

Confidence  
must be earned

**Amundi**  
ASSET MANAGEMENT

August 2020

# Global Investment Views



**Pascal  
BLANQUÉ**  
Group Chief  
Investment Officer



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Deputy Group Chief  
Investment Officer

## Overall risk sentiment

Risk off Risk on



Close to neutral risk exposure, and search for relative value opportunities in credit and equities

## Changes vs. previous month

- Play the tactical rotation towards European equities, cyclicals.
- Maintain protection in place to balance out risks.

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

## A summer of fear and greed

As we enter the summer, conflicting forces in major equity markets have led to a period of temporary equilibrium between fear (risk of second wave, low bond yields, high gold prices) and greed (equities rallying as a result of economies reopening). **The big question for investors now is: where do we go from here?** In our view, the upside scenario that has been priced in by markets is challenged by the still uncertain path of the virus. Some early market enthusiasm about a virus cure could be overdone, as the path towards a widely available, effective vaccine could be long. Additional stimulus will be needed to offset the demand loss and reduce vulnerabilities in some sectors. The approval of a €750bn recovery fund in Europe, and for additional fiscal stimulus in the US and China, may sustain market sentiment in the short term. However, we do not see a case for an aggressive risk increase in portfolios, but rather for some tactical adjustments based on relative valuations. **In equities**, the Q2 earnings season will be a key test. Data will be ugly this quarter, but with this already factored in, attention will turn to forward guidance. Consensus estimates are very positive for next year, but corporates remain reluctant to provide guidance as the virus is not yet under control. **The lack of clarity and earnings visibility warrants caution:**

- Areas such as Europe**, which moved out of investors' favour in the initial phase of the recovery, are expected to outperform in this catch-up phase, with performance possibly extending to some sectors/areas that are still lagging (banks or small caps). As Europe is further along in the virus cycle and high frequency indicators are signalling a strong rebound in 2021, the approval of extraordinary emergency measures and reduced political risks should benefit the region. Again, this is more a tactical view rather than a structural repositioning. **In Asia, despite recent strong performances, China is still close to 10-year lows vs. the US**, and there is room for a catch-up. China is one of the few countries in EM (together with Indonesia) where the fiscal response has matched or been stronger than the short-term GDP fall. Therefore, it is one of our favoured countries in what is otherwise a mixed market for EM. But the rally has been fast and furious, and a pause is due.
- On the other hand, **some market excess continues to build up** – the outperformance of the Nasdaq vs. the S&P 500, for example. The momentum and valuation divergence between the big five US mega caps, plus that of the higher-growth large caps vs. the rest of the market, looks extreme, back to tech bubble levels even. And the growth vs. value ratio is extreme globally. It is difficult to call the timing for a reversal of this trend, but certainly this is an area to focus on, in our view.

**In fixed income (FI)**, expectations of infinite QE are contributing to the big disconnect between core bond yields and the growth recovery. At some point in H2, markets will likely start to price in the idea that there will be no further acceleration in monetary accommodation, when the economy looks to be on the road to recovery. That could return some pressure to core bond yields and cause volatility. In the US, the huge deficit spending and massive UST issuance could weigh on the long end. We believe that CBs will be very prudent when removing any accommodation to avoid any disruption to the market or the economic recovery. But, the intensity of policy actions may fade and this will have the largest effect on financial markets. **The search for yield in credit and EM debt is the only option left to investors**, but the task is becoming challenging and selection is paramount. A record issuance of credit goes hand in hand with the deterioration of credit quality. A major area of attention is 'fallen angels', which could trigger automatic selling for IG strategies, and some opportunistic investors could also book extraordinary profits and sell before defaults start to rise. Low-quality debt is already under pressure, with the default rate in US HY CCC just a few points below that seen during the GFC. Many companies will have to deleverage from the huge debt accumulated and many will not survive. In H2, solvency issues will move to centre stage and investors should have sufficient portfolio liquidity and good quality assets. In EM, there is room for a gradual recovery in HY: an opportunity for investors, but one that requires high selectivity. **Finally, inflation expectations** are still not priced into the market; they are still too low despite the massive stimulus. This could represent an opportunity to play any market repricing of expectations. In conclusion, investors have little visibility on the future and are trusting monetary and fiscal measures for the rally to continue. **These are not perfect conditions in which to have strong directional risk exposure.** We prefer prudence: a good dose of caution is what helps humans to overcome perils — that approach works well regarding investment decisions as well.

