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Trump's priorities are growth and China

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CONTENT

Executive summary

- Trump's two top priorities are China and high economic growth.

- The rise of China is giving rise to a new world order. This means that the US must forge new alliances. These include geopolitical, military and economic alliances.

- In the past, Trump has used import tariffs mainly to influence international trade flows in favour of the US. At this point, he is also using them - or threatening to use them - to influence other issues, including drug trafficking control and migration control.

- In the end, it is Trump who has the final say in most areas (although, of course, he usually also needs Congress). Some secretaries or advisers will have more influence than others, but it is ultimately Trump who decides.

- Scott Bessent will be Treasury Secretary. He is a billionaire and a highly experienced expert on financial markets. Bessent wants to simultaneously achieve three things: 3% economic growth, a public deficit of 3% of GDP (versus 6.4% for fiscal year 2024) and additional oil production of 3 million barrels.

- This is a very ambitious programme, as he also wants tax cuts. This means a smaller public deficit should come primarily from higher growth, the proceeds of import tariffs and a government with far greater efficiency in its operations. Elon Musk, among others, is tasked with the latter.

- Furthermore, deregulation is expected to bear fruit, especially in oil production.

- The problem is that people such as Trump and Bessent are used to giving orders that are subsequently carried out. In politics, however, things are different. All manner of other interests also play a role there, meaning that efforts must be geared far more towards a compromise.

- The question is what approach the Fed will take to Trump's plans, as import tariffs and the deportation of illegals/immigration restrictions will exert upward pressure on inflation. There is also the question as to whether or not potentially higher growth might drive inflation too high again.

- The latter depends strongly on productivity trends. In this regard, commentators are quick to point to AI. However, most experts believe AI is unlikely to lead to far higher economy-wide productivity growth in the coming years.

- As for the expected impact of Trump 2.0, the development of 10-year US government bond yields is the 'canary in the coal mine'. A rise above 4.5% would be an important sign that Trump's policies are met with strong market resistance and must be adjusted considerably.

- Ultimately, a scenario of low growth, fairly high interest rates and an exceedingly large public deficit cannot be ruled out.

- European economic growth is very low and Europe's competitive position is deteriorating. There is a great need for far more dynamism (there is currently far too much regulation), the formation of a capital markets union and a deepening of the common market.

- Economic stimulus through larger public deficits is politically very sensitive. It is to be hoped that policymakers will quickly take far more action to advance the aforementioned issues, as Europe increasingly finds itself with its back against the wall (and certainly when Europe is hit by US import tariffs).

- For now, the ECB will face the heavy burden of preventing growth from slipping too far. A major problem for the central bank is that wage increases are still at excessively high levels.

- We believe the ECB will have lowered interest rates - currently 3.25% - to 2% or slightly lower by the end of the third quarter of 2025. 10-year German government bond yields - currently around 2.15% - will likely decline slightly further.

- The S&P 500 index may go up by a few more per cent as long as 10-year US government bond yields do not exceed 4.5%. Any interim declines will be limited to 3-5%. If interest rates rise above 4.5%, however, we expect a far greater decline.

- EUR/USD is unlikely to far exceed 1.065 during rallies in the interim. On balance, the pair will likely slide down to 1.00 or slightly lower over the next few months.

- We assume USD/CNH will gradually rise towards 7.60, while EUR/CNH will likely fluctuate around 7.70 for the time being.

Saviour or disruptor?

Interviews with Trump's proposed secretaries shed more and more light on his views. The two key pillars of Trump's policies will be geared towards:

» speeding up economic growth

» ensuring that China does not surpass the US in terms of economic and military power.

The Bessent factor

We have to bear in mind that Trump demands absolute loyalty from those around him. In other words, his plans will have to be carried out his way. This immediately makes one wonder what approach Trump's proposed Treasury Secretary Scott Bessent will take. Surely, he must realise straight away that if Trump follows through on all his plans for tax cuts and import tariffs, the US will end up with high public deficits, inflation and interest rates, while growth will remain limited. If Trump were to implement all of his plans, this would severely rattle the bond market before long. In this case, Trump would ultimately be forced to make concessions on many issues, as he wants to avoid sharp declines in bond and share prices at all cost. What is more, he wants to be the saviour of the economy rather than the disruptor.

Against this backdrop, it is entirely understandable that Bessent immediately put a significant spin on Trump's plans:

» He wants to enforce major cuts in government spending. Normally, the only way to do this is to make severe cuts in all manner of social spending, which is extremely unpopular. However, Bessent wants to achieve this goal by removing a wide array of inefficiencies from the government (this is first and foremost Musk's task).

» Furthermore, taxes must be reduced. In theory, this could lead to excessively large public deficits. However, Bessent sees this differently. To start with, the imposition of import tariffs will generate revenue. Moreover, Bessent wants to shrink government spending. He furthermore assumes that his programme will boost the growth rate of the US economy to at least 3%. Despite lower tax rates, tax revenues will remain stable in this case - if all the above assumptions materialise.

» Deregulation should pave the way for considerable oil and gas output hikes. This is expected to depress energy prices. Inflation will decline as a result, meaning the Fed can keep its rates low. This will produce two major benefits for the government: higher economic growth and a limited increase in interest payments on government debt.

- The government is not going to impose a wide range of high import tariffs overnight, but it will do so gradually. Take, for example, the import tariff on Chinese imports, which Trump has consistently said would be around 60%. Bessent wants to start with, say, 5% and then negotiate with the Chinese for a trade deal, using additional tariff hikes as leverage. By doing this in steps of 5 percentage points, Bessent wants to keep stepping up the pressure on China (and other countries). Assuming this leads to all sorts of deals, this strategy will also result in more growth.

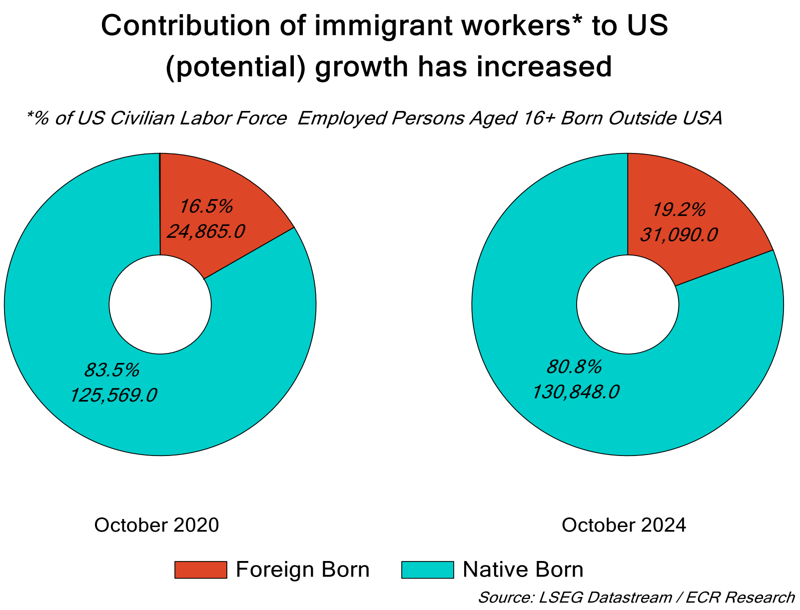
A key question is how the Fed will deal with the political goings-on. This will depend mainly on the following two points:

- It is crucial what will happen in terms of immigration and plans to deport illegals from the country. Certainly in the event of high growth, this could soon lead to an overly tight labour market, and consequently to excessively high levels of wage increases and inflation.

