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Macro outlook Negotiating the slopes

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Macroboard as of 6 February

	Cyclical developments	Policy
Europe	GDP stagnated in the Euro area in Q4, after a 0.1% contraction in Q3. Core inflation decelerated further in January to hit 3.3% yoy - from 3.4% in December - but less so than what the market expected, and the re-acceleration in services prices was concerning.	Christine Lagarde's latest press conference is consistent with the ECB now having an "easing bias", but she also made it plain that the central bank still needs more time to seriously think about cutting. Yet, her choice not to explicitly push back against forwards pricing of a cut in April already further fuelled dovish expectations. Still, a generally disappointing inflation print for January makes us comfortable with our call for the first cut to wait until June.
US	US GDP growth exceeded expectations again in Q4 2023. The consensus range stood between 1% and 2.5%. At 3.3% in annualized terms, it stood almost at twice the received estimate for potential growth. Given how fast GDP had risen in Q3 already (4.9%), it would have been natural to expect some measure of mean reversion. Over the October-February period, job creation properly re-accelerated to exceed trend again. Wage growth was close to 7% annualised during the same period. On a 3-month annualised basis, core inflation has fallen below 2% in December, but services inflation is still > 3%.	In contrast with a generally dovish performance in December, in January Jay Powell powerfully pushed back against aggressive cuts. When asked precisely about a cut in March, Jay Powell answered quite candidly that it was " <i>probably not the most likely or what we would call the base case</i> ". He also stated that " <i>The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent</i> ". Given the message from the latest payrolls, we don't think "greater confidence" can be achieved quickly and keep June - just like for the ECB - as our baseline for the first Fed cut.
EM	The Chinese composite PMI continues to improve slowly back in slightly expansionary territory, hitting 50.9 in January from 50.3 in December, but deflation continues, with CPI falling 0.3% yoy in December, from -0.5% a month before.	The fiscal push (worth 0.8% of GDP in total over both 2023 and 2024) announced in October did not move the dial significantly and the Chinese financial market continues to be faced with a decline in equity prices. The government is reportedly mulling a big "equity market rescue" plan, topping up the direct intervention measures already taken (with state-owned funds stepping in to buy). We continue to consider it's the overall policy stance which is inappropriate, especially the refusal to cut rates steeply in the face of increasingly entrenched deflation.

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Market pricing for cuts has become less aggressive – but still some way to go

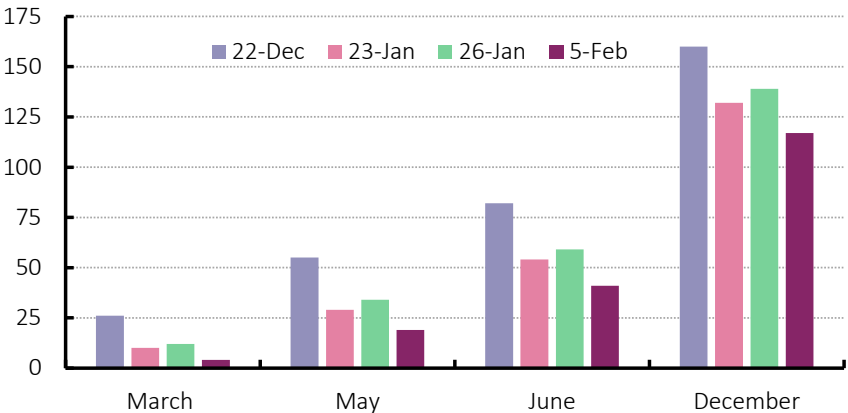
The still positioned for significant accommodation across the Atlantic

Still 120 bps worth of cuts priced for the end by end-24 for the Fed ...

...and for the ECB

Market pricing for the Fed cuts in 2024

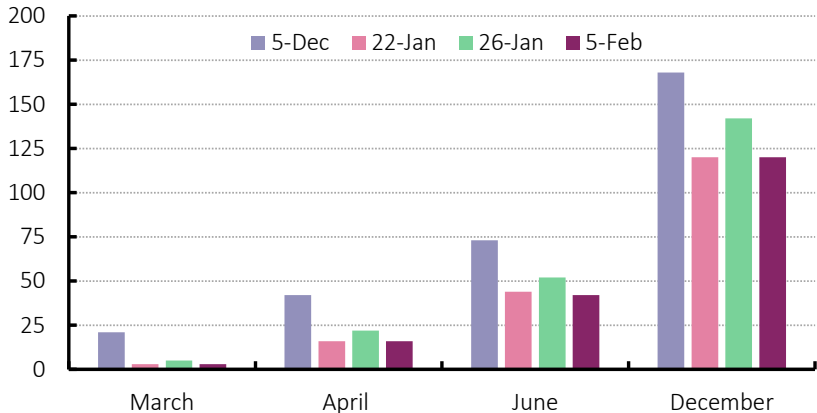
Cumulative basis points from current level



