



November 2021

A new dawn for Europe?

Strategies for investing in European assets

Investment Insights | Market Stories

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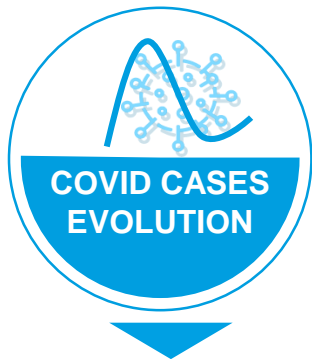
Confidence
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ASSET MANAGEMENT

01

Themes for Q4 and beyond for Europe

Key trends in Europe



The resurgence of Covid-19 cases in some countries is an area for attention, but should not lead to new generalised lockdowns due to vaccinations which are progressing at a strong pace.



Economic growth is sound and should peak this year, but remain sustained during 2022, led by reviving consumer demand (fuelled by pent-up savings) and government support schemes.



Global supply shortages/bottlenecks, the reopening of economies and surging energy prices are causing an inflation uptick, affirming our view that not all components of inflation will be 'temporary'.



Monetary policy should stay reasonably accommodative, with an aim of maintaining easy financial conditions despite indications that the ECB's asset buying is changing. We believe any such changes will depend on the strength of recovery.

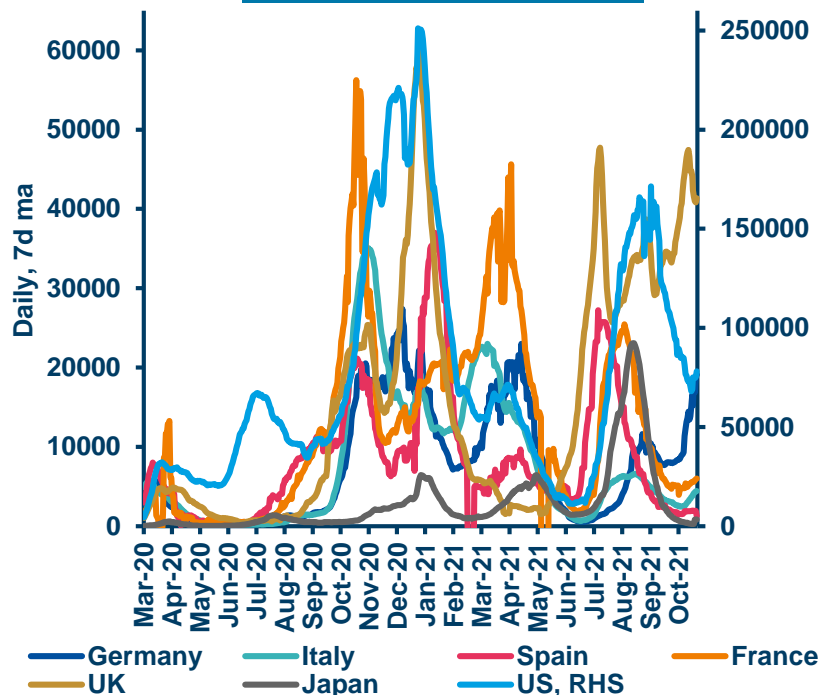


Fiscal stimulus remains ample and the implementation of the Next Generation EU plan will accelerate the energy transition and the EU transformation.

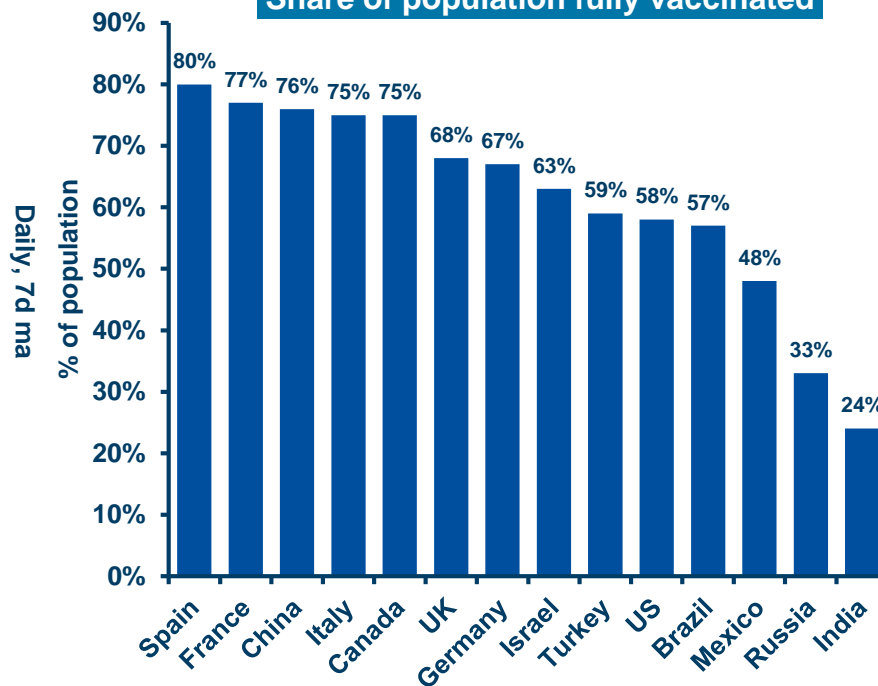
Source: Amundi as of 31 October 2021.

