Economic Outlook 2024-25: Soft landing: It's a wrap?

Film Industry Clapper Board Photograph by Panoramic Images - Fine Art America

Allianz Research

End of Q1 2024 updated economic and capital markets outlook

26 March 2024

Global Macro 2024-2025

Our Storyboard

1	**Special effects for growth?** US growth momentum has been strong but is headed for a managed slowdown. After stagnating, the Eurozone may recover slightly on the back of positive real income effects though uncertainty and downside risks remain and may limit the investment cycle (wait-and-see mode).
2	**Inflation is acting up.** Inflation should get closer to target by summer 2024, thanks to continuing loosening of labor markets and weakening domestic demand. Services inflation remains sticky.
3	**Central banks' summer twist.** The ECB will be compelled to cut rates just before the Fed in July, with the BoE following suit in August. Almost all major emerging markets will also start a cautious easing cycle.
4	**Beware of the curtain call for fiscal policy.** Fiscal consolidation in Europe will be scrutinized, with potentially strong pressure on GDP growth. In the US, November elections will determine the course for all public policies.
5	**Global trade is no feel-good movie.** As trade exits recession, the recovery will be limited by the inventory glut. Disruptions in global shipping and protectionism mean that the pace of recovery is capped, and global trade growth will remain below its long-term average.
6	**China's policy support: the sequel.** Downside pressures abound and the challenge for policymakers is to reestablish confidence and support new growth drivers in order to establish a sustainable – though slowing – economic model.
7	**Emerging markets: the cast is much stronger.** Many will experience a moderate recovery, thanks to domestic consumer spending and investment activity. Exports will be a growth driver only for Southeast Asia and a few other nations. Resilience is still impressive as policy constraints abound.
8	**Markets may need subtitles: the economic soft landing narrative contrasts with geopolitical hard landing risks.** Long-term interest rates are poised for a modest decline in 2024, while the bull market in equities could continue. Geopolitics, rising defense spending, reshoring, the AI frenzy and the green transition will continue to shape market sentiment. Concentration in geographies, sectors and companies make market dynamics vulnerable.
9	**The plot is hard to follow for corporates.** Corporate profitability will be further tested and capex is slowing down. Lower interest rates ahead mean the corporate debt-repayment wall should be manageable, but highly leveraged sectors could be increasingly distressed.
10	**Political risks: an original movie or a remake?** Recent elections have confirmed rising polarization risks. The US, India, Mexico, the EU, South Africa and the UK elections all matter in today's uncertain world.

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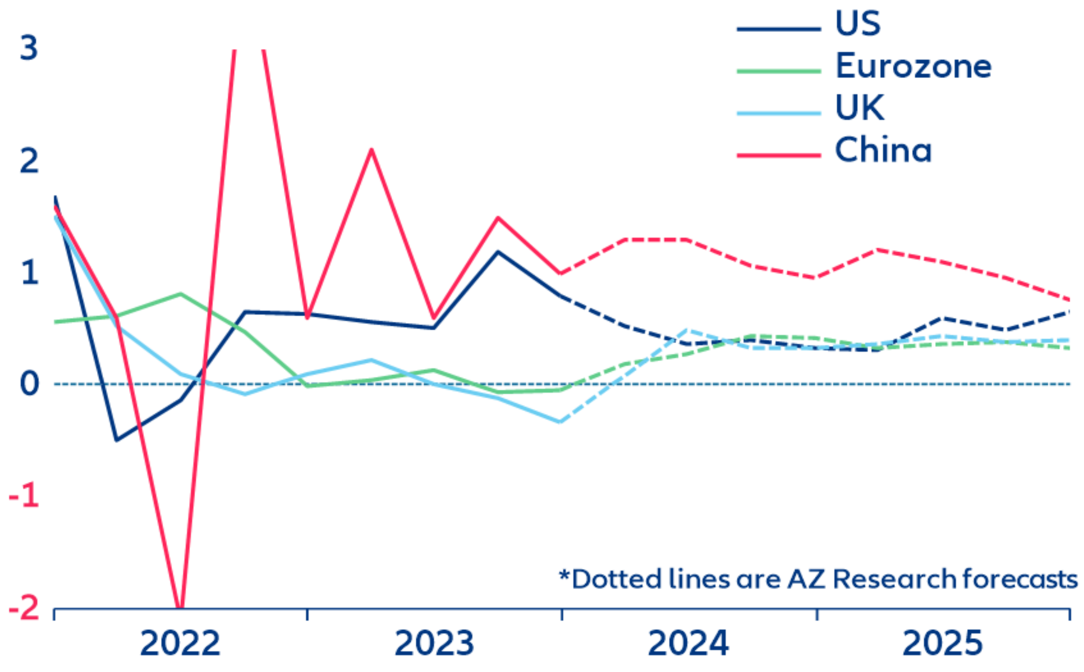
Soft landing confirmed

Global real GDP growth (%)

Growth (yearly %)	2021	2022	2023	2024f	2025f
Global	**6.2**	**3.0**	**2.8**	**2.7**	**2.7**
USA	**5.8**	**1.9**	**2.5**	**2.4**	**1.7**
Latin America	**7.0**	**3.9**	**1.9**	**1.5**	**2.3**
Brazil	5.1	3.1	2.9	1.7	1.9
UK	**8.7**	**4.4**	**0.1**	**0.4**	**1.5**
Eurozone	**5.9**	**3.4**	**0.5**	**0.7**	**1.5**
Germany	3.1	1.9	-0.3	0.1	0.9
France	6.4	2.5	0.9	0.7	1.3
Italy	8.3	4.2	1.0	0.7	1.4
Spain	6.4	5.8	2.5	1.8	1.9
Central and Eastern Europe	**6.1**	**0.8**	**1.0**	**2.1**	**3.1**
Poland	6.9	5.3	0.2	2.2	3.1
Russia	5.6	-1.2	3.6	2.7	1.5
Türkiye	11.4	5.5	4.5	3.6	3.9
Asia-Pacific	**6.5**	**3.2**	**4.5**	**4.1**	**4.0**
China	8.5	3.0	5.2	4.8	4.3
Japan	2.7	0.9	1.9	0.6	1.0
India	8.9	6.7	7.7	6.4	6.5
Middle East	**4.4**	**6.2**	**1.4**	**2.0**	**2.8**
Saudi Arabia	4.3	8.7	-1.1	1.8	4.2
Africa	**5.8**	**3.9**	**2.6**	**3.4**	**4.0**
South Africa	4.7	1.9	0.9	1.4	1.6

Sequential growth to accelerate in the Eurozone in 2024, while it slows in the US

Quarterly real growth rates (q/q %)



Sources: LSEG Datastream, Allianz Research

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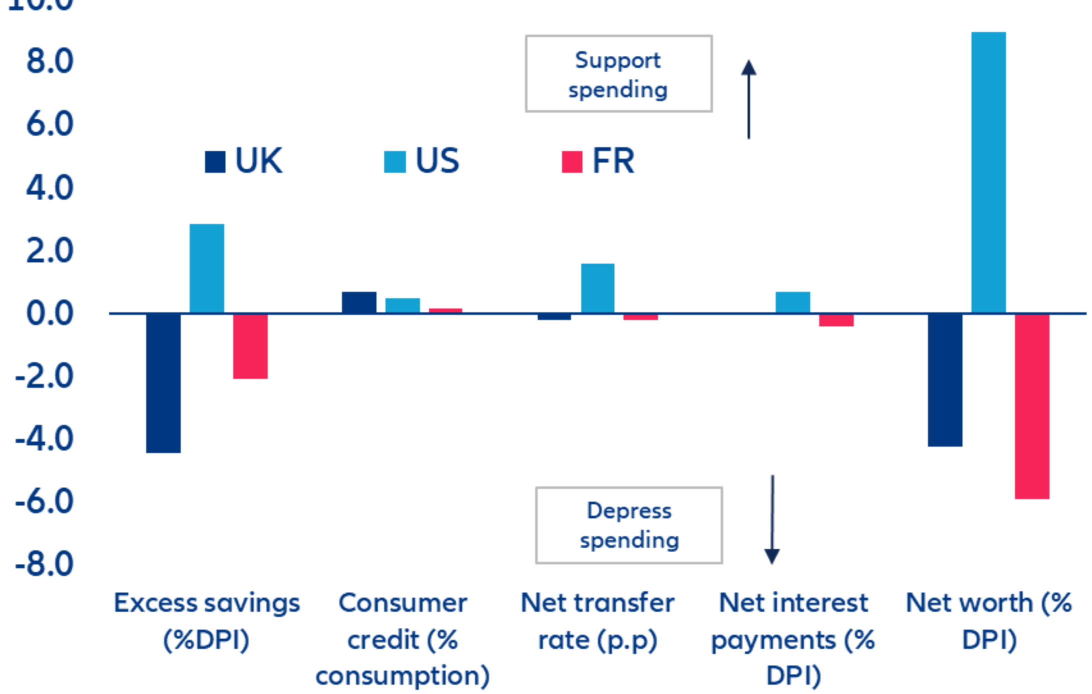
American grasshoppers and European ants to test resilience

Key determinants of consumer spending beyond labor income

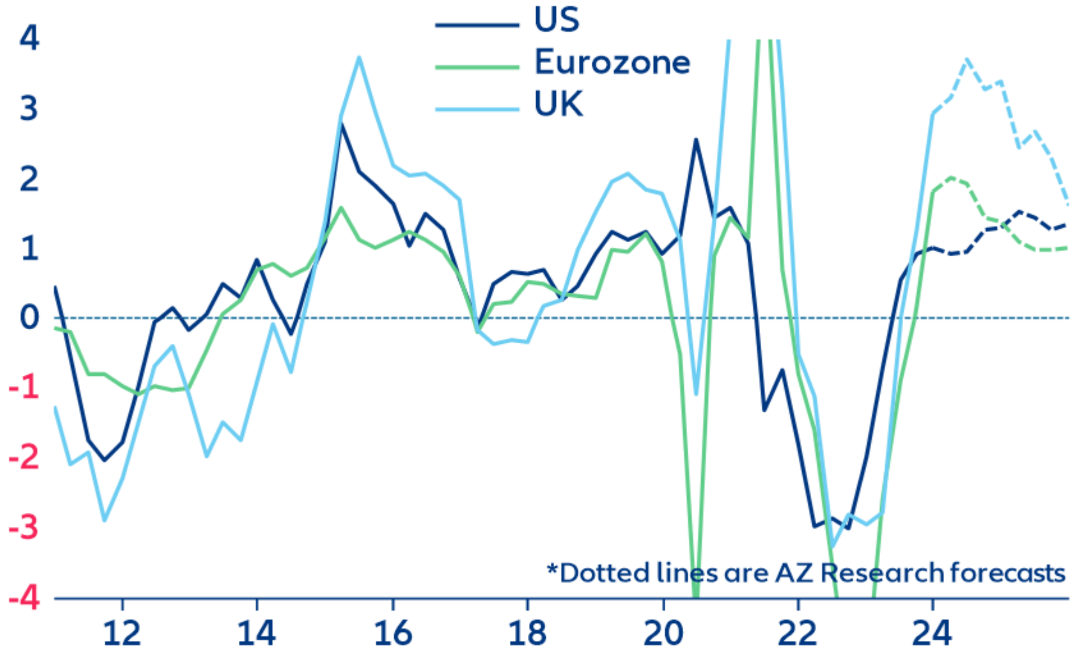
change between Q4 2022 and Q3/Q4 2023



Sources: LSEG Datastream, Allianz Research
Notes: DPI = Disposable personal income

Real wage growth to stay above historic average despite deceleration

Real wage growth y/y in %

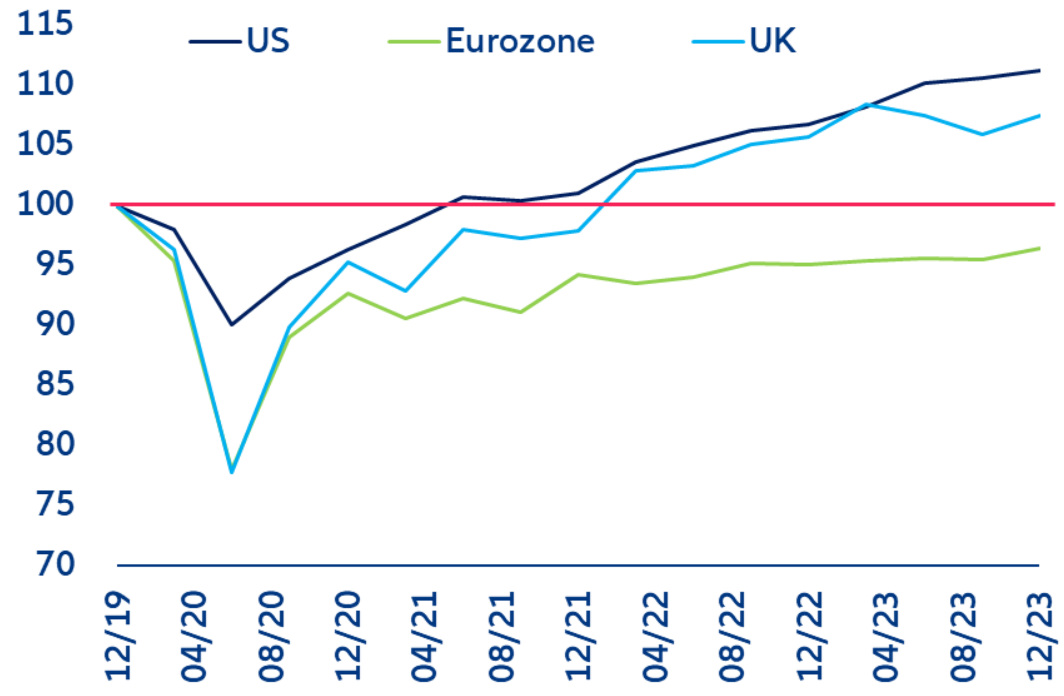


Sources: LSEG Datastream, Allianz Research

Corporate investment to slow down: Elections wait-and-see mode?

Limited scope for further rise in fixed investment

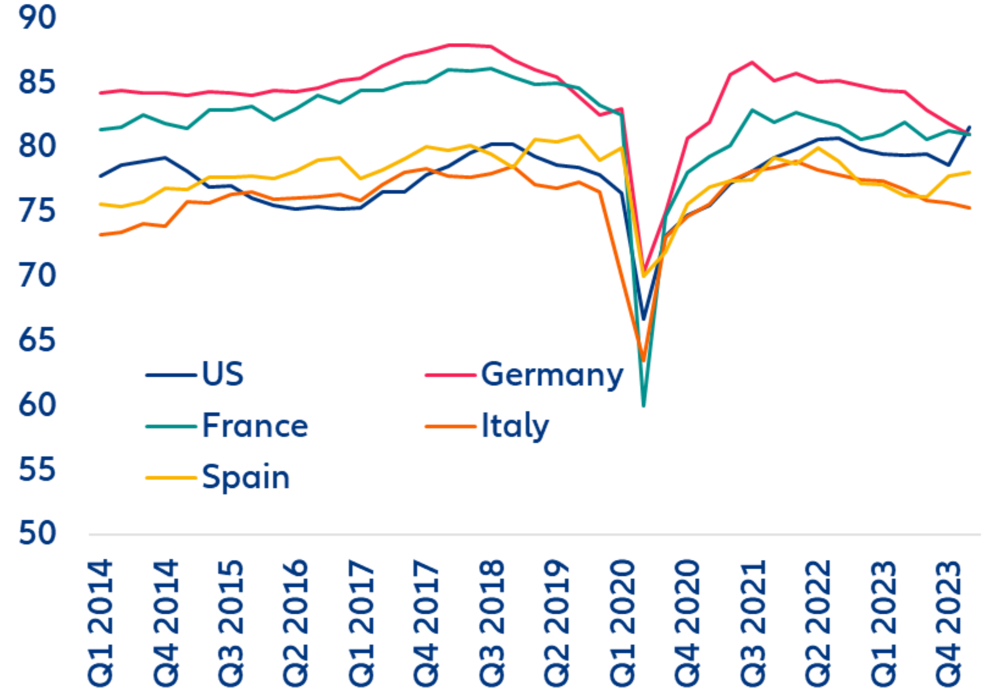
Gross fixed capital formation, volume, Q4 2019 = 100



Sources: LSEG Datastream, Allianz Research

Capacity utilization rates still below pre-pandemic

in %



Sources: LSEG Datastream, Allianz Research

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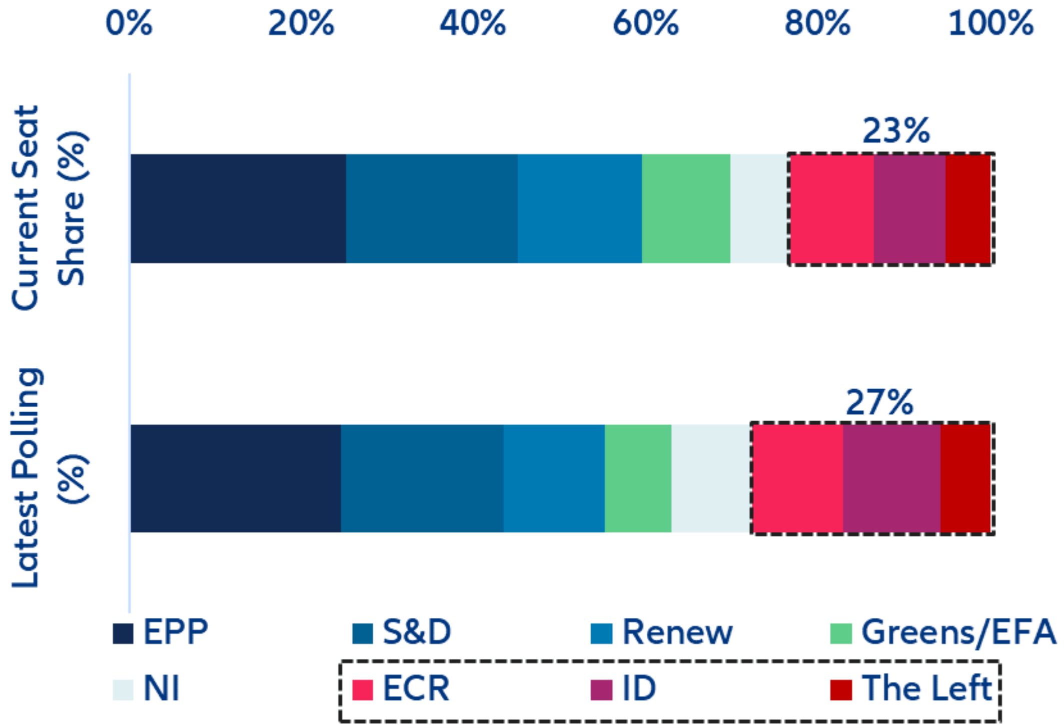
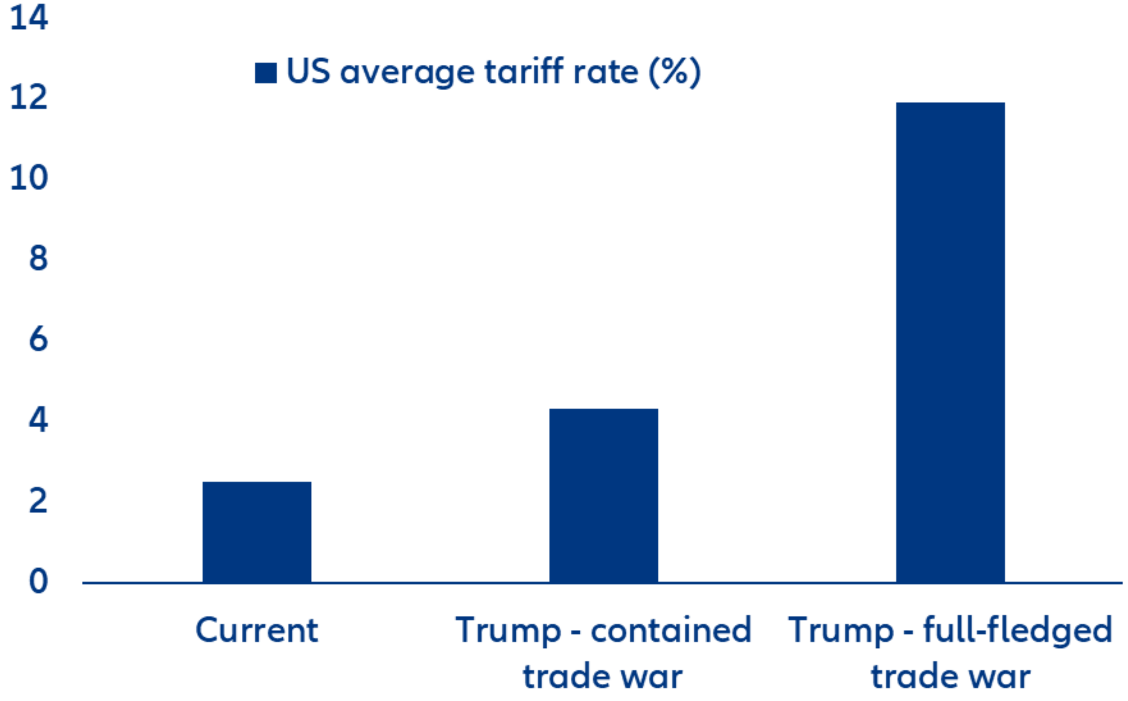
Indeed, pivotal elections ahead for Europe, the UK and the US

Populist parties set to gain in European Parliament elections



Sources: Ipsos Group (March 19, 2024), Allianz Research

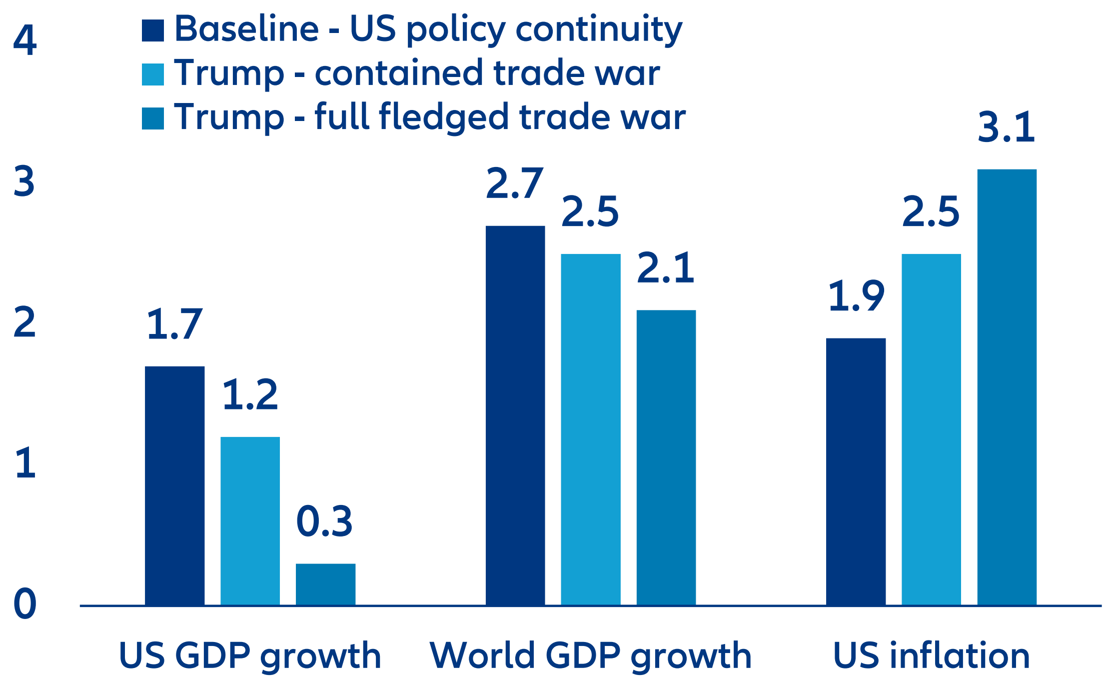
High uncertainty on US trade policy in case of a Donald Trump victory



Source: Allianz Research

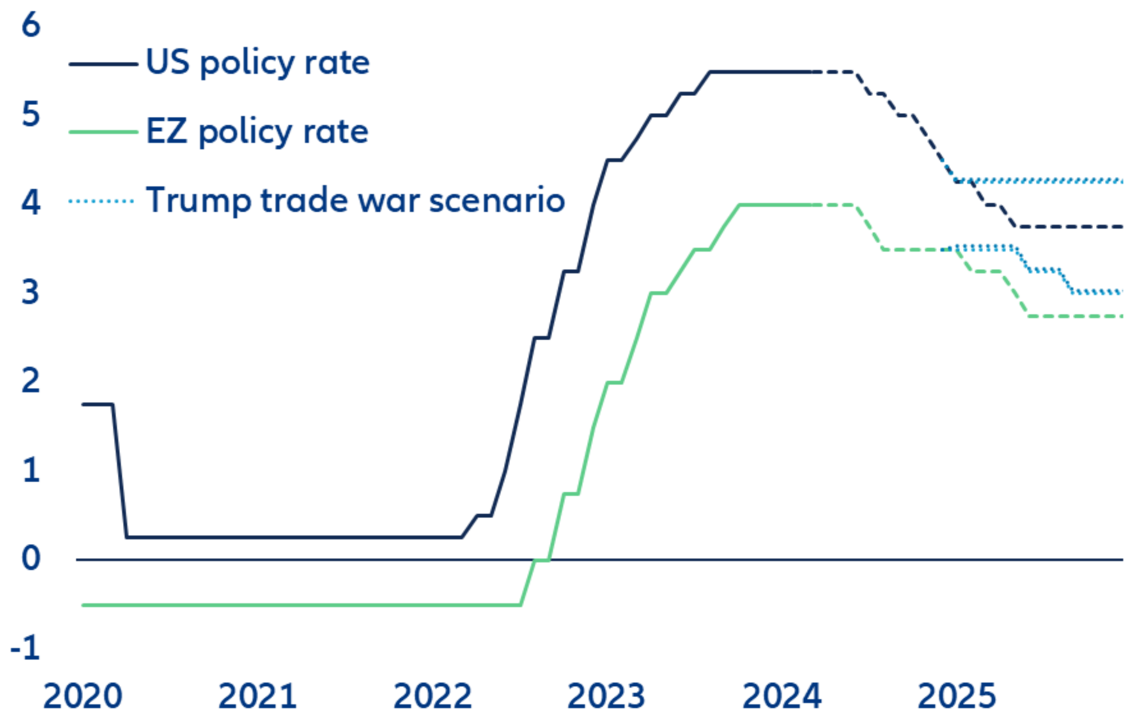
US: Trump II unpacked

GDP and inflation impact, 2025 (%)



