

**Investment
Institute**

**2025
Investment
Outlook**

Bright spots in a
world of anomalies

NOVEMBER 2024 | Cross Asset Investment Strategy Special Edition



MONICA DEFEND

HEAD OF AMUNDI INVESTMENT INSTITUTE

"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."

"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



EXPECTED

- Persistent **geopolitical** tensions
- Weak recovery in **Europe**
- Resilient **Emerging Markets**
- Strong growth in **India**
- **Moderating global inflation**
- **Low inflation in China**

Financial markets views vs our 2024 expectations

- **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

1 Volatility diversifiers

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

2 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.**

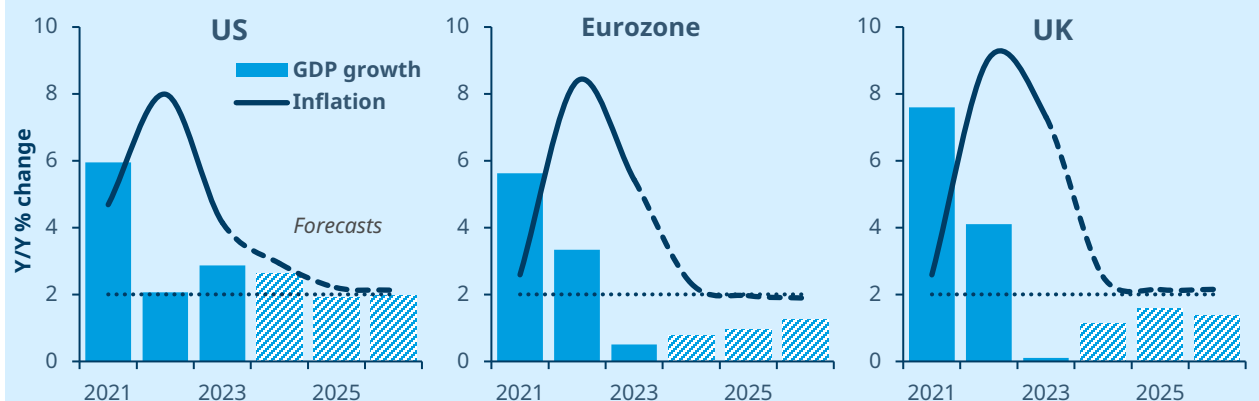
Monetary policymakers have so far done a good job of curbing high inflation without slamming the brakes on growth. The world economic outlook is therefore benign, with a slowdown in US activity unlikely to turn into recession. Meanwhile, global price pressures are expected to ease further. US policy 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.

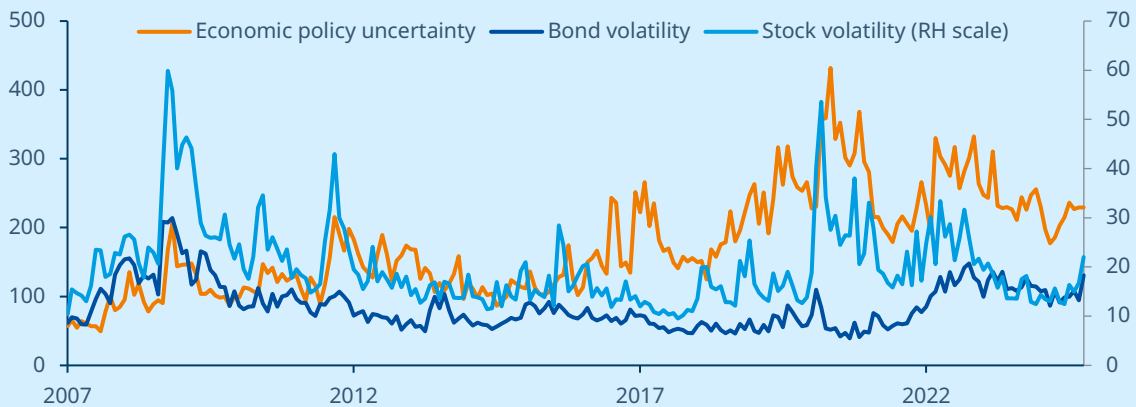
Second, the monetary easing cycle on which most developed economies have embarked will end well before policy rates reach pre-pandemic lows.

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.

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.

