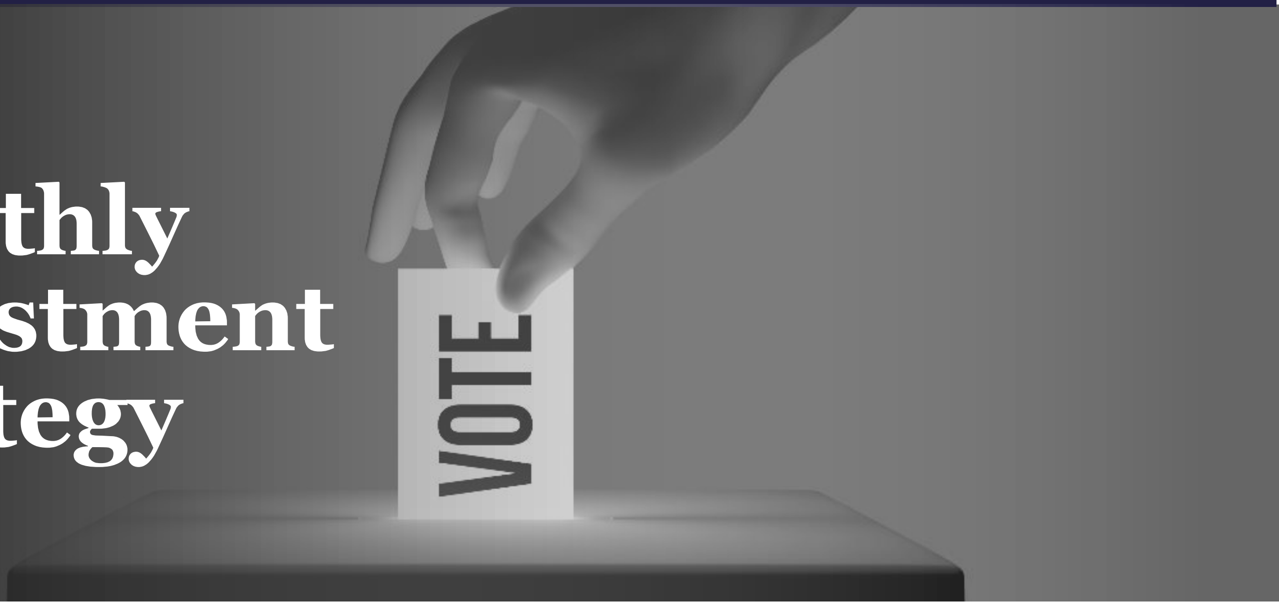
26 June 2024

Investment Institute Macroeconomics

Monthly Investment Strategy



The times they are a-changin'

Key points

- We billed 2024 as the great election year and so it is proving. Mexican, Indian and South African elections all delivered widely expected outcomes, but with twists that led to sharp market reactions.
- European Parliamentary elections also delivered broadly as anticipated, but also resulted in a shock French election (30 June/7July) which has weighed on European markets. US elections will come into more focus after the 27 June TV debates.
- The UK's election on 4 July looks set to deliver a comfortable-to-large majority for centrism, in a move that asks if the UK is past peak populism.
- Public finances are the near-term concern, stretched in most developed economies with risks of further widening in France and the US.
- Central banks remain the guardians of the economy. The ECB and BoC have already eased policy; the Fed and BoE look soon to follow.

Global Macro Monthly

Investment Managers

26 June 2024

The times they are a-changin'

Global Macro Monthly Summary June 2024

David Page
Head of Macro Research

The great election year (reprise)

In January we described 2024 as the great election year and halfway in, so it is proving. To date elections have both fulfilled expectations and surprised. In Mexico, the widely anticipated election of its first female President Claudia Sheinbaum caused angst as she unexpectedly won a super-majority, allowing for far-reaching legislative change. The peso lost 10% to the US dollar. In India, the widely anticipated third term re-election of Prime Minister Narendra Modi delivered a much smaller margin than expected, raising the fragility of his coalition and threatening reform. And in South Africa the widely anticipated loss of an outright majority for the African National Congress (ANC) has ended with possibly the most market-favourable coalition, boosting the South African rand.

This was also true of the European Parliamentary elections. Far right parties made gains but the centre-right retained sufficient votes to re-elect Ursula von der Leyen. Yet Germany's ruling coalition saw a marked drop in support while the far right AfD gained. The same was true for France and resulted in President Emmanuel Macron calling an early election, in two stages on 30 June and 7 July. This major shock and subsequent election pledges from each of the major parties exceeding €10bn at a time when France is already likely to face excessive deficit proceedings from the European Commission, weighed on European markets again illustrating the price of populism. And still November's US election looms, where incumbent President Joe Biden still trails former President Trump in the polls.

