GENERALI INVESTMENTS

Market Compass

October 2025

MARKET OUTLOOK

- The global economy has proved resilient to the tariff shock. We retain our US soft landing scenario, while the inflation bump will likely prove smaller than initially feared.
- This should allow the Fed to deliver at least three more rate cuts in this cycle. We see the ECB rate cut cycle as over for now, but the risk of undershooting Euro Area (EA) inflation remains.
- Treasury yields should stay in a range and they offer attractive carry. We remain cautious with EUR duration, given the expected rebound of the economy. French OATs are not yet a buying opportunity without stable government.
- We stay long credit and equities, despite tight risk premia. The US soft landing, Fed cuts and the possibility of «**fiscal dominance**» remain supportive for risky assets. The USD has paused over summer, but we remain bearish.

Edited by

MACRO & MARKET RESEARCH TEAM

A team of 13 analysts based in Paris, Cologne, Milan and Prague runs qualitative and quantitative analysis on macroeconomic and financial issues.

The team translates macro and quant views into investment ideas that feed into the investment process.

US

- (+) Q2 GDP revised up and consumption remains strong…
- (−) …but labour market weakness persists
- (−) Despite lower than feared hit from tariffs, core inflation remains close to 3%
- (!) Fed torn between labour market weakness and sticky inflation. Another cut this year.

EUROZONE

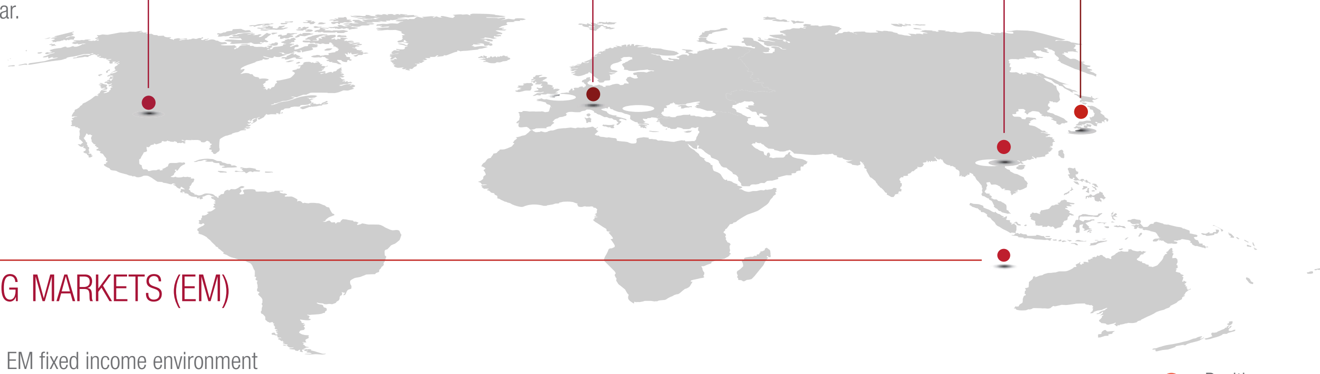
- (+) German fiscal expansion and monetary policy easing feeding through…
- (−) … but hard data remains underwhelming
- (−) Inflation temporarily above target again
- (!) ECB to stay at 2.0%

CHINA

- (−) Activity momentum is slowing down
- (−) Domestic demand and real estate market remain weak
- (!) A potential Trump-Xi meeting could lift sentiment up

JAPAN

- (+) Q2 GDP revised up on stronger investment…
- (−) ... but unfavourable trade deal with the US risks harming exporters
- (!) Services keep core inflation close to 3% but domestic and global uncertainty prevent a quick rate increase



EMERGING MARKETS (EM)

- (+) Supportive EM fixed income environment
- (+) Growth resilience and ongoing disinflation

(+) Positive
(−) Negative
(!) Topics to watch

DIRECTION OF TRAVEL

- Keep overweight (OW) in equity
- Extend OW in IG credit to HY as fiscal conditions loosen
- Increase underweight (UW) on sovereigns, on higher fiscal concerns and political risks (France)
- Keep strong UW Cash

Equity

- OW because of a supportive ex-US thanks to looser credit conditions plus declining policy uncertainty. Economic policies in the EU and China look also helpful.
- Tactically neutral on EMU vs US, reduced OW US Tech and strong OW Asia and EMs.

