Confidence must be earned

Amundi ASSET MANAGEMENT

Global Investment Views

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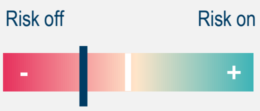
Overall risk sentiment



Defensive risk allocation, markets are pricing in most of the good news, and fundamentals are deteriorating

Changes vs. previous month

- More positive on US duration
- More positive on EM debt

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

Testing new records

Financial markets have been enjoying a record-breaking run of late. **The tide that lifted all boats was the new wave of ultra-accommodative monetary policy, at this stage announced but not yet delivered.** The conviction that central banks (CBs) will step in again to avoid an excessive deterioration of the economic outlook, in the absence of any material sign of inflation, was the main driver of the recent rally. **The overall narrative in the market is that the glass is half full.** The economic cycle will be extended by CBs, interest rates will remain lower for longer and risk assets will remain well supported: credit and EM by the hunt for yield, and equities by the repositioning of investors that are late joining the party. This is all taking place against a backdrop where overall, valuations are less compelling than they were at the beginning of the year, although are not too stretched. All good then?

Although we resisted falling for the darkest pessimism a couple of months ago, envisaging some sort of agreement on trade and Italy, **we are, however, now refraining from joining in with excessive optimism.** After the current exuberance, we expect that **the focus will return to fundamentals and reality, which are decent, but not that exciting.** It is true that we do not see an imminent recession, and a moderation of growth is our main scenario. It is also true that financial conditions have eased materially over the course of the past several months (rally in rates and spread tightening, with an impressive rally in stocks too). However, the quality of growth is poorer than a few months ago: global trade is weaker than expected, with limited upside potential in the short term, and the flat yield curve in the US is discouraging animal spirits. Investment is on the weak side, with business confidence indicators in a downtrend across the board, as well as all of the manufacturing PMIs. Domestic demand growth is still good overall – consumption is the main engine of growth – but it is important to test its resilience and the spillover from trade weakness.

In this mixed environment, we expect the Fed to act with a preventive cut, but not to overreact. The slow period, which began last year on the back of the lagged effects of Fed tightening and trade noise, could begin to dissipate and we could see a bottoming out of economic conditions.

Another important test for equity markets will be the reporting season that is due to start in the coming weeks. Recent price action has closed the valuation gap reached in May and global equities have now almost reached the targets expected in the next 12 months. Bottom-up analysts are revising down their earnings expectations for Q4: at current PMI levels, S&P 500 earnings per share growth should be in the range of 3-5% in the next 12 months. The main message at this point is that there is **a risk of some disappointment in the next few months** and some volatility returning to risk assets.

In conclusion, during this hot summer with thin volumes, **we believe that investors should be aware of likely pullbacks and take advantage of them to add to the most convincing ideas** (EM assets, IG credit, attractively valued and high quality stocks), **while also remaining aware that conditions are more fragile now.** This scenario holds unless central banks are seeing dire data that we cannot yet see. In this case, the party will abruptly stop for risk assets and we should reconsider risk allocation, favouring long duration, safe assets and further material risk reduction. Due to the past track record of central banks in anticipating crises, this is quite unlikely.

Beyond the short-term view, the extension of the cycle is a concrete possibility. The dominance of politics over economics poses a challenge to the independence of central banks, despite reassuring messages from bankers (this is clear in the dialogue between Trump and Powell, but could become evident also at the ECB).

A convergence of pro-growth policies on both sides of the policy mix (fiscal and monetary) could further extend the cycle, and finally reignite a bit of inflation. **This would prolong the goldilocks phase for risk assets, especially cyclical components, with an increasing focus on risk and liquidity management.**

PMI=Purchasing Manager Index.

MACRO & STATEGY

Philippe ITHURBIDE
Global Head of Research

Monica DEFEND
Head of Strategy, Deputy Head of Research

Didier BOROWSKI
Head of Macroeconomic Research

"We expect for 2020 a scenario of moderate growth, dovish central banks and fiscal support."

Household consumption still supportive

The G20 truce on tariffs has not been a game changer. In H2 2019, **we expect to see a very moderate recovery in global trade**, which should continue to grow at a lower rate than GDP. In other words, global trade should continue to slow global growth. We have revised our growth forecasts (particularly for the US and the Eurozone) for 2020 downwards from 2.0% to 1.8% and from 1.3% to 1.2%, respectively. World growth is, however, expected to stabilise at around 3.3-3.4% over 2019-20, thanks to domestic demand.

