Asset Class Return Forecasts

Quarterly Update

Medium and Long-Term Return Forecasts | Q2 - 2019 *Finalised in May 2019*

Our medium-term baseline scenario is that of a late business cycle slowdown followed by a probable mild economic recession in the next three to five years. According to our calculations, the probability of drifting into a recession in the next three to five years is over 50%. Europe may enter a mild recession before the US, based on the rationale that the ECB has less room for maneuver: countries have little fiscal space and political impasses continue, along with delays in fiscal plans, with perverse effects on growth. (for further details, please refer to Asset Class Return Forecasts (Q1 2019) available at http://research-center.amundi.com/page/Article/Thematic-paper/2019/02/Asset-Class-Views-Medium-and-long-term-expected-returns?search=true).

In our baseline scenario, rates initially decline, yield curves flatten, and central banks start cutting rates again (Fed) and/or attempt to move back to unconventional policies (ECB), spreads widen, and default rates rise from current levels, while remaining well below their 2008 levels. In the medium term, we are also incorporating a period of falling profits, leading to modest equity returns.

Recent market developments have resulted in some flattening and downward shifts in the yield curves, coupled with spread tightening in the Eurozone bond markets. This should lead to lower expected returns over the medium-and longer-term. In equities, because of last quarter's strong equity market, expected returns are lower with respect to last quarter's update.

GOVERNMENT BONDS	*With the probability of a recession rising over the next three to five years, government bonds should outperform cash and deliver decent returns. Over a 10-year horizon, we anticipate a widespread increase in interest rates, and as a result, total returns should be lower, as incremental accruals will be offset by price losses.* *US Treasuries should deliver the highest returns amongst developed countries in the medium and long terms. In the Eurozone, government bond momentum is less clear. As we expect economic deterioration to spread in the region, we expect the yield curve to flatten and periphery spreads to widen. Moving to the long term, as German rates normalise, we assume that the peripherals spreads will tighten towards long-term equilibrium levels.* *The outlook on EM debt is moderately positive in the medium- to long-term, because of high carry and resilient EM fundamentals.* .
CREDIT	*In the medium term, in our base-case scenario, we expect IG and HY spreads to widen and default rates to increase, negatively affecting returns while falling interest rates, mainly in US, should be supportive for credit returns. Beyond a five-year horizon, credit spreads will converge to their long-term levels.* *Default and recovery rates should evolve into a late-cycle regime, which incorporates heightened risk and uncertainty (because of the weaker macroeconomic environment). In the longer term, they are expected to converge back to the equilibrium level.*
EQUITIES	*As developed markets will be at the origin of the macroeconomic slowdown, returns on emerging markets equities could be a bit more resilient, due also to their higher return potential.* *Returns over a 10-year horizon are expected to be lower than our previous forecasts and in particular than their equilibrium levels.* *Over the longer run, we estimate that the US market should grow at a trend rate of 7.7% p.a. in nominal terms, the highest amongst developed countries. EM equity returns in the long run are estimated at 9.4%* .

