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The year of the snake

Views on China for 2025 and beyond

CROSS ASSET INVESTMENT STRATEGY

JANUARY 2025 • Document for professional investors only

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"We believe China's leadership now genuinely intends to stabilise the economy, a notable shift from their passive approach a year ago."

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

"Given the risks that could impact market sentiment -- from earnings revisions to weaker growth, stronger than expected inflation, and geopolitics -- it's important to balance the positive view in equities with sufficient hedges."

VINCENT MORTIER
GROUP CHIEF INVESTMENT OFFICER

TOPIC OF THE MONTH

China in 2025: fate of lower rates

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KEY TAKEAWAYS

China's leadership explicitly advocates for unconventional policies that include **monetary easing and a more expansionary fiscal policy. However, we believe these policies will not offset the existing structural drags and US tariff impacts completely.**

We expect China's growth to remain on a downward trend, slowing from 5.0% in 2024 to 4.1% in 2025, and 3.6% in 2026.

In the case of aggressive US trade protectionism and export controls, China should keep its expansionary fiscal stance for longer than currently expected.

Chinese equity will be influenced by the incoming Trump administration's foreign policy, while additional stimulus could support Chinese markets, particularly domestic stocks. We maintain a neutral stance favouring domestic markets.

Investors learned the hard way that, without belief in fundamentals, one can still make money in China. Over the summer of 2024, the prevailing sentiment was 'ABC' (Anything But China) – a full-blown existential crisis framing China as an uninvestable asset class. In late September, China equities rallied an average of 25% on the back of official talk, triggering a widespread 'buy everything' sentiment, as the fear of missing out spread across the market.

On 24 September, the PBoC announced equity market support pipelines; then two days later, the Politburo held an emergency meeting and changed economic policies. For those who rely exclusively on fundamentals, it is painful to sit out violent rallies. The takeaway is clear: top-down investing in China has become a tactical game and making short-term judgments most of the time.

Finally, the awakening

Opinions on China are often oversimplified into bullish or bearish camps. It may seem contradictory to pair optimistic titles on policy announcements with bearish views on China's growth and inflation. **In essence, we recognise a clear policy pivot intention from the leadership, but we remain sceptical about its effectiveness.**

Unlike a year ago, when we described the policy stance as complacently passive, Chinese leadership has now eliminated all ambiguity. **It is explicitly advocating for unconventional policies that include monetary easing and a more expansionary fiscal policy. This pivot is probably triggered by an atypical systemic crisis,** where local governments were tight on money, struggling to pay corporates, banks and civil servants. Additionally, the election of Donald Trump as US President further seals the deal for such a shift. As a result of this newfound clarity in leadership, we expect a series of measures aimed at stabilising the economy, as follows:

- **Monetary policy**: we expect a total of 50bp policy rate cuts in H1 2025, bringing the seven-day open market operation (OMO) rate to 1%, starting with a 25bp cut in February.
- **Fiscal policy**: we expect an expansionary fiscal policy with a 2% additional fiscal deficit, raising the overall deficit to 10% of GDP in 2025 from 8% in 2024. Of this additional spending, 1% will be dedicated to consumption, including a continuous consumer goods trade-in programme and birth subsidies worth 500-800 RMB for families with more than one child. This will be announced on 5 March 2025 at the National People's Congress. **We believe this is the minimum required to stabilise the domestic demand, regardless of what Trump will announce on 20 January.**

- **In the case of aggressive trade protectionism policies and export controls from the Trump administration, China is likely to maintain this expansionary fiscal stance for longer than currently expected**. From 2025-27, we can expect broad easing, reminiscent of the former Japanese Prime Minister Shinzo Abe's first and second arrows starting in 2012. In that case, a delayed fiscal consolidation is likely, with the deficit being maintained at 10% in 2026-27 as well.

However, we believe that the impact of these policies will not offset the existing structural drags completely. A simple way to frame this is to consider how long it took Japan to recover from its zero-inflation period after Abenomics began in 2012. Markets are likely to position similarly.

We expect China's growth to remain on the downward trend, slowing from 5.0% in 2024 to 4.1% in 2025, and 3.6% in 2026. The upcoming package could help ease the drag from deleveraging in the past few years but is unlikely to reverse the course of the structural slowdown. As evident in recent data, outside of the segments that benefited directly from the government consumer goods trade-in programme, consumer demand remains soft.

In summary, we believe China's leadership genuinely intends to stabilise the economy, a notable shift from its passive approach a year ago. However, there is no quick fix to China's '3D' secular challenges (demographic, debt and decoupling, see here for more details).

We believe China's leadership genuinely intends to stabilise the economy, a notable shift from its passive approach a year ago.

Key take-aways on China equities from the desk

- **Policy shift and valuations are supportive**: There is a notable policy shift towards a pro-growth government stance, with a willingness to underpin the property sector, support private enterprises and encourage consumption. This, combined with the significant excess savings accumulated during the Covid-19 pandemic, could present attractive opportunities for long-term investors. Valuations and positioning are also supportive.
- **Rising geopolitical risks lead us to keep a neutral stance in the short term, favouring domestic stocks.** High uncertainty about Trump's policy and the contradictory appointments in his proposed cabinet call for a neutral stance overall. While offshore markets may at some point benefit from positive geopolitical developments, a base case would be a de-escalation, we favour domestic stocks that could be supported by the upcoming stimulus.
- **Structural reforms and the size of the fiscal support are key factors to watch**. Monitoring the size and composition of fiscal support is critical, particularly in light of the upcoming 'Two Sessions' summit. Observing announcements related to structural reforms that could help rebalance the composition of growth more structurally (such as social security, pension and Hukou reforms) will be essential for a sustained market rebound. However, the political challenges in implementing these reforms may hinder progress absent any recognition that stimulus without reform will only prove to have a temporary effect.

