

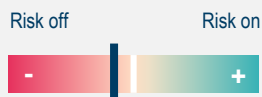


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Overall risk sentiment



Prioritise liquidity, and stay active and balanced, amid the lack of visibility on earnings growth and the deteriorating default outlook

Changes vs. previous month

- A slightly more positive view on credit, peripheral debt and cyclical stocks that are supported by central banks' actions.

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

The Bumpy Road to a “Day After” Renaissance

COVID-19 has triggered a sequence of economic and financial market narratives and is giving way to a new status quo characterised by extreme fiscal and monetary measures, to which markets have responded well, though some volatility has returned in the past few days. In effect, these **policy measures are painting a new picture, that of a “day after” renaissance. Markets have already priced in their rosier scenario:** the end of the worst of the virus cycle, the possibility that a second wave will be weaker than the first, and a cure and vaccine arriving fast and becoming broadly available before a new pandemic pushes the economy into a fresh wave of lockdowns. Some recent data supported this view, such as the PMI bottoming out (still weak) and the US job market surprising on the upside (though it is trending down).

Overall, the data isn't pretty, but the general idea is that the economic freeze is almost over and that it's time to look forward. This is what has pushed the equity markets to almost erase year-to-date losses in the US, with the S&P 500 (Total Return) down 2.7% YTD, after a QTD performance of +21%, as of the close on 17 June. Recently, **a strong rotation clearly showed up in favour of cyclical, small caps, value stocks and laggards. There has been a race to follow the trend, favouring the lagging markets such as Europe, Japan and Emerging Market (EM) assets, and corporate credit is also attractive.**

In the “day after” scenario, the expectation of low bond yields and massive central bank buying also works in favour of a relative preference for equities vs. bonds as dividend yields outstrip bond yields. It's true that earnings growth expectations are still too high, but if we think the worst is over, that there's no juice in bonds and liquidity abounds, we have no choice other than to look at equities to try to grasp opportunities in areas that haven't fully recovered their pre-crisis valuations. **However, the road along the recovery phase could be bumpy.** So far, only those companies most directly affected by the lockdown measures have gone bankrupt. But the race against time between solvency and liquidity continues. There will likely be more victims, and many downgrades are still to come.

Expectations that the pandemic is over may be too optimistic, and any slip-ups could heat the markets up again. While it's true that governments and central banks have introduced extreme measures, more will be needed, particularly outside the US, where the magnitude of measures doesn't match the economic damage. Moreover, the risk of policy mistakes can't be underestimated. The money available has to be targeted efficiently, and too much haste to secure electoral consensus could result in a misallocation of capital. **Geopolitics will increasingly take centre stage the further we move toward the final phase of the US Presidential election.**

Against this backdrop, we recommend the following guidelines at the level of portfolio building:

- Maintain a balanced risk exposure and play the rotation toward value and cyclical stocks.** The markets were too fast in pricing the end of the lockdown and the recovery ahead. Current valuations - are the result of a **liquidity-driven rally** and are being sustained in the short term only thanks to the continued aggressive monetary expansion. Markets are clearly addicted to central bank (CB) liquidity at the moment, but in the second part of the year **a reality check on earnings growth has to be considered.** Therefore, we suggest combining a high level of liquidity with some exposure to cyclical assets that offer high performance potential in the event that a favourable scenario plays out.
- Stay positive in the credit space, which is benefiting from fiscal and monetary measures, and very selective.** investment grade (IG) credit and the better-quality BB companies in high yield (HY) will remain the sweet spot in a climate of a slow recovery, very low rates and rising defaults. Investors should seek opportunities in the IG primary market, where activity is at a record high. We expect the default rate to increase for low-rated HY issuers, and this is not fully priced in by the market, so selection is paramount in the HY space.
- Liquidity is, has been, and will be a key variable in the new order.** Keeping liquidity buffers is particularly important in this phase, as a second leg-down in the market can't be ruled out. This will provide room to move into segments and markets that display attractive entry points.

