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US and China: balancing the decoupling

CROSS ASSET INVESTMENT STRATEGY

MAY 2025 • Document for professional investors only

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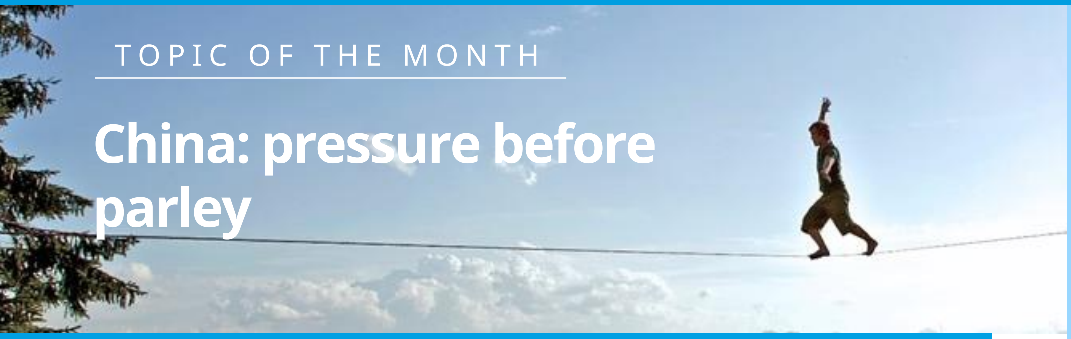
"While we have seen some de-escalation of the current punitive tariffs between the US and China, the new trade regime will impact consumers and corporate profits in both countries due to their reliance on Chinese raw materials, integrated supply chains, and China's product specialisation."

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

"We think a rotation out of the US will continue, benefiting other regions such as Europe, Emerging Markets, and Asia, and leading to a cautious view on the US dollar."

VINCENT MORTIER
GROUP CHIEF INVESTMENT OFFICER



TOPIC OF THE MONTH

China: pressure before parley

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KEY TAKEAWAYS

Beijing's approach to the trade war has shifted dramatically; where it once favoured restraint and dialogue in Trump's first term, it now responds with decisive retaliation.

Washington's drumbeat of 'strategic decoupling' has strained trust, leading Beijing to adopt a more guarded and hesitant stance toward engagement, lowering the odds of meaningful negotiation.

Facing multiple contingencies, Beijing will likely lean towards an all-weather strategy: calibrating domestic economic buffers, expanding Global South partnerships, and selectively engaging with U.S. allies—while deprioritizing deals with Washington.

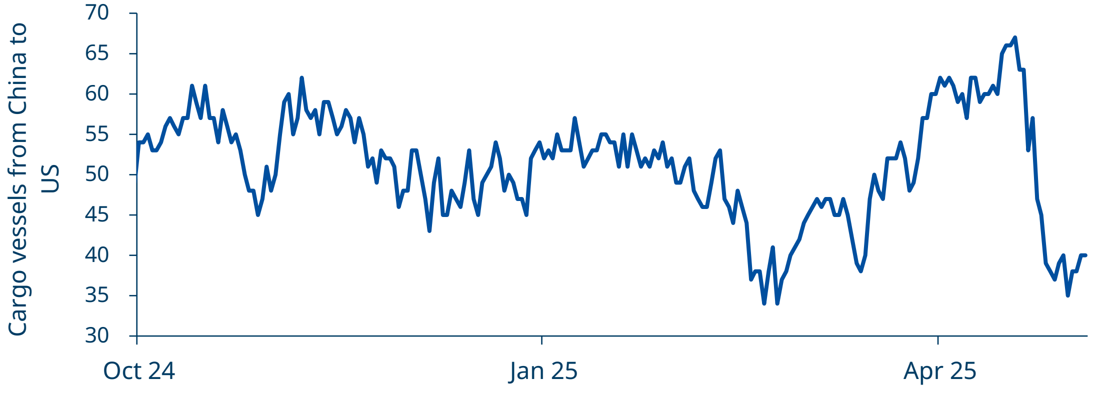
While mitigation plans may work for 30% tariffs, rates exceeding 100% are impossible to mitigate—even for businesses with high margins and strong pricing power. By imposing a high punitive tariff rate of 145%, Washington is dangerously flirting with the idea of economic decoupling. Even temporary adherence to this unsustainable rate has significant consequences.

The impacts are three-fold:

- **First, a supply shock as transpacific shipments halt and orders are cancelled;** this, however, is borne more by the US than by China. While the number of vessels carrying containers to the US is expected to decline sharply, China's port throughput has increased in both sequential and annual terms since 9 April. Reported increases in shipping demand in Vietnam, Thailand, and Cambodia, and rising traffic to Europe are not coincidences, indicating rerouting by Chinese exporters.

"Impacts of the trade war are just about to unfold, and some are not erasable by whimsical policy changes. It is complacent to assume there will be no structural consequence."

The volume of cargo from China to the US is down 40% from this year's peak



Source: Amundi Investment Institute and Bloomberg, as of 5 May 2025.
Shows 15-day rolling average of dry cargo vessels leaving China with US as destination

- **Second, a demand shock, as punitive tariffs start to take a toll on consumers and corporate profits**, in both the US and China. The costs of tariffs will be borne by Chinese exporters, US importers (such as Walmart, Home Depot, and Target), and US consumers. Approximately a quarter to a third of US imports from China are difficult to substitute. This is due to the heavy reliance on Chinese supplies in the US, the complexity of certain products, and China's position as the sole or one of the few producers. Among the top 100 products that are hardest to substitute, China accounts for an average of 57% of the world's total exports (see table below).
- **Finally, a structural shock, as companies adjust supply chains to accommodate increased protectionism**, exchanging efficiency for policy security. Since US retailers sourcing from China have experienced considerable damage from supply shortages, these risks are no longer economically justifiable.

> *"Among the top 100 products that are hardest to substitute, China on average accounts for 57% of the world's total exports."*

Mutual de-escalation happened quickly, allowing tariffs to fall from the highly-punitive 145% to 30%. Together with the initial tariffs under Trump's first term, the effective US tariffs on Chinese imports are close to 40% - which are much higher vs Trum 1.0 and still prohibitive. Chinese exporters, on average operating with relatively low margins, have no effective way to mitigate the impacts on their own.

Mitigating amid multiple contingencies: amid the evolving tariff landscape, the bar for resuming monetary policy easing is lower compared to other measures. Rate cuts were already needed before Trump took office, to assist the fragile recovery in domestic demand. Restrictive US trade policies will act as a disinflationary demand shock to China's economy, further worsening the existing deflation issue.

Can US easily substitute made-in-China products?

