

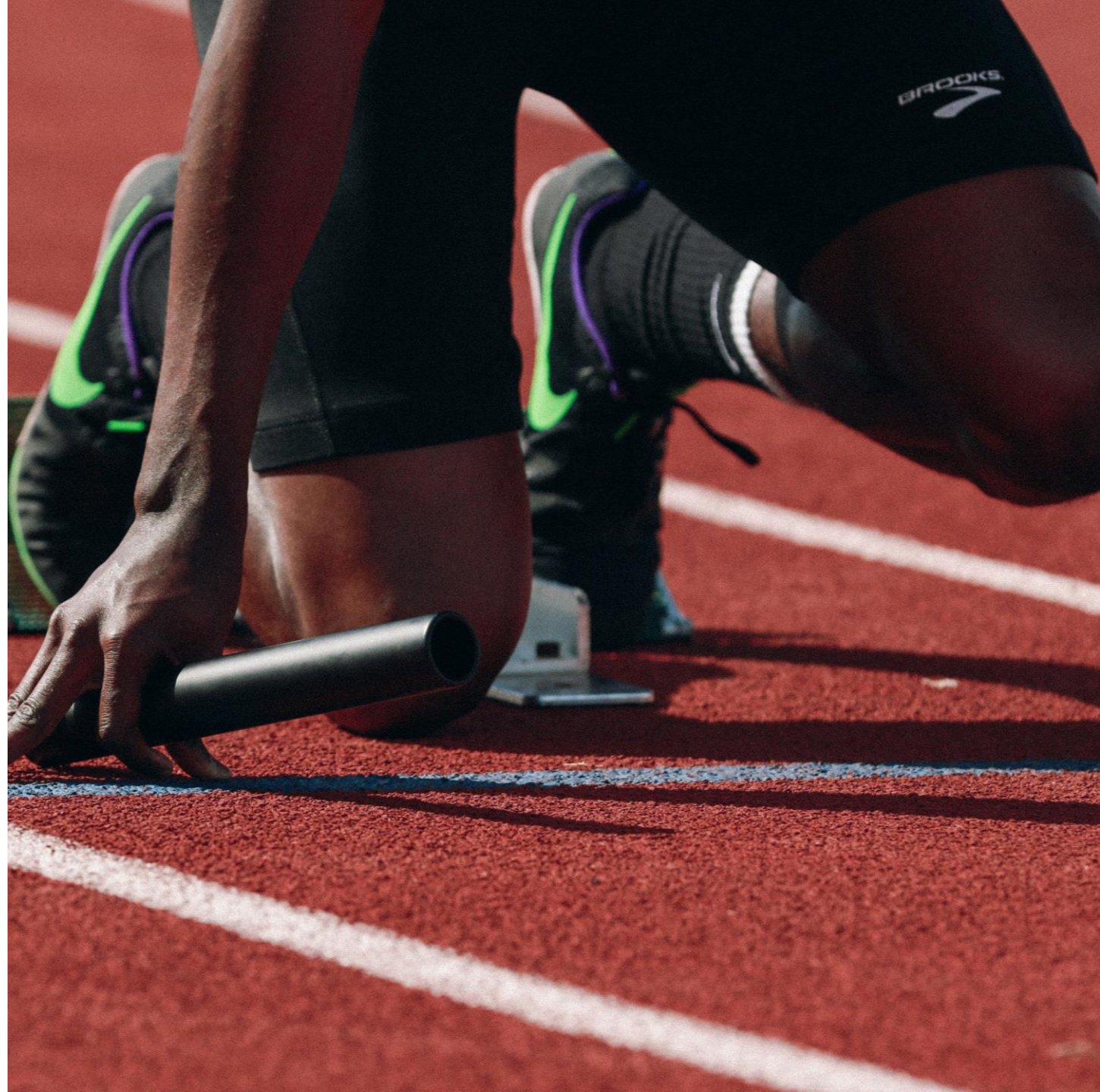


Mid-year Economic Outlook 2024-25: Games wide open?

Allianz Research

*End of Q2 2024 updated economic and capital
markets outlook*

25 June 2024



Mid-year Economic Outlook 2024-25: Games wide open?

- 1 **Ready, steady, slow. Global growth bottomed-out in H1**, but the global manufacturing sector is still in excess supply, with low demand in the Eurozone in particular. Recession risks persist in the Eurozone and are rising in the US as the labor market is softening. Overall, we expect global GDP growth at +2.8% in 2024-25, with growth slowing to +1.7% in the US and reaching potential in the Eurozone at +1.4% in 2025. China will continue to manage its growth slowdown (+4.3% in 2025).
- 2 **Pushing limits, chasing gold? Inflation is moderating, albeit at a slower pace**, notably in the US as services inflation remains sticky, delaying the first Fed cut to December. The ECB will cut once more in September but then wait for the FED before continuing the easing cycle in 2025. Central banks in emerging markets remain in cautious easing mode as the Fed delay halts optimism.
- 3 **No risk, no fun? Risks remain tilted to the downside** given heightened uncertainty in a Super-Election Year. Our downside scenario (fiscal slippage & rising geopolitical risks) would mean -1.5pp lower global growth and +1pp higher inflation, which should keep interest rates higher for longer.
- 4 **Train hard, win big. The revival of the investment cycle is delayed to early 2025**, then supported by the easing of financial and monetary conditions, but companies will remain in wait-and-see mode for major investment decisions, given the rise in (geo)political uncertainty.
- 5 **Chasing dreams. The comeback of the European consumer remains timid** as uncertainty prevents ambitious spending patterns and continues to feed into higher saving rates.
- 6 **Pursue greatness. The fiscal impulse is only moderately negative** in major advanced economies and further fiscal-consolidation efforts will be delayed to after the elections. In Europe, all eyes will be on the adjustment path of the seven countries non-compliant with the newly reinstated fiscal rules (France, Italy, Belgium, Poland, Romania, Hungary). Reducing public debt ratios needs primary surpluses >1.5% of GDP on average (against deficits of >-3% end-2023).
- 7 **Strength unveiled. Emerging markets stand to benefit from supply-chain diversification**. Cost competitiveness has improved almost everywhere since 2015, apart from Central and Eastern Europe. Southeast Asia appears particularly well-positioned to attract investment. Resilient domestic demand will support GDP growth across regions into 2025, even though it is set to remain below the pre-crises level.
- 8 **Victory's stride, no limits ride. Corporate earnings are resilient but the transatlantic divide persists and investments are at the bare minimum**. Earnings have been resilient but 60% of US sectors are outperforming European peers. Corporate credit remains sluggish as most firms are investing to compensate for depreciation using own resources – but 20% of sectors are underinvesting compared to depreciation.
- 9 **Onward, upward, podium? US offices are not out of the woods yet**. We expect the CRE valuation to bottom out in 2024 with the start of the easing cycle. However, US offices continue to suffer from structural headwinds. Vacancy rates have hit record highs amid weak demand, investment activity remains anemic despite significant corrections in transaction prices and some valuation losses are yet to be internalized by market players.
- 10 **Sweat equity pays dividends. Markets continue to push through**. Global equity markets are performing well due to strong earnings resilience and mid-term trends like AI, climate change and reshoring. Despite high US equity valuations, we expect low double-digit returns in 2024 if the policy pivot remains in place and earnings remain resilient. Gradual policy shifts are likely to lower long-term yields, with German Bunds potentially seeing safe-haven demand. In the US, large fiscal deficits may keep long-term yields higher for longer. Corporate-credit demand remains strong, with attractive yields despite tight spreads. Corporate spreads should remain stable due to the earnings resilience and manageable debt metrics.

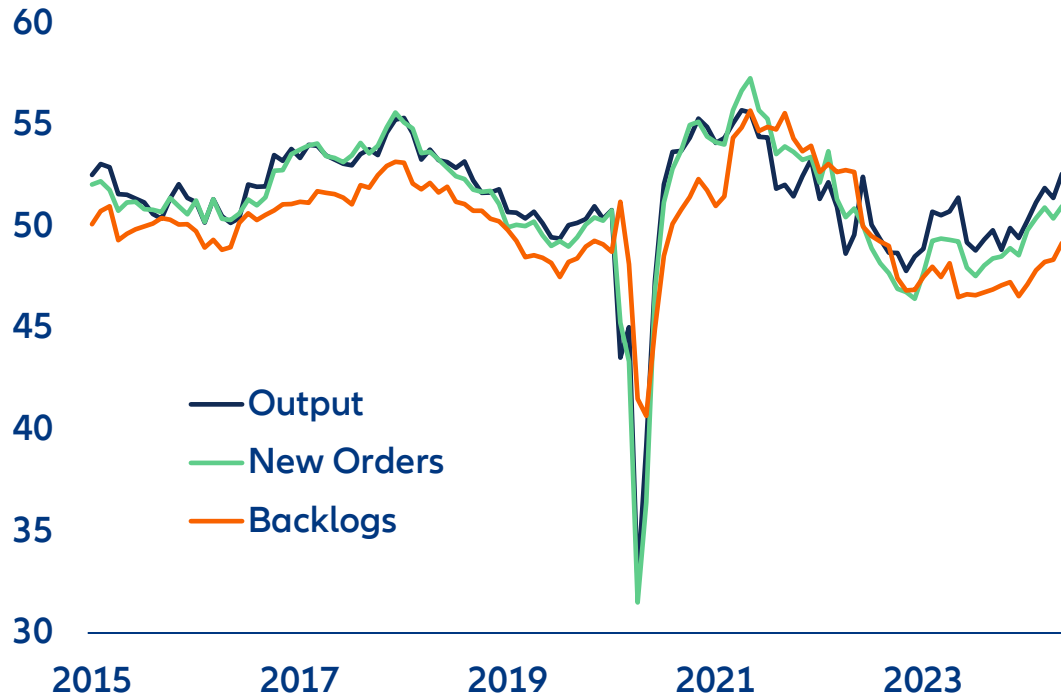
Global macro

2024-2025

Growth has bottomed-out in H1

Activity prospects are improving thanks to the global trade acceleration

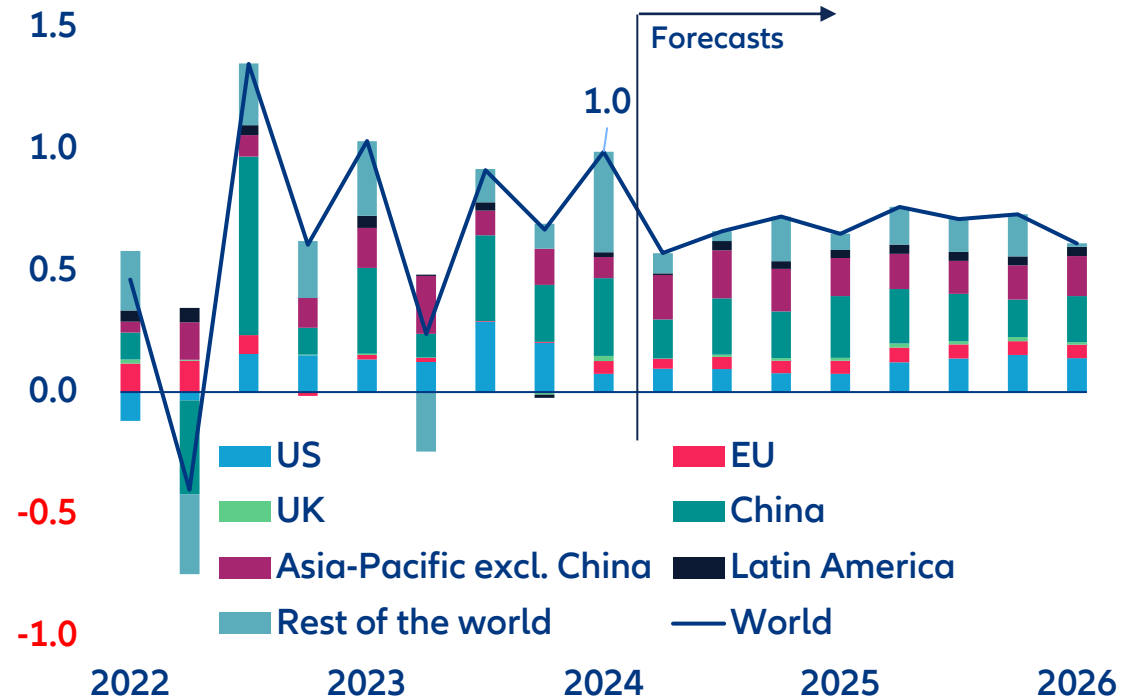
Global PMI Manufacturing subindices



Sources: S&P Global, Allianz Research

Global growth to recover in H2 2024 thanks to a pick-up of net trade and consumption

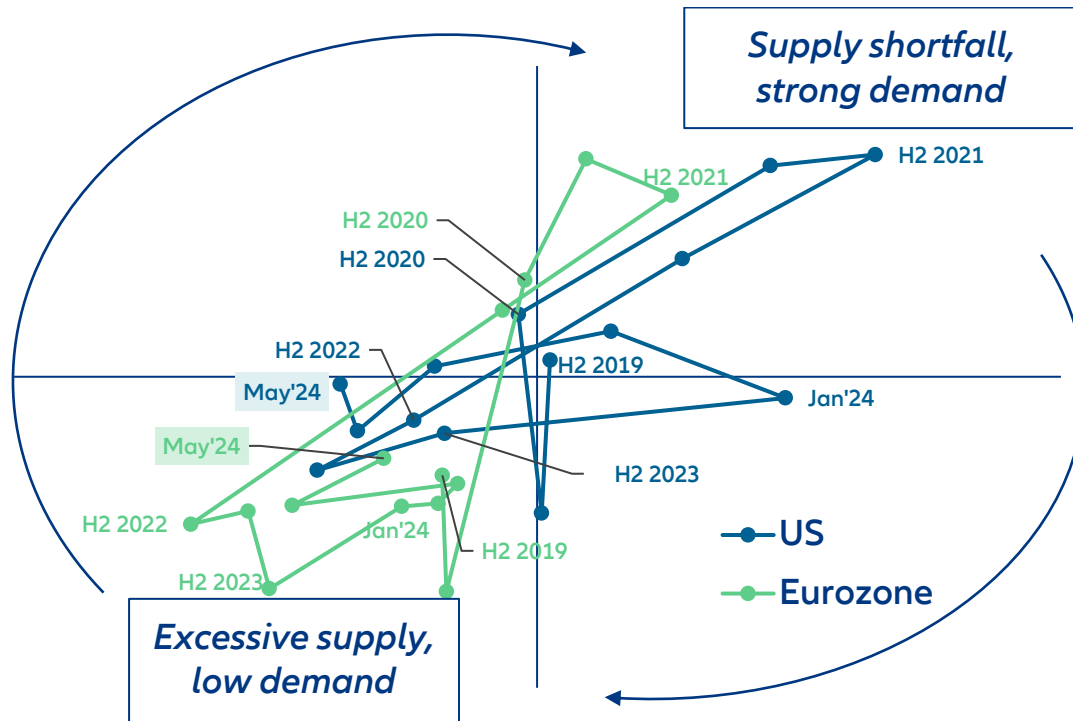
World GDP growth (%q/q) and contributions (pp)



Sources: Allianz Research

Global manufacturing still in excess supply, with particularly low demand in the Eurozone

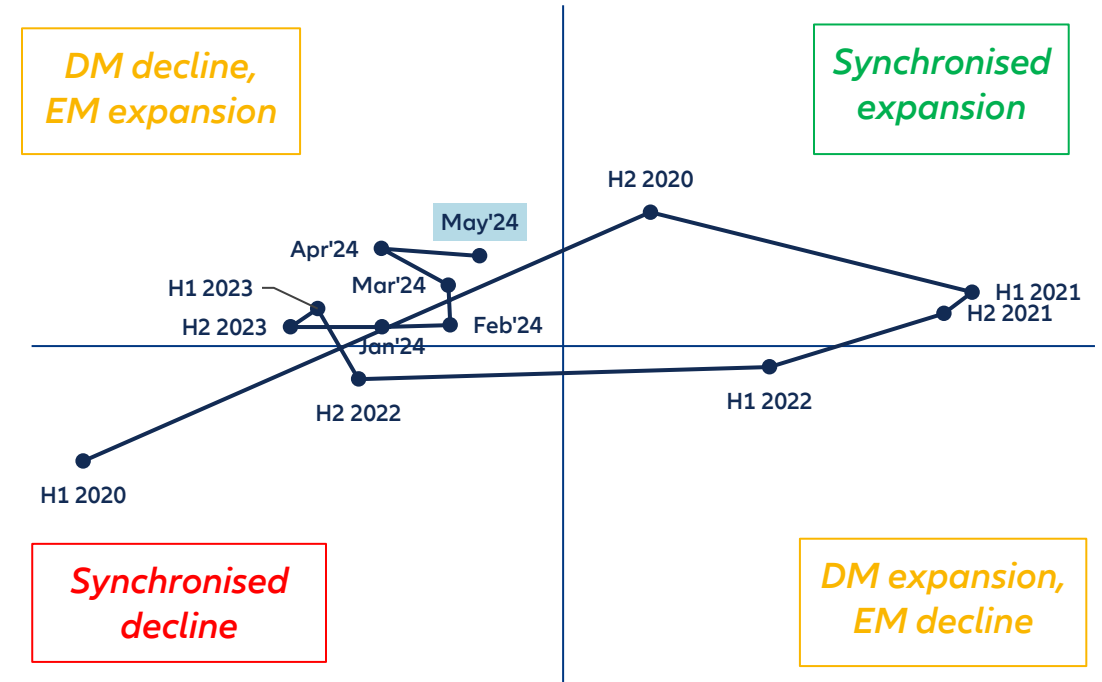
Manufacturing excessive supply and low demand points to low price pressures



Note: horizontal axis represents an index for Production shortfall (New orders – Output), vertical axis represents an index for Demand (New orders + Backlogs of work)

Sources: S&P Global, Allianz Research

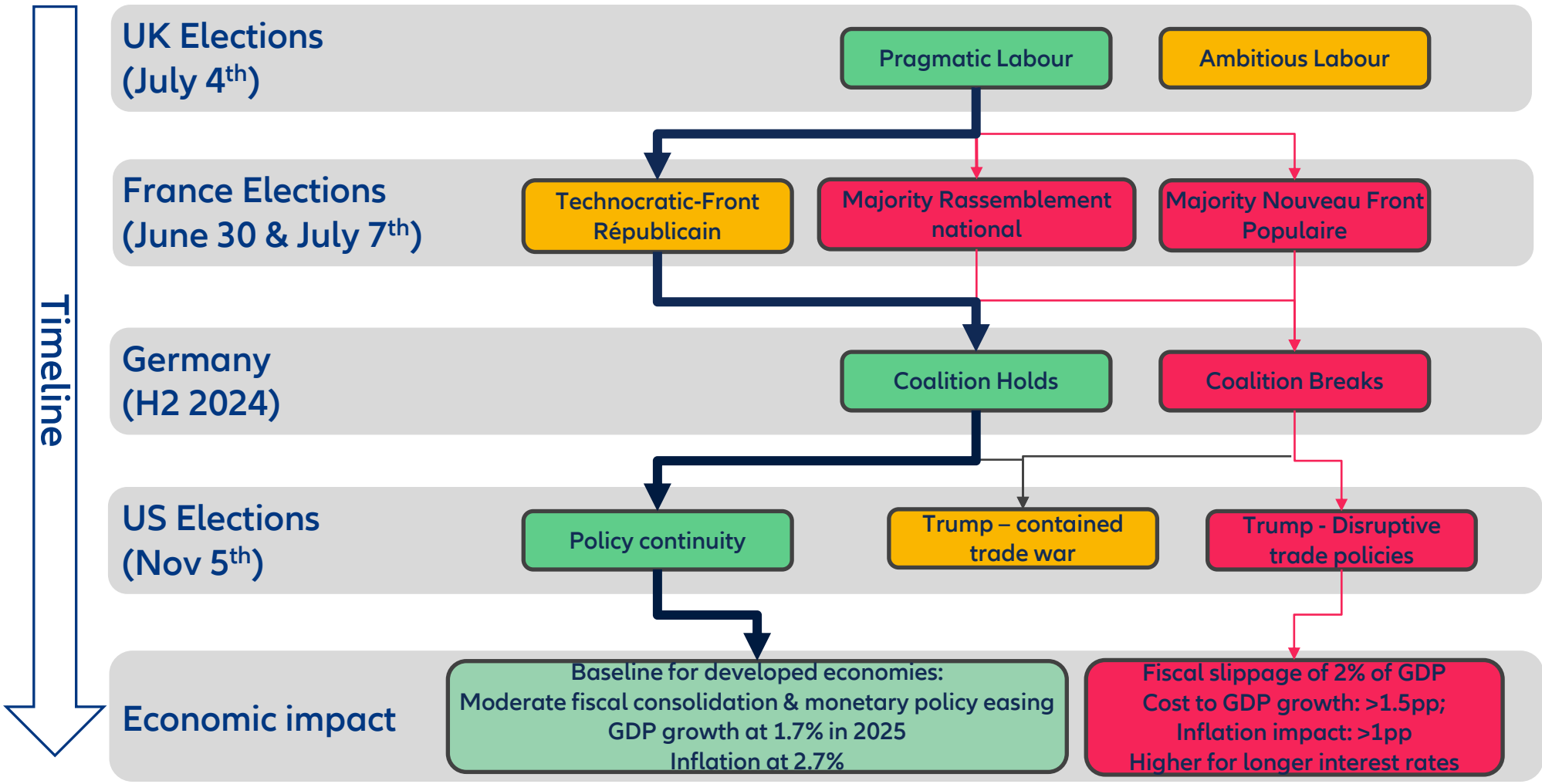
Developed market manufacturing demand still weak while emerging markets have improved



Note: horizontal axis represents demand in Developed Markets, vertical axis represents demand in Emerging Markets

Sources: S&P Global, Allianz Research

Risks are on the downside given a super-election year and ongoing global conflicts



Ongoing geopolitical conflicts in Russia-Ukraine, Middle east and tensions in the South-China-Sea and Taiwan. Our Baseline: No further significant escalation.

What a Trump government would mean for the economy and capital markets in the US

		Policy continuity (50%)				Trump – contained trade war (25%)		Trump – disruptive trade policy (20%)	
		<i>Moderate fiscal tightening ; tariff hikes concentrated on China.</i>				<i>Contained trade war (US effective tariff rate to 4.5%) ; stepped-up border controls on imports ; moderate fiscal expansion funded by customs receipts</i>		<i>Full-blown trade war (US effective tariff rate to 12%) ; stepped-up border controls on imports fiscal expansion funded by customs receipts, but weaker economy increase deficits</i>	
Economic indicators	Unit	2023	2024	2025	2026	2025	2026	2025	2026
Real GDP growth	%	2.5	2.3	1.7	2.2	1.2	1.9	0.3	1.6
Inflation	%	4.1	3.0	2.0	2.1	3.6	2.8	4.2	2.5
Fiscal deficit	% of GDP	6.2	5.6	6.1	5.7	6.2	5.8	6.9	6.6
Fed policy rate	% (eop)	5.5	5.25	4.0	3.25	5.25	3.75	5.5	2.75
Market indicators	Unit	2023	2024	2025	2026	2025	2026	2025	2026
10y Treasury rate	%	3.87	4.00	3.80	3.60	4.20	3.80	4.30	3.50
IG – Corp. spread	bps	104	100	90	80	110	90	200	160
HY – Corp. spread	bps	334	330	320	310	360	330	600	450
S&P 500	ytd%	26	13	9	7	7	12	-15	10

What a Labour government would mean for the economy and capital markets in the UK

				Pragmatic Labour government (80% probability)		Ambitious Labour government (20% probability)	
				<i>Moderate fiscal consolidation ahead; Lower GDP growth (1.5% in real terms); Stable GBP by 2027, moderate gains in the FTSE 250 (+2%) and gilt</i>		<i>Strong fiscal consolidation to bite in 2026; trough in real GDP growth at 0.7%; depreciation of -7% of the sterling due to capital flight; FTSE 250 down -13% and gilt at 4.0% in 2025</i>	
Economic indicators	Unit	2023	2024	2025	2026	2025	2026
Real GDP growth	%	0.1	1.3	1.9	1.5	2.4	0.7
Inflation	%	7.3	2.6	2.2	2.2	3.5	3.1
Fiscal shortfall	% of GDP			-0.4	-0.3	-1.6	-1.6
BoE key interest rates	year-end %	5.25	4.75	3.75	3.00	4.25	3.50
Market indicators	Unit	2023	2024	2025	2026	2025	2026
10y Bond yield	%	3.50	3.70	3.50	3.20	4.00	3.70
IG – Corp. spread	bps	134	120	120	110	170	160
HY – Corp. spread	bps	515	440	410	380	650	550
FTSE 100	ytd%	3.8	5	7	6	8	2
FTSE 250	ytd%	4.4	4	5	5	-13	3

Sources: OBR, LSEG Datastream, Allianz Research

What a RN vs left/far-left government would mean for the economy and capital markets in France

			Technocratic-Front Republicain (50%)	Majority Rassemblement National (25%)	Majority Nouveau Front Populaire (20%)
			<i>Moderate fiscal tightening of 0.2% GDP to assuage markets and EC. GDP growth unchanged in 2025</i>	<i>Fiscal expansion of 1% GDP spread over 2025-26; GDP growth shelved by -0.3pp in 2025 as tighter financial conditions bite</i>	<i>Fiscal expansion of 1.2% GDP spread over 2025-26; Strong increase in minimum wage; GDP growth shelved by -0.3pp in 2025 as tighter financial conditions bite</i>

Economic indicators	Unit	2023	2024	2025	2024	2025	2024	2025
Real GDP growth	%	1.1	0.9	1.3	0.8	1.0	0.8	1.0
Inflation	%	4.9	2.3	1.8	2.3	1.7	2.3	2.2
Fiscal deficit	% of GDP	5.5	5.2	4.9	5.3	5.7	5.4	6.0

Depending on the implementation of the electoral pledges both scenarios can have the following market implications

Market outcomes			Buy the dip		Increased FR risk premium		Euro crisis	
Market indicators	Unit	2023	2024	2025	2024	2025	2024	2025
10y OAT spread	%	53	60	50	90	70	120	90
ECB activates TPI				No		Unlikely		Likely
IG – Corp. spread	bps	133	120	120	250	190	190	150
CAC40	ytd%	16.5	+7	+10	-6	+5	-12	+9
House price	ytd%	-1.5	-2.4	+1.6	-3.2	+1.2	-3.7	+1.7

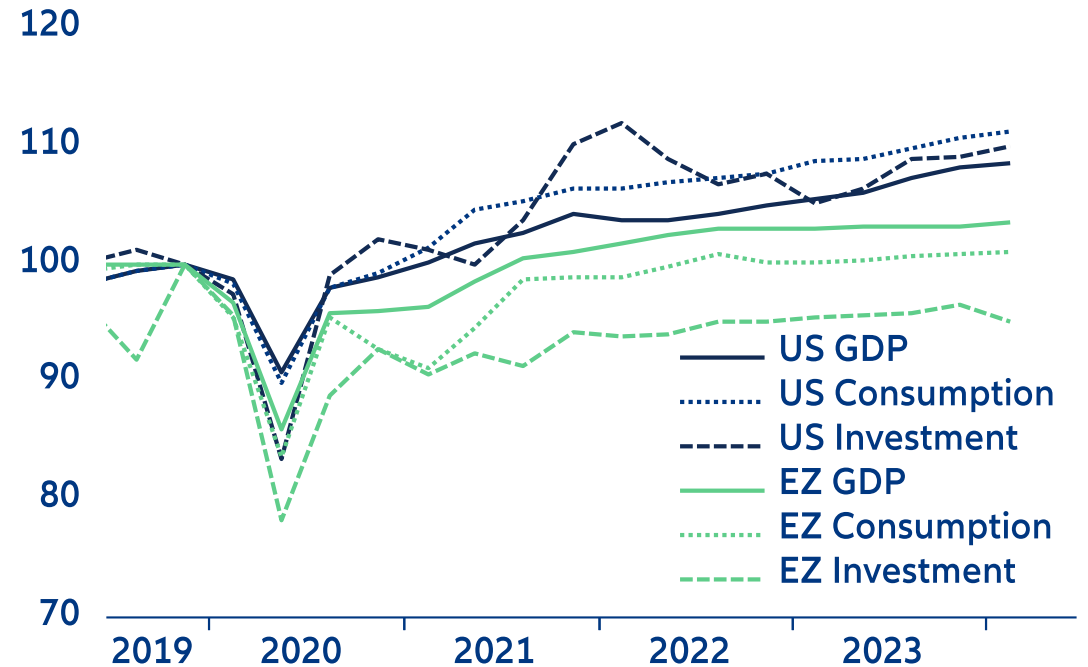
Growing transatlantic divide

Global real GDP growth (%)

Growth (yearly %)	2021	2022	2023	2024f	2025f
Global	6.4	3.1	2.7	2.8	2.8
USA	5.8	1.9	2.5	2.3	1.7
Latin America	7.3	3.9	1.9	2.0	2.7
Brazil	5.1	3.1	2.9	2.0	2.4
UK	8.7	4.4	0.1	1.3	1.9
Eurozone	5.9	3.5	0.6	0.7	1.4
Germany	3.1	1.9	0.0	0.1	0.9
France	6.8	2.6	1.1	0.9	1.3
Italy	8.3	4.2	1.0	0.8	1.2
Spain	6.4	5.8	2.5	2.1	1.7
Central and Eastern Europe	6.1	1.0	1.1	2.2	3.2
Poland	6.9	5.9	0.1	2.2	3.2
Russia	5.9	-1.3	3.7	3.6	2.0
Türkiye	11.4	5.5	4.5	4.6	4.1
Asia-Pacific	6.8	3.2	4.4	4.2	4.0
China	8.5	3.0	5.3	5.0	4.3
Japan	2.6	1.0	1.9	0.2	1.2
India	9.4	6.5	7.8	6.8	6.5
Middle East	4.6	6.1	1.7	2.2	3.2
Saudi Arabia	5.1	7.5	-1.1	1.6	5.3
Africa	5.9	3.9	2.8	3.2	3.5
South Africa	5.0	1.9	0.7	1.4	1.4

