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Overall risk sentiment



Neutral on risk assets to lock in gains in a more uncertain environment amid inflation risk.

Changes vs. previous month

- Reduce risk to neutral in equities.
- More cautious on US duration and neutral on EM FI in cross-asset.

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

The inflation moment

Inflation has remained dormant for a long time, with years of below-target and weak inflation, but we are now reaching a delicate juncture where inflation is taking the driver's seat in financial markets. **Whether this is just temporary or will prove persistent is the crucial question and at present there are two conflicting inflation narratives.** A series of voices claim that inflation is just temporary. In contrast, others warn about the possibility that inflation will turn structurally higher than initially thought because of economic growth, upward pressure on wages, a fiscal push, strong consumer demand and rising supply constraints (commodity side). **In the end, something structural is just something temporary that has lasted. We think it is unlikely inflation will pick up only for a few months and then return quickly to about 2%.** Rather, we think this is the start of a journey towards a mid- to long-term period of higher inflation and lower growth compared to the current consensus. For the Fed, there is limited room for policy mistakes as the loss of control of the yield curve is a rising risk at this stage. We outline our convictions below:

- **Tactically reduce risk, moving from moderately long to neutral.** We have entered an uncertain and riskier environment – volatility is rising and the equity-bond correlation is turning positive. We believe it is important to remain cautious and lock in some gains in risk assets. Taking a strategic view, some exposure to equities is warranted against a backdrop of higher inflation and inflation volatility. In equities, investors should seek some protection against the bursting of the tech bubble. This means being cautious on interest rate sensitive stocks, while preferring dividend yielding stocks and real asset exposed stocks. Equities will do OK in absolute terms as long as inflation is not breaking the anchored territory. Nevertheless, the risk-adjusted performances of a balanced portfolio will be challenged by the changes in the equity-bond correlation (turning positive). Investors should favour shorter duration assets, fixed income and FX carry, equity cash flow yield, real estate, value and the low volatility factor.
- **Equities: seek a barbell approach, favouring cyclical quality value** on one side and defensives on the other. In tactically moving to a more neutral stance on equities, investors should keep a value/cyclical preference vs. growth, while also balancing this with some defensive positioning. As mentioned earlier, the market is due for a pause, during which we believe it would be wise to move to neutrality in equities, including in more cyclical markets such as emerging markets and Europe. Most importantly, this market pause could help further clean up some excesses in the market and will continue to support the rotation from growth to value.
- **Bonds: stick to short, active duration and moderately long credit.** This means reducing duration, in particular in the US, and waiting for better entry points. Investors should be agile in playing duration at this stage as phases of undershooting and overshooting can offer tactical opportunities. Yet while reducing some of their short stance when the time comes, investors should resist the temptation to go long duration. For the coming years, the direction of rates is up. This will not be a straight journey, but the trend is there. This means that in FI, investors should look at opportunities at curve levels, where we continue to expect the US curve to steepen, and at opportunities in short duration higher yielding assets such as HY and EM bonds with a short duration bias.
- **EM: facing the threat of vulnerability, China and Asia in focus.** EM are also due to be under pressure amid rising yields. On the dollar side, the mid-term trend is downward as the Fed balance sheet and the US fiscal budget dynamics are the dominant factors. However, short-term challenges remain in an emerging world still characterised by the vulnerability factor, with retreating global trade and rising inflation. China and some Asian countries will be the winners and their currencies will be the critical channel to adjust relative prices in the new regime. The Renminbi will be the Deutschmark of the region, leading to a fast-rising status of cash and government bonds in Renminbi in global portfolios as a store of value given their positive real returns.

Looking ahead, markets will have to walk the inflation journey. We are approaching the end of the first leg, characterised by strong rotations, on the road to the peak. We will soon be entering leg two, the peak phase. This is still relatively positive for investors as inflation is not seen as a threat to growth but a complement to reviving economies, but the more we advance into this phase, the higher the risk of nasty surprises. The next leg will be about what is left of the peak (most likely not the Goldilocks regime markets are currently pricing in).

