AXA Investment Managers

Investment Institute Macroeconomics

A far-reaching US election

Monthly Investment Strategy

AXA IM Research

October 2024

Summary: October 2024

Theme of the month: The US election’s impact on the rest of the world

- In recent weeks, Vice President Harris’ lead in national polls has narrowed somewhat and her lead in marginal swing states has reversed in all but Wisconsin. Key polls are within polling error margins and hang on a knife-edge still. But momentum has clear shifted towards Trump. This is key for the outlook with the rest of the world with Trump’s policies generally viewed as more disruptive than expected under Harris.
- Trade policies dominate this concern, the threat of 60% tariffs on China and 10% for others would have a marked impact. For China this risks a damaging trade war for an already fragile economy. EM Asia may continue to benefit from China diversification, but rising trade surpluses with US might be a problem. For Europe, the direct impact would likely be smaller. While Mexico could face significant issues, despite being a member of the USMCA.
- Security would also be an issue under threat. Trump’s implicit threat of a reduced security provision to Europe could prove critical, forcing further European defence spending. In Asia, Trump has also threatened a more ‘transactional’ security provision. Harris would not likely change this outlook.
- Migration policies may also have a direct impact on Mexico and Canada. But with both candidates likely to oversee less migration than in recent years, this will restrict the Federal Reserve’s space for policy easing with broader ramifications.
- Indeed, all economies will be vulnerable to shifts in US economic conditions and financial markets, with again the most adjustment expected under Trump. We continue to see this as positive for the dollar and yields (in evidence in recent weeks), something that would impact other central banks.

Macro update: Policy easing, but US strength persists into election

- US data continue to remain solid with payrolls bouncing 254k in September, core inflation rising and retail sales strong. Q3 looks set to deliver another solid quarter. This continues to stand at odds with the Fed’s 0.50% September rate cut and we forecast two 0.25% cuts for the remainder of the year.
- China’s economy showed some signs of improvement in September. Further measures have been forthcoming over the last month, but so far remain incremental. The scale of policy to date does not match the longer-term challenges – and falling housing market. But we expect more after the US election.
- Eurozone activity continues to remain soft. Measures set out to address public finances suggest a sharp fiscal tightening that will add headwinds to growth. And we forecast inflation below target into next year. This has seen the ECB switch to back-to-back policy easings that we expect to continue until June.
- UK GDP looks set to soften after a solid H1 2024. The Budget still looks on track to deliver a sharp fiscal tightening that could accelerate BoE easing.
- Japanese GDP also looks set to soften in H2. Political uncertainty has faded, despite the 27 October election. But the BoJ looks likely on hold until Q1 2025.
- In EM Asia and Latam monetary policy easing continues. This is really now underway in Asia as contained inflation has seen a pivot to focus on domestic demand against a backdrop of external risks. In Latam (ex-Brazil) central banks have moved ahead of broader cycles and been easing for some time. Recent softer inflation allows continued easing, but no acceleration. In central Europe, Poland stands out with inflation likely rising and delaying cuts until H1 2025.

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Central scenario

Summary – Key messages

Our central scenario: Global economy stabilises, disinflation slows.

Global growth expected 3.2% in 2024, to slow to 3.1% in 2025.

Weak energy brings headline inflation down. Monetary policy easing underway. US election key risk for outlook.

Inflation

Headline close to targets in many economies as energy prices soften. Core disinflation broadens, but stickiness in services persist and most regions to achieve target rates only in 2025.

Monetary policy

Central banks are easing policy restrictiveness at an accelerating pace in DM, a few exceptions in EM.

Fiscal policy

Europe announced budgets to tighten policy sharply. UK's Budget likely to follow suit. US deficits left unchecked and likely to rise further on any election outcome.

Emerging Markets

Inflation easing across most EM. Central banks easing cycle extends acro EM Asia. Some see fiscal slippage.

FX

Dollar rebounds as data results in Fed repricing, and maybe extended by election outlook. Faster ECB cuts and slower BoJ cuts see euro and yen lower.

Rates

Term rates rise as stronger data question strong rate cut expectations. US yields rise on US election outlook. Treasuries underperform other markets.

Growth

Growth likely to see softer H2 2024 than H1 in several economies. US expansion still solid. China may yet eke out its "close to 5%" target rate.

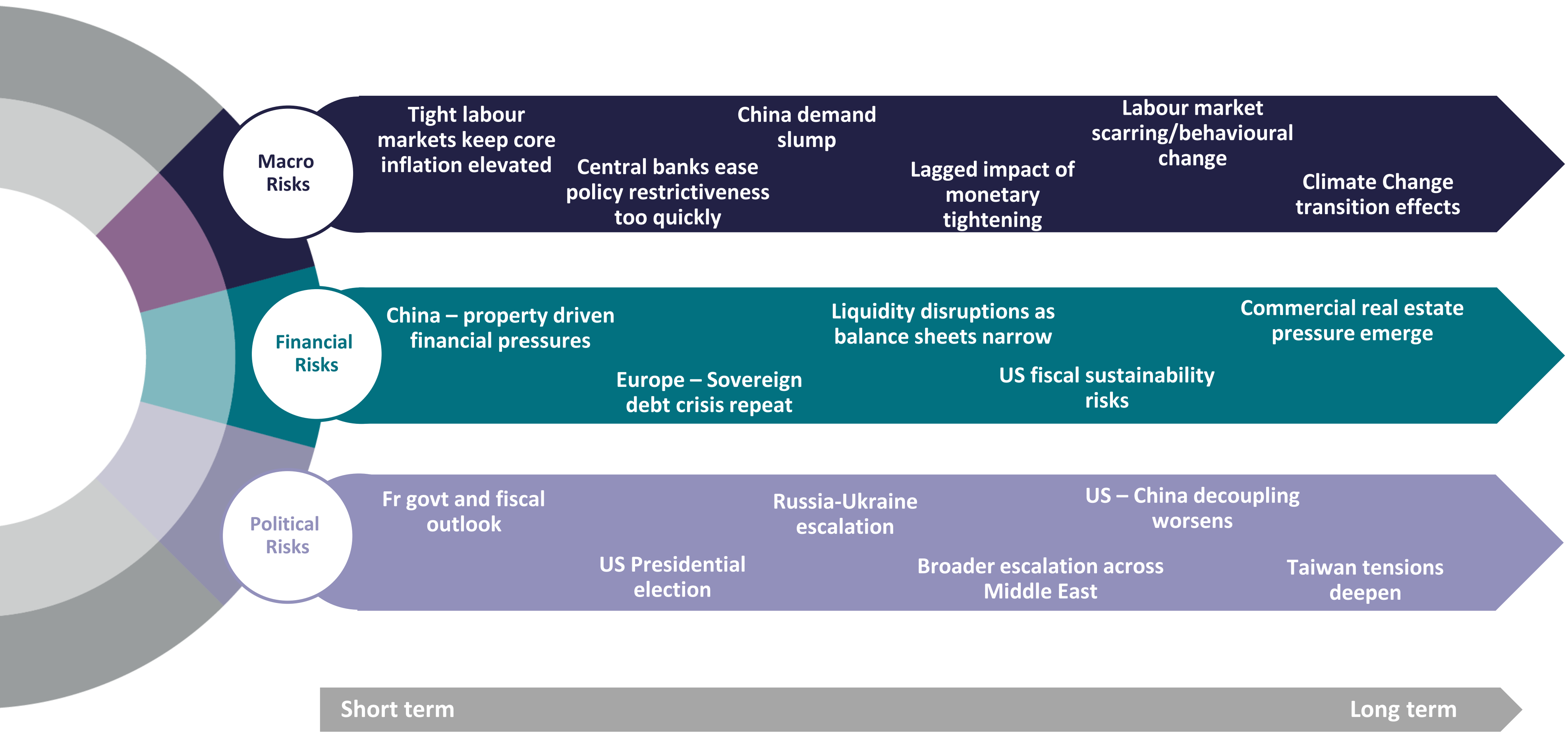
Alternative scenarios

Summary – Key messages

	Entrenched supply shock Probability 20%		A global boost Probability 20%
		What could be different?	
	- Trumponomics: protectionism, migration clampdown - Geopolitical tensions escalate: Ukraine, Middle East and Indo-Pacific - Inflation expectations rise, affecting wages and inflation persistence	What could be different?	- 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 slows, 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

The US election's impact on the rest of the world

Momentum shifts towards Trump

Harris lead in national polls narrows

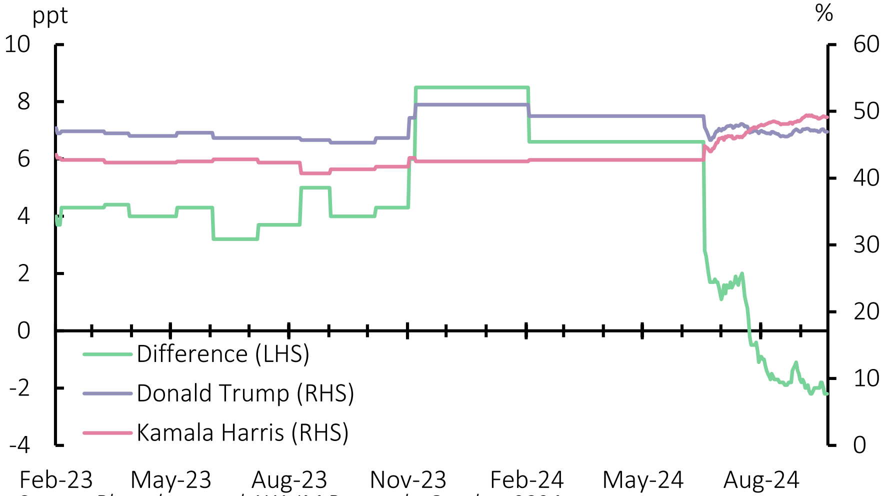
- In the last few weeks, national polls suggest that Harris' lead has started to narrow, with Trump's approval rating edging higher. Harris maintains a lead overall, but the momentum appears to have shifted.

Marginal states swing back to Trump

- Consistent with a narrowing of the national lead, polling in the seven battleground states that will likely determine the path to the electoral college – and actual – victory has also moved in favour of Trump. Trump now leads in average polling in all marginal states. This compares to polling after the Trump/Harris TV debate where Harris led in all but two (Georgia and Arizona). However, the leads, both previously for Harris and now for Trump, are much smaller than the polling error margins.

