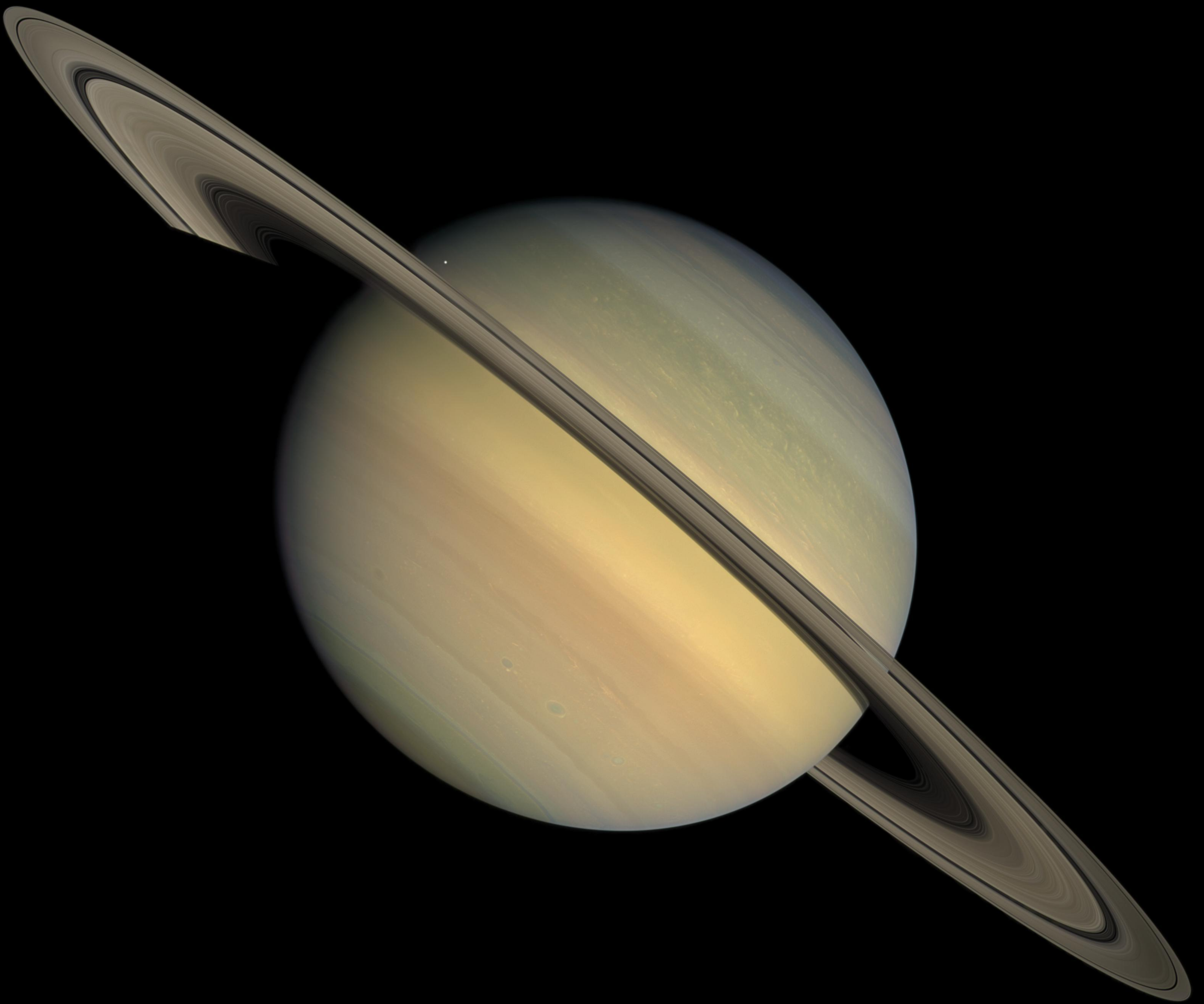




Investment Research

Global Outlook

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MARKETS REVIEW

Macro Outlook

United States:

Despite fears of an escalation of the current war in the Middle East between Israel and Iran and the persisting political polarization, the US economy is showing signs of achieving the coveted soft landing that was seen as improbable at the beginning of 2024. Having tamed inflation, The Federal Open Market Committee of the United States has begun its target interest rate cutting cycle with a relatively large 50 bps cut in September, followed by a further decrease of 25 bps in November, and with more cuts on the horizon. The first interest rate cut in 4 years brought the Federal Funds Rate down to 5% from 5.5%. The start of the cutting cycle has brought with it a wave of optimism reflected in asset prices across the board.

Analysts expect GDP to expand by 2.6% YoY in 2024, revised upward from the former estimate of 2.4%. The revised estimate largely reflects evidence of stronger consumer spending, increased after-tax income, higher savings among US households, and a healthy labor market that continues to support consumption. Slowing inflation and a healthy labor market should support more measured interest rate cuts over the course of the next year, lowering the Fed Funds rate target range to 3.00–3.25% in 2025.

The recently re-elected Donald Trump promises to strengthen the US economy to new levels. Trump's message centers on a radical shift in trade policy, plans to eliminate taxes on tips and Social Security benefits, and a proposal to significantly reduce the corporate tax rate. His plans include a universal tariff of 10% to 20% on all imports and as high as 60% on goods from China. He argues that these tariffs will protect American jobs and industries, claiming they will incentivize domestic production and reduce reliance on foreign goods. Some analysts believe that the series of possible tariffs could cause inflation to roar back and disrupt the current interest rate-cutting cycle.

Canada:

Canada followed the rest of the world by starting their interest rate-cutting cycle as inflation pressure eased. The Bank of Canada has lowered its key interest rate to 3.75%, making a 50-bps cut for the first time since the COVID-19 pandemic. Canada is on track for a soft landing thus increasing consumer confidence, domestic demand, and investments.

Canada's GDP growth is expected to be around 1.2% in 2024 before accelerating to 2.0% in 2025. Core inflation is expected to drop to 2.0% around mid-2025. The recent job reports from Canada beat expectations but the labor market overall is expected to stay cool until growth picks up in 2025. Canada is one of the biggest trading partners of the US, making the recent Trump victory crucial to Canada's economic future.

Euro Area:

The ECB expects for 2025 a real GDP growth of 1.3% YoY, while inflation is expected to slow around 2.2% YoY. Positive growth and the return of inflation on target, made it possible for the ECB to start an easing cycle, which the markets think will conclude at a terminal rate close to 2%. Since the post-Covid period, EU growth has been driven mainly by France and Spain, as Germany saw the effects of increasing energy prices, and a worsening of trade conditions with China. In contrast, Spain is expected to increase by 2.1% in 2025, continuing its economic momentum. The composite PMI stabilized around 49 and is growing compared to its level one year ago, but it still points to a slow and gradual economic growth. After the European, French and German elections, as outlined in the Draghi report, EU is facing the fundamental challenge to restore its productivity, which has declined dramatically since the 90s. In the report, the former ECB president, suggested the implementation of some structural reforms, together with large public investments, which have not met the favors of all EU members.

United Kingdom:

As inflation is easing around the 2% target, and the economy grew more than expected, with forecasts of 1% YoY in 2024, the BoE is more comfortable in cutting rates. Most importantly, after the downward inflation surprise and wage growth revisions, Governor Bailey, has stated that the BoE could become "more aggressive" in rate cuts. Minister of Finance Rachel Reeves has presented her budget plans. She has vowed to get productivity back, and, most importantly, fix the lacustric situation of public investments. To tackle the "budget hole" of around 40 billion pound, she decided to increase taxes. At the same time, the introduction of fiscal rules, has proven to be an important step towards a better

management of public debt. Former Italian PM Draghi particularly endorsed this move. For the next year UK is expected to grow at 1% YoY, while markets expect the terminal rate to be at 4%, even though there are chances for a more rapid decrease in interest rates.

China:

China's economy has been characterized by the 5% yearly GDP growth target set by the government. This year China has been struggling to reach this target displayed by the underperformance of recent quarters. The most recent GDP growth came in at 4.6%, beating analyst expectations despite falling below the set target. In recent years China has been plagued by a struggling real estate sector, slowing domestic demand, fading consumer confidence, and slowing exports. A sign of this is the recent 10.7% drop in crude oil imports, which serves as a benchmark for the strength of China's domestic market.

