, with the notable exception of the FDP. The CDU, SPD, and Greens, likely coalition partners according to recent polls, are in favour of this reform (see article on the next page). While a major fiscal stimulus plan may not be anticipated next year, proposed fiscal relaxations could unlock funds equivalent to 0.5% to 1.0% of GDP annually, starting in 2026. That said, **even modest reforms could influence positively investor sentiment in 2025, particularly if paired with a new off-budget fund for defence spending.**

To tackle its investment deficit, Germany should stimulate its economy in the coming years. A possible reform of the budget rule and an off-budget fund for defence spending would be positive steps that could enhance investor sentiment.

BOX: Towards new special funds?

In the 2020s, the use of off-budget funds increased considerably. According to the Bundesbank, total potential (multi-year) deficits in 2022 amounted to €400bn, or around 10% of GDP in 2023. By way of comparison, the debt brake limit would only have allowed borrowing of 13bn in 2023. In federal budget legislation, an off-budget fund ("special fund" or "Sondervermögen") is an independent supplementary budget (shadow budget) intended to fulfil a specific function. These special funds, like the budget, need to be passed by a majority of Members of Parliament and are subject to control by Parliament.

These 'off-budget' funds have been used to circumvent fiscal rules, in particular the debt brake. In 2022, the transfer of €60bn of funds intended to deal with the consequences of the Covid-19 crisis to a special Climate and Transition Fund was challenged before the Federal Constitutional Court. In November 2023, the Court declared this reallocation unconstitutional, on the grounds that there must be a direct causal link between the exceptional emergency situation identified and the borrowing limits exceeded. However, it is important to note that the Constitutional Court did not prohibit the use of these special purpose vehicles. It only ruled against the principle of reassignment. In short, for the Constitutional Court, special funds can only be used for the purpose for which they were intended.

It is worth noting that the €100bn special fund set up after the invasion of Ukraine in 2022 to strengthen Germany's defence capabilities was not affected by the Constitutional Court's decision in November 2023. This suggests that a new fund of the same type could be created, for defense or even to finance other needs.

GEOPOLITICS

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German elections in focus

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There are upsides and downsides to the snap election on 23 February for Germany and Europe. On the upside, a change in government could provide Germany with a more stable government that is able to implement economic and fiscal reforms – such as reforming the debt brake rule, which defines strict limits on government borrowing (see previous article) – and provide stronger leadership in the EU. On the downside, it means that Germany will face more uncertainty at a time when it should be preparing for the impact of the incoming US administration. The snap election also brings the risk of another constrained three-party coalition and a strong opposition which could block constitutional reforms.

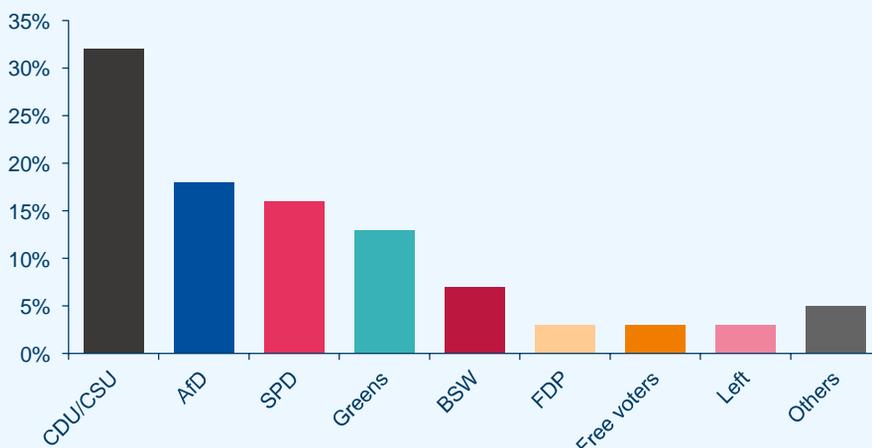
Despite the downside risks, there is a strong likelihood of an outcome that will be well received by markets. If the CDU/CSU enters into a coalition with the centre-left (SPD) or the Greens, there will likely be a compromise on fiscal reform once in power, as the left-leaning parties would make it conditional on supporting this coalition. The CDU leader and likely chancellor, Friedrich Merz, would probably agree to such a compromise. It is noteworthy that former CDU chancellor Angela Merkel has publicly voiced support for debt brake reform. If the outcome of the election results in a grand CDU/SPD coalition, either debt brake reform or another creative mechanism to inject some fiscal stimulus into the economy seem increasingly likely. This could unleash a reform package that could include more room for public investment, defence spending, a reduction in welfare spending and cuts to business tax.

