Research

12
December
2020

CROSS ASSET
Investment Strategy

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Confidence must be earned
Amundi
ASSET MANAGEMENT

#12 - December 2020

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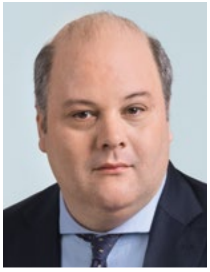
Group Chief Investment Officer



VINCENT MORTIER
Deputy Group Chief Investment Officer

Early Christmas gifts to support year-end rally

As we approach year-end, markets can count on two pieces of news to propel some optimism. The first comes from the US, where the **Biden victory, without a real Blue Wave, is seen by markets as the best possible outcome.** A Republican, or even a 50-50 senate, would make it very hard for the new president to pass any extreme measures in terms of fiscal push, more drastic legislation or tax increases.

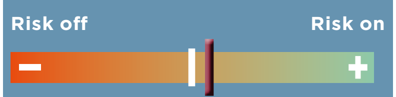
The other positive news came from Pfizer/BioNTech and Moderna, regarding the high efficacy of their vaccines, while other trials are also accelerating.

However, **both news bring some shadows as well**. Markets are underestimating that Biden will have to concede something to the more radical section of his party. On vaccines, we need a confirmation from the scientific community that they work. In addition, development of vaccines for a large portion of the population is challenging. **The most likely scenario is one of *stop and go*, driven by the virus' evolution, before a reacceleration of the economy**. However, markets have a strong appetite to see things through rosy lenses. Most risk assets are back in positive territory YTD despite a collapse in March. Overall, a very good result if we consider this exceptional year. The narrative is that a Biden win and the 'almost available' vaccine could lead global growth momentum to improve, but not that much and not that fast, as the second wave is still underway, especially in Europe. This implies that the assumption of low rates is still valid, but at the same time growth should resume in the near future. CB support is therefore continuing and taking the lead again, now that the big fiscal deal in the US is off the table. Fiscal policy also has to continue in this cooperative trajectory with monetary policy. The second wave is prompting governments to add to their budgets, and will further push the EU to accelerate the Recovery Fund delivery.

The Biden victory has reduced (but not eliminated!) political risk and this is positive for markets. On foreign policy, we can expect a tendency towards a multilateral approach, which is good for Europe. The risk of trade tariffs on the auto sector has significantly receded. However, on China, we doubt that the relationship will become very soft. The Democrats also view China as a challenge, but the tone will be less harsh than with Trump. Competition with China will remain especially on the tech front, but it is likely that Biden will take a more strategic approach. With Iran, it is likely that he will use diplomacy to pursue a new nuclear deal and de-escalate tension. **A positive consequence is that with Biden, we can see a re-acceleration of the ESG thematic,** climate and social equality. The debate these days is if the Fed should take a more explicit step towards fighting inequalities, as a third leg of its mandate, and that would be a big change. We could expect further improvements from American corporations in terms of ESG adoption. **For investors, this means that the long-term theme, of Asia growth propelled by China and the US focusing on innovation and ESG, would be reinforced.**

With a cyclical view, entering 2021, we see the recovery phase approaching, though still within a regime of low rates and abundant liquidity. This, in our view, will support risk assets and equities in particular with a rotation of themes, looking for cyclical opportunities and a recovery in the unloved value sectors. EM will likely benefit from a high growth differential vs DM, especially in H121, when Europe and the US could still be affected by the second wave, while the virus cycle is improving in the southern hemisphere and China continues on its recovery path. This, coupled with a still weak USD, bodes well for EM bonds and EM FX, where selection remains important. In FI, corporate bonds are supported by abundant liquidity, but their relative appeal vs equities is diminishing as we move towards a recovery phase. In addition, defaults in low-rated securities will continue and many companies will not survive. So, on credit, we believe it is not the time for a blind call, but investors should reinforce their focus on credit research in a search for quality companies, with solid business models. Governments bonds (Treasury and core Euro) remain unattractive and should be considered mainly for liquidity/hedging. In conclusion, we believe that it is too simplistic to give in to unbridled optimism: we are likely to see some tough months ahead. Focus on hedging and liquidity should remain in place, because the path towards stronger growth will not be linear. However, **we believe that the adjustment phase could offer some opportunities to re-adjust portfolios towards new themes.**

Overall risk sentiment



Selectively exploit rotation in equities & credit through focus on credit research, fundamentals and downside protection

Changes vs. previous month

- Move positive on equities adding cyclical regions/segments
- Accumulate USTs and stay active; raise portfolio hedges

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

MACRO

Economic recovery depends on vaccine rollout

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Global Head of Research

PIERRE BLANCHET
Head of Investment Intelligence

DAVID BRECHT, CFA
Fixed Income Analyst

Drug makers are close to providing an efficient vaccine solution, but ensuring large scale distribution and widespread inoculation would be key

Drug makers have made ground-breaking progress this year in developing effective Covid-19 vaccines, with an enormous amount of research taking place across a wide range of vaccine technologies. These developments could put healthcare systems in a position to control Covid-19 by mid-2021. Safety has generally been good among the leading vaccine candidates, with fatigue and fever the primary side effects. The FDA[1] has set a standard of a 50% targeted vaccine efficacy, and early phase 3 data released this month far exceeds this standard. In coming weeks, we are likely to see approvals of several promising vaccines. More vaccine candidates are set to release late-stage trial data in early 2021, and the current spike in Covid-19 cases in North America and Europe is likely to drive many vaccine trials to faster conclusions. **Two vaccines are likely to be approved for emergency use in the coming weeks**, one each from Pfizer/BioNTech and Moderna. Both are based on mRNA and show very strong efficacy data. Two more vaccines from AstraZeneca/Oxford and Johnson & Johnson, based on viral vectors, are expected soon with phase 3 data in 4Q20 and possible emergency use approval in early 2021. Additionally, two vaccines from Novavax and Sanofi/GlaxoSmithKline (protein-based) are in the pipeline for 1Q21. Several Russian and Chinese vaccines have been approved already for limited use based on incomplete trials, with more data expected in coming months. It is fair to say that drug makers are very close to providing an efficient and scalable solution. **But several steps are still required in order to confirm expectations – (1) complete trials and disclosure of additional data**: So far much of the data released has been incomplete. It will be important to see vaccine responses among different sub-groups (elderly, youth, immuno-compromised, co-morbidities, specific ethnic groups). **(2) review processes at the relevant governmental authorities**: Reviews will be on an expedited basis and approvals made under an emergency use authorisation. In many cases, there have been rolling data submissions to speed up the approval process. An FDA Advisory Committee (Adcom) meeting is scheduled for early December to review the vaccine data and make recommendations. **(3) establishing logistics for mass distribution/inoculations**: Some drugs require very cold temperatures for storage like Pfizer/BioNTech (-70°C), and companies are working to create freezer capacity and special shipping coolers packed with dry ice. In addition, most of the Covid-19 vaccines in late-stage of development are two-dose regimens. This means people will need to return to an inoculation site for a second dose several weeks after the first. **But what could go wrong? (1) Potential safety issues**: The main frontrunner vaccine candidates (the mRNA vaccines and viral vector vaccines) are new drug technologies with almost no track record. Historically, a fast vaccine review and approval process was 4-5 years, so the speed of the current Covid-19 vaccine programmes is unprecedented. So far Covid-19 vaccines have been tested on thousands of people with minimal problems, but we will get a clearer picture of safety when the vaccines have been distributed to millions. One specific concern would be antibody-dependent enhancement, in which, the vaccine enhances the ability of the disease to infect. **(2) Ensuring widespread inoculation**: Surveys indicate 50-80% of adults are willing to take the vaccine. This could be sufficient for herd immunity, especially if a portion of the population has already been infected and has recovered, and now carries Covid-19 antibodies. We believe DM will have no problem supplying vaccines to their citizens. The bigger question is for developing countries. Failure to vaccinate widely may lead to endemic Covid-19 that subsequently drives more mutations into new strains. Major US and European pharma companies will direct some vaccines to developing countries, but there might be a big shortfall in the next year partly compensated for by Russian and Chinese vaccines. Therefore, "vaccine diplomacy" might become an important topic. **(3) Durability**: In earlier-stage Covid vaccine trials, antibody levels declined over time, and it is not clear how durable the effects of a vaccine will be. The human immune system is not fully understood, and over time a person's adaptive immune response (T-cells) can provide a level of immune protection in addition to any antibodies. (4) Mutations: Scientists have recorded some coronavirus mutations but little that would affect the efficacy of vaccines. However, Denmark recently discovered cases of mutations in the coronavirus spike protein on mink farms. The spike protein is the target of most vaccines, so a more widespread mutation could hurt the efficacy of the vaccines currently in development.

To conclude, a vaccine available on a broad scale is very close. Even though some important issues remain unresolved, vaccine availability will be a relief for governments struggling with lockdowns as the only defense against the virus.

[1] *FDA – US Food and Drug Administration.*

MULTI-ASSET

Add cyclicality, but maintain robust hedges

MATTEO GERMANO
Head of Multi-Asset

Improving growth expectations for next year indicate a better environment for risk assets, but investors should not underestimate the importance of diversification and strong hedging

Expectations of a deceleration in economic activity in Q4, following the Coronavirus resurgence suggests that we are not out of the woods yet. However, we believe global growth will resume in 2021, supported by the availability of a vaccine and additional fiscal and monetary stimulus (ECB and BoE have de-facto confirmed this). While at an overall level remaining vigilant, we believe this indicates an improving environment for risky assets as we enter next year. Investors should maintain downside protection in case full deployment of the vaccine is delayed or if the policy mix disappoints.

High conviction ideas

We upgraded our overall equity stance to positive by moving to neutral in the US in light of the stable political environment, better earnings prospects and lower likelihood of tax hikes and excessive regulation. Second, we are now constructive on Japan and Australia seeking to play the regime shift towards cyclicality (sentiment also supported by the recent trade agreement in Asia Pacific). In both these countries, trade is closely linked with China, where demand has recovered faster and which is a major destination for Japanese exports and Australian commodities. The latter will also benefit from a supportive monetary policy and cyclical nature. Third, in EM, while we were already positive on Asia, we are now constructive on the broader EM universe but we still favour Asia amid improving prospects for the region and better control of Covid-19. As a result, Asian equities should witness a more pronounced recovery and earnings growth. **On duration, we are close to neutral overall but now see value in 10Y USTs as yields edged higher**. It is important to remain active and monitor future rate movements. Failure of the 'Blue Wave' to materialise removes the overhang on USTs, given a low possibility of massive fiscal stimulus and large supply. Our positive stance on US inflation also stays, amid Fed's average-inflation-targeting.

In Europe, we remain constructive on peripheral debt in light of favourable technicals and the positive effect of a cohesive approach to support a post-crisis recovery, particularly in Italy. Therefore, we maintain our positive view on 5Y BTPs. **Demand for carry, search for yield and QE all support corporate credit**, as negative-yielding debt is again close to historical highs. We favour EUR IG over US on the back of attractive valuations, ECB purchase programmes and lower leverage than seen in the US.

Abundant global liquidity and hopes of less confrontational US-China relations should be supportive of EM assets. We remain positive on HC debt and see some potential for spread tightening in HY in the next 3 months, but IG seems to have reached expensive levels. Room for further compression in local rates is limited even if it is still present, the main driver being the currency exposure. On FX, we believe, the backdrop for commodity-linked CLP and ZAR is improving. Overall, cheap valuations, coupled with light investor positioning and vaccine development, support our stance of a positive exposure to a GEM FX basket, where we remain positive on the RUB, MXP and IDR. In DM, while we believe the USD could be under pressure in the long term as the global economy recovers, we are negative on the GBP vs the USD and the EUR because the UK is facing structural growth issues. But we are monitoring the situation as any positive Brexit newsflow could trigger short-term GBP strength. We maintain our positive view on the NOK/EUR.

Risks and hedging

Financial instability caused by multiple waves of the pandemic and geopolitical tensions represents a major risk. This, coupled with continued CB liquidity, creates a more constructive backdrop for gold as a hedge. Investors should also maintain other hedges in the form of USTs, derivatives — to protect equity and credit exposure — and the Japanese yen.

Amundi Cross Asset Convictions

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

Source: Amundi. The table represents a cross-asset assessment on a 3- to 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.

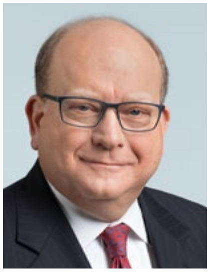
UST = US Treasury, DM = Developed markets, EM/GEM = Emerging markets, FX = Foreign exchange, FI = Fixed income, IG = Investment grade, HY = High yield, CBs = central banks, BTP = Italian government bonds, EMBI = EM Bonds Index.

FIXED INCOME

Easing CBs, but watch out for de-anchoring of rates

ÉRIC BRARD
Head of Fixed Income

YERLAN SYZDYKOV
Global Head of Emerging Markets



KENNETH J. TAUBES
CIO of US Investment Management

We believe the story in credit is of discrimination, as a large part of the market is being driven by the abundant liquidity and not by fundamentals. Investors should stay selective and avoid low-rated, leveraged segments

A balanced outcome in the US elections and positive news on the vaccine front triggered a sharp rebound in risk assets. We believe this positive momentum should continue in the near term, particularly in credit, on the back of expectations of (uneven) growth and continuous monetary support. The latter may become even more relevant as the Fed is likely to keep rates lower for longer, amid less support from the fiscal side. However, vaccine availability may support the reopening of economies, suggesting upward pressure on inflation and rates in the medium term.