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MACROECONOMICS

China: the '3D' challenges

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From a long-term perspective, China faces significant and enduring secular headwinds, characterised by demographic shifts, debt issues and decoupling – collectively referred to as the '3D' challenges. **We anticipate that these forces will ultimately reduce China's growth to 3% and we expect this convergence to occur sooner rather than later, contrary to consensus and IMF projections.**

The demographic profile presents an ultra-long-term challenge

Even if Chinese policymakers successfully raise the total fertility rate from 1.0% in 2023 to 1.5% in 2025 and 1.8% by 2035, the working-age population will decline further over the next decade. As a result, **the contribution of an increasing labour force to economic growth is likely to remain negative for the next several decades.**

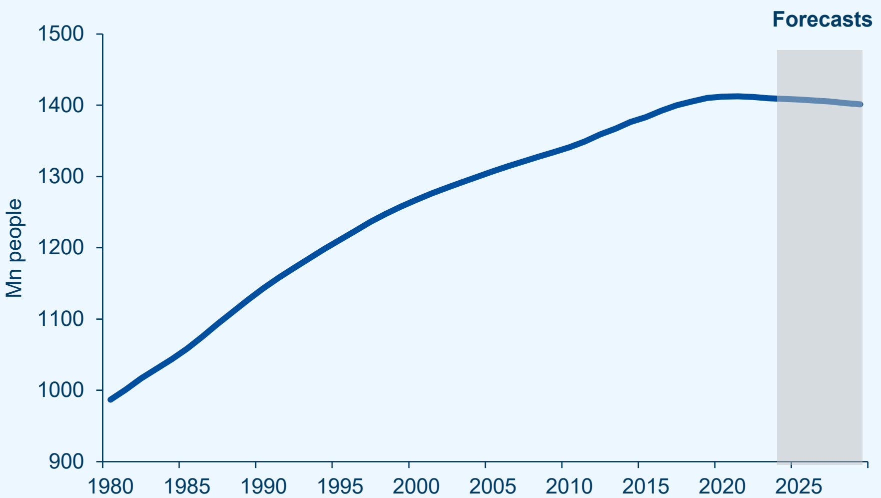
Economic decoupling from the United States should hinder productivity growth

This is particularly the case for US policies aimed at containing China's advancements in critical technologies and redirecting global supply chains away from China. China's response of doubling down on public investments in strategic sectors may not yield the desired results. History has shown that commercialisation and end-user demand are crucial for the successful adoption of new technologies.

Previously, China advanced rapidly along the global innovation curve, largely due to its extensive manufacturing ecosystem, which facilitated process innovation through continuous trial and error. However, **companies are now compelled to relocate production overseas either for geopolitical reasons or in search of higher profit margins.**

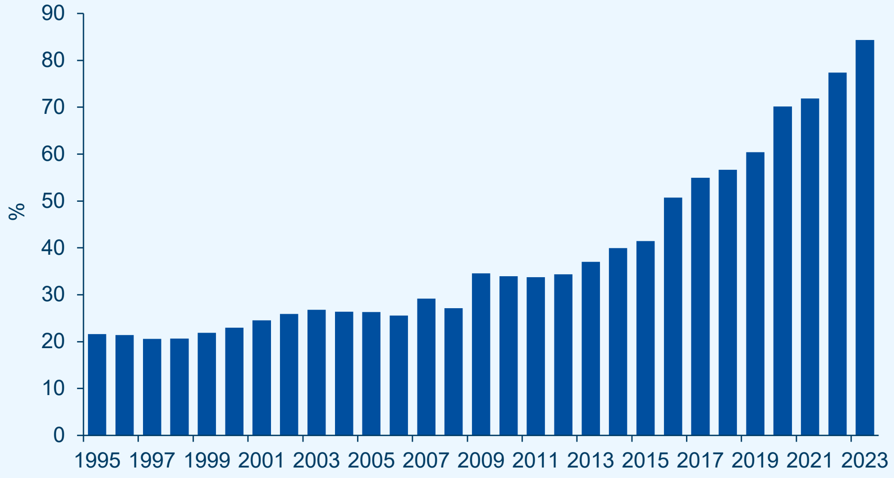
We anticipate that these '3D' forces will ultimately reduce China's growth to 3% and expect this convergence to occur sooner rather than later.

CHART: China's population



Source: Amundi Investment Institute, IMF. Data is as of 10 January 2025. Forecasts are by the IMF.

CHART: China's general government debt as a share of GDP



Source: Amundi Investment Institute, IMF. Data as of 8 January 2025.

Policymakers are increasingly favouring a flexible stance to address the debt issue.

In late 2021, policymakers enforced a deleveraging process in the property sector and embarked on a multi-year plan to reduce debt in both real estate and informal local government financing vehicles. This has added further strain to an already slowing economy, contributing to a systemic fiscal crisis over the summer of 2024 that resulted in the September policy pivot.

Policymakers are increasingly favouring a flexible stance to address the debt issue. Nevertheless, it seems unlikely that investors believe that deeply rooted problems can be resolved solely through stimulus announcements. While attitudes towards debt are shifting and management strategies are evolving, these changes are expected to create tradable opportunities.

Interest rates must fall

Not long ago, China's policymakers operated under the illusion that a growth rate of 5%, a deficit of 3%, and inflation at 2% (the 5-3-2 rule) could be maintained. However, since September, they have recognised that growth is closer to 3%, inflation is nearly 0% and deficits may need to rise to 10% temporarily due to the incoming US administration's trade policy (shifting to a 3-10-0 set-up).

This new macro setup could disrupt debt sustainability, even if carried out over a few years. According to public debt management principles, a country has three main options to manage its debt-to-GDP ratio :

1. **Grow out of debt**: increase economic growth;
2. **Fiscal consolidation**: reduce primary deficits by cutting spending or increasing revenues;
3. **Lower the debt service burden**: reduce interest rates.

China's growth rate is declining due to structural challenges, making it unlikely to grow out of its debt (option 1). The preferred option of fiscal consolidation (option 2) has faced backlash, particularly from local governments struggling with real estate and financing issues, leading to increased tax enforcement and economic strain. As a result, this option is now off the table and China is focusing on containing the growth decline.

With decreasing growth, fiscal spending and deficits are expected to rise. To prevent the debt-to-GDP ratio from soaring, China must reduce its debt servicing burden, specifically its interest payments. Lowering interest rates, especially real rates, will be essential. The bond markets have already responded by lowering long-term yields, indicating confidence in this trend.

