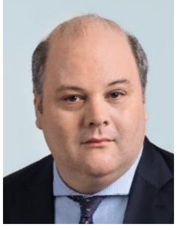
Trust must be earned
Amundi ASSET MANAGEMENT

Global Investment Views

Receding inflation doesn't mean the battle is won yet



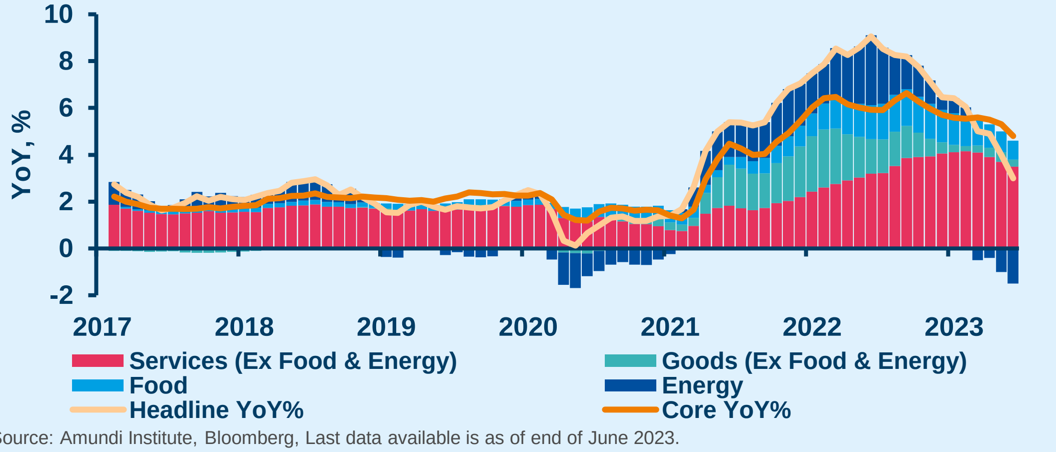
Vincent MORTIER
Group Chief Investment Officer

Matteo GERMANO
Deputy Group Chief Investment Officer

The optimism on risk assets behaviour partly stems from most of the hiking cycle now being behind us and a better-than-previously-expected economic picture, mainly in the US. Here, we continue to expect a mild recession in 4Q23/1Q24, but we upgraded our 2023 growth forecast to 1.6% on the back of better Q1 growth revisions. The Eurozone should avoid a recession, but risks related to ECB overtightening and growth divergences among countries persist. For China, we downgraded 2023 growth forecasts to 5.1% due to a weak Q2 and delayed stimulus. Consequently, the following factors could drive economic considerations:

- **Excessive optimism on shaky foundations.** The strength in US growth is more mechanical and forward-looking indicators point to subdued activity. In Europe, risks are skewed to the downside, also because of the weakness in China.
- **Watch out for core inflation regarding the policy path**. Core disinflationary trends (and not a mild recession) could prompt the Fed to cut rates next year. But core inflation could still be sticky. Another factor to watch is real funds rates.
- **Upward pressures on terminal rates**. The ECB is not in a pause mode. Even for the Fed, we see pressures on our terminal rates forecast of 5.5%. However, financial stability concerns and financial conditions amid risks of overtightening must be monitored.
- **Long-term shift from West to East remains.** Despite China moving to lower growth, EM continue to present selective opportunities.

US inflation is cooling, but still-high core inflation means the Fed will stay vigilant



Source: Amundi Institute, Bloomberg, Last data available is as of end of June 2023.

“We remain sceptical on inflated valuations because the uptrend in risk assets is due to the laggards catching up rather than any meaningful improvement to earnings outlooks.”

