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Overall risk sentiment

Risk off Risk on



Constructive on risk assets, preference for equities over credit, relative value. The speed of change of UST yields, real rates to be monitored

Changes vs. previous month

- Cautious, active on duration; positive on inflation in the US
- Defensive on EM debt and FX near term, given rising US rates and USD strength

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

Bubbles, tantrums and the revenge of value

A big shake-up is under way in bonds – rising UST yields, a steepening yield curve (2-10Y) and inflation expectations are leading markets to question whether we are facing a taper tantrum 2.0. **We think that the risk of the Fed taking pre-emptive measures to stop its buying programme in the next 12 months has been exaggerated.** The Fed will remain cautious and downplay inflation risks. Therefore, we could see a healthy increase in yields, driven by expectations of a recovery. US inflation now seems to be having a technical rebound, driven by base effects and ISM input prices, but viewing this as only a short term pattern could be a mistake. Once these so-called base effects fade, markets will realise there is something more structural to inflation. The era of low growth, low inflation and zero rates forever is coming under attack, with a new narrative emerging: inflation is returning. On the other hand, CBs and governments need money to help challenged businesses survive, create new jobs and finance projects to address inequalities and climate issues. Fighting inflation is not the top priority, with the focus on full employment.

With CBs unable to withdraw support measures, we are progressively moving towards a new regime, one we call the road back to the 70s. A change of regime often occurs with a change in the mandate of CBs as in the late 70s. However, markets are expecting that CBs will be able to control the yield curve FOREVER. This is wrong as new priorities may force CBs to move into uncharted waters. The second phase of this sequence should be less benign for bond yields and lead to a rebalancing of risk premia. Keeping these backdrops in mind, there are some key questions investors should address:

- **How to manage bond allocation with rising yields?** The rise might not be over yet, but the path of acceleration should slow. Looking at the 2013 taper tantrum, more than two-thirds of the bond correction happened in the first three months. That situation appears to be repeating itself in early 2021. Bonds move ahead of a confirmation of change, and that confirmation should occur in the summer. Investors should stay underweight duration, retaining the flexibility to readjust at higher rates. Opportunities are available to extract value in credit, relative value across regions, and across yield curves. This favours a flexible and unconstrained approach in fixed income investing.
- **Will higher bond yields trigger a bubble burst in equities?** Higher UST yields are important to watch for bonds as well as equities. The gap between the US dividend yield and long-term rates is zero, a sign that a repricing in equities was expected. There is also an element of irrationality in the strong equity performance in the first weeks of 2021. What we see now is a clean-up of some excesses, but certainly not a bear market. The equities outlook remains constructive, but returns are becoming less interest rate-driven and more real economy-driven. For investors, equities remain a key asset class in a recovery phase, but they should avoid expensive areas vulnerable to higher yields.
- **Will value's revenge last?** The yield repricing is driving a rebalancing towards value. The first leg of this rotation occurred in November 2020, triggered by an acceleration in the vaccine situation. Now we are seeing a second leg, driven by rising rates. We will have to wait and see how this situation unfolds as inflation and the economic acceleration are confirmed. Investors may seek further opportunities in value, with a cyclical tilt, to benefit from the multi-year rotation.
- **With rising yields, is the EM case still valid?** EM assets are sensitive to USD and US rates but EM are now in much better shape than in 2013 with regard to inflation and current account imbalances, especially the 'Fragile Five'. EM bonds could play a key role as income engines in global portfolios. We remain constructive in the medium to long term on EM HC debt, but we remain defensive in the short term. The same applies to FX, which has the potential to outperform the USD on a bearish USD medium-term view but the short-term outlook is less benign, as the USD may strengthen. EM equities are the favoured EM asset – exposure to growth at decent prices and a positive earnings outlook.
- **Higher inflation challenges traditional diversification**, as correlations between equity and bonds turn positive. Investors should consider increasing their allocations to assets such as inflation-linked bonds, real assets (real estate and infrastructure) and commodities.

To conclude, in a world of stretched absolute equity and bond valuations, relative value is the only value left in markets. Investors should look at relative value 'within' and 'across' asset classes. In this respect, absolute return approaches that seek to extract relative value in markets, with limited directional risk, could help enhance diversification.

