Press conference – 23rd of November 2023

Global Investment Outlook
Steering through turning tides

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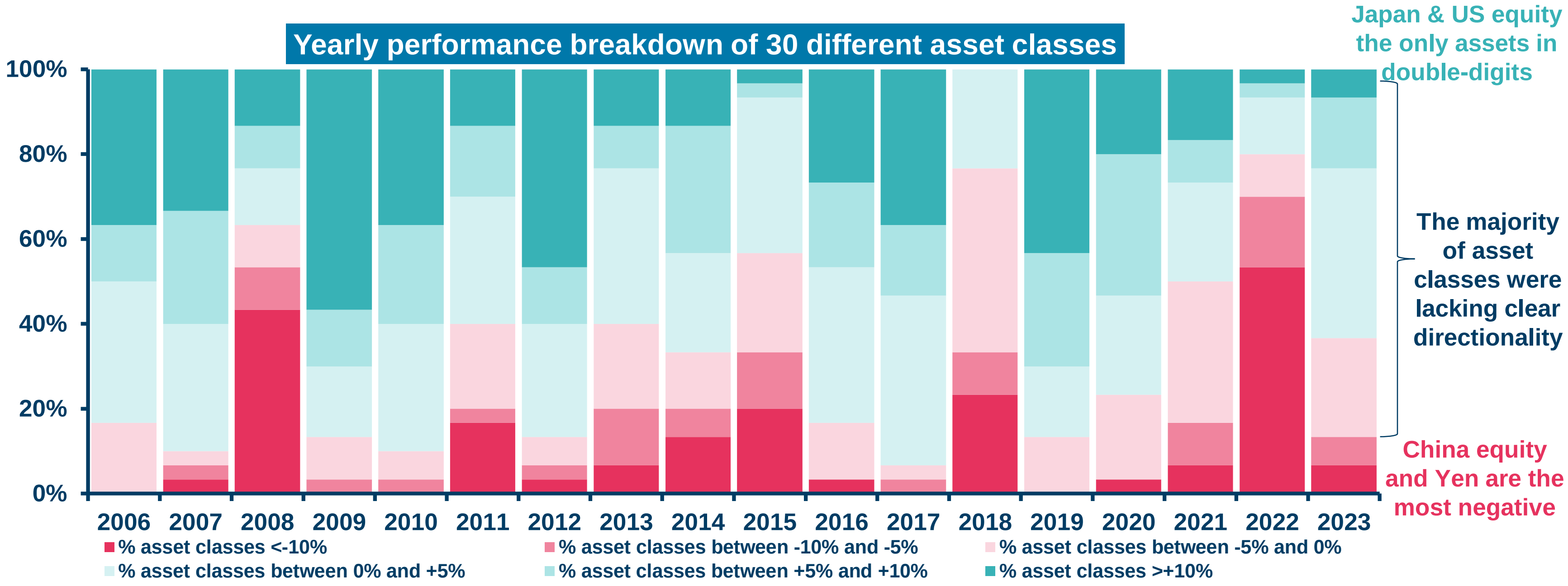
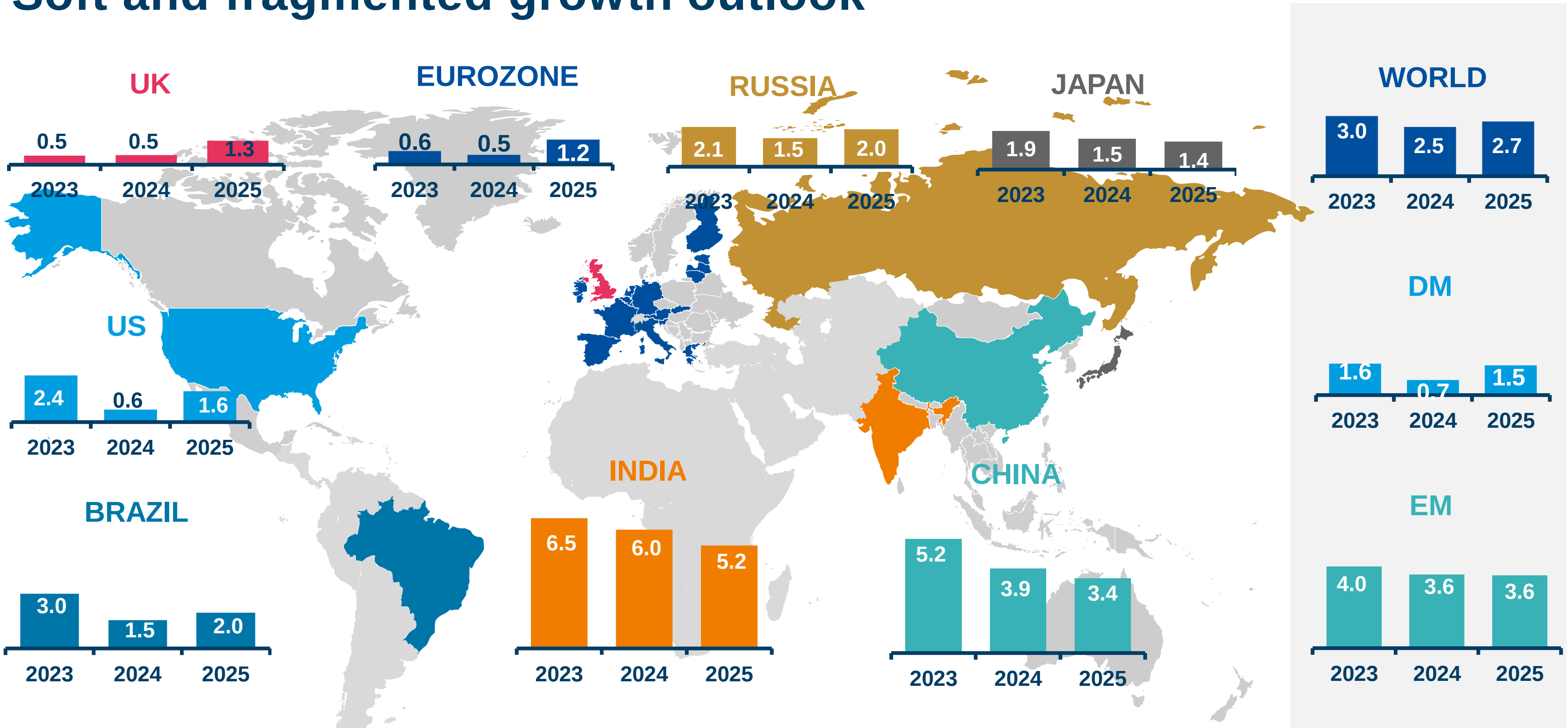
Lack of directionality in markets amid an uncertain macro outlook



