Investment Institute

Cross Asset Investment Strategy

April 2024

TOPIC OF THE MONTH

A window of opportunity for European equities

GLOBAL INVESTMENT VIEWS

The late-cycle environment continues to play out

Trust must be earned

Amundi ASSET MANAGEMENT

April 2024

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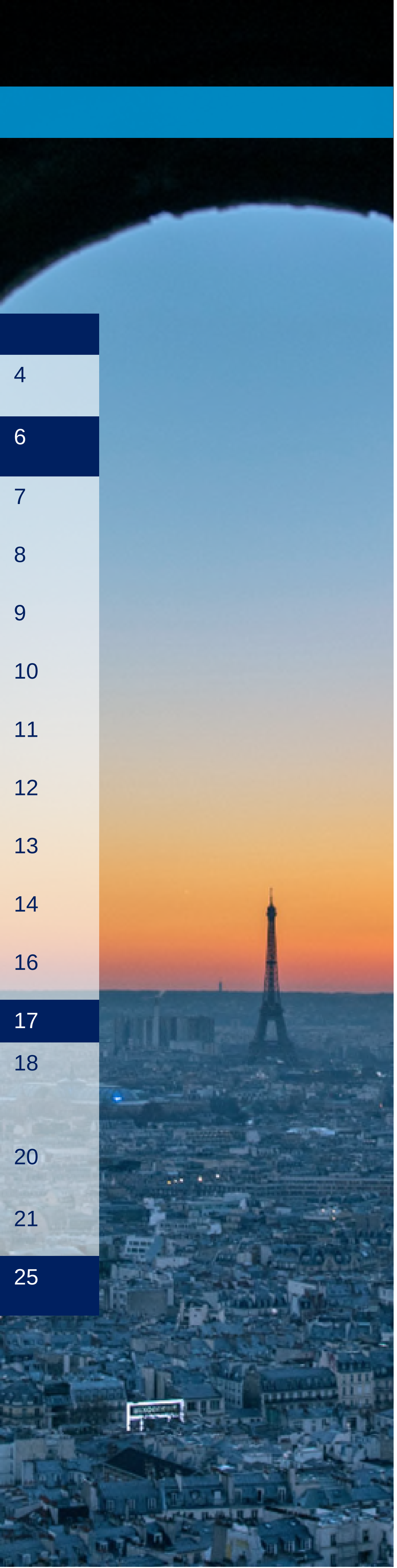


"Market sentiment may remain positive if we don't see an economic slowdown and inflation also doesn't surprise. However, areas of excess have built up, and underscore the need to remain vigilant."

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

"We acknowledge the trend strength in risk assets, but high valuations are preventing us from massively shifting our risk gear upwards."

VINCENT MORTIER
GROUP CHIEF INVESTMENT OFFICER

"The equity rally is broadening and we see a rotation towards European equities, where we have now a neutral stance."

MATTEO GERMANO
DEPUTY GROUP CHIEF INVESTMENT OFFICER

TOPIC OF THE MONTH

A window of opportunity for European equities

AUTHORS

ERIC MIJOT
HEAD OF GLOBAL EQUITY STRATEGY - AMUNDI INVESTMENT INSTITUTE

KEY TAKEAWAYS

After a strong 5-month rally, global equity markets, driven by the mega caps, are implicitly factoring in a strong rebound in the economy and profits.

A breather and/or a broadening of the participants in this rally make sense, opening a window of opportunity for lagging cyclical and value stocks.

European markets could participate, with small caps also joining in eventually. Their profits have started to outperform, unlike their share prices, making them more attractive.

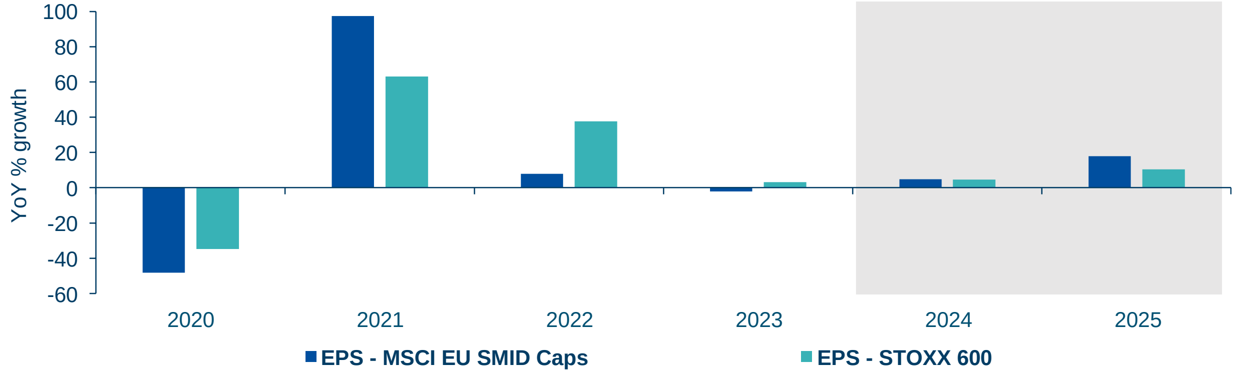
Equities have performed very well in the first quarter of the year. Where do we go from here?

Japan leads the major equity markets (Topix +17%) so far this year. The US and Europe are more or less on an equal footing, depending on the index: the S&P500 (+10.2%) outperformed the Stoxx600 (+7.1%), but the EuroStoxx50 (+12.4%) beat the Nasdaq100 (+8.5%) over the period, which shows that European blue chips are performing better than their US peers. **How far could this rally go?**

After 5 months of gains, equity markets have already factored in a lot of good news. In the US, the performance of equities relative to bonds is now consistent with an ISM manufacturing print of around 60*; in Europe, the performance of cyclicals relative to defensives implicitly points to the manufacturing PMI being around 55.

On this basis, we believe that three factors should guide our equity investment choices over the coming months: 1) the possibility of a pause or consolidation (not chasing the rally); 2) a broadening of the participants (favour those equities which have lagged); 3) the fact that the expected slowdown is simply a mid-cycle slowdown and not a recession (look for opportunities on the pro-cyclical side rather than the defensive side).

CHART: European earnings growth turning more favourable for European mid- / small-caps



Source: Amundi Investment Institute, Factset. Data is as of 28 March 2024. *An index of more than 50 indicates an expansion in the manufacturing segment of the economy in comparison with the previous month.

Focusing on mispricing could be rewarded again, and Europe equities should participate.

The broadening of participants beyond the Mag 7 should benefit equal-weighted indices in the US, but **the European market is also a good candidate for taking advantage of this window of opportunity.** The main segment of the European market to have taken advantage of the rally has been the large caps; **we believe that an extension of this broader participation could eventually also benefit European small caps**.

Three further remarks:

The US and European markets have contrasting growth and valuation characteristics, which explains our neutrality between the two regions.

The US market benefits from more dynamic earnings growth than the rest of the world, but its valuation is much higher than that of other markets. In the fourth quarter, US corporate profits rose by 10%, beating expectations, which were only 4.4% at 1 January. Profits in the three sectors that include the Mag 7 were up by 24% for IT, 37% for Consumer Discretionary and 53% for Communications Services. However, this comes at a price, and the 12-month forward price / earnings of the MSCI USA is at 21.4x, more than one standard deviation above its historical average since 2000, in comparison with 17.9x for the MSCI ACWI.

Conversely, **the European market is very cheap, but its profit momentum is also weaker.** At 13.8x 12-month forward profits, the MSCI Europe is trading at multiples that are in line with its historical average since 2000. On the other hand, fourth-quarter earnings were down 6.5% year-on-year for the Stoxx600, decreasing for a third consecutive quarter, and remain in line with expectations (-6.4% expected on 1 January). It should be noted that the Ibes forecasts for the next quarter are still in the red (-11%), compared to an increase (+5.1%) for US forecasts.

In the short term, however, Europe's value characteristics could be an advantage.

The MSCI World Index of Growth stocks relative to that of Value is on a triple top; the valuation differential between the two is also very wide, even more so than in 2000. As the elastic is stretched, it is tempting to think that, in the absence of a recession, it will relax in favour of Value, which is more pro European markets than American ones, which partly explains why European indices have stabilised versus the US since the start of the year.