MACRO & STRATEGY



Monica DEFEND
Global Head of Research



Eric MIJOT
Head of DM Strategy Research

Value vs. growth: how to benefit from the rotation

Joe Biden’s stimulus package of \$1.9tr has caused an acceleration of the increase in long-term rates and thus strengthened the value theme (MSCI World Value +4.7% since the start of the year, compared to -2.5% for the MSCI World Growth on 15 March). The mechanism is well known: the increase in rates accompanies the economic recovery, which is favourable to cyclical stocks and its corollaries, small stocks and the majority of value stocks. Conversely, it weighs on stocks with a longer duration (growth), through the discounting of future, long-term profits.

We believe that this rotation has the potential to go further.

A new investment cycle started at the low point of the equity markets on 23 March 2020. This first, pro-cyclical phase was accompanied by a rebound in commodities, which usually lasts at least two years, and by rising inflation expectations that support the idea that nominal economic growth will recover. As usual, small caps were the first to benefit.

However, value stocks, found primarily in the financial and energy sectors, with well-known structural challenges (digital transformation, regulation, low interest rate regime for the first, ecological transition for the second) lagged.

The acceleration of the rise in long-term interest rates, this time via real interest rates, which weigh on risk premiums and therefore on the discount rate, has more recently favoured this shift from growth stocks to value stocks. As their profits have been severely tested during the recession, the latter will also generate higher profit growth than growth stocks over the next 12 months (+34% for the MSCI World Value against +24% for the MSCI World Growth,

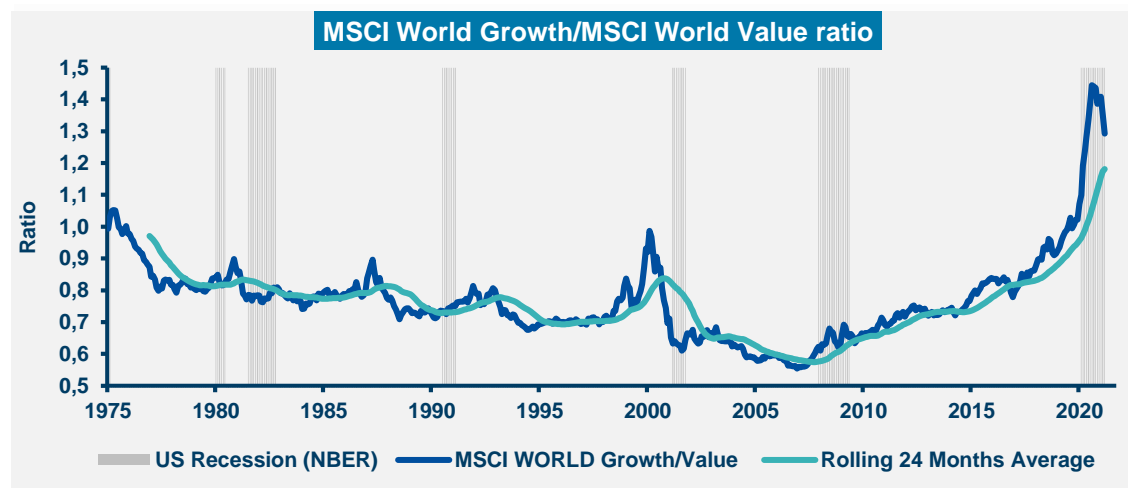
according to IBES). Finally, the historical valuation gap between the two indices, which is higher than it was in 2000, suggests that the trend may continue.

Having said that, we believe it will be necessary to progressively favour an active approach to take full advantage of the great value rotation.

There are very long-term arguments in support of value: its high discount, a future acceleration of inflation, the return to more growth (productivity gains and decarbonisation investments, a less unfavourable demographic factor in a few years’ time, etc.). Nevertheless, the path is likely to be chaotic. In this respect, we note that when the MSCI World Growth/Value ratio falls below its 24-month average, it tends to bounce back towards it (see chart), sometimes even violently. Breaking an established order can take time. If we believe there is still about 10% to go until the ratio reaches its average — that appears quite comfortable — we may come to a tipping point a little later that underpins the need for active management to get past that point safely.