Source: Bloomberg and AXA IM Research, January 2024

Market pricing for the ECB rate cuts in 2024

Cumulative basis points from current level



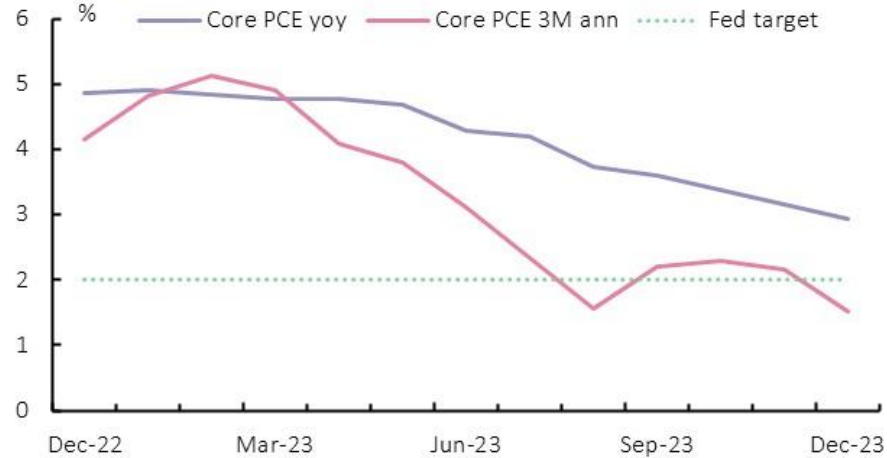
Source: Bloomberg and AXA IM Research, January 2024

US: good surprise on December core PCE – but the services/ goods gap still there

Core Yoy below 3% - and below 2% on a 3-month annualised basis –but it's all down to goods prices

Rebound over ?

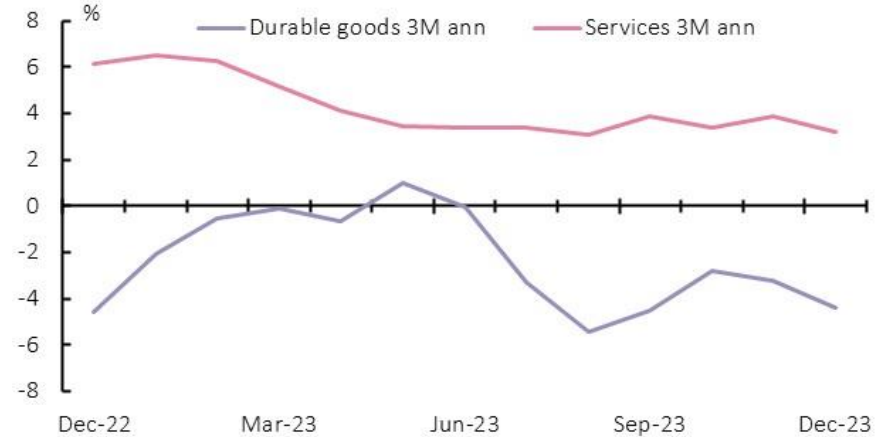
US core PCE



Source: Bureau of Economic Analysis and AXA IM Research, January 2024

Decline in core still driven by Slight decelerating in services prices

Breaking down Core PCE



Source: Bureau of Economic Analysis and AXA IM Research, January 2024

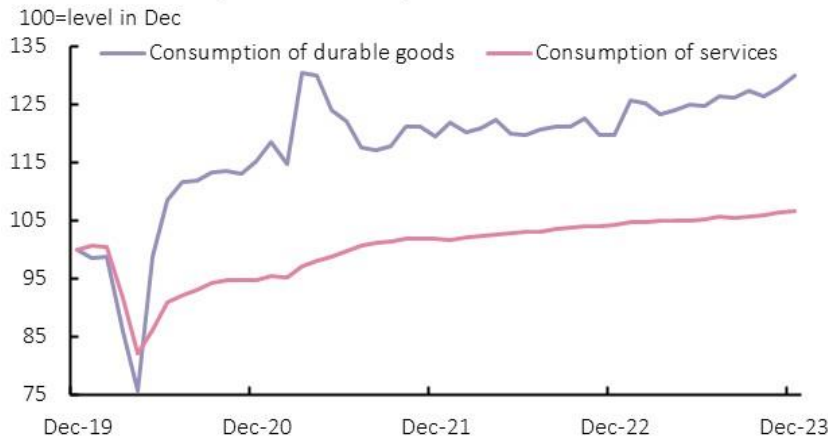
Teflon America...

GDP surprised again to the upside in Q4 – consumption resists to the monetary tightening

Americans are “accumulating things”

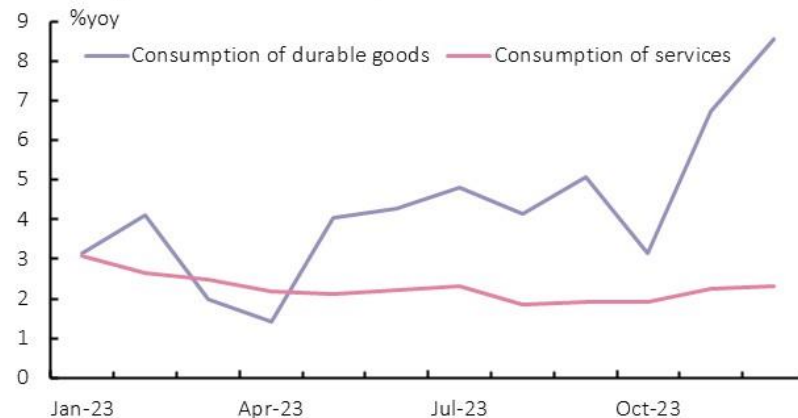
Purchases of durable goods are normally sensitive to interest rates – but they are accelerating

