



Vincent MORTIER
Group Chief Investment Officer



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Overall risk sentiment

Risk off Risk on



Amid pressures on economic growth, we keep a slightly defensive stance on risk assets, with a quality tilt and well-diversified.

Changes vs. previous month

- Less cautious on core Europe duration.
- Upgraded equities in China, and US vs Europe.
- More positive on USD/EUR amid Fed tightening.

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

Cautious on markets: high inflation, slowing growth

The first sequence of the double bear markets (in equities and long-term bonds) adjusting to the end of easy money and rising inflation is almost complete. Now, the narrative has changed, with a shift in focus to deceleration of growth vs fears of inflation. The three main themes that should be monitored are:

- (1) **Lower growth, high inflation:** DM in a stagflationary scenario with divergences and potential effects of gas rationing on European GDP growth.
- (2) **Earnings expectations could still come down.** Current market pricing is still coherent with a return to a normal inflation regime and not entirely pricing in a profit recession. In a capitulation phase, markets should anticipate the worst, with either stronger EPS drawdown or lower prices (or both), but we don't think we're there yet.
- (3) **Dollar rally: room to continue.** With no changes in the Fed stance, we see downside risks to our EUR/USD targets for year-end, with a possible downside level at 0.94 while the six-month target remains around parity. Recession or a higher probability of recession would be positive for the US dollar as long as the Fed stays hawkish.

For investors, this backdrop translates into being cautious, tilting towards inflation protection.

- **From a cross-asset perspective, higher uncertainty and increasing downside risks regarding the economy call for a relative preference for bonds vs equities after the 2022 repricing.** Economic momentum has failed to rebound and risk sentiment remains negative, still pointing to possible further market downside. For a period, we may see the safe-haven appeal of bonds returning, but the approach to FI markets has to **remain flexible because inflation pressure will at some point resurface and keep volatility high.** We continue to call for increased diversification and consideration of alternative strategies, currencies and commodities as well.
- In equities, we stay defensive. Bond yields will have to fall consistently and the Fed to pivot before we return to a pro-cyclical equity stance. **Hence, while sticking to the view that rising rates favour value, we believe it's key to complement this call with quality and selectivity.** On a regional basis, we maintain our preference for the US vs the Eurozone. Any signal that a US recession may be avoided or postponed further could lead to a tactical relief rally in upcoming months. But pressure on earnings will increase moving into 2023 as inflation will still be high (although decelerating), financing costs will be higher after rate hikes, and the economic outlook could have deteriorated.
- **In bonds, core govies are now more attractive, at least in nominal terms, and they may act as a diversifier in case of higher recession risks.** Hence, short term, we maintain a neutral overall stance, but given the still-high market volatility, we stay flexible to take advantage of tactical movements in yields. Credit markets have also repriced significantly, even more relative to equity, and valuations are now more attractive. Here, we favour investment grade credit – in particular, in the US based on a more resilient economic outlook vs Europe.
- **The emerging markets (EM) outlook is improving across the board, with China equity favoured to play the desynchronisation of the cycle.** On the equity front, earnings expectations look to be stabilising and bottoming. Revisions are very positive in LatAm, slightly decreasing in EMEA, and very negative but bottoming in EM Asia. Overall, we don't yet call for a positive overall stance in EM equity but remain selective. We have further improved our outlook for China equity given the policy support, economic reopening, and signals of possible relaxation of the zero tolerance of Covid approach. In bonds, the current environment remains unfavourable to local debt, but nominal yields could be close to peaking. Hard currency debt, instead, offers opportunities, as spread widening looks to have gone too far. High oil prices also continue to be supportive.

In conclusion, we continue to be in the phase when central banks have to assert credibility, and this is also a function of the pain in the market. **So, investors should resist the temptation to take bold steps, as the tightening of financial conditions is not over yet.** However, we believe that CBs may stop hiking earlier than expected in an attempt to avert more economic damage, and at that point, some further tactical opportunities may arise. Looking long term, inflation will likely continue to be above central bank targets. **For investors, the need to keep the inflation focus at the core of their investment strategies remains paramount.**

AMUNDI
INSTITUTE

Pascal
BLANQUE
Chairman,
Amundi Institute

“
Investors should not overestimate CBs' willingness to hurt growth. Even if CBs tighten policy as sharply as they are claiming to, there would be a lag before inflation effects are seen in the real economy.

