Investment Clock – Economic Update

Issue #32, November 2024

Multi asset views

Royal London Asset Management manages £170.3 billion in life insurance, pensions and third party funds*.

We have six Global Multi Asset Portfolios (GMAPs) across the risk return spectrum with a full tactical asset allocation overlay.

*As at 30 September 2024

This month's contributor

Melanie Baker
Senior Economist

US: The US economy has been growing robustly, but the election of Trump brings cross-currents for the outlook additional uncertainty. The Fed seem likely to slow cuts as neutral approaches.

China: Policymakers have stepped up stimulus and the outlook is brighter than it was. However, US trade relations and demographics are challenges, and stimulus has been short on direct demand support.

Eurozone: I expect modest GDP growth, constrained by less supportive fiscal policy. However, there remain some upside risks for consumer spending and the ECB looks set to get to neutral rates relatively quickly.

Japan: Inflation remains high by Japan standards and more (gradual) BoJ hikes seem likely.

UK: Fiscal policy looks set to drag less than it did near term, but the scale of the Budget – including tax rises – raises some medium-term concerns too. The BoE are likely to keep cutting gradually.

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For further details, contact:
multiassetsupport@rlam.co.uk

So much for the central case

I still expect modest or moderate positive global economic growth across most major economies, rather than sustained strong growth or recessions. It still makes sense to expect most central banks to get close to neutral over 2025. A more robust than expected US economy, UK fiscal stimulus and Chinese policy action brighten the GDP growth profile *near-term* but inflation data still isn't completely reassuring; the medium-term outlook faces challenges, while the election of President Trump raises the risk of a US and global economy that veers sharply away from my central case.

Summary

Modest growth: Business surveys suggest that global growth has cooled but remains positive. The forecasts pencil in continued modest/moderate growth and assume that consumers are a key support for growth on improved real incomes and rate cuts continuing in 2025. Election and fiscal uncertainty that weighed on business sentiment in various places may have dissipated; but risks remain.

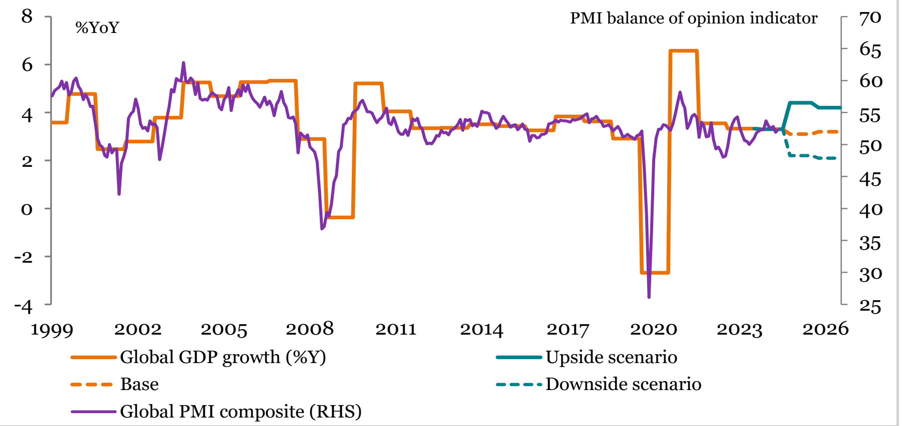
Risks remain substantial: Upside risks include scope for consumers to save less (especially in Europe) and potentially more supportive fiscal policy (e.g. US and China). On the downside, stickier than expected inflation could see central banks pause rate cuts, lags from monetary policy tightening may turn out longer than expected and downturns follow; Geopolitical risk is still elevated.

Inflation still important for the outlook: Lower domestically driven inflation would give central banks the assurance to keep cutting rates, but it remains sticky-looking in some areas. Central bankers also remain unsure where neutral is and slower cuts are anyway likely as neutral rates approach; for many, that will be the first half of 2025 given the pace they have been moving so far.

And then there is Trump: For now, I have assumed that the combination of Trump's main policy plans are inflationary and somewhat damaging for global growth. But there are a number of uncertainties – not least how far Trump will be able to take/intends to take his policy proposals and in what order. That uncertainty itself may weigh on global activity and risk taking in the meantime. Trump may also mark an inflationary sea change in the US given his proposals for tax cuts, tariffs and deporting undocumented migrants. However, many see his tariff proposals as threats intended to get trade partners to agree trade concessions and deporting all US undocumented migrants seems too large a task to be logistically plausible (let alone considering the economic disruption likely to result). More tax cuts seem likely, but the magnitude unclear – as is the outlook for spending.

The **Multi Asset team** see the economy as being in the Recovery quadrant of their Investment Clock. This phase of the business cycle is associated with lower inflation, rate cuts and improving activity growth; it therefore tends to be the time when equity markets offer their best returns. The team have been overweight equities for much of the year, but emphasise the need for diversification, especially when global economies and markets are facing significant uncertainty. For more, see the team's 'ClockWise' blog at www.rlam.com.

Chart 1: Global growth central case: Moderate/modest positive growth



Source: IMF, S&P Global (past data); RLAM (forecasts). PMI data is to Oct 2024

Economic forecast summary

November 2024 base case

Region	2023			2024e			2025e			2026e			2027e		
	GDP growth	CPI end Q4	Policy Rate Q4	GDP growth	CPI end Q4	Policy Rate Q4	GDP growth	CPI end Q4	Policy Rate Q4	GDP growth	CPI end Q4	Policy Rate Q4	GDP growth	CPI end Q4	Policy Rate Q4
US	2.9	3.2	5.50	2.8 *2.5*	2.7 *3.1*	4.75 *5.00*	2.4 *1.7*	2.6 *2.4*	3.75 *4.25*	1.9 *2.0*	2.9 *2.3*	3.25 *3.50*	1.4 *1.8*	2.3 *2.3*	3.25 *3.25*
China	5.2	-0.3 *–*	– *–*	4.7 *4.9*	– *–*	– *–*	4.8 *4.4*	– *–*	– *–*	4.6 *4.3*	– *–*	– *–*	4.4 *4.2*	– *–*	– *–*
UK	0.3	4.2	5.25	0.9 *1.2*	2.4 *2.5*	4.75 *4.75*	1.6 *1.3*	2.3 *2.4*	3.75 *4.00*	1.3 *1.4*	2.3 *2.3*	3.25 *3.50*	1.3 *1.5*	2.2 *2.3*	3.00 *3.00*
Euro area	0.5	2.7	4.00	0.7 *0.7*	2.2 *2.3*	3.00 *3.25*	1.0 *1.2*	2.1 *2.1*	1.75 *2.75*	1.0 *1.2*	2.1 *2.1*	1.75 *2.50*	1.2 *1.2*	2.2 *2.3*	2.00 *2.25*
Japan	1.7	2.9	-0.10	-0.1 *-0.2*	2.1 *2.1*	0.25 *0.25*	1.2 *1.2*	1.9 *2.0*	0.75 *0.50*	0.8 *0.8*	2.0 *2.0*	1.00 *0.75*	0.7 *0.7*	1.8 *1.8*	1.00 *1.00*
Global	3.2	– *–*	– *–*	3.2 *3.1*	– *–*	– *–*	3.3 *3.1*	– *–*	– *–*	3.1 *3.2*	– *–*	– *–*	3.0 *3.1*		

Source: LSEG Datastream, national statistics offices, Bloomberg Finance L.P. for past actual data. All forecasts (e) are RLAM. Current data and forecasts are in black. Forecasts from the July 2024 forecast update are grey and in italics. 2023 figures are now past actuals. Note: US policy rate is the upper end of the Federal Reserve (Fed) Funds target range. Euro area policy rate is the deposit rate.

Key economic policy forecasts

- With inflation now substantially lower, my central case forecasts see rates being cut back to (or raised to, in the case of Japan) close to neutral over the next 12 months, with some central banks likely to move a bit faster than others. I am assuming that, in the absence of recessions, central banks start treading a bit more carefully (i.e. slowly), as they approach the range of plausible neutral rate estimates.
- Sharper-than-expected downturns and more unemployment would see deeper rate cuts than in the base case (as central banks try to get rates below neutral). Higher than expected inflation (particularly core, services inflation and, relatedly, pay growth), could mean rate cuts are shallower and more gradual than expected. A return to rate hikes can't be ruled out for 2025/26, including in the US under the Trump presidency if he pushes through substantial tariff increases and tough immigration measures. Several other economies, including the UK, look vulnerable to an increase in inflationary pressure/labour market tightening if demand picks up more than expected.
- Fiscal policy is generally expected to become less supportive in Europe over the forecast, fiscal prospects are unclear in the US, but extension of the Trump tax cuts is central case.

Global economic scenarios (Chart 1)

Upside scenario (20% probability): Growth picks up sharply, but without generating strong inflation

- Consumers dissave as confidence grows in the outlook and real pay growth remains positive. Consumer spending is much stronger than expected. China's policy efforts see GDP growth stabilise rather than drifting lower over the next few years.
- Headline inflation stays relatively close to target, as higher productivity growth contains overall labour cost growth. Higher labour market participation and surprisingly robust immigration also helps in some cases.
- Central banks prove less willing to cut rates but aren't inclined to hike rates either given contained inflation pressures. Policy rates remain closer to pre-financial crisis norms than pre-pandemic norms. Fiscal policy is more supportive than in the central case.

Base case (60%): Moderate growth, closer to target inflation and lower rates

- Economies continue to skirt recessions with growth moderate. Consumer spending is supported by positive real pay growth and business investment by rate cuts. Lagged effects of past monetary policy tightening restrain growth. Worsening trade relations constrain global growth.
- Domestically driven inflation pressures ease further, even while headline inflation doesn't fall much. Interest rates are cut/raised towards neutral.

