Confidence must be earned

Amundi ASSET MANAGEMENT

January 2020

Global Investment Views

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Group Chief Investment Officer

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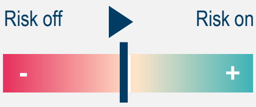
Overall risk sentiment



We are overall neutral on risk, but remain prepared to benefit from any upside

Changes vs. previous month

- Reduced US duration to a more neutral stance

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

Records, surprises and opportunities

As we approach the year-end, a look back over the past 12 months reminds us **how unconventional this year of records has been**. On the upside, equities rallied to historical highs in December and fixed income returns were also strong as bond yields fell. The combination of these trends enabled a traditional 50 bond/50 equity balanced portfolio for European to investors generate 15.5%[1], the best annual performance in the last two decades. However, 2019 also saw **some less exciting records** on economic and geopolitical fronts – a high world uncertainty index reading (Brexit, Trump impeachment process and trade war escalation). Debt skyrocketed, CO_2 emissions rose and social discontent erupted in many countries. **Overall, global growth decelerated**, inflation failed to reach Central Banks' (CB) targets and vulnerabilities continued to build. The **big disconnect** in market performance and a fragile economic environment is partially the result of re-rating of market valuations and the big shift in CB policies. Various forms of monetary accommodation have eased the financial conditions witnessed at the beginning of 2019.

Looking ahead, **"normalization" continues to be a word outside CB dictionaries**, although major institutions in Europe are becoming more uncomfortable about extreme measures. Tiering system for EU banks introduced by Draghi and Swedish Riksbank's decision to exit negative rates signal CBs' awareness of the damaging consequences of negative rates. **We see this awareness growing**, along with a debate on a more aggressive fiscal policy in Europe (infrastructure and green investing) and also in the US. **The scenario of fiscal easing is not fully priced in,** especially in core fixed income space and cyclical/value stocks. It could represent one of the main surprises next year that supports a bottoming out of core bond yields and rotation towards value sectors. **Another surprise could come from US**. We believe, President Trump will do *'whatever it takes'* to help the economy stay on track, but there is ambiguity over what outcome the markets prefer – a Trump re-election or a Democrat victory. In the latter camp, while the prospects for Warren seems to be fading in favour of Sanders, there are some fundamental issues at stake (dismantling of big techs, energy policy, health care, regulation, foreign policy). Therefore, we could expect a rebalancing among other sectors/stocks. Investors **who seem convinced that Trump will easily win the elections may have to reconsider their position** and this could be a source of volatility. The **third area of surprise could be in Emerging Markets (EMs)**, with possible regional divergences. China (and dependent countries) could benefit from a relief in trade war. The Central Europe, Middle East and Africa (CEMEA) region could benefit from its dependence on European demand, while Latin America could be vulnerable to political turmoil and investor flows.

All in all, **2020 will be a year dominated by politics and surprises** – Europe moving towards fiscal constraint relaxation, US election campaigns and idiosyncratic stories of political instability in EMs. Instead of trying to predict the unpredictable, investors should focus on building resilient portfolio on five principles:

- **Capture the cyclical rebound** in the first part of the year, being cautious on duration with a possible bottoming out of bond yields, and favouring cyclical value stocks, especially in Europe.
- **Exploiting opportunities in EMs**, given that a possible depreciation in US Dollar next year would support investing in EMs, particularly in the local currency debt.
- **Monitor the triggers for alternative scenarios, and hedge against extreme events**. A restart or worsening of trade war would trigger a recession, ending the bull market in equities and putting pressure on credit market. In the upside scenario, a massive fiscal stimulus in favour of green economy and social equalities could put markets on a sustainable path, but pressure bond yields.
- As these outcomes drive very different market implications, investors should **maintain adequate liquidity** buffers in case any of these diverging scenarios come to fruition.
- Finally, **ESG investing will become even more relevant to targeting both risk-adjusted performances** and impact on economic and social models negatively affected by long-term risks, such as **inequalities and climate change**.