The Central Bank of China recently announced a series of monetary and fiscal policy measures to battle the aforementioned problems. The announcement of a sizeable monetary stimulus package sent Chinese equities skyrocketing and brought temporary optimism to the markets. The size and allocation of the crucial following fiscal stimulus have yet to be announced. A failure to meet market expectations would create doubt in China's ability to pull through its economic decline. The main doubt is that the fiscal stimulus won't be large enough and/or properly allocated to address the deep-rooted problems affecting the Chinese economy.

Japan:

Japan's economy is seeing a shift from a more external demand-driven focus to a domestic demand-driven focus. Recently, Japan has seen its real wages increase for the first time since 2022 by 1.1% in June and by 0.4% in July, fostering positive labor market sentiment, and fueling consumer spending and investment. During the summer Japan made a historical monetary policy move, increasing its target rate to 0.25%, breaking its era of essentially negative interest rates. The Bank of Japan seems determined to continue its rate-hiking cycle to battle rising inflationary pressure. The recent rate hikes have caused the Yen to strengthen leading to a slowdown of exports. In addition to monetary factors, Japan's

crucial motor-vehicle sector exports were affected by production halts caused by vehicle safety concerns. Exports are predicted to recover once production gets back on track. The recent growth in the technology sector has been beneficial to Japan due to a large semiconductor machinery sector boosting Japan's exports. Japan's GDP is expected to grow by 1.1% in 2025 with growth boosted by private consumption as real wage growth strengthens.

Emerging Markets:

As the FED is set to ease rates further, emerging markets should benefit from a weaker dollar. Historically, after a hiking cycle from the FED, emerging markets produced above-average growth. Most of the central banks, in addition, are on the verge of easing, with interest rates around 10.5% in Mexico and Brazil, and around 5% in Indonesia and India. The outlook on emerging markets is positive, particularly as equities look attractive, as they are trading at price-to-earnings of 11.6, a 40% discount with respect to developed economies. EM growth rate in 2024 is set to be close to 4%, and the markets are under-exposed to EM (the current allocation of global funds is 5.4%, while historically the average has been 8%). The greatest risk for EM countries is posed by the recent election of Donald Trump and his protectionist policies. While some countries like Mexico might not encounter as strong as expected tariffs, for many economies that are involved in Chinese and US supply chains it will be problematic. In addition, a stronger-than-expected dollar might lead to slower growth.

Donald Trump won the 2024 U.S. presidential election after a vigorous race against Kamala Harris, who led the Democratic party following President Biden's withdrawal due to health issues. The election was especially contested in swing states like Pennsylvania, with its critical 19 electoral votes, won by Trump. Foreign interference marked the election, with Russia, Iran, and China each attempting to sway voters. Russia used deepfakes of Harris, Iran called for an election boycott over candidates' Israel stances, and China targeted anti-China Republicans. Elon Musk's support for Trump also boosted his campaign. Key issues divided the candidates during the campaign: Trump favoured tariffs to protect American industries and criticized Harris's support for clean energy and EV incentives, claiming they risked traditional jobs. On immigration, Trump advocated strict border security and wall expansion, while Harris supported a pathway to citizenship for undocumented immigrants.

Fiscal Policy

The Republican fiscal agenda considers continuing to fuel debt in the US economy by extending the 2017 Tax Cuts and Jobs Act (TCJA). This approach will notably affect the federal debt-to-GDP ratio, which is expected to increase by 9% by 2033. However, it allows the government to temporarily prevent increases in personal tax rates and boost the economy.

As a result, we expect to see initial high growth based on higher disposable income levels. Still, the concerns about its inflationary effects in the long term will undoubtedly worry investors, as the high level of deficit could become problematic or even unsustainable.

In a split congress, it is likely to see the implementation of a hybrid strategy, which involves tax provisions benefiting middle and low-income groups and restrained measures on higher-income earners and corporations. As a result, we predict a more balanced equilibrium between the impact on initial growth and the inflationary risk in the long term.

The approach could add over \$1 trillion to the U.S. deficit in the next decade, intensifying the debate over whether the U.S. economy is driven by debt.

This question will become increasingly important for investors when evaluating the risks associated with U.S. exposure. A growing deficit may lead investors to view U.S. assets as riskier, which could impact investment decisions related to interest rates, bond yields, and the value of the U.S. dollar.

Tariffs

Republicans will likely favour relying on trade tariffs to promote US interests. The former president has declared that he wants to increase tariffs on imports from all countries to 10%, 60% duties on imports from China, and 100% tariffs on all imported cars. The trade policy will likely damage the domestic economy, as Oxford Economics highlights through its model, with a US GDP of 0.4% lower than expected in 2025. This negative impact comes from higher import costs hitting real incomes and consumption. These tariffs would also be drastically damaging to the European economies due to the already poor macroeconomic scenario in which the whole Eurozone finds itself; in particular, Germany's automobile industry would be disproportionately affected since the US is the top destination for its exports, while it represents, for example, only the fifth largest market for French exports.

Implications for the immigrant-dominated labour market

If implemented, Donald Trump's promise to conduct the "largest mass deportation operation in American history" can decrease workforce availability in immigrant-dependent U.S. industries such as construction, hospitality, and especially agriculture, where 78% of workers identify themselves as Hispanic and 70% are foreign-born. This would exacerbate the existing workforce shortage and significantly decrease the labour supply, driving wage inflation and increasing costs. As for agriculture, strict immigration policies can diminish productivity since harvesting crops depend on hand-picking. Rising wages and decreased productivity could lead to higher agricultural inflation due to high fresh produce prices.

Day after the election

After Trump was declared president-elect of the U.S., his awaited policies were immediately priced in the markets. The so-called “Trump trade” resulted in a 6% return on average. This trade included betting on lower regulations on banks, lower corporate taxes, tariffs on Chinese manufacturers, and an anti-EV stance. As a result, Wall Street lenders JPM, BofA, and Goldman Sachs rallied up to 13%; semiconductor stocks increased 4% except for TSMC, which will likely be subject to Trump’s proposed tariff on imported chips. MSCI China ETF has dropped 3% due to the upcoming 60% tariff on imports from China. Finally, EV stocks tanked as the re-elected president expressed his plans to end 7500 USD credit for EV purchases. One EV stock that differentiated itself was Tesla with its 15% increase, whose CEO -Elon Musk- made the most significant “Trump trade” by investing in Donald Trump himself and fuelling the Republican campaign.

Europe is currently contending with substantial economic challenges. Germany, historically the economic engine of the continent, has witnessed a sharp decline in industrial production. This downturn is largely due to a reduction in demand from China and escalating energy costs stemming from the war in Ukraine. Additionally, Germany faces a technological gap in the electric vehicle sector compared to the United States, placing further strain on its vital automotive industry, considering also that the EU decided to increase tariffs on Chinese-built electric vehicles to as much as 45.3%. The German government has revised its economic forecasts for 2024 downward, anticipating a 0.2% contraction in GDP for the current year.

France is simultaneously experiencing political instability, marked by the absence of a stable majority government. This uncertainty elevates perceived risks among investors and may negatively impact the nation's economic performance. In contrast, Italy, with a stable government that boosts investor confidence, appears to show positive economic signs; however, much of its recent growth stems from fiscal incentives that have temporarily boosted the construction sector. Such measures may not ensure sustainable, long-term growth; the Bank of Italy forecasts a 0.8% growth in 2024.

These factors suggest that the European Central Bank (ECB) might need to lower interest rates more aggressively than markets currently anticipate. Forward interest rate curves indicate that markets are pricing in a rate of approximately 2.2% by December 2026. Yet, if the European economy deteriorates beyond expectations, the ECB could be compelled to implement more substantial rate cuts. This action would lead to a decrease in short-term interest rates, causing a steepening of the yield curve. Financial instruments like Euribor futures might see price increases, presenting opportunities for investors to take long positions.

In stark contrast to Europe, the U.S. economy has recently exceeded growth expectations, with robust indicators pointing toward continued expansion. This has shifted economic discussions from potential hard

or soft landing to a "no landing" scenario, where the economy keeps growing without major slowdowns. In Q3 2024, the U.S. achieved an annualized growth rate of 2.8%, bolstered largely by strong consumer spending, which rose at a 3.7% rate—the fastest since early 2023. Spending on goods also grew at the highest level seen in six quarters, underscoring consumer resilience ahead of the presidential election. Despite recent challenges from strikes and hurricanes, the job market remains strong, with unemployment steady at 4.1%.