Downside scenario (20%): Lagged impacts of rate hikes stronger than expected, while politics upsets the applecart

- The impact of rate cuts takes longer than expected to feed through to demand and the drag from past rate hikes is worse than expected. Political uncertainty weighs on the euro area, while the Trump win in the US sees less immigration and higher tariffs weigh on the US economy but with enough inflationary impact that the Fed hikes in 2025/2026. Growth is lower than in the central case.
- After a period of stronger than expected outturns, inflation falls more sharply than in the central case a couple of years out.
- Outside the US, rate cuts are deeper than in the central case (though do not fully return to pre-pandemic levels in most developed economies).

Probabilities are subjective and indicative such that I'd broadly see a 20% chance that the economy performs in line with/better than the upside case and a 20% probability that the economy performs in line with/worse than the downside case.

Global economy: Mixed fortunes

I expect moderate positive growth across most major economies next year, with an absence of recessions but a broad lack of sustained strong growth too. With inflation having fallen, further rate cuts make sense. However, there are plenty of risks ahead for the global economy including around the policy path under Trump, the effectiveness of China stimulus, and longer standing sources of uncertainty around monetary policy lags, labour market dynamics and geopolitics that could yet knock things off course. There is enough uncertainty around both the outlook and where neutral rates are that my central case does not assume rates are cut at consecutive monetary policy meetings in 2025 (and my rate hike forecast for the BoJ remains very gradual).

Status update: Cooled a bit, but fine for now

Using the global composite PMI business survey as a proxy for global GDP growth (Chart 1), the indicator still looks consistent with a moderate pace of expansion but has cooled. Election and fiscal uncertainty appears to have weighed on business sentiment at various points in various regions over the Summer. The US economy has been growing robustly (looking at GDP growth figures and recent business surveys). China's near-term growth prospects have improved with authorities' change in policy direction/tone and activity data has started to pick up. Europe looks flatter, but Q3 euro area GDP surprised on the upside. Across major economies, inflation has generally cooled and real pay growth remained positive.

Summary outlook: More rate cuts, middling growth

Moderate/modest growth given offsetting forces: The forecasts on page 2 show a bumpier profile for GDP in a number of economies with the combination of Trump's main policy plans assumed inflationary and somewhat damaging for global growth. The central forecasts don't have recessions pencilled into them. As before, the forecasts assume that: 1) we are past the worst of the impact of past rate hikes on growth, 2) consumers are a key support for growth on improved real incomes (Chart 2), 3) rate cuts continue in 2025. Weighing against that, factors include: 1) a number of uncertainties (what exactly to expect under Trump and in what order, including geopolitics) that may weigh on global activity and risk taking; 2) bank credit conditions still look tighter than I would have expected, especially in the US (Chart 3); 3) fiscal policy looks set to be less supportive in Europe in the years ahead (but slightly more than previously expected in the US). The balance of these factors still feels like a recipe for modest to moderate GDP growth.

More gradual rate cuts next year: I expect inflation to gradually reassure and for rates therefore to be steadily cut towards neutral in the US and Europe, but it makes sense to expect the pace to slow as neutral approaches and potentially to pause for an extended period in the US assuming that Trump's policy plans prove inflationary. The speed with which the European Central Bank (ECB) and Federal Reserve in particular have cut rates has surprised me a bit, largely reflecting underlying inflation trends being more reassuring than anticipated. However, with the US inflation more uncertain and growth stronger, I expect the Fed to take longer than the ECB to reach (my estimate of) neutral.

No landing, soft landing, recession, boom? Risks on all sides

I can still make an upside case with a stronger consumer where real pay growth helps confidence build and households save less – especially in Europe where savings rates are well above pre-pandemic norms (Chart 4). More aggressive central bank rate cuts would help here too. A political shift in Germany towards reform of the debt brake could also boost prospects of European growth, but with an election coming up in Q1 prospects of that may rise or fall early next year.

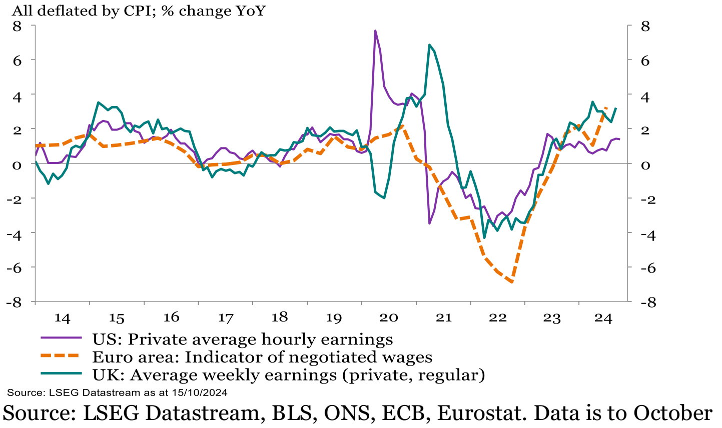
We have seen a change in China's approach to stimulating its economy which could prove successful in easing some of China's issues around local governments and property, though may not push GDP growth up strongly in the absence of more direct measures to boost domestic demand.

Although my central case is that the peak impact of past rate hikes has past, we are not out of the woods on recession risk. Business insolvencies/bankruptcies are well above their lows (Chart 5) in the UK and US. Even if some of that is still a lagged impact from the pandemic, some will presumably reflect the cumulative impact of cost increases and the still relatively high interest rate environment.

There are also still risks centred more around prices, where inflation proves more persistent than expected and central bank rate profiles are more hawkish than expected.

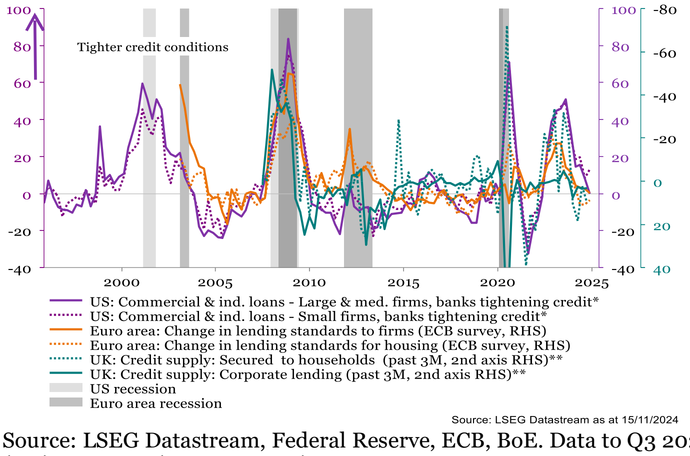
The election of Trump may also mark an inflationary sea change in the US given his proposals for tax cuts, tariffs and deporting undocumented migrants. There is clearly a large amount of uncertainty around how much of that platform will end up being implemented (and when), but that policy combination would make rate cuts less likely to materialise. Retaliatory tit-for-tat tariff increases and trade restrictions could significantly curb global growth. Some further deterioration in trade relations seems likely over the next couple of years regardless, likely curbing global activity growth somewhat.

Chart 2: Household real pay growth positive



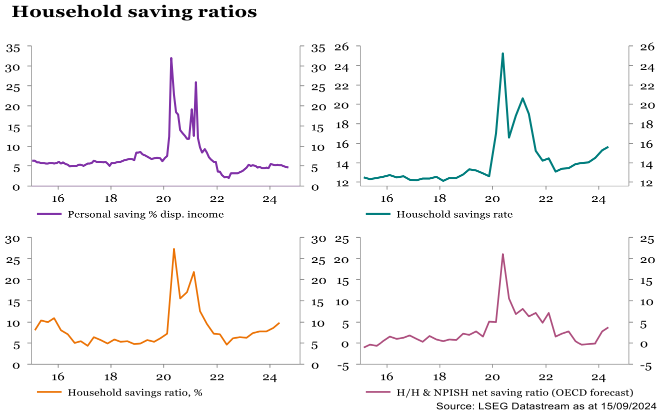
Source: LSEG Datastream, BLS, ONS, ECB, Eurostat. Data is to October 2024 (US), September 2024 (UK), Q3 2024 (Euro area).

Chart 3: Less tightening in bank lending conditions



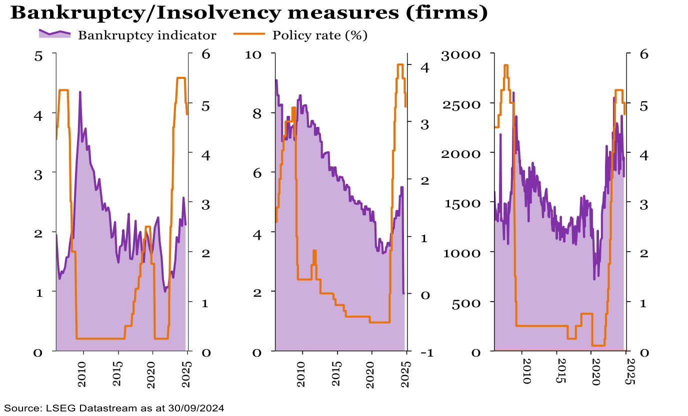
Source: LSEG Datastream, Federal Reserve, ECB, BoE. Data to Q3 2024 (UK); Q4 2024 (Euro area, US).

Chart 4: Households: Lots of room to spend more in Europe (but why aren't they?)



