Amundi ASSET MANAGEMENT | Research & Macro strategy

CROSS ASSET Investment Strategy

06

June 2020

Monthly

CIO VIEWS

The great market detachment from reality

THIS MONTH'S TOPIC

In the wake of first-quarter reporting season, the consensus is probably still too optimistic

#06 - June 2020

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CIO VIEWS

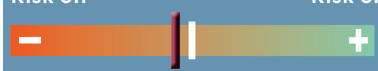
The great market detachment from reality

PASCAL BLANQUÉ
Group Chief Investment Officer

VINCENT MORTIER
Deputy Group Chief Investment Officer

Overall risk sentiment

Risk off | Risk on



Focus on active risk management, liquidity; stay cautious.

Changes vs. previous month

- Tactical adjustments in credit, exploiting value in primary markets.

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

The dichotomy between the false market tranquillity and the high level of uncertainty about the length of the crisis and its long-term implications is striking. In our view, we are far from being out of the woods and investors should stay alert as current market levels are still pricing in a 'too rosy too soon' endgame. **The race between the three cycles** will continue. **On the pandemic cycle**, markets have been relying on the narrative that the worst may be behind us in Europe and the US, with rising expectations of contagion curve-flattening. If these hopes are not realised, market tensions will resurface. **On the economic front**, the huge fiscal and monetary measures are like an insurance policy for the next six months, but should the recession prove worse than expected, markets will need more and any disappointment will trigger a correction. 'Credit' is becoming addicted to CB action; market conditions have improved but not normalised. **On the credit default cycle**, critical in a world that will see even more debt after the Covid-19 crisis recedes, markets have already priced in a first round of defaults but not a second one for traditionally laggard assets. The battle between liquidity and solvency will continue and US commercial real estate is an area to monitor. The disconnect between market hopes and economic and pandemic reality reinforces our **conviction that now is a time to remain cautious: don't chase the bulls, but gradually and selectively play investment themes better positioned towards a slow road to recovery**. Reasons to be vigilant, on top of the uncertainties in the three cycles mentioned above, are: First, a resurgence of the US-China rivalry, amid the 'blame for the virus' game, was the main risk that re-escalated in May. Second, the outcome of US elections is uncertain. Third, EM are facing high idiosyncratic risks (Brazil). Finally, the long-term consequences (retreat in global trade, rebalancing of policies in favour of labour, transformation of business models, and acceleration of trends, i.e. smart working) of Covid-19 are complex and remain under scrutiny. During the unprecedented last 3 months, our focus has been: the **dual objective of protecting investment capital from any permanent loss and having room to add to emerging investment opportunities**. This attitude remains unchanged and investors should focus on the following:

- **Liquidity**: This is precious in managing transition from the deepest phase of the crisis to an uncertain recovery. The crisis has made clear that liquidity should be a key metric of portfolio construction, despite recent signs of improvement. In fact, the depth of liquidity in credit markets remains thinner and more expensive than prior to Covid-19. Investors should keep some liquidity for defensive and aggressive strategies, so they can reposition in some areas of market when opportunities arise.
- **Positive stance on IG credit**: This should benefit from CB actions and the primary market can offer opportunities. However, investors should remain very selective at the sector and company level, focusing on good balance sheets and businesses that can withstand the economic lockdown.
- **Conservative risk exposure to equities** amid further EPS growth revision: Any catalyst for improvement must come from a vaccine or a potential treatment because only these factors could trigger a permanent recovery and positive change in consumer behaviour.
- **Cautious on EM in light of rising geopolitical risks**, with opportunities to watch in credit as well as in Asian and Chinese equities, but the evolution of the China-US relationship is key (recent tensions could derail market sentiment). The credit market is discounting an aggressive rise in defaults, but investors should consider that many of the most troubled stories have already traded down to their distressed recovery levels and some are currently even restructuring. Investors should identify those companies that can successfully draw up a plan to emerge from the distressed status.
- **Covid-19 is an accelerator of growing importance of ESG**: While the E and G will remain high on the priority list, the societal focus towards higher social equality, fair treatment of employees and care for their health will underpin the growing dominance of the S component. There will be greater scrutiny of the ways companies act in the interest of all stakeholders and the community. This will translate into a greater impact on stock prices of some ESG risk factors, which will provide opportunities for active managers, in both the equity and bond space.

MACRO

Equities: a bear rally or a meaningful rebound?

MONICA DEFEND
Global Head of Research

LORENZO PORTELLI
Head of Cross Asset Research

While CBs engaged in unconventional policies on both occasions – now and in 2009 – this time the valuations are so extreme that a bull market driven by multiples expansion seems unlikely

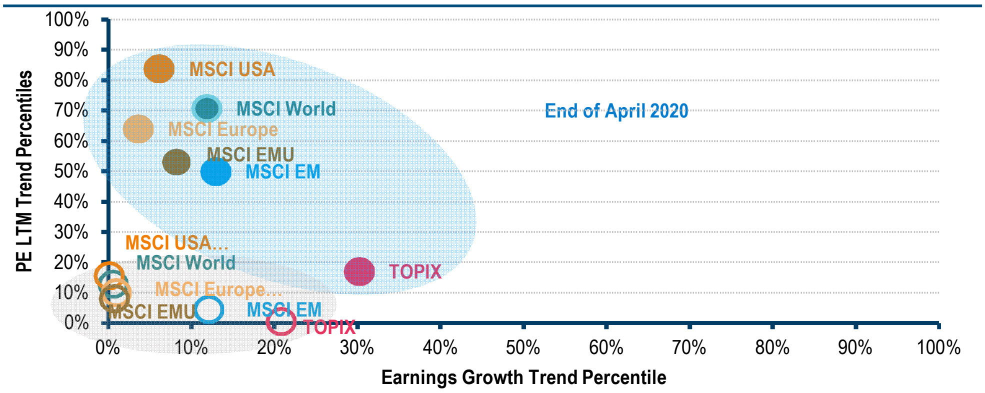
The big question we are debating is: **should we raise the allocation to equities and chase the market rally or not?** While we maintain our strategic preference for risky assets, we are convinced it is tactically safer to stay in the IG space (supported by central bank umbrellas) given that we believe a relapse in equities is due, as explained below.

The economic backdrop has rapidly deteriorated: both hard data and economic momentum have reversed, hurting risk sentiment. We recognise that the medium-term recovery scenario that will probably play out later in 2021 provides significant potential upside. **However, equity markets are anticipating the upside scenario now, at a time when profound uncertainties persist**. These uncertainties relate to health care policies around treatments. While testing and vaccine are on a fast learning track, a lot still needs to be done. There is no clarity on a timeline for availability of a treatment or a potential vaccine.

On the fiscal side, full capacity has to be tested and maintained in the medium term: the speed of implementation is choppy, spending quality still needs to be assessed (in terms of composition and targets), and capacity (of fiscal packages) to recover from the damage has not been fully estimated.

On the other hand, central banks – after having dealt with the 2008 financial crisis – were quick to respond this time and allowed financial conditions to ease, particularly in the US. This was the most convincing factor for the markets to move higher and multiples to expand. **This is where we detect the dangerous inconsistency of falling earnings per share generation and total returns moving higher. Conversely, bond yields and oil prices remain depressed, and the rebound has not benefitted cyclical areas that much**. Earnings revisions are pointing sharply down to historical lows, pushing **P/E ratios back towards their peaks**. The chart below explains our rationale for current caution. In 2009, we saw a profit recession and central bank efforts paved the way for a full asset reflation regime to play out. Today, valuations (P/E percentiles for 2020 earnings) are completely different, with all the major equity indices already at peak. In fact, an MSCI US valued in the 84th percentile (in the blue bubble) may not offer the best possible case for upside. This is the major difference between the situation now and in 2009. In the latter case, P/Es were already in their low percentiles (grey bubble) and the unconventional monetary policies of central banks allowed upward movement in equities. The only exception to this is the TOPIX, which is in a lower percentile now and shows more reasonable valuations. One could argue that this is because Japan is already in a recession, but compared to other advanced economies, a later but smaller shock is likely, with Covid-19 outbreak being largely contained. The unprecedented lockdowns and monetary and fiscal policy responses help us maintain our 'strategic' preference for risky assets, but high valuations don't provide the best possible upside. To close, we would say that unconventional monetary policies have once again reflated asset prices. However, when compared with 2009, **current earnings per share are depressed and P/E levels are so extreme that a bull market driven by multiples expansion is unlikely**.

Valuation map of major equity indices



Source: Amundi Research, as at 20 May 2020. All indices in local currency. PE LTM refers to Price earnings ratio on Last Twelve Month earnings. Names of indices in the grey circle above are same as the ones in the blue circle.

MULTI-ASSET

Manage risk dynamically; avoid following the bulls

MATTEO GERMANO
Head of Multi-Asset

We maintain our defensive stance on equities; positive view on credit and on peripheral bonds as supported by Central Banks action

The economic backdrop is characterised by global recession and sequential slowdown, followed by de-synchronised recovery paths across countries. The length of the weakness, the extent of permanent output loss, and of demand destruction will depend on the duration of lockdowns and the effectiveness of the fiscal/monetary push. We confirm the scenario of growth stabilisation around Q4 2020. Throughout the crisis, we have focussed on active management of risk exposure – protecting credit positions, keeping hedges in place, and prioritising quality of holdings and credit selection.

High conviction ideas

We remain **defensive on European and US equities** because of tight valuations and ambiguity regarding the impact of Covid-19 on global growth. The consensus for 2020 earnings growth has corrected, but it still remains too optimistic for 2021, in our view, despite low visibility. In an environment in which risk remains clearly tilted towards the downside, we wait for markets to provide better entry points (the 2650-2700 level is the trigger for the S&P 500) to act and change our current stance. We maintain a neutral view **on EM** as market volatility remains high, but continue to prefer China, South Korea and Taiwan due to strong stimulus and relatively better containment of the virus.

We have a **neutral stance on duration**, as we believe central banks will aim to keep the cost of public debt low to support governments' fiscal needs, leading range-bound movement in for yields. A Treasury yield of around 60 bps is consistent with the Fed's stance and a sharp worsening of the macro picture. We remain **constructive on US 5Y vs Germany 5Y,** as USTs should benefit from safe-haven flows (although to a lower extent than in the past) and Fed purchases, especially in short- to medium-term segments. Regarding **US inflation**, we are now positive on a medium-term perspective and believe inflation swaps and TIPS breakevens are trading well below their historical averages.

As we exit the pandemic, reflationary forces, such as deglobalisation and debt monetisation, should support higher inflation risk premiums and demand for inflation protection.

The search for yield continues on the Italian curve, as it offers relatively attractive yields. We maintain our constructive stance on Italy 30Y vs Germany 30Y and are now positive even on Italy 10Y BTPs, as ECB actions are helping to put a ceiling on yields and spread volatility. The German court ruling represents a downside risk; however, the ECB is unlikely to change course. We maintain our stance, as it could provide balance to investors' portfolios.

With a focus on liquidity, we are still **constructive on credit**, supported by CB umbrellas in the US and the Euro area, but we prefer IG to HY. EUR HY could suffer from high default rates and slowing top-line growth. Accordingly, we are very defensive.

Given the high uncertainty and divergence of fundamentals and valuations, we have a **neutral view on EM debt** and see a gap between IG and HY countries. In external debt, the IG sector should remain more resilient in the coming months. HY, however, presents a binary risk/tradeoff between default risk for distressed countries and a catch-up from very depressed valuations. On local rates, the main driver for debt is the currency exposure and we believe room for further compression is limited.

On **DM FX**, we are no longer constructive on the EUR/CHF, owing to safe-haven status of the franc, high money supply growth in the Euro area, and the German court ruling which could pressurise the EUR. We maintain the NOK/EUR position, as the Krone has already corrected significantly and is a way to benefit from a more optimistic scenario.

Risks and hedging

Hedging instruments in the form of the **JPY, derivatives and gold** remain key to protect portfolio returns in this phase of high uncertainty.

Amundi Cross Asset Convictions

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

Source: Amundi Research. The table represents cross asset assessment on a 3-6 month horizon, based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/++/+++). This assessment is subject to change. USD = US Dollar, JPY = Japanese yen, UST = US Treasury, DM = Developed markets, EM/GEM = Emerging markets, FX = Foreign exchange, FI = Fixed Income, IG = Investment grade, HY = High yield, CHF = Swiss franc, NOK = Norwegian Krone, EUR = Euro, CBs = Central Banks, TIPS = Treasury Inflation-Protected Security. BTP = Italian government bonds.

FIXED INCOME

Credit quality is key

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Head of Fixed Income

YERLAN SYZDYKOV
Global Head of Emerging Markets

KENNETH J. TAUBES
CIO of US Investment Management

Over the past month, we have seen a gradual improvement in market conditions after massive price and liquidity dislocation in March, but we are still not back to normal. Investors should remain cautious, continue to maintain sufficient liquidity, and be mindful of potential rating migration which could cause volatility in credit markets. On the other hand, they should try to make tactical adjustments in order to benefit from market events – for instance, if there are attractive issues in the primary market – without changing strategic convictions.