By contrast, the UK election, to be held earlier than expected on 4 July, looks set to deliver a centrist government with a comfortable-to-large majority[1]. We will watch for any surprises. Such an outcome might suggest the UK is post-peak populism and questions whether it is leading or lagging the apparent global trend. Certainly, populism's familiar ideologies, nationalism and tax cuts have cost the UK economy dearly in recent years in the form of Brexit and the Liz Truss Mini-Budget debacle. This may have demonstrated populism's costs to the wider public. However, the UK's return to a majority for centralism may only echo similar shifts in the last decade in Germany's grand coalition government and France's En Marche (now Renaissance). Both fostered more extreme opposition, something the return of the UK's Nigel Farage also threatens.

The prize awaits governments that can deliver improved living standards to a wide range of the population. Ultimately, this will determine the path for most countries' politics. Yet the next ten years will be challenging with several global tectonic shifts. Climate change – whether acknowledged or not – is already having consequential impacts on economies and will continue to affect the outlook as the need to implement preventative measures grows, even as the technological ability to combat it also improves. Artificial intelligence also presents opportunity and challenge for new governments as its unknown impact suggests disruptive changes to current ecosystems. And all of this occurs against a backdrop of geopolitical tension: a revanchist Russia waging war in Ukraine and threatening beyond and a China whose recent relative economic fragility could make it more, or less, combative.

For now, the most prosaic concern surrounds public finances. France's unexpected election merely accelerates doubts about public debt that we had expected to emerge in the autumn as next year's Budgets were submitted. Any new UK government is likely to face harsher public finances realities than suggested in the last March Budget. We think this will require a tighter fiscal path than any party is acknowledging. And the US election singularly ignores the issue of fiscal rectitude despite the Congressional Budget Office's long-term debt projections into fiscal unsustainability. The outlook is little better for many emerging markets and the ongoing housing correction in China is likely to increasingly add to its debt burden.

Amid all this, the global economy continues to grow, improving in many cases. Investment is likely to be increasingly attracted to areas of political stability – a plausible boon already tentatively tugging at sterling. But the interest rate outlook continues to be important, with central banks increasingly responsible for maintaining economic expansion amid rising uncertainty. The European Central Bank (ECB) and Bank of Canada have already embarked on what we expect to be gradual easing cycles. We expect the Federal Reserve and Bank of England to follow over coming months. Yet while monetary cycles are expected to be similar, economic and political developments may shape outcomes differently and market volatility looks set to persist.

[1] Dickens, G., "UK General Elections: A one-horse race to Number 10", AXA IM Macro Research, 21 June 2024

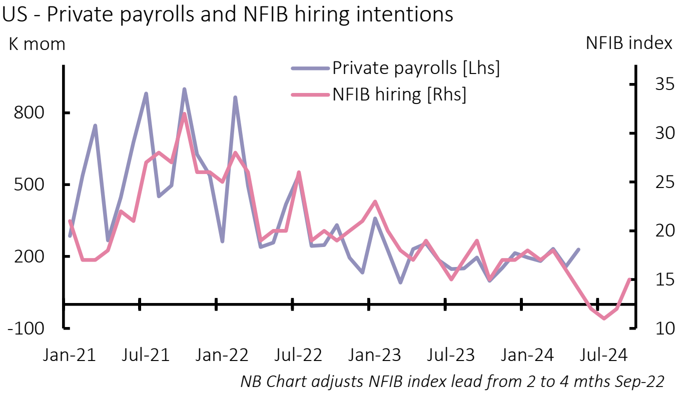
Global Macro Monthly – US

David Page
Head of Macro Research

Payrolls defy broader signs of softening for now

April's Consumer Price Index (CPI) inflation resumed the pre-Q1 2024 pace and May's showed outright improvement. The headline monthly rate of 0.0% was flattered by oil but core increased by just 0.163%, with services its weakest in nearly three years and ex-shelter up just 0.02%. Shelter inflation remained at the recent (excluding January) pace of 0.4% but forward-looking indicators suggest an easing, albeit that sampling factors may delay this until July. Smaller monthly increases over H2 2023 will make it difficult for the annual rate to fall over H2 2024 but stability in the annual rate would deliver the slower pace the Federal Reserve (Fed) has indicated necessary. We expect inflation to average 3.3% for 2024 and 2.6% for 2025, returning to target-consistent levels by mid-2025.

Exhibit 1: Unexpected labour market weakening ahead?



