4 October 2023

04
Sidestepping the recession but expect below-trend growth in 2024-25

11
Capital Markets: A fierce fight between macro and micro dynamics

Allianz Research

Global Economic Outlook 2023-25

The last hike?

Executive summary

Ludovic Subran,
Chief Economist
ludovic.subran@allianz.com

Ana Boata,
Head of Economic Research
ana.boata@allianz-trade.com

Ano Kuhanathan,
Head of Corporate Research
ano.kuhanathan@allianz-trade.com

Jordi Basco Carrera,
Lead Investment Strategist
jordi.basco_carrera@allianz.com

Maxime Darmet,
Senior Economist for France & US

Pablo Espinosa-Uriel,
Investment Strategist

Jasmin Gröschl,
Senior Economist for Europe

Bjoern Griesbach,
Senior Investment Strategist

Roberta Fortes,
Senior Economist for Latin America

Maxime Lemerle,
Lead Analyst for Insolvency Research

Maria Latorre,
Sector Advisor B2B

Maddalena Martini,
Senior Economist for Italy & Greece

Luca Moneta,
Senior Economist for Africa & Middle East

Manfred Stamer
Senior Economist for Emerging Europe & Middle East

Nikhil Sebastian,
Economist & Data Scientist

With assistance from : Antonin Henriet, Congwei Wang, Timothy Wraight, Samuele Girardelli, Alberto Giuriato, Radha Gupta

Recession (mostly) avoided. A trough in global economic activity is expected at the turn of the year followed by below-trend growth in 2024-25. Consumer demand will remain soft amid negative wealth effects and increasing precautionary savings. Global trade dropped to its lowest level in the last two years amid the ongoing destocking process in the manufacturing sector and we only project a timid exit from recession from -0.6% in 2023 to +3.3% in 2024. Overall, the US will see a mere +1.1% GDP growth in 2024, the slowest rate since 2009, followed by +1.7% in 2025. Both Germany and France will only grow by +0.7%, followed by +1.6% in 2025. China's growth is expected to slow down to +4.7% and +4.2% in 2025. Emerging markets will face a growth deceleration to +4% and +3.9% respectively, below pre-pandemic levels.

Inflation (mostly) circumscribed, leading to timid pivot in interest rates. We expect global inflation to fall to 4.3% in 2024, -2pps from 2023 levels, but to remain above 3% in 2025. In the short run, commodity prices, notably energy, will bring volatility. Moreover, a catch-up in wage growth will bite corporate profitability, notably in Germany and the UK, but a spiral should be off the cards, given the sluggishness in growth. Finally, the USD should remain strong in the next six months, putting downside pressures on currencies. In this context, pivots in key interest rates are likely to remain gradual and timid, led by the Fed in summer 2024 (a total of -100bp over the year), after one last hike in November 2023 at 5.75%. The ECB and the BoE will pivot in September 2024, with 50bps in cuts over the year.

Toxic policy mix in a politically busy year. The monetary stance will maintain real interest rates at their highest levels since 2006. In this context, fiscal consolidation will start but remain moderate compared to past austerity episodes, given the very politicized year ahead: countries representing 75% of global GDP are going to the polls (US, EU, Taiwan, UK, Mexico, South Africa, Turkey just to name a few). Corporates are navigating through a period of reducing demand and increasing costs with reduced pricing power, leading to a squeeze in profitability. While corporates have been able to offset some of their interest burden by investing in short term assets, their cash is now rapidly depleting. Particularly in Europe, many corporates are bracing for significant post-Covid debt repayments due in late 2024-25. Business insolvencies are expected to rise by +11% in 2023 and at least +7% in 2024, with Western Europe being a key contributor to the global trend.

Capital markets: caught between a micro rock and a macro hard place. Capital markets continue to grapple with a tug-of-war between macroeconomic and microeconomic forces. Investors remain vigilant on the uncertainty surrounding the economic landing, policy decisions (higher for longer) and the overall economic landscape. Despite the elevated macroeconomic uncertainty, for the time being, investors continue to put their money on the corporates' balance sheet resilience narrative, with a strong belief that companies' fundamentals will remain positive until macroeconomic momentum rebounds. On the long-end of the yield curve, with policy rates peaking, there seems to be little upside left but with the supply-demand picture looking less favorable in 2024, we do not expect big downward shifts to occur either. As a result, we expect sideways trading until year-end, with a timid downward trend in 2024 and 2025 (UST 10y at 3.6% by 2025). For equities, we believe the narrative of fundamentals resilience will somehow pay out: We expect positive total returns for the next three years at around ~7 to 10% yearly. A similar story can be told for corporate credit: We expect credit risk to remain tight despite some short-term volatility as both corporate balance sheet resilience and the limited pass-through effect from higher financing costs have not spooked investor appetite. For emerging market assets, we believe the carry trade will remain strong and attractive, but country selectivity will continue to be a key performance factor.

Sidestepping the recession but expect below-trend growth in 2024-25

The global economy will continue to face challenges, with lackluster growth from the cumulative impact of monetary policy tightening by end-2024. The US will see a mere +1.1% GDP growth in 2024, the slowest rate since 2009, followed by +1.7% in 2025. Both Germany and France will only grow by +0.7%, followed by +1.6% in 2025. Overall, main markets in advanced economies will grow twice as slow as in 2022, and continue experiencing pockets of recession as interest rates remain high.

Concerns about China's capacity to boost its economy are growing and we see a slow landing to +4.7% in 2024 and +4.2% in 2025. This will take a toll on emerging markets, where growth should decelerate to +4% and +3.9% in 2024 and 2025, respectively, and remain below pre-pandemic levels. Overall, global GDP growth is projected to slow to +2.7% in 2023 and +2.4% in 2024, below 2019 levels.

Table 1: Global GDP growth forecasts

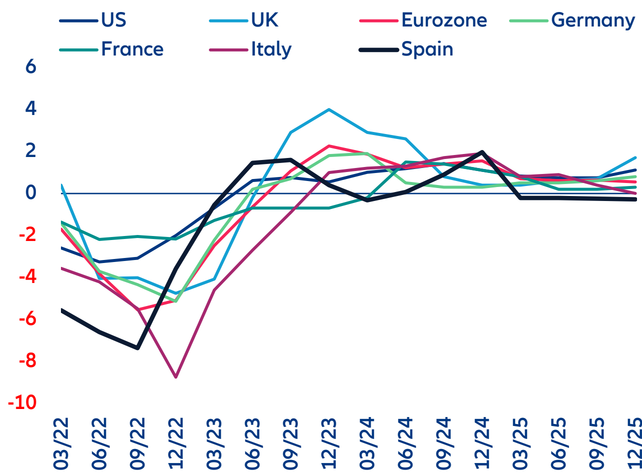
Growth (yearly %)	2021	2022	2023f	2024f	2025f
Global	**6.1**	**3.0**	**2.7**	**2.4**	**2.7**
USA	**6.0**	**2.1**	**2.2**	**1.1**	**1.7**
Latin America	**6.8**	**3.6**	**2.1**	**1.7**	**2.1**
Brazil	5.3	3.0	3.1	1.3	0.7
UK	**7.6**	**4.1**	**0.3**	**0.6**	**1.5**
Eurozone	**5.4**	**3.4**	**0.6**	**0.9**	**1.7**
Germany	3.1	1.9	-0.3	0.7	1.6
France	6.4	2.5	0.9	0.7	1.6
Italy	7.0	3.8	0.7	0.5	1.5
Spain	5.5	5.5	2.2	1.6	1.8
Russia	5.6	-2.1	2.1	1.9	1.5
Turkey	11.4	5.5	4.0	2.9	3.9
Central and Eastern Europe	**5.9**	**0.8**	**0.7**	**2.8**	**3.2**
Poland	6.9	5.1	-0.2	2.8	3.5
Asia-Pacific	**6.4**	**3.2**	**4.4**	**4.1**	**3.9**
China	8.5	3.0	5.3	4.7	4.2
Japan	2.3	1.0	2.3	1.3	1.2
India	8.9	6.7	6.5	6.1	6.2
Middle East	**4.2**	**6.7**	**2.3**	**2.5**	**2.6**
Saudi Arabia	3.9	8.7	1.5	1.8	3.0
Africa	**5.7**	**3.7**	**3.2**	**3.6**	**4.1**
South Africa	4.7	1.9	0.7	1.4	1.6

Source: Allianz Research

We are heading towards the end of the destocking cycle and a bottom-out for the manufacturing sector at the turn of the year, but soft demand will keep global trade growth at low levels. Supply-chain issues have normalized, with sea freight rates back to pre-pandemic levels and rapidly receding shortages (i.e. semiconductors) on the back of oversupply since Q4 2022. Global services are still supported by strong tourism flows and a boost in business services amid the ongoing selective supply-chain diversification. However, the global trade outlook remains weak. High global interest rates and fragile investor sentiment will exert downward pressure on international trade flows. We only project a timid exit from recession, with global trade growth moving from -0.6% in 2023 to +3.3% in 2024.

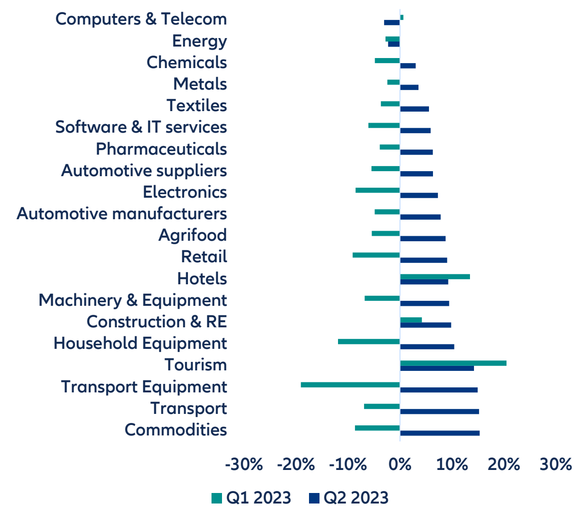
Corporates are faced with declining demand and higher costs while pricing power is fading. Strong labor markets and household and corporate balance sheets support a soft landing in advanced economies. But we have passed the peak, with the labor-market rebalancing picking up speed (with small increases in unemployment rates expected). This should support wage deceleration, which should be more visible in 2024. Cumulative real wage increases in 2024-25 will not be enough to offset 2022 losses, which should keep wage-price spiral worries under control. Profitability is being squeezed while companies' cash buffers reduce fast. The most fragile are feeling the pinch of higher interest rates and lower funding availability; more and more corporates, notably in Europe, will need to prepare for the wall of post-Covid debt repayments coming in late 2024-25. The normalization in credit risk is on track as expected and should remain so as we would need to see growth figures almost double to see a stabilization in insolvencies on both sides of the Atlantic. The rise in business insolvencies is broad-based across sectors and countries – with few exceptions in emerging markets (e.g. Russia, China). Conversely, most advanced economies are already back to pre-pandemic levels. Western Europe remains a key contributor to the global rebound, followed by North America, Central and Eastern Europe, Latin America and Asia. According to our Global Insolvency Index, insolvencies are set to increase by +11% in 2023 and at least +7% in 2024.

