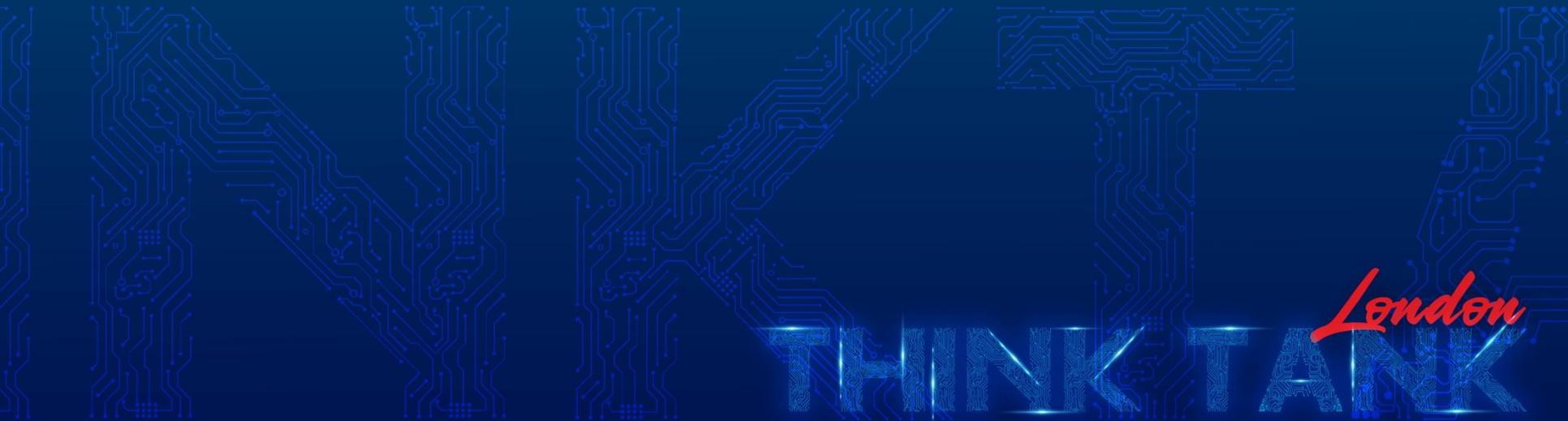


**m**omentum  
global investment management



*London*

THINK TANK

# Key factors driving markets over the next year

m

US economy  
– soft or hard landing

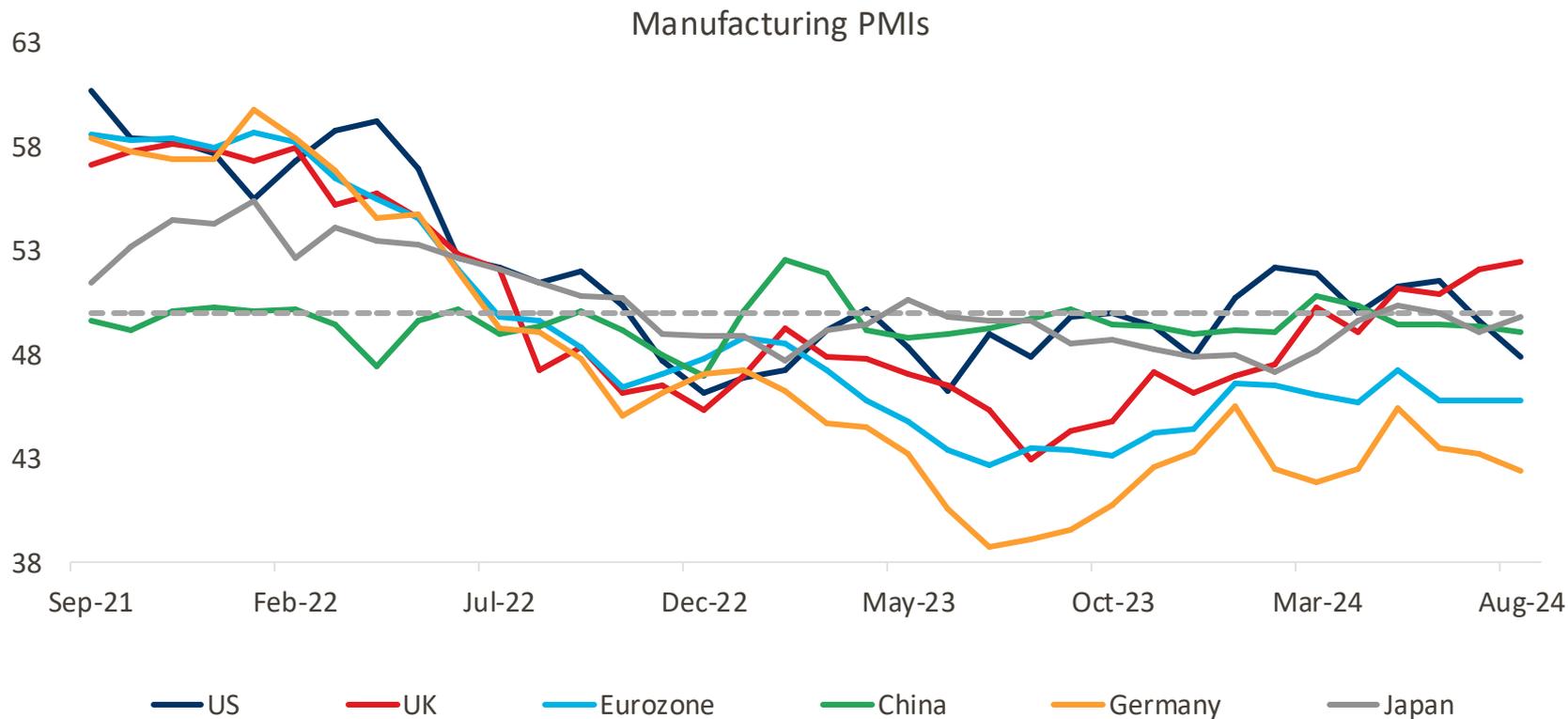
The Fed –  
how far and fast can rates fall