Source: BLS, NFIB and AXA IM Research, June 2024

The latest employment report bolstered the economic outlook. Headline payrolls rose by 272k and the three-monthly pace remained around the 250k seen so far this year. Average earnings also accelerated in May, the 3-month annualised rate rising above the Fed's comfort zone to 4.1% from 3.0% last month. However, household employment fell by 408k and unemployment rose to a 2½-year high of 4.0%. We are aware of problems with the household survey due to population and migration issues but this weaker tone was echoed in the separate JOLTS survey, which showed vacancies fall by another sharp 300k to 8.1mn, and as a proportion of unemployed the Fed's preferred measure of labour slack is now near pre-COVID levels. We continue to see a weakening in payrolls growth (Exhibit 1), despite May's surprising strength – a view corroborated by the apparent trend rise in jobless claims.

More broadly, several indicators have softened. Q1 GDP slowed to just 1.3% (saar), even if exaggerated by one-off factors; consumer confidence has fallen and retail spending slowed, consistent with our expectation of softer consumer activity. While we continue to expect resilience in broader areas of the economy, we forecast Q2 GDP growth at 2% and a slower quarterly pace in the second half and across 2025 delivering annual growth of 2.4% this year and 1.6% next. We see such a slowdown as a soft landing and consistent with a healthier and more prolonged phase of expansion.

The Fed left policy unchanged in June. Chair Jerome Powell again explained inflation provided insufficient confidence to ease, despite describing May's reading as "good". The Fed barely updated its economic projections: growth was unchanged (around 2%), unemployment 0.1ppt higher in 2025 and 2026 and inflation higher by 0.2ppt in 2024, 0.1ppt in 2025 and unchanged at 2.0% in 2026. It was thus mildly surprising that its median interest rate projection shifted to one cut for this year – from three – implying a later start to the easing cycle with now four cuts in both subsequent years (from three). We had expected a more gradual adjustment to two cuts this year. But participants were split at eight votes for two cuts, seven for one and four for none. A seemingly partisan Powell argued that differences between forecasts were a "close call" and that no one held their views with "high conviction". He downplayed the significance of the dots and emphasised data dependence, reiterating the Fed could also respond to an unexpected weakening in the labour market.

We left forecasts unchanged and continue to see two cuts this year, from September. Our own view reflects both the belief the April/May inflation trend will persist over the next three releases before the Fed's September decision, providing it with sufficient evidence of disinflation. It also includes our view that the labour market will also show signs of softening, although upcoming prints will be critical to this outlook.

June's televised debate may see markets focus more sharply on the election. Polls still show former President Donald Trump enjoying a narrow lead overall, larger in key marginal states. We believe these polls will refocus over the coming months and more fundamental analysis, including an assessment of the economy is more beneficial for President Joe Biden. However, Biden's health is an increasing concern. From a market perspective, the main contours of a second Trump term would be migration; tariffs and broader trade policy; fiscal trajectory, including an extension of previous tax cuts; deregulation; and geopolitical risks, including the China relationship, the Middle East and Russia/Ukraine. On balance, this combination is likely to raise inflation, the dollar and short and long-term interest rates – the latter perhaps sharply if doubts about fiscal sustainability re-emerge. This could challenge the US growth outlook over the longer term.

Global Macro Monthly – Eurozone

Hugo Le Damany,
Eurozone Economist
Macro Research

European elections meet expectations

European election results were largely in line with the latest polls. Far-right parties made gains, but a large pro-EU coalition looks set to be renewed, consisting of leading centre-right European People's Party (EPP), the Social Democrats (left) and Renew (centrist). Heads of states and European Parliamentary groups are now negotiating the top European Union (EU) jobs, including the next President of the European Commission (EC), which, barring any major surprise, should see Ursula von der Leyen remain in place.

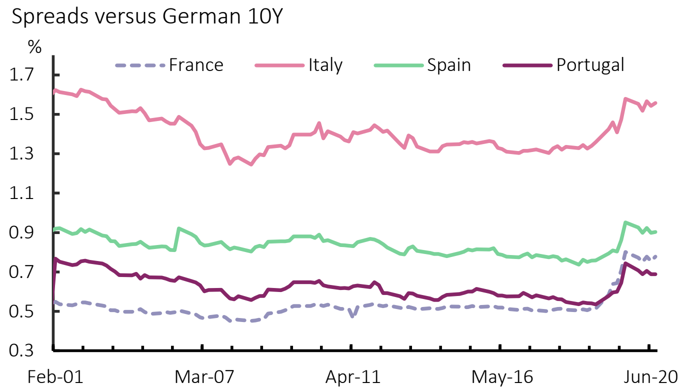
But the balance of power has shifted to the right and this will influence the political agenda over the coming five years. We should know more about the strategic priorities after the summer. Tariffs are likely to be one of them. Indeed, after an investigation into Chinese subsidies, the EC has proposed raising tariffs on electric vehicle (EV) imports from China (including non-Chinese brands), which is to be submitted to the new Parliament in the autumn.

