November 2019

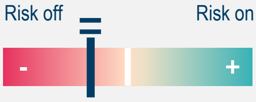
Global Investment Views

Pascal BLANQUÉ
Group Chief Investment Officer

Vincent MORTIER
Deputy Group Chief Investment Officer

Overall risk sentiment

Risk off Risk on



Keep a cautious stance in risk assets amid lack of visibility on future earnings growth.

Changes vs. previous month

- Play equity rotation with a preference for quality value especially in Europe
- More positive in Euro High Yield

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

Limbo for markets will not last forever

Bad but not so bad news left the market in a limbo: equity markets were more or less flat in the month, treasury yields remained in the 1.5 / 1.8 range and credit spreads also remained within the trading range of the last few months. However, markets oscillated between weak US and Eurozone numbers, prospects of a US-China 'mini-deal' and tariffs on Europe. Geopolitics and Trump's impeachment was in limelight as Turkey started a military offensive in Syria. China witnessed subdued data, only partially offset by policy measures.

Global growth remains decent, but weaker than expected and **more vulnerable**. The dovish stance of central banks and more details on 'mini-deal', may save the day for risk assets allowing them to trade in a range. While this (resilient but vulnerable growth) remains our central scenario through the year end, there are other two possibilities for next year. First, an escalation in trade war causes a full-blown **contagion** from manufacturing into services, thereby affecting consumption. If this happens, we would be in for a **very defensive** stance. Secondly, **growth moderately reaccelerates** driven by fiscal and monetary policy and improvement in trade situation, a trigger for some repositioning in risk assets.

However, the limbo for the markets will not last forever. In our view, **four key themes will likely set the direction of opportunities and risks for investors.** (1) **More uncertain communication** from CBs as internal **disagreements grow** and **divergent views** within the Fed and the ECB affect markets. These contrasting views and lack of consensus will be the new source of volatility. Moreover, this comes just when market expectations on Central Banks actions are very high, too high in our view. (2) **Dispersion in growth** due to **less globalisation** and **rising idiosyncratic risks** (Brexit). (3) **Resilience of internal demand**. Countries with strong internal demand, relatively isolated from trade war and with higher visibility on fiscal policies would be better able to withstand the slowdown. In the US, we need to watch whether a manufacturing slowdown spills over to the consumer and services sector which could aggravate slowdown risks. At the moment, this risk is low: consumption is backed by growing disposable income and we do not anticipate big job cuts. (4) **Uncertain earnings path**: There is low visibility on earnings outlook in the short term: expectations have already come down for the next quarters, but the risk for further disappointment is not negligible. A profit recession can occur without an economic recession, and this is still not priced in by the market.

In light of these themes, we outline our **four convictions** below:

- **Cautious stance in risky assets** to continue amid increasing growth vulnerabilities and limited earnings visibility for the near future. Equities generally bottom out with ISM manufacturing indices, which are not likely to stabilize before next year. Earnings growth is already pointing south and there is no particular sign of euphoria but it is also not the time to be excessively negative in equities.
- **Biggest opportunities in equities will come from sector rotation, not from directional moves**. As most of the market directionality is likely behind us, being right in sector rotation will be important. Growth outperformance vs. value remains extreme. Value in Europe is at multi-year low. For value to outperform, some pick-up or stabilization in yield is needed: we are not there yet but looking for triggers (fiscal expenditure could be one) and good quality companies in the value space could be an opportunity to play moving into 2020. Companies that have sustainable balance sheets, adequate cash flows and strong business models can deliver strong risk-adjusted returns.
- We will witness more **dispersions among regions**, due to less globalisation that will renew focus on selection of themes/sectors and securities both in the developed and the EM world.
- As the overall picture is not rosy, it is important to **monitor the evolution** of the key risks in the market and **hedge** against a possible worsening of the scenario and prepare to be more defensive, should trade talks deteriorate and manufacturing recession spreads to services and affects consumption.

MACRO & STATEGY

Monica DEFEND
Global Head of Research

Didier BOROWSKI
Head of Macroeconomic Research

Bottom of cycle not yet reached; stabilisation in sight

Most surveys have continued to deteriorate over the recent period, indicating that the bottom of the cycle has not yet been reached. There are also early signs of weakening on the side of services. But overall, the global **economy is resisting the manufacturing recession**. While investment in capital goods is affected by uncertainty in many countries, household consumption continues to benefit from job creation (although it has started to slow).
Not surprisingly, **global trade remains at half-mast**. The restart will be slow. It will take much more than a front agreement between China and the US to bring down the level of uncertainty which weighs on business investment. The ratio of world trade to world GDP is thus expected to continue to decline by the end of 2020.