If the policy rate reaches 1%, the PBoC may pause at this historically low level. However, if domestic consumption and inflation do not improve as expected, they might consider lowering rates further, potentially leading to quantitative easing.

MACROECONOMICS

CENTRAL BANK WATCH

The Fed's dilemma

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Recent inflation numbers are in line with a short pause in the path towards the Fed's target, yet bond yields have moved sharply higher since the Fed's big cut. Medium-term inflation expectations – including FOMC member expectations – have moved higher (see chart), but **most of the increase in ten-year yields since the election reflects a rise in real rates.**

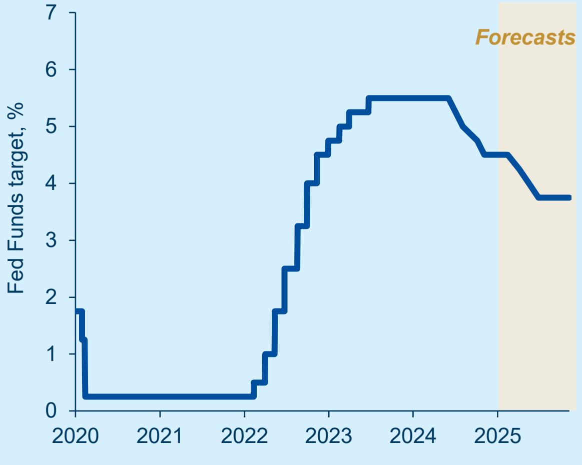
The Fed expects inflation about 30bp higher at the end of 2025 (at 2.5%), which implicitly incorporates some changes in policy under Trump, especially tariffs and fiscal easing. Market pricing is volatile and sensitive to monthly inflation outcomes. **We expect three cuts to take the policy rate to 3.75% by the end of this year**, as we believe the US economy will slow towards potential growth just below 2%, with higher real rates and tariffs weighing on growth.

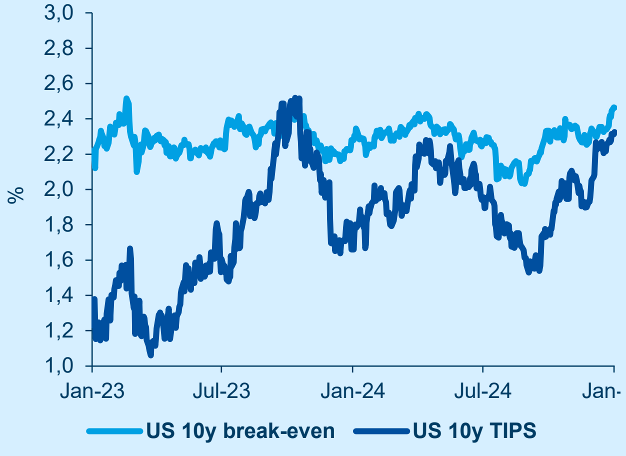
The US labour market is gradually rebalancing and wage growth does not pose a risk to inflation. Labour demand has been weakening, with fewer openings, lower quit rates, and an increase in temporary jobs. Labour cost indicators – hours worked, wages of new hires – are also moderating. And aggregate wage growth of 4 percent supported by productivity growth.

Higher real bond yields, will be a key headwind to growth and asset prices. **The fiscal deficit – expected to be 6% of GDP this year – and associated debt issuance is the more likely reason for higher real rates, and higher term premia** – the additional compensation investors require both for holding more debt and for higher inflation uncertainty. Breakeven inflation rates have moved marginally higher (inflation swaps indicate similarly). But real rates and term premia have moved more, with the latter at 10-year highs. This is more worrying.

"We expect three 25bp cuts by the end of this year, taking the policy rate to 3.75%."

CHARTS: AII expectations on Fed Funds; 10y TIPS and inflation break-evens





Source: Amundi Investment Institute (AII), Bloomberg. Data is as of 16 January 2025. Forecasts are by AII and are as of 16 January 2025.

A slower US disinflationary process moving ahead

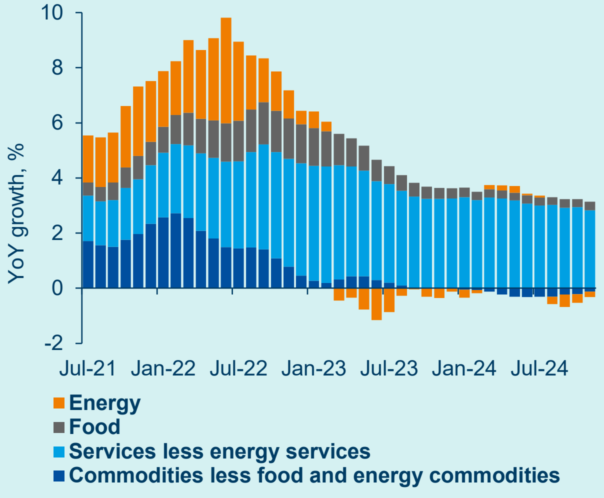
Cooling labour market

- While there has been an uptick in job openings, hiring remains on a downward trend.
- Workers are increasingly finding it more difficult to switch jobs and, consequently, the quit rate has been declining.

Slower wage growth and labour costs

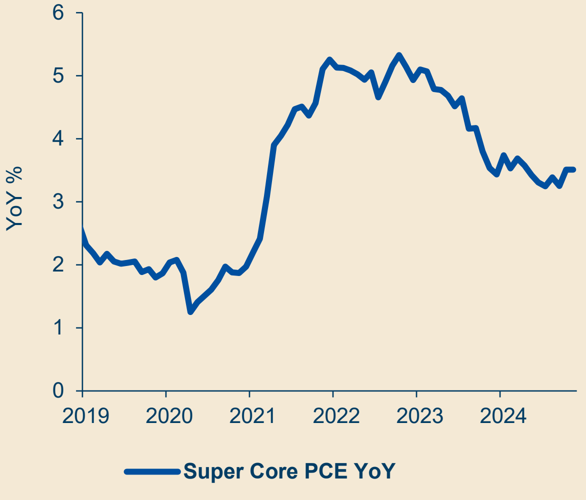
- The declining quit rate is an indicator of wage growth moderation ahead.
- Wage growth measures are on a downward trend and the index of new jobs posted shows there is room for moderation, although its stabilisation hints at a slower pace of decline.