President Macron dissolves French Parliament

Yet the political situation shifted dramatically in France following the European elections, with President Macron calling snap legislative elections for June 30th (2nd round: July 7th). This had been discussed given the government's lack of absolute majority since the 2022 election, but most thought this most likely during budget discussions. This triggered political upheaval and market volatility. On the political left, parties coalesced to present a united front, with combined polling at around 27.5%, although still behind the far right (34%). Polls currently put Macron's party at around 20%. Almost all parties promised very expansionary budgets without fully addressing funding measures, which will be difficult to achieve under current circumstances. This comes against a backdrop of France posting a deficit of 5.5% of GDP in 2023 and only forecasting reaching 3% by 2027 in the best-case scenario.

Financial markets reacted negatively with a sudden and large fall in domestic equities, particularly for companies more exposed to domestic markets. It has also impacted French sovereign bond spreads (versus German Bunds), which widened to a peak of 80 basis points – not seen since the second round of 2017's presidential election when there was a risk of a far left or far right win, with both parties not ruling out leaving the EU. The situation has stabilised (not improved) but uncertainties remain. Despite the French idiosyncratic nature of the shock, other countries saw spreads widen, but contagion has been limited so far (Exhibit 2).

Exhibit 2: French sovereign bond spread widened after the surprised dissolution



Source: Refinitiv and AXA IM Macro Research, 21 June 2024

Business goes on

In June, euro area consumer confidence continued to rise on the back of real wage gains. Confidence remains below the 2010-2019 average (0.7 standard deviation) but is still consistent with a gradual improvement in private consumption. Flash Purchasing Managers' Indices (PMIs) were weaker in June. The manufacturing sector fell to 45.6 (from 47.3 – below 50 signifies contraction), impacted by lower output in France and Germany. Services sector is well anchored in expansion territory at 52.6 but fell below 50 in France for the second month in a row. Finally, headline inflation reached 2.6% year-on-year in May and core ticked up to 2.9%, driven by services inflation rising to 4.1%.

ECB: Direction is clear but next steps are not

The European Central Bank (ECB) gave mixed signals in June, confident it was the right moment to deliver the first cut, but not sufficiently to reiterate a dovish signal for coming quarters. Instead, the ECB insisted it will make its decision based on incoming data. We believe the caution was not driven so much by domestic fundamentals as by the uncertainties in the US. If US inflation and the labour market evolve as we expect over the coming months with the Federal Reserve easing later this year, our scenario of further ECB rate cuts in September and December should be confirmed despite questions over longer-term inflation.

AXA Investment Managers

26 June 2024

Global Macro Monthly – UK

Gabriella Dickens
Economist (G7)
Macro Research

Interest rate cut on the table in August

Monthly data showed the economic recovery stalled in April, with activity remaining unchanged on the month. However, activity was up 0.7% on a three-month-on-three-month basis, so even if GDP remains unchanged in May and June, we will still see a quarter-on-quarter rise in output of around 0.3%.

The Bank of England (BoE), meanwhile, remains laser-focussed on inflation and wage data, where the situation is improving gradually. Headline Consumer Price Index (CPI) inflation dropped back to the BoE's 2% target in May, from 2.3% in April. This masked sticky services inflation, which ticked down to 5.7% from 5.9% – the BoE expected a fall to 5.4% – but key areas of concern, such as in hospitality, did see inflation ease. Average weekly earnings excluding bonuses, meanwhile, were unchanged at 6.0% in April, but the private sector component – a measure more closely watched by the central bank – dropped to 5.8% from 5.9%. Growing labour market slack should ease wage pressures going forward. Employment fell by 140K in the three months to April, pushing up the unemployment rate to 4.4%, more than a 2.5-year high. Pay as You Earn employment has also softened this year, with a monthly decline of 2.7K on average, compared to an average increase of 34.9K across 2023.

As expected, the BoE kept the Bank Rate unchanged at 5.25% at its June meeting with the same 7-2 vote split as in May. The accompanying minutes, however, suggested the Monetary Policy Committee is preparing to start the easing cycle soon. Indeed, the minutes continued to emphasise "a range of views" across the seven members that voted for no change, noting that while some continued to see the sticky services inflation as a sign that second-round effects would maintain some upward pressure on inflation in the coming months, there were others for whom "the policy decision ... was finely balanced". We continue to forecast the first 25 basis-point cut in August then a second cut in November.

Elsewhere, Labour has maintained a roughly 20-point lead over the Conservatives since the election was called on 22 May; a comfortable Labour majority remains our base case. Regardless, the growth potential of any new government will be constrained by high debt, sluggish growth and high interest rates. As a result, we expect some sort of additional fiscal tightening will be pushed through in the next parliament.