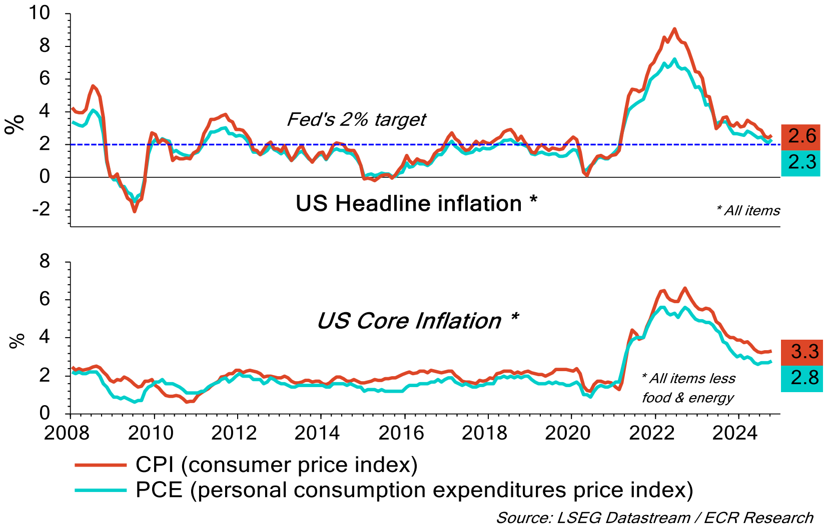
  Again, no one needs to point out this risk to Bessent. He is well aware of it. It is safe to assume that he will exert considerable pressure to exercise great caution here.

- It is also crucial what will happen with regard to productivity. To start with, Bessent assumes there is still a great deal to be gained by the government in this area. He also assumes that lower taxes will ramp up investment activity, which will enhance productivity.

Bessent therefore believes it is possible to boost growth substantially, while simultaneously shrinking the public deficit, without this leading to excessive inflation and high interest rates.



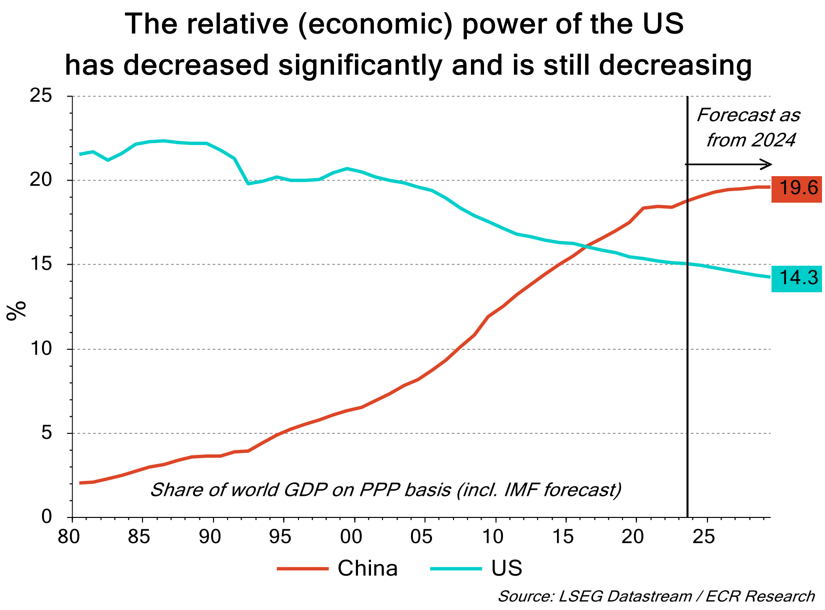
Will Trump's plans such as tax cuts, deportation of illegal immigrants and trade tariffs reheat inflation?

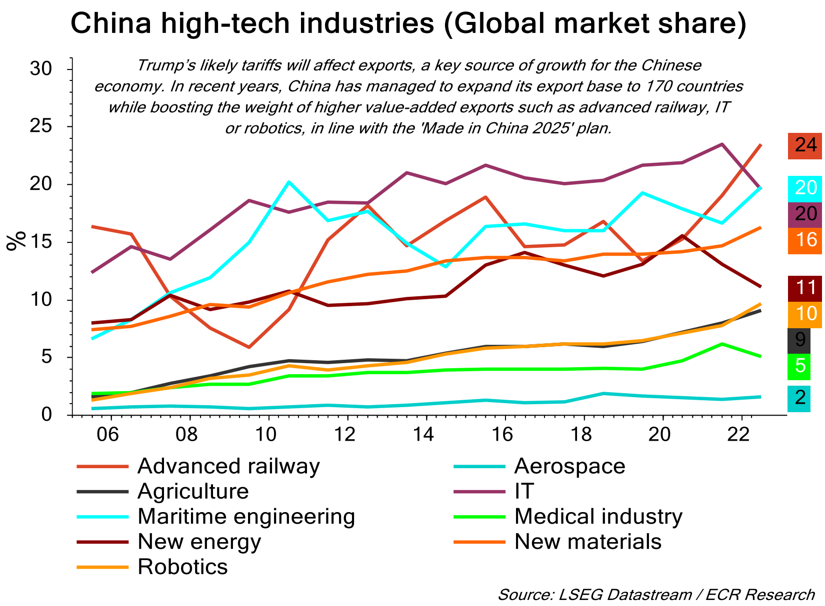


Reining in China's dominance

Another very high priority for Trump is keeping China in check. This country currently has roughly 1.3 billion inhabitants, while the US has about 330 million. In other words, if China's economic and technological development continues at the same pace as in recent decades, it will not be long before China becomes stronger than the US in many ways. This seems wrong to the US - to put it mildly. In other words, China's rapid military and economic development must be curbed. Technology plays a crucial role here. Indeed, military conflicts are increasingly fought with high-tech weapons and less and less by troops. New technology is also playing an increasingly important role in consumption.

The US must therefore be fully committed to further technological development. At the same time, the US should pursue a policy that stops China from quickly getting its hands on the latest technological developments from the US. This therefore requires clear export restrictions. In addition, it is also necessary to prevent China from enriching itself by exporting a vast array of products to the US and the rest of the world, as this generates vast amounts of money it can invest in research and development.

