July 2019

Global Investment Views

Global Investment Committee, Macroeconomic and Strategy Research, Investment Insights Unit

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01

Recent events and this month's focus

What is new? Central banks at the forefront

Economy & geopolitics

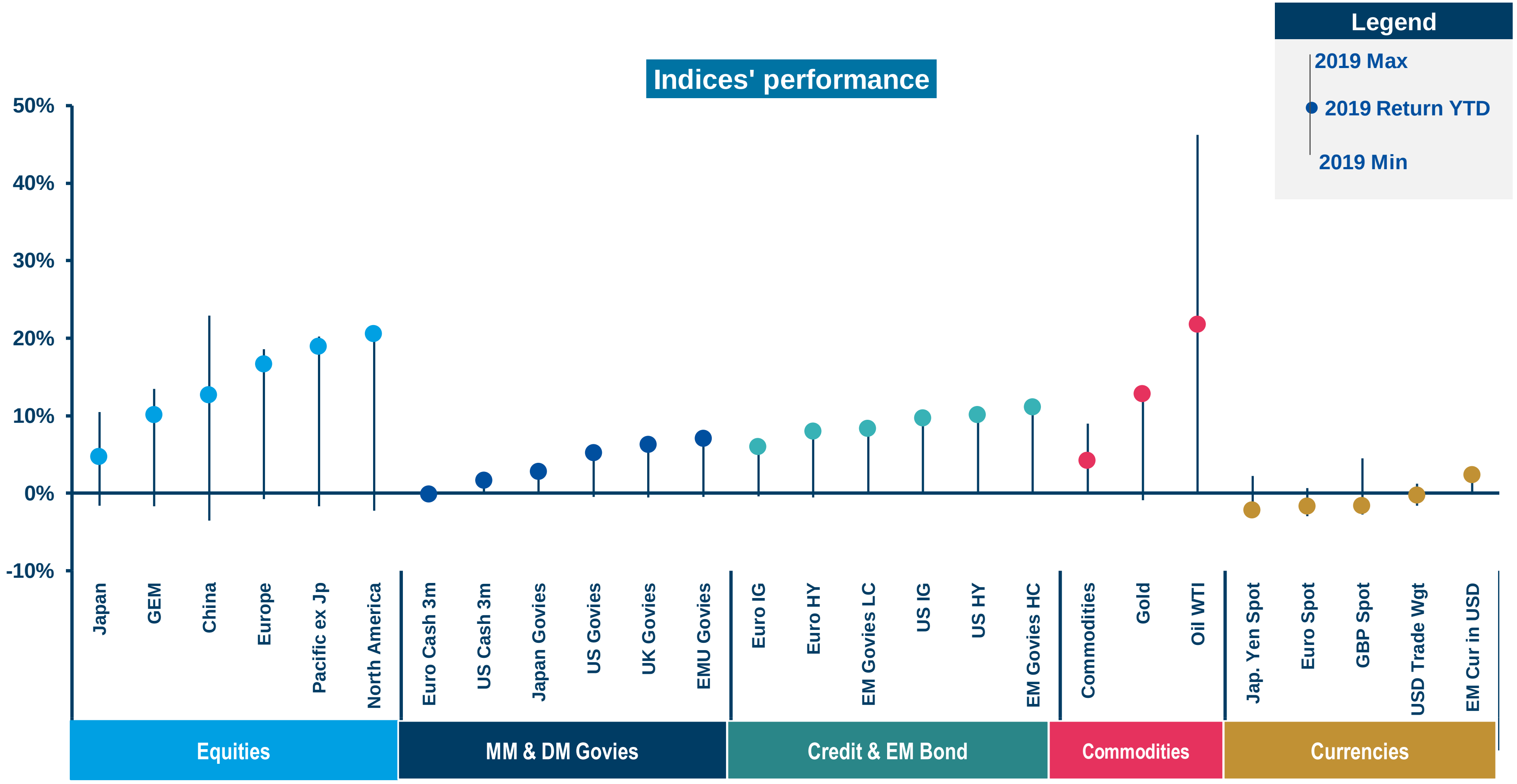
- **Growth:** slowdown continued. Manufacturing activity decelerated across the board. China GDP growth fell to 6.2%.
- **Central banks:** easing stance from major CBs; Fed and ECB minutes were dovish and RBA cut interest rates to a record low.
- **Global trade:** US-China restarted talks after G20, new tariffs are on hold for now. Short-term relief, but uncertainty persists.
- **European Union:** Lagarde appointed as new ECB president, Ursula von der Leyen as new president of the EU commission.
- **Elections:** Centre-right New Democracy party won elections in Greece. In UK, final round of voting to become PM.
- **US-Iran relation:** tensions have risen with Iran likely to breach the 2015 nuclear deal.

Financial markets

- **Risk assets:** US-China trade truce and Fed's dovish shift bolstered risk assets.
- **Core bonds:** yields have evaporated as the search for safety is on. US Treasury and German Bund yields have lowered further.
- **Italy:** bond yields rallied after the government avoided EU procedure.
- **EM bonds:** strong performance across the board.
- **FX:** USD sustained by strong US jobs report. Positive carry in EM. Turkish lira slipped as Turkey's CB governor was fired.
- **Oil:** crude oil prices surged as OPEC and its partners extended production cut and US-Iran tensions have risen.

Source: Amundi, as of 19 July 2019. CBs = Central Banks. RBA: Reserve Bank of Australia. ECB: European Central Bank. EM = Emerging Markets.

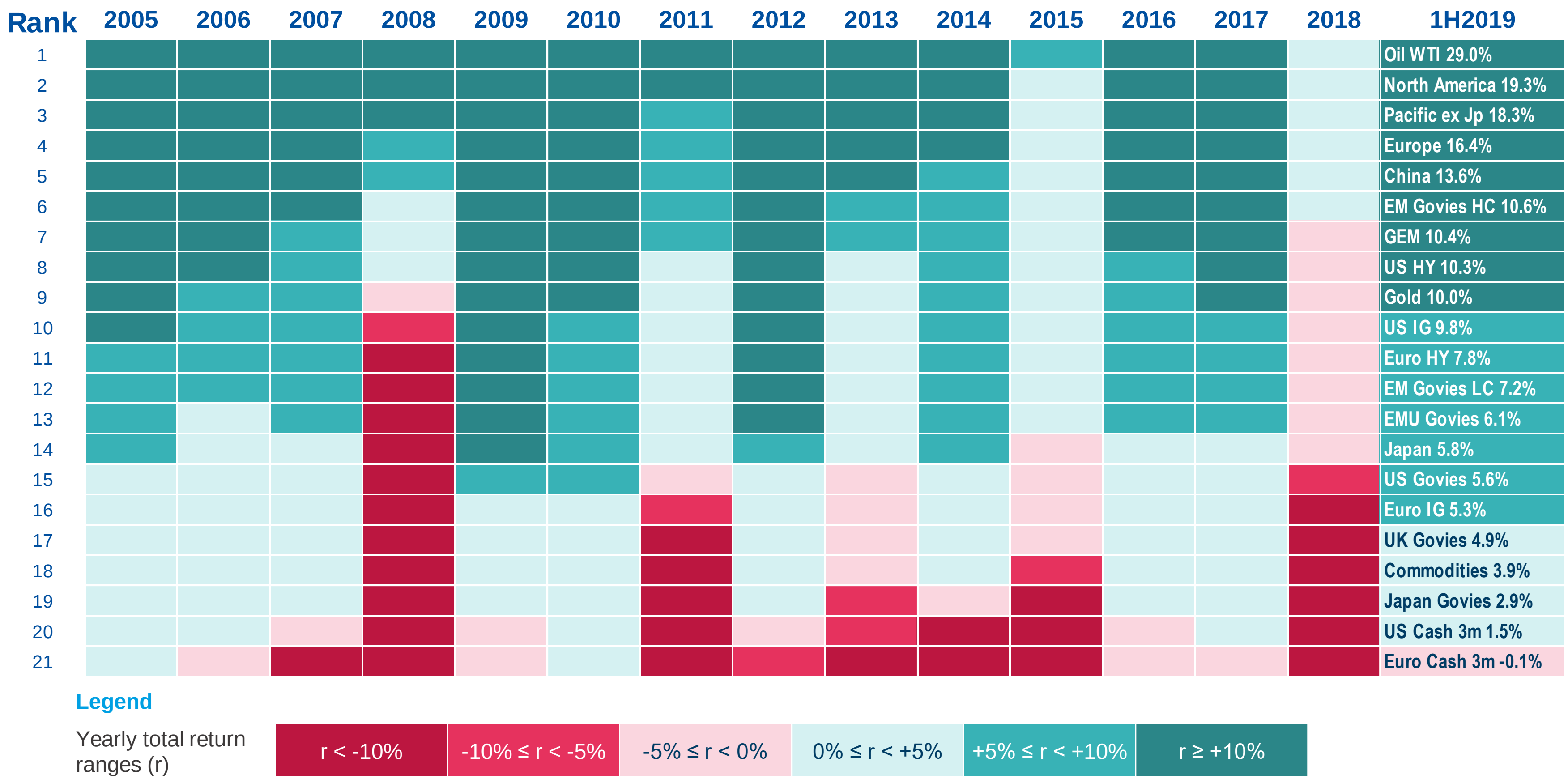
Markets have been enjoying a record-breaking run of late



Source: Bloomberg, analysis by Amundi on 26 asset classes (and FX). Data as of 18 July 2019. Index providers: Cash, Government bonds and EM Bond indexes are from JPMorgan. Corporate bond indexes are from BofA Merrill Lynch. Equity indexes and EM currency index are from MSCI. Commodities indexes are from Bloomberg Barclays. All indices used to represent asset classes **are in local currency**. **Past performance is no guarantee of future results.**

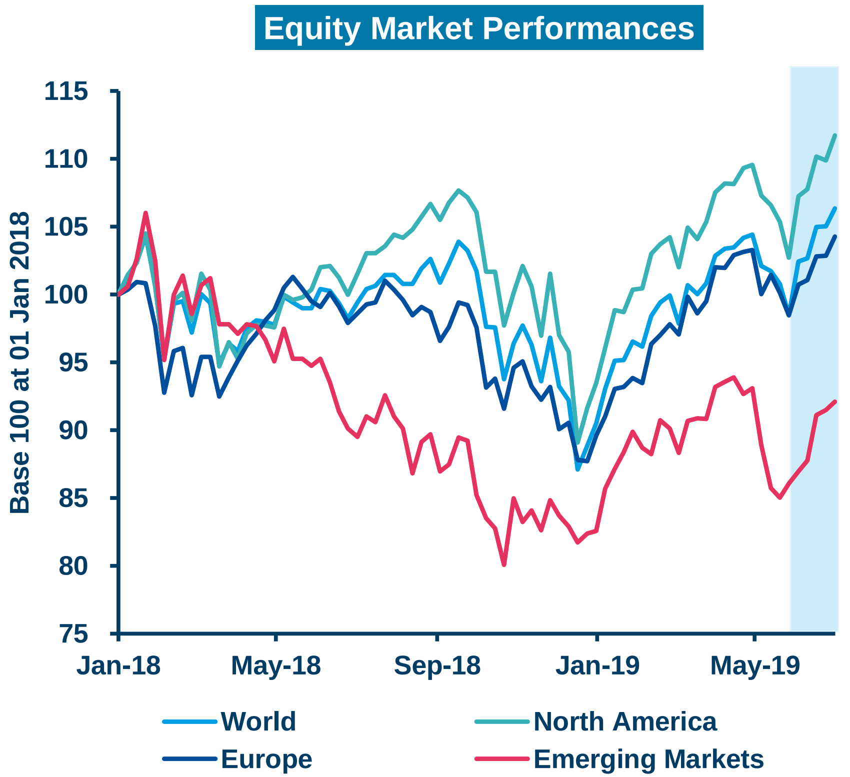
1H2019 performance vs 2018

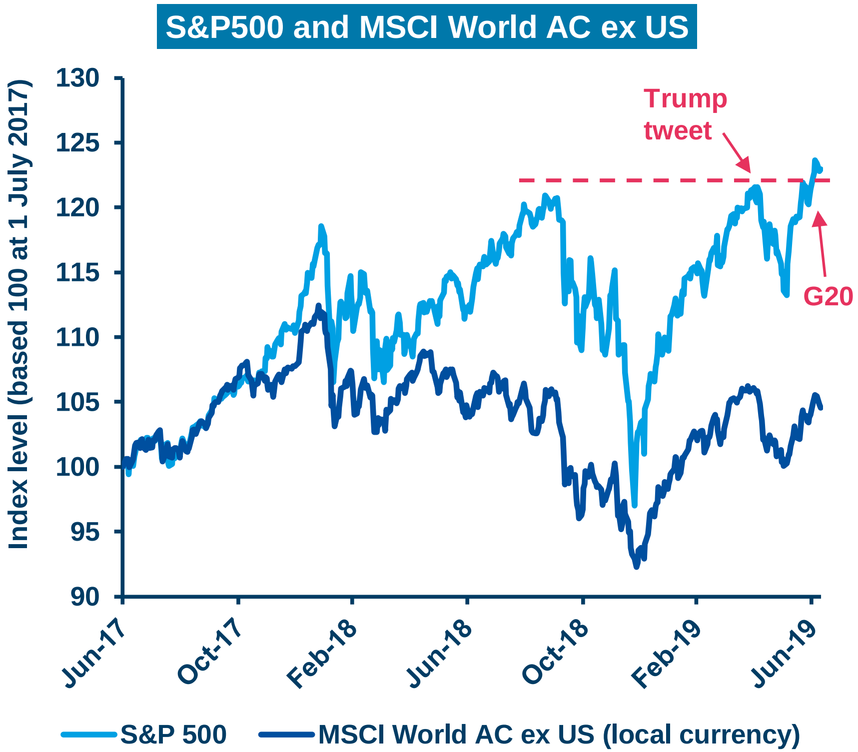
Ranking of Asset Class Returns



Source: Bloomberg, analysis by Amundi on 21 asset classes. Data as of 1 July 2019. Index providers: Cash, Government bonds and EM Bond indexes are from JPMorgan. Corporate bond indexes are from BofA Merrill Lynch. Equity indexes and EM currency index are from MSCI. Commodities indexes are from Bloomberg Barclays. All indices used to represent asset classes are in local currency. **Past performance is no guarantee of future results**.

Equities: trade disputes' truce and dovish CBs in support





» Risk assets shored up by central banks' tone and US-China trade talks eventually back on track (only removing a tail risk but not a game changer). At current levels, markets are vulnerable in case of CB disappointments.

Source: Bloomberg, Amundi. Data as of 10 July 2019. MSCI Indexes Total Return in local currency.

Source: Bloomberg, Amundi. Data as of 10 July 2019.

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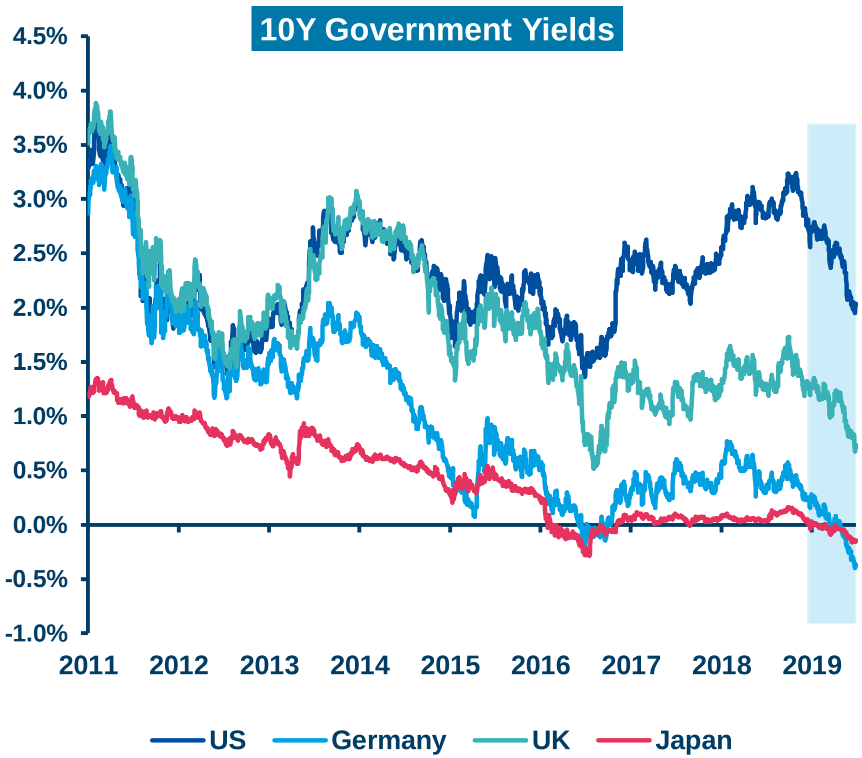
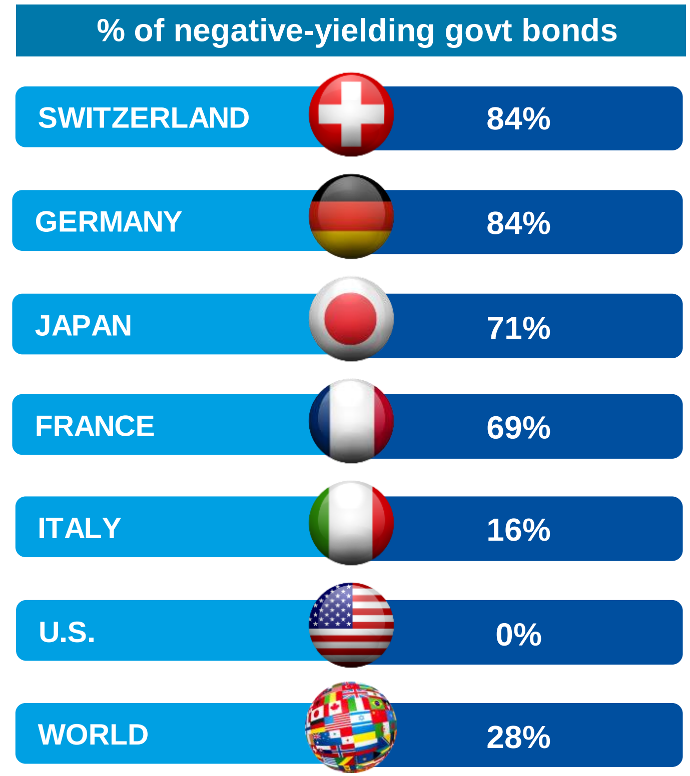
Core bonds: falling yields, rates in negative territory



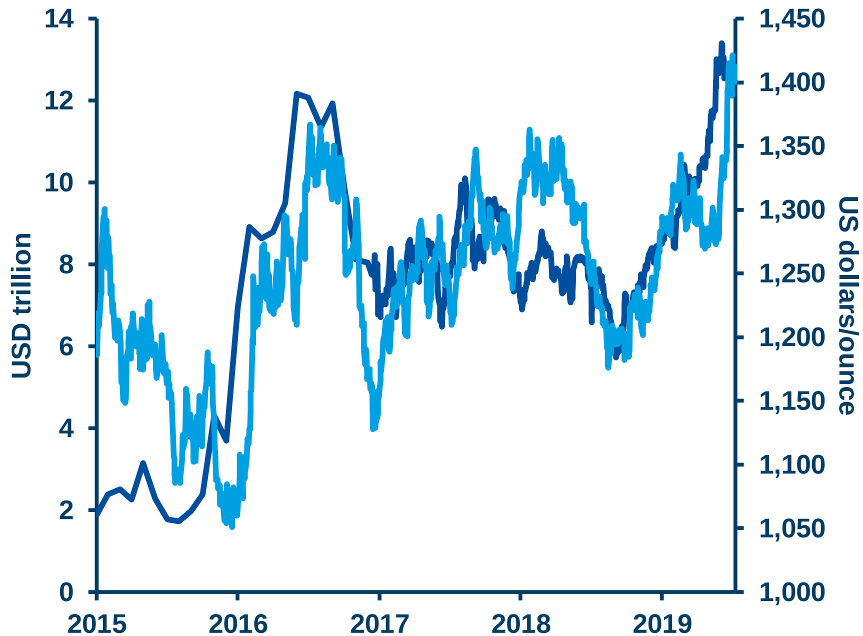


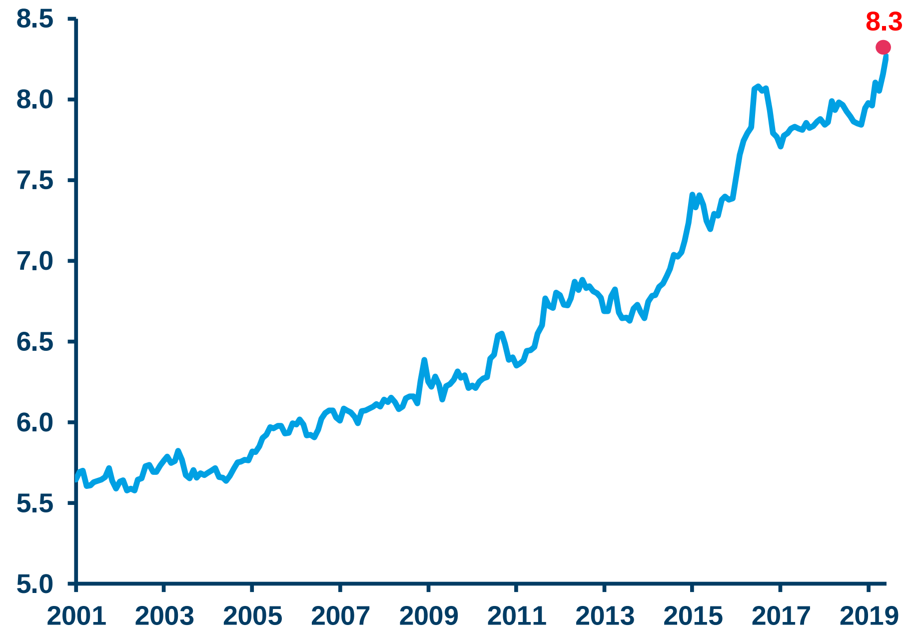
» Government bond yields continued to fall. At the beginning of July, the US 10Y Treasury yield sank below 2.0% and the German 10Y Bund fell to -0.40%, hitting a new record low. The value of negative yielding debt has never been so high and it will likely remain so, given strong demand for safe assets and global central bank dovishness.

Source: Bloomberg, Amundi. Data as of 10 July 2019.

Source: ICE BofAML, Bloomberg, Amundi. Data as of 15 July 2019.

Search for yield and safe haven assets





With new peaks reached by the total amount of debt yielding less than zero (the index surpassed $13 trillion), investors are seeking positive yielding and safe assets. Sales of long-term sovereign debt and gold climbed to record highs. Duration of global bond index at highest ever, exposing investors to an asymmetric risk return profile.

Source: Bloomberg, Amundi. Data as of 10 July 2019.

Source: Bloomberg, Amundi. Data as of 10 July 2019. The Macaulay duration calculates the weighted average time before a bondholder would receive the bond's cash flows

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02

Global themes: risks have increased

Central and alternative scenarios

Probability: 70% (unchanged)

Central scenario

- **Growth:** more vulnerable. Headwinds from world trade and extended policy uncertainty. Future capex investments likely to be restricted with impact on manufacturing. No major spillovers expected from consumption. Growth trending to potential in DM in 2020.
- **Inflation:** low and slow to pick up.
- **Central banks:** more dovish across the board, ready to act and cut rates.
  - **Fed**: 50 bp rate cut by the end of the year (markets pricing too much – 100 bps at 12 months)
  - **ECB**: reopening of QE more likely than further rate cuts, unless of a strong EUR/USD appreciation and/or a more than expected Fed cut.

Probability: 30% (unchanged)

Risk scenario

- **Trade-related risks** (global trade takes longer to "normalise", additional escalation on trade war and contagion to consumption):
  - **Sub-par growth**: US below 1.5%, EZ below 1% in 2020)
  - **Central banks**: Fed keeps cutting every quarter till stabilization in sight; ECB using the full toolset (cut deposit rate + TLRO + review QE).
- **Market-related risks** (sudden repricing of risk premia with a large impact on financial conditions exacerbated by low liquidity):
  - **Sub-par growth close to recessionary levels** with negative spillovers to consumption.
  - **Central banks & fiscal response**: Fed could cut 100bp more rapidly; ECB would react with an extension of its QE. Fiscal policies would turn much more accommodative on both sides, with the support of monetary policies.

Source: Amundi, as of 16 July 2019. DM: Developed Markets. QE: Quantitative Easing. TLRO= The targeted longer-term refinancing operations (TLTROs) are Euro system operations that provide financing to credit institutions for a predefined period of time. EZ: Eurozone.

Global themes: risks have increased

KEY THEMES			LONG-TERM FOCUS
GROWTH: DOWNSIDE RISKS, NO RECESSION IN 12 MONTHS	**CENTRAL BANKS "BAZOOKA" READY AGAIN**	**DOMINANCE OF POLITICS SET TO REMAIN**	**GLOBAL TRADE, DEBT, CLIMATE CHANGE**
Economic slowdown continued in Q2, and quality of growth deteriorated (weaker investments, trade). CB "insurance policy", fiscal/monetary expansion and trade truce could help the economy to stabilize	**CBs are back to accommodative monetary policies. Reactive fine-tuning in speed and magnitude**	**Some recent improvement (Italy, EU appointments, trade talks), but the list of risks is still long: China - US, Iran, Brexit, interference in CB policy**	**Some challenges have to be monitored in the long term: global trade retreat, high/growing debt, climate change risk**

Source: Amundi, as of 16 July 2019.