MACRO & STRATEGY



**Monica DEFEND**  
Global Head of Research



**Michele LEONARDI**  
Cross Asset Analyst

## Unusual times call for innovative predictive models

**Inflation in the US and the Eurozone will remain low** for the near future amid some upside risk in 2021 due to the interplay between multiple base effects and shocks in the underlying components (food, ex-energy, service). These will allow breakeven inflation to gradually normalise. Uncertainty will remain high due to the still limited percentage of price that is input to calculate overall inflation. A complete price collection will return to normal slowly to reveal the “true inflation” picture in the next few months.

**Labour costs are a potential risk** that could derail this scenario (of low inflation), forcing a disruptive increase in bond yields. The picture for the job markets is unclear – while Eurostat hourly wages posted a sharp increase in Q1, the ECB’s compensation per worker drifted lower. Looking ahead, Unit Labour Cost may increase due to lower productivity (social distancing measures), although in the case of longer lasting higher unemployment, the pressures to wages may be on the downside. Also, FX dynamics play a role, putting a lid on inflation should the Euro persist in its strength.

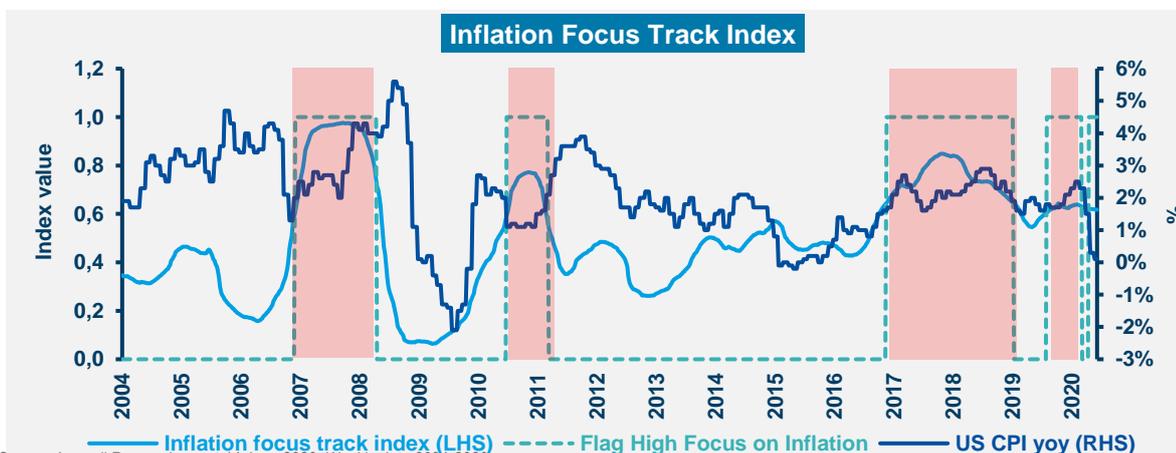
**In EM**, QE has stabilised financial conditions and FX and FI markets. When a recovery starts, inflation could be a by-product of the massive liquidity (through policy stimulus and debt monetisation) and policymakers should be extremely cautious about pushing the monetary lever too much in countries with already high inflation, such as Turkey. In Indonesia, the CB has embarked on a shared burden programme with the MoF; markets have been cautious, though the details that have been released are not particularly worrying.

**While the outlook is still fluid** and the visibility around the structural Covid-19 spillovers remains scarce, it is challenging to predict macro-dynamics. Considering the limited hard data, **we have adopted innovative research techniques in big data.**

**High frequency** indicators (time-series data collected at an extremely fine scale) could provide insights that capture early changes and anticipate trends. In particular, we ran an exercise on inflation to predict a potential surprise on the upside by collecting a weekly historical series of relevant inflation-related words (i.e., CPI, gold&inflation, oil&inflation) from Google Trends, creating our internal **Inflation Focus Track Index** (see chart). We considered the web popularity of these words, calculated the statistical power embedded in these words to predict price dynamics and eventually defined a framework where we mapped periods of time when the web focus on inflation was high and when it was low. **The recent unconventional policies**, debt monetisations and Trump’s fiscal plans have reignited some inflation concerns. The same worries were witnessed back in 2017, but concerns about trade wars and the pandemic in March this year have tempered them for now. Due to policy stimulus, the current inflation index (chart) readings are structurally higher than five years ago. This trend will probably continue, amid concerns about the long-term high inflation expectations, although this will be subject to temporary or cyclical worries over growth. In fact, **we signal a temporary stabilisation in the focus on inflation due to the current recession** and fears of new lockdowns.

