Confidence must be earned

Amundi ASSET MANAGEMENT

DECEMBER 2019

Global Investment Views

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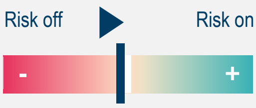
Overall risk sentiment



Cautious stance continues, but mild improvement in risky assets expected.

Changes vs. previous month

- Become more constructive on equity (move to neutral on equity with cross-asset perspective)
- Favour sector rotation to value globally

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

Sentiment rebound favours rotation towards value

In recent weeks equities rallied along with bond yields as investors reacted to the prospect of a US-China 'phase one deal' and fading global recession fears. The value of negative yielding bonds continued to fall, from US$17 trillion over the summer to the current US$12.5 trillion. While equities were previously overshadowed by the excessive gloominess on the global economy and earnings, markets rebounded after corporate results in the US and Europe met or exceeded low expectations, and as economic data did not show any material worsening. The mantra now seems to be **'not so bad is the new good'**.

On the economic front, the picture is mixed, **but some stabilisation is in sight**. The manufacturing outlook remains weak in developed markets (DM), however resilient emerging markets (EM) growth is supporting the global economy. The service sector has been robust almost everywhere and we don't see any major concern on the US consumer front, the main engine of US growth. In our previous editions, we highlighted our view that global recession fears were overdone and we maintain that stance. From a geopolitical perspective, the situation is tricky in many parts of the world, such as Latin America and Hong Kong, but **there is good news in Europe,** where the risk of a no-deal Brexit has receded. **Investor sentiment is finally turning more positive for Europe after very difficult years.**
Overall, the following **themes will play out for investors going into 2020**:

- **Fixed income investors will have to deal with opposing forces on the direction of interest rates**. Central Banks are restoring some sort of QE. This could limit the potential upside in bond yields. On the other hand, there is already fiscal policy noise in the market and this will continue to grow next year. This could put upward pressure on rates, which will likely start pricing a "fiscal option". Given these diverging forces, we could see a stabilisation in rates, with some possible short-lived overshooting. As a result, **active and flexible duration management** is important. In credit, an easing environment could give rise to asset price bubbles and may push investors to illiquid/low quality assets in their search for yield. Investors should be mindful of highly indebted companies and speculative sections of the market. A focus on balance sheet strength, bottom up selection and liquidity risk will be crucial.
- **A stabilisation of interest rates could also affect stock prices** as additional support from lower yields fades. If earnings growth remains flattish, we would not expect to see a material upside in stock prices; instead a **rotation of themes in equities could provide compelling opportunities**. Growth stocks have dominated value stocks and the ratio of growth versus value has reached excessive levels. A stabilisation of rates could drive a rotation in favour of value. Beaten-up sectors such as EU banks and autos may also benefit. **Europe would gain from this rotation as it is predominantly a value market.**
- **Finally, another area of opportunity for investors will be emerging markets.** Accommodative monetary policies, due to expanding Fed balance sheet and the ballooning US fiscal deficit, point to a weaker dollar. This would be good news for EM debt and currencies in 2020. Some stabilisation in earnings, amid a rebound in economic growth, would also benefit selective EM equities.

As we approach year-end, the situation is better than it was in the summer, with a persistence of the bull market in risk assets. We continue to believe that the probability of a consumer-led recession is low but investors should aim to preserve this year's performance. However, markets have already priced in most of the good news, and would need something else for the bullish sentiment to strengthen further. In the short term, investors should play this renewed sentiment improvement, **especially in Europe and EM**, but also prepare for a more tricky phase in which markets will take a sanity check of global economic conditions**. The main risks, in our view, will not come from the economic side, but from deteriorating fundamentals in some pockets of the credit market, which could potentially trigger a sell-off.** Investors should bear in mind that in this cycle credit spreads are more sensitive to a miss in economic growth targets given the high liquidity risks.