Global and European fixed income

We marginally downgraded our duration view to become slightly cautious overall – positive on the US (high relative yields) and neutral on Japan. In Europe, we are now more constructive toward peripheral countries mainly through Italy amid continued ECB support, but maintain our negative view on core Euro. Prospects for US curve flattening are now weaker, in light of positive vaccines news and a mildly supportive growth environment, whereas the German curve should remain flat, as ECB will limit any steepening, given subdued inflation. In contrast, our positive view on US inflation remains. **In credit, we maintain an active stance with some diversification through EM.** While policy support bodes well for further spread compression, abundant liquidity has buoyed the entire market with little differentiation between companies that can survive vs those with weak fundamentals. Now, we will see a more differentiated compression. So, we stay selective and prefer names in non-disrupted sectors, avoiding those with excess leverage and uncertain revenue outlook. We hold financials and autos but are cautious on energy. Our preference is for IG over HY, and we are cautious on low-rated debt.

US fixed income

Fiscal stimulus would be available but with some limitations, and on the Fed's side, it would be interesting to see if there is pressure from Biden to incorporate economic inequality into its mandate. On the other hand, vaccine availability may support a curve steepening but it would not be immediate, given that deployment on a large scale could take time. We remain cautious on USTs but believe they provide a good source of liquidity. Hence, we prefer them to agency MBS in which we now believe that prepayment risk is not priced-in. **On corporate credit**, while we remain optimistic, we favour idiosyncratic aspects and stay selective. IG spreads have compressed to near post-GFC levels. To maintain liquidity, investors should transition out of IG and high-grade securitised credit that has rallied and presents an asymmetric risk/return profile. On HY, there are areas with a potential for tightening but investors must avoid expensive segments. Importantly, manufacturing activity continues to grow and inventories are light. A strong housing market allows us to stay positive on securitised credit, where valuations are attractive and where deleveraging is happening.

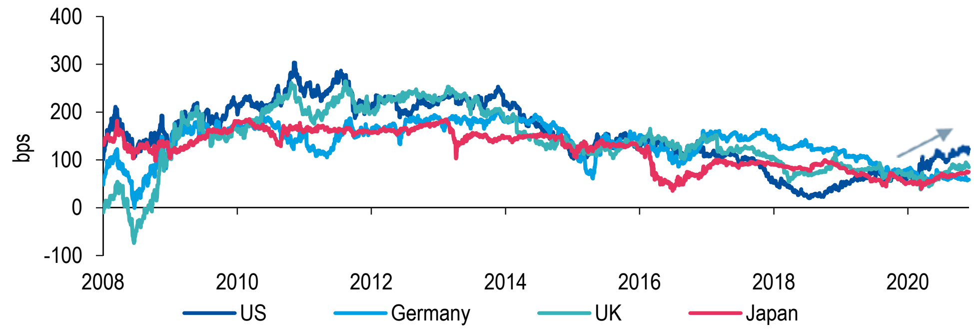
EM bonds

We are positive on EM debt, particularly HY as it should do well in light of Biden's victory and vaccine availability. We are also positive on EM FX. At a country level, the surprise changes in Turkey's MoF and the CB bode well, as we expect more flexibility on rates and a tentative stabilisation of the lira.

FX

We are defensive on USD/JPY, as Biden's victory is bearish for the dollar. We stay positive NOK/EUR, as the latter will be affected by economic disruption caused by the second wave.

Indications of yield curve steepening



Source: Amundi, Bloomberg at 19 November 2020. The chart shows 5y-30y government yield differential.

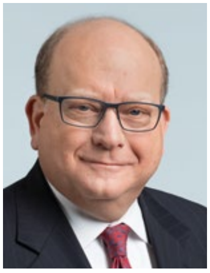
GFI= Global Fixed Income, GEMs/EM FX = Global emerging markets foreign exchange, HY = High yield, IG = Investment grade, EUR = Euro, UST = US Treasuries, RMBS = Residential mortgage-backed securities, ABS = Asset-backed securities, HC = Hard currency, LC = Local currency, CRE = Central real estate, CEE = Central and Eastern Europe, JBGs = Japanese government bonds, EZ = Eurozone. MoF = Ministry of Finance.

EQUITY

What to watch for a rotation towards Value

KASPER ELMGREEN
Head of Equities

YERLAN SYZDYKOV
Global Head of Emerging Markets



KENNETH J. TAUBES
CIO of US Investment Management

We may see a tactical rotation in favour of Value but the long-term trend would depend on the speed of normalisation, vaccine availability and the direction of interest rates

Overall assessment

Near term economic activity is being challenged by a second wave of virus infections. But we recognise that markets are forward-looking and that the resolution of key political risks in the US, expectation of vaccine availability and a combination of fiscal and monetary stimulus should support the recovery. In this environment, we are cautiously optimistic and believe there are opportunities in areas that will benefit from normalisation of the economy, although the path will not be linear. A focus on balance sheet strength and names in non-disrupted sectors is key.

European equities

With an overall balanced stance, we maintain a barbell view. On the one hand, we are constructive on materials (less so now) and upgraded our view on industrials through names that will gain from a reopening of economies and a rotation towards cyclical segments. Second, as business and manufacturing activity in Europe resumes, we are likely to see Value investing coming back into favour. This should not be seen as a green light to buy all names in this area. Instead, we believe, there will be a gradual, non-linear catch-up, underpinning the need to pay attention to resilient businesses and fundamental analysis.

On the other hand, we believe, defensive sectors, such as health care and telecommunication services can provide the necessary cushion. Importantly, investors should stay vigilant to reassess stocks where upside seems limited in the health care sector. However, we are defensive on tech, less so now, and consumer discretionary. **Overall, if the constructive path is confirmed going forward, we would witness significant market rotations created by extreme valuation dispersions.**

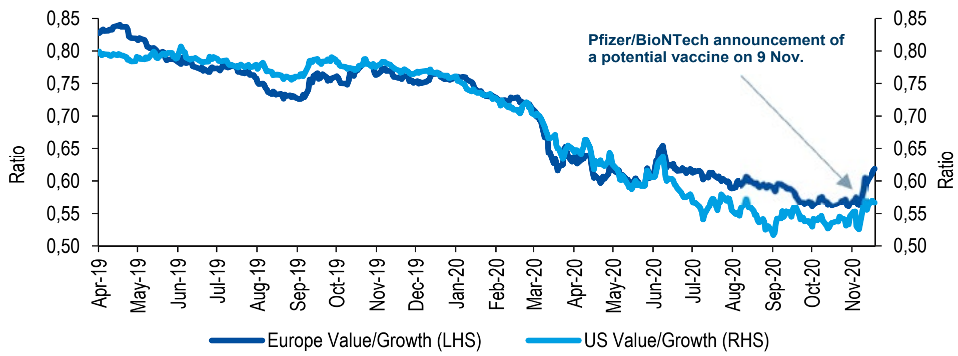
US equities

Market movements would depend on corporate earnings, which have been very strong, on economic growth instead of price multiples and on vaccine newsflow. Interestingly, manufacturing remains robust, and we believe, there is lot of pent-up demand in the services sector. **With this backdrop, we remain balanced and identify three themes.** First, the unwinding of Momentum stocks vs the rest of the market that started in early-September has continued with a Biden win and positive news on the vaccine front. On the latter, quick approval and availability may support economic reopening and benefit Value stocks. We **are positive, particularly on high-quality Value, and on Growth at reasonable price stocks**, which display secular trends and strong balance sheets. Second, we believe a sustained rotation towards cyclicals is likely to persist. Here, we prefer industrials and consumer cyclicals over financials and energy as quality names among industrials and iconic consumer brands are easier to find. In health care, the worst-case scenario of 'single payer' seems unlikely, given the likelihood of a divided Congress. In this respect, we believe, valuations of managed care and pharma. names vis-à-vis their business models look interesting, although we are very selective. However, we are cautious on high growth, high momentum and some mega caps owing to expensive valuations.

EM equities

Biden's victory removes some overhang on EM. While we stay positive on Asia, we now believe the Covid-19 situation in South America is improving amid a possibility for laggards to catch-up. At a sector level, we are positive on semiconductors and believe there should be a balance between Growth and Value. Overall, investor focus should be on valuations and sustainable returns.

A sustained economic reopening could favour Value



Source: Amundi, Bloomberg on 18 November 2020

THEMATIC

The vaccine is a binary event for the markets, not for the economy

DIDIER BOROWSKI
Head of Global Views

PIERRE BLANCHET
Head of Investment Intelligence

Investors are beginning to dream of a world immune to Covid-19. But one swallow doesn't make a spring

Since the announcements of the discovery of a very effective vaccine, first by Pfizer-BioNTech and then by Moderna and AstraZeneca, the horizon has opened up. Investors are beginning to dream of a world immune to Covid-19. But *one swallow doesn't make a spring*. Many unknowns remain (see p.4) and the Covid-19 crisis will leave lasting traces in the economy going forward.

The horizon is becoming clearer:

- **Once vulnerable or at-risk people have been vaccinated**, the healthcare strategy will change dramatically in the event of a new wave of Covid, with no further lockdowns and less need for social distancing measures. **This would put an end to the destabilising "stop-and-go" policies.**
- The sequence observed in 2020 (a very marked rebound in GDP growth in Q3) illustrates that **certain sectors that have been shut down by government measures could rebound very quickly once the constraints are lifted**. Countries that have implemented lockdowns may thus experience a sharp rebound of GDP growth over one or two quarters (due to base effects and pent-up demand).
- **In advanced economies, output has fallen but incomes have been maintained** through stabilisation policies. Monetary and financial conditions have remained accommodative. Against this backdrop, households may engage in "spending substitution". Money that has not been, or will not be, spent on certain services (tourism, catering, recreation, etc.) may be spent on other consumer goods and services once confidence returns.
- In the same way, companies that were healthy before the crisis may start investing again. M&A might improve sectors undermined by the recession.

All in all, this may lead to a strengthening of global demand fairly quickly. This all the truer as there was no financial crisis. Savings are abundant, and investment needs are elevated. This should be a favourable environment for growth.

That being said, vaccinations will not allow us to go back to square one:

- **Vaccines will arrive too late to stem the current Covid-19 wave in the US.** Simulations of epidemiological models show that if new social distancing measures are not put in place, the number of deaths could double by the end of February[1].
- **The vaccine will thus not prevent growth from falling back (temporarily) into negative territory in the short term** (in Q4 in Europe and maybe in Q1 in the US).
- **The vaccines will not allow damaged sectors to recover quickly:** in many services (tourism, air transport, catering, leisure, culture, sports, etc.) lost output will not be recovered. Moreover, growth will not necessarily return to its pre-crisis trend in these sectors.
- **Vaccines will not make the virus disappear:** the epidemic is still far from being under control (in Europe and the US). Some social distancing measures are likely to remain in place until the vast majority of the population is vaccinated. Moreover, several unknowns remain (e.g., the duration of immunity and contagiousness of those vaccinated).
- **Vaccines would be ineffective** in case of virus mutation.
- **Vaccinations may be delayed.** Vaccination campaigns pose logistical challenges (in production, storage and delivery) in advanced economies and even more so in emerging economies.
- **Finally, vaccines will not cure economic ills! They won't prevent corporate defaults, nor will they cure debt nor inequality.** Global public and private debt has reached a new all-time high. Containing the increase in debt-to-GDP ratios will be a new challenge in the post-Covid period. Similarly, poverty and inequality have risen dramatically in the wake of the Covid-19 crisis and will not return to the starting point without a supportive policy.

For investors, this context is ambiguous

The medium to long-term horizon becomes clearer with vaccines. Yet short-term uncertainties remain: vaccines are not going to cure all the ills caused by the epidemic, and the current economic situation is deteriorating, particularly in the US. We believe that **implied volatility of US assets** is reflecting the positive shift in investor sentiment in the medium to long run but might not take short-term risks into account. On top of the ongoing virus related uncertainties, US elections were a focal point with active hedging across bonds and equities. The result was perceived as the best possible outcome for the markets, leading to a rally in risky assets and an unwinding of hedging positions. The high efficacy of the vaccines has provided an extra boost to sentiment and a collapse in implied volatility. **This offers an interesting feature for investors looking to play the cyclical rotation while limiting via hedging broader market exposures during the bumpy first half of 2021.**

Finalised on 26/11/2020

[1] *Modeling COVID-19 scenarios for the United States" (Nature medicine, October 2020)*

THIS MONTH'S TOPIC

IBRA WANE,
Senior Equity Strategist

Big Tech at the crossroads...

Big Tech's stock market performance has become more hesitant. A simple market rotation or a more durable phenomenon? With the exit from the crisis getting closer, sectors shunned during the pandemic could actually benefit from a catching-up movement. However, between its disruptive nature which is cannibalising traditional companies and interest rates which, apart from a slight increase, look set to remain durably low, Big Tech retains major advantages. Especially as its valuation is less exceptional than it seems, provided however that its profits momentum remains sustainable...

