

# Macro Monthly

Economic insights and asset class views

## UBS Asset Management | October 2024

For global professional / qualified / institutional clients  
and investors and US individual investors.  
For marketing purposes.



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## It pays to listen

### Highlights

- When policymakers in the world's two largest economies have shifted to a pro-growth mindset, it pays to listen.
- The Fed is taking a proactive stance towards ensuring a soft landing, even as US economic data continues to look solid in aggregate.
- China's Politburo has expressed newfound urgency to stabilize the housing and equity markets, as well as directly support the Chinese consumer.
- We have upgraded China and emerging market equities to overweight, and broadly see room for cyclical to outperform defensives.

When the top policymakers in the world's two largest economies are determined to support economic growth, it pays to listen. On September 18, the Fed kicked off its easing cycle with a 50 basis point cut, delivering a strong message that the central bank will not hesitate to act aggressively to ensure a soft landing. A week later, China's Politburo delivered a forceful message that fiscal policy will be engaged to reduce downside risks to growth, notably by directly supporting the Chinese consumer in earnest for the first time under President Xi. While there remain lingering concerns on US labor market momentum and policy implementation in China, we would not underestimate renewed policymaker resolve to cut off the left tail on domestic and effectively global growth. We believe that there is further room for markets to price out recession risk across asset classes.

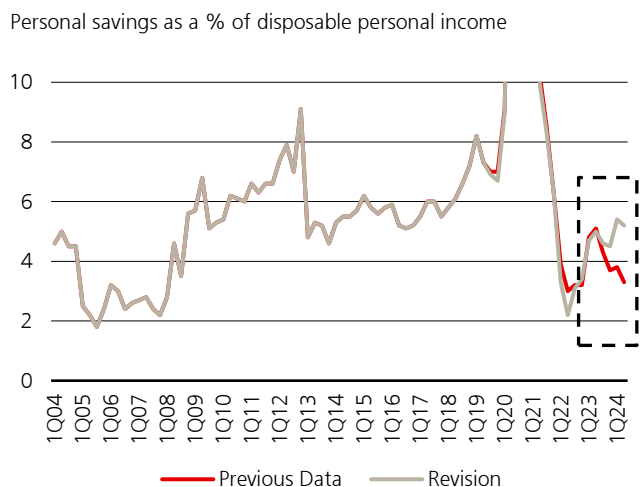
### A proactive Fed

After the Fed kicked off its easing cycle with an uncharacteristically large 50 basis point cut, Fed Chair Powell said: "the labor market is actually in solid condition. And our intention with our policy move today is to keep it there." Powell clearly wanted to signal a Fed reaction function that will be proactive, and was able to convince the rest of the FOMC to back it up with a powerful action. This suggests that the bar is low for the Fed to continue easing at an aggressive pace should the labor market disappoint even somewhat in the near term.

At the same time, we are not convinced the Fed will need to ultimately deliver on all the rate cuts that are priced into the market over the coming year. Hard economic data have been surprising to the upside for weeks, with consumption looking robust and initial jobless claims remaining low. Even though the Fed has only just cut rates, there are nascent signs that the easing of financial conditions earlier this year are having a positive effect on the housing market, with new home sales, housing starts and building permits all surprising to the upside of late. Finally, the US Bureau of Economic Analysis just meaningfully revised its measurements of Gross Domestic Income, leading to a sharp upward revision in the estimated US savings rate from 3.3% to 5.2% for Q2. This had been a key argument used by US economy bears that the US consumer was spending beyond its means and due for a sharp retrenchment. In short, the Fed does not look like it is behind the curve.



**Exhibit 1: The personal Savings Rate was revised significantly upwards**



Source: BEA, UBS Asset Management. As of September 2024

**An inflection point for China**

Until last week, China’s stimulus measures have been woefully inadequate to cushion the economy against ongoing deleveraging in the property market and deflationary pressures. The underlying economy has suffered from low private sector confidence, which policymakers had been reluctant to support in full, amid a preference to direct resources at the supply side (infrastructure investment) over demand side (consumption) of the economy.

That said, the coordinated set of monetary and fiscal policy announcements last week designed to support the housing market, capital markets and the consumer do signal a shift in strategy from the government to revive sentiment and dynamism in the private sector. In the spirit of listening carefully when policymakers speak, we note that the September Politburo, which was the first unscheduled meeting of China’s top economic policymakers since the depths of COVID in March 2020, used forceful and focused language on steps to revive the economy.

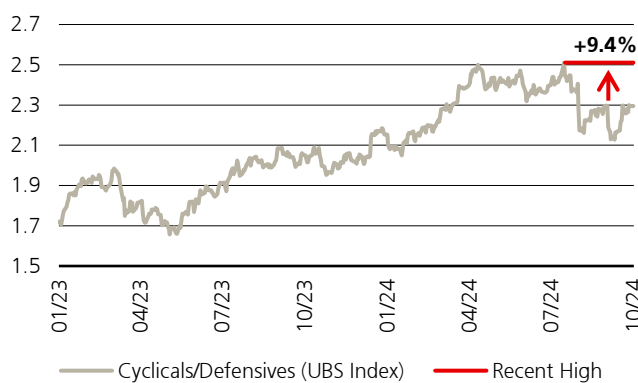
Leaving out prior Politburo references to structural issues, moral hazard and national security, the readout showed determination to achieve its ‘around 5%’ real GDP target, stop the real estate market from falling, and acting with urgency to ensure necessary fiscal support for the economy. Most notably, language and news since the statement suggest the first genuine direct support for consumers themselves, something that had seemed ideologically off limits in prior communications. Also notable, was the stated need to ‘respond to the concerns of the people;’ this may suggest the Politburo’s growing concerns over social stability, which could have motivated a shift to demand-supportive policies where there was previous reluctance.