Inflation trends key to watch for Fed's outlook in 2025



- Future disinflation will mainly be driven by services inflation, which is currently the stickier component.
- As such, future disinflation may be slower than in the past.
- Core goods' disinflationary contribution may be challenged in the future by likely tariffs.

Sticky inflation components on a downward trend



- Most of the persistent hot inflation items are services-oriented.
- Core services inflation has negative base effects for Q1 2025.

Source: Amundi Investment Institute on Bloomberg, Datastream. Data is as of 14 January 2025.

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 between US vs China. Global trade begins to decline.	▪ Geopolitical risk subsides as conflicts come to a close. ▪ Shifting power dynamic reshapes global trade, fostering balanced growth and prosperity.
INFLATION & POLICY MIX	▪ Disinflation trend still intact, 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.	▪ Adverse geopolitical trends halt progress on inflation advocate and stall rate cuts. ▪ Ballooning fiscal debt elevates the cost.	▪ 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: subdued 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 reduction in migration into advanced economies lowers labour supply and growth. ▪ 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%	15%	15%	20%
	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 7 January 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**	**1.6**	**1.6**	**2.6**	**2.2**	**2.1**
United States	2.7	2.1	2.0	2.9	2.3	2.2
Eurozone	0.8	1.0	1.2	2.3	2.0	1.9
Germany	*-0.1*	*0.6*	*0.9*	*2.4*	*1.9*	*1.9*
France	*1.1*	*0.7*	*0.9*	*2.3*	*1.7*	*1.8*
Italy	*0.5*	*0.7*	*0.9*	*1.1*	*1.8*	*1.7*
Spain	*3.1*	*2.2*	*1.8*	*2.9*	*2.4*	*2.0*
United Kingdom	1.1	1.6	1.4	2.5	2.1	2.2
Japan	-0.2	1.4	0.7	2.6	2.3	2.4
Emerging countries	**4.1**	**3.9**	**3.8**	**5.3**	**4.0**	**3.4**
China	4.8	4.1	3.6	0.3	0.4	0.6
India	6.4	6.5	6.3	5.0	5.4	4.9
Indonesia	5.0	5.2	5.0	2.3	2.6	3.8
Brazil	3.1	2.3	2.4	4.4	4.9	4.1
Mexico	1.5	1.2	1.5	4.7	3.8	3.9
Russia	3.7	1.0	1.5	8.4	7.0	5.0
South Africa	0.5	1.2	1.3	4.5	3.8	4.7
Turkey	3.0	2.9	3.4	60.0	30.5	19.3
World	**3.1**	**3.0**	**3.0**	**4.3**	**3.3**	**2.9**

Central Banks' official rates forecasts, %					
	17 January 2025	Amundi Q2 2025	Consensus Q2 2025	Amundi Q4 2025	Consensus Q4 2025
United States*	4.50	4.00	4.05	3.75	3.80
Eurozone**	3.00	2.00	2.15	1.75	2.15
United Kingdom	4.75	4.00	4.15	3.75	3.70
Japan	0.25	0.50	0.50	0.75	0.80
China***	1.50	1.00	1.30	1.00	1.20
India	6.50	6.00	5.95	6.00	5.75
Brazil	12.25	14.75	14.62	14.75	14.00
Russia	21.00	19.00	21.35	16.00	16.90

Source: Amundi Investment Institute. Forecasts are as of 17 January 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.

GEOPOLITICS

GEOPOLITICS

Tail risks to watch in 2025

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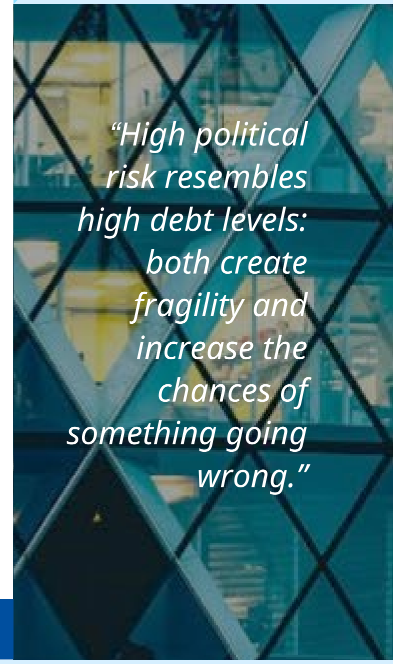
We see geopolitical risks persisting as a base-case scenario for 2025 (see box). Below we share the main upside and downside risks to our base case that investors should take into consideration.

Tail risks

Trump could become more 'geopolitical'. This risk could see the United States use tariffs and other means to reorganise the world in line with US interests. The United States could force countries to pick sides on China or deter aspiring new BRICS joiners. A bipolar world would be the result if implemented in full, although many middle countries are likely to resist picking sides for as long as possible. Efforts to devalue the dollar with a new 'Plaza'-style agreement could also fall into this 'geopolitical' category, although today's context makes this difficult.

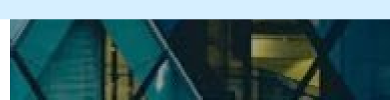
The concept of 'spheres of influence' could take hold, with the United States expanding its sway both North and South while allowing Russia and China their zones. This scenario could result in a grand bargain with China, in which geopolitical and economic issues are settled by confining powers geographically.

Hybrid warfare escalation is likely, with more attacks on subsea cables and infrastructure, particularly in Europe and Asia, as well as in space, while assaults could also increase in the United States. A Russian projectile could hit NATO territory without casualties and Russia would say it was a mistake, leading to increased tensions.