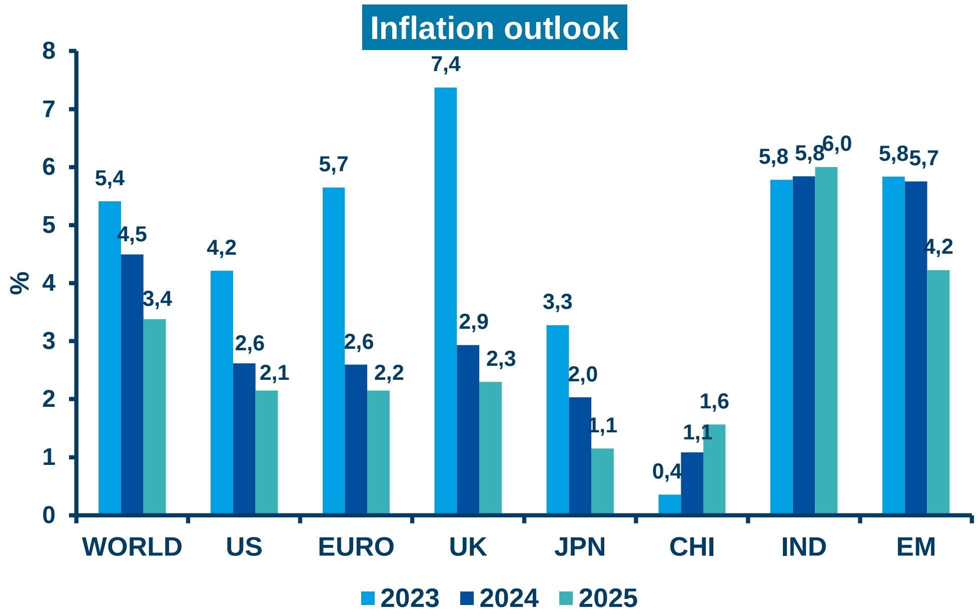
Source: Amundi Investment Institute, Bloomberg. Analysis on 30 asset classes. Data is as of 2 November 2023. Index providers: cash, government bonds, and EM bond indices are from JPMorgan. Corporate bond indexes are from BofA. Equity indexes and EM currency indices are from MSCI. Commodities indices are from Bloomberg Barclays. All indices used to represent asset classes are TR in local-currency terms. Asset classes are: Euro Cash 3m; US Cash 3m; Japan Govies; US Govies; EMU Govies; UK Govies; EM Govies HC; EM Govies LC; US INFL LNK; Japan INFL LNK; UK INFL LNK; Euro INFL LNK; Euro IG; US IG; Euro HY; US HY; EUR Equity; North Am Equity; Japan Equity; Pac. ex Jp Equity; GEM; China Equity; Oil WTI; Gold; Commodities; Euro Spot; USD Trade Wgt; Jap. Yen Spot; GBP Spot; EM Cur in USD. **Past performance is no guarantee of future results.**

