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“Despite sluggish growth, we believe the Eurozone economy has the potential to strengthen, driven by rising incomes, lower ECB rates, strong household savings, and Germany's new plan to increase public investments."

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

“We expect the current market rotations to continue. In equities, we maintain a cautious stance on the most overvalued parts of the US market, favouring opportunities in Europe and Asia.”

VINCENT MORTIER
GROUP CHIEF INVESTMENT OFFICER

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TOPIC OF THE MONTH

From sluggish to strong: Germany poised to support Europe's growth

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KEY TAKEAWAYS

Eurozone growth remains sluggish, but rising incomes, lower ECB rates, and strong household savings support a potential strengthening. US tariffs still pose a significant threat to key European industries like automotive manufacturing.

EU defence spending is increasing, but it still mainly benefits the US. Building a unified European military industry will take years even with broad political consensus. The European Defence Industrial Program (EDIP) aims to shift procurement within Europe to 50% by 2030, but challenges in financing and coordination make this a long-term objective rather than an immediate solution.

Germany's new government plans to increase public investment through a €500 billion fund and loosen debt constraints on defence spending. This fiscal expansion could provide a fiscal stimulus of 1.5% to 2% of GDP annually from 2026, with potential spillover effects on other European economies.

Weak growth in the short term, but prospects remain favourable

Multiple surveys suggest that economic growth in the Eurozone remains sluggish at the start of the year, while labour market conditions have begun to weaken in several countries. Recent data also indicate a significant moderation in wages, with companies expecting an average increase of +3.3% over the next 12 months, compared with +4.5% at the same time last year. However, wages are still projected to rise faster than prices.

Despite these short-term challenges, the argument in favour of a recovery remains intact. Higher real incomes, lower ECB rates, and healthy household balance sheets are all factors supporting domestic demand. Notably, household savings have increased further over the past two years, with the average Eurozone savings rate up 1 percentage point since the end of 2021 (at 15.3%).

However, the trade tariffs announced by the US against Mexico and Canada reflect a looming threat that must be taken seriously. Increased tariffs would weigh heavily on European industry (particularly in Germany and Italy) and on the automotive sector, which would be among the most exposed. This creates significant uncertainty for European growth, as higher tariffs could severely impact key industries.

Monetary policy: the ECB will have to further ease monetary conditions

Although the debate is fixated on key interest rates, it is important to also monitor what is happening on the ECB's balance sheet, which continues to shrink, down 25% from its peak in 2022. Since December 2024, the ECB has stopped reinvesting maturing PEPP bonds. In practice, this means ECB purchases will decline by nearly €500bn in 2025 compared to last year.

Rate cuts are exerting downward pressure, especially on the short end of the yield curve, while quantitative tightening (QT) is exerting upward pressure on long-term yields. The effectiveness of rate cuts on easing financial conditions is limited when the central bank's balance sheet is contracting at the same time. Moreover, bank lending to the private sector is increasing rather slowly.

Loans to non-financial corporates grew by 2.0% year-on-year in January, significantly slower than their long-term average growth rate. The same trend is true for housing loans, which increased by just 1.2% year-on-year, compared with an average annual increase of 5.1%. Given this backdrop, the ECB is likely to maintain an accommodative stance to support economic growth.

Can defence spending in Europe and Germany change the situation?

The EU spent 2% of its GDP on defence in 2024, compared to 3.4% in the US. Over the past decade, the EU's nominal defence spending has increased by more than 220%. This sharp increase reflects Europe's strategic shift following Russia's annexation of Crimea in 2014.

The Munich Security Conference: a new era for Europe

The announced military disengagement of the US signals the beginning of a new era, where Europe must take responsibility for its own security, something it is not yet fully prepared to do. In 2024, Europe spent 2% of its GDP on defence but it must now rapidly strengthen its military capabilities. **It is worth noting that in the 1960s, despite being protected by the US military umbrella, Europe spent between 3-4% of its GDP on defence.**

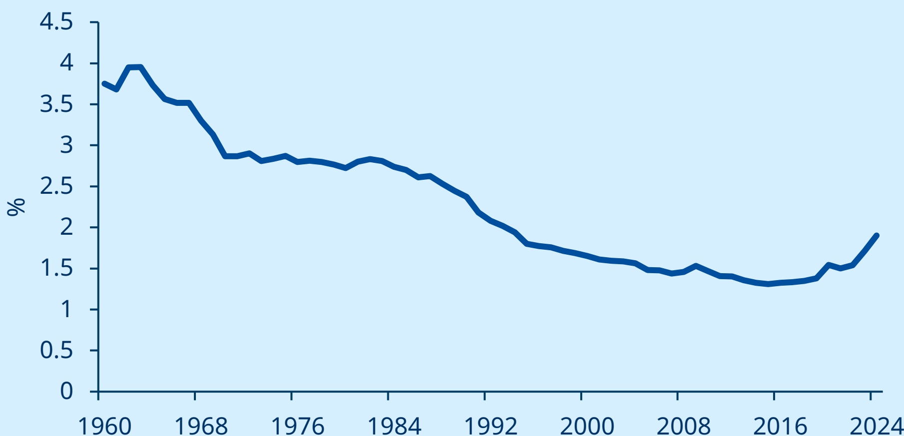
"As the US steps back, Europe faces the urgent task of strengthening its own defence, yet high debt levels and financing challenges could slow progress."

The European Commission (EC), in line with most EU heads of state, has put forward several proposals to help Member States (MS) finance their increased defence commitments. On the one hand, the activation of the **national escape clause within the Stability and Growth Pact will make it possible to finance defence spending at the national level**. The measure should enable MS to allocate approximately €650 billion over four years to defence, bringing defence spending to 3.5% of GDP. There are also plans to set up a common mechanism of €150 billion structured in the form of loans to MS. In theory, these initiatives **could mobilise €800 billion for European defence**.

