Amundi
Investment Solutions

Trust must be earned

Investment Institute

2025 Investment Outlook

Bright spots in a world of anomalies

NOVEMBER 2024 | **Cross Asset Investment Strategy Special Edition**

"In a world of anomalies, there are plenty of bright spots. Identifying the opportunities created by policy choices and geopolitical shifts will be as important as safeguarding against the risks they entail."

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

"Seizing opportunities in risk assets, while balancing inflation risks, will be key in 2025. Investors should broaden their exposure to equities beyond US mega-cap stocks, look for income across liquid and illiquid assets, and implement hedges in a more fragmented world."

VINCENT MORTIER
GROUP CHIEF INVESTMENT OFFICER

KEY INSIGHTS

Main convictions for 2025

We are in an unconventional economic cycle phase, characterised by a positive outlook alongside anomalies like market concentration and excessive debt levels. While global macro liquidity supports riskier assets, growing policy uncertainty and geopolitical tensions highlight the need for greater diversification.

1 A benign global economic outlook unfolds

The global economy is expected to soften in 2025. The US economy will moderate due to cooling domestic demand and labour market conditions. Disinflation may persist, but inflation risks loom and the Fed may need to adapt to a potential shift in US policy. Europe is positioned for a modest recovery, with strategic investments in focus. Emerging markets are likely to continue to command a growth premium over developed ones, and Asia remains a major driver of growth.

2 Emerging Asia posts robust growth, with growing regional ties

Emerging Asian economies are enjoying strong growth, driven by the dominance of their IT supply chain and supportive fiscal and monetary policies. External demand and trade within the region will enhance their resilience and connectivity. India and Indonesia are positioned as long-term beneficiaries, while we expect continuous re-routing and policy support to stabilise the Chinese economy and mitigate the possible negative impact from tariffs.

3 Geopolitics is increasingly shaping the economic backdrop

Escalating geopolitical tensions, increased economic frictions, and ongoing conflicts will require companies to form new partnerships and relocate their operations to mitigate risks. The global reordering will generate opportunities to identify new beneficiaries in the investment landscape, and support traditional safe havens such as gold.

2024 in REVIEW

	Macro views vs our 2024 outlook expectations	Financial markets views vs our 2024 expectations
EXPECTED	• Persistent **geopolitical** tensions • Weak recovery in **Europe** • Resilient **Emerging Markets** • Strong growth in **India** • **Moderating global inflation** • **Low inflation in China**	• **Equities**: strong performance, low volatility • **Bonds**: appealing yields and credit • **Some commodities** sustained by geopolitics • **Recovery in balanced allocations** • **Strong USD in H1**, weak cyclical FX in H1
SURPRISE	• **Stronger US consumption** • **Delayed rate cuts** by the Fed, ECB and BoE • **Tightening cycle by the BoJ** • **Policy shift in China** • **Less dovish EM central banks**	• High volatility in bonds • **Further concentration risk in equities** • **High Yield outperformance** • **Strong USD** in Q4 • Multiple **Gold** high • **Other commodities** on the weak side (oil, iron, steel, agricultural)

Source: Amundi Investment Institute as of 31 October 2024. DM: developed markets. EM: emerging markets. CB: central banks. Fed: Federal Reserve. ECB: European Central Bank. BoE: Bank of England. BoJ: Bank of Japan. Economy and markets expectations refer to our 2024 investment outlook.

4 Income gains traction

As inflation decelerates to long-term averages, central bank policy will continue to become less restrictive. The gradual return to neutral monetary policies, combined with the low probability of recession, will emphasise bonds' income-generating function given yields are higher than in the past. Opportunities are appealing in Investment Grade and short maturity High Yield credit, leveraged loans, EM bonds and private debt.

5 Beyond mega caps: looking at Japan, value in Europe and sectoral opportunities

A positive backdrop for earnings, coupled with good macro liquidity, is positive for equity. However, valuations are stretched, particularly in US mega caps. Investors should look at equal-weighted indices in the US, pockets of value in Europe and sectors such as financials, utilities, communication services, and consumer discretionary. Value investing and mid-caps are good hedges against possible declines in Growth and mega cap stocks. Opportunities will also be available in EM, with India in focus.