Global and European fixed income

We have an overall **neutral stance on duration**, with a constructive view on the US and cautious ones on Japan and Germany. Investors can take advantage of yield curve movements (curve flattening in US, Europe, UK; steepening in Japan). While we remain positive on **Euro peripheral** debt, we are more cautious but still constructive on Italy (strong investor appetite as €22 billion raised recently through BTPs). Concerns on German court ruling and increased debt burden are balanced by Franco-German proposal for a sort of 'recovery fund'. On credit, **US IG** (we recently became more positive on this segment) and **EUR IG remain well supported** by CB actions, but **credit selection and quality are important** to distinguish issuers who will make it through the crisis vs those that will become insolvent. We like subordinated financials, telecoms, pharmaceuticals and insurance, but are cautious on US energy. Bond issuance in the US has been concentrated in IG borrowers and on BB-rated corporates (Fed's decision to include fallen angels and HY ETFs in its programme). We have confidence in BB sector, but *search for quality* is key here. Activity in US HY has resumed (demand exceeded supply) but activity is muted in Europe. **However, investors should exercise caution**.

US fixed income

Securities and sectors with limited prospects for price appreciation, such as insurance-linked securities (which have delivered 2% returns YTD) and AAA consumer and commercial real estate securitisations, have been resilient and may provide opportunities to serve as funding sources for long-duration IG corporates and some HY credit at deep discounts. We remain positive on RMBS outside of the AAA-rated tranches, as their spreads grind tighter but are overly discounted. **Being careful to maintain adequate liquidity, investors should hold positions in UST, TIPS and US government agency mortgage bonds, and cash**. In addition, this is a time to consciously pare back idiosyncratic risk when liquidity and pricing afford opportunities. Spread tightening in leveraged loans may enable investors to exit BB names at prices near par, and improve liquidity and quality while extending credit duration.

EM bonds

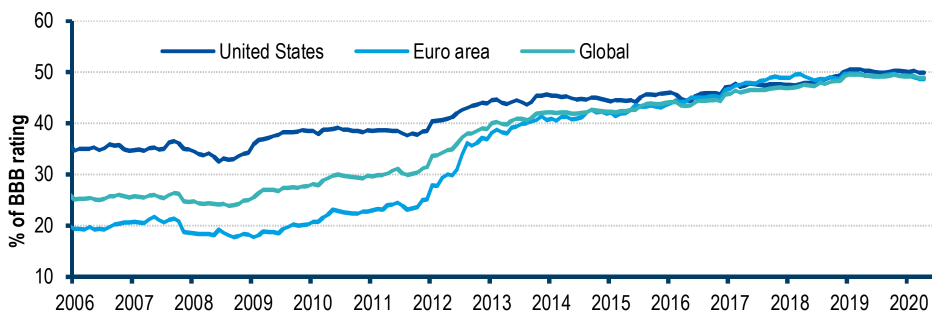
We are mindful that the Covid-19 crisis is weighing on global growth and corporate earnings, with negative effects on EM outlook, pushing many countries into recession. We have been **cautious on names dependent on exports, commodities and tourism**. Portfolio hedges and liquidity remain important. On HC, we are positive, particularly on HY (Ukraine). There are opportunities in primary market to gain exposure to IG names at discounted levels (Mexico). We are cautiously constructive on local rates in Mexico and South Africa, and positive on Russia.

FX

In DM FX, we are positive on the USD and JPY, given their safe-haven status, and are less negative now on the CHF but cautious on the EUR and GBP. On EM FX, we are defensive.

We look for market dislocations and also strive to stay away from names that won't withstand this crisis. This is even more important as the BBB market share has increased substantially

Quality breakdown of the IG index



Source: Bloomberg, monthly data 30 April 2020. Analysis based on ICE BoA indexes.

GFI= Global Fixed Income, EM FX = Emerging markets foreign exchange, HY = High yield, IG = Investment grade, CHF = Swiss Franc, EUR = Euro, USD = US dollar, UST = US Treasuries, RMBS = Residential Mortgage Backed Securities, ABS = Asset Backed Securities, HC = Hard currency, LC = Local currency, TIPS = Treasury Inflation-Protected Security, GFC = Global Financial Crisis of 2008, JPY = Japanese yen.

EQUITY

Low earnings visibility calls for caution

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Head of Equities

YERLAN SYZDYKOV
Global Head of Emerging Markets

KENNETH J. TAUBES
CIO of US Investment Management

Overall assessment

As governments ease lockdown measures and the world gradually moves out of the Covid-19 crisis, we are likely to see ballooning government debt, low interest rates and economic growth, a rise in the importance of ESG (especially the S factor), growing inequality, political fragmentation and increased geopolitical tensions (US-China, EU unity). We observe a stark contrast between 'market sentiment' and 'economic fundamentals'. While it is important to note that policymakers can provide short-term liquidity, the demand recovery also depends on fear and confidence. This in turn could still impact earnings and long-term corporate solvency. Investors are forced to navigate this situation with **exceptionally low forward visibility in an environment with potentially a wide range of outcomes.**

European equities

Overall we urge **caution**, given the heightened level of uncertainty and deteriorating fundamentals. It is crucial to maintain **process discipline, focus on stock selection, and ensure appropriate liquidity levels**. We continue to favour balance sheet strength and believe investors should balance near-term risks with medium-term opportunities through extensive use of scenario analysis. Opportunities exist and we suggest investors to apply barbell strategy with exposure to attractive stocks in the defensive sectors (utilities, health care, consumer staples) on the one end and non-disrupted and discounted cyclical sectors (luxury, construction) on the other. In addition, identifying some structural winners in some accelerating trends, such as e-commerce, will be key in generating long-term returns. From a style perspective, there are selective opportunities within value in non-disrupted cyclical areas.

US equities

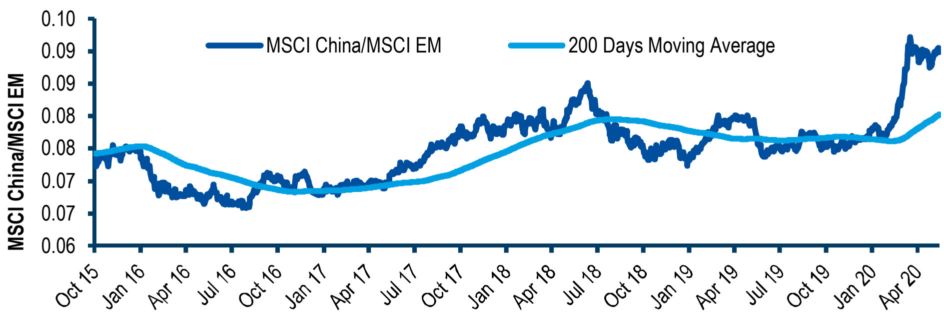
US equities remain one of the best long-term asset classes in the world, and the outperformance continues to build in these conditions. We expect the market consolidation that started in mid-April to continue. In terms of convictions, we believe the winners will continue to win. Investors should avoid the sector/stocks that are under extreme short-term pressure, including airlines, challenged retailers, cruise lines, high fixed-cost and low-margin businesses, and commercial real estate. **Instead, we think investors should focus on sector leaders with sustainable businesses in an ESG integrated approach.** This approach proved to be right during the correction and we recommend investors continue to follow this path. Sustainable companies with market-leading positions win when market conditions are tough. **Now is also a time for investors to marginally start adding cyclicality to their portfolios**, as low volatility is overpriced. At a sector level, we prefer financials, communications services and industrials while we are cautious on consumer staples, utilities and materials.

EM equities

We are focusing on countries at a later stage of the coronavirus cycle (China, Taiwan, Korea) and less vulnerable names within stories of resilient domestic growth and progress in structural reforms (EMEA, India). While there could be headwinds as global uncertainties remain, **skillful bottom-up selection, a careful top-down assessment**, **and liquidity management** can help investors weather the current storm. In conclusion, although we prefer to maintain an overall cautious stance for the time being, our outlook is constructive for EM assets in the medium term – as long as the risk of a second wave of infection does not materialise.

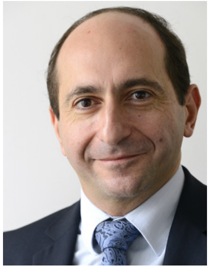
Dividends are now likely to be pro-cyclical because they will reflect the environment in which companies operate, as the latter will be accountable not only to shareholders but also to society

Relative performance of Chinese equities vs Emerging Markets



Source: Bloomberg, Amundi as at 20 May 2020. MSCI China and MSCI Emerging Markets Price Index in US dollar

THEMATIC



DIDIER BOROWSKI
Head of Global Views

PIERRE BLANCHET
Head of Investment Intelligence

The ECB would face operational difficulty and political obstacles

As part of Global Research, the main mission of the newly established Global Views team is to strengthen Amundi's thought on key cross-cutting thematics

Controlling the yield curve during the recovery phase

As part of their toolkit to support the economic recovery during the Covid-19 crisis, central banks could implement yield-curve control. Although appealing, the implementation and exit risks of such a policy counterbalance the benefits, particularly in the Eurozone. Moreover, the impact on financial markets could be significant since chained risk-free assets could temporarily leave risky assets unsettled.

With central bank (CB) key rates close to zero, yield-curve control (YCC) policies are back in the spotlight. Under such a policy, the **CB seeks to control a particular point or segment of the yield curve** (often the 10-year maturity). To do so, the CB implicitly commits itself to buy (or sell) the amounts of securities needed to achieve its objective. **If the CB is credible**, thanks to market arbitrage, **bond yields tend to move close to their target**. In practice, YCC is often similar to a form of QE but with very different modalities, in that security purchases adjust to bond yields and not the other way around. **The CB loses the control of its balance sheet**. The yield peg could even lead the CB to shrink its balance sheet. This could be the case if private-investor demand exceeds financing needs (new issuance and refinancing).

YCC is unlikely for the ECB

YCC was implemented in the US in the post-war period (until 1947), more recently in Australia and since 2016, the BoJ has explicitly targeted its 10-year yield at zero. This policy, combined with negative key rates, has been successful in Japan because it has allowed the BoJ to reduce its bond purchases and contain its balance sheet. YCC is conceivable in "true" monetary unions like US, Japan or the UK where there is only one (central) government debt instrument.

On the other hand, it is not feasible in the Eurozone for at least two reasons. First, the ECB would have to **manage several yield** curves simultaneously. On top of the operational difficulty, there would be a **political obstacle**: the ECB has no legitimacy to estimate the credit risk embedded in each sovereign debt. Secondly, the ECB would have a legal problem because it would have to commit to buying assets without any rule of **proportionality**, or even to monetise public debt, which is prohibited by the Lisbon Treaty. That said, if the Fed and/or the BoE opt for YCC, that would likely have repercussions on German yields, too, as investors would arbitrate the spreads between nations. Lastly, the exit of YCC bears significant risks as the bond market could suddenly adjust and potentially offset the benefits.

When jailed risk free rates unleash risk assets

For the Fed, a temporary control of the short-end of the curve aligned with the "dots", combined with QE on the mid-to-long-end, looks like an efficient strategy both in terms of cost/benefit and exit risk. A **YCC + QE combination** means that the adjustment of the "risk-free asset" to the nominal economic cycle will not happen, at least temporarily, unless there is a shift in the term premium. These yield cap policies should therefore affect the **co-movement of financial assets** (volatility and correlation) during the recovery phase away from their historical norm and boost **unanchored risk-assets returns**.

In effect, if Treasury bill and bond yields remain low and stable, and the curve stays flat while investors' expectation for growth improves, **"uncontrolled assets"** such as equities should benefit from **artificial high valuations**. These assets will become the market proxy for changes in nominal growth expectations while the correlation of their returns with bonds will get closer to zero. Yet, equities would also suffer from a more acute version of the **volatility regime** we have seen over the last 3 years with long periods of very low volatility and sudden spikes to extreme levels. Moreover, risk free rates should also influence **IG credit offering higher expected returns**, more than HY credit on a volatility-adjusted basis. Lastly, as the yield curve stays flat regardless of the economic recovery, **EM HCD** would find valuation support and inflows from investors hunting for yield.

However, the uncertainty around the "natural" risk free rate should also lead higher risk premia, lower cross-asset correlations and potentially lower diversification benefit for balanced strategies. Therefore, YCC + QE could put the US economy back on track quicker, but with **the risk derailing financial markets** at least temporarily.