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Big picture in short

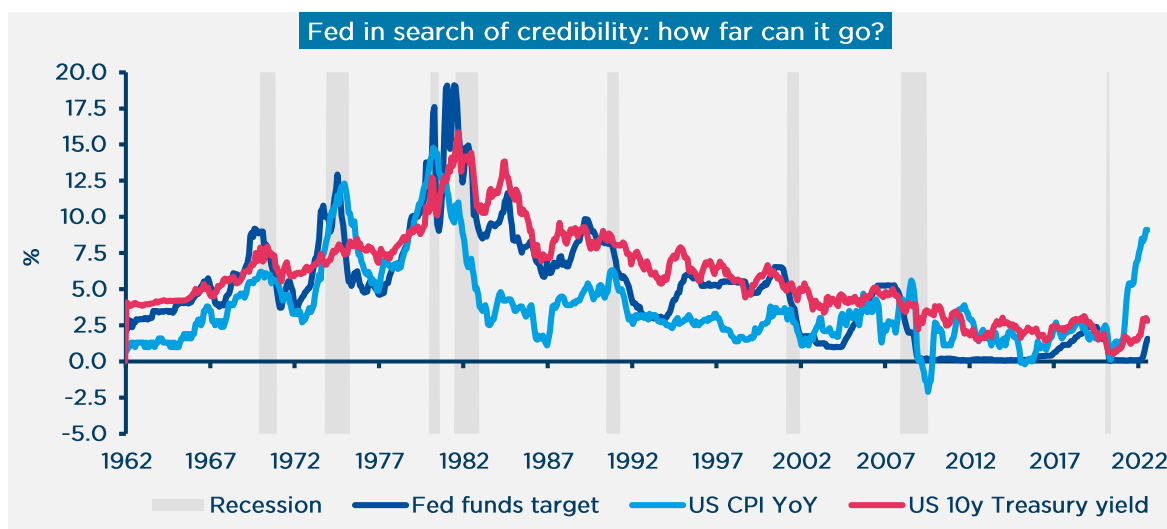
Mind the lag: recession fears flare too fast

Investors expect central banks to tame inflation whatever the cost, even triggering a recession, if necessary. This may indeed be policymakers' approach in the short term, as they seek to re-establish credibility. The ECB's decision to raise rates by 50bps is a case in point. **While that could cement investors' views of how rate-setters will act in the longer term, they risk overestimating central banks' ultimate willingness to damage growth.** What's more, financial markets appear to be misjudging how long it will take economies and consumer prices to respond to increases in interest rates.

Inflation shows few signs of subsiding, and while activity may be slowing, economies continue to grow. That's understandable given that monetary policy is still relatively accommodative, despite recent rate rises, and financial conditions remain easy. Yet markets are focused on the risk of an imminent collapse in growth; this may be a case of getting ahead of ourselves. **Even assuming CBs hike rates rapidly to a more neutral level, it takes time for the effects of such tightening to filter through to the economy.** We may have to wait anywhere between a year to 18 months for rate rises to really rein in demand. Then, there will be another lag before consumer prices respond to this slowdown. As a result, inflation may exceed policymakers' targets for another 10-15 months even after growth hits the skids.