In the past, manufacturing recessions have mostly been the prelude to global recessions. We have certainly seen a deterioration in the quality of growth (with lower capex). But, despite the persistence of poorly oriented indicators in the manufacturing sector (surveys, production**), household spending is showing little or no decline** and the labour market continues to create jobs in both the US and Europe. In the US, retail sales grew strongly in June, by +0.7% (excluding automotive and energy), after recording a 0.5% rise in May. In the Eurozone, consumption is also holding up well – and monetary policy should represent an additional element of support.

Central banks: a risk management approach

Central Banks changed the nature of their communications since the beginning of the year. Growth is resilient, the risk of recession is considered low; in the absence of inflation, CBs tend to place an increasing emphasis on downside risks. By guaranteeing very accommodative monetary conditions, CBs are seeking to insure themselves against the risk of a more severe slowdown.

Towards a rebalancing of the policy mix

Monetary policies can help support activity, but this would not be sufficient if risks were to materialise. The next step would be to mobilise fiscal policy in countries that have the means to do so, with the support of CBs. We are not there yet, but we expect these policies to encounter fewer and fewer obstacles if interest rates remain very low for an extended period of time.

Inflation: market expectations are too low

Against this backdrop, we believe that inflation expectations are too low. In the Eurozone, there is a marked gap between market expectations, which are close to their lowest level, and household inflation expectations measured in surveys (which are close to a six-year high). ECB studies show that the latter data are better leading indicators of future inflation than market expectations. This tends to reinforce our scenario of resilient household consumption and to show that market expectations are excessively low. An upward correction should therefore occur later in this cycle, in our view.

This is probably why both the Fed and the ECB are making strategic shifts in their definition of price stability. They both appear to increasingly believe that inflation targets should be considered symmetrically. **If inflation were to exceed targets, CBs would not hastily normalise their policies.** This is another way of saying that monetary conditions should remain very accommodative for a long period of time, and that it would take more than small inflation surprises to change the outlook.

The strategist's view – three themes to look at over the summer

1) US curve steepening likely to be supported by the approaching rate cut by the Fed

The Fed forward guidance – a tool used to influence market expectations on the future levels of interest rates – has been revised down, pointing to an easing cycle. Chairman Powell's testimony strengthened the case for a cut soon despite a supportive payroll report and the G20 outcome. We have revised down our targets on US bond yields: we expect the bull steepening of the US yield curve to remain supported by the first rate cut, which is likely to come soon.

2) Spread compression and curve flattening drive EUR fixed income markets

The ECB's stance, with more easing pre-announced at the Sintra meeting, will keep downward pressure on bond yields and will intensify yield hunting through spread products in the Eurozone. Therefore, Italian BBB-rated and high yielding bonds could benefit the most from the monetary policy and supportive technical conditions among EUR fixed income. Italy is expected to be sustained in the short run by the better demand-supply balance and the fact that it has avoided the excessive debt procedure. Our favourite segment of the BTP curve is the 5-10Y part. The limited space available for the ECB to further cut rates keeps alive the current trend in curve flattening in the Eurozone. Therefore the 5-10Y segment could be favoured vs. the 1-5Y.

3) Q2 reporting season will shed light on fundamentals and profit cycle perspectives

While analysts are revising down their EPS expectations, the reporting season will test whether the profit cycle is motoring steadily or whether trade disputes will spill over into more challenging top lines on lower revenues' expectations. According to our models, EPS expectations set the speed of the transition from a late cycle into a slowdown. Therefore looking at Q2 data will be key.

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MULTI-ASSET

Staying well-diversified remains vital

In recent weeks we have maintained a defensive and well-diversified approach, playing risk assets through a conservative view on DM equities, partly balanced by a strong conviction on investment grade credit. We are now even more confident with this assessment, **and recent price actions suggest additional prudence in this phase of the cycle**. We expect that equity volatility will be back with markets assessing, after the recent rally, the weakness of the fundamentals and central banks' policy evolution. Economic data continue to deteriorate and equities' strength will be under pressure with downwards earnings revisions. Markets expect a quite aggressive Fed in cutting rates, while we believe that the easing policy will likely be gradual and data dependent. In the Eurozone, our expectations are for the ECB to restore quantitative easing but not cut rates. In the UK, the probability of a BoE hike has dropped significantly and markets are now discounting a cut, though we are more inclined to adopt a wait-and-see approach. The risk of a no-deal Brexit has slightly increased.

