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Overall risk sentiment

Risk off Risk on



Same level of risk budget. Preference for cyclical and value equity and, in fixed income, for credit (HY). Flexible duration management amid pressures on rates.

Changes vs. previous month

- Increased European equities at the expenses of EM equities.
- Higher conviction on a stronger USD, and cautious on weak EM FX and bonds.

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

The fine line between confidence and euphoria

April started on a positive note for financial markets, after an exceptional first quarter, with divergent fortunes for equities and global bonds. **Going forward, the progression of the recovery will likely be the key market driver, leading to greater divergences.** Last year, the 'first in, first out' theme benefitted China and the country is now clearly on a growth path again and will continue to be the global growth engine in the medium term. In coming quarters, the focus will be on avoiding bubble areas. The idea is to engineer stable loan growth, targeting specific sectors, such as innovative technology and manufacturing, to further support the economic recovery and avoid overheating.

While markets digest the next phase in China's growth strategy, **the recovery runner's baton has been handed over to the US, where GDP growth looks set to rise to levels not seen since the 1980s.**

However, the extraordinary expansion of the US will be an additional cause of divergences. Rising Treasury yields and a strengthening dollar will weigh on potential growth prospects for the most vulnerable EM, which risk being left (further) behind in the aftermath of the crisis. Some idiosyncratic stories are also resurfacing (Turkey, Argentina and, to a lesser extent, Russia, due to sanctions, and Brazil).

With China in 'control' mode and the US already well-advanced regarding market expectations, the next area that could enjoy extensions of bullish sentiment is Europe. From a macro standpoint, Europe will lag the two global growth engines and will take years to return to pre-crisis GDP levels. From a market perspective, European stocks should benefit from strong global growth. In addition, the reacceleration of the vaccination campaign and positive profit forecasts may now trigger further upside.

Concerning investment themes, our **main convictions include the following:**

- At the overall asset allocation level, stay risk-on. Do not increase risk further, but play some rotation in preference to riding the new recovery waves. Risk assets continue to be favoured in a cyclical recovery and due to still-accommodative central banks in DM.** This bodes well for equities, with a focus on those that are most cyclical and regions (Europe) where the reopening of economies will drive further acceleration that is not yet priced in. US markets can still perform well, but here avoiding hyper growth areas is paramount, as well as not becoming trapped into riding any excess euphoria that is building up. The possible rise in corporate taxes could impact the profitability of some sectors and businesses and this situation should be carefully scrutinised.
- In bonds, relative value is king. Stay cautious on duration and overweight in credit.** The biggest move in Q1 was the selloff in US bonds. In the coming weeks, the environment could become less challenging, as part of the yields repricing has already occurred. Nevertheless, an improving economic backdrop continues to call for a prudent duration stance and a positive stance on credit – in particular, regarding high yield, which continued to be favoured in an environment of improving fundamentals. Different growth and inflation expectation paths for the US and Europe are driving different speeds in adjustments in rates, opening relative value opportunities for active investors. In the search for higher yield, EM bonds continue to be an area of interest, with increasing selection as divergences are intensifying.
- In equities, continue to play the rotation towards value and cyclicals.** This rotation towards equity will continue. The summer earnings season will further test the trajectory of the recovery, but until then, vaccines rollout and economic reopening will be the main triggers for a further upside leg in this bull run. With regard to EM equities, Asia remains the key area to play cyclicity.

All in all, the investment environment remains benign, but the consensual view of a recovery may itself prove to be a risk. Confidence is high, euphoria is limited to certain areas (cryptocurrencies, IPOs, SPAC) and this could last for a while, due to the ample liquidity in the system. There is no short-term catalyst for a change of direction. This could be a deterioration in the virus cycle, but this seems highly unlikely while vaccination campaigns accelerate globally. The second catalyst could be an inflation surprise, with central banks behind the curve. Investors should take this seriously, once the sentiment fades and most of the acceleration is behind us.