Breakdown of US imports from China, by reliance and product complexity (% of total)

China's share in US imports on specific products	Product complexity (PCI): < -1	-1 to 0	0 to 1	>1
0-25%	Apparel; Fruit; Fish 3.2%	Wire, cable 4.6%	Medicine; Refrigerators; AC Unites 19.1%	Machinery; Electrical machines 11.2%
25-50%	Headgear; Underwear 0.9%	Leather shoes; Bed linen; Paper 3.3%	PC; Smartphones; Iron or steel articles 29.1%	Motor hand tools; Vacuum cleaners 3.1%
50-75%	Textiles; Wigs; Gloves 1.4%	Cutlery; Sports shoes; Stoves 3.3%	Electric water heaters, hand dryers, irons; Lamps 5.4%	Electric accumulators 4.2%
>75%	Blankets and travelling rugs 1.5%	Kitchenware and household articles of plastics, iron, and steel 3.2%	Wheeled toys; Video game consoles 6.2%	Vacuum flasks 0.4%

less reliance on China

higher reliance on China

more complex products + less easy to substitute

Source: UN Comtrade, Amundi Investment Institute. Data as of 7 May.

On 7 May, the PBoC cut the RRR by 50bp and the policy rate by 10bp. We expect two more cuts of 10bp each in July and September, respectively.

For fiscal policy, however, Chinese policymakers might prefer to wait and assess how damaging the trade war is before taking decisive action. It has only been two months since the fiscal stimulus package (approximately 2% of GDP) was introduced by the National People's Congress.

Q3 will provide a good opportunity to evaluate the need for a supplementary budget, with May and June data available for a better assessment of the impacts.

Playing the long game, China has no time constraints in this fight, unlike Trump with the upcoming mid-term elections, allowing Beijing to adopt a strategic approach.

China's economic warfare arsenal comprises three arrays of tools:

1. **Offensive measures:** these aim to retaliate and inflict pain on the rival, such as restricting access to critical Chinese supplies like rare earths (i.e., through its own export control), and gatekeeping access to China's market (punitive retaliatory tariffs, regulatory investigations, and government procurement rules). Selling US Treasury holdings would be ineffective as an offensive market measure. Even if all of China's FX reserves ($3.2 trillion) were invested in US Treasuries, the sheer size of the Treasury market— with daily trading volume exceeding $900bn—means China's rapid liquidation would be absorbed within 3-4 days, limiting any lasting market impact. Not to mention that the Fed has multiple liquidity tools to mitigate Chinese selling pressures.
2. **Defensive measures:** these are designed to mitigate the negative effects of potential attacks, particularly in the financial market, where the US holds a clear advantage in blocking China's access to the dollar-dominated global financial system. FX reserve divestments, cross-border payment arrangements, RMB settlement infrastructure, and central bank swap lines will progress further and faster.
3. **Remedial measures:** these involve concessions and positive moves, such as re-engaging in negotiations with the US, deepening trade ties with US allies through multilateral agreements like the CPTPP and strengthening partnerships with the Global South.

In this context, traditional tactical tools that could hurt strategic goals— export subsidies and currency devaluation—will likely be set aside.

Key take-aways on China's equity market from the desk

We maintain a long-term positive view on China, considering the recent significant shift to supportive fiscal policies. However, given the extreme uncertainty on the tariff side, we are more cautious in the short term, and we think it's time to pivot towards more domestic and defensive areas that are less impacted by tariffs.

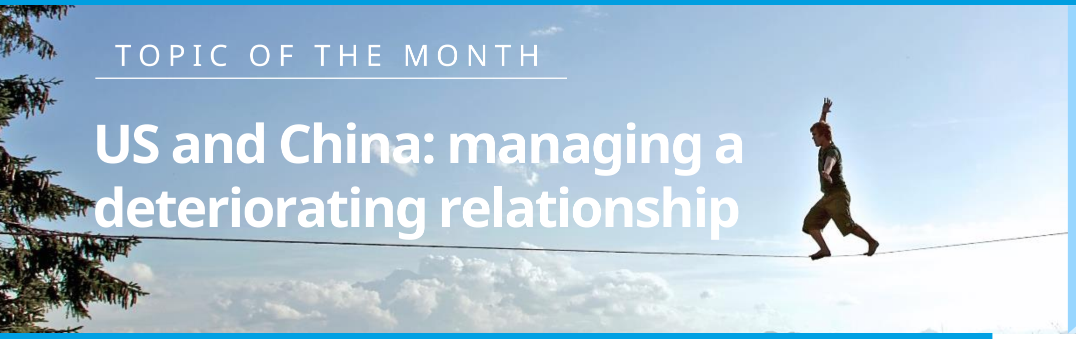
As such, we favour the onshore market (China A-shares) over offshore market (China H-shares) and domestic demand and dividend yield over export-oriented exposure, given the more geopolitically resilient risk premia in the onshore market and the government's focus on stimulating domestic demand.

In China, we are seeing positive momentum in earnings within the tech sector, particularly with the rise of AI applications and consumer technology. Nonetheless, we remain cautious about the risks of increasing overcapacity in China and the potential dumping or displacement of existing products in global markets, which would pose challenges for both domestic and international players.

NICHOLAS MCCONWAY, HEAD OF ASIA EX-JAPAN EQUITY, AMUNDI

TOPIC OF THE MONTH

US and China: managing a deteriorating relationship



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KEY TAKEAWAYS

The relationship between the US and China will likely continue to deteriorate, as the US security establishment considers 2027 as the key date for China to be able to take on the US.

However, the US and China have little interest in allowing their relationship to completely spiral, preferring instead to achieve an economic divorce that allows both countries to survive. Recent tariff reductions reflect these dynamic.

Although trade tensions between the US and China have now eased, it is important to understand the broader dynamic between the two countries. Over the next few years, the US-China relationship will continue to deteriorate, with 2027 seen as a key date on the horizon. This is the year the US security establishment believes China could be in a position to militarily challenge the US. Whether or not this is accurate, these fears are driving US policy towards China as well as US efforts to re-industrialise. To wage and win wars, a country must have a solid industrial base to build and repair military equipment. Trump's steel, aluminium and China tariffs must be seen from this perspective; they also aim at weakening China's industrial capacity.

That being said, in 2025, the US and China have little interest in allowing their relationship to spiral out of control: it is about achieving a divorce that still allows both parties to remain economically afloat. We are now seeing both sides walk back on tariffs. The scenarios outlined below show how the relationship has evolved from the 'escalation scenario' to our basecase, the 'tense understanding scenario', in which we expected US-China tariffs to fall significantly from the previous 145% level. While further talks are possible, we do not expect a 'grand bargain' anytime soon. During Trump's first term, US-China trade negotiations proved difficult and took years to complete.

"In 2025, the US and China have little interest in allowing their relationship to spiral out of control: it is more about achieving a divorce that still allows both parties to remain economically afloat."

US-China economic scenarios

Scenario:	Escalation	Tense understanding	Grand bargain
Likelihood:	25%	55%	20%

Source: Amundi Investment Institute, as of 12 May 2025. These scenarios are not exhaustive.

