



Vincent MORTIER
Group Chief Investment Officer



Matteo GERMANO
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Overall risk sentiment



Decrease risks in credit and add protections to risk assets.

Changes vs. previous month

- Reduced credit risk and increased selection focus.
- Enhanced portfolio hedges in light of geopolitical tension.
- Value medium-term call intact.

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

Hot inflation and geopolitical tensions: cool down risk

The geopolitical escalation at month's end marks a further rise in volatility. Credit spreads (IG, HY and Euro peripherals) continued to widen while equity markets corrected further. The rotation towards value continued, but with a pause from the most cyclical segments, amid increasing economic growth risks from the Russia-Ukraine conflict. **Markets continue to reassess the hawkish turns of the Fed and the ECB as well as the risks related to the escalating crisis in eastern Ukraine. On the macro front, US job market data were well above expectations; the January inflation reading was at its highest level in four decades.** This complicates the route for central banks caught between possibly higher inflation and lower growth (stagflationary risk on the rise).

In contrast, the Chinese Year of the Tiger appears to be characterised by increasing policy accommodation, indicating the divergent policy trends versus the rest of the world on the easing side, once again pointing to a **desynchronisation in the economic cycle of China versus the US that supports the role of Chinese assets as global diversifiers.** At the current juncture, with significant price changes already being seen since the beginning of the year, there are two burning questions for investors to consider:

1. Could the current volatility turn into a double bear market (in bonds and equities), therefore calling for structural de-risking in asset allocation? Volatility is certainly rising across the board (bonds, equity, commodities, currencies), and the investment landscape is looking riskier than one month ago. With growth expected to remain sound throughout 2022 amid economic reopening post the Omicron wave and the China soft landing, earnings growth should decelerate from the peak, but remain positive. The big risk relates to possible spillover from the Russia-Ukraine conflict, with significant impacts on the growth and the inflation outlook. This is the crucial point that investors need to keep track of. Equity bear markets occur during recessions (except during the 1987 crash). We don't expect to see a recession, but the risk of it in Europe is increasing amid rising inflationary pressure at a time when the ECB plans to reduce its quantitative easing. As geopolitical risks are very hard to assess (any positive changes could lead to a relief rally while further escalation could put further pressure on the market), **investors should still seek to benefit from the recovery mainly through selective equity markets, but also be prepared for the worst (adjusting hedges to address even more unfavourable developments) outcomes. All in all, the inflation theme is seeing further reinforcement,** again calling for a medium-term preference for value/quality in the equity space, although we may see some pauses short term regarding the value rotation. In credit, we have moved to a more cautious stance amid rising liquidity risks and a less appealing risk/return profile for credit compared with equity.

2. Is 2% a target level for UST yields or is there more to come and therefore the duration stance should stay short? The Fed's hawkish turn and the inflation surprise temporarily pushed 10Y Treasury yields above the 2% threshold for the first time since July 2019 and contributed to a restoration of value in particular on the short end of the curve. The Russia-Ukraine conflict raises risks regarding financial systems and on inflation in primis, but also regarding the global economy. As the market is already pricing in significant Fed action, we believe that the rise in yields could pause awaiting the Fed's March meeting. **Some technical adjustments to duration are due, and therefore we recommend an active approach. For the time being, we confirm our cautious duration stance while we actively play opportunities at curve and country levels.**

Market uncertainty will remain high. We are facing a period of low visibility on geopolitical developments and economic implications. Equity volatility will stay high, as given the high liquidity profile of equities, they will be the first target in case of fast risk adjustment, which could also offer opportunities to buy the dip and re-enter some oversold areas of the market.

The timeframe of the crisis will be crucial, as a prolonged period of uncertainty with rising escalations could lead to further repricing across global risk premia. Central banks will be in the spotlight and they may at some point have to adjust their agendas to address rising stagflationary risk. For investors, all this means they should stay well-diversified, increase their hedges, and focus on areas of resilience to high inflation.