6 Private markets are lighting up, with infrastructure in focus

Private markets present attractive investment opportunities amid decelerating economic growth and expectations of more interest rate cuts, with a particular emphasis on infrastructure due to its strong growth outlook. Private debt offers appealing income, with companies still benefiting from strong bargaining power when negotiating lending contracts, while the outlook for the real estate market is expected to improve in 2025.

7 Time to be pro-risk and explore different axes of diversification

The economic backdrop offers bright spots in risky assets, but markets are underestimating the challenges. The macroeconomic outlook, high valuations and escalating geopolitical tensions warrant more nuanced diversification on multiple fronts. In particular, investors should be aware of the potential for geopolitical tensions to generate higher inflation and embrace risk diversifiers such as inflation-linked bonds and gold.

Exploring different axes of diversification

Volatility diversifiers
Brace for ongoing volatility in rates and rising equity volatility amid high earnings expectations.

Liquidity diversifiers
Seek opportunities across the liquidity spectrum amid pricey markets.

Macro / Geopolitical diversifiers
Consider macro and geopolitical risks, especially related to inflation.

1
Volatility diversifiers: Equity volatility strategies, market neutral **hedge funds** and **absolute return** strategies (equities, bonds, currencies)

2
Liquidity diversifiers: leveraged loans, private debt and **infrastructure**

3
Macro / geopolitical diversifiers: money markets, gold, metals, inflation strategies*

*Inflation strategies include inflation-linked bonds and inflation breakeven.

SETTING THE SCENE

Opportunities in a reconfigured world

KEY TAKEAWAYS

The global economic outlook is benign as monetary policymakers have curbed high inflation without triggering a recession. Abating price pressures will allow major central banks to cut rates further but the easing cycle will end well before policy rates reach pre-pandemic lows.

Geopolitics and national policy choices are paving the way for more fragmentation, with the United States pursuing geostrategic competition and the European Union focusing more on strategic autonomy. Drilling into sectors that will benefit from big trends is important given this backdrop and valuations.

Anomalies, such as low equity market volatility at a time of uncertainty, are becoming marked and may not last. A reversal of such phenomena could see assets like inflation-linked debt and gold find more favour.

Halfway through the decade, new forces are reconfiguring the post-pandemic global economy. The big shocks that hit labour markets, supply chains, and energy prices in the past five years have largely worked their way through the system. **But geopolitics and national policy choices are creating a more fragmented world that may bring new surprises.**

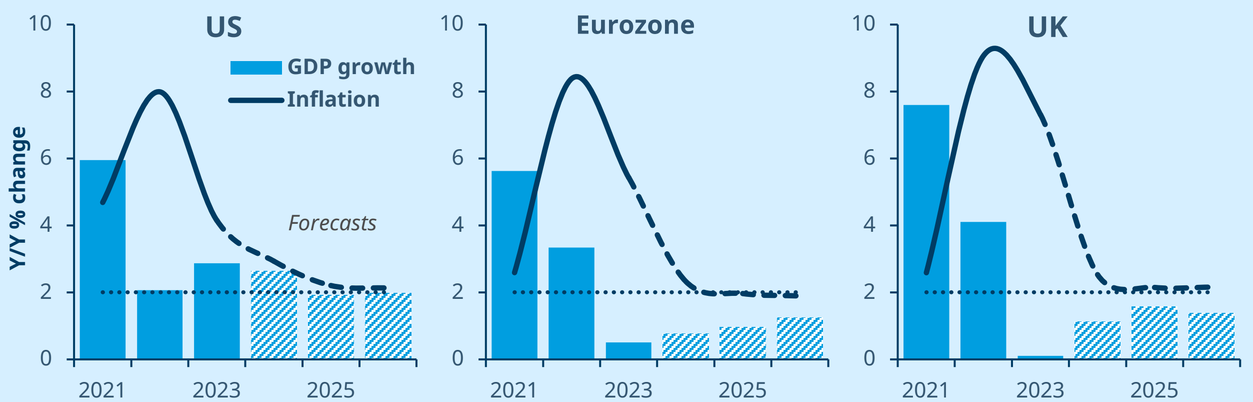
Monetary policymakers have so far done a good job of curbing high inflation without slamming the brakes on growth. The world economic outlook is therefore benign, with a slowdown in US activity unlikely to turn into recession. Meanwhile, global price pressures are expected to ease further. US policy shifts pose some upside risks, but ultimately, no one has an interest in seeing inflation surge.