This performance leads the Federal Reserve to keep interest rates in restrictive territory, which has also influenced investor expectations, reducing the likelihood of near-term rate cuts. These high rates, coupled with strong economic growth, are driving up short-term interest rates and strengthening the U.S. dollar. Higher yields continue to attract global investors to U.S. securities, creating more demand for dollars as international investors convert currencies to access U.S. assets.

Theoretically, inflation concerns are waning, with the latest PCE rate at 2.1%, near the Fed's target. Yet, high growth and projections of larger budget deficits may keep U.S. interest rates elevated for the foreseeable future, especially as fiscal policies indicate sustained deficits under Trump.

The divergence in U.S. and European monetary policies has significant implications. A stronger dollar makes U.S. exports pricier on the global market, but it also draws foreign investors who seek high returns. Conversely, a weaker euro could benefit European exporters by making goods more affordable globally but might signal economic weaknesses that could lower investor confidence in European equities.

China's recent economic stimulus package was aiming to inject confidence into the country's deflating economy. This marks the most aggressive economic intervention since the COVID-19 pandemic, focusing on monetary measures like interest rate cuts, funding for the stock market, and support for the property sector. While these measures have provided a short-term acceleration, with China's CSI 300 index jumping 4.3% on the day the announcement was made, the key question remains whether the stimulus can deliver sustained economic growth or if it will simply have a temporary impact.

The stimulus package includes a 50-basis point cut in banks' reserve requirement ratio, as well as reductions in mortgage and lending rates. These actions are made to increase liquidity in the banking system and boost loan activity, which could potentially ease the financial pressures on businesses and consumers. However, the effectiveness of these measures is reduced by the current environment of cautious spending and high debt levels, particularly because of the struggles in the property market. As households and businesses remain focused on reducing their debt, the stimulus may not be enough to cause a significant surge in loan demand without deeper interest rate cuts.

In addition to financial sector support, China's government has introduced measures to revitalize the property market. These include lowering down payments for second homes and offering incentives for state-owned enterprises to purchase unsold properties. While these actions could offer temporary effect, we remain skeptical about their long-term effectiveness. The housing market's current fragility, marked by falling prices and weak sales, needs more substantial interventions, such as debt restructuring or targeted fiscal stimulus.

Another notable element of the stimulus is the 500-billion-yuan (\$71 billion) fund set up to support stock market stability. This will help brokers, insurance companies, and investment funds buy stocks, and provide companies with the necessary capital to repurchase their shares. While this initiative has driven a short-term market rally, it is unlikely to resolve the issue of the low investor confidence.

Globally, China's stimulus measures are expected to have a significant impact on economies closely tied to China, particularly in the Asia-Pacific region. Countries like Australia and South Korea might benefit from increased demand for commodities and industrial goods as the property sector shows signs of recovery. European nations, especially those exporting luxury goods, could see an increase in Chinese consumer spending, especially ahead of the Chinese New Year in early 2025.

However, despite these positive signals, the long-term effectiveness of the stimulus remains uncertain. Structural challenges, such as low consumer confidence, are unlikely to be addressed by these measures alone. To achieve sustained growth, China may need to adopt more aggressive fiscal policies and implement reforms that address the underlying issues of weak domestic demand and low private sector confidence.

For us, the current stimulus provides short-term opportunities, especially in sectors directly benefiting from the measures, such as real estate and luxury goods. However, we will have to be careful in the coming months, as the government actions are often unexpected and can have significant impact.

The Middle East has long been a hotspot of conflict, deeply intertwined with historical grievances, territorial disputes, religious divisions, and geopolitical interests. Understanding the current state of turmoil in the region requires a look at its historical roots, particularly the establishment of Israel in 1948, which ignited a protracted struggle between Israelis and Palestinians. This conflict has been characterized by cycles of violence and failed negotiations, exacerbated by the 1967 Six-Day War, which resulted in Israel's occupation of the West Bank, Gaza Strip, and East Jerusalem. Despite various peace processes, tensions have persisted, leading to an ongoing state of hostility.

In the past year, the Middle East has experienced significant upheaval, particularly in Gaza, where violence between Israel and Hamas has escalated dramatically since 7 October 2023, when Hamas launched a major attack on Israel, killing civilians, taking hostages, and provoking immediate Israeli retaliation. Militants infiltrated Israel by land, sea, and air, causing heavy casualties and mass kidnappings. Israel responded with extensive airstrikes on Gaza, leading to severe humanitarian crises, with thousands of casualties and many more injured. The humanitarian situation in Gaza has become critical, with the Israeli blockade and military operations causing widespread poverty and desperation. As reported by Crisis Group, the consequences of this violence continue to reverberate throughout the region, highlighting the fragility of the situation and the dire need for humanitarian assistance.

The international response to the ongoing violence has been mixed, with calls for ceasefires often undermined by persistent hostilities. Organizations and countries are faced with the daunting task of addressing the humanitarian needs of those affected while navigating the complex political landscape. The regional dynamics further complicate the conflict, particularly with Iran's support for groups like Hezbollah and Hamas. The interplay between Israel, Hezbollah, and Iran poses a significant risk of broader regional confrontation, especially as Hezbollah's recent activities along the Israeli border have raised

alarms. The group's allegiance to Iran and its readiness to engage militarily amplify the threats facing Israel, while the ongoing civil war in Syria provides additional grounds for Iranian influence, prompting Israeli military responses to protect its interests.

The implications of the Middle East conflict extend beyond the region and into the global economy. Recent analyses indicate that instability in the Middle East has the potential to disrupt energy supplies, particularly oil. Such disruptions can lead to rising prices and economic uncertainty on a global scale, as many economies are heavily reliant on Middle Eastern oil. Additionally, escalating security concerns may prompt nations to increase military spending, diverting resources from social programs and economic development, which could further stoke inflation and slow down global economic growth.

Looking forward, the prospects for peace in the Middle East remain uncertain. Diplomatic efforts continue, but achieving a lasting resolution to the Israeli-Palestinian conflict faces numerous hurdles. Both parties harbor deep-seated grievances that must be addressed, alongside regional and international interests that complicate negotiations. The potential for new conflicts remains high, particularly if extremist groups leverage ongoing grievances to galvanize support.

