Confidence must be earned

Amundi ASSET MANAGEMENT

April 2020

Global Investment Views

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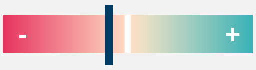
Overall risk sentiment



Keep a cautious stance on risk assets, try to improve liquidity management and hedge some credit risk

Changes vs previous month

- More cautious on EM bonds and US HY
- Some bottom up opportunities in cyclical value space

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

Contagion speed is key for markets to reach turning point

Markets (financial cycle) are leading the economic cycle and will bottom out before the end of the coronavirus pandemic (COVID-19). However, they will stabilise once reassured on three points:

1. **The cyclical pattern of the pandemic**, or when there is some sign of an improvement on the speed of the contagion. This depends on the 'time' variable (extension of the crisis period) and on the mobilisation efforts (containment measures introduced in different countries). There is still a lot of uncertainty at this point.
2. **The 'whatever is necessary' tactics of the fiscal and monetary authorities**, and whether these policies are considered credible when it comes to easing financial conditions for the corporate sector or providing adequate resources to households so the latter can endure a period of higher unemployment resulting from an economic shutdown. Markets seem to have finally understood how big and unprecedented these efforts are.
3. **The short end of the credit curve**, after recent dislocations, **and core bond yields**, which rose since the fiscal measures were announced, discounting higher future debt. Bond yields now appear to be under control, while on the credit side there is still room for improvement.

However, the policy bazookas won't be effective unless there is a corresponding fall in the speed of the COVID-19 contagion. The combination of the two will drive the timing of the recovery and, as long as the pandemic does not seem to be under control, volatility will persist. What matters most to investors, in our view, is the speed of the pandemic's direction that is still pointing towards a rise in the number of cases, with an acceleration in recent weeks. When containment measures start to produce results, the speed of contagion should decelerate. This happened in China first, and we now see some signs of it in Italy. Most countries are still some way from their peak. The UK and the US are still in an acceleration phase, as are many EU countries, while some EM countries are at an early stage.

If the global lockdown proves successful, the pandemic should accelerate toward its peak in the next month, after which the speed of the increase in new cases should start to decline. We are moving in this direction, but we are not there yet. In **the short term, we can only expect temporary relief from the extreme market dislocation rather than a full and stable recovery.**

In this transitionary phase, as the crisis unfolds, **it will become clear to investors that the day after the pandemic ends they will find themselves with lower core bond yields and thus a need to find yield elsewhere.** Credit markets and EM debt will be the natural candidates in the public markets, though pressure on these assets remains high at present and it's not yet time to call aggressive entry points. **In credit, we remain cautious and highly selective in high yield, while we prefer the IG space** which should benefit from central banks' umbrellas, as will peripheral bonds. A continuation of the downward loop in the market could only be justified by a permanent shock to potential growth, but this is not the most likely scenario right now.

Equity markets will remain under pressure until signs of stabilisation in the curve of the epidemic's evolution materialise. We see opportunities arising in quality cyclical sectors that could bounce back strongly once the appeal of cyclicals is restored, as we approach the peak of the pandemic. Some bottoming out could begin earlier at regional level and China is a good candidate for that. In terms of portfolio management, **this backdrop calls for a continued-cautious approach**, as we recognise that global risk aversion will persist in the short term, and will legitimately drive a flight to safety into a combination of high-quality, defensive and liquid assets. **Active management and selection will be key** to managing this 'in-between phase' and, in particular, the trade-off between performance and liquidity. **Now, more than ever, robust liquidity management will make a difference**.

MACRO & STATEGY

Monica DEFEND
Global Head of Research

Didier BOROWSKI
Head of Global Views

"The view that the global economy can achieve a -shaped recovery is our base scenario, but the belly of the U will be wider and deeper than previously expected and the rebound will be smoother than the collapse."

