Investment Institute Macroeconomics

The great election year

Monthly Investment Strategy

AXA IM Research

January 2024

Summary: January 2024

Theme of the month: The great election year

- Nearly half the world's population will go to the polls this year. Not all elections will be free and fair; not all will have economic significance; but with markets increasingly focused on geopolitical events, a lot of market volatility may be generated by non-economic events this year.
- US Presidential Elections (November) will be the most consequential given the US's economic and geo-political significance and the different alternatives on offer. US primaries have just begun, but on some scores look almost over. A Biden-Trump rematch continues to look the most likely outcome.
- European Parliamentary Elections look likely to shift towards the right and risk the implementation of ongoing EU policy priorities. The UK is also likely to see a General Election in H2 2024, with politics returning to the political centre for now and the opposition Labour party with a commanding poll lead.
- Around 60 EM economies go to the polls this year. They year started with re-election of Taiwan's incumbent government, to China's apparent ire.
- The world's most populous nations also goes to the polls. Valentine's Day (14 Feb) will see the most voters go to the polls in Indonesia's Presidential elections. India holds polls for the largest nation between April and May. In Mexico, AMLO's successor looks set to deliver its first female President.
- Of the rest, we highlight Turkey's local elections, that once again put he delivery of orthodox policy at risk; and South Africa, where the ANC's post-apartheid reign is threatened.

Macro update: Disinflation creates space for policy easing

- Key developed economies have seen markets price sharp rate cut paths over 2024. Central banks are beginning to push back, some more than others.
- US economic resilience persists and although inflation has softened, it remains well above target with a labour market that is too tight.
- The Euro area struggles with slower growth, largely reflecting manufacturing weakness. But the labour market remains tight and wage increases a concern.
- The UK likely saw technical recession in 2023, but the malaise around labour market statistics clouds any judgement around loosening
- China hit its 2023 growth target, but growth was uneven. Stimulus has been fiscal and targeted at boosting infrastructure and deflation persists.
- Japan shows some signs of rebounding into Q4, but a pick-up in consumer services is necessary. The BoJ awaits the springs wage round for its next move.
- Canada shows signs of improving from a weak Q3. But inflation has stuck at too high a level and unit labour costs are high limiting the BoC's space.
- Emerging markets are benefitting from easing inflation that is allowing an easing in monetary policy. This is true even in Central Europe, which has lagged disinflation elsewhere. It is well advanced in Latam, with most central banks already easing policy. Argentina takes its first bold steps to reform.

Central scenario

Summary – Key messages

Our central scenario: Global economy to slow, bank concerns non-systemic.

Global growth expected to slow to 2.8% in 2024 and 3.0% in 2024.

Disinflation slower this year, spreading to core. Creates space for monetary policy easing, but not as aggressively as markets believe.

Inflation

Headline inflation stabilizing, with geo-politics providing some upside risks. Core disinflation to broaden this year. Target rates more likely next.

Monetary policy

Central banks now peaked, most to cut this year, but developed central banks likely slower in start and scale than markets believe

Fiscal policy

European rules require fiscal consolidation, but not too sharply for 2024. US Congressional politics delays further funding requests, long-term outlook in question.

Emerging Markets

Inflation easing across EM, and several central banks underway with easing cycle

FX

Dollar sell-off may have gone too far and US fundamentals remain firm for now. BoJ action still needed to spur yen. Watch risk currencies in event of geopolitical escalation.

Rates

Rate cuts could drive term rates lower, but structural drivers underpin key regions, making a return to post-GFC levels unlikely

Growth

Growth resilient in US, expected to slow but avoid recession. Eurozone and UK face risk of technical recession. China hits target but risks remain.

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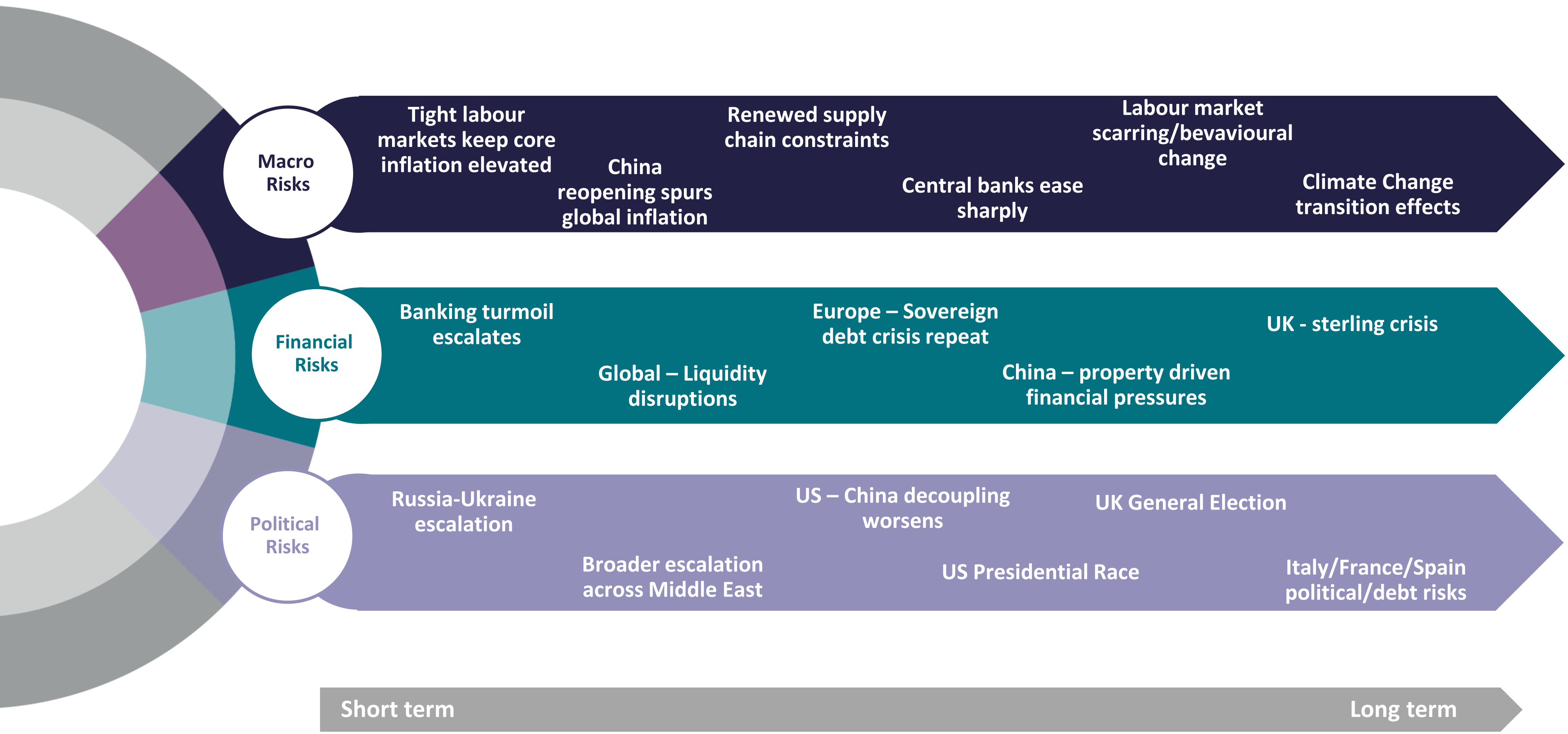
Alternative scenarios

Summary – Key messages

	Entrenched supply shock Probability 25%	A global boost Probability 15%
What could be different?	- Banking turmoil escalates, credit conditions tighten. - Escalation in Ukraine conflict or Middle East tensions - COVID outbreaks spreads again: China and/or new mutations - Post-pandemic structural persist. Supply shocks last longer - Inflation expectations rise, affecting wages and persistence	- Geo-political tensions ease – peace in our time. - Labour market participation recovers, strong income growth and easing inflation pressures - Productivity boost following investment rebound and structural post-pandemic adjustments
What it means	- Growth weaker, employment could start to fall, but inflation remains elevated - Monetary policy ill-equipped to deal with supply shocks and financial instability, deteriorating inflation credibility forces still tighter policy in DMs	- Growth surprises on the upside in most regions - Inflation fades more quickly towards and below central bank targets - Monetary policy softens quicker than signalled
Market implications	- Risk appetite deteriorates / equities sell off / credit widens - Sovereign yields reprice higher - Dollar remains elevated - EM debt to come under pressure	- Risk-on environment, equities make further gains, growth retains lead over value - UST softens, EUR strengthens - Spreads grind tighter

RISk Radar

Summary – Key messages



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Theme of the Month

Political outlook 2024

US Presidential Election – the most consequential of the 2024 elections

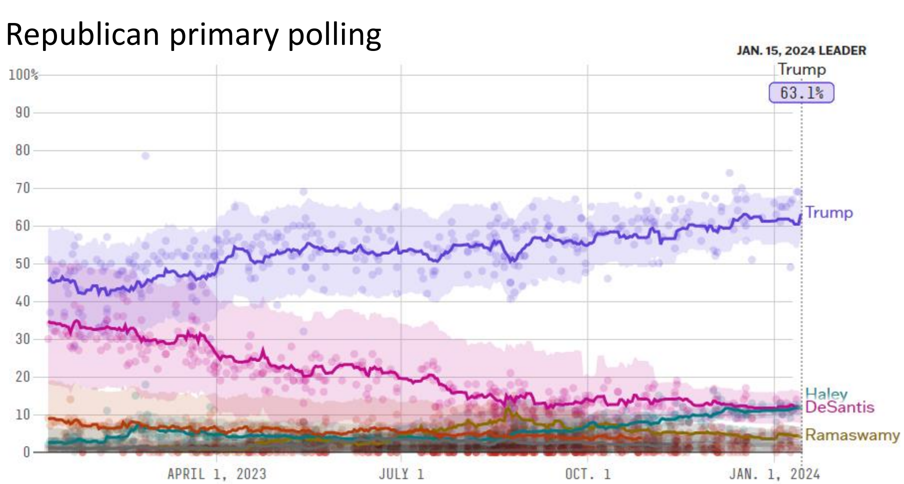
Who will race ? Who will win ?

- US Republican Primaries are underway. Former President Trump has a strong poll lead, and only Nikki Haley remains. Trump still looks the likeliest candidate, but legal and electoral hurdles persist. President Biden will run again unless age concerns escalate further. Polls suggest a Biden vs Trump rematch would see Trump win, but are unreliable this far out. Economic developments may favour the incumbent. Congressional elections will also be important with Senate electoral maths favouring Republicans.

What would be the economic impact?