Figure 1: Real wage growth, y/y, %



Sources: national sources, Allianz Research

Figure 2: Expense momentum for corporates, q/q



Sources: Refinitiv,Allianz Research

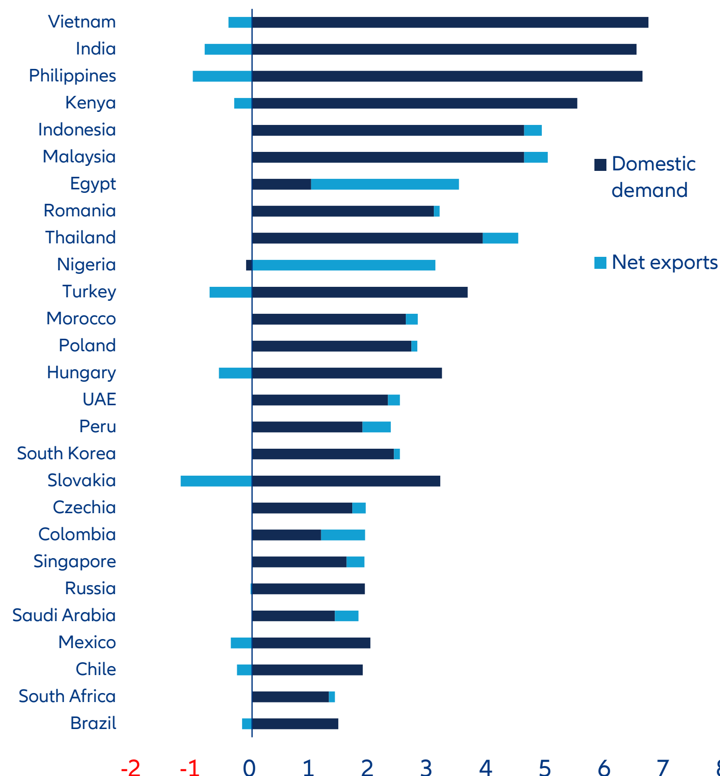
Figure 3: Business insolvencies - Forecasts

Cumulative change over 2023 and 2024 \ 2024 expected level compared to 2019	**Very low level** (more than -20%)	**Low level** (-20% to -5%)	**High level** (-5% to +20%)	**Very high level** (+20% and more)
Strongly increasing (+30% and more)	South Korea	Estonia Italy Japan	Netherlands US	Ireland Poland
Noticeably increasing (+15% to +30%)	Chile	Brazil Lithuania	Australia Finland France Germany Luxembourg New Zealand Norway Portugal Sweden	Canada Hungary UK
Increasing (0% to +15%)	India Latvia	Colombia Czechia Slovakia	Austria Belgium Bulgaria Romania	Denmark Morocco Spain
Decreasing	China Russia Singapore	South Africa	Switzerland Taiwan	Hong-Kong

Source: Allianz Research

We expect moderate growth in emerging markets, with several large economies returning to sluggishness. The effect of lower international demand is felt particularly in the countries most exposed to China and the EU, where the contribution to GDP growth in 2024 is likely to be negative. In contrast, consumption will hold even though the credit impulse will be less sustained. Particularly striking is the sensitivity to location risk, with a sharper slowdown in exports in the regions bordering China and the EU, slowed investment in Sub-Saharan Africa as a result of political instability and fiscal concerns in some Gulf and Central Asian countries. Conversely, US nearshoring could support the growth prospects of some Latin American countries.

Figure 4: Contributions to real GDP growth in emerging markets, pp, 2024



Sources: IMF, national sources, Allianz Research

Bumpy (dis)inflation ahead, leading to timid pivot in interest rates.

Policy rates in advanced economies have either reached their peak or are about to in this cycle as central banks see increasing evidence that tighter financing conditions are starting to bite. In the US, we expect the Fed to press ahead with a final 25bps interest rate hike in the November meeting as GDP growth momentum has firmed up through the summer months and inflation in core services (excluding housing) is weakening less than hoped. However, there is evidence that economic activity is heading for a sharp slowdown from end-2023. Student-debt payments are resuming in October and could knock around 0.5pp off quarterly annualized growth from Q4 2023. Another headwind to household consumption will be the normalization of the savings rate as households become more cautious amid a loosening of the labor market. Meanwhile, corporate margins are under increasing strain, having fallen for three consecutive quarters in dollar terms. The fall in the margin rate is the steepest since 2007-08. In Europe we do not see any further rate hikes by the ECB, despite the recent uptick in oil prices. There is clear evidence that monetary policy is restricting economic activity – most notably via falling credit demand. Given the lagged effect of monetary policy on the real economy, ongoing disinflation and a bleak economic outlook, we think the ECB has reached the cyclical peak in policy rate hikes.

Table 2: Inflation forecasts, %

Inflation (yearly %)	2021	2022	2023f	2024f	2025f
Global	**4.3**	**8.4**	**6.3**	**4.3**	**3.4**
USA	**4.7**	**8.0**	**4.2**	**2.3**	**2.2**
Latin America	**13.9**	**14.9**	**22.0**	**11.8**	**7.5**
Brazil	8.3	9.3	5.1	4.2	3.5
UK	**2.6**	**9.1**	**7.0**	**3.5**	**2.0**
Eurozone	**2.6**	**8.4**	**5.6**	**3.0**	**2.2**
Germany	3.1	6.9	6.0	2.8	2.4
France	1.6	5.2	5.3	2.6	2.0
Italy	1.9	8.2	6.2	2.5	2.2
Spain	3.1	8.4	3.7	3.7	2.2
Russia	6.7	13.8	5.5	5.6	4.0
Turkey	19.6	72.3	54.0	38.5	17.4
Central and Eastern Europe	**8.1**	**9.1**	**12.0**	**6.2**	**3.9**
Poland	5.1	14.4	12.3	6.2	4.0
Asia-Pacific	**1.7**	**3.7**	**2.6**	**2.6**	**2.4**
China	0.9	2.0	0.4	1.7	1.9
Japan	-0.2	2.5	3.1	1.8	1.0
India	5.1	6.7	6.4	5.3	4.5
Middle East	**15.8**	**10.3**	**7.7**	**5.6**	**5.1**
Saudi Arabia	3.1	2.5	2.8	2.8	2.0
Africa	**12.4**	**16.1**	**19.7**	**14.6**	**9.7**
South Africa	4.6	6.9	5.2	4.2	4.5

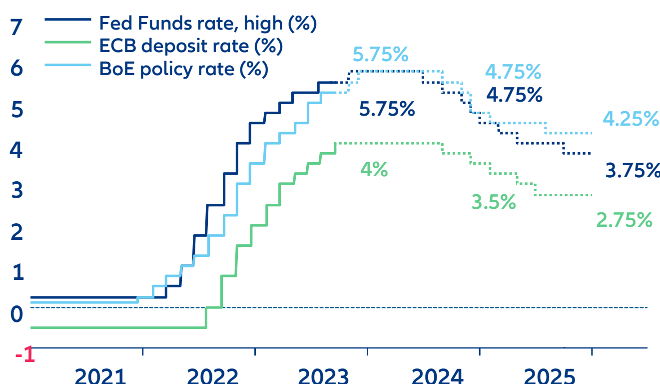
Sources: IMF, national sources, Allianz Research

We expect central banks to pivot from July 2024, led by the Fed, amid underwhelming growth and normalizing inflation. But rate cuts will be limited, keeping real interest rates at their highest levels since 2006. In the US, underlying inflationary pressures are receding amid a cooling labor market, lower corporate margins and a pick-up in productivity growth. Very low growth in 2024 will take a further toll on price pressures. We expect headline CPI inflation to reach the Fed's 2% target by the summer of 2024. In Europe, core price pressures are easing more slowly amid elevated energy prices, still tight labor markets and lackluster productivity growth. As the ECB's tight stance keeps the bloc's growth weaker for longer, we expect inflation to continue to pull back in 2024. Nevertheless, it will remain higher than the pre-pandemic norm as wage growth should remain dynamic. In this environment, we expect central banks to deem it appropriate to start cutting interest rates, but to proceed slowly. Learning their lessons from the 1970s – when central banks were too quick to declare victory against high inflation – we expect the Fed and the ECB to wait until H2 2024 before starting to cut rates, despite prolonged weak growth and inflation at or close to target. Monetary settings will remain very tight as policy rates will remain above current and expected inflation.

In the US, we expect the Fed to start cutting rates in July, bringing them down to 4.75% by December 2024. The US labor market is cooling, with the quit rate and the unemployment-to-vacancy rate close to or already back to their 2019 levels. This suggests that downward pressures on wage growth will continue to build as the economy loses steam. In this context, we expect the Fed to be ready to start pivoting in the July meeting as the combination of very weak growth, normalized wage growth and inflation and anchored inflation expectations will nudge FOMC members to ease the pressure a little bit. Nevertheless, with inflation and inflation expectations very close to the 2% target, the Fed's real policy rate will remain largely in very restrictive territory. Tight monetary settings should be sufficient to further stress the FOMC's undeterred commitment to low and stable inflation over the medium term at the price of weaker short-term growth.