New base case and alternative scenarios

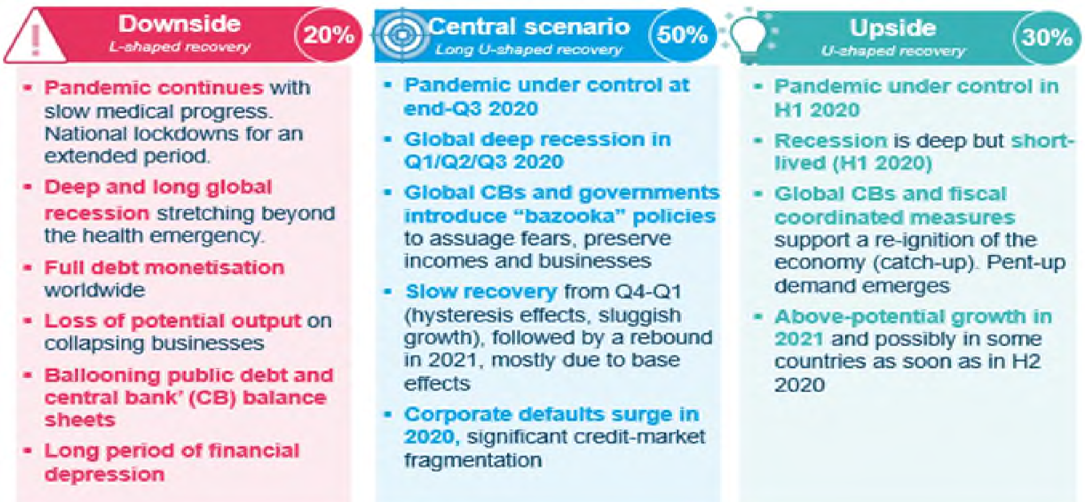
Global spread of the coronavirus outbreak with sequential lockdown of most of the economic activities was unexpected in severity and deepness only few weeks ago and **is the reason behind the revision of our base case and alterative scenarios.** By nature, any epidemic is a containable and reversible shock. However, in the case of the current outbreak, it remains unclear how to scale down the contagion rate and, once the population is safe, how quickly economies could rebound thereafter. What happens in China, and then in Italy will be a sort of leading indicator for rest of the world. The US, in terms of resilience of the household consumption, will be key for the evolution of the global economy.

Not all affected countries have adopted the same measures to contain the virus. When the crisis erupted in China, the rest of the world, and much less the Eurozone, pointed toward a cyclical rebound at the beginning of the year. Now, with a few weeks' delay, all economies have been hit, and **this will lead to a synchronized sequential severe economic contraction in most Developed Markets (DM) and Emerging Markets (EM) in the coming months**. Key determinants of the outcome will be the speed, strength and coordination of policy efforts, the pace and efficacy of outbreak-containment measures and whether or not a treatment or vaccine can be tested. The efforts of the monetary and fiscal authorities are unprecedented. Central bank (CB) rates are back to 2009 levels and DMs' CB balance sheet expansion will surpass 2009 levels at end-2020. Fiscal support is expected to be wide, both for its amount and for the amplitude of measures, targeted to preserve social stability, reinforce the health care system, prevent massive defaults in the corporate sector and support households. It is nevertheless clear that these measures won't be sufficient to prevent a significant economic contraction in the next two to three quarters. However, as we think potential growth is unlikely to be affected for the time being, support measures could drive a rebound in economic activity at the end of the year, or most likely the beginning of 2021. **The view that the global economy can achieve a -shaped recovery is our base scenario**, but the belly of the U will be wider and deeper than previously expected and the rebound will be smoother than the collapse.

Two alternative scenarios are also possible, and which one prevails will depend on the level of interaction of the economic shock, the extent of the corporate solvency crisis and the potential resurgence of political risk on pre-existing areas of strain.