Source: Allianz Research

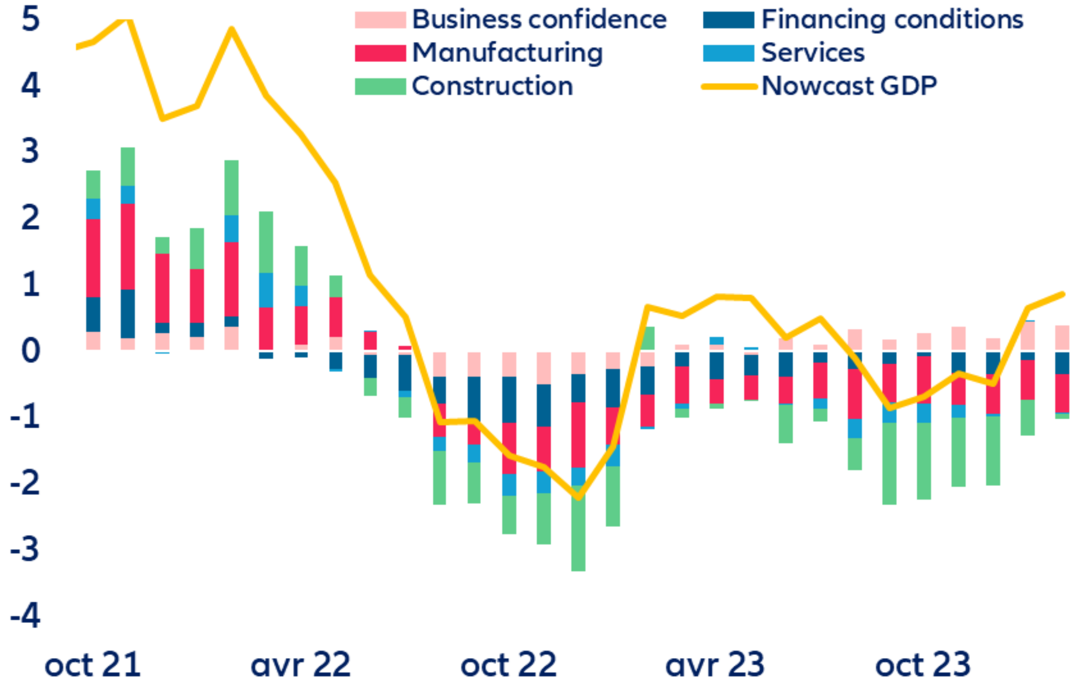
Policy rates impact (%)



Sources: LSEG Datastream, Allianz Research

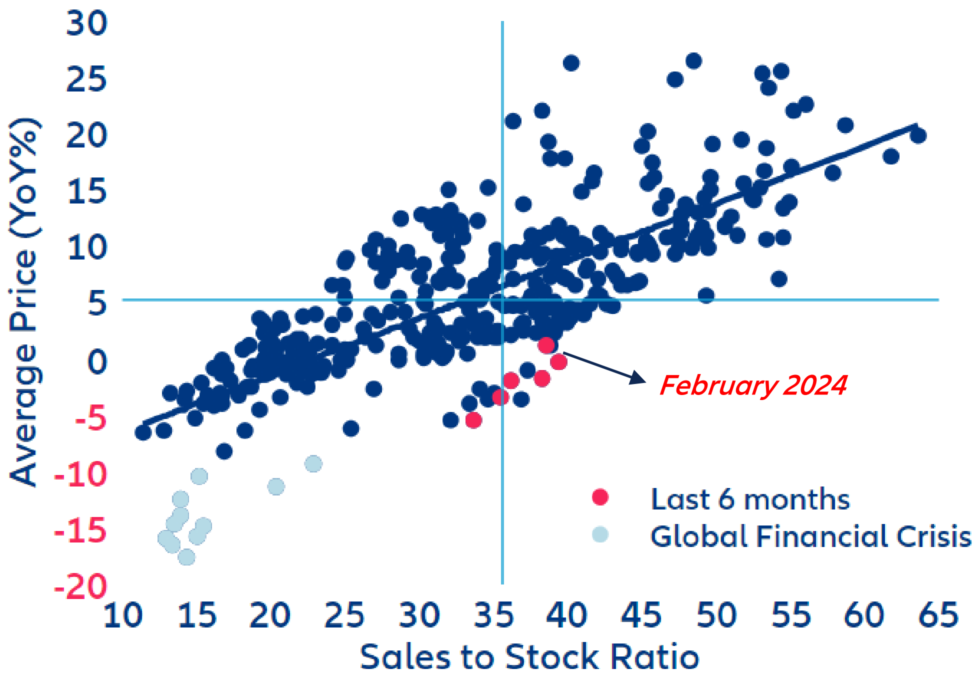
UK: Is ending the recession enough?

Activity tracker, Z-scores



Sources: LSEG Datastream, S&P Markit, Allianz Research

Housing is about to bottom out as interest rates have peaked



Sources: LSEG Datastream, BIS, Allianz Research

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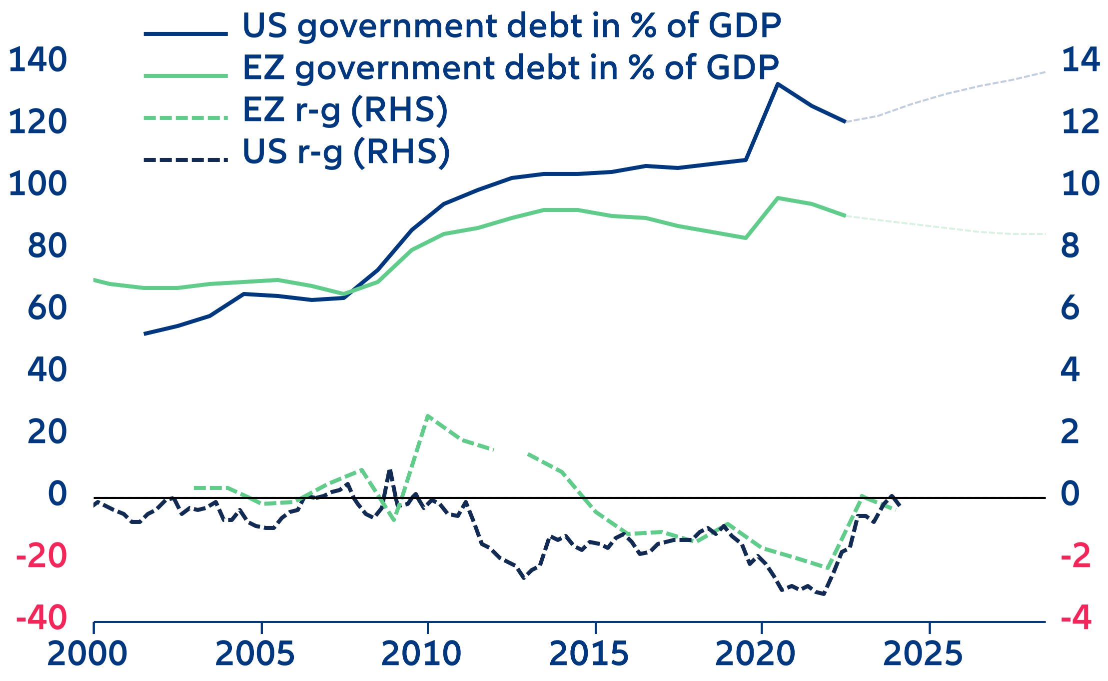
Fiscal central: Consolidation, slippage risks and the transatlantic gulf

Debt trajectories take different course while sustainability measures worsen

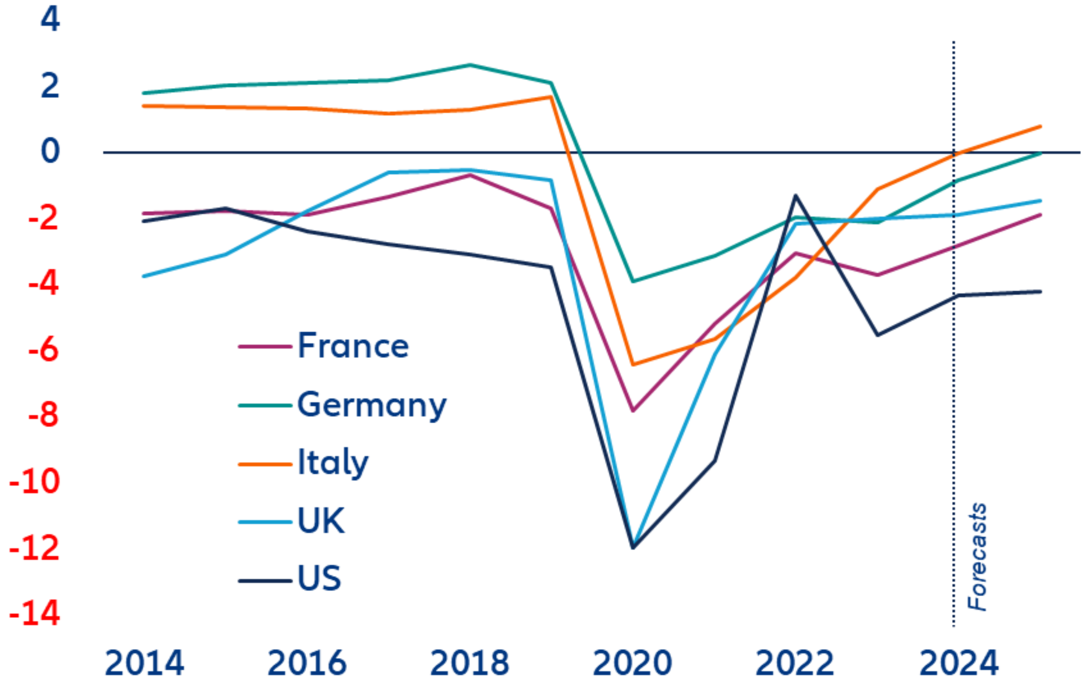
Government debt to GDP in % and real interest rate – growth potential



Sources: LSEG Datastream, Allianz Research
Note: r-g is calculated as the difference between the real interest rate from inflation-linked bonds and the potential growth rate. In the Eurozone debt weighted averages from Germany, Italy and France were taken. Pre-2014 nominal yields minus inflation were taken as a proxy in the Eurozone. Debt/GDP forecasts are from IMF.

…while fiscal policy adjustments kick-off and will shave -1pp from European GDP growth in 2024-25 cumulatively

Primary balance % of GDP



Sources: LSEG Datastream, IMF, EC AMECO, Allianz Research

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Germany: Hard(er) times ahead?

Ifo business survey
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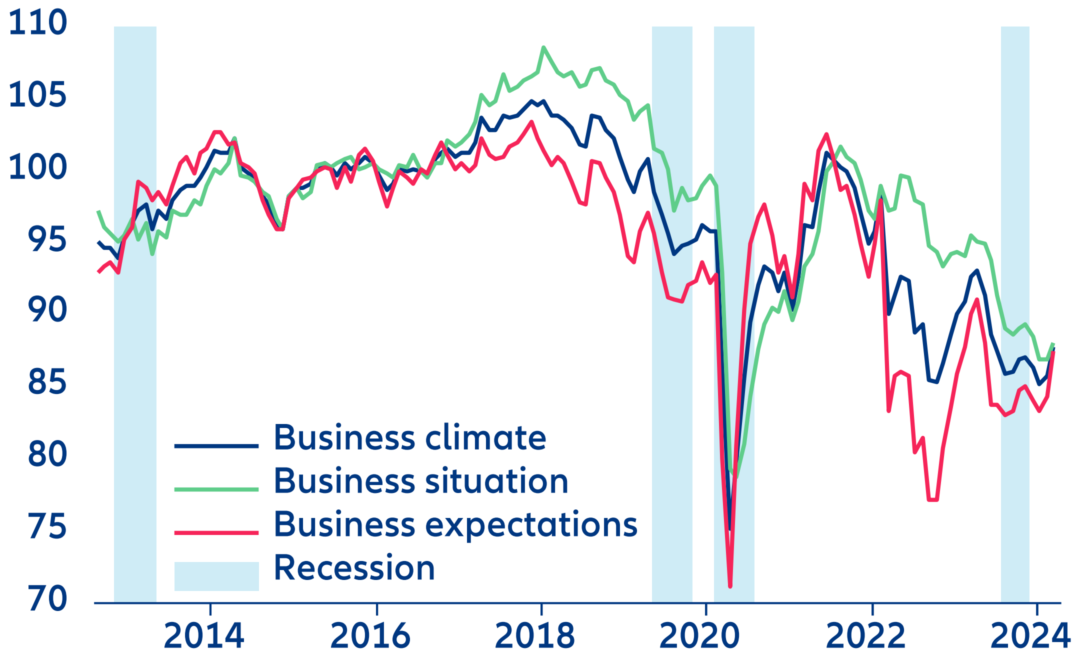
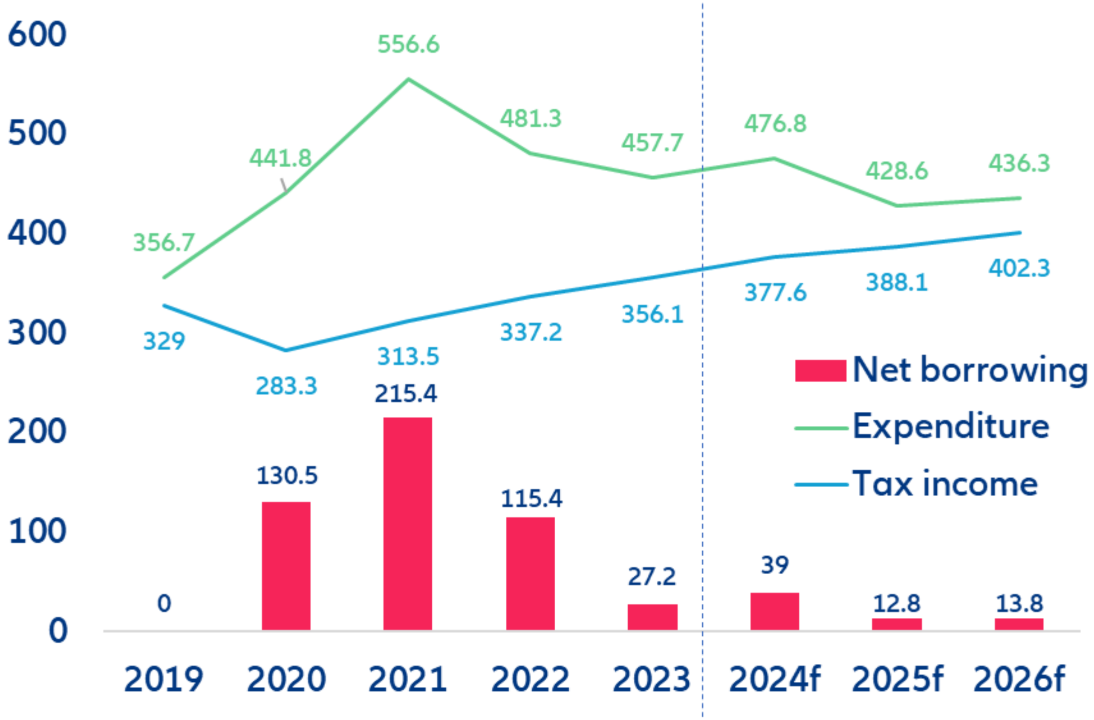


Sources: LSEG Datastream, Allianz Research

Germany is pursuing a deficit reduction
Federal budget , in EUR bn



Sources: Bundesministerium der Finanzen, Allianz Research

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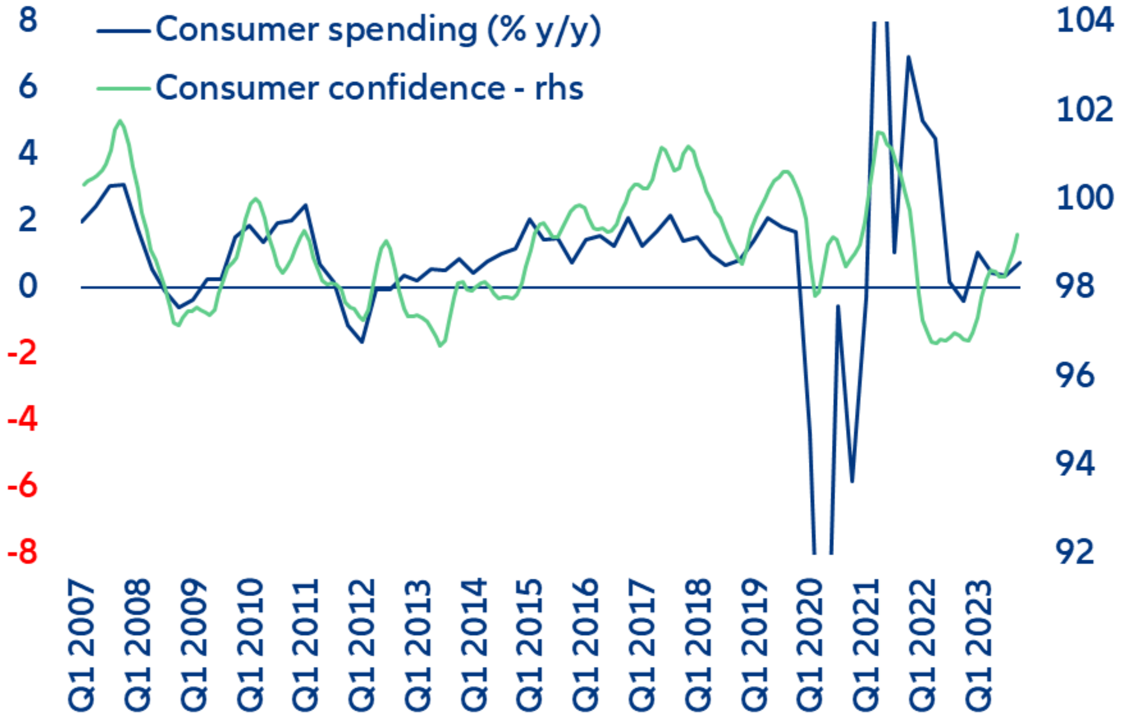
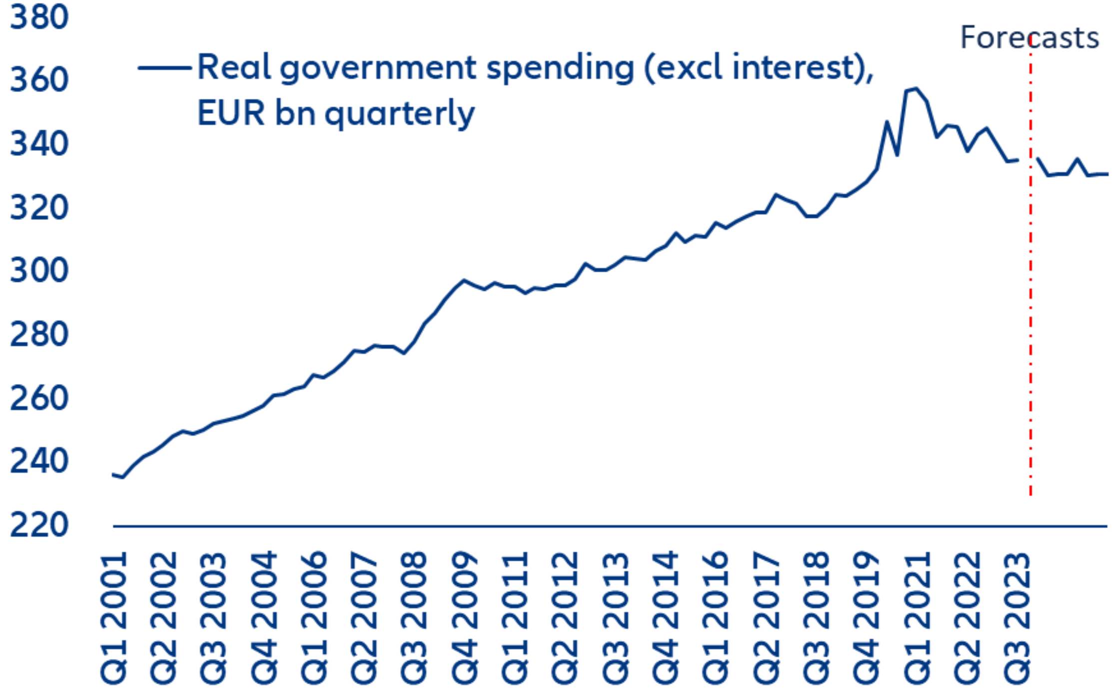
France: Cyclical rebound in H2 but fiscal clouds remain

Consumer confidence is picking up, pointing to accelerating consumer spending



Sources: Refinitiv Datastream, Allianz Research

Spending cuts in 2025, but deficit to come out above government's target



Sources: Refinitiv Datastream, Allianz Research
Note: we assume for 2024 EUR16bn of savings from the phasing out of cost-of-living crisis measures and EUR15bn of cuts in budgets. For 2025, assume EUR15bn of spending cuts.

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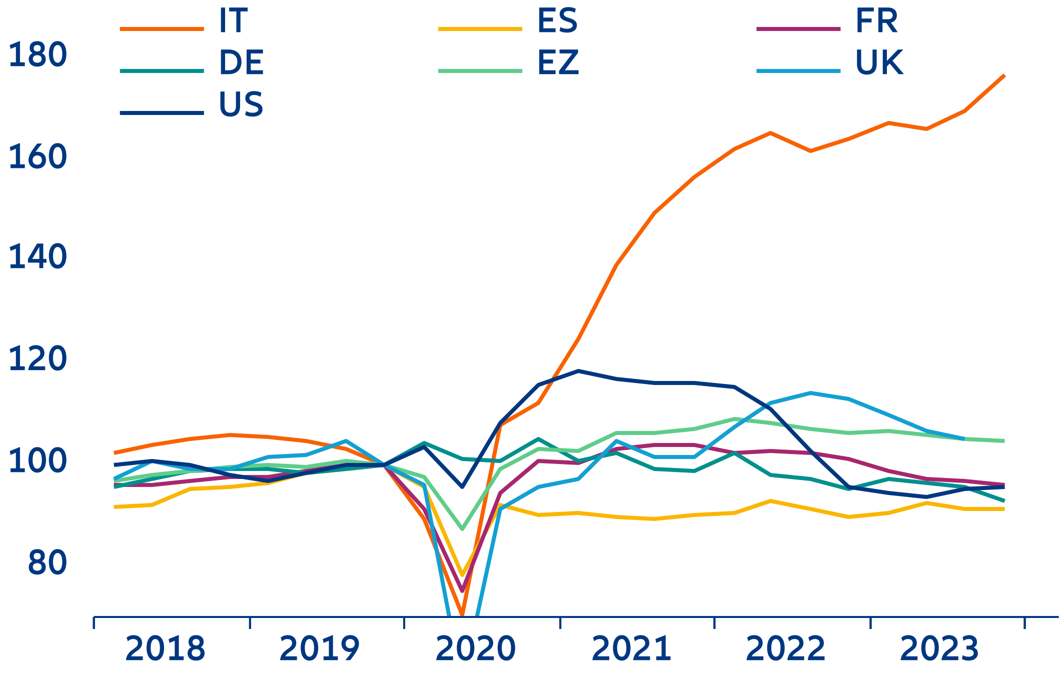
Italy: Fiscal woes remain while growth eases

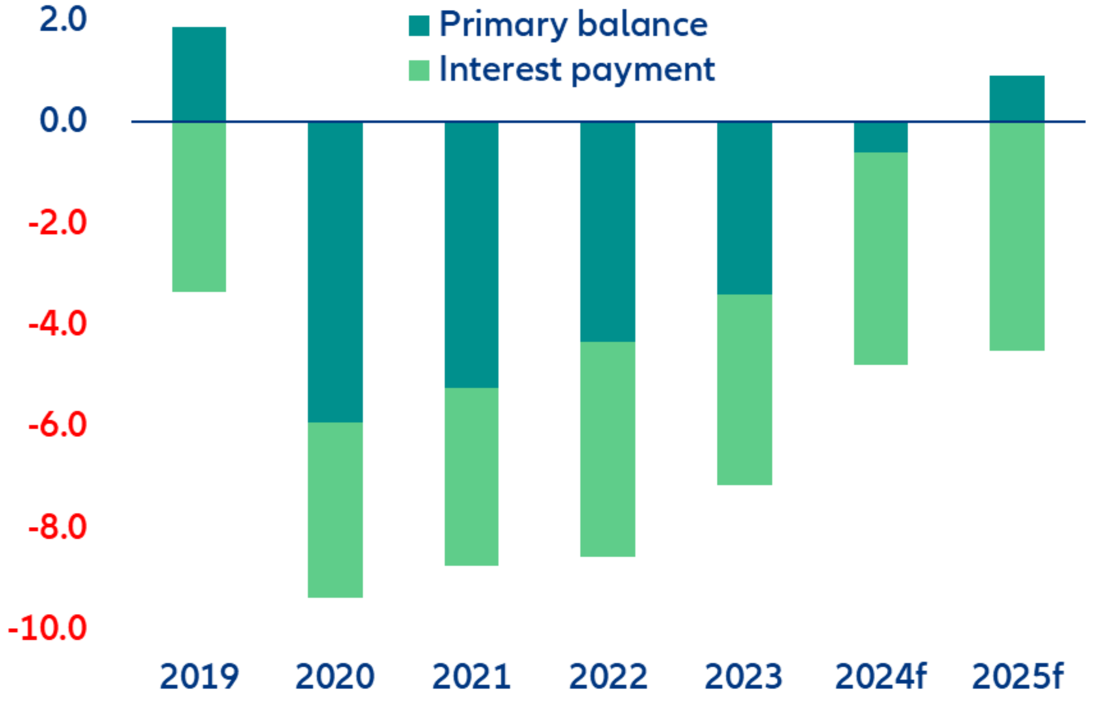
Superbonus tax credit clearly inflated the construction sector (and economic activity)...