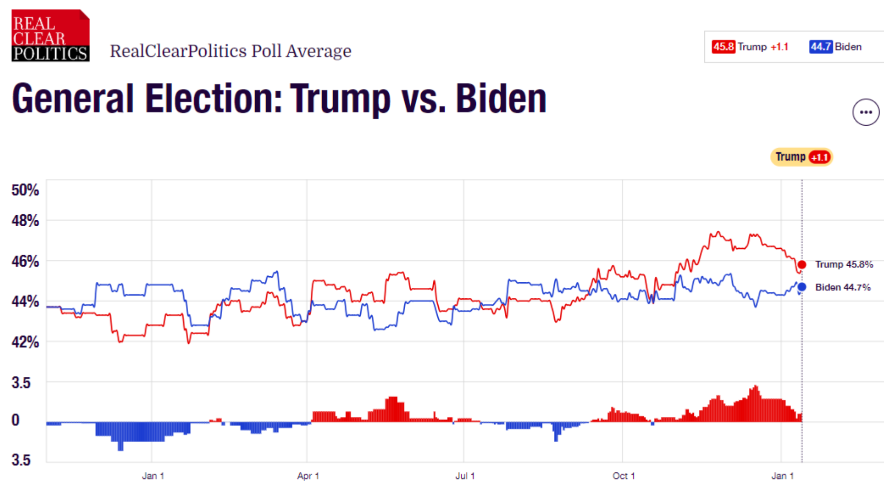
- A second President Biden term would likely see a divided Congress. This would impede major legislation and could characterise his second term by political intransigence and persistent risks of shutdowns. A second term for former President Trump could well see a unified Congress. We would expect Trump to avert the expiry of his first-term tax cuts (end-2025); he has suggested 10% tariffs, suggesting a return to trade wars; we would also fear geopolitical instability in Ukraine, the Middle East and with China.

Trump on track to win Republican nomination



Source: 538, January 2024

Polls on most likely match-up unreliable for now, but suggest Trump lead



Source: Real Clear Politics, January 2024

Political outlook 2024

Europe

European elections (6-9 June) – Risks come from a possible far-right coalition and divided pro-EU parties.

- There are two major uncertainties on those elections: 1) the divisions between pro EU parties and 2) a collective success of far rights parties with one third of seats. On the first there is increasing divergence on policies such as fiscal, climate, and immigration. Despite that, EPP (center-right) is pro-EU, but the frontier between center-right and far right is now more porous. That could influence the strategic agenda. If it leans further to the right, a far-right coalition with one third of seats could block some EU procedures, as some populist parties recently vetoed policies at the European Council.

UK - retreating to the centre

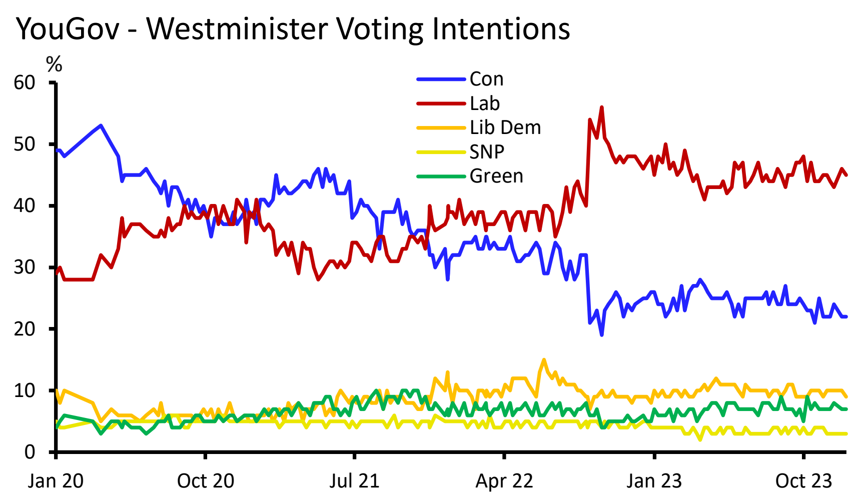
- The UK will face election no later than 25 January 2025, but this will likely take place in Q4 2024. The opposition Labour party hold a commanding lead in the polls, while a solid Conservative government majority has been eroded by by-elections. A poll tomorrow would likely put Labour into government. However, PM Sunak (and Chancellor Hunt) have moved the government closer to the political centre, as has Labour's Starmer. Both would also be constrained by public finance shortfalls.

European election: a lean to the right

2024 election candidates						
Main Parties	EPP	S&D	Renew	Greens	ID	ECR
Polls (%)	23,8 ↓	19.6 ↓	11.4 ↓	5.8 ↓	12.6 ↑	10.8 ↑
2019 election candidates						
Parties	EPP	S&D	Renew	Greens	ID	ECR
Seats	182	154	108	74	73	62
Leader	Weber	Timmermans	Vestager	Keller	Salvini	Zahradil
Vote %	24.2	20.5	14.4	9.9	9.7	8.3

Source: Poll of Polls, Politico, AXA IM Research, January 2024

Labour hold commanding position in polls



Source: YouGov, AXA IM Research, January 2024

Political outlook 2024

Emerging Markets – full electoral agenda for EMs this year

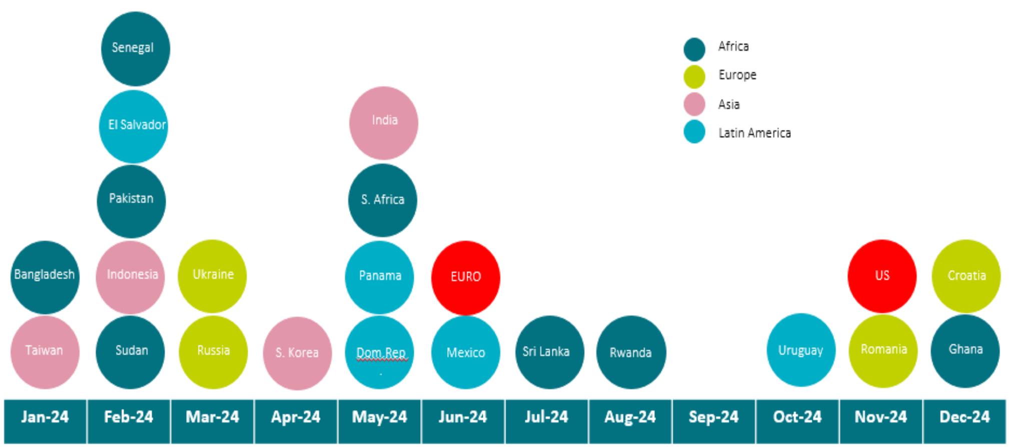
2024 is the *ultimate* election year by historical standards

- Voters from more than 60 countries around the globe will head to the polls this year, representing almost half of the world's population. By historical standards, 2024 is perhaps the ultimate election year. But even for EM economies, the US election may be the biggest focus.

Taiwan general elections: pro-independent DPP win a historical 3rd term, in line with polls

- Taiwanese general elections were held on Jan 13. In line with polls, the Democratic Progressive Party pulled off an historic third consecutive presidential victory. Lai Ching-te received 40% of the vote against a split opposition, a setback for Beijing which swiftly reiterated that reunification is inevitable.
- Negative reactions/actions from China need monitoring. Ahead of elections, China removed tariff exemptions for 12 petchem products imported from Taiwan, but sanctions should remain symbolic, and importantly leave the vital technology sector, including the semiconductor industry untouched, given its critical role for China at present.

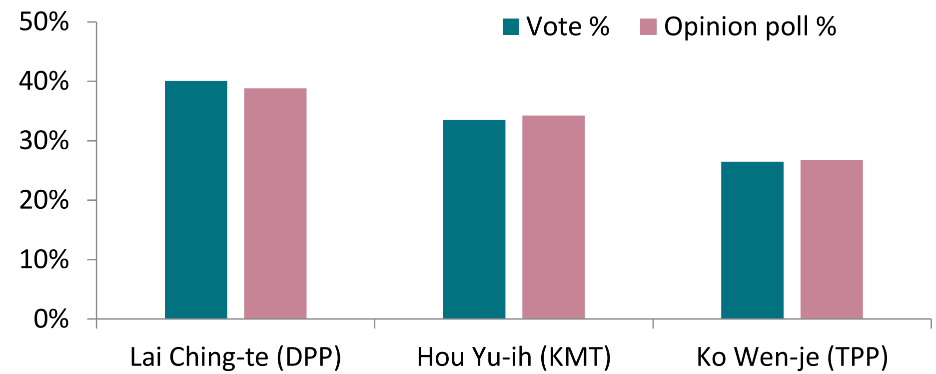
2024, the ultimate election year in EM



Source: various sources, dates may still change, AXA IM Research, Jan. 2024

Taiwan: a historical 3rd consecutive term for pro-independence DPP

Taiwanese Presidential elections 2024 results and opinion polls (%)



Source: official results, average opinion polls since candidates' registration, AXA IM Research, January 2024

Political outlook 2024

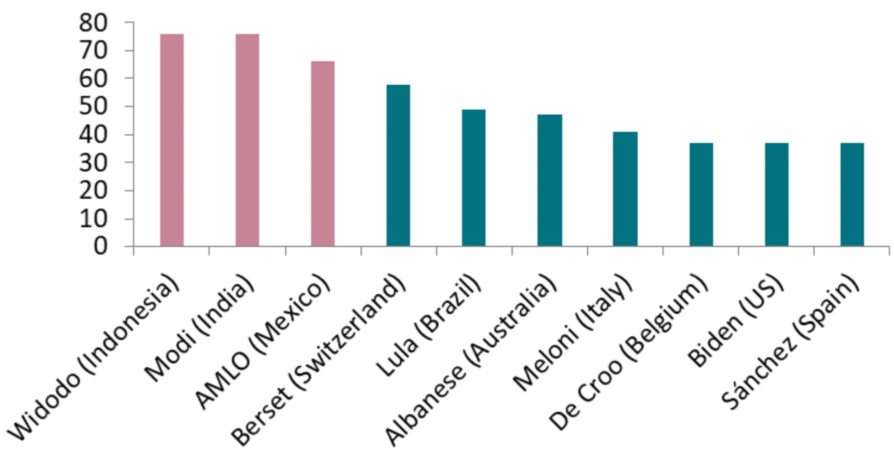
Emerging Markets – political (and policy) continuity likely in India, Indonesia or Mexico

Some of the most popular EM leaders facing polls – policy continuity to prevail

- February 14 will be the world's biggest election day of the year, with more than 200m Indonesians going to polls to choose a successor to PM Jokowi who ends his two-term limit with high approval rates. The practice of power sharing among political elites in the form of big governing coalitions grants policy continuity above and beyond Jokowi.
- Indian elections will take place in 7 phases between April and May and PM Modi appears likely to comfortably remain in power for a third mandate. Political and policy continuity could help in avoiding excessive fiscal pre-election spending and maintaining the focus on digitalisation and manufacturing production and exports development ahead.
- Mexican Presidents are limited to a single six-year term, so Morena's Lopez-Obrador (AMLO) cannot serve again. His successor, Ms Claudia Scheinbaum, may become Mexico's first female president on June 2 , with a 27ppt lead in polls. Morena party's may not maintain a majority in Congress, which could challenge implementation of her agenda, similar to AMLO's experience.