In our downside scenario, containment measures will fail to slow the pandemic and the crisis becomes prolonged and systemic. This is not yet priced in by the market, and would lead to another correction in equities and a substantial increase in default rates, with entire sectors completely disrupted. The ballooning and unsustainable debt would be the feature of this scenario, and the full monetization of it is likely the end game.

On the upside, if containment measures prove effective and the situation stabilizes within two to three months (as in China), economic activity could resume quickly, with permanent impairment only in the most unsustainable business models. This scenario is not priced in by the market either, and could drive significant upside for risk assets from current levels in the second part of the year.



Source: Amundi Research, as at 23 March 2020. ROW=Rest of the world.

MULTI-ASSET

Remain cautious on risk assets

Severe disruptions on the domestic and international fronts, which can lead to various degrees of economic impact and recession-like patterns, are a clear risk. **As a result, we remain cautious on risk assets.** Our strategy is to stay vigilant and monitor fresh data to better assess effects on the global economy and the extent to which the economic downturn is priced in by the market. **Right now, it's crucial for investors to remain highly diversified.** The measures announced by global governments and central banks are pretty impressive, but **volatility is likely to persist** until markets get a feel for how long economic disruption is set to last. We are also witnessing a "liquidation" phase of the correction, when positions are closed due to stop-losses. There are some areas of the market that are looking attractive on a long-term basis, but we do not feel the time is right to aggressively add risk now.

High conviction ideas

As the situation has been very fluid since the end of February, **we tactically adjusted our asset allocation**, moving to a lower risk stance and downgrading our view on equities, but looking for re-entry points once the situation calms down. Since end-February, we have been **cautious on European and US equities, and now we have a neutral view on the UK**. Even if the US market has sold off more than 25% since this year's peak, we maintain our stance for the time being, monitoring the development of the coronavirus outbreak and the potential impact of the lockdown measures on corporate earnings. These will be severely affected by tighter financial conditions and falling sales. **In EM equities we are neutral**, with a preference for the China FTSE A50 vs. Global Emerging Markets (GEM), as China is ahead in the pandemic cycle and should remain more resilient.

In **fixed income**, we maintain a neutral view on **duration overall**, but prefer US 5y vs. Germany 5y as the latter may benefit from continued safe-haven flows. However, current level of yields is not considered attractive enough to add duration exposure as yields still look tight in valuation terms. We are now **cautious on US 10y breakeven inflation**. The Italian curve continues to offer attractive yield, and **we maintain our relative position in Italy 30y vs. Germany 30y**, on expectations of ongoing European Central Bank (ECB) support to ease pressure on peripheral bonds.

Elsewhere, after showing some resilience to COVID-19 developments initially, **credit markets** have suffered from the broad risk-off trend, with the US underperforming Europe in High Yield (HY) and Investment Grade (IG). We are **slightly constructive on credit overall, particularly on high-quality securities, but with a focus on hedging of tail risk.** We still prefer Euro (EUR) vs. US in both IG and HY. The high leverage of US HY corporations, US HY exposure to the energy sector and falling oil prices are a concern in this asset class.

On EM fixed income, the recent spread widening has been fast and strong, driven by escalating diffusion of the virus and by the collapse of oil prices that damaged the picture for oil exporting countries. Therefore, **we believe, the outlook is more challenging now for this asset class**. Many countries are at the early stage of the crisis, with limited containment measures, and will face severe recession. Recently, we have taken a more cautious approach, assuming a neutral view on the asset class.

In currencies, the view on the EUR is neutral vs. the USD amid signs of significant economic weakness in Europe, but we maintain our positive stance on the EUR vs. the Swiss Franc (CHF) due to the latter's expensive valuation.

Risks and hedging

In this phase of high volatility, it is particularly important to try to **limit downside, which is why we recommend that investors maintain hedges** in the form of Japanese yen (JPY), gold and options in equities and credit.

Amundi Cross-Asset Convictions

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

Source: Amundi. 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.