If the Fed is expected to cut rates this year, so will the ECB, which could reinvigorate the neglected market cap factor, especially in Europe.

Despite their cyclicality, small caps have not yet joined in the shift in favour for cyclicals over defensives, which was reinforced by December's FOMC (Federal Open Market Committee) meeting acting as a game changer.

Having more leveraged balance sheets and being financed by banks rather than directly by the market, **small caps generally react favourably to falling interest rates, which could eventually act as a catalyst, when it becomes a reality.**

Why look specifically at European Small Caps?

The fall in interest rates could act as a catalyst for the size factor overall, but as we are mid-cycle rather than in a recovery from a deep recession, focusing on mispricing rather than a strong profits turnaround could be a good argument for positioning on this theme in Europe, whereas we favour the theme of broader participation in the equity rally in the US by focusing more on equal weight.

Indeed, having faced stronger pressure than large caps since 2022, European small caps' earnings have been outperforming those of large caps since mid-2023, contrary to their US counterparts; Factset forecasts that this trend should continue (see the chart on the previous page). This makes sense to us given the low recovery profile we expect. As their share prices have been underperforming, small caps are becoming more attractive in terms of valuation (the gap of P/E with large caps is at its highest level since 2003) and an interesting option for the catch-up by cyclical value laggards that we expect.

MACROECONOMICS, GEOPOLITICS, AND STRATEGY

MACROECONOMIC FOCUS

Bank of Japan: back to conventional

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In March, the Bank of Japan (BoJ) made a bold move by dropping its negative interest rate policy, Yield Curve Control and complex commitments on monetary base and inflation overshooting in one go. **This shift marks a return to a simpler and more conventional monetary policy framework**, with the short-term interest rate (TONA) becoming the primary policy tool, accompanied by a general forward guidance of maintaining accommodative financial conditions.

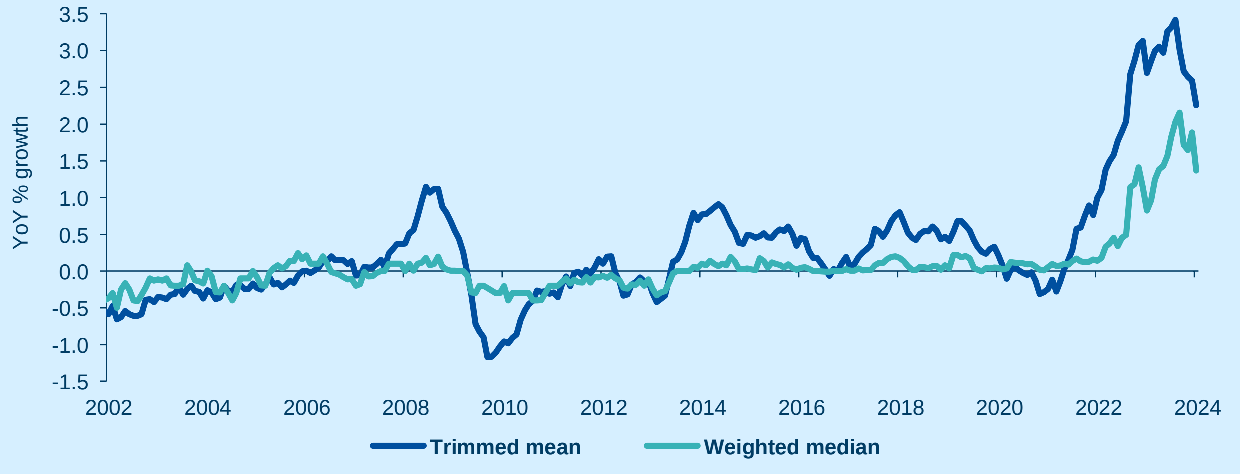
Future interest rate hikes will primarily be driven by inflation, as Governor Ueda clarified during the press conference, emphasising that hikes are conditional on further increases in underlying inflation towards the 2% target. However, **with inflation expected to moderate, the BoJ does not have the right conditions to raise rates in 2024 or 2025.** We expect the Bank to maintain TONA at 0-1%, conducting quantitative tapering or sporadic tightening if necessary.

The BoJ does not have the right conditions to hike in 2024 or 2025.

Inflationary pressures have been cooling, with all underlying inflation measures, such as the trimmed mean and the weighted median, which have been decreasing towards 2% or less (chart below). In our view, the risk of re-acceleration in the second half of the year is small. We anticipate medium-term inflation to settle at around 1.5%, which is not sufficient to push the BoJ to hike rates further.

As a key input in assessing financial conditions under the BoJ's new framework, the real interest rate is around -3%, significantly lower than the neutral rate* of -0.5% to 0% (IMF estimates). **Given our projected core inflation path, the real interest rate will gradually move towards neutral throughout the year.** This automatic adjustment process implies that financial conditions will incrementally become less accommodative, reducing room for the BoJ to tighten further.

CHART: Mild, not high, inflation in the medium term



Source: Amundi Investment Institute, BoJ. Data is as of March 2024. Trimmed mean: obtained by excluding the upper and lower tails (here the 10% tails) of the price change distribution adjusted for item's weight in the CPI; Weighted median: weighted average of the inflation rates of the items at around the 50th percentile point of the distribution. *Natural rate of interest: the real interest rate that neither stimulates nor contracts the economy.

CHINA

Reflation in sight?

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CHART: China CPI - housing inflation

Source: Amundi Investment Institute, Wind. Data is as of 27 March 2024.

In Jan-Feb 2024, CPI stayed flat compared to a year ago, recovering from -0.3% YoY in Q4 2023. This was due to a pick-up in services inflation to 1.2% YoY in the first two months, while goods CPI declined in February for the 11th consecutive month. We think it is too early to feel relieved. Looking ahead, the biggest component in services CPI – imputed rent – could start to head lower with falling lease and sales prices. It represents 38% of the services basket and 14% of the entire CPI. Hence, China will most likely be stuck in low inflation and risks are to the downside where deflation could extend to the services segment.

INDIA

Strong Growth Momentum

AUTHORS

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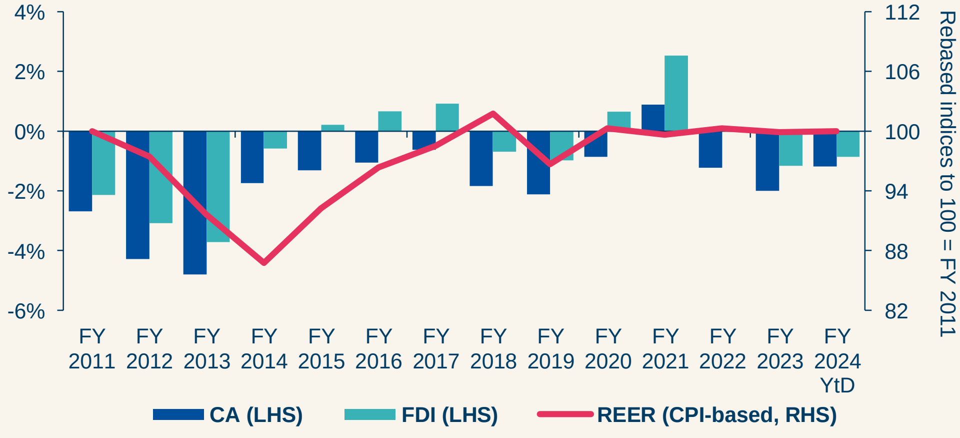
CHART: India's CA Deficit may narrow even further in 2024



Source: Amundi Investment Institute, CEIC. Data is as of March 2024. FY: Fiscal Year; CY: Calendar Year; CA: Current Account; FDI: Foreign Direct Investment; REER: Real Effective Exchange Rate.

In early 2024, India's growth momentum remained robust. Credit data, electricity generation, freight traffic and PMI manufacturing as well as consumption data (vehicle sales), picked up in February. Exports are improving too, implying that the current account deficit – already on a safer path as per Q4 CY 2023 – could narrow even further in 2024. India's external vulnerability has diminished over the years. February's headline inflation printed in the upper half of the Reserve Bank of India (RBI)'s target as expected, while core prices keep declining. If there is any pressure on inflation, it comes from the food component, but the RBI's outlook of staying on hold in the short term and easing later in the year is unchanged.