[1] 50% MSCI World in EUR; 50% Global Aggregate Bond Hedged in EUR.

MACRO & STATEGY

Monica DEFEND
Global Head of Research

Didier BOROWSKI
Head of Macroeconomic Research

Risk of hard Brexit falls, but uncertainty remains

An orderly Brexit is to happen in January 2020. After the broad Conservative victory at the 12 December election, an official Brexit by the end of January 2020 looks very much like a done deal. The UK will then enter a transition period during which it will: (i) temporarily retain its access to the EU's Single Market, (ii) attempt to negotiate a new, permanent trade framework with the EU. This transition period will last until December 2020, although it could be extended until as late as December 2022 i**f the EU and UK agree to this extension before 1 July 2020.**

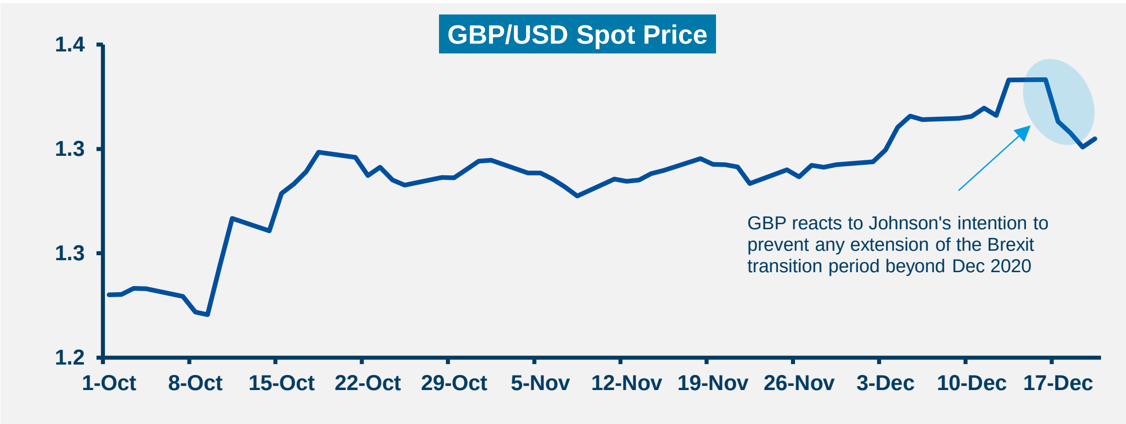
Increased perception of another "no-deal" risk in December 2020. The confirmation by the new UK government that it will not seek an extension of the transition period beyond December 2020 has increased the perception that there could be another "hard Brexit" trade shock if the UK and EU are unable to negotiate a trade agreement before then. This threat is not entirely new as the intention not to extend the transition period was clearly stated in the Conservative Party's election manifesto. In addition, some observers have already commented that an 11 month delay seemed far from sufficient to negotiate a comprehensive trade deal. **Nonetheless, the very strong tone of the UK government (notably its announcement that an extension of the transition period could be prohibited by law) came as a surprise.** The government also stressed that it wants to restore the country's regulatory autonomy vs. the EU. This position is more compatible with a 'simple' free trade agreement than with a closely-knit trade relationship.

We believe that negotiations will be tense, but do not expect a "no-deal" crash out of the transition period in December 2020 (with UK-EU trade governance falling back to a raw WTO regime). Clearly, after his significant electoral victory, the UK Prime Minister's quick and explicit leaning towards the hard-Brexit wing of his party was unexpected. However, we see this move as post-electoral posturing and a way to open the deal negotiations with a hard stance that can potentially be softened later. Even if the prohibition of an extension of the transition period is legislated, **we believe it is pragmatism that will prevail in the end.**

Alternative scenarios to a "no-deal" in December 2020 will remain open, in our view. For instance, the completion of a free trade deal by December 2020 (possibly a temporary one) at least for goods, despite the very short delay, could be envisaged even though there is no historic precedents (the shortest trade deal negotiation for the EU was apparently that with South Korea, which took 2.5 years). This is because the UK and EU start from a position of closely aligned internal market regulation. **Moreover, should an extension be outlawed, the British government could still backtrack** and change its law again to allow for an extension of the transition period. However, it is very much possible that stress related to the new "no-deal" risk could rise further in the coming months before receding eventually.