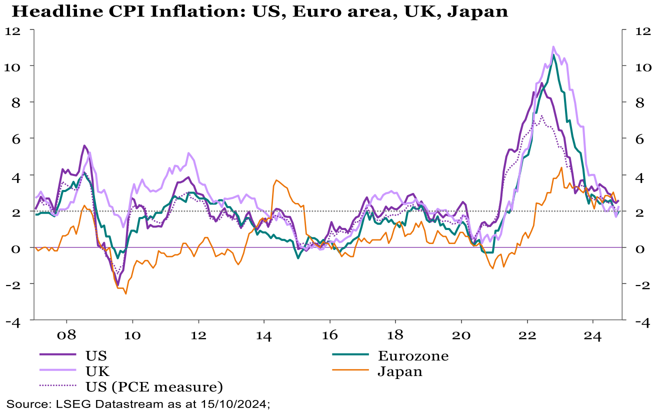
Source: LSEG Datastream, BEA, Eurostat, ONS, Cabinet Office. Data to September 2024 (US) and Q2 2024 (UK, euro area, Japan).

Chart 5: Bankruptcies have risen, have they peaked?



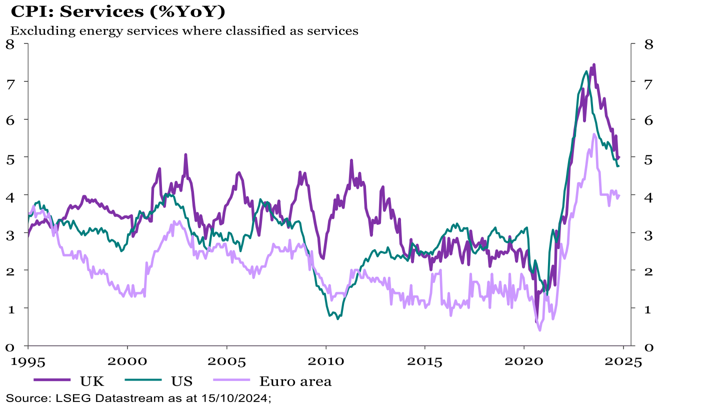
Source: LSEG Datastream; Administrative Office of the US Courts; German Federal Statistics Office; The Insolvency Service; ECB; BoE. Data to 20 November 2024 (interest rates), Q3 2024 (US insolvencies), September 2024 (Germany), October (UK).

Chart 6: Core inflation still drifting lower



Source: LSEG Datastream, BLS, Eurostat, ONS, Japan Statistics Bureau. Data as at Oct 2024 (US, euro area, UK), Sep (Japan).

Chart 7: Services CPI still high



Source: LSEG Datastream, ONS, BLS, Eurostat as at October 2024.

Inflation has fallen, but two-sided risks over the next 12 months

Inflation has fallen a great deal from its peaks, is very subdued in China, and at least dipped to below target levels during 2024 in the UK and euro area (Chart 6). Is inflation undershooting targets now a bigger risk than overshooting targets? The US, euro area and UK are likely to see somewhat higher inflation into year end, but I would see the risks as to the upside of targets over the next 12 months in the US and UK.

Upside risks abound…: Geopolitical risks to prices are probably two-sided, depending how things evolve in the Ukraine and Middle East. Domestically driven inflation, illustrated by services inflation (Chart 7), still looks elevated and somewhat sticky. That could persist; a bounce in demand could see labour markets tighten quickly and therefore result in stronger pay growth. Wage growth has not yet come down to the kind of levels that I think are comfortable for European and US central banks (Chart 8). Meanwhile, unemployment rates are still relatively low across the US, euro area and the UK and business survey measures of labour market tightness don't suggest labour markets are *loose* (Chart 9). An increase in labour demand might struggle to be met; labour supply growth trends look weak in the UK (Chart 10), albeit UK labour market data is subject to well-known quality issues, and might stall in the US given Trump's immigration policies.

…but not all risks are to the upside for inflation: There are a number of factors that could *weigh* on inflation too. 2025 is set to see a lot of supply come online for oil, while Trump has vowed to cut US energy costs in half within 12 months of taking office, saying that he will "declare a national emergency to allow us to dramatically increase energy production, generation and supply." Goods price inflation has fallen substantially and although business surveys don't look consistent with more downside at the moment (Chart 11), there are still risks around the exporting of disinflationary pressures from China. China's recent economic stimulus has improved the outlook for China domestic demand, but there is justified scepticism around how far China's government are really willing to re-prioritise domestic demand growth.

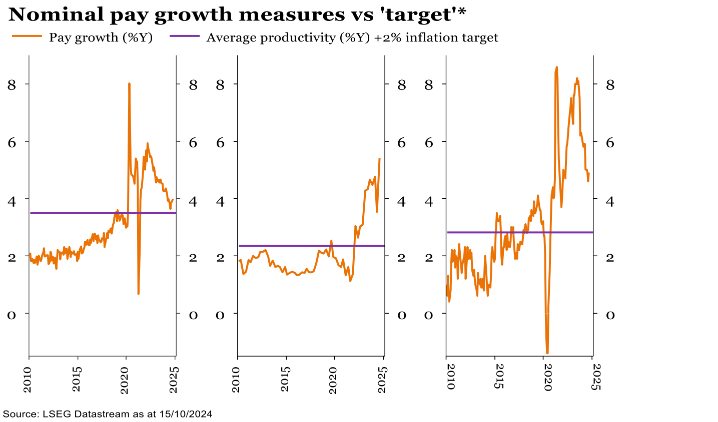
Next 12 months: Central case sees inflationary pressure drift a bit lower: I am expecting domestically driven/services inflation to slow, partly as lower headline inflation helps calm pay demands. Headline inflation though is likely to prove relatively bumpy on fluctuations in base effects and energy prices (Chart 12).

Medium-term (higher) inflation risk and 'spike-flation': A number of factors could see the global economy more prone to inflation spikes and higher-than-target average inflation over the medium-term.

- Population ageing may boost inflation through several channels including lowering labour supply relative to overall demand; increasing the bargaining power of labour; and potentially raising fiscal deficits to fund increased age-related spending demands.
- Climate change (food price spikes, lower productivity) and associated transition costs also seem likely to lead to recurrent upside pressures.
- Other factors that could prove more inflationary on average include an apparent drift in politics in many economies towards populism and deglobalisation. Post-pandemic (and government bailouts), fiscal restraint is arguably a less electable policy platform.

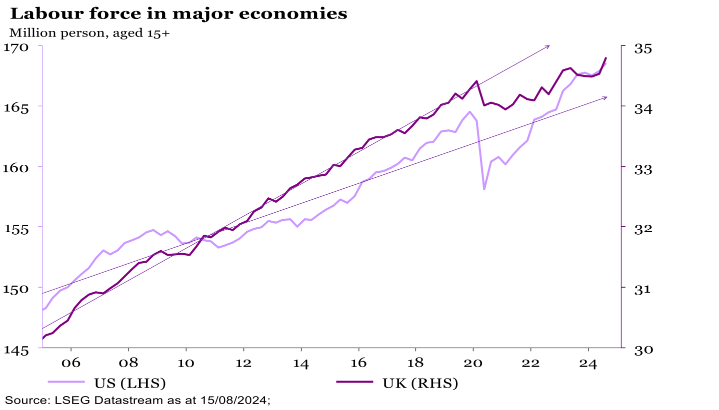
On the downside, Artificial Intelligence (AI) *could* be transformative for productivity and prove deflationary while also having more disruptive potential. However, AI seems unlikely to result in overwhelming productivity gains over the next couple of years. Upside inflation risks look more likely to dominate.

Chart 8: Pay growth still a little elevated



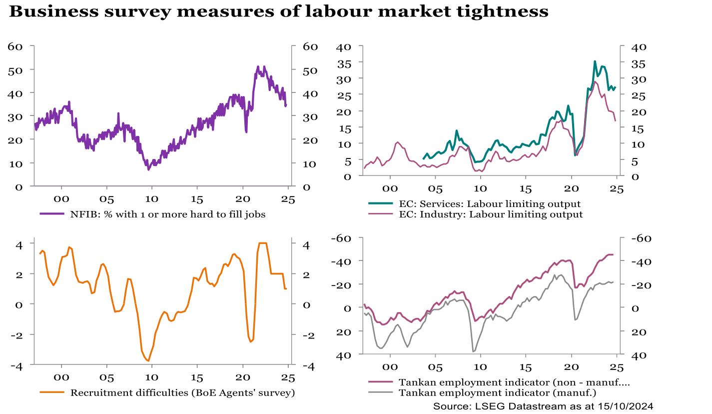
Source: LSEG Datastream, RLAM, BLS, ECB, ONS. Pay data to October 2024 (US), Q3 2024 (Euro area) and September 2024 (UK). *Productivity measures used are output per hour (US), Total economy labour productivity (euro area), Whole economy output per worker (UK) and series are averaged from 2000.

Chart 10: Labour supply growth (probably) weak in UK, could US follow?



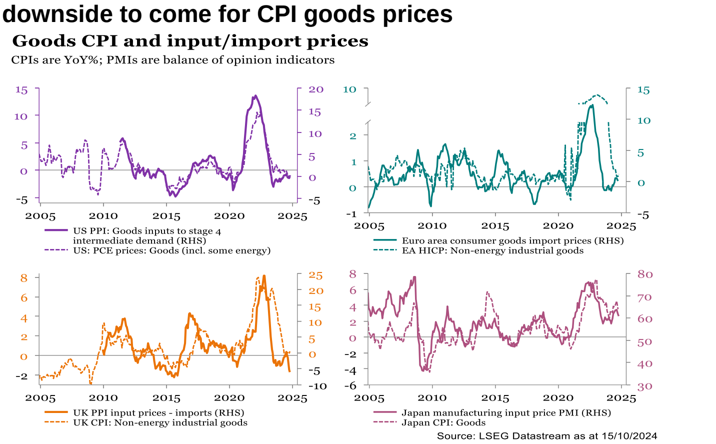
Source: LSEG Datastream, OECD. Data as of Q3 2024.