MACROECONOMIC SNAPSHOT

After a strong close to 2023 and a resilient first quarter, we expect the US economy to decelerate as we progress into 2024. The most vulnerable segments of the economy are showing signs of stress, although data on the broader economy remain mixed. We continue to expect inflation to moderate, amid some volatility, particularly on the sticky services side, as domestic demand cools and sequential inflation converges to a more normal pace.

Signs of bottoming out among business surveys support our view that the peak of monetary policy tightening may be almost over; yet, as conditions remain tight, modest global growth and less supportive fiscal policy will compound and keep eurozone growth sub-par in 2024, with a slight improvement in the second half of the year. Core inflation will progressively slow towards target, amid some volatility and heterogenous readings across countries.

We expect weak growth for the UK in 2024, although the contraction in Q1 most likely marked the low point for activity; the headwinds from restrictive fiscal and monetary policy will keep growth subdued especially in H1, while the economy may gradually gather momentum later in the year thanks to the boost to real disposable incomes from falling inflation, which is expected to moderate going forward, moving closer to target before year-end.

The Central Bank of the Republic of Turkey (CBRT) surprised by raising its policy rate by 500bps to 50%, while the consensus was expecting rates to stay on hold. Inflation will continue to rise and the Turkish Lira to depreciate. Further tightening cannot be ruled out but the evolution of FX reserves will be key.

The Hungarian National Bank (NBH) cut its rate by 75bps to 8.25% vs 100bps last month. This caution was justified by elevated market volatility and risks associated with the Hungarian Forint and the path of inflation. Geopolitical tension and uncertainty around the Fed's easing cycle will not lower this month and a NBH cut will likely be lower in April.

The strong Polish disinflation trend will stop in April and inflation will rise hereafter: i) data for the first two months show a sharp rebound of private consumption driven by strong wage growth and higher social transfers, and ii) anti-inflation shield measures are going to start to be removed. The National Bank of Poland (NBP) has no room to cut and may remain on hold until Q4.

Unusually, but widely expected, the Mexico Central Bank (Banxico) cut interest rates well ahead of the Fed by 25bps, via a split decision (4-1), after keeping them on hold at 11.25% for a whole year during which time monetary policy tightened passively. The easing pace will certainly remain slow and possibly be discontinued (subject to inflation dynamics, Fed actions, and local and US elections).

CENTRAL BANKS WATCH

DM Central Banks prudently approaching pivot; EM peers adapting to fickle conditions

Developed Markets

The Fed's rhetoric has not changed despite the recent acceleration in inflation. The story that "inflation moving gradually down on a sometimes-bumpy road towards 2%" is maintained. The median dot continued to show three rate cuts in 2024.

ECB members now look "more confident about hitting inflation goal". The ECB has revised its inflation forecasts downwards. Momentum is building for a June ECB interest-rate cut.

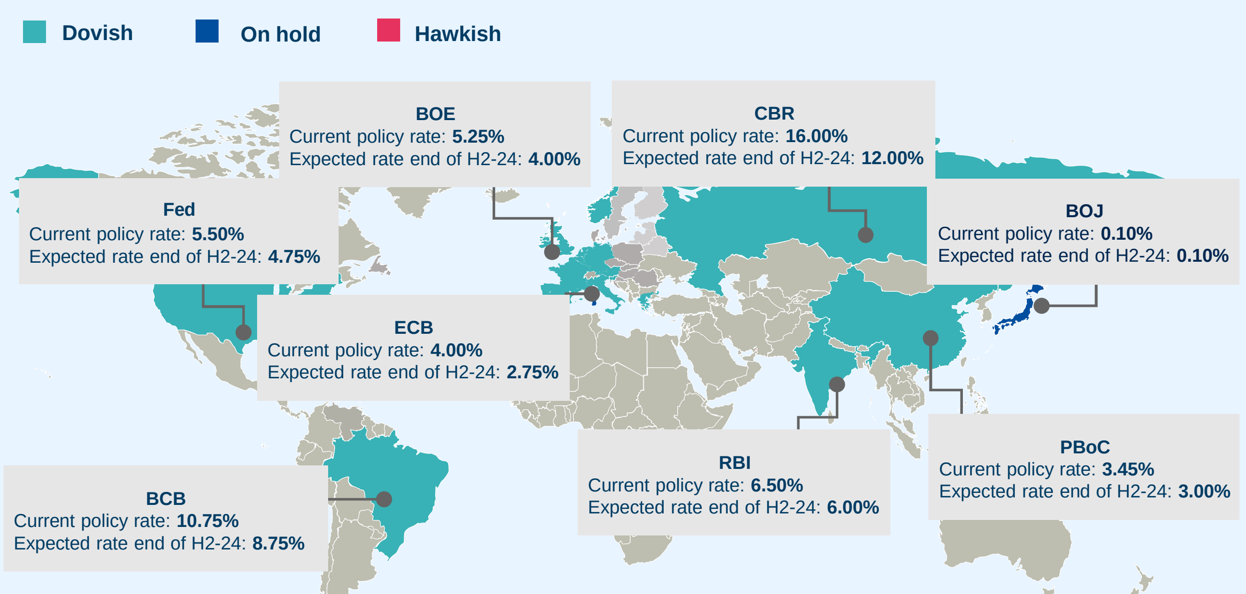
The Bank of England made a further dovish step towards a turn in the cycle. Its members need to see more progress in the current disinflationary trend, but the overall outcome of the meeting looks consistent with a turn in the cycle getting closer.

The BoJ has ended its unconventional policy regime, raising interest rates for the first time since 2007 and removing the target and reference rate for 10-year JGB yields. Governor Ueda underlined that a rapid rate hiking cycle could create risks in the economy after years of low interest rates.

Emerging Markets

Following very benign reports in December 2023 and January 2024, **EM February inflation marginally and broadly surprised to the upside across EM**, with the exception of CEE, which surprised on the downside. In our view, February **figures do not represent a change in the trend**; however, it's worth noticing that our inflation expectations for 2024 maintain a fairly stable path ahead. On the global stage, US data seemed to support the idea of a more prudent Fed until Powell confirmed the previous dots. Thus, either due to poor inflation figures or excessive currency volatility, **EM Central Banks again promptly adapted to the fickle conditions** and somehow cooled down expectations for their easing stance. Indeed, BCRP (Peru) discontinued its easing cycle, BCB (Brazil) tweaked its forward guidance in a relatively less dovish sense, CBC (Taiwan) unexpectedly hiked its policy rates aiming to reduce currency weakness and CBRT (Turkey) boldly hiked its policy rates by 500bps (to 50%) against the consensus for staying on hold and continuing a more orthodox policy mix.

Upcoming rate decision meeting and Amundi's assessment for H2 2024



Source: Amundi Investment Institute as of April 2024. Amundi's assessment of central bank rates trend is based on Amundi Investment Institute's forward-looking judgement of policy rates direction, based on our intake from forward guidance and CB communication. For the Federal Reserve, current rate refers to the upper bound of the target range. For the BoJ, current rate refers to the upper bound of the target range. For the ECB, current rate refers to the deposit facility.