Transatlantic divide in domestic demand translates to growth divergence

Index, Q4 2019=100

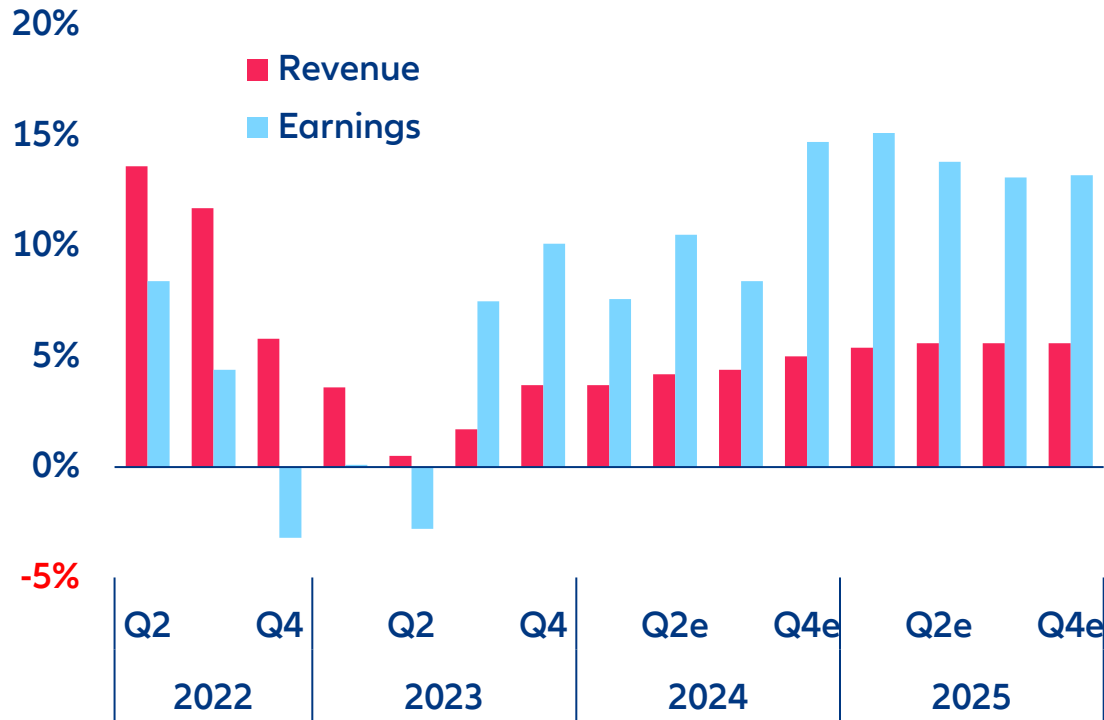


Sources: LSEG Datastream, Allianz Research

Transatlantic divide also visible in corporate financials

US outperforming in revenue growth in 60% of sectors

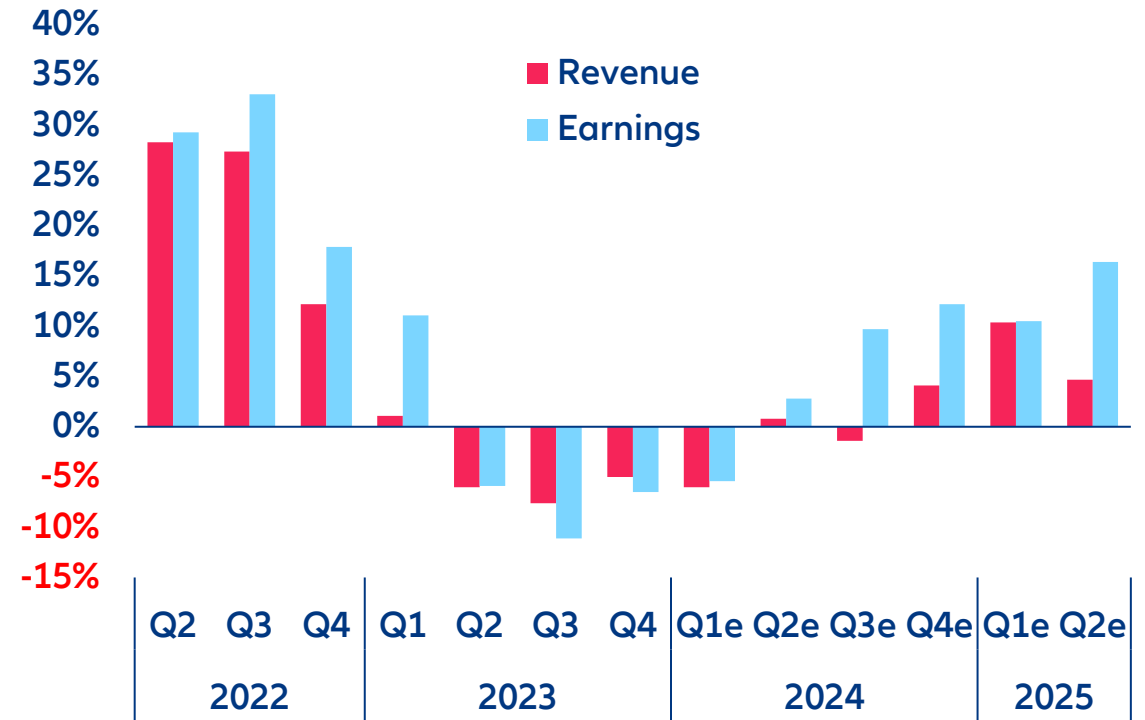
S&P 500 earnings and revenue growth, y/y in %



Sources: LSEG Refinitiv, Allianz Research

Earnings recession in Europe

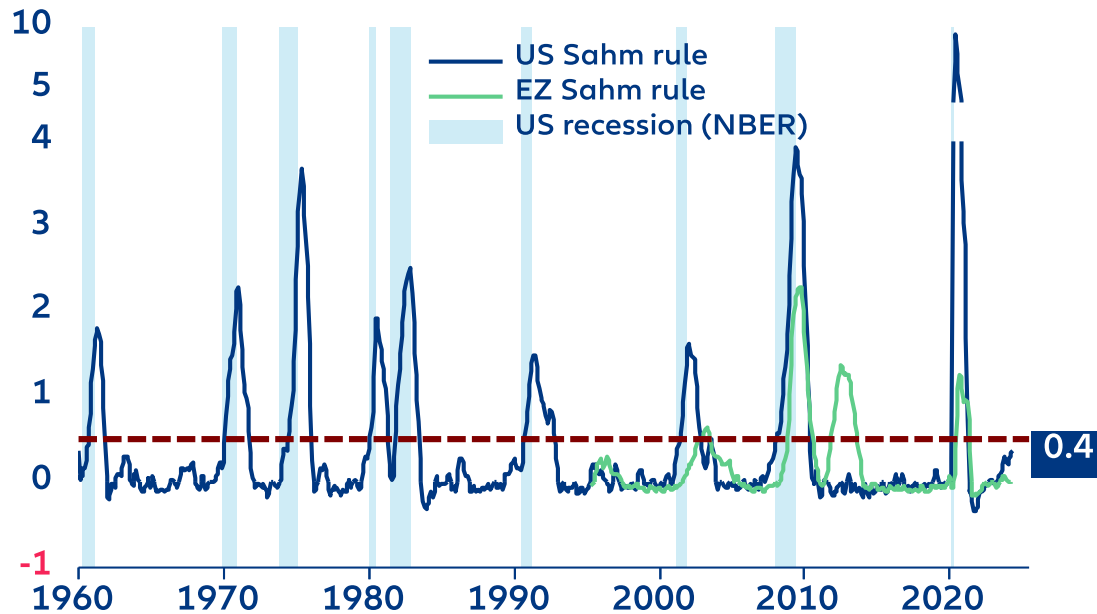
Stoxx 600 earnings and revenue growth, y/y in %



Sources: LSEG Refinitiv, Allianz Research

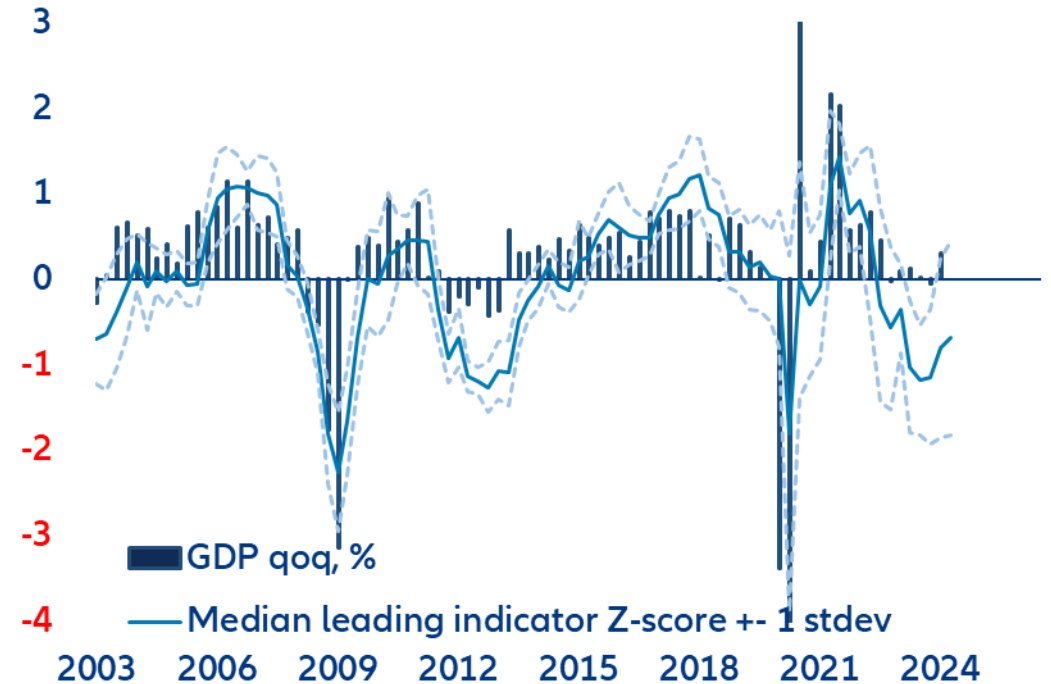
Recession risks still present in the Eurozone, rising in the US

US labor market points to increasing risks as the unemployment rate slowly edges up



Sources: LSGE Datastream, Allianz Research
 Sham rule = three-month average of the unemployment rate – 12-month low. When it rises above 0.5 p.p. the rule predicts the early stage of a recession.

Large dispersion of leading indicators in the Eurozone raises uncertainty of economic forecasts

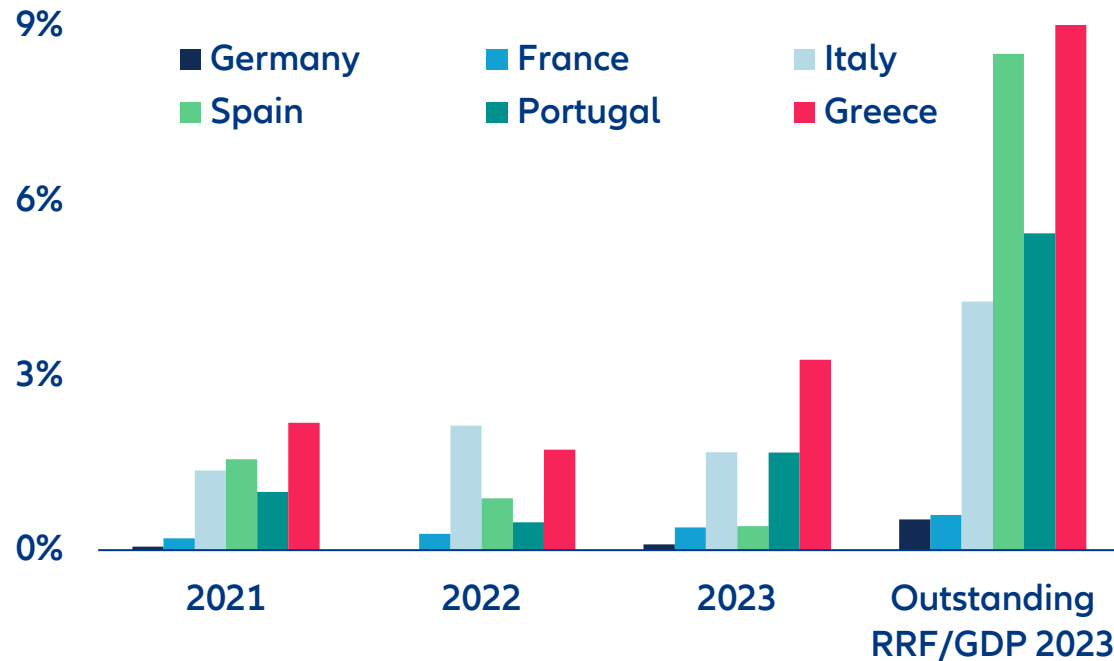


Sources: LSGE Datastream, Allianz Research
 Notes: Median leading indicator is the median of several normalized leading indicators (Z-scores) such as PMIs, change in credit demand, economic sentiment, consumer confidence.

Fiscal consolidation delayed after election year

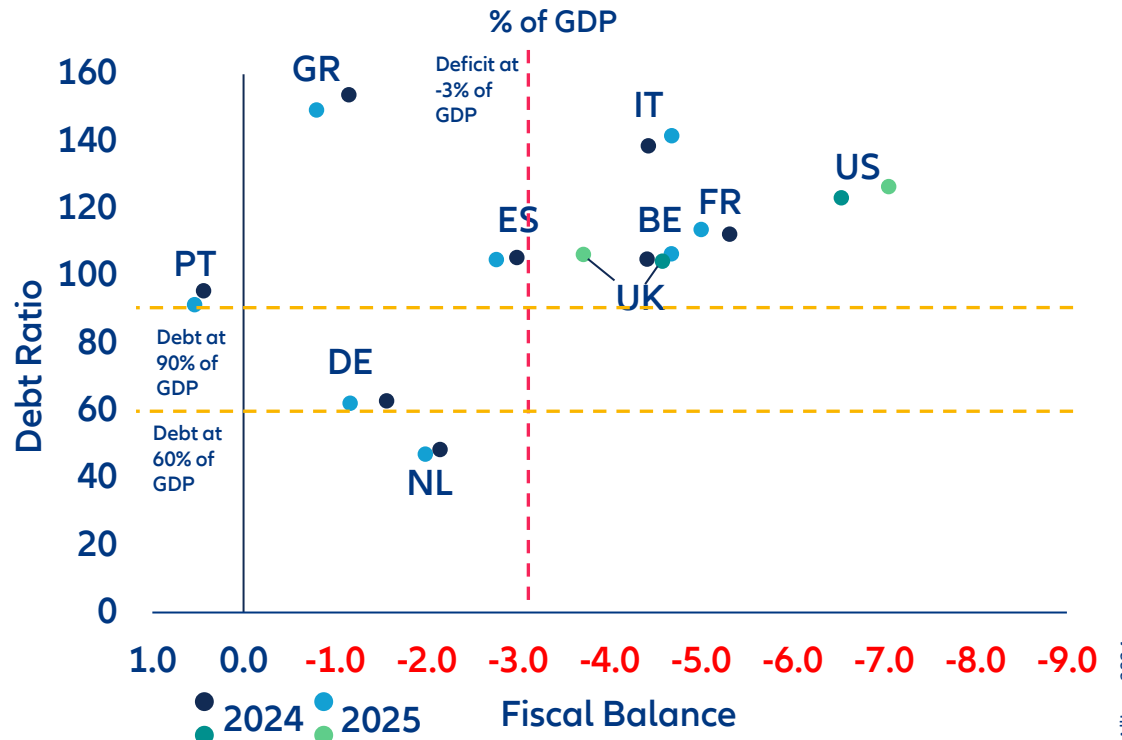
NGEU will boost (southern) Europe investment as 65% of resources will be paid out in 2024-26

NGEU funds disbursed and remaining, % of GDP



Sources: LSEG Datastream, Allianz Research

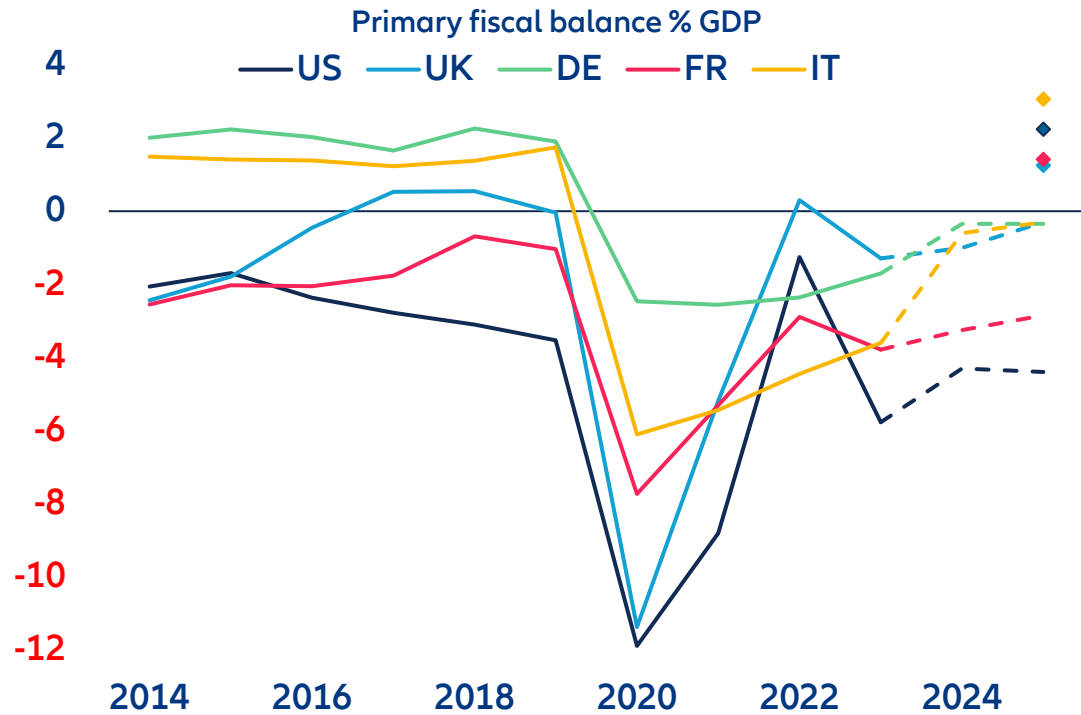
Potential breaches to the new EU fiscal rules on the horizon



Sources: LSEG Datastream, IMF, EC AMECO, Allianz Research. Note: green dots refer to non-EU countries, for which the EU fiscal framework doesn't apply

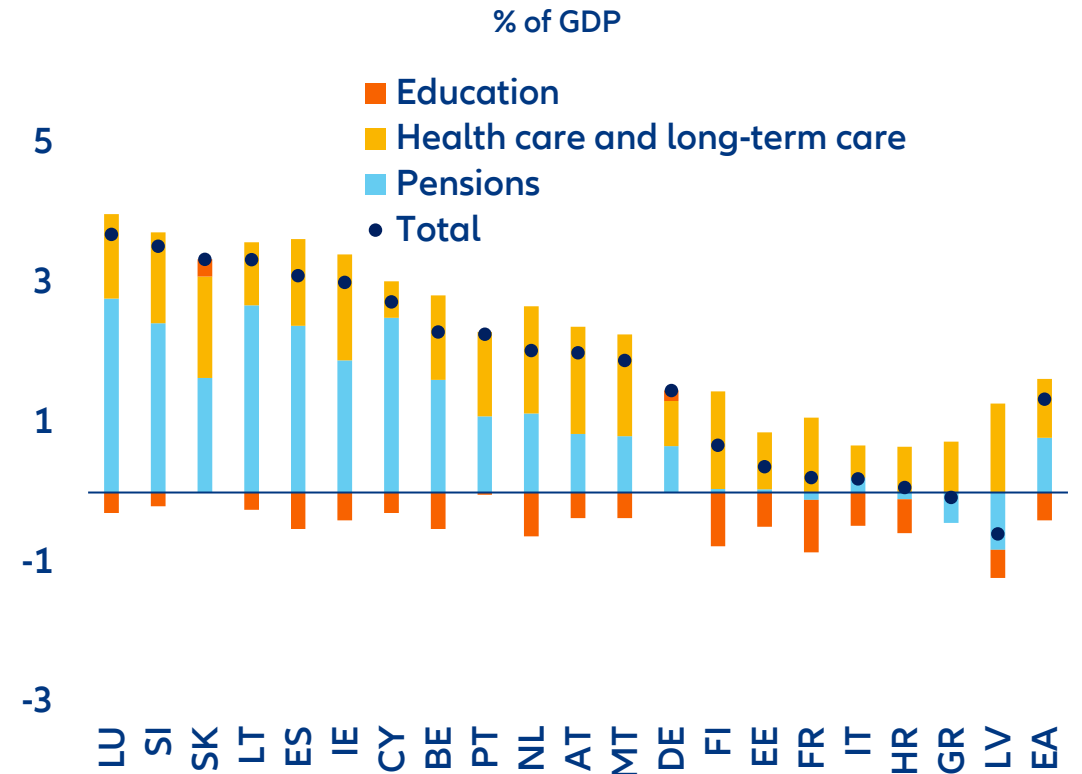
...and only marginal compared to debt-stabilizing needs

Fiscal efforts needed to stabilize debt-to-GDP would be higher than planned for most countries



Sources: LSEG Datastream, EC AMECO, Allianz Research. Note: for countries with debt-to-GDP ratio expected to increase in 2024-25, the stabilizing primary balance is reported in the chart.

Structural challenges require even more fiscal efforts in the long-run

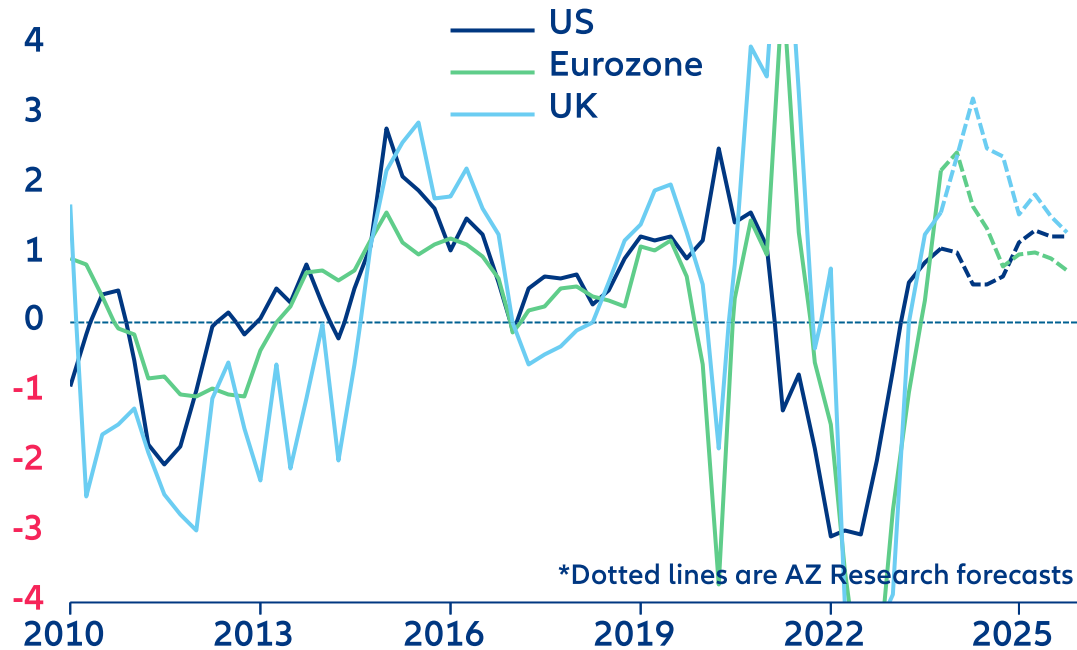


Source: ECB

Timid comeback of the consumer as uncertainty prevents from ambitious spending patterns

Real wage growth yet to reach its peak

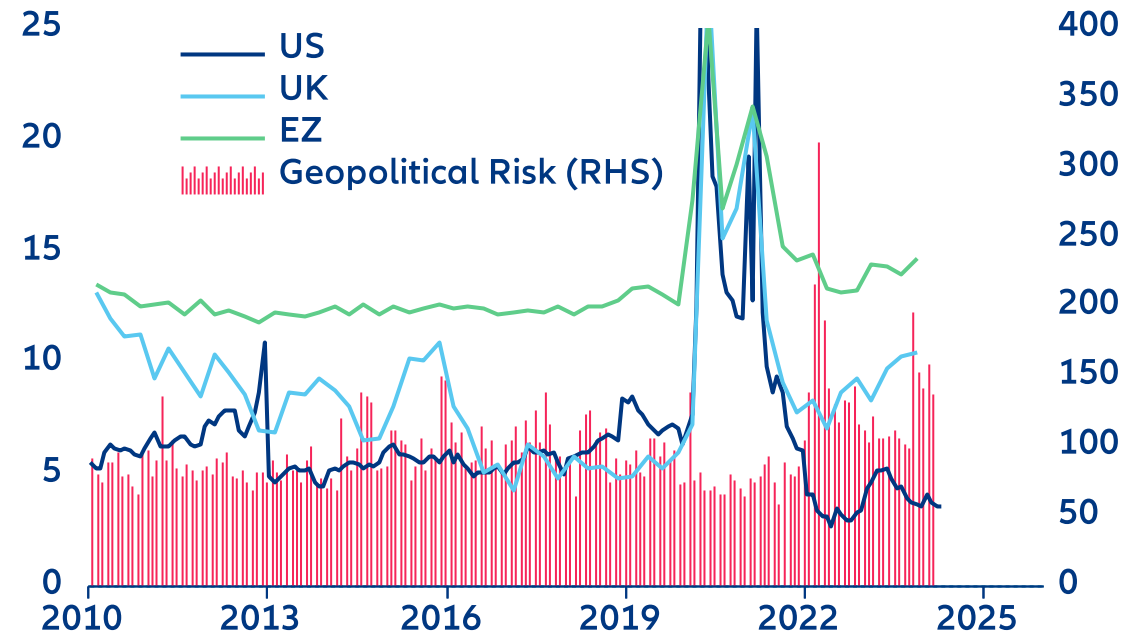
Real wage growth, y/y in %



Sources: LSEG Datastream, Allianz Research

Savings rates tend to increase in an uncertain environment

Household saving rates in %, geopolitical risk index

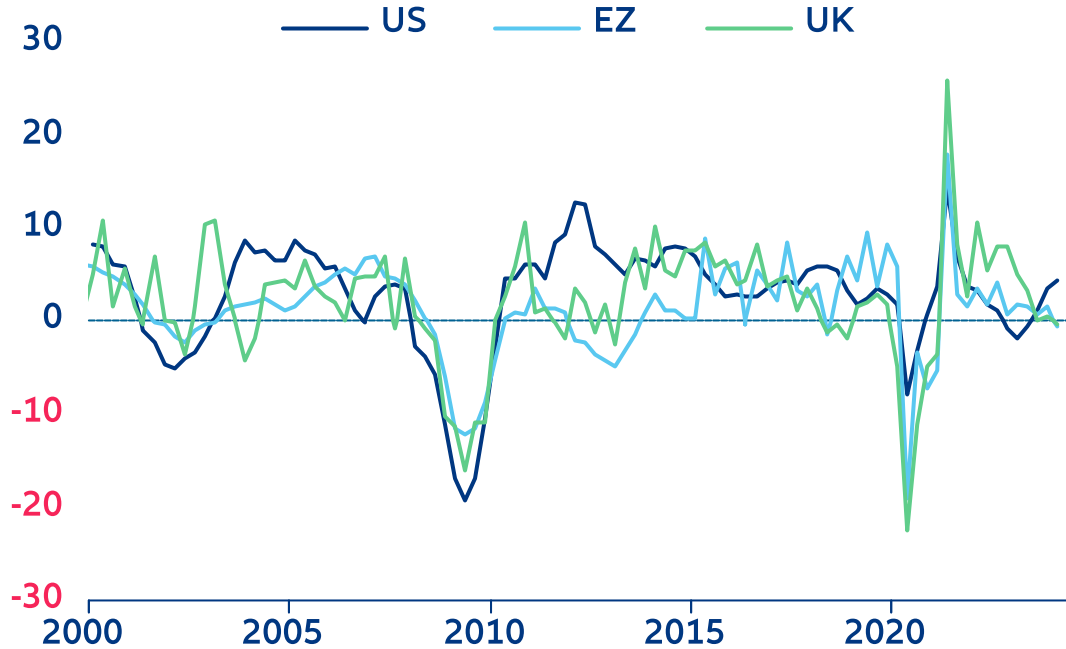


Sources: LSEG Datastream, Allianz Research

The revival of the investment cycle is yet to come

Fixed investment still on the downside

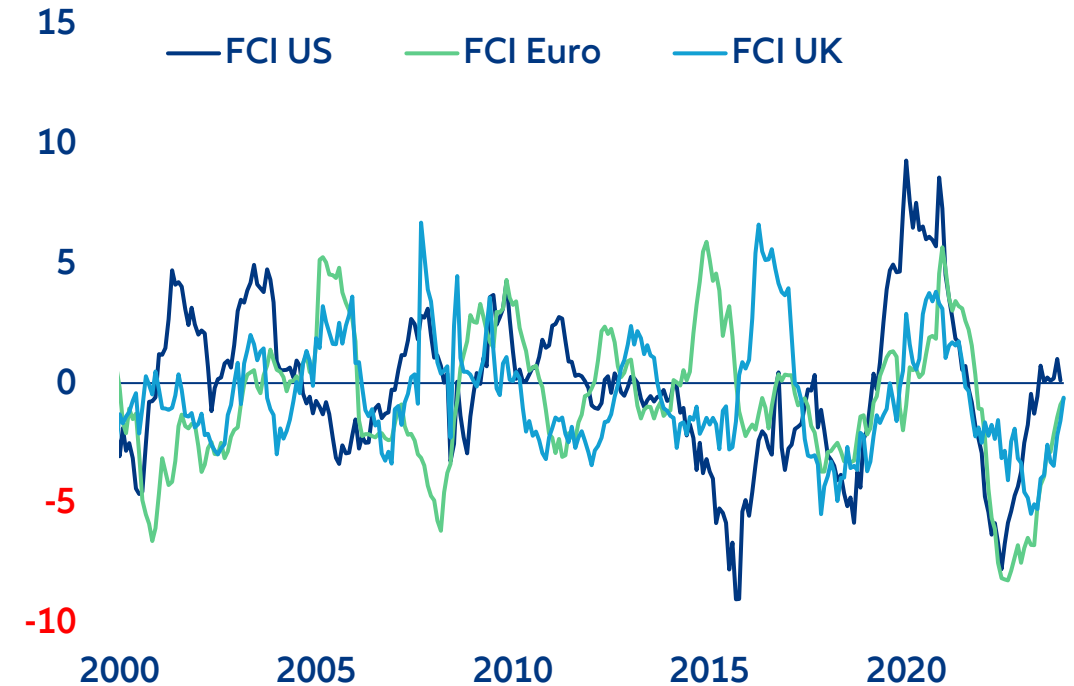
Gross fixed capital formation, y/y in %



Sources: LSEG Datastream, Allianz Research

Easing financial conditions should support a pick-up in investment early 2025

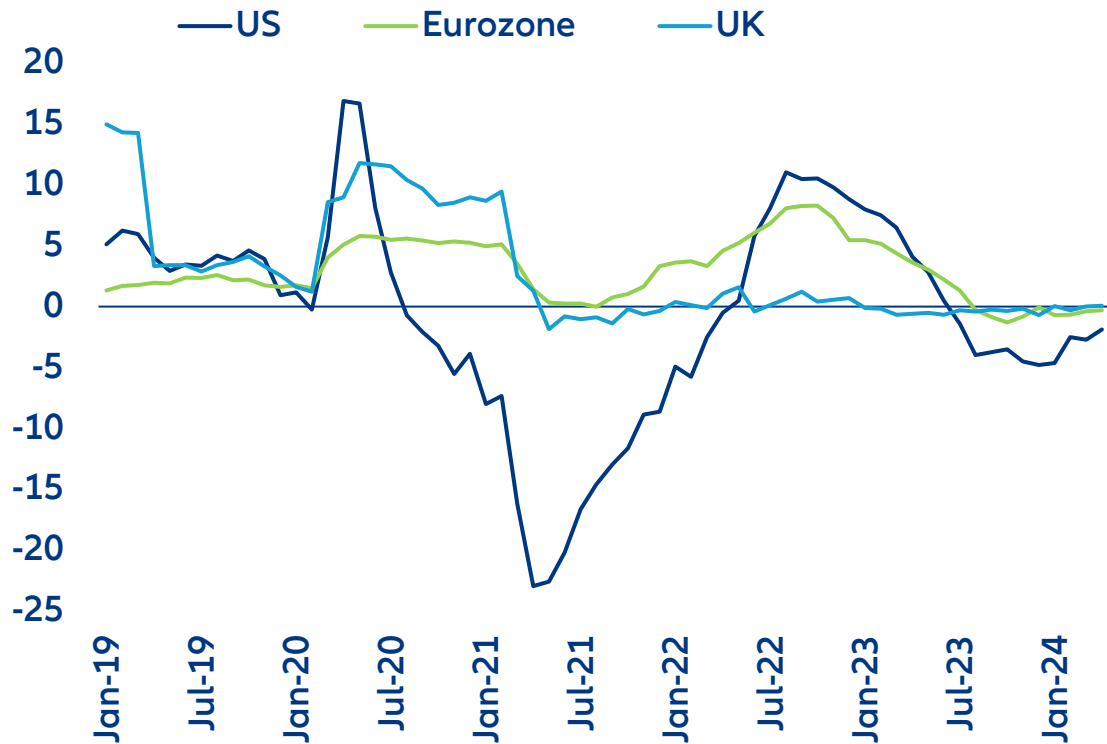
Z-score based on M1, equity prices, interest rates & FX