Global Macro Monthly – Canada

David Page
Head of Macro Research

Stronger growth, weakening inflation, BoC cuts

Economic growth started 2024 on a firmer footing, with GDP up 0.4% on the quarter, following a near recessionary H2 2023. Consumer spending underpinned this, rising by 0.7% after Q4's 0.8%. We are increasingly hopeful households are past the worst of a combined monetary and real incomes squeeze. Even as mortgage resets continue to lift payments this year, this should be less severe than 2023. Real employment income looks set to remain supported. Exports should soften from recent strong growth over the coming years but we edge our GDP forecasts higher again to 1.3% (from 1.2%) for 2024 and keep 2025 at 1.8%. We are more optimistic than consensus (1.0% for 2024), but less than the Bank of Canada (BoC) which forecasts 1.5% and 2.2%, in part on expectations for a stronger productivity rebound.

Inflation continued to ease, to 2.7% in April – a 3-year-plus low – with the core median rate at 2.6%, again a near-3-year low. Recent momentum has also been soft, even allowing for seasonal trends. We forecast inflation to soften further as wage growth slows reflecting the labour market moving into better balance and the modest rise in the unemployment rate. However, productivity growth remains a major uncertainty. It has been particularly weak since the pandemic and leaves unit labour costs elevated. The BoC forecasts a productivity improvement but we are sceptical of the scale, with inflation sensitive to this assumption. We forecast inflation to average 2.5% this year and 2.6% in 2025 (above consensus at 2.1% for next year).

The BoC cut rates in June against the backdrop of improving inflation. It noted "considerable progress" economically and that policy "no longer needed to be as restrictive", adding it was "reasonable to expect" ongoing easing at a "gradual pace". June was sooner than the July we had expected since last year. However, the gradual pace is consistent with our outlook, and we continue to expect three cuts in total this year. We pencil the next cut in for July and again in October, with future policy moves aligned with forecast meetings but data dependant. BoC Governor Tiff Macklem said the BoC did not need to move in lockstep with the US Federal Reserve (Fed) but acknowledged limits to any divergence. This may be seen in a softer Canadian dollar if the BoC eases in July, but thereafter we expect the BoC and the Fed to loosen similarly, forecasting the BoC rate at 3.5% by end-2025.

Global Macro Monthly – China

Yingrui Wang
Economist (China)
Macro Research

Consumer outlook still remains subdued

Chinese consumers surprised the market with a 0.5% monthly rise in retail sales in May. But sales remain soft overall, and this is unlikely to alter the overall consumer recovery trajectory, which has been bumpy since the second half of last year. Fragile consumer sector momentum is partly due to continued declines in both the property and labour markets, and the late 2023 policy focus being on infrastructure spending. Despite Beijing's more consumer-focused efforts in mid-May, the consumer sector has only seen a modest uptick, while the property market decline persisted. As the market correction progresses, the negative wealth effect continues to weigh on consumer spending, given the high level of home ownership and the significant portion of property assets held by Chinese households.

Although the official unemployment rate has been relatively stable in recent months, it does not fully capture labour market trends as it does not cover migrate workers, while the lack of high-frequency wages measures adds another layer of opacity to China's labour market. Anecdotal evidence and consumer confidence indices suggest that consumers still suffer from low job security and a gloomy employment and income outlook, coupled with pessimistic income expectations. Additionally, the consumer sector has barely received any direct or effective stimulus from the authorities, except for the recent trade-in programmes for some home appliances and cleaner cars. The medium-term outlook for consumer spending is therefore unlikely to have improved based on a single month of better-than-expected retail sales without fundamentally improving labour market conditions and stabilising the property sector.

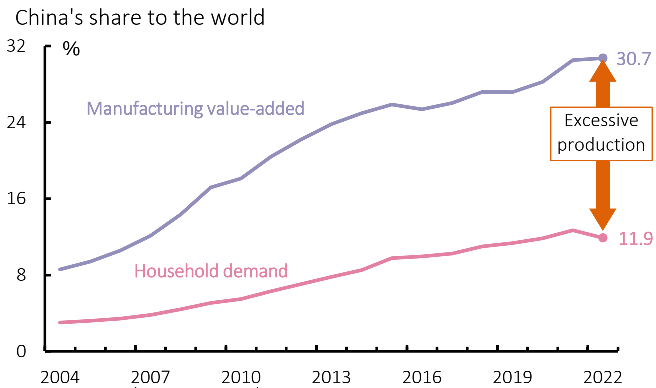
A notable result of weak consumer spending is the slow progress of CPI reflation. The economy has barely remained in inflationary territory since February this year and with continued soft consumer spending, we expect Consumer Price Index (CPI) to remain weak for the rest of 2024, only increasing into 2025. Currently, we forecast CPI inflation to average 0.6% in 2024 and 1.6% in 2025 (the People's Bank of China's target is 3.0%).

