Looking back, looking forward 2024-25

Allianz Research

15 December 2023

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Looking back, looking forward

1	**2024 a crowded political year** with households and firms likely to adopt a wait-and-see approach and postpone key economic decisions from large purchases to major investments.
2	**Soft landing in the US and muddling through in the Eurozone** with increasing risks of prolonged technical recession for the latter in H1 2024.
3	**Disinflation is gaining traction** and **central banks should pivot earlier than expected (summer 24)** but later than market expectations as it takes time to cool down a 'hot' labor market.
4	**Fiscal safety nets unwinding in Europe,** Germany not to the rescue amid budget woes, US fiscal consolidation underwhelming.
5	**Global trade is set to rebound modestly after 2 consecutive years of below-average global GDP growth.** The rebound will be let by Europe emerging from trade recessions and Asian countries (ex-China) still benefiting from the reshuffle in global value chains.
6	**The Chinese consumer didn't save the day** but China increases its influence abroad through investment while increasing its policy support to fight a distressed property market and muted consumer confidence.
7	**Emerging markets:** re-emerging on lower rates, weaker dollar, lower twin deficits and friend-shoring. Selectivity key as some countries still struggle (Egypt, Argentina or Ghana).
8	**Corporates digesting higher yield environment** with risks concentrated on real estate, retail, utilities
9	**Capital markets: rates struggle between policy pivot and supply** amid large deficits and central bank quantitative tightening, volatility to decrease as rate pivot approaches. The recovery of risky assets will be put to the test as the AI frenzy cools and some of the anticipated cuts do not materialize (esp. Eurozone)
10	**Financial cracks under the surface and liquidity squeeze to continue adding pressure on corporate spreads.** But risks will not materialize systemically as central bank policy becomes accommodative

Global Macro & Corporate Outlook 2024-2025

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Upcoming super election year increases political volatility and uncertainty

	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Geopolitically important elections	Taiwan, presidential & parliamentary (Jan) Indonesia, presidential & parliamentary (Feb)	India, parliamentary (Apr / May) South Africa, presidential & parliamentary (May) European Union, parliamentary (Jun)		United Kingdom, parliamentary (Oct) US presidential & parliamentary (Nov)
Further elections	• Finland, presidential (Jan) • Croatia, parliamentary (Mar) • Russia, presidential (Mar) • Portugal, parliamentary (Mar)	• South Korea, parliamentary (Apr) • Mexico, presidential & parliamentary (Jun) • Belgium, parliamentary (Jun)	• Austria, parliamentary (Sep)	• Lithuania, parliamentary (Oct) • Uruguay, presidential & parliamentary (Oct) • Romania, presidential & parliamentary (Nov)

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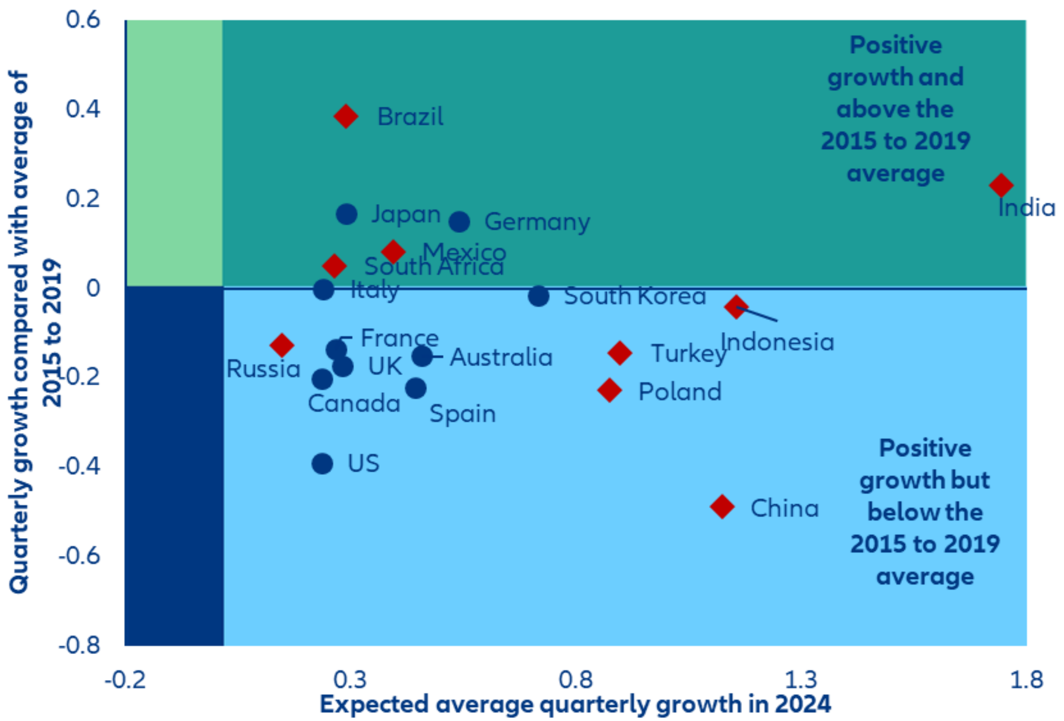
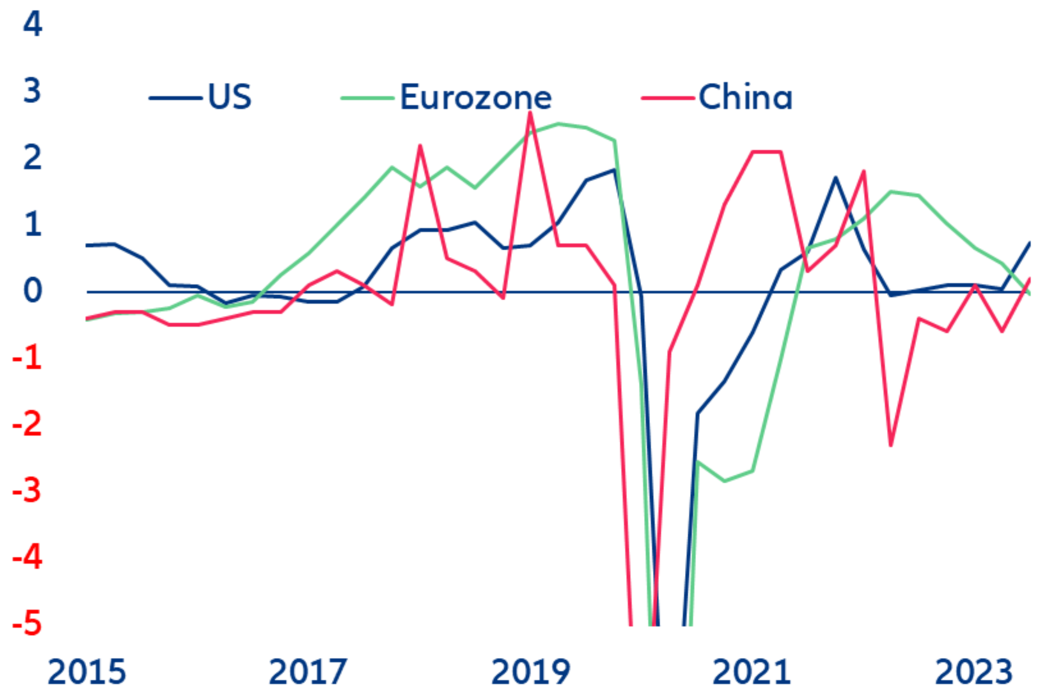
Soft landing is still our baseline for 2024

We expect most developed markets to grow below trend in 2024



Sources: LSEG Datastream, Allianz Research

Output gaps suggest there is no spare capacity left in China and the Eurozone (HP output gap, %)



Sources: LSEG Datastream, Allianz Research

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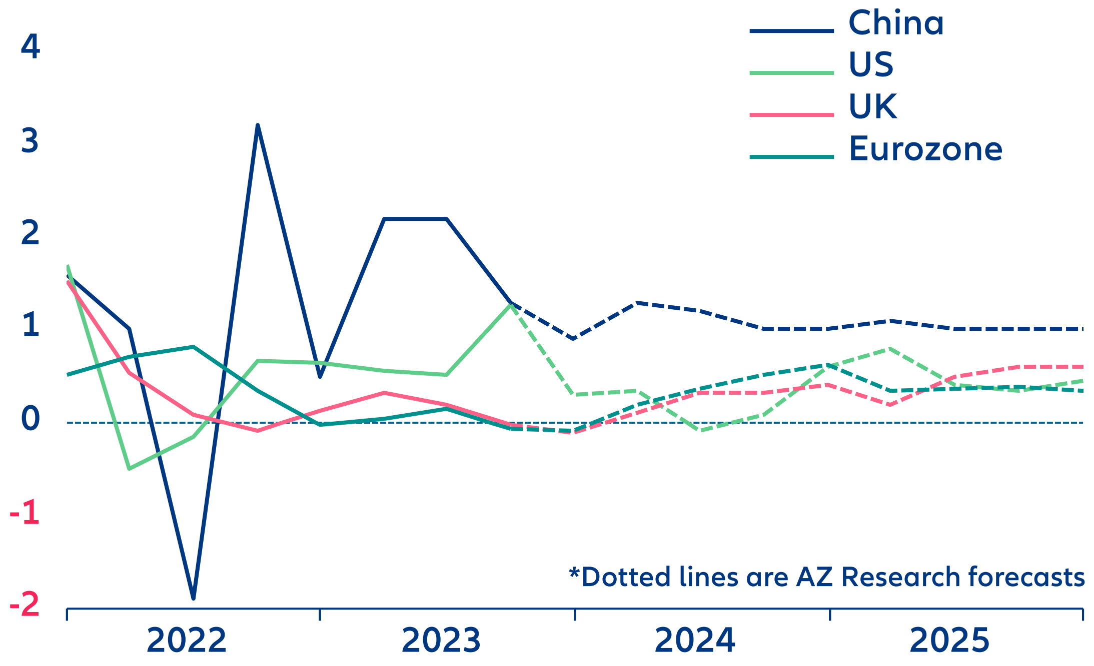
Sidestepping the recession

Global real GDP growth (%)

Growth (yearly %)	2021	2022	2023f	2024f	2025f
Global	**6.2**	**3.0**	**2.7**	**2.4**	**2.8**
USA	**5.8**	**1.9**	**2.4**	**1.4**	**1.9**
Latin America	**7.1**	**3.9**	**2.3**	**1.7**	**2.3**
Brazil	5.3	3.0	3.1	1.5	1.9
UK	**8.7**	**4.4**	**0.5**	**0.6**	**1.5**
Eurozone	**5.9**	**3.4**	**0.5**	**0.8**	**1.7**
Germany	3.1	1.9	-0.3	0.5	1.7
France	6.4	2.5	0.8	0.7	1.5
Italy	8.3	3.9	0.7	0.6	1.5
Spain	6.4	5.8	2.4	1.5	1.8
Central and Eastern Europe	**6.1**	**0.8**	**0.9**	**2.3**	**3.1**
Poland	6.9	5.1	0.5	2.5	3.0
Russia	5.6	-2.1	3.1	1.6	1.5
Türkiye	11.4	5.5	3.9	2.9	3.9
Asia-Pacific	**6.4**	**3.2**	**4.4**	**4.0**	**3.9**
China	8.5	3.0	5.2	4.6	4.2
Japan	2.3	1.0	1.8	1.0	1.0
India	8.9	6.7	6.9	6.3	6.5
Middle East	**4.4**	**6.7**	**2.3**	**2.3**	**3.1**
Saudi Arabia	4.3	8.7	1.4	1.8	4.2
Africa	**5.8**	**3.8**	**2.7**	**3.4**	**4.1**
South Africa	4.7	1.9	0.7	1.4	1.6

Subdued growth ahead

Quarterly real growth rates (q/q %)



Sources: LSEG Datastream, Allianz Research

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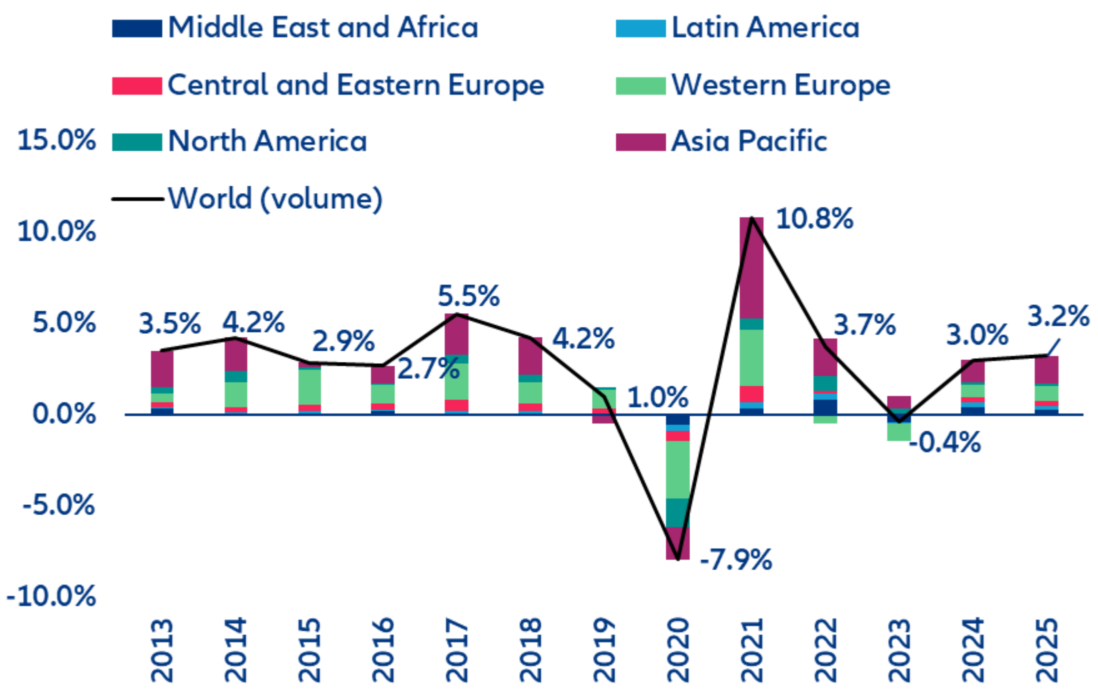
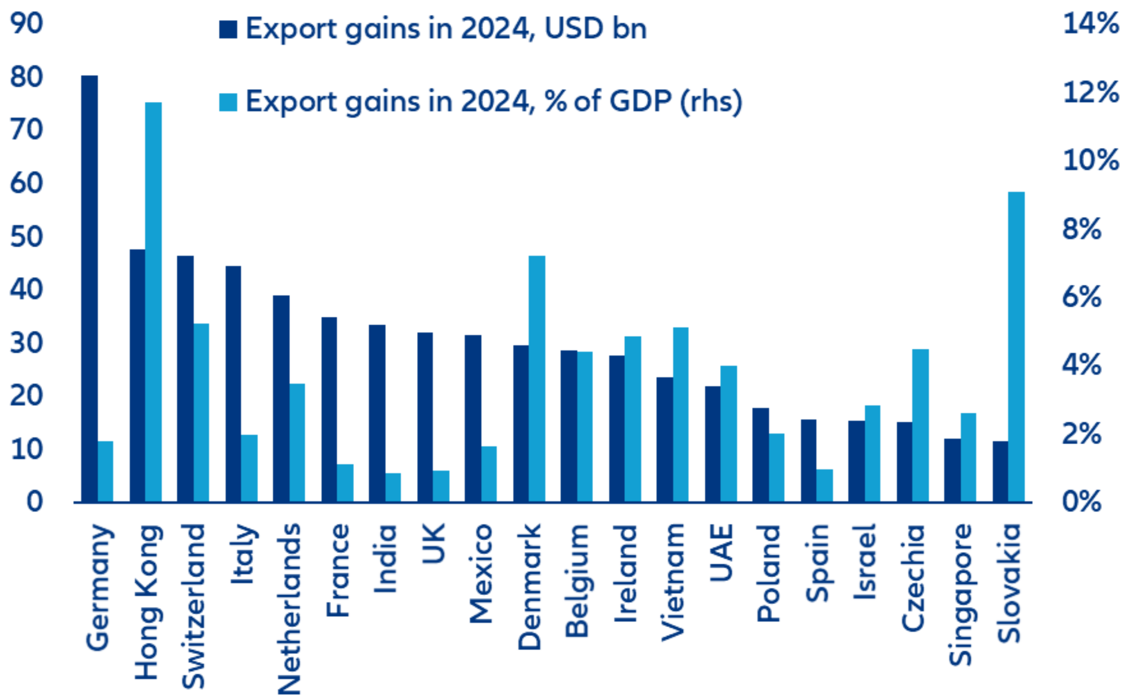
Timid rebound in global trade in 2024

Europe & APAC to lead the rebound in 2024



Sources: UNCTADstat, Allianz Research

Forecasted export gains in 2024, by country



Sources: UNCTADstat, Allianz Research

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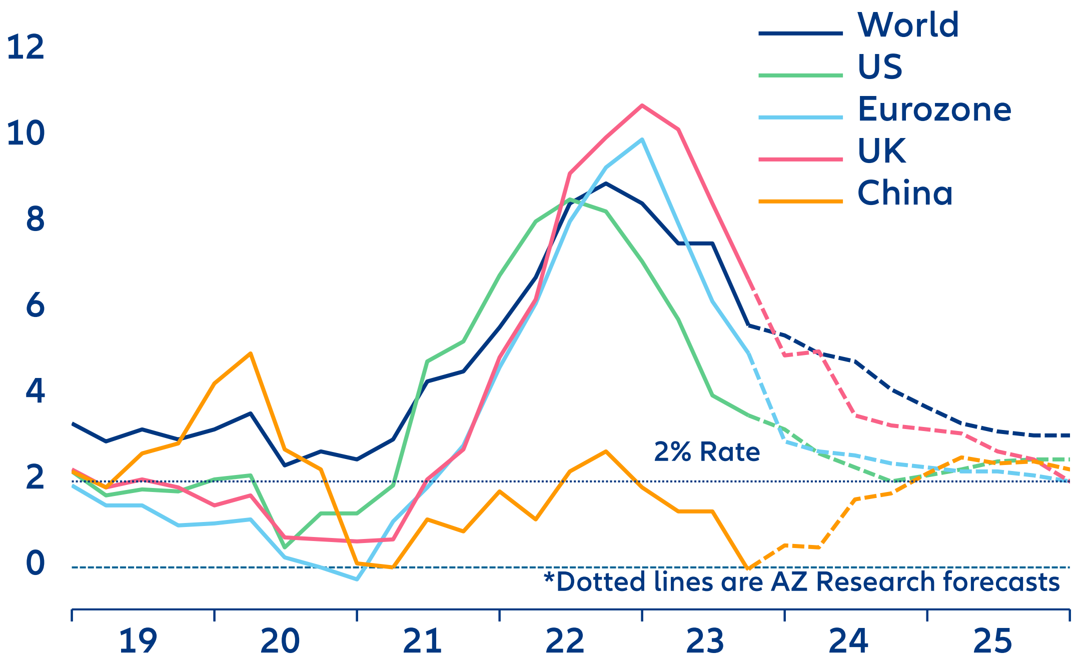
Ongoing disinflation

Inflation forecasts, %

Inflation (yearly %)	2021	2022	2023f	2024f	2025f
Global	**4.3**	**8.4**	**6.6**	**4.6**	**3.6**
USA	**4.7**	**8.0**	**4.1**	**2.3**	**2.4**
Latin America	**13.9**	**14.9**	**23.4**	**15.0**	**9.2**
Brazil	8.3	9.3	5.1	4.2	3.0
UK	**2.6**	**9.1**	**7.1**	**3.8**	**2.6**
Eurozone	**2.6**	**8.4**	**5.5**	**2.5**	**2.1**
Germany	3.1	6.9	5.9	2.6	2.2
France	1.6	5.2	4.9	1.8	2.0
Italy	1.9	8.2	5.8	2.2	1.9
Spain	3.1	8.4	3.6	3.4	2.2
Central and Eastern Europe	**8.1**	**9.1**	**11.4**	**5.8**	**3.9**
Poland	5.1	14.4	11.6	6.0	4.1
Russia	6.7	13.8	5.9	6.4	4.5
Türkiye	19.6	72.3	53.6	37.8	17.4
Asia-Pacific	**1.7**	**3.7**	**2.7**	**2.6**	**2.3**
China	0.9	2.0	0.5	1.6	1.7
Japan	-0.2	2.5	3.3	2.2	1.0
India	5.1	6.7	5.6	5.3	4.5
Middle East	**15.8**	**10.3**	**7.7**	**5.6**	**5.1**
Saudi Arabia	3.1	2.5	2.8	2.8	2.0
Africa	**12.4**	**16.1**	**24.4**	**17.5**	**11.2**
South Africa	4.6	6.9	5.2	4.2	4.5

Approaching central bank targets in 2024

Quarterly inflation rates, y/y%

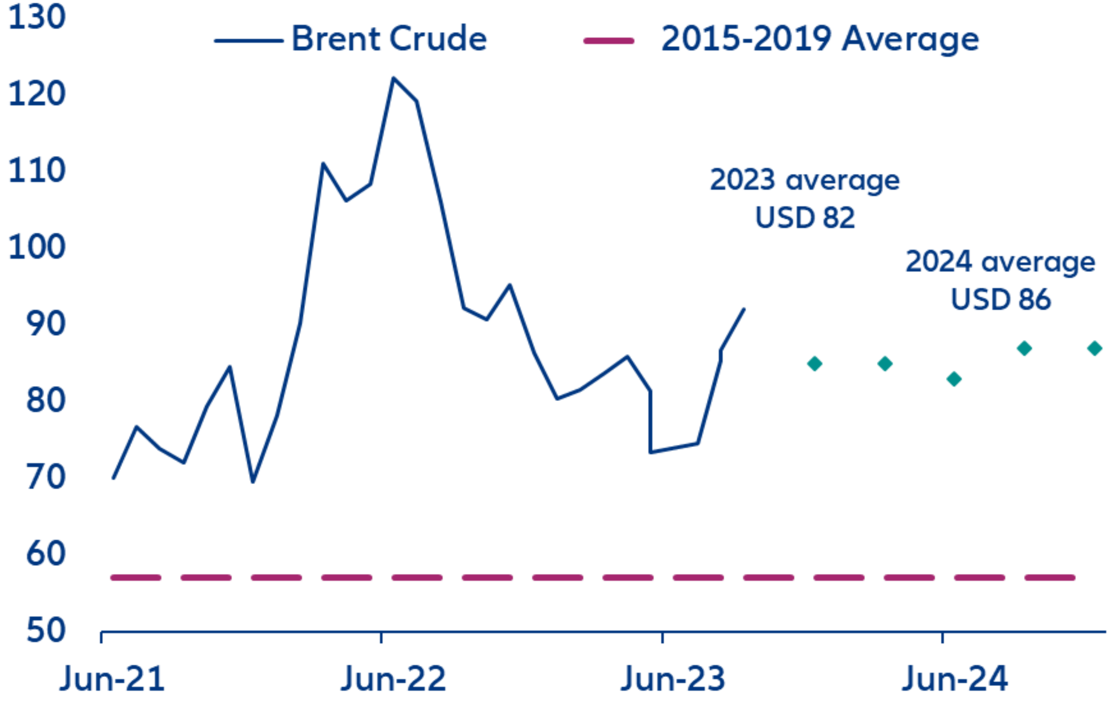


Sources: LSEG Datastream, Allianz Research

Oil price weighed down by demand, but electricity prices elevated in Europe

Oil to remain expensive

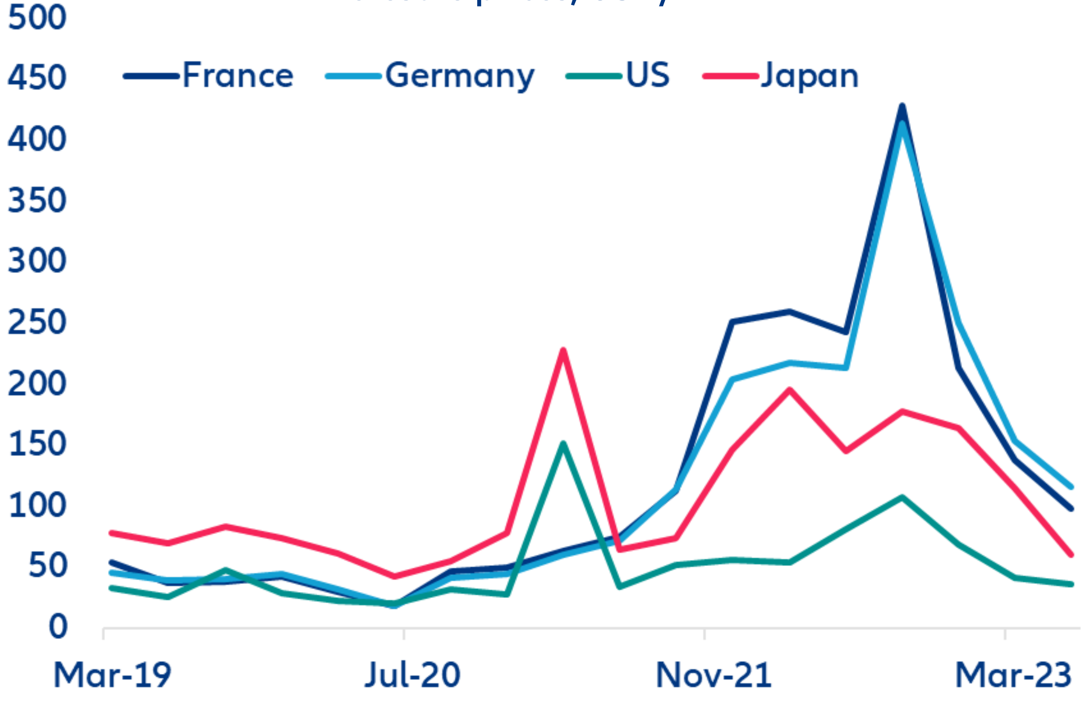
Brent prices, USD/bbl



Sources: LSEG Datastream, Allianz Research

Electricity prices should not decrease much in 2024 in Europe

Wholesale prices, USD/MWh

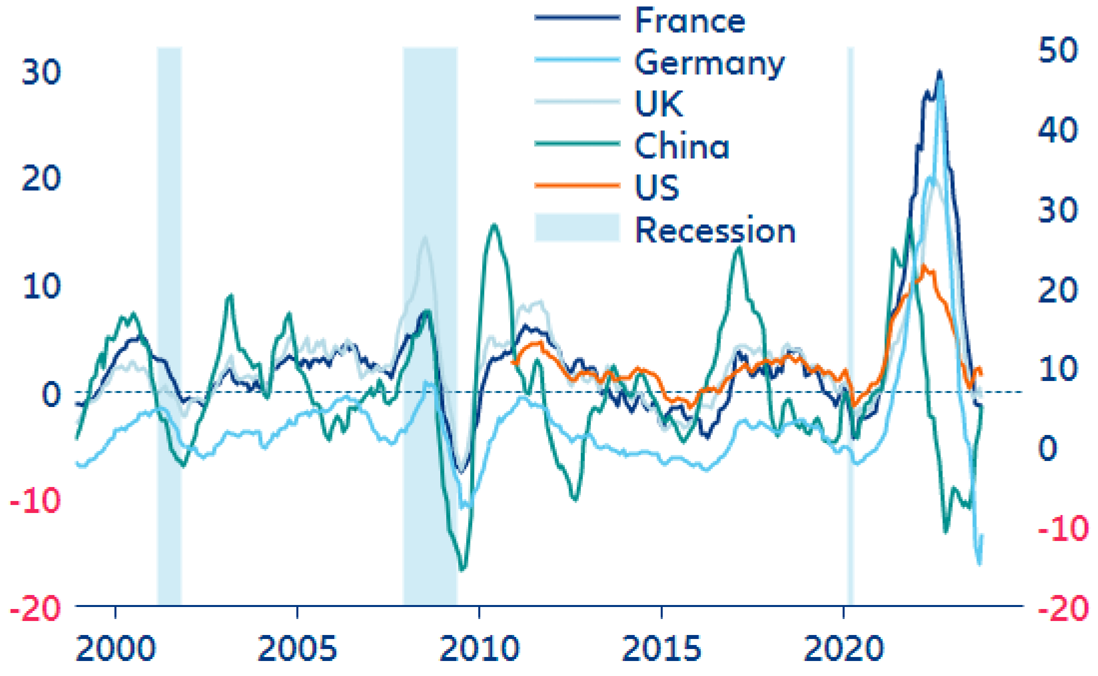


Sources: IEA, Allianz Research

From goods deflation to services disinflation

Producer price deflation, notably in China and Germany

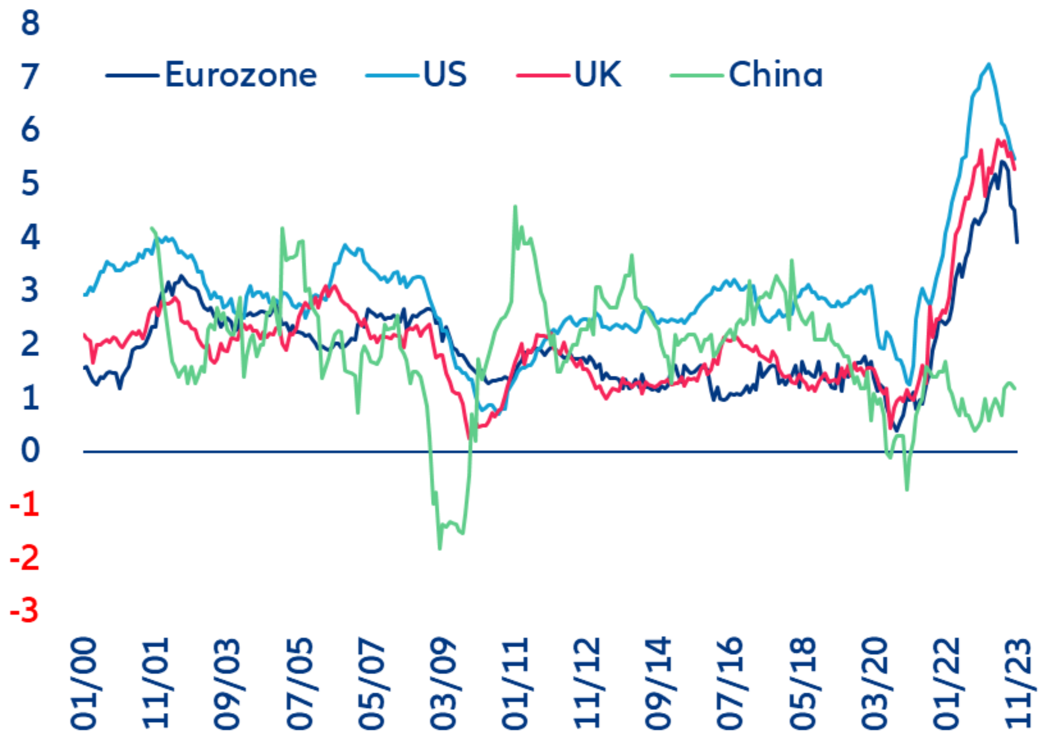
Producer price index, y/y %



Sources: LSEG Datastream, Allianz Research

Services inflation will take time to slow

Core services inflation, y/y %



Sources: LSEG Datastream, Allianz Research

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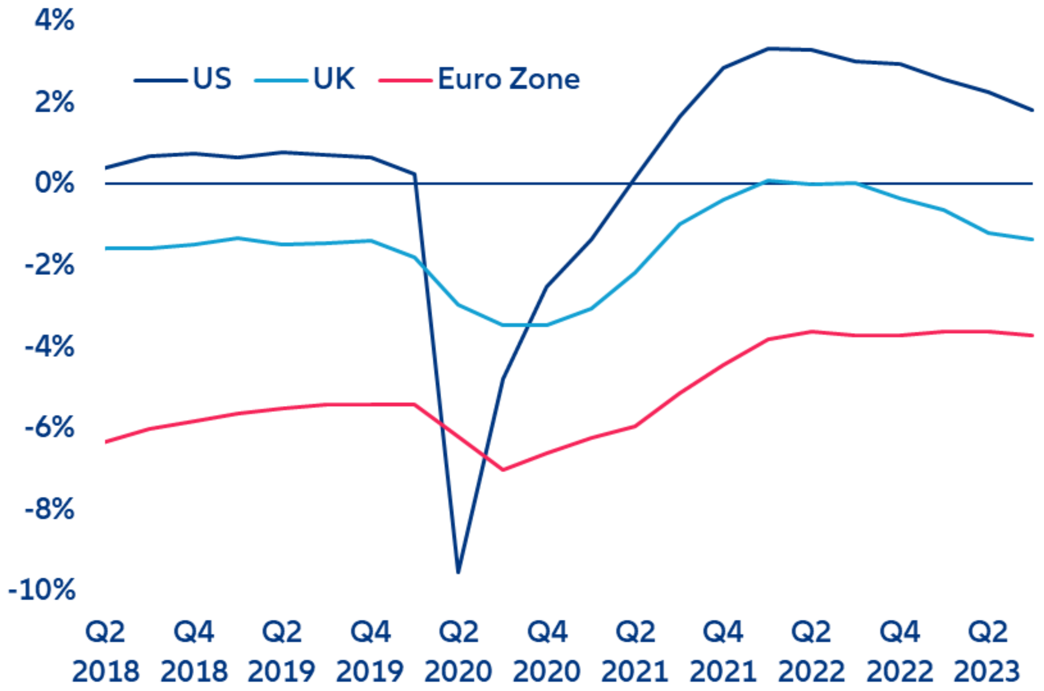
Labor market rebalancing starting to feed through to lower wage growth