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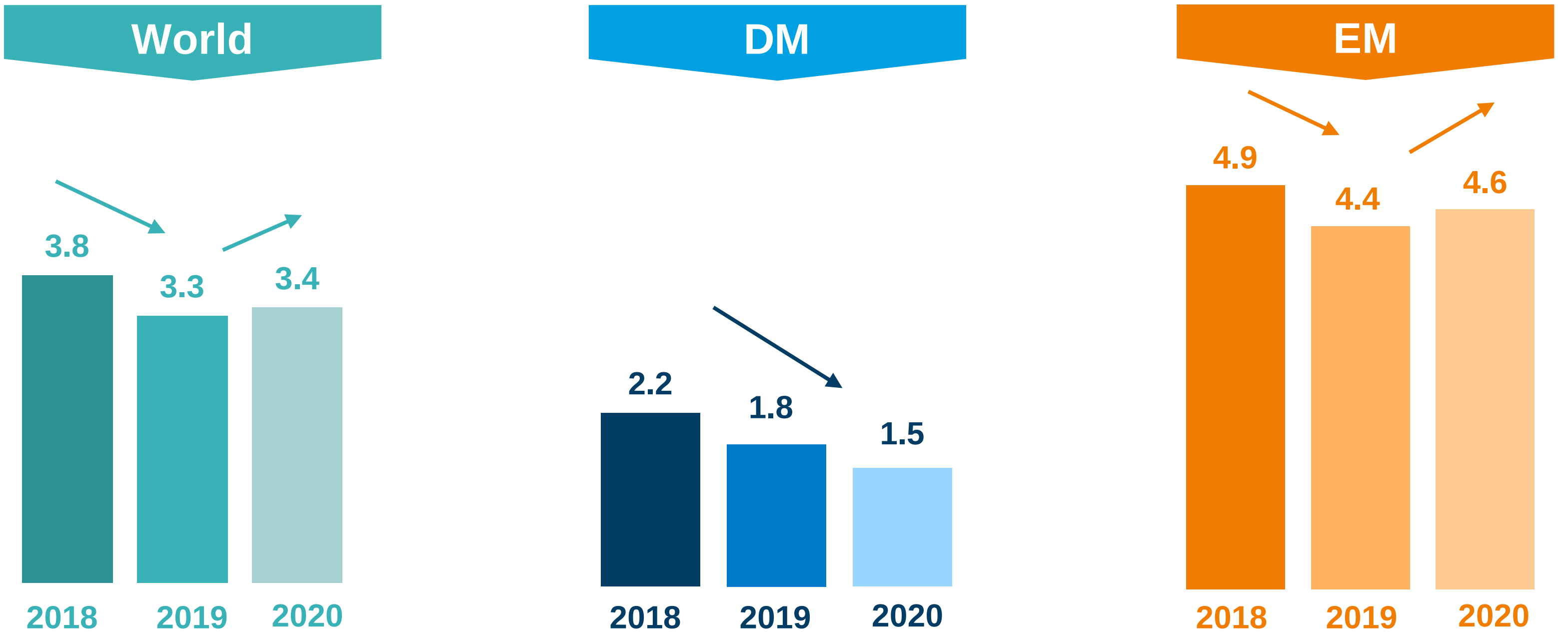
Global GDP growth decelerating



» The global outlook looks gloomier than at the start of the year. Trade issues and geopolitical uncertainties are weighing on growth. Risks of further downgrades reflected in GDP forecasts.

Source: Amundi Research forecast, as of 12 July 2019. Bars represent real GDP growth (YoY%) forecasts, annual averages.

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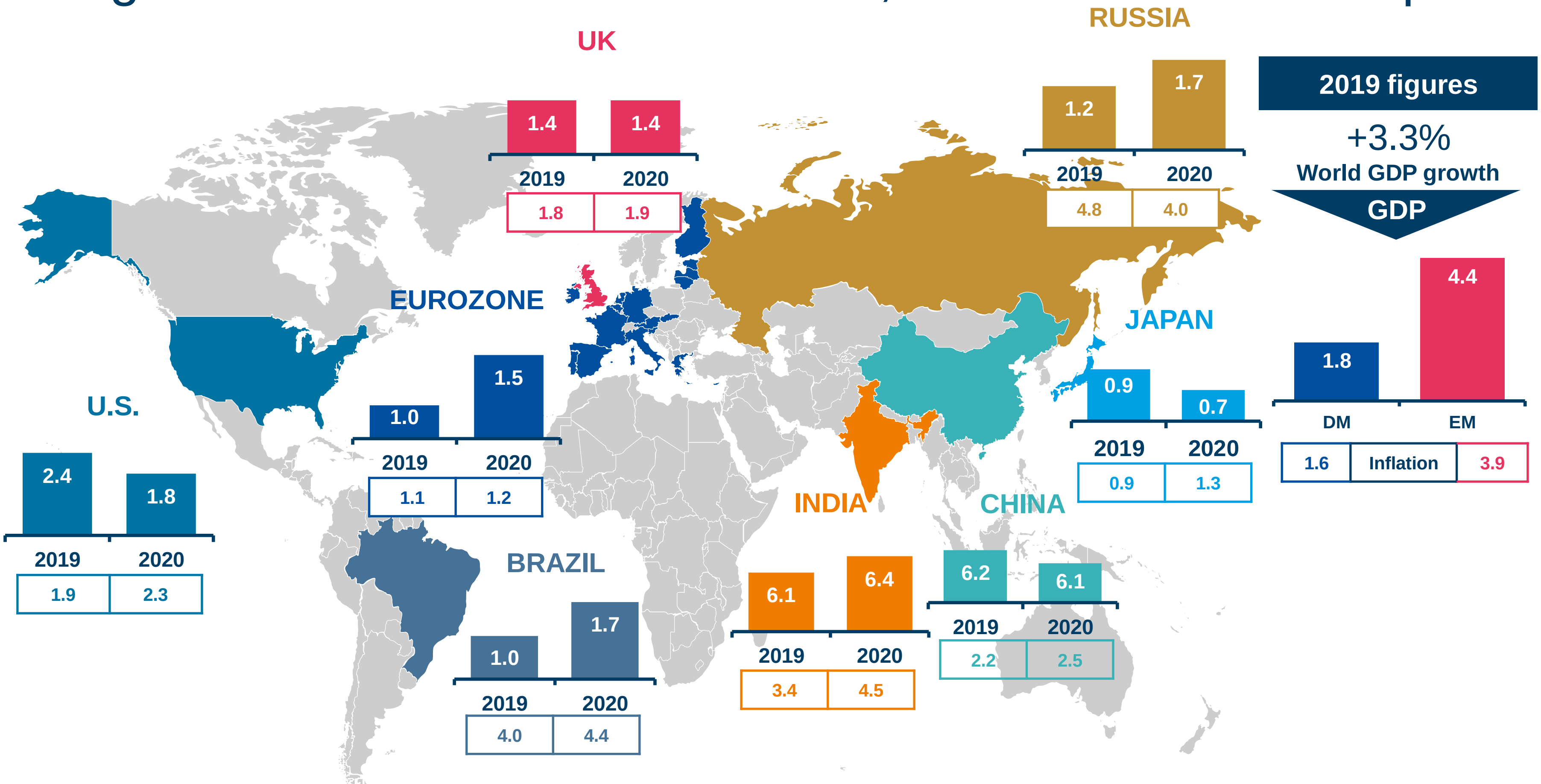
Regional view: slowdown in 2020, with some EM exceptions



» Economic slowdown in 2020 vs 2019, with few exceptions. Possibility of further downward revisions in the global outlook. Inflation outlook is benign.

Source: Amundi Research forecast, as of 12 July 2019. Data in percentages. Bars represent real GDP growth (YoY%) forecasts, tables show inflation (CPI, YoY%) forecasts.

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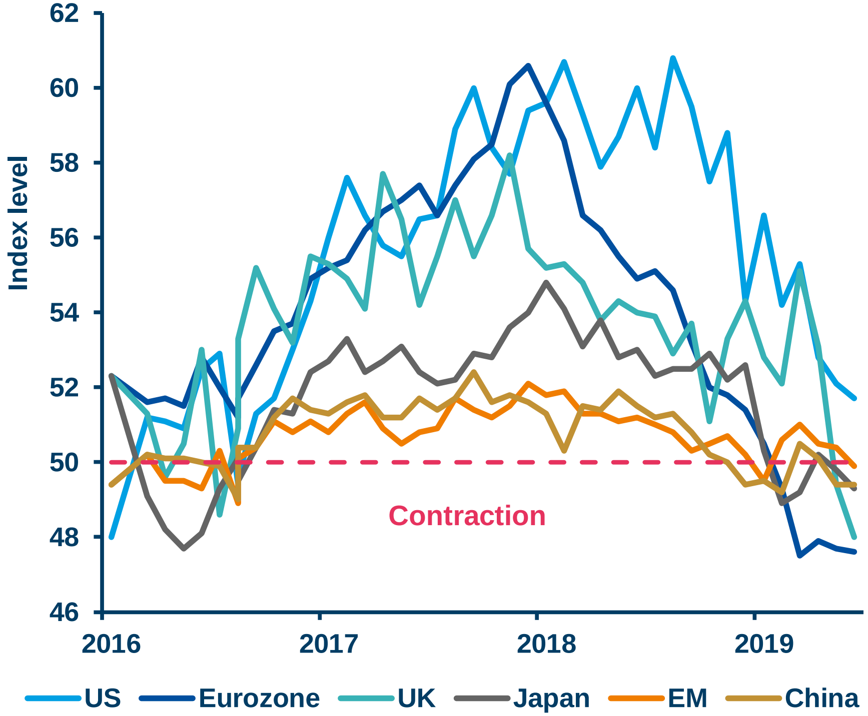
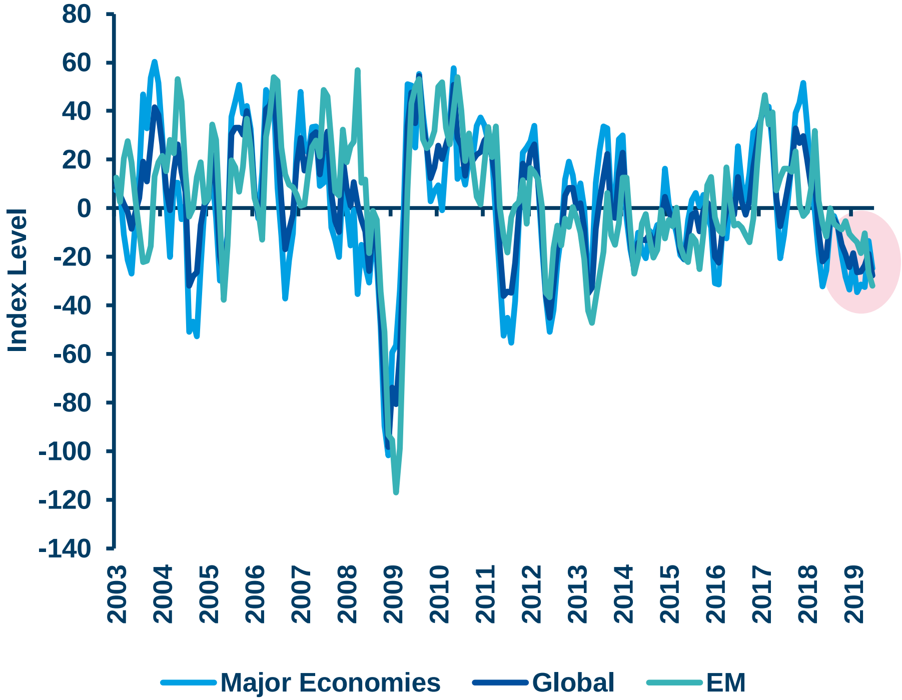
Economic data deteriorated globally

Global manufacturing PMI on CBS' radar



Citi Economic Surprise Indices



» Manufacturing PMIs decreased globally in June, suggesting that the global economy remains fragile. Many countries' PMIs slipped below 50 amid trade tensions and political uncertainty. The majority of economic data have disappointed market expectations during the year.

Source: Bloomberg, Amundi. Data as of 10 July 2019.
PMI= Purchasing Manager Index.

Source: B|oomberg, Amundi. Data as of 10 July 2019.

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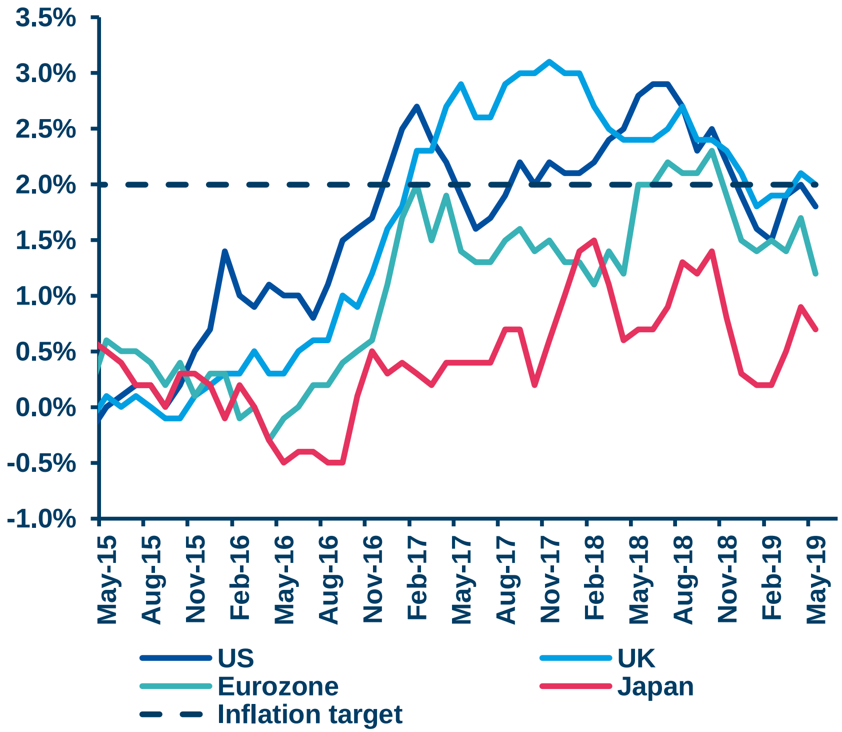
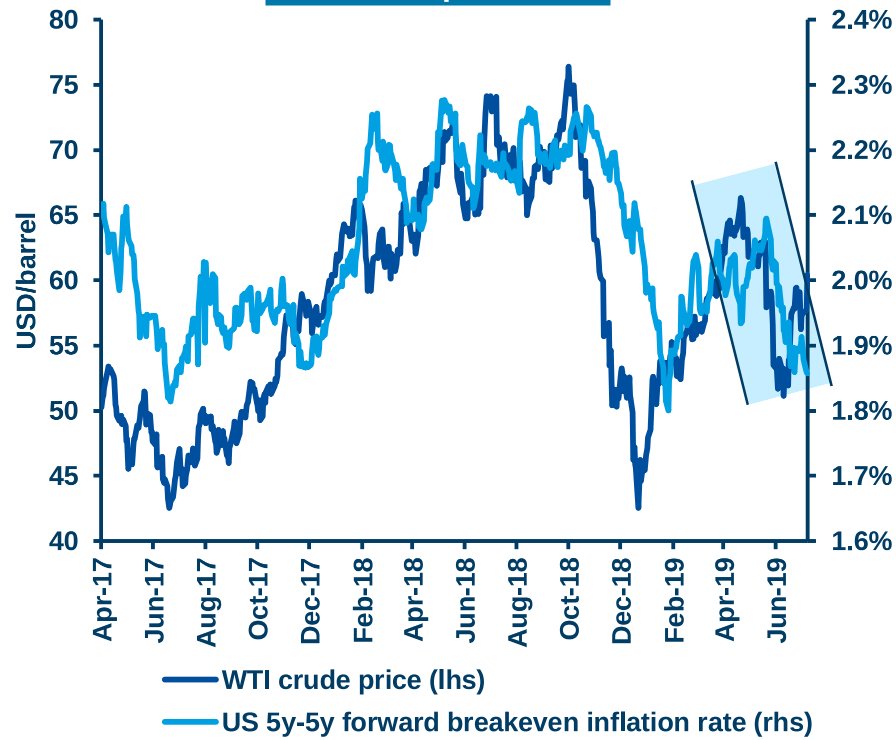
Inflation remains subdued

G4 Inflation



Inflation expectations

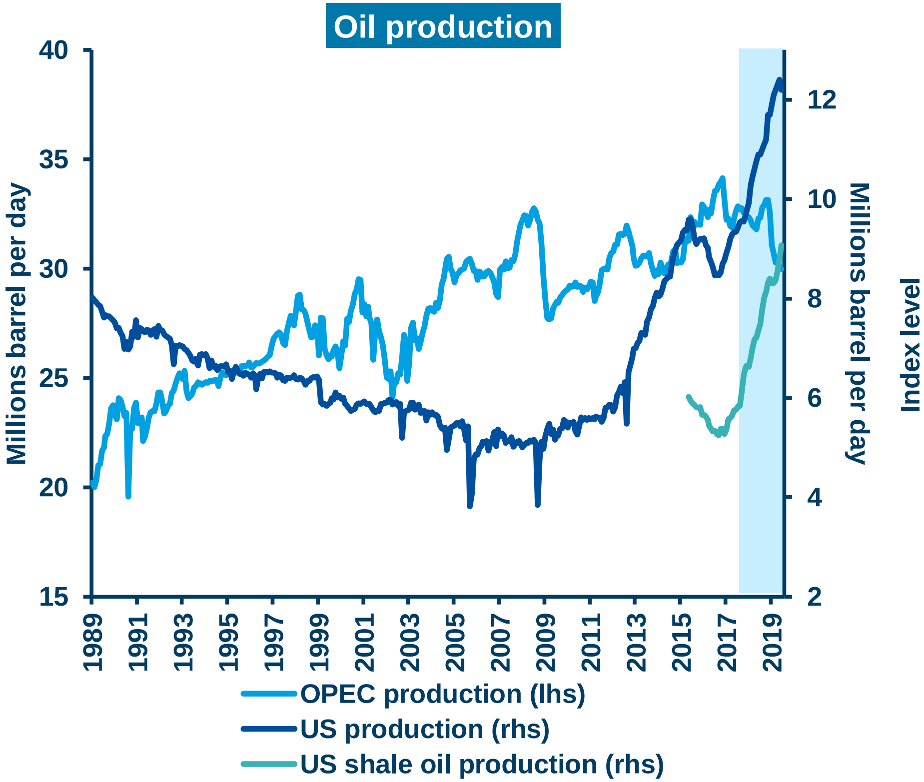


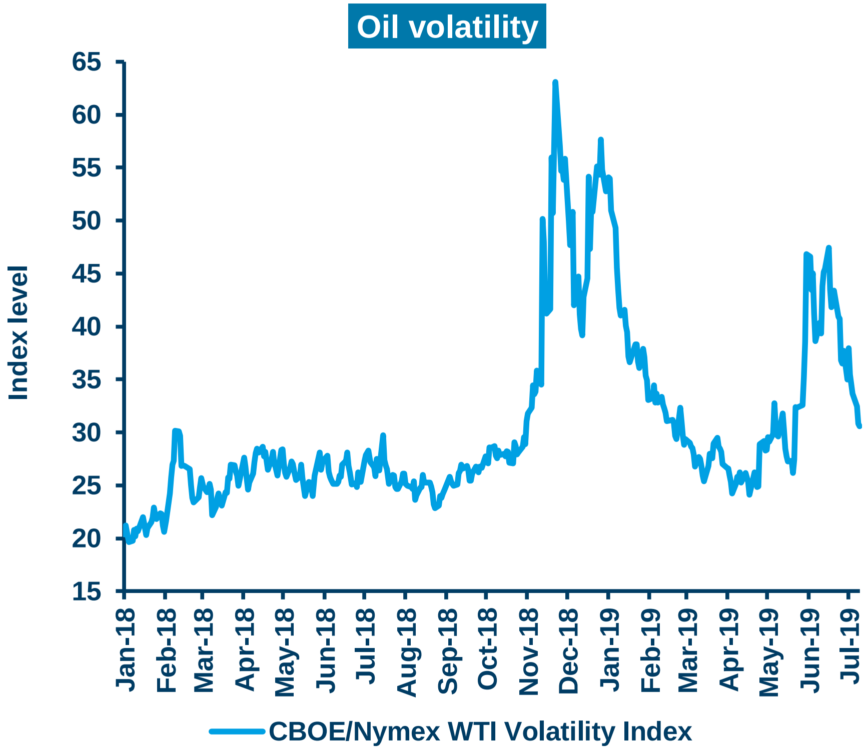
» Inflation is still subdued, especially in the Eurozone, where no catalyst looks likely to support a rebound in inflation in the short term. A rise in energy prices may drive inflation expectations upwards.

Source: Bloomberg, Amundi. As of 8 July 2019.

Source: Bloomberg, Amundi. As of 10 July 2019.

Oil: volatility falls despite US-Iran tensions





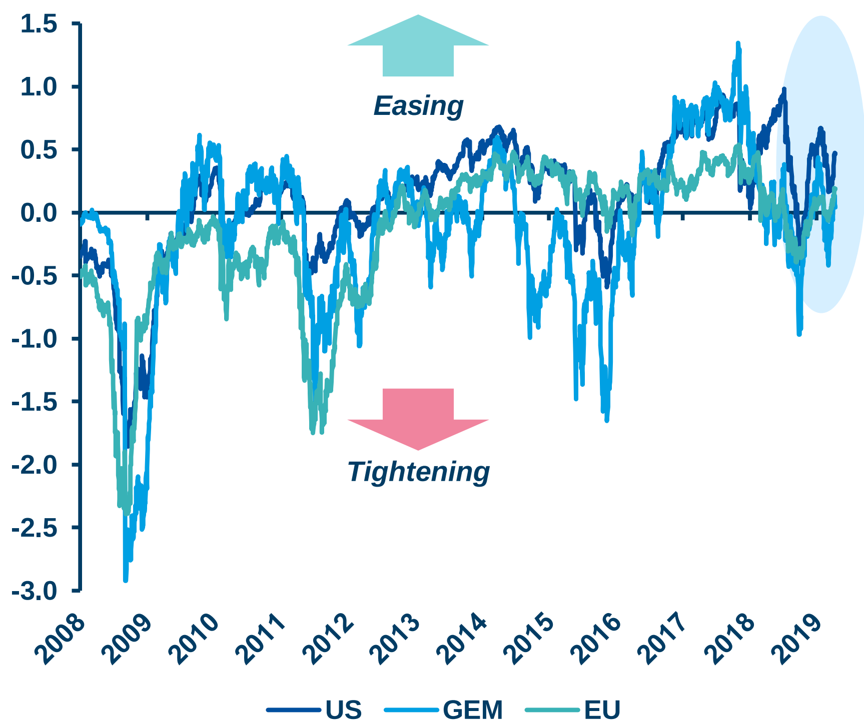
» Despite US/Iran tensions have intensified over the last weeks, oil price volatility collapsed. Crude oil price has jumped after OPEC+ countries announced an extension to production cuts and US crude inventories shrank. We keep our 12M WTI oil forecast at $55-65 range a barrel.

Source: U.S. Energy Information Administration, Amundi. Data as of 10 July 2019.

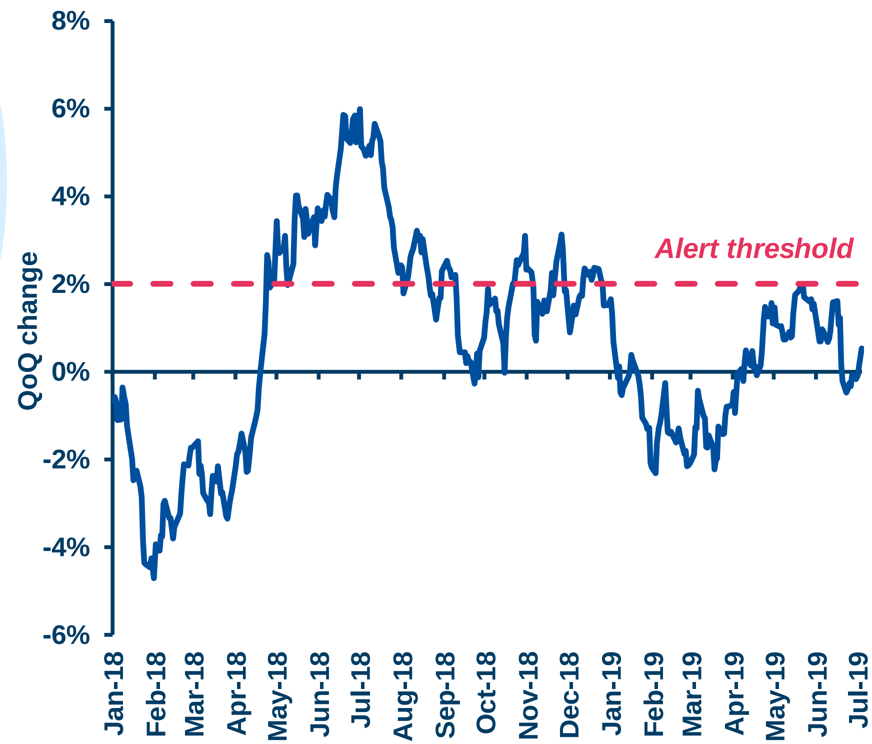
Source: Amundi, Bloomberg. Data as of 10 July 2019.