**Pascal
BLANQUE**
Chairman,
Amundi Institute



Investors expect a deeper dialogue and sophisticated advice to build more robust portfolios owing to the many structural regime changes under way in areas such as inflation, the environment and geopolitics.



Amundi Institute: a new journey begins

Why the institute, and why now?

As the investment world evolves in the face of new trends encompassing economic, financial, geopolitical and ESG dimensions, new challenges emerge for investors. How will the energy transition impact asset classes' behaviour? What does the regime shift in course mean for strategic asset allocation? What will the future geopolitical order be, and what are the implications for investors?

*These are just some of the questions that are at the front of investors' minds today. We are at a delicate juncture in the regime shift that I call **the "road back to the 70s"**. **The great return of inflation** is one key feature of this shift. **The reordering of geopolitical powers** is another, one that is further exacerbated by rising price dynamics (in particular, energy prices) and supply chain readjustments after Covid. **Liquidity risk is also an element of the puzzle**. In February, volatility rose in the treasury market to its highest level since early 2020 on the back of diminishing market liquidity. The retreat of large banks from dealing activity after the 2008 crisis means the market structure now is more fragile, at a time when the end of easy money means that liquidity-addicted markets could soon face the test of quantitative tightening, with the Fed planning to reduce its almost \$9tn balance sheet. Finally, we are also living in an era of **ESG mainstreamisation, in both the investment industry and the economy at large**. The 2020s will be critical for the energy transition, on the one hand, but there is a crucial need to engineer a more inclusive growth model, on the other, to fight the inequality legacy from past crises.*

*All this means that investors have to reconsider their asset allocation around the four elements – **risk, return (in real terms), liquidity and ESG** – to reassess their investment objectives and rethink portfolio construction around these pillars. The critical dimension to consider will be the purchasing power of a portfolio per unit of risk. **This means searching for sources of lasting positive real returns** and becoming exposed to what is positively correlated to inflation. In this context, equities – some of them – are a long-term positive call because they are liquid real return assets – in particular, those that have bond features (low debt, high earnings visibility).*

To help investors in this delicate phase, we are launching the Amundi Institute, which I have the pleasure of supervising in my role as Chairman. The Amundi Institute's mission is to strengthen the day-to-day dialogue, both inside Amundi, in strict partnership with the investment teams, and externally, with our clients and the financial community at large. By bringing together our investment insights, macro research, market strategy, quantitative research, and asset allocation activities under one umbrella, we aim to provide a holistic view of the main challenges that investors face today to stimulate ongoing debates and client dialogues. This month, our internal debate has been centred around oil and gas price dynamics amid the impact of the Russia-Ukraine conflict.

Commodities: impact of the crisis on oil and gas

The Russian invasion has repercussions for energy markets and supply, particularly in Europe.

- The price of natural gas has risen over the past few days. This sharp upswing **is likely to have serious effects on European growth and inflation, with expectations of downward revisions to GDP growth and upward revisions regarding inflation (stagflation)**.
- In contrast, US natural gas prices have risen relatively mildly and not as a reaction to domestic shortage but expectations of higher liquefied natural gas (LNG) demand from Europe. We believe the US does not have unlimited capacity to replace Russian gas for Europe and that could put upward pressure on US natural gas prices.
- With respect to oil, prices currently are already above our near-term target of around \$80/bbl and because Russia is a major supplier, any disruption may cause prices to move up further. Nonetheless, for now, oil increases (relatively limited compared to natural gas) have priced in market expectations of an agreement with Iran, coupled with restoration of oil production by other large producers, including Saudi Arabia and other OPEC members.

On the demand side, we should not underestimate China's role.

- LNG, which is far greener than natural gas, is the energy source used by many large countries, including China, to move their economies towards cleaner fuels.
- Secondly, the country can potentially replace Europe (in oil and gas) as a major buyer for Russian exports and this could happen not necessarily at market prices. Hence, there is a possibility that energy sanctions would not be as successful as hoped for but they could still aggravate the energy situation in Europe.
- Finally, it is not completely unrealistic to view the unfortunate event of Russia pausing gas and oil exports to Europe as retaliation regarding US/EU sanctions on its financial sector.

