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## Overall risk sentiment

Risk off Risk on



Slightly more cautious on risk assets as valuations are tight amid cyclical growth/demand deceleration from peak, high inflation and Covid delta variant

## Changes vs. previous month

- Neutral on EM and China equities in the short term
- More cautious in US credit selection

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

## Markets in 3D: Delta, Deceleration and Divergences

Equities have remained buoyant over the past weeks despite some challenges (China regulation, Afghanistan crisis), primarily due to the exceptional earnings seasons in the US and Europe. Looking ahead, **we identify three main themes: the spread of the Delta Covid variant, the deceleration of economic growth from its peak, and divergences in policies.** On the first D, Delta, the resurgence of Covid-19 cases in the US and Europe has been a key topic, with the return of the so-called lockdown trades penalising travel and leisure stocks and favouring more defensive companies. We believe that the market has probably gone a bit too far with regard to pricing in the potential for new lockdowns. This may have opened up opportunities in the most affected sectors.

**The fear of global spread of the Delta variant overlaps with the second D**, a deceleration in economic growth already in process, both in the US and China. The EZ, in contrast, is still climbing the hill, with the peak likely to be reached in the next one or two quarters, lifted by the periphery, in an inflationary environment that remains more benign than for the US. All these factors translate into diverging monetary policies among the US, China and the Eurozone. In the US, the acceleration in the job market recovery, coupled with higher inflation, is paving the way for tapering talks. China looks to be moving towards an easing bias, and the ECB remains broadly accommodative. Also, the fiscal side could play relatively in favour of the EZ in the coming months, but in US, most of the fiscal accommodation is behind us and the infrastructure plan will take years to become effective.

Now, the 3Ds are building a fertile ground for a return of market volatility, acting as a trigger for a pause in the equity rally and for relative value. This means that investors should stick to some key convictions:

- While staying overall neutral on equity, it is wise to have protection in place.** Given negative real rates for bonds, equity remains the key alternative – even more so if bond yields are set to rise less than inflation, manipulated by policy actions, and dividends remain well-sustained. In the short term, investors should be prudent and build some hedging in case of a fast deterioration of economic conditions due to the virus cycle. Also, we can expect that the extraordinary earnings growth this year will not be repeated. Companies have been able to broadly pass on higher costs to consumers, but if – as we believe – inflation is going to be less temporary than expected, higher wages will follow. This has not yet materialised. While at regional level we keep a neutral stance, we recognise that on a valuation basis, Europe is more appealing, as it has not yet reached the peak in terms of growth and policy action is still supportive.
- The equity value call is intact, despite the summer weakness.** This is giving investors a second chance, if they had not embraced the trade in November, to enter a multi-year trade. The first leg was primarily a cyclical value call; the second wave could be more supportive for interest rate-related names (banks/financials) and prove beneficial to companies with attractive valuations (energy in the US).
- A short duration stance remains the name of the game in Fixed Income.** The search for income continues to favour peripheral Europe, IG and HY global credit, including Chinese bonds. The high level of leverage is an area to pay attention to for credit, which should be monitored based on a perspective of higher rates. This makes the case for selection at the corporate level paramount.
- We stay neutral overall in EM equities, but see divergences.** Short term, we are more cautious on China amid the regulatory wave while we are constructive on India and Brazil, where the worst of the Covid crisis is likely now behind us. On China, we retain our long-term positive call and believe that recent weakness has opened up interesting opportunities. Investors could take advantage of the sell-off to increase their allocation in Chinese equity in global portfolios and manage the current phase focusing more on the sectors that are insulated by changes in regulation, such as biotech and clean energy-related stocks. On EM bonds, a key engine of income, the view is still cautious. The perspective of Fed tapering makes us prudent on duration, favouring HY, as well as on some idiosyncratic stories that need to be monitored (Cambodia, Thailand, Peru, Chile, Brazil) for political risk.