MACRO & STATEGY

Monica DEFEND
Global Head of Research

Didier BOROWSKI
Head of Macroeconomic Research

When political risk crosses the Atlantic

At the beginning of 2019, all eyes were focused on Europe, not only because of the risk of a Hard Brexit, but also because of the open crisis between the Italian government and the European Commission. The situation has changed radically since this summer.

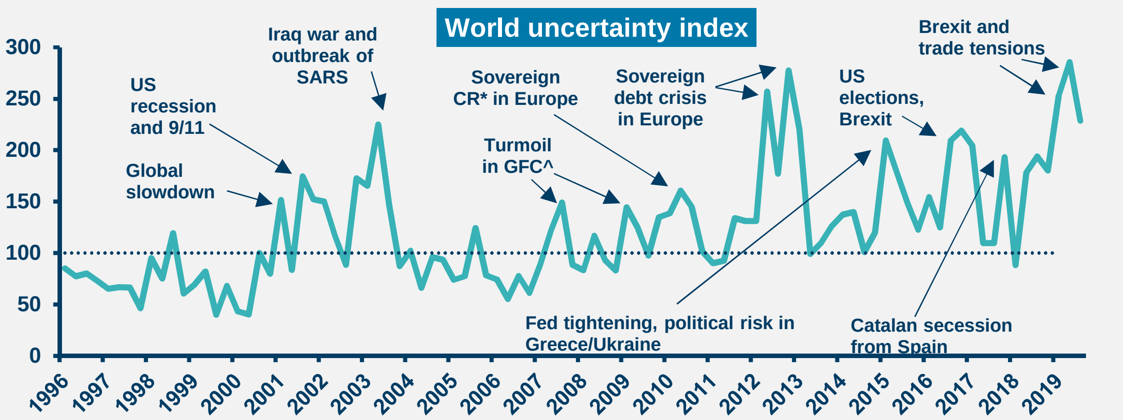
On the UK side, whatever the outcome of the elections (12 December), **it seems clear that a Hard Brexit is no longer on the agenda**. If the Tories win, they will vote for the plan negotiated by Boris Johnson. And if the Labour Party wins, Jeremy Corbyn will probably try to challenge Brexit through a referendum. Ultimately, the British economy is moving towards a long transition period; once the plan is accepted, negotiations with the EU will begin. These negotiations will likely prove long and difficult, but the systemic risk of leaping into the unknown is no longer a danger. **In Italy**, the change of coalition during the summer completely changed the approach in terms of economic policy, with a more European orientation than in the past. This does not change the medium-term fragility of Italy from a macrofinancial standpoint (high public debt, very low potential growth), but the new government coalition was very well received by investors. The fall in interest rates gives a breath of fresh air to the country and the financial system as a whole.

The EU will therefore be able to refocus on a more normal political agenda. With new leadership at the helm of key institutions (Ursula von der Leyen at the head of the European Commission and Christine Lagarde at the head of the ECB), the theme of the financial architecture of the Eurozone (capital markets union, banking union) will undoubtedly come back to the fore. From investors' point of view, this is good news, especially compared with the fears at the beginning of the year. In addition, from an economic point of view, **the Eurozone as a whole appears to be rather resilient in the face of the global trade shock.**

On the other hand, the **US is entering a period of uncertainty in 2020**. The election campaign has started de facto, in a very tense climate due to the impeachment procedure launched by the Democrats. Even if it has very little chance of succeeding (the Republican majority Senate will reject the procedure), it is making a lot of noise and there could still be surprises in store. At the same time, Democratic candidates are very actively preparing for the primaries. These are not classic primaries. "Centrist" candidates (Biden, Buttigieg and Bloomberg) oppose "radical/social-democratic" candidates (Warren, Sanders). **This is the first time that such radical political proposals have been defended within the Democratic Party by a candidate who has a real chance of winning the primaries.** Strikingly, as of today, the fundraising of radical candidates far outweighs that of centrist candidates. In addition, Senator Warren has a solid popular base in a few key states and she is progressing in the polls.