Finalised on 22/05/2020

THEMATIC

State of the US consumer: weakened but resilient

ANNALISA USARDI, *CFA*
Senior Economist

PARESH UPADHYAYA
Director of Currency Strategy, US Portfolio Manager Amundi Pioneer

Massive government support and healthy consumer balance sheets are providing the means for the consumer to weather a relatively short but very deep recession. We are closely watching the magnitude and duration of unemployment to gauge the consumer's debt-repayment capacity. The government backstop continues to provide stability for the financial markets and we believe it is a fertile environment for active management.

As the US plunges into its worst recession in the post-WW2 era, we examine four key questions: (1) How has the crisis affected the US labour market so far? (2) What condition is the US consumer in? (3) What are the primary debt vulnerabilities? (4) What are the prospects for defaults in mortgages, credit cards, and auto loans?

How has the crisis has affected the US labour market so far?

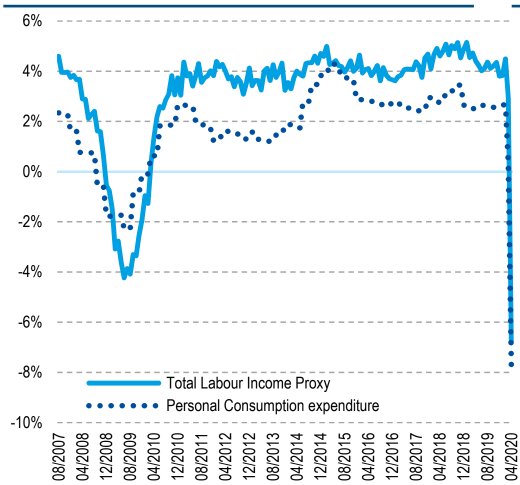
The Covid-19 crisis has led to unprecedented rise in jobless claims and payrolls cuts, erasing almost completely the jobs created in the longest economic expansion on record. Looking at the available data, job losses are concentrated so far in sectors on the "front line" of the crisis, i.e. services. The most affected both in both absolute and relative terms are leisure and hospitality, followed by trade, transportation and utilities. In March-April more than 21 million US jobs were lost. They were concentrated in the private service sector (84% of the total jobs lost in the economy), with almost 18 million layoffs, i.e., 17% of pre-Covid-19 available jobs. The service sector accounts for approximately 71% of the U.S. labour market. So far, layoffs have affected people and sectors with mostly the lowest salaries, and this has created a compositional shift, which has boosted temporarily average hourly earnings both in aggregate and within each category. Yet, we expect this phenomenon to be only temporary. As total hours worked in the economy decline due to a combination of lower hours and lower employment, the total labour income proxy we track to understand future trends in consumption is expected to collapse in Q2, to an extent well beyond the depths seen during the GFC.

As total labour income falls sharply, personal consumption is expected to collapse in Q2, in a size well beyond the depths seen in the GFC

How the US consumer will resurface from this shock relates critically to persistent weakness in the labour market. In April records, a rather large proportion of people were reported to be on temporary lay-off rather than unemployed. In order to assess how fast the labour market will be able to recover, it will be crucial to monitor how quickly continuing claims will be falling in reopening states. In addition, while all eyes will be on the unemployment rate, it is worth mentioning that this indicator cannot fully capture the weakness in the labour market, and in our opinion, should be monitored closely together with the labour force participation rate. The LFPR in April dropped by 2.5pp to 60.2% (-0.7pp in March), and will be a key variable to watch in discerning the persistence of the shock, i.e., whether he decline is a temporary response to the restriction of people's mobility or a signal of much greater weakness in the labour market).

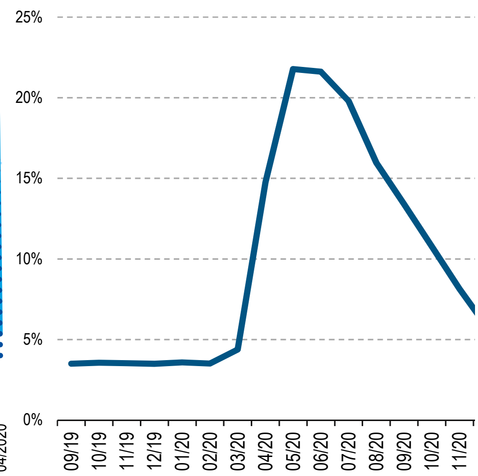
We expect the US economy to contract between -4.5% and -6.5% in 2020, and

1/ Total labour Income Proxy vs Personal Consumption Expenditure (real) YoY



Source: Amundi Research, Bloomberg data as of 10 May 2020

2/ Unemployment rate likely evolution



Source: Amundi Research, Bloomberg data as of 10 May 2020

THEMATIC

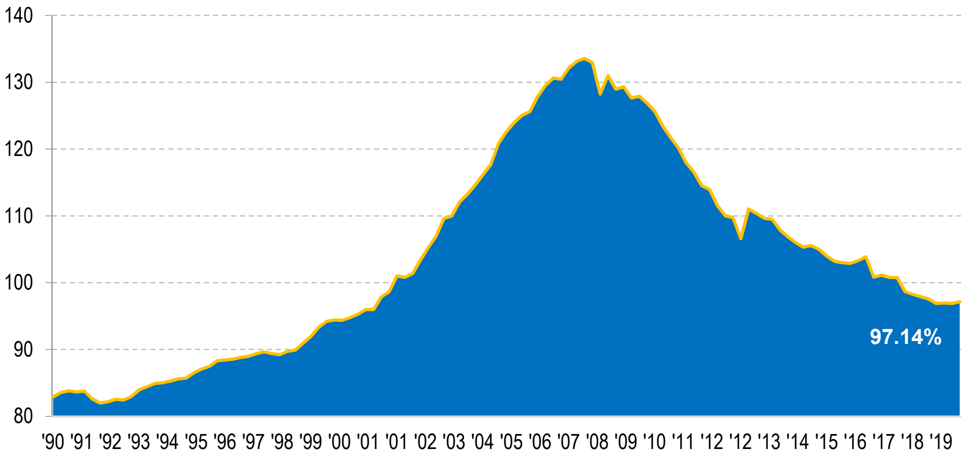
the unemployment rate to rise up to 21% between May and June. We then assume a gradual decline throughout the year but maintaining the average unemployment rate in a range of 10 to 12% on average in 2020.

Consumers started from a position of strength

US consumer fundamentals have been strong, especially household balance sheets. According to the Fed, household debt as a percentage of disposable personal income fell sharply from a peak of 133.5% in Q4 2007 to 97.1% in Q4 2019. (Chart 3). Household debt-service payments, or the ability to pay interest on debt owed as a percentage of disposable income, stood at 9.7%, the lowest since the inception of the series in 1980. Finally, the personal savings rate stood at 9% in February, the highest level since 2012, and the early indication from the pandemic is that consumers have sharply increased their savings, with the latest savings rate skyrocketing to 13.1% in March. This is the highest level since 1981.

US consumer fundamentals have been strong, especially the household balance sheet

3/**US Household Debt as a percentage of Disposable Income**

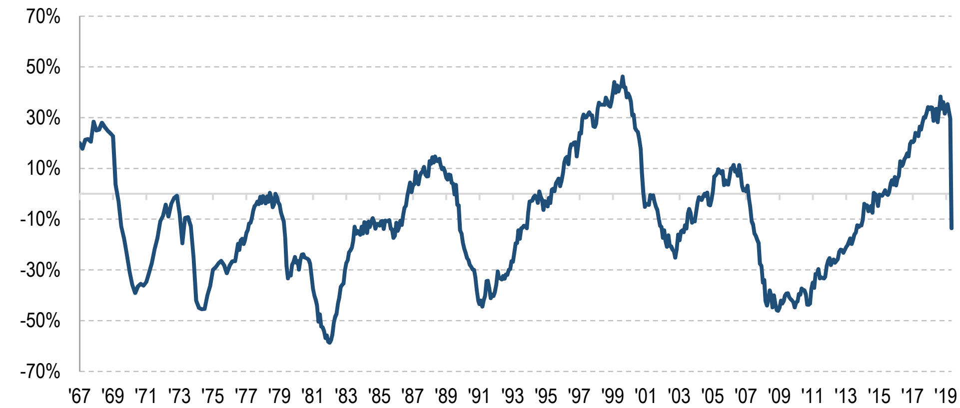


Source: Amundi Research, Bloomberg, last data point 12/31/19.

The Covid-19-related lockdown of the US economy and health concerns have weighed heavily on the US consumer. The Conference Board (CB) Consumer Confidence Index declined from 118.8 in March to 86.9 in April, its lowest level since May 2014. In particular, consumer sentiment reflects labour market weakness. The labour differential, i.e., the difference between jobs plentiful minus jobs hard to get, fell from +29.5 in March to -13.6 in April (Chart 4). Thirty-three million people lost jobs between March 20 and May 1; 61% of consumers surveyed were anxious about job security, and 78% said their household income had been negatively affected by the pandemic recession, according to an Experian poll.

However, consumers remain optimistic that conditions will improve within six months, with those expecting a net rise increasing from +2.3 in March to +14.3 in April, according to the CB. The May 12 National Federation of Independent Business survey found that 78% of unemployed workers expect to be rehired before year-end. The government's fiscal stimulus packages and more generous unemployment insurance benefits may be serving to counter some consumer trepidation.

4/**Conference Board Survey- Jobs Plentiful vs. Jobs Hard to Get**



Source: Amundi Research, Conference Board as of 4/30/20.

THEMATIC

We see three areas where the consumer may be more vulnerable: credit card debt, auto loans and student loans

Key debt vulnerabilities

Unsurprisingly, many Americans are becoming concerned about their ability to pay their debts, such as student loans, mortgage payments and credit card bills. The rate of new household delinquencies, defined as missing a payment for 30 days or more, was 4.61% in Q1 2020. Our analysis from the New York Federal Reserve Bank's Household Debt and Credit Report revealed that total household debt rose from 3.5% year-over-year in Q1 2019 to 4.6% in Q1 2020, the fastest growth in nearly three years. However, household debt to GDP rests considerably lower today at 75.4, than the highs of 98.6 during the global financial crisis. We expect loan growth to slow dramatically.

We see three areas where the consumer may be more vulnerable: credit card debt, auto loans and student loans. While residential mortgages do not appear to be stressed, based on our analysis, the severity of this recession is increasing risk in this area (Chart 5). The CARES Act allows borrowers of federally insured mortgage loans facing financial difficulties to seek up to one year of forbearance. Through April, holders of more than 7% of all mortgages chose to postpone payments for 90 days, according to Black Knight, a mortgage research firm. That said, there is evidence that consumers continue to make payments even on loans in forbearance. Student loans have the highest delinquencies, but the US government has automatically suspended principal and interest payments on federal student loans through September 30, 2020, equating to 85% of all student loans.

Overall credit card, auto and residential mortgage delinquencies remain stable according to the Fed's quarterly report on household debt.

- Credit card delinquencies rose modestly from 6.71% in Q1 2019 to 6.84% in Q1 2020, a gain of 1.77% since the trough in Q2 2016. The rate of serious delinquencies (missing a payment exceeding three months), nudged up from 5.04% to 5.31% in Q1 2020. The card balances that went delinquent remained unchanged from one year ago at 4.6% in Q1 2020.
- Auto loan delinquencies *improved* from 7.07% in Q1 2019 to 6.89% in Q1 2020. Shorter-term auto loans and those for used cars tend to be made to more conservative buyers who repay more reliably.
- Residential mortgage delinquencies slipped from 3.5% in Q1 2019 to 3.48% in Q1 2020. Rising house prices (and ensuing lower LTV), steady income growth and an overall robust economy in 2019 helped lower the delinquency rate in Q4.

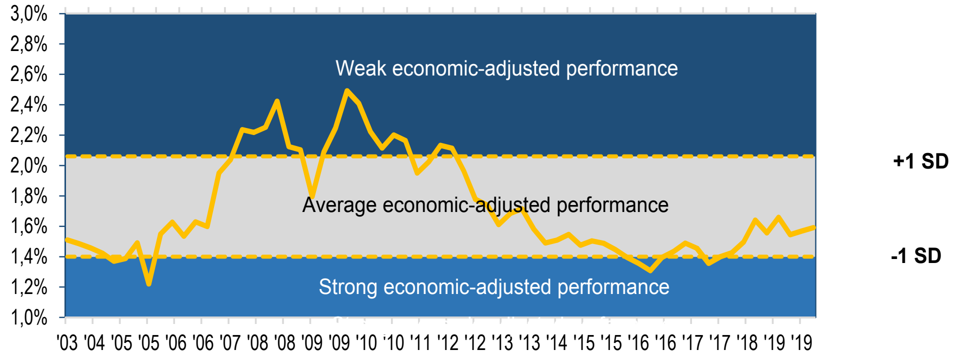
Assessing consumer debt risk

We are using a framework that provides an economic-adjusted measure of asset performance by comparing the percentage of loans becoming newly delinquent per 100,000 initial jobless claims. When the ratio is high, it indicates that job losses are causing a higher-than-average increase in delinquencies, signalling weak credit performance given the state of the economy. This ratio is a good tool to assess potential vulnerabilities to debt payment, adjusted for the state of the economy.