Covid-19 cases are surging but the risk of generalised lockdowns is limited

New Covid-19 cases - DM



Share of population fully vaccinated

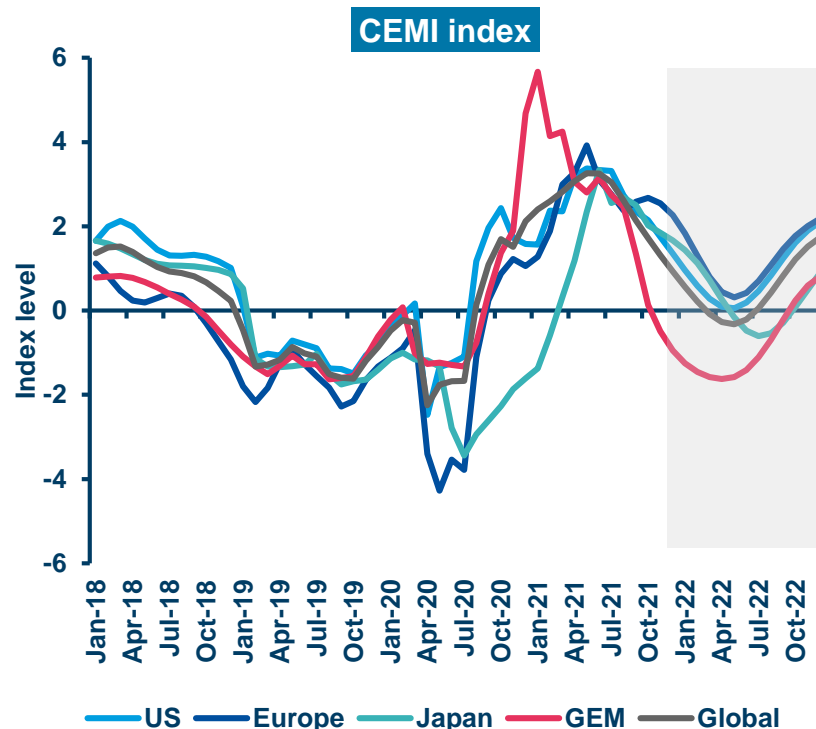
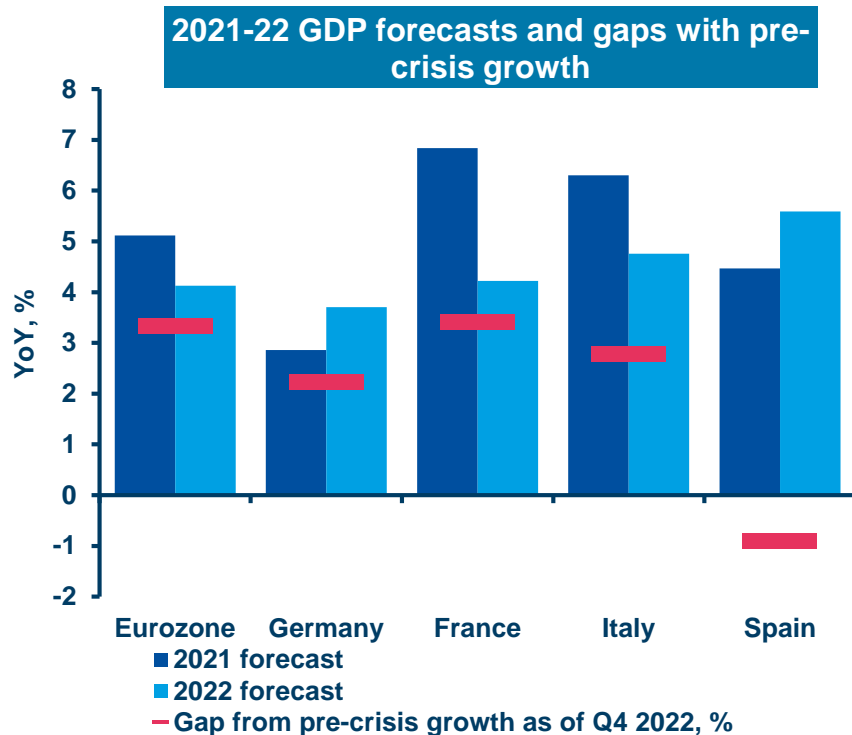


» Daily number of Covid-19 cases in Europe are increasing in some countries, but the region's vaccinations rates are high. This should limit hospitalisation and prevent major lockdowns. Continuing progress on this front bodes well for the economic reopening and subsequent recovery.

Source: Amundi elaborations on Bloomberg data as of 1 November 2021.

Source: Amundi, Bloomberg. Data is as of 1 November 2021.