A relaxation in financial conditions

Amundi financial condition index



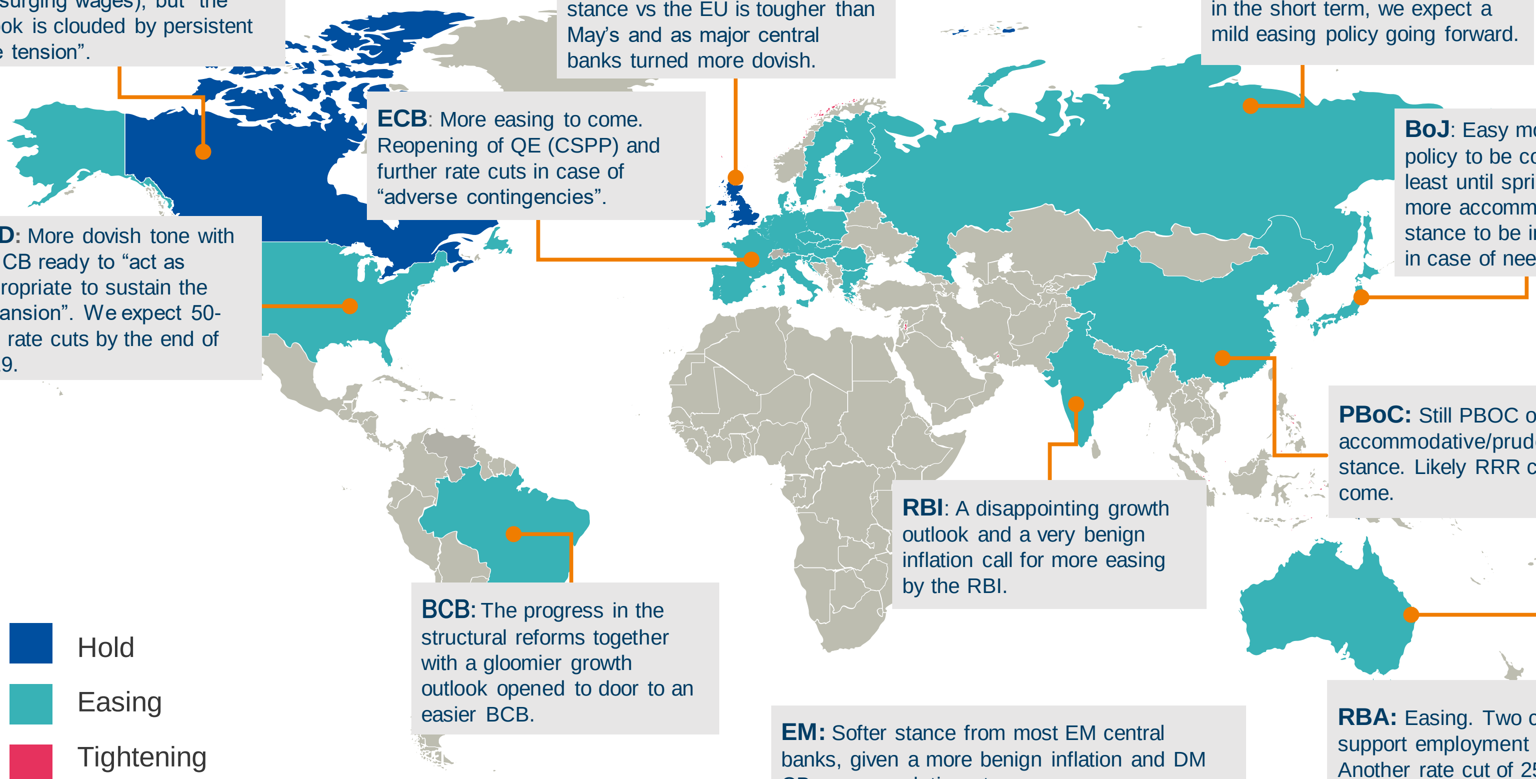
US TW$ Broad



» Financial conditions bounced back to easing territory as the market read positively the constructive G20 outcome, and this should support a stabilization of economic conditions.

Source: Amundi Research, Bloomberg. Data as of 10 July 2019. The Financial Condition Index tracks the overall level of financial stress in the money, bond, and equity markets to help assess the availability and cost of credit in the specific geographic area. A positive value indicates accommodative financial conditions, while a negative value indicates tighter financial conditions relative to pre-crisis norms.

Across the board, central banks too(?) dovish



BOC: On hold. Good domestic conditions (low unemployment and surging wages), but “the outlook is clouded by persistent trade tension”.

FED: More dovish tone with the CB ready to “act as appropriate to sustain the expansion”. We expect 50-bps rate cuts by the end of 2019.

BoE: Chances of getting a rate cut have increased as Johnson’s stance vs the EU is tougher than May’s and as major central banks turned more dovish.

ECB: More easing to come. Reopening of QE (CSPP) and further rate cuts in case of “adverse contingencies”.

CBR: Coherently with the CBR view of abating risks of inflation in the short term, we expect a mild easing policy going forward.

BoJ: Easy monetary policy to be continued at least until spring 2020. A more accommodative stance to be implemented in case of need.

PBoC: Still PBOC on an accommodative/prudent stance. Likely RRR cuts to come.

RBI: A disappointing growth outlook and a very benign inflation call for more easing by the RBI.

BCB: The progress in the structural reforms together with a gloomier growth outlook opened to door to an easier BCB.

EM: Softer stance from most EM central banks, given a more benign inflation and DM CB accommodative stance.

RBA: Easing. Two cuts this year to support employment and inflation. Another rate cut of 25 bps is expected by year-end if domestic situation does not improve.

Source: Amundi, as of 16 July 2019. Indicative map for monetary policies. A reduction or end of quantitative easing interpreted as tightening. Fed: Federal Reserve; BoE: Bank of England; PBoC: People Bank of China; BoJ: Bank of Japan; BCB: Central bank of Brazil; CBR: Central Bank of Russia; ECB: European Central Bank; RBI: Reserve Bank of India. RRR: reserve requirement ratio. CSPP: Corporate Sector Purchase Programme.

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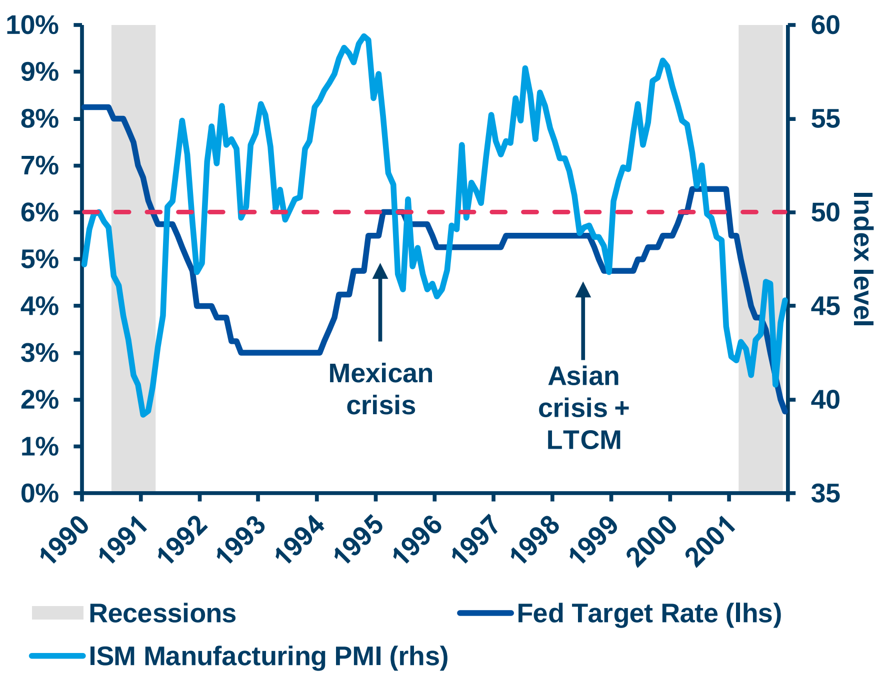
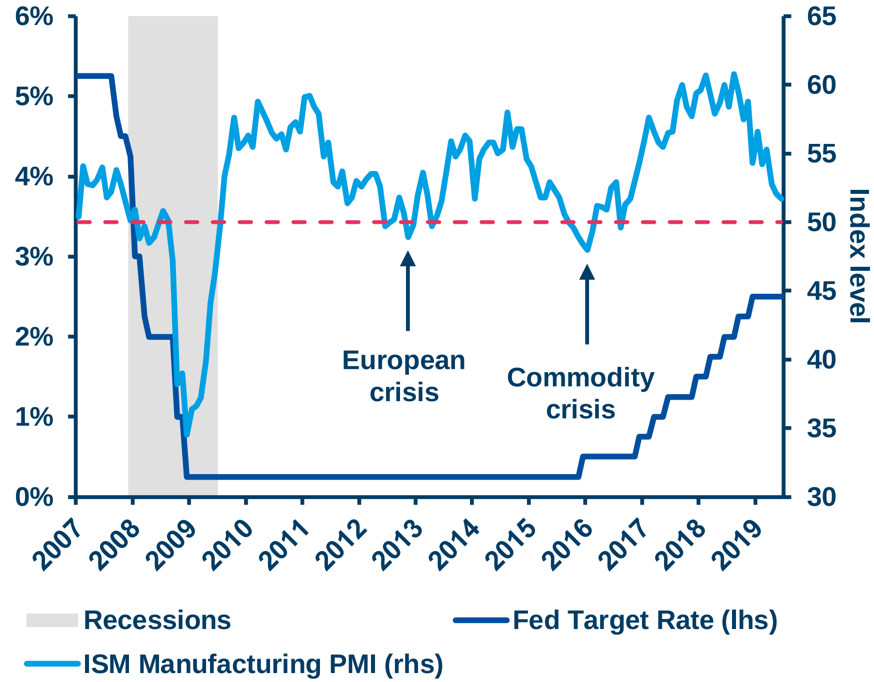
A “pre-emptive” Fed should prolong the cycle

ISM Manufacturing and the Fed in the '90s



Source: Bloomberg, Amundi Research. Data as of 8 July 2019.

ISM Manufacturing and the Fed since 2007



Source: Bloomberg, Amundi Research. Data as of 8 July 2019.

» A manufacturing recession does not always mean a general recession. In the mid 1990s and in 1998, the Fed cut rates by 75 bps (as ISM was < 50) and eventually prolonged the cycle. Today, the yield curve inversed, which means that the neutral rate has probably been reached. Given, the deflationary risk (a big difference vs. the 1990s), the Fed has decided to be preventive.

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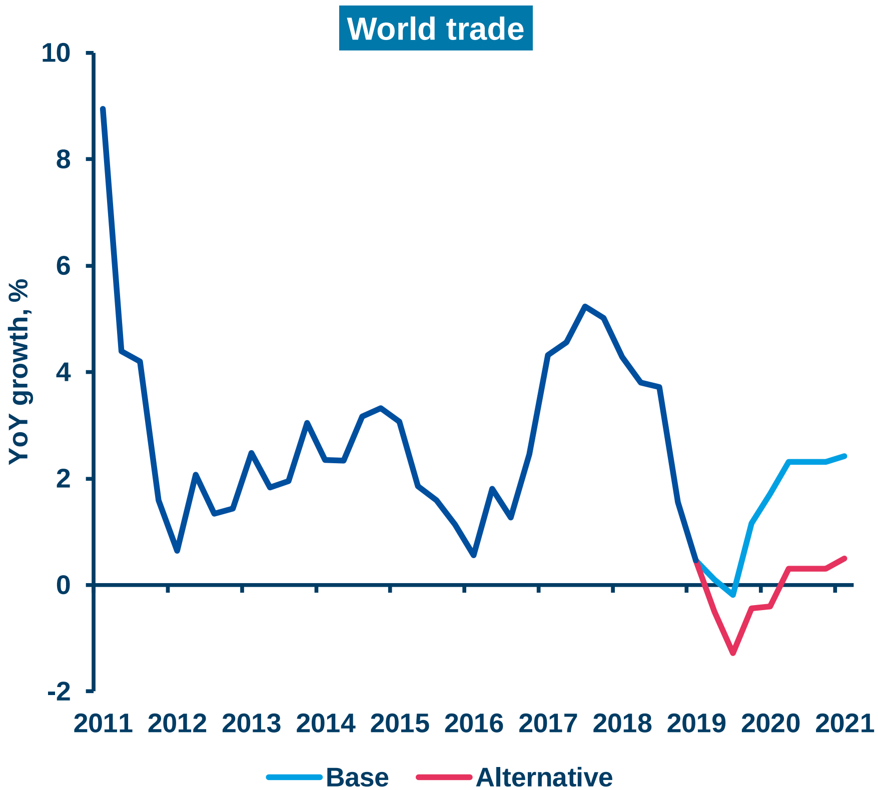
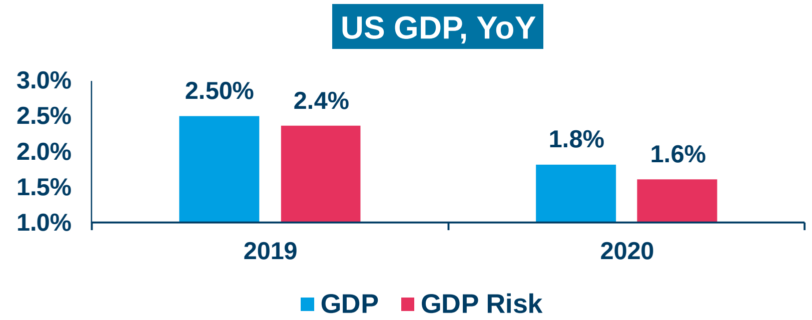
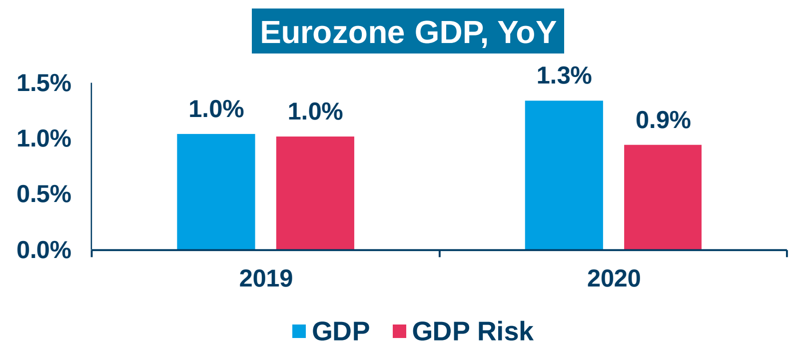
World trade: weaker growth would harm GDP growth







» The G20 meeting outcome gave some relief to world trade as US and China resumed talks. No new tariff implementation and the relaxation of the ban on Huawei improved sentiment, although a US-China trade agreement does not look imminent. In a scenario with slower world trade and no further escalation, US and EZ reach below potential growth.

Source: Amundi, CPB World Trade Monitor. Data as of 8 July 2019.

Source: Bloomberg, Amundi Research. Data as of 8 July 2019.

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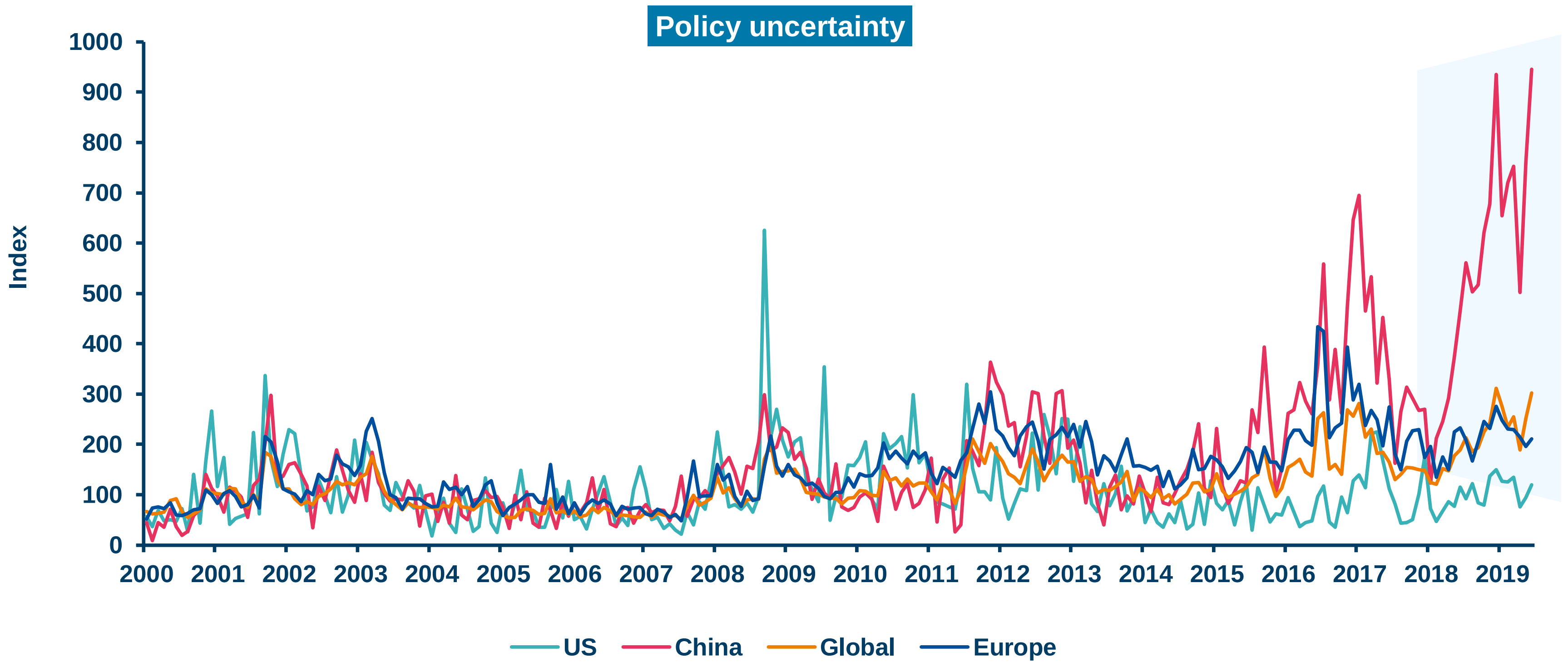
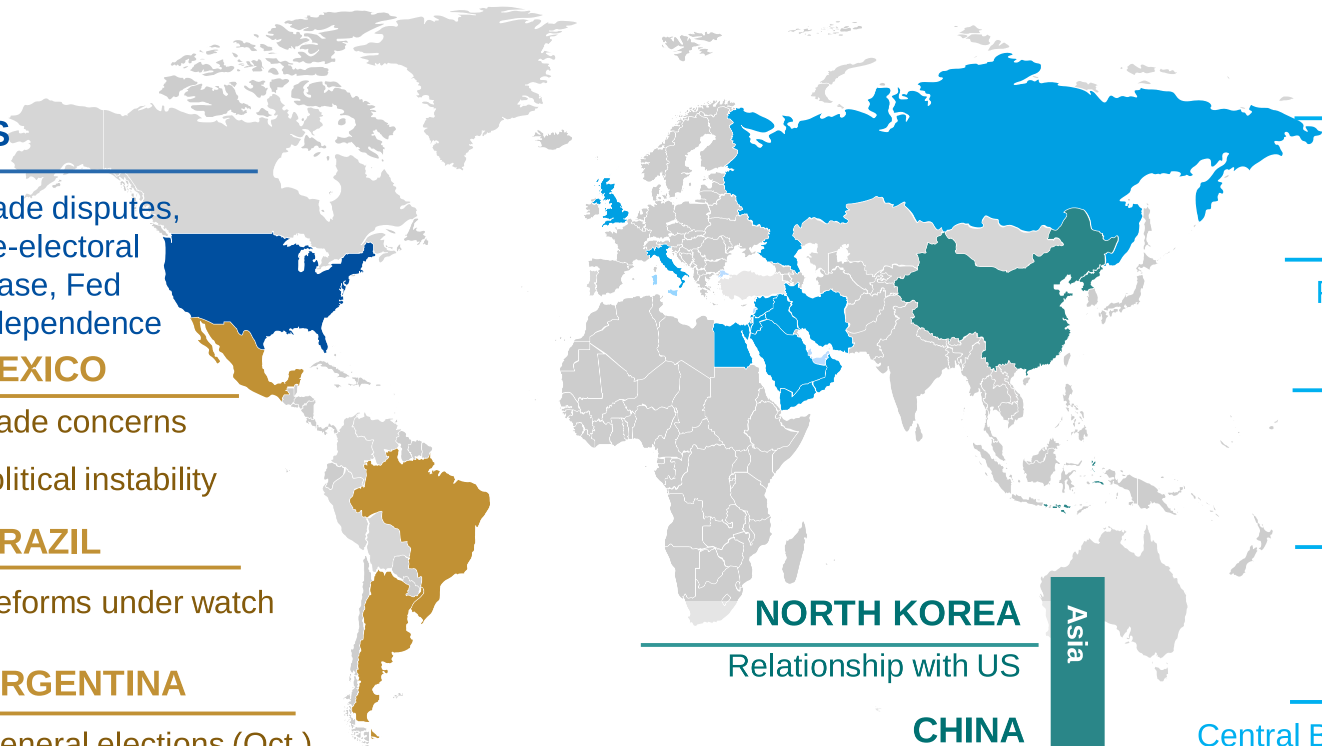
Policy uncertainty spikes after a temporary relief



Global policy uncertainty increased overall in June, notwithstanding the US-China trade truce at the G20 meeting. Global trade disputes, Gulf tensions, European fragmentation are some of the geopolitical risks in the spotlight.

Sources: Bloomberg, Amundi. As of 10 July 2019.

Main (geo) political themes to watch in 2H 2019



North America

US

Trade disputes, pre-electoral phase, Fed independence

Latin America

MEXICO

Trade concerns

Political instability

BRAZIL

Reforms under watch

ARGENTINA

General elections (Oct.)

Asia

NORTH KOREA

Relationship with US

CHINA

Trade dispute with the US

JAPAN/SOUTH KOREA

Escalation of trade tensions

EMEA

EU

Fragmentation

ITALY

Political uncertainty

UK

Brexit deal

RUSSIA

Sanctions

TURKEY

Central Bank independence

MIDDLE EAST

US-Iran tensions

Source: Amundi, as of 16 July 2019.

Geo (politics) and liquidity at the top of investor concerns

Geo (political) risks (China/US, US/Iran, Brexit, Mexico, Turkey)

Risk premium repricing / market liquidity

CB policy mistakes

Trade war

High debt

Demographics

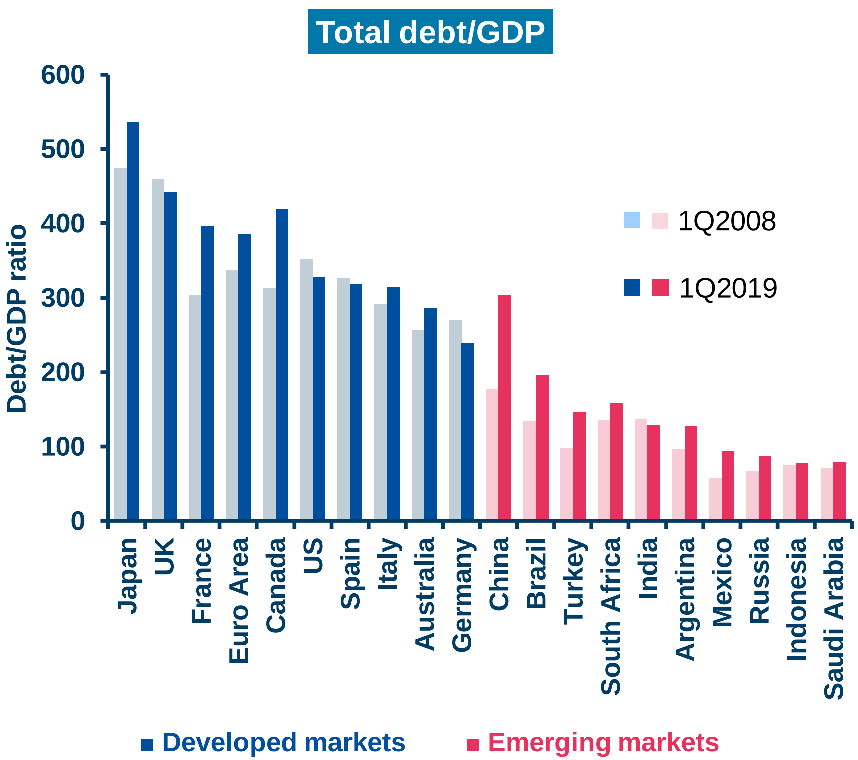
Low productivity

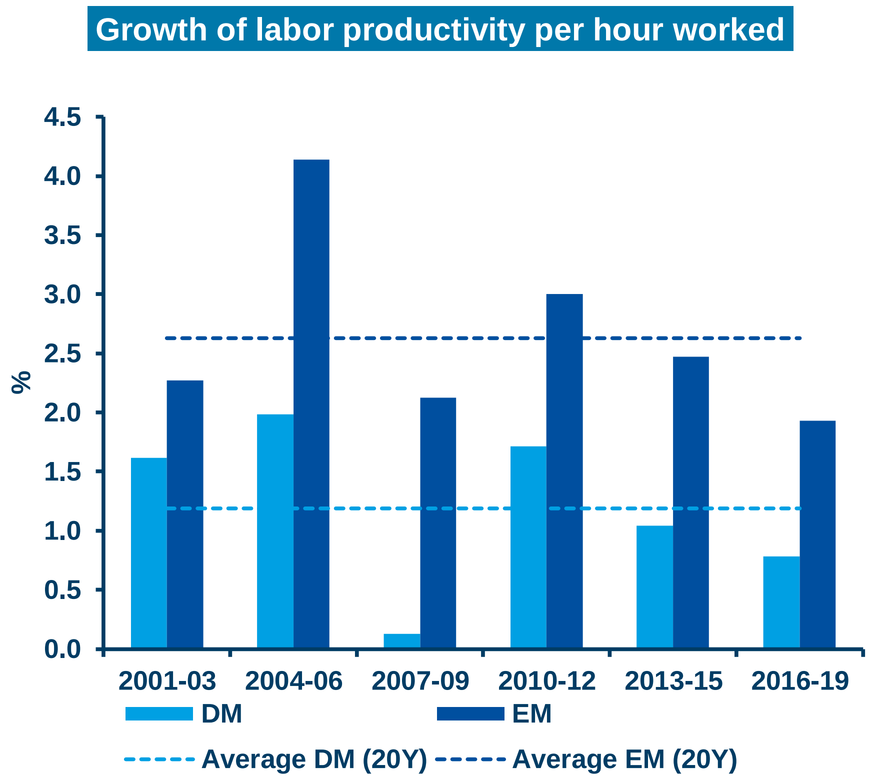
Economic transition in China

» The growing dominance of global trade disputes and political uncertainties is affecting the short-term economic outlook. CBs are very dovish – maybe too dovish and market expectations went too far. Volatility related to CB policy actions will likely increase again. In the medium term, the threat of debt sustainability has to be considered as well as protectionist forces.

Source: Amundi, as of 16 July 2019.

