Deutsche Bank
Chief Investment Office

PERSPECTIVES

ECONOMIC AND ASSET CLASS OUTLOOK

3/2024

MACROECONOMICS
Growth pick-up in 2025

FIXED INCOME
Normal curves returning

EQUITIES
Solid earnings, high volatility

Macroeconomics: Growth pick-up in 2025

- Growth: U.S. to re-accelerate in the course of 2025, Eurozone remaining at low levels.
- Inflation: Moving down but staying elevated.
- Rate cuts: Fed to follow the ECB.

The **U.S.** economy is still robust with annualised Q2 growth of 3%, driven by solid consumption. That said, we expect growth to moderate somewhat and then slowly regain momentum due to solid private consumption and sound investment expenditure as well as elevated deficit spending. For 2024 as a whole, we expect GDP to expand by 2.4% and 1.7% in 2025.

After edging up in Q1 headline inflation started to decrease and dipped below 3% in July. Month-on-month inflation has eased noticeably in the previous months, and we expect an average inflation rate of 2.3% for 2025 as a whole. We expect the Fed to begin its easing cycle with a first rate cut of 25 bps this month. Five further cuts of the same magnitude should follow by the end of Q3 2025. At the longer end of the yield curve structural forces like deficit spending and cyclical factors (reaccelerating economy in 2025) may keep rates elevated going forward.

In the **Eurozone** real GDP increased by 0.2% QoQ in Q2 - easing from the 0.3% seen in Q1. The data indicates that the region's economy is still not recovering significantly. However, the unemployment rate fell to 6.4% in July, its lowest ever level since the start of the series in the mid-1990s. Given the tight labour market we expect private consumption to be the backbone of a slight increase in economic growth in the region and GDP to expand by 0.7% in 2024 and 1.0% in 2025. Overall, Eurozone potential growth is very low and does not allow for stronger growth rates.

On the price front, headline inflation dipped to 2.2% in August, thereby reaching its lowest reading in three years. Negotiated wage growth decreased mildly, easing potential price pressures coming from the increase in real wages while still supporting consumption. We expect inflation to average 2.3% next year and the ECB to cut the deposit facility rate to 2.5% until September 2025.

In **Japan** GDP growth reversed from a decline of -0.6% QoQ in Q1 to an expansion of +0.8% in Q2. Private consumption – which accounts for more than half of the economy – rose for the first time in five quarters after spring wage negotiations delivered the highest pay increase in over 30 years. Inflation stood at 2.8% in July, for the third month in a row. In 2025, we expect inflation and GDP growth to average at 2.0% and 1.2% respectively. The BoJ could cautiously raise its key rate from the current 0.25% to 0.75% over the next twelve months.

In **China** the economy expanded 4.7% YoY in Q2, slowing from 5.3% in Q1. The economy remains generally robust but is showing some signs of weakness. Retail sales came in at 2.7% YoY in July, which is rather low compared to the double-digit growth rates in the 15 years before the pandemic. We forecast GDP growth of 4.8% in 2024 and 4.4% in 2025, and inflation in 2025 to average 1.7%.

Fixed Income: Normal curves returning

- Yield curve steepening underway.
- Deficit spending to keep pressure on the longer end.
- Carry to provide solid return potential.

The U.S. is set to embark on a rate cutting cycle as the Fed gains confidence that inflation is on a sustainable path towards its target level of 2%. The labour market has also continued its gradual easing from the extremely tight levels of last year. After more than 2 years of inversion, the **U.S. Treasury** yield curve is normalising as rates have fallen faster at the shorter end than at the longer end. But that does not spell the end of elevated yields in our view. We foresee a shallow cutting cycle as the economy is likely to reaccelerate next year, limiting the downside for yields. In addition, a re-emergence of the debt ceiling debate and risk from continued deficit spending should push the term premium higher (September 2025, 10-year yield target: 4.05%; 2-year yield target: 3.60%).

As in the U.S., significant progress has been made in taming inflation in the Eurozone. Growth in the Eurozone, however, has been sluggish to date. This should allow the ECB to continue loosening its monetary policy, helping the steepening of the **Bund** yield curve which is on the cusp of normalising. Longer-end yields are likely to stay elevated due to fiscal imbalances in major economies alongside occasional political volatility (September 2025, 10-year yield target: 2.25%; 2-year yield target: 2.00%).