Soft and fragmented growth outlook



Source: Amundi Investment Institute. Data is as of 7 November 2023. Forecasts are by Amundi Investment Institute and are as of 31 October 2023. EM: Emerging Markets. DM: Developed Markets.

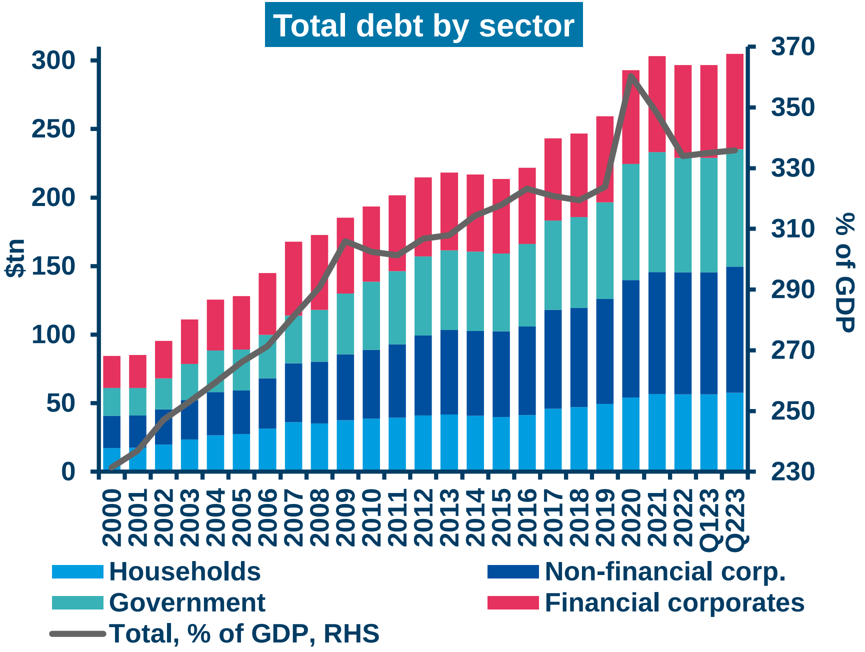
MONETARY POLICY: Inflation battle is not won yet



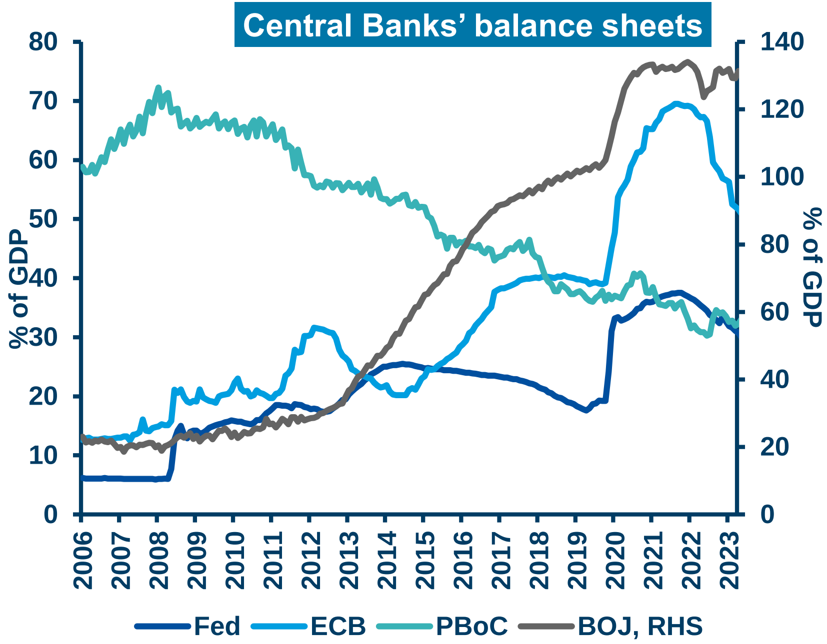
- **Fed, ECB, BOE in hawkish pause**
- **BOJ: negative rates over,** flexible YCC to be abandoned in 2024
- **EM: easing cycle started, but cautious move**
  Room in some LatAm / Eastern European countries to cut rates, in Asia inflation is less of a problem

