GENERALI INVESTMENTS

Market Compass

March 2023

MARKET OUTLOOK

- Central banks' difficult battle against stubborn inflation is getting even harder
- February dashed hopes that policy makers may quickly tame inflation. We now expect even higher peak rates.
- The recent rebound in long-term real rates makes Equity valuations even more stretched. Healthier than expected growth in Europe and China's reopening bounce are only a partial relief.
- We continue to favour a (trimmed) underweight in Equity and High Yield, while seeing value (mostly in the carry) in IG Credit.

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

- (+) Consumption and employment better than expected
- (−) … But core inflation is proving very sticky
- (−) Fed to lift rate to 5.75 by the summer. First cut in Q1 2024
- (!) Worst of (mild) recession delayed to Q4 23, drag on 2024 growth

UK

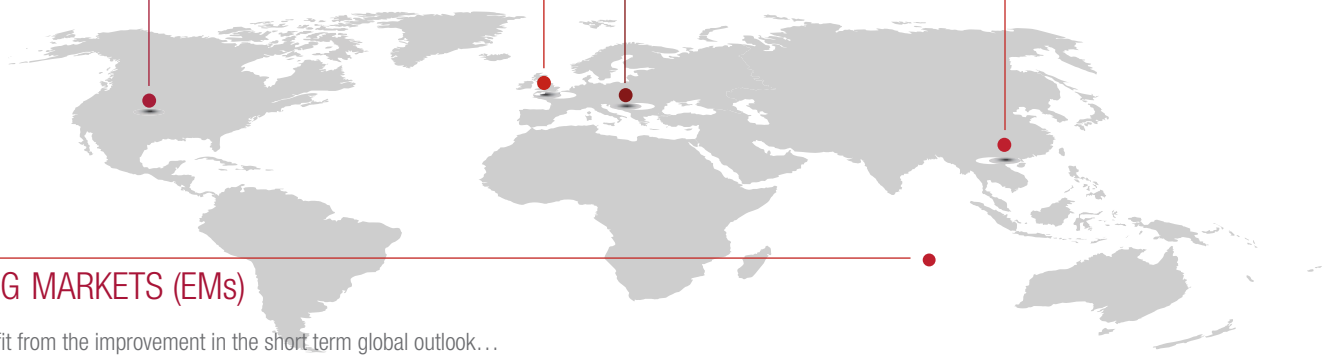
- (+) CPI inflation receded more than expected
- (+) Positive economic surprises in PMIs and retail sales
- (−) UK still likely to have entered a mild recession

EUROZONE

- (+) Key sentiment indicators rose further
- (+) Inflation to come down on lower energy prices
- (+) Labour market stays strong
- (−) Further ECB rate hikes ahead

CHINA

- (+) China's manufacturing PMI recovered
- (+) Upcoming National People's Congress (NPC) meeting likely to provide more support
- (−) Real estate sector is still weak



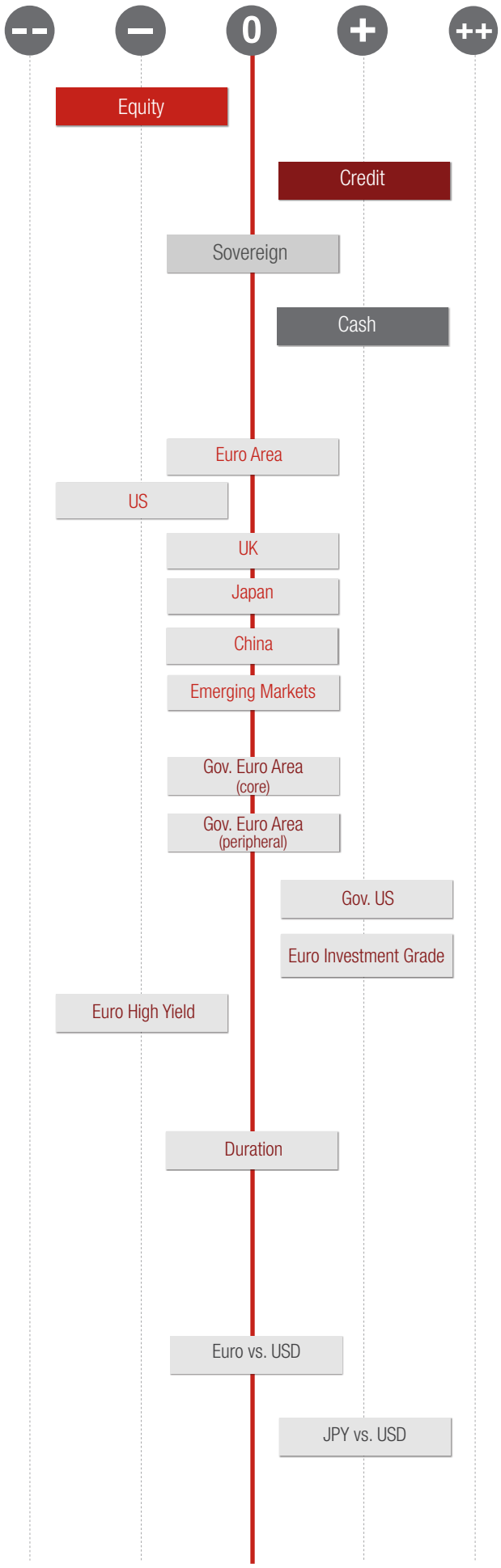
EMERGING MARKETS (EMs)

- (+) EMs benefit from the improvement in the short term global outlook…
- (−) ... But this is offset from the prospects of more aggressive FED/BCE
- (−) Tighter global financial conditions and slower disinflation are forcing EM central banks to a U-turn after a tentative easing

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

DIRECTION OF TRAVEL

- Still cautious on Equity HY and Euro peripheral bonds, but underweight (UW) trimmed
- Credit still appealing
- Maintain overweight (OW) on Treasuries
- Keep OW cash
- Cautious and selective approach to EMs



Equity

- Valuations remain expensive, especially in the US given the expected economic slowdown.
- We see limited positive returns over the next 12 months.
- That said, we will look for better entry levels once the slowdown and further policy tightening are fully priced in.

Bonds

- Short-term limited downside for core yields given hawkish central banks and sticky inflation. Afterwards we expect modest drop in yields, particularly in the US.
- Starting quantitative tightening (QT) to burden sentiment for Euro Area non-core bonds, but spread widening to remain moderate.

Duration

- Neutral duration.

Currencies

- Near term, rates uncertainties, US data resilience, and shaky risk sentiment may stabilise the USD but peaking Fed rates will prevent further strengthening.
- Easing uncertainty and more robust global growth will erode safe-haven demand for the USD.
- JPY likely expected to benefit from BoJ's tighter monetary policy.

TOPICS TO WATCH

	Probability	Impact
• Two-sided inflation risks tilted towards the upside (even faster policy tightening)		
• Stronger cracks in financial stability as tighter condition feed through real economy		
• Russia goes nuclear or new geopolitical tensions (China/Taiwan, N. Korea)		

Probability:	High	⟷	Low
Impact:	High	⟷	Low

GLOSSARY

SAFE HAVEN

A safe haven is a type of asset that is expected to retain or increase its value during times of market turbulence. Investors seek out safe havens in order to limit their exposure to losses in the event of market downturns or spikes in uncertainty.

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