Chart 9: Business surveys indicate that labour markets have loosened (ex-Japan)…but aren't loose



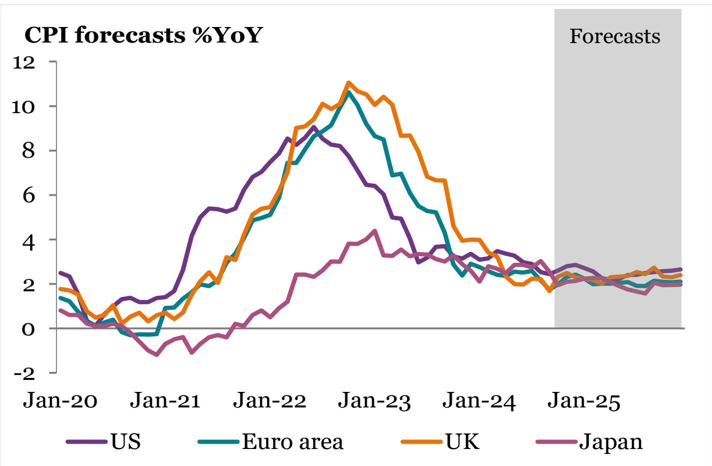
Source: NFIB, European Commission, BoE, BoJ. Data to October 2024/Q4 2024 except Tankan which is to Q3 2024.

Chart 11: Import and input price indicators suggest very little downside to come for CPI goods prices



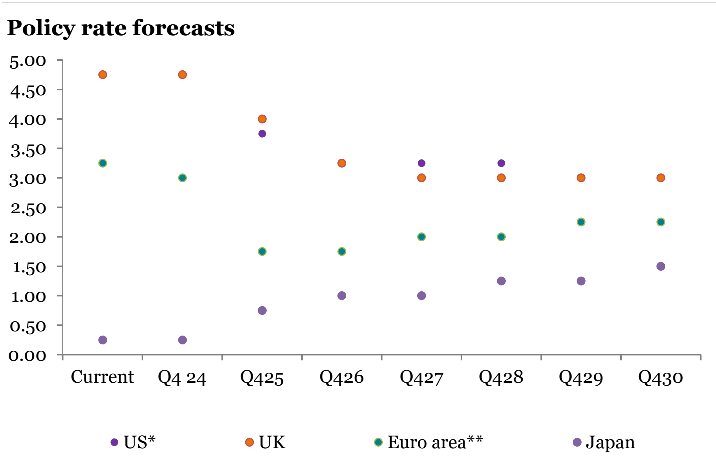
Source: LSEG Datastream, BLS, BEA, Eurostat, ONS, Japan Statistics Bureau, S&P Global. Data as at October 2024 except US PCE, Japan CPI and euro area import prices (September 2024).

Chart 12: My central inflation forecasts



Source: Past data: LSEG Datastream, BLS, Eurostat, ONS, Japan Ministry of Internal Affairs and Communications. Forecasts are RLAM, consistent with forecasts on page 2.

Chart 13: Rate cuts forecast, except in Japan



Source: National central banks/LSEG Datastream (past actuals). All forecasts (from Q4 2024 onwards) are RLAM estimates.

Central bank policy: Getting to neutral faster (in Europe)

The Fed, ECB and BoJ have moved a little faster than I had expected in 2024. Inflation indicators have been a bit weaker than I'd expected, especially in Europe. That helps explain the faster rate cut profile in my forecasts (Chart 13) for the ECB and Fed than previously. I have not made significant changes to my Bank of England forecast though, where activity has been surprisingly resilient and where the government have added near-term fiscal stimulus. I am not convinced that policymakers in the euro area, let alone the UK and US, are likely to cut rates at *every* meeting in coming months:

- Policymakers in Europe and the US think rates are above neutral. They can cut a bit more and be reasonably confident that policy settings will remain restrictive. However, once rates approach estimates of neutral it makes sense for policymakers to be more cautious. Assuming neutral is

50bps either side of my medium-term estimate (a bit bold) then that longer-run neutral 'range' could be hit from the downside at 1.00% in Japan (currently 0.25%) and from the upside in the US at 3.75% (the lower-end of the Fed Funds target range is already 4.50%), 3.50% in the UK (currently 4.75%) and 2.75% in the euro area (currently 3.25%). Moving rates 25bps at *every* meeting would take policy rates to these levels by March in the US, January in the euro area, although not until June 2025 in the UK. I assume that the closer central banks get to neutral, the more a sizeable portion of central bankers will worry about how quickly inflation pressures might build on an improvement in demand.

- In the US in particular, under President Trump, inflation seems likely to follow a somewhat higher path than it would have done (see later sections).
- I am not assuming significant downturns and recessions in my central case. If they materialise – or look like they will – then my central forecasts will be wrong and I would expect European and US central banks to rapidly cut rates below neutral. US policymakers are likely to be especially sensitive to developments in the labour market.

Don't rule out rate hikes (2025/26): Rate hikes are part of my Japan central case. Elsewhere, rate hikes remain far from my central case. However, there is a plausible scenario where renewed strength in activity data is followed by a sequence of above expectations inflation prints and central banks feel that they need to raise rates a bit, especially if they have cut more rapidly than in my central case and/or there is a development (geopolitics? fiscal easing? Tariff hikes?) that can absorb some of the blame (rather than central bank policy error). At current policy rates, the bar to rate hikes is high, but once rates are much closer to neutral, that bar will fall.

Fiscal policy–a bigger source of trouble?

The US has been running a sizeable fiscal deficit already (Chart 14) and Trump's victory in the election looks likely to see a higher deficit and lower taxes than would have been the case. But the fiscal process is likely to involve substantial 'horse-trading' for new proposals to get through Congress and spending cuts may materialise too. It may not be clear for some time what US fiscal changes will result and therefore how supportive they will be for the economy.

In China, government policy looks set to be more growth supportive than it did. However, the latest announcements do not include big measures to boost domestic demand in the near term.

In the EU, disbursements are ongoing from the NextGenerationEU programme, but several economies are under pressure to rein things in having hit Excessive Deficit Procedure triggers by running deficits that are too large; euro area economies look set to run less supportive fiscal policies in coming years (Chart 15). Germany's debt brake remains a major restraint on fiscal policy, though 2025's election could bring change.

In the UK, the new government's plans still build in fiscal tightening, just less (Chart 16). The large increase in planned spending boosts prospects for growth in 2025 but with that boost likely fading fast given front-loading, crowding out and the large tax rise on employers in the October Budget. More generally, high debt levels (with associated significant debt service costs) already restrain governments' fiscal room for manoeuvre (Chart 17).

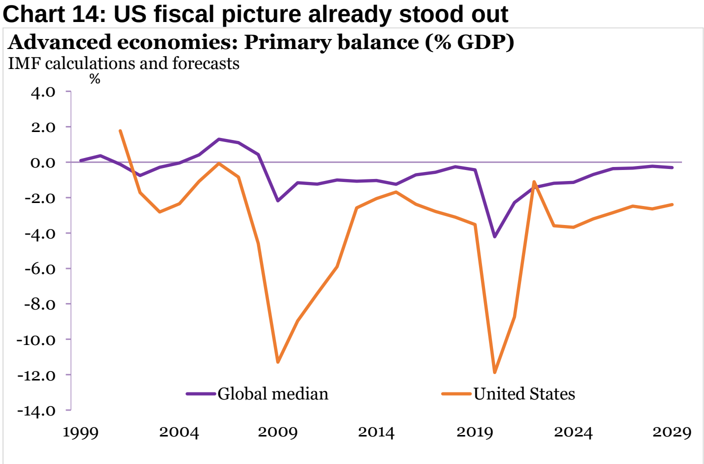
Risk that fiscal sustainability becomes a big market theme again: In the UK, the main risk over the next 18 months or so may be more gilt market indigestion; levels of planned issuance are already very high given upcoming redemptions, the current size of the deficit and the Bank of England selling bonds into that.

In the euro area, risks seem more country-specific. France is stands out (despite tighter fiscal plans) given its sizeable deficit but fragile political situation and the size of its bond market.

In the US, it has been easy to brush away concerns around fiscal sustainability on the grounds that the US dollar is the world's reserve currency and underlying demand for Us treasuries is strong. However, the deficit is large and projected to remain large, while debt looks on an unsustainable trajectory. Neither Harris nor Trump was promising fiscal prudence. The Republican clean sweep will give Trump a much better chance of getting his get tax and spending changes through Congress and in recent months, Trump has put forward a number of planned tax cuts on top of his plan to extend the tax cuts from his previous administration (otherwise set to expire in 2025). The Penn Wharton Budget Model in late August estimated the cost *at that point* of Trump tax and spending proposals at $5.8 trillion. According to the non-partisan Committee for a Responsible Federal Budget, Trump's combination of policies (also including tariffs, military expansion and deportations) would increase budget deficits by an estimated $7.5 trillion (over 10 years).

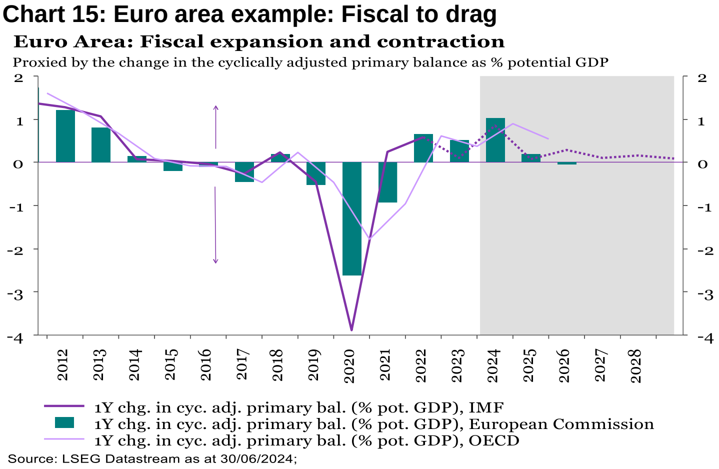
For multiple economies, ageing populations seem likely to weigh on tax revenue, while requiring more spending (e.g. social care). The US and China look set to be key drivers of rising government debt levels over the next five years (Chart 17) given the direction of policy, but longer-term, the demographic challenge is bigger outside the US.