This will allow major central banks to keep cutting interest rates and financial markets to build on the gains of the past year. Earnings prospects offer opportunities for the rally in equities to extend beyond US mega-caps. Such moves will be further fuelled if US campaign promises of deregulation and corporate tax cuts are fulfilled.

But there are a couple of caveats. First, investors have already anticipated a lot of good news. The best opportunities will therefore be found by drilling into sectors that will benefit from the big themes that will dominate the coming years. These include demographic trends, shifts in where global manufacturing takes place and who dominates such production, as well as the effects of climate change and the cost of energy transition or the re-routing of global supply chains.

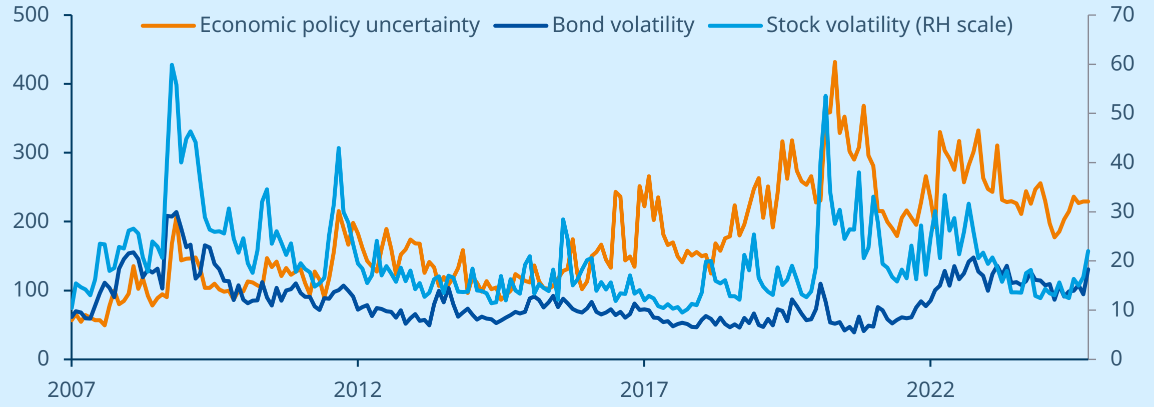
Second, the monetary easing cycle on which most developed economies have embarked will end well before policy rates reach pre-pandemic lows.

Central banks perform a tricky balancing act



Source: Economic forecasts are by Amundi Investment Institute as of 6 November 2024 and are based on current policy.

Market volatility fails to keep pace with economic policy uncertainty



Source: Amundi Investment Institute, Bloomberg. Data as 31 October 2024. Global Economic Policy Uncertainty Index by Baker Blooms and Davis. Bond volatility: MOVE Index. Stock volatility: VIX.

This is due to shifts in key growth drivers, which are boosting potential growth in countries like the US and India. Also, the global economy may be subject to more shocks from geopolitics, technological innovation, trade, and climate change. **Central banks may therefore have to respond more quickly and forcefully to such shocks than in the past if they are to keep inflation expectations anchored.**

Meanwhile, anomalies - such as the past year's low equity volatility in a time of high uncertainty, or the resilience of the US consumer in the face of the sharpest tightening cycle in decades - are becoming more marked and may not last. A reversal of such phenomena could see fixed-income, inflation-linked debt and gold find more favour.

The United States is likely to pursue a strategy of geostrategic competition and will grow more inward looking.

Political choices may also stoke demand for safe havens like gold. While 2024 was the year of the ballot box, those who were elected must now confront long-deferred problems in order to avoid more serious difficulties later in the decade.

For example, incoming US President Trump faces record levels of debt, big structural deficits, and rising interest payments. Pre-election pledges mean debt will keep piling up. **Investors are likely to keep faith with Treasuries as long as the US economy keeps growing but the fiscal outlook points to higher fixed-income volatility.** Market swings may be even more pronounced given sources of demand for US debt are in flux, with the Federal Reserve, commercial banks and investors in China and Japan absorbing a smaller proportion of overall issuance.