**In conclusion, we reiterate the need to stay vigilant, on the one hand, but not become overly pessimistic, on the other. Markets are balancing less brilliant news from the economy with policy action. All this means that scrutiny of investment cases should be high, as there is little room for mistakes at current market valuations.**

CROSS ASSET RESEARCH ANALYSIS



**Monica DEFEND**  
Global Head of Research



**Alessia BERARDI**  
Head of Emerging Macro and Strategy Research

## China: short- and medium term views

**Growth downgrade:** July’s monthly data point to a broad economic slowdown in China. Production, consumption and investment all disappointed. The broad policy tapering, together with the sector-level tightening, was the major culprit behind the slowdown. Housing indicators dropped notably in July, with property investment growth declining to low single digit for the first time since April 2020 (1.2% yoy in July). Meanwhile, Delta variant risks will likely become more visible in August consumption data, given the expansion of social distancing rules since late July. As a result, we downgraded our Q3/Q4 growth forecasts to 6.4%/4.7% (yoy) from 7%/5.1%, expecting much slower sequential growth in Q3. Consequently, the **2021 annual growth forecast was lowered to a range of 8.4-9.0% from 8.6-9.2%; 2022 growth was kept unchanged at 5.1-5.7%.**

**Policy to turn more dovish:** In light of the weakening growth momentum and the inflation risks, China’s policy stance is expected to turn more towards the dovish side. That said, we expect **policy loosening to come from the credit and fiscal sides** while the PBoC should keep an accommodative liquidity stance without rate cuts (with mounting expectations of a RRR cut in 4Q21). Right now, rate cuts won’t help much if the grip on credit pipelines remains tight and if a full scope policy easing is not on the cards. Top-down credit rationing and sector tightening were the main issues. Money was directed into the manufacturing sector, but this sector’s capex alone is not enough to offset the slowdown in the infra and housing sectors. A likely combination of policy tools turning more dovish should account for credit loosening and the credit impulse bottoming: on-budget fiscal spending picking up through a rise in monthly issuance of local government bonds (likely in Aug/Sep/Dec) while off-budget debt (LGFV/local SOE) tightening should continue. **On monetary policy,** the PBoC should

maintain an accommodative liquidity stance, without rate cuts, the MLF rollover staying generous, only slightly below maturing amount and one additional RRR cut likely announced in late Oct/early Nov, given the medium- to long-term lending facilities maturing schedule. While the regulatory changes are unlikely to stop, they are expected to be paced and spread out over a longer horizon. Property market tightening is likely to continue.

**Medium-term view:** To build a great modern socialist country by 2049, China has been identifying several pillars and GDP growth performance is still an important objective. China wants to double GDP by 2035 vs 2021: that implies an annual GDP growth rate that becomes progressively lower in the next two decades, from 5.5% yoy to 4% yoy. Moving to higher-quality growth means investing in human capital, with the population peaking in 2026 (Amundi estimates); transitioning to green with carbon emissions peaking in 2030; and channelling credit more efficiently. The opening up of China has to be secured through an independent supply chain and an incrementally globally relevant financial market (Belt & Road Initiative, RMB internationalisation). **The second pillar concerns the spreading of wealth,** raising the share of middle income through tax redistribution, a fall in urban-rural and regional imbalances, and enhanced regulations (anti-monopoly, anti-corruption). **Third, to develop a more efficient credit mechanism and an open financial market, defusing financial risks is key.** The first steps are already visible in the increasing number of defaults: large SOE are now in the headlines and are testing the financial de-risking agenda. How Beijing deals with stressed public companies where financial risk could escalate to systemic levels will provide clarity on government’s commitment to the agenda and risk tolerance.

