AXA Investment Managers

25 September 2024

Investment Institute Macroeconomics

Monthly Investment Strategy

The sum of all fears

Key points

- Developments in the US economy continue to drive markets. The Fed started its easing cycle with an aggressive 50bp cut. US market volatility could persist into Novembers elections. Yet external factors are necessary to reconcile market pricing and US outlook.
- China continues to concern. Domestic demand weakens further as house prices fall and the labour market softens. The authorities' stimulus through industrial investment appears to be fading. We expect more stimulus, but the risks of a more severe slowdown in China are growing.
- Adjustments to Japanese policy and impacts on repatriation flows have also impacted markets.
- Eurozone activity is mixed but still subdued overall with pressing longer-term concerns, including the industrial complex, politics and fiscal stability.
- These broader assessments are likely weighing on risk sentiment at the margins.

Global Macro Monthly

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Global Macro Monthly Summary September 2024

David Page
Head of Macro Research

Beyond the US

It is difficult to look beyond the US economy as the key market driving force. The Federal Reserve (Fed) cut rates by 50 basis points (bps) – a strong start to the easing cycle that it now envisages unfolding more quickly than in June. In the US section of this report, we question the scale of the easing that markets, and now implicitly the Fed, expect over the coming year. Indeed, we believe the Fed's reactivity to short-term data and recent communications have added to market volatility over the last few months, with rate volatility indices back towards start-of-year highs.

It is hard to see this volatility abating over the coming months as the US moves to the closing stages of its long-running election, which we believe will be the most influential of this year's many political events. A win for Vice President Kamala Harris suggests evolution in terms of US policy, particularly for distribution and the deficit. However, a Donald Trump victory risks an unorthodox economic agenda that we think threatens both the US and global outlook, something we cover in detail in our latest research.[1]

But we also draw together different strands from the global economy and suggest at least some of the current market outlook reflects developments beyond the US, which has made reconciliation of market pricing with those in the US difficult.

China remains uppermost in our minds. Recent data once again stresses that domestic demand pressures are moribund. China's outlook for household spending continues to weaken with no end in sight for falling house prices – a key savings vehicle for Chinese consumers – and a now more obviously weakening labour market. As concerning, is recent data showing how industrial output has been softening, in turn mirroring weakening investment spending, despite this being the Chinese authorities' key policy stimulus. This suggests several worrying aspects. First, the ongoing prospect of diminishing marginal returns from infrastructure spending, in turn suggestive of a more worrying trend of resource misallocation. Second, an increasing lack of response to central government initiatives, that warns of broader problems and a pseudo-credit transmission problem involving local governments. Third, despite strength in Chinese exports for now, the impending slowdown as the US, Eurozone and others begin to increase tariffs on China to prevent spare capacity being shipped overseas. This closes another escape route for China, which is increasingly facing a debt-deflation trap.

Additional uncertainty emanates from Japan. The Bank of Japan (BoJ) left policy on hold this month but continues to suggest a longer-term tightening in policy towards neutral. This comes after a stagnant growth period – Japanese Q2 GDP was lower than the year before – and 'core core' national inflation at the BoJ's 2.0% target. The ruling Liberal Democratic Party leadership election looks set to lead to a general election and the BoJ is unlikely to move again until after this, making a move before December unlikely. Yet BoJ members speak hawkishly. Part of August's sharp market reaction followed the BoJ's rate hike, in turn prompting some unwind of the yen carry trade. Broader uncertainty remains about the prospect of wider repatriation, though our suspicion that the BoJ will proceed more slowly should dampen further near-term moves.

Eurozone activity has also added to global concerns. While activity picked up in H1 2024 after a stagnant 2023, growth should remain underpinned by consumers benefiting from rising real incomes – and while some countries, notably Spain, are shining at present, there is a broader malaise. Some of this reflects ongoing industrial concerns, pre-eminently focused on Germany. A political malaise also persists, even as France manages to form a government, and is spilling into other regions, including Germany. And there is an ongoing concern about public finances, including in Italy, but increasingly focusing on France as Eurozone economies prepare for next year's budget submissions to the Commission.