Source: Amundi Investment Institute, Bloomberg. Data is as of 9 November 2023. Inflation forecasts are by Amundi Investment Institute and are as of 9 November 2023.

RISKS: Limited fiscal space in an over-indebted world and CB balance sheet normalisation



Source: Amundi Investment Institute on IIF data as of end Q2 2023. Note: Total debt is the sum of government debt, household debt, financial sector debt and non-financial corporate debt.



Source: Amundi Investment Institute, Bloomberg, CEIC. Data is as of 3 November 2023. Latest available data is as of end of September 2023.

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Macro take aways

How to get to the next phase

FRAGMENTED OUTLOOK

With the global economy slowing down, and US in mild recession

INFLATION SLOWING

But still remaining above Central Banks' targets (→Higher for Longer)

MONETARY POLICY

DM vs EM asynchrony for H1-24 / anchored inflation expectations

VULNERABILITIES

1. Debt overhang
2. Tightening financing & financial conditions
3. New geopolitical order
4. Delayed & disorderly net zero transition
5. Food security

Source: Amundi Investment Institute, as of 3 November 2023.

Five investing themes for 2024

Dynamic asset allocation amid turning tides

Bonds' appeal amid peaking rates

Seek resilience in equities

EM winners in a fragmented world

Energy transition and structural themes

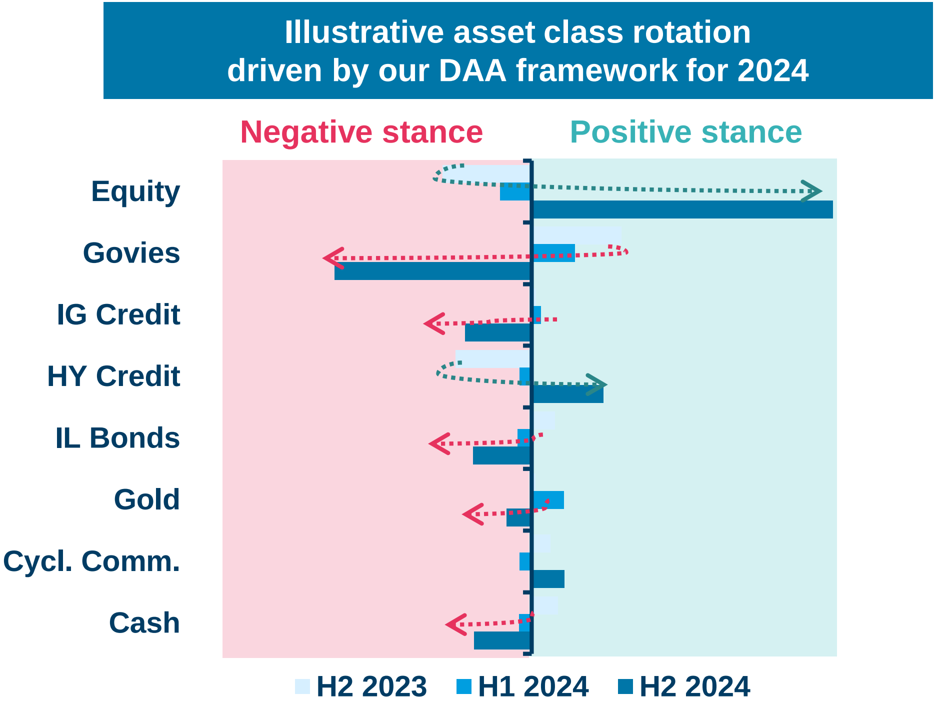
Source: Amundi Investment Institute, as of 2 November 2023.