Indonesia, India and Mexico's leaders among world's most popular

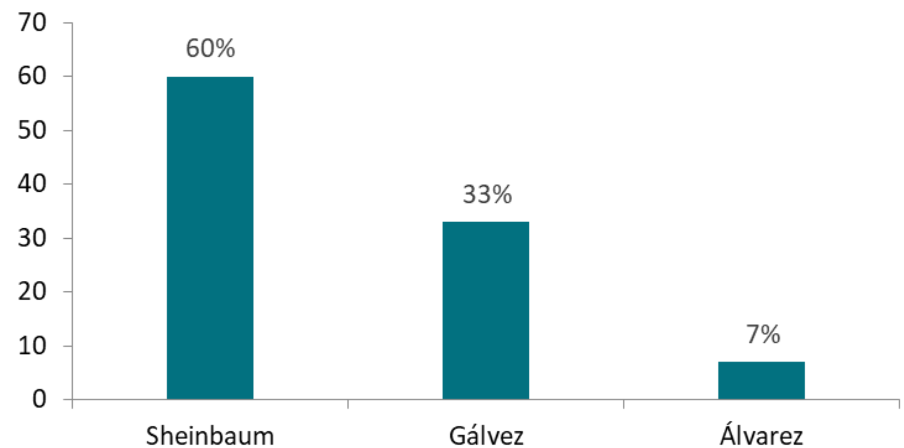
Approval ratings by leader in select countries (%)



Source: Morning Consult and AXA IM Research, Jan 2024

Barring a major upset, Sheinbaum will likely be Mexico's next president

Mexican presidential elections voter preference (%)



Source: AS/COA and AXA IM Research, Jan 2024

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Political outlook 2024

Emerging Markets – focus on Turkey local elections and SA general elections, as well as Frontier Markets

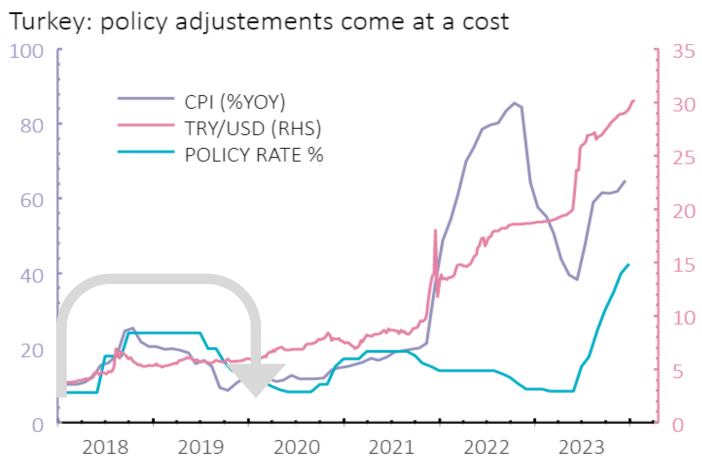
Turkey: can local elections could be a pivotal moment for economic policies

- Ruling AKP and President Erdoğan focus turned to local elections (March) hoping to reclaim Istanbul, lost in 2019. The race is tight, current CHP mayor Imamoğlu is popular, but opposition parties have been struggling to pull themselves together after May's defeat.
- The orthodox policies implemented by the new economic team have stabilised confidence and secured financing, particularly from Middle Eastern allies, but the rebalancing process is still at early stages and economic orthodoxy may be at risk of another U-turn if he local elections are weaker for Erdoğan.

South Africa faces watershed moment for the ANC

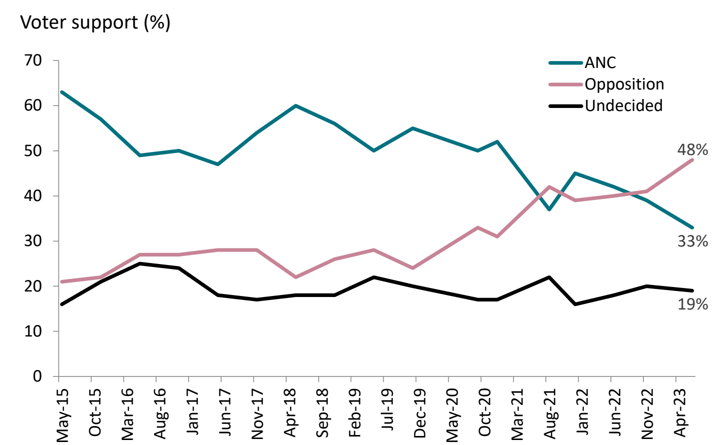
- General and local elections (by mid-August at the latest) may see the African National Congress (ANC) lose its majority in Parliament for the first time in 30 years. ANC polls at just 33%, from 55% in 2019, as power outages and purchasing power losses have taken a toll on ANC voters. The ability of the next government to tackle the reform of SOEs, accelerate structural reforms, and embark on fiscal consolidation will be key for investors.

Turkey: policy U-turns are not new



Source: LSEG Datastream and AXA IM Research Dec 23

South Africa: weakening ANC support in recent years



Source: Ipsos polling and AXA IM Research, as of Jan 2024

Macro outlook

Investment Managers

Economy still needs softer growth

US

Little evidence of slowdown in 2023

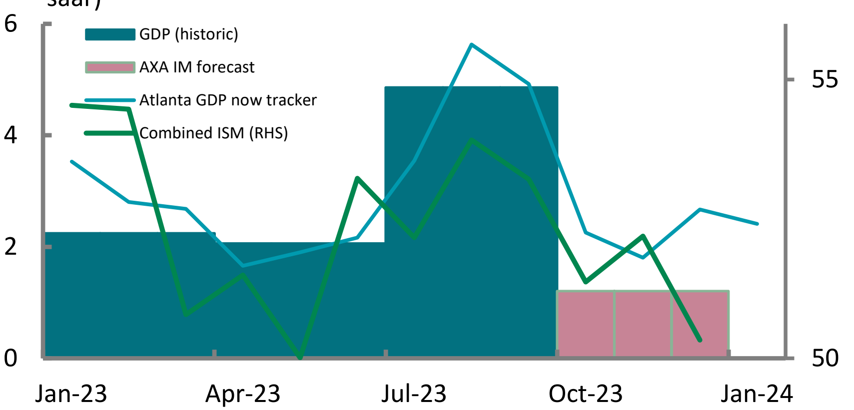
- We await Q4 GDP, but now-trackers point to a strong quarter exceeding longer-term trend rates of 2% and our expectation of a consumer driven softening. We still consider a material slowdown likely over the coming quarters, but signs of weakness (Empire State survey and household survey employment plunges) have been contradicted by more upbeat surveys and falling jobless claims. We raise our 2023 forecast to 2.4% (from 2.3%) and 2024 to 1.4% (from 1.1%) and expect 2025 at 1.6%.

Labour market needs some easing

- Employment growth slowed across 2023 and December's +165k was its weakest since the post-pandemic recovery. December also saw a sharp fall in the household employment measure but was coupled with a sharp drop in labour supply. Unemployment remains low at 3.7% and jobless claims have fallen to a 16-month low. There are signs of a less tight labour market, but trend pay growth at 4.3% in December, though lower than 4.9% the year before, is still above a pace consistent with the Fed's inflation target.

Q4 GDP looks set to defy expectation for slowdown

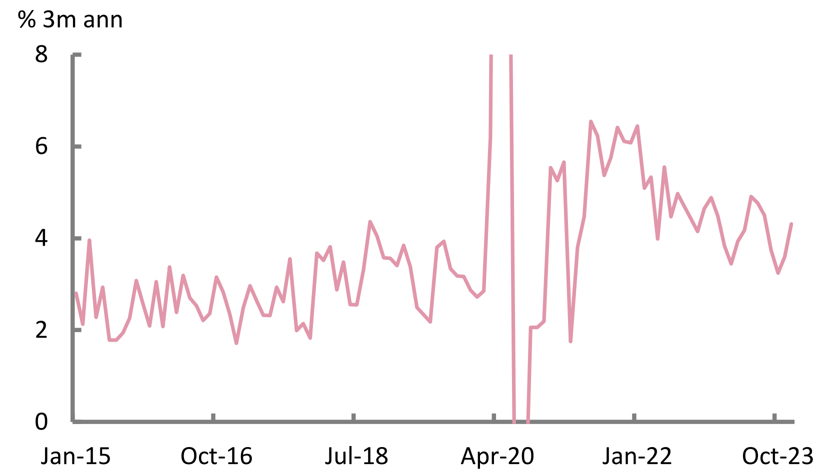
GDP growth and short term outlook



Source: BEA, FRBA, Bloomberg, AXA IM Research, Jan 2024

Labour market evidence still suggests too tight

Average hourly earnings



Source: BLS, AXA IM Research, Jan 2024

Fed to lack disinflation conviction for early cuts

US

Inflation likely hovering around current levels

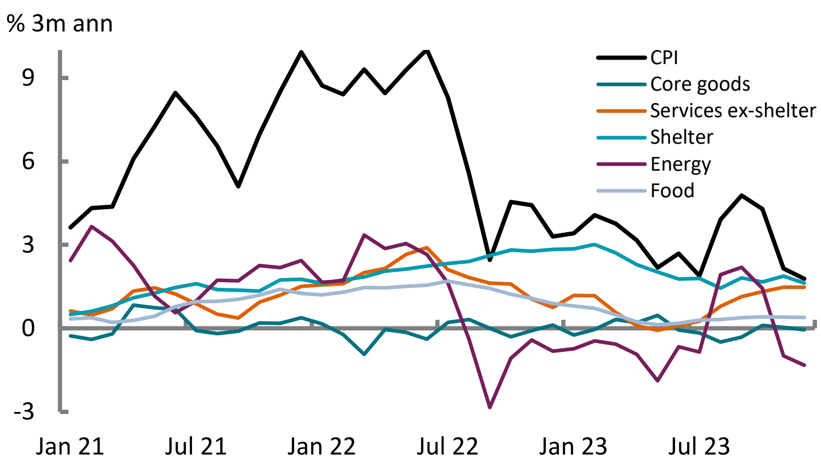
- Inflation rose to 3.4% in December to average 4.2% for the year as a whole. Recent Middle East developments threaten the disinflation from energy and core goods. Services ex-shelter inflation has been rising in recent months, likely more directly reflecting domestically-generated pressures. We forecast inflation averaging 3.1% this year and 2.5% next (consensus 2.6% and 2.3%). Stickiness in inflation over the coming months may question the Fed's conviction over returning inflation to target next year.