Italian spreads to Bunds may be susceptible to widening as attention shifts to the viability of the government's plan to reduce the deficit and bring it in line with EU fiscal rules. The strong carry may, however, attract more inflows to Italian bonds, capping the spread widening.

Despite limited spread compression potential, **investment grade (IG)** markets, in both USD and EUR, continue to see sizeable inflows as investor demand for carry remains strong. Steepening yield curves should free up cash sitting in money markets, some of which is likely to find its way into the IG markets. The risks of IG spread widening should be limited as both regions are expected to avoid recession.

High yield (HY) default rates continue to hover at elevated levels compared to last year, but recent data suggests some stabilisation. The refinancing cost declined for B and BB issuers; however, it remains significantly elevated for CCC issuers, while fundamentals have weakened slightly. Although mild spread widening is expected, as spreads have tightened beyond fundamentally justifiable levels, total returns should still remain attractive.

EM sovereign spreads are likely to move sideways as economic growth is set to rebound in Eastern Europe and Latin America while remaining stable in most Asian countries. However, uncertainties loom due to China's growth outlook, geopolitical risks, rising commodity prices, and the upcoming U.S. presidential elections. Similarly, for **Asia Pacific credit** (aggregate but ~90% corporate), spreads should remain rangebound as net issuance is likely to stay negative and corporate default rates remain steady. Furthermore, both these markets offer an attractive carry.

Equities: Solid earnings, high volatility

- Earnings growth becoming more broadly based.
- Small cap performance may pick up due to strong EPS growth.
- U.S elections and geopolitical issues may trigger short-term volatility.

Equities have continued their strong performance on the back of healthy earnings growth and expectations of a more favourable interest rate environment and no recession in either Europe or the U.S. going forward. After failing to increase their earnings for a year or more, Small caps in the U.S. as well as the S&P500 excluding the Magnificent 7 (Mag7), together with European markets recorded their first cumulative earnings growth in Q2. Performance is thus becoming more broadly based rather than driven mainly by the Mega caps, and we expect this to continue.

The **S&P 500** has done well so far this year. In H1 the Mag7 and other Mega caps were the main drivers of index performance, whereas since the start of H2 the contributors have become more broadly based. Despite a mild decline in Mag7 earnings growth in Q2, we expect their earnings to continue rising at above-average rates. Valuations remain stretched on a historical comparison but are backed by fundamentals such as solid earnings growth expectations. We expect annual earnings growth to remain at around 10% in the near term and the S&P 500 at 5,800 points by end of Q3 2025.

The picture is similar in Europe with the **STOXX Europe 600** performing well in H1, mainly driven by Large caps. Since H2 started Small cap performance has picked up and we expect them to make a robust, sustained contribution to overall index performance, especially on the back of higher earnings growth and modest valuations in historical terms. We expect the index to reach 540 points by end of September 2025.

In the Emerging Markets space, we prefer Asia due to its growth momentum and importance for the AI theme, e.g. tech-heavy South Korea and Taiwan collectively make up some two-thirds of global semiconductor foundry capacity. In Japan, Asia's main developed market (DM), major equity indices have a stronger home bias than in most other DMs and are set to perform well on the back of increasing domestic consumption expenditure.

While we think large caps will continue to perform well in the U.S. and Europe and have decent return prospects over the long term, investors may consider adding small and mid caps as the changing interest rate environment and an uptick in growth in 2025 are expected to boost profits for more rate- and growth-sensitive smaller companies.

The upcoming U.S. presidential election may introduce short-term uncertainties into global markets later this year and potentially lead to sectoral shifts depending on the election outcome. In addition, geopolitical risks stemming from the Middle East crisis and the Russia/Ukraine conflict may trigger further market volatility. In general, we expect more periods of elevated volatility going forward as the great moderation and the era of negative interest rates are over.

Commodities: Gold glistening

- Demand pressure and strong supply limiting upside for oil prices.
- Gold price potential buoyed further by the return of retail inflows.
- Strong physical demand indicators for copper to take centre stage.