According to most economists, consumer credit performance is strongly correlated with initial jobless claims or other labour market metrics like the unemployment rate. In our analysis, we found that credit cards and auto loans were at risk of delinquencies, breaching the weak economic-adjusted performance territory. The heightened level of 4Q19 auto delinquencies is puzzling, since a robust economy and low unemployment over the last few years should have resulted in a declining delinquency trend. Subpar income growth and an increase of auto loans for subprime borrowers with low credit scores could explain the rise in delinquencies.

On the other hand, first-quarter results indicate that solid economic-adjusted performance of residential mortgages improved. The rate of new delinquencies

5/**Residential Mortgage Economic-Adjusted Credit Performance**



Source: Federal Reserve Bank of New York 12/31/19. (Source of adjusted measures Moodys analysis titled "Post crisis low household debt delinquencies expected to rise modestly," February 12, 2019)

THEMATIC

The magnitude of defaults will depend on the length and severity of the Pandemic Recession

was flat, while initial unemployment claims rose modestly in Q4 2019. This suggests there may not be measurable stress in the mortgage market.

The prospects of default in mortgages, credit cards and auto loans

US household debt increased by $155bn in Q1 2020 to $14.3 trillion, led by mortgages ($9.7 trillion), student loans ($1.54 trillion), auto debt ($1.35 trillion) and credit card loans ($0.89 trillion).

To help us determine default risk, we regressed annual changes in the unemployment rate vs. the 90-day delinquency rate since 1999. We utilized linear trend lines to reveal the anticipated relation between rises in loan defaults and unemployment. Our analysis revealed that with a 1% rise in the unemployment rate, defaults might rise 0.1%, 0.9% and 0.9% for auto, credit card and mortgage loans, respectively. Using Bloomberg's weighted average forecast for unemployment of 9.7% by end-2020, we estimate the 90-day delinquency rates of 3.0%, 10.6% and 6.5%, respectively, vs. 2.4%, 5.3% and 1.1% at Q4 2019, and the 2009 highs of 3.5%, 11% and 8.4% in a typical recession cycle.

Why this time may be different

Our potential default analysis assumes conditions of a typical recession; however, this is far from "normal".

- The nonfarm payroll data revealed that temporary layoffs tallied 18.1 mil, or almost 90% of the job losses. The CARES Act makes it easier to claim unemployment benefits by lifting the requirement to actively look for work. This could mean a quicker reversal in the labour market as the economy reopens.
- The $600/week increase in unemployment benefits on top of state benefits has led to an unusually high number of people experiencing income improvement. State & federal benefits average $978/week, vs. pre-crisis benefits of $378/week. Pre-crisis, more than half of workers brought home less than $957/week, according to Countable.com. *The New York Times* reported recently that "workers in more than half of states will receive, on average, more in unemployment benefits than their normal salaries". This will support consumer's ability to pay bills. Another positive is that the CARES Act has increased the generous unemployment benefits for an additional 13 weeks, for a total of 39 weeks of benefits.
- Consumers plan to spend and save the direct payment checks and unemployment benefits more carefully. According to the Magnify Money LendingTree consumer survey of April 2020, 42.6% plan to pay bills, 28.5% to pay their rent/mortgage and 26% to save. This behaviour goes a long way in mitigating broad-based defaults.

Conclusion

The Covid-19 crisis has generated a wave of layoffs, which may well push the unemployment rate to a peak above 20%. Yet, as many layoffs are registered as temporary, a faster than usual recovery could follow as states reopen and economic activity resumes. Although we are not expecting the labour market to heal fully, we do expect the unemployment rate to retrace lower in H2, alongside economic growth. In this scenario, we should monitor two key aspects: (a) the rate of change in jobless claims in reopening states, to measure how fast unemployed people return to back work; and (b) the labour force participation rate, to evaluate the persistence of the damage created to the labour force. A healthy labour market, although not the level of full employment seen in early 2020, will be key in assessing the resilience of the US consumer.

Despite the severity of the Covid-19 Pandemic Recession, we believe delinquencies may fall short of the rise seen in a typical downturn, especially considering the previous robust economy and the lowest unemployment rate in 50 years. The potential temporary nature of unemployment, the unprecedented levels and duration of government benefits, and consumer frugality should help to minimize the prospects of large-scale defaults.

Ultimately, the magnitude of defaults will depend on the length and severity of the Pandemic Recession. A sharp recession but a quicker reduction in the unemployment rate will lessen the default prospects. As long as the peak in unemployment is transitory, we believe the consumer balance sheet will remain healthy enough for the US consumer to weather a relatively short but very deep recession.

THIS MONTH'S TOPIC

In the wake of first-quarter reporting season, the consensus is probably still too optimistic

At -12% for the S&P 500 in the US and -35% for the Stoxx 600 in Europe, first-quarter results were hit hard by the pandemic, even though it had hardly begun by the end of the quarter. It is therefore a safe bet that results will be even worse in the second quarter but also that they will bottom out for the year. Even so, the consensus still looks far off the mark for both second-quarter results and for 2020-2021. Consequently, the positive impact from reopening the economy already appears to be priced in by far.

IBRA WANE
Senior Equity Strategist

The broken momentum of 2020

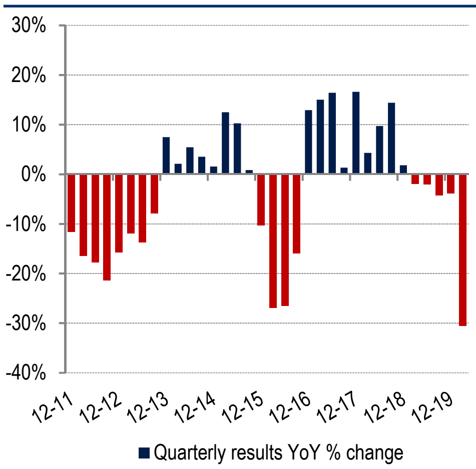
A reporting season already hit hard by the pandemic

Now that first-quarter reporting season is almost over, it's time for an initial assessment. Although the pandemic was still far from peaking in the first quarter, it still hit numbers hard. For the first time since 2015, quarterly results dropped significantly, including **by 12% by the S&P 500** in the US **and by 35% for the Stoxx 600** in Europe.

This is even more striking, as **the pandemic was only beginning** during the first quarter. According to the World Health Organisation (WHO), as of 31 March there were just 0.75 million reported cases worldwide when, as of 12 May, there were more than 4 million. The number of deaths has also skyrocketed, from fewer than 40,000 to almost 300,000.

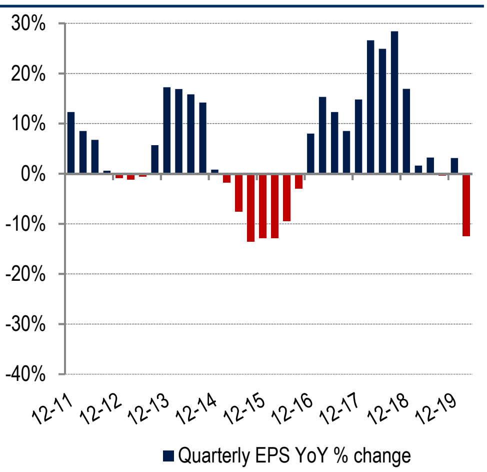
Earnings fell sharply in both the US and Europe, but far more in Europe, as it was hit earlier by the epidemic and resulting lockdowns. As of 31 March, Europe had three times more cases than in the US (0.42m vs. 0.14m) and five times more victims (11,591 vs. 2398). These proportions are likely to rebalance in the second quarter, as the US became the new epicentre of the pandemic from April.

1/ **Stoxx 600 Quarterly results**



Source: IBES, Amundi Research

2/ **S&P 500 Quarterly results**



Source: IBES, Amundi Research

A major sectoral split

Two-track results, depending on sector

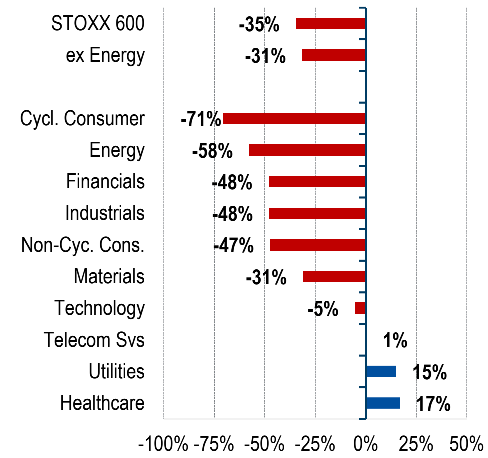
Another thing that jumps out from first-quarter numbers is the clear separation between two types of sectors, in both Europe and the US.

The most resilient sectors in Europe included Healthcare, Utilities, Telecoms and, to a lesser extent, Technologies, which, one way or another, managed to keep their numbers steady or even to improve them in the first quarter. **At the opposite end of the spectrum**, Industrials, Financials, Energy and Consumer Cyclicals suffered drops of between -45% and -60%; there was little difference in this breakdown in the US.

This is mainly due to a **decoupling between cyclicals and defensives but not just to that**. **Energy** is traditionally deemed defensive, but its results collapsed in Q1, after oil prices plunged on weaker global demand and the inability of OPEC, Russia and US producers to agree to output restrictions. Conversely, **Technologies**, which are cyclical, held up better, driven by the boom in telecommuting and online retailing, increased used of networks, and higher memory prices. Lockdowns, however, hit other sectors especially hard. Hence, some ordinarily highly cyclical sectors, such as **Air Transport**, **Automotive**, and **Hotels, Restaurants & Leisure** have been grounded – literally. And **Financials**, which had begun to accelerate in recent quarters, fell on the provisions they had to set aside for expected weakness of borrowers.

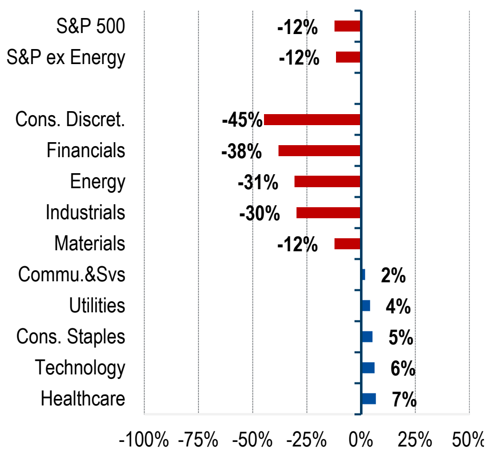
THIS MONTH'S TOPIC

3/ **Stoxx 600: Q1 20 Earnings, (% chge YoY)**



Source: IBES as May 12 2020, Amundi Research

4/ **S&P 500 Q1 20 Earnings (% chge YoY)**



Source: IBES, Amundi Research, as May 12 2020

The pace of adjusting the 2020 consensus has picked up…

After a relatively slow start, **downward adjustments in the earnings consensus have accelerated briskly since mid-February**. To take one example, **first-quarter** forecasts for the Stoxx 600 were downgraded successively from **+10%** on 1 January to **+3%** in mid-February, to **-13%** in late March and to **-35%** on 12 May. Symmetrically, **full-year 2020 forecasts** were downgraded from **+8%** on 1 January to **-25%** on 12 May.

This **change in gears** has tracked the various stages of the pandemic. When **the year began,** the market was still shrugging off the virus and was focusing on an easing in the Sino-US trade war.

Thereafter, following the first reports out of Wuhan in **mid-January,** investors believed that the epidemic would be relatively localised and would have only an indirect impact through value chains.

Earnings revisions have accelerated… but there is still a long way to go

Then, from **mid-February to mid-March**, when the first cases in Europe were reported, particularly in Italy – where the number of confirmed cases rose from 3 to 24,700 and the number of deaths from 0 to 1,800 – the pace of revisions picked up.

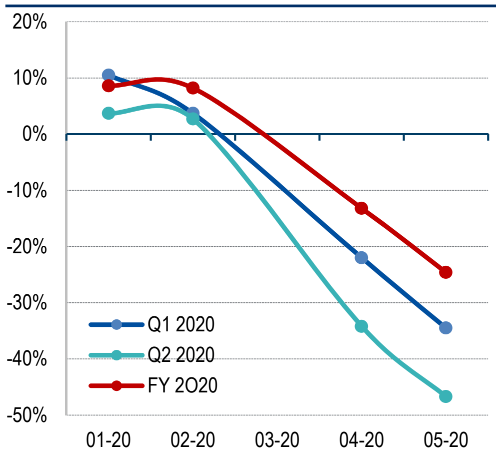
However, not until **the second half of March**, with the imposition of lockdowns, did the consensus truly begin to measure the pandemic's impact and macro- and microeconomic forecasts drop through the floor.