However, there are also various scenarios under which there would be no fiscal reform and Germany could find itself in the same situation under Merz as it is currently in under Chancellor Scholz. For instance, the CDU may need to enter into another three-way coalition including the liberal FDP, and the FDP remains as committed to preventing debt brake reform as it is today, or parties on the far right and left may gain more than one-third of seats in parliament so that they could block the constitutional change needed for debt brake reform.

While the far-right AfD is likely to emerge stronger from this election, it is unlikely to end up in government given Germany’s history.

While the far-right AfD is likely to emerge stronger from this election, it is unlikely to end up in government given Germany’s history.

CHART: Bundestag election, most recent polls



Source: Amundi Investment Institute, DAWUM, IPSOS. Data as of 5 December 2024.

EQUITY MARKET

German equity market: a rising star in Europe

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In 2024, the German DAX index has been a strong performer in the European equity landscape, achieving a notable year-to-date increase of 21% as of 16 December 2024. This performance contrasts sharply with the Eurostoxx 50, which is up 13% (total return), and the broader Stoxx 600 index, which has recorded a more modest gain of 11% (total return).

Beyond its international profile (82% of sales achieved outside of Germany), one of the key factors contributing to the DAX's success, is its sector composition. The index features a significant allocation to industrials (25% of its weighting) and technology (19%). This focus has allowed the DAX to benefit from long-term themes like defence, climate change, and ongoing digital transformation.

Additionally, the DAX's substantial allocation to the financial sector, at 20%, has further supported its performance. The financial sector has seen strong gains across Europe this year, and the DAX has effectively capitalised on this momentum. Looking ahead, earnings expectations for the DAX are promising, with projected growth of 11% over the next 12 months, well above the anticipated growth for the broader European market, which is expected to be around 7% according to Ibes.

Our mapping of European country indices positions Germany as a standout. This is, in fact, a cyclical international market that has positive relative EPS momentum compared to the rest of Europe, as well as a positive market trend. Beyond being overbought in the short term, this favourable positioning, combined with its appealing sector composition, is likely to continue to attract investor appetite in 2025. The main risk is the high concentration of the index as just four stocks account for 41% of its market cap.

The DAX's substantial allocation to industrials, technology and financial sectors, combined with a favourable earnings outlook, makes it an appealing market for investors.

CHART: DAX performance vs. Eurostoxx 50 and STOXX600



Source: Amundi Investment Institute on Bloomberg data. Data as of 16 December 2024. Indices are total return in local currency.

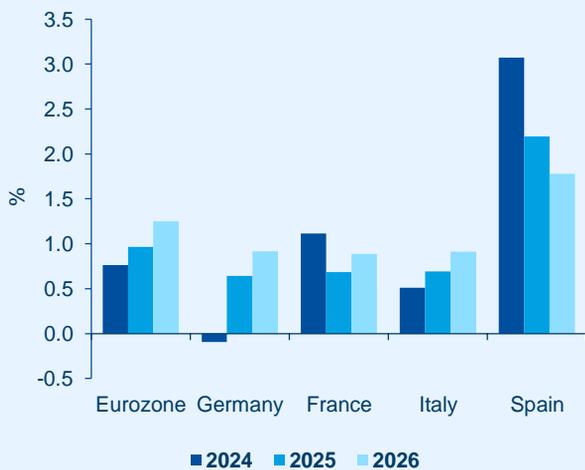


MACROECONOMICS

European recovery continues at different speeds



European countries will grow at different speeds

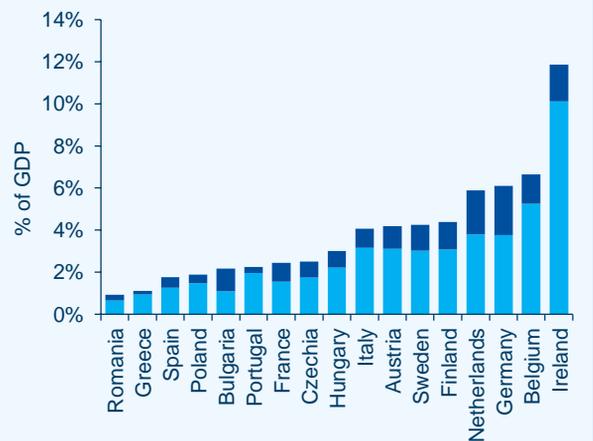


Consumption and domestic demand will benefit from lower ECB rates and rising real incomes:

- Germany is projected to lag and be the country most impacted by tariffs.
- France and Italy will see modest growth.
- Spain should outperform.