While there are many details to be ironed out, including questions on the size and scope of fiscal support, we think the shift in language signals a genuine turn in China’s policymaking reaction function. There is a clear message to address downside risks, and potential for additional stimulus measures to be announced in coming weeks.

**Defensives at risk**

Policy shifts from the Fed and Politburo come just as investors had started to send a wave of money towards more defensive assets. According to the popular Bank of America fund manager survey, investors in September reported their biggest overweight to defensives vs. cyclicals since May of 2020. Indeed, the UBS cyclicals vs. defensives equity basket had fallen sharply over recent months; we think it has further room to rebound from here. Separately, asset managers have built up a large overweight position in US government bonds, according to the CFTC and J.P. Morgan’s client survey. Regionally, we have downgraded US Treasuries from overweight to neutral as the US economy looks resilient. The more proactive the Fed is today, the less they will need to ultimately deliver further out in time.

**Exhibit 2: Still room for cyclicals to outperform defensives**



Source: Bloomberg, UBS Asset Management. As of September 2024

In equities, we have upgraded China and emerging markets, which remain attractively valued even after China’s stimulus announcements. According to fund flows specialists EPFR, China allocations in active equity funds were close to 10-year lows at the end of August. While European equities should also receive some boost from China’s stimulus, particularly exporters of luxury goods, Germany’s economic weakening and ongoing manufacturing headwinds keep us underweight. US equities remain overvalued, but as mentioned above, we see further upside for more cyclical sectors versus defensives.

More broadly, we favor overweights to Asia and European credit, where there is more attractive carry than in US credit. We also are long the Brazilian Real and South African Rand, which offer carry and further potential upside as China reduces global growth risks. Our overall position in duration is neutral, but we remain short JGBs as the market continues to underprice the further tightening we expect from the Bank of Japan.

We acknowledge that after the recent surge, there is risk of disappointment with policy delivery in China, not to mention geopolitical risks including the potential for a US election victory for President Trump who has threatened a surge in tariffs on China. The MSCI China Index is much more heavily weighted towards the domestic services economy and therefore would be less directly impacted by tariffs on Chinese exports. Still, there are risks that a shock to confidence could be a headwind for the current global reallocation back into China. As always we will be monitoring the risks to our position into upcoming risk events.

## Asset class views

The chart below shows the views of our Asset Allocation team on overall asset class attractiveness as of 30 September 2024. The colored circles provide our overall signal for global equities, rates, and credit. The rest of the ratings pertain to the relative attractiveness of certain regions within the asset classes of equities, bonds, credit and currencies. Because the Asset Class Views table does not include all asset classes, the net overall signal may be somewhat negative or positive.

	Underweight	Neutral	Overweight	
<b>Global Equities</b>				Very positive macro backdrop although valuations leave little room for error on a headline level. Prefer relative value in equities.
US				Relatively strong earnings profile and less manufacturing sensitive than global equities.
Europe				Disappointing economic and earnings data. Ongoing challenges in manufacturing is a weight.
Japan				Ongoing corporate reform, solid earnings countered by renewed JPY strength.
Emerging Markets				Upgrade China and emerging markets as China's policymakers finally confront structural challenges.
<b>Global Government Bonds</b>				Disinflation has brought stock-bond correlation negative again, but there is a lot of easing priced.
US Treasuries				Inflation moderation and weaker labor market offset by strong growth and aggressive Fed pricing.
Bunds				ECB to ease policy further amidst cooling inflation, middling growth. But well priced into rates market.
Gilts				Expect wages and service sector inflation to slow; gilts are attractively valued.
JGBs				Wages & underlying inflation accelerating while market is pricing in too accommodative policy.
Swiss				Disinflation caused by FX while domestic conditions remain relatively resilient amid expensive valuations.
<b>Global Credit</b>				The risk-reward outlook for credit is not particularly attractive, especially in the US, where spreads are close to cycle tights. EUR and Asia HY still offer the best carry opportunities.
Investment Grade Credit				Spreads are around usual cycle tights, while corporate fundamentals remain relatively healthy. Returns likely driven by carry with little additional upside.
High Yield Credit				Further price upside is limited with spreads around 3% and the return outlook is negatively skewed. All-in yields remain attractive in parts of the market. Prefer Euro and Asia HY.
EMD Hard Currency				Few pockets of value remain among very weak EM creditors, while higher-rated countries are trading at historically tight spreads by now.
<b>FX</b>				
USD				Overall neutral, though we are biased to be underweight USD vs. pro-cyclical currencies and JPY.
EUR				Neutral, though a potential increase in ECB dovishness amid weak data keeps us cautious on EUR.
JPY				Need for more hawkish repricing of BoJ amid very cheap valuation keeps us bullish JPY.
CHF				Increased dovishness from the SNB and an expensive valuation should weigh on CHF vs. JPY and EUR.
GBP				Data remains relatively resilient; however, we think UK rates are pricing a terminal rate that is too high.
EM FX				Overall bullish EM FX with overweight positions in BRL and ZAR.
<b>Commodities</b>				Sentiment and positioning in the oil market have dropped to record-low levels amid expectations for oversupply in 2025. But firm global growth should limit the downside. We are watching developments in the Middle East closely. Upside risk for industrial metals on China stimulus.

Source: UBS Asset Management Investment Solutions Macro Asset Allocation Strategy team as of 30 September 2024. Views are provided on the basis of a 3-12 month investment horizon, are not necessarily reflective of actual portfolio positioning and are subject to change.

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**Americas**

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