Breakdown of US private consumption



Source: Bureau of Economic Analysis and AXA IM Research, January 2024

Recent dynamics in US consumption



Source: Bureau of Economic Analysis and AXA IM Research, January 2024

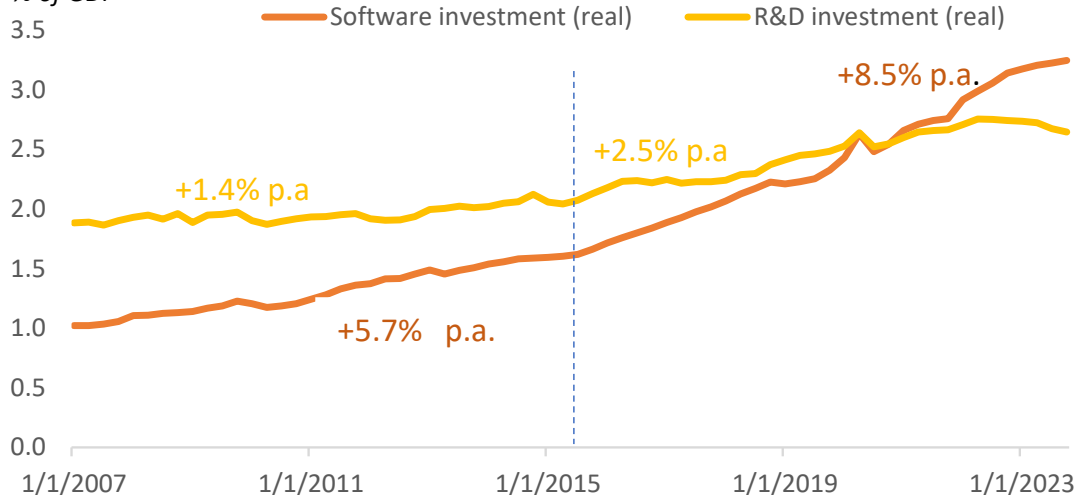
Is there a positive supply shock in the US?

Is the US reaping the benefits of a rise in technological investment ?

An acceleration in software and R&D investment from the mid-2010s

US tech investment effort

% of GDP



Source: Bureau of Economic Analysis, AXA IM Research, February 2024

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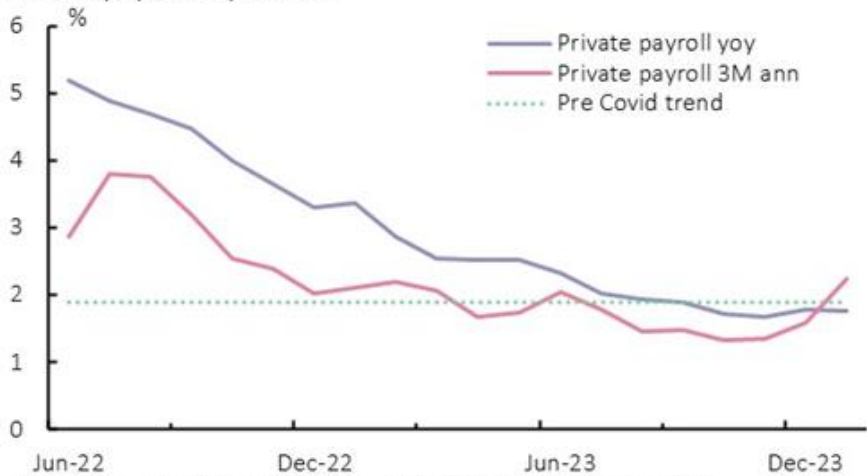
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The US labour market is still tense and wages are significantly up

Job creation above trend again, and wages growth is exceeding productivity gains

Jobs re-accelerating...

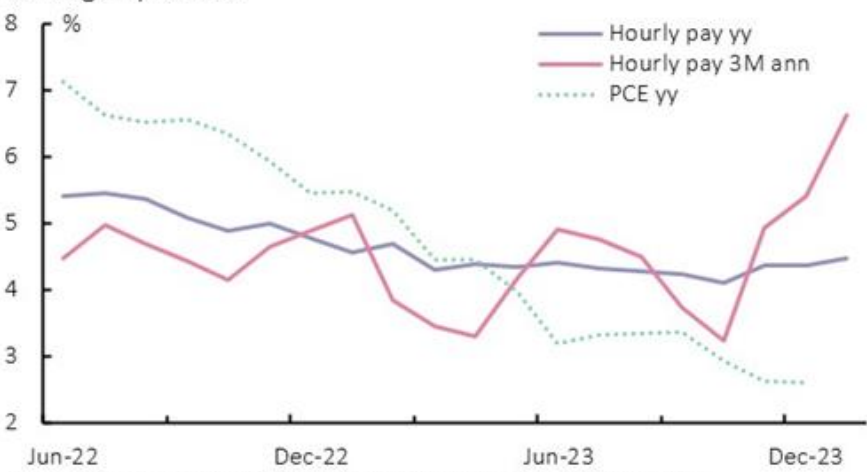
Private payrolls dynamics



Source: Bureau of Labor Statistics and AXA IM Research, February 2024

...as well as wages

US wage dynamics



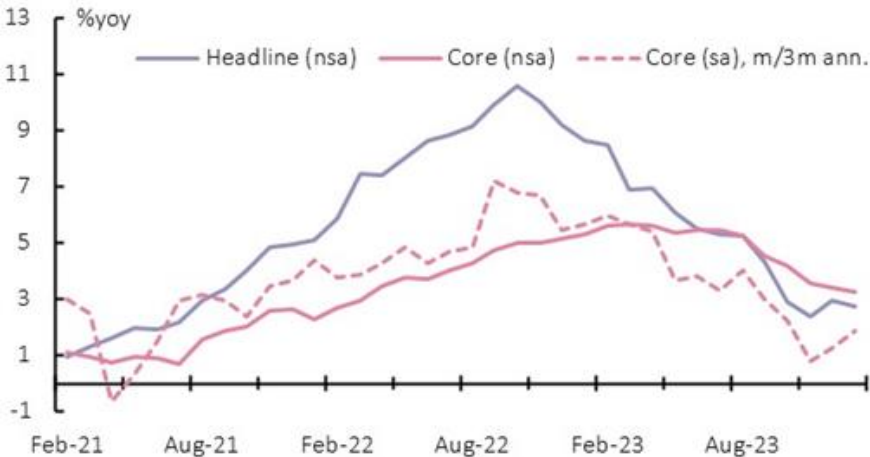
Source: Bureau of Labor Statistics and AXA IM Research, February 2024