**To conclude**, US inflation expectations have repriced but there are some inconsistencies when comparing, for example, the 5y USD inflation swap to the NY Fed number. Eventually, we expect the inflation breakeven to normalise gradually. In Europe, **we do not see price pressures on the ECB that would induce a change in its easing stance.** But even if pressures materialise, our positive view on gold and cyclicals acts as hedge.

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*During unprecedented times, when hard data is limited, out-of-the-box ways of predicting economic variables such as inflation can offer valuable insights.*  
”



Source: Amundi Research, as at 14 June 2020. Weekly data 2004-2020.

Inflation Focus Track Index is Amundi’s Cross-Asset Research proprietary tool based on big data analysis from the web (Google Trends). The relevant text/word combinations for the inflation theme are identified and dynamically tracked according to the popularity of web searches. We detected two relevant regimes (high focus and low focus) to articulate the most appropriate cross-asset investment implications. High focus = flag high focus on inflation above. ULC = unit labour cost, MoF = Ministry of Finance, CB = central bank, 5y USD inflation swap = The 5-year USD inflation swap rate used by CBs and dealers to gauge markets’ future inflation expectations (Bloomberg), NY Fed numbers = Inflation expectations media point prediction one year ahead inflation rate (Bloomberg).

MULTI-ASSET

## Stay diversified and maintain downside protection

During the past week, we have assessed the marginal improvement in economic momentum, the rotation towards cyclicals and the continued monetary and fiscal stimulus (the latest being the agreement on the EU recovery fund). However, we have also noticed some areas of excessive valuations building up and the key question for us has been to assess which segments warrant an upgrade, if any, and which segments will continue to remain under stress. While keeping a balanced view, investors should cautiously move from a **conservative to a more neutral stance, but diversify risks and add relative value in Europe and the US.**

### High conviction ideas

We maintain our slightly cautious stance on US equities due to an unfavourable risk/return profile, **but have upgraded Europe to neutral in light of the improving sentiment driven by the lower political risk premium**, its attractive valuations vs. the US, better economic data and the bottoming-out of earnings revisions. The region will also benefit from an improving environment for cyclicals. **On EMs, while we are neutral for now, we have a positive outlook and are evaluating opportunities** due to the abundant liquidity, light positioning support and expectations of continuous stimulus, especially in Asia where we believe the first-in first-out story is playing out well. For instance, China, which was the first country to enter lockdown, was also the first to rebound as reflected in its strong Q2 GDP numbers. Our regional preference remains for China (resilient corporate earnings), Indonesia (fiscal prudence and valuations), South Korea and Taiwan, due to the strong stimulus and better containment of the contagion. **On duration**, we remain close to neutral on USTs in a curve control environment as short-dated yields are moving in a tight range, although this has not been explicitly acknowledged. It is difficult to foresee a significant rise in bond yields as indications from both the Fed and the ECB are that no change

in monetary policy settings is expected before early 2022. We maintain our preference for US 5y vs. Germany 5y due to the former's safe haven status and the Fed's bond buying. **Euro peripheral debt** remains attractive due to ECB support, the collective fiscal boost from the recovery fund and the continued search for yield. However, investors would be prudent to lock in gains on 10y and 30y BTPs vs. the German 30y in order to maintain discipline and a more balanced risk profile, before re-entering at attractive levels. **We are constructive on US inflation bonds** due to their cheap valuations and the long-term reflationary forces as growth picks up. **Credit remains attractive for yield generation** given that both the Fed and the ECB have included corporate bonds in their bond buying programmes. Here, we favour EUR over US and IG over HY. As HY could suffer due to higher default rates and slowing top-line growth, investors should maintain hedging protection. Overall, liquidity assessment remains crucial. **On EM debt**, we are now constructive due to the better economic conditions in EMs, strong technicals and attractive spread valuations. On local rates, the main driver for local debt is currency exposure, as room for further spread compression is now limited. In **EM FX**, we remain positive on selective high yielding currencies as they may benefit from any risk-on sentiment, improving growth dynamics, decelerating contagion and economies reopening. The positive flow reversal after the massive sell-off earlier is also supportive but economic recovery risks, oil price wars and US-China tensions must be watched. On **DM FX**, we maintain our constructive view on NOK/EUR due to valuations and the national stimulus package. It could also provide exposure to an upside scenario.