Labor market imbalances moderate but remain above pre-pandemic levels

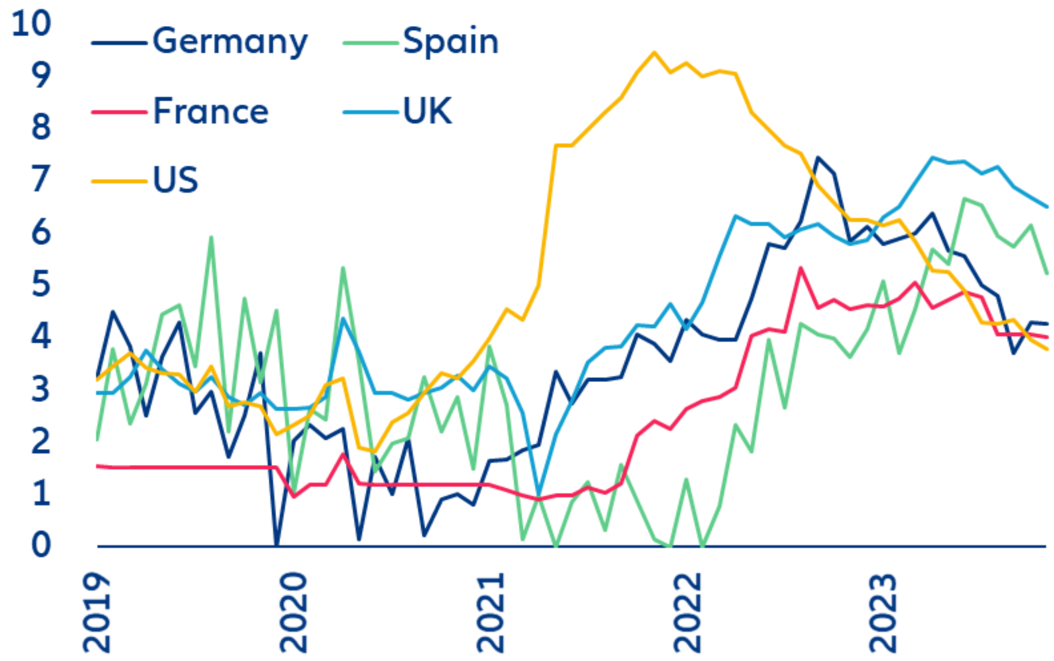
((Job openings + Employment) / Labour force) - 1



Sources: LSEG Datastream, national sources, Allianz Research

Nominal wage growth shows signs of turning around

Indeed wage tracker on newly hired employees, % y/y



Sources: Indeed, Allianz Research

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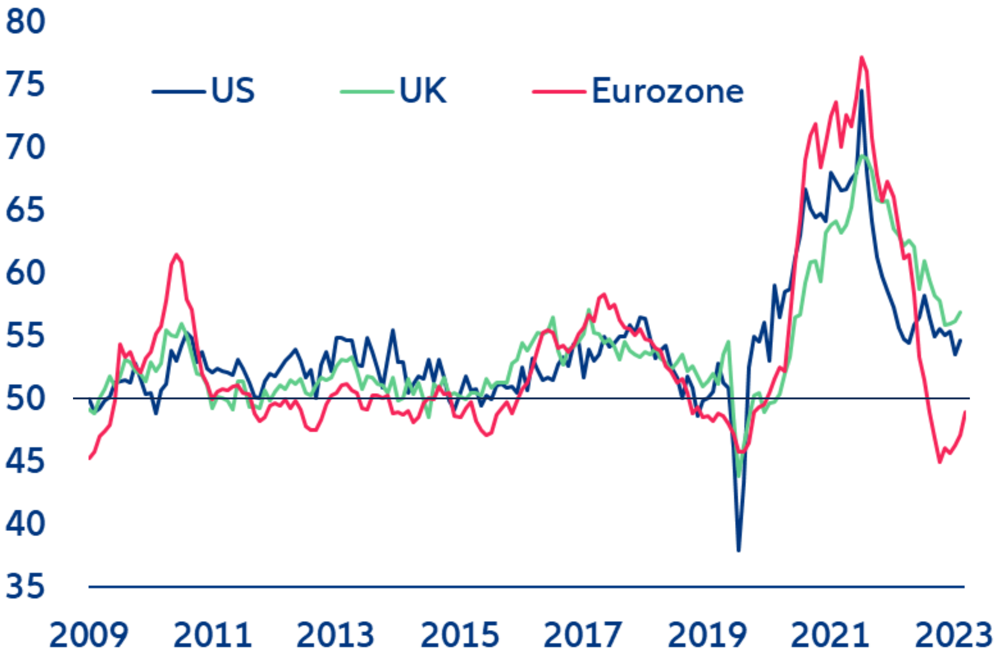
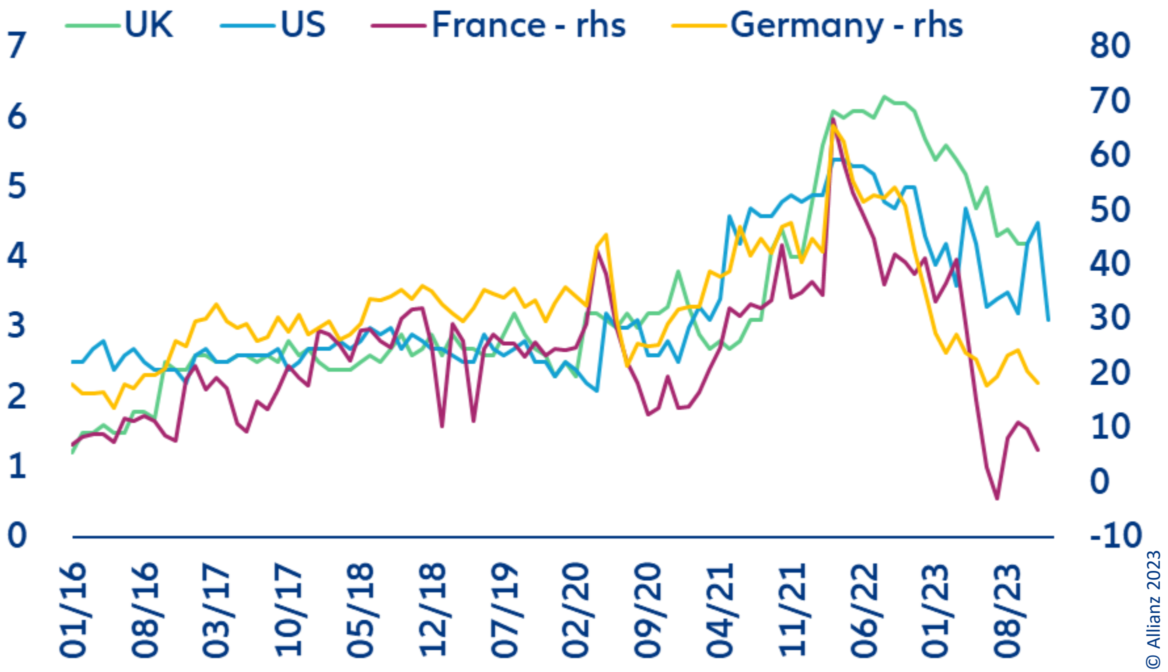
Businesses and consumers' price expectations normalizing

Businesses' selling prices at or close to pre-pandemic level
(Composite PMI output prices, index)



Sources: LSEG Datastream, Allianz Research

Consumers' short-term inflation expectations are off their highs (Germany/France = balance of opinion)



Sources: LSEG Datastream, Allianz Research

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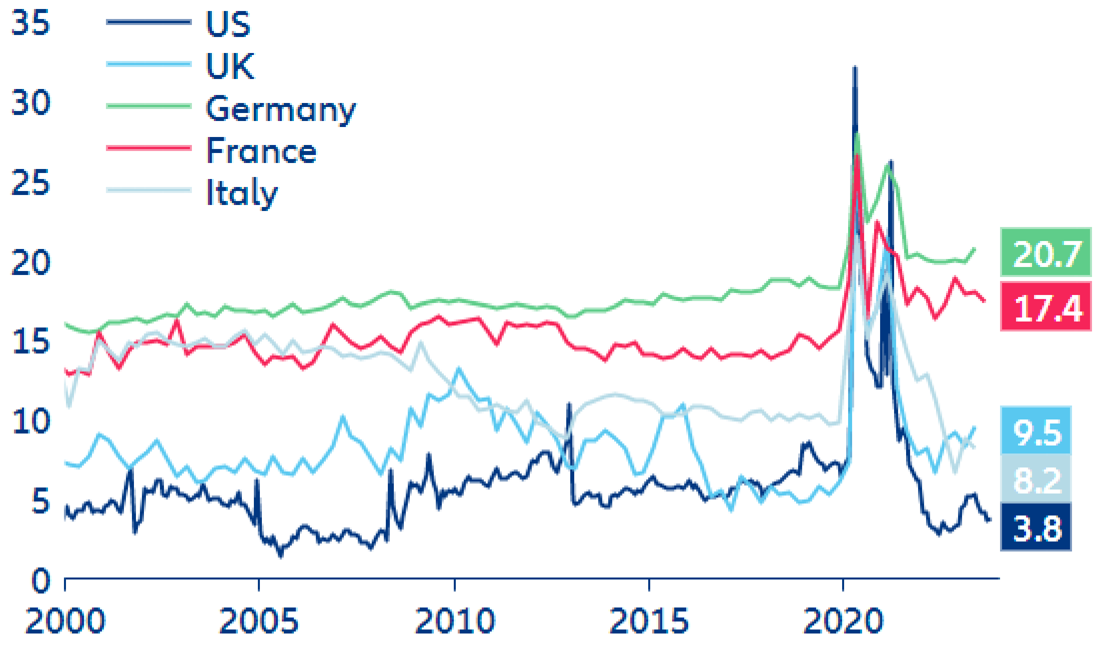
Consumers get some relief from positive real wage growth, but precautionary savings remain high

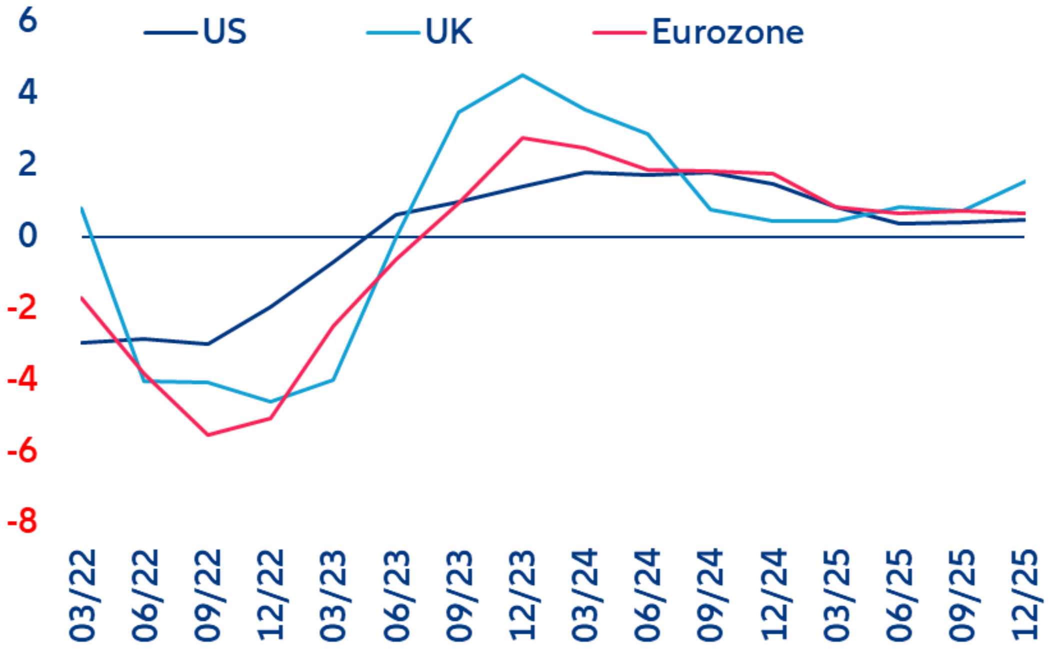
Precautionary savings remain high in Europe

Gross saving rate, % of disposable income



Sources: LSEG Datastream, Allianz Research

Positive real wages should support consumer spending in 2024, y/y%



Sources: LSEG Datastream, Allianz Research

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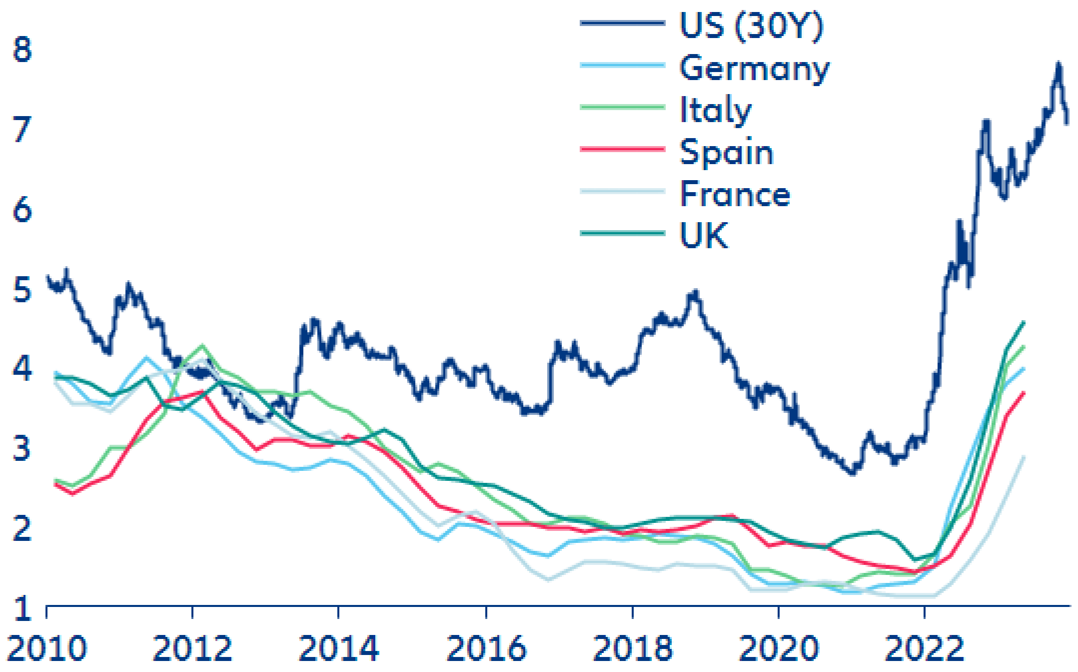
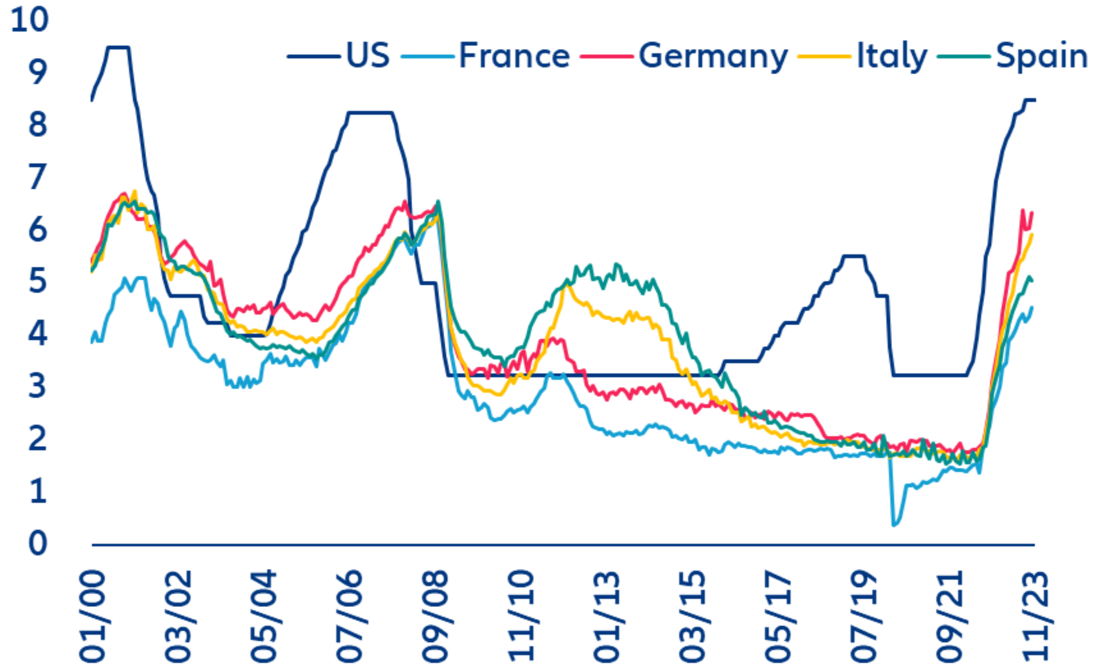
Bank interest rates seem to have peaked in the US

Mortgage interest rates started to fall in the US, %



Sources: LSEG Datastream, Allianz Research

Bank rates to business don't show signs of cooling, %



Sources: LSEG Datastream, Allianz Research

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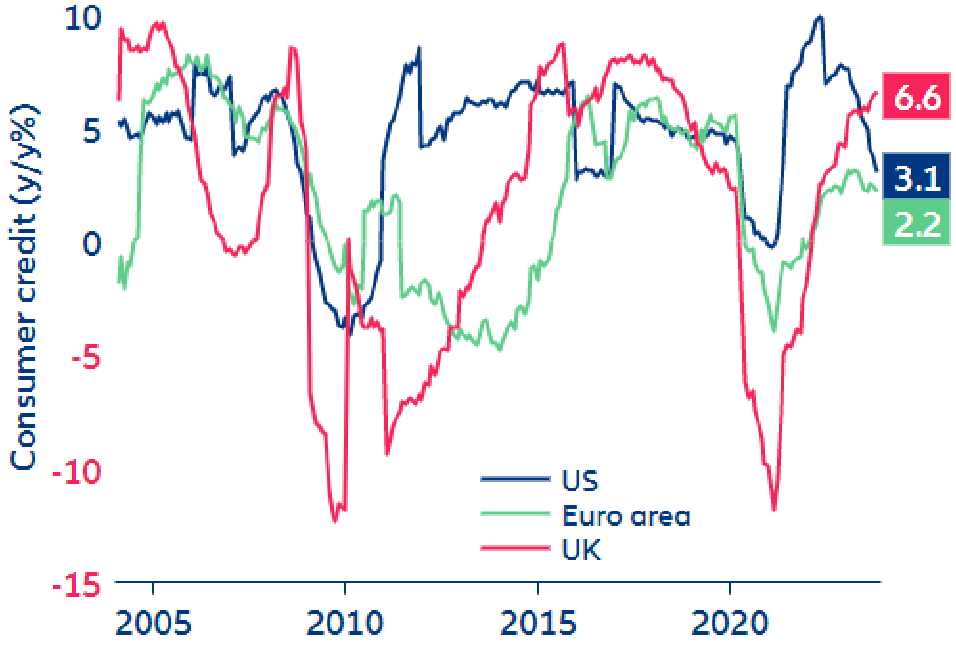
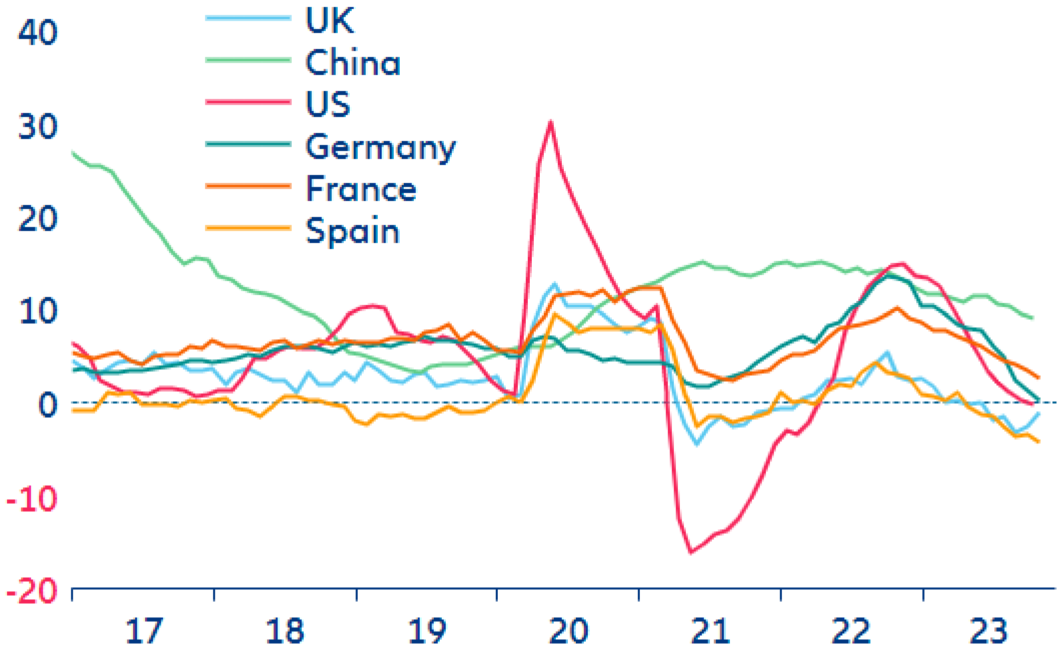
High rates constraint loan growth, mainly for firms

The US leads the cycle of consumer credit with delinquencies rising to their highest level since 2020, y/y, %



Sources: LSEG Datastream, Allianz Research

Credit growth to firms has taken a toll since the start of 2023, y/y, %



Sources: LSEG Datastream, Allianz Research

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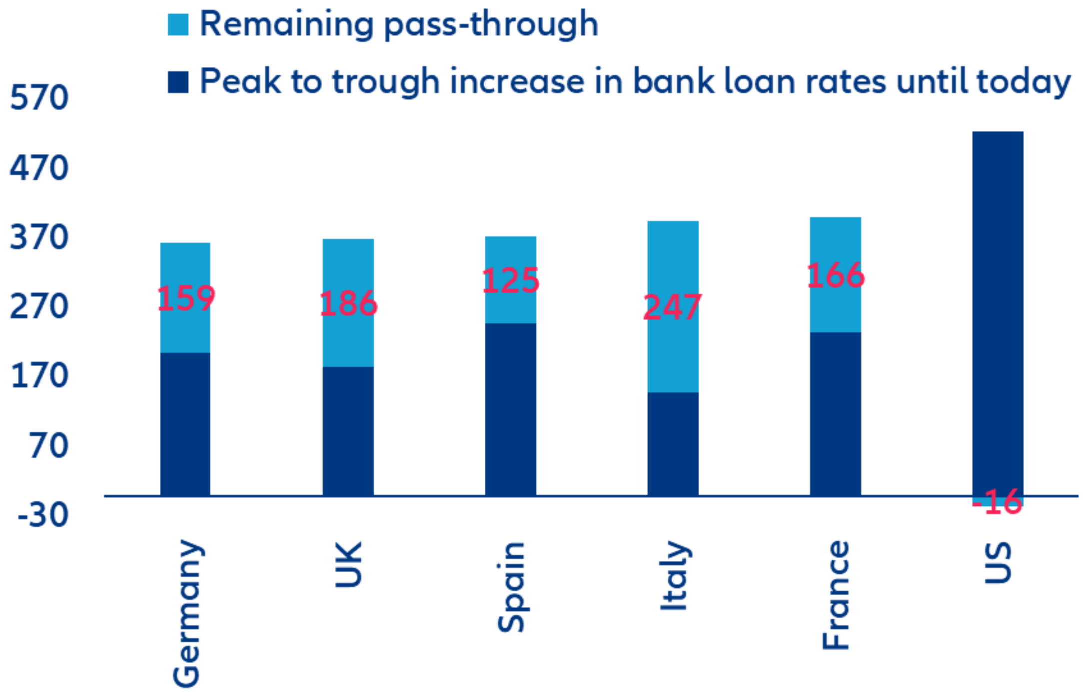
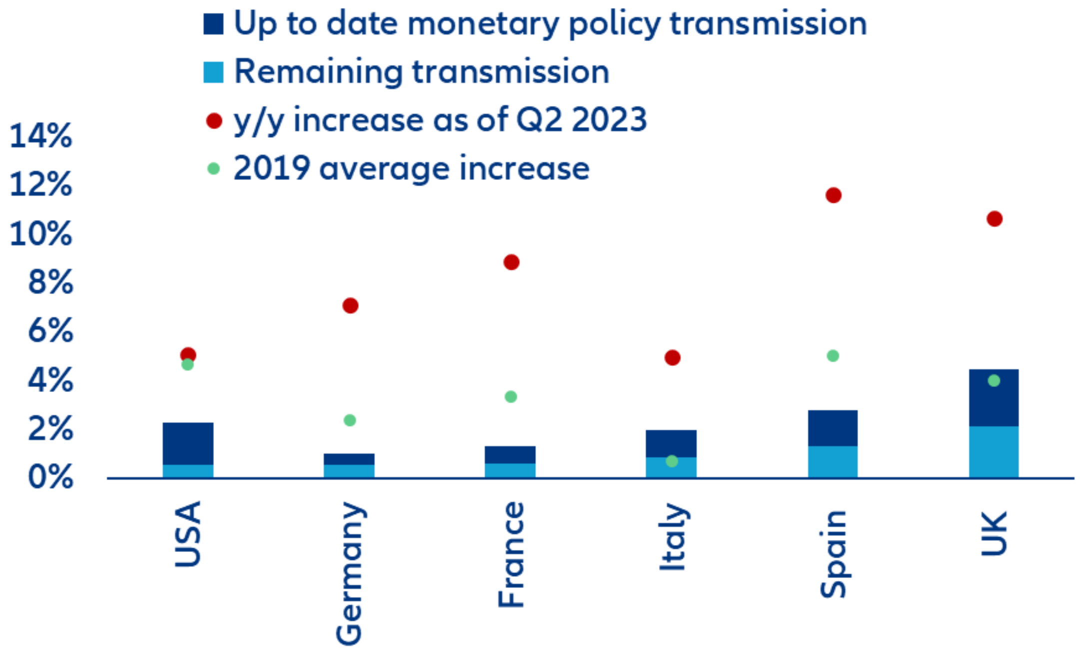
Monetary policy transmission: more delayed in Europe compared to the US

The transmission of monetary policy to bank rates has been higher in the US than in Europe, bp



Sources: LSEG Datastream, Allianz Research

Impact of monetary policy, pp of gross disposable income



Sources: LSEG Datastream, Allianz Research

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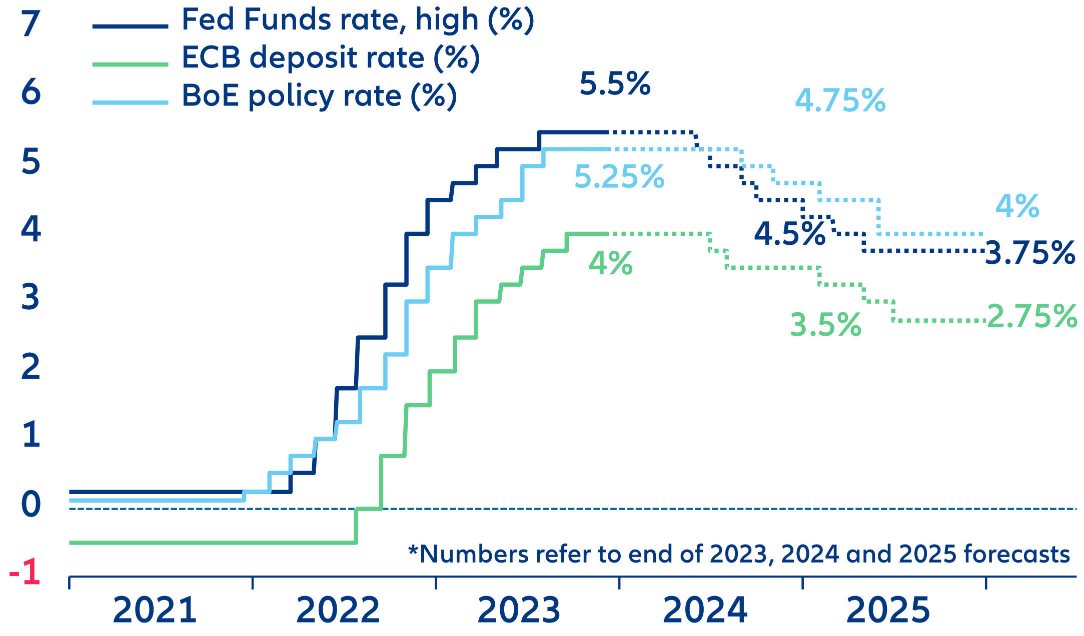
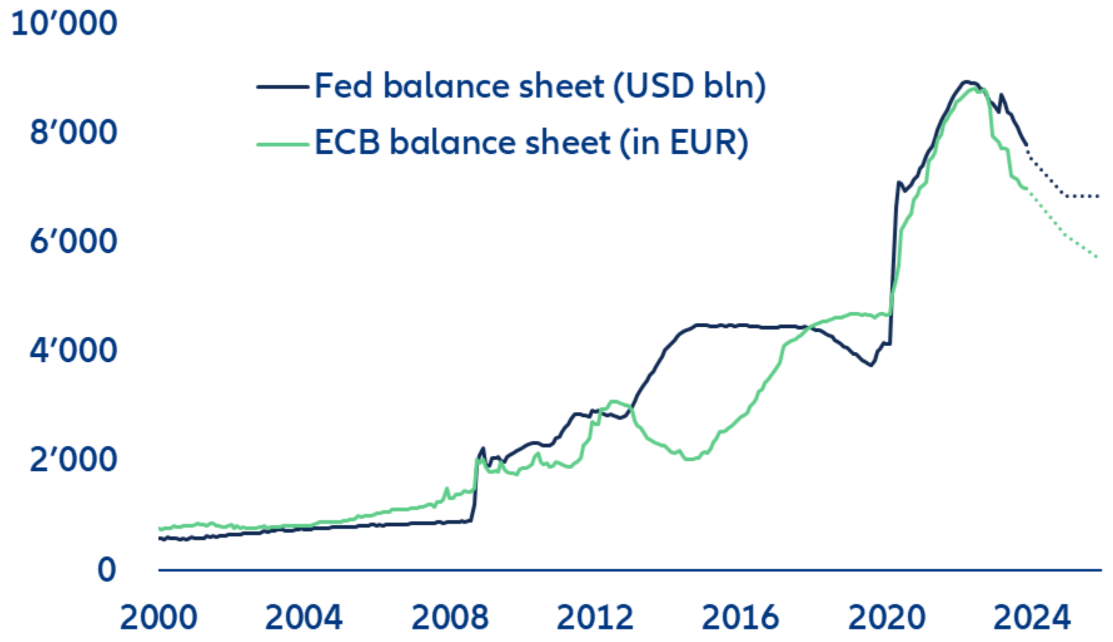
Timid pivots in policy rates to start mid-2024

Central banks will start cutting rates in summer 2024 amid weak growth and ongoing disinflation



Sources: LSEG Datastream, Bloomberg, Allianz Research

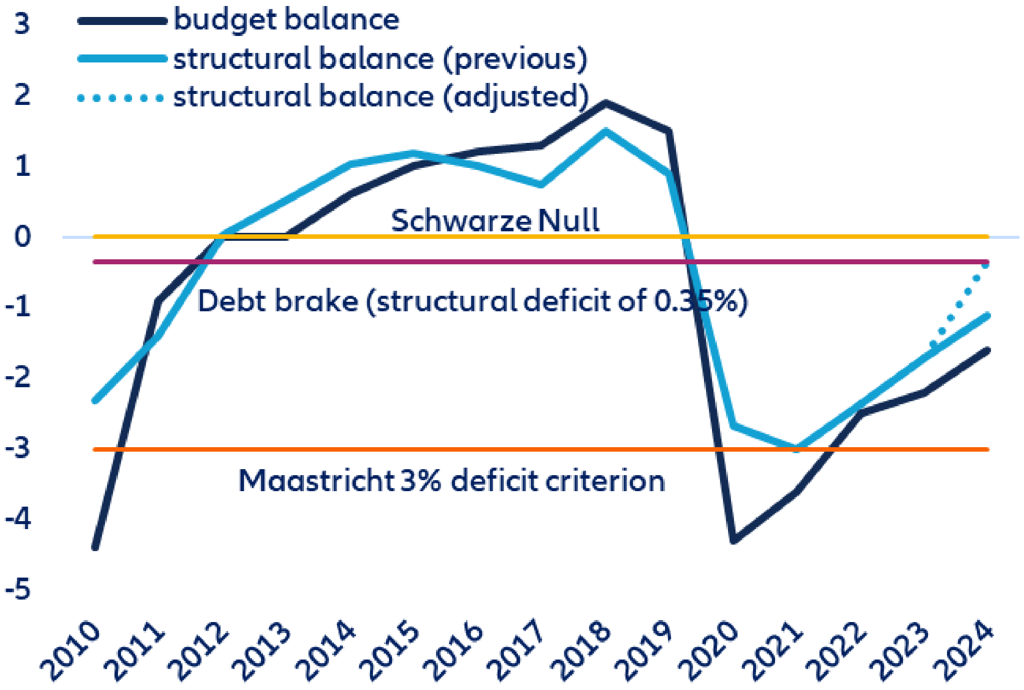
Quantitative tightening will continue in the Eurozone whereas the Fed is expected to stop in mid-2024



Sources: LSEG Datastream, Allianz Research

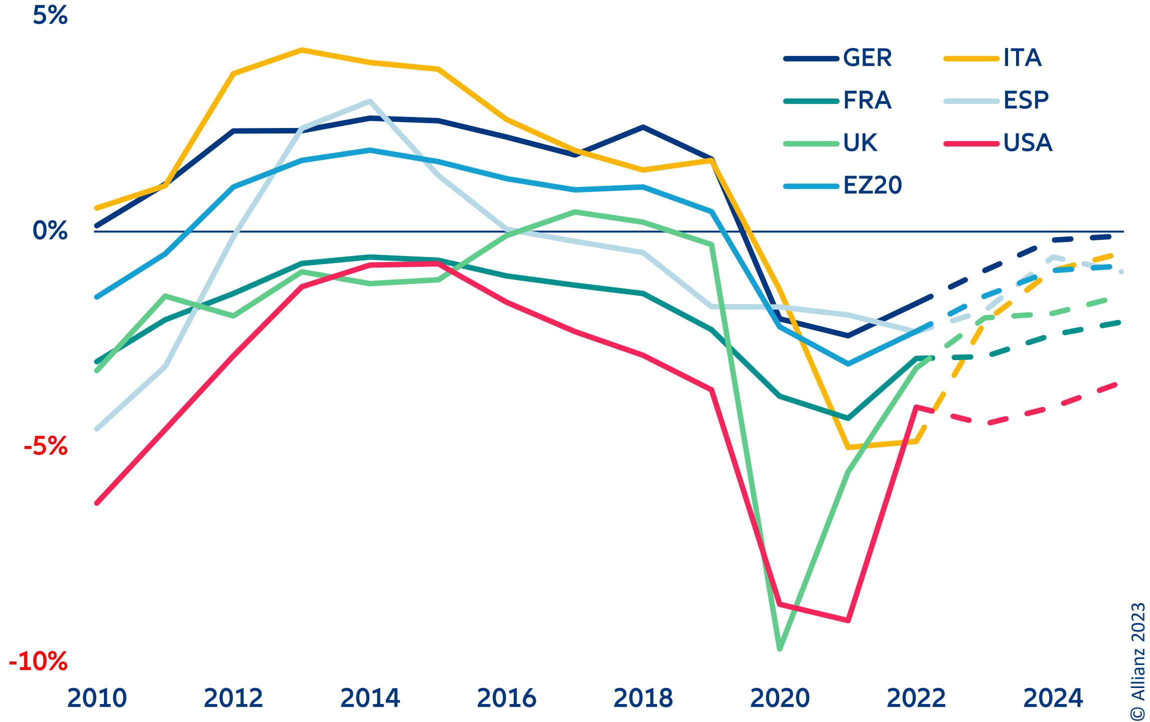
Fiscal policy turning mildly restrictive

German budget dispute turns fiscal spending more restrictive
(budget and structural balance as % of GDP)



Sources: German Government, LSEG Datastream, Allianz Research Notes: The adjusted forecast counts in the ruling of the German constitutional court in November 2023, which led to a budget dispute for the 2024 household and will lead to a return to the debt brake starting from 2024.