MACRO & STRATEGY



Monica DEFEND
Global Head of Research



Lorenzo PORTELLI
Head of Cross Asset Research

Copper: demand/supply imbalance and price impact

Rising global demand and sluggish country-specific production is the most relevant long-term imbalance in the copper market. The long-term picture and expectations on the global shift to a green economy will lead to a structural shortage and a significantly higher price for copper (\$18,000-\$20,000/metric tonne), even without above-average economic growth and just assuming a reversion to a more sustainable growth path.

After several years of oversupply of industrial raw materials, we expect pressures on demand in this market due to multiple factors – the new fiscal packages focusing on infrastructural plans and tied to the green agenda have accelerated across the globe, whereas supply, or in general, production, has lagged because of the pandemic and lockdown restrictions in major exporting countries.

Demand for copper is set to grow by 2% per annum for the next 20 years as it is a necessary metal for the green transition. However, production will struggle to keep up with this demand. This is because production is still concentrated in a few countries, exposing the market to bottlenecks and shortages, as happened recently. Almost 50% of production is from four countries: Chile, Peru, Republic of the Congo and Zambia. Overall production could be affected by idiosyncratic risks and capital expenditures mechanisms that are not fully integrated.

On the other hand, demand is concentrated mainly in China, Asia and those Western developed countries that are most committed to the green economy transition, with systemic long-term shifts rather than isolated temporary programmes. The big wave in shortages and declining inventories began in 2013

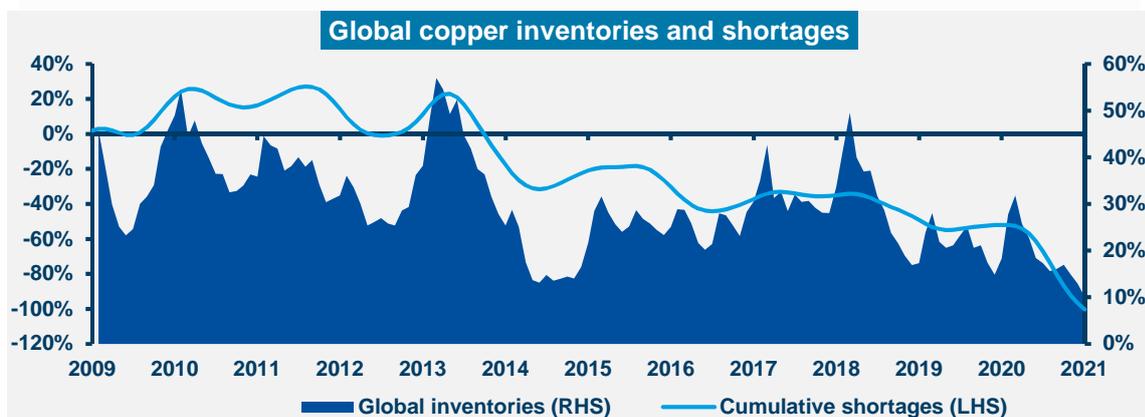
when China started to boost its transition to a more balanced and greener growth model. However, more recently, since 2020 shortages have been exacerbated by the pandemic and lockdowns impacting mining activity in Latin America.

The most acute phase of shortages related to the pandemic was noticed in January 2021, when the global inventories/demand ratio moved below 10%, although recent months have shown signs of a rebalancing in the inventory cycle. As the recent shortages have been mostly related to lagged production caused by extraordinary events that should prove temporary (the Brazilian Covid variant spreading to Chile and Peru, and strikes in Chile), some relief in the commodity price rally is likely in the near term.

In the long run, however, the risk premium should be significantly positive. Over the past five years, the narratives behind copper have been dominated by lacklustre absolute economic growth concerns. In fact, there was a general underestimation of the impact of the secular shift to new growth engines (mainly in GEM), with potential long-lasting repercussions on involved production factors. Now, the narrative is shifting towards the green transition and the price adjusted for shortage/inventories will move higher.