Global debt high, productivity remains weak



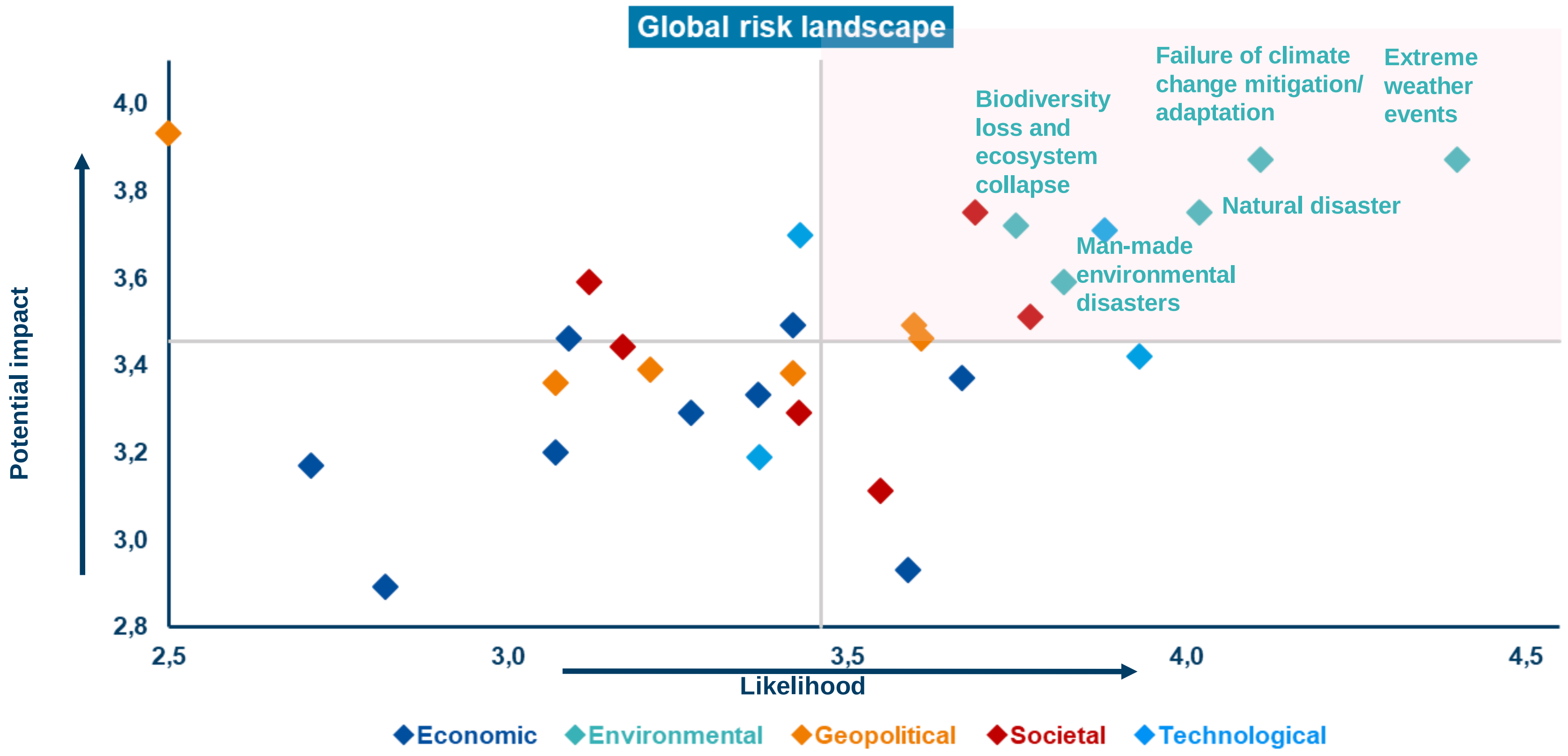


» Total debt continued to grow for most DM and EM countries after the Great Financial Crisis. Global productivity growth will continue to slow through 2019. This may explain, in part, why growth for the global economy is disappointing and overall financial vulnerability has increased in recent years.

Note: Total debt is the sum of government debt, household debt, financial sector debt and non-financial corporates debt. Source: Amundi elaboration on IIF data, as of 15 July 2019.

Source: The Conference Board Total Economy Database, Amundi. Data as of 2 May 2019.

Climate societal issues perceived as major LT risks



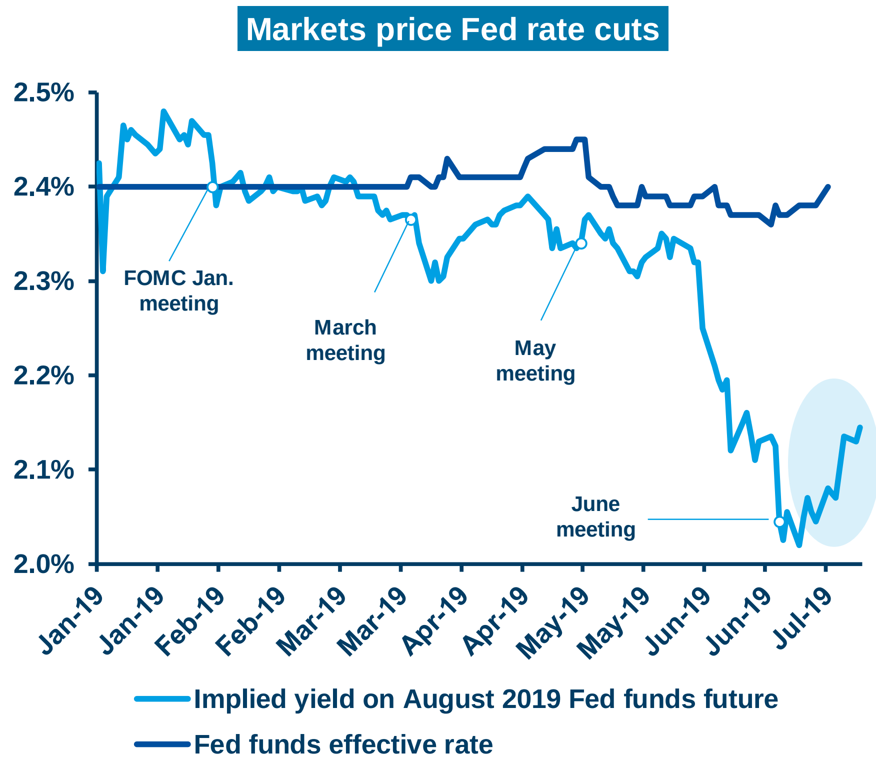
For the next 10 years, climate and societal-related risks are among the top key concerns for investors.

Source: World Economic Forum Global Risks Perception Survey 2018–2019 Global Risks Perceptions Survey, which is completed by around 1,000 members of WEF multistakeholder communities. Note: Survey respondents were asked to assess the likelihood of the individual global risk on a scale of 1 to 5, 1 representing a risk that is very unlikely to happen and 5 a risk that is very likely to occur. Participants also assess the impact on each global risk on a scale of 1 to 5 (1: minimal impact, 2: minor impact, 3: moderate impact, 4: severe impact and 5: catastrophic impact).

03

Regional economic outlook: mild slowdown across the board

PMIs data are pointing south, Fed ready to act



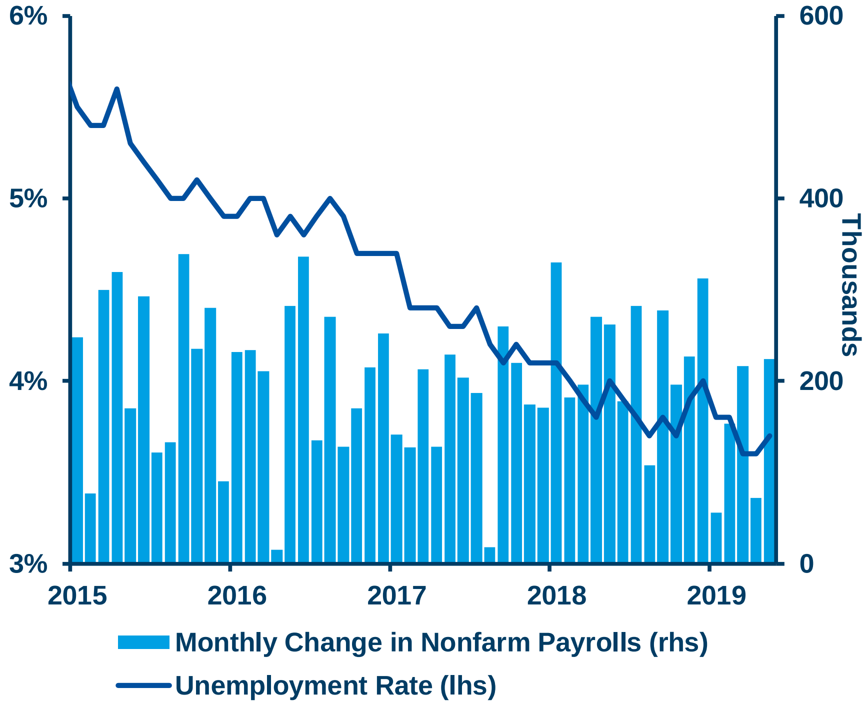
» Economic activity still remains in expansionary territory; however, ISM indexes has deteriorated since the beginning of the year. The Fed opened the door for a cut, but the market has gone very far in pricing the start of an aggressive easing cycle. Our expectations are for a 25 bps cut in July, more likely than 50bps.

Source: Bureau of Economic Analysis, Amundi Research. Data as of 30 June 2019.

Source: Bloomberg, Amundi. Data as of 10 July 2019.

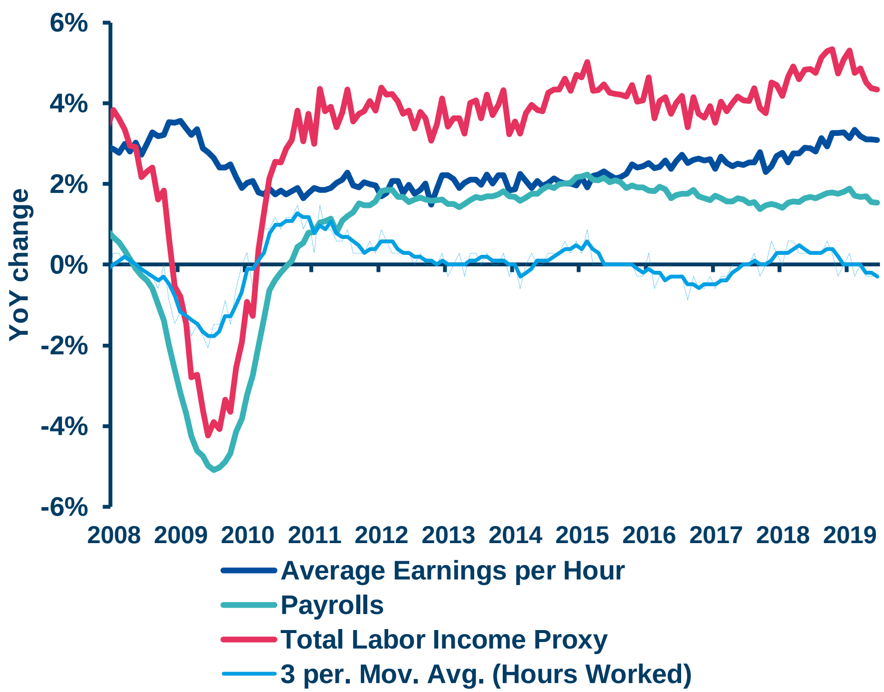
Job market supports consumption, but deceleration ahead

US payrolls and unemployment rate



Source: Bloomberg, Amundi. Data as of 10 July 2019.

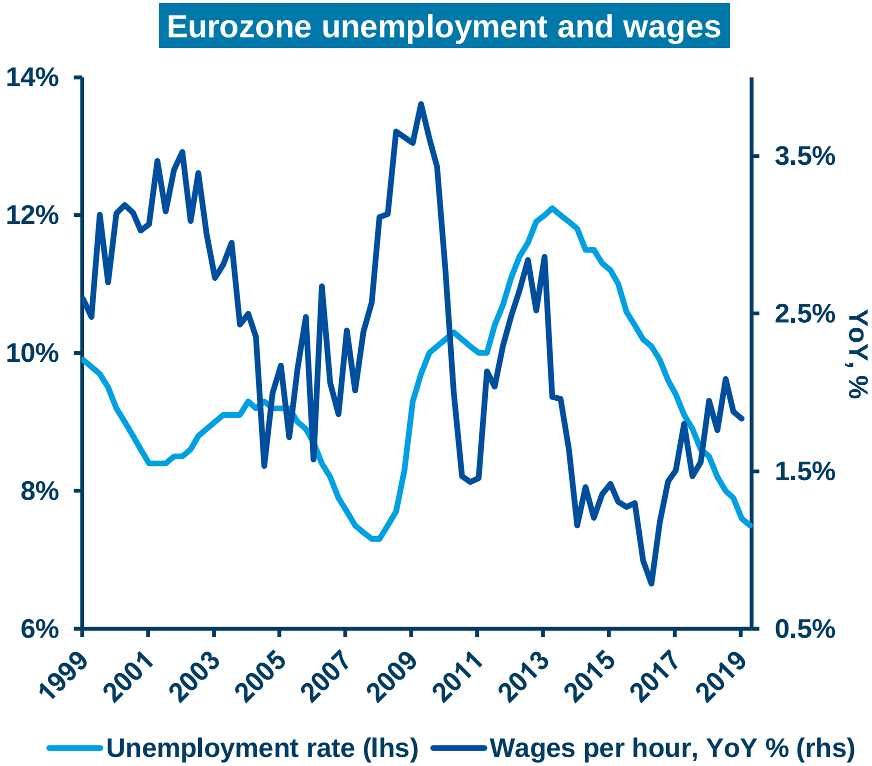
Total labor income proxy and components

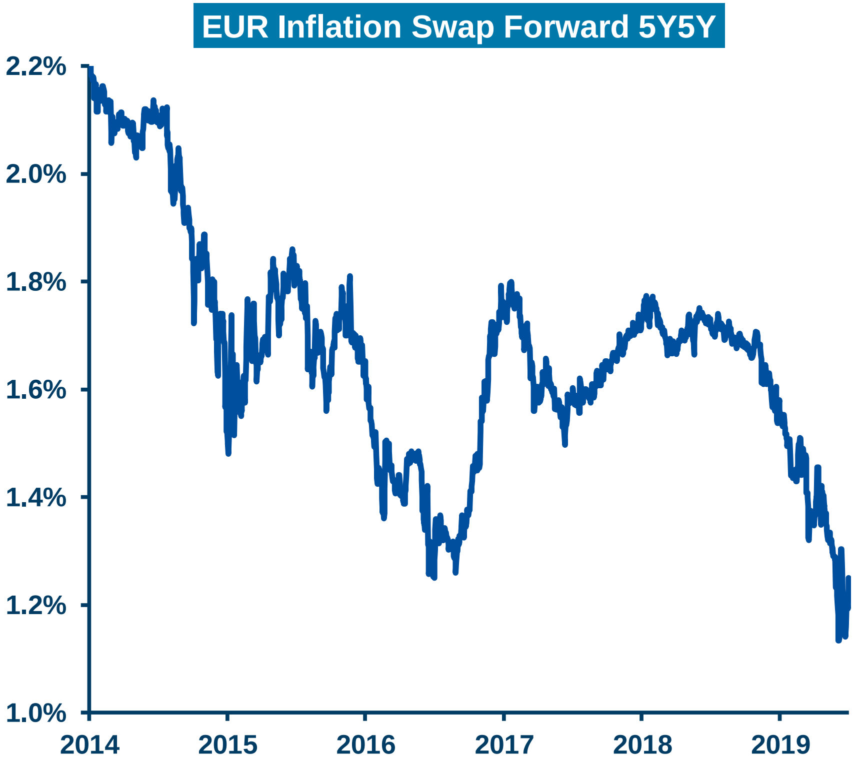


Source: Bloomberg, Amundi. Data as of 10 July 2019.

» Personal consumption still supported by a sound job market, but signs of likely deceleration ahead, as some job market components show moderation in growth.

Eurozone: domestic side improves, inflation exp. worsen





» Domestic demand should remain well supported by the strong labour market, some wage pick-up and fiscal expansion. However, Euro-area inflation expectations remain at record lows, adding further pressure to the ECB for policy action.

Source: Bloomberg, Amundi. Data as of 30 June 2019.

Source: Bloomberg, Amundi. Data as of 10 July 2019.

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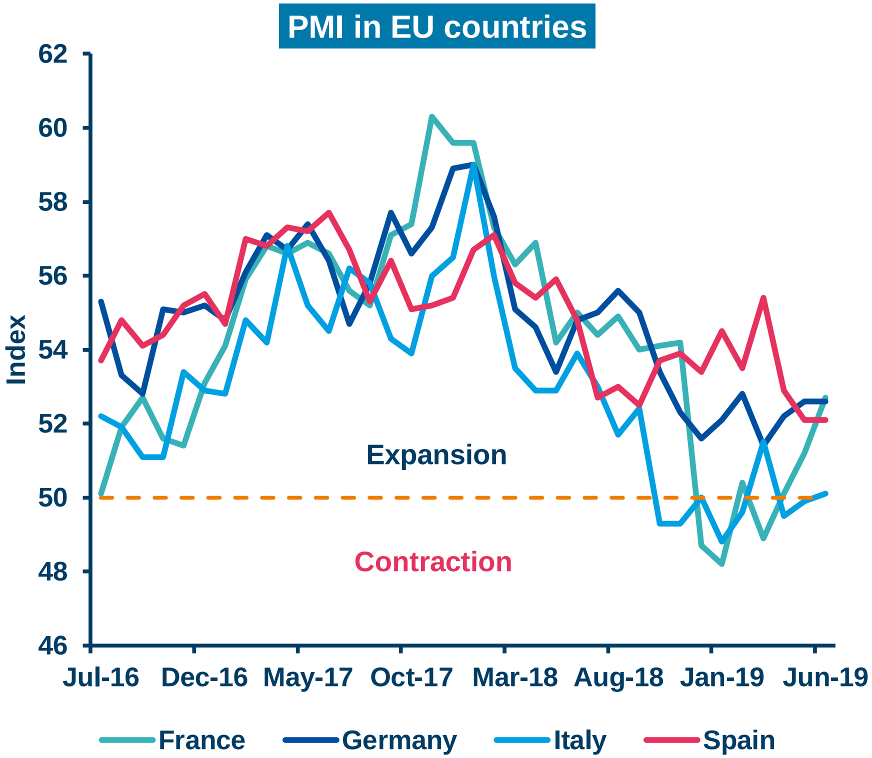
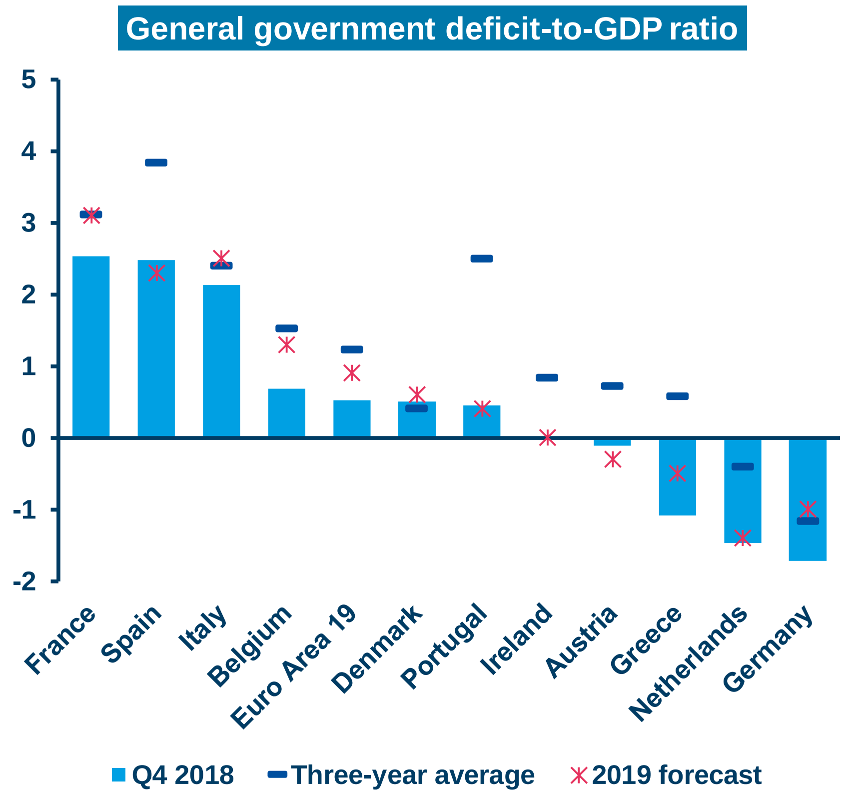
Fiscal support may counterbalance external weak spots





» Trade tensions and weaker global trade growth put pressure on exports and manufacturing sector sentiment. A possible relaxation of trade tensions in the short term and some fiscal expansion could ease that pressure somewhat.

Source: Datastream, Amundi Research EC projections as of 30 June 2019.

Source: European Commission, Amundi Data as of 10 July 2019.

Eurozone: new top roles and next timeline

SEP-OCT

- EU countries propose the commissioners-designate in close cooperation with the new President of the Commission
- **Hearings of the Commissioners-designate by parliamentary committes**

OCT-NOV

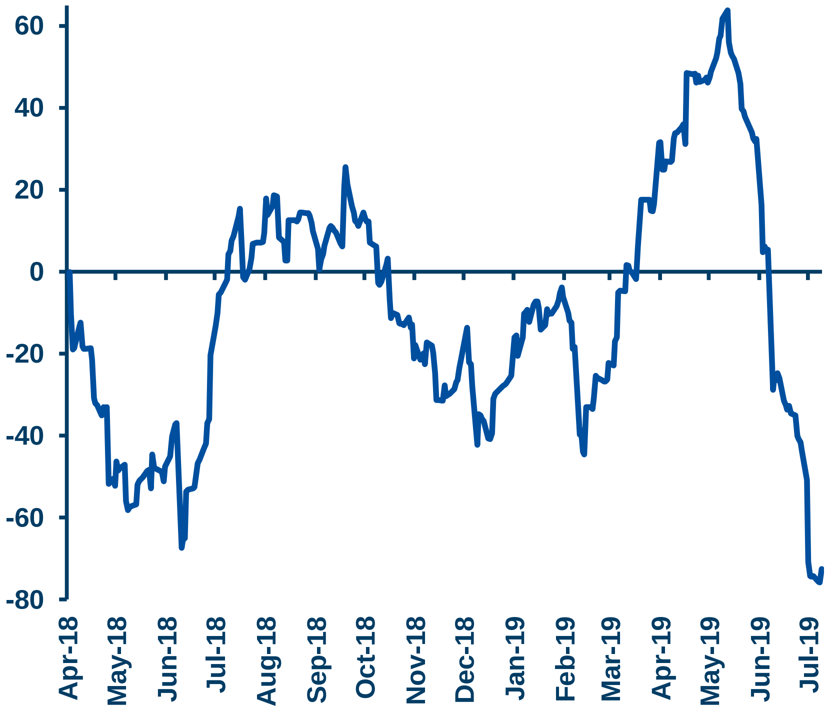
- **Vote by the European Parliament on the new Commission** (by a majority of the vote cast)

Inauguration of the new European Commission

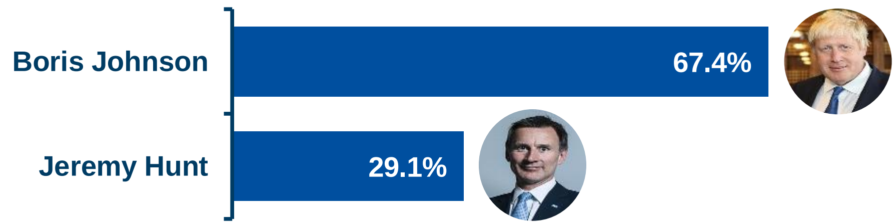
Source: European Parliament, Amundi As of 10 July 2019.

UK: is the economy gearing up for a no-deal scenario?

Citi UK Economic Surprise Index



Survey on who should be the next Tory Leader



JULY 6 — **Voting opened up** to the **Conservative Party's** 160,000 members

JULY 23 — **New leader expected to be announced**

JULY 25 — **Summer recess begins**

SEPT 29 – OCT 1 — **Tory Party conference**

» Market expectations on the UK economy collapsed in June due to Brexit uncertainty and global trade tensions. Economy is likely gearing up for a no-deal scenario as both candidates have taken a hawkish tone on the matter during the campaign and time may be out for negotiating a new deal.

Source: Amundi Research Data as at 10 July 2019.

Note: survey of 1,470 Conservative Party members.
Source: ConservativeHome survey data, BBC, Amundi. Data as at 5 July 2019.

UK: asset classes in different Brexit scenarios

Scenario	Ratified deal before Oct. 31	Further extension beyond Oct. 31	No-deal Brexit
Probability	**20%**	**50%**	**30%**
GBP/USD (range)	1.35 – 1.40	1.28 – 1.33	1.10 – 1.20
Stocks	Up – outperform	Flat – in line with other markets, higher volatility	Down in the short term with limited downside; possibly up in the long term
10Yr Gilts	Lower yields from dovish BoE	Yields following global trend; BoE incapable to act	Higher yields as weak currency does not allow BoE to cut rates & possible downgrade
2-10 Curve	Steepening	Following global trend	Steepening
Corporate spread	No impact	Small widening	Widening in € and £; UK consumer & auto worst from FX

Source: Amundi Research. Data as at 10 July 2019.