For investors, this means we can't ignore any “day after” directions, but we must also exercise caution and selectivity. Don't move from depression to euphoria, but from uncertainty to navigating a careful path forward.

MACRO & STRATEGY



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Rising appetite for EUR, but too early for a bull run

Currency markets have had a clear winner in H1 2020: the US Dollar (USD). While the Fed's intervention in fact removed the cyclical support from the rates advantage the greenback has had since rates normalisation started, **the flight to quality and USD liquidity needs took the lead and kept pushing the currency away from fair value**. Valuation doesn't always work, especially when global growth is collapsing and visibility remains very low. This is when the safe-haven nature of the USD became paramount, therefore sentiment and investor flows were the main performance drivers. It would have been surprising to see the USD moving substantially lower when the preference for USD duration and low beta markets (i.e., the S&P 500) was so accentuated.

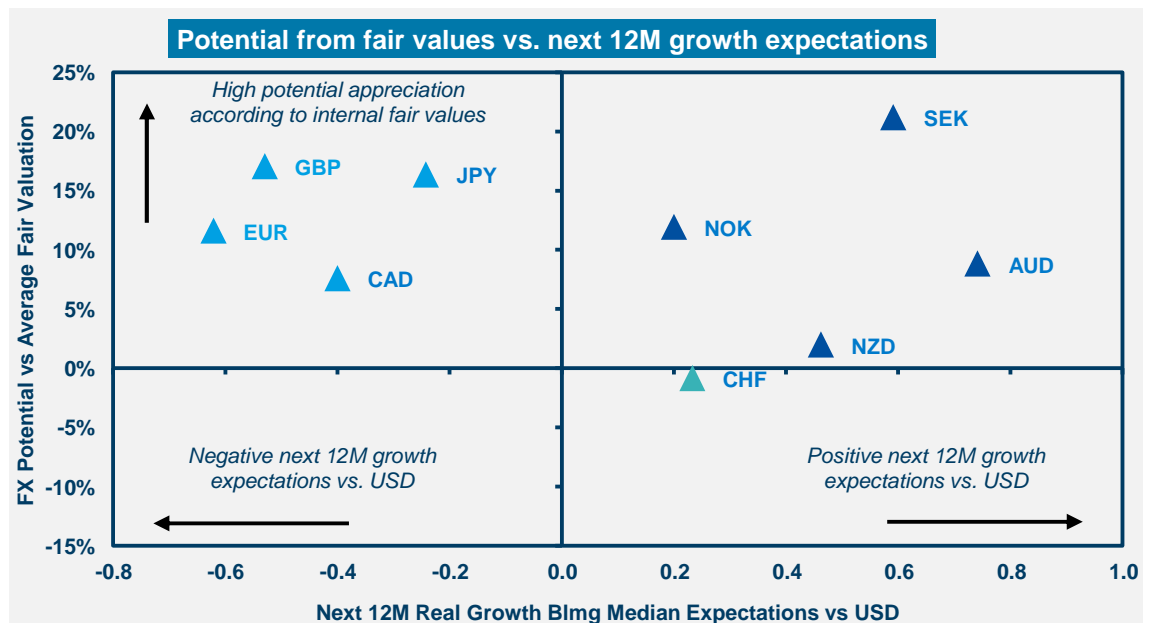
But lockdown measures are being eased globally and CBs' strong commitment, together with some ambitious policy initiatives at national level, have already started pushing growth expectations higher, thus providing a framework for valuation to perform and for the USD to finally take a step back.

Moreover, the EU Commission's proposal for the Next Generation fund (EUR 750 billion, financed by mutual debt issuance and consisting of a mix of grants and loans), intended to ensure that the long-term prospects of the EU remain intact, is substantially lowering the tail risk of a Eurozone (EZ) break-up. We acknowledge that the event could prove to be a medium-term game changer for the Euro (EUR) (as debt sustainability issues across member states, de facto, fade). **However, in the short term, we remain sceptical about saying that we are at the beginning of a EUR bull market**, versus the USD in particular.

