Confidence must be earned

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2020 INVESTMENT OUTLOOK

Be agile to cope with diverging scenarios

"We enter 2020 with the conviction that at this stage a slowdown is in the nature of the cycle, but there are some specific features that characterise it as a peculiar regime. Under this transition phase, the market doesn't crash, but doesn't rally either and investors will have to stay cautious and watch out for tactical opportunities waiting for the next big directional catalyst."

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Letter from the CIOs

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After enjoying stellar performance this year, moving into 2020, investors will increasingly ask whether the global economy will proceed towards a trade war-engineered recession or whether growth will stabilise at a low level and potentially rebound, meaning the cycle could extend even further. In our view, the retreat in global trade is causing a major change in the structure of growth, but does not point to a full-blown recession, especially at a time when cumulative loose policies are gearing up and a partial deal between the US and China is in sight. **Monetary and fiscal policy combination, a prominent theme going forward, may extend the current cycle further.** While the noise on trade-related issues will be high, a material escalation is unlikely given the upcoming US elections in 2020. **However, the path for investors will not be linear. In the short term, market expectations for policy actions have gone too far and need to be adjusted**. The adjustment process will drive volatility in bonds, with a bottoming out of core bond yields having already started, and re-rating in some expensive defensive sectors in equity. **Beyond the short term, the trend is towards a more aggressive policy mix** that could potentially reach "the next level" of unorthodox measures when the risk of recession intensifies. **The result will be an extension of the credit cycle** that could eventually end in an explosion, although it is unlikely to happen next year. In terms of investment strategy for 2020, **instead of fearing a global recession, investors should focus on adjusting their portfolio exposure to the deglobalisation trend. They should also prepare for a mature and extended credit cycle, with higher liquidity risks.**

Against this backdrop, **we envisage four main themes for investors.**

Equity investing for 2020 will be, in our view, a story of income and opportunities for a potential upside. The lack of strong directional trends in the markets will continue as long as earnings growth remains weak. This should drive investors to search for areas of resilience in equity income/dividend space. Once the outlook stabilises, and yields bottom out (Purchasing Manager Indices rebound, some fiscal expansion), there could be some potential for a continuation of the bull trend, with opportunities for cyclical stocks (quality in Europe, value in US and small cap).

In fixed income, it will be a matter of optimising the search for yield, with selection and flexible strategies. The hunt for yield remains a key theme. However, crowded areas and liquidity risk persist and require a deep dive into credit opportunities. For investors with the appropriate time horizon, high yield will remain attractive amid a benign default outlook. Higher scrutiny at sector and security levels will be vital to avoid unsustainable business models. Emerging markets bonds are also attractive for yield hunters, with a preference for hard currency, while opportunities in local currency could materialise during the year. On the core fixed income component, a flexible and diversified approach is recommended amid higher expected volatility.

In emerging markets, new themes will appear from a more fragmented world and a retreat in global trade. Investors will have to go beyond the traditional "global" EM concept and dig deeper to capture attractive opportunities and themes. Among the latter, we favour the "help yourself" countries that have strong domestic demand and are less exposed to external vulnerabilities. Alternatively, themes such as the Silk Road will deserve increased investor attention, in our view.

Finally, **investors should start building volatility-proof portfolios.** Volatility has been constrained by the proliferation of some investment strategies (i.e., selling volatility to get premium), but as market expectations adjust, volatility spikes are likely. To volatility-proof their portfolios, investors should consider liquid alternative strategies that offer low correlation versus traditional asset classes, as well as volatility strategies.

INVESTMENT OUTLOOK 2020
Be agile to cope with diverging scenarios

Five global themes drive our central and alternative scenarios

1 Monetary and fiscal policies combination

2 Global trade: from challenges to opportunities

3 China is in between debt and economic transition

4 US consumers stay sufficiently resilient

5 Corporate earnings and debt conundrum

CENTRAL SCENARIO – *Muddling in the middle* 55%

Analysis
- Synchronised stabilisation
- Low rates, low inflation, low single-digit profits growth for corporates
- Record high debt (public and corporate sectors)
- This scenario has a prominent geopolitical dimension. In the US we do not expect political elections or impeachment process to disrupt US markets but likely to add some volatility spikes

Market Implication
- Monetary and fiscal policy to offset trade uncertainty
- Be active in duration management (favour US duration in global portfolios)
- Defensive on risky assets:
  - Play sector rotation on dislocations
  - Selective on credit quality
- Search carry, but be selective (EM FX)
- Favour gold on pervasive uncertainty and lower Treasury yields

UPSIDE SCENARIO – *All that glitters is gold* 15%

Analysis
- Monetary policy to offset trade uncertainty and/or engage with stimulus policies (Europe/Germany)
- Banking union progress
- Trump smooths material actions on trade

Market implication
- Beware of higher nominal rates
- Prefer inflation-linked bonds
- Favour risky assets
- Be cautious on the USD

DOWNSIDE SCENARIO – *Stormy waters* 30%

Analysis
- Trade war escalates and materialises into currency war and therefore tightens financial conditions
- China hard landing
- Geopolitical recession due to globalisation unwinding
- Exacerbation of individual risks (Middle East, Hong Kong, Brexit, US elections)

Market Implication
- Favour US treasury
- Favour gold
- Stay cautious on risky assets

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Setting the scene: Muddling in the middle

We enter 2020 with the conviction that at this stage a slowdown is in the nature of the cycle, but there are some specific features that characterise it as a peculiar regime. Under this transition phase, the market doesn't crash but doesn't rally either and investors will have to stay cautious and watch out for tactical opportunities.

For 2020 we expect the continuation of a late cycle regime to be the most likely scenario according to our Advanced Investment Phazer (see table). For the time being, no imbalances in the real economy (consumption and investment) have piled up, even at a time when the structure of global growth has changed to be less driven by global trade amid deglobalisation forces at play. However, some main risks persist (see page 10) during this period when the global economy is more vulnerable, as it will progressively transition towards a "correction phase" over the next 18 months (see table). In addition, the current environment has a prominent geopolitical dimension that affects risk premia. This backdrop calls for a still constructive investment stance, but being aware of possible volatility spikes and areas of liquidity risks. **Five key themes will drive the investment journey for 2020:**

1. Monetary and fiscal policies combination

Monetary policy will remain accommodative. The engagement with qualified stimulus policy to offset trade uncertainty will take place only under "crisis management". In the meanwhile, FX (and the USD in particular) will be a key factor in policy decisions.

→ ***Overall, the monetary and fiscal policy combination is a welcome tailwind that could offer room for some tactical opportunities, although short-term expectations may have to further downsize first.***

2. Global trade: transforming challenges into opportunities

The global reassessment of trade dynamics is impacting areas and countries differently. While the US will need to take a harder stance on China, this is unlikely to take place during the election year (2020). The impact of tariffs in Europe is economically limited and we think it is likely the US will team up with Europe against China. Some emerging markets may benefit from the changes in global trade power.

→ ***For investors, this could offer opportunities in EM that are more insulated from trade noise and backed by a credible domestic growth story.***

3. China manages its economic transition

China will manage the "self-inflicted deceleration" of growth to 5.8% amid an economic transformation to adopt and speed up marketplace practices.

This will require addressing productivity growth in the medium to long term, while avoiding a credit bubble burst in the short term.

→ ***Investors could look at longer term opportunities linked to China's development, such as the New Silk Road initiative.***

4. US consumers: sober resilience to see the worst avoided for US economy

There is some spillover from manufacturing to services materialising in the total income deceleration across all sectors (including both the goods producing and service sectors) but US consumers will remain sufficiently resilient in 2020 due to healthier balance sheets.

→ ***For investors, with no recession in sight, this is not yet the time to be risk-off.***

5. Corporate earnings and debt conundrum

US corporate earnings are a key variable for Central Banks to watch. While Fed actions will aim to preserve easing financial conditions, US earnings are exposed to global trade spillovers and are vulnerable to external risks. **High corporate leverage amid sluggish earnings generation is a key feature of this financial regime.**

→ ***Earnings sustainability should be a key driver of selection.***

Our Advanced Investment Phazer

A late cycle with key peculiarities: pre-emptive monetary policy (vs. on hold) and still high leverage → cycle extension potentially driving a credit bubble

	CORRECTION	CONTRACTION	REFLATION	RECOVERY	LATE CYCLE
	Sluggish growth, monetary easing, profit recession	Economic recession, accommodative monetary policy, high leverage	Positive growth, unconventional monetary policy, deleveraging	Economic expansion, monetary tightening, leverage	Positive growth, but on a descending trend, monetary policy on hold, deleveraging
2019 ▶	26%	1%	11%	10%	**52%**
2020 ▶	29%	2%	10%	9%	**50%**
2021 ▶	**49%**	3%	7%	6%	35%

Source: Investment Phazer Amundi Proprietary Tool. Data as of 27 October 2019.

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Policy mix: Do not wait for a big change, unless there's a recession

In a world where: (1) nominal potential growth has decreased; (2) global debt has jumped; and (3) "new needs" (energy transition, defence and security spending etc.) are not being met, it's time to rethink the articulation between monetary and fiscal policy. However, this "reset" will likely take more time than expected.

Financial repression to persist in world of low growth

In a world where nominal potential growth is trending lower (real potential growth has weakened as well as inflation), and where at the same time global debt (both private and public) has surged, **the world needs very accommodative monetary conditions for an extended period of time. As a result, financial repression is here to stay:** central banks (CBs) are trapped in their very accommodative monetary policies (whether active balance sheet management or negative interest rates) in order to smooth the economic impact of the deleveraging process.

Further monetary policies alone could become counterproductive

The long-term impact of "unconventional" monetary policies (securities purchases and/or negative interest rates) **is still largely unknown:** CBs have never increased the size of their balance sheets on this scale and nominal rates have never fallen into negative territory to this extent (the Eurozone and Japan account for 90% of the negative yield universe). CBs are aware of the limited effectiveness of their policies and that these alone can no longer allow them to reach their inflation targets. The marginal impact of any additional accommodation is expected to be much lower (in the Eurozone and Japan) than a few years ago. Moreover, the adverse side effects on financial institutions (banks, insurance and pension funds) and on savers will increasingly be taken into account. With negative interest rates, eventually pension funds will all become underfunded, and savings income will collapse (which would necessitate – all other things being equal – a rise in the household savings rate). **Going forward, additional monetary accommodation alone will prove counterproductive.**

On the fiscal side, there is more room for manoeuvre when rates are low

The fact that the average interest rate paid on public debt has fallen below nominal GDP growth is a game-changer for many advanced economies, **as it is now possible to stabilise the public debt to GDP ratio with a primary deficit.** In addition, the debate on the types of expenditures that should be included in public debt metrics is returning to the forefront, notably in the Eurozone. This may pave the way **for a more flexible approach on the fiscal side at a global level** (i.e., infrastructure and security needs could be taken into account separately).

Moving towards fiscal and monetary complicity

The roles and responsibilities of CBs and governments were quite distinct during the Great Moderation: fiscal policy was dedicated to cyclical stabilisation and monetary policy was dedicated to meeting inflation targets. But with QE programmes, the boundary between monetary and fiscal policy has de facto been blurred. Inflation is persistently undershooting and subsequently, this role splitting no longer works.