Follow the investment sequence

	Start 2024	*End 2024*
Dynamic asset allocation amid turning tides	Start with a conservative allocation including hedges and diversify across alternative assets and strategies (gold, volatility)	Gradually add to equities and rotate from govies to credit
Bonds' appeal amid peaking rates	Gradually add duration and focus on quality credit, EM focus on HC debt and Euro HY short-term	Progressively add EM Local Debt on Fed pivoting and weaker USD
Seek resilience in equities	Stay defensive entering 2024 with focus on dividends, quality and add low volatility. Favour Global to play regional divergencies and Japan, US equal-weighted (concentration risk)	Turn towards more cyclical markets when the Fed starts cutting rates. Rotate into Europe, EM and small caps
EM winners in a fragmented world	Look at long-term winners (India), nearshoring stories across EM, winners in the energy transition (commodities) and technological advances (China).	
Energy transition and structural themes	Despite delays and a disorderly trajectory towards net zero, energy transition remains in focus with: sustainable infrastructure, water, sustainable buildings and green bonds. Other relevant long-term themes are: ageing population, AI and water management.	

Source: Amundi Investment Institute, end of October 2023. EM: Emerging Markets. HC: Hard Currency. HY: High Yield. AI: Artificial Intelligence.

A late cycle could favour risk assets in H2



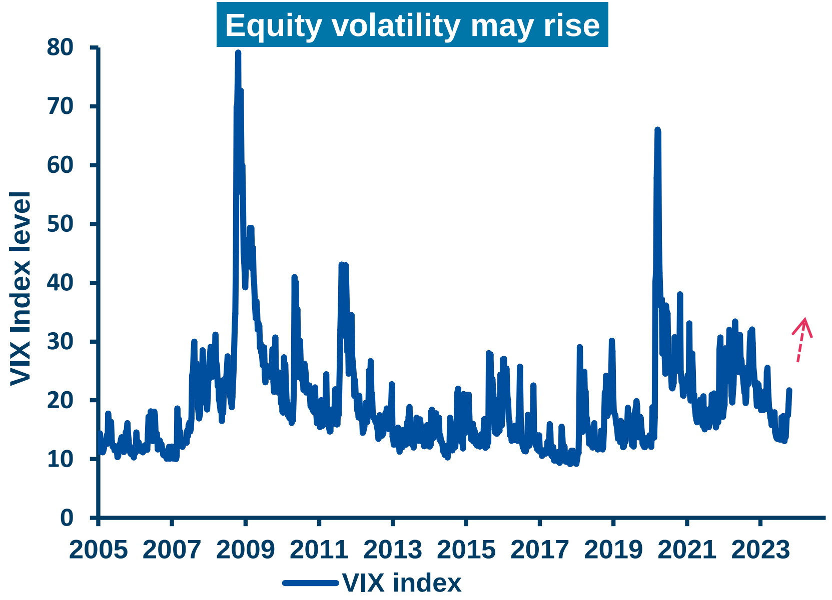
Asset allocation evolution:

- Starting with a defensive AA (short risky assets, long duration, gold IG & cash neutral)
- At the beginning of 2024, move to a more traditionally defensive AA for bear markets and Fed pivot (short risky assets, increasing duration, adding gold, shorting cyclical commodities and IL)
- Go for a pro-risk AA in H2 24-25. Inflationary pressure is hedged by commodities tilt (with commodities rotation).