High conviction ideas

We confirm a prudent stance on DM equities. Investors should look at further protecting their equity exposure, for example, by building an asymmetric risk/return profile (i.e., selling part of their US exposure and compensating for it through call options, which are currently quite cheap, given the still subdued volatility environment). This should allow them to capture the upside in case of a further continuation of the CB-induced positive momentum, but also mitigate the downside in case of a market correction.

In fixed income, spread products retain a strong appeal for investors in the hunt for yield. This remains our main conviction in terms of risk allocation. **We are very constructive on Euro IG credit**, due to good fundamentals, technicals and ECB support. **We have become overall more positive on Italian 10-year BTPs**, while we don't see any opportunities left in the relative value strategy on the Italian curve vs. the German curve. On rates and duration, **we have further increased our positive stance on US 5Y vs. German 5Y bonds.** We see limited room for German 5Y yields to fall further as 5Y Eonia already prices in a depo rate cut, which the ECB may not deliver.

In EM, we have a neutral view on equities, and investors should mainly play relative value opportunities (i.e., in China and Korea, although the latter has recently suffered from a spillover of the trade disputes over the tech sector, to which Korea is highly exposed). **We have also become more constructive on EM debt in hard currencies** (to hedge duration risk), an attractive asset class for carry reasons in a low yield environment, despite the heavy investors' positioning. In addition, a possible weakening of the USD is a supporting element for the asset class, as well as the dovish stance by the main EM central banks. Investors could also play the EM theme through a selected basket of EM currencies (i.e., we are positive on carry currencies vs. currencies such as the South African Rand and the South Korean Won, which are more exposed to the trade news flow).

Risks and hedging

Political tensions over trade disputes remain a risk to monitor, as well as the policy response in China, in avoiding any hard landing. On the geopolitical front, Middle East tensions are another factor to consider as these affect the oil outlook. Political uncertainty has heightened in Europe on the back of the lack of visibility over the Brexit outcome. Hedging strategies are key to protecting equity and credit exposure through derivatives or, for example, with a short exposure to USDJPY, sensitive in case of a market sell-off.

Amundi Cross Asset Convictions

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

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

Matteo GERMANO
Head of Multi-Asset

Play a mix of credit and EM bonds and US duration, while keeping a cautious stance on DM equity.

USD= US Dollar, JPY = Japanese Yen.
EONIA= The Eonia rate is the 1-day interbank interest rate for the Euro zone.

FIXED INCOME

Eric BRARD
Head of Fixed Income

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

All levels at play in fixed income

Fixed income markets are discounting a very aggressive dovish approach by the Fed and a generally accommodative central bank (CB) tone in DM and EM. Although the direction, in terms of Fed rates, seems set (downward), **the "when" and "how much" questions, related to the next easing cycle, are still open**, and the answer will broadly depend on the next set of economic data. A first cut is expected in July (25bps more likely than 50 in our view), because the Fed has already committed to it and believes that it has tightened too much. If, as we believe, market expectations have gone a bit too far, **we should see some volatility return to fixed income to readjust prices to expectations**. In any event, it won't matter to the Treasury market bulls in the medium term if the economic data is already beginning to turn up.

DM bonds

From a global fixed income perspective, **our duration view is overall neutral** (slightly short in the Eurozone and slightly long in the US). Playing yield curve movements driven by CB expectations is a key strategy to add value in a low yield world: we see a flatter Euro curve and a steeper one in the US. Thanks to the CBs' "insurance policy", **we maintain a positive view on the main European peripheral countries, and are more positive also in Italy**. In Euro-denominated portfolios, due to the extremely low level of yields reached by core bonds, investors should take a more cautious duration view to benefit from a possible market repricing. In the US, we believe investors should favour lengthening duration in broadly diversified fixed income portfolios as a consequence of a more negative outlook for economic growth overall. We view TIPS as especially attractive relative to nominal Treasuries.

Credit

In Euro credit markets, we are still constructive, although more selective in trying to optimise the carry opportunities. **This means preferring short-term bonds with higher spreads and subordinated financials**, which are enjoying CBs' support. Overall, fundamentals are better for Euro IG vs. US IG. In the US, we still view the investment environment as an attractive one for carry and modest spread performance. Within government-quality sectors, we view agency MBS attractive relative to nominal Treasuries.