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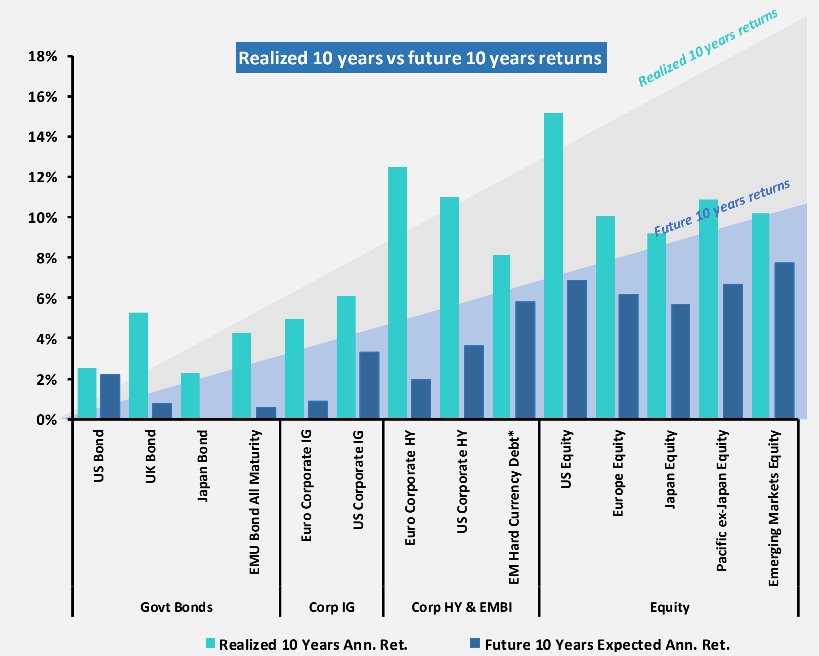
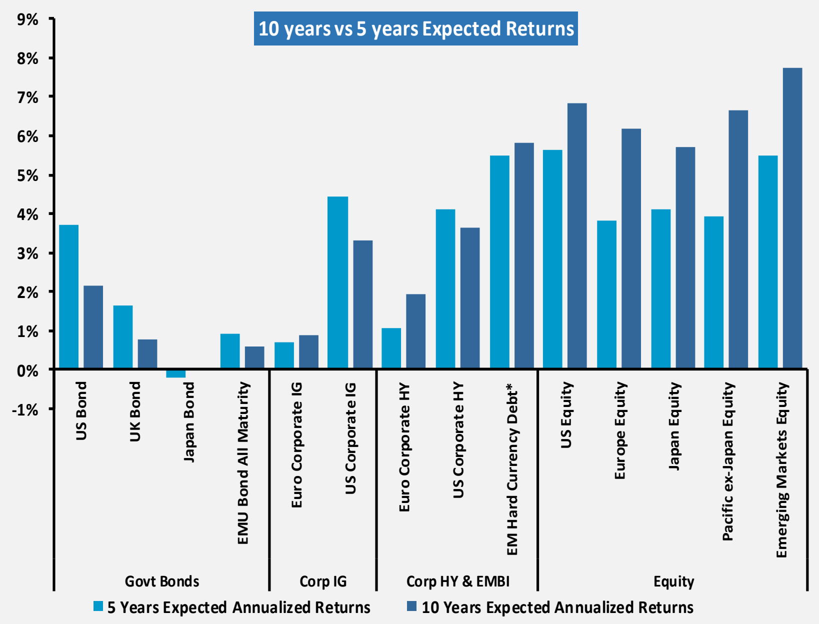
Annualised Return Forecasts



Our 10-year forecasts are lower than those delivered during the asset reflation period (the past 10 years), as we entered a late cycle phase in 2018, with central banks' attempts to recalibrate monetary policy and as economic growth surpassed its peak.



In the medium term, equity returns are expected to moderate because of decelerating macroeconomic growth and a period of falling profits. Government bonds should benefit from falling interest rates. Eurozone credit is almost in line with 10-year returns, as the negative effects of spread widening and increase in default rates are offset by the decrease in interest rates .

Source: Amundi Asset Management CASM Model, Amundi Asset Management Institutional Advisory and Research Teams, Bloomberg. Data as of the 22nd of April 2019. Macro figures as of last release. Interest rates, Equity, spread and FX updated as of the 29th of March 2019. Equity returns based on MSCI indices.
One year forward views and fair values provided by Research team (macro, yields, spread and equity). Forecasts for annualised returns are based upon estimates and reflect subjective judgments and assumptions. These results were achieved by means of a mathematical formula and do not reflect the effect of unforeseen economic and market factors on decision making.
The forecast returns are not necessarily indicative of future performance, which could differ substantially.

Asset Class Expected Returns

In the following table, we present our annualised return forecasts across different asset classes, calculated as the average of simulated returns, on different forward-looking horizons (from three to 10 years).