Since 2015, and more particularly since the beginning of the pandemic, Tech in general and **Big Tech** in particular have **reigned supreme** on the stock markets. **However, its development has been more hesitant over the last few weeks (see graph 1)**. With the prospect of the arrival of a vaccine and an exit from the crisis getting closer, sectors that have been the most adversely affected by the pandemic could actually benefit from a catching-up movement. **However, in the longer term**, between its disruptive nature which is cannibalising traditional companies and interest rates which, apart from a slight increase, look set to remain durably low, **Big Tech retains major advantages.**

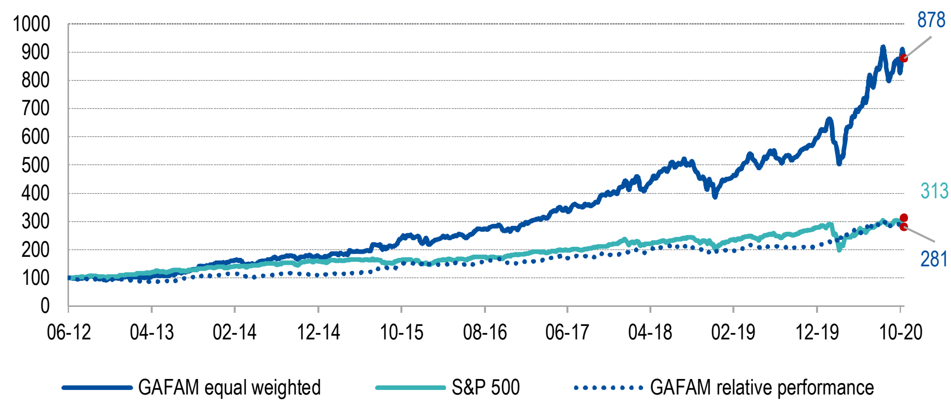
That said, in order for the sector to continue to distinguish itself, **two conditions** need to be confirmed. Firstly, that the **Fed** does not tighten its monetary policy too quickly. And secondly, that the sector's **earnings capacity** is not significantly altered. **In the case of the Fed**, on numerous occasions, it has demonstrated its willingness to be patient and, unless the vaccines and treatment announced radically change the outlook, **the horizon in terms of interest rates**, and therefore equity attraction (TINA for There Is No Alternative) and sector rotation, **seems to be relatively clear**. However, with regard to **earnings issues**, and therefore valuations, **numerous questions continue to be raised** whether in terms of taxation, regulations or obsolescence.

Before continuing, it is worth remembering that **Big Tech** is a new name for the famous **GAFAM** companies (Google, Amazon, Facebook, Apple and Microsoft). However, **this goes further** than the traditional acronym since, apart from their huge market capitalisation, what characterises these digital leaders is the fact that they have managed to create such a rich **ecosystem** that it has become difficult to do without them. And digital technology, which was already extensively present in everyday life, has moved to a new level since the pandemic and the restrictions of movement that followed.

Moreover, while the two terms are often used interchangeably, since end-2018, **Big Tech goes beyond the simple IT sector** as defined by the new **GICS classification,** which can be a source of confusion. Currently, only **Apple and Microsoft remain part of the IT sector,** whereas **Amazon** comes under the Consumer Discretionary sector (Internet & Direct Marketing sub-sector) and **Google and Facebook** the Communication Services sector (Interactive Media & Services sub-sector). **This distinction is a means of putting into perspective the popular belief that Tech is necessarily expensive.**

Graph 2 shows that **Tech in the broadest sense** (IT + Google, Facebook and Amazon) **now accounts for 40% of the S&P** vs. 35% at the peak of the TMT bubble in 2000. However, **GAFAM** companies **account for 25%** vs. 5% at the time. Consequently, **IT strictly speaking excluding Apple**

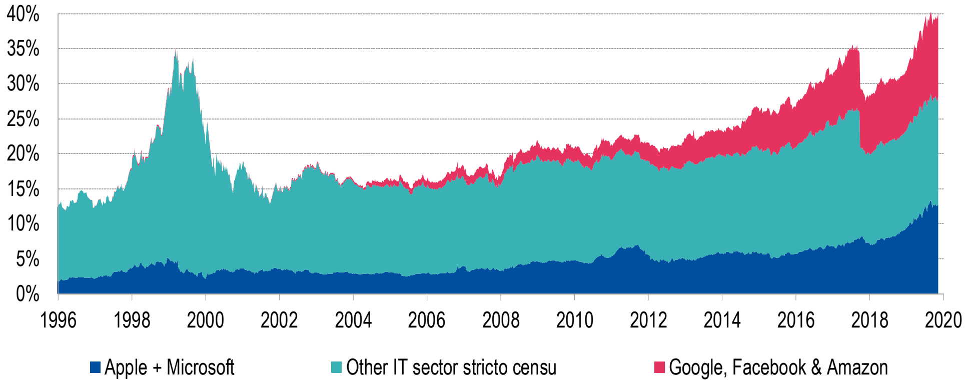
1/ **GAFAM and S&P 500 Total return** (100, June 30, 2012)



Source: Datastream, Amundi Research, data as of 13 November 2020

THIS MONTH'S TOPIC

2/ US IT sector *stricto censu* and at large in % of S&P weighting



Source: Datastream, Amundi Research, data as of 13 November 2020

Big Tech's real issue is not so much its valuation as the sustainability of its profits

and Microsoft has seen its weighting halved, from 30% to 15%. This is why it is important to be wary of generalisations when reference is made to a new valuation bubble. While certain Tech or related stocks, members of the S&P 500 or the Nasdaq, such as Netflix, Uber or Tesla may seem expensive, this is not the case for all stocks. Moreover, **while GAFAM companies enjoy record valuations, this does not necessarily mean they are expensive**. With the exception perhaps of Amazon, the issue is not so much their **valuation** multiples as the sustainability of their profits; a little like the banks on the eve of the Great Financial Crisis in 2008 but for other reasons.

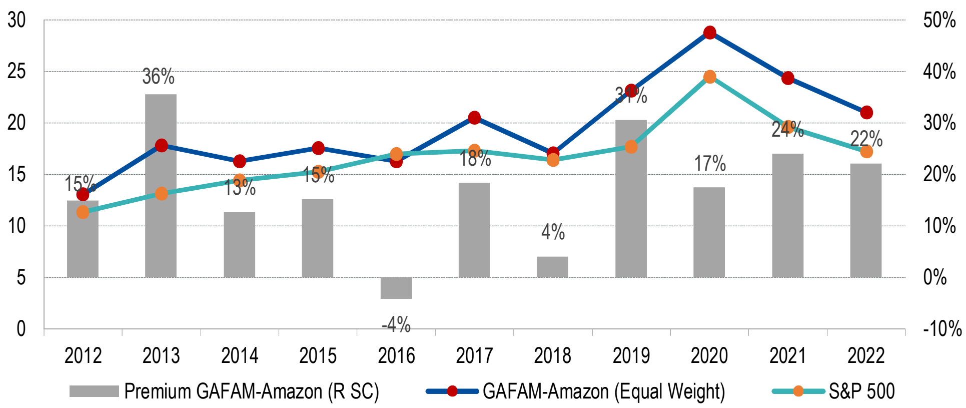
Apart from Amazon, the valuation of the other GAFAM companies seems relatively "normal". Accordingly, **on the basis of 12M Forward PE ratios**, **their premium** to the S&P 500 (38%) **remains close to its average** for the last eight years (33%).

Moreover, this type of ratio does not take account of the **abundant cash** of these companies. For this, it is necessary to resort to the Enterprise Value (EV=Market capitalisation – Net debt). And effectively, **EV/EBIT** reveals an even more moderate premium (see graph 3) with 17% in 2020 and 24% in 2021 vs. 38% for the 12M Forward PE ratio.

After these reminders about valuation, let's move on to earnings. **Graph 4** shows that the **net earnings of the Tech sector in the broadest sense** increased from **USD 89 billion to USD 299 billion between 2007 and 2019**, i.e. an average rate of increase of **+10.7% per year** compared to +2.5% for the other S&P stocks. Consequently, over the same period the share of profits of the Tech sector in the broadest sense increased **from 11% to 24**% of the S&P 500. **GAFAM** companies did even better since their profits grew on average by **+16.9%** per year vs. +6.4% for the other IT stocks. Finally, within GAFAM companies, first place goes to Facebook (+51.4% per year but from 2011 to 2019), ahead of Amazon (+30.5% per year), Apple (+24.7%), Google (+19.1%) and Microsoft (+8.3%). Given their earnings power, the unparalleled market capitalisation of GAFAM companies (in terms of absolute amount rather than in ratios) appears more comprehensible. **However, the issue of the sustainability of these profits is more acute than ever.**

Unlike at the **end of the 1990s**, the US Tech sector now generates enormous profits. During the Great Financial Crisis in 2008 and even more so during the COVID crisis, it has demonstrated **the robustness of its profits. Therefore, trends in the**

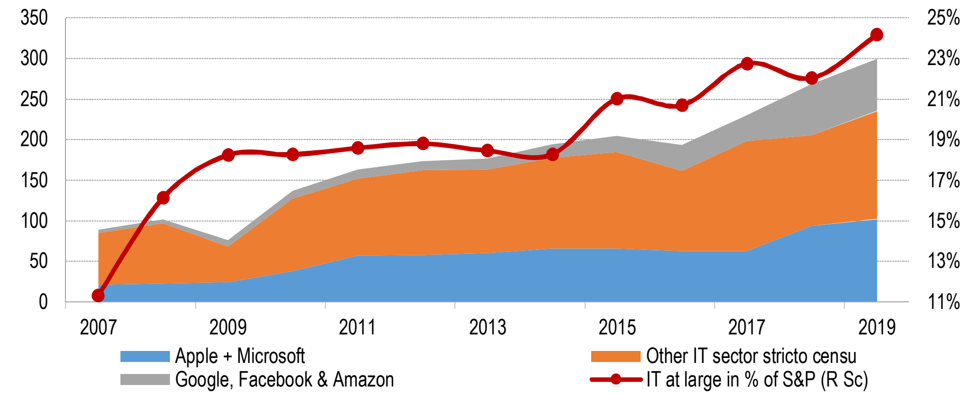
3/ EV/EBIT S&P 500 vs Microsoft, Apple, Google and Facebook



Source: Factset, Amundi Research, data as of 13 November 2020

THIS MONTH'S TOPIC

4/ **IT at large Results, in USD bn and % of S&P 500**



Source: Factset, Amundi Research, data as of 31 December 2019

economy are of less concern than other types of issues that may arise such as obsolescence, taxation or regulations.

While GAFAM companies currently seem to be at the forefront, **obsolescence is nevertheless a recurrent threat for the Tech sector**. If we go back twenty years, **numerous leading groups** are merely shadows of their former selves, because they were unable to adapt. Accordingly, **BlackBerry, Ericsson, HP, Motorola and Nokia** whose capitalisation together was more than Microsoft in 2000 (USD 444 billion vs. USD 422 billion) account for less than 8% today. The comparison with Apple is even more cruel since at end-2000 its capitalisation was only USD 5 billion and it only started to reach the USD 100 billion mark in 2007 before exceeding USD 2,000 billion today. Similarly, Amazon, whose capitalisation is currently USD 1,570 billion, had a capitalisation of only USD 5 billion in 2000. As for Google and Facebook, founded in 1998 and 2004 respectively, they were floated on the stock market in 2004 and 2012 and now have a market capitalisation of USD 1,200 billion and USD 789 billion respectively.

Obsolescence and regulatory upheaval, more than taxation, could change the situation

In the case of taxation, the consequences of Joe Biden's election are not yet resolved. His programme provided for a partial change of the Trump reform by increasing the corporate tax rate to 28% whereas, at end-2017, his predecessor had lowered it from 35% to 21%. However, such a reform would require the support of the Senate. And if the Senate remained Republican in January, which currently seems most likely, Biden's leeway on tax matters would be substantially reduced. Moreover, even assuming a Democratic Senate and a corporate tax rate that would increase from 21% to 28%, tax optimisation is likely to reduce the bill. Accordingly, under Obama's second term, the real tax burden of GAFAM companies was on average **24%** instead of 35%. Then after the Trump reform, it fell to **15%** instead of 21%. By extrapolating this discount of 30% between effective and official rates, the new effective rate (70% of 28%) would be 20% instead of 15% previously. All other things being equal, the additional tax levy would ultimately be only 5% vs. 9% in theory. In addition to the corporate tax rate, **the OECD's GAFA tax plan,** paused since June, **could resurface** with the new administration. The initial idea was to tax digital companies where they generate their revenues rather than where their head offices are located. However, this reform has come up against contradictory interests both between the United States and the rest of the World and within the EU itself. Consequently, it could take considerable time to materialise for a probably minimal result; the most impacted in this matter being ultimately the tax havens (Ireland, Netherlands, Luxembourg, Delaware, etc.) charged with redistributing to other countries, more than the GAFAs themselves. The second component of the reform proposed by the OECD was based on **minimum global taxation amounting to 12.5% of profits**. This proposal is also included in Biden's programme, with a rate of 15%. In both cases, this could adversely affect certain younger or more aggressive companies, but is hardly likely to affect GAFAM companies which are situated slightly above its thresholds. **Ultimately, the tax aspects do not seem to be insurmountable for GAFAM companies.**

A tightening of the regulations would potentially be more problematic. We only have to look at what recently occurred in China with the sudden decision to halt the listing of **Ant Group**, which promised to be the world's biggest IPO. However, this success story which managed "to introduce digital disruption to the heart of Chinese finance and beyond" risked becoming increasingly difficult to regulate, or even generating credit bubbles. Jack Ma's tactless comments on the eve of the stock market flotation were therefore sufficient to aggravate the situation and

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However, the prophets of doom have often been mistaken

halt the operation. The United States is not China but the impact of GAFAs has also generated an increasingly intense debate. While they contribute considerably to US soft power, these digital giants are also accused of distorting the competition. In October, the House of Representatives' Antitrust Committee published a report recommending drastically limiting the power of GAFAs by prohibiting them from giving preference to their own products, by severely regulating purchases of start-ups, or even dismantling certain companies. However, this text signed only by Democratic representatives has no chance of succeeding without the support of the Senate. Nevertheless, this awakening of the authorities demonstrates that the adaptation of competition rules to the digital era could result in unexpected changes.

At this stage, we have too little information to give an opinion on the stock market and financial consequences of changes in the regulations. However, in the past, in these circumstances, we have often observed paradoxical consequences. Therefore, instead of having an adverse effect, the stripping of activities often increases the overall value. Similarly, while the emergence of new competitors may adversely affect existing players, it is often also the guarantee of faster growth in the sector as a whole.