Fiscal policy adjustments will be only gradual
(cyclically adjusted primary balance, % of GDP)



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

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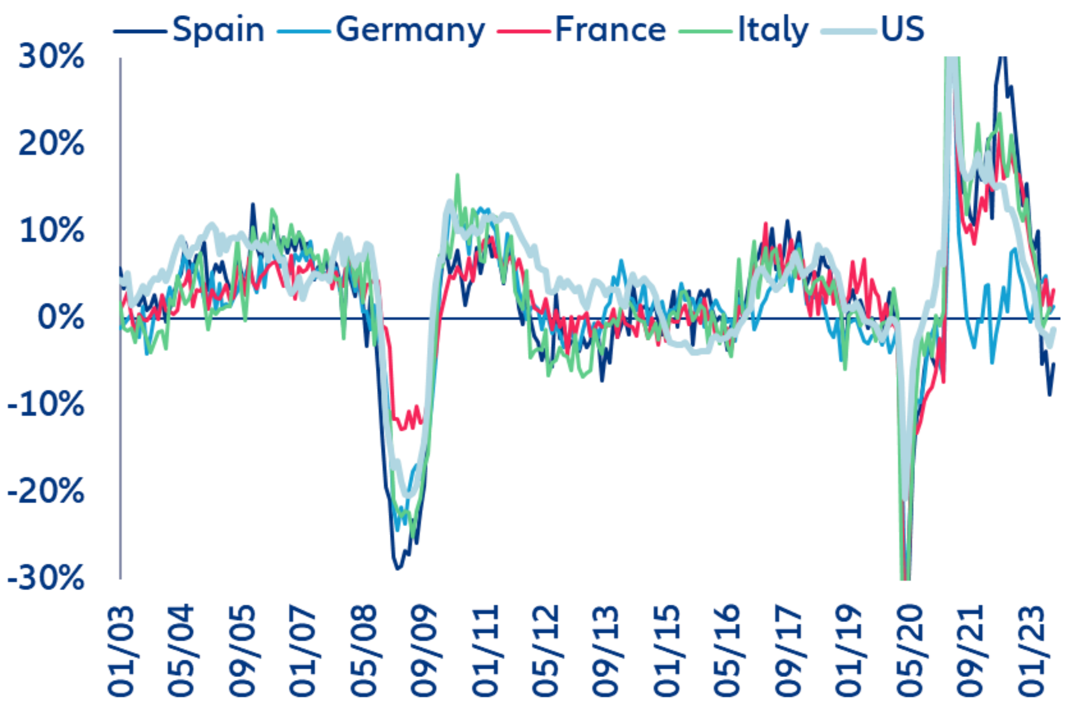
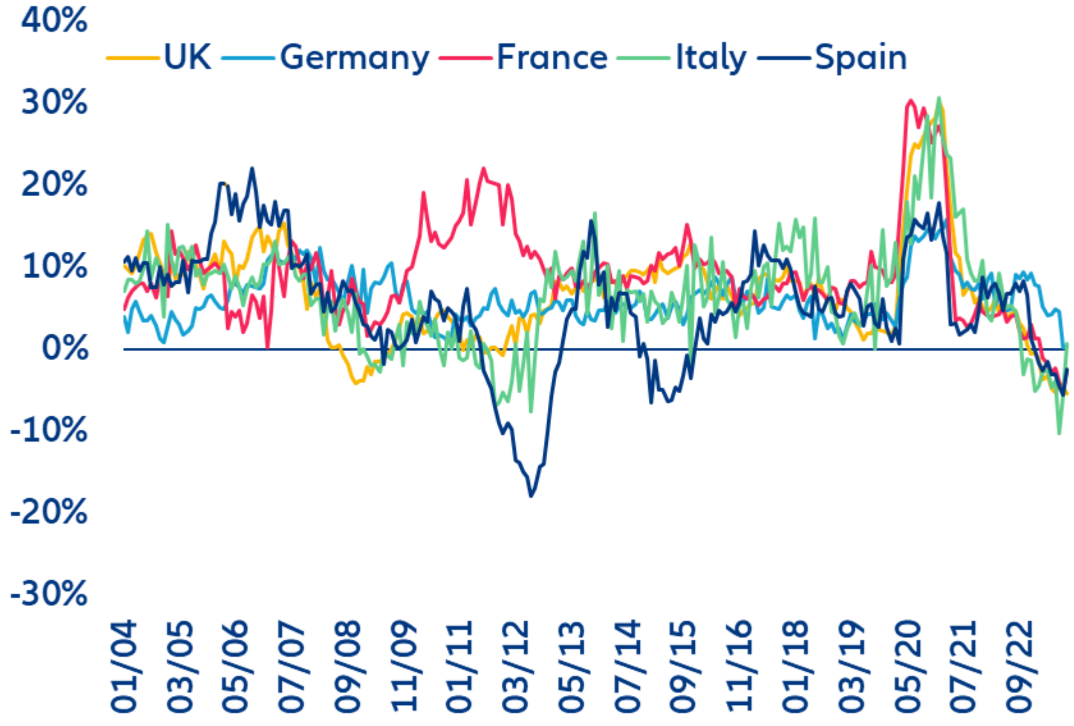
Corporates are burning cash

Revenue growth for industrial companies, y/y



Sources: LSEG Datastream, Allianz Research

Cash deposits of non-financial corporates, y/y



Sources: LSEG Datastream, Allianz Research

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Business insolvencies: Normalizing at a high speed

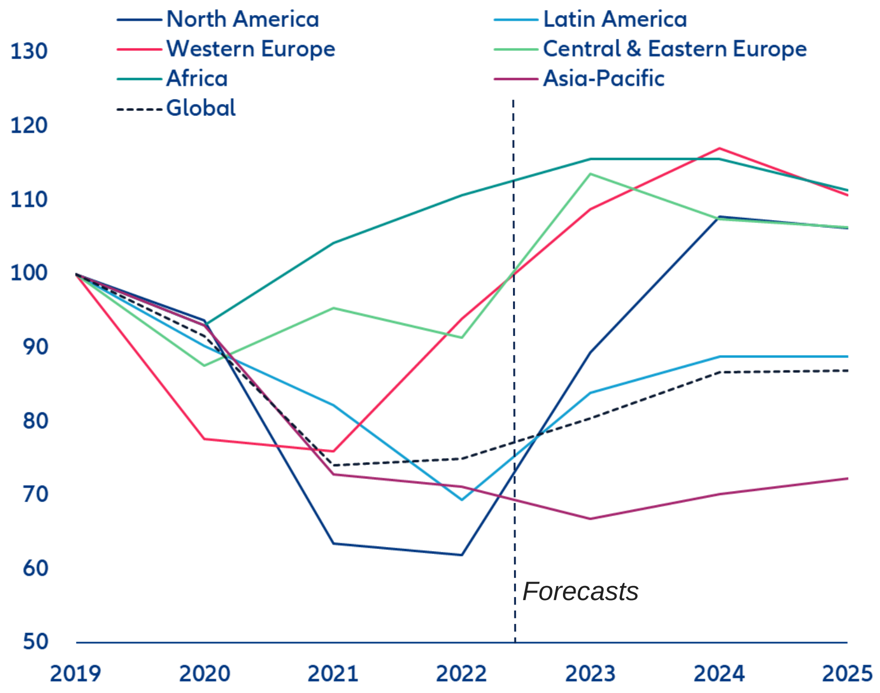
North America and Europe are leading the global rebound, selected countries

Cumulative change over 2023 and 2024	Very low level (more than -20%)	Low level (-20% to -5%)	High level (-5% to +20%)	Very high level (+20% and more)
Strongly increasing (+30% and more)		Brazil Estonia Italy Japan	Netherlands US	Ireland Poland South Korea
Noticeably increasing (+15% to +30%)	Chile Turkey	Lithuania	Australia France Germany Luxembourg New Zealand Norway Portugal	Canada Finland Hungary UK Sweden
Increasing (0% to +15%)	India Latvia	Colombia Czechia Slovakia	Austria Belgium Bulgaria Switzerland Romania	Denmark Morocco Spain
Decreasing	China Russia Singapore	South Africa	Taiwan	Hong-Kong

2024 expected level compared to 2019

Sources: national sources, Allianz Research

Still higher levels to expect in most countries and regions in 2024, index 100 = 2019



Sources: national sources, Allianz Research

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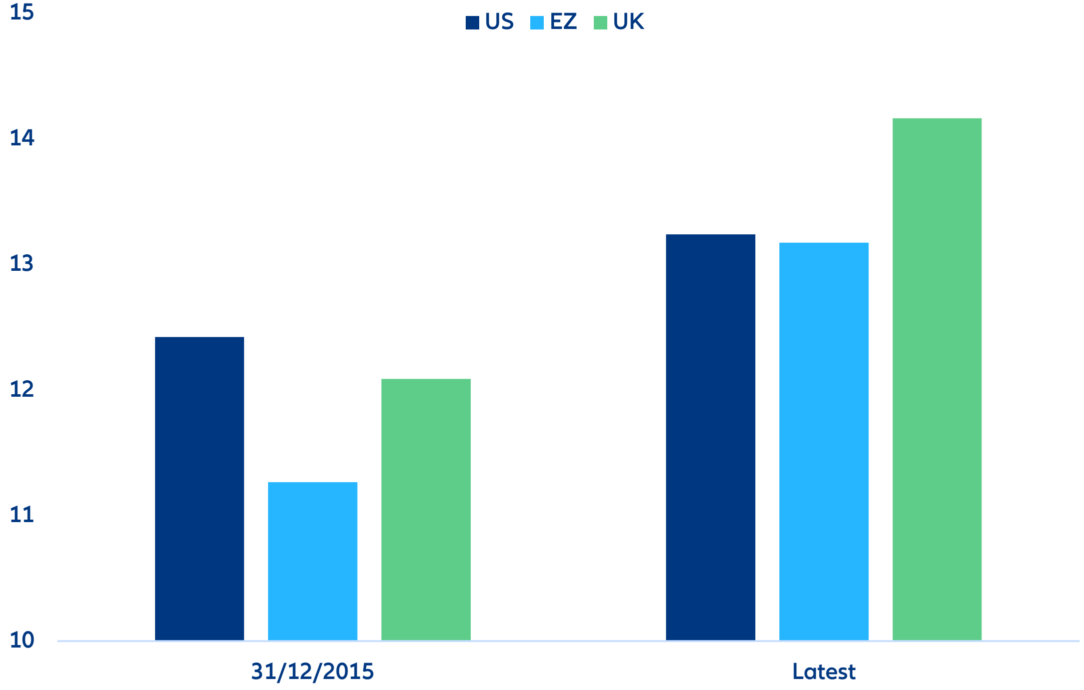
Financial institutions are better prepared to absorb shocks, but watch out for unrealized losses

Banks are better capitalized compared to 2015 and able to absorb shocks...

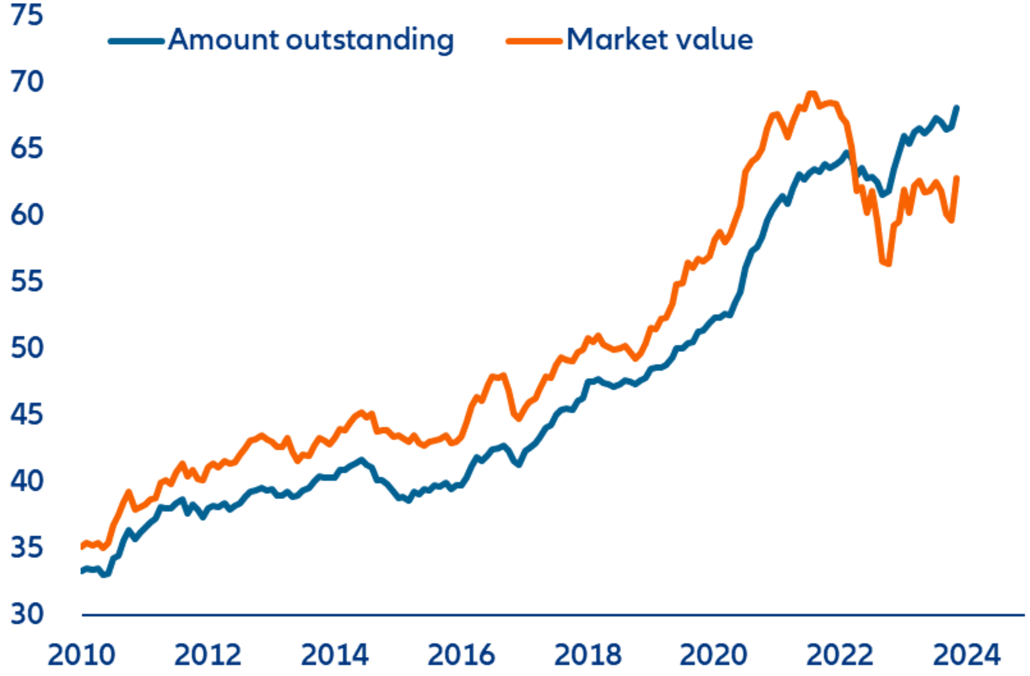
Tier 1 ratio (%)



Sources: LSEG Refinitiv, Allianz Research. Note Note: The figures refer to G-SIB= global, systemically important banks.

...but bond owners lost 12 trillion USD in book value since 2021 (realized or unrealized)

Bloomberg Global Aggregate Bond Index (trillion USD)



Sources: Bloomberg, Allianz Research

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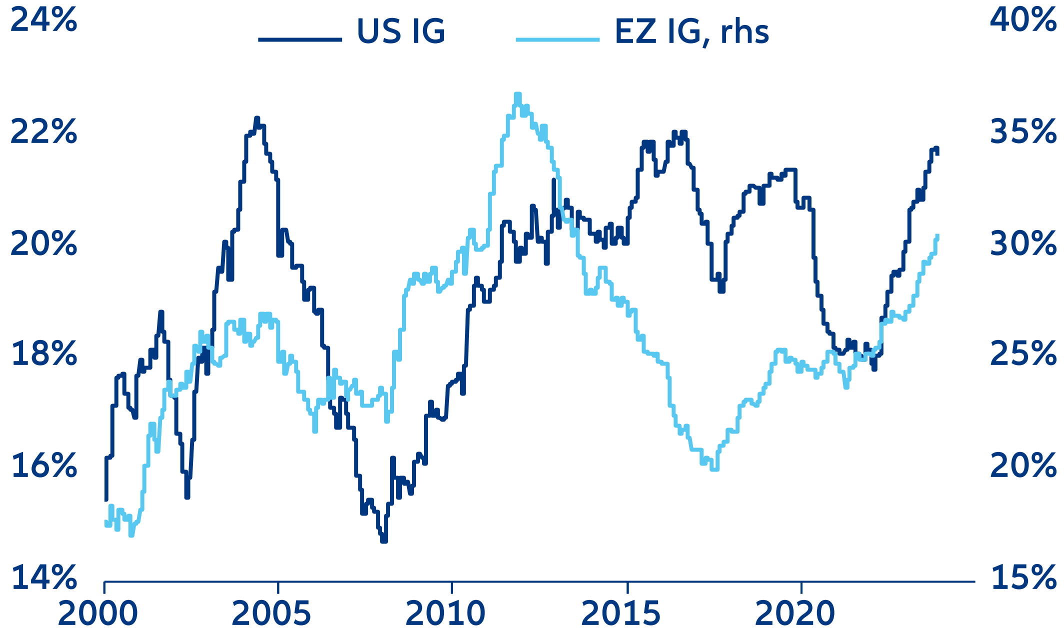
Beware of hidden financial risks as maturity wall looms and higher interest rates start to bite

Bond redemptions in the next couple of years complicate the landscape

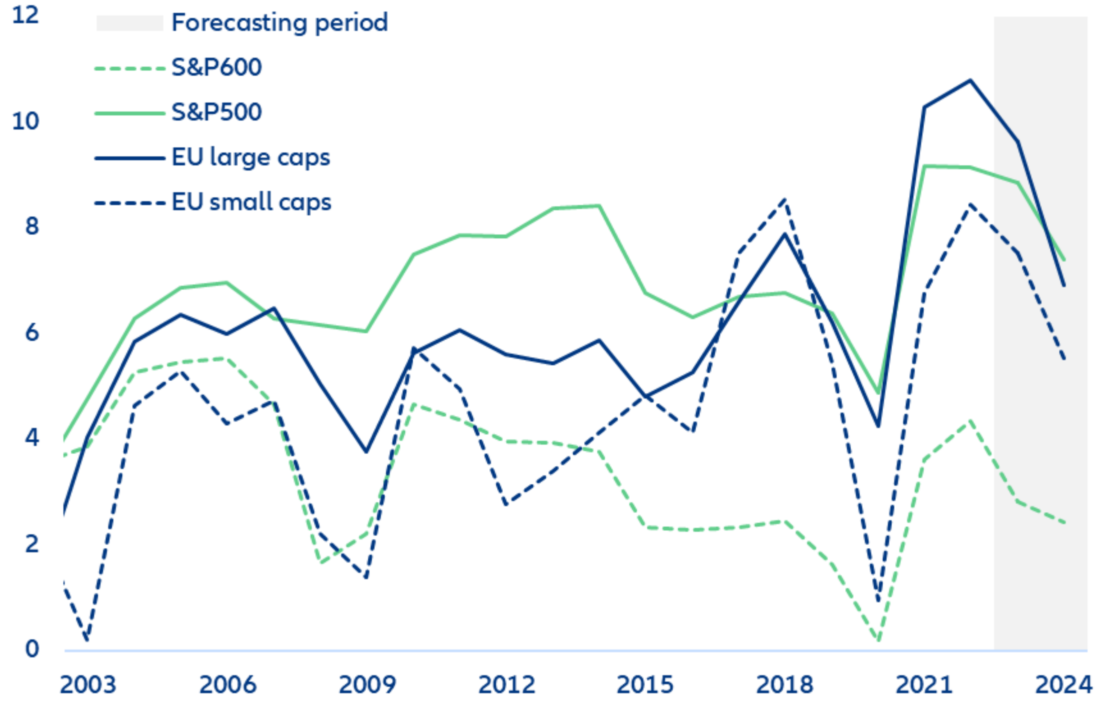
share* of IG corp. debt maturing in the next 3 years



Sources: LSEG Datastream, Allianz Research. Calculated based on bond index values, where the average maturity of USD corporate bonds (11Y) is 5 years larger than for EUR (6Y).

Higher interest rates start to bite NFCs balance sheets – disproportionally affecting more the smaller ones

Interest coverage ratios*, by market cap



Sources: LSEG Refinitiv, Allianz Research
*ICR is calculated as EBIT divided by net interest expenses, the higher the better

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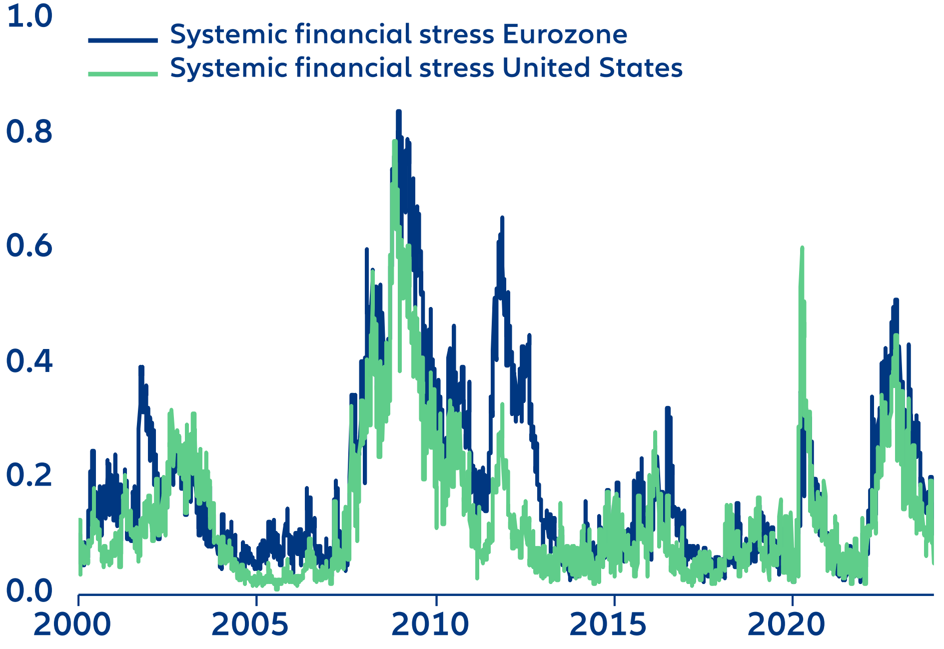
Systemic stress is easing but more leveraged sectors in the spotlight amid higher interest rates

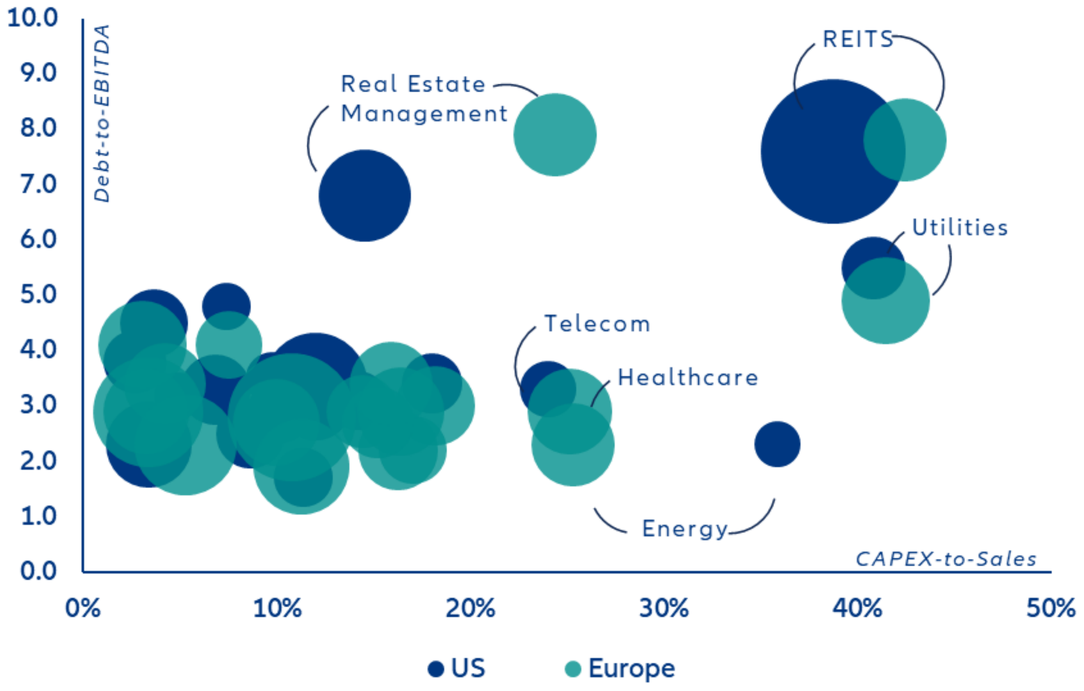
Systemic financial stress eases



Source: LSEG Datastream; Allianz Research

Note: summarizes 15 individual financial stress indicators (banking ratios, volatility measures etc.) from different market segments (FX, bonds, equity, money markets etc.), see ECB working paper for details.

Highly indebted Real Estate & Renewable Energy sectors at risk of investment slowdown amid rising interest rates



Size of bubble indicates % of debt maturing in 1Y
Sources: Bloomberg, Allianz Research

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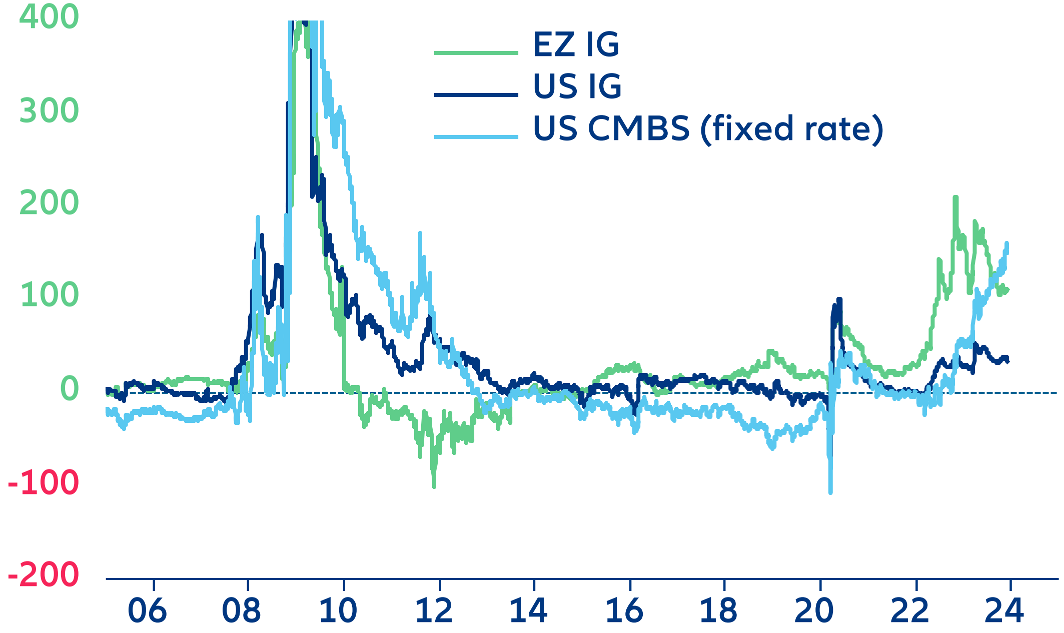
Markets are discriminating against real estate and renewable energy

Real estate companies in trouble

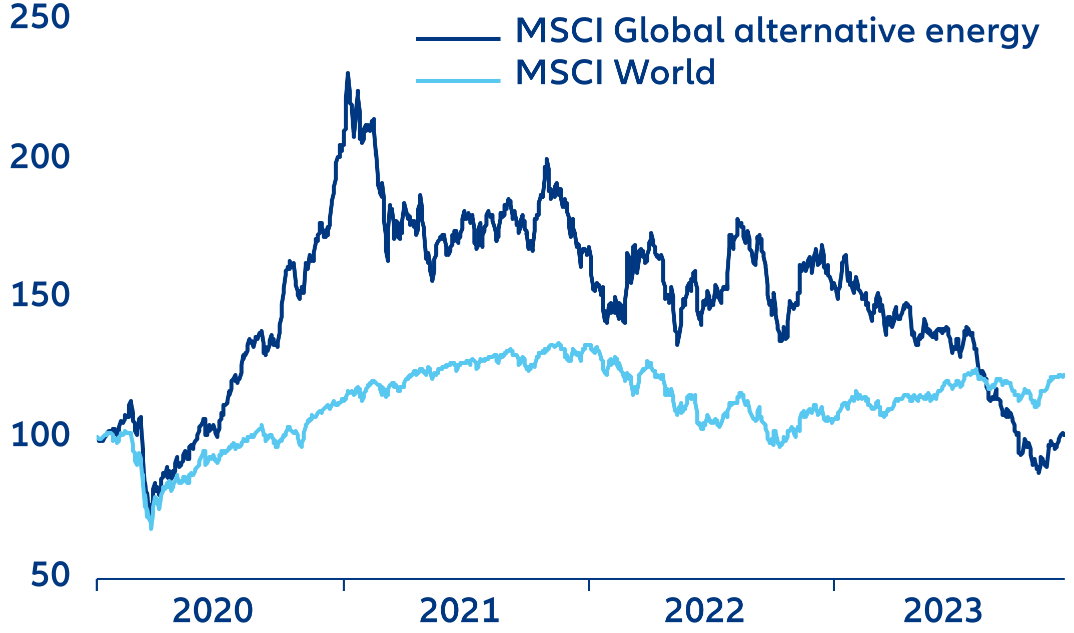
Additional spread from real estate IG companies (vs. corp. credit. IG benchmarks)



Sources: LSEG datastream, Allianz Research.

Valuations in alternative energy sector have also adjusted severely in the last year

Price returns rebased on 31/12/2019



Sources: LSEG datastream, Allianz Research. Wind and solar companies in the US and Europe have the largest share in the index.