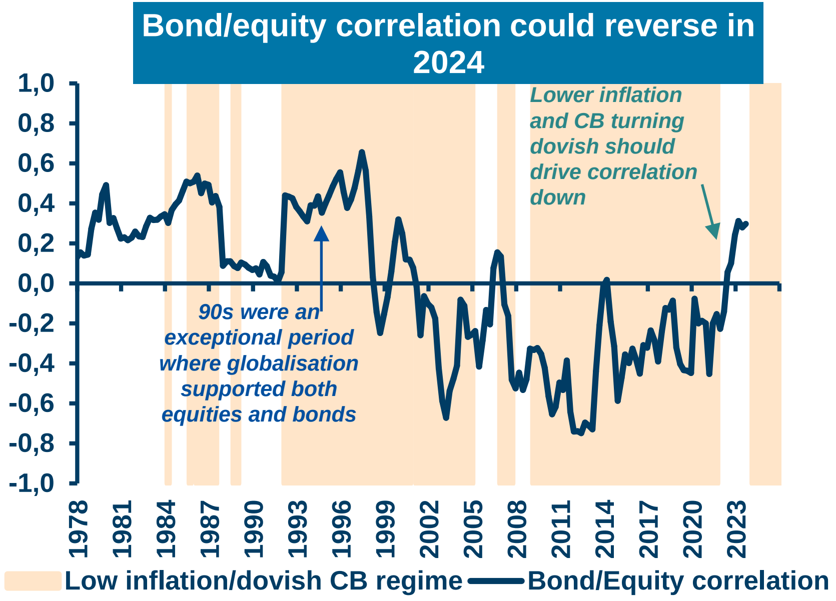
Critical trigger will be the Fed pivot and market reaction, managing the risk of being too short in risky assets when Fed does pivot and financial markets' stability tone turns.

Source. Amundi Investment Institute. For illustrative purposes only. IL bonds = Inflation linked bonds. As of 10 October 2023.

2024: manage the return of equity volatility and benefit from diversification, as bond/equity correlation could reverse

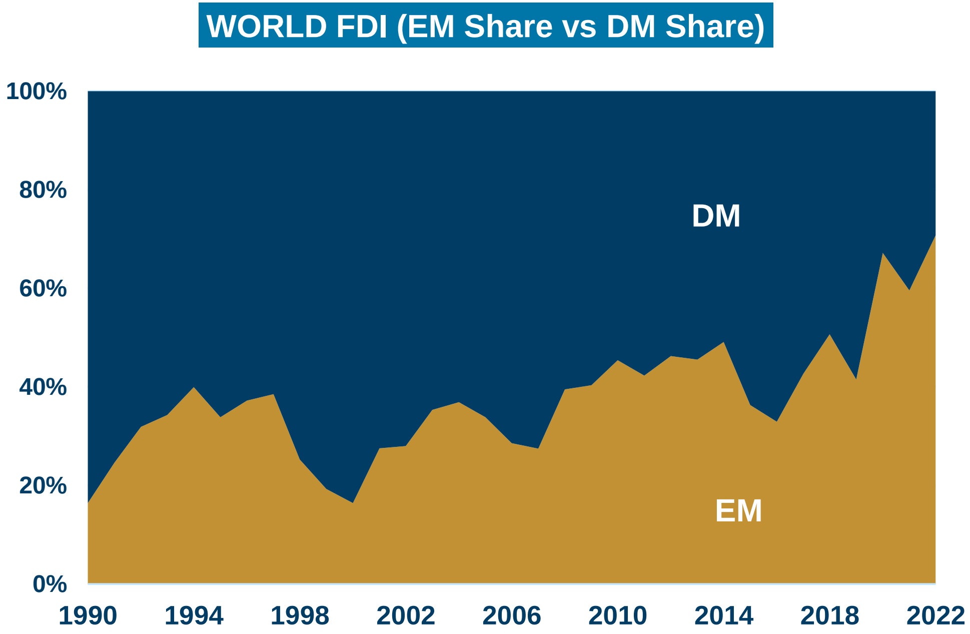


Source: Amundi Investment Institute, Bloomberg. Data is as of 25 October 2023. VIX index is an indicator of volatility in the S&P500.