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**Recent weakening of data will result in a more dovish stance from policymakers who in the long-term aim for a modern socialist society, where economic gains and wealth are more equally distributed.**  
”

### China: three pillars in achieving common prosperity

High-quality growth	Doubling of GDP in 2035 vs 2021. Progressively lower GDP: 5.5% (2022-25), 4.0% (2031-35)
	<b>Domestic circulation: reforms &amp; productivity boost: (L Challenge)</b> demographic peak in 2026; revive fertility, invest in human capital. <b>(K challenge)</b> Green Transition: carbon neutrality in 2060; Credit efficiency
	<b>External circulation: balance opening up with security</b> (Independent and secure supply chains; Financial market liberalisation to go along with Belt & Road, RMB internationalisation)
Spread the wealth	<b>High share of middle income:</b> redistribution via tax (property, inheritance, capital gains), social security, donation
	<b>Transform corporate sector:</b> Fill in regulatory blanks, CSR, anti-monopoly, anti-unfair competition, anti-corruption
	<b>Address rural-urban imbalance, regional imbalance:</b> Increase rural household incomes; land use rights
Defuse financial risks	

Source: CPC Constitution, Xinhua, Amundi Research. August 2021.  
RRR = Reserve requirement ratio, BRI = Belt & Road Initiative, RMB = Renminbi, LGFV = Local Government Financing Vehicle, SOE = State Owned Enterprises

MULTI-ASSET



**Matteo GERMANO**  
Head of Multi-Asset

## More prudent in complacent markets

As we monitor the next sequence of economic growth and inflation, it looks like global activity is stable amid policy support from governments. Consequently, we maintain a neutral stance on risk assets but continue to monitor the deceleration in economic activity, tensions in Afghanistan, and elections in Europe. In addition, some corners of the market are showing headwinds to the reflationary trade while others remain resilient on the belief that central banks will step in if needed. This is not a time to change core convictions but to increase vigilance, as both equity and bond valuations are quite tight. **Therefore, with an overall neutral view on risk assets, we believe it is important to maintain hedges on equity exposure.**

### High conviction ideas

**With an overall neutral stance on equities and a pro-cyclical approach, we are monitoring key developments,** particularly in the US, Europe and China. As inflation remains a key topic, consumer sentiment and data point to some weakness. This doesn't mean a change in stance is required, but it underscores the importance of a vigilant, selective approach because the eventual level of economic growth may be less benign for risk assets and that is currently not factored in by markets. On EM, the view is neutral. We downgraded China equities from a marginally positive stance earlier as we evaluate the consequences of regulatory action in pursuit of the government's social objectives. Another issue is the US-China geopolitical relationship and subsequent liquidity issues when investing in China. However, in the long term, these measures could be beneficial and provide good entry points.

In fixed income, we think current core yield levels are not consistent with our higher inflation outlook, leading us to **maintain a cautious view on duration in US (UST 10Y) and core Europe,** in line with our expectation for rising rates and economic recovery. But investors should remain active and adjust stances if sentiment changes.

**The relative value in European peripheral debt** favouring the 30Y BTP vs the Bund is attractive due to a rebound in expectations regarding Italy and continuous support from the ECB.

**Search for income and global diversification opportunity** presented by the Chinese government local debt still hold true as the country continues to offer attractive real yield. China's debt markets should benefit from its rising economic/geopolitical clout and inclusion in global indices and the resultant positive effect on inflows mainly from passive investors, notwithstanding the recent regulatory actions. On EMBI spread, we keep a neutral view.

**In a world with high negative-yielding debt, credit offers some respite.** Credit metrics are improving in Euro IG even as the asset class offers carry amid ECB support. But selectivity is important as valuations are tight. Euro HY also offers scope due to prospects of a better default outlook in light of economic recovery.

**When risks are asymmetric and uncertainty is high, relative value is the only value left to explore.** For us, FX is a playground to implement such long-term as well tactical strategies. Regarding the former, we believe in an ongoing recovery and are positive on a carry basket via NOK, GBP and USD vs the EUR and JPY. However, we see some headwinds that may affect the CAD, leading us to downgrade it vs the CHF. In addition, the current dynamics we are seeing in the FI markets (especially in the US) do not favour a negative view on the CHF. In EM FX, however, we continue to like the BRL/EUR owing to improving vaccination levels, economic growth, and potentially higher rates.