This combined if somewhat amorphous set of concerns weighs on the outlook. Most noticeably, it has contributed to oil prices falling to three-year lows, despite rising tensions in the Middle East. In turn this has created more disinflation and facilitated the recent quickening in the pace of policy easing. These broader concerns help to explain the balance of perceived risks over and above US developments. And the evolution of those risks is likely to continue to shape the market outlook into next year.

[1] "US elections and the rest of the world", AXA IM Research, 19 September 2024.

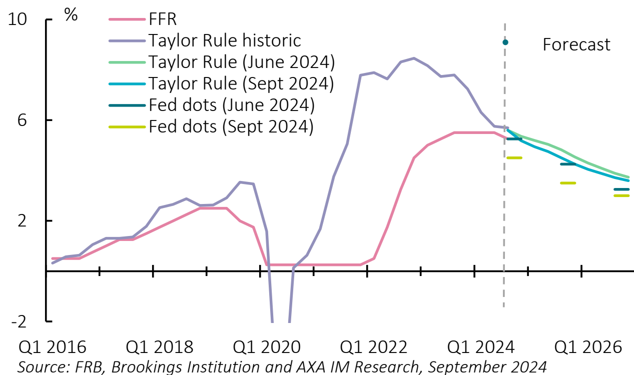
Global Macro Monthly – US

David Page
Head of Macro Research

Rate fever, rate fever

The Federal Reserve's (Fed) decision to start its easing cycle with a 0.50% cut in the Fed Funds Rate to 4.75-5.00% this month was unusual. It hasn't started easing cycles with that sharp an adjustment for the past five decades, except when being on the brink of recession. Yet, by our, and the Fed's own admission, the economy does not appear to be in recession. Q2 GDP grew 3.0% annualised and the Atlanta GDPNow tracker estimates Q3 at 2.9%. Recent strong migration has boosted potential growth but President Joe Biden recently slowed migration flows (which will impact labour supply with a lag). But it's difficult to suggest the economy is growing below trend and the signs ahead suggest a softening, not a downturn.

Exhibit 1: Taylor Rule and revised Fed policy outlook



Source: FRB, Brookings Institution and AXA IM Research, September 2024

Admittedly recession signals have been triggered: the yield curve has been inverted for over two years but has not been a good guide to strong growth; more recently the Sahm rule has been triggered. Labour market nervousness appears to have influenced the Fed, with Chair Jerome Powell citing downward revisions to payroll numbers. We believe these metrics are distorted by migration figures not yet correctly accounted for in employment data. However, the Fed forecasts GDP growth to persist at 2% over the forecast horizon – in line with its assessment of potential. Exhibit 1 shows that the sharp shift in Fed rate projections, does not appear warranted by its economic projections. Rather we think the Fed has adopted a risk management approach to rate setting.

Taking a step back, one year ago we forecast the Fed to ease by 75bps over the second half of 2024 to 4.75% as we expected inflation to average 3.0% for 2024 as a whole. We now forecast to average 2.9% this year and expect the Fed to cut to 4.50%. This has been broadly in line. But what we have struggled with is the Fed's reactivity to short-term data, both in reaction to a few months of upside service inflation surprises in Q1 and more recently to the signs of a softening labour market, which the Fed failed to anticipate[2]. September's 50bp cut looks like a catch-up from a June cut it regrets not making. Powell explicitly said not to "think that this is the new pace". As such, we now forecast the Fed following a more gradual path and pencil in 25bp cuts in November and December. But we are wary of the Fed reacting to data noise again.