Base-case expectations on geopolitics for 2025

- **Geopolitical risks will remain high** because of the power realignment underway and growing economic disruptions. It will require adaptability, hedging and diversification strategies.
- **US domestic politics** will be noisy, with the new administration aiming to implement "Make America Great Again" policies. This is likely to **undermine some institutions and norms, but is unlikely to push US democracy towards breaking point**. **The administration will likely face trade-offs and constraints.**
- The **United States-China relationship will likely** deteriorate further, with tariffs gradually being imposed and Chinese retaliation. **Economic ruptures will increase geopolitical tensions, but in 2025 the focus is likely to remain on economics**.
- **China** will focus on adapting to the new environment through **domestic economic support and diversifying its trade relationships**. Geopolitical muscle flexing will continue and **the South China Sea risk will remain elevated**.
- **Talks between Russia and Ukraine will start in H1**; a fragile ceasefire is more likely than a peace deal, but even that is difficult.
- **Talks** will dominate the **Middle East** on multiple levels.
- The **United States-EU relationship** will **face a combination of intimidation and leeway, but the United States will more likely than not keep allies close.**
- **The EU confronts conflicting dynamics** (e.g., fiscal consolidation versus the need for higher defence spending). Some upsides could result from the German election on the fiscal side and provide renewed leadership on the EU level.
- **New winners will emerge as the world diversifies** to adapt to changes in sanctions, tariffs and physical disruptions.
- All of the above will put **upward pressure on costs**, with ramifications for inflation expectations.



In the Middle East, risks involve potential **United States-Israeli strikes on Iran's nuclear facilities,** in response to Iran having significantly increased its nuclear capabilities. This could lead to regional destabilisation affecting UAE and Saudi Arabian oil infrastructure. **A regime change in Iran** could either lead to destabilisation or a less hostile Iran. In Israel and Syria**, upside risks could arise from a more stable Lebanon and Syria** under new governance.

In Asia, many paths could lead to **escalation in the South China Sea,** either because United States-China economic tensions intensify faster than expected or because there is an accident as a result of riskier naval operations. **North Korea could still attack South Korea**, although the likelihood has decreased due to South Korea's political shifts.

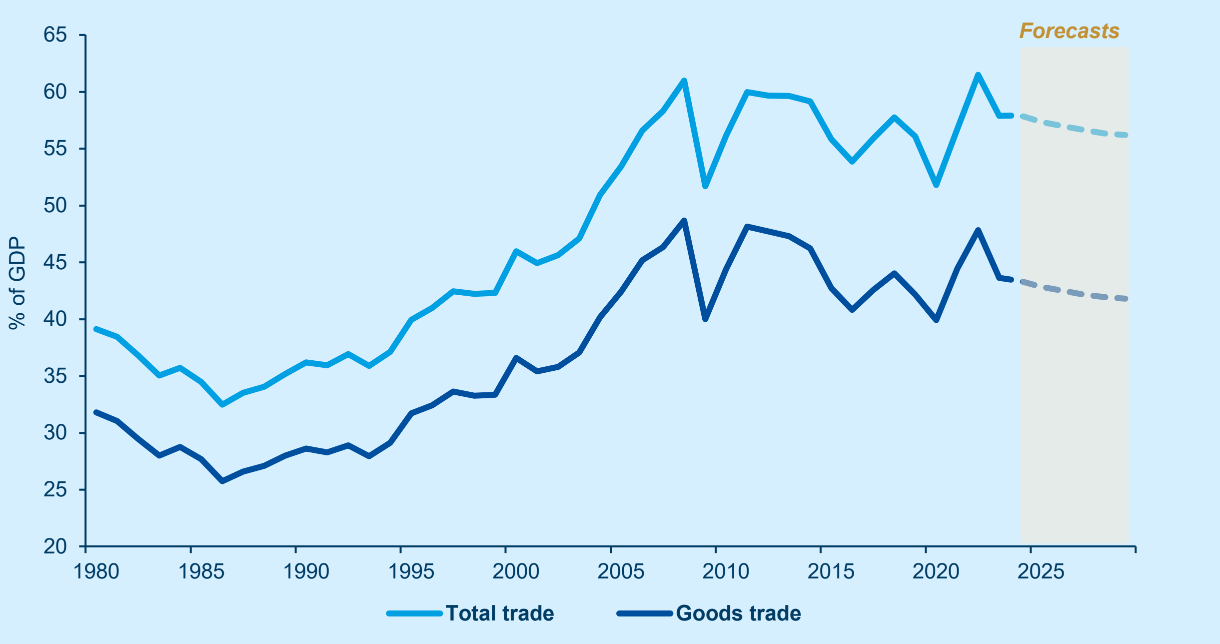
In Europe, the **Russia-Ukraine war could escalate** if Russia targets NATO or if the United States increases support for Ukraine because Russia refuses to settle. On the upside, **a comprehensive peace deal**, rather than just a ceasefire, could lead to reconstruction and improved relations with Russia, including the resumption of energy flows to Europe. **A far-right government could be the outcome of Germany's elections. EU countries could break with the United States** as a result of US economic and political actions. The transatlantic relationship would falter, leading to either radical policy changes or further divisions within the Union.

This thought exercise aims to help investors be aware of possible scenarios, but it is not a comprehensive list of all possible (geo)political risks*. While markets may not be paying attention to some of these risks, these vulnerabilities or potential positive surprises can lead to strong short-term market reactions and bigger trends affecting market dynamics, should they play out.

"Upside risks include a more stable Lebanon, a surprising shift in Syria's governance, and a comprehensive peace deal in the Russia-Ukraine conflict that could lead to reconstruction and improved relations with Russia."

** Please note note this does not include 'black swan' events, as such events are, by definition, not forecastable.*

CHART: Global trade remains strong, but could Trump's tariffs, retaliations, and pressure to onshore herald global trade slowing down?



Source: Amundi Investment Institute, IMF WEO October 2024. IMF calculations are in current USD, trade is the sum of imports and exports.