The AI boom –  
will it turn to bust

Geopolitics

Deficits, debt sustainability, deleveraging

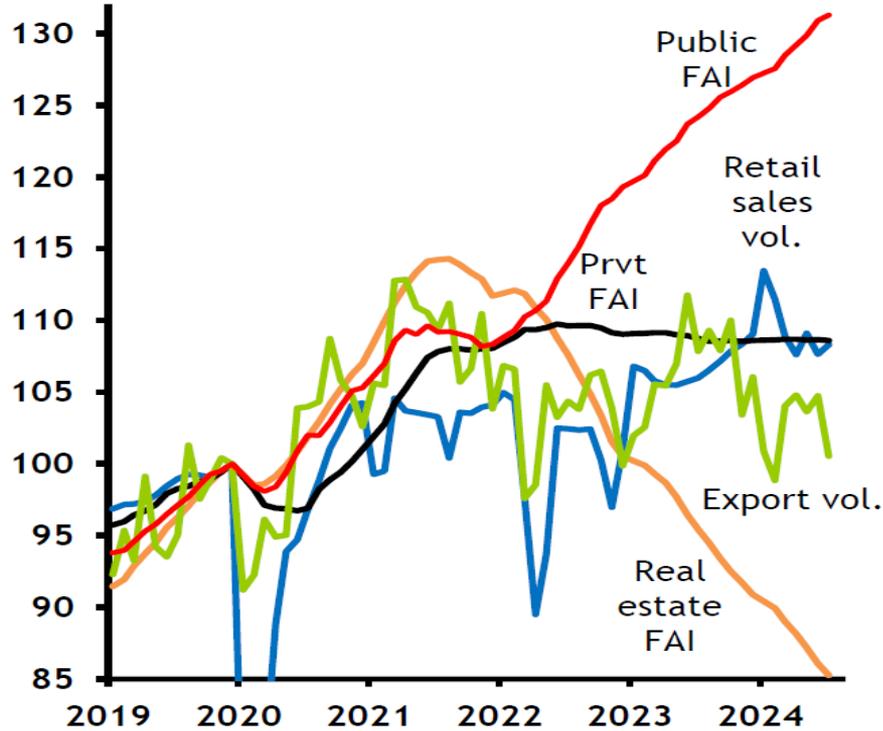
# Manufacturing contracting globally



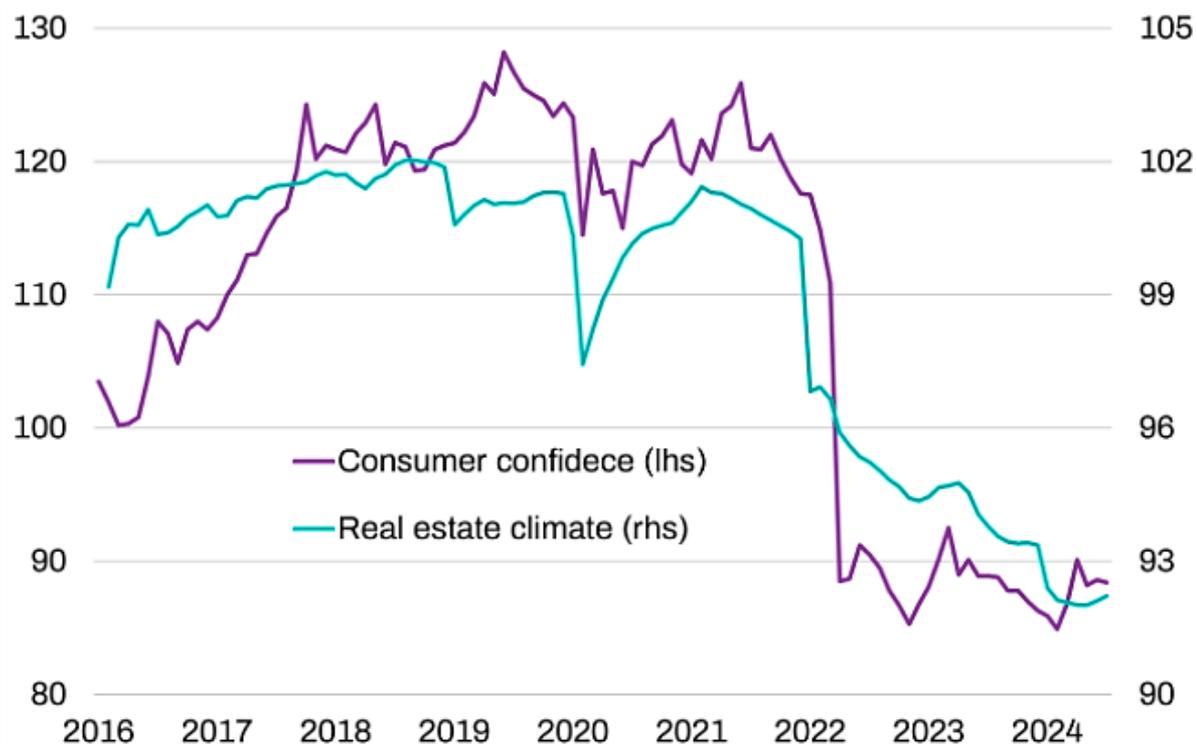
# China demand indicators



Index, Dec 2019 = 100



# China's confidence crisis



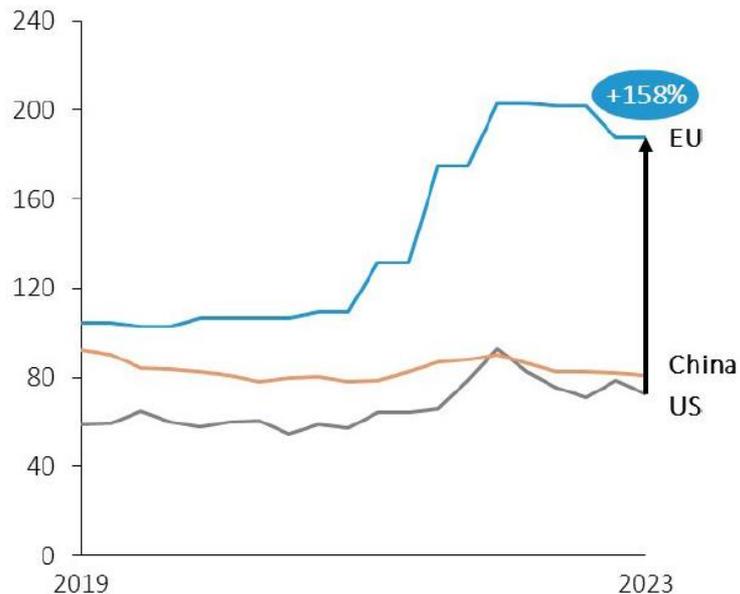
Real estate climate index, 2012 = 100. China consumer confidence, 100+ = optimistic. Monthly data. Sources: China National Bureau of Statistics