Harris momentum starts to fade

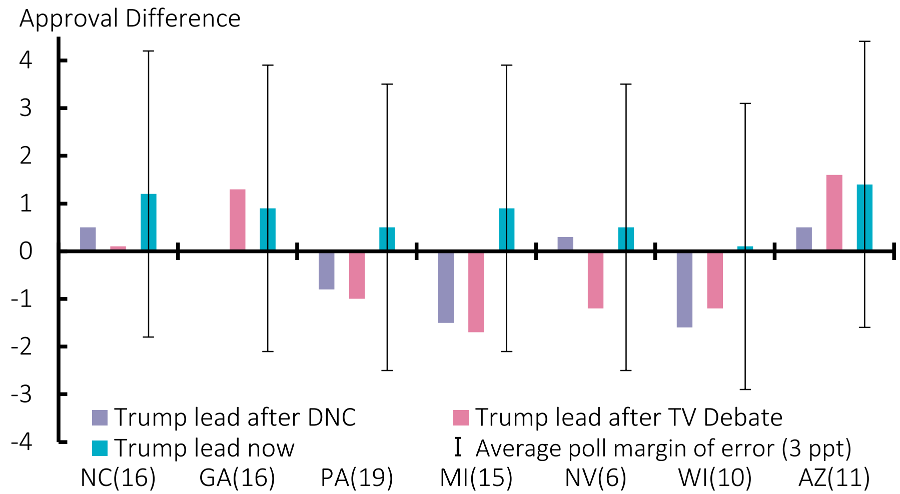
Trump Harris approval ratings



Source: Bloomberg and AXA IM Research, October 2024

Harris loses lead in most swing states – but polling with error margins

Trump lead against Harris by marginal states



Source: RealClearPolling and AXA IM Macro Research, October 2024

The US election's impact on the rest of the world

A tight final few weeks

If the election were tomorrow and polls exactly right …

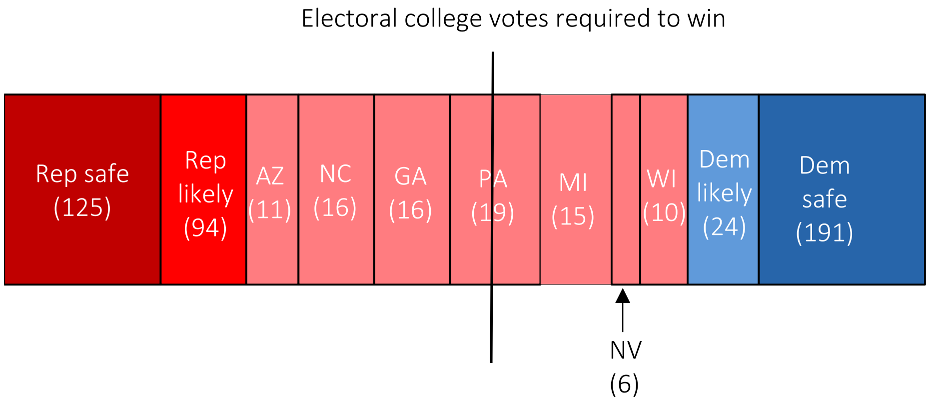
- Based on the current state of polling and assuming that these polls are exactly right – Trump is on course to win the White House in November. However, the margin of this projected electoral college win is highly dependent on very small poll leads, which could easily prove wrong. The election outcome continues to hang on a knife-edge, but the odds appear to have moved in Trump's favour. And betting and financial markets have reacted accordingly.

Polling uncertainties

- It has continued to strike us that Harris' national lead over Trump falls far short of Clinton's eight years before – who went on to lose. That said, Allan Lichter, the US historian who has correctly forecast all but one US election over the last 40 years using fundamental, rather than polling data, has forecast a Harris win.

Current states polling hands Trump electoral college victory

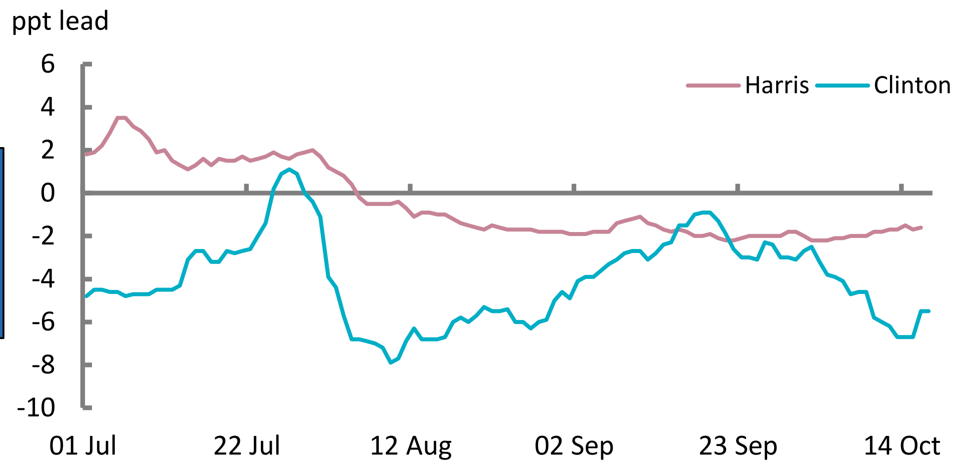
US - States with electoral college votes ranked by current polling



Source: RealClearPolitics and AXA IM Research, October 2024

Harris's current lead in the polls is small compared to Clinton's

Trump lead in overall approvals



Source: Real Clear Politics, October 2024

The US election's impact on the rest of the world

Eurozone

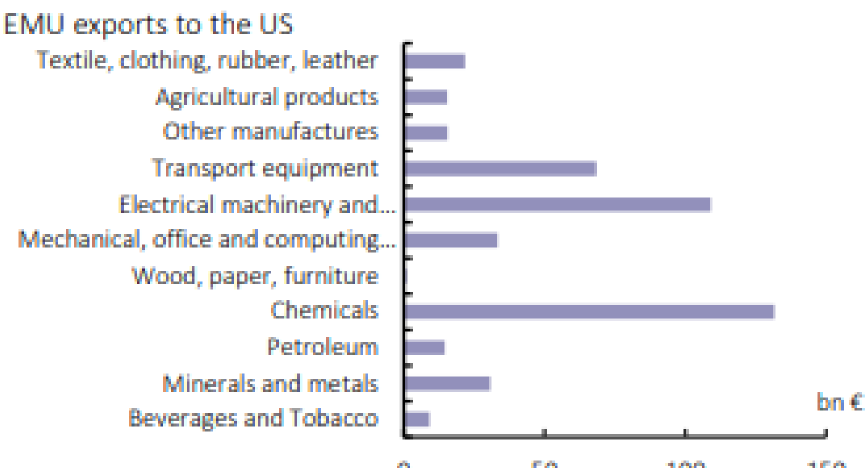
Trade tariffs: A marginal direct impact

- The weighted average of US tariffs on EU exports is around 3%. Assuming a blanket 10% by the new Trump administration, we estimate it would reduce total Eurozone goods exports by €30bn (0.2% of GDP) – a rather limited direct impact.
- We are more concerned about the adverse ripple effects from a US-China escalated trade war, where the latter may try to re-route goods towards Europe. Furthermore, global protectionist policies, with associated economic uncertainty would likely affect domestic and foreign investment. The impact is difficult to estimate but would be crucial for both short and medium-term growth.

European security tensions

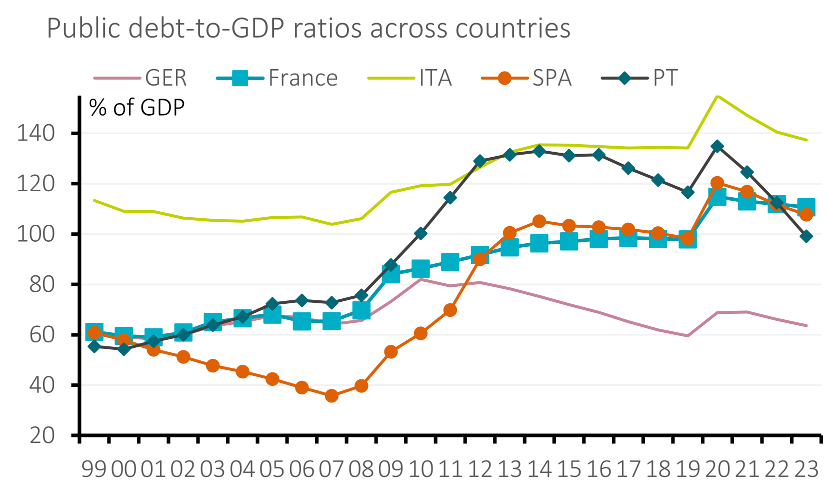
- US support for Ukraine and implications for NATO are also a concern. The EU would not be able to replace the scale of US support – especially in the materials.
- A perception of broader US security withdrawal may lead countries to raise defence spending more materially, something that would additionally strain vulnerable EU public finances and relations.

EU-US trade relations: a few key sectors



Source: Eurostat and AXA IM Research, September 2024

Strained public finances offer little wiggle policy room



Source: Eurostat, AXA IM Research, October 2024

The US election's impact on the rest of the world

China

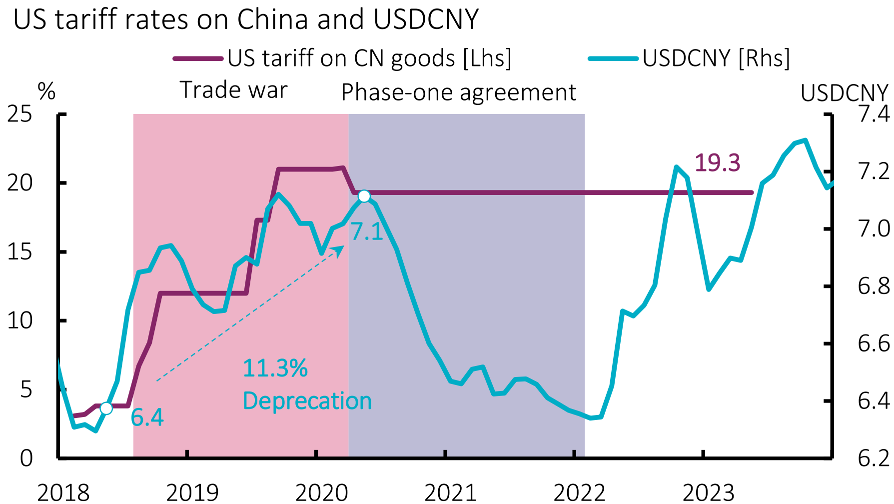
Sharp tariff hikes would threaten an already slowing economy

- The possible increase in US tariffs on Chinese goods could exert considerable pressure on China, subsequently dampening overall economic growth. If a tariff of 60% were applied to all Chinese goods, based on 2023 export values, Chinese exporters would face over $200bn additional tariffs annually, equating to 1.2% of China's GDP. Moreover, further disruptions in US-China trade relations would erode investor confidence further.

More space left for China than the previous "trade war"

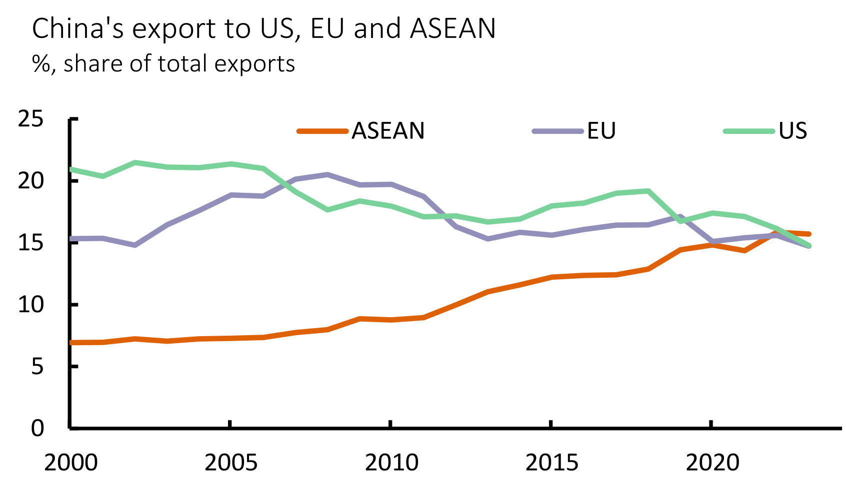
- The impact of tariff increases could be less pronounced than in 2018. Besides the natural depreciation of China's yuan, a now more diversified export base and deeper integration into key global supply chains – such as semiconductors, batteries and solar panels – may offer some additional protection. However, these new supply connections could be more vulnerable to secondary, third-party tariffs with other sanctions from the EU, Canada and Indonesia already resistant to concerns of export 'dumping'.

