AXA Investment Managers

Investment Institute Macroeconomics

The sum of all fears

Monthly Investment Strategy

AXA IM Research

September 2024

Summary: September 2024

Theme of the month: The US election

- Since Vice President Kamala Harris took the Democratic nomination she has established a small lead over Republican Donald Trump in the polls, <2%. Harris has been buoyed by a honeymoon inauguration, a successful Democrat convention and a convincing performance in the TV debate. It may be a concern that she has not been able to extend her lead.
- However, Harris has made marginal US states competitive again and in current poling only trails in two. As things stand, she has the electoral college votes.
- But polling is volatile and her lead slim. In 2016 Clinton had bigger leads than Harris and lost. In 2020 Biden had bigger leads; his eventual win was about half what polls had suggested. However, US historian Allan Lichtman, who has correctly predicted each election since 1984, has forecast a Harris win.
- Harris economic agenda appears to be based on the President's Budget submitted in March 2024, including for corporate and capital gains tax increases. This would rein in the deficit and enact significant redistribution. However, a Republican Senate would likely thwart this agenda.
- Trump's policy mix includes tariffs, tax cuts, a migration clampdown and deregulation. His policies would raise de facto taxes on lower income households (tariffs) to part fund higher income and business tax cuts. Tariffs and migrant deportations would be supply shocks, tax cuts a demand boost. The combination would be a more inflationary outlook, that would restrict the Fed's space to remove policy restrictiveness.
- Trump's policies should boost the dollar and yields and markets have moved in this direction when Trump has gained in the polls.

Macro update: A synchronous easing cycle? – not quite

- The US Federal Reserve finally started to ease policy delivering a surprise 50bps cut to 4.75-5.00%, the sharpest start of an easing outside being on the brink of recession. Yet the economic outlook remains solid and we expect the Fed to continue at a slower pace of 25bps/meeting this year and /qtr next.
- China's economy continues to worry. Domestic demand weakens further under the property correction and fiscal stimulus appears increasing ineffective. However, the easing from the Fed (and appreciation of the CNY) has created some space for monetary policy easing, which China appears to be using.
- Eurozone activity remains mixed, activity slowly improving overall, but remaining a concern in key states. France has finally appointed a new government amidst ongoing difficulties with its public finances. The Italian outlook has improved. But the ECB has maintained a steady pace of easing, as expected.
- The BoE paused the cuts started in August. A cut in November looks likely and the "gradual" pace may accelerate after the Budget on 30 October.
- EM Asia also began easing, the Fed's easing a necessary, but not sufficient condition for cuts. Indonesia and the Philippines both cut (both had real rates in excess of the US). Others including India, Korean and Thailand are expected to ease by year-end, although remain mindful of financial stability risks.
- Brazil was an outlier with its central bank hiking by 25bps after the Fed, reflecting looser fiscal conditions. Further hikes are expected this year.
- Japan has also tightened (in July). Further hikes are expected, but as the BoJ signalled caution over the US outlook and Japan's imminent leadership election looks set to be followed by a general election, further hikes look likely to emerge later, January on our forecasts.

Central scenario

Summary – Key messages

Our central scenario: Global economy stabilises, disinflation slows.

Global growth expected 3.2% in 2024, to slow to 3.1% in 2025.

Disinflation continues, spreading to core helped by energy. Monetary policy easing underway. Political risks into year end.

Inflation

Headline close to targets in many economies as energy prices soften. Core disinflation broadens, but stickiness in services; target rates more likely next year.

Monetary policy

Central banks tip into easing restrictive policy, Fed plays catch-up. Risks rebalance from restraining inflation.

Fiscal policy

European rules require fiscal consolidation, elections sharpen focus. EU budget submissions in Sept/Oct. US fiscal doubts to overhang the election.

Emerging Markets

Inflation easing slowly across EM. Central bank easing cycle becomes to gain confidence post Fed. Some see fiscal slippage.

FX

Dollar softens into Fed easing, exacerbated by recovering European politics and Japanese intervention. Dollar rebound a risk on election result.

Rates

Term rates drift lower as confidence in Fed easing grows. But doubts grow over longer-term outlook following US election.

Growth

Growth started 2024 on firmer footing in most economies, but likely to settle into softer pace for rest of year. Consumers supported by real disposable income growth.

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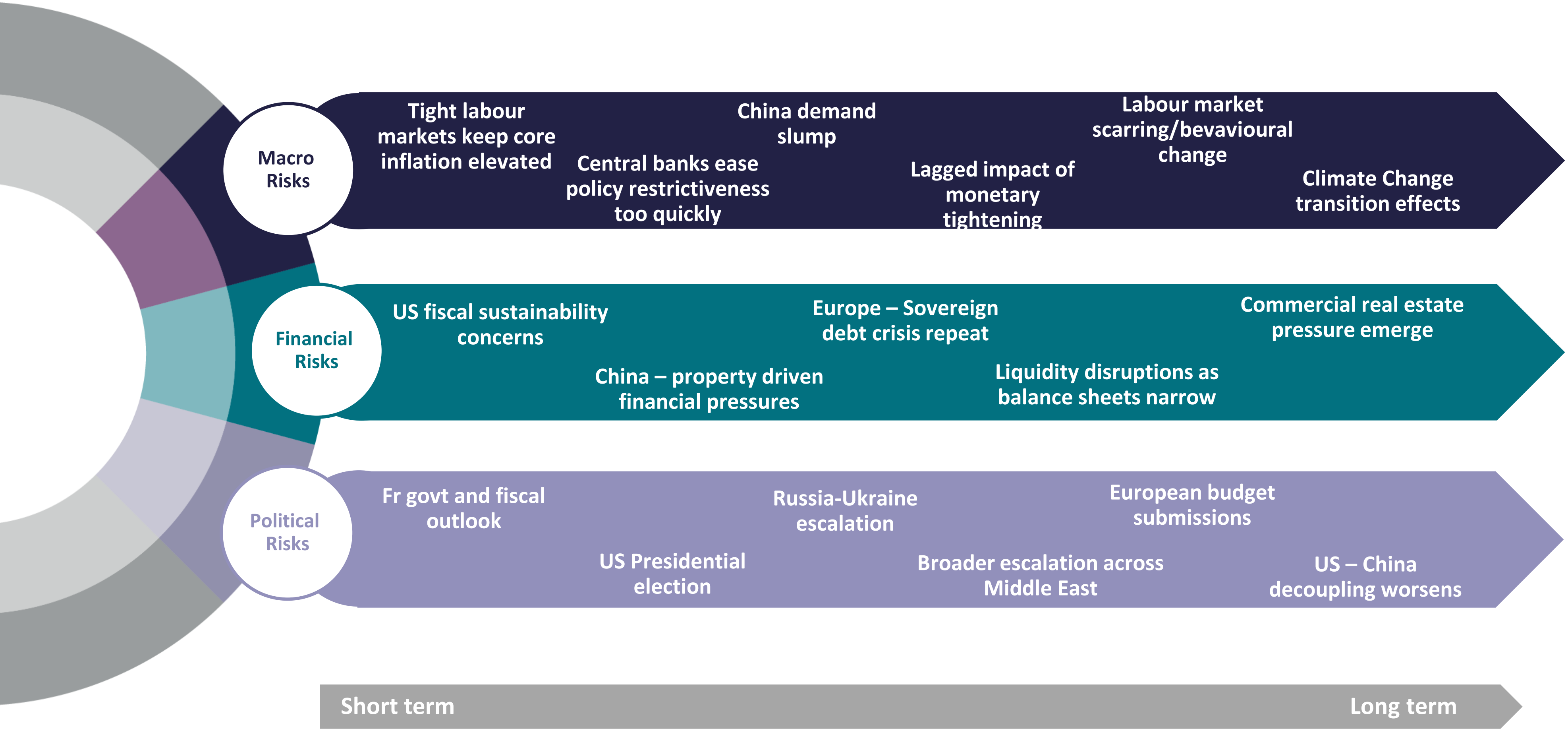
Alternative scenarios

Summary – Key messages

	Entrenched supply shock Probability 20%	**A global boost** Probability 20%
What could be different?	- Trumponomics: protectionism, migration clampdown - Geopolitical tensions escalate: Ukraine, Middle East and Indo-Pacific - Inflation expectations rise, affecting wages and inflation persistence	- Labour market participation recovers/migration strong, strong income growth and easing inflation pressures - Productivity boost following investment rebound and structural post-pandemic adjustments, AI impact becomes visible
What it means	- Growth weaker, employment slows, 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

The US election

New dawn or honeymoon ?

Harris maintains lead in the polls

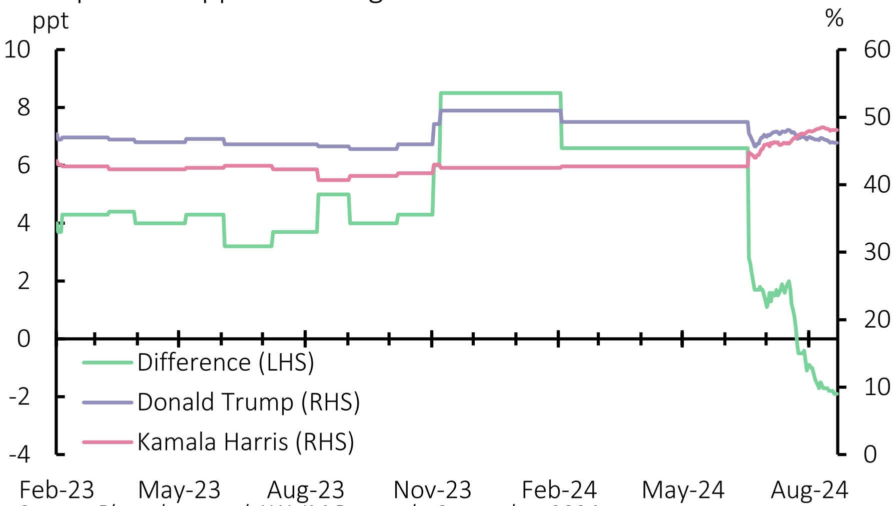
- Since becoming the new Democrat nominee after President Biden's age concerns finally caught up with him after a poor televised debate with Trump in June, Vice President Kamala Harris has maintained a narrow lead over Trump in the polls. Harris has maintained close to a 2pt lead after her initial emergence, the Democrat Convention and a convincing performance in the TV debate. However, it is perhaps a concern that she hasn't managed to improve her lead after these solid boosts.

Marginals

- Importantly, Harris has managed to transform the electoral race to competitive in all of the marginals, with only Florida remaining staunchly pro-Trump. Harris now leads in Pennsylvania, Nevada, Michigan, New Hampshire and Wisconsin. She is neck-and-neck in North Carolina and trails by a modest amount in Arizona and Georgia.