Conclusion: the crucial risk to our central scenario on economic growth is natural gas and energy markets in the Eurozone over the short and medium terms.



**Monica
DEFEND**
Head of Amundi
Institute

MULTI-ASSET

Adapt to mounting risks, reinforce hedges

The recent rise in market uncertainty has been driven by escalating geopolitical tensions, the hawkish pivot from CBs, and stubborn inflation. Collectively, these indications of QT and the effects of inflation on consumers' disposable incomes represent a major risk. However, financial conditions remain easy and economic growth is robust. Thus, **we don't think it is time to structurally move to a risk-off allocation. We do think investors should tactically readjust risk exposure, based on a cautious approach.** The interplay of inflation risk, the tightening stance from CBs to tame it, and the Russia-Ukraine crisis present a unique correlation framework across assets. **A well-diversified and active stance is needed. Investors should strengthen hedges and adjust FX views while monitoring CB policies and war risks.**

High conviction ideas

Our overall stance on equities is close to neutrality on DM and EM, but with a cautious tilt provided by hedges against possible market downturns. **We are monitoring the evolving geopolitical situation for more clarity on the medium-term path for equities in Europe.** The uncertain backdrop underscores the need for active stock picking. While the value style should help investors to protect portfolios from inflation, emerging risks related to Russian policy could affect the stagflationary narrative, causing a move towards quality sectors. Meanwhile, we remain marginally positive on China (should benefit from more clarity on policy from tightening to targeted easing) amid a stabilising regulatory framework.

In FI, we remain defensive overall on duration through 5Y German bonds, but suggest investors manage this exposure actively. Yields have been moving sharply after the ECB's announcements and the Russian attack, thereby confirming our agile and active view across curves. We look to benefit from any tactical market move towards safe-haven assets, including USTs. On the other hand, we believe investors should look for income outside of traditional areas, such as in Chinese government and euro peripheral debt.

Regarding the latter, we now think Italian BTPs offer attractive relative value opportunities vs German debt on the back of the country's political stability and economic growth potential as well as the ECB's aim to avoid fragmentation in the euro area despite a slight change in its overall stance. In Asia, we maintain our positive view on Chinese sovereign debt due to its diversification benefits and the PBoC's monetary easing, but we are monitoring the front-loaded measures. **In Europe, we await more clarity on CB policymaking to evaluate our long-term convictions on corporate credit.** We now believe the ECB's adjustment (due to the urgency to act on inflation) could result in spread widening in EUR IG, affecting investor sentiment, particularly regarding longer-maturity issuance. Thus, we are no longer positive and remain vigilant. However, corporate fundamentals (low default rates) and balance sheets are strong, and HY companies are continuing with their deleveraging efforts. We maintain our marginally constructive stance on EUR HY, but are monitoring it with respect to geopolitics and inflationary pressures jeopardising GDP growth.

The FX universe allows us to implement our geopolitical views and identify relative value strategies globally. We think the GBP has risen sufficiently vs the CHF and we are no longer optimistic on sterling, given that the highly aggressive sequence of hikes from the BoE is already priced in by the market. However, we keep our cautious view on the GBP/EUR. We believe the UK will remain geopolitically isolated in the post-Brexit world vs the US and EU. Finally, we think that the CNH should perform well vs the EUR. Geopolitically and from a trade perspective, China will remain the main driver for intra-Asia regional trade and this should support Chinese assets.

Risks and hedging

Investors should put in place sufficient hedges to safeguard their US HY and US and European equity exposures, bearing in mind the additional volatility from the current geopolitical context. Gold can also help as a tactical hedge in this phase of uncertainty.