Washington is also likely to pursue **geostrategic competition.** This involves maintaining its lead in technology such as artificial intelligence, quantum computing and chips. It will also view certain manufacturing activities as a matter of national security. **The United States will therefore grow more inward looking.**

The ripple effects will be felt across the Atlantic and encourage European politicians to focus on **strategic autonomy.** They will also have to tackle the root causes of their region's widening productivity and investment gap with the United States. Mario Draghi's report contained a useful roadmap of how to do this but implementation will require more political commitment than is evident at the moment. This is especially true for some ideas, such as issuing common EU debt for specific purposes – a necessary step for radical change.

This is not a constraint for other regions. **Chinese policymakers have scope to deploy more fiscal stimulus** as they steer the economy on a more sustainable growth path. But the size, timing, and focus of such spending will determine its effectiveness. Meanwhile, **Gulf states will ramp up investment in infrastructure** that will benefit more of their citizens – a development that could create demand for a range of commodities.

Spotting the opportunities created by all these policy choices and geopolitical shifts will be as important as safeguarding portfolios against some of the risks they entail. In a world of anomalies, there are plenty of bright spots.

BRIGHT SPOTS...

Play dynamic asset allocation in a world of anomalies
An anomalous cycle calls for a frequent reassessment of the economic backdrop and dynamic allocation adjustments, with a focus on risk assets in H1 (equity and investment grade credit).

Uncover income opportunities across the board
With yields close to historic highs, central bank easing and no recession in sight, government bonds, credit, leveraged loans and EM bonds present attractive income opportunities.

Broaden the opportunity set in equities and look at sectors
While excessive valuations persist in US mega caps, we see bright spots appearing in Japan, Europe and the US market beyond the mega caps.

Embrace the power of Asia and EMs' comeback
India and Indonesia are long-term winners. In the short term, China may benefit from additional stimulus. EMs are expected to outperform DMs.

Explore transformative long-term themes
Balancing growth perspectives and valuations in artificial intelligence, clean energy, manufacturing re-insourcing, infrastructure, health care and an ageing population.

Diversify across different axes
Exploit volatility diversifiers (hedge funds and absolute return strategies), liquidity diversifiers (private markets) and macro/geopolitical diversifiers (gold).

...IN A WORLD OF ANOMALIES

Market anomalies abound, with extreme valuations in US equities, concentrated global equity markets and a stark contrast between low equity volatility and high bond volatility.

Macro anomalies

High costs of US debt
>$1.1 trillion will be spent on interest payments in 2024, highest on record[1]

Strong household finances
7.9x net wealth as a share of US disposable income, highest in the past two years[2]

Healthy liquidity
in a resilient economic backdrop contrasts with high perceived macro uncertainty

Market anomalies

High equity concentration
30% weight of top 7 stocks in the S&P500[3]

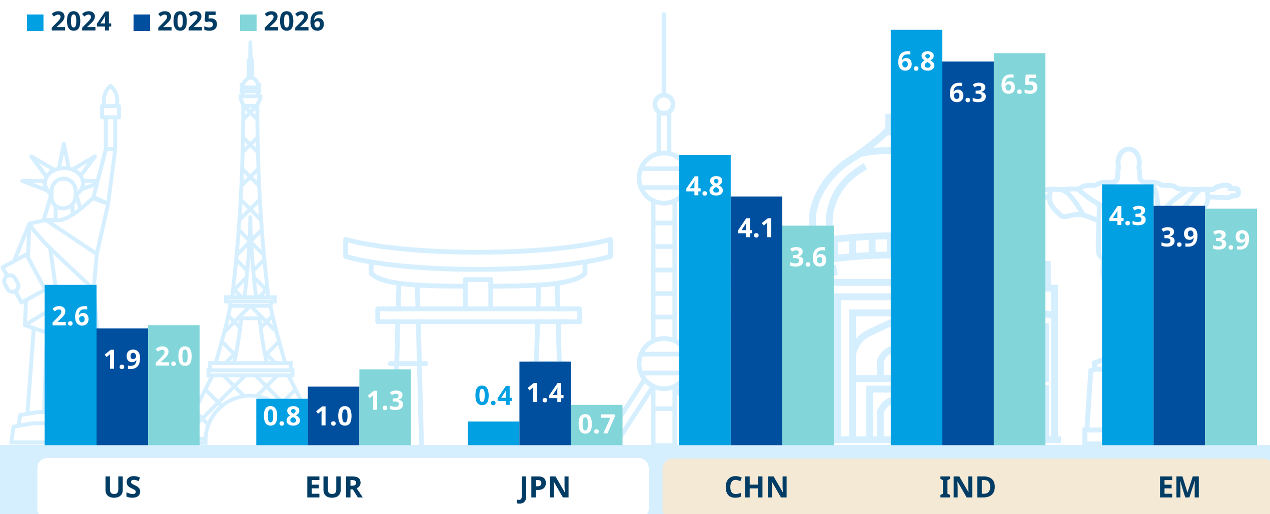
Stretched valuations
<3% of the time the S&P500 has been more expensive than now since 1881[4]