Euro area core inflation < 2% over 3M but upward momentum – ECB’s forecasts still “leaning hawkish”

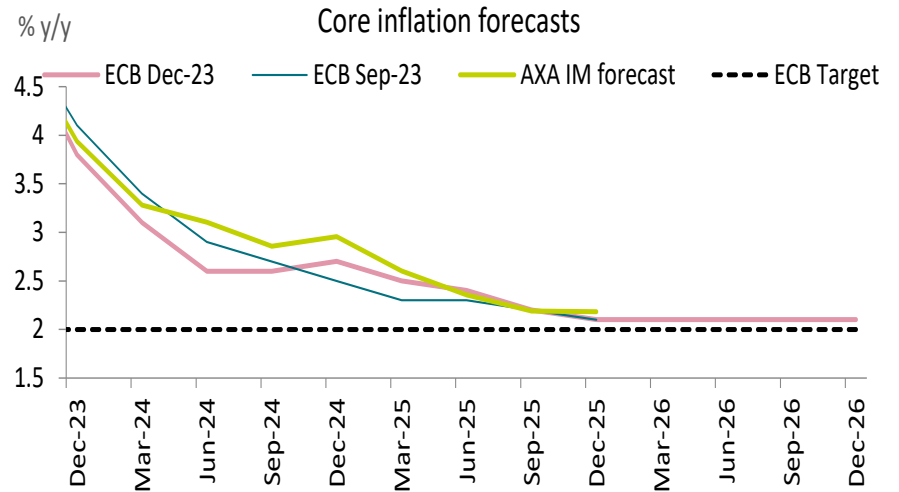
Second re-acceleration in core CPI momentum- The ECB’s inflation forecasts are not consistent with quick cuts

Core CPI < 2% on a 3M annualised basis, but acceleration in December and January

Core inflation momentum



The ECB has revised down its forecast for core inflation down in 24, but up for 25



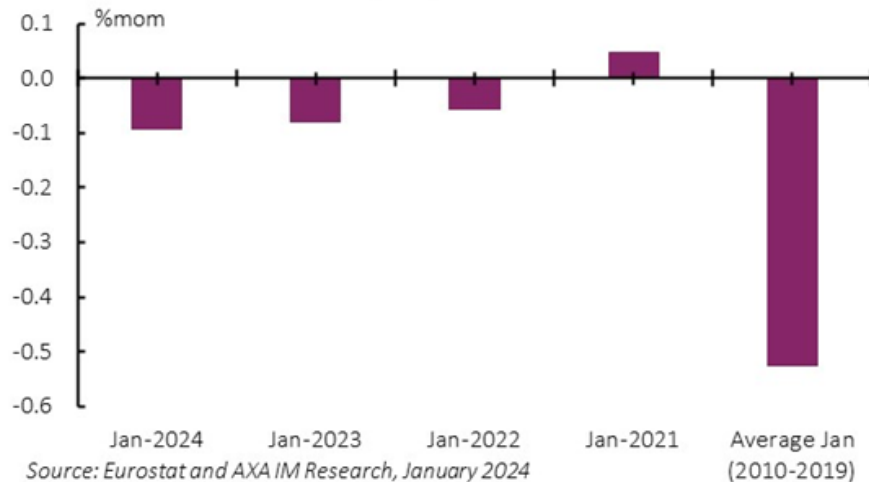
Is there something concerning emerging in Euro area services prices ?

The January data is incomplete, but it seems services are up again

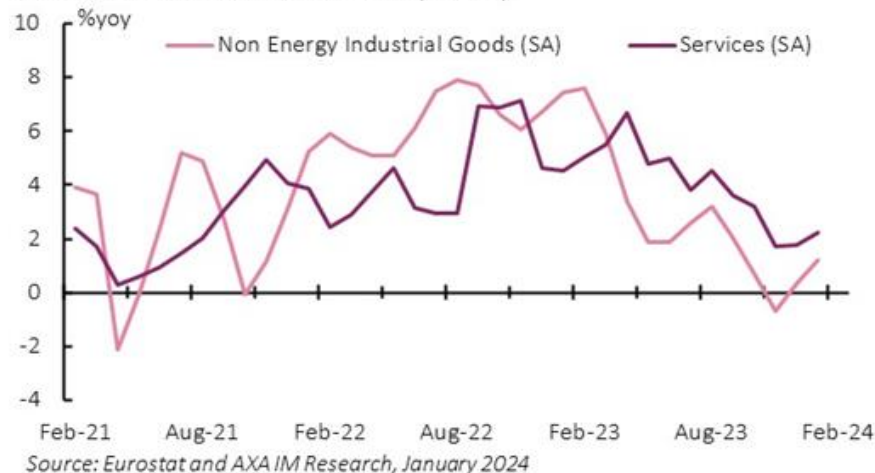
Services prices did not decline as much as hoped in January

Some resistance appearing ?

