Confidence must be earned

Amundi
ASSET MANAGEMENT

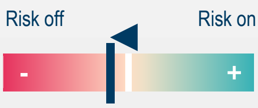
April 2019

Global Investment Views

Pascal BLANQUÉ
Group Chief Investment Officer

Vincent MORTIER
Deputy Group Chief Investment Officer

Overall risk sentiment



Overall more cautious, due to the extended equity rally, in a still fragile macro backdrop

Changes vs previous month

- More cautious on DM equities
- More constructive on EU credit
- More cautious on US duration

Overall risk sentiment is a qualitative view of the overall risk assessment of the most recent global investment committee.

A sweet spot, but keep a sharp eye on the macro side

Risky assets have been in a very strong uptrend since the beginning of the year. The key question now is, where **do we go from here**? There are two main driving forces to focus on in the current context.

Force 1 is the dovish turn of the main Central Banks (CBs) – the game changer this year. The Fed hiking cycle seems to be over for the moment, with the probability of further hikes now very remote. The ECB has gone the extra mile of dovishness by confirming that the "*lower for longer*" narrative is going to persist, announcing a new TLTRO, and also introducing the possibility of further accommodative measures.

Force 2 is the slowdown in global growth and the very limited inflation pressures, both of which form the rationale behind the dovish stance of the CBs. Macro data have been weak in the EU, and pockets of weakness are visible in the US as well. Going forward, we expect the EU economy to bottom out, and potentially improve in the second part of the year (barring the probability of a confidence shock), and we anticipate a slight deceleration in the US, **while we see a very limited probability of a recession**.

In the first quarter of the year, the looser monetary policies (Force 1) have clearly dominated. The biggest beneficiaries have been risky assets, as goldilocks trades have come back into vogue.

In a short-term view, chasing the market does not appear to be a smart move. Most of the valuation gap we highlighted at the start of the year has now been absorbed. Moreover, the pendulum of the prevailing driving force for the market could swing back somewhat from low interest rates (good news) to weak growth (bad news). Also, **the move from the prevailing "bad news is good news" environment to the "bad news is bad news" mode is the major risk investors are facing right now**, which is clearly important at a time when the peak in earnings is behind us and trade disputes are prevalent. In fact, it is still uncertain how far the bad news could go. A small taste of this uncertainty came two weeks ago when the ECB revised down its growth and inflation forecasts, and financial stocks suffered despite the new TLTRO announcement. But as long as the sweet spot is intact (ie, a consensus of CBs on the accommodative side and no further deterioration in the growth outlook), there will be some support for risky assets, even if the valuation gaps are less attractive.

We continue to see some opportunities in risky assets, but at the same time **we suggest moderation in the deployment of risk budgets** in view of the price action already seen. As we see limited directional upside ahead, we prefer to avoid areas where the risk profile looks asymmetrical in the short term (with more risk of correction than further upside). This is the case for equities, where we have become more cautious, with a preference for EM (where we are still constructive) vs DM (more cautious). A new entry point (especially for European equities) could emerge when the negative trend in earnings revisions bottoms out, and we believe this will happen, if we are right in seeing no further deceleration and some improvement in H2. In this "wait and see" phase, corporate markets (in particular in Europe) remain attractive. **Going forward, it will be important to watch the macro side**: the sweet spot could end if there is an increasingly deteriorating macro – and this is not our call. However, it will be a close call, and it will be crucial to identify any signal or factor that could jeopardise the persistence of the sweet spot, with an eye on risks that could worsen the scenario, such as a hard landing in China, a chaotic Brexit with negative consequences for European growth, and/or further escalation in trade tensions harming global trade.

***On a medium-term view**, beyond the cyclical moves and beyond any sweet spot, structural forces (demographics, low structural inflation) will continue to keep interest rates down. Facing lower expected returns, investors have no option but to be able to identify and exploit value where it lies or where it is restored. This implies being systematic and quick – and this is one of the key lessons learned this year, given the speed of the market moves this year to date.*

MACRO & STRATEGY

Philippe ITHURBIDE
Global Head of Research

Monica DEFEND
Head of Strategy, Deputy Head of Research

Didier BOROWSKI
Head of Macroeconomic Research

“The new ECB measure could support the corporate bond market, and there is more to come in case of a further deterioration of economic conditions.”

US and Eurozone: what to expect through the year?