Francesco SANDRINI
Head of Multi-Asset Strategies



John O'TOOLE
Head of Multi-Asset Investment Solutions

“
As we await clarity on monetary policy and the evolution of geopolitical tensions, we think investors should become more cautious on credit - more exposed to liquidity risk - and implement robust hedges.
”

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. CGB = Chinese government bonds, EM = emerging markets, PBoC = People's Bank of China, FX = foreign exchange, IG = investment grade, HY = high yield, CBs = central banks, BTP = Italian government bonds, EMBI = EM Bonds Index. QT = Quantitative tightening

FIXED INCOME



Amaury D'ORSAY
Head of Fixed Income



Yerlan SYZDYKOV
Global Head of Emerging Markets



Kenneth J. TAUBES
CIO of US Investment Management

“
As markets assess the path of quantitative tightening by CBs, we believe volatility in credit could increase, along with discrimination between high-quality and low-quality names.
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Liquidity in focus: uncertain rate path, geopolitics

Inflation in the US and Europe is prompting CBs to adopt hawkish stances, causing repricing in Euro and US rates. On the other hand, markets are waiting to see if CBs can tame inflation without hampering the economic rebound particularly in light of the geopolitical environment in Eastern Europe. Thus, policy sequencing will be key and QT could cause a weakening of sentiment in credit through a drain in liquidity/volatility, even as corporate fundamentals are strong. Robust consumer demand and accumulated savings are another positive. **Hence, we acknowledge the need for additional caution in credit, with an increased focus on selection. On duration, while our medium-term stance is defensive, investors should tactically look towards govies for protection.**

Global and European fixed income

We are cautious on duration (US, core and semi-core Europe) due to upward pressure on yields, but remain agile amid new dynamics related to inflation and policy issues. In the current geopolitical environment, sovereign bonds (US, core Europe) provide safeguards to portfolios. Regarding Euro peripherals, we are watchful but acknowledge Italy's robust growth potential and political stability, and remain constructive. We look for income opportunities in Chinese duration. However, for US breakevens, valuations are becoming less attractive. **In credit, there are concerns related to inflation/liquidity, but default rates are low and earnings strong.** To deal with inflation, we focus on names with the ability to pass on higher costs to consumers. In IG, we prefer short- and medium-term maturity credit; in HY, we see spread compression opportunities (hybrids, BB/CCC) in areas with potential to improve their credit metrics. Here, investors should prioritise diversification and liquidity. Overall, we like subordinated financials' debt, plus the energy and auto sectors.

US fixed income

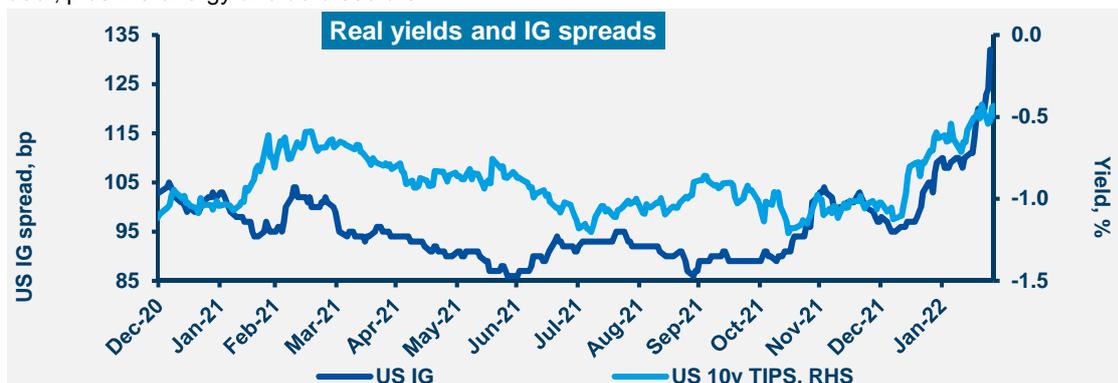
The Fed seems to be preparing for a March lift-off of policy rate rises due to inflation, which remains a major political issue, and strong pent-up demand is aided by demographics and consumer earnings. Despite this, financing costs for businesses remain reasonably accommodative, confirming our view that the Fed could remain behind the curve. Nonetheless, we are monitoring short-term funding costs and tight labour markets and stay defensive on duration. **We also believe that curve movements will be linked with the near-term path of inflation, underscoring the importance of a flexible duration stance.** On the other hand, corporate credit presents idiosyncratic opportunities. Here, investors should consider reducing their portfolio risk and buying some protection on credit exposure. Investors should also balance the need for higher yield with liquidity. Elsewhere, solid consumer balance sheets allow us to selectively explore securitised assets.

