AXA Investment Managers

Investment Institute Macroeconomics

US shifts outlook, who shall follow?

Monthly Investment Strategy

AXA IM Research

April 2024

Summary: April 2024

Theme of the month: Brick by brick: unravelling the China property puzzle

- The Chinese property market only really began in 1998 and has enjoyed strong returns since that period, far outstripping returns in stocks and saving.
- The boom in housing was driven in recent decades by population growth and an unprecedented wave of urbanisation underpinning organic demand. But also supplemented by Chinese investors against a backdrop of a limited universe of alternative investment vehicles.
- The downturn in housing since the pandemic, both in terms of prices and sales, looks more fundamental than previous corrections. The outright falls in population and slowdown in urbanisation suggest a much weaker organic growth adjustment. Investment demand will continue to be a function of household wealth in a restricted universe. And the government has been unwilling to provide stimulus to reignite a boom, rather to ground stabilisation.
- The outlook appears to be one of ongoing correction, with price-income ratios suggesting a total correction of around 50% could be warranted. Investor behaviour looks likely to determine the speed of the correction, even as replacement demand will grow as a support over the coming decades.
- This longer-term narrative poses challenges to a sector that has been used as a transmission mechanism for broader economic control. The property malaise is acting as a dampener to broader economic activity. Pivoting to alternative growth supports – infrastructure, exports and consumer led growth all look like policy options but within different timespans.

Macro update: Shift in US outlook spills to global economy

- Inflation continues to be a resonant theme across most regions. Headline rates have risen in some areas as oil prices increased, but in most regions from advanced to developed economies the focus is on the stickiness of services inflation, reflecting domestically generated inflation in most areas.
- The strength in recent short-term data, notably payrolls, inflation and retail sales has led us and markets to pare back expectations of the first Fed cut from June. We now envisage two cuts this year, from September, and three next year. The market is doubtful of that.
- US developments have weighed on the rest of the world by pushing US real rates – and hance global rates higher.
- The ECB remains on track to ease rates in June and deliver three cuts this year, but the euro has softened. Elsewhere markets see similar traits in the UK as the US and have reduced expectations for BoE rate cuts this year, although we still expect three cuts starting in June. The Bank of Canada may also be influenced by a weaker Canadian dollar, while the Bank of Japan has denied that yen weakness will play a major role in its policy setting.
- Emerging markets are seeing a similar dynamic with sticky services and weaker currencies dissuading central banks from continuing with easing paths. EM Asian central banks have left policy on hold this month and the pace has slowed in Latam, although we still expect some more easing here and in CEE.
- Higher real rates will also pose a challenge for the nation's finances where underlying growth has not particularly improved. Several EM economies will pay closer heed to public finances this year. We will also monitor French and Italian sovereign credit reports over the coming months
- China remains something of an outlier. Q1 GDP was firmer than expected and suggests fiscal policy has been well implemented. However, subdued inflation remains an issue and the ongoing property decline threatens to weigh.

Central scenario

Summary – Key messages

Our central scenario: Global economy to slow, bank concerns non-systemic.

Global growth expected to slow to 3.1% in 2024 and 3.1% in 2025.

Disinflation slower this year, spreading to core. Creates space for monetary policy easing, Fed doubts have global spillover.

Inflation

Headline disinflation likely to pause, geo-politics provides some upside risks. Core disinflation to broaden this year but stickiness apparent in services. Target rates more likely next.

Monetary policy

Central banks have peaked and move closer to easing restrictive policy, most to cut this year, but Fed uncertainty spilling to other markets. Balance sheet policy from Fed and ECB to come to fore around mid-year.

Fiscal policy

European rules require fiscal consolidation, but not too sharply for 2024. US Congressional politics delays further funding requests, long-term outlook in question.

Emerging Markets

Inflation easing across EM, and several central banks underway with easing cycle. US Fed anxiety impacting through FX rates

FX

Dollar recovered on rates repricing, US fundamentals remain firm for now. BoJ action failed to spur yen. Watch risk currencies in event of geopolitical escalation.

Rates

Policy rate re-pricing has driven term rates higher. Actual cuts should see yields lower by year-end, but structural drivers underpin key regions, making a return to post-GFC levels unlikely

Growth

Growth resilient in US, expected to slow but avoid recession. Eurozone and Japan avoid technical recession; UK to emerge from one in Q1. China sets ambitious target for 2024.

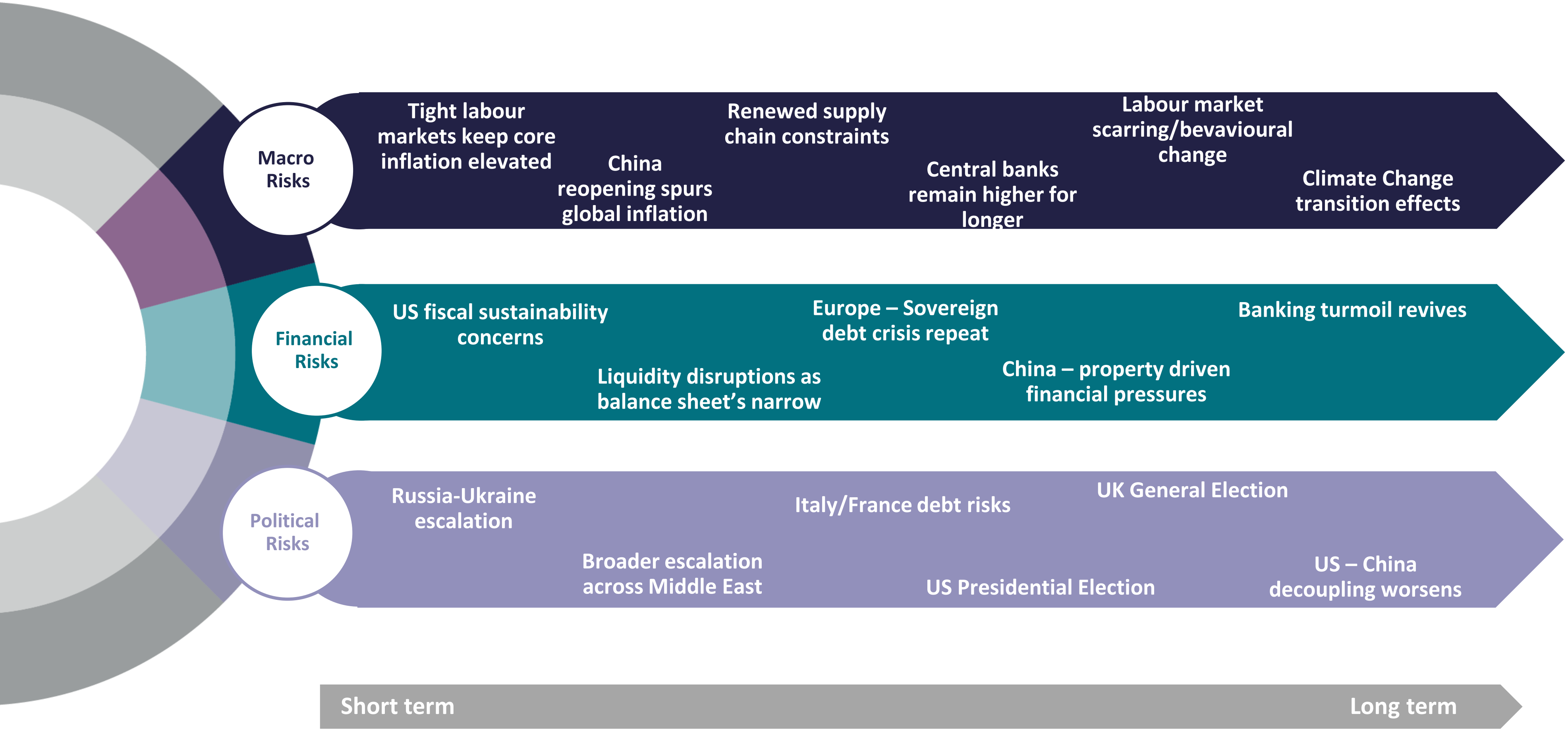
Alternative scenarios

Summary – Key messages

	Entrenched supply shock Probability 15%		A global boost Probability 20%
	- Banking turmoil escalates, credit conditions tighten. - Geopolitical tension escalate: Ukraine, Middle East and Indo-Pacific - Inflation expectations rise, affecting wages and persistence	What could be different?	- Geo-political tensions ease – peace in our time. - Labour market participation recovers/migration strong, strong income growth and easing inflation pressures - Productivity boost following investment rebound and structural post-pandemic adjustments, AI impact becomes visible
	- Growth weaker, employment falls back, but inflation remains elevated - Monetary policy ill-equipped to deal with supply shocks and financial instability, deteriorating inflation credibility forces still tighter policy in DMs	What it means	- Growth surprises on the upside in most regions - Inflation fades more quickly towards and below central bank targets - Monetary policy softens quicker than signalled
	- Risk appetite deteriorates / equities sell off / credit widens - Sovereign yields reprice higher - Dollar remains elevated - EM debt to come under pressure	Market implications	- Risk-on environment, equities make further gains, growth retains lead over value - UST softens, EUR strengthens - Spreads grind tighter

RISk Radar

Summary – Key messages



Contents

Theme of the Month

Brick by brick: Unravelling the China Property Puzzle

Property downturn beginning in 2022 is still ongoing

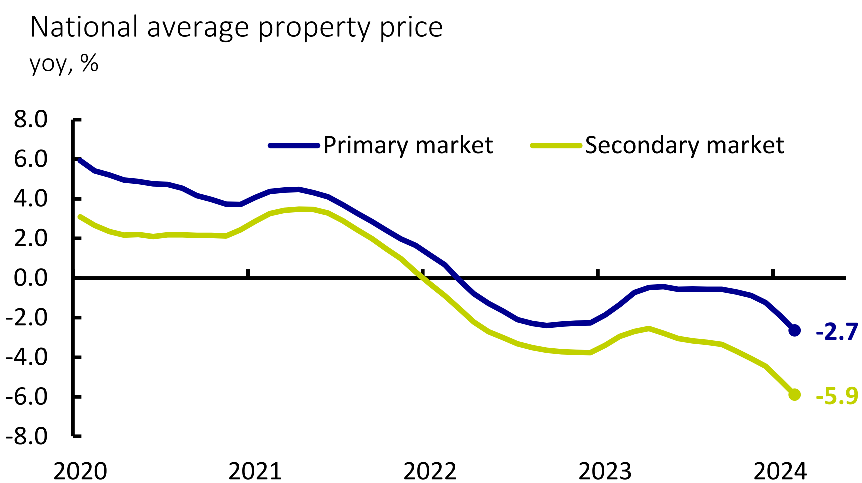
Once a significant boost, now contracting

- China's property sector and its related activities accounted for 25-30% of the country's GDP at its peak. However, the boom ended in 2022 and has been in an ongoing correction since. By March 2024, investment in the real estate sector, property sales and prices were still contracting.