Tariffs may impact countries unevenly



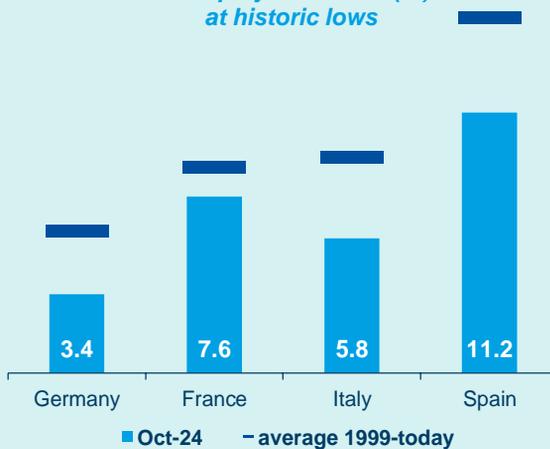
Exports to China, % of GDP Exports to US, % of GDP

- Exports are a vital growth engine, rising from 32% of GDP in 2001 to 50% now.
- Exposure varies across European countries.
- Goods exposure is concentrated in machinery and vehicles, chemicals, and other manufactured goods.



Labour market is key for 2025 outlook

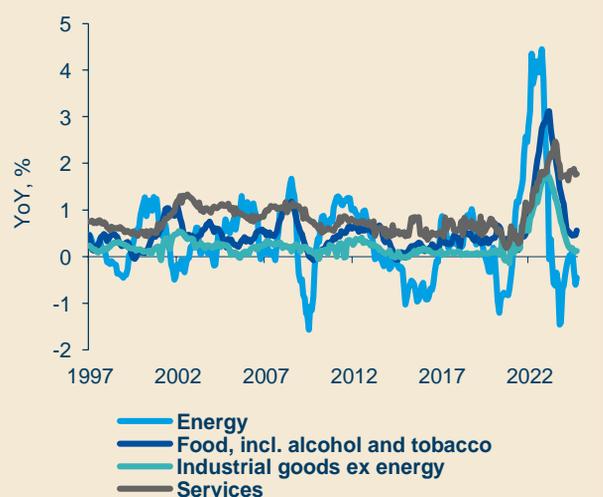
Unemployment rates (%) at historic lows



- Recovery in consumption will be driven by real income growth and consumer confidence, both linked to the labour market.
- Employment growth is expected to moderate, but the outlook remains positive.



Disinflation in Europe



Headline inflation is expected to remain volatile in the near term due to base effects. For 2025:

- Declines in services inflation are needed to push core inflation down.
- Labour market and wage growth dynamics support our 2% inflation outlook for 2025.

Source: Amundi Investment Institute on Bloomberg, Datastream, Eurostat. Data is as of 6 December 2024.

MACROECONOMIC FOCUS

Views on the ECB

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Inflation is coming down much faster than the ECB expected only last September, with the headline measure (2.2%) now inching very close to its target. The latest 25bp cut and its revised forecast on 12 December, suggest that the ECB should get to its target by mid-2025.

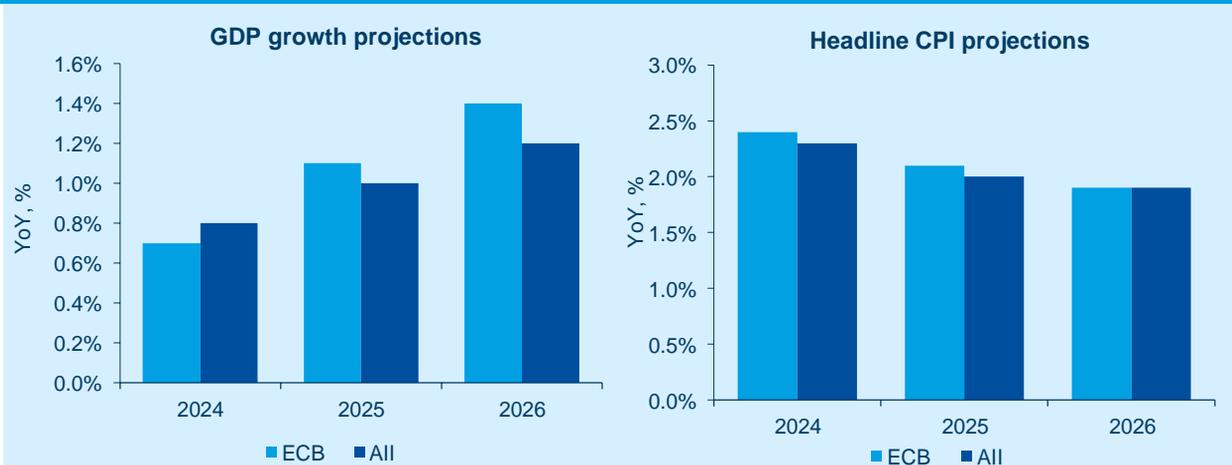
We expect the ECB to continue cutting by 25bp at each subsequent meeting next year until its July meeting to reach a terminal rate of 1.75%. Inflation should get to around 2% by mid-year, if not earlier, because underlying wage pressures are subsiding, service sector activity is also easing and, with much less fiscal support among the larger countries (especially France, Germany and Italy), we expect a very weak recovery, largely supported by a mild pick up in domestic demand. However, this will depend on a significant move away from the ECB's current restrictive stance.