Diverging volatility trends
-21% in equity volatility
in 2024 vs previous 10-year average
+34% in bond volatility[5]

Source: Amundi Investment Institute, Bloomberg. 1 US Treasuries data projection on gross interest payments. 2. Fed FOF, data as of 30 June 2024. Households and Nonprofit Organizations; Net Worth as a Percentage of Disposable Personal Income .3. Datastream as of October 2024. 4. Shillerdata.com, Robert J. Shiller. Refers to the Shiller CAPE. 5. Analysis on percentage change in average volatility levels in 2024 vs the 2013-2023 average. Bond volatility refers to levels of MOVE index (implied volatility indicator on the Treasury market), equity volatility refers to the VIX Index (implied volatility indicator for the S&P500).

Resilient multi-speed growth

Amundi Investment Institute Projections



UNITED STATES

Soft landing expected
The US economy is transitioning to slower growth amid reduced imbalances and declining inflation.

Trump 2.0 policies and inflation path.

EUROPE

Europe's path to recovery
Modest growth, inflation back to target. Fiscal rules address sustainability, while enabling investment in green transition and strategic autonomy.

Urgency for policy action to raise potential growth through productivity.

JAPAN

Going against the tide
Improved domestic fundamentals. Bank of Japan anchored inflation expectations, with global spillovers.

Political developments, and impact on economic policy.

CHINA

China's new normal
A step to reverse the structural economic slowdown with more policy support, promoting structural transformation.

Monetary policy on the right course; fiscal impulse will depend on its allocation.

INDIA

Resilient economic growth is expected to continue, normalising to potential growth (6.5% 2026) driven by domestic demand and investments.

Labour / fiscal reforms to upscale infrastructure and education.

EMERGING MARKETS

Robust and broad-based growth, with a substantial premium, still favours EM. Asia will continue to be a major driver of growth.

Tariffs developments, monetary policy, fiscal policy.

Source: Economic forecasts are by Amundi Investment Institute as of 6 November 2024 and are based on current policy. EM: Emerging Markets.

Main and alternative scenarios

	Probability 70% **MAIN SCENARIO** Resilient multi-speed growth	Probability 20% **DOWNSIDE SCENARIO** Renewed stagflationary pressure	Probability 10% **UPSIDE SCENARIO** More disinflation with productivity gains
GEOPOLITICS	▪ Rising tensions and ongoing geo-economic fragmentation including protectionism and sanctions. ▪ Disruptive trade policies and re-routing of global supply chains as a reaction to tariffs. ▪ Ukraine-Russia: ongoing fighting, but ceasefire odds increase. ▪ Middle East: talks and conflicts likely. ▪ China-US: decline of relations. ▪ US-Europe relations under pressure.	▪ Autarchical new alliances challenge advanced economy democracies: new & escalating conflicts. ▪ Countries forced to choose US vs China. Global trade begins to decline.	▪ Geopolitical risk subsides as conflicts come to a close. ▪ Shifting power dynamics reshape global trade, fostering balanced growth and prosperity.
INFLATION & POLICY MIX	▪ Disinflation trend to continue, but upside inflation risk remains. ▪ Developed Market central banks reaching their neutral rates in 2025. ▪ Most EM CBs at peak rates. ▪ Different fiscal policies: US might be under scrutiny with a second Trump presidency; EU consolidating; China expansionary.	▪ More persistent inflationary geopolitical trends advocate a U-turn in monetary policy. ▪ Fiscal debt ballooning fuels the cost of debt.	▪ Stabilisation of inflation around central banks' targets (and not an issue if slightly above as inflation expectations remain anchored).
GROWTH PATH	▪ Back to potential growth. ▪ Resilient multi-speed growth: modest recovery in Europe, mild US deceleration but higher potential growth. ▪ Growth gap still favours EM. ▪ India's growth potential revised up.	▪ Lower output, sharp migration reduction in advanced economies lowers labour supply, unwinds supply gains. ▪ Economic unbalances persist, further lowering potential growth (China, EU,...).	▪ Growth enhancing reforms lifting growth potential. ▪ Industrial / trade policies boosting investment and activity.
CLIMATE CHANGE	▪ Climate change hampers growth and exacerbates stagflationary trends. ▪ Chinese dominance in processing and supply of critical minerals; US trying to catch up.	▪ Further policy delays imply more adverse climate events, hampering economic dynamism.	▪ From zero to hero in the net zero transition: geo-engineering, globally coordinated policies.