Different this time around

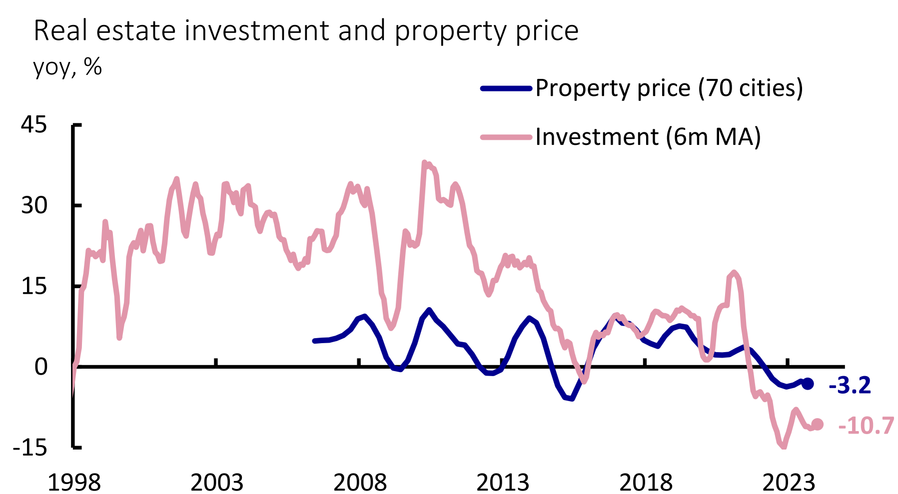
- After 24 months of consecutive annual contraction, it is clear that the current property downturn is distinct from previous episodes. Particularly, Beijing does not seem keen to foster another boom, with announced measures so far aimed at stabilisation instead.
- We provide some insights to the potential outcome from the current market downturn, starting from understanding the fundamental drivers of the boom and investigating the future outlook for demand and supply.

Prices continue to fall



Source: CEIC and AXA IM Research, April 2024

Investment and prices subdued



Source: CEIC, Bank for International Settlements and AXA IM Research, April 2024

Brick by brick: Unravelling the China Property Puzzle

Historic urbanisation boom on the turn

Privatisation and urbanisation powered organic demand

- The housing reform in 1998 opened the door to the vast of majority of Chinese households owning private homes, which created the private housing market in China. Together with the economic-reform-led structural change, urban areas attracted a massive wave of migrants from rural communities, which formed a great demand boom for housing.

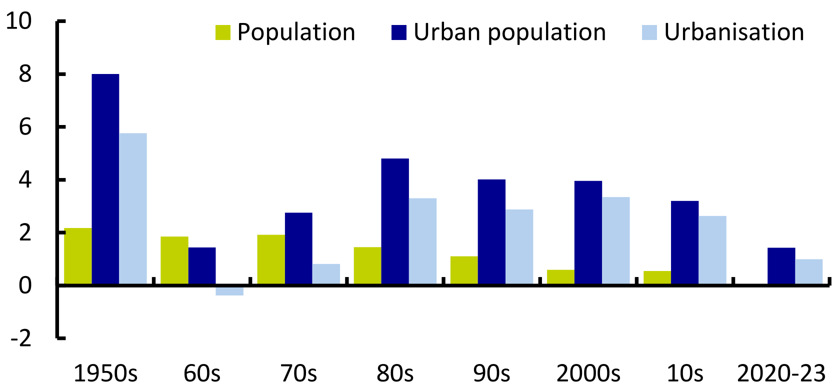
Falling population and slower urbanisation to dampen demand

- The Chinese population started to decline since 2022, while the urbanisation progress is expected to slow as it approaches full urbanisation. Assuming the average floor area per capita remains stable, the declining demographic and slower urban population expansion implies an organic demand of 870 million square metres per year on average in the 2020s – equivalent to a 3.3% annual drop from the levels seen in the 2010s.

Slower urbanisation and decreasing population impact demand

Population & urbanisation in growth rates

10-year average, %

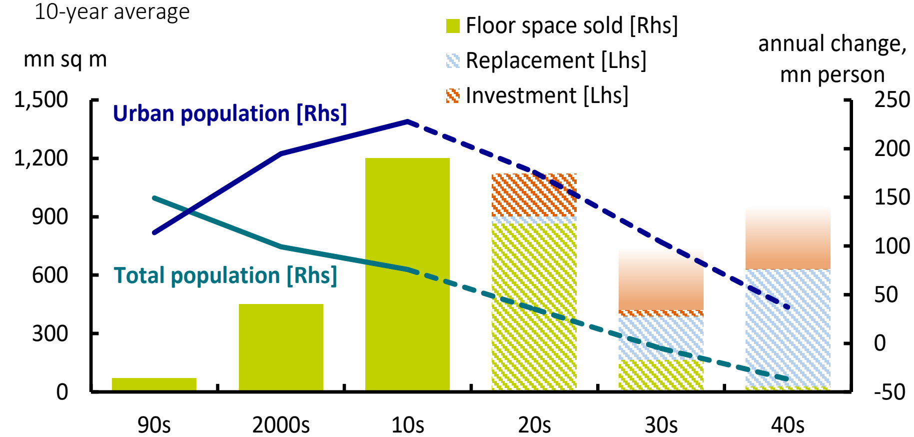


Source: CEIC and AXA IM Research, April 2024

Organic demand expected to fall even with rise in replacement

Trend in population and floor area sales

10-year average



Note: Patterned bar and dashed line show estimates.

Source: CEIC, UN and AXA IM Research, April 2024

Brick by brick: Unravelling the China Property Puzzle

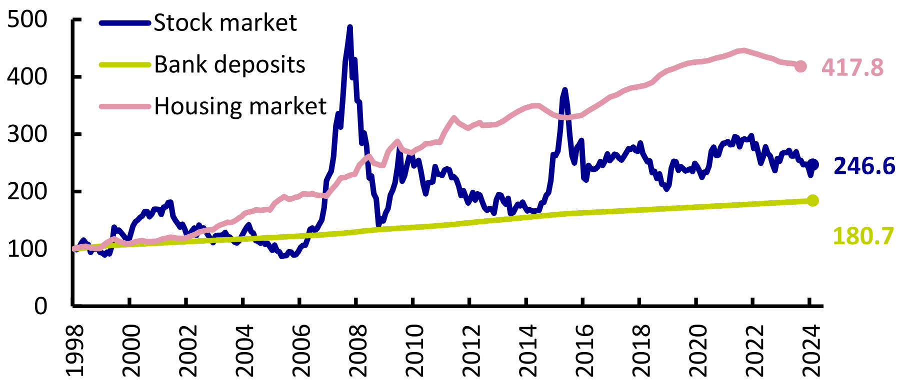
Housing as investment vehicle

Investment in housing driven by limited options

- China's economy has grown materially in past decades, particularly since its accession to the World Trade Organization (WTO) and has seen a large rise in household wealth. Yet few good investment options were available in an economy where capital controls limited access to global markets. Meanwhile, rapid growth in the property market stood out and became a good investment vehicle that provided strong returns. Consequently, investment demand in the housing market grew, pushed the property price higher.
- As the price correction in the market continues, investment appetite is likely to remain subdued. There are risks that falling prices will encourage outright sales. However, investment could potentially return if economic recovery lifts household balance sheets amidst an ongoing lack of investment options and still strict capital controls.

Housing posted better returns than stocks and savings

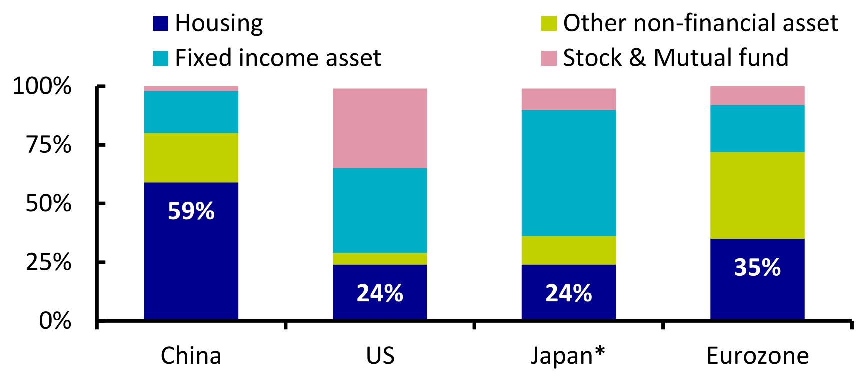
Investment return comparison
1998 = 100



Source: CEIC, BIS and AXA IM Research, April 2024

Investment allocation to housing higher than elsewhere

Household asset distribution across countries
% of total asset (2019)



Note: Japan shows 2018 data
Source: PBoC and AXA IM Research, April 2024

Brick by brick: Unravelling the China Property Puzzle

Beijing has used the property sector as transmission mechanism for policy

An efficient tool given its deep integration with the rest of economy

- Historically, China's housing market has served as a significant macroeconomic stabilisation tool for the country. Given its deep integration with other sectors and close linkage to overall economic performance, alongside a steady stream of willing investors, housing possessed the potential to generate substantial impacts on the economy. Beijing has been able to leverage the real estate sector as either an economic catalyst or inhibitor.

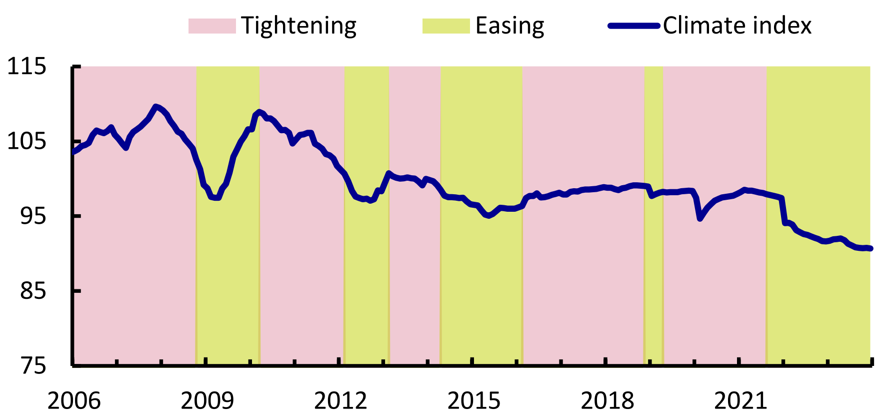
Recent downturn implies a diminishing efficacy of such tool

- Despite several rounds of supportive measures including mortgage rate cuts, relaxation of purchase restrictions in major cities, and reductions in upfront deposit ratios, the sector's activities continue to decline. Once an efficient channel to boost the economy, it now appears to be burdening the nation's economic development.