A closer coordination is required: CBs will need fiscal policy to achieve their goal while, on the other hand, governments will need very accommodative CBs to reflate their economies. In other words, we have entered into a world of fiscal dominance where we can legitimately question CBs' independence (new reaction function). **Fiscal policy should gradually take over from monetary policy.** Most central bankers emphasise the fact that monetary policy is not the "only game in town", and that low rates should be used to mobilise fiscal policy, where there is fiscal space. In the EZ, for instance, Germany and the Netherlands are asked to mobilise fiscal policy but, as a matter of fact, their governments are reluctant to move in this direction. **There is a consensus to say that policymakers need to rethink their role.** But without a trigger (recession and/or financial crisis), we believe that this is unlikely to happen. With regard to fiscal/monetary policy, the expectations of investors are thus too elevated in the short run. Conversely, **in a time of recession and/or crisis, we must not underestimate the capacity** (and the implicit commitment) of **policymakers to stabilise the situation** (through new channels such as debt monetisation, the purchase of equities or other assets, or even "helicopter money").

Key Investment Implications

- *Long-term interest rates: low for long (financial repression and fiscal dominance), albeit not necessarily in negative territory.*
- *Long-term market inflation expectations are excessively low.*
- *No true protection in the short run on potentially illiquid assets (credit)…*
- *…but following a crisis and/or a deep recession, the "new policy mix" would definitely offer new investment opportunities.*

QE = quantitiative easing.

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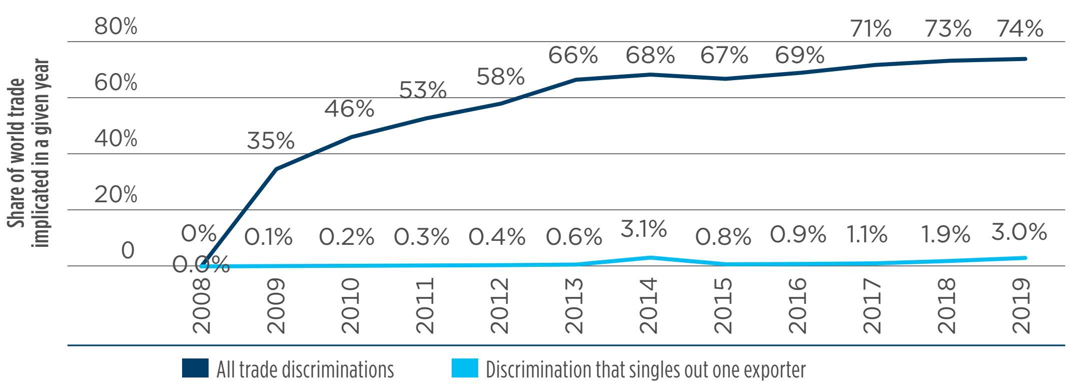
Global trade: Transforming challenges into opportunities

Trade discrimination and protectionist policies have been increasing since the Great Financial Crisis and will result in modest global trade growth in 2020. The world is moving away from a global multilateral approach towards a more regional customised approach. Some Emerging Markets are trying to benefit from this transformation.

Change in the global power distribution

In 2019 world trade dynamics have definitely shown an accentuation in the inversion of the globalisation trend and its robust contribution to global economic performance. The escalation in the dispute between China and the US has been only the tip of an iceberg that has been building up since 2008, made up of incremental protectionist measures and subsidies (to foreign competitors, to local farmers and to state and non-state exporters, to name a few). The World Trade Organization is becoming less effective, with fewer and fewer cases of protectionism brought to it. The awareness of the need to reform the global agency is widely felt, less so the appetite to do it. Against this background we approach 2020 assuming that a trade truce between China and the US will be signed in the near future and that the next round of tariffs planned for mid-December will be delayed and will continue to be part of an ongoing negotiation. **At this point the damage to world trade dynamics has been done and although we do foresee a bottom in the YoY dynamics within 2019, the increasing growth path expected by 2020 is moderated** and far weaker than the growth registered not many years ago. The global multilateral approach is not completely dead, however, it is transforming into a more customised/regional approach with a different power distribution (USMCA, RCEP and CPTPP at the latest stages of the negotiations). In a scenario analysis, **we do assign a higher probability to the downside risks, implying a faster escalation in the relationship between China and the US** (the truce announced will not follow through) with more persistent downward dynamics in global trade and therefore a major downward revision in global growth. On the other hand, we do assign a very small probability to the upside, implying a rolling back of the current tariffs in place.

Trade disputes in place since 2008, a story of all against all



Source: 24th Global Trade Alert Report. Trade disputes have increased since the Global Financial Crisis and it is not a matter of one country against another, but all countries have been impacted.

Spotting medium-term winners and losers from the trade war

The global reassessment of trade dynamics is impacting areas and countries differently. **European exports have been strongly hit by generally weak intra-EU demand** and the declining demand for intermediate and capital goods extra-EU (especially Italy and Germany). The **US is persistently advancing on the path of imports substitution** (imports of industrial supplies and materials have decreased from 27% of total imports in 2007 to 18% in 2019). **EM are trying to transform the challenges posed by the trade tensions into opportunities.** For the two championed winners of the trade war, Mexico and Vietnam, there are early trends emerging. Vietnam (CPTPP, FTA with Europe) is benefitting from small business relocation out of China and Mexico is benefitting from imports diversion by the US (ex-auto, exports to the US are increasing in electrical and electronic equipment).

Investors could play regional divergences arising from protectionist policies. Increased fragmentation and a reassessment of trade dynamics will define the winner and losers. European exporters are the most fragile, while countries such as Mexico and Vietnam could emerge as winners.

RCEP = Regional Comprehensive Economic Partnership, a free-trade agreement among 16 countries in the Asia-Pacific area. CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a free trade agreement between Canada and 10 other countries in the Asia-Pacific region. USMCA = United States-Mexico-Canada Agreement.

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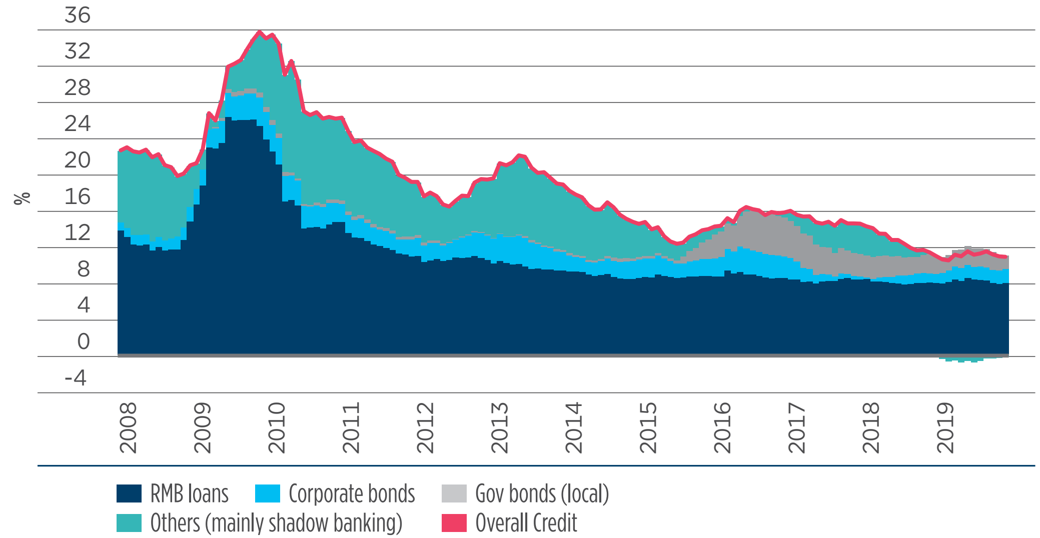
China: Weaker economy, stronger power of influence in global geopolitics

Chinese economic conditions will continue on a decelerating path. The policy mix will remain supportive domestically and externally. China will continue to broaden its influence in the geopolitical landscape (RCEP and Silk Road) and to open its financial markets. This will open up opportunities for investors.

Slowdown to continue, but China to count more in geopolitical landscape

In 2019, China's economic conditions have been markedly deteriorating even though GDP growth has remained in line with the range target announced by authorities (6%-6.5%). We do expect that next year's target will be lowered in consideration of the domestic and external factors that are dragging on growth. **Our GDP forecast for 2020 is now below the 6% threshold at 5.8% YoY.** The external shock is going hand in hand with domestic policies aiming at deleveraging the economy and introducing stronger regulation, with both policies still compelling notwithstanding the external threat. The confrontational narrative between the US and China will remain in the background (tariffs and extra tariff measures) and we do not expect any lifting of the tariffs in place. In the short term, we do not expect the last tranche of tariffs to be implemented either.

Contribution to credit growth (including government bonds)



Source: Analysis by Amundi Research, CEIC. Data as of 31 October 2019.

The evolution of the Phase One deal will dictate the path ahead, at least on the trade relationship. This is why **the economy will continue its slowdown, with the private manufacturing sector suffering relatively more than other sectors of the economy.** On the external side, **the role and influence of China in the geopolitical landscape will continue to grow. Two initiatives are key: the Regional Comprehensive Economic Partnership (RCEP), for Asia, and Silk Road, mainly for increasing influence to the West.**

Still supportive policy mix without exaggeration

China's policy mix will continue with its stimulating stance, though in a very limited way, and far from the massive stimulus implemented in recent years. On the monetary policy side, the **rate cuts will continue to be limited and very much targeted** (further cuts of the reserve requirement ratio to come soon), while credit will continue its moderate growth, driven by the core component of Renmimbi loans. The official and fund budgets will continue to be supportive.

Constructive outlook on Chinese asset classes

The outlook on Chinese asset classes is constructive. In equity, **we prefer A-share equities, which are more exposed to the domestic economy and policy interventions.** A-shares will benefit from inflows due to the ongoing MSCI inclusion process. **Chinese bonds will experience mounting interest from investors and inflows:** the process of inclusion in the Bloomberg Barclays Global Aggregate Index has already started, and this will be followed up in February 2020 by the inclusion of liquid Chinese Government Bonds (CGBs) in the GBI-EM index. These are important steps along the road to opening the country's capital markets. On the currency, **we expect the Yuan to move in the range 7.10-7.20 for the next year,** heading back to the psychological level of 7 if there is some sort of agreement in the trade dispute.

Key Investment Implications

- ***Limited risks for financial markets due to China-related issues***
- ***Chinese A-shares and Chinese bonds***
- ***Silk Road investment opportunities.***

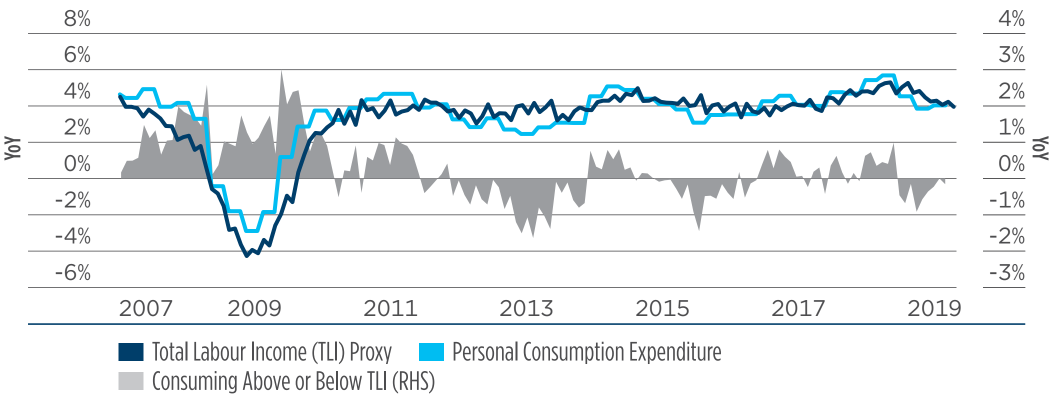
US consumers: Sober resilience to see the worst avoided for US economy

Going into 2020 and 2021 we expect consumption spending to moderate. In aggregate terms, consumption fundamentals remain supported, but under the surface, a few elements of vulnerability are emerging, representing downside risks to monitor, in particular in relation to the low to middle income classes.

