LA FRANÇAISE
Crédit Mutuel Alliance Fédérale

Crédit Mutuel
Asset Management

OUTLOOK

Global economy remains resilient despite tensions

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Divergence in global economic dynamics

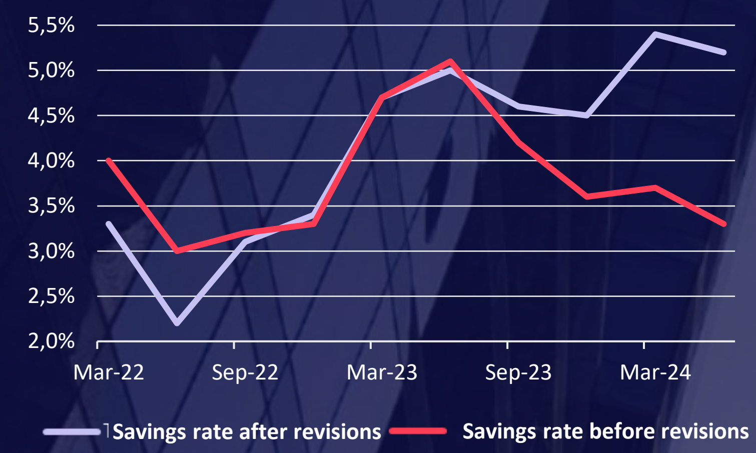
The news flow since the beginning of September has been rich for the financial markets in terms of monetary, political and geopolitical news.

The Fed has begun its rate cut cycle with a 50 bp reduction. This decision is not surprising to us considering central bank's prior communication, but in our view it is not necessary given the current situation in the United States. The economy is slowing, but from a very high nominal growth point of view, and we can see **no signs of a violent drop in growth** across the Atlantic. BEA (Bureau of Economic Analysis) published figures for September going in this direction, with a significant upward revision in GDI (Gross Domestic Income) between the beginning of 2020 and June 2024 (from +7% to +11%). The upwards revision of the savings rate from +3.5% to 5.2% in June 2024 confirms the country's **good economic health** and the solvency of American consumers. It is therefore likely that expectations of rate cuts are too optimistic in the United States, even though the inflation risk seems under control.

The situation is different in the Eurozone where the embellished Olympic Games faded. The two main economies in the zone are in great difficulty and all the leading indicators appear to indicate low chances of improvement in the coming months (PMI, IFO, ZEW, etc.). Although southern eurozone economies are doing reasonably well, the challenging German and French backdrop should make the **ECB more dovish** despite some on going inflation risks. We also remain **prudent on French assets** with a looming tax shock that should negatively affect growth forecasts. **The ECB's October interest rate cut seems almost certain to us**, and the medium term inflation risk remains lower than in the US.

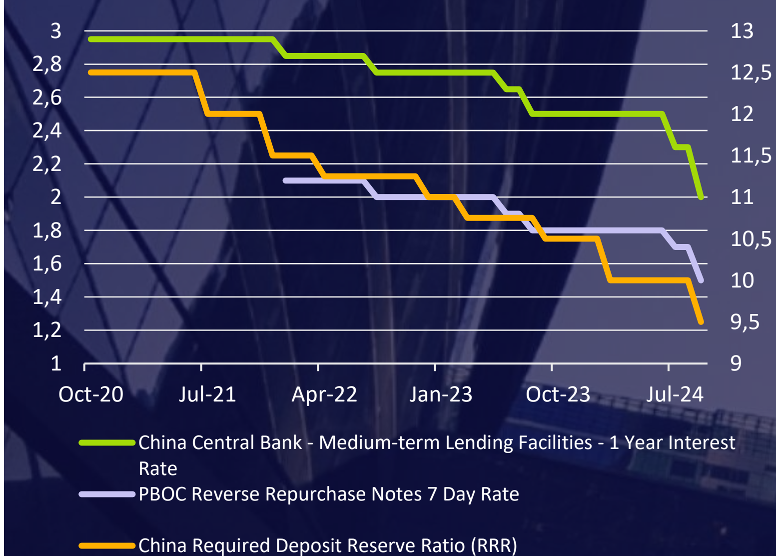
The stimulus decided by the Chinese authorities is one of the other highlights of the autumn. It is tempting to ignore this new attempt after the failure of previous measures, but in our view this would be a mistake. The announcements targeted several sectors of the economy and sought to address China's main problem: Consumer confidence. The 50bps rate cut on existing mortgage loans, the recapitalisation of the banking sector ($140bn) and announcements of support for consumption ($140 bn - unconfirmed, very probable) were encouraging and could reverse the negative dynamic in which the Chinese economy is currently situated. It is estimated that **the impact of these measures on growth could be between +0.3% and +0.9%.** Although it is necessary to take these estimates carefully and not comparable to US or European recovery plans during Covid, they are better than previous attempts. We therefore believe it is risky to move away from Chinese or China related assets, especially given the negative market positioning.