Fed likely to ease, rather than slash rates this year

- Despite an official ambivalence that encouraged aggressive market rate expectations at the last Fed press conference, recent comments appear more opposed and rate expectations have softened somewhat. But they remain more aggressive than our own or Fed participants views. We expect a further fade and the first cut in June, followed by "methodical" cuts to 4.75% by year-end. Recent comments suggest the Fed is closer to adjusting QT policy and we now look for a slowing pace of QT from mid-year.

Inflation likely stickier over coming months

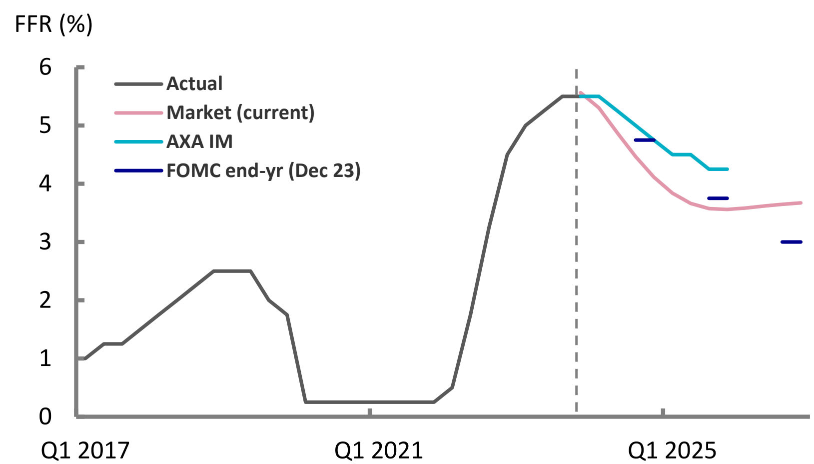
Contributions to inflation



Source: BLS, AXA IM Research, Jan 2024

Despite fade, market rate cut expectations look too aggressive

Fed Funds Rate and forecasts



Source: FRB, Bloomberg, AXA IM Research, 19 Jan 2024

Activity likely bottomed out in November

Euro area

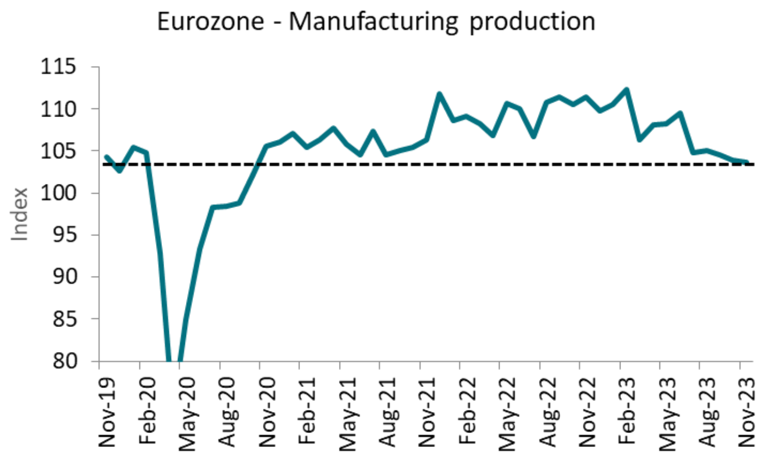
Manufacturing sector keeps dragging economy down

- Manufacturing production fell by 2.4% y/y in November and is now broadly at the same *level* as Q4 2020. Germany and Italy are performing very poorly due to high energy costs. Unfortunately, headwinds persist as surveys remained depressed in December, showing no clear turnaround in the near term

The services sector is holding up well, but this will probably not be enough to drive growth in Q4

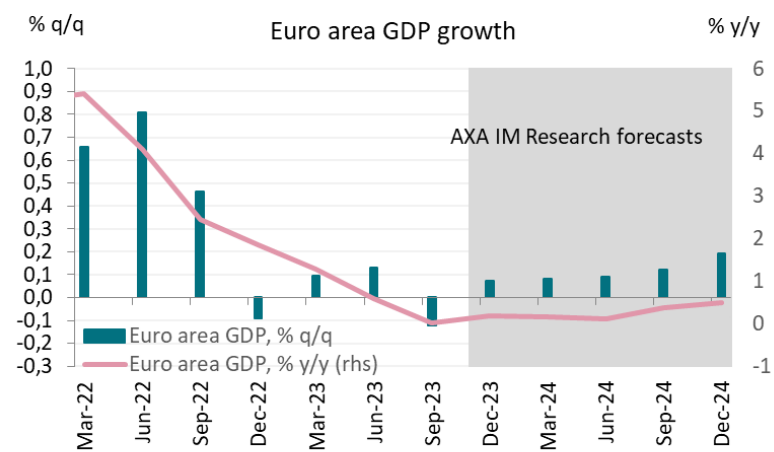
- Latest PMIs and sentiment surveys are both signaling a rebound in the services sector, but this is unlikely to boost Q4 2023 GDP growth (Consensus: 0%, AXA IM: 0.1%). We continue to expect a gradual improvement further into 2024, in particular for private consumption. But overall, growth should remain sluggish.

Manufacturing sector key economic drag



Source: Eurostat, AXA IM Research, Jan 2024

Weak, but gradual improvements



Source: Eurostat, AXA IM Research, Jan 2024

The ECB does not want to declare victory over inflation yet

Euro area

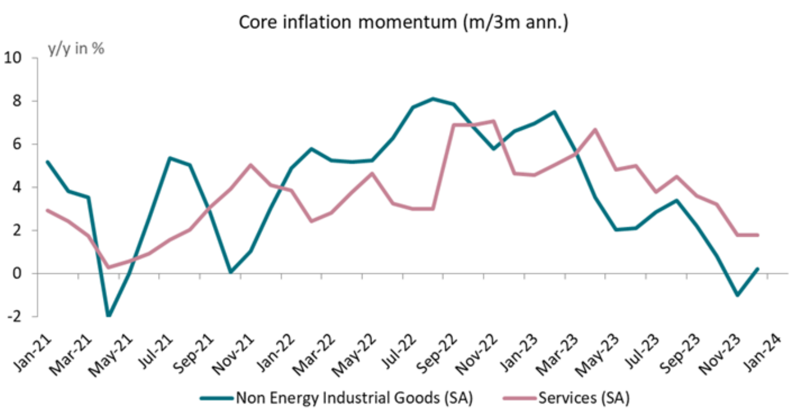
Core inflation continues to decelerate but uncertainties loom

- Inflation rose to 2.9% y/y in December, driven by a large base effect in energy. The core measure (excluding energy and food) slowed further, reaching 3.4% and driven by non-energy industrial goods (2.5%) while services inflation was flat at 4%. The ECB's seasonally adjusted measure of service prices shows gradual, but continued, deceleration. This will bring limited comfort as the level remains too high. Moreover, supply chain issues (in part reflecting the tensions in the Red Sea), the end of energy support measures and ongoing wage negotiations have added uncertainties about how soon inflation will fall back to the ECB's target.

Most ECB speakers pushed back against market expectations

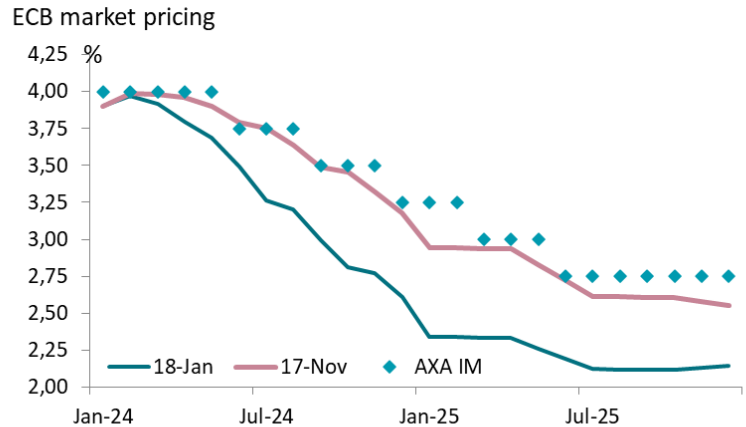
- Barring substantial downside surprises on the upcoming inflation figures, the ECB is likely to wait until wage data is published before end-April before loosening monetary policy. In Davos, ECB President Christine Lagarde has been clearer, stating the ECB is very unlikely to engage in rate cuts before late spring, "at the earliest". This reinforces our view that it will wait for June to implement the first rate cut. We forecast two more cuts, reaching 3.25% by year-end.

Core inflation momentum is on the right path



Source: Eurostat, AXA IM Macro Research, as of January 2024

Financial market pricing is still very aggressive on rate cuts



Source: Bloomberg and AXA IM Research, January 2024

Weaker activity seems to be impacting

UK

Technical recession, but growth effectively around zero

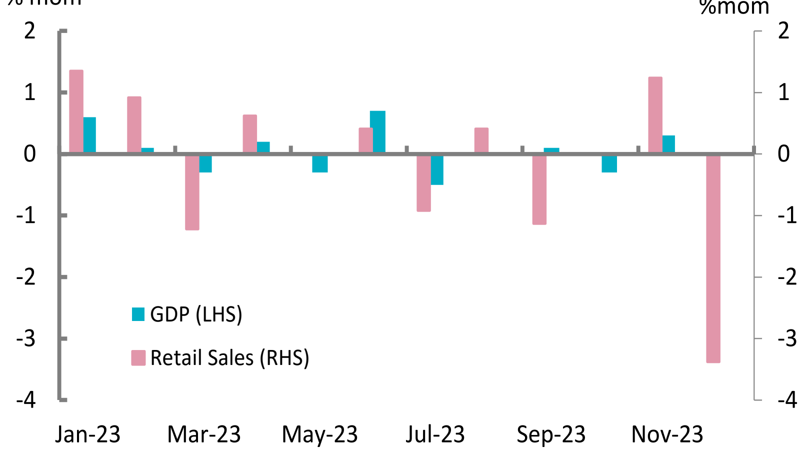
- Q3 GDP was revised to -0.1%. October's monthly GDP fell by 0.3%, November's rebounded by 0.3%. If December is weaker than 0%, Q4 as a whole will be negative delivering the first technical recession since the pandemic and GFC. With retail sales in December plunging by 3.2% m/m, this looks likely. This would not be significantly weaker than BoE Pill's description of "bouncing around zero". We adjust our GDP forecast to +0.2% (from 0.0%) for 2024 and 0.6% (from 0.5%) for 2025 (cons: 0.4% and 1.2%)

Best evidence provides tentative support for labour market loosening

- Evidence of a loosening in the labour market has been distorted by the suspension of official data from ONS. Unemployment had risen more quickly than expected to 4.2% by mid-2023. In 'patched together' data since then, it has stayed constant. Pay growth has started to soften from a very elevated 8.5% (3m yoy) public-sector boosted increase over the summer to 6.5% in the latest figures. Combined with continued data on falling vacancies, this remains the best evidence of a loosening in the labour market.