All this presumes rate-setters are willing to induce a recession to meet their mandates. But, in our view, they will balk at inflicting too much pain on the economy. **Inflation will therefore be higher than many expect over the next couple of years, with important implications for asset prices:**

- **In fixed income, this will mean even higher yields.** While recession worries have flared recently, the outlook for growth can only be the dominant driver for bonds if inflation is quiescent. Given that won't be the case, yields will rise. Take, for example, the benchmark 10Y Treasury. Assume its yield can be decomposed into two basic components: the 10-year average of nominal US growth and a risk premium. That long-term nominal growth rate may previously have been around 4% – the sum of 2% real growth and inflation of roughly 2%. We therefore wouldn't be surprised to see the 10Y Treasury yield rise to 4% or above. While this adjustment process happens, being flexible in duration management will be the name of the game.
- **Higher average inflation rates could also weigh on stocks.** The P/E ratio of the S&P 500 may drop another point or two, which implies another 10-15% decline in the index itself. Rising borrowing costs and falling equity values pose risks to companies that have taken on huge amounts of debt in recent years. However, high-quality credit has adjusted more quickly than equities to the shifting outlook, and may be less vulnerable.
- **EMs present a slightly different picture.** CBs in many of these countries responded more swiftly to accelerating inflation than their DM peers. Their monetary policy tightening may be nearly at an end, and some of them offer attractive inflation-adjusted interest rates.
- **Such opportunities, alongside real assets and inflation-adjusted bonds,** may be attractive for investors seeking to build portfolios that are able to withstand the ravages of inflation. Timing, as ever, will be crucial. And getting that right will depend on paying attention to economic lags.



Source: Amundi Institute, Bloomberg as of 25 July 2022.

MULTI-ASSET

Avoid directionality; seek relative value opportunities

With inflation forecasts revised up and growth predictions downgraded in Europe and the US, the key issue for us is the impact on earnings and consumers' purchasing power. We think a lot of negative newsflow is already priced in some corners and we could see some temporary rebounds. However, we are still not directionally positive on risk assets because the economic environment is uncertain and so is monetary policy. We acknowledge that strong directional bets on risk assets are not easy to make and we remain slightly cautious overall. Instead, **investors should explore the resilience of the US over Europe (in equities and credit), aim to benefit from (intermittent) economic reopening in China, and exploit relative value ideas.** In addition, this is also a time to be well-diversified and maintain hedges.

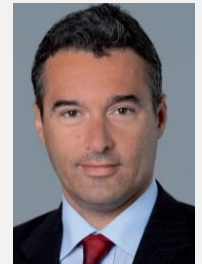
High conviction ideas

We are slightly defensive on equities overall and believe Europe (cyclical and more open market) would suffer more than the US in case of a downturn and if Russia squeezes gas supply to countries such as Germany, causing the region to adopt gas rationing. Thus, we raised our regional preference for the US, including some growth. In EM, we are more positive on Chinese mainland shares owing to the supportive policy, economic reopening, and the focus on domestic growth. However, valuations in India look expensive. **In FI, we maintain a very dynamic approach.** Even though we are close to neutral on duration in the US and core Europe, we are monitoring pressures on inflation and growth across geographies. For instance, we are now positive on UK 5Y real rates which reflect our views on their attractive valuations and stagflation in the country. The market seems to have priced in a very hawkish Bank of England, but that is not justified by the UK's weak economic backdrop. So, we think, the BoE is unlikely to hike as much as some other CBs, such as the Fed. Furthermore, inflation will remain high and would be exacerbated by a weak GBP. On peripheral debt, we keep our 10Y BTP-Bund spread holding for now amid the ECB's commitment to preventing fragmentation. However, we are closely following the situation after Mario Draghi's resignation and ECB policy tightening. In EMBI, we remain neutral due to the fallout from Fed tightening on EM spreads.

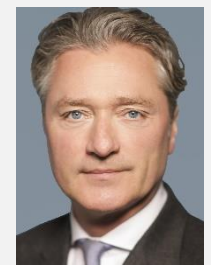
Corporate credit appears to be slightly attractive as valuations seem to discount a recession. But here, we prefer US resilience, maintaining our US IG preference owing to a relatively robust macroeconomic backdrop, corporate fundamentals (solid balance sheets, with high liquidity levels; good coverage ratios), and a low risk of refinancing debt in the near term. However, in Europe, although we acknowledge that valuations in HY are attractive, sentiment is now becoming negative on account of rising stagflation risks. **FX is an area where diverging global trends are becoming more apparent.** We stay positive on the CHF/EUR and cautious on the EUR/USD, despite the currencies reaching parity recently. The US/Europe rate differential, the Fed's hawkish stance, and risks of a deceleration in growth globally are all positive for the greenback. The last factor is also supportive of the USD/CAD, which. In EM, we are particularly cautious on Eastern Europe and hold our BRL positions vs the PLN and HUF. Brazil could benefit from strong commodity exports, whereas the two latter currencies could suffer from a deterioration in outlook as the countries are net commodity importers and are close to the Russia/Ukraine war.