Unbalanced growth is the theme of the year

In contrast to subdued consumer spending, the industrial sector has shown strong momentum recently, growing at its fastest average pace over the past two years, similar to 2019. Part of this robust performance is due to resilient investment in the industrial sectors, particularly manufacturing and infrastructure, albeit that this is mainly state-led. Investment-driven stimulus can be more efficient, typically delivering a higher multiplier than consumer-centric measures such as VAT cuts. However, this higher multiplier is far from guaranteed.

Indeed, abundant investment in infrastructure nowadays hardly generates enough capital return to cover its cost, adding pressure to already high debt levels. Moreover, investment in the manufacturing sector has raised concerns about overcapacity in Western countries. The so-called overcapacity is an accusation of overproduction, suggesting China has been producing more than it needs, as evidenced by the large volume of exports. Although new sectors like electric vehicles (EVs) primarily supply domestic demand, China's manufacturing sector as a whole does produce far more than just for domestic consumption. In 2022, China's manufacturing sector accounted for more than 30% of global manufacturing value-added, while Chinese households consumed less than 12% of total global demand (Exhibit 3). The gap is exported to the rest of the world, notably to the US and Europe.

Exhibit 3: Excessive production in China's manufacturing



Source: CEIC and AXA IM Research, June 2024

Earlier this month, following a similar move by the US, the European Union hiked tariffs on Chinese EVs from 10% to up to 38.1%. Although this is unlikely to pose an immediate risk to Chinese exports (Chinese EVs can maintain price competitiveness even with the extra tariffs), the recent tariff hikes suggest increasing protectionism in the West, which could dent Chinese hopes for an export-led recovery. Instead of relying on exports, it would be more sustainable for China to rebalance its economy and boost domestic demand, which has great potential given the high saving rate among Chinese households. To release these savings, households are likely to require better social protection to entice them to give up some of their precautionary savings. It could require a better healthcare system and a more comprehensive social security system, which all takes a long time to develop. That said, it may not be in Beijing's interest to leave the growth engine to households alone.

Global Macro Monthly – Japan

Gabriella Dickens,
G7 Economist
Macro Research

Bank of Japan optimistic but economy is weak

The Bank of Japan (BoJ) voted unanimously to keep the uncollateralised call rate between 0% and 0.1% at its meeting in June. It also voted 8-1 to outline a detailed plan on the future path for Japanese Government Bond (JGB) purchases over the next one-to-two years at its July meeting to “ensure that long-term interest rates would be formed more freely in financial markets”. The BoJ stated it would maintain monthly purchases of around ¥6tn in the interim while it gathered views from the market, including commercial banks and securities firms.

Market participants had expected guidance on the immediate tapering of bond purchases at its June meeting, so the delay highlights the ongoing caution among Board members. The meeting’s minutes, however, sounded more hawkish with one policymaker pushing for a hike in the policy rate "without too much delay". The BoJ has also continued to highlight the importance of the incoming data with regards to evidence that the virtuous wage/price spiral is taking hold. And on this front, the BoJ seemed tentatively optimistic, keeping its view that inflation will stay around the 2% target on the back of higher medium and long-term inflation expectations, even after the energy and supply-side shocks have worked their way through.

We remain cautious. First quarter (Q1) GDP was weak, despite the upward revision in the second estimate; activity fell by 1.8% annualised (first estimate -2%). That did reflect several one-off factors, including a temporary shutdown at auto producers. But private consumption and capital expenditure were both down a quarterly 0.7% and 0.4%, respectively. A modest rebound over the rest of the year is on the cards, as real incomes start to recover on the back of the Shunto wage negotiations, supporting consumption. But if households choose to increase saving, or if rising prices caused by a weaker yen weigh on spending, the economy may remain in the doldrums.

The BoJ has outlined that it thinks the neutral rate hovers somewhere around 1%, so further hikes this year look likely. We have two further 10 basis-point hikes to the short-term policy rate pencilled in for Q3 and Q4. September now looks like the most likely next move, rather than July, as the BoJ will likely want to see the impact of reducing its JGB purchases on the financial market before making any further adjustments to the policy interest rates. But a still-weak yen will likely also remain a consideration in the short term.

