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Amundi
ASSET MANAGEMENT

EQUITY MARKETS IN 2020

Watch out for a value rotation

January 2020

INVESTMENT INSIGHTS INFOGRAPHIC

Value vs Growth dislocation could...

The current extreme dislocation of value vs growth offers a window of opportunity.

... reverse amid a cyclical rebound

Bottoming out of economic activity could be the trigger for a rotation towards value. Selection will be key to avoid areas of disrupted business models and focus on names that can best exploit the expected cyclical rebound.

Only 2% of the time over the last 40 years growth vs value premium has been higher



Source: Amundi Composite Value Indicator (CVI), at 26/11/2019.

Improving Purchasing Managers Indexes (PMI) should benefit Value vs Growth



Source: Amundi, Markit, ISM, Bloomberg. Data as at 9/12/2019.

Definitions: Purchasing Managers' Index (PMIs) – Indicators derived from monthly surveys of senior executives at selected companies that help in identifying economic trends. **Growth investment style** – It aims at investing in the growth potential of a company. It is defined by five variables: 1. long-term forward EPS growth rate; 2. short-term forward EPS growth rate; 3. current internal growth rate; 4. long-term historical EPS growth trend; and 5. long-term historical sales per share growth trend. Sectors with a dominance of growth style: materials, industrials, consumer discretionary, staples, healthcare, IT. **Value style** – It means purchasing stocks at relatively low prices, as indicated by low price-to-earnings, price-to-book, and price-to-sales ratios, and high dividend yields. Sectors with dominance of value style: energy, financials, telecom, utilities, real estate.

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EUROPEAN EQUITY VALUE

Four themes support European markets in the value rotation

1 BOND YIELD STABILISATION

CBs guidance for stable rates combined with a global manufacturing bottoming out should support a stabilization of bond yields. This could benefit some traditional value sectors such as financials and consumer discretionary.

Allocation to financial and consumer discretionary sectors

MSCI EMU

31%

MSCI Europe

28%

MSCI Europe Value

40%

Source: Amundi research, MSCI. Data as of 30 November 2019.

3 LIGHT INVESTOR POSITIONING AND POSITIVE MOMENTUM

Investor positioning is catching up with the trend. In fact, recent surveys on global fund managers' allocation are pointing towards an increase to European equities.



Source: BoFA Merrill Lynch Global Fund Managers Survey, 15 December 2019.

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2 SENTIMENT AND VALUATIONS PLAY IN FAVOUR OF EUROPE

A combination of geopolitical improvements is supporting investor interest in Europe, at a time when equity valuations are also attractive.

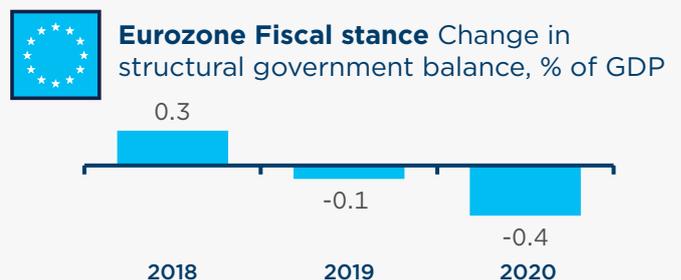
BREXIT The probability of a no-deal Brexit has significantly reduced;

A possible US-China mini deal would also be supportive;

Any good news on reforms (banking union) could also support European equities.

4 SUPPORT FROM A FISCAL PUSH

With further support to growth in the Eurozone expected from the fiscal side in 2020, we believe the appetite for European equity will continue.



Source: IMF, European draft budgets, Amundi estimates. Data as of 15 November 2019.