A sound picture, with moderation in sight

Deceleration in jobs growth has been in place since early 2019. This hints at a weakness in labour demand, which has been reflected in the recent deceleration in PMI employment surveys. Although this began in the manufacturing sector (approx. 10% of private employment), **the softening of payroll growth is noticeable also in the service sector.** Similar decelerating patterns are visible in the pace of growth of hours worked and wages, both in goods production and service sectors. Other measures of labour market strength hint at a turning point: hires, quits and separations have plateaued at cycle highs, while jobs openings, which were well above the pre-recession peak, have started to decline. In addition, the duration of unemployment has started to increase. Consumer sentiment, meanwhile, remains elevated, though not improving, while expectations for future economic performance are a cause for concern. We expect these trends to continue as the economy decelerates. While drivers of income are expected to moderate, mild inflationary pressures are building and have started to dent households' purchasing power. Overall, **we expect a moderation in personal consumption** due to slowing aggregate income growth (from 2.6% in 2019 to 2.2% in 2021).

Total Labour Income drives Personal Consumption Expenditure



Source: Amundi Research, Bloomberg, as of 28 October 2019.

US consumer balance sheet looks broadly healthy, with areas of attention

In aggregate, **the saving rate stands well above pre-crisis levels.** Households' net worth is nearing a peak as a percentage of GDP. Measures of leverage and ability to pay, such as debt to disposable income – total debt service and households' financial obligation ratios – are all significantly down from the eve of the last recession. However, **behind the constructive trend a few vulnerabilities are emerging.** The Great Financial Crisis (GFC) exacerbated inequality and concentration of risk in some segments of the population. For instance, while it is true that the aggregate household debt service ratio has steadily declined since 2008, by drilling down into the data, the dichotomy in recent years between consumer credit debt service (steadily increasing) and mortgage debt service (declining) is evident. At the same time, while aggregated delinquency rates have declined, serious delinquencies for auto loans and credit cards have increased in the last few years. Exposure to credit card and consumer credit is not homogeneous across households, being more concentrated in lower income levels.

The middle and lower income classes are the most vulnerable

The middle and lower income classes are of most concern, having the highest propensity to consume and being the most significant driver of household demand. Corporate equities and mutual fund shares account for 9.5% of net worth in the 50%-90% income percentile, leaving these consumers exposed to a correction in the equity market. **Lower incomes are more vulnerable to a labour market downturn,** as often they have only one source of income, often not full-time, and few liquid assets (liquid assets to liability ratio has not recovered to pre-2000s levels yet).

Key Investment Implications

- *High yield supported by resilient demand and limited defaults*
- *Consumer discretionary and financials attractive*
- *US municipals have a higher return profile*
- *Securitised credit in focus.*

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Corporate earnings vulnerabilities amid high debt: Focus on sustainability

We expect global earnings per share growth in the lower single digit space. FX dynamics and spreads are the main areas to monitor as the materialisation of downside risk might be sudden and impactful in a world washed by debt. This environment calls for a strong focus on sustainability of earnings and debt.

Global trade, FX and financial conditions key for earnings generation

Tightening financing conditions on a stronger USD/weaker EM FX and trade disputes were strong headwinds to corporate profits this year. They entered a prolonged downward revision cycle, as earnings expectations were very high. To assess the direction for next year, **it is vital to look at the different components of earnings.** Based on our analysis, **most of the top line components are currently flashing red** and would point to a profit recession (sales YoY growth, trade weighted dollar, capex, PMI, etc., with the only exception of unemployment). The bottom line is also challenging for unit labour costs (on upward trend) and for short-term spreads.

	Indicators	Last value	Average in periods of profit recession (34% of times)	Average in periods of profit growth (66% of times)	Profit recession traffic light
TOP LINE	Nominal GDP YoY	3.7%	4.1%	5.4%	●
	Personal Consumption YoY	3.7%	4.5%	5.5%	●
	Unemployment rate	3.6%	5.9%	6.0%	●
	Sales YoY	-0.2%	-0.5%	6.0%	●
	Trade YoY	-0.1%	-1.5%	5.7%	●
	Trade Weighted USD 1 Y change	3.7%	4.0%	1.6%	●
	Capital Expenditure	0.8%	0.3%	5.4%	●
	Purchasing Manager Index	47.8	49.1	54.1	●
	TOP Line Overall				●
BOTTOM LINE	Unit Labour Cost YoY	2.6%	2.1%	1.5%	●
	Producer Price Index YoY	-0.2%	0.8%	2.6%	●
	Moody Spread	0.88	1.21	0.88	●
	Spread 2Years - 3Months US Yields	-0.46%	0.05%	0.13%	●
	10Y US Treasury Yield	1.7%	5.4%	4.9%	●
	BOTTOM Line Overall				●

Source: Amundi Research, Bloomberg, as of 28 October 2019. Analysis for the period 1986-2019 on the US market. Moody spread is the delta of Moody BAA and Moody AAA yields. This spread provides to be a suitable proxy of credit/infrastructure cycle.

However, all the **other financial conditions are in green territory:** producer prices are contained, and the measures on corporate spreads and the 10Y bond yield show that financial conditions remain loose. In our view, an **outlook of moderate growth,** resilience of the consumer sector, an easing of trade tensions, at least partially, and easing financial conditions (in particular a stable/slightly weakening dollar) are consistent **with single-digit earnings growth for next year, below the consensus.**

Corporate leverage is the main area of attention

A key area of attention for this outlook, on top of FX dynamics, will be corporate leverage. **US corporate debt is today at record high levels.** In recent years, US companies have poured a huge amount into financial markets to finance record levels of share buybacks and M&A activities. Leverage is high today, especially if we take into consideration the fact that the economy is in an extended expansion phase. Previous peaks were recorded following a recession, against a backdrop of depressed profits. Very accommodative monetary policies are helping. In the Investment Grade (IG) universe, the interest coverage ratio remains adequate, but is disappointing considering that interest rates are historically low. However, the number of High Yield (HY) firms with very low interest coverage ratios remains high. US companies are now facing growing refinancing needs. We are now seeing record issuance on the corporate bond primary market, both in the US and the Eurozone. A large portion of this rise in euro and dollar volumes could be attributed to US companies' refinancing needs. The level of cash remains generally good but is down compared with short-term refinancing needs. Moreover, cash is concentrated in some sectors/issuers (mostly in the technology sector). In this environment, **a tightening of financial conditions would be difficult to sustain, leading to material pressure on corporate sector debt sustainability.** This is not our main scenario but deserves attention.

In a late cycle, with fragility building up, investors should increase their scrutiny on sustainability of debt and earnings at the single stock level, looking for possible areas of strain. A focus on equity resilience will be key in 2020.

The interest coverage ratio is a debt ratio and profitability ratio used to determine how easily a company can pay interest on its outstanding debt.

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Wall of worries

Probabilities (High → Low)		Analysis	Market Impact
25%	Trade war escalation	The most complex issues (intellectual property rights, technology transfers, tariffs already in place and the Huawei case) have not been addressed yet. Keep in mind that the US is entering a pre-election period, and opposition to China goes far beyond the Republicans. Whoever the US President is next year, opposition between the two countries on strategic issues could worsen their relations in the coming years. The likelihood of a global trade agreement is very low. Twists and turns continue to deteriorate business confidence, manufacturing has yet to bottom out and profit deterioration continues. Global trade sinks around 10%.	▪ Negative for equity and CNY ▪ Positive for USD, US Treasury and gold
20%	Mounting corporate vulnerabilities	Corporates have been piling up debt to levels even higher than pre-GFC. Sobering earnings dent corporates' ability to service that debt and cover interest rates payments. At the same time, EM and frontier markets have been attracting capital flows from advanced economies, increasing their external debt. Tightening financial conditions and higher rates will hurt their ability to pay down their debt. Widespread distress and default rate spikes will force deleveraging and a pullback on investment and employment, exacerbating the recession.	▪ Negative for risky assets ▪ US IG BBB downgrade, EURO and US HY B-CCC default increase ▪ Positive for USD, US Treasury and gold
10%	China hard landing	Chinese economic growth is slowing down, but authorities are working hard to stimulate the economy (through monetary and fiscal policies), so that it will remain on a manageable slowdown path. Recent data indicate that the trade war is biting and a supportive policy mix is necessary. China's economic model is fragile, with signs of excessive credit. Non-financial corporate debt has surged since the GFC.	▪ Global financial instability ▪ Negative oil, basic materials, currencies of commodity-exporting countries, EM bonds ▪ Positive US Treasury /Bund and gold
10%	US elections	At this stage, there is not trivial result on US presidential election outcome. While investors community focuses on the polls, it is critical to have a look at the policy actions that will follow from the president elected (welfare and financial regulation, in particular). The risk scenario escalates from impeachment process, more extreme foreign policy measures that might led the situation to implode on Ukraine, Iran and Syria, the possibility of tax rates applied to corporate earnings under a new administration therefore faltering confidence and sinking economy.	▪ Volatility increase ▪ US markets disruption ▪ Positive gold
10%	Idiosyncratic risks	China/US, China/HK, Brexit, Iran/ ME... Geopolitical dimension has a prominent influence on markets, albeit so far this has been confined as the attitude is to move more on diplomatic rather than bold actions. Selective hedges.	▪ Positive on selected FX (USD, GBP) ▪ Positive on core govies ▪ Negative for risk assets
10%	Credit illiquidity & risk misallocation	The search for yield has pulled institutional investors in a low rate environment towards credit risk accumulation in their portfolios. Liquidity buffers have been decreasing to achieve nominal targets. The critical juncture of a maturing credit cycle and a shift in markets' structures amid regulatory changes, in case of a sharp sell-off, might prove a tangible obstacle to investors selling their positions.	▪ Positive cash, govies (US, Euro) and gold ▪ Negative EM bonds, global equity, HY, oil and basic materials
10%	Drying USD liquidity	US dollar funding liquidity and a shrinking USD liquidity base could amplify the impact of a tightening in funding conditions and create spillover to countries that receive cross-border USD loans.	▪ Global financial instability ▪ Positive gold and US Treasury ▪ Negative risk assets (EM in particular)

Source: Amundi Research, as of October 28, 2019.

