DESPITE GOOD GROWTH FIGURES, BELGIUM IS LESS PREPARED FOR THE FUTURE THAN THE AVERAGE EU COUNTRY

Now that the European Central Bank (ECB) cut interest rates for the first time in five years at the beginning of June, we can expect further rate cuts in the coming quarters. The US economy is growing faster than the eurozone, but the latter is expected to accelerate in 2025. The outlook for Belgian growth and property prices is positive, but it is not all good news for the country: according to the latest update of the FutureProof Index, Belgium is less future-proof than the average EU country. Globally, we are seeing a broadening of equity markets, with other sectors taking their place alongside technology stocks. Commodities, on the other hand, have a lot of potential but also show a lot of volatility as a result. BNP Paribas Fortis Chief Economist Koen De Leus and Chief Strategist Philippe Gijsels look ahead to the second half of 2024.

US core inflation remains too high at 3.4% (Personal Consumption Expenditures or PCE); this will impact any expected rate cuts by the Federal Reserve before the end of the year. In early 2024, financial markets priced in almost six rate cuts. Today, there has hardly been one, with an expected catch-up of four rate cuts to 4.25% in 2025. But that would need the economy – and especially the labour market – to cool down. Interestingly, expected inflation would still be close to 3.5% at the end of 2024, well above the 2% inflation target. The question is whether we are entering a period of structurally higher inflation.

In **Europe**, inflation has fallen more rapidly in recent quarters. It now stands at 2.6%. The ECB has already cut interest rates to 3.75% for the first time in 2024. **Koen De Leus** expects further rate cuts in the coming quarters: "This will not be too abrupt, so as not to widen the interest rate differential with the US and thus increase the value of the US dollar too much. I expect a short-term rate of 2.5% by the end of 2025."

Growth figures

De Leus explains the difference in inflation between the US and Europe by the difference in growth rates. "While the eurozone narrowly avoided a mini-recession in 2023, the US economy has shown great resilience to sharply higher interest rates", he explains. The predicted hard landing of the US economy has not materialised, thanks to continued strong job creation and associated consumer spending. "Even in 2024, it continues to grow at a pace of 2.5%, before slowing to a still robust 1.8% in 2025."

In the **eurozone**, growth will rise to 0.9% in 2024. Industry is coming out of recession, giving a boost to industrialised countries, led by Germany. Rising real incomes in many countries, as a result of higher nominal wages offset by falling inflation, are also slowly boosting private consumption. Growth is expected to accelerate towards 1.6% by 2025.

Belgian growth has held up remarkably well in recent years. Wage indexation has boosted real disposable income. The government invested more in the run-up to the elections, while companies also invested heavily. **De Leus**: "From the end of 2022 to the end of 2024, Belgium will see additional growth of just over one percentage point compared to the eurozone. For 2024 and 2025, I expect growth of 1.3%".

In addition, **Belgian property prices** also held up well – in nominal terms – with an increase of 2.5% in 2023. Demand has fallen sharply, but property supply remains structurally too low. Thanks to wage indexation and predominantly long-term mortgages, Belgium has also historically had few repossessions. For 2024, the chief economist has raised his expectations from +1.9% to +3.3%, which is not far from the long-term average.

Finally, **China** is still struggling, but could still grow by 5.2% thanks to government support. However, its massive overcapacity and weak domestic consumption make China a source of global deflation.

Belgium: FutureProof Index
Belgium's economic growth (see above) comes at a price. The budget deficit was 4.4% of GDP in 2023. The National Bank of Belgium expects it to rise to 5.5% in 2026 on a no-policy change basis.

In the past, a budget deficit has not led to a rapid increase in public debt, thanks to falling interest charges. However, the average interest rate on outstanding government debt reached a low point of 1.43% in 2021, compared with 1.92% today. According to the European Commission, Belgium's annual interest costs will rise from 8.5 billion euro in 2021 to 14.2 billion euro in 2025.

In his annual update of the **FutureProof-index**[1], which examines Belgium's readiness for the future compared to other European Union countries, Koen De Leus, has – for the first time – analysed five economic sectors instead of four. Because of its growing importance for the future, **sustainability** is now part of the index. Belgium receives a mediocre score in this area.

In the overall ranking, Belgium ranks 21st out of the 27 EU countries.

In the area of **public finances**, Belgium performs poorly compared with the rest of the European Union. We remain below average in the **overall ranking**.

Below is an overview of Belgium's performance in each category:

Domain	Productivity	Labour market	Government	General situation	Sustainability	Total
Score for Belgium	68%	32%	18%	40%	51%	42%

For the full results, please see the attached slideshow.