The ECB is likely to cut policy rates by 50bps to 3.5% in the second half of 2024 as disinflation continues and economic growth remains close to zero for an extended period, leading to a negative output gap. Moreover, as inflation rates are expected to fall below 3% in the second half of 2024, the real policy rate will continue to rise to around 1% in mid-2024 from -1.2% currently, despite the expected (nominal) rate cuts. Such a level would be higher than the current estimate of the real neutral policy rate of the Eurozone, according to the Laubach-Williams approach. Even more so, ECB restrictiveness, defined as the spread between the real policy rate and the neutral real yield, would be around 2pps above the historic average in the next two years. This highlights the level of relative monetary restrictiveness ahead despite the initial rate cuts that we expect. To sum up, the ECB will have to slowly take its foot off the brakes in the second half of 2024 to avoid a hard landing. This argument becomes even more pronounced when taking the lagged effect of monetary policy into account. According to ECB estimates, monetary policy now takes more than a year to fully materialize. Our outlook also is broadly in line with a simple inertia Taylor rule estimate that takes the negative output gap and ongoing disinflation into account.

Figure 5: Key interest rates forecasts, %



Sources: LSEG Datastream, Bloomberg, Allianz Research.

Note: Numbers refer to end of 2023, 2024 and 2025 forecasts.

Fiscal cliff to come in 2024, dragging industrial policies across advanced economies

Fiscal policy will have to be calibrated carefully to avoid undoing current monetary policy efforts and to restore public finances to sound and sustainable paths. If public debt ratios (especially in Europe) have benefited from the high inflation environment via a higher denominator and a boost to government revenues, fiscal balances have not significantly improved since the massive stretch made during the pandemic and continued throughout the energy crisis. In the US, fiscal imbalances are growing rapidly. The combination of loose fiscal policy and elevated interest rates are pushing federal fiscal deficits to very elevated levels. We estimate that net interest payments will reach 3.8% of GDP in 2023 and 4.2% in 2024 for the general government (federal & local governments), after 3.4% in 2022. However, amid the presidential election and a sharply slowing economy, we do not expect the Biden administration to tighten fiscal policy much next year. We expect the general government public deficit to widen to -8.4% of GDP in 2024, after -7.9% in 2023 amid a weak economy and continuously rising interest payments as the Fed keeps borrowing costs elevated.

The Eurozone is heading into a challenging 2024 as the ECB's policy rates will turn more restrictive in real terms at the same time as governments are tightening their belts. While we expect the ECB to start cutting rates in mid-2024, the real policy rate, approximated as the policy rate minus inflation, will rise amid ongoing disinflation. In fact, it will approach estimates of the neutral Laubach Williams natural rate, which it has never even come close to in Eurozone history. Secondly, monetary policy impacts the real economy with a lag. Since the terminal nominal rate has likely been reached only just now, and the real terminal rate will be reached in 2024, monetary policy will have a highly restrictive impact for the foreseeable future. Meanwhile, after large stimulus packages during the Covid-19 pandemic and the war in Ukraine, Eurozone countries are now turning towards fiscal consolidation through more stringent budgetary measures. Fiscal stimulus in the Eurozone is expected to drop by -0.8% in 2024, slightly more than the -0.5% drop in 2023. Moreover, Eurozone governments and institutions have been working on setting the ground rules to return to a more advisable application of the EU fiscal framework, envisaged for 2024. Negotiations are still ongoing but it is clear that some form of discipline will be needed, also to not erode all the monetary policy efforts made so far. The negotiations have focused on more flexible and tailored rules to avoid harming countries' economic growth and to avoid procyclical rules, as well to stimulate green investment and the green transition. Though it is urgent, we expect a political agreement will be very challenging to reach. But we believe countries will make their best efforts in the coming months, a must to ensure their debt-reduction paths will be sustainable and credible in the medium term.

In recent years, there has been a growing worry about global economic and financial fragmentation due to geopolitical tensions. Trade along value chains and cross-border investments are particularly sensitive to tensions such as strained relations between the US and China or Russia's invasion of Ukraine. Many governments thus turned to subsidies as a new industrial policy to create investment incentives. But subsidies are increasingly undermining the rules-based trading system that has historically fostered trade liberalization and global growth. Subsidies may provide temporary relief in times of economic shocks, such as the pandemic, the Russian invasion of Ukraine and supply-chain disruptions, but they come with significant costs in terms of public spending and distorted investment and consumption incentives.

Industrial policy has gone from passé to fashionable again. The resurgence of industrial policy is reshaping the global economy as governments now actively compete to influence companies' production and location decisions. Their efforts are already proving to be effective: UN foreign direct investment (FDI) data for 2022 show that approximately USD180bn of the USD1.2trn in greenfield FDI was shifted across geopolitical blocs, reflecting countries' stances on Russia's invasion of Ukraine.

There is much more reshaping to come. The implementation of the Inflation Reduction Act and the Chips and Science Act by the Biden administration has sparked discontent among allies in Europe and Asia due to the magnitude of the subsidies provided. While the US views these subsidies as a means to address deindustrialization in economically disadvantaged regions, allies perceive them as a form of disguised protectionism. The reaction has shifted from anger to searching for ways to catch up. The EU, Japan and South Korea have all introduced subsidies for their tech and clean energy sectors to attract new investment or prevent more companies from shifting to the US. But China (the main target of US industrial policy) and India have also put their own strategies in place to boost manufacturing.

The outflow of investments in other regions is likely to be accelerated by the IRA. Even before the IRA came into force, Germany struggled to contain investments due to high energy costs and a shortage of skilled labor. The gap between outbound investments by German companies and business investment into the country in 2022 was the largest on record: More than EUR135bn of foreign direct investment flowed out of Germany and only EUR10.5bn came in. The IRA is likely to accelerate the trend, and not only in Europe.

Too complicated and too late? The EU is working on its own plan for green manufacturing to avoid being left behind, incorporating substantial subsidies and relaxing state-aid rules. In size the projected green subsidy levels are similar to the IRA. But their efforts have been criticized as too complicated and detail-oriented, while the US offer of uncapped tax incentives targeted at manufacturers has been praised for its simplicity. This highlights the challenges the EU faces in establishing a convincing green industrial policy amid a patchy regulatory framework and complex processes for accessing funds.

Subsidies usually come with strings attached. Governments are using subsidies to achieve specific goals, but they come with risks and conflicting objectives. The current US government wants to create high-paying manufacturing jobs while reducing emissions, but the feasibility of restoring the sector is uncertain. China's prioritization of state-owned enterprises and Japan's low-growth quagmires serve as warnings. The current industrial policy race may lead to boom-and-bust cycles, surpluses and bankruptcies. China's slowing growth and protectionist threats may shift the focus of the debate. However, significant spending on industrial policy will shape the business landscape, creating opportunities for innovative industries but posing challenges for businesses dealing with varying policies in different countries.

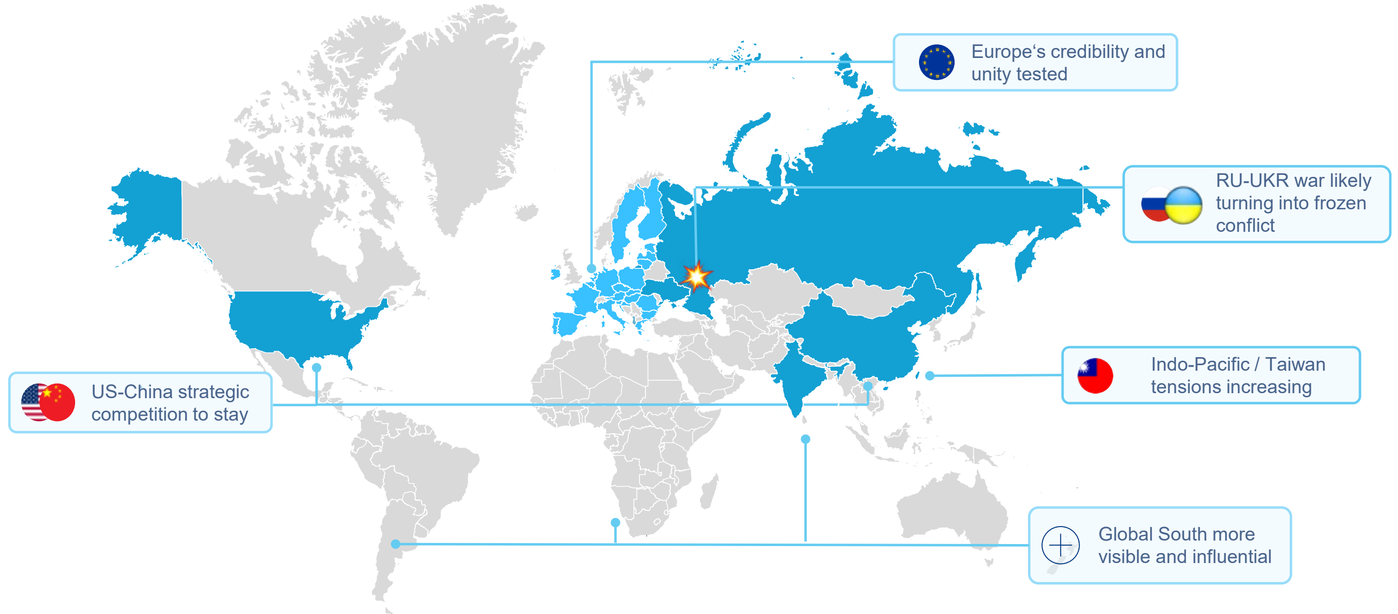
A packed political calendar raises the risk of policy errors

The US presidential election will be heavily polarized. On the economic front, a Republican victory will mean lower taxes but not necessarily lower spending. Incumbent President Biden is likely to run the race against former President Trump, the current frontrunner in Republican polls. D. Trump's campaign pledges are not well defined yet, but are likely to include corporate and personal income tax cuts. Some of Biden's flagship industrial policies – such as the IRA – may be partly scrapped if a Republican wins the White House, but are more likely to be watered down or revamped. Indeed, most of the IRA and CHIPS funding benefits mostly Republican-leaning districts, and are protectionist-leaning policies, a stance favored by Trump as well. Meanwhile, if Trump's first term is anything to go by, social spending (Medicare, Medicaid and Social Security) – which forms the bulk of Federal spending – is not very likely to be reduced under a second round. However, we would expect a deregulatory agenda to take center stage. While the overall size of the Federal rulebook was little changed during his first tenure, there was a clear drop-off in the flow of new regulations, and the share of firms reporting problems with red tape had fallen steadily.