# EU Headwinds to growth

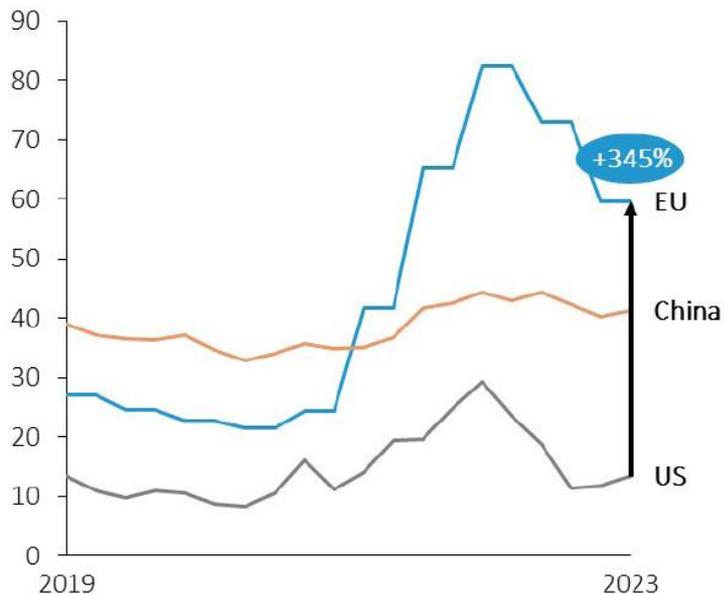


## Gas and retail price gap for industry

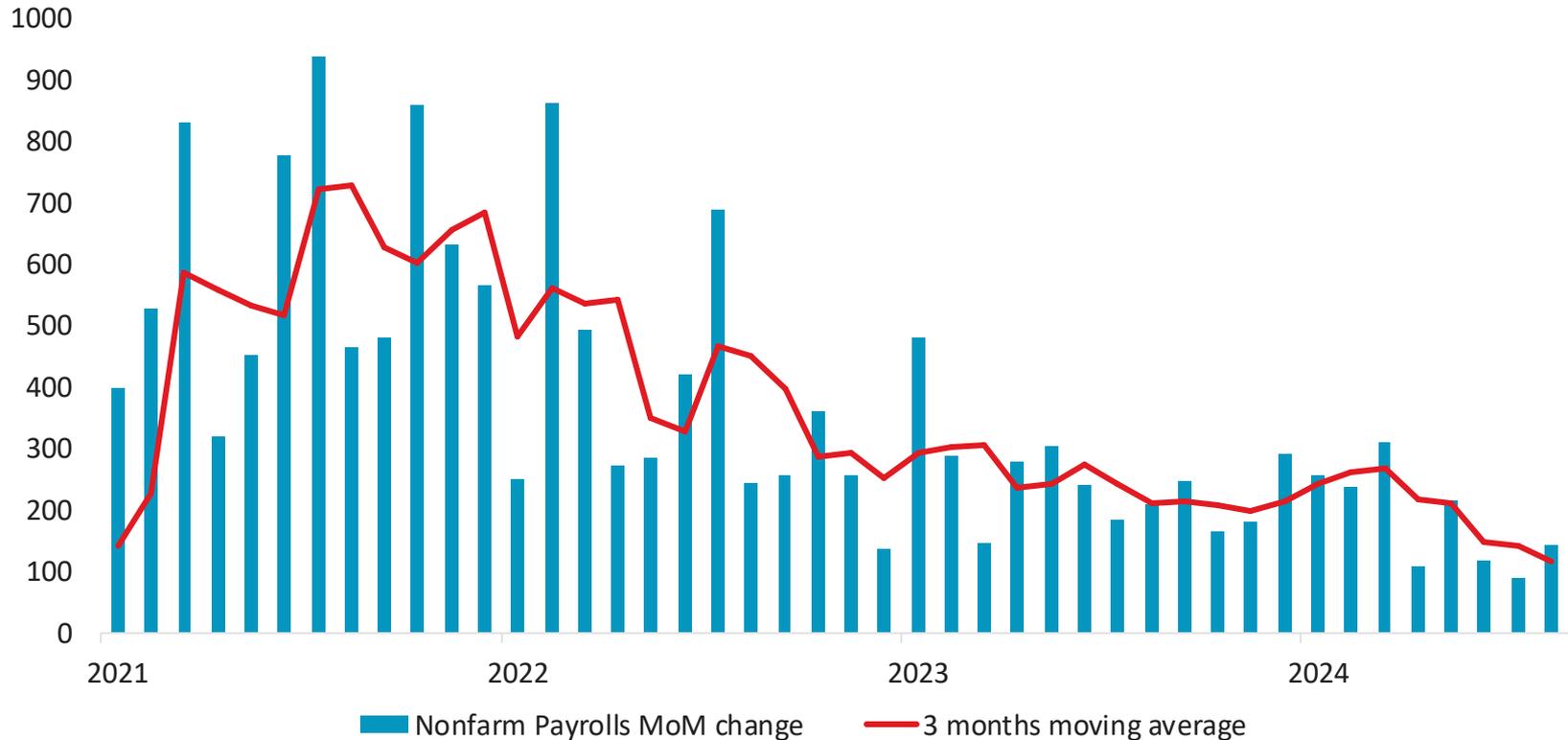
Industrial retail power prices  
EUR/MWh



Industrial gas prices  
EUR/MWh



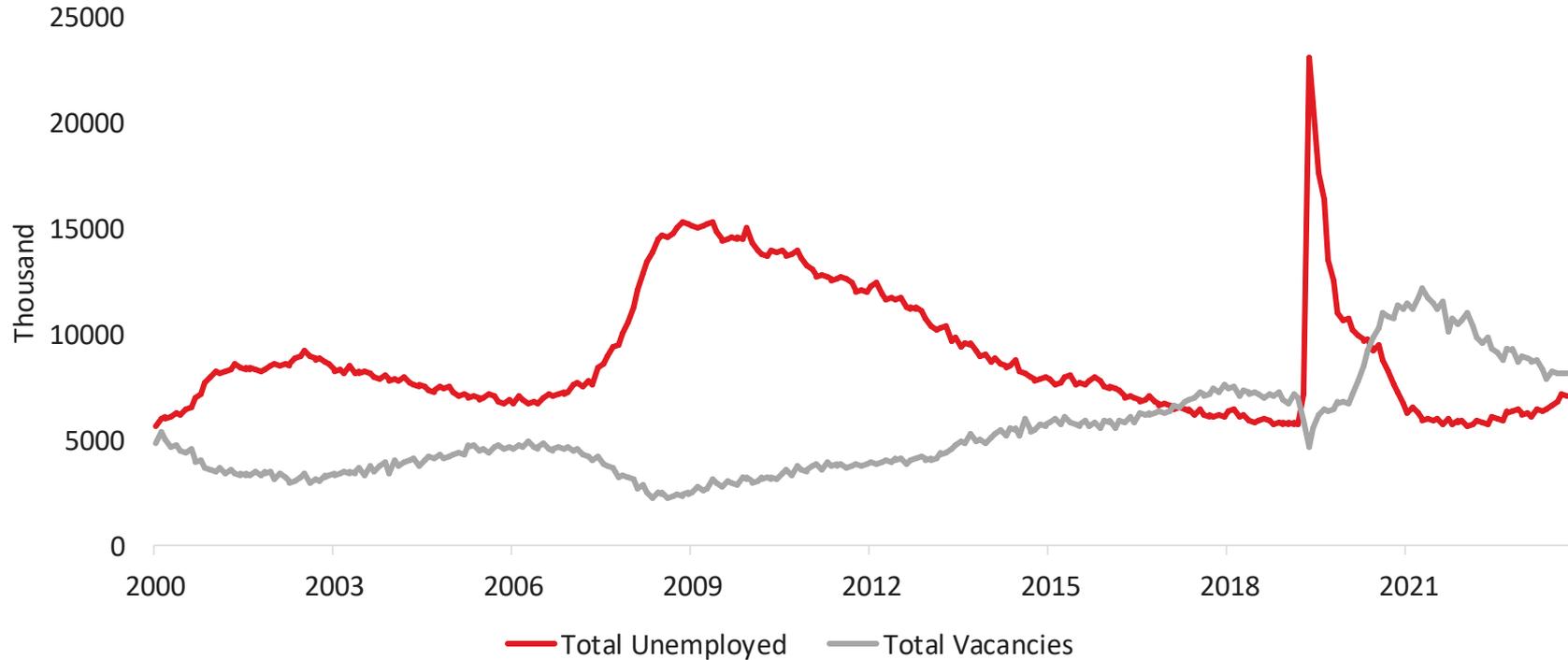
# US labour market cooling – but still creating jobs