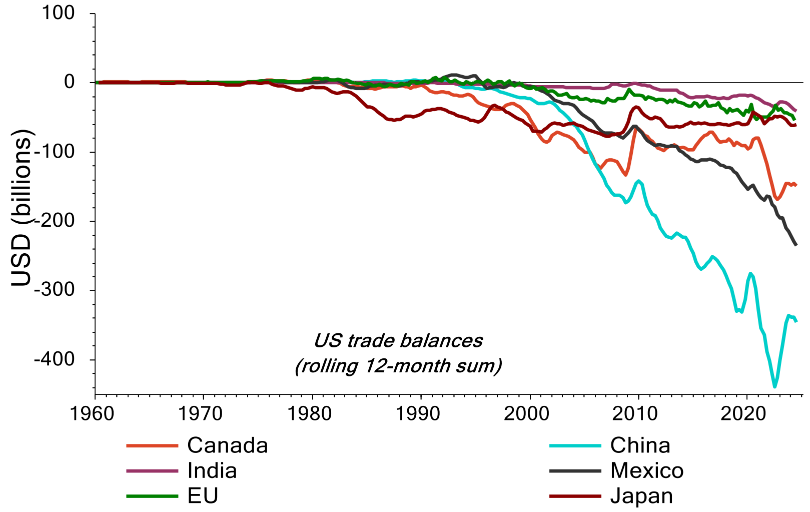




The key question is how China will respond to this. Basically, as long as US investments continue to exceed national savings - where the public deficit should be deducted from savings - this will always result in a trade deficit. Until this changes, the trade deficit will remain the same and import tariffs on Chinese imports, for example, will cause the US to step up imports from other countries or they will cause the dollar to strengthen substantially. It is therefore possible that China will not take any countermeasures whatsoever in the form of import tariffs. To start with, it could partially move final production to countries not affected by high US import tariffs. And China could also reason that if the US trade deficit remains the same anyway, other countries will earn more from exports to the US.

These countries will subsequently have the financial resources to buy more from China. After all, China is generally the cheapest and is increasingly becoming the producer of the best goods.

Economies with large trade surpluses with the US will likely be targeted by Trump's pledge to drastically increase import tariffs



Source: LSEG Datastream / ECR Research

So it remains to be seen whether Washington will succeed in striking a major deal with China via (gradual) tariff hikes.

In the Washington mud

Trump's and Bessent's announcements about what they want to achieve are, in themselves, a feast for economists. Many will say "*it is just what the doctor ordered*": a far more efficient government, high growth, low inflation, low public deficits et cetera. From a macroeconomic viewpoint, it also leads to a tight fiscal and a loose monetary policy. Furthermore, it is widely assumed there is nothing wrong with taking action against unfair Chinese competition. Another positive aspect is the approach of lowering taxes to boost investment activity and the work ethic.

However, it remains to be seen whether all plans will pass Congress relatively unscathed. This is generally assumed though, given the majority the Republicans have in the Senate and the House of Representatives. However, this view is slightly too simplistic. To start with, the Republicans have too narrow a majority in the Senate to circumvent a so-called filibuster. This means the Democrats have a powerful weapon to thwart the Republicans' plans.

In addition, it must be remembered that while Trump has a great deal of power within his party, there will always be Republican members of Congress who have a different view and are willing to vote with the opposition or abstain.

This is an important factor in making government more efficient. Indeed, it often happens that a bill is passed only if it includes all sorts of 'candy' via so-called 'earmarks' for members of Congress whose votes are essential ('pork-barrel politics'). This has led to all manner of initially unintended and often unnecessary expenditures. If these expenses are cut, this could shake the house of cards. Musk would not be the first outsider to attempt to implement massive cutbacks, to no real avail. The Clinton administration managed to implement significant cuts. However, Republicans and Democrats were willing to effectively collaborate at the time. The opposite is the case now.

There are three more points that will also determine whether or not great plans will be successfully turned into tangible results:

- Trump wants to appoint a considerable number of people from business/millionaires as secretaries. They are used to their orders being followed. In Washington, however, this could soon get bogged down in the political quagmire.

- Everything that has to be implemented must first be approved/directed by Trump. This week, we got a preview of this. As mentioned before, Bessent wants to impose gradual import tariffs and directly link this to negotiations with the country in question. As far as he is concerned, it is about far more than a balanced trade balance. Indeed, he assumes that the rise of China will create an entirely new world order with an entirely new geopolitical position for America. This requires the establishment of entirely new alliances - in the economic sphere as well as in the geopolitical/militarily domains. In this regard, Bessent sees the threat of import tariffs as important leverage to bend alliances to the will of the US as far as possible. However, such a subtle approach is not to Trump's liking. Last Monday, for example, he said that he was going to impose 25% tariffs on imports from Mexico and Canada and an additional 10% on imports from China if, by 20 January, these countries have not made significant progress in addressing the smuggling of drugs and people into the US. This not particularly subtle. Moreover, it is not placed within the framework of negotiations on what a new world order should look like.

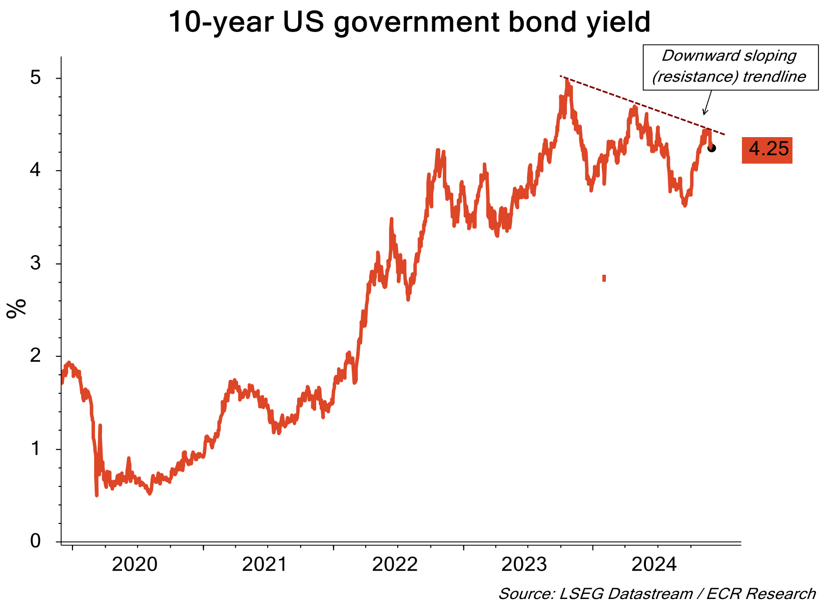
- Bessent may take on a taxing job as Treasury Secretary, but Trump is also appointing other secretaries and advisers, all of whom will be ambitious and will want to have a say in US trade policy and geopolitical strategy.

Timing

We have yet to discuss the timing of import tariffs, lower taxes and spending cuts. According to the experts in this field that we follow, the likely time frame will be the second half of 2025/early 2026.