The downside risks have diminished and should prevent a further collapse in the EUR, but **sentiment has so far been the only driver supporting the EUR/USD rally in early June**. Even assuming that the EU Commission's proposal does not find any material obstacles to its approval, the potential pitfalls are still in place (with the "Frugal Four" countries' potential opposition at the top of the list and many details on the allocation and sizing still pending). These issues could cause another gyration in risk sentiment. The EZ is still without short-term cyclical support (it remains among the few regions/countries expected to grow less than the US in next 12 months) and the month-to-date rally looks overdone given there are few short-term drivers. Physical commodities and the differential in its earnings per share (EPS) expectations vs. the US suggest that things need to get worse before they get better, and would point to little short-term upside vs. USD (see chart).

In our opinion, the cleanest way to play such a shift in sentiment towards the single currency would be against the British pound. The UK seems to be experiencing the worst economic consequences in the G10 and the no-deal Brexit risk has materially increased with the EU's Commission proposal. The probability of a further extension in the transition period should be lowered substantially if we consider the increased contribution to the EU budget that all the member countries (UK included for the time being) will be asked to provide once the plan is approved. We see EUR/GBP moving higher in the short term as both positive sentiment for the EUR and the need to hedge the no-deal outcome will provide support.

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Potential opposition from the 'Frugal Four' countries to the EU Recovery Fund, relatively lower growth in the EZ and its EPS growth differential vs. the US point to a limited short-term upside for EUR/USD.
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Source: Amundi Research, Bloomberg, as at 18 June 2020. FX upside/downside calculated vs. the average of four internal econometric models – purchasing power parity (PPP) and three behavioural equilibrium exchange rate (BEER) models. Price dynamics, rates and productivity differential, together with terms of trades, fiscal spending and the degree of openness of a given economy, are the main variables that we consider. Models' estimations have been run with the USD being the base. Currency expansion on last page.

MULTI-ASSET



Matteo GERMANO
Head of Multi-Asset

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Dynamic management of hedging is crucial as the risk map rapidly evolves.
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Market euphoria clouding the need for caution

Over the past month, we have witnessed changes on two key fronts: (1) an orderly reopening of economies; and (2) strong fiscal support in the US and important policy actions in Europe, where we believe that the EU Recovery Fund and national fiscal interventions could prove to be a short-term game changer. However, there are no signs of improvement on a third front, the sustainability of corporate earnings. **Consequently, we maintain our defensive, balanced and diversified risk stance**, and believe investors could play some tactical rotation opportunities in the value and cyclicals sectors, green themes and the US consumer area, which remains supported by fiscal plans. Liquidity buffers are paramount at this stage.

High conviction ideas

On **Developed Market (DM) equities**, we remain conservative and vigilant on hard data, but see tactical opportunities in Europe (a reduction in the political risk premium) in value, utilities related to renewable energy and industrials exposed to green initiatives. In the US, value, banks, credit cards, industrials (recovery exposure) and discretionary names, including autos, look attractive. However, growth names in the software and internet, staples and utilities sectors in the US are expensive. **Our view on EMs remains neutral**, with a regional preference for China, South Korea and Taiwan, due to their sector exposure, strong stimulus and better contagion containment. Valuations in some ASEAN countries (Thailand, Indonesia and Philippines) are attractive but we are cautious on some countries due to virus concerns. Overall, it is important to hedge global equity exposure. **On duration, we adhere to our close-to-neutral view on the US** owing to the current curve control environment and the Fed's stance of not hiking policy rates until 2022. The Fed will prevent long-term yields from rising too much to avoid tightening financial conditions. **We are monitoring the US 5-30Y curve**, which we believe is quite steep considering the fundamental economic picture and the Fed's policy, but is still driven in the short term by sentiment and partly by technicals. Fed buying (especially in the short- to medium-term segments), safe-haven demand and the global search for yield, although to a lower extent, enable us to maintain a preference for US 5Y vs. German 5Y. In addition, US Treasury (UST) yields still have room to fall if the Fed signals an openness to negative rates. **We are positive on US inflation bonds** (medium term), due to depressed valuations and long-term reflationary forces. **Euro peripheral debt** should be supported by the European Central Bank's (ECB) actions (recent Pandemic Emergency Purchase Programme (PEPP) expansion) and the EU Recovery Fund. The latter should reduce the risk premium on peripherals and, collectively, both are putting a ceiling on Italian yields. As a result, we now prefer an outright Italian BTP position over a relative Italy 30Y vs. Germany 30Y position. The former is also less correlated to equities. **Amid continued CB support, we retain our constructive stance on credit**, and prefer IG (better valuations) over HY and EUR over US (high leverage). Investors should have a well-diversified exposure across sectors (cyclical, defensive, financial senior debt) with a particular focus on high-rated debt of A, A+ and BBB+ grade. However, liquidity assessment and some protection in HY is important (default risk). **We are neutral on EM debt**. The gap between IG and HY countries is declining, with HY spreads strongly compressing but still attractive, while IG has now reached levels more in line with historical averages. **In EM FX**, we are now constructive on some high yielding currencies as they are benefiting from sentiment, flows and the focus on improving growth dynamics, but some risks factors (oil war, US-China tensions) remain.