Sources: LSEG Datastream, Allianz Research

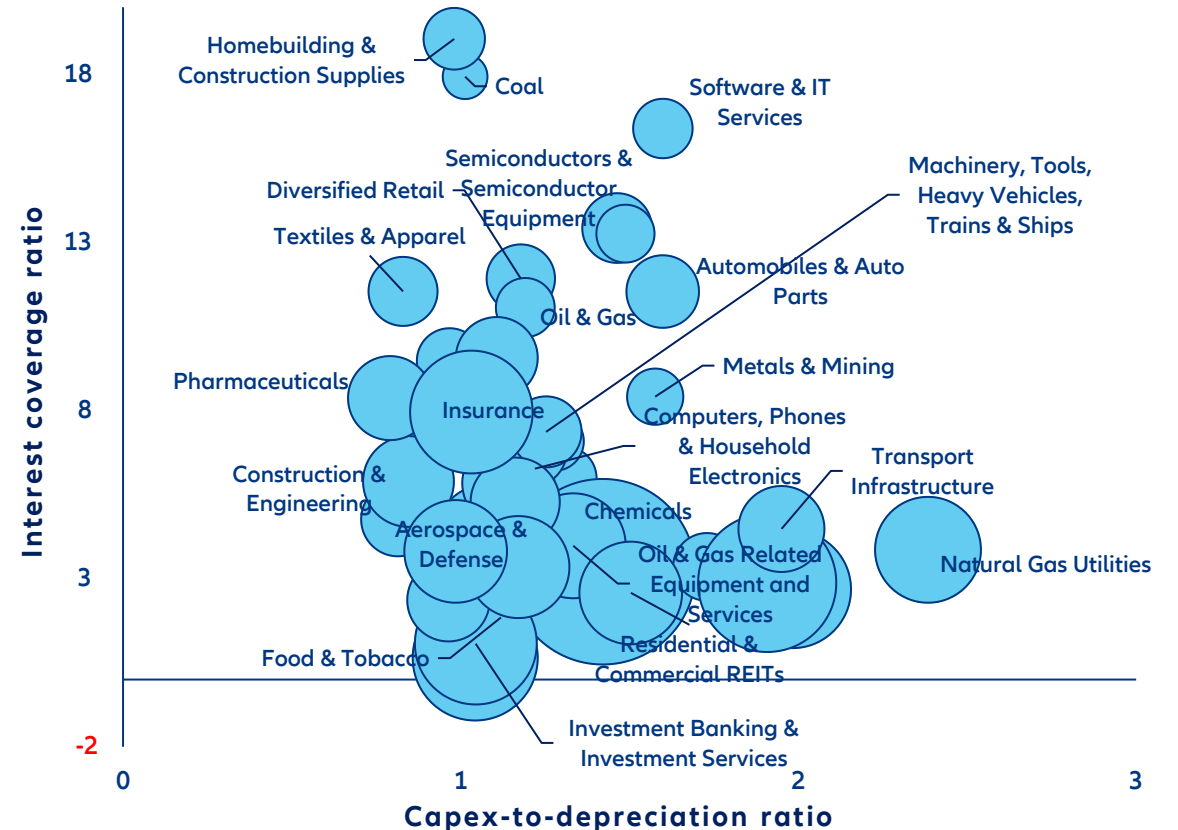
Corporates use their own resources to maintain capacities

Lending to non-financial corporations is sluggish
Outstanding loans, y/y in %



Sources: LSEG Datastream, Allianz Research

Only 1 sector out of 5 is underinvesting

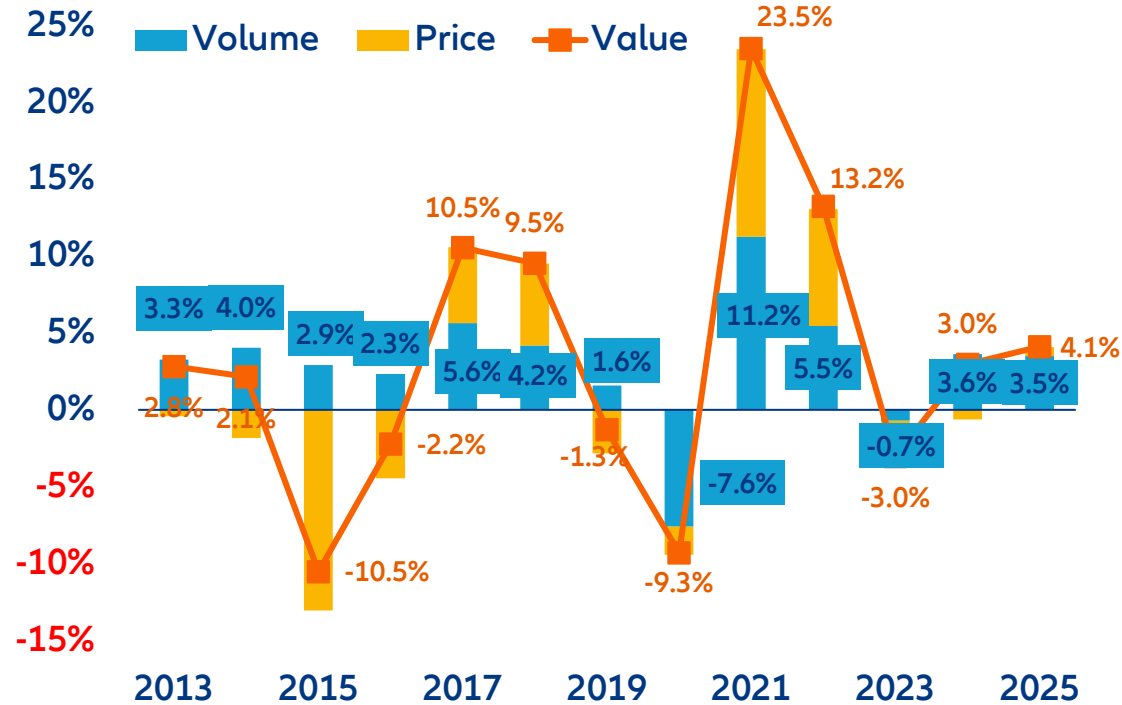


Sources: LSEG Refinitiv, Allianz Research.
Bubble size: LT debt to equity ratio, the smaller the better

Trade rebounds moderately in volume but price pressures remain on the downside

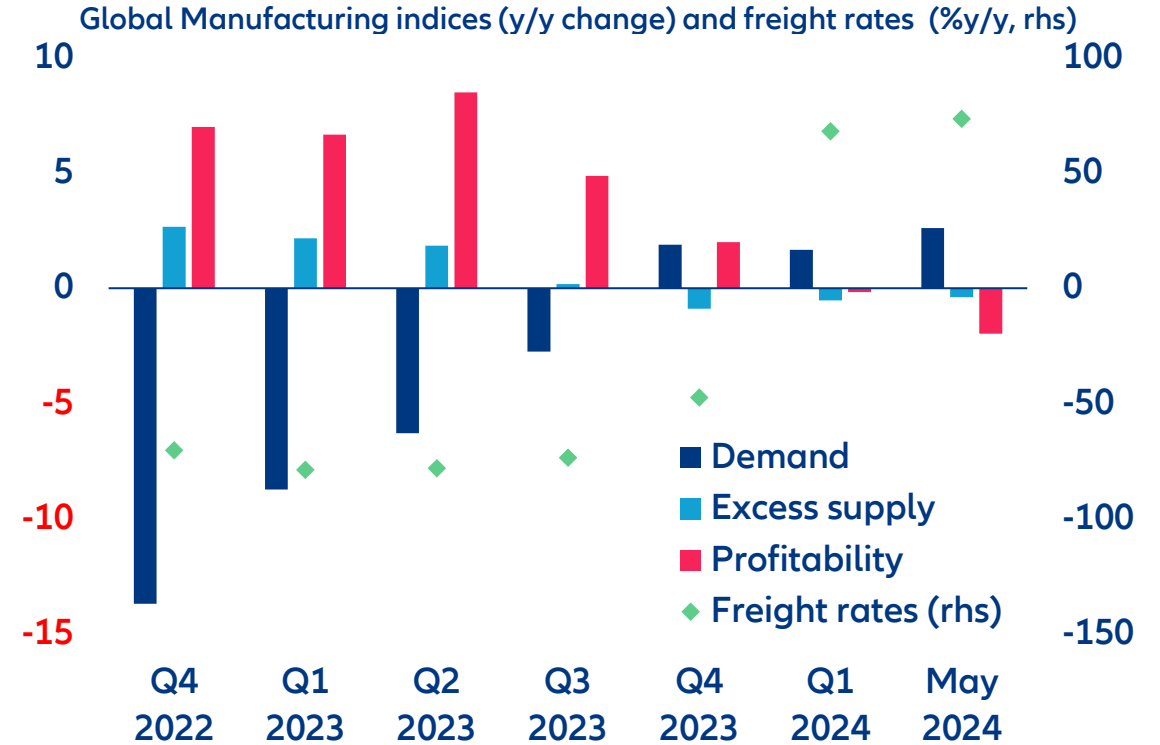
Global trade growth should remain below average

in volume terms, +3.6% in 2024 and +3.5% in 2025



Sources: LSEG Datastream, Allianz Research

Global demand is recovering but overcapacity persists. Geopolitics is raising freight rates.



Sources: S&P Global, Bloomberg, Allianz Research

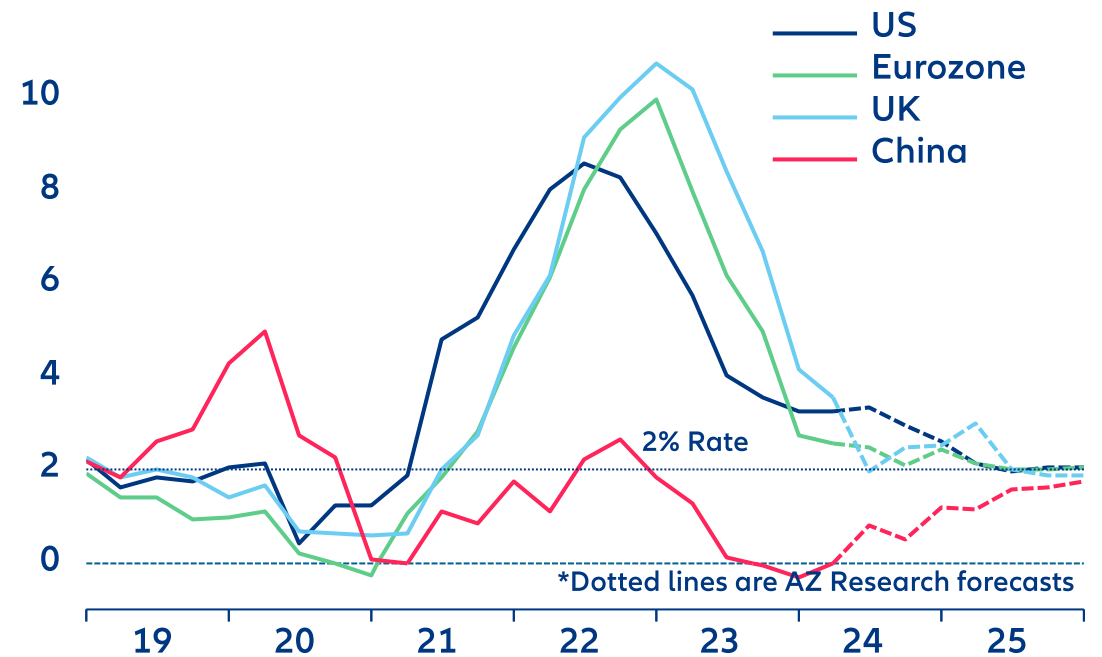
Disinflation hiccups as expected but targets to be reached in 2025

Inflation forecasts, %

Inflation (yearly %)	2021	2022	2023	2024f	2025f
Global	4.4	8.2	6.2	5.6	3.9
USA	4.7	8.0	4.1	3.0	2.0
Latin America	9.8	14.0	14.4	16.7	12.8
Brazil	8.3	9.3	4.6	4.0	3.5
UK	2.6	9.1	7.3	2.6	2.2
Eurozone	2.6	8.4	5.4	2.4	2.1
Germany	3.1	6.9	5.9	2.4	2.1
France	1.6	5.2	4.9	2.2	1.9
Italy	1.9	8.2	5.6	1.5	1.9
Spain	3.1	8.4	3.5	3.1	2.3
Central and Eastern Europe	8.1	9.1	11.0	3.9	3.8
Poland	5.1	14.4	11.4	3.6	3.8
Russia	6.7	13.8	5.9	6.9	4.8
Türkiye	19.6	72.3	53.9	58.0	24.2
Asia-Pacific	2.0	3.9	3.0	2.1	2.3
China	0.9	2.0	0.2	0.6	1.5
Japan	-0.2	2.5	3.3	2.6	1.8
India	5.1	6.7	5.7	4.5	4.6
Middle East	12.1	13.9	10.7	12.5	5.1
Saudi Arabia	3.1	2.5	2.3	2.5	2.0
Africa	12.7	14.2	18.2	18.3	11.1
South Africa	4.6	6.9	5.9	4.2	3.8

Approaching central bank targets in 2025

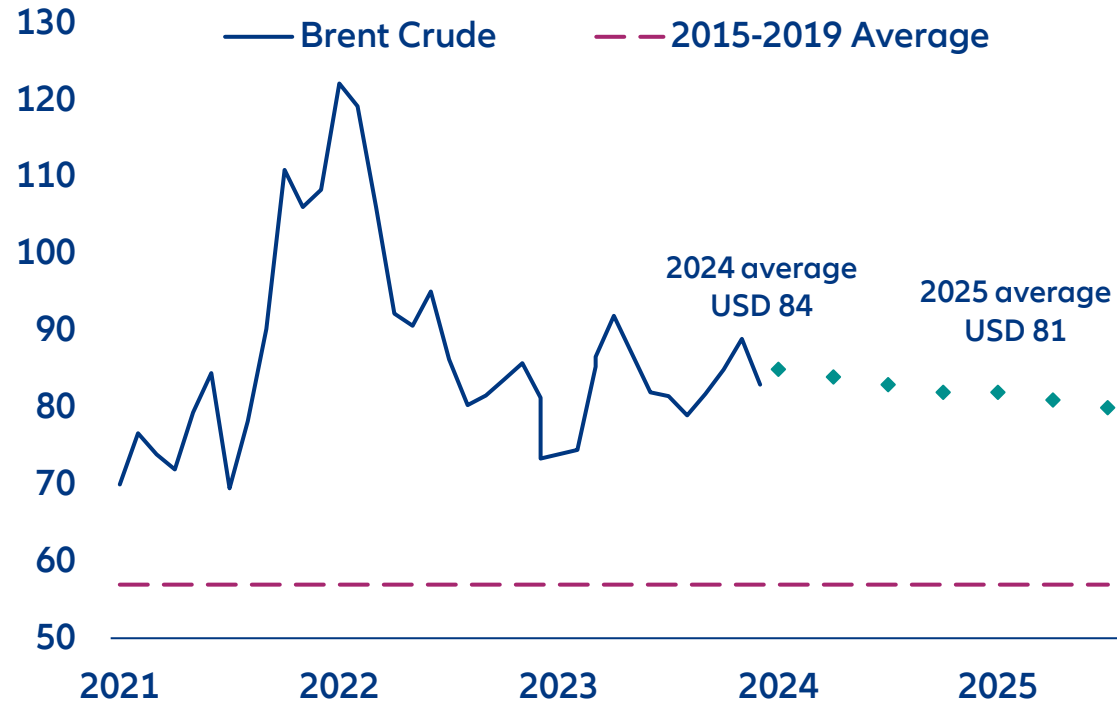
Quarterly inflation rates, y/y %



Sources: LSEG Datastream, Allianz Research

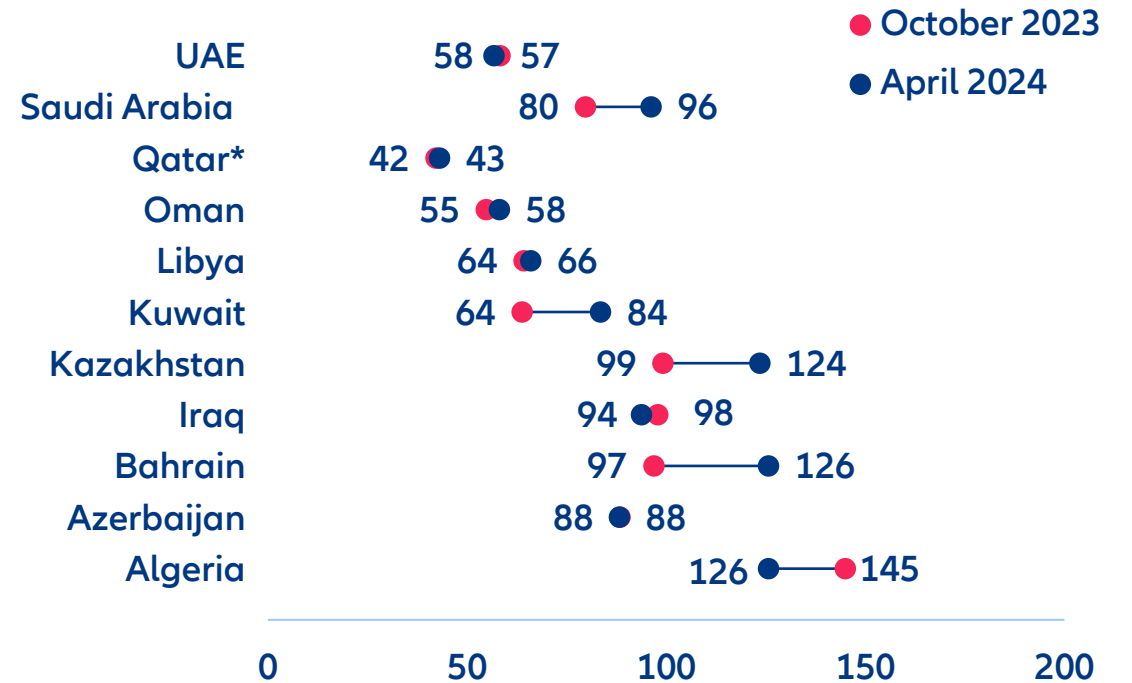
Oil prices broadly stable

Oil prices to remain expensive despite lower demand
USD



Sources: LSEG Datastream, Allianz Research

Despite higher break-evens, OPEC+ unlikely to be able to tip prices up

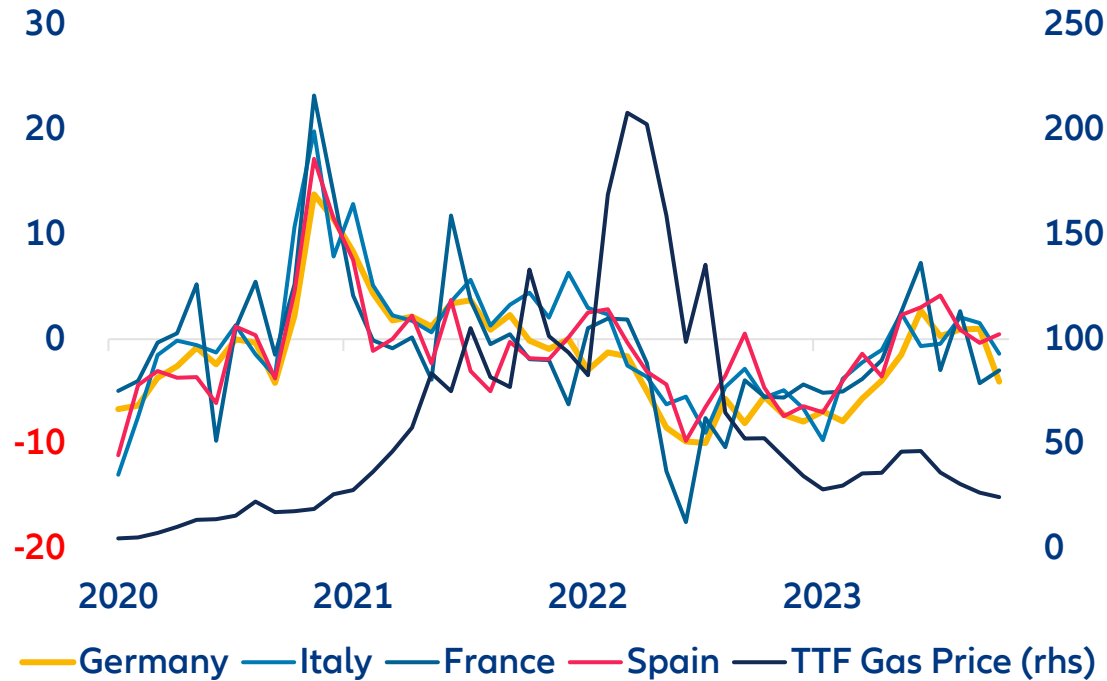


Sources: IMF, Allianz Research, Note: * Not an OPEC+ member

Energy crisis still has lingering effects

Electricity consumption in the EU has not recovered

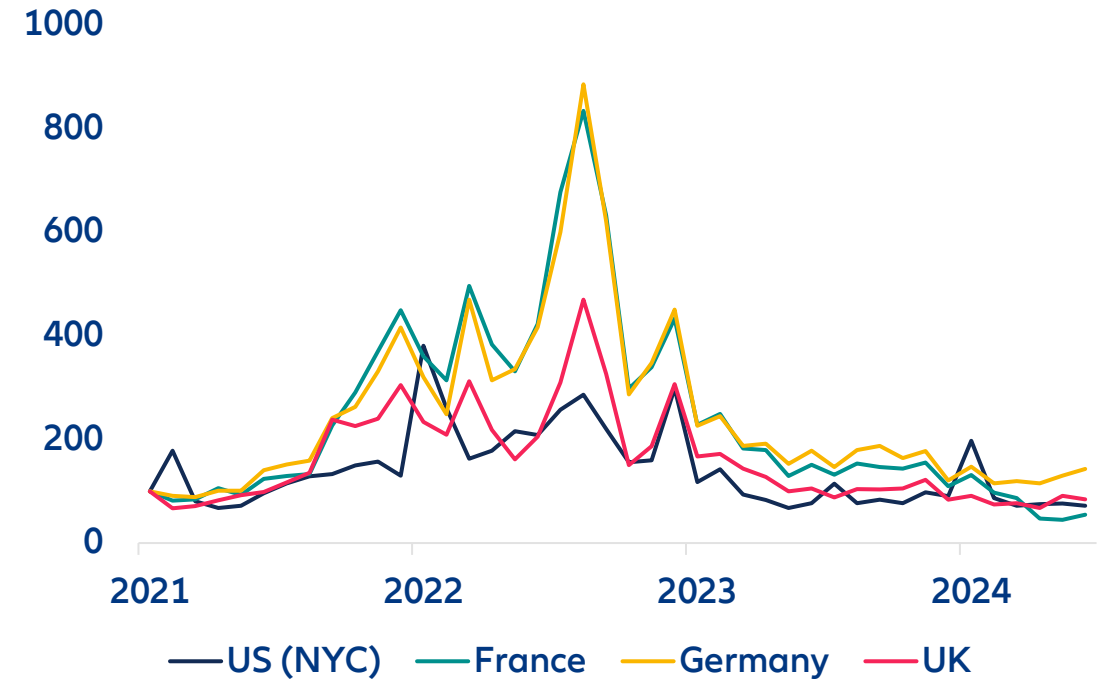
y/y% change in consumption vs Natural Gas price – rhs: EUR/MWh



Sources: LSEG Datastream, Allianz Research

Electricity prices still an issue in Germany

Index (Jan 2021 = 100)

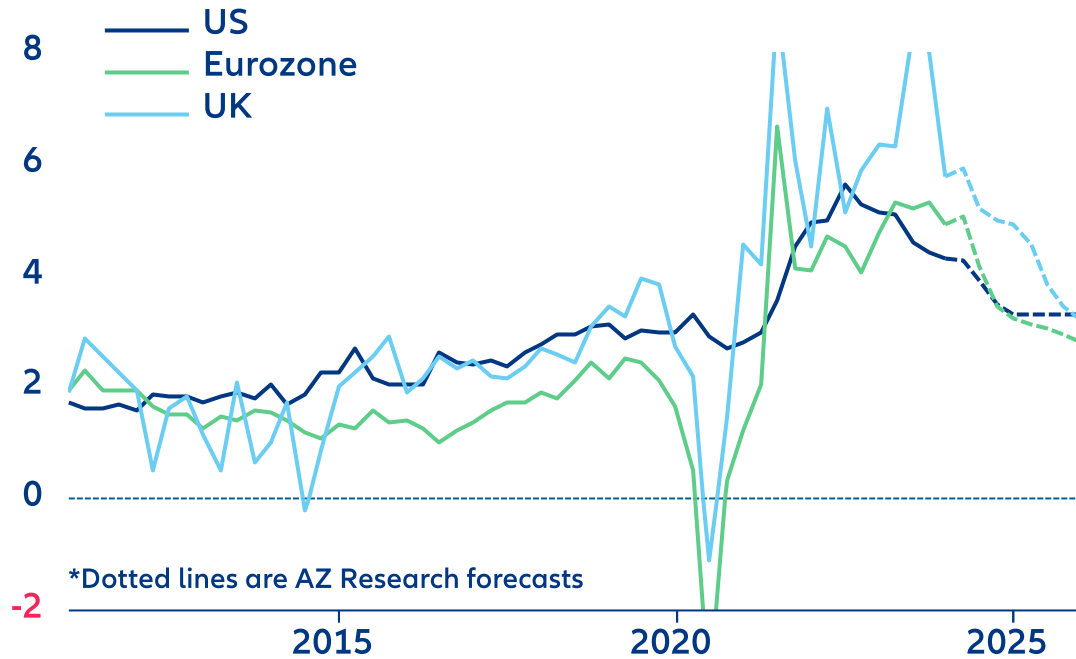


Monthly average of base load prices - NY ISO for US, EPEX for European countries (Jan 2021 = 100)

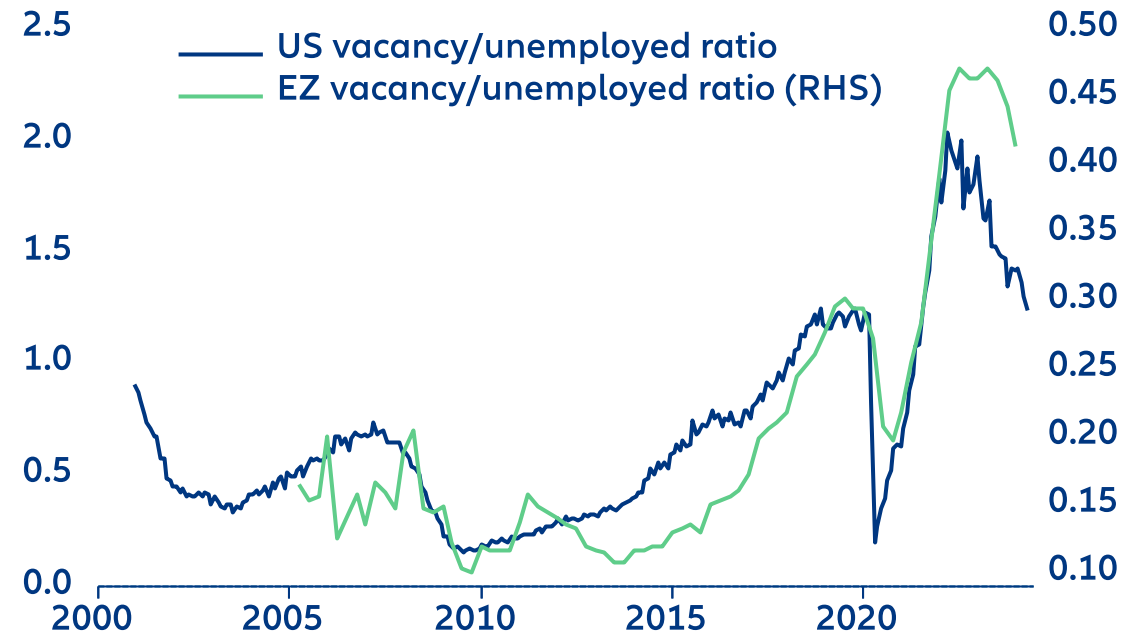
Sources: LSEG Datastream, Allianz Research

Labor market tightness easing globally

Nominal wage growth to normalize by 2025
quarterly y/y in %



Despite historically low unemployment rates
vacancy-to-unemployment ratios are off their highs
vacancy-unemployed ratio

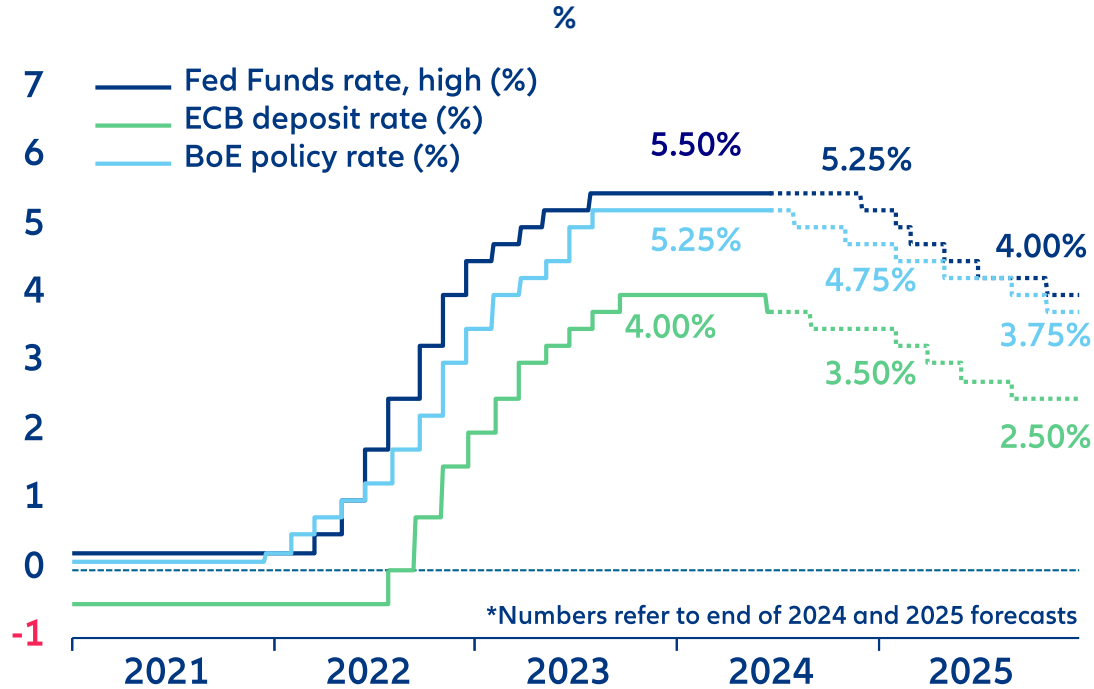


Sources: LSEG Datastream, Allianz Research

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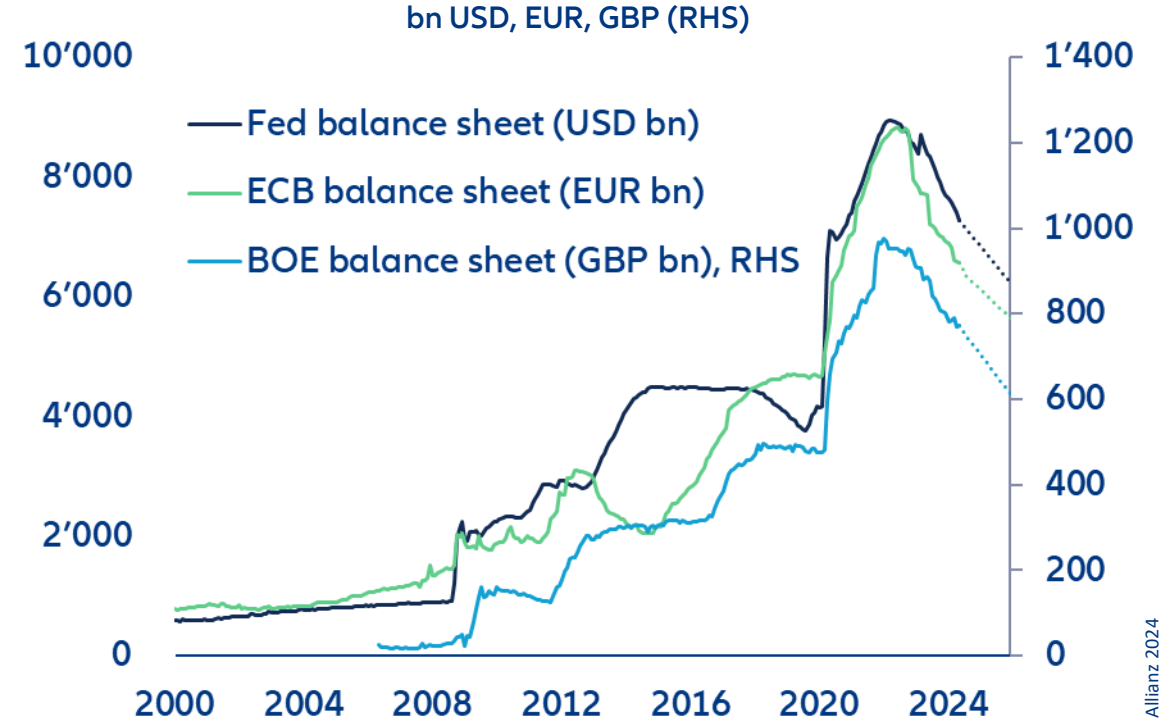
Timid central bank easing cycles given rising transatlantic divergence

Central bank cutting cycle initiated in Europe while the Fed will keep rates higher for a (bit) longer



Sources: LSEG Datastream, Bloomberg, Allianz Research

Opposite divergence in QT: While ECB accelerates, the Fed slows down the balance sheet run-off



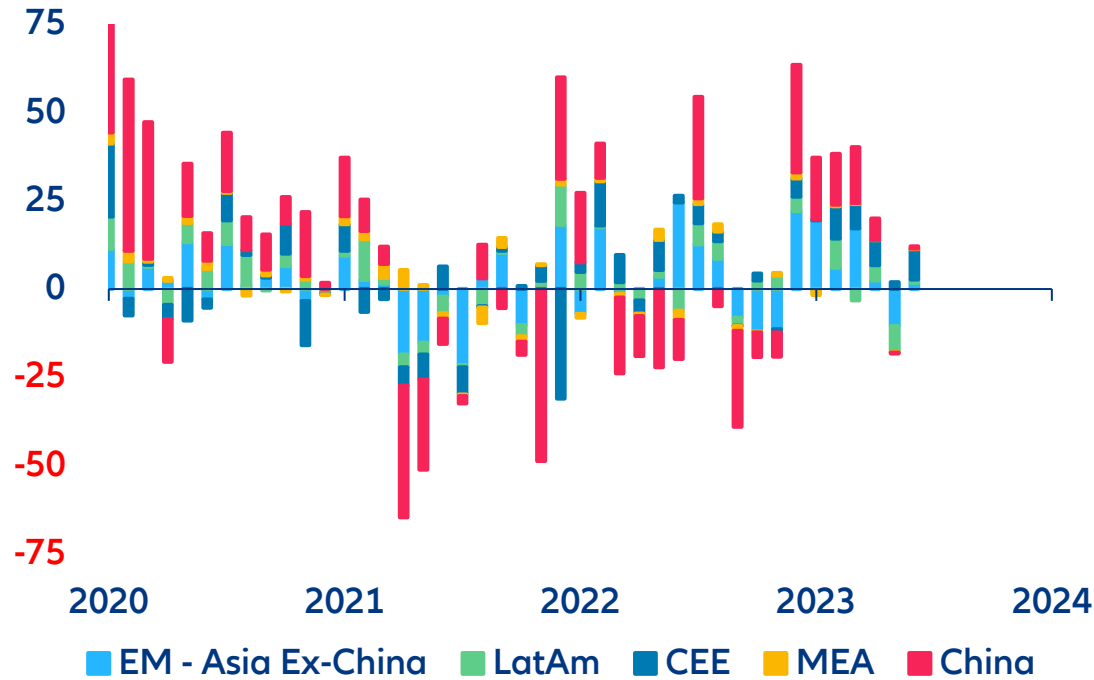
Sources: LSEG Datastream, Allianz Research

Notes: The ECB announced to stop full reinvestment of bonds in its PEPP program from July 2024 onwards effectively increasing QT from an average of EUR30bn per month to EUR37.5bn, while the Fed announced to limit its monthly runoff from currently USD95bn to USD60bn per month from June 2024 onwards.

