AXA Investment Managers

27 March 2024

Investment Institute Macroeconomics

Monthly Investment Strategy

Inflation divergence to drive monetary tensions

Key points

- Markets continued to pare back expectations for rate cuts, until central banks gave clearer guidance.
- Disinflation momentum appears to have slowed in key economies, but has not gone into reverse, subject to risks associated with Middle East conflicts.
- Growth in different economies has been subject to very different dynamics. Until now inflation has appeared highly synchronised in most regions. Looking ahead, inflation drivers could diverge in key regions.
- In most cases, monetary policy will have to adapt to accommodate emerging differences – indeed this process is underway in several important economies.
- Elections continue to be a feature for local developments, with the exception of the US election which weighs on many aspects of the global economy.

Global Macro Monthly

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Investment Managers

27 March 2024

Inflation divergence to drive monetary tensions

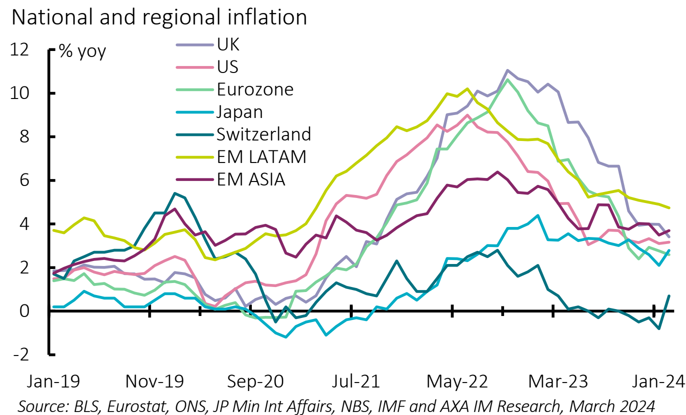
Global Macro Monthly Summary March 2024

David Page
Head of Macro Research

Diverging inflation trends

Economies worldwide suffered a simultaneous inflation shock during – and after – the pandemic, collapsing global supply chains while many governments supported households during periods of disruption and lockdown. After a broadly synchronised surge in inflation in many economies, a considerable easing in energy prices and the re-opening of supply chains allowed inflation to fall sharply. While there have been exceptions, this is an explanation that fits the inflation profile of many economies (Exhibit 1). However, as we move further into 2024, idiosyncratic differences are characterising local inflation trends and that this will increasingly govern the timing of any easing in policy restrictiveness.

Exhibit 1: Inflation in key economies and regions



Source: BLS, Eurostat, ONS, JP Min Int Affairs, NBS, IMF and AXA IM Research, March 2024

In our Theme of the Month, we consider this inflation heterogeneity. To illustrate such differences, we can consider the US and Eurozone: both have seen inflation fall to close to target (2.4% in the US and 2.6% in the Eurozone) and we expect both central banks to begin easing policy in June. But the US has enjoyed robust expansion in recent quarters, while the Eurozone has barely avoided recession. In turn, differences in underlying potential growth have been important - the US benefiting from a significant supply boost through its labour market, the Eurozone a negative shock, primarily in energy supply. Developments in these conditions, as much as economic activity, will determine how far central banks can go in easing restrictive policy.

Looking further afield, inflation rose much later in Japan, briefly exceeding 4% only last year, before falling back to its current 2.8%. An increase in inflation expectations and a second successive year of strong, unionised wage growth has convinced the Bank of Japan (BoJ) that it can remove its negative interest rate policy that has been in place since 2016, raising rates for the first time since 2007. It remains to be seen how much further rates will tighten and inflation fall, but for now the BoJ appears to have won its battle against deflation.

Now it is China that faces consumer price deflation. Admittedly the outright decline in prices until recently has been the result of outsized swings in the large pork prices component. But even excluding food prices in general, Chinese core inflation has been close to zero – the product of dismal consumer activity and a resistance from the authorities for a weaker currency. For now, we consider fiscal stimulus likely to spur activity, which should lift inflation. However, China's chosen stimulus risks both missing the mark with a transmission system impaired by the housing sector, while at the same time building both debt and potential overcapacity, factors that could add deflationary pressure further down the line.