Risks and hedging

Hedging in the form of gold, JPY/USD (safe haven) and derivatives is important to mitigate the risks related to earnings, insolvency and geopolitics.

Amundi Cross-Asset Convictions

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

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

FIXED INCOME



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Markets addicted to central banks: force on quality

Ultra-accommodative CBs and strong fiscal support continue to gradually normalise market conditions, leading to a rebound in risky assets and causing USD weakness. However, as markets are now addicted to CB support, there is a risk of an increase in credit defaults when this support fades. Therefore, in their search for yield, investors should ensure that they don't go too low in the credit quality spectrum because the risks are asymmetric. Instead, this is a time to remain selective and active, and maintain liquidity and headroom to manage allocations tactically. Investing in green strategies will be a key way to navigate markets.

Global and European fixed income

We refrain from making any strong calls on duration and keep our stance close to neutral, with a constructive bias on the US and France and a negative view on bunds. We see curve-steepening opportunities on the long end of the US and Euro (10-30Y) yield curves as there is room for long-term yields to increase in light of the massive issuance programmes. The continued ECB support and the prospect of the EU Recovery Plan now allow us to be **positive on the Euro periphery debt**. On inflation bonds, we maintain a slightly positive outlook owing to attractive breakeven valuations, but don't expect a substantial increase in inflation (slow economic recovery). **We are slightly more constructive on credit amid investors' search for yield in the low-rate environment**. In IG, we are positive on financials and on subordinated debt, in particular, and find selective opportunities (re-leveraging) in technology, media and telecom (TMT), energy and other cyclicals. HY should remain supported by recent backstop announcements from CBs. However, investors should remain cautious and maintain high cash levels due to concerns over debt and the low visibility on earnings.

