



Insigneo Weekly Dispatch

WEO Update: Exercise Caution

In customary fashion, the IMF published its July update to the World Economic Outlook.



By Melissa Ochoa Cárdenas

Investment Strategist

Insigneo

WEO Update: Exercise Caution

In customary fashion, the IMF published its July update to the World Economic Outlook. Given the uncertain backdrop we are facing, we deemed it fit to review the new information presented by the Fund and the expected effects this may have on the regions in our interest.

One of the first things that stands out from this update is the Fund's perspective that growth will be in line with what had been forecast in April's WEO against a backdrop of a narrower output divergence across economies and a services inflation trend that is making the global disinflation process a more challenging one. Moreover, the IMF stressed that economic growth surprised to the upside in 1Q24, even if some economies – like the US and Japan – surprised the market to the downside. This contrasts with shoots of economic recovery observed in Europe stemming from the improvement observed in services activity. In this regard, the Fund expects a convergence within the growth rates of advanced economies around the 2% handle. In the US, the Fund projects a cooling of the labor market and a moderation of consumption, together with a closing of the positive output gap by the end of 2025.

In the Euro Area, the IMF stated it expects a pickup in activity for 2024 on the back of higher-than-expected exports and an overperformance of the services sector; nonetheless, the Fund stressed that the observed manufacturing weakness in some countries, like Germany, could imply a slower recovery. Regarding EM growth, the Fund revised its forecast to the upside due to expected stronger activity in China and India. In the case of China,

projections include a rebound in private consumption and strong exports, whereas rosier prospects from private consumption underpin India's improved picture. For Latam and the Caribbean, the Fund's perspective is not so positive, with both Mexico and Brazil – the two countries mentioned in the report – having their growth forecasts trimmed.

On the inflationary front, the IMF stressed the contrast between services and goods inflation, with the former proving stickier than initially expected, whereas the latter has exhibited a strong disinflationary trend. The observed trend in services inflation, combined with unmoored short-term inflation expectations, has led to a divergence in the path of monetary policy in advanced economies, with Canada and the Euro Zone being ahead of the US in cutting their rates. Meanwhile, the IMF highlighted the cautious stance of several central banks in emerging economies that do not want to exceed their rate cuts amid heightened external risks that could be triggered by changing rate differentials and stark currency depreciation versus the dollar. Against this backdrop, the Fund also expects inflation to remain higher in emerging markets than in advanced economies; however, due to the observed setback in energy prices, the IMF also stressed that inflation is already close to pre-pandemic levels for most of these economies. Furthermore, the Fund considers that global financial conditions remain accommodative, underpinned by corporate valuations that the IMF deemed buoyant. Still, the upward trend observed in yields could exert pressure on the world's fiscal discipline, which, according to the WEO, is already strained in some countries.

When discussing the risks to its outlook, the IMF stressed that even if they remain balanced, some

near-term risks had gained increased importance. In particular, the Fund highlighted existing upside risks to inflation, a higher nominal wage growth, and the escalation of trade tensions, among others. Regarding the current trade stance, the IMF emphasized the importance of scaling back on trade-distorting measures and, instead, focusing on strengthening the multilateral trading system. Furthermore, the potential for higher rates for a more extended period has, in turn, increased external, fiscal, and financial risks. Moreover, the Fund highlighted the increased risk stemming from the elections this year, which heightened the uncertainty surrounding its base-case scenario. Lastly, the IMF highlighted that policymakers have two pending tasks for the remainder of the year: restoring price stability and addressing the recent crises that have jeopardized economic growth. In this regard, the Fund stressed that policymakers should take prompt action to revitalize the declining medium-term growth prospects by acknowledging the different factors affecting each country's productivity while aiming to enhance business dynamism.

In its financial stability update, the Fund highlighted several key factors, including the uncertainty surrounding the path of long-term US real rates and the shift of the USD against major advanced economic currencies, which caused the yen to exhibit a sustained depreciation. When referring to the emerging market currencies, the IMF stressed that these currencies have been subject to depreciation pressures, amid net capital outflows since April and some sensitivity to the changes in expectations for the US policy path.