### Risks and hedging

We see risks related to the Delta variant and a possibility of additional waves after the summer, coupled with the situation in Afghanistan and how it could affect portfolios. As a result, investors should keep hedges in the form of derivatives to protect DM equity allocation, as markets are priced for perfection.

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*We maintain good sensitivity of our portfolios to risk assets but acknowledge a stabilisation in economic momentum. Thus, investors should keep hedges in place and stay active.*  
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Amundi Cross-Asset Convictions

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

Source: Amundi. The table represents a cross-asset assessment on a three- to six-month horizon based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/+/+/+). This assessment is subject to change. BoE = Bank of England, EM/GEM = emerging markets, FX = foreign exchange, FI = fixed income, IG = investment grade, HY = high yield, CBs = central banks, BTP = Italian government bonds, EMBI = EM Bonds Index.

FIXED INCOME



**Amaury D'ORSAY**  
Head of Fixed Income



**Yerlan SYZDYKOV**  
Global Head of Emerging Markets



**Kenneth J. TAUBES**  
CIO of US Investment Management

“*We have seen a shift in market narrative from ‘dominant inflation’ to ‘growth on the downside.’ This doesn’t mean inflation has disappeared, but indicates market fears in the next phase.*”

## Divergence between nominal yields and inflation

Spread of virus variants, overdone growth worries, and unconventional monetary policy mainly explain the fall in core yields and the latter’s divergence with actual inflation numbers. Despite some slowdown in economic momentum, growth is still strong and not falling off the cliff. From another perspective, monetary policy has aggravated inequalities by affecting workers’ real disposable incomes and increasing the wealth of the rich. Wage growth could further add to inflation pressures. As we get more clarity on the Fed’s tapering plans, yields should move up, in a non-linear way. In addition, once the markets are convinced that inflation is more than just ‘transitory’, the divergence between yields and inflation should decrease. We keep a cautious view on duration and a positive stance on credit, aware the emphasis on credit selection has to be increased.

### Global and European fixed income

**We keep our cautious duration stance on UST and core Europe (and semi-core), but remain active.** With some uncertainty on how the US yield curve will evolve, we think investors should actively explore opportunities across the curve to benefit from any tactical move. In Europe, we see steepening opportunities along the curve. However, we stay constructive on Italian peripheral debt amid an ensuing recovery. On inflation, we are positive regarding the US and Europe.

**The credit backdrop is improving** amid robust corporate earnings, and stronger metrics and financial conditions. We remain constructive on IG (BBBs) and HY (rising stars), and on subordinated debt. We like shorter maturity debt and those where increases in core yields will have a limited impact on prices. However, uncertainty still surrounds us. Thus, we believe selection is crucial and doing it through the ESG lens is even better, not just due to upcoming regulations but also because of some large rotations favouring ESG.

### US fixed income

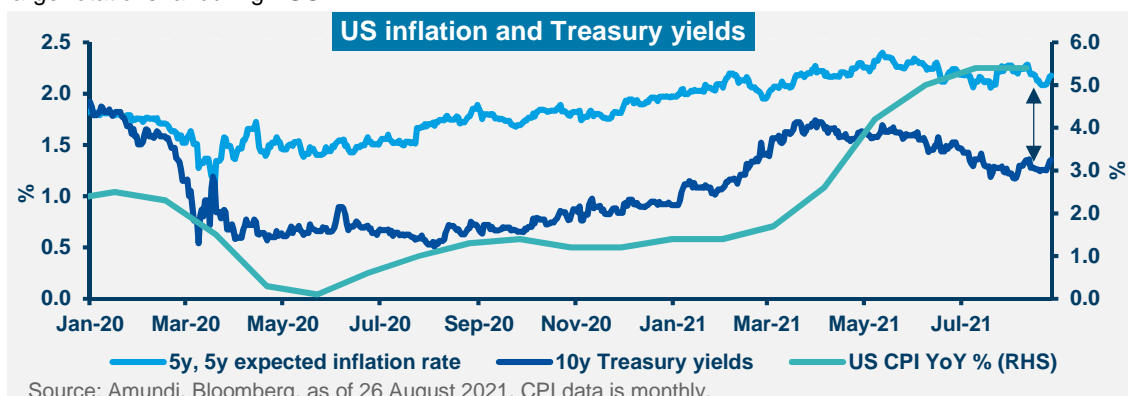
Although we acknowledge the marginal slowdown in momentum, we highlight that much of the economic activity is holding up as vaccination rates gather pace (approval of the Pfizer vaccine). **We maintain our defensive bias on USTs, with a flexible and tactical view based on market volatility and the Fed’s indications regarding tapering plans.** We are also committed to our view of a steepening curve amid increased issuance and a long-term inflation regime. TIPS, however, with their yields linked to real rates, appear attractive. **We are optimistic on credit,** but are cautious on beta and sectors where valuations are particularly tight. Furthermore, investors should hold short-dated debt and focus on idiosyncratic factors where selection drives returns. Selective HY credit is good for carry reasons. On the other hand, mortgage markets remain strong due to robust consumer earnings and Fed support.