GFGC – dwellings (2019=100)



Sources: LSEG Datastream, Allianz Research

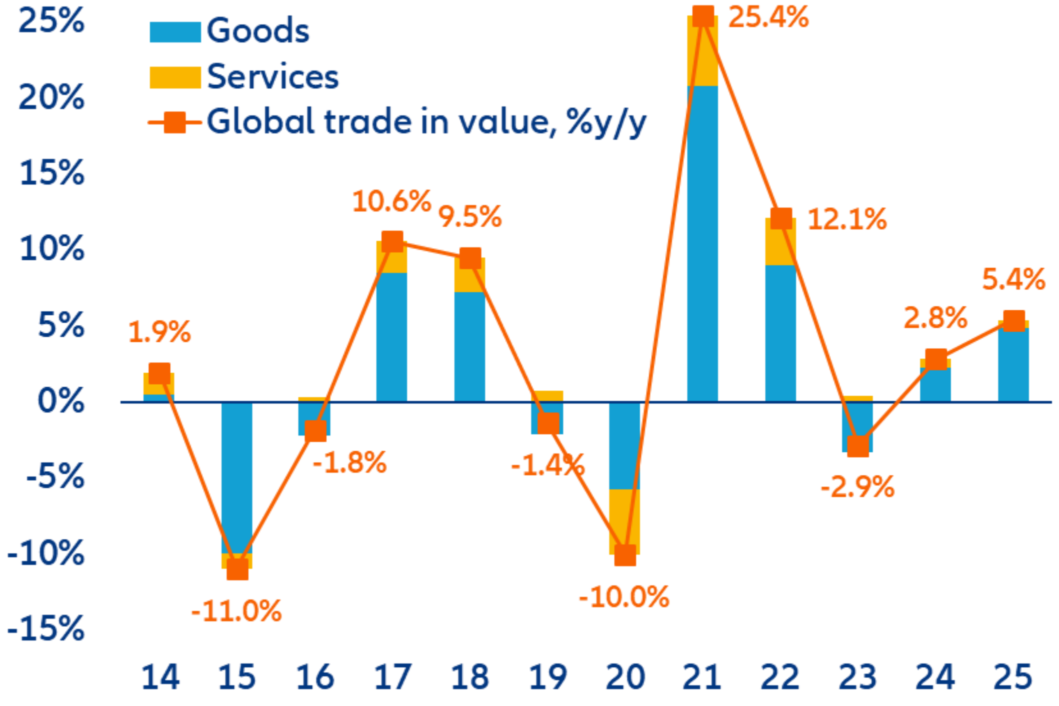
...while having disastrous impact on public finances – on top of prolonged support measures and higher financing cost (government balance, % of GDP)



Sources: LSEG Datastream, Allianz Research

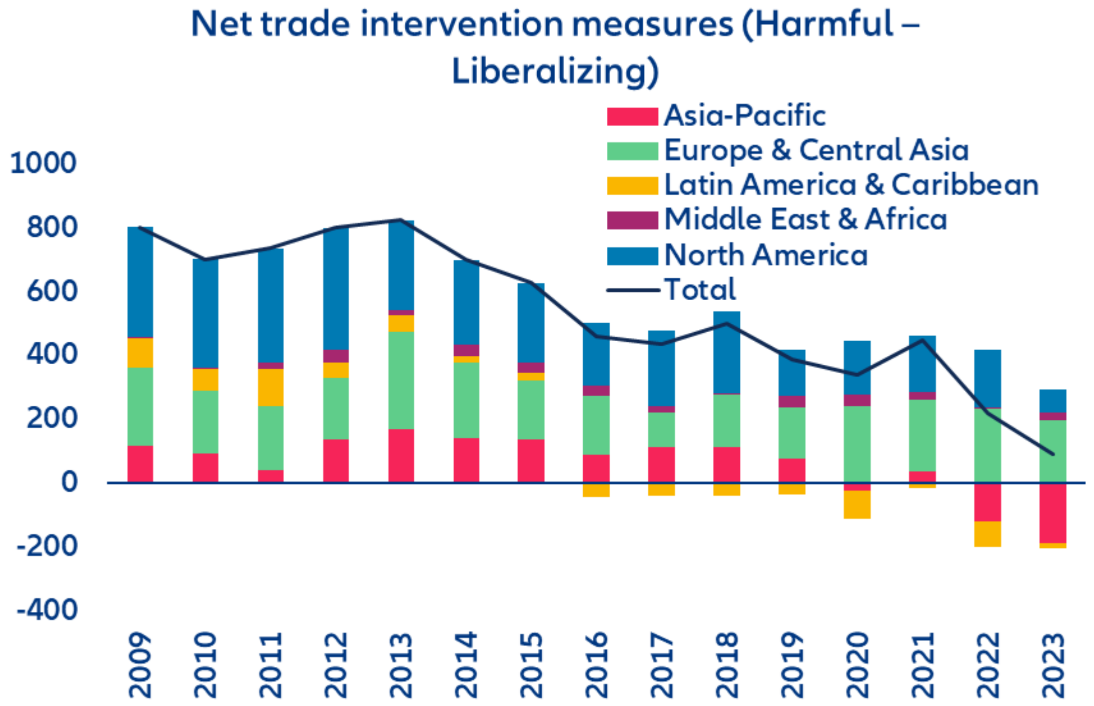
Trade rebound jeopardized by supply-chain disruptions (Red Sea, protectionism, decoupling)

Global trade growth should remain below average (in volume terms, +3.0% in 2024 and +3.1% in 2025)



Sources: LSEG Refinitiv, Allianz Research

The Asia-Pacific region leads efforts in trade-liberalization, contrary to Europe and North America



Sources: Global Trade Alert , Allianz Research

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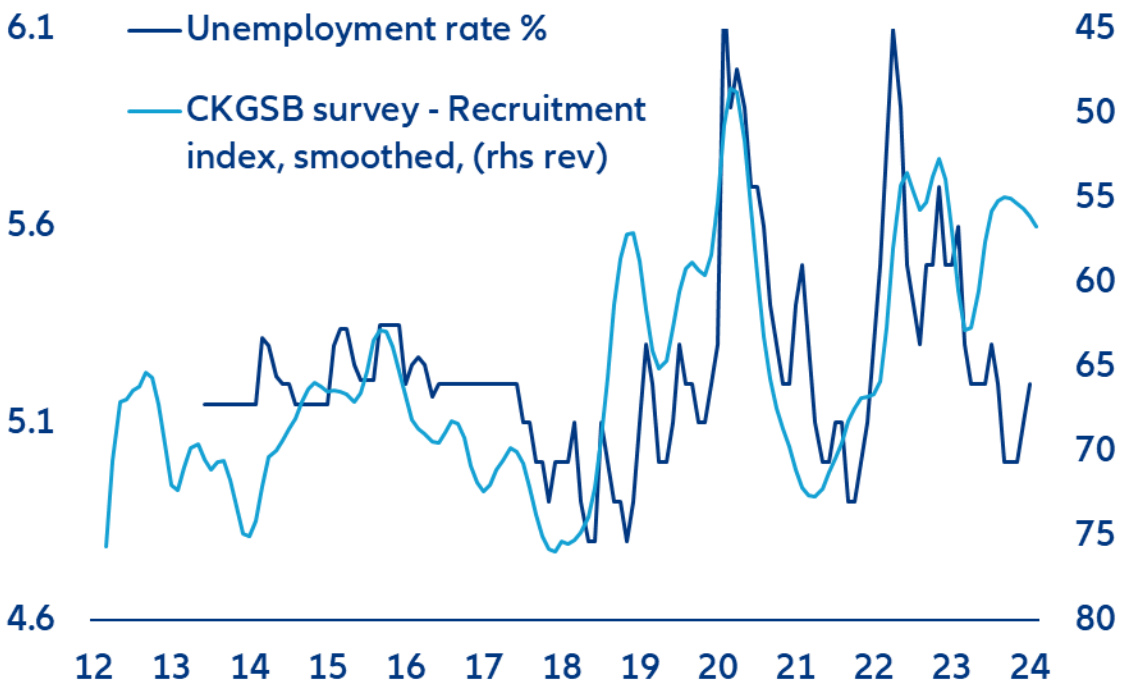
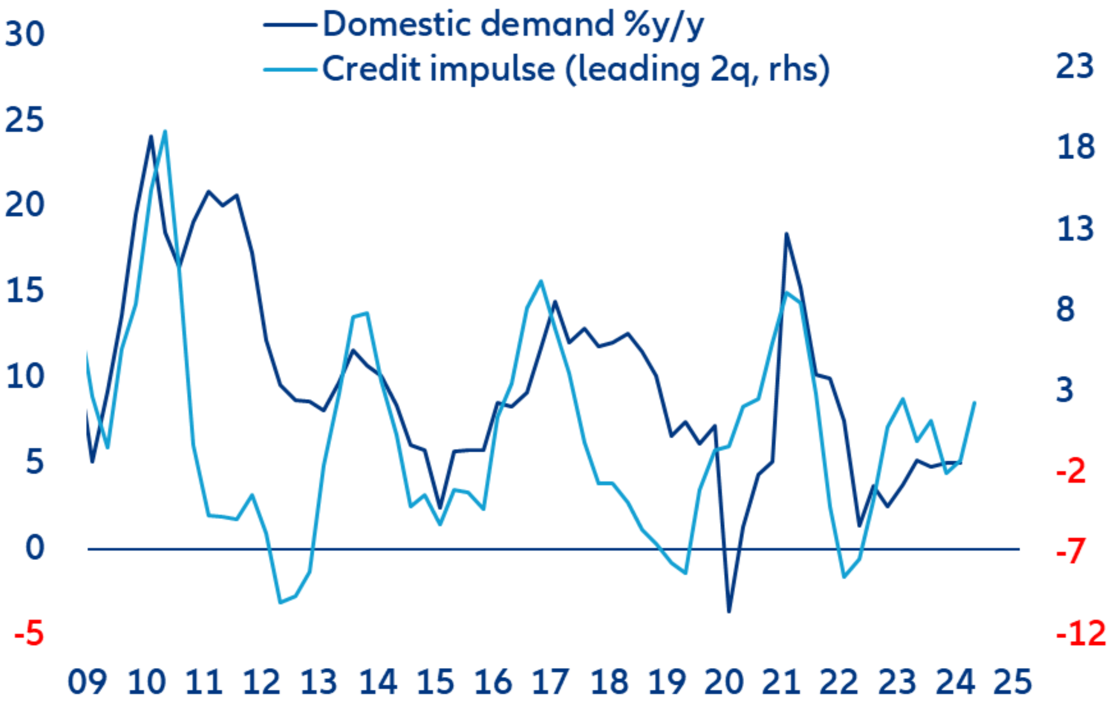
China: Policy support to cushion the slowdown

Confidence remains low and the labor market has not normalized yet



Sources: national sources, Allianz Research

Policy mix is easing (especially on the fiscal side), with more to come to make up for lower efficiency



Sources: national sources, Allianz Research

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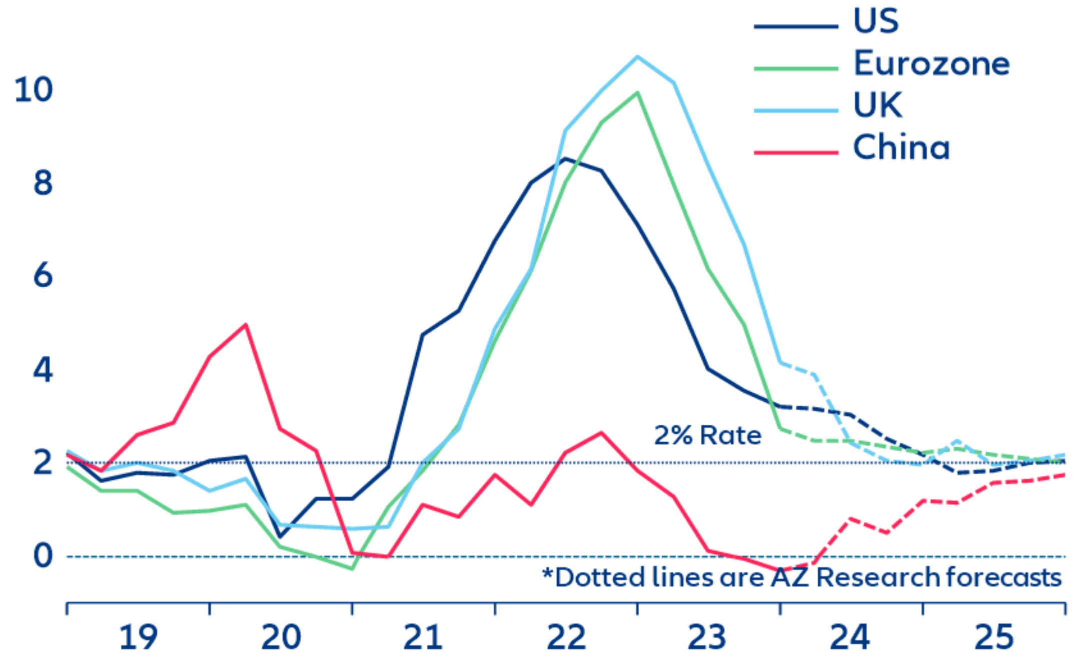
Disinflation: Difficult last mile

Inflation forecasts, %

Inflation (yearly %)	2021	2022	2023	2024f	2025f
Global	**4.3**	**8.4**	**6.8**	**5.2**	**3.6**
USA	**4.7**	**8.0**	**4.1**	**2.7**	**1.9**
Latin America	**13.9**	**14.9**	**24.3**	**25.9**	**11.8**
Brazil	8.3	9.3	4.6	4.2	3.5
UK	**2.6**	**9.1**	**7.3**	**2.6**	**2.2**
Eurozone	**2.6**	**8.4**	**5.4**	**2.4**	**2.2**
Germany	3.1	6.9	5.9	2.5	2.2
France	1.6	5.2	4.9	2.3	1.7
Italy	1.9	8.2	5.6	2.1	2.0
Spain	3.1	8.4	3.5	3.1	2.3
Central and Eastern Europe	**8.1**	**9.1**	**11.0**	**4.1**	**3.9**
Poland	5.1	14.4	11.4	3.7	4.0
Russia	6.7	13.8	5.9	6.4	4.5
Türkiye	19.6	72.3	53.9	51.7	24.2
Asia-Pacific	**1.7**	**3.7**	**2.5**	**2.0**	**2.3**
China	0.9	2.0	0.2	0.6	1.5
Japan	-0.2	2.5	3.3	2.4	1.6
India	5.1	6.7	5.7	4.6	4.6
Middle East	**15.8**	**10.3**	**7.7**	**5.6**	**5.1**
Saudi Arabia	3.1	2.5	2.3	2.5	2.0
Africa	**12.4**	**14.5**	**20.2**	**18.3**	**11.1**
South Africa	4.6	6.9	5.9	4.2	3.8

Approaching central bank targets end of 2024

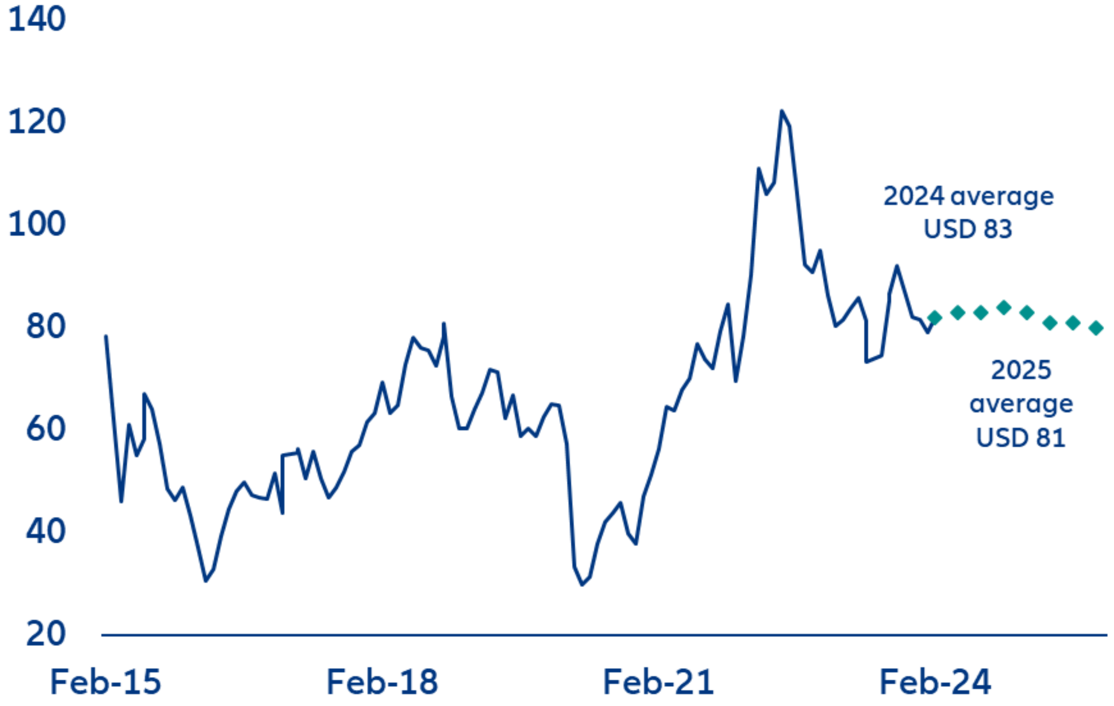
Quarterly inflation rates, y/y%



Sources: LSEG Datastream, Allianz Research

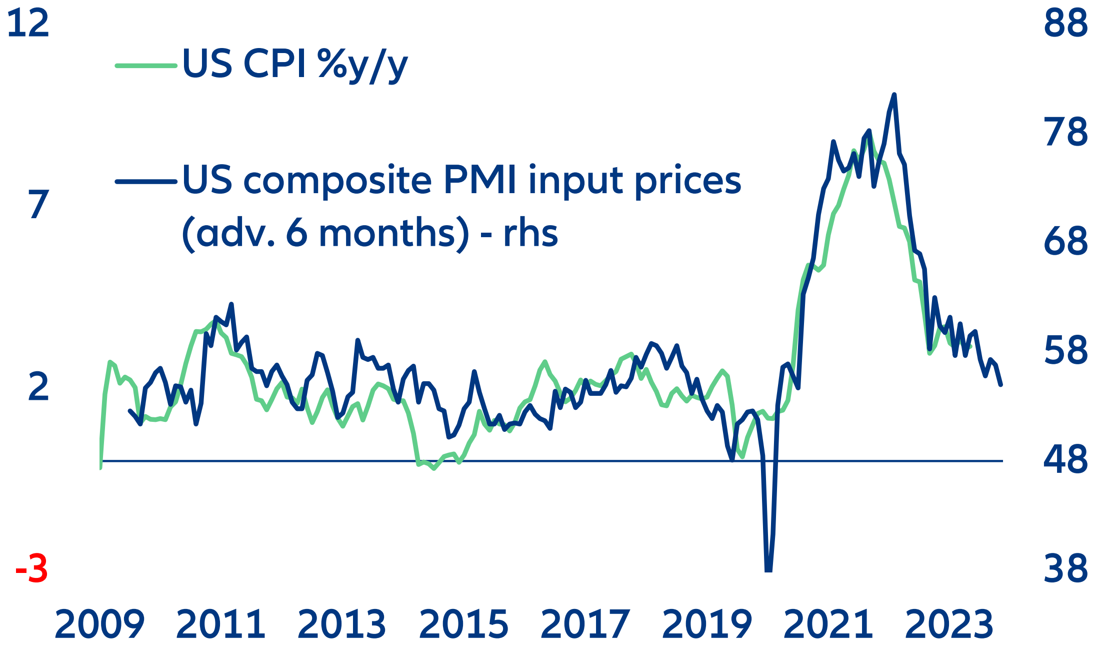
Stable oil prices and decelerating input prices

Oil prices to remain expensive despite lower demand



Sources: LSEG Datastream, Allianz Research

US corporates' input prices easing anew, suggesting CPI inflation will dip



Sources: LSEG Datastream, Allianz Research

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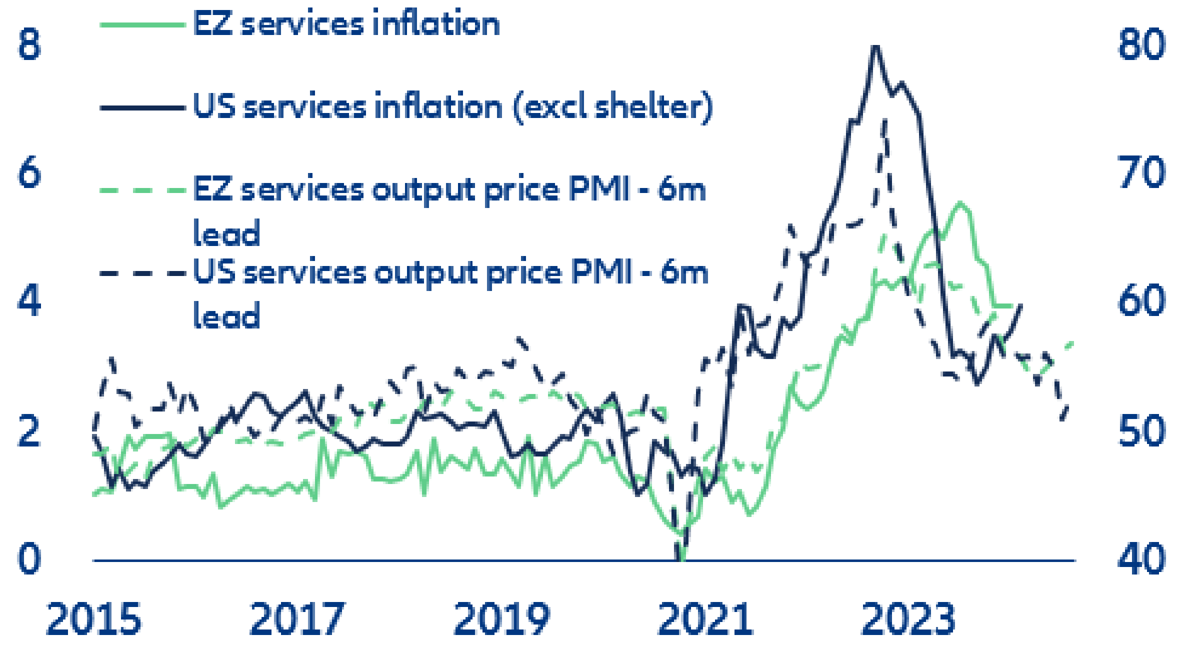
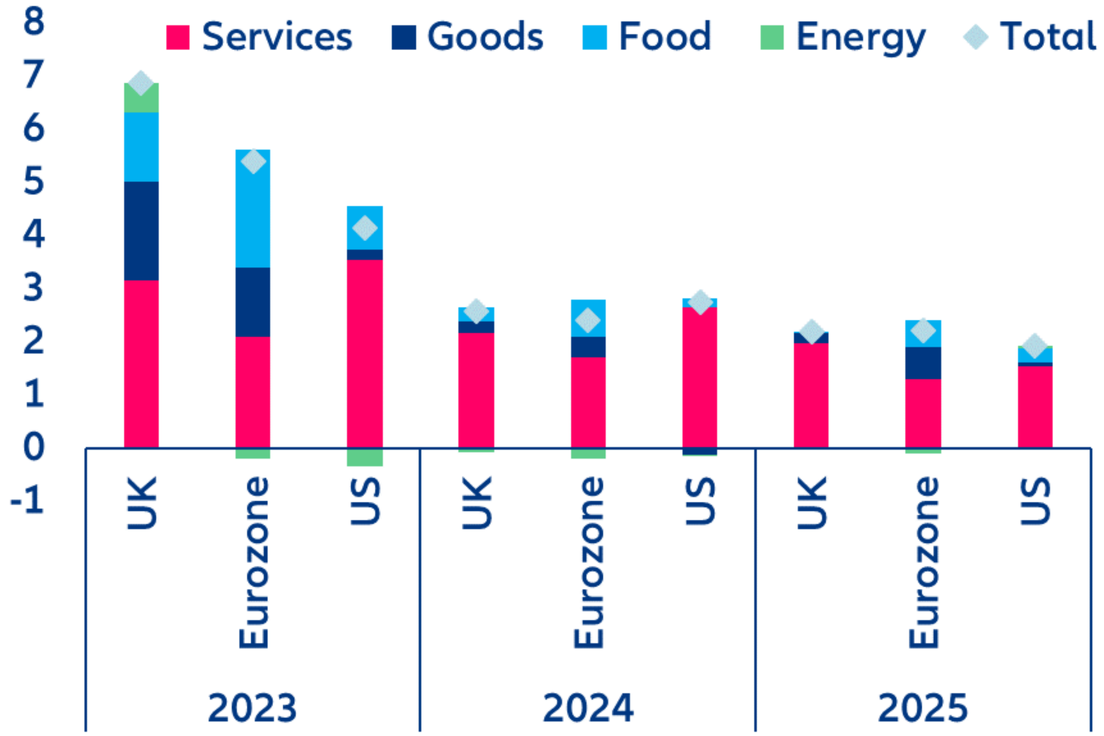
Sticky (but manageable) services inflation