However, many countries with high debt levels, such as France, Italy, and Spain, will struggle to commit to such expenditure without either reducing other expenditures or increasing taxes. This could have significant consequences for economic growth and social stability.

Private financing remains a major challenge for the defence sector, particularly for SMEs and medium-sized companies, whose development is essential to the construction of a pan-European military ecosystem. However, it is too early to count on the mobilisation of significant amounts through this channel. Further details are likely to be provided in the White Paper on Defence, which will be released by the EC on 19 March.

CHART: Evolution of EU defence as a % of GDP



Source: Amundi Investment Institute based on World Bank database. Latest available year is 2023. 2024 is estimated by European Defence Agency.

EU defence spending rose by over 30% from 2021 to 2024, reaching an estimated €326 billion in 2024 (around 1.9% of EU GDP).

€326 billion

Estimated EU member states spending on defence in 2024

Source: European Defence Agency. December 2024

What will be the impact on GDP growth?

The economic impact of defence spending varies significantly depending on whether military equipment is produced locally. In the US, the multipliers are relatively high. In Europe, on the other hand, they are generally below 0.5, because a large part of the defence goods are imported (France seems to benefit from higher multipliers). **In 2023, 70% of military purchases by EU Member States were made outside the EU, with the US accounting for over 60%.** Moreover, less than 20% of EU defence investments were made jointly.

To address this issue, the European Defence Industrial Programme (EDIP), presented in March 2024, aims to develop and strengthen Europe's military industry. The initiative encourages Member States (MS) to jointly procure defence equipment and to source 50% of it within Europe by 2030, increasing to 60% by 2035. The idea is to build pan-European supply chains, but there are many obstacles in practice.

Despite the political will, building a unified European defence industry will take many years. In the medium term, the good news is that this will enable Europe to boost its technological investments and its industrial base. But in the short term, in the absence of a single defence market, much of the EU's increased military spending will primarily benefit the US. This could help Europe avoid a full-scale trade war with the US, provided that Donald Trump refrains from taxing European exports in return.

"Since much of European military spending still flows to the US, efforts to build a unified European defence industry will take years to materialise."

Germany: a special case

On 4 March, the CDU and the SPD (the two parties that will make up the next coalition government in Germany) agreed to have the outgoing chambers vote on two key measures:

1. A special fund (SF) with €500 billion (11.6% of 2024 GDP), enshrined in the constitution, for public investment in infrastructure over 10 years, of which 100 billion would be allocated to the states.

2. A reform of the debt brake rule for defence spending.

This marks a historic shift. Germany is one of the only EU countries capable of financing a major budgetary expansion through increased debt. In practice, these proposals mean that defence spending will no longer be constrained ex ante, allowing Germany to reach its target of 3% of GDP for defence spending as early as next year.

In addition to defence spending, public infrastructure investment would be set to increase by around 1% of GDP per year in the coming years. This would be enough to clear the investment backlog, which has accumulated to an estimated 15% of GDP, by 2035. Unlike defence spending multipliers, the fiscal multipliers for infrastructure investment are quite high (well above 1), meaning this spending will have a stronger impact on economic growth.

Ultimately, the proposals of the CDU and SPD should boost the German economy, but probably not before 2026, given the time required for implementation. However, the proposals have not yet been adopted: on 10 March, the Greens, whose votes are necessary to achieve a two-thirds majority in the Bundestag, opposed the reform of the debt brake, likely to secure concessions in other areas. The two-thirds majority in the Bundesrat will only be obtained with the support of certain 'Free voters'. It is therefore premature to consider these proposals as a given

Consequently, we our keeping our growth forecasts unchanged for Germany and, by extension, for the Eurozone this year. However, with a revival of infrastructure spending of 1% per year (50 billion), combined with an increase in defence spending from 1% to 1.5% (to reach a target of between 3% and 3.5% of GDP), we estimate that the annual fiscal stimulus for Germany could amount to 1.5% to 2% of GDP for several years, starting in 2026.

The rebound in German growth will inevitably have a knock-on effect on its European trading partners, but this impact should remain modest, especially if other countries pursue fiscal consolidation at the same time.

TOPIC OF THE MONTH

Ukraine and Europe's path ahead

AUTHOR

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Foreign policy under the Trump administration has drastically shifted the dynamic between the US and its allies, ramped up pressure on Ukraine, and embraced Russia's rhetoric on the war. In outlining the various scenarios for negotiations this year, we highlight what this means not only for the fate of Ukraine but also for Europe.

European leaders will likely follow one of these three paths in response to the US's new stance: first, they may do 'just enough' and hope for the best; second, they may accept the weakening of Ukraine and the EU; or third, they may rise up to the challenge and reduce their security dependence on the US.

Path 1: Europe does 'just enough' and hopes for the best

The first path would see the EU and UK spending somewhat more on defence over time, while continuing to slowly improve the defence capabilities of the EU and individual countries. While Ukraine would receive more military support, European leaders would eventually accept that Ukraine would remain vulnerable to renewed Russian aggression. US protection, although wobbly, would still be regarded as the main pillar of European security.

Path 2: Accepting the weakening of the EU as a geopolitical player

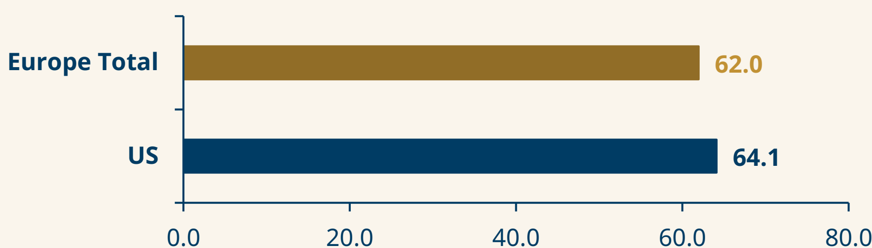
The second path would see European leaders accepting that Ukraine's future is in the hands of Russia (and a fickle US). Some countries would likely try to rekindle ties with Russia in the hope of reducing the military risk it poses. The EU would be significantly undermined as a geopolitical player, and fears would linger over Putin's intentions beyond Ukraine.