Weak end to year threatens technical recession

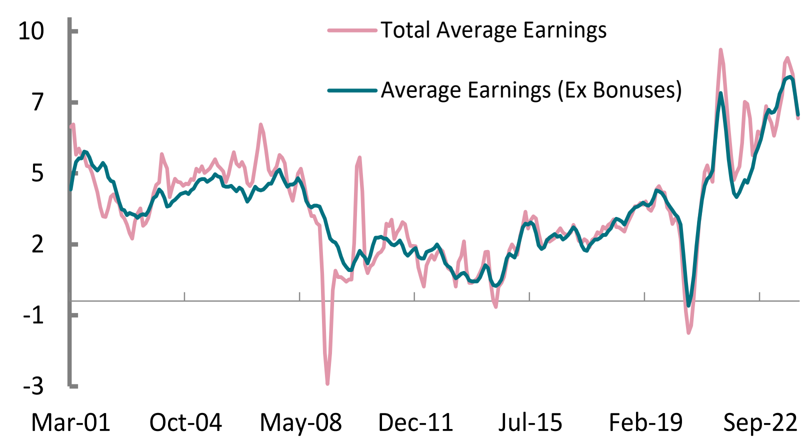
UK retail sales and monthly GDP



Source: LSEG, AXA IM Research, January 2024

Tentative evidence of loosening labour market

Average hourly earnings



Source: LSEG, AXA IM Research, January 2024

Signs of inflation pressure easing

UK

Inflation begins to fall more quickly

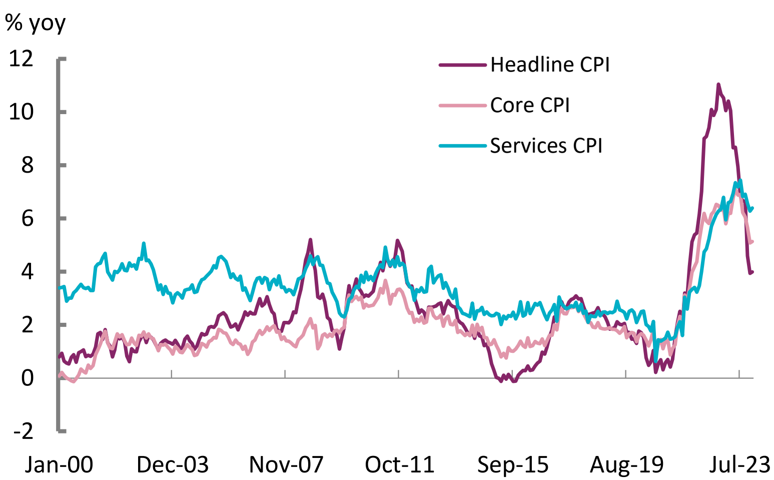
- Inflation rose in December to 4.0% y/y, from 3.9% in November. However, this shouldn't disguise the sharp disinflation trend in headline inflation this year from 10.5% last December (11.1% October 2022 peak). This was also true of core inflation, down to 5.1% from 6.3% and services to 6.4% from 6.8%. Each of these measures has fallen more sharply in recent months than the BoE expected. We forecast further disinflation over the course of this year and envisage inflation falling below target in 2025.

Still expect less easing than markets from BoE

- Market expectations for the end-2024 rate have been wild, ranging from 6% in July to 3.50% by year-end. We think the Bank of England will cut rates from around mid-year, but first requires reassurance of no inflation persistence. For this, it likely requires more information on the labour market. We expect it to begin loosening in August (risk of an earlier June) and cut rates by 75bps to 4.50% by year-end. We forecast back-to-back cuts around the turn of this year taking rates to 3.75% by mid-2025.

Disinflation has been sharp in UK, but has further to go

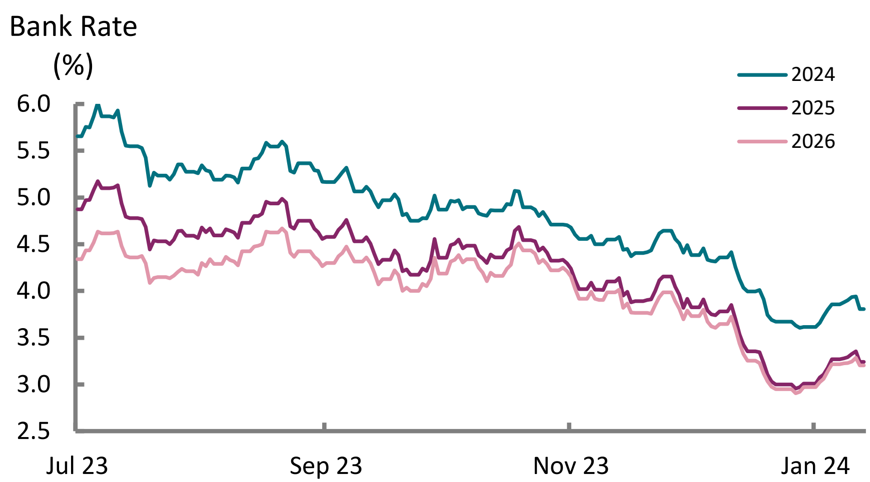
UK CPI inflation measures



Source: National Statistics, AXA IM Research, January 2024

Markets reconsider BoE's scope for rate cuts

Market Bank Rate expectations for end-years (SONIA)



Source: Bloomberg, AXA IM Research, January 2024

Target was met, what next?

China

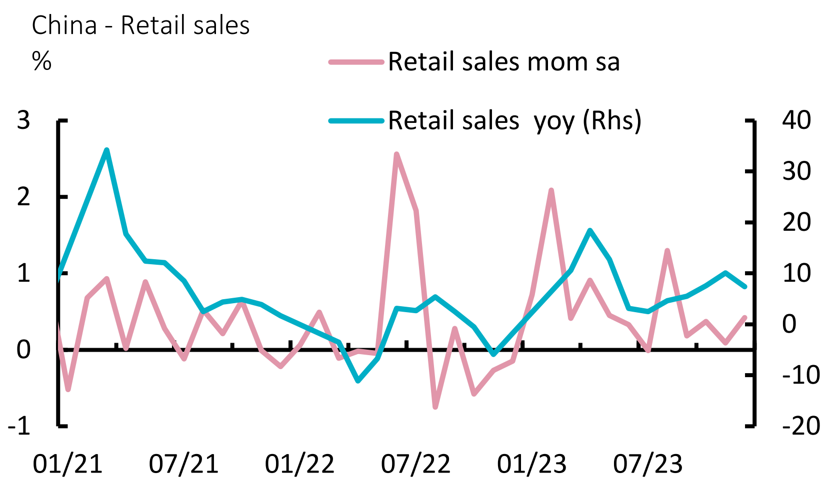
2023 ended as expected, but recovery is still ongoing

- China's economy expanded by 5.2% yoy in 2023, achieving the target of "around 5%". However, the recovery in the economy last year, post-COVID restriction, was uneven. Missing was the strong economic rebound and the release of excessive consumer savings, while the ongoing property downturn and subdued prices continued to exert downward pressure on the economy.

Economic misalignments raise risks for the future

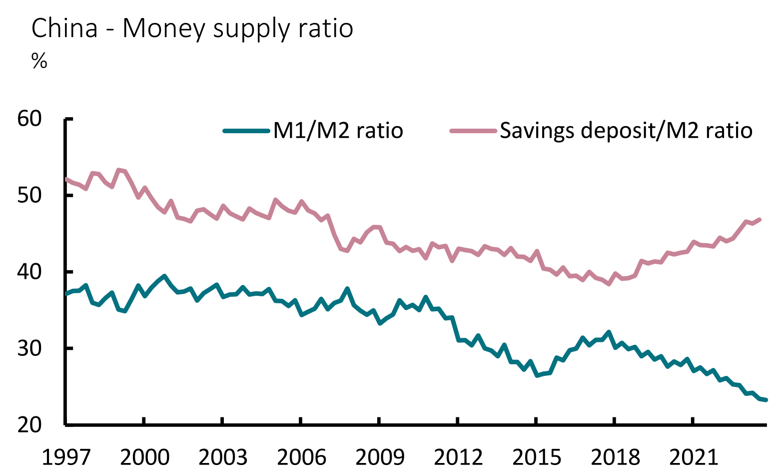
- The persistent divergence between sales in consumer goods and services suggests consumers' reluctance to make purchases, especially in big-ticket items, indicating deeper concerns over financial security.
- Subdued consumer goods sales and weaker exports contrasted with a better performance in the manufacturing sector. This could increase the risks of overcapacity and oversupply, exacerbating resource misallocation and reducing efficiency in China's economy.

Slow recovery in retail sales suggests lack of confidence



Source: CEIC, AXA IM Research, Jan 2024

Preference for saving remains elevated



Source: CEIC, AXA IM Research, Jan 2024

Policy attention needed in the household demand

China

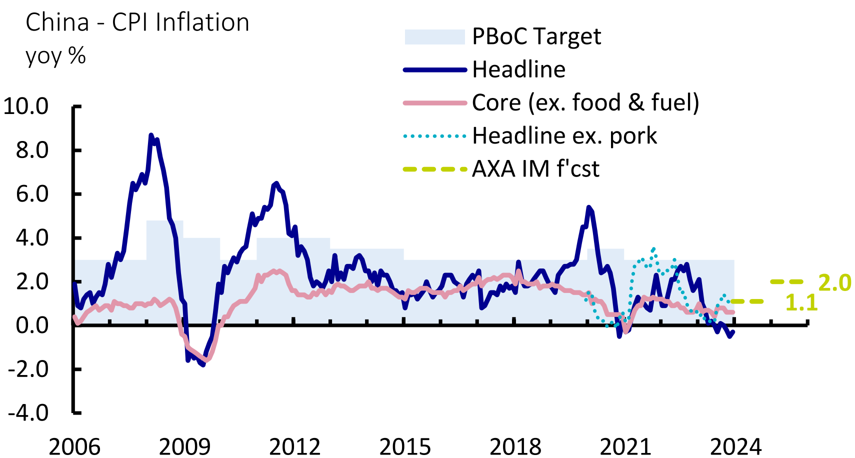
Investment-driven stimulus left households alone

- Beijing's recent policies signals suggest that investment-driven stimulus will be the strategy for this year. Increased investment appears to be boosting GDP, but the transition to the household sector could be slow, potentially weakening its efficacy amid decreasing capital efficiency and risks of overcapacity in China's economy.
- Reduced income, rising job insecurity, a loose labour market, and devalued properties have collectively eroded consumer confidence. Without restoring faith in consumers, meaningful recovery and sustainable growth in the economy seems unlikely.