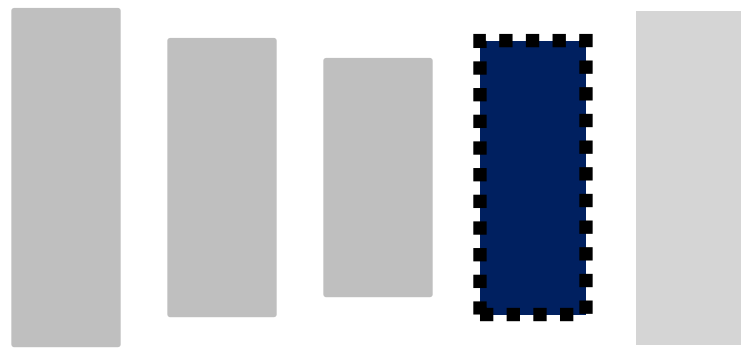
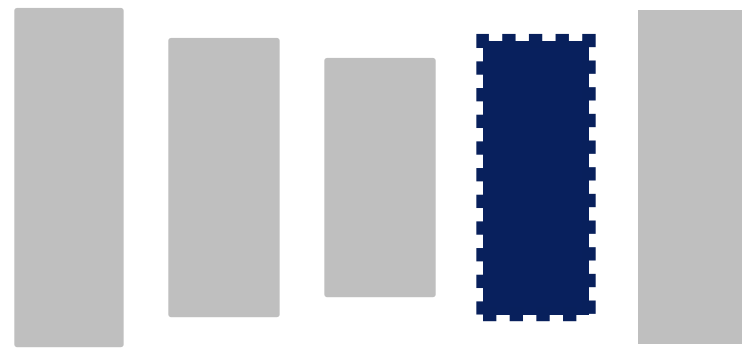
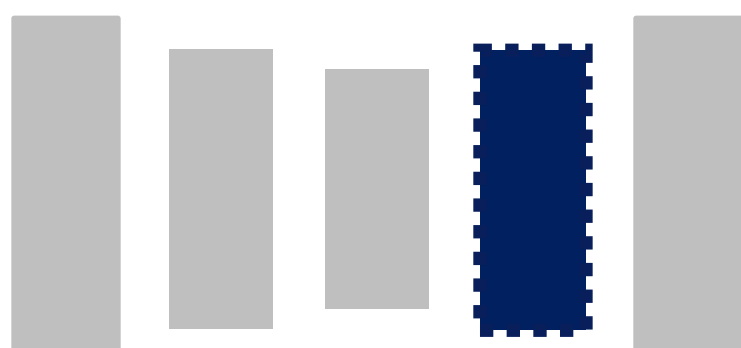
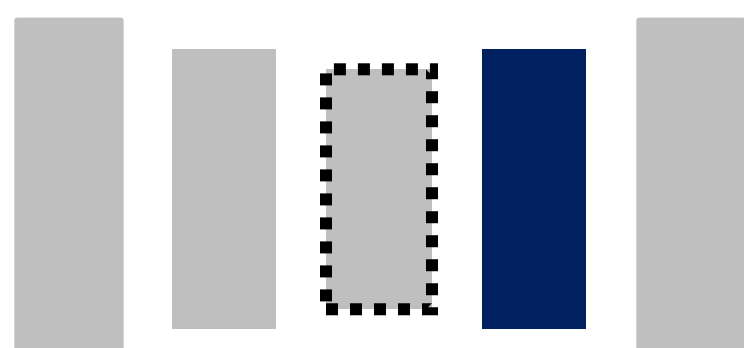
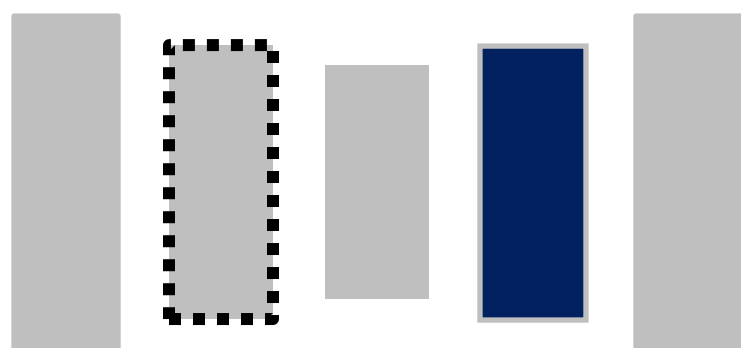
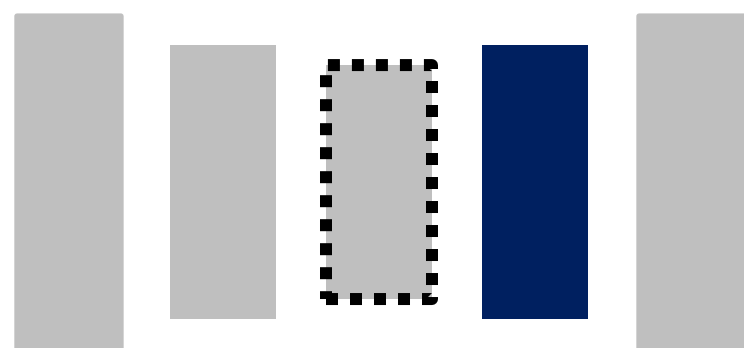
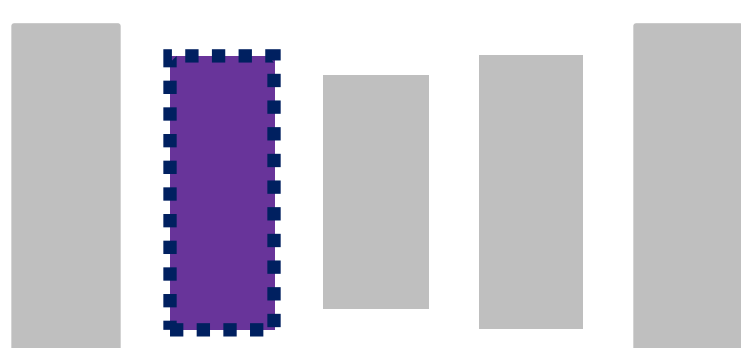
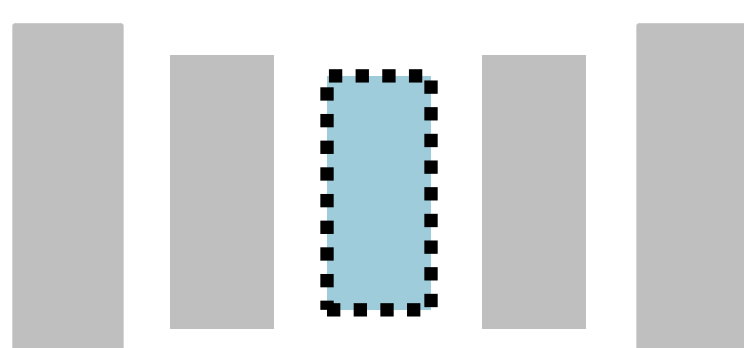
As the situation continues to evolve, the role of international actors such as the United States and the European Union becomes increasingly crucial in facilitating dialogue and rebuilding trust among the conflicting parties. The broader context of the conflict emphasizes the need for understanding, cooperation, and proactive measures to foster peace. Achieving a peaceful resolution will require concerted efforts to address not only the immediate humanitarian crises but also the underlying issues that have fueled decades of violence. Newly re-elected U.S. President Donald Trump has committed "to bring peace" to Middle East, promising to address both the Israel-Hamas conflict in Gaza and the conflict with Hezbollah in Lebanon. Known for his support of Israel, Trump has pledged assistance to Prime Minister Benjamin Netanyahu, who regards him as

Israel's greatest ally. Trump's prior actions, including relocating the U.S. embassy to Jerusalem and withdrawing from the Iran Nuclear Deal, have underscored his stance and strained U.S.-Palestinian relations.

As the situation in the Middle East evolves, it remains to be seen whether a more stable future can emerge through these diplomatic channels.

ASSET CLASSES PREFERENCES

OVERVIEW

	STRATEGIC VIEW	TACTICAL VIEW	COMMENTS
FIXED INCOME			Interest rates have likely peaked, which has strengthened the ongoing bull market in bonds. While there will be some fluctuations from quarter to quarter, the trend leans towards stable or potentially lower yields moving forward. This is a positive sign for fixed-income investments, as returns could come from either carry or total return. With declining cash yields, rising concerns about equity valuations, and a growing search for income, bond fund inflows are expected to continue at a steady rate. There may be some consolidation in the near term, and certain parts of the market might be overvalued and face a period of correction. However, the medium- to long-term outlook for fixed-income returns remains strong, with most rates and spreads likely to stay within a range or potentially decline from their current levels.
GLOBAL EQUITIES			We have revised our tactical view upward toward overweight while maintaining our overweight strategic view on global equities. Central banks across the world have started interest rate-cutting cycles as a consequence of easing inflationary pressure. The cutting cycle is expected to continue into 2025 creating an optimal environment for equities. The major economies of the world are expected to see a return of consumer confidence and a recovery of economic activity joined by a wave of optimism. The fall in interest rates will incentivize investors to move from bonds to equities, boosting prices. The possible escalation between Israel and Iran in the Middle East casts a shadow over the markets, but we trust equities to pull through both in the short and long term.
COMMODITIES			The environment for commodities looks favorable. Increased geopolitical tensions and the election of President Trump pose upward risks to prices. We expect gold to remain resilient as a safe asset and a particular bullish outlook for industrial metals as a result of industrial trends and market microstructure movements.
EURO			The euro has recently traded near 1.07 USD, reflecting the European Central Bank's (ECB) gradual easing amid slowing growth across the Eurozone, particularly in Germany. The ECB has already implemented rate cuts this year and is expected to continue at a measured pace due to persistent inflationary pressures, although at a slower rate than the Fed. With more favourable conditions in consumer spending and declining inflation, these gradual rate cuts could provide moderate support to the euro. Still, structural challenges, such as high energy costs in Germany and global trade uncertainties, may cap significant euro gains against the dollar. The euro's performance into Q4 will largely depend on the ECB's ability to balance rate cuts with stabilizing economic growth.