Harris polling improves sharply

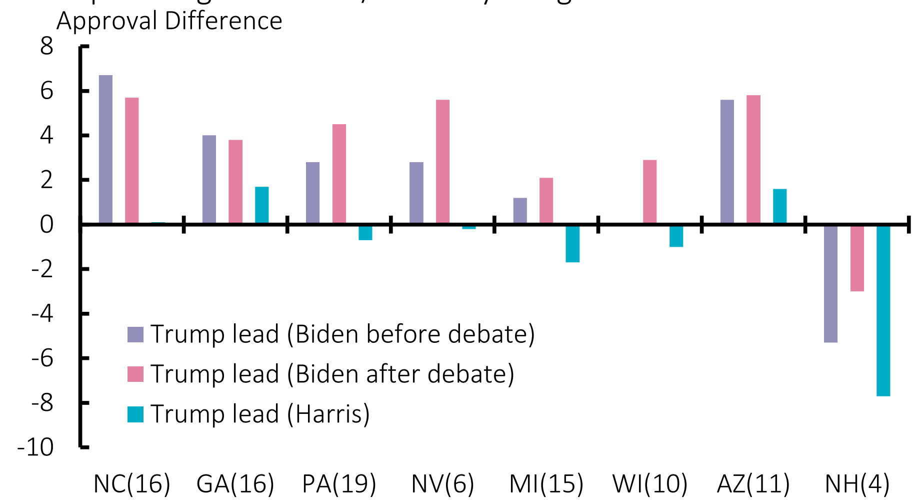
Trump Harris approval ratings



Source: Bloomberg and AXA IM Research, September 2024

Harris closes and reverses Trump lead in marginal states

Trump lead against Biden/Harris by marginal states



Source: RealClearPolling and AXA IM Research, September 2024

The US election

Is it enough ?

Harris path to electoral college victory is narrow

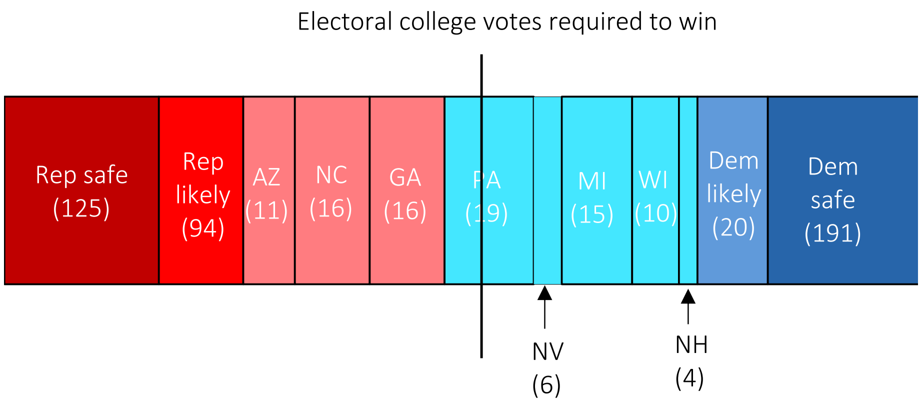
- The marked improvement in Democrat polling has opened up a path to electoral college victory, but it remains tight. Ranking states by voting intentions shows that Harris would gain sufficient electoral college votes. However, all of the polling bar New Hampshire is within 2%, which will be around the sample error in the polls.

Polling can be volatile

- Moreover, Harris' current poll lead is slim. 8-years ago, Hilary Clinton had enjoyed far larger leads in the polls over Trump and lost. Biden had a more than twice her lead in 2020, but eventually won with a lead only around half what polls suggested. The VP debate is 1 October but will be less impactful. A second debate may be scheduled for October, but this appears unlikely. That said, beyond polling the historian Allan Lichtman who has successfully predicted each Presidential outcome since 1984 expects Harris to win.

Harris has electoral college number, but now hangs in the balance

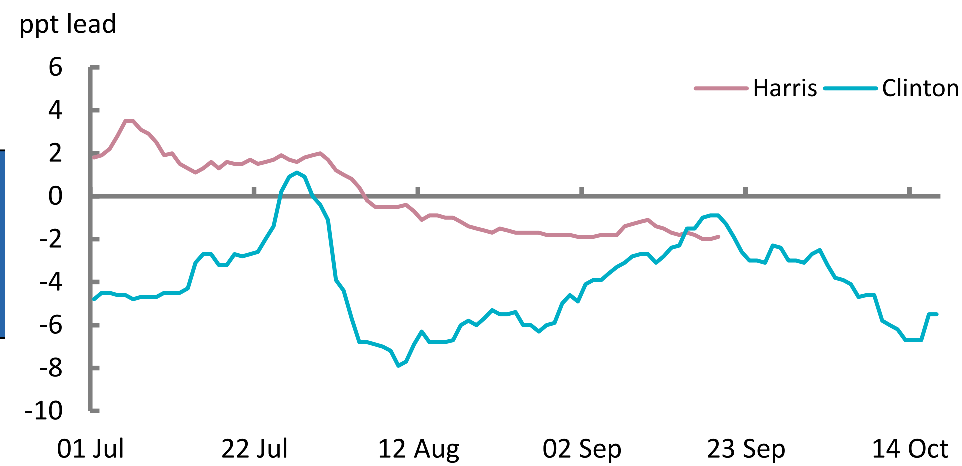
US - States with electoral college votes ranked by current polling



Source: RealClearPolitics and AXA IM Research, September 2024

Harris's current lead in the polls is small compared to Clinton's

Trump lead in overall approvals



Source: Bloomberg, RealClearPolling, AXA IM Research, September 2024

The US election

Broader Congressional Elections matter

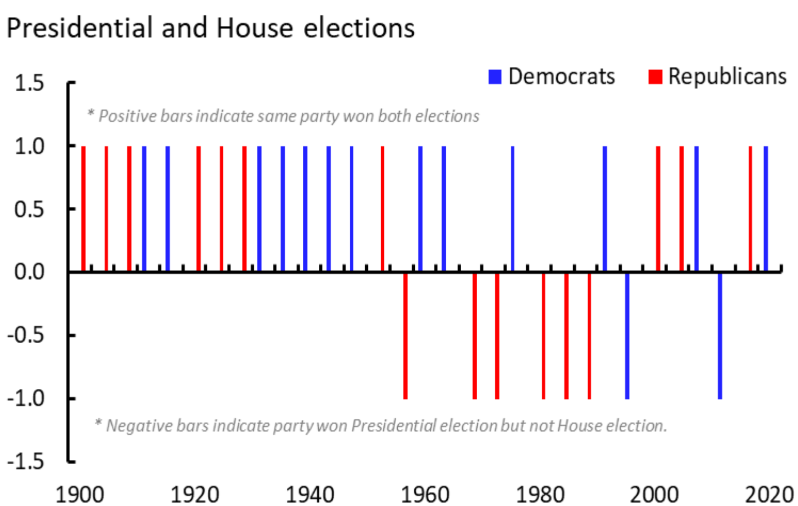
House of Representatives elections

- The House of Representatives stood with a Republican majority of 222 vs 212 after the 2022 midterms. Historically, the House vote religiously followed the popular vote until the 1950. Since then, it has been about 50-50, although since the 1990s more likely two-thirds with Presidential vote. Odds are still that whoever wins the Presidential election will hold the House. We note that some redistricting around New York may additionally benefit the Democrats this time.

Senate maths favour Republicans this time

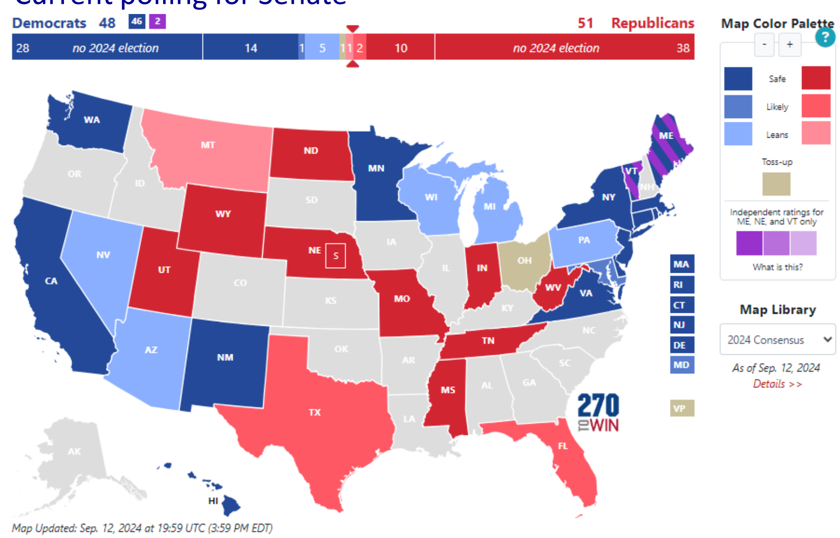
- The Senate currently see 48 Democrats and 3 independents (that caucus with Dems) vs 49 Republicans. This time there are 34 seats up for election, reflecting the usual rotation plus a special election in Nebraska. Of those, 23 are Democrats or Independents. Republicans only need a net gain of 2 (or 1 and the Presidency), which on current polling they should achieve with West Virginia moving to 'safe' Republican from 'leans' as the Democrat's Manchin says he will not run again

Current Congressional Configuration



Source: US House of Representatives Press Gallery, September 2024

Current polling for Senate



Source: 270toWin, September 2024

The US election

Policies

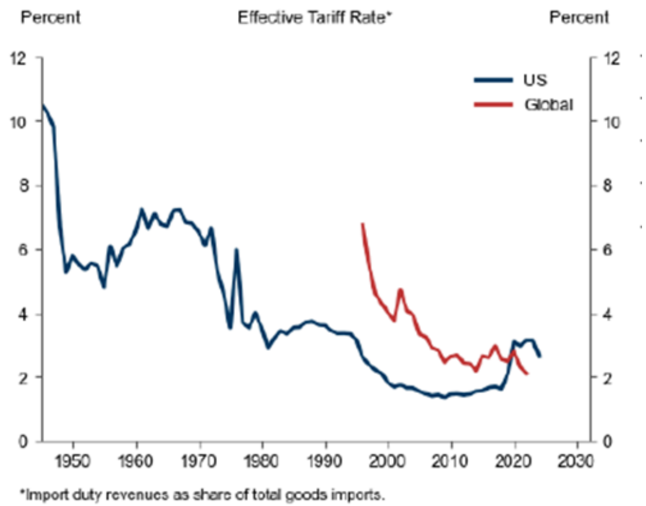
Trump's unorthodox agenda

- Trump has suggested a range of policies. **Tariffs** (60% on China, 10% on the rest of the world, possibly 100% on Chinese autos from Mexico). **Migration**, Trump has said he will slow the pace of migration and deport undocumented workers (11m estimated). **Tax cuts** (SALT deductions, tax on tips, and TCJA tax cut extensions). **Deregulation** (oil & gas, banking, tech). **Geopolitical intervention** (Ukraine, China, Middle East). In all, these supply shocks and demand boost creates an inflationary backdrop.

