Global Investment Views

Look out for growth, but with an eye on inflation

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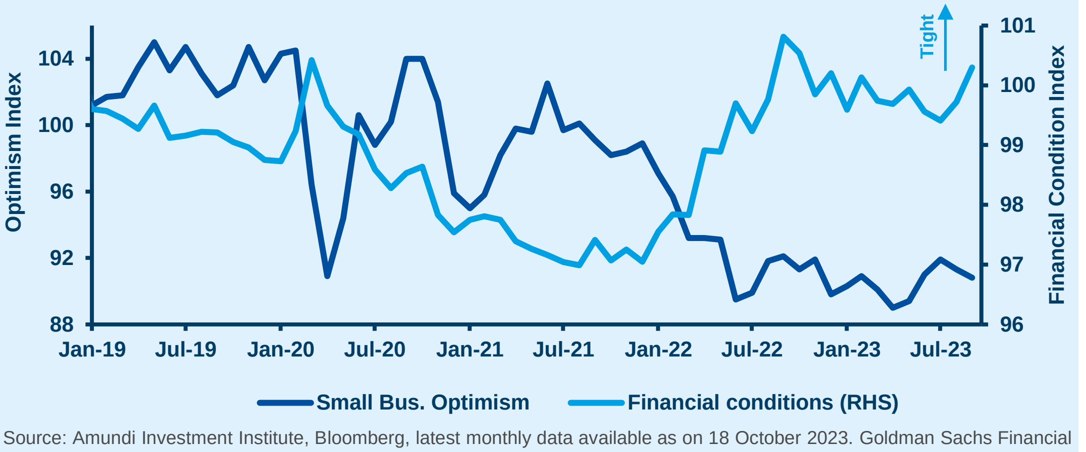
Markets have remained range-bound in the past few weeks as they try to judge the direction of monetary policies, economic growth, and the inflation trajectory, regarding which the assessment is further complicated by the Israel-Hamas war.

We continue to expect a mild US recession in H1. Higher-for-longer rates and tight financial conditions, along with the following main factors, keep us concerned about the global economic outlook:

- **Ambiguity on monetary policy, expectations of a hawkish pause**. Rise in yields have led to additional tightening and central banks may pause now. Success on inflation will eventually determine their policy. The Middle East conflict raises inflation uncertainty (oil prices).
- **Fiscal capacities are constrained in the US and Europe**. Looking ahead, the fiscal side won't be able to completely offset weakness on the consumer side, which is already coming under pressure.
- **Savings and labour markets**. Until now, excess savings and tight labour markets supported consumption. But if there are layoffs and wage growth falls, consumption would be affected.
- **Corporate weakening.** US bankruptcies are rising. Pressures can also be seen on small businesses which are a key component of the economy and rely on banks for their funding requirements.
- **China's structural** deleveraging indicates that the growth slowdown will be driven by the decline in capital input. We do not expect a policy bazooka but incremental measures to stablise the economy.

Tightening financial conditions affecting business optimism



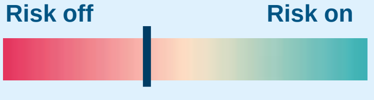
Source: Amundi Investment Institute, Bloomberg, latest monthly data available as on 18 October 2023. Goldman Sachs Financial conditions Index = Higher value means tighter conditions.

"In this environment of restrictive financial conditions, investors should build balanced portfolios, with a focus on quality and sustainability of earnings and dividends".

With an overall cautious view, we see opportunities in the following:

- **Cross asset.** The economic backdrop and valuations favour a positive stance on duration, with some pressure from inflation. We stay positive on US Treasuries and are becoming more constructive on Europe, including on the short end of the curve. In equities, while we are cautious on DM, we upgraded Japan to neutral in light of a domestic recovery. In FX, concerns on US inflation and higher-for-longer US rates could provide some short-term fillip to the dollar. Thus, we turned tactically positive vs select Asian FX and the low-yielding CHF. But we maintain that a Fed pivot would cause dollar weakness in the medium term. We also became constructive on oil for diversification and think investors should enhance portfolio hedges.
- **Government bonds offer strong long-term prospects after a sharp upward move in yields.** Amid risks of an economic slowdown, we think bonds will act as a diversifier. But short term, the situation is tricky, depending on incoming data, leading us to be agile. We are positive on the US, neutral on core Europe, and cautious on Japan. In corporate credit, we maintain our slightly positive view tilted to high quality, such as IG, where we see no or limited scope for a deterioration in fundamentals. Overall, the need to differentiate is high.
- **We are cautious on the US, particularly megacaps, and European equities; neutral on Japan**. Markets are moving from corporate rhetoric to concrete impacts on bottom lines. While a growth slowdown makes us cautious on cyclicality, there is a need to distinguish within cyclicality: businesses that would benefit from secular themes (electrification, near shoring) present opportunities. Value vs Growth outperformance is a long-term phenomenon, but we like names with pricing power, intellectual property, low cyclicality.
- **EM offer attractive returns, but there is a need to show selectivity** in favour of best-in-class companies and countries that can deliver productivity growth. HC and corporate debt offer good carry and within these we like HY but focus on quality. On LC debt, a strong USD makes us selective. In equities, we are neutral on China and believe government actions are meant to soften the slowdown. We see value in India and Brazil, and other Latin American countries.

Overall risk sentiment



We stay defensive on risk assets amid our subdued economic outlook. From a long-term view, government bonds are attractive, and agility is key.

Changes vs previous month

- Cross assets: More positive on Europe duration, neutral on Japan equities. In FX, tactically positive on USD and even on oil. Overall, strengthen hedges
- EM debt: Marginally less positive and more selective on local currency debt, given a strong dollar.

Overall risk sentiment is a qualitative view towards risk assets (credit, equity, commodities) expressed by the various investment platforms and shared at the global investment committee. Our stance may be adjusted to reflect any change in the market and economic backdrop.

ECB= European Central Bank, DM= Developed Markets, EM = Emerging Markets, CBs = central banks, IG = investment grade, HY = high yield, HC = Hard Currency, LC = Local Currency. For other definitions see the last page of this document.

Three hot questions

1. How do your growth and inflation expectations for next year compare with those of the IMF?

The IMF's US growth outlook for 2024 is stronger than ours, assuming higher resilience regarding consumption. We expect a recession in H1 next year, taking our 2024 GDP forecasts to 0.3% (real GDP, year on year) vs the IMF's 1.5%. Unsurprisingly, on the inflation front, we expect a benign 2.5% rate (CPI, YoY) next year, whereas the IMF projects 2.8%. In the eurozone, we forecast growth divergences next year, and the region's growth at 0.5% is below IMF projections. Finally, regarding China, the IMF projects growth to be on a downtrend in next few years, as we do.

Investment consequences:

- Cautious on equity and HY credit.
- Favour government bonds and cash.

2. How do you see the war between Israel and Hamas evolving in the Middle East?

Our base case is for the conflict to remain local, as all the major parties involved (Israel, US, Iran) have much to lose from any escalation. Iran has already achieved its goal of preventing any alliance between Saudi Arabia and Israel. However, there are risks of a tit-for-tat response (Iran's active role) in Gaza and even through Lebanon or Syria. Historically, the impact of geopolitics on prices has been gradually declining. In most cases, the effect of a crisis on prices waned in three months. So, we think any upside now would be temporary.

Investment consequences:

- Brent: $95/bbl. in short term, eventually moving to $85-$90/bbl. in 2024.
- Equities: positive for energy and defense sectors, negative for airlines.

3. What are your views on Italian BTPs in light of the budget deficit and fragmentation risks in the EU?

The recent re-pricing of BTP-Bund spreads pared this year's gains partially and was a result of systemic drivers, eg, the risk-off mood and higher risk free yields (spillover from the US). To a lower extent, it was caused by concerns around a challenging supply outlook next year, a higher deficit, and ECB quantitative tightening. However, in Q4, we see support from negative net issuance and Next Gen EU payments. In addition, demand from the domestic retail segment should continue. But, overall, Italy's commitment to EU fiscal rules and the NRRP* is important, along with reviews from credit rating agencies.

Investment consequences:

- Peripheral spreads: Neutral.

"The latest US inflation figures showed some stickiness – especially for services – and this means slight upside risks to our forecasts. But, we believe the disinflationary trend is likely to continue, with the Fed keeping a close eye on price increases".

Monica DEFEND
Head of Amundi Investment Institute

Marketing material for general public. *National Recovery and Resilience Plan.