MACRO & STRATEGY



Monica DEFEND
Global Head of Research



Debora DELBO
EM Macro Strategist



Claire HUANG
EM Macro Strategist

“While the peak default rate in Asian HY this time is expected to be lower than the previous crises, the case for selectivity and research remains strong.”

Asian HY default outlook: stay selective

Emerging Asia's high yield default rate picked up to 3.7% in Q1 from under 2% a year ago. Unlike the estimated downtrends in US/Europe, we expect Asia's default rate to stabilise at the current level in the next six months based on multiple market factors.

On the positive side, we expect Asia to recover further from the pandemic in 2021. Despite slower vaccine rollouts in Asia compared with the US and Europe, Asian exports have rebounded strongly across the region, supporting earnings outlooks. Global financial conditions remain favourable, with major central banks likely staying on hold through the year. Meanwhile, a few market variables look supportive for HY in the near term: **the region's credit default swap (CDS) rate is stable (the lowest in GEM), stock market volatility remains low, and commodity momentum is recovering.**

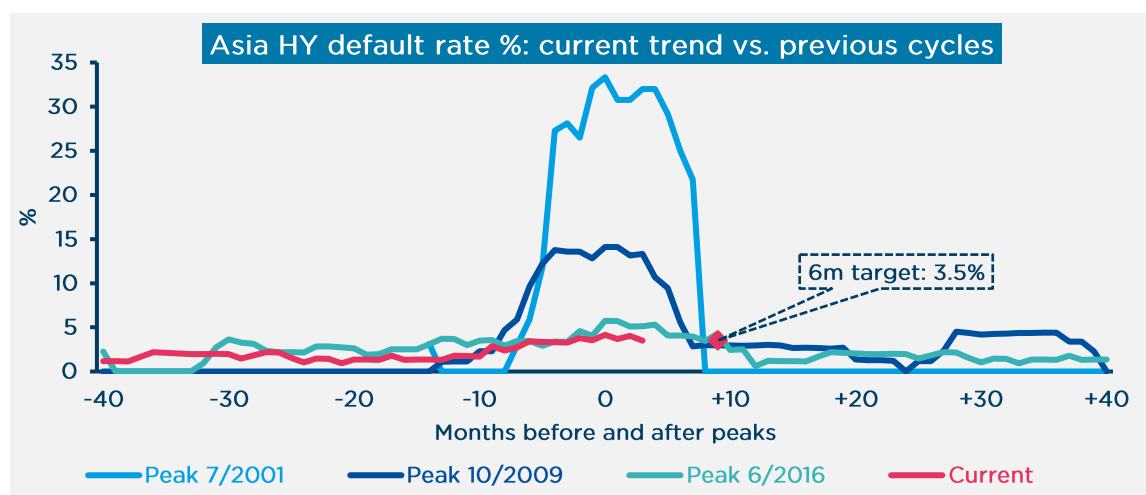
However, we note several factors will cast shadows over the credit outlook. For one, net leverage of Asian HY issuers is relatively high, given the large share of Chinese property developers. This segment drove issuance in 2020 and dominates maturities through 2025 (>50%). Furthermore, Asia's average credit rating is the worst in GEM, along with the possibility of spreads widening from an already high level. Lastly, the region's short-term refinancing pressures are also the highest in EM.

China's policy tapering is not helping either, adding extra pressures on the corporate bond sector. As the economic recovery continues at a strong pace, the policy focus has shifted to debt risk management. Monetary policy started to normalise from May 2020. With the overarching goal to control macro leverage, credit growth has decelerated.

More importantly, policymakers continued to tighten the housing market, introducing stricter funding rules for developers and restricted speculative purchase demand at local level. A tightening of credit policy has caused Chinese defaults to pick up.