Scenario 1: Escalation

Scenario	The US-China relationship escalates, with neither country backing down; tariffs go back above 100%, and full economic and security decoupling plays out.
Signposts to watch	The relationship deteriorates further if the US begins to limit China's access to US financial markets, or forces third countries to reduce their ties to China as part of trade deal negotiations, leading China to conclude that the US seeks to permanently harm China's economic prospects. China steps up retaliatory measures, drastically restricts rare earth and pharmaceutical exports, increases the intimidation of US businesses, and tries to force countries in its vicinity that are sitting on the fence to choose sides.
Implications	A cold war unfolds in which both sides seek to limit interactions, forcing a bipolar world. This scenario would increase geopolitical risks, both in Asia and beyond. While risks in the South China Sea would increase, so would tensions in other parts of the world, with China likely stepping up military support to Russia (depending on the China-Europe relationship and developments in Ukraine) and aligning more with Russia in space and the Arctic.

Scenario 2: Tense understanding (Basecase)

Scenario	The US and China reach an agreement whereby tariffs in the US will be lowered from current levels but remain elevated. China also reduces retaliatory actions. The US does not force all other countries it is negotiating with to choose sides against China, allowing China to re-route some trade to the US without choking it economically. There is some economic decoupling in sensitive sectors, but both countries continue to compete and do business.
Signposts to watch	The US and China lower tariffs, and talks occur between senior officials, along with promises of future negotiations. The US does not enforce taking sides against China in trade deals with other countries. Hostile rhetoric dials down, and a possible meeting between Xi and Trump emerges. A deal regarding TikTok is also possible in exchange for more tariff concessions.
Implications	There is a re-routing of supply chains and a reduction in Chinese exports to the US, with separation extending beyond just sensitive sectors, but falling short of a full economic decoupling. US-China relations would continue to focus on diversifying away from each other. Risks in the South China sea would remain elevated but not rise in the short term. China would continue to try and lure countries away from close ties with the US, both in Asia and Europe.

Scenario 3: Grand bargain

Scenario	The US and China work towards achieving a Phase Two trade agreement, implementing tariffs on some Chinese imports but not all sectors. China agrees to rebalance its economy towards consumption and buy more US products. The US does not force other countries to choose sides against China, allowing China to re-route some trade towards the US. China steps back from retaliatory measures. There is some economic decoupling in strategically sensitive sectors, but both countries continue to compete and do business. The US agrees not to change the status quo around Taiwan and acknowledges China's regional interests.
Signposts to watch	US-China lower tariffs simultaneously. Negotiations resume regarding TikTok and the CATL-Ford joint venture. Announcement of Xi-Trump meeting, resumption of trade talks follows.
Implications	Some market relief occurs, along with the re-routing of supply chains, a reduction in Chinese exports to the US, and separation in some sectors, but not a full economic divorce. Geopolitical tensions would ease, including in the South China sea. There could also be an increase in Chinese FDI in the US or more joint ventures involving technology transfers.

Source: Amundi Investment Institute, as of 12 May 2025. These scenarios are not exhaustive.

STRATEGY VIEWS

STRATEGY VIEWS

What to expect for the US Treasury market?

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President Trump's tariff announcements have rattled the previously dominant US financial markets, putting pressure on Treasury yields amid fears of slower growth and rising inflation.

Recently, the difference in yield that investors expect for holding Treasuries compared to swaps has increased significantly, signalling a perceived higher risk of holding Treasuries.

The end of US financial market exceptionalism is by no means guaranteed, but we believe it is increasingly important to enhance diversification also in the sovereign debt space. In this regard, European government bond markets are a valuable option.

Until very recently, the US dollar (and US capital markets) seemed to reign supreme. The dollar has increasingly dominated as the currency of global transactions. Swift payments denominated in dollars rose from just over 30% of the total in early 2010 to an all-time high of 50.2% in January 2025. And more and more, US equity markets have been where the world stores its wealth. As a percentage of the global index, the MSCI US index rose from 37% in 1995 to 74% at the end of last year. Look more closely, however, and the dominance of US financial markets seems less assured. **The US Treasury market, in particular, is showing signs of pressure.**

"The dominance of US financial markets seems less assured. The US Treasury market, in particular, is showing signs of pressure."

What is happening in the US Treasury market?

President Trump's unexpected announcement of unprecedently large tariffs on April 2 sent shockwaves through the economy, leading to soaring financial market volatility. Initially, Treasury yields fell due to recession fears, but longer-term yields quickly rebounded as investors anticipated higher inflation and **started to price in higher risks**. The 10-year yield surged from below 4% to 4.5% in just a few days, while the 30-year yield rose to 5%.

26%
US share of global GDP

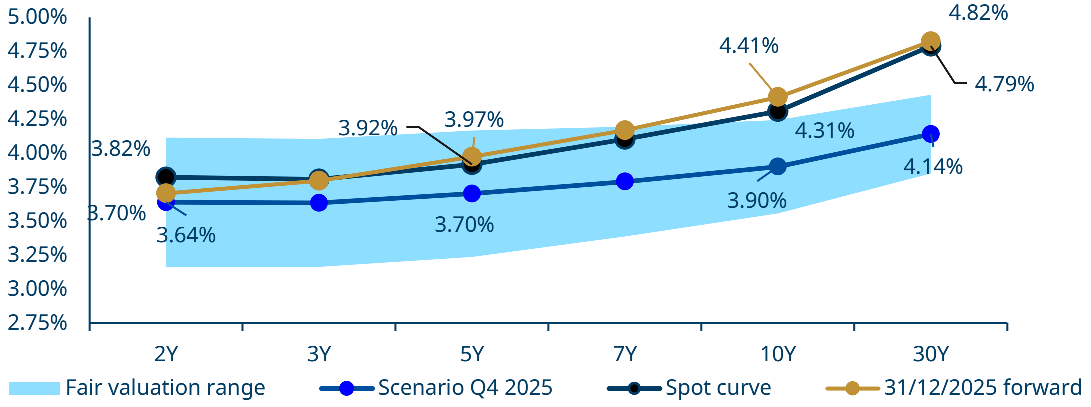
~70%
US share of the MSCI World Index

~40%
US share of global bond market capitalization

~40%
US share of the Bloomberg Global Aggregate Bond Index

Source: Amundi Investment Institute. Bloomberg Data as of end of 2024.

US curve fair value on Nelson Siegel curve decomposition vs. spot and forward



Source: Amundi Investment Institute as of 2 May 2025. For illustrative purposes only. At Amundi Institute, our approach to the valuation analysis for bonds follows two steps: firstly, we leverage the Nelson-Siegel (NS) model to extrapolate different yield curve factors. Then, we model each component using sound and consistent macro-financial variables. The NS model is used extensively by fixed-income wealth managers in public organisations, investment banks, and central banks for fitting the term structure of interest rates.

This is not the first time US Treasuries have come under pressure since the US presidential election in November. Indeed, our fair value model of US 10-year yields has shown them to be undervalued at several points over the past five months and it suggests that they may be undervalued now. We see US 10-year yields staying at 4.3%, in line with current market levels, due to the balancing pressures of weak growth and sticky inflation.

"According to our model, US 10- and, in particular, 30-year Treasury yields are above their fair value."

Why are Treasuries under pressure?