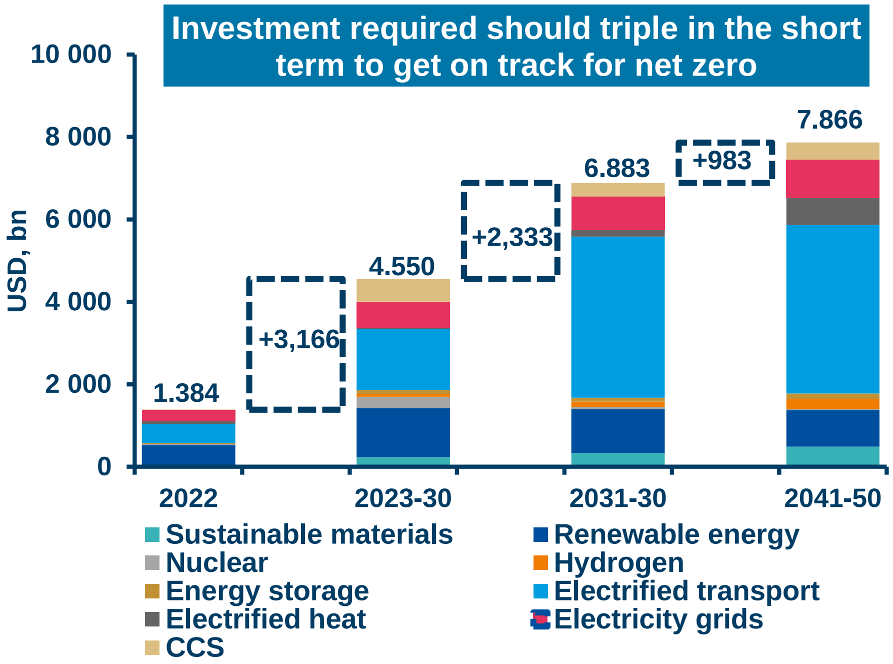
Source: Amundi Investment Institute, Bloomberg. Data, as of 31 October 2023. Correlation between S&P500 and Bloomberg US Treasury Index. 1 year correlation is on weekly data. Low inflation is US CPI YoY < 3%.

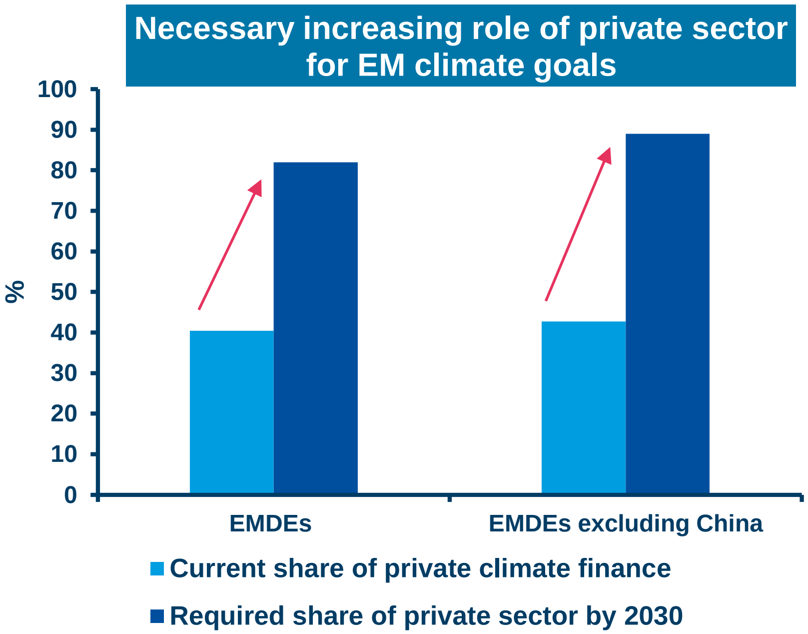
EM winners in a fragmented world, Asia on the spot



Source: Amundi Investment Institute on Unctad FDI World data. Annual data as of end-2021. Right chart shows growth in Foreign Direct Investments for selected EM countries.

Energy transition: huge investment needed to achieve net zero goals





Source: Amundi Investment Institute, BloombergNEF on Energy Transition Investment Trends 2023. 2022 energy transition and grid investment versus required annual investment in 2023-30, 2031-40, and 2041-50 in NEO 2022 Net Zero Scenario. Note: future values are from the New Energy Outlook 2022, except electrified transport, which is from the Electric Vehicle Outlook 2021 Net-Zero Scenario. The Net-Zero Scenario target global net zero by 2050 in line with 1.77 degrees Celsius of warming. Investment includes electricity grids. Data is as of January 2023.

Source: Amundi Investment Institute, IMF and IEA on Climate Policy Initiative with staff calculations. The estimation share of private climate finance to achieve net-zero emissions by 2050 is based on public climate financing share in total public investment that increases by a factor of 1.5 until 2030. Bloomberg. Data is as of 30 October 2023. EMDEs: Emerging Markets and Developing Economies.