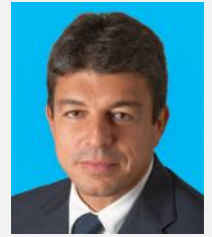
There are a few elements that support this view: 1) at about 2% on US 10-year yields, taking up duration could become tempting; 2) if inflation rises, the pricing power theme, which is favourable to certain growth stocks (luxury, some Big Tech, etc.), could come back into fashion; and 3) long-term themes (green plans, digital, ESG) could benefit from interesting entry points. **In conclusion, we believe that the value style could go further in this cycle and that it will be necessary to progressively focus on relative value**, which plays into the strengths of active management.

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The value vs. growth rotation is supported by the economic reopening. Some long term arguments also play in favour, but it will not follow a linear, straight path, thereby justifying the need to stay active.
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Source: Amundi Research, Refinitiv, as of 15 March 2021.

MULTI-ASSET



Matteo GERMANO
Head of Multi-Asset

Recalibrate risks within the ‘pro-cyclical’ paradigm

The economic environment is supportive of risk assets and we continue to play on reflation but are aware of consensus risks, the growth divergences within DM and between DM and EM, and some high valuations. The recent pullback in equities in certain areas and the increase in bond yields has been more of a recalibration of multiples, but it is not a structural de-risking and may provide attractive entry points for active investors. Thus, staying agile and selective is important as there are opportunities across the spectrum in equities, credit and FX in developed and emerging markets, though investors should adjust their positions due to the headwinds from rising US rates.

High conviction ideas

With an overall constructive view on equities, we remain neutral on Europe and the US and positive on Japan and Australia. In the first, we have upgraded UK domestic stocks owing to their exposure to the reflation theme on the back of the vaccination programme, a demand resurgence and improving earnings. Their asymmetrical profile and the large weight of defensives offer a cushion against what has become a consensual recovery trade. In EM, we remain optimistic but recommend some adjustments in China to emphasise more the value strategy and financial names amid the country’s improving economic environment.

On duration, we remain neutral on the US and Europe, but are positive on US inflation. Despite the recovery in valuations, potential targets point to a further appreciation of inflation expectations from current levels. Even in the UK, the latest consumer price report and an expansionary fiscal policy paints an optimistic picture for inflation, leading us to stay positive on our 2-10Y yield curve steepening strategy. On peripherals, we are constructive on the 30Y Italy vs. Germany spread owing to supportive technicals and valuations, as well as positive political developments. We expect ECB support to continue for Euro markets as President Lagarde clarified that bond buying will happen at a “significantly higher pace than during the first

months of this year.” **We remain overall constructive on credit** but have slightly downgraded IG and recommend investors look for better entry points given that the potential for further spread compression looks limited compared with HY, which still offers some space for spread tightening, and attractive carry. Even though IG remains resilient against market volatility amid the ECB’s support, rising bond yields could affect flows into the asset class. Moreover, we believe the relationship between rising yields and IG spread tightening — an improving economy causes bond yields to rise and corporate credit metrics to improve — could weaken.

EM debt is a way to prop-up ‘smart income’ over the long term but we realise that EMBI spreads are close to fair value, with some tightening potential in HY, whereas valuations are expensive in IG. As a result, we have marginally downgraded EMBI due to rising US rates and accelerating outflows from HC debt. Nonetheless, we suggest adjusting USD hedges and protecting US duration exposure amid higher US growth and inflation dynamics. **On FX, investors should remain constructive** – stay positive on BRL and RUB but now through the JPY and EUR respectively, in light of the strengthening dollar. We are now cautious on MXP/USD, KRW/USD and CNY/USD (limited upside). While the KRW was downgraded due to concerns over outflows, the RUB remains supported by growth, inflation expectations in Russia and the strong oil price. On DM, we keep our positive view on CAD/USD and NOK/EUR, as well as our cautious stance on CHF/GBP and CHF/CAD.

Risks and hedging

Inflation and UST yield movements are key risks that may alter the attraction of equities vs. bonds. We advise investors to maintain hedges in the form of derivatives to safeguard equities exposure, credit positions and US duration. We have downgraded gold owing to rising real rates and growth expectations.