The related discussion about the 'neutral rate' is likely to be an aside, especially if some of the risks to growth materialise and inflation falls faster. Though unobservable in real-time, there are still significant differences among senior ECB policymakers on what that neutral rate is. Some see it as around 2%, while others at the ECB think it might be closer to 3%. We agree with those who think the policy rate can be set below theoretical estimates of neutral.

Policy rates are more likely to go below neutral (and our expectation of 1.75%) if Europe is subjected to tariffs from the incoming US administration. The United States is the largest destination for EU exports (a higher share than exports to China). We would expect at least a 0.2% hit to growth if the EU faces US tariffs of 10% and only a small short-term spike in inflation.

The ECB should get to its 2% target by mid-2025, possibly earlier.

CHART: Eurozone GDP and headline CPI growth projections



Source: Amundi Investment Institute (All), ECB. Data is as of 12 December 2024.

Main and alternative scenarios

Probability 70%

MAIN SCENARIO

Resilient multi-speed growth

Probability 20%

DOWNSIDE SCENARIO

Renewed stagflationary pressure

Probability 10%

UPSIDE SCENARIO

More disinflation with productivity gains



GEOPOLITICS

- Rising tensions and geo-economic fragmentation, including protectionism and sanctions.
- Disruptive trade policies and re-routing of global supply chains as a reaction to tariffs.
- Ukraine-Russia: ongoing fighting, but ceasefire odds increase.
- Middle East: talks and conflicts likely.
- China-US: decline of relations.
- US-Europe relations under pressure.

- Autarchical new alliances challenge advanced economy democracies: new & escalating conflicts.
- Countries forced to choose US vs China. Global trade begins to decline.

- Geopolitical risk subsides as conflicts come to a close.
- Shifting power dynamics reshape global trade, fostering balanced growth and prosperity.



INFLATION & POLICY MIX

- Disinflation trend to continue, but upside risk in the US and EM.
- Developed Market central banks reaching their neutral rates in 2025.
- Most EM CBs at peak rates.
- Fiscal divergence: US might be under scrutiny with a second Trump presidency; EU consolidating; China expansionary.

- More persistent inflationary pressures from tariffs halt monetary easing.
- Fiscal debt ballooning fuels the cost of debt.

- Stabilisation of inflation around central banks' targets (and not an issue if slightly above as inflation expectations remain anchored).



GROWTH PATH

- Back to potential growth.
- Resilient multi-speed growth: modest recovery in Europe, mild US deceleration but higher short term potential growth.
- Growth gap still favours EM.
- India's growth potential revised up.

- Lower output, sharp migration reduction in advanced economies lowers labour supply, unwinds supply gains.
- Economic unbalances persist, further lowering potential growth (China, EU,...).

- Growth enhancing reforms lifting medium term growth potential.
- Industrial / trade policies boosting investment and activity.



CLIMATE CHANGE

- Climate change hampers growth and exacerbates stagflationary trends.
- Chinese dominance in processing and supply of critical minerals; US trying to catch up.

- Further policy delays imply more adverse climate events, hampering economic dynamism.

- From zero to hero in the net zero transition: geo-engineering, globally coordinated policies.

Risks to main scenario



LOW

Probability

HIGH

10%

Central banks quantitative tightening combined with structural shift in US Treasury buyers

15%

Geopolitical crisis with global spill-overs

15%

Market volatility rises sharply to reflect higher geo-economic uncertainty

20%

Reacceleration of DM inflation, due to trade/geopolitical tensions

MARKET IMPACT

Positive for cash and gold.

Positive for DM govies, cash, gold, USD, volatility, defensive assets and oil.

Positive for cash and gold.

Positive for TIPS, gold, commodity FX and real assets.

Negative for govies and expensive equities.

Negative for credit, equities and EM.

Negative for risk assets.

Negative for bonds, equities, DM FX and EM assets.

Source: Amundi Investment Institute as of 16 December 2024. DM: developed markets. EM: emerging markets. CB: central banks. USD: US dollar. TIPS: Treasury inflation-protected securities. FX: foreign exchange markets.

