Deutsche Bank
Chief Investment Office

PERSPECTIVES

ECONOMIC AND ASSET CLASS OUTLOOK

2/2024

MACROECONOMICS
Moving on

FIXED INCOME
Buy and carry

EQUITIES
Higher for longer

Macroeconomics: Moving on

- Growth: robust in the U.S., reviving in Europe and Japan.
- Last rounds of disinflation: stickier in the U.S. than in the Eurozone.
- ECB ahead in easing cycle but expect the Fed to catch up soon.

The U.S. economy had a muted start to the year, with annualised Q1 GDP growth reaching 1.3% (seasonally adjusted). Going forward – after a potential soft patch – growth momentum is expected to pick up slightly, driven in part by older consumers supporting the economy, reinforced by the upcoming generation of heirs, who will also find a favourable labour market, and solid capex activities. In combination with immigration, this should make for a larger, not tighter, economy. For 2024 as a whole, we expect GDP to expand by 2.0%.

Despite recent successes in the fight against inflation, the Federal Reserve has not yet been able to bring the annual rate of consumer price inflation below the 3% mark. This should be achieved in the second half of the year. Against this backdrop, we expect the Fed to begin its easing cycle this year with a first rate cut of 25 bps. Two further cuts of the same magnitude should follow by end-June 2025.

The Eurozone recovered from a technical recession in Q1 of 2024, with GDP growth of 0.3% quarter-on-quarter. Early indicators point to a continuation of the recovery, which could gain momentum in the second half of 2024 on the back of real wage growth and an increase in external demand as the global economy revives. The planned disbursements of NextGenEU funds should provide an additional impulse to growth. We expect Eurozone GDP to grow by 0.7% in 2024 as a whole.

Higher wage growth should slow the decline in core inflation. However, barring any significant unexpected increases in energy prices due to rising geopolitical tensions, the disinflation process should continue, and inflation should fall to an average of 2.5% in 2024. We expect the ECB to continue the easing cycle it started in June, cutting its key rates by 25 basis points each in Q3 and Q4 2024 and Q1 2025 before pausing in Q2 2025.

In Japan, GDP declined by 0.5% quarter-on-quarter in the first quarter of 2024. Looking ahead, the latest Shunto wage negotiations, which at 5.2% year-on-year reached their highest level in three decades, are likely to support a consumption-led economic recovery. Leading indicators point to increasing growth momentum in both the manufacturing and services sectors. In 2024, we expect annual inflation to average at 2.5%, while GDP should mildly expand by 0.3% on average. Against this backdrop, the BoJ should cautiously raise its key rate from the current 0.1% to 0.5% over the next twelve months.

For China, our forecast is for GDP growth of 5.0% in 2024, driven by both strong increases of disposable income supporting private consumption and continued investment activity in infrastructure and manufacturing, while the slowdown in real estate investment in 2023 should largely level off this year.

Fixed Income: Buy and carry

- Yield curves to normalise as cuts continue.
- Longer-end yields to stay high for longer.
- Carry to provide majority of the return potential.

The U.S. economy remained robust in Q1, albeit at a slightly slower pace than in previous quarters, underpinned by strong consumption and a healthy labour market. Persistent inflation has already forced markets to pare back their aggressive pricing of rate cuts and embrace the 'high for longer' thesis. We expect the U.S. Treasury yield curve to normalise when the Fed moves to cut rates and the economy to reaccelerate during H1 2025. While the shorter-end is likely to lead, rates at the longer-end are expected to remain elevated due to the abundant supply of coupon-bearing bonds, risks from fiscal imbalance and the potential re-emergence of the debt ceiling debate (June 2025 10-year yield target: 4.25%; 2-year yield target: 4.15%).

Given that the ECB has already initiated its easing cycle, we expect the Bund yield curve to normalise going forward. However, the improving European economy along with sticky inflation will probably prompt the central bank to make further cuts only at a slow pace. In addition, the wider availability of collateral in the repo market should help yields to remain elevated (June 2025 10-year yield target: 2.60%; 2-year yield target: 2.50%).

Italian spreads to Bunds have already declined significantly, however, we see decompression risks rising as the positive effects of the "superbonus" gradually start fading over the forecast horizon while debt sustainability concerns remain. In the short term we will need to monitor the French elections of course.

Investment Grade (IG) bonds, in both USD and EUR markets, continue to attract strong inflows as investors maintain their interest in carry opportunities. Ratings upgrades have significantly outpaced downgrades. Given the decent shape of balance sheet fundamentals a potential inflection in this trend is possible but not likely. Despite significant compression observed in spreads, EUR IG does not appear expensive relative to historical data. By contrast, financials spreads on both sides of the Atlantic have further room to narrow.