Immigration restrictions and the deportation of illegals could start sooner. However, the extent to which this policy will materialise is unclear. If forceful measures are taken, this will soon lead to labour shortages. Wage increases and inflation could accelerate quickly in this case. Trump is not keen for this to happen, which means that, effectively, not much is likely to happen until mid-2025. Markets price in their expectations far sooner, of course, but if many of the proposed measures indeed threaten to be bogged down in political scheming, the future will become too unpredictable to have many expectations early on.

We assume this will be particularly well reflected in the Fed's interest rate policy and in 10-year US government bond yields. Let us first look at the chart-technical picture of 10-year yields. They hit 4.45% last week. This is exactly the point where an approximately one-year-old downward trendline lies. A breakout above this level would therefore point towards a further rise above 5%.



Initially, however, 10-year yields bounced off the 4.45% mark and fell. This, in itself, need not mean much. Indeed, if a rate does not immediately break through an important downward trendline and first takes a run-up, this is nothing special.

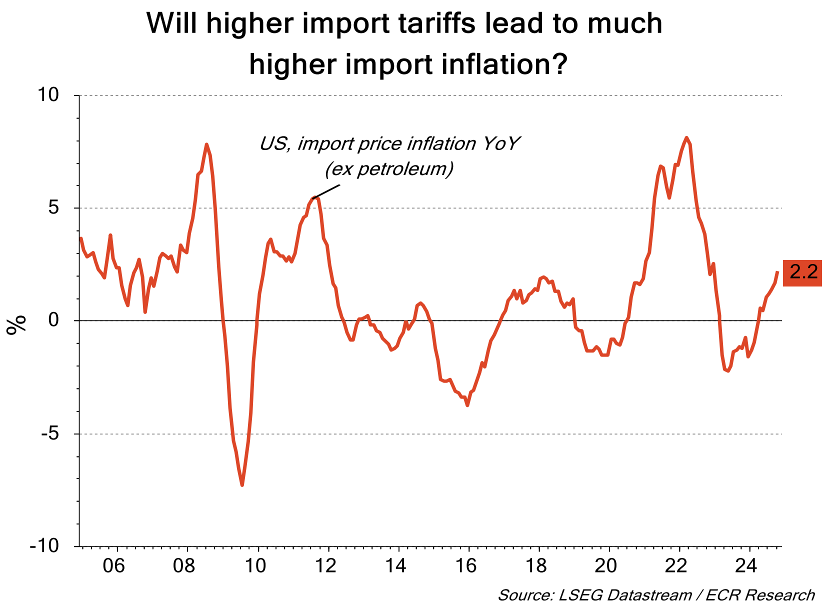
Given the current chart pattern, 10-year yields may also choose to first slide all the way down towards 3.5% over the next few months and perhaps even quarters, with the downward trendline being broken upwards at a later stage.

This difference is also reflected in the forecasts of such renowned names as Morgan Stanley and Ed Yardeni. Morgan Stanley sees 10-year yields slipping to around 3.5% over the next six months, while expecting the Fed to deliver three rate cuts of 0.25 percentage points. Yardeni sees 10-year yields fluctuating between 4.25% and 4.75% for the time being.

The difference in forecasts lies mainly in the fact that Morgan Stanley sees US inflation dropping to 2% fairly quickly, while expecting economic growth to weaken due to high real interest rates and some fiscal deceleration for the time being.

Yardeni, on the other hand, assumes that US growth will remain high for now because, in his view, current interest rates are not slowing growth much at all. He expects a maximum of one Fed rate cut for now. His expectation that 10-year yields will nonetheless remain below 4.75% for some time to come is due to his assumption that high productivity growth will keep inflation low.

However, both assume that lower taxes and import tariffs will drive growth and inflation higher in the second half of 2025. It is difficult to predict the extent to which this will happen. Indeed, if, at the same time, there are massive cuts in government spending, this will slow growth and inflation. The extent to which Trump and Bessent manage to raise the so-called 'animal spirits' will probably also become an important factor by then.



In any case, it remains very difficult to predict which measures will be taken and to what extent they will be implemented. At any rate, the markets have been upbeat since Trump's election, but this optimism does not seem very well-founded (yet). What is positive, however, is that the US economy has clear momentum. On the downside, inflation will struggle more to continue a rapid decline (this requires high productivity growth, which is expected by Yardeni).

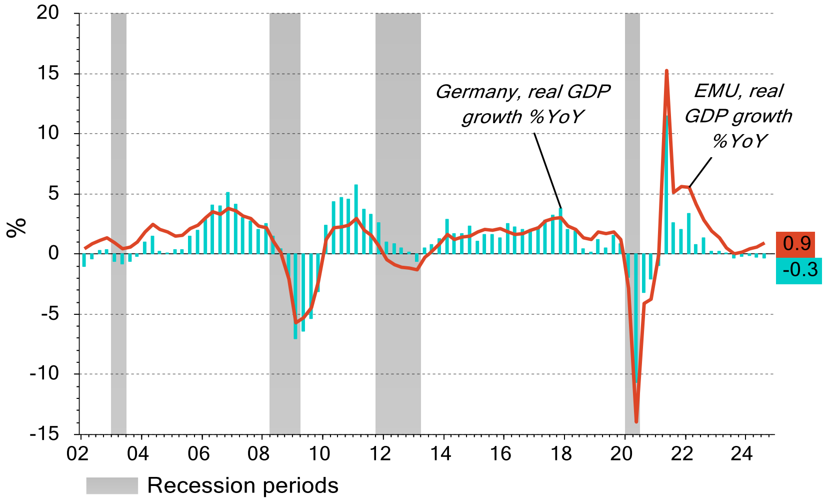
10-year yields remain the 'canary in the coalmine' for now. A rise above 4.5% over the next few months would signal that the market has become convinced of continuous higher growth, a stubbornly high if not rising public deficit and upward rather than downward inflationary pressures.

Should developments indeed move in this direction, US public finances could spin out of control fairly quickly due to rapidly rising interest charges. Should this situation threaten to arise, it is quite likely that Trump will quickly adjust his plans.

European challenges

European growth is once again close to 0%. Furthermore, there is considerable pressure on most governments to bring down the public deficit. This is why we are unlikely to see large-scale fiscal stimulus. It is therefore mainly up to the ECB to prevent a recession via rate cuts. But by how much will the central bank cut its rates in December, by 0.25 or by 0.5 percentage points? Under normal circumstances, this question does not need asking. Given the low growth rate, a rate cut of 0.5 percentage points would be an obvious choice. However, the problem is that wage increases are still at relatively high levels, meaning that core inflation also remains too high. It is therefore important that growth remains low, to the point where wage increases come down rapidly. However, a recession must not occur. Indeed, given the high total debt/GDP ratios, a recession could culminate in another credit crisis, from which it would be very difficult to escape under the current conditions.