Zooming in on Latam, it is worth stressing that most central banks in the region have exhibited a more cautious approach to easing their monetary policy

rates. For example, the Chilean central bank stated in its June meeting that the bulk of rate cuts forecasted for the year had occurred in the first half of 2024 amid a recovery in domestic activity underpinned by stronger-than-expected internal demand. In the case of Mexico, Banxico was the last Latam bank to begin its easing cycle but has only been able to cut its rate once, against the backdrop of heightened volatility in the local markets due to the presidential elections and an accelerating headline inflation that is expected to wane because of economic deceleration. In Brazil, the COPOM also kept its Selic rate unchanged in its last meeting after accumulating 125bps of cuts over the year. The Committee argued that the global environment remained adverse and continued to require caution from emerging market economies, which meant a more cautious approach when implementing domestic monetary policy. Furthermore, the COPOM stressed that economic activity in Brazil remains resilient, whereas inflation expectations are unmoored, thus exhibiting the need for monetary policy to stay contractionary.

Taking these approaches into account, we would be remiss if we did not think that rates in Latam may also follow the US's path and remain higher for longer. This is particularly noteworthy if we consider that, year-to-date, all Latin American currencies are exhibiting substantial depreciations that could feed into higher inflation prints in the future. These currency moves, coupled with the slight increases observed in the latest inflation prints, may raise some red flags during the upcoming central bank meetings. Even if pass-through phenomena usually come with a lag, the caution emphasized by both the Fund and the central banks is warranted.

Real GDP (% YoY)	2023	2024*	2025*
World	3.3	3.2	3.3
Advanced Economies	1.7	1.7	1.8
United States	2.5	2.6	1.9
Euro Area	0.5	0.9	1.5
Germany	-0.2	0.2	1.3
France	1.1	0.9	1.3
Italy	0.9	0.7	0.9
Spain	2.5	2.4	2.1
Japan	1.9	0.7	1.0
United Kingdom	0.1	0.7	1.5
Canada	1.2	1.3	2.4
Other Advanced Economies	1.8	2.0	2.2
EM and Developing Economies	4.4	4.3	4.3
Emerging and Developing			
Asia	5.7	5.4	5.1
China	5.2	5.0	4.5
India	8.2	7.0	6.5
Emerging and Developing			
Europe	3.2	3.2	2.6
Russia	3.6	3.2	1.5
Latin America and the			
Caribbean	2.3	1.9	2.7
Brazil	2.9	2.1	2.4
Mexico	3.2	2.2	1.6
Middle East and Central Asia	2.0	2.4	4.0
Saudi Arabia	-0.8	1.7	4.7
Sub-Saharan Africa	3.4	3.7	4.1
Nigeria	2.9	3.1	3.0
South Africa	0.7	0.9	1.2

* denotes projections

Source: IMF



Click or scan this code to access more insights at insigneo.com/insights

Important Legal Disclaimer

Insigneo Financial Group, LLC comprises a number of operating businesses engaged in the offering of brokerage and advisory products and services in various jurisdictions, principally in Latin America. Brokerage products and services are offered through Insigneo International Financial Services, LLC, headquartered in Puerto Rico, and through Insigneo Securities, LLC, headquartered in Miami. Both are members of the Financial Industry Regulatory Authority (FINRA) and Securities Investors Protection Corporation (SIPC) <https://www.sipc.org/>. Investment advisory products and services are offered through Insigneo Advisory Services, LLC, an investment adviser registered with the Securities and Exchange Commission. In Uruguay, advisory services are offered through Insigneo Asesor Internacional S.A, Insigneo Gestor Internacional S.A, Insigneo Asesores de Inversion Latam, SRL, and Insigneo Asesores de Inversion de Uruguay, SRL, in Argentina through Insigneo Argentina, SAU, and in Chile through Insigneo Asesorías Financieras, SPA. Collectively, these nine operating businesses make up the Insigneo Financial Group. To learn more about the Broker Dealers including their conflicts of interest and compensation practices, please go to <https://insigneo.com/disclosures/> or via www.finra.org. To learn about Insigneo Advisory Services, LLC and any conflicts related to its advisory services, please see its Form ADV and brochure which can be found at Investment Advisor Public Disclosure website <https://adviserinfo.sec.gov/>