Play 3 Ds: Duration, diversification, divergences

Economic deceleration and ambiguity over monetary policy are collectively increasing complexity across markets. This is not a time to take bold risks; instead, investors should stick to their long-term convictions around duration in the US and Europe. In addition, the current uncertainty on US inflation opens the door for some tactical trends around the USD and strengthens the case for enhancing safeguards. At the same time, we now think oil offers additional protection and diversification from the recent increase in geopolitical risks.

High conviction ideas. While we remain cautious on DM equities (US, Europe), we upgraded Japan to neutral owing to the ongoing recovery in the services sector and better corporate governance. But we are monitoring risks around a global slowdown. In EM, where we are constructive, valuations look fair and earnings revisions seem to be bottoming. The region presents abundant divergences, with strong growth in LatAm, India, Indonesia, among others.

We are constructive on USTs as higher supply announcements appeared to be already priced in and valuations look more attractive amid a weaker growth scenario. We also believe in curve steepening in the US and Canada. In Europe, sluggish growth prospects now support a more constructive view on duration, particularly on the short end of the curve. But we are no longer positive on Swedish and UK bonds, instead focusing on Europe. Our mildly positive view on BTPs is maintained. Most of the recent increase in yields was driven by a sell-off in global bonds, but supply/demand dynamics for BTPs are supportive. We are vigilant on fiscal deficit and Italy's growth. But, we are cautious on JGBs.

In EM, while we agree that DM yield movements could have adverse effects, we stay constructive selectively long term. Inflation dynamics are supportive and CBs are at the end of tightening.

Corporate credit in DM offers good carry, but some potential deterioration in fundamentals is leading us to stay selective in favour of EU IG, where technicals and lower supply are positive. However, we are cautious on US HY, where valuations are expensive, and which is likely to suffer from rising default rates.

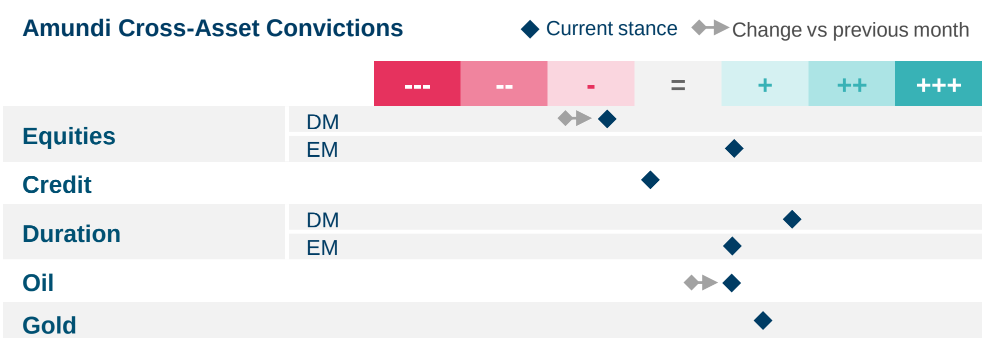
The USD is showing some upside potential near term, owing to resilient demand, cost push inflation and higher-for-longer Fed rates. Thus, we turned positive vs CNH, TWD. In DM, we are now cautious on CHF/USD but are no longer negative on the GBP/CHF. In commodities, escalating geopolitical risks led us to become positive on oil.

Risks & hedging. Persisting risks around economic growth call for strong hedges around equities. On Treasuries, there is ample uncertainty around monetary policy and inflation, supporting the need to enhance safeguards. Precious metals such as gold offer diversification and protection in case of a strong recession or an escalation in geopolitical crises.

Francesco SANDRINI
Head of Multi-Asset Strategies

John O'TOOLE
Head of Multi-Asset Investment Solutions

"While keeping a cautious stance on DM equities, we have upgraded Japan to neutral, based on a recovery in the services sector and stronger corporate governance."



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 and includes the effects of hedging components. FX = foreign exchange, BTP = Italian government bonds, BoJ = Bank of Japan, JGB = Japanese govt. bonds, BoE = Bank of England, CB = Central bank. For other definitions and currency abbreviations see the last page of this document.

Inflation headwinds, but govies offer strong value

Overall assessment. Hard data have been coming in above expectations but weakness on soft data (surveys) and the consumer continues. It is a matter of time before this is reflected in select risk asset valuations. However, with US yields at 16-year highs, there is long-term potential in bonds, and in quality credit in DM and EM.