US fixed income

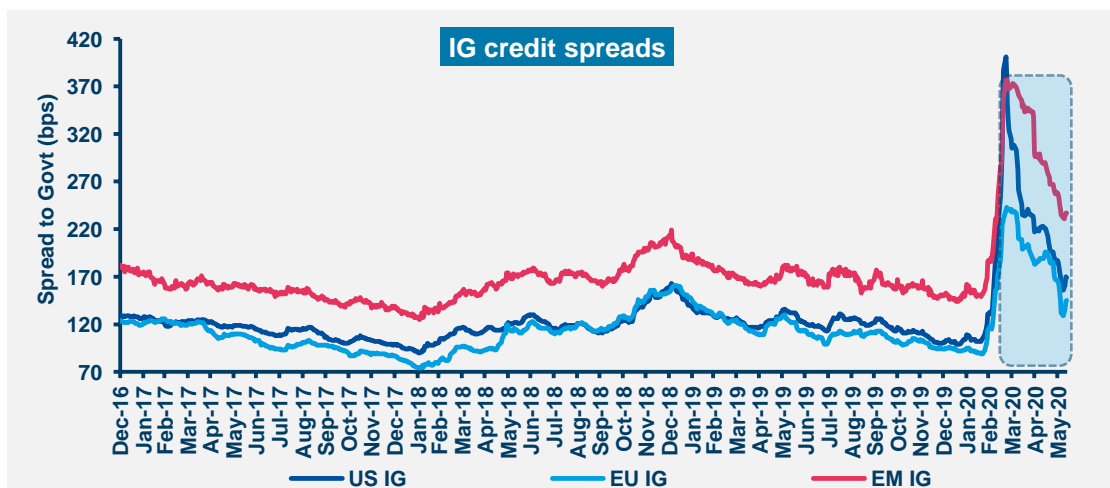
Markets have stabilised due to stimulus-driven liquidity, but they are underpricing the downside risks. We acknowledge the optimism, but think it's crucial to maintain cash buffers. **In credit, demand is driving spreads tighter**. We are constructive, particularly on the long-duration credit of quality companies with stable cash flows (financials, industrials, consumer sectors). Consumer and housing markets are demonstrating resilience and, accordingly, we are positive on non-agency residential mortgage-backed securities (RMBS) and see value in subordinated and esoteric asset-backed securities (ABS). We are cautious on the UST 10Y owing to rich valuations and concerns over rising fiscal deficit, and believe the yield curve is likely to steepen, with longer-maturity yields rising due to a pick up in economic activity and increased issuance. Treasury Inflation-Protected Securities (TIPS) offer inflation protection from a medium-to long-term perspective. Agency mortgages offer liquidity and the prospect of higher yields, but selection is critical as the securitised market may lag the recovery and subdued employment could impair consumer spending and debt repayments.

EM bonds

We favour hard currency (HC) debt, but valuations are starting to look less appealing. We are more positive on HY (Serbia, Ukraine) as valuations are attractive and spreads could compress further vs. IG. But **we are more cautious on rates**, given the strong performance of Russia, Mexico and Egypt. In local currency (LC), selectivity and curve positioning is required. It is also important to consider the US elections.

FX

In DM, we are cautious on USD in short term and are now positive on EUR/USD. In EMs, we are constructive on commodity and high-beta currencies amid reopening and oil rebound.



Source: Bloomberg, daily data as at 15 June 2020. Analysis based on ICE BoA indexes.

Spreads are tightening and default rates at the moment are low — compared to previous recessions — due to unprecedented CB-infused liquidity. This calls for high selectivity in terms of sectors and names.

Central bank support is driving sentiment

Overall assessment

Markets are pricing in the narrative that the worst is behind us, leading to a strong rebound in equities and meaning implied expectations are no longer depressed. However, as uncertainty remains amid subdued economic data, US elections and geopolitical tensions, it is important for investors to remain highly selective and focus on high-quality names. At the same time, some positive signals of reopenings in the US and the Recovery Fund in Europe play in favour of a rotation towards value and the cyclical space that could benefit in the recovery phase.