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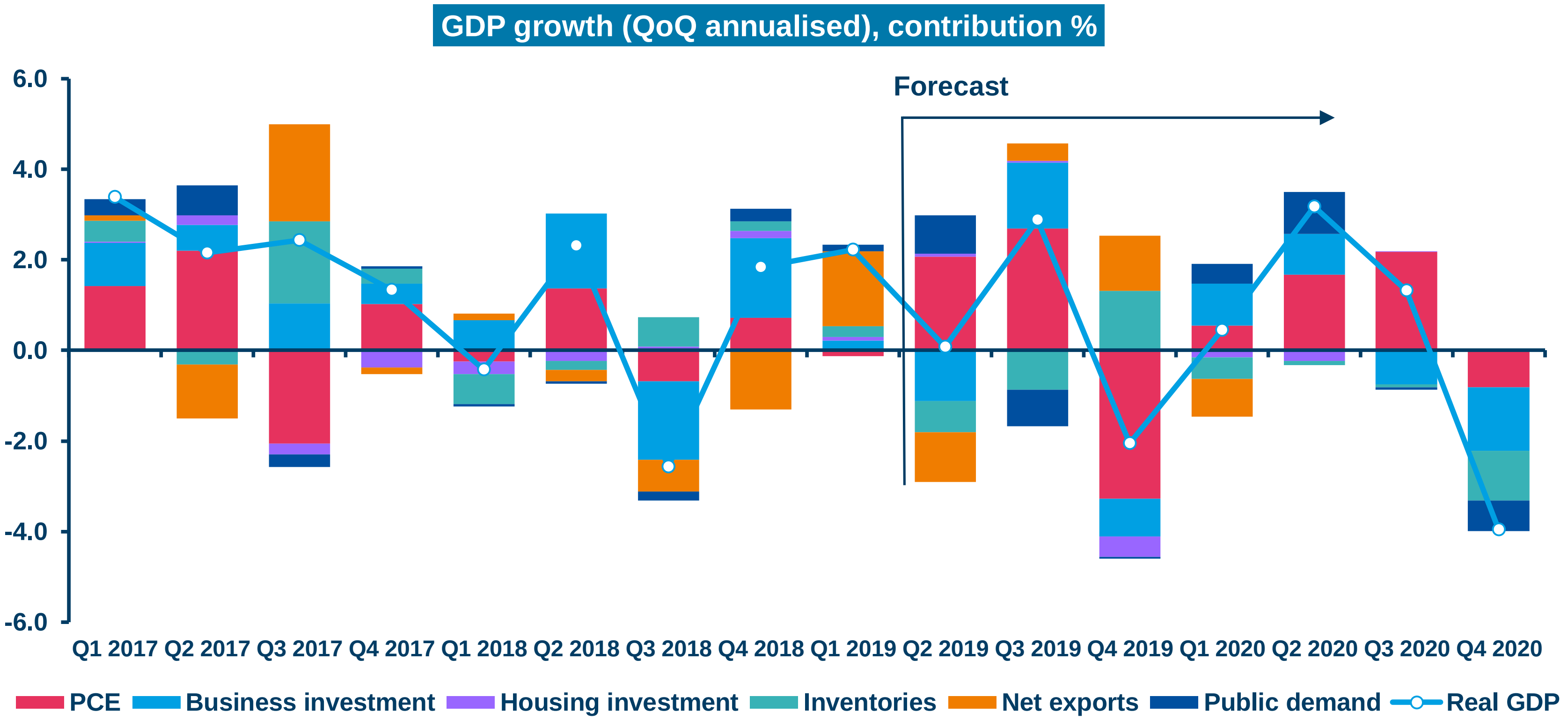
Japan: rush purchases boost growth

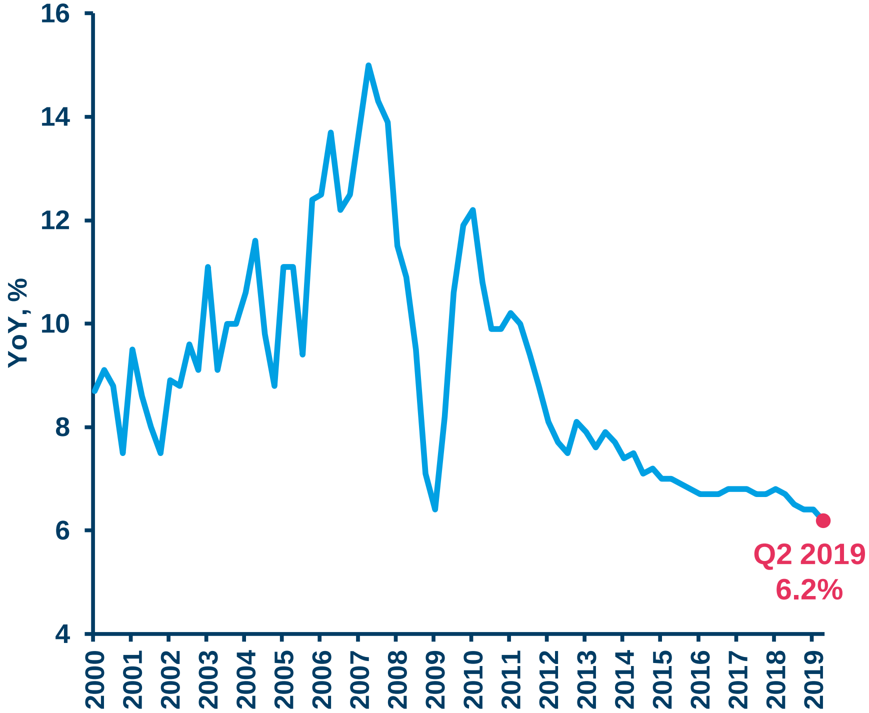


Domestic demand is expected to maintain momentum, partly supported by early purchases ahead of a VAT hike in October this year. Capital expenditure should hold up well, foreign demand will continue to face difficulties.

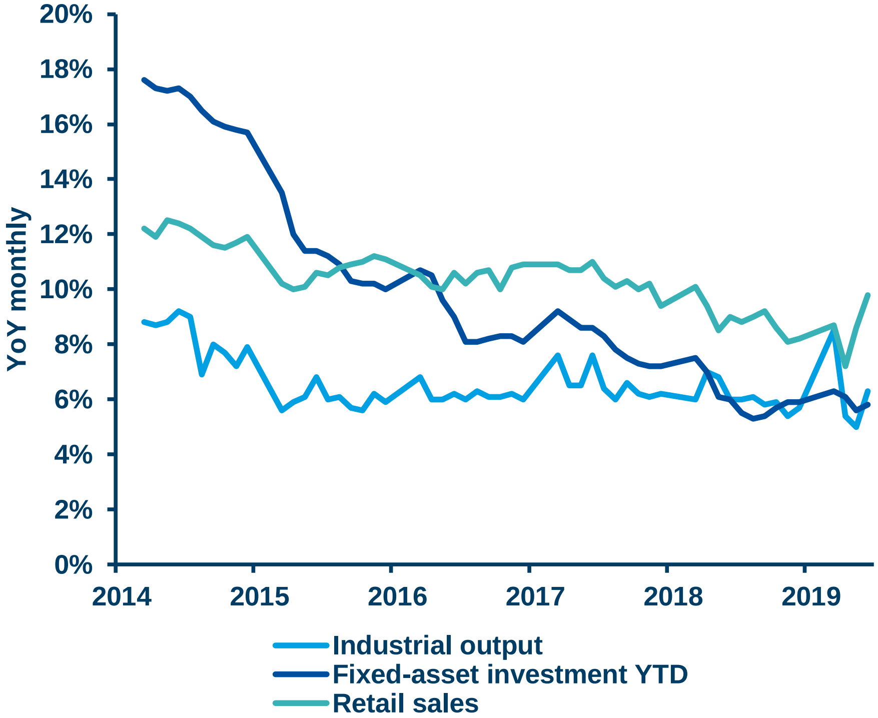
Source: Cabinet office, MOF, Amundi Research. Data as of 8 July 2019.

China: growth revised down but soft landing within reach

Real GDP growth



Industrial production, retail sales and investment

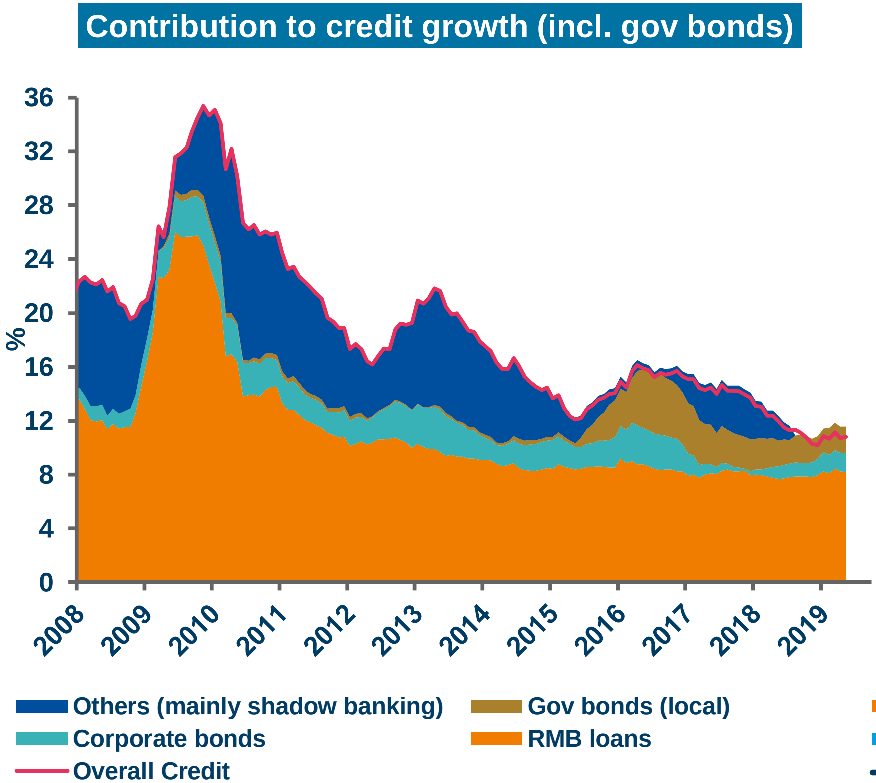


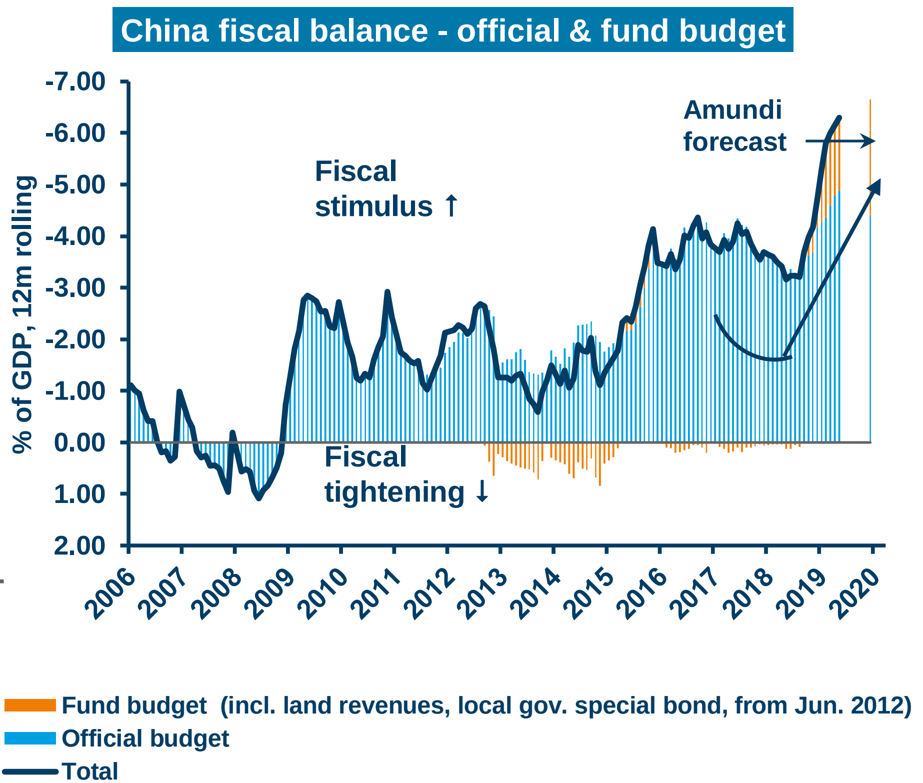
» In Q2 China GDP slips to record new growth, amid stabilization signs in industrial production, retail sales and investment. Activity in China's manufacturing sector contracted due to US tariffs. This may open the way for the China to stimulate further.

Source: Bloomberg, Amundi. Data as of 15 July 2019.

Source: National Bureau of Statistics, Amundi. Data as of 15 July 2019.

China: all kinds of policy measures on the table



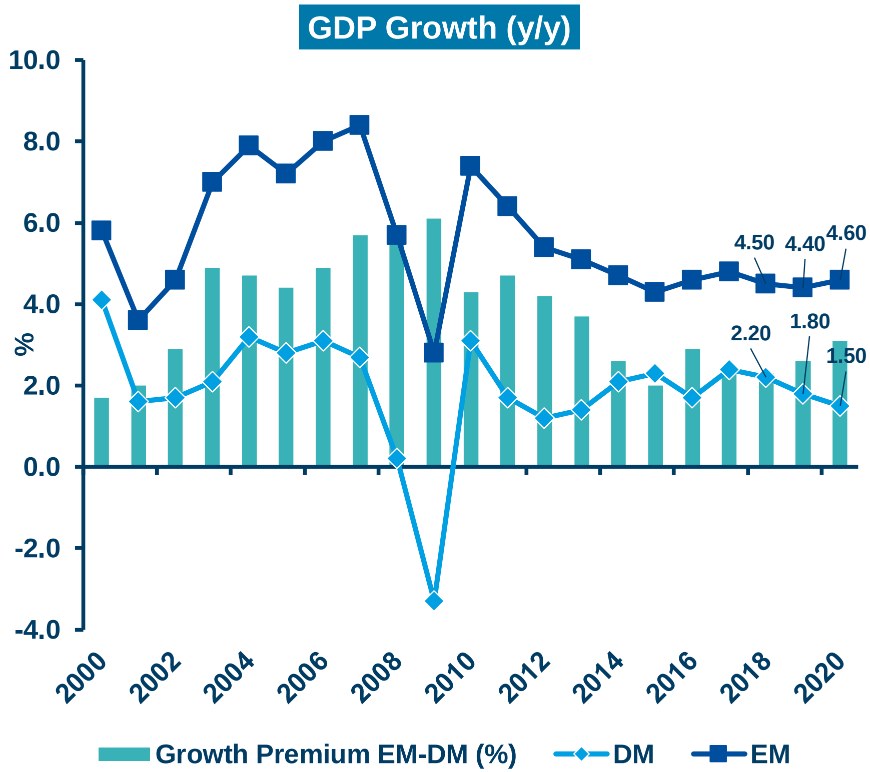


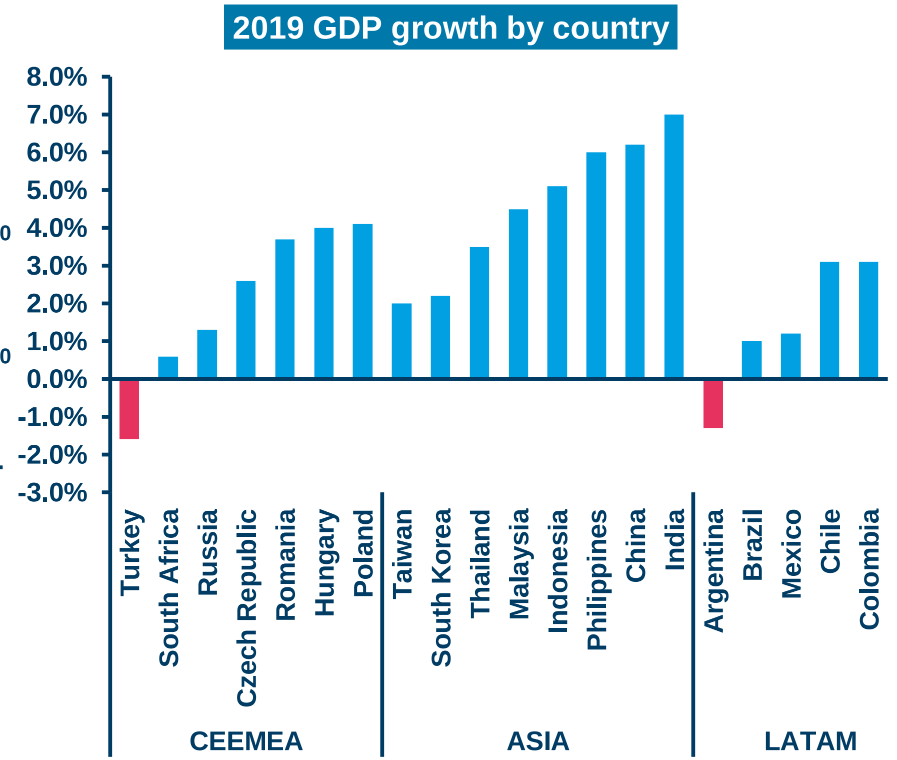
» Stimulus initiatives are gaining traction and will likely produce a growth stabilization with further targeted measures and reforms expected to be implemented. Credit growth is likely bottoming out and a dovish Fed could provide more space, if necessary.

Source: CEIC, Amundi Research. Data as of 8 July 2019.

Source: CEIC, Amundi Research. Data as of 8 July 2019.

EM: constructive outlook, divergences among countries





» Emerging Markets’ momentum accelerated in June thanks to easier liquidity conditions and more benign inflation. Growth projections are under pressure due to exports’ deterioration, but fundamental conditions remain relatively benign in aggregate. We expect GDP growth differentials vs DM to widen again starting from 2H19.

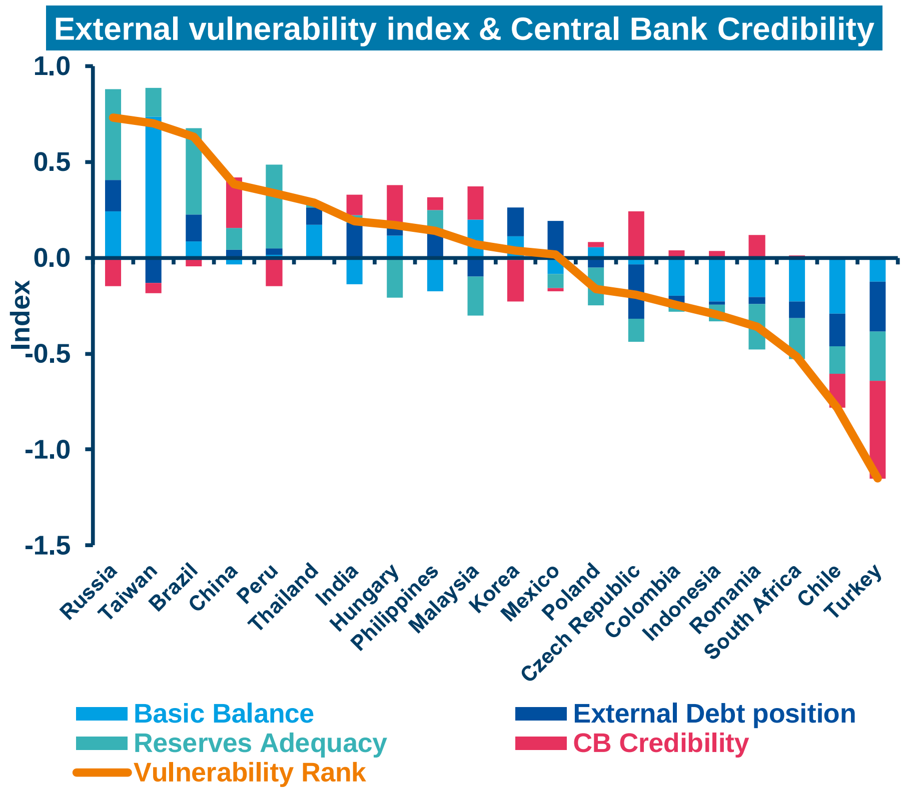
Source: IMF, Amundi Research forecasts for 2019 and 2020. As of 12 July 2019.

Source: Amundi Research, Bloomberg. Data as of 8 July 2019.

EM: watch vulnerabilities and fiscal/monetary policy

Monetary policy capacity	Fiscal capacity: Low	Fiscal capacity: Medium	Fiscal capacity: High
Low	**Colombia**	**Turkey**	**Chile**
Medium	**Hungary, Poland**	**India, Philippines, Mexico, S. Korea, Indonesia, S. Africa**	**Czech, Malaysia**
High	**Brazil**	**China, Malaysia**	**Russia, Peru, Thailand**

Fiscal Capacity: relative assessment on fiscal fragility based on 14 variables related to fiscal accounts in the short and long term horizon.
MP capacity: relative assessment based on External Vulnerability and inflation anchored. These are not predictions on next fiscal and monetary policies.



As the EM universe is varied, it is important to focus on countries with lower external vulnerability and fiscal/monetary room for manoeuvre to deal with further possible economic deterioration.

Source: Analysis by Amundi Research, CEIC. As of 16 July 2019.

Source: CEIC, Amundi Research. As of 12 July 2019.

Regional assessment: all about CBs and trade dynamics

Economy resilient, but challenges ahead

- Job report showed some mixed data, and it is key to look at possible spill overs to trade, investment and domestic demand
- Very dovish Fed; markets now do expect cut rates in July

Domestic demand is the bright spot

- Domestic demand is improving, but external weaknesses persist
- ECB reopens QE and further rate cuts in case of "adverse contingencies".
- New ECB appointment, Christine Lagarde, reinforces expectations of more monetary policy easing

Challenging political situation

- Market expectations for a UK economic collapse: looks like the economy is gearing up for a no-deal scenario
- Next prime minister will be announced on the 23rd of July. Boris Johnson is the runaway favourite
- BoE held interest rates unchanged, but chances of a rate cut increased

Weaker outlook, due to global trade dynamics

- Exports cripple but domestic demand maintains resiliency
- Global uncertainties do not hamper capital spending
- BoJ still in dovish stance and likely to continue gradual tapering

Strong policy action, amid tariff increases

- GDP growth slowed, with signs of stabilization
- All policy measures are on the table to avoid excessive deceleration. Soft landing still manageable
- PBoC will likely adopt more targeted RRR, if necessary.

EM: watch sensitivity to trade dynamics

- Growth projections are under pressure due to trade deterioration, but fundamentals are still good overall
- Countries with low external vulnerabilities and less exposed to trade disputes expected to benefit
- Central banks' monetary policies generally more neutral/dovish, thanks to the change in the Fed's stance

Source: Amundi Research, as of 15 July 2019.

04

Investment themes: a more fragile phase in the short term but the cycle can extend further

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Maintain a prudent and well diversified approach

1 DEFENSIVE RISK ALLOCATION IN A LATE CYCLE	We maintain an overall **cautious stance on risk assets**, as recent price actions suggest additional prudence. **Preference for credit and EMB vs DM equities**, increased **US duration**.
2 FIXED INCOME: ALL THE LEVERS AT PLAY	Central banks' action is supportive for credit (IG better than HY). Flattening in Euro, steepening in the US, subordinated debt, peripheral bonds, securitized debt are all levers to add value.
3 EQUITY: BUILD RESILIENT PORTFOLIOS	Look for a **defensive equity allocation** and exploit opportunities from **valuation dispersion** (i.e. some cyclical companies in Europe and US quality and growth stocks).
4 SEEK OPPORTUNITIES IN EMERGING MARKETS	A dovish Fed and a weaker USD should support EM assets. EM bonds are attractive for carry purposes. In equities, we favour domestic demand stories. Some possible pull-backs, from strong rally, could be seen as an opportunity to add to EM assets.
5 GEOPOLITICAL AND MARKET RISKS	Enhance sources of diversification and set structural hedges; focus on effective portfolio diversification, liquidity buffers.

Source: Amundi, as of 15 July 2019. Diversification does not guarantee a profit or protect against a loss. HC= hard currencies, LC= local currencies

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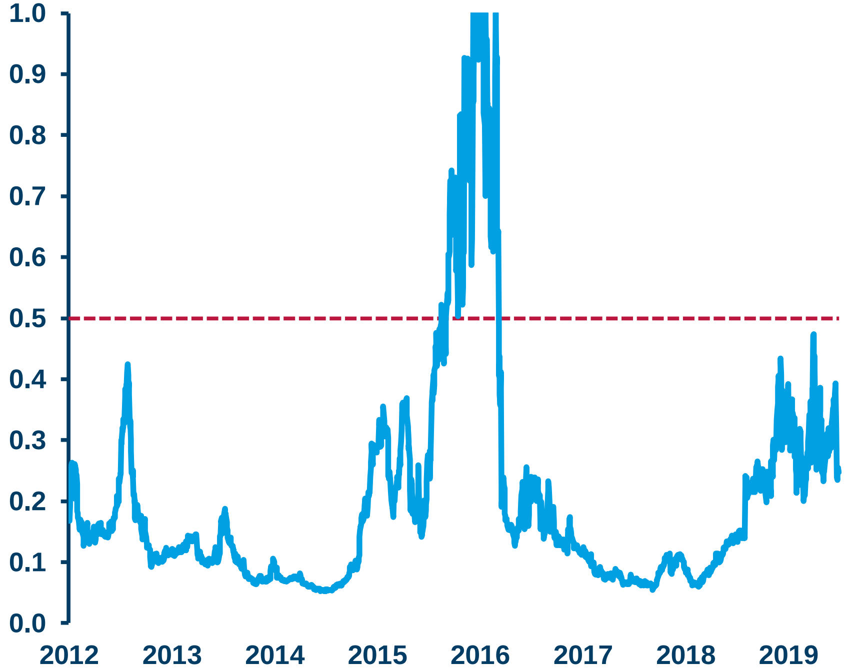
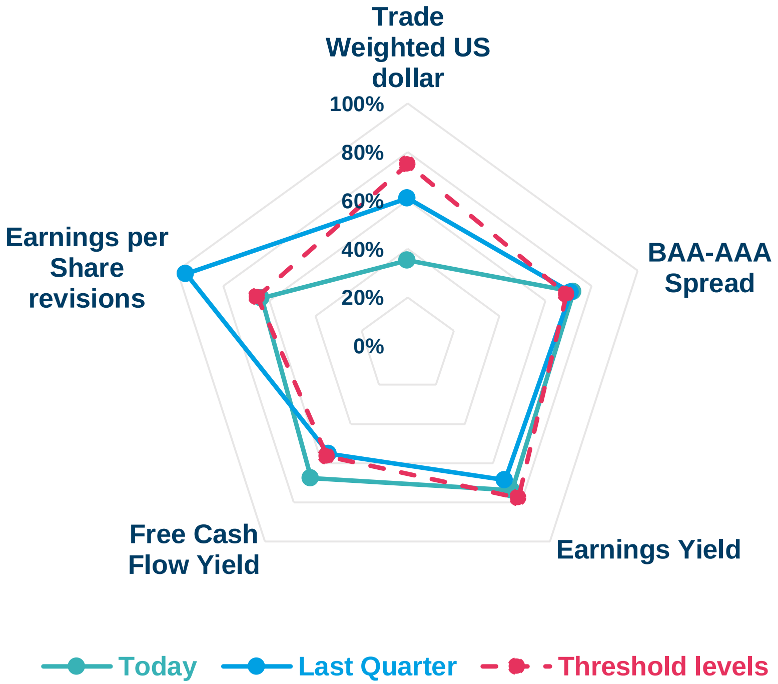
Key sentinels: no major alarms

Evolution of CAST probabilities



Cross Asset Sentinels Monitor



The Cross Asset Sentinel indicator (CAST) is a thermometer for risk-on/risk-off. At the moment, the indicator is below 0.5, with no major areas of alarm. Looking at its components, the trade weighted dollar "sentinel" showed the most significant improvements.