An efficient macro transmission mechanism failed recently

Property market climate index and policy stance

Index, 1997=100

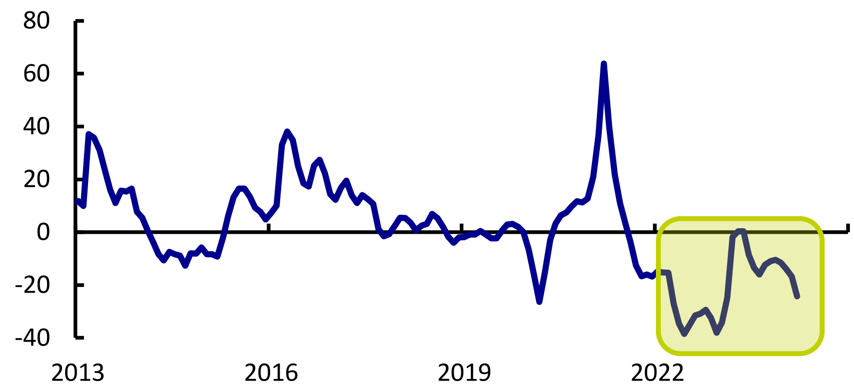


Source: CEIC and AXA IM Research, April 2024

Property sales remain depressed despite price correction

Floor area sold

3-month moving average, yoy %



Source: CEIC and AXA IM Research, April 2024

Brick by brick: Unravelling the China Property Puzzle

Price income ratios remain elevated

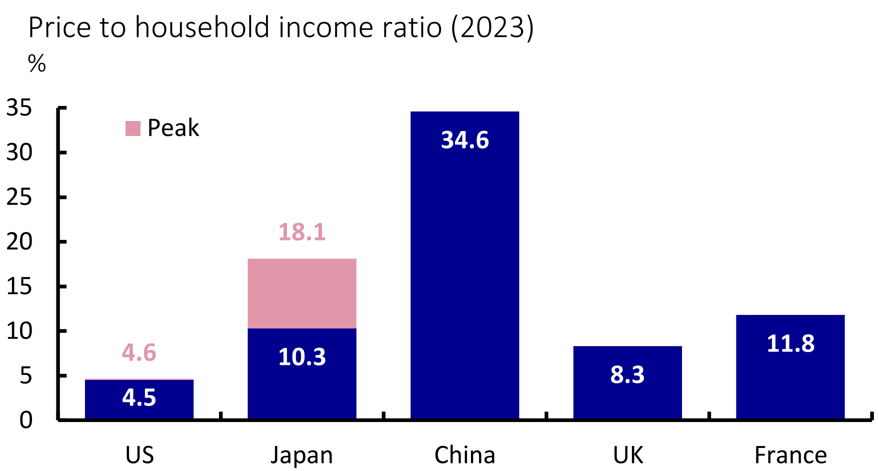
Unaffordable housing has become a social problem, price falls likely to continue

- Given the current elevated price-to-income ratio and the lower-than-mortgage-rate gross rental yield, we estimate the theoretical market equilibrium price could be around 50% below current levels if there is no significant change in household income, rent, or mortgage rates. Should investment demand recover, it could support property prices mitigating the extent of the price correction. Conversely, if property investors retreat, this could quicken a price correction.

Damage to the output compensated by other sectors

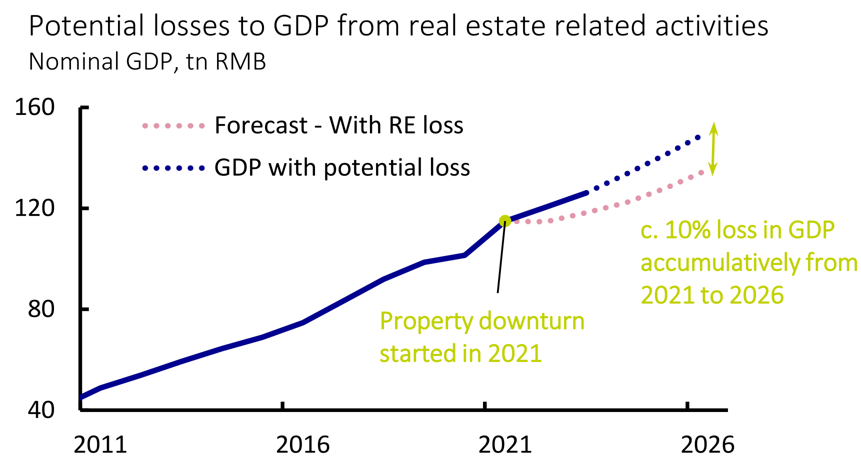
- Assuming limited production substitution in the economy, the void created by the real estate sector could total 10% of China's GDP between 2021 to 2026.
- In the short run, infrastructure and social housing projects could keep construction activities elevated. In Beijing's longer-term strategy, manufacturing and industrial upgrade is hoped to fill the void from the real estate. Over the very long run a guided transition to a model of stronger domestic consumer demand looks more consistent with other economies economic development.

Skyrocketing price-to-income ratio indicates significant price fall



Source: Numbeo and AXA IM Research, April 2024

Damage in production from the property downturn



Note: assuming no production substution from other activities
Source: CEIC and AXA IM Research, April 2024

Macro outlook

Inflation fails to provide confidence

US

Ex-shelter inflation pressure

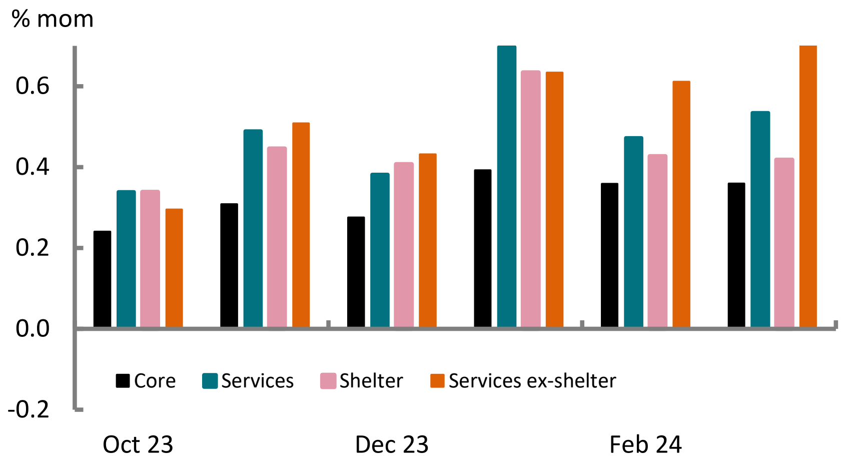
- March's inflation surprised to the upside: headline rising to 3.5% and core remaining at 3.8%. But services inflation at 5.3% and particularly, services ex-shelter (>7% in 3-month annualised terms) caused most concern, removing confidence that inflation would slow sufficiently for the Fed to ease policy in June. While services inflation should ease over coming months, led by shelter inflation, the Fed will need evidence of this. Meanwhile PCE inflation – the Fed's target - remains closer to target at 2.5% in February.

March recorded strong gains in employment

- The Fed describes the US labour market as coming into better balance and we concur, but there was little evidence of this in March. Payrolls rose by a strong 303k, with upward revisions to prior months, the household employment survey surged by 498k, unemployment edged lower to 3.8% and earnings growth remained contained at 4.1% (3m-annualised). Amidst strong signs of labour demand, labour supply has surged – a positive supply shock for the US expected to last through this year.

Services ex-shelter inflation continues upward trend

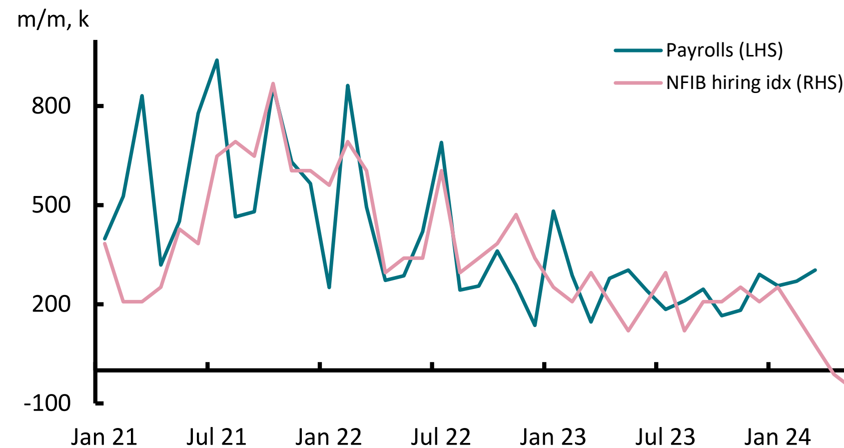
Recent movements in core and services inflation



Source: BLS, AXA IM Research, April 2024

Payroll employment remains on firm track

Change in payroll employment and NFIB hiring index



Source: BLS, AXA IM Research, April 2024

Fed outlook shifts

US

Consumer strength drives Q1 GDP

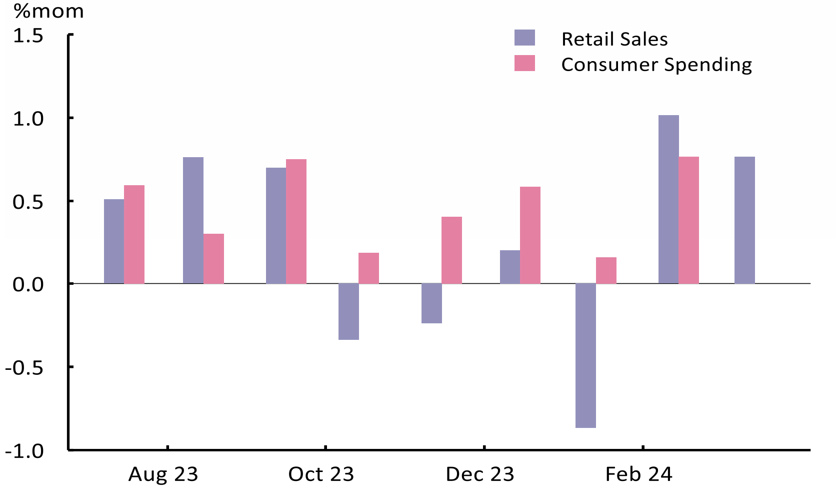
- GDP posted a softer 1.6% (saar) rise in Q1 2024, only a little firmer than we had expected three months ago. Fundamentally this was driven by a still strong consumer, spending up 2.5%, something that had become evident from the unexpected rebound in retail sales in recent months. This marks deceleration from an elevated growth pace last year and we expect further ahead, driven by the consumer. However, we revise our GDP outlook to 2.4% for this year (from 2.1%) and see a softer 1.6% in 2025 (unchanged).

Market adjusts Fed outlook

- Following a month of stronger data, Fed Chair Powell stated that policy was likely to need to remain restrictive for longer. We adjust our rate outlook to see two cuts this year (from four), now starting in September, rather than June. We continue to see three further cuts in 2025. Risks appear skewed to a later and slower easing in policy and markets neither fully price a September cut, nor two cuts this year. We also expect the Fed to announce a slowdown in QT over the coming meetings, probably in June.