Over the past 15 months, the Eurozone economy as a whole has slowed very sharply (+1.1% yoy in Q4 2018), while the US economy has accelerated (+3.1% yoy in Q4 2018), driven by tax cuts. However, **we believe these trends could be reversed to some extent in the next 12 months.**

In the **United States**, the **first signs of a slowdown** are emerging in Q1, while though the **Eurozone** is still weakened by external trade and political uncertainty (Brexit, trade tensions), **it seems that the worst is behind us**. True, the Eurozone composite Purchasing Managers' Index (PMI) fell by 0.6 pts to 51.3 in March (the small February rebound did not last), the manufacturing PMI fell to 47.6 (its lowest level since April 2013) and new export orders posted their lowest level since mid-2012 (with sharp declines in Germany and France). However, the situation in services is reassuring: the PMI for services has changed little (52.7 vs 52.8 in February). This tends to confirm our views that the manufacturing sector and world trade will continue to weigh on growth in Q1, **but domestic demand remains resilient.**
We expect global trade growth to stabilise and to re-accelerate somewhat in H2 (stabilisation of the global trade to global GDP ratio).

Against this backdrop, **Eurozone growth should gradually recover by the end of the year**, mainly driven by household consumption, albeit not with the same strength as at the end of 2017.
But it would be striking to see this development, at the very moment when US domestic demand is slowing down.

The FOMC just lowered its growth forecast to 2.1% for 2019 and 1.9% for 2020 (-0.2% and -0.1 % respectively vs December), in line with our expectations.
In addition, the Fed’s monetary policy will stay accommodative. The last FOMC highlighted the favourable labour market situation, but also the recent slowdown in household consumption and business investment.

Fed Chair Powell said that the FOMC will wait before changing the monetary policy stance, particularly given the domestic and external risks to economic activity. **In this context, the Fed is no longer forecasting any rate hikes in 2019** (vs two hikes expected previously) and this accommodative stance would continue in coming years.

The Strategist’s View – Central Banks abandoning normalisation

The ECB turned to an easier policy, surprising bond markets. The ECB surprised both on the timing of new measures and the likely persistence of the new easing stance:

1) Immediate decision on TLTRO - 3 and rates forward guidance (no interest rate hike in 2019), sooner than expected by the market (April-June).
2) Magnitude of downward revisions to GDP/Inflation outlook, larger than expected by consensus.
3) Balance of risks that remains tilted to the downside, indicating that further measures may come.

TLTRO features look more in line with the consensus. It also looks adequate to provide, especially peripheral banks, with the needed flexibility in managing refunding “congestion” coming from maturing previous TLTROs and bonds over the next four years. Technical conditions have improved for corporate bonds, as lower supply pressure is likely to come from financials in the coming quarters, while the search for yield is likely to strengthen, mainly supporting BBB corporates, peripheral financials, and to some extent, high yield too. The shift to the year end of the forward guidance is going to work as a gravity force on govies’ yields in the short term. At the same time, the “*lower for longer* scenario” (lower rates for longer time) may force the ECB to reconsider normalising the negative depo rate as the next step, in order to reduce the unwanted side effect on bank profitability and to make the policy transmission more effective. In this case, a bear flattening of core govies’ curves would look likelier, but for the moment the ECB doesn’t look eager to move in that direction. The decision to index the TLTRO - 3 on the refinancing rate rather than on the deposit rate seems to leave open the door to such a normalisation by purpose.

DM= Developed Markets, EM = Emerging Markets, CB= Central Bank, ECB= European Central Bank, Fed= Federal Reserve.
TLTRO= targeted longer-term refinancing operations.

Are we living in a perfect world?

MULTI-ASSET

Matteo GERMANO
Head of Multi-Asset

We suggest a recalibration of risk to deal with market complacency: reduce DM equity and increase credit exposure.

Since the beginning of 2019, almost all asset classes are in positive territory, and volatility remains low. Are we living in a perfect world? Not really. Complacency is evident in certain areas of the market, where the rally has extended too far and too fast, going beyond what fundamentals justify. In March, we have become **more cautious on risk assets in the short term,** as risks seem more asymmetric. A significant amount of good news seems to be priced into markets. With most of the valuation gap closed, we would need some improvement in the macro scenario to see further upside from current levels. On the macro side, we continue to expect an economic slowdown and more downside risks, but very low risks of a recession. CBs will remain accommodative, but the risk that the Fed changes its communication policy too quickly is something that is worth monitoring. Any shift or signal of a less dovish Fed could provide a trigger for a market correction.