Path 3: The EU and UK rise to the challenge, emerging as more powerful geopolitical players along the way

The third path would involve European leaders, or a strong-enough coalition of the willing with EU support, rising to the challenge. This would require making trade-offs, such as redirecting social expenditure towards defence spending, which would need to increase significantly to rival the US. Meanwhile, the integration of military capabilities and systems across Europe would need to accelerate at a rapid speed. Over time, the EU and the UK would emerge as a geopolitical power in their own right.

"An alternative scenario would see the US reversing course and doubling down on its support for Ukraine, which would increase the odds of a direct war with Russia."

Military Aid Allocations to Ukraine (Billion Euros)



Source: Amundi Investment Institute based on Kiel Institute for the World Economy database as of 3 March 2025.

Russia-Ukraine negotiation scenarios and market implications

Scenarios and possible evolutions				Market implications
1 Russia & Ukraine accept ceasefire	Ceasefire holds	Russia 'welcome back' & Ukraine reconstruction		Positive for risky assets; Ukraine and CEE outperform.
2 Russia declines	US doubles down on Ukraine support	War continues & escalation more likely		Negative for Ukraine bonds, CEE marginally underperforms.
	US loses interest & walks away	Divisions within Europe, some step up support, others don't	Russia territorial gains more likely	Ukraine larger underperformance, European assets moves depend on fiscal spending.
		Europe steps up to replace US	Military and financial support of Ukraine, war continues	Short-term marginal negative for Ukraine bonds. European assets perform better based on more fiscal spending on defence.
3 Ukraine declines	US loses interest & walks away	Divisions within Europe, some step up support, others don't; political destabilisation in Ukraine more likely	Russia territorial gains more likely	Ukraine larger underperformance, European assets depend on fiscal spending.
		Europe steps up to replace US	Military and financial support of Ukraine, war continues	Short-term marginal negative for Ukraine bonds. European assets perform better based on more fiscal spending on defence.
4 US walks away	Divisions within Europe, some step up support, others don't	Political destabilisation in Ukraine more likely	Russia territorial gains more likely	Most negative for Ukraine bonds. European assets depend on fiscal spending.
	Europe steps up to replace US	Military and financial support of Ukraine, war continues		Short-term marginal negative for Ukraine bonds. European assets perform better based on more fiscal spending on defence.

Source: Amundi Investment Institute. Data as of 8 March 2025. These scenarios are most likely, not exhaustive.

TOPIC OF THE MONTH

A step forward for Europe

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Over the past two years, the European equity markets (STOXX Europe 600) has underperformed the US and world indices (S&P 500 and the MSCI ACWI), largely due to the exceptionalism of the Magnificent 7. However, following this year's DeepSeek shakeup, concerns have emerged regarding mega-cap valuations, creating opportunities for other stocks and regions to catch up. So far in 2025, Europe has outperformed both the US and other key regions, and there could be room for more growth.

European equities shine

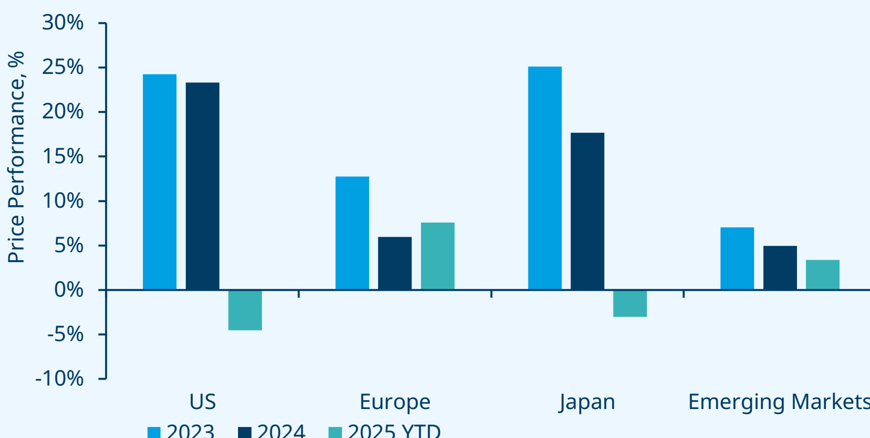
Despite concerns over US tariffs, the Russian-Ukraine war, and an evolving European political scene, European equities are holding up well. Since President Trump's inauguration, **Europe has yet to be subjected to the widespread tariffs imposed on Canada, Mexico, and China**, bringing relief to the Eurozone's equity markets, as many analysts had feared the worst. And although Europe is not immune to US tariffs, we expect the tariff impact to be contained as only 6% of the sales of European-listed companies could potentially be affected if we exclude production carried out locally in the US and services.

As for the war in **Ukraine, a ceasefire would have** three implications: 1) a downward impact on energy prices, to which Europe is highly sensitive; 2) reconstruction in Ukraine, estimated at $524bn according to the World Bank, which should benefit companies in the region; 3) the need for structural decisions regarding defence independence.

Lastly, the agreement between CDU/CSU and SPD (pending approval) for a major loosening of Germany's fiscal situation will lead to significantly higher spending on defence and infrastructure and could prolong the rally.