To assess why Treasury yields are under pressure, we should look at the **main factors influencing changes in nominal yields**:

1. **expectations of real economic growth**, which account for approximately **two-thirds of the changes in nominal yields**;
2. **inflation expectations**, represented by the break-even rate, which **contribute around 20**%;
3. **and the intrinsic quality of Treasuries**, indicated by the **swap spread**, which accounts for about **10–15%** of the changes in nominal yields.

In focus: understanding the asset swap spread

The intrinsic quality of US Treasuries can be assessed using the swap spread. This compares the interest rates (yields) of Treasuries with the rates on swaps* that have the same maturity.

- **Positive Swap Spread:** Treasuries yield less than the swap rate. Investors are willing to accept lower yields on Treasuries than on swaps, due to **the perceived safety and stability of Treasuries**.
- **Negative Swap Spread:** Treasuries yield more than the swap rate. Since 2020, when swaps started using SOFR as their variable rate, this has generally been the case. Investors have demanded a higher yield from Treasuries due to **concerns about excessive supply or weakening demand.**

Recently, the increase in yield that investors require for holding Treasuries relative to swaps has increased significantly. From 2021 to 2023, the asset swap rate was between -15 basis points (bp) and -35 bp. In early April 2025, this rate dropped to an average of -55 bp, meaning investors are demanding an even higher yield for holding Treasuries relative to swaps.

*An interest rate swap is a financial agreement between two parties to exchange interest rate payments on a specified principal amount over a set period. Typically, one party pays a fixed interest rate while the other pays a variable rate based on a benchmark like the Secured Overnight Financing Rate (SOFR).

In April, the swap rate—the spread between Treasury yields and interest rate swaps—widened, raising concerns about market dysfunction and the safe-haven role of US Treasuries. We believe Treasury yields will continue to rise against swaps for two reasons.

Supply will likely continue to increase. The US has run a fiscal deficit since 2002, but the shortfall ballooned during the COVID years. Federal debt as a percentage of GDP has more than doubled since the start of the century, rising from 56% in 2000 to 124% at the end of last year. **Bigger deficits necessarily mean more bond issuance**. The US Treasury may well continue to increase bill issuance relative to bonds, but we expect Treasury yields to rise relative to swaps across the curve.

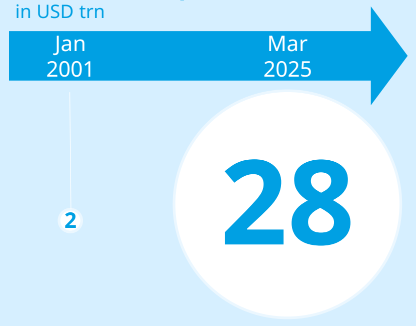
Demand for US Treasuries may also continue to decline, particularly from two types of actors:

- **The Fed:** At its peak of the quantitative easing program in mid-2016, the Fed held $6.3 trillion of Treasuries on its balance sheet. As quantitative easing has become quantitative tightening, that number has shrunk, falling to $4.2 trillion at the end of March.
- **Big foreign holders,** typically central banks and sovereign wealth funds: Treasuries held by these participants have not fallen in nominal terms but have grown from just over $1 trillion in 2001 to more than $8 trillion in March this year. Yet because this has been outpaced by the growth of the Treasury market, **the percentage held by these investors has declined from a peak of 56% in mid-2008 to just over 30% today.**

For the time being, the move to a more negative swap spread seems to have been driven by the decline in Fed holdings (see chart below).

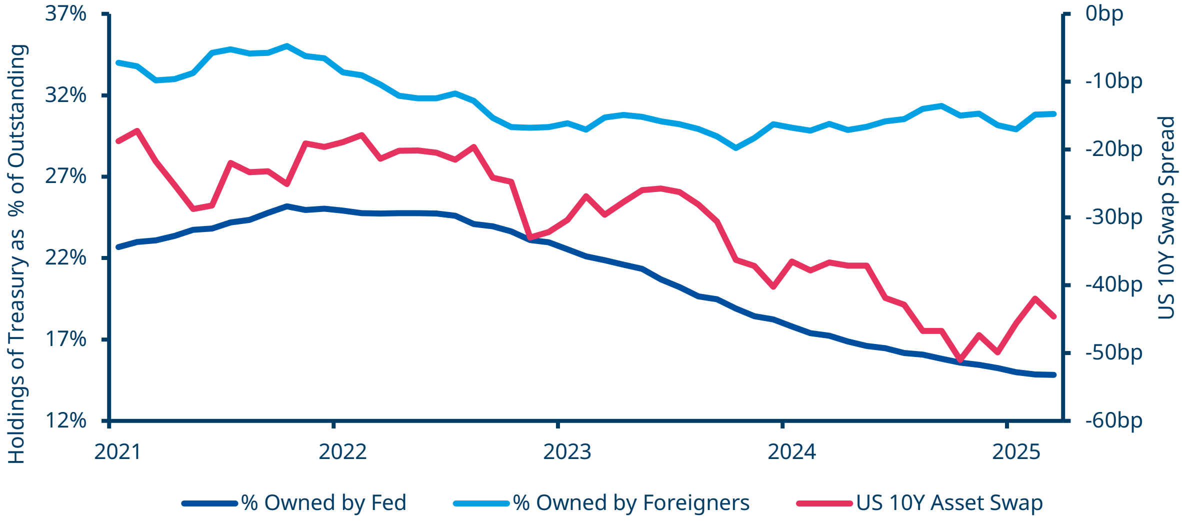
It is easy to imagine, however, that if big foreign investors reduce their holdings, Treasury yields could rise even more relative to swap rates. In the absence of a fall in the swap rate, this could push US nominal yields higher.

Total Federal public debt
in USD trn



Source: Amundi Investment Institute. Bloomberg.

Shrinking official holdings have cheapened Treasuries



Source: US Ferderal Reserve, US Treasury, Bloomberg, Amundi Investment Institute. Bloomberg Data as of 31 March 2025.

How to navigate this phase of uncertainty in bonds

While we don't have clear evidence of a massive selloff of US debt by foreign investors, **we believe it's key to monitor swap spread dynamics going forward for at least two reasons:**

- First, Treasuries still represent the risk-free rate used to price many dollar-denominated assets, such as corporate bonds. A continuation of an environment in which US Treasuries remain under pressure can create discrepancies in relative pricing.
- Second, if Treasuries lose their lustre as a store of value, this could provoke a flight of capital out of the US–and given the size of the US Treasury market, the ramifications for currency markets could be very significant. The quadrupling of the trade-weighted dollar's value since 1978 could reverse, causing ripples throughout the global financial system.

