

Press release

2025 Global Investment Outlook Bright spots amid anomalies

- **The global economic outlook for 2025 still looks favourable for risk assets**, but policy and geopolitical challenges are entrenched. **Anomalies** such as market concentration and excessive debt alongside this benign macro-outlook require greater and more nuanced portfolio diversification and dynamic allocation adjustments.
- **Global growth is expected to stabilize at 3.0% in 2025 and 2026** as well as the growth differential between Developed and Emerging economies. Disinflation may persist, but inflation risks loom and the Fed may need to adapt to potential US policy shifts. A mild global easing cycle could continue and end before rates return to pre-pandemic levels. Fiscal policies will differ but play a significant role globally.
- **Emerging Markets** will prove resilient overall. Asia will remain a major driver of global growth through the dominance of its technology supply chain, supportive government policies, and increasing regional integration and resilience. India and Indonesia are standing out.
- **US elections.** The impact of Trump's policies will depend on the scale and sequencing of their implementation, as well as on mitigation factors economies may put in place. In Asia, China has policy room to react; India and Indonesia are the most insulated. Europe may respond enacting trade re-routing, strengthen defence cooperation and accelerate structural reforms.

Paris, November 19th 2024

Amundi today released its 2025 Investment Outlook. Geopolitics and policy shifts are creating a more fragmented world, but new opportunities emerge in the global reordering.

Forecasts are based on information and policy measures available as of 6 November 2024.

We forecast global growth to soften at 3.0% in 2025 and 2026. The growth differential between Emerging and Developed Markets should also stabilise, with EM growing +3.9% and DM +1.6% over the next two years. We expect the US economy to mildly decelerate towards a soft landing; Europe's recovery towards potential growth to be modest and progressive, and Asia to remain a major driver of growth, despite China's slowdown.

Confirmation that disinflation is on track should support more dovish monetary policies. Central banks in the US and Europe should continue to cut rates. By end of 2025, we anticipate terminal interest rates to reach 3.5% in the US, 2.25% in the Eurozone, 3.50% in the UK. By contrast, Bank of Japan is anticipated to implement two more hikes. EM Central Banks intend to deploy more independent policies, easing gradually.

Vincent Mortier, Group CIO of Amundi, said *"Seizing opportunities in risk assets, while balancing inflation risks will be key in 2025. Investors should broaden equity exposure beyond US mega-cap stocks, look for income across liquid and illiquid assets, and implement hedges in a more fragmented world"*.

Monica Defend, Head of Amundi Investment Institute, added *"In a world of anomalies, there are plenty of bright spots. Identifying the opportunities created by policy choices and geopolitical shifts will be as important as safeguarding against the risks they entail."*

CENTRAL SCENARIO: AN UNCONVENTIONAL LATE CYCLE

- **The United States is heading for a soft-landing scenario.** We expect a mild deceleration towards slower growth (+1.9% and + 2.0% in 2025 and 2026) as the labour market cools and consumption slows.

The magnitude and sequence of policy implementation will impact the growth and inflation outlook and, potentially, the Fed's reaction and financing conditions. We think the new President may prioritise tariff and immigration policies, followed by tax cuts and other fiscal changes.

- **Europe is set for modest recovery towards potential growth**, which relies on lower inflation and monetary easing to support investments and channel savings towards demand. The largest Eurozone economies will display heterogeneous performance, and fiscal policy should be a significant distinguishing factor. Longer term, Europe needs to tackle restoring productivity. The Trump administration could push Europe to strengthen defence cooperation and potentially advance proposals to enhance productivity growth.
- **Emerging Markets** – Asia will remain a major driver of global growth in 2025. The relatively benign inflationary outlook favours more supportive policies in the region. Emerging Asia is already shifting towards more strategic goals, posts robust growth, and has enhanced regional ties and resilience. India will be a key growth engine and China should likely encourage economic stabilisation and structural transformation.
- **The main downside risks** to our central scenario would stem from a reacceleration of inflation due to escalating trade tensions. **Upside risks** relate to a reduced geopolitical risk as main conflicts end and an acceleration in structural reforms resulting in higher growth potential.

INVESTMENT IMPLICATIONS: Bright spots amid anomalies

This unconventional late cycle features a mix of economic and financial anomalies. On one hand, we see: resilient economies, ample macro liquidity, easing financial conditions, and disinflation coupled with high policy uncertainty. On the other hand, we have high concentration, expensive valuations, and low volatility in the equity market in contrast with high volatility in fixed income.

In this environment, our stance for 2025 is mildly pro-risk, balanced with inflation-resilient assets. Diversification across multiple fronts is essential as potential policy shifts can easily transform the reference framework. Current anomalies call for frequent reassessment and dynamic adjustments, with a focus on risk assets in H1. Identifying the best opportunities will require drilling into sectors benefiting from transformative long-term themes. These include demographic trends, geopolitical and manufacturing shifts, as well as the effects of climate change, technological innovation, and the cost of energy transition.

- **Income gains traction.** Despite expected volatility, the low probability of recession combined with more dovish Central banks are supportive of credit markets overall, given higher yields than in the past and sound credit fundamentals. Government bonds, Investment Grade and short maturity High Yield credit, leveraged loans, EM bonds and private debt present attractive income opportunities. European govies are also sources of diversification as inflation slows.
- **Equity: there is potential for a broadening of the rally** beyond the US mega caps and stretched valuations, given earnings and liquidity prospects. We favour a **globally diversified approach** and seek pockets of value in US equal-weighted indices, Japan and value in Europe. In **sectors**, we favour: financials, utilities, communication services, and consumer discretionary. Value investing and mid-caps are good hedges against possible declines in growth and mega cap stocks.
- **Emerging Markets should outperform Developed Markets.** Notwithstanding the potential new course in the US, EM bonds should benefit from a supportive macro backdrop and interest rates trending lower. In HC, we favour HY over IG. In LC, we focus on appealing real yields. In emerging Asia, India and Indonesia offer the best long-term picks and are more insulated from tariffs.
- **Challenges warrant nuanced diversification on multiple fronts.** Consider volatility (hedge funds and absolute return strategies), liquidity (private markets), and macro/geopolitics (gold, inflation-linked bonds). **Infrastructure and private debt** combine a strong growth outlook, inflation protection, and diversification benefits. In equities, **dividend stocks** tend to be more resilient to inflation.

Press contacts:

Danae Quek, Amundi
Tel: +44 20 7190 2044
danae.quek@amundi.com
servicepresse@amundi.com

Armelle Sens, Amundi Investment Institute
Tel: +33 (0) 6 1902 3319
armelle.sens@amundi.com

About Amundi

Amundi, the leading European asset manager, ranking among the top 10 global players¹, offers its 100 million clients - retail, institutional and corporate - a complete range of savings and investment solutions in active and passive management, in traditional or real assets. This offering is enhanced with IT tools and services to cover the entire savings value chain. A subsidiary of the Crédit Agricole group and listed on the stock exchange, Amundi currently manages close to €2.2 trillion of assets².

With its six international investment hubs³, financial and extra-financial research capabilities and long-standing commitment to responsible investment, Amundi is a key player in the asset management landscape.

Amundi clients benefit from the expertise and advice of 5,500 employees in 35 countries.

Amundi, a trusted partner, working every day in the interest of its clients and society

www.amundi.com



¹ Source: IPE "Top 500 Asset Managers" published in June 2024, based on assets under management as at 31/12/2023

² Amundi data as at 30/09/2024

³ Boston, Dublin, London, Milan, Paris and Tokyo