We see opportunities in the following areas:

- **Cross asset, enhance diversification.** We are now slightly positive on Europe duration and remain constructive on the US, but we now see a case for some protection here on an uncertain inflation path. We are cautious on credit, particularly HY, and on DM equities. In EM equities, we do not change our positive stance, but adjust it by replacing the positive view on China with broader EM. We continue to like EM bonds, and are now marginally constructive on Czech government bonds, but believe currency risks should be hedged. Overall, we believe investors should seek protection on equities and keep a small positive view on gold for diversification.
- **Bonds remain in focus.** Volatile fixed income markets mean our stance on duration and corporate credit stays very active. On the former, we remain marginally positive on the US, but are flexible. In core Europe, we are moving close to neutral and are monitoring the evolution of economic data, but we stay defensive on Japan. In credit, our preference continues to be for high-quality IG, while in HY, we stay cautious and believe there is a need to differentiate between BB- and B-rated vs CCC-rated issuers. Thus, the need for selection is high, as we expect to see increases in idiosyncratic risks.
- **Equities still defensive in DM**. In the US, the divergences between large caps and the rest of the market remain. Regarding value, quality and defensives, we remain positive and selective. In Europe, we are assessing the decline in economic momentum, along with the impact of ECB actions and the direction of inflation. Less support from the region’s economic growth and from weakness in China could have implications for equities. As a result, our focus continues to be on quality, value and dividend-oriented stocks that reward shareholders.
- **With a strong focus on selection, we are positive on EM** despite some near-term weakness in China. The long-term Chinese growth story is still intact, but at a lower level and characterised by the government’s focus on better quality of life. Importantly, the EM story goes beyond China, to countries such as India and Brazil, where we are more positive on equities. In FI, we remain optimistic on HC and LC debt and on LatAm amid easing inflation.

Overall risk sentiment

Risk off | Risk on

Amid excessive exuberance in markets, we continue to focus on earnings growth, financial conditions, and central bank policy actions.

Changes vs previous month

- Cross assets: small positive on EU duration; constructive view on EM FI confirmed; diversified in EM equities.
- Equities: less positive on China; more constructive on Brazil and India.
- Hedges & FX: protection on US duration.

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.

ECB= European Central Bank, DM= Developed Markets, EM = Emerging Markets, CBs = central banks, , IG = investment grade, HY = high yield, HC = Hard Currency, LC = Local Currency. For other definitions see the last page of this document.

Three hot questions

1

What is the main trend you see in the global monetary policy cycle?

We are seeing a desynchronisation in the global policy cycle between DM and EM. Major DM central banks could hike rates further, while some EM CBs are close to cutting rates, starting with LatAm, which has been enjoying moderating inflation over the past several months. This is the result of a timely and aggressive monetary policy response. We foresee Chile and Brazil's CBs cutting first, followed by Colombia and Peru in September. CEE countries should follow, led by Poland, where single-digit inflation should be hit in August/September.

Investment consequences

- Easing monetary policy and stable inflation should support EM local currency bonds, with the largest upside expected in LatAm.

2

What are your expectations on the Q2 reporting season?

Second-quarter 2023 should be the first to feature negative year-on-year growth this year, both in the US and in Europe. The downswing is expected to be stronger for Europe (-8.2% from +11.1%) than for the US (-6.4% from +0.1% in Q1), with huge divergences across sectors. In the US, energy and materials are likely to report the strongest declines, with heavy influences on the aggregate result.

Investment consequences

- Regionally, we favour Japan over the US, as the latter is very expensive.
- From a style perspective, we favour quality in the US and Europe and value in Japan.

3

Can you offer any update on financial conditions?

Since late March, we have been experiencing a broad-based easing of US financial conditions, but they remain tight by historical standards. Today, they are more restrictive than most recent stress windows except for the GFC and the Covid-19 crisis. Unlike in the past, today, monetary policy appears the only relevant driver of financial conditions.

Investment consequences

- Amid our overall defensive allocation, we stay cautious on equities and credit, especially on the lower-quality parts of the market.
- We are positive on select government bonds, such as the US.

"We think the main DM CBs are not done with policy tightening yet, but select CBs in emerging markets are now close to cutting their policy rates, beginning with LatAm."

Monica DEFEND
Head of Amundi Institute

Stay diversified, without increasing risks

We are assessing the economic and corporate profits outlook, and valuations. But on all of these, we are not very positive, because we are seeing multiples expansion with rising rates. On the other hand, risks of a profit recession remain. This underpins our cautious view. Investors should stick to their long-term convictions but remain flexible to benefit from the EM advantage by keeping a diversified stance. At the same time, there is scope for maintaining hedges on risk assets and protection on duration, all the while adjusting FX views.