### Risks and hedging

Prevailing risks, in the form of a second wave, a "Brexit-cliff" and the US elections, require adequate hedges in portfolios. We recommend JPY/USD (safe haven) and gold as a backstop from uncertainty.



**Matteo GERMANO**  
Head of Multi-Asset

“  
*We remain positive on credit and believe investors should focus on quality and relative value opportunities across the markets.*  
”

Amundi Cross-Asset Convictions

	1 month change	---	--	-	0	+	++	+++
Equities				■				
Credit						■		
Duration						■		
Oil					■			
Gold						■		

Source: Amundi. The table represents a cross-asset assessment on a three-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. USD = US Dollar, JPY = Japanese yen, UST = US Treasury, DM = Developed markets, EM/GEM = Emerging markets, FX = Foreign exchange, FI = Fixed income, IG = Investment grade, HY = High yield, CHF = Swiss franc, NOK = Norwegian Krone, EUR = Euro, CBs = central banks, TIPS = Treasury Inflation-Protected Security, BTP = Italian government bonds.

FIXED INCOME



**Eric BRARD**  
Head of Fixed Income



**Yerlan SYZDYKOV**  
Global Head of Emerging Markets



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

“  
*Investors should note that the pace of spread compression from current levels will slow, but despite that, the importance of selection and liquidity buffers should not be underestimated.*  
”

## Use credit selection to search for yield

The current environment is characterised by a fragmented recovery across the world and new instances of virus outbreaks. But the newsflow related to CB and government actions, as well as the EU recovery fund, continues to drive rates and spreads lower. This combination of policies is likely to keep rates low, driving investors to search for yield in other areas. In this environment, it is crucial to maintain a cautious stance, **focus on credit selection and manage duration actively**, given that high inflation or a deceleration in CB action could put upward pressure on yields.

### Global and European fixed income

**We maintain our close to neutral stance on duration**, with a positive bias on the US, France and Euro peripherals (further supported by the EU recovery deal), but a negative view on core Euro. The Fed has indicated it may use the ongoing purchase programme of USTs to keep longer-term yields low in future and so we now see curve-flattening opportunities in the US. We also believe ECB measures will likely cause curve flattening in Euro peripherals, but overall these are relative value trades and are dependent on upcoming debt supply, and rates and inflation differentials across countries. **On inflation linked-bonds**, we remain marginally positive amid cheap breakeven valuations but we don't expect a large increase in inflation in the short term. **We remain positive on credit and favour IG over HY** as most of the recent downgrades have been on the HY side. IG (BBB) and BB credits are the most likely to benefit from CB support, favourable financing conditions and a strong primary market. Importantly, once the CB support disappears, the situation could deteriorate further. Hence, it is crucial to be selective in sectors such as cyclicals and TMT and identify names that can withstand a slow recovery.