Risks and hedging

In light of a mild deterioration in the economic backdrop, and ensuing volatility and potential liquidity issues, investors should consider maintaining all their hedges, particularly on the equity side. Importantly, in the current environment, the USD/EUR would strengthen and investors' FX hedges should reflect these FX dynamics.



Francesco SANDRINI
Head of Multi-Asset Strategies



John O'TOOLE
Head of Multi-Asset Investment Solutions

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This is not a time for structural derisking but to be patient and diversified amid bouts of volatility and rebounds.
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Amundi Cross-Asset Convictions

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

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. CGB = Chinese government bonds, EM = emerging markets, PBoC = People's Bank of China, FX = foreign exchange, IG = investment grade, HY = high yield, CBs = central banks, BTP = Italian government bonds, EMBI = EM Bonds Index, QT = quantitative tightening.

FIXED INCOME



AMAURY D'ORSAY
Head of Fixed Income



Yerlan SYZDYKOV
Global Head of
Emerging Markets



Kenneth J. TAUBES
CIO of US Investment
Management

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Amid the ‘push and pull’ on yields and financial conditions, investors should stay balanced and explore high-quality, less leveraged areas in credit.
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Bonds: it's all about quality and a liquidity focus

Yields are caught between inflation and recession fears. While the Fed made it clear that it would hike rates sharply to control inflation, this would not be without risks regarding consumption, which for now looks strong. In Europe, the ECB has charted a path of tightening, but we think investors should not go overboard in their estimates of rate hikes, given that Europe appears more vulnerable. At the same time, credit spreads are not very far from long-term averages, implying that while there are clouds on the horizon, financial conditions have eased slightly, particularly in the US. **As a result, investors should consider more quality-oriented credit but not de-risk portfolios while also focusing on liquidity amid challenging liquidity conditions.**

Global and European fixed income

We continued to reduce our cautious stance on duration, staying close to neutral. However, we are active across curves and geographies, looking out for any tactical opportunities. We have a defensive view on the US, and cautious/neutral stances on Europe (less defensive than before) and the UK. On peripheral debt, we are monitoring the yields on BTPs in light of political developments and the ECB's transmission protection instrument. Elsewhere, our constructive stance on duration in Australia and New Zealand remains, although we marginally downgraded our optimistic view in **China which is a strong portfolio diversifier in the long term.** We keep a slightly constructive view in credit, with a preference for high-quality IG. Within this, we favour the US over Europe owing to strong corporate balance sheets. **After the recent movements, IG valuations are attractive, but selection is key.** We think investors should consider reducing beta, tilting more towards high-quality (A-rated) and liquid securities. In HY, hedging may be used to protect against spread widening.