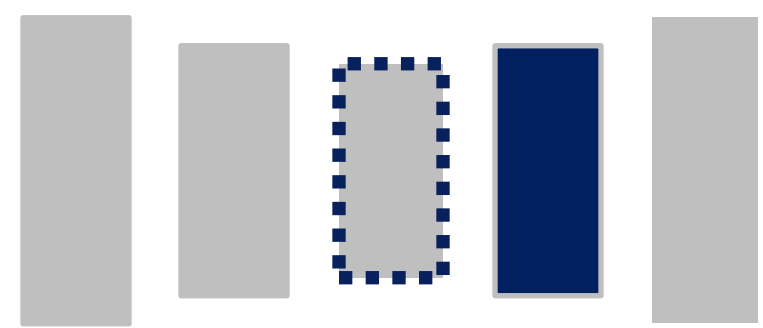
ASSET CLASS BREAKDOWN

6 to 12-month tactical views on selected assets vs. global asset classes, by level of conviction

FIXED INCOME		
US Treasuries Short duration		The anticipated rate cuts could lead to a decrease in short-term yields, enhancing the attractiveness of short duration US treasuries. However, given that the federal funds rate would still remain in restrictive territory even after the expected cuts, the decline in yields may be modest. Maintaining or slightly increasing the exposure to benefit from potential yield decreases is advisable, while staying vigilant for any signs of inflationary pressures that could alter the Fed’s course.
US Treasuries Long duration		Elevated real yields offer a compelling opportunity for investors seeking to lock in attractive returns. The long-term real rate average remains at historically high levels. With the Federal Reserve expected to reduce interest rates in the near term, long-term yields may begin to decline as the market prices in a more accommodative monetary policy.
Euro Area Government bonds		European bonds have gained from recent ECB rate cuts and slowing inflation, leading to lower yields. Currently, the 10-year German Bund yield stands at around the same as the 2-year bond, resulting in an almost flat yield curve. This signals optimism, with rate cuts expected to support economic growth. Projected lower growth and recent protectionist shift back up our view of future lower long-term rates.
Global IG Credit		Credit fundamentals remain healthy despite higher rates, with only modest declines in interest coverage and liquidity ratios. Strong demand is supporting an abundant supply, thus leading to high valuations. We are overall market neutral, with slight preference for Europe due to lower valuations and to a higher-for-longer narrative in the US. In both markets, we stay away from automotive and focus on front-end carry amidst worries of higher volatility of the back end.
Global HY Credit		Solid technicals, stable fundamentals and distancing of the maturity wall should keep spreads from surging significantly from their recent all-time lows. While valuations look fair in the EU, they might be too high in the US as the market might be overestimating the health of the economy and underestimating potential defaults. Moreover, we favour anti-cyclical sectors as they have not yet participated in the general high valuations.
EM Government Bonds		In the last months, inflation accelerated again in many emerging economies. The recent loosening of US monetary policy and the continued rate cuts by the ECB should push capital back towards emerging markets, helping them control inflation rates and possibly driving rates down again. Fundamentals are still good but differ widely across emerging economies: the outlook is overall positive in South America but gloomy in China and India. Debt levels are high, and many countries are facing strained finances. Political and geopolitical risks remain a significant concern for emerging markets and are reducing investor confidence.
Inflation-linked Europe		Inflation in Europe dropped to its lowest level in three years in September and slightly rose in October but still finds itself below the ECB target. As inflation moderates, bond yields are anticipated to stay low. The recent interest rate cut by the ECB indicates a shift toward a more cooperative policy, and if inflation stays below the target, further rate cuts could follow.
Inflation-linked US		US inflation is now moderating, and the Fed is easing its monetary policy. Therefore, yields on US inflation-linked bonds have fallen to four-year lows. This is making other instruments relatively more attractive and is reducing demand. On the other hand, inflation risk remains tilted to the upside in the longer term. Political and geopolitical uncertainty may make inflation-linked bonds still relevant in investors’ portfolios.

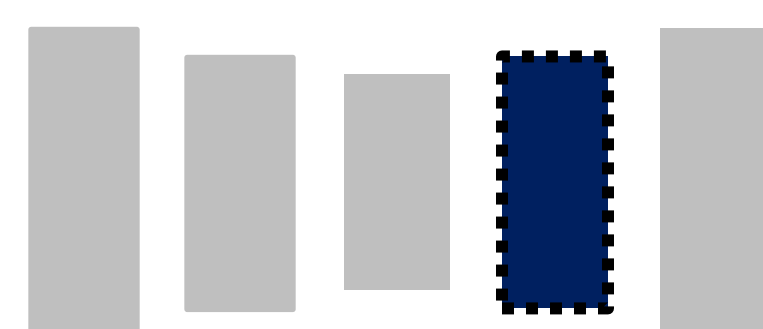
EQUITIES - REGIONS

United States



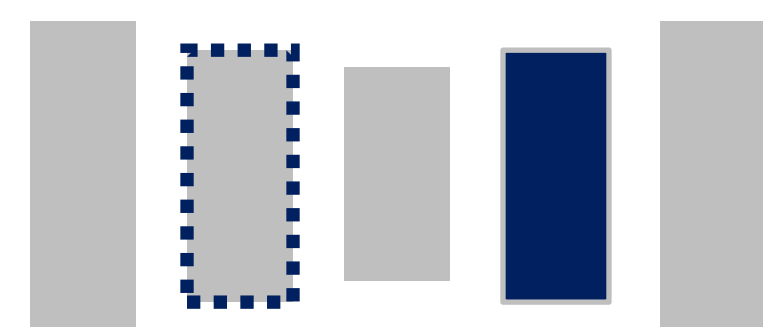
A setting of easing inflation and gentle economic slowdown, without tipping into recession, creates a favorable backdrop for US equities. The mixed results coming from S&P 500's Q3 earnings present US economy as in reasonable shape, even though this may change in case of consumption deterioration. Earnings growth stands at 5.1%, marking a fifth consecutive quarter of YoY growth, led by sectors like Communication Services and Health Care, while Energy lags. On the revenue side, growth is at 5.2%, marking a 16th consecutive quarter of increases, even though actual results are below historical averages. Additionally, with inflation at 2.4%, and hiring that continues to slow, markets expect FED to continue the process of monetary normalization, reinforcing the idea of a soft-landing scenario. Moreover, recently elected President Donald Trump's pro-business initiatives could potentially benefit U.S. small and mid-cap stocks.

Europe



In the Eurozone, recent data suggest that economic growth concerns are intensifying, mainly due to a weakening in the German manufacturing sector, as Germany's economy contracted by 0.1%. Economic growth for 2024 is projected to be approximately 0.6%. Nonetheless, Euro area GDP grew by 0.2% in the second quarter compared with the first, and the economy grew by 0.4% in the third quarter, but a slower fourth quarter is expected. Furthermore, inflation slowed in September. Indeed, the pace of headline inflation (total inflation) reached 1.7%, falling below 2% for the first time in three years. Finally, the ECB announced a 25-basis-point cut to its policy rate, to 3.25%, on October 17th, following similar moves in September and June. This decision is mainly because disinflation is progressing well. The 25-basis-point cut rate is expected to support growth by reducing borrowing costs for businesses and households, potentially stimulating investment and consumer spending.

United Kingdom



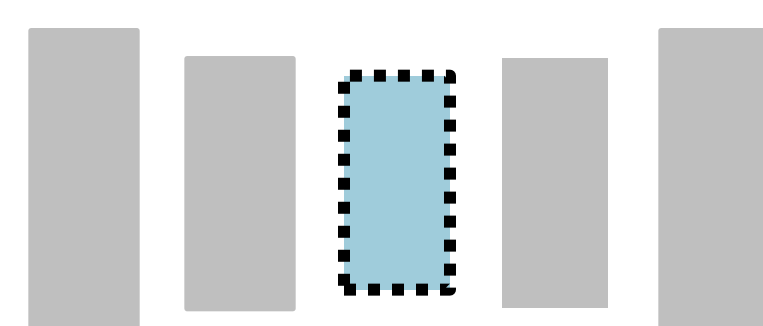
Despite recent challenges, UK equities show a cautiously positive outlook. With inflation rate trending down towards the target, BoE is expected to cut rates further. Lower rates, coupled with high household savings, can drive spending growth and boost consumer-focused stocks. Additionally, UK presents attractive valuations compared to global markets that may compel long-term investors. An improvement in the cost of capital would raise the upside potential of undervalued stocks, previously discounted for the higher borrowing costs. Despite concerns over a more hawkish BoE following the recent budget, marked by higher spending, borrowings, and taxes, a "Truss 2.0" scenario with severe market reactions has been avoided, reinforcing a sense of market and political stability.