Robust Eurozone growth, will peak in 2021 and moderate in 2022-23

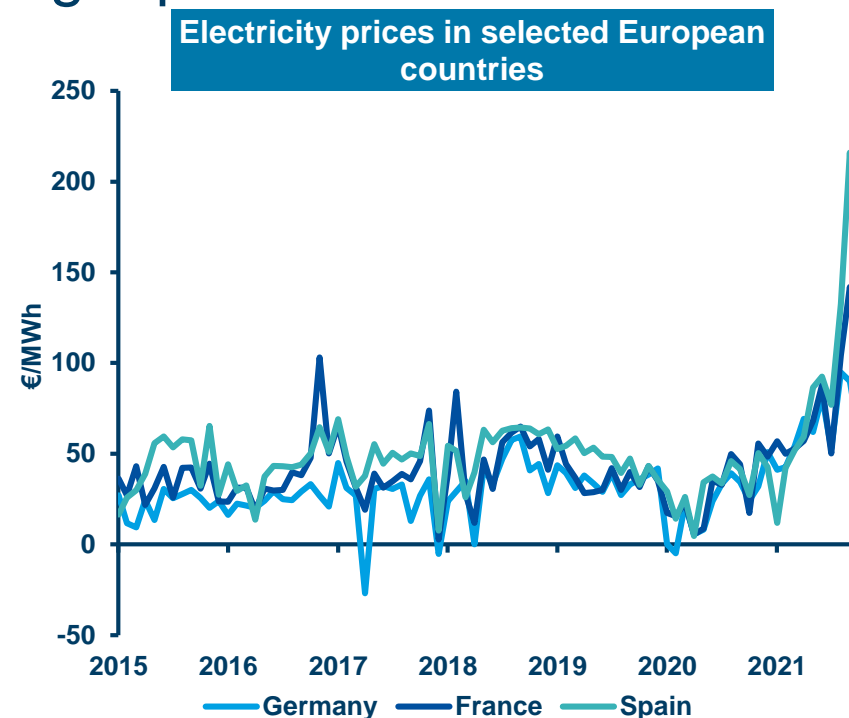
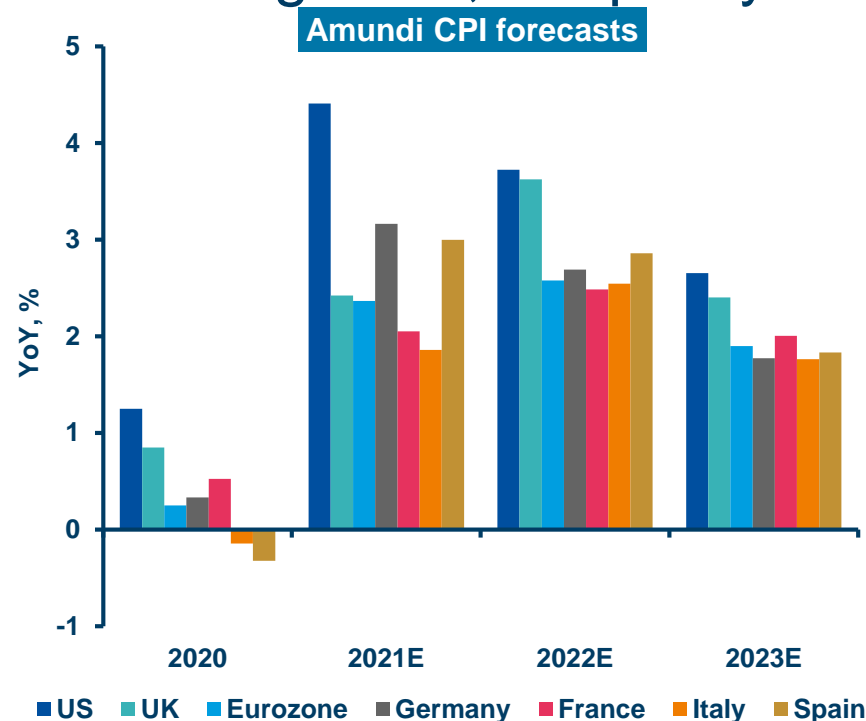


» Within the Eurozone, Germany should underperform the area's average growth both this year and the next, while peripheral countries – which experienced a larger growth decline in 2020 – should rebound strongly. However, their growth remains below pre-crisis levels. While global momentum is slowing, Europe should prove stronger than other areas.

Source: Amundi Research. Data is as of 10 November 2021. Forecasts are by Amundi Research.

Source: Amundi Research. Data is as of 31 October 2021. The Global Composite Economic Momentum index (CEMI) is an Amundi proprietary indicator based on four regional baskets (US, Europe, Japan and EM) and on the following variables: earnings revisions, 10y interest rates, leading indicators, CPI YoY, PMI surveys, European Commission Economic Surprise Index and Inflation Surprise Index.

Inflation to remain above 2% in 2022, energy prices are an issue for growth, inequality and geopolitics