Savings rate before and after revisions



Source: Bloomberg Finance L.P., as of 03/10/2024

China rates change



Source: Bloomberg Finance L.P., as of 03/10/2024

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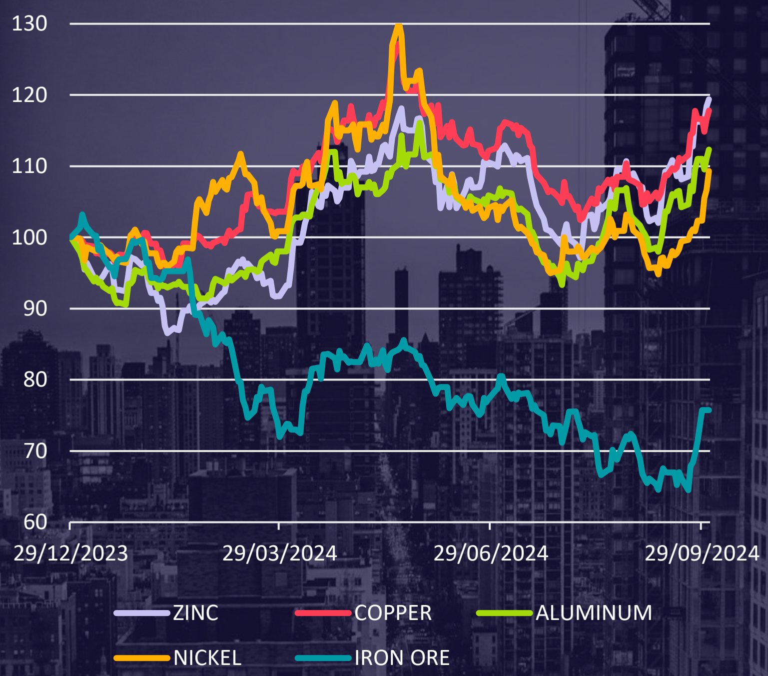
Evolution of industrial commodities



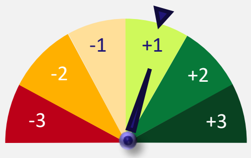
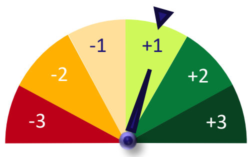
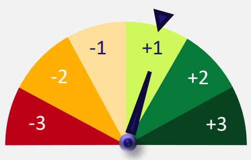
Source: Bloomberg Finance L.P., data as af 03/10/2024

“Despite geopolitical tensions, the focus has shifted gradually to the US election.”

Oil rally and US elections

We cannot ignore the commodity **rebound since mid September**. The Fed's rate cut was the first trigger for this rise, which was driven by the Chinese recovery plan and, in recent days, by tensions in the Middle East between Israel and Iran. **We think it is uncertain if the oil price continues to rise** because Chinese demand only marginally influences oil prices (unlike iron or copper). In addition, beyond the geopolitical risk premium, supply and demand fundamentals don't underpin an overdemand market.

Despite geopolitical tensions, the focus has shifted gradually to the US election. We have no certainty about the winner and balance at Congress, but this does not justify excessive risk taking. However, we maintain a slightly positive outlook for equities in view of the fact that the **global economy is holding up** thanks to the US and the emerging countries in general, especially with China, which is expected to stabilize at least. On the bond side, we have a preference for euro assets over the US dollar and for investment grade over high yield.

Assets	Outlook	Strategical view
EQUITIES		Slightly positive bias thanks to global backdrop and ongoing central bank easing.
FIXED INCOME		Preference for IG vs. HY, and still a preference for eurozone bank debt. Companies remain in good shape and there is no reason to believe that spreads are widening sharply.
RATES		We remain cautious on US rates, especially on the short parts of the curve. We favour sensitivity in euros or GBP (UK terminal rate 70 bps below the US) and we are positive on real rates which still seem asymmetric.

October Outlook

We expect increased volatility ahead of the US election and conflict in the Middle East that could potentially kick in. The Chinese government's stimulus and the strong US economy should, however, support risk assets.

AGENDA

US Inflation
10 October

ECB
17 October

Bank of Japan
31 October

Euro inflation
31 October

US Election
5 November

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