FIDEURAM INTESA SANPAOLO PRIVATE BANKING Asset Management

Fideuram Asset Management's View

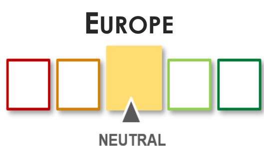
Edition 11.2024

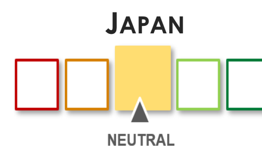
Macroeconomic Scenario

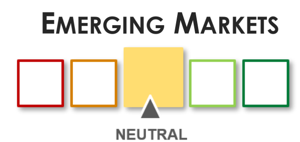
Trump's victory, coupled with the Republican Party's full control of Congress, introduces two new elements of uncertainty into the global scenario. The first relates to extent to which Trump's election promises will actually be implemented and the second, the impact of these decisions on growth and inflation at global level (especially uncertain regarding tariffs). Our baseline scenario assumes that Trump's programme will only be partially implemented, in particular regarding fiscal and trade policies, with a modest positive impact on growth in the US in 2025-26, and a negative but limited effect on the Eurozone and China (in the case of the latter, thanks to the support of their fiscal policy). The Fed should continue to cut rates, but at a slightly lower rate than previously expected, while the ECB will be a little "softer".

Equity Markets

The stock allocation in portfolios is between neutral and slightly overweight, with a preference for the US market. Trump's election has heightened expectations of continuity in the US economic and profit cycles, supported by economic policy and deregulation initiatives. We believe that earnings growth can continue to broaden in the sectors that have not done as well as the large technological capitalisations in the previous quarters. While maintaining a tech-friendly position, we have increased exposure to cyclical and value sectors as well as smaller capitalisations. Political evolution favouring the US, at least over the short term, is counterbalanced in geographical areas outside the US, where the cyclical dynamics are weaker (as in Europe) or the political risk is higher, as in the case of China or other emerging countries due to the likely imposition of tariffs (albeit at lower rates than what was promised during the electoral campaign). We hold a neutral stance overall on Japan, emerging markets and Europe, (where we maintain a positive bias towards British equities).

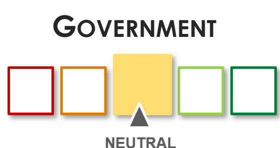


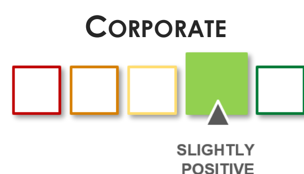


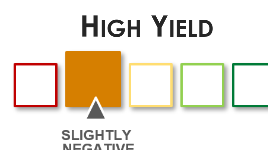


Bond Markets

The bond component of portfolios is structured with a slightly longer duration than the benchmarks and a preference for high quality credit risk, where we uphold a disinflationary trajectory and normalisation in monetary policy as our reference scenario. The weighting of the government component is neutral in the US, as the cyclical strength and uncertainty surrounding the impact of Trump's economic policies leave the yield curve more vulnerable, should macroeconomic data show risks of overheating. In the Euro Area, we are slightly overweight as cyclical developments are weaker and there is more room for downside intervention by the ECB. We remain overweight in investment-grade corporate bonds and subordinated financial debt. However, overall, exposure to credit risk is mitigated by our greater caution with the high yield segment and substantial neutrality on emerging markets. We do not believe that asset classes with a higher credit risk are vulnerable to a significant increase in defaults, but the still constructive opinion of the equity market and greater macroeconomic uncertainty make us prefer higher-rated issuers.





