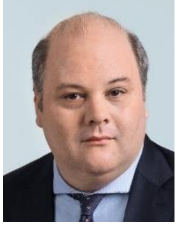
Not a time to change course



Vincent MORTIER
Group Chief Investment Offcer

Matteo GERMANO
Deputy Group Chief Investment Offcer

The broader equity markets have digested the March turmoil, but the disruption continues to be evident in the US regional banking sector, which is not showing signs of recovery. Bond markets are starting to assess a higher probability of recession in the US and the potential that the Fed may start to cut rates later this year, as inflation tensions look to be slowing. On the earnings front, instead, market expectations remain too optimistic, signalling a disconnect between the recession risks bonds are pricing in and current equity valuations.

Against this backdrop of conflicting signals, we think this is not a time to change course: investors should remain cautious. Geopolitical tensions between the US and China, financial market stress, and confidence are other key elements to watch. While we do not see systemic issues, tightening financial conditions are increasing risks to the downside that are not priced into risky assets.

We expect a weak global growth outlook, with a US recession, a weak outlook in Europe, and a rebound in Asia from China's reopening that will not be able to offset US deceleration. This is because the recovery in China has so far been skewed towards its domestic economy. However, inflation is decelerating but remains sticky in some core service components. With this in mind, we expect an additional 25bps hike in May by the Fed, which is likely to then pause, as recent tightening in financial conditions should limit the need for further action. In Europe, we expect the ECB to hike rates as inflation is a concern.

Economic surprise gap between the US and China on the rise

Source: Amundi Institute, Bloomberg, weekly data as of 20 April 2023. Positive reading indicates data released were stronger than expected. Negative number means data released were worse than expected.

"With inflation remaining above CB targets, excessive optimism priced into risky assets, and appealing short-term bond yields, investors should fine-tune their cautious stance and favour high-quality assets."

Without changing their cautious stance, investors should consider the following approach in building resilient portfolios:

- **In cross asset,** a potential profit recession in the US underscores the need to stay positive on USTs. But given the backdrop, investors should consider partially moving their positioning towards shorter maturities that could benefit from a change in Fed policy. On credit, we stay cautious on HY -- now more so in the US, owing to expensive valuations. Even in equities, there is scope for a more defensive stance in Europe through adjustments in derivatives, but we see value in China. At the other end, investors should strengthen hedges and consider safe-haven FX (JPY). In commodities, gold presents an interesting case, but it is prudent to tactically book some profits.
- **Tighter financial conditions and a deteriorating economic backdrop call for a positive but active view on US duration**. We look for opportunities across geographies. As such, we are slightly defensive in UK, and cautious on core Europe but may consider going neutral in future on the latter. In Japan, we are defensive but see curve steepening potential in Canada. US and EU HY are areas where we remain cautious. If the economy deteriorates, this could weigh on cash flows and liquidity could become an issue in HY. We also acknowledge pressures in US CRE and prefer multi-family real estate over office. On IG, we are selectively positive on names that are stable and can withstand rates-related and economic volatility.
- **Odds of a US recession are not fully priced into equities and thus we maintain our prudent stances on the US and Europe**. But we are positive on China, where economic growth has been upgraded. Japanese equities could be weighed on by a strengthening yen. Regarding FX, we are now neutral to negative on the US dollar.
- **We selectively like EM LC debt** in countries such as Mexico, owing to attractive carry and a stabilisation of inflation expectations, and on Indonesia. In HC, we focus on HY amid higher potential for rebound. EM corporate debt is also displaying attractive valuations vs EU/US credit. In equities, we have a more constructive stance on Brazil, owing to a pragmatic approach from President Lula. But, we are monitoring risks regarding fiscal reforms.

Overall risk sentiment

Fine-tune the cautious views, with an eye on credit conditions in the real economy, corporate profit margins, and economic growth.

Changes vs previous month

- Cross assets: Adjust views on USTs without changing stance, strengthen hedges, more defensive on equities and on US HY.
- EM debt: focus on country-specific, sectoral aspects.
- FX: more cautious on USD, positive on JPY.

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

Three hot questions

1

What is your view on a possible halt to the Fed rate-hiking cycle?

Since the SVB implosion, the ability of small and regional US banks to lend has changed. Pressure to boost profitability will force them to tighten lending standards and charge more when refinancing customer loans. Any pressure on liquidity could trigger more failures and, eventually, Fed rescues, forcing the central bank to cut rates. We see the Fed terminal rate at 5.25% and rates staying on hold for the remainder of 2023. A first cut is foreseen in 1Q24.