Bonds

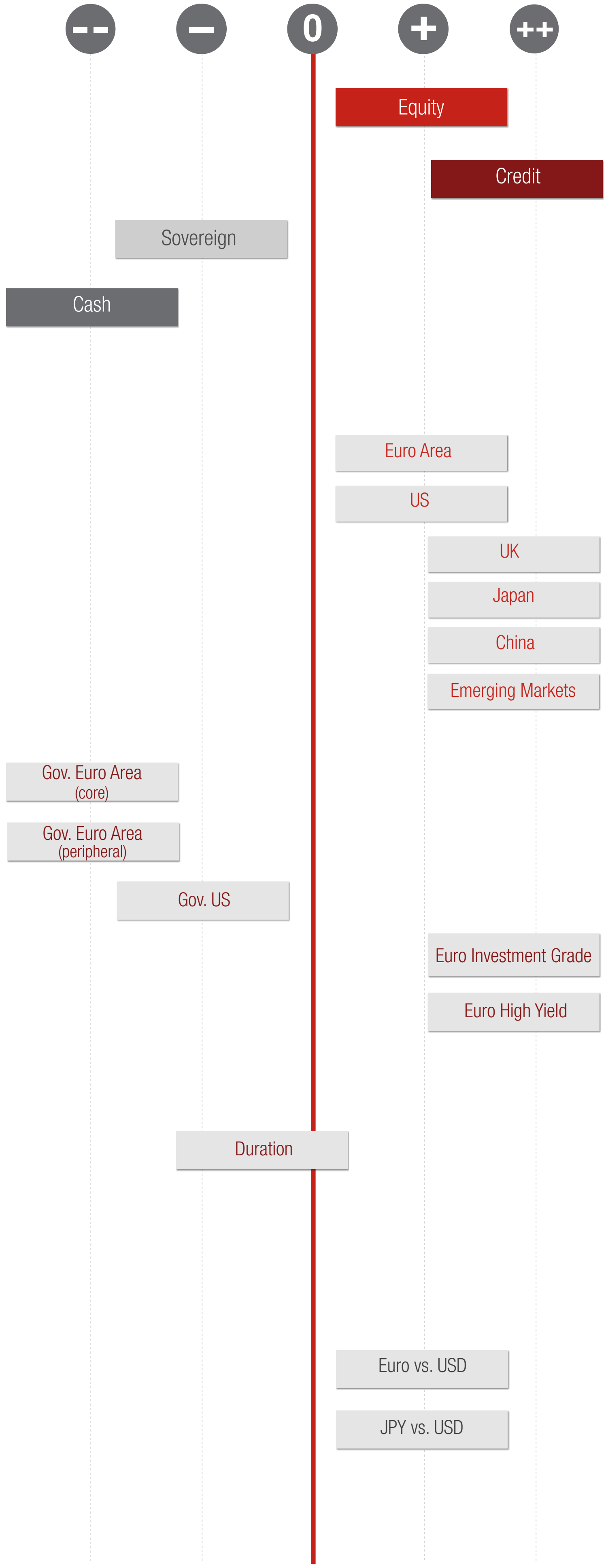
- On stable ECB key rate and gaining economic momentum, EA yields may rise. US yields could drop further on cooling underlying inflation and more Fed cuts.
- EA non-core government bonds are likely to continue performing well. Amid ongoing uncertainty, French OATs should remain underweighted.

Duration

- Marginally short duration EA.

Currencies

- The USD's stabilisation over summer was likely a pause, not the end of its descent. More Fed rate cuts and a shrinking US yield advantage will erode the dollar's appeal.
- We expect a strong Yen mid-term although political uncertainties in Japan are keeping the short-term outlook more two-sided.



TOPICS TO WATCH

- French political and fiscal worries with risks of contagion and renewed concerns about EMU integrity.
- Two way political risk: renewed escalation in trade tensions (notably US/China) but also chances of partial reversal of US tariffs.
- Synchronized sell-off in USTs and USD on rising US policy risk.
- Risk of AI bubble burst amid stretched valuations and earnings expectations.

Probability: High ⟷ Low

Impact: High ⟷ Low

GLOSSARY

FISCAL DOMINANCE

It refers to a macroeconomic condition where government fiscal pressures, such as high public debt and deficits, dictate or constrain a country's monetary policy. This situation arises when the government's debt levels are so significant that monetary policy shifts its focus from economic targets like inflation and growth to preventing government bankruptcy.

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