GLOBAL INVESTMENT
VIEWS



GLOBAL INVESTMENT VIEWS



After Trump victory, all eyes on inflation

A resilient US economy, the anticipation and eventual victory of Donald Trump and his recent appointments along with risks around inflation have been driving nominal and real yields over the past months. But US equities and the dollar rose amid a belief that the US economy would benefit from Trump's policies at the expense of the rest of the world, i.e., Europe and some Asian countries. While we agree that US policies would reverberate across European assets and emerging markets, the actual impact depends on specific measures and countermeasures. We think the following factors will be major market drivers:

- **Fiscal impact of US policies** (tax cuts, deregulation etc.) **on consumption not clear.** Indications are it would be positive for growth in the near term (2025) and then weigh on growth in 2026. But concerns about the high fiscal deficit and debt could put additional pressure on bond yields.
- **Fed is walking a tightrope in its attempt to weed out the last leg of inflation.** Policies around immigration control (subsequently wage pressure) and import tariffs could create upward risks on inflation. Hence, the Fed will become more data-dependent and may ease less than currently expected. This would have implications for the ECB and other global central banks.
- **Balancing EU fiscal governance rules with the need to invest more to improve productivity,** enhance competitiveness and improve defence will be tough. Hence, fiscal policies in countries such as Germany (*Schuldenbremse*) post elections, France and Italy become more important.
- **China realises that negotiating with Trump is difficult.** The country will respond proportionately to the US. Potential responses include a fiscal boost, export controls of critical minerals and CNY devaluation.

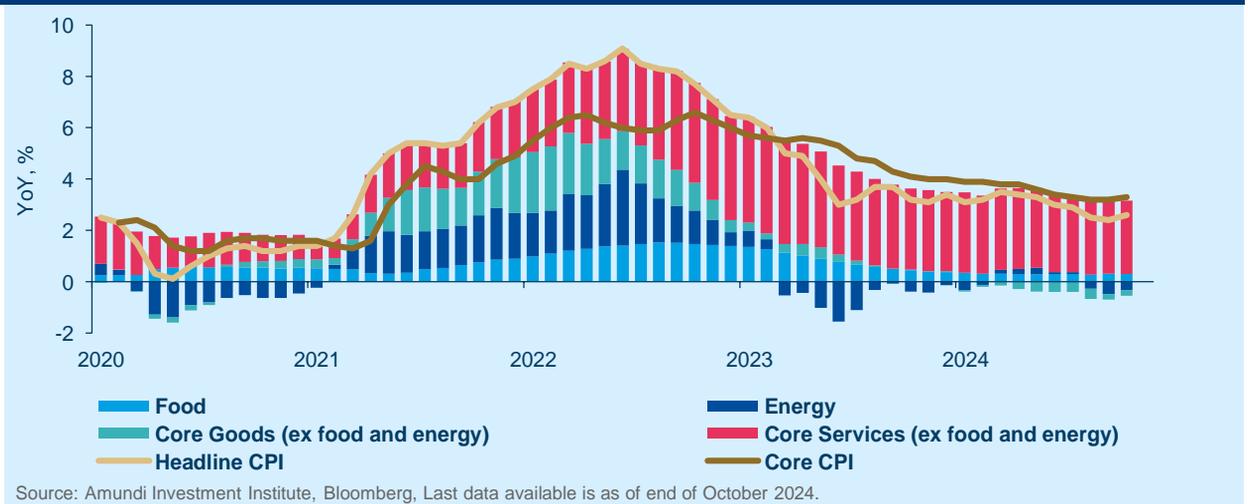


VINCENT MORTIER
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MONICA DEFEND
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US disinflation should continue, but tariffs and immigration policies pose upside risks



The already-high valuations of risk assets could face headwinds from higher bond yields as a consequence of potentially higher inflation and lower-than-expected easing by central banks. This in turn favours a continuation of the market rotation towards areas which are more attractively priced. Hence, we aim to carefully balance market fundamentals with valuations and our expectations on policymaking.