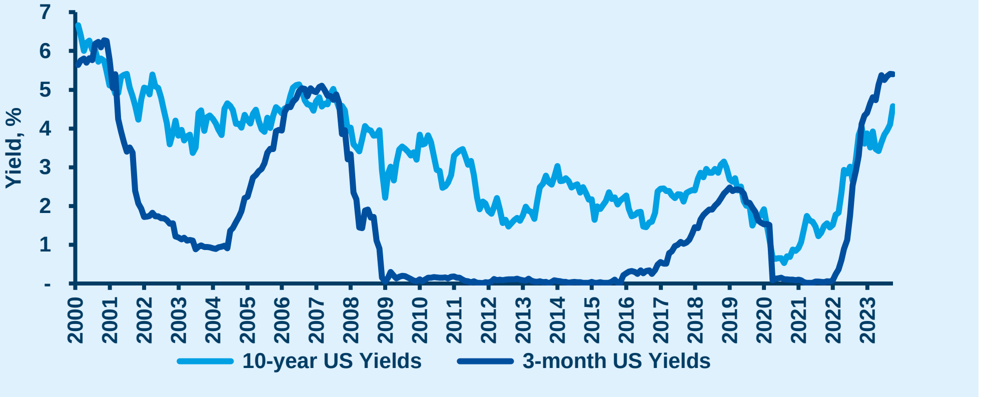
Global & European fixed income. The potential effects of financial tightening on growth and current yields at high levels (compared to history) mean the long-term scenario of 'bonds are back' remains in place. And stagnating investment in Europe could further affect growth. **However, inflation is a key variable, and we are vigilant on that. Thus, with a dynamic approach, we are close to neutral on duration in core Europe and peripheral debt but are cautious on Japan**. Above-target inflation is likely to encourage the BoJ to drop its yield curve control. In credit, yields are attractive, but it is important to be flexible and tilt towards quality and IG financials (banks). In particular, we think BBB-rated debt offers a good balance of yield, quality and liquidity, but it is important to be selective. However, we are cautious on HY in real estate, technology and electronics and the consumer sectors.

US fixed income. Risk-free rates are fundamentally attractive, but may move higher in the near term if markets think that the US economy could be resilient. For now, the policy is viewed as "sufficiently restrictive". This, coupled with rising risks to the economy, supports a positive duration view. We are constructive on USTs in both nominal and real forms, particularly longer maturities, but we stay active. Securitised credit is attractive from a long-term view. While the housing market will be affected by rising mortgage rates, we think a demand/supply mismatch and demographics should be supportive. In corporate credit, the huge increase in interest rates will eventually have an impact on corporate balance sheets by year-end or at the beginning of next year. Thus, we are tilted towards quality and favour IG and financials over non-financials. But, we are cautious on HY, as defaults are rising.

EM bonds. EM debt offers good income potential, but we are vigilant on rising US yields, dollar strength and geopolitical risks. We like HC and corporate bonds and focus on HY countries that provide a carry cushion. Selectivity remains key as we see near-term headwinds for LC bonds. At a country level, we are exploring Brazil, Mexico and Indonesia based on growth/inflation dynamics. India, which is the second-largest bond market in the EM space, offers a compelling opportunity.

FX. The USD has seen some strength, but we think this could be short-lived when the Fed likely cuts rates next year and as inflation falls to its target. We are constructive on JPY, AUD, and in EM, we like high-yielding MXN, BRL, IDR, INR.

Short-term pressures, but current level of yields offer opportunities to investors



Source: Amundi Investment Institute, Bloomberg. Latest monthly data as of 23 October 2023.

Amaury D'ORSAY
Head of Fixed Income

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

"As soon as there is some weakness in economic data, we should see markets rooting for bonds, favouring govies and quality assets."

Differentiate on pricing power, earnings, valuations

Fabio DI GIANSANTE
Head of Large Cap Equity

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

Overall assessment. Markets are being driven by changes in narratives relating to rates, a US soft landing or a recession scenario, along with inflation. In this environment, we believe avoiding losers is as important as picking winners because even if a good business is trading at expensive valuations, it offers little protection in times of economic downturn. Hence, we believe in differentiating and are optimistic on attractively priced segments in the US, Europe, Japan and EM.