Finalised on 18/11/2020

THIS MONTH'S TOPIC

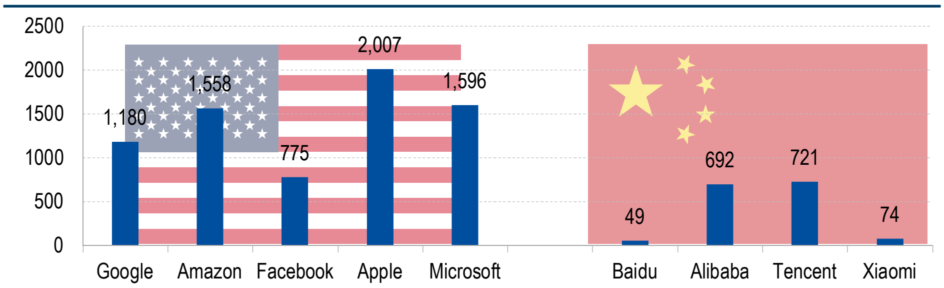
China: the other stronghold of digital technology

As US-China trade tensions have grown in recent years, we have all seen that over time, this rivalry has become especially intense when it comes to technology, data access and digital platforms. After running Huawei out of the US and encouraging its foreign partners to do the same, the Trump Administration turned its attention to TikTok, owned by the Chinese group ByteDance, and threaten it with a ban on operating in the US. TikTok, a highly popular app with the younger generation, was accused of siphoning US user data. An agreement implying that US corporations would buy into a company housing TikTok's international operations may be authorised by the US authorities. However, this deal would then have to be approved by China, seeking to protect Chinese technologies: "TikTok's algorithm, which delivers content to each user that is likely to be of interest to that particular user, is the centre of attention."

These examples are instructive about the new faces of competition between the US and China. In the coming weeks, with the new Biden Administration taking office, this rivalry will certainly take a more civilized turn. On the whole, however, US-China digital competition is set to continue. With its BATHX (Baidu, Alibaba, Tencent, Huawei and Xiaomi), China is the only country capable of rivalling with the GAFAM. Its strengths in the field of artificial intelligence, the size of its domestic market and the protectionism of its authorities, where applicable, have helped it advance in leaps and bounds. After locking up the domestic market, Chinese corporations are ready to expand their coverage around the world. GAFAM and BATX should therefore in all likelihood battle on third-party markets, and in particular in Europe; a wealthy region that has nevertheless fallen way behind digitally speaking.

The chart below compares the current market capitalisation of US and Chinese tech champions. For China, as Huawei is not publicly traded, the comparison is therefore limited to the BATX instead of the BATHX. With a combined capitalisation of more than USD 7 trillion, versus USD 1.5 trillion for the BATX, the GAFAM easily come out on top. It is worth noting, however, that Alibaba and Tencent, the respective rivals of Amazon and Facebook already boast an impressive market cap; the two stocks together weighing more than 60% of their US counterparts and nearly half (46%) of the whole Euro Stoxx 50 capitalisation.

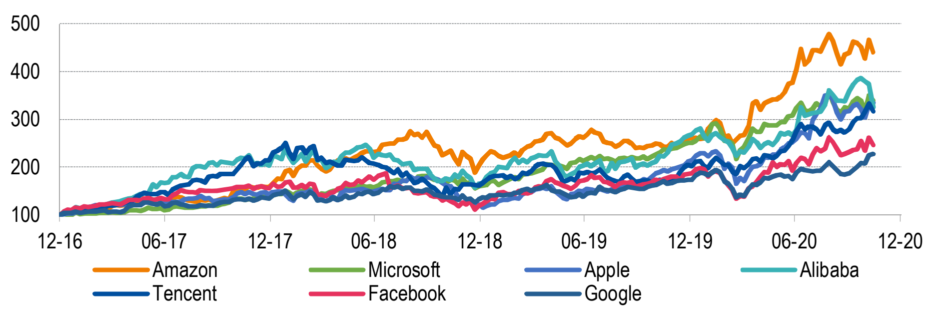
1/ GAFAM vs BATX: Market capitalisation in Bn USD
as of Nov 18, 2020



Source: Datastream, Amundi Research, data as of 18 November 2020

Furthermore, Chart 2 shows that in the last four years, China's champions have performed quite respectably: although Amazon dominates the rankings, Alibaba and Tencent are neck-and-neck with Apple and Microsoft, but significantly ahead of Facebook and Google.

2/ Price return of US & China Tech champions
Base 100 in USD on Dec 31, 2016



Source: Datastream, Amundi Research, data as of 18 November 2020

THEMATIC

DEBORA DELBO'
Global EM Senior Strategist

Q3 2020 reporting season surprised on the positive side

Q4 visibility has shrunk as new lockdown put at risk the recovery. EPS rebound should resume in 2021 given the base effect, the ramp-up of stimulus and a potential easing of containment measures alongside the progress made to curb the pandemic.

As of 17 November, 93% of the S&P 500 has now reported. Q3 20 earnings are seen down -7.3%, which is a clear departure from the -30.6% in Q2. According to FactSet, 85% of companies have surpassed consensus EPS expectations, well above the 73% one- and five-year averages.

In aggregate, **S&P 500 companies have reported earnings 19.1% above expectations,** much better than the 8.0% and 5.6% of the one- and five-year average positive surprise rates.

These strong achievements were overshadowed by renewed coronavirus concerns and higher bar exigencies. The coronavirus concerns are a problem for industries leveraged to the reopening narrative, while the higher bar is more of an issue for the big pandemic winners. Despite beating expectations, YoY growth is still negative, mainly due to the detrimental impact of Covid-19 on some sectors. The quarter is expected to close with a YoY decline in earnings of -7%(source: FactSet).

In Europe, Q3 20 revenue (-10.9%) and profits (-23.6%) for the Stoxx 600 continued to fall but made a clear improvement versus Q2 (respectively -20.1% and -50.8%), which should mark a trough. Q3 profits surprised on the upside (65% of results above expectations and +19% surprise factors), with the best earnings beats in years. In a typical quarter since 2011, 50% of companies beat estimates. However, with the re-instalment of lockdowns Q4 prospects look much more worrying; Q4 forecasts have been revised down 3% in the last two weeks. Having said that, we remain impressed by the fact that the **earnings fell less during this Covid-recession than during the GFC,** while the current recession is much more brutal. This relative resistance can be explained by financials, which, on the one hand, didn't fall into the red this time and, on the other, now account for only 15% of the index in Q2 20, vs. 24% in Q2 09.

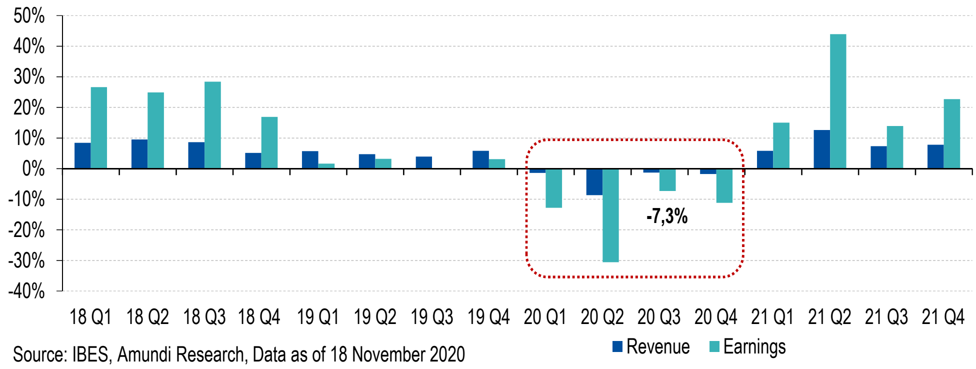
Q3 quarterly results: not so bad, after all

Q4 expectations look too demanding, particularly in Europe as, on top of current headwinds, EPS could be distorted by non-recurring items, such as restructuring, write-offs of goodwill or deferred tax assets. However, from Q1 21 onwards, or Q2 at the latest, the EPS rebound should resume, given the base effect, the ramp-up of stimulus, and a potential easing of containment measures alongside the progress made to curb the pandemic

We are the end of the **reporting season in GEM** as well. As of 19 November, about 83% of MSCI EM constituents had reported (source Capital IQ). Till now Q3 2020 net income YoY growth has been positive (+13%) in local currency (+4% in USD). YoY results are negative in Latin America, and more on the positive side in Asia with the exception of Indonesia, the Philippines and Thailand. Surprises have been positive in GEM: the average percentage surprise on all the companies is close to 21%. Countries with negative average percentage surprises are mainly the Philippines, Indonesia, the United Arab Emirates and Chile. 60% of the companies in the MSCI EM index had positive surprises. At the sector level the results have been particularly positive for consumer staples and healthcare. Trailing (last-12-month) **MSCI EM EPS growth is bottoming out and is currently about -19%.** Our expectations for 2021 have been revised up to a double-digit growth (+13% in USD).The profits growth in the first half of 2021 will be more concentrated in emerging Asia, which is much more advanced in the recovery and more and more linked to booming e-commerce profits. The laggards, like Latam and EMEA, are unlikely to return to positive YoY numbers until the second half of 2021.

Finalised on 20/11/2020

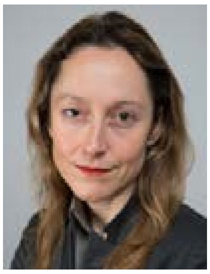
1/ **S&P 500 YoY Growth Rates**



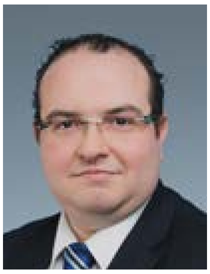
Source: IBES, Amundi Research, Data as of 18 November 2020

THEMATIC

Heading into 2021, what do we think about credit markets?



VALENTINE AINOUZ, *CFA*
Deputy Head of Developed Market Strategy Research



MICKAEL BELLAICHE
Fixed Income Strategist

We expect growth to recover in H2 2021

We think that a combination of improving fundamentals and ongoing monetary stimulus will push spreads towards new record tight levels. We see also room for spread compression in high yield. Sustainably low financing costs make high debt levels much more manageable. Consequently, investors should now focus more on the ability of companies to generate profits rather than their level of debt.

Heading into 2021, what do we think about credit markets? 2020 has been an exceptional year in many ways. The whole world has been marked by the Covid-19 crisis. Lockdown measures taken to contain the virus have severely affected economic activity in ways unusual in peacetime. In parallel, this crisis was also remarkable for the speed, coordination and scale of the measures taken by governments and central banks to handle the crisis. In this article, we will first explain why the global environment remains truly favourable to the credit markets; then we will analyse its impact on corporate fundamentals; and we will conclude on the segments of the credit markets that investors should favour today.

The global picture remains truly favourable for credit markets

1. Growth is expected to recover in H2 2021.

In the short term, pandemic trends are the best economic indicator. The pandemic has worsened significantly throughout most of Europe and the United States. Mobility, especially in Europe, is well below pre-pandemic levels. Lockdown measures are weighing on the service sector in particular. At the opposite, China's economy bounced back spectacularly after a sharp decline in Q1 2020 as the virus has largely been suppressed.

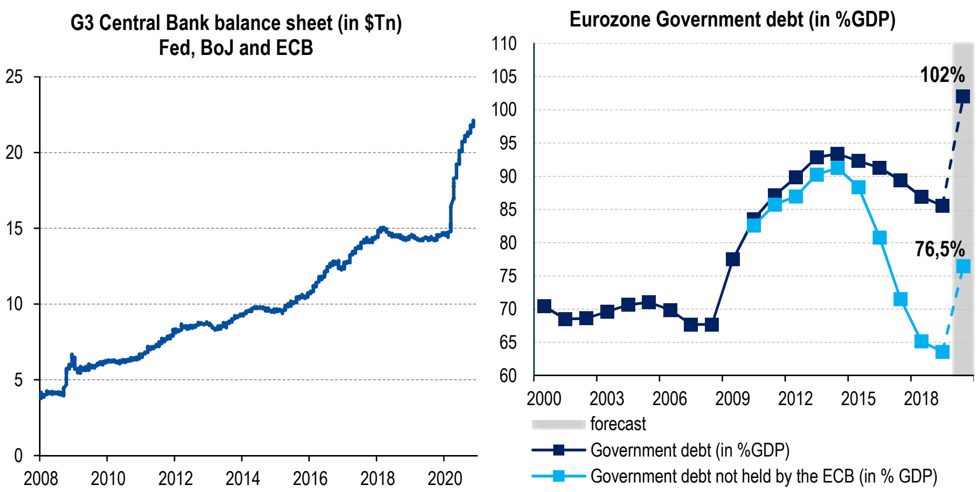
However, the key for investors is that an end is in sight. The news of upcoming vaccines is a game-changer and encouraging news, although large-scale production and dissemination will take time. The prospect of having a vaccine in addition to supportive fiscal policies in developed economies support our baseline scenario of growth recovery in H2 2021.

2. Interest rates along the curve should stay lower for longer compared to previous recovery cycles.

Average interest rates in developed markets have been in steady decline over the past decade. Central banks have played a key role in slashing rates to their lowest levels and implementing asset purchase programs. Ultra-accommodative monetary policy failed to stimulate investments and bring inflation back to the 2% target. In addition, in some ways, central banks have locked themselves in a corner as developed economies are now characterized by:

- **Low potential growth / low inflation.** We expect economic activity to return to pre-crisis levels in 2022. However, global economic activity reached in 2019 a decade-long low. Indeed, most developed economies were already facing a decline in potential growth and low levels of inflation before the coronavirus crisis. Potential growth has declined in the advanced economies in

1/ Major central banks should continue to monetise fiscal deficit



Source: Bloomberg, Amundi Research, Data as of 25/11/2020

Source: Datastream, Amundi Research, Data as of November 2020

THEMATIC

Major central banks should continue to monetise fiscal deficits

Duration of monetary policy support is as key as its level

recent decades due notably to lower growth in the labour force, capital stock and productivity.

- **High level of public debt.**

  The rise in already high public debt has accelerated with the Covid-19 crisis, as the pandemic has prompted an unprecedented fiscal response. Next year, governments are likely maintain expansionary fiscal policy to support the recovery.