Harris' plans, unclear and thwarted

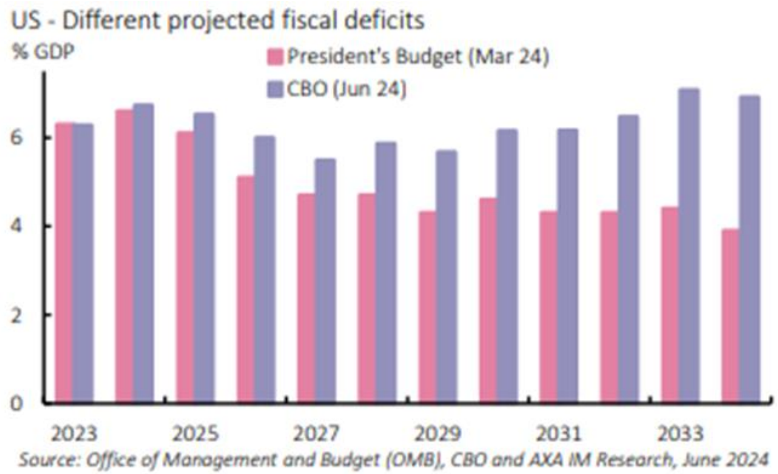
- Harris has not provided a full economic agenda and has so far suggested relatively piecemeal policies such as restraining price-gouging, housing support, reintroducing child tax credits and increasing corporate and capital gains tax rates. This mainly lifts from the President's Budget. We think this would form the bulk of her agenda: an ambitious plan to rein in the deficit while conducting a material redistribution. An expected Republican Senate is likely to thwart most of this agenda.

Historic US effective tariff rate



Source: Goldman Sachs, September 2024

Harris' agenda – the President's Budget Plan



Source: CBO and AXA IM Research, September 2024

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The US election

Market impact

Trump’s policies support rates and dollar

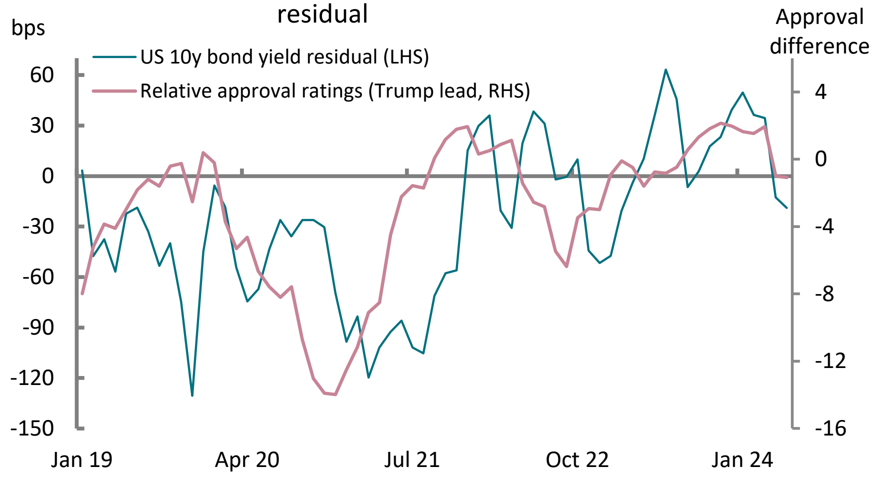
- The mix of Trump’s policies should boost the dollar and interest rates. Standard economic theory suggests that a domestic currency will appreciate if tariffs are applied to competitors. We argue that on top of that the additional supply shock (slower labour supply from migrant deportation) and demand boost (tax cuts) will prove inflationary and require higher rate policy from the Fed, boosting rates and further supporting the dollar.

Asset prices and polling

- We illustrate that polling appear to have some impact on yields and the euro and show that the latest fall in polling for Trump (boost to Harris) has coincided with weaker yields and a softening in the dollar (we use residuals to our models because fundamentals explain much of asset price moves, including some that also impact polling, for example inflation). This suggests a turn in polling fortunes for Trump would be expected to deliver a recovery in yields and the dollar.

Yields fall as Harris takes the lead

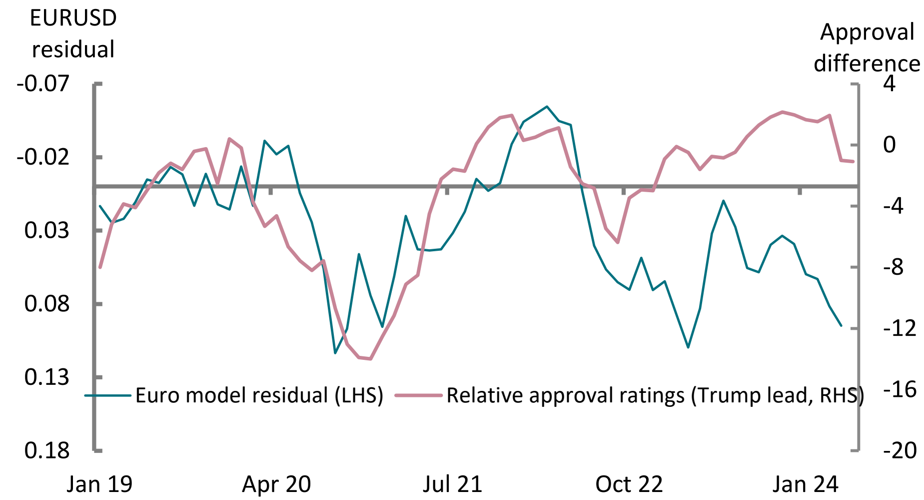
Relative approval ratings and US 10-year yield model residual



Source: Real Clear Politics, Refinitiv and AXA IM Research, September 2024

Fall in Trump’s relative approval sees softer dollar

Relative approval ratings and Euro model residual



Source: CBO and AXA IM Research, September 2024

Macro outlook

The health of the US economy

US

Labour market distortions

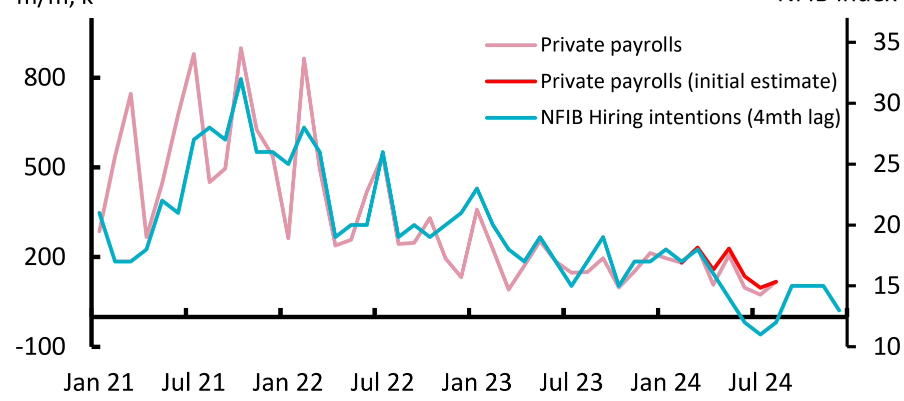
- As forecast, payrolls growth weakened in July but picked up in August. We expect a modest improvement over the next few months, which should dispel concerns of a sharper slowdown. Fed Chair Powell mentioned the 68k/mth average downward revision to payrolls, but we think migration effects have exaggerated this. These effects are also distorting the household survey, from which the Sahm effect is derived. Jobless claims are inconsistent with the usual worsening seen when the Sahm effect has been triggered.

Solid growth

- GDP grew by 3.0% (saar) in Q2 and the Atlanta GDPNow trackers suggests 2.9% in Q3. The Fed described activity as "solid" in September. Despite the labour supply boost, it is difficult to see this as below potential, although we note the rise in jobless. We forecast growth of 2.7% this year. Next year growth should soften, but by how much will depend on the election and policies. A slowdown to 1.8% appears in train, but this could weaken towards 1% if Trump implements unorthodox polices.

US payrolls appear to pass out of summer decline

Private payrolls and NFIB hiring intentions

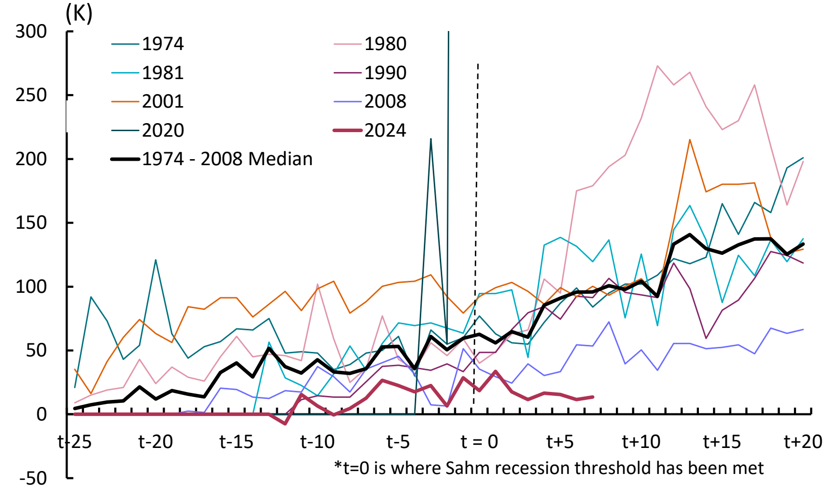


NB Chart adjusts NFIB index lead from 2 to 4 mths Sep 22

Source: BLS, NFIB, AXA IM Research, September 2024

Jobless claims to not corroborate recent Sahm rule breach

US Initial claims where Sahm recession threshold is met



Source: Refinitiv and AXA IM Research, September 2024

Fed's abrupt start to easing cycle

US

Fed signals faster easing

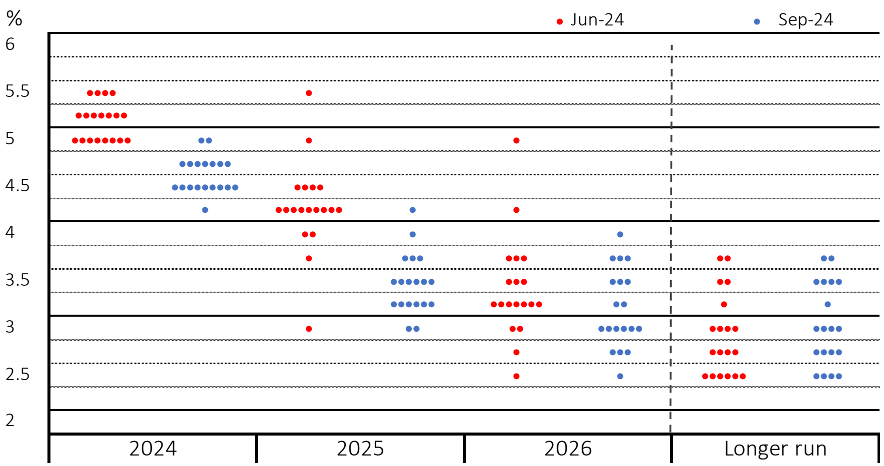
- The Fed cut rates by 50bps in September, the first such abrupt start to an easing cycle outside being on the brink of recession in over five decades. The Fed adjusted its rate projections, expecting on balance another 50bps of rate cuts this year and 100bps in 2025 (to 3.25-3.50%) and a further 50bps in 2026. This is a sharp acceleration in easing outlook from 13-weeks ago where 11 of 19 members saw one cut at most this year.