Services output prices easing in both the US and the Eurozone



Sources: LSEG Datastream, Allianz Research

Services inflation will moderate but will remain a major contributor to headline inflation



Sources: Indeed, Allianz Research

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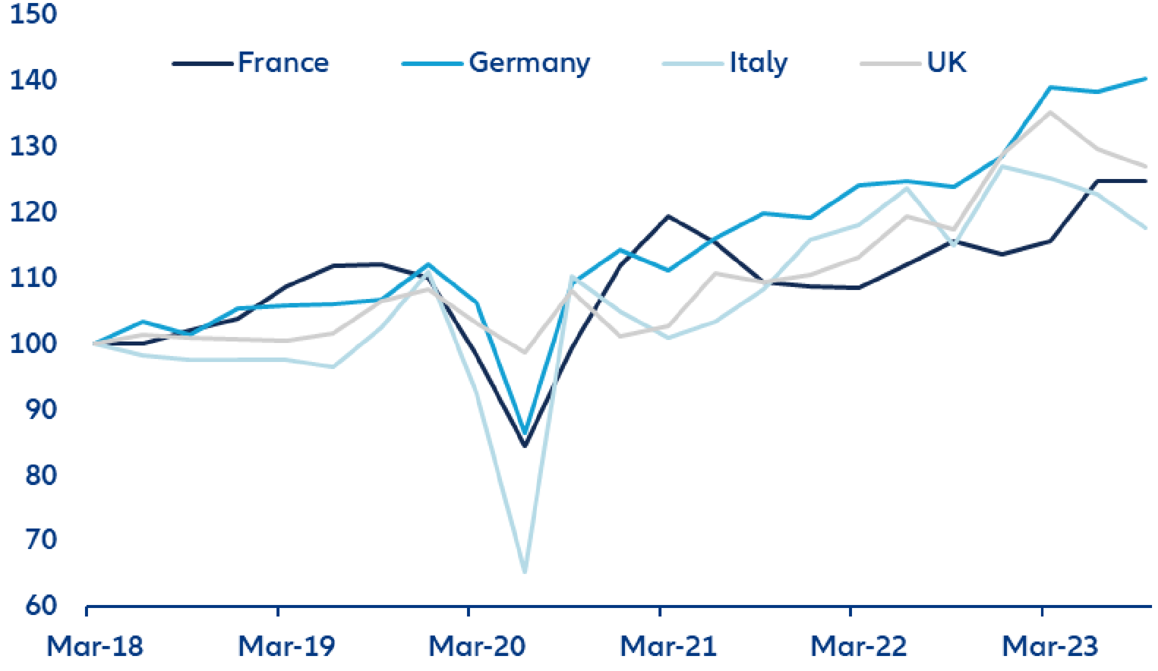
Sticky costs could squeeze margins further

Corporate profits have the capacity to absorb actual cost pressures

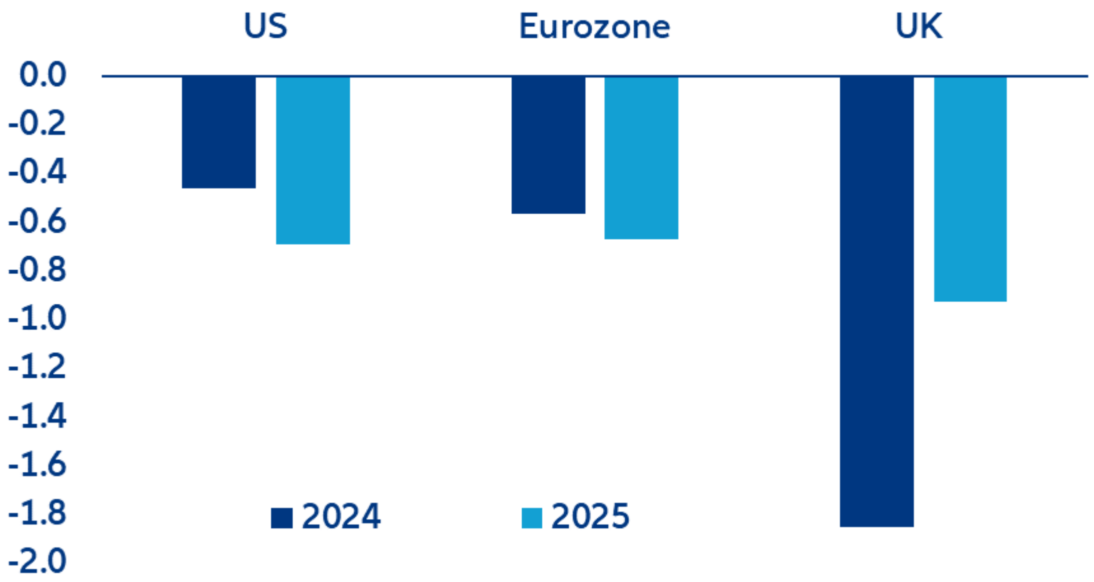
index 2018=100



Sources: LSEG Datastream, Oxford Economics, Allianz Research

Impact of higher interest rates on corporate margins from renewal of debt redemptions should interest rates remain at current levels

pp of gross operating surplus

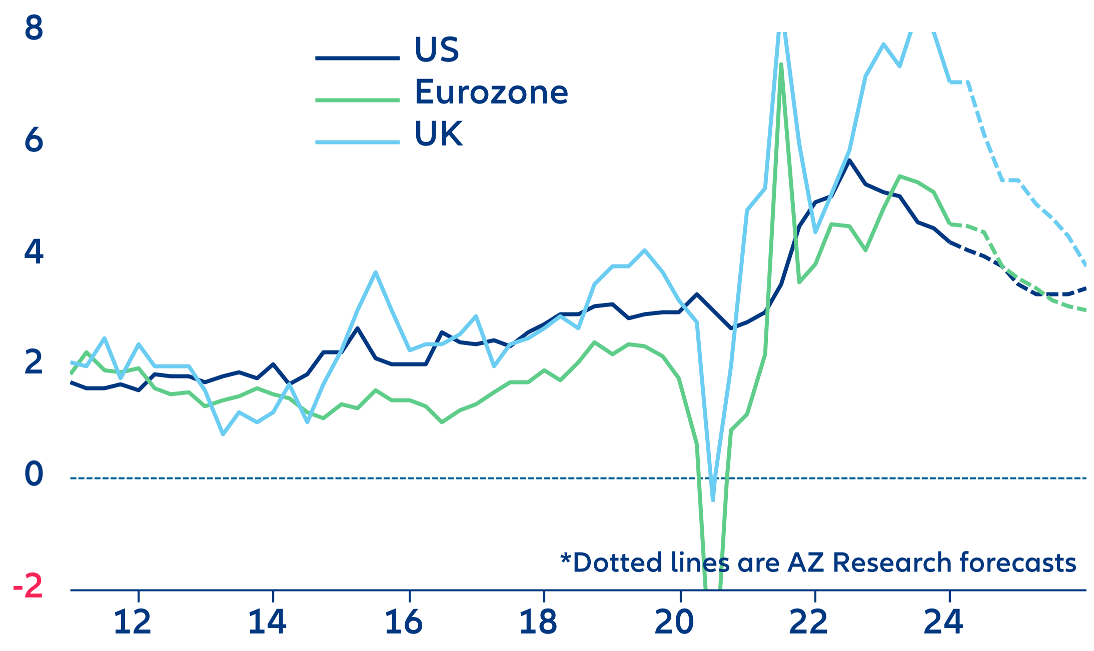


Sources: LSEG Datastream, Allianz Research

Labor markets: The great relaxation?

Nominal wage growth expected to normalize by 2025

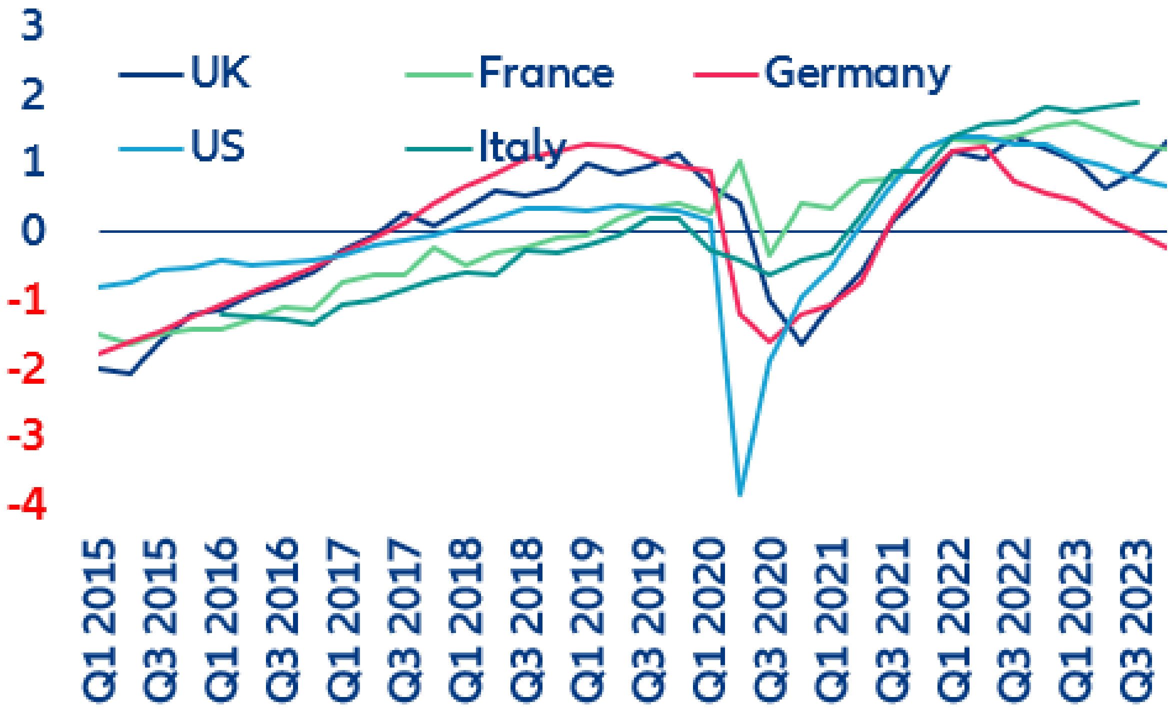
quarterly y/y in %



Sources: LSEG Datastream, Allianz Research

The job-worker gap (% labor force) is narrowing, except in the UK and Italy

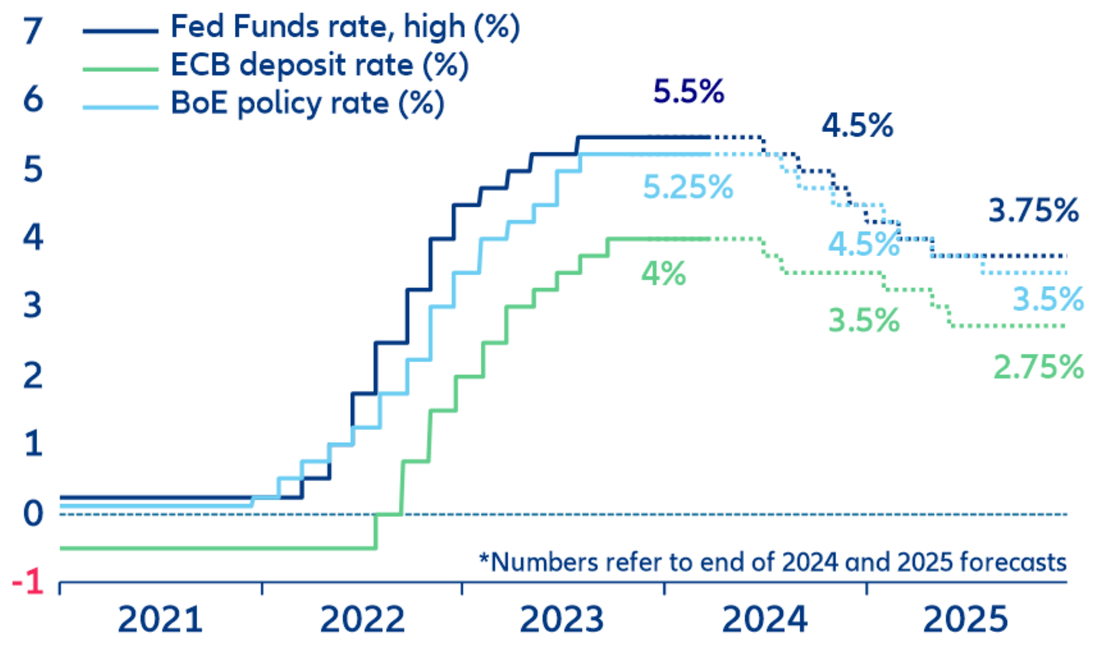
z-score



Sources: LSEG Datastream, Allianz Research
Note: Job worker gap defined as number of people employed plus vacancies minus labor force as a share of total labor force

Central banks' summer pivots: Fear of going first and terminal rates on the radar

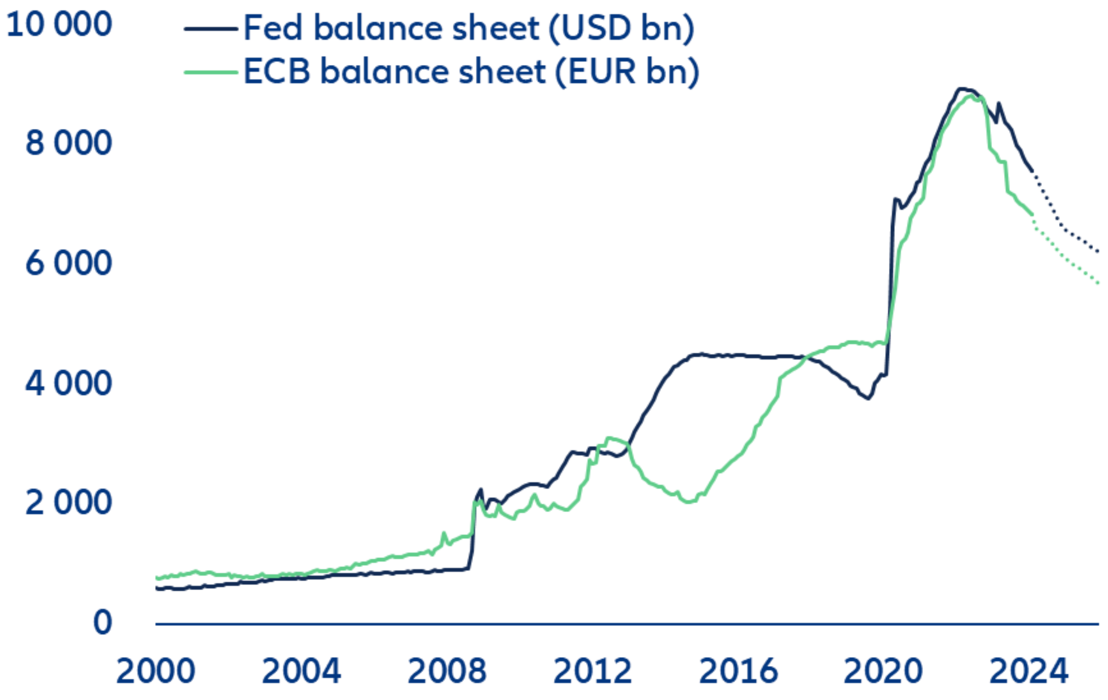
Central banks to cut rates in summer 2024 amid disinflation; ECB to cut first but intermittently



Sources: LSEG Datastream, Bloomberg, Allianz Research

Quantitative tightening will continue on auto-pilot

bn USD, EUR



Sources: LSEG Datastream, Allianz Research

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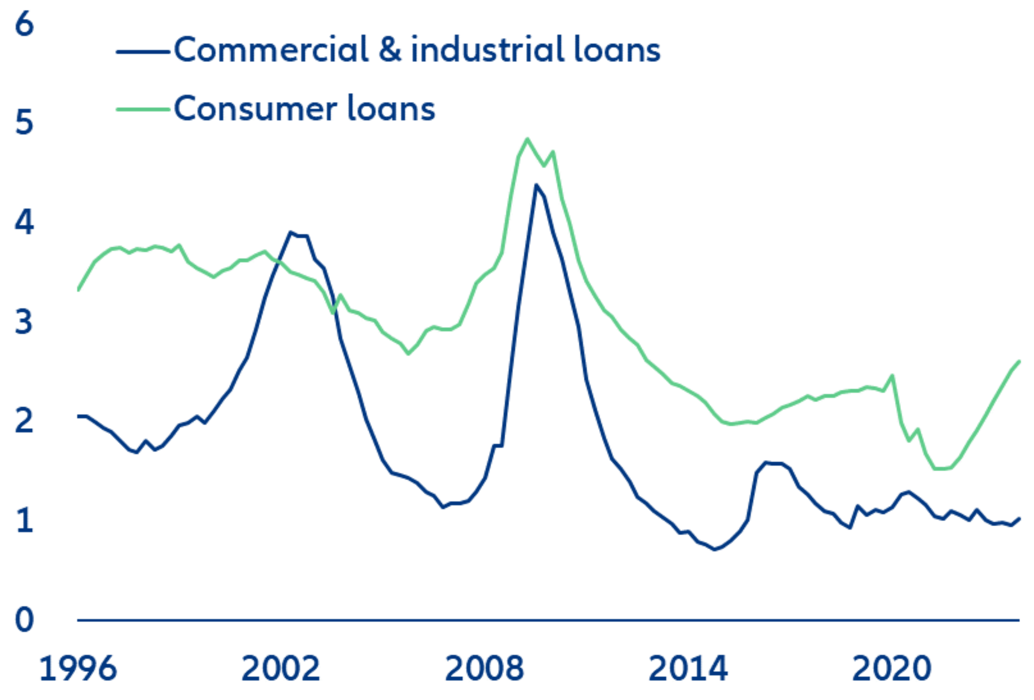
Tail tightening: pushing up consumer loan delinquencies in the US

Consumer loan delinquencies up

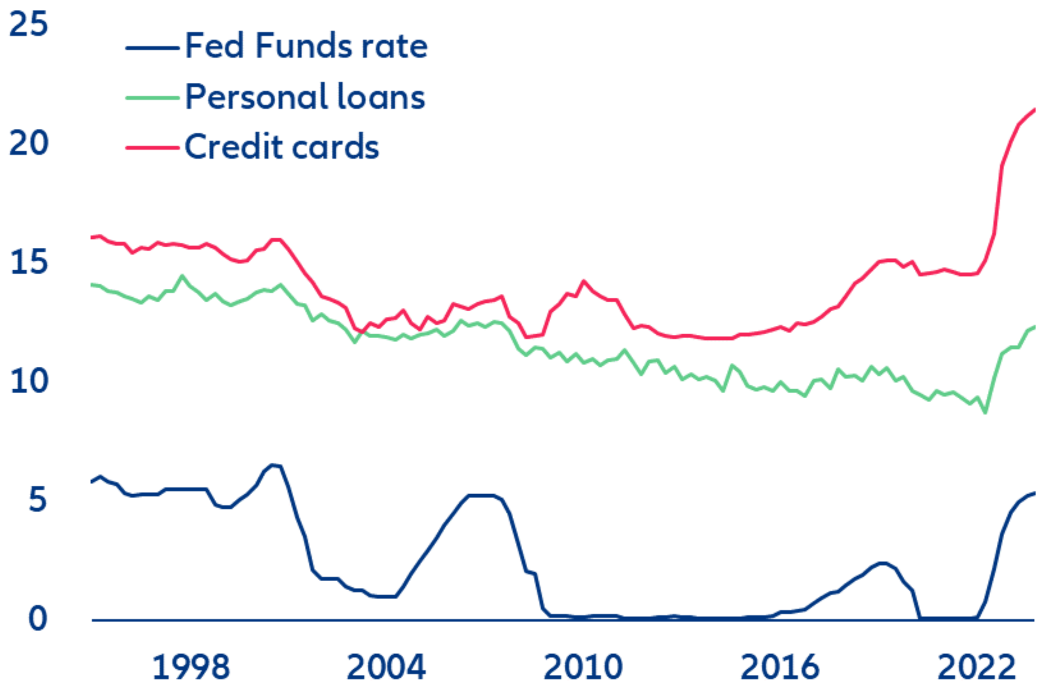
in %



Sources: LSEG Datastream, Allianz Research

Sharp increase in interest rates on consumer loans

in %

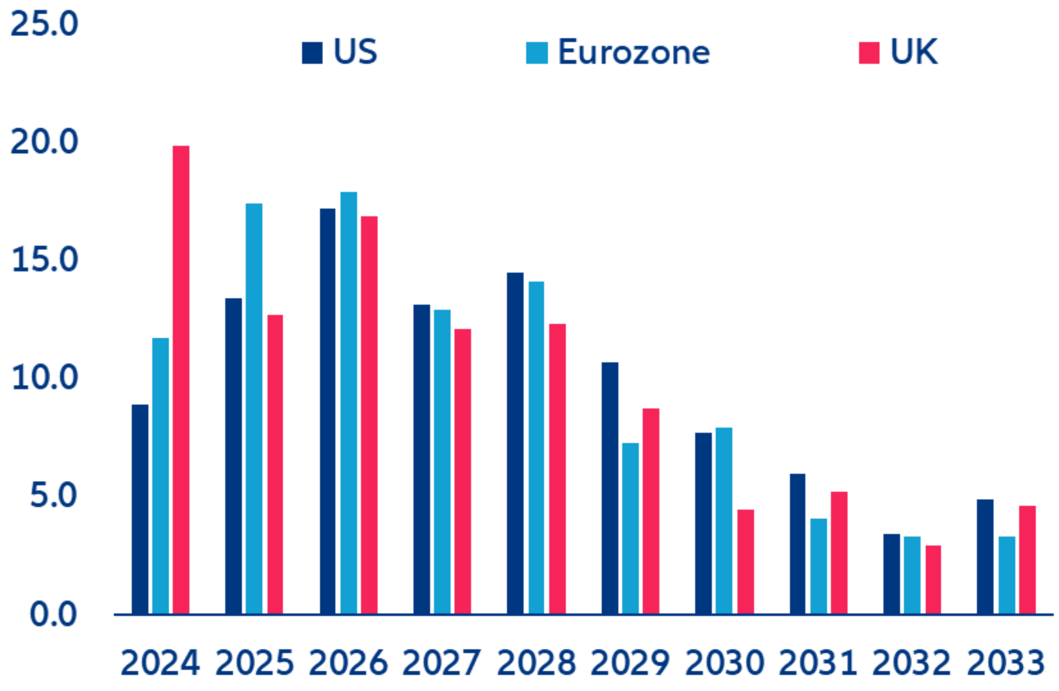


Sources: LSEG Datastream, Allianz Research

For corporates, the debt-redemption wall should be manageable if central banks don't procrastinate

40% (50%) of US (EZ) corporate debt due by 2026

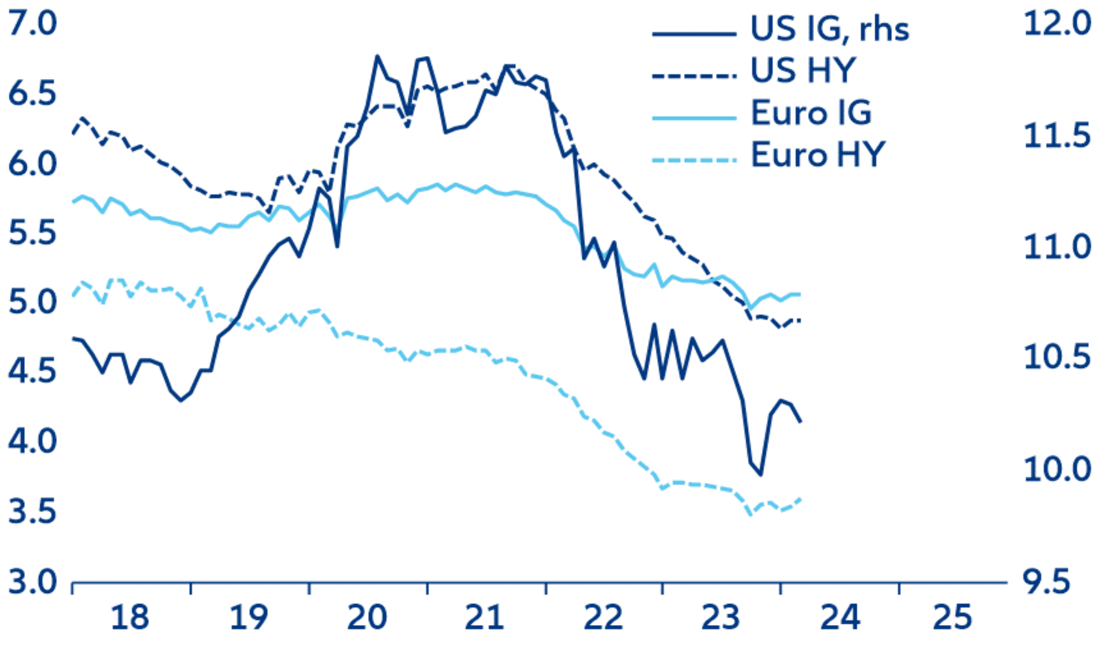
Debt repayments for IG, HY, SME & MidCaps in % of total



Sources: LSEG Datastream, Allianz Research

Sharp decline in average maturities because of less and shorter-date issuances

Average debt maturity in years

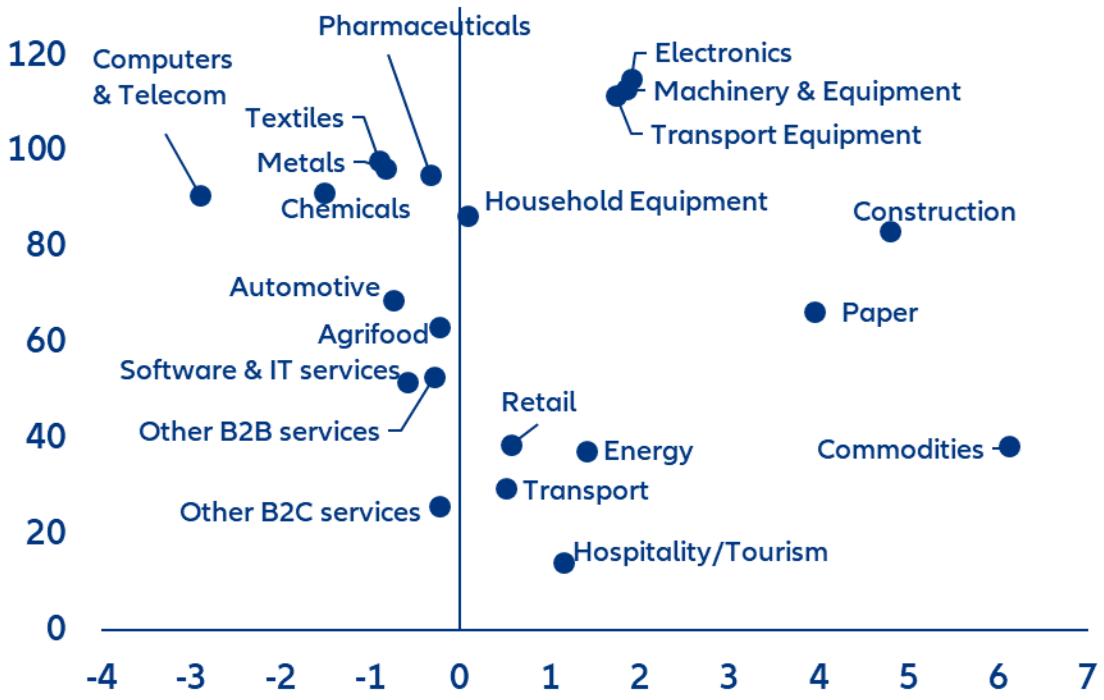


Sources: BofA, LSEG Datastream, Allianz Research.