Chart 14: US fiscal picture already stood out



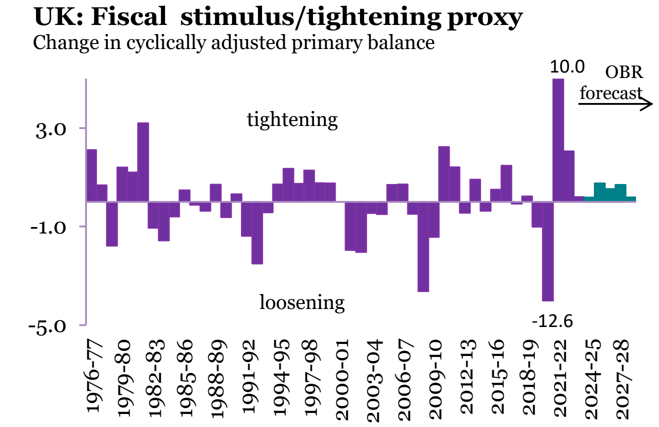
Source: IMF. Data from the IMF's October 2024 fiscal monitor.

Chart 15: Euro area example: Fiscal to drag



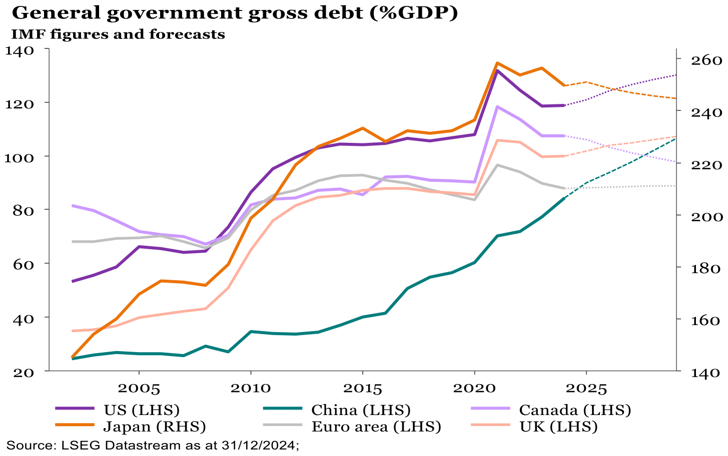
Source: LSEG Datastream, IMF (November 2024); EU Commission (as of November 2024) and OECD (May 2024).

Chart 16: UK: less tightening now planned



Source: OBR. Data to October 30th 2024

Chart 17: High government debt



Source: LSEG Datastream, IMF as of October 2024.

Politics: US election implications for global growth and inflation

In the US, the Trump presidency will likely bring a change in policymaking style and substance. The obvious first area of focus in terms of global economic impact should probably be tariffs where the President has substantial leeway to act without Congressional approval. Trump has already said that he will raise tariffs on all trading partner imports by 10-20% and said he will impose a tariff on China imports of at least 60%. He has also said recently that he would impose tariffs up to 200% on vehicles imported from Mexico and impose a 100% tariff on imports from countries that shift away from using the US dollar. Some of this may be more of a negotiating tactic, but my assumption is that a large proportion of these tariff threats should be taken seriously.

Increases in tariffs can in theory be offset by currency moves but generally any tariff increases are likely to be paid for by a mixture of consumers, importers and exporters depending on the item in question (for example, depending on whether there is a domestic substitute available), the size of the tariff hikes (large increases would presumably be harder to absorb in profit margins and more likely to be passed onto consumers) and how clear Trump's intentions are at the time (if tariff hikes are seen as long-lasting then importing firms would logically be less willing to absorb the cost). It seems plausible, given the high inflation of the post-pandemic period, that pass-through to consumers may be faster and stronger than during the first Trump presidential term.

With tariffs this broad and of this magnitude, I also assume retaliation from US trade partners would be likely, increasing the likelihood of damage to global growth and on the already beleaguered global manufacturing sector.

As for the impact on the US, the Peterson Institute have estimated that 10-20% across the board tariffs from the US and the 60% China tariff would cost US families $1,700 or $2,600 extra a year but claim those as conservative estimates, noting the potential for domestic producers to raise their prices too for example. They point out that Trump wants to levy tariffs on more than 10 times the amount of imports as in his first trade war.

Estimates for the impact of Trump's tariff proposals on US inflation and growth vary, but with some economists citing numbers in the vicinity of 1pp on inflation and a bit less than 1.5% off GDP (presumably if Trump gets his tax proposals through that could offset the impact on growth in the near-term). It makes sense to assume a slower trajectory for Fed rate cuts, or a pause, if sizeable tariffs are implemented. It is also worth noting that after higher tariffs were implemented under the previous Trump presidency and ahead of Covid, global PMIs cooled, as did indicators of global trade growth.

Climate and the economy: On the watchlist

I continue to worry about the impact of climate change on prices through impacts on agricultural prices in particular, but also on productivity and via transition costs, as companies adapt to changing weather patterns and economies incur near-term costs associated with attempts to lower carbon emissions. Climate change is a key reason why I have pencilled in medium-term central inflation forecasts that tend to hover above a little above target in major economies.

United States: Trump risks

US activity growth looks robust and seems likely to continue growing at a decent pace for now, supported by rate cuts and initial market optimism around Trump's election win. The Fed started their rate cutting cycle earlier and with more strength than I'd expected. However, the election result brings risks for the US fiscal, GDP and inflation profile and the Fed may need to react to as government policy evolves next year. A Fed hike is not a far-fetched scenario for 2025/6 if Trump's tax, immigration and tariff agenda is rapidly enacted and proves inflationary in combination (potentially offset somewhat by deregulation and a stronger dollar). Substantial tariff hikes and mass deportation of migrants would likely lower GDP growth, but tax cuts boost it.

Status update: Robust, with bumps

Real GDP growth slowed in Q1 2024 but strengthened again in Q2 and Q3. ISM and PMI business surveys look consistent with a decent pace of activity growth into Q4 (Chart 18). There are still areas of weakness. Housing-related activity has cooled substantially from post-pandemic peaks and labour market data has at least cooled. Consumer confidence remains below pre-pandemic levels but improved over the Summer into the Autumn. Small business sentiment has picked up from the early part of the year. Looking across US data, the economy, for now, appears to be doing relatively well.

Reassuring inflation = (some) more rate cuts

After a string of more reassuring inflation data and softer labour market data, the Fed was able to switch focus from inflation to a balanced focus on its dual mandate, cutting rates more than expected in September in what looked like something of a 'recalibration'. Having cut 25bps in November, they have already slowed the pace a bit. I expect them to skip a meeting or two in coming months given that robust activity data backdrop and where the inflation data has turned a little less reassuring (Chart 19). Still, there is no reason to keep rates well above neutral for the sake of it either. Steady rate cuts down towards neutral make sense as a central case, with some slowing as neutral comes into view. The September FOMC participant projections had a range for the long-run Fed Funds rate – a proxy for a medium-term neutral rate – at 2.5-3.5% (excludes the three lowest and highest forecasts). The lower end of the Fed Funds rate is already at 4.50% and my central case has them stopping cuts at 3.25% and effectively assumes that they stop cutting at consecutive meetings before that point is reached partly reflecting what I expect to be an inflationary combination of policies from President-elect Trump.

Path splits on election result

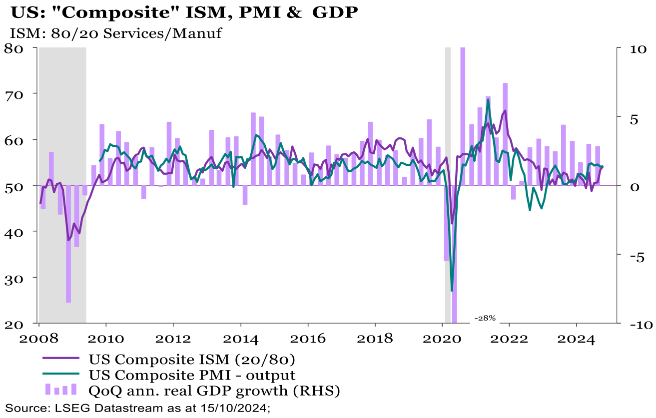
The economy is not completely out of the woods on recession risk partly on the cumulative impact of previous rate hikes on credit conditions and debt service. In contrast, possible tax cuts and deregulation could boost growth more than expected (if not offset by deportations, spending cut and tariffs).

Things are uncertain at this stage. Some Trump measures may increase both supply and demand, the dollar may strengthen to offset some of the impact of tariffs, some of his tariff plans may be more threats intended to bring trading partners to the negotiating table. It seems unwise at this stage though to assume that Trump doesn't intend to enact the things he repeats most often. He is also seen as much more ready to 'hit the ground running' this time around –more familiar with government workings and with loyalists expected to be in key positions.

Focusing on immigration (see Global section for a discussion on tariffs and fiscal policy), this is an inflationary agenda especially against a backdrop where there doesn't seem to be *lots* of slack in the labour market to start with. Higher immigration over the past couple of years has likely been a key reason why the US labour force (Chart 20) and economy has continued to grow strongly alongside falling inflation – less immigration and more deportations could see the labour market tighten more quickly on any fiscal-related rise in demand.