…but not nearly enough

Earnings revisions have picked up their pace, but we still don't think they fully price in the severity of the recession that is now beginning – while there is still some debate over how long it will last, there is no longer any doubt on how intense it will be – and that is shaping up to be the worst since the second world war.

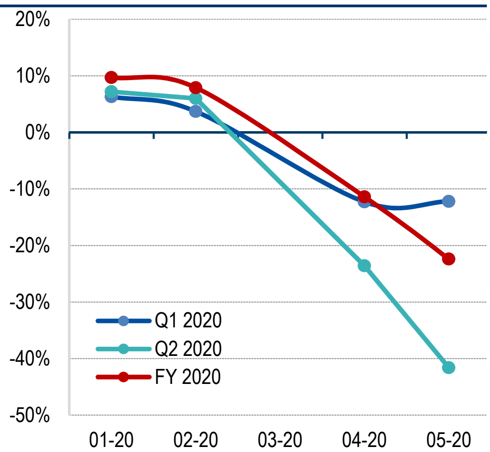
For full-year 2020, the IMF is forecasting a 3.0% contraction in global GDP, including

5/ **Stoxx 600 Earnings estimates over time**



Source: IBES, Refinitiv as May 12 2020

6/ **S&P 500 Earnings estimates over time**



Source: IBES, Refinitiv as May 12, 2020

THIS MONTH'S TOPIC

-5.9% in the US and -7.5% in the euro zone, compared, respectively, to -0.1%, -2.5% and -4.5% during the Great Financial Crisis of 2009. Amundi economists are just as pessimistic in their forecast ranges, with a core scenario of -2.4% to -3.9% globally, including -4.5% to -6.5% in the US and -7.5% to -10.2% in the euro zone.

Given that earnings per share during the Great Financial Crisis of 2009 dropped by 35% in the US and by 47% in Europe, it's hard to see how S&P 500 and Stoxx 600 earnings would fall, respectively, by just 22% and 25% over the full year this time.

It is even harder to imagine, given that there will be no favourable basis effect to cushion the shock, as there was in 2009. Back then, earnings had already begun to plunge in the fourth quarter of 2008, in the wake of the Lehman bankruptcy, while Covid-19 began to play out in full in Q1 2020.

Exceptional items will further dampen results

While Q1 2020 results have already slumped, the moment of truth will be in Q2. Despite the rush to downgrade, consensus Q2 forecasts (-47% in Europe and -42% in the US) still look overly optimistic. Whereas in Europe, 15 days of lockdown (on average) in Q1 was enough to send profits down by 35%, it's hard to see how 45 days in Q2 would cause a drop of just 47%. In the US, Q2 results should be more resilient than in Europe, given the predominance of disruptive companies better able to operate remotely. Even so, such resiliency should not be overstated, and the -12% Q1 figure is not a very good guide, as lockdowns had not yet begun in the US, whereas in Q2, they are expected to have lasted almost six weeks, as in Europe.

Moving past the quarterlies to a two-year view, there are yet more surprises in store. For example, the Stoxx 600 consensus is for a cumulative decline of just 1.5%, based on an initial drop of 23% in 2020, followed by a 28% rally in 2021**. The same goes for the S&P 500**, where, based on consensus forecasts (-21% in 2020 and +28% in 2021), 2021 results would even be slightly higher than in 2019 (+0.9%). In both cases, all this looks even more **unlikely** as, even with a rebound after 2020, **real GDP** in these two regions is unlikely to return to its **starting point** until 2022 in the US and 2023 in Europe.

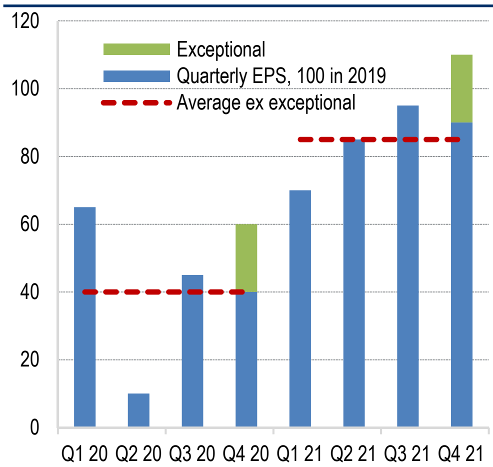
We forecast a deeper initial drop in Stoxx 600 earnings (-60%) followed by a less robust rebound, **which would result in a cumulative, two-year decline of 15%.**

We reached this conclusion based on Stoxx 600 aggregate accounts and on a **comprehensive analysis of leverage**, while taking into account changes in top-line revenues, fixed and variable costs, and likely restructuring. Our reason for doing so is that, during episodes of such severity, it is better to rely on an analytic approach rather than conventional correlations (such as earnings and GDP, etc.), which quickly reach their limits in extreme situations; by definition, these are few in number, but they can skew the quality of the correlation significantly.

The chart below breaks down quarterly forecasts out to the end of 2021. Results are expected to achieve **a sequential increase** after **bottoming out** in Q2 2020. However, both Q4 2020 and Q4 2021 could be hit by heavy **exceptional charges**.

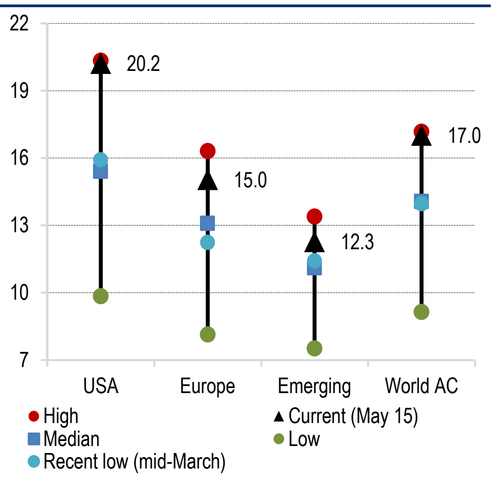
On top of the logistics challenges post lockdowns (transport, return of employees, and reorganising offices and public reception areas, etc.) that should keep them busy until summer, **followed by ramp-ups** this autumn, several companies are expected to announce **productivity plans** late this year in order to adjust to the new environment. Given the time to step back need and the enormity of the challenge at hand, a second round will probably be necessary in late 2021, with measures of a more structural nature.

7/ Stoxx 600 Quarterly EPS forecasts



Source: Amundi Research

8/ 12M Fwd PE over the Cycle (2008-2020)



Source: Datastream, Amundi Research

THIS MONTH'S TOPIC

Conclusion: the eagerly awaited recovery is already mostly priced in.

We should soon have the confirmation that the European economy indeed hit bottom in April-May and should begin to improve in June, as lockdowns are gradually lifted. Be that as it may, and given how aggressively equity markets have rallied from their mid-March lows, **this eagerly awaited recovery appears to be already priced in by far**.

Even with valuation ratios already high –12M FW P/E on both sides of the Atlantic are at 12-year highs or close to it – **they will only get higher** if, as we expect, forecasts for the coming quarters are revised even further down. So, just in Europe, where our review was more in-depth, the consensus would have to decline by a cumulative 14% by 2021.

This would therefore hinder the upside potential of equity markets and make the path to a sustained rally chaotic and dependent on extensions in support measures and / or sanitary breakthrough.

Finalised on 20/05/2020

CENTRAL & ALTERNATIVE SCENARIOS

Monthly update

We maintain the overall pandemic narrative confirming the probabilities, assigned to the base and alternative scenarios.

DOWNSIDE SCENARIO L shaped

20%

- **Pandemic extended up to mid-2021,** with slow medical advances and a second round of outbreaks late 2020
- **National lockdowns measure are extended** as fatalities increase
- **Deep and long global recession leads to a depression**. Demand and economic activity collapse, even beyond the direct impact of the public health emergency
- **Full debt monetisation** worldwide with ballooning public debts and rising CB balance sheets
- **Loss of potential output** on collapsing businesses
- Long period of **financial repression** (through regulation and zero-interest-rate policies)
- **Massive bankruptcies and mounting costs of collapsing businesses** undermine confidence in the banking sector and lead to financial instability
- **Secular stagnation** comes back to the fore and **de-globalisation is the new norm**

CENTRAL SCENARIO Base shaped

50%

- Temporary but prolonged shock:
  - **the pandemic is not over end 2Q20** (falling death rate, but the disease doesn't disappear)
  - national **lockdowns are limited in time**, the epidemic is finally under control in Q3
  - health and economic crises in vulnerable emerging markets (Africa and South Asia)
- **Global deep recession in Q1, Q2 and Q3 2020** with different speed and intensity across regions, higher levels of unemployment
- **Slow sequencing recovery beginning in 4Q20** (hysteresis effects and sluggish growth), followed by a **rebound in 2021** (mostly driven by the base effect and stimulus packages)
- Governments and CBs "**Bazooka" policies** calm animal spirits (fear factor) in the short run (Q2) and **preserve incomes and businesses** (amid regional differences)
- **Corporate defaults surge in 2020** with tighter financing conditions and declining profits, coupled with the oil-price fall. Deep fragmentation of credit markets and solvency issues that will exacerbate in 2021
- The **reversal in the manufacturing sector lags the reversal in services**
- **The Chinese recovery** is curbed by weaker demand from the RoW
- Some stagflationary forces materialise **(de-globalisation)**

UPSIDE SCENARIO U shaped

30%

- **Time-limited shock, the pandemic** is under control in 2Q20
- **Deep but short-lived recession** mainly in 1H2020 with unemployment recovering fast
- Global central banks and fiscal **coordinated actions** support the restart of the economy which heads back to its pre-crisis level already in 2021
- **Reversal** of the manufacturing sector and services
- **Limited number of corporate defaults** thanks for government supports and central bank liquidity measures
- Pent-up demand materialises
- **Above potential growth in 2021**, and possibly in some countries as early as 2H2020

Where do we stand on Covid-19

China has declared it won the battle against Covid-19 and its economy seems to be back on track. Though a second wave is still possible, China, Japan and other Asian countries have successfully managed new clusters so far. **Lockdown measures are gradually lifted across Europe and the US** while the rate of daily deaths of patients diagnosed with the virus continues to ease.

As we are writing, around 5,5 million people have been infected and 350 thousand died according to official numbers with a third coming from the US. Brazil where hospital are overwhelmed and Russia account for more than 350 thousand cases each with a relatively low death rate. However, statistics are getting less and less reliable as the virus is spreading across emerging countries.

Although the chance of finding an appropriate drug or a vaccine is rising, since several medical studies are showing encouraging results, there is still no treatment to the disease. Therefore, social distancing, partial or complete confinement, and availability of masks, tests and hand sanitizer are the main factors to contain the outbreak. Frontiers remain shut for the most part including within the E.U. Schengen area, and advanced countries are competing for medical equipment, drugs and a potential vaccine. Inequality of access to a vaccine will probably be a **source of geopolitical tensions** going forward.

TOP RISKS

Monthly update

Risks are clustered to ease the detection of hedging strategies but they are obviously linked. While we confirm the overall narrative on the outlook, pandemic exacerbated existing fragilities and vulnerabilities while more risks materialized in our radar: financial and geopolitical risks' probabilities are set to creep higher.

ECONOMIC RISK

10%
Probability

Depression

- The **European Recovery Fund** comes too late and its implementation lacks of momentum. This undermines the ECB's position as economic divergences are exacerbated.
- The pandemic continues with a second outbreak and rising fatalities, leading to restated lockdown measures
- **A deep, long global recession:** demand remains subdued as unemployment stays historically high
- **Unsustainable debt burden** post emergency crisis responses, leading to a sovereign debt crisis
- **Rising default risk** and exacerbated emerging markets fragilities (single commodity exporters, tourism)

+ **Cash, linkers, USD, Defensives vs. Cyclicals**

- **Oil, risky assets, FX commodity, EM local CCY exporters**

FINANCIAL RISK

15%
Probability

Financial instability

- **Mounting corporate vulnerability,** solvency issues, and increase of default risks (>15 or even 20%)
- **Spill over into the banking sector** and financial risk exacerbation with a large number of defaults due to global recession and financial instability
- **Central bank policies inefficacy**: UST long-term bond yields to rise despite the Fed's QE with low pick-up in the primary markets (the same may occur in euro area)
- **Rating downgrades, Balance of Payment crisis and credit default** as a result of excessive policy easing on existing fiscal and external vulnerabilities

+ **CHF/AUD, YEN (AUD, NZD, CAD), CDS, optionality, Min Vol**

- **Oil, risky assets, frontier markets and capital outflows**

(GEO)POLITICAL RISK

15%
Probability

Covid-19 exacerbates political tensions

- **US-China fissures** are opening up in many areas from covid19 response to trade and technology
- **E.U. fail** to agree and/or implement the Recovery Plan, eventually undermining political integration
- **US elections:** A more aggressive campaign rhetoric weighing on market. The outcome of the elections bring political gridlocks.
- **Economic and national security interests** (and objectives) arising from a revival in the coronavirus, lead to a new wave of trade conflicts
- The UK is moving to **hard Brexit**

+ **DM Govies, cash, gold, linkers, USD, volatility, quality**

- **Oil, risky assets, EMBI**

Methodology

- **Scenarios**

The probabilities reflect the likelihood of financial regimes (central, downside and upside scenario) which are conditioned and defined by our macro-financial forecasts. We use the k-means clustering algorithm to our enlarged macroeconomic dataset, splitting the observations into the K cluster, where K represents most of the variability in the dataset. Observations belong to one cluster or another based on their similarities. The grouping of the observations into the k clusters is obtained by minimizing the sum of squared Euclidean distances between observations and clusters centroids i.e. the reference values for each cluster. The greater the distance, the lower the probability to belong to a given regime. The GIC qualitative overlay is finally applied.