Indeed, different trends have emerged in different regions of the emerging market world. In Asia ex-China, inflation was subdued relative to wider economies throughout the pandemic but has risen somewhat since. This delayed price shock has seen central banks slower to hike rates and will set back rate cuts, in the main we consider until the second half of this year. The reverse has been true in Latin America, where despite inflation rising broadly at the same time as in the US (with the exception of Brazil where rates rose more quickly), central banks tightened policy far ahead of developed central banks. Accordingly, Mexico's central bank was the last in the region to begin its easing cycle this month, and we expect further cuts to come as inflation has broadly returned or is close to returning to central banks' target ranges.

It is then somewhat ironic that with increasing signs of divergence in economic fundamentals this month's Bank of England (BoE) decision led us to bring forward our expectation for the first UK rate cut to June: We now expect the Federal Reserve (Fed), ECB and BoE to cut rates in June and for Canada to follow in July. However, more broadly, where markets have seen a very similar path of policy for many central banks over the coming two years, these emerging fundamental differences – which are only likely to be exacerbated by different political timetables – could yet evolve in very different directions.

Global Macro Monthly – US

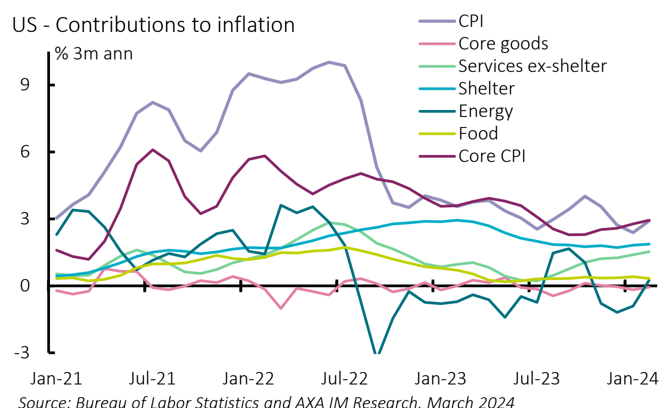
David Page
Head of Macro Research

Will inflation derail Fed rate cuts?

Markets continue to reprice the interest rate outlook. From pricing in 7-8 cuts by end-2024, they shifted to 3-4 cuts last month – and from fully pricing in a March cut, they moved to June. This continued in March with markets not fully pricing either a June cut – or 4.75% by year-end until after the latest Federal Reserve (Fed) meeting.

Inflation has been the primary cause of this reassessment. February's Consumer Price Index (CPI) was again firmer than expected with both headline and core inflation rising by 0.4% on the month. A pick-up in energy prices has impacted headline inflation and continued oil price gains back to October levels will add further angst. In core, the rise in services inflation should concern the Fed more (Exhibit 2). January saw a jump in shelter inflation – a component expected to soften given the fall in rents – but this was not repeated in February, with some doubts over seasonal adjustment. Services ex-shelter inflation also rose in January and remained high in February but the drivers were different in each month with volatile airfares adding to February's rise. February also saw higher core goods prices. It is not clear to us that this is anything other than statistical noise. However, with upside risks to energy and core goods because of Red Sea transit disruption, we need to see more convincing softening in services inflation to be consistent with Fed easing.

Exhibit 2: Services inflation drives disinflation doubt



Source: Bureau of Labor Statistics and AXA IM Research, March 2024

We have also seen further signs of economic softening, particularly from the consumer. February's retail sales failed to unwind the scale of January's drop, with the headline rising by 0.6% on the month in February following a 1.1% fall, the control measure unchanged after January's 0.3% decline. Consumer confidence has also softened, including March's Conference Board expectations component, while the Fed's latest Beige Book noted signs of consumer softening. The Fed's regional manufacturing surveys have also continued to trend lower (although noisily). And the Atlanta GDPNow tracker has lost pace over the quarter from an initial 3.5% annualised to 2.1%. We continue to estimate Q1 growth of 1.5%, although nudge our outlook for annual growth to 2.1% in 2024 (from 2.0%), seeing growth at 1.5% next year (consensus 2.1% and 1.7%). Such a softening should be consistent with the Fed loosening policy.

Fed Chair Jerome Powell addressed inflation head on at the Committee's March meeting. Earlier in the month he told Congress the Committee required "further confidence" that inflation was on a sustainable path to target but was "not far from" this. Powell reiterated this assessment after the Fed's March meeting, the Committee maintaining the median rate expectation for 2024 for three cuts and Powell stating he expected some dialling back of policy restrictiveness "at some point this year". However, the Fed reduced its expectations for rate cuts to 75bps from 100bps for next year (2026 was unchanged at 75bps) and an assessment of individual dots shows a couple more participants now expect the longer-term Fed Funds Rate to be above 2.5% (the median ticked higher to 2.6% from 2.5%). We continue to expect the Fed to start cutting rates in June, to enact four cuts this year – the Fed pace of cuts to quicken as we expect greater signs of slowdown to emerge – and to take policy to 3.75-3.50% by end-2025, a view now slightly more dovish than both the Fed and market.