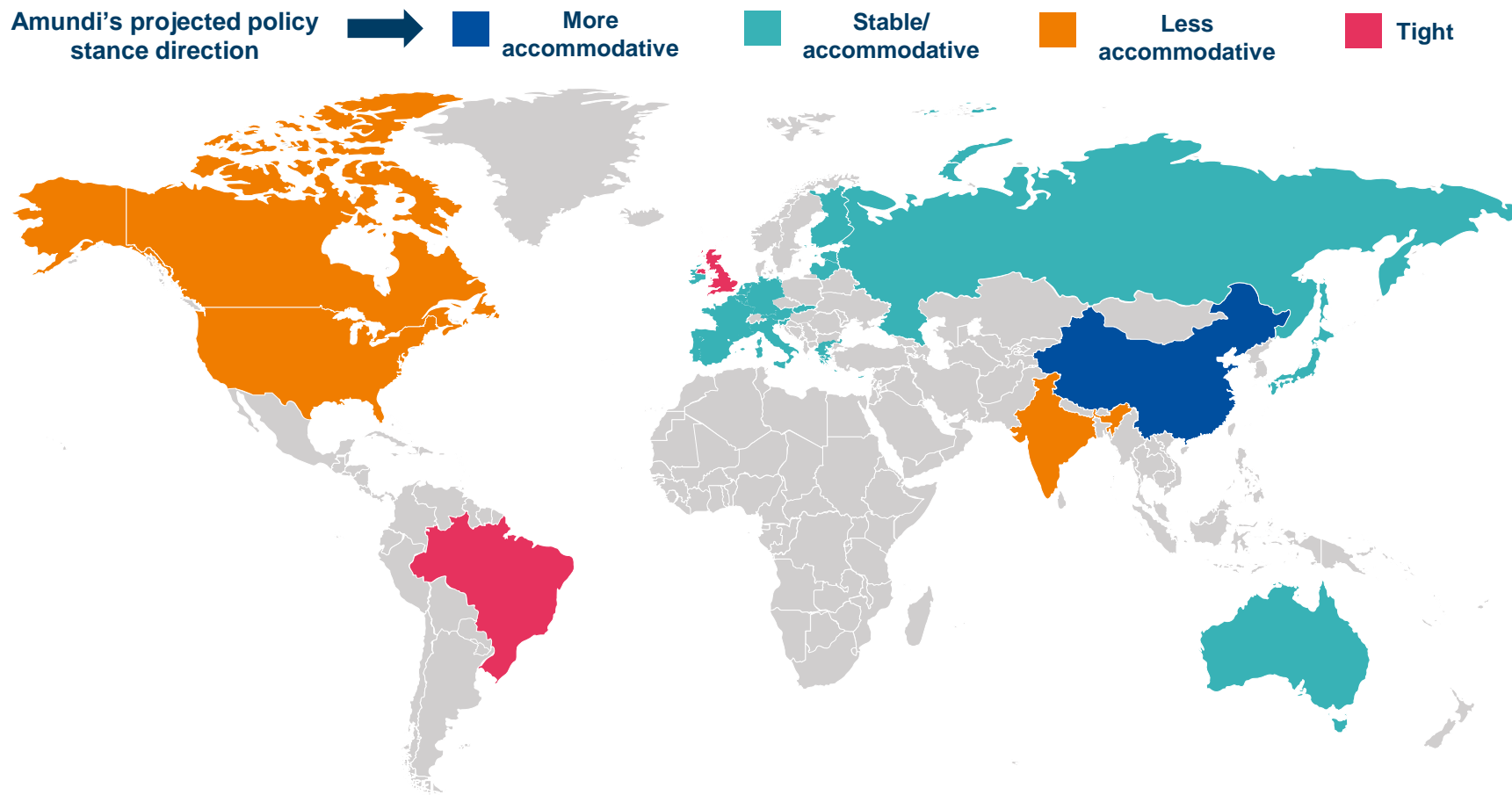


» We see inflation remaining above 2% in 2022, due to some temporary and structural components. Energy prices and supply bottlenecks could weigh on the recovery. Skyrocketing energy prices highlight the EU's dependence and the geopolitical dimensions of this crisis (the role of Russia with the EU).

Source: Amundi Research. Data is as of 8 November 2021. Forecasts are by Amundi Research. CPI: consumer price index.

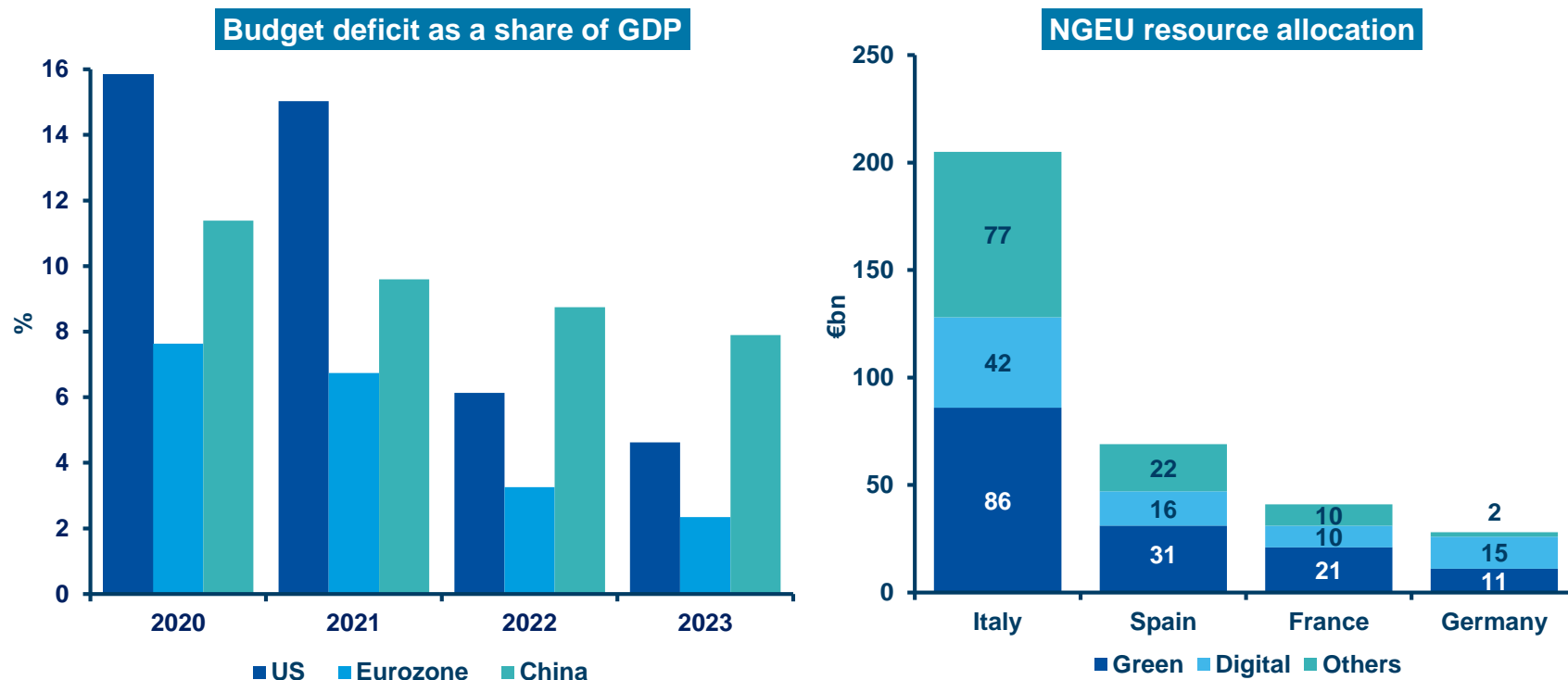
Source: Amundi, Bloomberg. Data is as of 31 October 2021.