High Yield (HY) spreads have declined significantly as high yield on offer continues to attract investors. However, the spreads narrowed to a point where risks are not being adequately compensated. These risks include the election-related policy risks in the U.S. and the contagion risks from restructuring at a few large issuers in the European market. We therefore expect some widening in spreads over the next 12 months.

EM sovereign spreads are expected to move slightly higher as spread compression at some distressed issuers with debt support programmes nearing completion is outweighed by the widening potential from some IG issuers trading at historically tight levels. Conversely, we see potential for a slight decline in Asia ex. Japan credit spreads as sentiment is less affected by the pessimism surrounding China's property sector than in the past.

Equities: Higher for longer

- Equity market performance to remain attractive.
- Robust earnings growth an important contributor.
- Geopolitical issues and elections could cause short-term volatility.

Equities have performed well so far this year, and stocks are expected to remain higher for longer in the macroeconomic environment we forecast. The strong performance of mega cap and AI stocks coupled with healthy EPS growth expectations have been the principal driving forces behind the rally. Quarterly earnings topped analysts' estimates by more than 8% in the U.S. and by almost 11.5% in Europe during the Q1 reporting season. In addition, many companies increased their guidance.

The S&P 500 has so far benefitted from the Big Tech earnings growth tailwind which is expected to slow on unfavourable base effects. However, index earnings growth is expected to remain robust given the increase in capital efficiency. The growth in operating leverage, i.e. the ability to translate sales into significant earnings, along with the recovery of the commodity sector and the return to growth of the healthcare sector position the index for sustained earnings growth. We foresee growth rates close to 10% for the next couple of years and the S&P 500 at 5,600 points by mid-2025.

For 2024 as a whole earnings growth is expected across multiple sectors in Europe, most notably in travel & leisure (12.2%), telecommunication (12.1%) and luxury consumer products and services (10.3%). The improving commodities sector and the accelerating growth in Europe position the STOXX Europe 600 well for mid-single-digit earnings growth for the year. We expect the index to reach 530 points by end-June 2025.

Furthermore, Asia has been benefitting from high chip demand whose further growth seems assured given the rising demand for semiconductors and usage of AI.

Despite their strong outperformance we still like large caps and growth stocks given their strong earnings growth, high profitability, the secular AI cycle and high cash reserves that could be used for strategic acquisitions. However, we also think that investors should start using the significant underperformance of small and mid-caps to build positions. Small caps may be well positioned for growth given the potential for yields to have reached their ceilings in the U.S. and Europe. Furthermore, the re-accelerating of domestic growth in Europe may boost the momentum of small caps in the region. Overall, we continue to remain cautiously optimistic about positive performance across the broader stock market.

Global geopolitical risks stemming from the conflicts in Eastern Europe and the Middle East could continue to introduce uncertainty into the markets. In addition, following volatility spikes around the election outcome in Mexico, India and Europe it is important to be cognizant of the short-term volatility that the elections in the UK and especially in both France and in the U.S. could bring to the markets – certain sectors could react greater than others depending on parties' stances on various economic issues.

Commodities: Time for metals to shine

- Balanced outlook for oil at current price levels.
- Strong Asia demand along with rate cuts a boon to gold.
- Copper to benefit due to its exposure to emerging technologies.

Global oil demand growth has slowed compared to last year's jump of 2.6 mbbl/d, with projections from the IEA for 2024-2025 hovering around 1 mbbl/d. Also, the geopolitical risk premium has declined since its peak in April. While countries party to the OPEC+ supply agreement have been curbing output, strong supply from exempted members along with non-OPEC nations have dented OPEC+ efforts, keeping a lid on oil prices. U.S. oil output has remained static so far this year with further growth potentially limited given the decline in oil well inventory. Although, the OPEC+ will gradually start scaling back some of its cuts, it is likely to remain flexible in case of a sustained fall in price. Additionally, we expect a fall below USD 80/bbl is likely to induce restocking of strategic inventories in China and the U.S. (June 2025 Brent price target: USD 80/bbl).

After declining for much of the last year through February this year, carbon prices have been on an uptrend. Optimism around the European economy strengthening has brought back investment flows. Although the frontloading of the allowance auctions is likely to cap the price growth over the next year, long-term gains will be supported by the introduction of the carbon border adjustment mechanism (CBAM) and the parallel phasing-out of free allowances for the sectors covered by the CBAM. Our June 2025 carbon price target is USD 80/t and thus delivers the highest return potential of all investments in the next twelve months.