Yuan depreciation as US tariffs hiked in 2018



Source: Peterson Institute for International Economics (PIIE), CEIC and AXA IM Research, Sept 2024

Export diversion underway



Source: CEIC and AXA IM Research, October 2024

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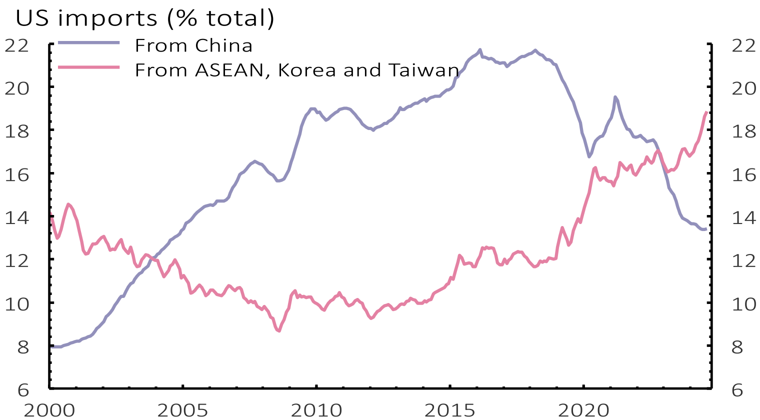
The US election's impact on the rest of the world

EM Asia

Trump will be looking for EM Asia to side with the US, or face the consequences

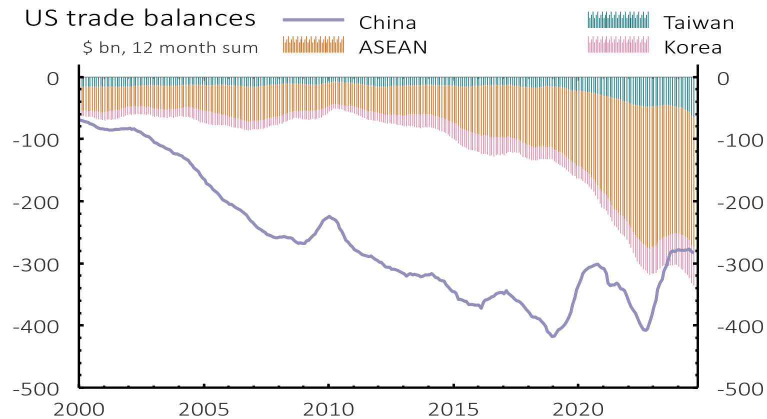
- EM Asia has broadly benefited from the US-China trade war, not only enjoying a more competitive position vis-à-vis Chinese exporters to the US, but also attracting foreign investment from firms engaging in "China + 1" strategies as well as investment from Chinese firms seeking to diversify their supply chains (and circumvent US tariffs).
- The region's favourable position can be attributed to its success in avoiding explicitly picking a side. However, Trump is unlikely to tolerate what he deems to be an increasingly one-sided relationship with markets that have seen their trade surpluses with the US widen and continue to benefit from US regional security backing, while at the same time building closer economic ties with China.
- The region now has a much wider trade surplus with the US than it did during Trump's first term in office. While some of EM Asia's gains have come at the expense of China, the changing trade picture in recent years also reflects a rewiring of Chinese supply chains to circumvent US protectionist policies, with South-East Asian nations in particular being a conduit.
- Although the expansion in Korea and Taiwan's trade surpluses with the US in recent years is more reflective of their competitive advantages rather than linked to Chinese investment, both could face a tougher trading environment under Trump 2.0 given Taiwan's dominant position in semiconductor manufacturing and Korea's rising vehicle exports to the US.

EM Asia's growing share of US market, at China's expense



Source: LSEG Datastream and AXA IM Research Oct 24

US trade deficit with key EM Asia markets now wider than with China



Source: LSEG Datastream and AXA IM Research Oct 24

The US election's impact on the rest of the world

Canada and Mexico

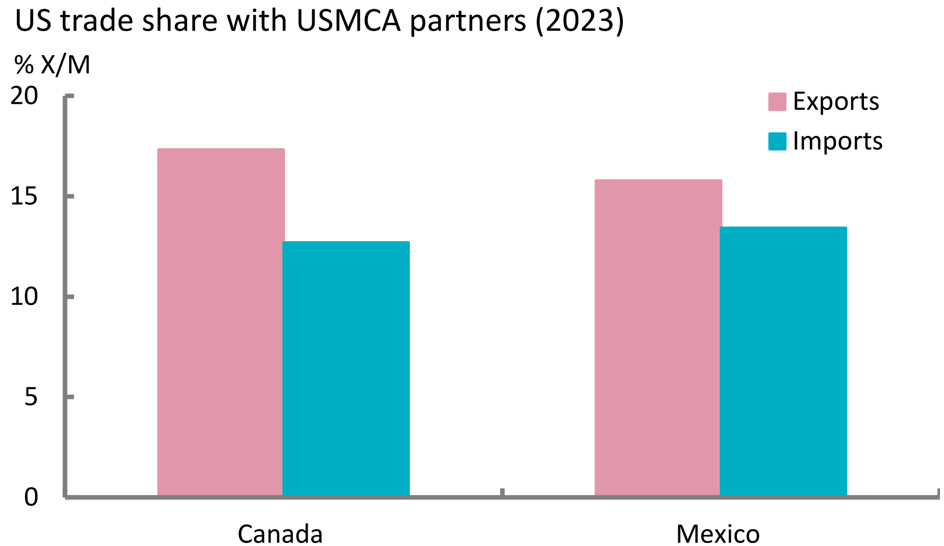
Canada – a beneficiary of the USMCA agreement

- One third of US exports go to its USMCA partners and 17% to Canada. But 75% of Canadian exports (25% of GDP) goes to the US. Trade policy will be critical for Canada. A Harris win would have only marginal effects on Canada. A Trump win could be more impactful. Assuming tariffs were not raised on Canada, activity should benefit from a demand boost from other tariffs. But Canada will watch migration policies for fear of any displacement. Trump's policies would likely lessen the BoC's space to ease next year.

Mexico – a more difficult relationship

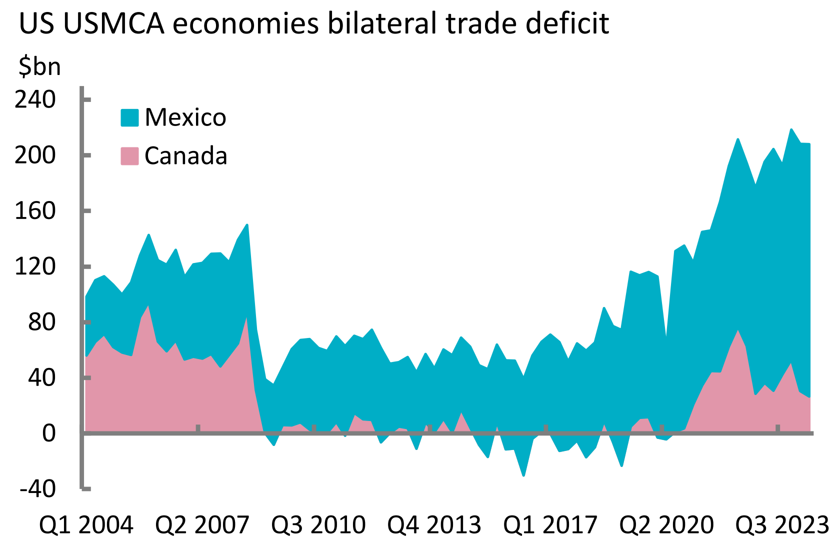
- 83% of Mexican exports go to the US (c 40% of GDP), but the US deficit with Mexico (1.2% of GDP) is close to China's (1.5%). A Trump presidency would focus on this, immediately in terms of auto exports, and likely in the USMCA review in 2026. China's FDI in Mexico is likely to be a problem. And Mexico's constitutional reforms and fentanyl operations are also likely to feature. But the US will need Mexico's help to manage migration. Trump could be highly disruptive to Mexico's outlook, but Harris may also impact.

Relative trade shares of US's USMCA partners



Source: BEA, AXA IM Research, October 2024

The US trade deficit with Mexico rises to levels near China's



Source: BEA, AXA IM Research, October 2024

The US election's impact on the rest of the world

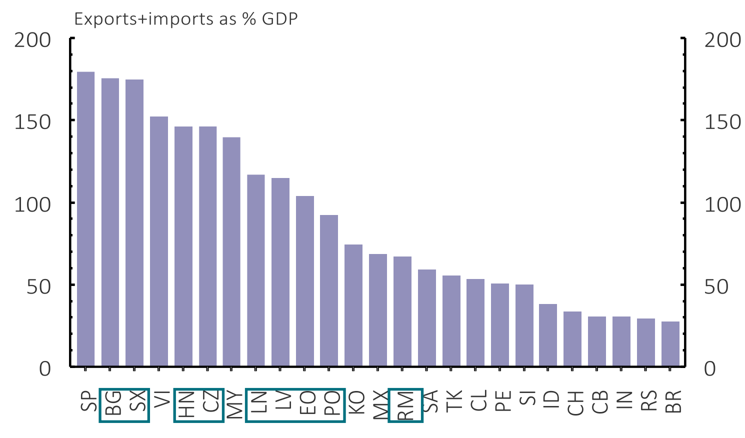
EM Europe

Protectionism and security key for EM Europe

- Central and Eastern European (CEE) countries rank very highly in terms of trade openness, with trade (exports and imports) accounting for as much as 175% of GDP in Slovakia and close to 100%-120% for the Baltics. The region's largest trading partner is the European Union (EU), accounting for 60%-80% of total exports, while the 3%-5% export share to the US is still above China's 1%. As such, a further rise in US protectionism would affect the region mainly indirectly via the effect on the Eurozone economy and euro, rather than directly or via its impact on China. However, these economies also seem to be a gateway for Chinese investments into the EU (eg Hungary, Slovakia), which in turn could bring trade tensions with the EU and US alike.
- Most of these countries perceive Russia's Ukraine invasion as an existential threat and have stepped up defence spending by 100%-270% since 2014. The national military budget reached 4% of GDP in Poland, while Latvia aims to reach 3% of GDP by 2027 and most CEE countries exceed the North Atlantic Treaty Organization (NATO) 2% of GDP pledge. Still, it is a clear risk that Ukraine and the whole CEE region may have to rely less on US security and more on Europe – and itself – in the future.

CEE region ranks high in terms of trade openness

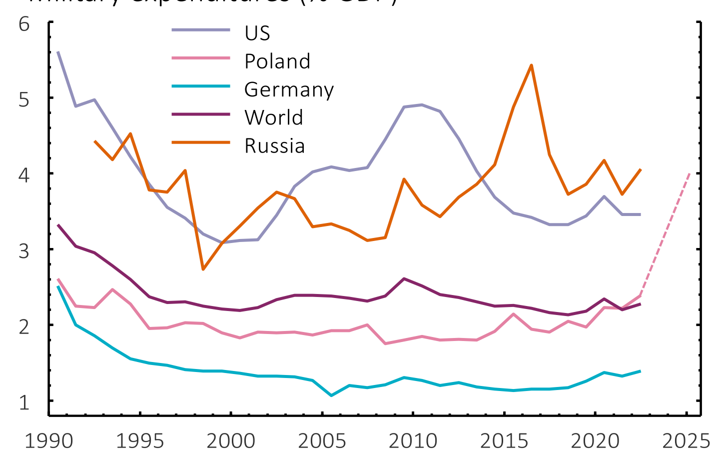
Economic openness ranking



Source: LSEG Datastream and AXA IM Research 23

Military spending are rising in CEE

Military expenditures (% GDP)



Source: LSEG Datastream and AXA IM Research 22

Macro outlook

Data question Fed's aggressive easing

US

Labour market rebound

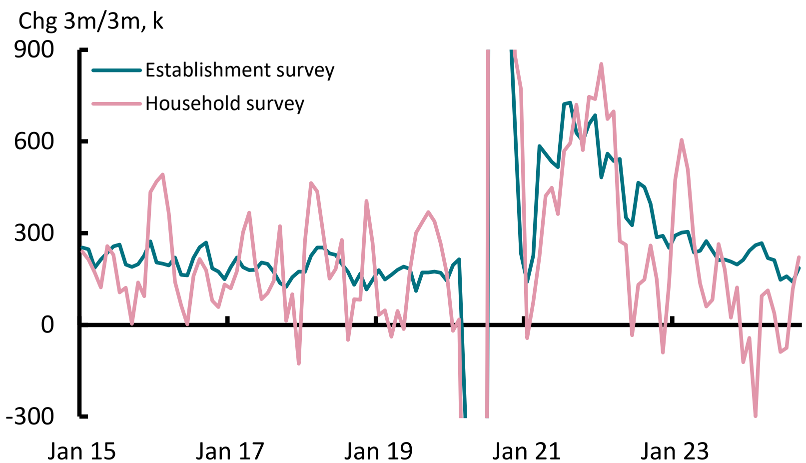
- As we expected, payrolls picked-up again in September, further recovering from temporary softness over the summer. However, we had not expected the 254k scale of September's rise – which is likely to prove erratic. At the same time, strong household survey employment (+430k) and weaker labour supply contributed to a dip in unemployment to 4.05% and earnings accelerated to 4.3% (3m-ann). October's print is likely to be distorted by hurricane impacts, but a labour market recession does not appear underway.