KEY DATES	1 May	9 May	6 June
	US Federal Open Market Committee (FOMC) meeting	BOE Monetary Policy Committee meeting	ECB Governing Council meeting

GEOPOLITICS

What a Trump presidency means for NATO

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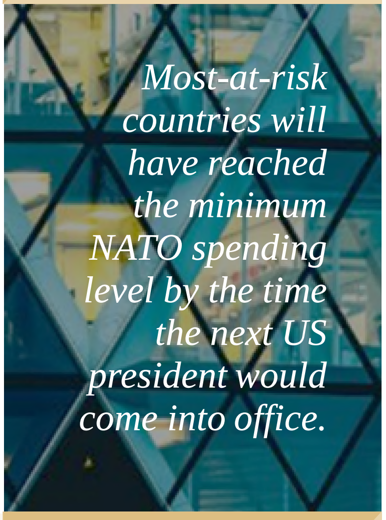
Concerns are growing over the possibility that the next US administration may refuse to defend NATO allies. It is legally difficult for the US to actually pull out of NATO as it now requires congressional approval to do so. Nevertheless, if the US president does not want to defend an ally, it is irrelevant if the US is a NATO member or not, indeed **no one can force the US president to do it**. However, Donald Trump is not anti-NATO per se. **His comments have mainly been about stopping protecting NATO members who do not pay their 'fair share'** (2% of GDP). By the time the next US president comes into office, NATO members who are most at risk will have time to increase spending to the minimum level in anticipation of a second Trump administration but also reflecting the growing risk of war. NATO countries in direct geographic proximity to Russia and Ukraine already exceed the 2% threshold; Germany allegedly reached 2% in January and is expected to spend more in coming years. France is also planning to reach 2% this year. Even though European NATO members are now reaching that minimum spending level, this follows years of underinvestment, leaving a shortfall of EUR 56 billion. **The question, therefore, is whether a possible Trump administration will be happy about countries catching up over time or will require NATO members to make up for the historic shortfall to guarantee security.**



POLICY

The EU defence has the wind in its sails

AUTHORS

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At the EU summit on 21-22 March, EU leaders expressed their determination to strengthen the technological and industrial base by rapidly implementing the European Defence Industrial Strategy (EDIS) presented by the Commission (EC) at the beginning of March. On the menu is **a substantial increase in defence spending, joint investment and better access to public and private funding.** The Council and the EC are due to examine all possibilities for mobilising funds and submit their conclusions in June.

The aim is to reverse recent trends and produce more in Europe. Between the beginning of 2022 and June 2023, 78% of defence purchases by EU Member States were made outside the EU, with the US alone accounting for 63% of this share. It is now planned that **50% of defence equipment will be purchased within the EU by 2030 and 60% by 2035**.

The use of windfall profits from frozen Russian assets should make it possible, in the short term, to jointly purchase military equipment for Ukraine. But in the medium term, other sources of funding will need to be mobilised, and budgets will also be called upon to contribute. **In the next multi-annual financial framework (from 2028), an ambitious financial envelope will have to be allocated to defence.**

Last, but not least, **Europeans reiterate that defence investments aimed at maintaining peace do not contravene environmental, social and governance (ESG) factors. There are no EU rules hindering private investment in the defence industry.**

Main and alternative scenarios

	Probability 70% **MAIN SCENARIO** Slowdown in global growth	Probability 20% **DOWNSIDE SCENARIO** Global downturn	Probability 10% **UPSIDE SCENARIO** Economic resilience
GEOPOLITICS	▪ Ukraine/Russia: ongoing fighting (ceasefire less likely). ▪ Israel: Conflict likely to stay local. ▪ China/US: a controlled downward trajectory. ▪ More protectionism, friend-shoring.	▪ Worsening Ukraine war. ▪ Extension of the conflict in the Middle East / Red Sea. ▪ More protectionism and increased retaliation to protectionist measures.	▪ De-escalation / ceasefire in Ukraine. ▪ End of the Israel / Hamas war. ▪ Lower energy / food prices.
INFLATION & POLICY MIX	▪ Inflation to slow; sticky core inflation (services). ▪ DM CBs: Fed funds rate -75bp by end-2024, ECB -125bp. Starting cutting cycle over summer. ▪ Most EM CBs at peak rates. ▪ Different fiscal policies. restrictive stance in the EU, negative impulse in the US; moderate measures in China.	▪ Sticky core inflation leads to tighter financial conditions. ▪ Financial stress. ▪ Recession to drive rate cuts (large rate cuts in case of deep recession).	▪ Gradual reduction of interest rates, but fewer rate cuts than in the central scenario.
GROWTH PATH	▪ Global slowdown with sharp divergences: anaemic growth in Europe; a slowdown in the US; faster transition to lower growth in China. ▪ Growth gap favour EM.	▪ More widely spread recessionary outlook (global growth below 2%).	▪ Only a pronounced cyclical disinflation, could lead to a faster-than-expected return to potential growth in Europe.
CLIMATE CHANGE	▪ Climate change hampers growth and exacerbates stagflationary trends.	▪ Further delays with more adverse climate events.	▪ Orderly transition coordinated across regions.

Risks to central scenario

LOW — Probability — HIGH

	10% Macro financial risks triggered by tighter credit and liquidity conditions	15% Deep profit recession	15% Stagflationary pressure persists (Europe)	25% Geopolitical risks and war escalation
MARKET IMPACT	**Positive** for US Treasuries, cash and gold. **Negative** for credit.	**Positive** for cash, JPY, gold, quality vs growth and defensives vs cyclicals. **Negative** for risky assets and commodity exporters.	**Positive** for TIPS, gold, commodity FX and real assets. **Negative** for bonds, equities, DM FX and EM assets.	**Positive** for DM govies, cash, gold, USD, volatility, defensive assets and oil. **Negative** for credit, equities and EM.

Source: Amundi Investment Institute as of April 2024. DM: developed markets. EM: emerging markets. CB: central banks. USD: US dollar. TIPS: Treasury inflation-protected securities. FX: foreign exchange markets..

AMUNDI INVESTMENT INSTITUTE MODELS

Advanced Investment Phazer: Amundi Investment Institute quarterly update

AUTHORS

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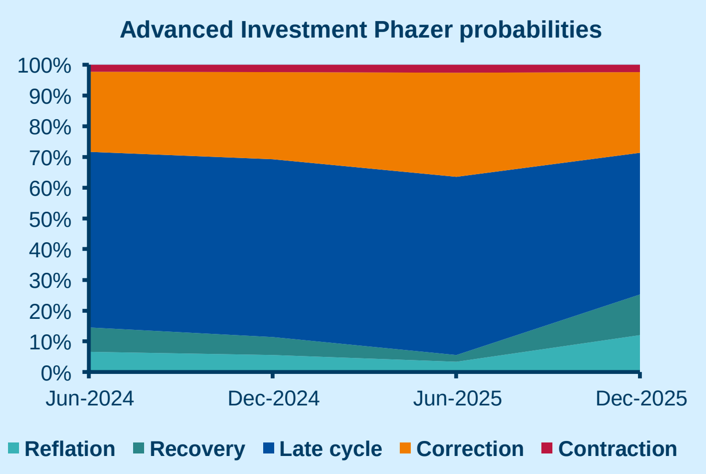
- **The rationale:** economic cycles have been a crucial driver for financial markets, making regime-based dynamic asset allocation (DAA) a common practice in supporting optimal portfolio construction. Changes in key economic indicators, monetary policy trends and the evolution of financial leverage have proven a reliable guide in identifying business cycle phases. Assessing the evolution of the probability for alternative regimes is often the best indicator for capturing a change in expectations.
- **Model setup:** We have developed a disciplined approach where regimes are identified by a clustering algorithm applied to a comprehensive set of macro-financial variables split over four dimensions: growth, inflation, monetary policy and financial leverage. We use this dataset (from 1875) to identify the most relevant recurring five regimes – correction, contraction, recovery, late cycle and asset reflation – and screen the overall cross-asset universe to detect which allocation models would have worked best during the various regimes.
- **Goal:** The Amundi Investment Institute Advanced Investment Phazer's (AIP) goal is to assess a financial regime's likelihood of persisting over a certain time horizon and assess the asset allocation model that should be favoured in relation to the forecast financial regime probabilities. In fact, we have found that asset classes and sectors display different behaviours during each regime which investors should consider within their portfolio allocations.
- **Model output:** We can identify different asset allocations depending on the probability distribution, favouring the combination of assets that is expected to perform best in the central scenario deemed most likely to materialise.

Macro-financial regimes are key to fine-tuning risk exposure and rotation within each macro asset class when it comes to portfolio allocation.

CHART: Late Cycle is the most likely phase for 2024

What are the current signals?

- The AIP signals Late Cycle as the most likely phase for 2024 due to strong resilience in the US economy and single-digit positive EPS growth in GEM economies should support global growth as well.
- The Late Cycle favours a marginally pro-risk asset allocation with a special focus on high-quality assets. The non-negligible probability of negative tail risks suggests a significant exposure to govies as well.



Source: Amundi Investment Institute. Data is as of March 2024.