Central banks in emerging markets in cautious mode as delays in Fed easing halt optimism

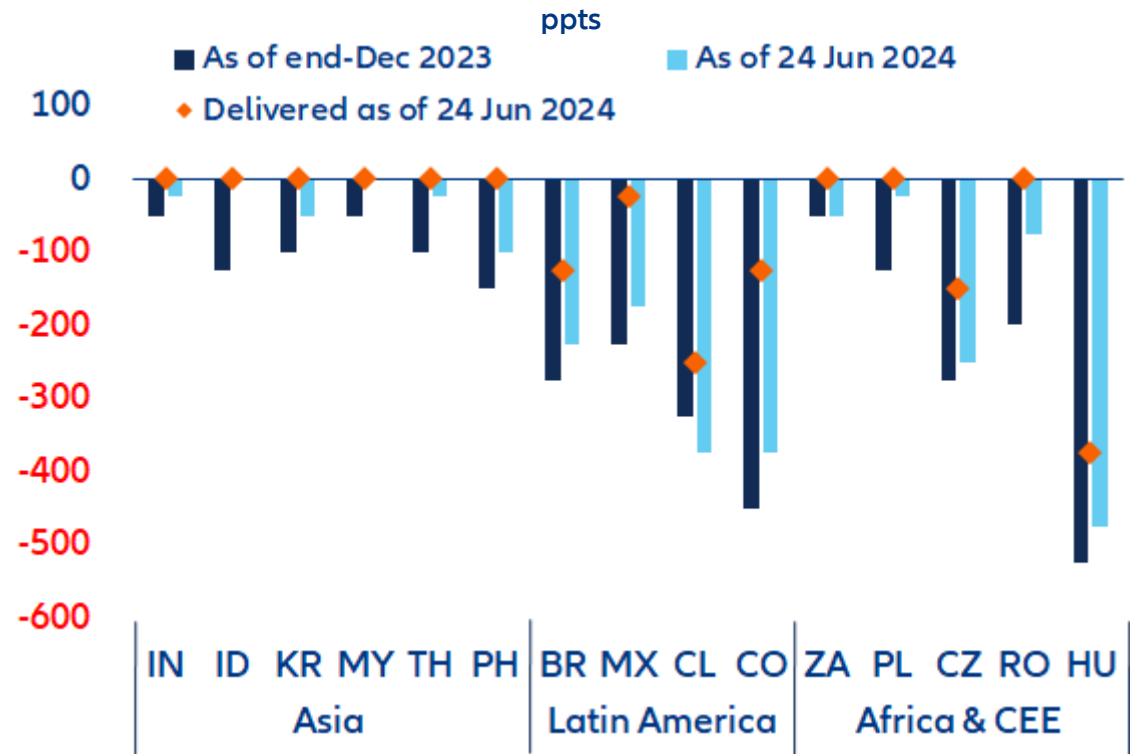
Portfolio outflows in April showed EM vulnerabilities

Monthly foreign portfolio flows by region, USD bn



Sources: IIF, LSEG Datastream, Allianz Research. Latest data point as of end-May 24'. Date labels mark year-end.

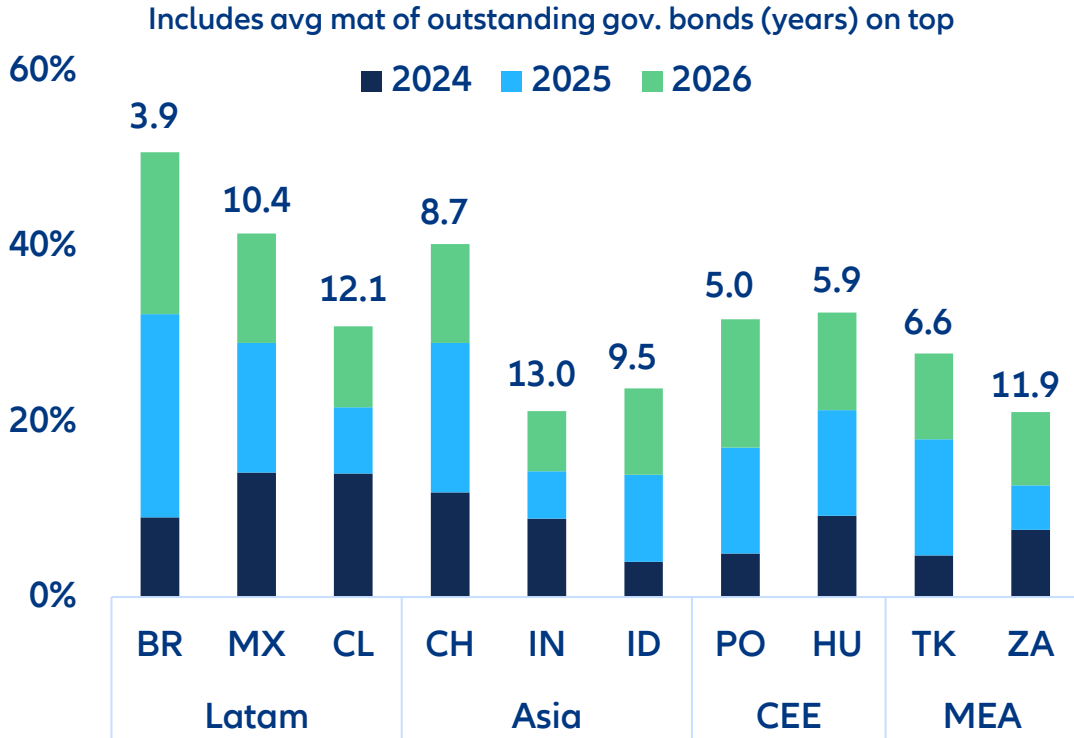
Expectation shift: expected policy rate cuts in EMs have been scaled back



Sources: LSEG Datastream, Allianz Research.

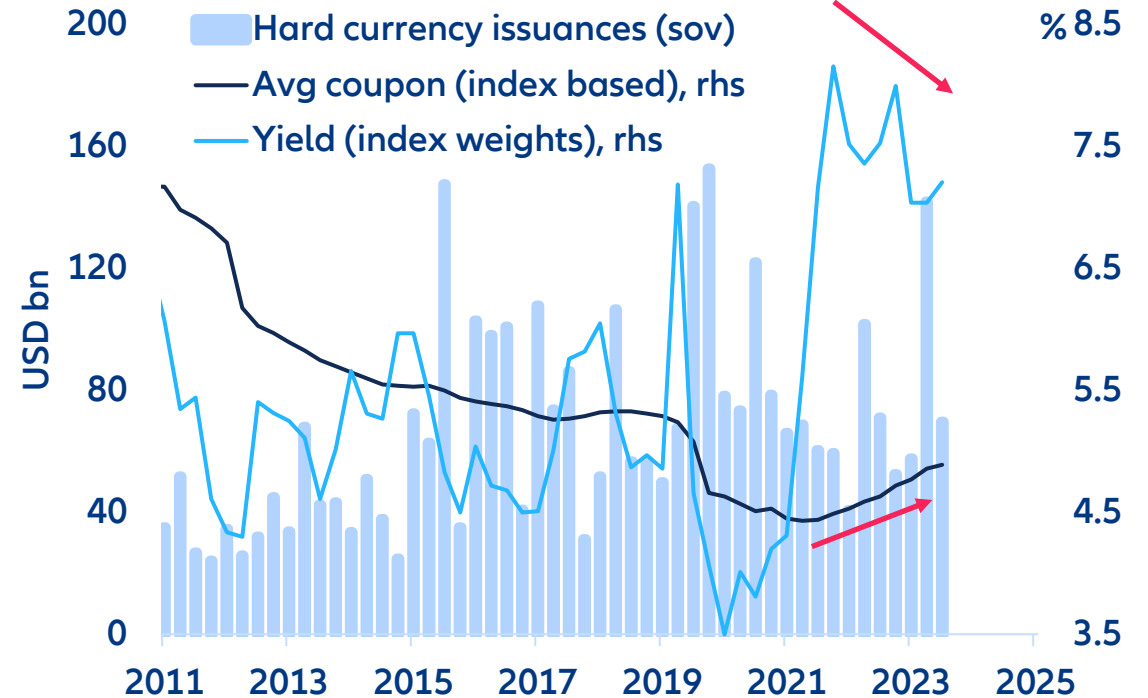
Watch out for EM fiscal risks: (delayed) monetary easing won't cushion the embedded deterioration

Sovereign bonds maturing by year, as share of total bond outstanding



Sources: IIF, LSEG Datastream, National sources, Allianz Research. Currency composition of the debt varies widely across selected countries. Loans and other debt instruments not included.

Hard currency issuances remain strong, but average cost is rising as new debt is costlier than maturing debt



Sources: Bloomberg, LSEG Datastream, Allianz Research. Hard currency = Foreign currency. Data for yields and average coupons as of end-of-quarter.

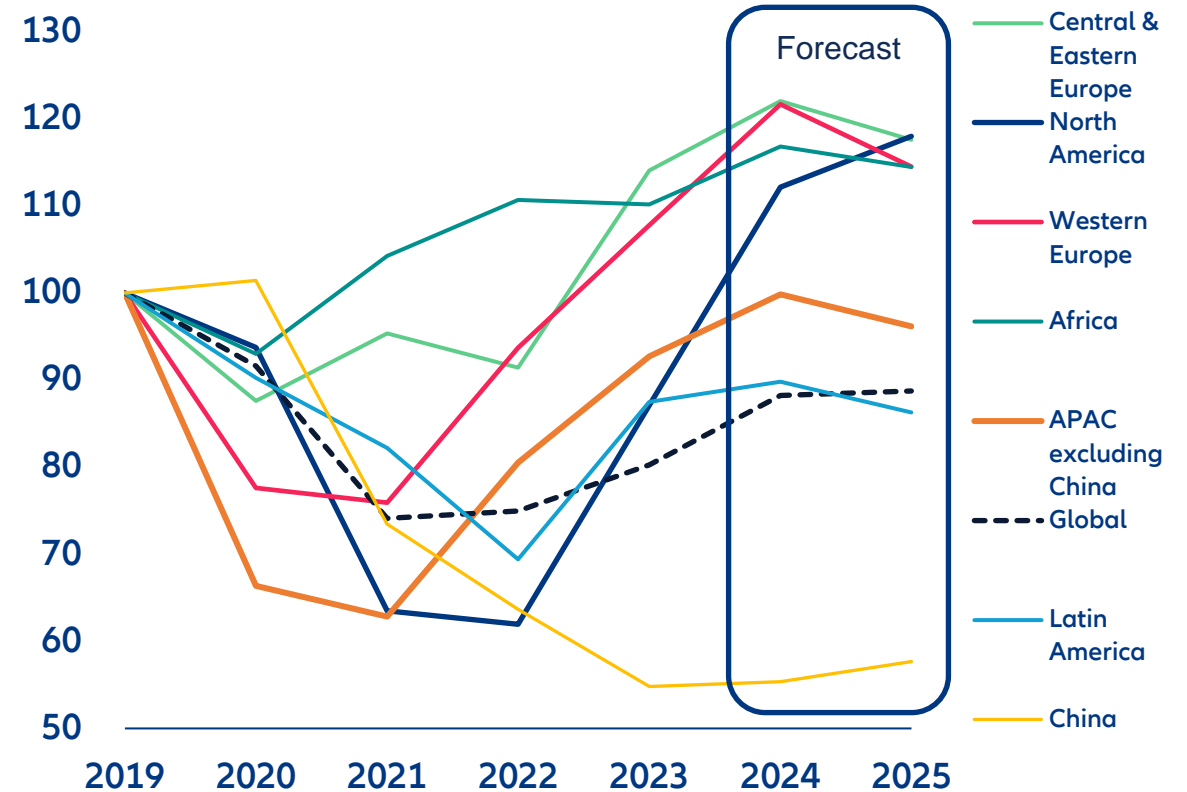
Insolvencies to rise by +10% in 2024 before stabilizing at high levels in 2025

2024 expectations, level and trend

2024 expected change (y/y)	Strongly increasing (+20% and more)	Türkiye		Germany Ireland Netherlands U.S.	Canada Spain Sweden
	Noticeably increasing (+10% to +20%)	Italy Latvia Russia	Portugal	Brazil Estonia New Zealand	Austria Belgium France Hong-Kong Morocco South Korea
	Increasing (0% to +10%)	Czechia Lithuania	China Luxembourg Norway Romania	Japan India Singapore	Australia Finland Poland Slovakia Switzerland UK
	Decreasing	Chile Taiwan	South Africa	Bulgaria	Colombia Denmark Hungary
	Very low level (more than -15%)	Low level (-15% to 0%)	High level (0% to +15%)	Very high level (+15% and more)	
	2024 expected level compared to 2016-19				

Global and regional insolvency indices

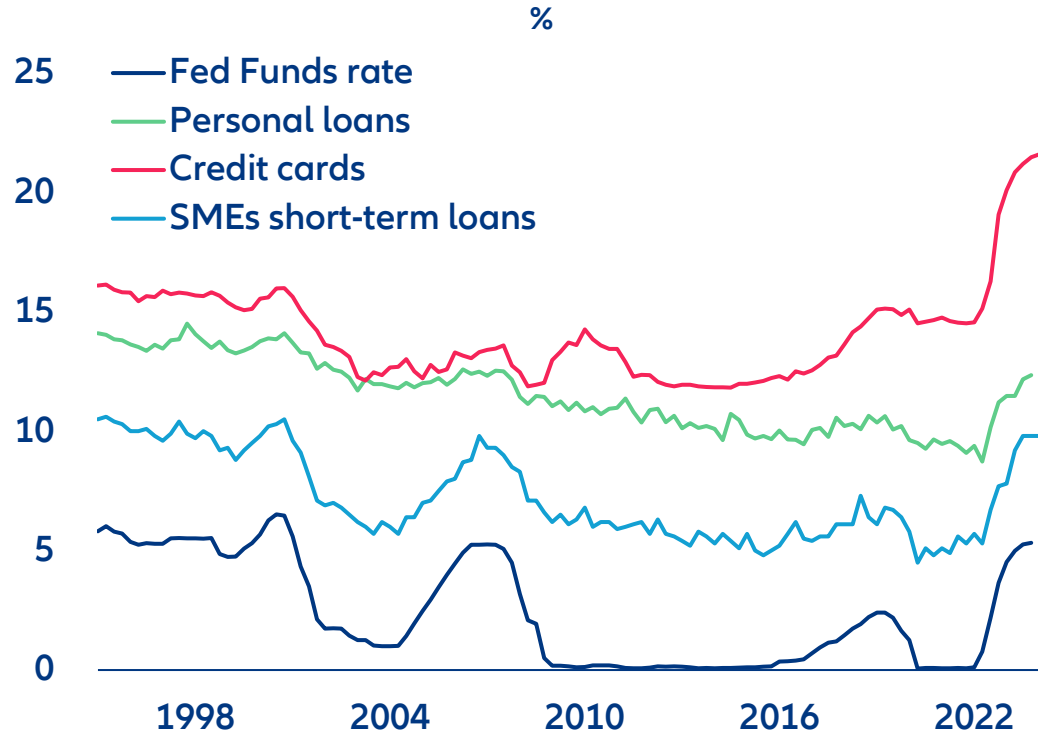
index 100 = 2019



Regional outlooks 2024-2025

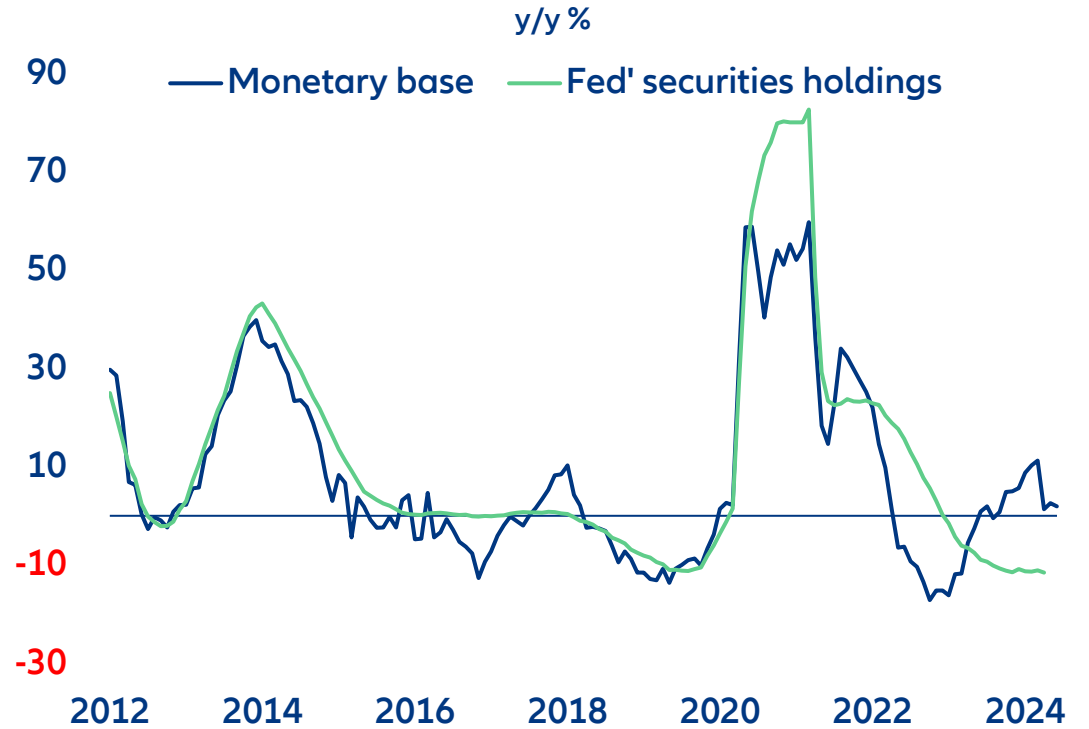
Interest rates pressuring some segments of the economy, but broad liquidity remains loose

Elevated interest rates are pressuring some segments of the economy...



Sources: LSEG Datastream, Allianz Research

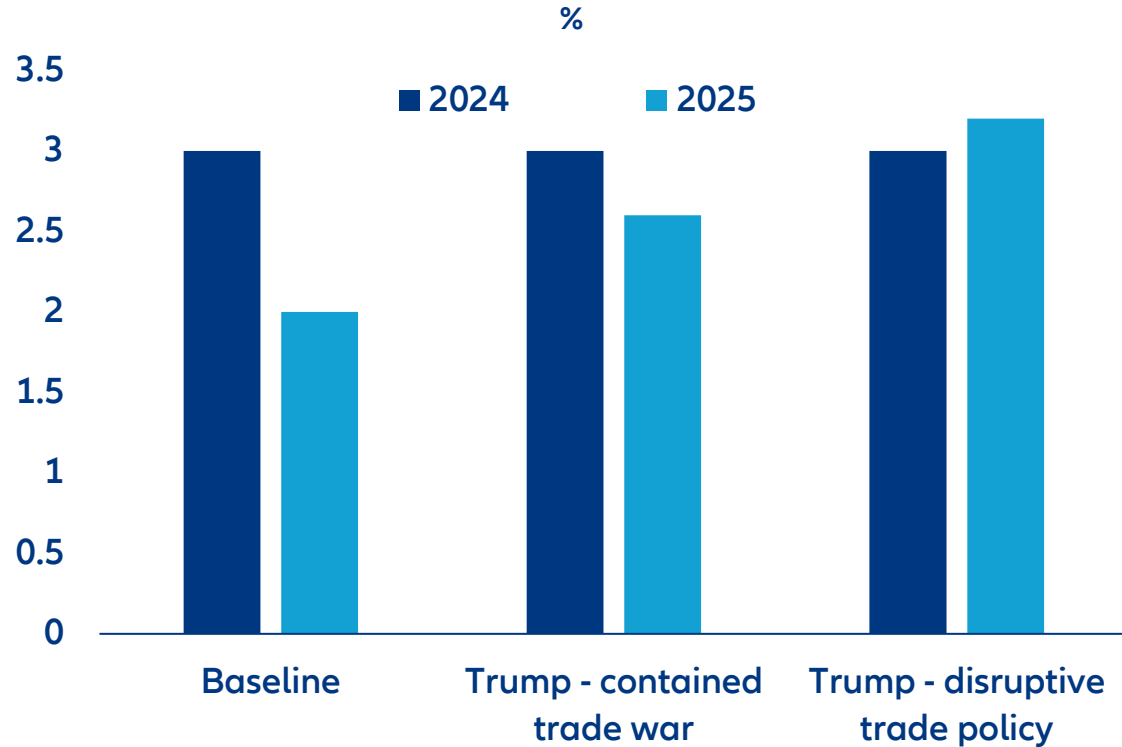
... but broader liquidity not as tight for now



Sources: LSEG Datastream, Allianz Research

A disruptive Trump presidency could push up inflation in the short and medium term

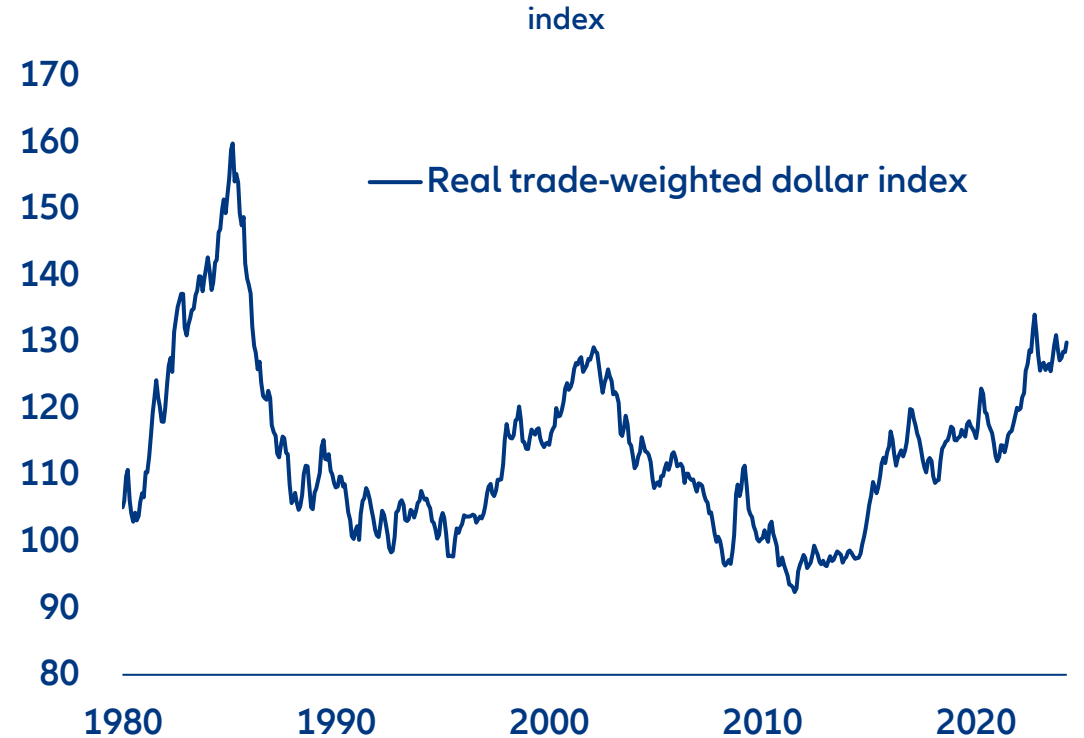
Aggressive trade policy would slow disinflation or push up short-term inflation



Sources: LSEG Datastream, Allianz Research

Notes: Contained trade war : US effective tariff rate to 4.3% + stepped up customs checks ; Disruptive trade policy = US effective tariff rate to 12% + stepped up customs checks.