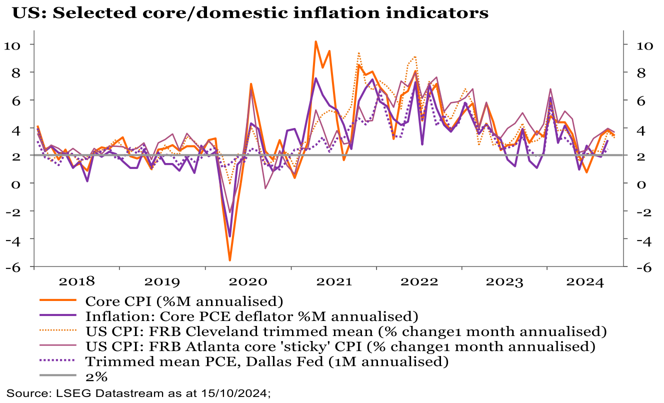
The Peterson institute tried to map out what Trump's promise to deport undocumented/illegal migrants would mean if taken literally (which it is difficult to do given the scale of the issue and logistical problems among other things). They estimate a deviation from baseline GDP in the scenario where 1.3 million workers are deported (which they describe as a low-end number) which results in GDP 1.2% below baseline by 2028.

Chart 18: Growth still looks robust



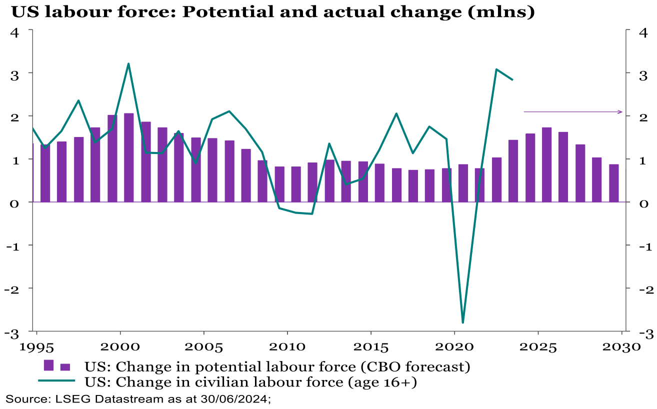
Source: LSEG Datastream, BEA, S&P Global, ISM. Data to Q3 2024 (GDP), October 2024 (PMIs, ISMs).

Chart 19: Core inflation – room for more reassurance



Source: LSEG Datastream, BLS, BEA, Federal Reserve banks. Data to October 2024 except Dallas Fed and PCE measures (September 2024).

Chart 20: Potential labour force sees strong growth, but immigration policies could shift the picture



Source: LSEG Datastream, CBO, BLS. Forecasts from June 2024. Actual labour force figures are annual to 2023.

China: Sea change or cynicism?

Much of China's activity data has disappointed this year. Policymakers continue to provide support though and that support has stepped up of late. However, at the time of writing, policy measures were still open to the criticism that they don't include enough direct domestic demand support. I assume that the scale and direction of policy support do lift China growth somewhat, but prospects of an even rockier US trade relationship under Trump seem likely to act as a partial offset. Demographic challenges are likely to dominate the trajectory of China's growth rate in the medium and longer term, leading to a slowing.

Status update: Still a bit soft

Q3 GDP growth was weaker than expected (0.9% quarter-on-quarter), but that was a pick-up in pace from Q2. Measures of consumer confidence remain weak, and retail sales figures have tended to disappoint this year, albeit surprising on the upside in October. The October PMIs suggested an improvement in activity growth and optimism though, potentially reflecting the step-up in policy stimulus. Still soft domestic demand against a backdrop of very low inflation means further stimulus measures could yet be announced by the authorities with more of a domestic demand focus.

Policy support provided, but China looks unlikely to chart a completely new course

Property still in focus: Stabilising and improving the situation in China's property market remains crucial for short to medium-term growth prospects. Property market problems, including large stocks of unsold homes, likely help explain subdued consumer confidence, soft domestic demand and also create fiscal problems where property-related tax revenue has been an important source of local government funding in recent years. Chinese authorities have introduced several measures designed to, or likely targeted to, ease issues in the property market and local government finances. Through to the Autumn, consumer confidence remains very weak (Chart 21) and new home prices have continued to fall, but it is too early to expect any effects from the latest round of policy changes.

Consumer demand not the top priority, but some shift in that direction: the Third Plenum and July Politburo meeting saw a bit more focus on the consumer with a recognition that domestic demand is insufficient. A shift towards policies aimed at boosting consumption would be particularly welcome against the backdrop above. Early August saw China's authorities launch a 20-point plan to support services consumption, though these were more measures likely to improve things over the medium to longer term than provide a strong near-term boost. The government also launched a good trade-in programme (home appliances and cars) to which more support was promised.

Long-term challenges remain substantial: Long-term challenges facing China still include an overhang of private sector debt and population ageing (Chart 22). China's stance towards Taiwan continues to present a risk to China's economic outlook should any action against Taiwan prompt a deterioration in economic relations elsewhere. China's authorities are pursuing a focused industrial strategy which may or may not have picked the 'right' industries (e.g. EVs and renewables) and/or at the expense of spending on other strategies that might have been more successful at generating sustainable growth. I assume that China's policymakers will remain substantially focused on national security (rather than consumer demand) and that focus could intensify with President Trump back in the White House in 2025.

Policy action keeps coming: Beyond the measures above, China's leadership pledged over the summer to strengthen policy action to boost the economy e.g. via speeding up bond issuance for investment purposes and calling for the comprehensive use of monetary policy tools; the PBoC has been cutting rates. Alongside the services consumption plan, authorities also released, for example, a 33-point plan around transition to meet its green/low carbon goals. In November, authorities announced a RMB 10 tln package for local government finances (effectively a debt swap that should allow local governments to reduce interest costs and spend elsewhere). The published goal of "around 5%" for GDP growth looks more attainable after the Autumn's policy action. In general, policy support feels less piecemeal especially when it comes to things likely to improve activity growth over the medium term.

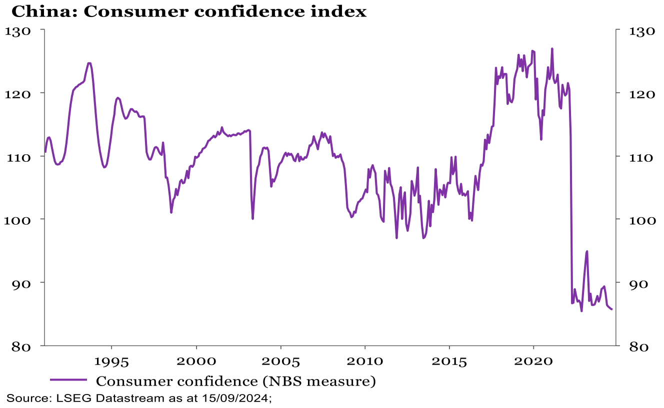
PBoC Governor Pan Gongsheng in August said in an interview that China's financial sector risks are reducing. A lower level of concern around financial risks could keep the door open for more policy stimulus.

US election and geopolitical risks even more in focus

The US-China relationship remains challenging against a backdrop where global manufacturing is already under some pressure. Despite domestic policy action, China does not look set to be an engine of global growth any time soon.

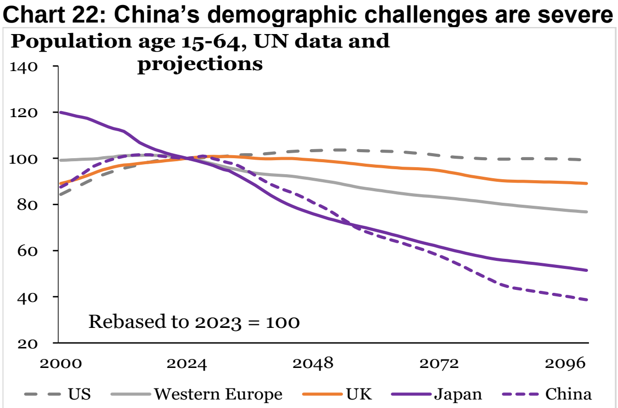
US tariffs on a number of Chinese goods have already increased this year and Trump has said he will put a 60% tariff on imports from China. Currency movements and trade diversion to (and through) other economies can ameliorate the impact and China's share of US imports had already been dropping. With China's industrial strategy leading to trade dumping worries elsewhere, however, the US may not be the only economy imposing tariffs or taking other action against China. The EU already decided to raise tariffs on Chinese-made EVs in October 2024.

Chart 21: Still weak consumer confidence



Source: LSEG Datastream, NBS. Data is to September 2024.

Chart 22: China's demographic challenges are severe



Source: LSEG Datastream, UN. Data updated February 2024.

Euro area: More politics

The euro area economy continued to grow over the first three quarters of the year, albeit not particularly strongly. With rate cuts underway and positive real pay growth expected to support consumers, I expect that growth to continue. There are even upside risks from a high household savings rate (room to save less and spend more) and German political change if it brings about reform of the debt brake. Less supportive fiscal policy more generally seems likely to act as a constraint though (beyond a still relatively slow pace of potential growth). Slower global trade growth/higher tariffs and greater trade uncertainty under Trump all have the potential to weigh on activity too. I expect further ECB rate cuts, albeit likely slowing somewhat as neutral fast approaches.

Status update: Growing, just not very fast

After growing an average 0.3%Q over the first three quarters of the year, similar growth (likely a bit weaker) is expected for Q4. The composite PMI business survey indicator started to signal positive growth in the Spring 2024 but looked consistent with roughly flat private sector activity over Q3 and into Q4. The European Commission's economic confidence indicator, however, has signalled a weaker picture throughout.

