



**Pascal
BLANQUÉ**
Group Chief
Investment
Officer



**Vincent
MORTIER**
Deputy Group
Chief Investment
Officer

Overall risk sentiment

Risk off Risk on



Overall cautious approach; explore market dispersions and divergence to benefit from relative value opportunities

Changes vs. previous month

- Lock-in gains in assets with asymmetric risk profile
- Look for a rotation from low-quality credit to equity, amid expectations of higher earnings

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

Bonds are the sentinels in the sequence of recovery

Developments on the virus and vaccine front and the US election are hot topics. **Markets are pricing in a glass-half-full scenario, despite the still-alarming infection numbers on the virus front** (second wave in Europe and record new cases globally). The interconnection of the three cycles — virus, real economy and financial — continues, but the virus transmission mechanism is changing. The ability of the virus cycle, which is the most critical of the three cycles, to affect the other two is now lower vs the beginning of the year. Today, the world is better equipped with regard to testing and local containment measures and therefore the likelihood of a global lockdown hurting the economy decreases. On the market side, the narrative that fiscal and monetary pushes will continue is preventing any major disruption. Any sign of weakness is viewed to be a buying opportunity.

Phase 1 of the recovery: this is where we are today. Any news regarding the trajectory of the recovery is good, but the end of the virus cycle is not yet on the horizon. The positive environment persists based on the strong assumptions of low rates forever and no inflationary pressure. It is true that the sequence in the coming months could be deflationary to begin with, but recovery is under way, thanks especially to China (and other Asian economies) that is further reinforcing its role as the global growth engine. Within this backdrop, equity, credit and Euro peripheral debt markets are responding well. However, in government bonds, volatility has been rising. The yield on USTs moved slightly upwards, from 0.65% at end-September to c.0.8% on 26 October. The anticipated curve-steepening has started. This is an early indication of the next sequence, in which the low-rates-forever mantra would be challenged. The bond market is factoring in a Biden presidency and his likely fiscal boost, which could be triggers for next phase.

Phase 2: things have to get worse before they get better, and this means there are aggressive policies to come (more so if Biden wins). This bodes well for a recovery that should further support a rotation towards cyclical themes as we enter 2021. This should favour equities, which could have more upside potential vs HY credit, which could be less appealing on a risk/return basis at current valuations. A rotation from super-high-growth stocks into more cyclical and quality value areas will likely materialise. Commodity-related trades could also benefit from this cyclical rebound. **The availability of a vaccine would be part of this recovery: markets are pricing in availability in mid-2021 and then an economic reacceleration.** Any delay could generate volatility, putting the virus cycle once again at the top of market concerns. Investors should look at opportunities from rotation, while also being mindful of possibly higher volatility. **Bonds will be the key sentinels for the next phase.** The market will likely start pricing in higher inflation and reflation, leading to the next sequence.

Phase 3: from improving to sustained growth. The next part of the sequence embeds a new round of policy mix and a slow exit from the extreme accommodation seen so far. The measures introduced to fight the pandemic will be very difficult to withdraw, and governments and CBs will probably have to do more. Fiscal and monetary policies will be even more intertwined, making the possibility of further debt-monetisation to finance the recovery a likely scenario. Some EM with weak CB credibility could see inflation rise faster amid their recoveries which could trigger higher commodity prices. This might overheat the economy, ultimately leading to some inflation. This could de-anchor the system, which is based on the assumption of low rates forever, and real rates could become more volatile. This phase will be challenging for risk assets and could favour further rotation into equity value, commodities and real assets.

The switch from one phase to another will not be linear and investors must keep in mind both short- and long-term themes. Near term, the switch from phase 1 to phase 2 will bring rotation opportunities (equity in EM and the more cyclical quality and value spaces), but investors should focus on diversification and selection to counteract volatility. Over the long term, all three phases incorporate some common themes that will be reinforced by the crisis: higher debt, higher inequalities, and a stronger role for China in global trade and economic growth. From an investment perspective, quality and sustainability will once again be key factors to take into account. ESG themes, with a focus on social and green, will become mainstream. Diverging paths in economic growth will emerge. In EM, countries closely linked to China and with higher CB credibility to fight possible inflation surprises will be favoured while other, more indebted countries with fragilities could be challenged. This will make the concept of EM as a whole more outdated and lead to the emergence of global themes linked to the Chinese recovery and cyclical winners.

