Growing support for the global economy

30 September 2024

Dear Clients and Partners,

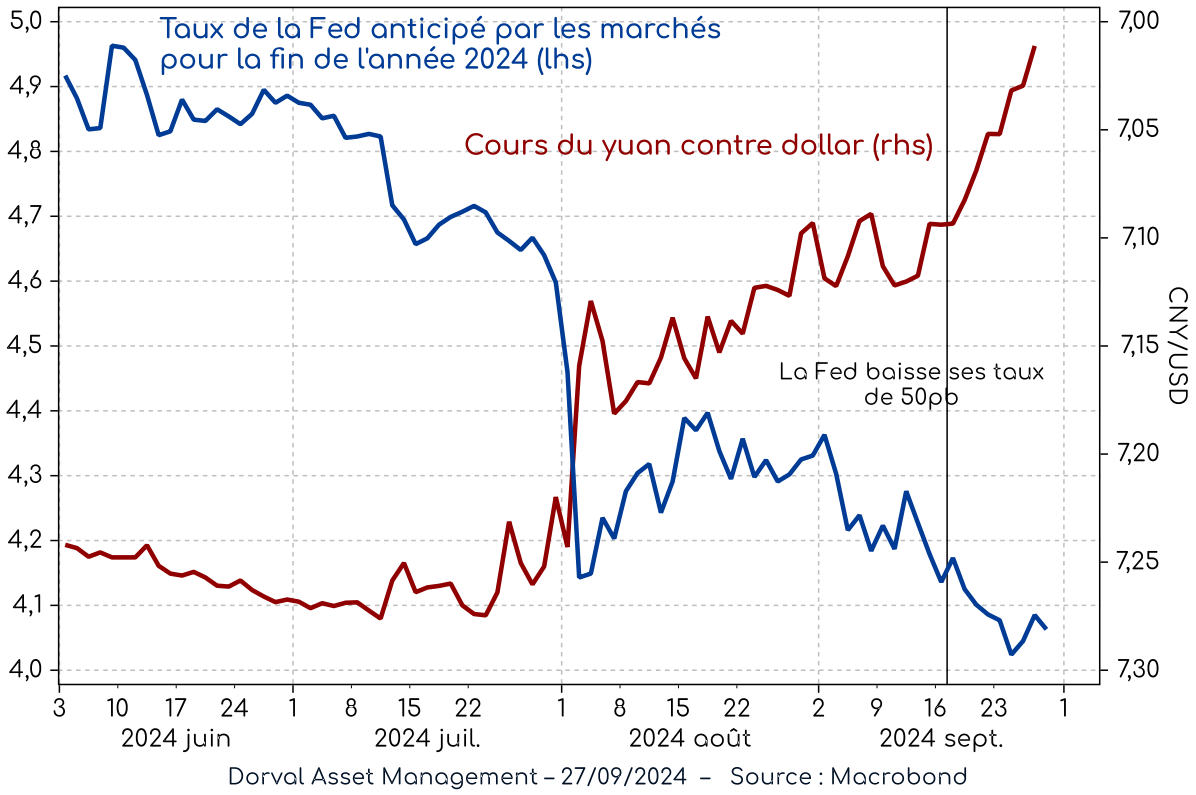
The Chinese authorities took advantage of the favourable climate created by the Fed rate cut to announce a "whatever it takes" approach to support growth. In Europe, further disinflation gives additional room for manoeuvre to the ECB, which is expected to expedite rate cuts.

In the latest issue of its Economic Outlook, the OECD painted a positive picture with global growth holding steady at 3.2% in 2025 as in 2024, largely based on gains in purchasing power made possible by disinflation and the effect of interest rate cuts. But in investors' minds, the credibility of these projections remains highly dependent on whether authorities can contain the risk of unpleasant surprises. With a slowdown in the US labour market, deflation in the Chinese property market, near-stagnation in Europe and a sluggish global manufacturing industry, retaliation is required.

Following a rate cut of 50 basis points by the Fed on 18 September, it is now China's turn to reassure investors with a "whatever it takes"-style message intended to lend credibility to its growth target of around 5% this year and likely more than 4% next year. It is possible that the Fed rate cut brought these announcements forward thanks to its positive impact on the Chinese currency (cf. chart 1). Indeed, the rise in the yuan over recent weeks lays stronger foundations for the announcement of a grand reflationary plan.

Galvanised by the Fed, a stronger yuan has created a favourable climate for the Chinese authorities

Portée par la Fed, la remontée du yuan crée un contexte favorable pour les autorités chinoises



June 2024, July 2024 Aug. 2024, Sept. 2024

Market forecast for end-2024 Fed rate (lhs) / Yuan vs dollar rate (rhs) / The Fed cuts rates by 50 bp

It is impossible to say at this stage how these announcements will affect economic growth – but the message matters more than the numbers for now. China specialists have noted a pronounced change in tone from the authorities, signalling that the days of denying the risk of contagion from deflation in the property market to the rest of the economy are over. China's central bank (the PBC) has announced a series of large-scale monetary and financial stimulus measures, including bank and mortgage rate cuts as well as support for the equity market (cf. chart 2). There are also plans to shore up the banking sector. During a surprise meeting that followed the PBC announcements, the Politburo made three key commitments. First, it committed to making greater use of fiscal spending for countercyclical action. Leaks to the Chinese press point to sovereign bond issues totalling approximately 2000 billion yuan (around €256 billion) in the coming months. The government also announced that it wants to put an end to falling property prices, rather than continue to stage an "orderly decline". Finally, the Chinese authorities intend to inject income directly into working- and middle-class households to boost consumption.