Japan



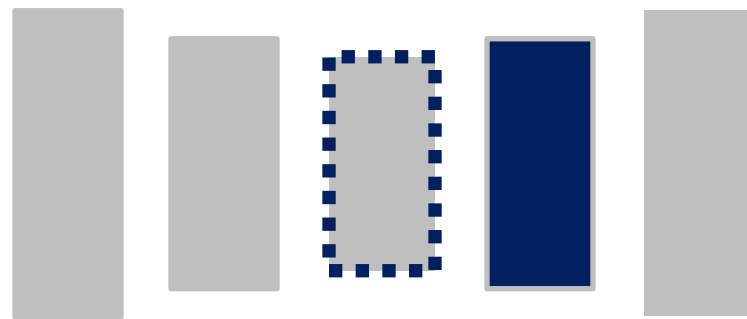
Japan's rising consumer spending caused by a strengthening yen, will provide a stable base for growth even with inflationary pressure rising. Japan has seen its real wages increase in the past months for the first time since 2022, fostering positive labor market sentiment, and fueling consumer spending and investment. The stronger yen and disruptions in production have led to slowing exports. However, exports, especially in the motor-vehicle sector, will likely recover once production can resume after several halts caused by safety concerns. Other exports, such as semiconductor machinery, are likely to remain relatively strong as well.

China



China's economy has shown mixed signals over recent months. While the Shanghai Stock Exchange (SSE) saw a 2.73% decrease in the last quarter, in the bigger picture it saw an 11.56% gain over the last three months, suggesting volatile investor sentiment. Concurrently, external investments have significantly declined, indicating growing caution from foreign investors. In response to slowing growth, the government has implemented economic stimulus measures, including a 0.25% rate cut on five-year loans and the PBC injected 700 billion yuan of liquidity into the country's banking system, aimed at bolstering the struggling real estate sector. Additionally, regulatory adjustments, such as a decreased Equity/Asset Ratio requirement for banks, are intended to ease financial pressures and support property market stability. Overall, China is likely to face obstacles in revitalizing key sectors, likely struggling in the long run.

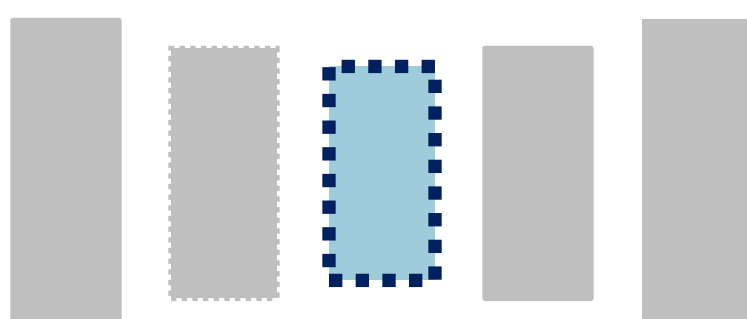
Emerging Markets
(excl. China)



Emerging market (EM) are regaining attractivity as the global macroeconomic environment moved in their favour. The recent cut of U.S. interest rates has improved attractivity of emerging market equities, especially as U.S. markets remain stable, encouraging investors to consider riskier options abroad. EM in Asia also seem on a strong trend as Vietnam is attracting more high-tech companies. The production of semi-conductor also allows the region to thrive especially in Taiwan. However, a potential conflict with China in the near future should not be forgotten as the risks associated with it are great. Overall, the situation in EM is looking very good but significant risks persist. Continued geopolitical tensions, especially in the Middle East, pose a risk to EM countries dependent on oil. Higher oil prices could worsen trade balances and inflation pressures in key markets like India, potentially lowering investor optimism. Moreover, concerns around U.S. inflation and rate hikes remain as we are getting closer to the elections which could have large consequences.

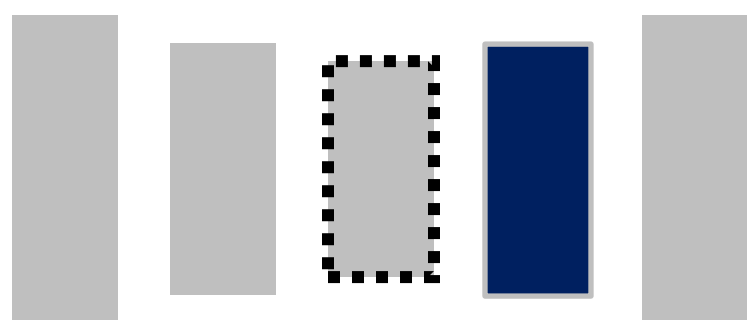
EQUITIES - SECTORS

Telecom



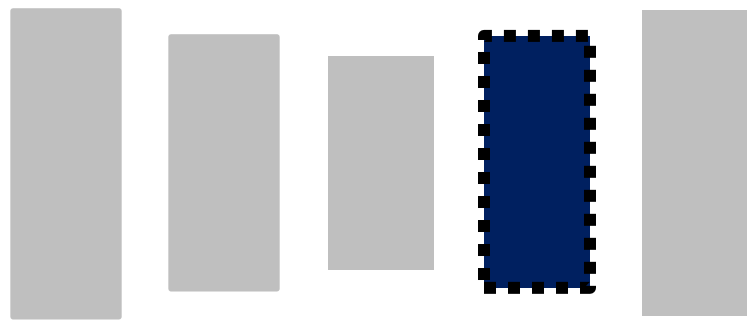
Generative AI is starting to improve telecoms by helping them to manage data better and boost areas like customer service and network performance. To succeed, telecoms must reorganize their resources. Furthermore, the shift from voice-based services to data-driven ones has increased competition between telecom companies. This growing competition is expected to reduce profit margins further, as companies will likely need to increase their spending to maintain market share. As a result of that, late 2024 is expected to see heightened competition among telecommunications service providers. Finally, many firms' investments in technology such as 5G aren't paying off due to increased competition and rising operational costs.

Consumer
Discretionary



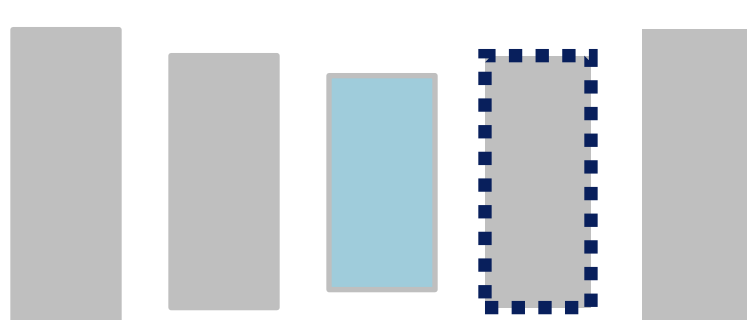
After a positive start to 2024, recent economic trends bring cautious optimism for the consumer discretionary sector. Easing inflationary pressures and cut of the interest rates across the globe encouraged higher consumer spending, in multiple areas including durable goods. While future potential rates cut could bolster the consumer discretionary, the stability in borrowing costs has increased the consumers' willingness to finance purchases. Wage growth and stable employment have also provided a solid foundation for disposable income, driving demand in key discretionary categories and we believe this trend will accentuate as most countries are trying to boost their economy. However, geopolitical and macroeconomic uncertainties in multiple regions and especially in the Middle East could impact consumer confidence. We should therefore keep a close eye on any shifts in central bank policy and on the evolution of the different wars.

Consumer
Staples



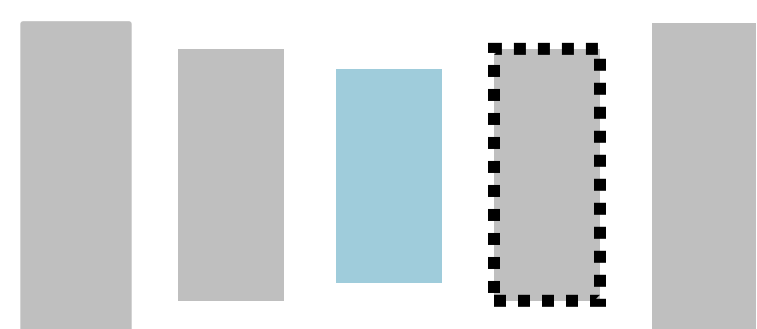
The recent start of interest rate-cutting cycles across the world and the return of consumer confidence might be the boost that the CS sector needs. The fall in interest rates will most likely drive investors from bonds to steady dividend-paying consumer staple companies, boosting growth. In addition, the growing instability in the Middle East provides an incentive for investors to rotate towards more defensive sectors like CS as they weigh the effects of a possible escalation between Israel and Iran. Due to the aforementioned factors, we maintain our overweight view on consumer staples.