Inflation surprise

- Headline inflation came in a little firmer than expected, the headline rate only dipping to 2.4% (a 3½ year low) despite a 0.2ppt contribution from gasoline. Shelter inflation also softened, perhaps the materialization of the long-awaited deceleration. However, services ex-shelter inflation surprised to the upside, rising by 0.6% on the month – the same pace as seen in Q1 – which led the Fed to delay the start of its easing cycle. Next month's number will be watched to see if this rise was a one-off.

Employment on a firmer footing

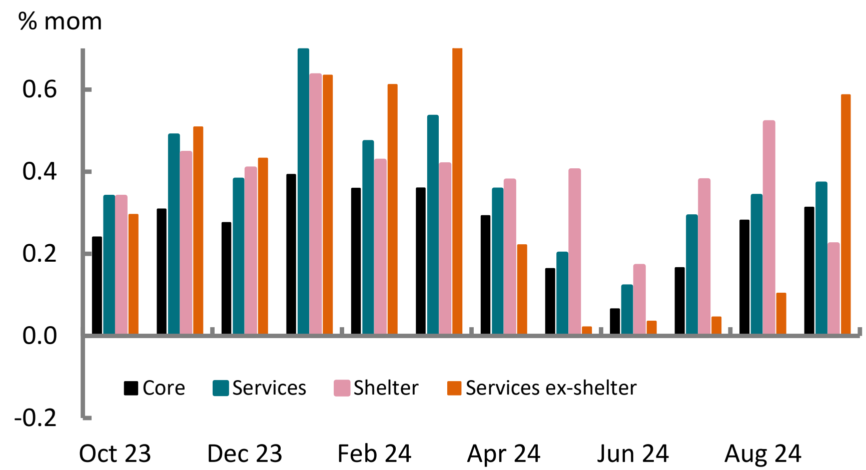
Change in employment



Source: BLS, AXA IM Research, Oct 2024

Services inflation spikes higher

Recent movements in core and services inflation



Source: BLS, AXA IM Research, Oct 2024

Outlook increasingly election dependent

US

Growth outlook remains solid for now

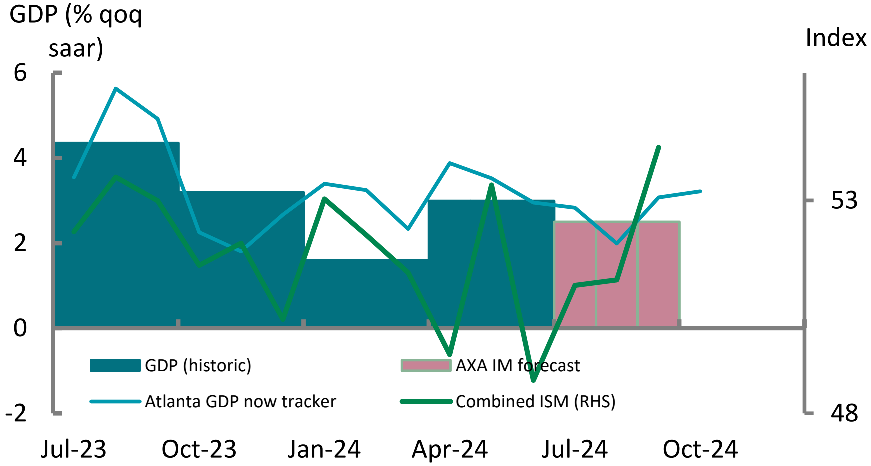
- GDP growth was solid in Q2 and the outlook for Q3 (due 30 Oct) is equally so. We continue to expect a modest softening in activity over the coming quarters, although concede that whether the Fed achieves a soft landing is now increasingly dependent on the election outcome. We forecast growth of 2.7% this year. Growth is likely to slow next year, but we believe to a little over 2% on a Trump victory and a little under 2% on a Harris win (consensus 2.6% for 2024 and 1.8% for 2025).

Data and Fed reactivity add to rate outlook volatility

- The Fed's 50bp start to its easing cycle was unusually aggressive and recent minutes suggested discomfort from some members on the Committee. Subsequent data has reassured markets that the Fed is likely to deliver another two 25bps cuts to 4.50% by year-end. However, expectations for sharp easing to 3.0% by end-2025 have abated, the market now considering 3.50%. We assess that the outcome will be election dependent, but neither of our main case scenarios envisages rates reaching this level by end-2025.

GDP outlook remains firm in short-term

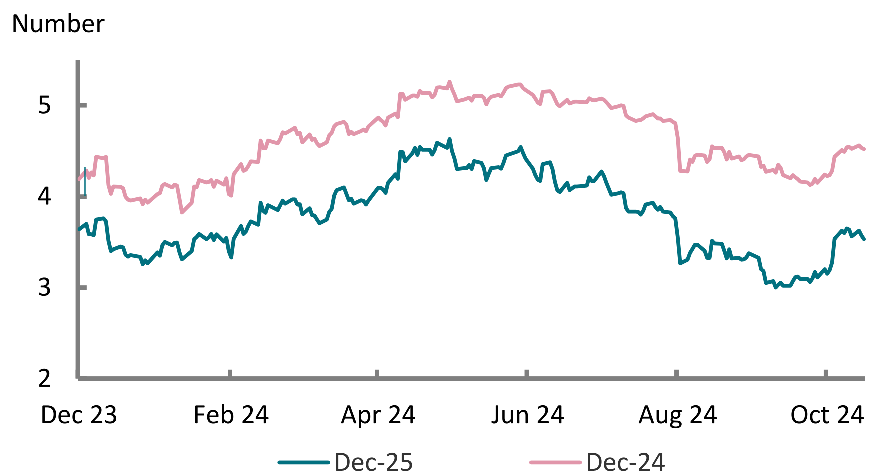
GDP growth and short term outlook



Source: BEA, FRBA, ISM, AXA IM Research, Oct 2024

Rate view volatility

Market pricing of end-year Fed Funds Rate



Source: Bloomberg, AXA IM Research, Oct 2024

Aligning dovish stars (I)

Eurozone

Back-to-back rate cuts

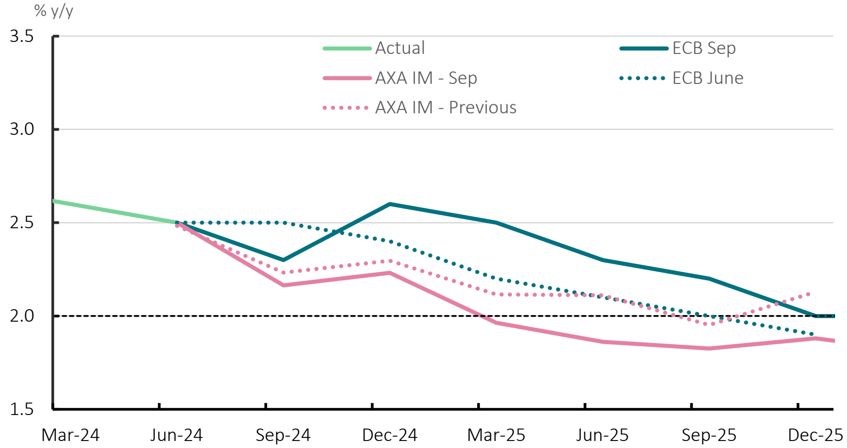
- The European Central Bank reduced its depo rate by 25bps to 3.25% at its October meeting, as widely expected, moving away from cutting at its quarterly forecast meetings to back-to-back meetings.
- The ECB seemed more concerned about growth. We agree. Combined with the September's downside inflation surprise – euro area final headline inflation was eventually revised down -0.1pp from the flash estimate to 1.7% y/y – there was enough evidence to cut rates without updated forecasts.

We agree with downside risks to ECB's inflation outlook

- President Lagarde mentioned a downside skew in the ECB's perception of risk surrounding its inflation outlook. As a matter of fact, our revised inflation forecasts are well below the ECB's and point to an undershooting of the 2% target for most of next year.

Headline inflation to undershoot ECB target for most of 2025

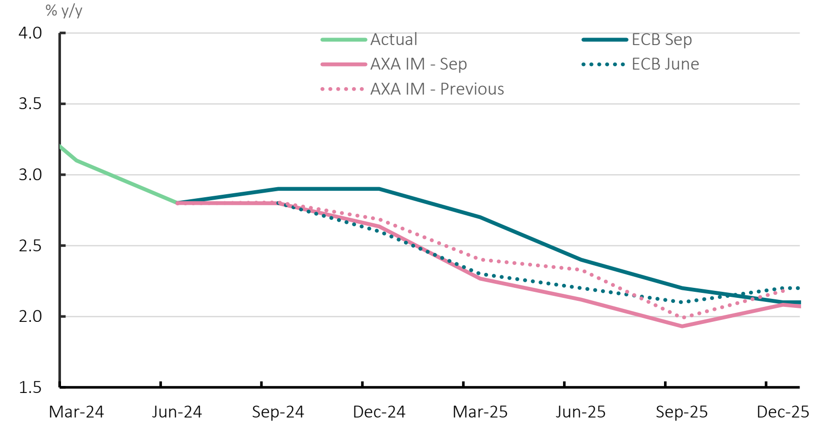
Headline inflation projections: AXA IM & ECB



Source: Eurostat, ECB, AXA IM Research, as of October 2024

Weak growth takes its toll on core inflation

Core inflation projections: AXA IM & ECB



Source: Eurostat, ECB, AXA IM Research, as of October 2024

Aligning dovish stars (II)

Eurozone

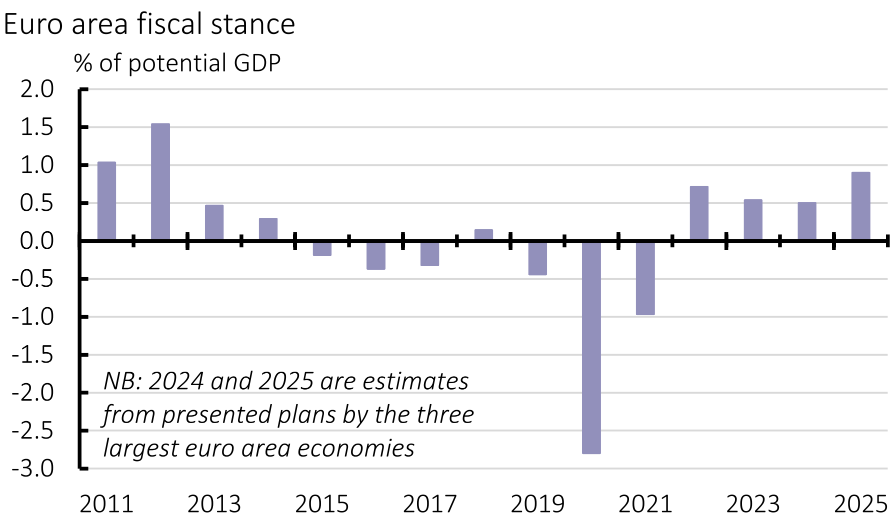
Fiscal policy in the mix

- Combining the fiscal plans for the three largest euro area economies, the fiscal stance, measured by the change in the structural primary balance, tightens by 0.9pp, an order of magnitude last achieved in 2022 (with the removal of COVID emergency measures) and in 2012-2013 at the time of the European debt crisis.

