DECEMBER 2023

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Amundi ASSET MANAGEMENT

Global Investment Views

Receding inflation good news but inflation fight not over

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Group Chief Investment Officer

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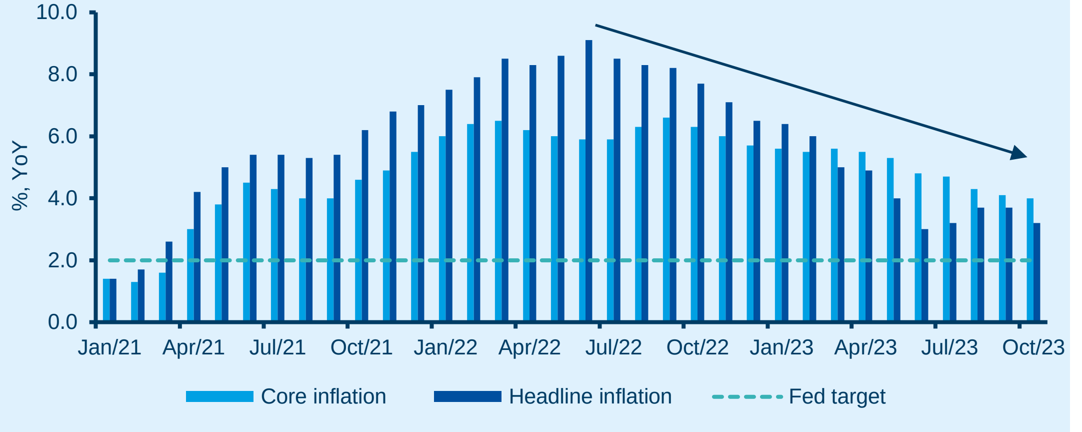
November saw a recovery in risk assets on the back of continuing disinflation and indications that the Fed is close to peak rates, leading US and European yields to retreat. The big questions now are: how long until the victory on inflation is declared? and how will growth evolve?

We think the following factors help with addressing these points:

- **Subdued US economic outlook.** We slightly upgraded our 2023 forecast for US growth to 2.4%, but we still expect a mild recession in 1H24, given that financial conditions in the real economy are tight.
- **Euro Area likely to see sluggish growth without a recession**, but the growth starting point is lower vs the US. Limited fiscal capacities – ie, in Germany – and EU fiscal rules add to the uncertainty.
- **Central banks actions to be guided by data.** Borrowing costs in the economy and strength of labour markets matter more to CBs. The Fed and ECB will monitor how these factors affect end-consumption and inflation (falling oil prices positive for this).
- **Companies becoming cautious**. Surveys indicate caution on companies' employment and capex plans. The latest corporate results also highlight weak consumer demand.
- **A multi-polar world, with continued US-China rivalry.** A managed decline in US-China relations is likely, irrespective of who wins US elections next year. Secondly, the Israel-Hamas war should stay localised. Overall geopolitical risks could be high.

US inflation coming down, but still above targets



Source: Amundi Investment Institute, Bloomberg, as on 22 November 2023.

"The 'perfect' scenario priced in by the markets seems a bit excessive. Investors should stay defensive, with a slightly positive stance on duration, a cautious view on equities, and explore long-term value in EM".

We believe in maintaining a cautious stance through the following pillars:

- **Cross asset.** We aim to balance our long-term convictions (for example, positive on duration) with tactical opportunities across asset classes and strengthening of hedges. Hence, we keep a cautious stance on DM equities, but we acknowledge potential for a marginal upside. In EM, rising country divergences lead us to be more selective now, focusing on long-term growth prospects in India, Mexico and Brazil. In our view, EM bonds, both HC and LC, now offer better value. As geopolitical risks will likely persist into 2024, we raised our stance on oil, but we moved to neutral on gold. In FX, after the recent appreciation, we see limited upside for the MXN vs the EUR tactically, but we keep our positive long-term growth outlook on Latin America.
- **The slide lower in yields confirms our views that there is lot of value to be exploited in government bonds**. We stay positive on US duration, but are neutral on Europe and cautious on Japan, with an active stance overall. Corporate credit is becoming a sphere where we see increasing divergences, with the default environment deteriorating in low-rated segments, such as CCC. But balance sheets of IG businesses look stable. Thus, we favour a quality tilt. Regionally, we prefer EU IG and think US HY is very expensive.
- **The recent recovery doesn't alter our cautious stance on DM equities**. However, if expensive segments – eg, US growth, large caps – are excluded, the valuation of the broader US markets looks less extreme. In addition, we are positive on attractively priced areas, such as value, quality in the US, as well as in Europe. The current earnings season confirms this view, wherein many companies missed their sales forecasts, in both the US and Europe. This indicates that consumption pressures are getting more broad-based.
- **The disinflationary trends in DM and their subsequent impacts on CB policy would act as a tailwind to EM assets.** HC and LC debt offer good carry, but we are monitoring any potential strength in the USD. In HC and corporate debt, we prefer HY over IG, although in the former, we remain biased towards quality. Equities also offer opportunities, particularly Asian equities, beyond China. We continue to like India, Indonesia and Brazil amid prospects for strong growth.

Overall risk sentiment

Risk off — Risk on

Our risk sentiment stays slightly defensive and well-diversified, with opportunities in government bonds and select EM assets.

Changes vs previous month

- Cross assets: More positive on EM bonds; consolidate equities stance; slight upgrade to oil; downgrade gold to neutral. In FX, no longer positive on MXN.
- Equities: Valuations more extreme for US large caps vs the broader markets.

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. How do you see the fiscal situation evolving in Germany after the constitutional court ruling?

The court's ruling questions the fiscal spending plans of the EZ's largest economy. While for now the government has suspended 'debt brakes' by declaring 2023 to be an emergency year, in the long term, there is no easy fix. We think the coalition faces a difficult choice of reducing planned spending, raising taxes or revisiting the debt brake rule altogether. Separately, the EC* published fiscal policy guidance on the budgetary plans of member states. Nine countries would run deficits above 3% of GDP next year. But for now, the EC will monitor the situation until next spring.

Investment consequences:

- Fixed income: neutral core Europe duration, peripheral debt.
- Equities: slightly cautious Europe; marginally positive on quality, value.

2. Do you think the latest mini-stimulus in China could affect the country's economic growth profile?

The stimulus involves issuance of additional sovereign debt to be spent on infrastructure and construction. There would, of course, be some boost to growth, which led us to upgrade our forecasts slightly: to 5.2% and 3.9% for 2023 and 2024, respectively. But it won't completely offset lower demand and deleveraging in the real estate sector. If the government wants to achieve higher growth for next year, the country needs a bigger, expansionary policy, which seems unlikely at this stage. This is because of a structural shift towards debt discipline in the long term.

Investment consequences:

- China: neutral equities and bonds.
- EM Asia (excluding China): marginally positive.

3. How do you see the outlook for corporate credit in an environment of slowing growth?

In an environment of pressures on cash flows and earnings, and high interest costs, companies with higher refinancing needs and low profitability would be more affected, but this is not a concern in IG. For instance, defaults in global HY have risen, led primarily by CCC-rated names. Corporate fundamentals, such as interest coverage, are deteriorating, but they remain healthy for high-rated names.

Investment consequences:

- Cautious US HY, slightly positive IG.
- Regionally, favour EU IG.

"Economic indicators for the EZ, along with tightening lending standards, point to a weakening of economic activity, complicated by fiscal constraints. But inflation appears to be falling to the ECB's target by end-2024".

Monica DEFEND
Head of Amundi Investment Institute

Marketing material for general public. *European Commission.