At the end of the day, we continue to view UK equities as attractive (especially domestically oriented and cyclicals) since the worst had already been partially priced in by foreign investors, who have remained massively underweight over the past three years. **Having said that, the sterling is likely to experience unpredictable highs and lows, depending on the course of negotiations.**

> *"The government's confirmation that it will not seek an extension of the transition period could be a way to open the deal negotiation on a hard stance which can be softened later."*



Source: Amundi on Bloomberg data, as of 22 December 2019.

MULTI-ASSET

Easing political risk tactically supports risk assets

After the moderate global slowdown experienced in 2019, growth conditions worldwide are expected to stabilize in 2020. While the quality and composition of growth (still weak Capex growth in US) will likely lead to further economic vulnerability, we do not expect to see a recession in next 12 months. In Developed Markets (DMs), fiscal push will be limited and un-coordinated, but EMs are showing relative resilience with a moderate reacceleration expected in 2020. The global inflation outlook remains benign and temporary upside risks should be contained and linked to tariffs. However, possible alternative scenarios may play out, as there are many areas of uncertainty, especially on the political front. This highlights **the importance of a flexible approach for 2020,** similar to that which characterised 2019, when we adjusted our stance during the year. We started 2019 with a defensive approach, with an aim to limit downside risk and protect investors' portfolios. **But, we are ending the year with an improved tactical view of risky assets**.

High conviction ideas

Our strategic assessment of equities has not changed and accordingly, we remain defensive. However, tactically speaking, a Phase One trade deal and a potentially favourable evolution of policy mix could give a boost to the market. As a result, we are now less negative on European and US equities, although overall we maintain our cautious stance in both regions. In the UK, with the Conservatives winning a majority in the parliament, political stability and less uncertainty surrounding Brexit should benefit the domestic market, leading us to be more positive on the FTSE250. This should also support GBP/USD which will benefit UK large caps.

In fixed income, **we have now a neutral view on US duration,** as yields are expected to remain range-bound in the next couple of quarters. Therefore, we focus on a more tactical approach here, as a marketcorrection could be an opportunity to add duration. The **current late cycle environment is favourable for credit.** We remain positive on Investment Grade (IG) but prefer European (EUR) over US due to lower leverage in light of healthy fundamentals and technical factors. In High Yield (HY), we are more positive on EUR vs. US due to the aggressive **hunt for yield** in Europe. We remain optimistic on Italy 30y vs. German 30y as the Italian curve is one of those exceptions where attractive yield is still available. Nevertheless, we stay vigilant regarding the recent resurgence of political risk (regional elections in Italy in January will be a key test for the Government coalition).

Within EMs, the environment is benign for EM debt hard currency (HC) due to attractive carry, high relative yields, subdued inflation and dovish EM Central Banks, but hedging the duration and currency risks is important. We have a neutral view overall on equities, but we prefer domestic consumption stories and we believe investors should play EM relative value opportunities (China vs. EM and Korea vs. EM). We remain cautious on Foreign Exchange (FX) exposure.

In **DM FX**, we are now more constructive on Euro (EUR) EUR vs US Dollar (USD) amid expectations of asymmetric payoffs in favour of EUR gains. USD will have less support from growth and interest rates differentials as they are expected to diminish over 2020. EUR/USD looks undervalued vs. medium term fundamentals (productivity, trade openness). Technical factors and sentiment are also positive for EUR (market positioning is short but interest in EUR is rising).