MACRO & STRATEGY



Monica DEFEND
Global Head of Research



Lorenzo PORTELLI
Head of Cross Asset Research

A glittering environment for gold

Gold prices have been rising since March as policymakers stepped in to support the global financial system affected by the Covid-19 crisis, although recently as the Fed paused its asset purchases, the metal witnessed some correction. Going forward, we believe gold prices will be supported by two main factors: **1) the renewed taxonomy of gold price determinants** (discussed later) envisages that CB balance sheet expansion and CNY dynamics would play a prominent role and **2) our conviction for the yellow metal has shifted from a 'pure hedge' to an 'asset class,'** with potential to gain in case of both the downside and the upside economic scenarios.

Over the past few years, we have discussed gold along the lines of its safe-haven nature in the face of increasing geopolitical risks even when rates were rising and in general amid risk-off events. More recently, the (inverse) relationship of gold prices with EMs' dollar funding and real rates has been progressively enforced. We expect to see further consolidation to higher levels, **with \$2,100/ounce as a reference for fair value in our radar.**

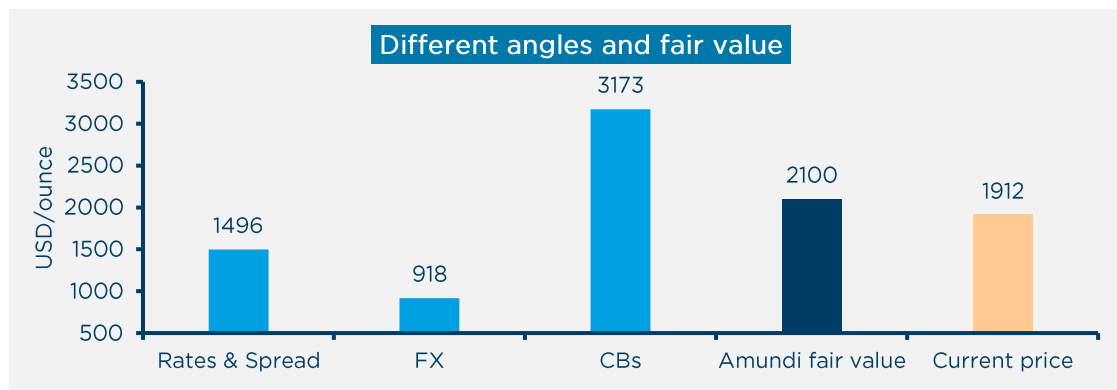
We are still in the grip of the pandemic amid a deterioration of Covid-19-related news flow, which eventually points towards resilient gold prices. Our internal analysis and modelling shed more light on the drivers and sensitivities of the yellow metal, although it is important to note that there is no easy and comprehensive valuation matrix for gold. According to evidence, there are three broad determinants for the gold price:

- Economic and real variables (i.e., GDP, inflation, real rates, spreads, among others);
- FX dynamics (USD, JPY and CNY in particular) ;
- Central banks' unconventional monetary policies (Fed, ECB and BoJ balance sheet expansion).

As per our calculations, there is a renewed taxonomy and **we are convinced that the CNY and, most importantly, the unconventional monetary policy have taken a lead in explaining gold price dynamics.**

This ultimately explains the increased correlation with equity prices through a common link – declining real rates that are a side effect of unconventional monetary policy. As we expect the economic recovery to be uneven – requiring active interventions from CBs if growth hits a roadblock or even falls off – and the Chinese economy to lead global growth (which should be reflected in a higher CNY), we believe there is room for gold prices to appreciate further. In the chart below, we show how the different key variables are likely to affect gold prices. Clearly, if CBs continue to maintain their asset purchase programmes and infuse liquidity into the system, it will have, by far, the strongest impact on prices which should rise to around \$3,173/ounce. On FX, if we see a weaker USD and a stronger CNY, gold prices are likely to appreciate from current levels.

To conclude, as per our proprietary GREAT framework that measures the price sensitivity of an asset class to macro-risk factors, we expect gold prices to display symmetric price behaviour. **This means that in case of both upside and downside economic scenarios, the aforementioned categories/determinants would positively affect gold prices.** In fact, should the upside materialise, inflation pressures will likely push real rates down, eventually boosting gold prices. On the other hand, in the downside scenario, we expect CBs to further expand their balance sheets and increase liquidity, likely supporting higher prices for the metal.