### EM bonds

Based on an overall flexible stance, we favour HC debt, with a selective bias towards HY. However, we remain defensive on duration across the board and we are cautious on FX (Fed taper concerns), but are selectively exploring high-yielding FX. In Asia, we are monitoring the resurgence of Covid cases, with a cautious stance on the CNY, but a constructive view on Chinese bonds, given concerns over weakening growth in the country.

### FX

We recommend investors fine-tune their convictions, particularly on the USD, but remain positive owing to the Fed’s hardening stance. We are also selectively cautious on FX commodities due to weak correlations with commodity prices. However, in EM FX, we upgraded our view on the Turkish lira and the Brazilian real.



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

## Markets priced for perfection deserve some caution

### Overall assessment

Equities have been supported by strong earnings relative to history and high expectations, particularly regarding cyclicals. Companies are mitigating raw material costs through price increases. However, there are worries over reopenings affected by the Delta variant, economic growth and inflation. Because of inflation, real disposable incomes are being affected, particularly in the US, potentially causing upward wage pressures.

**Thus, our focus continues to be on businesses that can sustain margins by passing on input costs to consumers.** Overall, we believe earnings still have some room to grow, but valuations (P/Es) may moderate going forward. And, companies with pricing power will be the winners.

### European equities

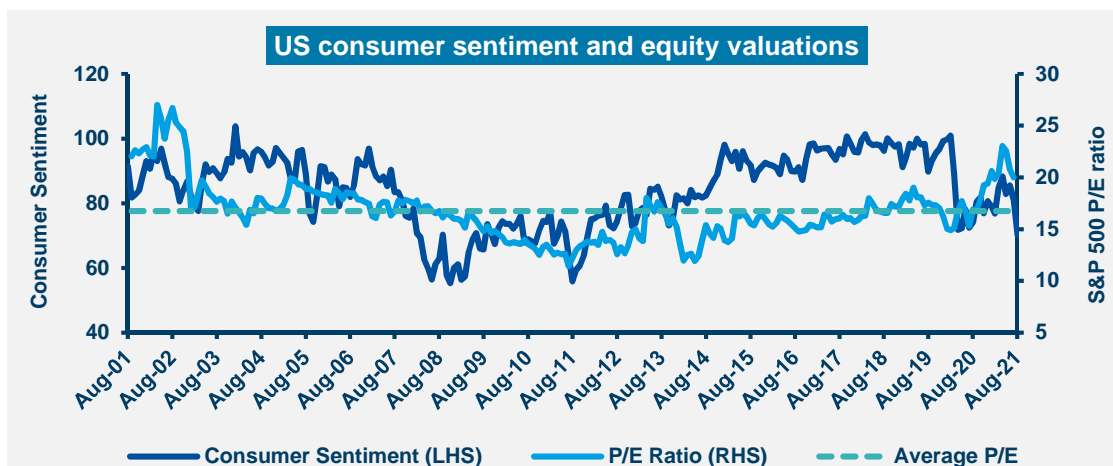
**We remain balanced in our approach, focusing on stock selection and companies with strong business models and pricing.** Within sectors, we are witnessing a big disconnect, with financials (banks) being very attractive and delivering strong earnings. While we are neutral on energy even as it appears attractively valued, we believe we may see a regulatory push towards renewables to aid Europe's carbon emission goals. We are also constructive on industrials. On the other end, we like defensive sectors, such as telecoms and healthcare. However, we are cautious on tech and discretionary due to less attractive valuations and concerns over luxury demand from China. In fact, the latter issue could have long-term implications for Europe's luxury sector amid China's push to address social inequalities. Stylistically, we are convinced on value and believe the recent pause presents attractive idiosyncratic opportunities.