US fixed income

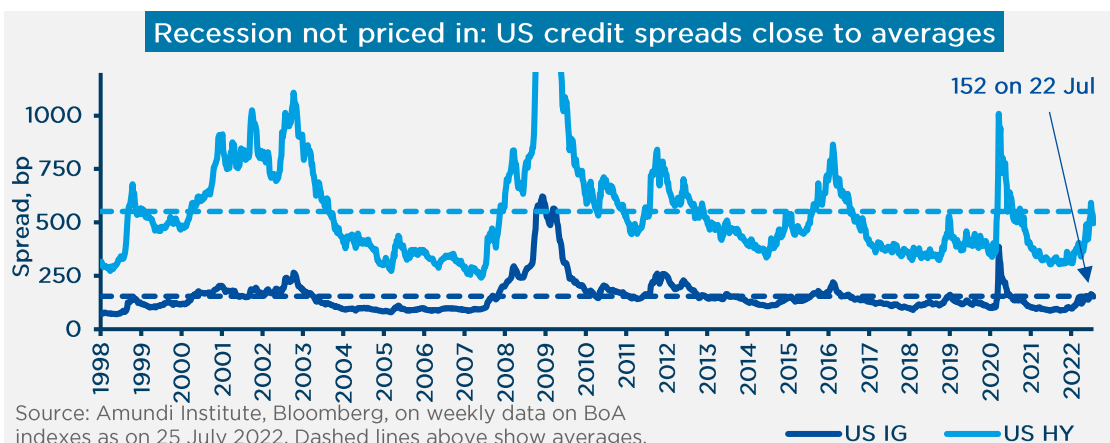
We are witnessing a growth deceleration but no signs of a recession and credit markets seem to realise this nuance. While sentiment is affected, in general, consumers' financial situations are better than in the 2008 crisis. On the other hand, **the Fed is aggressive, no doubt, but we should not underestimate its willingness to support economic growth, if the situation deteriorates.** As a result, we stay neutral on duration but are tactical, staying active to adjust this stance depending on yields repricing. We are also monitoring the movement in real rates and TIPS. In securitised credit, agency MBS are particularly attractive when compared with other alternatives in the market. However, spreads are volatile, owing to the Fed's diminishing support of the market. So, selection is important. Spreads in corporate credit (both IG and HY) are higher than long-term averages but not at extreme levels. We keep a stable beta and limit our spread duration exposure, with a clear inclination towards quality.

EM bonds

The recent EM spread-widening has created compelling valuations. Stabilisation of US 10Y yields, coupled with an improvement in EM-DM growth differentials in H2, should be supportive. We prefer HC bonds, favouring HY vs IG, but are more selective in LC and cautious on EM FX. In China, we are monitoring the real estate sector and boycotts of mortgage payments. Elsewhere, we favour commodity exporters (Latin America).

FX

We are more constructive on the USD/EUR owing to a hawkish Fed and weakness in Europe (impacted by Russia's gas sanctions). However, we are cautious on the EUR, GBP and CNH and in general are no longer positive on cyclical FX. In EM, we stay positive on the MXN, CLP and ZAR.



GFI = global fixed income, GEMS/EM FX = global emerging markets foreign exchange, HY = high yield, IG = investment grade, EUR = euro, UST = US Treasuries, RMBS = residential mortgage-backed securities, ABS = asset-backed securities, HC = hard currency, LC = local currency, MBS = mortgage-backed securities, CRE = commercial real estate, QT = quantitative tightening

More balanced and valuation-conscious

Overall assessment

Rising volatility and falling prices point to market expectations on policy tightening in the face of high inflation. If earlier the concerns were 'too much inflation', now these themes are complemented by fears about 'not enough growth.' The latter is leading markets to reprice earnings expectations, but valuations and earnings downgrades still do not reflect an outright strong recession. We remain very bottom-up, based on a realisation that the macroeconomic environment (as reflected in recent PMI data) could supersede even those names with strong business models because correlation is rising. **This should translate into a balanced stance for investors, with a focus on resilient regions, such as the US and China, and sustainable earnings growth.**