The Fed also revealed it was discussing slowing the pace of quantitative tightening (QT) and would announce a decision "fairly soon". It now believes a slower QT pace could result in a more efficient distribution of reserves, which can allow a lower overall level of reserves. Since hearing this argument from Dallas Fed President Lorrie Logan in January we have expected the Fed to announce a halving of the current Treasury caps to $30bn/month from $60bn in June (effective July). There is room for a semantic debate about the precise meaning of "fairly soon" and a May announcement is possible.

Election expectations continue to affect outlooks. Both candidates now stand unopposed for their party nominations, with Nikki Haley dropping out after March's Super Tuesday. Despite widespread folklore that the Fed will want to avoid policy change around the election – a recurrent discussion – there is no statistically significant deviation in Fed policy setting around election cycles over the past four decades. We continue to suggest this politico-economic 'analysis' is a myth and Fed policy setting will not be impacted by the election per se, although different expected outcomes may well shape financial conditions, which the Fed would take into consideration.

Global Macro Monthly – Eurozone

François Cabau,
Senior Eurozone Economist
Macro Research

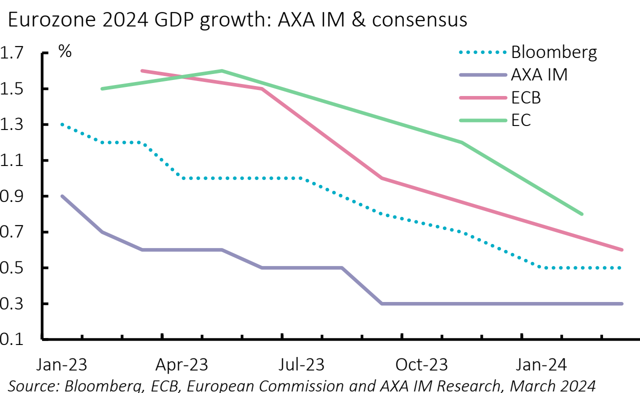
Hugo Le Damany,
Eurozone Economist
Macro Research

Growth: Below consensus view confirmed

Both hard and soft data to date in 2024 has confirmed our view of anaemic Eurozone growth. March's flash Purchasing Managers' Index (PMI) composite output edged up 0.7 points to 49.9, led by services, its highest level in nine months, though remaining just under the 50 breakeven mark. Eurozone industrial production fell by 3.2% month-on-month in January, significantly affected by a -2.4 percentage point (ppt) contribution from Ireland, more than offsetting a 1.6% increase in January and skewing risks to our +0.1% Eurozone Q1 GDP growth forecast to the downside.

We continue to project meagre growth, led by private consumption this year. Headline disinflation is well entrenched and supports our expectation of marked household real income gains during the current and upcoming quarters. More concerning is the recent uptick in the willingness to save. We are comfortable with our long-held below-consensus 2024 GDP projection (AXA IM: 0.3%, Bloomberg: 0.5%, Exhibit 3).

Exhibit 3: Moving to our below-consensus growth view



Source: Bloomberg, ECB, European Commission and AXA IM Research, March 2024

Sticky inflation persists. Eurozone services inflation was revised up 0.1ppt to 4% year-on-year, for the fourth month in a row. Moreover, the recent trends in underlying inflation pressures picked up further in February. Owing to the early timing of Easter, increased services weights and waning negative energy base effects, we think evidence of further underlying disinflationary pressures may be scarce in the coming months.

ECB: Rendez-vous in June

At its March meeting, the European Central Bank kept its policy stance unchanged. Still concerned by "high domestic inflation", President Christine Lagarde said the Governing Council needed more evidence about the disinflationary process: "They will have a bit more [data] in April, a lot more in June". In turn, the 11 April meeting will likely be more of an interim assessment – being just four weeks after March's - pending more Q1 wage and profits data as well as updated Eurosystem forecasts at the June meeting. We maintain our long-held call of a 25bp rate cut at the June meeting – and still look for three cuts in total this year (now closer to market expectations, pricing 90bps of cuts).