Investment consequences

- Neutral US duration; in the short term, we see deeper curve inversion, whereas we expect bull steepening in the medium term.
- EUR/USD target: 1.15 in 4Q23, 1.18 in 1Q24.

2

What could be the fallout of the OPEC+ production cut?

The production cut was unexpected and likely driven by concerns about global demand. As oil prices are highly sensitive to worsening growth and liquidity conditions, historically, production cuts triggered by falling demand have proved to be less effective in driving up oil prices. We see limited near-term price upside but expect oil markets to tighten earlier than previously anticipated. We do not foresee a sustainable breakthrough above $100/bbl for Brent.

Investment consequences

- 12-month Brent price target: $90-95/bbl.

3

Why have equities proved resilient despite a deteriorating economy?

Despite the recent banking sector stress, the MSCI ACWI index (global equity index) continued on its uptrend, thanks to prompt central bank intervention. However, cyclical risks remain, as the odds of a US recession are on the rise, but they are not completely priced in by markets. So, we believe the next step could be in favour of defensive stocks.

Investment consequences

- Caution on US confirmed.
- Quality becomes a core style, while value stays a long-term play.
- While we stay constructive on value and high-dividend stocks, investors should consider taking some profits in US and European value and high dividend stocks, and also keep a positive outlook on US MinVol.

"Cyclical risks persist, as the odds of a US recession are on the rise, but they are not completely priced in by markets."

Monica DEFEND
Head of Amundi Institute

Fine-tuning of the cautious allocation

We see a deteriorating US economic environment amid the Fed's slowing monetary tightening, rising costs of credit for the real economy, and stubborn core inflation, particularly in Europe. A weak US economy is unlikely to leave Europe untouched. Thus, we suggest maintaining a cautious tilt on risk assets, strengthening hedges, and utilising the safe-haven characteristics of USTs. On the last issue, **the Fed is close to the end of its tightening cycle and this may create opportunities in the medium-term range of the yield curve.** Nonetheless, investors should stay diversified, and consider preserving profits partly in areas such as gold, given the ascent this year.

High conviction ideas. High valuations, falling profit margins, and decelerating economic growth keep us cautious in equities, where we reinforced this stance further through adjustment of our views in Europe. In EM, however, we are positive on China on the back of improving growth and cheaper relative valuations. But this path will not be linear.

In fixed income, higher recession concerns, but decelerating inflation and its impact on rate hikes call for a fine-tuning in US duration. We expect some bull-steepening of the yield curve, leading us to partially switch our positive views on 10Y UST towards the 2Y and 5Y segments. Even in Canada, we maintain our curve steepening stance. In Europe, the Swedish 10Y swap should do well in light of a vulnerable Swedish economy.

On peripheral debt, we maintain a slightly constructive view on the 10Y BTP-Bund spreads owing to strong technicals and expectations of ECB support. However, we are cautious on Japanese government bonds amid views that the BoJ will drop its yield curve control.

We remain cautious on corporate credit in general but shifted this stance from EU HY to US HY. This is mainly due to high valuations and the potential impact of higher real rates on funding costs for companies. We are also concerned about higher defaults in the US, given pressures on growth.

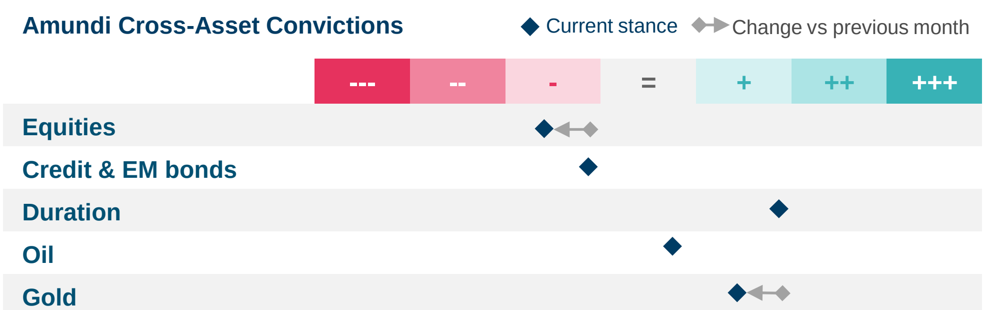
In FX, dollar weakness is likely to persist as the higher rate advantage of the US dissipates, allowing us to maintain our positive views on the EUR/USD and AUD/USD. On the other hand, we are now constructive on the JPY/CHF. The yen is an underappreciated hedge against global geopolitical risks. In EM, we like the MEX/EUR owing to its attractive carry and a positive balance of payments outlook. We also favour the BRL/USD and ZAR/USD (attractive valuations).