Risks and hedging

Trade negotiations between the US and China will go beyond short term relief and could intensify again. Another area of uncertainty is related to CB policies. As a result, we suggest investors have **adequate hedges** in place that could limited the downside in case of unexpected events.

Amundi Cross-Asset Convictions

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

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

Matteo GERMANO
Head of Multi-Asset

"We see less scope to take directional views on duration, and we continue to believe that credit is the place to be in risk assets in this phase of the cycle."

Amundi ASSET MANAGEMENT

FIXED INCOME

Eric BRARD
Head of Fixed Income

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

> ***The Fed and the ECB are set to pause the rate cut cycle, supporting the case for bottoming out of core yields.***

Opportunities in the the broad credit universe

The performance recorded in 2019 will likely be difficult to repeat but the landscape for global fixed income investors remains broadly positive with main Central Banks set to pause the rate cut cycle, but are expanding their balance sheets again. As a result, **supportive technicals and persisting search for yield continues to drive credit markets**. Here, we look at a broad range of opportunities, beyond the traditional IG space. Duration is not the name of the game at the moment: core bond yields have probably bottomed out in this phase but the direction is not set yet and we expect a broad trading range in core bond yields. Overall, we are carefully monitoring liquidity, which could be low as we close-in on year-end.

DM bonds

On a global fixed income perspective, while we have an overall **neutral view on duration**, we keep a positive view on US vs EUR and Japan. We remain constructive on peripheral bonds and we recently re-assessed the potential for Italy (more positive) and Spain (less constructive) to reflect the changing situation in the two countries. Investors could also play yield curve opportunities, such as curve steepening in the UK and Canada and flattening in Australia. In credit, we remain broadly constructive, especially in Europe in both IG and HY. Within the former, **we find interesting opportunities in subordinated financial**.

In the US, the Federal Reserve (Fed) has signalled a high bar for future policy actions and will likely keep rates 'on hold', unless inflation persistently exceeds its 2% target (unlikely) or growth outlook materially deteriorates (not our base case). As the drag from the trade war recedes, we expect near-term US growth to stabilize around potential at close to 2%, provided global trade environment does not deteriorate.

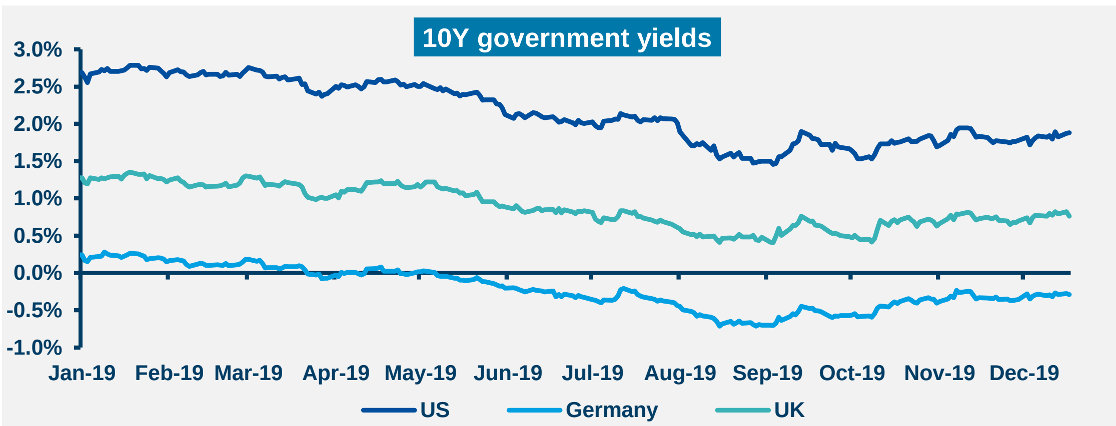
A macro-economic **environment marked by stabilizing growth and a patient but supportive Fed should be positive for risk assets**. In particular, **structured securities**, including both agency and non-agency Residential Mortgage Backed Securities (RMBS), are attractive relative to IG. This is because fundamentals within the housing market remain positive, with low mortgage rates boosting new home sales, prices and affordability. **For corporate bonds**, although we are positive in light of stabilizing growth and a supportive Fed, we are watchful of leverage in IG. HY is attractive on a selective basis, given the technical conditions in the low quality bank-loan segment.