Watch for updated stability programmes

In the past few months, financial markets have enjoyed a streak of so-called 'risk-on' behaviour: fewer anticipated central bank rate cuts more than offset by better-than-expected growth momentum (mainly in the US). We note the publication of Eurozone member states' updated stability programmes next month may generate a reassessment of countries' public finance fundamentals and with it, possibly risk appetite.

Two countries will be at the centre of attention: France and Italy. The French national statistics bureau INSEE reported France's public deficit-to-GDP ratio reached 5.5% last year, 0.6ppt higher than the projected 4.9% in the draft budget law presented last September. This puts much more pressure on the path forward, which aims to bring the deficit-to-GDP ratio to below 3% only in 2027 and is constructed on the basis of punchy growth forecasts.

Additional savings will be required to make this year's deficit target (-4.4%) credible, all the more so that the government's 2024 downwardly revised growth forecast (to 1.0% from 1.4%) may still be too optimistic (AXA IM: 0.4%). Furthermore, the projected further adjustment to -3.7% in 2025 was built with (an unspecified) €12bn worth of savings. *Les Echos* reports savings should now be closer to €20bn (0.7% of GDP). We will be on the lookout for the next credit rating decisions by Fitch and Moody's on 26 April, both with stable outlook, but with even more interest for S&P (31 May) which has a negative outlook.

The Italian government's 2023 deficit-to-GDP ratio was revised significantly higher to -7.2%, around 2ppt higher than projected last September, mainly owing to the legacy of the Superbonus tax credits. In itself, this should have few repercussions, except that 2024 budgets were also built on optimistic growth – even after reports the government is considering a 0.2ppt downward revision to around 1.0% (AXA IM: 0.3%). We estimate that achieving an unchanged 4.3% public deficit target from last September would require €15bn-€20bn of additional savings.

Global Macro Monthly – UK

Gabriella Dickens,
Economist (G7)
Macro Research

Modest recovery, but cuts loom

The UK appears to be slowly moving out of the technical recession it entered in the second half of 2023. January GDP data showed a monthly 0.2% rise, offsetting December's -0.1%, although GDP was still down 0.1% in the three months to January. But the rebound in real incomes suggests further monthly gains are on the cards. Retail sales jumped by 3.6% month-on-month in January and were unchanged in February – a slight fall had been expected – and consumer confidence remains well above the 2023 average. The composite Purchasing Managers' Index (PMI) continues to point to quarter-on-quarter growth of around 0.2% in the first quarter (Q1), in line with our own forecast. Recent momentum has led us to revise up our forecast for this year to 0.4%, from 0.2%, and we now look for a 0.8% increase in 2025, compared to 0.6%.

Labour market slack also appears to be emerging. While the unemployment rate is low by past norms – despite ticking up to 3.9% in January from 3.8% – there are doubts over the official data and other sources suggest loosening. Vacancies fell in February to mid-2021 levels and survey measures remain consistent with a rate of around 4%. Pay growth came in just below expectations at 6.1% in January. Some mild upward pressure is likely in the spring given the near-10% National Living Wage hike, but a material slowdown in the second half looks likely. Consumer price inflation fell to 3.4% in February, below the Bank of England (BoE)'s 3.5% forecast. The BoE now expects the headline rate to drop below the 2% target in Q2, after the fuel duty freeze, before rebounding into year-end.

The BoE maintained Bank Rate at 5.25% at its March meeting, but the vote split shifted from net hawkish to net dovish. The two committee members who pushed for a hike in February turned neutral and one member continued to vote for a cut. The minutes struck a more dovish tone, while comments from Governor Andrew Bailey suggest rate cuts are closer than we had expected. The first 25 basis point (bp) cut now looks more likely in June, not August. May still seems too early; the BoE will want to see the impact of the living wage increase and benefit hikes before pressing ahead. We still look for total cuts of 75bps this year, with further moves in September and November. We have, however, become increasingly focused on the risk that inflation consistently undershoots the 2% target next year and have added two further cuts in the latter half of 2025, leaving the Bank Rate at 3.25% by year-end.