European equities

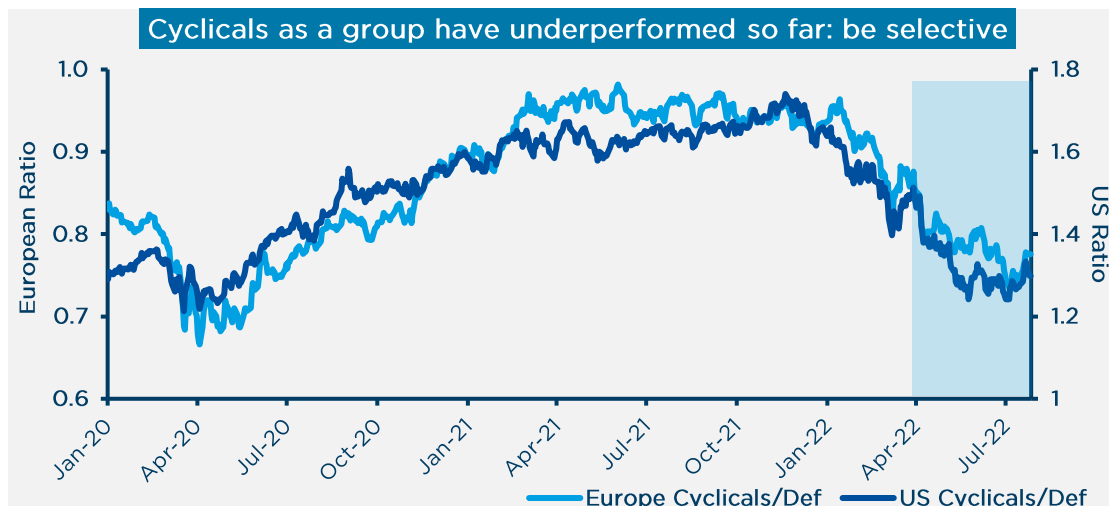
We are more balanced now than we were at the beginning of the year amid pressures on growth. Our focus remains on process discipline and keeping exposure to defensive names in healthcare and staples (less positive). On the other hand, we think quality cyclical stocks should be better able to withstand selling pressures compared with expensive cyclical names. Hence, we look for sustainable profits, differentiated products, and businesses that could pass rising costs on to consumers without affecting demand volumes. However, we are cautious on utilities and IT (less defensive). Importantly, investors should focus on socially responsible investments and real returns amid still high inflation. As such, dividend payouts are a solid way to complement total returns and we continue to explore this theme.

US equities

Rotation in the markets indicates a decline in expectations on economic growth, as evident from the sharp falls in the cyclicals sector (compared to defensives), possibly due to negative earnings adjustments. As a result, we think some quality cyclical stocks (strong balance sheets, high cash, not high leverage) are becoming attractive, along with some quality core/growth names. **However, this doesn't represent a green signal to increase risk.** We believe the coming months should provide clarity on whether we could see a growth deceleration or a recession next year. If we see an earnings recession, we could see a correction from current levels, particularly in defensive sectors because their current valuations seem high with respect to fundamentals. Thus, we remain very vigilant. Looking ahead, stocks with robust business models and pricing power should be better able to deal with challenges, such as low growth, high inflation and supply constraints. Overall, we like companies with a commitment to rewarding shareholders because this strategy complements investors' incomes in times of high inflation. However, we are cautious on unprofitable growth and distressed value stocks.

EM equities

Visibility is still low due to the ongoing war in Ukraine, Fed policy tightening, and large country divergences. The situation is supportive for exporters such as UAE and Brazil, but we are monitoring election-related uncertainty. In China, the re-opening and accommodative policy enabled us to upgrade our view, focusing on the consumer discretionary sector. Overall, we keep our preference for value over growth.



Source: Amundi Institute, Bloomberg, as of 26 July 2022. Ratio of cyclicals/defensives on Stoxx Europe 600 and MSCI USA cyclical and defensive indexes.

EQUITY

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If we see a deep recession (not our base case), valuations could fall from current levels, particularly in expensive segments where prices are not justified by fundamentals.

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**Kasper
ELMGREEN**
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**Yerlan
SYZDYKOV**
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**Kenneth J.
TAUBES**
CIO of US Investment
Management