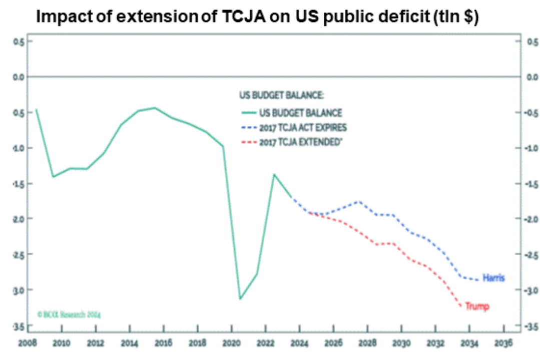


Content updated as of December 2nd, 2024

USA: The weight of promises

Our baseline scenario predicts that **only some of Trump's electoral programme promises will actually be implemented by the next Administration**, specifically in terms of fiscal expansion, reducing illegal immigration and especially, trade policy. Based on these assumptions, we have revised our estimate for GDP growth in 2024 upwards (approximately +0.3%), with a very limited increase in inflation (0.1%). As a result, we have **raised the terminal level for Fed's rates over the next year, but only by 25 bps** (to 3.50-3.75% in June). The main risks in the scenario refer to more significant tariff increases (specifically, a "universal" tariff on all imports) and a more expansionary fiscal policy.

The public accounts position is precarious even without the extension of the 2017 tax cuts (TCJA)

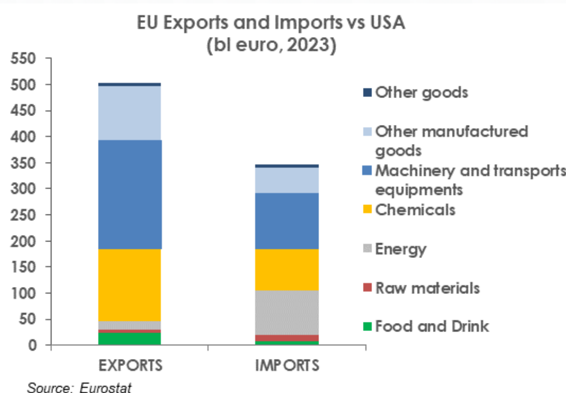


Source: Congressional Budget Office, BCA

Euro Area: Waiting for rates

The Eurozone faces fallout from the elections in the USA, experiencing cyclical weakness and political crises (Germany will hold early elections in February) and new tensions over natural gas prices. We have reduced GDP growth by 0.3% in 2025, to 0.5%, to take into account the negative impact of trade policy uncertainty and incorporate the expectation of 10% rates into the scenario, only on car exports from the Eurozone to the US, but not on all goods. From a low of 1.7% in September, inflation rose to 2.3% in November due to base effects in energy prices, but it is expected to stabilise back to 2% from next spring, when pricing for services starts to come down. **The ECB will still cut rates by 25bps in December**, but there could also be room for a 50bps cut in light of the worsening growth outlook.

The EU has a large trade surplus vis-à-vis the USA



Source: Eurostat

China: Increased uncertainty due to tariffs

Trump's victory has opened up the risk scenario linked to a potential increase in tariffs on Chinese imports to 60%, which, if effectively implemented, could impact for around 2% on China's GDP growth in 2025. **We believe that an increase of 15%-20% is more likely from the first quarter of 2025**, impacting on growth for around -0.7%, which falls to -0.3/0.4% however as a result of the fiscal support measures that the Government will be adopting. **We have consequently lowered our growth forecast for 2025 from 4.7% to 4.4%.** October data confirmed the anticipated acceleration in growth for the last quarter of the year (rising from 3.6% to 6.5%, with potential upside risks), driven by strong export performance and consumption.

After the trade war, the driver for export growth has shifted to emerging economies

Source: FMI, Fideuram Asset Management

Fideuram Asset Management Economic Forecast

	GDP			Inflation			Monetary Policy Rate		
	2023	2024*	2025*	2023	2024*	2025*	2023	2024*	2025*
US	2,9	2,7	2,3	4,1	3,0	2,4	5,38	4,38	3,63
Eurozone	0,5	0,6	0,5	5,5	2,4	2,1	4,00	3,00	1,50
Japan	1,7	-0,2	1,0	3,2	2,6	2,0	-0,10	0,25	0,50
China	5,2	4,8	4,4	0,2	0,3	1,5	2,50	1,90	1,70

Annual average growth, monetary policy rates are end of period. Depo rate for ECB.