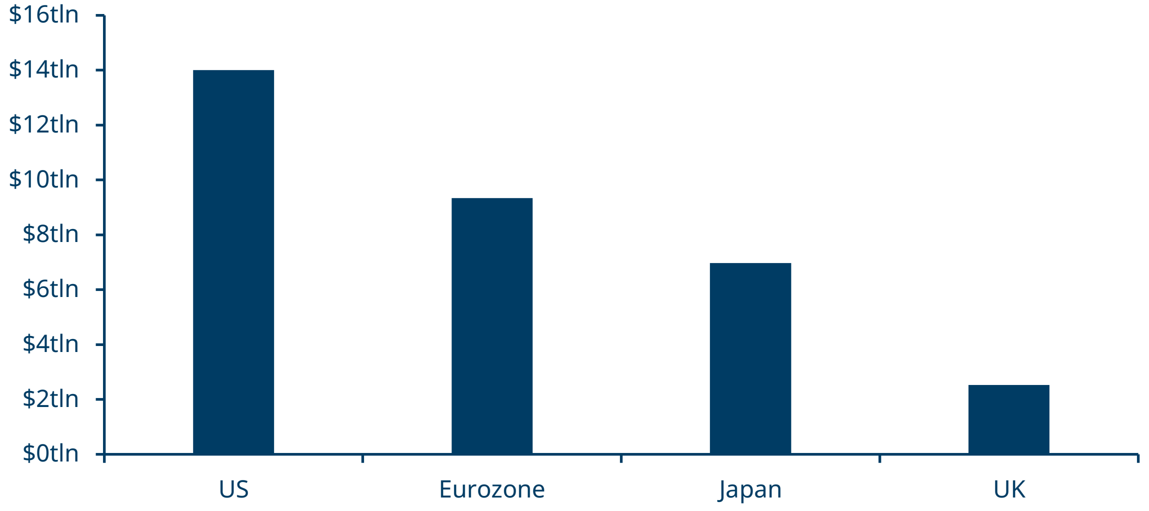
If US Treasury yields rise due to global inflation pressure or fall due to weak global growth, government bond markets are likely to follow suit. However, if US Treasury yields rise because of worsening credit quality, then other government bond yields will not necessarily move in correlation with US yields. Indeed, as money flows out of the US government bond market, it will need to go elsewhere, and correlations between swap spreads (and yields) could well become more negative.

The second-largest government bond market after the US is the Eurozone. It is currently around two-thirds the size of the US market, while the Japanese and UK markets are half and slightly less than one-fifth the size of the Treasury market, respectively. So, although Europe is smaller and contains a range of countries, we still believe it is the most likely to benefit from flows out of US Treasuries into other global bond markets.

In conclusion, while the end of US financial market exceptionalism is by no means guaranteed, we believe it is increasingly important to enhance diversification even in the sovereign debt space.

The European government bond market may offer a valuable alternative to the US market, given its similar range of maturities and the fact that it is only 20% smaller than the US Treasury market.

European government bond indices vs others in the world



Source: Amundi Investment Institute, Bloomberg. Relative size of the Bloomberg Government Bond Indexes as of 6 May 2025.

GLOBAL INVESTMENT VIEWS

Trade war complicating the Fed's job

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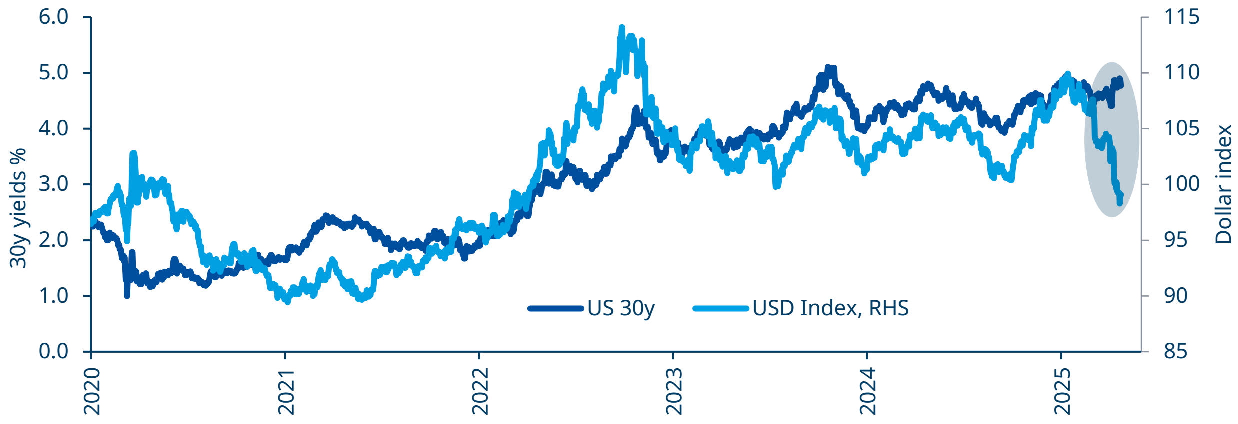
Extreme policy uncertainty in the US is leading to sharp movements and increased volatility. Recent bond yield dynamics signal a shift from seeking safety in US assets to a reassessment of Treasuries and the USD as ultimate safe havens. While we think it is too early to question the trust in US assets, we also think any challenge to the Fed's independence and so much policy uncertainty could undermine investor confidence. For instance, the perceived risks around capital outflows and some repositioning in the markets caused the recent divergence between US yields and dollar. Looking ahead, the main themes to watch are:

- **Trade war and protectionism will affect US growth**, **but a tariff-induced recession is still not our base case**. GDP growth this year is projected at around 1%, down from nearly 3% last year. Tariffs and consumption pressures, labour markets and negative wealth effect are the main factors that will affect growth. While US tariffs will put pressure on European exports and growth, there are some bright spots for the region – fiscal spending in Germany, low oil prices and the muted EU response to US tariffs.
- **The Fed faces challenges on consumers' inflation expectations but will likely tilt towards supporting growth.** If consumers' inflation expectations become unanchored, and if they start affecting wage negotiations, those expectations will reinforce actual inflation. The timing of the Fed's move will be important. For now, we believe it will reduce rates three times this year.

The recent divergence in US yields and the dollar is rare, historically speaking



Source: Amundi Investment Institute, Bloomberg, as of 23 April 2025.

We think a rotation out of the US will continue, benefiting other regions such as Europe, Emerging Markets, and Asia, and leading to a cautious view on the US dollar.

- **Less of a dilemma for the ECB because it is acknowledging a weaker growth outlook for the region.** We have reduced our terminal rates expectations from 1.75% to 1.50%, implying three more cuts this year. In the UK, cooling labour markets, a stronger pound, and elimination of import tariffs should put downward pressure on inflation, allowing the Bank of England to reduce interest rates three times this year.
- **China will have to find a way to rely more on domestic consumption for growth.** US tariffs on Chinese exports have exceeded our expectations and the country's growth will of course be affected. Currently, Chinese policymakers are retaliating, but we believe they will also have to focus on domestic demand and consumers, using both monetary and fiscal tools.

From a medium-term perspective, we see a weaker economic outlook, strengthening the case for cautious allocation**.** However, we are not there yet, and **for now, we remain mildly pro-risk**.