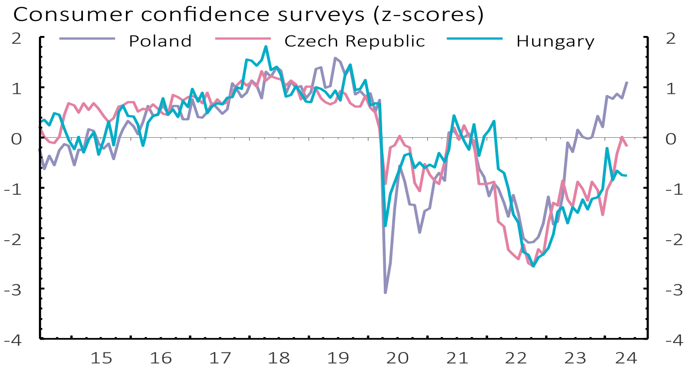
Global Macro Monthly – EM Europe

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

Mid-year assessment: So far, so good

A consumer-led recovery is in the making across Central Europe. Consumer confidence is visibly turning a corner, improving from its post-pandemic doldrums (Exhibit 4) supported by positive real income growth. Poland is leading the pack. Indeed, fiscal policy should continue to support household spending. Prime Minister Donald Tusk’s cabinet, in office since last December, is about to raise the monthly minimum wage by 7.6% from 2025; the previous administration increased wages by 19.4% in 2024 and 16.1% in 2023 as Poland’s inflation rate spiked to 18.4% by February 2023. There is not much progress on fiscal consolidation in Hungary but a better economic backdrop should reduce deficits after large fiscal slippages in 2023 and 2024, whereas the Czech Republic appears more committed to lowering its public deficit in spite of a rather sluggish economic recovery.

Exhibit 4: CEE consumer confidence improving



Source: LSEG Datastream and AXA IM Research May 24

The region should benefit from an increased absorption of EU funds, with the exception of Hungary where Next GenerationEU funds are still frozen as the standoff on the Rule of Law has not been solved. Instead, Hungary is hopeful for a sustained inflow of foreign direct investments, particularly after Chinese President Xi Jinping’s official visit. The very gradual improvement in the Eurozone economy could support exports, while we believe investment weakness will remain quite protracted. Real policy rates remain strongly positive but the thin spread versus Eurozone real rates will act as a limit in the monetary policy easing path, especially as disinflation will meet some resistance in the second half of the year. We see scope for rate cuts in Czech Republic, while we expect Polish and Hungarian central banks to remain on hold until year-end.

26 June 2024

Global Macro Monthly – EM Asia

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

Populism versus prudence

Central bankers have been cautious in recent policy meetings, showing no urgency to ease monetary policy until inflation is under control. However, on the fiscal policy side, developments have highlighted a risk of prudence giving way to populism.

Such concerns have been brought to the fore in India, following Narendra Modi's failure to maintain his strong parliamentary majority in the recent election. His weakened government could backslide on previous fiscal consolidation commitments, and instead favour greater spending and redistribution policies to regain support. In the pre-election interim budget for the 2024/2025 fiscal year, it set a deficit target of 5.1% of GDP. Fast nominal GDP growth is favourable for India’s debt dynamics, but with general government debt at 83% of GDP, the government cannot afford to loosen its fiscal reins too much in the final budget (to be announced in July).

Indonesia’s President-elect, Prabowo Subianto, is still expected to proceed with an election pledge to introduce free school meals, which could cost up to 2% of GDP annually. Indonesia has a favourable track record on fiscal discipline, adhering to a fiscal rule of capping the deficit at 3% of GDP. The government is confident it can afford a free school meals scheme without breaching the rule, but it will be stretched. Subianto, who will take office in October, has displayed a keenness for a bigger government, though officials recently dismissed reports that he had advocated pushing public debt up to 50% of GDP (from 40% currently) by the end of his five-year term.

The Thai prime minister, Srettha Thavisin, who has been openly critical of the Bank of Thailand’s decisions to keep its policy rate on hold, is proceeding with his generous flagship “digital wallet” scheme, a cash handout costing around 3% GDP. In part to finance this, he has proposed widening the budget deficit to 4.4% of GDP in the 2024/2025 fiscal year, requiring a revision to the medium-term fiscal framework, but public debt should remain below the 70% of GDP ceiling.

Malaysia’s government is having to follow a different script, rationalising its hefty subsidies programme. Highlighting the challenging fiscal policy balancing act, the June changes in diesel subsidies were necessary and fiscally prudent, but they have not been popular, and more painful (and unpopular) cuts are planned for petrol subsidies later this year.

Global Macro Monthly – LatAm

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

Sheinbaum takes the helm, Brazil hits pause

Claudia Sheinbaum secured a historic victory on the 2 June elections, winning the presidency by a record margin and becoming Mexico’s first female president. Sheinbaum garnered 59.8% of the vote, beating her nearest rival by 32.3 points. Morena and its allies now hold a supermajority in the House and are just shy of one in the Senate, solidifying the party’s dominance over the country.

Their overwhelming success has left the opposition fragmented and demoralised. The coalition's legislative strength allows for considerable leeway in setting budgetary and fiscal policies. The opposition's performance, particularly the social democrat party’s (Partido de la Revolución Democrática) failure to meet the vote threshold required to retain its presence in Congress, underscores the deepening of Morena's political influence.