- **High asset prices.**

  A decade of low interest rates failed to bring inflation back to the 2% target, but did cause asset prices to rise. In particular, housing prices have reached new highs due to very strong demand, but low mortgage rates have also played a role in this price increase.

To keep growth on track and hope to bring inflation back to target, central banks have no other choice but to maintain accommodative financing conditions and ensure government solvency. News on upcoming vaccine pushed up bond yields, but we believe that the upside for core yields will be much smaller than in previous recoveries. The low level of potential growth and the high level of public debt cap interest rates to a great extent.

3. Central banks will continue to deliver extremely dovish monetary policies.

Major central banks should continue to support economies via low rates and asset purchase programs:

- **The ECB is concerned about persistently low inflation.**

  ECB economists foresee core inflation in 2022 at only 1.1%. At its latest meeting, in October, Christine Lagarde signalled more easing to come, as it would "ensure that financing conditions remain favourable to support the economic recovery and counteract the negative impact of the pandemic on the projected inflation path". The full set of measures expected at the next meeting, in December, should include an increase in the size and duration of asset purchase programs and/or a cheapening of the favourable terms of the TLTROs. The ECB is likely to increase the size of its bond purchase program of over €500bn, in order to continue to absorb the new financing needs of the euro area.

- **The Fed's main priority is slack in the US labour market.**

  The Covid-19 crisis has mainly affected low-skilled and low-income households and accelerated the rise in inequalities. The Fed's new reaction function prioritises full employment: the Fed will wait until a tight job market has begun pushing inflation higher before thinking about tightening policy – rather than raising rates once the unemployment rate drops below a certain level. The statement emphasises that the maximum employment objective is "a broad-based and inclusive goal". In other words: the Fed's new reaction function implies seeing some inflation first before raising rates, rather than simply forecasting it to rise. Otherwise, Jerome Powell announced that the Fed could also increase the duration or the pace of asset purchases in the event of a deterioration in the economic outlook or a tightening in financing conditions.

Central banks will also remain the cornerstone of corporate finance, and their actions will continue to prevail in credit markets.

- The ECB is intervening directly and massively on credit markets. We are expecting that the ECB will buy around €8bn per month of corporate debt in 2021 taking up their total holdings to nearly 40% the eligible universe.
- The Fed has been also very effective in restoring investor confidence, despite relatively limited purchases of corporate

2/ **A total of $17tn in bonds now carry a negative yields**

Source: Bloomberg, Amundi Research, Data as of 25/11/2020

THEMATIC

bonds, through its corporate credit facilities. The Fed has also integrated in its purchases.

Demand for spread products will remain supported by investors' search for yield and direct central bank purchases. The amount of bonds with negative yields has grown markedly across the globe. The phenomenon of negative yields has extended to longer maturities as well as to lower-rated issuers. In sum, negative-yielding debt total hits record $17tn. The negative-yielding debt pile has more than doubled since March.

Companies in 2021 should benefit from (1) still very attractive corporate financing conditions and (2) a rebound in profits

This crisis was characterised by countercyclical credit conditions, thanks to the very successful coordinated actions between governments and central banks. Most companies maintained good access to liquidity and increased their cash holdings in recent months. The debt supply was massive for corporate and sovereign issuers. This heavier-than-anticipated supply has generally been well absorbed. This is a big difference with previous crisis.

The risks associated with company balance sheets are much lower than in previous crisis

As a result, default rate is expected to remain well below initial expectations. The peak in defaults is expected to occur in Q1 2021, 12 months form the outbreak of the crisis: then, a downward trend is expected to start in Q2 and the following month. The defaults are likely to remain concentrated in specific sectors concerns mostly CCC companies with vulnerable business profiles, i.e., low structural capacity to generate profits.

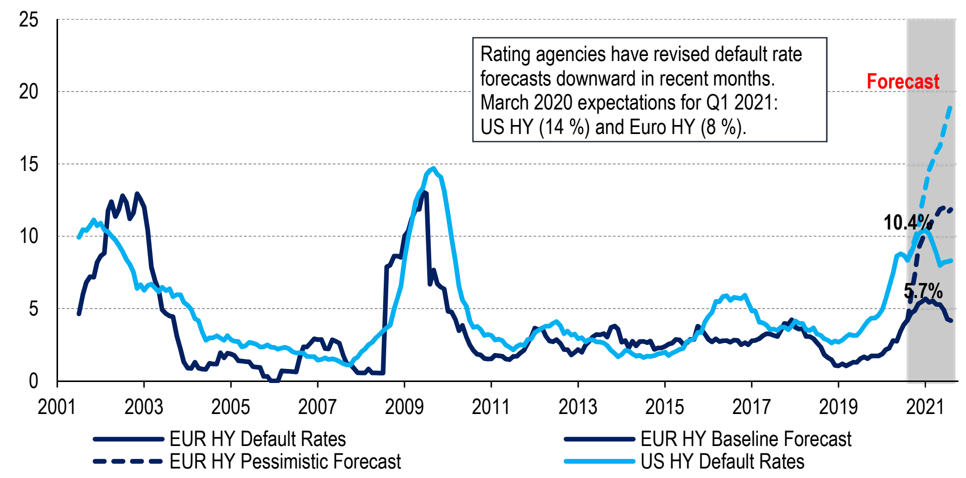
In addition to a rebound in profits, companies should continue to benefit from historically attractive financing conditions.

- Demand is strong for corporate debt from yield-hunting investors. However, we may see a rotation out of credit and into equity. We believe that this risk is limited by the central banks, which play the role of backstop.
- Lower yields on core sovereign bonds and tightening spreads have pushed the cost of funding to historically low levels. Lower interest rates have many positive effects: they reduce interest payments on debts and improve corporate creditworthiness.

We expect supply to slow after record corporate debt issuance in 2020. We expect a decrease in gross issuance volumes for the year 2021 as companies focus on reducing their level of debt. However, the improving macroeconomic environment, easing financing terms, and high M&A expectations will likely offset some of this supply loss, especially in the US.

Finally, the actions of rating agencies in 2021 should be more in favour of bondholders' interests. The rating agencies were proactive at the start of the crisis by launching a wave of downgrading at the end of Q1 2020. Over the next month, the decline in angel volumes is expected to slow as profits rebound and highly leveraged companies focus on repairing the balance sheet.

3/ **12M forward default rate: EUR HY Vs. US HY (%)**



Source: Moody's, Amundi Research, Data as of 31/10/2020

To conclude, the cocktail for credit markets is very positive: more visibility on an upcoming vaccine, the prospect that core sovereign yields will remain low for a prolonged period, and central bank direct support. Credit spreads have tightened to nearly pre-coronavirus levels. Investment-grade spreads have narrowed to about 2.3% points over Treasuries, after jumping to their highest level since 2009 in March.

THEMATIC

We see room for spread further compression in High Yield

High-yield spreads also stayed at the 6% point range over Treasuries after rising to above 11 percentage points in March.

We expect low-rated issuers (B in HY and BBB in IG) and subordinated debt to outperform. We think that a combination of improving fundamentals and ongoing monetary stimulus will lead spreads to "overshoot", pushed towards new record tight levels. We see room for further spread compression in high yield. Sustainably low financing costs make high debt levels much more manageable. Consequently, investors should now focus more on the ability of companies to generate profits rather than their level of debt.

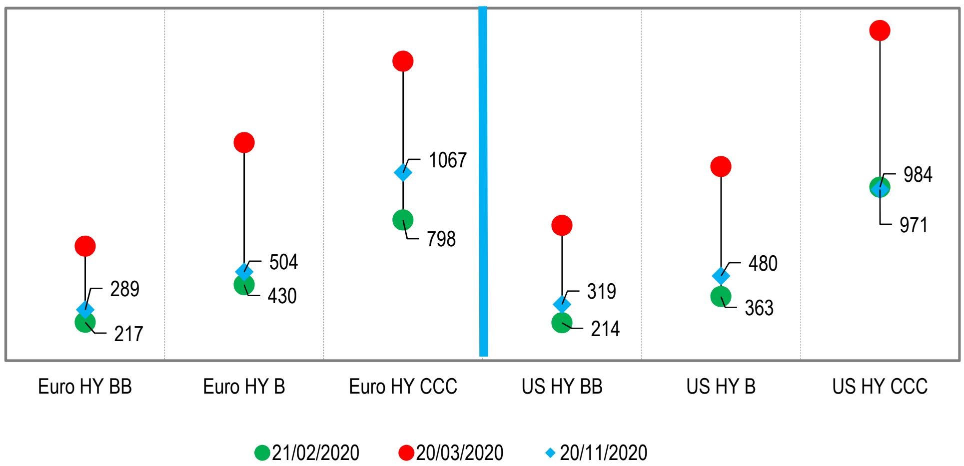
The main risks to this view are:

- **Bad news on the growth story** (underestimating the coronavirus's long-term damage on economies, the risk that the epidemic will not be contained in the second half of 2021, resurgence of political or social risk, etc.).
- **A change in the inflation regime** that forces central banks to revise their strategies significantly.

In the medium term, we expect central banks to be increasingly concerned about the compression in risk premia.

Finalised on 25/11/2020

4/ HY Spread compression, in bp



Source: Bloomberg, Amundi Research, Data as of 20/11/2020

THEMATIC

A few reasons why the Covid crisis may lead to less deglobalisation than thought

TRISTAN PERRIER
Global Views Analyst

It is a widespread view that the Covid crisis will accelerate trade deglobalisation, including through industrial reshoring and shorter value chains. However, the most likely scenario is more complex, as trade in services may grow even more globalised, while the reshoring of manufacturing activities may run into a number of practical, yet also political, obstacles.

That the Covid crisis should accelerate a "deglobalisation" trend already observed since the GFC is a widespread theme. While several economic and political rationales may underpin forecasts of further "deglobalisation" under various definitions, a prominent view focuses on the consequences of the crisis on global manufacturing value chains following: 1/ shortages of essential supplies at the height of the pandemic seen as revealing an excessive reliance on foreign (mainly Chinese) production and increasing the desire for national (or regional, in the case of Europe) autonomy; 2/ stronger than ever public concerns over social inequalities, the rise of which is closely associated in public opinion (at least in advanced economies) with the pains of deindustrialisation; and 3/ government promises of reindustrialisation, whether limited to strategic sectors or broader, in response to the two concerns above. Under this lens, deglobalisation could accelerate through reshoring and more domestic or regional value chains.

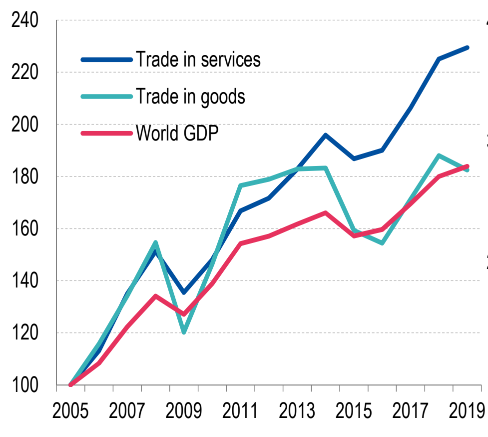
While this view certainly has some ground, a few caveats and counter-arguments nonetheless deserve to be stressed:

First, manufacturing value chains are only a part of the globalisation vs. deglobalisation story, even when limited to trade circuits. More specifically, focusing on these chains may lead to exaggerate conclusions that deglobalisation already began in the 2010s, even though trade in services painted a different picture. The deceleration of world trade relative to world GDP (a sharp reversal of the trend observed in previous decades) attracted a lot of attention. So did the very visible political developments of the erosion of the role of the WTO vs. regional institutions and, late in the period, Donald Trump's protectionism. However, these figures and events related first and foremost to trade in goods. Trade in services, for its part, continued to increase faster than global GDP. While some services were also subject to protectionist attempts, these were less spectacular than for goods and had little in terms of multilateral free trade regimes to target[1]. Looking forward, it is possible that the Covid crisis could be, at the margin, a lasting negative for trade in services. Possible channels (across the very diverse services spectrum) include, among others, the desire for national or regional autonomy, reinforcing the attempts to tame the role of Big Tech or Big Data players, or work-from-home habits and strengthened environmental concerns weighing on cross-border travel. However, whether these will be enough to offset the very powerful structural forces supporting cross-border trade in those activities is

Trade in services continued to increase faster than global GDP in the 2010s

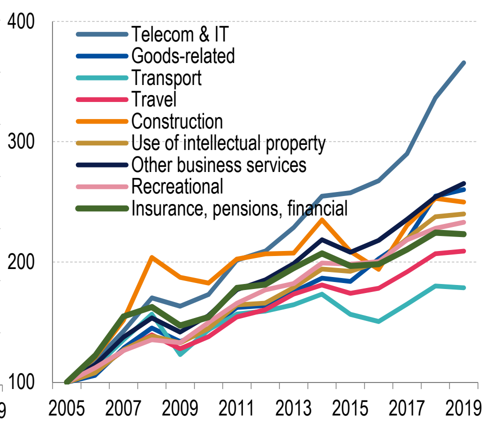
[1] *Brexit is an important exception of trade in services likely to be restricted, yet more as a consequence of other intentions than as the initial goal.*

1/ World GDP vs global trade in goods and services Basis 100 in 2005, nominal (USD) terms



Source: UNCTAD, Amundi Research, Data as of 31/12/2019

2/ Trade in services by sector Basis 100 in 2005, nominal (USD) terms



Source: UNCTAD, Amundi Research, Data as of 31/12/2019

THEMATIC

Reshoring production may not be the best way to ensure the security of supply chains

Reindustrialisation is at the intersection of many rationalities

Towards a complex globalisation vs. deglobalisation tug-of-war

highly uncertain, to say the least. For instance, better customer information may continue to generate high demand for the most efficient Internet-based services, wherever the providers are located; or the rising middle-class in emerging economies may continue to fuel rapidly growing demand for international tourism. More generally, global value chains limited to the services sector could become increasingly stretched and sophisticated. In any case, when it comes to services, there is not much of a pre-existing deglobalisation trend to build upon, except the abrupt (but presumably short-lived)interruption of some sectors' activities (notably travel) by regulatory decision during the crisis itself.