The "super Tuesday" (3 March 2020) will be a key date for the primaries. The battle promises to be close in the Democratic camp with fundamental issues at stake (dismantling of big techs, energy policy, regulation, foreign policy). At the end of the day, those investors who now seem convinced that Trump will easily win the elections may have to reconsider their position. This could be a source of volatility in markets.

> *"Political risks will likely shift from Europe to the US ahead of the 2020 Presidential elections, leading to volatility in markets."*



Source: Ahir, H, N Bloom, and D Furceri (2018), "World Uncertainty Index", Stanford mimeo, Amundi, as at 4 November 2019. *CR = Credit Risk, ^GFC = Global Financial Crisis.

Amundi ASSET MANAGEMENT

MULTI-ASSET

Portfolio balance in absence of market directionality

Global economic conditions remain weak, despite some small improvements. We expect developed markets will decelerate in 2020, while emerging markets will remain resilient and widen the growth gap with advanced economies in the second part of next year. The inflation outlook is benign, with temporary upside risks being contained and mainly linked to the impact of tariffs and some job shortages in the US. As the long-term impact of "unconventional" monetary policies is still largely unknown, further monetary easing on its own could become counterproductive. Although we believe there is some room for manoeuver on the fiscal side given the low level of rates, investor expectations of a favourable fiscal and monetary policy combination are overdone in the short-term, unless a major trigger (such as a recession or financial crisis) materialises.

High conviction ideas

Due to the aforementioned conditions, we believe it is **too risky to take a strong directional view on equities.** We prefer to adopt a **neutral stance**, until we have more clarity on the trade front and a confirmation of economic stabilisation. We remain positive on US duration but we are wary of upside risks to yields as the recession fears fade. We believe the following **four themes** will underpin multi-asset investing in the near future:

(1) Caution and flexibility are key in equities, for which we see single-digit earnings growth next year. Our view is more conservative with respect to the markets because we believe unit labour costs are on an upward trend and capex growth is anaemic. This should limit the market's upside. On the other hand, a continuation of the bull run and a rotation of themes cannot be ruled out due to improving geopolitical sentiment. Accordingly, we have recently become less negative on Europe and the US.

(2) Secondly, optimism on positive developments on trade and Brexit appears to be priced into the market: **the recent sell-off in core bonds may well be temporary**. We maintain a constructive outlook on US 5y versus Germany 5y and US 10y outright.

(3) Thirdly, continued monetary easing by central banks supports the outlook for spread products. We like both EUR IG and HY, but prefer EUR over US as European markets are more supported by technical factors (flows and the ECB). The **search for yield** continues, particularly in Italy where the 30y BTP is one of the few instruments with attractive positive yields. However, the recent increase in political risk (pressure on the government on domestic front) must be watched.

(4) EM assets provide diversification in a cross-asset portfolio. EM bond yields are appealing, relatively speaking, as they provide attractive carry and as dovish EM central banks support the environment. Investors should remain positive on EM bonds (HC), but keep in place adequate hedges for duration and FX risks. **In EM equities**, we have a neutral view and remain selective. On a positive note, we like Korea, China A-shares and other domestic consumption-focused themes. We are slightly less constructive now on GEM FX given the recent rally. Some positive developments in the trade disputes drove short-term risk-on sentiment for EM currencies, but our medium-term view of an ongoing trade war has not changed.

Risks and hedging

US-China trade talks (and Hong Kong escalation), geopolitical risks around **Brexit** (UK elections on 12 December) **and Iran-related** issues still have the potential to bring some volatility back into the market. Therefore, we recommend investors maintain hedges in the form of JPY/USD and gold, which could help safeguard portfolios in case of a sudden downturn.

Amundi Cross-Asset Convictions

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

Source: Amundi Research. The table represents cross-asset assessment on a 3-6 month horizon, based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/++/+++). This assessment is subject to change. USD = US Dollar, JPY = Japanese yen, EM bonds (HC) = EM bonds hard currency, BTP = Italian government bonds. GEM FX = Emerging Markets Foreign Exchange, IG = Investment grade, HY = High yield, ECB = European Central Bank.