A Trump presidency could pressure the Fed to ease monetary policy and/or devalue the USD



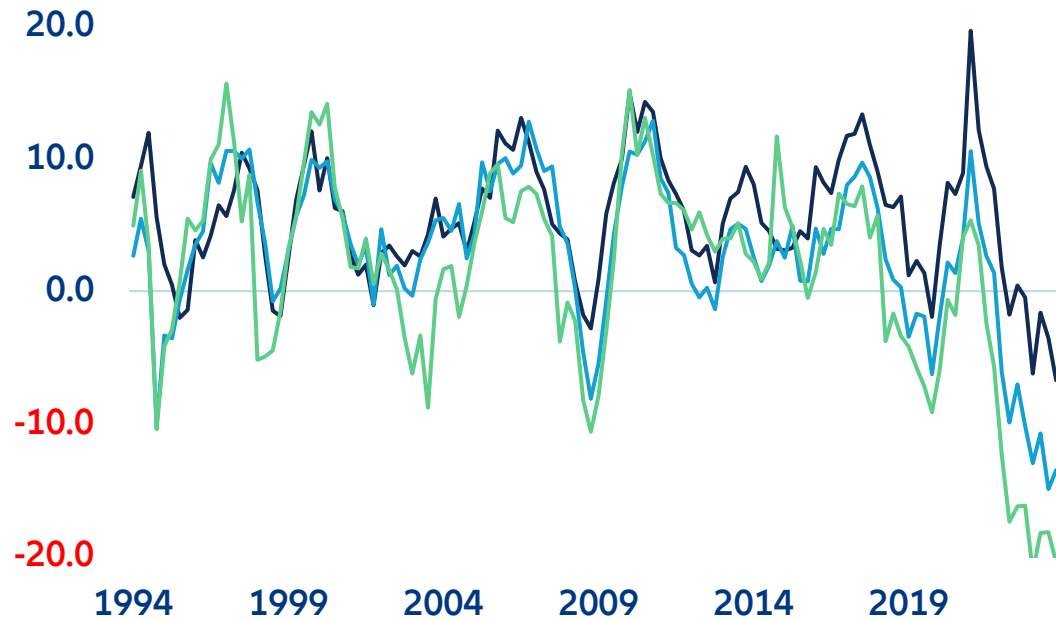
Sources: LSEG Datastream, Allianz Research

Potential growth remains low with deteriorated competitiveness and stagnating labor productivity

Competitiveness of German manufacturing has been deteriorating for the last two years

Index, net balance seasonally adjusted

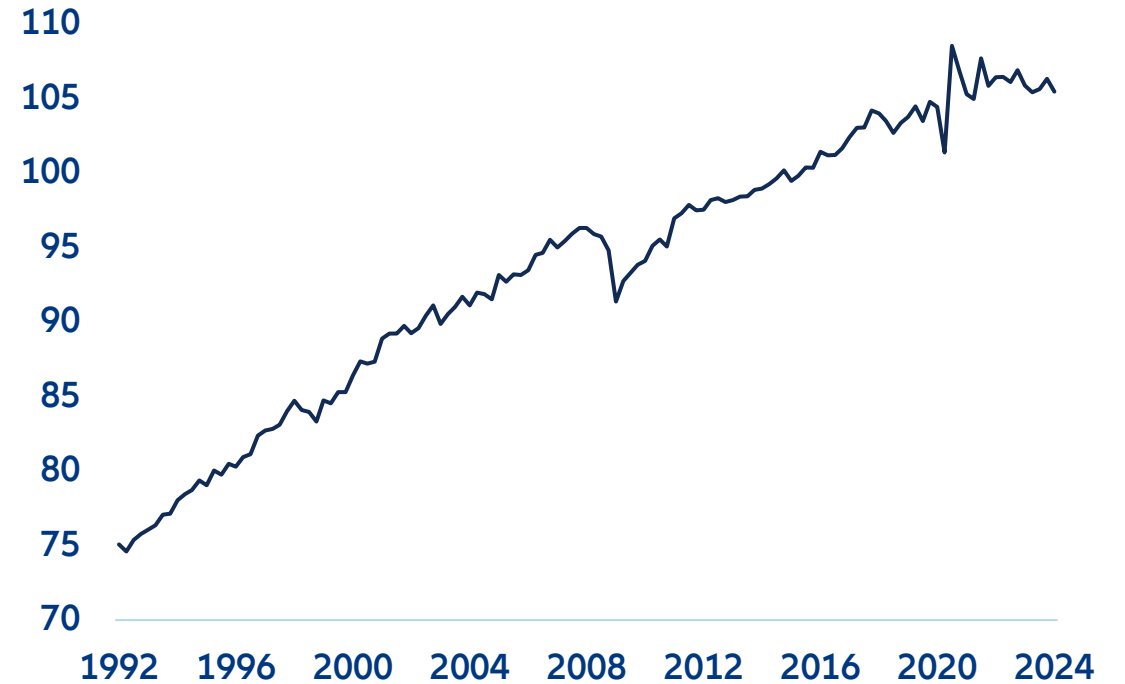
— Domestic — with EU — outside EU



Sources: ifo Institute economic surveys (April 2024), Allianz Research

Stagnation in labor productivity per hour worked by employed individuals since 2022

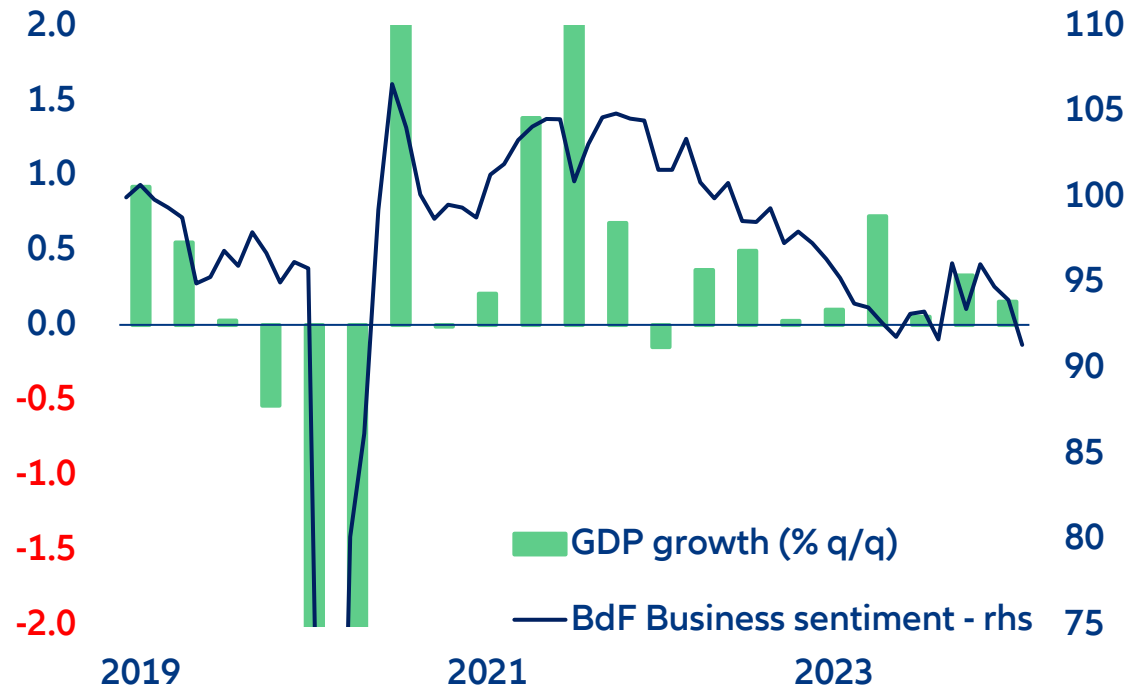
Index, 2015 = 100 seasonally adjusted



Sources: Bundesbank, Allianz Research

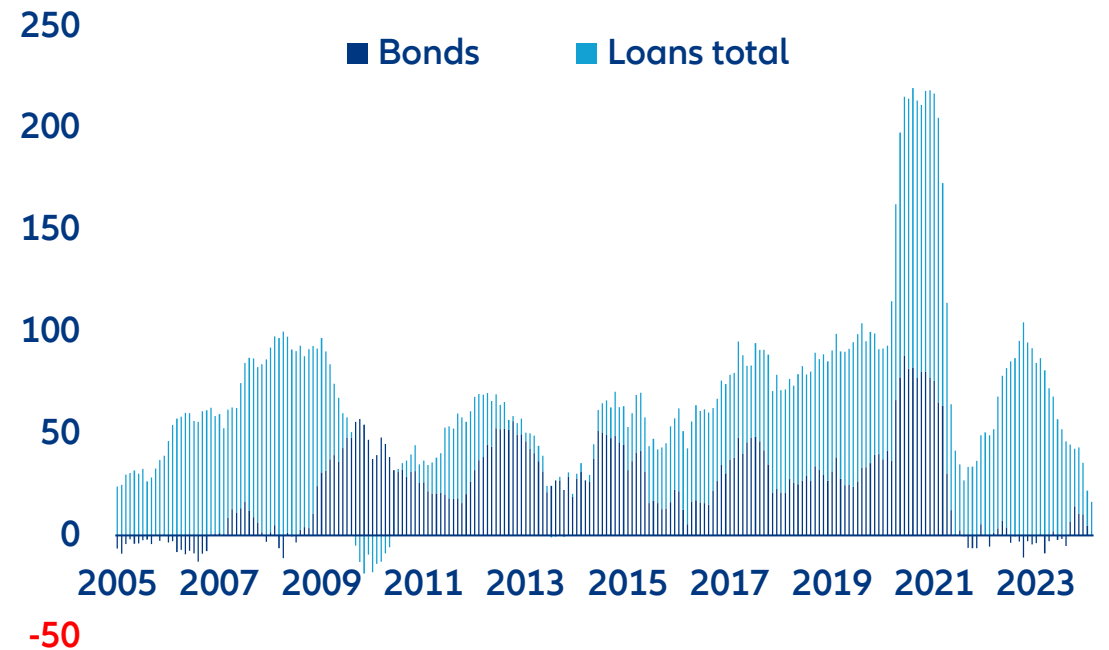
French economy muddling though; political uncertainty clouding the outlook

Business sentiment through June has weakened
%, index (RHS)



Sources: LSEG Datastream, Allianz Research

The flows of new funding to corporates have stalled
EUR bn

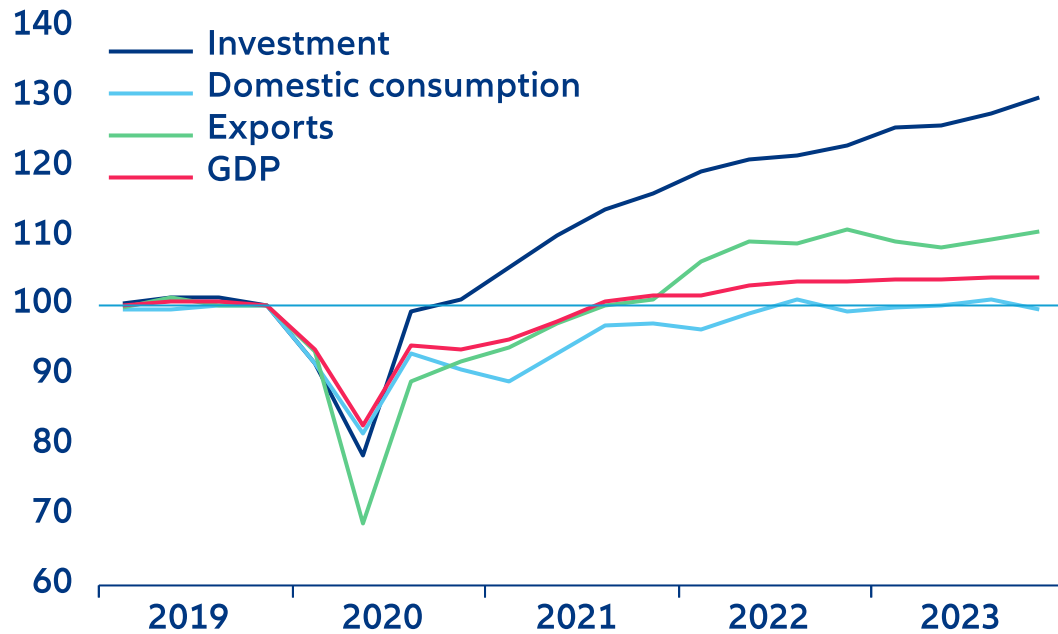


Sources: LSEG Datastream, Allianz Research

NGEU to make up for *Superbonus*' push to investment

Investment has been the main growth driver while consumption has remained quite weak

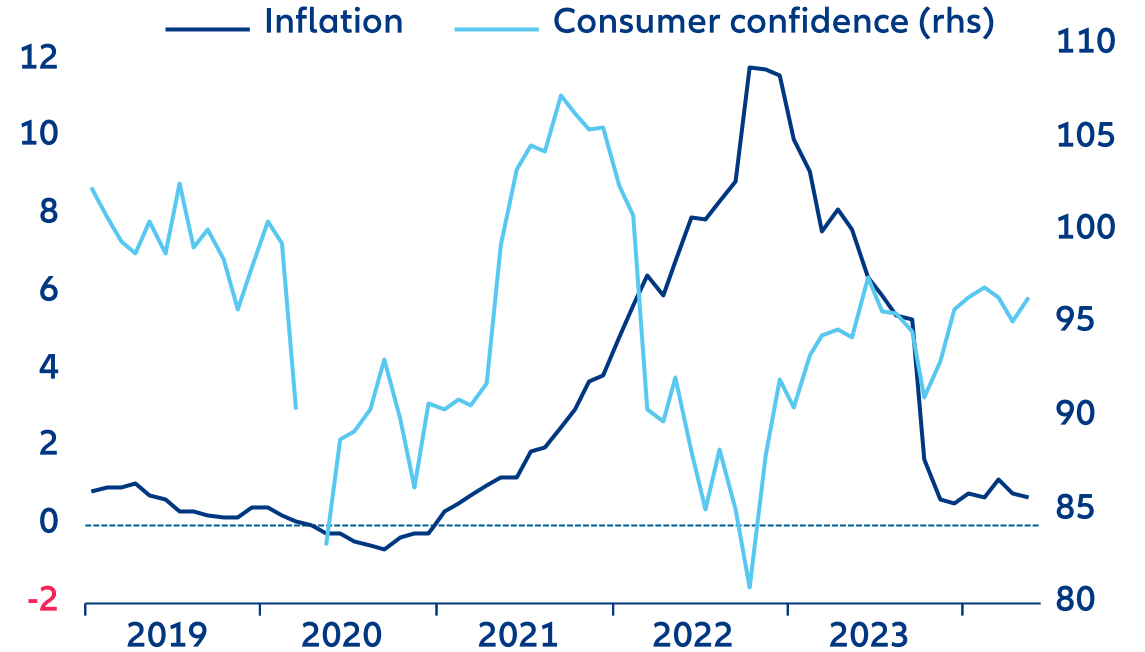
GDP components, index 2019=100



Sources: LSEG Datastream, Allianz Research

But easing financial conditions and small gains in real incomes should support spending in H2

% y/y and index

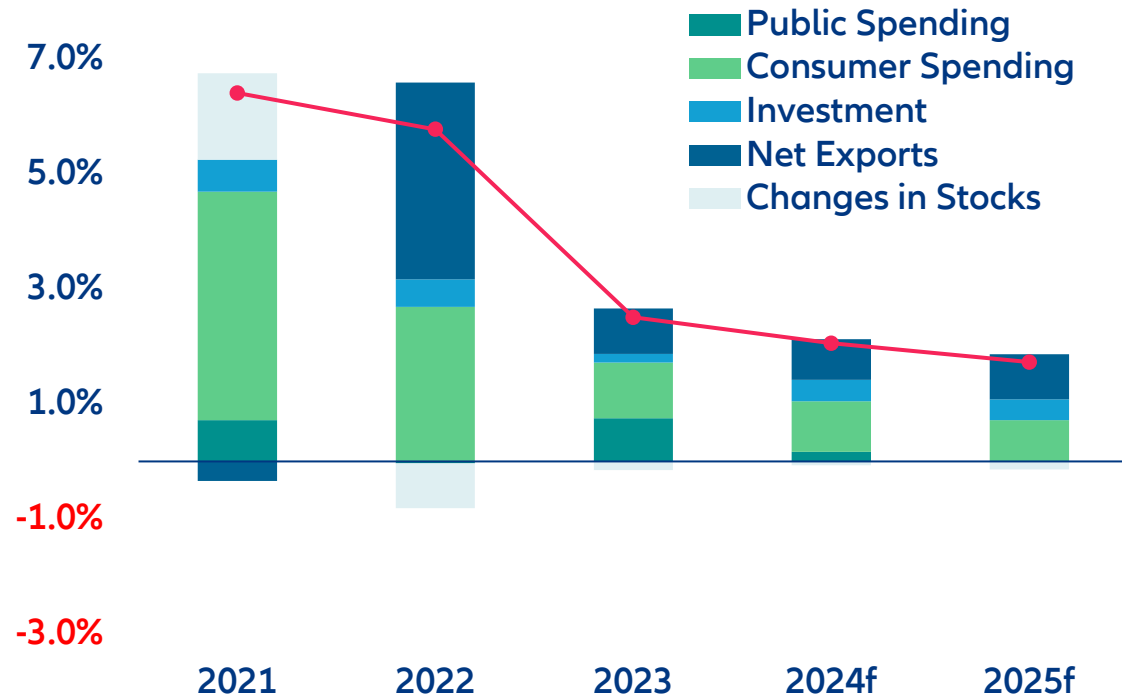


Sources: LSEG Datastream, Allianz Research

Overperformance to stay, but underlying drivers of growth are volatile

Net exports to remain an important growth driver going forward...

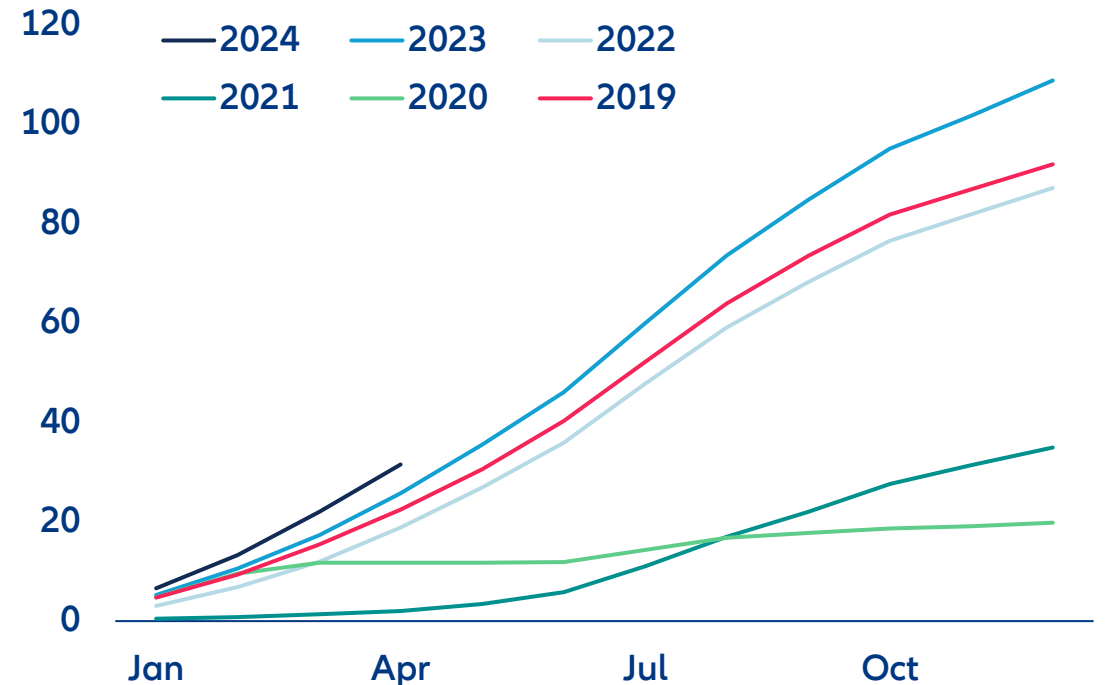
GDP contributions and growth, pts and %



Sources: LSEG Datastream, Allianz Research

...with vigorous tourism hitting record-high levels of activity

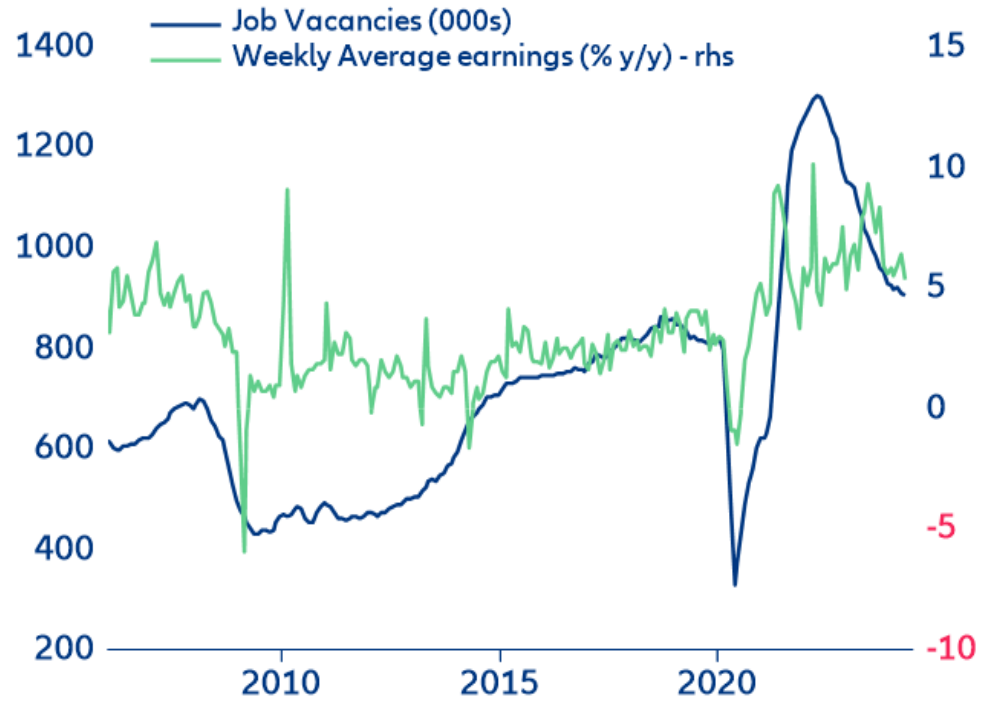
Total tourist expenditure, EUR bn



Sources: LSEG Datastream, Allianz Research

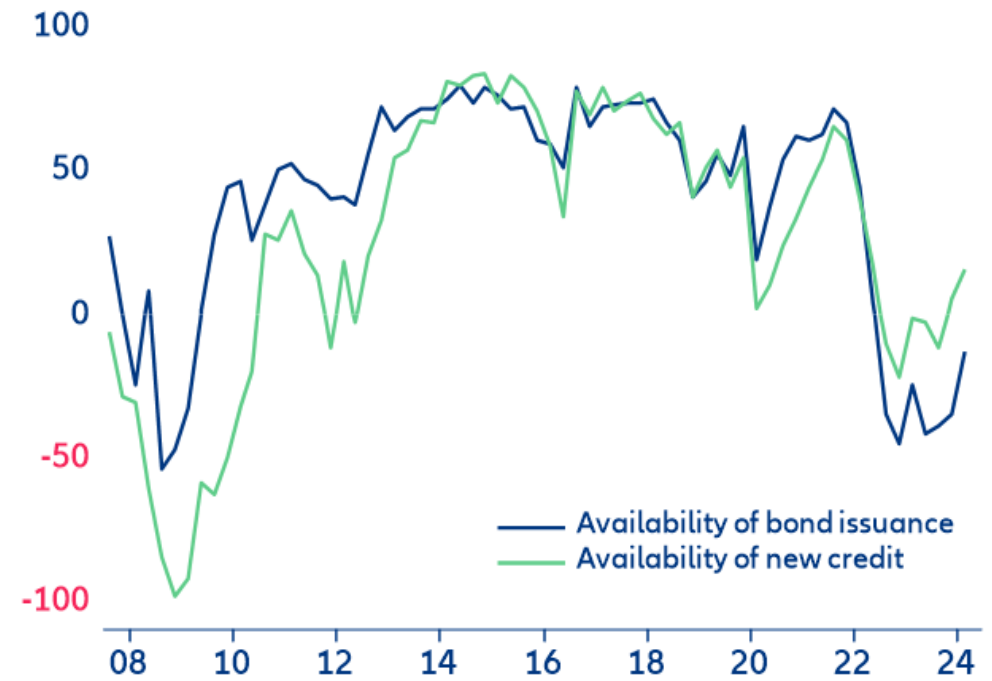
In a recovery mode

The easing of the labor market should help reduce inflationary pressures



Source: LSEG Datastream; Allianz Research

Funding conditions are improving for corporates
index

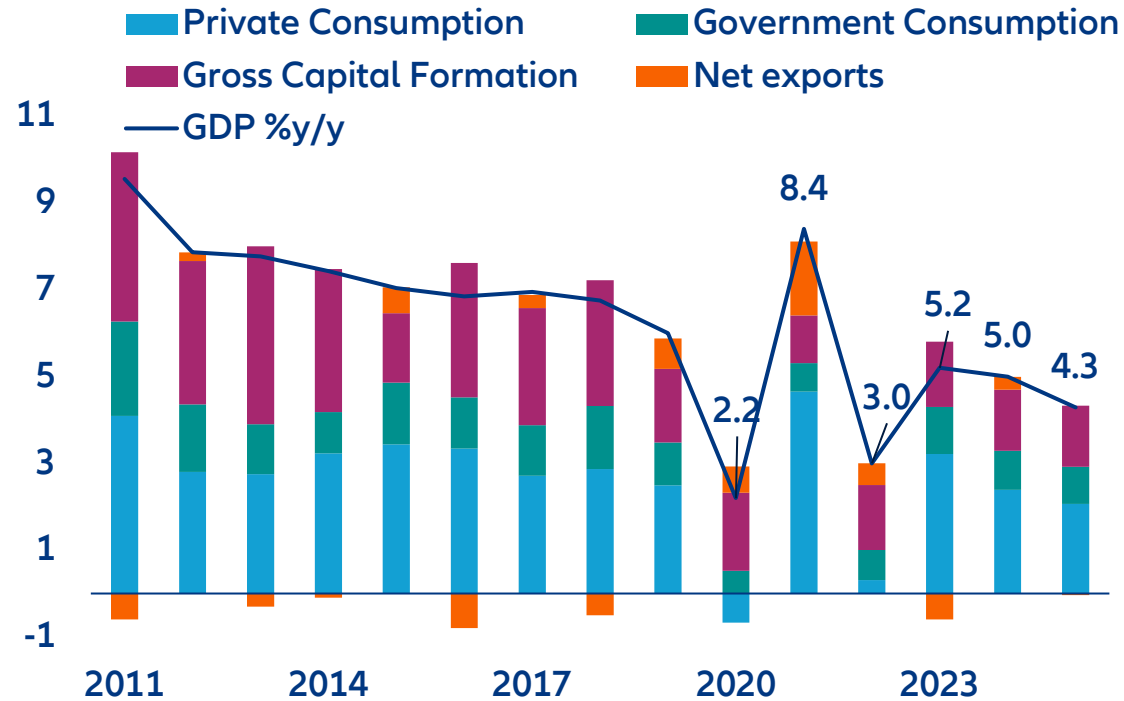


Source: LSEG Datastream; Allianz Research

Managed slowdown overall masks heterogeneity amidst policy support and overcapacity

Growing by "around 5%" in 2024 as planned

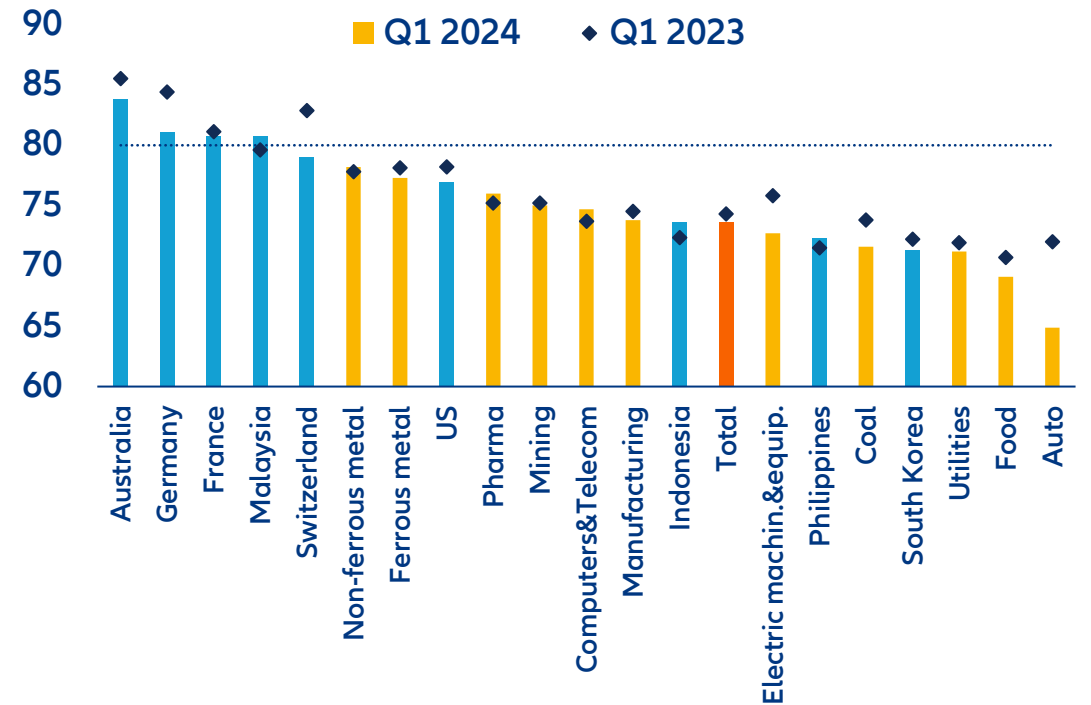
Real GDP growth %/y and contributions



Sources: National Sources, LSEG Datastream, Allianz Research

Price pressures to remain limited given soft demand and overcapacity

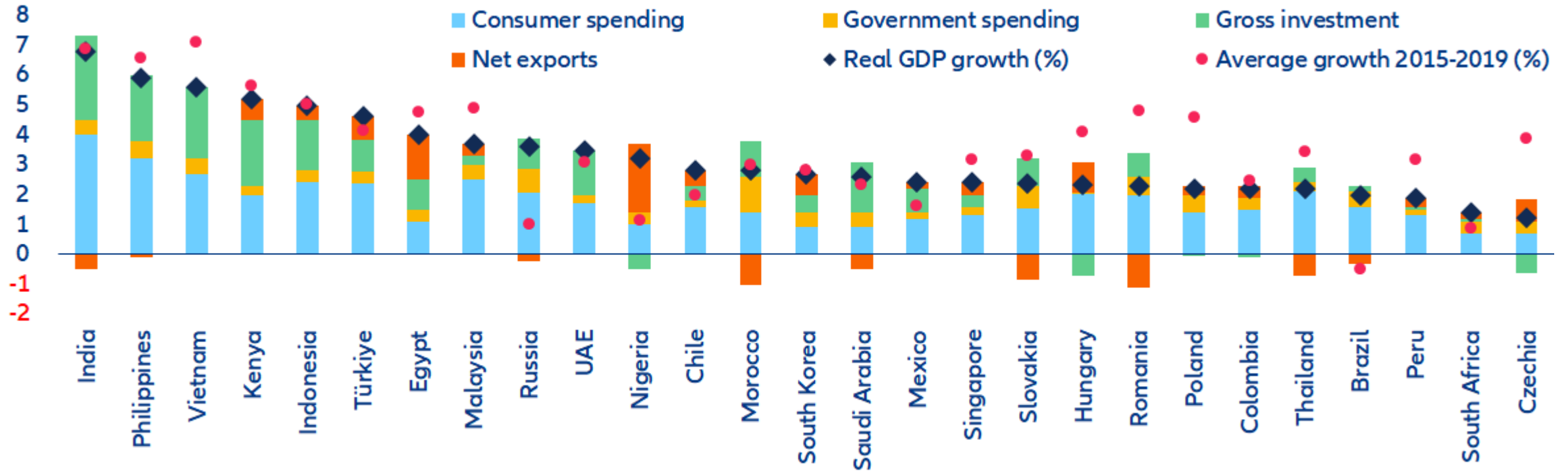
Capacity utilization rates (%), China total and sectors vs. selected countries



Sources: National Sources, LSEG Datastream, Allianz Research

Southeast-Asia remains fastest growing region thanks to strong domestic demand

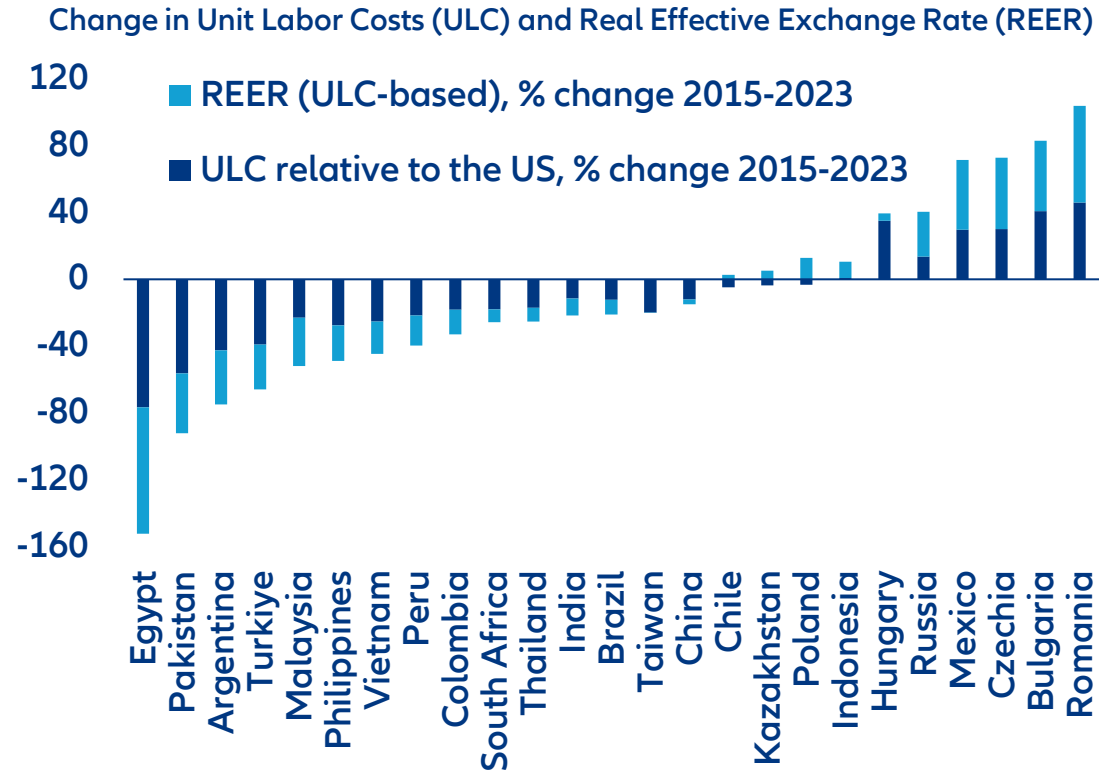
Real GDP growth (%) and contributions (pp) forecasts for 2024



Sources: National statistics, EIU, LSEG Datastream, Allianz Research

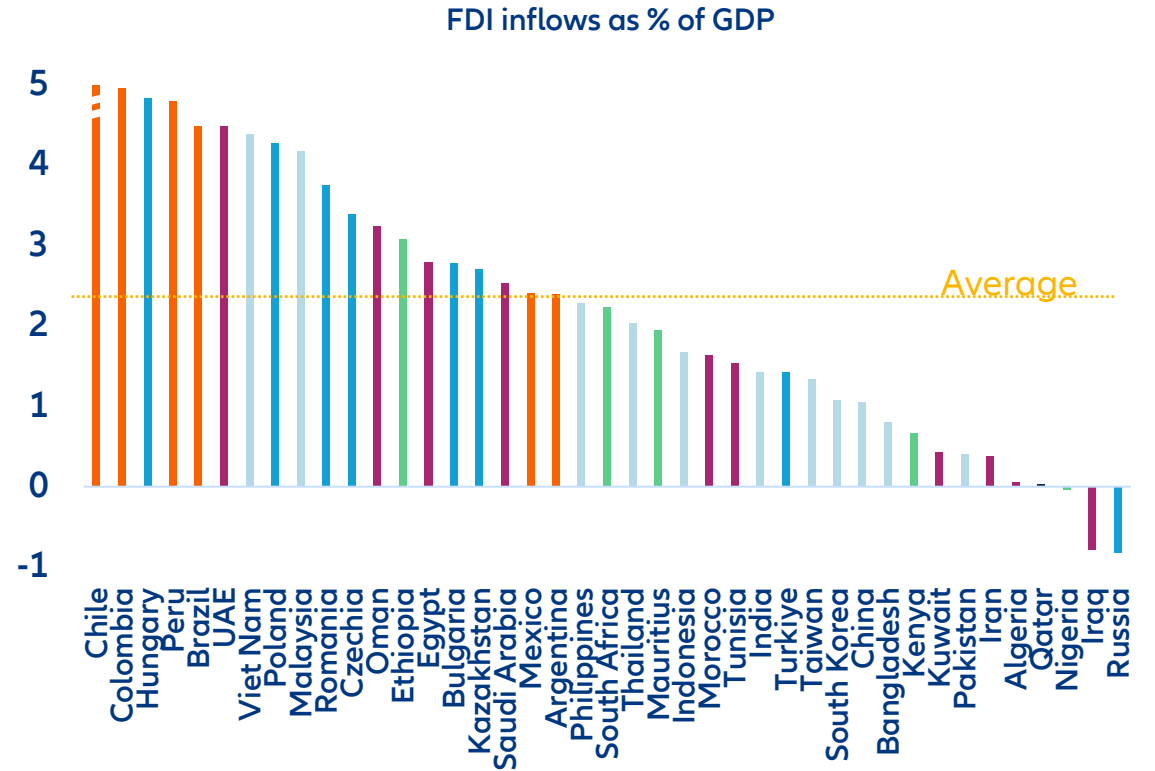
The supply-chain reshuffling will continue, and new trade hubs are emerging

Cost competitiveness will increase attractiveness of some manufacturing hubs



Sources: EIU, Allianz Research

Latin America and Eastern Europe continue to be attractive destinations for near- and friend-shoring

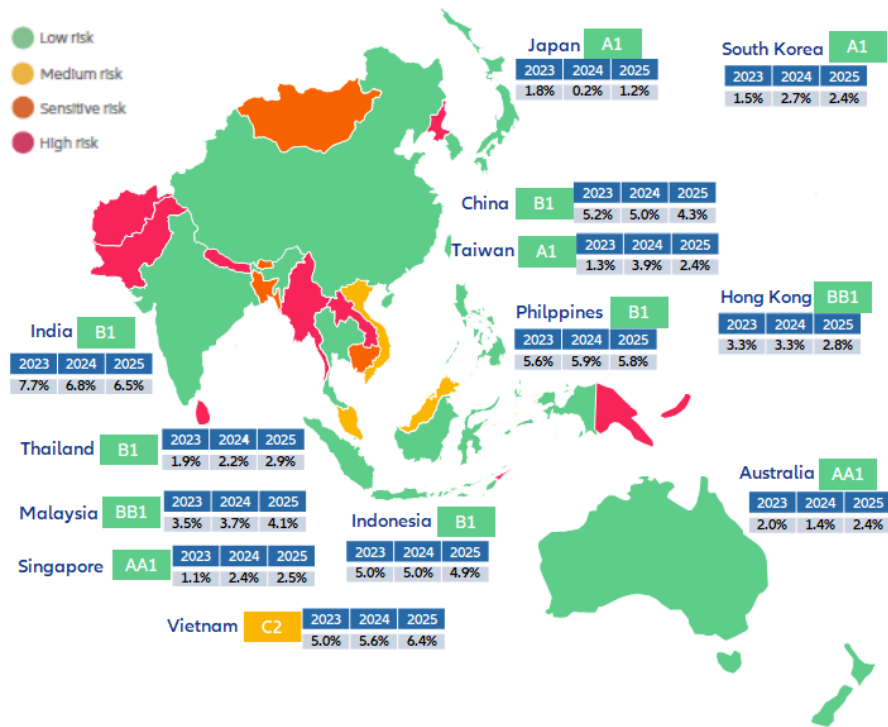


Note: 2022 data released in April 2024. A sample of major emerging countries was selected.