Downside skew to our baseline of consecutive rate cuts to 2% reached next June

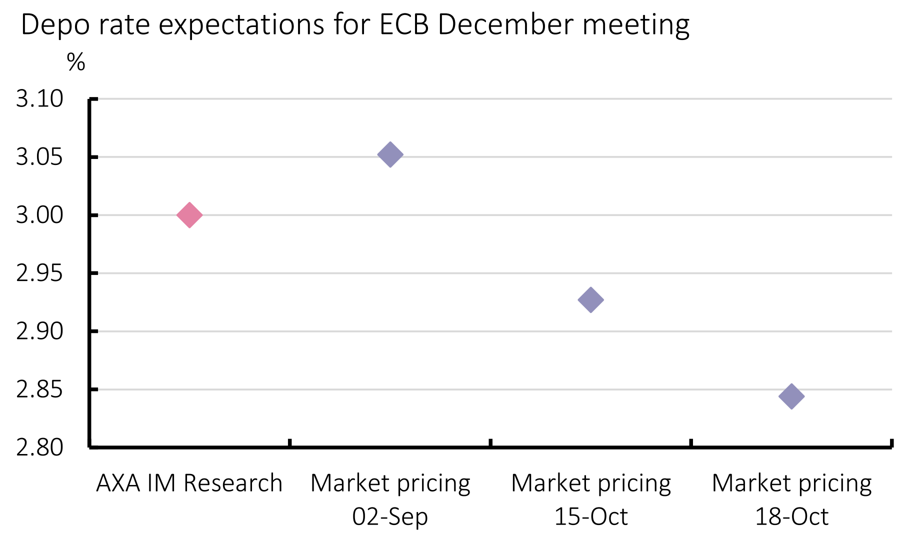
- This relatively aggressive fiscal stance (on paper), combined with weak growth momentum and projected inflation spending most of 2025 below ECB's target are all dovish stars aligning that could lead the ECB to cut rates quicker to 2% than our baseline of consecutive 25bps cuts until June 2025. We cannot rule out bigger than 25bps rate cuts increments as early as in December, as increasingly priced by the market.

A relatively aggressive fiscal stance planned for 2025



Source: European Commission and AXA IM Research, October 2024.

Increased probability of bigger rate cut in December



Source: Bloomberg and AXA IM Research, October 2024

Momentum is easing

UK

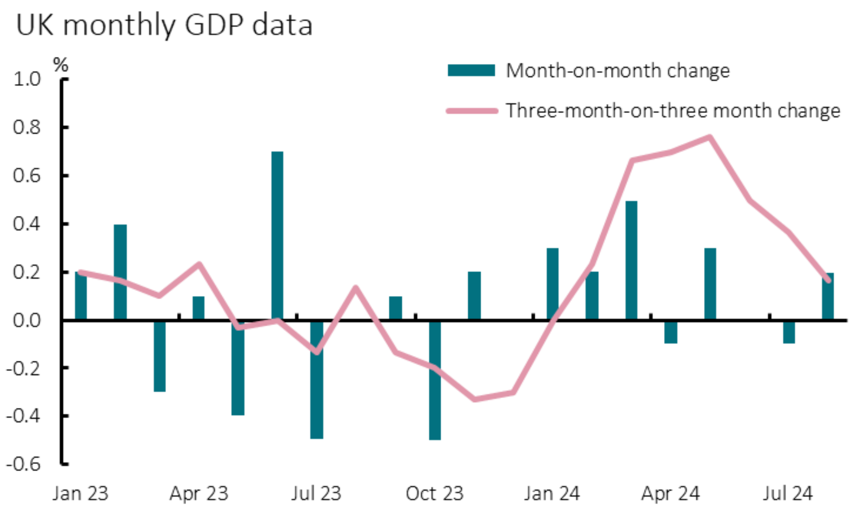
Quarterly growth to ease back in H2

- The latest data showed a 0.2% month-to-month rise in GDP in August, driven by manufacturing and construction. But that followed two months of stagnation, leaving three-monthly growth at 0.2%. On a quarterly basis, we now expect growth to average 0.2% in Q3 and 0.3% in Q4 which brings our growth outlook for 2024 to 1.1% (from 1.2%). In 2025, we see growth of 1.4%.

Underlying inflationary pressures continue to ease

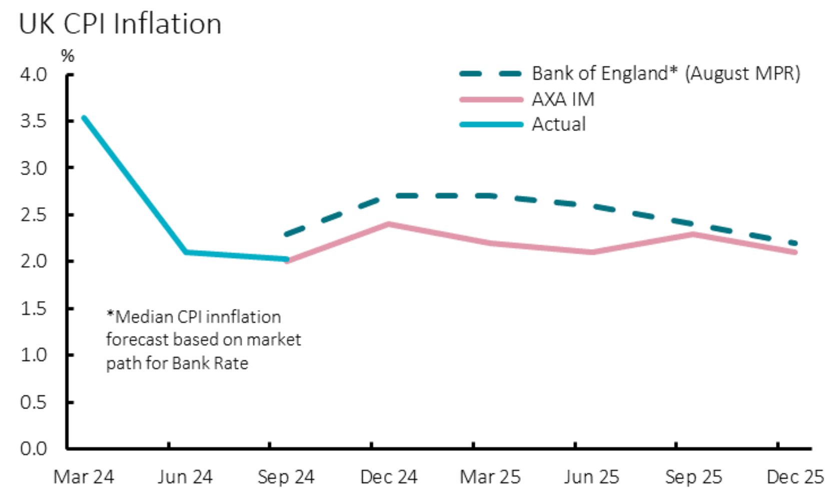
- Headline CPI inflation fell to 1.7% in September - the Bank of England (BoE) had expected 2.1% - from 2.2% in August driven by a broad-based easing in goods and services. Core inflation fell to 3.2% from 3.6%, 20bp less than forecast. The Q4 headline will rise as the energy drag fades, but the weaker outlook will see underlying inflation trend lower this year and next. Labour market vacancies fell for the 27th month in a row in September and annual PAYE growth slowed to 0.3% in September, from 1.3% in January. The recent slowdown in wage growth – private sector pay excluding bonuses fell to a more than two-year low of 4.9% in August, from 5% – will likely continue.

Stagnation in June and July weighs on quarterly growth



Source: National Statistics and AXA IM Research, October 2024

CPI continues to undershoot BoE expectations



Source: National Statistics, BoE and AXA IM Research, October 2024

Bank Rate on downward trajectory

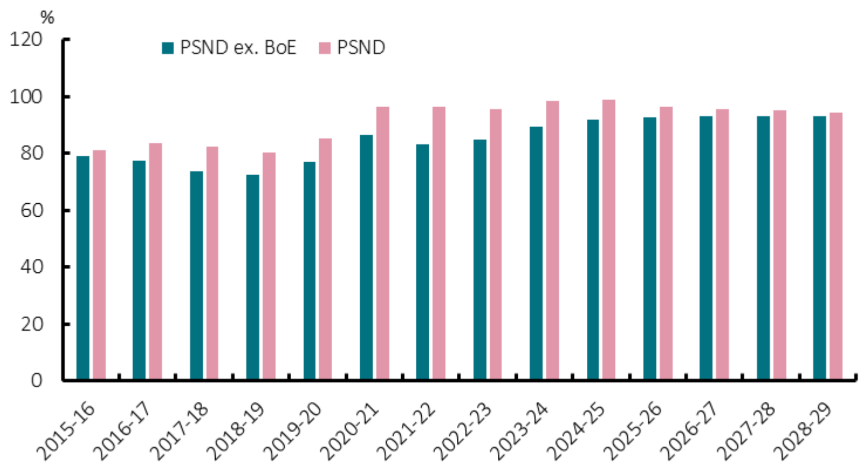
UK

Bank of England signals gradual easing, Budget could quicken pace

- The latest CPI and labour market data pretty much seal the deal for a further 25bp cut at November's meeting. The pace and magnitude of any additional cuts, however, is heavily dependent on the Budget on 30 October. The new government's priorities are still unclear, and this has hit sentiment over recent weeks. Recent communications suggest further fiscal tightening, even accounting for tweaks to the fiscal rules. Note targeting public sector net debt (PSND) instead of PSND ex. BoE could increase the headroom by around £15bn. The new government has also suggested tax and spending cuts in the region of £40bn.
- As a result, the BoE may be forced to quicken the pace of rate cuts to cushion activity from additional fiscal tightening. The likelihood of an additional cut in December has risen.

Chancellor will probably tweak the definition of fiscal rules

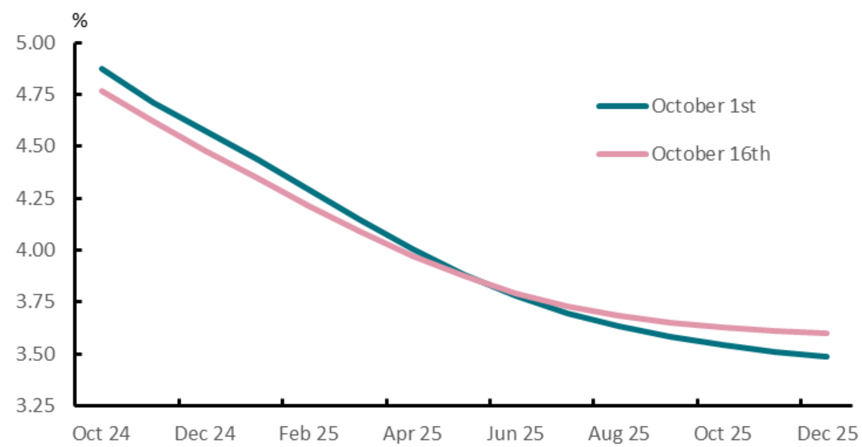
UK public debt measures



Sources: National Sources, the OBR and AXA IM Research, October 2024

A cut in November is now fully priced in

UK instantaneous OIS forward curve



Sources: Bank of England and AXA IM Research, October 2024

GDP softens while policy makers prioritise the growth target

China

Slower GDP, but may deliver the target

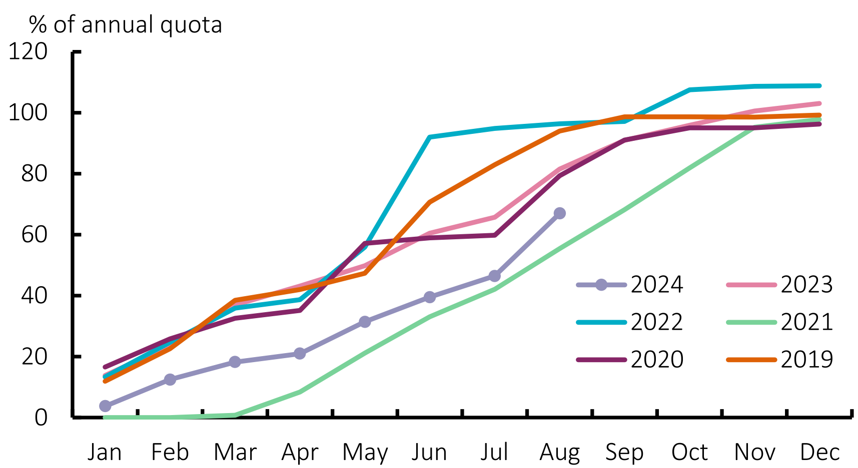
- China’s economy expanded 4.6% annually in Q3 2024, with an accumulative growth of 4.8% in the first three quarters of the year, suggesting that the growth target of “around 5%” remains within reach. Thanks to the acceleration in bond issuance in August, state-led investment regained momentum and spurred industrial production and the overall economic performance.
- But focus has shifted to future years where China’s longer-term challenges are set to persist. Renewed trade fragmentation may require enhanced policy supports.

Monetary easing welcomed; fiscal measures awaited

- Beijing has stepped up its policy announcements in response to the economic slowdown. Surprise monetary easing and the promise of fiscal measures were well received by the market. However, delays and a lack of concrete details regarding fiscal stimulus have dampened expectations, leaving uncertainty around the scope and timing of the government's fiscal response.