EM bonds

We are constructive on EM fixed income and believe this asset class will continue to offer value in the year ahead. From a top-down perspective, within external debt (sovereign and corporate) we favour Brazil, Bahrain, Indonesia, Serbia and South Africa, but we are very selective in Sub-Saharan Africa. Regarding EM rates, we are positive on Egypt, Indonesia, Russia, Serbia and Ukraine. In FX, while we turned less bearish, we are still cautious overall. Asian high-yielders (India, Indonesia and Philippines) appear attractive, but we are cautious on growth/trade-sensitive countries such as Korea, Taiwan and Singapore.

FX

On the British Pound (GBP), election uncertainties are over but the rally has been strong and there has been scope to take some profits. There will still be support for GBP near term as investors have to react to the new situation but soon the market will focus on the difficult negotiations at the end of 2020 deadline.



Source: Amundi on Bloomberg data, as of 17 December 2019.

EQUITY

PMI bottoming out to favour value and cyclicals

Overall assessment

Equity markets appear to be closing the year on a strong note, with the S&P500 setting new highs and European Stoxx 600 above the previous 2015 highs. Japanese equity has also rebounded on the back of attractive valuations. Looking ahead, while 2020 consensus earnings expectations may still be somewhat too optimistic, support for earnings growth in H1 2020 seems strong in the US. Even in Europe earnings revisions are stabilising. In our view, the macro outlook of low growth with no recession, **Purchasing Managers' Index (PMI) bottoming out and dovish Central Banks should continue to support some further extension of the uptrend.** Risks continue to persist mainly related to the trade war, although political risks in Europe have receded after UK election. As a result, we believe that from a global perspective the most attractive areas are in non-US equities (mainly Europe) and in US value.

DM equities

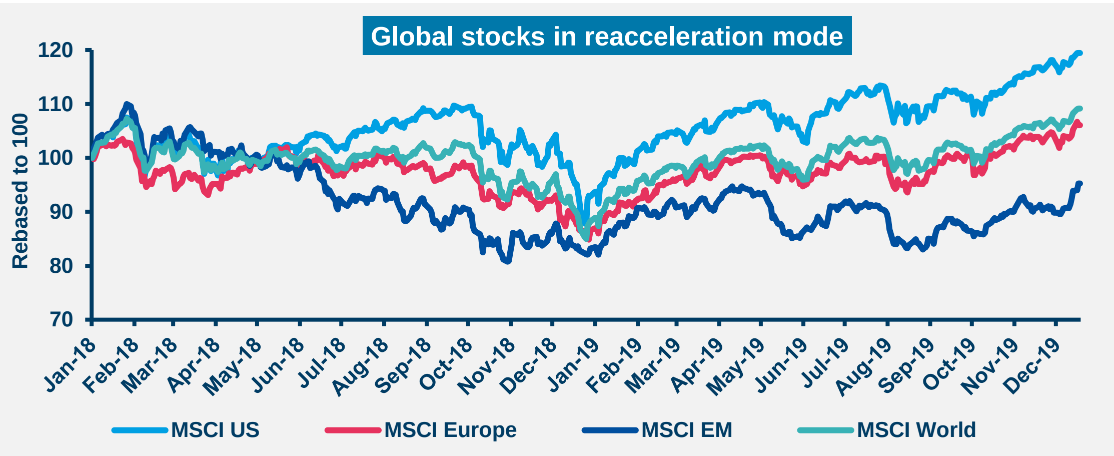
The recent signs of bottoming out of manufacturing in Europe, low unemployment rates and resilient demand **support the case for relative attractiveness of European equities (also based on valuations)**. In addition, UK elections result has reduced the short-term Brexit risk and favoured a return of investor appetite to the region. Since the start of Q4, there has been some **rotation towards value that we believe could continue in 2020**, given the extreme dislocation in value vs. growth valuations. Support to the continuation of this trend will come, in our view, from PMIs bottoming out. When playing the European markets, investors should favour the more cyclicals components, but maintain a selective approach. At a sector level, we prefer energy and industrials among cyclicals and health care amongst the defensives. Europeansmall and mid-cap stocks could also benefit from the improvements in the manufacturing outlook and a potential Brexit deal.