Consumer spending rebounds in 2024

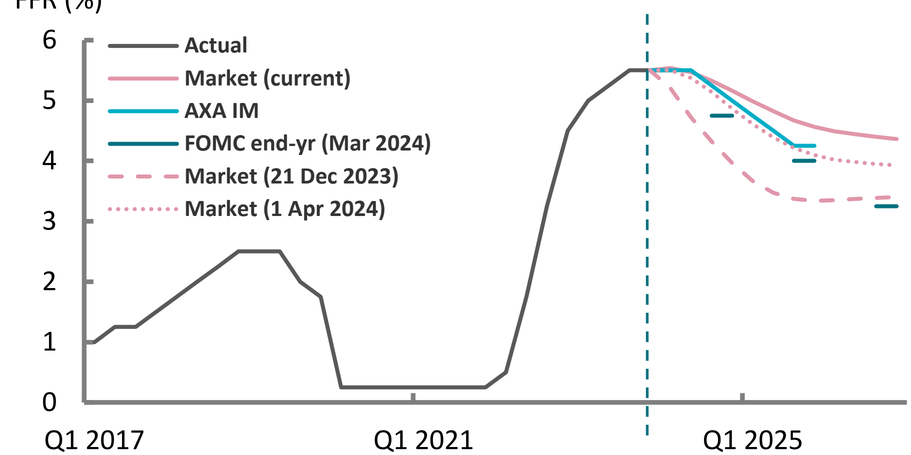
Retail sales & consumer spending



Source: LSEG Datastream , AXA IM Research, 22/04/2024

Market reprices Fed outlook

Fed Funds Rate and forecasts



Source: FRB, Bloomberg, AXA IM Research, 22 Apr 2024

Growth: Better news to come

Eurozone

Services continue to lead the gradual recovery

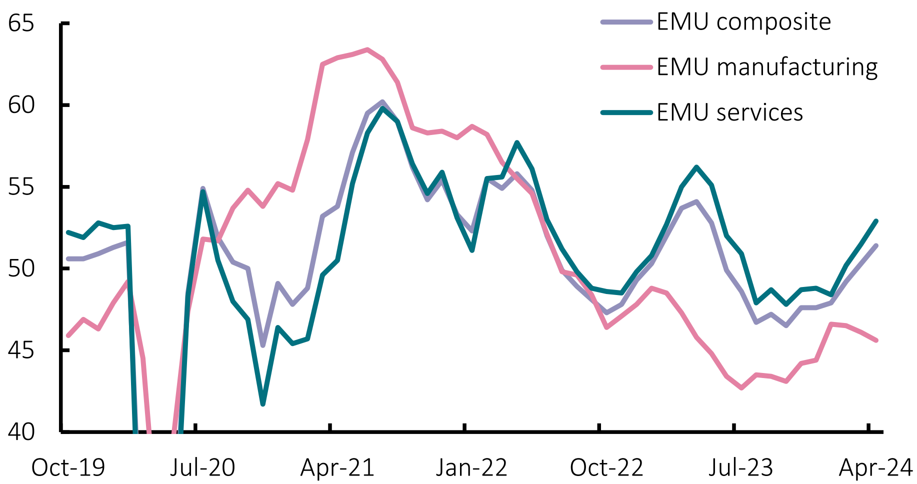
- April PMIs support the gradual recovery led by services (52.9 in April, +1.4 points from last month). However, the manufacturing sector remains weak. Despite a rebound in monthly industrial production in February to +0.8% after -3% in January (-2.4 percentage points of which were due to Ireland), PMIs in March and April did not point to immediate recovery (45.6; -0.5pt from March). The preliminary GDP estimate will be published on 30 April and we still forecast meagre GDP growth of around +0.1% qoq.

Services inflation should finally ease in April

- Both headline and core inflation continue to decelerate in March at respectively 2.4% and 2.9% yoy. Services inflation remained sticky at 4% for the fifth successive month, but this was distorted by the earlier timing of Easter this year. We remain confident that services inflation should start a downward trend from April, but more decisively after the summer.

Services sector is showing the path

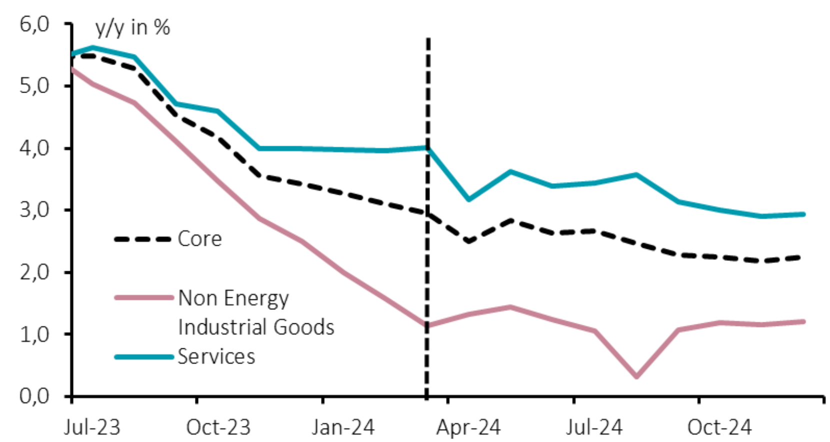
EMU Purchasing Managers indices



Source: Bloomberg and AXA IM Research, April 2024

Services inflation : a slight downward shift before a more decisive decline after the summer

Euro area: core inflation forecast



Source: Eurostat, AXA IM Macro Research, as of April 2024

Under the watchful eye of rating agencies

Eurozone

ECB: the bar is high for not cutting interest rates in June

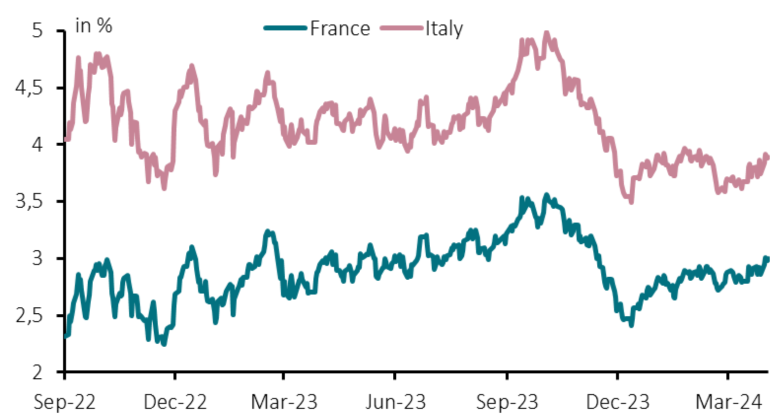
- ECB President Lagarde said that only a small minority was already pushing for a cut in April. The ECB broadly delivered the same communication as in March, that it remains data dependent and that its June projections will be key to "*further increase the confidence that inflation is converging to the target in a sustained manner*" as "*then it would be appropriate to reduce the current level of monetary policy restriction*".

France & Italy : On a slippery (fiscal) road

- Rating agencies' reports over the next few weeks will be closely monitored. Overall, we believe rating agencies should be relaxed with Italy and maintain both rating and stable outlook. The debt/GDP trajectory is slightly worse, but the starting point is better than expected while Italy is benefitting from an important decline in rates. For France, all three major rating agencies have already warned that the rating was at risk. For those reasons, a deterioration of the outlook is very likely by Moody's, likely by Fitch (already downgraded last year). More worryingly, S&P already has a negative outlook so a rating downgrade to AA- is possibile at end-May.

Italian BTP yields down 150 basis points since October

10 year bond yields



Source: Refinitiv, AXA IM Macro Research, as of 18 April

Upcoming rating agencies update for France and Italy

			Previous	Comment
19-avr	Italy	S&P	BBB (stable)	Negative fiscal surprises persist (Superbonus). More details on updated fiscal trajectory to come in the fall. Effective NGEU disbursements are really key for outlook.
26-avr	France	Fitch	AA- (stable)	Public deficit has been revised on the upside in 2023 (+0.6pp) which implies a huge effort for the government to lower spendings/increase receipts to come back to 3% of deficit by 2027. Credit rating outlook deterioration is likely.
26-avr	France	Moody's	Aa2 (stable)	Deficit has been revised on the upside in 2023 (+0.6pp) which implies a huge effort for the government to lower spendings/increase receipts to come back to 3% of deficit by 2027. Credit rating outlook deterioration is very likely
03-mai	Italy	Fitch	BBB (stable)	Negative fiscal surprises persist (Superbonus). More details on updated fiscal trajectory to come in the fall. Effective NGEU disbursements are really key for outlook.
31-mai	France	S&P	AA (negative) / Outlook Downgrade	Deficit has been revised on the upside in 2023 (+0.6pp) which implies a huge effort for the government to lower spendings/increase receipts to come back to 3% of deficit by 2027. Rating downgrade is a possibility
31-mai	Italy	Moody's	Baa3 (stable)	Negative fiscal surprises persist (Superbonus). More details on updated fiscal trajectory to come in the fall. Effective NGEU disbursements are really key for outlook.

Modest recovery underway

UK

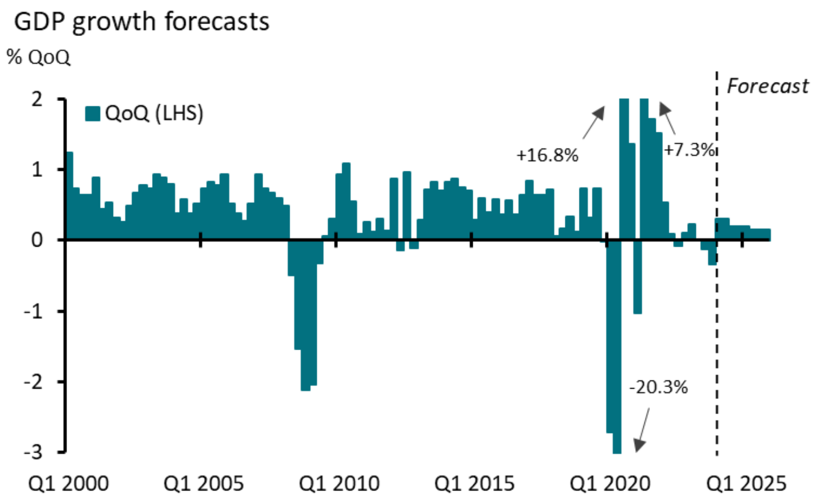
Recovery to continue this year

- The UK appears to have exited recession at the start of the year, monthly GDP rising by a further 0.1% in February, following an upwardly revised 0.3% in January. On a quarterly basis, GDP is now on track to rise by 0.3% in Q1, slightly above our forecast 0.2%. The recovery will likely maintain a similar pace over the rest of the year, driven by strengthening consumption. Indeed, real incomes will likely continue to rise as pay growth continues to outstrip inflation and tax cuts and benefit hikes provide an additional boost in Q2. We look for growth of 0.4% this year and then 0.8% in 2025 (consensus 0.3% and 1.1%).