The ECB remains dovish relative to other CBs



Source: Amundi Research as of 8 November 2021. Illustrative map for monetary policies. Central bank stance refers to expected changes on QE or unconventional tools position throughout 2021 and early 2022.

Fiscal boosters in Europe, a great chance for Italy



» Fiscal response to the Covid-19 crisis in Europe has been two pronged, with national support schemes depending on of each country's financial strength. The €750bn NGEU fund is a strong opportunity for the EU to recover from the crisis, potentially boosting GDP growth through a cocktail of public investment and reform, particularly in the areas of green investing and digitalisation.

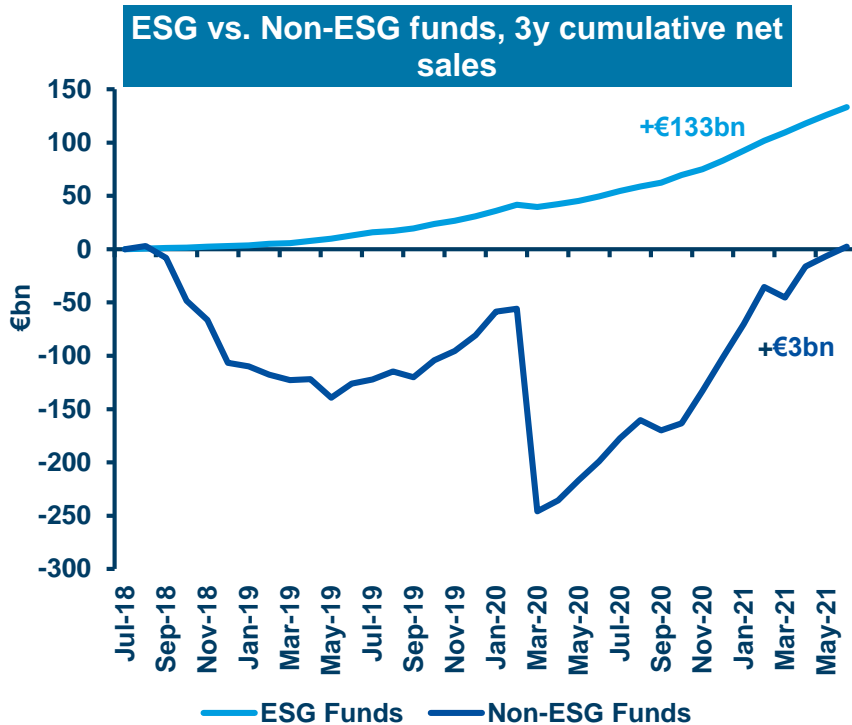
Source: Amundi Research, IMF as of October 2021.

Source: Amundi Research, Bruegel Estimates as of May 2021.

02

Investment convictions: why Europe?

ESG flows go from strength to strength



3y net sales by asset class, ESG vs. non-ESG funds, €bn

Asset Class	ESG funds	Non-ESG funds
Equity	76.4	5.2
Bond	46.9	45.0
Multi-Asset	9.2	-20.8
Other	0.8	-26.9

» The ESG trend has gained further momentum in 2021, with three-year cumulative net sales of ESG funds totalling €133bn as of June 2021 compared to only €3bn for non-ESG funds.

Source: Amundi, Broadridge Financial Solutions – FundFile, cross-border open-ended ESG funds (passive, money market, and funds of funds are excluded). Data is as of June 2021.