In the US, we believe that earnings growth is needed to support further upside in the broader market. Stronger top-line growth, manageable wage inflation and a potential pick-up in economic activity suggest that the trajectory of profit margins is likely to reverse positively.

For H1 2020, we see potential for equities to deliver attractive returns, but this is contingent on continued progress on the US-China trade front and Brexit. In such an environment, **value and cyclical stocks remain attractive**. Here, we maintain a focus on quality, seeking areas of resilience in case of a trade war escalation. At a sector level, we have become more constructive on health care (diminishing prospects of Warren election) and continue to favour mega cap financials in the high quality cyclical space. We remain cautious on bond proxies such as consumer staples and utilities owing to their high valuations and on industrials and information technology. Overall, dispersion in stock prices favours an active approach.

EM equities

We maintain our constructive view on EM equity but are very selective. A widening of the growth premium vs DM in favour of EM is likely and this will modestly support EM equities. In addition, EM equity valuations appear relatively attractive (MSCI EM Index trades at 32% discount relative to the S&P500) and we believe ongoing stimulus measures would support the economy. As a result, we focus on 'self-helping' countries (domestic consumption) such as Russia and Indonesia.



Source: Amundi on Bloomberg data, as at 18 December 2019. MSCI World = MSCI ACWI

*"**Since Q4 2019, a PMI rebound is occurring at a time of extreme overvaluation of global growth vs value, thereby increasing the chances of this rotation.**"*