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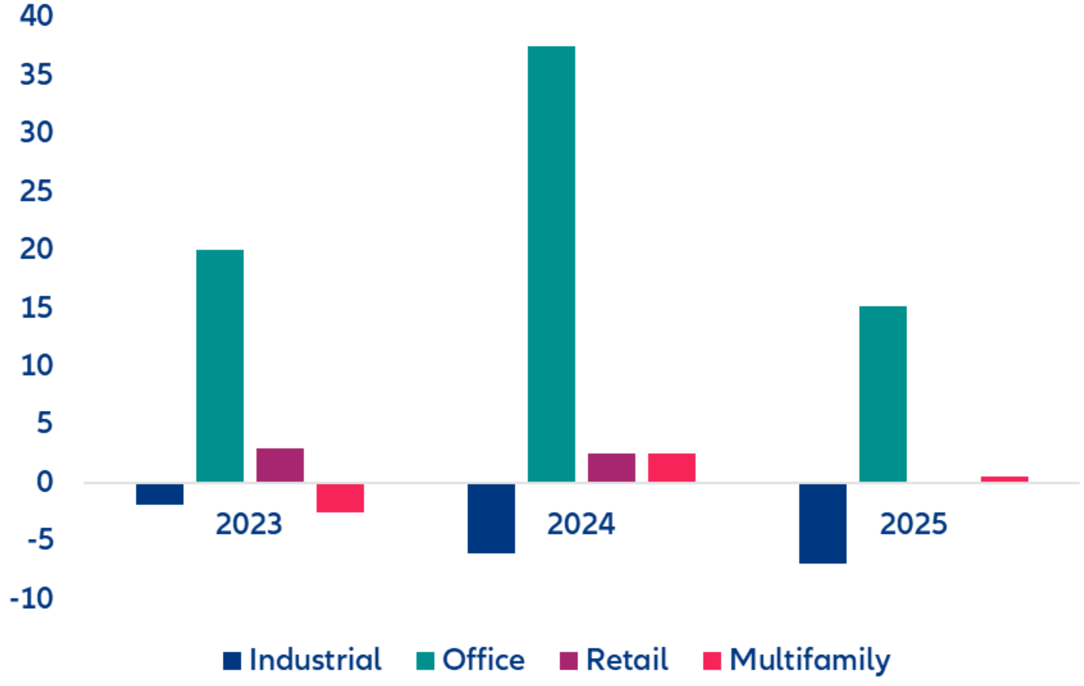
Real estate : office segment in midst of the storm

US Commercial Real Estate Funding Gap

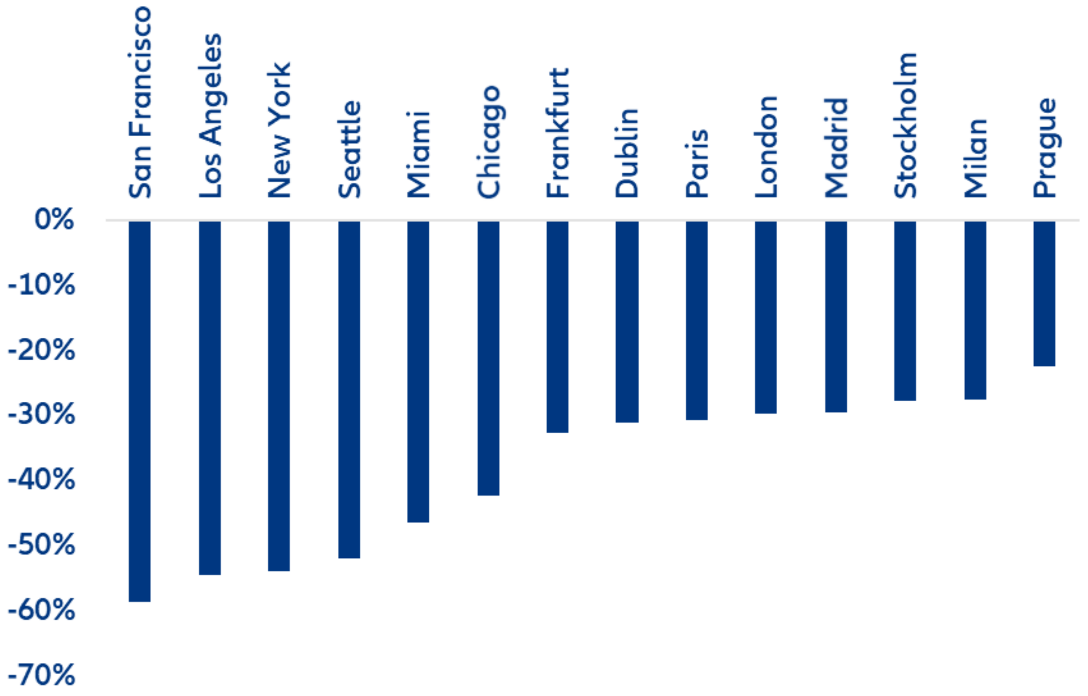
(5Y loans originated in 2018-2020, USD bn)



Sources: CBRE, Allianz Research

Office property value

(% change Q3 2023 – Q2 2022)

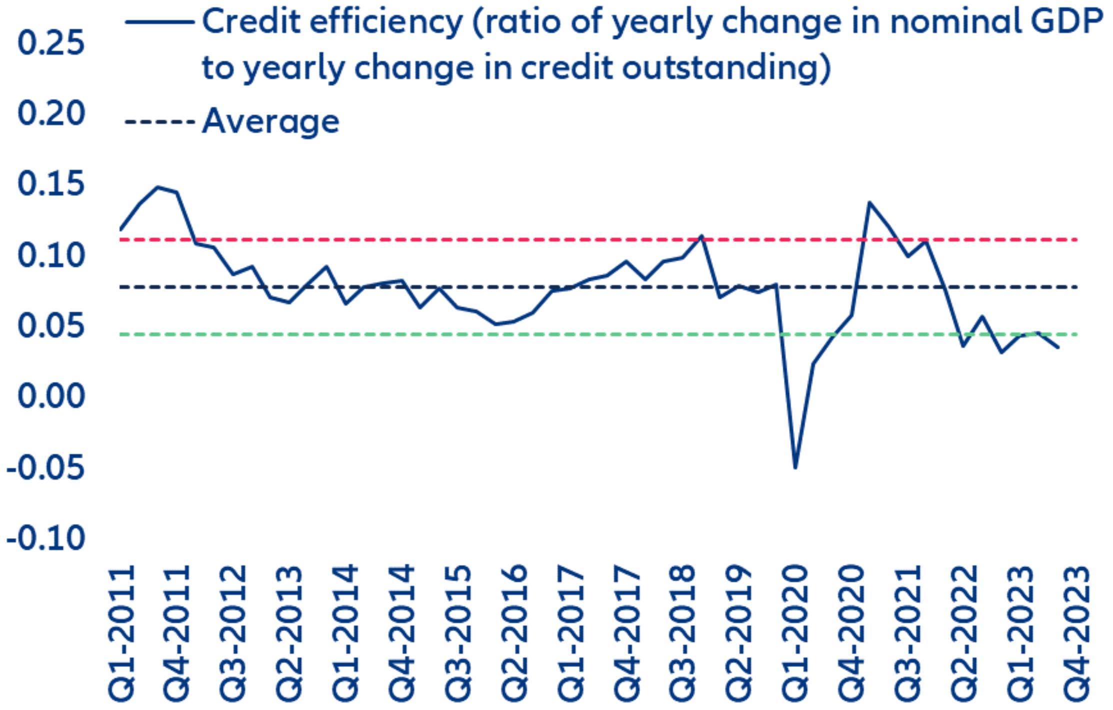


Sources: GreenStreet, Allianz Research

Allianz

China is not a growth engine

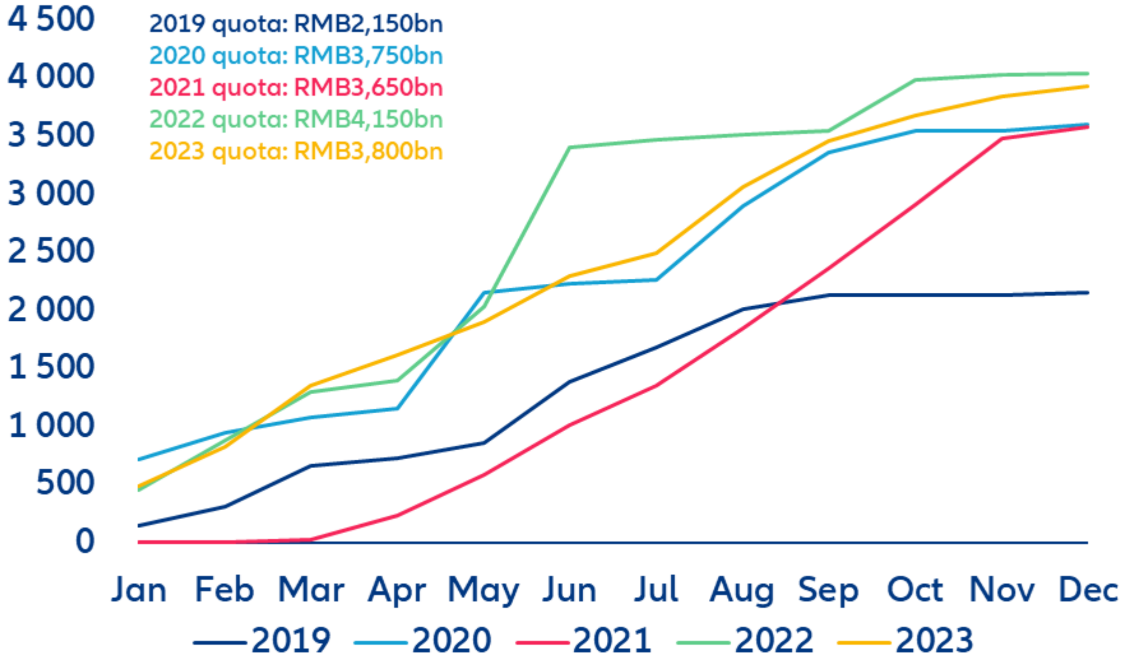
Further rate cuts are warranted in Q1 2024 as CNY prospects improve but credit efficiency is low , % y/y



Sources: Official Sources, Allianz Research

Infrastructure spending will remain the main fiscal tool

Local government special bonds issuance, bn RMB

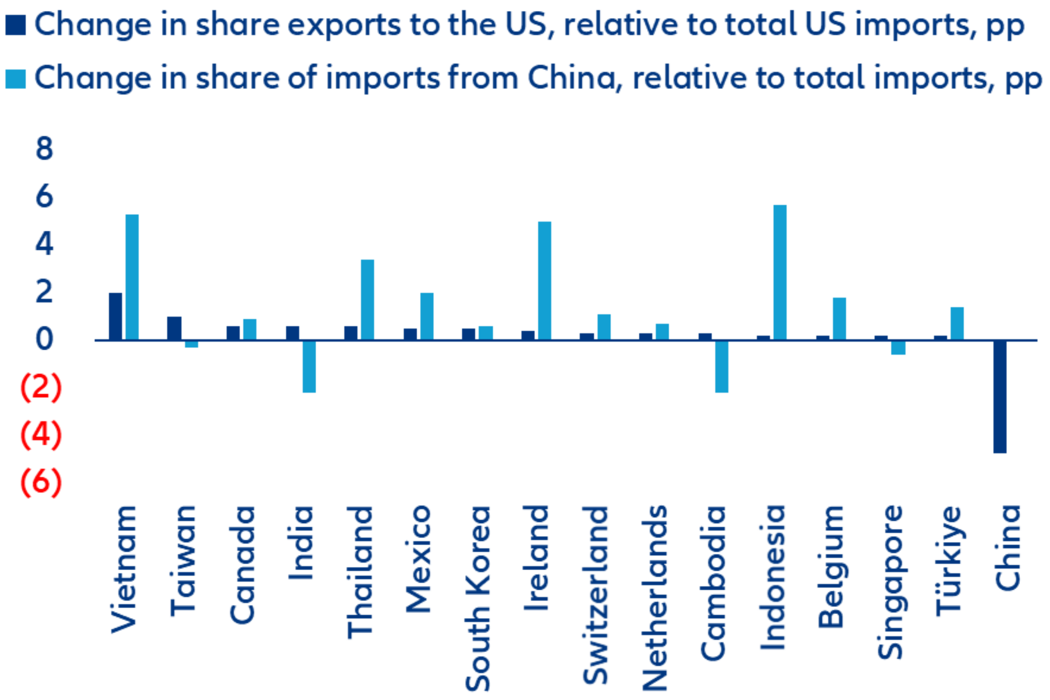


Sources: Official sources, Allianz Research

Allianz

Global decoupling from China

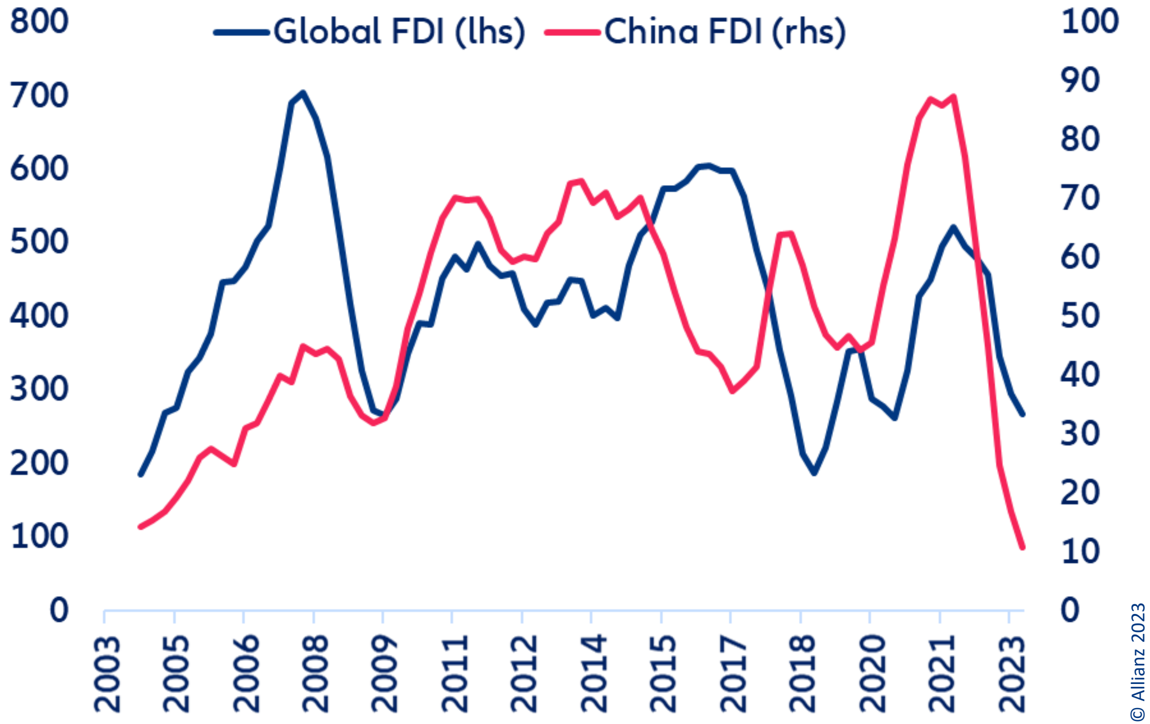
The world dependency on China is hard to shake off but there are some growing alternatives



Sources: UNCTADstat, Allianz Research

Global FDIs sharply dropping

(4 quarter average, USD Bn)

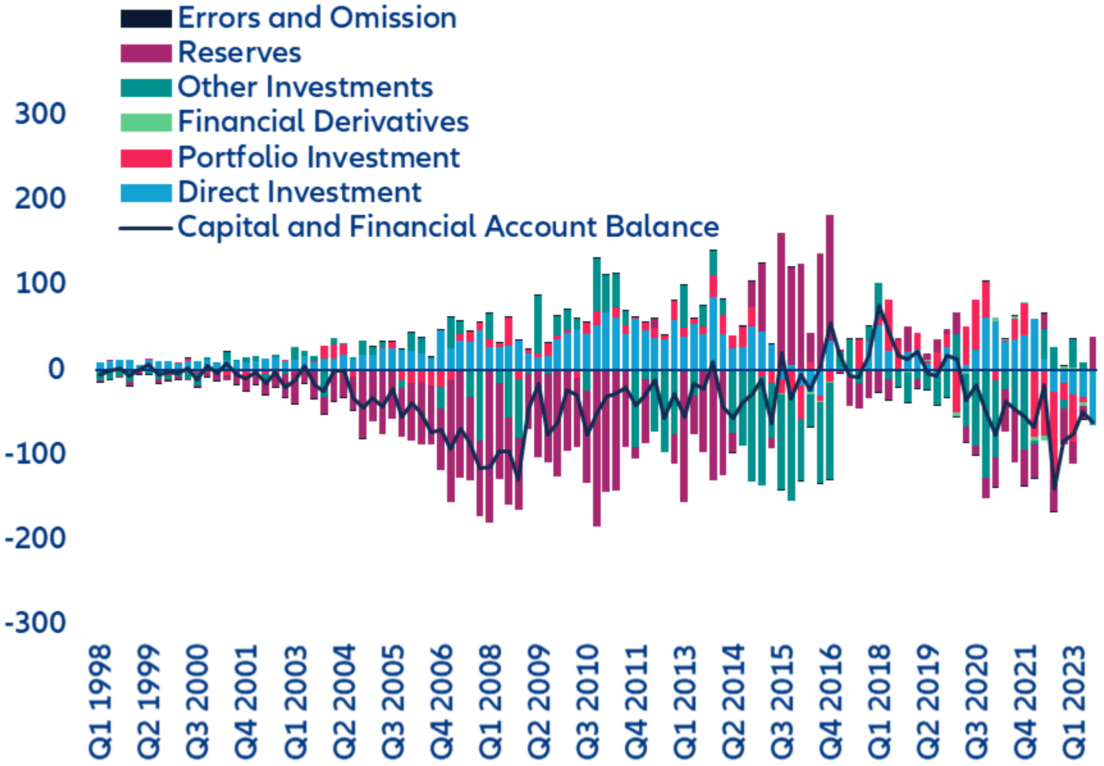


Sources: LSEG Refinitiv, Allianz Research

Allianz

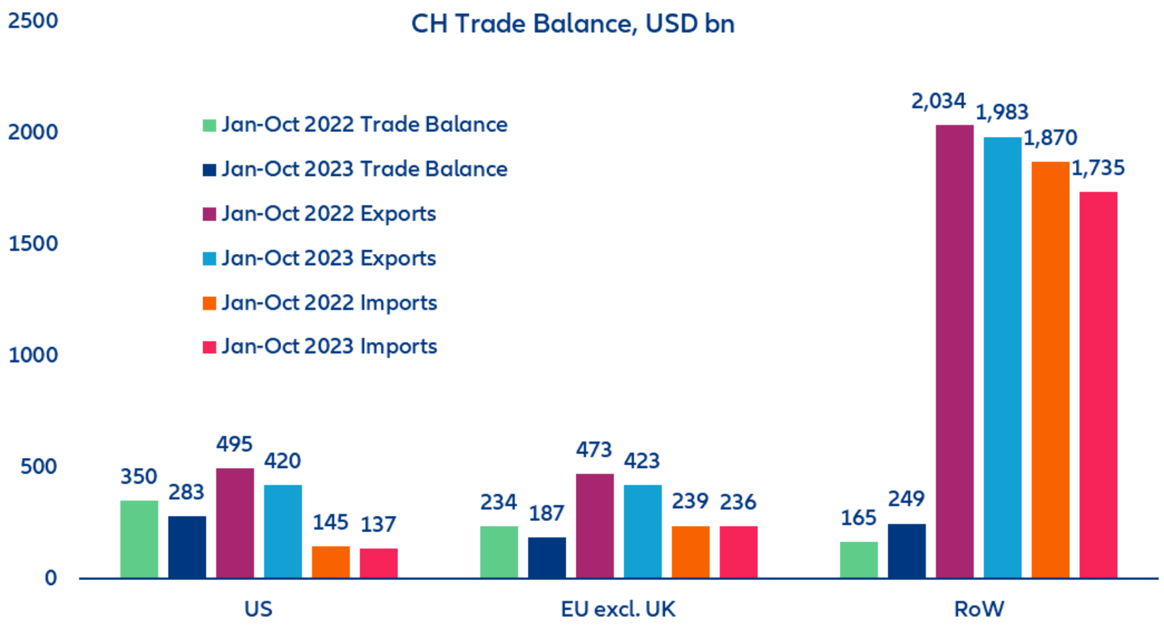
But China is increasing influence in external markets

China is a net investor abroad, mainly in the Asean and Latam countries, USDbn



Sources: national, Refinitiv, Allianz Research

China's is contributing to US and EU improvements in trade balance, USDbn



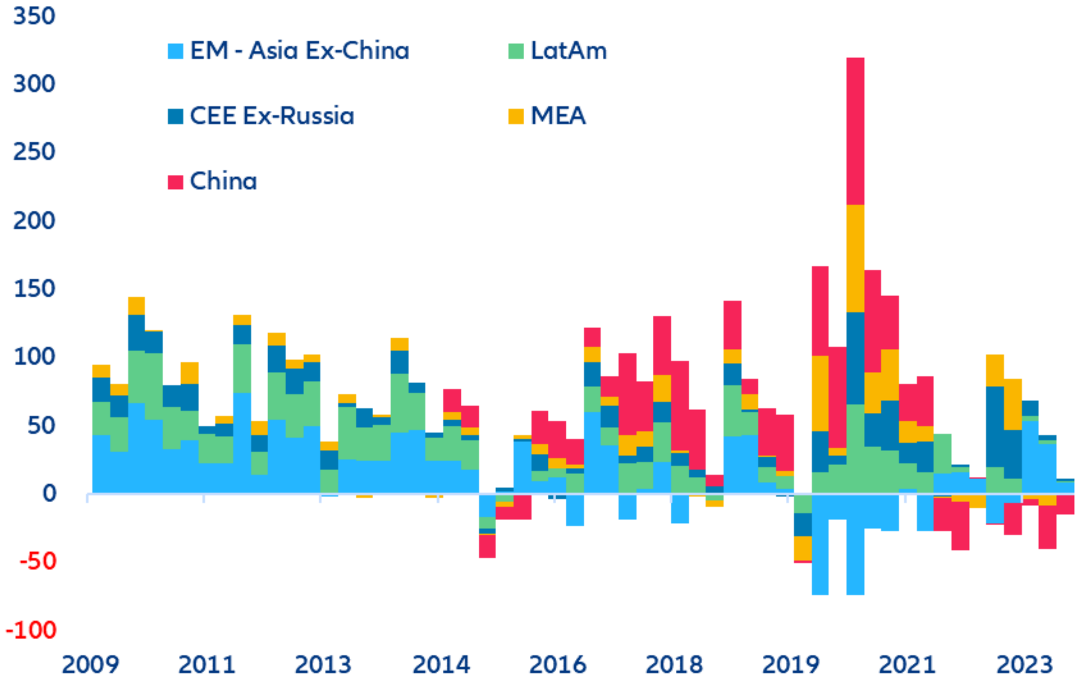
Sources: national, Refinitiv, Allianz Research

Allianz

Limited contagion from China to emerging markets, risks of balance of payment crisis moderated

Domestic issues have increased risk aversion in China,

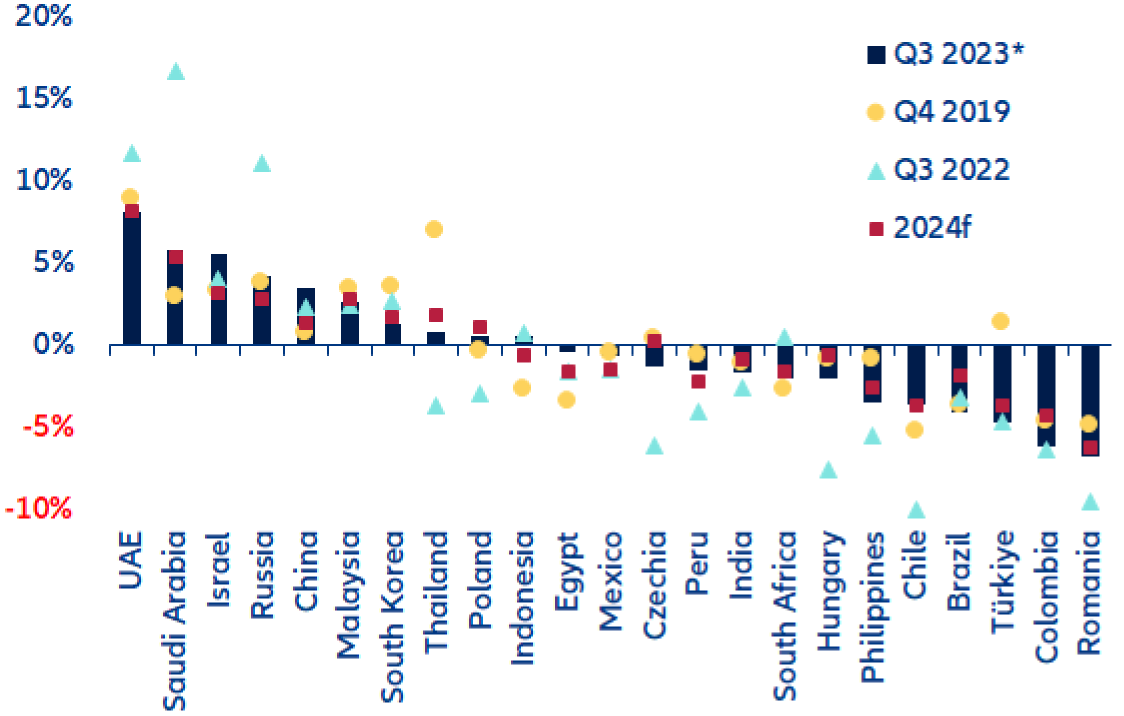
net portfolio flows (USD bn)



Sources: IIF, Allianz Research

Current account improvements to remain in 2024; Asia and Middle East in most favorable positions

(% of GDP, 4-quarter rolling average)

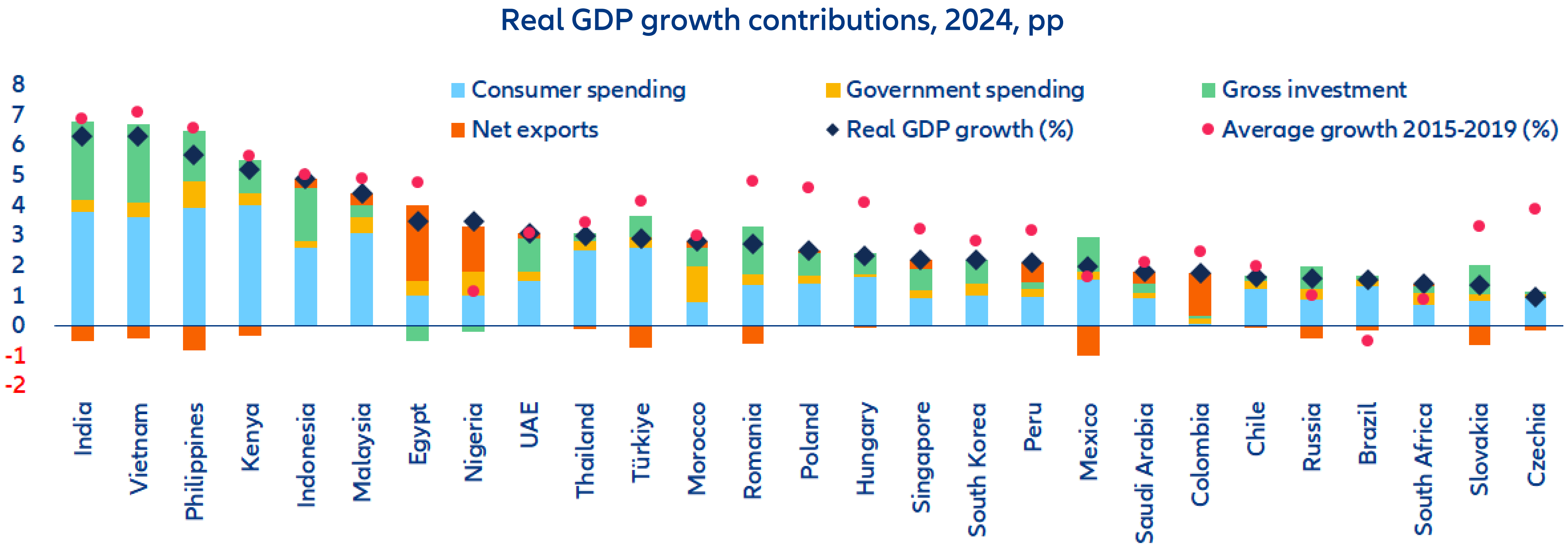


Sources: IMF, national statistics, Refinitiv, Allianz Research

** Q2 2023 for Colombia, India, Israel, Philippines, Saudi Arabia, South Africa and UAE*

Allianz

Markets in South-East-Asia and Africa re-emerging

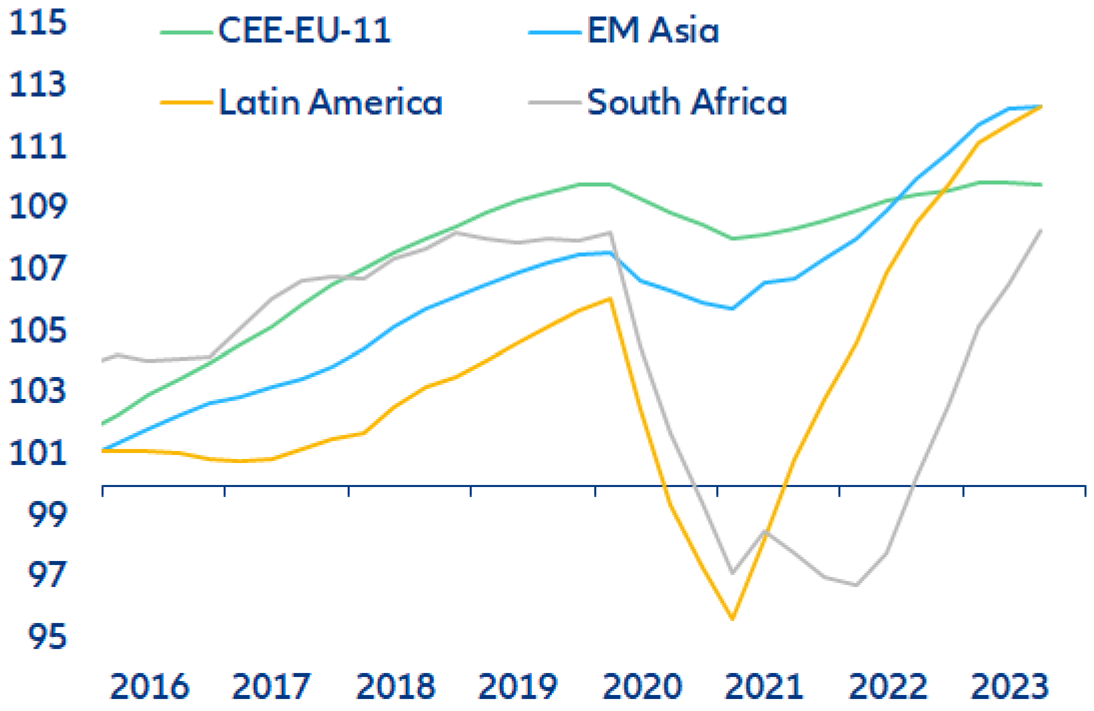


Sources: National statistics, EIU, Refinitiv Datastream, Allianz Research

Allianz

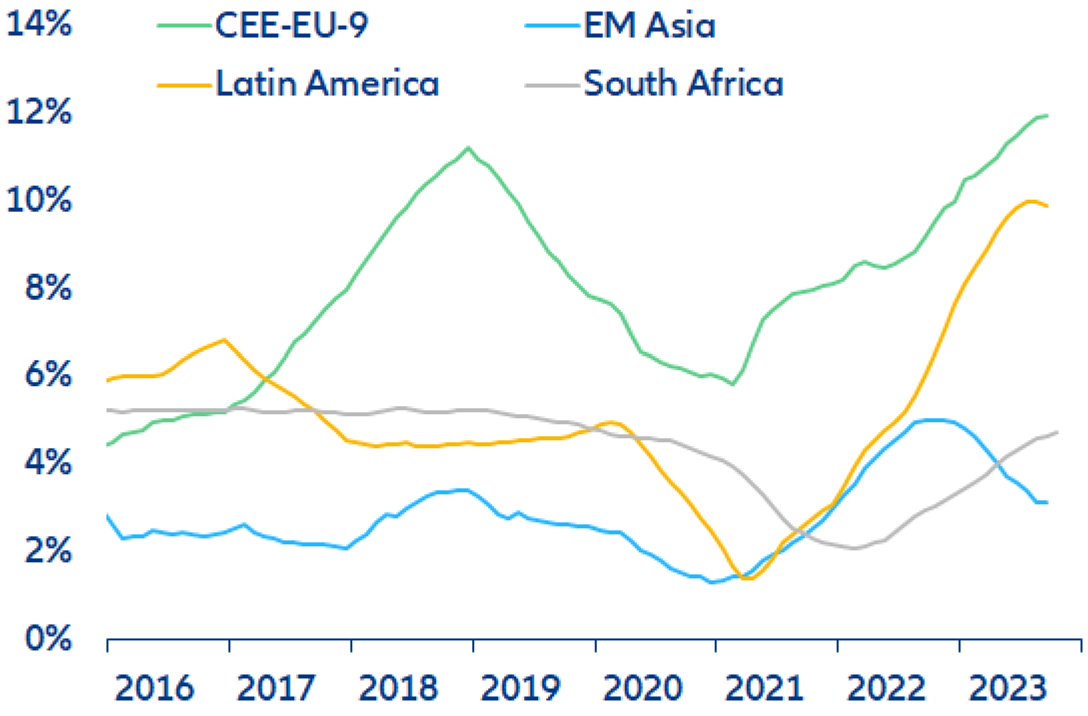
Rising employment and wages are driving consumer spending in most emerging markets

Except for CEE, employment (index, Q4 2014 = 100, 4-q MA) has grown to record levels in EM regions



Sources: Refinitiv Datastream, Allianz Research
Note: CEE-EU-11 is the 11 EU member states in CEE; EM Asia here includes Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan, Thailand, Vietnam; Latin America includes Brazil, Chile, Colombia, Mexico, Peru.