The outlook beyond will be dominated by the US presidential election, discussed in more detail in this month's Theme of the Month in the accompanying Strategy[3]. Since the summer, expectations for a Donald Trump win have shifted to now expecting a Kamala Harris win. This will matter for the Fed and markets. While Harris's economic agenda remains unclear, she is likely to maintain tighter migration controls than in recent years and looks likely to deliver some fiscal easing in a Republican-controlled Senate ahead of 2025's expiring tax cuts. But a Trump win looks set to introduce supply shocks of steeper migration cuts and tariffs while delivering a demand boost via larger unfunded tax cut extensions. This is a far more inflationary profile which could restrict the Fed's scope for policy easing. The Fed should be able to deliver 100bps of easing in 2025 with a Harris win, but this is unlikely under Trump.

Indeed, the inflation outlook has improved materially over the last two years, with Consumer Price Index (CPI) at a three-and-a-half-year low of 2.5% in August and likely to fall further in September with lower gasoline prices. This has allowed the Fed to be more sensitive to downside labour market risks. However, the disinflation pace of goods and energy looks unlikely to last, while services inflation remains high at 4.8%, albeit far below the 7.6% peak.

We are concerned the US continues to require a period of restrictive policy to deliver sub-trend growth to anchor inflation to target. Yet with markets expecting – and the Fed implicitly endorsing – over 200bps of rate cuts by end-2025, financial conditions have eased markedly. Fed indices suggest conditions are barely above the average of the last decade; the Goldman Sachs index suggests conditions are far looser. This policy path risks being insufficiently restrictive to finish the job of returning inflation to target, particularly if the next administration introduces more inflationary policies. This increases the risk of inflation rising again later in 2025. But for now, this risk appears eclipsed to the Fed by labour market concerns.

[2] In June we forecast unemployment to end-2024 at 4.4%, where the Fed now estimates it. The Fed estimated 4.0%.

[3] September Monthly Investment Strategy

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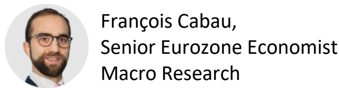
Global Macro Monthly – Eurozone


François Cabau,
Senior Eurozone Economist
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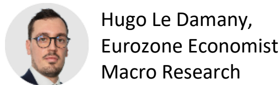
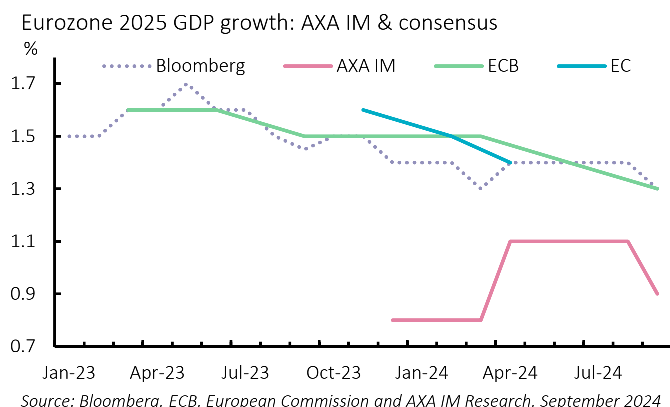

Hugo Le Damany,
Eurozone Economist
Macro Research

Grim growth outlook persists

Eurozone Q2 GDP growth was revised down 0.1 percentage points (ppt) to 0.2% on a quarterly basis – and adding to the disappointment, details revealed a second consecutive quarterly domestic demand contraction. Aside from the likely one-off French growth lift in Q3 owing to the Olympic Games, prospects for the second half of 2024 remain grim. Manufacturing remains in the doldrums while improved consumer purchasing power is yet to foster a rise in services activity. We have made only slight changes to our forecasts, projecting euro area growth at 0.7% (+0.1ppt) this year.