** Fideuram Asset Management Forecasts*

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INVESTMENT VIEW

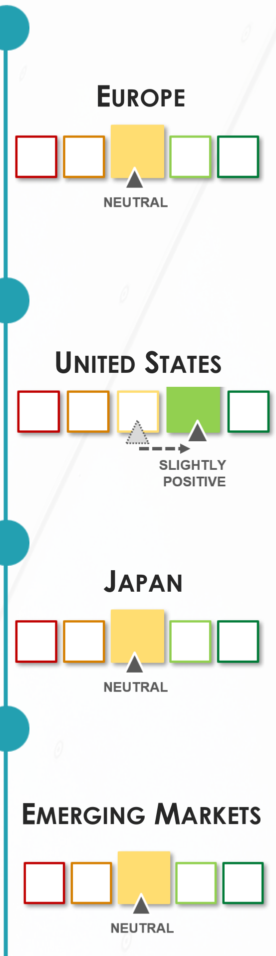
Equity Markets

Cyclical developments are not as brilliant as expected and US economic policy developments represent an additional risk to the scenario. Profits held on the other hand, and the ECB can cut rates even more than previously discounted with valuations significantly discounted compared to those in the US. We maintain a preference for the English market, where the perception of the institutional and political context can improve and valuations are even lower. From a sectoral perspective, banks continue to show potential for sustained earnings growth. However, consolidation activities within the sector constrain short-term upside potential, prompting us to slightly reduce our exposure.

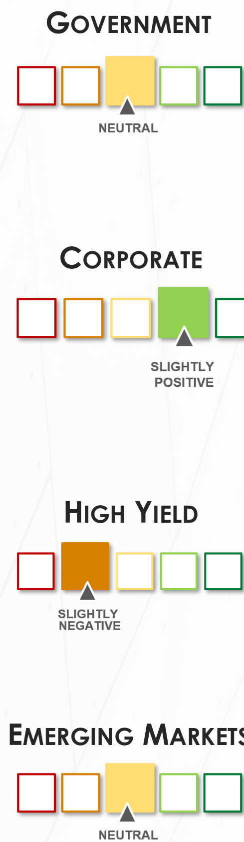
We have slightly increased our allocation to US equities following the presidential election, to reflect the anticipated support from economic policies. Valuations are not low and could be vulnerable to situations of macro or political uncertainty, but we believe that it is more probable that profit growth will continue, with expansion also in the sectors that have recently underperformed technology and large cap stocks. We have therefore added to the investment in technology with exposure to lower capitalisations and more cyclical and value sectors.

We are neutral on Japan, where fundamental progress over the short-term seems to be partly reflected in valuations. In addition, a possible stage of currency appreciation adds further near-term uncertainty for growth in short-term profits. From a broader perspective, we continue to see positive factors such as rising inflation expectations, balance sheet restructuring and increased investment spending.

The US presidential elections have somewhat complicated the outlook for emerging markets, at least in the short term. Valuations remain relatively low, and there is still an expectation of fiscal stimulus announcements from Chinese authorities, which we believe could come after the initial discussions with the new US administration. On the international trade front, the prospect of additional tariffs imposed by the United States remains a significant concern. Given the current uncertainties, we believe that holding a position in emerging markets above neutral levels is premature.



Bond Markets



The weighting in portfolios is neutral or slightly overweight, especially for the European portion. In the US, uncertainty regarding the impact of economic policy opens up different scenarios, including overheating, compared to the central scenario of continuing disinflation and monetary normalisation. In Europe, on the other hand, we believe it is highly likely that the ECB will cut rates and lower the balance on the yield curve. Peripheral spreads, although at a slightly lower level than that suggested by the fundamentals, are still an attractive source of carry.

The total return offered by the high-quality corporate bond sector is still attractive thanks to the base rate, which gives a certain degree of defensiveness for the asset class even under more uncertain macroeconomic conditions, and the contribution of spreads that, although relatively narrow and net of short-term movements, can still offer an extra return compared to government bonds in a still constructive and balanced scenario of the rate structure at a lower level than some time ago

The default rates, despite the impact on lower-quality loans of an increase in the cost of capital, are still relatively limited. However, even with attractive expected returns on a historical basis, we remain underweight as we prefer equities among the risky assets, at least until companies continue to show capacity for growth and an upward revision of earnings, and to limit the credit risk that may be generated due to the Fed maintaining high rates.