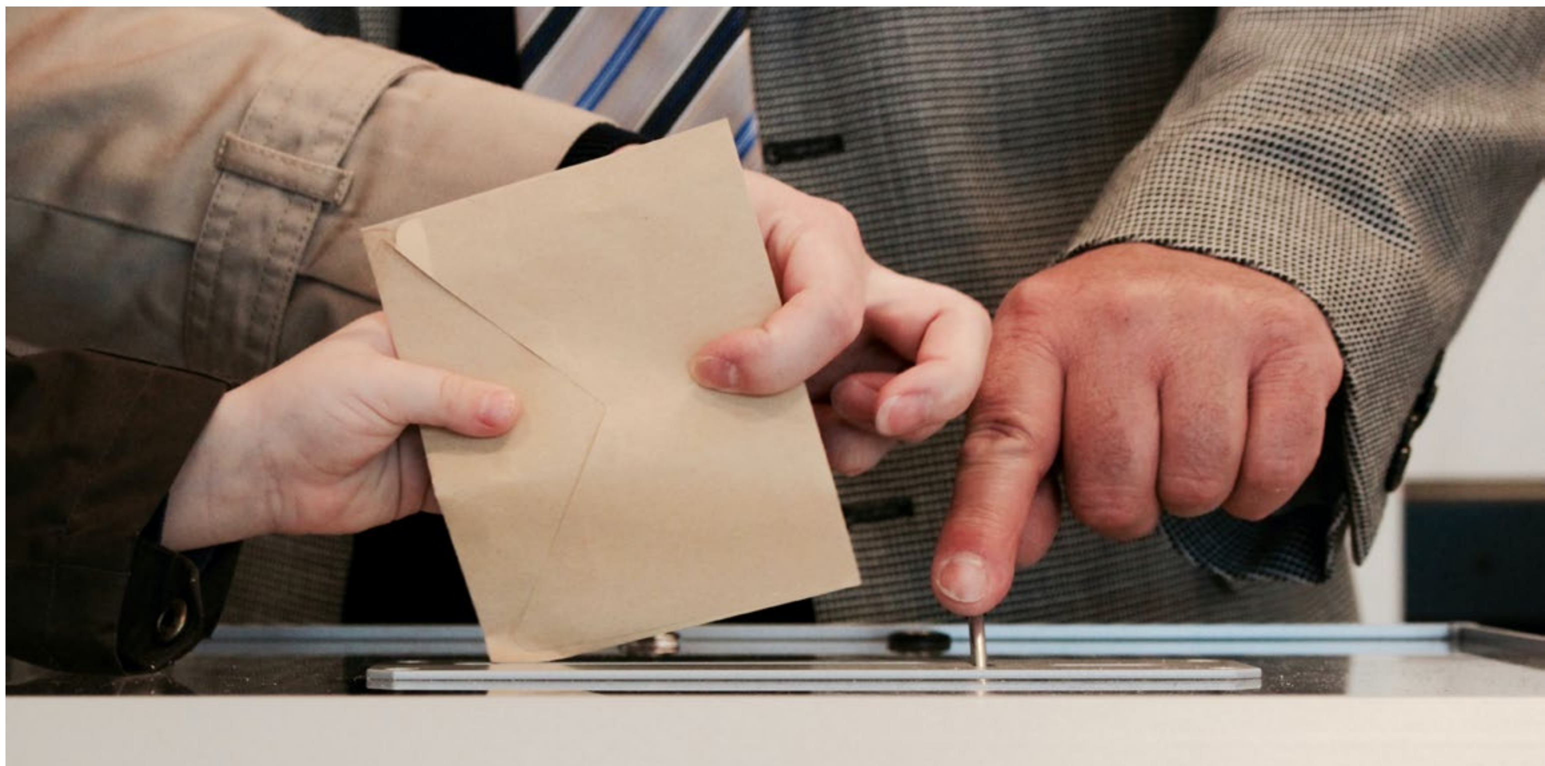
Across much of Europe, populism is again on the rise due to soaring inflation over the past years, the war and a surge in immigration. The trend towards a right-wing swing is alarming as Europe heads for nation-wide elections in 2024. European populist parties have more than doubled their vote share in the last 30 years. This reflects a broader tendency across national elections where voters have rewarded parties that champion hardline limits on asylum seekers and promote industry over climate. The political spectrum is more fragmented and center-right parties might have to adopt some arguments to counter the shift towards populist and hard-right parties – whether that will work is, however, highly unclear. Embracing right-wing groups risks drawing right-wing policies into the mainstream and moving EU legislature into a populist direction.

The last thing the EU needs are illusory solutions. The question is how the mainstream parties position themselves on several important topics, such as the war in Ukraine, climate change, the green transition, migration and fiscal rules. The environment is propitious for populist parties with illegal immigration on the rise, economic upheaval with high inflation in Europe for the past two years and the growing cost of climate policy, namely soaring energy prices, creating a potent new focus. Already attracting a big share of votes, populist parties are skewing the debate, making it harder for national governments to adopt sensible politics on pressing issues. The worrying point is that the next majority in the European parliament could be anti-environment, anti-immigration and against reinstating fiscal discipline – i.e. Eurosceptic. To prevent Europe from falling behind – economically and politically - the next Parliament faces crucial decisions on institutional reform, energy security, climate action and support for Ukraine. If a significant portion of its members fail to address these issues seriously, finding effective solutions will be very unlikely.

Figure 6: Upcoming key elections in 2023-24



Sources: various, Allianz Research



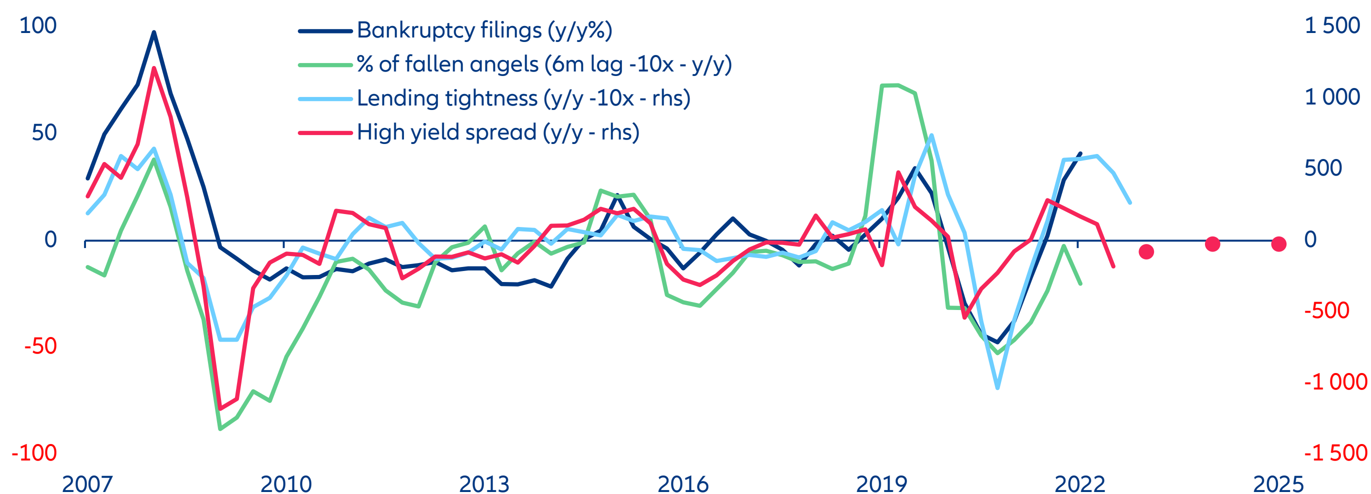
Capital Markets: A fierce fight between macro and micro dynamics

Market sentiment remains heavily focused on whether the global economy will indeed dodge a recession and the resulting implications for fiscal and monetary policy. Against this backdrop, investors appear to be placing greater emphasis on better-than-expected balance sheet resilience, as seen in earnings and profit margins, while recognizing the possibility that central banks may need to maintain higher interest rates for longer. Despite this implicit hawkish bias, market participants are buying into the idea that an extended period of elevated interest rates will not disrupt overall demand and market momentum. But this rather optimistic market positioning comes amid a context of heightened macroeconomic uncertainty; ignoring this issue could pose risks in the short to medium term.

Unfortunately, the difficulty of the current market conundrum is only increasing as the divergence between valuations, fundamentals, economic conditions and the overall market positioning is producing conflicting signals.

Despite some positive news, mid- to late-cycle risks to growth, earnings and defaults remain very much in place. As an example, and if historical relationships hold, current movements in the long end of the US yield curve would suggest that US PMIs should be around 55, which is more consistent with the US economy growing at a +4-5% pace – far from consensus, even considering the upper bound of US economic estimates. This divergence suggests that either the US economy is bound to reaccelerate to meet market positioning or aggregate demand should decelerate with market expectations adjusting lower. Another example can be found in the credit markets, where credit risk appears to have decoupled from macroeconomic conditions, with the recent acceleration in US default rates doing little to alter the pricing of high-yield corporate credit risk, even though bankruptcy data is consistent with a significant expansion in non-investment grade credit risk and a significant wave of fallen angels.

Figure 7: US Chapter 11 filings vs high yield spreads



Sources: LSEG Datastream, Allianz Research.

Note: Lending tightness: C&I loans survey banks tightening credit; % of fallen angels as a % of the total corporate market proxied by ICE BofA indices.

Due to the continuous market conundrum our strategy review revolves around five key topics.