Local govt quickened bond issuance

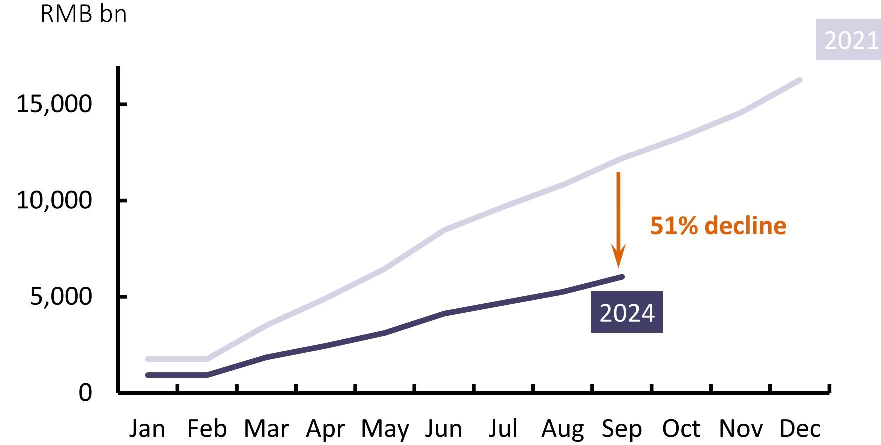
China - Local government bond issuance progress



Source: CEIC and AXA IM Research, October 2024

Property market continues to drag

China - Residential building sales



Source: CEIC and AXA IM Research, October 2024

Disinflationary theme unchanged

China

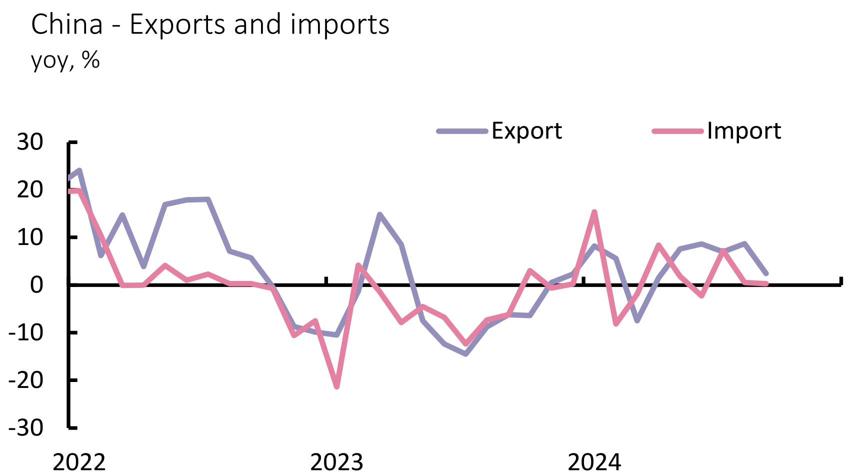
Exports momentum fades…

- The front-loading of export demand, which was likely triggered by potential trade fragmentation, had provided a temporary boost to China's exports in past months. However, this momentum is now fading. While the Christmas season may bring a brief uptick in demand, the broader trend points downward, likely extending into the coming years as tariffs, current and future, may impact. The extent of this softness will largely depend on the outcomes of the upcoming US elections.

…Adding pressure to the disinflationary environment as domestic demand struggles to recover

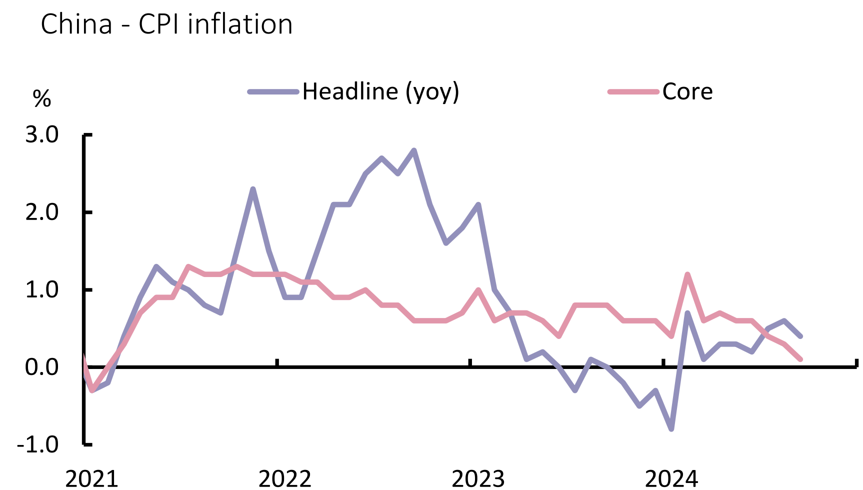
- With weakening external demand becoming more apparent, domestic demand has failed to pick up the slack, increasing the risk of deflation. Headline CPI inflation remains subdued, and core inflation continues its decline – coming closer to outright deflation - indicating persistent weakness in consumer spending.

Front-loading demand for exports fades



Source: CEIC and AXA IM Research, October 2024

Disinflationary pressure persists



Source: CEIC and AXA IM Research, October 2024

Recovery to lose momentum in Q3

Japan

Growth picked up in Q2, but reflected temporary factors

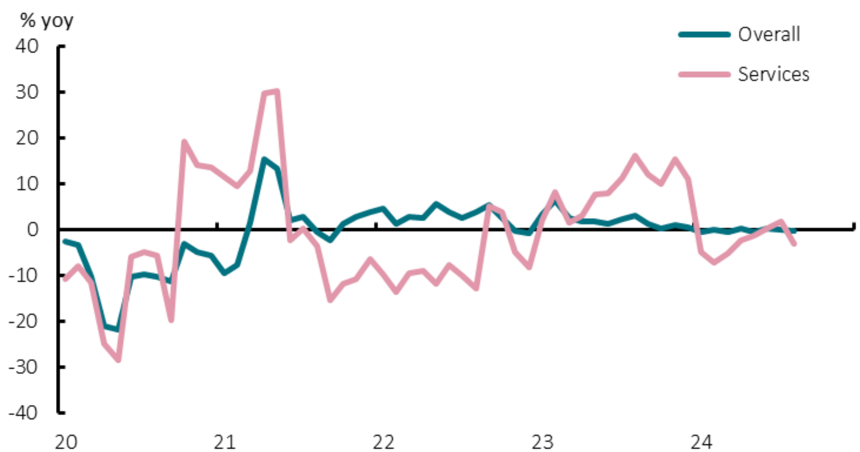
- Japan's GDP rose by 0.7% qoq in Q2, driven by stronger private consumption and capex. But that gain partly reflected the end of the pause in auto sales due to the sector's temporary shutdown in Q1. Momentum will likely slow in Q3, as this volatility fades and cautious households only modestly increase spending. The Bank of Japan's (BoJ) consumption measure shows services spending was hit by typhoons and a major earthquake warning over the summer. We look for growth of 0.4% in Q3 and 0.3% in Q4.

Core inflation continues to hover around the 2% target

- Headline CPI inflation fell to 2.5% in September – in line with expectations – but that largely reflected the reimposition of energy subsidies. The new core measure – which excludes energy and fresh food – rose to 2.1%. The key to well-anchored inflation expectations, remains a virtuous wage/price spiral taking hold. A tight labour market means firms will probably continue to hike wages at a faster pace in 2025 - the initial 2025 Rengo target is unchanged from last year at 5% - but our more downbeat outlook for spending suggests firms will find it hard to fully pass on higher costs.

Consumption growth looks set to ease in Q3

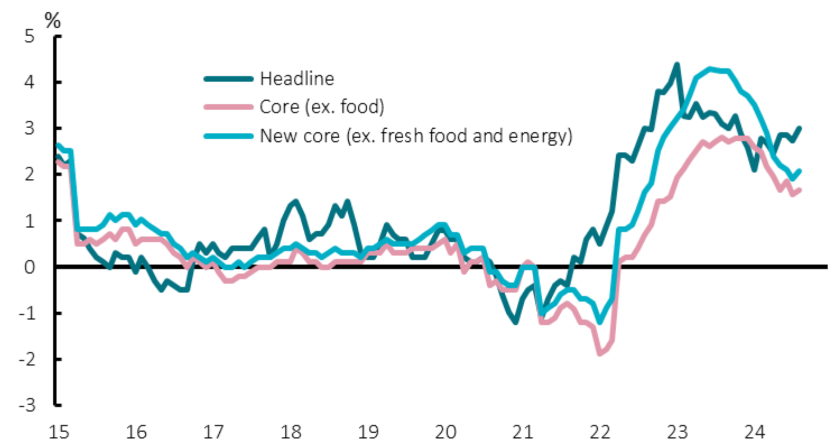
BoJ Consumption Activity Index



Source: Bank of Japan, and AXA IM Macro Research, October 2024

Core CPI inflation will hover around the 2% target this year

Japanese CPI inflation



Source: National Statistics and AXA IM Macro Research, October 2024

Bank of Japan on hold until 2025

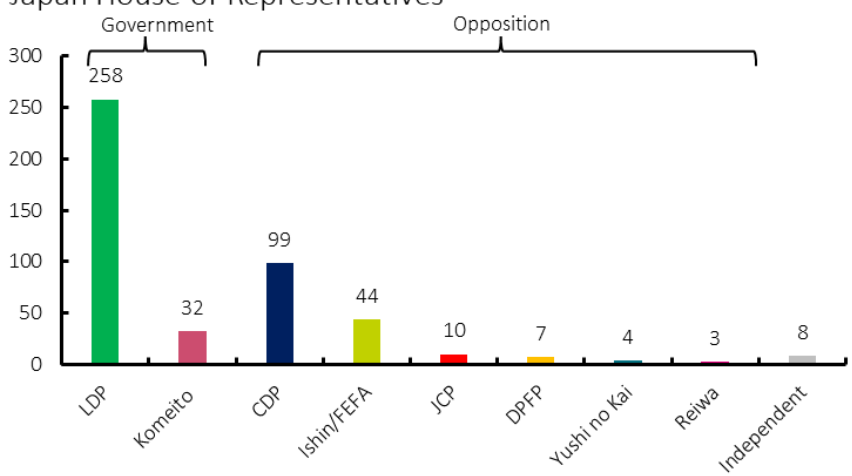
Japan

Political uncertainty and an uncertain global backdrop to keep BoJ from moving again for now

- Political uncertainty is easing. Shigeru Ishiba's victory in the Liberal Democratic Party (LDP) leadership race has a limited impact on the outlook given his agenda is broadly in line with predecessors. He has committed to further fiscal action, supports monetary policy normalisation and BoJ independence. The election – which takes place on 27 October - will see the LDP lose some seats, but it looks set to remain the ruling party.
- The BoJ still appears too upbeat on both its growth and inflation outlook and the global backdrop is now an additional headwind. Governor Kazuo Ueda recently highlighted the US economic slowdown and believes the BoJ now has time to assess developments in financial and economic conditions both at home and abroad before hiking again. Admittedly, the renewed depreciation in the yen – which has almost fallen back to ¥150 to the US dollar at the time of writing – will likely raise the inflation profile next year if sustained. And the rising probability of a Donald Trump victory in the US election points to a stronger dollar over the coming months. For now, we still see just one 25 basis point hike in Q1 2025, leaving the policy rate at 0.5% by end-2025.