The recent case of a potential default in the IG space is another shock weighing on overall market sentiment. Huarong Asset Management Company, which is 57% owned by the Chinese Ministry of Finance and one of the four state-owned bad banks, delayed the release of its 2020 financial reports and reportedly will undergo a restructuring that will affect both onshore and offshore bondholders. At one point, the market was pricing in a worst-case scenario, trading Huarong's offshore USD bonds at deep discounts. While recent comments from financial regulators were positive, the extent of support is unclear and the situation remains fluid. Given the systematic importance of Huarong (US\$170bn in debt), the handling could be cautiously slow. Hence, regardless of the outcome, this credit event is likely to drag on for months, prolonging the risk aversion in the China credit market.

As a result, we believe, divestment to other Asian economies is likely. Given that Asia is a heterogeneous region, with both domestic consumption and exports driving markets, the case for differentiation and selection is very strong. Investors should remain focused on bottom-up credit selection and fundamental analysis to avoid areas of risk and exploit selective opportunities in Asian credit.



Source: Amundi Research, Bloomberg, April 2021. Data for ICE BoFA EM High Yield Corporate Asia Index from Bloomberg.

MULTI-ASSET



Matteo GERMANO
Head of Multi-Asset

“
There are opportunities to rotate equity exposure towards Europe to benefit from the next wave of the deflation trade and in credit to favour high yield.
”

Use ‘rotations’ to ride the next recovery wave

We confirm our **risk-on stance and a preference for equities over credit**. Short-term signals are supportive, as are economic data and accommodative CBs. Valuations remain expensive and might be challenged by high expectations that are already priced in. However, they should not be the catalyst for a structural de-risking. The sequence of recovery and divergences that are opening up at the global level suggest rotating risk exposure — keeping the overall risk budget unchanged for now — **into new themes aligned with the evolution of market confidence**. However, we are mindful of the excess euphoria in some segments and are looking out for signs of market fatigue for a slightly cautious stance depending on future data.

High conviction ideas

We believe investors should stay **constructive on equities**, but rotate across regions, with a **preference for DM**. We confirm our positive stance on **Japan** as a pro-cyclical market but now believe Australia doesn't offer opportunities. On the other hand, **European equities could now benefit from the new recovery wave**, an acceleration in vaccinations, favourable relative valuations, strong EPS growth, and strong technicals. **We confirm our positive view on the UK domestic market**, as the pace of the vaccine rollout is leading to an early reopening of the economy. UK equities are also an attractive play on the reflation theme (exposure to energy, miners, banks), with a potential asymmetric profile due to the large weight of defensive stocks, which offer some cushion against a consensus recovery trade. **We recommend some exposure to EM equity** but with a lower conviction now, as we are aware that the recent volatility and dollar strength are short-term headwinds. We continue to like Chinese shares but prefer the Hong Kong route.

In fixed income, **we remain neutral on both US and EU nominal rates**, but positive on US inflation, as we believe that reflation trade may have further room to go following the approval of the US\$1.9tn Covid relief package.

On peripherals, we remain **constructive on the 30Y Italy vs Germany spread**, based on supportive technicals and valuations and the ECB's increased purchases in March which may limit bond volatility and encourage investors to search for yield in the longer-duration market segments. We remain **moderately constructive on EM debt**, but investors should try to protect against risk of higher growth/inflation.

Credit is still the main conviction in fixed income allocation: it is attractive based on a combination of technical factors, relative value and, in Europe, credit metrics, despite tighter valuations. Such a conviction is based on the rise in the ECB's purchases of corporate bonds that occurred in March. More generally, we recommend **being invested in HY rather than IG credit**, as the cost of funding remains close to all-time lows for HY corporates. Both the **US and EU HY markets enjoy low average duration**.