# Labour market cooling but not weak



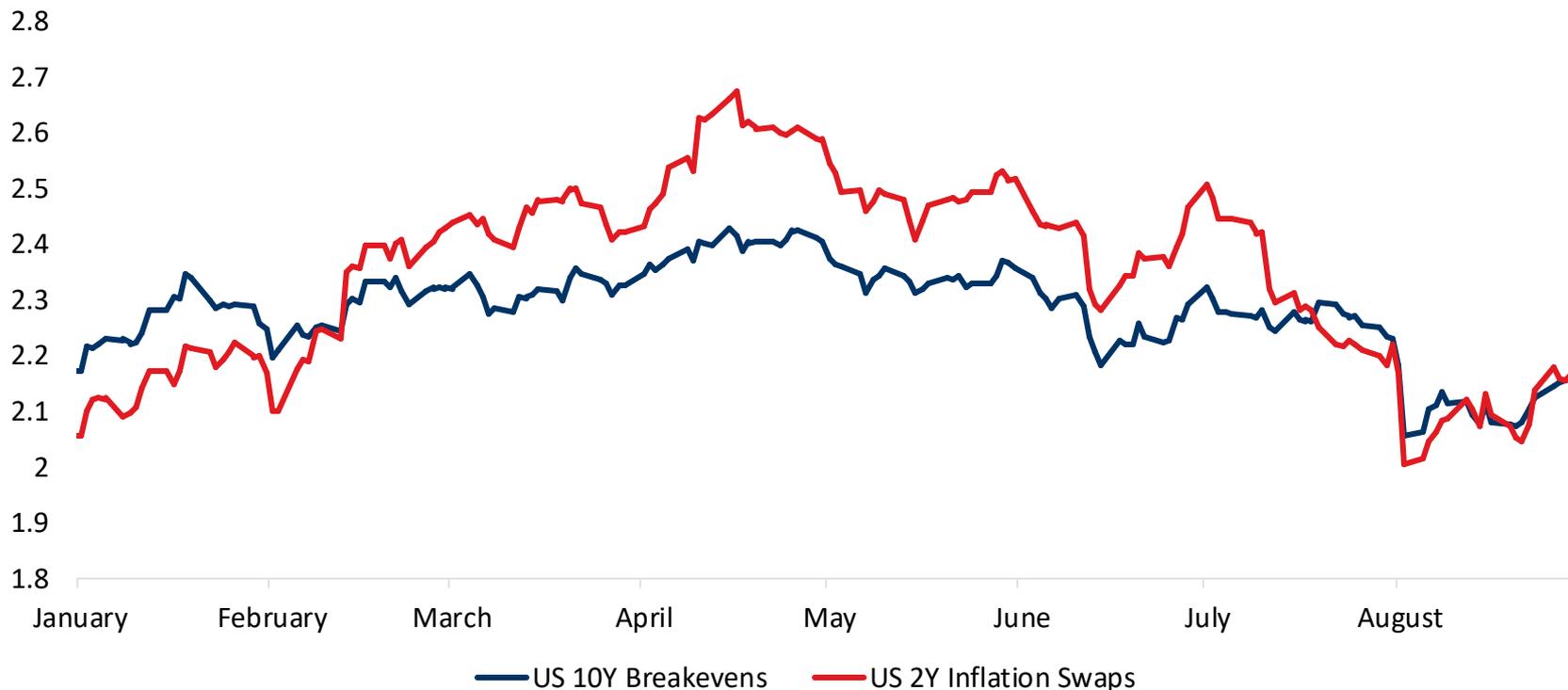
Total Vacancies & Total Unemployed



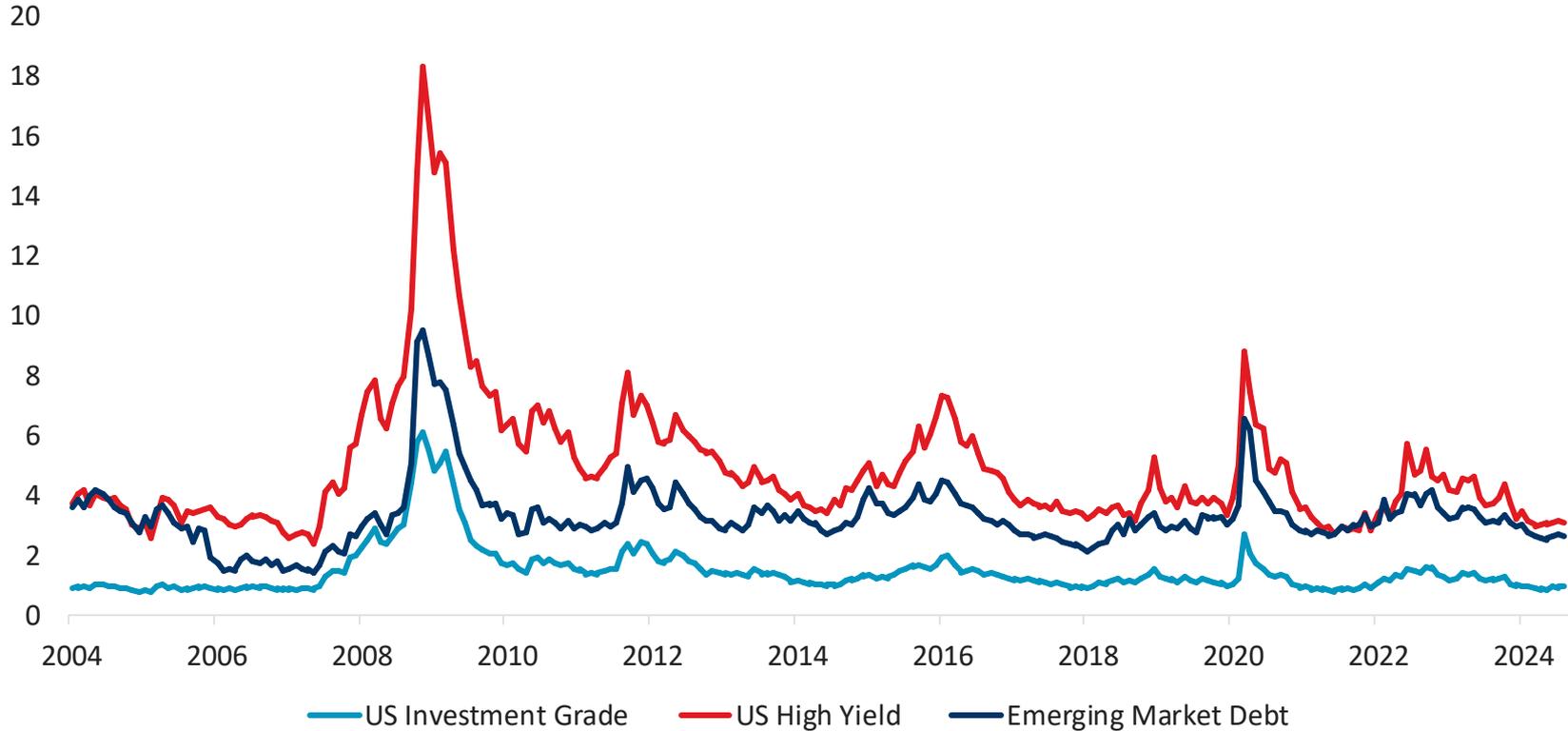
# Inflation expectations have declined significantly