The LDP look set to remain the largest party

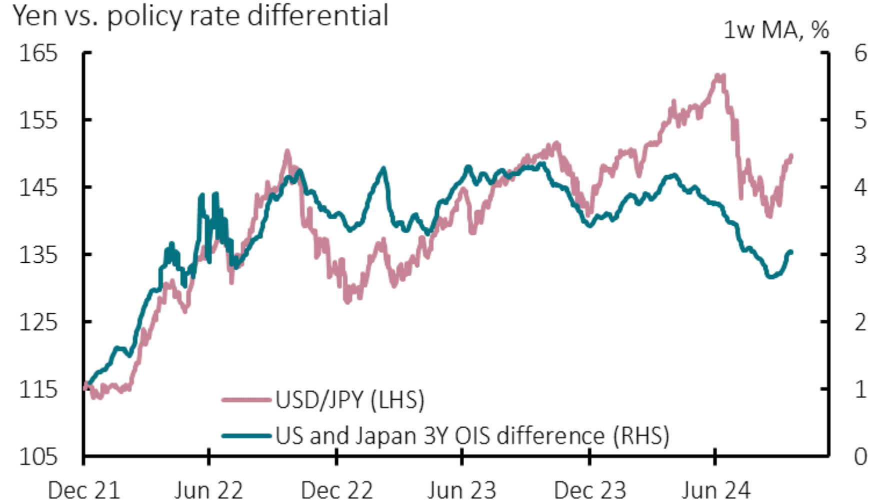
Japan House of Representatives



Source: Reuters and AXA IM Research, October 2024

Yen continues to depreciate which could boost inflation if sustained

Yen vs. policy rate differential



Source: *Refinitiv* and AXA IM Research, October 2024

Mixed data

Canada

Labour market stabilises

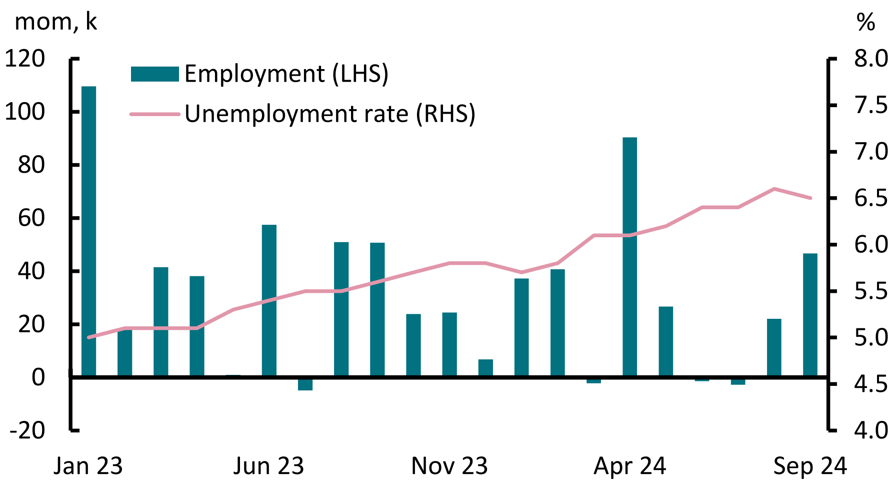
- Following a couple of months of mild falls in employment, recent months have shown employment growth recovering. September saw a rise of 47k (the second biggest increase this year), but the quarterly average of 21k was broadly in line with Q1's increase and softer than Q2's 40k. Unemployment also fell back to 6.5% from 6.6% - its first dip since January. Unemployment has risen from its 4.8% low in 2022 but is also above the 2018-19 average level of 5.8%.

Softer GDP

- GDP was revised higher to 0.2% from a preliminary estimate of 0.1%, with August's flash estimate flat. This is consistent with our expectation of 1.2% annualised growth in Q3 and an annual growth outlook of 1.1%, a touch below the BoC's 1.2% estimate in July. This is lower than the BoC's estimate of trend growth for this year of 2.1-2.8%. Looking ahead we currently forecast growth quickening next year to 1.7% - closer to the BoC's 2% trend estimate but recognise that the US election could impact.

Labour market rebounds from summer lull

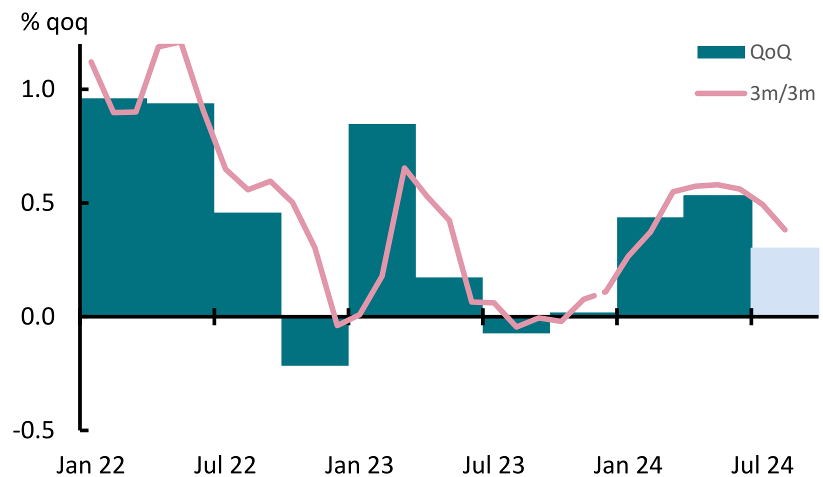
Employment and unemployment



Source: CANISM, AXA IM Research, October 2024

GDP growth to soften in Q3

Canadian GDP monthly and quarterly releases



Source: CANISM, AXA IM Research, October 2024

BoC to ease, but how quickly?

Canada

Inflation continues to ease

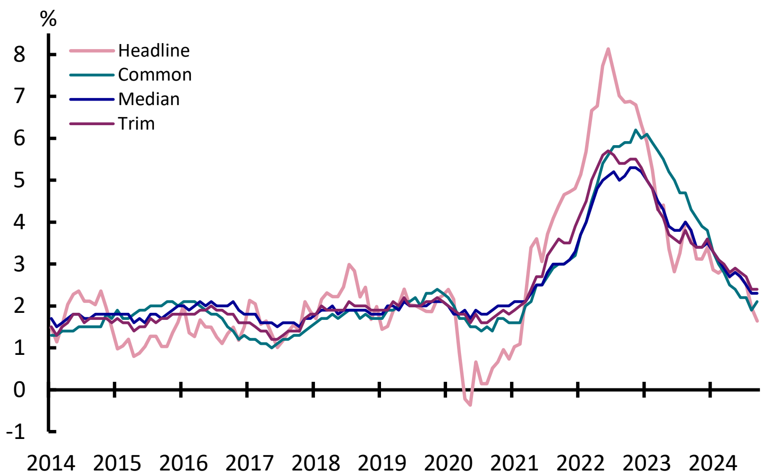
- Headline inflation fell by more than expected to 1.6% in September, flattered by falling oil prices, which have subsequently rebounded. Core measures remained at 2.4% and 2.3% (trim and median). Despite likely rising in October, we expect inflation to remain below 2% for the rest of this year to average 2.4% in 2024. We forecast inflation at 1.8% in 2025, but acknowledge that the US election could impact this outlook further. Consensus forecasts are for 2.5% and 2.1%.

BoC follows accelerated path of easing

- The BoC delivered its third cut in September to 4.25%. It debates whether to quicken its easing in October. On balance, we think not. The BoC wants to provide stimulus to boost growth, remove excess supply and stabilise inflation. Its pre-emptive start has kept them in front of the curve. However, the repricing of Fed expectations (despite its 50bp cut) has squeezed CAD close to post-pandemic lows. The BoC will likely see merit in seeing the US election outcome before committing to an accelerated path.

CPI inflation likely to remain below target into 2025

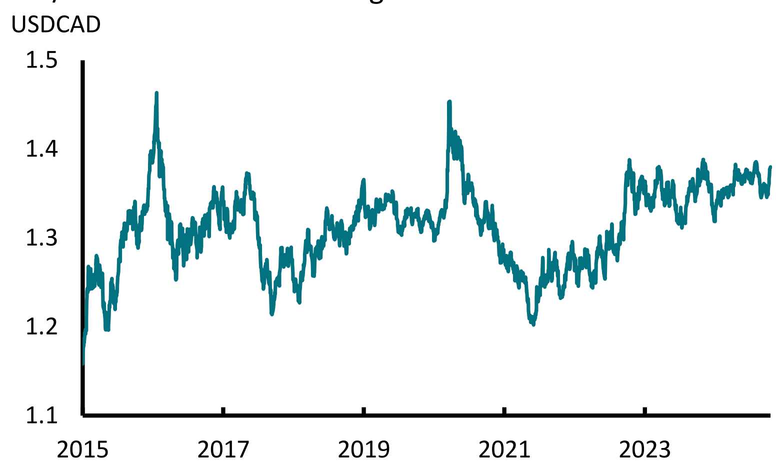
CPI measured variations



Source: CANISM, AXA IM Research, October 2024

BoC-Fed divergence a function of USDCAD

US / Canadian dollar exchange rate



Source: Bloomberg, AXA IM Research, October 2024

AXA Investment Managers

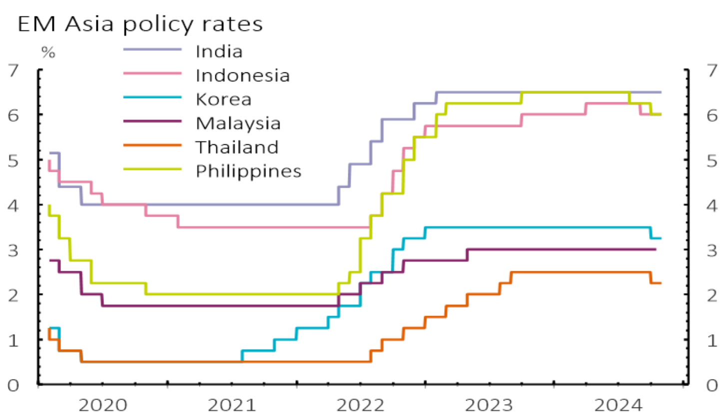
Policy easing underway in EM Asia

EM Asia ex-China

Policy focus shifting to support for domestic demand as inflationary pressures contained

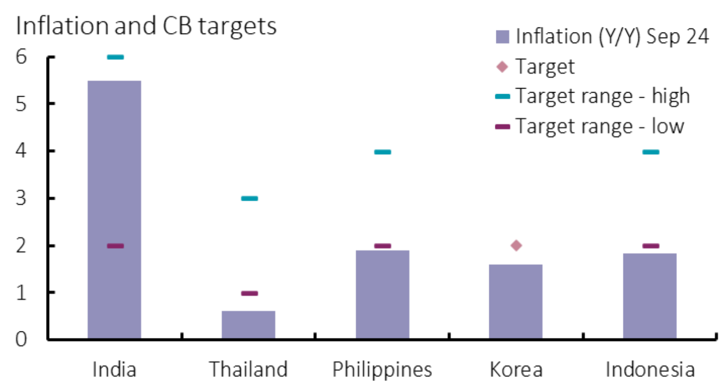
- More central banks in Asian emerging markets (EM) are easing their monetary policy stance as expected. With inflation broadly falling to target or below target range, the banks now have space to pivot from previously restrictive policy stances and move to bolster domestic demand at a time of increasing concern over the outlook for growth in the US and China.
- The Bank of Korea and the Bank of Thailand cut their policy rates by 25bp in their most recent meetings in October (to 3.25% and 2.25% respectively). The Reserve Bank of India decided to keep its policy rate on hold (at 6.5%) at its October meeting, but it eased its liquidity stance to neutral from the previous position of "withdrawal of accommodation", foreshadowing a rate cut at its next meeting in December. The Philippines' central bank cut its policy rate for the second successive meeting by 25bps, bringing it down to 6%. Bank Indonesia commenced its rate cutting cycle at its September meeting, but chose to pause in October given the uncertain short-term outlook and the recent bout of exchange rate volatility.
- Given the relatively benign outlook for inflation, the central banks' focus has now shifted to the demand side of the equation. Generating greater domestic demand resilience heading into 2025 will be vital given the more challenging external environment.