Source: Amundi Research, Bloomberg on 19 October 2020. Amundi fair value is calculated by including rates and spread, FX and central bank (CB) metrics in a comprehensive model, whereas the first 3 histograms are based on mean reversion and specific angle assumptions. BoJ=Bank of Japan
GREAT Framework: Global Risk Exposure Analysis Tool developed by Amundi.

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We believe that the CNY and, most importantly, the unconventional monetary policy have taken a lead in explaining gold price dynamics.
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MULTI-ASSET



Matteo GERMANO
Head of Multi-Asset

Remain conservative and monitor signs of rotations

We see economic recovery as supported by policy initiatives, although there could be downside risks to Q4 growth. This recovery, coupled with vanishing base effects of energy prices, is likely to support inflation in DM. However, the task of generating inflation looks to be tougher in Europe than in the US, whereas in EM, supply shocks are generating pockets of inflation that need to be monitored. Another source of volatility may come from the US election outcome and a resurgence of the virus. **Thus, investors should remain vigilant and maintain an active stance.** However, when US political uncertainty subsides and there is more clarity on growth and a vaccine, investors may look to cautiously rotate from credit into equities.

High conviction ideas

We deliberately do not change our view on equities at the moment, maintaining a tactically close to neutral stance – defensive on the US (stretched IT valuations) and neutral on Europe. Recovery expectations in 2021, and attractive relative valuations and risk premia, point to an improved case for equities over a 12-month horizon, provided a vaccine becomes available in a timely manner and a surge in infections is controlled. Subsequently, cyclical segments could benefit from a rally. In the near term, higher beta plays, such as US small caps or EM equities, could offer some upside, but timing is crucial. We are constructive on Asia (China and Indonesia), owing to expectations of a more pronounced recovery in the region, higher earnings and better virus containment.

Investors should stay active in duration, with a close to neutral stance overall. In the US, a 'Blue Wave' could lead to a further steepening of the yield curve and consequently a potential 20-30bps rise in yields for 10Y Treasuries. We believe these would look attractive if yields approach or even breach the 1% level. On US inflation, we maintain our constructive view amid the Fed's average inflation targeting, continuing economic recovery, and debt monetisation tendencies.

We are positive on Euro peripheral debt on the back of ECB support, favourable technicals and the positive impact of the EU Recovery Fund. We maintain our 5Y BTP position, which should benefit from political stability and suffer less in case of a bear steepening of EMU curves. Although credit spreads have tightened considerably since March, **we remain neutral/ slightly positive for the time being** in light of the demand for carry and QE support. We favour EUR IG over US IG, due to the combination of attractive valuations, ECB purchasing programmes, and lower leverage in Europe than in the US. **Global liquidity and search for yield should benefit EM fixed income.** We maintain our positive stance in HC debt, but believe the room for further compression in local rates is limited, with the main driver being currency exposure. Overall, the EMBI spread is close to fair value, with the possibility of spread tightening in HY in the next three months. However, IG spreads now seem to have reached expensive levels. In FX, we remain positive but selective on a diversified basket of EM FX due to attractive valuations, light investor positioning (and rising flows), and potential support from economic recovery. However, investors should tactically hedge this exposure, given the US political uncertainty. On the other hand, the USD looks overvalued over a medium-term horizon and we may see a correction, as the country has lost its growth and high-real-rate advantage vs the rest of the G10 FX. But for the time being, it may be risky to be directionally negative on the greenback, as election volatility could support it. The GBP may be weighed down by the UK's weak economic activity, although Brexit news flow needs to be monitored.

Risks and hedging

The risks of weak economic growth and policy failure underscore the need to maintain appropriate hedges, to protect equity and credit exposure, in the form of derivatives, the yen and gold. The USD is also a good hedge, if global uncertainty rises.