While consensus and officials' forecasts have converged to our weak growth expectations for this year, we remain well below both for next (Exhibit 2). Despite encouraging signs on underlying prices, we think the European Central Bank will remain prudent in its easing cycle, as indicated at its September meeting. We see just one more cut in December and two cuts at its quarterly forecast meetings in the first half of 2025 – against markets pricing over 100 basis points' worth of cuts next year. Investment will likely be affected by prolonged tight financing conditions. The latter, together with political instability especially in Germany and France, is likely to push the already high household saving rate (17.9% in Q2 in France) even higher. A downgraded forecast for these two countries essentially explains our -0.2ppt revised growth projection for the Eurozone to 0.9% in 2025.

Exhibit 2: We keep a below-consensus 2025 GDP forecast



Source: Bloomberg, ECB, European Commission and AXA IM Research, September 2024

Moreover, we remain unconvinced that external demand could more than offset weak (slowly improving) domestic prospects.

Budget focus amid uneasy politics

France's tumultuous political backdrop continues. Prime Minister Michel Barnier formed his government, appointing Antoine Armand as Finance Minister, a close ally to President Emmanuel Macron. We await Barnier's general policy speech at the National Assembly in early October, but policy uncertainty remains high and in any case France has very limited room for manoeuvre.

Over the summer, outgoing Finance Minister Bruno Le Maire warned this year's French public deficit is on a path to reach 5.6% of GDP. Last Friday, Le Maire said without new measures, France's public deficit would likely come close to 6%, a 0.9ppt deviation from the target committed to last April. Acknowledging seriously deteriorated public finances, Barnier mentioned that high income earners and large companies may see increased taxes, reneging previous government and presidential commitments.

France is one of five-euro bloc countries to have officially entered the European Union's excessive deficit procedure. As such, it is due to present (expected on 9 October) a multi-annual (likely seven years) deficit reduction path. This should include at least 0.4ppt of structural primary balance adjustment every year until the headline public deficit hits 3% again, which is likely to be significantly delayed from April's commitment of 2027. Both the French Audit court President and Banque of France governor have said they favour a gradual adjustment as sharp spending cuts could affect growth significantly.

Italy published revised annual national accounts showing around €43bn (2% of GDP) higher nominal GDP in 2023 – meaning its debt-to-GDP ratio was revised down to 134.6% from 137.3%. Together with the reported good news on 2024 budget execution, this is a welcome development which should further reassure markets of Italy's ability to comply with the excessive deficit procedure. Further, it gives Finance Minister Giancarlo Giorgetti some margin of manoeuvre on the policy front to extend fiscal support (wage tax cuts, measures to support families, and new pension measures among others). The Italian government is due to submit its multi-annual plan in the next few days.

Local elections pose a challenge for Germany's federal government. Last Sunday, the Social Democratic Party won the Brandenburg local election, just ahead of the far-right party Alternative für Deutschland (AfD), bringing some limited respite to the governing coalition. This came after a win for AfD in Saxony and Thuringia, where the Greens and liberal Free Democratic Party lost significant ground.

Investment Managers

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Global Macro Monthly – UK

Gabriella Dickens
Economist (G7)
Macro Research

The Budget is key for the pace of rate cuts in 2025

The sharp rebound which occurred over the first half of 2024 looks to be slowing; monthly data showed activity remained flat in June and July. Three-month-on-three-month growth slowed to 0.5% in July from 0.6% and will drop to around 0.3% in Q3, even if growth posts monthly increases of 0.2% in August and September. We are comfortable with our view that quarterly growth will average 0.3% in first half. But there's a divergence between sectors – services output continues to grow apace, while manufacturing and construction remains weak. We expect some rebalancing during the rest of 2024 though; the manufacturing Purchasing Managers' Index rose to a two-year-plus high in August and falling borrowing costs will help support a construction activity rebound.