High conviction ideas. We are defensive on DM equities, including the US, Europe and Japan, but do not miss out on opportunities elsewhere. For a long time, we have maintained that the EM story goes beyond China. Thus, the recent weakness in the country's housing and manufacturing sectors led us to move to neutral on China. Instead, we think investors should diversify into the broader EM universe, where we are now positive.

We keep a positive stance on US duration but see persistent (core) inflation as a risk, underscoring the need now for some protection. We are also now slightly constructive on EU duration after the recent upward movement in yields and indications of some economic weakness in Europe. Swedish bonds should benefit from a vulnerable domestic economy, while Italian BTP-Bunds spreads could gain from positive demand for Italian bonds and their limited supply outlook.

On JGBs, however, we are cautious but mindful of the rhetoric coming from the Bank of Japan and are monitoring policy actions. We remain active across curves, with opportunities in UK 10Y vs Australia 10Y (relatively dovish BoE) and in Canadian curve steepening. At the other end, we are positive on EM FI and now like Czech government bonds (hedged) due to their attractive carry and the country's gradual disinflation.

We stay defensive on US HY. Current valuations look too optimistic and are inconsistent with our views of a decelerating economy and tight financial conditions. Liquidity could be another issue in this segment going forward.

In FX, we think the NOK/CAD has performed well after the recent price action and now we are no longer positive. We are pessimistic on the GBP and express this view through the EUR, CHF and JPY. We remain negative on the USD vs the EUR and vs the AUD. In EM, we like the INR/CNH, MEX/EUR and the BRL/USD.

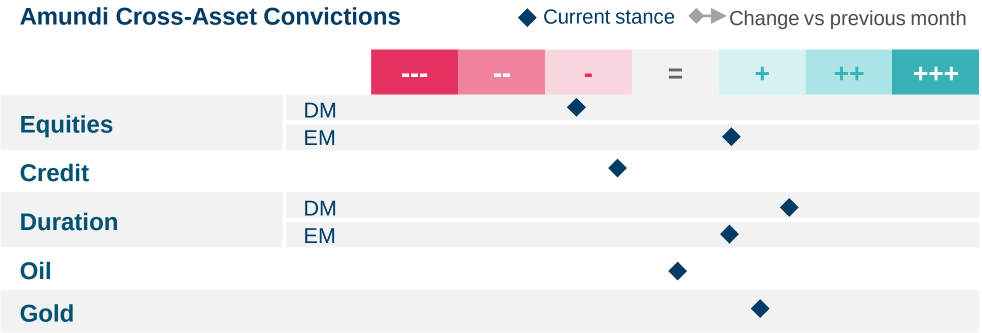
Risks & hedging. In times of an uncertain economic growth outlook but high asset valuations, strong hedges should help adapt to the evolving backdrop. Thus, there is a persistent need to keep hedges on US equities. At the same time, precious metals e.g. gold continue to offer diversification and safety, particularly if geopolitical tensions were to rise.

Francesco SANDRINI
Head of Multi-Asset Strategies

John O'TOOLE
Head of Multi-Asset Investment Solutions

"Investors should consider adding some protection to US duration (still high core inflation) and exploring opportunities in EM, both in fixed income and equities."

Amundi Cross-Asset Convictions



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, BTP = Italian government bonds, BoJ = Bank of Japan, JGB = Japanese govt. bonds, BoE = Bank of England. For other definitions and currency abbreviations see the last page of this document.

Credit quality should be a top priority

Amaury D'ORSAY
Head of Fixed Income

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

Overall assessment. The biggest concerns at this stage are the economic and inflation outlooks and the resultant impacts on earnings and valuations. Businesses with low leverage and high capital buffers should be better able to withstand this phase. We maintain our preference for quality in the US, Europe and EM.