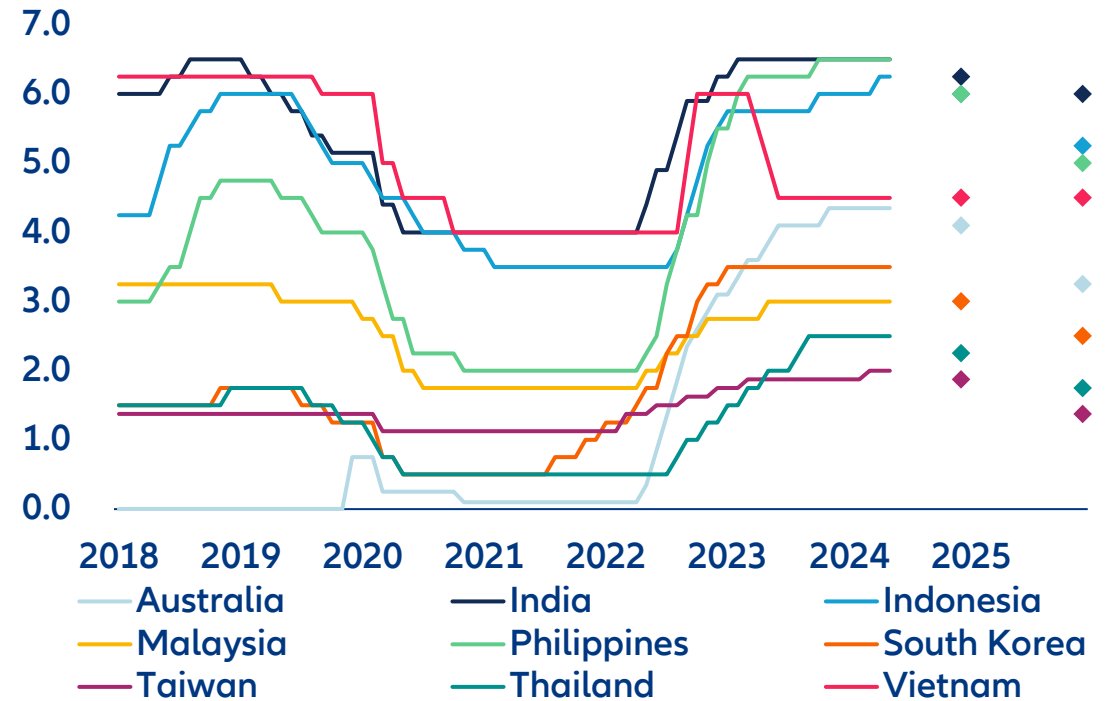
Sources: UNCTAD, Allianz Research

APAC: emerging Asia excl. China to accelerate in 2024 on easing domestic and external conditions

GDP growth forecasts and short-term country risk as of Q2 2024



Inflation back to target, still below-trend growth and upcoming Fed easing will allow for a start in the cutting cycle

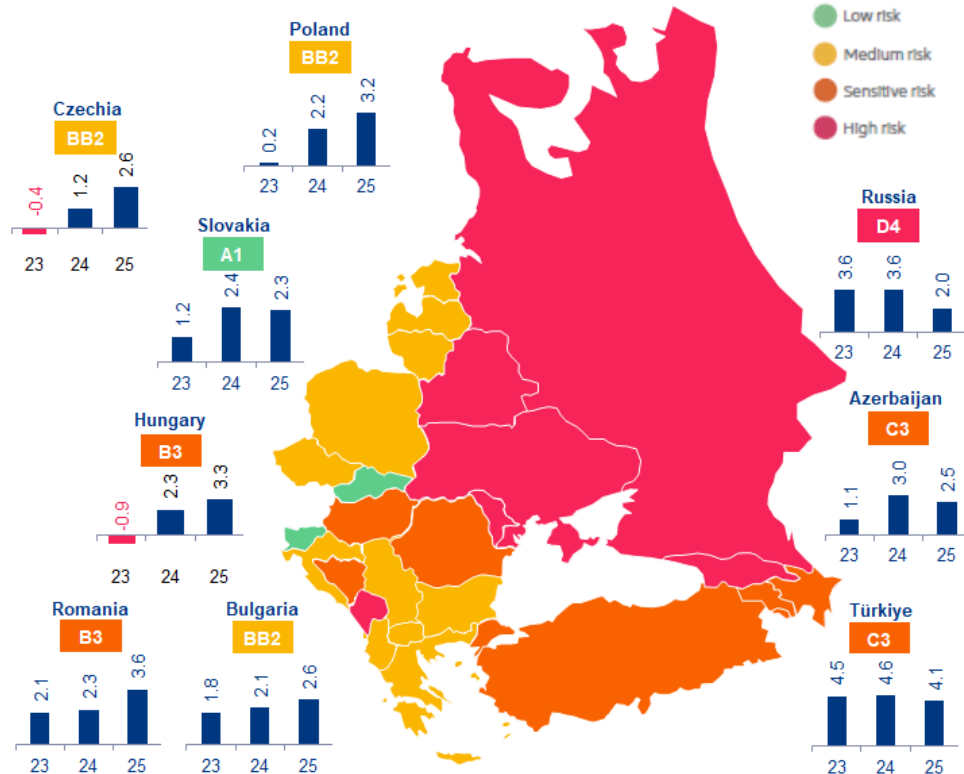


Sources: Allianz Research

Sources: LSEG Datastream, Allianz Research

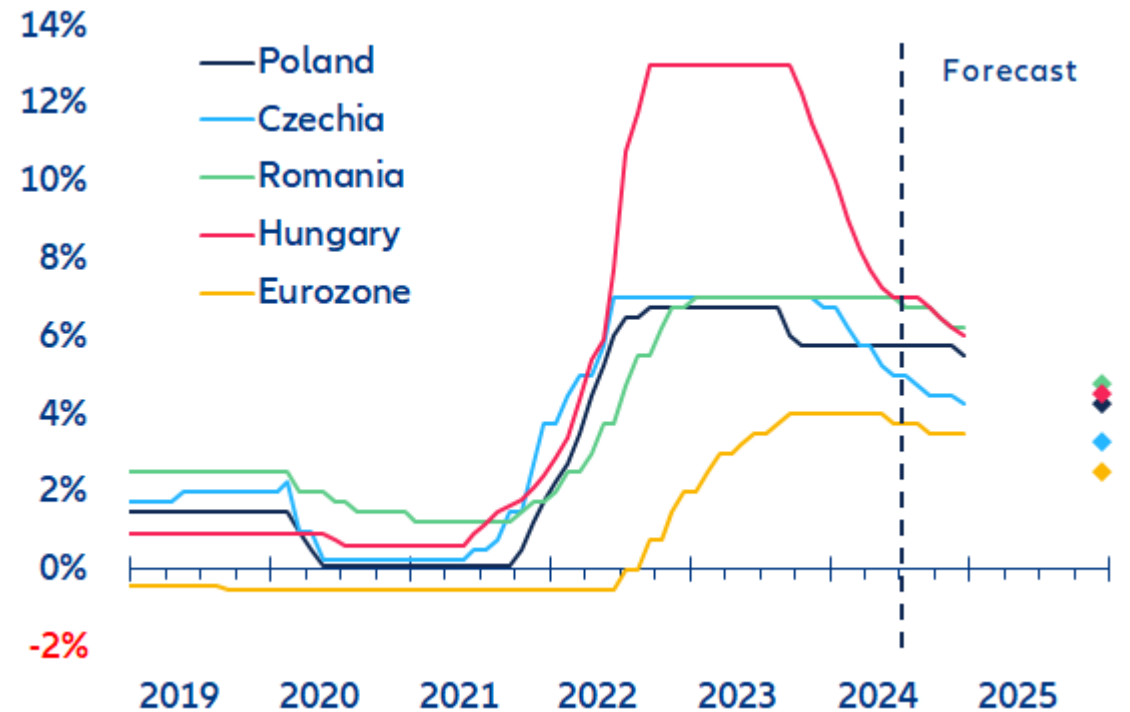
EM Europe: Modest recovery supported by lower inflation and gradual monetary easing

GDP growth and short-term country risk as of Q2 2024



Sources: LSEG Datastream, Allianz Research

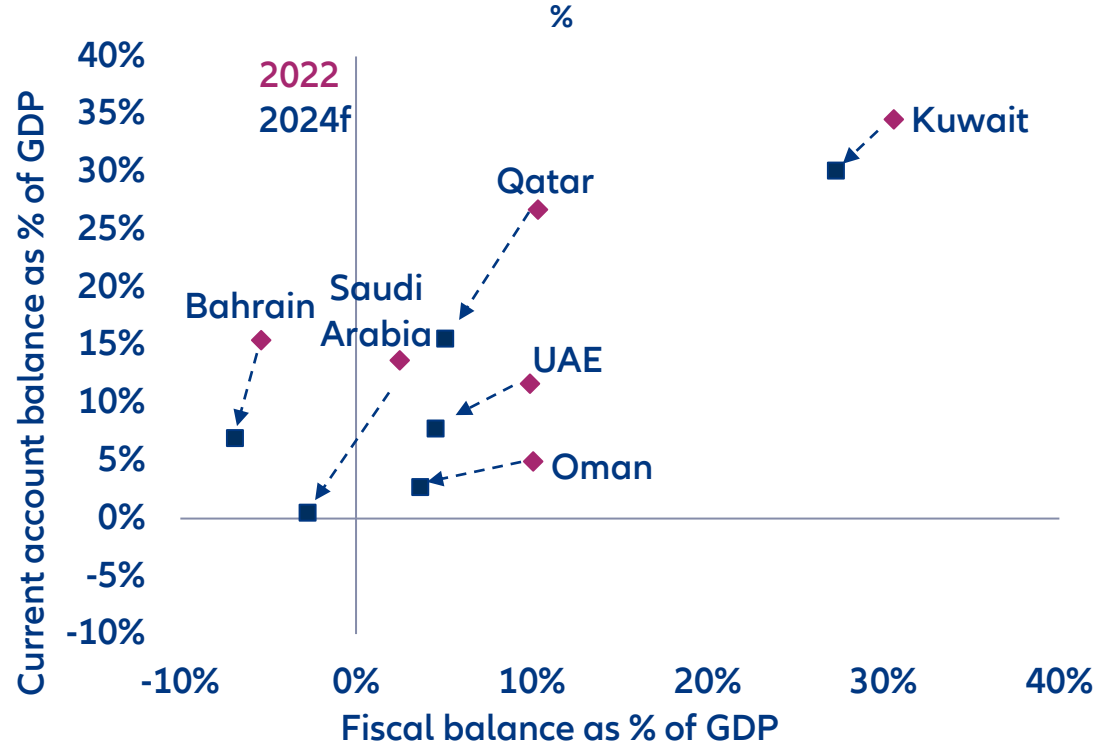
CZ and HU central banks well ahead of the ECB in cutting rates, but pace of monetary easing will slow



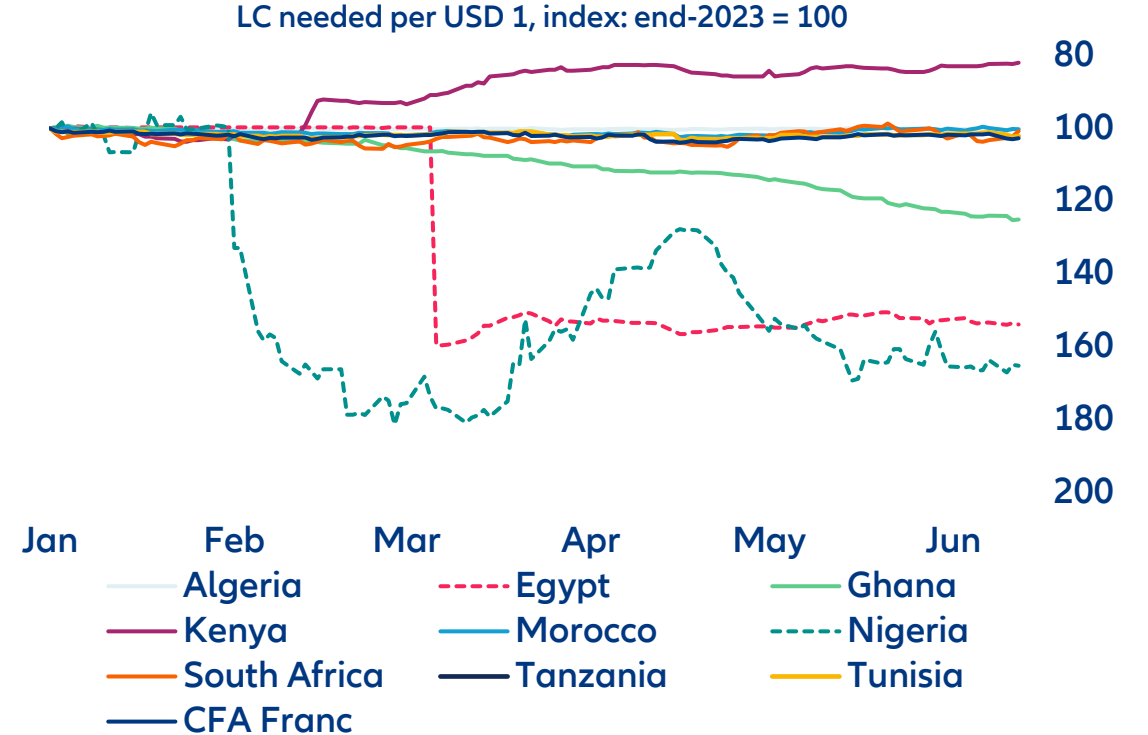
Sources: LSEG Datastream, Allianz Research

Africa & Middle East: Large government interventions still needed

Less cash coming into Gulf economies (apart from the UAE) and more cash going out

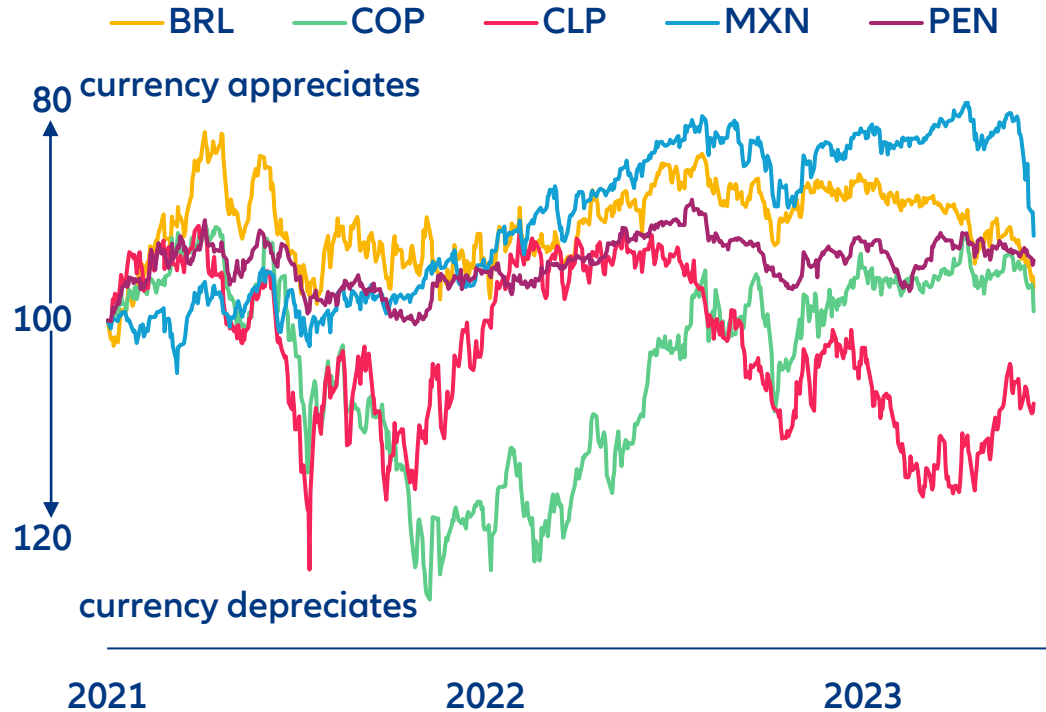


Egypt and Nigeria have basically re-pegged, while debt-distressed Ghana and Kenya are following specular paths



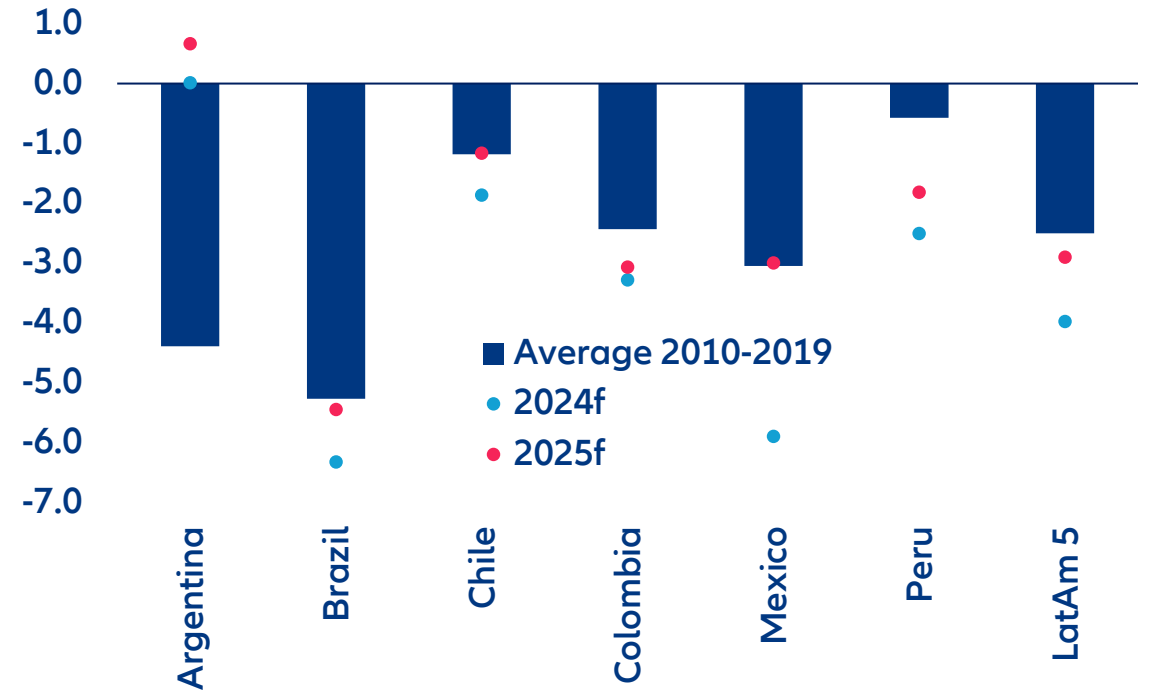
Latin America: Short-term challenges "back to normal" with FX and fiscal on top of the list

Central banks' stance still FX-positive, despite MXN election premium and CLP exposure to copper prices
exchange rate vs. USD, index: end-2022 = 100



Sources: National Sources, Allianz Research

Fiscal deficits to remain distant from pre-crises levels, while Colombia and Mexico retain a primary surplus
% of GDP



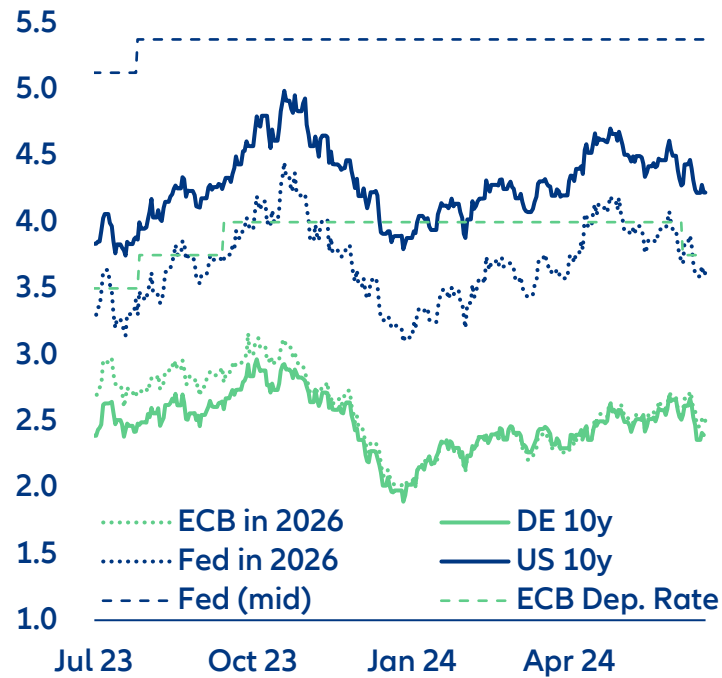
Note: LatAm 5 includes Brazil, Chile, Colombia, Mexico and Peru.
Sources: IMF, Allianz Research

Capital Markets outlook

2024-2025

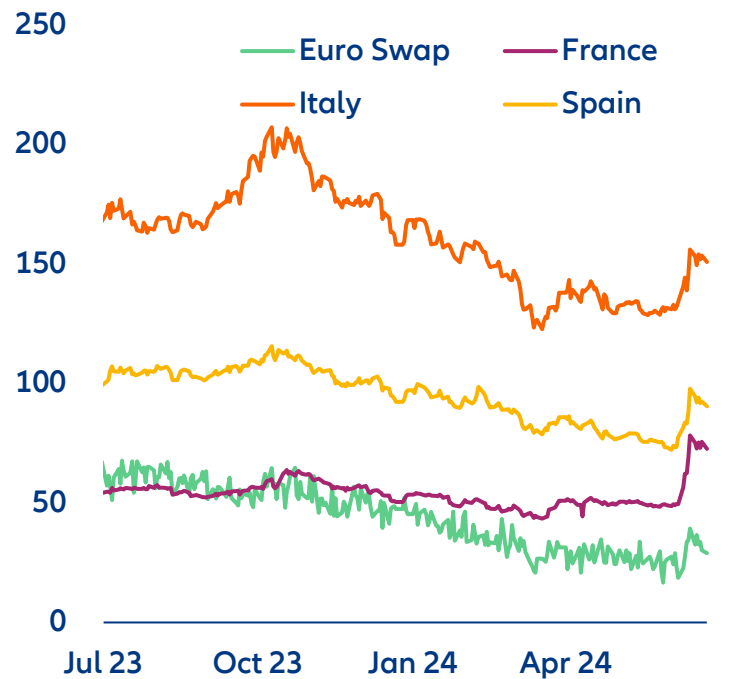
Mid-point review: Markets dominated by central bank pricing, political woes and global trends

Rates roller-coaster on fluctuating central bank expectations
yields and yield expectations, %



Sources: Bloomberg, Allianz Research
Notes: ECB/FED in 2026 represents market pricing using Money Market Futures for December 2026

French spreads decoupling on fiscal distress and election fears
10y government bond spreads vs. DE, bps



Sources: LSEG Datastream, Allianz Research

AI and defense dominate the equity rally, Europe falls behind
Index, 100 = Jul 2023



Sources: LSEG Datastream, Allianz Research

Markets to navigate the policy-heavy environment

Capital Markets: Eurozone and US year-end figures

EMU	Last*	Unit	2022	2023	2024f	2025f
Government Debt						
ECB deposit rate	3.75	%	2.00	4.00	3.50	2.50
10y yield (Bunds)	2.42	%	2.56	2.03	2.20	2.10
10y EUR swap rate	2.71	%	3.14	2.48	2.60	2.50
20y EUR swap rate	2.65	%	2.87	2.51	2.70	2.70
Italy 10y sovereign spread	151	bps	213	168	130	120
France 10y sovereign spread	73	bps	55	53	60	50
Spain 10y sovereign spread	90	bps	109	97	70	60
Corporate Debt						
Investment grade credit spreads	119	bps	166	135	120	110
High-yield credit spreads	348	bps	494	395	360	350
Equity						
Eurostoxx (total return p.a.)	10 ytd	%	-12	19	10	10
US						
Government Debt						
Fed Funds rate (high)	5.50	%	4.50	5.50	5.25	4.00
10y yield (Treasuries)	4.24	%	3.83	3.87	4.00	3.80
Corporate Debt						
Investment grade credit spreads	96	bps	138	104	100	90
High-yield credit spreads	319	bps	479	334	330	320
Equity						
S&P 500 (total return p.a.)	15 ytd	%	-18	26	13	9

Capital Markets: UK, Emerging Markets, FX year-end figures

UK	Last*	Unit	2022	2023	2024f	2025f
Government Debt						
BoE rate	5.25	%	3.50	5.25	4.75	3.75
10y yield sovereign (Gilt)	4.08	%	3.67	3.54	3.70	3.50
Corporate Debt						
Investment grade credit spreads	119	bps	192	134	120	120
High-yield credit spreads	441	bps	663	515	440	410
Equity						
FTSE 100 (total return p.a.)	9 ytd	%	5	8	5	7
Emerging Markets						
Government Debt						
Hard currency spread (vs USD)	207	bps	273	215	220	210
Local currency yield	6.57	%	6.86	6.19	6.3	6.0
Equity						
MSCI EM (total return p.a. in USD)	7 ytd	%	-20	10	6	10
Others						
EUR USD	1.07	\$ per €	1.07	1.10	1.09	1.10

Sources: LSEG Datastream, Bloomberg, Allianz Research

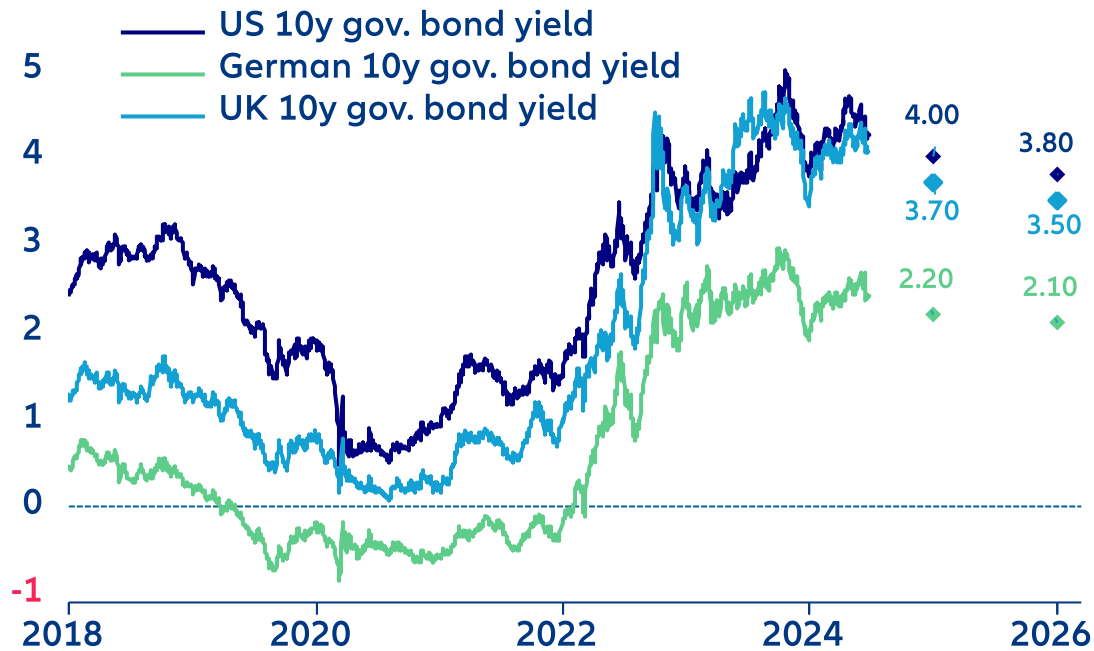
Notes: Year end figures

* As of 24.Jun 2024

Long-term yields torn between central bank easing and government spending

Sovereign bond yields to fall slightly on lower policy rates and further normalizing inflation expectations