Matteo GERMANO
Head of Multi-Asset

> ***Economic conditions remain weak but could rebound next year, leading to a less negative on US and European equities in the short term.***

FIXED INCOME

Eric BRARD
Head of Fixed Income

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

> ***The US yield curve has steepened amid solid employment and consumer spending data, supporting our view that markets are underpricing inflation expectations.***

Credit remains the key engine of returns

We are witnessing a stabilisation in global growth supported by the positive news flow around consumption and geopolitical issues such as the trade war and Brexit. **However, these issues have not completely vanished**, and could bring some volatility back to the market as activity is fading as we close in on year-end. Supportive technicals and continued monetary easing (although the easing cycle could lose momentum) offer a favourable environment to exploit carry. It is not yet time to **be conservative in credit,** but investors should continue to focus on liquidity and selection and be mindful of any signs of further economic slowdown.

DM bonds

In global fixed income, while keeping a **neutral overall view on duration**, we continue to **prefer** the **US to Europe** (more negative on Germany) and Japan, and we are less positive on duration in the UK. The Bank of England (BoE) will now wait for the elections and Brexit before taking any action on rates. Accordingly, we believe the UK curve steepening will not happen. In the EU, we keep our flattening position in place. We maintain a positive view on the main peripheral European countries as the QE programme has restarted, but have adjusted our view in both Italy (more constructive) and Portugal (less positive), while favouring long dated bonds in Spain. The search for yield continues in US and EUR IG (should benefit from QE) but we are slightly more positive on the US than before. The EUR HY space is also attractive, unlike US HY, but we remain watchful for any idiosyncratic risks. **In the US**, the yield curve has finally steepened amid solid US employment and consumer spending data. The Fed may test markets by seeing how strong the economy can become and how low unemployment can go before igniting inflation expectations. The FOMC feels that the cuts taken this year are sufficient and therefore additional rate cuts are unlikely. At the same time, given the FOMC's willingness to allow inflation to overshoot its target, rate hikes also seem implausible.

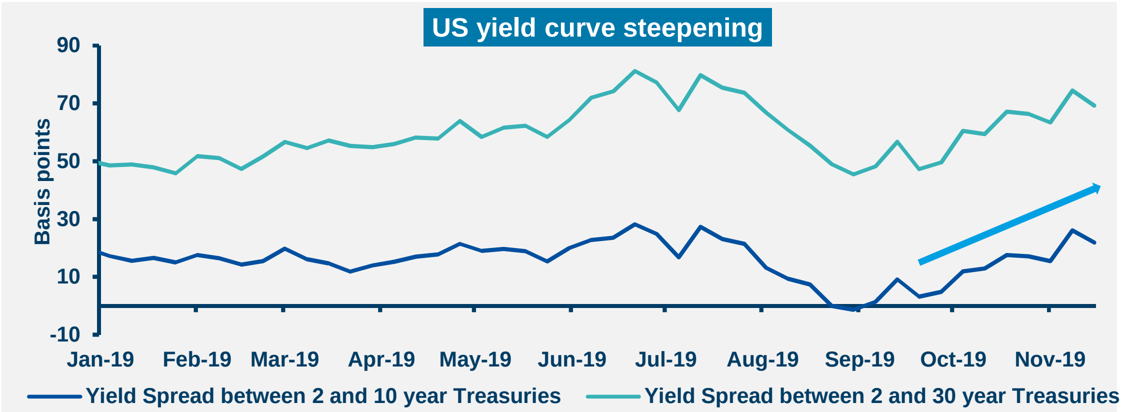
In US credit, we prefer to play upon sector rotation and security selection across a broad range of sectors. Specifically, we like consumer-oriented sectors such as structured securities, including both agency and non-agency RMBS. These assets are less exposed to a risk of economic downturn and are spurred by a strong US consumer sector and lower mortgage rates. On the corporate side, while valuations are a bit expensive, the default outlook remains benign and fundamentals are relatively stable. Here, we advise watching leverage levels for IG corporates.