The EMU has barely avoided a recession. The main drag on growth is the very weak German economy



Source: LSEG Datastream / ECR Research

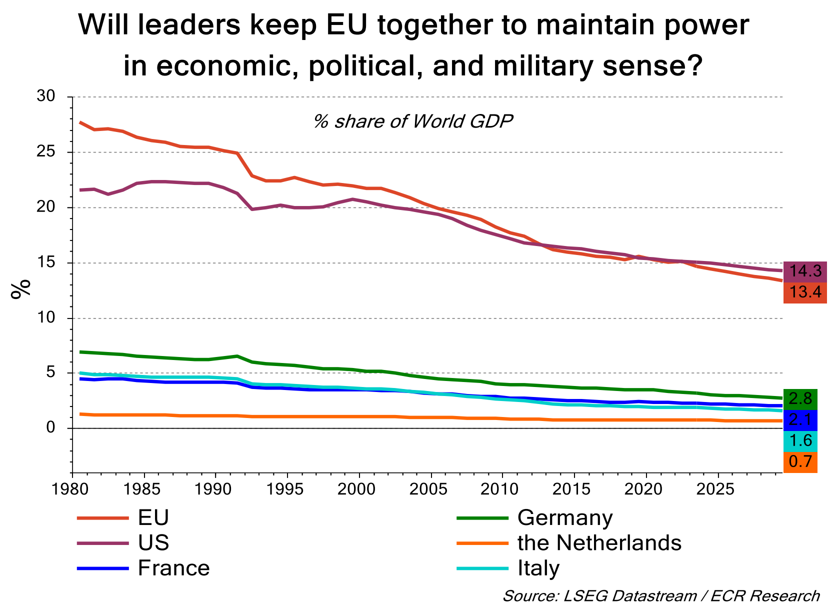
The ECB must also consider the following factors in this context:

- The incoming US Treasury Secretary believes a new world order is emerging with two blocs centred around China and the US. There is a real risk that Europe will play a fairly minor role here. This means that Europe should have a far more dynamic economy, with a significantly higher growth potential, if it is to remain a factor of importance. This first and foremost requires a deepening and broadening of the common market (including a European capital market), so that there are more large companies that can spend vast amounts on research and development. The aim is for Europe to also become a power bloc in technology. In addition, considerable deregulation is required. However, these issues should be addressed by policymakers. The ECB cannot exert much influence here. That said, the central bank can help create a common capital market and maintain growth.

- US import tariffs could depress European growth.

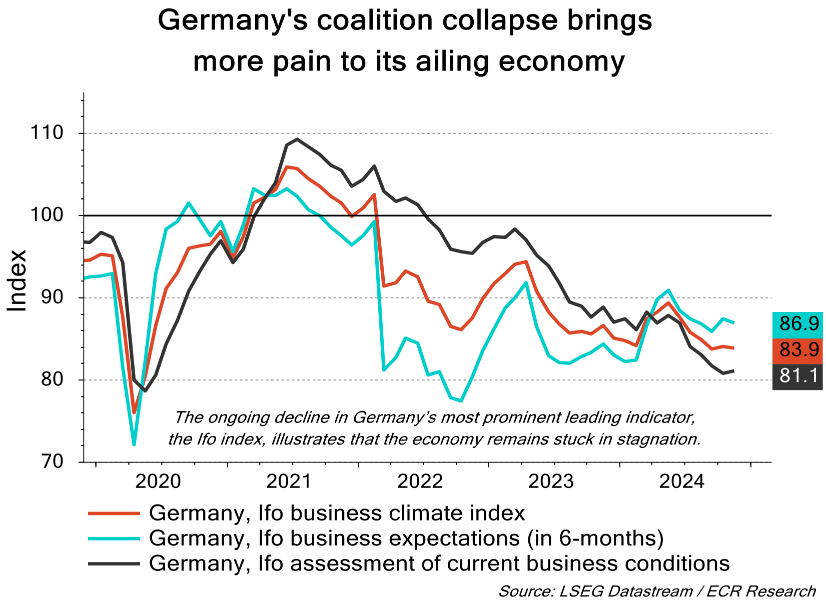
- In the coming years, ageing populations, higher interest rates than in the 2010-2020 period, climate change control policies and far more defence spending will lead to a rapid increase in public expenditure. This could be absorbed by deep cuts in social spending, but this is politically highly unpopular and would affect large pockets of the population, meaning a recession could easily ensue.

The issues above put even more pressure on the ECB to keep growth stable, as otherwise tax revenues would be insufficient. However, Europe will be fighting a losing battle if it does not quickly take the aforementioned measures with regard to the common market, spending on research and development, and so on.