Kasper ELMGREEN
Head of Equities

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

Amundi asset class views

Platform	Asset class	View	1M change	Rationale
EQUITY PLATFORM	US	=		US valuations appear reasonable but earnings must grow to further support the uptrend. We have a focus on value and cyclical compartments. Active stock picking is crucial, amid high dispersion of returns.
EQUITY PLATFORM	Europe	=/+		PMIs bottoming out, lower Brexit tail risks and UK political stability support a return of flows to European equities. Extreme market dislocations in Value vs. Growth could also favour value markets and Europe in particular. In our view, cyclical segments offer compelling opportunities.
EQUITY PLATFORM	Japan	=		Japanese equities rebounded but their valuations still remains attractive. This is a cyclical market that could benefit from a cyclical rebound. Corporate balance sheets are underleveraged and buybacks are increasing. However, this market remains more exposed to Yen dynamics and sensitive to US China trade dispute evolution. So we prefer to keep a neutral stance.
EQUITY PLATFORM	Emerging markets	=		EM equities are attractive on a relative value basis and we believe low interest rates and some fiscal easing would support growth. We favour domestic consumption stories. However, we are very selective in light of concerns on earnings slowdown and political instability (idiosyncratic issues in Latin America, Turkey).
FIXED INCOME PLATFORM	US govies	=	▼	We have a neutral duration view, given our conviction that the Fed is under no pressure to veer from its "on hold" stance with few signs of igniting inflation expectations. Broad trading range in bond yields expected in 2020.
FIXED INCOME PLATFORM	US IG Corporate	=/+		We are positive owing to stabilising growth and a supportive Fed but are mindful of high leverage of US corporations that is affordable when interest rates are low. We watch for stress in the event of higher rates and given that spreads are grinding towards multi-year tights. A strong focus on corporate fundamentals is essential at this stage of the credit cycle.
FIXED INCOME PLATFORM	US HY Corporate	=		HY spreads are getting tighter and we are mindful of the leverage levels in this segment. Attractive opportunities are available on a selective basis.
FIXED INCOME PLATFORM	European govies	-/=		We are cautious overall on duration given that the European Central Bank (ECB) is set to pause the rate cut cycle and there is increasingly nervousness on negative rates. This could drive a bottoming out of bond yields. However, we remain positive on peripheral bonds, (especially Italy) as quantitative easing (QE) program restarted.
FIXED INCOME PLATFORM	Euro IG Corporate	++		We are positive on EUR IG which should benefit from the QE program and the 'Subordinated Debt Financial' space looks attractive. This asset class remains crucial for investors as EUR IG would continue to add value to European fixed income portfolio in 2020.
FIXED INCOME PLATFORM	Euro HY Corporate	+		Technical factors are supportive of the asset class but we are selective, particularly in industrials sectors such as energy, and automobiles. Activity is trending lower in HY ahead of the year-end but is expected to return back to normal in January with supportive conditions provided by an active primary market.
FIXED INCOME PLATFORM	EM Bonds HC	+		We are constructive on EM HC bonds where we still see value given that the carry component is still significant. EM growth is expected to accelerate modestly, but we should be aware of some idiosyncratic stories due to political risk in some areas.
FIXED INCOME PLATFORM	EM Bonds LC	=		Real yields in local currencies bonds will remain attractive as we expect more easing from EM CBs, given that inflation is under control. We favour high yield countries as they have more space to cut rates. Meanwhile, we do not expect EM currencies to appreciate going forward and thus we remain cautious. However, we prefer Asian FX over other regions.
OTHER	Commodities			Commodities remain relatively cheap, due to easing financial conditions and decent economic growth. Central banks' active management of balance sheets is another factor that will play an important role in likely supporting prices of precious metals such as gold. Therefore, we remain constructive on the metal for 2020. For oil, US production and OPEC strategy will be the key price drivers for 2020. OPEC would likely remain vigilant and very active on output cuts mitigating external shocks. We maintain our target range of \$55-\$65/barrel for WTI and \$60-\$70/barrel for Brent, but we acknowledge the downside risks arising from cooling global oil demand and sluggish Chinese growth. We are constructive on base metals as we think the manufacturing sector could stabilize in light of a slight rebound in world trade and somewhat better economic data.
OTHER	Currencies			We expect the EUR/USD to trend slightly lower, on a 12 month basis to 1.13, due to diminishing rates advantage between the US and Europe. EUR/USD appreciation is likely but is dependent on economic growth in Europe. The GBP/USD has already touched our 12 month target of 1.31, but there are concerns as Prime Minister Johnson aims to pass a law, prohibiting the UK from seeking an extension of the transition period (with or without a deal). For USD/JPY, our 12 month target remains unchanged at 104. EM FX appear fairly valued and we do not see upside at aggregate level for the next 12 months, with USD/CNY trading in the range for 7.10-7.20 in 2020.

LEGEND

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Negative Neutral Positive

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

Source: Amundi, as of 18 December 2019, views relative to a EUR-based investor. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product. IG = Investment grade corporate bonds, HY = High Yield Corporate; EM Bonds HC / LC = EM bonds hard currency / local currency. WTI= West Texas Intermediate. QE=quantitative easing.

AMUNDI Investment Insights Unit

The Amundi Investment Insights Unit (AIIU) aims to transform our CIO expertise, and Amundi's overall investment knowledge, into actionable insights and tools tailored around investors' needs. In a world in which investors are exposed to information from multiple sources, we aim to become the partner of choice for the provision of regular, clear, timely, engaging and relevant insights that can help our clients make informed investment decisions.

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ASSET MANAGEMENT