Overall, the recent easing in labour market conditions appears to be reversing, with the Labour Force Survey unemployment rate unexpectedly dropping back to 4.1% in the three months to July, from 4.4% three months prior. But the survey has ongoing issues with both sample size and response rates so the data should be taken with a pinch of salt. Other indicators, by contrast, remain consistent with developing slack: vacancies fell for the 26th consecutive month and Pay As You Earn (PAYE) employment fell by 59K in August. Most importantly, wage growth continued to slow, with private sector regular pay slowing to 4.9% in July, from 5.3%. The Bank of England (BoE) said the labour market "continued to loosen" in its latest meeting. As expected, Consumer Price Index (CPI) inflation rose over the summer as the drag from energy prices eased, and following the sharp drop to 5.2% in July, services CPI inflation rose back to 5.6% in August. Nonetheless, most forward-looking indicators remains consistent with a further slowdown over the coming 12 months or so.

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 25 basis points (bps) in August and 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, then the BoE may be forced to loosen policy more aggressively to offset the hit to both household and business finances.

Global Macro Monthly – Canada

David Page
Head of Macro Research

Closing Canada's output gap

Weaker external developments have created more space for the Bank of Canada (BoC) to ease policy quicker than forecast, resulting in a third successive 25bp cut to 4.25% in September. Weak oil prices contributed to a drop in headline inflation, to 2.0% in August. BoC Deputy Governor Carolyn Rogers recently warned the Bank still has work to do, with core inflation remaining above target, the core median at 2.3%. But with another drop likely in September, softer oil prices are helping inflation fall faster than the BoC had predicted. A quicker-than-expected Federal Reserve easing has firmed the Canadian dollar. Both have helped lower our inflation forecast to average 2.4% this year and to fall below target to 1.8% next (consensus 2.6% and 2.2%).

GDP growth has also softened faster than the BoC expected – June's monthly output stagnated and the initial estimate suggests the same for July. This suggests a softer Q3 than the 1.8% annualised growth in H1. We edged our GDP forecast lower to 1.1% (from 1.2%) for 2024; the BoC lowered its outlook to 1.2% (from 1.5%) in July. But this poses downside risks to our 1.7% outlook for 2025, already below the BoC's 2.1% forecast. It is concerned inflation will continue to decline while the economy is in excess supply. The BoC forecasts potential growth at 2.1-2.8% this year, slowing to 1.1-2.4% next and 0.9-2.2% in 2026. This suggests growth should exceed 1.75%, beginning to close the output gap and seeing downward inflation pressures ease.

For now, this appears consistent with a quicker easing pace to stimulate growth next year. Rogers' comments may have been designed to deter expectations of 50bp moves from a bank that has already eased policy by 75bps. We continue to expect back-to-back 25bp cuts this year, but now expect this through the first part of next year. External pressures will be important. A Donald Trump win in the US election is likely to both weaken the Canadian dollar and boost Canadian GDP if the US invokes tariffs on the rest of the world. Combined with our concern that weak Canadian productivity growth means the BoC may overestimate its economic spare capacity; this suggests the BoC will slow its rush to deliver policy neutrality, estimated between 2.25-3.25% or below next year. For now, we expect policy to pause at 3.00% in April, but alternative outcomes are possible, and the risks are skewed to the downside in our outlook.

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Global Macro Monthly – China

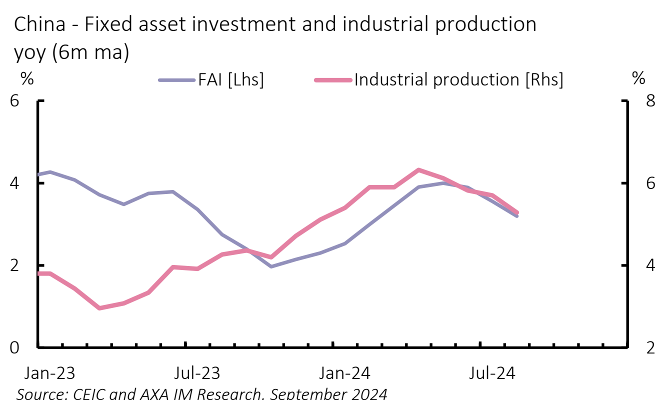
Yingrui Wang
Economist (China)
Macro Research

Time is running out, no bigger rescue plan in sight

China's economic momentum has softened considerably over the summer months, making the growth target of "around 5%" increasingly unattainable. In response to the weakening outlook, we have revised our GDP growth forecast lower to 4.8% for 2024 and 4.4% for 2025. Even with this adjustment, risks remain heavily skewed to the downside.