EM bonds

We maintain a constructive view on hard currency debt as valuations and technicals both look strong. We prefer HY credits as spreads have lagged their IG counterparts. EM local rates also look attractive, although we are slightly more cautious given the strong performance YTD and less compelling valuations. We are less negative on EM FX, given the slight improvement in the global growth outlook, prospects of a trade deal, and the Fed's balance sheet expansion. But EM FX remains for the time being our least preferred asset class given its sensitivity to global growth.

FX

We have a neutral view on the US dollar: arguments that the USD could have peaked are appearing (i.e. fiscal deficit). In Europe, we are constructive on NOK vs SEK, given the Norges Bank's hawkish stance, and neutral on the GBP.



Source: Bloomberg, Amundi, as of 18 November 2019.

QE = Quantitative easing, FOMC = Federal Open Market Committee, EM FX = Emerging markets foreign exchange, YTD = Year-to-date, IG = Investment grade, HY = High yield, JPY = Japanese yen. GBP = British Pound, RMBS = Residential Mortgage backed Securities, NOK = Norwegian krone, SEK = Swedish krona.

Amundi ASSET MANAGEMENT

EQUITY

Time for ‘value’ investing is ripe

Overall assessment

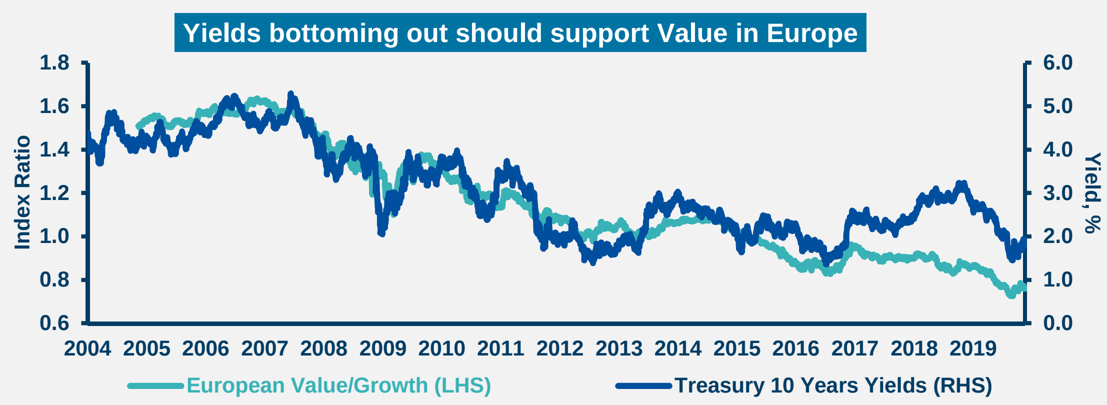
The reducing risk of a no-deal Brexit and the progress on US-China trade talks have supported equity prices over the past month. European equity is the favoured market at the moment as tail risks have reduced and economic indicators may start stabilising, although at low levels. However, if trade tensions escalate, US equities could offer better risk-adjusted returns. Globally, the disconnect between growth vs. value should offer opportunities due to extremely depressed valuations in the latter. We believe that a **rotation to value will be the key theme for equity investors in 2020**. This rotation could also benefit Japanese equities, given their strong fundamentals. Income from equity dividend will also be key, in a world of ultra-low interest rates**.**