Second, once the fog of the crisis and the sense of emergency dissipate, the notion of national or regional autonomy may shift towards a somewhat more "dynamic" definition, under which reshoring may often not appear as the preferred solution. International "market-friendly" organisations are already bringing forward a number of arguments[2]. These include, notably, that no national industrial capacity, however big, could have prevented shortages of emergency supplies as serious as those experienced in the early days of the Covid crisis. China itself, despite its industrial might, did face major shortages in Q1 2020 and obtained supplies from other countries. Moreover, the advantages of global value chains (economies of scale, specialisation, reactivity to a quickly changing environment) finally proved to be instrumental in supplying equipment and tests (as well as, possibly, vaccines soon) to the entire world more quickly than national production capacities could probably have (especially if they were used to living under protective trade barriers and were therefore presumably less adaptive). Finally, vulnerabilities of global value chains to specific "black swan" events, should always be kept in perspective with their long-term advantages (again, economies of scale and specialisation). Therefore, identifying and monitoring those vulnerabilities in advance, as well as preparing emergency adaptive scenarios (sponsored by governments and international organisations to maximise the chances of cooperative behaviours) may be a more productive way of reducing risk than systematically opting for reshoring strategies. Of course, the same observers acknowledge that the best way to reduce supply risks may be very different depending on sectors and the size of each country with, in specific cases, national or regional production autonomy (and, at least, the building up of emergency stockpiles) making sense. Nonetheless, careful studies of advantages vs. drawbacks may lead governments and corporations to also conclude that the Covid economic shock is not a sufficient reason to shrink global value chains in general.

Third, even if limited to manufacturing, the reshoring of activities may quickly run into obstacles of conflicting priorities. The theme of reindustrialisation, while popular in public opinion, lies at the intersection of many rationalities. In addition to being viewed as a way to guarantee supplies in times of emergency it also finds justification in terms of geopolitical (control of sensitive technologies), social (providing relatively well-paid employment) and territorial (factories are seen as a way to maintain activity hubs in mid-size cities) strategies. However, policies and projects that would best pursue each of these goals may be very different, if not incompatible. For instance, governments may have a hard time deciding whether to prioritise the protection of existing manufacturing jobs in remote regions or to further enrich large competitive cities' ecosystem by attracting high-skilled foreign engineers in new sectors. In addition to their direct financial costs for corporations, reindustrialisation strategies may therefore be hindered by hesitations, shifts in direction, and intense lobbying from various vested interests.

These practical and political implementation difficulties make it therefore questionable whether reshoring and reindustrialisation efforts will be pursued as strongly as sometimes stated today, all the more so if their justification gradually appears less strong when the crisis-induced sense of emergency gives way to calmer studies. Moreover, it is not certain whether a shrinking of global manufacturing value chains, even if it happened, would be enough to offset (in total trade terms) the rapid rise in global trade in services. While many other factors will obviously be at play in the globalisation vs. deglobalisation tug of war over the coming years, these observations only hint that **this process will be complex, with contradictory developments across sectors and diverging trends towards more domestic, but also more regional and sometimes even more global, trade circuits.**

Finalised on 24/11/2020

[2] *Extensive discussion of these arguments can be found in: COVID-19 and global value chains: Policy options to build more resilient production networks, OECD, June 2020 and in Resilience versus robustness in global value chains: Some policy implications Sébatien Miroudot, OECD, as part of COVID 19 and Trade Policy: Why Turning Inward Won't Work, CEPR Press.*

CENTRAL & ALTERNATIVE SCENARIOS

Monthly update

This month, we left the probabilities of the central and alternative scenario heavily anchored to our macroeconomic forecast unchanged. However, we amended the narrative to take into account the outcome of US elections, positive news on the vaccine and the impact of the Covid-19 second wave.

DOWNSIDE SCENARIO 25%

Secular stagnation

Analysis

- Protracted economic downturn due to uncertainty (lack of visibility), policy multipliers in place are low: liquidity does not feed through to the real economy, financial conditions tighten and the labour market deteriorates further
- Economic crisis evolves into a financial crisis forcing policymakers to move even more in uncharted territory (nationalisations? Fed negative rates? helicopter money?...)
- Protectionism and de-globalisation accelerate, negatively affecting trade and global value chains
- Global potential growth is seriously weakened and pockets of inflation emerge

Market implications

- Favour cash and US Treasuries
- Favour gold, CHF, Yen
- Play minimum volatility strategies

CENTRAL SCENARIO 65%

Multi-year and multi-speed recovery

Analysis

- Multi-year process to get the world economy back on track
- We now expect that several vaccines will be available for targeted populations in 1H21 and more broadly in 2H21
- Therefore 2021 may see a sequence of economic volatility, infections outbreak, selective lockdowns and policy boosters
- Accommodative monetary policies should persist to cope with deflationary risks and rising public debts
- Strong political commitment to mobilise fiscal policies in AEs, but timely execution is a risk
- Positive momentum in corporate earnings and diminishing solvency risks
- Global trade to global GDP ratio expected to slip further but less geopolitical tensions post US elections
- The Covid crisis exacerbates income and wealth inequalities (risk of increased social tensions)

Market implications

- Contained steepening of US yield curve
- Progressive rotation from credit HY into equity
- Equity thematic are cyclical sector and more domestic driven
- Maintain income pockets: EM bond, IG
- Favour gold on pervasive uncertainty, deflation and recession fears

UPSIDE SCENARIO 10%

V-shaped recovery

Analysis

- Rapid development and wide distribution of safe and effective vaccines. New outbreaks and lockdowns are avoided
- Productivity boosts on new digital /green developments or faster normalisation of economic activities
- With lower uncertainty, policy boosters feed through to the real economy and financial markets, closing gap between manufacturing and service sectors
- Sustainable growth and diminishing need for further (fiscal) policy support

Market implications

- US curves steepens (in particular on the long end) on economic recovery and inflation expectations
- Favour risky assets
- Favour linkers, gold as inflation hedge

Gold remains a good hedge and diversifier over the medium term

LORENZO PORTELLI, *Head of Cross Asset Research*

Gold has retreated 10% from the peak reached this summer for some very precise reasons. The stronger belief in the economic recovery in 2021 with greater fears of higher real rates next year and recently the positive news of the discovery of Covid-19 vaccines have led to a sell-off of gold by investors. Moreover, the fear of a quicker-than-expected normalisation of monetary policies also has affected the dynamics of gold. The injection of central bank liquidity contributed significantly to the spectacular performance of gold in 2020. Should this driver fail, gold would be vulnerable on the downside. However, our medium-term view remains constructive on gold as we do not foresee real rates rising significantly. We think that central banks will remain very accommodative in 2021, leaving policy rates unchanged and maintaining long bond yields at low levels. Furthermore, as the virus is still not under control, investors' risk aversion could shift quickly. Finally, we believe we have entered a downtrend on the USD, which will support the price of gold.

TOP RISKS

Monthly update

Risks are clustered to ease the detection of hedging strategies, but they are obviously linked. We maintain the overall narrative and probabilities on the risk outlook with the pandemic exacerbating existing fragilities and vulnerabilities.

ECONOMIC RISK 20%

- **A double-dip recession is a distinct possibility in several countries**
  - Although our ability to deal with the virus has improved (treatment, health infrastructure, and social distancing) and vaccines should be available soon, the 2nd wave and partial lockdowns could trigger a W-shaped recovery. After a technical rebound (Q3), the global economy is set to slow markedly in Q4 2020, with growth possibly falling in negative territory.
  - While all policy efforts and social benefits have been/will be activated to preserve personal income, the deterioration of the labour market might still weigh on the recovery looking ahead
- **Disinflation in the short run / upward inflationary pressure in the medium term**
  - QE programmes (which will likely be extended) may become problematic during a recovery when inflation enters the equation. The risk is very low in the short run but upward pressure are expected to build over time, as the epidemic fades away.
  - The Fed is moving to average inflation targeting and the ECB is considering moving in the same direction (among other options)
  - Inflation dynamics and the CB reaction function could be sources of uncertainty. In particular, EM inflation is at an inflection point but the trend ahead remains comfortable due to depressed demand (watch Turkey, India and Mexico)

\+ **Cash, linkers, JPY, Gold, USD, Defensives vs. Cyclicals**

\- **Oil, risky assets, AUD CAD or NZD, EM local CCY exporters**

FINANCIAL RISK 20%

- **Corporate vulnerability**
  - Prior to the Covid-19 crisis, corporate leverage reached levels above pre-GFC highs
  - The magnitude of the recession has increased solvency risks regardless of central banks' actions and government guarantee schemes
  - Default rates could rise to 15% or even 20% with spillover into the credit market and stress on banks' balance sheets
- **Sovereign debt crisis**
  - Public debt will rise as a share of GDP across most countries in the coming years, starting from already high levels in Europe, Japan and the United States. This could lead to rating downgrades and rising interest rates over the long term
  - Emerging market fragilities (single commodity exporters, tourism), could also face a balance of payment crisis and increase default risks
  - Risks incurred in implementing the European Recovery Fund should not be underestimated. Dissensions among EU members could bring back EZ periphery bond risk

\+ **CHF, JPY, Gold, CDS, optionality, Min Vol**

\- **Oil, risky assets, frontier markets and EM**

(GEO)POLITICAL RISK 20%

- **Hard Brexit**
  - Despite intense negotiations, the EU and the UK haven't found at the time of writing a agreement on their future relationship
  - A no-deal Brexit in the context of partial lockdowns could push the UK in a deep recession with spillover effects on the EU.
  - With or without deal, the UK will be outside the EU in 2021, and a phase of adjustment to the new framework will begin. As the UK will try to get trade deals outside the Single Market with potentially better terms, it could create tensions between EU members with similar economic priorities
- **US / China tensions**
  - The hawkish tone from Democratic Party brings new policy uncertainties to the bilateral relationship post US elections.
  - Possible accidental confrontations in the South China Sea or the Taiwan Strait
- **Instability within and among EM countries**

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

\- **Oil, risky assets, EMBI**

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 Covid-19 second wave forced the introduction of new lockdown measures across the EU, leading to a new contraction in Q4 2020. Similarly in the US, a sustained deceleration in economic activity is taking place in Q4 , as Covid-19 cases have surged to record highs.
- Soft and hard data confirm the recovery, but manufacturing is holding up better than services, which are more disrupted by lockdowns and social distancing.

FUNDAMENTALS & VALUATION

- **Risky assets are becoming expensive, although corporate earnings are starting to gradually recover.**
- Equities' absolute P/Es are still higher than their historical average even considering high 2021 EPS expectations. The equity risk premium and P/E adjusted for CB liquidity injections are still in favour of equities in terms of relative value. However current, post-US election levels and new vaccine have relief eroded part of the potential upside.

DEFENSIVE ASSET ALLOCATION

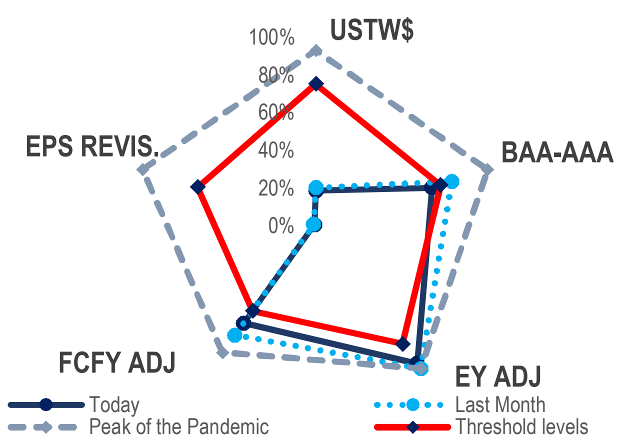
TECHNICALS

- Markets' technical remained mixed in November. The euphoria over the coming Covid-19 vaccines (Pfizer and Moderna announced an above 90% effectiveness in their final data analysis) has triggered greater appetite for risky assets, which have gained momentum since last month.
- The movement, though, has been violent and sharp, leading most of the markets close to overbought territory at the time of writing.

SENTIMENT

- Our risk sentiment indicator was resilient in US elections and improved further in November, thus reinforcing its relative preference for risky assets. CAST remains the strongest support.
- Tighter restrictions remain a headwind for growth in Q4, yet EPS revisions continue to trend higher. The USD downward trend is the other strong supportive factor. Moody's Baa-Aaa moved below the alert threshold for the first time since summer.
- Cross asset flows (based on State Street data) moved to "Risk On" in mid-October, with risk being taken in all dimensions (FX, equities, commodities and rates).

Cross Asset Sentinels Thresholds (CAST) still supportive



Source: Amundi Research, Data as of 16 November 2020

CAST flags extremely low risk perception.

Sentinels remain in pro-risk territory due to a general improvement in all its components (except ERP adjusted for credit risk).