Economic activity has been increasingly reliant on stimulus policies in recent quarters, particularly policy-guided investment. As a result, industrial production has become increasingly tied to investment growth, a trend that has been evident since late 2023 (Exhibit 3). With investment peaking in March this year, industrial production has softened since April. The decline in investment is likely due to delays in the issuance of local government special bonds (LGSB) —only 45% of the annual quota had been issued by the end of July, compared to over 65% during the same period in 2023. Several factors could be behind these delays: a limited pool of viable projects due to bond use restrictions; already strained local government balance sheets and their rising debt burdens; and the "lifetime accountability" of local governors, which has likely made them hesitant to engage in bold investments. The growing disconnect between central and local governments is becoming an increasingly significant barrier to the transmission of policies.

Exhibit 3: Industrial output relies heavily on investment



Source: CEIC and AXA IM Research, September 2024

Meanwhile, the ongoing property market correction continues to exert pressure on output from related sectors and is dampening household confidence. Further compounding this, signals from the labour market indicate the strain on households is worsening. The surveyed urban unemployment rate rose for the second consecutive month in August, reaching 5.3%. Given the narrow coverage of this metric, the true jobless rate is likely to be even higher. The wage growth disparity between services sector employees and among migrant workers, which began in early 2023, has now disappeared. Wage growth has slowed significantly across different segments of the labour market, further increasing the strain on household balance sheets.

Moreover, some homeowners are rushing to repay their mortgages in the face of the ongoing fall in asset prices. The fact that existing mortgage rates remain relatively high, despite the government repeatedly reducing new mortgage rates in an effort to stimulate home sales (rate differential of around 84 basis points) has provided no relief to homeowners. These pressures – asset price declines, weak wage growth and high mortgage burdens – have led Chinese households to significantly reduce spending, resulting in a deepening negative output gap and pushing the economy closer towards the brink of deflation.

In contrast, exports showed resilience throughout the summer, benefiting from a front-loading demand from Western countries which are bracing themselves for further trade tensions on the horizon. However, this strength is expected to be temporary, with headwinds likely to dominate the future of China's export sector before long.

Senior officials have repeatedly stressed the importance of achieving the growth target in recent speeches, signalling the government's commitment, even as that goal seems to drift further out of reach. Central government is reportedly considering measures such as using Local Government Special Bonds (LGSB) to fund a property stock buy-back scheme and allowing existing mortgage holders to renegotiate their rates with banks. If these policies materialise, they could provide much-needed short-term stabilisation to the property market and alleviate some of the financial pressures on households. However, the likelihood of stronger stimulus with a newly extended quota remains low. Beijing continues to call on local authorities to bolster their support for the local economy albeit without addressing the disconnect between central and local governments, meaning these efforts are unlikely to achieve their full potential.

The challenge for China's economy is not just about meeting the annual growth target this year – something that now appears increasingly doubtful – but about addressing deeper, more structural issues. Beijing's historic responsiveness to weakness had provided us with confidence that it could avoid a Japan-style slump. However, with Beijing running short of policy options and facing an increasing co-ordination failure with local entities, the risk of China slipping into a long-term, demand-deficient deflation trap is becoming more pronounced.

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Global Macro Monthly – Japan

Gabriella Dickens,
G7 Economist
Macro Research

Bank of Japan optimistic but economy remains weak

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. Both non-residential capex and private consumption rose by 0.8% on the quarter, the latter following four quarters of decline. Note, though, that several temporary factors drove the chunky growth rate – 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 the second half of the year and think underlying growth in household spending is probably weaker than the Q2 numbers suggest. Indeed, subdued sentiment is likely keeping a lid on spending, even as real incomes recover.

