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## Overall risk sentiment



We are slightly more positive on risky assets, but remain selective

## Changes vs previous month

- Relatively constructive on equities in Europe and looking for buying opportunities in EM equities
- Positive on US 10Y Treasury inflation-protected securities

*Overall risk sentiment is a qualitative view of the overall risk assessment of the most recent global investment committee.*

## Risk-taking around the 3Gs: Geopolitics, Growth, Green

At the start of the 2020s, **markets continued to be dominated by geopolitical issues**, with short-lived Iran tensions at the forefront initially, followed by the news regarding a phase one trade deal between the US and China. **Now, growth expectations are becoming the main driver of the market.** That's why the recent volatility due to the news about the spreading of the corona virus in China is higher than in the case of US-Iran tensions, as the epidemic could harm China (and global growth) if not contained soon (not our base case at the moment). Other than this issue, recent data point to a 'so far, so good' assessment as Germany has avoided a recession and the Euro area is bottoming out. Inflation uptrends are materialising to some extent, but risks appear to be limited and the overall inflation outlook remains benign. Central banks are likely to continue to pause on policy changes, which should help to maintain dovish financial conditions across regions. Therefore, in the search for further growth, attention is globally moving towards fiscal measures: Japanese stimulus package; approval of 2020 Budget Laws for Indonesia, the Philippines and India; and hopes for support in Germany, the UK and broader Europe (€1tn European Green Deal).

**Green investing and climate change are increasingly themes to watch in 2020.** Whether it was the recently released 2020 World Economic Forum report or the latest Davos WEF, climate change and environmental risks are dominating discussions. Europe and China are working together to reduce emissions by launching the Emission Trading System (ETS) which will be the largest carbon market worldwide. Climate change could also be a strong theme in the US electoral debate as global disasters, such as the Australian bushfires, put pressure on politicians to act. Overall, **green objectives could be the catalyst for fiscal push, but they could also become the new frontier for trade wars** as the European Green Deal considers the possibility of an EU carbon border tax.

From a top down perspective, the interplay between geopolitics, growth and green issues will likely be the main theme driving the risk-on/risk-off mood. From a bottom-up standpoint, **credit market dynamics should be the key driver of the financial cycle.** The narrative of low rates continues to play in favour of the asset class, despite rich, though not extreme, valuations. Thus, we believe investors should be overweight credit. However, some idiosyncratic stories could still pop up, especially if renewed concerns about a slowdown play out. We believe flexibility and selectivity in managing this asset will be key in generating returns this year.

This backdrop translates into some key investment convictions:

- **It is not a time to be too defensive.** Some short-term issues related to the coronavirus in China or Europe-US trade negotiations may open buying opportunities to add to risk assets. If the situation in China stabilises, growth momentum may improve in a low yield environment. Beyond the short term, when US equities may prove more resilient, **Europe is the market in which to play cyclical value themes.** We would add exposure to **EM equities**, with earnings expectations gaining traction, once virus issues fade.
- **In bonds, the focus remains less on the duration play and more on credit picking.** Europe, EM bonds and US securitised assets are the way to play the continuing risk-on phase.
- **Selection in focus.** Given tighter spreads, more expensive equity markets globally, and an overall exposure to the "growth factor" across the board, selection is crucial so that investors are not caught in less valuable names that **could hurt returns if volatility rises.** Selection should rely on fundamentals as well as on ESG, taking into consideration all the risk factors that could affect future business valuations, of which climate change remains the most discussed.
- **Finally, ESG will be the area that sees new regulations.** This should be the case in the financial sector as well. As shareholders are becoming increasingly demanding on all ESG fronts, **we expect to see a rise in the impact of ESG on market performances<sup>1</sup>.**

<sup>1</sup> See the new Amundi Paper, *ESG INVESTING IN RECENT YEARS: NEW INSIGHTS FROM OLD CHALLENGES*, December 2019

MACRO & STRATEGY



**Monica DEFEND**  
Global Head of Research



**Didier BOROWSKI**  
Head of Global Views

## Towards a weakening dollar

Theoretically, it is not possible to conclude whether a currency should appreciate in line with its position in the (global) cycle. Nevertheless, empirical studies tend to distinguish between two groups of currencies: those that appreciate when the economy is doing well (and therefore depreciate in times of crisis or slowdown) and those that – in contrast – appreciate when things are going badly. A currency that appreciates in good times and depreciates in bad times is traditionally described as **procyclical**, while in the opposite case, a currency is described as **countercyclical**. Procyclical currencies are generally found in EM while countercyclical ones dominate in DM. It is clear, for example, that currencies that traditionally serve as safe havens when things go wrong (USD, Swiss franc, yen) tend to be countercyclical. The USD benefited last year from the deterioration of the international environment and the global industrial recession, which appears to confirm its countercyclical nature. It is now estimated to be overvalued by about 10% in real effective exchange terms.