### US fixed income

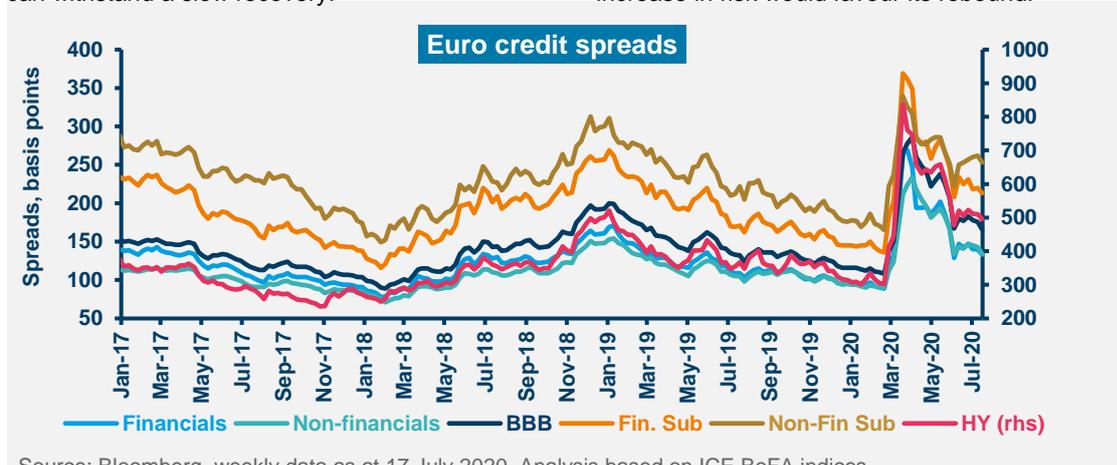
Markets are providing little income and capital preservation against a backdrop where inflation is higher than yields. **Investors should reduce spread duration in favour of shorter duration high-income corporate exposure** and look for idiosyncratic stories that could be categorised in one of three buckets – no material impact from the Covid crisis, temporary impact and risk of permanent impairment. All in all, mixing portfolios with stable companies and those with financial flexibility is important. We believe residential housing is a leading sector to emerge from this crisis, supported by the resilience of the consumer, low inventory and a secular trend favoring single family detached living. Assuming a mid-summer passage of additional stimulus, housing markets should be supported by low delinquencies on rent, consumer and mortgage debt. We are positive on non-agency RMBS and find value in subordinated and esoteric ABS. We remain cautious on USTs and instead are constructive on TIPS, given the medium term prospects of inflation, and agency mortgages due to the incremental yield.

### EM bonds

**We continue to favour hard currency debt** (EUR over USD) and believe HY may have room for additional spread tightening over IG (Serbia, Ukraine). Local rates now look less attractive (absolute and relative) and we prefer to remain selective. Overall, the US elections and tensions with China could affect emerging markets.

### FX

**In DM**, we have downgraded our view on EUR/USD to neutral (medium term). Even though the USD has seen some performance drag, any increase in risk would favour its rebound.



Source: Bloomberg, weekly data as at 17 July 2020. Analysis based on ICE BoFA indices.

GFI= Global Fixed Income, GEMs/EM FX = Global emerging markets foreign exchange, HY = High yield, IG = Investment grade, CHF = Swiss Franc, EUR = Euro, USD = US dollar, UST = US Treasuries, RMBS = Residential mortgage-backed securities, ABS = Asset-backed securities, HC = Hard currency, LC = Local currency, TIPS = Treasury Inflation Protected Security, CRE = Commercial real estate, JPY = Japanese yen.

## Play the valuation gap and rotation towards cyclicals

### Overall assessment

Despite the gradual deconfinement resulting in a demand recovery, the main headline continues to be one of a great disconnect between economic realities (low visibility, geopolitical risks) and market optimism, with markets seeming to have priced in the rosier scenario. It could be the case that the economy has bounced back much more strongly than expected or that markets are over-optimistic. Due to the high uncertainty, caution is required, with a continued focus on resilient business models, liquidity and risk management.

### European equities

With an overall cautious tone, we believe **a strong recovery for Europe is on the cards** amid the EU deal (impetus to green investing), continuous stimulus and the reopening of economies. To benefit from this, we believe investors should maintain a barbell exposure to attractive stocks in defensive sectors (more positive on healthcare) on the one end, and hold quality cyclical stocks such as luxury and building materials on the other. This is crucial because we should not underestimate the strength of the economy, given the monetary support and fiscal “vaccine”, which are not only very strong but can also provide a strong multiplier when they hit “the patient”, the economy. Having said that, we are tracking how the rally is affecting sector/stock valuations. We are conservative on the technology sector owing to its expensive valuations and believe consumer discretionary names, such as autos and retail, are facing structural and cyclical challenges. Any market dislocation after a correction in this earnings season, when we expect significant profit cuts, would offer opportunities. We are selective and would focus on the forward guidance of companies and how they are managing their balance sheets.