- **In fixed income,** we are positive on duration mainly through the EU and the UK, but are cautious in Japan. On the US, we are neutral: while inflation is coming down, consumers' expectations of inflation are high. Corporate credit valuations are pricing in a deterioration in growth, yet fundamentals remain healthy. Therefore, we are optimistic on the EU Investment Grade market given its valuation and we see good value in financials. However, we are cautious on US High Yield.
- **In equities, the US market sell-off is reaffirming the rotation towards regions such as Europe, the UK, Japan.** With valuation multiples compressed, the main risk lies in earnings.

Amundi Investment Institute: US tariffs likely to affect growth and earnings

The IMF has downgraded its global and US growth forecasts in its latest World Economic Outlook released in April. While we are aligned with the IMF in terms of global growth for this year, our forecasts for the US are more conservative. We do not expect a US recession, but higher tariffs could affect consumers' disposable income and eventually growth. This makes the Fed's task difficult as it tries to balance inflation expectations with economic growth.

We think the US businesses will face the heat on their earnings from tariffs and many large companies are already voicing their concerns on recession. With US exceptionalism under threat, we have downgraded our EPS expectations for the S&P 500 this year to around 5%. In this respect, the forward guidance from companies will be critical.

We think the Fed will reduce policy rates three times this year, with risks of more cuts if unemployment weakens. Furthermore, pressures on US growth imply repercussions for Europe, but the impact on stock prices would depend on how expensive the valuation multiples are to begin with.

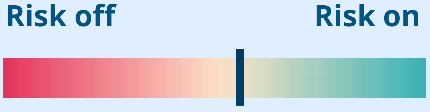
MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

While remaining cautious on the US in general, we see selective opportunities among value, quality stocks and in equal weighted indices, on reasonable valuations and those that are relatively insulated from Trump's policies. In Europe, we favour defensive consumer staples and health care names, with strong pricing power and non-disrupted business models. In cyclicals, we also like quality European banks, and small/mid-cap companies due to their domestic exposure.

- **Emerging market assets are finding support in a weaker dollar, expectations of Fed rate cuts**, attractive domestic yields and resilient growth so far. But uncertainty around Trump’s policies could weigh on the asset class. In particular, we are constructive on hard currency and corporate debt as absolute yields are attractive. In local currency, we find select opportunities in LatAm and frontier markets. In EM equities, China is vulnerable to tariffs and restrictions, but Latin America and the MENA region seem relatively insulated from US tariffs, leading us to keep a positive stance on Latin America and on India. We are also optimistic on emerging Europe.
- **In multi-asset, we remain mildly risk-on despite a deteriorating outlook, as macro, credit and liquidity conditions are still reasonably supportive.** We are tactically adjusting our stance, becoming less positive on developed market equities while more positive on EM bonds. Additionally, we are turning positive on EUR vs. USD, as US exceptionalism fades and lower interest rates from the Fed may reduce flows into US assets and increase capital repatriation to Europe and Asia. We stay positive on gold, given its appeal as a hedge against geopolitical tensions and inflation risks.

Growth hinges on the length of high tariffs and retaliation; despite policy uncertainty, supportive macro, credit, and liquidity conditions lead us to favour a mildly risk-on stance with gold and hedges.

Overall risk sentiment



We stay slightly positive on risk assets through credit and equities, but take into account the changing market dynamics to maintain strong diversification.

Changes vs previous month

- **Multi asset:** now positive on emerging market bonds, slightly less constructive on developed and emerging market stocks.
- **Emerging markets**: more constructive on equities in Latin America and emerging EMEA but less so on EM Asia. In bonds, slightly more optimistic on local currency.
- Cautious on USD

Overall risk sentiment is a qualitative view towards risk assets (credit, equity, commodities) expressed by the various investment platforms and shared at the global investment committee. Our stance may be adjusted to reflect any change in the market and economic backdrop.

ECB= European Central Bank, DM= Developed Markets, EM = Emerging Markets, CBs = central banks, IG = investment grade, HY = high yield, HC = Hard Currency, LC = Local Currency. For other definitions see the last page of this document.

FIXED INCOME

AUTHORS

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Tilt to Europe duration

We are witnessing higher term premium in the US along with higher inflation expectations owing to uncertainty around import tariffs. While the Fed will be forced to deal with these inflationary pressures in the near term, inflation is less of a concern for the ECB. This could create some policy divergences between the two global central banks, leading us to downgrade our terminal rate expectations for the ECB.

In particular, lower energy prices, the muted EU response to tariffs so far and moderate wage growth in Europe all point to limited inflation risks. In addition, any deceleration in economic growth could affect corporate fundamentals, particularly in US. Hence, we maintain a global and a selective approach to credit and duration, and keep our bias towards quality.

Duration and yield curves

- Weakening growth and central banks in easing mode, particularly in Europe and the UK, support our constructive view on duration overall as we expect a negative impact on the economy from Trump's tariff policies.
- We are neutral on US duration, and we favour the EU over the US.
- On Japanese duration, our cautious stance reflects our structural long-term view.

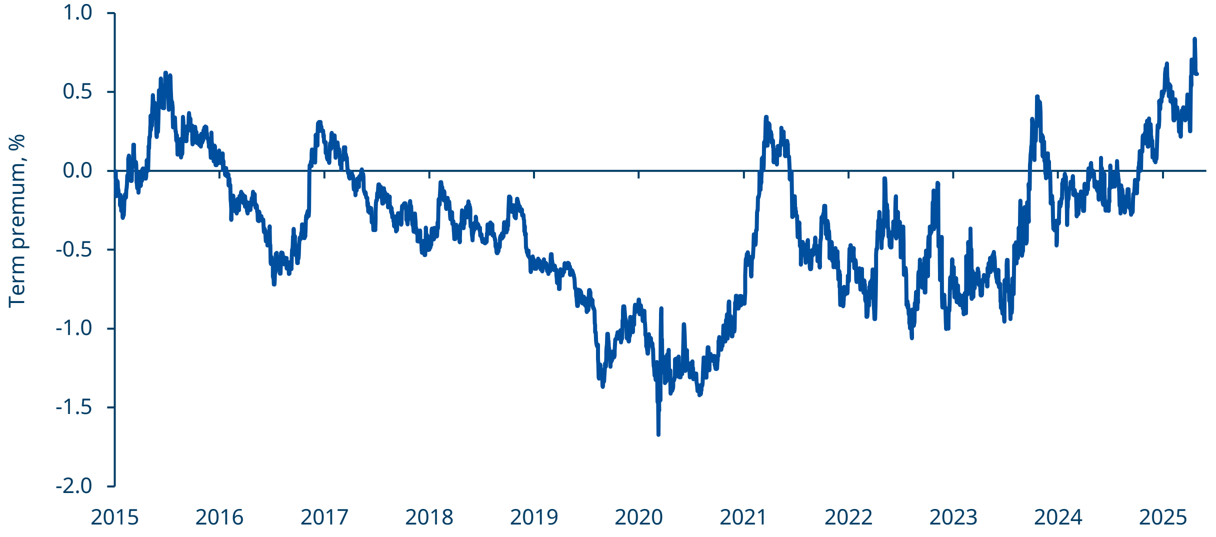
Corporate credit

- The sharp widening in credit spreads indicates markets are pricing in a darker economic outlook. US HY may be vulnerable. We prefer EU IG, with strong fundamentals and attractive valuations.
- Overall, we expect some weakening of fundamentals and hence are selective.
- At a sector level, we like financials given their robust capital buffers and high profitability.