FOR AFFILIATES LOCATED IN CHILE

Insigneo Asesorías Financieras SPA se encuentra inscrito en Chile, en el Registro de Prestadores de Servicios Financieros de la Comisión para el Mercado Financiero. Este informe fue efectuado por área de Research & Strategy de Insigneo Securities LLC, o sus proveedores, en base a la información disponible a la fecha de emisión de este. Para evitar cualquier conflicto de interés, Insigneo Securities LLC dispone que ningún integrante del equipo de Research & Strategy tenga su remuneración asociada directa o indirectamente con una recomendación o reporte específico o con el resultado de una cartera. Aunque los antecedentes sobre los cuales ha sido elaborado este informe fueron obtenidos de fuentes consideradas confiables, no podemos garantizar la completa exactitud e integridad de estos, no asumiendo responsabilidad alguna al respecto Insigneo Securities LLC, Insigneo Asesorías Financieras SPA ni ninguna de sus empresas relacionadas.

Este material está destinado únicamente a facilitar el debate general y no pretende ser fuente de ninguna recomendación específica para una persona concreta. Por favor, consulte con su ejecutivo de cuentas o con su asesor financiero si alguna de las recomendaciones específicas que se hacen en este documento es adecuada para usted. Este documento no constituye una oferta o solicitud de compra o venta de ningún valor en ninguna jurisdicción en la que dicha oferta o solicitud no esté autorizada o a ninguna persona a la que sea ilegal hacer dicha oferta o solicitud. Las inversiones en cuentas de corretaje y de asesoramiento de inversiones están sujetas al riesgo de mercado, incluida la pérdida de capital.

La información base del presente informe puede sufrir cambios, no teniendo Insigneo Securities LLC ni Insigneo Asesorías Financieras SPA

la obligación de actualizar el presente informe ni de comunicar a sus destinatarios sobre la ocurrencia de tales cambios. Cualquier opinión, expresión, estimación y/o recomendación contenida en este informe constituyen el juicio o visión de área de Research & Strategy de Insigneo Securities LLC, o sus proveedores, a la fecha de su publicación y pueden ser modificadas sin previo aviso.

FOR AFFILIATES LOCATED IN URUGUAY

En Uruguay, los valores están siendo ofrecidos en forma privada de acuerdo al artículo 2 de la ley 18.627 y sus modificaciones. Los valores no han sido ni serán registrados ante el Banco Central del Uruguay para oferta pública.

FOR AFFILIATES LOCATED IN ARGENTINA

Insigneo Argentina S.A.U. Agente Asesor Global de Inversión se encuentra registrado bajo el N° 1053 de la Comisión Nacional de Valores (CNV) e inscripto ante la Inspección General de Justicia (IGJ) bajo el N° 12.278 del Libro 90, Tomo -, de Sociedades por Acciones. Este informe fue efectuado por área de Research & Strategy de Insigneo Securities LLC, o sus proveedores, en base a la información disponible a la fecha de su emisión. Para evitar cualquier conflicto de interés, Insigneo Securities LLC dispone que ningún integrante del equipo de Research & Strategy tenga su remuneración asociada directa o indirectamente con una recomendación o reporte específico o con el resultado de una cartera. Aunque los antecedentes sobre los cuales ha sido elaborado este informe fueron obtenidos de fuentes consideradas confiables, no podemos garantizar la completa exactitud e integridad de estos, no asumiendo responsabilidad alguna al respecto Insigneo Securities LLC, Insigneo Argentina S.A.U. ni ninguna de sus empresas relacionadas. La información base del presente informe puede sufrir cambios, no teniendo Insigneo Argentina S.A.U. la obligación de actualizar el presente informe ni de comunicar a sus destinatarios sobre la ocurrencia de tales cambios.

Este material está destinado únicamente a facilitar el debate general y no pretende ser fuente de ninguna recomendación específica para una persona concreta. Por favor, consulte con su ejecutivo de cuentas o con su asesor financiero si alguna de las recomendaciones específicas que se hacen en este documento es adecuada para usted. Este documento no constituye una oferta, recomendación o solicitud de compra o venta de ningún valor negociable en ninguna jurisdicción en la que dicha oferta o solicitud no esté autorizada o a ninguna persona a la que sea ilegal hacer dicha oferta o solicitud. Las inversiones en valores negociables están sujetas al riesgo de mercado, incluida la pérdida parcial o total del capital invertido. Cualquier opinión, expresión, estimación y/o recomendación contenida en este informe constituyen el juicio o visión de área de Research & Strategy de Insigneo Securities LLC, o sus proveedores, a la fecha de su publicación y pueden ser modificadas sin previo aviso.