### US equities

The Covid-19 situation has worsened and the prospect of a Democratic victory seems real, which the markets are not pricing in (increased regulations). As a result, while we remain constructive, we recognise these additional risks and suggest investors remain more balanced across sectors due to the wide range of outcomes. Certain segments in bond proxies appear relatively attractive, including consumer staples and utilities, and accordingly we now prefer both of these to real estate. Our second key conviction is in cyclicals, which will benefit from an economic rebound. Here, we now favour industrials over financials and energy as it is easy to find quality stocks among industrials. On the other hand, we are cautious on retail and services in the consumer sector as they have already priced in a fair amount of recovery. Last, but not least, we continue to believe in a rotation towards quality value stocks. It is important to note that the present low economic growth (and rates) environment favours growth and defensive stocks, but valuations in growth are unattractive. The rally in mega-caps has been extreme and we recommend investors move away from expensive names to more stable and attractively priced stocks in the value and cyclical areas. But there are opportunities among large caps, even if it means going a step down in market cap.

### EM equities

We are cautious in the short term, given the overall evolution of Covid-19 and the unstable US-China relationship. We tend to favour valuations and dividends, as they work as a hedge in contraction and recovery phases. We like some inexpensive EMEA countries (Poland) with good dividend yield prospects and low investor positioning. In addition, we search for cyclicity in sector allocations (discretionary, tech, industrials, real estate).

European cyclical stocks benefiting from a rotation



Source: Bloomberg, Amundi, as at 21 July 2020. Stoxx Europe 600 Optimised Cyclicals, Stoxx Europe 600 Optimised Defensives, MSCI Europe Value, MSCI Europe Growth.

## EQUITY

“  
*We are uneasy about how implied expectations are built into some market compartments, and hence focus on businesses with strong cost management and cash preservation.*”



**Kasper ELMGREEN**  
Head of Equities



**Yerlan SYZDYKOV**  
Global Head of Emerging Markets



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

# Amundi asset class views

Asset class	View	1M change	Rationale
EQUITY PLATFORM	US	-/=	US markets reflect a contrasting picture with fundamentals, as expectations from the earnings season are muted and as some key states have pulled back their economic re-opening plans. Sentiment indicators are now mixed, with flows being supportive and price-driven factors at euphoric levels; this is particularly true for the big five mega caps and the higher growth large caps. This, coupled with uncertainty over the outcome of US elections (Democratic win), allows us to maintain a balanced positioning.
	Europe	= ▲	Risk sentiment towards Europe has improved in light of Europe leading the economic recovery and a reduction in the political risk premium given the progress on the EU recovery fund, which is a short-term game changer. In addition, attractive valuations, light investor positioning and a shift towards cyclicals and value names should be supportive. However, markets have priced in that everything is fine and this is too optimistic. The case for selectivity and resilient business models remains stronger than ever now.
	Japan	=	Japan could benefit from a catch-up of cyclical stocks and an improvement in the prospects for global growth and demand, given its export-oriented economy.
	Emerging markets	=	The EM handling of the Covid-19 pandemic and geopolitics are key factors determining our near-term stance on the region, where Asia seems to be handling the crisis better than the rest of the world, supporting the case for first-in, first-out in countries such as China and South Korea. However, the evolution of the US-China relationship and the virus situation in Latin America could be a drag on the asset class.
FIXED INCOME PLATFORM	US govies	=/+	With a global fixed income perspective, while we maintain a long bias towards USTs given their safe haven status, we refrain from making any strong overall call on duration. From a US portfolio perspective, we are more cautious on duration amid the expectations of a pick-up in economic activity and increased UST issuance as Congress discusses a fresh stimulus plan.
	US IG Corporate	=/+	Easing financial conditions continue to support IG, however, we maintain a very selective approach (sectors and names), and we believe investors should reduce spread duration to control overall credit and default risk in a weak economic environment. Segments under the Fed's asset purchase umbrella remain attractive.
	US HY Corporate	-/=	We believe CB actions should continue to support HY, but investors should remain selective and focus on high-rated (BB) and liquid names. This is important to avoid defaults and being stuck with names that cannot withstand a slow recovery.
	European Govies	-/=	We remain defensive on core Euro government bonds but are positive on French and peripheral debt, particularly after the recent agreement by EU leaders on the €750 billion recovery fund, which caused the 10y BTP-Bund spread to reach pre-crisis levels. We expect the peripheral yield curve to flatten amid ECB support, but see steepening in core Euro.
	Euro IG Corporate	++	We remain constructive on EUR IG and believe rating actions in the IG space have not been high from a historical point of view. We keep our exposure on financial and subordinated debt. However, selection is crucial as the situation could change when central bank support ends and as the Q2 earnings season throws some light on the real effect of the crisis.
	Euro HY Corporate	=	Downgrade numbers in the HY space have been much higher than in IG. We continue to find opportunities in the high-rated (BB) space but idiosyncratic risks must be tracked as even a couple of such risk events could potentially wipe out the gains experienced this year. Another key aspect is liquidity, which must be maintained at reasonable levels.
	EM Bonds HC	=/+	We favour EM HC debt (EUR over USD) over LC. Within HC, we are turning more cautious towards investment grade as it has enjoyed a good rally year-to-date and now valuations are more attractive in high yield (Serbia, Ukraine), where we remain selective. Overall, the risks of sovereign default should be monitored carefully.
EM Bonds LC	=	We are cautious/neutral on rates given the strong performance of Russia, Mexico and Egypt. Continued selectivity and curve positioning is required in this space. On FX, we are positive on commodity currencies amid the oil rebound and the reopening of economies.	
OTHER	Commodities		The economic recovery favours commodities and cyclical raw materials, although uncertainties remain. While the oil price has reached the short-term equilibrium range of \$/b 30-40, risks remain in the form of disagreements among OPEC+ members and the reversal of production cuts. Gold will be a major beneficiary of CBs liquidity injections, low real rates and an uncertain environment. Considering its natural hedging feature, the metal remains the preferred commodity, at least for this summer. However, a major risk to its price is USD appreciation due to a change in Fed policy (unlikely ahead of US elections).
	Currencies		The deal on the EU recovery fund, which could be a game changer, and CB interventions have helped stabilise sentiment towards the EUR/USD, but short-term drivers have overshot. While we believe the USD will correct as economies open up and as we move towards 2021, the path will not be linear and we expect the dollar to stay resilient in short term.