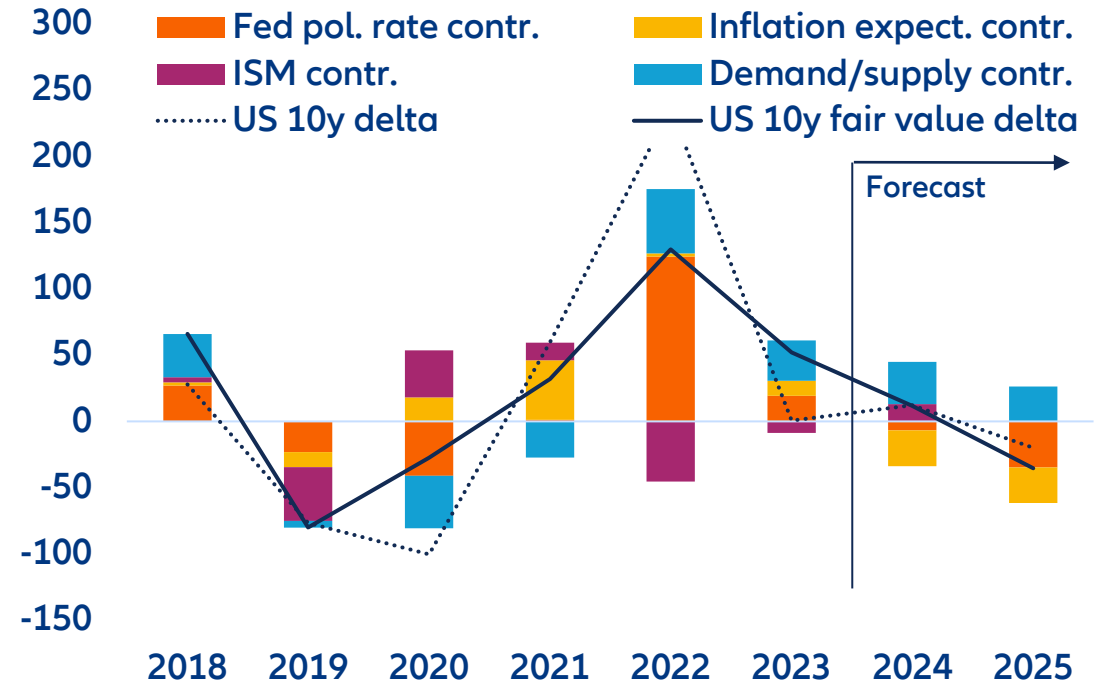
10y government bond yields in %



Sources: LSEG Datastream, Allianz Research

Net debt issuance to slow down the fall in yields

Fair value US 10y government bond yield, annual delta in bps

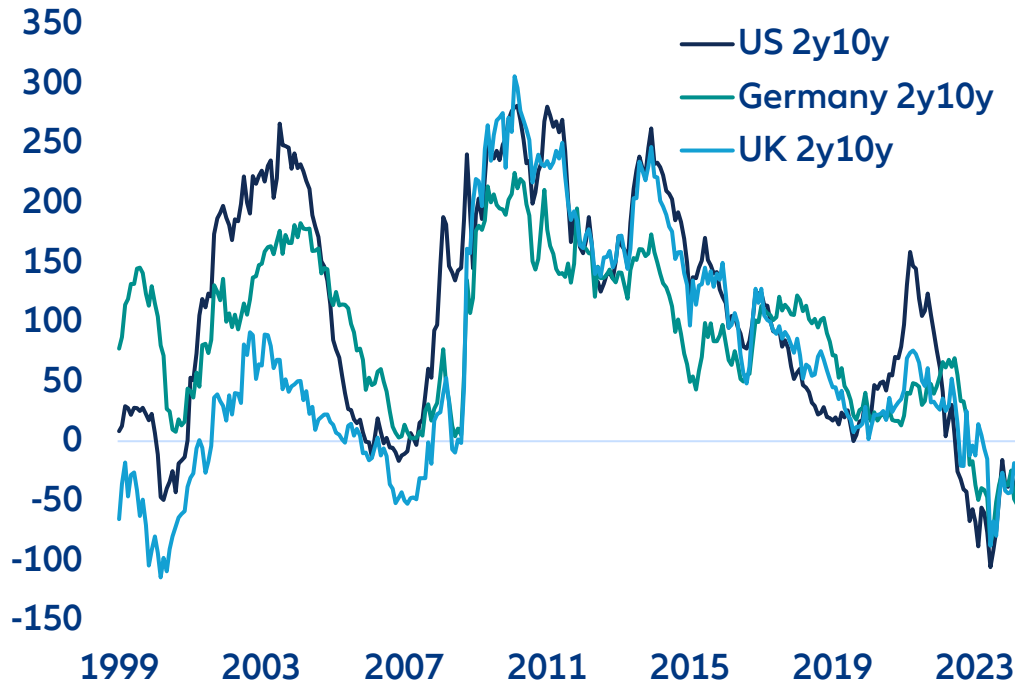


Sources: LSEG Datastream, Allianz Research

Monetary policy normalization to rebalance inverted curves but little room left for Eurozone spreads

Yield curve inversion to cease unevenly, Germany lags with comparatively high ECB terminal rate

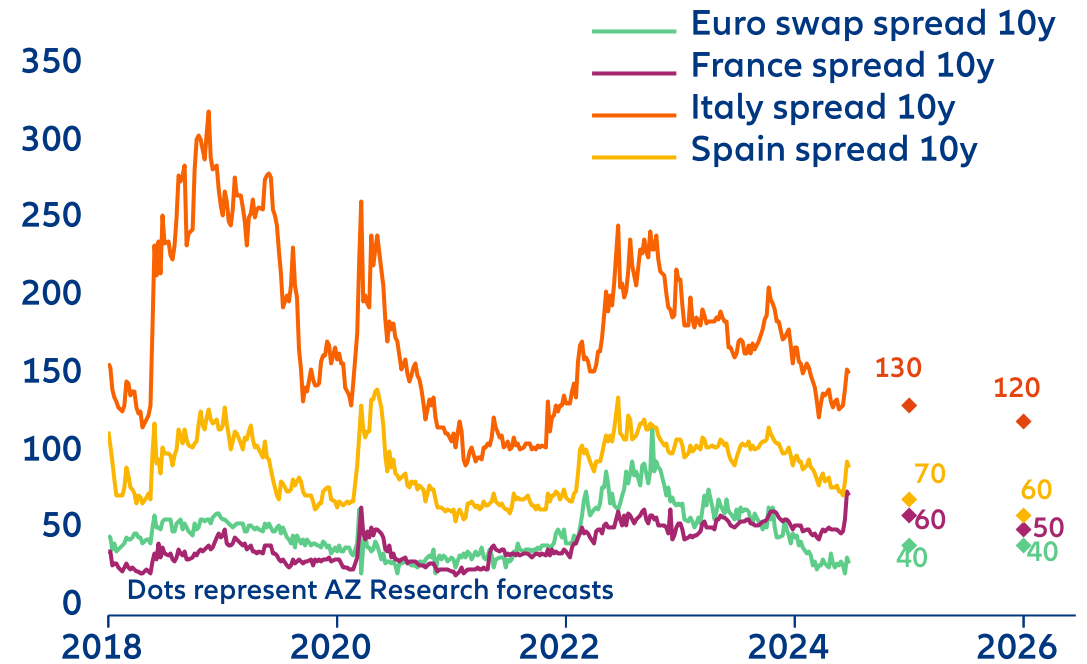
10y – 2y government bond yields in bps



Sources: LSEG Datastream, Allianz Research

Spread normalization continues anticipating ECB pivot, economic rebound and European integration

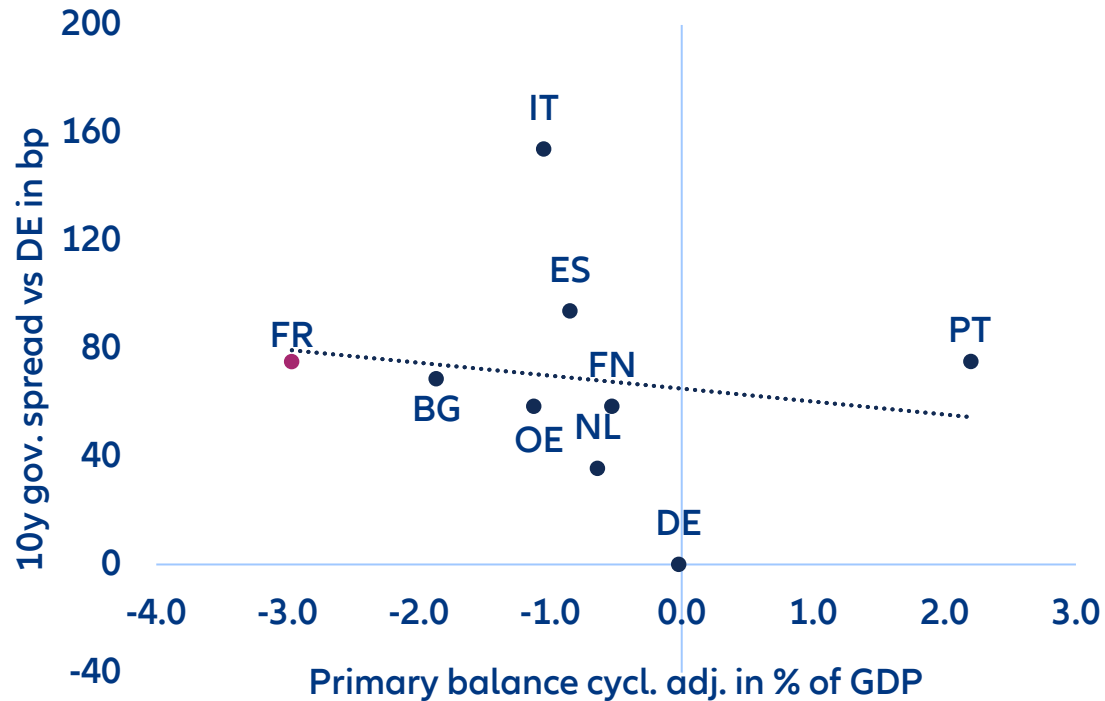
Yield spreads vs. 10y German bund yields in bps



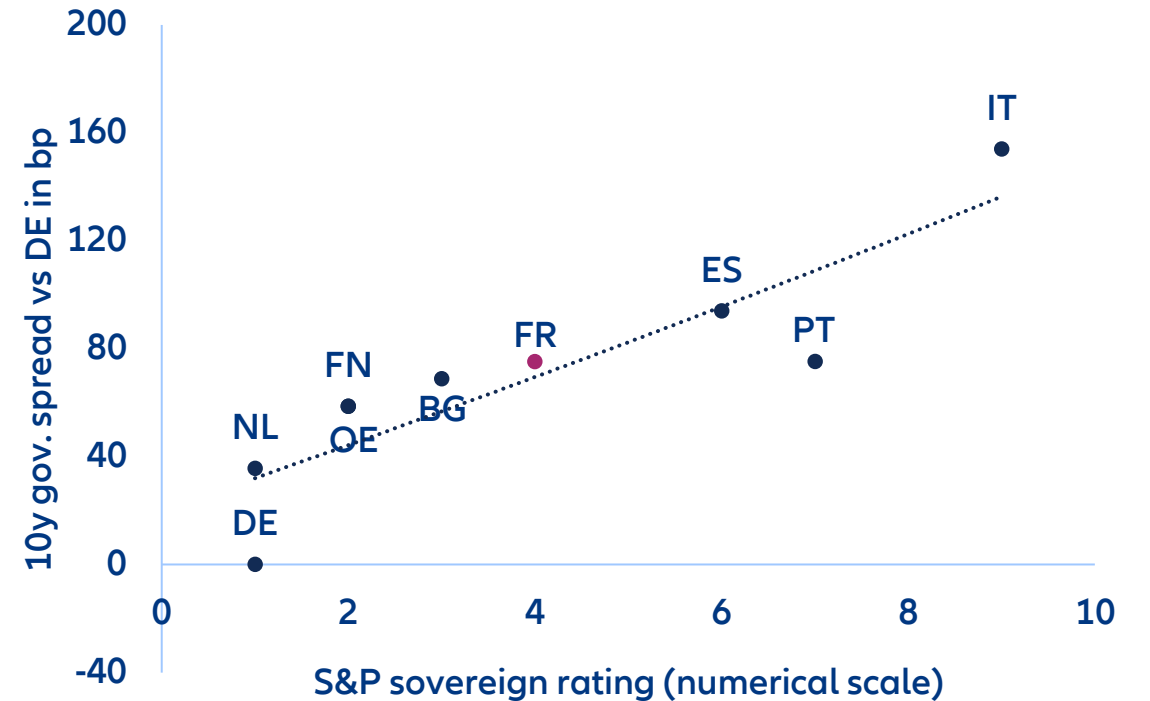
Sources: LSEG Datastream, Allianz Research

Eurozone spreads: Deterioration of fiscal position or rating in France would increase the risk premium

Fiscal deficits translate to wider spreads but other factors at play, too (growth outlook, debt pile, etc.)



Germany and Portugal biggest outliers on sovereign rating vs. government spreads cross-check



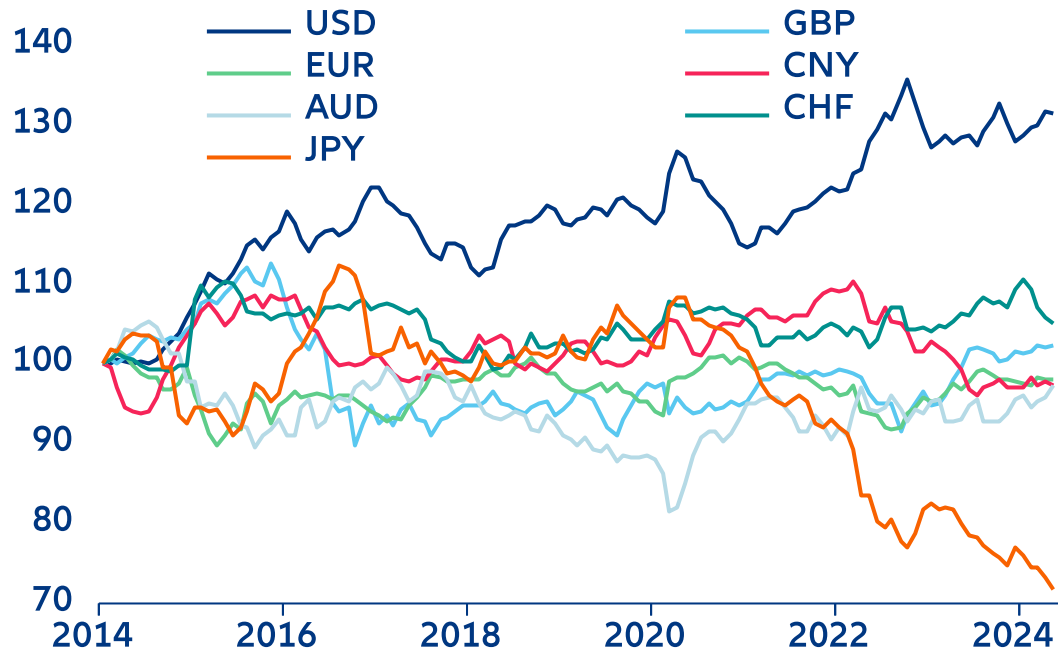
Sources: LSEG Datastream, Ameco, Allianz Research
 Notes: Primary balance cycl. adj. referring to 2024 AMECO estimate, spreads as of 24/06/2024

Sources: LSEG Datastream, Allianz Research
 Note: Numerical scale of S&P ranges from 1 (AAA) to 10 (BBB-) in the IG range; spreads as of 24/06/2024

Modest depreciation ahead for the USD amid gradual economic and geopolitical normalization

The USD looks increasingly overvalued against JPY and CNY but not the EUR

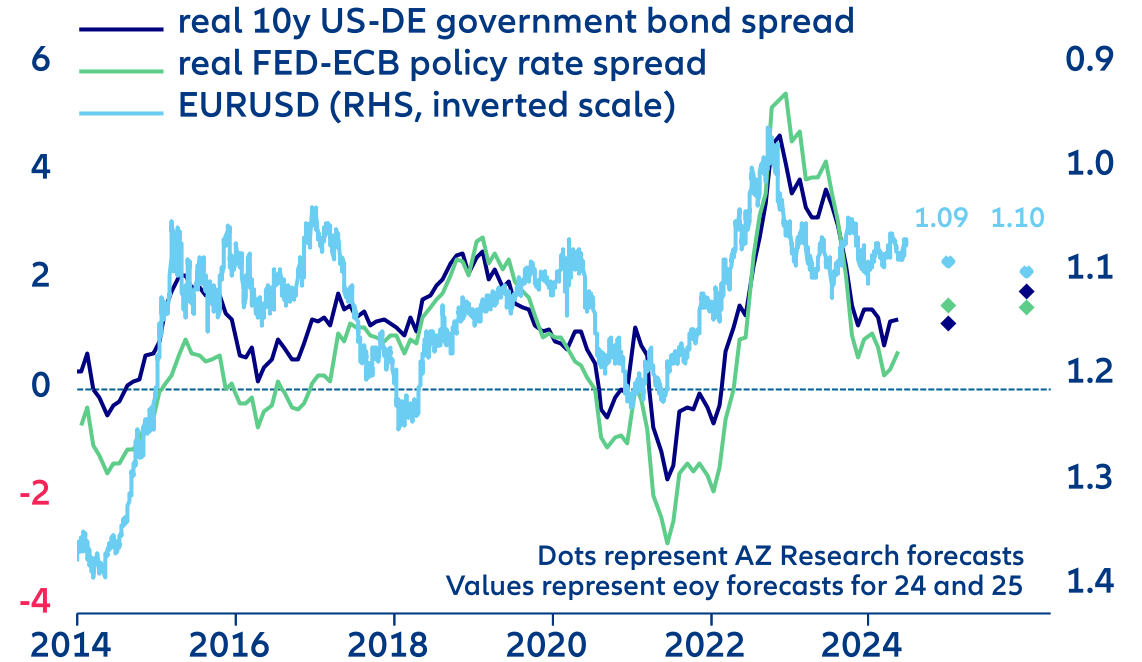
Real effective exchange rate indices (2014=100)



Sources: LSEG Datastream, Allianz Research

Interest rate differential points to ongoing weakness of EURUSD but lower geopolitical risk should support

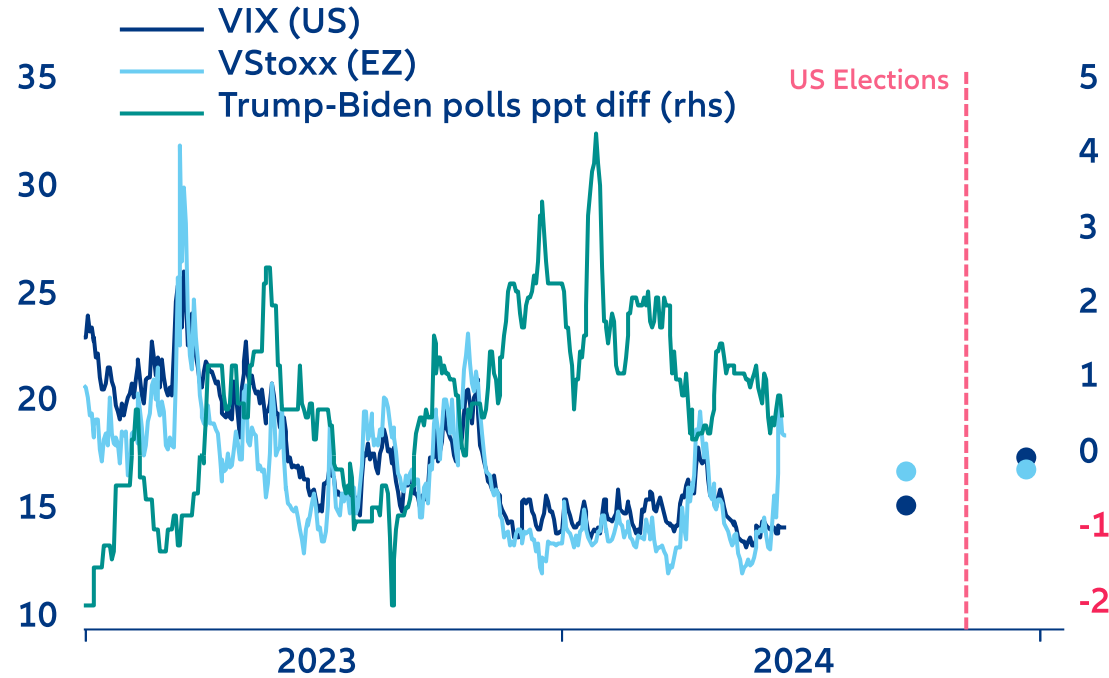
Yield differentials in pp and EURUSD exchange rate



Sources: LSEG Datastream, Allianz Research

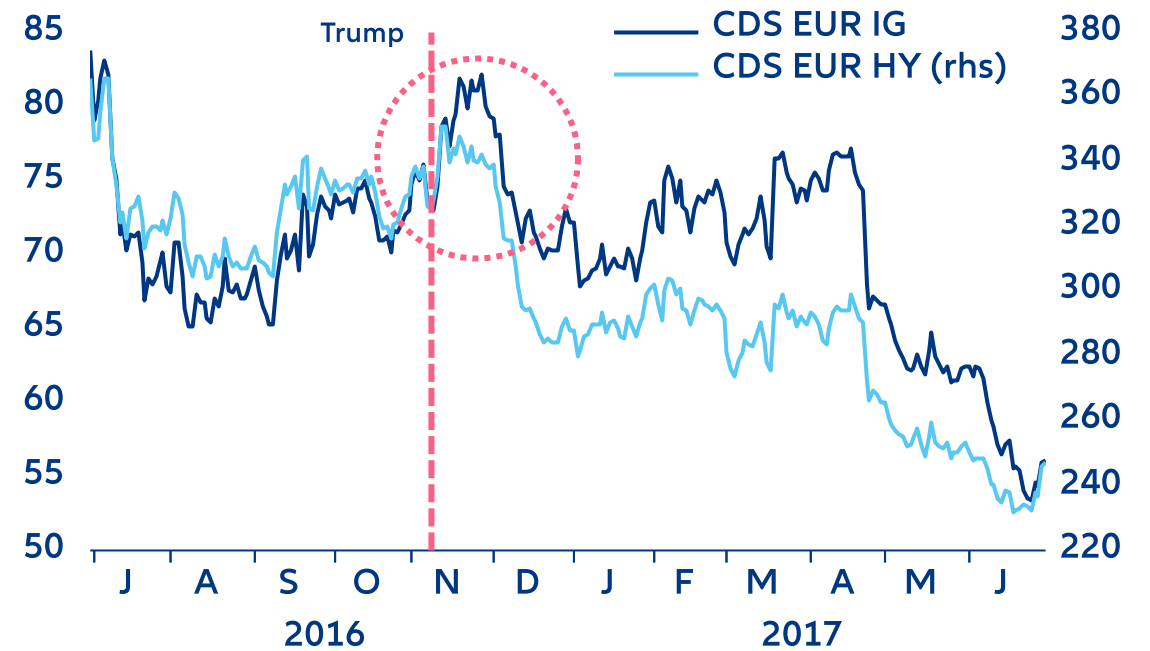
Political risk does not stop with France; the US elections are likely to keep market uncertainty high

Markets are currently positioned for a pick-up in volatility around the US elections date



Sources: LSEG Datastream, Allianz Research
 Note: Dots indicate future markets

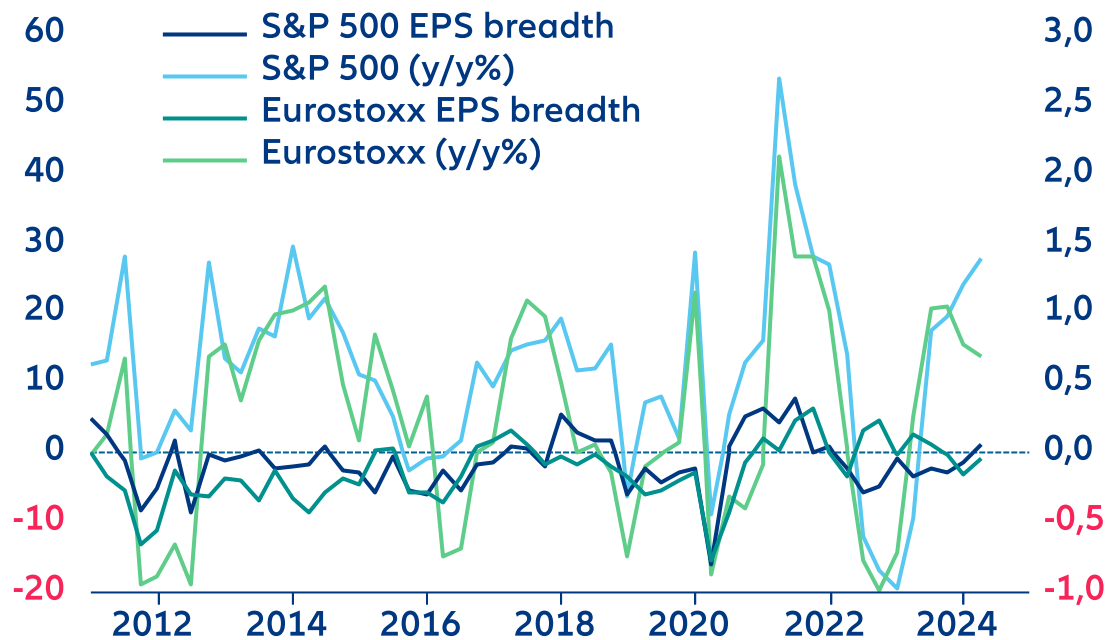
A Trump victory would have immediate repercussion on the rest of global FI and EQ markets



Sources: LSEG Datastream, Allianz Research

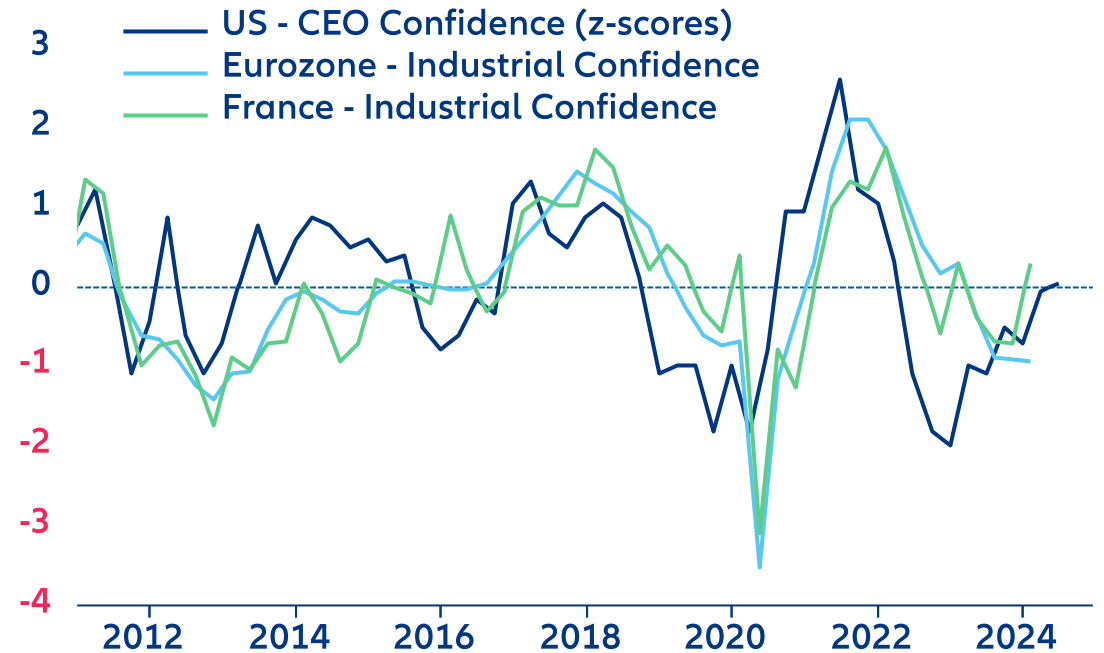
The positive earnings momentum is aiding market fundamentals, but confidence remains muted

The earnings season has led to an upward revision of earnings expectations and reinforced the rally



Sources: LSEG Datastream, Allianz Research
 Note: Earnings breadth represents the # of earnings expectations revised up vs the ones being revised down

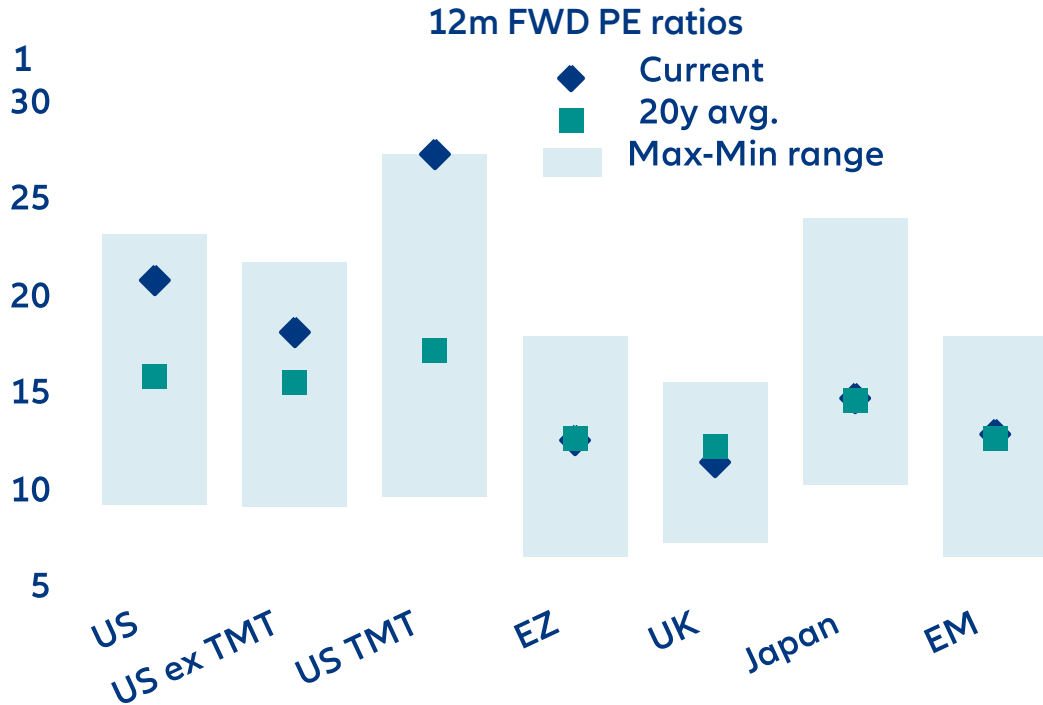
But economic confidence, especially from the corporate side remains subdued



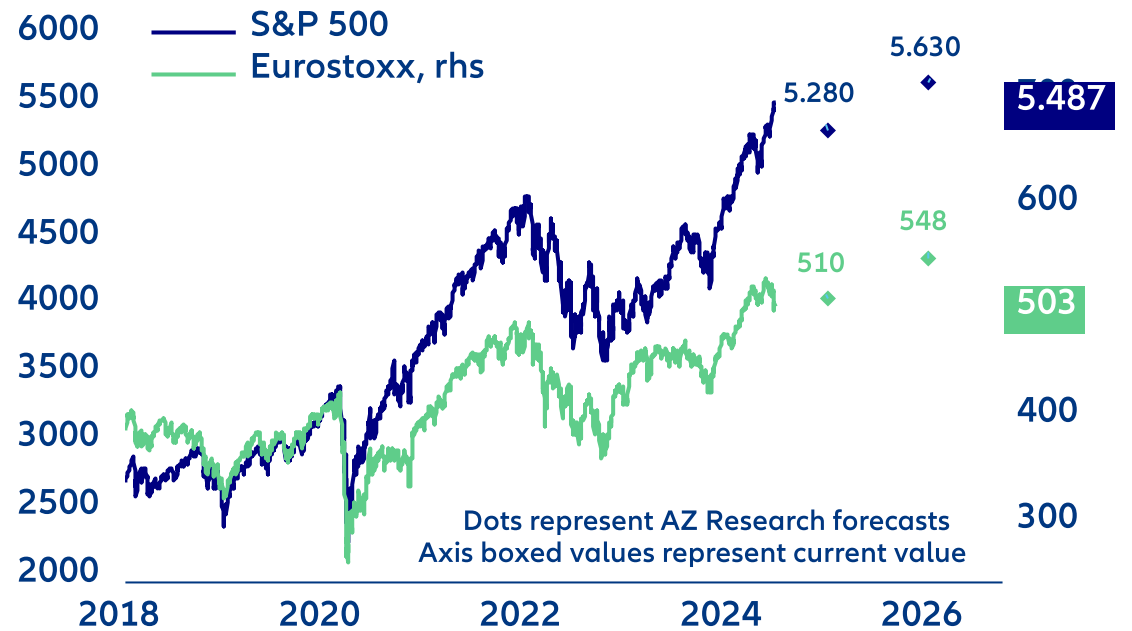
Sources: LSEG Datastream, Allianz Research