### US equities

Corporate margin expansion has been exceptional this year, which is unlikely to be repeated, as the country emerges from lockdowns. On the other hand, the resurgence of Covid infections is temporarily slowing momentum, but this is unlikely to result in a national lockdown and have a huge effect. **Now, inflation, real incomes and consumer sentiment, along with tight valuations and potential tax hikes are the key variables to watch.** On valuations, we are witnessing huge divergences in the market, with some segments trading at heavy premiums vs others, such as value, which is trading at a discount. This convinces us that avoiding leveraged and speculative growth names could be rewarding for investors. However, holding strong value names in financials and energy makes sense as core yields rise. But, we will see a lower cyclical tilt to this rotation vs the past, favouring aforementioned interest rate-sensitive sectors vs consumer discretionary and industrials. On defensives, we see some attractive stories in healthcare, which should do well after a long period of underperformance.

### EM equities

Improving vaccination rates and attractive valuations should mildly support EM equities. However, vaccine-resistant virus variants and Chinese regulatory actions, along with its zero-tolerance policy on Covid, may create some headwinds. We are constructive on Russia, India and Brazil. At a sector level, we focus on names with value/cyclical characteristics vs growth, and remain positive on discretionary, especially in countries where recovery is lagging. We remain cautious on chemicals and Chinese financials.



Source: Amundi, Bloomberg. Univ. of Michigan Consumer Sentiment, latest monthly data as of 31 August 2021. BEst P/E.

## EQUITY

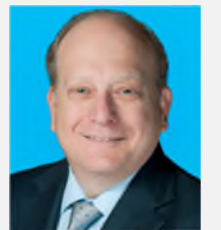
*While growth remains strong, we see some obstacles ahead - momentum fading from current elevated levels and inflation. Investors should avoid areas of excess valuations.*