Wage growth (% y/y, 12-m MA) is particularly strong in CEE and Latin America

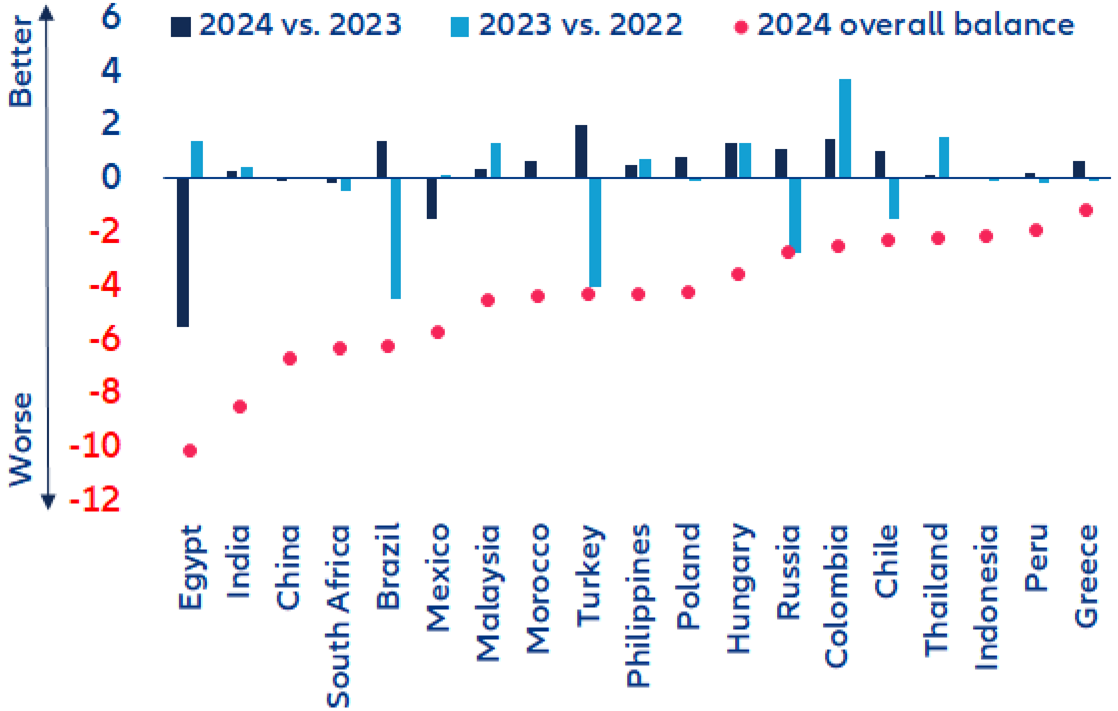


Sources: Refinitiv Datastream, Allianz Research
Note: CEE-EU-9 is the 11 EU member states in CEE except Estonia and Lithuania; EM Asia here includes Singapore, South Korea, Taiwan, Thailand; Latin America includes Brazil, Chile, Ecuador, Peru, Uruguay.

Allianz

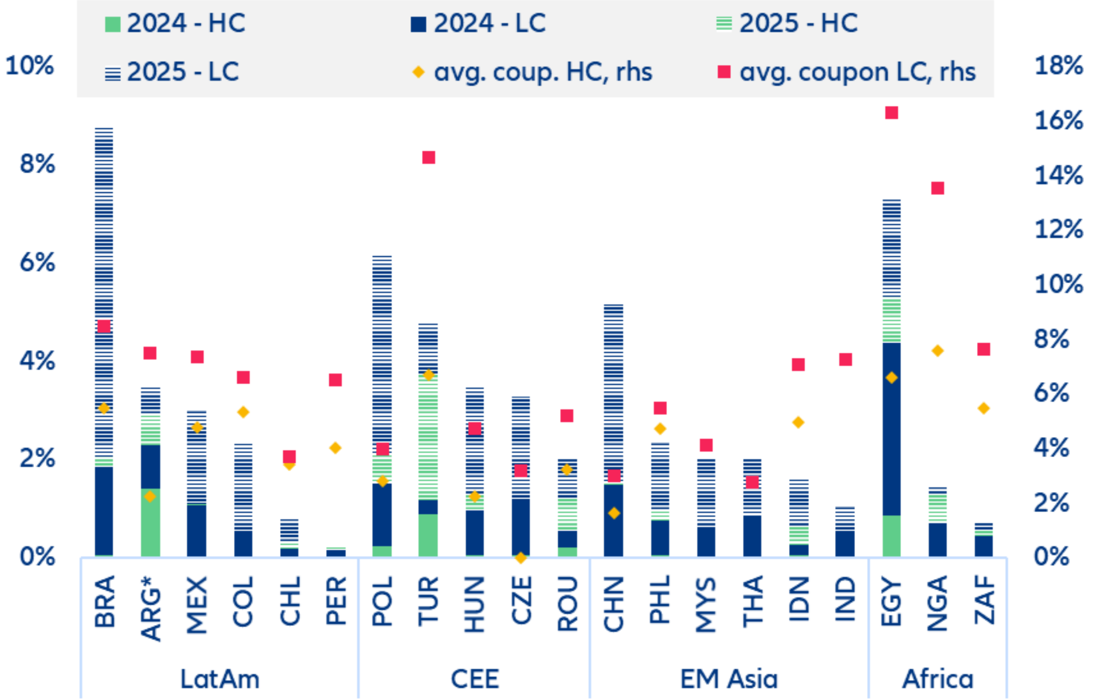
Tough decisions ahead in emerging markets due to costlier refinancing and politics

Cyclically-adjusted fiscal balance (% of GDP) and annual changes (pp of GDP)



Sources: IMF, Allianz Research

Upcoming sovereign debt maturity (bars, lhs) over total outstanding debt vs. avg. coupons (dots, rhs)

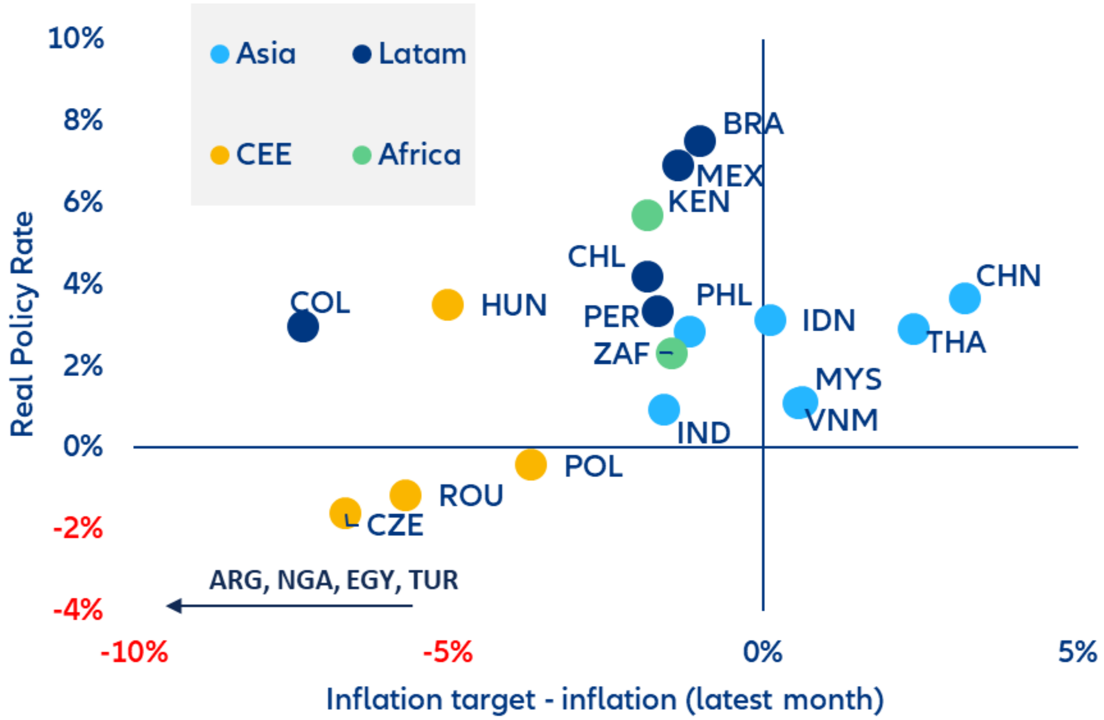


Sources: LSEG Datastream, Allianz Research. HC = Hard currency, LC = Local Currency. Calculated using among outstanding and current exchange rates. Only marketable debt, excludes loans and for (*) other type of arrangements. For POL, HUN, CZE & ROU the average coupon for hard currency issuances the EUR is taken as reference, otherwise the USD.

Allianz

EMs are early pivoters as pressure on FX faded

Widespread positive real policy rates (excl. Eastern Europe) as a sign of effective fight against inflation



Sources: LSEG Datastream, Allianz Research. "Real policy rate" calculated as the latest inflation print minus CB benchmark rate. Contains all the updates until 11/12/2023.

Policy normalization has started but few will manage to cut as quickly as desired considering weak growth

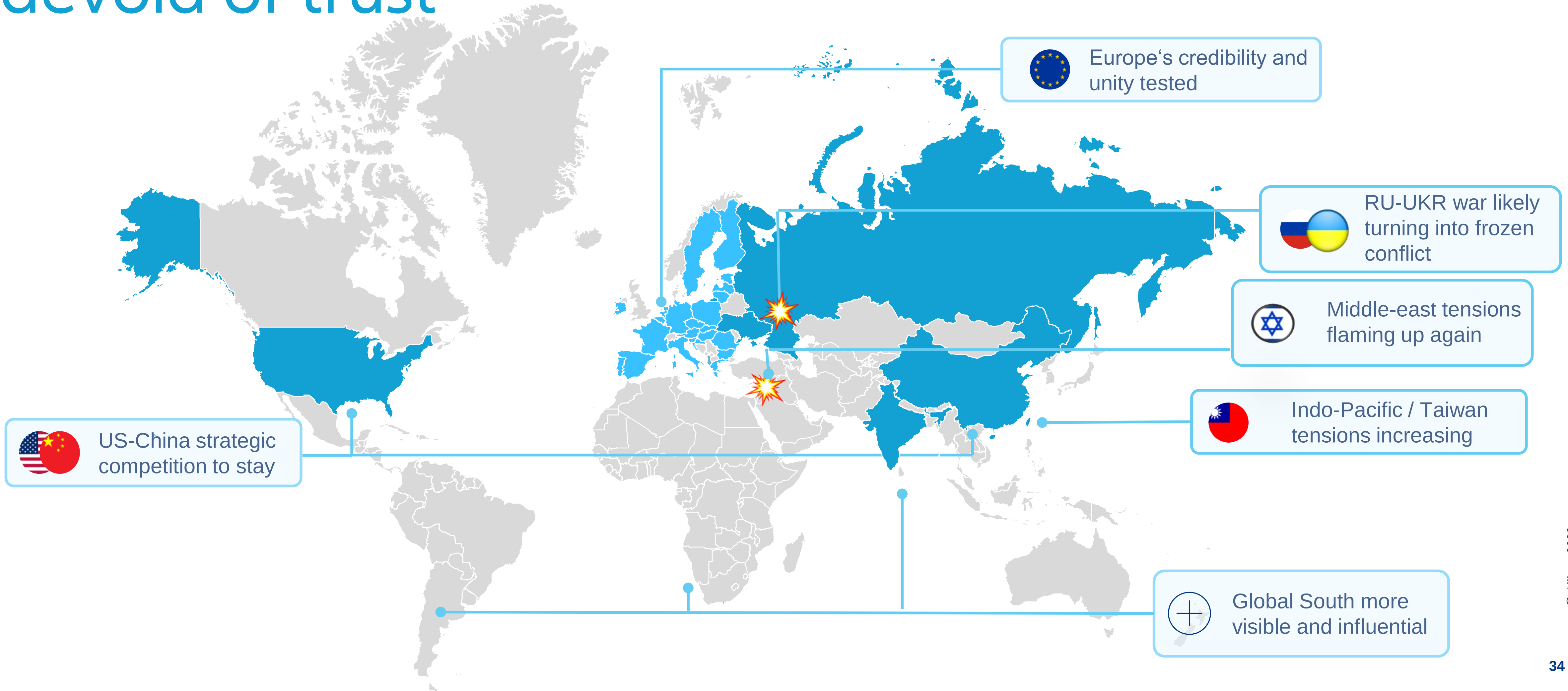
EM central bank clusters

	Cutting	Cutting soon (H1 24')	Paused, no cut before H2 24'	Further hikes on the table, no cut before H2 24
Did not face inflationary pressures	China			
Inflation below 5%	Brazil Peru	Mexico Morocco South Korea	India Indonesia* Malaysia Philippines* Thailand*	
Inflation still above 5% but growth worries > inflation worries	Chile Hungary Poland	Czechia Romania South Africa	Colombia Kenya	
CB action still guided by inflation and/or financial stability worries				Egypt Nigeria Türkiye

Sources: Refinitiv, Allianz Research. * Indonesia, Thailand and Philippines proceeded with minor 25bps hikes after June, the rest of countries in cautious pause have hold these rates for at least 5 months. Additional note: Middle-Eastern countries are not included as their monetary policy/currency regime is tied to that of the US

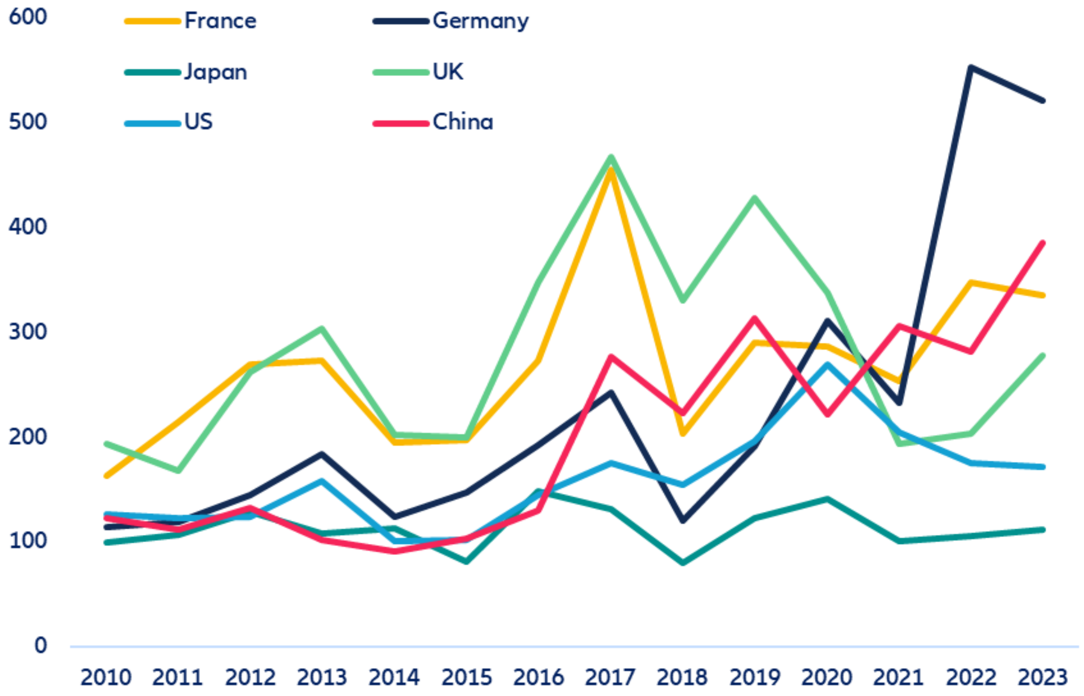
Allianz

Geopolitics increasingly polarized and devoid of trust



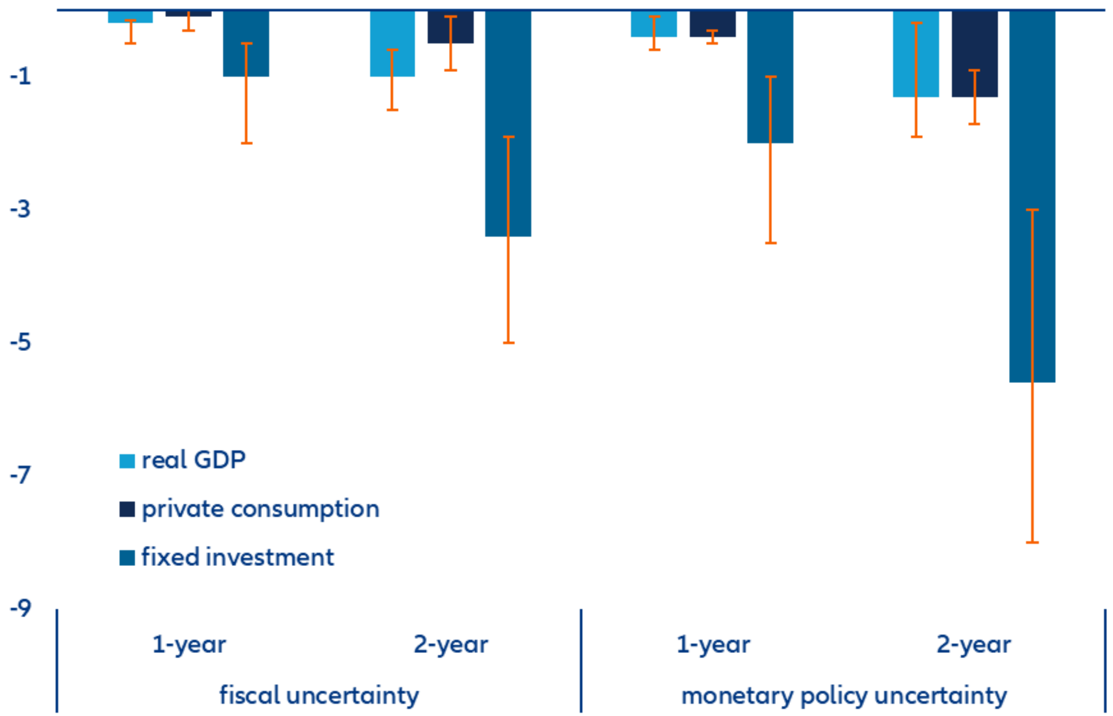
Uncertainty shocks act like a negative supply shock

Higher economic uncertainty across regions (Index 3-m MAV)



Sources: Baker, Bloom and Davis (2016), Allianz Research

Policy uncertainty lowers output, fixed investment, and private consumption (pp)



Sources: Mumtaz and Ruch (2023), Allianz Research Note: Cumulative impact of a one standard deviation increase in fiscal or monetary policy uncertainty. Results based on a structural panel vector autoregressive model with stochastic volatility for 54 economies including 32 advanced economies and 22 developing economies. Orange whiskers reflect the 16-84th percentile.

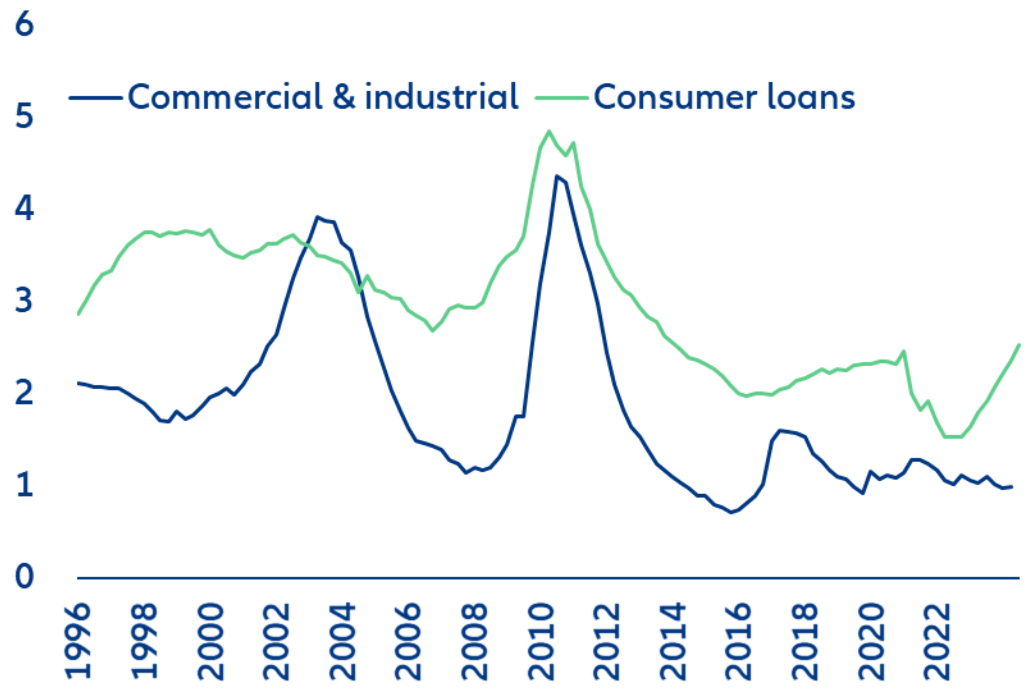
Regional outlooks 2023-2025

Allianz

US growth cycle starting to turn down but private sector buffers limit downside risks

Delinquencies starting to pick up for consumer loans

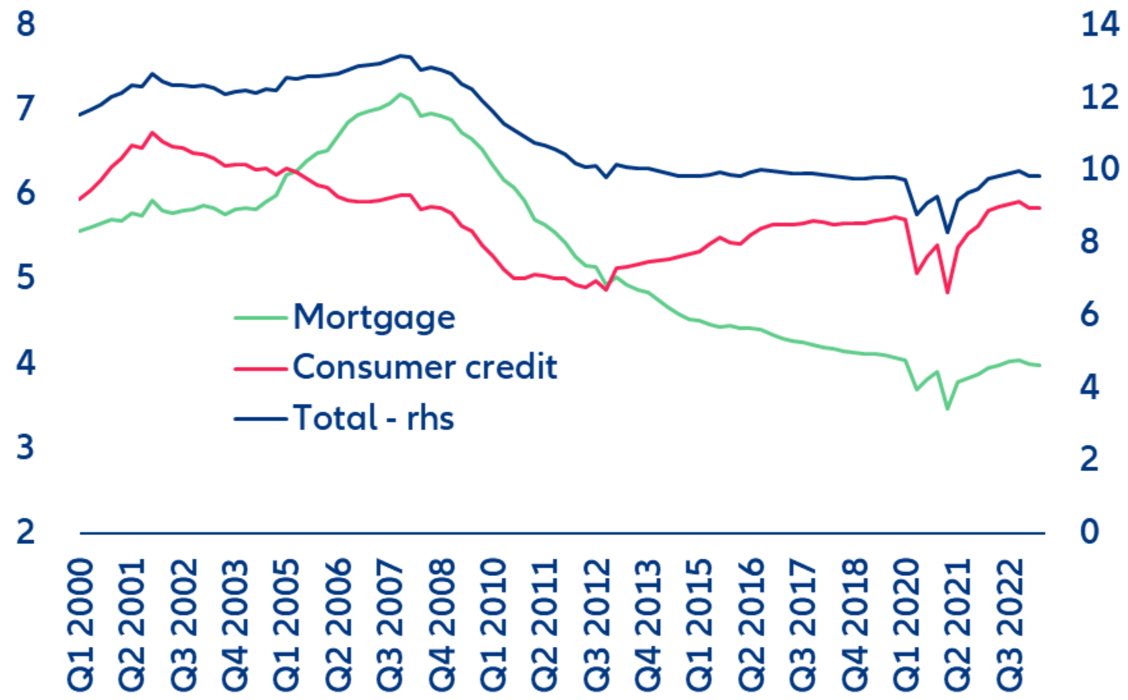
% of loans delinquent



Sources: Refinitiv Datastream, Allianz Research

Household debt servicing remains very contained

Debt service % disposable income

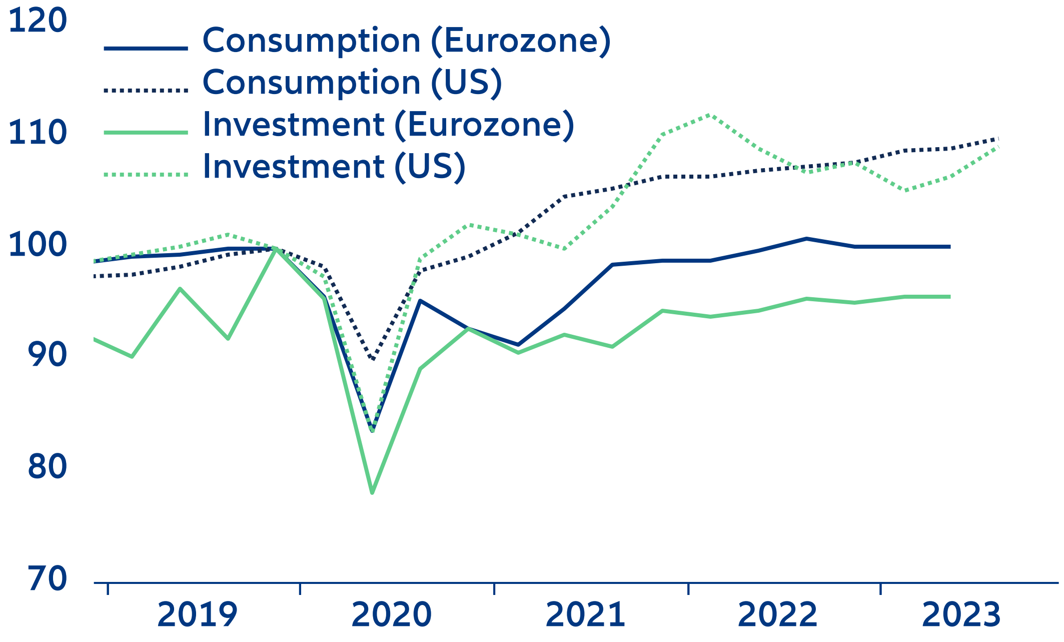


Sources: Refinitiv Datastream, Allianz Research

Allianz

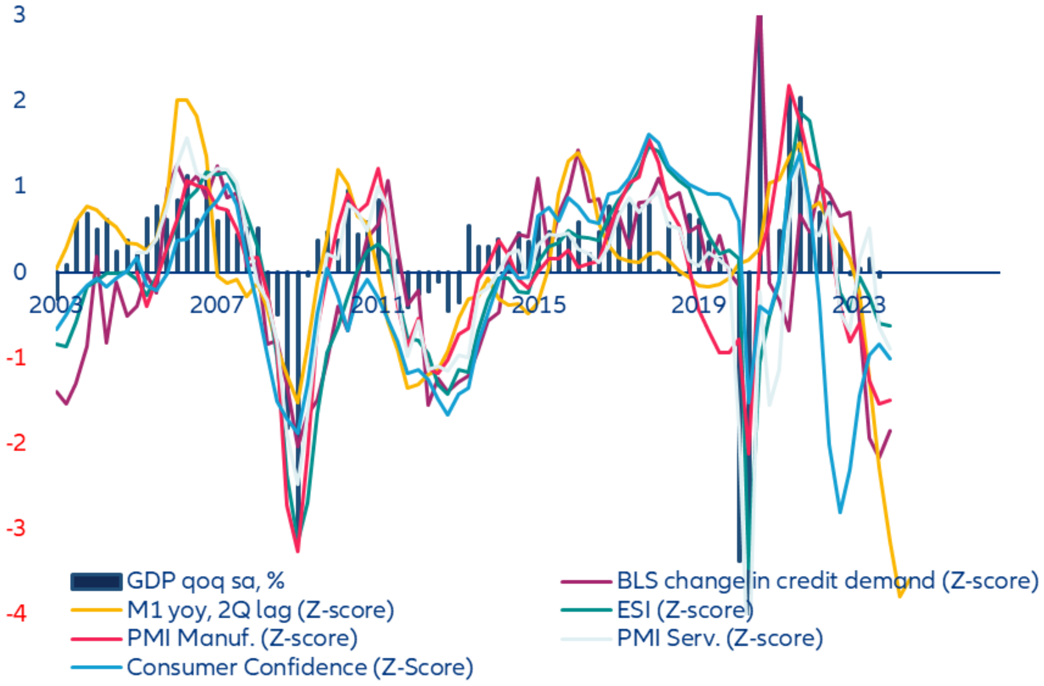
Eurozone decoupling from US with risks tilted to the downside

Consumption and investment remain depressed in the Eurozone compared to the US (Index 2019=100)



Sources: Datastream, Ameco, Allianz Research

After four quarters of stagnation, leading indicators signal no rebound soon

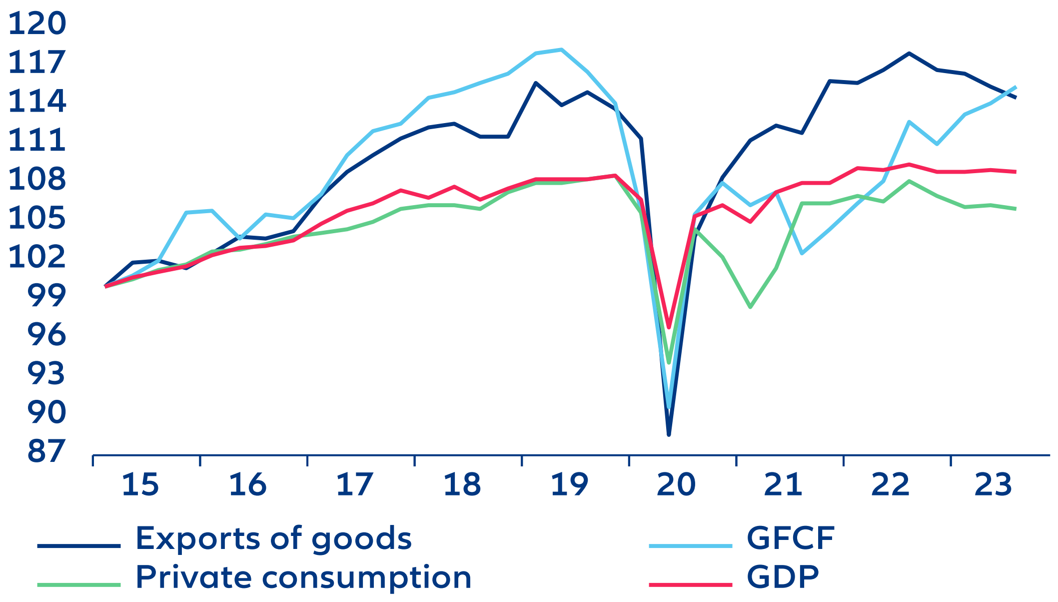


Sources: Datastream, Allianz Research

Allianz

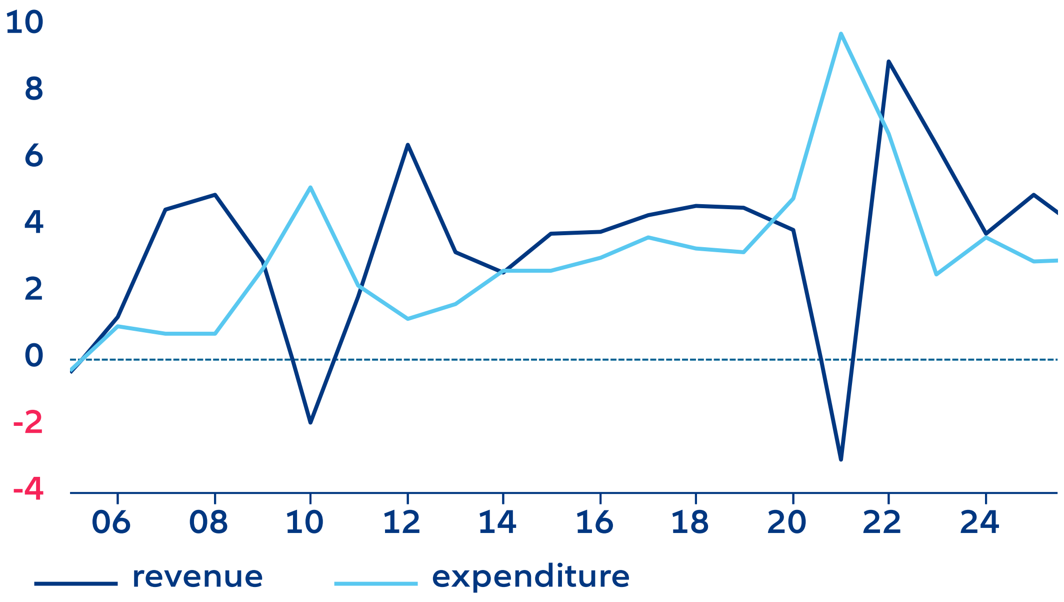
German budget dispute forces to stay within budget undermining investment catch-up effect