High conviction ideas

While remaining positive on a medium-term horizon on risk assets, we believe the market could consolidate at these levels, especially in equities. Consequently, as we expect a pullback and not a significant risk-off move, **we suggest some tactical risk reduction and rotation.** In particular, we have become **more cautious on DM equities** – valuations are not as appealing as they were at the beginning of the year, even if positioning is still light and many investors did not benefit from the bull run. Our reasons for becoming more cautious on European and US equities are the extent of the rally, and earnings revisions that remain depressed and show little evidence of bottoming out soon. In Europe, some political risk remains in the background (mainly Brexit, but also the risk of tariffs targeting the EU auto sector) which could weigh on EU equities.

In the US, the equity market is exposed to deteriorating economic momentum, and to noise arising from US fiscal policy, with the debate on the US debt ceiling expected to resume in the short term.

We have also moved our stance on **Japan back to neutral**. The results of US-China trade negotiations are expected soon. Should there be no resolution, the Japanese market could under-perform due to a strengthening Yen, which usually acts as a safe-haven asset.

We remain positive on EM equity, and in particular Chinese markets, which look fairly valued and show improving fundamentals. In EM FX, we seek relative value opportunities, favouring those currencies with low external vulnerability and attractive valuations (eg, Ruble, Indonesian rupia).

We have increased our conviction on credit markets for multiple reasons: the search for yield is expected to continue in a low interest rate environment coupled with a still-benign default rate outlook. Within DM credit, we maintain a preference for Euro IG over US IG, taking into account better fundamentals (no excess leverage) and the favourable technical support from the ECB.

On duration, we keep an **overall cautious stance,** with a preference for US Treasuries vs German Bunds (especially the five-year maturity), although at current levels, US Treasury valuations are not particularly attractive. In **currencies**, we have moved to neutral on the GBP amid the ongoing lack of clarity on Brexit.

Risks and hedging

Having reduced the overall risk stance, we think investors should trim the hedging (gold).

Amundi Cross Asset Convictions

	1 month change	---	--	-	0	+	++	+++
Equities	▼			■				
Credit	▲						■	
Duration					■			
Oil					■			
Gold	▼				■			
Euro cash				■				
USD cash						■		

The table above represents cross asset assessment on a 3-6 month horizon, based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/++/+++). This assessment is subject to change.

FIXED INCOME

Eric
BRARD
Head of Fixed Income

Yerlan
SYZDYKOV
Head of Emerging Markets

Kenneth J.
TAUBES
CIO of US Investment Management

"The ECB's accommodative stance may favour peripheral bonds and financial credit."

Are stars aligning for fixed income investors?

Positive conditions seem to be aligning for fixed income investors: slowdown in global growth, little or no inflation, and CBs committed to avoid further economic deceleration. Against this backdrop, we expect interest rates to remain low, capped by CB dovish positions and stable demand for assets perceived as safe havens. We expect that the search for yield will remain in strong focus. In March, more than $9.3tn debt* in global bonds had negative yields, up more than $3.5tn from the lows recorded in October, before the CB's U-turn.

DM bonds

In US bonds, the fall of US treasury yields reflects the Fed's more accommodative tone. The FOMC has paused its policy rate normalisation process (we don't expect any interest hike this year) and is messaging patience and data dependence with respect to future policy rate moves. We expect the Fed will conclude the balance sheet normalisation by the end of the third quarter, which would be earlier than the market is expecting. Domestic inflation signals should be monitored as a key precursor to any shift in the FOMC's current policy. At current levels, we take a more cautious view on US duration, within an overall stance close to neutral. **Euro fixed income** received strong support from the ECB's new accommodative measures. This should benefit the peripheral bond market, favoured in the search for income. We maintain a slightly short duration view in Europe (moderately increased vs the previous month).

Credit

EU credit (peripheral financials in particular) is the main beneficiary of the new ECB TLTRO. We still see room for spread compression, as the search for yield will be particularly aggressive in Europe. Our preference is for IG financials (subordinated debt). In US credit, given the recent spread tightening, we have become more cautious regarding IG corporates. We favour sectors less vulnerable to event risk, including leveraging from mergers and acquisitions transactions, share buybacks, or increased dividends. Over corporate risk, we favour securitised credit, which offers the benefits of reasonable valuations, tightened rating agency credit standards, compared to pre-2008 structures, and a focus on the US consumer, less vulnerable to global growth than corporates.