FX

- We downgraded USD. The recent break in correlation between US yields and the dollar is rare and may be a result of capital reallocation in the markets. We may see a higher risk premium associated with US assets now.
- The EUR may benefit from any potential 'de-dollarisation.' We expect EUR/USD at 1.16 by year-end (vs. 1.13 earlier). There could be scope for even further appreciation.

US term premium reached a ten-year high in April, amid higher inflation expectations



Source: Amundi Investment Institute, Federal Reserve Bank of New York, Bloomberg, as of 29 April 2025. Adrian Crump & Moench term premium on 10Y Treasuries.

EQUITIES

Rotation opportunities amid a sell-off

AUTHORS

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The rotation that started at the end of last year is still continuing and has been fastened by the trade war. As a result, US equities have been the most affected, leading to a derating in valuation multiples. Despite that, valuations remain expensive and other regions are relatively more appealing. In Europe, the key factor to monitor is the extent to which fiscal stimulus and infrastructure spending could offset the impact from tariffs.

The sustainability of this rotation depends on earnings and how confident companies are with respect to the impact from tariffs. While we expect guidance to be bleak, we think there are opportunities to be found in businesses with strong fundamentals and with a strong domestic focus in Europe, UK and Japan.

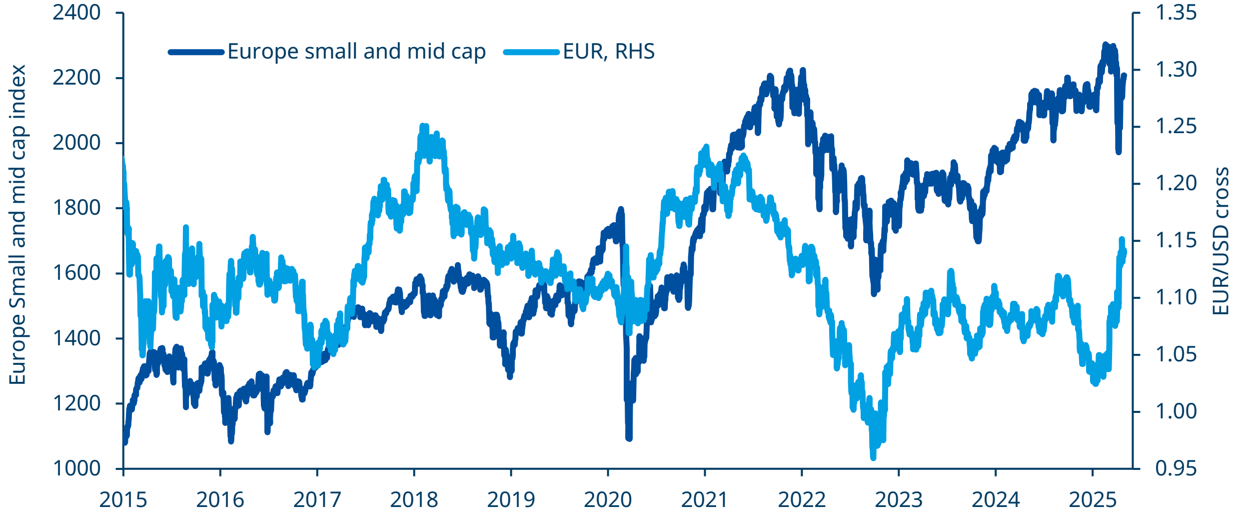
Global convictions

- We see more opportunities outside the US, in Europe, UK and Japan. While volatility will continue in the US, opportunities remain in some value part of the market.
- Valuations are appealing in Europe and the UK. In particular, the UK offers domestic opportunities that are relatively shielded from the international trade war.
- In Japan, we stay positive and believe there is a potential to play interest rate normalisation through banks and insurers. We also see some high-quality international businesses.
- We maintain an overall balanced approach, looking for businesses with strong balance sheets and non-disrupted business models.

Sector and style convictions

- Large caps are vulnerable to trade tariffs, at a time of their high valuations. We stay cautious on growth, and prefer small/mid caps due to their valuations and outsized domestic exposure in Europe. We are mindful of liquidity risks.
- From a sector perspective, we favour defensive consumer staples and health care businesses over expensive technology names. In industrials, where we are cautious in general, we see select opportunities in quality cyclical companies, and in large cap financials.
- Overall, we aim to maximise idiosyncratic ideas that offer long term returns to shareholders.

A boost to fiscal spending in Europe, should be supportive



Source: Amundi Investment Institute, Bloomberg, as of 29 April 2025. Europe small and mid cap index = MSCI Europe SMID Cap Index

EMERGING MARKETS

EM Divergences in the tariff disruption

AUTHORS

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While emerging markets are sensitive to developments in global trade, policies of the US administration and geopolitical developments, some regions/countries seem to be more affected by US tariffs than others. At the same time, resilient domestic economic growth and less correlated economic cycle (from international trade) in select regions mean there are ample opportunities to diversify and generate income over the long term.

For instance, US tariffs are more likely to affect some supply chains in Asia, whereas Latin America could be the least hit. The important questions for us are where US tariffs will finally land, what will be the retaliation and who will be the likely winner of this US attempt to decouple from China. Another important point is which countries will be able to negotiate bilateral agreements. While the answer is complicated, we are careful to not take extreme views as the situation is fluid.

EM bonds

- **While we are constructive on hard currency and corporate debt**, we keep a very active stance: country and sector selection remains key to long-term returns.
- In local currency, we are positive on countries that offer high nominal and real yields and are less vulnerable to trade tariffs. We like Latin America, particularly in Brazil, as well as in frontier markets.
- On EM currencies, we are cautious on some Asian FX and stay positive on high-yield FX (BRL, MXN, TRY).

EM equities

- **In Asia**, weakness in China could affect growth in countries with close trade ties with the country. We remain positive on India because of the domestic nature of its economy, and the advanced stage of its discussions with the US for a trade agreement.
- **We are constructive on emerging Europe**. But in the MENA (Middle East and North Africa) region, we are monitoring oil prices and its impact on equities. We are slightly cautious on sectors that are sensitive to global growth.

Main convictions from Asia

Tariffs and trade are dominant themes. While we expect one-on-one trade deals to be eventually agreed, those will take time, keeping markets on the edge in the interim. The economic impacts of the 10% base levy, slower growth from the US and China, and elevated uncertainties will all weigh on the region's growth outlook**. Less trade dependent economies are better placed to weather** the storm than the export-sensitive ones.