Growth will slow further in advanced economies in 2020, particularly in the US. And China will also continue to slow down. However, the growth gap between emerging and advanced economies is expected to widen in favour of the former. Against this backdrop, we believe that the **world economy should stabilise by the first half of 2020** at the latest. Nevertheless, downside risks continue to dominate: on the one hand, there is **political risk**. On the other hand, there is **market risk**: a sudden repricing of risk premiums would tighten financial conditions and thus weaken the most indebted agents (starting with corporations).

The **uncertainty is there to last**. It should be noted, however, that the epicentre of political risk is gradually shifting from Europe to the US: the Italian government has finally opted for a measured fiscal programme; and the probability of a hard Brexit has fallen with the agreement reached on 17 October. In contrast, in the US, political noise related to the impeachment procedure, coupled with polls in favour of Senator Elisabeth Warren for the Democratic nomination is beginning to attract investors' attention.

In this context, and in the absence of inflation, **central banks will remain pre-emptive**. On the ECB side, the publication of minutes and the positions of several heads of the core Eurozone central banks show that the **dissent has never been so pronounced** since the creation of the ECB, which reduces the probability of further easing. The priority for Christine Lagarde (who will take office at the beginning of November) will be to bring the various central banks together again. On the **Fed side**, the **monetary strategy will be opportunistic**. The dissensus is also very pronounced. In recent weeks, markets have sharply revised their expectations downwards, both on the Fed side (-60 bps expected by the end of 2020 vs. -125 bps a few weeks ago) and on the ECB side (-10 bps expected by the end of 2020 vs. -40 bps a few weeks ago). Market expectations are now more in line with our central scenario.

In the future, **central bankers will increase pressure on governments** to take over from monetary policy with a more accommodative fiscal policy. Many emerging countries have already relaxed their fiscal policies. The advanced economies should gradually follow suit. In the Eurozone, we can count on Christine Lagarde to remind governments of their duty.

“***At a time of scarce visibility on growth quality, focusing on GDP data might be misleading. Weak GDP numbers do not exclude profit recessions.***”

The strategist’s view – Financials and geopolitical risks call for a strong USD

The fall of US ISM manufacturing below 50 for the August and September reading has failed to materially affect the USD. Historically, sharp falls in the ISM manufacturing index have been associated with USD strength, not weakness. This is because of the influence that the US economy wields over the global economy and the USD’s status as a safe haven currency.

A weak US economic backdrop negatively affects global growth, causing economic pessimism across the world which eventually leads to a ‘risk-off’ environment. This risk-off environment, coupled with a lack of real alternatives for investors, is proving to be the main driver of USD strength. For instance in Europe, a deteriorating economic activity, negative carry vs USD, depressed inflation expectations suggest a weak EUR going forward.

Elsewhere, the high level of ambiguity over the US-China trade talks would exert pressure on the CNY, thus strengthening the USTW$. This is also the case for already depressed global trade-dependent currencies such as the SEK and AUD.

USTW$ = Trade-weighted US dollar, a measure of the value of the US dollar relative to other world currencies. CNY=Chinese Yuan. SEK= Swedish Krona. AUD= Australian Dollar.

MULTI-ASSET

Flexibility is essential amid an uncertain year end

The bottom of the cycle has not yet been reached and further slowdown can be expected both in Europe and the US. The former would be more impacted as it is a more open economy and accordingly countries such as Germany are under pressure from trade tensions. This trade weakness, coupled with weak domestic consumption, could see risks spreading from **manufacturing to the consumption side**. However, we don't read this as the beginning of a recession. Instead, we believe **two closely linked themes** would likely play out in the near future – **uncertainty on interest rate movements and ambiguity on market directionality**, amid an ongoing deterioration in the macro-economic environment. In addition, from a (geo)political perspective, the situation is mixed with a new government in Italy, signs of an end to the Brexit saga and the US President Trump's impeachment that could still potentially impact market sentiment. Therefore, now is not the time to increase risk. Instead, we prefer to remain cautious, maintaining a flexible approach, as a rebound cannot be ruled out.

Matteo GERMANO
Head of Multi-Asset

> ***Amid a structural deterioration, we believe it is better to stay cautious, but be ready to tactically adjust the risk stance. We are constructive on EUR credit.***

High conviction ideas

Against this uncertain background, we outline three areas of conviction across asset classes.