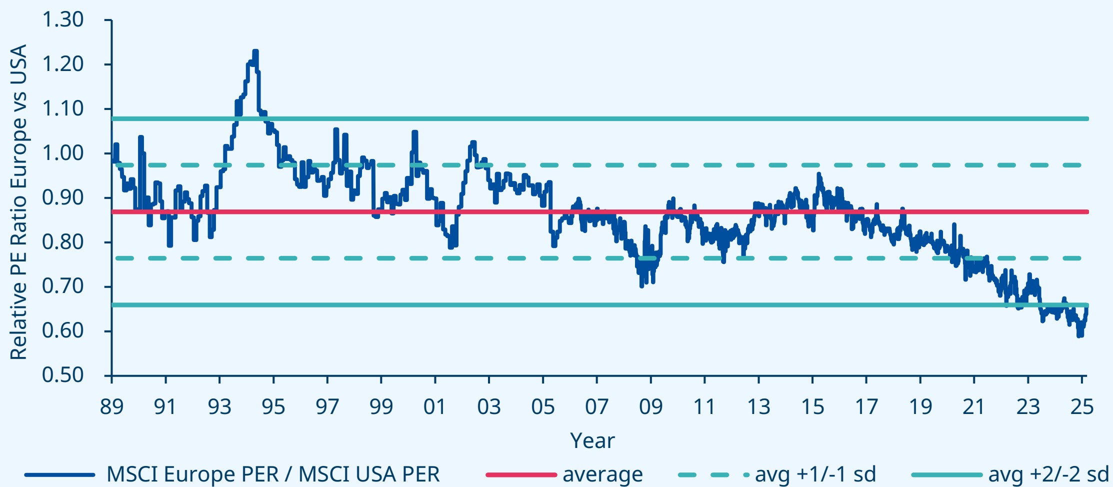
"The case for a relative preference for Europe vs the US remains intact, as valuations are more appealing and the fiscal push could support earnings dynamics."

Price performance of equity indices



Source: Amundi Investment Institute, Refinitiv, Data as of 11 March 2025. US= S&P500 in USD, Europe= STOXX Europe 600 in EUR, Japan = Topix in JPY, EM and Pacific ex Japan are MSCI Indexes in USD.

Europe relative valuations vs US remain very attractive



Source: Amundi Investment Institute, Refinitiv, Data as of 11 March 2025. Chart short the Ratio between the Price earnings ratio (PER) of the MSCI Europe vs MSCI USA. sd= Standard Deviation

Scope for more

Since the 2008 global financial crisis, this type of relief rally in the European market relative to the US has occurred four times, lasting between four to twelve months and resulting in price outperformance of 9% to 22%.

The current rally in the STOXX Europe 600 has produced an outperformance of around +12% vs the S&P500 since the start of the year. Despite this strong rebound, Europe's discount relative to the US has only returned to two standard deviations below the historical mean since 1988 (see chart above).

However, beyond a re-rating, transforming this rebound into a **sustainable outperformance trend would require an improvement in earnings growth**; currently, the consensus on Europe remains below other regions, such as the US, Japan, and EM.

Exposure to European markets makes sense and can be done with a **pro-cyclical bias while still avoiding exposure to tariff hikes**. In terms of style, mid-caps fulfill this approach with a number of other advantages, including lower valuations, stronger earnings growth than large caps, potential tax cuts in Germany, and benefits from Ukraine's reconstruction. In terms of sectors, **we favour Banks** (due to yield curve steepening), **Software** (which is isolated from tariffs), and **Aerospace & Defence** (supported by structurally higher spending).

Opportunities in Europe beyond equities

European yields have risen, while US yields have fallen over the past month, driving the US-Germany 10Y spread to its the lowest level since July 2023. In the very short term, the move looks overdone; however, the fundamentals have changed. Risks to US growth have multiplied, while growth prospects – and expected issuance – have risen in Europe.

Yet, European bonds can be supported by monetary policy. We expect the ECB to keep cutting interest rates, while we believe the Fed will not begin cutting until May. As a result, the spread in key rates could rise (albeit temporarily) to 225bp, pushing the 2Y spread between the US and Germany from the current 170bp to 180bp and the 10Y spread from 135bp at present to 160bp.

There may be even bigger opportunities in peripheral bond markets. The bold moves by the new German government on infrastructure and defence spending are likely to be echoed in other markets. Nonetheless, higher German spending – and strong growth in southern and Eastern Europe – still imply a continued tightening in Spanish, Italian, and other European spreads relative to Germany in the 5-10Y segment of the curve.

GLOBAL INVESTMENT VIEWS

GLOBAL INVESTMENT VIEWS

Markets between love and fear

In February, the markets have shown that love is in the air: despite new tariff announcements, inflation risks, and the DeepSeek shakeup, positive market sentiment continues to prevail. In Europe, equities reached new all-time highs, and in the US, there is evidence of a broadening equity rally, as the dominance of the Magnificent Seven may be starting to fade. However, uncertainty remains at extreme levels, with renewed fears emerging following the higher-than-expected January CPI, which recorded its fastest increase in a year and a half, and some weak US economic data. To assess whether the current environment of positive market sentiment can continue, we focus on the following themes:

- **First, inflation is the dominant concern**, as the market remains highly sensitive to it, which could pose a significant challenge for Trump. Recent consumer surveys highlight growing uncertainty, with long-term consumer inflation expectations surging to 3.3%, the highest since 2008, with the highest dispersion since the 80s.
- **Second, global growth is set to stabilise** as inflation gradually declines, but **policy uncertainty under Trump adds risks**.
- **Third, the Eurozone is supported by a clearer ECB policy path.** Fiscal support in Germany following the elections and a possible increase in defence spending are key themes to monitor.
- **Finally, China remains focused on avoiding a disruptive trade war**, as evident in its measured response to Trump's tariffs.