**In countries with procyclical currencies, the exchange rate acts as an automatic stabiliser:** it depreciates when growth is weak (benefiting exports) and appreciates when economic growth accelerates (weighing on domestic demand). Countries with procyclical currencies tend to benefit from capital inflows, which themselves tend to be procyclical in emerging economies (i.e., which increase when growth accelerates). However, the causality between capital flows and the exchange rate is not easily explained. It is likely that the two are mutually reinforcing: indeed, investors who anticipate procyclical behaviour in a currency will be inclined to position themselves in the assets of the

country concerned, which in turn will tend to reinforce the appreciation of the currency.

**These considerations are important at this stage of the global cycle:** we expect that the global industrial recession will end in the first half of this year and that global trade will slowly recover as we move towards the end of the year. The countries most severely affected by the trade contraction and industrial recession last year should therefore be the first to benefit from renewed capital inflows. On the other hand, currencies that have benefited from their safe-haven status could logically be expected to weaken, starting with the US dollar. This is all the more true when the environment of low interest rates and sluggish growth in developed countries is fuelling investors' search for yield and diversification. The strongest emerging countries are therefore serious candidates.

**Under these conditions, we believe that risks are skewed to the downside on the USD (countercyclical)** while they are skewed to the upside on many emerging currencies (procyclical). This bias is all the more justified given that the USD appears overvalued while many emerging currencies are undervalued.

**The consequences in terms of asset allocation are quite significant,** as it means that investors will need to reconsider their exposure to emerging debt in local currency. However, this should be done with caution for two reasons: 1) global recovery is not yet sufficiently entrenched to expect a significant depreciation of the USD, which is still supported by higher interest rates in the US than in other DM; and 2) global uncertainty (trade, geopolitics), which may continue to support safe-haven currencies.

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*We believe that risks are skewed to the downside on the US dollar (countercyclical currency), while they are skewed to the upside on many emerging currencies (procyclical).*  
”



Source: Amundi on Bloomberg data, as of 27 January 2020. DM = Developed markets, EM = emerging markets.

MULTI-ASSET



**Matteo GERMANO**  
Head of Multi-Asset

## Play positive fundamentals once uncertainty fades

The overall economic picture continues to point towards a stabilisation in global growth with a convergence of DM growth towards potential and a rebound in EM. The inflation outlook remains benign and temporary upside risks appear to be contained, with only a few situations to monitor (India and China). A possible evolution of the policy mix towards more fiscal expansion could limit downside risks. This scenario is supported by recent improvements in economic momentum along with decreasing geopolitical risks in the aftermath of the China-US phase one deal. **This supports a positive view on equity.** However, as some elements of the outlook remain uncertain (spreading of the virus in China), we suggest investors **keep hedging in place, or potentially increase it**, especially in the conservative allocations and seek buying opportunities in the equity markets once the situation is more clear.

### High conviction ideas

**Our overall assessment of equities has improved** on expectations of a pick-up in inflows, a reduction in geopolitical risks, and potentially more expansionary fiscal stances. **European markets and EM Asia** could be best positioned to benefit from these tactical factors, given their cyclical/value bias. However, we are mindful of mounting vulnerabilities to corporate profits and uncertainty linked to the spreading of the corona virus. At a granular level, we now have a neutral view on the US and a slightly positive one on EU stocks. We are looking at **EM equities**, as EM economic and earnings momentum is improving, **particularly in Asia**. However, given current uncertainty, we believe investors should hedge against a possible continuation of high volatility in this space.

**In fixed income**, we have a **neutral view on US duration** and we believe investors should remain flexible and tactically play the trading range (1.7-2%) for the 10Y US Treasury. We maintain our relative preference for the 5Y UST vs the Germany 5Y. Regarding **US breakevens**, we are **more positive** on the 10Y, as there is now less slack in the economy.