It is no longer about "how high" but "for how long": As inflation proves more stubborn than previously anticipated, the focus has shifted from the extent of rate hikes to their duration. Continued signs of inflation and robust, though weakening, labor metrics suggest a prolonged period of elevated central bank rates. While both the US Federal Reserve and the European Central Bank appear to be nearing their policy zenith, the central question is whether the expected rate cuts in the latter half of 2024 will materialize. While we recognize some potential upside risk at the short end of the yield curve, we believe the long end has limited scope for further ascent. This is particularly true, given the hazards of excessive tightening during declining inflation periods, with notable implications for riskier assets.

Can micro dynamics hold until macroeconomic momentum catches up? The central question is whether individual company performance can remain strong until broader economic forces gain traction. Corporate earnings in both the US and Europe have consistently outperformed expectations, eclipsing broad cyclical economic trends. While we have observed notable resilience at the micro level, we foresee challenges arising from stringent monetary and fiscal policies, a dip in demand from China and a general macroeconomic downturn, all potentially impacting overall corporate growth trajectories. That said, we do not expect these challenges to escalate to a point where there will be a significant surge in defaults or credit rating downgrades. In our assessment, company-specific dynamics will keep markets afloat through year-end, keeping risky asset pricing at a decent level, with performance acquiring some traction as economic cyclical drivers accelerate in the second half of 2024 and into 2025. This assessment applies to the broader market while firms with weaker financial foundations, particularly those more vulnerable to fluctuating financing rates, are likely to face continued headwinds.

For how long can market leaders hold the pace? The buoyancy of risky assets in 2023 can be largely attributed to a few sectors, with the US equity market's performance being particularly concentrated among several tech giants. In Europe, the linchpins are spread across three to four sectors. Such narrow market leadership might unsettle many investors, given that a mere one or two quarters of underwhelming earnings could significantly impact indices. This concern is amplified by the fact that the sectors driving the rally in risk assets are strongly tied to yield curve fluctuations, which is bound to experience elevated volatility in the short run. While there may still be potential for growth within these key sectors and companies, the inherent dangers of such concentrated risk – whether in earnings or valuations – cannot be overlooked.

Corporate credit risk remains high but no accident is in sight. While the headwinds for corporate credit remain strong due to rapidly accelerating financing costs, we do not foresee any imminent financial calamities. Despite the muted impact of rising financing costs to date, the recurrent need for corporations to manage and refinance their debt will likely lead to a gradual erosion of their debt-servicing capabilities. Concurrently, the deceleration in earnings growth, spurred by tepid demand and overall muted growth, poses further hurdles. In the US context, large corporations have adeptly navigated heightened financing expenses, predominantly by investing in the short end of the US yield curve. This approach leverages robust interest income to offset interest expenditures. Moreover, those entities looking to refinance are gravitating towards shorter-term maturities, anticipating reductions in financing costs in the mid run and aiming to benefit from the lower points of the inverted corporate yield curve. Yet, within the high-yield and non-rated segment, we are witnessing a surge in default rates as companies grapple with the dual challenges of escalating financing costs and subdued demand. Europe presents a different dynamic. Given the predominant reliance on bank-based financing, the repercussions of rate hikes and dampened earnings have been more immediate and pronounced. Overall, and despite anticipating a broader decline in debt-service capabilities, we do not expect an extensive revaluation of corporate risk. Instead, we anticipate a period of range-bound trading for the remainder of this year, followed by a slight narrowing in

2024 and 2025 as economic momentum gathers pace. Based on this outlook, our preference continues to lean towards quality credit over high-yield options, even though the potential for timid spread widening persists in the short-run on both sides of the rating spectrum.

Can markets disregard the Chinese impact on global demand? Many emerging markets stand first in the firing line for potential repercussions of the Chinese economic slowdown. But we should not underestimate China's pivotal role in shaping global aggregate demand and the complexity of its position on the global stage, especially when it comes to financial markets in advanced economies and multinational corporations. Indeed, many of these corporations have deeply integrated China into their supply chains for production, while simultaneously recognizing the nation as a pivotal market for their goods and services, making their growth engines closely tied to China's economic "well-being". Overall, and despite the latest broad trends of reshoring and friend-shoring, CAPEX repatriation to developed economies will have an impact on mid- to long-run valuations while the decrease in Chinese global demand will have an immediate impact on corporate balance sheets and consequently on developed market valuations.

Table 3: Capital market 2023-2025 forecasts (year-end figures)

year-end figures	Last	Unit	2022	2023f	2024f	2025f
EMU						
Government Debt						
ECB deposit rate	4.00	%	2.0	4.00	3.50	2.75
10y yield (Bunds)	2.83	%	2.6	2.6	2.5	2.4
10y EUR swap rate	3.34	%	3.1	3.0	2.9	2.8
Italy 10y sovereign spread	195	bps	214	170	150	140
France 10y sovereign spread	57	bps	54	60	40	40
Spain 10y sovereign spread	110	bps	109	110	80	70
Corporate Debt						
Investment grade credit spreads	150	bps	166	160	140	130
High-yield credit spreads	433	bps	494	475	425	375
Equity						
Eurostoxx (total return p.a.)	9.6 ytd	%	-12	9	7	8
US			**2022**	**2023f**	**2024f**	**2025f**
Government Debt						
Fed Funds rate (high)	5.50	%	4.5	5.75	4.75	3.75
10y yield (Treasuries)	4.61	%	3.8	4.2	3.9	3.6
Corporate Debt						
Investment grade credit spreads	121	bps	138	130	120	110
High-yield credit spreads	403	bps	479	400	375	350
Equity						
S&P 500 (total return p.a.)	12.7 ytd	%	-18	13	9	11
UK			**2022**	**2023f**	**2024f**	**2025f**
Government Debt						
BoE rate	5.25	%	3.5	5.75	4.75	4.25
10y yield sovereign (Gilt)	4.36	%	3.7	4.4	4.2	4.0
Corporate Debt						
Investment grade credit spreads	158	bps	192	170	150	140
High-yield credit spreads	578	bps	663	600	550	500
Equity						
FTSE 100 (total return p.a.)	5.2 ytd	%	4.7	3	7	7
Emerging Markets			**2022**	**2023f**	**2024f**	**2025f**
Government Debt						
Hard currency spread (vs USD)	243	bps	273	275	270	260
Local currency yield	6.6	%	7	6.6	6.0	5.5
Equity						
MSCI EM (total return p.a. in USD)	1.7 ytd	%	-20	2	5	12

Sources: LSEG Datastream, Allianz Research

Moving into asset classes and starting with the long end of the yield curve:

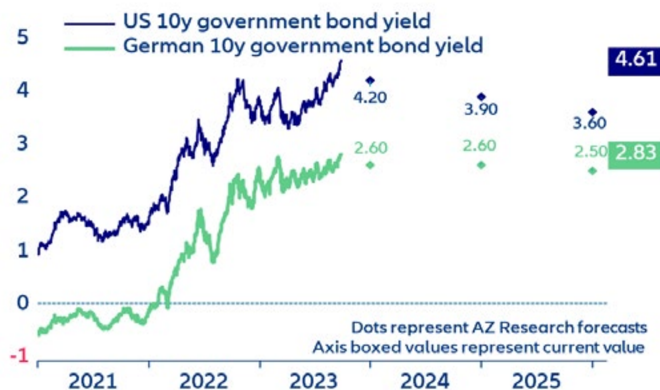
With the policy rate cycle close to its peak, there is little upside left for long-term rates. But with the supply-demand picture looking less favorable in 2024, we do not expect big downward shifts to occur either. Although approaching peak policy rates, the potential market expectation for an extended period of high central bank rates suggests that it might be premature to shift towards longer-duration strategies too soon. In the medium to long term, however, our models maintain the view that the longer end of yield curves in most developed markets is slightly cheap, and we anticipate a downward trajectory in long-term yields. This aligns with historical patterns and our policy pivot scenario, wherein yields tend to decrease following a central bank pause, whether accompanied by actual rate cuts or the anticipation of accommodative policy. Moreover, as disinflation continues, so will inflation expectations, which have a substantial influence on long-term rates.

Anticipated foreign demand for government bonds is expected to remain stable in the medium term, but high hedging costs will dampen further demand for US treasuries. Global investors are expected to show robust demand for developed market bonds amid elevated rates while available. However, in the US, this only holds on an unhedged basis as insuring the currency risk against the US dollar is currently very expensive, effectively erasing the benefits of higher yields.

Meanwhile quantitative tightening by western central banks will continue, putting a floor below larger downward moves in rates. The Fed is currently reducing its treasury holdings by around USD80bn per month and is expected to continue to do so until the second half of 2024. The ECB's balance sheet is dropping even faster because of maturing TLTROs and the increased speed of the passive roll-off of its Asset Purchase Program (APP) since June 2023 (around EUR25bn) per month. The ECB has made it clear that interest rates will be the primary tool for steering monetary policy for the foreseeable future. As a result, even when the ECB cuts policy rates in 2024, we expect quantitative tightening to continue with ongoing passive roll-offs in the APP holdings and, starting in 2025, also in its Pandemic Emergency Purchase Program holdings (PEPP).