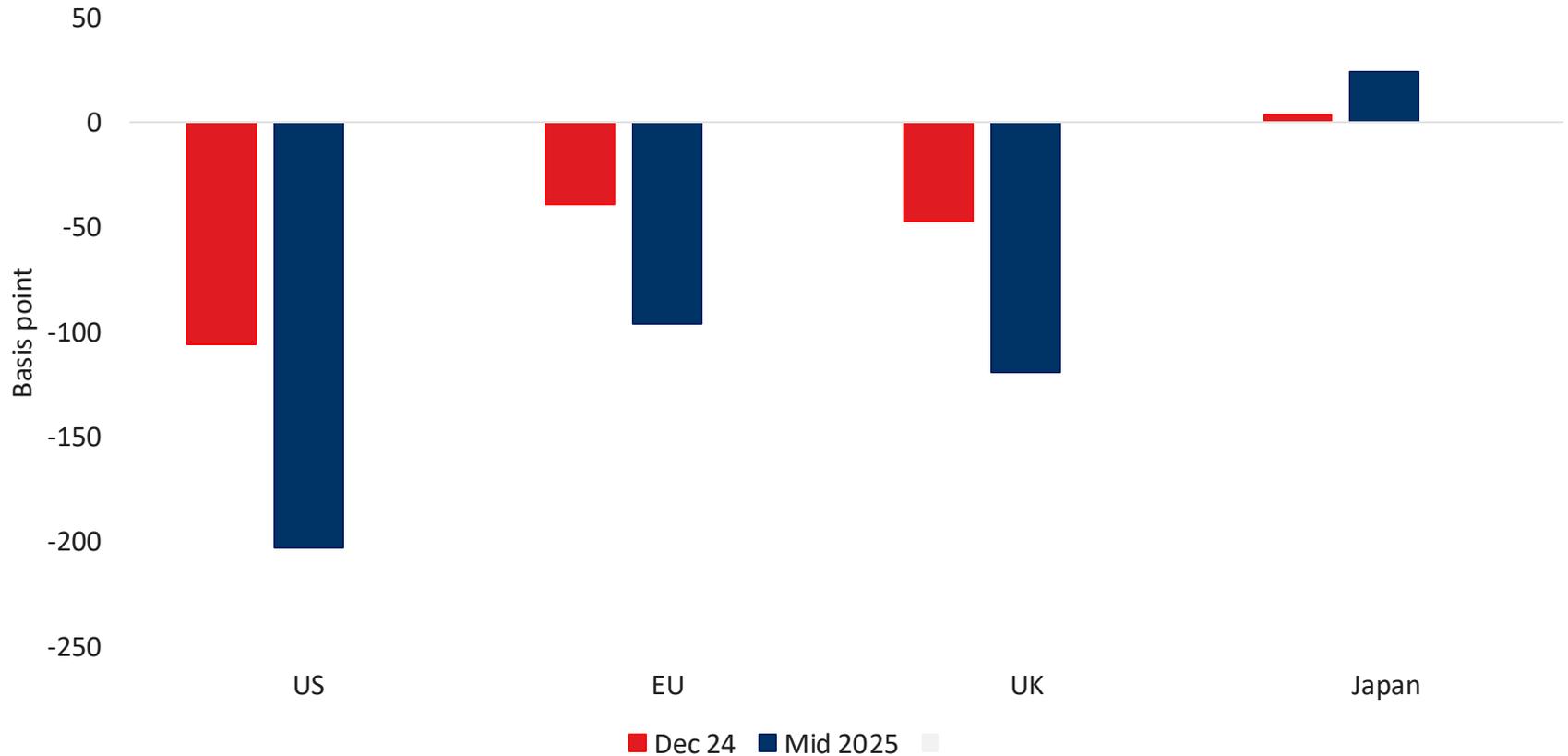
US 10Y Breakevens and 2Y Inflation Swaps YTD



# Credit spreads benign – no signs of stress



# Market pricing of policy rate change by end 2024 & mid 2025

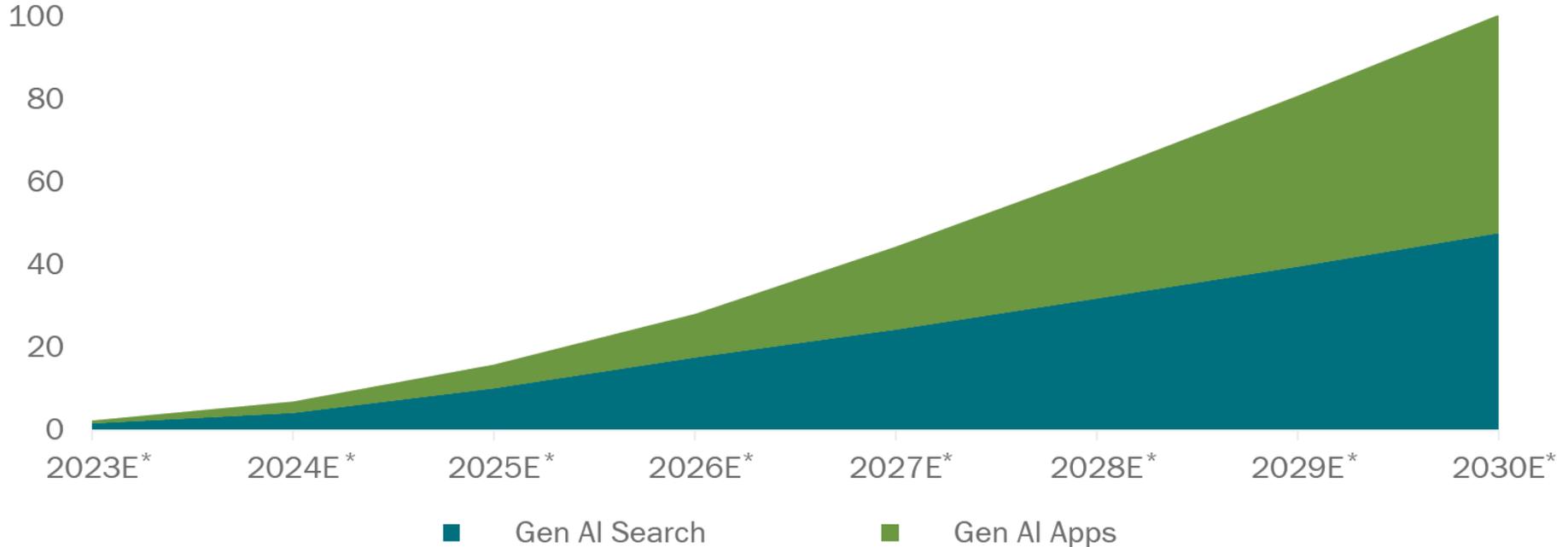




# THE MARKET FOR GENERATIVE AI IS JUST BEGINNING TO GROW

JENNISON ASSOCIATES

## Forecast for Generative AI Market (\$/Billions)

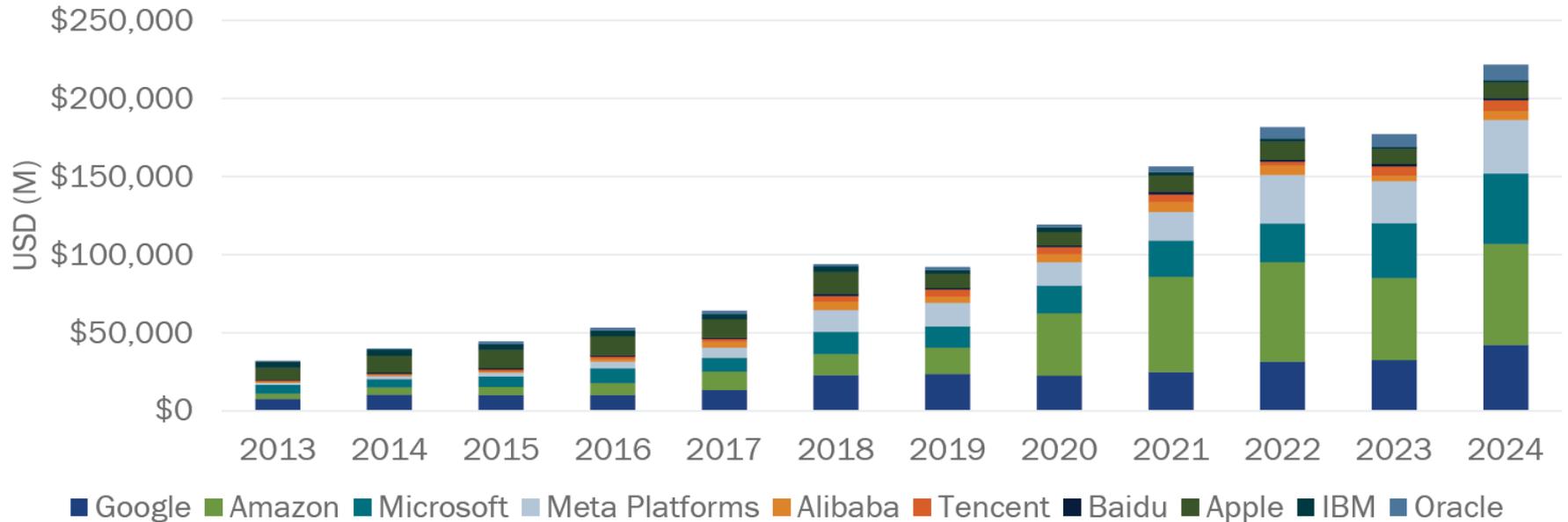


As of 6/30/23.  
Source: Piper FactSet, Company Filings, Piper Sandler Estimates, Piper Sandler Research (used with permission). \*Forecasted. Forecasts may not be achieved and are not a guarantee or reliable indicator of future results. Although Jennison believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, actual results may differ materially from those projected. See Portfolio Notes in the Appendix.