<u>Methodology</u> 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 visualizes 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 US elections takeaway

- The 2020 US election cycle will close with Georgia's senate runoff elections on Jan 5th, 2021.
- A Dems' sweep is unlikely and President-elect Biden will therefore struggle to pass a big fiscal package, dramatically increase corporate taxes, or put through drastic legislation hurting corporate profits. Tough regulation or dismantling of big techs is unlikely to happen.
- Cabinet announcements are more important for investors. Janet Yellen's appointment is good news for markets with her pro-growth, credible, bi-partisan approach. The US Treasury and the Fed will be very close and work together on the economic recovery and fight against inequality.
- Kerry's pro-climate policy and Blinken's pro-Europe and multilateralist stance are also good news for the markets and ESG investments

2 Q4 deceleration in economic activity confirmed

- After the strong GDP rebound in Q3, hard and soft data confirm the ongoing progressive deceleration in economic activity, due to the coronavirus resurgence.
- Accordingly, we expect a moderate contraction in Q4 in the Eurozone, due to the introduction of new stricter restrictions across all major economies and, as far as the United States are concerned, a flatter growth rate.
- After a weak Q1 2021, growth in the Eurozone should resume, supported by the availability of a vaccine and by the New Generation EU plan.
- In the US, a new fiscal plan will lead to a strong Q1, followed by a gradual but sustained growth rate. Inflation is expected to remain subdued in the near term, more in EU than in the US.
- The uptrend in 2021 is currently linked to the fading drag from oil and energy (mid-2021), coupled with a recovery in GDP and domestic demand.

3 The road to a vaccine will be bumpy

- Announced efficacy rates of several vaccines available in mass volumes are undeniably excellent news from an economic and financial market standpoint.
- But production, distribution and compliance remain sources of uncertainty, as well as potential safety issues in large-scale implementation, durability and level of immune protection, virus mutations, and distribution to remote locations or conflict zones.
- We reiterate our view that vaccines will not help control the pandemic until 2H21.

4 The markets are likely to look through next months' logistics and want to go higher

- The economic backdrop remains supportive for risky assets although soft data could stop drifting higher due to the second wave.
- We expect a global recovery in 2021 with positive momentum in profit cycle, which should be supported by the vaccine roll-out. Our EPS forecasts are below consensus but still enough to support global equities going forward.
- The cyclical rally in equities has encountered some resistance but should have more legs and include laggards. A confirmation of the vaccine would be a strong catalyst, while a steepening of the yield curve could also help. Quality remains a global core position.
- We expect a weaker USD going towards. All currencies in the G10 (except the CHF) have decent upside if we factor in the central scenario.

The Regional Comprehensive Economic Partnership (RCEP) creates Asian largest free trade zone

ALESSIA BERARDI, *Head of Emerging Markets Macro and Strategy Research*

On 15 November, following many years of negotiations, 10 ASEAN countries and their trading partners (China, South Korea, Japan, Australia and New Zealand) signed a regional free-trade agreement, called RCEP. RCEP will complement existing FTAs and further streamline standards such as rules of origin.

In the short term, it is expected to mildly add to growth for members that ratify it, through even stricter ties among them; indeed, it is worth noting that regional integration was already very strong. Yet, in a challenging context for global trade, this agreement highlights the benefit of multilateralism.

The RCEP signature is a very welcome news on the geopolitical side as well, with the participation of China, South Korea and Japan, after their own trilateral FTA negotiation has stalled amid rising political tensions. This deal will increase the interdependence of these three economies, and it is expected to offset some negative drag from the US-China trade war. The eventual inclusion of India in the future could increase the deal's positive impact even further.

AMUNDI ASSET CLASS VIEWS

	Asset Class	View	1M change	Rationale
EQUITY PLATFORM	US	=	▲	Equity risk premia are attractive relative to bonds, but this doesn't mean there cannot be volatility, particularly with respect to the election outcomes. However, expectations of continued recovery, improving earnings forecasts, and a low possibility of an all-encompassing national lockdown should support prices, particularly for the cyclical and quality components of the market. Overall, investors should play market divergences with a balanced stance.
EQUITY PLATFORM	Europe	=/+	▲	The economy is improving, but resurgence of virus cases and subsequent lockdowns in the region may make the recovery bumpy. The result is extreme market dispersions, which are creating opportunities for active stock pickers. We look for names with strong balance sheets and resilient business models.
EQUITY PLATFORM	Japan	+	▲	Pro-cyclical markets such as Japan should be supported by global growth prospects and attractive valuations. However, investors should stay watchful and balanced till when there is more visibility on the growth path.
EQUITY PLATFORM	Emerging markets	+	▲	Improving economic prospects should support EM assets in 2021, but geopolitical risks, such as the recent sanctions on Russia and US elections, coupled with the US-China rivalry for global dominance, are key variables. Nonetheless, the crisis has reinforced China's role as the global growth engine, and Asian and other economies exposed to this will benefit. With an overall neutral stance, we like the semiconductor sector and attractively valued growth names.
FIXED INCOME PLATFORM	US govies	=		We remain close to neutral on USTs in our global portfolios due to their ability to provide protection in uncertain times. However, we are actively watching rates/yield movements. In US portfolios, we believe USTs provide a good source of liquidity, but their limited potential to offer diversification benefits in the current environment mean we stay cautious overall.
FIXED INCOME PLATFORM	US IG Corporate	=	▼	We are neutral/slightly positive in light of the continued support from monetary policy, but it is important to acknowledge that spreads have already tightened to post-Global Financial Crisis levels. So, investors should pare back risk where the risk/return profile is asymmetric. Housing and consumer markets present attractive opportunities in securitised credit.
FIXED INCOME PLATFORM	US HY Corporate	=	▲	We aim to exploit the tightening potential in segments which will continue to be supported by Fed action and which can withstand a slow recovery. Having said that, we are very selective, particularly in areas affected by the lockdowns and where default risk is high.
FIXED INCOME PLATFORM	European govies	-/=		We are defensive on core Euro, given that there is limited potential for rates to fall further, but accommodative monetary stances will be maintained. On peripheral debt, however, we are constructive (particularly in Italy) as continued ECB support would prevent any fragmentation risks.
FIXED INCOME PLATFORM	Euro IG Corporate	=/+	▼	Credit offers extra return in an income-starved world where negative yielding debt is rising again. However, investors should realise that spreads have tightened substantially and therefore credit selection and focus on liquidity are paramount.
FIXED INCOME PLATFORM	Euro HY Corporate	=		The sea of liquidity from ECB support is masking the quality problem, leading to a uniform spread compression. But going forward, markets would differentiate quality companies from those with weak fundamentals. Therefore, it is important for investors to be selective and avoid the low-rated, leveraged names where revenue outlooks are uncertain.
FIXED INCOME PLATFORM	EM Bonds HC	=/+		EM bonds should benefit from a strong appetite for yield-search among investors as rates in the developed world are at record lows. IG appears to be expensive, with spreads not far from pre-Covid-19 tights. On the other hand, HY presents a much better risk-reward profile, especially in light of promising vaccines and a Biden victory.
FIXED INCOME PLATFORM	EM Bonds LC	+	▲	A Biden presidency should support a weak USD and is overall positive for inflows into EM. On FX, we believe the improving environment for the likely strong performance of risk assets is likely to lift EM FX.
OTHER	Commodities			Oil price over-reacted to an unexpected increase in oil production by Libya, at a time when new lockdowns are exacerbating demand recovery concerns. Nevertheless, we confirm our target range of US$40-50/bbl for WTI for 2021. We also reiterate our constructive view on gold despite interest rates and USD volatility limiting the metal's upside. In the long run, gold will benefit from a prolonged dovish stance of central banks.
OTHER	Currencies			The USD remains overvalued according to our fair value models. Recently, when the vote-counting made it clear that Biden was taking the lead over Trump, investor sentiment skyrocketed and the greenback sold-off sharply. But the path towards fair value is expected to be bumpy, as localised lockdowns could stay for some time and there is a likelihood that Trump may not allow a smooth transition of power. Confidence on economic growth is another key variable that could affect the USD bearish trend to materialise. However, overall, a switch from a Contraction to a Recovery regime would be unfavourable for the dollar. Commodity-related currencies are expected to benefit the most from such a regime shift, while for the GBP, Brexit newsflow should be key in the short term.

LEGEND

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Negative			Neutral	Positive			Downgrade vs previous month	Upgraded vs previous month

Source: Amundi 20 November 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 25/11/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2020	2021	2022	2020	2021	2022
	range					
World	**-4.3/-3.7**	**5.1/5.8**	**3.4/4.2**	**2.6**	**2.6**	**2.8**
Developed countries	**-5.9/-5.4**	**4.4/4.9**	**2.9/3.4**	**0.7**	**1.3**	**1.6**
US	**-4.1/-3.5**	**4.7/5.3**	**2.6/3.2**	**1.3**	**2.0**	**2.1**
Japan	**-5.5/-4.9**	**2.7/3.3**	**1.1/1.7**	**0.0**	**0.1**	**0.2**
UK	**-11.4/-10.8**	**4.8/5.4**	**3.5/4.1**	**0.8**	**1.5**	**1.8**
Eurozone	**-7.7/-7.1**	**4.7/5.3**	**3.7/4.3**	**0.2**	**0.9**	**1.5**
Germany	-6.2/-5.6	3.2/3.8	2.8/3.4	0.7	1.3	1.5
France	-9.3/-8.7	6.0/6.6	3.6/4.2	0.5	0.9	1.6
Italy	-9.3/-8.7	4.4/5.0	2.9/3.5	-0.1	0.5	1.4
Spain	-12.2/-11.6	5.4/6.0	5.4/6.0	-0.5	0.6	1.3

Source: Amundi Research

- **United States:** after a record contraction in Q2, and an extraordinary rebound in Q3, we expect a significant deceleration in Q4, influenced by the new rise in Covid-19 cases and given the signs of a progressive deceleration in several economic and behavioural indicators. Next year's growth outlook remains supported by the supportive mix of monetary and fiscal policy. After softening in H2 2020, headline inflation should move higher, with a temporary mid-year overshoot, due to the reversing oil price base effects. It will then revert to the target. After 3 November, the key date is now 5 January, when the final Congressional breakdown will be known.
- **Eurozone:** after the strong rebound in early Q3, Q4 is set to print a new GDP contraction (albeit more limited than in Q2), as new rises in Covid-19 cases have induced Eurozone governments to new lockdowns. After a mild pickup in Q1, availability and initial distribution of the vaccine will help confidence and release pent-up demand from Q2, from when we expect growth to remain supported above potential by an extraordinarily easy mix of monetary and fiscal policies. Inflation should remain subdued in the near term with significant downside risks in Q4 before moving gradually higher in 2021, yet remaining evidently below target.
- **Japan:** the economy is recovering from a deep recession, after the hit from consumption tax hike in October 2019 and the global pandemic outbreak. In Q3, GDP bounced back by 5% QoQ, reversing less than half of the decline since Q4 2019. The path to recovery remains challenging. As of November, Japan's PMIs had not yet returned to 50. A renewed wave of outbreak has started to weigh on sentiment and outdoor activities. Hence, we are not expecting the economy to return to pre-crisis level until 2022. With a wide output gap, inflation will remain depressed.
- **United Kingdom:** the economy technically rebounded in Q3 after the record dip in Q2. However, the Covid-19 second wave forced the introduction of a new lockdown leading to a further (despite softer) contraction in Q4. After a weak Q1, the economy will gain momentum supported also by a larger availability of a vaccine. The pressure on the labour market is severe, despite new job support schemes. Fiscal policies remain highly supportive, while some further easing on the monetary front later this year is becoming increasingly likely due to the high uncertainty underlying Brexit.

Key interest rate outlook

	26-11 2020	Amundi + 6m.	Consensus Q2 2021	Amundi + 12m.	Consensus Q4 2021
US	**0.13**	**0/0.25**	**0.11**	**0/0.25**	**0.12**
Eurozone	**-0.50**	**-0.50**	**-0.54**	**-0.50**	**-0.56**
Japan	**-0.03**	**-0.1**	**-0.06**	**-0.1**	**-0.07**
UK	**0.10**	**0.00**	**0.06**	**0.00**	**0.03**

Source: Amundi Research

Monetary policy agenda

Central banks	Next meeting
Federal Reserve FOMC	**December 10**
ECB Governing Council	**December 16**
Bank of Japan MPM	**December 18**
Bank of England MPC	**December 17**

Source: Amundi Research

- **Fed:** the Fed was satisfied with the amount of accommodation being provided by the current Asset Purchase Program ($80bn in Treasuries and $40bn in MBS per month). It is providing substantial support to the economy and has materially eased financial conditions. But the FOMC appeared concerned about the downside risks from the recent rise in new Covid-19 cases and from the lack of fiscal stimulus. New guidance for asset purchases or changes to the asset purchase program may be delivered in December if the outlook worsens. The FOMC had an extensive discussion about APP and how it might adjust its parameters to provide more accommodation (in terms of composition, size, duration and time period of purchases). Presumably, the FOMC has reached a consensus on what do to do next, if needed.
- **ECB:** at its last meeting the ECB committed to strong action in December that will take the form of a full package, The package is likely to support the "low for longer" scenario on yields and yield search, combining: 1) a remarkable expansion of QE, mostly through PEPP; 2) an extension of QE new purchases and reinvestment horizons; and 3) the extension and/or cheapening of the favourable terms of the TLTROs. Following the meeting, ECB communication also focused on how long the stimulus would last and how big it would be, underling the importance of prolonging the current policy stance.
- **BoJ:** monetary policies were held unchanged as expected in October. In its latest quarterly economic outlook, the central bank notes that inflation could stay negative for a while before turning positive, projecting a slow improvement in the economy and output gap. It also acknowledges difficulties in achieving the 2% inflation target, and focuses more on the sustainability of monetary policy. This allows flexibility in asset purchase amounts amid a prolonged monetary easing period. Meanwhile, funding supports to the corporate sector will likely continue beyond March deadline.
- **BoE:** the Bank of England surprised market consensus on the upside at its last meeting by announcing a unanimous decision on a £150bn extension of its asset purchase programme until the end of 2021. Rates are still in the toolbox, but QE remains the preferred instrument for the time being. Like the Fed and the ECB, the BoE will continue to support fiscal policy through monetary policy, as risks remain tilted to the downside.