Investors could also play the **reflation trades through currencies**: eg, preferring CAD to the USD and the NOK, GBP and CAD vs the EUR and CHF. **Commodity currencies** should continue to outperform in a recovery scenario while the rise in US yields is negative for low-yielding currencies. **In EM FX, it is important to be selective**. For example, we still like the Mexican peso, due to strong US-Mexico economic links, the ruble vs the EUR, thanks to supportive fundamentals, and the Korean won and Chinese yuan vs the EUR, as China is the main geopolitical driver for intra-Asia regional trade while the Korean economy is exposed to the global semiconductor cycle.

Risks and hedging

Main risks are linked to an extraordinary increase in US rates which could affect European rates and erode value where spreads are already very compressed (IG). Therefore, investors should look for some protection in these areas.

Amundi Cross-Asset Convictions

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

Source: Amundi. The table represents a cross-asset assessment on a three- to six-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. UST = US Treasury, DM = developed markets, EM/GEM = emerging markets, FX = foreign exchange, FI = fixed income, IG = investment grade, HY = high yield, CBs = central banks, BTP = Italian government bonds, EMBI = EM Bonds Index.

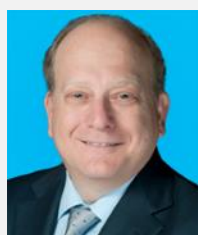
FIXED INCOME



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**Kenneth J.
TAUBES**
CIO of US Investment
Management

“
With the economic recovery accelerating, the peak of defaults is likely behind us, as long as central banks remain accommodative.
”

Fundamentals improve, but divergences emerge

The sharp increase in US 10Y Treasury yields, the steepening of the yield curve and the fast repricing of inflation expectations all reflect the perspective of a strong acceleration for the US economy and an uptick in inflation. **Markets have probably moved too fast in repricing Fed expectations** regarding raising rates. We **may now see a pause** in yield upside in the short term. However, we acknowledge the risk of **some overheating** in the US and of a policy mistake, which could result in **higher rates**, especially in the second half of the year. Investors could play **divergent paths in DM rates** and discrimination in EM debt. Credit is favoured in a cyclical recovery, although valuations are tight, especially in IG.

Global and European fixed income

Higher EU rates are a source of concern for the ECB, which recently stepped up QE purchases to avoid any unwanted imported tightening in financial conditions. **The role of the ECB is also crucial for credit market.** In EU credit, **fundamentals are improving moderately**, although divergences are evident between more resilient sectors, which have already recovered well, and the most vulnerable sectors, such as retail, gaming and building materials, which also have a high share of weaker credits and may face further pressure if Q2/Q3 performances prove worse than expected. In terms of our global view, the **case for shorter duration (in particular, US Treasuries) has strengthened further**, as has the case for **US and Euro break-even**. In the EU, we maintain a preference for peripheral debt and Italy, which have more room to tighten vs peer countries. In light of some challenges for EM debt, **we have taken a more cautious approach.**