Industry projections call for a multi-year shortage, with a recalibration in the base metals universe. This imbalance will increase the pressure, not only on inflation and growth, but also on finding new technologies to achieve fully green economic growth. **From an investor perspective, it will provide a meaningful positive risk premium to base metals over other risky assets.**

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The potential demand boost from strong fiscal stimulus and the transition towards greener economies, together with the still concentrated production, should support copper prices in the long term.
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Source: Amundi Research, Bloomberg, as of 31 January 2021. Cumulative shortages = cumulative production/demand, Global inventories = inventories/demand.

MULTI-ASSET



Matteo GERMANO
Head of Multi-Asset

Risk-neutral for now, play relative value

The US and Europe are expected to deliver strong growth this year, allowing us to stay within the overall pro-risk paradigm from a medium-term perspective. However, we mentioned last month the importance of remaining vigilant on soft and hard data, which had been showing a pause in economic momentum. Now, we confirm a mild weakening of sentiment and rising inflation numbers, with the bar for positive surprises set much higher. As a result, **we recommend investors tactically reduce risk to neutral, and look for entry points later, when valuations are more appealing. Investors should adopt a total-return, agile approach** that protects returns from inflation, in an overall recovery view for the year.

High conviction ideas

We have moved to a neutral stance on equities, tactically shifting from a constructive stance on Europe and EM to neutral. **This is not a call for any long term de-risking** but a way for us to see how valuations are affected by rising input prices (profit margins) and upward pressures on US rates, as well as how earnings expectations evolve after a period where markets have become complacent. On EM equities, the risk of an inflation surprise and dollar strengthening present major headwinds, at least in the short term. However, we remain slightly positive on China through the Hong Kong route.

On the other hand, we are now defensive on US duration and neutral on Europe, as the unprecedented economic growth revisions in the US could put upward pressure on US Treasury yields in the medium term, although we believe the upward path will be slower than the one seen in Q1. Hence, the need to stay active is high.

We maintain our reflationary view as we stay positive on US inflation and UK yield curve steepening (2-10y) on the back of the progress on vaccines and the economy's reopening. Euro peripheral debt, especially 30y Italy vs. the German spread, continues to offer attractive yields amid strong fundamentals and technicals. The global economic backdrop and our expectations of

recoveries and reopenings allow us to be constructive on corporate credit, both EUR IG and HY, amid supportive fundamentals. IG should benefit from ECB bond buying, whereas the improving default rate outlook paints a positive picture for HY, but selectivity is important. Overall, risk sentiment is turning more supportive on the asset class.

EM debt is an instrument to boost portfolio income in the long term. However, for the time being, we move to neutral owing to EM debt reaching fair value. In addition, there are concerns over rates rising in the US and the diminishing EM-DM growth differential, as well as the slower vaccine roll-out and weak fiscal positions (ballooning debt/GDP ratio) of some EM. **FX is a key way for investors to play the relative value and reflation story but they should be prepared to selectively adjust their stance.** For instance, we are no longer positive on MXN/USD due to increasing domestic risks in Mexico and its less appealing economic fundamentals. However, we are positive on the carry basket through the RUB vs. EUR and BRL vs. JPY, and in Asia, we remain constructive on KRW/EUR (the semiconductor cycle) and CNH/EUR, due to the increasing role of China in intra-Asian trade.

In DM, we have upgraded the USD/JPY to positive as the dollar is likely to be supported in the short term by upside pressure on yields, whereas the yen will be weighed down by relatively weak Japanese growth. We have kept our reflationary FX trades basket through CAD/USD and NOK/EUR, but stay cautious on CHF vs. the GBP and the CAD.

Risks and hedging

While renewed US-China tensions should prove transitory, any disappointment on this front could lead to higher volatility. In addition, we also see some risks in the UK related to pro-independence parties in Scotland. As a result, investors should maintain appropriate hedges to protect their IG credit and US rates exposure through derivatives.

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We believe the current pause in momentum is not a call for any structural de-risking, but rather a way for investors to assess where we are at the moment, preserve the good performance so far and look for attractive entry points in future.
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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

“*Although inflation expectations have been rising, real rates are still negative. Investors should monitor how economic growth affects nominal and real yields and maintain an active view on duration.*”

A story of growth, inflation and real rates

The global economic recovery is gaining momentum, but it is also flaring up a debate on inflation, particularly in the US. Despite the recent overshoot of inflation, the Fed is likely to downplay the risk. However, both consumer and producer prices are rising, and when we look at PMI data, it indicates that price pressures have been with us for some time now. Therefore, amid the risk of policy mistakes, there is a strong need to remain cautious and flexible on duration, while the backdrop remains positive for credit.