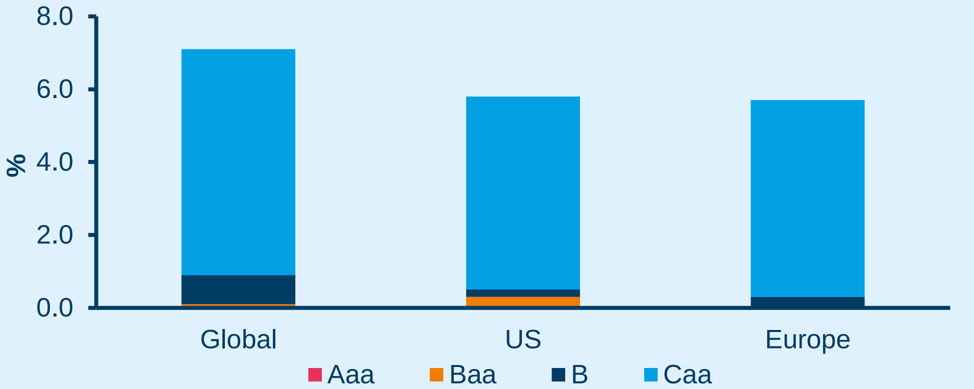
Global and European fixed income. We are close to neutral on duration in core Europe and US, but defensive on Japan. However, we are marginally positive on duration in peripheral countries, such as Italy, and on semi-core Europe. At the same time, we see opportunities across geographies – eg, in Canadian and UK duration. Elsewhere, in credit, we think markets are pricing in a Goldilocks scenario but we remain biased towards quality in IG and subordinated financials. In HY, we prefer to distinguish between CCC-rated debt and the BB/B categories. The default rates in the former have been much higher than in B-rated debt. Secondly, we maintain our constructive view on EU financials owing to their recovery potential and strong asset quality. In contrast, low-rated non-financials could be impacted more by tighter financial conditions and higher costs of funding.

US fixed income. Markets seem to be pricing in a no (economic) landing scenario for the economy and higher-for-longer rates by the Fed. We do not agree on the first and see risks of a mild recession. This creates a difficult backdrop for duration management. We stay constructive, but manage this exposure tactically and see value in both nominal and real rates on the intermediate part of the curve. In corporate credit, we prefer IG over HY. In the latter, fundamentals are diverging between BB-/B-rated debt vs CCC issuers, with the leverage situation deteriorating for CCC in recent quarters. Thus, we prefer high-quality issuers in general. From a sector perspective, we like financials over non-financials in IG. In securitised credit, the recent spread tightening offers opportunities to benefit from the upside movement in ABS and RMBS with longer maturities and higher price volatility.

EM bonds. EM debt offers attractive entry from a historical perspective and we maintain a neutral to positive view on duration, even though we turned cautious on China. On HC, we are slightly positive, with a preference for HY over IG. We are also constructive on LC but are selective. Regionally, we like LatAm (Brazil, Mexico, Colombia), where inflation is easing, but we will monitor how Russia's withdrawal from the grain deal could affect that. In Asia, we like countries such as Indonesia.

FX. Dollar weakness is likely to persist this year. But our positive views are centred on the JPY, AUD in DM and the INR and IDR in the emerging world. On the GBP, as soon as the market focus shifts to economic growth, the pound could suffer.

Higher defaults in low-rated segments underline the need to focus on quality



Source: Amundi Institute, Moody's Investors Service. Latest data available as at 30 May 2023. 12-month rolling data.

> ***"In times of slow growth and high valuations, we focus on quality and distinguish on basis of liquidity buffers, cash flow strength, and balance sheet leverage."***

Stick to fundamentals and valuations

Fabio DI GIANSANTE
Head of Large Cap Equity

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

"The current environment of high valuations provides an attractive backdrop for stock selection, focusing on pricing power and earnings strength."