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

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 record¹



Strong household finances

7.9x net wealth as a share of US disposable income, highest in the past two years²



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&P500³



Stretched valuations

<3% of the time the S&P500 has been more expensive than now since 1881⁴



Diverging volatility trends

-21% in equity volatility in 2024 vs previous 10-year average
+34% in bond volatility⁵

HOT DEBATES

During the **Amundi Investment Seminar** that took place in September 2024, we asked our investment professionals questions to help us define a forecast for **what 2025 will be like for the economy and geopolitics.**

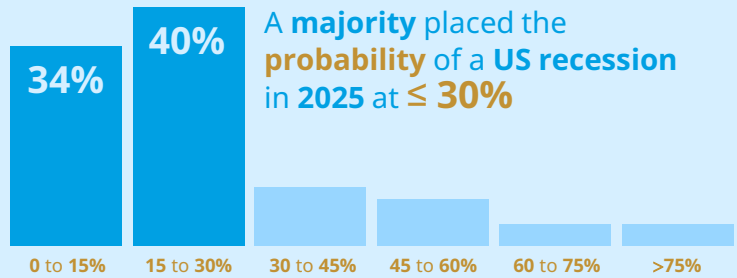
United States in the spotlight

The most important driver of US markets in 2025



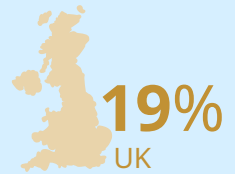
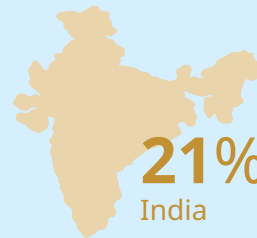
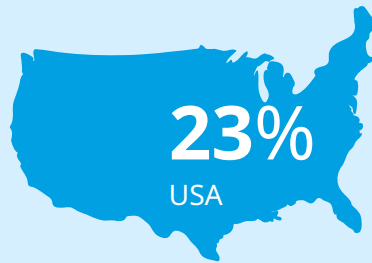
US Economic Performance

as voted by **62%** of our specialists



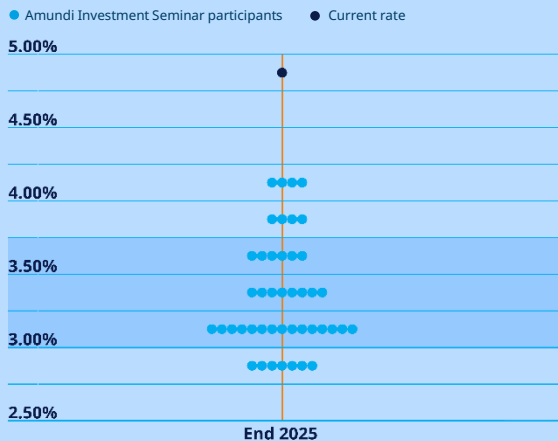
A **majority** placed the **probability** of a **US recession** in 2025 at **≤ 30%**

Where could the highest upside surprise in economic growth come from in 2025?



Focus on rates

Where will the Fed Funds target rate be at the end of 2025?



Upside inflation is the highest risk

as voted by **65%** of our specialists

Focus on geopolitics

Which geopolitical event will be most relevant for markets in 2025?

US-China trade war **36%**

Ukraine-Russia peace deal **26%**

US transition of power **20%**

Middle East escalation **18%**

Greatest risks arising from the US-China geopolitical rivalry



Trade barriers and increased tariffs

as voted by **42%** of our specialists



Threat of military conflicts

as voted by **36%** of our specialists

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%

Central banks quantitative tightening combined with structural shift in US Treasury buyers

15%

Geopolitical crisis with global spill-overs

15%

Market volatility rises sharply to reflect higher geo-economic uncertainty

20%

Reacceleration of DM inflation, due to trade/geopolitical tensions

MARKET IMPACT

Positive for cash and gold.

Positive for DM govies, cash, gold, USD, volatility, defensive assets and oil.

Positive for cash and gold.

Positive for TIPS, gold, commodity FX and real assets.

Negative for govies and expensive equities.

Negative for credit, equities and EM.

Negative for risk 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 asset class views

	Asset class	Stance as of 6 November 24	Direction of views for H1 2025	
EQUITY PLATFORM	United States	=	=	Stable
	<i>US equal weighted</i>	=/+	+	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	=/+	=/+
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

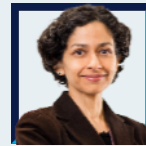
EDITORS



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



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



SWAHA PATTANAİK
HEAD OF PUBLISHING AND DIGITAL STRATEGY, AII*



GIULIO LOMBARDO
PUBLISHING SPECIALIST, AII*

AUTHORS

VALENTINE AINOZ

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*

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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.

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