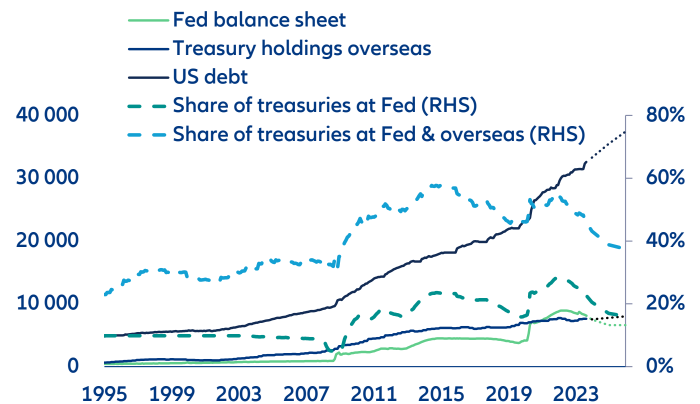
On both sides of the Atlantic, the "net-net supply" of government bonds will be substantial as government deficits remain large even after fiscal consolidation. In the US, the amount outstanding of US treasuries is about to rise by close to USD2trn per year. But compared to previous years, the Fed will not absorb part of this increase. If we add QT instead of QE to the equation, so called "net-net supply" will be substantially higher than in previous years and private domestic investors will need to step in. In fact, the share of outstanding treasuries held by private domestic investors is about to rise from 54% currently to 63% by the end of 2025. A similar picture will emerge in Europe, where the German bund supply will remain large. The ECB's QT will particularly affect bunds for two reasons: first, flexible PEPP reinvestments to keep spreads stable in Europe will likely come at the expense of German bunds. Second, the relative share of German debt held by the ECB is larger compared to, for example,

Figure 8: US and German 10y government bond yield



Sources: Allianz Research

Figure 9: Fed quantitative tightening

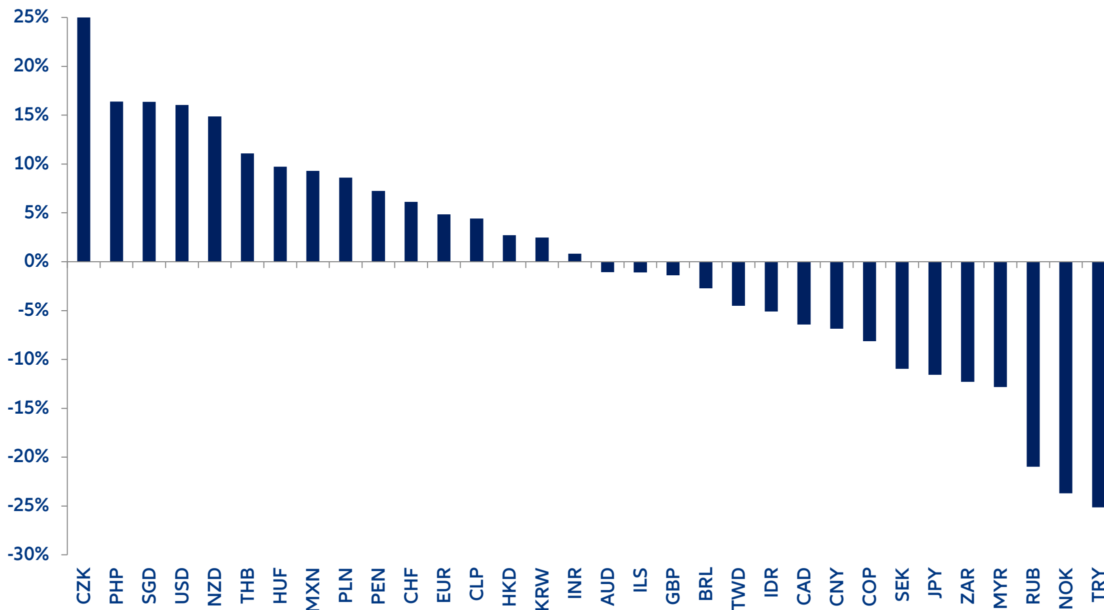


Sources: Refinitiv Datastream, Bloomberg, Allianz Research

that of Italy because of a higher capital key and a lower total outstanding amount. To sum up, unfavorable supply-demand balances will limit rates from dropping too much despite a policy pivot and falling inflation expectations.

When it comes to foreign exchange, the story is one of resilience for the greenback over the year despite being extremely overvalued. Several elements can impact a currency in the short term. In the last two years, the interest rate differential has been a major factor for the USD.

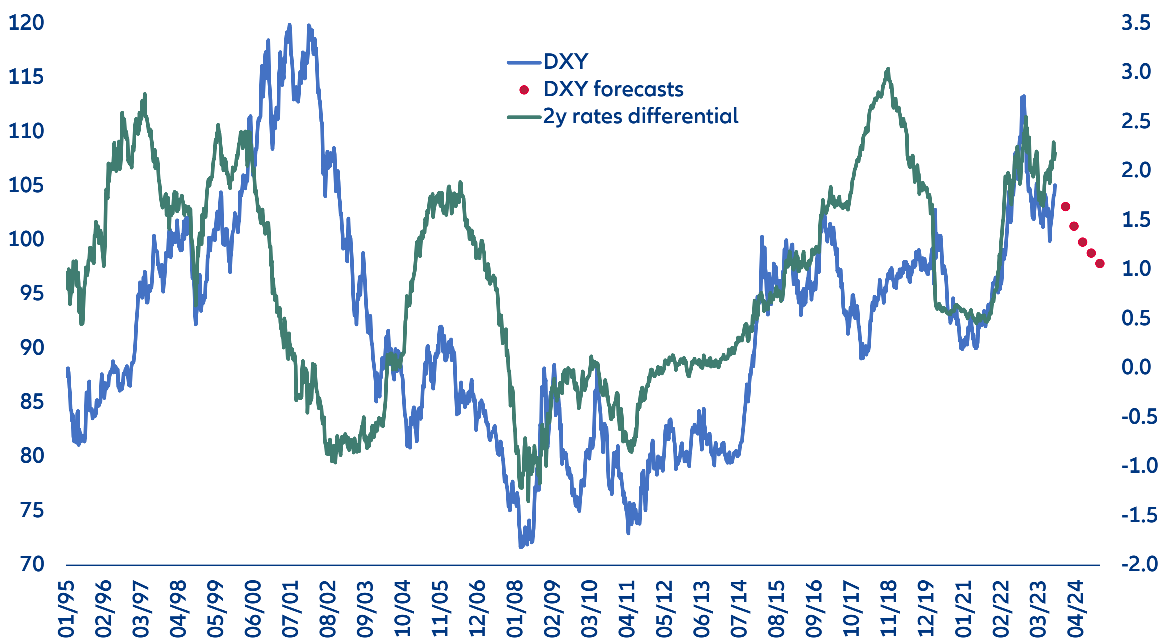
Figure 10: FX over/undervaluation according to Allianz Research models*



Sources: Refinitiv Datastream, Allianz Research.

* Purchasing Power Parity (PPP), Behavioral Equilibrium Exchange Rate (BEER) and Fundamental Equilibrium Exchange Rate (FEER) models (trade-weighted based). For every currency, models with larger errors are penalized.

Figure 11: US Dollar Index (DXY) vs Major 2Y rates differential



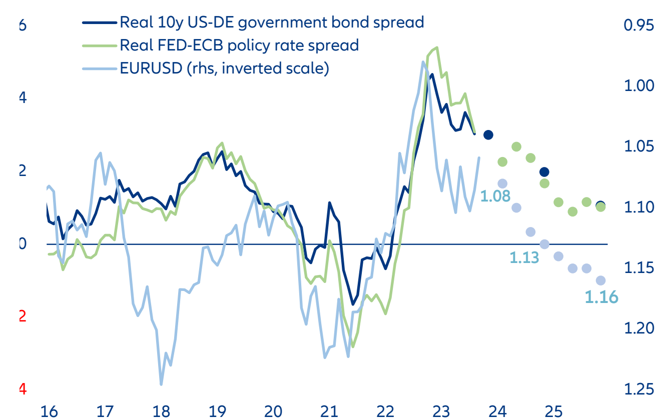
Sources: Bloomberg, Allianz Research.

Note: The DXY is measured as a weighted average of Major currencies (the Euro, Japanese Yen, Pound Sterling, Canadian Dollar, Swedish Krona and Swiss Franc). 2y rates differential corresponds to the weighted average of US 2y rate – Major 2y rates.

In 2023, the greenback has lost momentum from its peak levels achieved last year, with Latin American currencies performing best against the USD in the year. However, since the summer, factors such as growing concerns over the outlook for China and the global economy, subdued activity in the Eurozone and the resilience of the US economy have bolstered the USD. We anticipate these dynamics, particularly related to economic growth, to continue underpinning the USD in the near term. However, we do not foresee any significant surges since most of these influences are already factored into the market. Our six-month outlook projects the EURUSD to be fairly range-bounded at 1.06-1.10. By the end of 2024, we expect the EURUSD to reach 1.14, based on our forecasts for the Eurozone's economic recovery, especially from the second half of 2024; anticipated interest rate reductions, notably by the Fed, and the soft landing in the US; some of the factors slowing manufacturing – destocking and demand from China – becoming more favourable next year and the absence of significant disruptions to the global growth trajectory in 2025. However, the euro could face headwinds from the ongoing energy crisis.

Given this scenario, we expect non-cyclical currencies and those with a high yield to fare well. Notably, the Brazilian real (BRL) and Colombian peso (COP) stand out, appearing undervalued in our models. Meanwhile, the Mexican peso (MXN), even if comparatively pricey now, should benefit from elevated interest rates. We do not anticipate Banxico to initiate rate cuts until the forthcoming year. Nevertheless, it is important to be wary of potential volatility in the MXN, especially with the looming Mexican presidential elections in mid-2024.

Figure 12: Transatlantic spreads vs. EURUSD



Sources: Refinitiv Datastream, Allianz Research

Corporates have been able to withstand the increase in financing costs but defaults are accelerating
Corporate credit markets have remained complacent throughout 2023, disregarding the increasing burden of tighter financing conditions and overall erosion in cyclical demand indicators. However, as markets enter the higher- for- longer scenario, borrowers will continue face challenges as demand slows and financing costs remain high. We expect this to have limited impact on higher-quality corporates as the lower but still positive earnings growth is likely to outpace the increase in interest expenses, thus leading to a positive effect on debt-servicing ratios, such as Interest Coverage Ratios. However, this may not prove true for lower-rated companies, especially within the high-yield space. With financing costs around 8-9%, the needed earnings growth to compensate for the increase might be too high to accomplish, leading to a gradual erosion of debt-servicing capacity. Additionally, a lot of such companies have decided to take a passive approach to market engagement, with issuance volumes being extremely low. This passivity may not be sustainable in the event of a continued economic and earnings decline, and the higher-for-longer scenario will most likely imply a substantial increase in interest expenses during refinancing. In this context, prolonging refinancing strategies may expose them to unfavorable outcomes. In fact, we are beginning to witness such incidents manifesting in the floating borrowing sector, such as CLOs (Collateralized Loan Obligations).