Euro area: Services inflation (NSA)



Euro area: Inflation momentum (m/3m)

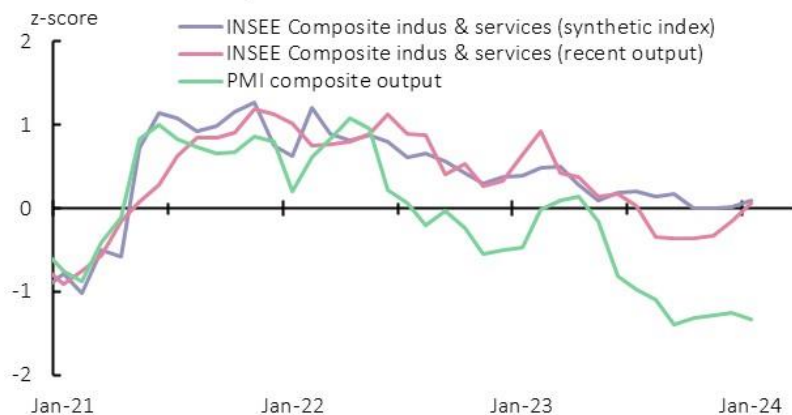


Euro area between stagnation and shallow recession

Stagnation for the best performers is the message from the surveys

For France, INSEE says stagnation, PMIs say recession

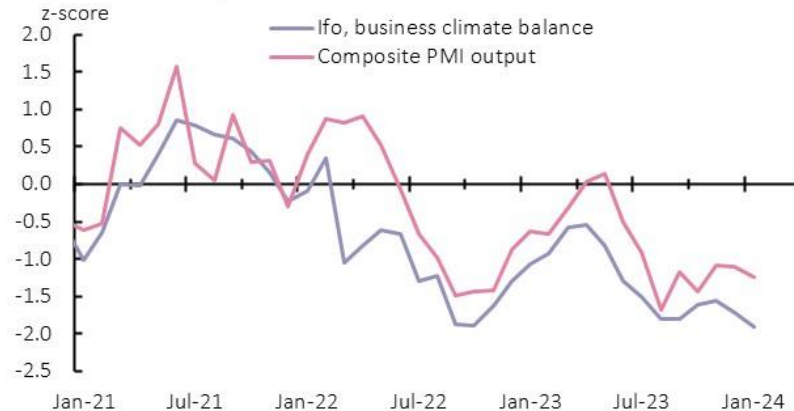
INSEE and PMIs composite



Source: Refinitiv, S&P Global and AXA IM Research, January 2024

For Germany, both IFO and PMIs say recession

German PMI Composite and IFO



Source: Refinitiv, S&P Global and AXA IM Research, January 2024

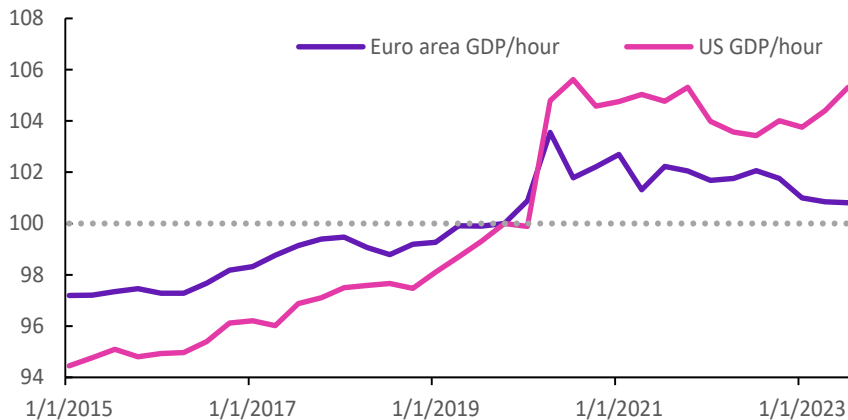
ECB is focusing on poor productivity in the Euro area

The central bank is concerned by the risk fast-rising unit labour costs become the next source of inflation

Widening gap between manufactured goods' prices
and services prices in the US

Productivity across the Atlantic

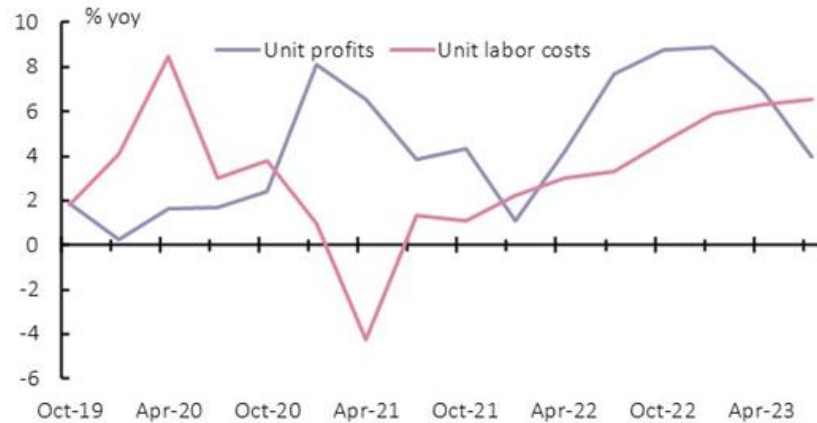
100= level in Q4 2019



Source: ECB, Bureau of Labor Statistics, AXA IM Research, January 2024

No such divergence in the Euro area

Profit and labor costs in the Euro area since Covid



Source: European Commission, ECB and AXA IM Research, January 2024

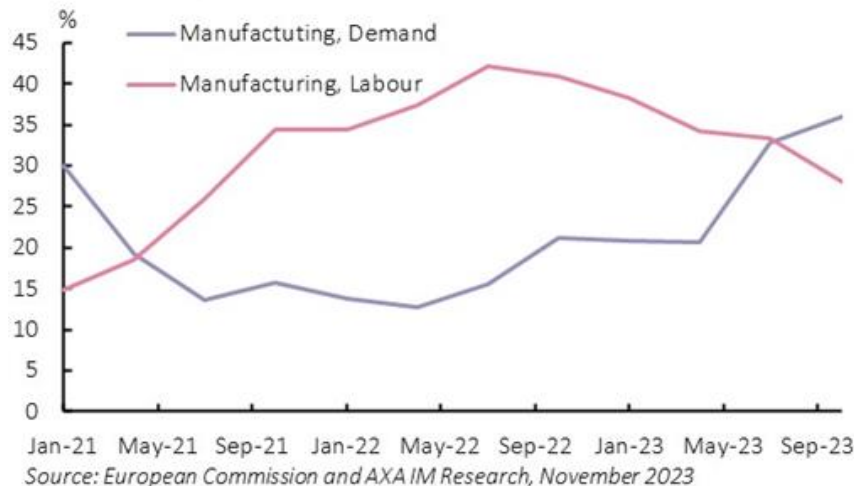
We are less worried by labour cost-led inflation in the Euro area