Global and European fixed income

We have slightly increased our defensive stance on US duration, but remain active across the yield curve to monitor rates movements. On core euro, we maintain our cautious view in light of curve steepening expectations, but are constructive on peripheral debt. The latter offers attractive yields and should be well supported by the ECB. We are also optimistic on Chinese and Australian duration. We confirm our positive view on inflation in the US and Europe, but investors should look to diversify this strategy through breakevens in Australia.

In credit, we are evaluating the ESG angles, US infra plan and economic rebound. The last is also improving corporate fundamentals, leading to a better default outlook. In addition, investors should adjust their portfolios to account for the risk of rising rates that comes with inflation by reducing duration risk and increasing spreads and shorter-duration debt, so that the overall credit beta remains constant. Overall, we favour financial subordinated debt and cyclical sectors (energy, auto) linked to the rebound. In EUR IG, we prefer BBBs and in HY we look for further spread compression, although we aim to balance carry with quality.

US fixed income

President Biden’s fiscal spending will give a strong boost to growth. On the other hand, strong demand, supply shortages and lower inventories are likely to push inflation up. As a result, USTs will come under further pressure, causing curve steepening. **We remain cautious but active on duration and are monitoring the movement of nominal yields, inflation and real rates.** TIPS remain well supported. Robust consumer earnings and savings allow us to be positive on the consumer, residential mortgage and securitised credit markets, but we are selective. Being valuation conscious is extremely important, especially in non-agency and CRE, at a stage when liquidity is abundant. Finally, we are positive on corporate credit but avoid volatile names that have rallied. Upward pressure on core yields and inflation requires us to be careful about interest rate and duration risks. We recommend limiting long duration in IG and prefer shorter-duration debt. HY offers better carry but selection is crucial.

EM bonds

Slow vaccination programmes, the pandemic’s resurgence and rising US rates lead us to be cautious on EM FI in the near term. We are defensive on duration and are prudent on local rates, with a short-duration bias. On HC, sovereign spreads have shown resilience amid higher US yields, but IG remains expensive at the current level and HY is more fairly valued.

FX

We have further upgraded our positive view on the USD in light of the country’s strong economic recovery, which should push US yields upwards. However, we have downgraded the GBP/EUR on potential pressures from a Scottish referendum.



Source: Amundi, Bloomberg, as of 17 May 2021. USGGBE10 Index, H15X10YR Index

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.

EQUITY

Cyclicals, value rotation will not be a straight line

Overall assessment

The vaccine roll-out across the developing world is progressing and economies are reopening. However, markets seem to be pricing in a Goldilocks scenario where future earnings growth will be strong enough to compensate for the rising input prices. This means inflation pressures are likely to be passed on to consumers. But if growth disappoints – not our base scenario – valuations could be affected. All this signals that investors should maintain a balanced stance, with a bias towards normalisation. But what it also indicates is that not all boats will rise with the expected recovery. A **bottom-up fundamental analysis should help investors identify non-disrupted businesses and those with strong balance sheets**, particularly in the cyclical and value areas.

European equities

We believe while European earnings revisions have been very strong, market’s reaction suggests a lot of the good news has already been priced in. **As a result, stock selection and identifying names with pricing power is important.** Not surprisingly, the way in which European sectors are composed means cyclical and value areas suffered the most during the crisis, when economic growth was weak. However, this also means that when economic growth returns this year, these areas should do well as the rotation has much more room to go. At a sector level, we are more constructive on industrials and keep our bias towards financials (earnings potential, benign asset quality, positive flip from rising rates). On the other end, we hold quality defensive names (telecoms), which are becoming increasingly attractive and provide strong cash flow yield. We are cautious in areas such as technology (interest rate sensitivity) and have increased our bias against discretionary, where valuations do not reflect fundamentals.