Focus on duration and EM divergences

The evolution of DM and EM economies, progress on inflation, and risks related to consumption and geopolitics drive our stance. We are cautious on risk assets, owing to some of the aforementioned points. Despite that, we do not rule out the potential for a tactical rally in select corners but believe these should not drive investors' convictions. Instead, they should stay balanced, favouring duration and exploring opportunities in EM assets to benefit from strong growth prospects. At the same time, geopolitical risks highlight the need to stay well-diversified.

High conviction ideas. We are cautious on US and European equities but stay positive on EM. However, we think this is a time to consolidate EM views, given the increasing divergences. For instance, we are seeing signs of a slowdown in China, but see strong growth prospects in India, Brazil and Mexico. Brazil should benefit from favourable earnings dynamics and commodity exports, whereas India is a structural/long-term story of domestic demand and reforms.

We keep our constructive stance on US duration. But after the Fed's less-hawkish comments, we see better value in intermediate parts of the yield curve. In Canada, we keep our curve steepening views. We also stay positive on European duration, given a weak economic outlook, and on Italian BTPs. Limited foreign holdings, favourable supply dynamics, and demand from domestic retail investors keep us constructive, on BTPs along with recent actions by rating agencies. However, in Asia, we stay cautious on JGBs amid increasing inflation and expectations that the BoJ could end its negative interest rates policy soon. This view also acts as a diversifier of our overall positive stance on duration.

In EM bonds, we marginally raised our stance via a selection of LC debt and we are now positive on HC as well. Declining US inflation and expectations on Fed policy should be supportive.

On corporate credit, EU IG remains our favourite pick. While there has been some deterioration in fundamentals, the overall situation is still healthy. Lower supply is also positive. However, we remain negative on US HY due to a worsening default outlook and expensive valuations.

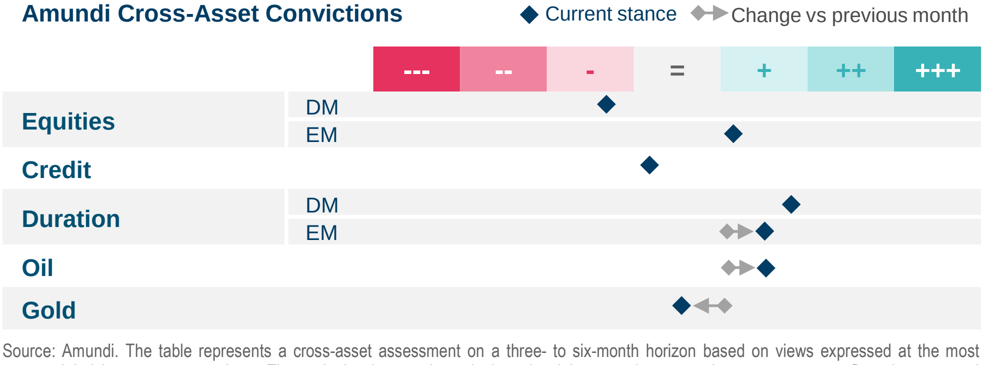
In FX, we are no longer positive on the MXN vs the EUR after the peso's recent ascent but continue to like the BRL/USD and INR/CNH. In DM, we expect the USD to weaken vs the EUR. We also like the EUR/GBP, USD/CHF and AUD/USD. We are more constructive on oil, which could gain from the rise in tensions in the Middle East. But we are neutral on gold, which benefitted earlier from geopolitical uncertainty.

Risks & hedging. While we maintain a defensive stance on DM equities, optionality and hedges may allow investors to capture any potential upside in equities without changing their overall stance. In FI, we maintain our protection on bonds to guard against any higher-than-expected inflation and hawkish views from the Fed.

Francesco SANDRINI
Head of Multi-Asset Strategies

John O'TOOLE
Head of Multi-Asset Investment Solutions

"We see better prospects in EM bonds and believe in maintaining a well-diversified stance that could safeguard portfolios from any increase in geopolitical tensions".