EM bonds

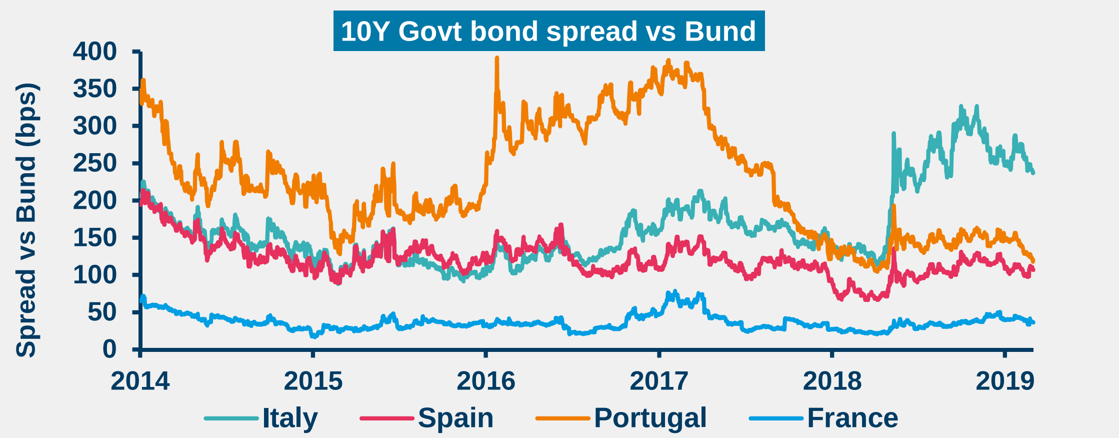
Although EM momentum has recently deteriorated, the continued dovish stance by the world's major CBs might still play in favour of EM debt markets. A trade deal between US and China looks more likely; nonetheless, we keep a watchful eye on any negative surprise.

We remain constructive on EM hard currency debt (for attractive carry, while spread compression is limited), and we tend to favour those countries with cheap valuations or which are qualified for index inclusion (GCC countries). On EM bonds in local currency, we expect extra-carry returns from high-yield countries (Brazil, South Africa, and Indonesia). We remain positive on this asset class, focusing on selection as risks persist.

FX

In the short term, we don't expect the Euro to regain strength vs the USD, on a macro and ECB stance.

We have a neutral view on GBP (due to Brexit), and on JPY, with a tilt towards appreciation if China-US tensions resume.



Source: Bloomberg, Amundi. As of 19 March 2019.

*Data refer to Bloomberg Barclays Global Aggregate Negative-Yielding Debt Index.
FOMC: Federal Open Market Committee.

Beware of the aging rally

Overall assessment

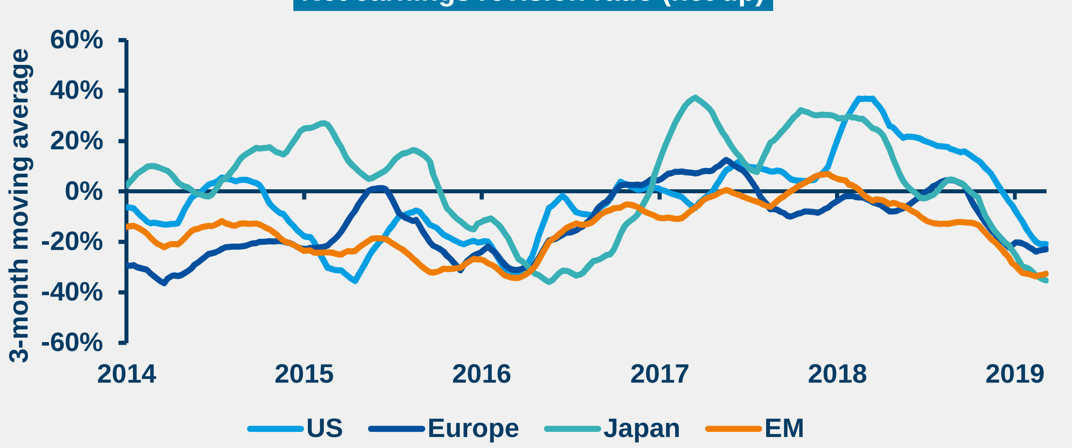
While the momentum of the global equity rally is quite strong, the outlook is uncertain, due to divergent forces at play: **CB's more dovish stance** is generally supportive of equities, but, on the other side, the signs of global **slowdown**, **along with persistent political risks and trade tensions** are a challenge. The **global profit cycle** passed the peak, but we still expect single-digit growth in 2019. Revenues growth will be crucial. Earnings have already been significantly revised downwards and we expect some stabilisation, but a positive turn seems difficult. **Valuations are less compelling,** as many undervaluation gaps closed during this year's rebound. On the other hand, the participation in the rally has been low, and this could further support the positive momentum. Given these conflicting dynamics, we prefer to play bottom-up opportunities and maintain a cautious top-down stance, expecting a range-bound market or possibly some consolidation.