Meanwhile, Consumer Price Index (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, including higher rice prices on the back of earthquake fears, higher air-con prices due to the heat wave and in the volatile package holidays category. More generally, the sluggish recovery in consumption should make it harder for firms to pass on higher wage costs and we expect to see businesses absorbing at least part of the rise.

The Bank of Japan (BoJ) unanimously voted to keep the short-term policy rate at "around 0.25%" in September but continued to signal further hikes amid efforts to normalise monetary 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 as such will struggle to push through hikes. Governor Kazuo Ueda also flagged downside risks from the US economy for the first time in the BoJ press conference. Political uncertainty due to Japan's governing Liberal Democratic Party's leadership election and the general election expected to follow will also hold back the BoJ in the very near term. On balance, we think the BoJ will struggle to increase the policy rate by 25 basis points this year, and will instead wait until Q1 2025, leaving the uncollateralised overnight call rate at 0.25% at the end of 2024 and 0.5% at end-25.

Global Macro Monthly – EM Europe

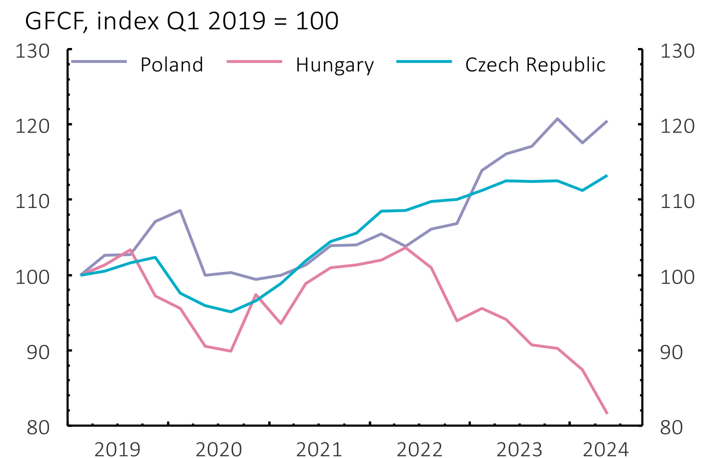
Irina Topa-Serry,
Senior Economist (Emerging Markets),
Macro Research

Divergent trends

Economic growth has markedly diverged among Central and Eastern European economies (CEE). We were expecting buoyant expansion in 2024, supported by a strengthening of household consumption. Indeed, labour markets remained strong and gross wage growth stayed in double-digit territory in Poland and Hungary, while disinflation further supported purchasing power. Consumption was indeed solid through the first half of the year, although some slowdown appeared in the Czech Republic in Q2 2024, even 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%.

Exhibit 4: CEE investment on different paths

GFCF, index Q1 2019 = 100



Source: LSEG Datastream and AXA IM Research Q2 24

We have also nearly halved our Hungary GDP growth forecast for 2024 since the publication of our annual outlook last November, now at 1.5%. The expected revival of household spending appears limited by a strong appetite to save. The contraction in private investment since end-2022 is particularly worrisome. The business environment continued to deteriorate in Hungary. In 2022, a series of windfall taxes in various sectors were introduced, discouraging many investment projects. More recently, the government laid out an anti-war plan where banks, energy firms and multi-national companies earning extra profit amid the current Russia/Ukraine conflict will contribute to a defence fund. We remain concerned about increased state intervention affecting competition in sectors where foreign ownership is high. (Exhibit 4).