US EQ looks expensive vis-a-vis the RoW, but 10-15% should be attainable across the board in 2024

Regionally, US equities continue to look expensive vis-a-vis the rest of the world due to their TMT* component



Resilient earnings and favorable risk appetite set stage for equities to finish 2024 at ~10-15% total return

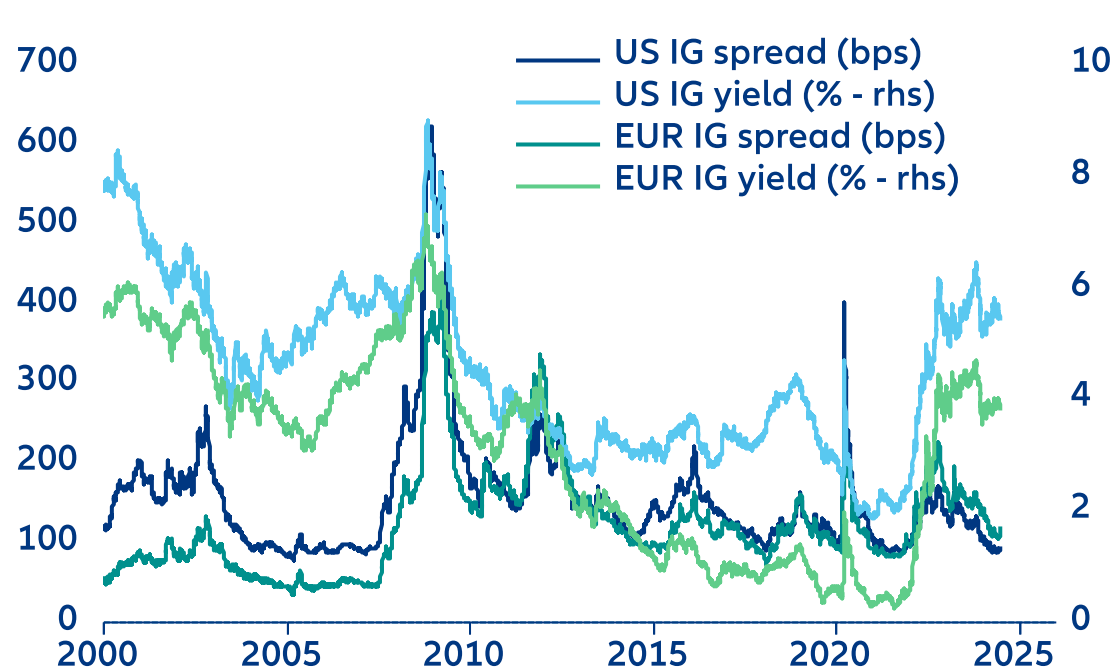


Sources: LSEG Datastream, Allianz Research
 *TMT: Technology, Media & Telecom
 Note: Datastream Equity Indices

Sources: LSEG Datastream, Allianz Research

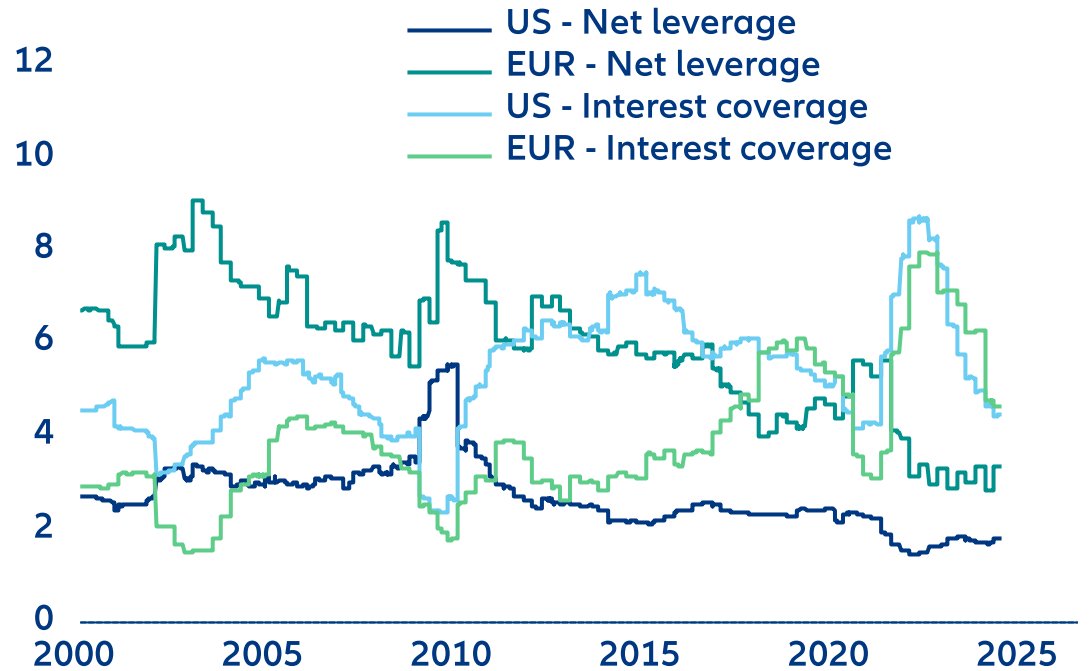
Credit spreads are expensive, but yields remain attractive

Corporate spreads trade close to the lowest post-GFC bound yet yield levels remain attractive



Sources: LSEG Datastream, Allianz Research

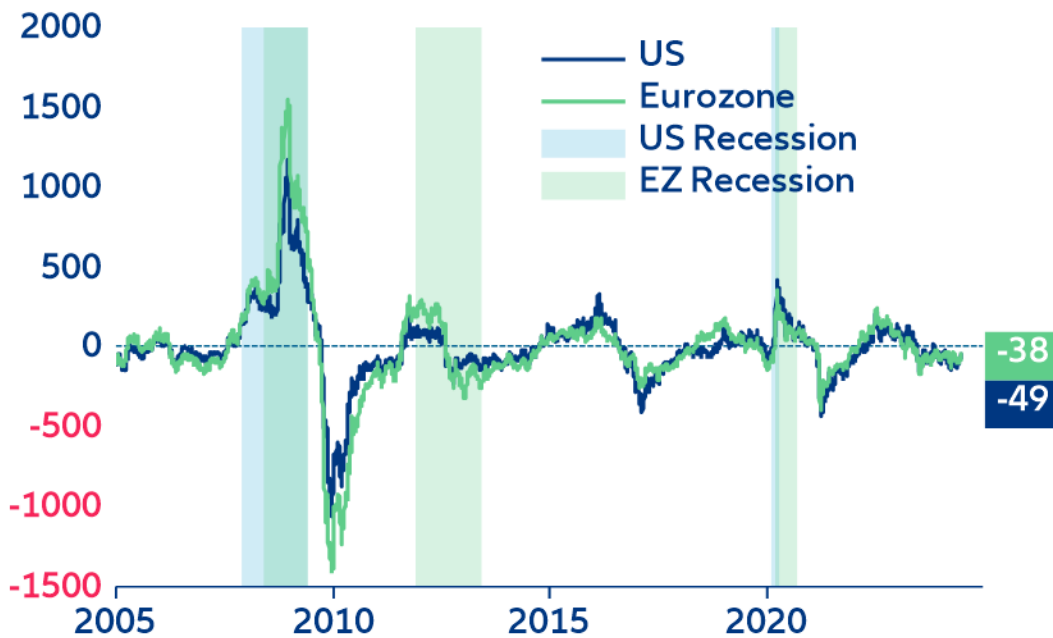
Debt-servicing capacity keeps deteriorating but central banks' pivot should help alleviate the burden



Sources: LSEG Datastream, Allianz Research

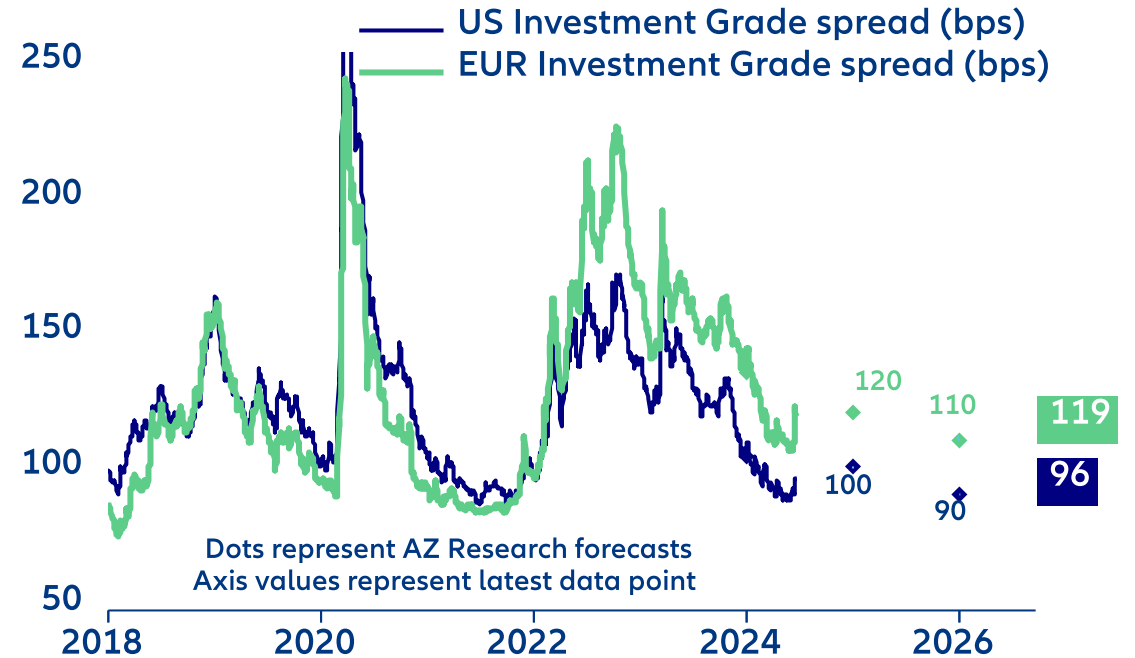
Corporate spreads are tight; uncertainty should keep spreads from structurally compressing further

High-yield spreads have compressed a lot on the back of low default rates and economic resilience
 y/y change in IG-HY spread differentials



Sources: LSEG Datastream, Allianz Research

Corporate spreads look tight given the uncertainty thus we do not expect a significant compression

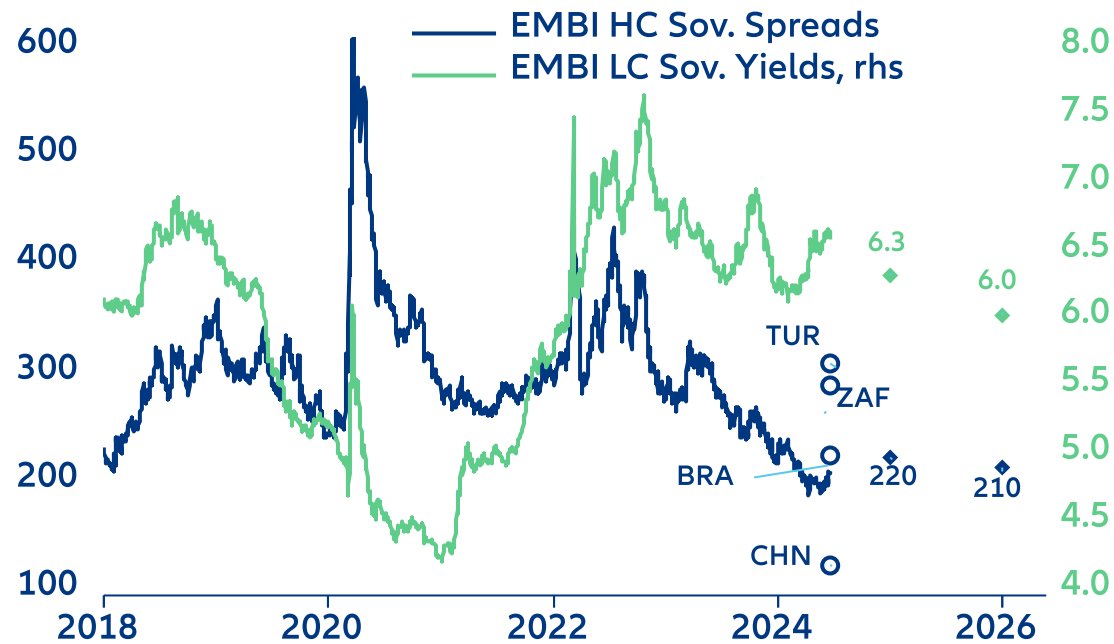


Sources: LSEG Datastream, Allianz Research

EM spreads hold tight; potential gains from yield declines and carry threatened by political risks (FX)

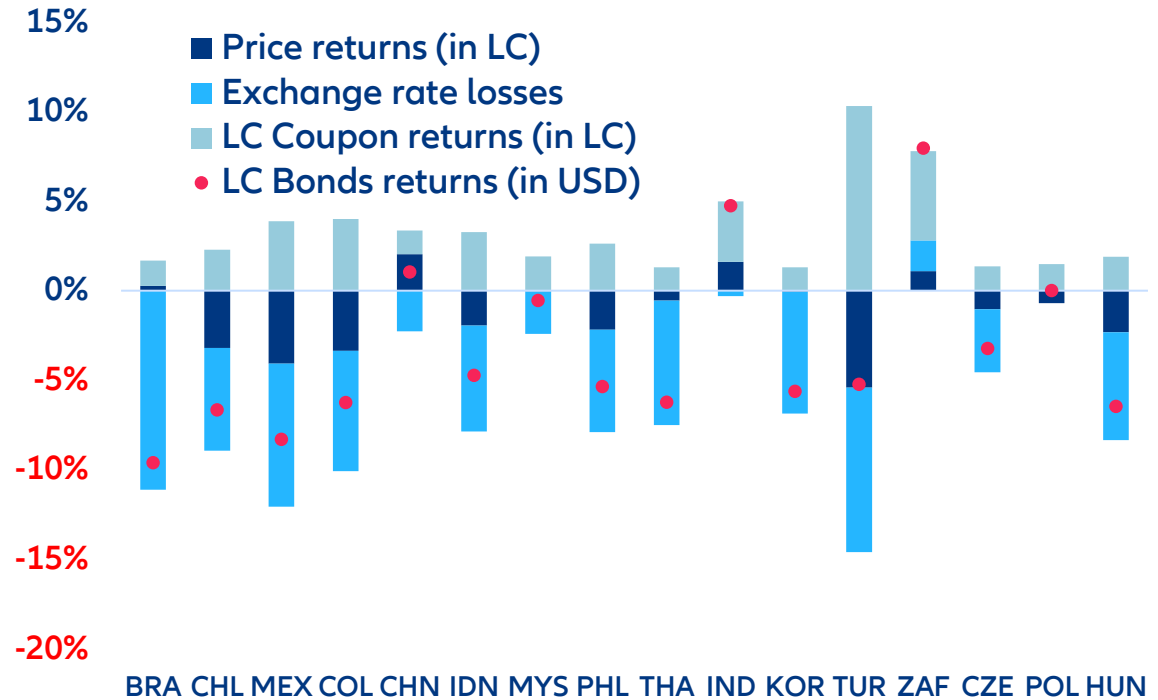
Little room for further hard currency spread compression - yields to trend lower (not exempt of volatility) Yields repricing & FX weakness derailed H1 performance but, prospects are good - elections-turmoil allowing

Dark blue dots represent key hard currency spreads of key countries



Sources: Bloomberg, LSEG Datastream, Allianz Research. HC = Hard Currency. LC = Local Currency. Sov = Sovereign.

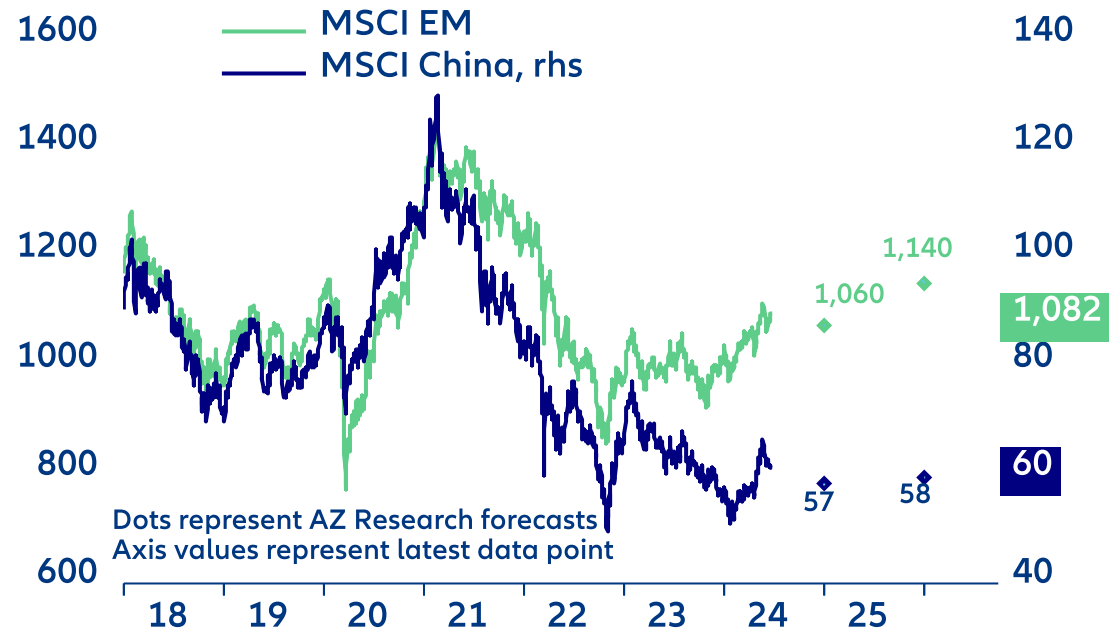
Total returns in local currency (LC) sovereign year-to-date



Sources: LSEG Datastream, Allianz Research. Calculations used bond indexes with bonds across the whole maturity spectrum.

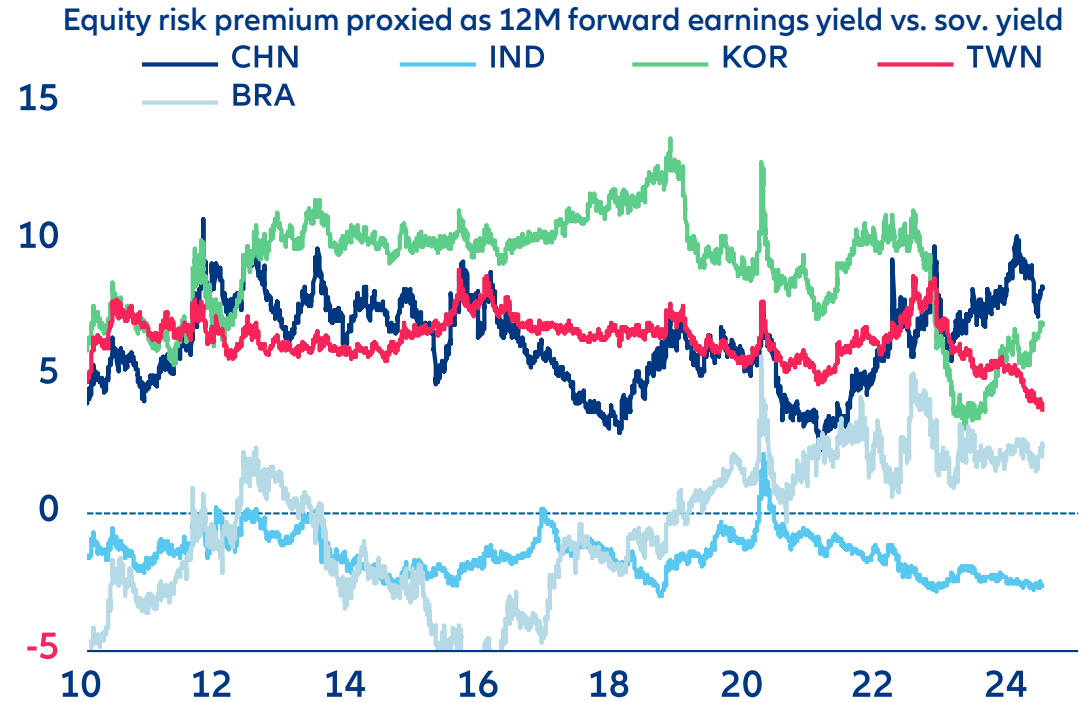
EM equities underperforming amidst wide dispersion across countries and FX risks

Better than expected year to date but lagging AEs' equities; little tailwinds from global equities expected



Sources: LSEG Datastream, Allianz Research. AEs: advanced economies.

Wide performance differences across major countries with India and Taiwan semiconductors as main success stories

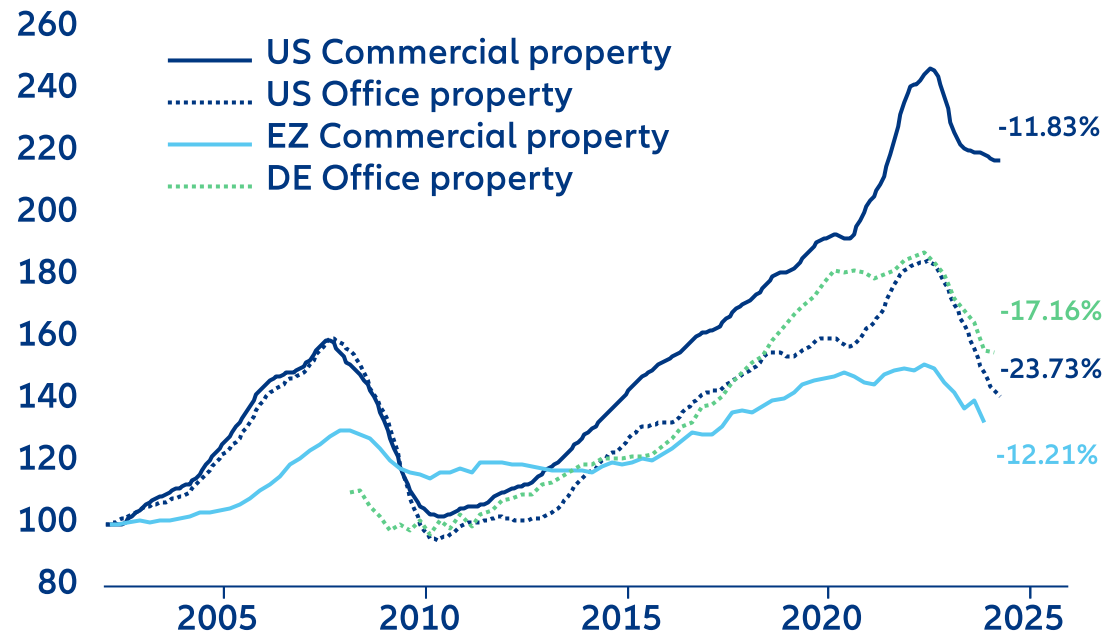


Sources: IBES, LSEG Datastream, Allianz Research.

Commercial real estate: the situation should not deteriorate further – **except for US offices**

Prices declines have continued into 2024 but should stabilize going forward – **except for US offices**

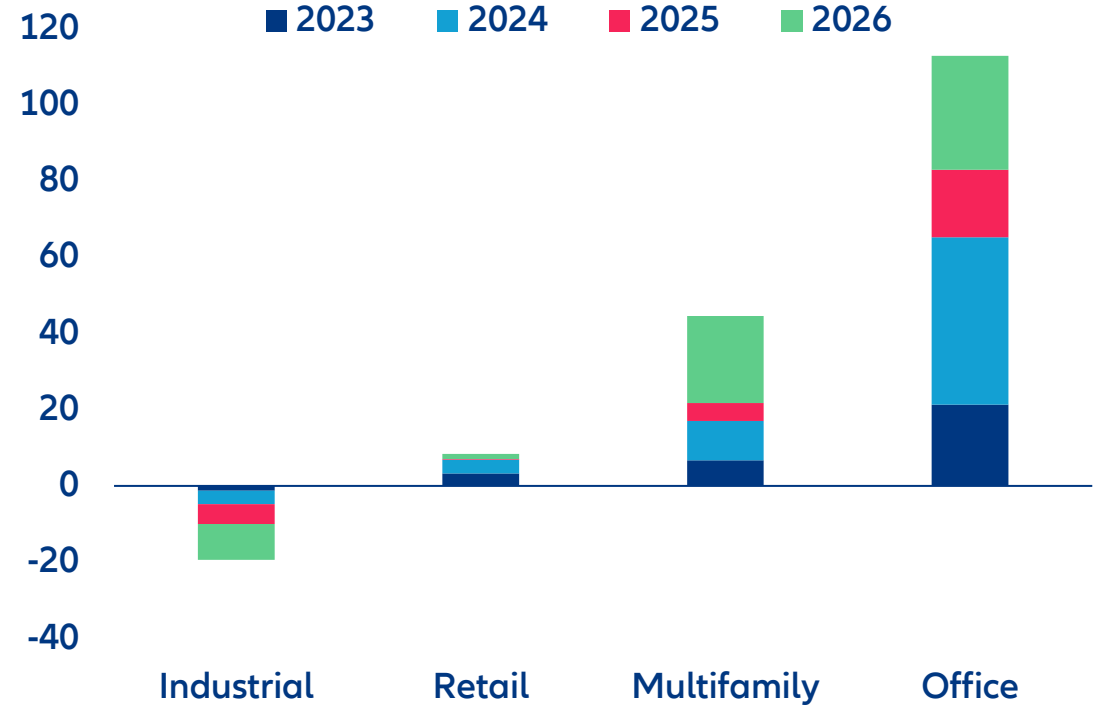
Indices rebased as of 2002 (or inception for DE offices)



Sources: BIS, ECB, LSEG Datastream, Allianz Research. Figures on the right indicate the cumulated decline in prices since Q2 2022.

Debt-funding gap of CRE by sector in the US (USD bn)

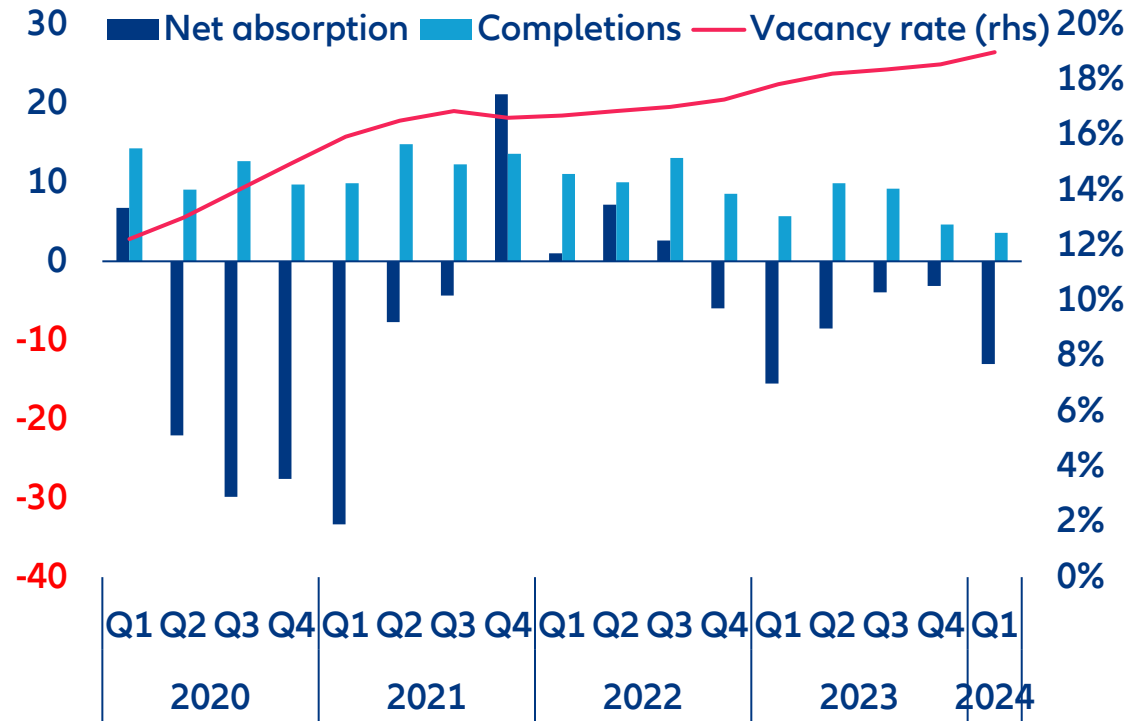
Five-year loans originated in 2018, 2019, 2020, 2021



Sources: CBRE, Allianz Research

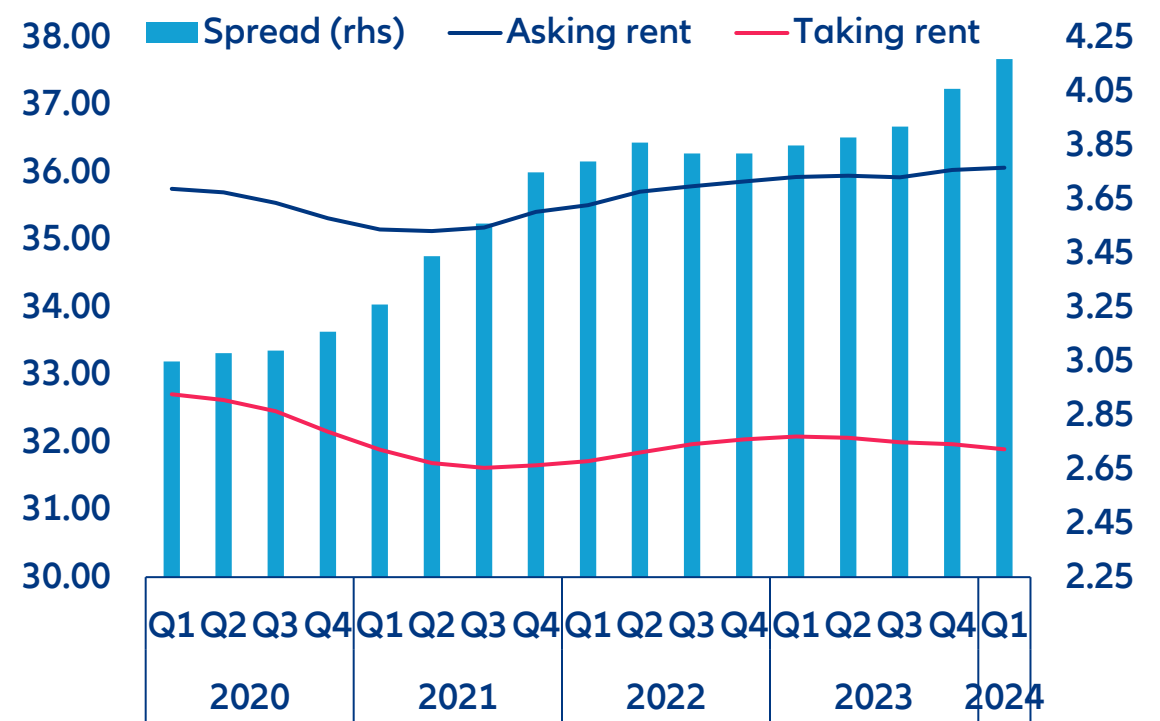
US offices: vacancy rate hits record-high amid weak demand while rent spread keeps widening

Demand and supply for US offices



Sources: CBRE, Allianz Research.

Office asking rent vs taking rent (USD/sqft)



Sources: CBRE, Allianz Research.