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.

The bonds story has just started, stay agile

Overall assessment. The cumulative effect of monetary tightening will weigh on aggregate demand next year, which is why we think recession risks are high in the US. As a result, investors should focus on government bonds, and look for segments that offer a mix of quality and attractive yield.

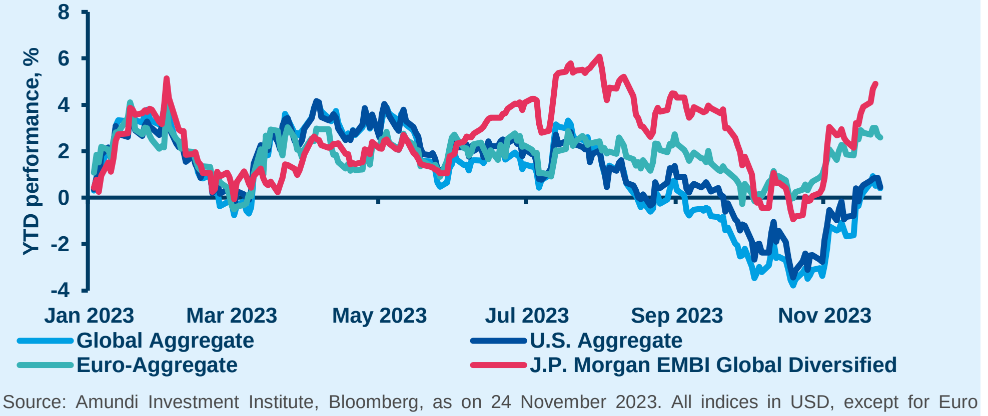
Global & European fixed income. The European economy is being affected by slowing external demand and internal fiscal constraints. At the same time, inflation is not fully under control, leading the ECB to stay data-dependent. As a result, although we stay neutral on duration, we are very active and see pressures from both sides on yields. In Japan, we are cautious but stay vigilant. We increasingly favour quality in credit and maintain a slight positive stance through financials, subordinated debt, and BBB-rated and IG. But, we are cautious on the energy, transportation and real estate sectors. We also observe significant divergences between IG and HY, with low-rated HY issuers being the most exposed to the steep rate hikes seen already. Globally, as well as in Europe, an increase in default rates has been driven by CCC-rated debt. Thus, we stay cautious on HY.

US fixed income. Core yields have come down in the past few weeks as the Fed maintained rates at current restrictive levels and as inflation declined. We keep a positive duration bias, with an active stance, and a keen eye on fiscal deficit and supply of USTs. TIPS also offer value to long-term investors. In securitised credit, agency MBS spreads are attractive when compared with history. But we stay agile in adjusting our stance according to changes in spreads. Importantly, we see value in selective non-residential and CRE* securitised (multi-family housing) markets. These are supported by still-strong consumer balance sheets and an acute housing supply/demand mismatch. Regarding corporate credit, our preferences for IG over HY and financials over non-financials are maintained. Even where we think there are bottom-up ideas in HY, we lean towards higher quality.

EM bonds. Sentiment towards EM debt has been improving, following weak US data and Fed communication. While we were ahead of the market in judging this, we see interesting times looking forward. Geopolitics/politics, global supply chain reallocations, and idiosyncratic risks (Argentina) could also have a role to play. In HC, we prefer countries with a carry cushion, while on LC, selectivity is key. Regionally, we favour LatAm and like Indonesia on growth/inflation dynamics.

FX. We are vigilant on Fed actions, even as we stay positive on the JPY, NOK and CHF. Yen has been suffering lately, but a hard-landing of US economy and change in BoJ stance could offer support. In EM, we like the MXN, BRL, IDR and INR.

In November, major bond indices are back in positive territory YTD



Source: Amundi Investment Institute, Bloomberg, as on 24 November 2023. All indices in USD, except for Euro Aggregate which is in EUR. *CRE = Commercial real estate.