Matteo GERMANO
Head of Multi-Asset

> ***We believe it is crucial to monitor fresh data on the contagion, remain diversified and avoid aggressively adding risk given that volatility is likely to persist.***

Amundi ASSET MANAGEMENT

FIXED INCOME

Eric BRARD
Head of Fixed Income

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

“While governments and central banks have responded with extreme policy actions to smooth the markets, the economic impact of the crisis and lack of liquidity could raise the risk of corporate defaults.”

Prioritise liquidity amid outbreak and default risks

Central banks unleashed their “**bazookas” and governments also responded** amid global recessionary fears. Market reaction following the spread of the COVID-19 worldwide was extreme, pushing first core government bond yields at an all-time low, and then triggering a rebound once markets started to price in higher debt as a result of huge fiscal stimulus. Spread products have been under severe pressure across the board, discounting a global recession, **rating downgrades and higher default in HY space**. The focus on resilient business models that can survive the economic downturn is critical to preserve assets from permanent impairment. **Volatility is extremely high, and liquidity management with cash and similar assets is a top priority.** Finally, it’s crucial to position portfolios to build capacity to recover when markets improve.

DM bonds

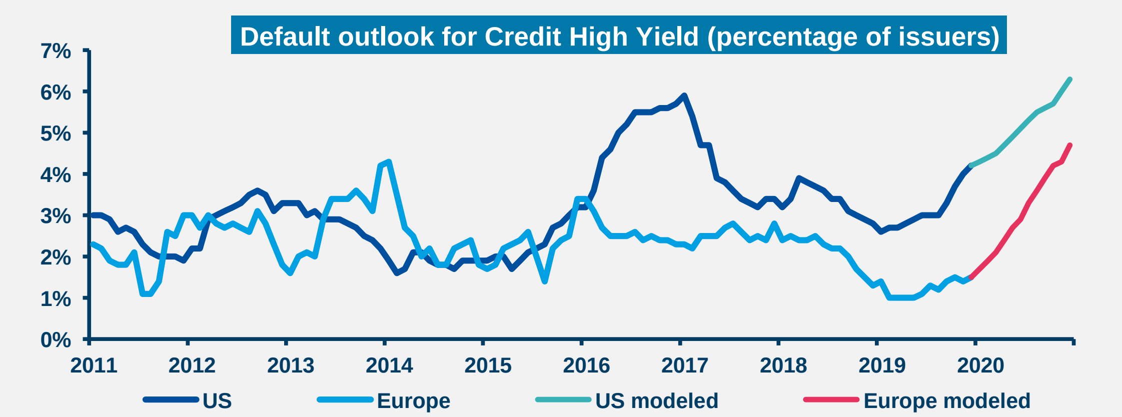
In global fixed income, we have a **positive duration bias**, with a constructive view on US (safe-haven flows), close to neutral in core Euro and negative in Japan. We adjusted our duration view elsewhere, becoming more constructive on Australia and neutral on UK and Canada. We are less constructive on inflation bonds in the US (falling energy prices) and Europe. **EU peripheral bonds continue to offer attractive yields** and we remain constructive (ECB’s massive liquidity injection), although a bit less than in the past in Italy and Spain. We still expect high volatility on peripherals and liquidity shortages. **We are positive on credit but have reviewed our sector views:** less constructive on cyclicals and sectors (shipping, autos) that are directly exposed to this crisis. **Quality of issuers** is also important especially in the riskier segments. We are **constructive on IG**, but we have increased the focus on liquidity. We prefer EUR over US in IG (strong fundamentals and support from quantitative easing (QE)) as well as in HY (avoiding US energy). Overall, we would need to see some evidence of a bottom before adding risk. **In the US**, tightening financial conditions still weigh on market liquidity. However, over past few days, we have seen that the dramatic drop in inflation expectations has been recovered, particularly in the Treasury Inflation-Protected Securities (TIPS) market. This is also confirmed in the yield curve which has steepened quite steadily. Together, both suggest that actions from CBs and fiscal stimulus is starting to catch-up and may even be getting some control of the situation. **We remain cautious and selective, and continue to focus on liquidity.** We also look for long-term high quality US corporate credit at deep discount.