GDP components
(index 2015=100)



Sources: Refinitiv Datastream, Allianz Research

Government revenue and expenditure
(y/y %)



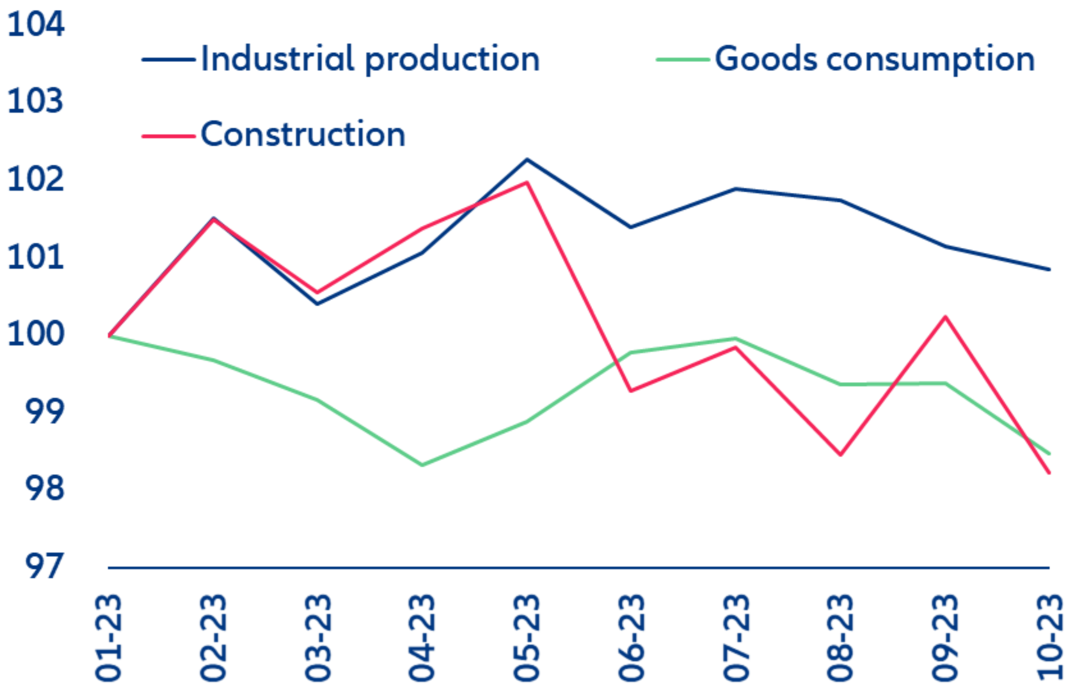
Sources: Refinitiv Datastream, Allianz Research

Allianz

France : growth will struggle through mid-2024

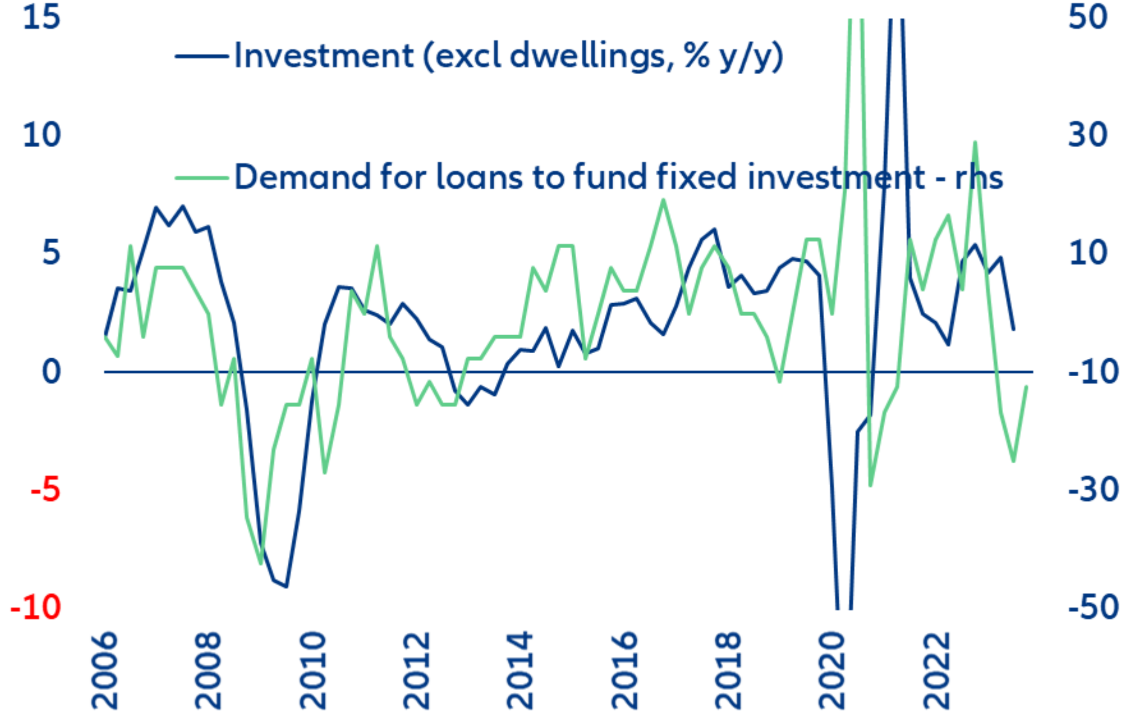
Monthly hard data showing broad-based weakness

Index, January 2023 = 100



Sources: Refinitiv Datastream, Allianz Research

Business investment braced for a slowdown amid lower credit demand

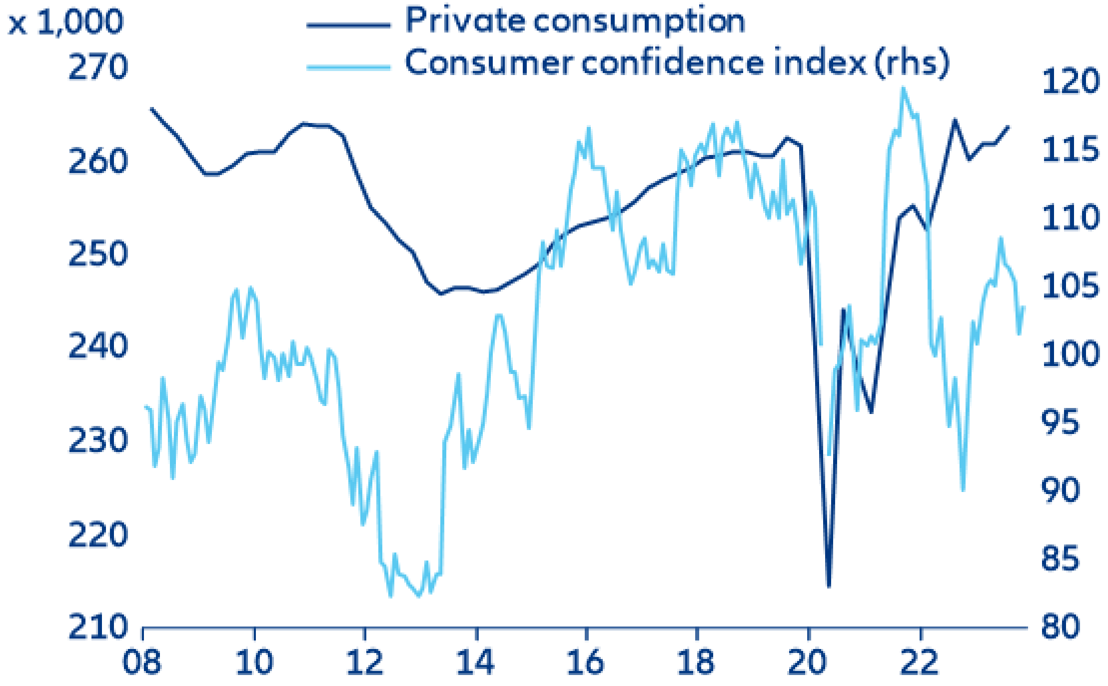


Sources: Refinitiv Datastream, Allianz Research

Allianz

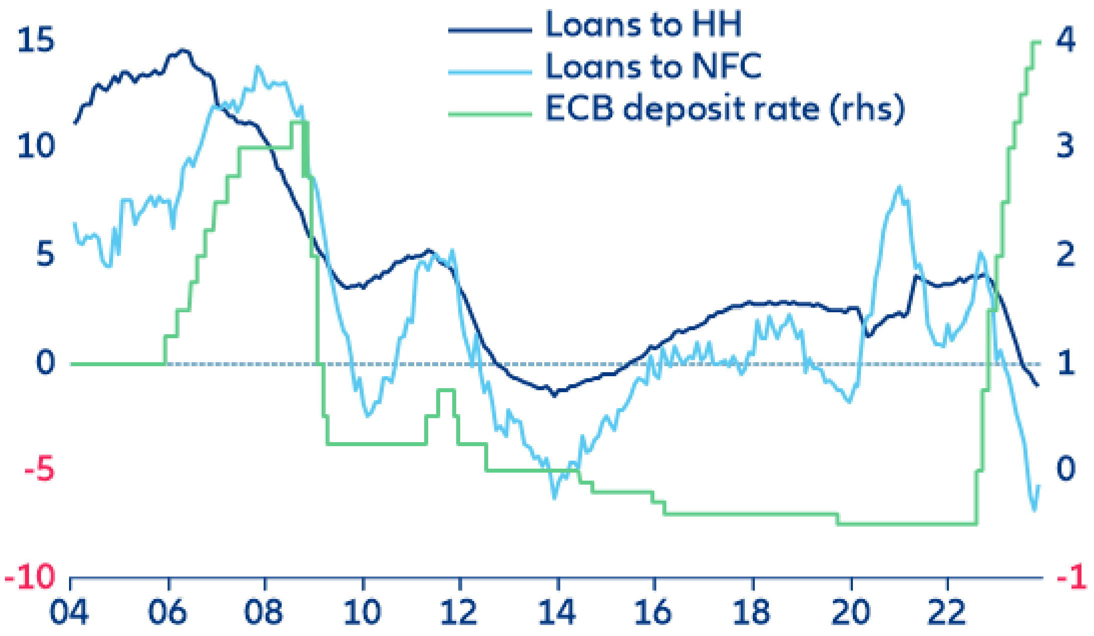
Italy: Consumers trying to save the day

Private consumption picked up slightly despite confidence remains at historically low levels..



Sources: Refinitiv Datastream, Allianz Research

..and higher interest rates have impacted credit growth
(y/y, %)

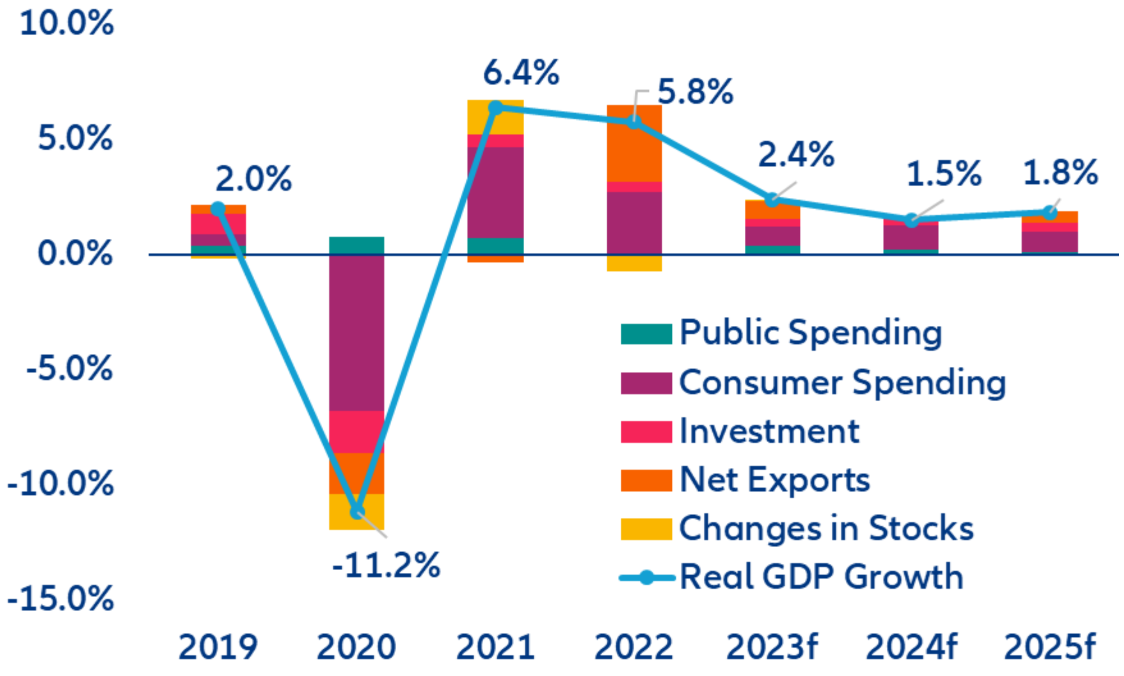


Sources: Refinitiv Datastream, Allianz Research

Allianz

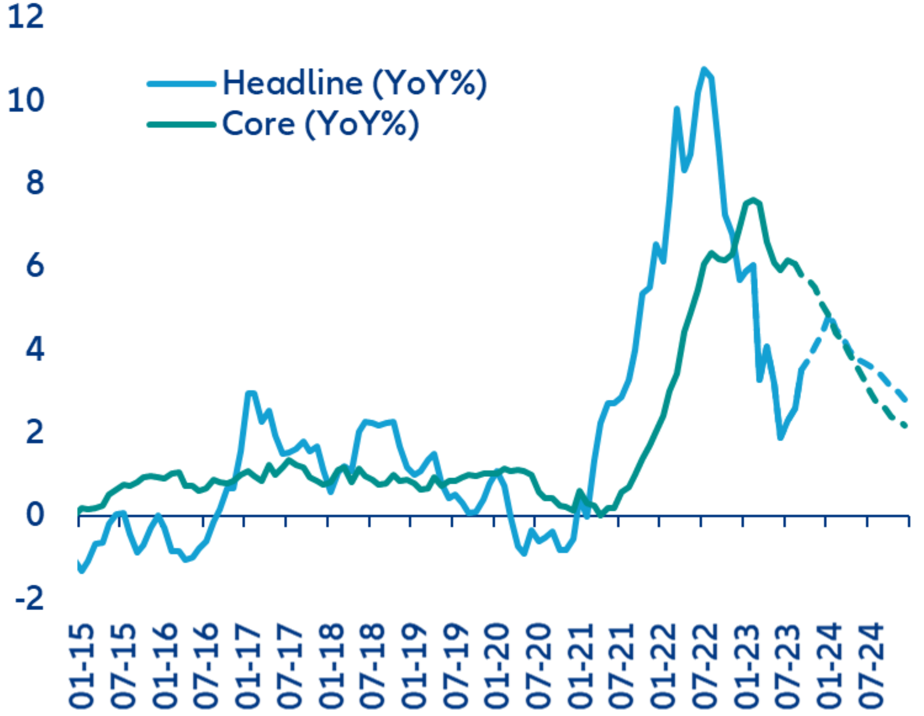
Spain : Slowing but resilient

Strong momentum in tourism-related activities and more contact-intensive services has been key to growth …



Sources:: Refinitv Datastream, Allianz Research

Labor market resilience and easing price pressures support growth despite high interest rates



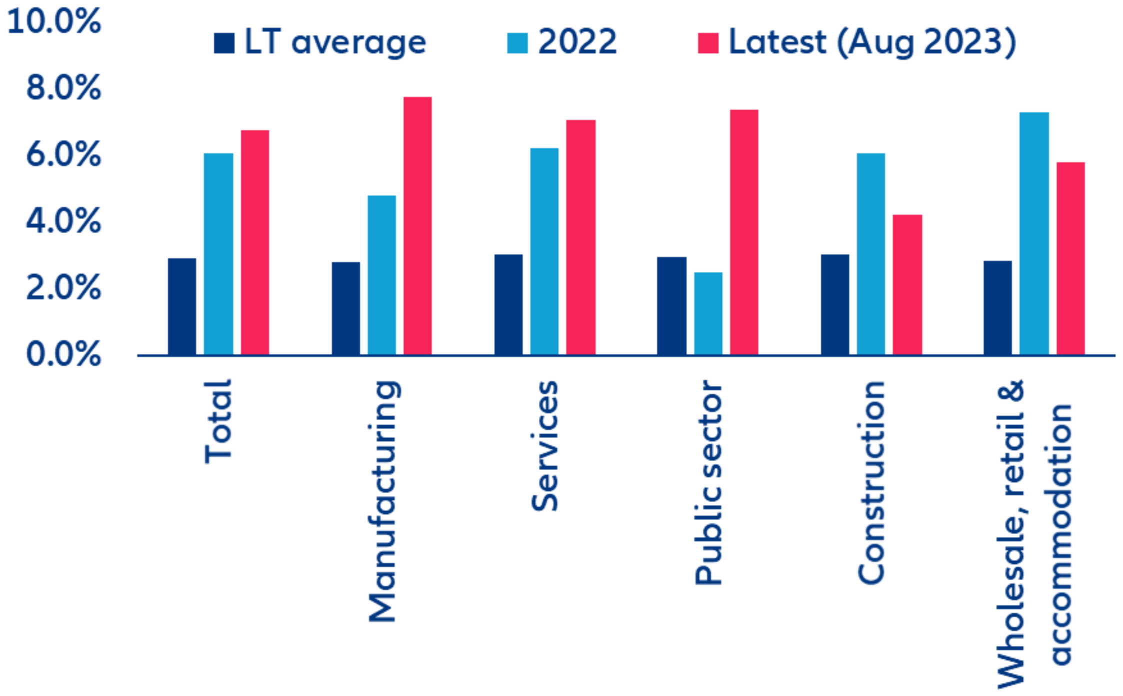
Sources: Refinitiv Datastream, Allianz Research

Allianz

UK: Soft landing, but the runway is long

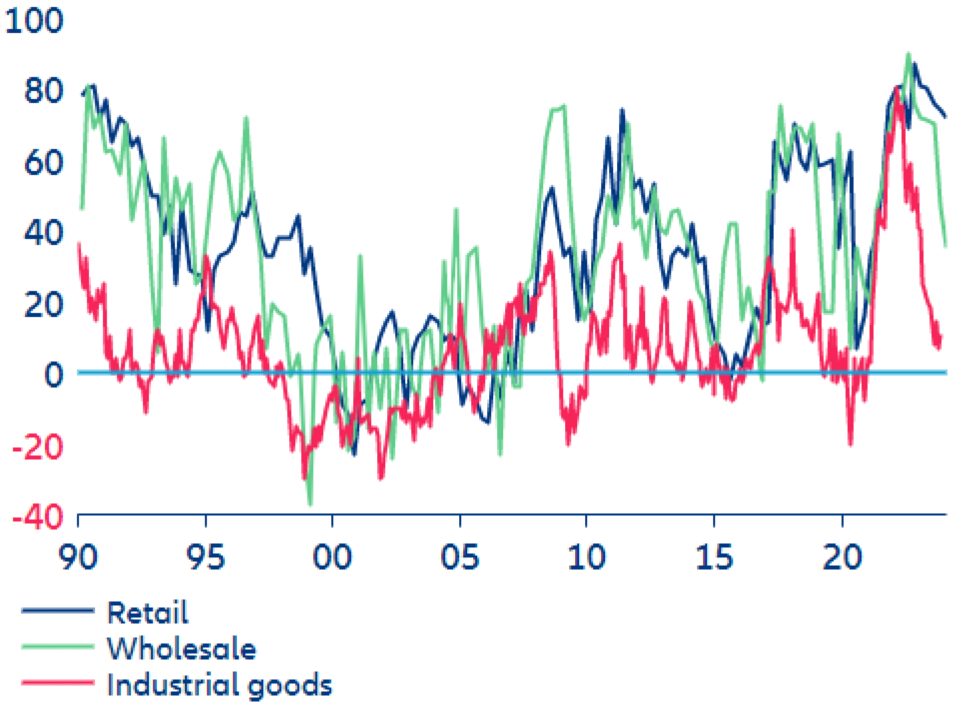
Wage pressures remain high in a number of sectors

Nominal wage growth, y/y



Sources: LSEG Datastream, Allianz Research

Corporates are starting to revise their selling expectations prices on the downside, net balances

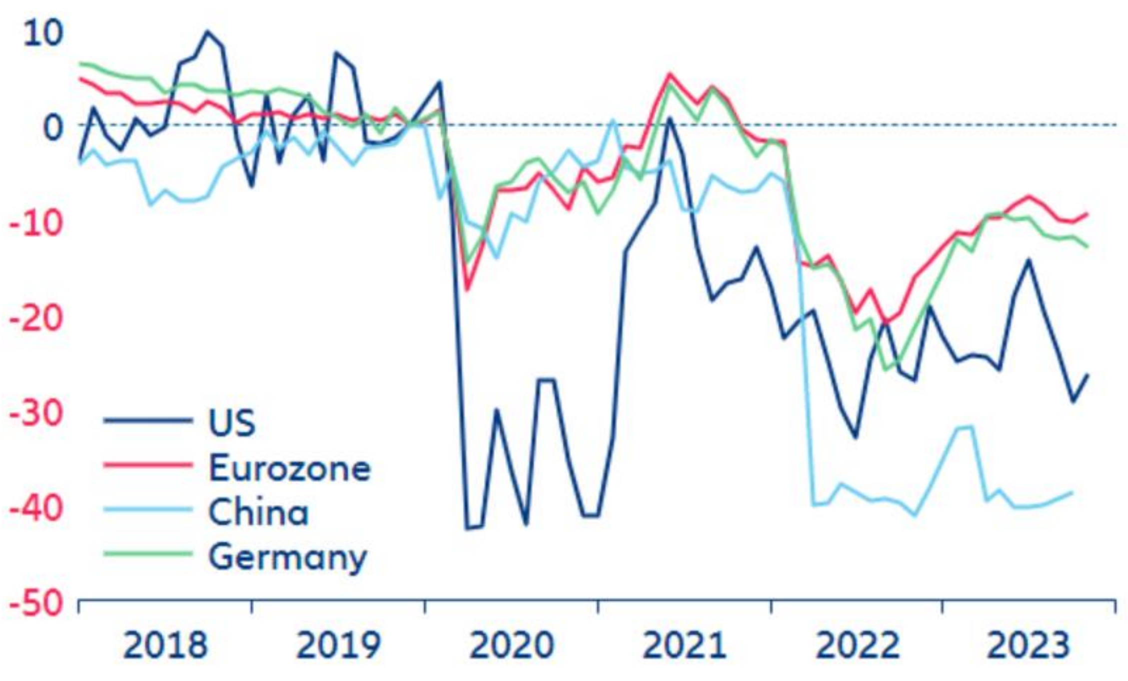


Sources: LSEG Datastream, Allianz Research

Allianz

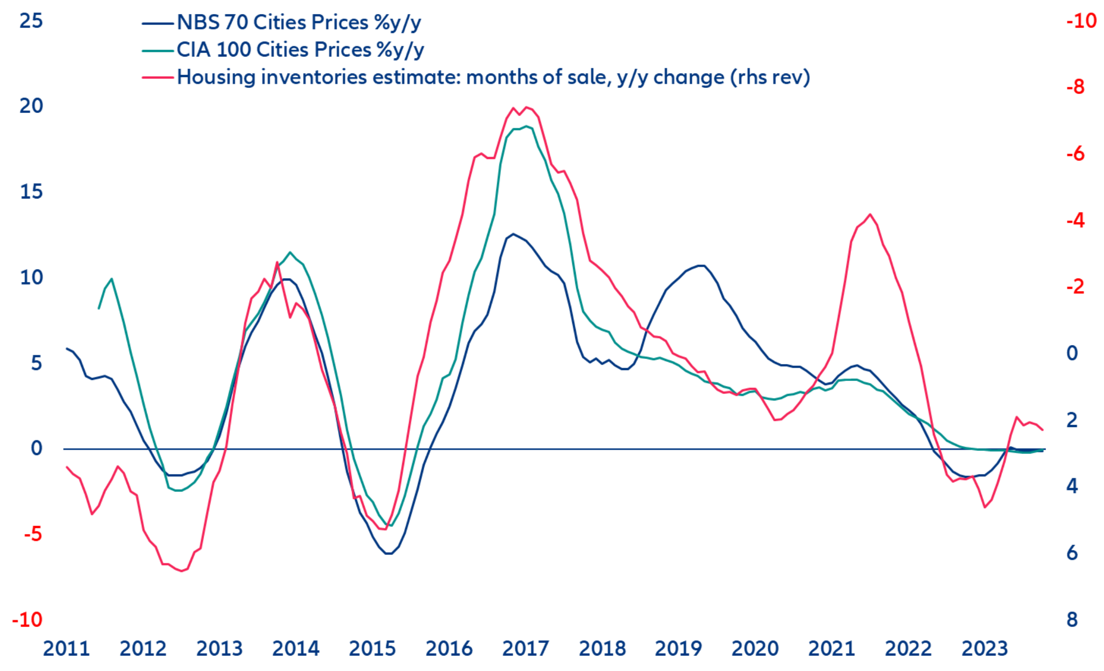
China: Property sector stabilization efforts ongoing

Chinese consumer confidence remains depressed



Sources: LSEG Datastream, Allianz Research. Y/Y evolution of prices across 91 Chinese cities.

Housing indicators in China point to a stabilization at low levels, % y/y

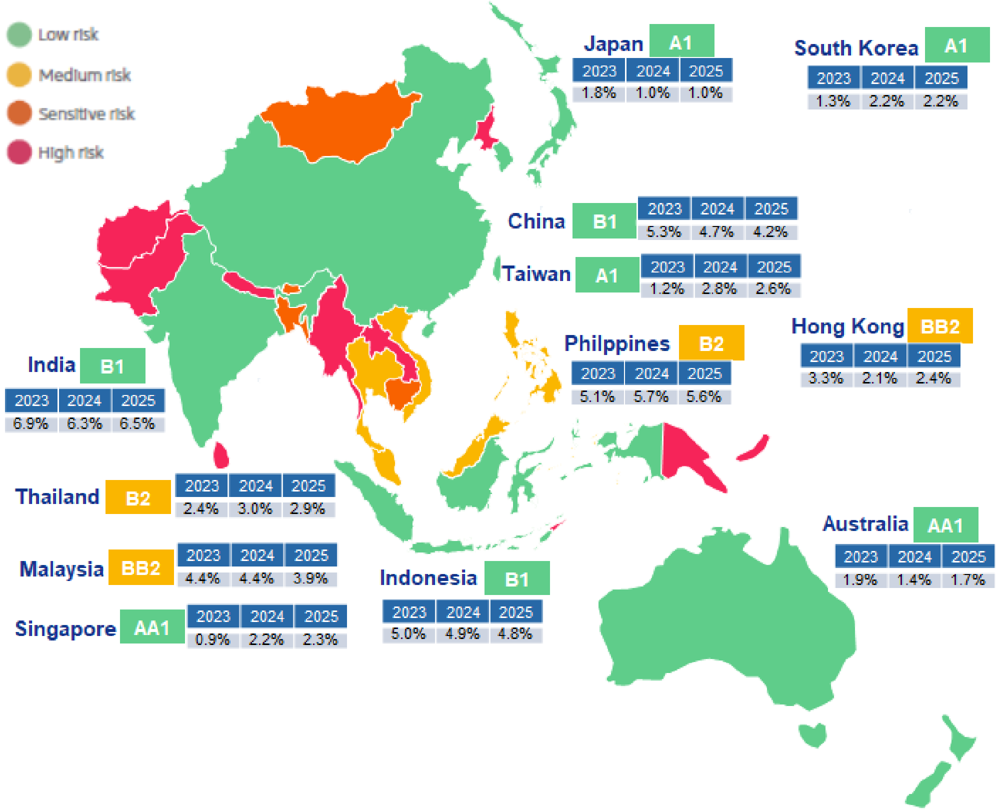


Sources: Official sources, Allianz Research

Allianz

APAC: Weak global trade performance will jeopardize regional growth

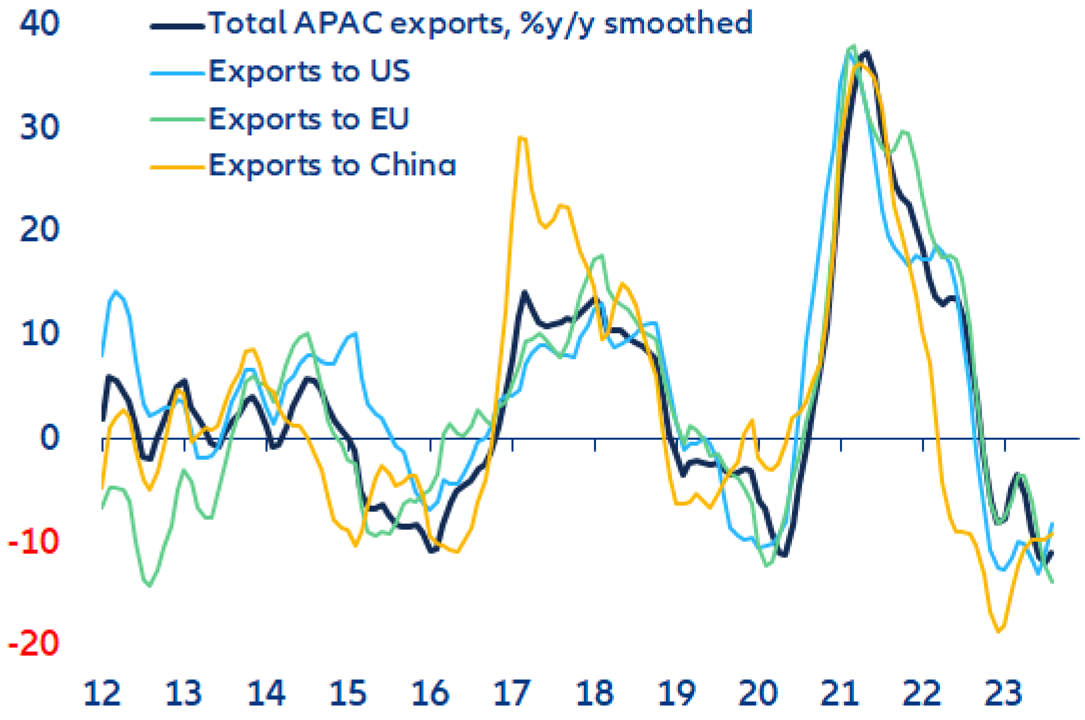
GDP growth and short-term country risk as of Q4 2023



Sources: Allianz Research.

APAC exports remain in recession

Exports, % y/y

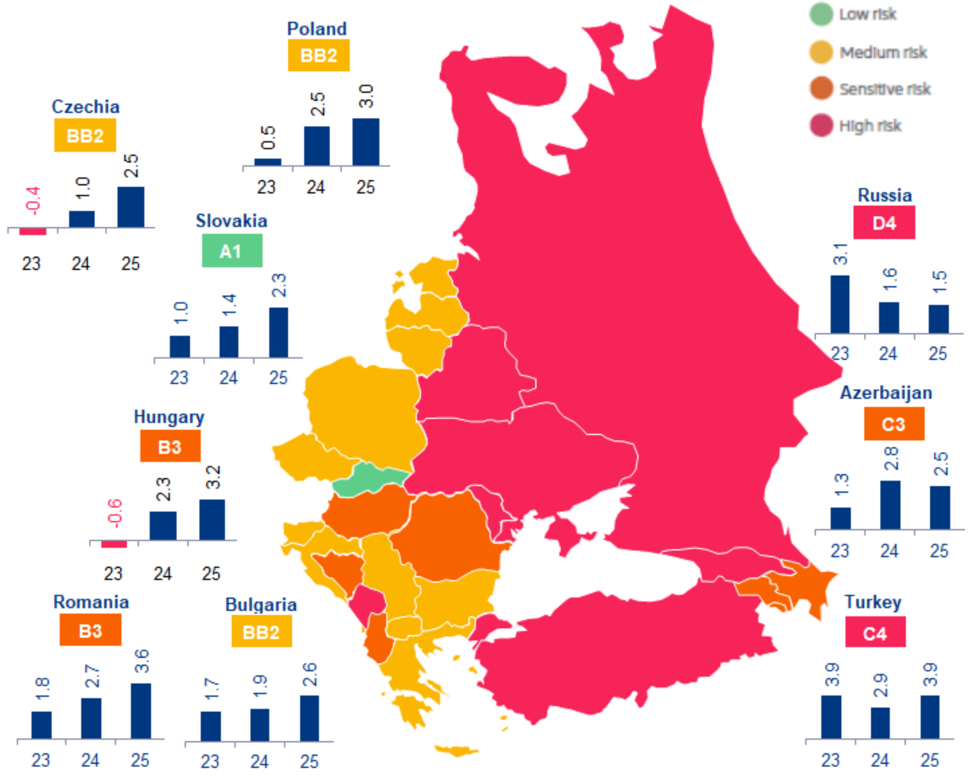


Sources: IMF, Allianz Research.