[1] The FutureProof Index analyses 5 domains based on **15 indicators**: for (1) productivity, these are **PISA scores**, **R&D expenditure** and **lifelong learning**; for the (2) labour market, these are **vacancy rate**, **the number of NEETS** and the **employment rate**; for the (3) government, these are **debt ratio**, **budget deficit** and **public investment**; for (4) general situation, these are **dependency ratio**, the **DESI index** and a **measure of mobility**; and for (5) sustainability, these are **share of renewable energy**, **CO_2eq footprint per capita** and **income inequality**. For each indicator, the 27 EU countries are ranked (as far as data is available). This ranking is then reduced to a percentile score: 100% for those scoring best, 0% for those scoring worst. These scores are summed to arrive at an overall, average score.

US Presidential election

On 5 November 2024, Americans will elect a president for the 60th time. On protectionism, rebuilding US industrial capacity and rising budget deficits, the platforms of Joe Biden and Donald Trump do not differ much.

However, a **Trump** election risks putting democratic values under pressure. Isolationism with more geopolitical turmoil becomes more likely, including an escalation of the global trade war. Such a trade war, with trade tariffs rising by 10 percentage points and import tariffs on Chinese products by 60 percentage points, would trigger a significant inflation and growth shock in the event of countermeasures. In the worst-case scenario, the negative impact on US GDP in the first year would be 1.2 percentage points and 0.4 percentage points for the eurozone. US inflation would also rise by 4.5 percentage points due to higher import prices. European retaliation against US imports would add 0.6 percentage points to eurozone inflation.

A **Biden** election is likely a continuation of current policies, with more protectionism (mainly directed at China), more government and more social policies, including higher taxes on corporations and the rich. The big difference with the Republican opponent is that with the Democrat there will be a more globally engaged and predictable US.

Equities: a broadening market

Having ended 2023 well with an excellent November and December for equity markets, we also see a very strong first half of 2024 with solid green numbers globally. The **second half of the year**, however, looks like a mixed bag.

On the one hand, the second half of the year is often, but not always, the most challenging. *"There is therefore a temptation to take profits, which are often not small"*, argues **Philippe Gijsels**. *"The expected rate cuts are not happening, or at least they are happening more slowly than expected at the beginning of 2024. And above all, there are a number of geopolitical risks, from global conflicts to elections".*

On the other hand, we see a broadening of the market. Many sectors and countries that have been struggling for more than a year are trying to catch up with the still-exalted tech stocks. Examples include the BEL 20, the Chinese stock market, small- and mid-caps, listed real estate and, more recently, alternative-energy stocks.

"If you look at it this way, we clearly see a market that is much healthier because many more stocks are participating in the rally", Gijsels continues. *"For this reason, it might not be a bad idea to position ourselves a bit more defensively in the coming months and do a bit of bottom fishing in lagging values and sectors. But of course we should not completely ignore technology stocks, because that is where future growth lies, at least in part".*

In recent months, **Europe** has managed to keep pace with the **US** for the first time in a long while, suggesting that the equity rally is no longer being driven by technology stocks alone, but that the market is moving higher on a broader front. Even the much troubled Chinese stock market, which started the year once again under water, managed to scratch the surface somewhat.

The strong performance of equity markets in the first half of 2024 took place against a backdrop of gradually rising interest rates. This is in stark contrast to 2023, when markets danced up and down to the rhythm of rising and falling interest rates. The strength of the equity rally is probably partly due to good corporate earnings and growing interest in all things artificial intelligence.

In addition to the positive undertone in the markets, the first half of 2024 has also been characterised by particularly low equity volatility. *"We would be very surprised if this volatility were not much higher in the second half of the year, given all the economic and geopolitical uncertainty",* argues **Gijsels**.

In our multi-global world (where different spheres of influence and globalisation revolve around the different blocs, mainly China, Europe, Russia and the United States), the differences in the performance of emerging markets among themselves are widening. It is fair to ask whether we can still speak of a growth country complex. Perhaps it is better at the moment to assess the strengths and weaknesses of each country individually. From this perspective, managers will need to pay more and more attention to country opportunities in the coming years, and also to country risks.

Commodities

The long talked about structural bull market in commodities is taking shape in the first months of 2024. **Philippe Gijsels**: *"This means that commodity prices will be structurally higher and above all, more volatile in the coming years, and the prices of gold, silver and copper could go much higher than many people think possible".*

Currency

In the currency markets, the first half of the year has been relatively stable, with the notable exceptions of the strong performance of the US dollar and the weakness of the Japanese yen. Overall, however, it has been quiet. As always, the longer the lull, the greater the likelihood of a major move. A breakout in any direction is therefore likely to be strong.

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