Amundi Cross-Asset Convictions

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

Source: Amundi. The table represents a cross-asset assessment on a three-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. USD = US Dollar, JPY = Japanese yen, UST = US Treasury, DM = Developed markets, EM/GEM = Emerging markets, FX = Foreign exchange, FI = Fixed income, IG = Investment grade, HY = High yield, CHF = Swiss franc, NOK = Norwegian Krone, EUR = Euro, CBs = central banks, TIPS = Treasury Inflation-Protected Security, BTP = Italian government bonds.

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We are close to neutral on equities and slightly positive on credit, but are monitoring whether an improving economy and vaccine availability provide better entry points.

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FIXED INCOME



**Eric
BRARD**
Head of Fixed Income



**Yerlan
SYZDYKOV**
Global Head of
Emerging Markets



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

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In a low real rate environment, investors should balance the need to get higher yields with the need to buy quality credit at attractive valuations, all the while maintaining sufficient liquidity.

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Focus on carry and security selection in credit

We have witnessed a partial economic rebound in the US, but the extent of permanent job losses there must be watched, whereas leading indicators coming out of China are already above their pre-pandemic levels. However, in Europe, the situation seems to have deteriorated a bit due to a new wave of infections. Overall, we are not convinced that the economy is out of the woods yet. As a result, investors should note that the current crisis is all about avoiding traps and gaining exposure to sectors/names that favour an improving economy and a potential rotation. Having said that, we are cautious with respect to potential volatility related to the US political situation and Brexit risks, and, accordingly suggest maintaining ample liquidity.

Global and European fixed income

With a keen eye for relative value trades, we have an overall neutral duration view, positive in the US (hedge against weak global environment) and France, and cautious on Germany and the UK. Recently improved political sentiment on Euro peripheral countries has encouraged us to remain positive on Italy and Spain. However, amid a new wave of infections which are causing renewed lockdowns, we are cautious on EZ inflation, despite cheap valuations. While we are constructive on credit, we acknowledge that investors face a dual challenge: buying cheap and buying quality credit. This is further complicated by continued central banks/ fiscal backstops that will provide easy liquidity, which in turn is causing some segments of the market to be overpriced. **This, coupled with a continuation of fragmentation, increases the scope for security selection in terms of sector and name**, with opportunities in financials and subordinated debt, but investors should maintain sufficient cash buffers. Overall, we prefer EUR to the US in IG and HY, due to the lower leverage.

US fixed income

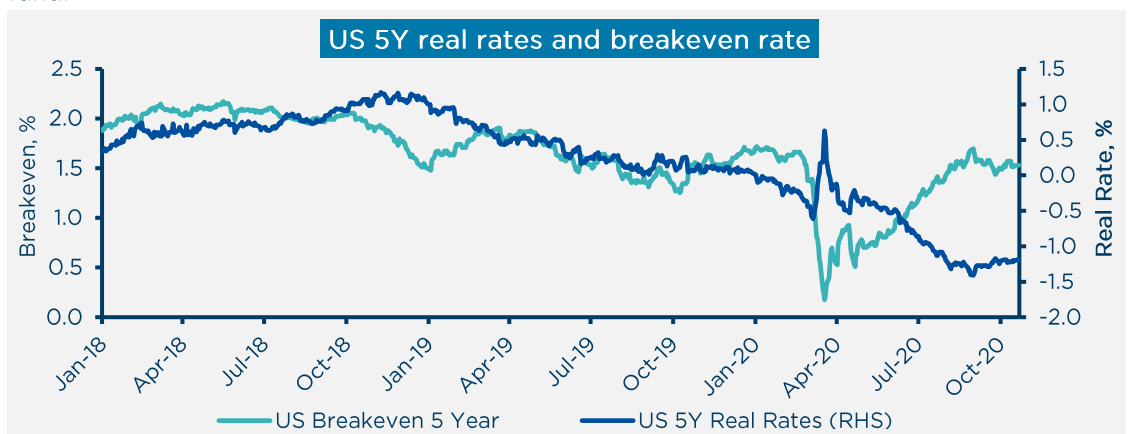
As the manufacturing sector continues to improve, asset prices remain supported by liquidity and containment of the virus. On the one hand, a faster economic recovery, increased UST issuance, and a potential stimulus push from Biden (if elected) could lead to further steepening of the yield curve. We stay cautious on USTs. However, markets are not pricing in medical improvements or a potential vaccine. On the Fed side, there is limited room available with respect to how much further low rates can fall from current levels (without overheating the economy), given that real rates are already low and there are already long/medium term prospects for inflation. **Therefore, we maintain our positive view on TIPS.** On corporate credit, we suggest investors pare back spread duration through active selection. They should also trim exposure to HY cash bonds where risks are asymmetric. On the consumer front, there were concerns that when government support measures expire, the economy would be hit hard. But consumer spending picked up and the housing market and consumer debt servicing remain strong. We see opportunities in securitised credit and consumer and residential mortgage markets, where we favour agency MBS over prime RMBS.