Inflation – room for cuts, but question mark around how many more

Slow growth and a somewhat more reassuring picture on inflation, leaves the ECB widely expected to continue cutting rates into next year, Although the unemployment rate remains very low (by euro area standards), survey measures paint a looser picture (Chart 23). Consumer fear of unemployment over the next 12 months has been rising, business survey measures around employment have deteriorated; industrial capacity utilisation which negatively correlates with the unemployment rate has risen significantly. Headline inflation fell below the ECB's inflation target in September. Services inflation remains sticky at around 4% year-on-year, but there are signs of pay growth slowing – a key input for service industry costs (which makes sense against a backdrop of some widening in slack and lower headline inflation). However, ageing economies leave European economies vulnerable to a rekindling of wage growth further down the line when demand picks up.

Fiscal drag; Two-sided risk from politics

Fiscal policy looks set to drag on growth, with the proposed French Budget adding to the likelihood of that outcome. The restart of 'excessive deficit procedures' (EDP) keeps the pressure on for fiscal restraint. NextGenerationEU funding will still be flowing into investment spending and those flows may accelerate as the deadline for spending them draws closer. However, my forecasts don't assume this will add to GDP *growth* next year as a central case. Significant reform or abolition of the German debt brake could be a game changer and next year's German election keeps that a possibility.

Growth disappointing, but there remain some upside risks too

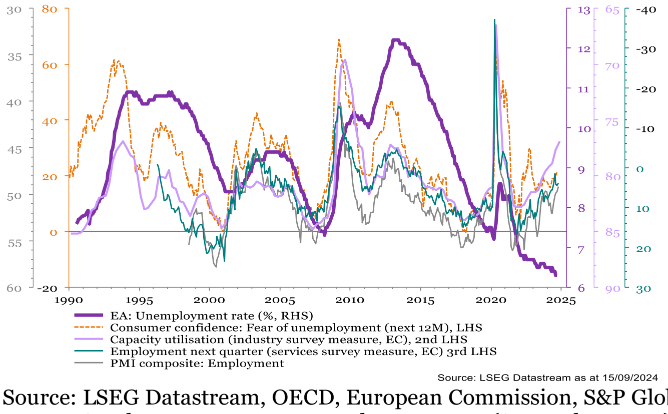
The ECB's bank lending survey suggests that credit demand is picking up (Chart 24). In an economy where bank lending is a dominant source of debt financing for firms – especially smaller ones – that is genuinely encouraging. Bank lending standards no longer appear to be tightening much (Chart 3). It may prove beneficial for the German export industry that we appear to have seen a substantial change in Chinese authorities' approach to supporting China's economy. Euro area growth would benefit from a looser German fiscal policy, the prospects of which increase if the February election ushers in a new government with debt brake reform as part of its platform.

The biggest upside risks to euro area growth arguably come from the consumer. Real pay growth is positive and the savings rate keeps rising. Savings rates are far from 'normalised' and with overall consumer confidence indicators a long way off their lows and with the ECB cutting rates there are still reasonable prospects that savings rates flatten out and start to drop. That would provide a source of upward consumer spending momentum.

On the downside, and the reason why my growth forecasts for the euro area aren't particular positive are fiscal policy, the lagged effects of monetary policy tightening, political/policy uncertainty and external risk. On the latter, China's growth challenges remain substantial and a Trump presidency may be distinctly euro area unfriendly depending how he pursues his plans around the Ukraine conflict and how far he takes his plans for higher across the board tariffs. There are plenty of archive examples of relatively unfriendly/unsupportive Trump rhetoric directed at Europe.

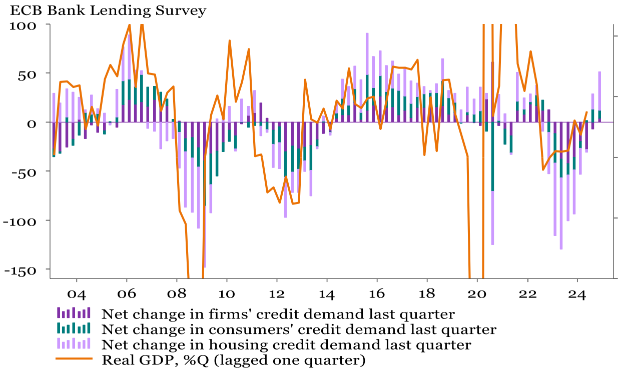
Longer-term challenges linger too, with adverse demographic trends and with business and innovation hampered somewhat by incomplete capital markets union and a lack of harmonised regulation in some areas across the region. Weak governments and ideological divisions among EU members are unlikely to improve prospects for improved medium-term growth including implementing the recommendations of the Draghi Report which could go a distance towards raising European competitiveness.

Chart 23: Unemployment rate low but unemployment indicators more elevated



Source: LSEG Datastream, OECD, European Commission, S&P Global. Data to October 2024 except unemployment rate (September 2024) and capacity utilisation (Q4 2024)

Chart 24: Credit demand picking up



Source: LSEG Datastream, Eurostat, ECB. Data to Q3 2024 (GDP), Q4 2024 (credit demand).

Japan: A bit further for hikes

The Bank of Japan has raised rates and is signalling that more rate hikes are likely if the economy and prices evolve as they expect. My forecast for the path for rate hikes is still very gradual. Inflation remains high by Japan standards. It is not yet clear that Japan's inflation dynamics/expectations have shifted sufficiently upwards in a lasting way. However, incoming inflation data, pay growth, shifts in corporate practice and the BoJ's very cautious approach to rate hikes make it more likely. Higher US tariffs and potentially slower global trade growth, alongside a less stable domestic political backdrop, could weigh on growth.

Status update: Mixed again

Measures of inflation remain elevated in Japan – by Japan standards (Chart 25). Despite having slipped from the peak, inflation outcomes have been looking much more consistently close to the 2% inflation target than they did pre-pandemic. Wages – an indicator of domestic inflation pressure – are reassuring. Indicators of labour cash earnings and data from wage negotiations show a significant upturn (Chart 26).

The activity picture coming from business surveys and some of the hard data has been mixed, but Q3 GDP rose an expected 0.2% quarter-on-quarter and consensus expectations are for a reasonable pace of growth in Q4. Japan's real trend GDP growth still looks low.

Policy settings remain accommodative with the policy rate still at very low levels after two hikes at 0.25%. Those hikes are arguably more symbolic than economically meaningful, but bond yields, stock prices and the currency have all reacted to expectations of a path for cuts. Ex-post real rates are still negative. On fiscal policy, however, the LDP's loss of majority adds uncertainty to the fiscal spending outlook ahead of the upper house election next summer.

Longer-term change – new equilibrium?

Wage settlement indicators were strong enough to see the BoJ hike rates, and wage growth has risen since. However, it still feels too early to be sure that Japan's inflation dynamics have sustainably shifted upwards, especially given that some of those wage increases could be seen as lagged adjustments to compensate workers for a higher price level. It is hard to be confident that Japan's wage-price dynamic has changed in a lasting way after such a long period of low inflation and wage growth. The chances are rising though that we have seen a lasting change. Diffusion indicators show that the proportion of prices that are rising remains high, albeit have been falling (Chart 25). Inflation expectations on the Tankan survey measure (all businesses, all industries) remain above 2% and have been at 2% or above for nearly two years continuously.

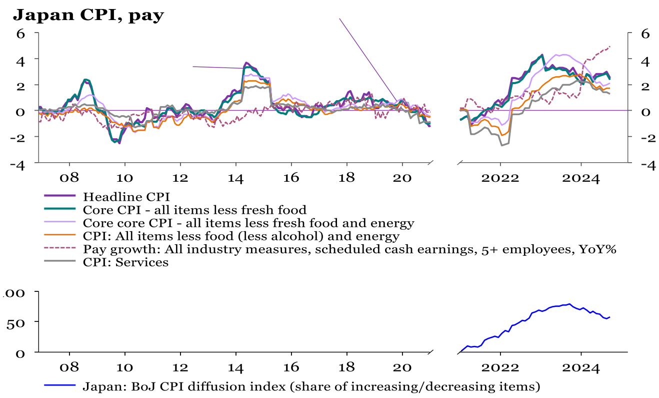
Changes ongoing in corporate governance and labour markets may help structurally change the pass-through of costs (including wages) to consumer prices, while labour market conditions still look relatively tight (supporting pay growth). Tight labour market conditions and higher wages can also prompt more investment – Tankan survey indicators on capex remain positive (Chart 27). If that helps boost potential growth, that in in turn could also help ease some of Japan's continuing population-ageing challenges.

Even higher rates?

The BoJ raised rates in both March and June, although both real and nominal rates remain at very low levels. BoJ communications indicate that more rate hikes are likely but are unclear on the likely pace of such rate rises. If inflation and economic data generally turn out as expected, the BoJ expect to hike further. For example, in late summer, Deputy Governor Himino said that the BoJ's basic stance, "is that it will examine the impact of market developments and the July rate hike…If it has growing confidence that its outlook for economic activity and prices will be realized, it will adjust the degree of monetary accommodation." Persistent yen depreciation could also feed into inflation and speed up the BoJ rate hikes.

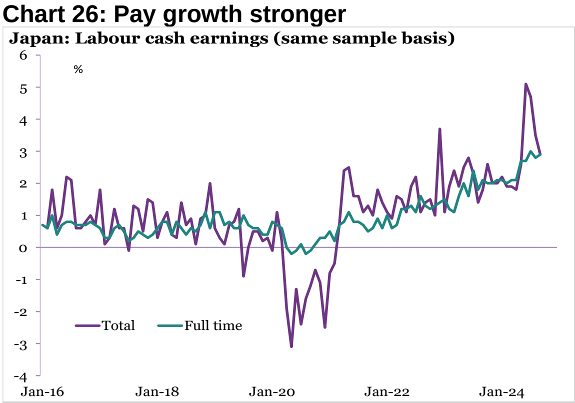
My medium-term inflation forecasts are not strong enough to justify a big hiking cycle, but with the inflation and wages story month by month looking relatively reassuring, the chances are rising that Japan's longer-run fundamentals have changed and my forecasts are too conservative.

