INVESTMENT OUTLOOK | 2023

# Some light for investors after the storm

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Confidence must be earned

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# 2023 KEY CONVICTIONS FROM CIOS

1. The Russia-Ukraine conflict is acting as an accelerator towards a regime shift, featuring higher inflation, geopolitical uncertainty, and a tug of war between monetary and fiscal policy, in a world already flooded by debt. Expect economic divergences to intensify.
2. The energy crisis will be the main economic driver in Europe, which will fall into recession. Fiscal measures may mitigate this, but the moment of truth will be in Q4 2023, when gas inventories need to be restored. Gaining strategic energy independence and signing new commercial ties will be key in a transformative year.
3. China's economy could unveil positive surprises in 2023, depending on the outcome of the two main challenges: housing market and Covid-19 policy. On the former, we see a stabilisation thanks to looser policy, on the latter a gradual relaxation of restrictions. Geopolitical pressure and an intensifying US-China confrontation are key risks.
4. Central banks (CB) will do *whatever it takes* to fight inflation and avoid a 1970s-style crisis. The tightening cycle has further to go, although at a slower pace than in 2022. Financial markets may have integrated the bulk of the future hikes, but the level of the Federal Reserve's (Fed) terminal rate will be critical: if close to 6%, a US recession will be in the cards and could be more severe than what is expected today.
5. After the great repricing, market valuations are more appealing; this is the glass half full. While economic conditions deteriorate and volatility remains elevated, markets will start pricing a Fed pivot between Q1 and Q2. Follow the sequence: start with a cautious positioning, as the earnings outlook is weak, but prepare for entry points with a gradual approach.
6. *'Bonds are back'* remains an investor theme entering 2023, with a focus on high-quality credit, an active duration stance, and currency management in a world of diverging policies. Pay attention to liquidity risk and corporate leverage.
7. Equities, in our view, will offer entry points during the year. Start cautiously, favour US stocks and the quality/value/high dividend tilt, but be ready to add Europe and China stocks, and also cyclical and deep-value ones to play the rebound.
8. Emerging markets (EM) divergences will intensify in 2023. Selection will remain crucial. Look at countries where the inflation and monetary outlooks appear more benign and expect the Fed pivot to support EM equities.
9. Long-term ESG themes were reinforced by the Covid-19 crisis and the Ukraine war. Investors should play the energy transition and food security themes, accelerate the Net-zero path, and look for companies that can improve their ESG profile, notably thanks to active engagement.
10. The 60-40 allocation revival is in sight, as looming recession risks will mean the government bond diversification engine will work again. Persistent inflation will call for greater allocation towards real assets and to sectors more resilient to the different inflation sources.

**Vincent MORTIER**
**Group Chief Investment Officer**

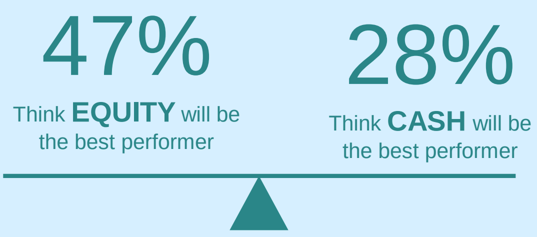
*"2023 will be a two-speed year, with plenty of risks to watch out for. Bonds are back, market valuations are getting more attractive, and a Fed pivot in the first part of the year could trigger interesting entry points."*

**Matteo GERMANO**
**Deputy Group Chief Investment Officer**

# CONVICTIONS

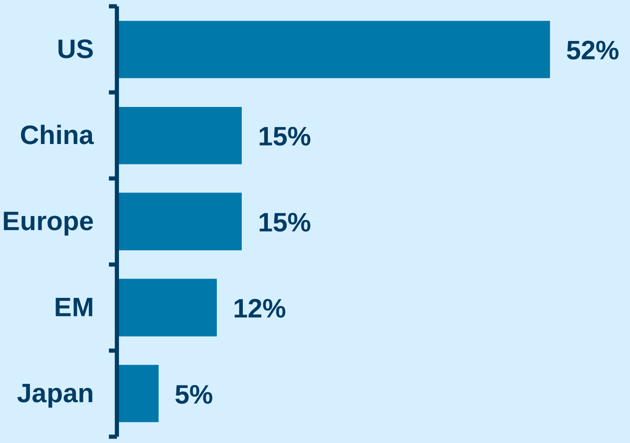
***At end-September 2022, we gathered in Paris to explore key client themes and to share portfolio allocation ideas for 2023. This year's Amundi Investment Outlook brings together the hot debates and key investment convictions discussed at the inaugural Amundi Institute and Investment Division seminar***

## Asset class preference calls for a barbell approach in 2023




## Prevailing downside risks: risk of excessive Fed tightening seen as top risk for 2023


## In equities, United States is the top audience preference; China will likely come back in 2023




## Dollar is set to remain strong at least for the first half of the year, but possibly weaker later in 2023

H1 2023
in **0.85-0.95 range**
For 46% of the audience

**EURUSD**

End-2023
**>0.95**
For 67% of the audience

Data refers to polls taken at the Amundi Institute and Investment Seminar on a sample of 50 senior portfolio managers and research specialists. Data is as of 23 September 2022.