Risks to main scenario

LOW — Probability — HIGH

	10%	15%	15%	20%
	Central banks quantitative tightening combined with structural shift in US Treasury buyers	**Geopolitical crisis with global spill-overs**	**Market volatility rises sharply to reflect higher geo-economic uncertainty**	**Reacceleration of DM inflation, due to trade/geopolitical tensions**
MARKET IMPACT	**Positive** for cash and gold. **Negative** for govies and expensive equities.	**Positive** for DM govies, cash, gold, USD, volatility, defensive assets and oil. **Negative** for credit, equities and EM.	**Positive** for cash and gold. **Negative** for risk assets.	**Positive** for TIPS, gold, commodity FX and real assets. **Negative** for bonds, equities, DM FX and EM assets.

Source: Amundi Investment Institute as of 7 November 2024. DM: developed markets. EM: emerging markets. CB: central banks. USD: US dollar. TIPS: Treasury inflation-protected securities. FX: foreign exchange markets.

AMUNDI INVESMENT INSTITUTE INFOGRAPHIC

Amundi asset class views

Platform	Asset class	Stance as of 6 November 24	Direction of views for H1 2025	
EQUITY PLATFORM	United States	=	=	Stable
	US equal weighted	=/+	+	Improving
	Europe	=/+	=	Deteriorating
	Japan	=/+	+	Improving
	China	=	=	Stable
	Emerging Markets ex-China	+	=/+	Deteriorating
	India	+	+	Stable
FIXED INCOME PLATFORM	US govies	=	=	Stable
	US IG corporate	=	=/+	Improving
	US HY corporate	-	=	Improving
	EU govies (core)	=/+	=/+	Stable
	EU govies (peripherals)	=	=	Stable
	EU IG corporate	+	+	Stable
	EU HY corporate	=	=	Stable
	China govies	=	=	Stable
	EM bonds HC	=/+	+	Improving
	EM bonds LC	=	+	Improving
OTHER	Gold	=/+	=/+	Stable
	Oil	=	=	Stable
	Currencies (USD vs G10)	=/+	=	Deteriorating

Source: Amundi Investment Institute, as of 6 November 2024. DM: developed markets. EM: emerging markets. Summary of views expressed at the most recent global investment committee held on 16 October 2024.