EQUITIES IN CHARTS

A broadening of participants in the rally has started

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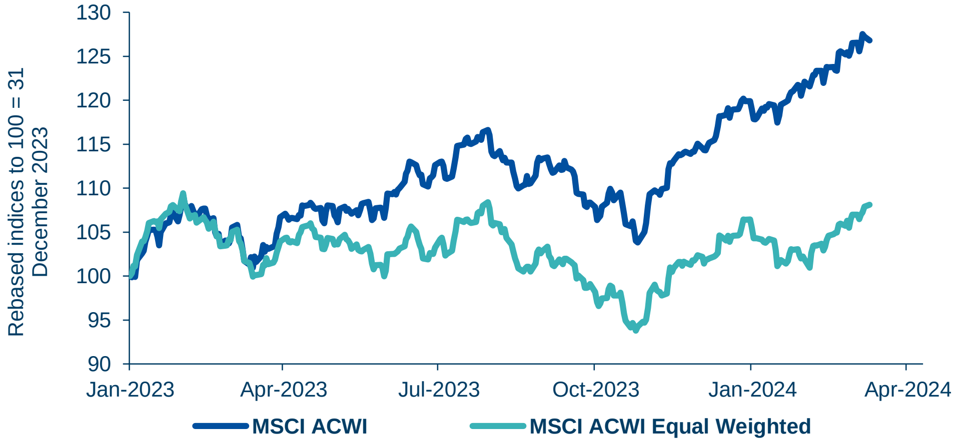
CHART: MSCI ACWI & MSCI ACWI Equal Weighted



Source: Amundi Investment Institute, LSEG Datastream. Data is as of 29 March 2024.

The equity rally has now started to become more spread out. While the market-cap-weighted MSCI ACWI is well above its 2023 highs, the equal-weighted MSCI ACWI has only just reached them. There is room for this broadening to continue.

EM: The semiconductor industry has been carrying Taiwan vs EM

AUTHORS

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CHART: Taiwan vs EM performance YTD

Source: Amundi Investment Institute, Factset. Data is as of 1 April 2024.

Taiwan has been one of the best-performing markets in EM year-to-date, showing that the semiconductor industry recovery, which has been anticipated for some time, is happening and can be further sustained by advancements in artificial intelligence technology.

BONDS IN CHARTS

DM: yields reacted strongly to upside surprises on inflation

AUTHORS

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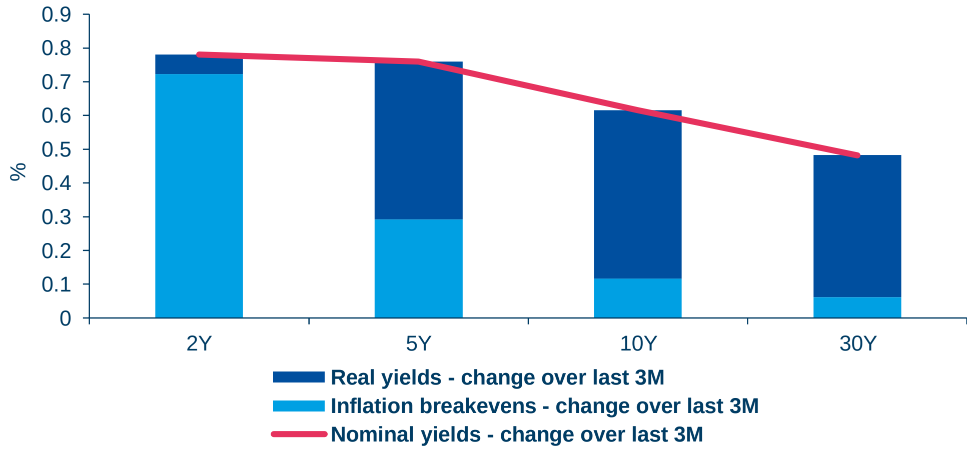
CHART: Changes in US Treasury yields over the last 3 months



Source: Amundi Investment Institute, Bloomberg. Data is as of 15 April 2024.

Strong rise in 2y and 5y inflation breakevens since the start of the year: front-end inflation compensation was too optimistic about how quickly inflation would moderate.

EM: EM yields on the rise YTD

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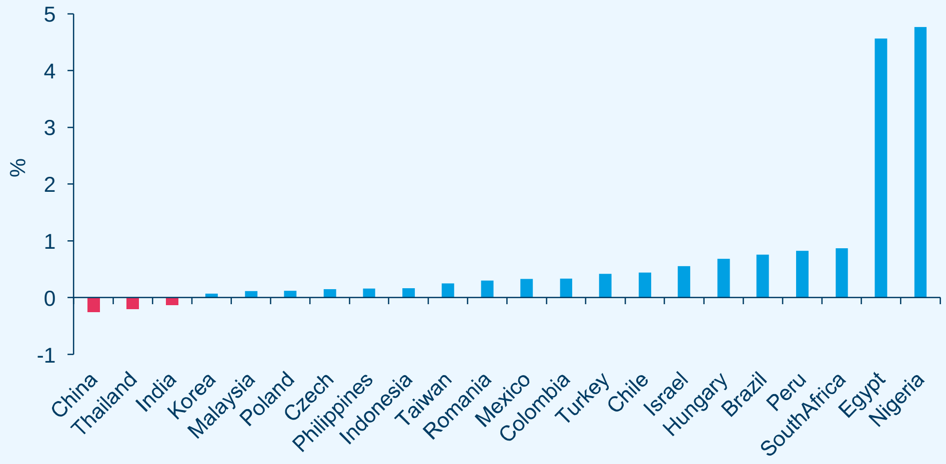
CHART: EM bond local - YTD change in yields



Source: Amundi Investment Institute, Bloomberg. Data is as of April 2024.

With the notable exception of China (that is discounting massive monetary easing, which is not our base case) and some other Asian countries, EM yields moved higher year-to-date, re-opening the valuation gap and creating a good entry point for investors.

COMMODITIES

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Gold

Confidence in a monetary pivot by the summer is building, boosting gold. Longer-term catalysts – fiscal premium, FX reserves diversification, geopolitics and the uncertain next phase of the cycle – are also aligning favorably for more upside. We see an initial milestone at $2,300/oz.

Oil

Geopolitics, tightening oil markets and resilient demand are providing support for oil prices. Downside risks are limited, but ample spare capacity, non-OPEC output creeping up and stretched technicals would prevent a sustainable spike. We maintain our $85/b target for Brent.

Industrial Metals

Moderating China consumption and milder investments in construction continue to cap metal prices. Yet, evidence of a mining output outage and dry prospects of medium-term excess supply are providing support for copper prices. We maintain our $9,000/t medium-term forecast.

Both gold and cyclical commodities are trending up, reflecting markets' optimism and doubts.

CURRENCIES

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Euro

The disinflationary process backs the ECB's soft commitment to a June cut and points to an actual policy divergence relative to the Fed. A short-term headwind for the EUR, which requires a dovish shift from the Fed to realign with the improving fair valuation.

Dollar

Surging commodity prices and robust US economic activity make the magnitude and timing of the Fed cutting cycle unclear and is a support for the USD. With no substantial pass-through to US inflation though, such support should fade the closer we get to the first cut.

Sterling

Given the shift in tone from the BoE in March, we expect further downside surprises in UK growth and inflation as headwinds for the current UK rates advantage. We expect a modest unwinding of cross-GBP trades within the G10 in the short term.

Yen

The BoJ's historic hike did not sustain the currency and forced officials in Japan to step up the verbal intervention level. We expect little real support from this angle and see the JPY as anchored to the US growth and rates dynamic.

US exceptionalism requires a hawkish Fed to persist.