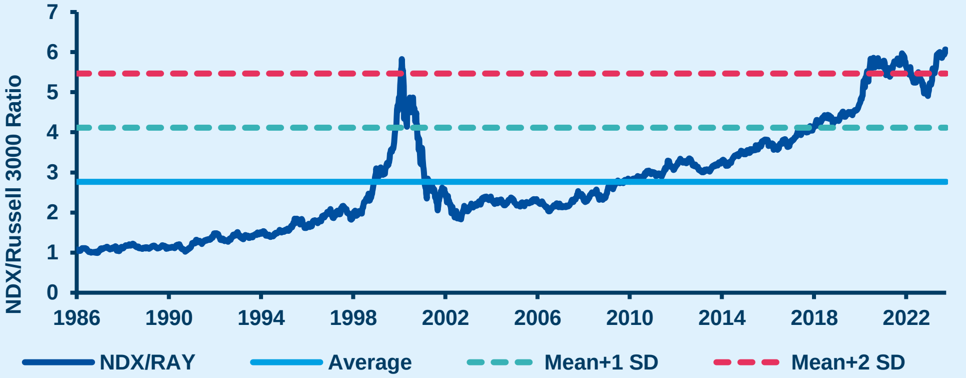
European equities. We stay balanced and prefer businesses with sustainable pricing power, given their intellectual property, robust brands, etc. Looking ahead, only those companies that have strong power are likely to be able to pass on rising costs. On the other hand, valuations in some segments are expensive, even if their business models are robust: for instance, in cyclicals. In these, we would like to wait for some correction before having a more favourable view. At a sector level, we maintained our stance on staples and financials (banks), and see selection opportunities in industrials. In renewables, we like companies with established business models that can finance their transitions through internal cash flows. In general, there has been underinvestment in some corners of the energy sector (affecting supply), and we think there are opportunities related to this.

US equities. Economic data are not consistent with company reporting, as effects of a slowdown are visible in some sectors, such as industrials. We are becoming cautious on the cyclical parts of industrials, but like businesses linked with long-term secular trends, which will benefit from fiscal boosts in the form of the IRA, electrification, near-shoring/re-shoring and automation themes. Selectively, we like energy names with attractive valuations as they also act as a hedge against geopolitical risks. On the consumer side, we are sceptical of cyclicality and believe this is a time to differentiate within cyclicality. Large cap banks is another area where we are positive. Finally, in Value vs Growth, we like low beta because cyclical parts of Value may come under pressure. Value is also a hedge against higher-for-longer rates, inflation and high commodity prices. Overall, we favour companies that are prudent when it comes to capital allocation.

EM equities. We are mildly constructive amid the EM macro backdrop, valuations and supportive earnings expectations, but see some geopolitical risks and potential slowdown risks in DM. Our preferences are Brazil and India. The former is showing resilience in the face of global headwinds and has already started its easing cycle; the latter offers a large and fast-growing economy and internal demand. On China, we remain neutral in the short term. Sector-wise, discretionary and real estate offer the best opportunities, but with divergences among countries.

"Disappointment in earnings/sales would affect expensive and overleveraged businesses more because of their high costs of capital."

Markets are reaching some excesses: look at Nasdaq 100/Small caps ratio



Source: Amundi Investment Institute, Bloomberg. Weekly data as of 20 October 2023. SD = Standard deviation