Amaury D'ORSAY
Head of Fixed Income

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

"We have maintained for a while that quality credit and government. bonds offer strong value & the recent fall in core yields is an affirmation of that".

Seek opportunities outside expensive mega caps

Fabio DI GIANSANTE
Head of Large Cap Equity

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

Overall assessment. The recent recovery in equities is not matched by forward guidance from companies (in the US and Europe) which are showing concerns on weak demand, even as cost pressures persist. We think markets could increasingly differentiate between attractively priced companies that are beating expectations through high pricing power and those that are merely riding the tide. Thus, we prefer robust businesses, in DM and EM, that have strong balance sheets.

European equities. As consumers' real incomes come under pressure, pricing power of companies are likely to be tested. Companies that are missing earnings estimates and have high price elasticity of demand and weak balance sheets are more likely to be affected by a market sell-off. Thus, we maintain a balanced approach, seeking to blend quality cyclical businesses and defensives. In the latter, we marginally raised our views in staples and see potential in some discretionary names after the recent weakness. Elsewhere, we like renewable energy and believe the bubble in the sector has burst. This should give way to long-term winners that can capitalise on consumer demand for clean, renewable energy. Retail banks also offer good potential. However, we avoid segments where profits are too dependent on government actions. Tech is another area where we are not positive.

US equities. We are witnessing a dichotomy where valuations and earnings potential in some segments are high vs the rest and this allows us to be selective. For instance, mega cap valuations are extreme but outside these, equal weighted indices have not risen so strongly. Thus, we favour segments such as quality, value and those that are exposed to structural themes: electrification and automation. A lot of infrastructure is being built around greening and electric vehicles, but instead of betting on any cycle, we like to pick our stocks. In addition, a simplistic cyclicals vs defensives choice can be misleading because of wide variations in valuations. Hence, we stay balanced and explore defensives that are attractively priced, but not just the traditional ones. Sector-wise, our convictions are in energy (the sector has been underinvested in the past years and offers opportunities), materials, financials, life science tools. In banks, there are opportunities, but we are monitoring credit risk.

EM equities. Robust EM growth, earnings expectations, and attractive valuations keep us positive on equities. While geopolitical rivalry between the US and China should continue, the recent Xi Jinping and Biden meet indicated some moderation. We are also monitoring global geopolitical risks and impacts on oil prices: this is important for exporting EM countries. Regionally, we like Mexico and Brazil, and select Asian countries, such as Indonesia and India. At a sector level, we prefer real estate and consumer discretionary, but with important differences among countries.

"Weak corporate guidance from the latest results season affirms our stance to stay away from risky, expensive segments and tilt towards quality".

Mega cap valuations are extreme, but equal weighted indices look less expensive

Source: Amundi Investment Institute, Current Price to Earnings ratio. Data as of 24 November 2023.