Global Macro Monthly – Japan

Hugo Le Damany,
Economist
Macro Research

The Bank of Japan did it

The Bank of Japan (BoJ) finally ended its negative interest rate policy and abolished its yield curve control on 10-year government bonds (JGB). Even if the changes are symbolic - an increase of 10 basis points (bps), now fluctuating between 0% and +0.1% - it ends eight years of negative interest rates and is the first hike since 2007. The BoJ will continue to buy JGBs at a monthly pace of around ¥6tn, a similar amount to before. Its statement also mentioned the possibility of ad hoc and unlimited purchases at fixed interest rates in the event of a sharp increase in JGB yields, although BoJ Governor Kazuo Ueda added that the long-term plan was for market forces to set long-term rates.

Since the autumn, the BoJ had conditioned this first step of policy normalisation on the outcome of wage negotiations and an improving economic outlook. The former has exceeded any expectations, reaching 5.3% (of which 3.7% for base pay and +1.6% depending on seniority), up 1.7 percentage points (ppt) from last year and only 0.6ppt below the trade unions' request. This is the largest increase since the beginning of 1990s.

The BoJ believes that surging wages and continued disinflation should boost households' real purchasing power. We also believe this will be the case, particularly in Q2 and Q3. However, we remain cautious about the impact, given the lack of historical experience over the last three decades. Households may not consume all their new income, with different implications for activity.

Economic outlook signals are still mixed; Q4 GDP growth was revised up to +0.1% quarter-on-quarter from -0.1%, removing the economy from technical recession. This was driven by a rebound in capex (+2%). However, private consumption remains subdued for the third consecutive quarter (-0.3%), while Q1 is unlikely to prove much better, as shown by January's household spending (-2.1% month-on-month).

The BoJ's next steps rely on a virtuous wages/price loop evolving through higher consumption. If everything goes as planned, it should be able to make further small hikes to short-term interest rates: we forecast one more hike of 10bps by year-end and 20bps by end-2025. It should also start to look at reducing its balance sheet, but only towards the end of 2024, with implementation unlikely before 2025.

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Global Macro Monthly – China

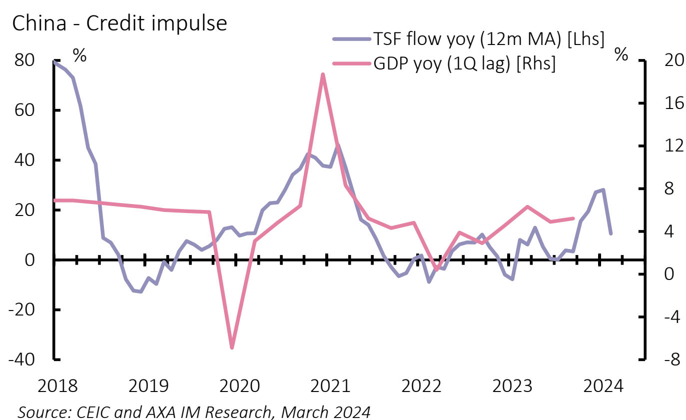
Yingrui Wang
Economist (China)
Macro Research

Demand side disappointment

Each year in mid-March China publishes the combined first two months' output data for the year. Although subject to strong seasonality due to different timing of the Lunar New Year (LNY) celebrations from year to year, this still provides the first sight of China activity in the new year after the previous hiatus.

This year credit demand had enjoyed strong momentum ahead of LNY, with total social financing (TSF) flows reaching a record high and corporate bonds seeing the largest net issuance in nearly two years. Yet, the latest data show this was short-lived (Exhibit 4). As People's Bank of China's (PBoC) Governor Pan Gongsheng confirmed in a press conference during the week of the National People's Congress (NPC), there is room for the PBoC to provide future cuts on the reserve requirement ratio. Moreover, we expect the PBoC to consider a policy rate cut later this year, namely the one-year loan prime rate, which is a key reference for private sector borrowing costs. This would provide an easier monetary environment to coordinate with fiscal policies and to revive activity.

Exhibit 4: Credit momentum short-lived ahead of LNY



Source: CEIC and AXA IM Research, March 2024

Retail sales were recorded as staying sluggish at the start of the year, consumption continuing to be a drag on the broader economy. As consumers continue to face pressures from the ongoing property downturn and gloomy labour market, a near-term rebound in private consumption is unlikely without future stimulus. Even as this weak outlook has added deflationary pressure, risking a debt-deflation spiral, government officials have so far failed to get to grips with this weaker consumer backdrop with no direct support announced during the recent NPC. Looking ahead, a revival in consumer behaviour is the missing link for broader recovery. For now, stimulus remains indirect, once again focused on infrastructure capital expenditure. This risks exacerbating weak consumer price inflation across this year as well. We currently forecast inflation to average an annual 0.6% for 2024.