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With growth narratives confirming our moderate risk-on stance, we see opportunities in DM equities and a realignment in the EM FI and FX spaces.
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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- to 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. UST = US Treasury, DM = developed markets, EM/GEM = emerging markets, FX = foreign exchange, FI = fixed income, IG = investment grade, HY = high yield, CBs = central banks, BTP = Italian government bonds, EMBI = EM Bonds Index.

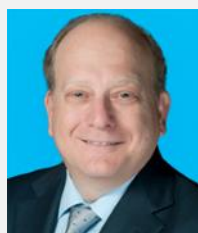
FIXED INCOME



Eric BRARD
Head of Fixed Income



Yerlan SYZDYKOV
Global Head of Emerging Markets



Kenneth J. TAUBES
CIO of US Investment Management

Play the recovery, play credit and inflation

The ongoing recovery allows us to maintain our positive view on risk assets, but this recovery is likely to be characterised by divergences in growth rates, with the US-EU gap widening. This has caused inflation expectations and 10Y yields to rise. Going forward, markets are expecting that once the impact of the current ‘base effects’ on inflation subside, yields and inflation will return to low levels. However, we believe something more structural is happening with inflation in long run. **Given this backdrop, investors should remain active on rates** and USD movements and their effects on EM assets. Credit remains a source of income, amid hopes of improving metrics and CB support, but selectivity is crucial.

Global and European fixed income

We remain cautious on duration across the board, particularly in the US, core Europe, Canada and the UK. On peripheral debt, we keep our positive stance, mainly through Italy 30Y, but recommend investors explore opportunities across the entire curve. We are also actively following US and Euro yield curves, as the former continues to steepen on high inflation, which may be hedged through breakevens. The latter presents opportunities to lock in some gains but investors should stay overall positive on 10Y and 30Y US, and neutral on Europe. We now believe the 10Y Australia breakeven presents value amid the improving economy and inflation expectations there. **We are optimistic on credit** due to fundamentals and forecasts of low default rates, but the impact of rising real yields must be monitored. **We favour shorter duration debt (3-7Y) over longer maturities (more sensitive to rate movements)**. Our preference is for financials – subordinated debt vs. senior, HY vs. IG.

US fixed income

Fiscal stimulus and infrastructure spending are likely to raise growth projections and, accordingly, we remain defensive on USTs (steepening yield curve, increased debt). Investors may look to reduce interest rate duration exposure with the option to tactically add if valuations look appealing. However, TIPS are an attractive diversifier.

A strong consumer should boost pent-up demand in H2 and is already supporting the housing market, even as labour data is improving. We remain positive on housing, agency mortgages and securitised credit, but in the last one the volatility is high, so some prudence is essential, especially at the top of the stack where valuations are expensive. Importantly, higher rates are driving consumer expectations for duration extension, which could be a risk for investors. Thus, the need for monitoring and selection is high. We are constructive on corporate credit, but think investors should limit IG duration to reduce portfolios’ sensitivity to higher rates.