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# 2023 GLOBAL OUTLOOK FACES STEEP CHALLENGES

## Shallow recession in sight amid sticky inflation and global divergences

**Monica DEFEND,**
Head of Amundi Institute

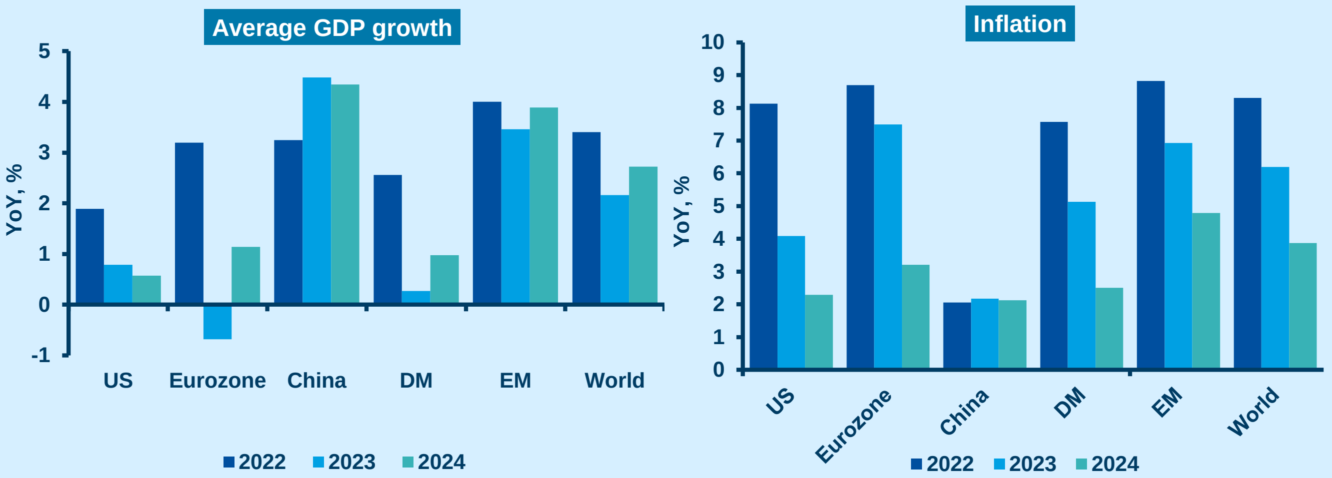
**We expect global growth to slow significantly,** with several countries across both developed markets (DM) and EM suffering stagnation, while others may face a slowdown at best. Global growth should land at around 2.2% in 2023, down from 3.4% in 2022, with DM expected to slow to 0.3% from 2.6%, while EM growth should slow to 3.5% from 4.0%. While both aggregates should decelerate, the EM-DM growth gap should favour the former. While the slowdown partly results from the increasingly coordinated withdrawal of policy accommodation, regional or country-specific factors are driving mixed trends. The depth and persistence of the stagflationary environment will depend on how the ideological, political, economic and technological transitions are addressed.

The main driver of European growth dynamics remains the energy shock, compounded by unresolved post-Covid-19 supply-side inflationary pressures and resulting in double-digit inflation. **This is generating a cost-of-living crisis, which we expect to drag Europe into recession this winter,** followed by a slow recovery. Notwithstanding the recession, inflation should remain significantly above target up to end-2023. Exogenously, the outlook depends on energy prices, gas supply and storage issues, which may return in mid-2023, while the key endogenous risk is for policy mistakes, both on the monetary and fiscal front. On the other side of the Atlantic, the Fed embarked on an aggressive tightening cycle, which should push growth severely below potential in H2 2023, in order to rein in domestic inflationary pressures stemming from a tight labour market and strong domestic demand. **US recession risks for H2 2023** have increased due to the accelerating tightening path which should not slow in the near term. We expect consumption and residential investment to slow, but be partly offset by lower imports. **Inflation should remain significantly above target at end-2023,** despite rents cooling down and high inventory levels. The avoidance of a credit event and preservation of financial stability are key to these projections.