Corporates’ financing constraints remain elevated

Working capital requirements by global sectors, Q4 2023

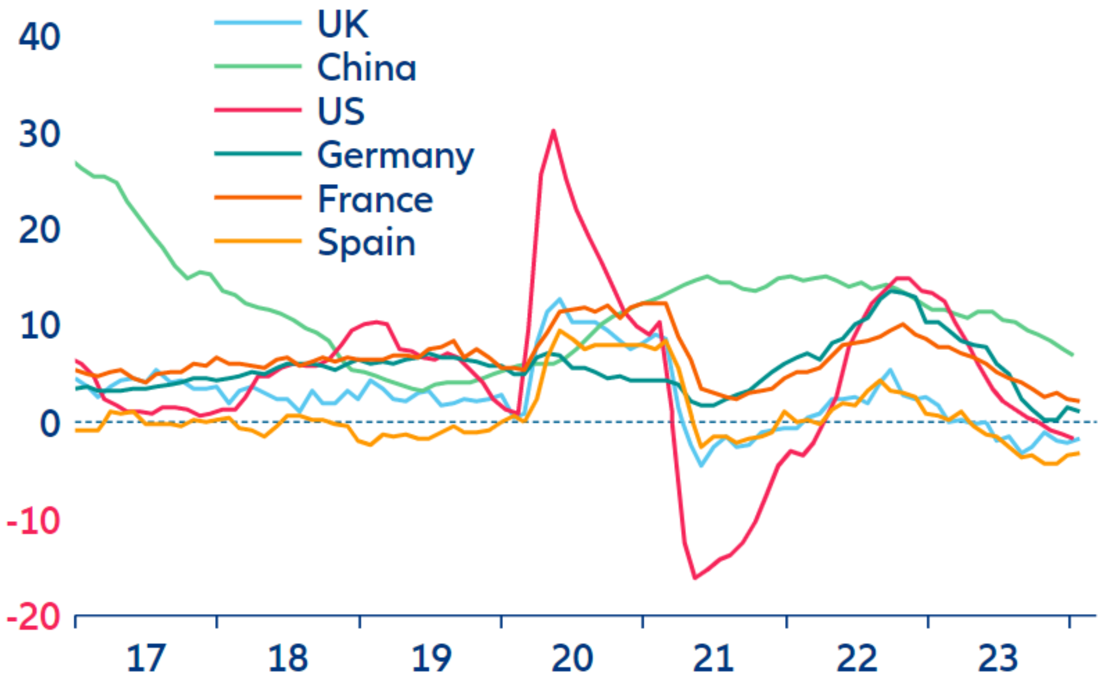
level (y-axis) and y/y change (x-axis), in number of days of turnover



Sources: LSEG Datastream, Allianz Research

Total credit to non-financial corporates,

y/y in %

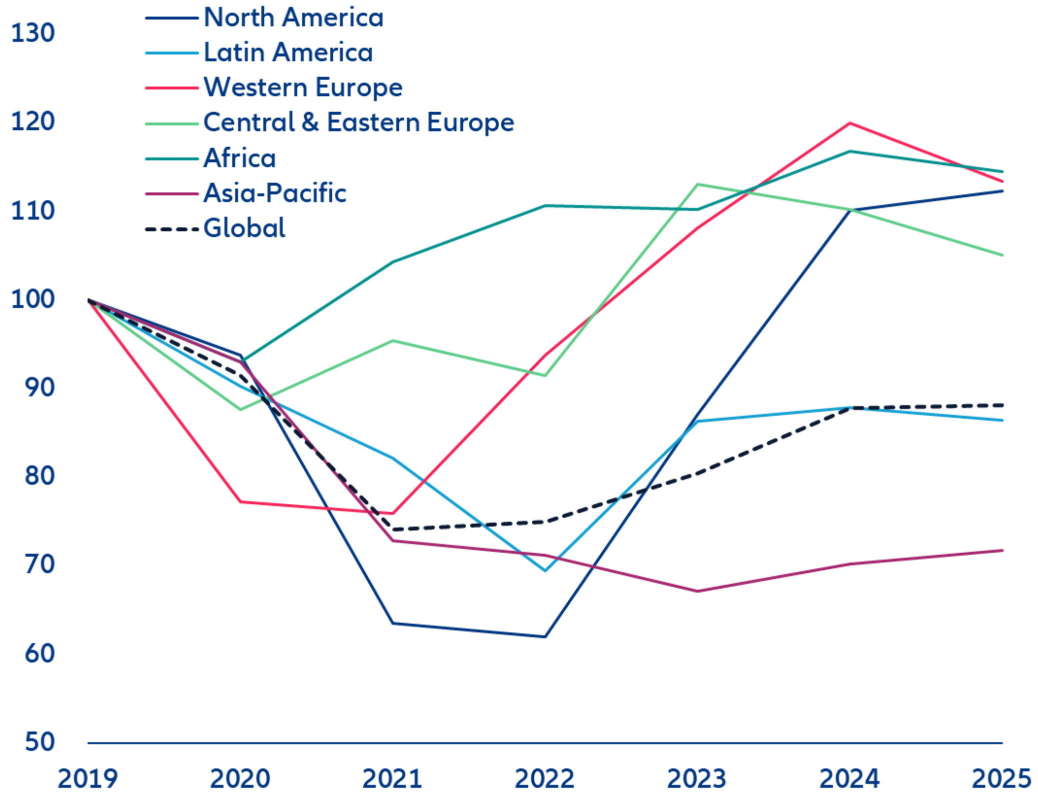


Sources: IMF, Allianz Research

Insolvencies to rise by 9% in 2024 before stabilizing at high levels in 2025

Global and regional insolvency indices

index (100 = 2019)



Sources: National sources, Allianz Research

2024 expectations, level and trend

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

2024 expected level compared to 2016-19

Sources: National sources, Allianz Research

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Sector radar: Winners & losers from transition(s)

	Overall Outlook	Demographics & aging Population	Geopolitics & global value chain shifts	Climate change & green policies	Race to raw materials	Energy transition	AI, automation & robotics
Automotive	▶	🟢	🔴🔴🔴	🟢🟢	🔴🔴🔴	🔴🔴	🟢🟢
Construction	▶	🔴🔴		🟢/🔴	🔴	🟢/🔴	🟢
Transportation	▼	🟢	🔴🔴	🔴🔴🔴	🔴🔴	🔴🔴🔴	🟢
Chemicals	▼	🟢		🔴	🔴	🔴🔴	
Pharmaceuticals	▲	🟢🟢🟢	🔴			🔴	
Agrifood	▶	🟢🟢	🔴🔴	🔴🔴		🔴🔴	
Textiles	▶	🟢	🔴🔴	🔴🔴		🔴	
Paper	▼			🔴		🔴🔴🔴	
Electronics	▶	🟢	🔴🔴🔴	🔴	🔴🔴	🔴	🟢🟢
Metals	▲		🔴	🟢/🔴	🟢	🟢/🔴	
Retail	▶	🔴🔴	🔴🔴	🔴			🟢
Machinery & Equipment	▶		🔴🔴	🟢/🔴	🔴🔴	🔴🔴	🟢
Transport equipment	▶	🟢	🔴🔴🔴	🟢🟢	🔴🔴🔴	🔴🔴	
Software & IT Services	▲	🔴	🔴	🔴	🔴	🔴	🟢🟢🟢
Household equipment	▶	🟢🟢	🔴🔴	🔴	🔴	🔴	
Computers & Telecom	▲		🔴🔴🔴	🔴	🔴🔴🔴	🔴	🟢🟢🟢
Oil & Gas	▼		🔴	🔴🔴🔴		🔴🔴🔴	
Power	▲	🟢	🔴	🟢🟢🟢	🔴🔴🔴	🟢🟢🟢	
Financial services	▶	🔴🔴	🔴				🟢🟢
Hospitality	▶	🔴	🔴🔴	🔴🔴			🟢

Source: Allianz Research; NB: when blank = negligible impact

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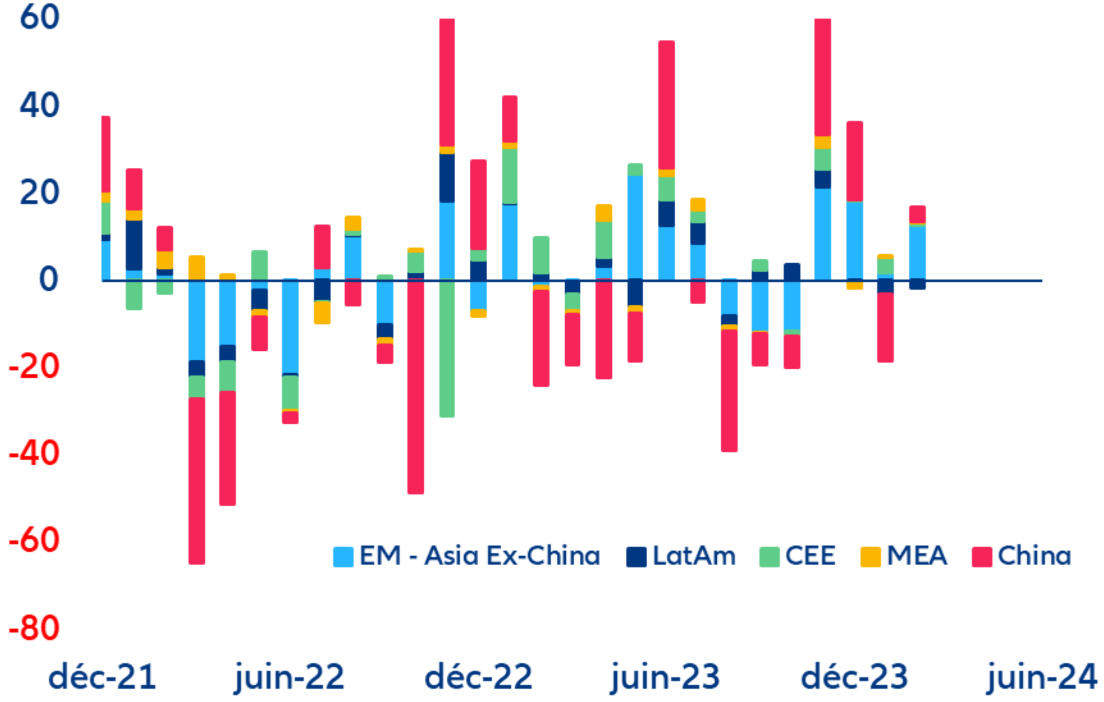
Emerging markets to cut within the next 12M, caution warranted to not disturb portfolio flows

Asia ex-China as a key spot of financial flows, China made a comeback in February

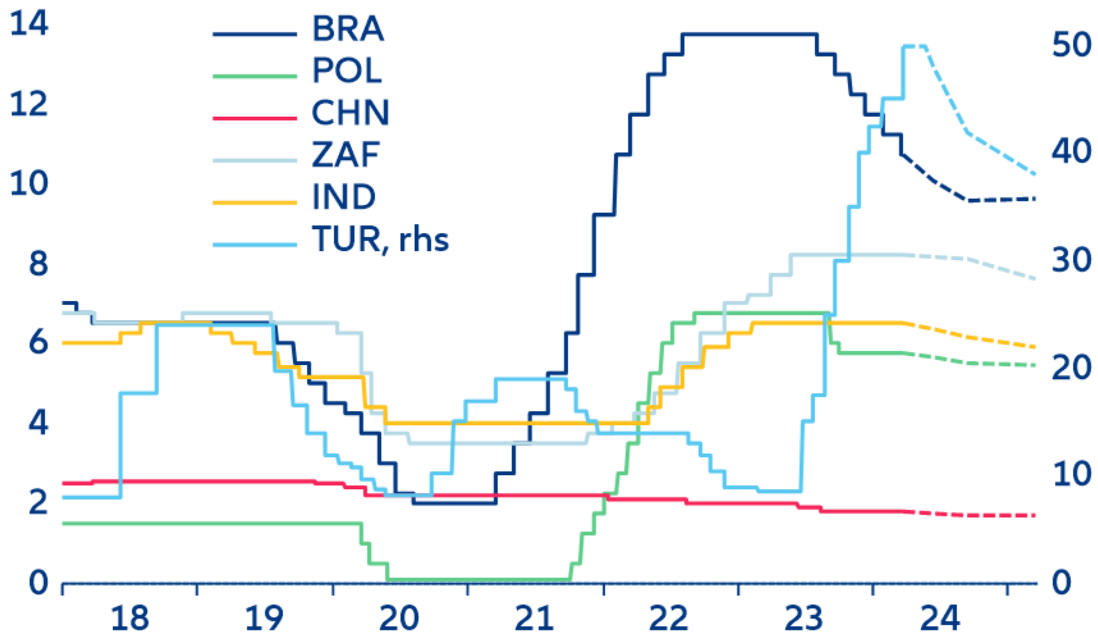
Monthly foreign portfolio flows by region, USD bn



Sources: IIF, LSEG Datastream, Allianz Research. Latest data point as of end-Feb 24'.

Prepare for "cautious cutting" mode in almost all major EMs

Dashed lines represent market-implied rates

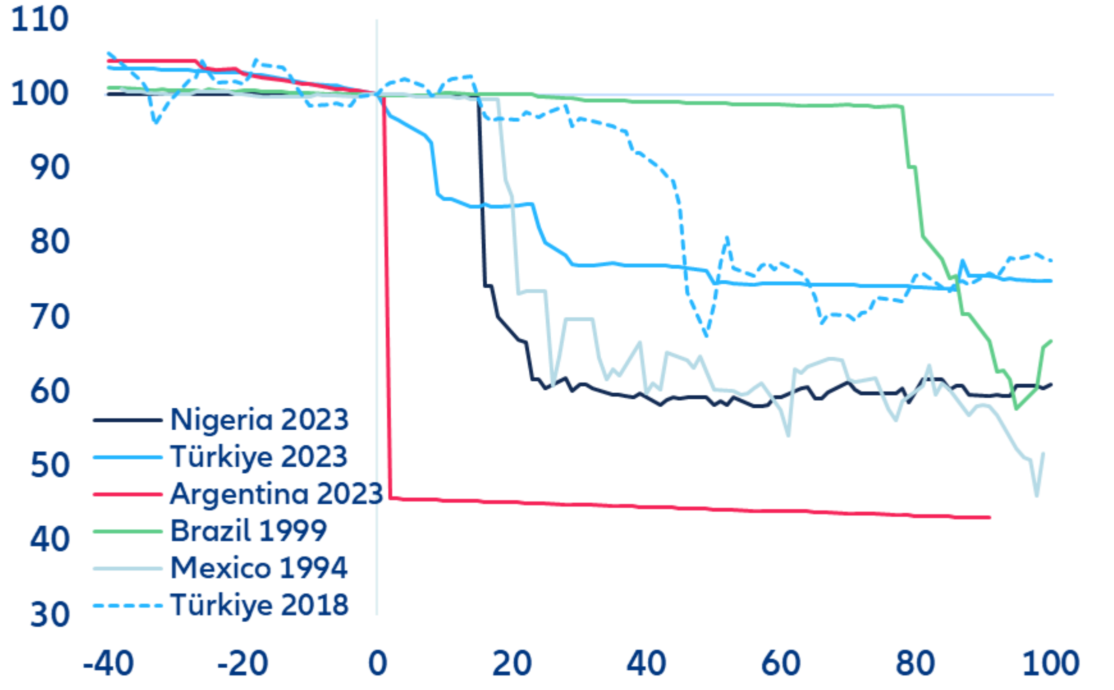


Sources: Bloomberg, LSEG Datastream, Allianz Research. As of 21/03/2024. Market implied rates for 3, 6 and 12 months forward. For China the 7D reverse repo rate has been used instead of the 1Y Loan prime rate.

Currency devaluation across EMs: is a political peg materializing?

Elections are not a synonym of devaluation but present an opportunity to deliver an economic shock

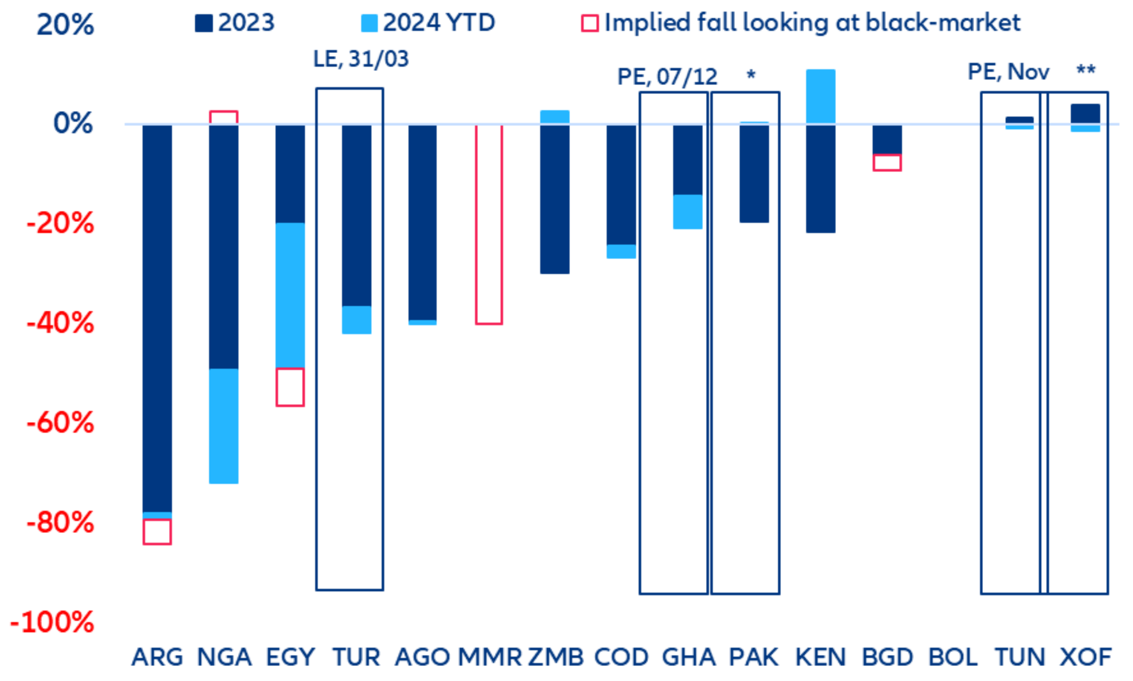
Exchange rates movements post-elections, selected cases



Sources: LSEG Datastream, Allianz Research. For changes of president 0 marks "proclamation" date, for presidents that continue 0 marks the date of the last voting round. All events shown are national elections. We pretend to illustrate the issue and not talk about a pattern: the sample is made by selecting some cases in which a devaluation followed elections, and on purpose it omits i) devaluations that didn't follow elections, ii) elections that were not followed by a devaluation.

Currencies at risk of devaluation vs. 2024 elections calendar

Performance vs. USD



Sources: LSEG Datastream, Allianz Research. For the full analysis used to identify the currencies at risk: What to watch: EM Currencies at risk and other stories. LE = Local elections; GE = General/Presidential elections; PE = Parliamentary/Legislative elections. * Pakistan celebrated already general elections in February but still within the 100 days margin; some minor elections still to be celebrated in the country. ** Senegal held them on 24th March (CFA pegged to EUR not USD).