- **Cross asset.** We have upgraded US equities by turning positive on US mid-caps. US stocks should benefit from a combination of positive sentiment stemming from a growth impetus, potential deregulation and favourable tax policies. We also remain marginally positive on the UK and Japan. In fixed income, we remain constructive on US and EU duration and have raised our curve-steepening expectations. We think gold still holds the potential to offer portfolio stability. In addition, investors should consider maintaining safeguards on equities and duration, if US inflation surprises on the upside.
- **Duration is all about granularity and taking yield volatility into account.** In the US, where we are close to neutral on duration, we think there is good value in the intermediate part of the yield curve. But we have tactically downgraded core European duration to neutral, and see political uncertainty persisting in the near term. In US credit, we remain tilted towards quality, and in securitised credit, we prefer high-quality AAA-rated debt in commercial real estate. Our stance is unchanged for EU credit.
- **Gains in US equities despite rising real yields indicate high market expectations. It is worth looking beyond over-priced stocks.** The actual impact on growth would depend on the degree to which Trump's agenda is implemented. Instead of playing this positive sentiment through expensive large caps, we prefer to rely on areas that display better valuations, such as S&P equal-weighted, value and quality. In Europe, stock picking is likely to gain importance, as weak domestic demand meets uncertainty on international trade.
- **Emerging markets are home to many uncorrelated bottom-up stories, but US rates are a risk.** Thus, we remain vigilant and selective, preferring countries such as Turkey and South Africa in local currency debt. In hard currency and corporate credit, we are positive. In equities, we are slightly less constructive on Brazil but remain positive on Indonesia and India.

US economic resilience and Fed rate cuts are marginally constructive for risk assets, and we prefer to play areas where earnings momentum is favourable and valuations are less of a concern.

Overall risk sentiment

Risk off  **Risk on**

As we stay positive on risk assets, we are monitoring how actual policymaking (rather than rhetoric) in the US could affect markets across the world.

Overall risk sentiment is a qualitative view towards risk assets (credit, equity, commodities) expressed by the various investment platforms and shared at the Global Investment Committee (GIC) held on **20 November 2024**. It reflects views over a one-month horizon, from one GIC to the other. Our stance may be adjusted to reflect changes in the market and economic backdrop.

ECB= European Central Bank, DM= Developed Markets, EM = Emerging Markets, CBs = central banks, IG = investment grade, HY = high yield, BTPs = Italian government bonds, JGBs = Japanese government bonds. For other definitions see the last page of this document.

Changes vs previous month

- **Multi asset:** To play the positive sentiment, we are now constructive on US mid caps. We have also raised our curve steepening views in favour of the European curve (vs the US).
- **Fixed income:** Tactically downgraded core Europe duration to neutral.

Three hot questions

1

What is the likely impact of Trump's announced policy on the US economy and the Fed path?

Anticipated tax cuts, deregulation, and larger fiscal deficits may lead to resilient growth and higher inflation by 2025. Tariffs could boost inflation by 0.5pp, but are unlikely to offset tax cuts completely. Sequencing and the timing of tariffs will be key to assessing their economic fallout. Immigration controls may also add to inflation, possibly hindering the achievement of the Fed's inflation target. While higher-than-expected inflation may suggest a hawkish Fed, tariffs could hinder growth by 2026. All in all, the Fed may need to reassess its rate-cutting path. We expect the ten-year US Treasury yield to be 4.30% by Q2 2025.

Investment implications

- Look for inflation protection and strategies favouring the steepening of the US yield curve

2

What could China's response to US tariffs be?

We foresee three possible scenarios: i) increasing fiscal stimulus, expected by March 2025, potentially up to 2% of GDP to try to offset the fallout of US tariffs on China's economy; ii) export controls on key rare minerals which are essential for the electronics industry; iii) a one-off RMB devaluation, especially if US tariffs are particularly severe. This is not China's first option for retaliation; fiscal and targeted retaliation should come earlier. If the tariff hike is phased over the course of Trump's second term, China may respond cautiously, weighing its relationships with other developing countries by re-routing exports.

Investment implications

- In China, we prefer equities versus bonds. Sentiment has stayed positive despite the US election result, but careful selection is needed.

3

What could the impact of US elections be on the US dollar?

We see three main channels of transmission that may lead to a stronger USD and higher FX volatility, in the near term: i) With a decline in World Trade, export-oriented economies should suffer more than the US, which is domestically-oriented; ii) China's excess capacity may induce further disinflation in Europe. This could augment fears of policy divergence with the Fed, in turn supporting the USD; iii) The combination of policies may lead to higher inflation in the US and thus higher uncertainty over the Fed's actions. However, higher tariffs may weaken the US economy, leading to a potential USD decline by 2025.

Investment implications

- Constructive on the USD in the short term. EURUSD not expected to reach parity.

The Fed in an easing mode might be forced to reassess the speed and timing of its rate cuts if fiscal policy becomes too expansionary and creates problems for the former's inflation objective.

MULTI-ASSET

Diversify towards attractive segments

Trump’s clean sweep in the US elections is positive for near-term growth in the country and should continue to drive market interest. This, at a time when the Fed is cutting rates, should be mildly positive for risk assets. However, we aim to benefit from this through equity segments where valuations are attractive. Interestingly, the same factors that could boost American assets (growth, high deficits etc.), may create upward pressure on US yields, and opportunities around curve steepening. In addition, any protectionist tendencies from the US, and consequently from other parts of the world, could create headwinds for markets. Hence, we prefer to maintain a diversified stance in this evolving economic backdrop.