Risks and hedging. Potential for a more-severe-than-expected recession in the US led us to strengthen our hedges on equities. Also, while we slightly downgraded gold, we maintain that it offers strong diversification and downside protection in times of stress and geopolitical crisis. Finally, we are monitoring oil for any potential upside but stay neutral for now.

Francesco SANDRINI
Head of Multi-Asset Strategies

John O'TOOLE
Head of Multi-Asset Investment Solutions

"The current backdrop calls for an active approach on US duration, where we repositioned our views slightly and turned more defensive on equities."



Source: Amundi. The table represents a cross-asset assessment on a three- to six-month horizon based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/++/+++). This assessment is subject to change and includes the effects of hedging components. FX = foreign exchange, IG = investment grade, HY = high yield, CBs = central banks, BTP = Italian government bonds, BoJ = Bank of Japan.

Balance liquidity, quality and EM carry

Overall assessment. We are moving towards a challenging backdrop of weaker economic growth and central banks still focusing on inflation. Hence, **investors should maintain a tilt towards quality in credit and selectively use carry in EM debt to build resilient portfolios**.

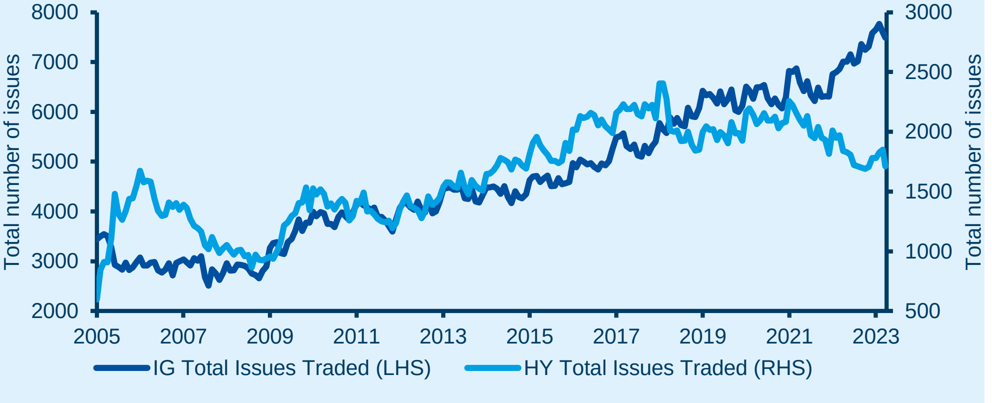
Global and European fixed income. Decelerating economic growth and the ECB's resolute stance against inflation make directional bets difficult. **We are defensive on Japan and marginally cautious on duration in core Europe, but are assessing when to move back to neutral on the latter. Even in the UK we are slightly defensive.** In the US, however, we are neutral and see curve steepening opportunities. We also maintain a small positive stance on Euro inflation. In corporate credit, spread volatility and cash flow uncertainty could increase. Thus, even though we maintain a slight constructive stance on credit mainly through EU IG and through UK IG, we are very selective. In particular, we like EU subordinated financials that offer higher returns. However, we are cautious on HY and hence think investors should consider keeping their HY exposure hedged.

US fixed income. In the real economy, if we look beneath the surface, many banks are tightening lending standards for consumers and companies, and this could have repercussions for overall consumption. The Fed, for its part, is sticking to the 'higher for longer' messaging. All this creates substantial volatility for rates, resulting in an opportune moment for active duration management. **For now, we keep a slightly positive bias but are agile in adjusting this stance.** On credit, we maintain a quality bias, with a preference for IG over HY. In the latter, we believe a more severe drawdown in earnings and cash flows is needed for defaults to increase. At a sector level, we prefer large financial companies to industrials, and favour high-quality businesses with low leverage over HY. In securitised credit, there is selective value in CRE, but we prefer multi-family to office/retail CRE.

EM bonds. In an environment where it is difficult to gauge market direction, we see some positives for EM FI in the form of a potential peak in US rates, a weak dollar, and better EM growth. While our overall duration stance is neutral, in HC, we are positioned to capture carry, focusing primarily on HY. On LC, we are constructive, owing to resilient FX and high carry. But we are selective in favour of countries such as Brazil, South Africa, Indonesia. We also view commodity exporters favourably.