EM bonds

We think a Biden victory would be positive for EM assets, but investors should have some protection for a surprise Trump victory/contested election. Overall, we recommend investors book profits in some IG, whereas HY spreads remain wide.

FX

We are cautious on USD/JPY, positive NOK/ EUR. While USD should depreciate after elections, the EUR would be weighed on by the time taken by all parliaments to approve the EU recovery fund.



GFI= Global Fixed Income, GEMs/EM FX = Global emerging markets foreign exchange, HY = High yield, IG = Investment grade, EUR = Euro, USD = US dollar, UST = US Treasuries, RMBS = Residential mortgage-backed securities, ABS = Asset-backed securities, HC = Hard currency, LC = Local currency, TIPS = Treasury Inflation Protected Security, CRE = Commercial real estate, JPY = Japanese yen.

Dispersion may create opportunities for selection

Overall assessment

Economic recovery is under way even if it is not uniform across the globe, as seen in the divergence in the services vs manufacturing sectors. Therefore, in addition to low forward visibility and a wide range of outcomes, investors will have to navigate a phase of imbalances not only in the form of high corporate debt, but also in the form of rising socio-economic inequalities. The current crisis has exacerbated these inequalities. Investors should navigate the current situation with an overall balanced stance.

European equities

While an uneven recovery will cause a high dispersion of returns, it also presents an opportune time for active selection. Valuation dispersion is high and we find great opportunities especially in the higher-quality area of cyclicals, but given the high level of uncertainty, selectivity is required. We have a strong preference for balance sheet strength and urge extreme caution in companies with weak balance sheets and those where business models are being disrupted. In addition, investors need to be careful of areas of excessive valuation, such as technology.

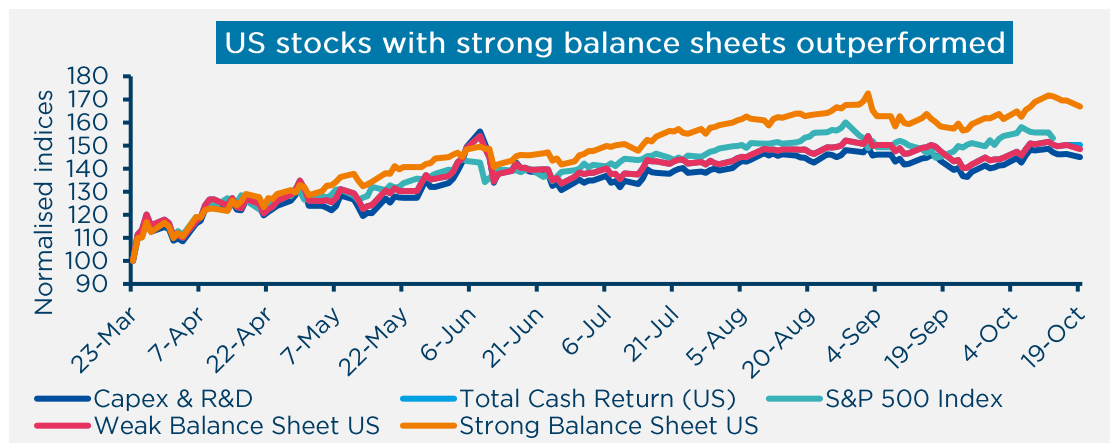
So, on the one hand, we remain positive on healthcare (slightly less so than before) within defensives, but at the other end of the barbell, **we find opportunities in cyclical compartments**, such as building materials, that are a good way to play the recovery. We also increasingly find attractive names in consumer discretionary, where the risk/reward has been compelling, though one has to be very selective. Overall, we maintain a balanced approach. Another interesting strategy is value, as it could benefit from reflation expectations moving into 2021.