Global **oil** demand growth expectations have been under pressure as China's manufacturing and construction weakness weighs on its oil consumption. Major energy agencies have been downgrading their estimates with the IEA now projecting 0.3 mb/d lower total demand in 2025 than it did back in April. OPEC also revised its demand forecasts downwards recently. OPEC+ reacted to current weakness by postponing its planned production hike from October to December, which should help to counteract the strong non-OPEC+ supply growth. Going forward, thanks to the strong demand from Asia ex-China and the purchases for the strategic reserves in China and the U.S., the drag on prices is likely to be minimal. The known unknown of geopolitics remains a closely watched factor and may potentially push prices higher (September 2025 Brent target: USD 80/bbl).

The **European carbon price** has struggled to gain traction as a combination of warm, windy and wet weather has dampened the need for power generated from fossil fuels, reducing their harmful emissions by almost 17% YTD. The incremental supply this year from frontloading the allowance auctions is likely to result in a supply surplus. Nevertheless, the long-term gains should be supported by supply tightness in the future and the introduction of the carbon border adjustment mechanism (CBAM) along with the parallel phasing-out of free allowances for the sectors covered by the CBAM.

Gold reached all-time highs recently on rising expectations of Fed interest rate normalisation, a weaker USD, continued purchases by some central banks and renewed buying interest from ETF/ETC buyers. We expect rising fiscal deficits coupled with rising global money creation to remain bullish factors. Also, central banks will probably continue to buy gold to diversify their foreign reserves, and retail investors in Asia are likely to maintain their focus on gold as an asset (September 2025 Gold target: USD 2,810/oz).

Copper prices remain subdued due to broader Chinese economic weakness. However, strong physical demand indicators for China are starting to take centre stage again. Significant expansion of the high-efficiency EV charging infrastructure is underway, while NEV (new energy vehicle) production had increased almost 29% YoY by July this year. Renewables capacity addition continues rapidly with a recent report noting that the 339GW of capacity under construction in China is nearly double the total capacity being constructed in the rest of the world. Grid investment is also accelerating, having jumped 24% YoY in H1 2024. On the other hand, mine supply growth is likely to remain subdued going forward (September 2025 Copper target: USD 10,000/t).

Currencies: Volatility revisited

- Imminent U.S. interest rate pivot may prompt stronger price fluctuations.
- We expect gradual JPY appreciation due to narrowing yield differentials.
- Recent CNY rebound partly in response to the unwinding of carry trades.

In contrast to H1, when most G10 currency movements were limited, Q3 has seen much stronger price movements to date. In particular, the unwinding of carry trades after the key interest rate hike in Japan and the foreshadowing of the interest rate pivot by the Fed also triggered a sharp increase in volatility.

With the interest rate pivot approaching in the U.S. and the unwinding of carry trades, the **USD** came under pressure against the **EUR** and fell to a 13-month low of around EUR/USD 1.12 in August. Whether the EUR has further appreciation potential is likely to depend on whether economic growth in Europe can converge with that in the U.S. and how much the respective central banks lower key interest rates in the next twelve months - as this should have an impact on yields at the short end of the respective curves. Since we believe that the market is currently pricing in larger Fed rate cuts than appropriate, we expect a firmer USD at EUR/USD 1.08 over the period under review.

The BoE's rate cut cycle could be slower than the Fed's. UK headline inflation has already fallen to 2% but is expected to rise again in the coming months, also due to adjustments to energy price caps. Core inflation along with average wage and salary growth remain elevated, as does service inflation. Economic growth dynamics could continue to support the **GBP**. We therefore see potential for the GBP to appreciate moderately to GBP/USD 1.29 by the end of September 2025.

Japan's economy bounced back in Q2, driven by a surge in private consumption thanks to significant wage hikes that revived real wage growth. This momentum could keep inflation high for longer, helping the Bank of Japan (BoJ) hit its targets. After raising interest rates by 10 basis points in March and 15 basis points in July, we anticipate the BoJ will continue normalising rates in H1 2025, which should narrow yield differentials. In addition, the pace of Fed rate cuts is likely to influence the **JPY's** potential appreciation. However, we foresee limited scope for significant appreciation due to the persistent substantial yield differentials and negative real rates in Japan. We therefore expect the JPY to appreciate against the USD only gradually to USD/JPY 140 as of end-September 2025.

Structural issues, especially in the property sector, remain a drag on China's economy. Government measures are only likely to help in the medium term. The **CNY** has, however, recently been supported by the unwinding of carry trades and the pricing-in of Fed rate cuts. Since the PBoC also wants to prevent a sharp appreciation or depreciation of the CNY, we expect the CNY will still be near its current level at the end of September 2025, i.e. USD/CNY 7.15.