EMERGING COUNTRIES

Macroeconomic outlook

Data as of 25/11/2020

Annual averages (%)	Real GDP growth % 2020 range	2021	2022	Inflation (CPI, yoy, %) 2020	2021	2022
World	-4.3/-3.7	5.1/5.8	3.4/4.2	2.6	2.6	2.8
Emerging countries	-3.2/-2.5	5.6/6.4	3.8/4.8	3.9	3.6	3.7
Brazil	-4.6/-4.1	3.0/4.0	1.0/3.0	3.1	3.6	3.4
Mexico	-9.5/-9.0	3.6/4.6	1.7/3.7	3.5	3.5	3.3
Russia	-4.0/-3.5	2.5/4.0	1.5/3.0	3.2	3.75	3.80
India	-8.7/-7.7	7.5/8.7	4.7/6.1	6.7	6.0	5.5
Indonesia	-2.8/-2.2	3.0/3.8	4.2/5.2	2.0	2.7	3.3
China	1.5/2.1	7.9/8.5	4.9/5.5	2.5	1.5	2.1
South Africa	-9.1/-8.1	1.9/2.9	0.8/1.8	3.1	3.8	4.3
Turkey	-5.2/-4.2	4.0/5.0	3.5/4.5	11.7	12.8	10.8

Source: Amundi Research

- **China**: the economy grew at a buoyant pace entering Q4, led by the services sector. Industrial production continued to expand above trend sequentially, albeit slowing from Q3. The recovery in exports broadened to non-Covid goods, driving up shipping costs. Against the backdrop of policy normalisation, we expect credit to grow at a slower pace in 2021. Public spending will give way to private consumption. Headline CPI is due for further corrections in Q4 and Q1 2021 as pork prices reverse previous gains, but underlying inflation has already bottomed out.
- **Mexico:** the economy rebounded strongly in 3Q, expanding by a whopping 60% SAAR, driven by reopening, improving mobility, strong remittances and external demand. Momentum is now slowing, however, with the size of the economic pie still visibly below pre-Covid levels and the medium term story very much dependent on US dynamics (also due to lack of domestic policy support). The inflation outlook remains fairly benign – it is set to moderate towards the target – thanks also to a vigilant Banxico, which paused in November but is likely to add a couple more cuts in 2021. Fiscal policy, meanwhile, remains prudent to market's linking. And while the policy mix is clearly suboptimal, and Pemex's situation problematic, the positive news on the vaccination front make it a glass-half-full kind of story for Mexico.
- **Turkey:** lots of news: i) the CBRT governor and the minister of finance were replaced by two technocrats that the markets appreciate for their orthodox economic policy; and ii) the main policy rate was raised by 475bp to 15.0% and the end of the interest-rate framework system was announced. The CBRT's tightening was ultimately limited as it raised the average cost of funding by just 20bp. However, the committee's language and the simplifying of the policy framework are likely to enhance the CBRT's predictability and transparency.
- **South Africa:** Fitch and Moody's downgraded the sovereign rating by one notch, to, respectively, BB- and Ba2, while reiterating their negative outlooks. The two agencies said that their decision was motivated by heavy and growing debt, weak potential growth, and the risks of execution of medium-term growth plans and the government budget. They questioned in particular the government's ability to put through the public employee salary cuts included in the MTBPS. This will result in an increase in South Africa's cost of funding, which will place further restraints on its fiscal policy.

Key interest rate outlook

	26-11 2020	Amundi + 6m.	Consensus Q2 2021	Amundi + 12m.	Consensus Q4 2021
China	3.85	3.85	3.85	3.85	3.85
India	4	4	3.85	4	3.75
Brazil	2	2	2.05	2.75	3.05
Russia	4.25	4.00	4.15	4	4.15

Source: Amundi Research

Monetary policy agenda

Central banks	Next communication
PBoC	December 20
RBI	December 4
BCB Brazil	December 10
CBR	December 18

Source: Amundi Research

- **PBoC (China):** the credit regulatory environment turned less benevolent in China, exposing weak links in the economy. Although we believe policymakers are capable of nipping systematic risk in the bud, credit differentiation will inevitably widen, and defaults are set to climb in orderly fashion. In light of credit growth normalisation, monetary policy should hold at neutral instead of tightening further. While the central bank has steered away from broad easing via LPR or RRR cuts, it could increase net liquidity injections via MLF/reverse repos if interbank rates keep rising.
- **RBI (India):** the RBI left its policy rates unchanged in October, and we expect it to remain on hold at its next meeting, in early December. Economic conditions have been picking up lately, but downside risks on growth have arisen from gatherings in recent religious celebrations and a possible virus resurgence. The RBI's real concern should be inflation, printing at 7.6% YoY in October and very likely triggering a significant revision in its inflation forecasts for the near future. Unlike the RBI, we don't expect inflation to decline persistently to within the target any time soon.
- **BCB (Brazil):** the BCB kept rates on hold at a historically low 2% in a unanimous decision for the second time in a row. The forward guidance of staying low for longer until inflation expectations come sufficiently close to target, while being contingent on the current fiscal regime, remained intact as well. The central bank saw the recent rise in inflation as temporary, given its food and FX pass-through nature while its medium-term inflation projections were little changed and remained below target. In addition, and despite rising risks, the fiscal regime was deemed to have stayed unchanged. The BCB's dovish take is in line with our view of rates staying on hold for most of 2021.
- **CBR (Russia):** the Central Bank of Russia left its policy rate unchanged at 4.25% at its October 23rd meeting, as was the case at its September 18th meeting. The CBR mentioned a set of factors impacting inflation in different directions, including an increase in inflationary expectations, a slowdown in the economic recovery, increased market volatility and its potential negative impact on the rouble. All things considered, the CBR expects inflation to end up very near the target of 4% at year-end. Nonetheless, the central bank still sees room for a rate cut, especially in the medium-term, due to disinflationary risks.

MACRO AND MARKET FORECASTS

Macroeconomic forecasts (25 November 2020)

Annual averages (%)	Real GDP growth % 2020	2021	2022	Inflation (CPI, yoy, %) 2020	2021	2022
	range					
US	-4.1/-3.5	4.7/5.3	2.6/3.2	1.3	2.0	2.1
Japan	-5.5/-4.9	2.7/3.3	1.1/1.7	0.0	0.1	0.2
Eurozone	-7.7/-7.1	4.7/5.3	3.7/4.3	0.2	0.9	1.5
Germany	-6.2/-5.6	3.2/3.8	2.8/3.4	0.7	1.3	1.5
France	-9.3/-8.7	6.0/6.6	3.6/4.2	0.5	0.9	1.6
Italy	-9.3/-8.7	4.4/5.0	2.9/3.5	-0.1	0.5	1.4
Spain	-12.2/-11.6	5.4/6.0	5.4/6.0	-0.5	0.6	1.3
UK	-11.4/-10.8	4.8/5.4	3.5/4.1	0.8	1.5	1.8
Brazil	-4.6/-4.1	3.0/4.0	1.0/3.0	3.1	3.6	3.4
Mexico	-9.5/-9.0	3.6/4.6	1.7/3.7	3.5	3.5	3.3
Russia	-4.0/-3.5	2.5/4.0	1.5/3.0	3.2	3.75	3.80
India	-8.7/-7.7	7.5/8.7	4.7/6.1	6.7	6.0	5.5
Indonesia	-2.8/-2.2	3.0/3.8	4.2/5.2	2.0	2.7	3.3
China	1.5/2.1	7.9/8.5	4.9/5.5	2.5	1.5	2.1
South Africa	-9.1/-8.1	1.9/2.9	0.8/1.8	3.1	3.8	4.3
Turkey	-5.2/-4.2	4.0/5.0	3.5/4.5	11.7	12.8	10.8
Developed countries	-5.9/-5.4	4.4/4.9	2.9/3.4	0.7	1.3	1.6
Emerging countries	-3.2/-2.5	5.6/6.4	3.8/4.8	3.9	3.6	3.7
World	-4.3/-3.7	5.1/5.8	3.4/4.2	2.6	2.6	2.8

Key interest rate outlook

Developed countries

	26/11/2020	Amundi + 6m.	Consensus Q2 2021	Amundi + 12m.	Consensus Q4 2021
US	0.13	0/0.25	0.11	0/0.25	0.12
Eurozone	-0.50	-0.50	-0.54	-0.50	-0.56
Japan	-0.03	-0.1	-0.06	-0.1	-0.07
UK	0.10	0.00	0.06	0.00	0.03

Emerging countries

	26/11/2020	Amundi + 6m.	Consensus Q2 2021	Amundi + 12m.	Consensus Q4 2021
China	3.85	3.85	3.85	3.85	3.85
India	4	4	3.85	4	3.75
Brazil	2	2	2.05	2.75	3.05
Russia	4.25	4.00	4.15	4	4.15

Long rate outlook

2Y. Bond yield

	26/11/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	0.16	0.10/0.3	0.21	0.10/0.3	0.26
Germany	-0.758	-0.70/-0.50	-0.80	-0.70/-0.50	-0.83
Japan	-0.143	-0.20/-0.10	-0.16	-0.20/-0.10	-0.15
UK	-0.035	0/0.25	-0.03	0/0.25	-0.04

10Y. Bond yield

	26/11/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	0,88	0.8/1	0,98	1.1/1.2	1,07
Germany	-0,58	-0.60/-0.40	-0,52	-0.50/-0.30	-0,48
Japan	0,03	-0.10/0.10	0,07	0/0.2	0,11
UK	0,30	0.20/0.4	0,40	0.3/0.5	0,47

Currency outlook

	23/11/2020	Amundi Q2 2021	Consensus Q2 2021	Amundi Q4 2021	Consensus Q4 2021
EUR/USD	1.19	1.20	1.21	1.21	1.22
USD/JPY	104	103	105	106	107
EUR/GBP	0.89	0.89	0.90	0.90	0.90
EUR/CHF	1.08	1.11	1.09	1.13	1.11
EUR/NOK	10.60	10.33	10.50	10.14	10.30

	23/11/2020	Amundi Q2 2021	Consensus Q2 2021	Amundi Q4 2021	Consensus Q4 2021
EUR/SEK	10.16	10.01	10.35	9.83	10.13
USD/CAD	1.30	1.29	1.30	1.27	1.29
AUD/USD	0.74	0.76	0.74	0.77	0.76
NZD/USD	0.70	0.70	0.69	0.69	0.70
USD/CNY	6.59	6.30	6.60	6.40	6.63

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.

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.

- **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.

PUBLICATIONS HIGHLIGHTS

MARKET OUTLOOK

2021 investment outlook - market rotations in an uneven recovery (23-11-2020)
BLANQUÉ Pascal, Group Chief Investment Officer - MORTIER Vincent, Deputy Group Chief Investment Officer with the contribution of Research Team, Investment Platforms Leadership Teams, Investment Platforms Leadership Teams

INVESTMENT TALKS

France outlook (12-11-2020)
USARDI Annalisa , Senior Economist

2020 post-election analysis: Biden wins, but the United States remains divided (10-11-2020)
UPADHYAYA Paresh, Director of Currency Strategy, US Portfolio Manager, US

US election: no winner yet, markets moving from a blue wave to a possible Trump trade (04-11-2020)
BOROWSKI Didier, Head of Global Views - UPADHYAYA Paresh, Director of Currency Strategy, US Portfolio Manager, US - DEFEND Monica, Global Head of Research

THEMATIC PAPERS

Asset Class Return Forecasts – Q4 2020 (30 10 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

INSIGHTS PAPERS

Social bonds: financing the recovery and long-term inclusive growth (18-11-2020)
LAUGEL Elodie, Chief Responsible Investment Officer - VIC-PHILIPPE Isabelle, Head of Euro Aggregate

Liquidity trends in the wake of Covid-19: implications for portfolio construction (28-10-2020)
BLANQUE Pascal, Group Chief Investment Officer - MORTIER Vincent, Deputy CIO, Asia ex Japan Supervisor - GUIGNARD Matthieu, Global Head of Product Development & Capital Markets - ETF, Indexing & Smart Beta - MINIERI Gianluca, CEO of Amundi Intermediation UK and Ireland

Emerging markets charts & views - market opportunities looking into 2021 (13-10-2020)
SYZDYKOV Yerlan, Global Head of EM

WORKING PAPERS

Corporate ESG news and the stock market (02-11-2020)
TALEB Walid - LE GUENEDAL Theo - LEPETIT Fréderic - SEKINE Takaya - STAGNOL Lauren, Quantitative Research - MORTIER Vincent, Deputy Group Chief Investment Officer

Retirement savings: the tax issue (15-09-2020)
MAILLARD Didier, Professor - Conservatoire National des Arts et Métiers, Senior Advisor, Amundi

Climate change investment framework (09-09-2020)
AIIB, Asian Infrastructure Investment Bank — Amundi Research

DISCUSSION PAPERS

Europe, US and China tomorrow-Will it be possible to avoid geopolitical and economic traps (16-11-2020)
ITHURBIDE Philippe, Senior Economic Advisor

Factor Investing and ESG in the Corporate Bond Market Before and During the COVID-19 Crisis
BEN SLIMANE Mohamed – SEKINE Takaya, Quantitative Research – DUMAS Jean-Marie, Alpha FI Solutions

PUBLICATIONS HIGHLIGHTS

THE DAY AFTER

The day after #12
Changing shares of labour and capital incomes: what implications for investors? (21-10-2020)
BARBERIS Jean-Jacques, Head of Institutional and Corporate Clients Coverage - BLANCHET Pierre, Head of Investment Intelligence - POUGET-ABADIE Théophile, Business Solutions and Innovation

The day after #11
Post-crisis narratives that will drive financial markets (23-09-2020)
BLANQUE Pascal, Group Chief Investment Officer

The day after #10
Rethinking the macro and cross-asset research: what we have learned from the Covid-19 crisis (20-07-2020)
DEFEND Monica, Global Head of Research

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DISCLAIMER

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