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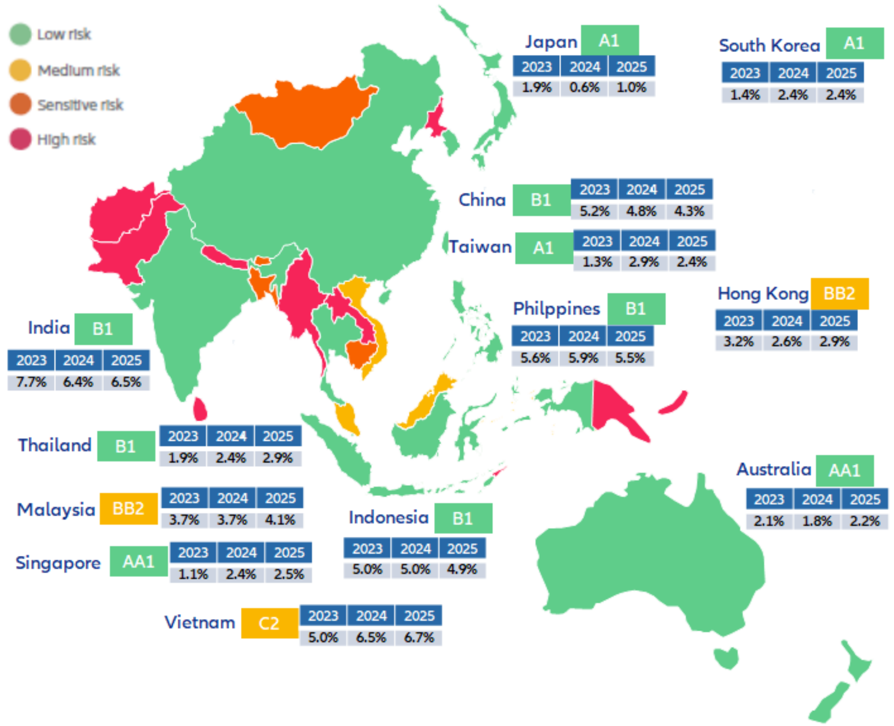
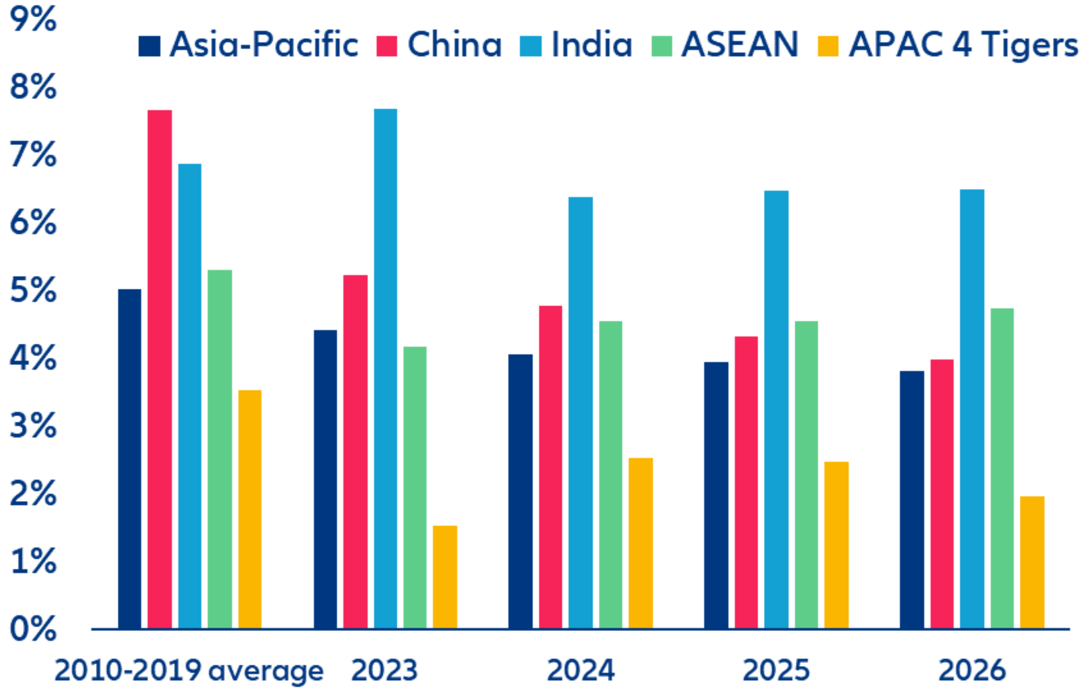
APAC: shifting growth drivers within the region, in the context of global supply-chain rewiring

GDP growth forecasts and short-term country risk as of Q1 2024



Sources: Allianz Research

Real GDP growth %y/y: India and Southeast Asia to be outperformers in coming years



Sources: Refinitiv Datastream, Allianz Research

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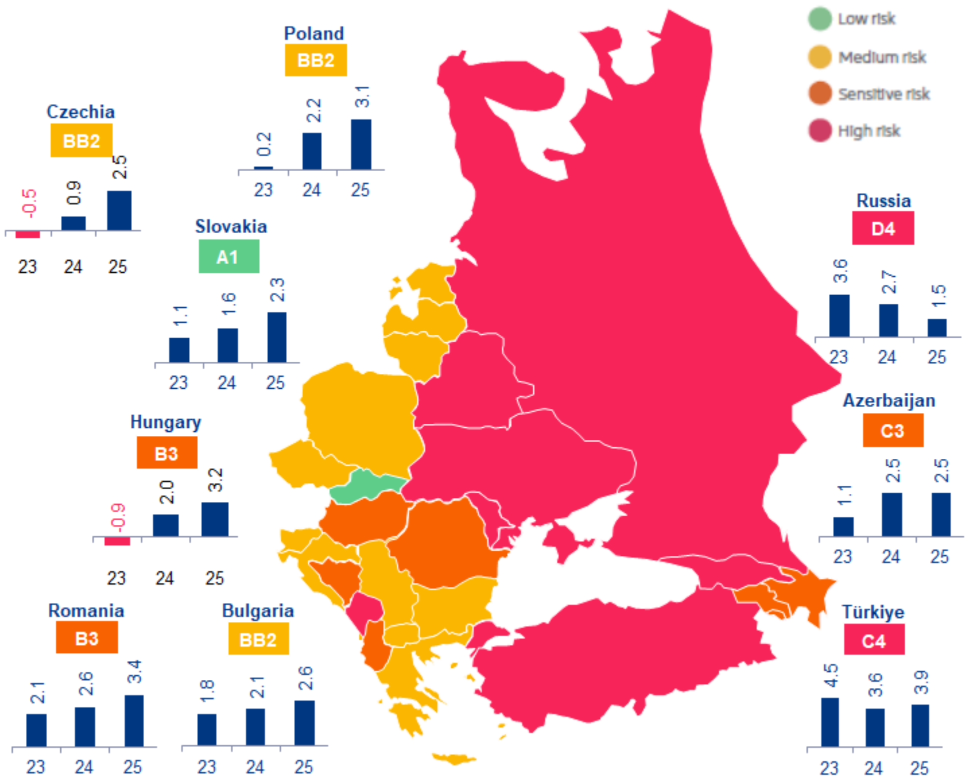
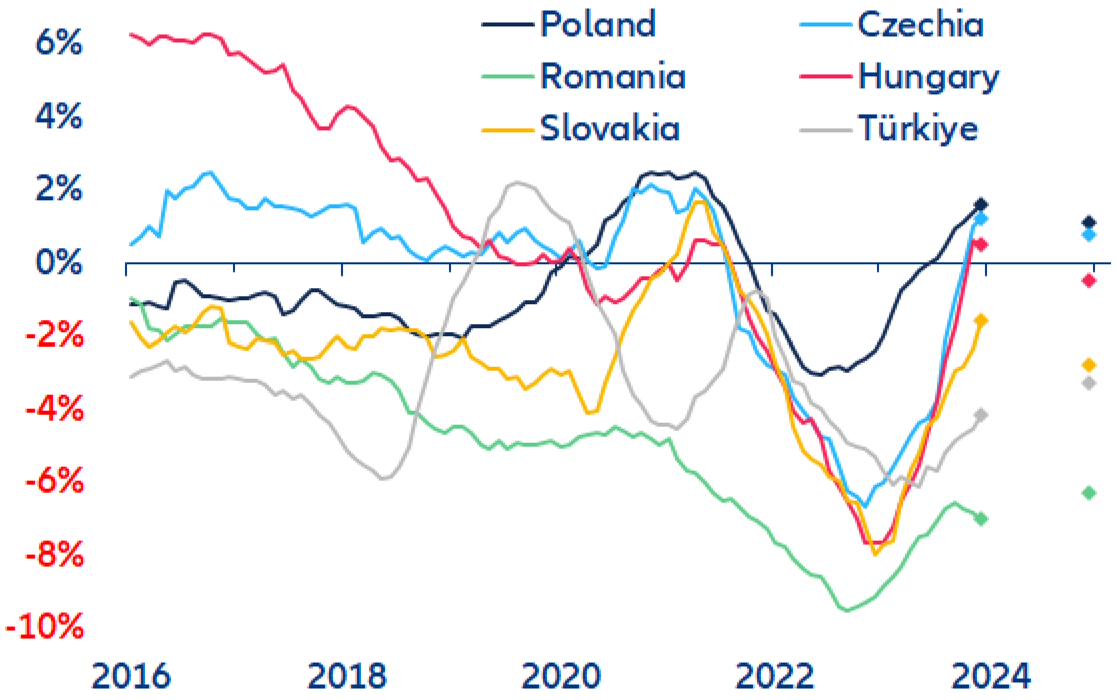
EM Europe: Gradual recovery supported by rebalancing, lower inflation and monetary easing

GDP growth and short-term country risk as of Q1 2024



Sources: LSEG Datastream, Allianz Research

Rapid unwinding of current account imbalances (% of GDP, 12-m MA), slower in Romania and Türkiye



Sources: LSEG Datastream, Allianz Research

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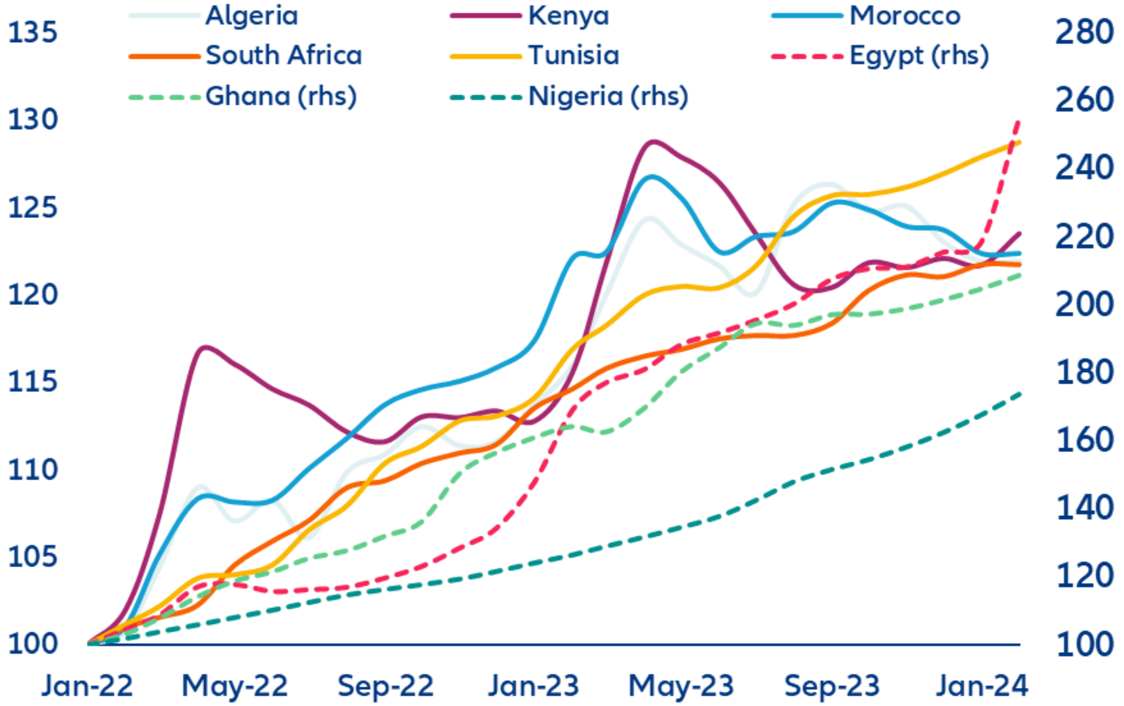
Africa & Middle East: Social contract put to the test due to cost of living or growth ambitions

Food prices still on the way up in Africa due to currency devaluation and trade disruption…

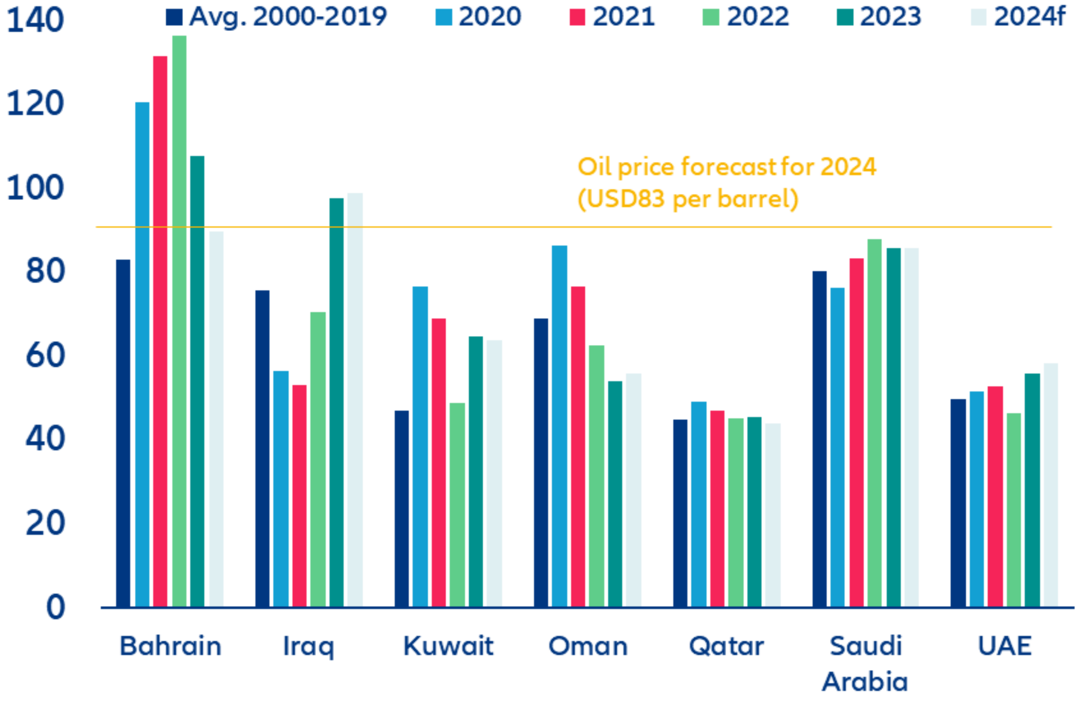
(index)



Sources LSEG Datastream, Allianz Research

…while an oil price still below expectations keeps some GCC countries into fiscal deficit

(USD/barrel)



Sources: IMF, Allianz Research

Allianz

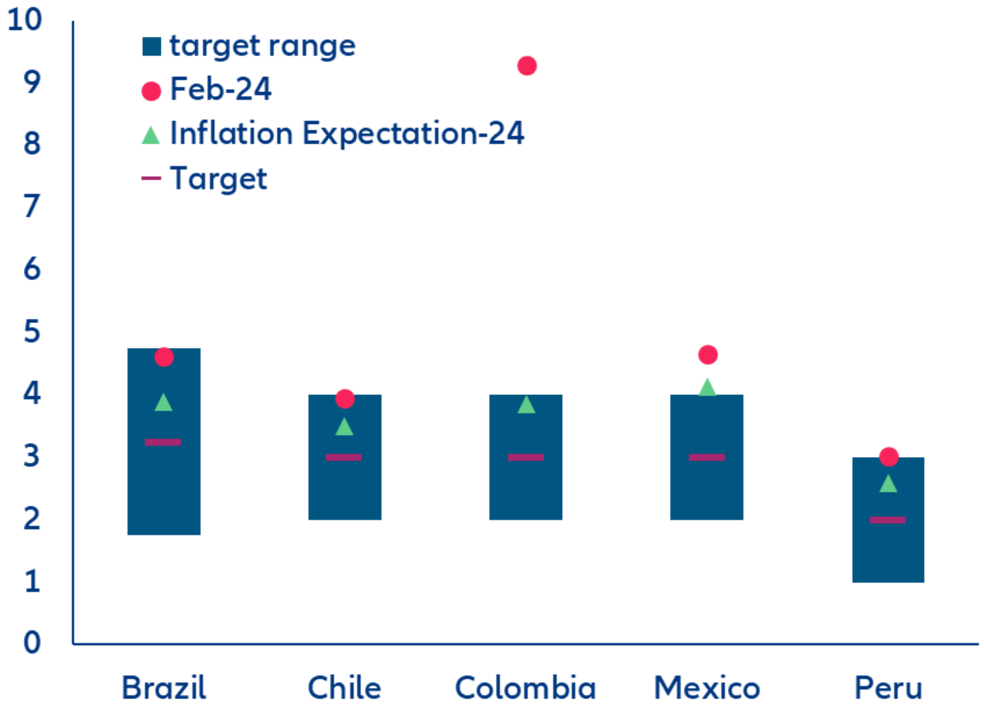
Latin America: Growth convergence among major economies and further normalization ahead

Around 2% growth in LatAm-5 in 2024

Sources: LSEG Datastream, Allianz Research. * LatAm-5: Brazil, Mexico, Colombia, Chile and Peru

Inflation will continue to moderate, but at a slow and rather uneven pace

CPI, y/y in %



Sources: Refinitiv Datastream, Allianz Research

Capital Markets Outlook

2024-2025

Allianz

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	4.00	%	2.00	4.00	3.50	2.75
10y yield (Bunds)	2.40	%	2.56	2.03	2.20	2.10
10y EUR swap rate	2.69	%	3.14	2.48	2.60	2.50
20y EUR swap rate	2.64	%	2.87	2.51	2.70	2.70
Italy 10y sovereign spread	127	bps	213	168	130	120
France 10y sovereign spread	44	bps	55	53	40	30
Spain 10y sovereign spread	80	bps	109	97	80	70
Corporate Debt						
Investment grade credit spreads	112	bps	166	135	120	120
High-yield credit spreads	344	bps	494	395	360	350
Equity						
Eurostoxx (total return p.a.)	9 ytd	%	-12	19	7	10

US	Last	Unit	2022	2023	2024f	2025f
Government Debt						
Fed Funds rate (high)	5.50	%	4.50	5.50	4.50	3.75
10y yield (Treasuries)	4.28	%	3.83	3.87	3.80	3.60
Corporate Debt						
Investment grade credit spreads	91	bps	138	104	100	100
High-yield credit spreads	305	bps	479	334	350	330
Equity						
S&P 500 (total return p.a.)	10 ytd	%	-18	26	11	8

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	4.50	3.50
10y yield sovereign (Gilt)	4.00	%	3.67	3.54	3.60	3.40
Corporate Debt						
Investment grade credit spreads	110	bps	192	134	120	115
High-yield credit spreads	427	bps	663	515	440	410
Equity						
FTSE 100 (total return p.a.)	3 ytd	%	5	8	5	5

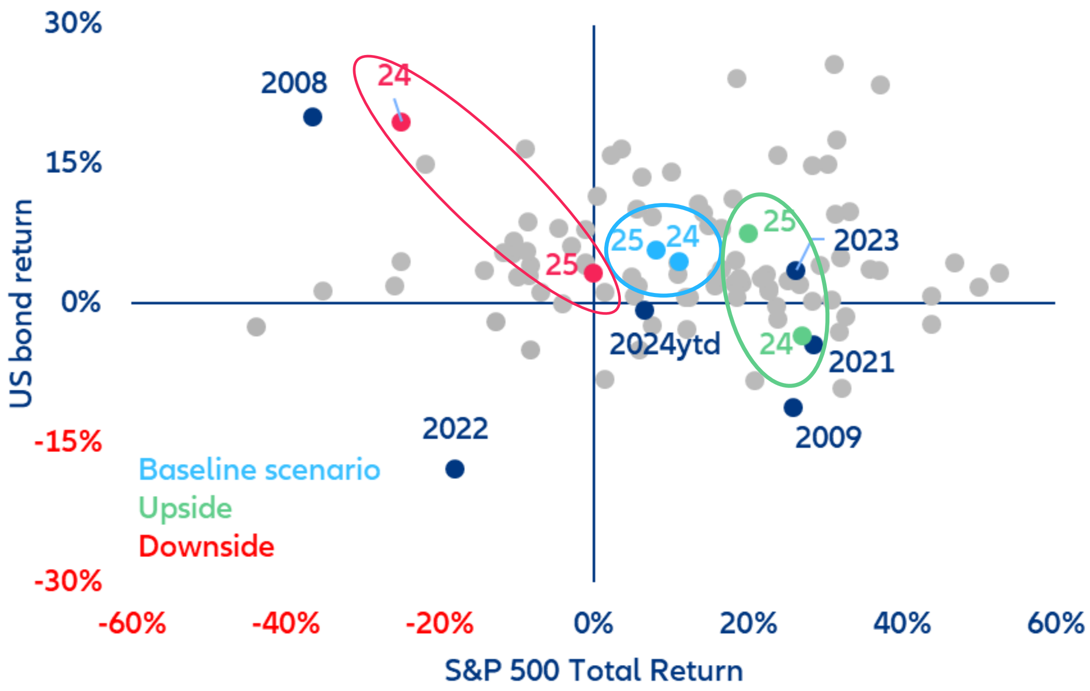
Emerging Markets	Last	Unit	2022	2023	2024f	2025f
Government Debt						
Hard currency spread (vs USD)	204	bps	273	215	225	220
Local currency yield	6.28	%	6.86	6.19	6.00	5.60
Equity						
MSCI EM (total return p.a. in USD)	3 ytd	%	-20	10	6	10

Others			2022	2023	2024f	2025f
EUR USD	1.09	$ per €	1.07	1.10	1.12	1.13

Sources: LSEG Datastream, Bloomberg, Allianz Research

Risk assets off to a good start despite yield increases reaffirming the comeback of the 60-40 portfolio

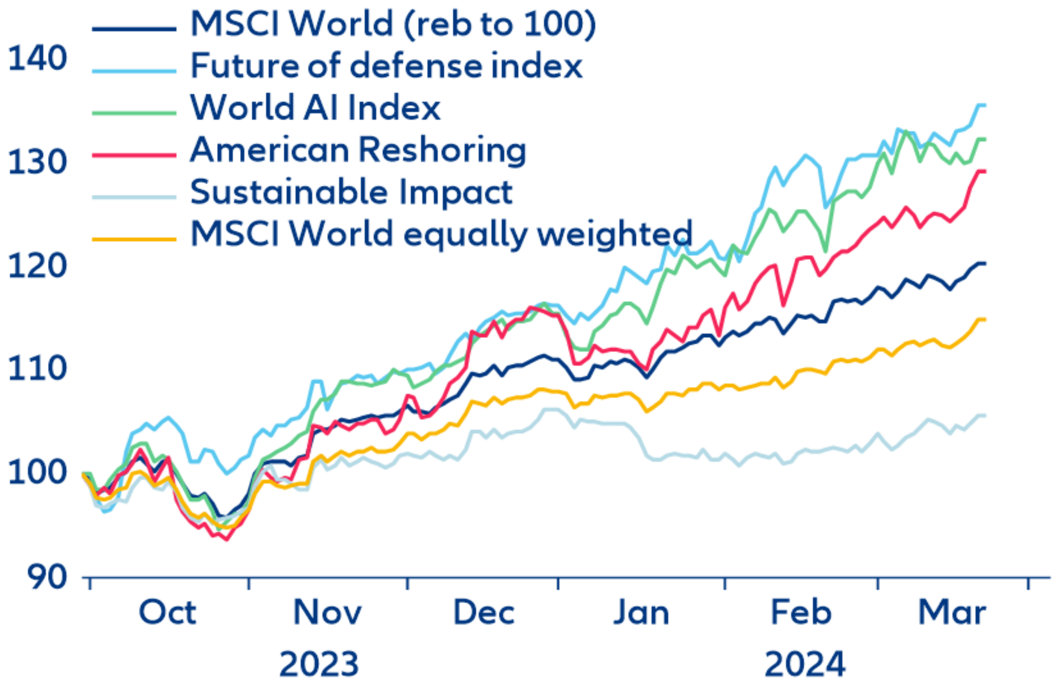
Returns to be hedged even in downside scenarios with an equity – fixed income portfolio



Sources: NY University, LSEG Datastream, Allianz Research. US 10Y used for US bond returns.