Industrials



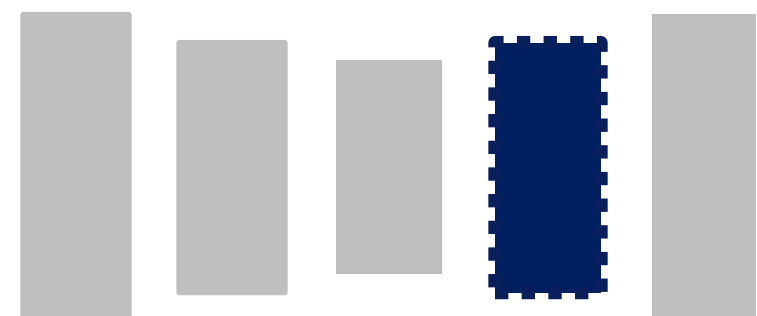
The situation has remained positive on the industrial sector as it has been supported by favourable macroeconomic factors. Government spending on infrastructure support the growth, with the sector projected to outperform the broader market with a sustainable growth. However, the conflict in the Middle East brings a potential risk, with possible rise in oil prices that could impact industrial production. Historically, oil price increases have negatively impacted the sector, elevating costs and lowering the profit margins. On the other hand, companies driving the green transition such as those focused on electrification and renewable energy looks very attractive though these areas will probably be more interesting in the long run.

Energy



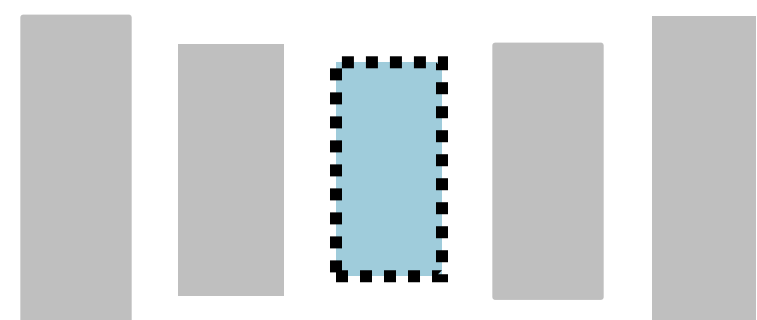
Global energy consumption is projected to grow modestly by 1.6% in 2025, despite falling prices. Demand in developed countries is expected to remain largely stagnant, while emerging economies are set to drive growth as their economies expand. However, investment faces challenges from geopolitical risks, environmental regulations, and infrastructure constraints. Fossil fuel market, in particular, is likely to experience continued instability due to ongoing conflicts in the Middle East and Ukraine, which could disrupt supply chains. In contrast, investment in renewable energy is expected to remain robust, especially in China.

Information Technology



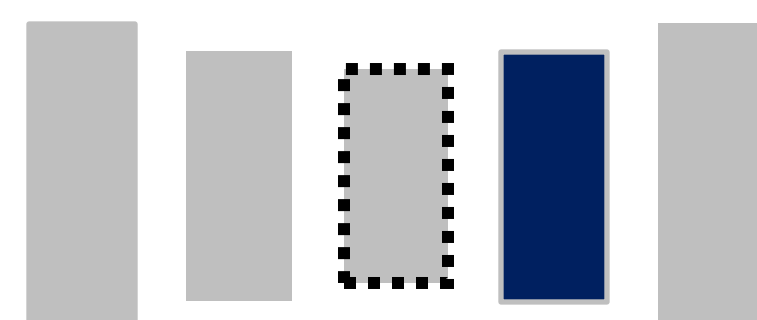
The Information Technology sector has shown consistent global growth over the past two months, driven largely by continued investment in software, particularly with the rise of artificial intelligence (AI) advancements. This focus on AI has spurred both interest and funding, encouraging innovation within software development to support AI applications. Innovation is also made possible through reduced interest rates, which is vastly anticipated for many Western Countries. Over the last month, the NASDAQ, a key benchmark for tech performance, has gained 6.20%, reflecting positive investor sentiment and the sector’s resilience. Although hardware and semiconductor industries have seen less investment in comparison—largely dominated by Nvidia—there remains a steady growth rate in these segments as well.

Financials



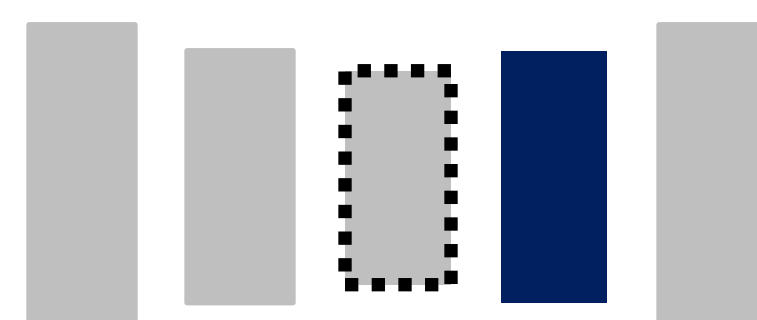
The global financial sector appears positioned to struggle more than it recently has, from current macroeconomic trends. As central banks in key economies like the U.S. and UK reduce interest rates (with recent cuts of 0.5% and 0.25%, respectively), financial institutions may face an environment in which they have less profits. However, many banks and insurance companies may see improvements in performance as economies grow. Lower interest rates can encourage lending and reduce default rates, likely supporting balance sheets and enhancing loan demand, while moderating inflation can help alleviate cost pressures. However, industry players will need to remain cautious, balancing growth opportunities with potential regulatory challenges as they navigate a post-pandemic landscape with shifting interest rate dynamics and decreasing interest rates.

Healthcare



In the second and third quarters of 2024, the healthcare sector continued to make advancements. Healthcare companies are partnering with tech firms to develop AI tools. However, we observe a rise in healthcare costs, due to the increase in workforce expenses and facility maintenance, but healthcare organizations are adopting innovative technologies like AI to reduce those costs. Finally, despite a slight drop in the stock price of some healthcare companies like Novo Nordisk in September, late 2024 is expected to see moderate recovery in profits as hospitals and healthcare providers are expected to experience an improvement in operating cash flows and margins.

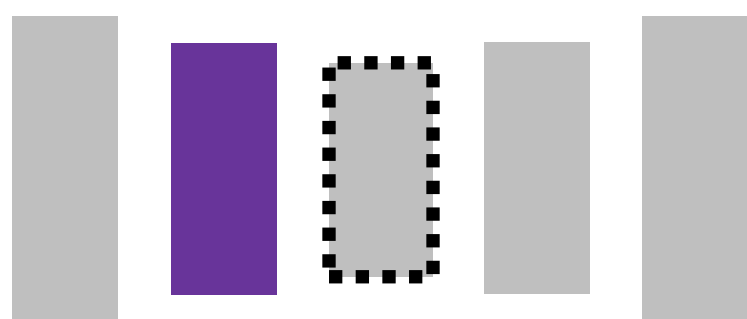
US Dollar



The US dollar remains robust due to the Federal Reserve’s conservative approach to interest rate cuts. With inflation now approaching the Fed’s 2% target, the Fed has begun its rate-cutting cycle cautiously, aiming to prevent economic overheating while safeguarding employment. Rate cuts are expected at each Fed meeting until March 2025, after which the pace may slow. Markets have well received the election of President Trump, whose economic plan aims at implementing tax cuts and increasing tariffs. This approach is expected to foster a strong economy and a more inflationary environment, which, in turn, supports a bullish outlook on the dollar as the Fed will likely proceed more cautiously in its easing cycle.