Allianz

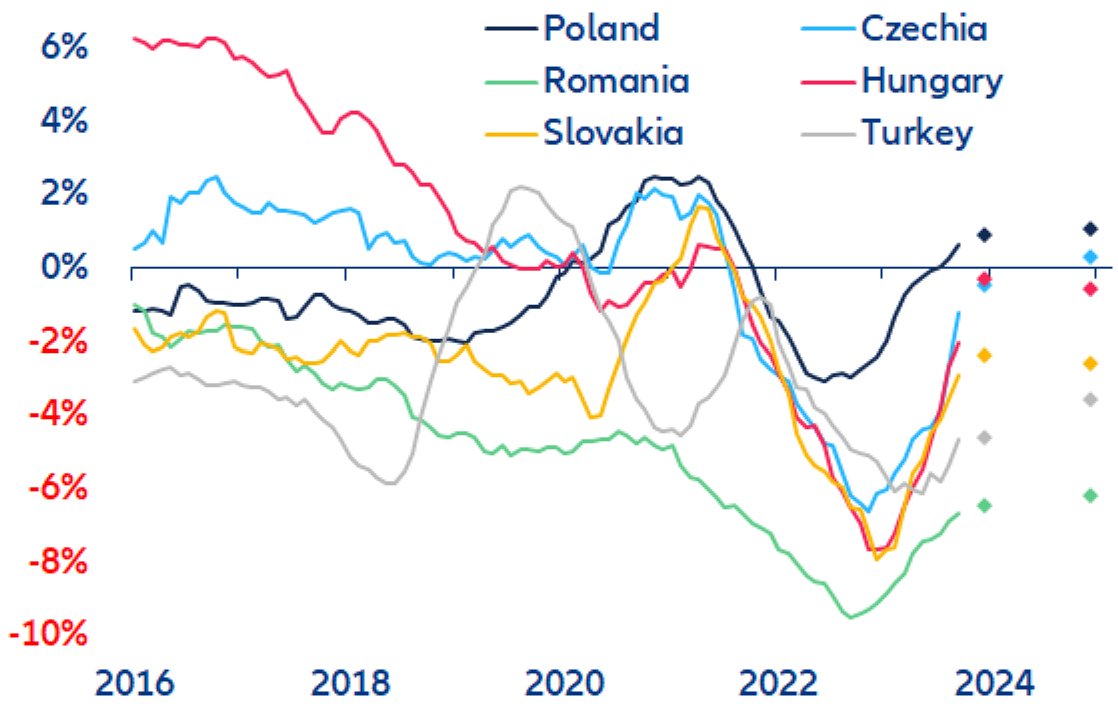
EM Europe: Growth to recover gradually in 2024-25, supported by rebalancing and monetary easing

GDP growth and short-term country risk as of Q4 2023



Sources: Allianz Research

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



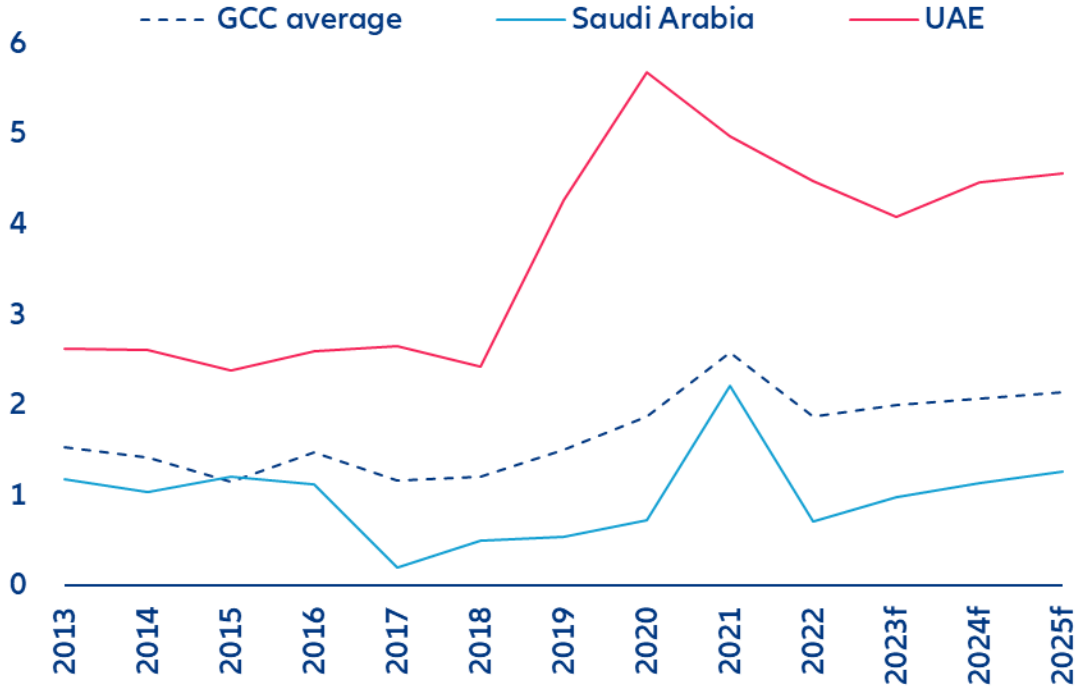
Sources: Datastream, Allianz Research

Allianz

Africa & Middle East: The return to open conflict reduces foreign appetite with little gains from oil

Foreign direct investment in the Gulf may play a minor role in building success stories

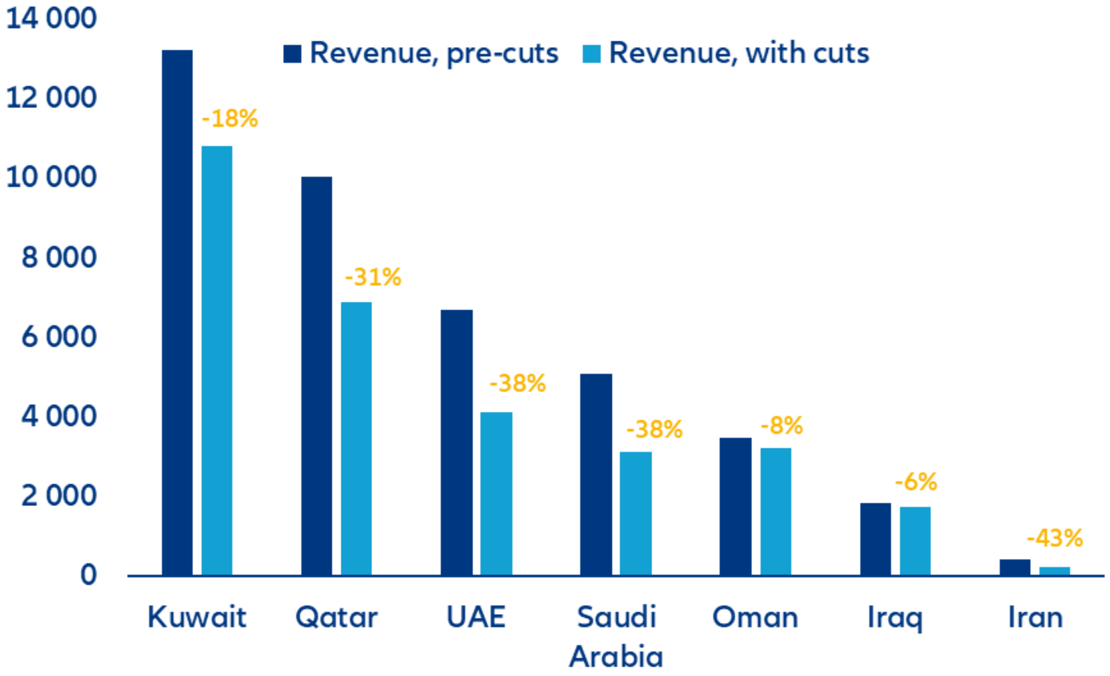
(% of GDP)



Sources: EIU, Allianz Research

Crude oil production has decreased by 12 barrels per person in the region affecting overall revenues

(Oil revenues, USD per person)

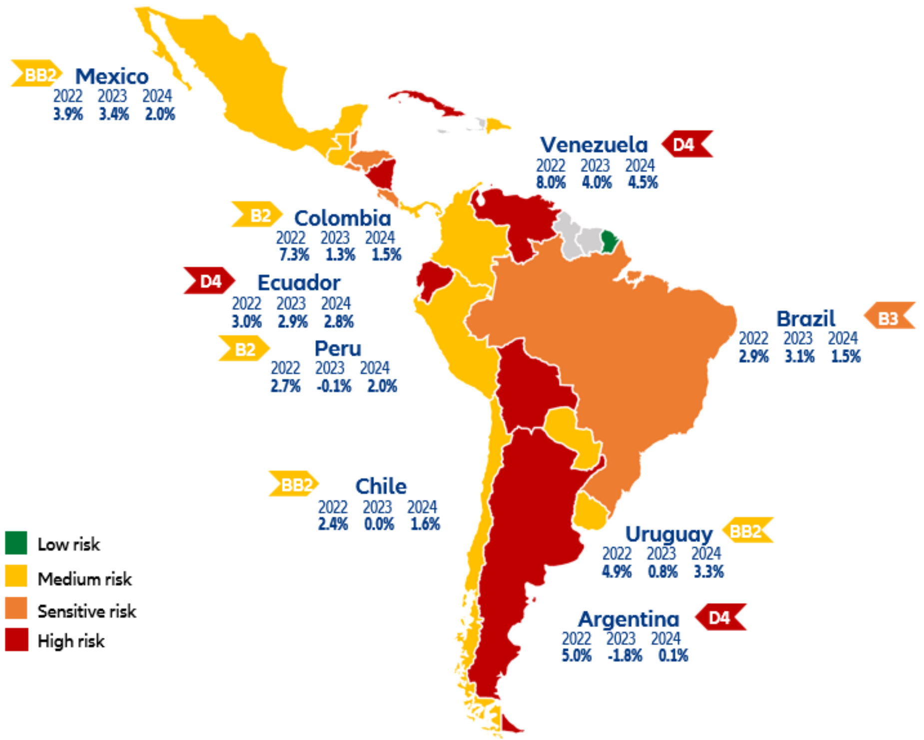


Note: Revenue is calculated net of marginal production and transportation costs (country-specific estimates apply) assuming a price of 70 USD/barrel in a pre-cut and subdued demand environment and an average price of 90 USD/barrel in a context of prolonged cuts. Pre-cut production levels are derived from 2021-2022 averages, net of domestic consumption.
Sources: BP, Refinitiv, Worldometer, Allianz Research

Allianz

LatAm: Growth convergence; inflation will continue to ease

Outperformance of Brazil and Mexico to reduce



Sources: Allianz Research

Fiscal consolidation remains Brazil's main challenge; Chile and Colombia more exposed to external shocks

		Brazil	Colombia	Chile	Mexico	Peru
Fiscal	Fiscal balance/ GDP*	-6,0%	-2,4%	-1,3%	-5,4%	-1,8%
Inflationary risk	CPI*	4,2%	5,8%	4,8%	5,5%	4,2%
Competitiveness	REER (deviation from the average of past 5 years)	4,6%	3,9%	4,1%	17,8%	3,6%
Growth	GDP*	1,5%	1,5%	1,6%	2,0%	2,0%
Domestic Credit Growth		8,8%	6,5%	1,9%	9,2%	7,0%
External Sector Ratios	External Debt/GDP	50,7%	68,4%	77,8%	55,0%	43,0%
	External Debt/ Exports	156,2%	241,1%	209,1%	90,4%	119,9%
	Public Debt/ GDP	90,3%	57,2%	41,2%	57,7%	34,0%
	FX reserves (USD bn)	344,18	58,11	41,10	206,60	71,91
	CA/GDP*	-1,8%	-7,9%	-3,6%	-1,4%	-2,1%
	Import Cover*	11,17	8,33	4,74	3,41	8,95

Sources: Allianz Research . *Forecast for 2024, otherwise last numbers.

Capital Markets Outlook

2023-2025

Allianz

Markets to navigate the policy-heavy environment

Capital Markets: Eurozone and US

year-end figures

EMU	Last	Unit	2022	2023f	2024f	2025f
Government Debt						
ECB deposit rate	4.00	%	2.00	4.00	3.50	2.75
10y yield (Bunds)	2.13	%	2.56	2.20	2.40	2.30
10y EUR swap rate	2.68	%	3.14	2.70	2.90	2.70
Italy 10y sovereign spread	169	bps	213	170	150	140
France 10y sovereign spread	52	bps	55	50	40	40
Spain 10y sovereign spread	96	bps	109	100	80	70
Corporate Debt						
Investment grade credit spreads	136	bps	166	140	140	125
High-yield credit spreads	397	bps	494	410	430	390
Equity						
Eurostoxx (total return p.a.)	20 ytd	%	-12	19	4	9

US	Last	Unit	2022	2023f	2024f	2025f
Government Debt						
Fed Funds rate (high)	5.50	%	4.50	5.50	4.50	3.75
10y yield (Treasuries)	3.91	%	3.83	4.10	3.80	3.60
Corporate Debt						
Investment grade credit spreads	104	bps	138	115	115	110
High-yield credit spreads	347	bps	479	370	410	350
Equity						
S&P 500 (total return p.a.)	25 ytd	%	-18	24	6	11

Capital Markets: UK, Emerging Markets, FX

year-end figures

UK	Last	Unit	2022	2023f	2024f	2025f
Government Debt						
BoE rate	5.25	%	3.50	5.25	4.75	4.00
10y yield sovereign (Gilt)	3.79	%	3.67	3.80	3.90	3.60
Corporate Debt						
Investment grade credit spreads	134	bps	192	140	140	130
High-yield credit spreads	504	bps	663	525	550	475
Equity						
FTSE 100 (total return p.a.)	7 ytd	%	5	6	4	8

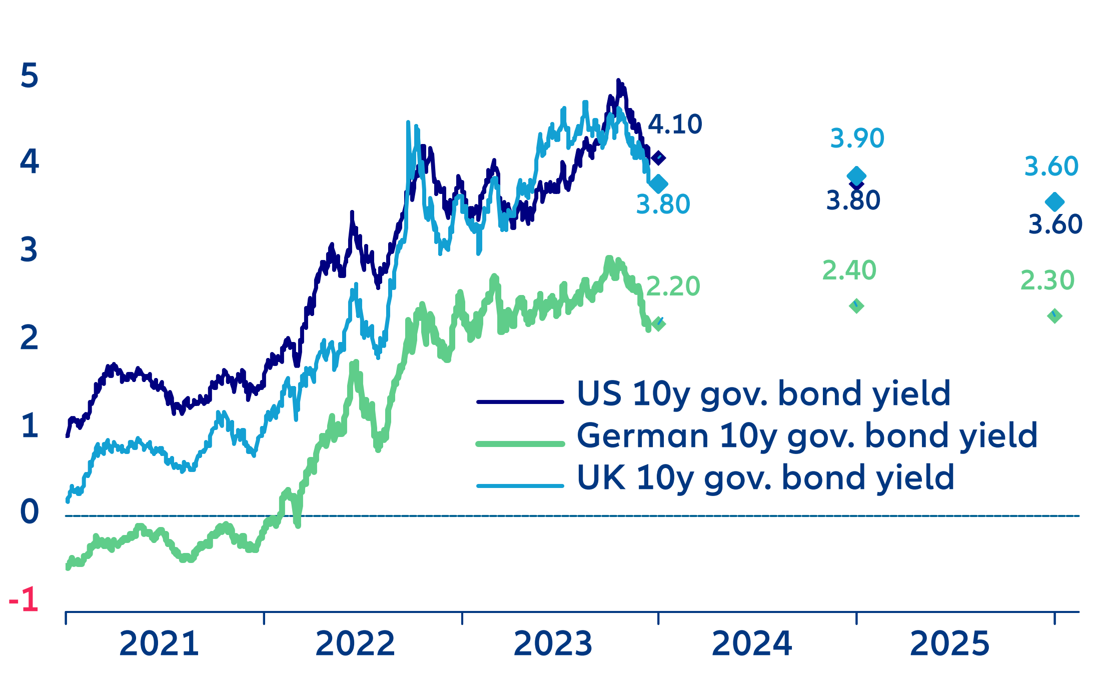
Emerging Markets	Last	Unit	2022	2023f	2024f	2025f
Government Debt						
Hard currency spread (vs USD)	231	bps	273	235	230	210
Local currency yield	6.42	%	6.86	6.60	6.10	5.60
Equity						
MSCI EM (total return p.a. in USD)	7 ytd	%	-20	6	5	10

Others			2022	2023f	2024f	2025f
EUR USD	1.10	$ per €	1.07	1.09	1.12	1.14

Sources: LSEG Datastream, Bloomberg, Allianz Research

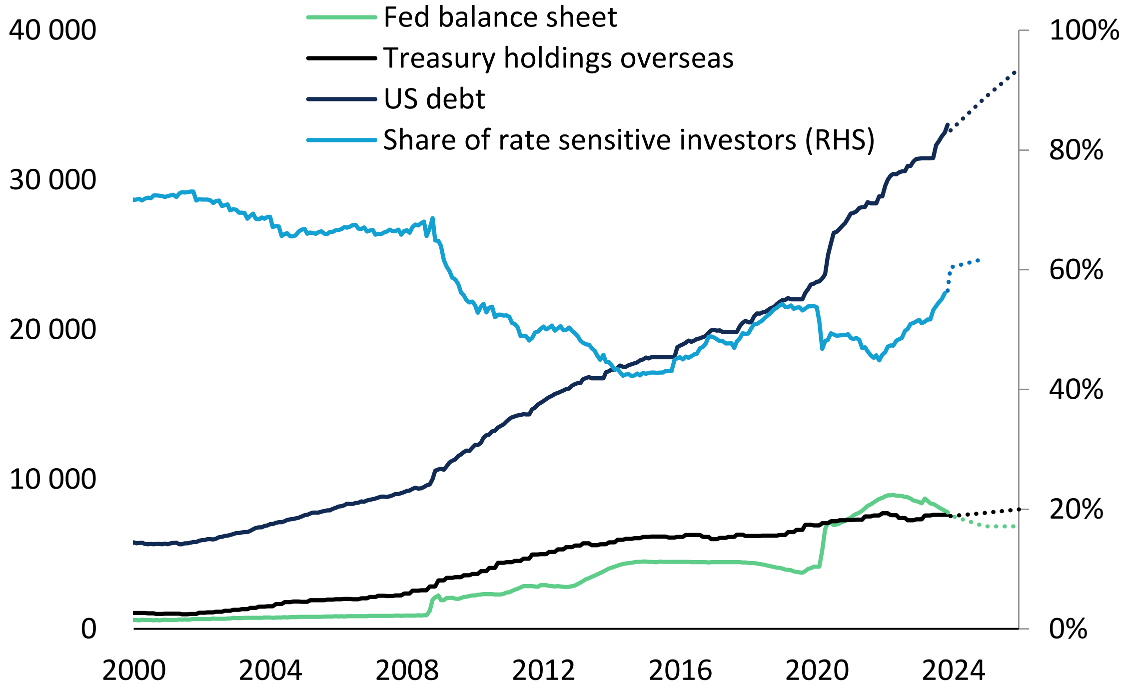
Long-Term yields ease with monetary policy pivot but supply pressure curbs further drops

Sovereign bond yields to fall slightly on lower policy rates; Bunds look expensive against fair value



Sources: LSEG Datastream, Bloomberg, Allianz Research

Bond supply, QT and limited foreign demand to increase the share of rate sensitive investors



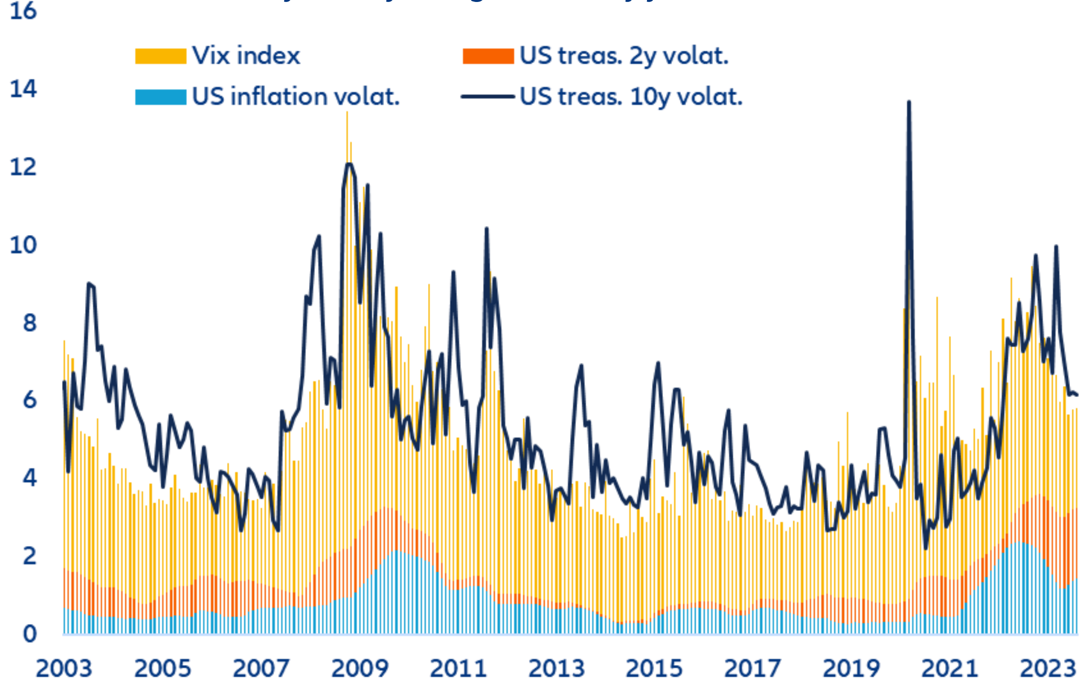
Sources: LSEG Datastream, Bloomberg, Allianz Research
Notes: Estimate before 2003

Allianz

Volatility in bond markets to fade in 2024 when markets are clearer on future monetary policy path

Rates market volatility remains elevated as inflation uncertainty is replaced by monetary policy

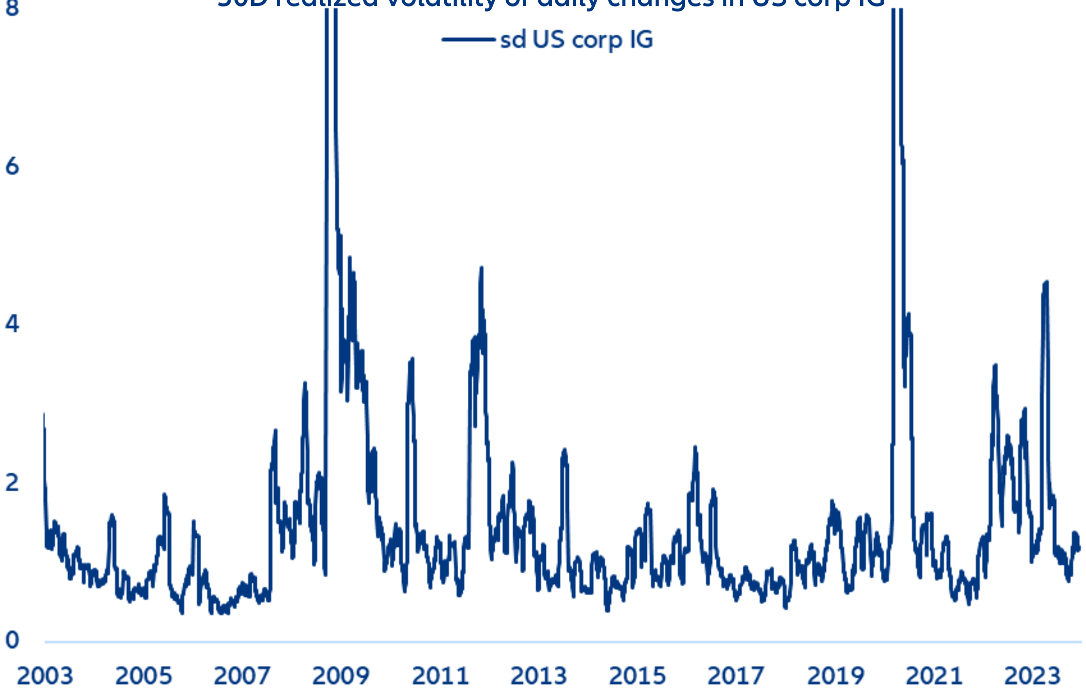
30D realized volatility of daily changes in US 10y yields and estimated contributions



Sources: LSEG Datastream, Allianz Research
Note: (realized) volatility in US treasuries is computed as 30d standard deviation on observed values; (realized) inflation volatility is computed as 24m standard deviation on observed values.

Heightened volatility in the treasury market has only partially translated into corporate spreads volatility

30D realized volatility of daily changes in US corp IG



Sources: LSEG Datastream, Allianz Research. Calculated over the absolute daily changes.

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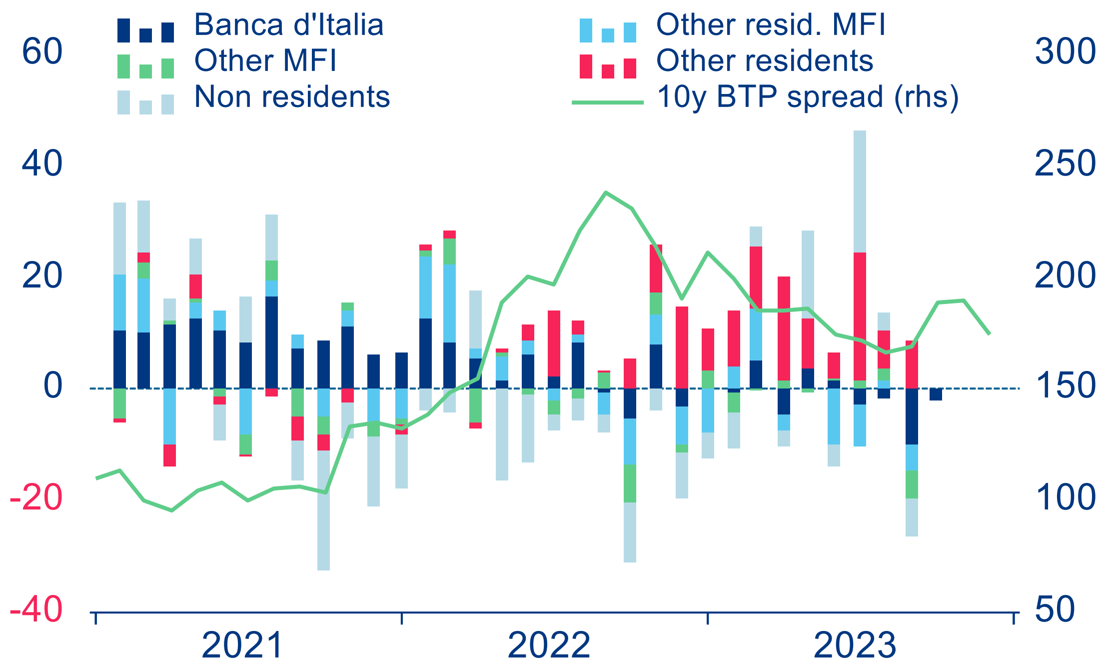
ECB pivot and solid demand should support spreads going forward

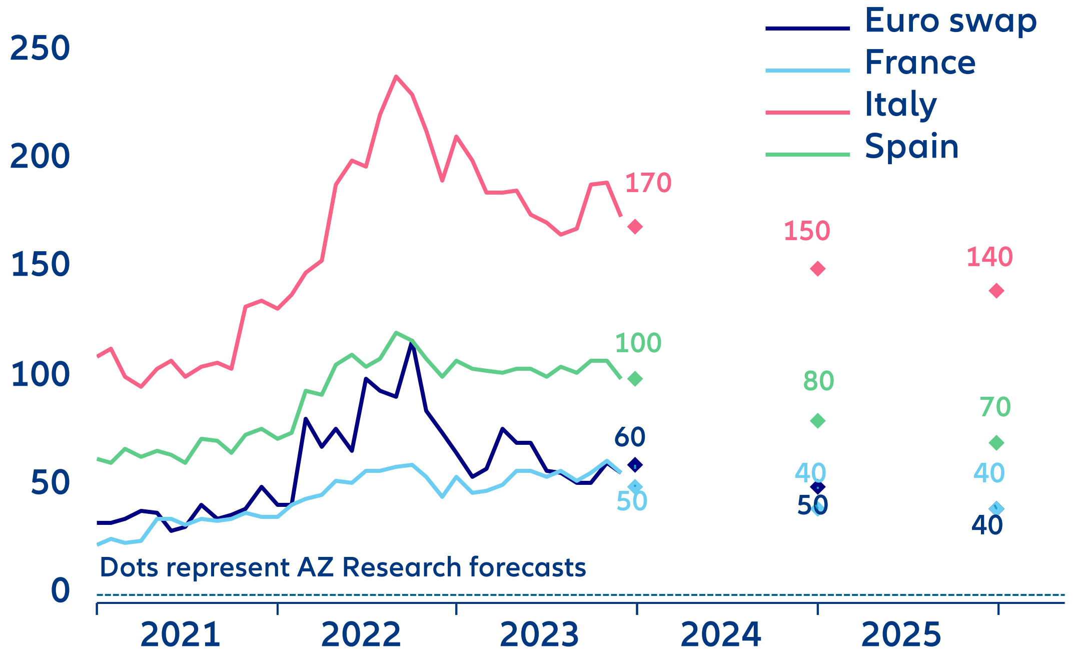
Retail domestic investors have taken over the ECB buying Italian sovereign

Monthly Italian government bond flows (EUR bn)



Sources: LSEG Datastream, Allianz Research

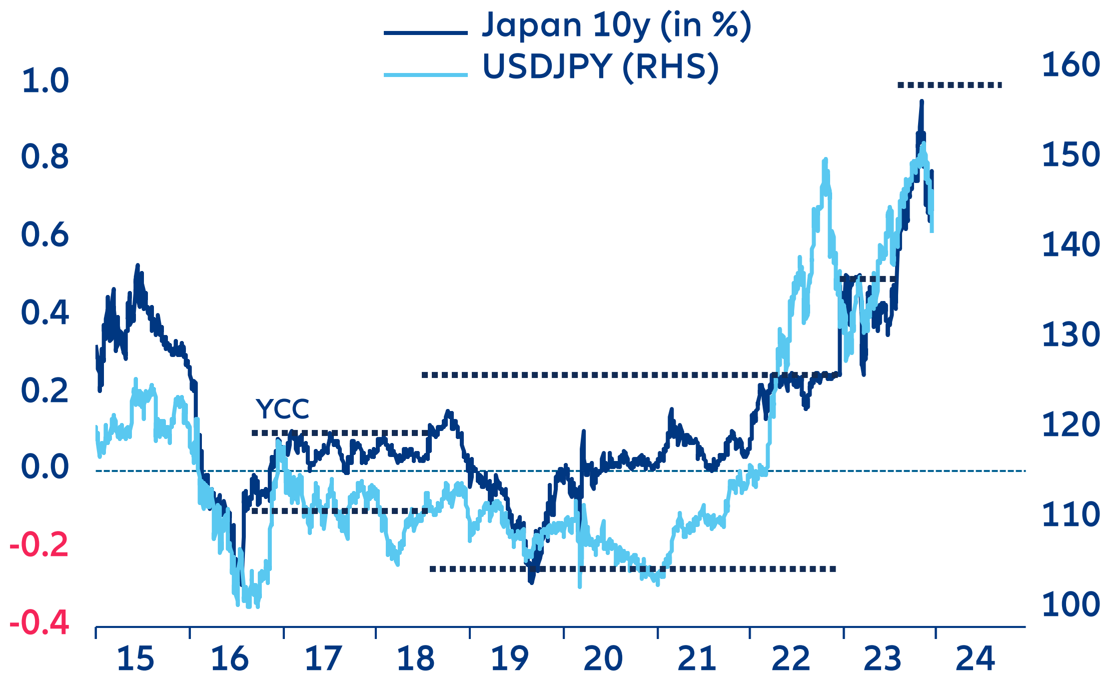
Eurozone periphery spreads versus Germany to remain stable amid ECB pivot