Equities: pricing power and earnings sustainability will be key

Focus on pricing power



Companies that can sustain earnings growth and preserve margins despite rising input costs and supply shortages should better withstand rising inflation

Play rotations



Interest rates will remain reasonably low but on a rising path, favouring equities with less stretched valuations such as EU and quality value vs. hyper-growth stocks

ESG themes

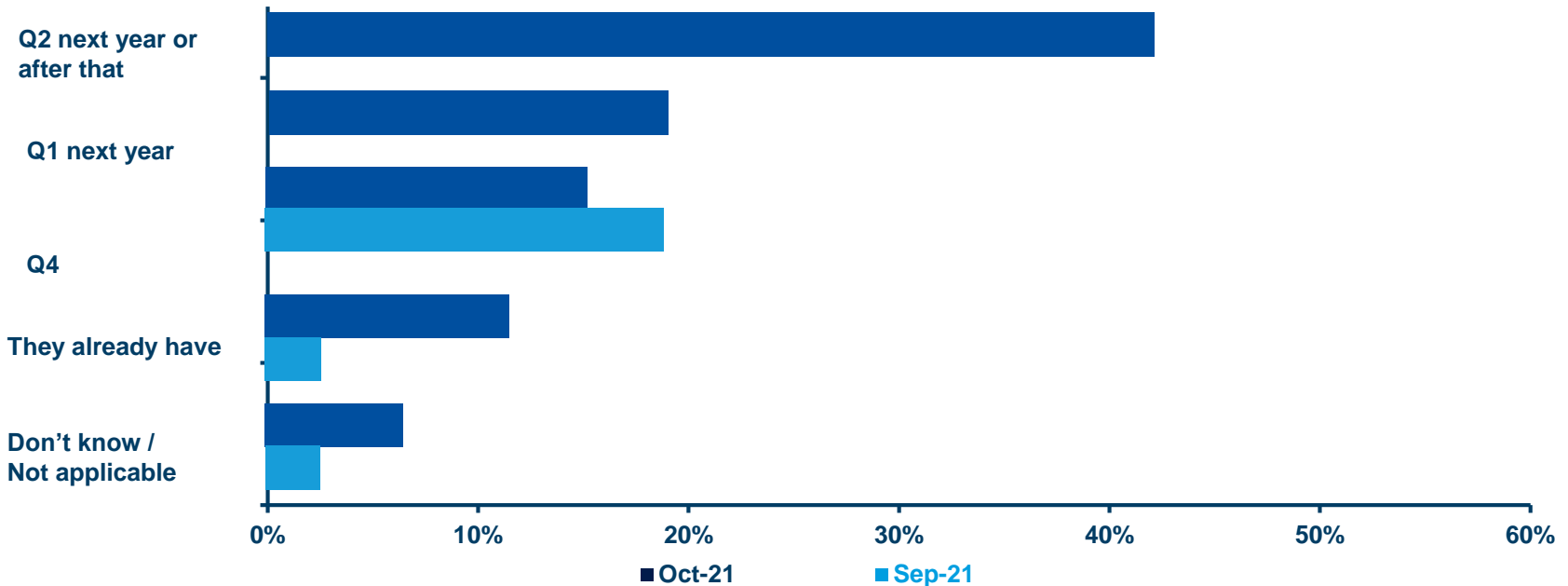


Opportunities in companies that aim to improve their ESG rating and in themes driving a just energy transition

Source: Amundi as of 31 October 2021.

Investors remain optimistic towards EU equities

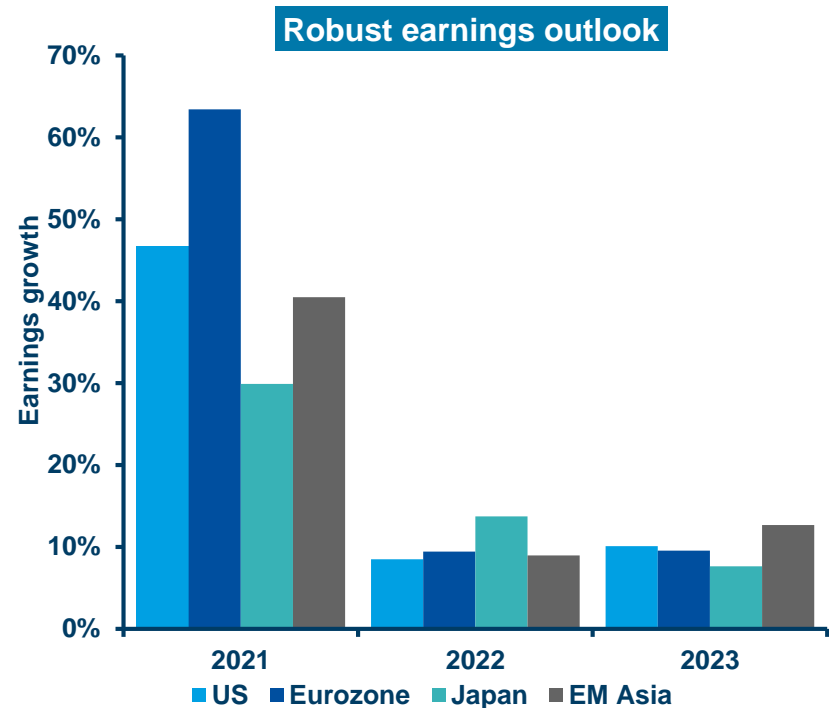
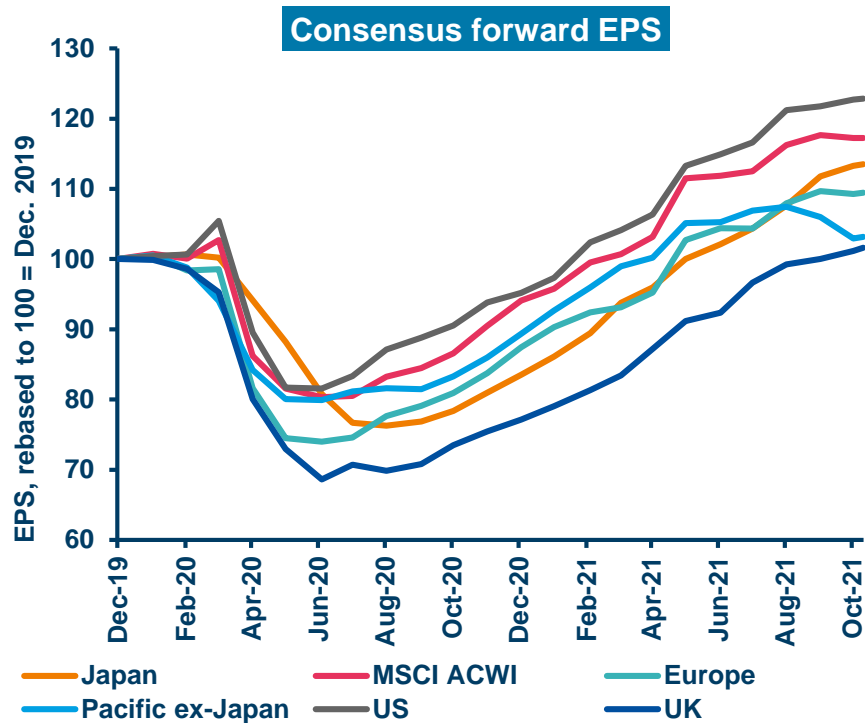
European investors' response to when they think European equities will peak