# AI IS DRIVING A CLOUD CAPEX BOOM

JENNISON ASSOCIATES

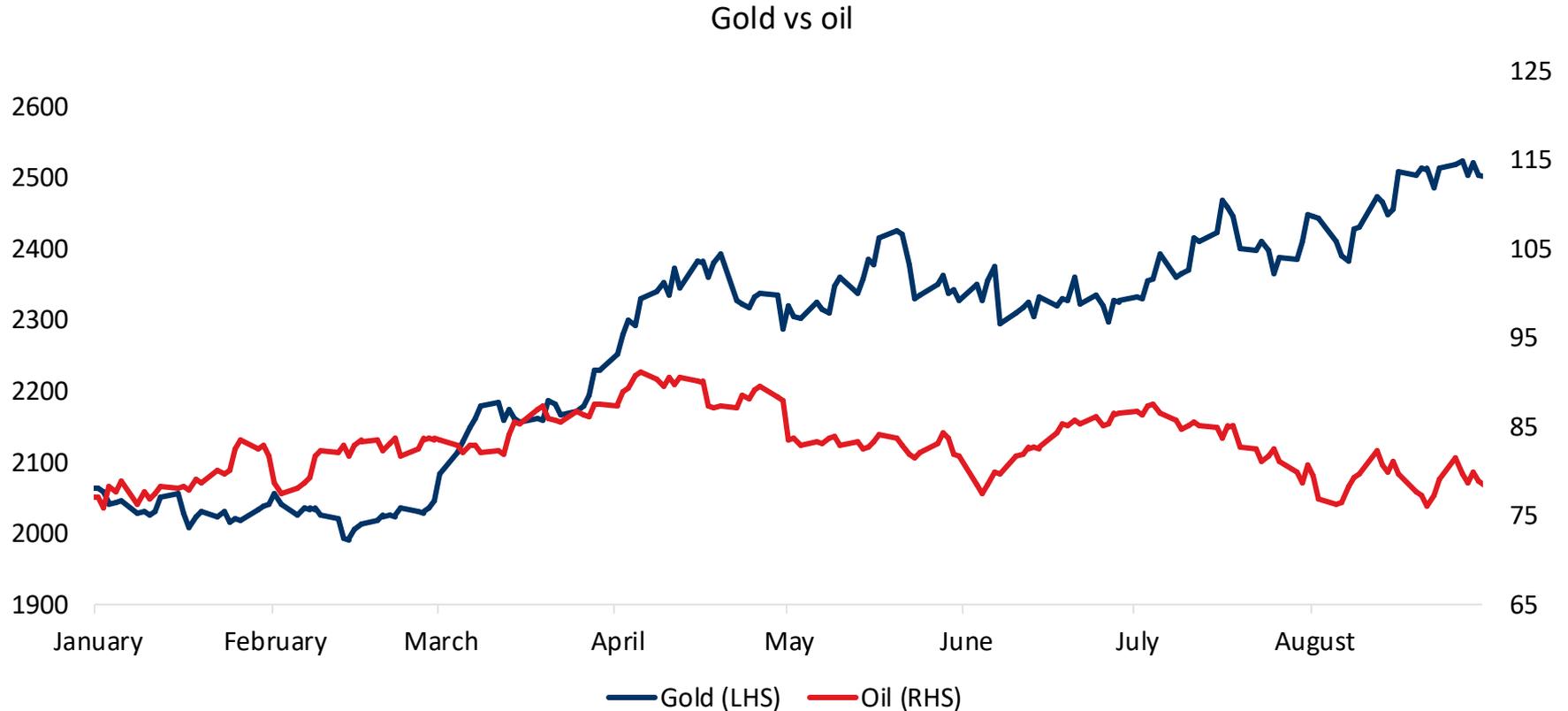
Cloud CapEx



As of 3/31/24.

Source: Morgan Stanley, used with permission. The examples above are for illustrative and educational purposes only and should not be considered investment advice. See Portfolio Notes in the Appendix.

# Geopolitical disconnect?



# US Commercial Real Estate – a problem for small banks



| <b>US exposure to commercial real estate</b> |                 |                   |
|--|-----------------|-------------------|
| <b>\$tn, %, 24Q1</b>                         |                 |                   |
|  | <b>US (All)</b> | <b>US (Small)</b> |
| Commercial real estate loans                 | 3.0             | 2.0               |
| Total loans                                  | 12.3            | 4.5               |
| Total assets                                 | 23.3            | 6.6               |
| CRE % Loans                                  | 24.2            | 44.4              |
| CRE % Assets                                 | 12.8            | 30.2              |

# Fiscal deficits and debt constrain growth



| <b>Euro area fiscal policy</b>  |         |        |                 |       |       |        |
|---|---------|--------|-----------------|-------|-------|--------|
| % of GDP, positive changes in the deficit and structural primary are a "tightening" |         |        |                 |       |       |        |
|   | Deficit |        | Struct. Primary |       | Debt  |        |
|   | 2024    | Ch. 25 | 2024            | Ch.25 | 2024  | Ch. 25 |
| <b>In EDP</b>   |         |        |                 |       |       |        |
| Italy   | -4.4    | -0.3   | -1.1            | -0.1  | 138.6 | 3.1    |
| France  | -5.3    | 0.3    | -3.0            | 0.4   | 112.4 | 1.4    |
| Belgium   | -4.4    | -0.3   | -1.9            | -0.2  | 105.0 | 1.5    |
| Slovakia  | -5.9    | 0.5    | -4.3            | 0.5   | 58.5  | 1.4    |
| Malta   | -4.3    | 0.4    | -2.9            | 0.8   | 52.0  | 0.6    |
| <b>Debt &gt;90%</b>   |         |        |                 |       |       |        |
| Greece  | -1.2    | 0.4    | 1.7             | -0.4  | 153.9 | -4.5   |
| Spain   | -3.0    | 0.2    | -0.8            | 0.1   | 105.5 | -0.7   |
| Portugal  | 0.4     | 0.1    | 2.2             | 0.2   | 95.6  | -4.2   |
| <b>60% &lt; Debt &lt; 60%</b>   |         |        |                 |       |       |        |
| Finland   | -3.4    | 0.6    | -0.5            | 0.4   | 80.5  | 1.9    |
| Austria   | -3.1    | 0.2    | -1.1            | -0.2  | 77.7  | 0.1    |
| Cyprus  | 2.9     | 0.0    | 3.5             | 0.2   | 70.6  | -5.1   |
| Slovenia  | -2.8    | 0.6    | -1.2            | 0.5   | 68.1  | -1.6   |
| Germany   | -1.6    | 0.4    | 0.0             | 0.2   | 62.9  | -0.7   |
| <b>Debt &lt; 60%</b>  |         |        |                 |       |       |        |
| Croatia   | -2.6    | 0.0    | -2.0            | 0.1   | 59.5  | -0.5   |
| Netherlands   | -2.0    | -0.2   | -0.6            | 0.0   | 47.1  | 1.3    |
| Latvia  | -2.8    | -0.1   | -1.4            | -0.2  | 44.5  | 1.8    |
| Ireland   | 1.3     | -0.1   | 2.5             | -0.3  | 42.5  | -1.2   |
| Lithuania   | -1.8    | -0.3   | 0.0             | -0.5  | 38.9  | 2.7    |
| Luxembourg  | -1.7    | -0.2   | 0.1             | -0.4  | 27.1  | 1.4    |
| Estonia   | -3.4    | -0.9   | -0.3            | -1.7  | 21.4  | 3.2    |