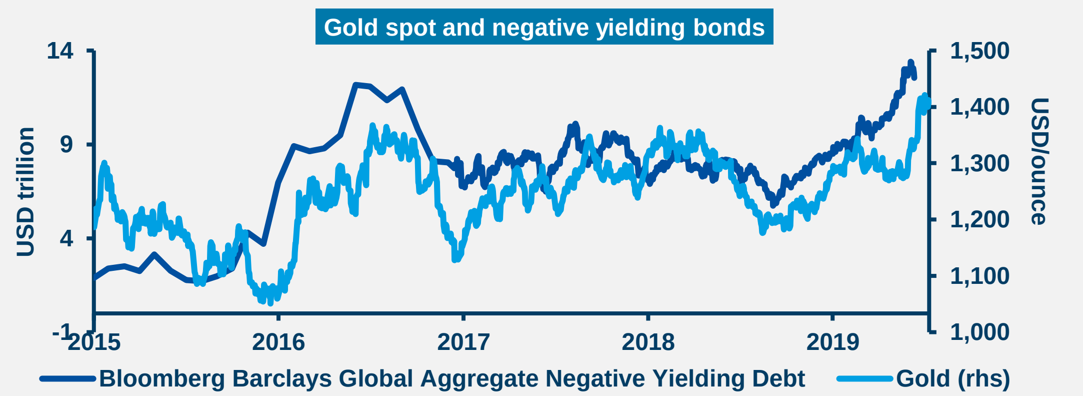
EM bonds

There is a broad positive consensus for EM debt. We still see better risk-reward in EM sovereigns, EM local rates (duration component) and corporate credit compared to EM FX, on which we are defensive, especially in low yielding, equity sensitive currencies in Asia (more exposed to trade and China growth). EM debt is benefiting from accommodative CBs, a benign inflation environment and some relief from trade tensions, which is particularly favourable for local currency debt, where we favour Serbia, Brazil, Indonesia, Russia and South Africa. We have recently become more cautious on the GCC due to increased geopolitical risks in the Middle East. Despite recent robust price action, we do not see excess in the market, but we would not be surprised to see a bit of a pullback, which could offer new entry points. Currencies, rather than rates or credit, could see most of the growth slowdown.

FX

On the US dollar, we have become more cautious in anticipation of trade war de-escalation and Fed policy.

"In a world of negative yielding bonds, EM and credit are favoured."



Source: Amundi analysis on Bloomberg data. Data as of 12 July 2019.

TIPS = Treasury Inflation Protected Securities. MBS= mortgage-backed securities.
Gulf Cooperation Council (GCC) countries—Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman
GBP= British Pound

EQUITY

A decent, but not exciting, Q2 earnings season

Overall assessment

Equity markets extended the rally and we now see most of the good news as being already priced in and **an increasing disconnection between fundamentals and price action**. We expect volatility and a consolidation in DM equities, with possible entry points materialising afterwards. The convergence of earnings growth at the regional level is a sign of a mature cycle and does not call for strong regional directional calls.

DM Equities

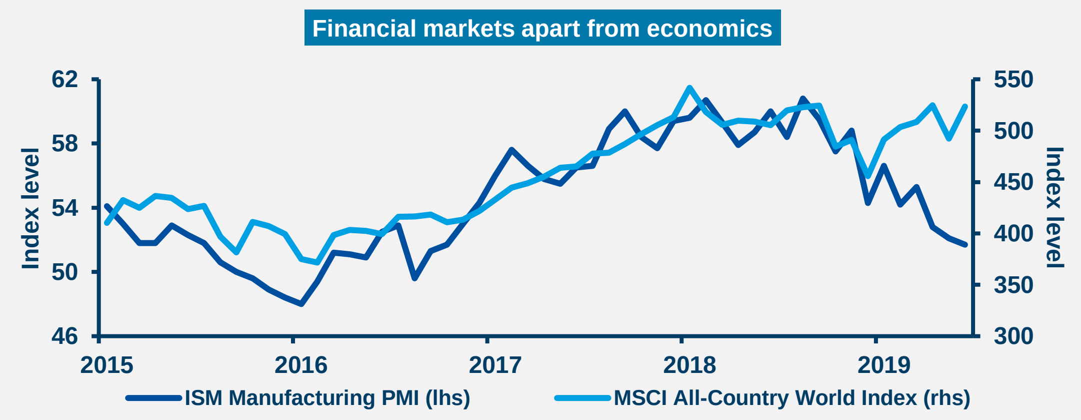
In the US, we expect a volatile Q2 earnings season. Corporate margins are toppish, absorbing higher wages and higher costs from tariffs, and a weaker M&A trend is another sign of the maturity of the cycle. The obvious call would be value over growth on relative valuations, but slowing economic growth and trade tensions are headwinds, and they have led us to refrain from increasing this position. **Our positive assessment on growth sectors is primarily for consumer retail and IT.** Most retail is expensive, but we find value in home improvement, off-price and e-commerce companies. In IT, we favour capex/cloud/software-as-a-service stocks, which are reasonably priced for long-term growth levels and have limited tariff exposure. **We believe investors should reduce the cyclical/value positioning as we do not feel the worst is yet priced in.**