Dot outlook could face political challenges

- It is not easy to see the economic rationale for the Fed's acceleration. Its economic projections suggest only modest adjustment to its rate outlook. September's 50bps looks like a catch-up from a June/July cut it regrets not making. The Fed has been very reactive to short-term data. Barring a repeat, we expect 2 x 25bp cuts in November and December. Next year's outlook will be dependent on the election outcome. However, we see a number of scenarios that will limit the Fed's space to ease as much as it suggests.

Fed signals accelerated pace of easing

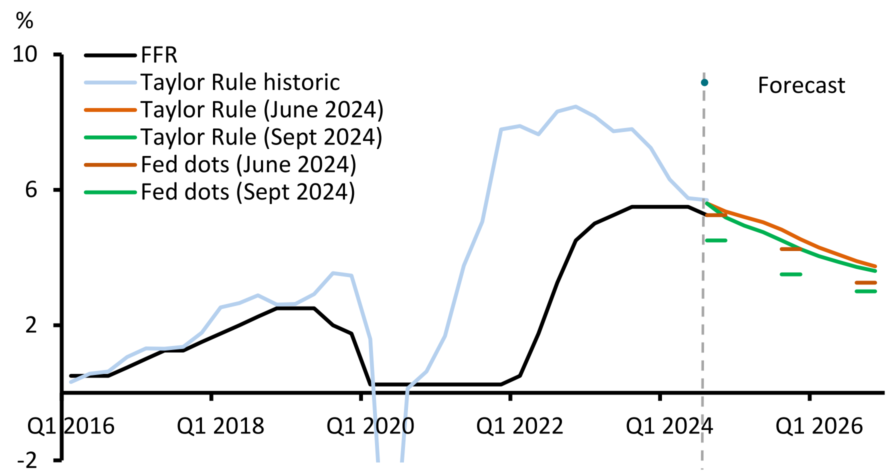
Fed participants end-year rate projections (the "dot plot")



Source: FRB, Sept 2024

Fed economic projections fail to explain its revised rate outlook

Historic and projected Fed Funds and Taylor Rule



Source: FRB, Brookings Inst, AXA IM Research, Sept 2024

Continued grim growth outlook

Eurozone

2024: At the bottom of forecast ranges

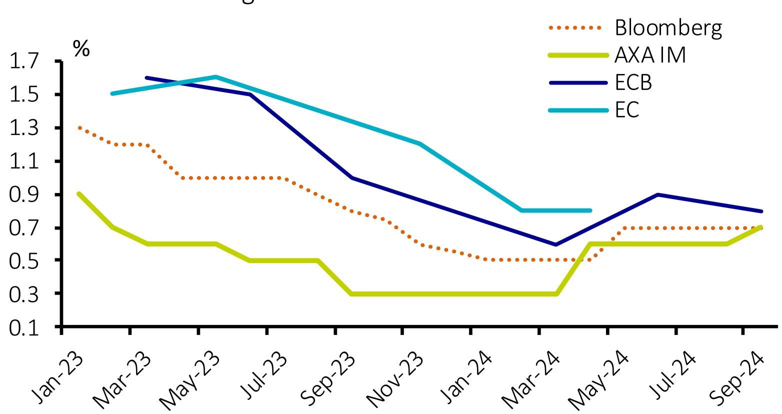
- Adding to the euro area Q2 GDP growth revision (-0.1pp to 0.2% q/q), details revealed a second consecutive quarterly domestic demand contraction. Besides the likely one-off French growth bump in Q3 owing to the Olympics, prospects for H2 24 remain grim. We maintain our view at the bottom of forecast ranges, projecting euro area GDP growing by 0.7% (+0.1ppt).

We remain well below consensus for 2025

- Investment will likely be affected by prolonged tight financing conditions. We think the ECB will remain prudent in its easing cycle, as echoed at its September meeting, seeing just another cut next December and two cuts next year (vs market pricing 100bps worth of cuts in 2025)
- Tight financing conditions and political instability, especially in Germany and France are likely to push up household's savings rate.
- We are not convinced external demand to the euro area could more than offset weak domestic prospects

Forecasts converged to our low growth view this year

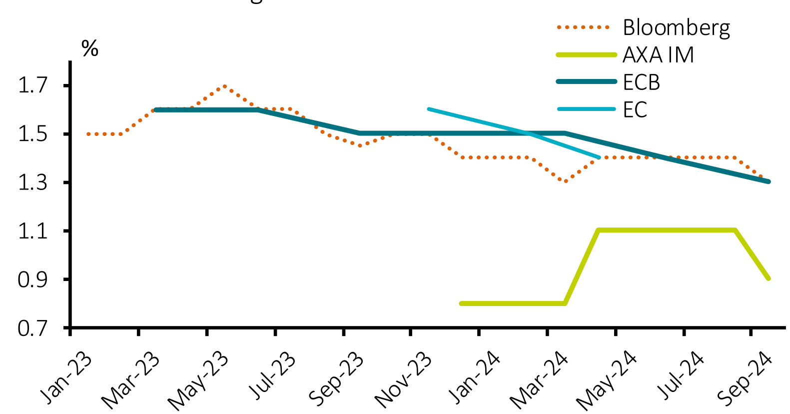
Eurozone 2024 GDP growth: AXA IM & consensus



Source: Bloomberg, AXA IM Research, ECB, European Commission, Sep 2024

We remain below consensus for 2025

Eurozone 2025 GDP growth: AXA IM & consensus



Source: Bloomberg, AXA IM Research, ECB, European Commission, Sep 2024

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2025 budgets focus amid uneasy politics

Eurozone

France: On a tightrope

- Tumultuous French politics continue. Now that PM Barnier formed his government, we await his general policy speech at the National Assembly, but policy uncertainty remains high and in any case France has very limited room for manoeuvre – Meanwhile, latest business sentiment sending not mixed, yet not reassuring messages.
- Last Friday, Le Maire said that without new measures, France public deficit would likely come close to 6%, a 0.9pp deviation to target committed to last April.

Italy: New policy margin of manoeuvre

- ISTAT published revised annual national accounts featuring c.€43bn (2% of GDP) higher nominal GDP in 2023. This means Italian debt-to-GDP ratio was revised down to 134.6% from 137.3%.
- This gives Finance Minister Giorgetti significant margin of manoeuvre on the policy front to extend fiscal support (wage tax cuts, measures to support families, and new pension measures among others).

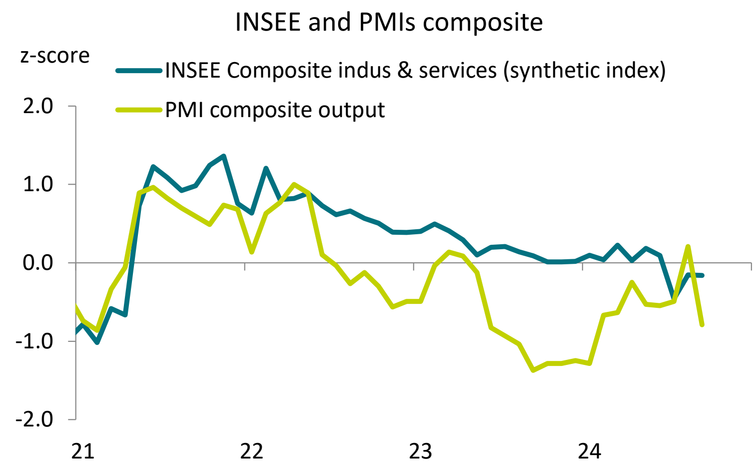
France: Another large deviation to public deficit in 2024

France budget balance (% of GDP)

	2022	2023	2024	2025	2026	2027
Pstab (Apr 24)	-4.8	-5.5	-5.1	-4.1	-3.6	-2.9
Early Sep 24	-4.8	-5.5	-5.6	-	-	-
Mid Sep 24	-4.8	-5.5	-6.0	-	-	-

Source: French Finance Ministry, Les Echos, September 2024

France: Business sentiment not exactly reassuring



Source: Refinitiv, IHS Markit and AXA IM Research, September 2024

Momentum is easing

UK

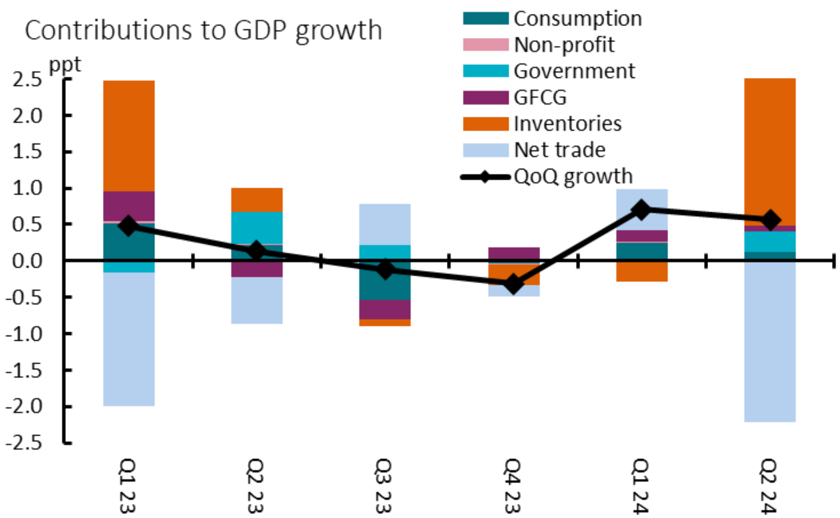
Quarterly growth to ease to around 0.3%qoq in Q3 and Q4

- The sharp rebound in GDP growth in H1 2024 looks to be slowing. Monthly data showed activity remained flat in June and July. 3m-3m growth slowed to 0.5% in July (from 0.6%) and will drop to around 0.3% in Q3, even if growth rises by 0.2%/month in August and September. We continue to forecast UK growth at a firmer 1.2% and 1.4% this year and next (consensus 1.1% & 1.4%)

Headline CPI inflation ticks up, as energy drag eases; trend remains downward

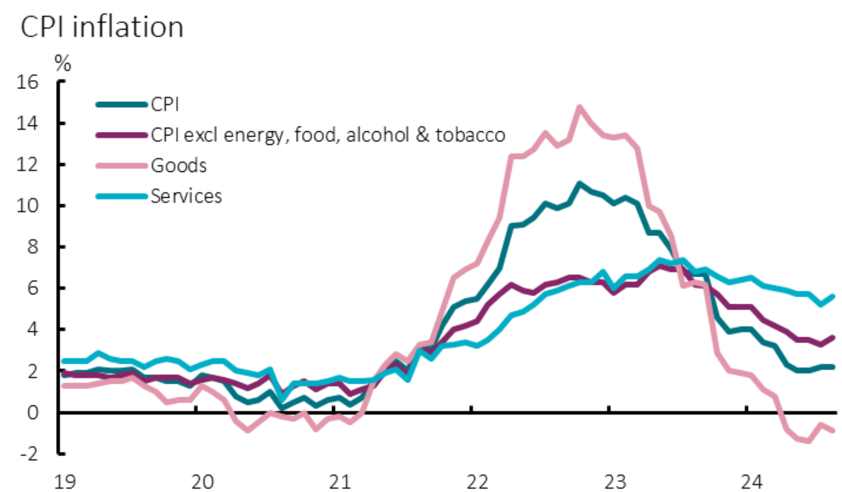
- The unemployment rate unexpectedly fell to 4.1% in the three months to July, from 4.4% three months prior, but the survey has ongoing issues with sample size and response rates so should be treated cautiously. Other indicators remain consistent with developing slack and wage growth continued to slow, private sector regular pay slowing to 4.9% in July, from 5.3%. As expected, CPI inflation rose over the summer as the drag from energy prices eased. After July's sharp drop to 5.2%, services CPI inflation rose back to 5.6% in August. Yet most forward-looking indicators remain consistent with a further slowing over the coming 12 months.