Some revival in industrial activity

The stimulus package announced by Premier Li Qiang at the beginning of March was heavily focused on investment in infrastructure and manufacturing to facilitate industrial upgrades. This strategy is not new and had been reiterated in other government meetings ahead of Li's announcement. Some of the measures were already being implemented at the beginning of the year, resulting in stable growth of capital expenditure, particularly in infrastructure and the manufacturing sector. Most investments were undertaken by state-owned enterprises, where eventually the ruling party holds the power of decision making. In contrast, private investment was modest – a somewhat worrying sign, likely reflecting negative profitability last year. Nevertheless, an encouraging rise in industrial output (to an annual 7.0%) at the beginning of the year is likely to boost optimism. More importantly, such improvement in the private sector could also indicate that an improvement in the labour market, especially for migrant workers, is underway, albeit that the latest jobless rate rose to 5.3% from 5.1% at the end of last year.

Along with the stimulus plan, Li also set the GDP growth target for this year, a tradition that the ruling party has followed for more than two decades (except in 2020). China has a great track record of achieving its growth target – only twice (2014 and 2022) in the past two decades has it fallen short. Therefore, the annual target is more often than not where GDP is recorded by year-end. That said, this year's figure could be misleading. The growth target – a qualitative, top-down guide for the year – looks challenging based on our bottom-up view of China's economy and current performance.

As explained by Beijing's stimulus package, this year's growth target could be achieved if all goes as planned (or if further stimulus is added – something we think is likely). However, taking everything into consideration, we still forecast growth this year joining the two previous episodes of falling short of the target, forecasting 4.6% for 2024, (up 0.1 percentage point compared to our view in November) as we are concerned both by the focus of stimulus and concerns over a more impaired transmission mechanism. We acknowledge that risks lie to the upside as Beijing monitors stimulus with its goals in mind. Moreover, we also warn that the current stimulus plan, if fully implemented, may exacerbate issues of overcapacity in certain areas of the economy, adding to domestic disinflation pressures, exacerbating the future debt burden and potentially further inflaming international tensions.

Global Macro Monthly – Canada

David Page
Head of Macro Research

We hold rate view firm as markets re-assess

As expected Q4 GDP clawed back some of Q3's weakness – rising by 1.0% annualised and delivering full-year growth of 1.1% in 2023. We are sceptical of January's +0.4% month-on-month flash GDP estimate but we now expect modestly firmer growth in the first half of 2024, and have upped our growth forecast for this year to 0.8% from 0.5%, but leave next year unchanged at 1.7% – vs. consensus 0.7% and 1.9% and Bank of Canada (BoC) 0.8% and 2.4%. Overall, we still see the economy struggling against the ongoing lagged impact of monetary tightening, despite a gradual improvement in real disposable income. But external drivers are having a stronger than expected impact, both with resilient US economic growth and signs of ongoing robust migration flows.

Consumer Price Index (CPI) inflation inched lower in February to 2.8% – its joint lowest in four years. The outlook for headline inflation is for further easing over the coming months and we think it may dip below 2% in Q3, although should close the year around 2.5%. Core measures of inflation also softened but remain more elevated with both annual and 3-month annualised rates still above 3% with only modest progress over the last year. This will underpin the BoC's concerns about inflation persistence. Moreover, unit labour costs remain around previous cycles' historic highs at 4.6% in Q4 2023. While we expect some easing this year, this is more likely in the second half of 2024.

As we forecast, the BoC left policy unchanged in March – a cut had been more than fully priced in December. The BoC also left guidance identical to January over concerns about underlying inflation persistence and wanting further and sustained evidence of easing. Despite the modest fall in core inflation, the BoC is unlikely to rush into easing with the economy and labour market holding firmer than we had expected. We continue to see it starting to ease policy in July (markets still see an 80% chance of June). We continue to expect three cuts to 4.25% by year-end (now consensus since mid-February). We forecast a further 75bp of cuts across 2025. Deputy Governor Toni Gravelle recently reiterated a CAD$20-60bn excess settlement balance range to end Quantitative Tightening (QT), suggesting it would now achieve that range "sometime in 2025" (from H1 2025). Were the BoC to follow the Federal Reserve (Fed) in tapering QT before ending to achieve a more efficient reserves distribution the end may be later still.