Indices references and definitions

Yield and duration indices

German Govt Bonds = JP Morgan GBI Germany Index; US Govt Bonds = JPMorgan GBI US Index; Euro IG Bonds = Bloomberg Barclays Pan European Aggregate Corporate; US IG Bonds = Bloomberg Barclays US Aggregate Credit; Euro HY bonds = Bloomberg Barclays Pan-European High Yield ISMA; US HY Bonds = Bloomberg Barclays US Corporate High Yield; EMBI Div = JPMorgan EMBI Global Diversified Blended; CEMBI BD = JPMorgan CEMBI Div Broad Composite Blended; CEMBI BD HY = JPMorgan CEMBI Broad Div High Yield; Euro Corp Short Term = Bloomberg Barclays Euro Corporate 1-3Yr; US Corp Short Term = Bloomberg Barclays US Corporate 1-3Yr; EMBI Corp Short Term = J.P. Morgan CEMBI Broad Diversified 1-3 Year. European govt. bonds = JP Morgan GBI EMU YTM Index, Japanese govt bond = JP Morgan GBI Japan YTM index, US govt bonds = JP Morgan GBI US YTM index, UK = JP Morgan GBI UK YTM index, Europe dividend yield = MSCI Europe Index, Japan dividend yield = MSCI Japan Index, US dividend yield = MSCI USA Index, UK dividend yield = MSCI UK Index, Europe high dividend yield = MSCI Europe High Dividend Yield index, Japan high dividend yield = MSCI Japan High Dividend Yield index, UK high dividend yield = MSCI UK High Dividend Yield index, US high dividend yield = MSCI US High Dividend Yield index.

Definitions

- **Basis points**: one basis point is a unit of measure equal to one one-hundredth of one percentage point (0.01%).
- **Carry:** The carry of an asset is the return obtained from holding it.
- **Credit spread**: differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration possible embedded options.
- **Cyclical vs. defensive sectors:** Cyclical companies are companies whose profit and stock prices are highly correlated with economic fluctuations. Defensive stocks are less correlated to economic cycles. Cyclicals sectors are consumer discretionary, financial, real estate, industrials, information technology, and materials, while defensive sectors are consumer staples, energy, healthcare, telecommunications services, and utilities.
- **Default rate:** The share of issuers that failed to make interest or principal payments in the prior 12 months. Default rate based on BofA indices. Universe consists of issuers in the corresponding index 12 months prior to the date of default. Indices considered for corporate market are ICE BofA.
- **Diversification**: Diversification is a strategy that mixes a variety of investments within a portfolio, in an attempt at limiting exposure to any single asset or risk.
- **Duration:** a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates, expressed as a number of years.
- **FX**: FX markets refer to the foreign exchange markets where participants are able to buy and sell currencies.
- **Green bonds:** A green bond is a type of fixed-income instrument that is specifically earmarked to raise money for climate and environmental projects.
- **High yield:** High yield paying bond with a low credit rating due to the high risk of default of the issuer.
- **Investment grade:** Refers to securities issued by an issuer of negotiable debt securities (Treasury bonds...) or bonds for which the Standard & Poor’s rating is greater than or equal to BBB-. 'Investment grade' bonds are considered by the various rating agencies as having a low risk of non-repayment.
- **Liquidity:** Capacity to buy or sell assets quickly enough to prevent or minimize a loss.
- **Quantitative tightening (QT):** The opposite of QE, QT is a contractionary monetary policy aimed to decrease the liquidity in the economy. It simply means that a CB reduces the pace of reinvestment of proceeds from maturing government bonds. It also means that the CB may increase interest rates as a tool to curb money supply.
- **Spread:** The difference between two prices or interest rates.
- **Value style:** It refers to purchasing stocks at relatively low prices, as indicated by low price-to- earnings, price-to-book, and price-to-sales ratios, and high dividend yields. Sectors with dominance of value style: energy, financials, telecom, utilities, real estate.
- **Volatility**: a statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.
- **Yield curve control:** YCC involves targeting a longer-term interest rate by a central bank, then buying or selling as many bonds as necessary to hit that rate target. This approach is dramatically different from any central bank’s typical way of managing a country’s economic growth and inflation, which is by setting a key short-term interest rate.
- **Yield to worst (YTW):** it is the lowest potential yield that can be received on a bond without the issuer actually defaulting.
- **Yield to maturity (YTM):** Annualised return that a bond investor would receive from holding the bond until maturity.

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Date of first use: 13 November 2023.

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