Over our forecast horizon, we highlight geopolitics and the U.S. elections as potential sources of sharply increased short-term volatility.

Appendix 1

Macroeconomic forecasts

	2024	2025	Consensus 2024 (BBG*)
GDP growth rate (%)			
U.S.[1]	2.4	1.7	2.5
Eurozone	0.7	1.0	0.7
Germany	0.1	1.0	0.1
France	1.2	0.9	1.2
Italy	0.7	0.8	1.0
Spain	2.5	1.2	2.0
Japan	0.0	1.2	0.1
China	4.8	4.4	4.9
World	3.1	3.2	3.0
Consumer price inflation (%)			
U.S.	2.9	2.3	3.0
Eurozone	2.5	2.3	2.4
Germany	2.6	2.5	2.4
Japan	2.5	2.0	2.4
China	0.5	1.7	0.5
Unemployment rate (%)			
U.S.	4.3	4.1	4.2
Eurozone	6.6	6.6	6.5
Germany	6.0	5.9	6.0
Japan	2.5	2.4	2.5
China[2]	5.0	5.0	5.1
Fiscal balance (% of GDP)			
U.S.	-6.0	-5.9	-6.5
Eurozone	-2.8	-2.7	-3.0
Germany	-1.5	-1.0	-1.7
Japan	-4.5	-3.0	-4.2
China[3]	-13.3	-13.0	-4.8

*Bloomberg consensus. [1] For the U.S., GDP growth Q4/Q4 % is 1.5 % 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) and refers to IMF. It is not comparable with the consensus.

Source: Deutsche Bank AG, Bloomberg Finance L.P. Data as of September 2024.

Appendix 2

Asset class forecasts for end of September 2025

Sovereign bond yields (%)

United States (2-Year U.S. Treasury)	3.60
United States (10-Year U.S. Treasury)	4.05
United States (30-Year U.S. Treasury)	4.15
Germany (2-Year German Bund)	2.00
Germany (10-Year German Bund)	2.25
Germany (30-Year German Bund)	2.50
United Kingdom (10-Year UK Government)	4.00
Japan (2-Year Japan Government)	0.70
Japan (10-Year Japan Government)	1.40

Benchmark rates (%)

United States (federal funds rate)	3.75-4.00
Eurozone (deposit rate)	2.50
United Kingdom (repo rate)	3.75
Japan (policy rate)	0.75
China (1-year lending rate)	3.10

Currencies

EUR vs. USD	1.08
USD vs. JPY	140
EUR vs. JPY	151
EUR vs. CHF	0.96
EUR vs. GBP	0.84
GBP vs. USD	1.29
USD vs. CNY	7.15

Equity indices

United States (S&P 500)	5,800
Germany (DAX)	20,000
Eurozone (EURO STOXX 50)	5,100
Europe (STOXX Europe 600)	540
Japan (MSCI Japan)	1,760
Switzerland (SMI)	12,350
United Kingdom (FTSE 100)	8,350
Emerging Markets (MSCI EM)	1,140
Asia ex. Japan (MSCI Asia ex. Japan)	740
Australia (MSCI Australia)	1,550

Commodities (USD)

Gold (oz)	2,810
Crude Oil (Brent Spot, bbl)	80
Copper (t)	10,000
EU Carbon Allowances (Carbon Spot, t)	80

Corporate & EM bond spreads (bps)

EUR IG Corp	95
EUR HY	400
USD IG Corp	85
USD HY	375
Asia Credit	125
EM Sovereign	390

Source: Deutsche Bank AG; Data as of September 5, 2024.

In Europe, Middle East and Africa as well as in Asia Pacific this material is considered marketing material, but this is not the case in the U.S. No assurance can be given that any forecast or target can be achieved. Forecasts are based on assumptions, estimates, opinions and hypothetical models which may prove to be incorrect. Past performance is not indicative of future returns. Performance refers to a nominal value based on price gains/losses and does not take into account inflation. Inflation will have a negative impact on the purchasing power of this nominal monetary value. Depending on the current level of inflation, this may lead to a real loss in value, even if the nominal performance of the investment is positive. Investments come with risk. The value of an investment can fall as well as rise and you might not get back the amount originally invested at any point in time. Your capital may be at risk. This document was produced in September 2024.