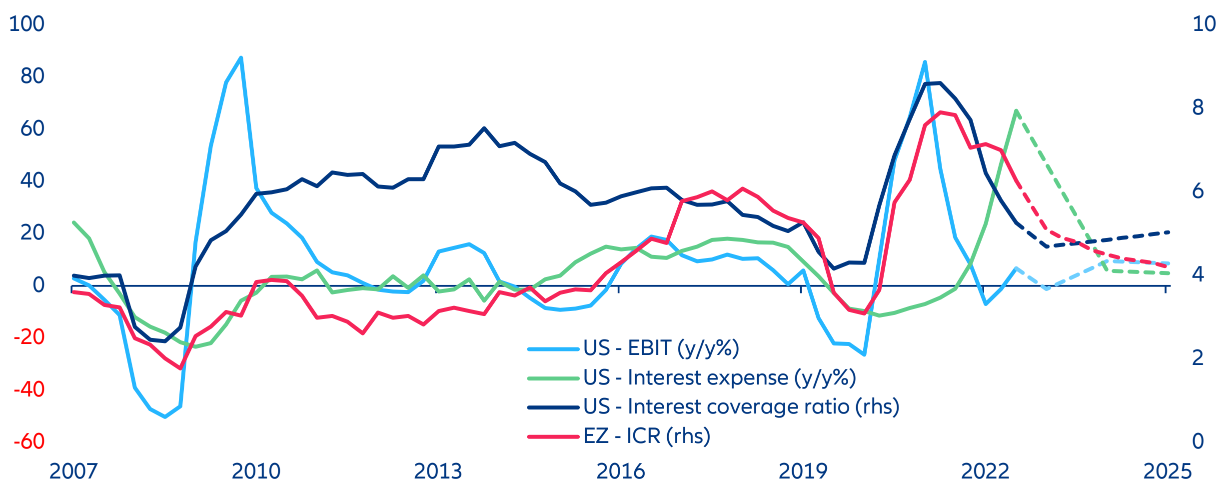
Regionally, Europe seems to be more exposed to the current market environment since the financing mix for corporates is heavily reliant on banks and banking institutions seem less inclined to replace market funding. This is because despite the reduced systemic banking concerns, challenges such as capital cost, profitability and deposit outflows continue to weigh on lending intensions. As a result, bank lending should continue to slow, making access to refinancing tougher for lower- rated corporations. Nonetheless, private credit may emerge as a potential savior, especially for robust businesses with weak balance sheets facing refinancing needs.

Against this market conundrum, our valuation modelling suggest that spreads should widen in the short run while allowing for some compression in the mid run. As a result, investment-grade credit remains our preferred choice, with expectations of compressing spreads and positive excess returns in 2024 and 2025. More so as despite anticipating some spread widening by the end of this year, IG credit's risk-reward proposition seems more attractive than high

yield. In numbers, our outlook for the end of 2023 remains that of a mild widening, larger in the Eurozone (160bps) than in the US (130bps). Afterwards, and despite the expected amplification of default rates in 2024 and 2025, we still expect some structural compression (-20-30bps spread compression) as demand for credit remains strong and corporate fundamentals remain resilient. Within high yield, we expect spreads to widen slightly in 2023, reaching 400bps and 475bps for the US and Eurozone, respectively, with the latter experiencing elevated short-term volatility. Afterwards, we expect a structural 25-50bps compression on the back of lower financing rates and a pick-up in economic performance.

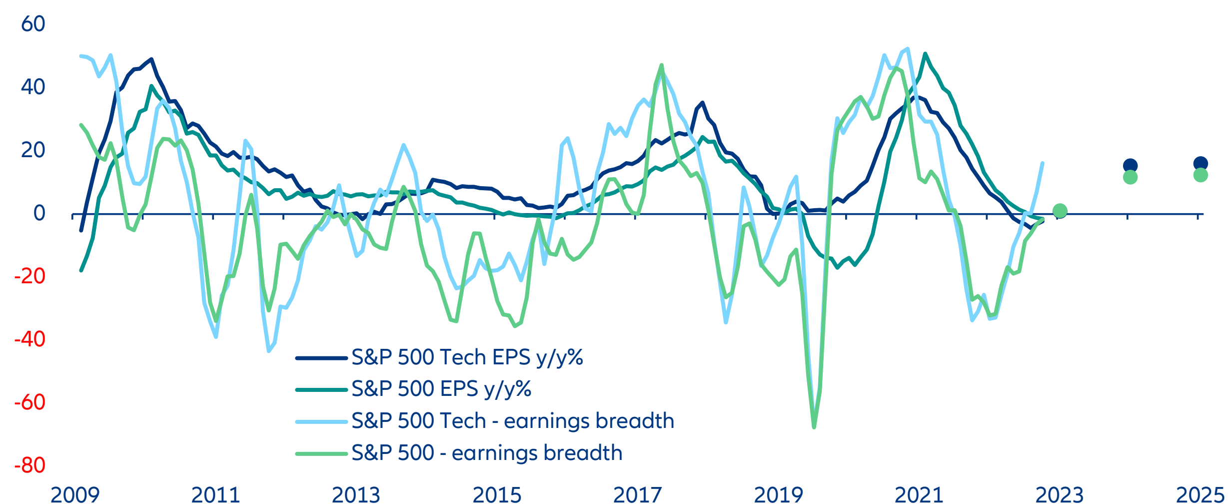
Equities are buying the balance sheet resilience narrative while downplaying the still high macroeconomic uncertainty. In 2023, US and European equities have experienced a remarkable double-digit rally despite the heightened economic and geopolitical uncertainty. But this surge has been marked by significant disparities across the equity universe. Starting with the US, growth stocks have soared by ~30 to 40%, while the rest of the index has remained relatively "flattish" over the year. The prevailing hypothesis is that the robust performance has been primarily driven by bullish sentiment at the micro-level – revolving around themes such as artificial intelligence, the reshoring of businesses and the cushioning effect of interest income on the rate cycle for large corporations – rather than overall optimism about the broader US economy.

Figure 13: US and Eurozone Interest Coverage Ratios (ICRs)



Sources: LSEG Datastream, Allianz Research.
Note: Dotted lines represent simulations.

Figure 14: US EPS growth and earnings breadth

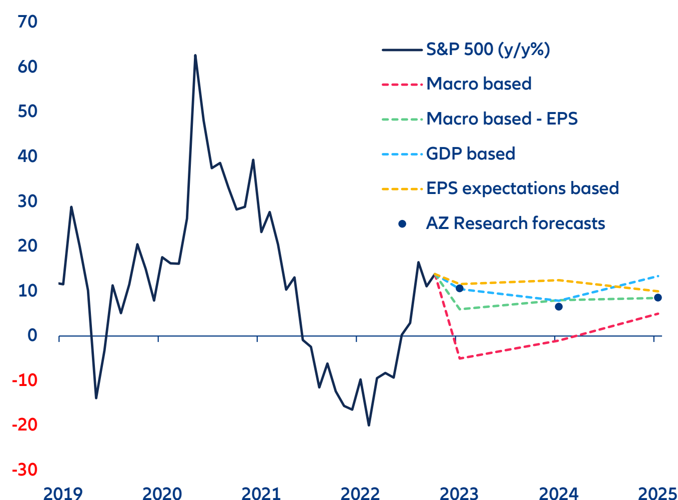


Sources: LSEG Datastream, Allianz Research.
Note: Dots indicate analyst expectations; Earnings breadth = (# of earnings revisions up - # of earnings revisions down) / total # of earnings revisions.

Along these lines, earnings narratives at the micro level have been predominantly positive, with Q2 results generally outperforming expectations. This trend has prompted analysts to recalibrate their forward-looking earnings estimates upward, reflecting a growing sentiment that corporate growth mechanisms might be sturdier than earlier projections suggested. However, a more refined perspective is needed, particularly when examining US market indices. A salient contributor to the favorable investment climate is the robust earnings momentum exhibited by stocks in the technology sector, especially with an AI focus. In this regard, since the year's onset, there has been a consistent upward revision in earnings projections for these entities. This has not only led to a revaluation of individual stocks but has also influenced a broader reassessment of the US technology sector's valuation. Another pivotal driver has been the influx of fiscal stimulus combined with the reshoring surge which has led to a reassessment of mid to long-term valuation for the industrial sector and may serve as a buffer against potential market declines in the mid to long-run.

Our assessment of the current situation suggests that the US equity market is poised to outperform during the present rate cycle. It is worth highlighting that US earnings are currently outpacing most global markets. Additionally, the broader US economy is likely to be relatively sturdy. Given these factors, we anticipate that the appeal of US equities, even when considered pricey on a cross-asset basis, will persist in the immediate future limiting the possibility of a structural underperformance.

Figure 15: S&P 500 macro and micro based models



Sources:LSEG Datastream, Allianz Research.
Note: Macro based depends on M2, real 10y yields, inflation and USD NEER; Macro based – EPS depends on ISM PMI, consumer confidence, housing starts and IG spreads; GDP based depends on real GDP and EPS expectations based depends on EPS growth consensus.

Quantifying these insights and grounding them in our valuation frameworks, our macro-centric models consistently indicate a potential equity market pullback of about 5%. This is primarily due to the misalignment between underlying economic signals and the ongoing market surge. In contrast, our EPS-driven models project that the US equity markets could rise approximately +10% in price terms this year, maintaining some steadiness through 2024 and 2025. For 2023, our conviction leans more towards our bottom-up modeling. However, as we progress into 2024 and 2025, we anticipate a gradual pivot towards our macro-informed models given the fact that we expect macroeconomic volatility to diminish. Overall, our projections anticipate total returns of roughly +13% for 2023, and approximately +10% for both 2024 and 2025.