(1) **Low visibility on future earnings suggests** a cautious stance on equities. The relative value between equities and bond is shrinking, but it is too early to adopt a fully defensive stance. Instead, we think investors should be flexible and adopt option strategies to tactically adjust exposure and benefit from a potential market rebound. This is because stabilising PMIs could support equities, particularly in the cyclical sectors such as energy and consumer discretionary, both in the EU and the US, but directional bets are probably still too risky. **Sector rotation** could also present opportunities, as could **domestic** themes in EMs, in particular in China.

(2) **The hunt for yield will continue as the amount of negative yielding bonds is at historical highs**. Expectations that Italian government will maintain fiscal discipline provide a positive backdrop for Italy 30y BTPs vs Germany 30y. On corporate bonds, we prefer EUR vs US and are now more constructive, tactically, on **EUR HY** (primarily for carry) on account of a benign default outlook, limited supply and dovish ECB. On EM bonds, the overall financial conditions (in EMs) which include attractive carry, dovish global central banks and subdued inflation in the developed world, are all supportive of the search for spread exposure in this space. In **currencies**, we believe investors should continue to seek carry opportunities in the EM FX space, where some positive developments on the US-China trade front led us to adjust our selection.

(3) **Markets are counting on central banks policy actions which are supportive**. Here we remain positive on duration, but have adjusted some of our views on UK 10y real rates and Schatz, which will continue to be supported by the ultra-dovish ECB. We remain constructive on **US duration** in view of an accommodative Fed, and hence prefer US 10y and US 5y vs Germany 5y.

Risks and hedging

Global recession, trade war uncertainty, failure of central banks to act and a downturn in Eurozone are all risks that could impact multi-asset portfolios. As a result, we recommend investors to put in place **structural hedges such as JPY and gold** to safeguard against an extreme downturn.

Amundi Cross-Asset Convictions

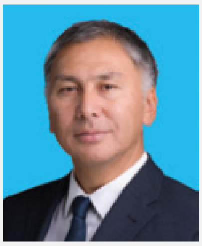
	1 month change	---	--	-	0	+	++	+++
Equities				■				
Credit							■	
Duration						■		
Oil					■			
Gold						■		
Euro cash				■				
USD cash						■		

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, PMI = Purchasing Managers' Index, Schatz = Short-term German bunds, ECB = European Central Bank. BTP = Italian government bonds. EM FX = Emerging Markets Foreign Exchange.

FIXED INCOME

Eric BRARD
Head of Fixed Income



Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

> ***We expect the economic slowdown to continue, but no recession. This underpins a positive stance on credit in Europe, and on sectors exposed to the consumer side in the US.***

Credit appetite is high, exploit carry and be selective

While the global economy is witnessing a slowdown, we don't expect a recession. In the US, consumption and services which are a large part of the US economy, should provide support. However, uncertainty over the ongoing trade war and manufacturing weakness lead us to expect a dovish stance from central banks. Therefore this is a time to be **cautious but not too conservative**. We believe investors should stay in credit to exploit carry and be selective because the appetite is high and this could lead to areas of market complacency. In this environment, should be **selective, well diversified and focused on liquidity**.

DM bonds

From a **global fixed income** perspective, we remain neutral on **duration** but with a preference for duration in the **US** compared to the Eurozone and Japan. We continue to favour the **UK curve steepening strategy**, extending the long end of the UK yield curve and we expect a flattening on the Euro curve, while in the US we continue to play curve opportunities. **In Europe**, a dovish ECB supports our favourable view on EUR IG credit, but we are negative on utilities and adjusted our outlook for the financial sector. We remain watchful of some idiosyncratic risks in high yield (HY). For sovereign bonds, we are constructive on peripheral European countries and slightly more positive on Italian BTPs now, given the improving political stability. **From a US investor perspective**, the 10y Treasuries appear expensive as investors' continued to search for safety amid uncertainty on trade front and lower ISM data. However, given the strength of the services sector, the consumer and small businesses, the Fed is likely to evaluate data before additional monetary easing. Hence, in our view the US duration exposure should be limited.