- **Risks**

The probabilities of risks are the outcome of an internal survey. Risks to monitor are clustered in three categories: Economic, Financial and (Geo)politics. While the three categories are interconnected, they have specific epicentres related to their three drivers. The weights (percentages) are the composition of highest impact scenarios derived by the quarterly survey run on the investment floor.

CROSS ASSET DISPATCH: Detecting markets turning points

How to the read turning point assessment

Not reached yet too early to call it | Approaching to the turnaround | Turnaround happened

ECONOMIC BACKDROP

- **The global consensus has reached new lows, even beyond the levels of the GFC; global economic surprises as measured by the Citi ESI seem to have begun some reversion.**
- The consensus may correct even lower as a new stream of negative data could come out the next few weeks, but the correction that has already happened in many countries may leave some room for positive economic surprises, given the very low and pessimistic expectations.

FUNDAMENTALS & VALUATION

- **We expect earnings to drop in Q2 and Q3 this year and to bounce back in 2021.**
  - In general, potential upside in the central case is not big enough to counterbalance the potential further drawdown of the downside risk scenario.
  - Valuation: PEs are far from flagging potential entry points (S&P500's PE @ 17 and Euro Stoxx 600 PE @ 15 2020).

DEFENSIVE ASSET ALLOCATION

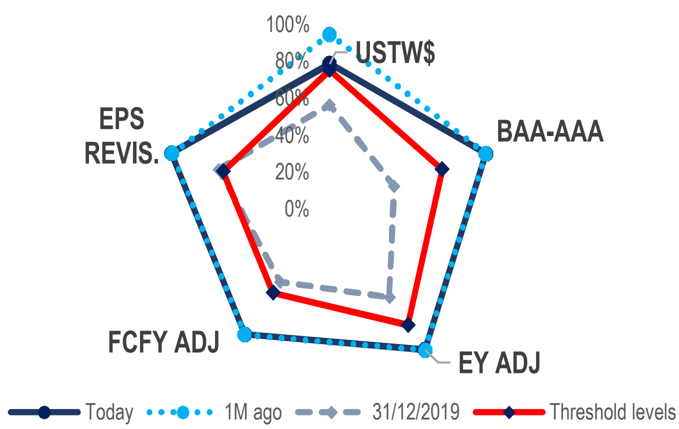
TECHNICALS

- Based on **tactical signals (i.e., technical factors** in addition to pure sentiment indicators) the picture stays mixed. Despite positive signals from technicals (i.e., momentum, with medium term scores this time catching up the positive reading short term score were showing last month), **sentiment indicators still signal a Negative-Risk Environment.**

SENTIMENT

- When looking at financial conditions (which remain tight but eased in response to CB intervention), the banking system's health proxies (Ted, Libor, Comm. Papers) have already retraced close to 10Y min. Banks have, in fact, been provided with huge liquidity. The question is: are they going to circulate it into the system, whatever the risk will be? From flows perspective (State Street data) the mood has been "neutral+" in April/ H1 of May. Deep-diving into Behavioral Risk Scorecard (BRS) indicator in fact, it seems the word on the street stays the same: CBs are difficult to fight, regardless of the visibility on the future.

Cross Asset Sentinels Thresholds (CAST) touching the top



Amundi Research, Data as of 15 May 2020

CAST flags extremely high risk perception.

Sentinels wave above the top on persistent stress in the low-quality credit names as flashed by the Moody's spread (AAA↓↓, Baa↓). EPS revisions continue to run downwards touching all-time lows.

Methodology We consider five inputs which we call "Sentinels": USTW$, Moody's Baa-Aaa, EPS revisions, Earning Yield risk adjusted and Cash Flow yield risk adjusted. These sentinels are used to reposition our tactical asset allocation. Once sound thresholds are detected, the five variables are aggregated as an indicator that anticipates the market's stress conditions, with a certain level of conviction. The pentagon visualises the five sentinels where the red line represents the alert threshold. The greater the distance above the red line, the higher the risk perception, and eventually the need to move closer to a defensive asset allocation.

GLOBAL RESEARCH CLIPS

1

China-US tensions escalate

China-US tensions escalated on the ramping rhetoric on China's role in handling the pandemic. Tensions involving tariffs and extra tariffs measures (such as against Huawei) will lead to retaliations from China, rendering previous efforts futile. One Chinese reaction could play out in the FX space: we envisaged a risk scenario with the USD/CNY peaking higher at 7.30 from a base case of 7.15. On a broader perspective, Covid-19 might exacerbate current trade tensions into a more structural conflict, leading to a "cold war".

2

Labour market

US: In this first round job losses were concentrated in front-line sectors (i.e., service- and hospitality-related), among small/medium enterprises, lower-pay sectors and employees. There has been a shift in the composition of the pool and computation of average hourly earnings, which have increased significantly. Some unemployed persons were reported as temporary lay-offs. Currently, the 14.7% unemployment rate could be underestimating the full extent of the damage, which will become visible in next few months (second-round effects on deeper economic damages). We estimate that about 30 million jobs are at risk, that unemployment could rise to about 22% and then recede gradually (after peaking in Q2-Q3). Keep an eye on: continuing claims (if and how they decline in states that are opening back up) and labor force participation rate trends (if it remains weak or not – i.e., people coming back to look for a job).

China's economy is recovering (based on macro and micro evidence), showing that the worst is likely behind for the services sector while pressures in manufacturing employment are building up. Balancing these two factors, the unemployment rate is likely to hover at just below 6% in the near term. The worst reading was 6.2% in February.

3

German Constitutional Court ruling

The German Constitutional Court ruling challenges the EU legal architecture. Political ramifications are bigger threats than a short term impact on monetary policy and the economy.
The best strategy is for the ECB not to react, but to acknowledge the ruling and continue business as usual. If not, it would likely pave the way to other national courts to challenge the legal EU framework legitimacy.

4

Increased funding needs

Increased funding needs to create market dislocations and rates pressures. There is limited scope for higher rates, as central banks will monetize additional debt supply and short- and long-dated bonds (Fed to buy unlimited supply of Treasuries and MBS, ECB to increase the size of PEPP). The base case is for the curve to flatten on gloomy economic and inflation expectations.

5

Equity markets

Equity markets are pricing in a reality closer to the upside scenario amid a depressed environment for EPS growth. Valuations had been lifted on central banks' "whatever it takes" and easing of financial conditions. Based on policy responses and lockdowns, we are maintaining our strategic preference for risky assets but the valuation boost does not provide the best upside today. We recommend not chasing equities while preferring the relative safety of IG.

Brexit: The probability of a no-deal is rising

As the third round of negotiation between the UK and the EU has failed to show significant progress, both parties are facing the mounting risk of a no-deal Brexit. Indeed, we are only a few weeks away from the end of June deadline where the UK can still ask for an extension of talks, which it refused to do so far. The **Covid-19 crisis caused some delays** but talks restarted via videoconference. The latest round closed with an exchange of bitter words between the E.U. negotiator Michel Barnier and David Frost representing the UK, highlighting a disagreement on key points including common governance, social and environmental standards, so called **"level playing field"**. Other topics are still unclear such as the solution to avoid a hard border in Ireland or immigration rules.

The roots of misunderstanding are deep. In fact, the EU is still trying to forge a deal, which would allow the UK an extensive access to the Single Market with the obligations that comes with it, while the UK is basically asking for a trade deal-based relationship with light obligations and no oversight from the EU.

The clock is ticking. The European Council scheduled on 18-19th June is supposed to discuss the new treaty with the UK, and seven months look extremely short to finalise a deal and get it approved by 27 member states. Unless both side amend their position and the UK asks for an extension, it becomes more and more likely, the British, which have left the E.U. on 30th January, will not have a trade agreement with its main economic partner on 31st December 2020. Nonetheless, last year after very tense negotiations, both sides finally showed pragmatism and signed the EU-UK Withdrawal agreement.

AMUNDI ASSET CLASS VIEWS

	Asset Class	View	1M change	Rationale
EQUITY PLATFORM	US	-/=		The correlation between economic data (weak) and market performance (positive) has never been so low and markets are pricing in a quick recovery which is too optimistic, in our view. We believe earnings estimates will continue to come down and we stay defensive. However, this cautious view should not be confused with a long term positive stance as US equities are reasonably valued relative to their cost of capital. In addition, the dividend yield of US equities is higher than 10y UST and that is rare.
EQUITY PLATFORM	Europe	-/=		The unprecedented economic 'sudden stop' has already impacted demand and supply in an environment where forward visibility is low and the range of outcomes wide. Therefore, caution is warranted and we recommend investors balance near-term risks with medium-term opportunities by maintaining process discipline, focusing on stock selection and ensuring appropriate liquidity.
EQUITY PLATFORM	Japan	=		Corporate valuations remain below their long-term averages and balance sheets are under-leveraged; but, the current recession and weak global demand will affect earnings. We remain neutral.
EQUITY PLATFORM	Emerging markets	=		We are cautious overall and are exploring names in countries at a later stage of the coronavirus cycle (China, Taiwan, Korea) and in countries with resilient domestic growth and progress in structural reforms (EMEA, India). However, as global uncertainties remain and further trade tensions are looming, there could be headwinds.
FIXED INCOME PLATFORM	US govies	=/+		UST demand remains strong, supported by the QE programme and foreign inflows. While at the latest FOMC the policy rate remained unchanged, the US Congress approved additional fiscal measures leading to a total fiscal stimulus of nearly $3tn. Issuance programme, including long dated bonds, will bring more duration to be absorbed by the market.
FIXED INCOME PLATFORM	US IG Corporate	=/+		IG spreads have tightened and markets have absorbed record issuance of corporate bonds, supported by continued QE. Given this spread-tightening and elevated uncertainty (social, economic and market), selectivity is increasingly important. However, attractive valuations offer compelling return prospects over the next one to two years.
FIXED INCOME PLATFORM	US HY Corporate	-		The Fed's move to unexpectedly expand the scope of its corporate security purchase programmes in early April to include crisis-related 'fallen angels' as well as HY ETFs supported activity and spread tightening. Despite all that, we remain very cautious and focus on quality, as any economic recovery is likely to be slow.
FIXED INCOME PLATFORM	European govies	-/=		We stay cautious and wait to see how the recent agreement between France and Germany to push for a recovery fund is received by other EU member states. We are still mildly constructive on peripheral bonds.
FIXED INCOME PLATFORM	Euro IG Corporate	++		EUR IG should benefit from the current normalisation environment and the ECB's large liquidity backstop. We remain positive on EUR IG, particularly on the subordinated debt financial sector,
FIXED INCOME PLATFORM	Euro HY Corporate	-/=		We remain selective on industrials sectors such as auto, as well as on pharmaceuticals and media. Overall, we think, liquidity is stabilising, but is still tight in the current market environment.
FIXED INCOME PLATFORM	EM Bonds HC	=/+		Covid-19 and oil dynamics are shaping the economic environment for EM and in general we have been cautious. We remain positive on HC debt, where we have a constructive stance on selective HY names, and also believe that some IG primary market offerings are attractive.
FIXED INCOME PLATFORM	EM Bonds LC	=		We like local rates and believe selectivity is important in countries such as Mexico and South Africa. Russia continues to offer attractive value. Note that we remain cautious on FX.
OTHER	Commodities			Cyclical commodities are not supported by the economic backdrop, due to the global lockdown, and oil is suffering the same fate. While oil prices will benefit from a restoration of economic activities, markets are still discounting a huge structural oversupply and a no-recovery scenario. Gold remains the great winner in this framework, as it benefits simultaneously from economic uncertainty, increasing government deficits and central bank QE purchase programmes.
OTHER	Currencies			While CB and government interventions have helped contain credit risk and ease financial conditions, the USD stayed resilient, with depreciation visible against only a few currencies. In addition, when we look at fundamentals, the US Dollar Index (DXY) trades at a premium to its fair value. However, valuations don't work properly in uncertain times and during capitulating growth expectations. The EUR has been an underperformer as EZ growth is collapsing (more than US) and the outcome of the German court ruling had an impact. But Franco-German agreement on a recovery fund could be positive. Our 12M target for the EUR/USD is 1.14.