We are positive on equities via the US, Japan and the UK. On the US, we have raised our stance tactically by turning constructive on mid-caps that are more likely to gain from the more domestic focus of the incoming administration. This also allows us to diversify our views slightly from our existing equities stance. In emerging markets, we currently remain optimistic on China due to its valuations and expectations that Chinese policymakers are likely to maintain their support.

In fixed income, we believe yields at the long end of the US curve could rise due to concerns around growth, deficits and inflation. Thus, while staying positive on US duration overall, we have turned cautious on US 30Y but positive on EUR 5Y. In Europe, the growth outlook is more subdued and inflation continues to decline, and thus we maintain our slightly constructive stance on duration in the region. We also like Italian BTPs vs German bunds, and are positive on UK gilts. In Asia, we think Japanese yields are likely to rise which could exert downward pressure on government bonds.

At the other end, we see value in EU IG and EM debt, especially local currency, given the rates differential with the US. But we are vigilant towards any risks from potential US policies around international trade. In FX, we think the USD may continue to strengthen in the near term, particularly against the CHF, which is very expensive. We are cautious on the CHF even vs the yen. Separately, we remain optimistic on the INR and the BRL.

We complete our allocation with a key pillar of stability in the form of gold which is likely to remain strong in the medium term. Investors should also maintain equities and duration hedges to safeguard any inflationary risks.

AUTHORS

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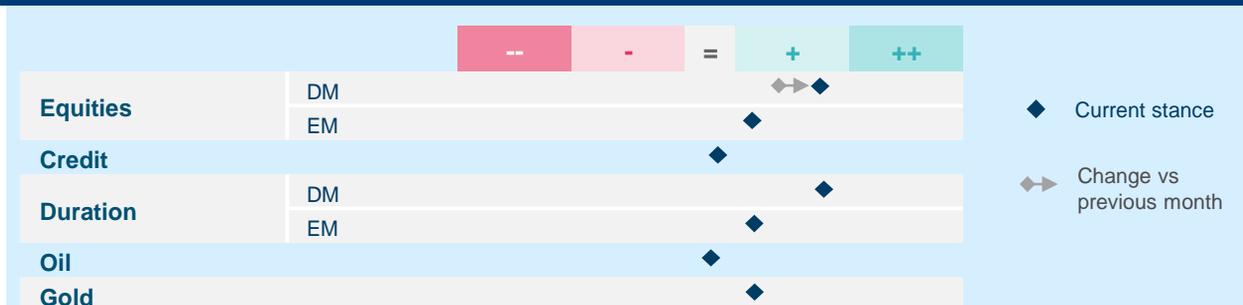
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HEAD OF MULTI-ASSET INVESTMENT SOLUTIONS

We acknowledge the limited upside potential in US equities, but are mindful of areas that could benefit tactically from the positive sentiment.

Amundi Cross-Asset Convictions



Source: Amundi. The table represents a cross-asset assessment on a three- to six-month horizon based on views expressed at the most recent global investment committee held on 20 November 2024. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/++). This assessment is subject to change and includes the effects of hedging components. FX = foreign exchange, BTP = Italian government bonds, BoJ = Bank of Japan, JGB = Japanese govt. bonds, BoE = Bank of England, NIRP = Negative interest rate policy, DM = Developed markets, EM = Emerging markets. For other definitions and currency abbreviations see the last page.

FIXED INCOME

Stay tactical and granular on duration

The Trump trade has seen a sharp move upward in bond yields and the next leg up should come from the actual implementation of Trump’s agenda around taxation, international trade and immigration etc. In particular, there has been a debate about how much of all this would push up yields at the long end of the curve, but we still see value in the intermediate part. More recently, the fall in yields points to how quickly markets’ perception of fiscal policymaking could change. In Europe, political uncertainty in select countries could affect yields along with the ECB’s stance on rates. The ensuing volatility underscores the importance of identifying which parts of the yield curves across which geographies offer attractive risk-free yields and stability. At the other end are corporate credit and EM debt that could enhance investors’ long term returns.