Amundi Convictions for 2020

	Asset class	View	Rationale
EQUITIES	US	=	The US equity market has been a core holding in this cycle, supported by stronger earnings growth than elsewhere. The earnings revisions for next year will turn positive after Q1 that could be more challenging. Better earnings, positive liquidity and low interest rates may support the equity market, as far as the trade war does not intensify.
EQUITIES	Europe	=/+	Europe has suffered during this cycle from underperforming profits, strong international exposure and political risks, however, these negative factors are fading as the probability of a Brexit deal increases. Should a bottoming out of global manufacturing materialise, Europe will benefit more than others. A shift to value would also be a positive.
EQUITIES	Japan	=	Japan has experienced ups and downs in this cycle and was among the worst performers until August in 2019. Earnings growth has delivered less than the rest of the world since 2016, and this should be the case again next year. But Japan can benefit from a shift to value. It remains also under the influence of the Yen and is sensitive to geopolitical risks.
EQUITIES	Emerging markets	=	Earnings revisions are bottoming out. We expect domestic stories to remain resilient and provide good opportunties for investors. We are constructive on China A-shares.
FIXED INCOME	US govies	=/+	We maintain our preference for US Treasuries duration vs. other developed markets, on better absolute and relative valuations and the Fed having more leeway at its disposal on conventional tools. We expect a steepening of the US yield curve.
FIXED INCOME	US IG corporate	=/+	Dovish central banks are overall supportive of the credit market, therefore, US corporate bonds are supported as well by favourable technicals, though not to the same extent as EUR IG, as CSPP and negative rates are a European peculiarity. However, given lingering macro uncertainties, we prefer to keep a cautious attitude on credit risk, favouring high quality carry and increasing the focus on liquidity assessment.
FIXED INCOME	US HY corporate	=	Valuations of US HY spreads look tighter than in other credit segments and we prefer high quality over lower rated names, on more idiosyncratic risks and rising default risks, together with liquidity reasons. Sector selection remains key, as distress looks concentrated in a few sectors.
FIXED INCOME	European Govies	-/=	Among European government bonds, we remain constructive on the main peripheral European countries (Spain and Italy), fuelled by ECB action, a new political coalition in Italy and the ongoing search for yield. Curves are expected to flatten on the back of persisting yield hunting.
FIXED INCOME	Euro IG corporate	++	We are positive on Euro IG, particularly on BBB-rated debt and financials. Strong technicals are here to stay, like ECB new net purchases and higher CSPP1 reinvestments, which provide steady positive investment inflows into the asset class and intensify yield hunting. However, liquidity conditions in the secondary market remain a key area to monitor.
FIXED INCOME	Euro HY corporate	+	Technicals are favourable: we prefer high quality and more liquid BB-rated debt on the back of the attractive risk reward combination, given higher downside risks to the macro picture. We continue to focus on selection, idiosyncratic risks and liquidity.
FIXED INCOME	EM bonds HC	+	This asset class could become a natural choice in the current environment of low yields and the global monetary policy easing announced as a way to sustain economic growth. The EM-DM GDP growth gap is expected to widen further in favour of EM.
FIXED INCOME	EM bonds LC	+	We see potential for this asset class next year, both from the yield and currencies component. EM FX will remain volatile, but we believe that the pessimism is overdone, should trade disputes ease and the global manufacturing sector bottom out, leading to a weaker US dollar.
OTHER	Commodities		If, as we believe, the global recession will be averted, the outlook for commodities remains benign. Gold will continue to be seen as a powerful hedge against geopolitical risks.
OTHER	Currencies		The upside scenario (with concerns on growth dissipating) needs to materialise or the US-China trade dispute to soften (with CNY rallying) before we will see a sustained USD plunge. In that case, the era of King USD will finally end.

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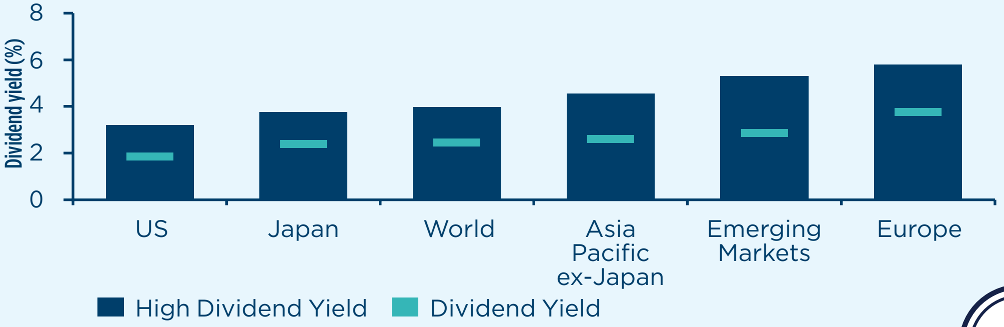
Negative View Neutral Positive View

Source: Amundi, as of 29 October 2019. 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.

Investment convictions

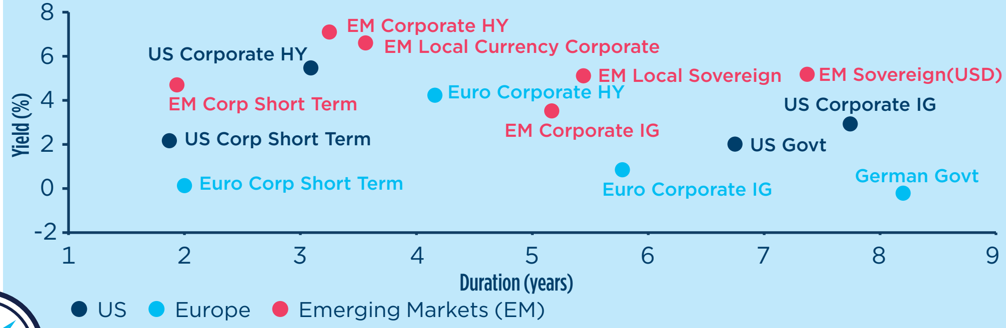
EQUITY: A STORY OF INCOME AND POSSIBLE TURNAROUND

Be mindful of dividends and exploit areas of dislocation



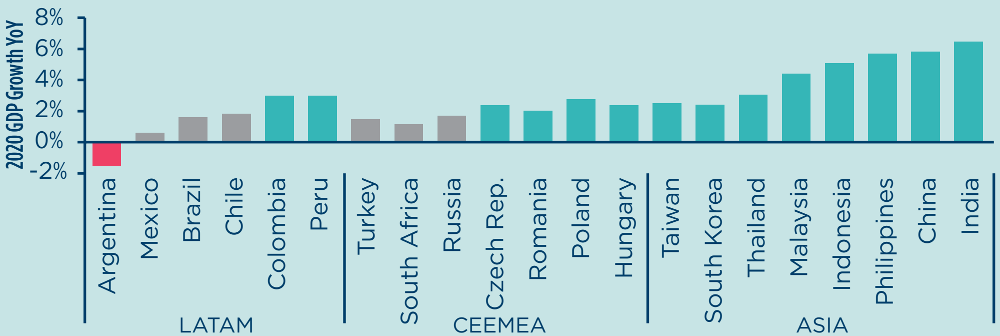
BONDS: TIME TO OPTIMISE THE SEARCH FOR YIELD

Be flexible, increase scrutiny, and beware of liquidity risks



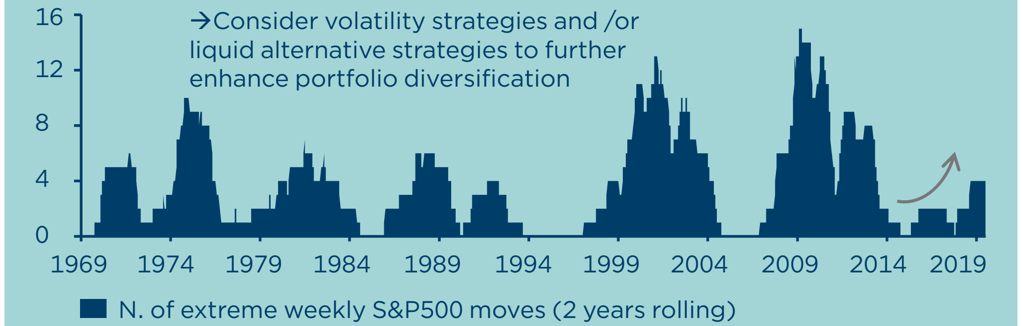
EM: NEW THEMES FROM A MORE FRAGMENTED WORLD

Dig deeper to seek thematic, regional and country opportunities



PORTFOLIO CONSTRUCTION: DE-RISKING TOOLS IN FOCUS

Volatility-proof your portfolio in a world of more frequent extreme events



Source: Amundi Research, Bloomberg. Data as of 30 October 2019. Equity chart: data refers to the dividend yields of the MSCI Index and MSCI High Dividend Index for each region. Bonds chart: data refers to the index yield to worst and duration. Indices used are German Govt Bonds = JP Morgan GBI Germany Index; US Govt Bonds = JPMorgan GBI U.S. Index; Euro IG Bonds = Bloomberg Barclays Pan European Aggregate Corporate; U.S. IG Bonds = Bloomberg Barclays U.S. Aggregate Credit; Euro HY bonds = Bloomberg Barclays Pan-European High Yield ISMA; U.S. HY Bonds = Bloomberg Barclays U.S. Corporate High Yield; EMBI Div = JPMorgan EMBI Global Diversified Blended; CEMBI BD = JPMorgan CEMBI Div Broad Composite Blended; CEMBI BD HY = JPMorgan CEMBI Broad Div High Yield; Euro Corp Short Term = Bloomberg Barclays Euro Corporate 1-3Yr; U.S. Corp Short Term = Bloomberg Barclays U.S. Corporate 1-3Yr; EMBI Short Term = JPMorgan EMBIG Diversified 1-3Yr. Emerging markets (EM) chart shows Amundi Research forecasts. Portfolio construction chart shows the number of extreme events (weeks when the S&P500 moved above two standard deviations from the long-term 1969-2019 average) on a rolling basis. Notes: The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.mscibarra.com). Indices are unmanaged and their returns assume reinvestment of dividends, and unlike actual portfolio returns, do not reflect any fees or expenses. It is not possible to invest directly in an index. Devised by: Amundi Investment Insights Unit. Chief Editors: Pascal Blanqué and Vincent Mortier.

Amundi
ASSET MANAGEMENT

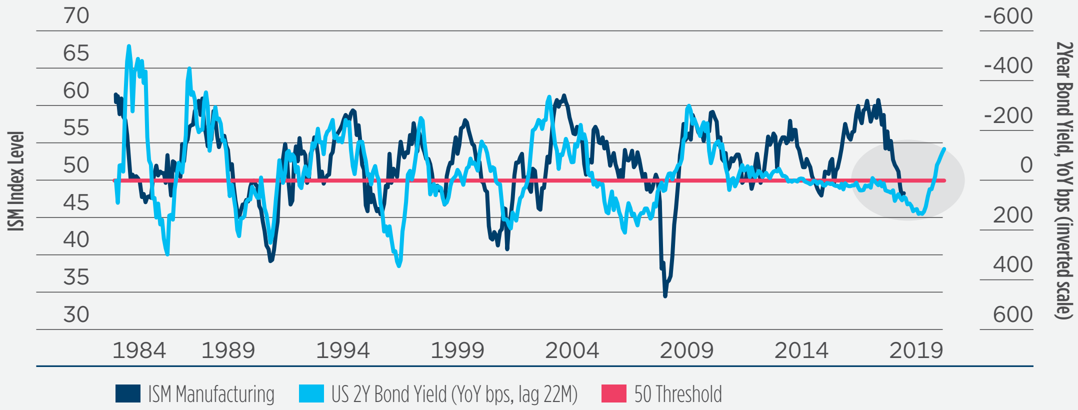
Equity DM: Stay flexible and watch out for potential market rotation

The current cyclical slowdown phase calls for a cautious attitude, but also prepare for a U-turn when earnings and economic growth will reaccelerate. Keep an eye on a bottoming out of PMI manufacturing indices, a re-steepening of the yield curve and a downturn in the dollar before moving to a contrarian stance.