Reflationary years ahead

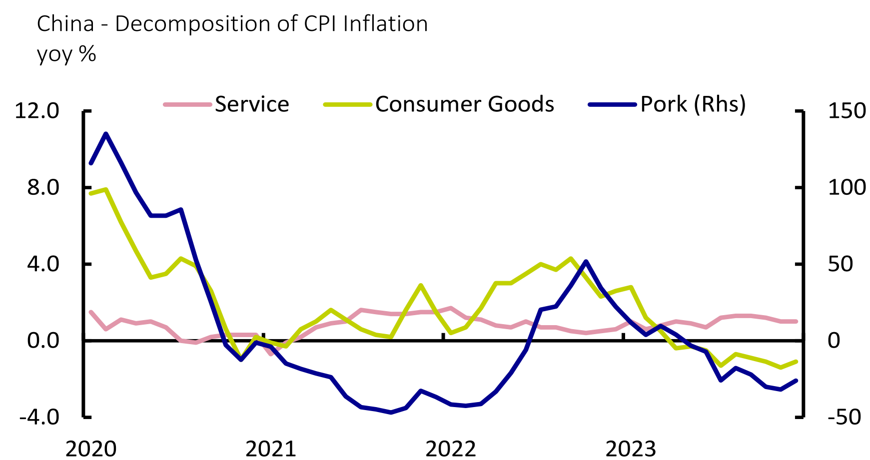
- 2023 saw the strongest deflationary headwinds in decades. This is attributable to the supply – demand imbalances which suggests soft demand in private consumption.
- Downward pressure on headline inflation is expected to ease this year, but CPI inflation is unlikely to be fully restored by 2025.

Weak but positive core inflation, while headline stays negative



Source: CEIC, AXA IM Research, Jan 2024

Divergence between services and consumer goods persists



Source: CEIC, AXA IM Research, Jan 2024

Waiting for better days

Japan

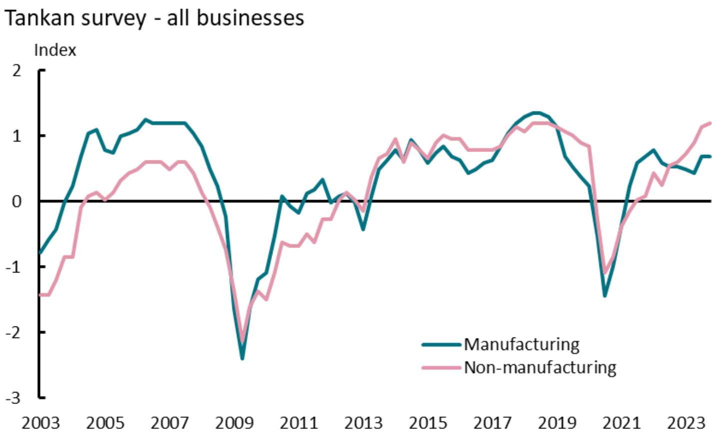
The economic activity appears to have stabilized in Q4

- Q3 posted a large and surprising fall in Q3 (-0.7% q/q). Large imports and inventories amplified the decline, but we can't dismiss the fact that all components fell. The most recent PMIs and Tankan surveys were mixed: December's services PMI remained in expansionary territory while the manufacturing PMI stopped deteriorating. These should be considered alongside Q4 Tankan surveys that saw broad-based improvements for manufacturing and services suggesting some hopes for a rebound in Q4.

Private consumption remains sluggish

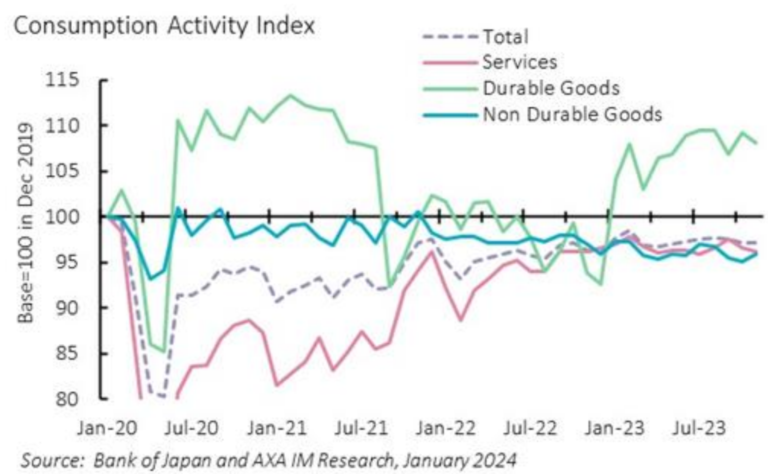
- Durable goods consumption remains high but appears to have reached a ceiling, so risks are tilted to the downside. In the meantime, it is worrying that we do not see any material rebound from services that remain below their COVID-19 level

Tankan surveys show Japanese companies well positioned for a rebound



Source: Bank of Japan, AXA IM Research, January 2024

A rebound will occur if services consumption rise again



Source: Bank of Japan, AXA IM Research, January 2024

The Bank of Japan is awaiting the end of wages negotiations

Japan

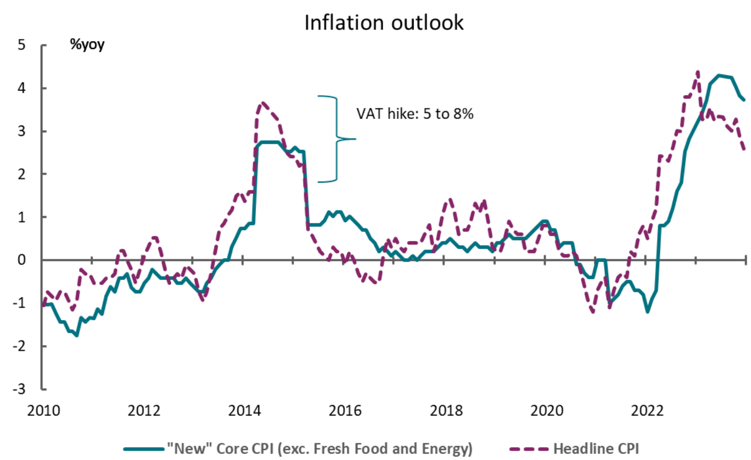
A plausible explanation for weak private consumption lies with inflation

- Inflation remains historically high, eroding real incomes and forcing households to cut spending. The latest headline inflation decelerated again to 2.6% y/y in December. If it persists, it should provide some respite for consumers, especially if this year's pay gains are close to the unions' initial demand of "5% or more".

Bank of Japan maintains the status quo in January, but confidence in achieving price stability goal is gradually increasing

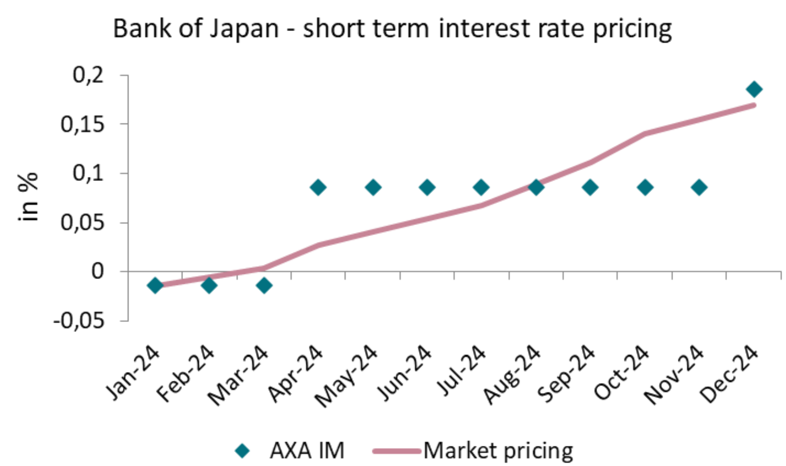
- For the time being, the BoJ seems undecided, sending signals that they have never been so close to normalising rate policy, but refraining from action as the economy struggles. Interestingly, the BOJ added that "against the background of the rise in inflation expectation, improvement in supply-demand gap, and positive changes in companies' wage hikes and price-setting behavior, confidence in achieving the price stability goal is gradually increasing"
- We believe the BoJ is getting closer to reach a broad majority at the Council, but they will wait until April, once it has enough evidence that wages will be sufficiently high to deliver sustained inflation convergence close to 2%

Inflation remains historically high



Source: Bank of Japan, Refinitiv, AXA IM Research, January 2024

Market pricing remains prudent (no clear commitment to any date but 20bps rate hike priced by year end)



Source: Bloomberg, AXA IM Research, January 2024

The teeth of the trade-off

Canada

GDP picking up into Q4

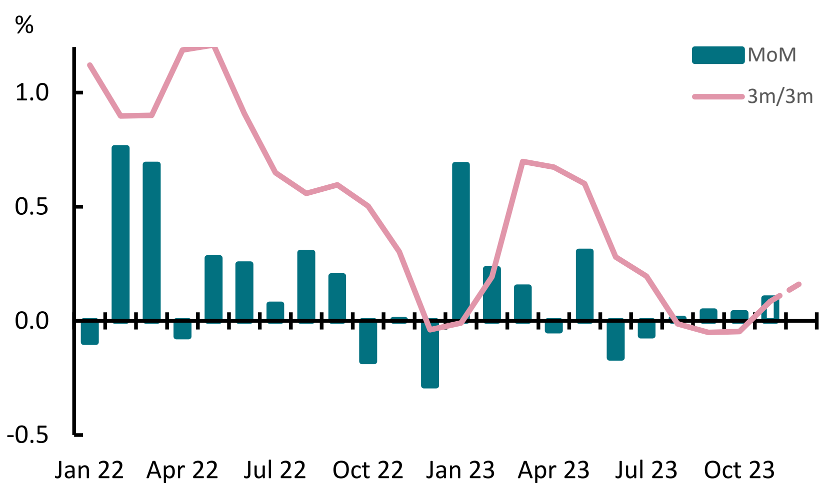
- Q3 GDP surprised, contracting by 1.1% (saar). Since then GDP was flat in October, but the flash November print was +0.1%. With retail sales buoyant in September and October, retracing a little since and consumer sentiment rising from November's lows, we expect Q4 GDP to rise by 0.2% leaving 2023 growth in line with our 1.1% forecast. But growth looks set to be subdued over the coming quarters – we forecast 0.5% in Q1 and Q2 – leaving GDP growth for the year at 0.5% before rising to 1.7% in 2025.