EM bonds

The outlook for EM is mixed. On the one hand, it has improved due to the easing stance in China and strong commodity prices (positive for LatAm); on the other, geopolitical risks are weighing on it. With a very selective approach, we like HC and maintain a bias towards HY vs IG. In LC, investors should favour countries (China) where real rates are positive. We are cautious on Russian assets. Overall, we look at EM from a matrix of inflation, real rates, monetary tightening and external vulnerability.

FX

We stay positive on the USD, but cautious on the EUR and JPY. The ECB's views are key and we are monitoring these in light of debt sustainability in the region. In EM, we remain positive on cyclical FX (IDR, CLP) and we are now defensive on the RUB.



Source: Amundi Institute, Bloomberg, 24 February 2022. US Investment Grade = ICE BoFA US Corporate Index

GFI = global fixed income, GEMs/EM FX = global emerging markets foreign exchange, HY = high yield, IG = investment grade, UST = US Treasuries, RMBS = residential mortgage-backed securities, ABS = asset-backed securities, HC = hard currency, local currency, MBS = mortgage-backed securities, CRE = commercial real estate

EQUITY

Navigate short-term uncertainty with an inflation tilt

Overall assessment

The hawkish pivot of CBs has caused significant repricing of duration risks and subsequent market expectations regarding rate hikes. This, coupled with the rapidly deteriorating and very serious situation around Russia/Ukraine, will pressurise valuation multiples. On the other hand, the economic recovery continues amid strong consumption, and this should support the rotation towards value in the medium term. However, not all companies are able to pass rising costs on to consumers, meaning margin compression/pricing power is not equal among companies. We look for brands, patents and differentiated products that allow **companies with strong business models to raise prices, preserve margins and pay dividends**.

European equities

We remain biased towards value, cyclical stocks and are evaluating the earning season from an inflation and margins perspective, as we see better sales than earnings for some companies. **While some businesses are unable to pass on costs and raise prices sufficiently, a small group is using the environment of the ‘strong consumer’ to increase margins through price hikes**. On the other hand, we are assessing consumer behaviour as inflation is becoming a political issue and there is a risk of regulatory measures. We are exploring how this could affect sectors such as utilities, where we are cautious, along with IT, though we are slightly less concerned about the latter given some structural growth stories that have been battered by the recent volatility. However, our focus is on selection and balance sheet strength amid our normalisation tilt, and we see opportunities in industrials and financials. At the other end, we are exploring attractively valued stocks in defensive segments – for example, the healthcare sector.

US equities

In an environment where inflation is now clearly a political matter, we think markets are still not pricing in the risks related to increases in the cost of capital. Thus, the move from growth to value is a medium-term trend owing to the latter’s still-attractive valuations and the reasonably strong economic growth (reopening). **We explore high-quality value names that can withstand operational challenges** through the inherent strength of business models, strong pricing power and core competency. Thus, stock selection is crucial in this latest leg of value rotation. On the other hand, we remain cautious on expensive long duration and growth stocks, but acknowledge that selective tech growth names are becoming attractive after the recent volatility. Overall, growth remains overvalued, and if real rates increase, it may weaken further. At a sector level, we like cyclicals in financials (banks), materials and energy. Interestingly, selective consumer and reopening-related stocks are becoming cheaper, but we focus on names that are able to manage the challenges related to tight labour markets and supply chain disruptions.