VINCENT MORTIER
GROUP CIO

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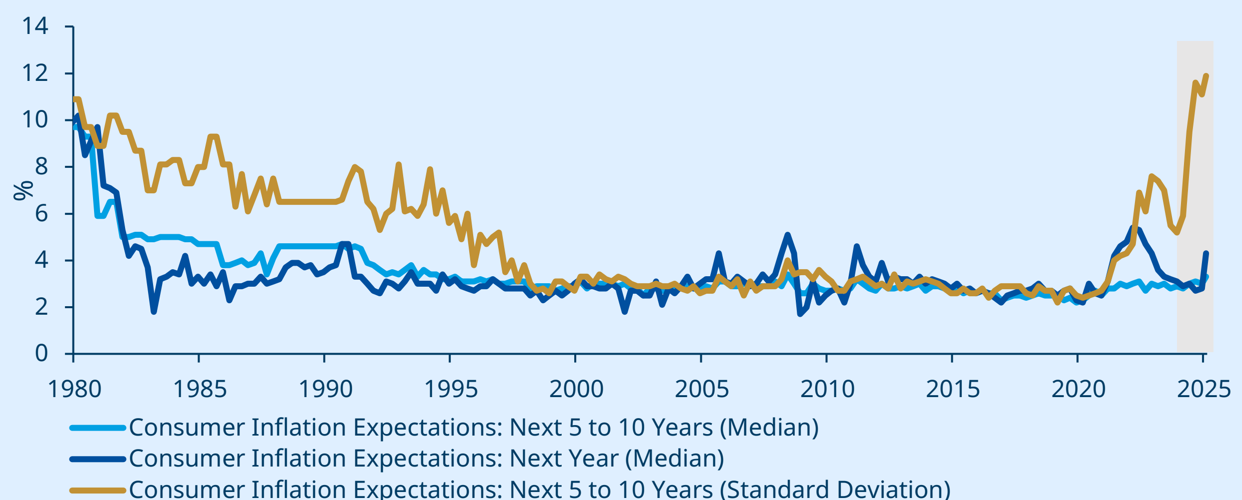
Consumer inflation expectations are rising and growing more dispersed



Source: Amundi Investment Institute, Bloomberg, Data refers to the University of Michigan Consumer Surveys. Data as of 20 February 2025.

All this translates into a still supportive backdrop for risky assets, but areas of complacency call for rotating into segments that offer more compelling opportunities and keeping a strong focus on diversification.

- **In fixed income, we maintain an active and tactical duration approach. In the Eurozone, as growth is lagging, we expect the ECB to continue to cut rates.** In the US, re-pricing of Fed rates has been fast: we continue to expect rate cuts in 2025 and we believe the possibility of a Fed rate hike is very low for now amid an already restrictive policy stance and a relatively quiet fiscal landscape. In **global credit**, the outlook is positive and supported by a combination of resilient economic activity, inflation moderation, and less restrictive monetary policy in both the United States and the Eurozone. We favour European IG credit while remaining cautious on US HY due to stretched valuations.
- **Leveraging the broadening rally in equities.** We are positive on the Eurozone relative to the US, due to its more compelling valuation, and compared to the UK, where the economic outlook is weaker. Within Europe, we look for companies with strong balance sheets and pricing power. In the US, our focus is beyond the mega caps. We favour banks and materials and look for domestic-oriented companies that are well-positioned to benefit from anticipated tax cuts and reduced regulation.
- **On Emerging Markets, we maintain an overall neutral stance, due to the ongoing macroeconomic and geopolitical developments.** We have become more optimistic about India after the recent sell-off which led to less stretched valuations and signs of bottoming out in earnings revisions.
- **Cross-Asset:** We maintain a **positive view on risky assets**, with a constructive stance on equities and credit while making internal rotations to seize opportunities. In particular, we **are positive on European equities**, while we turn from positive to **neutral on Japanese equities**, as we see no immediate catalysts for growth amid a stronger yen and potential volatility. To enhance overall allocation resilience against potential adverse scenarios, we maintain some hedges in equities and duration, while continuing to have **a positive stance on gold.**

"Despite high uncertainty, the investment environment remains supportive for equities. Here we favour opportunities in Europe which could benefit from a possible ceasefire in Ukraine and better valuation compared to the US."

Overall risk sentiment

Risk off Risk on

The overall risk stance remains slightly positive with some rotations within equities and an overall positive duration stance.

Changes vs previous month

- Fixed income: we have made some tactical adjustments to our duration stance during the month.
- Cross-assets: we are positive on European equities while shifting towards a neutral stance on Japanese equities.

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. Our stance may be adjusted to reflect any change 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, HC = Hard Currency, LC = Local Currency. For other definitions see the last page of this document.

Three hot questions

1

What is your view on Trump's reciprocal tariffs?

On 13 February, Trump announced the Fair and Reciprocal Trade Plan, aimed at addressing imbalances in US trade relationships and countering non-reciprocal trading arrangements. However, the execution of these measures is by no means a done deal, partly because up-to-date, accurate, and consistent bilateral tariff data is difficult to obtain. Considering the repercussions of higher tariffs, we have recently moderately revised down US growth forecasts and upgraded inflation projections. While this doesn't change the soft-landing path, it does return the US economy to trend faster, making it less 'exceptional' relative to others.

Investment consequences

- Mantain a diversified global equity stance
- Positive on gold

2

How do you view the latest developments in US inflation?

Recent CPI data shows that inflation remains sticky, with headline inflation rising to 3.0% YoY and core inflation at 3.3% YoY. This first inflation report of the year may reflect some seasonal effects, along with annual price increases that typically roll out at the start of the year. Despite this seasonal noise, we anticipate headline CPI to remain around 2.6% in H1 and rise to 2.9% in H2, with medium-term upside risks due to strong consumer demand and stalled disinflation in shelter costs. Overall, we believe that the Fed may adopt a 'no hurry' approach to rate cuts, pausing this quarter while monitoring the economic impacts of new US administration policies.