2020 consensus earnings forecasts are still too high

This cycle is 10 years old in 2019. During that time, aggregate earnings have surprised on the upside in only three years (2011, 2017 and 2018). With the manufacturing recession now under way, 2020 will be no exception. Forecasts from early this year will be revised downward. Leading indicators based on the ISM manufacturing index, the performance of equities vs. bonds, dollar trends and industrial commodity prices support this view. The downward trend of P/Es since January 2018 began in anticipation of the ongoing global slowdown. The 2019 equity market rally should be regarded as a reversion of P/Es to their historical averages. Yet, earnings revisions for next year could turn positive after a more challenging Q1, if the manufacturing outlook improves. **Better earnings, positive liquidity and low interest rates may support the equity markets, as far as the trade war does not intensify. A point of attention will be approaching US elections, when the market sentiment could become more fragile and dependent on polls.**

ISM Manufacturing and 2Y bond yield change



Source: Analysis by Amundi Research, Datastream. Data as of 15 October 2019.

When will it be the time to look beyond the valley?

The recession in manufacturing began in Asia, before spilling over to Europe and then the United States. Pressure on global trade from US tariff hikes has held back global growth, despite the Chinese stimulus, and therefore curbed an economic recovery in Europe. It could end up impacting US consumers unless an agreement is reached in the run-up to the US presidential elections. So, what might make us more constructive during the year? **Keep a close eye on when the Fed manages to regain control of the yield curve** (re-steepening) **and when the ISM manufacturing index bottoms out.** Moreover, the gap between the ISM manufacturing and services indices is also close to its cyclical highs; either the manufacturing index begins to move back up, or services will be impacted.

The US dollar, which has been strengthening, often reflects this divergence rather well (with services, which are more domestic in nature, prevailing for now over manufacturing, which is more international in scope) and could well be "the" variable to keep track of in 2020.

A weaker US dollar alongside a bottoming out in manufacturing, would encourage investors to raise the level of risk in their portfolios.

Between caution and upside risk

The current phase is a cyclical slowdown. PMI manufacturing levels all over the world have fallen below 50. Interest rates are receding, gold and the US dollar are rising, and corporate earnings growth is fading. This could heighten risk aversion, with defensive stocks outperforming cyclical ones. During such phases, P/Es and earnings generally track each other downward for some time. This is a challenging phase, **as it will be followed by another phase during which it will be time to be contrarian and switch back to those assets that have performed the worst.** It's never easy to time the market, and it would be wise to spread risk widely.

Investors should assess a possible bottoming out in earnings growth and be prepared to raise exposure to the most contrarian markets and sectors (the European, Japanese or emerging markets and the auto sector, for example) in the coming months and/or to exploit opportunities from dislocations.

Amundi ASSET MANAGEMENT

Factor investing: Playing rotation of factors with 'quality' and 'high dividends'

The minimum volatility factor best fits the current phase of the cycle. However, at the same time investors should be aware that the next stage of the cycle will require a U-turn in terms of positioning, should a bottoming out of manufacturing become concrete.

The current stage of the cycle suggests some caution

After raising interest rates one last time in December 2018 (once too many, it turns out), the Fed had to keep them on hold for several months before beginning a downward phase in late July 2019. The Fed had a reason to call off its tightening cycle – growth was becoming increasingly scarce.

It's little wonder that growth stocks, which have outperformed value stocks since the Great Financial Crisis, continued to do so at first. However, when the Fed lowers its rates, it also has a reason – that the risk of recession is rising. This has undermined the case for growth stocks, which are overvalued compared to value stocks. But to truly take advantage, value stocks still lack a major source of support, such as a rebound in long bond yields.

The current cyclical slowdown, therefore, has been more in favour of what is defensive within both of these two opposing styles. In fact, the factor that generally prevails during such phases is minimum volatility. This is hardly surprising during a stage of the cycle in which psychology is taking precedence over fundamentals and in which the correlation of equities with other equities is increasing. The reflex is to therefore seek protection.

What will be the next phase?

Once the cyclical slowdown is over, it will be time to switch to the opposite of what worked during the previous phase, meaning it will be time to be contrarian and invest in oversold or high-beta stocks.

An upturn in the PMI will strengthen the case for small caps, while an upturn in bond yields will support value stocks – the combination of the two arguments will favour cyclicals. The usual race has already started between dovish monetary policies and the deterioration of economic indicators. We are currently on the silver line to turn to this next stage.

While the positioning entering 2020 has to be balanced keep in mind that a defensive portfolio would incur an upside risk and that the transition to the next phase will ultimately be the strongest disruption of the cycle in factor terms.

Minimum volatility and alternative choices

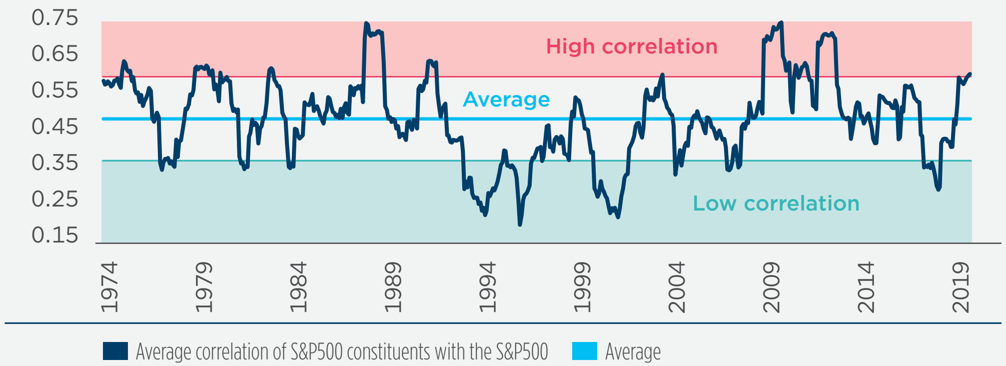
The minimum volatility style best fits this phase of the cycle. However, at the same time, **managing the upside risk is also key. One way to do both then is to combine high dividends with quality.**

This makes it possible to limit, for the moment, excess exposure to financials, a sector that is being penalised, all at once, by interest rate cuts, disruption and regulation (at least in Europe); indeed, high dividend strategies overweight financials, while the quality factor underweights it.

Combining these two factors also makes it possible to avoid frontal exposure to the value and growth styles, while overweighting quality to growth and high dividends to pure value. In this case, the next step will consist of increasing high dividends at the expense of quality.

Investors should consider entering 2020 with a balanced stance, playing the minimum volatility factor, quality and high dividends, and be prepared to increase high dividends, value and even small caps.

Correlation of S&P500 constituents with the S&P500



Source: Analysis by Amundi Research, Datastream. Data as of 15 October 2019. High correlation if above +1 standard deviation, low correlation if below -1 standard deviation.

Fixed income: Optimise the search for yield, as the credit cycle may extend

With central banks still in the driving seat, bonds are likely to be supported by additional monetary stimulus. The search for yield in developed markets, both through spread (mainly in Europe) and duration (more in the US) is likely to remain in 2020 and to offer some opportunities in the low yield for longer global environment.

Global easing to continue, supporting bond markets, with some volatility

Cyclical drivers and structural forces are likely to remain at work next year, supporting bond markets. The macro picture sees persisting downward risks in a mature cycle, with limited inflationary pressures, presenting an ideal environment for more global easing from central banks and possible fiscal accommodation. Debt levels at all-time highs and the **need to avoid an unwanted tightening in financial conditions are other factors behind the need to keep yields below nominal growth**. In the short term, too much is expected from policy measures and this could trigger some volatility. However, there is a clear trend towards further easing, a trend which will become even more obvious when we will get closer to a more effective risk of recession. The credit cycle will likely extend further, in an overall more fragile environment, with falling market liquidity. **The optimised search for yield will go ahead, with increasing caution.**

Our convictions: focus on quality and liquidity

For govies, we maintain a preference for US Treasuries vs. other developed markets, on better absolute and relative valuations and more leeway at the Fed's disposal in terms of conventional tools. In the Eurozone, our preference stays with periphery vs. core, with Italian bonds closer to other BBB-rated instruments in the short- to medium-term segments, but still offering some premium in the long-term segment of the curve. Yield curve flattening could offer opportunities to investors as well as inflation-linked bonds. In credit markets, within the current "tug of war" between the weakening macro/micro picture on one side and supportive technical factors on the other, the latter still look stronger. **This is the case especially for EUR denominated corporate bonds:** the rationale for these are fresh purchases, together with substantial reinvestments, from the ECB, steady investment flows into IG dedicated products, the quite limited supply of new speculative grade debt and the intensified search for yield targeting the few remaining spread oases. US credit markets are also supported by favourable technicals, but not to the same extent.

Sustainability and quality should be the key drivers of selection and portfolio construction now, as fundamentals have already started to deteriorate.

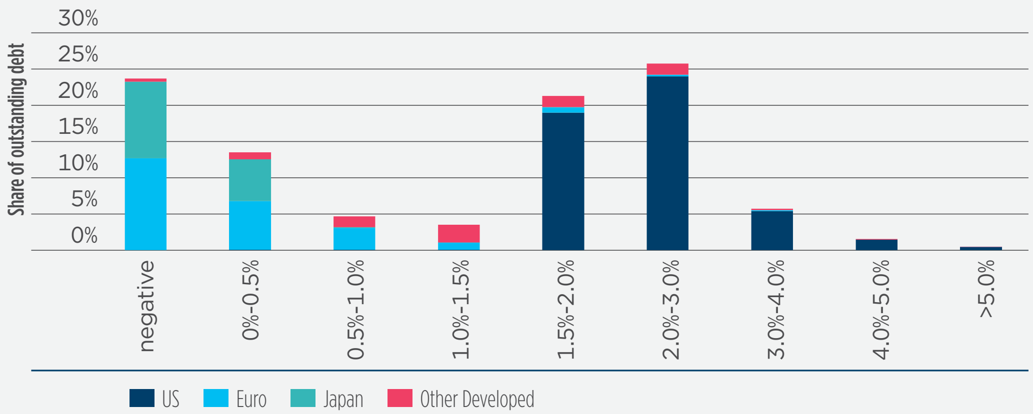
CSPP = corporate sector purchase programme.

Leverage ratios and credit metrics, along with valuations, are also generally in favour of the Old Continent. Our preference still goes therefore to European credit markets and in particular, to instruments BBB-BB rated: within the IG segment BBBs offer more attractive valuations than higher rated issues, while in HY territory, high quality and more liquid BB-rated debt offers a more attractive risk reward combination, given higher downside risks to the macro picture. Current trends show that global HY defaults are still low, mostly concentrated in the US, and are an energy/low-rated story: financial leading indicators point to higher defaults in one year's time, both in the US and in Europe, but that levels will still be below long-term averages.

In search of remaining yield, but targeting higher quality

The risks of an alternative scenario pointing to higher default rates increased on the back of the recent weakening macro picture and the persisting uncertainties linked to geopolitical risk. Therefore, we keep our preference for higher quality among HY names, even in this yield-hunting world, together with our preference for securitised credit in the US market. **We remain mindful of liquidity risk.**

Search for yield across bond markets goes global



Source: Analysis by Amundi Research, Bloomberg. BofA-ML indices (Investment grade). Data as of 31 October 2019.

Amundi ASSET MANAGEMENT

Emerging markets: Seek structural domestic stories and income

The emerging markets outlook for growth in 2020 is more constructive than in 2019. Emerging equities could still deliver a positive performance, but selectivity is key. EM bonds are a natural choice in the current environment of low yields in developed markets.