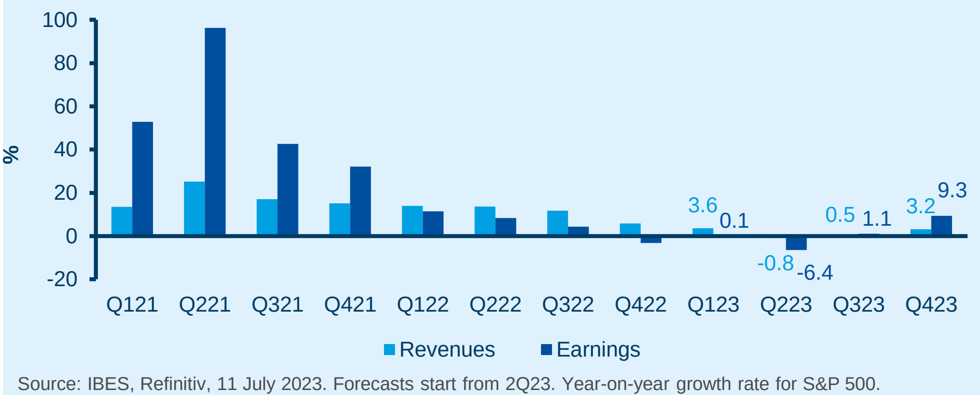
Overall assessment. While the US recession scenario has been pushed back, markets are pricing in a too optimistic scenario without any damage to the economy. Our concerns could soon be manifested in corporate earnings, where management guidance would provide more clarity. We continue to avoid segments where valuations and earnings potential do not match. Instead, we prefer robust business models across sectors and regions, including EM.

European equities. We believe investors should maintain diversified portfolios by combining quality cyclical businesses and defensive stocks. In particular, we are attracted to those that can return cash to shareholders. Within the consumer staples sector, we like the long duration, defensive companies as well as those with some cyclical characteristics. We also favour healthcare and select pharma companies, as, similar to many staples businesses, they offer the prospect of capital appreciation and dividends. Among the cyclical sectors, industrials that encourage factory automation, sustainable transport and electrification offer good value. Elsewhere, we are constructive on retail banks, owing to their dividend yields and the positive impact of high interest rates on their margins. Finally, we are cautious on tech, particularly semiconductor stocks, due to their uncertain growth outlook.

US equities. We are cautious due to the overvaluation of the broader markets. But if we consider the value side, valuations there are fair. Value investing could apply to large cap growth as well large cap value. This means favouring the cheapest stocks in these styles if the business models are robust and earnings growth stable. At the other end, defensives (and even cyclicals) are expensive, but those that are cheap may not be worth owning. So, we differentiate by names that have a history of rewarding shareholders and go beyond traditional defensives (healthcare equipment). In cyclicals, consumer and industrial appear to be most at risk. Consumer discretionary sector could be affected by wage pressures, as valuations are already expensive. On the other hand, we prefer energy, materials, banks and non-spread financials. Finally, we think if liquidity dries up in the market, segments that are most inflated (i.e. megacaps) in terms of valuations could be most affected.

EM equities. Expectations of earnings recovery in H2 this year should be positive for EM. However, geopolitical and idiosyncratic risks could harm sentiment. Our most preferred markets are Brazil and India. In the former, valuations are attractive and we expect the CB to cut rates. India should benefit from changes to global supply chains and domestic policies. We have raised our views on both but downgraded China. At a sector level, we favour real estate and discretionary, while we keep more defensive stances on healthcare and materials.

Earnings forecasts point to a negative second quarter this year



Source: IBES, Refinitiv, 11 July 2023. Forecasts start from 2Q23. Year-on-year growth rate for S&P 500.