Pay growth and CPI inflation stronger than expected

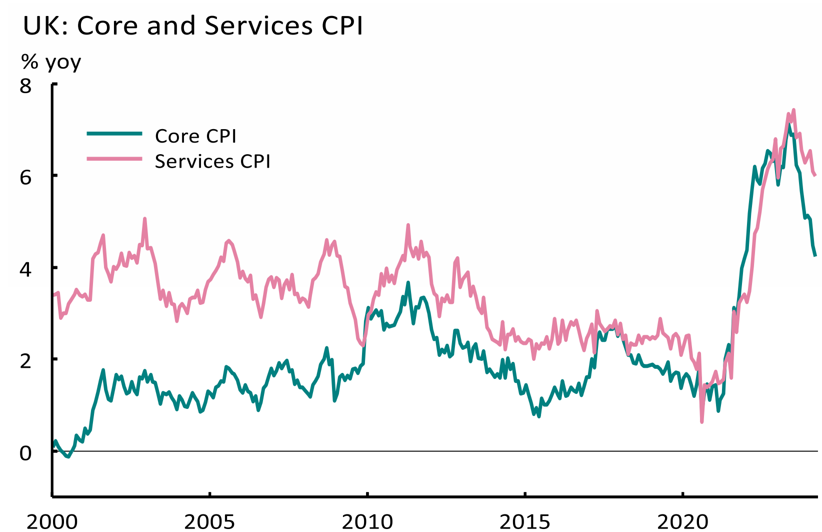
- Wage growth and CPI inflation also came in slightly above expectations. Average weekly earnings ex. bonuses ticked down to just 6% in February, from 6.1% in January – a drop to 5.8% was expected - while CPI inflation fell to 3.2% in March, from 3.4%; a fall to 3.1% was anticipated by both forecasters and the BoE. Slightly more concerning was the mere tick down in services inflation to 6.0% in March, from 6.1% in February.

Gradual recovery likely this year



Source: National Statistics, AXA IM Research, April 2024

Services CPI inflation remains sticky



Source: LSEG Datastream , AXA IM Research, 19/04/2024

Slowdown in pay growth and inflation should gather pace

UK

…But downward trend in both should continue

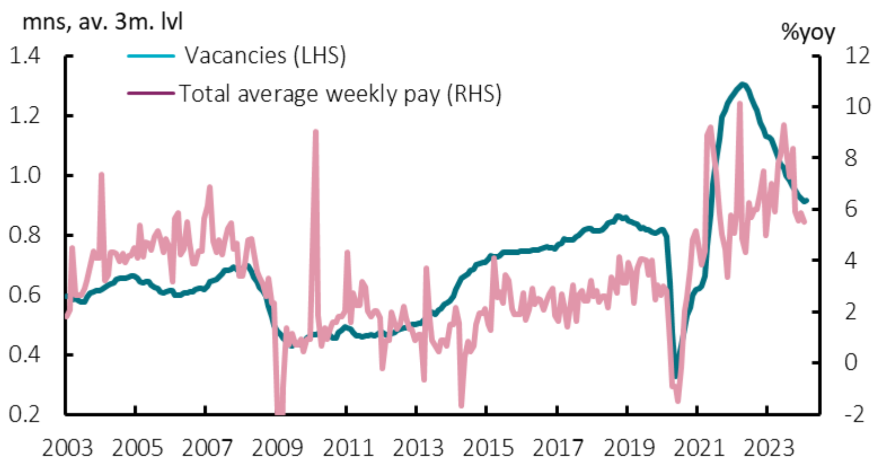
- Labour market slack, however, continued to develop; the unemployment rate rose to 4.2% in February, from 3.9% and vacancies continued to fall. Pay growth should start to decelerate materially in the latter part of the year, once any upward pressure from the near-10% National Living Wage hike fades. CPI inflation also looks set to fall, back to the 2% target in April, largely due to the adjustment in the Ofgem price cap. Admittedly, the headline rate will likely rise back above target in Q3, as base effects mean the downward contribution from energy fades. But services inflation should ease to the 3-3.5% range necessary to return the headline rate to target sustainably next year; in our opinion risks to the MPC's forecast lie to the downside in 2025.

A June cut remains our base case

- The MPC don't seem too worried either. Governor Bailey insisted that inflation is developing as expected. All considered, we think a June cut still looks most likely with two further cuts in September and November. Nevertheless, if inflation and wage growth continue to come in above expectations over the coming months, the first cut could be pushed back to August.

Wage growth should continue to slow

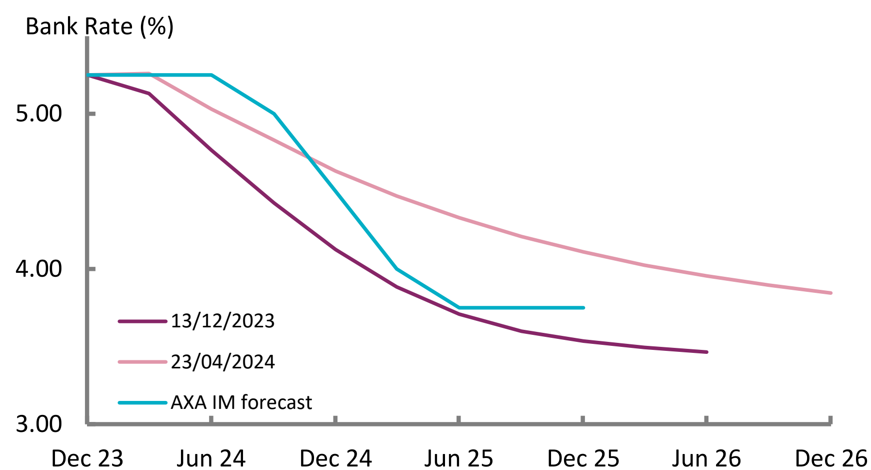
Vacancies and average pay growth



Source: National Sources, AXA IM Research, April 2024

Markets have moved away from a June cut

Bank Rate expectations, market pricing (SONIA)



Source: Bloomberg, AXA IM Research, April 2024

Robust GDP positioned the economy well

China

Investment in the driver's seat

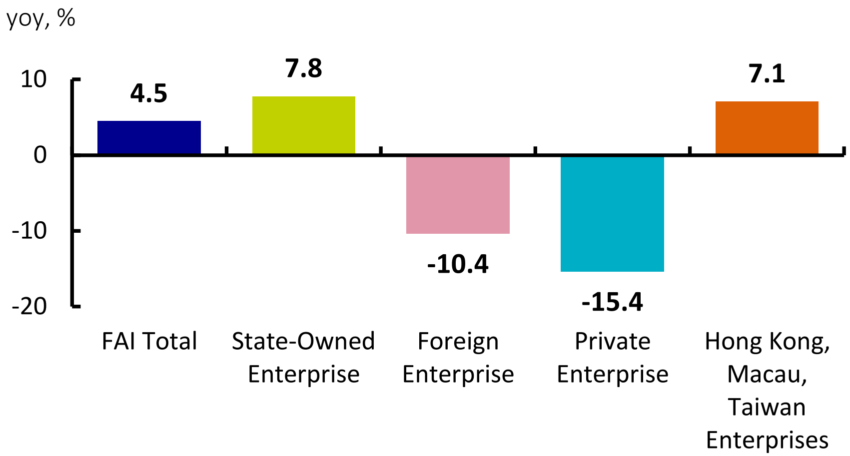
- Following Beijing's instruction, State-Owned Enterprises led investment helped the economy achieve a much-better-than-expected growth in the first quarter of the year, which has brought the growth target of 5% within reach.
- Sentiment among foreign and private investors remained gloomy but is likely to recover as the economy progresses.

Recovery in consumption may underway

- The increase in propensity to save since H2 2023 was captured by the decline in M1/M2 ratio, highlighting the negative wealth impact from the property downturn.
- Retail sales in monthly terms has started to pick up alongside the reduced propensity to save, which brightens the outlook for consumption. It may also a lifting of the gloom surrounding the ongoing downturn in the real estate sector.

Investment from State-Owned Enterprise did the heavy lifting

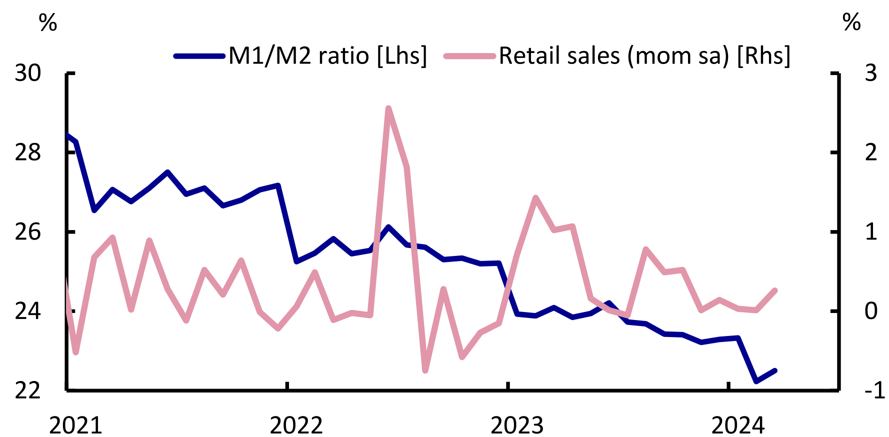
China - Fixed Asset Investment in Q1 2024



Source: CEIC and AXA IM Research, April 2024

Reduced propensity to save may bring consumption up later

China - M1/M2 ratio and retail sales



Source: CEIC and AXA IM Research, April 2024

Export prices dropped amid currency depreciation

China

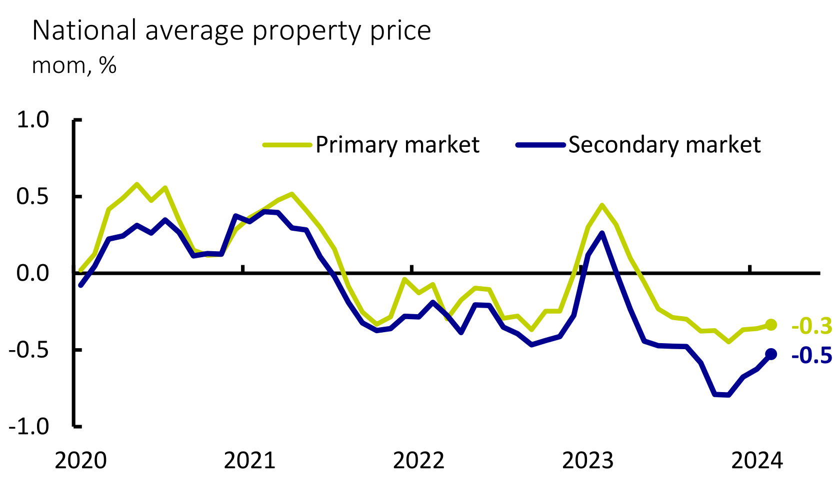
Exports recovered well in volume but not in value terms

- Exports continued to fall in value terms, but export volumes rose, underscoring reduced export prices that were distorted by the depreciation in the Chinese Yuan. A recovery in China's export values is likely as the yuan stabilises, after easing in the west.