Weak demand rather than hiring difficulties are now on the corporate radar, and margins should help absorb ULCs

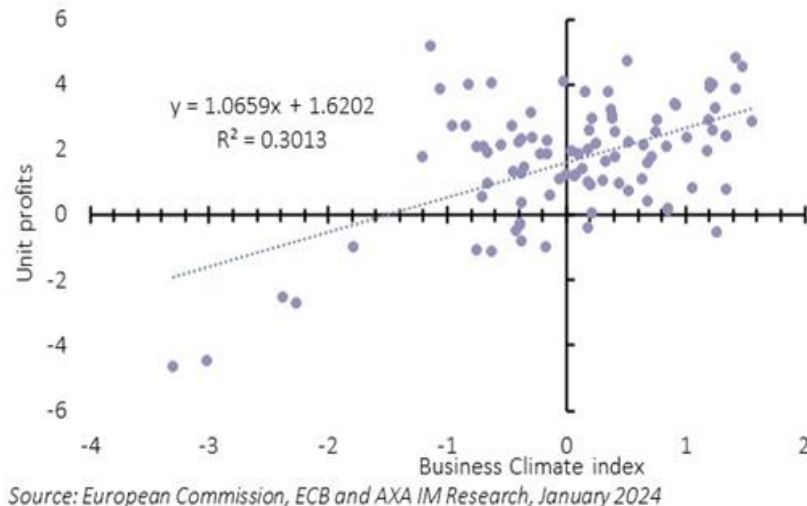
Weak demand rather than hiring difficulties is now a top business concernUS

Deterioration in economic sentiment should trigger a decline in profit margins

Factors limiting production in Germany



Economic sentiment and unit profits



Global conditions still fostering disinflation (1)

Despite the risks of geopolitical “polycrisis”, supply lines continue to normalise

To be monitored, but despite the Red Sea incidents
shipping costs remain under control

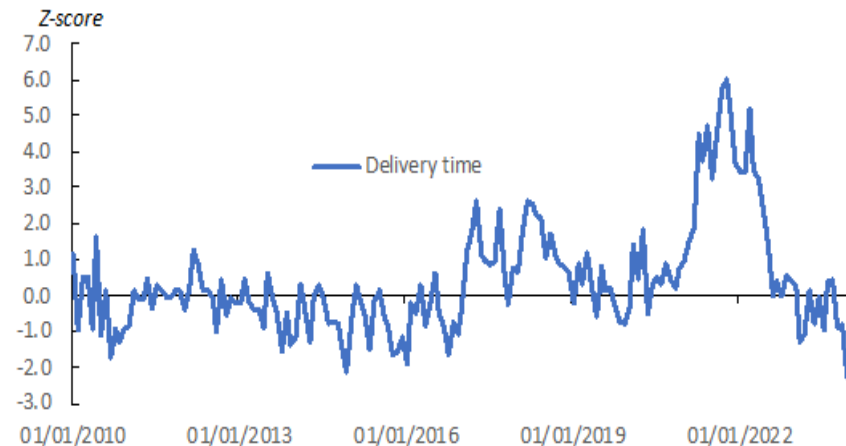
Shipping price (Baltic Dry Index (BDI))



Source: Macrobond, AXA IM Research, January 2023

Delivery times now markedly below their long-term
average

Delivery time in US Manufacturing



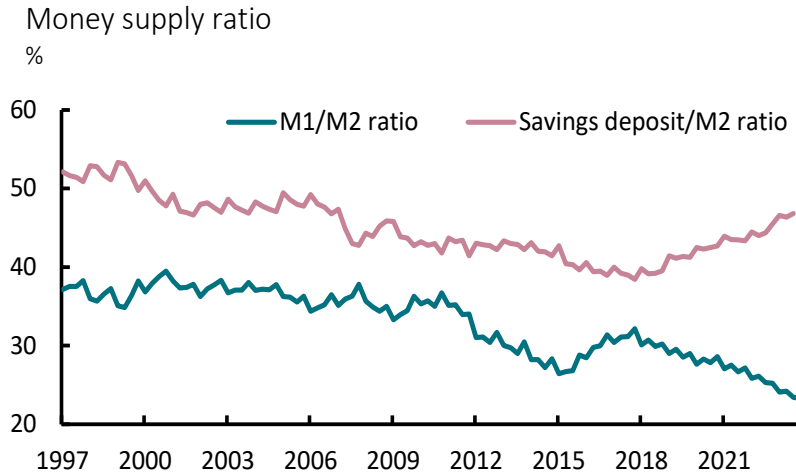
Source: NY Fed, AXA IM Research, January 2024

Global conditions still fostering disinflation (2)

China's weakness is an issue for European exporters, but it contributes to global disinflation

China continues to grow its "domestic demand deficit"