EM bonds

We are **cautious in short term** due to the current crisis. Some EMs are at an early stage of the virus outbreak and others may see a second wave, which will affect the domestic-consumption story. With appropriate selection country by country, EM bonds offer value in the medium term. However, investors will remain cautious before exploring entry points during this phase. On hard currency (HC), Indonesia, Ukraine and South Africa are attractive, but we are less positive on oil-exporting countries. In local currency (LC), we prefer higher-yielding countries where local real rates are at multi-year highs (Serbia, Egypt, Ukraine).

FX

We are **positive on USD and cautious on EUR**, and on most of commodity currencies. US assets are some of the most liquid in the world and are popular in a crisis. In EM FX, we are still cautious.



Source: Amundi Research forecasts, Moody’s, as of 18 March 2020.

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EQUITY

Cautious times call for attention to fundamentals

Equities have witnessed the fastest correction ever, with S&P 500 falling into a bear market in just 17 trading sessions. Markets moved sharply from pricing an economic reacceleration earlier to a profit recession now. However, a deep and long lasting profit recession is still not priced in, but if it happens, (not our central scenario) it would lead to a further deterioration in prices. On the other hand, as markets struggle to digest new data and assess the potential impact of the huge policy support measures, volatility and behavioural biases will remain very high. Thus, investors should balance risks and prioritise liquidity. At the same time, focus should be on identifying sectors/stocks with strong balance sheets, resilient business models that will not be disrupted by the crisis (or may even emerge stronger from it) and are trading at a deep discount.

DM equities

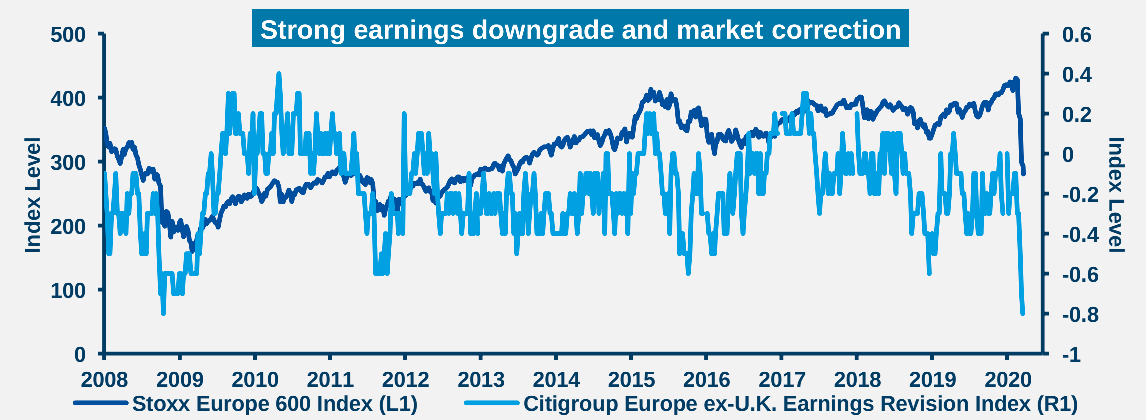
In Europe, weak players in weak industries such as national incumbents in the auto and airlines sectors look very vulnerable, and some are likely to require debt guarantees, equity issuance and potentially nationalisation in a matter of months. **Dislocations are emerging as a result of the selloff**. We remain constructive on companies with resilient business models and strong balance sheets, and certain structural winners (in consumer staples and health care) within these parameters are now attractively priced. We are also keeping an eye on developments in the technology sector, which was previously viewed as too expensive. **Separately, there are idiosyncratic opportunities in value**, which has never been so cheap relative to growth in Europe. In this space, we are particularly positive on consumer discretionary and financials owing to attractive valuations.