*"Regime shifts underpin a new global disorder."*

The low growth-high inflation backdrop should spread evenly across the EM universe with a few exceptions, the most relevant being China. **While we cut China's 2023 growth from 5.2% to 4.5%, it remains on an upward trend when compared to 2022's anaemic growth at 3.2%.** Housing market stabilisation and China's gradual reopening are key assumptions. Indeed, the global slowdown and the impact of early and bold monetary tightening would be a drag on EM growth. Favourable 2022 nominal growth conditions should revert in 2023, making fiscal support less affordable for many countries due to the debt trajectory becoming less sustainable. While moderating inflation should allow a shift in monetary policy stance, global financial conditions would warrant caution in EM CB easing. On this new monetary policy path, there are countries with persistent and convincing deflationary trends (e.g., Brazil) or countries where recession is close and deep, such as CEE or relatively small Latam countries.

**Amundi growth and inflation projections**




Source: Amundi Institute. Data and forecasts are as of 3 November 2022.

# THEMES TO SHAPE THE 2023 MAIN SCENARIO

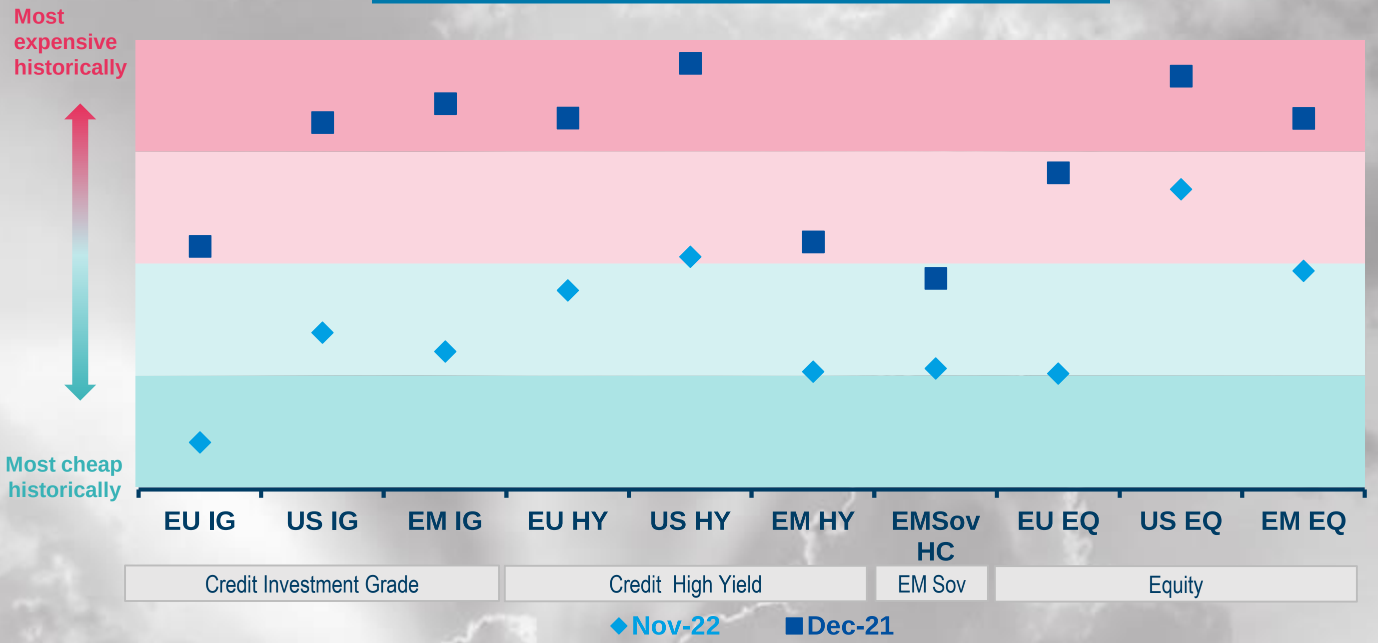

# CENTRAL AND ALTERNATIVE SCENARIOS

| 15%<br>DOWNSIDE SCENARIO<br>Deep global slump | 70%<br>CENTRAL SCENARIO<br>Stagflationary episode, with rising divergences and persistent inflation | 15%<br>UPSIDE SCENARIO<br>Inflation falls back ending the stagflationary episode |
|---|---|---|
| ▪ Worsening / expanding Ukraine war. | ▪ Stalemate in the Ukraine war. | ▪ Ceasefire in Ukraine.<br>▪ Russia partially resumes gas exports to Europe. |
| ▪ De-anchored inflation expectations, CB over-react. | ▪ Inconsistent fiscal and monetary policy.<br>▪ **Fed** ends tightening in Q1 2023, more dovish stance in Q4 2023; **BoE**: soft hiking cycle; **ECB** raises rates / activates TPI; **PBoC** easing.<br>▪ EU activates rescue plan to deal with energy crisis. | ▪ Fiscal discipline gradually restored. |
| ▪ Global economic downturn (US, China, Europe) / renewed deflationary pressures, inflation out of control / de-anchored inflation expectations.<br>▪ Energy crisis back to acute in H2 2023. | ▪ Softening energy crisis in H2 2023.<br>▪ Inflation: above CB target until 2024.<br>▪ Global nominal GDP growth trends higher with recession (EU), modest rebound (China), sub-par growth (US).<br>▪ Corporate profit recession to go on in H1 2023, followed by recovery. | ▪ Inflation falls back quickly.<br>▪ Lower uncertainty, extra savings and renewed purchasing power fuel DM demand. |
| ▪ Global financial crisis, debt crisis with several EM defaults.<br>▪ Credit event. | ▪ Global financial conditions to deteriorate amid continuation of the tightening cycle.<br>▪ Limited spread widening. | ▪ Return of risk-on sentiment in the market |