Global Macro Monthly – EM Europe

Irina Topa-Serry,
Senior Economist (Emerging Markets),
Macro Research

An air of hawkishness, to varying degrees

Recently, inflation has been coming down quite sharply throughout Central and Eastern Europe, with the notable exception of Romania. This prompted central banks to start cutting rates last year. February's inflation rates came in at 2%, 2.8% and 3.7% respectively in the Czech Republic, Poland and Hungary, well off their peaks of 18%, 18.4% and 25.7% reached more than a year ago. The current levels of headline inflation are either at target or within central banks' target ranges. Still, a hawkish tone accompanied the 50-basis-point (bp) rate cut delivered by the Czech National Bank (CNB) in March, with concerns around sticky services inflation and currency weakness. We are monitoring services inflation which remains quite elevated elsewhere in the region, at around 7% in the Czech Republic and Poland, and 9.8% in Hungary. As such, we are cautious about the current strong headline disinflation and foresee an inflation hump along the way in the second half of 2024. Still, we believe there remains ample scope for interest rate cuts in the Czech Republic and Hungary, with more data-driven adjustments in the pace of easing. For now, we expect the CNB to continue easing in 50bp clips for most of the year, and then to reduce to smaller 25bp cuts towards year-end and into 2025, reaching 2.5% by end-2025.

At the opposite end of the spectrum, inflation kept surprising on the upside in Turkey, where the annual rate accelerated to 67.1% with core inflation at 72.9%. This triggered a renewed de-anchoring of inflation expectations with the official survey of market expectations pointing to 44.2% by year-end, 220bps higher than what had prevailed in January. The lira depreciation has accelerated of late, and currency reserves have dwindled further, triggering a bold 500bp rate hike to 50% from Turkey's central bank this month. This came only 10 days before local elections on 31 March, a testament of the central bank's current political independence and policy credibility. It widened the interest rate corridor to 300bps and maintained a clear hawkish bias in its forward guidance, leaving the door open for further rate hikes if needed. Cumulative rate hikes since May 2023 have now reached 4,150bps. We do not expect further hikes, assuming fiscal policy becomes more restrictive after the upcoming elections. At present, we expect inflation to gradually fall during the second half of the year and end 2024 at 45%, opening the door for monetary policy easing in 2025.

Global Macro Monthly – EM Asia

Danny Richards,
Economist (Asia Emerging Markets),
Macro Research

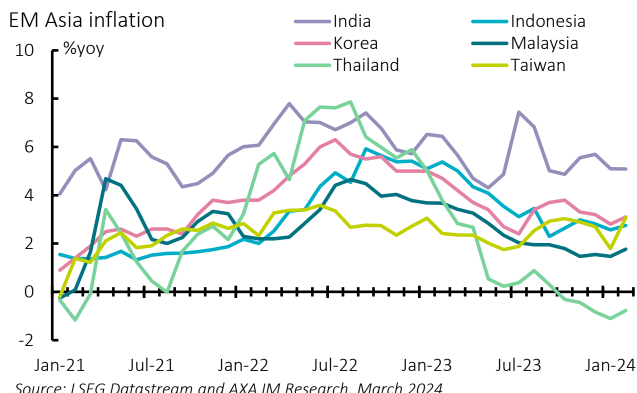
Central bankers in no rush to cut rates

Headline GDP growth across the region has been impressive. India's economy surged by 8.4% year-on-year in Q4, beating expectations and further burnishing Narendra Modi's economic policymaking credentials ahead of the April-to-June general elections. Indonesia's GDP has also continued to grow solidly at 5.0%, and President-elect Prabowo Subianto will seek to convince investors that the economy can shift into a higher gear during his term. But on a quarterly basis, private consumption and investment across the region have been sluggish, reflecting the lagged impact of monetary tightening.

Despite recent weak domestic demand, central bankers are not expected to rush to cut rates, as they will want to be convinced that price pressures are contained before loosening (Exhibit 5). The previous hikes in interest rates, although not as hefty as elsewhere, are doing their job; inflation has now fallen within target range in India, Indonesia, the Philippines and Vietnam. An additional consideration for central bankers is the potential inflationary impact of planned subsidies rationalisation. Taiwan's central bank raised its policy rate by 125 basis points in March, ahead of April's electricity price jump as subsidies were lifted.