Longer  
term  
structural  
factors  
impacting  
markets

4

Geopolitics  
/supply  
side shocks

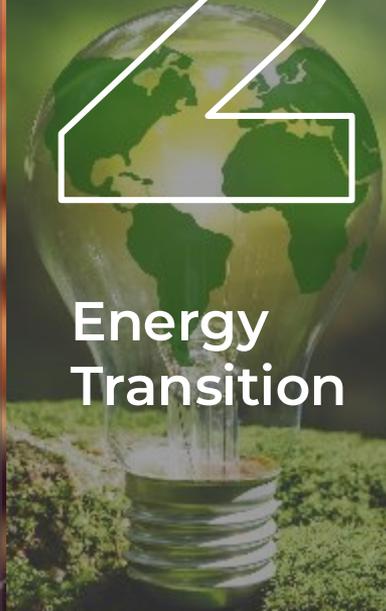
3

Demographics



2

Energy  
Transition



1<sup>m</sup>

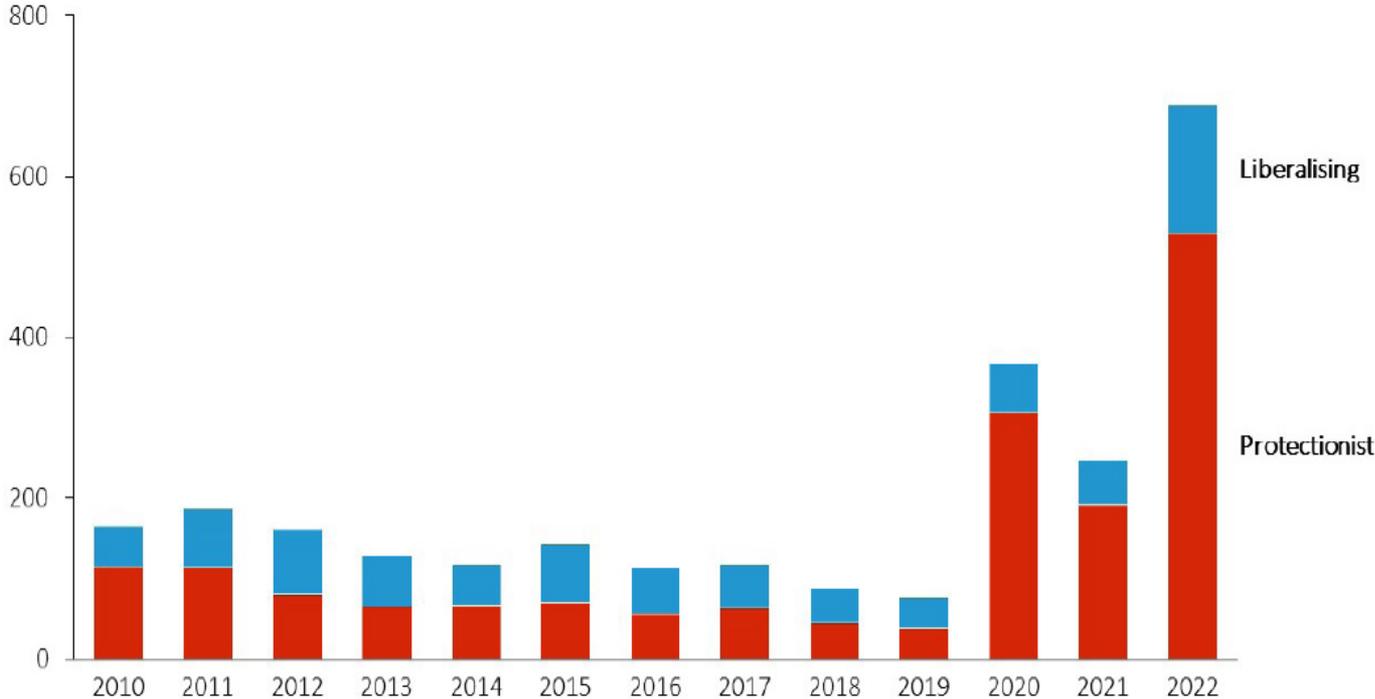
Deglobalisation



# Globalisation in retreat



## Trade policy interventions



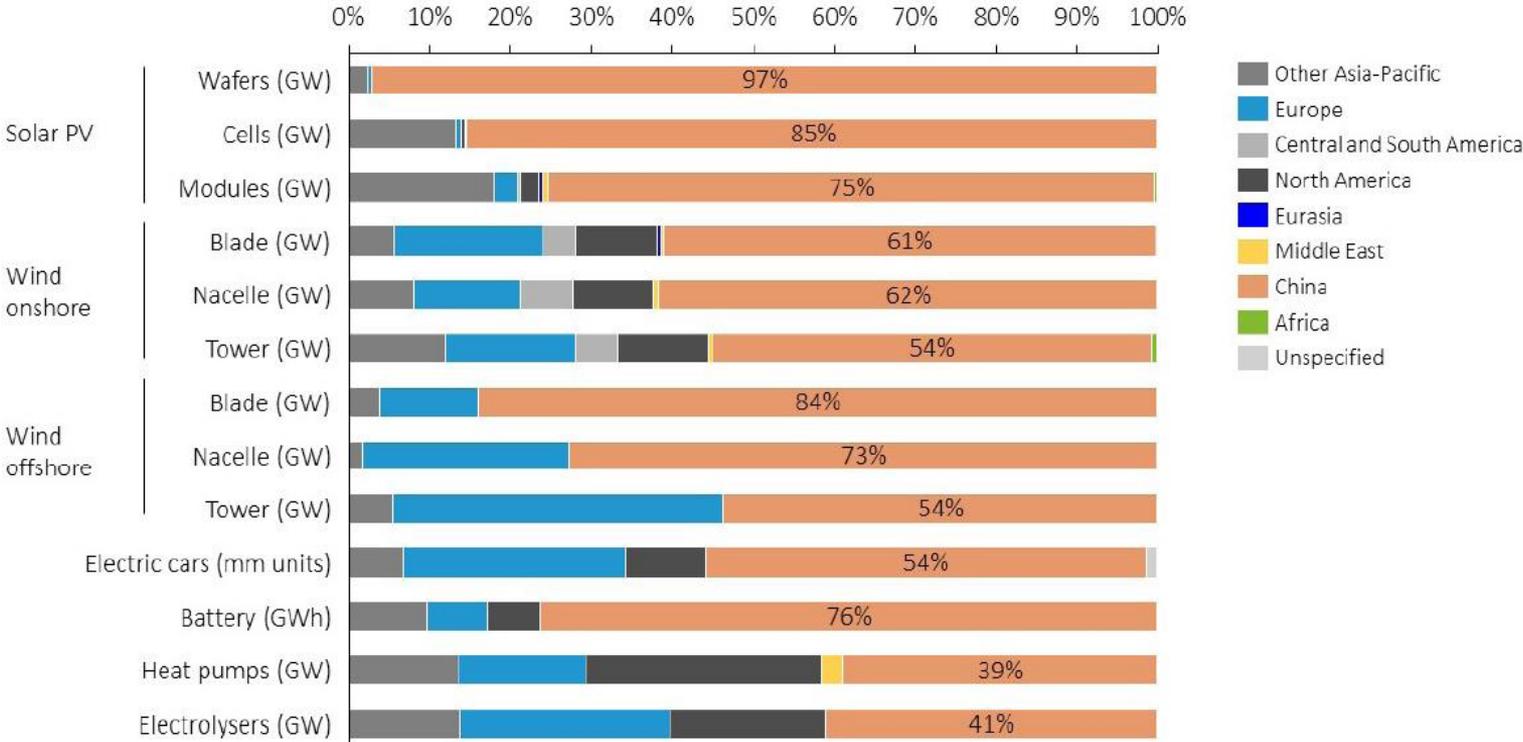
Note: Measures include tariffs, export-related measures, subsidies, contingent trade-protective measures, and trade-related investment measures.