Amundi asset class views

	Asset Class	View	vs M-1	Rationale
EQUITY PLATFORM	US	-		Increasing cyclical risks, higher-for-longer rates and high valuations keep us defensive on the broader markets, and particularly on the megacaps. In addition, we do not expect substantial margin expansion in light of high interest costs and pressures on consumption.
EQUITY PLATFORM	US value	+		Value performance is a long-term trend. Given the cyclical risks on the horizon, investors should make a distinction within cyclicality, favouring businesses than can maintain earnings growth and would benefit from secular trends, such as electrification, and a boost to infrastructure.
EQUITY PLATFORM	US growth	--		Top of the market names in Growth remain overvalued, and if there is a liquidity scare, this segment is likely to be more affected compared to other sectors. Thus, we are cautious.
EQUITY PLATFORM	Europe	-/=		Europe would be affected by the slowdown in China and a potential US recession. So, we favour names that are prudent when it comes to capital allocation, offer dividends and have attractive multiples. For instance, we like banks that have strong balance sheets and stand to benefit from high rates. We are also monitoring the current earnings season.
EQUITY PLATFORM	Japan	=		Domestic recovery, combined with attractive flows and improving corporate governance, is positive. But we are neutral, as Japanese exports could be affected by the global slowdown.
EQUITY PLATFORM	China	=		China's slowdown is driven by the government's willingness to accept short-term volatility for long-term rebalancing towards a better quality of growth. However, this doesn't mean its importance in the world will decline. In sectors such as energy transition its role is critical in global supply chains.
EQUITY PLATFORM	EM ex China	=/+		EM is a fragmented universe which, selectively, has attractive valuations and is likely to benefit from some structural trends around friend/near shoring and supply chain de-risking, etc. We like countries such as India, Indonesia and Brazil with stable political regimes, large domestic markets and good-quality manpower, coupled with strong export potential.
FIXED INCOME PLATFORM	US govies	=/+		Bonds present opportunities from a long-term view, as core yields are at attractive levels. This, coupled with our outlook of a mild recession in H1, keeps us constructive on duration. We stay active amid high inflation and the higher-for-longer rates narrative.
FIXED INCOME PLATFORM	US IG corporate	=/+		There are initial signs of margin erosion, but overall fundamentals look reasonably robust. We like to benefit from discounts on new issues where available, preferring idiosyncratic stories and names that can maintain stable cash flows even in times of economic slowdown.
FIXED INCOME PLATFORM	US HY corporate	-		A slowing economy could affect the defaults outlook, particularly for low-rated segments such as CCC and cyclicals could come under pressure. We are cautious owing to a potential weakening of fundamentals and higher interest burdens.
FIXED INCOME PLATFORM	European govies	=		With a sharp upward movement in core yields and the ECB close to the end of its rate hiking cycle, the case for duration has improved. However, the outlook is muddled further by higher oil prices. For now, we stay neutral on core Europe, with a vigilant eye on inflation. We are also close to neutral on peripheral debt and are monitoring the Italian fiscal deficit.
FIXED INCOME PLATFORM	Euro IG corporate	=/+		We see some value in IG amid fair valuations, robust fundamentals and a limited spillover from higher core yields. The need to make tactical adjustments is high and from a sector point of view, we like financials.
FIXED INCOME PLATFORM	Euro HY corp.	-		The transition towards higher funding costs will be more painful for low-rated segments in HY in 2024. Thus, it is crucial to differentiate and avoid names with excessive leverage.
FIXED INCOME PLATFORM	China govies	=		We are neutral on Chinese government bonds in light of their strong diversification potential but continue to assess the PBoC's monetary policy and the government's fiscal stance.
FIXED INCOME PLATFORM	EM HC	=/+		A strong dollar could hurt spreads, but we are cautiously optimistic on HC and focus on HY as it offers higher potential for a rebound. Within HY, we focus on quality and names with attractive carry and the ones that sufficiently compensate for the risks.
FIXED INCOME PLATFORM	EM LC	=/+	▼	In the near term, we are slightly less positive than before because of the strength of the dollar owing to ambiguity over the Fed's pivot (and hence higher rates). But we remain selective in favour of high-yielding countries that offer good carry and show strong fundamentals.
OTHER	Commodities			The Middle East crisis could push oil up slightly, but prices should mean-revert back to our \$85-90/bbl. target for Brent. Increasing spare capacities, economic deceleration and US elections mean a sustainable upside to oil in 2024 is unlikely. On gold, we see modest upside in the medium term to \$2,000/oz when the Fed pivots to lower rates.
OTHER	FX			Concerns on US inflation after the spike in oil, and views that the Fed may have to do more with respect to rates may boost the dollar in the short term. We slightly downgraded our 6M target for EUR/USD to 1.09. But Fed rate cuts point to a weaker USD by end-2024.

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Negative view Neutral Positive view
▼ Downgrade vs previous month
▲ Upgraded vs previous month

Source: Amundi, as of October 2023, 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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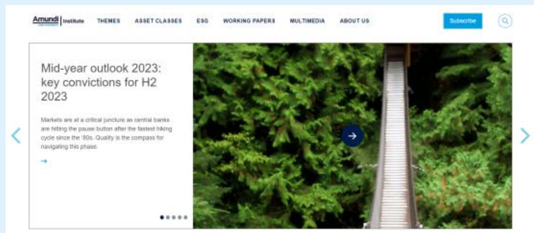

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