Amundi asset class views

Asset class	View	1M change	Rationale
EQUITY PLATFORM	US	=/+	We believe growth deceleration is on the cards but a recession is not, as consumer and corporate balance sheets remain strong even though there are signs of some weakness. Key parameters for us are how companies can sustain earnings amid weakness in growth, rising rates, a strengthening dollar and how do they reward shareholders.
	US value	+	Value outperformance has continued year-to-date, but there are pressures in the form of deceleration in growth that could affect the segment. We are focusing on the more quality-oriented and less cyclical areas, along with a strong selection bias, favouring companies that can sustain earnings growth and offer attractive valuations.
	US growth	-	We are cautious on the expensive growth sector in general, particularly the unprofitable areas, given that valuations could be further affected by movement in core yields. There are some areas where valuations have been hammered excessively, but we stay committed to fundamentals and earnings growth potential.
	Europe	-	The macroeconomic backdrop is weak, coupled with weak business confidence, leading us to stay cautious. Markets currently are not pricing in a strong recession, but we believe we may see a profit recession. As a result, we stay balanced, prioritising sustainable profits and companies that can pass rising costs on to consumers without affecting demand volumes.
	Japan	=	We stay neutral amid the headwinds on global growth, given the export-oriented nature of Japanese markets. However, a weak yen should be supportive.
	China	+ ▲	Economic recovery driven by reopening, accommodative monetary and fiscal policies, and continuing vaccinations, along with a more balanced growth model, lead us to be tactically positive. We stay watchful of the evolving zero-Covid policies and potential subsequent lockdowns.
	Emerging markets	=	The EM universe is presenting huge divergences. We remain selective even though valuations appear attractive in some cases. In Latin America, for example, we are monitoring how the Brazilian political environment is developing. We continue to prefer value over growth.
FIXED INCOME PLATFORM	US govies	=	Inflation and Fed policy remain the key variables in yield direction, which recently has been affected by economic growth concerns. As a result, we stay neutral but active in adjusting our stance depending on yield movements. We also look for any stabilisation in yields. On TIPS, real rates are becoming interesting, particularly on the long end, but we are vigilant.
	US IG Corporate	=/+	In the lookout for strong corporate fundamentals, we remain biased towards high-quality credit, where fundamentals more accurately reflect valuations. In general, valuations are not very far from long-term averages, but we remain selective. Resilient labour markets and relatively strong consumption should be supportive for the asset class.
	US HY Corporate	=	We are neutral and watchful of spread widening as the Fed tightens monetary policy and as economic growth slows. In addition, we are prioritising liquidity and corporate fundamentals in light of continued inflation pressures.
	European Govies	=	While we are close to neutrality on duration in core Europe, we acknowledge the ECB's difficult task in tightening policy to tame inflation, on the one hand, and prevent fragmentation and support growth in EMU, on the other. Thus, our stance remains flexible to benefit from tactical yield movements across geographies. On Italian debt, we are neutral.
	Euro IG Corporate	=	In light of ongoing pressures on supply chains, geopolitical tensions, and a hawkish ECB, we continue to monitor the earnings impacts of these factors. For now, fundamentals and margins are strong, but high inflation and potential effects of the pass-through of higher prices to consumers lead us to be neutral. We avoid over-leveraged areas.
	Euro HY Corporate	=	We think it is not a time to be directional on EU HY, due to the concerns about economic growth and tightening policy that could collectively affect spreads. We aim to balance liquidity with quality.
	China govies	=/+	The People's Bank of China's accommodative policy stance should be positive for bonds, which continue to be strong diversifiers for global investors. We are tracking the real estate sector and the recent protests over mortgage payments.
	EM Bonds HC	=/+	While we stay selective overall in EM, the recent spread-widening has made valuations compelling in light of expectations of stabilisation in US yields and improving EM-DM growth differentials in H2. Our preference remains for HC bonds, favouring HY vs IG given the macro cycle.
	EM Bonds LC	=	We are more prudent and selective in LC and are particularly cautious on EM FX (higher US rates). Despite the recent correction in commodity prices, we continue to favour commodity exporting countries, such as those in Latin America.
OTHER	Commodities		Oil prices are likely to be driven by under-supply issues, China's economic rebound, and the summer driving season in the near term. However, we may see some pressures in 2023 due to cooling demand as a result of growth deceleration. Gold has failed to catch up with the commodity rally, owing to higher real rates so far, but rising growth fears could be supportive.
	Currencies		Amid an upcoming recession in Europe and the Fed's tightening stance, we see continuing strength in the USD, despite the EUR/USD reaching parity recently. While our 12M target remains 1.10, near term, the EUR/USD could fall to 0.94.

LEGEND

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



Source: Amundi, as of 28 July 2022, 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.

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