| ▪ Climate transition measures postponed.<br>▪ Broad-based extreme climate conditions. | ▪ Climate change adds to stagflationary trends.<br>▪ Climate risk hampers growth. | ▪ Climate change policy and energy transition as top priorities |

Source: Amundi Institute as of 28 October 2022. DM: developed markets. EM: emerging markets. CB: central banks. Fed: Federal Reserve. BoE: Bank of England. ECB: European Central Bank. PBoC: People's Bank of China. QT: quantitative tightening. TPI: Transmission Protection Instrument by the ECB.

# INVESTING IN 2023: MORE APPEALING VALUATIONS

**Valuation levels, historic percentiles since 1998**




# INVESTING IN 2023: FOLLOW THE SEQUENCE

**CENTRAL SCENARIO**

| | End 2022 / Q1 2023 | Q2 2023 / Q3 2023 | Q4 2023 |
|---|---|---|---|
| **Bonds are back** | ▪ Government bonds;<br>▪ IG credit;<br>▪ Cautious in HY credit and selective in EM HC bonds. | ▪ Focus remains on high-quality credit;<br>▪ Add EM bonds. | ▪ HY credit may start to offer selective opportunities. |
| **Equity seeks entry points** | ▪ Caution overall;<br>▪ Play quality-value and high dividend;<br>▪ US equity vs. rest or the world. | ▪ Add global equity;<br>▪ Look for some selective EM equities. | ▪ Deep-value equity opportunities, cyclical, small caps and EM. |
| **60-40 reloaded** | 60-40 paradigm is back in a decelerating economic environment, with focus still on inflation. | | |
| **ESG themes** | Look for ESG improvers, accelerate on the net-zero path, play the energy transition and food security themes and, more broadly, climate change and socially-oriented strategies (agriculture, infrastructure, transportation, healthcare). | | |

**ALTERNATIVE SCENARIOS**

| | |
|---|---|
| **Downside scenario** | ▪ Move to a very cautious stance in risky assets;<br>▪ Favour cash, gold, USD and US Treasuries as hedges;<br>▪ Play minimum-volatility strategies. |
| **Upside scenario** | ▪ Increase risky asset exposure, favour cyclical and value;<br>▪ Favour inflation-linkers and play inflation diversification. |

Source: Amundi Institute, Bloomberg, DataStream. Latest monthly data is as of 14 November 2022. EU IG, US IG, EM IG, EU HY, US HY, EM HY are ICE BofA corporate bond indices. IG: investment grade. HY: high yield. EM Sov HC: is JP Morgan EMBI Global Diversified. EU EQ, US EQ, EM EQ are MSCI indices for equity markets. All indices refer to a specific region (EU: Europe, US: United States, EM: emerging markets. Analysis is based on spreads for bond indices and on twelve-month forward PE ratio for equity indices. Valuation are in historic percentile since 1998. Cheapest means is in the first quartile, Most expensive is in the fourth quartile.