Momentum will now ease in H2, after a strong Q1 and Q2



Source: National Statistics and AXA IM Research, September 2024

Headline ticks up, but is still undershooting BoE expectations



Source: National Statistics and AXA IM Research, September 2024

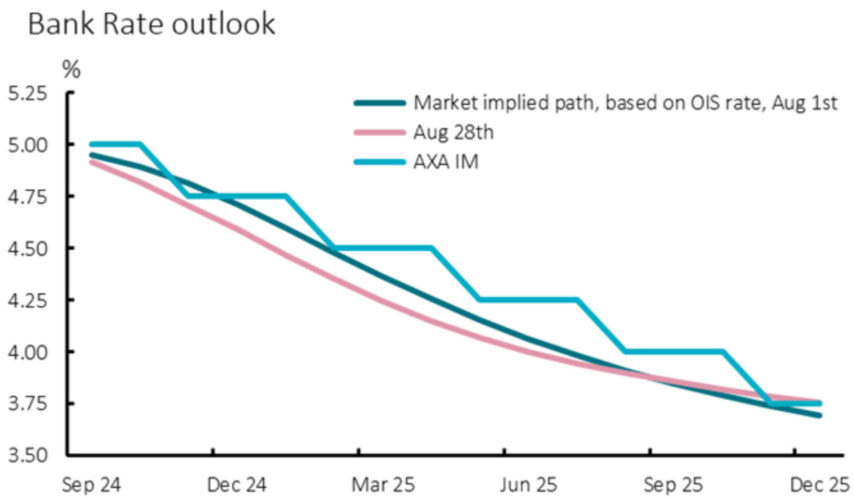
Bank Rate on downward trajectory

UK

Bank of England signals gradual easing, Budget could quicken pace

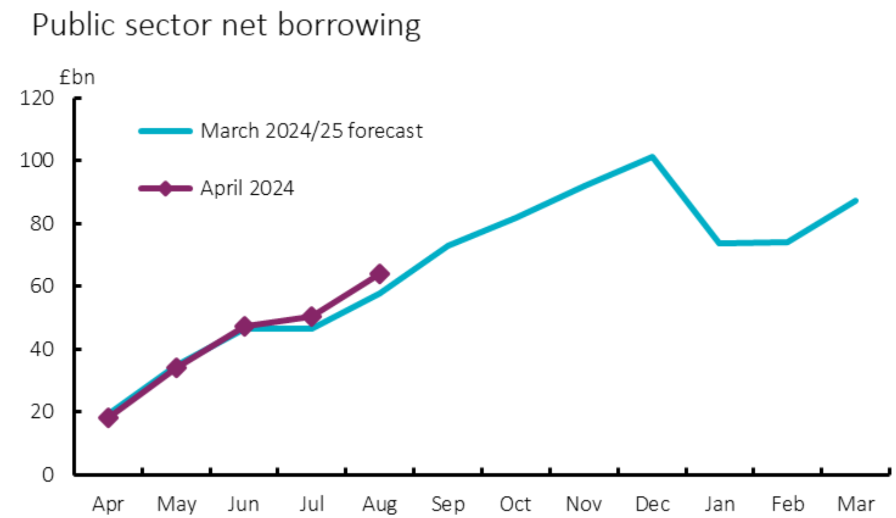
- With both pay growth and services CPI inflation remaining higher in the UK than in its peers, the BoE voted to keep rates on hold at 5% this month, after cutting by 25bps in August. It continued to note it was taking a gradual approach to easing. This messaging is in keeping with our call for a further 25bp cut to 4.75% in November and to then maintain a quarterly pace through 2025.
- But the Budget - due 30 October - could tilt the Bank towards a faster pace. Indeed, if the new government's recent signals surrounding additional tax increases and spending cuts are correct, the BoE may be forced to loosen policy more aggressively to offset the headwinds of sharper fiscal tightening, with government borrowing overshooting the OBR's March forecast each month so far in this financial year. This may achieve a better policy balance over the coming years.

Bank Rate will be cut again in November



Sources: National Sources, the OBR and AXA IM Research, September 2024

BoE could have to cut more aggressively if fiscal policy is tightened



Sources: Bank of England and AXA IM Research, September 2024

Softening entrenches over summer months

China

Investment-tied industrial production softens

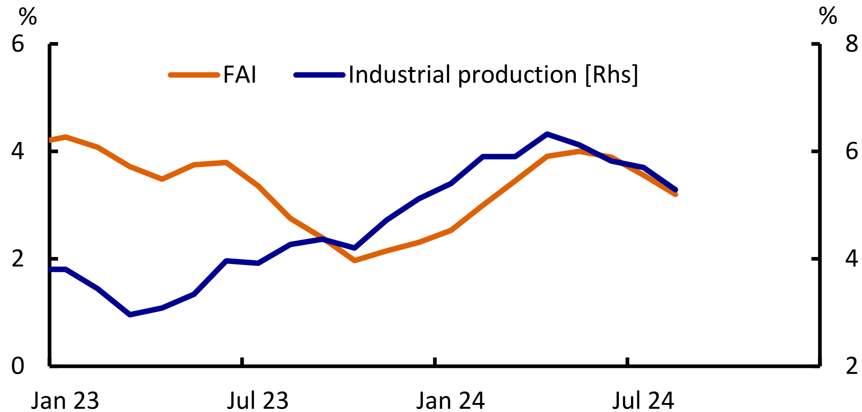
- The economy's heavy reliance on government policies, especially policy-driven investment, has created a close correlation between industrial production and investment growth, both of which have weakened in recent months. Delayed issuance of local government special bonds has likely been caused by strained local government financial positions and led to a deceleration in investment since March, contributing to the weakening in industrial production.

Export resilience facing future challenges

- Exports have shown resilience, fuelled by front-loaded demand from Western countries ahead of potential trade tensions. However, this strength is expected to be short-lived as future headwinds from the emergence of trade tensions are likely to dominate and look set to deteriorate over the next year.

Industrial production increasingly dependent on investment

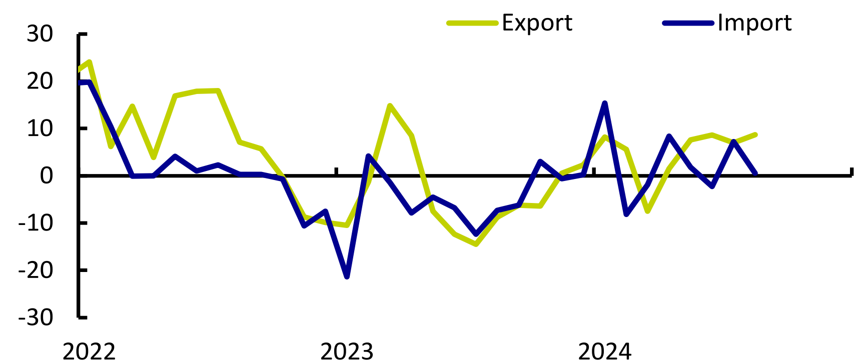
China - Fixed asset investment and industrial production
yoy (6m ma)



Source: CEIC and AXA IM Research, September 2024

Exports benefitted from front-loading demand for now

China - Exports and imports
yoy, %



Source: CEIC and AXA IM Research, September 2024

Policy gaps risk a demand-deficient deflation trap

China

Property market correction, loosening labour market and mortgage rate differential

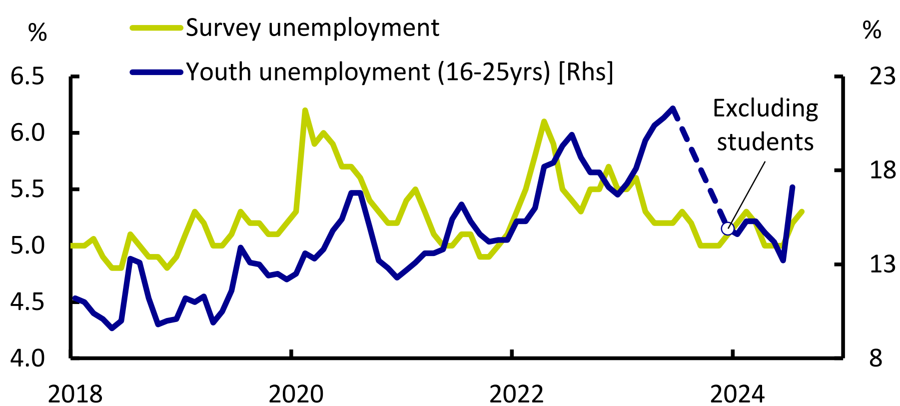
- The ongoing decline in the property market continues to exert downward pressure on related sectors and erode household confidence. Moreover, the labour market sends loosening signals as the surveyed urban unemployment rate increased for the second month in a row. Additionally, the mortgage rate differential between new and existing mortgages incentivises early mortgage repayments and further strains household finances. This threefold pressure has reduced household spending, expanding the negative output gap in the economy and pushing the economy closer to deflation.

Structural challenges need addressing

- A disconnect between central and local governments hampers effective policy implementation, raising the risk of China slipping into a deflation trap. Without stronger structural reforms, the economy faces long-term demand deficiencies.