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# Amundi asset class views

	Asset class	View	1M change	Rationale
EQUITY PLATFORM	US	=		As inflation continues to rise and fiscal stimulus fades, real disposable incomes are being affected. Covid cases are rising due to the spread of variants, but we think this will not cause additional national lockdowns. We remain neutral and selective, with a view that investors should look for companies with a sustainable earnings potential.
	US value	+		Recently, value stocks have been affected by the rise in the number of Covid cases, but with ongoing vaccinations, recovery should continue and so should the move towards value. This will be supported by a mild increase in core yields. However, the next leg of rotation will be more driven by selection and will have a lower tilt towards cyclicality.
	US growth	-		Growth outperformance should be limited as the economy continues to grow and as core yield rise, lowering the present value of future cash flows. Thus, we are cautious on high growth and speculative growth names.
	Europe	=		We witnessed a strong corporate earnings season despite high market expectations. Going forward, Europe should do well given its cyclical tilt (linked to a recovery) and as money from Next Gen EU plan funds comes through. However, rising input costs and fading growth momentum are some risks to watch for in H2. Thus, we look for businesses with strong pricing power and market positions.
	Japan	=		The cyclical nature of export-oriented Japanese markets linked to the global recovery should be positive, but we see some headwinds in the form of a stabilisation in economic momentum.
	Emerging markets	=	▼	EM remain a heterogeneous world where careful selection is crucial. We believe continuing growth and vaccinations should support performances in countries such as Brazil and Russia. However, there are headwinds such as rising US rates and concerns over Chinese growth, regulatory actions, etc. The latter should pave the way for lower systemic risks over the long term in China. Overall, we focus on value/cyclical characteristics and businesses with strong cash flows.
FIXED INCOME PLATFORM	US govies	-		Even as inflation numbers are matching high expectations, UST yields (nominal and real) remain at low levels which are not consistent with the economic growth environment, high debt and deficits. We remain cautious on UST in general, tactically managing this conviction. Looking ahead, we believe yields should increase, in a non-linear fashion, but this would depend on the Fed's asset buying programmes, communication and future growth. TIPS continue to offer decent inflation adjusted yields.
	US IG corporate	=		Trends in credit remain benign, supported by a recovery in fundamentals, but we recommend investors limit duration times spread in their portfolios by focusing on shorter-dated debt and on credit with limited downside from rising core rates. Agency mortgages offer attractive yields, but high valuations entail a selective approach.
	US HY corporate	=		HY valuations are tight, but there are opportunities for bottom-up selection. Given that the recovery could face minor obstacles and the fact the low core yields have lowered the cost of borrowing even for low-quality issuers, an emphasis on credit metrics and credit worthiness is key to benefit from the extra income offered by this segment.
	European govies	-/=		We are defensive on core and semi-core European bonds amid an improving economic environment, but we realise that the ECB will maintain its support. In that respect, we are tracking upcoming French and German elections, although we expect volatility to be low from these events. However, peripheral debt offers attractive yields, primarily in Italy, given its renewed prospects for growth and spread tightening potential.
	Euro IG corporate	=/+		EUR IG remains in a benign environment as rating upgrades are running ahead of downgrades. We like shorter dated debt and instruments that can withstand the increase in core yields. Theoretically, there is a trade-off in yields between holding higher- vs lower-rated debt. However, strong selection can help investors deal with this situation to benefit from an improving economy linked with a cyclical rebound. We believe subordinated financials and BBBs are attractive areas to be in, but we would avoid longer duration credit.
	Euro HY corporate	=		Valuations in some segments of HY are high, but on a risk-adjusted basis, there are selective opportunities. However, investors should balance yield, quality and liquidity to avoid being stuck with names with poor credit metrics. Through a selective approach, we are exploring rising stars and BB-rated debt that offers symmetric risk/reward profiles.
	EM bonds HC	=/+		We favour HC debt with a bias towards HY, but are cautious on duration across our portfolios. Importantly, corporate fundamentals are strong and valuations are attractive on a relative basis. On China, the regulatory actions seem to be the start of a social 'common prosperity' narrative in China and we are actively following that.
EM bonds LC	=		We are watchful about some headwinds for the EM world in the form of Taper Tantrums and the potential for US core yields to rise. Thus, we are cautious on EM FX and believe there are selective opportunities in LC.	
OTHER	Commodities			Strong economic recovery and demand have been the primary drivers of commodities this year. In that respect, Fed policy announcements — and the impact on real rates — could affect price of precious metals such as gold in the near term, and we expect some volatility. Base metals, on the other hand, are likely to be affected by potential supply shortages.
	Currencies			While the USD exceptionalism narrative is marginally losing traction, slowing global growth and expectations of policy normalisation by the Fed may support the dollar. In the short term, it is worth keeping a mild exposure regarding selective cyclical FX, but a more defensive stance may be required as we approach 2022.



Source: Amundi, as of 26 August 2021, views relative to a EUR-based investor. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product. IG = investment grade corporate bonds, HY = high yield corporate; EM bonds HC/LC = EM bonds hard currency/local currency. WTI = West Texas Intermediate. QE = quantitative easing.

## AMUNDI Investment Insights Unit

The Amundi Investment Insights Unit (AIU) aims to transform our CIO expertise, and Amundi's overall investment knowledge, into actionable insights and tools tailored around investors' needs. In a world in which investors are exposed to information from multiple sources, we aim to become the partner of choice for the provision of regular, clear, timely, engaging and relevant insights that can help our clients make informed investment decisions.