# HOT DEBATES

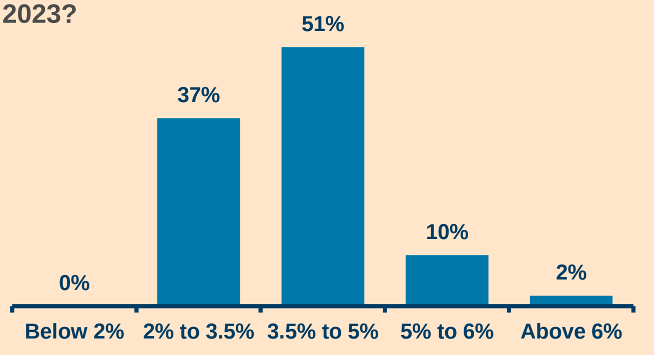
## Geopolitical risks investors should watch for in 2023

**N. 1**

**Ukraine-Russia war evolution**

## Policy mix will drive the path for US Treasury yields in 2023

**Where do you see ten-year Treasury yields at end-2023?**




## Key China themes to watch for in 2023

1. Zero-Covid-19 policy
2. Housing sector stabilisation and corporate exposure to housing
3. Country modernisation and reforms

## Inflation to remain a hot topic in 2023

10% — **Inflation >6%**

52% — **Inflation in the 4%-6% range**

38% — **Inflation <4%**

Data refers to polls taken at the Amundi Institute and Investment seminar on a sample of 40 senior portfolio managers and research specialists. Data is as of 23 September 2022, forecast for end of 2023.

# GEOPOLITICS IN FOCUS
## A difficult year ahead, with bright spots along the way

2023 will be a difficult year for Europe, but it will also be transformative. How the war in Ukraine progresses will determine the depth of Europe's recession, fiscal and energy policy, the direction of domestic politics, as well as Europe's international relations. Conversely, the mood in the West will also shape the next phases of the war.

We identify six scenarios for how the war might evolve. **A ceasefire – most likely in H2 – leading to an end of hostilities is our base case at 35% likelihood. Nevertheless, risk is tilted to the downside, including a 25% likelihood for the war escalating into a direct military confrontation between Russia and the West in Ukraine.** This risk grows as Russia suffers more military defeats.

The trajectory of our base case (ceasefire in H2 2023) depends on various conditions: both Russia and Ukraine would need to see their military capabilities weaken. For Ukraine, it would be because Western support wanes, while for Russia it would be because it has exhausted its military toolbox and taken enough territory to claim 'victory'. Ukraine would lay down arms if offered sufficient security guarantees by the West, which the latter would be compelled to provide. These guarantees, coupled with Russia's military losses, could see an end to the war, not just a temporary ceasefire waiting to be broken once Russia rearms.

**The energy crisis will pose severe challenges**. **Prices may remain high as supply is tight, but severe energy shortages are not our base-case scenario,** as demand will be reduced to offset the lack of Russian gas flows and additional sources are likely to come online. **A more 'benign' energy outlook reduces policymakers' appetite for making difficult choices.** Without an acute crisis, Germany is unlikely to revisit its decision to shut the remaining nuclear reactors in April. The Netherlands, despite sitting on ample reserves in the Groningen gas field, will stick to its commitment to halt production there. Differing attitudes to 'saving' energy will reduce appetite for energy sharing between countries. **As a result, Europe is likely to face a deeper recession.**

We expect **a new EU-wide fiscal support package** to alleviate the economic fallout. However, rising interest rates and the recent UK market turmoil will make **fiscal support smaller and more targeted,** as governments return to fiscal conservativism. The consequence will be **more people suffering the economic impacts of the war**. This supports our base-case scenario of a ceasefire, as a shift in public opinion against the war will push politicians towards persuading Ukraine to negotiate.

The war will also shape the EU's foreign policy. **The Democrats' uphill battle leading up to the 2024 election will remind EU leaders about the perils of relying too much on the United States.** Through 2023, **the Biden administration will be busy with domestic political battles,** as the Republicans will be a more disruptive force. Coupled with a difficult economic environment, these pressures will undermine the United States' commitment to Ukraine, again feeding into our war base-case scenario.

**The EU will resist being dragged into the United States' decoupling from China**, as long as the Taiwan tensions do not lead to direct military confrontation. The economic impact of the Russia-Ukraine war reduces appetite to weaken ties with China. The **need to expand renewables will be acute in 2023 and China is a major producer of solar panels.**

However, concerns about over reliance on China (e.g., rare earth minerals) will see **the bloc forge new trade ties**. Trade deals with **Mexico and Chile** are likely and **Mercosur** is back on the agenda. An agreement with **Australia and New Zealand** is in the making. **EU-United Kingdom relations** may improve**,** while a likely trade deal between India and the United Kingdom will alleviate some Brexit pains. Intra-EU relations will benefit from elections in Poland, which are likely to usher in a pro-EU government, which would unfreeze billions of EU funds.