» Soft data, such as fund manager surveys, indicate investors' belief that markets will rally going into next year. As per the most recent October data, 65% of investors believe that markets will continue to rise next year or after that. This is an increase from 58% in September.

Source: BofA European Fund Manager Survey October 2021. *58% of respondents chose the option "Next year or after that" in the European Fund Manager Survey in September.

Earnings growth will moderate next year

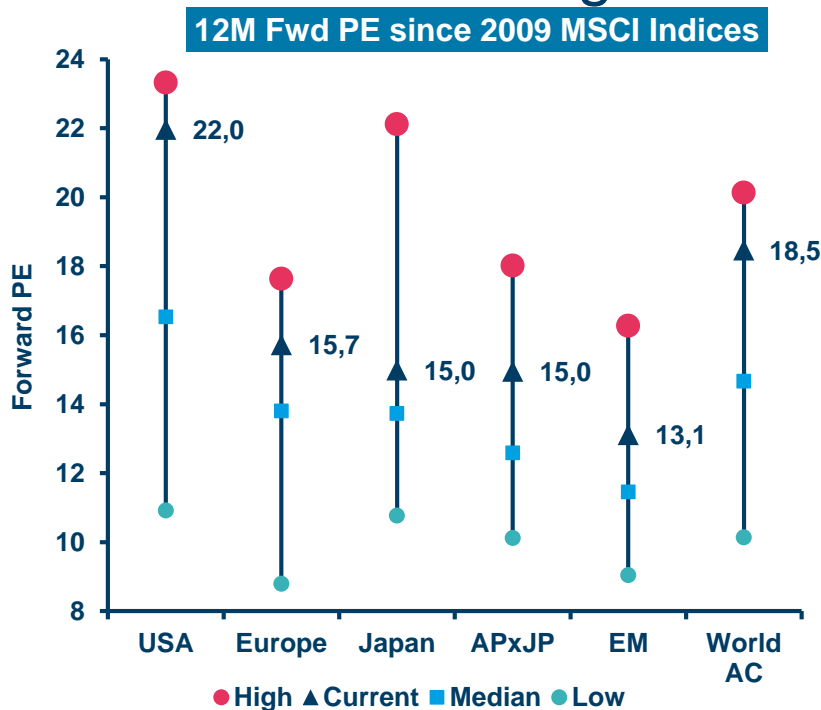


» Europe should outperform other regions in terms of expected earnings growth in 2021, with normalisation in 2022-23. However, given a stabilisation in recovery, supply-chain constraints and rising inflation, investors should explore companies that can preserve margins.

Source: Amundi Research, DataStream, as of 22 October 2021. EPS: earnings per share.

— Source: Amundi, IBES consensus, DataStream, as of 22 October 2021. EPS are in local currency and in US dollar for country groups (e.g., EM Asia).