Labour market loosening

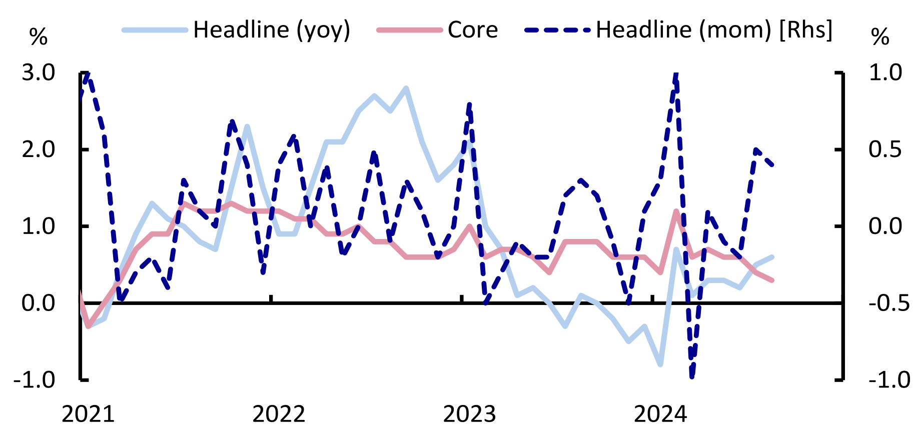
China - Surveyed unemployment rate



Source: CEIC and AXA IM Research, September 2024

Softening core inflation poses bigger risks to the economy

China - CPI inflation



Source: CEIC and AXA IM Research, September 2024

Underlying momentum probably weaker than Q2 suggests

Japan

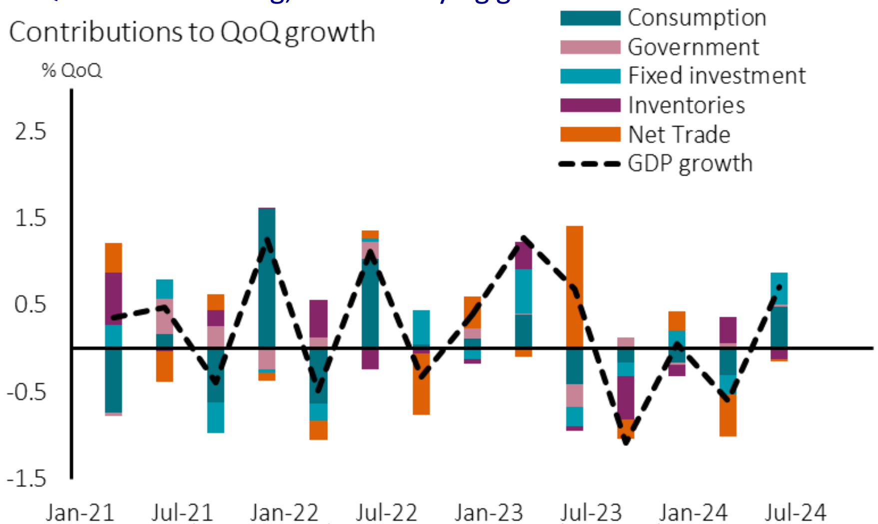
Growth picked up in Q2, but reflected temporary factors

- Japanese GDP rebounded sharply in Q2, rising by 0.7% quarter-on-quarter, following a decline of 0.6% in Q1, largely due to improvements in the domestic economy. However, several temporary factors drove the chunky rebound – including a jump in durable goods sales, after auto sales were put on hold due to the temporary Q1 shutdown. We expect momentum to ease in H2 and think underlying growth in household spending is probably weaker than Q2 suggests. Indeed, subdued sentiment is likely keeping a lid on spending, even as real incomes recover.

Core CPI inflation will probably remain below the 2% target this year

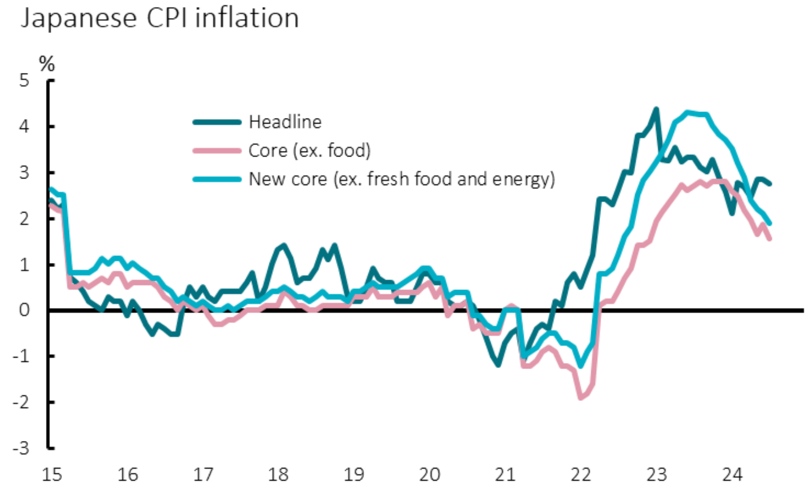
- CPI inflation excluding fresh food and energy rose to 2% in August, from 1.9%, on the face of it suggesting modest underlying inflationary pressures. But again, several temporary factors underpinned the rise. More generally, the sluggish recovery in consumption should make it harder for firms to pass on higher wage costs and we expect businesses to absorb at least part of the rise.

Q2 GDP was strong, but underlying growth is weaker



Source: National Statistics and AXA IM Macro Research, September 2024

Core CPI inflation will hover below the 2% target this year



Source: National Statistics and AXA IM Macro Research, September 2024

Bank of Japan on hold until 2025

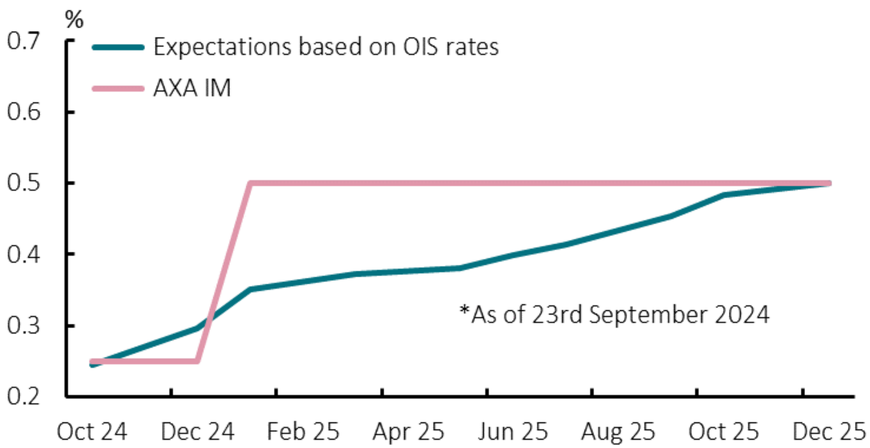
Japan

Political uncertainty and sluggish backdrop to keep BoJ from moving again for now

- The Bank of Japan (BoJ) unanimously voted to keep the policy rate at “around 0.25%” in September but continued to signal further hikes amid efforts to normalise policy. Indeed, it noted that “Japan’s economy is likely to keep growing at a pace above its potential growth rate” as “a virtuous cycle from income to spending gradually intensifies.” It also upgraded its outlook for consumption, noting that “private consumption has been on a moderate increasing trend despite the impact of price rises and other factors”.
- We think the BoJ is too upbeat on both the growth and inflation outlook, and so will struggle to push through further hikes. Governor Kazuo Ueda also flagged downside risks from the US economy for the first time in the latest press conference. Political uncertainty due to Japan's governing Liberal Democratic Party’s leadership election and the general election expected to follow will also likely hold the BoJ back in the near term. On balance, we think the BoJ will struggle to raise the policy rate by 25bps this year, and instead will wait until Q1 2025, leaving it at 0.25% to end-2024 and at 0.5% by end-25.

Markets broadly there on rate hikes

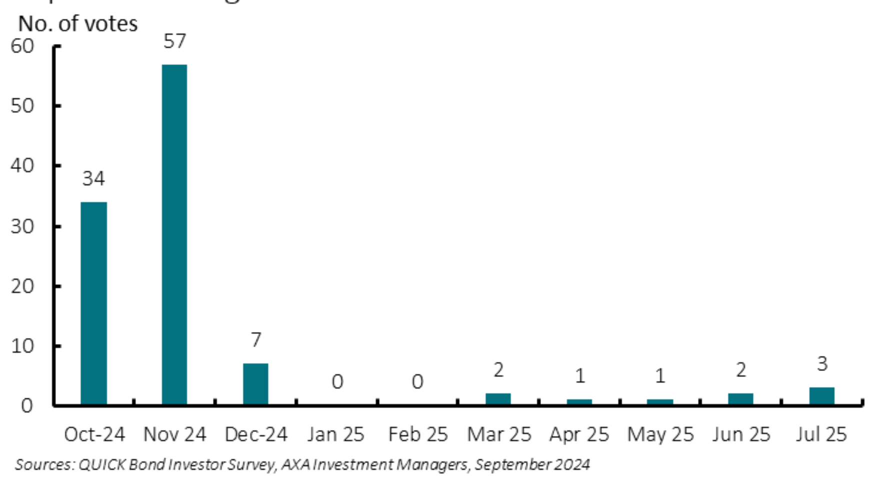
Japan interest rate expectations*



Source: Refinitiv and AXA IM Research, September 2024

Election will limit moves this year

Expected timing of the General Election



Source: *QUICK monthly survey* and AXA IM Research, September 2024

Evidence of excess supply emerges

Canada

GDP loses steam over the summer

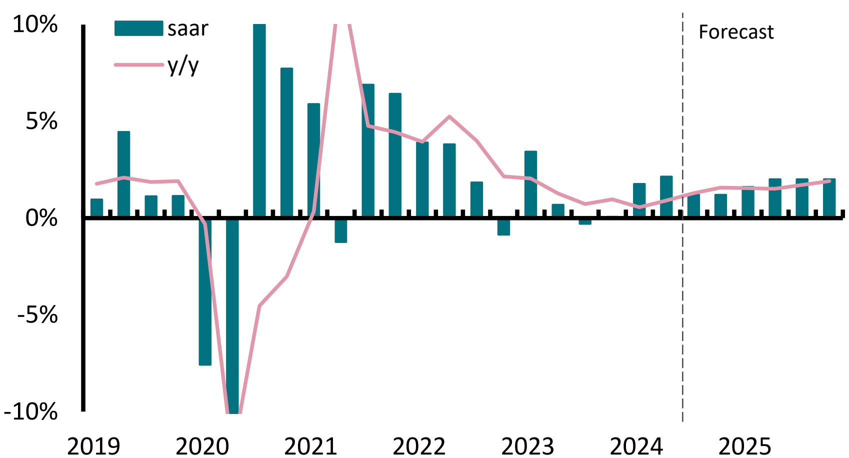
- The economy expanded by a solid 1.8% annualised in H1 2024, but growth slowed to 0.1% in May, was flat in June and the initial estimate is for unchanged in July. H2 2024 growth looks set to be slower and we edge our 2024 GDP forecast down to 1.1% (from 1.2%), noting that the BoC lowered its growth forecast in line with us in July from 1.5%. We forecast growth of 1.7% next year, below the BoC's 2.1% forecast, but note a quicker pace of rate cuts and stronger external demand could lift growth more quickly.