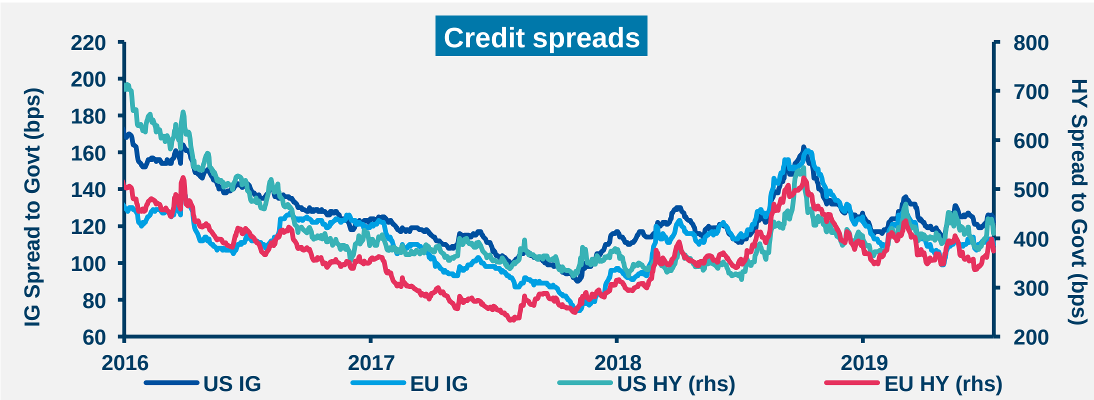
On US credit, we maintain **a modest risk stance** and focus on sectors that offer exposure to the domestic US consumer and allow us to enhance diversification in areas with attractive relative valuations. Accordingly, we remain positive on asset-backed securities (ABS), commercial mortgage-backed securities (CMBS) and residential mortgage-backed securities (RMBS). Agency MBS securities are also attractive. We also continue to expect a steeper treasury curve and we have a slightly positive stance on Treasury Inflation-Protected Securities (TIPS) given a higher likelihood of upside inflation surprise (from wage growth and tariff related).

EM bonds

Although we think the asset class can be a net beneficiary of the tug of war between weaker growth and looser monetary policy, we prefer to maintain an overall **cautious stance** for the time being. Looking at fundamentals, Latin American countries are relatively more attractive at the moment but we are carefully looking at the commodity outlook, which could weigh on this area. We turned more constructive on Brazil (local currency and corporate), while we have reduced our positive stance on Indonesia and Russia.

FX

Given the liquidity and attractive yield offered by the **USD** and the protection offered by the **JPY**, we are positive on both these currencies. We also prefer a relative value trade **NOK vs SEK**, in light of the Norges Bank's hawkish views. The rate disadvantage and the ECB easing measures are a burden on the Euro. We are neutral on the GBP. **EM FX** should remain weak in this environment given that they are most exposed to global growth.



Source: Bloomberg. Amundi, as of 16 October 2019.

NOK = Norwegian krone. SEK = Swedish krona. JPY = Japanese yen. GBP = British Pound.

EQUITY

Market dislocations in 'value' may offer opportunity

Overall assessment

All in all, strong directional bets in equity markets may be too risky in the current environment (economic slowdown, uncertain global trade), however, active investors should keep an eye for opportunities presented by appealing areas of the market. **Valuations of value vs growth are extremely attractive** and this is leading some initial signal of a reversal in the multi-year trend of outperformance of growth vs value. We are actively watching such pockets, but we are extremely **selective** as we note that companies that do not meet expectations in the current uncertain environment, get overly punished by the market. Going forward, we believe investors should look more and more at the equity market with an income perspective. In a world of ultra-low/negative bond yields, the dividend from equity is extremely attractive.

DM equities

In Europe, there is an all-time high **dislocation between value and growth** and this dislocation provides investment opportunity. Value stocks trade at an all-time low levels relative to growth, and we think the former provides an attractive hunting ground for stock picking. In particular, the areas that have relatively higher quality and are less exposed to disruption are interesting. Such opportunities exist selectively within sectors such as building materials, industrials, consumer discretionary and financials.