LEGEND

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	Negative		Neutral		Positive		Downgrade vs previous month	Upgraded vs previous month

Source: Amundi, as of 25 May 2020, views relative to a EUR-based investor. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product.

IG = Investment grade corporate bonds, HY = High Yield Corporate; EM Bonds HC / LC = EM bonds hard currency / local currency. WTI= West Texas Intermediate. QE=quantitative easing.

DEVELOPED COUNTRIES

Macroeconomic outlook

Data as of 20/05/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	**3.1**	**-4.1/-2.7**	**3.9/5.1**	**3.0**	**2.4**	**2.5**
Developed countries	**1.7**	**-7.6/-5.8**	**3.1/4.7**	**1.5**	**0.7**	**1.0**
US	**2.3**	**-6.5/-4.5**	**2.5/4.5**	**1.8**	**1.0**	**1.0**
Japan	**1.2**	**-4.9/-4.3**	**2.0/2.6**	**0.7**	**0.1**	**0.5**
UK	**1.4**	**-9/-7**	**3.0/5.0**	**1.8**	**1.2**	**1.4**
Eurozone	**1.2**	**-10.2/-7.5**	**3.6/5.6**	**1.2**	**0.6**	**1.1**
Germany	0.6	-9.5/-7.5	3.4/5.4	1.5	0.7	1.2
France	1.2	-10.6/-7.0	4.3/6.0	1.3	0.6	1.1
Italy	0.3	-10.7/-7.8	2.9/4.9	0.7	0.1	1.0
Spain	2.0	-10.4/-7.9	3.5/5.5	0.7	0.3	1.0

Source: Amundi Research

- **United States:** The coronavirus crisis has pushed the U.S. economy into a sharp downturn, with severe disruptions of businesses and mass layoffs. Unemployment has surged into double-digit territory (14.7%); confidence on both the consumer and business sides has plummeted; and consumer inflation has started to reflect the consequences of the lockdowns, with headline CPI falling to 0.3% YoY (1.5% prior). The timing and profile of the recovery are still highly uncertain, but we expect GDP to contract between 4.5% and 6.5% YoY, with inflation remaining significantly subdued, with significant risks of moving into negative territory during the year
- **Eurozone:** The European economy has moved into a severe contraction, as witnessed by the appalling preliminary Q1 GDP data, which are even more concerning, given that in several countries the lockdown did not start until the latter weeks of the quarter. We expect the euro-area economy to shrink between -7.5% and -10% in 2020. Lockdowns have begun to be eased in some countries and will be soon in most; this should favour some rebound, as activities reopen but we don't expect a V-shaped recovery. Inflation will remain subdued and at risk of a deflationary trend, due to energy prices and weak demand. Euro-area HICP inflation has already decelerated to 0.4% yoy in April from 0.7% in March.
- **Japan:** Given slumping global demand and domestic epidemic control measures introduced in April, we expect Japan's economy to be hit hardest in Q2, with both private consumption and business investments likely contracting for the third straight quarter. That said, we expect Japan to fare better than other advanced economies, thanks to the government's better control of the Covid-19 outbreak. High-frequency data suggests the decline in Japanese mobility was shallower than the US and Europe, and similar to that of other East Asian economies.
- **United Kingdom:** Britain's economy looks set to shrink by the most in nearly a century, as lockdowns have already produced a 2% contraction in Q1. We expect the economy to contract between 6% and 8% in 2020, the biggest annual fall in GDP since 1921. The downward trend in CPI inflation since the start of the year is likely to continue in 2020 as energy prices weigh on the headline rate, and weak demand on the core component. Lingering weakness in demand and persistent uncertainty are likely to prompt further easing from the central bank.

Nota Bene: The uncertainty around our macroeconomic forecasts is very high, and it triggers frequent reassessments any time fresh high frequency data are available. Our forecasts at this point include a higher qualitative component, reducing the statistical accuracy and increasing the uncertainty through wider ranges around them.

Key interest rate outlook

	25-05 2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
US	**0.13**	**0/0.25**	**0.11**	**0/0.25**	**0.08**
Eurozone	**-0.50**	**-0.50**	**-0.56**	**-0.50**	**-0.58**
Japan	**-0.05**	**-0.2**	**-0.1**	**-0.2**	**-0.12**
UK	**0.10**	**0.00**	**0.02**	**0.00**	**-0.01**

Source: Amundi Research

- **Fed:** Last FOMC Meeting Statement was a non-event: the current policy stance is judged as appropriate while the ultra easy stance and forward guidance were confirmed.
  Warning of "considerable risks to the economic outlook over the medium term", the Fed pledged to do more if needed and to push its powers to their limit to help the economy, keeping rates low and channeling credit into critical areas.
  No major concerns were expressed on inflation side. What matter is inflation expectations and the size of stimulus from Fed and Congress should keep them anchored.
  The Fed will continue to play its role in the link with fiscal measures: in particular the treasury has equity to increase the size of the facilities put in place by the Fed on the private sectors.
- **ECB:** The ECB concentrated its action on liquidity measures rather than on the QE programmes in its last meeting, and more precisely through:
  - the cheapening of conditions attached to previously announced TLTROs operations (interest rate reduced to 50 basis points below the current -50bp rate),
  - the introduction of a "new series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs)" at -25bp fixed rate.
- **BoJ:** The BoJ continued to strengthen its easing in April and May. After doubling ETF purchases, it increased QE by removing the annual soft target of JPY80tn for JGBs (current actual JPY14tn), to accommodate the increase of fiscal stimulus. It announced to add a significant amount of commercial papers and corporate bonds. In addition, BoJ unveiled a new fund-provisioning program to support financing of SMEs. The new programme will add JPY30tn ($280bn) to existing supports for business, bringing the total amount to JPY75tn ($700bn), with an extension of deadline to end-Mar 2021. For the existing special fund operations, BoJ has expanded the eligible collateral range to include all private debts.
- **BoE:** The BoE kept Bank Rate on hold at 10bp and the size of asset purchases unchanged at £645bn although two dissenting members voted for an immediate £100bn extension.
  Both the minutes and the Monetary Policy Report were dovish implying that further monetary stimulus via asset purchases are likely in the near future, given "downside risks around all aspects of the medium-term outlook".

Monetary policy agenda

Central banks	Next meeting
Federal Reserve FOMC	**June 10**
ECB Governing Council	**June 4**
Bank of Japan MPM	**June 16**
Bank of England MPC	**June 18**

Source: Amundi Research

EMERGING COUNTRIES

Macroeconomic outlook

Data as of 20/05/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	3.1	-4.1/-2.7	3.9/5.1	3.0	2.4	2.5
Emerging countries	4.1	-1.8/-0.7	4.4/5.3	4.0	3.6	3.4
Brazil	1.1	-4.6/-3.2	0/1.0	3.7	2.9	3.7
Mexico	-0.1	-5.3/-4.3	-0.9/0.1	3.6	2.5	3.2
Russia	1.3	-6/-4	2.5/5	4.5	3.3	3.9
India	5.3	-2.5/-1.1	3.0/4.3	3.7	5.9	4.9
Indonesia	5.0	0.2/1.2	3.5/4.5	2.8	2.6	3.2
China	6.2	1.4/2.4	7.6/8.2	2.9	2.6	1.9
South Africa	0.2	-6.4/-5.4	4.0/5.0	4.1	4.0	5.0
Turkey	0.8	-7.2/-6.2	4.2/5.2	15.5	9.8	10.1

Source: Amundi Research

- **China:** In April, China's economy continued to grow above trend sequentially. Investments turned positive led by buoyant land sales and public led infrastructure projects. Services consumption was lagging behind goods consumption. Inflation eased further with the fast-sliding food prices and recovering pork supply. The NPC meeting didn't highlight any growth target for 2020 and reported a less ambitious labour market targets: 2mn less new urban employment. Fiscal deficit will expand driven by a sharp pick-up in spending from govt fund. Credit growth is guided to pick up notably from last year.
- **India:** In the last couple of months, economic conditions kept sharply deteriorating. The limited information concerning April (Q2 2020) is giving a much more awful picture than the one anticipated by March data. In April, Freight Traffic and Exports have collapsed. We did revise down our GDP growth expectations for 2020 in the range of -2.5%/-1.0% YoY CY20 from the previous 0%/1.5% YoY. The Government has recently announced a stimulus package of fiscal and monetary policy measures. The sharp recession is going to significantly deteriorate the fiscal metrics.
- **Central Europe:** In Q1 2020, GDP growth halved in Poland, Hungary and Romania compared to Q4 2019, though it remained positive (between 1.9% and 2.4% year on year). However, in the Czech Republic, GDP shrank by 2.2% year on year. These figures must be treated with caution, i) due to data collection problems, and ii) because the lockdown measures were applied in March and therefore only impacted growth at the end of the quarter. We expect GDP to contract in these countries in the second quarter, before picking up gradually in the second half of the year. These forecasts remain tentative due to the uncertainties that remain regarding the extent and the length of the pandemic.
- **Colombia:** With the sharp drop in oil prices and the economic slowdown from Covid-19, Colombia has been facing serious headwinds and deterioration in credit metrics. GDP growth is estimated to drop by close to 5% in 2020, while the fiscal deficit could be as high as 6% of GDP. This would imply that public debt could jump to close to 60% of GDP in 2020 from 44% in 2019. The external accounts are also a cause for concern, with the current account deficit for 2020 estimated at close to 5% of GDP within a context of declining FDI and reduced financial flows and lending to EM.

Nota Bene: The uncertainty around our macroeconomic forecasts is very high, and it triggers frequent reassessments any time fresh high frequency data are available. Our forecasts at this point include a higher qualitative component, reducing the statistical accuracy and increasing the uncertainty through wider ranges around them.

Key interest rate outlook

	22-05 2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
China	3.85	3.65	3.65	3.65	3.65
India	4	3.75	3.85	3.75	3.8
Brazil	3	2.5	2.8	2.5	3.1
Russia	5.5	4.5	4.7	4.5	4.8

Source: Amundi Research

- **PBoC (China):** PBOC suspended rate cut in May, after a series of easing in the prior months. At the NPC, policymakers vow to adopt a prudent monetary policy in a more flexible and appropriate way, by deploying rate cut and RRR cuts. It will also guide aggregate financing growth to pick up notably from last year. With these continuous easing signals, we expect additional 20bp cut to the LPR. RRR cuts are also likely to free up some bank funding for government bond purchases.
- **RBI (India):** For the second time in a row, RBI cut its Policy rate in an extra schedule meeting by 40bps to 4.0%. The MPC also decided to continue with the accommodative stance as long as it is necessary. The rate decision didn't surprise us in the size but maybe in the timing, ten days earlier than the regular meeting. Additional measures have been announced to improve the functioning of the markets, to provide relief on debt servicing and capital market access and to support imports and exports.
- **BCB (Brazil):** The BCB reduced its policy rate by 75 bps from 3.75% to 3%, its largest cut since October 2017. The prevalent view was that, in light of the elevated uncertainty domestically, the remaining scope for monetary policy is unknown and may be small. In the meeting minutes the Committee reiterated that next Monetary Policy decision will depend on the fiscal scenario and economic data and the final stimulus will not be larger than the latest done.
- **CBR (Russia):** On 24 April, the Central Bank of Russia cut its policy rate by 50bps to 5.5% and announced that it had switched to an accommodative monetary policy. It remains open to further rate cuts. The disinflationary pressures from weak demand outweigh temporary pro-inflationary factors such as the weakening rouble. Annual inflation is expected to reach 3.8-4.8% by year-end, and then fall to 4%, which is the target. The CBR also revised its macro forecasts for 2020-21. Given the expected deceleration in economic activity, we expect the CBR to cut rates by 100bps by year-end.