Investor sentiment, however, has been negatively impacted by the election results. Concerns are mounting over the potential approval of 18 contentious constitutional reforms proposed by the outgoing administration. These reforms, perceived as threats to institutional checks and balances, could weaken Mexico's economy. The market's apprehension was evident in the post-election repricing of Mexican assets, reflecting fears of increased fiscal pressures and investment-unfriendly policies.

The focus now shifts to Sheinbaum’s appointees, as key cabinet members will reveal the administration's policy direction and style. Sheinbaum's immediate challenge is to reassure markets with a predictable, investment-friendly framework while maintaining fiscal discipline to preserve market confidence and sovereign ratings. To maintain this fiscal discipline after this year’s slippage, we expect the government to cut spending next year. As a result, growth is projected to slow significantly from 2.2% this year to approximately 1.4% in 2025.

While Mexico is navigating these political and economic changes, attention is also drawn to Brazil, where the central bank has recently paused its easing cycle, started last August. This decision comes in response to higher inflation expectations, a negative market reaction to the country’s fiscal struggles, and an outlook for more distant US rate cuts. In a unanimous decision, the central bank held rates steady at 10.5% in line with market expectations. We now expect it to stay on hold for the rest of this year and cut to 9.5% in 2025.

Macro forecast summary

Real GDP growth (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
World	3.2	3.2		3.1	
Advanced economies	1.7	1.5		1.4	
US	2.5	2.4	2.4	1.6	1.8
Euro area	0.5	0.6	0.6	1.1	1.5
Germany	0.0	0.1	0.2	0.9	1.5
France	0.9	0.8	0.8	1.0	1.3
Italy	1.0	0.7	0.8	0.7	1.2
Spain	2.5	2.4	2.0	2.1	1.9
Japan	1.9	0.6	0.5	1.1	1.0
UK	0.3	0.7	0.5	1.1	1.2
Switzerland	0.8	1.2	1.2	1.3	1.5
Canada	1.1	1.3	1.1	1.8	1.9
Emerging economies	4.1	4.2		4.2	
China	5.2	5.0	4.9	4.2	4.4
Asia (excluding China)	5.3	5.4		5.3	
India	7.7	6.8	6.8	6.5	6.6
South Korea	1.4	2.5	2.5	2.6	2.2
Indonesia	5.0	5.1	4.9	5.1	5.1
LatAm	2.3	2.0		2.4	
Brazil	2.9	2.2	1.9	1.9	2.0
Mexico	3.2	2.2	2.2	1.4	2.2
EM Europe	3.0	3.0		2.9	
Russia	3.6	3.2	2.6	1.8	1.1
Poland	0.2	2.8	2.9	3.5	3.4
Turkey	4.3	3.0	2.6	3.6	3.2
Other EMs	2.2	2.9		4.2	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 25 June 2024
**Forecast*

CPI Inflation (%)	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
Advanced economies	4.7	2.8		2.3	
US	4.1	3.3	3.2	2.5	2.3
Euro area	5.5	2.5	2.3	2.2	2.1
China	0.2	0.6	0.7	1.6	1.9
Japan	3.3	2.5	2.5	1.9	1.5
UK	7.3	2.4	2.5	1.8	2.0
Switzerland	2.1	1.4	1.3	1.4	1.3
Canada	3.9	2.5	2.5	2.6	2.0

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 25 June 2024
**Forecast*

These projections are not necessarily reliable indicators of future results

Forecast summary

Central bank policy Meeting dates and expected changes (Rates in bp / QE in bn)		Current	Q3-24	Q4-24
United States - Fed	Dates	5.50	30-31 Jul 17-18 Sep	6-7 Nov 17-18 Dec
	Rates		-0.25 (5.25)	-0.25 (5.00)
Euro area - ECB	Dates	3.75	18 Jul 12 Sep	17 Oct 12 Dec
	Rates		-0.25 (3.50)	-0.25 (3.25)
Japan - BoJ	Dates	0 - 0.1	30-31 Jul 19-20 Sep	30-31 Oct 18-19 Dec
	Rates		+0.10 (0.1-0.2)	+0.10 (0.2-0.3)
UK - BoE	Dates	5.25	1 Aug 19 Sep	7 Nov 19 Dec
	Rates		-0.25 (5.00)	-0.25 (4.75)
Canada - BoC	Dates	4.75	24 Jul 4 Sep	23 Oct 11 Dec
	Rates		-0.25 (4.50)	-0.25 (4.25)

Source: AXA IM Macro Research - As of 25 June 2024

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Download the full slide deck of our June Investment Strategy

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

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