EM equities

EM valuations, stabilising economic growth in 2022, and the PBoC’s easing stance should be positive for the asset class, but the Russia-Ukraine conflict could harm market sentiment in the short term. The EM space appears increasingly fragmented amid geopolitical, idiosyncratic risks and global inflation. At a country level, we favour commodity linked-stories – India, Hungary and the UAE. Our main convictions at a sector level are discretionary, real estate and communication services, plus a preference for energy over materials. Finally, we maintain our tendency to increase value over growth.

“
With higher uncertainty and increasing inflationary pressure, we explore high quality value names that can be more resilient in the current environment.”



Kasper ELMGREEN
Head of Equities



Yerlan SYZDYKOV
Global Head of Emerging Markets



Kenneth J. TAUBES
CIO of US Investment Management



Source: Amundi Institute, Bloomberg. Data as of 25 February 2022.

Amundi asset class views

Asset class	View	1M change	Rationale
EQUITY PLATFORM	US	=	Recent weeks have been characterised by higher market volatility, led by the more hawkish tone from the Fed and rising geopolitical risks. In a rising real yield environment with inflation risks, equity is a place to look at, but selection is key.
	US value	+ ▼	The rotation favouring value is a medium-term trend supported by rising real rates, and we believe this will continue as economic growth remains solid and the valuation discount of value is still attractive. We explore high-quality value names.
	US growth	- ▲	Overall, growth remains overvalued, and if real rates increase, it may weaken further. Yet, we acknowledge that selective tech growth names are becoming attractive after the recent volatility.
	Europe	= ▼	Visibility on European equities is decreasing amid the escalating Russia-Ukraine conflict and increasing energy prices. While the economic reopening still bodes well for the area, we take a neutral stance in order to reassess the evolution of the conflict and its economic implications for the area.
	Japan	=	Accommodative monetary and fiscal policies, along with improving earnings momentum, should be supportive for the country's markets. We are watching the evolution of the pandemic and the resultant pressures, if any.
	China	=/+	Better policy visibility emerging from a clear easing stance, coupled with a more balanced growth approach that should help clear out systemic risks, is supportive of Chinese equities. However, there are near-term uncertainties in the form of zero tolerance of Covid-19. All this requires a watchful and a selective approach in navigating the country's equities.
	Emerging markets	=	EM present a fragmented universe where investors should focus on important factors to avoid using a uniform approach – commodity exports, strong internal demand ('the help yourself' countries), countries with a value tilt, and those with limited external vulnerability. Overall, country-specific factors and bottom-up selection remain important.
FIXED INCOME PLATFORM	US govies	-	While we believe the Fed will raise rates multiple times this year (four), we stay cautious and agile on duration and believe the Fed will not tighten financial conditions so much that it stalls the economic recovery. Flexibility in FI is the name of the game when policy uncertainty and geopolitical risks are high. TIPS show signs of high valuations.
	US IG corporate	=	Credit markets have been affected by the tightening stance shown by the Fed even as financial conditions remain accommodative. We believe current valuations reflect the positive fundamentals, but there is uncertainty with respect to future CB policy. Thus, we aim to minimise our duration exposure and look for income in securitised markets.
	US HY corporate	=	While HY spreads have widened amid the Fed's tightening stance, we think this is more due to liquidity risks and less due to fundamental concerns over credit quality. Nonetheless, we are monitoring the effects of future monetary policy on this asset class, and are staying clear of names that could destroy value through increasing leverage.
	European govies	-/=	A relatively hawkish ECB supports our cautious stance on duration amid our belief in upward yield trajectory, but we are flexible across geographies and curves to benefit from tactical movements driven by risk sentiment. The policy path for the ECB will not be straightforward and becomes increasingly uncertain amid rising risks from the Russia-Ukraine crisis.
	Euro IG corporate	= ▼	Recent ECB communications indicate near-term volatility for the asset class due to receding support from the regulator's purchase programme, increases in core yields, and higher liquidity premiums. However, corporate fundamentals (balance sheet strength, earnings) are strong. We look for relative value opportunities in IG and favour shorter-maturity assets.
	Euro HY corporate	=	HY provides carry at reasonable risk, but we remain vigilant in light of liquidity concerns and pressures from upward movements in core yields. While default rates remain low and we prefer spread compression opportunities in BB (rising stars), we aim to balance the potential for extra yield with liquidity and quality through our bottom-up selection approach.
	China govies	=/+	We see relatively stable appetite for Chinese debt amid clear monetary easing, attractive carry, and expectations of foreign inflows. We remain neutral/positive and are closely monitoring the policy environment.
	EM bonds HC	=/+	HC bonds provide attractive yields, but inflation and policy tightening in DM are important considerations for us. We believe EM spreads may tighten in absolute and relative terms vs DM over the medium term, but we maintain a bias towards HY vs IG. We are defensive on duration, but slightly less so now due to uncertainty due to Russia's actions.
	EM bonds LC	=	We prefer countries where monetary tightening cycles are maturing or are close to peak, and where real rates are back in positive territory, i.e., China (monetary easing mode compared to 2021). However, we are cautious on EM FX. Country-wise, we are getting defensive on Russian bonds and FX near term, and are closely monitoring the situation.
OTHER	Commodities		Inflationary regime and still-robust macro backdrop allow us to be constructive on base metals. Geopolitical risks may provide near-term support to gold.
	Currencies		We keep our 12M EUR/USD target unchanged at 1.14 as the upside potential in the single bloc currency is capped by a relatively dovish ECB (vs the Fed). Higher interest rate expectations in Europe already seem to be priced into the EUR.