More constructive growth outlook for 2020

The emerging markets outlook for growth in 2020 is more constructive than in 2019: some acceleration in the first half of the year will be followed by a stabilisation moving towards the end of 2020. Overall, the inflation outlook remains benign and inflation levels within the CBs' ranges, however, some base effect kicking in, together with early signals of tariff-related costs, would move inflation higher. 2019's incrementally easier monetary stance will reduce in scope (but in countries patently behind the curve like Mexico) and China will maintain a gradual approach able to accommodate its slowdown. Fiscal policy is expected to be moderately supportive: the several 2020 budget laws so far announced and delivered point to the need to seek economic support, keeping as much fiscal prudence as possible.

In a generally dovish environment in terms of DM CBs, countries' external vulnerabilities shouldn't pose systemic challenges.

EM equity: focus on resilient domestic stories

Global emerging markets (GEM) aggregate valuations are close to neutrality. The undervaluation that we observed one year ago in terms of cyclically adjusted PE has disappeared and now GEM is fairly valued, with limited upside on the 12-month horizon. Deceleration in GEM YoY EPS has been taking place since the beginning of 2018 and growth became negative in Q1 2019. Some good news came from revisions, which were still negative but signaled some bottoming out. Internal MSCI EM EPS forecasts (USD) show a gradual recovery in 2020, when growth will become positive again, even if low single digit.

This bottoming out signal is quite evident and in line with the scenario we have for EM exports and world trade. The environment described here is in line with further extension of the cycle. The change can be abrupt and needs to be closely monitored; in particular, it's important to be ready to move from quality to value factor (mainly deep value). We favour some inexpensive EMEA countries with good dividend yield prospects and low investors' positioning.

In Asia we keep a preference for India, other structural domestic stories with positive macro momentum and for Chinese A-shares (which should benefit from domestic supportive policies).

EM fixed income: A natural candidate in the hunt for yield

The outlook for EM bonds remains positive. This asset class could become a natural choice in the current environment of low yields and global monetary policy easing as a way to sustain economic growth. The EM-DM GDP gap is expected to widen further in favour of EM:

- **EM bonds in local currency:** we are constructive on this asset class as real yields are expected to decrease to 1.8% on the 12-month horizon (GBI diversified weighted), but to remain higher than DM.
- **EM currencies** is the asset class that mostly discounts the nervousness on global growth and it therefore will remain volatile. We expect a quite neutral contribution, GBI weighted, of EM FX to the total return of the asset class.
- **EM bonds in hard currency,** on the other hand, are a bit expensive. The EMBI diversified spread tightened strongly in 2019, thanks partly to the changes in its composition (GCC inclusion and Venezuela exclusion). The strong dollar has been another factor contributing to the double-digit performance of HC bonds YTD. Expectations for 2020 are for a EMBI diversified spread widening of about 30 bps, from current stretched levels, and also that the support coming from the strong USD should fade away. Issuances continue to be quite high.
- **EM corporate bonds:** in the corporate space, EM HY defaults have recently been low compared with what current market conditions would imply. The percentage of defaults expected for the next year remains quite contained.

Emerging markets continue to be a key area for investors to search for income (both in equity and bonds) and for growth opportunities. For 2020, the focus should be on more autonomous themes such as "help yourself" countries and on longer perspective structural themes such as the New Silk Road.

Amundi
ASSET MANAGEMENT

Commodities: Benign outlook amid a mild rebound of global trade in sight

The outlook is moderately positive for commodities, assuming a mild rebound in global trade. Oil should move higher notwithstanding resilient US shale oil production, while dovish central banks and low real rates will support gold.

Oil: less sensitive to geopolitical risk, thanks to US production

Despite idiosyncratic risks and geopolitical tensions in Middle East, global demand, US oil production and OPEC strategy will be the key drivers for 2020. Uncertainty over global demand abounds for several good reasons.

The trade war escalation has exacerbated downside risks to the overall economic picture slowdown, while China's transition to a new economic growth model and GDP deceleration is weighing on global oil demand. **On top of that, US oil production has proven very resilient and oil seems less vulnerable than in the past to supply disruption concerns**. Recent events in the Middle East (Iran's oil exports slide after US sanctions and the attack on ARAMCO production) did not structurally affect energy prices.

Crude oil looks less sensitive to geopolitical risks due to the unprecedented jump in US production. The US has steadily become a net exporter this year, eroding a significant OPEC production share. Therefore, US shale oil production will remain the long-term crucial factor and will affect OPEC decisions in 2020. We maintain our target range of \$55-\$65 for WTI and \$60-\$70 for Brent, even if we acknowledge the risks are skewed to the downside due to global oil demand cooling and sluggish Chinese growth.

Base metals should benefit from a rebound of PMI and global trade in 2020

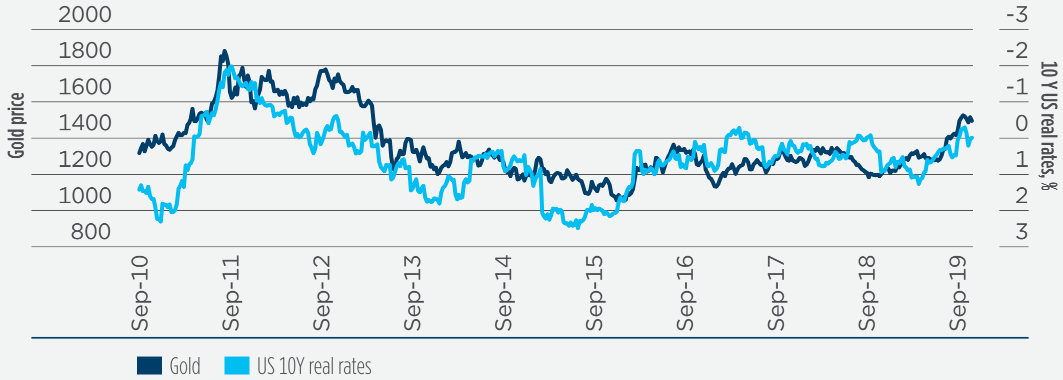
2019 has been a troubled year for base metals due to the global manufacturing recession, the trade war escalation and the US dollar appreciation that occurred in the first half of the year. Low Purchasing Manager Indices and disappointing economic figures depressed demand for base metals, putting downward pressure on commodities prices. **Despite a synchronised stabilization being the most likely outcome for 2020, we remain constructive on base metals as we think the manufacturing sector could stabilise thanks to a mild rebound in world trade.** In addition, financial conditions should be supportive as the US dollar is expected to marginally depreciate and interest rates to remain low. The biggest risks to our scenario are global trade failing to rebound and a further trade war escalation: in such a scenario, all of the risky/cyclical asset classes will correct significantly.

Easing central banks and economic uncertainty remain positive for gold

Gold benefited from a dramatic change in central banks' monetary policies during 2019. The gold rally has been driven by economic uncertainty, increasing geopolitical tensions and a sharp fall in US real rates expectations. **We remain constructive on gold in 2020 as we think all three of these drivers will also underpin precious metals.** Central banks' active management of balance sheets is clearly another important factor and will likely play a similar role as it did in 2010-2011. **The risk scenario for gold is related to economic growth rebound, should global manufacturing stabilise or recover.** In addition, a trade deal and short-term relief in risk sentiment could reduce appetite for safe-haven assets. On the other hand, economic growth is not strong enough to boost weak physical demand for the yellow metal.

If, as we believe, the global recession will be averted, the outlook for commodities remains benign. Gold will continue to be seen as a powerful hedge against geopolitical risks.

Gold price and US 10 year real rates



Source: Analysis by Amundi Research, Bloomberg. Data as of 22 October 2019.

Currencies: Investor sentiment will be key for the USD in 2020

Low probability of a final US-China trade deal, limited countercyclical fiscal policies outside the US and the still high US rates differential vs. the entire G10 spectrum should prevent any material weakness of the USD. A turn in investor sentiment due to a policy surprise (fiscal boost/trade deal) would undermine USD strength.

USD: Lack of alternatives in the short term to balance USD's negative factors

We enter 2020 with a global weak economic outlook with possible stabilisation in sight, still accomodative central banks and high political uncertainty that is weighing on trade, capex spending and thus on manufacturing activity. The still contained recession probability, diminishing rates advantage and expectations of US growth convergence towards rest of the world levels would imply a substantial depreciation of the overvalued USD, but we do not think that there will be a full convergence towards fair value. We expect the greenback to trade lower on the 12-month horizon, but we are still questioning the magnitude of such movement. In our view, in fact, the US yield advantage remains high and our baseline scenario is missing a potential catalyst that would imply a consistent USD sell-off. We expect fiscal stimulus out of the US to be implemented only in response to a further deterioration in economic activity and thus, to be seen as a mere substitute for monetary policy, with difficulties to push inflation expectations higher. The less negative newsflow on US-China will be short-lived as we do not expect any meaningful deal to be signed between the two parties and, although we are aware that the US administration aims to obtain a weaker USD, we do not foresee any direct intervention from either the Fed or the US Treasury.

With this backdrop and concerns on global growth expected to stay, **we believe USD depreciation is the most likely outcome, but the movement will be limited.** Alternative scenarios need to materialise to see investors definitely closing USD longs – flight to quality to dissipate, policy mix to spur growth outside of the US and the USD carry trade to vanish on the back of a more aggressive Fed. It is also true that we expect the Fed to cut more aggressively only in response to further economic activity deterioration (risk scenario), an environment where the USD would remain resilient as its safe haven status is going to be predominant.

The upside scenario (with concerns on growth dissipating) needs to materialise or the US-China trade dispute to soften (with CNY rallying) to see a sustained USD plunge. In that case, the era of "King USD" will finally end.

- **EURUSD bullish case remains unlikely at this stage.** With Europe leading the global cyclical slowdown, several unknowns related to politics and the rates differential expected to remain high, we struggle to see EURUSD reversing entirely the 2019 trend. **An appreciation is expected, but growth is what we need to see investors turning structurally positive on the undervalued single currency.** The issue is that we could be close to the point where policy mix (fiscal/monetary) is the only available option, but things have to get worse before getting better and, as a result, we expect the EURUSD appreciation to be limited.
- **GBPUSD: some relief, but limited upside.** With risks of no deal having reduced significantly, **part of the political premium that weighed on the GBP should be taken off** and we see no urgent need for the BoE to cut rates. On the other hand, there are many unknowns on future Brexit steps and UK domestic conditions have collapsed in line with the global picture. We remain positive on the currency, which is undervalued by more than 16% vs. fundamentals, but we believe the upside will be limited. GBPUSD targeted at 1.31 for the next 12 months.
- **USDJPY to keep trending lower in 2020.** JPY remains supported in an environment that is still questioning the extent of the current slowdown in global growth. **The currency is undervalued vs. fundamentals** and recently under-reacted vs. a basket of risk sensitive assets and should be the perfect hedge in a low conviction world. We see USDJPY at 104 and EURJPY at 118 for the next 12 months.
- **EM FX: neutral stance with selective opportunities** We adopt a neutral stance on EM currencies for 2020. Aggressive rate cuts from the EM CBs (expected in some countries) could reduce high carry currencies' attractiveness. **CNY is going to move in a range of 7.10-7.20. Selectivity remains key.**

Globally the trend is towards politicisation of monetary variables with (geo)political factors becoming a key driver in currency dynamics.

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Private markets in Europe: The search for illiquidity premium is set to continue

Against a backdrop of low interest rates, sluggish economic growth and political uncertainties, Europe's private assets industry is in strong health. This attractiveness relative to listed assets is set to continue, with investors looking for an alternative premium, in addition to potentially enhanced income returns and diversification.