Briefly on European equities, these are grappling with numerous challenges amid signs of stagnation, most notably with Germany entering a recession and with cyclical activity indices remaining in the red. Additionally, there are the looming threats of de-industrialization, high energy costs and structural issues such as high debt levels. Despite these economic hurdles, European indices remain positive and into the double-digit territory. As in the US, this resilience is attributed to better-than-expected earnings. However, due to high European dependencies to the current business cycle, we expect bad economic data to have a stronger effect on overall equity valuations than they would for US counterparts. This conviction is even stronger when looking at single countries as German equities typically flourish in a robust economic environment. But with PMIs below 50, and the country's energy-intensive nature, escalating oil prices could continue to be detrimental and the space for a sustained market recovery will depend on improvements on various fronts, such as a decrease in energy costs, a favorable shift in China's economic landscape and a global manufacturing and trade resurgence. Despite all the headwinds, European equities present an attractive proposition, trading below their historical average. When juxtaposed with the US market, there is a considerable

discount in European equities, even after sector adjustments. Our European forecast suggests a steady, albeit modest, yearly return for this year (+9%), with below +10% total returns for both 2024 and 2025 as negative macroeconomic effects continue to shave off some return potential.

As the monetary policy tightening continues in advanced economies, the pressure on emerging market (EM) assets is being intensified by China's structural slowdown. The country's influence remains a pivotal factor for EMs, and both the weak economic momentum (the reopening failed to provide the expected impulse) and the structural changes foreseen in the medium term – that come on top of heightened geopolitical tensions – will drag on performance. Growth forecasts are being revised down for the countries most exposed.

EM hard currency bonds are exposed to a moderate correction. Selectivity has been the name of the game since EM bonds started their recovery in late 2022 following China's reopening hopes. In fact, investor sentiment towards higher- and lower-rated countries diverged significantly and, although this will continue to be in focus, we think that it may have been overdone for higher-rated countries. Acknowledging the resilience shown so far to the effects of global tightening, we believe that the macroeconomic picture indicates a higher risk than what markets are pricing in, even for the major countries. On the other hand, the disinflationary pressures and expected Fed rate cuts may present interesting opportunities to capitalize on capital appreciation, but the timing for the long-duration call is exposed to an inflation rebound – though we do not expect this. Furthermore, a general interest rate moderation would also help in reducing debt- sustainability concerns among these markets. We expect the spreads of our benchmark index to widen to 275bps until year-end, and to go through a slow gradual improvement towards the 260bps level by 2025.

Expect some volatility on EM local currency yields until year- end before they continue their downward trajectory. As some central banks that stepped in early in the cycle start their policy rate cuts (Brazil, Chile, Poland), we expect the uncertain inflation trend dynamics to make this initial stage of the normalization bumpy. That could translate into the need to either roll back some of the cuts (more likely in Eastern Europe) or put the brake on rate cuts. Either way, this will create volatility in the local bond market, and therefore we expect the downward trend in yields to halt in the coming months. In fact, we are forecasting a slight increase in yields until year- end, followed by a gradual decrease next year once disinflation trends are confirmed. For our EM local bond benchmark, that translates into a 6.6% yield and a decline towards 5.5% in 2025. In the particular case of China, where local yields are depressed by the concurrence of disappointing economic data, low inflation and persistent vulnerabilities in the real estate sector, we see the 10Y yields range-bound around 2.5-2.75%, but not falling below 2.5%. For 2024 and 2025, the trend will be slightly upwards.

EM equities are poised for a lackluster year in 2024 after trailing the US yet again in 2023. The drag from Chinese equities on EM benchmarks has masked some good stories elsewhere. While EMs as a whole have underperformed both the US and Europe, 2023 has seen the return of markets closely related to the US and/or the tech sector. However, the same clouds gathering over the US market that lead us to expect a correction until year- end apply to EMs, too, with the additional fears that the USD could slightly strengthen until year- end. The case of China, while pivotal, is harder to predict. Some fundamentals-based assessments seem to depict Chinese equities as cheap – even as China transitions to structurally lower growth rates – but the harder -to -integrate political component does not invite optimism, especially for foreign investors. On the former, it could be an entry point for local investors. On the latter, and if the outflows from Chinese assets continue, we could see a country rebalancing in major benchmark indexes (the weight of Chinese equities still stood at 30% in the MSCI EM as of the end of August) to better reflect the problems it is going through. That said, we expect a correction towards year-end that would leave the 2023 performance at almost 0%, followed by two years of total returns at 5% and 12%, supported by a slight retreat of the USD, a very low starting point for Chinese equities and the continuation of good country stories beyond China.

Our team

Chief Economist
Allianz SE

Ludovic Subran
ludovic.subran@allianz.com

Head of
Economic Research
Allianz Trade

Ana Boata
ana.boata@allianz-trade.com

Head of Insurance, Wealth
& Trend Research
Allianz SE

Arne Holzhausen
arne.holzhausen@allianz.com

Macroeconomic Research

Maxime Darmet Cucchiarini
Senior Economist for US & France
maxime.darmet@allianz-trade.com

Roberta Fortes
Senior Economist for Ibero-Latam
roberta.fortes@allianz-trade.com

Jasmin Gröschl
Senior Economist for Europe
jasmin.groeschl@allianz.com

Françoise Huang
Senior Economist for Asia Pacific
francoise.huang@allianz-trade.com

Maddalena Martini
Senior Economist for Italy & Greece
maddalena.martini@allianz.com

Luca Moneta
Senior Economist for Africa & Middle East
luca.moneta@allianz-trade.com

Manfred Stamer
Senior Economist for Middle East &
Emerging Europe
manfred.stamer@allianz-trade.com

Corporate Research

Ano Kuhanathan
Head of Corporate Research
ano.kuhanathan@allianz-trade.com

Aurélien Duthoit
Senior Sector Advisor, B2C
aurelien.duthoit@allianz-trade.com

Maria Latorre
Sector Advisor, B2B
maria.latorre@allianz-trade.com

Maxime Lemerle
Lead Advisor, Insolvency Research
maxime.lemerle@allianz-trade.com

Capital Markets Research

Jordi Basco Carrera
Lead Investment Strategist
jordi.basco_carrera@allianz.com

Bjoern Griesbach
Senior Investment Strategist
bjoern.griesbach@allianz.com

Pablo Espinosa Uriel
Investment Strategist, Emerging
Markets & Alternative Assets
pablo.espinosa-uriel@allianz.com

Insurance, Wealth and Trends Research

Michaela Grimm
Senior Economist,
Demography & Social Protection
michaela.grimm@allianz.com

Patricia Pelayo-Romero
Economist, Insurance & ESG
patricia.pelayo-romero@allianz.com

Kathrin Stoffel
Economist, Insurance & Wealth
kathrin.stoffel@allianz.com

Markus Zimmer
Senior Economist, ESG
markus.zimmer@allianz.com

Recent Publications

26/09/2023 | Allianz Global Wealth Report 2023: The next chapter
25/09/2023 | Climate tech- the missing piece in the net zero puzzle
21/09/2023 | All eyes on fiscal in the Eurozone
14/09/2023 | Germany needs more than a plan
12/09/2023 | Sector Atlas: Assessing non-payment risk across global sectors
07/09/2023 | A slow landing for china
05/09/2023 | Is diversification dead?
04/08/2023 | Global boiling: Heatwave may have cost 0.6pp of GDP
01/08/2023 | Critical raw materiels- Is Europe ready to go back to the future?
28/07/2023 | US & Eurozone growth defying gravity
27/07/2023 | Playing with a squared ball: the financal literacy gender gap
21/07/2023 | US immaculate disinflation: How much should we thank the Fed for?
20/07/2023 | Back to the beach: Tourism rebound in Southern Europe?
13/07/2023 | A new Eurozone doom loop?
12/07/2023 | European Retail: a cocktail of lower spending and tighter funding
06/07/2023 | Eurozone convergenve: two steps foward, one step back
04/07/2023 | More emission, than meet the eye: Decorbonizing the ICT sector
29/06/2023 | De-dollarization? No so fast …
27/06/2023 | Toasted, roasted and grilled? Walking the talk on green monetary policy
20/06/2023 | Climbing the wall of worries
16/06/2023 | Automotive industry unplugged?
14/06/2023 | Biodiversity loss part II: portfolio impacts and abatement measures
09/06/2023 | Past the peak – European corporate margins down again?
07/06/2023 | The right to work versus the right to retire
02/06/2023 | Sector vulnerability to rising financing costs
01/06/2023 | Allianz Trade Global Survey 2023: Testing resilience
25/05/2023 | European commercial real estate – selectivity matters!
17/05/2023 | Allianz Global Insurance Report 2023: Anchor in turbulent times
17/05/2023 | G7 summit in Japan could trigger new protectionism phase
11/05/2023 | Bank of England: First to hike, last to pause and pivot
09/05/2023 | The Chinese challenge to the European automotive industry

Discover all our publications on our websites: Allianz Research and Allianz Trade Economic Research

Director of Publications
Ludovic Subran, Chief Economist
Allianz Research
Phone +49 89 3800 7859

Allianz Group Economic Research
https://www.allianz.com/en/economic_research
http://www.allianz-trade.com/economic-research
Königinstraße 28 | 80802 Munich | Germany
allianz.research@allianz.com

Allianz Trade Economic Research
http://www.allianz-trade.com/economic-research
1 Place des Saisons | 92048 Paris-La-Défense Cedex | France
research@allianz-trade.com

About Allianz Research
Allianz Research encompasses Allianz Group Economic Research and the Economic Research department of Allianz Trade.

Forward looking statements

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.

Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) per-sistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the EUR/USD exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general compet-itive factors, in each case on a local, regional, national and/or global basis. Many of these factors

No duty to update

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law. may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

Allianz Trade is the trademark used to designate a range of services provided by Euler Hermes.

Allianz X invests in digital frontrunners in ecosystems relevant to insurance and asset management. In just a few years, it has grown to a portfolio of almost 30 companies and AuM of approximately 2 billion euros. Allianz X has counted 11 unicorns among its portfolio so far. The heart and brains behind it all is a talented team of around 40 people. As one of the pillars of the Allianz Group's digital transformation strategy, Allianz X provides an interface between Allianz Operating Entities and the broader digital ecosystem, enabling collaborative partnerships in insurtech, fintech, and beyond. As an investor, Allianz X supports mature digital growth companies to take the next bold leap and realize their full potential. Keep up with the latest at Allianz X on Medium, LinkedIn, and X (formerly Twitter).