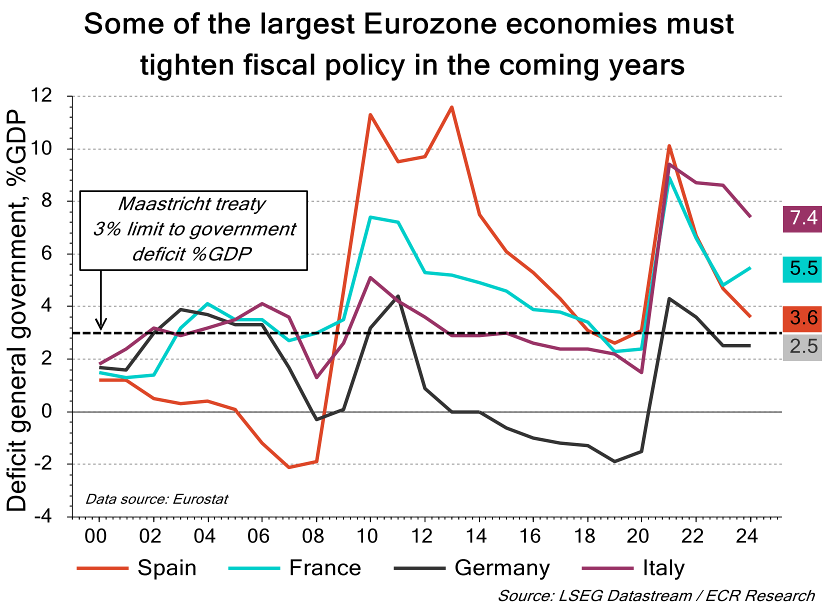


Glimmers of light and threatening clouds

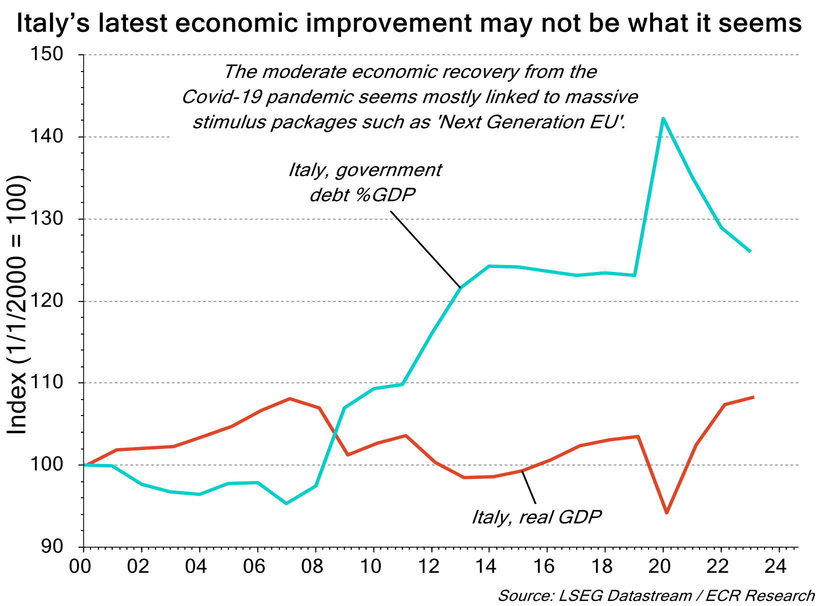
In this light, it is positive that the German elections in February will probably pave the way for a larger public deficit. Of course, a further increase in the government debt is in itself negative. However, Germany requires massive investments in modern technology and the modernisation of German industry as well as in infrastructure and research and development. Moreover, Germany has to contribute large amounts to the aforementioned European projects.



This potential glimmer of light is offset by the possibly negative French surprise. French tax revenues have lagged significantly due to low economic growth, which means that France has an excessive public deficit now. This is why Brussels is putting increasing pressure on the French government to reduce the deficit quickly. However, the political situation is such that neither large cutbacks nor far higher taxes are possible. This may culminate in a deep political crisis, which, for the time being, will probably keep the deficit high or drive it even higher. If a crisis arises, French interest rates will rise ever further above German interest rates. This would further worsen public finances.



In addition, we must not lose sight of the situation in Italy, where the economy has been growing at a reasonable pace for some time, meaning that Italy's public finances are in slightly better shape. However, this is largely due to a major support package Italy received from Europe. If this package has been used mainly to modernise the Italian economy and clean up public finances, it was money well spent. In the period ahead, it will transpire whether this has indeed happened.



Should Europe be cornered and trapped, a historical view offers some hope: whenever Europe came under great pressure in the past, European countries were suddenly able to join forces and take the right measures. This could happen again now, which would turn a situation that is basically fairly negative into something positive. In previous instances, however, such a breakthrough would first and foremost require joint action by Germany and France, combined with help from other major countries (Spain and Italy). This time, France and Italy may fail to come to the rescue due to internal problems. Moreover, populism and extremism are rapidly rising in Europe. This often makes it very difficult to reach agreement.

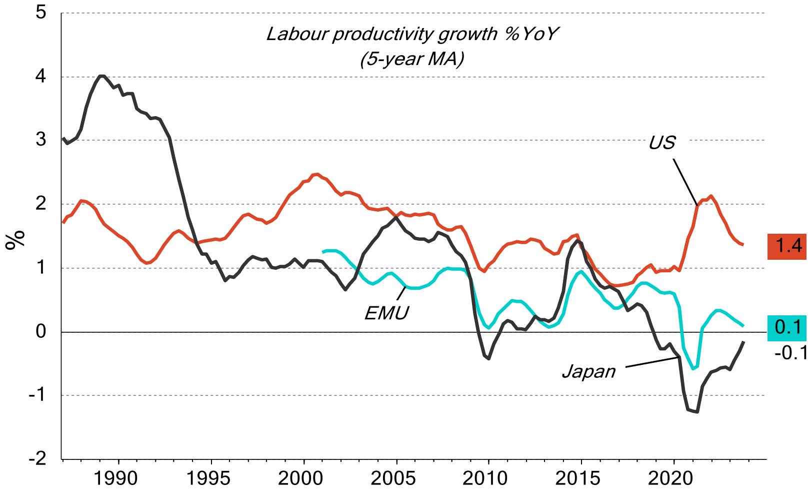
The AI factor

Many American and European problems would disappear overnight if growth were significantly higher. This requires higher productivity growth. Some experts are optimistic because of the potential of AI. However, we must consider two factors here:

- This is a global phenomenon in the sense that with the help of AI, more can be produced per hour worked everywhere. This results in downward pressure on prices (i.e. a lower increase in the added value) and higher unemployment. This need not be problematic at all, as long as innovative products are put on the market by new companies. The question, however, is whether Western economies are dynamic enough to pull this off in time.

- Developments in AI are moving very fast, to the extent that they are heading in a direction where AI is becoming similar to the human brain, with some experts fearing major risks for humankind. These experts also warn that these risks may play a significant role as early as the coming years. Hence, they strongly urge governments to establish rules for the further development of AI without delay. This is a sentiment that policymakers are increasingly taking to heart. It is therefore quite possible that significant restrictions will be imposed on the further development of AI.

The adoption of new technologies is needed to give productivity growth a boost



Source: LSEG Datastream / ECR Research

Red lights and four uncertain factors

Financial markets are currently facing many uncertainties:

» To what extent is AI going to boost productivity? Most experts in the field believe that AI will only result in modest economy-wide productivity growth for the time being. Looking at share prices of companies involved with AI, it is clear that investors have high expectations. Should experts be too pessimistic, this would be positive for shares, inflation control and economic growth. Should their assessments be astute, the opposite can be expected.

» Trump's tariff plans are the second element of major uncertainty. If he wanted to introduce import tariffs for economic reasons only, this would be unpredictable enough. However, geopolitical considerations come into play as well. Combined with the fact that Trump can change policy at the drop of a hat, this makes it hard to predict when and to what extent import tariffs will be imposed.

» The third point of major uncertainty concerns the public deficit. Trump and Bessent want to cut taxes for companies and consumers. This will be offset by higher economic growth (i.e. more tax revenue), additional revenue from import tariffs and cutbacks. According to Trump and Bessent, this will be enough to reduce the public deficit from about 6.5% to about 3%. Judging by past experience, however, the deficit could easily rise to 8% or higher; all the more so because interest charges could quickly go through the roof in this case.

» Finally, a fourth uncertain factor is how the Fed will react. Trump wants to drastically reduce immigration and deport illegals from the country. This would result in major labour market shortages before long, certainly if the public deficit continues to rise rapidly, providing an additional boost to growth. The question is whether the Fed wants to get ahead of this risk by keeping monetary policy relatively tight for now.

Against this backdrop, predicting prices - especially in US stock and bond markets - has become a very risky business. However, we believe we are not completely 'empty-handed'. Indeed, there is one important warning signal, in the form of 10-year US government bond yields. They are currently at around 4.25%, but as soon as they rise markedly above 4.45- 4.5%, all sorts of red lights will start flashing, certainly if this is accompanied by a rise in the gold price. Indeed, this is the markets clearly signalling that they no longer trust the further trend in public finances and/or inflation.