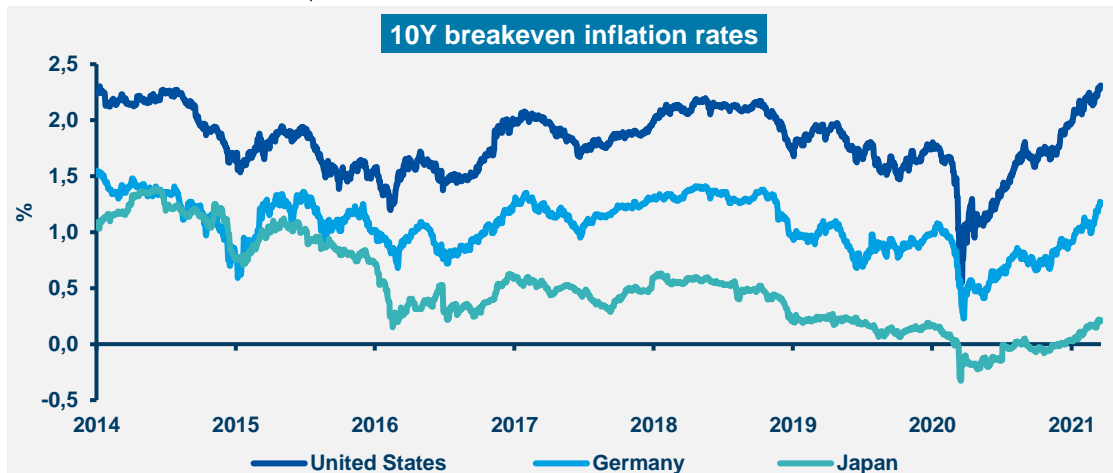
EM bonds

The higher rates prospects in the US are weighing on EM in the near term. On HY, we are more defensive now as we believe spreads may widen from current levels. LC debt also appears vulnerable at this stage, considering the FX risks. From a regional view, we are selective and active in frontier markets, and recommend investors cautiously increase exposure to oil exporters (rising prices, supply concerns, demand recovery).

FX

We have upgraded USD, with a near-term view, due to strong US growth projections. The rate differential in favour of the US vs. Europe explains our defensive stance on the Euro.

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The Fed is unlikely to engage in a taper tantrum to ensure easy financial conditions, but the era of low inflation and low rates may not return as we are at the start of a ‘regime shift’.”



Source: Amundi, Bloomberg, as of 18 March 2021.

GFI = global fixed income, GEMs/EM FX = global emerging markets foreign exchange, HY = high yield, IG = investment grade, EUR = Euro, UST = US Treasuries, RMBS = residential mortgage-backed securities, ABS = asset-backed securities, HC = hard currency, LC = local currency, CRE = commercial real estate, CEE = Central and Eastern Europe, JBGs = Japanese government bonds, EZ = Eurozone, BoP = balance of payments.

A cocktail of rotation, selection and earnings growth

Overall assessment

A key topic for investors is whether companies will be able to pass on the increase in input prices and rising supply costs to consumers. If that happens, and we think it could, earnings growth should improve, driving rotation opportunities and equity performance going forward. Nonetheless, the recent volatility is an apt reminder that this recovery will be uneven and non-linear across sectors and regions. It also serves as a way of clearing excess froth in overexuberant segments of the market. Therefore, **investors should focus on fundamentals, the inherent strengths of business models and balance sheets.**

European equities

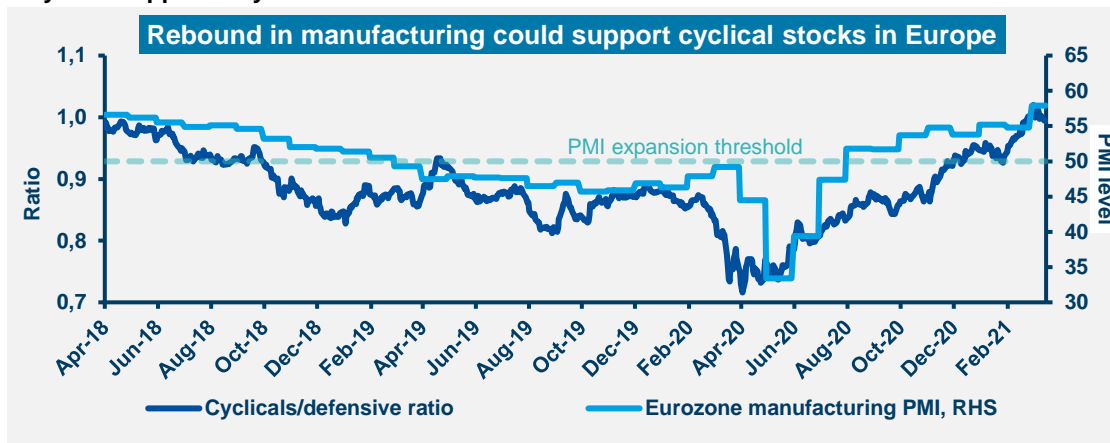
The 'great rotation', favouring cyclicals vs. defensives and value vs. growth, is demonstrating resilience. **But the focus now will be on economic reopening, interest rates and nervousness around overvalued hyper growth stocks.** As a result, we continue to look for businesses with strong balance sheets. We also believe investors should explore quality cyclical stocks in financials and materials. On the former, banks represent a sector where the recovery is not yet fully priced in, but selectivity is key. At the other end, investors should look for attractive defensive stocks in telecoms and consumer staples, which is anti-consensual and presents opportunities given the relatively attractive valuations. Remaining valuation-conscious is important due to the abundant liquidity that is finding its way through to different assets. Finally, amid the risks of rising rates – being monitored closely – unexpected tapering, ineffective vaccines against variants and/or delays in inoculation programmes remain key. **Any volatility among high-quality names may be an opportunity.**