Appendix 3

Historical performance

Performance	05.09.2019–05.09.2020	05.09.2020–05.09.2021	05.09.2021–05.09.2022	05.09.2022–05.09.2023	05.09.2023–05.09.2024
S&P 500	15.2%	32.3%	-13.5%	14.6%	22.4%
STOXX Europe 600	-6.2%	30.4%	-12.4%	10.5%	12.1%
MSCI EM	9.6%	19.7%	-26.5%	1.9%	9.2%
EURO STOXX 50	-6.4%	28.9%	-16.9%	22.3%	12.8%
SMI	1.7%	21.7%	-12.4%	1.3%	9.8%
DAX	5.9%	22.9%	-19.1%	23.6%	17.8%
FTSE 100	-20.2%	23.1%	2.1%	2.1%	10.8%
MSCI Japan	5.9%	25.8%	-4.4%	22.8%	10.7%
MSCI Australia	-12.8%	26.6%	-7.8%	7.9%	10.1%
MSCI Asia ex. Japan	16.2%	17.1%	-26.5%	1.2%	9.6%
2-Year U.S. Treasury	3.3%	0.2%	-4.0%	0.3%	6.2%
10-Year U.S. Treasury	9.4%	-4.1%	-13.7%	-5.3%	8.6%
30-Year U.S. Treasury	16.1%	-9.9%	-24.8%	-14.5%	10.4%
2-Year German Bund	-1.0%	-0.7%	-3.4%	-1.7%	3.8%
10-Year German Bund	-1.0%	-0.5%	-13.7%	-6.4%	3.1%
30-Year German Bund	0.8%	-5.0%	-35.6%	-22.8%	8.1%
10-Year UK Government	3.2%	-2.4%	-14.7%	-7.6%	9.2%
2-Year Japan Government	-0.4%	-0.1%	-0.1%	-0.1%	-0.2%
10-Year Japan Government	-2.8%	0.4%	-1.2%	-0.3%	-1.1%
EUR vs. USD	7.2%	0.5%	-16.5%	8.1%	3.5%
USD vs. JPY	-0.6%	3.2%	28.2%	5.1%	-2.8%
EUR vs. JPY	6.5%	3.6%	7.1%	13.5%	0.5%
EUR vs. CHF	-0.7%	0.4%	-10.4%	-2.0%	-1.6%
EUR vs. GBP	-0.3%	-4.1%	0.6%	-1.1%	-1.2%
GBP vs. USD	7.5%	4.7%	-17.0%	9.2%	4.7%
USD vs. CNY	-4.3%	-5.7%	7.4%	5.3%	-2.9%
Gold (oz)	27.3%	-5.5%	-6.4%	12.6%	30.7%
Crude Oil (Brent Spot, bbl)	-30.0%	70.2%	31.9%	-6.0%	-19.3%
Copper (t)	14.8%	40.6%	-18.8%	10.9%	7.1%

Source: Deutsche Bank AG, Bloomberg Finance L.P., LSEG Datastream; Data as of September 5, 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.

The **Carbon Border Adjustment Mechanism (CBAM)** is a carbon tariff on imported carbon intensive products to the European Union.

Carry trade refers to borrowing a currency or financial product at low interest rate and reinvesting in a currency or financial product with a higher return.

CHF is the currency code for the Swiss Franc.

CNY is the currency code for the Chinese yuan.

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.

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.

The U.S. **debt ceiling** is a legislative limit on the amount of Federal debt that can be issued by the U.S. Treasury.

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.

Exchange Traded Commodities (ETCs) are commodity focused Exchange Traded Funds (ETFs).

Exchange Traded Funds (ETFs) are investment funds traded on stock exchanges.

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

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

The **G10** comprises of Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States.

Glossary

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.

One billion watts make one **GW.**

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.

Magnificent 7 is a term for the most dominant tech companies. The group is made up of mega-cap stocks Apple, Alphabet, Microsoft, Amazon.com, Meta Platforms, Tesla and Nvidia.

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.

The **MSCI EM** captures large and mid cap representation across 24 emerging markets countries.

The **MSCI Japan** measures the performance of around 320 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 **People's Bank of China (PBoC)** is the central bank of the People's Republic of China.

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 **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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