**It is in times of crises that the EU grows more powerful.** The pandemic and the war have seen the bloc take **unprecedented decisions on joint debt, sanctions, defence and energy**. There has also been progress towards achieving the EU's green goals despite, and because, of the war: **2023 should see more of the same.**

**Russia-Ukraine main war scenarios, non-exhaustive**


Source: Amundi Institute as of 7 November 2022. *: e.g., after a tactical nuclear attack by Russia in Ukraine.

**Anna Rosenberg**
Head of Geopolitics, Amundi Institute

# CHINA'S ECONOMIC CHALLENGES
## 2023 outlook hinges more on reopening than on housing

### Reopening: patience is a virtue

One of the main unsolved puzzles for markets in 2023 will be when will China reopen its economy, as this matters on multiple levels, for China's own growth, for regional trade, and for global inflation. Over the past two years, hopes and disappointments have come and gone and market bets have become more and more reliant on the reopening outcome.

The frustrating process itself reflects the unpredictable nature of the reopening question. Predictions on the street are highly speculative. We have a low conviction on various forecasts surrounding the zero-Covid-19 exit roadmap, which the Chinese government says does not exist.

**Political willingness is as much – if not more – relevant than the ramping-up of domestic treatments or booster shots for the elderly.** As Xi said himself, China puts its people and their lives above everything else. This is a high bar to reach, considering existing medical resources and the virus' rapid evolution.

Most argue that the vaccination rate is a precondition for reopening, but we caution whether a high vaccination rate will be enough. Taking Singapore as an example, 92% of the population has completed a two-dose vaccine regimen and 79% received booster shots. Still, 0.24% of the fully vaccinated with booster required oxygen supplementation in general wards, in intensive-care units (ICU), or died.

This translates into at least 3.1mn ICU beds or wards with ventilators in China's case. The number could easily jump to over 10mn considering the difference in vaccine efficacy. However, China only has an estimated 60,000 ICU beds. Even it can increase the number of beds significantly, there will not be enough ICU nurses and doctors, who take a few years to train.

Even after China successfully boosts vaccinations for the elderly or starts importing Western mRNA vaccines, we need to be cautious, as a scenario featuring a significant amount of deaths or strained hospitals is likely to stay. It appears to us that it is not the death rate, but the death toll that matters in the minds of China's top leaders. This will have to change in future policy calculations, otherwise China is likely to end up on a mission impossible.

**In 2023, the zero Covid-19 doctrine is likely to stay.** The 'dynamic clearing' or 'dynamic zero-Covid-19' is set as a guiding principal for Covid-19 prevention and control, which is unlikely to change before China can declare victory against Covid-19. That victory could be when the WHO announces the end of the pandemic.

**Despite the ongoing 'dynamic clearing' goal, we could see adjustments at the execution level.** We expect this to be a baseline scenario, i.e., disruptions without paralysing the whole economy. This assumption underpins our growth forecast for China.

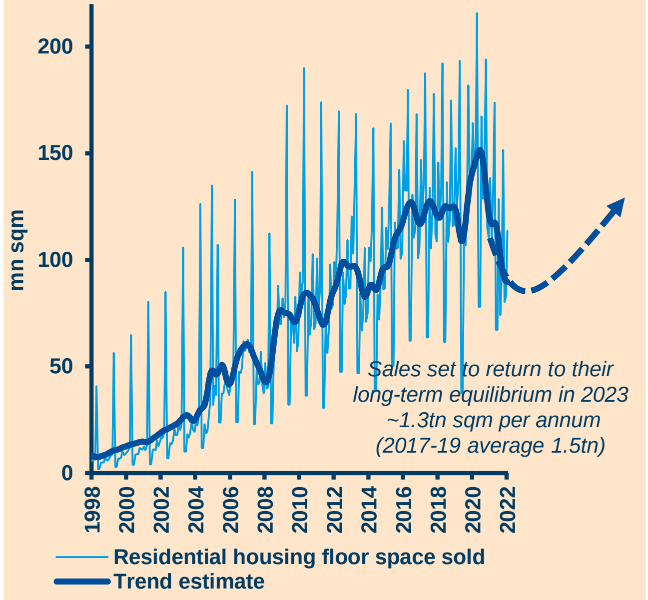
**The pace of recovery is not great and much lower than pre-Covid-19 levels, but a recession can be avoided.**

### Housing: nearly out of woods

The housing market is another major concern for investors. From the peak in Q4 2020 to Q3 2022, new home sales volume fell 40%, wiping out all growth from the previous five years. The monthly sales volume dropped back to mid-2015 levels and government entities continued to step up their easing efforts. In a year, mortgage rates declined by 162bp and 109bp, respectively, to 4.1% and 4.9%, for first and second home buyers. Now it takes on average 25 days for an individual to gain a mortgage approval. Local purchase restrictions have been relaxed to cyclical lows.