US fixed income

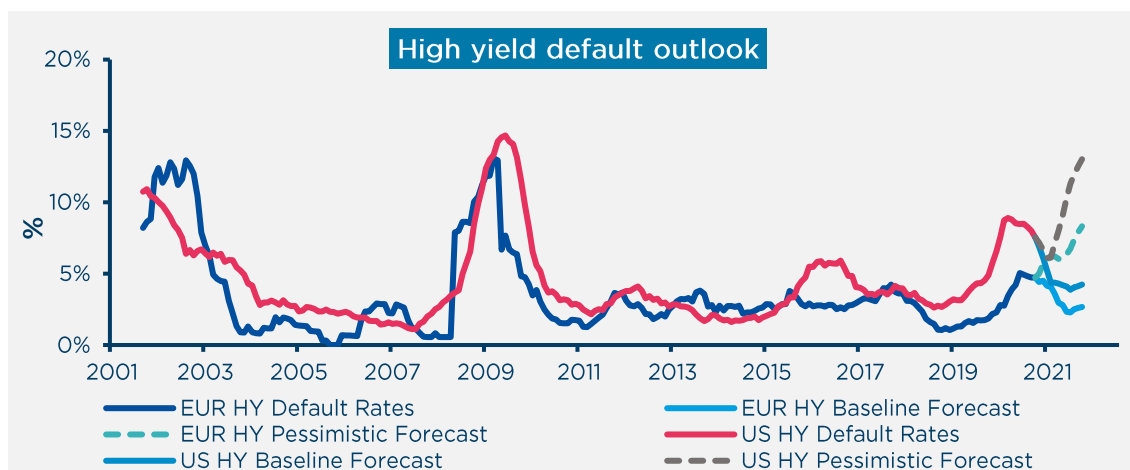
Investors should remain flexible in duration management, keeping a short stance but also taking the opportunity to add positions in light of market volatility. The view on US Treasuries is cautious and we prefer Treasury Inflation Protected Securities (TIPS) as an attractive diversifier and agency mortgages, which may offer opportunities as the Fed remains active. **We keep a positive view on credit** thanks to massive liquidity, low borrowing rates, strong earnings, and a reopening trajectory. But investors should limit sensitivity to higher rates, to volatile sectors, and should reduce risks slowly where valuations are expensive. HY offers better opportunities than IG amid an improving default rate situation, but maintaining a strong focus on security selection is critical. We also remain positive on consumer and residential mortgages. However, considering high volatility and scarce liquidity, we remain selective.

EM bonds

We maintain our cautious stance and believe that LC is more vulnerable at this stage. In EM rates, we think the bullish cycle is behind us. March saw the first hikes for EM CBs (Russia, Brazil, Turkey) trying to tame inflation pressures. LC bonds are not cheap and selection remains crucial. We are more positive on HC. We look for selective opportunities in frontier markets while we maintain a cautious stance on Turkey, Brazil and Ukraine due their idiosyncratic risks.

FX

We expect the USD to continue to be supported against almost all currencies in the short term. We see space for further appreciation for commodity driven currencies (CAD/AUD/NOK), while we are cautious on the EUR and JPY.



GFI = global fixed income, GEMs/EM FX = global emerging markets foreign exchange, HY = high yield, IG = investment grade, EUR = Euro, UST = US Treasuries, RMBS = residential mortgage-backed securities, ABS = asset-backed securities, HC = hard currency, LC = local currency, CRE = commercial real estate, CEE = Central and Eastern Europe, JGBs = Japanese government bonds, EZ = Eurozone, BoP = balance of payments.

Earnings in the driver's seat for equity returns

Overall assessment

Confidence regarding the economic recovery is the main driver of equity markets, pricing in strong earnings growth amid loose financial conditions and an only temporary inflation pick-up. In Q2, we will probably see the peak of the acceleration against a **backdrop that will remain positive for equities, but with probably lower steam**. The reflation trade will continue to support **exposure into cyclical markets, small cap and value stocks**, now sustained by a strong EPS cycle rebound. We also expect the **dividend theme to be back in focus**. Overall, beyond 2021, earnings growth is likely to continue at a double-digit pace for the next two years. However, earnings recovery is now a consensual view and this in itself is a major risk, along with a sustained pick-up in bond yields. As a result, investors should stay active and focus on fundamental analysis.