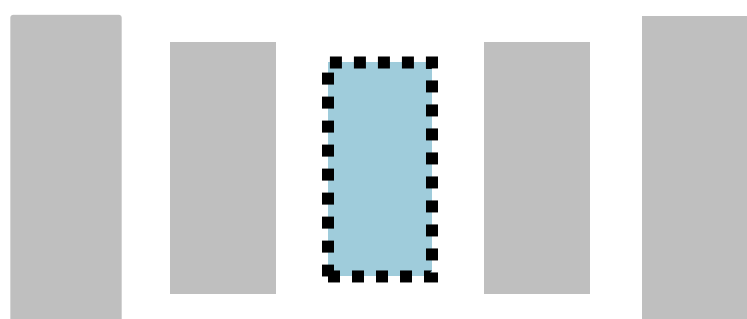
CURRENCIES

UK Pound



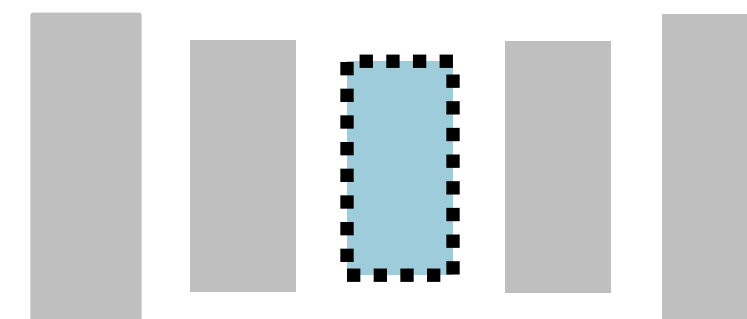
The UK pound is the third-best-performing G10 currency in September and still the best outperformer on a YTD basis, with GBPUSD reaching a new YTD high of 1.3435. The MPC decided to keep the key policy rate at 5.00% in September after the 25bp cut in August. But on October 3rd, the GBP got hit by a dovish shift in the BOE Governor’s tone, who declared that the central bank may be more aggressive in reducing rates in case of continued positive data about inflation. Then, we expect a faster pace of cuts due to the change in behavior of the MPC: between November and May, the BoE is likely to deliver consecutive 25bp rate cuts, which implies another 125bp of cuts. However, we see UK yields still elevated relative to the US, which could still attract long GBP flows for carry, but a faster pace of cuts is likely to dissipate this advantage in the following months. Therefore, we can conclude that the GBP could probably be vulnerable to the downside risk as a result of a more active BoE.

Japanese Yen



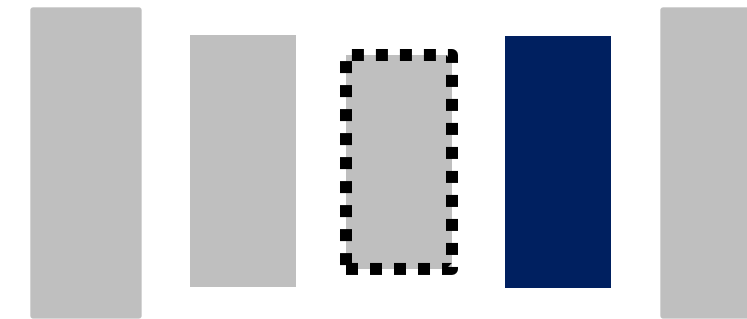
The yen has weakened substantially, trading at multi-year lows against the US dollar, hovering around 152 JPY per USD. The Bank of Japan (BoJ) is taking a cautious approach, having only recently shifted away from its negative interest rate policy. Following a modest rate increase in July 2024, the BoJ is expected to take a slow path toward policy normalization, with another potential hike in 2025 as inflation moves toward the 2% target sustainably. Japanese Finance Ministry interventions have been suggested to counter yen volatility, and further BoJ tightening could support the yen. However, the yen's short-term strength will remain constrained unless the BoJ accelerates its shift or significant FX interventions occur.

Oil



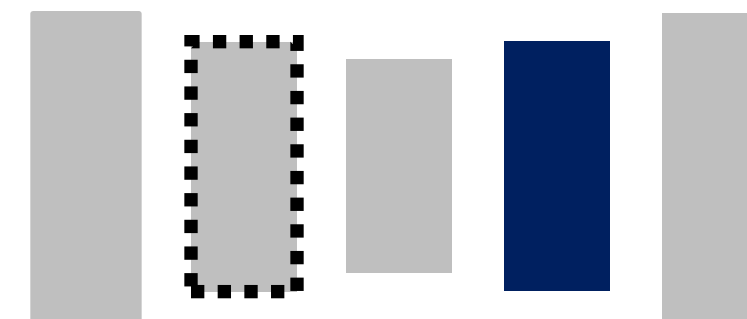
OPEC countries, decided to avoid increasing oil production until the end of the year. The decision was due to the continuous weakness of the price of oil, which is currently trading around 75\$ per barrel, reaching less than \$70 in September. OPEC members, have also postponed the decision of the production volume to the 1st of December, to wait the outcome of the US elections. Geopolitical tensions, pose an upward risk to the price of oil, as Iran is an importer producer in the OPEC cartel, but markets at the moment do not look sensible to it.

Natural gas



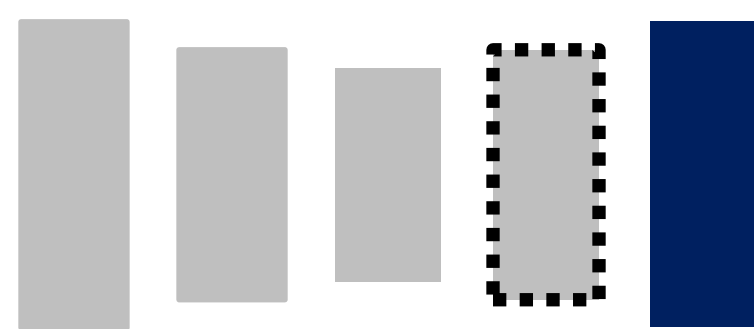
Warmer-than-expected temperatures in the U.S. for October and November have reduced heating demand, leading forecasts to cut 11 heating days. In response, the EIA reported record-high natural gas inventories, 178 billion cubic feet above the five-year average, which is adding bearish pressure on prices. Globally, demand for natural gas is projected to rise by 2.5% by 2025, driven primarily by China and India, while supply growth is expected to slow to 2%—the lowest since 2020. Meanwhile, the start-up of major LNG terminals (Plaquemines and Tortue) in Q4 2024 will bolster North America’s contribution to global LNG supply, expected to reach 85%. As Europe faces a projected 25 bcm drop in Russian gas by 2025, the EU is likely to turn increasingly to LNG imports, creating price competition with Asian markets for flexible LNG cargoes and potentially driving prices higher. Overall, these global demand and supply dynamics suggest that bullish pressures could outweigh the temporary dampening effects of high U.S. inventories.

Gold



Gold is one of the best winners of the quarter: the precious metal continuously recorded all time highs for an increase in price of 6% only in the third quarter of 2024. Several factors contributed to this uptrend, including sustained demand from central banks and heightened geopolitical tensions. Furthermore, political uncertainty in the US supported gold, as the prospects for another Trump presidency raised expectations of increased government spending and higher generalized tariffs, leading investors to hold gold to hedge against long-term inflation risks. Although the market is currently pricing the caution of the FED in cutting rates further after the 25bps cut and it is factorizing the possibility of higher rates because of the possibility of implementation of aggressive expansionary policies by the recently elected president Donald Trump, we expect the robust demand for gold in the near term to be decisive in sustaining the uptrend of gold.

Industrial metals



China’s 3.95 trillion yuan stimulus package is expected to significantly boost demand for industrial metals, particularly copper, driven by the country’s emphasis on electric vehicle production, which is anticipated to continue through 2025. Aluminum demand is also on the rise due to China’s EV focus, and increased data center construction is adding further pressure on copper prices. Prices for these industrial metals are closely linked to natural gas and oil, essential for their production, making them highly sensitive to energy cost fluctuations. Additionally, low profit margins for smelters are likely to reduce copper supply, while a ban on Russian-origin metals tightens copper and aluminum availability. Tin supplies face additional pressure due to Myanmar’s export restrictions, and zinc production is expected to fall following a challenging year that prompted producers to scale back. When the mentioned bottleneck in industrial metal supply is considered, these factors set the stage for a strong year for industrial metals, with bullish pressures likely to dominate.

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08.11.2024.

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