DM Equities

The US market is at an inflection point; a continuation of the risk-on rally would require improving, or, at least, no further deteriorating fundamentals; an earnings recession could trigger a move to a risk-off stance. **We take a cautious approach to the market**, awaiting an increase in visibility. We see attractive opportunities in financials and industrials. **European equities** have posted a strong rebound, driven by the cyclical sector where we suggest taking some profits and looking for new opportunities, for example, in healthcare names with strong balance sheets. There is limited support from the ECB for the banking sector, as the ECB will keep the deposit rate unchanged until at least 2020. Fresh positive news on the political front and stronger earnings growth are now needed to support further market upside. The **focus continues to be on stock picking**, as valuation dispersion remains high. **In Japan** valuations are still attractive even if EPS momentum is slowing. We take a neutral stance, aware of the headwinds coming from a potential stronger Yen in case of a negative surprise on the tariff negotiation side.

EM Equities

Our view on EM equities is positive given the supportive backdrop of growth (differential vs DM expected to widen) and valuations (which still look attractive vs DM). Potential headwinds such as a strong US dollar and deteriorating US-China trade relations have eased somewhat and might support additional growth for EM equities. In Asia, **we mainly favour China**, as valuations stand at attractive levels and a trade deal looks more likely after recent positive developments. We **also favour Russia** on the back of cheap valuations and because sanctions on Russian banks have already been partially discounted. In Latam, **we have a positive view on Brazil and Argentina**, as the outlook in both countries is promising, but we keep watch for negative developments. We suggest a cautious stance on countries with high valuations and increasing political risk.



Source: IBES, Datastream, Amundi Research. As of 19 March 2019. Three month moving average difference between up and down earnings revisions.

EQUITY

We expect a range-bound market or possibly some consolidation. We prefer to play specific stories instead.

Kasper ELMGREEN
Head of Equities

Yerlan SYZDYKOV
Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

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ASSET MANAGEMENT

Amundi asset views

	Asset class	View	1M change	Rationale
EQUITY PLATFORM	US	=/-	▼	We are likely to be at an inflection point for the market after the strong rally in Q1. We could see an extension of the rally in case of improving or not further deteriorating fundamentals, or a correction in case of further earnings deceleration. Due to the low visibility at this stage, we take a more cautious view on the market.
	Europe	=		Strong market rebound driven by cyclical sectors, despite risks that remain tilted to the downside in the short term, with geopolitical uncertainty still in the background (Brexit, possible new tariffs in the auto sector).
	Japan	=	▼	We have become more cautious on Japanese equities, and we believe risks have become asymmetrical. The US-China trade negotiation is expected to progress. Should it become more complicated, the Japanese market could under-perform due to the Japanese yen strengthening, which usually plays a safe-haven role.
	Emerging markets	+		EM earnings per share growth consensus expectations stabilized later in the month. Earnings revisions are bottoming out. We remain constructive on this asset class, but we could see a pause in the upside in the short term.
FIXED INCOME PLATFORM	US govies	=/+	▼	At current valuations, we have become more cautious on US bonds.
	US IG Corporate	=/+		Given a dovish Fed and a still-supportive macro picture, we view the near-term investment environment as supportive for credit spreads and carry, but after the sharp rebound, we see less support from valuations.
	US HY Corporate	=		With spreads having recovered from the end-of-year sell-off, we see a more carry-like return for the asset class. Some opportunities may be found in bonds that may not have fully participated in the credit rally, while we are more cautious on names that rallied and appear fully valued. Focus on sustainability of corporate debt.
	European govies	-/=		Unattractive valuations, with Bund yield close to zero after recent ECB meeting. Pockets of value can be found playing yield curve movements and Euro peripheral bonds.
	Euro IG Corporate	+		The market is well supported by the ECB's increased dovishness (TLTRO and forward guidance). Attractive asset class for carry reasons and still some possible spread tightening.
	Euro HY Corporate	+		Leverage is still low and default rates are likely to stay low in the next 12 months. In a scenario of stabilising growth in the Eurozone, the asset class could provide attractive carry opportunities.
	EM Bonds HC	=/+	▼	Dovish central banks are supportive for EM bonds, but the recent rebounds made valuations less appealing. Short-term volatility could re-open opportunities to gradually add to the asset class. Attractive carry.
	EM Bonds LC	++		We remain constructive on the asset class, due to the positive support that should come from EM FX, still undervalued. Some valuation gap has been exploited but we believe not exhausted.
OTHER	Commodities			We keep USD 55-65 range for the WTI oil. Base metals are moving in line with risky assets and other commodities.
	Currencies			The EUR/USD is expected to remain under pressure, due to ECB dovishness. The outlook for the JPY is highly dependent on risk-on / risk-off mode and equity volatility. We see the USD/JPY at 105 in Q4 2019, as we believe the risky assets rally will lose strength during the year. We have a neutral view on GBP, as the volatility is very high and the Brexit outcome highly uncertain.