Source: Amundi, as of 24 February 2022, 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) – part of the Amundi Institute – 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.
- Bear steepening of yield curve:** Widening of the yield curve caused by long-term rates increasing at a faster rate than short-term rates.
- Beta:** Beta is a risk measure related to market volatility, with 1 being equal to market volatility and less than 1 being less volatile than the market. **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:** Carry is the return of holding a bond to maturity by earning yield versus holding cash. **Core +** is synonymous with 'growth and income' in the stock market and is associated with a low-to-moderate risk profile. Core + property owners typically have the ability to increase cash flows through light property improvements, management efficiencies or by increasing the quality of the tenants. Similar to core properties, these properties tend to be of high quality and well occupied. **Core strategy** is synonymous with 'income' in the stock market. Core property investors are conservative investors looking to generate stable income with very low risk. Core properties require very little hand-holding by their owners and are typically acquired and held as an alternative to bonds. **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 the 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, TRY – Turkish lira, KRW – South Korean Won. **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. **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. **P/E ratio:** The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings (EPS). **QE:** Quantitative easing (QE) is a type of monetary policy used by central banks to stimulate the economy by buying financial assets from commercial banks and other financial institutions. **QT:** The opposite of QE, quantitative tightening (QT) is a contractionary monetary policy aimed to decrease the liquidity in the economy. It simply means that a CB reduces the pace of reinvestment of proceeds from maturing government bonds. It also means that the CB may increase interest rates as a tool to curb money supply. **Quality investing:** This means to capture the performance of quality growth stocks by identifying stocks with: 1) A high return on equity (ROE); 2) Stable year-over-year earnings growth; and 3) Low financial leverage. **Quantitative tightening (QT):** The opposite of QE, QT is a contractionary monetary policy aimed to decrease the liquidity in the economy. It simply means that a CB reduces the pace of reinvestment of proceeds from maturing government bonds. It also means that the CB may increase interest rates as a tool to curb money supply. **Rising star:** A company that has a low credit rating, but only because it is new to the bond market and is therefore still establishing a track record. It does not yet have the track record and/or the size to earn an investment grade rating from a credit rating agency. **Standard deviation:** A measure of return variability (risk) above and below an average rate of return. A higher standard deviation suggests more variability in return over the period. **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. **Trade-weighted dollar:** It is a measurement of the foreign exchange value of the dollar vs certain foreign currencies. It weights to currencies most widely used in international trade, rather than comparing the value of the dollar to all foreign currencies. **Value style:** This 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 a 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.

Important Information

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