The CAST indicator is a model composed by 5 financial variables (reported on the pentagram on the right). A value below 0.5 is positive for risk assets; a value above 0.5 is positive for safe assets. Source: Amundi Research, Bloomberg. Data as of 8 July 2019.

Source: Amundi Research, Bloomberg. Data as of 8 July 2019.

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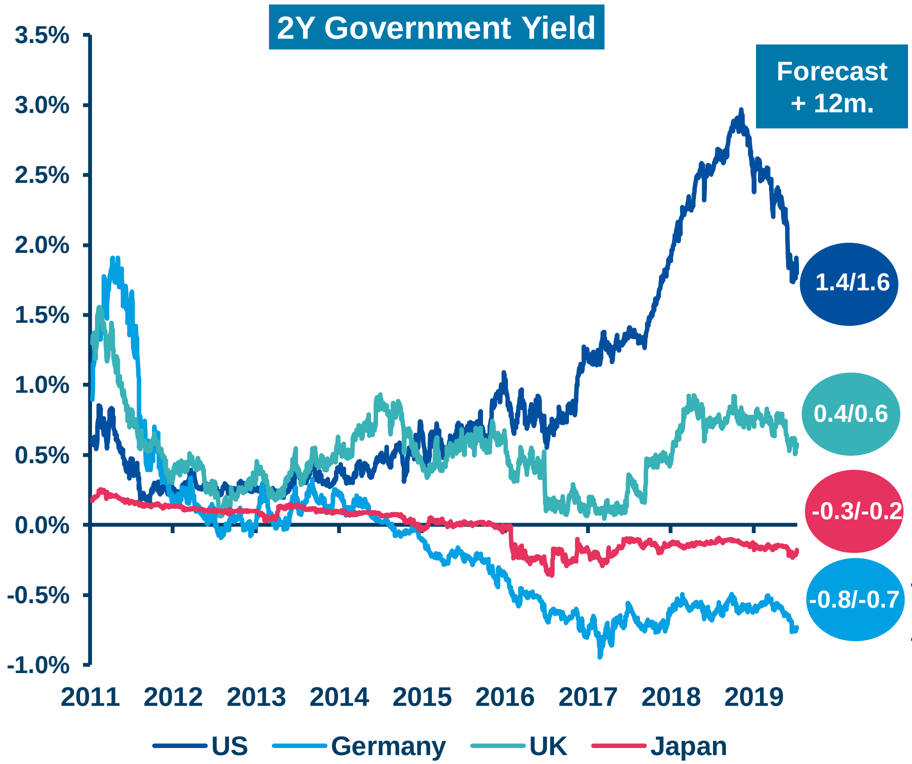
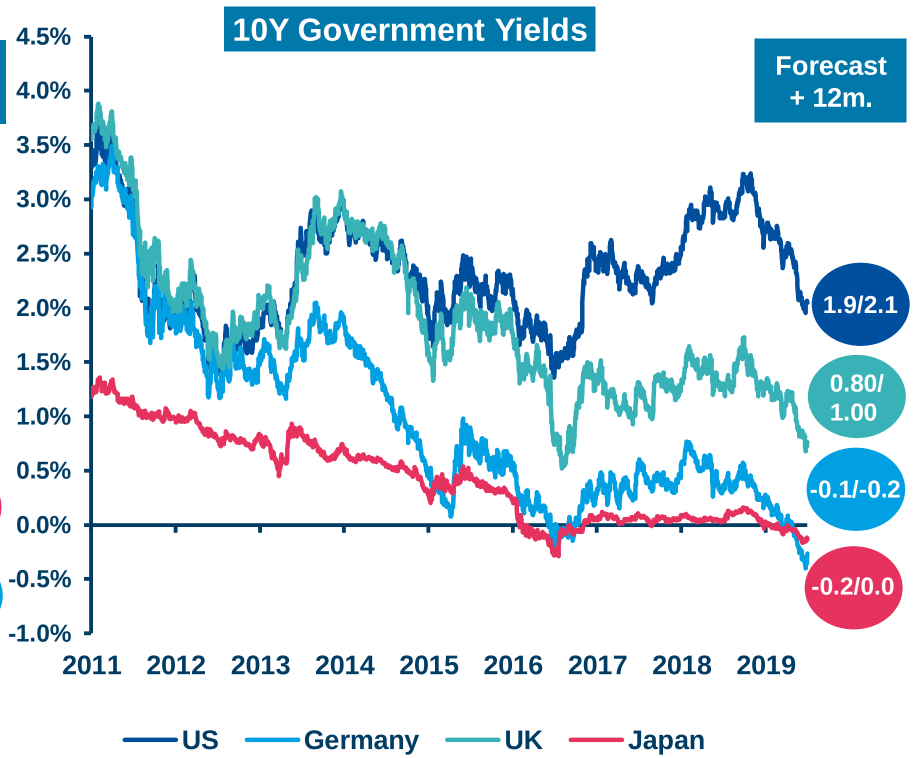
Falling core bond yields: demand for safety





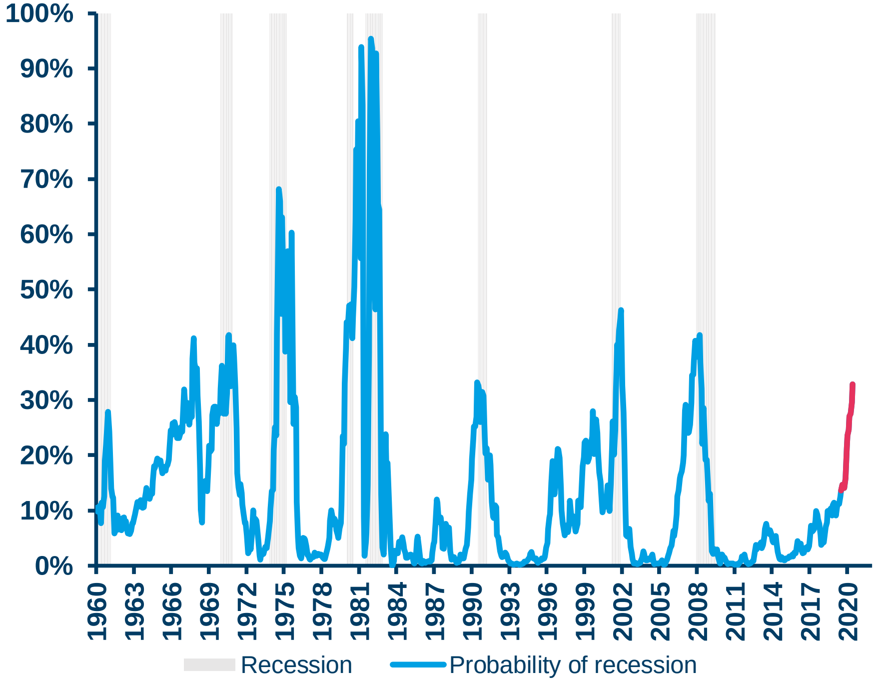
» Government bond yields across the world are falling, with the US 10Y Treasury yield around 2.0% and the German 10Y Bund in negative territory. The price for safety is high and it will likely remain so, as there is strong demand for safe assets and scarce supply. Investors should consider core bonds for liquidity purposes.

Source: Bloomberg, forecasts by Amundi Research. Data as of 10 July 2019.

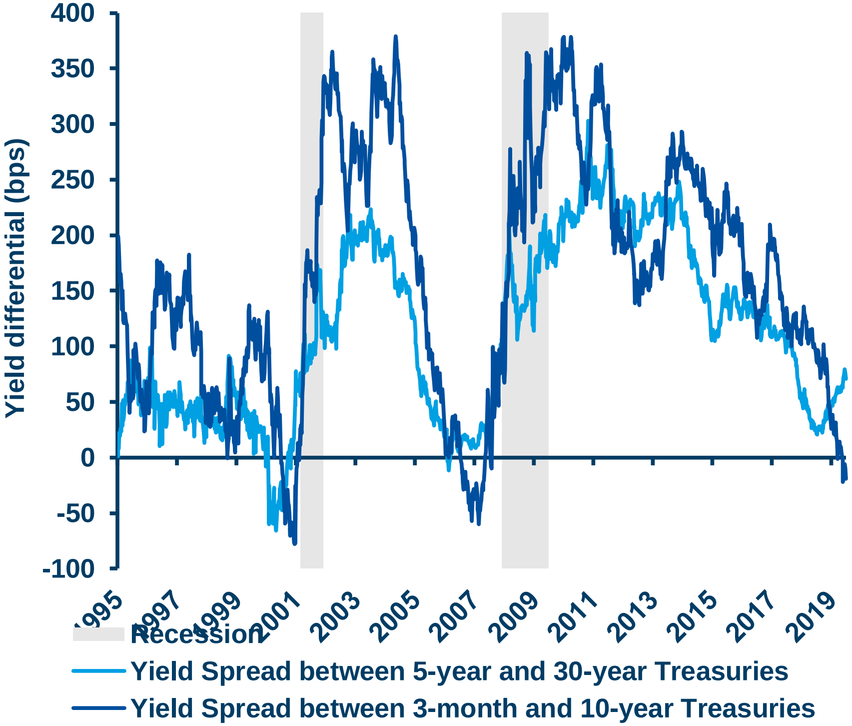
Source: Bloomberg, forecasts by Amundi Research. Data as of 10 July 2019.

US yield curve: from recession risk to bull steepening

NY Fed recession probability index



UST yield curves and US recessions

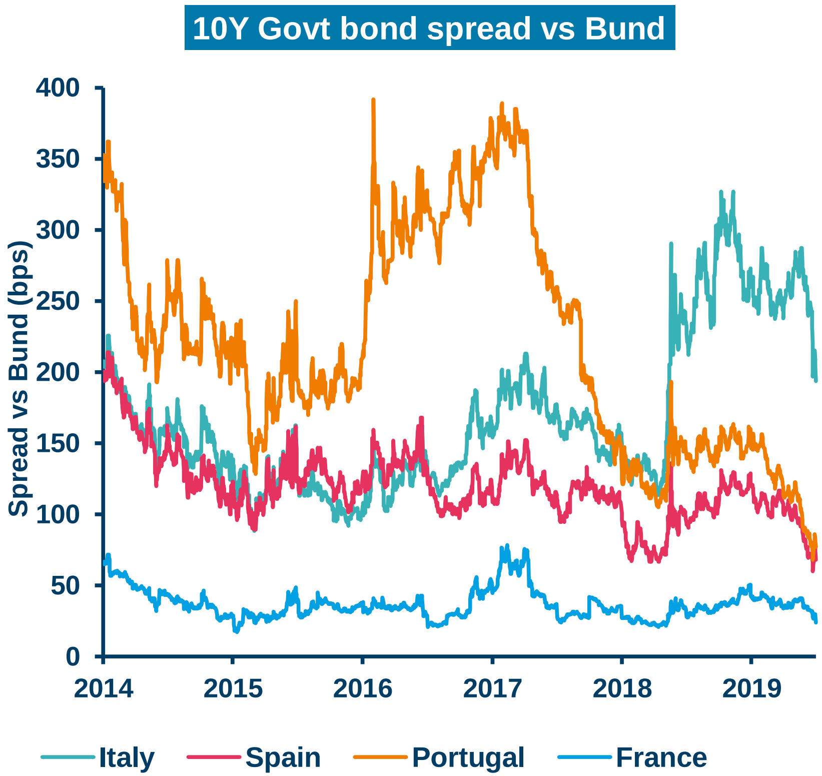


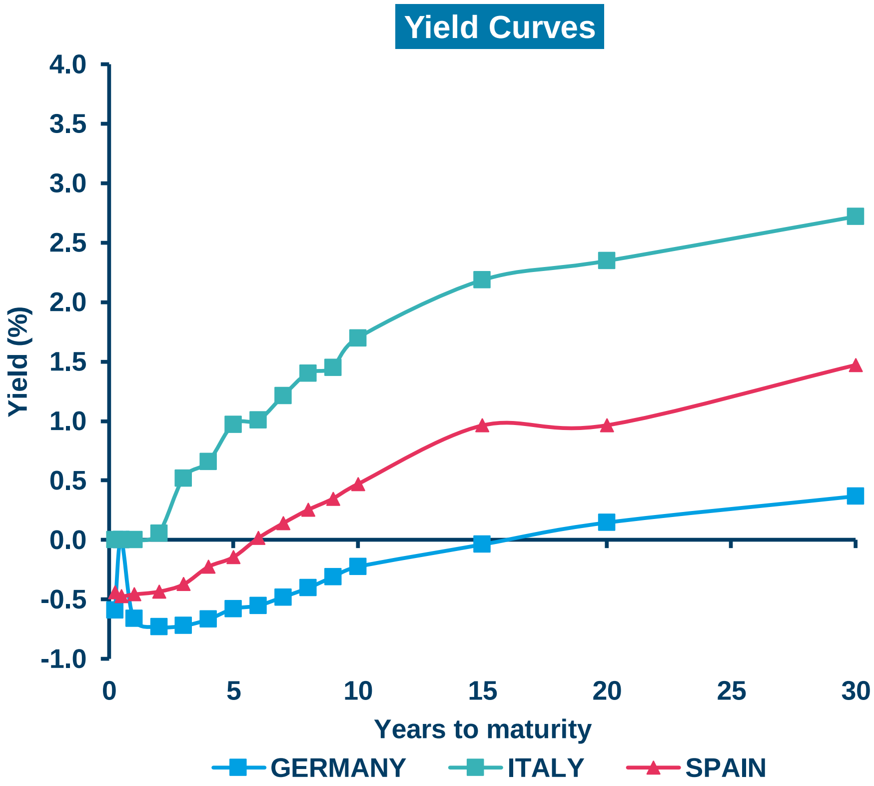
» According to the US yield curve, the probability of a recession in 12 months has never been so high without a recession, except once in the late 1960's (during the Vietnam War), warranting an "insurance" Fed rate cut. Part of the yield curve already stopped flattening.

Source: Bloomberg, Amundi. Data as of 10 July 2019.

Source: Federal Reserve of New York, Amundi. Data as of 10 July 2019.

EU bonds: opportunities in peripheral and flattening



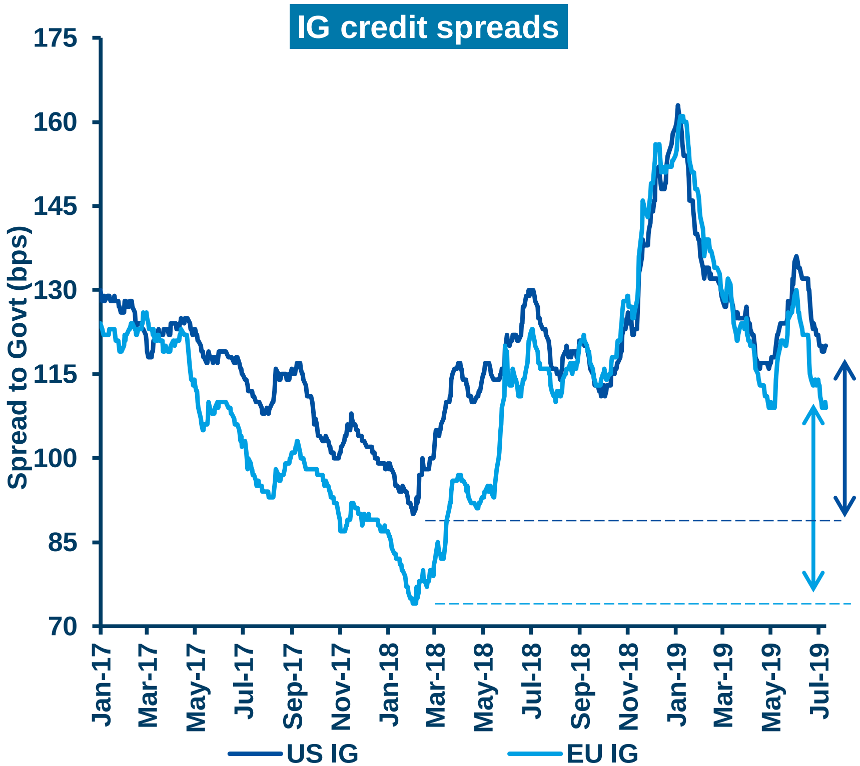


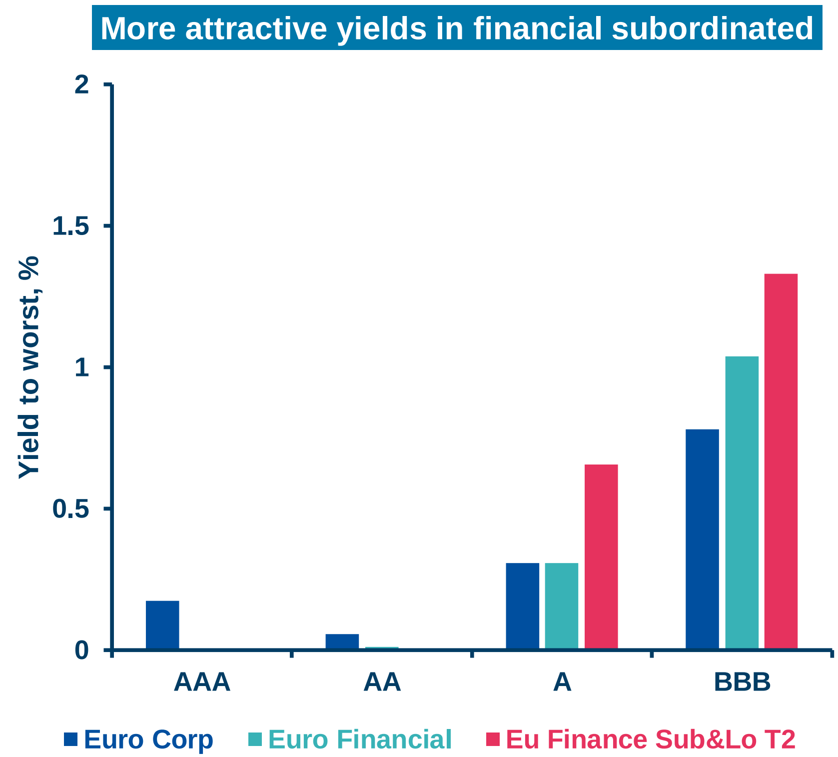
Euro fixed income received strong support from the ECB's new accommodative measures. This should benefit the peripheral bond market, which is favoured in the search for yield. Opportunities in curve flattening.

Source: Bloomberg, Amundi. Data as of 10 July 2019.

Source: Bloomberg, Amundi. Data as of 10 July 2019.

Credit IG: seek carry, preference for Euro sub-financials



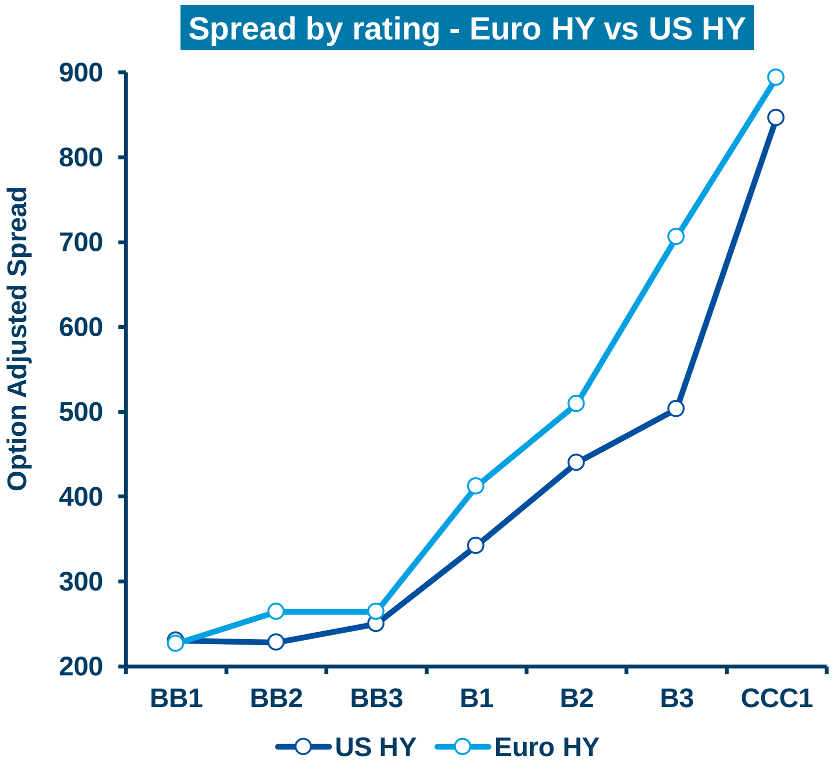


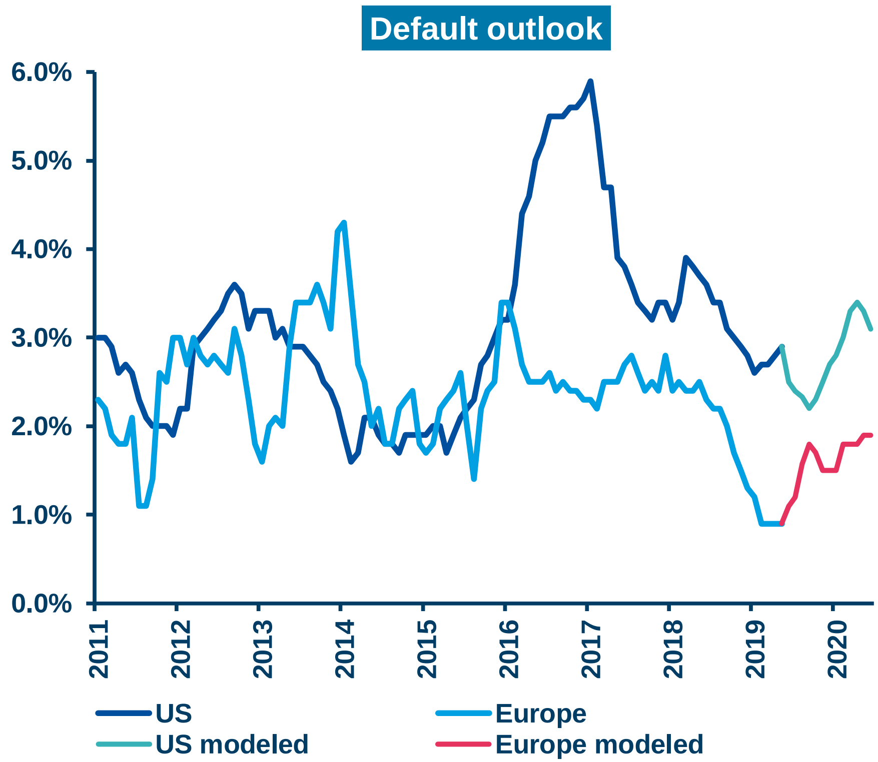
» Investment-grade credit remains an attractive asset class for carry reasons, especially in Europe. We maintain a preference for Euro subordinated financials offering attractive yields.

Source: Amundi, Bloomberg. Data as of 11 July 2019. Data refers to BofAML Bond Indices.

Source: Amundi, BofAML, Bloomberg. Data as of 11 July 2019.

Selective in high yield markets





The default outlook for the high yield market is still benign, with only mild increase in the next 12 months. Some cautiousness is warranted in the highly indebted segments, amid a global economic slowdown. Euro HY is better positioned than US market in terms of yield and default outlook.

Source: BofaML, Bloomberg, Amundi. Data as of 21 July 2019.

Source: Moody's, Amundi Research. As of 11 July 2019.

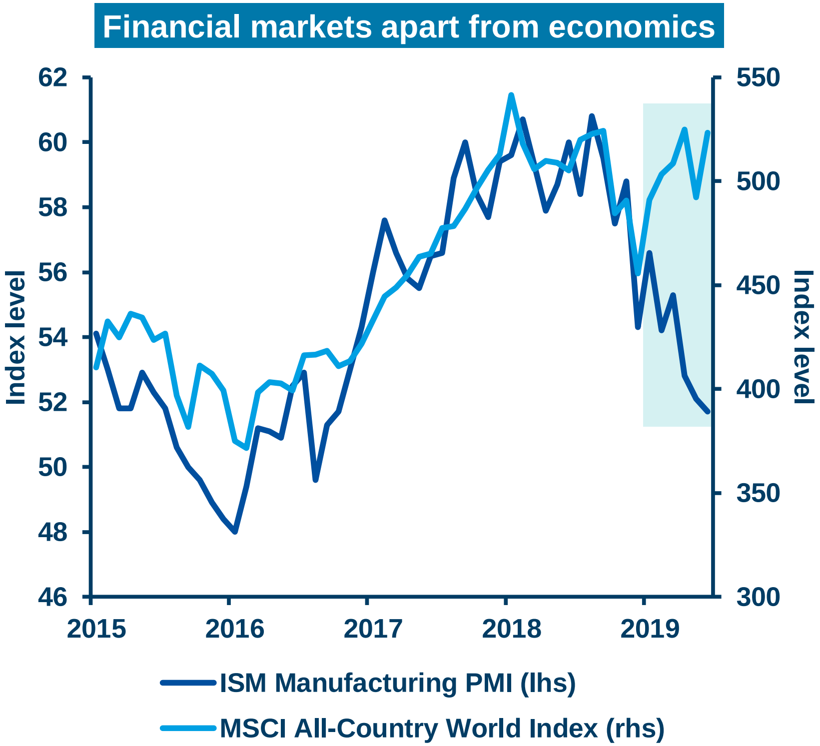
Equities: some cautiousness in the short term

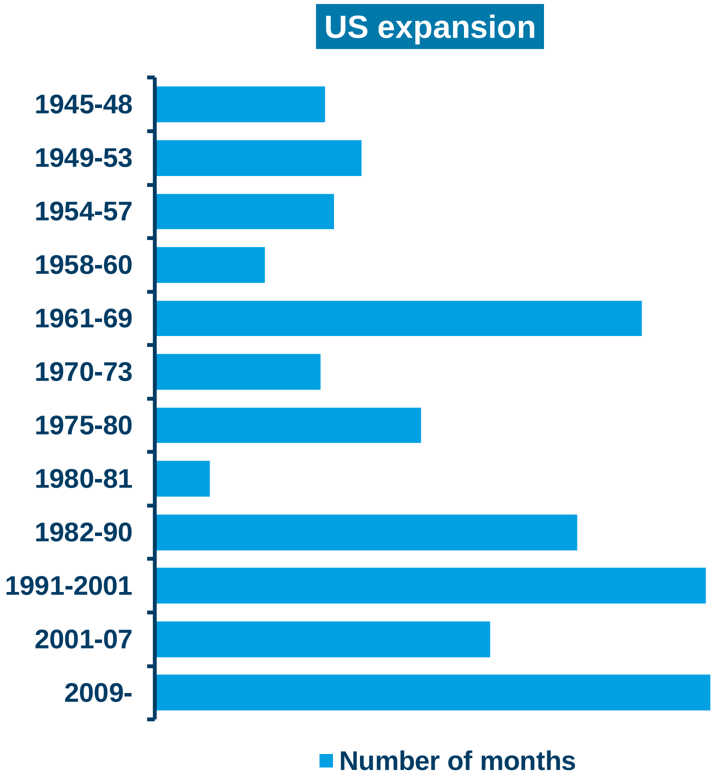
- Global growth: slowing
- Global trade: contracted
- Global debt: increased
- Global inflation: subdued
- Cycle: late stage
- US yield curve: inverted
- Manufacturing activity: contracted
- Global retail sales growth: declined
- Wage growth: muted
- Economic sentiment: declined
- Consumer confidence: declined
- Geopolitical issues: increased

- Major CBs and Fed: easing

Source: Amundi, as of 10 July 2019.