Asian rates offer good value. The combination of slowing growth and subdued inflation is offering Central banks the scope to step up policy easing. **We like Indian bonds and are positive on Chinese and South Korean curves**, with currencies hedged. The long end of the curve warrants some caution, however, due to fiscal expansion raising primary issuance. For corporate credit, we prefer income-generation themes and defensive issuers, particularly in Greater China and India. Diversification opportunities are also worth considering in subordinated financials and insurance companies in Japan and Australia.

Within equities, we are exploring defensive opportunities in domestic themes in India, China A-shares and the Philippines. Risk taking should be exercised with caution in a highly fluid market environment, and we recommend patience until there is better clarity on trade negotiations. Selectivity – based on export exposure and differentiating tariffs – is key for assessing the relative impact of the trade war on regional markets.

MULTI-ASSET

US exceptionalism at risk: stay flexible

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'Liberation Day' marked a massive US policy shift towards a more chaotic, transactional approach. US growth slowdown would depend on the duration of these tariffs and retaliation from trading partners. The damage to investor and consumer confidence has started already and markets are challenging US exceptionalism. But macro, credit and liquidity conditions are reasonable. **In this environment, we explore all levers available, including EM bonds, and believe the supremacy of the dollar in FX is at risk.** At the same time, we think investors should keep portfolio safeguards, such as gold, intact.

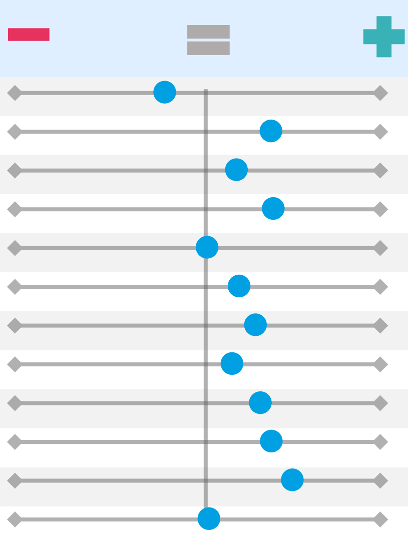
Without overreacting to stock market movements, **we marginally reduced our stance on DM equities**, but are still constructive overall through US, EZ and the UK. The EZ markets will benefit from their cheaper valuations and boost to earnings (in the medium term) from a fiscal push in Germany. UK is a way to diversify within Europe and its markets offer good defensive characteristics. In US, our views are well-hedged, and we maintain a small positive stance through segments which should benefit from a potential lowering of regulations and support to domestic-oriented companies. In EM, as a risk control measure, we turned neutral on India due to near term uncertainty. We are vigilant and believe structural growth story is intact.

"When markets are reassessing the role of traditional portfolio stabilisers, we remain flexible in search of attractive opportunities."

In fixed income, we keep a global approach, with positive stances on duration in the US, core EU, the UK and on Italian BTPs – the recent rating upgrade for Italy is positive. We are also optimistic on EU IG. On Japanese bonds, we are cautious due to their excessive valuations and negative real yields. **On EM bonds, we are now constructive** after the sell-off seen in April beginning. A near term relief in this segment is expected amid dollar weakness. We are neutral on local rates. In FX, we rebalance our views, **turning cautious on the dollar**, and positive on the euro. We are negative on USD vs JPY and NOK. In EM, we became even more constructive on BRL and MXN vs. the CNH.

Amundi Multi Asset Investment Views*

Cross asset allocation views net of hedges	Change vs M-1
Cash	
Duration	
Credit	
IG credit	
HY credit	
EM Bonds	▲
Equity	▼
US	▼
DM ex US	▼
EM	▼
Gold	
Oil	



▼ Downgrade vs previous month
▲ Upgrade vs previous month

Source: Amundi, as of 7 May 2025. Changes M-1 include from previous month. The table represents the main investment convictions (including hedging) of the Multi Asset Platforms. *The views are expressed relative to a Reference Asset Allocation (with benchmark 45% equity, 45% bonds, 5% commodities, 5% cash) with "=" being neutral. The + and – may not sum-up due to potential use of derivatives in the implementation. This is an assessment at a specific time, and it can be subject to change at any time. This information is not intended to be a forecast of future results and 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 for illustrative purposes and does not represent the actual current, past or future asset allocation or portfolio of any Amundi product.

Amundi views by asset classes

Equity Views

Equities	Change vs M-1*	---	--	-	-/=	=	=/+	+	++	+++
US					◆					
US Growth			◆							
US Value							◆			
Europe								◆		
Europe SMID								◆		
Japan							◆			
EM							◆			

Global Factors	Change vs M-1	---	--	-	-/=	=	=/+	+	++	+++
Growth					◆					
Value							◆			
Small Cap						◆				
Quality	▼					◆				

Fixed Income Views

Duration	Change vs M-1*	---	--	-	-/=	=	=/+	+	++	+++
US						◆				
EU								◆		
UK								◆		
Japan					◆					
Overall							◆			

Credit	Change vs M-1*	---	--	-	-/=	=	=/+	+	++	+++
US IG						◆				
US HY				◆						
EU IG								◆		
EU HY						◆				
Overall							◆			

FX	Change vs M-1*	---	--	-	-/=	=	=/+	+	++	+++
USD	▼				◆					
EUR						◆				
GBP							◆			
JPY								◆		
CNY				◆						

▼ **Downgrade vs previous month**
▲ **Upgrade vs previous month**

Source: Summary of views expressed at the most recent global investment committee (GIC) held **23 April 2025**. The table shows absolute views on each asset class and are expressed in a 9 scale range, where = refers to a neutral stance. This material represents an assessment of the market 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. FX table shows absolute FX views of the GIC. *For this month the "Change vs M-1" may not be directly comparable with the previous month because of the change of the perimeter following the spin-off of the US operations into Victory Capital.

Emerging Markets Views

EM Bonds	Change vs M-1*	---	--	-	-/=	=	=/+	+	++	+++
China govt.						◆				
India govt.	▲							◆		
EM HC								◆		
EM LC	▲								◆	
EM corp.	▲							◆		

EM Equity	Change vs M-1*	---	--	-	-/=	=	=/+	+	++	+++
EM							◆			
EM Asia	▼				◆					
Latin America	▲							◆		
Emerging EMEA	▲							◆		
EM-ex China							◆			
China	▼					◆				
India								◆		

Source: Summary of views expressed at the most recent global investment committee (GIC) held **23 April 2025**. *For this month the "Change vs M-1" may not be directly comparable with the previous month because of the change of the perimeter following the spin-off of the US operations into Victory Capital.

▼ **Downgrade vs previous month**
▲ **Upgrade vs previous month**

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Date of first use: 9 May 2025.
Document ID: 4488269.

Document issued by Amundi Asset Management, "société par actions simplifiée"- SAS with a capital of €1,143,615,555 - Portfolio manager regulated by the AMF under number GP04000036 – Head office: 90-93 boulevard Pasteur – 75015 Paris – France – 437 574 452 RCS Paris – www.amundi.com

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Amundi Investment Institute

In an increasing complex and changing world, investors need to better understand their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios.

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