Stock markets will continue to be driven by underlying trends: AI, defense & reshoring while ESG falls out of favor

Stock indices, rebased



Sources: LSEG Datastream, Allianz Research

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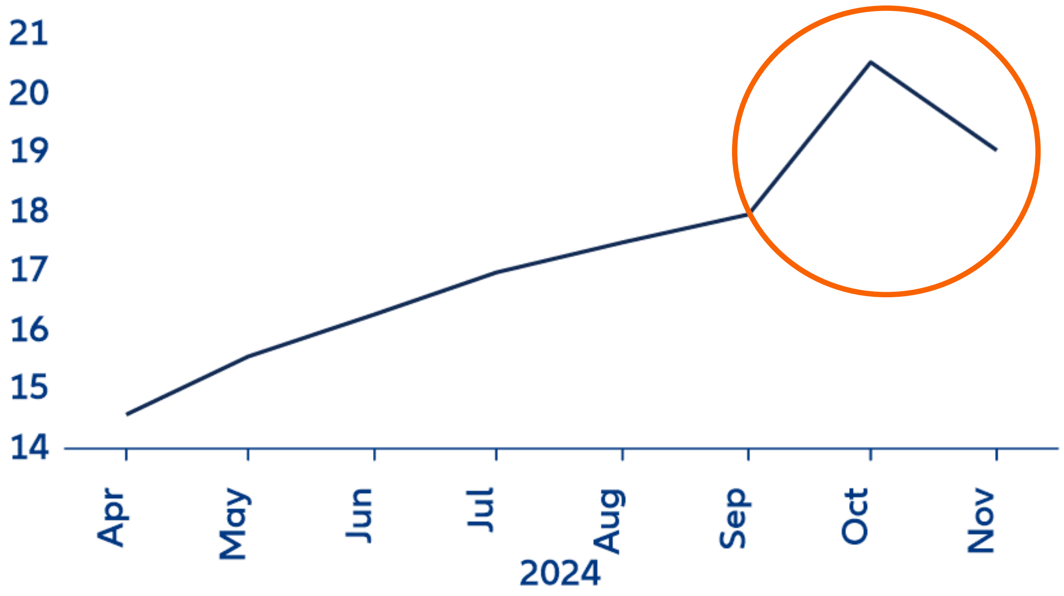
Complacency? Economic soft landing fully priced, geopolitical hard landing very little

Markets are bracing for volatility around US elections

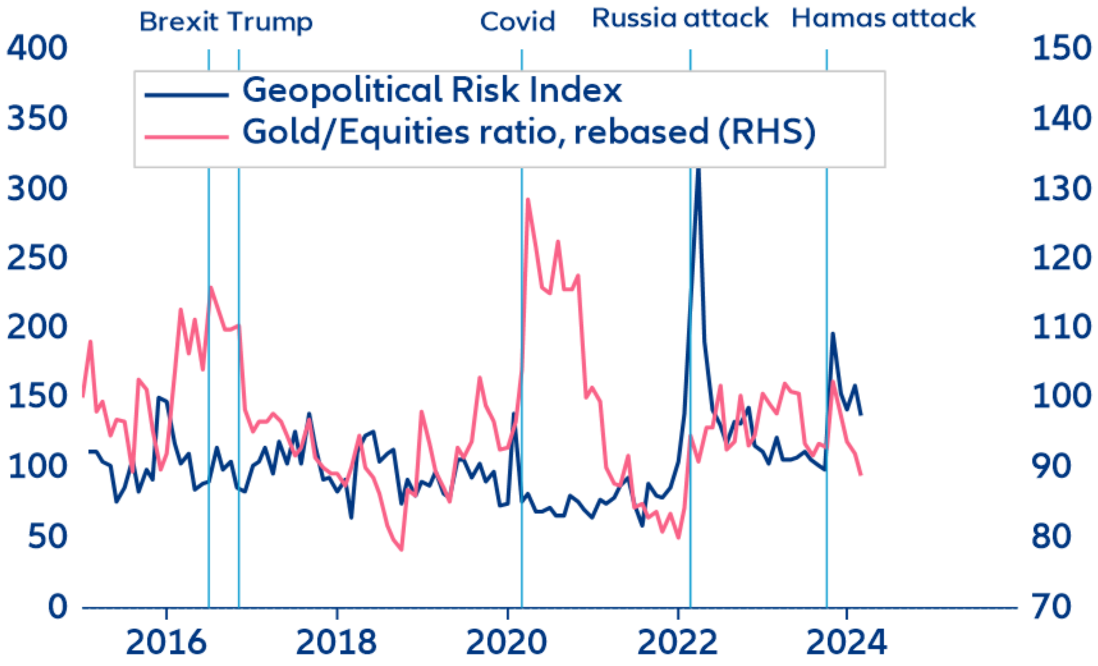
VIX term structure in points



Sources: LSEG Datastream, Allianz Research

Geopolitical risk remains elevated; impact on markets often short-lived

Risk measures, index

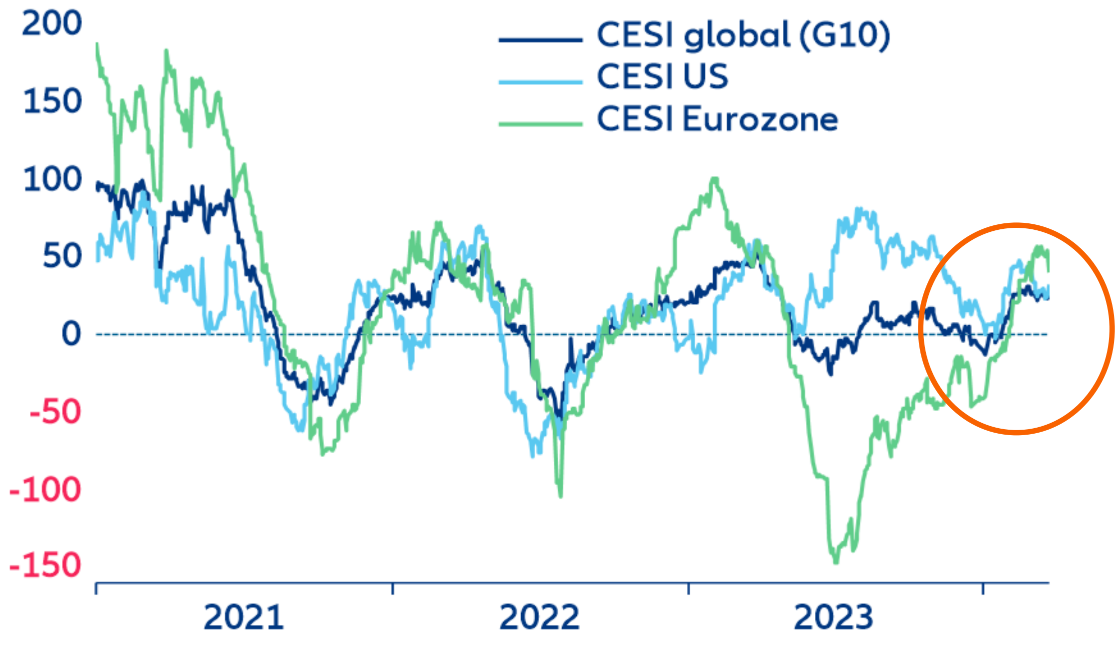


Sources: LSEG Datastream, Allianz Research
Notes: Gold/Equities ratio uses the gold price and the MSCI world equity index

Rising confidence in soft landing and inflation victory contribute to risk-on mood

Economic surprises turned positive since the beginning of the year especially in the Eurozone

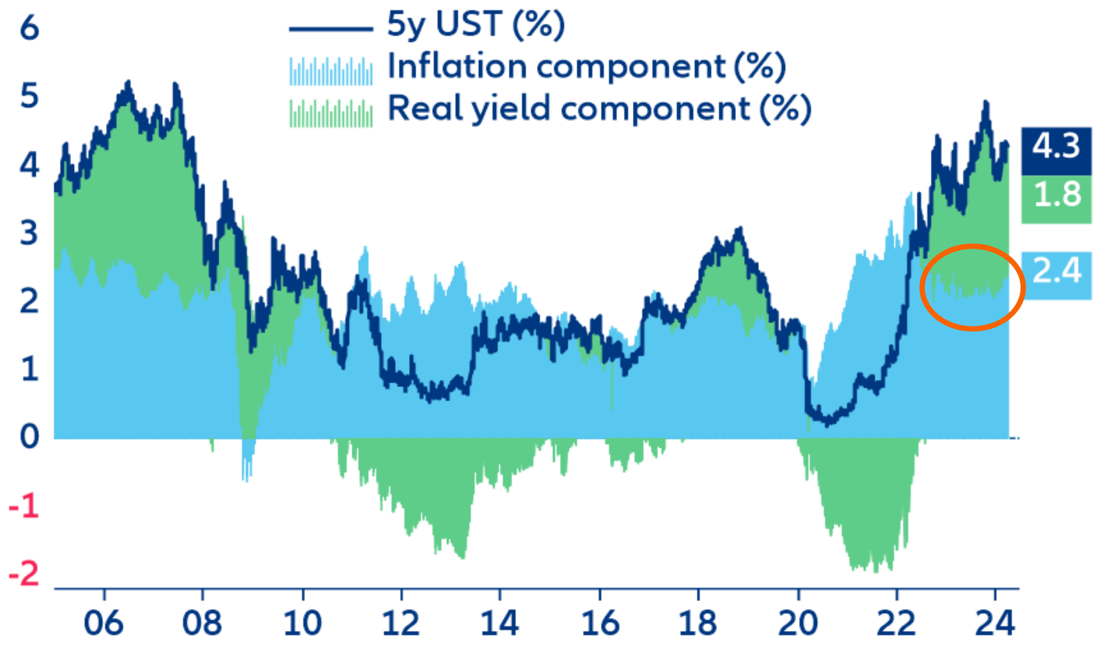
Citi Economic Surprise Index



Sources: LSEG Datastream, Allianz Research

Stable inflation expectations signal trust in central banks but scale of future rate cuts remains uncertain

5y US nominal and real rate in %



Sources: LSEG Datastream, Allianz Research

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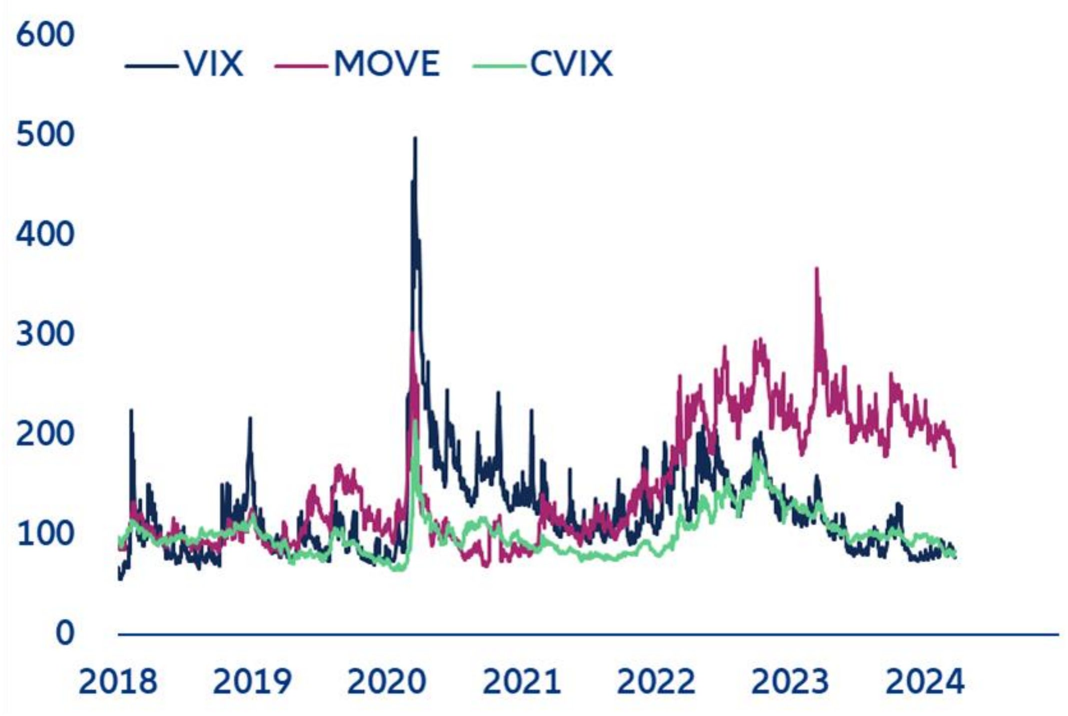
Volatility in bond markets to fade after markets are clearer on future monetary policy path

Rates market volatility remains elevated as monetary policy uncertainty stays high

Index of market volatility expectations (2019 avg = 100)

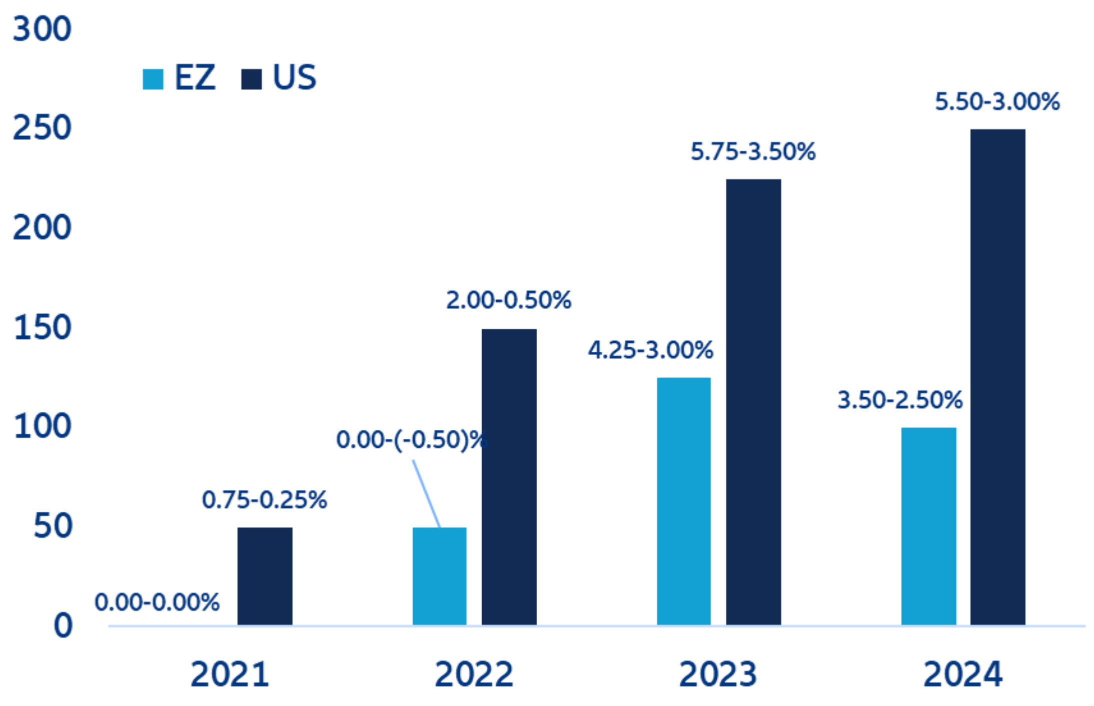


Sources: Bloomberg, Allianz Research

Notes: Option implied volatility expectations of US stocks (VIX), US treasury bonds (MOVE) and a set of major currency pairs (CVIX)

Uncertainty on monetary policy path remains high

1y-ahead CB rate forecast dispersion (high-low) by Bloomberg economists in bps



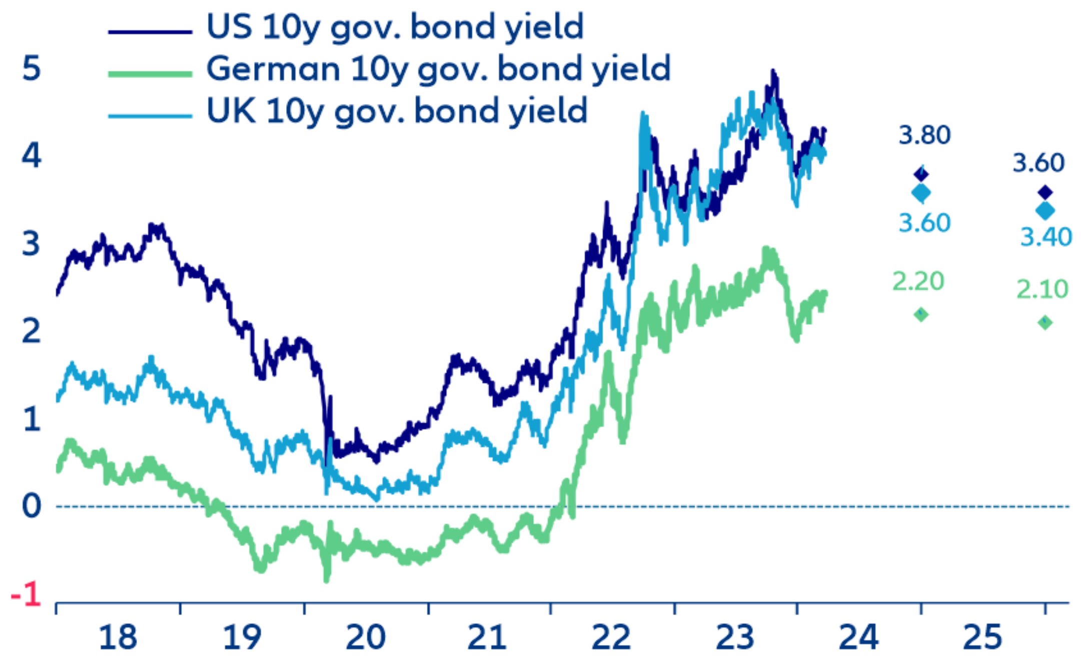
Sources: Bloomberg, Allianz Research

Allianz

Long-term yields to decline as policy shifts, but supply pressures limit fall

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

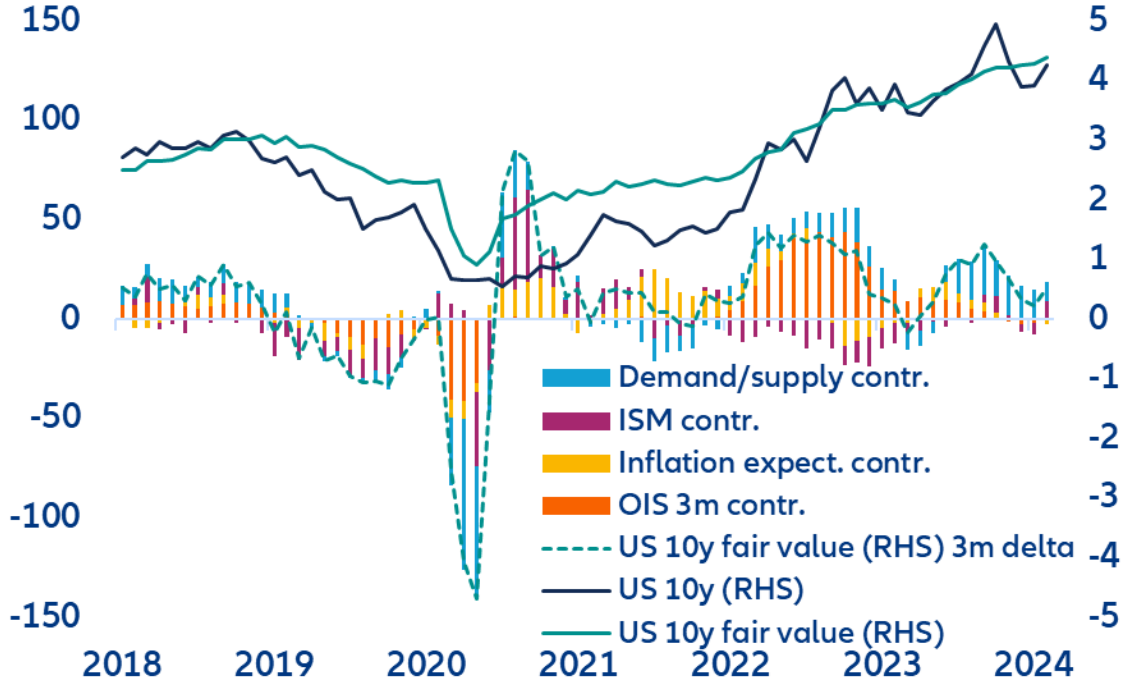
10y government bond yields in %



Sources: LSEG Datastream, Allianz Research

US bond supply on high fiscal deficit pushing fair value of long-term US rates higher

US 10y fair value in % and contributions to change in bps



Sources: LSEG Datastream, Allianz Research

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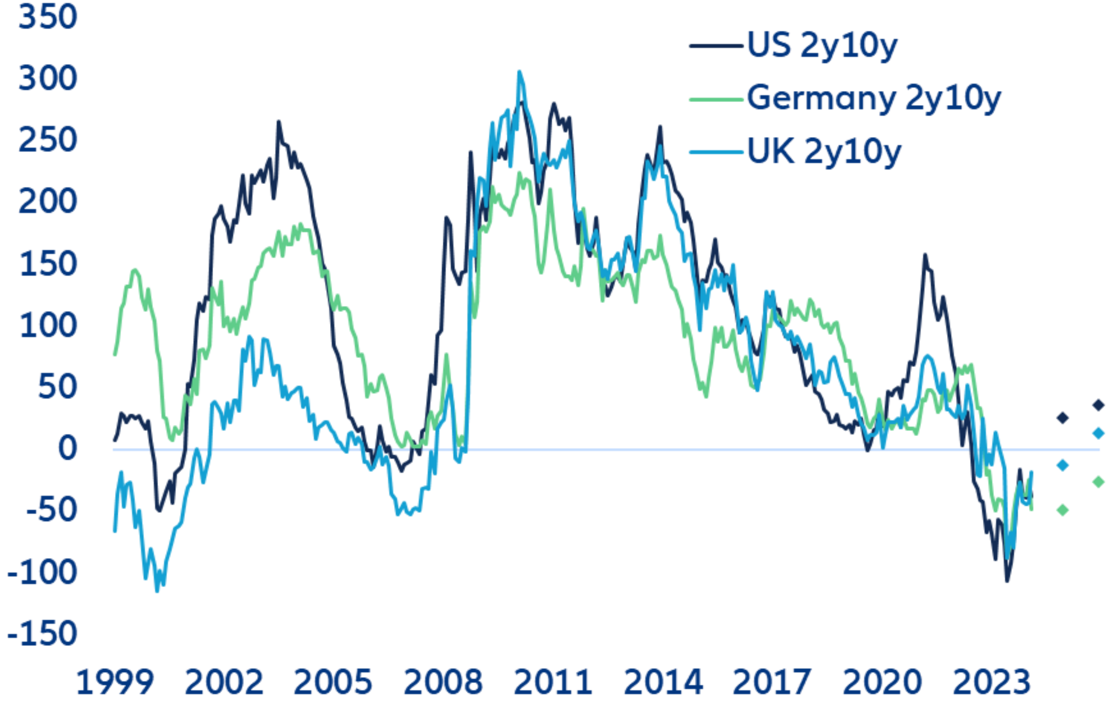
Monetary policy normalization and soft landing to rebalance inverted curves and spreads

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

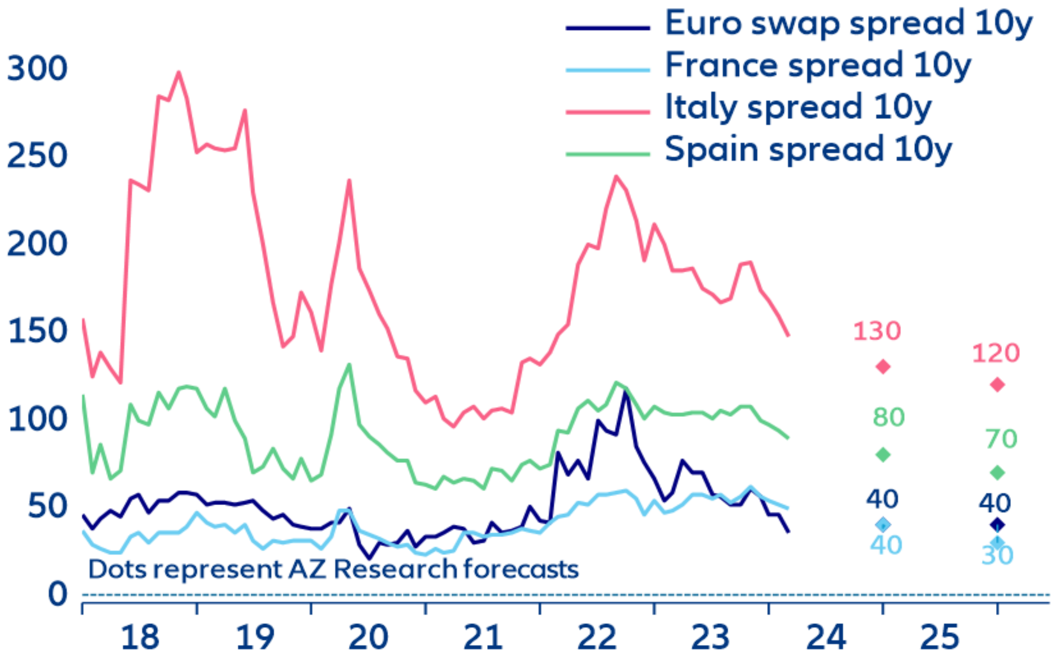
10y – 2y government bond yields in bps



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

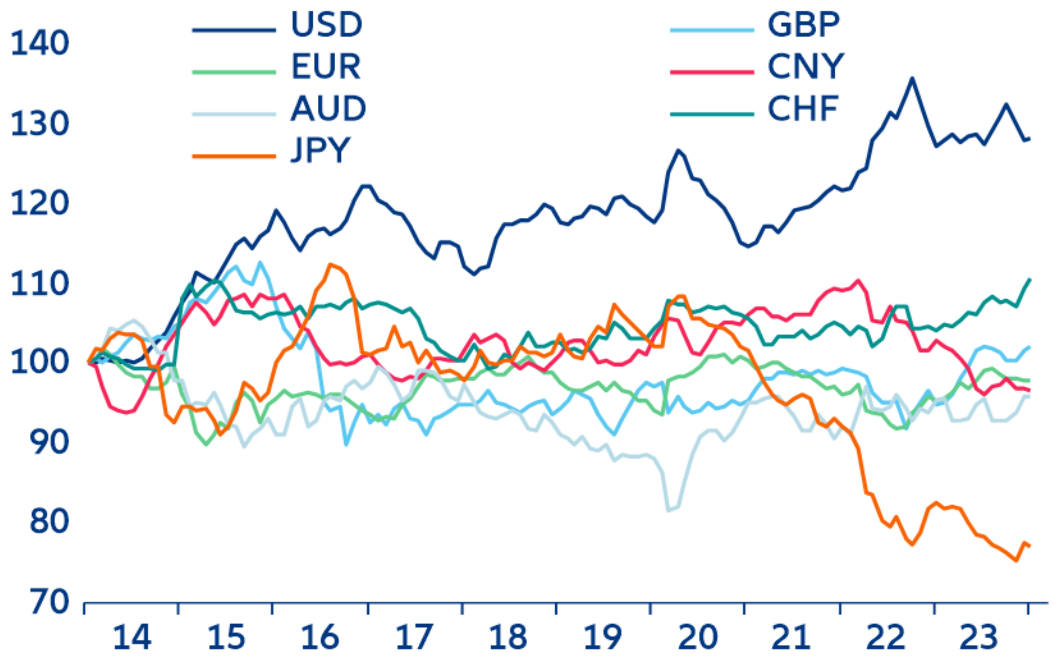


Sources: LSEG Datastream, Allianz Research

Modest depreciation ahead for the USD amid gradual normalization of global imbalances

The USD looks increasingly overvalued

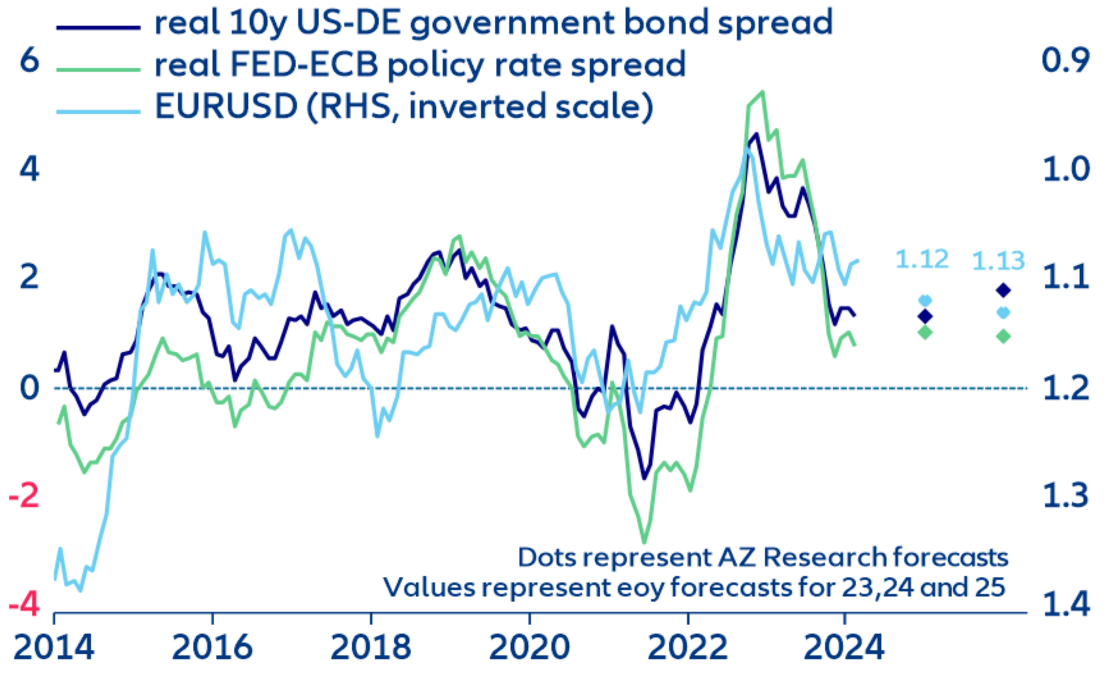
Real effective exchange rate indices (2014=100)