Monetary policy easing hopes may fade as economic progress better than expected

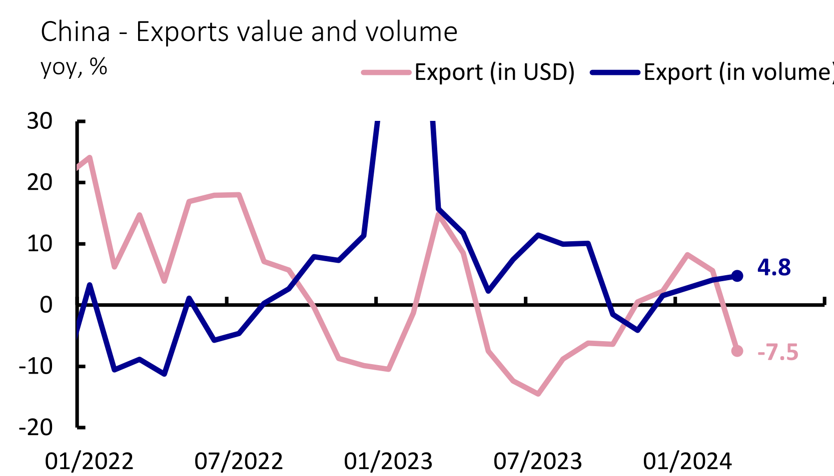
- The robust progress in activity made in the first quarter was much needed to reverse the gloomy sentiments. However, it could curb the strength of the future policy measures, as the authorities become less concerned about meeting the growth target.
- However, as the price correction in the property market continues, fiscal stimulus is likely to remain in place. On the monetary side, we still see a 50bps cut on the RRR to maintain easy liquidity. That said, given that the Fed is now expected to delay its easing and the thin net interest margins among the domestic commercial banks in China, we think the PBoC is likely to deprioritise any policy rate cuts at this stage.

Price adjustment in the property sector is still ongoing



Source: CEIC and AXA IM Research, April 2024

Exports recovery shows in volume term



Source: CEIC and AXA IM Research, April 2024

Yen continues to weaken

Japan

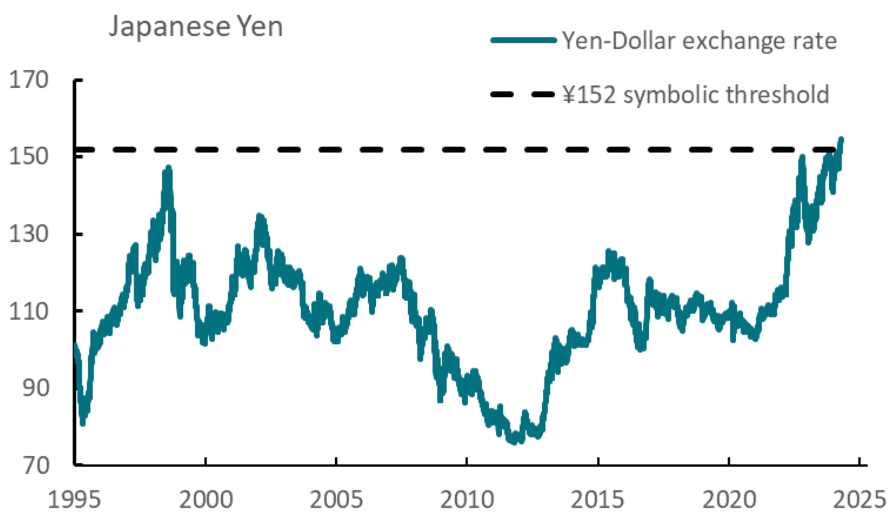
The yen has depreciated, despite tighter monetary policy

- The yen has depreciated, breaking through the symbolic ¥152 threshold and was trading at around ¥156 on 26 April, over a 30-year low. That was despite the Bank of Japan (BoJ) enacting its first rate hike since 2007 in March, bringing an end to the Negative Interest Rate Policy (NIRP), as well as abolishing its yield curve control.

Government may intervene, the BoJ will not

- The cautious outlook from the BoJ after its March meeting is part of the reason for a softer yen, but the downward shift in market expectations for US interest rates exacerbated the fall. Recent comments from US, Japanese and South Korean officials appear to have halted the fall for now, but government intervention to support the currency seems more likely than not. The BoJ, however, is unlikely to respond directly, with Governor Ueda stating in parliament that "we absolutely won't change monetary policy in response to exchange-rate moves". He also said that rising import prices alone wouldn't trigger a hike, instead reiterating that the key was whether upward price pressure translates into broader inflation and pay growth.

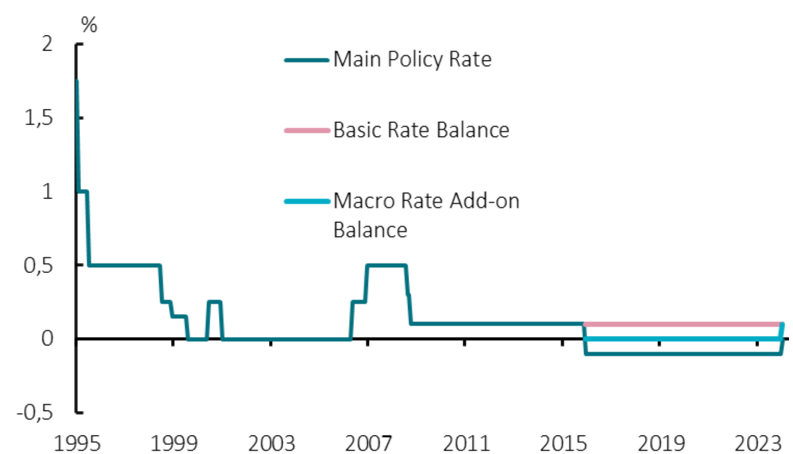
Yen breaks through symbolic ¥152 threshold…



Source: Refinitiv, AXA IM Research, April 2024

…despite the end of negative interest rates

BoJ short-term policy interest rate



Source: Bank of Japan, AXA IM, April 2024

The BoJ desires a wage/price loop

Japan

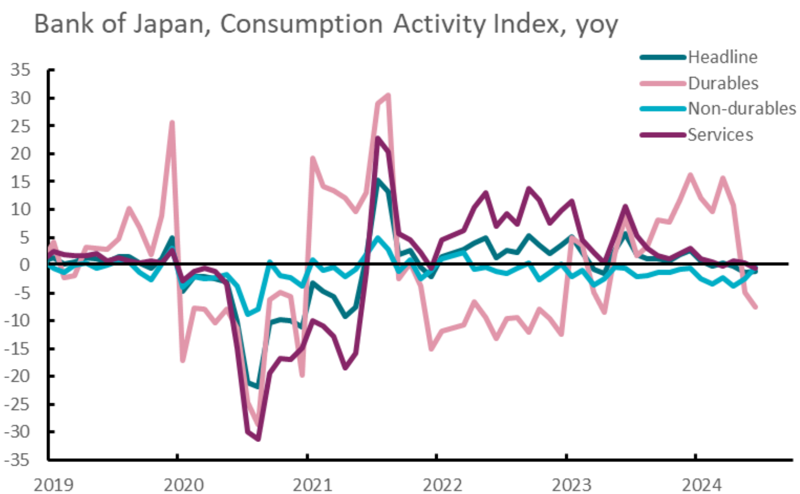
The virtuous wage/price loop will likely take hold

- Dynamics look positive for further tightening. Private consumption looks likely to fall again in Q1, as shown by the 0.5%yoy fall in households' spending in February. But rising wages, following the Shunto wage negotiations, mean pay growth should start to outpace CPI inflation in Q2, boosting households' real incomes and spending. A persistently weaker yen will also push up broader inflation, if firms pass on rising costs. The BoJ revised up their inflation outlook at April's meeting. A further hike to short-term interest rates this year, therefore, looks likely; we forecast one more 10bp hike by year-end and a further 20bps by end-2025. We also expect it to start to look at reducing its balance sheet towards end-year, with implementation in 2025.

Growth outlook set to improve

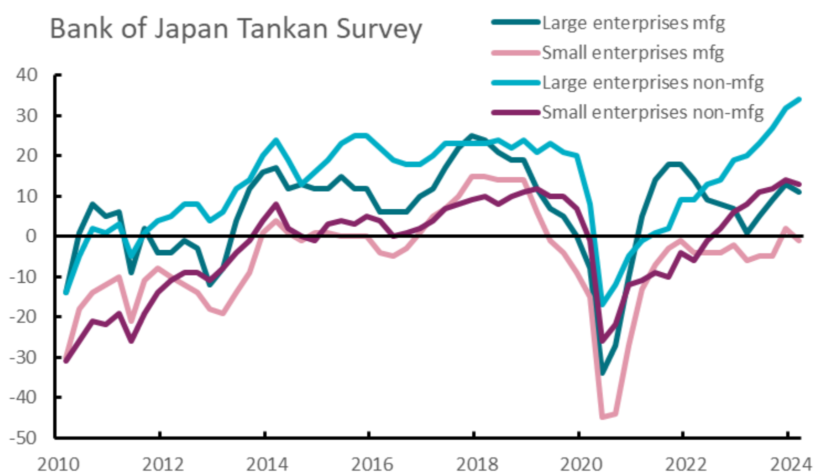
- More broadly, economic activity in Japan likely rose marginally in Q1, after a 0.1%qoq increase in Q4. While Tankan business conditions DI fell for large manufacturers in Q1 (to +11, from +12), it rose for large non-manufacturers (to +34, from +32). In addition, the headline composite PMI ticked up to 51.7, from 50.6.

Consumption was weak in Q1, but should rebound



Source: Bank of Japan, AXA IM Macro Research, April 2024

GDP likely continued to edge up in Q1



Source: Bank of Japan, AXA IM Macro Research, April 2024

GDP rebounds at start of 2024

Canada

Growth just above zero

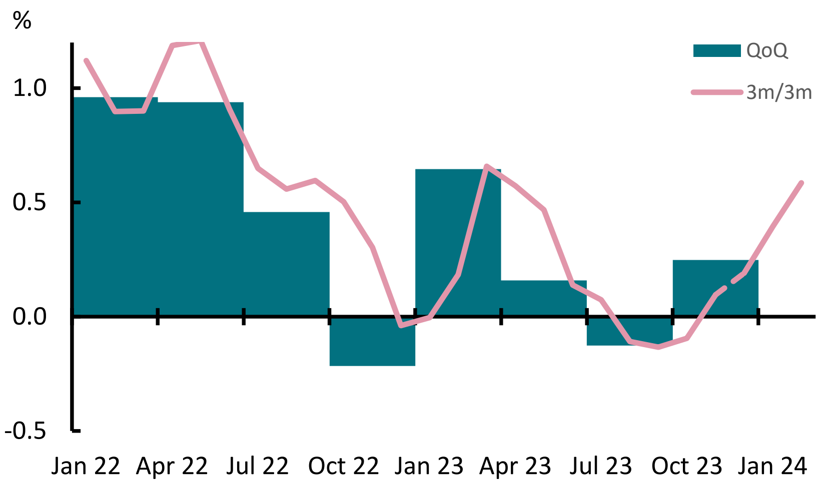
- Canadian activity continued with a firmer start to 2024 than it had closed 2023. Monthly GDP rose by 0.6% in January and February's 'flash' estimate was a further strong 0.4%. We are sceptical of quite this strength, but nevertheless Q1 looks on track to rise by more than expected – underpinned by strong domestic migration and a stronger US economy. We raise our forecast for this year to 1.2% (from 0.8%), leaving 2025 at 1.7% (consensus 0.9% and 1.8%, BoC 1.5% and 2.2%)

Labour supply brings market into better balance

- Employment fell in March for the first time in 8-months, although this followed stronger opening months of the year and Q1's average 25k pace was solid. Despite employment growth remaining solid, it has been outpaced by supply growth, which in turn has resulted in a rise in unemployment to 6.1% - a 28 month low - up 1ppt in the last year. This easing in the labour market has seen wage growth slow following strong gains around the turn of the year. Wage deceleration should be clearer over H2 2024.