Fundamentals vs price action: some disconnection





Global stocks continue to rally, reaching record levels, while economic data continue to disappoint. The ongoing US economic expansion hit 121 months old in June, officially making it the longest on record going back to 1854. Some disconnection between fundamentals and price action could re-adjust, leading to some volatility in the market.

Source: Bloomberg, Amundi. Data as of 10 July 2019.

Source: National Bureau of Economic Research, Amundi. Data as of 10 July 2019.

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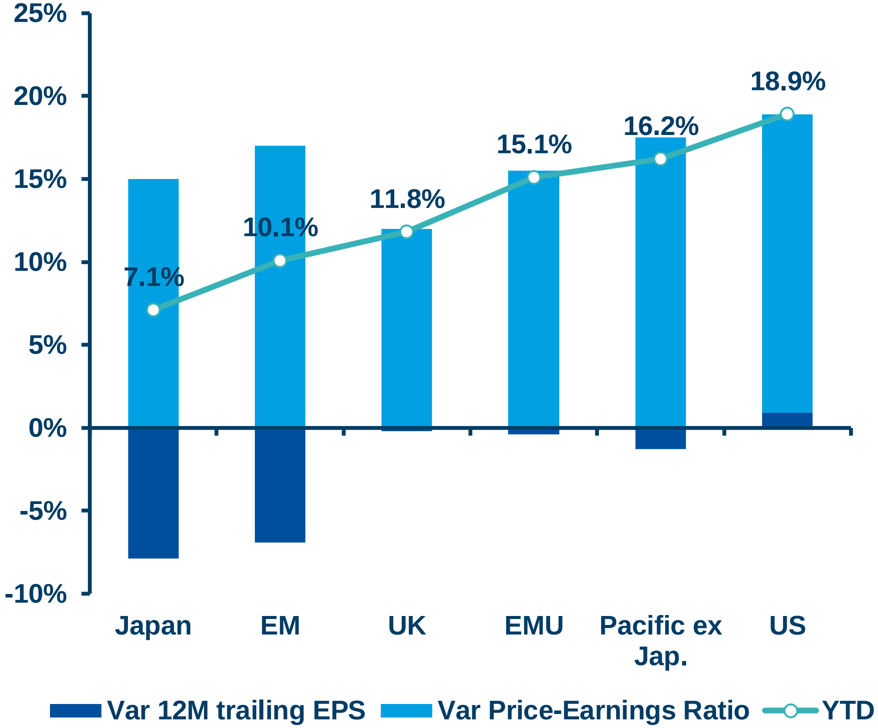
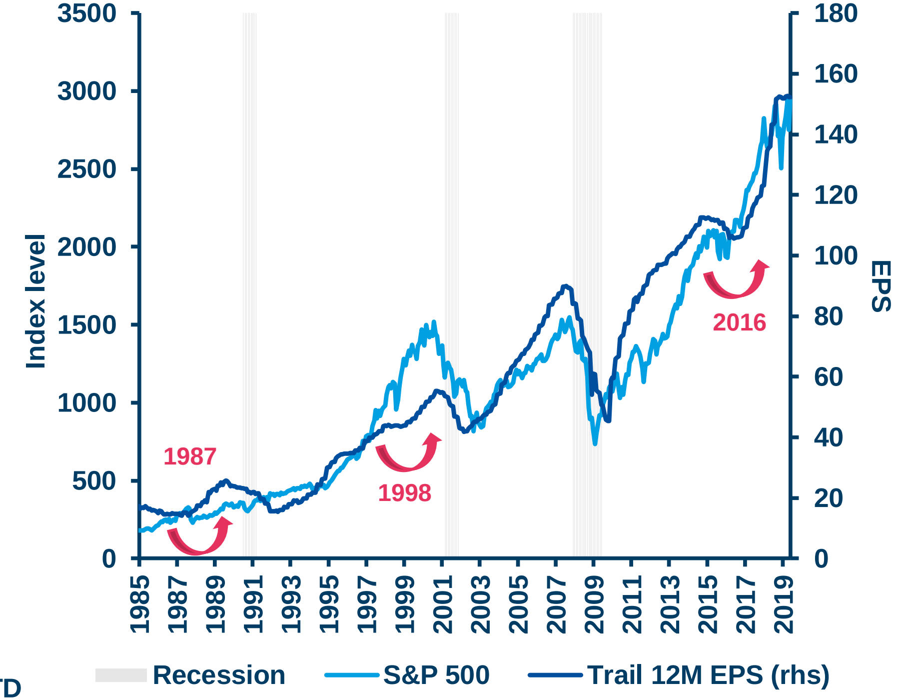
Equities: earnings for share contribution is limited

2019 MSCI price index performances



S&P500 and EPS



» Central banks' dovishness (the Fed has *de facto* anticipated an "insurance cut" in July) has prompted a rebound in equity markets from previous highs. G20 outcome removed a tail risk without changing the underlying growth picture.

Source: Datastream, Amundi. Data as of 8 July 2019.

Source: Amundi, Bloomberg. Data as of 21 May 2019.

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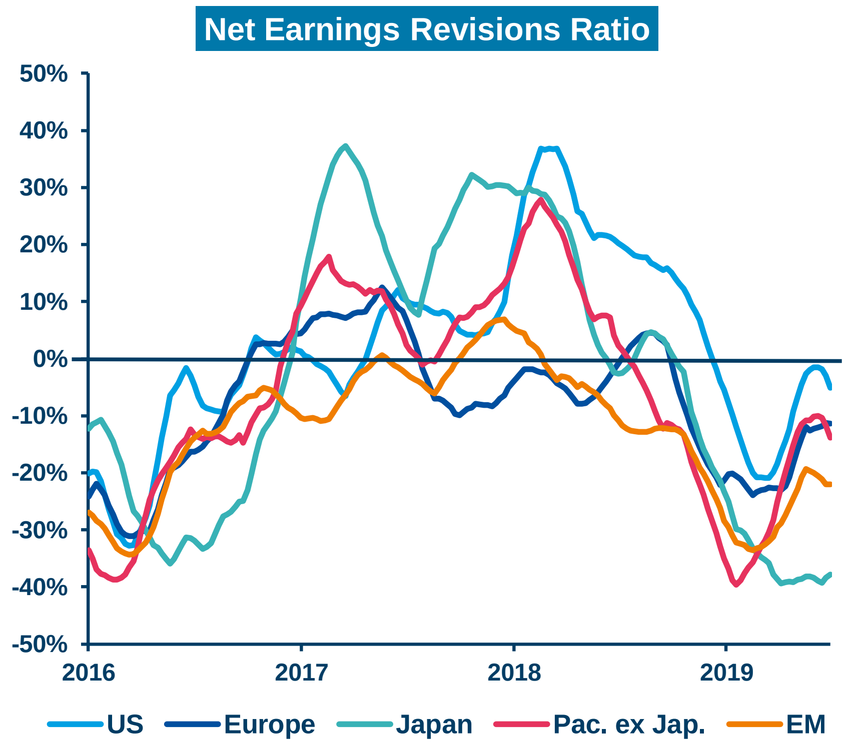
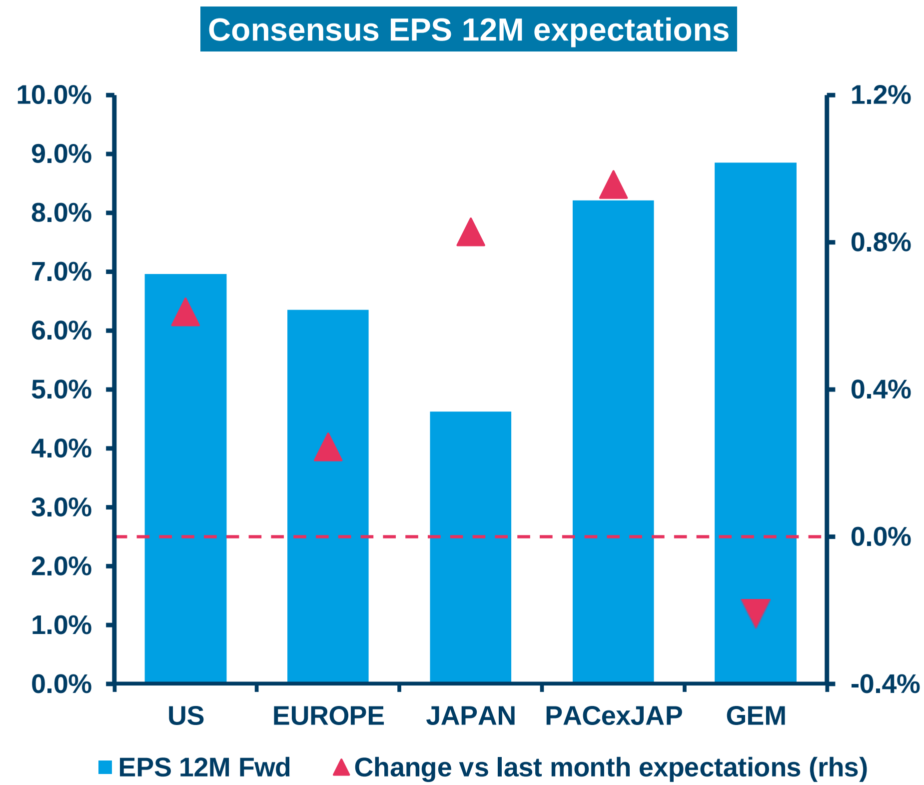
EPS outlook: in line with a late cycle feature





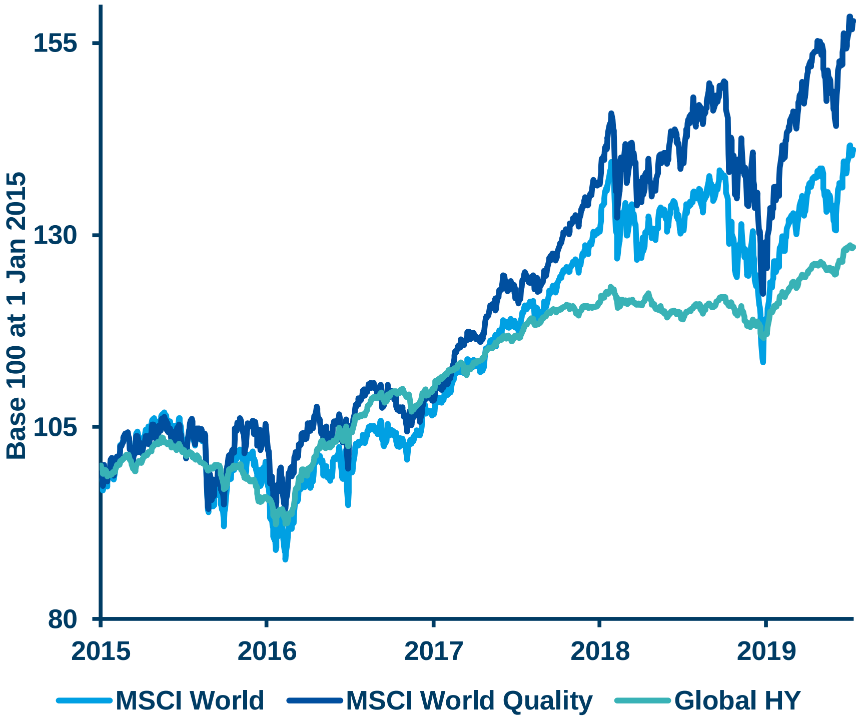
» Corporate earnings shows signs of stabilisation after being revised significantly downwards this year. Market expects a positive earnings outlook, but valuations have gone a bit too far and some consolidation is possible.

Source: Amundi Research. Chart on the left is the net revision ratio (3 months moving average) IBES consensus, EPS in local currencies for distinct countries, as of 10 July 2019.

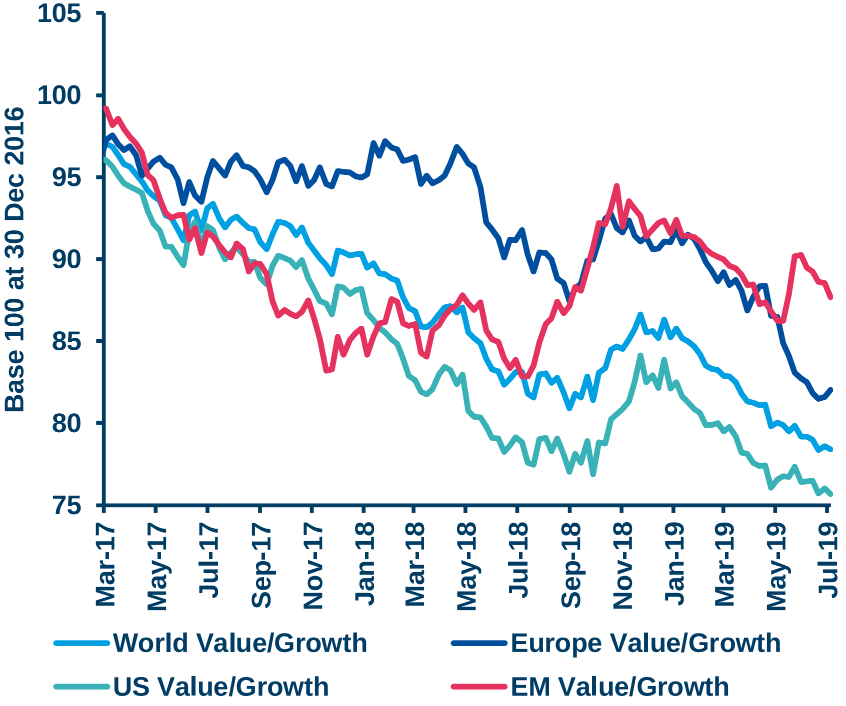
Source: IBES, Amundi Research. As of 10 July 2019.

Equities: in a late cycle, focus on quality

Equity, Quality and High Yield



Still a growth story

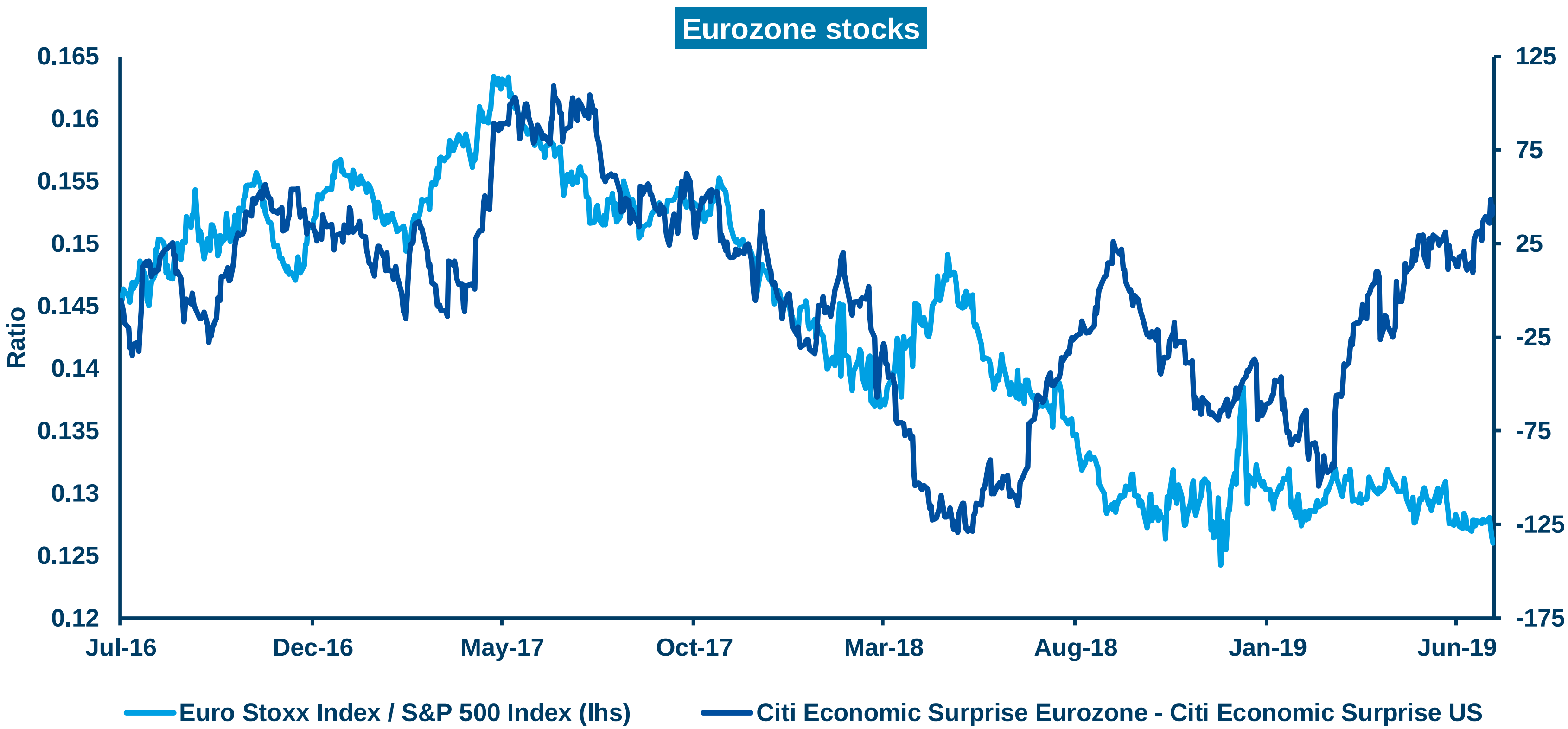


» After the strong equity rebound occurred so far, the markets may have taken a pause for breath. Selection, with a focus on quality with good valuations, will be key to navigating uncertain markets.

Source: Amundi, Bloomberg. Data as of 11 July 2019.

Source: Amundi, Bloomberg. Data as of 11 July 2019.

EU economic improvement to support EU equities



» Despite economic data in the Eurozone exceeding expectations more than in the US, European equities have been lagging behind US equities. Policy and trade uncertainties (Europe is more dependent on exports than US) are probably weighing on the European market. However, we expect EU economic improvement to support EU equities.

Source: Bloomber, Amundi. Data as of 11 July 2019.

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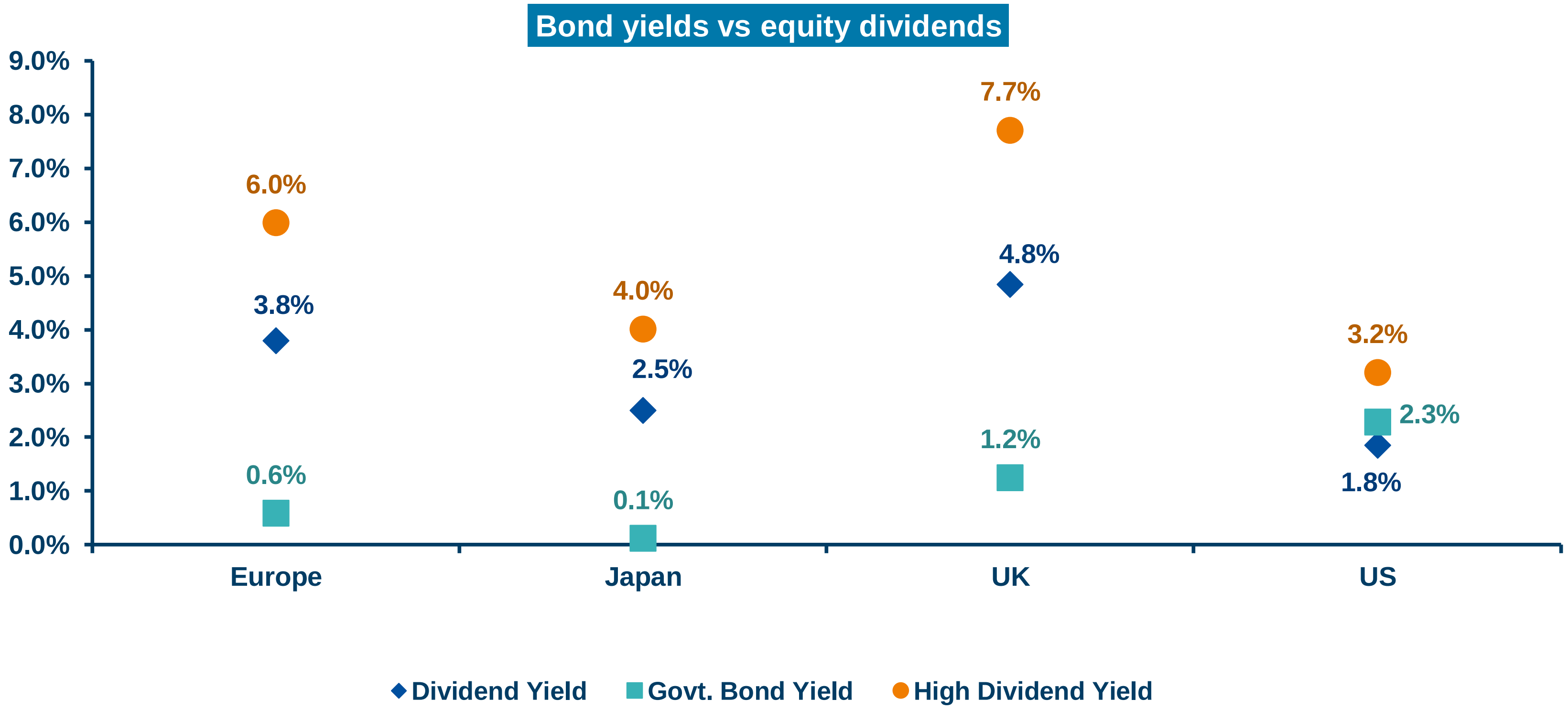
Equity appealing in the search for income



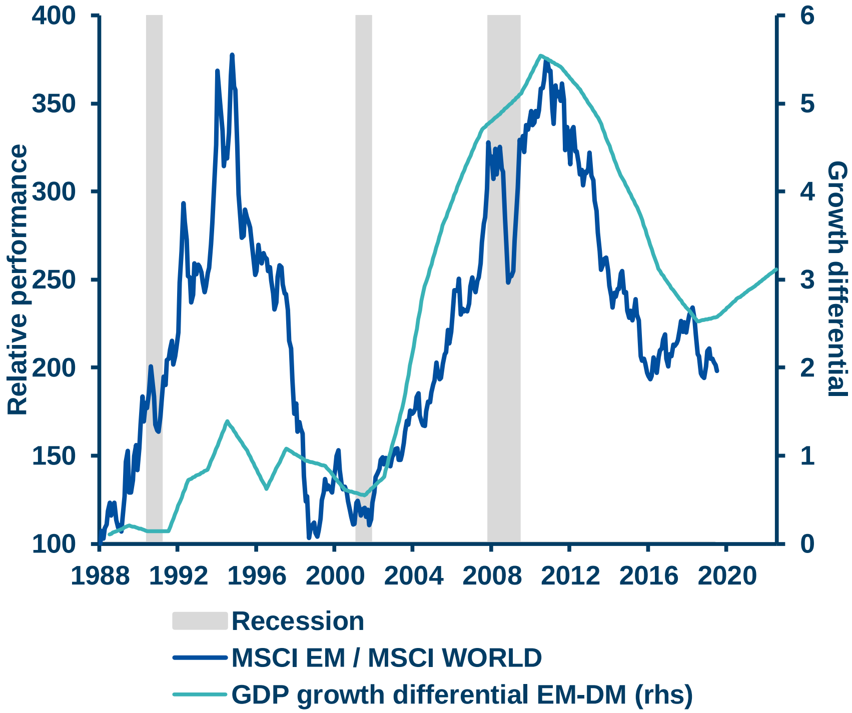
» In the search for income, with low government bond yields, equity dividends could provide attractive opportunities for investors.

Source: Bloomberg, Amundi. Data as of 12 July 2019. MSCI indices for Equities.

EM

EM equities: a relatively constructive outlook

EM vs DM and GDP growth differential



Source: Datastream, Amundi. Data as of 11 July 2019.

EM equities and trade war

Probability	Scenario	Possible Upside (+) / Downside (-)
50%	A deal is signed before US elections (tensions on technology stays). Exiting tariffs stays but no escalation	+15%
30%	No negotiations break through. Contained reaction from China. Import tariffs on $300bn comes in phases	-5%
20%	Negotiations breaks down. Import tariffs on $300bn quickly implemented, rapid deterioration of bilateral relationships	-20%

Source: Amundi. Data as of 11 July 2019..

» After the positive performance seen in June (MSCI EM closed the month to +5.7%), we see some further room for the next months, especially in case of a trade dispute relaxation and a US dollar weakening.