Global & European fixed income	US fixed income	EM bonds
<ul style="list-style-type: none"> Our duration stance is neutral, but it differs across yield curves as we take country and regional dynamics into account. We have slightly downgraded European duration to neutral, are positive on the UK but cautious on Japan. We maintain our stance on curve steepening (30Y-5Y) in Europe and the US. Our preference for banking and insurance sector in European IG stays. But we are selective in HY with a bias towards non-cyclicals. 	<ul style="list-style-type: none"> We keep a dynamic stance on US Treasuries. At the moment we are neutral, but a strong increase in yields would strengthen the case for duration. It’s important to identify which part of the curve offers most value. The long end is likely to be affected by deficits and potential inflation. TIPS are attractive amid high real rates. In securitised credit, we see opportunities in high-quality commercial real estate and also like agency MBS. 	<ul style="list-style-type: none"> After Trump’s election, we assess how his policies and less (than previously expected) easing by the Fed could affect EM debt. Our strategy is to identify less-correlated stories. LC debt in countries such as Turkey and even South Africa shows potential. In LatAm, we explore areas like Mexico where the sell-off has been substantial. We like HC and corporate credit, particularly HY due to valuations and attractive carry.

Yield curve steepening to continue amid deficits and inflation risks



Source: Amundi Investment Institute, Bloomberg, as on 29 November 2024. Value above 0 means steeper yield curve, value below 0 means inverted yield curve.

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EQUITIES

Play equities beyond US mega caps

Markets have moved quickly to price-in near-term nominal economic growth in the US but we would like to question that narrative because the starting point of the 'Trump trade' is different this time when compared to 2016. When Trump was elected President for the first time, US stock valuations, the fiscal deficit and public debt were not as high as they are today. However, this time around, the Fed is in an easing mode, although this could be challenged if there is volatility around inflation. As a result, we could see an upside for equities, but it would be characterised by rotation favouring cheaper segments and those that show earnings resilience. In particular, we see select opportunities in small and mid caps, Europe, Japan and emerging markets in companies displaying pricing power and balance sheet strength.

European equities	US & global equities	EM equities
<ul style="list-style-type: none"> ▪ Despite markets being carried away by fears of a hawkish Trump, we think there are ample opportunities, driven by corporate fundamentals. ▪ Pricing power is key, and this is not the time to compromise on balance sheet strength. ▪ In the region, we have become more positive on consumer staples and healthcare. ▪ Conversely, we are now more cautious about technology and industrials. 	<ul style="list-style-type: none"> ▪ We agree that fiscal policies could provide a short-term fillip to equities but we disagree on the way to play this, i.e., segments where valuations are attractive and operational efficiencies are not yet priced-in. ▪ Importantly, if Treasury yields rise significantly due to inflation or deficit concerns, valuations could be affected. ▪ We avoid mega caps but like value and quality. A move down in market cap remains an important conviction for us. 	<ul style="list-style-type: none"> ▪ In China, where we keep a neutral stance, we may see fiscal packages to support exporters if Trump goes all out on tariffs. ▪ For global EM equities, we focus on stories such as India that are relatively immune from this geopolitical competition. We like Indonesia due to structural trends, but have downgraded S. Korea to neutral. ▪ Brazil, Mexico are attractive but we monitor fiscal risks and any volatility from renegotiation of USMCA.*

US equity opportunities beyond mega caps



Source: Amundi Investment Institute, Bloomberg, 15 November 2024. *United States-Mexico-Canada Agreement.

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VIEWS

Amundi asset class views

In focus this month

- **Investors** assess the implications of the US elections across the board. As uncertainty on the speed and reach of Trump’s policy remains, we believe that volatility will remain high, particularly in fixed income.
- **EU core duration:** We have downgraded EU core duration to neutral as we assess domestic politics.

Equity and global factors

Regions	Change vs M-1	--	-	=	+	++	Global Factors	Change vs M-1	--	-	=	+	++
US				◆			Growth				◆		
Europe				◆			Value					◆	
Japan				◆			Small caps	▲				◆	
EM				◆			Quality	▼				◆	
China				◆			Low Volatility				◆		
EM ex China				◆			Momentum				◆		
India				◆			High Dividend				◆		

Fixed income & FX

Govies	Change vs M-1	--	-	=	+	++	Credit	Change vs M-1	--	-	=	+	++
US				◆			US IG				◆		
EU core	▼			◆			US HY			◆			
EU periph.				◆			EU IG					◆	
UK				◆			EU HY				◆		
Japan			◆										
EM Bonds	Change vs M-1	--	-	=	+	++	FX	Change vs M-1	--	-	=	+	++
China govt.				◆			USD	▲				◆	
India govt.				◆			EUR	▼		◆			
EM HC				◆			GBP					◆	
EM LC				◆			JPY					◆	
EM corp.				◆			CNY	▼		◆			

Source: Summary of views expressed at the most recent global investment committee held on **20 November 2024**. Views relative to a EUR-based investor. Views range from double minus to double positive, = refers to a neutral stance. This material represents an assessment of the market at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product. FX table shows absolute FX views of the Global Investment Committee.

▼ Downgrade vs previous month
▲ Upgrade vs previous month

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Amundi Investment Institute

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