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Global Macro Monthly – EM Asia

Danny Richards,
Economist (Asia Emerging Markets),
Macro Research

The path is now clear for interest rate cuts

Asian emerging markets' (EM) central banks tend not to be heavily swayed by the Federal Reserve's (Fed) actions but the start of the US rate cutting cycle had in effect been a necessary condition for the region's central bankers to commence their own. Now 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 50 basis-point (bp) cut, Bank Indonesia made a surprising decision to cut its policy rate by 25bps to 6%. As is generally the case in the region, Indonesia's economic growth has held up well, and the bank was in a favourable position of not having to take urgent action – a cut in October (at the earliest) was widely expected. However, with low and stable inflation and the rupiah recovering, it felt the time was right to cut. The Philippines' central bank was an even earlier mover, cutting its policy rate by 25bps to 6.25% in mid-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. The region's central banks were relatively cautious during the tightening cycle; the Philippines was the most aggressive, pushing rates up by 450bps, while the Fed had hiked by 525bps.

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. Malaysia's central bank is not expected to ease policy in the coming quarters, given the uncertain inflation outlook owing to the prospect of fuel subsidy rationalisation.

The region's economies have been resilient in recent quarters, but 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. While wary of being premature in cutting rates in recent months, the risk could soon shift to being too late. Nevertheless, the rate cutting cycle will likely be relatively shallow in 2025 compared to the US.

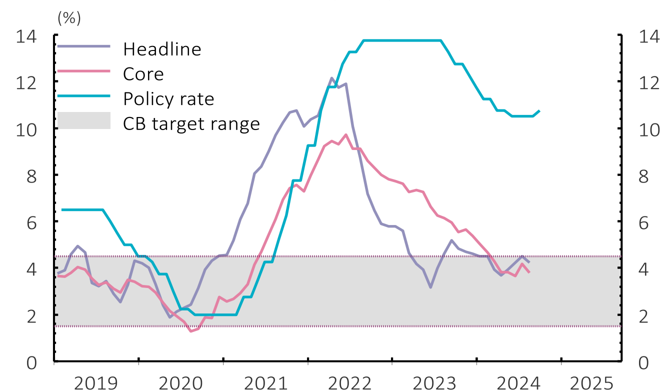
Global Macro Monthly – LatAm

Irina Topa-Serry,
Senior Economist (Emerging Markets),
Macro Research

Brazil monetary policy changing gears

Just as the Federal Reserve initiated its monetary easing cycle with a bumper 50 basis-point (bp) rate cut, Brazil's central bank unanimously decided to hike its policy rate by 25bps to 10.75%. Markets had anticipated the move, well telegraphed by various officials. It was among the first central banks to hike interest rates back in 2021 – it delivered 1,175bps of cumulated hikes until it reached the 13.75% peak rate in August 2022. Inflation had accelerated from mid-2020 lows to a peak at 12.1% year-on-year in April 2022, followed by a steep fall close to the 3% inflation target by June 2023. The central bank then started to cut rates, delivering 325bp of cumulated cuts to 10.5% in May, before pausing until September (Exhibit 5).

Exhibit 5: A mini-hiking cycle started in Brazil



Source: LSEG Datastream and AXA IM Research Aug 24

It needed to react to inflation stickiness, particularly in services inflation supported by strong economic growth and a positive output gap, as well as the de-anchoring of inflation expectations, all affected by the past expansionary fiscal stance and the lack of a credible fiscal policy to commit to debt sustainability. The public sector deficit widened to 10% of GDP on a one-year rolling basis to July, the primary deficit running above 2% of GDP. The 2025 budget is a precarious balancing act and the Government's hesitations to implement cuts in public spending pose significant hurdles to meeting fiscal targets. Mirroring this, the currency has depreciated by more than 18% against the US dollar from end July 2023 to early August, among the worst performing EM currencies. We believe the central bank will hike rates to 11.5% by year-end.

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Macro forecast summary

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*

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*

These projections are not necessarily reliable indicators of future results

AXA Investment Managers

25 September 2024

Forecast summary

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

These projections are not necessarily reliable indicators of future results

Download the full slide deck of our September Investment Strategy

25 September 2024

Our Research is available online: www.axa-im.com/investment-institute

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