Sources: LSEG Datastream, Allianz Research

Interest rate differential to remain important driver for EURUSD going forward

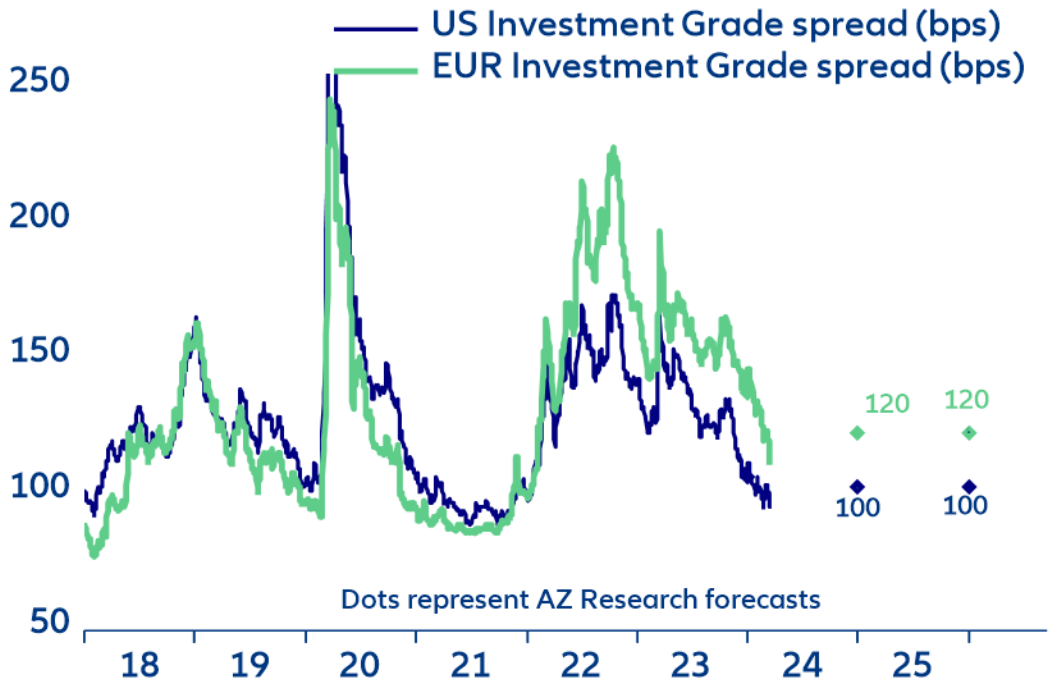
Yield differentials in pp and EURUSD exchange rate



Sources: LSEG Datastream, Allianz Research

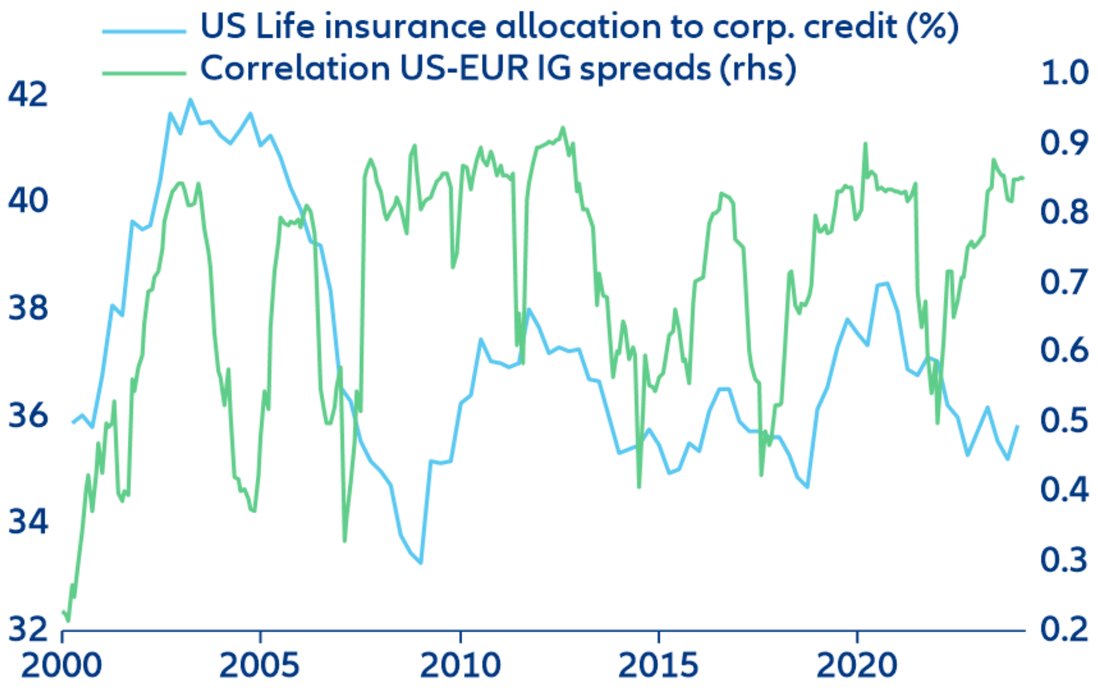
Corporate credit spreads will remain compressed due to strong demand and fundamentals

Corporate credit spreads to trade sideways on the back of improved fundamentals and excess demand



Sources: LSEG Datastream, Allianz Research

EUR spreads to follow US credit with renewed optimism, low default rates and strong demand



Sources: LSEG Datastream, Allianz Research

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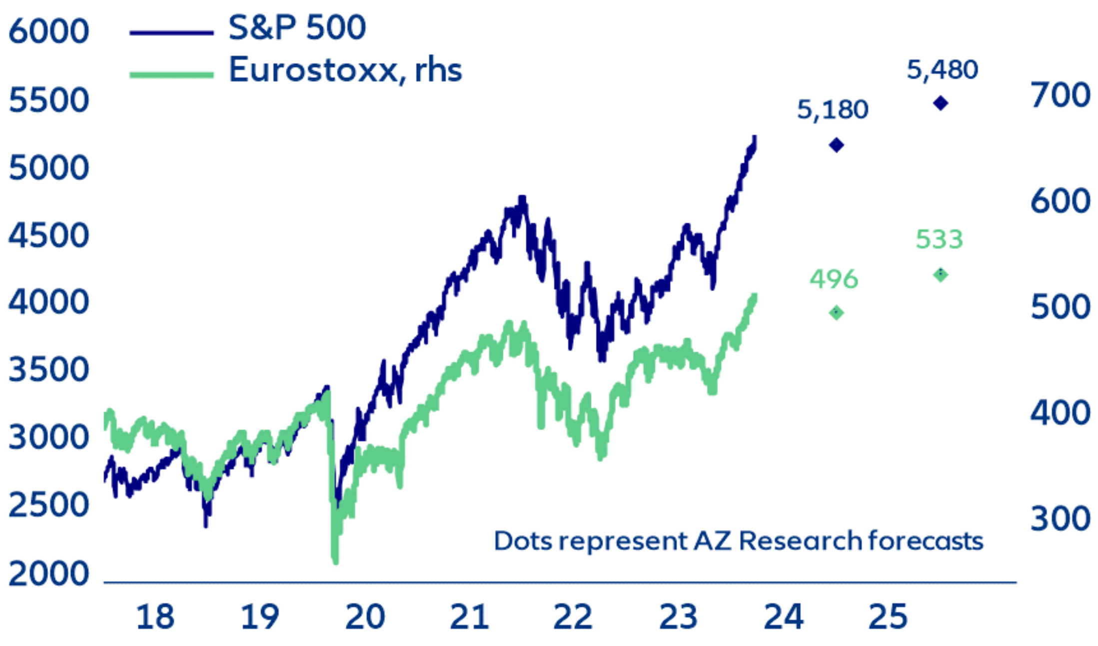
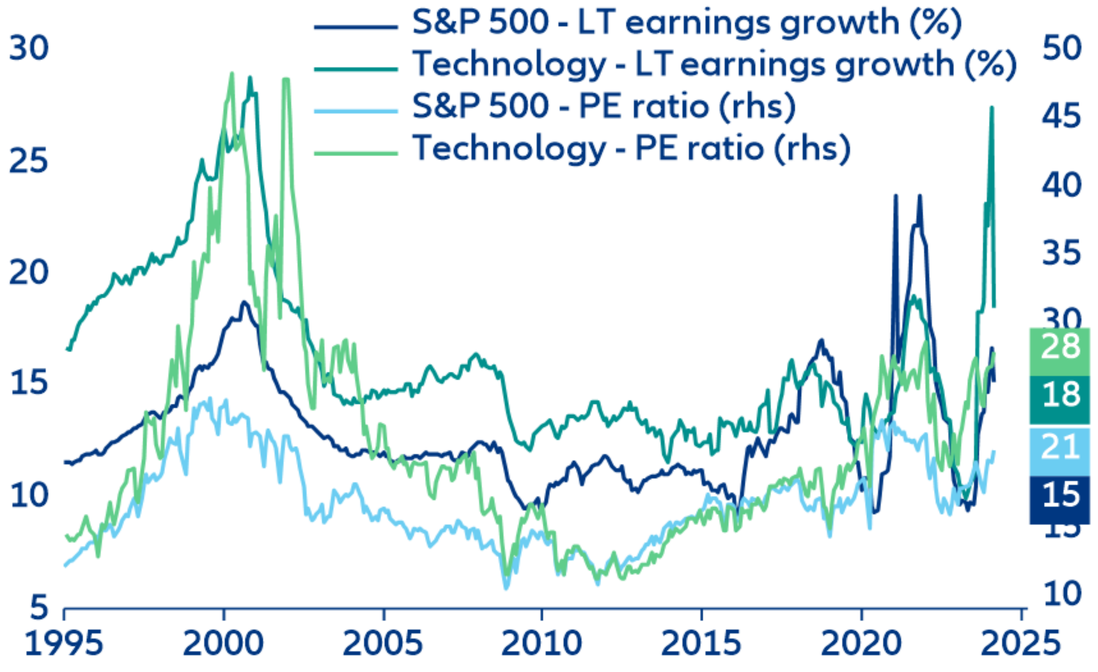
Strong earnings and decent valuations support the equity rally but little room left for upside surprises

Resilient earnings and strong balance sheets should sustain the equity rally but there is little upside left



Sources: LSEG Datastream, Allianz Research
TMT: Technology, Telecommunications and Media

Market expectations and valuations suggests this market rally is not reminiscent of the dotcom bubble



Sources: LSEG Datastream, Allianz Research

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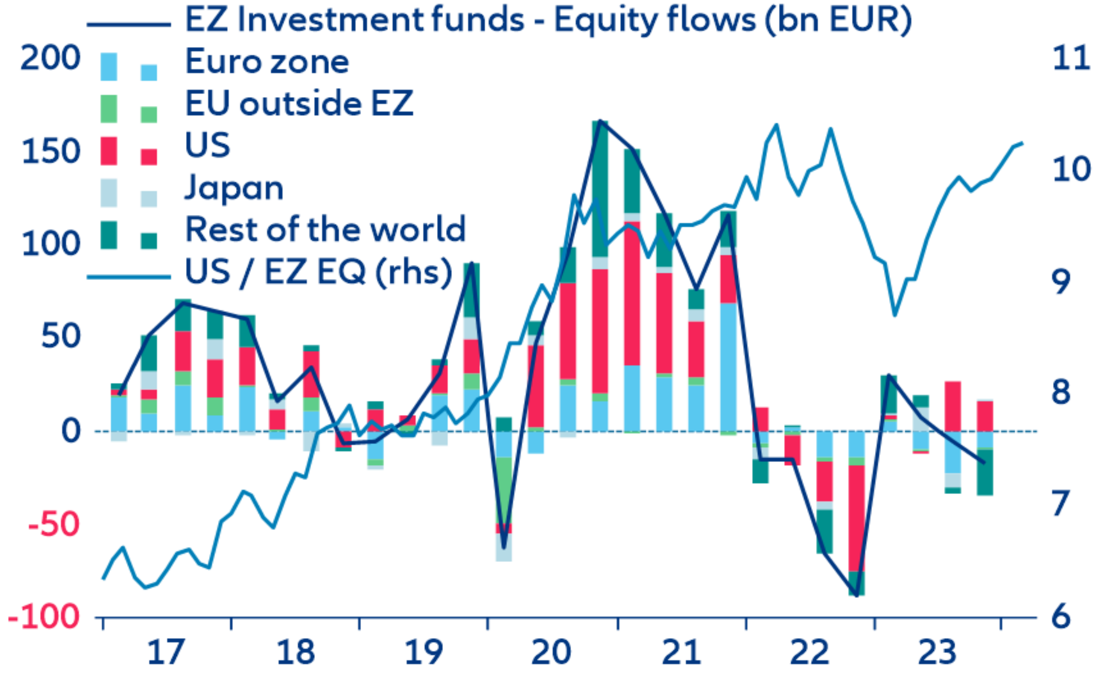
US market dominance climbs, diminishing local investment in Europe

Share of US stocks in MSCI world index

% of total market value

Sources: LSEG Datastream, Allianz Research

European money pours into US EQ as investors partake in the exponentially-shaped technology rally



Sources: LSEG Datastream, Allianz Research

Note: US/EZ EQ refer to the relative performance of the S&P500 vs Eurostoxx

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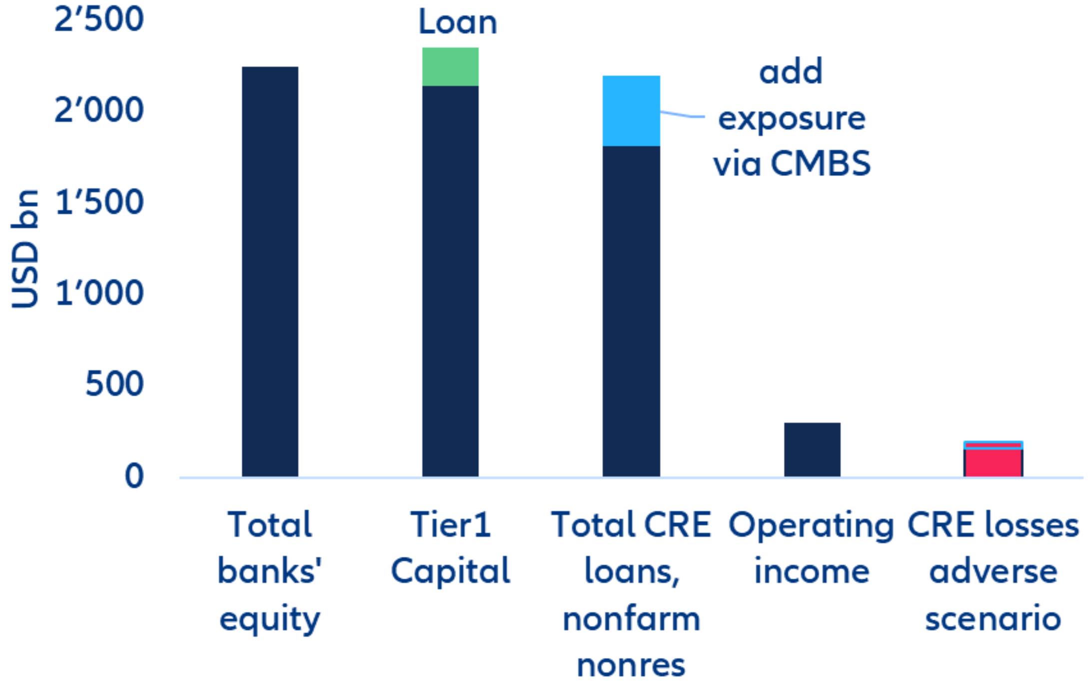
An (isolated) CRE shock could still jeopardize smaller banks – but does not look systemic

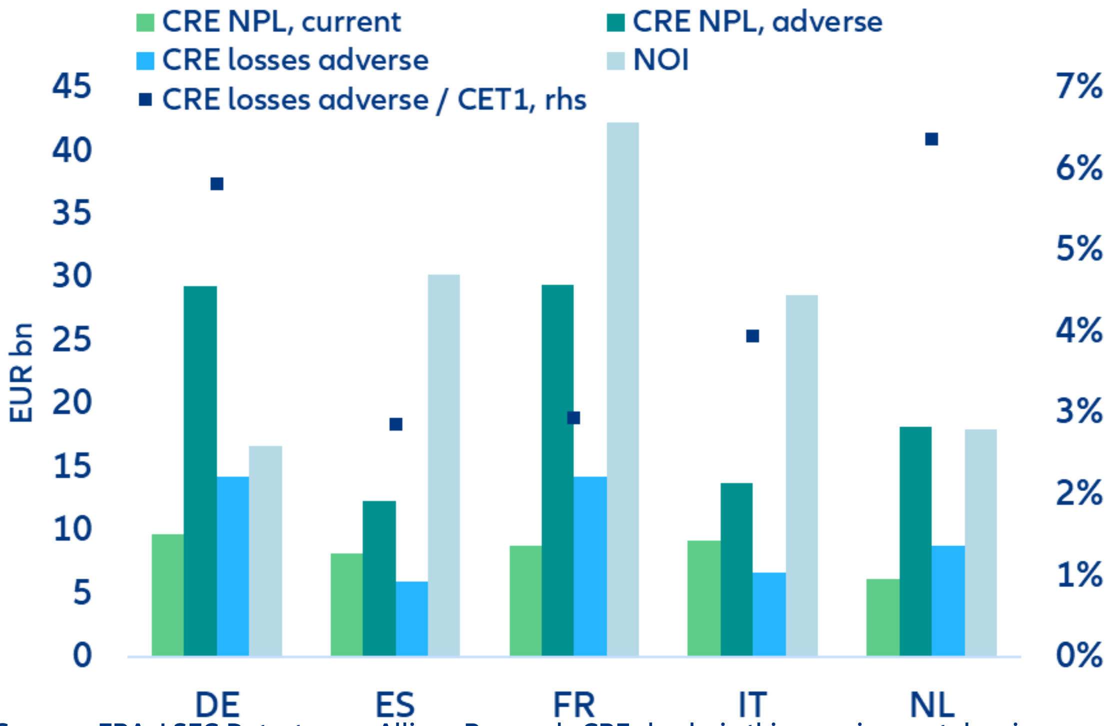
US banks' profitability will be the first victim – capital ratios to deteriorate but should suffice[1]

aggregate US banking system



Sources: FDIC, LSEG Datastream, Allianz Research. [1] CRE shocks in this exercise are taken in isolation (i.e. does not include hit from other parts of the balance sheet or deposits withdrawals). Especially since banks still carry unrealized losses. For the CRE losses in the adverse scenario an 8.8% loan loss rate has been used, consistent with the one found in 2023 Fed Stress Tests. Operating income refers to the latest annual figure available.

German and Dutch banks appear the most vulnerable across those in EZ-5

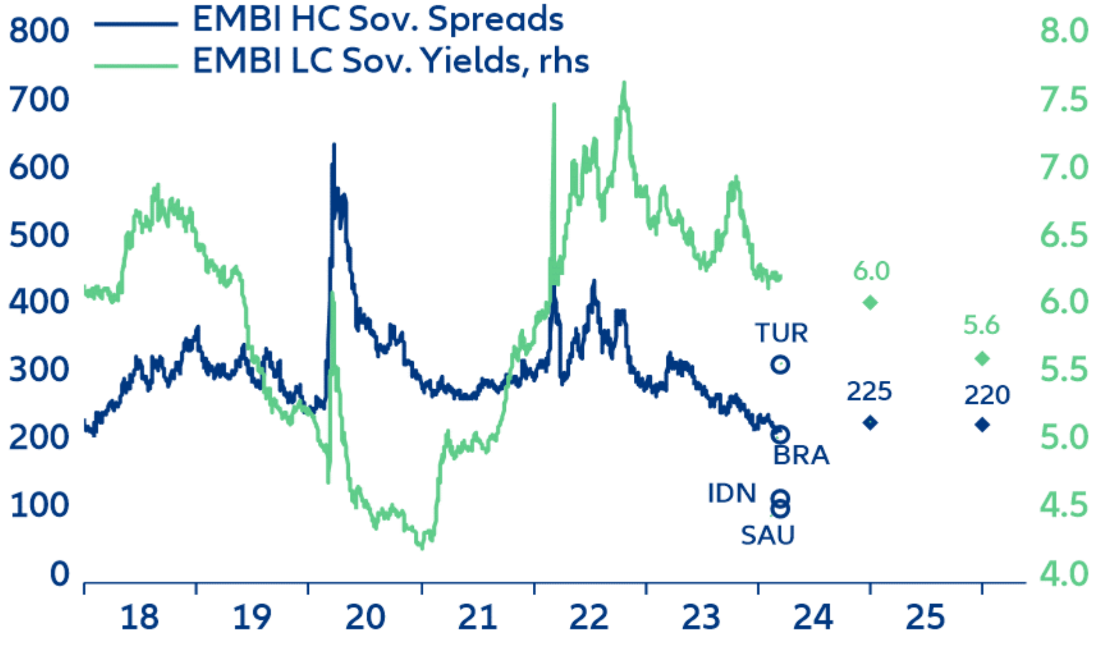


Sources: EBA, LSEG Datastream, Allianz Research. CRE shocks in this exercise are taken in isolation; not that it comes together with additional developments such as deposits withdrawal or defaults in other areas of banks' loan book. Especially since banks still carry unrealized losses. For the CRE losses in the adverse scenario we have used a loan loss rate of 5%; for reference, in the 2023 stress test scenario the EBA found the % of stage3 CRE loans to increase to 10.3% in an adverse scenario. NOI = Net Operating income (latest available).

Tight EM sovereign spreads also price a soft landing but yields still at attractive levels

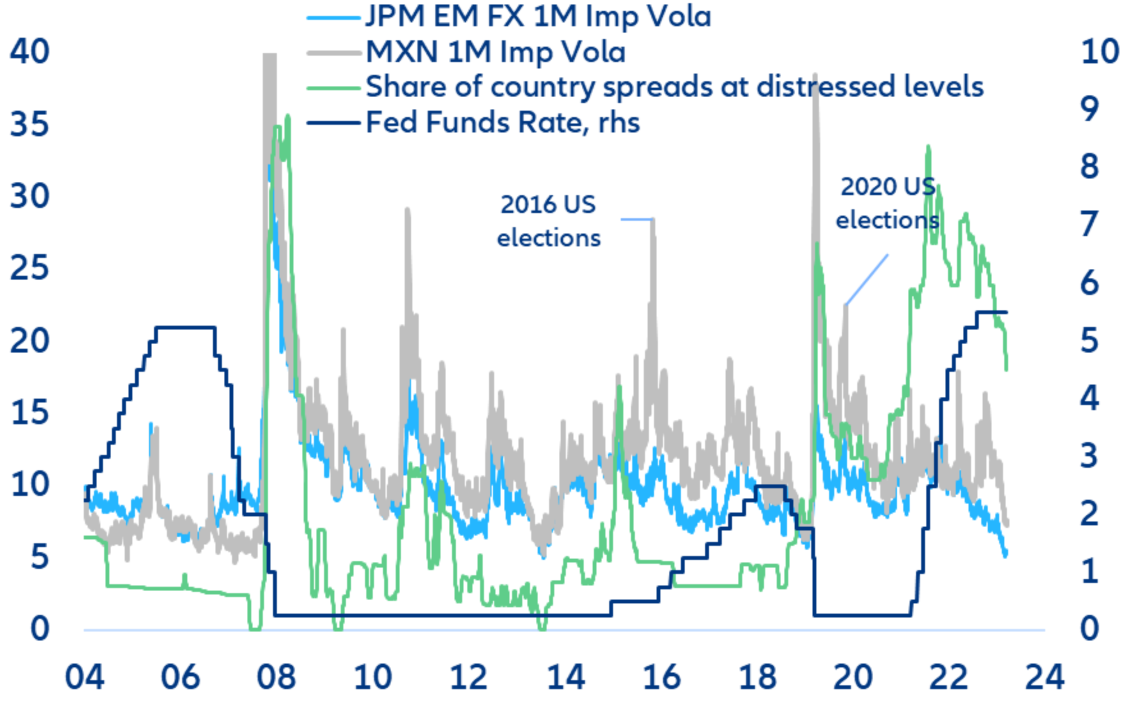
Markets eye the nearing Fed cuts: limited scope for spread narrowing, local currency yield declines to continue

Dots represent latest hard currency spreads of key countries in the index



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

Momentum not equally distributed with many countries' spreads still at distressed levels – and downside risks in the horizon



Sources: Bloomberg, LSEG Datastream, Allianz Research. MXN = Mexican Peso. . "Imp vola": implied volatility, it refers to the expected volatility in the currency pair (vs. USD) over one month, taken from financial instruments.