In general, we are cautious about the more volatile and lower quality components of the bond segment. Emerging market bonds, particularly those denominated in local currency, continue to offer a relatively attractive carry. However, uncertainty on the political and currency fronts—amplified by the US election results and the potential for additional trade tariffs—tempers our enthusiasm. This is also the reason for us deciding to take advantage of the favourable position we had on Indian bonds.

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EQUITY MARKETS

Trump 2.0 effect on equity markets

Trump's victory and the Republican majority in Congress have fuelled expectations of a cycle of economic expansion driven by fiscal stimuli, deregulation and the imposition of new tariffs on international trade. **The market reacted with a sharp rise in the more cyclical sectors and in the lower capitalisation indices (mid and small caps).** It seems unlikely however that the electoral programme will be fully implemented. **The high deficit limits the capacity for fiscal stimulus, whereas tariffs and duties appear more as negotiating instruments.** In addition, we believe that the current political mandate does not support policies that can fuel further inflationary pressures, which makes us maintain a reference scenario consistent with a disinflationary and normalisation path for monetary policy. Despite these risks, an extension on the US economic cycle appears likely, which will also impact positively on the corporate earnings cycle. **This context favours a rebalancing between technology sectors and the rest of the market, with a gradual reduction in the gap in profit growth between large technological capitalisations** and the more cyclical and value sectors. Technology will continue to drive growth, but the contribution from other sectors will become more significant. Based on these considerations, we moderately increased our exposure to US equities, focusing on the more cyclical/value segments and lower capitalisations, whilst keeping the allocation in technology sectors unchanged. Valuations that are already high limit the upside potential, and the uncertainty linked to negotiations on key issues – such as immigration and trade – could see a return of volatility in the coming months.

The European stock market has recently suffered **due to political uncertainties in France and Germany, the weakness in the economic cycle and less buoyant profit growth compared to the United States.** Despite the discounted valuations compared to the USA, the significant drop in earnings estimates over the next year and the ECB's increased margins for action, result in uncertainties prevailing over the short term related to the introduction of trade tariffs. We maintain our preference for the UK market.

We also maintain neutral exposure to Japan. Although internal factors, such as **corporate governance reforms, could support valuations over the medium term, the global context and backlash on international trade represent impediments for the short term.**

The emerging area is probably the most heavily penalised by the Republican victory, which in addition to a strengthening dollar, also faces the looming risk of tariffs on exports to the US. Chinese stimulus measures currently do not yet seem sufficient to ensure a sustainable recovery. **During this phase, we maintain a cautious and neutral approach, considering limited tactical operations given the high levels of uncertainty over the short term.**

BOND MARKETS

WE MAINTAIN OUR FOCUS ON HIGH-QUALITY CREDIT

Bond exposure is marked by a slightly longer **duration than benchmarks and a preference for high-quality credit risk,** in particular corporate investment grade securities bonds and subordinated bank bonds. **The weight of the government component is between neutral and slightly overweight, with a preference for the Euro Area** where cyclical developments are weaker and we expect the ECB to cut rates even more than what had been discounted by the market.

Trump's victory envisaged **the prospect of more sustained growth, supported by fiscal expansion** and **deregulation,** with the possible "side effect" of potentially higher inflation**. This led the market to initially price in a reduction into expectations of cuts by the Fed** and a rise in the ten-year rate, which were then recently retracted. We therefore adopt a neutral position on US government bonds, considering the uncertainty linked to the new administration's economic policy and the Fed's reaction, leaving the curve more vulnerable if macro data should show signs of the risk of overheating. Extreme scenarios, such as a recession or overheating, remain a low probability but could increase volatility, limiting the diversification role of US government security portfolios with respect to equity risk.

We maintain a positive view on high-quality credit and subordinated bank bonds, even though the spreads are low. Overall returns, in fact, make it possible to absorb any rate rises or moderate spread widenings. **The strong correlation with the base rate makes these asset classes defensive in adverse contexts**, whereas the financial sector offers opportunities thanks to its shorter duration and more attractive valuations.

We prefer cyclical risk-taking through equity markets rather than through speculative credit (high yield), **keeping this underweight**. Emerging debt is penalised by a strong dollar context and risks of international trade tariffs. We therefore maintain a neutral positioning based on a logic of preference for high-quality segments

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