Inflation got stuck

- Headline and core inflation figures appear to have got stuck around 3.5% since Q2 2023. Strong base effects should see headline fall over the coming months and we forecast an average of 2.9% for this year and 2.3% next. But upside risks are growing in terms of energy and core goods from Middle East tensions. Core prices are also less likely to ease materially. The BoC is worried about inflation persistence and will want to see progress in core disinflation before easing monetary policy.

GDP contracted in Q3, should pick-up in Q4

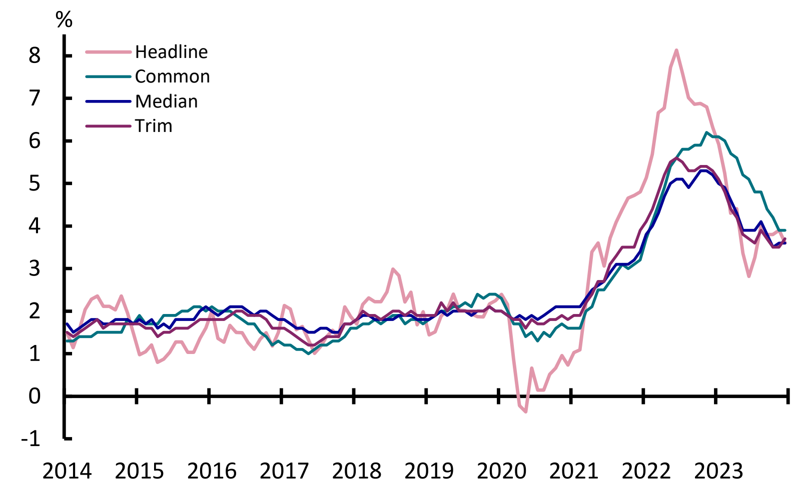
Canadian GDP



Source: CANISM, AXA IM Research, Jan 2024

Headline and core measures appear to have got stuck

CPI and core measures



Source: CANISM, AXA IM Research, Jan 2024

Domestic inflation pressures constrain BoC easing

Canada

Wage growth to weaken, but ULCs remain elevated

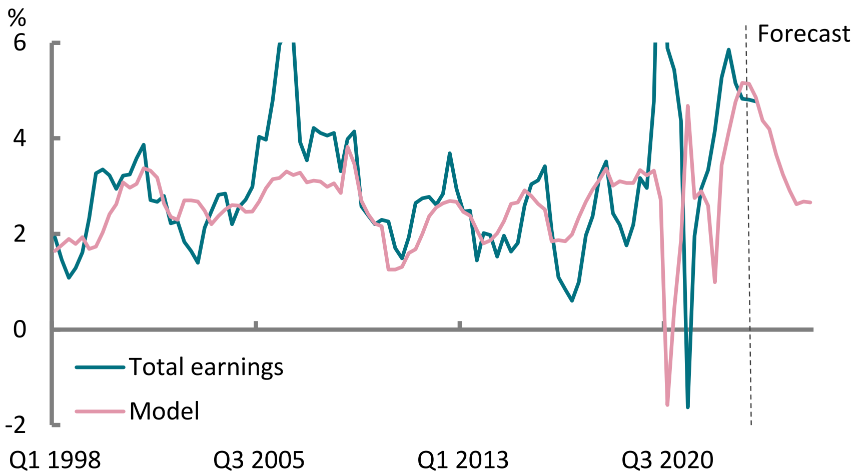
- The labour market is driving concerns about core inflation. Despite a gradual rise in unemployment to 5.8% to end-2023 from 5.0% end-2022, annual total wage growth is still particularly elevated at 5.2%. We forecast this to slow sharply. However, with productivity continuing to fall, unit labour costs – the key driver of domestic inflation – still look set to remain elevated.

Inflation concerns see BoC slower to cut

- We continue to expect the weak activity outlook and rising spare capacity to be consistent with BoC rate cuts this year. However, with inflation risks rising, core inflation still elevated and domestic inflation pressures high, the BoC looks set to hold current restrictive levels for some time. Markets see a risk of an April easing, but fully price the first cut in June. Our own view has been for a July cut, but we acknowledge risks of June. Fed timing will be important. Once the BoC starts to cut, we think it will ease substantially and forecast the ON lending rate at 4.25% by year-end and 3.50% by mid-2025.

Wage growth looks set to decelerate

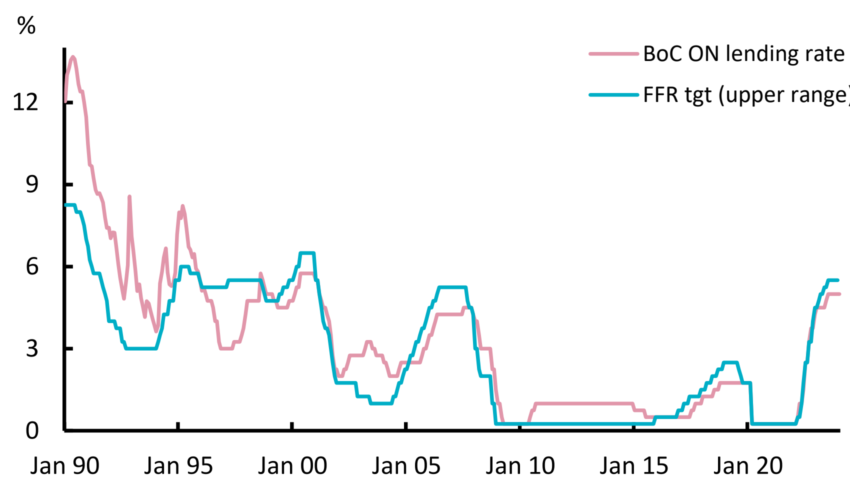
Average earnings and model



Source: CANISM, AXA IM Research, Jan 2024

Fed policy timing will also influence BoC

BoC and Fed policy rates



Source: FRB, BoC, AXA IM Research, Jan 2024

Strong disinflation trends offer central banks option of front-loading rate cuts

Central Europe

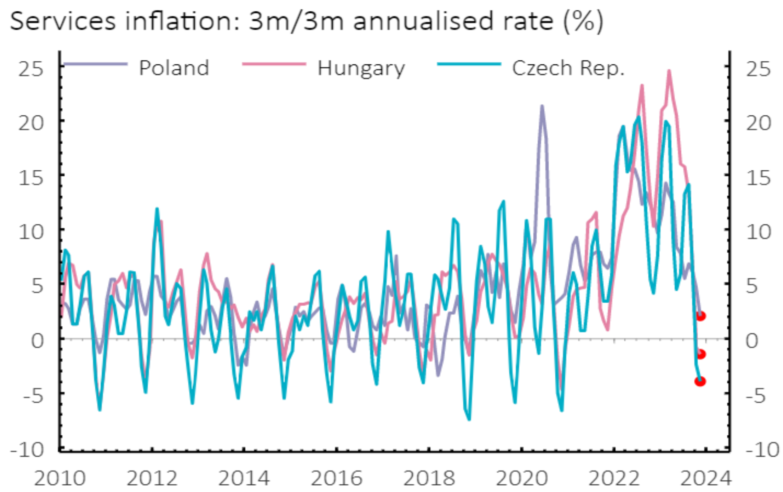
Disinflation surpasses expectations

- Inflation surprised to the downside across Central Europe in December driven by slower food and fuel price inflation. Central Europe remains the worst performing EM region in terms of inflation rates, but we expect strong base effects to support a disinflation trend in early 2024.

Easing cycle begun and may accelerate

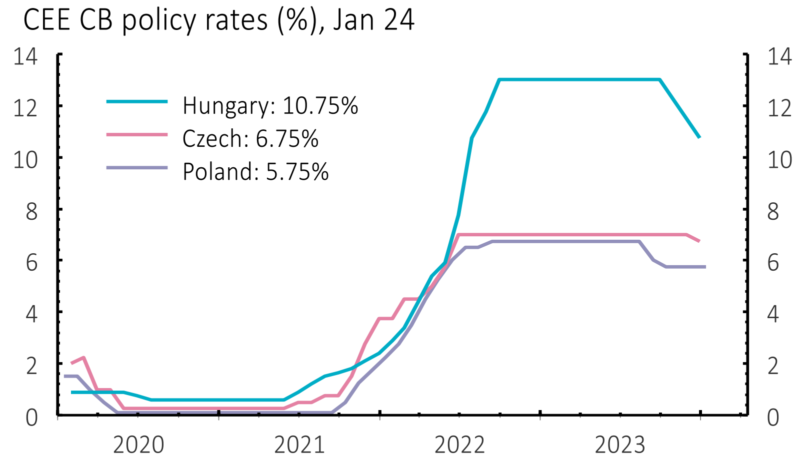
- Poland's central bank was the first in the region to cut policy rates, quite aggressively initially - 75bp in September and 25bp in October - just ahead of the general elections which saw the pro-European opposition winning - but has kept rates on hold at 5.75% since. Czech National Bank lowered its key policy rate in December by 25bp to 6.75%, slightly earlier than we had anticipated, but remains cautious in terms of future policy guidance.
- In Hungary, the central bank appeared more dovish of late as economic data show recovery is still muted while inflation has been coming off the boil more rapidly and should benefit from strong base effects into the start of this year.

CEE: inflation momentum in services is quite encouraging



Source: LSEG Datastream and AXA IM Research Jan 2024

CEE: central banks have embarked the easing cycle



Source: LSEG Datastream and AXA IM Research Jan 24

Inflation under control in the region; Argentina starts bold reform agenda

Latin America

LatAm: Inflation downward trend continues allowing for sustained monetary easing throughout 2024

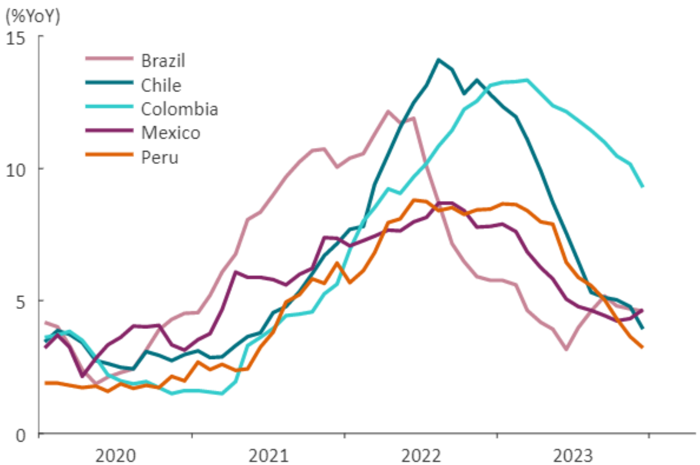
- Disinflation continues in the region, with Brazil and Chile now within their central banks' target bands, while Peru and Mexico are expected to converge this quarter. Colombia, although an outlier with inflation at 9.3%, has also shown rapid improvement, prompting the central bank to make its first cut in December. Mexico is the only country yet to initiate an easing cycle, but we expect it to do so by March. Across the board, all other countries are projected to continue easing through 2024, with Chile potentially accelerating the pace soon and Brazil following suit in Q2.