In a world of low to negative interest rates and low growth, investors continue to adjust their allocations in pursuit of higher returns to serve their long-term liabilities and are therefore increasingly considering private markets and real assets due to their illiquidity premium, but also stable returns. The scale of the European alternative assets industry itself is already quite remarkable, with €1.67tn, ranking second only to the US, and up €310bn over the last three years, according to Preqin. **All the evidence points to Europe being fully equipped and ready to participate in the near-doubling of global alternatives** AUM that Preqin forecasts for the next four years, at $14tn. However, investors should be aware that crises and corrections exist in the alternative world and that the choice of private markets and real assets should be, first of all, a long-term strategic decision that is made not only on the basis of their absolute performance. In fact, **these asset classes demonstrate different investment features that can help investors to enhancing their overall portfolio diversification and robustness** throughout the various phases of the economic cycle.

Real estate (RE)

The low 10y government bond return expectations have paved the way for some further yet moderate yield compression in some office and logistic submarkets, as the gap with prime yields is, at this stage, significantly higher than the long-term average for many asset classes. The recent rise in prime retail yields – especially shopping centres – in some countries has to be closely monitored as it can negatively affect capital values.

Alternative asset class profiles

Asset Class	Participation in Economic Growth	Generation of Stable Revenues	Protection against certain risks	Control of Asset	Illiquidity Premium	Decorrelation vs Listed Assets
Private Equity	Strong	No	No	Yes	Yes	Yes
Real Estate	Significant	Significant	Moderate	Yes	Yes	Moderate
Infrastructure	Significant	Moderate	Moderate	Yes	Yes	Yes
Private Debt	Strong	Significant	Yes	No	Yes	Yes
Hedge Funds	Moderate	Moderate	Yes	Moderate	Moderate	Moderate

Source: Amundi. Data as of 31 October 2019. For illustrative purpose.

In our central scenario, rental growth in logistics and offices could remain a key factor of growth in capital values in 2020, due to the lack of vacancies in some submarkets. As always, active management of the assets remains a key driver of performance.

Private debt (PD)

Persisting low to negative rates in Europe create massive investment challenges for institutional investors. For investors, PD is an attractive complement to traditional fixed income and offers predictable returns, a relative decorrelation to other asset classes, low volatility and diversification – as PD investing is not done in the same credits/issuers as on public markets. PD has therefore been in strong demand in Europe over the last few years and this excess of liquidity has led to inflated asset prices, a loosening of credit protections and legal guarantees and more aggressive structuring for certain market segments. The risks of refinancing have therefore increased in certain PD segments and could lead to a future spike in the level of default rate, especially if the event of a credit cycle downturn. All of this commands to **focus on the top of the capital structure, the traditional senior debt segment, while avoiding sophisticated engineered structures** which can reintroduce credit risk through contractual subordination. The quality and depth of sourcing to maintain high selectivity, as well as the analysis of both risk and structure of transactions are more necessary than ever as key components of a sound investment strategy in PD.

Private equity (PE)

Despite some concerns on rising valuations and high levels of dry power, **PE remains attractive and should continue to outperform relative to other asset classes** also affected by high valuations. In order to continue to outperform, PE investors will have to rely on a combination of choices of conviction, real levers to influence companies' strategy, long-term approach to support corporate growth, and focus on a limited number of deals. To invest well in PE, a long-term strategy must be resolutely implemented in a consistent manner over time. Finally, it is important to consider that when the economic cycle downturns, small caps are more vulnerable than large caps. In contrast, large caps are more closely correlated to listed markets and more dependent on IPOs to organize exits.

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Cross-asset: Playing a sentiment rebound, in an overall cautious stance

Late cycle is our central case: bull market, to be sustainable, needs economic and profits re-acceleration. Financial conditions will also be crucial next year. Tactically moderate overweight in global equities and IG credit due to tentative signs of a rebound in investors' confidence and still supportive relative values considerations.

Economic backdrop and valuation: timid signs of economic stabilisation

Our central case is still for late cycle, despite the fact that the tail risk of a "correction phase" has increased significantly to around 30% (see Table on page 5). Global profits (including EM) are expected to grow below the historical average at 4%. While global GDP is expected to move close to potential, overall economic sentiment looks fragile. Geopolitics related to the trade war escalation has been the single biggest driver of the slide in business confidence and global manufacturing PMI. Nevertheless, the most recent data are confirming tentative signs of stabilisation and rebound. According to the projections in **our Global Economic Momentum Index, this trend should improve further** in case of a trade deal announcement, helping markets to consolidate in 2020. A **tactical upside and sector rotation from defensive to cyclical are also confirmed, on the back of relative value considerations.** However, in order to have a structural risk rerating, soft data must translate into a well-spread economic rebound and manufacturing stabilisation in the next months. The asset allocation stance should remain strategically cautious to begin the year, **with a tactical and moderate positive view on equity and high quality credit.** Low rates and dovish central banks favour long duration positions, while gold remains a relatively cheap hedge in an uncertain environment. The US and EM could be seen as preferred regions in global equities going forward, as momentum looks stronger compared with Japan and the Eurozone (no sign of stabilisation in German manufacturing so far), and both should benefit from the USD's mild depreciation. This could change in case of a fiscal boost in the Eurozone, amid falling geopolitical risk. In credit, Euro IG is preferable to US, due to high US leverage.

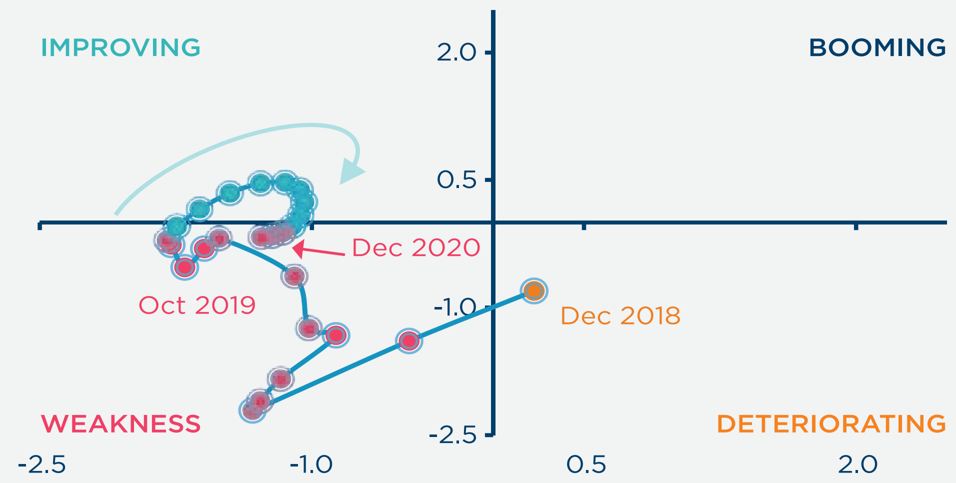
Seeking catalysts for directional calls and sector rotation

A lack of visibility on growth, geopolitical tensions and pivotal political events such as the 2020 US presidential election act to prevent strategically loading risk. On the other hand, relative value consideration still provides a solid, although tactical, argument in favour of global equities. **This tug of war cannot last for long and the approach must be flexible and agnostic.** We think the catalysts for the current regime shift rely on financial conditions tracked by cross-asset sentinels (trade-weighted dollar, earnings revisions, credit spread, credit-adjusted multiples).

The overall picture is still moderately in favour of risky assets, despite some financial stress in the currency space and downward earnings revisions. In fact, US resilience and sustainable multiples continue to support risk taking.

In our view, the credit inflection point (negative) or earnings re-acceleration (positive) are the two factors that will drive the bifurcation in the outlook for risk assets that could appear during 2020.

Global composite economic momentum set to rebound in 2020, tactically supporting risk assets



The Global Economic Momentum index is an Amundi proprietary indicator based on four regional baskets (US, Eurozone, Japan and EM) and on the following variables: earnings revisions, 10Y interest rates, leading indicators, CPI YoY, PMI surveys, the Economic Surprise Index and the Inflation Surprise Index. We consider the level and the momentum (variation) of the index in order to define four economic cycles: Booming: uptrend level and positive momentum; Deteriorating: uptrend level and negative momentum; Weakness: downtrend level and negative momentum; Improving: downtrend level and positive momentum.

Source: Analysis by Amundi Research, Bloomberg. Data as of 31 October 2019.

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ESG-Fundamental: The ESG way to reinvent fundamental investing

Many investors have already explored ESG investing by applying some scoring system into their investment portfolio or tracking some ESG benchmarks. For 2020 we think investors will go deeper in their adoption of ESG investing, and will start to look at ways of combining ESG and active investing.

Integrating ESG and fundamental analysis

ESG investing by definition involves some active choices as it is about applying some deviations from traditional capitalisation weighted indices to improve the ESG profile of the portfolio. In our view, **an integrated approach that combines fundamental and ESG analysis (ESG-fundamental) can help improve risk-adjusted returns.** This relies on the ability to incorporate some of the ESG factors that can drive superior long-term returns and focus on the ones that can help mitigate risks.

Challenges and opportunities

The challenge is related to the ability to "define and measure" the outcome of the integration of ESG for risk-adjusted performance (on top of the pure ESG impact), as this cannot easily be quantified. **The opportunity** lies in the fact that many ESG factors are not yet well remunerated in the market and their drivers (regulations, investor awareness, social habits…) change.

An adaptive process driven by changes in ESG market features

Therefore, the ESG-fundamental approach is an adaptive price discovery process. Through inefficiencies and feedback loops, it evolves in order to detect the areas that are becoming more material in terms of financial performance. Risks related to climate change are a case in point. Ten years ago, investors didn't take into consideration these factors, which later became material when increasing regulation and awareness of the climate issues led investors to consider them in their portfolios.

The broad adoption of ESG investing is likely having an impact on asset class prices.

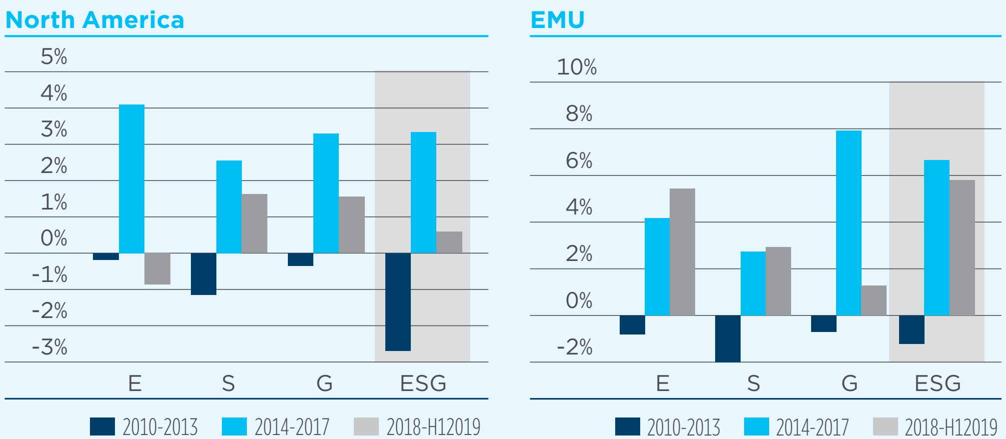
In equities, our studies show that ESG investing was not providing added value in the 2010-2013 period; it has started to become material regarding stock prices over the last five years, with different nuances across regions and types of portfolios and the impact of the three components (E, S and G) varies over time. **In fixed income,** there is little evidence of the benefits of ESG on alpha generation, but a strong intuition that long-term returns can only benefit from ESG integration (i.e., sustainability of business models).