But consequently, China is now exporting deflation to the rest of the world



Source: CEIC, AXA IM Research, Jan 2024

Prices of products imported in the US



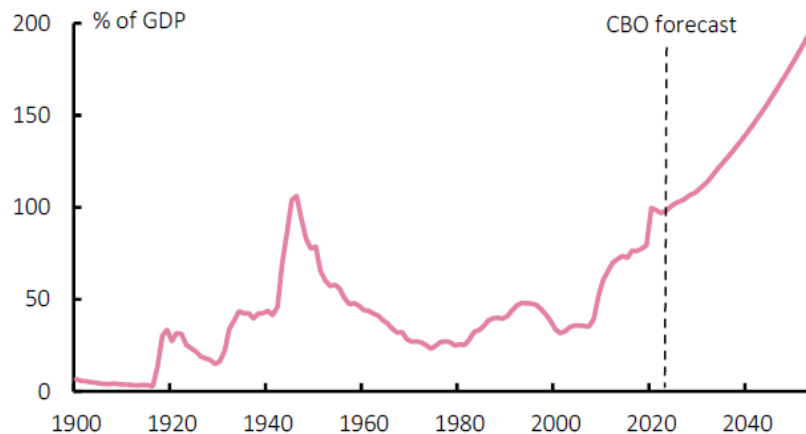
Source: Bureau of Labor Statistics and AXA IM Research, November 2023

Transatlantic fiscal divergence

US fiscal policy is getting out of control – the Euro area is now starting its fiscal consolidation

What will happen if policy does not change in the US
is scary

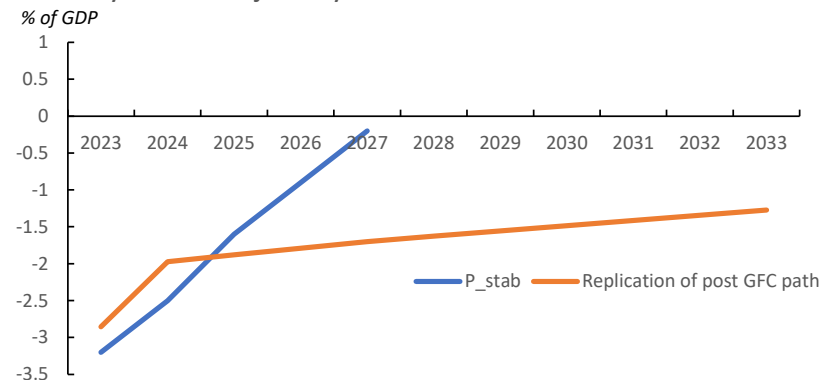
Federal Debt Held by the Public



Source: CBO and AXA IM Research, March 2023

An ambitious plan in France

Primary deficit trajectory France



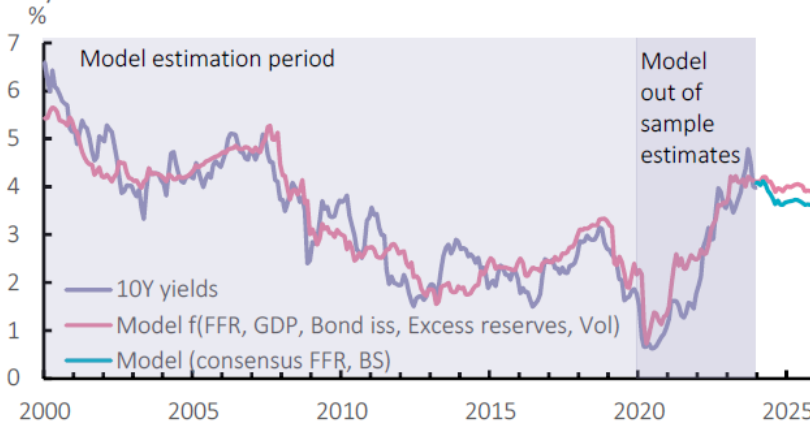
Source: French Finance Ministry, INSEE, AXA IM Research, May 2023

Downward resistance of long-term yields

Some strong forces will counteract the drop in short-term interest rates

Our model predictions

10y UST macro model and forecasts



Source: Fed, US Treasury and AXA IM Research, January 2024

How it shapes up

The model provides the precise estimation of our 10-year UST yield model for information.

Preferred model specification for 10-year UST yield		
Dependent variables	Est. coeff	Level of signification
Constant	2.58	***
Level of FFR	0.28	***
GDP (yoy)	0.09	***
Bond supply % GDP (8m lead)	0.31	***
Excess reserves % GDP (12m lead)	-0.12	***
MOVE index	0.01	***
*** significant at 1% level		
R ²	85%	

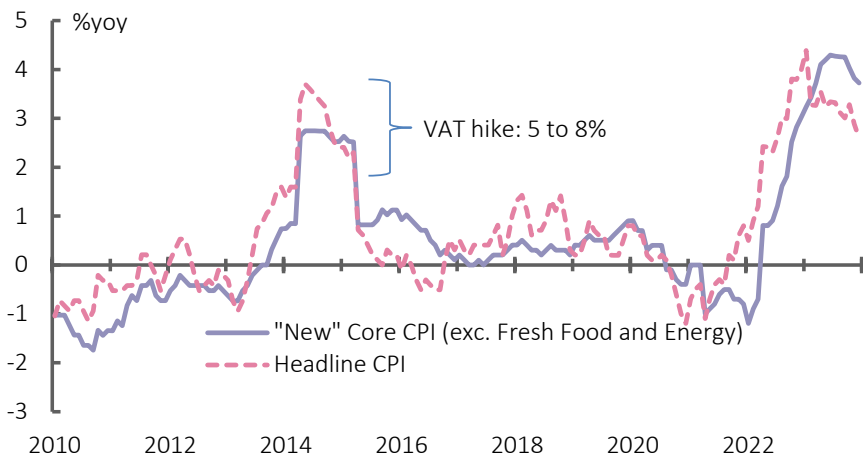
Source: AXA IM Research, January 2024

Labour costs to drive Japanese inflation ahead

Unions' initial demands for wage growth should keep inflation alive

How sustained is the rise in core inflation ?