Discover more of Amundi's investment insights at [www.amundi.com](http://www.amundi.com)

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### Definitions & Abbreviations

- Agency mortgage-backed security:** Agency MBS are created by one of three agencies: Government National Mortgage Association, Federal National Mortgage and Federal Home Loan Mortgage Corp. Securities issued by any of these three agencies are referred to as agency MBS.
- Beta:** Beta is a risk measure related to market volatility, with 1 being equal to market volatility and less than 1 being less volatile than the market.
- Breakeven inflation:** The difference between the nominal yield on a fixed-rate investment and the real yield on an inflation-linked investment of similar maturity and credit quality.
- Carry:** It is a return of holding a bond to maturity by earning yield versus holding cash.
- Correlation:** The degree of association between two or more variables; in finance, it is the degree to which assets or asset class prices have moved in relation to each other. Correlation is expressed by a correlation coefficient that ranges from -1 (always move in opposite direction) through 0 (absolutely independent) to 1 (always move in the same direction).
- Credit spread:** The differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration possible embedded options.
- Currency abbreviations:** USD – US dollar, BRL – Brazilian real, JPY – Japanese yen, GBP – British pound sterling, EUR – Euro, CAD – Canadian dollar, SEK – Swedish krona, NOK – Norwegian krone, CHF – Swiss Franc, NZD – New Zealand dollar, AUD – Australian dollar, CNY – Chinese Renminbi, CLP – Chilean Peso, MXP – Mexican Peso, IDR – Indonesian Rupiah, RUB – Russian Ruble, ZAR – South African Rand, KRW – South Korean Won.
- Cyclical vs. defensive sectors:** Cyclical companies are companies whose profit and stock prices are highly correlated with economic fluctuations. Defensive stocks, on the contrary, are less correlated to economic cycles. MSCI GICS cyclical sectors are: consumer discretionary, financial, real estate, industrials, information technology and materials. Defensive sectors are: consumer staples, energy, healthcare, telecommunications services and utilities.
- Duration:** A measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates, expressed as a number of years.
- Duration times spread:** It is the standard method for measuring the credit volatility of a corporate bond and is calculated by multiplying the spread-durations and credit spread.
- FX:** FX markets refer to the foreign exchange markets, where participants are able to buy and sell currencies.
- High growth stocks:** A high growth stock is anticipated to grow at a rate significantly above the average growth for the market.
- Liquidity:** The capacity to buy or sell assets quickly enough to prevent or minimise a loss.
- QE:** Quantitative easing (QE) is a type of monetary policy used by central banks to stimulate the economy by buying financial assets from commercial banks and other financial institutions.
- Quality investing:** to capture the performance of quality growth stocks by identifying stocks with: 1. high return on equity (ROE); 2. Stable year-over-year earnings growth; and 3. low financial leverage.
- Rising star:** A company that has a low credit rating, but only because they are new to the bond market and still establishing a track record. It does not yet have the track record and/or the size to earn an investment-grade rating from a credit rating agency.
- TIPS:** A Treasury Inflation-Protected Security is a Treasury bond that is indexed to an inflationary gauge to protect investors from a decline in the purchasing power of their money.
- Value style:** refers to purchasing stocks at relatively low prices, as indicated by low price-to-earnings, price-to-book, and price-to-sales ratios, and high dividend yields. Sectors with dominance of value style: energy, financials, telecom, utilities, real estate.
- Volatility:** A statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.
- Yield curve control:** YCC involves targeting a longer-term interest rate by a central bank, then buying or selling as many bonds as necessary to hit that rate target. This approach is dramatically different from any central bank's typical way of managing a country's economic growth and inflation, which is by setting a short-term interest rate.
- Yield curve steepening:** This is the opposite of yield curve flattening. If the yield curve steepens, this means that the spread between long- and short-term interest rates widens. In other words, the yields on long-term bonds are rising faster than the yields on short-term bonds, or short-term bond yields are falling as long-term bond yields rise.

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