Assets in local currency	Reference Index	Duration	3 Years	5 Years	10 Years
Cash					
Euro Cash	JPCAEU3M Index	0.3	**-0.3%**	**-0.4%**	**0.2%**
US Cash	JPCAUS3M Index	0.2	**2.4%**	**2.0%**	**1.9%**
Government Bonds					
US Bond	JPMTUS Index	6.4	**3.0%**	**3.7%**	**2.2%**
UK Bond	JPMTUK Index	12.5	**2.8%**	**1.6%**	**0.8%**
Japan Bond	Customized Index	9.8	**-0.2%**	**-0.2%**	**0.0%**
Emu Bond - Core	JPMTWG index	7.9	**0.5%**	**0.3%**	**-0.5%**
Emu Bond - Semi Core (France)	JPMTFR Index	8.3	**0.2%**	**0.6%**	**0.2%**
Italy Bond	JPMTIT index	6.7	**0.7%**	**2.0%**	**1.8%**
Spain Bond	JPMTSP Index	7.4	**-0.8%**	**0.9%**	**1.0%**
EMU Bond All Maturity	JPMGEMUI Index	0.0	**0.2%**	**0.9%**	**0.6%**
Barclays Global Treasury	BTSYTRUU Index	8.1	**1.5%**	**1.9%**	**1.4%**
Credit Investment Grade					
Euro Corporate IG	ER00 index	5.0	**0.2%**	**0.7%**	**0.9%**
US Corporate IG	C0A0 index	7.1	**3.3%**	**4.4%**	**3.3%**
Barclays Euro Aggregate	LBEATREU Index	6.9	**0.2%**	**0.8%**	**0.6%**
Barclays US Aggregate	LBUSTRUU Index	5.8	**3.0%**	**3.7%**	**2.5%**
Barclays Global Aggregate	LEGATRUU Index	7.0	**1.7%**	**2.2%**	**1.6%**
Credit High Yield					
Euro Corporate HY	HE00 index	3.4	**-0.3%**	**1.1%**	**1.9%**
US Corporate HY	H0A0 index	3.6	**2.0%**	**4.1%**	**3.6%**
Emerging Market Debt					
EM Hard Currency Debt*	JPEGCOMP Index	7.0	**5.0%**	**5.5%**	**5.8%**
EM-Global Diversified**	JGENVUUG Index	6.4	**5.0%**	**3.8%**	**6.0%**
Convertible Bond					
Europe Index (Eur Hedged)	UCBIFX20 Index		**0.2%**	**2.1%**	**3.3%**
Equities					
US Equity	NDDLUS Index		**2.1%**	**5.6%**	**6.9%**
Europe Equity	NDDLE15 index		**1.8%**	**3.8%**	**6.2%**
Euro zone Equity	NDDLEMU Index		**2.0%**	**4.4%**	**6.0%**
UK Equity	NDDLUK Index		**1.3%**	**2.7%**	**6.6%**
Japan Equity	NDDLJN Index		**1.1%**	**4.1%**	**5.7%**
Pacific ex-Japan Equity	NDDLPXJ Index		**0.8%**	**3.9%**	**6.6%**
Emerging Markets Equity	NDLEEGF index		**0.8%**	**5.5%**	**7.7%**
World Equity	NDDLWI index		**1.9%**	**5.1%**	**6.6%**
AC World Equity	NDLEACWF Index		**1.8%**	**5.1%**	**6.7%**

* Hard Currency USD, ** USD Unhedged, including the USD currency expectation tow ards EM currencies.

Expected Returns figures are in local currency, for aggregate index the index reference is in USD as the local currency option is not available.

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Cascade Asset Simulation Model (CASM)

This long-term return forecast report intends to provide some guidance for investor expectations. The time horizon under consideration is 10 years, a period deemed to be an appropriate timeframe, during which long-term trend factors and issues can reasonably be expected to play out, and thus, market returns should accurately reflect this information. We use a Monte-Carlo methodology in order to generate the possible evolutions of different risk-factors for the time horizon considered, representing the future states of these factors under objective measures. The resulting model is then used to price the instruments in line with these factor scenarios.
In order to determine possible interest rate scenarios, we analyse the evolution of the major economic DM regions. We used a cascade-style modelling technique for simulating the different term structure, using risk factors such as the GDP cycle, inflation, real rates and slope for each of the economic regions in question..
Moving into spread-related assets (EM bonds and corporate bonds), we focus on implied volatility, quality, default and recovery rates, together with economic cycles, to estimate a forward looking path for EM bonds (hard currency), EU corporate (IG and HY) and US corporate (IG and HY).
Our framework on equity focuses on earnings growth and price earnings, as a determinant of capital gains and dividend yields, to represent the income effect; these variables are analysed with the macroeconomic pillars of the model (the economic and inflation cycle).
Our medium/long-term model, known as CASM, is updated on a quarterly basis to incorporate new starting points, our short-term outlook along with long-term trends, the significance of which is verified on an annual basis.
Our CASM model focuses on key factors, which drive this evolution over the medium to long-term; the resulting forecasts look at the comparison between current and long term readings for the key factors included in the model.
Note that these are simulated figures only and may not represent actual asset class returns. Actual returns are based on many factors, and may vary substantially from modeled ones.

Important information

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