**Signs of stabilisation are emerging**. The Q3 PBoC survey shows that the share of households planning to buy homes increased for the first time since mid-2021. New home sales volume, after seasonal adjustments, increased for the second consecutive month in September. Our trend estimate indicates that the fall has slowed significantly. Meanwhile, high-frequency October data suggests the housing market has become more resilient to lockdown shocks, thanks to the continuous easing efforts from PBoC and the Ministry of Finance. This evidence points to **a stabilisation of housing sales at end-2022. Hence, we hold the view that housing sales are near their cyclical bottom**. The transmission of housing policy easing has improved. In 2023, we expect housing sales to register a small gain and become less of a drag on GDP growth. Having said that, at a more structural level, a down-sized housing market will not resume being the effective (if not efficient) growth engine it used to be in the past.

**Residential housing floor space sold, monthly, mn sqm**




Source: Amundi Institute, CEIC as of 31 October 2022. sqm: square meters.

**Claire Huang**
Senior EM Macro Strategist, Amundi Institute

# ASSET CLASS VIEWS

| | Asset class | Current stance | Outlook for H1 2023 | |
|---|---|---|---|---|
| EQUITY PLATFORM | United States | =/+ | =/+ | Stable |
| EQUITY PLATFORM | *US value* | + | + | Stable |
| EQUITY PLATFORM | *US growth* | - | -/= | Improving |
| EQUITY PLATFORM | Europe | - | =/+ | Improving |
| EQUITY PLATFORM | Japan | = | = | Stable |
| EQUITY PLATFORM | China | = | =/+ | Improving |
| EQUITY PLATFORM | Emerging markets ex-China | = | =/+ | Improving |
| FIXED INCOME PLATFORM | US govies | =/+ | + | Improving |
| FIXED INCOME PLATFORM | US IG corporate | =/+ | + | Improving |
| FIXED INCOME PLATFORM | US HY corporate | - | -/= | Improving |
| FIXED INCOME PLATFORM | European govies (core) | = | =/+ | Improving |
| FIXED INCOME PLATFORM | European govies (peripherals) | -/= | =/+ | Improving |
| FIXED INCOME PLATFORM | Euro IG corporate | = | =/+ | Improving |
| FIXED INCOME PLATFORM | Euro HY corporate | - | -/= | Improving |
| FIXED INCOME PLATFORM | China govies | =/+ | =/+ | Stable |
| FIXED INCOME PLATFORM | EM bonds HC | =/+ | + | Improving |
| FIXED INCOME PLATFORM | EM bonds LC | = | =/+ | Improving |
| OTHER | Commodities | =/+ | =/+ | Stable |
| OTHER | Currencies (USD vs. G10) | + | = | Deteriorating |

Source: Amundi as of 16 November 2022.

-- - = + ++

Negative Neutral Positive

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# ESG THEMES FOR 2023

## 1 Top-down view from macro / geopolitical / regulation

From a top-down standpoint, key themes are:

- **Energy transition** (reinforced after the crisis), with opportunities in both equities and green bonds.
- **Food security** across asset classes;
- **Infrastructure** in focus to support the energy transition and the geopolitical re-shoring trend.

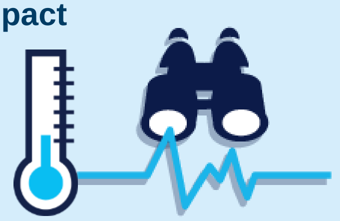
## 2 Cyclical view and its ESG impact

- A decelerating economy with high inflation tends to favour **ESG with a best-in-class approach,** to avoid the exclusion of sectors that could benefit from inflation.
- **Social themes** may be back in focus, as the deteriorating labour market and ongoing high inflation will call for more attention towards social well-being.

## 3 Deep dive into key E, S and G subthemes


- **Search for improvement** in E, S and G; look for key material factors on the E, S, and G pillars within each sector, where improvements could lead to value repricing.

## 4 Net zero impact



- Commitment towards **net zero will be crucial** in 2023, as investors will need to accelerate this effort.

Source: Amundi as of 26 October 2022.