Policy pivot



Source: LSEG Datastream and AXA IM Research, Oct 2024

Inflation contained



Source LSEG Datastream and AXA IM Research, Sep 2024

CEE disinflation: Poland stands out

EM Europe

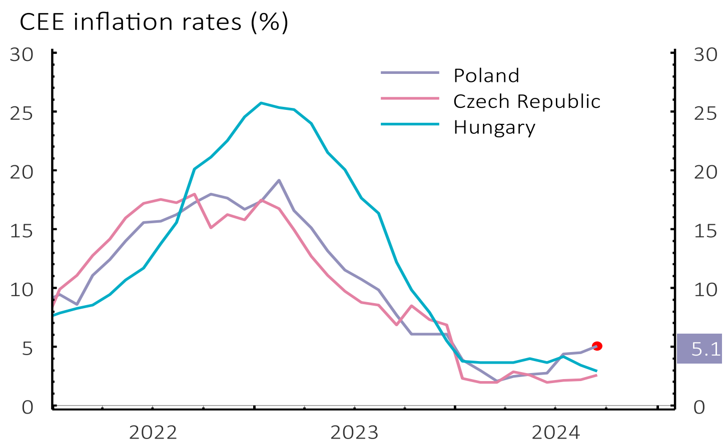
Strong disinflation during 2023 followed by more stable inflation this year in CEE

- Consumer prices peaked at the start of 2023 and fell to as low as 2% in Poland and the Czech Republic in March 2024. Inflation has remained quite benign in the Czech Republic, with CPI hovering between 2-2.5% in H1 2024 and well oriented in Hungary where it fell to the 3% target in September. Poland stands out as inflation accelerated to close to 5% in September.

Reacceleration likely into year-end across CEE upon unfavourable base effects

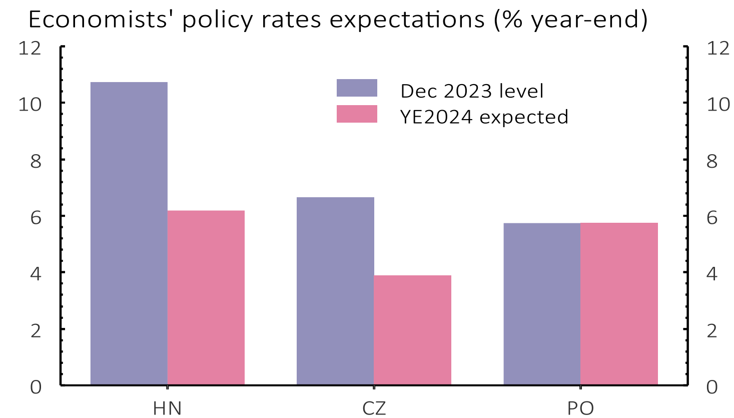
- We expect inflation to move back to around (and possibly even below) inflation targets during H1 2025 in Hungary and the Czech Republic. This should allow central banks to continue to ease monetary policy confronted with weak activity echoing the slowdown of the German economy to which they all have exposure.
- In Poland, inflation should continue to accelerate as well, additionally pushed by the ongoing removal of its energy price shield in early 2025. Poland will also see domestic demand remaining supported by easy fiscal policy and should remain so ahead of the H1 2025 presidential elections. We see inflation falling in H2 2025, which should pave the way for the central bank to cut rates in H1 2025 having stayed on hold since October 2023.

Poland: inflation acceleration to continue into H1 2025



Source: LSEG Datastream and AXA IM Research Sep 24

Rate cuts expected in 2025 for Poland



Source: LSEG Datastream and AXA IM Research 15/11/2024

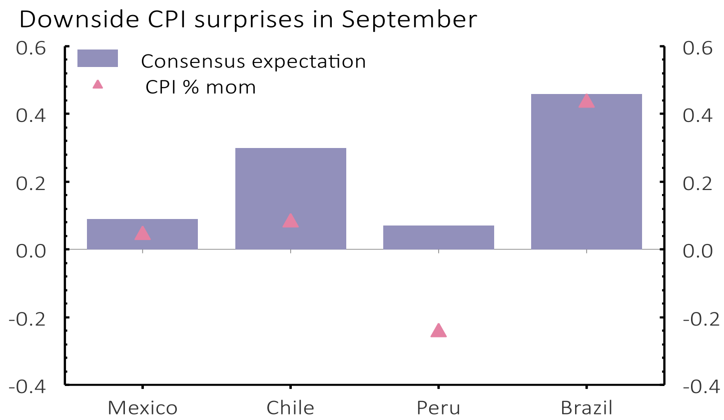
Disinflation to support further easing (outside Brazil)

Latin America

September CPI prints surprised nicely on the downside but not enough to accelerate monetary easing

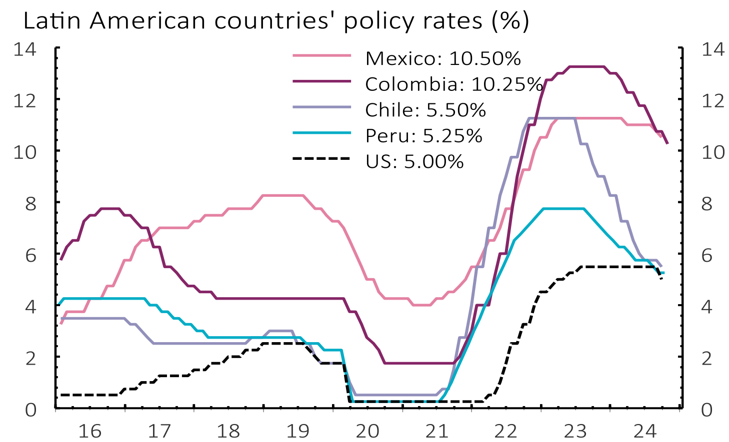
- September's inflation prints came out below consensus expectations for many countries in the region. This should allow central banks to continue to gradually adjust their policy rates lower (except Brazil – see last month's presentation), but we are not yet convinced that it will be sufficient to support an acceleration of the pace of monetary easing.
- Even in Peru, where inflation fell in September pushing the annual rate below the 2% target, the central bank stood on hold at 5.25% - defying expectations on geopolitical and market volatility concerns. The CPI surprise in Chile, as in Peru, came mostly on the back of volatile items, which should not translate to policy.
- Mexico's disinflation resumed for the second month in a row. This should allow Banxico to gradually cut policy rates on each of its meetings in the short run as expected albeit keeping an eye on the recent rise in producer prices and sticky 5%+ services inflation supported by the strong labour market. Banxico will also monitor the peso devaluation – 20% since mid-year – which could fall further after the US election

September CPI print brought good news



Source: LSEG Datastream and AXA IM Research 15/09/2024

Easing to continue at a gradual pace



Source: LSEG Datastream and AXA IM Research Sep 24

Forecasts & Calendar

Macro forecast summary

Forecasts

Real GDP growth (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.1	3.2		3.1	
Advanced economies	1.7	1.6		1.5	
US	2.5	2.7	2.6	2.0	1.7
Euro area	0.5	0.7	0.7	0.9	1.3
Germany	-0.1	-0.1	0.0	0.5	0.8
France	1.1	1.1	1.1	0.6	1.1
Italy	1.0	0.8	0.8	0.8	0.9
Spain	2.7	2.9	2.5	2.1	2.0
Japan	1.9	0.0	0.0	1.1	1.2
UK	0.1	1.1	1.0	1.4	1.2
Switzerland	0.8	1.2	1.4	1.3	1.5
Canada	1.2	1.1	1.1	1.7	1.8
Emerging economies	4.0	4.2		4.1	
China	5.2	4.8	4.8	4.4	4.4
Asia (excluding China)	4.7	5.4		5.2	
India	6.5	6.9	6.9	6.5	6.7
South Korea	1.4	2.5	2.5	2.4	2.1
Indonesia	5.0	5.1	5.1	5.1	5.1
LatAm	2.3	2.0		2.5	
Brazil	2.9	3.0	2.7	2.0	2.0
Mexico	3.2	1.1	1.6	1.2	1.5
EM Europe	3.1	3.1		2.5	
Russia	3.6	3.2	3.6	1.5	1.7
Poland	0.2	3.1	3.0	3.7	3.8
Turkey	4.5	3.1	3.2	2.8	2.8
Other EMs	2.5	3.1		3.4	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 22 October 2024
**Forecast*

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	2.6		2.2	
US	4.1	2.9	3.0	2.6	2.2
Euro area	5.5	2.4	2.4	1.9	2.0
China	0.2	0.5	0.5	1.6	1.3
Japan	3.3	2.5	2.5	1.8	2.1
UK	7.3	2.5	2.6	2.1	2.4
Switzerland	2.1	1.3	1.2	1.3	1.0
Canada	3.9	2.4	2.6	1.8	2.1

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 22 October 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	Q4-24	Q1-25	Q2-25	Q3-25	Q4-25
United States - Fed	Dates	5.00	6-7 Nov 17-18 Dec	28-29 Jan 18-19 Mar	6-7 May 17-18 Jun	29-30 Jul 16-17 Sep	28-29 Oct 9-10 Dec
	Rates		-0.50 (4.50)	-0.25 (4.25)	-0.25 (4.00)	unch (4.00)	unch (4.00)
Euro area - ECB	Dates	3.25	17 Oct 12 Dec	30 Jan 6 Mar	17 Apr 5 Jun	24 Jul 11 Sep	30 Oct 18 Sep
	Rates		-0.50 (3.00)	-0.50 (2.50)	-0.50 (2.00)	unch (2.00)	unch (2.00)
Japan - BoJ	Dates	0.25	30-31 Oct 18-19 Dec	23-24 Jan 18-19 Mar	30 Apr - 1 May 16-17 Jun	30-31 Jul 18-19 Sep	29-30 Oct 18-19 Dec
	Rates		unch (0.25)	+0.25 (0.50)	unch (0.50)	unch (0.50)	unch (0.50)
UK - BoE	Dates	5.00	7 Nov 19 Dec	6 Feb 20 Mar	8 May 19 Jun	7 Aug 18 Sep	6 Nov 18 Dec
	Rates		-0.25 (4.75)	-0.25 (4.50)	-0.25 (4.25)	-0.25 (4.00)	-0.25 (3.75)
Canada - BoC	Dates	4.25	23 Oct 11 Dec	29 Jan 12 Mar	16 Apr 4 Jun	30 Jul 17 Sep	29 Oct 10 Dec
	Rates		-0.50 (3.75)	-0.50 (3.25)	-0.25 (3.00)	unch (3.00)	unch (3.00)

Source: AXA IM Macro Research - As of 22 October 2024

Calendar of events

2024	Dates	Events	Comments
October	21-26 Oct	IMF & WB Meetings	
	23-Oct	BoC meeting	-25bps (4.00%)
	22-24 Oct	BRICS summit	
	Before 24 Oct	Austria General Elections	
	30-31 Oct	BoJ meeting	unch (0.25%)
November	05-Nov	US Presidential Election	
	10-Nov	APEC Peru	
	6-7 Nov	FOMC meeting	unch (5.00%)
	11-24 Nov	UNFCCC COP29	
	07-Nov	BoE meeting	-25bps (4.75%)
	18-19 Nov	G20 Brazil	
December	11-Dec	BoC meeting	-25bps (3.75%)
	12-Dec	ECB meeting	-25bps (3.00%)
	17-Dec	Electors cast votes	
	17-18 Dec	FOMC meeting	-25bps (4.50%)
	18-19 Dec	BoJ meeting	unch (0.25%)
	19-Dec	BoE meeting	unch (4.75%)
	20-Dec	Expiry of latest Government funding bill	
2025	**Dates**	**Events**	**Comments**
January	01-Jan	Debt limit suspension ends	
	03-Jan	119th Congress convences	
	06-Jan	Congress counts electoral votes	
	20-Jan	US Presidential inauguration	
	23-24 Jan	BoJ meeting	+25bps (0.50%)
	28-29 Jan	FOMC meeting	unch (4.25%)
	29-Jan	BoC meeting	-25bps (3.50%)
	30-Jan	ECB meeting	-25bps (2.75%)

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