In the US, the recent sell-off shows that fear factor is dominating the markets at a time when recession in international markets seems priced in but not in the US (more to go). Policymakers have shown a full desire to provide complete fiscal and monetary support. But given that it is a health care crisis first, **market sentiment will improve if we see fewer coronavirus cases**. Equity risk premiums are attractive but negative real rates may undermine the strength of this signal. From a style perspective, **value stocks underperformed growth** since the financial crisis ended and the story was similar in the current market correction. Nonetheless, we could see a rebound in value once economic growth bottoms-out; we remain positive towards cyclical/value names and we believe investors should avoid the energy sector (falling oil prices and severe disruptions).

Overall, we believe current market dislocations could provide selective long-term opportunities.

EM equities

We are cautious in EMs (vulnerability to the economic impact and uncertain commodity markets) overall and very defensive on countries and sectors driven by services and tourism as it will take them longer to recover. Likewise, we are defensive on energy sector as the supply-demand balance looks increasingly unfavourable. At this stage, we favour **China and Korea** – in particular consumer discretionary companies – as they are **approaching a recovery phase regarding coronavirus**. After uncertainty recedes, there will be pockets of opportunities, thanks to policy support and compelling valuations.



Source: Bloomberg, as of 23 March 2020.

"This unprecedented crisis has led to extreme market volatility, but investors should focus on business/ companies that can withstand the economic lockdown."