Sources: LSEG Datastream, Allianz Research

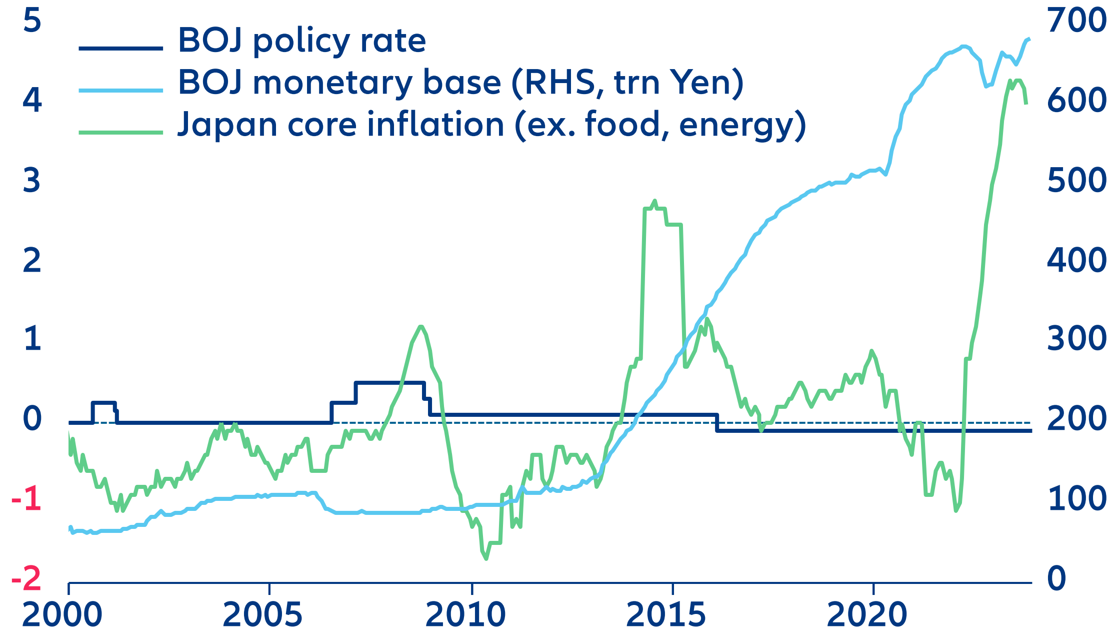
Japan struggling to exit negative interest rates in 2024 as signs of disinflation emerge

Lower inflation prints in Japan have eased speculation of a more restrictive BoJ policy stance



Sources: LSEG Datastream, Allianz Research

Policy rate, BoJ balance sheet and foreign investment

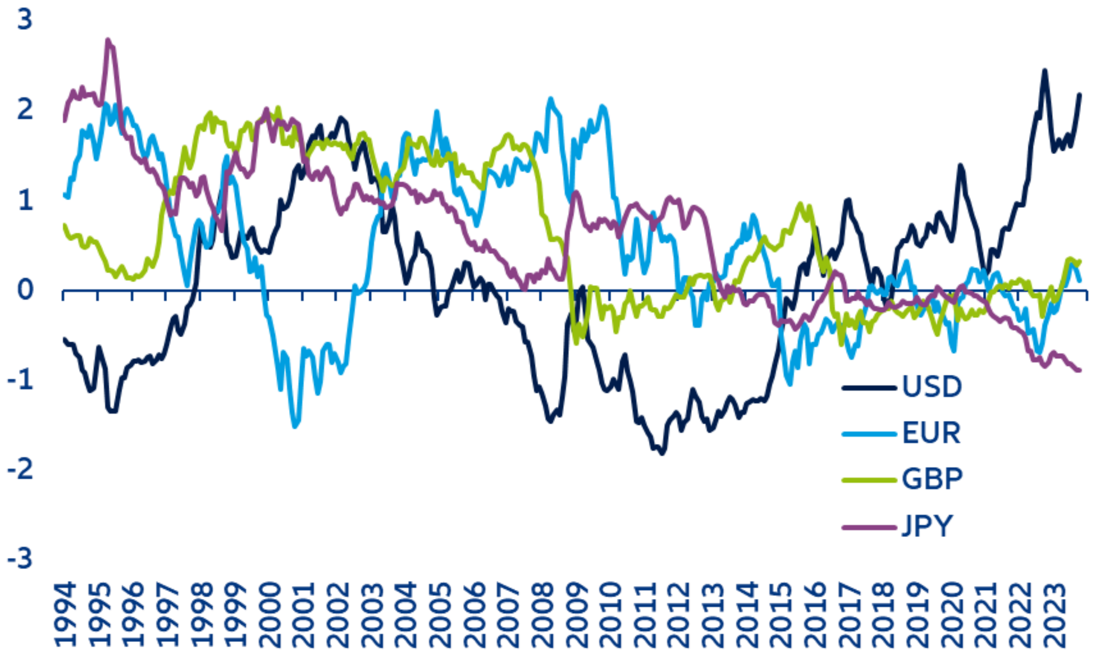


Sources: LSEG Datastream, Allianz Research

USD strength to retreat in the medium–run as ‘US exceptionalism’ fades

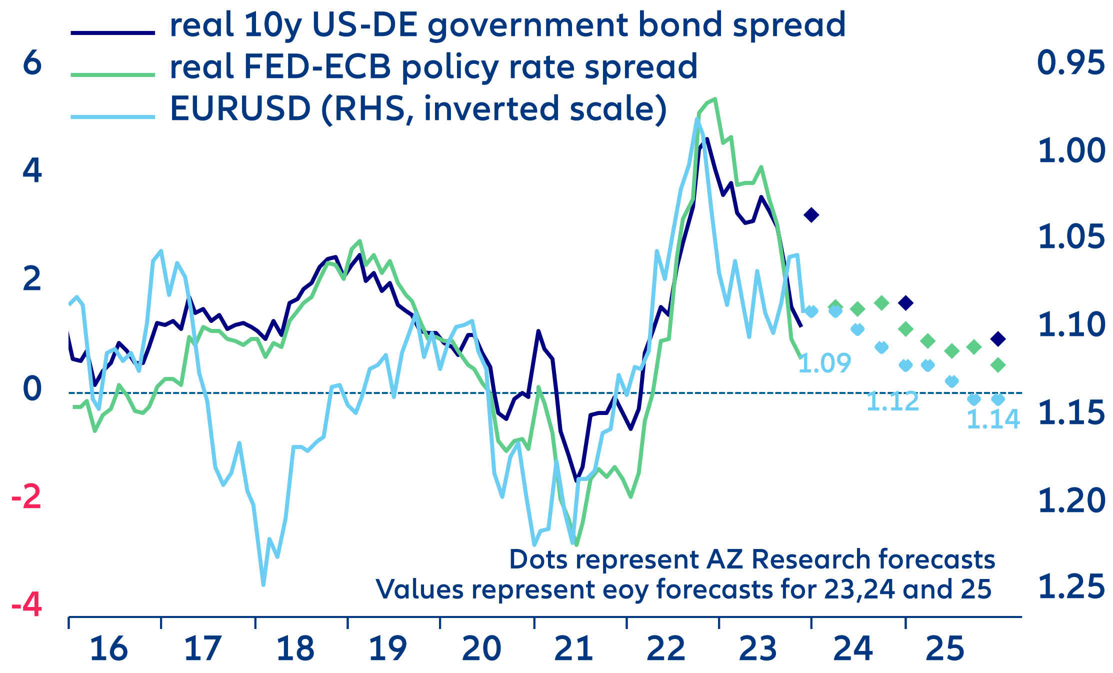
The USD is very expensive

(REER: deviation from LT average, in standard deviations)



Sources BIS, Datastream, Allianz Research.

Real transatlantic spread and EUR/USD (inverted)



Sources: LSEG Datastream, Allianz Research

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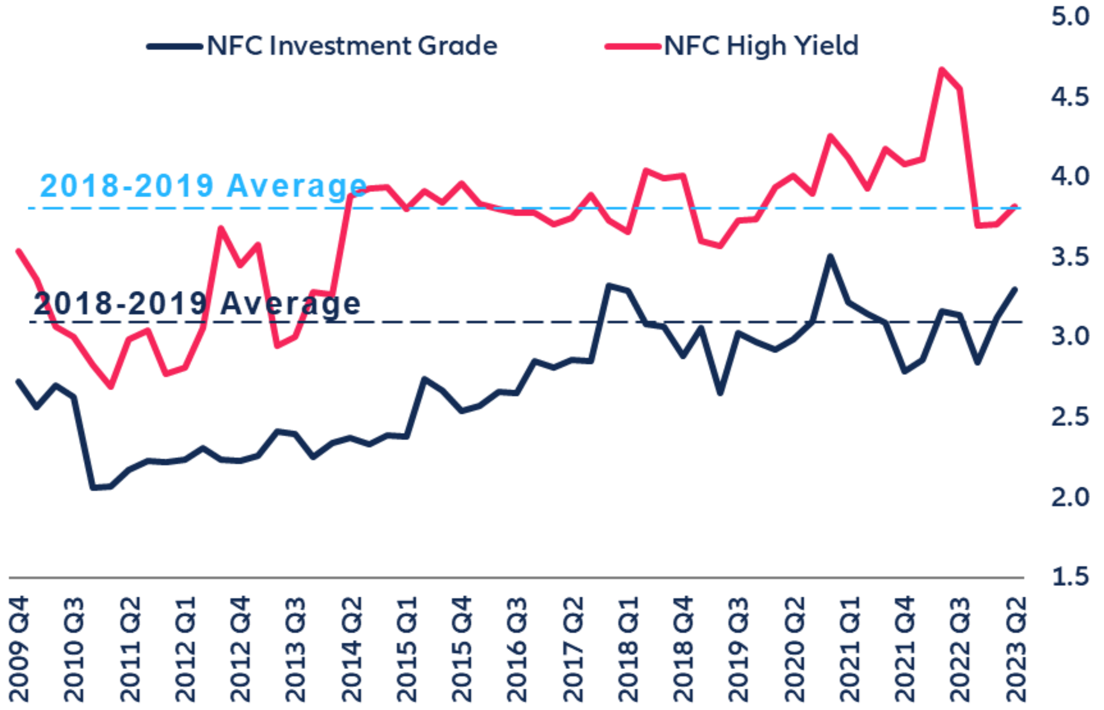
Credit remains tight given current macroeconomic conditions but should still be resilient in the mid-run

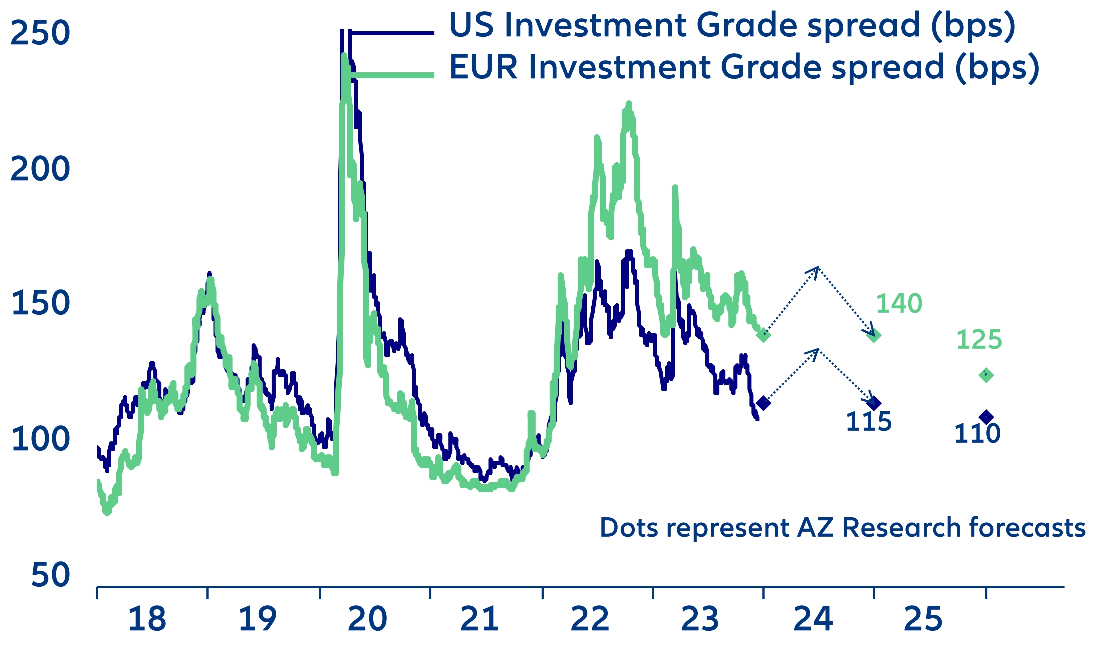
Leverage ratios increasing but under control

(Net Debt to EBITDA ; European corporates)



Sources: Bloomberg, Allianz Research.

After some volatility in H1 (once uncertainty about cuts slowly fades), we expect spreads to start a gradual compression process



Sources: LSEG Datastream, Allianz Research.

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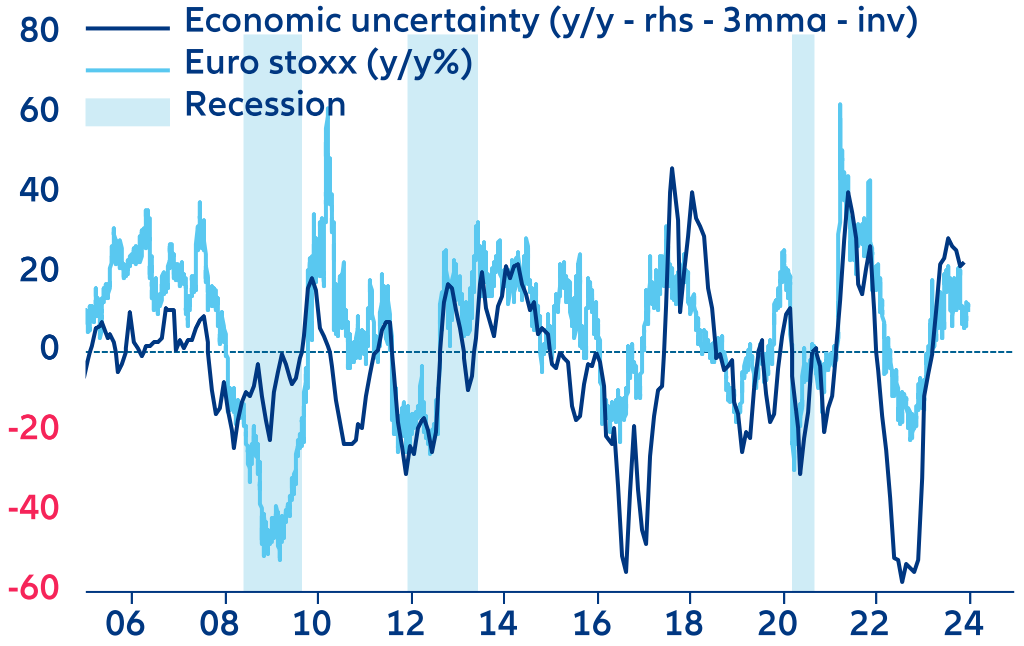
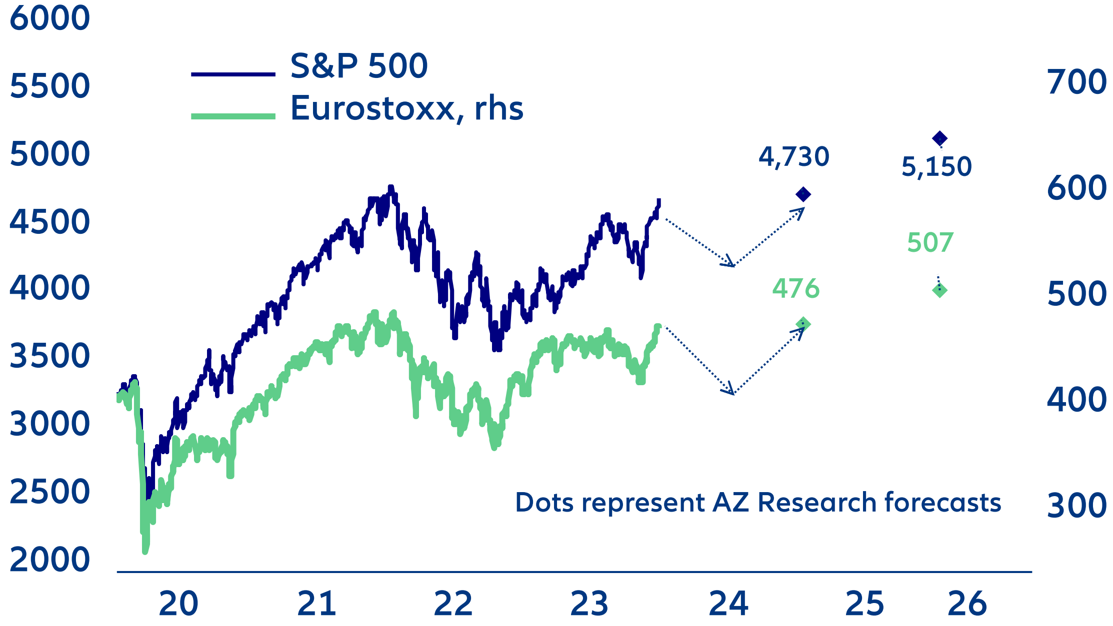
Equities to feel the pain H1 as they await the dovish-turn confirmation and the type of landing

Dovish policy rate expectations have driven late-2023 rally but will remain a source of volatility – together with the modest economic growth



Sources: LSEG Datastream, Allianz Research

Our scenario suggest low (~3-5%) price returns in 2024, exhibiting a U-trend during the year, which recovery should spill into 2025

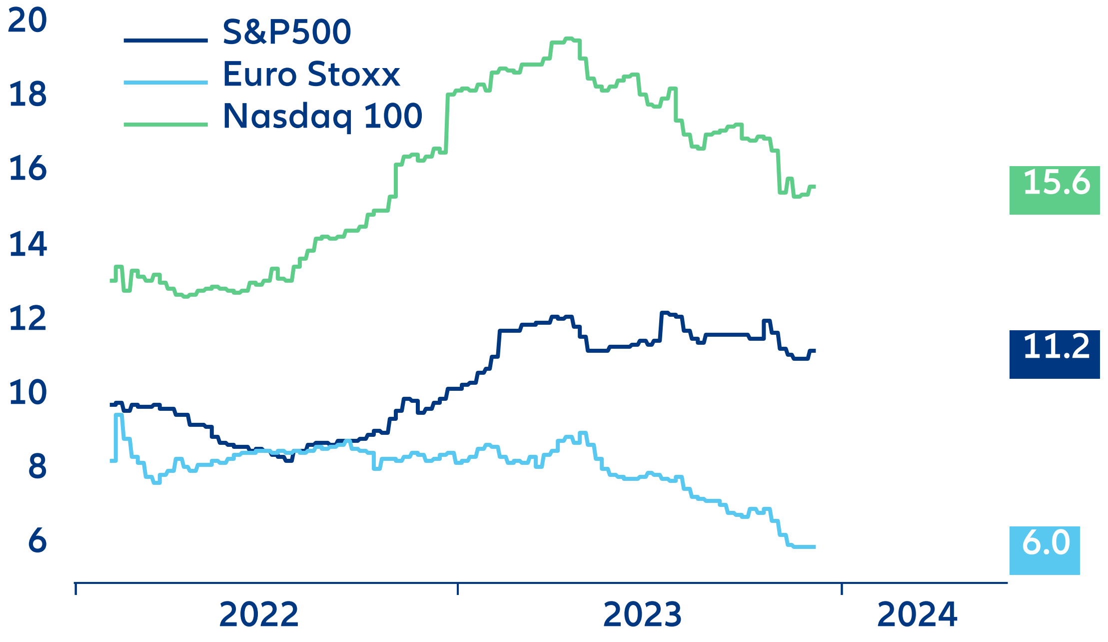


Sources: LSEG Datastream, Bloomberg, Allianz Research

Concentration risk remains high in the US, but that will not impede the US outperforming again

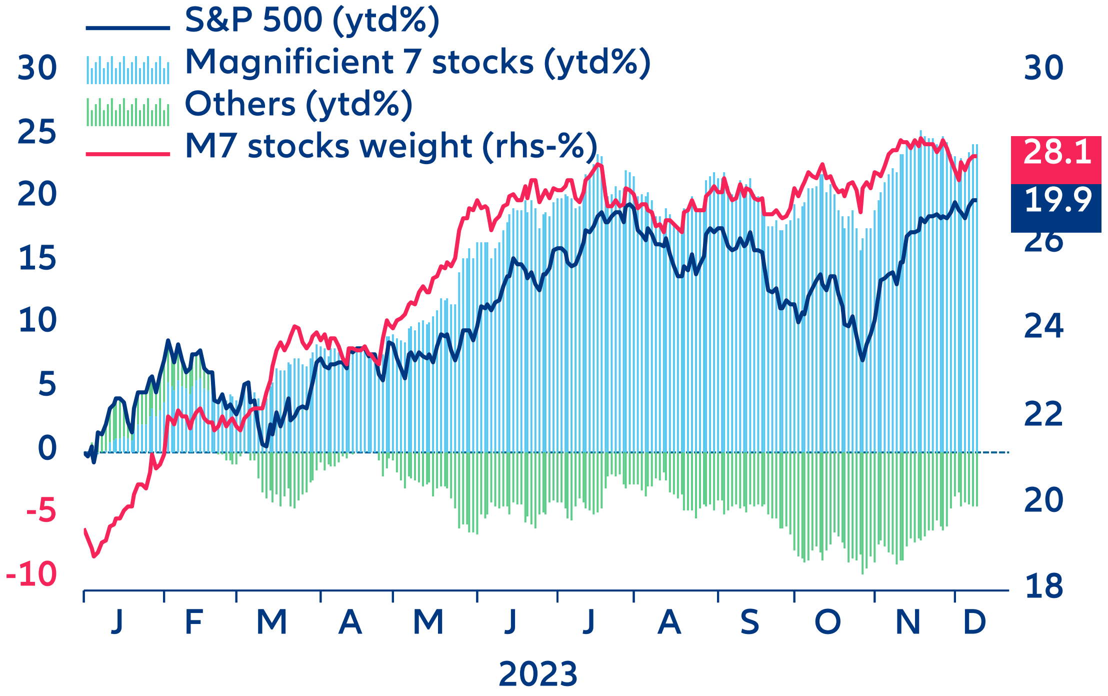
Tech earnings are set to remain strong. Together with the different policy paths it will push US ahead of the EZ

EPS growth expectations for 2024



Sources: LSEG Datastream, Bloomberg, Allianz Research

Broader support from the rest of the market in H2 after a 2023 where its underperformance was hidden



Sources: LSEG Datastream, Bloomberg, Allianz Research

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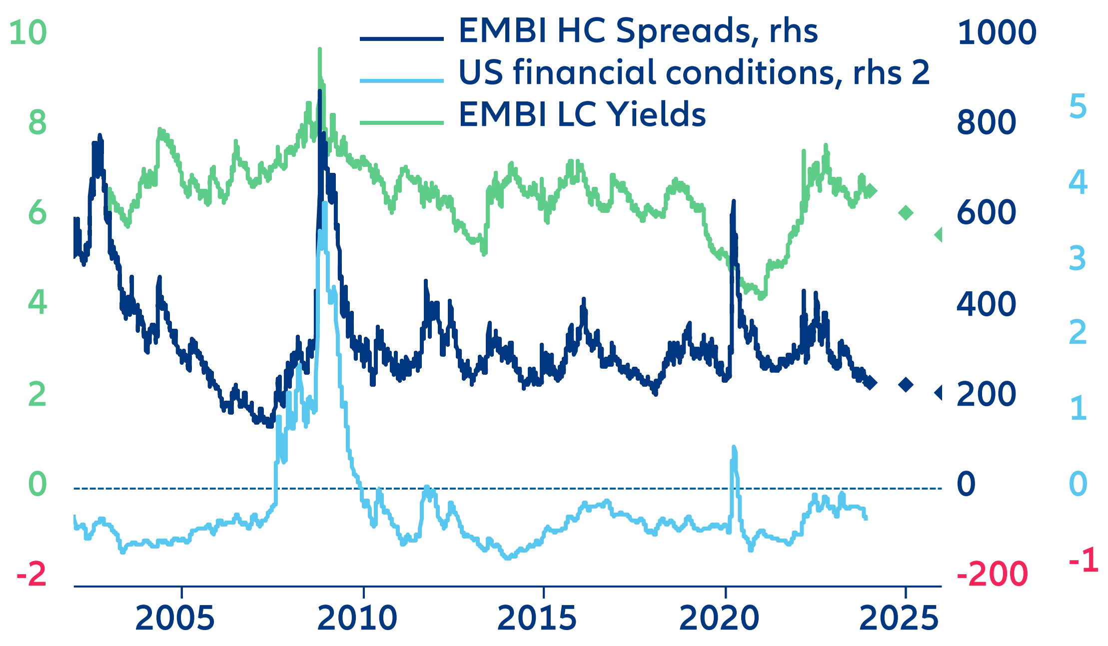
Besides peak Fed fund rates EM resilience was supported by relatively easier financial conditions

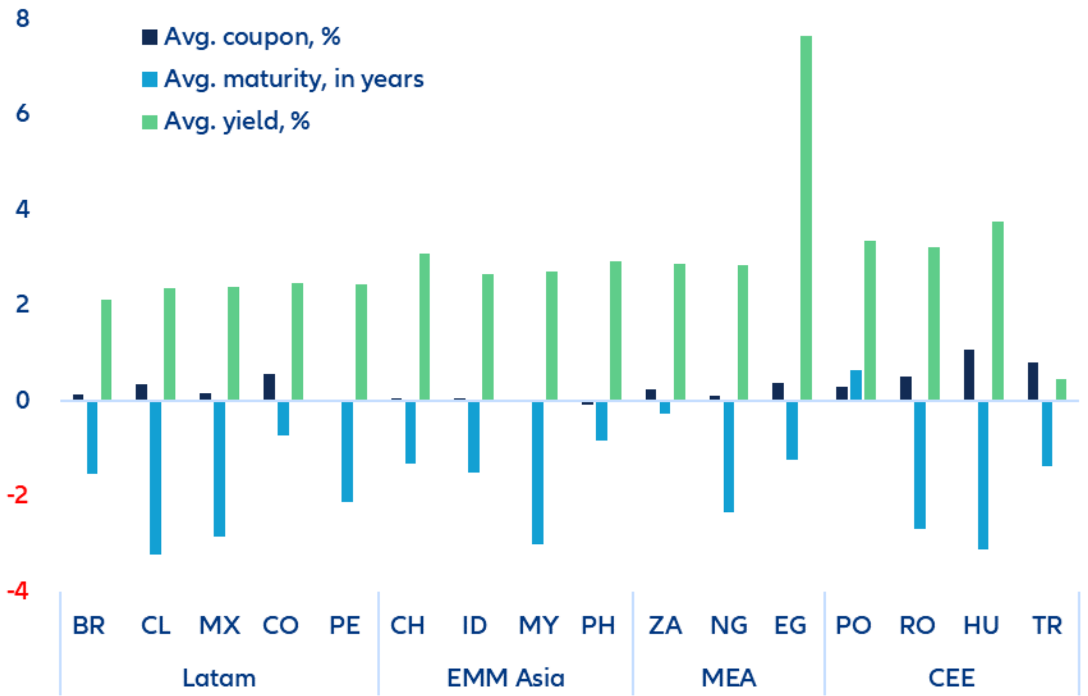
Appetite for high returns and EM macro resilience supported an easing of spreads



Sources: Bloomberg, LSEG Datastream, Allianz Research. Note: The EMBI HC spreads represent the JPM EMBI Gov Diversified ex-CCC. The EMBI LC yields represent the GBI EM Global Diversified. Financial conditions index by Chicago Fed, lowest since Q1 2022.

Subdued hard currency issuance also helped, as countries refrain from locking in higher coupons in USD*

Changes since end-2021 in selected key metrics for HC bonds**

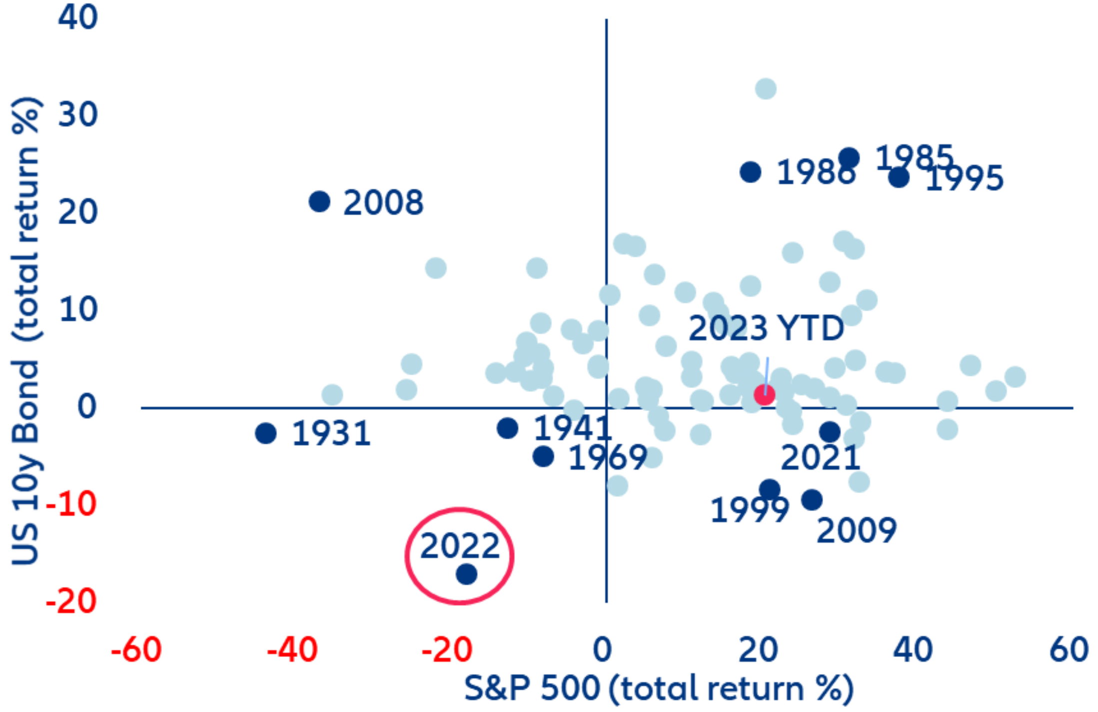


Sources: LSEG Datastream, Allianz Research. * For Eastern Europe countries & Morocco EUR indexes have been used. ** Average coupon, maturity and yield based on BofA sovereign debt indexes.

Allianz

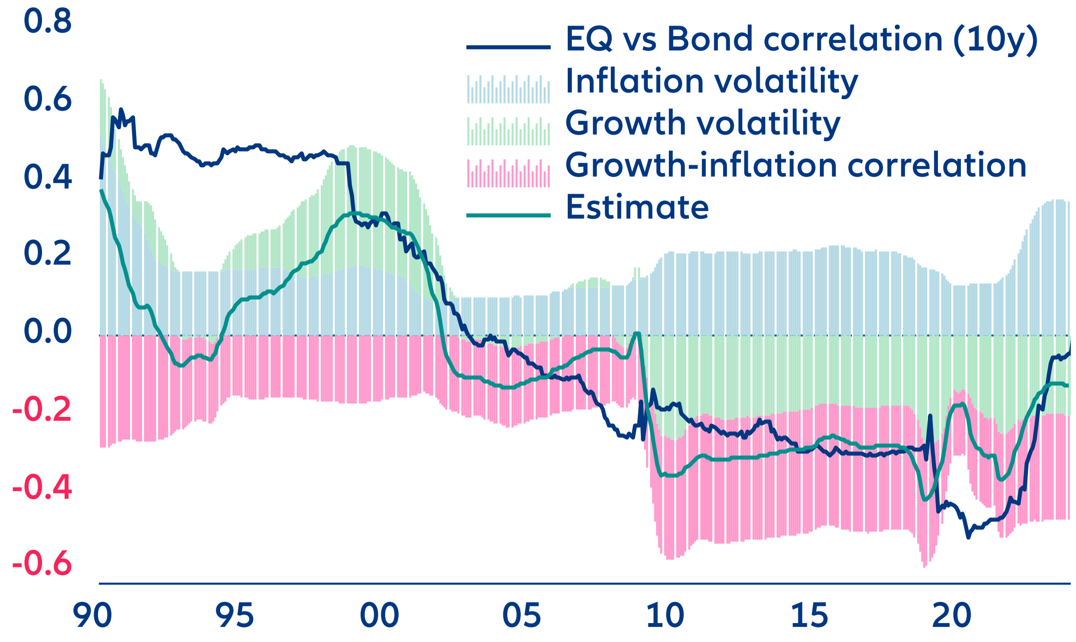
Diversification, a comeback to the post 2000s era or a structural shift?

The simultaneous equity-fixed income underperformance in 2022 will remain engraved in market sentiment…



Sources: LSEG Datastream, Allianz Research

Declining growth-inflation uncertainty and a comeback of demand-driven dynamics should bring diversification back



Sources: LSEG Datastream, AQR, Allianz Research