Source: Amundi, as of 24 July 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.

## AMUNDI Investment Insights Unit

The Amundi Investment Insights Unit (AIU) aims to transform our CIO expertise, and Amundi's overall investment knowledge, into actionable insights and tools tailored around investors' needs. In a world in which investors are exposed to information from multiple sources, we aim to become the partner of choice for the provision of regular, clear, timely, engaging and relevant insights that can help our clients make informed investment decisions.

## INSIGHTS UNIT

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### Definitions

- Agency mortgage-backed security:** Agency MBS are created by one of three agencies: Government National Mortgage Association, Federal National Mortgage and Federal Home Loan Mortgage Corp. Securities issued by any of these three agencies are referred to as agency MBS.
- Break-even inflation:** The difference between the nominal yield on a fixed-rate investment and the real yield on an inflation-linked investment of similar maturity and credit quality.
- 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 possible embedded options.
- CSPP:** The corporate sector purchase programme of the European Central Bank.
- Currency abbreviations:** JPY – Japanese yen, GBP – British pound sterling, EUR – Euro, CAD – Canadian dollar, SEK – Swedish krona, NOK – Norwegian krone, CHF – Swiss Franc, NZD – New Zealand dollar, AUD – Australian dollar.
- 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.
- Dividend yield:** Dividend per share divided by the price per share.
- 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.
- Esoteric ABS:** A subset of the ABS market, esoterics are securitised ABS backed by revenue streams from niche segments such as loans and leases on aircraft, railcars, timeshares and containers, as well as small business loans, whole business single family rentals and solar generation, etc. This contrasts with traditional ABS, which are backed by securitizations of credit card receivables and auto loans.
- FX:** FX markets refer to the foreign exchange markets, where participants are able to buy and sell currencies.
- Inflation swap:** An inflation swap is an over-the-counter and exchange-traded derivative that is used to transfer inflation risk from one counterparty to another.
- Liquidity:** The capacity to buy or sell assets quickly enough to prevent or minimise a loss.
- 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.
- PEPP:** The pandemic emergency purchase programme of the European Central Bank.
- Solvency:** The ability of a company to meet its long-term debts and financial obligations.
- Sovereign bond:** A sovereign bond is a debt security issued by a national government.
- TIPS:** A Treasury Inflation-Protected Security is a Treasury bond that is indexed to an inflationary gauge to protect investors from a decline in the purchasing power of their money.
- 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 short-term interest rate.
- 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 the yields on short-term bonds, or short-term bond yields are falling as long-term bond yields rise.

### Important Information

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