GLOBAL INVESTMENT VIEWS

A semblance of a goldilocks ahead of Trump's inauguration

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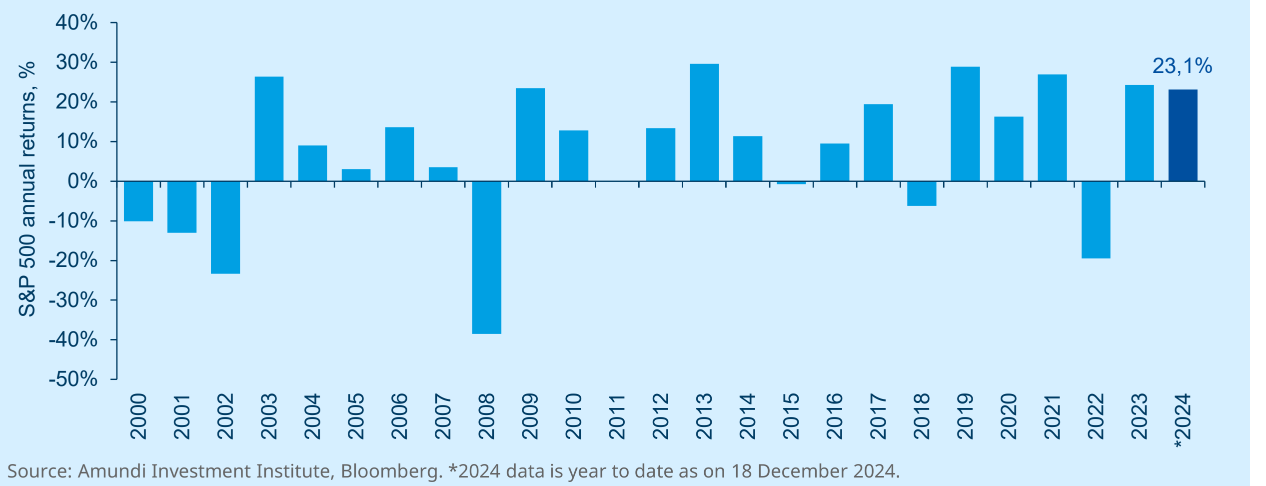
Markets have cheered any good news emerging in 2024 from the economy, corporate earnings and the political environment, although occasionally they were caught by surprise. Looking ahead, they will be driven by earnings momentum, a scenario of slowing US growth, and rebalancing labour markets but not drastically weakening. On the other hand, the Fed getting a bit more hawkish and Trump's approach to trade along with the international response could create volatility. Outside the US, European growth and policy-making and China's response to its domestic problems will drive the markets.

In particular, we see the following factors as key drivers of the global economy:

- **US growth resilient but still on a declining path and subject to uncertainty on Trump policies.** Recent data are pointing towards better fundamentals in the economy, but the overall growth trajectory doesn't change.
- **European growth struggling to stay on course.** Governments' attempts to impose fiscal consolidation (France, Germany) are clouding the growth outlook. In Germany, we could see a loosening of the debt brake, but it would only be gradual and the economic impact would be seen from 2026.
- **Uncertainty around the Fed, while the ECB is expected to be more dovish** due to inflation falling faster. We have decreased ECB's terminal rate expectations by 50bps to 1.75%, to be reached by July 2025. The Fed delivered a hawkish cut, meaning it has very close eyes on inflation.
- **Chinese announcements are big on intent.** While the main points revolve around expanding the fiscal deficit and boosting domestic demand, we would like to see details about how the government intends to do it.

CHART: US equities: 2024 was strong, 2025 defined by policy mix and its impact on growth



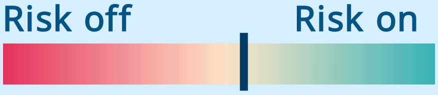
Source: Amundi Investment Institute, Bloomberg. *2024 data is year to date as on 18 December 2024.

We think liquidity in markets is ample, credit conditions robust, and the profit environment reasonable. But the most important factors preventing us from significantly raising our risk stance are valuations and risks to earning revisions. We keep a mildly constructive view, outlined below:

- **Cross-asset, modestly risk-on heading into 2025 with hedges in place.** Economic growth in the US and Europe is reasonable, and inflation is slowing, painting a supportive backdrop for risky assets. We have strengthened our positive stance on US equities and turned constructive on Europe, while also maintaining a small positive view on the UK and Japan. We also continue to search for opportunities in EM bonds, in particular in the Czech Republic, South Africa, and Indonesia. To counterbalance this overall pro-risk allocation, we maintain a positive duration bias as a hedge against potential deterioration in the growth outlook. We have also added some equity hedges and keep gold as a diversifier.
- **Fixed income as an asset class will be increasingly affected by uncertainty around fiscal and monetary policies**. As a result, we maintain a tactical approach to duration in the US and Europe, where we look for opportunities on the expected steepening of the yield curves. In the UK, we are positive but are monitoring the recent strong inflation and wage growth data, while in Japan bonds, we remain cautious. In the credit market, we favour investment grade, in particular in Europe, where valuations look more attractive. In contrast, we are cautious on US HY.
- **In equities, diversification is the name of the game, as concentration risk remains the top concern.** In the US, we remain cautious on the mega caps and explore opportunities down in the capitalization spectrum in companies that could benefit from a resumption in industrial demand and economic growth but where the valuations do not yet reflect this. We also think the rally broadening towards more US value, cyclical stocks will benefit from an uptick in economic activity. In Europe, we favour banks that are less sensitive to rate changes and have strong capital buffers vs. those more sensitive to rate reductions.
- **Any dollar strength and rise in geopolitical risks will likely create volatility for EM, but their growth potential is strong and central banks are prudent.** We aim to explore resilient bottom-up stories that are driven by domestic consumption themes in debt and equities.

Given the risks that could impact market sentiment—from earnings revisions to weaker growth, stronger than expected inflation, and geopolitics—it's important to balance the positive view in equities with sufficient hedges.

Overall risk sentiment



In an overall benign growth environment, we are slightly more positive on risk but remain tilted towards quality and balance the risk stance with hedges on equities.

Changes vs previous month

- Multi asset: Enhanced our views on developed market equities
- Multi asset: Added protections on US 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 (GIC) held on **18 December 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, CB = central banks, IG = investment grade, HY = high yield,. BTPs = Italian government bonds, JBGs = Japanese government bonds. For other definitions see the last page of this document.

Three hot questions

1

Have you revised your ECB expectations and why?

We have decreased ECB's terminal rate expectations by 50bps to 1.75%, to be reached by July 2025. Our revision is based on: i) disinflation being quicker than anticipated by the ECB (headline CPI currently at 2.2% YoY against 2.6% expected by the ECB; core CPI currently at 2.7% against 2.9% expected); ii) much weaker-than-expected PMIs and slowing services sector; and iii) fiscal policy unlikely to add any stimulus in 2025. The main risk to our expectation is represented by full implementation of Trump's tariffs policy. According to our estimates, tariffs of 10-20% should reduce growth by at least 0.2% on a full-year basis, with a muted short-term impact on inflation. Under such scenario, the ECB could cut rates below their neutral level.