Gold touched record levels recently on the back of continued purchases by some central banks and robust buying activity by Chinese retail investors. We continue to expect strong demand for physical gold as central banks globally diversify their foreign reserves and retail investors in Asia are likely to retain their focus on gold as an asset class. Also, for seasonal reasons, the gold price could now consolidate at a high level for the time being. However, if the Fed enters the interest rate cutting cycle this would probably provide gold with another tailwind (June 2025 Gold price target: USD 2,600/oz).

Concerns over tight supply coupled with bullish long-term demand trends led the copper price higher this year. Although some price gains have been pared back recently, the fundamental outlook for copper remains healthy. The tailwinds for copper from the expansion of global renewables infrastructure remain in place. Furthermore, the adoption of artificial intelligence applications will require substantial additions to data centre capacity. An estimated 20-40t of copper is required for a megawatt of data centre power. On the other hand, supply remains tight with Chile, the biggest copper producer, not having seen an annual rise in its output since 2018 (June 2025 Copper price target: USD 10,100/t).

Currencies: Volatility remains low

- Synchronised rate cutting cycles should keep the lid on FX volatility.
- JPY remains on the defensive due to persistently high yield differentials.
- Low inflation environment in China and U.S. elections to weigh on CNY.

Global central bank policies remain synchronised: Latin American and Eastern European central banks started to cut rates first, now their Canadian and Western European counterparts have followed. The Fed is also likely to act in H2 2024. As expectations of central banks' monetary policy continue to change relatively in parallel, exchange rate movements remain low for most currency pairs and our forecasts therefore largely unchanged.

In Q1, not only did expectations for the monetary policy of the Fed and the ECB develop almost in sync, but the data on economic growth converged due to the moderate increase in Eurozone GDP. The ECB and Fed are likely to cut interest rates in H2. By the end of June 2025, we expect them to deliver three rate cuts each. This would mean yields at the short end of the respective curves would continue to move in parallel with each other – which means largely exchange rate neutral. Uncertainties such as the snap elections in France or geopolitical risks seem not to be adequately priced in at present, which could provide a temporary tailwind for the USD. However, due to an expected uptick in Eurozone economic growth, we forecast the EUR/USD to trade at around 1.08 at the end of June 2025.

The BoE's rate cut cycle may be similar to the Fed's. Although inflation is also declining in the UK, it remains elevated – especially core inflation. Average wage and salary growth remains high, as does service inflation. Weaker economic growth dynamics after a strong Q1 in the UK are likely to keep a lid on the GBP's potential to appreciate. We therefore forecast GBP/USD at 1.27 at end-June 2025.

Japan's economic growth disappointed in Q1 but robust wage hikes and a return of real wage growth could bolster dynamics later this year. This could keep inflation elevated for longer and enable the BoJ to meet their targets. We therefore expect the BoJ to tighten monetary policy further in H2 2024 and H1 2025 – this should see yield differentials narrow. However, we still see limited scope for a meaningful appreciation as yield differentials remain sizeable and real rates in Japan are negative. We therefore expect only limited appreciation potential for the JPY (USD/JPY 150 at end-June 2025).

Structural issues in the property sector continue to weigh on China's economy. The government's measures are only likely to help in the medium term. The inflation rate could still increase only slightly for a while. To bolster consumption, we expect the People's Bank of China to pursue an expansionary monetary policy. This – and the uncertainties about U.S. trade policy after the elections – are likely to weigh on the CNY, which we forecast to soften slightly (USD/CNY 7.35 at end-June 2025).

Over our forecast horizon, we highlight geopolitics and the remaining elections in 2024 – in the UK and especially in France and the U.S. – as potential sources of erratic exchange rate fluctuations.

Appendix 1

Macroeconomic forecasts

	2024	2025	Consensus 2024 (BBG*)
GDP growth rate (%)			
U.S.[1]	2.0	1.6	2.4
Eurozone	0.7	1.1	0.7
Germany	0.4	1.2	0.2
France	0.7	0.9	1.3
Italy	0.7	0.8	1.1
Spain	2.0	1.2	1.9
Japan	0.3	1.4	0.6
China	5.0	4.4	4.9
World	3.1	3.2	3.0
Consumer price inflation (%)			
U.S.	3.0	2.3	3.2
Eurozone	2.5	2.3	2.4
Germany	2.6	2.5	2.4
Japan	2.5	2.0	2.4
China	0.6	1.7	0.7
Unemployment rate (%)			
U.S.	4.0	4.1	3.9
Eurozone	6.6	6.5	6.6
Germany	5.9	5.7	5.9
Japan	2.4	2.3	2.5
China[2]	5.0	5.0	5.1
Fiscal balance (% of GDP)			
U.S.	-6.0	-5.9	-5.8
Eurozone	-2.8	-2.7	-2.9
Germany	-1.5	-1.0	-1.6
Japan	-5.0	-3.0	-4.1
China[3]	-13.3	-13.0	-4.9