US equities

When inflation expectations are overshooting and valuations are high, **earnings growth, reopenings and leadership rotations will drive markets.** Already, earnings and the future prospects for cyclical and value have displayed a robust trend, convincing us to maintain our positive stance on these areas. But it also signals that stock selection will be even more important as valuations are becoming full. Importantly, **value stocks also provide a hedge against inflation**, with sectors such as financials, energy and materials at the core of this trend. **For some growth names** most of the good news has already been priced in, confirming our cautious stance (high momentum, high growth). Although technology is not attractive on a relative valuation basis, there are some positive and compelling secular trends to consider. On the other hand, expectations of higher rates (cost of capital) lead us to believe that defensive segments are not cheap, with the exception of healthcare. This is because the expected reforms for the sector are likely already priced in. But only those names with a strong innovation culture will be able to provide sustainable returns.

EM equities

Valuations are supported by economic recoveries and earnings improvements. However, geopolitical and idiosyncratic risks (Russia/Ukraine, LatAm protests, Asia regional tensions) need to be monitored. We favour value/cyclical stocks over growth amid expectations of a recovery. At a sector level, we are more positive on discretionary due to reopenings but less so on technology. On the other hand, we are more cautious on healthcare due to elevated valuations and remain defensive on consumer staples and Chinese financials.

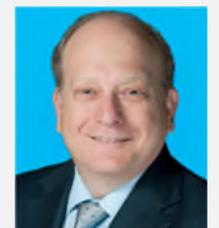
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In an inflationary environment, investors should focus on companies with high margins and strong pricing power displayed through brands and intellectual property.”



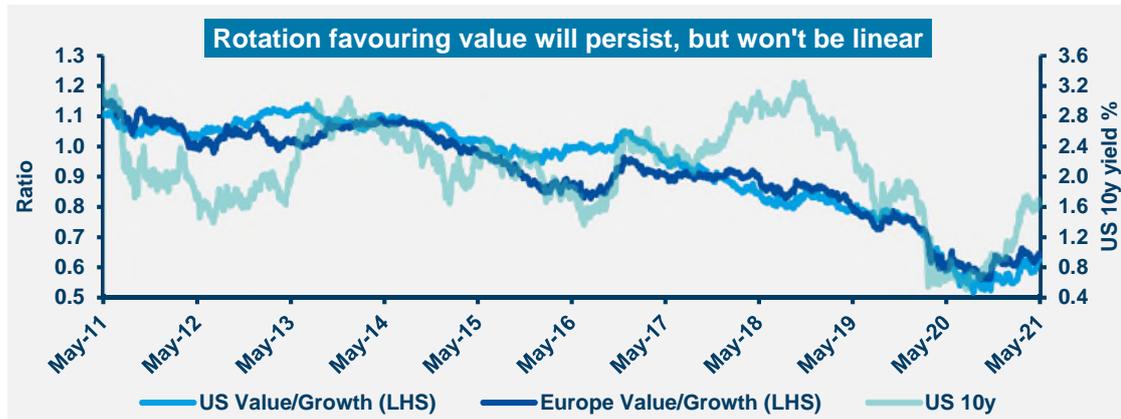
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Source: Amundi, Bloomberg, data as of 19 May 2021. Russell 1000 Value, Russell 1000 Growth, MSCI Europe Value, MSCI Europe Growth.