The **search for yield** continues, specifically in the **Italian curve**, which is an exceptional case of attractive positive yields. Thus, we remain constructive on the Italy 30Y vs the Germany 30Y. In **credit**, while valuations are rich, the asset class continues to be supported by the current late cycle environment and technical factors, especially in Europe (TLTRO, ECB QE2). **We prefer EUR IG to US because of the better leverage profile** of the former. **Elsewhere, benign inflation, attractive carry, dovish EM central banks, and strong relative yields all support EM debt (HC)**, although we recommend hedging the duration and currency risk, and from a risk/return perspective, we prefer HC over LC for the time being.

On **FX**, while we keep a positive mid-term view on some selected EM currencies, we suggest remaining cautious over the short term amid high uncertainty. In **DM FX**, we are now positive on the EUR/CHF as geopolitical tensions have already pushed the CHF higher. We remain constructive on the EUR/USD. The NOK/EUR is likely to do well on tighter policy and a resilient Norwegian economy.

### Risks and hedging

In a more volatile environment, we suggest that investors **maintain adequate hedges** in the form of the Japanese yen, gold and options strategies to limit declines in case of further rises in volatility.

“  
*An improvement in the economic picture could support stocks. We look for buying opportunities once issues related to the current corona virus outbreak start to dissipate.*”

Amundi Cross-Asset Convictions								
	1 month change	---	--	-	0	+	++	+++
Equities	↗					■		
Credit							■	
Duration					■			
Oil					■			
Gold						■		

Source: Amundi. The table represents cross-asset assessment on a 3-6 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. USD = US Dollar, UST = US Treasury, DM = Developed markets, EM/GEM = Emerging markets, EM bonds (HC) = EM bonds hard currency, LC = Local currency, FX = Foreign exchange, IG = Investment grade, HY = High yield, NOK = Norwegian krone, CB = Central banks, CHF = Swiss franc.

FIXED INCOME



**Eric BRARD**  
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Global Head of Emerging Markets



**Kenneth J. TAUBES**  
CIO of US Investment Management

## Relative value to generate returns in tight markets

The stabilisation of the growth outlook should continue, but there are no expectations of a reacceleration in the global economy. However, core government bond yields are still not picking up despite the improved picture, due to an excessive search for quality and safety, global liquidity, and quantitative easing (particularly in Europe). While the search for yield is supportive of credit markets in general, **it could also lead investors to overcrowded segments**, which may display high volatility in the event of a minor disappointment on growth expectations. In the current environment, **investors should look at segments that may offer attractive relative value** and at names that could hold up well in case of a slowdown.

### DM bonds

In **global fixed income**, we maintain a **close to neutral stance on duration**, with a preference for the US, where conditions have recently improved, while we remain negative on core Euro (Germany) and the UK (fiscal stimulus should push rates higher). We have a constructive view on Euro peripherals as they still offer attractive positive yields, particularly Italy, on which we are more positive. There are opportunities for investors to play curve movements in the core Euro curve, in the UK, in Euro peripherals, and also in Japan, the US and Australia. In credit, **we are optimistic overall on IG, but are more constructive on Europe than the US**. From a **US perspective**, the current macro-economic environment and a supportive central bank bode well for risk assets and for the country's growth stabilisation around potential (2% annual). But, valuations of some asset classes already reflect this and, therefore, selectivity is important. **We are positive on inflation-linked Treasuries (TIPS) on the back of firmer inflation**

**expectations** as global and domestic asset prices remain stable amid declining trade and political uncertainties. The US-China phase one deal has now been signed and the House of Representatives approved the US-Mexico-Canada agreement. But, the delay in the phase two deal until after the US elections heightens volatility for 2H20. **In IG, we remain cautious on corporate bonds** and see more appeal in hybrid structures, particularly in the banking sector. We also maintain our preference for securitised assets, which are relatively attractive vs corporate bonds, as spreads in the former have not tightened as much. In addition, fundamentals in consumer credit remain solid in light of robust wages, balance sheets and consumer confidence.