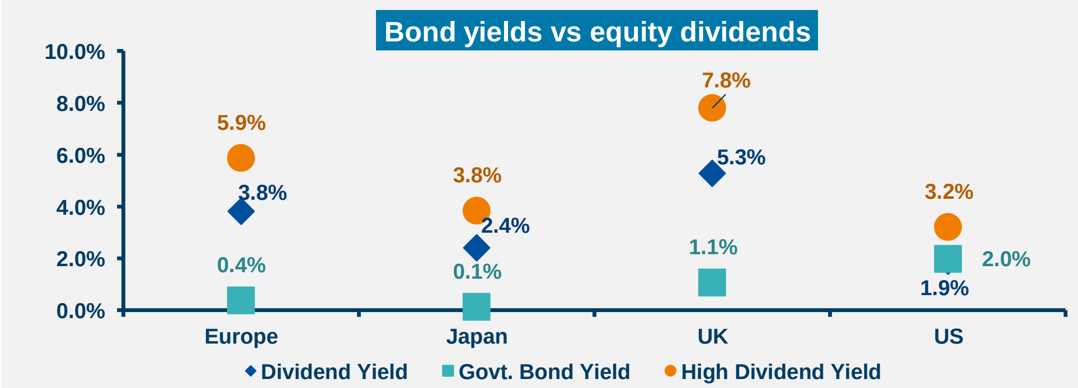
However, we are **cautious** on the very **high valuation of certain pockets of the growth universe**. The current reporting season shows that there is little room for error when the high valuation names within growth disappoint, therefore caution is needed. At the portfolio level, we continue to seek **balance.** For this we prefer **health care and telecoms in the more defensive compartments over consumer staples** as the first two sectors offer a better margin of safety. We also look for emerging opportunities in the UK domestic sector which is trading at depressed levels.

In the **US**, equity valuations remain attractive relative to fixed income, but the global slowdown and government policy uncertainty suggest a more **prudent** approach. While earnings growth in the upcoming season is expected to be weak, a crucial indicator would be the guidance for the next quarter and 2020. We are more constructive on **value over growth**. Despite challenging macro data and headlines (i.e., trade, impeachment, Warren presidency), cyclicals/value are compelling on relative valuation and sentiment suggests risk is to the upside right now. Therefore, this is not a time to be overly defensive. From a bottom-up perspective, we believe **high-quality cyclicals** could provide opportunities in case of an upside.

EM equities

In the **EM space valuations are supportive** and the market could benefit in case of a mini-deal on the trade front. We remain broadly positive on domestic consumption countries for the next few months (such as Brazil, Indonesia, Russia and India) and turned moderately constructive on China even though we expect some volatility in the near future.

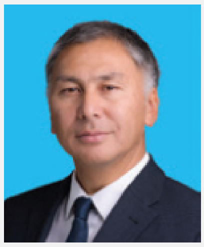
At a sector level, we favour information technology (especially in Korea and Taiwan) and the energy sector where valuations and free cash flow yield are very attractive.



Source: Bloomberg, Amundi, as of 21 October 2019.

Sector rotation has opened up attractive opportunities in quality value, with a preference for cyclicals.