Amundi asset class views

	Asset Class	View	vs M-1	Rationale
EQUITY PLATFORM	US	-/=	▲	We stay cautious on US equities but acknowledge that valuations outside the mega caps are better. The latest earnings season highlighted how management guidance is becoming cautious on indications of weak overall demand and fading consumer confidence.
	US value	+		Although we are aware of weak economic growth ahead, we maintain that value is a long-term phenomenon. This should be combined with quality, favouring businesses that can maintain margins and those that would benefit from structural themes: for instance, around infrastructure.
	US growth	--		Growth continues to display expensive valuations and would be affected more in case of sharp falls in markets, and if liquidity dries up. We are defensive, particularly on unprofitable growth.
	Europe	-/=		We believe a weak internal and external demand outlook could start to affect companies and the latest results season confirms our thinking. This leads us to stay balanced, with a positive view on consumer staples and industrials. We focus on businesses with strong pricing power and the capacity to maintain margins.
	Japan	=		Japan is witnessing improving domestic economic activity on the back of a moderate recovery in private consumption. However, a deeper-than-expected global slowdown could affect exports.
	China	=		Weak demand is likely to persist amid government deleveraging efforts and debt discipline. This could create short-term pain but would lead to more sustainable long-term growth. The latest stimulus is meant to minimise this pain but would be unable to offset weak consumption.
	EM ex China	=/+		EM are witnessing many structural trends (near-shoring/friend shoring, increasing foreign investments in Asia, rise of India, etc) that could alter industries and, in the process, present opportunities. Countries such as India, Indonesia, Brazil offer large domestic markets, along with strong potential for exports. We are positive and acknowledge the divergences at play in EM.
FIXED INCOME PLATFORM	US govies	=/+		Slowing inflation and indications that the Fed may be at peak rates paint an attractive picture for bonds. But we are mindful of public debt supply and the US fiscal deficit. Hence, we are constructive amid attractive yields and an upcoming slowdown, even as we stay active.
	US IG corporate	=/+		Corporate fundamentals (ie, interest coverage, etc) are strong but deteriorating from healthy levels. We keep an eye on sales growth and how that compares with leverage in this segment. Our preference remains for names that can maintain stable sales and cash flows.
	US HY corporate	-		A deteriorating default outlook, led by CCC-rated debt, leads us to confirm our view that this transition towards a higher-rates environment could be more painful for low-rated segments. The situation could be aggravated for businesses with higher refinancing needs in 2024.
	European govies	=		Disinflation in Europe is improving the case for duration. But we are neutral in light of the ECB's data-dependent approach on inflation, which although falling, remains above the bank's target. On peripheral debt we are also neutral for now. BTP yields have fallen in line with core Europe, and as a consequence of positive newsflow around Italy's credit rating.
	Euro IG corporate	=/+		While valuations are reasonable in EU IG, we remain focused on idiosyncratic risks, favouring names that can maintain cash flows: for instance, in the financials sector. We also think BBB-rated debt offers a good balance between yield, quality and liquidity.
	Euro HY corp.	-/=	▲	We are cautious and are monitoring the default outlook. However, we see limited refinancing needs, and believe the low-rated CCC debt is a small part of the overall EU HY universe. Overall, we favour the higher rated (BB and above) parts and short maturity debt.
	China govies	=		We are monitoring overall government debt levels and how the latest stimulus could affect balance sheets. We are neutral and believe the PBoC will keep rates low in medium term.
	EM HC	=/+		In general, Fed close to a pivot and falling inflation are positive for EM debt, along with strong economic growth. We are selective regarding corporate debt and HY (over IG) as we expect a stronger rebound amid attractive valuations and carry.
	EM LC	=/+		We are mildly optimistic on LC debt but are monitoring dollar movements and domestic inflation pressures. We like countries with high carry and real yields.
OTHER	Commodities			Recent oil price weakness has resulted from intensifying concerns over weak supply discipline from OPEC+. We think these are excessive, and OPEC+ members may act in the near future. The demand side also remains fine – for now. We maintain our medium-term target for Brent at $85-90/bbl, but do not rule out episodes of spikes in the near term.
	FX			The market moving away from the 'higher for longer' Fed rates narrative points to a weaker USD, particularly as US inflation declines. We maintain our EUR/USD target of 2Q24 at 1.09. On the JPY/USD, we stay slightly constructive, with a target of 141 for Q2 next year.

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

Source: Amundi, as of November 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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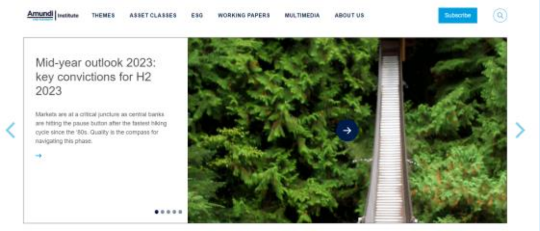

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