Chart 25: Services inflation slips back below 2%



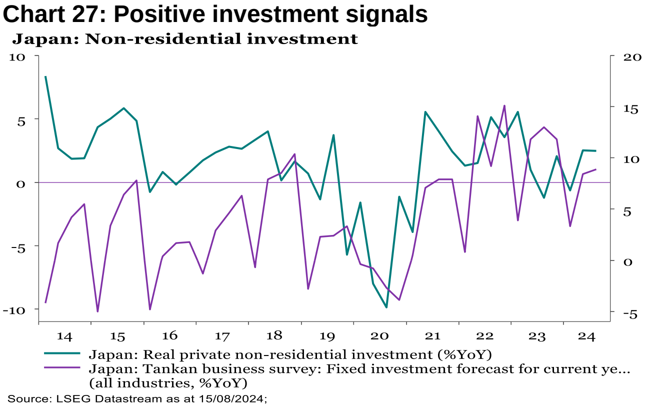
Source: LSEG Datastream, Ministry of Internal Affairs & Communication, Ministry of Health, Labour and Welfare, Bank of Japan as of September 2024.

Chart 26: Pay growth stronger



Source: LSEG Datastream, Ministry of Health, Labour and Welfare to September 2024.

Chart 27: Positive investment signals



Source: LSEG Datastream, Cabinet Office, BoJ. Data to Q3 2024.

United Kingdom: Policy pain

The UK economy grew at a decent pace over the first half of the year but is likely to continue growing more slowly over the second half of the year. With inflation and pay growth data having reassured somewhat, the Bank of England have been gradually cutting rates and I expect that to continue in 2025. Positive real pay growth and additional fiscal support have improved the near-term outlook for growth. However, past rate hikes are likely still weighing on activity and the recent Budget included a very large corporate tax hike that may weigh on hiring, growth and pay. I am still not expecting a sustained big pick-up in growth rates.

Status update: A bit less OK

After bouncing in Q1, GDP growth was a decent 0.5%Q in Q2 though only 0.1%Q in Q3. Business surveys indicate that private sector activity growth has cooled into Q4 (Chart 28). Budget uncertainty seemed to drive some of the reduction in activity in the Autumn. That Budget has now taken place, but measures were not especially business friendly; they were more geared to public service repair than boosting growth. Labour market data remains difficult to read and subject to quality issues but taken as a whole, indicates continued labour market loosening. While headline inflation has fallen substantially, 'domestic' underlying inflation still looks a bit too strong for (central bank) comfort and I continue to assume gradual (once a quarter) BoE rate cuts rather than anything faster.

Ticking along with a few big challenges

Several things are likely to keep the UK growing modestly. The consumer still looks well supported with positive real pay growth reflecting above inflation pay growth and there is room for households to save less (the savings rate is still sitting above pre-pandemic levels). The April 2025 increase in the minimum wage should continue to help, so long as the labour market itself doesn't take a sharp turn for the worse. We should also be passed the peak impact on GDP growth of the past rise in mortgage rates. Although households are still rolling off fixed rate low interest mortgages onto more expensive ones as fixed rate terms mature, most fixed rate mortgages have now repriced (according to analysis in the June BoE Financial Stability Report, only 35% of mortgage accounts were still paying rates of less than 3%) and mortgage rates are off their peaks. As a percent of household disposable income, household debt service (measured as interest payments plus mortgage principal repayments) fell a touch in Q2. Labour market data has been mixed, but not awful and consumer confidence remains well off its lows.

The last government's fiscal plans indicated future tightening; the new government has softened that profile, seeing more spending, more taxation and borrowing. Theirs was an overall net stimulative Budget, but with the impact on growth set to be front loaded. Beyond that, things are more ambiguous. Although measures to help repair public services are welcome (NHS waiting lists and strains in other areas may have been starting to impinge on growth) the sheer scale of change in the Budget makes it harder to analyse. The very large increase in corporate taxation (via employer National Insurance contributions) wasn't growth friendly and it is not clear how firms will respond. Some of the increase in cost could be absorbed in margins, some passed on in inflation, some result in lower pay settlements and some in job cuts for example. Business sentiment may become more negative, especially against a backdrop of external challenges in the shape of President Trump's re-election and ongoing geopolitical risk. The health of businesses was arguably more concerning even before tax changes, given the lack of moderation in the level of UK bankruptcies and continued weak UK loan growth (Charts 5 and 29). Firms will still be repaying borrowing under Covid loan schemes.

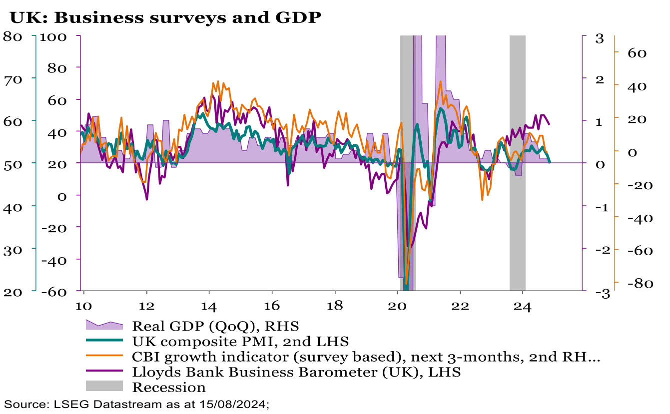
The UK still faces significant long-term challenges including projections for falls in working age population, related fiscal challenges and given productivity growth remains weak. My medium-term forecasts do not assume that UK inflation stays comfortably at 2%.

Inflation and the BoE: Stickier than elsewhere?

CPI inflation is above its recent lows, but largely reflecting higher energy prices with bills increasing in October. Core goods inflation may fall a bit further, but the bulk of that shift looks to have already taken place given the usual relationship with producer price/import prices (Chart 11).

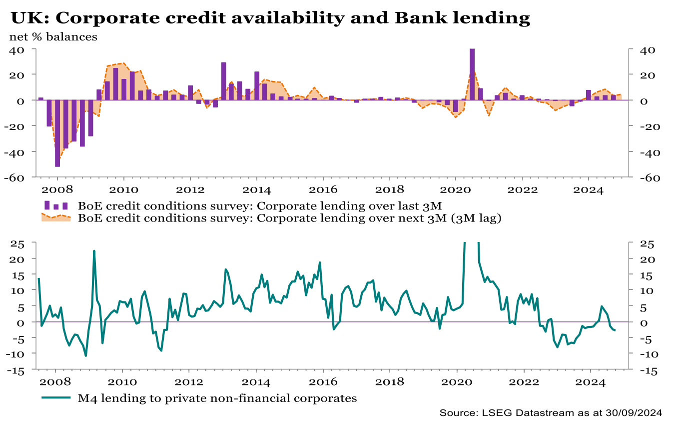
The bigger question is still around services inflation. To sustainably hit a 2% inflation target, it makes sense for the BoE to want services inflation closer to 3% (5%YoY in October). Lower headline inflation, slower pay growth and past falls in energy inflation should both help see services inflation lower. However, the UK labour market looks vulnerable to future tightening with labour supply seemingly on a relatively flat path having taken a while to recover to even pre-Covid levels (though there are known data quality issues with this data). It might not take much of an improvement in labour demand for the labour market to re-tighten and wage growth to pick up. Recent BoE business survey data (the Decision Makers Panel) suggested that in Q3 2024, firms' expectations for wage growth over the following 12 months were 4.1%; a lot lower than in 2023 and expectations themselves have cooled over the year. However, given the UK's history of weak productivity growth, pay growth much above 3% might be considered 'too high' to be inflation target consistent. The combination of the increase in employers National Insurance Contributions and another sizeable increase in the minimum wage in April 2025 (alongside other cost pressures) may also end up being passed through to consumers.

Chart 28: Slower growth



Source: LSEG Datastream, ONS, CBI, Lloyds, S&P Global. Data is to October 2024 except PMI (November) and GDP which is to Q3 2024.

Chart 29: Weak loan growth



Source: LSEG Datastream; BoE. Data to Q3 2023 (credit conditions), September 2024 (M4 lending)

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Derivative Risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both Fund losses and gains. The impact to the Fund can be greater where they are used in an extensive or complex manner, where the Fund could lose significantly more than the amount invested in derivatives.

Credit Risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

EPM Techniques: The Fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the Fund to increased price volatility.

Exchange Rate Risk: Changes in currency exchange rates may affect the value of your investment.

Interest Rate Risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Liquidity Risk: In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Emerging Markets Risk: Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Counterparty Risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the Fund to financial loss.

Fund investing in Funds Risk: The Fund is valued using the latest available price for each underlying investment, however it may not fully reflect changing stock market conditions and the Fund may apply a 'fair value price' to all or part of its portfolio to mitigate this risk. In extreme liquidity conditions, redemptions in the underlying investments, and/or the Fund itself, may be deferred or suspended.

Liquidity and Dealing Risk: The Fund invests indirectly in assets that may at times be difficult to value, harder to sell, or sell at a fair price. This means that there may be occasions when you experience a delay in being able to deal in the Fund, or receive less than may otherwise be expected when selling your investment.

Investment risk: The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

The RL Multi Asset Funds are a sub-funds of Royal London Multi-Asset Funds ICVC, an open-ended investment company with variable capital with segregated liability between sub-funds, incorporated in England and Wales under registered number IC001058. The Company is a non-UCITS retail scheme. The Authorised Corporate Director (ACD) is Royal London Unit Trust Managers Limited, authorised and regulated by the Financial Conduct Authority, with firm reference number 144037. For more information on the fund or the risks of investing, please refer to the Prospectus or Non-UCITS retail scheme Key Investor Information Document (NURS KII Document), available via the relevant Fund Information page on www.rlam.com

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