Investment implications

- We revised our EURUSD forecast from 1.13 to 1.08 in Q2 2025 and from 1.16 to 1.11 in Q4 2025.

2

What is your take on the Fed's December rate cut?

At its December meeting, the Fed cut rates by 25bp as expected, but the overall tone was hawkish. The Fed now expects inflation to hit target only in 2026 and mentioned that current policy rates are significantly closer to neutral than previously expected. Even though the Fed does not incorporate explicitly the possible policy changes under the new administration, the assessment of risks suggests they are incorporating the more uncertain outlook. Rates should stay high for longer, with the median expectation for Fed Funds in 2025 raised to 3.9% from 3.4% in September.

Investment implications

- Given uncertainty on the new administration's policy and its impact, flexibility will be key on exposure to the US Treasury curve.

3

How do you see the impact of possible US tariffs on different countries?

If implemented, US tariffs are likely to hit various countries in different ways. The Eurozone has a high reliance on export, which accounts for some 50% of GDP on average, but it varies across countries. China should be hit hard, and, to offset the likely impact of US tariffs, the recently held economic conference sets a pro-growth and pro-stimulus tone for 2025, with likely additional fiscal spending mostly to help domestic consumption. Details should be unveiled during the National People's Congress in March.

Investment implications

- We are close to neutral on Chinese equity, but given the fluid situation, this could change. On credit, we favour IG over HY.

China's leadership should adopt a pragmatic approach to handle likely US tariffs, with a focus on increasing fiscal spending to support private consumption and address problems in the real estate sector.

MULTI-ASSET

Stay constructive with appropriate protections

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The 2025 global outlook is likely to remain benign amid a moderate US economic growth and a recovery in Europe. Falling inflation should support consumption in the region. However, monetary, fiscal and international trade policies could cloud the outlook. For instance, the Fed is now more likely to be cautious on cutting rates and vigilant on inflation. More clarity is also needed on Trump's trade policies and the European response to them. Until then, we think investors should consider keeping safeguards and other sources of stability but at the same time aim to benefit from market sentiment, areas of attractive valuations and resilience in US economy.

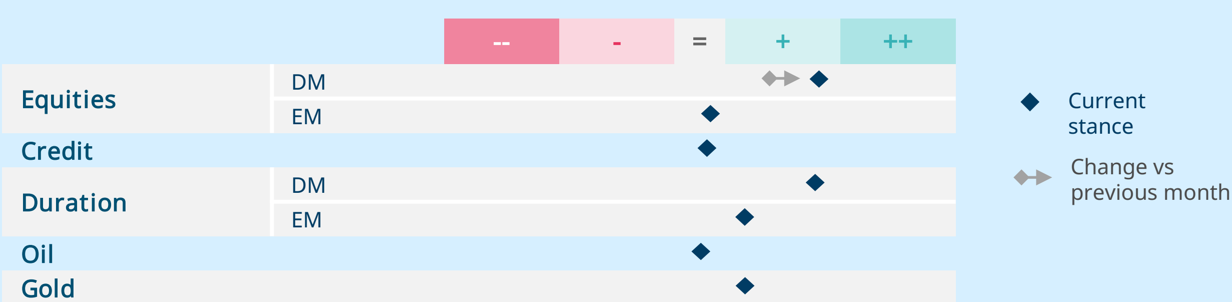
We enhanced our views on DM equities by raising our stance on US and turning constructive on Europe. The former should be supported by economic strength and new government's policies, while being less vulnerable to weak global demand. Europe is appealing as a value play, and challenges from a worsening trade environment are heavily discounted. We remain positive on the UK and Japan and keep our constructive stance on China amid its attractive valuations. Recent economic conference affirms the policymakers' stance in addressing the domestic problems.

We remain mildly constructive on equities and prefer to play it through a quality tilt and by maintaining portfolio safeguards.

In fixed income, we stay positive on US as a hedge against a possible worsening of the economic outlook. We are positive also in core-European and UK duration, along with a tilt towards Italian BTPs vs. German bunds. We are slightly defensive on Japanese bonds. In EM bonds, we stay positive and became constructive on a basket of select countries' debt that includes the Czech Republic, Indonesia and South Africa but believe appropriate hedges should be maintained. The risk premium of Czech vs core rates (US, Europe) appears attractive. We are monitoring any headwinds from the dollar. In credit, EU IG offers solid fundamentals.

In FX, we maintain our positive stance on USD vs. CHF and on JPY vs. CHF. The swiss franc is among the most expensive currencies in G10. We also stay cautious on the EUR vs. JPN and NOK, amid a dovish ECB. Among cyclical currencies, we like AUD given its valuations and the potential to benefit from upside surprises in China. Finally, our positive views on the INR are also maintained.

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 18 December 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

Ambiguous policy environment calls for agility on duration

Donald Trump's fiscal and foreign trade policies would affect markets' inflation expectations and yield volatility, particularly on the long end of the curve. This, in turn, is keeping the Fed vigilant on any risks to its own inflation objective. In Europe, EU's countermeasures to US policies further complicate a situation of growth divergences (for instance, between Germany and Spain) within the region. Hence, we think the ECB's task is not going to be easy as it will also be worried about growth. But the positive news is that inflation is likely to fall faster than the central bank had anticipated, and this should support real incomes. All this points to maintaining a flexible stance on duration. Beyond that, there are income opportunities to be explored from corporate credit of businesses in Europe, US and emerging markets.

Global and European fixed income

- We stay tactical on duration overall, with a close to neutral view on core Europe and positive on the UK. In Japan, we are defensive but stay granular to identify maturities that offer value.
- EU IG, where we are slightly more positive, presents quality idiosyncratic opportunities, particularly among banks.
- We are neutral on HY and are mindful of liquidity risks. But areas such as B-rated debt offer a good balance of yield and quality.