Kasper ELMGREEN
Head of Equities

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

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Amundi asset class views

	Asset class	View	1M change	Rationale
EQUITY PLATFORM	US	-/=	▼	Despite the recent rebound, we stay cautious as we believe US equities are likely to remain volatile driven by virus newsflow and economic impact of containment efforts which increase the likelihood of a US recession. However, the recession may be short-lived, given expectations of fiscal stimulus and monetary easing (QE infinity) as the US Federal Reserve (Fed) has announced it will "continue to use the full range of tools."
EQUITY PLATFORM	Europe	-/=		Europe has witnessed an unprecedented economic sudden stop which could lead to temporary recession. Fragile players in weak industries could face nationalisation. However, balancing risks amid high volatility and low earnings visibility, and improving liquidity should be a priority. Idiosyncratic opportunities have emerged, but equities still look vulnerable overall.
EQUITY PLATFORM	Japan	=		Many Japanese companies are exporters that could be hurt by a stronger yen, which acts as a safe haven in times of extreme volatility. As a result, their earnings are linked with global Purchasing Managers' Indices (PMIs) and economic activity. However, valuations are attractive and companies' balance sheets are also underleveraged. We therefore remain neutral.
EQUITY PLATFORM	Emerging markets	=		Given the vulnerability of EMs to the economic impact of the coronavirus and uncertainty on the commodity markets, we are cautious overall, particularly in sectors and countries dependent on services and tourism, and on the energy sector. We favour China and Korea as they approach a recovery phase in coronavirus cases. As situation improves, there could be pockets of opportunities due to attractive valuations and policy stimulus measures.
FIXED INCOME PLATFORM	US govies	=/+		In Global Fixed Income, we maintain a constructive view on US duration in light of continuous safe-haven flows amid heightened volatility in markets globally. The unlimited QE will likely help to anchor bond rates, despite an increase in future debt.
FIXED INCOME PLATFORM	US IG Corporate	=/+		Tightening financial conditions are affecting market liquidity. However, the Fed's decision to provide Primary Market Corporate Credit Facility (PMCCF), Secondary Market Corporate Credit Facility (SMCCF) and support to agency mortgage-backed securities (MBS) should provide some relief. We remain cautious overall and focus on liquidity. Market movements could present opportunities to selectively add high-quality, long-term corporate credit names at a discount.
FIXED INCOME PLATFORM	US HY Corporate	-	▼	We are very cautious amid high leverage, increased risks of default, economic impact of COVID-19 and falling oil prices.
FIXED INCOME PLATFORM	European Govies	-/=		We don't see much value in core EU govies, but are constructive on peripheral bonds, as they continue to offer attractive yields. We are positive on Italy and Spain (although more challenged now) due to the ECB's commitment to a massive liquidity injection to prevent fragmentation in the Eurozone and additional financial stress on countries hit hard by the outbreak. However, we still expect high volatility on peripherals with possible liquidity shortages.
FIXED INCOME PLATFORM	Euro IG Corporate	++		EUR IG remains our preference vs. US IG, given strong fundamentals of the former and continued support from ECB. However, we focus on quality of issuers as it provides comfort with respect to the risk in our portfolios. We are positive on subordinated debt financial as banks are much better prepared than in 2008 to face the crisis.
FIXED INCOME PLATFORM	Euro HY Corporate	-/=	▼	While we favour EUR HY to US HY, we are selective and realise that worsening liquidity conditions must be monitored, as well as the increase in default rates due to the economic downturn.
FIXED INCOME PLATFORM	EM Bonds HC	=/+	▼	We are cautious in the short term due to the coronavirus outbreak and the fact that many EMs are at the early stage of contagion. We favour Indonesia, Ukraine and South Africa and are cautious on bonds of oil-exporting countries.
FIXED INCOME PLATFORM	EM Bonds LC	=		We maintain our preference for higher yielding countries such as Serbia, Egypt and Ukraine where local real rates are at multi-year highs.
OTHER	Commodities			Commodity prices nosedived in recent weeks as two big shocks hit oil, base metals and, to a lesser extent, gold. The global lockdown due to COVID-19 slashed oil-demand expectations while the sudden decision by Saudi Arabia to increase production by 3 million barrels a day (b/d) moved oil markets into oversupply. We downgrade oil to USD25 - USD35/bbl, with the possibility of further downward pressure to USD20 if the global recession moves into H2. Gold also suffered temporarily due to forced selling in order to finance margin calls on other risky positions. However, it remains an efficient hedge at times of unconventional monetary policies.
OTHER	Currencies			USD moved higher amid tightening financial conditions, capitulating growth expectations and increasing liquidity concerns. This is in contrast to the end of February, when a spike in volatility pushed low yielding currencies higher in response to closing carry positions. However, in March, USD moved up, ending 15% overvalued with respect to its fundamentals. Going forward, with no visibility on the potential length of the economic impasse, and growing liquidity needs, USD should remain strong, at least till the point the CBs' and governments' interventions are perceived as credible and till a bottom in risky assets is found.

LEGEND

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Negative Neutral Positive

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

Source: Amundi, as of 24 March 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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AMUNDI Investment Insights Unit

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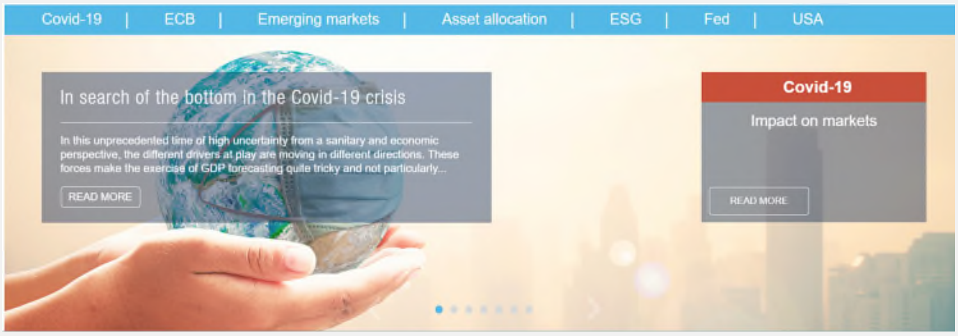

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