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Global outlook

The global economy will continue to grow at more or less the same rate as last year, between 3% and 3.5%. In other words, a soft landing for the global economy remains the most likely scenario. However, the latest statistics published suggest that the outlook is uncertain and varies from region to region. The US economy is slowing down, but remains healthy. The eurozone economy has bottomed out and is showing signs of recovery. In Asia, India is posting solid growth, while China is gradually recovering. We expect a rebound in the second half of the year, supported by a stable job market and ongoing fiscal stimulus measures.

Despite a marked slowdown compared to last year, the disinflation process continues. The expected economic rebound is likely to lead to a further surge in commodity prices and higher wage demands, keeping inflation above the target set by central banks. However, the central banks of the advanced economies (led by the ECB having recently cut 25bp) will start cutting interest rates this year. They will do so cautiously and sparingly. Interest rates will remain higher than in previous easing cycles. Questions remain for the US economy.

In our view, the main risks for the global economy lie in the explosion of public debt and the geopolitical situation.

United States

US economic activity remains healthy. However, mixed and sometimes contradictory statistics point to a slowdown. Despite the prevailing uncertainty, a soft landing remains for us the most likely scenario, given the continued budgetary support of a President eager to win re-election. The job market is showing significant signs of easing, with "only" 175,000 new non-farm jobs and a slight rise in the unemployment rate to 3.9%. After three consecutive months of higher-than-expected inflation, calm has returned to the inflation front. Headline and core inflation slowed to a monthly rate of +0.3%. The picture remains the same: inflation is gradually receding, but remains persistent, particularly in the services sector, with the risk of further price rises. Consumers' fears in this regard have not been slow to materialize, with retail sales already slowing significantly.

Faced with the resumption of the disinflationary trend and the gradual easing of the job market, the Fed's patience seems to be paying off. The Fed remains convinced that its policy is sufficiently restrictive and that it will eventually bring inflation back to its target level. It remains to be seen whether the first rate cut, expected by the end of the year, will put an end to the rate environment still recently described as "durably high" ("higher for longer"). The US Federal Reserve sees no reason to rush things, at least as far as inflation is concerned. If it were to lower its key rate, it would be to fulfill the second part of its mandate. But the job market is still too stable for seemedthat. As long as the situation doesn't deteriorate, we're counting on one or even two rate cuts at most, starting in September.



Euro zone

The European economy has bottomed out, the stagnation phase is coming to an end and the outlook is gradually improving. The technical recession of the third and fourth quarters is behind us. Real GDP growth stood at 0.3% in the first quarter. Economic activity is expected to grow at the same rate in the second quarter. Surveys of economic activity show that growth momentum is improving. In May, the overall purchasing managers' index rose for the third month in a row, reaching its highest level for a year. While the service sector remains firmly anchored in the expansion zone, the manufacturing sector is beginning to show signs of improvement. These "soft" statistics contrast with the persistent gloom of the "hard" data. Industrial production and new orders, for example, point to weak domestic demand. While the unemployment rate is nearing an all-time low (6.5%), consumer sentiment remains at half-mast. In the first quarter of 2024, conventional wages rose by 4.7% year-on-year. This wage growth, which is also positive in real terms, should support private demand in the months ahead. Inflation continues to fall, but has recently slowed. The rise in May of the consumer price index (2.6%) and core inflation (2.7%) shows that the disinflation trajectory is not a smooth one. In particular, inflation in services remains high. We cannot expect consumer prices to return to the levels targeted by the central bank before 2025. However, the ECB believes that prices are on the right track. A first rate cut in June therefore was a foregone conclusion. Given the persistent inflation in the service sector and strong wage growth, a rapid and prolonged easing cycle seems difficult to envisage.

China

According to China's political bureau, "the economy has made a good start to the year", despite the difficulties posed by "insufficient demand and an uncertain external environment". Policymakers are maintaining an accommodating fiscal policy with a view to achieving the annual GDP growth target.

Monetary policy remains favorable. Interest rates and bond reserves are being managed flexibly, while priority is being given to exchange rate stability in view of the uncertainties surrounding US monetary policy. Against a backdrop of uneven economic recovery, the outlook for the real estate sector remains uncertain. A number of measures were launched in May to help the sector: after lifting the floor on mortgage rates and reducing the loan-to-value ratios for private home purchases, Beijing began issuing very long-dated government bonds. In addition, local governments allocated 300 billion yuan to buy back unsold inventory from property developers. Economic activity surveys point to moderate expansion. The manufacturing sector is growing, while services are slowing slightly. Timid signs of improvement in global demand provide a margin of safety for the Chinese economy. Economic policy is focused on strengthening domestic demand. The inflation situation improved in April: +0.3% year-on-year for headline CPI and +0.7% year-on-year for underlying CPI after a very moderate rise in March. Producer prices remain in deflationary territory due to persistent weakness in the real estate sector (-2.5% year-on-year). The geopolitical situation remains tense and uncertain. While the Biden administration has significantly raised tariffs on many Chinese products, Beijing is threatening retaliatory measures.

A new trade war would not only jeopardize China's still-fragile economic recovery, but also put the brakes on global growth.



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