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Amundi
ASSET MANAGEMENT

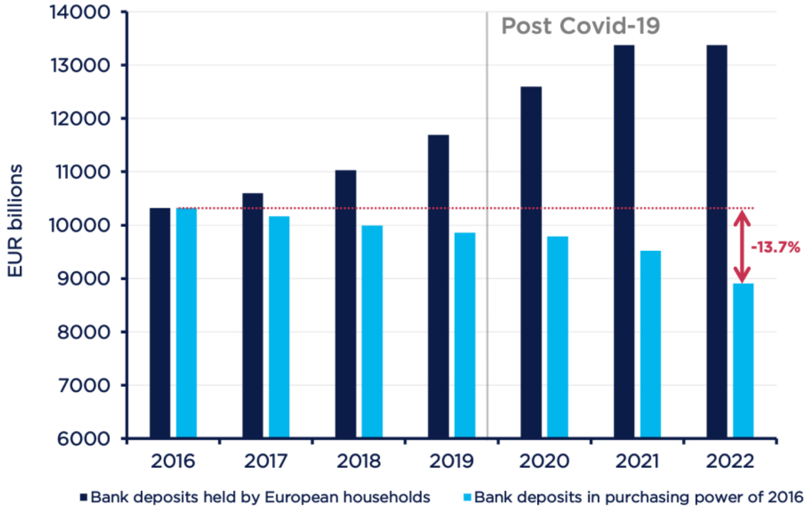
January 2023

Real income resilient to inflation

Discover the role income can play in an inflationary environment

Inflation | Market Stories

Inflation has eroded savings



While collective European savings (in terms of household bank deposits) have increased significantly since 2016, **the real purchasing power has actually gone down!**

European investors allocated an additional €3tn in cash deposits between 2016-22, accounting for around 38% of their total financial wealth.

In real terms, however, **collective purchasing power decreased by €1.4tn.**

Source: Amundi Institute on EFAMA Market Insights data, ECB and European Commission, June 2022. 2022 estimates based on European Commission's spring 2022 forecasts of inflation in the European Union for this year (6.8%). The disclosed information are as of December 2022 and constitute our judgment and are subject to change without prior notice. There can be no guarantee they will be met.

The drivers of inflation

GEOPOLITICAL CONFLICT

The Russia-Ukraine war has exacerbated pre-existing inflationary pressures, by catalysing significant disruptions in commodity markets

COVID-RELATED BOTTLENECKS

Soaring shipping costs, resurgent demand, re-shoring policies, and supply-chain disruptions contributed significantly to rising inflation in 2022

GREENFLATION

Structural factors like the energy transition may add to inflationary trends as limited renewable energy production capacity and high commodities demand may lead to a surge in energy bills and commodity prices

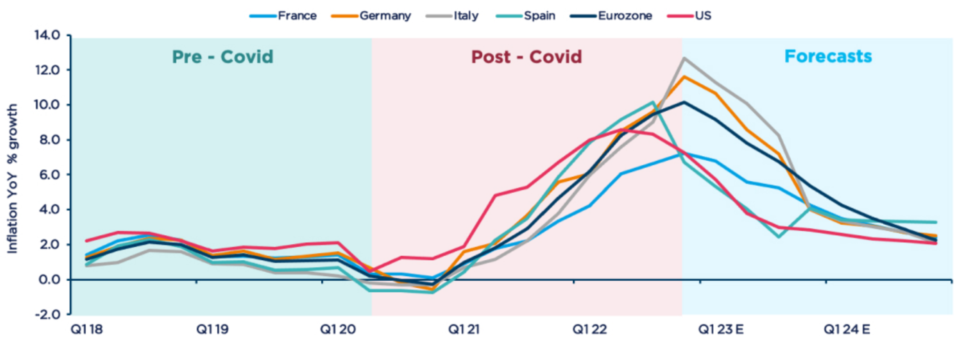
PSYCHOLOGICAL DIMENSION

Inflation has a critical psychological dimension. While consumer demand and labour markets are strong, we remain particularly aware of the potentially self-fulfilling wage-inflation loop

Source: Amundi Asset Management as at November 2022

Inflation may be slowing, but remains elevated

While we believe inflation may be on a decelerating path going forward, we expect it to remain elevated compared to the pre-COVID status levels.



Source: Amundi Institute on IMF data and forecasts. Latest data and forecasts available as of 22 December 2022. The disclosed information are as of December 2022 and constitute our judgment and are subject to change without prior notice. There can be no guarantee they will be met. The information is not guaranteed to be exhaustive or relevant. Although it has been prepared based on sources that Amundi considers to be reliable it may be changed without notice. Information remains inevitably incomplete, based on data established at a specific time and may change.

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The macro environment provides a unique backdrop

ONCE IN A CENTURY LOSSES

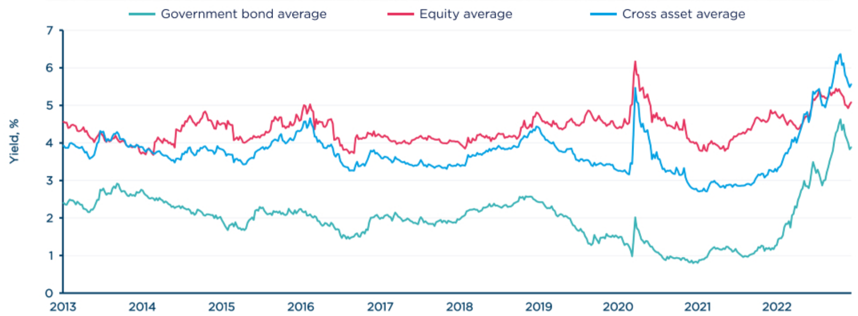
-10%
10 YEAR US TREASURY BONDS

-15%
S&P500 INDEX

Spiking inflation combined with high uncertainty across the economic, market and geopolitical backdrop led to a historic response in financial markets. In fact, **2022 marked the first instance in 100 years where both the 10Y US treasury bond and S&P500 index posted a double-digit negative return.**

Source: Amundi Institute, Global Financial data. Data is as of 31 October 2022. Past performance is no guarantee of future results.