Consequences for the financial markets

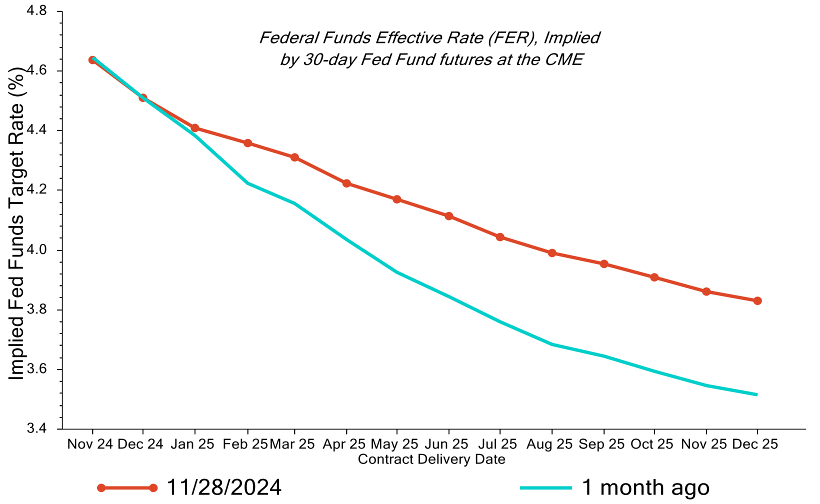
Interest rates

US economic growth was widely expected to decline considerably as a result of high interest rates. So far, however, this has not happened. This is probably due to still ultra-loose monetary conditions and the large public deficit. We do not expect any major changes here for the time being. Nor do we expect a sharp rise in productivity. On the other hand, we should certainly expect a sharp decline in immigration if not the deportation of illegals. This combination could trigger considerable additional upward pressure on wages and inflation.

The key question is how the Fed will deal with this. On the one hand, the central bank must keep in mind that changes in interest rates take several quarters to properly filter through to the economy. This means that interest rate policy must be adjusted to economic conditions expected in a few quarters, rather than to current conditions. On the other hand, Fed Chair Powell has already mentioned he does not want to rely too much on plans of the new administration, preferring to wait until they have been adopted, if not implemented. Otherwise, they will be shrouded in too much uncertainty.

At this point, the market is pricing in a far more modest Fed rate cut than a few months ago. Long-term interest rates have also risen considerably. The markets currently believe that the Fed will deliver three to four more rate cuts of 0.25 percentage points between the end of this year and the end of 2025. This means that growth and inflation are expected to decline somewhat, while the public deficit is not expected to rise much further.

Fed funds futures imply three or four more rate cuts of 25 bps until the end of 2025

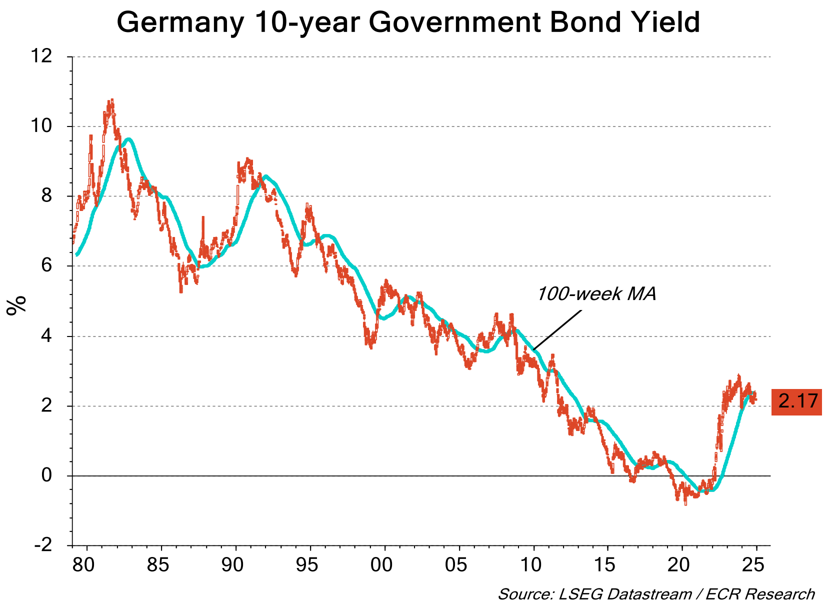


Source: LSEG Datastream / ECR Research

However, we expect growth, inflation and the public deficit to remain fairly high. In this case, 10-year yields will likely exceed 4.5% before too long. This means the Fed will probably provide only one or two more rate cuts of 0.25 percentage points. At a later stage, we should even consider rate hikes, especially if 10-year yields exceed 5%.

If we are off the mark with our assessment, 10-year yields could slide down to roughly 3.25%. A decline below 4% would be a clear warning signal. In this case, the Fed will probably lower its rates more than currently priced in.

In our view, the ECB cannot afford to focus too much on the still excessively high levels of wage increases and inflation. We believe that preventing a recession will quickly become the top priority. This means the central bank will likely have cut its rates (now 3.25%) to 2% if not slightly lower by the end of the third quarter of 2025, as a result of which 10-year German government bond yields could easily slip below 2%. Should US long-term interest rates rise at the same time, this will limit the decline in German interest rates.

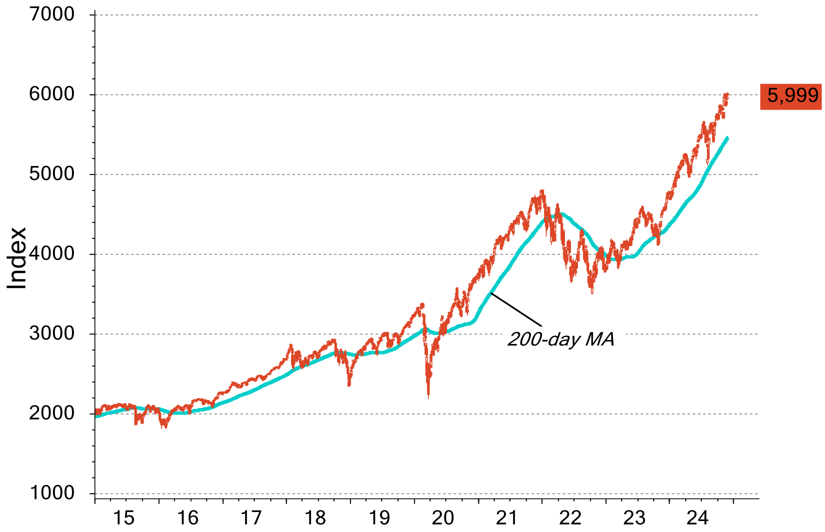


Shares

As long as 10-year US government bond yields do not exceed 4.5%, the downside potential for the S&P 500 index will not be far greater than 3-5%. In this case, a further rise to roughly 6,200 is even possible. We do not expect a far greater increase, given the already exceedingly high P/E ratios (even if we assume lower corporate taxes) and the prospect that interest rates will not decline much in this case.

However, we expect the S&P 500 to decline by at least 15% if 10-year yields clearly break out upwards through 4.5%, and certainly if they break out through 5%.