*Bloomberg consensus. [1] For the U.S., GDP growth Q4/Q4 % is 0.9% in 2024 and 2.1% in 2025. [2] Urban unemployment rate (end of period), not comparable to consensus data. [3] China fiscal deficit refers to augmented fiscal balance (widest definition) from IMF. It is not comparable with the consensus. Data as of June 2024.
Source: Deutsche Bank AG, Bloomberg Finance L.P. Data as of June 13, 2024.

Appendix 2

Asset class forecasts for end of June 2025

Sovereign bond yields (%)

United States (2-Year U.S. Treasury)	4.15
United States (10-Year U.S. Treasury)	4.25
United States (30-Year U.S. Treasury)	4.55
Germany (2-Year German Bund)	2.50
Germany (10-Year German Bund)	2.60
Germany (30-Year German Bund)	2.80
United Kingdom (10-Year UK Government)	4.20
Japan (2-Year Japan Government)	0.70
Japan (10-Year Japan Government)	1.40

Benchmark rates (%)

United States (federal funds rate)	4.50-4.75
Eurozone (deposit rate)	3.00
United Kingdom (repo rate)	4.25
Japan (policy rate)	0.50
China (1-year lending rate)	3.10

Currencies

EUR vs. USD	1.08
USD vs. JPY	150
EUR vs. JPY	162
EUR vs. CHF	1.00
EUR vs. GBP	0.85
GBP vs. USD	1.27
USD vs. CNY	7.35

Equity indices

United States (S&P 500)	5,600
Germany (DAX)	19,600
Eurozone (EURO STOXX 50)	5,100
Europe (STOXX Europe 600)	530
Japan (MSCI Japan)	1,760
Switzerland (SMI)	11,900
United Kingdom (FTSE 100)	8,200
Emerging Markets (MSCI EM)	1,100
Asia ex. Japan (MSCI Asia ex. Japan)	710
Australia (MSCI Australia)	1,500

Commodities (USD)

Gold (oz)	2,600
Crude Oil (Brent Spot, bbl)	80
Copper (t)	10,100
EU Carbon Allowances (Carbon Spot, t)	80

Corporate & EM bond spreads (bps)

EUR IG Corp	95
EUR HY	400
USD IG Corp	80
USD HY	400
Asia Credit	200
EM Sovereign	390

Source: Deutsche Bank AG; Data as of June 13, 2024.

Appendix 3

Historical performance

	13.06.2019–13.06.2020	13.06.2020–13.06.2021	13.06.2021–13.06.2022	13.06.2022–13.06.2023	13.06.2023–13.06.2024
Performance					
S&P 500	5.2%	39.7%	-11.7%	16.5%	24.4%
STOXX Europe 600	-6.9%	29.2%	-9.8%	12.3%	11.4%
MSCI EM	-3.4%	40.0%	-26.4%	-0.3%	5.5%
EURO STOXX 50	-7.0%	30.9%	-15.1%	24.1%	13.5%
SMI	-0.7%	20.9%	-8.0%	4.0%	6.8%
DAX	-1.8%	31.3%	-14.4%	20.9%	12.5%
FTSE 100	-17.1%	16.9%	1.0%	5.4%	7.5%
MSCI Japan	2.8%	25.5%	-2.4%	19.4%	22.3%
MSCI Australia	-12.6%	25.5%	-4.6%	2.7%	9.5%
MSCI Asia ex. Japan	1.6%	39.6%	-26.2%	-1.3%	5.9%
2-Year U.S. Treasury	4.1%	0.2%	-4.4%	0.5%	3.7%
10-Year U.S. Treasury	14.7%	-5.5%	-13.9%	-0.7%	-0.3%
30-Year U.S. Treasury	30.4%	-14.2%	-21.6%	-7.7%	-5.4%
2-Year German Bund	-0.9%	-0.5%	-3.5%	-1.9%	2.3%
10-Year German Bund	1.0%	0.1%	-13.8%	-4.1%	-1.5%
30-Year German Bund	9.1%	-7.1%	-32.9%	-18.7%	-2.1%
10-Year UK Government	6.0%	-3.4%	-11.4%	-10.9%	6.8%
2-Year Japan Government	-0.3%	-0.1%	-0.2%	0.1%	-0.4%
10-Year Japan Government	-1.0%	0.2%	-2.0%	2.5%	-4.0%
EUR vs. USD	-0.4%	7.7%	-13.7%	3.5%	-0.6%
USD vs. JPY	-0.9%	2.0%	22.3%	4.3%	12.1%
EUR vs. JPY	-1.2%	9.9%	5.6%	7.9%	11.4%
EUR vs. CHF	-4.5%	1.6%	-4.4%	-6.1%	-1.6%
EUR vs. GBP	1.0%	-4.6%	0.0%	-0.2%	-1.6%
GBP vs. USD	-1.4%	12.8%	-13.7%	3.7%	1.0%
USD vs. CNY	2.3%	-9.7%	5.6%	6.0%	1.3%
Gold (oz)	29.4%	8.4%	-2.7%	6.4%	18.2%
Crude Oil (Brent Spot. bbl)	-36.8%	87.7%	68.2%	-39.2%	10.5%
Copper (t)	-2.1%	74.5%	-7.2%	-9.0%	17.0%