Yields are at their highest in 10Y



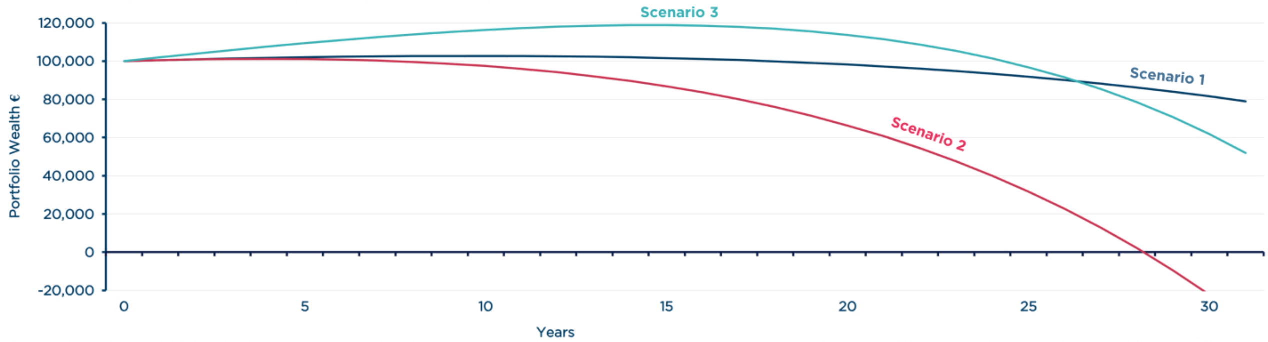
Yields have risen across the board - offering a potentially appealing entry point.

This is particularly true for bonds, but also for cross-asset allocations that can benefit from a range of opportunities across government bonds, corporate bonds, emerging market bonds and equities.

Source: Amundi Institute, Bloomberg. Data is as of 16 December 2022. Govt bond average= average of 2 government bond indexes yields for US and EMU (from JPMorgan GIB US and EMU Indexes); Equity average = average of 3 Div. Yield from the S&P Aristocrats, MSCI Europe High Dividend and MSCI EM High Dividend Indexes, Cross-asset = average across yields from 10 indexes (the 3 equity indexes, the 2 govt bonds, 2 IG & 2 HY credit indexes for Europe and US (from Bloomberg Barclays) and 1 EM bond index (the J.P. Morgan EMBI Global Diversified Blended).

Countering the effects of inflation with higher yields

Consider an investor that relies on income from investments to maintain their standard of living. With a portfolio value of €100,000 and a €3,000 annual withdrawal target*, **the impact of a prolonged period of inflation can be severe** as illustrated below.



Source: Amundi Institute for illustrative purposes. *The simulation assumes that the annual withdrawal rises in line with inflation, no capital appreciation and that the remaining capital increases at the income rate. The disclosed information are as of December 2022 and constitute our judgment and are subject to change without prior notice. There can be no guarantee they will be met. The information is not guaranteed to be exhaustive or relevant. Although it has been prepared based on sources that Amundi considers to be reliable it may be changed without notice. Information remains inevitably incomplete, based on data established at a specific time and may change.

Scenario 1 - the baseline

The baseline scenario for the income portfolio. Income generated by the portfolio outpaces the relatively low rate of inflation and the investor's wealth is minimally impacted over the long term.

Inflation: 2% vs **Income: 3.5%**

Scenario 2 - inflation rises and portfolio income remains the same

As inflation rises, this scenario highlights the impact on a portfolio that fails to adjust to this new market environment. Inflation outpaces the income generated, and the investor will face significant losses over the medium-long term.

Inflation: 5% vs **Income: 3.5%**

Scenario 3 - inflation rises and higher income is targeted

This scenario illustrates the impact of targeting higher income opportunities in the face of elevated inflation. Increasing the portfolio's income from 4% to 5% enables the investor to maintain their income goals while reducing the medium-term downside.

Inflation: 5% vs **Income: 5%**

If inflation stays high, income portfolios risk losing money. The longer the time horizon, the stronger this risk becomes. **To compensate, investors can look to supplement their portfolios with additional income.**

Different strategies cater to different needs

SHORT TO MEDIUM TERM

FIXED INCOME

After the great repricing, buy & hold bond strategies can offer appealing income within a pre-set investment horizon.

Flexible multi-sector income opportunities can exploit income opportunities across the board.

MULTI-ASSET

MEDIUM TO LONG TERM

A multi-asset income approach can offer appealing income across a wide range of asset classes, with some potential capital appreciation as well.

This can be especially relevant over a medium to long-term investment horizon.

EQUITY

LONG TERM

Investors with a long-term horizon looking for income resilient to inflation and potential capital appreciation should look at the equity space for potential opportunities with attractive entry points.

Source: Amundi Institute, as of November 2022

For more information on inflation resilient income opportunities:
Visit amundi.com/globaldistributor

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IMPORTANT INFORMATION

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