Investment consequences

- Tactical duration management, favouring the intermediate part of the US curve

3

What is your take on India's 2025-26 budget?

India's updated budget points to fiscal consolidation. The fiscal deficit for FY26 projects the budget deficit to shrink to 4.4% of GDP from 4.9% currently. The income tax structure has been revised to enhance disposable income for the middle class, while food subsidies are set to increase. Enhanced rural schemes are anticipated to improve economic conditions in rural areas. Following the announcement, the RBI cut its benchmark interest rate by 25bp to 6.25% to support economic growth.

Investment consequences

- Maintain a strategic positive stance on Indian equities

"The US Fed faces an uncertain outlook, with a high expected fiscal deficit and possible labour supply shocks, which will weigh on the inflation and growth outlook."

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

* 2% is the result of tentative assumptions on US policy shift, unknown at the time of writing.

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MULTI-ASSET

Navigating inflation uncertainty

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We expect an overall benign economic outlook, although data from Q4 has revealed diverging trends amongst economies. In the US, growth has been solid, driven by strong personal consumption, while in Europe, growth is exhibiting a weaker momentum. Due to uncertainties surrounding trade wars, global growth faces downside risks, and central banks have begun to act asynchronously. The Fed is temporarily on pause, the ECB is determined to follow a clear trajectory toward neutrality, and the BoJ is expected to hike rates in 2025. Overall, while macro, credit, and liquidity conditions remain reasonably supportive, we remain mindful of inflation risks and potential earnings revisions in the second half of the year and therefore favour a mildly pro-risk allocation with hedges and gold.

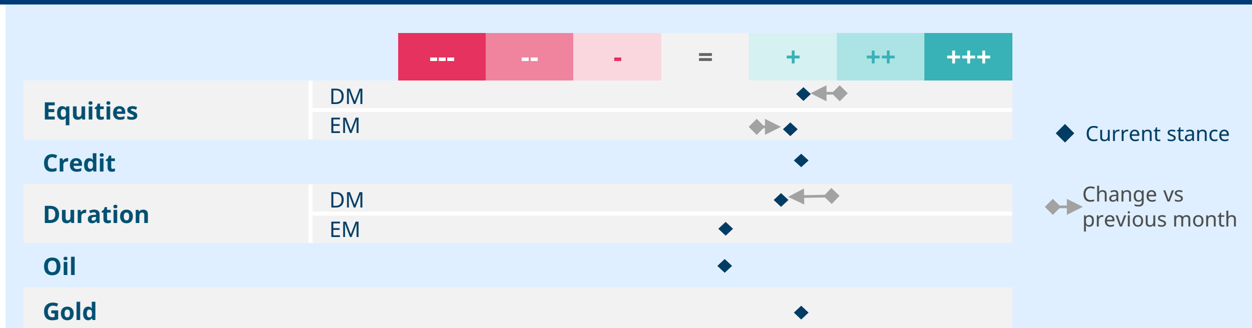
We maintain a constructive outlook on equities, as the backdrop remains supportive of risky assets, but with some adjustments. In equities, **we have maintain a positive stance in the Eurozone**, supported by a dovish ECB and relatively attractive valuations, **while downgrading Japanese equities to neutral** due to expectations of a stronger yen. The growth premium still favours emerging markets, particularly China, where pro-growth and pro-stimulus policies are expected to mitigate the impact of tariffs.

In fixed income, we remain positive on the US 2-year Treasury and maintain our view of a steepening yield curve for 5-30 year maturities. We also remain positive on EU rates **but we have become less positive in UK rates**, as we now see the undervaluation as less stretched. We remain cautious on JGBs, while holding our positive stance on Italian BTPs versus German Bunds. We still **see European IG credit as the brightest spot in the credit market**, while we remain neutral on both EM hard currency debt and local debt.

In order to hedge against geopolitical risks and inflation-driven volatility, we believe investors should consider equity hedges in the US, where valuations appear stretched, and duration hedges to manage inflation risk, while maintaining an allocation to gold.

"We remain optimistic about opportunities in Europe, while actively hedging against inflation risks and geopolitical uncertainty."

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 19 February 2025 and updated at 11 March 2025. 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. For other definitions and currency abbreviations see the last page of this document.

FIXED INCOME

Fast-paced changes in rate expectations

In 2025, the inflationary and growth impact of Trump's policies is the primary concern when evaluating the Fed's trajectory. After initial fears of higher inflation, markets have now started to price risks of growth disappointment. This has resulted in a strong and rapid reassessment of market expectations on the Fed's trajectory. Such strong market movements call for maintaining an **active duration stance and looking for opportunities across the board**. Overall, we maintain our positive stance on duration and credit with a preference for high quality and shorter maturities. In emerging markets, we remain overall neutral with a preference for hard currency versus local currency debt.

Global and European fixed income

- We are overall positive on duration. Since the start of the year, we have first become more constructive on European duration and, most recently, we have started to move towards neutrality. We remain cautious on JPY duration, as the BOJ has signaled more hikes to come.
- We are **positive on credit**. We remain favourable on Euro financials, in particular IG over HY.
- Regarding FX, we **favour JPY and USD and have upgraded our stance on GBP to positive**. We remain cautious on EUR and CNY.