Monetary policy agenda

Central banks	Next communication
PBoC	June 22
RBI	June 5
BCB Brazil	June 16
CBR	June 19

Source: Amundi Research

MACRO AND MARKET FORECASTS

Macroeconomic forecasts (20 May 2020)

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
US	2.3	-6.5/-4.5	2.5/4.5	1.8	1.0	1.0
Japan	1.2	-4.9/-4.3	2.0/2.6	0.7	0.1	0.5
Eurozone	1.2	-10.2/-7.5	3.6/5.6	1.2	0.6	1.1
Germany	0.6	-9.5/-7.5	3.4/5.4	1.5	0.7	1.2
France	1.2	-10.6/-7.0	4.3/6.0	1.3	0.6	1.1
Italy	0.3	-10.7/-7.8	2.9/4.9	0.7	0.1	1.0
Spain	2.0	-10.4/ -7.9	3.5/5.5	0.7	0.3	1.0
UK	1.4	-9/-7	3.0/5.0	1.8	1.2	1.4
Brazil	1.1	-4.6/-3.2	0/1.0	3.7	2.9	3.7
Mexico	-0.1	-5.3/-4.3	-0.9/0.1	3.6	2.5	3.2
Russia	1.3	-6/-4	2.5/5	4.5	3.3	3.9
India	5.3	-2.5/-1.1	3.0/4.3	3.7	5.9	4.9
Indonesia	5.0	0.2/1.2	3.5/4.5	2.8	2.6	3.2
China	6.2	1.4/2.4	7.6/8.2	2.9	2.6	1.9
South Africa	0.2	-6.4/-5.4	4.0/5.0	4.1	4.0	5.0
Turkey	0.8	-7.2/-6.2	4.2/5.2	15.5	9.8	10.1
Developed countries	1.7	-7.6/-5.8	3.1/4.7	1.5	0.7	1.0
Emerging countries	4.1	-1.8/-0.7	4.4/5.3	4.0	3.6	3.4
World	3.1	-4.1/-2.7	3.9/ 5.1	3.0	2.4	2.5

Key interest rate outlook

Developed countries

	25/05/2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
US	0.13	0/0.25	0.11	0/0.25	0.08
Eurozone	-0.50	-0.50	-0.56	-0.50	-0.58
Japan	-0.05	-0.2	-0.1	-0.2	-0.12
UK	0.10	0.00	0.02	0.00	-0.01

Emerging countries

	22/05/2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
China	3.85	3.65	3.65	3.65	3.65
India	4	3.75	3.85	3.75	3.8
Brazil	3	2.5	2.8	2.5	3.1
Russia	5.5	4.5	4.7	4.5	4.8

Long rate outlook

2Y. Bond yield

	25/05/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	0.17	0.25/0.5	0.21	0.25/0.5	0.23
Germany	-0.681	-0.70/-0.50	-0.74	-0.70/-0.50	-0.76
Japan	-0.144	-0.30/-0.20	-0.17	-0.30/-0.20	-0.17
UK	-0.051	0/0.25	-0.08	0/0.25	-0.06

10Y. Bond yield

	25/05/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	0.66	0.5/0.7	0.74	0.8/1	0.81
Germany	-0.49	-0.8/-0.5	-0.45	-0.50/-0.30	-0.41
Japan	0.00	-0.10/0.10	0.06	0/0.2	0.10
UK	0.17	0.20/0.4	0.21	0.3/0.5	0.27

Currency outlook

	22/05/2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
EUR/USD	1.090	1.07	1.10	1.14	1.13
USD/JPY	108	107	107	105	108
EUR/GBP	0.90	0.92	0.89	0.87	0.87
EUR/CHF	1.06	1.05	1.06	1.10	1.08
EUR/NOK	10.90	11.48	11.10	10.40	10.70

	22/05/2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
EUR/SEK	10.54	11.20	10.75	10.03	10.59
USD/CAD	1.40	1.42	1.39	1.28	1.37
AUD/USD	0.65	0.65	0.64	0.75	0.66
NZD/USD	0.61	0.57	0.60	0.65	0.63
USD/CNY	7.14	7.15	7.05	6.95	7.00

Source: Amundi Research

DISCLAIMER TO OUR FORECASTS

The uncertainty around the macro forecasts is very high, and it triggers frequent reassessments any time fresh high frequency data are available. Our macroeconomic forecasts at this point include a higher qualitative component, reducing the statistical accuracy and increasing the uncertainty through wider ranges around them.

A global recession is our base case today

1. How deep?

- The deepness depends on the virus longevity in the countries affected and the consequent gradual to complete lockdown in most of them. Downturn is evident in domestic demand (across its components at different degree) and in trade dynamics. We assume the largest downturn in the lockdown quarter and a milder downturn to follow. We monitor outbreak developments and lockdown/resumption of the economic activity.

2. How long?

- The timeline depends on the deepness of the economic disruption together with the credit conditions and the rise of corporate default, magnifying the financial markets turbulence and therefore the impact on the economy.
- The timeline of the shock has extended, and overall a peak is expected by May to June 2020. The global economy was showing signs of growth stabilization during the 4Q2020.
- The timeline is also a function of the specific developments of the outbreak together with pre-existent fragilities.

3. The fiscal impact

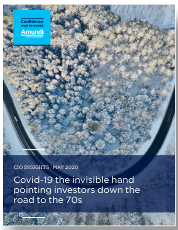
- The impacts of micro and macro fiscal measures are not included in our forecasts but it’s fair to assume a normalization in the financial and liquidity conditions driven by Monetary Policy authorities

Financial targets

- Financial targets are reviewed on the same line and include policy actions implemented on a daily basis.

PUBLICATIONS HIGHLIGHTS

INSIGHT PAPER



Covid-19 the invisible hand pointing investors down the road to the 70s (04 05 2020)
BLANQUE Pascal, Group Chief Investment Officer

- The Covid-19 regime change is bringing to an end the current Volcker sequence and the bias towards austerity on the budgetary side. High debt level is now leading to pressure on central banks to monetise debt, sowing the seeds for a new regime shift similar to the 70s
- A regime shift comes with three key trends: (1) Intellectual victory and academic consensus around new views (2) Imbalances are no longer tolerated by society (3) Change in institutions which structure the regime itself.
- The new equilibrium, with new rules replacing the old ones, will take time to reach and for now the focus should be to concentrate on liquidity, exploit a wide range of risk premia, and stay active.

Emerging Markets Charts & Views: Market dislocation creating long-term opportunities (19 05 2020)
SYZDYKOV Yerlan, Global Head of EM

- Two major drivers are shaping the landscape for EM countries: Covid-19 and oil dynamics. Significant negative effects will lead many EM countries into recession.
- However, shocks are nothing new, particularly within EM. The GFC and the US-China trade war are two recent examples of crises that we have learned from
- Crises create market dislocations and accelerate long-term trends, providing new and evolving opportunities. Investors have to stay agile, focused and prepared to capture new opportunities in fast changing environment.

Asset Class Return Forecasts – Q2 2020 (18 05 2020)
DEFEND Monica, Global Head of Research, GISIMUNDO Viviana, Deputy Head of Institutional Advisory, KIM MOON Jung Hun, Quantitative Analyst –Institutional Advisory, PORTELLI Lorenzo, Head of Cross Asset Research

- The global shocks resulting from the eruption of the coronavirus pandemic have significantly altered the sequence of economic and financial phases, shortened the timeframe and expanded the scale of the ripple effect.
- Global trade will decline as fault-lines along the supply chain surface, and whole economies come to a standstill. Monetary authorities have acted swiftly to assuage the markets, and deflation risk has become a reality because of the freefall of oil prices.
- Our current assumption for the short term is for a broad-base U-shaped crisis (|_____/), marked by central bank and government support, a prolonged recession, and rising unemployment and a gradual recovery in late-2021.

THE DAY AFTER

N.1 Covid-19: the invisible hand pointing investors down the road to the'70s
BLANQUE Pascal, Group Chief Investment Officer

N.2 Learn the rules like a pro, so you can break them like an artist
BLANQUE Pascal, Group Chief Investment Officer, MORTIER Vincent, Deputy CIO, Asia ex Japan Supervisor, BARBERIS Jean-Jacques, Head of Institutional and Corporate Clients Coverage, DRUT Bastien, Fixed Income and FX Strategy, POUGET-ABADIE Théophile, Business Solutions and Innovation, FIOROT Laura, Deputy Head of Amundi Investment Insights Unit

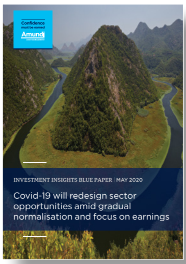
- One of the crucial consequence of the crisis: the vanishing of the established economic rules liberal democracies were living by since the advent of the “Washington Consensus” and the ideological revolution of the 1980s.
- We highlight four rules which have been broken and we look at the investment implications:
  1. Governments should care about the magnitude of deficits, even when rescuing the economy
  2. Public intervention in the economy should be as limited as possible
  3. Free trade and the optimisation of value chains are the best way to allocate global resources
  4. Central banks have exhausted their room for manoeuvre and must work within narrowly defined mandates of supporting financial stability

N. 3 ESG Resilience During the Covid Crisis: Is Green the New Gold?
BARBERIS Jean-Jacques, Head of Institutional and Corporate Clients Coverage, BRIERE Marie, Head of Investor Research Center

- The coronavirus is shaking the financial industry like never before. This is not the first time the world has faced a pandemic of this scale, nor is the first time that policy makers, business leaders and pundits have asked: “Is it different this time around? Are we at a turning point?”
- As serious economic consequences of the Covid-19 crisis are affecting businesses unevenly, companies integrating an ESG approach recognised by investors and ESG funds have been more resilient in the recent crisis period.

PUBLICATIONS HIGHLIGHTS

INSIGHT BLUE PAPER



Covid-19 will redesign sector opportunities amid gradual normalisation and focus on earnings (2020.04.28)
Kasper Elmgreen Head of Equities, Eric Mijot Head of DM Strategy Research, Ibra WANE Senior Equity Strategist, Luc Mouzon Head of European Equity Research

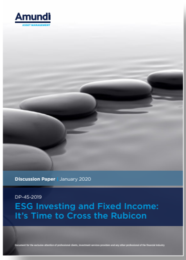
- The spread of coronavirus in Europe and the United States triggered a worldwide stock market crash in March, followed by a partial rebound. We outline three scenarios to analyse the situation
- We compare the current situation with the 2008 GFC and the 1987 crash. In both the above crises, stock markets converged to around 20% below their pre-crash levels one year after the start of the crash
- The fall in European EPS could be equivalent to or much worse than that recorded in the 2008 crisis, given the unprecedented confinement measures
- As the crisis evolves, there is a potential for fiscal stimulus to be targeted at the 'green deal', especially in Europe where ESG remains an integral part of stock selection

INVESTMENT TALKS

Focus on Italy: Macroeconomic and fixed income scenario (20 05 2020)
GERMANO Matteo, Head of Multi-Asset, BERTONCINI Sergio, Head of Rates and FX Research, MARASCIULO Cosimo, Deputy Head Alpha Fixed Income Euro, USARDI Annalisa, CFA, Senior Economist

- We look at the global background and our economic expectations for Italy, discuss extreme scenario for Italian GDP and its implications
- The Italian government foresees the deficit-to-GDP ratio at 10.4% and the debt-to-GDP ratio at 155.7% in 2020 and we look at debt sustainability
- We highlight the important role of the ECB and assess the political development in Europe for Italy.
- We are constructive on Italian public debt as the yields are more attractive than those offered by other peripheral countries' debt or by corporate bonds

DISCUSSION PAPERS



ESG Investing and Fixed Income: it's Time to Cross the Rubicon (2020-01)
Mohamed BEN SLIMANE — Quantitative Research, Eric BRARD — Head of Fixed Income, Théo LE GUENEDAL, Thierry RONCALLI, Takaya SEKINE — Quantitative Research

FX wars, currency wars & money wars
Part 2: Fiat Money vs. Cryptocurrencies Private vs. Public digital currencies… (2020-01)
Philippe ITHURBIDE — Senior Economic Advisor — Amundi

FX wars, currency wars & money wars
Part 1: FX wars vs. currency wars USD vs. EUR vs. RMB vs. … (2020-01)
Philippe ITHURBIDE — Senior Economic Advisor — Amundi)

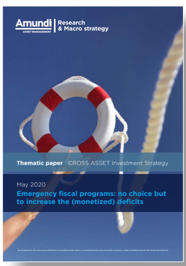
WORKING PAPERS

Did Globalization Kill Contagion? (2020-05)
Olivier ACCOMINOTTI — London School of Economics & CEPR, Marie BRIÈRE — AMUNDI & Paris-Dauphine University, Aurore BURIETZ — IESEG School of Management & LEM-CNRS 9221, Kim Oosterlinck — Université Libre de Bruxelles (ULB) & CEPR, Ariane SZAFARZ — ULB & New York University (NYU)

A Note on Portfolio Optimization with Quadratic Transaction Costs (2019-12)
Pierre CHEN, Edmond LEZMI, Thierry RONCALLI, Jiali XU — Quantitative Research

Machine Learning Optimization Algorithms & Portfolio Allocation (2019-10)
Sarah PERRIN — Ecole Polytechnique, Thierry RONCALLI — Quantitative Research

THEMATIC PAPERS



Emergency fiscal programs: no choice but to increase the (monetized) deficits
Tristan PERRIER, Global Views Analyst

Detecting Tipping Points: Asset classes views:
Medium to long-term scenarios and return forecasts (2020-02)
Monica DEFEND, Global Head of Research, Viviana GISIMUNDO, Deputy Head of Institutional Advisory

U.S. inflation… what's up (2020-01)
Annalisa USARDI — Senior Economist — Amundi

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