DM equities

After material outflows from EU equities, we are finally seeing some inflows. As market positioning is very light, there is still some room to see investor sentiment improving towards this asset class. Overall returns are likely to be lower than in the past (due to a “normal” market multiple and lower economic growth) and with high volatility, but the sentiment seems finally turning in favour of Europe. In particular, **market rotation** from the expensive areas of ‘growth’ to cheap ‘value’ stocks could provide investment opportunities. **A reversal in bond yields and an improvement in the trade war situation would support this rotation**. Cyclicals vs. industrials also looks attractive, due to low implied expectations. From a sector perspective, health care and telecoms provide some degree of protection while bond proxies such as utilities and consumer staples remain expensive. Finally, innovation and business model disruption will drive returns in areas including media, automotive, business services and retail. **In the US, earnings were better than feared, leading the S&P 500 to reach new highs.** Consensus expectations for 2020 are too optimistic and modest downward revisions should not pose major risks. However, indicators for earnings are improving, driven by strong top-line growth and manageable wage inflation. **At a style level**, now is a **good time for value vs. momentum**/low beta stocks as the former could benefit from any reacceleration in the economy and improving fundamentals. The **cyclical part of value is also attractively priced.** In addition, opportunities exist in growth, particularly on the technology side. On the other hand, we believe, low-beta sectors such as utilities have excessive valuations and very low free cash flow yields. We are positive on communication services, financials and consumer discretionary, but are cautious towards energy and information technology.

EM equities

In EMs, we are moderately more constructive on equities in light of expectations of a more stable economic growth in the region in 2020, the continuation of global monetary easing by central banks and some optimism about a trade deal. On top of that, EM equity valuations remain attractive vs. developed markets and the technical backdrop is supportive of the asset class. Nevertheless, downside is still possible given the risks surrounding global geopolitics, and therefore we expect volatility to persist. We **prefer domestic consumption countries** (Brazil, Indonesia, Russia and India) and stay defensively positioned on countries where there is political noise.



Source: Bloomberg, Amundi, as of 18 November 2019.

Rotation from the expensive areas of growth to cheap value stocks could provide opportunities, supported by a reversal in bond yields and progress on a trade deal.

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Head of Equities

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Amundi asset class views

	Asset class	View	1M change	Rationale
EQUITY PLATFORM	US	=		The US equity market has been a core holding in this cycle, supported by stronger earnings growth than elsewhere. While in short term there is some ambiguity about earnings, we expect revisions to turn positive in the medium term. This, coupled with positive liquidity and low interest rates, could support the equities market as long as the trade war does not intensify.
	Europe	=/+		Europe has suffered during this cycle from below potential profits, high 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 positive.
	Japan	=	▲	Japan has experienced ups and downs in this cycle and was among the worst performers until August 2019. Earnings growth has been lower than the rest of the world since 2016, and this should be the case again next year. However, Japan could benefit from a shift to value and its low valuations.
	Emerging markets	=	▲	Earnings revisions are bottoming out and we expect good opportunities for investors in emerging markets in light of strong domestic consumption-related stories and favourable monetary and fiscal policy. We remain constructive on China A-shares. However, idiosyncratic issues (Latin America, Brazil, Turkey) are the key risks.
FIXED INCOME PLATFORM	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.
	US IG Corporate	=/+		Dovish central banks and favourable technical are overall supportive of the US credit market, although not to the same extent as EUR IG (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.
	US HY Corporate	=		Valuations of US HY spreads look tighter than in other credit segments and we prefer high quality over lower rated names due to more idiosyncratic risks and rising default risks, together with liquidity reasons. Sector selection remains key, as distress looks concentrated in a few sectors.
	European govies	-/=		We remain constructive on the main peripheral European countries such as Italy (more positive) and Spain, fuelled by ECB action, a new political pro-European coalition in Italy and the ongoing search for yield. Curves are expected to flatten on the back of persisting yield hunting.
	Euro IG Corporate	++		We are positive on Euro IG, particularly on BBB-rated debt and financials. Strong technicals are here to stay, for example ECB's new net purchases and higher corporate sector purchase programme reinvestments, which provide steady positive investment inflows into the asset class and intensify yield hunting. However, liquidity conditions in secondary must be monitored.
	Euro HY Corporate	+		Technicals are favourable in this asset class where we prefer high quality and more liquid BB-rated debt on the back of the attractive risk reward combination and given higher downside risks to the macro picture. But we focus on selection, idiosyncratic risks and liquidity.
	EM Bonds HC	+		EM bonds could be a natural candidate in the current environment of low yields and global monetary policy easing. The EM-DM GDP growth gap is expected to widen further in favour of EM.
	EM Bonds LC	=		In the short term we maintain a neutral view, while on a 12 month horizon the outlook is more constructive. Local rates have fallen and we don't see triggers for a continuation of this trends. EM FX will remain volatile, but we believe that the pessimism is overdone. Should trade disputes ease and the global manufacturing sector bottom out, this would lead to a weaker USD.
OTHER	Commodities			Commodity and precious metal prices should be supported by easing financial conditions, decent economic growth and CBs' active management of balance sheets. As a result, we remain constructive on gold (hedge against geopolitical risks). For oil, we reiterate our target range of $55-$65 for WTI and $60-$70 for Brent, while acknowledging that risks are skewed to the downside due to the cooling global oil demand and sluggish Chinese growth. Long term, US oil production and OPEC strategy will driver oil prices. Elsewhere, we are positive on base metals as we think the manufacturing sector could stabilise.
	Currencies			We expect the USD to trade lower on a 12M horizon due to US fiscal stimulus, US-China trade dispute resolution and a potential intervention by the Fed/US Treasury. The upside on EUR/USD will be limited, given the slowdown in Europe, political risks and rates differential between US and Europe. The 12M target for GBP/USD is increased slightly to 1.31 amid receding concerns of a no-deal Brexit but the target for USD/JPY is kept at 104 (supported by uncertain global growth). We are neutral on EM FX and believe the CNY would move in the range of 7.10 to 7.20.