US equities

Pent-up consumer demand and supportive policies allow us to remain constructive, **especially on the high-quality cyclical value segments**, as they could benefit from a wide valuation gap with growth and a steepening of the yield curve. However, we may see some overheating of the economy amid supply bottlenecks and as Biden's stimulus seeps through. In addition, some caution is required on account of the expensive corners of the markets such as high-growth and momentum. Hence, we are selective and see more of a rotation rather than a correction. **Secondly, high-quality cyclicals, value and reasonably-priced growth stocks should benefit from earnings improvements**, in line with the economy. At a sector level, there are opportunities in financials, energy and even consumer names directly impaired by the Covid-19 crisis. Based on a global recovery and higher rates, companies in these sectors, especially those with sustainable business models and where the recovery is not yet fully priced in, should now do well. Longer term, we see some risks that could be handled by staying active. These include the fiscal stimulus being too large and the Fed potentially being forced to change its dovish stance sooner.

EM equities

We maintain a constructive view in light of improving EM and global growth prospects, but acknowledge the higher US rates. While we are positive on tech and internet, we think valuations in some areas are high. On the other hand, we remain cautious in consumer staples and healthcare, but have slightly upgraded our view of the latter. Our focus remains on stock selection as we continue to explore value names with cyclical growth and quality characteristics. As a result, we believe select financials names in Taiwan look attractive.



Source: Amundi, Bloomberg, data as of 17 March 2021. Stoxx Europe 600 Optimised Cyclical and Defensive Price indices

EQUITY

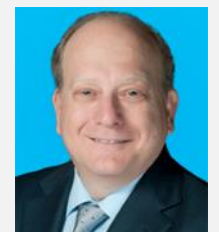
“*Despite vaccination delays in Europe, we believe demand and earnings will surprise on the upside this year. but investors should not lose focus on the fundamentals*”