Central bankers may downplay suggestions that their policy decisions are impacted by the Federal Reserve but their reluctance to cut prematurely is backed by a keenness to support beleaguered currencies. The Bank of Thailand has scope to cut early, but most should wait until Q3 at the earliest.

Exhibit 5: Inflation down, but still some way to go



Source: LSEG Datastream and AXA IM Research, March 2024

Global Macro Monthly – EM LatAm

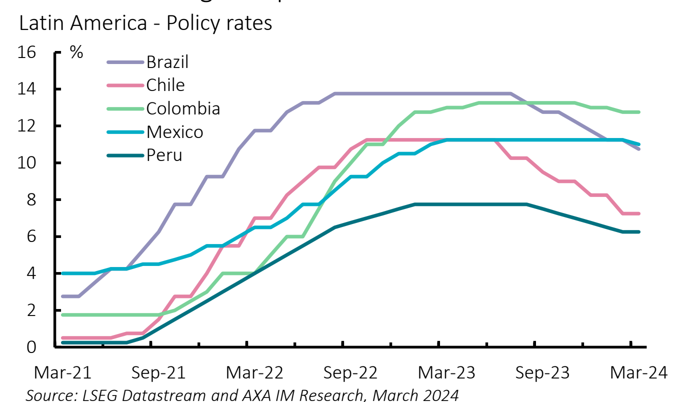
Luis Lopez Vivas,
Economist (Latin America),
Macro Research

Mexico joins the regional easing cycle

Mexico's central bank delivered its first rate cut since mid-2021, finally joining its regional peers which had started their easing cycles last year (Exhibit 6). The decision to cut the key rate by 25 basis points (bps) to 11% was largely expected by the market, resulting in minimal impact on the exchange rate or yields.

While inflation in Mexico peaked in August 2022, it experienced a resurgence for three consecutive months towards the end of 2023. This resurgence was attributed to adverse weather, causing a spike in food prices and consequently fuelling inflation. As a result, the central bank's plans to start easing were disrupted. However, the surge in food prices has since reversed, leading to a decline in inflation once again in February to 4.4%. The bank's board did not provide any explicit forward guidance, instead stating that policy would remain data-dependent over the next meetings. As such, it seems the central bank is open to pausing the easing cycle, if necessary. Meanwhile, it kept its inflation forecasts for 2024 and 2025 largely unchanged.

Exhibit 6: What goes up must come down



Source: LSEG Datastream and AXA IM Research, March 2024

Prior to Mexico's cut, Brazil continued its easing cycle by slashing its policy rate by 50bps for a sixth consecutive time to reach 10.75%, in line with market expectations. Looking ahead, the central bank hinted at a potential similar-sized cut at its next meeting in May, a departure from its previous indication of multiple cuts in upcoming meetings. Although Brazil's central bank largely kept its baseline scenario unchanged, it acknowledged heightened uncertainty in both domestic and external environments.

Investment Managers

27 March 2024

Macro forecast summary

Real GDP growth (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.2	3.0		3.1	
Advanced economies	1.7	1.3		1.2	
US	2.5	2.1	2.1	1.5	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	0.6	0.8	1.1	1.3	1.5
Canada	1.1	0.8	0.6	1.7	1.9
Emerging economies	4.1	4.0		4.2	
Asia	5.3	5.0	4.0	4.7	
China	5.2	4.6	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	3.0	1.5	1.6	2.0	2.0
Mexico	3.2	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 26 March 2024
**Forecast*

CPI Inflation (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	4.7	2.7		2.2	
US	4.1	3.0	2.6	2.4	2.3
Euro area	5.5	2.5	2.3	2.1	2.1
China	0.2	1.1	0.9	2.0	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	2.3	2.6	2.2	2.0

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 26 March 2024
**Forecast*

These projections are not necessarily reliable indicators of future results

AXA Investment Managers

27 March 2024

Forecast summary

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	5,5	1 May 12 Jun	30-31 Jul 17-18 Sep	6-7 Nov 17-18 Dec
	Rates		-0.25 (5.25)	-0.25 (5.00)	-0.50 (4.50)
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 26 March 2024

These projections are not necessarily reliable indicators of future results

Download the full slide deck of our March Investment Strategy

Our Research is available online: www.axa-im.com/investment-institute

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Tour Majunga – La Défense 9 – 6 place de la Pyramide 92800 Puteaux – France
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