Amundi asset class views

	Asset class	View	1M change	Rationale
EQUITY PLATFORM	US	=		The economic reopening and fiscal spending by the Biden administration should support overall growth and demand, but there are corners of extreme valuations in the market. In addition, supply shortages and potential tax hikes remain issues that could weigh on demand. As a result, we remain selective, are monitoring risks and play through rotations linked with a recovery favouring cyclical and value stocks.
	US value	+		Decreasing restrictions on people's movements and the progress in vaccinations (in the US and outside it) continue to provide a boost to consumption demand and economic growth. As a result, we believe the rotation in favour of value will gain further momentum, especially as we see signs of some inflation. There are also opportunities to identify high-quality, stable companies with potential to be the ESG leaders of tomorrow.
	US growth	-		Our cautious view on growth, particularly hyper-growth, remains amid the still-high valuations. As economic growth returns and interest rates rise in future, investors should explore better-priced areas less affected by rising discount rates.
	Europe	=		The latest earnings season has been strong, indicating the importance of normalisation of economies. The region is still witnessing reopenings and that should support (non-linear) rotations in sectors linked with economic growth. However, we believe a lot of good news is already priced into markets. Therefore, we are monitoring inflation trends and focus on relative value and on companies with strong fundamentals and pricing power.
	Japan	=	▼	A pause in global economic momentum could briefly affect Japanese markets. From a medium-term perspective, growth should be supported by exports, rising wages and the yen's weakening.
	Emerging markets	=/+	▼	The prospect of rising US yields, along with idiosyncratic risks and external vulnerabilities, creates some near-term headwinds for EM. With a highly selective eye, investors should focus on value/cyclical areas linked with improving consumption, and sectors that show attractive valuations and sustainable trends.
FIXED INCOME PLATFORM	US govies	-	▼	We are seeing higher-than-expected CPI, supply shortages and the Fed prioritising employment. This, together with strong consumption, deficit concerns and government spending plans, indicates inflation will rise further, pressurising USTs. Investors should remain cautious and active in duration management but in doing so, they must avoid the mistake of going long duration. In contrast, Treasury Inflation-Protected Securities should do well as inflation moves upwards.
	US IG corporate	=		In light of upward pressure on core yields, we are limiting duration, interest rate risks and long duration debt in our portfolios. Instead, we focus on shorter maturity instruments and prefer idiosyncratic risks that allow more opportunities to stay selective. Amid improving consumer earnings, securitised credit seems attractive, particularly non-residential securitised debt. However, investors must be valuation-conscious.
	US HY corporate	=		HY carry is attractive and with the economy opening up, corporate fundamentals should improve. However, there is still a need to defend that excess income and balance the fine line between yield and quality through a selective approach.
	European govies	-/=		We believe improving economic growth (and potentially inflation) in Europe supports curve steepening, pressurising core-Euro bonds. Hence, we maintain our cautious stance. However, the ECB will prevent any significant increase in yields in order to support economic growth. On the other hand, we are constructive on peripheral debt.
	Euro IG corporate	=/+		We are constructive on IG in light of stable fundamentals and technicals, the massive liquidity in markets and the expectations of moderate improvement. Both ratings outlooks and free cash flows situations are also improving. But we remain selective, given the excess valuations in some cases and interest rate and duration risks. Overall, we like BBB-rated debt, shorter maturities and sectors (subordinated debt, energy, auto) linked with the economic recovery.
	Euro HY corporate	=		Corporate fundamentals are getting better on the back of an economic rebound, and this should be supportive of the default outlook. We prefer areas where there is scope for further spread compression, but we are very selective.
	EM bonds HC	=/+		We maintain our preference for HY over IG, in both the sovereign and corporate space, as HY is more fairly valued than it was at the start of the year. However, there are headwinds from rising US rates. From a long-term view, the asset class can be a good complement to investors' income generation strategy.
	EM bonds LC	=		The strengthening dollar and rising US rates are headwinds for LC debt and warrant a highly selective approach. We are particularly cautious on the rates side. On FX, we see some potential for a recovery in the second half of the year.
OTHER	Commodities			The global economic rebound is supporting commodity prices. Base metals such as copper witnessed a jump in prices due to rising demand (for green transitions and economic reopenings) and concerns over supply shortages. While the Fed maintains low rates for now, investors should keep an eye on rates movements and their effect on the price of gold.
	Currencies			'Twin deficits' in the US should weigh on the dollar in the long term. In the near term, the greenback should do well, particularly against low yielding FX (JPY, CHF) due to the economic growth differential. But the cyclical G10 FX block NOK, CAD and AUD is likely to perform well as economies open up.



Source: Amundi, as of 22 May 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

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.

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Definitions & 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.
- 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.
- 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: 1. high return on equity (ROE); 2. Stable year-over-year earnings growth; and 3. 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.

Important Information

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