Inflation likely to fall below target

- Headline inflation continued to fall sharply, dropping to target at 2% in August. Weak external demand pressures have helped, particularly with oil prices softening as well as ongoing domestic disinflationary pressure as spare capacity grows. We now consider it likely that inflation will fall below target over the coming months and stay below on average throughout 2025. We forecast inflation to average 2.4% in 2024 and 1.8% in 2025 (consensus 2.6% and 2.2%).

GDP stagnates mid-year

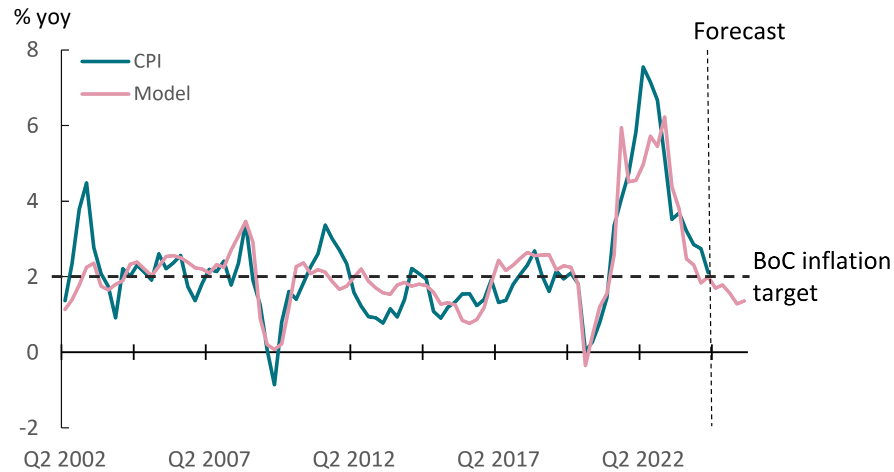
GDP Growth and outlook



Source: CANISM and AXA IM Research, September 2024

Internal and external factors see inflation fall to target more quickly

Canada CPI Inflation model



Source: CANISM and AXA IM Research, September 2024

BoC on accelerated easing for now

Canada

Excess supply question

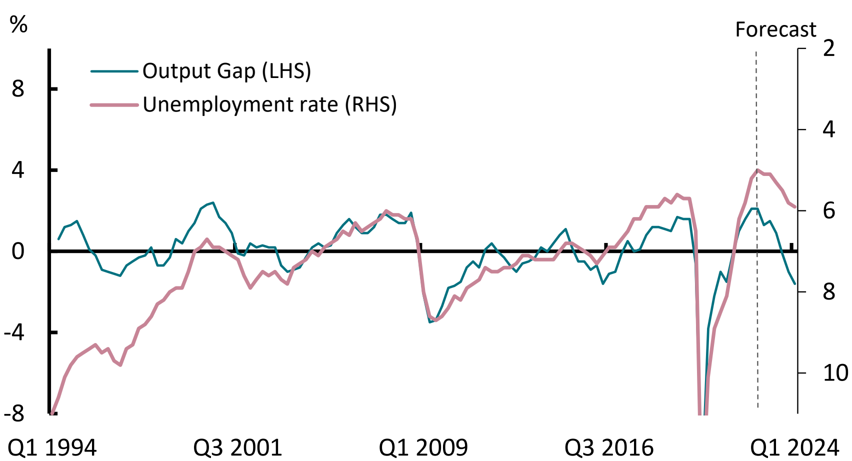
- The BoC is focused on economic excess supply, explaining this continues to weigh on inflation, even as it is now at target. GDP growth likely needs to exceed 1.75% (annualised) to remove excess capacity. However, the BoC's output gap estimate appears to overstate the likely spare capacity in the economy, based on an historically still low rate of unemployment and the likelihood of persistent productivity weakness. There is a risk that the BoC see inflationary pressures emerging sooner than it expects.

BoC follows accelerated path of easing

- Slower growth and a sharper drop in inflation created space for the BoC to ease policy more quickly than we forecast – it has cut rates by 0.75% in three successive meetings. We expect it to continue with successive 0.25% reductions (despite speculation of 50bp cuts) to 3.00% in April. The outlook for next year will be US election dependent, but a Trump win would weaken the Canadian dollar and boost Canadian export growth in the first instance, likely dampening the BoC's thrust for lower rates.

BoC determined to remove excess supply

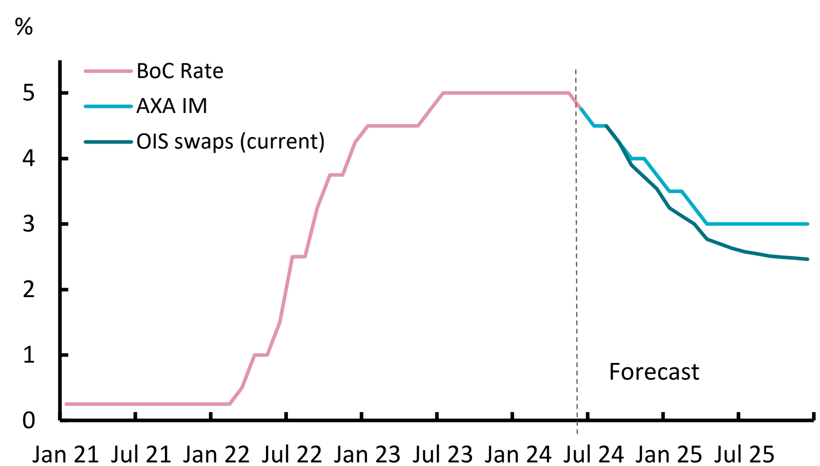
Output gap and unemployment



Source: BoC, CANISM and AXA IM Research, September 2024

Accelerated path of easing

Bank of Canada overnight rate and outlook



Source: BoC, Bloomberg and AXA IM Research, September 2024

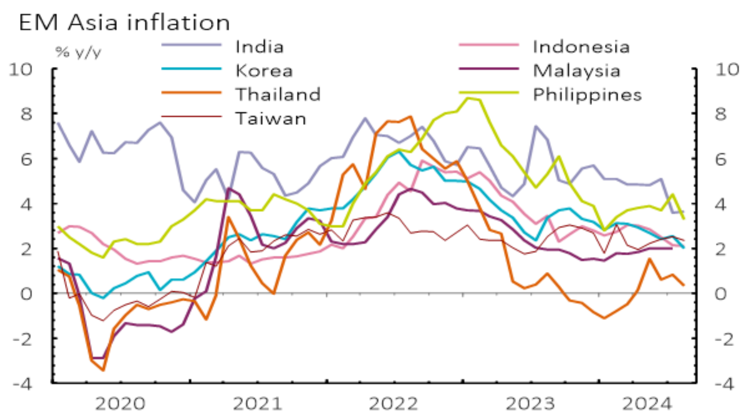
The path is now clear for rate cuts

EM Asia ex-China

Conditions are appropriate for a less restrictive policy stance

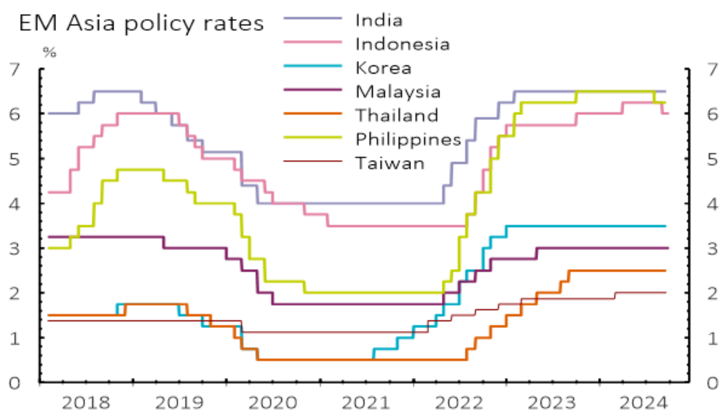
- Central banks in EM Asia tend not to be heavily swayed by what the US Fed does, but a cut in US interest rates had in effect been a necessary condition for the region's central bankers to commence their own rate cutting cycle. Now that the Fed has pivoted, the path is clear for policymakers to determine whether domestic conditions provide sufficient cause to follow suit - in most cases they do, with inflation under control and currencies strengthening.
- There have been early movers. Hours before the Fed's cut, Indonesia's central bank made a surprising decision to cut its policy rate by 25bps (to 6%). The Philippines' central bank was an even earlier mover, cutting its policy rate by 25bps (to 6.25%) in August. Perhaps emboldening the early moves, Indonesia and the Philippines were the only two major markets in EM Asia to still have positive real policy rate differentials with the US.
- We expect the Reserve Bank of India, the Bank of Korea and the Bank of Thailand to follow with rate cuts by the end of the year. But financial stability risks and high household debt levels are still a concern for the latter two, while India will likely wait for confirmation that food prices have stabilised.
- Monetary policy easing will be needed sooner rather than later to bolster domestic demand and offset a more challenging external environment, given the spectre of a US slowdown and a worsening of China's economic woes.

Inflation stabilizing around targets



Source: LSEG Datastream and AXA IM Research, Aug 2024

Indonesia and the Philippines start early



Source: LSEG Datastream and AXA IM Research, Sep 2024

Divergent economic trends in CEE

EM Europe

Weak consumer in the Czech Republic

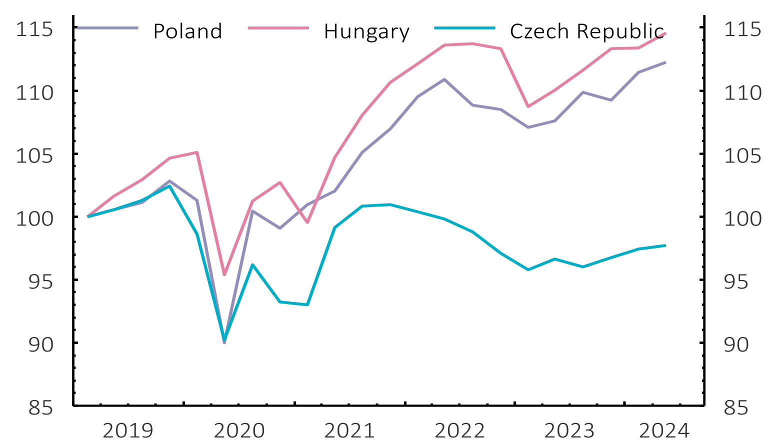
- 2024 growth expectations across CEE were supported by a strengthening of household consumption. Indeed, labour markets and gross wage growth remained strong, while disinflation further supported purchasing power.
- Consumption was well-behaved through the first half of the year across the region, albeit some slowdown appeared in the Czech Republic in Q2 2024. This is all the more worrying as this is the only country in the region where private consumption has not returned to pre-pandemic levels. We have reduced our GDP growth expectation for 2024 to 1%.