Argentina: A busy first month

- In just a month, the government has rapidly implemented measures, including spending cuts, currency devaluation, and streamlining ministries. While these actions have garnered praise from the IMF and positive market reactions, attention has shifted to the “Omnibus law” for more extensive reforms. However, given the government´s lack of majority in either chamber, President Milei faces an uphill battle to advance his reform agenda. Meanwhile, labor unions are gearing up for a national strike, foreshadowing tumultuous months ahead amidst radical reforms.

LatAm disinflation path continues

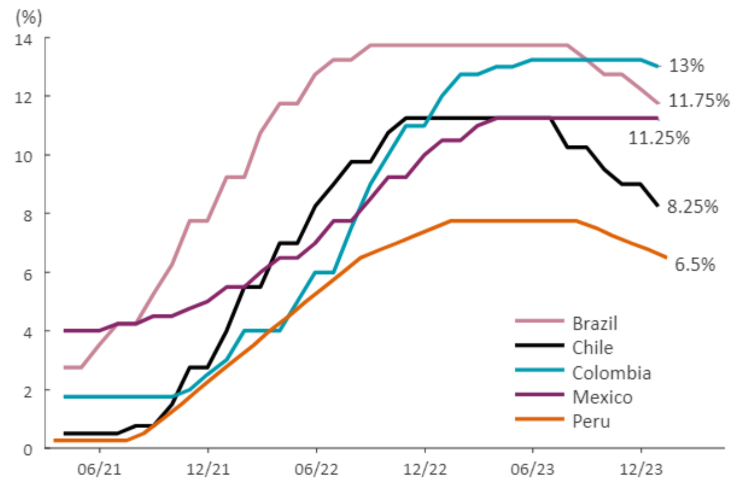
Headline inflation



Source: LSEG Datastream and AXA IM Research, Jan 24

Mexico to join the regional easing cycle soon

Policy rates



Source: LSEG Datastream and AXA IM Research, Jan 24

Forecasts & Calendar

Macro forecast summary

Forecasts

Real GDP growth (%)	2023*		2024*		2025*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.0		2.8		3.0	
Advanced economies	1.6		1.0		1.3	
US	**2.4**	2.4	**1.4**	1.2	**1.6**	1.8
Euro area	**0.5**	0.5	**0.3**	0.5	**0.8**	1.5
Germany	**-0.1**	-0.3	**0.1**	0.4	**0.7**	1.5
France	**0.8**	0.9	**0.5**	0.7	**0.7**	1.3
Italy	**0.8**	0.7	**0.1**	0.5	**0.5**	1.2
Spain	**2.4**	2.4	**0.9**	1.3	**1.3**	1.9
Japan	**1.9**	1.7	**1.2**	0.9	**1.0**	1.0
UK	**0.3**	0.5	**0.2**	0.3	**0.6**	1.2
Switzerland	**0.6**	0.8	**0.8**	1.1	**1.3**	1.5
Canada	**1.1**	1.1	**0.5**	0.5	**1.7**	1.9
Emerging economies	3.9		4.0		4.1	
Asia	4.9		4.8	4.0	4.7	
China	**5.2**	5.2	**4.5**	4.6	**4.2**	4.4
South Korea	**1.4**	1.3	**2.2**	2.1	**2.3**	2.2
Rest of EM Asia	**5.0**		**5.4**		**5.5**	
LatAm	2.3		2.3		2.4	
Brazil	**3.0**	3.0	**1.4**	1.6	**2.0**	2.0
Mexico	**3.3**	3.3	**2.0**	2.2	**1.5**	2.2
EM Europe	2.4		2.0		2.7	
Russia	**2.2**	2.7	**1.1**	1.7	**1.0**	1.1
Poland	**0.6**	0.4	**2.8**	2.8	**3.5**	3.4
Turkey	**4.3**	3.9	**2.0**	2.2	**3.6**	3.2
Other EMs	2.3		3.5		4.0	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 24 January 2024

**Forecast*

Expectations on inflation and central banks

Forecasts

Inflation Forecasts

CPI Inflation (%)	2023*		2024*		2025*	
	AXA IM	*Consensus*	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	**4.7**		**2.8**		**2.2**	
US	**4.2**	4.1	**3.1**	2.6	**2.5**	2.3
Euro area	**5.5**	5.5	**2.6**	2.4	**2.1**	2.1
China	**0.4**	0.4	**1.1**	1.4	**2.0**	1.9
Japan	**3.2**	3.2	**2.2**	2.3	**1.6**	1.5
UK	**7.5**	7.4	**3.1**	3.1	**1.8**	2.0
Switzerland	**2.2**	2.2	**1.6**	1.6	**1.3**	1.3
Canada	**4.2**	3.9	**2.9**	2.5	**2.3**	2.0

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 24 January 2024
**Forecast*

Central banks' policy: meeting dates and expected changes

Central bank policy Meeting dates and expected changes (Rates in bp / QE in bn)		Current	Q1-24	Q2-24	Q3-24	Q4-24
United States - Fed	Dates	5.50	31 Jan 20 Mar	1 May 12 Jun	30-31 Jul 17-18 Sep	6-7 Nov 17-18 Dec
	Rates		unch (5.50)	-0.25 (5.25)	-0.25 (5.00)	-0.25 (4.75)
Euro area - ECB	Dates	4.00	25 Jan 7 Mar	11 Apr 6 Jun	18 Jul 12 Sep	17 Oct 12 Dec
	Rates		unch (4.00)	-0.25 (3.75)	-0.25 (3.50)	-0.25 (3.25)
Japan - BoJ	Dates	-0.10	18-19 Mar	25-26 Apr 13-14 Jun	30-31 Jul 19-20 Sep	30-31 Oct 18-19 Dec
	Rates		unch (-0.10)	+0.10 (0.00)	unch (0.00)	unch (0.00)
UK - BoE	Dates	5.25	1 Feb 21 Mar	9 May 20 Jun	1 Aug 19 Sep	7 Nov 19 Dec
	Rates		unch (5.25)	unch (5.25)	-0.25 (5.00)	-0.50 (4.50)
Canada - BoC	Dates	5.00	24 Jan 6 Mar	10 Apr 5 Jun	24 Jul 4 Sep	23 Oct 11 Dec
	Rates		unch (5.00)	unch (5.00)	-0.25 (4.75)	-0.50 (4.25)

Source: AXA IM Macro Research - As of 24 January 2024

Calendar of events

2024	Dates	Events	Comments
January	24-Jan	BoC meeting	unch (5.00%)
	25-Jan	ECB meeting	unch (4.00%)
	31-Jan	FOMC meeting	unch (5.50%)
February	01-Feb	BoE meeting	unch (5.25%)
	08-Feb	US: Nevada & Virgin Islands Republican primaries	
	06-Feb	Reserve Bank of Australia (RBA) meeting	
	24-Feb	US: South Carolina Republican primaries	
	26-27 Feb	BoE's Agenda for Research conference	
	27-Feb	US: Michigan Republican primaries	
March		UK Chancellor Jeremy Hunt delievers Spring Budget	
	01-Mar	Latest split deadline for US government funding agreement	
	02-Mar	US: Idaho & Missouri Republican primaries	
	03-Mar	US: Washington DC Republican primaries	
	04-Mar	US: North Dakota Republican primaries	
	05-Mar	US Super Tuesday	
	06-Mar	BoC meeting	unch (5.00%)
	07-Mar	ECB meeting	unch (4.00%)
	08-Mar	Latest split deadline for US government funding agreement	
	10-Mar	Portugal General Elections	
	12-Mar	US: Georgia, Hawaii, Mississippi & Washington Republican primaries	
	17-Mar	Russia Presidential Elections	
	18-19 Mar	BoJ meeting	unch (-0.10%)
	19-Mar	Reserve Bank of Australia (RBA) meeting	
	19-Mar	US: Arizona, Florida, Illinois, Kansas & Ohio Republican primaries	
	20-Mar	FOMC meeting	unch (5.50%)
	21-Mar	BoE meeting	unch (5.25%)
	21-22 Mar	European Council	
	23-Mar	US: Louisiana Republican primaries	
	31-Mar	Ukraine Presidential election	
April		BoE Term Funding Scheme repayments begin	
		India General Elections	
	02-Apr	US: Connecticut, Delaware, New York, Rhode Island & Wisconsin Republican primaries	
	10-Apr	BoC meeting	unch (5.00%)
	11-Apr	ECB meeting	-25bps (3.75%)
	23-Apr	US: Pennsylvania Republican primaries	
	25-26 Apr	BoJ meeting	+10bps (0.00%)
	30-Apr	Post Brexit border full SPS checks on EU goods introduced	
	Late April	EU countries send their updated stability programmes (GDP & fiscal outlook) to the Commission	
	Spring	Commission will propose to EU Council to open Excessive Deficit Procedures	
May	01-May	FOMC meeting	-25bps (5.25%)
	07-May	US: Indiana Republican primaries	
	07-May	Reserve Bank of Australia (RBA) meeting	
	09-May	BoE meeting	unch (5.25%)
	14-May	US: Maryland, Nebraska & West Virginia Republican primaries	
	21-May	US: Kentucky & Oregon Republican primaries	
June	02-Jun	Mexico Presidential Election	
	04-Jun	US: Montana, New Jersey, New Mexico & South Dakota Republican primaries	
	05-Jun	BoC meeting	unch (5.00%)
	06-Jun	ECB meeting	-25bps (3.75%)
	6-9 Jun	European Parliament Election	
	09-Jun	Belgium Federal Elections	
	12-Jun	FOMC meeting	-25bps (5.25%)
	13-14 Jun	BoJ meeting	+10bps (0.00%)
	18-Jun	Reserve Bank of Australia (RBA) meeting	
	20-Jun	BoE meeting	unch (5.25%)
	27-28 Jun	European Council	
	30-Jun	BoE MPC member & Deputy Governor Ben Broadbent's term ends	
September	25-Sep	Germany General Elections	
October	Before 24 Oct	Austria General Elections	

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