European equities

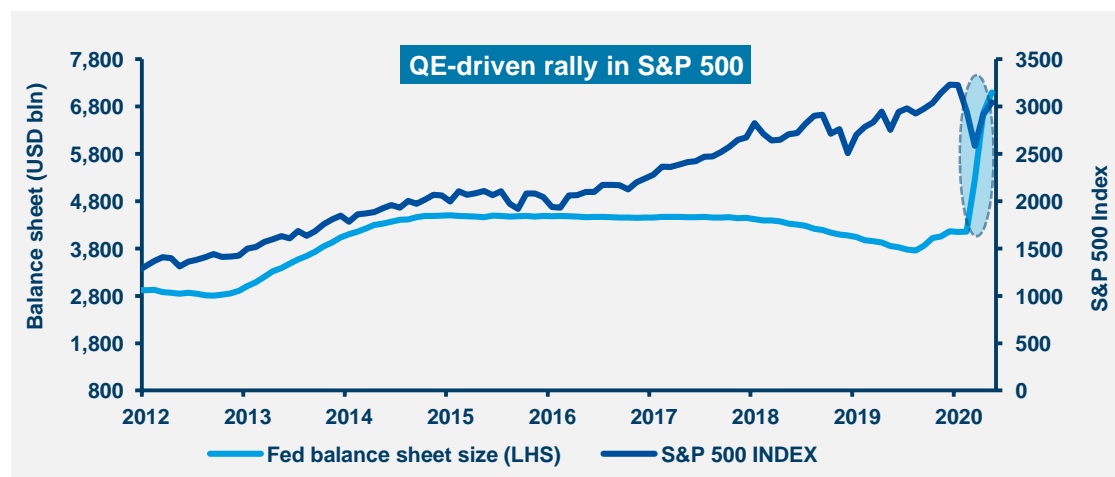
Overall, we are cautious after the strong rally and believe in maintaining strong liquidity buffers and reassessing our cyclical bias, with a focus on resilient, non-disrupted business models and balance sheet strength. There are rotation opportunities in value stocks in banks (prefer banks vs. insurers), amid the progress on the EU Recovery Fund. But the focus should be on names with strong capital positions and profits. It is also important to pay attention to liquidity around small caps, where the situation is more fluid. At sector level, we recommend a barbell approach, with exposure to both defensive areas (for example, resilient yet attractive sectors such as healthcare) and cyclical areas (quality cyclical stocks in luxury and building materials), which will benefit from an economic recovery. We are cautious on technology, due to high valuations, and consumer discretionary (autos), owing to the combination of structural and cyclical challenges. In all cases, **agility is required and we continue to focus on process discipline and stock selection, as well as tightly managing market, factor and style risks**. This allows us to selectively look for dislocations after any market correction.

US equities

US equity has showed strong resilience during the COVID-19 crisis. Importantly, while the economy is hampered, around two-thirds of the S&P 500 is made up of companies in sectors that had a positive/neutral impact from the shutdown (technology, healthcare, communication, staples, etc.). The economy is reopening quickly and valuations are fair outside the few large concentrated stocks. We see a leadership rotation in favour of value and recovery stocks, where we like high-quality names with robust balance sheets and some secular advantage. We look for such attractively valued companies in financials (mega-cap financials), industrials, traditional consumer cyclicals (communication services) and commodity cyclicals. We believe cyclicals could display better performance in case of a recovery but require a thorough fundamental analysis. On the other hand, we are defensive towards bond proxies (staples and utilities) owing to their unsustainable valuations, and are avoiding expensive growth stocks. The valuation differentials between growth and mega-cap stocks are extreme. From a market-cap perspective, a shift down the market-cap spectrum within quality in large caps could offer selective opportunities.

EM equities

We are slightly more optimistic on EM equities but remain cautious, and believe policymakers' actions will be supportive of a global growth re-acceleration. We are cautious on the US-China relationship as potential sanctions might be detrimental (for China and the whole EM universe). EM equity valuations look more attractive vs. DMs, but the earnings outlook is still challenging. We are positive on Russia and India and search for more value and cyclicity in sector allocation (industrials, discretionary, materials).



Source: Bloomberg, Amundi, monthly data as at 29 May 2020.

EQUITY

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Faith in central banks is lifting equity markets. A rotation towards cyclical themes could offer some opportunities in markets priced for perfection.

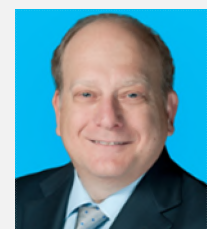
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Amundi asset class views