US equities

US markets are at the moment being driven by positive expectations around earnings and are also factoring in a new 'low lockdown trade', which is supporting tech growth stocks. This, however, appears a bit concerning to us because it underestimates the positive triggers that could come from the availability of a vaccine, therapy, medical treatment and fiscal stimulus. The last, in fact, could support a steeper yield curve and further the rotation towards cyclicals, where we prefer industrials to financials and energy. We also like **selected quality value stocks** that can manage through this difficult economic period and should benefit as the US and global economies rebound and as inflation returns. However, **there is uncertainty over the timing of reflation** and the potential for a corresponding increase in rates. In addition, certain value-oriented sectors (airlines) are structurally impaired and/or could be negatively affected by higher regulations (energy) in case of a Biden victory. **Thus, the case for investing in value is very strong.** On the other end of the spectrum, we are constructive on stable growth names, exposed to secular growth trends that are not dependent on economic growth: eg, the shift to online retail. In contrast, we are cautious on hyper-growth and deep value.

EM equities

While a recovery should support EM, US-China tensions must be watched. In Asia, we are optimistic on countries such as South Korea (first-in, first-out). At sector level, semiconductors look appealing whereas high valuations in healthcare and consumer staples make us cautious. Investors should selectively explore cheap names in growth/value, with a focus on those offering sustainable dividend yields or growth catalysts.



Source: Amundi, Bloomberg on 21 October 2020. Goldman Sachs indices rebased to 100 on 23 March 2020.

EQUITY

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The subdued recovery under way could favour a rotation towards cyclical names, but stock selection is critical to identifying resilient businesses with the potential for sustainable returns.

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**Kasper
ELMGREEN**
Head of Equities



**Yerlan
SYZDYKOV**
Global Head of
Emerging Markets



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

Amundi asset class views

Asset class View 1M change Rationale

EQUITY PLATFORM	US	-/=	Equity risk premia are attractive relative to bonds, but this doesn't mean there cannot be volatility, particularly with respect to the election outcomes. However, expectations of continued recovery, improving earnings forecasts, and a low possibility of an all-encompassing national lockdown should support prices, particularly for the cyclical and quality components of the market. Overall, investors should play market divergences with a balanced stance.
	Europe	=	The economy is improving, but resurgence of virus cases and subsequent lockdowns in the region may make the recovery bumpy. The result is extreme market dispersions, which are creating opportunities for a rotation towards cyclicals and value names for active stock pickers. We look for names with strong balance sheets and resilient business models.
	Japan	=	Pro-cyclical markets such as Japan should be supported by global growth prospects and attractive valuations. However, investors should stay watchful and balanced till when there is more visibility on the growth path.
	Emerging markets	=	Improving economic prospects should support EM assets, but geopolitical risks, such as the recent sanctions on Russia and US elections, coupled with the US-China rivalry for global dominance, are key variables. Nonetheless, the crisis has reinforced China's role as the global growth engine, and Asian and other economies exposed to this will benefit. With an overall neutral stance, we like the semiconductor sector and attractively valued growth names.
FIXED INCOME PLATFORM	US govies	= ▼	We stay neutral/slightly positive on US duration in our global portfolios in light of UST characteristics to provide a safeguard against an uncertain economic environment. In US portfolios, we see long-term inflation prospects and prefer TIPS to UST.
	US IG Corporate	=/+	The IG segment will continue to find support in monetary stimulus from the Fed, though political uncertainty may cause volatility. Investors should stay active and pare back spread duration where risks are asymmetric. We selectively like consumer and residential mortgages, given the strong consumer and housing markets.
	US HY Corporate	-/=	We remain cautious on HY, particularly where downside potential is higher than the potential for gains. While the market will be supported by CB action, the case for selectivity is high, given that some businesses will be unable to withstand a slow recovery.
	European Govies	-/=	We are cautious on this space as rates are already at low levels, but remain active, with a focus on relative value trades. However, on peripheral debt, we stay positive amid continued ECB support and reducing fragmentation and political risks (particularly in Italy).
	Euro IG Corporate	+ ▼	We believe IG spreads have tightened and there is little juice left to squeeze in this asset class, although ECB QE should provide support. We continue to prefer EUR over US, due to lower leverage in the former, and play this through financial and subordinated debt that offer the potential of that extra yield. Overall, we maintain high focus on selection and liquidity.
	Euro HY Corporate	=	We recommend investors balance the need for high income with the requirement of buying quality credit at attractive prices. It is important to note that the current abundant liquidity is inflating the price of credit even for companies which will witness a deterioration of performance. So, the need for selection and cash buffers is very high.
	EM Bonds HC	=/+	We stay positive on HC debt, but believe there is a need for caution over the outcome of US elections and the inability of central banks in some EM to finance the governments' fiscal deficits. Investors should selectively lock in gains in IG, but, we think, there is some value left in HY names where spreads are still wide.
OTHER	EM Bonds LC	=	We are cautious and realise that prospects of higher rates in the US (whenever that happens) could be slightly negative for EM rates. Consequently, we stay vigilant, maintain a dynamic stance to capture any dislocations, and believe investors should book profits where upside is limited.
	Commodities		The Saudi-led supply cuts have helped clear the oversupply imbalance in the oil market. On metals, the recent sell-off in gold (and silver) is related to the concerns of higher real rates, "normal" risk-on, and a pause in asset buying by the Fed. CBs' monetary policies have been the strongest driver of gold prices and as long as they maintain this extra dovish stance any painful sell-off seems unlikely going forward. In contrast, should CBs unexpectedly change their policies, gold may be vulnerable to a serious derating, as the metal's fair value, based on traditional metrics (rates and FX), is far lower than current levels. All in all, commodities are benefiting from liquidity injections by CBs, USD and a strong CNY.
	Currencies		Given that the US has lost its economic growth and rates advantage vs the rest of the G10 countries, the USD could see a correction vis-à-vis G10 FX, provided growth revisions do not occur. If, however, UK and EZ growth disappoint, then the movement will be less pronounced. Interestingly, FX correlation with risk sentiment is elevated, as evident in September when the USD proved resilient. Therefore, there is a possibility that with the political uncertainty in the US and rising volatility, the mean reversion of the USD to its fair value may be limited. On the other hand, GBP movements will be closely linked to news flow around Brexit.