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	=	Expectations of pent-up consumer demand in H2, driven by massive fiscal stimulus and infrastructure spending, the earnings recovery and a supportive Fed paint an optimistic picture for an economic recovery and equities. The rotation towards quality cyclicals and value stocks should benefit from this environment. However, expensive valuations in some corners of the market and potential tax hikes are areas to be monitored. Overall, the need to be selective is high.
	US value	+	Economic reopening (reflation) and a return to normalcy, coupled with an accommodative Fed, are the factors that allow us to be constructive on value. Long term, it offers a combination of structural growth, quality, stability and ESG improvers.
	US growth	-	We are cautious on growth amid concerns over high valuations, which have been boosted by low interest rates in past years. However, when rates start to rise, the discounted value of future earnings may be negatively affected.
	Europe	=	Even though vaccinations in Europe are progressing at a slow pace and the recovery will be slow, the current earnings season has been positive so far. The cyclical and value features of EU markets should help overcome the economic growth lag. However, we remain focused on stock selection and fundamental analysis and are exploring opportunities in segments linked to the recovery.
	Japan	+	Our positive stance on Japan is corroborated by the strong earnings season, which has supported the performance of Japanese equities in 2021, coupled with the weakening of the yen. The country's cyclical and industrials tilt will continue to benefit from a global cyclical recovery.
	Emerging markets	++	Despite some increase in US rates, we believe the potential for EM growth, particularly EM Asia, remains intact. The rebound in global growth and the planned rebalancing of a more sustainable growth path in China is positive overall for EM. However, we remain very selective in identifying themes linked with domestic consumption, the countries most affected by Covid-19 crisis (now in recovery mode) and names with value/cyclicals characteristics.
FIXED INCOME PLATFORM	US govies	-/=	We remain defensive on US duration in light of the massive fiscal stimulus, deficit and inflation concerns. While we acknowledge that the Fed's recent remarks caused yields to rise amid the improving prospects of the economy, the CB is still striving to maintain accommodative financial conditions. Therefore, investors must stay vigilant. On Treasury Inflation-Protected Securities, we are positive. In our US portfolios, inflation and curve steepening remain reasons for us to be cautious on USTs.
	US IG corporate	=	We recommend investors limit duration to reduce the interest rate risks of their portfolios and they should also monitor the effect of rising UST yields. However, investors can identify attractive idiosyncratic stories by staying selective and focusing on shorter duration debt. Securitised credit is attractive in light of the strong consumer, but there is scope for some volatility and investors should be mindful of valuations.
	US HY corporate	=	While we acknowledge that HY offers attractive carry, investors must maintain a balance between quality, yield and liquidity. This is important as CCC-rated debt continues to lead the default rates in US HY, although an economic recovery should improve credit metrics.
	European govies	-/=	We are defensive on core-Euro bonds even though we acknowledge the divergence between US and EU economic growth and ECB support should prevent EZ yields from rising too much. On peripheral debt, we are positive, mainly on Italy, due to political stability, but believe there are opportunities across the Italian yield curve.
	Euro IG corporate	=/+	The ECB's recent reassurance that asset buying under the PEPP umbrella will be conducted at a "significantly higher pace" indicates strong support, given that rising yields in the US were impacting the markets. On the other hand, low rates amid easy financial conditions mean investors' search for income will continue, mainly in short maturity instruments and in subordinated BBB-rated categories.
	Euro HY corporate	=	The improving economy and the support from the central bank should mean the default situation is benign. However, this is not the time to put your guard down, and we believe investors should remain very selective to distinguish high quality credit from low quality and balance the need to stay liquid and earn higher yield.
	EM bonds HC	=/+	In the short run, HC debt could face some headwinds from rising US rates. We are more cautious on HY and believe spreads have outperformed the market already. Therefore, investors should await better entry points at more attractive levels. Long term, EM HC could still support investors' search for yield.
EM bonds LC	=	LC debt looks vulnerable due to a strengthening dollar and accordingly we are very selective. With rising rates in the US, EM policymakers may come under pressure to hike rates or tighten policy. The bullish cycle in local FX is now behind us.	
OTHER	Commodities		Cyclical commodities should be supported by economic recovery expectations and reflationary trades. Oil prices are expected to stay at current levels in the coming months, although the ongoing overshooting could persist in Q2. In metals, gold may suffer less from higher rates, as the Fed has confirmed its dovish and low-rates tone for now.
	Currencies		Huge liquidity injections in US and the country's deteriorating fiscal situation remain major headwinds for the USD over the medium term. However, expectations of a strong US growth differential over RoW should support the greenback in 2021.



Source: Amundi, 22 March 2021, 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

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Definitions and abbreviations

- 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.
- 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.
- Breakeven 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.
- Carry:** It is a return of holding a bond to maturity by earning yield versus holding cash.
- 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 possible embedded options.
- Currency abbreviations:** USD – US dollar, BRL – Brazilian real, 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, CNY – Chinese Renminbi, CLP – Chilean Peso, MXP – Mexican Peso, IDR – Indonesian Rupiah, RUB – Russian Ruble, ZAR – South African Rand, KRW – South Korean Won.
- Composite valuation indicator (CVI):** based on a basket of criteria in absolute terms – trailing price-to-earnings ratio (PE), price-to-book value (P/BV) and dividend yield (DY), and ranked in percentile, ranging from 0% to 100% (the percentage of time this basket was cheaper since 1979: 0% never been cheaper; 100% never been more expensive).
- 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.
- Equity risk premium:** refers to an excess return that investing in the stock market provides over a risk-free security such as US Treasuries.
- FX:** FX markets refer to the foreign exchange markets, where participants are able to buy and sell currencies.
- High growth stocks:** A high growth stock is anticipated to grow at a rate significantly above the average growth for the market.
- 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.
- Quality investing:** to capture the performance of quality growth stocks by identifying stocks with high return on equity, stable year-over-year earnings growth, and low financial leverage.
- Reaction function:** A function that gives the value of a monetary policy tool that a CB chooses, or is recommended to choose, in response to some indicator of economic conditions.
- 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.
- Value style:** 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 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 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.

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