Kasper ELMGREEN
Head of Equities



Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

Amundi
ASSET MANAGEMENT

Amundi asset class views

	Asset class	View	1M change	Rationale
EQUITY PLATFORM	US	=		Earnings growth is expected to be weak and all eyes would be on forecasts for 2020. However, despite challenging macro-economic data and headlines (trade deal, Warren presidency, Trump impeachment) concerns there are certain pockets (cyclicals/value) of compelling valuation.
EQUITY PLATFORM	Europe	=/+		Deteriorating economic fundamentals are negatively affecting earnings expectations. The Brexit deal reduces the geo(political) risk in Europe. Corporate fundamentals remain solid, valuation are fair and heightened volatility and market dislocations could provide opportunities. Dovish ECB should be supportive.
EQUITY PLATFORM	Japan	-/=		We maintain our cautious view on Japanese equities. Valuations are attractive and companies are becoming more shareholder-friendly. However, corporate earnings would be affected by the global slowdown, and appreciation in JPY is also a major headwind.
EQUITY PLATFORM	Emerging markets	-/=		EM valuations look attractive on a relative basis. A mini-deal between the US and China, strong domestic demand and favourable monetary (rate cuts in India, Brazil) and fiscal policy should be supportive. However, idiosyncratic risks (Brazil, Turkey), trade-war escalation and Fed policy stance relative to market expectations are the key risks.
FIXED INCOME PLATFORM	US govies	=/+		While on a standalone basis US govies are not cheap, they remain attractive among core bond markets. Barring deterioration in the US growth and labor outlooks and further escalation in the US-China trade war, the Fed is likely to pause and evaluate data releases.
FIXED INCOME PLATFORM	US IG Corporate	=/+		We maintain a relatively modest risk stance and believe investors should seek opportunities across multiple sectors and focus on quality. In this regard, securitised credit is attractively valued, provides strong credit protection, exposure to US consumer and avoids global growth risks.
FIXED INCOME PLATFORM	US HY Corporate	=		We maintain a neutral stance as US HY spreads are lower than the long term average, but still exceed the cost of default. Given the economic growth risks, focus on selection and liquidity management is important.
FIXED INCOME PLATFORM	European govies	-/=		ECB delivered an easing package (QE, Tiering, Rate Cut), economic data worsened, inflation subdued and the 10y bund is near its lowest level at -0.55% with the entire part of the curve remaining negative. We remain positive on the main peripheral European countries (Spain and Italy) fuelled by ECB expectation and a new political coalition in Italy willing to find agreement with the European commission on the 2020 budget.
FIXED INCOME PLATFORM	Euro IG Corporate	++		We are positive on Euro IG, particularly on the subordinated debt financials in Europe. Improving technicals, the appetite for yield and QE by the ECB will continue to drive the market. However, a focus on liquidity is important in this phase of the cycle.
FIXED INCOME PLATFORM	Euro HY Corporate	+		We are aware of the idiosyncratic and liquidity risks and remain selective. However, a dovish ECB supports the overall environment for the Euro HY space and we prefer it due to the carry opportunities.
FIXED INCOME PLATFORM	EM Bonds HC	+		Deteriorating economic conditions have affected sentiment, however, valuations are attractive and fundamentals are also solid. A low interest rate environment should be positive for EM HC bonds but we focus on fundamentals. We are also monitoring central banks policy decisions which would be key for this asset class.
FIXED INCOME PLATFORM	EM Bonds LC	=		We prefer rates and remain cautious on currencies. Uncertainties around the global economic outlook are skewed on the downside and this could pressurize EM currencies. EM central banks (CBs) accelerated their monetary policy easing and further easing is also likely. However, we adopt a flexible approach to address potential liquidity issues.
OTHER	Commodities			Trade wars, weakening growth and USD appreciation amid GEM currency weakness remain the most relevant concerns. Demand/supply dynamics will also continue to affect prices as weakening demand offsets geopolitical risk premium and supply disruption worries. However, financial conditions should remain reasonably supportive due to accommodative CBs. Easing financial conditions and FED balance-sheet expansion will underpin gold in 2019 while USD weakness should support valuations. We keep 12M target at 1550 $/ounce. Base metals will be affected by China demand and global economic slowdown but the overall picture remains supportive.
OTHER	Currencies			EUR/USD is primarily driven by global growth and our macro scenario foresees a continuation in the current moderate slowdown in developed countries. Therefore, the currency is expected to remain close to current levels. Our 12M target is 1.13. However, in case global demand and trade environment improve the currency could move higher. The JPY remains supported by the current slowdown in global growth. Our USD/JPY target for 12M is 104. GBP/USD would remain under pressure amid prolonged uncertainty over the Brexit deal, our 12M target being 1.25.

LEGEND

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Negative Neutral Positive

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

Source: Amundi, as of 22 October 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 Investment Insights Unit

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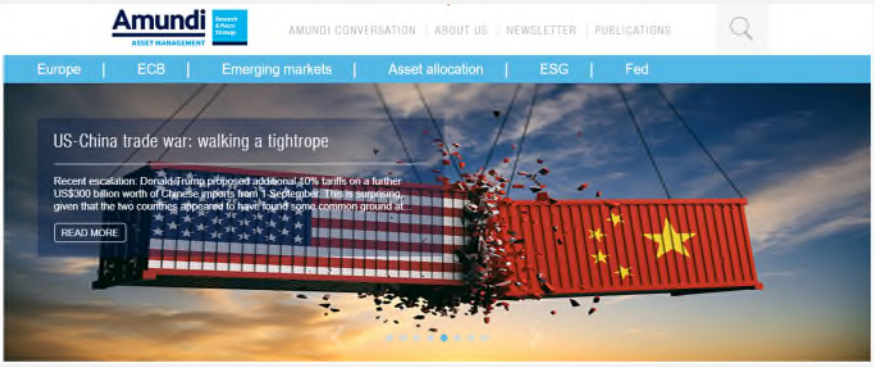

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Claudia BERTINO
Head of Amundi Investment Insights Unit

Laura FIOROT
Deputy Head of Amundi Investment Insights Unit

Ujjwal DHINGRA
Amundi Investment Insights Unit

Giovanni LICCARDO
Amundi Investment Insights Unit

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