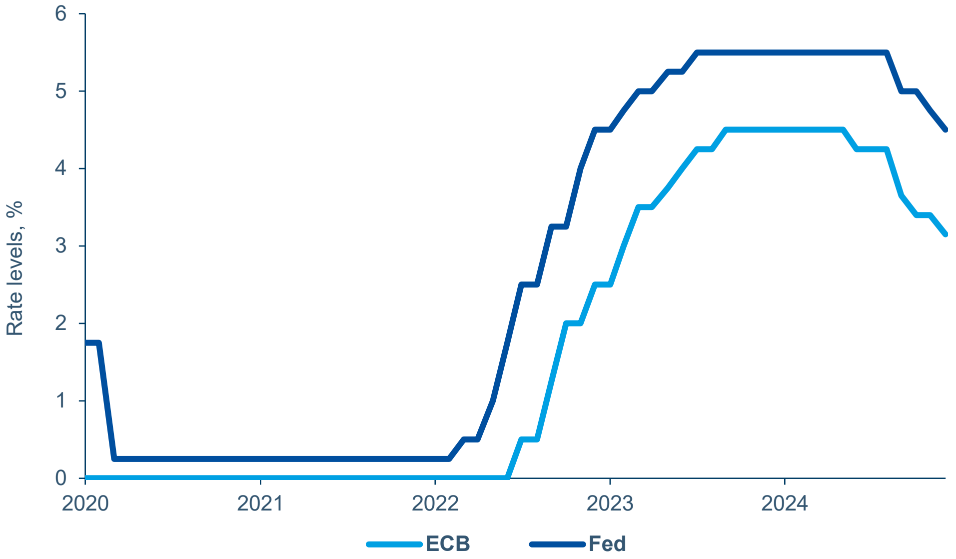
US fixed income

- We stay tactical on duration with a preference for the intermediate part of the curve. TIPS are attractive also for long-term investors.
- In credit, we look for areas where credit spreads are wider or better compensate for liquidity risk. We favour high-quality and shorter maturity. We also prefer leveraged loans to high yield.
- Agency MBS should benefit from any potential easing of regulation.

EM bonds

- EM growth remains robust, but any dollar strength and potential tariffs on countries are a headwind.
- We stay selective on local currency debt, in favour of countries such as South Africa and in LatAm.
- Corporate credit valuations are reasonable, and we see opportunities in HY.
- We are vigilant on oil prices as any weakness there could pressurise exporters in the middle east, and we could see some downgrades if prices fall.

CHART: Central banks are increasingly factoring in an uncertain outlook



Source: Amundi Investment Institute, Bloomberg, as of 20 December 2024. ECB Main Refinancing Operations Announcement Rate, Federal Funds Target Rate - Upper Bound..

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EQUITIES

Valuations chase profits in the long run

The pro-cyclical rally over the past few months in the US and Europe is an extension of a no-recession narrative. For markets, this is a positive scenario, provided corporate profits continue to meet expectations. However, this scenario could also lead to speculation and excesses in some corners, and when it happens, any disappointment on the earnings front could be brutal on valuations. In Europe, falling inflation could boost real incomes and eventually consumption. This is mildly constructive for European equities where most of the bad news seems already priced in. However, we try to balance that with a fundamentals-driven approach, which prioritises balance sheet strength, pricing power and profitability across US, Europe, Japan and emerging markets.

European equities

- Falling rates and subsiding inflation are supportive of European recovery, but valuations are discounting a weak economic scenario.
- In an overall barbell approach, we prefer staples and healthcare stocks with pricing power. We also like banks that show limited sensitivity to changes in interest rates.
- While we are cautious on tech and industrials, we see opportunities in industrial names linked with the long-term electrification theme

US and global equities

- In a market with areas of extreme valuations, we focus on attractively priced stocks that may benefit from an increase in industrial demand and economic activity.
- We favour value, quality, and defensive beyond the traditional names.
- Sector-wise, we prefer materials and large banks that are structural winners and could benefit from favourable regulatory changes and lower taxes.

EM equities

- We are constructive on EM equities, but we do see divergences.
- For instance, in China, the recent announcements clarified that the country has fiscal space, but whether it is willing to use this is a question. Some segments are attractively priced, but we stay neutral.
- Outside China, we are positive on Indonesia, Mexico, and Brazil, whereas we exercise caution on Taiwan and Saudi Arabia.

CHART: European profits leave room for valuations to catch up

Source: Amundi Investment Institute, Bloomberg, as of 16 December 2024.

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VIEWS

Amundi asset class views

In focus this month

- **US equities** are a mixed bag, with some large cap corners expensive but other areas reasonably priced and could potentially benefit from Trump's policies and positive sentiment. We believe this should be well-hedged.
- **EU IG credit** is showing signs of robust corporate fundamentals, reasonable valuations and attractive carry.

Equity and global factors

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

Global factors	Change vs M-1	--	-	=	+	++
Growth			◆			
Value					◆	
Small caps					◆	
Quality					◆	
Low Volatility				◆		
Momentum				◆		
High Dividend				◆		

Fixed income & FX

Govies	Change vs M-1	--	-	=	+	++
US				◆		
EU core				◆		
EU periph.				◆		
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.					◆	

FX	Change vs M-1	--	-	=	+	++
USD					◆	
EUR			◆			
GBP					◆	
JPY					◆	
CNY			◆			

Source: Summary of views expressed at the most recent global investment committee held on **18 December 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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Date of first use: 20 January 2025.
Document ID: 4171381.

Document issued by Amundi Asset Management, "société par actions simplifiée"- SAS with a capital of €1,143,615,555 - Portfolio manager regulated by the AMF under number GP04000036 – Head office: 90-93 boulevard Pasteur – 75015 Paris – France – 437 574 452 RCS Paris – www.amundi.com

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Amundi Investment Institute

In an increasing complex and changing world, investors need to better understand their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios.

This environment spans across economic, financial, geopolitical, societal and environmental dimensions. To help meet this need, Amundi has created the Amundi Investment Institute. This independent research platform brings together Amundi's research, market strategy, investment themes and asset allocation advisory activities under one umbrella; the Amundi Investment Institute. Its aim is to produce and disseminate research and Thought Leadership publications which anticipate and innovate for the benefit of investment teams and clients alike.

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