Weak investment in Hungary

- We have also halved our Hungary GDP growth for 2024 over the last year, now at 1.5%. The contraction in private investment since end-2022 is particularly worrisome and the business environment continues to deteriorate. The government introduced a series of windfall taxes in 2022, to expire end-2024, which have weighed on investment. More recently, an “anti-war” action plan asking banks, energy firms and multinationals to contribute to a “defence fund” continues to point to State intervention affecting competition and private investment.

Czech household consumption still below pre-Covid levels

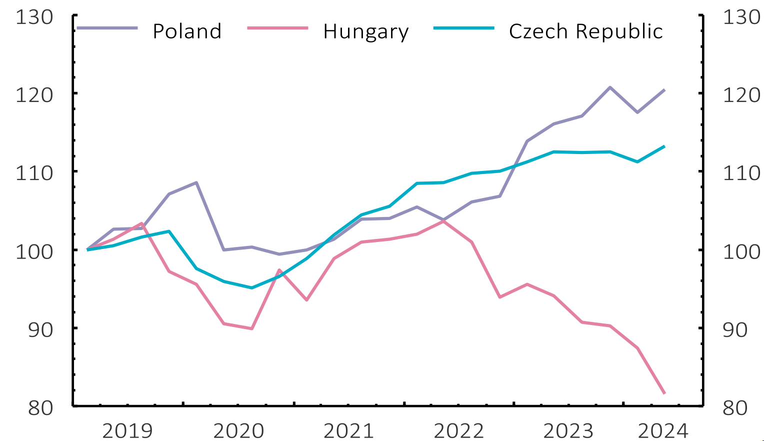
Private consumption, index Q1 2019 = 100



Source: LSEG Datastream and AXA IM Research Q2 24

Private investment collapses in Hungary

GFCF, index Q1 2019 = 100



Source: LSEG Datastream and AXA IM Research Q2 24

Brazil started a (mini)hiking cycle!

Latin America

3 hours after the jumbo 50bp first Fed cut, Copom *hiked* the Selic rate by 25bps to 10.75%

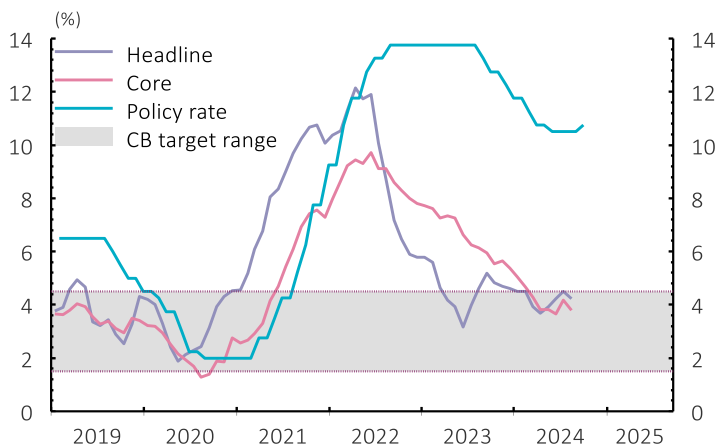
- A well telegraphed and anticipated move, Brazil's central bank hiked interest rates, at odds with the synchronous global easing cycle. Brazil was actually among the first central banks to hike rates back in 2021, +1175bps cumulated hikes to 13.75% peak rate in August 2022. Inflation accelerated from mid-2020 lows to a peak at 12.1% year-over-year in April 2022, followed by a steep fall close to the 3% inflation target by June 2023. The Bank had started to cut rates delivering 325bps cumulated cuts to 10.5% in May.

And more to come…

- The Bank needed to react to inflation stickiness, particularly in services inflation. The output gap has turned positive. More worryingly, a de-anchoring of inflation expectations points to a lack of a credible fiscal policy to commit to debt sustainability. The public sector deficit widened to 10% of GDP on a 1Y rolling basis to July, its primary deficit running above 2% of GDP. The 2025 budget looks like a precarious balancing act with no decisive ambition for structural reforms, which poses significant hurdles in meeting fiscal targets. We believe the central bank will hike rates to 11.5% by year-end.

Policy rate hike upon sticky inflation…

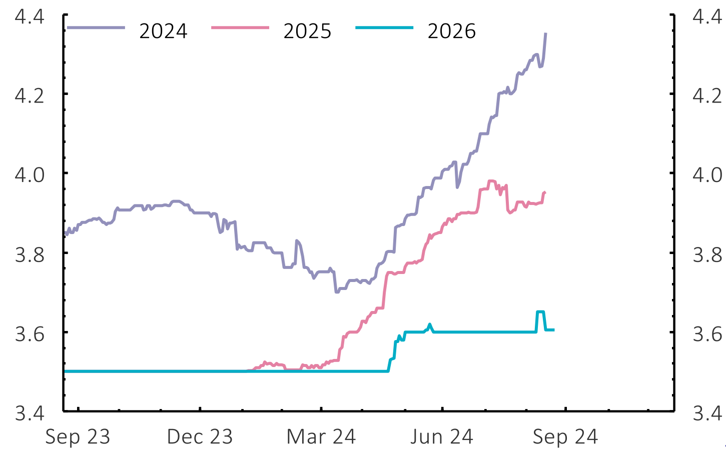
Brazil- Annual inflation and policy rate



Source: LSEG Datastream and AXA IM Research Aug 24

… and de-anchoring of inflation expectations

Business survey: inflation expectations (%)



Source: LSEG Datastream and AXA IM Research 13/09/2024

Forecasts & Calendar

Macro forecast summary

Forecasts

Real GDP growth (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.1	3.2		3.1	
Advanced economies	1.7	1.6		1.5	
US	2.5	2.7	2.5	1.8	1.8
Euro area	0.5	0.7	0.8	0.9	1.5
Germany	-0.1	-0.1	0.1	0.5	1.5
France	1.1	1.1	1.1	0.6	1.3
Italy	1.0	0.8	0.8	0.8	1.2
Spain	2.5	2.8	2.4	2.1	1.9
Japan	1.9	0.0	0.0	1.1	1.0
UK	0.1	1.1	1.0	1.4	1.2
Switzerland	0.8	1.2	1.4	1.3	1.5
Canada	1.2	1.1	1.0	1.7	1.9
Emerging economies	4.0	4.1		4.1	
China	5.2	4.8	4.9	4.4	4.4
Asia (excluding China)	4.7	5.4		5.2	
India	6.5	6.9	7.0	6.5	6.7
South Korea	1.4	2.5	2.5	2.4	2.2
Indonesia	5.0	5.1	5.1	5.1	5.1
LatAm	2.3	2.0		2.5	
Brazil	2.9	3.0	2.2	2.0	2.0
Mexico	3.2	1.1	1.8	1.2	2.2
EM Europe	3.1	3.1		2.6	
Russia	3.6	3.2	3.4	1.5	1.1
Poland	0.2	3.0	2.9	3.5	3.4
Turkey	4.5	3.0	3.4	3.4	3.2
Other EMs	2.4	3.0		3.9	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 20 September 2024

**Forecast*

Expectations on inflation and central banks

Forecasts

Inflation Forecasts

CPI Inflation (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	4.7	2.6		2.3	
US	4.1	2.9	3.0	2.6	2.3
Euro area	5.5	2.4	2.4	2.1	2.1
China	0.2	0.6	0.5	1.6	1.9
Japan	3.3	2.5	2.5	1.6	1.5
UK	7.3	2.5	2.6	2.0	2.0
Switzerland	2.1	1.3	1.3	1.3	1.3
Canada	3.9	2.4	2.6	1.8	2.0

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 20 September 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	Q4-24	Q1-25	Q2-25	Q3-25	Q4-25
United States - Fed	Dates	5.00	6-7 Nov 17-18 Dec	28-29 Jan 18-19 Mar	6-7 May 17-18 Jun	29-30 Jul 16-17 Sep	28-29 Oct 9-10 Dec
	Rates		-0.50 (4.50)	-0.25 (4.25)	-0.25 (4.00)	unch (4.00)	unch (4.00)
Euro area - ECB	Dates	3.50	17 Oct 12 Dec	30 Jan 6 Mar	17 Apr 5 Jun	24 Jul 11 Sep	30 Oct 18 Sep
	Rates		-0.25 (3.25)	-0.25 (3.00)	-0.25 (2.75)	unch (2.75)	unch (2.75)
Japan - BoJ	Dates	0.25	30-31 Oct 18-19 Dec	23-24 Jan 18-19 Mar	30 Apr - 1 May 16-17 Jun	30-31 Jul 18-19 Sep	29-30 Oct 18-19 Dec
	Rates		unch (0.25)	+0.25 (0.50)	unch (0.50)	unch (0.50)	unch (0.50)
UK - BoE	Dates	5.00	7 Nov 19 Dec	6 Feb 20 Mar	8 May 19 Jun	7 Aug 18 Sep	6 Nov 18 Dec
	Rates		-0.25 (4.75)	-0.25 (4.50)	-0.25 (4.25)	-0.25 (4.00)	-0.25 (3.75)
Canada - BoC	Dates	4.25	23 Oct 11 Dec	29 Jan 12 Mar	16 Apr 4 Jun	30 Jul 17 Sep	29 Oct 10 Dec
	Rates		-0.50 (3.75)	-0.50 (3.25)	-0.25 (3.00)	unch (3.00)	unch (3.00)

Source: AXA IM Macro Research - As of 20 September 2024

AXA Investment Managers

Calendar of events

	Dates	Events	Comments
September	25-Sep	France government to present draft 2025 budget	
October	01-Oct	Harris-Walz interview on CNN	
	6-11 Oct	ASEAN Summit	
	17-Oct	ECB meeting	unch (3.50%)
	23-Oct	BoC meeting	-25bps (4.25%)
	Before 24 Oct	Austria General Elections	
	25-27 Oct	IMF & WB Meetings	
	30-31 Oct	BoJ meeting	unch (0.1%-0.2%)
November	05-Nov	US Presidential Election	
	6-7 Nov	FOMC meeting	unch (5.25%)
	07-Nov	BoE meeting	-25bps (4.75%)
	18-19 Nov	G20 Brazil	
December	11-Dec	BoC meeting	unch (4.25%)
	12-Dec	ECB meeting	-25bps (3.25%)
	17-Dec	Electors cast votes	
	17-18 Dec	FOMC meeting	-25bps (5.00%)
	18-19 Dec	BoJ meeting	+10 bps (0.2%-0.3%)
	19-Dec	BoE meeting	unch (4.75%)
	20-Dec	Expiry of latest Government funding bill	
January	02-Jan	Debt limit suspension ends	
	03-Jan	119th Congress convences	
	06-Jan	Congress counts electoral votes	
	20-Jan	US Presidential inauguration	

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