-- - Negative = Neutral + ++ Positive

AUTHORS

CHIEF EDITORS

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

VINCENT MORTIER
GROUP CIO

EDITORS

CLAUDIA BERTINO
HEAD OF INVESTMENT INSIGHTS, PUBLISHING AND CLIENT DEVELOPMENT, AII*

LAURA FIOROT
HEAD OF INVESTMENT INSIGHTS & CLIENT DIVISION, AII*

SWAHA PATTANAIK
HEAD OF PUBLISHING AND DIGITAL STRATEGY, AII*

GIULIO LOMBARDO
PUBLISHING SPECIALIST, AII*

AUTHORS

VALENTINE AINOUZ
HEAD OF GLOBAL FIXED INCOME STRATEGY, AII*

ALESSIA BERARDI
HEAD OF EMERGING MACRO STRATEGY, AII*

JEAN-BAPTISTE BERTHON
PORTFOLIO STRATEGY INSIGHTS, AII*

SERGIO BERTONCINI
SENIOR FIXED INCOME STRATEGIST, AII*

DIDIER BOROWSKI
HEAD OF MACRO POLICY RESEARCH, AII*

DOMINIQUE CARREL-BILLIARD
HEAD OF REAL & ALTERNATIVE ASSETS

FEDERICO CESARINI
HEAD OF DM FX STRATEGY, AII*

LAUREN CROSNIER
GLOBAL HEAD OF FX

DEBORA DELBÒ
SENIOR EM MACRO STRATEGIST, AII*

AMAURY D'ORSAY
HEAD OF FIXED INCOME

BARRY GLAVIN
HEAD OF EQUITIES

CLAIRE HUANG
SENIOR EM MACRO STRATEGIST, AII*

ELODIE LAUGEL
CHIEF RESPONSIBLE INVESTMENT OFFICER

ERIC MIJOT
HEAD OF GLOBAL EQUITY STRATEGY, AII*

PAULA NIALL
INVESTMENT INSIGHTS AND CLIENT DIVISIONS SPECIALIST, AII*

JOHN O'TOOLE
HEAD OF MULTI-ASSET INVESTMENT SOLUTIONS

MARCO PIRONDINI
CIO OF US INVESTMENT MANAGEMENT

LORENZO PORTELLI
HEAD OF CROSS ASSET STRATEGY, AII*

MAHMOOD PRADHAN
HEAD OF GLOBAL MACROECONOMICS, AII*

ANNA ROSENBERG
HEAD OF GEOPOLITICS, AII*

FRANCESCO SANDRINI
HEAD OF MULTI-ASSET STRATEGIES

GUY STEAR
HEAD OF DEVELOPED MARKETS STRATEGY, AII*

YERLAN SYZDYKOV
GLOBAL HEAD OF EMERGING MARKETS

ANNALISA USARDI, CFA
SENIOR ECONOMIST, HEAD OF ADVANCED ECONOMY MODELLING, AII*

DESIGN & DATA VISUALIZATION

CHIARA BENETTI
DIGITAL ART DIRECTOR AND STRATEGY DESIGNER, AII *

VINCENT FLASSEUR
GRAPHICS AND DATA VISUALIZATION MANAGER, AII*

* Amundi Investment Institute

Amundi Investment Solutions

Trust must be earned

DEFINITION ABBREVIATIONS

Currency abbreviations: USD – US dollar, BRL – Brazilian real, JPY – Japanese yen, GBP – British pound sterling, EUR – Euro, CAD – Canadian dollar, SEK – Swedish krona, NOK – Norwegian krone, CHF – Swiss Franc, NZD – New Zealand dollar, AUD – Australian dollar, CNY – Chinese Renminbi, CLP – Chilean Peso, MXN – Mexican Peso, IDR – Indonesian Rupiah, RUB – Russian Ruble, ZAR – South African Rand, TRY – Turkish lira, KRW – South Korean Won, THB – Thai Baht, HUF – Hungarian Forint.

Document issued by Amundi Asset Management, “société par actions simplifiée”- SAS with a capital of €1,143,615,555 - Portfolio manager regulated by the AMF under number GP04000036 - Head office: 91-93 boulevard Pasteur, 75015 Paris - France - 437 574 452 RCS Paris - www.amundi.com.

Cover image by Deimagine @Gettyimages

Additional images: Istockphoto @ GettyImages: Katerina_Andronchik, Pop_jop, Antikwar, Astrid860, Viaframe, Carlos Fernandez, Marco Bottigelli, Jankovoy, Oscar Gutierrez Zozulla, WLDavies, Bjdlzk, Lixu

Icons from TheNounProject: lfanicon, sripfoto,Foxyard Studio, Wahicon, Chondon Backla, Cahya Kurniawan, Andrejs Kirma, Candy Design, Lihum Studio, Akbar,Ilyas Aji Furqon, Lars Meiertoberens, IYIKON, Fourup Corporate, WARHAMMER, Faizal khusein, Danang Marhendra, Fauzi arts, Yogi Aprelliyanto, kholifah, Anwar Hossain, Joniack, Good Father, Wendy, udn, DHAVID TAH HILLAH SAPUTRA, kliwir art, HNTRY, Omah Icon, Eko Purnomo, Arkinasi, WiStudio, Aman, Putri Creative, Lewis K-T, Noah Camp, Marcus DeClarke, nakals, Mohamed Mb, Baim Icon