The PBC wants to stimulate the entire Chinese financial system, including the stock market

La PBOC veut stimuler l'ensemble de la finance chinoise, y compris la bourse

Dorval Asset Management – 27/09/2024 – Source : Macrobond

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Shanghai Stock Exchange, A shares / PBC announces major package of measures

With Chinese growth responsible for about a third of global growth, these announcements are evidently important. They would have been rather unwelcome a year ago, as the rest of the world grappled with soaring inflation, but today they represent a stabilising influence on the global economy and financial system.

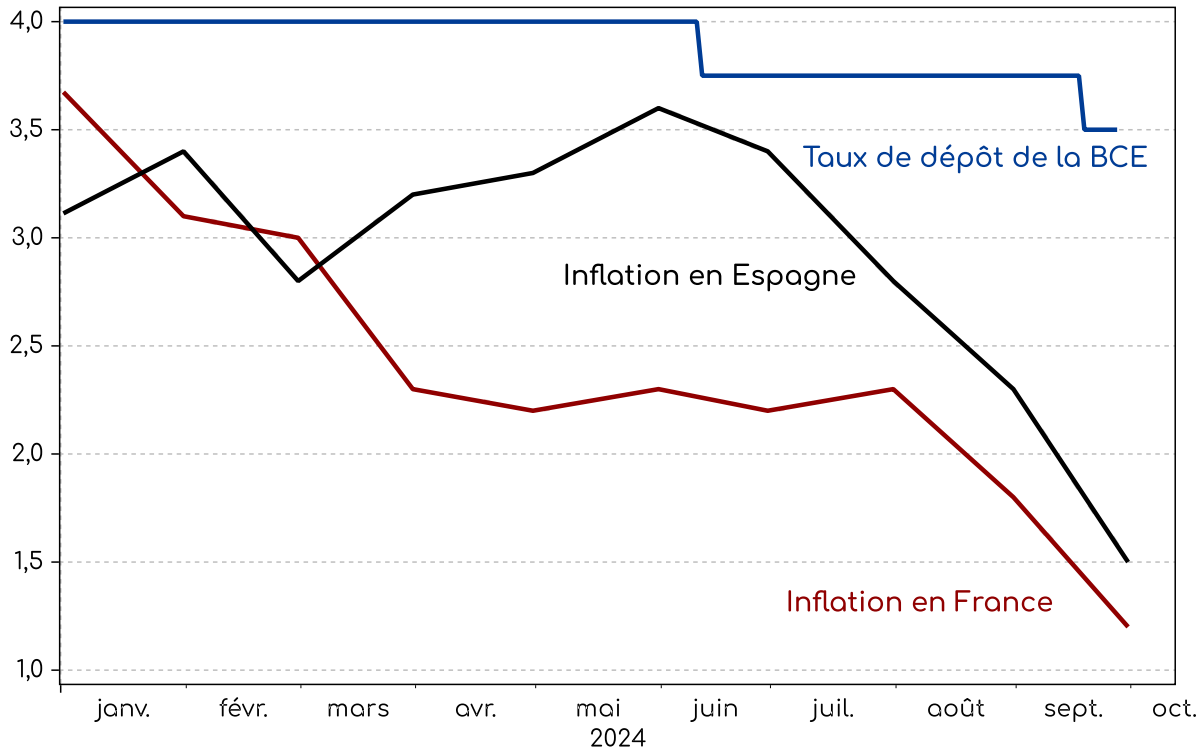
For European multinationals, particularly but not only luxury stocks, this is obviously a relief. China accounts for around 20% of the turnover of EURO STOXX 50 groups on average, which is why European indices benefit more from Chinese reflation than their American counterparts. This effect is all the more powerful in the short term, as investors had become highly pessimistic about Chinese demand.

Diving deeper into European equities, beyond the EURO STOXX 50 domestic support will also need to be strengthened, as the European economy has occasionally shown ominous signs in recent months. We know that fiscal policy stands no chance of producing this support – which means it is all down to the ECB. On this front, the September inflation figures for France and Spain were welcome news (cf. chart 3). Inflation dropped well below 2% (1.2% in France and 1.5% in Spain), and disinflation is spreading to the services sector. These figures substantiate the scenario of boosting consumption through gains in purchasing power, and they

imply that the ECB now has more room for manoeuvre to combat recessionary headwinds in Europe. We expect the ECB to up the tempo of rate cuts in the coming months, bringing money market rates to between 2% and 2.5% as early as the first quarter of 2025, just like the markets are currently anticipating. Like the US Federal Reserve, the ECB now has its hands free to forge a fully stabilising policy, especially as oil prices remain modest despite China's recovery. We therefore remain overweight equities in our European and global flexible portfolios.

Inflation is slowing more quickly in Europe, giving the ECB the freedom to resist recessionary headwinds

La désinflation s'accélère en Europe, ce qui donne toute liberté à la BCE de combattre les forces récessives



Dorval Asset Management – 27/09/2024 – Source : Macrobond

jan. feb. mar. apr. may june july aug. sept. oct.

ECB deposit rate / Inflation in Spain / Inflation in France

Our exposure rates are as follows:

- Dorval Convictions: 65% net exposure to equities, comprising 60% Euro STOXX 50 SRI core basket, 6.5% financials basket, 7% small-caps basket. Hedged using Euro STOXX 50 futures.

Dorval Asset Management

Public limited company with share capital of €493,876

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