Exploiting ESG opportunities by trimming from an evolving landscape

1. **Active managers can take advantage of discrepancies in the scoring systems** and market inefficiencies. They should seek to make simple and explainable ESG assessments and go in-depth with regard to understanding where the real ESG risks are and how the market is pricing them.
2. **ESG scoring only provides a static picture and it fails to address "WHY"** the company has a certain rating. Instead, most of the value asset managers can exploit is forward-looking. This is about detecting how the ESG profile of a company will evolve and the criteria that can lead to a potential improvement.
3. **Engagement is key.** Speaking with companies, knowing them, influencing them to move towards the necessary changes to improve their ESG profile is what can add value to an investment case and drive impact on areas that matter the most.

Embracing an ESG-fundamental integrated approach means that asset managers cannot apply it only in few funds, this has to be a 100% ambition. The advantage is that active management and ESG are a perfect match for targeting both risk-adjusted performances and impact on the economy and society.

Long best ESG & short worst ESG strategy – evolving benefits



Source: Analysis by Amundi Research. Data as of 15 October 2019. Performance of an illustrative long-short portfolio of going long first quartile Amundi ESG scores stocks vs short the fifth quartile. For illustrative purposes only. Past performance is not guarantee of future results.

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Economic Forecasts

GDP growth (YoY%) and inflation (CPI, YoY%). Forecasts by Amundi Research as of 30 October 2019.

Macroeconomic forecasts

Annual averages (%)	Real GDP growth (YoY%)			Inflation (CPI, YoY %)		
	2019	2020	2021	2019	2020	2021
US	2.3	1.7	1.7	1.8	2.3	2.0
Japan	1.0	0.5	0.5	0.6	0.8	0.6
Eurozone	1.1	1.1	1.3	1.3	1.3	1.4
Germany	0.5	0.8	1.2	1.6	1.7	1.5
France	1.3	1.3	1.2	1.4	1.4	1.3
Italy	0.1	0.4	0.6	0.6	0.9	1.2
Spain	2.0	1.6	1.6	0.9	1.3	1.4
UK	1.2	1.1	1.4	1.9	2.0	2.1
Brazil	0.9	1.6	1.7	3.7	3.9	4.2
Mexico	-0.2	0.6	1.6	3.6	3.4	3.6
Russia	1.2	1.7	2.5	4.0	3.5	4.0
India	5.6	6.5	6.8	3.4	4.3	4.1
Indonesia	5.0	5.1	5.3	3.0	3.1	3.8
China	6.2	5.8	5.8	2.6	2.6	2.0
Turkey	-1.8	1.5	2.3	15.6	12.1	10.8
Developed countries	1.7	1.4	1.5	1.5	1.8	1.7
Emerging countries	4.2	4.4	4.6	4.0	3.9	3.6
World	3.2	3.2	3.4	3.0	3.1	2.8

Central Bank Rates forecasts

	End 2018	30/10/19	Amundi +6m.	Cons Q2 /20	Amundi +12m	Cons. Q4/20
US	2.5	1.75	1.5	1.5	1.5	1.5
Eurozone	-0.4	-0.5	-0.6	-0.6	-0.6	-0.6
Japan	-0.1	-0.1	-0.2	-0.1	-0.2	-0.1
UK	0.75	0.75	0.75	0.75	0.75	0.70
China	4.35	4.35	4.35	4.35	4.35	4.35
India	6.75	5.40	5.15	4.85	5.15	4.85
Brazil	6.50	5.0	4.50	4.50	4.50	5.50
Mexico	8.25	7.75	7.25	6.90	6.50	6.60
Russia	7.75	6.50	6.25	6.15	6.00	6.15
Turkey	24.0	14.0	13.0	13.3	13.0	12.7
South Africa	6.75	6.50	6.75	6.30	7.00	6.30

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Financial Market Forecasts

Bonds Yields

2-year bond yield forecasts

	End 2018	29/10/19	Amundi +6m.	Consensus Q2 2020	Forward +6m	Amundi +12m	Consensus Q4 2020	Forward +12m
US	2.51	1.64	1.3/1.5	1.55	1.64	1.3/1.5	1.70	1.67
Germany	-0.61	-0.64	-0.8/-0.6	-0.77	-0.68	-0.8/-0.6	-0.70	-0.69
Japan	-0.14	-0.2	-0.3/-0.2	-0.27	-0.22	-0.3/-0.2	-0.14	-0.24
UK	0.75	0.54	0.3/0.5	0.45	0.42	0.3/0.5	0.60	0.38

10-year bond yield forecasts

	End 2018	29/10/19	Amundi +6m.	Consensus Q2 2020	Forward +6m	Amundi +12m	Consensus Q4 2020	Forward +12m
US	2.70	1.84	1.5/1.7	1.77	1.89	1.5/1.7	1.90	1.95
Germany	0.24	-0.35	-0.5/-0.3	-0.50	-0.29	-0.5/-0.3	-0.4	-0.25
Japan	0.00	-0.10	-0.2/0.0	-0.15/-0.1	-0.07	-0.2/0.0	-0.1/-0.08	-0.03
UK	1.28	0.72	0.6/0.8	0.80	0.74	0.6/0.8	0.91	0.79

Equities

MSCI Index levels at	US	Europe	EMU	UK	Japan	Pacific ex-Japan	World	World AC
30/10/2019	2 891	1 632	228	2 093	1 003	493	2 232	534
Low bound	2 733	1 513	210	1 957	937	456	2 091	500
High bound	3 085	1 759	248	2 236	1 081	527	2 388	573

Exchange Rates

Exchange rates forecasts vs USD

	End 2018	29/10/19	Amundi +6m.	Cons. Q2 /20	Forward +6m.	Amundi +12m	Cons. Q4/20	Forward +12m
EUR/USD	1.15	1.11	1.09/1.12	1.13	1.13	1.10/1.16	1.15	1.14
USD/JPY	110	109	105	105	107	104	105	106
GBP/USD	1.28	1.29	1.29	1.27	1.30	1.31	1.31	1.30
USD/CHF	0.98	0.99	1.01	0.98	0.98	0.98	0.97	0.96
USD/NOK	8.64	9.23	9.22/8.83	8,76	9.23	9.32/8.48	8.33	9.24
USD/SEK	8.85	9.70	9.86/9.46	9.55	9.60	9.78/8.90	9.22	9.53
USD/CAD	1.36	1.31	1.30	1.31	1.31	1.28	1.30	1.31
AUD/USD	0.70	0.69	0.69	0.68	0.69	0.70	0.70	0.69
NZD/USD	0.67	0.64	0.64	0.63	0.64	0.65	0.65	0.64

Exchange rates forecasts vs EUR

	End 2018	29/10/19	Amundi +6m.	Cons. Q2 /20	Forward +6m.	Amundi +12m	Cons. Q4/20	Forward +12m
EUR/USD	1.15	1.11	1.09/1.12	1.13	1.13	1.10/1.16	1.15	1.14
EUR/JPY	126	121	114/117	119	121	115/121	121	121
EUR/GBP	0.90	0.86	0.84/0.86	0.89	0.87	0.84/0.89	0.88	0.88
EUR/CHF	1.13	1.10	1.10/1.13	1.11	1.10	1.09/1.14	1.13	1.10
EUR/NOK	9.90	10.25	10.05/9.85	9.88	10.42	10.29/9.84	9.73	10.54
EUR/SEK	10.15	10.78	10.75/10.55	10.70	10.84	10.79/10.32	10.50	10.87
EUR/CAD	1.56	1.45	1.42/1.45	1.48	1.47	1.40/1.47	1.50	1.49
EUR/AUD	1.63	1.62	1.58/1.62	1.66	1.63	1.58/1.66	1.64	1.64
EUR/NZD	1.71	1.75	1.70/1.74	1.79	1.76	1.71/1.80	1.77	1.78

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Recent Insights


5 November 2019

INVESTMENT TALKS

China's growth tremors: risks, opportunities and the road ahead

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- ***Economy: soft landing and light policy support***. *In terms of Chinese growth, we see the rate continuing to slow. Chinese GDP growth rose 6.0% in the third quarter of 2019 (Chinese authorities forecasted a range of 6.0%-6.5% YoY), the slowest pace since the early 1990s. Moving into 2020, we do expect that the new growth target will be set around 6.0%, if not lower, at between 5.5% and 6.0%, and our current forecast is confirmed at 5.8% YoY. Exports unsurprisingly have been weak, private capex has slowed notably, and public infrastructure has not picked up as expected. Going forward, we expect public infrastructure capex to accelerate, and the tight real estate policy stance to potentially moderate. Chinese policy mix remains stimulative, though in a very limited way so far and far away from the massive stimulus implemented in recent years.*
- ***Investment implications***. *Overall, we are moderately constructive on the China's equity market. We see valuations as being supportive, though the earnings growth outlook appears muted. We maintain a preference for A-shares equities that are more exposed to the domestic Chinese economy that benefit from the MSCI inclusion process. We also see opportunities in supply chain shifts (Taiwanese and Chinese tech) and in domestic brands offering increasingly more competitive products to international brands.*
- ***Asia region.*** *We prefer to be selective and take advantage of the domestic stories that look to be able to deliver some fiscal expansion. We are still constructive on India, although domestic demand remains weak. We like the IT/software sector, where companies enjoy large cash flow yields and the best ones are willing to pay higher dividends.*
- ***EM fixed income.*** *We remain slightly positive on EM fixed income. We believe that this environment of still very loose monetary policy globally will continue to favour emerging markets bonds, including Asian bonds. In Asia, we are particularly positive on Indonesia and China duration.*

What is your assessment of economic outlook for China?
The economic outlook for China has deteriorated significantly over this year. China's GDP growth rose 6.0% in third-quarter 2019 (Chinese authorities had forecast a range of 6.0%-6.5% YoY), the slowest pace since the early 1990s, confirming annual average growth at just above 6.0% (6.2% YoY). Moving into 2020, we expect that the new growth target will be set around 6.0%, if not lower, at between 5.5% and 6.0%. Our current forecast is confirmed at 5.8% YoY. The performance of China's economy continues to be at the hearth of the trade dispute with the US and all the measures implemented have acted as a drag on growth. The contribution of net exports has continued to be positive in 2019 as imports have declined much more than exports (hit by tariffs). Indeed, the external shock is occurring along with domestic policies aimed at deleveraging and higher regulation, and these factors continue to be issues while the economy is under threat from external influences. The industrial, consumer and property sectors are all being negatively affected, although to different extents. Fixed assets investments have been struggling in the private and manufacturing sectors much more than in the SOE and infrastructure. September figures show a decoupling between the two sectors. Household consumption, with the exception of auto sales, has decelerated only moderately. Overall, a much stronger slowdown in the economy is likely to be associated with a further escalation in tariffs and extra-tariff measures, and also the lack of any appropriate intervention by the monetary and fiscal authorities, aimed at pursuing more structural objectives. That said, we expect China to compromise more on the growth side to maintain its financial stability, but not to the point of pushing the economy into a hard landing.

1

[*China's growth tremors: risks, opportunities and the road ahead*]

[*Buybacks – A multi-perspective review and thoughts on best practices for company buyback policies*]

[*High Yield: deep diving needed due to a more uncertain outlook*]

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