Amundi asset class views

	Asset Class	View	vs M-1	Rationale
EQUITY PLATFORM	US	-		We think the broader market remains overvalued, but if we ignore the megacaps, valuations are more realistic. The rosy scenario of inflation coming under control without any damage to growth doesn't match up with our expectations. We stay defensive and vigilant.
	US value	+		We continue to see attractive valuations in this sector, particularly vs growth. This keeps us positive, but we combine this value call with quality and earnings resilience to achieve sufficient margin of safety in case of a downturn.
	US growth	--		Large growth names remain extremely overpriced and would be the ones most affected if liquidity dries up. Thus, we are cautious in this segment, particularly on unprofitable growth.
	Europe	-/=		Amid downside risks to European growth from divergences across the region, we remain slightly cautious. We believe high valuations create an attractive backdrop for selection based on our factors such pricing power, product differentiation. Overall, we stay balanced.
	Japan	=		We are neutral (more positive than on other DM). A global slowdown could affect exports, but recent improvement around domestic activity and corporate governance are positive.
	China	=/+	▼	China's convergence to a lower growth level focused on better quality of life is supportive in the long term. But near-term challenges in the housing sector and uncertainty about fiscal stimulus are emerging, leading us to tactically reduce the positive stance.
	EM ex China	=/+	▲	Attractive valuations, robust growth, and expectations around earnings paint a positive picture. Interestingly, the divergences in the region offer a strong selection point and we find opportunities, for instance, in Asia (India), Latin America (Brazil) and emerging Europe. On the other hand, we are cautious on Taiwan and Malaysia.
FIXED INCOME PLATFORM	US govies	=/+		The recent move up in yields and our central case of Fed rate cuts next year lead us to be slightly constructive on govies. However, we remain agile, as core inflation is still above the Fed target and volatility is high, owing to uncertainty around policy actions
	US IG corporate	=/+		Quality credit presents opportunities, but we are selective, favouring names with stable cash flows. We like segments with strong liquidity and businesses that will benefit from lower producer price inflation. Our preference for financials remains in place.
	US HY corporate	-		BB and B fundamentals are robust in the form of liquidity, margins and sales growth. However, liquidity and leverage positions of CCC issuers have deteriorated in recent quarters. Thus, within HY, there is a need for a quality bias and selection. Overall, we do not think high valuations compensate for the credit and liquidity risk in the markets.
	European govies	=	▲	Europe's growth is expected to moderate to a lower pace, with downside risks coming from a global slowdown. We think the ECB is reaching the end of the hiking cycle but the job on inflation is not done yet. So, we stay active and monitor ECB rhetoric.
	Euro IG corporate	=/+		We continue to like to quality credit, but are biased towards names that maintain strong capital positions and liquidity buffers which should help them withstand the slowdown.
	Euro HY corp.	-		We are cautious on HY because of the default outlook. The ongoing transition towards higher funding costs and lower economic growth will be more difficult for low-rated HY issuers because of their lower ability to generate cash flows and refinancing needs.
	China govies	=		China's limited correlation with developed market bonds offer strong diversification and any weakness in the country's growth should be positive. We stay neutral.
	EM HC	=/+		We are slightly positive on HC debt, with a preference for HY over IG, given the current spread levels. Debt of select Latin American countries offer attractive carry, but we are monitoring the evolution of inflation and corporate debt at a broader level.
	EM LC	+		A weaker dollar and continuing economic growth create a positive backdrop. We remain selective in favour of countries such as India and Mexico. We also continue to monitor geopolitical tensions that could affect the broader EM space.
OTHER	Commodities			Base metals and commodities in general would be affected by Chinese activity but (gradual) support from the energy transition remains in place. Our 12M forecast for copper is $9,300/t. The gold price target is maintained at $2,000/oz amid limited fair valuations but slowing rate hikes and risks of potential geopolitical events.
	FX			The dollar's behaviour seems to be linked to expectations around Fed policy actions. We stay cautious on the USD and maintain our 1Q24 EUR/USD target at 1.18. We await more clarity from the Fed, perhaps reassessing after the end of summer.

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

Source: Amundi, as of July 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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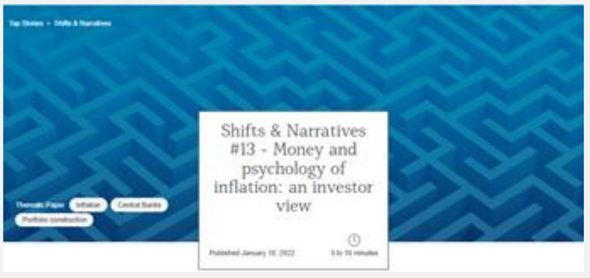

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