FX. The fading US rates advantage leads us to be neutral to marginally cautious on the USD, but we are positive on the JPY and CHF. We are watchful on the EUR and instead like select EM currencies, eg, the MXN, BRL and Asian FX including IDR.

Diverging liquidity trends in investment grade and high yield



Source: Amundi Institute, Bloomberg, as of 20 April 2023. FINRA TRACE Market Breadth Total Issues for IG and HY shown above. Higher number shows higher market breadth and higher liquidity.

Amaury D'ORSAY
Head of Fixed Income

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

"Credit spreads are ignoring the upcoming economic weakness, but we believe it is imperative to focus on quality and liquidity."

Chase earnings strength, not the rally

Kasper ELMGREEN
Head of Equities

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

"We think this rally lacks strength because there are meaningful risks to earnings and margins that are not yet priced in."

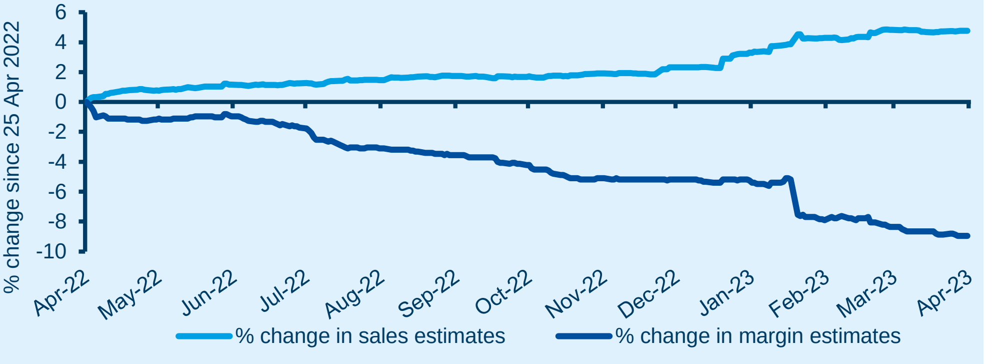
Overall assessment. Equities do not seem to be pricing in earnings and recession risks completely and we think this is a big mistake. In select cases, however, downward pressures on margins are priced in, creating high dispersion and an attractive environment for stock-picking. **Our road map continues to be that of caution, combined with quality and value, and exploring opportunities in EM where correlation with the developed world is low.**

European equities. We are likely to see a deterioration in corporate earnings in the current quarter and beyond because companies are facing both cyclical and structural headwinds. **This could result in casualties, and we aim to capitalise on such volatility to identify companies with strong balance sheets and an ability to defend earnings.** Overall, we maintain a barbell-type approach by combining exposure to quality cyclical businesses and defensive stocks. At a sector level, staples and healthcare (positive now) are preferred, as these defensive stocks offer the prospect of capital appreciation and healthy dividends. However, in financials and industrials, where we remain constructive, investors should consider using the upside to book partial profits. But we maintain a preference for retail banks, due to the positive effects of high rates, and are monitoring the CRE sector.

US equities. **Investors should consider building portfolios that are less economically sensitive in current times.** For instance, in financials, we see selective value in depository banks and those with very limited capital market exposure. We also like large-cap winners that have stable customer deposit bases. Secondly, energy names are likely to hold up better even during a recession because the sector has already seen a drawdown. However, on other cyclical sectors, such as industrials and discretionary, we are cautious. Within defensives, there are businesses where valuations are very high. There are also other defensives with cheap valuations but weaker business models. Through our bottom-up analysis, we aim to identify companies where valuations are justified by their earnings potential: eg, in health care equipment & services. Finally, the outperformance of value vs growth should continue, but won't be on a straight line.

EM equities. A strong Chinese recovery is likely to widen the EM-DM growth gap. Longer term, diversification of supply chains outside China would benefit other EM. However, we acknowledge geopolitical tensions and idiosyncratic risks in the EM world and thus rely on bottom-up analysis. For example, we like Mexico and believe Brazil's fiscal plan supported by President Lula should be positive. But we are cautious on Malaysia, owing to valuations. At a sector level, we prefer discretionary and real estate.

S&P 500 margins estimates are falling



Source: Amundi Institute, Bloomberg as of 24 April 2023. Chart shows the change in 12m forward sales and margin estimates for the S&P 500 index from a year ago.