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Negative Neutral Positive

▼ Downgraded vs. previous month ▲ Upgraded vs. previous month

Source: Amundi, as of 20 November 2019, views relative to a EUR-based investor. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product. IG = Investment grade corporate bonds, HY = High Yield Corporate; EM Bonds HC / LC = EM bonds hard currency / local currency. WTI= West Texas Intermediate.

Amundi ASSET MANAGEMENT

AMUNDI Investment Insights Unit

The Amundi Investment Insights Unit (AIIU) aims to transform our CIO expertise, and Amundi's overall investment knowledge, into actionable insights and tools tailored around investors' needs. In a world in which investors are exposed to information from multiple sources, we aim to become the partner of choice for the provision of regular, clear, timely, engaging and relevant insights that can help our clients make informed investment decisions.

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Definitions

- **Credit spread:** differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration possible embedded options.
- **Yield curve flattening:** A flattening yield curve may be a result of long-term interest rates falling more than short-term interest rates or short-term rates increasing more than long-term rates
- **Yield curve steepening:** This is the opposite of yield curve flattening. If the yield curve steepens, this means that the spread between long and short term interest rates widens. In other words, the yields on long-term bonds are rising faster than yields on short-term bonds, or short-term bond yields are falling as long-term bond yields rise.
- **Cyclical vs. defensive sectors:** cyclical companies are companies whose profit and stock prices are highly correlated with economic fluctuations. Defensive stocks, on the contrary, are less correlated to economic cycles. MSCI GICS cyclicals sectors are: consumer discretionary, financial, real estate, industrials, information technology and materials, while defensive sectors are consumer staples, energy, healthcare, telecommunications services and utilities.
- **Duration**: a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates, expressed as a number of years.
- **FX:** FX markets refer to the foreign exchange markets where participants are able to buy and sell currencies.
- **QE:** Quantitative easing (QE) is a type of monetary policy used by central banks to stimulate the economy by buying financial assets from commercial banks and other financial institutions. QT: Quantitative tightening is the opposite of quantitative easing.
- **Quasi sovereign**: Companies which are wholly or partially owned by governments.
- **Volatility:** a statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.

Important Information

Date of First Use: 26 November 2019.