In European equities, we see three main themes worth looking at: banks, industrials and healthcare. Banks are bearing the burden of dovish central banks but despite this, we believe investors should continue to favour core, high quality European banks over insurance, and we look for opportunities to further upgrade our view. On industrials, we have seen recently a confirmation of manufacturing weakeness, which reflected some profit warnings of some big caps. We have become slightly more conservative in industrials but continue to find good bottom-up opportunities in this space. Healthcare is once again becoming a focus point as we enter an “election year” in the US (Nov 2020). The focus will be on healthcare costs and pricing, which could hurt the sentiment for European healthcare companies with US exposure. We have started to take a slightly more conservative view on healthcare, balanced by a more constructive view on telcos, which offers defensiveness and European domestic exposure. Political risk for the European Union has eased somewhat in recent weeks. The main risk to monitor is related to Brexit, as, in our view, the probability for a no-deal stands now at 30%. For this reason, a “Euroland” focus would help mitigate the risk of a negative surprise on Brexit.

EM Equities

EM equities have benefited from easing trade tensions, in an overall earnings outlook that remains mixed (revisions are deteriorating again in LatAm, while they are marginally improving in EMEA). **We expect further significant upside in the case of a deal between China and the US being reached before the US presidential elections, with existing tariffs remaining in place but no further escalation.** On the contrary, a scenario in which negotiations break down and tariffs are extended to $300bn, could lead to a material market correction (up to 20%).

Our main convictions in EM equities are on Russia (dividend yield and supportive policies), China (dividend yield), India (political stability and reforms), and in the last month we have become constructive on Indonesia, the main beneficiary of lower rates and good economic fundamentals.



Source: Amundi, Bloomberg. Data as of 12 July 2019.

“The disconnection between the economic / earnings outlook and price action deserves some prudence.”