Growth momentum recovers from 2024

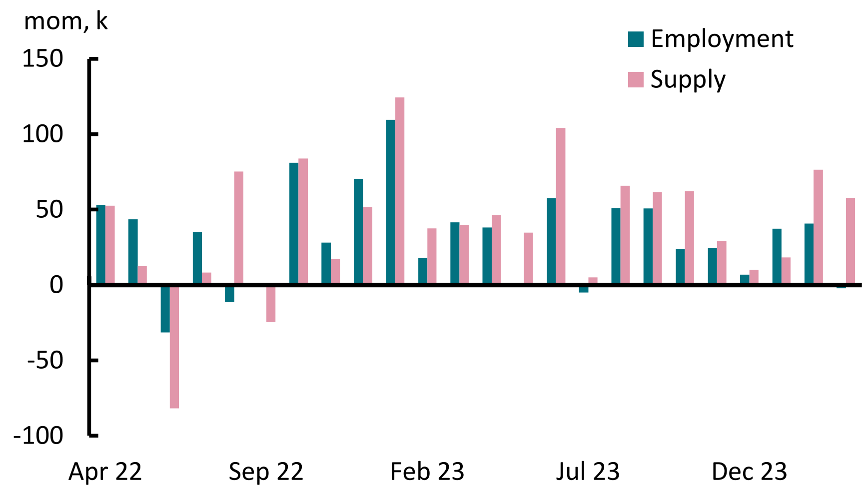
Canadian GDP



Source: CANISM, AXA IM Research, April 2024

Labour supply growth outstrips employment

Employment and labour supply growth



Source: CANISM, AXA IM Research, April 2024

BoC clears path to ease

Canada

Underlying inflation pressures ease

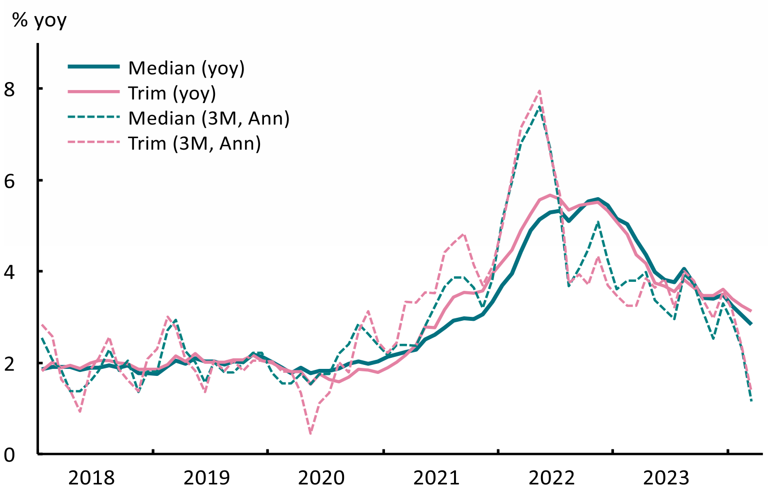
- The latest inflation figures showed a small rise to an annual 2.9% (from 2.8% - a joint 3-year low), but measures of core inflation – both in trimmed and median terms edged lower. However, the most recent trend in both suggest a much more substantive easing in underlying inflation pressures for the first time since 2021. If this persists, it may see greater scope for broader deflation. For now, we forecast inflation at 2.4% for this year and 2.2% next (consensus 2.5% and 2.1%, BoC 2.6% and 2.2%).

BoC clears path for it first cut

- The BoC’s latest Monetary Policy Report included an upward revision to its growth outlook, but a softening in the inflation outlook. Notably, the BoC noted “progress on most indicators of underlying inflation” and dropped references of being “too early to loosen” policy. The BoC appears to have cleared the path for an easing, but we still see this as most likely in July, rather than June. Further out, markets continue to reprice the BoC outlook; for now we continue to see three cuts this year and next.

Underlying price pressures ease

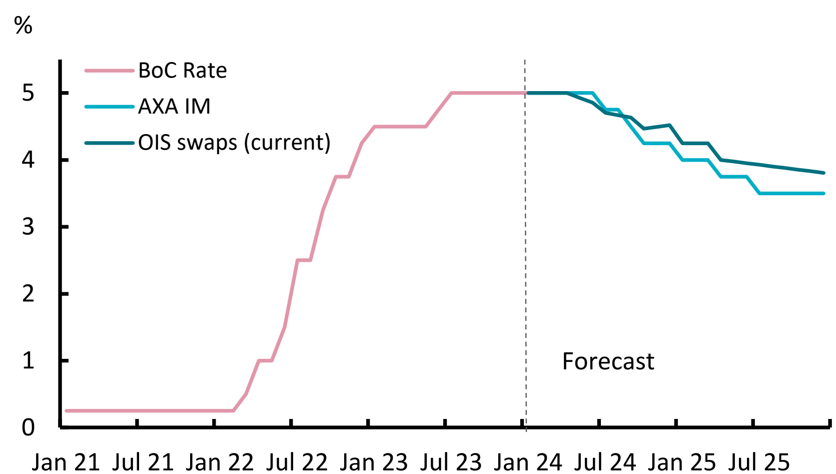
Median Inflation (annual and 3M annualised)



Source: LSEG Datastream , AXA IM Research, 23/04/2024

Repricing of US rate outlook spills into Canada

Bank of Canada overnight rate and outlook



Source: Bloomberg, AXA IM Research, April 2024

Policy complications as currencies weaken

EM Asia ex-China

Central bankers weigh impact of US Fed policy rate cut delays, weak currencies and geopolitical risks

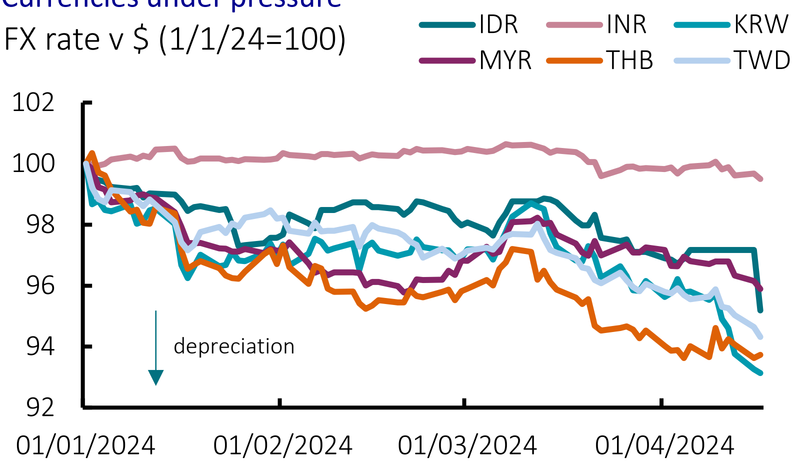
- Monetary policy tightening and subsidies on food and fuel have combined to bring inflation lower across the region. However, the disinflationary trend has stalled, and central bankers have been averse to shifting away from their current tight policy stance. Aside from Thailand, pressure for rate cuts has been limited, and this in part reflects continued growth in domestic demand. In meetings in recent weeks, central bankers in India, Thailand, the Philippines and South Korea kept policy rates on hold.
- The region's currencies have also weakened sharply this year, and real US policy rate differentials are (close to) negative. The prospect of continued high US real yields will further discourage central bankers from cutting rates too soon, given the associated risk of capital outflows and inflationary pressure. In April, the Indian rupee was trading at record lows against the US dollar, but reflecting the extent of depreciation elsewhere, it has been among the best performing currencies in the region so far this year

Subsidies to remain, but will be increasingly costly if oil stays elevated

- With the high cost of living being an increasingly sensitive political issue, governments also have little appetite to reduce subsidies that have shielded households from the full impact of food and energy price volatility. However, prolonged intervention will be costly if global oil prices remain high, particularly for the region's heavy importers, namely India, South Korea and Taiwan

Currencies under pressure

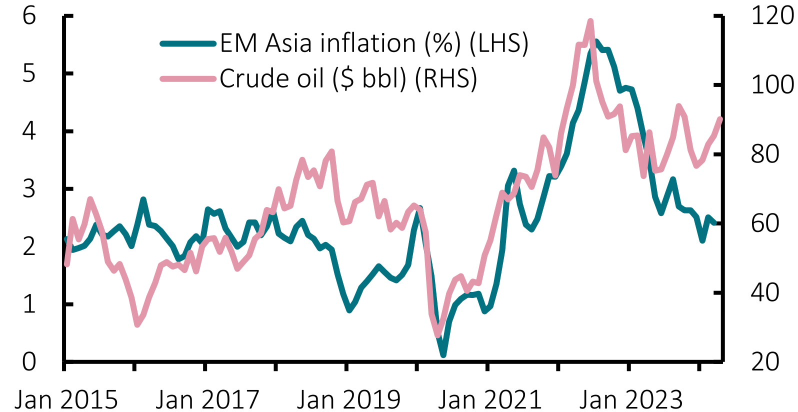
FX rate v $ (1/1/24=100)



Source: LSEG Datastream and AXA IM

Elevated oil

Inflation and oil prices



Source: LSEG Datastream and AXA IM

Closer to the “last mile” of disinflation

EM Europe

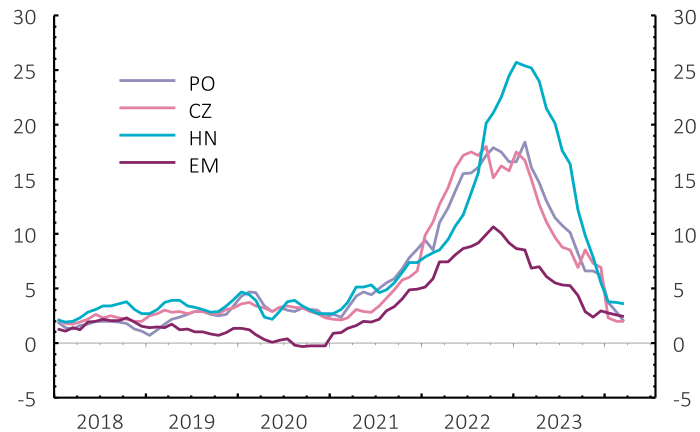
Most of the disinflation is already behind

- Inflation rates have been coming down quite sharply in CEE. In March, annual rates reached 2% in the Czech Republic and Poland, 3.6% in Hungary, down from 18%-25% peaks reached more than a year ago. These performances are already either at target or within central banks’ inflation target ranges. Less favourable base effects are likely to reverse some of these gains into H2 2024. Additionally, core inflation momentum remains nonetheless elevated, especially in services.