Source: Deutsche Bank AG, Bloomberg Finance L.P., LSEG Datastream; Data as of June 13, 2024.

Glossary

The Bank of England (BoE) is the central bank of Great Britain.

The Bank of Japan (BoJ) is the central bank of Japan.

Brent is a grade of crude oil used as a benchmark in oil pricing.

Bunds are federal bonds, i.e. German government bonds.

CHF is the currency code for the Swiss Franc.

The consumer price index (CPI) measures the price of a basket of products and services that is based on the typical consumption of a private household.

CNY is the currency code for the Chinese yuan.

The DAX is a blue-chip stock-market index consisting of the 40 major German companies trading on the Frankfurt Stock Exchange; other DAX indices include a wider range of firms.

A developed market (DM) is a country that is advanced economically, with developed capital markets and high levels of per capita income.

Earnings per share (EPS) are calculated as a companies' net income minus dividends of preferred stock all divided by the total number of shares outstanding.

An emerging market (EM) is a country that has some characteristics of a developed market in terms of market efficiency, liquidity and other factors, but does not meet all developed market criteria.

EUR is the currency code for the euro, the currency of the Eurozone.

The European Central Bank (ECB) is the central bank for the Eurozone.

The EURO STOXX 50 tracks the performance of blue-chip stocks in the Eurozone and includes the super-sector leaders in terms of market capitalization.

The Eurozone is formed of 20 European Union member states that have adopted the euro as their common currency and sole legal tender.

The Fed funds rate is the interest rate at which depository institutions lend overnight to other depository institutions.

The Federal Reserve (Fed) is the central bank of the United States. Its Federal Open Market Committee (FOMC) meets to determine interest rate policy.

The FTSE 100 tracks the performance of the 100 major companies trading on the London Stock Exchange.

GBP is the currency code for the British pound/sterling.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

High yield (HY) bonds are higher-yielding bonds with a lower credit rating than investment-grade corporate bonds, Treasury bonds and municipal bonds.

The International Energy Agency (IEA) is an intergovernmental agency studying energy-related issues.

An investment grade (IG) rating by a rating agency such as Standard & Poor's indicates that a bond is seen as having a relatively low risk of default.

JPY is the currency code for the Japanese yen, the Japanese currency.

The MSCI Australia tracks the performance of large- and mid-cap stocks in Australia.

The MSCI Asia ex Japan captures large- and mid-cap representation across 2 of 3 developed-market countries (excluding Japan) and 8 emerging-market countries in Asia.

Glossary

The MSCI EM captures large and mid cap representation across 23 emerging markets countries.

The MSCI Japan measures the performance of around 323 large and mid-cap stocks drawn accounting for about 85% of Japanese market capitalization.

The Organization of the Petroleum Exporting Countries (OPEC) is an international organization with the mandate to "coordinate and unify the petroleum policies" of its 12 members. The so-called "OPEC+" brings in Russia and other producers.

The S&P 500 includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

A spread is the difference in the quoted return on two investments, most commonly used in comparing bond yields.

The STOXX Europe 600 includes 600 companies across 17 European countries.

The superbonus is a fiscal programme introduced by the then Prime Minister Giuseppe Conte in 2020 that enabled homeowners to claim up to 110% of their expenses related to energy-saving and seismic renovations.

The Swiss Market Index (SMI) includes 20 large and mid-cap stocks.

TOPIX refers to the Tokyo Stock Price Index.

Treasuries are bonds issued by the U.S. government.

U.S. is the United States.

USD is the currency code for the U.S. Dollar.

Volatility is the degree of variation of a trading-price series over time.

The yield curve shows the different rates for bonds of differing maturities but the same credit quality.

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