Kasper ELMGREEN
Head of Equities

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

Amundi asset views

	Asset class	View	1M change	Rationale
EQUITIES	US	-/=		Recent rally has been mainly driven by expectations of the Fed cutting rates and G20 relief, while economic fundamentals and the earnings outlook have not improved and earnings downward revisions are expected in the coming quarters. In the short term, the market may be vulnerable. Opportunities are at the sector/stock level as risks are still broadly asymmetric.
EQUITIES	Europe	=/+		The internal demand resilience is a supportive theme for the market, despite an overall weak economic environment. Eased political risks from multiple fronts (appointments for EU institutions, Italy) could support a mild repositioning of investors towards this asset class, with attractive valuations. Risks to monitor are Brexit and a further growth deceleration.
EQUITIES	Japan	-/=		We remain cautious on Japanese equities but with less conviction: the G20 is behind us and the threat of a strong Yen (which benefits during the most acute phases of trade disputes) is fading, while the risk of a last minute decision to postpone the rise in VAT (Value Added Tax) cannot be excluded.
EQUITIES	Emerging markets	=/+		Our view remain constructive, with a preference for countries with strong domestic demand. A stabilisation of the economic outlook (China soft landing, easing trade tensions and supportive monetary policies) is a supportive element for the asset class. The evolution of trade negotiations has to be monitored as this is a major catalyst for the market.
FIXED INCOME	US govies	=/+	▲	Our duration view has slightly improved, due to the possibility of economic deceleration and accommodative monetary policy. The Fed could aim to restore a steeper yield curve by cutting rates. Some volatility is expected, based on the economic data release: stronger-than-expected data could drive some readjustments in market expectations.
FIXED INCOME	US IG Corporate	-/=		Accommodative central banks are overall supportive for the credit market. However, the fundamentals of US credit are less compelling, in relative value, than other segments in US fixed income (i.e., agencies).
FIXED INCOME	US HY Corporate	=		US high yield spreads are tighter than the long-term average, but we believe spreads still meaningfully exceed the cost of defaults. The default outlook remains benign, and the Fed's "insurance policy" should help keep the recession risk low. Focus on selection and liquidity management.
FIXED INCOME	European govies	-/=		The new dovish ECB stance will prevent any rise in core yields. The market is expensive and it will remain quite expensive as the search for safety will continue to be at the forefront of investors' minds. Opportunities can be found playing yield curve flattening and Euro peripheral bonds. On Italy we have recently become more constructive.
FIXED INCOME	Euro IG Corporate	++		Good corporate fundamentals, the appetite for yield and ECB support (expected to re-open the corporate sector purchasing programme in September), will be, in our view, the key drivers of the market. We maintain a positive view in the asset class. Subordinated bonds are an attractive area to look at in the hunt for yield.
FIXED INCOME	Euro HY Corporate	+		The high yield segment is attractive for carry opportunities. The default outlook is still positive, as is ECB support. Focus on selection and liquidity management.
FIXED INCOME	EM Bonds HC	+	▲	EM bonds are among the main beneficiaries of dovish central banks and a weaker dollar. The asset class is interesting for carry reasons and valuations are not overstretched. The rally has been massive and some pullback could be an opportunity to add to the asset class, with a medium-term horizon.
FIXED INCOME	EM Bonds LC	+	▲	The EM vs. DM yield differential is still juicy and given the increased credibility of EM central banks and their ability to anchor inflation expectations (with the exception of Turkey and Argentina), we see further value in a selected number of EM countries.
OTHER	Commodities			Amid some concerns on the economic prospects in the medium term (2020), all in all, the economic environment is supportive for commodities. Ultra-dovish central banks and overall dollar weakness put financial conditions back on a supportive track. We keep a $55-65/b range for the WTI due to OPEC's flexibility and willingness to stabilise oil and absorb any supply or demand shock. For base metals, we expect a 4-5% total return on a 12-month horizon, as the inventories cycle remains reasonably supportive.
OTHER	Currencies			EUR/USD: in the short term, EUR should benefit from the Fed starting its easing cycle and from the potential disappointment of the market's expectations of having a 10bps cut to the deposit rate by the ECB at the September meeting. The dovish ECB stance will, however, work as a cap on any material appreciation. 12M target lowered from 1.17 to 1.14. JPY is expected to remain well supported vs. the EUR and the USD. USDJPY: 12M target lowered to 105 from 107. On GBPUSD the 12M target has been revised to 1.28 from 1.37 (EURGBP 12M target at 0.89).

LEGEND

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Negative Neutral Positive

▼ Downgraded vs previous month ▲ Upgraded vs previous month

Source: Amundi, as of 16 July 2019, views relative to a Eur-based investor. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product.

IG = Investment grade corporate bonds, HY = High Yield Corporate;

EM Bonds HC / LC =EM bonds hard currency / local currency. WTI= West Texas Intermediate.

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AMUNDI Investment Insights Unit

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 investor 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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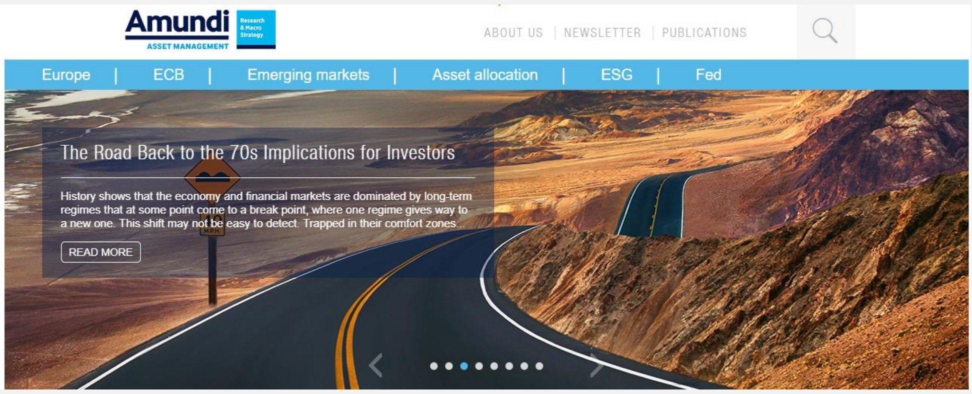

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