LEGEND

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Negative Neutral Positive

▼ Downgraded vs previous month ▲ Upgraded vs previous month

Source: Amundi, as of 19 March 2019, views relative to a Eur-based investor. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product.

IG = Investment grade corporate bonds, HY = High Yield Corporate; EM Bonds HC / LC =EM bonds hard currency / local currency. WTI= West Texas Intermediate.

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AMUNDI Investment Insights Unit

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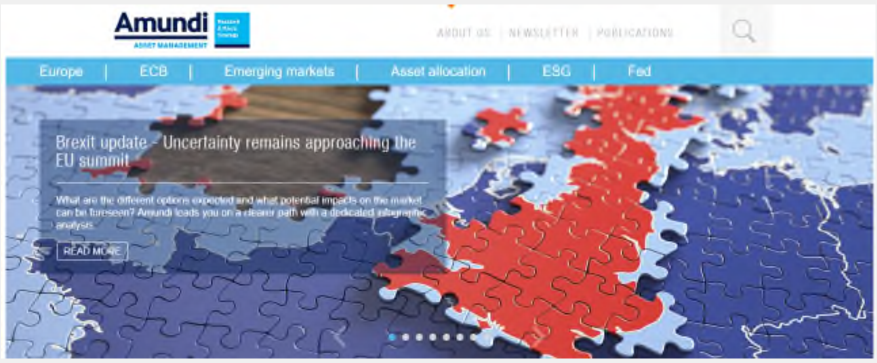

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INSIGHTS UNIT

Claudia BERTINO
Head of Amundi Investment Insights Unit

Laura FIOROT
Deputy Head of Amundi Investment Insights Unit

Definitions

- **Bull flattener/bear flattener** is a situation of the yield curve in which long-term rates are decreasing at a rate faster than short-term rates. This cause the yield curve to flatten as the short term and the long-term rates start to converge. In a bear flattener, short-term interest rates rise faster than long-term interest rates.
- **Credit spread:** differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration possible embedded options.
- **Cyclical vs Defensive sectors:** Cyclical companies are companies whose profit and stock prices are highly correlated with the economic fluctuations. Defensive socks, on the contrary, are less correlated to the economic cycles. MSCI GICS cyclicals sectors are: Consumer Discretionary, Financial, Real Estate, Industrials, Information Technology and Materials, while Defensive Sectors are Consumer Stables, Energy, Healthcare, Telecommunications Services and Utilities.
- **Debt ceiling:** The debt ceiling is the legal limit on the total amount of federal debt the government can accrue.
- **Duration**: a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates, expressed as a number of years.
- **FX:** FX markets refer to the foreign exchange markets where participants are able to buy and sell currencies.
- **MBS, CMBS, ABS:** mortgage-backed security (MBS), commercial mortgage-backed security (CMBS), asset-backed security (ABS)
- **TLTRO:** The targeted longer-term refinancing operations (TLTROs) are Eurosystem operations that provide financing to credit institutions for a predefined period of time. They offer long-term funding at attractive conditions to banks in order to further ease private sector credit conditions and stimulate bank lending to the real economy.
- **Volatility** is a statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.

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