European equities

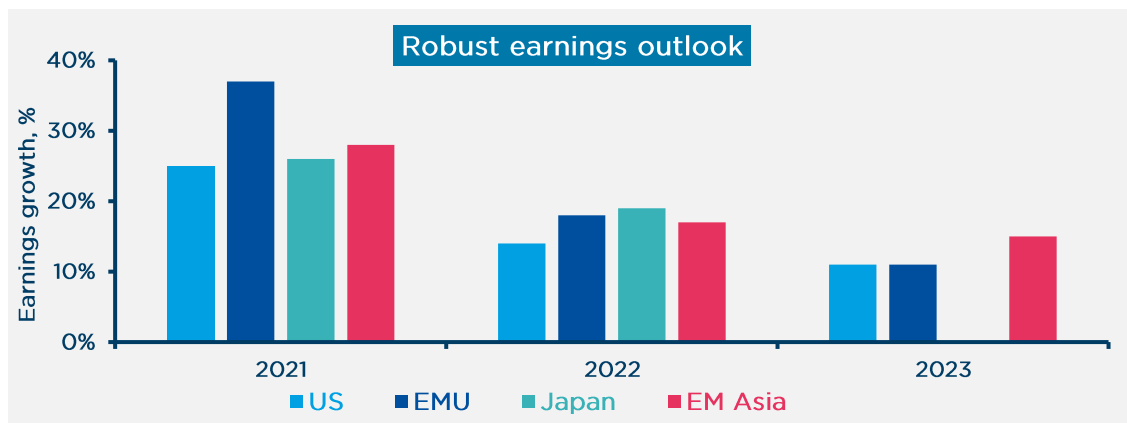
Despite weak economic figures for Q1, the roadmap for reopening and for acceleration in earnings in the coming quarters looks strong, with **some divergences among sectors**. Those most sensitive to summer activities, such as travel and leisure, are suffering from further delays due to slow vaccination campaigns while the most cyclical sectors linked to the global recovery continue to perform well. On the other end, we are exploring selective defensive names in the pharma and beverages sectors for attractive valuations. From a style perspective, value and cyclicals remain key themes, but it is important to remain focused on strong balance sheets. Finally, the **US infrastructure plan** could provide opportunities for European players in the **materials, industrials and alternative energy sectors regarding which we already had positive views**.

US equities

The US economy is clearly accelerating, and the infrastructure plan could further extend the Goldilocks scenario for the US economy in 2022. Sector dispersion has been wide, a **sign that the great rotation is going on**. The shift to cyclical value is being sustained due to a wide valuation gap vs growth, potentially improving cyclical earnings later in 2021, and a steeper yield curve. **A risk to monitor**, which is now underpriced by the market, is an **increase in corporate taxes**. The market is complacent and expects to see a mild increase in taxation. To reflect these views **we remain positive on high-quality cyclical value stocks** – in particular, financials and energy, and consumers directly affected by the Covid-19 crisis. However, a selective approach is becoming much more important now as valuations become richer and as some value segments have not yet priced in a recovery, whereas others have already done so. At the same time, we keep a **very cautious stance on growth stocks** and minimise exposure to deep/distressed value as well. **ESG themes should also gain momentum** due to President Biden's agenda, with the energy transition in value sectors and social inequality topics at the forefront.

EM equities

EM companies should benefit from the global/EM growth rebound, a revitalisation in earnings, and increasing flows. However, we continue to monitor risks linked to the speed of US rate increases, disappointment on vaccination rollout in emerging countries, and possible geopolitical tensions (eg, Russia/Ukraine). At that point, we like some inexpensive EMEA countries and LATAM. Main convictions at country levels are India, Greece and Russia. We maintain our tendency to increase value/cyclicals over growth.



Source: Amundi, IBES consensus, EPS in USD for country group (World AC, EMU, Emerging...). MSCI Indices as at 31 March 2021. Japan data for 2023 is not available.

EQUITY

Earnings growth is expected to remain strong for the next couple of years and should drive equity returns as markets renew focus on fundamentals.