GLOBAL INVESTMENT VIEWS

GLOBAL INVESTMENT VIEWS

The late-cycle environment continues to play out

VINCENT MORTIER
GROUP CIO

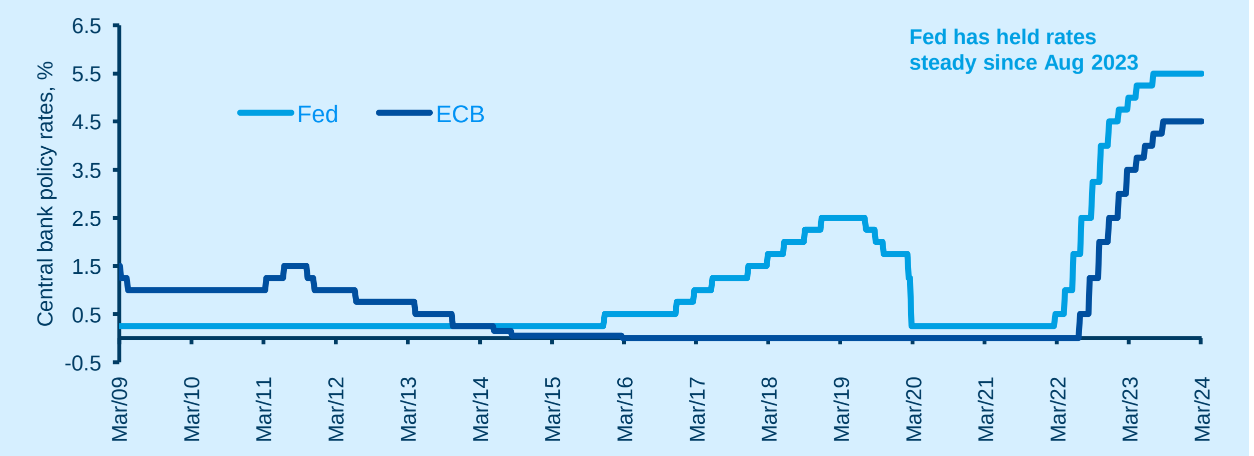
MATTEO GERMANO
DEPUTY GROUP CIO

A resilient US economy (owing to consumption and wealth effects) and strong earnings expectations for the year are driving the recent upside in equities and increase in yields. Now, the big questions are whether this can continue given the already strong market movements, and whether these earnings expectations are credible?

On the economic front, the past strength led us to forecast a less ugly US slowdown, therefore extending the late-cycle environment. Nonetheless, we do not see this as a beginning of a new cycle, and expect a slowdown later in the year, and continued disinflation. The factors listed below will be crucial to understand the direction of the economy and markets:

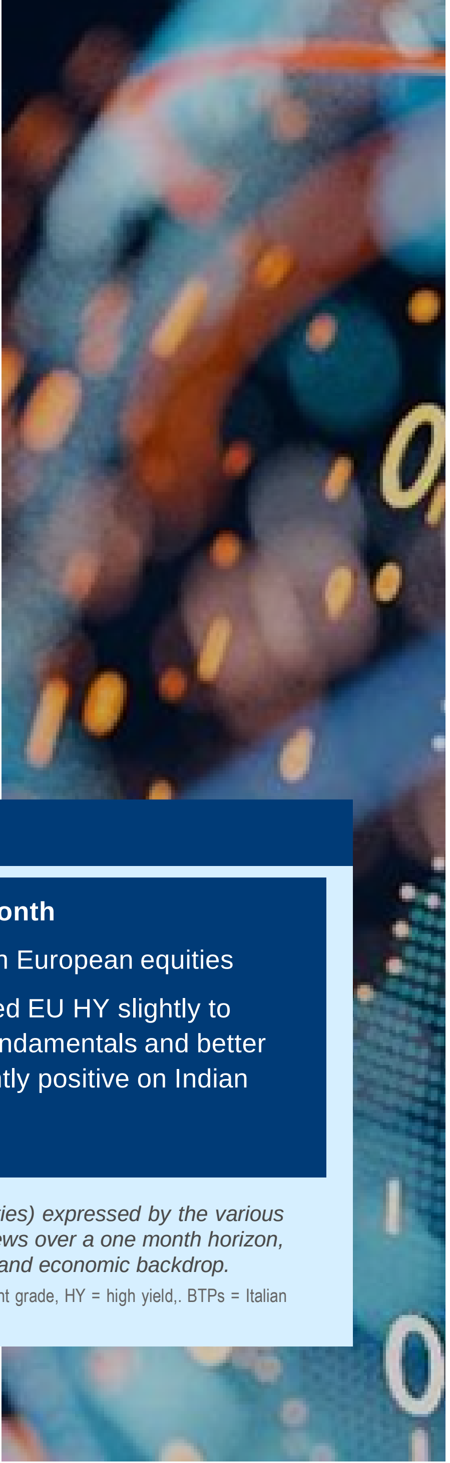
- **US labour market.** A moderation in demand is likely, led by a shift to higher savings, lower consumption and weak labour markets (stress in SMEs* employing a large part of the labour force), along with subdued investment.
- **Monetary policy divergences, with inflation in focus.** While the BoJ raised rates after 17 years, the Fed and the ECB are looking to cut rates but would like to be sure on the future direction of inflation first.
- **US elections and geopolitics.** Volatility may rise, as we enter a more active campaign phase. Geopolitics and the risks of high debt globally may provide long-term support to gold.
- **Emerging markets' (EM) resilience.** We slightly upgraded our growth forecasts in EM, mainly due to Asia and India, on strong domestic demand and exports. However, our growth expectations for China do not change.

With inflation moving towards target, the Fed and the ECB are likely to cut rates



Source: Amundi Investment Institute, Bloomberg, as on 29 March 2024. *Small and medium enterprises.

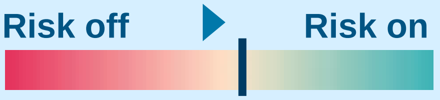
We acknowledge the trend strength in risk assets, but high valuations are preventing us from massively shifting our risk gear upwards from a structural perspective.



Given this backdrop, we outline our stance on select areas below:

- **Cross Asset**. Risk assets have priced in the improved outlook for earnings and growth and continue to benefit from positive market sentiment. Without taking additional risks, we maintain our positive duration stance. In bonds, we are also slightly positive on Italian BTPs but are cautious on JGBs. In equities, we are overall positive. We are marginally constructive on Japanese equities, while we are neutral in the US and now on Europe. In Emerging Markets, we are positive on bonds and on equities (India, Indonesia and South Korea). In FX, we see some strength in the USD, BRL and INR, but fine-tuned our views based on recent movements. Overall, we prefer a diversified stance, with sufficient protections on geopolitical tensions (oil) crucial in the current environment.
- **In fixed income, the evolution of inflation will be the main driver of policy actions and with that in mind we remain active and positive on US and UK duration**. In Europe, we are close to neutral now after the recent move up in yields and dovish messaging from the ECB, but are defensive on JGBs. In corporate credit, fundamentals remain strong for Investment Grade, but default rates in low-rated credit (CCC) are rising, particularly in the US. Therefore, higher dispersion based on quality is likely. Thus, our focus is on quality, and we find lower maturity credit selectively attractive. In Europe, we favour Investment Grade over High Yield, and maintain a preference for higher quality (BB) or short maturities.
- **Excessive sentiment in US stocks supports an equal-weight approach.** We stay balanced by exploring defensive idiosyncratic opportunities rather than any particular traditional sector. On the other hand, in industrials, high-quality materials is selectively an attractive sub-sector. In Europe, we prefer blending quality cyclicals with a defensive stance. Sluggish growth in the region will continue, which leads us to upgrade staples, while we are cautious on technology. Overall, we like quality, and value in Japan and the US.
- **Our structural stance on EM is constructive**. We combine factors such as fiscal risks and external vulnerability for countries with our bottom-up views. This allows us to be positive on India, Indonesia, South Korea, and in LatAm (Brazil, Mexico). EM debt should benefit from Fed rate cuts along with continuing EM disinflation. However, geopolitical and idiosyncratic risks keep us vigilant.

Overall risk sentiment



Economy and sentiment are better than expected, but doubt over earnings and valuations persists. A slight move towards the right, selectively playing the late cycle phase.

Changes vs previous month

- Cross asset: Neutral on European equities
- Fixed income: Upgraded EU HY slightly to neutral on corporate fundamentals and better technicals. In EM, slightly positive on Indian bonds.

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 (GIC). It reflects views over a one month horizon, from one GIC to the other. Our stance may be adjusted to reflect changes 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,. BTPs = Italian government bonds, JBGs = Japanese government bonds. For other definitions see the last page of this document.

Three hot questions

1

How do you assess the performance of equities over the past few weeks?

Markets seem to be operating under the belief that the disinflation process will continue, and that a Fed pivot is almost a given. While the slowing inflation story is still on track, uncertainty could emerge with respect to the timing and magnitude of cuts, as both the Fed and ECB remain data dependent. In addition to this Fed put, benign fundamentals in the form of economic activity and better-than-expected earnings are providing a boost to risk assets, including equities. As long as disinflation is not seriously questioned, markets could continue to benefit.