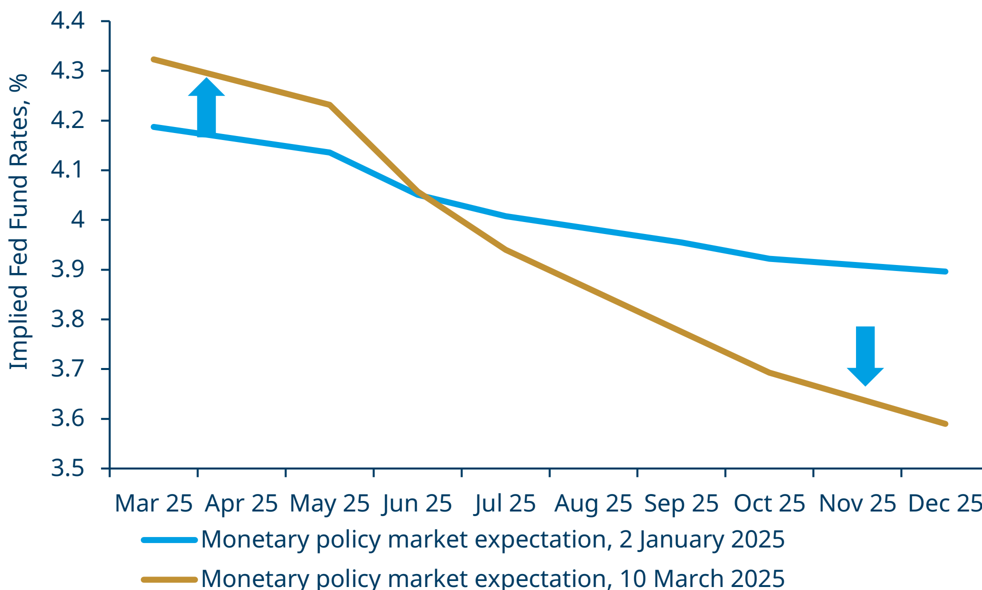
US fixed income

- **On duration, we remain tactical** and continue to prefer intermediate maturities seeing that they offer a reasonable risk-reward.
- In credit, we prefer high-quality names and we are shifting towards shorter issuer maturity curves. We still **favour Financials over Industrials, though less so than last month**.
- We continue to **prefer HY alternatives**, such as leveraged loans, as spreads are at multiyear lows and yield valuation is not that compelling.

EM bonds

- We maintain a **neutral duration stance** with a bias to add to duration on sell-offs.
- **Regarding hard currency, our outlook continues to be constructive but selective**.
- In local rates, we are highly selective, favouring countries that have greater monetary policy room and exploring some tactical opportunities, such as the Mexican Peso.
- **We remain constructive on credit, especially the HY segment,** as we do not anticipate substantial spread widening.

Strong market repricing of Fed rate path (for future market)



Source: Amundi Investment Institute, Bloomberg, as of 11 March 2025. Data shows rate expectations for 2025 from futures.

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EQUITIES

Market rotation continues

The US's outperformance has been ongoing for a long time, with a faster rise since 2023 driven by enthusiasm around AI. However, the first months of 2025 have signalled a pause in this trend, with international markets, particularly Europe, outperforming the US, where areas of excessive valuations may see some reassessment. With high uncertainty surrounding tariffs, AI developments, and still high concentration risks, **the main market theme remains diversification**. Earnings revisions and better risk sentiment continue to support European equities, where valuations remain relatively attractive. EM markets in Asia also offer opportunities, with India more appealing after the recent sell-off.

European equities

- **The broadening of the market remains highly beneficial for European equities**. Markets will continue to watch for the **potential impact of Trump's policies**.
- For Europe, we focus on **resilience and undisrupted business models with strong balance sheets**.
- Sector-wise, we remain cautious on industrials and technology and have grown more cautious on telecom. We maintain a positive stance on consumer staples and healthcare, while seizing opportunities in luxury goods.

US and global equities

- We focus on equities with **stable earnings momentum and a strong return on investment capital**. As US equities remain expensive across the board, the **shift away from mega caps** continues to help mitigate against valuation fluctuations driven by reversals in risk sentiment.
- We remain focused on companies that will **benefit from Trump's policies**.
- We are cautious on tech and consumer sectors, favouring materials and financials, such as banks that can benefit from the higher yield curve.

EM equities

- In **EM equities,** a weaker dollar and a marked US slowdown support a more positive stance moving ahead.
- **We have upgraded our positive view in India** following the recent sell-off and signs of bottoming out in revisions. We remain positive in Indonesia, while we are cautious on Taiwan amid uncertain growth.
- **At sector level, we favour real estate and consumer staples**, which offer earnings stability at a reasonable price.

US performance vs the rest of the world year-to-date

Source: Amundi Investment Institute, Bloomberg, as of 11 March 2025. MSCI Indexes in USD Total Return.

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VIEWS

Amundi asset class views

In focus this month

- **Credit attractive in search for income:** corporate fundamentals are robust, with companies enhancing their credit profiles. Supportive technical conditions, including higher yields attracting income-seeking investors and limited net supply, bolster demand.

Equities

Regions	Change vs M-1	--	-	=	+	++
US	▼		◆			
Europe	▼				◆	
Japan	▼			◆		
EM	▲				◆	
China	▲				◆	
EM ex China	▲				◆	
India	▲					◆

Fixed income

Duration	Change vs M-1	--	-	=	+	++
US	▼			◆		
EU	▼				◆	
UK					◆	
Japan			◆			

Credit	Change vs M-1	--	-	=	+	++
US IG				◆		
US HY	▼	◆				
EU IG					◆	
EU HY				◆		

EM Bonds	Change vs M-1	--	-	=	+	++
China govt.				◆		
India govt.					◆	
EM HC	▲				◆	
EM LC	▲				◆	
EM corp.					◆	

Source: Summary of views updated on 11 March 2025 (includes changes from the Global Investment Committee held on 19 February 2025 and most recent updates). Views on Global Factors are as of 19 February 2025. 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