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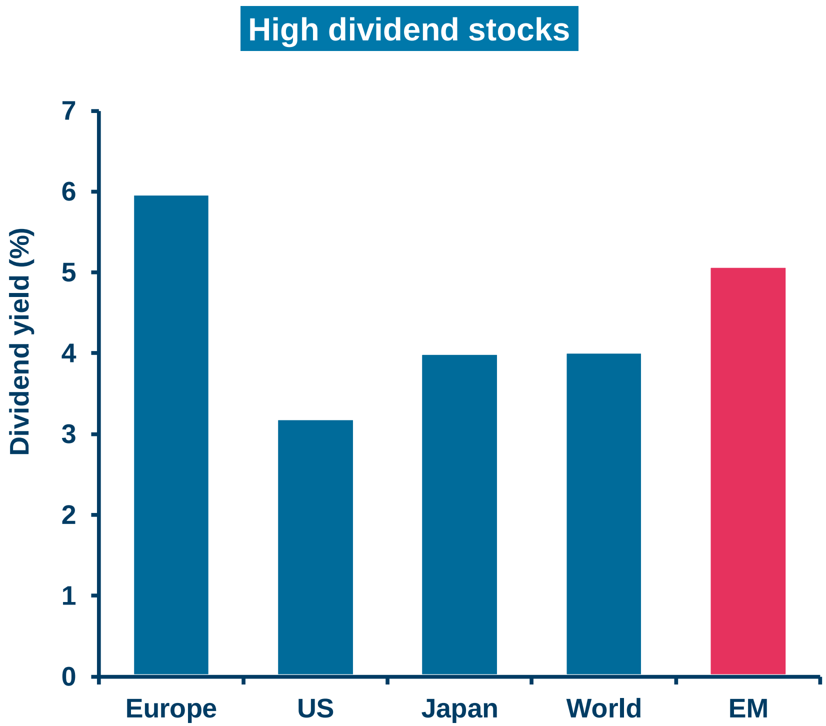
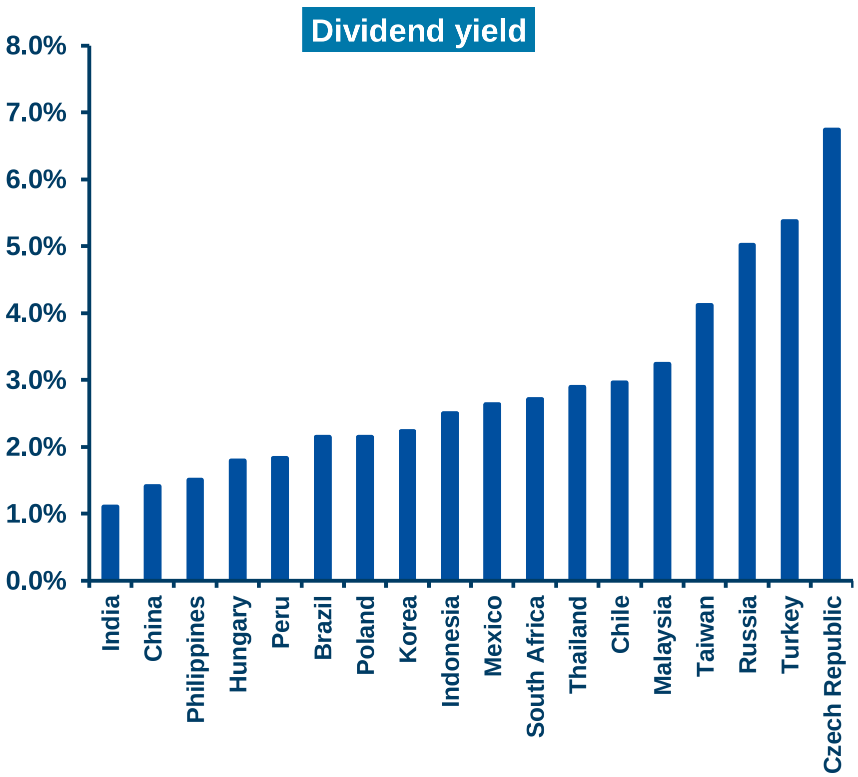
EM

EM equities: sound dividend yield, need for selectivity



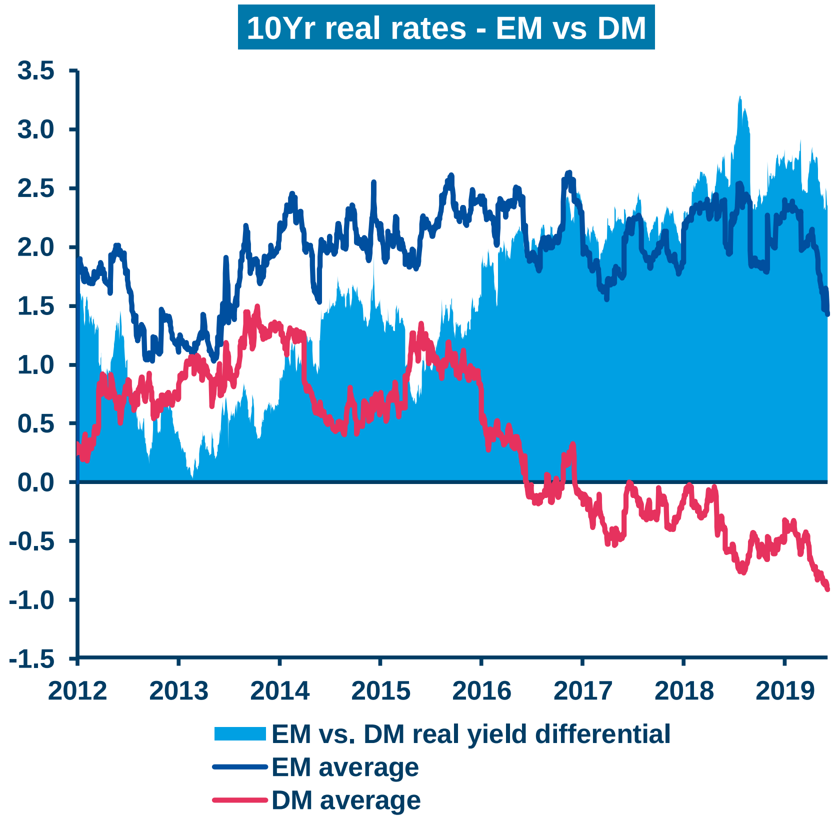


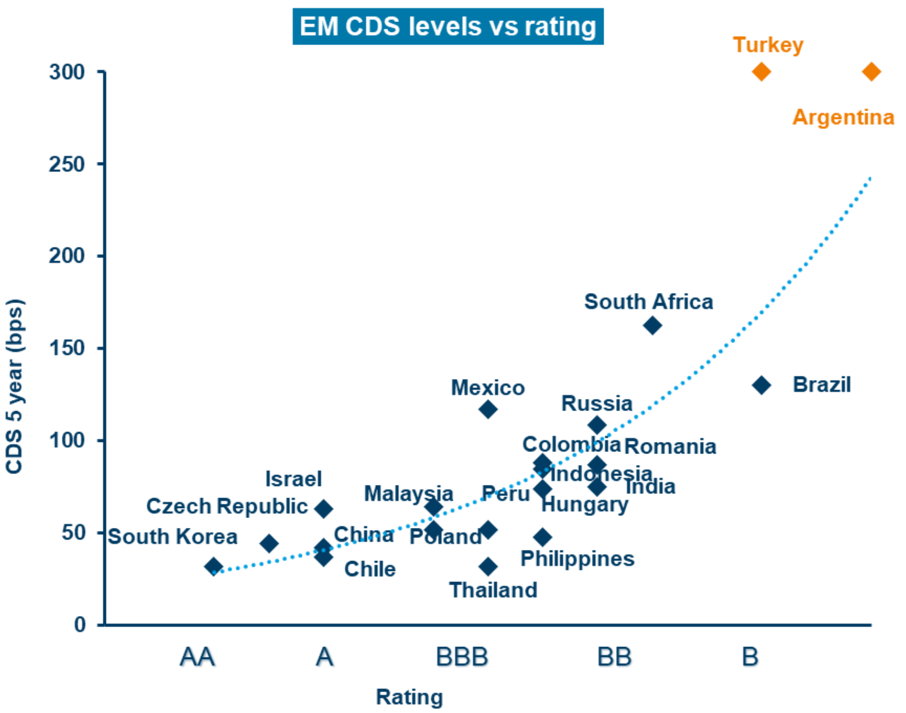
EM equity attractive dividends, with material differences among countries.

Source: Datastream, Amundi. Data as of 11 July 2019.

Source: Datastrea, Amundi Research. As of 30 June 2019.

EM bond: attractive vs DM, Fed and USD key tailwinds





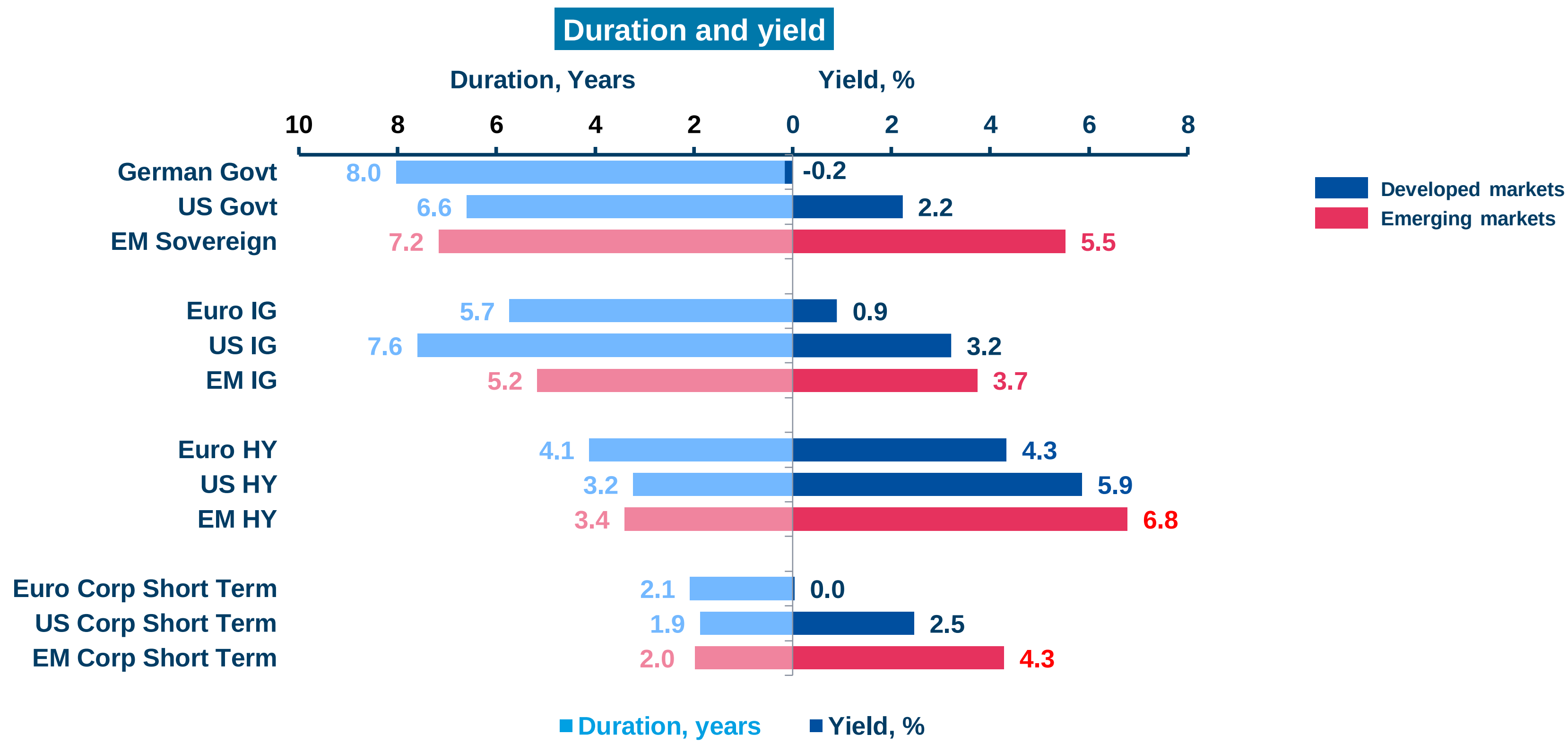
Notes: Turkey and Argentina are out of y-axis scale. CDS 5Y bps are 411 and 894, respectively.

» Real rates are significantly higher in EM vs DM. This element combined with a dovish Fed and possible weaker dollar is a key tailwind for EM debt. Selection is key to take advantage from market dislocation.

EM: Brazil, Chile, China, Colombia, Czech Rep., Hungary, India, Indonesia, Israel, Malaysia, Mexico, Philippines, Poland, Romania, Russia, South Africa, South Korea, Thailand, Turkey. DM: Australia, Canada, Eurozone, Japan, New Zealand, Norway, Sweden, Switzerland, UK,US. Source: Bloomberg, Amundi. Data as of 8 July 2019.

Source: Bloomberg, Amundi. Data as of 11 July 2019.

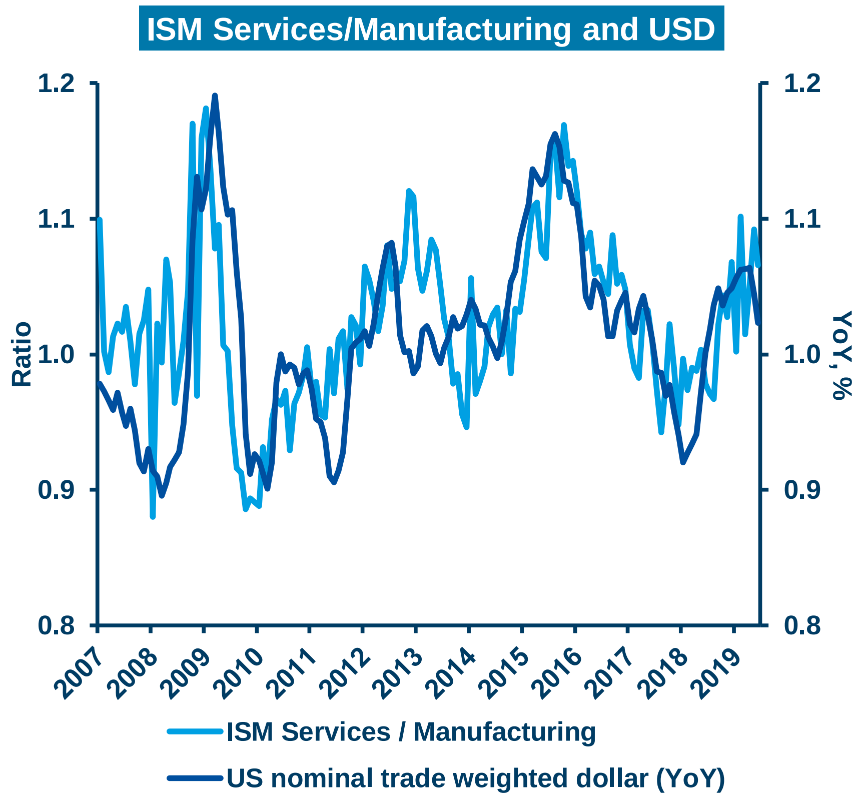
EM bonds offer “premium”, but selectivity is needed

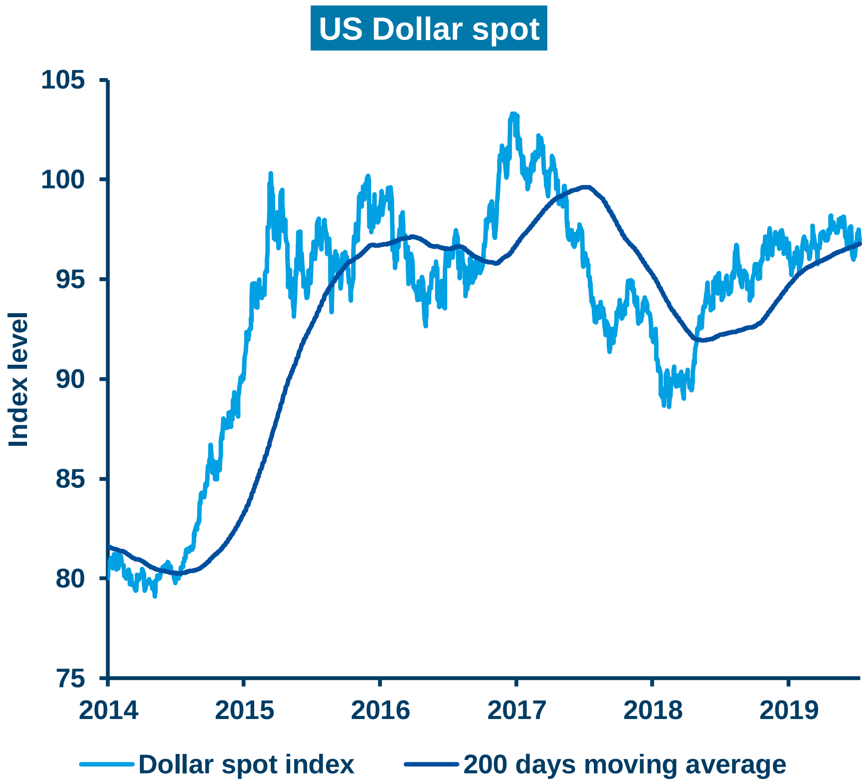


Yield is rapidly evaporating in DM markets, leaving EM fixed income assets to represent the oasis fixed income.

See notes at the end of this presentation for indices details. Source: Amundi analysis on Bloomberg. Data as of 11 July 2019.
Past performance is no guarantee of future results.

The USD may have reached its climax



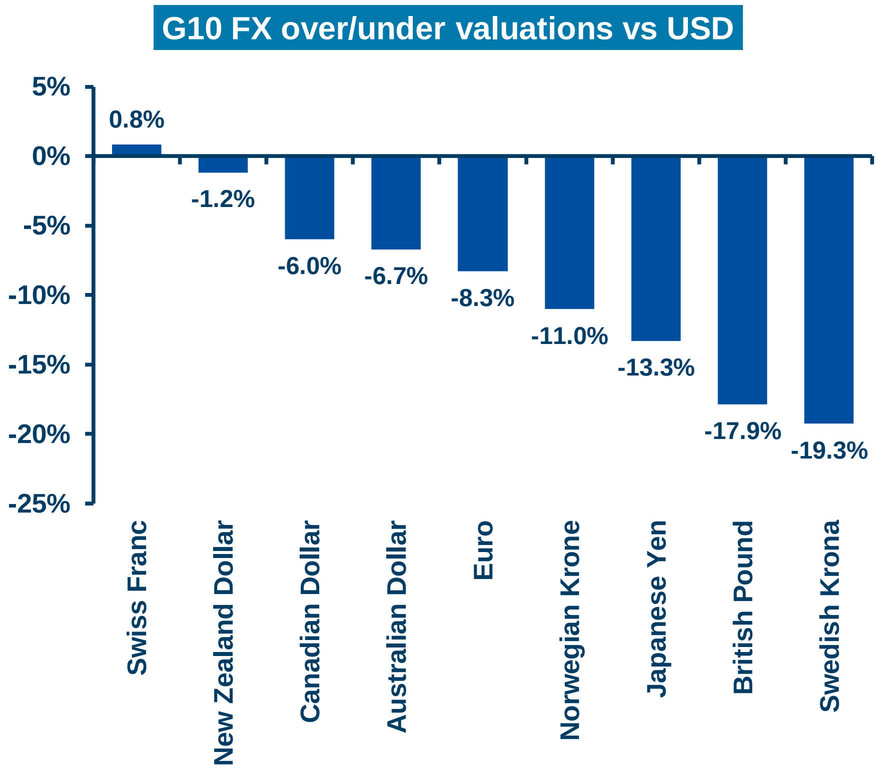


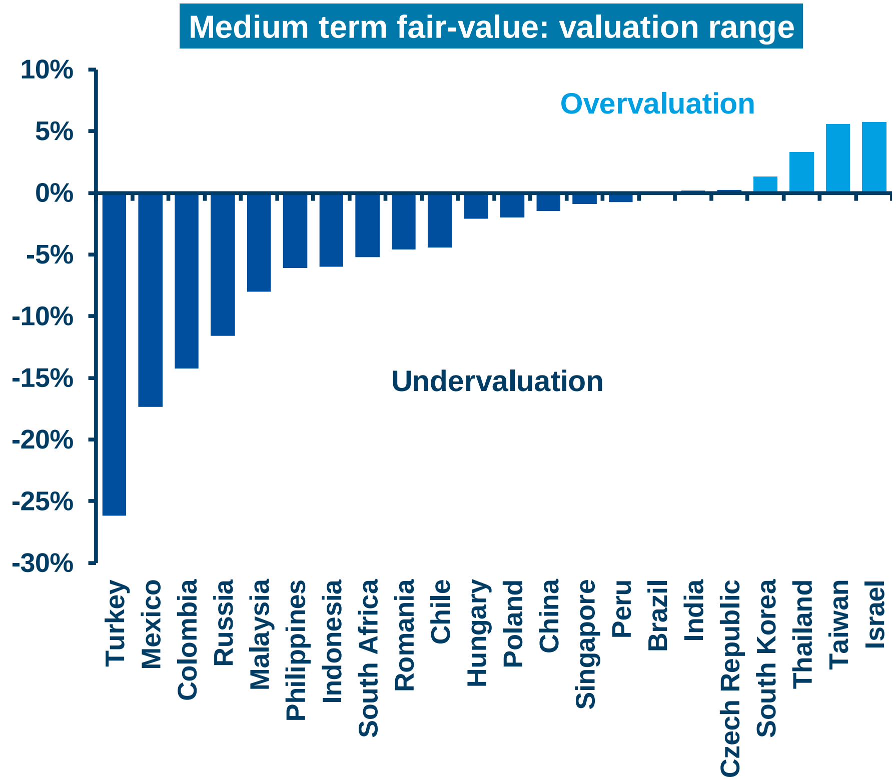
The ISM Services index is more resilient than Manufacturing. Should a recovery of manufacturing take place, the USD should weaken. The US dollar spot index has just crossed its 200D moving average. If confirmed, it would signal a potential extension of the global cycle with some rebalancing of growth outside of the US.

Source: Bloomberg, Amundi. Data as of 11 July 2019.

Source: Bloomberg, Amundi. Data as of 11 July 2019.

An expensive USD vs G10 currencies, EM FX undervalued





The USD is overvalued vs the entire G10 universe (with the only exception of the CHF), but it showed some signs of weakening on Fed cut expectations. On a 12-month horizon, our targets are as follows: EUR/USD at 1.14, USD/JPY at 105; and EUR/GBP at 0.89. Most of the EM FX are undervalued based on traditional models.

Source: Bloomberg, Amundi Research. Data as of 11 July 2019.

Source: Bloomberg, Amundi Research. Data as of 15 July 2019. Fair value calculated as an average of different measures (productivity, Purchasing Power Parity, Real Effective Exchange Rate).

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Amundi Cross-Asset Convictions

Asset allocation: multi-class outlook

	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. 12 July 2019.

Amundi asset class views

	Asset class	View	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.
EQUITIES	Europe	=/+		The internal demand resilience is a supportive theme for the market. 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 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	=/+		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. 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 of this 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			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: 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).

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Negative View Neutral Positive View

▼ Downgraded vs previous month ▲ Upgraded vs previous month

Source: Amundi, as of 15 July 2019. 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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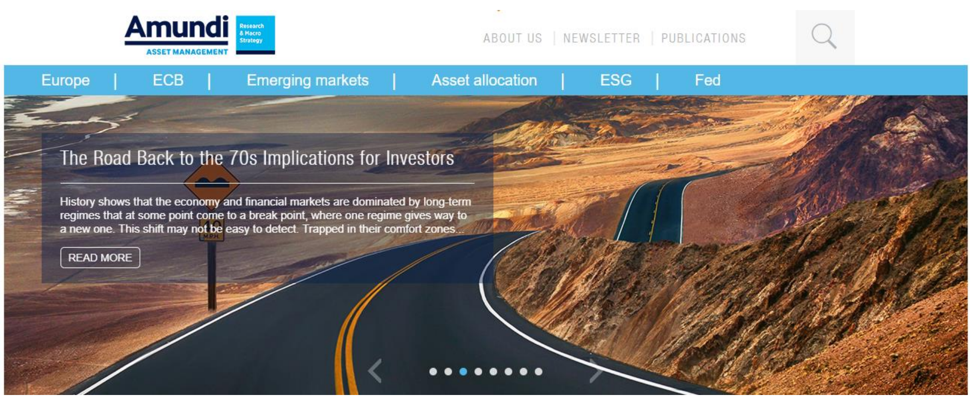

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Indexes reference & definition

Yield & Duration Indexes

German Govt Bonds = JP Morgan GBI Germany Index; U.S. Govt Bonds = JPMorgan GBI U.S. Index; Euro IG Bonds = Bloomberg Barclays Pan European Aggregate Corporate; U.S. IG Bonds = Bloomberg Barclays U.S. Aggregate Credit; Euro HY bonds = Bloomberg Barclays Pan-European High Yield ISMA; U.S. HY Bonds = Bloomberg Barclays U.S. Corporate High Yield; EMBI Div = JPMorgan EMBI Global Diversified Blended; CEMBI BD = JPMorgan CEMBI Div Broad Composite Blended; CEMBI BD HY = JPMorgan CEMBI Broad Div High Yield; Euro Corp Short Term = Bloomberg Barclays Euro Corporate 1-3Yr; U.S. Corp Short Term = Bloomberg Barclays U.S. Corporate 1-3Yr; EMBI Short Term = JPMorgan EMBIG Diversified 1-3Yr.

Definitions

- Basis points: one basis point is a unit of measure equal to one one-hundredth of one percentage point (0.01%).
- Correlation: The degree of association between two variables; in finance, it is the degree to which assets or asset class prices have moved in relation to each other. Correlation is expressed by a correlation coefficient that ranges from -1 (perfectly negative correlated) through 0 (absolutely independent) to 1 (perfectly positive correlated).
- Credit spread: differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration possible embedded options.
- Duration: a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates, expressed as a number of years.
- FX: FX markets refer to the foreign exchange markets where participants are able to buy and sell currencies.
- Volatility is a statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.

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