S&P 500 index

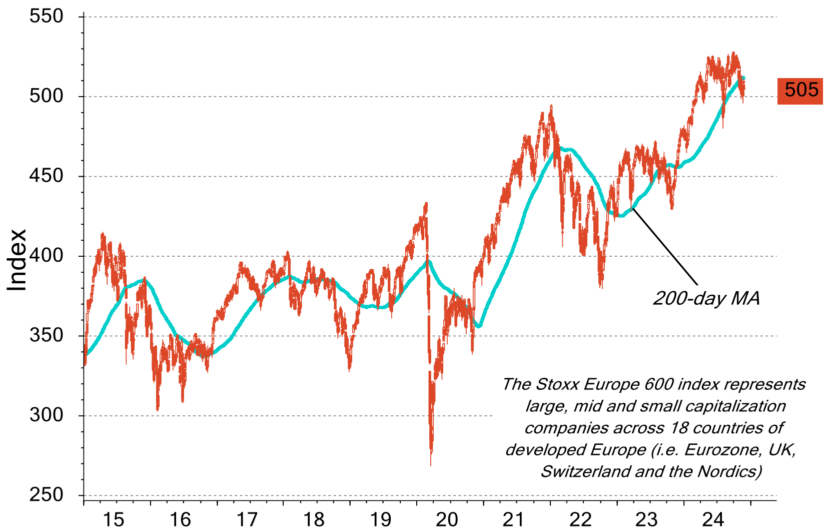


Source: LSEG Datastream / ECR Research

We expect emerging-market shares to underperform against the S&P 500 for now, as US interest rates will likely remain fairly high and the dollar looks set to remain strong.

Europe will be stuck between the US and China for the time being. This basically means that, relatively speaking, the outlook for European shares will be worse than that for US shares. Yet we must be careful with this forecast. Indeed, the ECB will probably ease monetary policy more than the Fed. Also, there are tentative signs that Europe is recovering. If this continues, Europe could start to catch up. Perhaps it is slightly too early for this now, but we should closely monitor developments.

Stoxx Europe 600 index

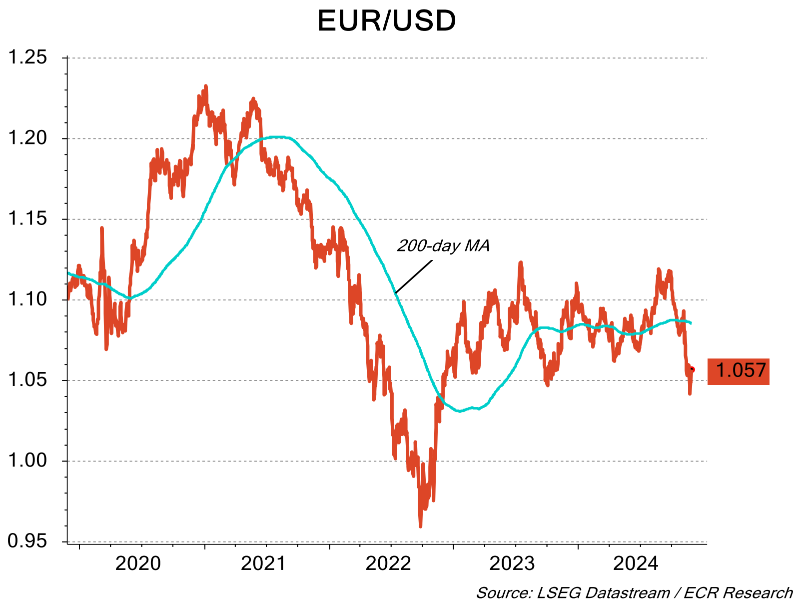


Source: LSEG Datastream / ECR Research

EUR/USD

In all likelihood, Europe will be stuck between China and the US for now, while the ECB will lower its rates more than the Fed. This week, however, a small correction occurred with respect to the latter, as wage increases and core inflation remain stubbornly high in Europe. Hawks within the ECB board therefore warn that interest rates must not be cut too quickly and too much. However, we believe that preventing a recession will soon become more important, and that euro interest rates will certainly be lowered fairly quickly and substantially.

This means that EUR/USD is unlikely to far exceed 1.065 during rallies in the interim. On balance, the pair will likely decline to 1.00 or slightly lower over the next few months.

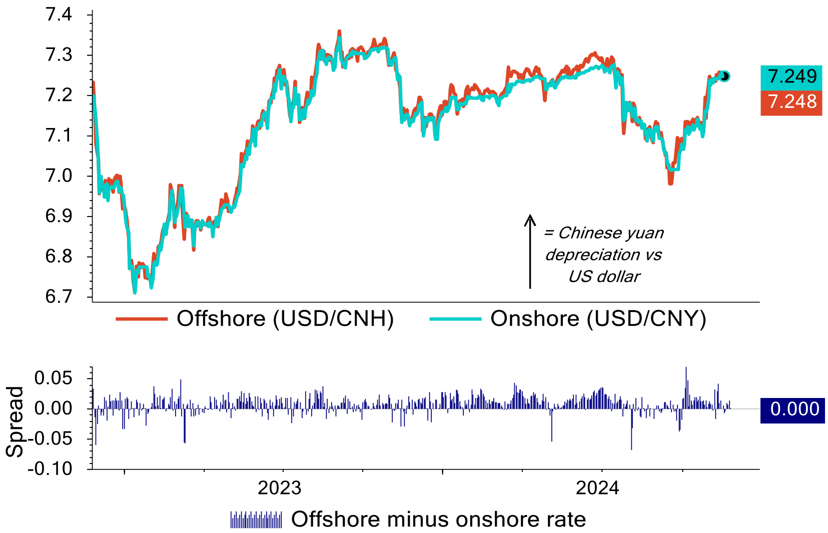


The Chinese yuan

China's economy continues to suffer from excessive debt and the government's refusal to pursue an all-out fiscal stimulus policy. This means that the prevention of recession and deflation rests mainly on the shoulders of China's central bank. However, the latter is wary of hitting the monetary gas too hard for fear that debts will rise even higher. This is compounded by (the threat of) import tariffs in the US and Europe, which slow Chinese exports.

An obvious move would therefore be to lower the yuan rate. However, the current geopolitical climate is such that Western import tariffs would immediately be raised further in this case. This means that USD/CNH will slowly rise further to around 7.60, while EUR/CNH will likely keep fluctuating around 7.70 for now.

Renminbi (Chinese Yuan) onshore and offshore rate



Source: LSEG Datastream / ECR Research

Inflation hedges

Precious metals are currently in a correction phase. However, we believe they will resume their old uptrend before too long, as concerns about inflation, excessively high public deficits and rising geopolitical tensions look set to persist for now.

Furthermore, almost everywhere in the world, economic policies are increasingly geared towards driving growth higher (this particularly applies to China, the US and Europe). So, for the time being, most commodity and house prices will probably rise rather than decline. This trend could reverse if 10-year US interest rates exceed 5%.