Central banks become more cautious

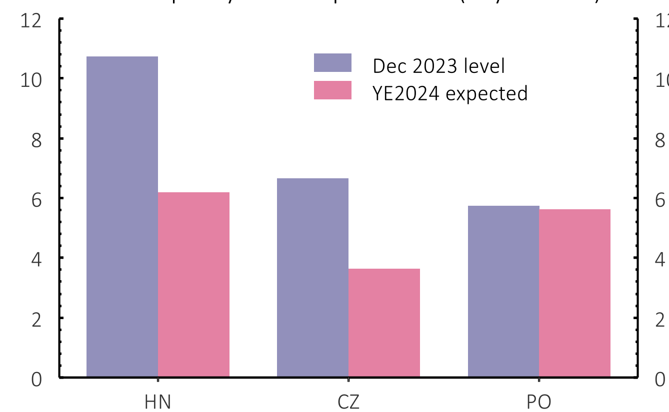
- The strong disinflation process during the past 12 months, prompted CEE central banks to start cutting rates last year. The Polish NBP started to cut in September, the Hungarian MNB in October and the Czech CNB in December, by, now, a cumulative 100bp, 450bp and 125bp respectively. More recently, we sense more hawkish forward guidance and comments, with concerns around sticky services inflation, weaker FX and risks around fiscal policies. We still see space for rate cuts in Hungary and the Czech Republic this year, albeit in smaller cautious steps than before.

Disinflation may encounter some limitations ahead



Source: LSEG Datastream and AXA IM Research Mar 24

Reassessment of the monetary policy easing



Source: LSEG Datastream and AXA IM Research 15/05/2024

Disinflation continues in LatAm

Latin America

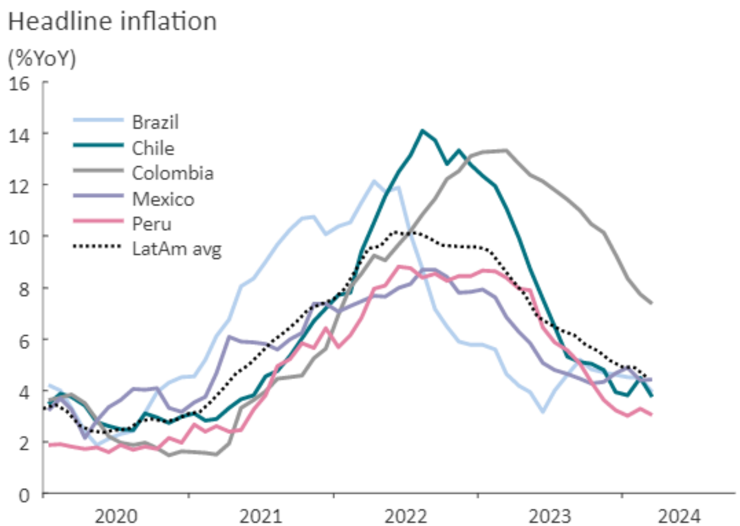
March's inflation figures below market expectations

- In March, inflation in Latin America continued its decline, with readings surprising to the downside with the only notable exception of Peru. The decrease in food prices, which had previously spiked due to severe weather conditions, played a significant role in pushing March's readings below market expectations. Inflation is now within central banks' target bands in Brazil, Chile and Peru although continues above target in Mexico and Colombia.

No dovish shift expected

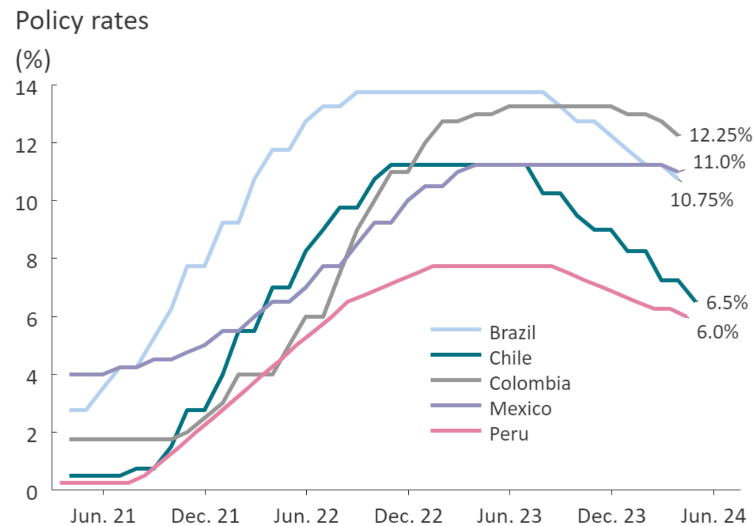
- Inflation in core services remains stubbornly sticky in the region and thus we don't expect a dovish shift as a result of March's positive readings. Brazil and Colombia should maintain their easing pace at 50 basis points (bps) at their next monetary policy meeting, while Mexico and Peru are anticipated to make further cuts of 25bps, and Chile to slow its pace to 50bps.

Inflation above target bands only in Mexico & Colombia



Source: LSEG Datastream and AXA IM Research, Apr 24

Central banks to continue easing cycle



Source: LSEG Datastream and AXA IM Research, Apr 24

Forecasts & Calendar

Macro forecast summary

Forecasts

Real GDP growth (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.2	3.1		3.1	
Advanced economies	1.7	1.4		1.3	
US	2.5	2.4	2.1	1.6	1.8
Euro area	0.5	0.3	0.5	0.8	1.5
Germany	-0.1	-0.1	0.3	0.7	1.5
France	0.9	0.4	0.7	0.7	1.3
Italy	1.0	0.3	0.5	0.6	1.2
Spain	2.5	1.6	1.5	1.3	1.9
Japan	1.9	1.2	0.7	1.0	1.0
UK	0.3	0.4	0.3	0.8	1.2
Switzerland	0.9	0.8	1.1	1.3	1.5
Canada	1.1	1.2	0.6	1.7	1.9
Emerging economies	4.1	4.1		4.2	
Asia	5.3	5.2	4.0	4.7	
China	5.2	5.0	4.6	4.2	4.4
South Korea	1.3	2.2	2.1	2.3	2.2
Rest of EM Asia	5.9	5.8		5.4	
LatAm	2.4	1.7		2.6	
Brazil	2.9	1.6	1.6	2.0	2.0
Mexico	3.3	2.2	2.2	2.1	2.2
EM Europe	2.6	2.5		2.6	
Russia	3.0	2.6	1.7	1.1	1.1
Poland	0.2	2.8	2.8	3.5	3.4
Turkey	4.3	2.0	2.2	3.6	3.2
Other EMs	1.9	2.8		4.6	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 25 April 2024

**Forecast*

AXA Investment Managers

Expectations on inflation and central banks

Forecasts

Inflation Forecasts

CPI Inflation (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	4.7	2.8		2.2	
US	4.1	3.1	2.6	2.4	2.3
Euro area	5.5	2.5	2.3	2.1	2.1
China	0.2	0.6	0.9	1.6	1.9
Japan	3.2	2.2	2.3	1.6	1.5
UK	7.7	2.7	2.6	1.6	2.0
Switzerland	2.2	1.6	1.6	1.3	1.3
Canada	3.6	2.4	2.6	2.2	2.0

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 25 April 2024
**Forecast*

Central banks' policy: meeting dates and expected changes

Central bank policy
Meeting dates and expected changes (Rates in bp / QE in bn)

		Current	Q2-24	Q3-24	Q4-24
United States - Fed	Dates	5.50	1 May 12 Jun	30-31 Jul 17-18 Sep	6-7 Nov 17-18 Dec
	Rates		unch (5.50)	-0.25 (5.25)	-0.25 (5.00)
Euro area - ECB	Dates	4.00	11 Apr 6 Jun	18 Jul 12 Sep	17 Oct 12 Dec
	Rates		-0.25 (3.75)	-0.25 (3.50)	-0.25 (3.25)
Japan - BoJ	Dates	0 - 0.1	25-26 Apr 13-14 Jun	30-31 Jul 19-20 Sep	30-31 Oct 18-19 Dec
	Rates		unch (0-0.1)	unch (0-0.1)	+0.15 (0.15-0.25)
UK - BoE	Dates	5.25	9 May 20 Jun	1 Aug 19 Sep	7 Nov 19 Dec
	Rates		-0.25 (5.00)	-0.25 (4.75)	-0.25 (4.50)
Canada - BoC	Dates	5.00	10 Apr 5 Jun	24 Jul 4 Sep	23 Oct 11 Dec
	Rates		unch (5.00)	-0.25 (4.75)	-0.50 (4.25)

Source: AXA IM Macro Research - As of 25 April 2024

Calendar of events

2024	Dates	Events	Comments
April		BoE Term Funding Scheme repayments begin	
		India General Elections	
	25-26 Apr	BoJ meeting	unch (0-0.1%)
	30-Apr	Post Brexit border full SPS checks on EU goods introduced	
	Late April	EU countries send their updated stability programmes (GDP & fiscal outlook) to the Commission	
	Spring	Commission will propose to EU Council to open Excessive Deficit Procedures	
May	01-May	FOMC meeting	unch (5.50%)
	07-May	US: Indiana Republican primaries	
	07-May	Reserve Bank of Australia (RBA) meeting	
	09-May	BoE meeting	unch (5.25%)
	14-May	US: Maryland, Nebraska & West Virginia Republican primaries	
	21-May	US: Kentucky & Oregon Republican primaries	
June	02-Jun	Mexico Presidential Election	
	04-Jun	India General Election Results	
	04-Jun	US: Montana, New Jersey, New Mexico & South Dakota Republican primaries	
	05-Jun	BoC meeting	unch (5.00%)
	06-Jun	ECB meeting	-25bps (3.75%)
	09-Jun	European Parliament Election	
	09-Jun	Belgium Federal Elections	
	12-Jun	FOMC meeting	unch (5.50%)
	13-14 Jun	BoJ meeting	unch (0-0.1%)
	18-Jun	Reserve Bank of Australia (RBA) meeting	
	20-Jun	BoE meeting	-25bps (5.00%)
	27-28 Jun	European Council	
	30-Jun	BoE MPC member & Deputy Governor Ben Broadbent's term ends	
October	Before 24 Oct	Austria General Elections	
November	05-Nov	US Presidential Elections	

Latest publications

[March Global Macro Monthly - Inflation divergence to drive monetary tensions]
27 March 2024

[March Op-Ed - Direction of travel confirmed]
27 March 2024

[February Global Macro Monthly - Policy Rules and Monetary Tools]
28 February 2024

[February Op-Ed - Exploring Exuberance]
28 February 2024

[Framing the ECB's rate cutting cycle]
26 February 2024

[January Global Macro Monthly - The great election year]
24 January 2024

[January Op-Ed - Cuts are coming – but the market needs to be more patient]
24 January 2024

[2024's elections around the world: The who's who and the so what…]
23 January 2024

[The key drivers of 10-year US Treasury yields]
18 January 2024

[Outlook 2024-25: Slowing mid-cycle, not crashing end-cycle]
30 October 2023

Investment Managers