Amundi asset class views

Platform	Asset Class	View	vs M-1	Rationale
EQUITY PLATFORM	US	-/=		We maintain a prudent approach on equities as economic growth deteriorates with potential impacts on corporate earnings. The SVB saga could lead to more regulations for regional banks, but the larger national banks and the broader financial system appear resilient.
EQUITY PLATFORM	US value	+		Many years of quantitative easing created one of the biggest cyclical outperformances of growth vs value, but now the process of normalisation of interest rates will favour value, although this will not be in a straight line. We focus on earnings growth and think investors should combine value with quality amid pressures on economic growth.
EQUITY PLATFORM	US growth	--		We avoid unprofitable names and those with excessive valuations. A higher interest rates environment could be detrimental for growth stocks which rely more on future cash flows.
EQUITY PLATFORM	Europe	-/=		A less supportive external environment and a weak consumption backdrop owing to high core inflation may affect European earnings. We stay cautious overall and explore areas (such as retail banks) with attractive valuations and value and quality characteristics.
EQUITY PLATFORM	Japan	-/=		We are monitoring monetary policy, which could affect the yen, to assess the earnings outlook. A weak global growth backdrop could also weigh on the country's markets.
EQUITY PLATFORM	China	+		As Chinese economic growth accelerates, we continue to play on an economic reopening-induced rebound and an easier environment for e-commerce companies. At the same time, we are watchful with respect to geopolitical tensions.
EQUITY PLATFORM	EM ex China	=		Country-specific dynamics play an important role in EM. For instance, we are positive on Brazil but are following the government's approach to fiscal reforms. In Malaysia, however, valuations are expensive. Overall, China reopening should be positive for EM countries which have strong trade relations with China.
FIXED INCOME PLATFORM	US govies	=/+		A deterioration in the macro-economic environment keeps us slightly constructive on duration as we marginally lowered our estimates for the Fed's terminal rates. But we remain active as the CB tries to balance financial stability with controlling inflation.
FIXED INCOME PLATFORM	US IG corporate	=/+		We see high profit margins and healthy balance sheets for IG issuers. But we remain selective in light of the potential impact of declining economic activity on revenues, and the effects of higher wages and funding costs on earnings going forward.
FIXED INCOME PLATFORM	US HY corporate	-		HY valuations are not pricing in a recession, but we think this is too optimistic. If liquidity deteriorates and companies find it difficult to access funds, then spread volatility would increase, particularly for low-rated HY names (ie, CCC).
FIXED INCOME PLATFORM	European govies	-/=		We are slightly cautious on core Europe duration in light of the ECB's determination to control rising prices. But we remain active and willing to move to neutral if economic growth slows below the level we expect. The ECB's data-dependent approach is another reason that keeps us agile.
FIXED INCOME PLATFORM	Euro IG corporate	=/+	▲	We are monitoring the impact of monetary tightening and financial conditions on IG spreads. Corporate fundamentals are strong, but we are vigilant on liquidity. From a global perspective, we prefer EUR and GBP IG to US and are very selective.
FIXED INCOME PLATFORM	Euro HY corp.	-		We are cautious amid our concerns that fundamentals and the default rate situation may deteriorate at a time of weaker earnings and higher funding costs, particularly for highly leveraged segments of the market.
FIXED INCOME PLATFORM	China govies	=		We stay close to neutral as economic growth recovers and limited government support persists. But we maintain that Chinese bonds offer diversification for global investors.
FIXED INCOME PLATFORM	EM HC	=/+		Amid an improving EM-DM growth premium, we focus on select HY names in this space, where we see higher potential for a rebound. We look for attractive carry, but continue to monitor political risks.
FIXED INCOME PLATFORM	EM LC	=/+		A weakening USD is supportive of EM debt: we explore opportunities in Mexico and Indonesia. Stabilisation of inflation expectations is positive for LC debt. However, we are cautious on Taiwan, due to geopolitical risks.
OTHER	Commodities			Recent oil production cuts by OPEC+ may tighten markets slightly but concerns over falling demand could prevail. Our 12-month target for Brent is $90-95/bbl. On gold, we think valuations are rich, but slowing rate hikes and continued liquidity stress could provide limited support. We keep our 12-month target at $2,050/oz.
OTHER	FX			We confirm the weakening USD trend in 2023, and a year-end EUR/USD target at 1.15. However, we look at JPY and CHF as traditional safe-havens in times of recession. In EM FX, momentum seems to be improving selectively in favour of Asia and Latin America.

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

Source: Amundi, as of April 2023, views relative to a EUR-based investor. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product.

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