# Geopolitical threats – China dominance in clean tech....



## Clean technology manufacturing capacity by region

%, 2021



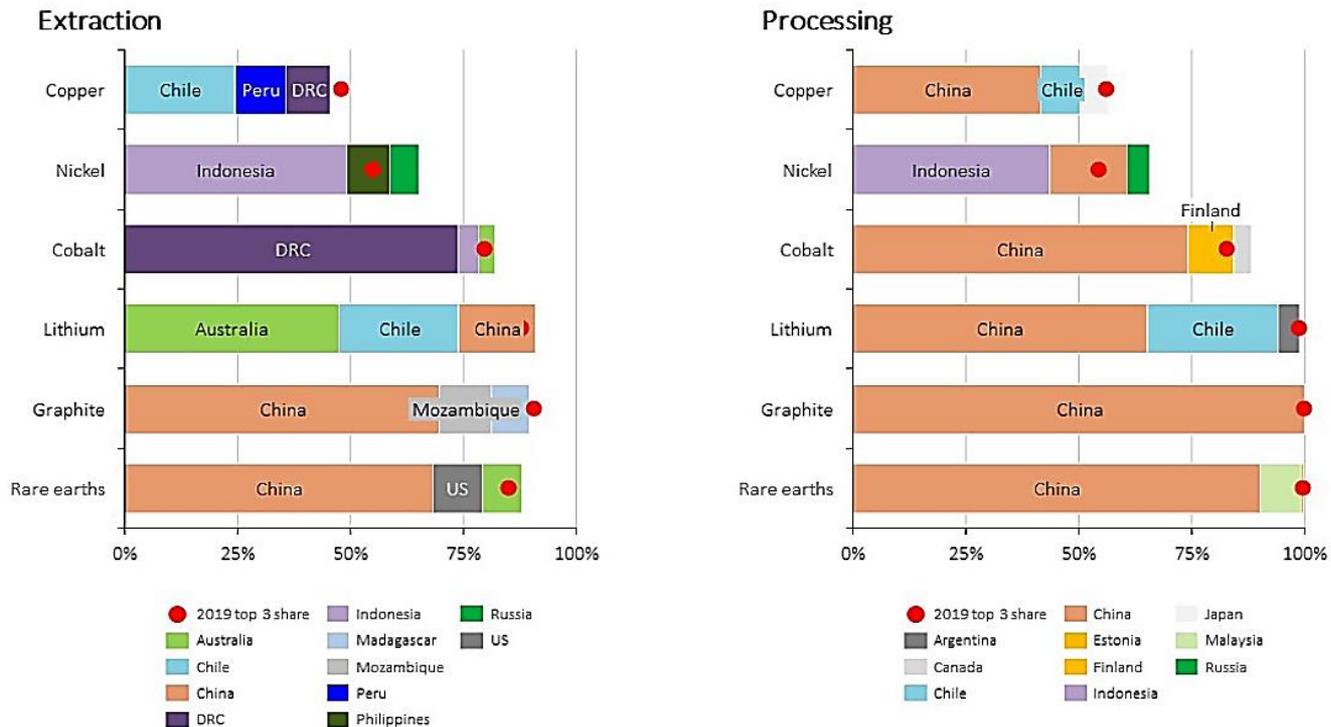
Source: European Commission, 2024. Based on IEA, Bruegel.

# ...and in critical resources



## Concentration of the extraction and processing of critical resources

Share of top-three producing countries in total production of selected resources and minerals, 2022

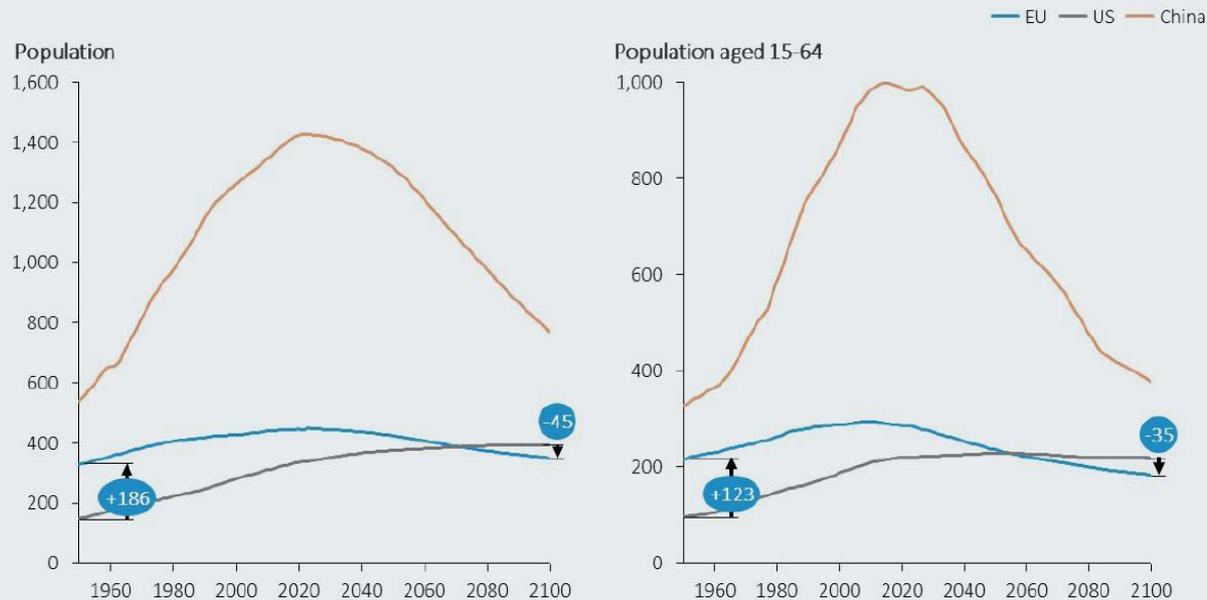


# Demographic challenges especially in Europe and China



## Long-term population developments and projects

Population, million



Note: The population projections are based on the probabilistic projections of total fertility and life expectancy at birth. These projections were made using a Bayesian Hierarchical Model. The figures display the median projections. The projections reflect a contribution of historical migration patterns. Paper on methodology.

# Outlook summary

## Inflation and monetary policy

- Inflation moving to target, Fed focus shifts to softening labour market
- Monetary policy into easing cycle, pace and extent of cuts uncertain
- Market expectations firmly dovish, especially so in the US

## Economic outlook

- Slowing growth environment with risks to the downside
- No systemic risks
- Households, companies and banks enter the tougher period in good shape
- China slowdown removes key engine from global growth

## Risks

- Core inflation stays high
- Vulnerabilities arising from high debt levels
- Policy overkill
- Slowdown/recession hits profits harder than expected
- Geopolitics – wars and US election
- Breakdown in US-China relationship

## Holding pattern

- Difficult macro economic environment
- End of era of ultra-loose monetary policy has brought valuation opportunities
- More broadly based equity market performance in prospect
- Improving environment for active managers and multi asset as big tech and passive underperform

**Continued volatility likely as markets react to macro, corporate and geopolitical developments. Policy easing now established in developed markets. Geopolitics front and centre as we go into US election season. Bouts of weakness present buying opportunities, but diversification remains vital**

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global investment management