Investment Consequences

- From a cross asset view, marginally constructive for equities, cyclical commodities and inflation linkers.

2

What were the main trends in Q4'23 earnings in US, Europe?

As of 8 March, around 99% of S&P 500 companies had reported their results for the quarter ended December 2023. This quarter is proving to be very strong for US markets, led by the communication services, consumer discretionary and technology sectors. Earnings growth in these sectors was much stronger-than-expected at 53%, 37% and 24% (year-on-year), respectively. However, the situation in Europe has been different as Q4 is expected to be the third consecutive quarter of negative earnings growth, by the time all companies have reported.

Investment Consequences

- Bias to Quality, Value, Equal-weighed markets in US
- Favour Quality in Europe and Value in Japan

3

How do you view the outcome of China's recent NPC?

The National People's Congress didn't move the needle for us in terms of economic growth. We think the fiscal deficit target for this year of 8.2% is higher than 2023, and while moderately expansionary, it will not be sufficient to revive demand. Thus, despite the government's 5% growth target, we stick to our 3.9% target, which is below consensus. On the inflation front, weak consumption means CPI inflation should stay low, and excess manufacturing capacity is likely to weigh on corporate profit margins.

Investment Consequences

- Close to Neutral on Chinese equities
- Neutral on Chinese government bonds

Market sentiment may remain positive if we don't see an economic slowdown and inflation also doesn't surprise. However, areas of excess have built up, and underscore the need to remain vigilant.

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MULTI-ASSET

Be disciplined amid market exuberance

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Sentiment is supportive for risk assets tactically and we do not see a US profit recession. But any disappointment on the growth front or in earnings could impact complacent markets. At the same time, an absence of negative news on economic growth would mean this rally may continue. Thus, instead of taking big leaps on risks, **we remain prudent and look for opportunities selectively in Asia where earnings growth is more evident**. In addition, investors should maintain hedges and a diversified stance.

With a close to neutral stance on DM equities, we acknowledge the minute nuances across the globe. For instance, we are neutral on the US and upgraded Europe to neutral mainly for risk mitigation purposes, but are slightly positive on Japan. In EM, we remain constructive through India, Indonesia, South Korea. In Korea, we marginally raised our positive views owing to improving earnings and potentially better corporate governance.

We are positive on duration in the US and Europe amid attractive yields, potential rate cuts and diversification benefits. However, in light of high government debt and any future inflation surprises, we stay active and vigilant for opportunities if yields rise further. We are also positive on Italian BTPs owing to a potential move lower in core European yields. However, on JGBs our cautious outlook is justified by the recent BoJ move to end NIRP. We are monitoring its future actions, and growth and inflation trends.

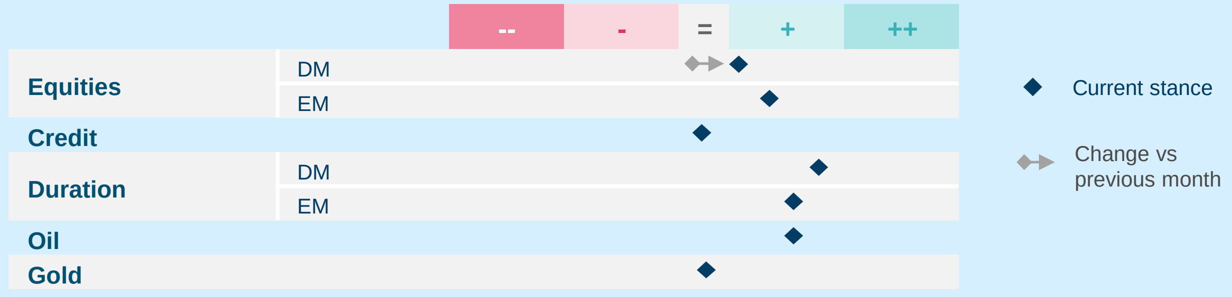
Our preference for quality and attractive valuations in corporate credit has not changed as we see increasing differentiation going forward. Thus, we like EU IG. EM bonds offer attractive carry and EM disinflation is progressing. But we acknowledge the difficulties in last mile inflation and believe room for spread compression is getting limited. At the same time, near-term dollar strength may slightly affect returns, hence we stay vigilant.

Tactically, we are slightly optimistic on USD vs the SEK and vs CHF, but cautious vs the yen. In EM, we like the BRL but prefer expressing this view now against the EUR. On INR/CNH, we reduced our stance after strong performance, but believe it still offers good carry and fundamentals.

Even as US inflation is declining, we cannot rule out temporary surprises, underscoring the need to maintain protection on US duration. In addition, oil remains a good hedge against geopolitical risks such as in the Middle East.

We have moved to a neutral stance on developed market equities and more recently on Europe, without adding risks on segments with inflated valuations.

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, NIRP =.Negative interest rate policy, DM = Developed markets, EM = Emerging markets. For other definitions and currency abbreviations see the last page.

FIXED INCOME

Carry is attractive, but balance it with quality in credit

The messaging from the Fed and the ECB has been focused on how important it is for inflation to come down for them to reduce rates, even if the debate continues on whether the neutral rate has moved higher. Markets, for their part, adjusted expectations of interest rate cuts as core yields moved higher and positive sentiment around economic activity persisted. The latter has even fed into the corporate credit markets, but looking ahead, we cannot ignore the risks of idiosyncratic credit events, particularly in lower-rated segments. Hence, we are cautious and disciplined on highly-indebted companies that face excessive interest costs. However, we are positive on quality sides in DM and EM bonds, where carry is robust.

Global & European fixed income

- After a relatively dovish ECB, we are back to neutral on European duration and remain positive on UK. But we stay cautious on Japan.
- In credit, we like banks over non-banks as industrials will suffer more if the economy decelerates, and favour IG.
- In HY, we are cautious. Lower-rated credit would suffer more from a slowdown. But selectively we like short maturity debt with attractive carry and where fundamentals are relatively better.

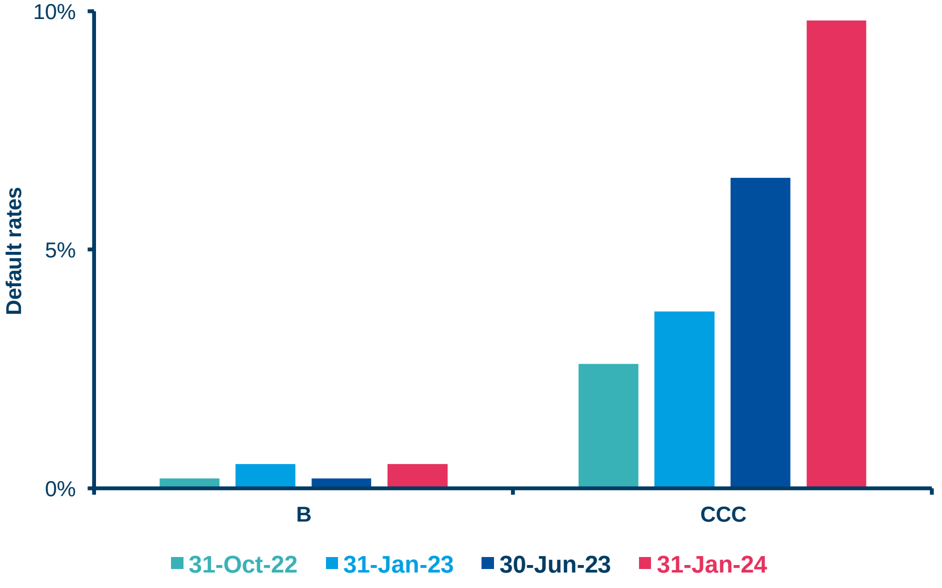
US fixed income

- We stay slightly positive but flexible on duration and are monitoring inflation and rates volatility. Yields are still attractive in government bonds.
- In corporate credit, we favour IG over HY, and financials over non-financials. In general, there is better value in short maturity credit.
- Even though spreads in securitised credit have compressed recently, they still offer long-term value.

EM bonds

- In a region characterised by slowing inflation, and an asset class likely boosted by Fed rate cuts, we stay constructive.
- However, it presents numerous idiosyncratic stories, such as India (attractive carry, prudent central bank), Egypt (agreement with multilateral institutions) and Argentina.
- We like HC and corporate debt but have preference for HY given the carry and expectations of limited volatility there.