	Asset class	View	1M change	Rationale
EQUITY PLATFORM	US	-/=		The US market was a core holding in the 2009-2019 cycle. There is room for more cyclical markets to catch up, but US elections could bring uncertainty in the form of a potential victory for the Democrats (in both houses). That could potentially lead to changes in regulations and taxation policy. However, the huge liquidity being fueled into markets is here to stay, as are low interest rates, which may again support quality stocks, which make up a large portion of the US market. The US market is concentrated in a few large stocks and valuations tend to be better outside this concentration.
	Europe	-/=		Europe has suffered during the past cycle. Two factors have revived international interest: the Recovery Fund plan, should it be confirmed, and the cyclical/value catch up. This revival has further to go. The risk is that if Europe is a value play, financials and energy – which are value sectors – are also disrupted sectors, which might limit their outperformance.
	Japan	=		Japan experienced ups and downs in the previous cycle. Being one of the most cyclical markets in the world, it is benefiting from the current cyclical catch-up. Should it be confirmed, it could benefit for the remainder of the year.
	Emerging markets	=		Globally, EMs have underperformed since 2011, except for the 2016-18 period. They could catch up, should the USD confirm a breakdown. Asia is potentially safer, given, among other factors, its exposure to technology, but US-China tensions and geopolitical risks (North Korea) could be a drag.
FIXED INCOME PLATFORM	US govies	=/+		From a global portfolio perspective, we maintain our preference for US Treasuries duration vs. other DMs, on better absolute and relative valuations and the Fed having more leeway available through unlimited QE. We expect the Fed to absorb most net additional issuance of US Treasuries over the next months. In US portfolios, we are cautious on USTs amid the rising fiscal deficit and the unprecedented fiscal support plans.
	US IG Corporate	=/+		Despite recent tightening, US IG spreads still offer attractive absolute and relative valuations. Primary market activity is high, benefiting from the search for yield and investment flows, while the Fed will keep supporting the demand for this asset class thanks to its QE programme. Selectivity is increasingly relevant in a weak macro and microeconomic environment.
	US HY Corporate	-/=	▲	HY should remain supported by recent backstop announcements from CBs. The valuations of US HY spreads look tighter than those in other credit markets. For this reason, together with liquidity issues, we favour high-quality versus low-rated names, as the latter discount only partially the rising default risk. Sector and issuer selection remains key.
	European Govies	-/=		We are cautious on core European government bonds but slightly constructive on the peripheral countries after the ECB's recent expansion and extension of its PEPP, and the encouraging steps on the EU fiscal front. Core curves should remain stable, close to current yield levels. However, we still need concrete implementation details of the Recovery Fund.
	Euro IG Corporate	++		We are positive on Euro IG, particularly on BBB-rated debt and financials. The ECB will support the technicals of this asset class directly through CSPP and PEPP and indirectly as they push investors to hunt for yield. Among different credit markets, valuations look attractive, while fundamentals tend to show a lower financial leverage than in the US. However, selection remains key.
	Euro HY Corporate	=	▲	In EU HY default rates should rise less than in the US, thanks to the higher average credit quality and the lower exposure to the distressed energy sector. We prefer high-quality and more liquid BB-rated debt on the back of an attractive risk-return profile. A focus on selection, idiosyncratic risks and liquidity is extremely important.
	EM Bonds HC	=/+		We are cautious on EM debt but favour HC over LC. In the former, we see room for further spread compression between HY and IG and believe valuations are attractive in HY. The support from the USD strength should remain in the short term. However, the risk of sovereign default has to be monitored carefully.
OTHER	EM Bonds LC	=		We are neutral on LC and believe there is more scope for selectivity in this asset class. We are still prudent — but slightly more constructive — on the EM FX side. It is important to consider the US election risk.
	Commodities			The outlook is moderately positive for commodities, assuming a global recovery. WTI oil should move in the \$/b 30-40 range, while dovish CBs and low real rates will support gold. Geopolitical tensions related to the US-China dispute should inflate some volatility within base metals as we approach the US elections.
	Currencies			As most countries ease lockdown measures and with the prompt policy intervention, USD will lose ground as we move into 2021. The reduction of the rates advantage and the expectations of a global growth rebound will reduce the appeal of US assets. The path will not be linear, as the short-term picture remains gloomy and liquidity does not necessarily translate into higher solvency.

LEGEND



Source: Amundi, as of 18 June 2020, 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.

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