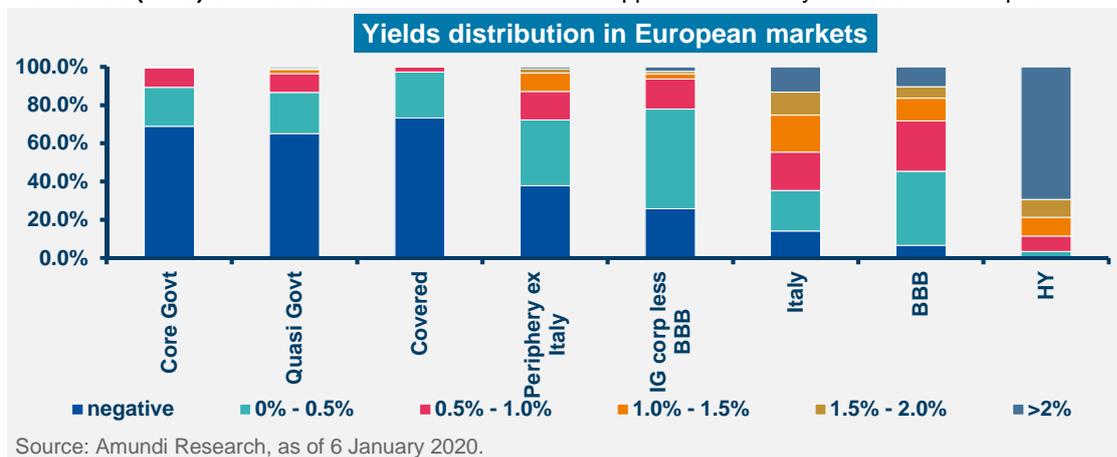
### EM bonds

While the fundamental and technical backdrop will likely remain supportive of the asset class in 2020, valuations currently look tight. It's hard to see pockets of value, especially given the limited space for the Fed to loosen further and for EM FX to perform strongly in the short term. **Our outlook is still moderately positive for EM debt, but we believe a more cautious stance is appropriate** now, as the strong performance delivered in 2019 is behind us. We believe investors should reduce duration in their portfolios and tactically favour some idiosyncratic stories in countries such as Turkey and South Africa.

### FX

We are positive on the EUR/USD, but believe that it will trade in a range and much of the direction will likely come from the USD, which has been showing signs of some weakness owing to mild political risks (US elections). The USD is currently overvalued and capital flows are also less supportive than they have been in the past.

“  
*We keep a positive view on the peripheral European countries, where Italy is one of the few areas with attractive yield.*  
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EM FX = Emerging markets foreign exchange, IG = Investment grade, EUR = Euro, USD = US dollar

# Temporary noise may provide buying opportunities

## Overall assessment

In the near term, the combined impact of overbought conditions, China virus newsflow, and trade negotiations between the US and Europe returning to focus are likely to generate a buying opportunity in capital markets. In this phase, US equity may prove more resilient. Beyond this short-term view, we expect that a cyclical rebound should support additional upside this year on the back of improvement in fundamentals. We expect to see an earnings rebound driven by accommodative monetary policies, fiscal stimulus, and a weakening USD. However, an increase in political risks related to the US elections and Middle East tensions could weigh on markets. Returns in 2020 will likely be lower than they were in 2019, with opportunities in European and US cyclical value and EM.