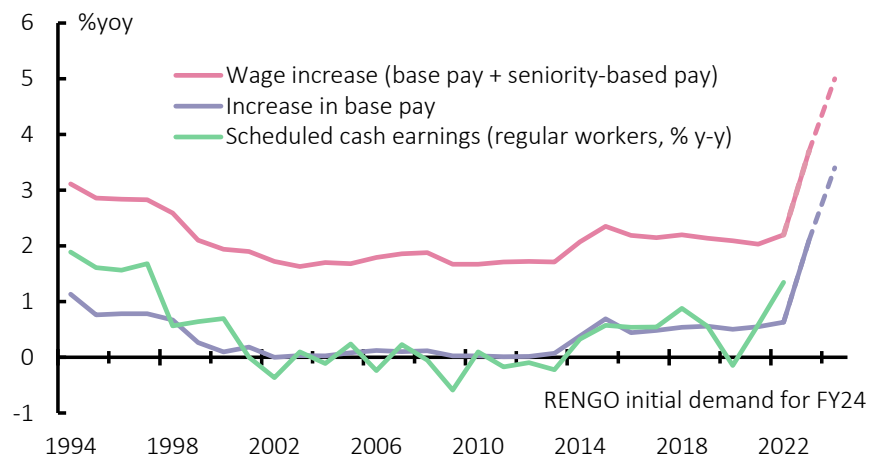
Inflation outlook



Source: Ministry of Internal Affairs & Communication and AXA IM Research, January 2024

Wage behaviour should entrench the normalisation of inflation

Annual wage negotiation increase and scheduled cash earnings



Source: Refinitiv and AXA IM Research, January 2024

Beware of Japan's normalisation

Repatriation of Japanese capital could shake some foreign markets

A slowly declining but still large share of US Treasuries

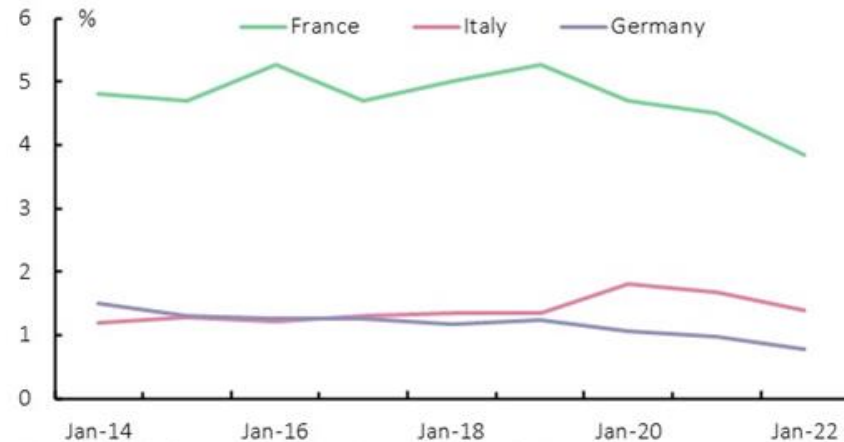
Share of Japan in non-resident holdings of USTs



Source: US Treasury and AXA IM Research, December 2023

The French bond market is very dependent on Japanese investors

Share of Japanese investors in LT debt securities



Source: Bank of Japan, Eurostat and AXA IM Research, December 2023

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	0.2	0.4	0.7	1.5
France	0.9	0.9	0.6	0.7	0.7	1.3
Italy	0.7	0.7	0.0	0.5	0.5	1.2
Spain	2.3	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

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Expectations on inflation and central banks

Forecasts

CPI Inflation (%)	2023*		2024*		2025*	
	AXA IM	Consensus	AXA IM	Consensus	AXA IM	Consensus
Advanced economies	4.7		2.9		2.3	
US	4.2	4.1	3.1	2.6	2.5	2.3
Euro area	5.5	5.5	2.7	2.4	2.2	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 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		31 Jan	1 May	30-31 Jul	6-7 Nov
			20 Mar	12 Jun	17-18 Sep	17-18 Dec
	Rates	5.50	unch (5.50)	-0.25 (5.25)	-0.25 (5.00)	-0.25 (4.75)
Euro area - ECB	Dates		25 Jan	11 Apr	18 Jul	17 Oct
			7 Mar	6 Jun	12 Sep	12 Dec
	Rates	4.00	unch (4.00)	-0.25 (3.75)	-0.25 (3.50)	-0.25 (3.25)
Japan - BoJ	Dates		18-19 Mar	25-26 Apr	30-31 Jul	30-31 Oct
				13-14 Jun	19-20 Sep	18-19 Dec
	Rates	-0.10	unch (-0.10)	+0.10 (0.00)	unch (0.00)	unch (0.00)
UK - BoE	Dates		1 Feb	9 May	1 Aug	7 Nov
			21 Mar	20 Jun	19 Sep	19 Dec
	Rates	5.25	unch (5.25)	unch (5.25)	-0.25 (5.00)	-0.50 (4.50)
Canada - BoC	Dates		24 Jan	10 Apr	24 Jul	23 Oct
			6 Mar	5 Jun	4 Sep	11 Dec
	Rates	5.00	unch (5.00)	unch (5.00)	-0.25 (4.75)	-0.50 (4.25)

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