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Amundi asset class views

Asset class	View	1M change	Rationale
EQUITY PLATFORM	US	=	Massive fiscal support, easy financial conditions coupled with pent-up consumer demand and huge savings, provide a positive backdrop for US equities. However, investors should avoid over exuberant areas where valuations are not justified by fundamentals. Instead investors should focus on leadership rotation in favour of value, cyclical and quality stocks with a strong selection bias and on ESG themes. Corporate taxation is another area that deserves attention.
	US value	+	Improving earnings prospects and a steepening yield curve should support cyclical value stocks (in sectors such as financials) that would benefit from normalisation of the economy. Over the long term, US value offers a combination of structural growth, quality, stability and ESG improvers.
	US growth	-	Rising rates and an improving economy could negatively affect valuations of long duration growth stocks, some of which already look very expensive. A cautious approach is suggested in these areas.
	Europe	=/+ ▲	Reacceleration of the vaccine campaign in H2 and improving economy and EPS forecasts support a positive stance towards European equities, which appear attractively valued from a relative perspective. However, the region may witness some divergence across sectors as some areas benefit from reopening. Accordingly, investors should stay selective, focus on fundamentals, and play rotation opportunities in value and cyclical segments. Some opportunities are also opening up in defensive sectors, with extremely cheap valuations.
	Japan	+	We maintain our constructive view on Japan in light of its cyclical and industrials tilt that should benefit from an improving global economy and a weakening yen, which makes exports competitive.
	Emerging markets	+ ▼	We stay positive on EM equities as the potential for growth, especially in EM Asia, is intact, but acknowledge the near-term headwinds in the form of a strengthening USD and the Covid situation. This necessitates a more selective approach in a heterogeneous EM world, where domestic consumption and value/cyclicality remain important themes. Finally, the rebalancing of China towards a more sustainable growth path should be positive for EM overall.
FIXED INCOME PLATFORM	US govies	-/=	We stay cautious on US duration amid higher inflation expectations, higher US debt and an improving economy. However, we believe yields have already risen sharply and therefore investors should stay flexible to add duration if market volatility increases. On the other hand, the case for US inflation and Treasury Inflation Protected Securities remains strong. In our US portfolios, we are cautious on USTs.
	US IG Corporate	=	Investors should monitor interest rate risks in their portfolios and therefore limit long duration IG. While we remain overall positive, we are witnessing high valuations in some segments where risks may be reduced. Securitised credit is attractive in light of strong consumer earnings and savings, but selectivity is crucial.
	US HY Corporate	=	Fundamentals in the HY market and the default rate situation appear to be improving as the economy recovers and as the cost of funding remains low. However, a strong focus on security selection is essential.
	European Govies	-/=	We remain cautious on core Euro bonds, but realise that the ECB would not allow yields to rise too much in order to maintain accommodative financial conditions. However, we stay constructive on peripheral debt, especially Italy as the recent PEPP actions affirm ECB support to prevent any fragmentation in European markets.
	Euro IG Corporate	=/+	We are positive on IG in light of improving fundamentals and the search for yield, with a focus on shorter dated debt and the BBB-rated segment. However, credit selection remains important as we believe divergences are likely to emerge between sectors most affected by the crisis and ones that have recovered. ECB support remains important for the market.
	Euro HY Corporate	=/+ ▲	We prefer to play spread compression opportunities in selective lower-rated names and explore relative value opportunities in the financial sector (positive on subordinated debt and cautious on senior financials). However, we believe it is important to strike a balance between quality and yield, and to distinguish high-quality credit from low quality.
	EM Bonds HC	=/+	While in the long run HC debt supports investors' search for income, in the near term investors should watch out for rising US rates. Higher profit growth is supportive of corporate bonds, but room for further spread compression in HY remains limited outside of idiosyncratic stories. We look for selective opportunities in frontier markets.
OTHER	EM Bonds LC	=	Given the risks associated with a strengthening USD, we believe LC debt is more vulnerable and expensive. Accordingly, selection remains crucial.
	Commodities		Commodities, including base metals, should benefit from strong economic recovery expectations for 2021 and from reflationary trades' investment implications. This would also be positive for oil prices, which should stay at current levels over the coming months. Among precious metals, gold found some support in the recent dovish statement from the Fed.
	Currencies		The recent USD appreciation did not affect financial conditions, but the dollar seems to have reached an alert threshold levels per our internal models. Despite that, we believe, some factors allowing a temporary USD bull run are re-aligning.

LEGEND



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