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## Sources correlation analysis page 13:

The analysis is based on the following indices: **Equity**: S&P 500 index, **Government bonds**: JPM US all maturity, **US IG and HY**: ICE BofA corporate IG and HY indices, **EM bonds**: JP Morgan GEM index, **Inflation linkers:** Bloomberg all maturities inflation-linked bonds, **Cash:** US cash total return, **Gold:** gold spot price in USD.

## Definitions of FX showed in bottom chart on p. 17:

BRL: Brazilian real, PEN: Peruvian sol, ILS: Israeli shekel, IDR: Indonesian rupee, CLP: Chilean peso, ZAR: South Africa rand, INR: Indian rupee, COP: Colombian peso, COP: Philippines peso, THB: Thai baht, PLN: Polish zloty, HUF: Hungarian forint, TWD: Taiwan dollar, RUB: Russian ruble, CZK: Czech krona, CNY: Chinese yuan, RON: Romanian leu, MYR, Malaysia ringgit, KRW: Korean won, MXN: Mexico peso, TRY: Turkish lira.

## Definitions and abbreviations:

**Alpha:** The additional return above the expected return of the beta-adjusted market return; a positive alpha suggests risk-adjusted value is added by the money manager compared with the index.
**Asset purchase programme**: A type of monetary policy wherein central banks purchase securities from the market to increase money supply and encourage lending and investment.
**Basis points:** One basis point is a unit of measure equal to one one-hundredth of one percentage point (0.01%).
**Beta:** Beta is a risk measure related to market volatility, with 1 being equal to market volatility and less than 1 being less volatile than the market.
**Correlation:** The degree of association between two or more variables; in finance, it is the degree to which assets or asset class prices have moved in relation to each other. Correlation is expressed by a correlation coefficient that ranges from -1 (always move in opposite direction) through 0 (absolutely independent) to 1 (always move in the same direction).
**Credit spread:** The 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 the possible embedded options.
**Currency abbreviations:** USD: US dollar, JPY: Japanese yen, GBP: British pound, EUR: euro, CAD: Canadian dollar, SEK: Swedish krona, NOK: Norwegian krone, CHF: Swiss Franc, NZD: New Zealand dollar, AUD: Australian dollar, CNY: Chinese renminbi.
**Curve flattening**: A flattening yield curve may be a result of long-term interest rates falling more than short-term interest rates or short-term rates increasing more than long-term rates.
**Curve steepening**: A steepening yield curve may be a result of long-term interest rates rising more than short-term interest rates or short-term rates dropping more than long-term rates.
**Cyclical vs. defensive sectors:** Cyclical companies are companies whose profit and stock prices are highly correlated with economic fluctuations. Defensive stocks, on the contrary, are less correlated to economic cycles. MSCI GICS cyclical sectors are: consumer discretionary, financial, real estate, industrials, information technology and materials. Defensive sectors are: consumer staples, energy, healthcare, telecommunications services and utilities.
**Directional strategies (Long-short equity, CTA and futures trading, global macro):** These strategies take long and short positions on markets according to fundamental or statistical analysis. Directional positions may be taken in various markets based on systematic or discretionary trading models.
**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.
**Event-driven strategies (distressed securities, special situations, merger arbitrage):** Buy or sell securities considered to be under/over-valued with regard to existing or potential events.
**FX:** FX markets refer to the foreign exchange markets, where participants can buy and sell currencies.
**GBI**: Government Bond Index.
**Liquidity**: The capacity to buy or sell assets quickly enough to prevent or minimise a loss.
**PEPP**: Pandemic emergency purchase programme.
**PE ratio**: The price-to-earnings ratio (PE ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings (EPS).
**Quality investing:** This means to capture the performance of quality growth stocks by identifying stocks with: 1) A high return on equity (ROE); 2) Stable year-over-year earnings growth; and 3) Low financial leverage.
**Quantitative easing (QE):** QE is a monetary policy instrument used by central banks to stimulate the economy by buying financial assets from commercial banks and other financial institutions.
**Quantitative tightening (QT):** QT is a contractionary monetary policy aimed to decrease the liquidity in the economy. It 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.
**Relative-value strategies (convertible arbitrage, fixed-income arbitrage, market neutral, long-short credit):** These strategies exploit pricing anomalies on various markets.
**Spread:** The difference between two prices or interest rates.
**TLTRO:** The targeted longer-term refinancing operations (TLTROs) are Eurosystem operations that provide financing to credit institutions for a predefined period. They offer long-term funding at attractive conditions to banks to further ease private sector credit conditions and stimulate bank lending to the real economy.
**Value style:** This 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 a 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.

## Important information



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