SCENARIOS, RISKS AND MACROECONOMIC FORECASTS

Main and alternative scenarios

	MAIN SCENARIO Resilient multi-speed growth Probability 70%	DOWNSIDE SCENARIO Renewed stagflationary pressure Probability 20%	UPSIDE SCENARIO More disinflation with productivity gains Probability 10%
GEOPOLITICS	▪ Rising protectionism. ▪ Re-routing of global supply chains. ▪ Ukraine-Russia: ongoing fighting. ▪ Middle East: talks and conflicts likely. ▪ China-US: decline in relations. ▪ US-Europe: relations under pressure.	▪ Autarchical new alliances challenging advanced economy democracies: worrying divergences among advanced countries. ▪ Countries forced to choose between US and China. Global trade begins to decline.	▪ Geopolitical risk subsides. ▪ Shifting power dynamic reshapes global trade, fostering balanced growth and prosperity.
INFLATION & POLICY MIX	▪ Disinflation trend still intact. ▪ DM CBs to reach neutral rates in 2025. Most EM CBs at peak rates. ▪ Divergent fiscal policies: US under scrutiny; EU consolidating; China expansionary.	▪ Trade protectionism weakens growth outlook. Central banks' response also constrained. ▪ Elevated fiscal debt keeps the cost of debt high and constrains policy space.	▪ Stabilisation of inflation around central banks' targets (and inflation expectations remain anchored).
GROWTH PATH	▪ Back to potential growth. ▪ Resilient multi-speed growth: subdued recovery in Europe, mild US deceleration. ▪ Growth gap still favours EM. ▪ India's growth potential revised up.	▪ Lower output and sharp reduction of migration into advanced economies lowers labour supply and growth. ▪ Economic imbalances 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 critical minerals.	▪ Further policy delays imply more adverse climate events, hampering economic dynamism.	▪ From zero to hero: geo-engineering, globally coordinated policies.

Risks to main scenario

LOW — Probability — HIGH

	10%	15%	15%	20%
Risk	Central banks quantitative tightening combined with structural shift in US Treasury buyers	Geopolitical crisis with global spill-overs	Market volatility rises sharply to reflect higher geo-economic uncertainty	Reacceleration of DM inflation, due to trade/geopolitical tensions
MARKET IMPACT	**Positive** for cash and gold. **Negative** for govies and expensive equities.	**Positive** for DM govies, cash, gold, USD, volatility, defensive assets, and oil. **Negative** for credit, equities, and EM.	**Positive** for cash and gold. **Negative** for risk assets.	**Positive** for TIPS, gold, commodity FX, and real assets. **Negative** for bonds, equities, DM FX, and EM assets.

Source: Amundi Investment Institute as of 20 February 2025. DM: developed markets. EM: emerging markets. CB: central banks. USD: US dollar. TIPS: Treasury inflation-protected securities. FX: foreign exchange markets.

FORECASTS

Macroeconomic forecasts

Macroeconomic forecasts						
Annual averages, %	Real GDP growth, YoY, %			Inflation (CPI), YoY, %		
	2024	2025	2026	2024	2025	2026
Developed countries	**1.6**	**1.5**	**1.3**	**2.7**	**2.5**	**2.2**
United States	2.8	2.0	1.7	3.0	2.7	2.3
Eurozone	0.7	0.7	0.9	2.4	2.2	1.9
Germany	*-0.2*	*0.3*	*0.7*	*2.4*	*1.9*	*2.0*
France	*1.1*	*0.6*	*1.0*	*2.3*	*1.6*	*1.7*
Italy	*0.5*	*0.6*	*0.9*	*1.1*	*1.6*	*2.0*
Spain	*3.2*	*2.4*	*1.7*	*2.9*	*2.2*	*1.8*
United Kingdom	0.7	0.8	1.1	2.5	2.7	2.5
Japan	0.1	1.5	0.7	2.7	2.7	2.3
Emerging countries	**4.3**	**4.0**	**3.8**	**5.3**	**4.0**	**3.5**
China	5.0	4.4	3.9	0.2	-0.1	0.4
India	6.7	6.5	6.1	4.9	5.3	5.9
Indonesia	5.0	5.0	5.1	2.3	1.7	3.4
Brazil	3.4	2.0	2.0	4.4	5.5	4.6
Mexico	1.5	0.5	1.5	4.7	3.5	4.1
Russia	3.7	1.0	1.5	8.4	7.0	5.0
South Africa	0.6	1.0	1.3	4.4	3.2	4.2
Turkey	3.2	3.0	3.4	60.0	33.3	19.4
World	**3.2**	**3.0**	**2.9**	**4.3**	**3.4**	**3.0**

Central Banks' official rates forecasts, %					
		Amundi	Consensus	Amundi	Consensus
	4 March 2025	Q2 2025	Q2 2025	Q4 2025	Q4 2025
United States*	4.50	4.00	4.35	3.75	4.10
Eurozone**	2.75	2.00	2.15	1.75	2.15
United Kingdom	4.50	4.00	4.20	3.75	3.80
Japan	0.50	0.50	0.60	0.75	0.80
China***	1.50	1.25	1.30	1.00	1.20
India	6.25	6.00	5.90	6.00	5.75
Brazil	13.25	14.75	15.25	14.75	15.00
Russia	21.00	19.00	20.25	16.00	16.95

Source: Amundi Investment Institute. Forecasts are as of 4 March 2025. Consensus and current rates are as of 4 February 2025. CPI: consumer price index. *: Upper Fed Funds target range. **: Deposit rate. ***People's Bank of China Reverse Repurchase Notes 7 Day Rate. Q2 2025 indicates end of June 2025; Q4 2025 indicates end of December 2025. Current rates and Consensus are from Bloomberg.

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Amundi Investment Institute

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