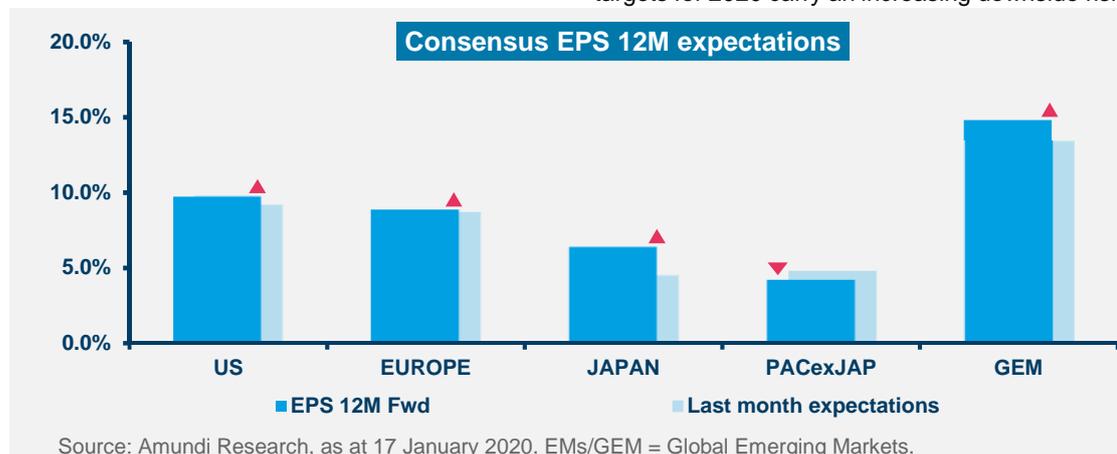
## DM equities

A resilient services sector, low unemployment rates, and a possible bottoming of the manufacturing sector support the outlook for **European equities**. For prices to rise further, we need corporate earnings growth: this highlights the importance of stock selection. Value remains an attractive hunting ground vs Growth in light of expectations of sector rotation and attractive valuations. Opportunities exist in **cyclical names** of energy and industrials and in health care (defensive). We are cautious on areas where valuations are elevated, as is the case in information technology (IT) and consumer staples. While European small caps should benefit from growth stabilisation, monitoring liquidity will be key. Separately, **US valuations** look reasonable and are supported by low interest rates and credit spreads. Given the dovish Fed stance of 2019, the lagged impact of low rates and other input costs

should now boost earnings. In addition, around 40% of earnings in the S&P 500 index are dependent on international operations of companies and consequently a weakening USD would have a positive impact. A majority of earnings growth would come from consolidation of these international earnings. This, in turn, would drive returns in 2020. **We remain constructive towards cyclical value over growth and low beta stocks**, but continue to reduce focus on expensive names that massively outperformed in 2019. CBs have provided sufficient stimulus to boost global growth. So, we prefer high-quality cyclicals that are more closely linked with receding recession risks. Accordingly, we are constructive on mega cap financials, autos & components, and industrials. We are cautious on health care, IT, consumer staples, and utilities on valuation concerns. Geopolitics has again played a role in our positioning, as we are now less negative on energy amid a limited possibility of escalation between the US and Iran.

## EM equities

On a mid-term perspective, we have a **positive view on EM equity** as we see signs of stabilisation in economic activity – with regard to improving earnings expectations – along with improving relations between the US and China, and a continuation of policy easing in 2020. Volatility is elevated in the short term, as the markets assess the possible consequences of corona virus on the Chinese economy. In the EM space, we like **Russia (technology)** and **Brazil**, due to market friendly reforms and historically low interest rates. Moving ahead, China could offer opportunities, once the current situation stabilises. We are becoming more cautious on India as our growth targets for 2020 carry an increasing downside risk.



## EQUITY

“  
**A rebound in manufacturing should support earnings growth, but selectivity is crucial to identify high-quality names in cyclical value.**  
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# Amundi asset class views