Be vigilant: US CCC-rated debt defaults are rising



Source: Amundi Investment Institute, Moody's Investor Service, latest available as at 26 March 2024. 12m rolling data.

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EQUITIES

Fundamentals are the compass in inconsistent markets

Stocks are pricing in a rosy scenario in terms of economic growth and that has led to very strong upside already this year, with some broadening of the rally evident recently. These movements are further aided by ample liquidity and robust earnings, particularly in the US. However, if we dig deeper, we are seeing divergences among segments – earnings for megacaps have been better than rest of the market, and this has resulted in extreme valuations in some cases, despite an increase in yields. Thus, amid high dispersion, we see opportunities from a more fundamental perspective, with a balanced stance overall. In terms of sectors, our preference is for US value, Japan, and more broadly quality (high margins, differentiated products, etc.) and dividends, including in Europe and EM.

European Equities

- We believe blending quality cyclicals and defensive is important in this market. In particular, we upgraded our views on defensives through consumer staples.
- At the other end, we like banks owing to their high dividends and earnings growth. However, we are cautious on discretionary and tech (albeit slightly less than before).
- Overall, earnings are critical, given that valuations leave little room for disappointment.

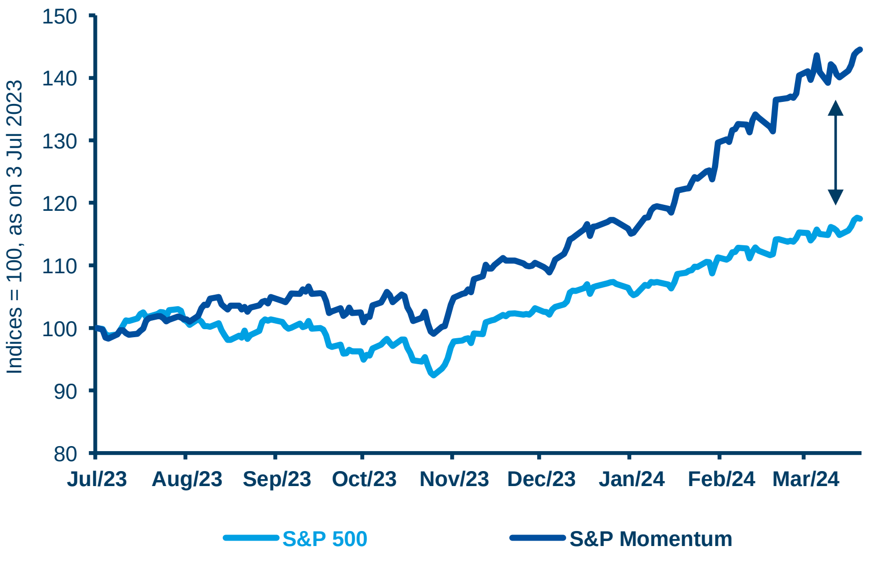
US & Global Equities

- The rally is broadening, but we do not see this as a time to increase risks. We remain cautious on mega-caps, and favour value.
- With a balanced approach, we explore segments with attractive valuations, and like an equal-weighted approach. On one end, we like defensives, but rather than framing our views through traditional sectors, we favour idiosyncratic businesses.
- We also like quality financials and materials.

EM Equities

- Structural opportunities across EM, for instance in Asia (Indonesia, India) but high need for selection.
- Country-wise, we are positive on South Korea owing to dividends and improving corporate governance. In China, there are trends around share buybacks but we do not change our views yet.
- In Brazil, we are vigilant on any government meddling in the corporate sector.
- However, we are cautious on Taiwan and Malaysia.

Momentum is strong, but how long can this continue?



Source: Amundi Investment Institute, Bloomberg, 25 March 2024.

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VIEWS

Amundi asset class views

In focus this month

- **EM FX:** We are positive on EM FX from a medium-term perspective. Recently, we noticed that EM central banks such as those in Peru, Brazil and Hungary are acting prudently, adopting a moderate pace of monetary easing and preserving their currency strength.

Equity and global factors

Regions	Change vs M-1	--	-	=	+	++
US				◆		
Europe				◆		
Japan					◆	
EM					◆	
China				◆		
EM ex China					◆	
India					◆	

Global Factors	Change vs M-1	--	-	=	+	++
Growth			◆			
Value					◆	
Small caps					◆	
Quality					◆	
Low Volatility				◆		
Momentum				◆		
High Dividend	▼			◆		

Fixed income & FX

Govies	Change vs M-1	--	-	=	+	++
US					◆	
EU core				◆		
EU periph.				◆		
UK					◆	
Japan			◆			

Credit	Change vs M-1	--	-	=	+	++
US IG				◆		
US HY			◆			
EU IG					◆	
EU HY	▲			◆		

EM Bonds	Change vs M-1	--	-	=	+	++
China govt.				◆		
India govt.	▲				◆	
EM HC					◆	
EM LC					◆	
EM corp.					◆	

FX	Change vs M-1	--	-	=	+	++
USD					◆	
EUR			◆			
GBP			◆			
JPY					◆	
CNY			◆			

Source: Amundi, 25 March 2024. Views relative to a EUR-based investor. Views range from double minus/minus to positive/double positive, with the possibility of left or right alignment in each of these categories. = refers to a neutral stance. This material represents an assessment of the market 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. FX table shows absolute FX views of the Global Investment Committee.

▼ Downgrade vs previous month
▲ Upgrade vs previous month

FORECASTS

Macroeconomic forecasts

Macroeconomic forecasts as of 12 April 2024						
Annual averages, %	Real GDP growth, YoY, %			Inflation (CPI), YoY, %		
	2023	2024	2025	2023	2024	2025
Developed countries	**1.6**	**1.3**	**1.3**	**4.7**	**2.7**	**2.2**
United States	2.5	2.3	1.3	4.1	3.0	2.4
Eurozone	0.5	0.4	1.1	5.4	2.3	2.2
Germany	*-0.1*	*0.1*	*0.9*	*6.1*	*2.4*	*2.2*
France	*0.9*	*0.5*	*1.3*	*5.7*	*2.7*	*2.0*
Italy	*0.7*	*0.5*	*1.1*	*5.9*	*1.5*	*2.2*
Spain	*2.5*	*1.3*	*1.5*	*3.4*	*2.8*	*2.2*
United Kingdom	0.1	0.0	1.0	7.5	2.5	2.3
Japan	1.9	1.1	1.5	3.3	2.0	1.5
Emerging countries	**4.3**	**3.7**	**3.7**	**5.8**	**5.4**	**4.0**
China	5.2	3.9	3.4	0.2	0.2	0.4
India	7.7	6.3	6.0	5.7	5.3	5.8
Indonesia	5.0	5.1	4.8	3.7	3.4	3.7
Brazil	2.9	1.8	2.2	4.6	3.9	3.5
Mexico	3.2	1.6	1.9	5.6	4.4	3.8
Russia	3.2	1.6	2.0	6.0	6.4	4.5
South Africa	0.5	1.0	1.3	5.9	4.7	3.3
Turkey	4.5	3.2	3.6	53.4	59.0	29.0
World	**3.2**	**2.8**	**2.8**	**5.3**	**4.3**	**3.3**

Central Banks' official rates forecasts, %					
	12 April 2024	Amundi Q2 24	Consensus Q2 24	Amundi Q4 24	Consensus Q4 24
United States*	5.50	5.25	5.00	4.75	4.50
Eurozone**	4.00	3.75	3.40	2.75	2.90
United Kingdom	5.25	5.00	4.80	4.00	4.30
Japan	0.10	0.10	0.10	0.10	0.25
China***	3.45	3.30	3.35	3.00	3.25
India****	6.50	6.50	6.50	6.00	6.00
Brazil	10.75	9.75	9.75	8.75	9.00
Russia	16.00	16.00	15.50	12.00	13.00

Source: Amundi Investment Institute. Forecasts are as of 12 April 2024. CPI: consumer price index. *: Upper Fed Funds target range. **: Deposit rate. ***: One-year loan prime rate. ****: Repurchase rate. Q2 2024 indicates end of June 2024; Q4 2024 indicates end of December 2024.

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