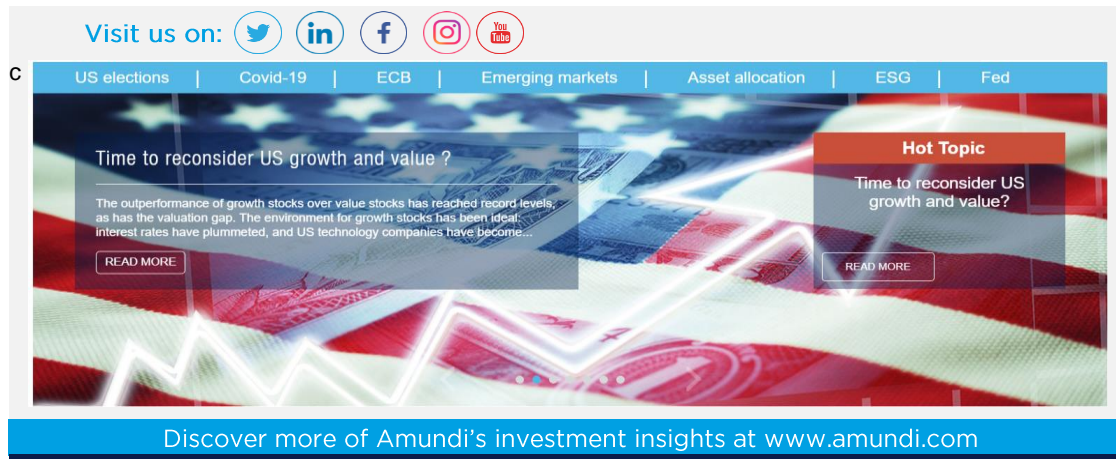
LEGEND



Source: Amundi 26 October 2020, views relative to a EUR-based investor. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product. 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 (AIU) 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.



INSIGHTS UNIT

Claudia BERTINO
Head of Amundi
Investment Insights Unit

Laura FIOROT
Deputy Head of Amundi
Investment Insights Unit

Ujjwal DHINGRA
Amundi Investment
Insights Unit

Francesca PANELLI
Amundi Investment
Insights Unit

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