	Asset class	View	1M change	Rationale	
EQUITY PLATFORM	US	=		Valuations are reasonable and are supported by low credit spreads and interest rates. However, for any further upside in prices, earnings would need to grow. Encouragingly, the lagged impact of low rates and input costs would indeed boost earnings. Overall, we favour Value over Growth and low beta names.	
	Europe	+	▲	Expectations of a rebound in manufacturing, low unemployment, accommodative monetary policy, fiscal stimulus, and US-China phase one deal support the case for European equities. In addition, Europe is home to companies with sound ESG profiles, and given that ESG factors will be increasingly important in investor pricing going forward, this collectively boosts the case for the region's equities. Market dislocations continue to offer opportunities in cyclical value names.	
	Japan	=		Japanese corporate fundamentals remain solid as profits are growing and buybacks are increasing, and at the same time balance sheets remain underleveraged. However, if geopolitical risks re-emerge, Japanese companies (most of which are exporters) will be vulnerable to a rising yen. Therefore, we maintain our neutral stance.	
	Emerging markets	=/+	▲	Diminishing trade war tensions, low interest rates, fiscal easing, and hopes of limited appreciation in the USD could support EM equities in the medium term. Unless the "elevated uncertainty" derails the global economy into a shock – which is not our assumption – excessive downward setbacks in prices could provide entry points.	
FIXED INCOME PLATFORM	US govies	=		With a global fixed income approach, we maintain our neutral view on duration as stabilising economic growth signals would allow the Fed to maintain the current level of rates, unless growth slows significantly so as to bring the Fed off the sidelines.	
	US IG Corporate	=/+		Spreads are grinding towards multi-year tight levels and US corporations have elevated levels of leverage, which are affordable with low interest rates. Therefore, investors should watch for stress in the event of higher rates. Structured securities, including non-agency Residential Mortgage Backed Securities (RMBS), are attractive relative to most other IG sectors.	
	US HY Corporate	=		Spreads in the HY segment are tight, but the outlook for default is benign as economic and liquidity conditions remain supportive. We are very selective owing to leverage levels in this market.	
	European govies	-/=		We maintain our cautious stance on Europe duration. Expectations of fiscal stimulus could push rates even higher, particularly in the UK. However, we are positive on peripheral country bonds, particularly Italy.	
	Euro IG Corporate	++		EUR IG should benefit from the ECB's Corporate Sector Purchase Programme (CSPP) and, accordingly, we are positive. In particular, subordinated debt financial looks attractive.	
	Euro HY Corporate	+		We are positive on EUR HY in light of robust technical factors and strong activity in the primary market, but remain selective in the energy, automobiles and telecoms sectors. We are also mindful of increases in idiosyncratic risks in this segment.	
	EM Bonds HC	+		We are positive on EM debt due to good fundamentals and a strong technical backdrop. However, the strong performance of 2019 will be difficult to repeat and hence some caution will be helpful, as spreads are tight.	
	EM Bonds LC	=		We expect central banks to continue monetary easing in countries where inflation is under control and therefore real yields in local currency bonds are likely to remain attractive. However, we are cautious, given that EM currencies are unlikely to appreciate, at least in the short term, due to growth uncertainty in China.	
	OTHER	Commodities			We are constructive on gold as it looks to be the most efficient hedge against several global risks as we have seen recently with corona virus fears. For oil, we reiterate our target range of \$55-65/bbl for WTI and \$60-70 for Brent, despite recent events exerting some pressure to the downside due to temporary concerns about economic growth. Overall, US oil production and OPEC strategy will drive oil prices in 2020. The latter should remain vigilant and active on output cuts, mitigating external shocks. Elsewhere, expectations of a stabilising manufacturing sector and a marginal rebound in global trade and economic data support the case for base metals, provided concerns of a slowdown in activity in China are temporary and limited.
		Currencies			We expect the EUR/USD to appreciate to around 1.14 in the next 12M, but investors need to see growth in order to turn structurally positive on the EUR. The USD/JPY is undervalued vs fundamentals, but should be a strong hedge in a low conviction world. We see the yen at 104. Meanwhile, the GBP paused after the strong rally that began in mid-October last year; our 12M target for the GBP/USD is 1.33. For EM FX, the mid-term view is supportive, but we expect volatility to continue amid uncertainty on the spread of the corona virus in China.



Source: Amundi, as of 29 January 2020, views relative to a EUR-based investor. This material represents an assessment of the market environment 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. IG = Investment grade corporate bonds, HY = High Yield Corporate; EM Bonds HC / LC = EM bonds hard currency / local currency. WTI= West Texas Intermediate. QE=quantitative easing.

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Time for a flight to cyclical value in European equity

When we look fundamentally at the risks and rewards in equity markets for 2020, we find that value offers better opportunities than growth as implied expectations are lower and therefore more attractive for value at this point.

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### Definitions

- **CEMEA:** Central Europe, Middle East and Africa (CEMEA).
- **Composite Valuation Indicator (CVI):** It is based on a basket of criteria in absolute terms – Trailing Price to earnings ratio (PE), Forward PE, Price to book value ratio (P/BV), Dividend yield (DY), Price to cash flows ratio (PCF) and ranked in percentile from 0 to 100% the percentage of time this basket was cheaper since 1975 (0% never been cheaper; 100% never been more expensive).
- **Credit spread:** 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 possible embedded options.
- **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, while defensive sectors are consumer staples, energy, healthcare, telecommunications services and utilities.
- **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.
- **ECB:** European Central Bank
- **FX:** FX markets refer to the foreign exchange markets where participants are able to buy and sell currencies.
- **QE:** Quantitative easing (QE) is a type of monetary policy used by central banks to stimulate the economy by buying financial assets from commercial banks and other financial institutions. QT: Quantitative tightening is the opposite of quantitative easing.
- **ROIC:** Return on invested capital (ROIC) is a calculation used to assess a company's efficiency at allocating the capital under its control to profitable investments.
- **Quasi sovereign:** Companies which are wholly or partially owned by governments.
- **Tiering system of ECB:** A mechanism that allows banks to park their excess funds with the ECB. Under this, a portion of banks' deposits are exempted from negative rates.
- **TLTRO:** Targeted longer-term refinancing operations.
- **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 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
- **Yield curve steepening:** This is the opposite of yield curve flattening. If the yield curve steepens, this means that the spread between long and short term interest rates widens. In other words, the yields on long-term bonds are rising faster than yields on short-term bonds, or short-term bond yields are falling as long-term bond yields rise.

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