EU equity valuations attractive in relative terms, value theme has room to grow

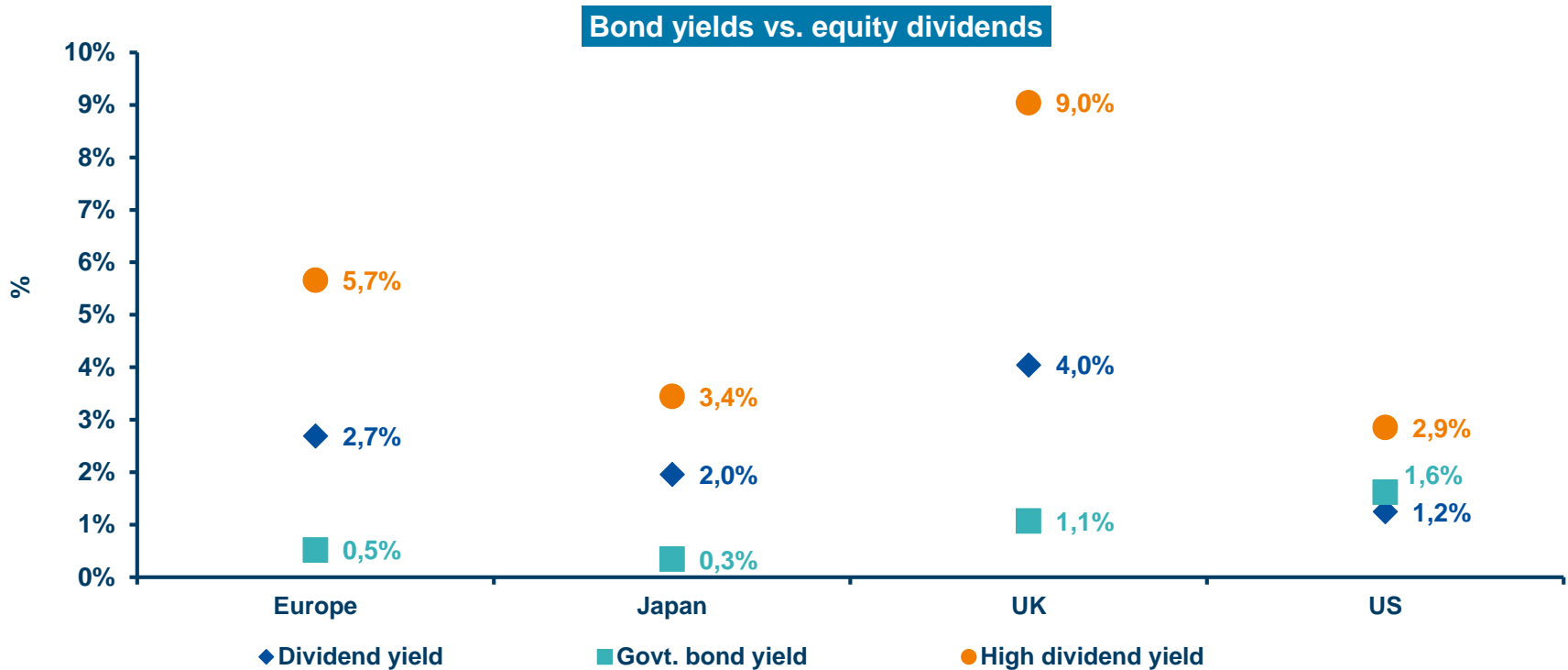


➤ European equity valuations are less expensive than US ones and there is room for quality value to rebound. We maintain a balanced stance, with a tilt towards normalisation and reopening, and are implementing this view through quality cyclical stocks in industrials and financials (value).

Source: Amundi Research, Datastream. Data is as of 26 October 2021.

Source: Amundi Research, Datastream. Data is as of 26 October 2021.

Dividends can boost returns amid high inflation

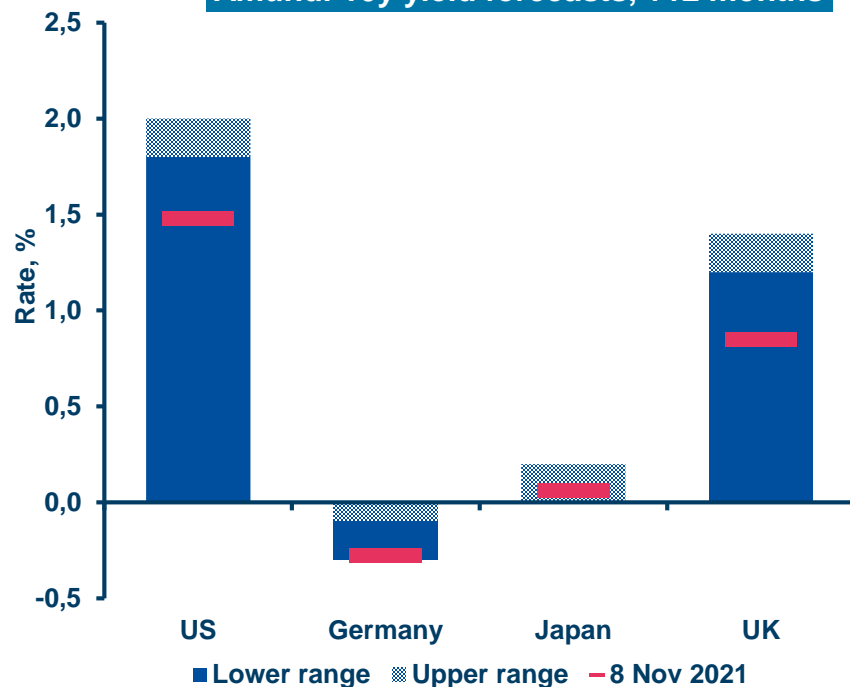


» Investors should look for names with a strong track record of rewarding shareholders through dividends and buybacks, now that companies are emerging from the crisis. This is possible in the case of companies that can preserve earnings growth.

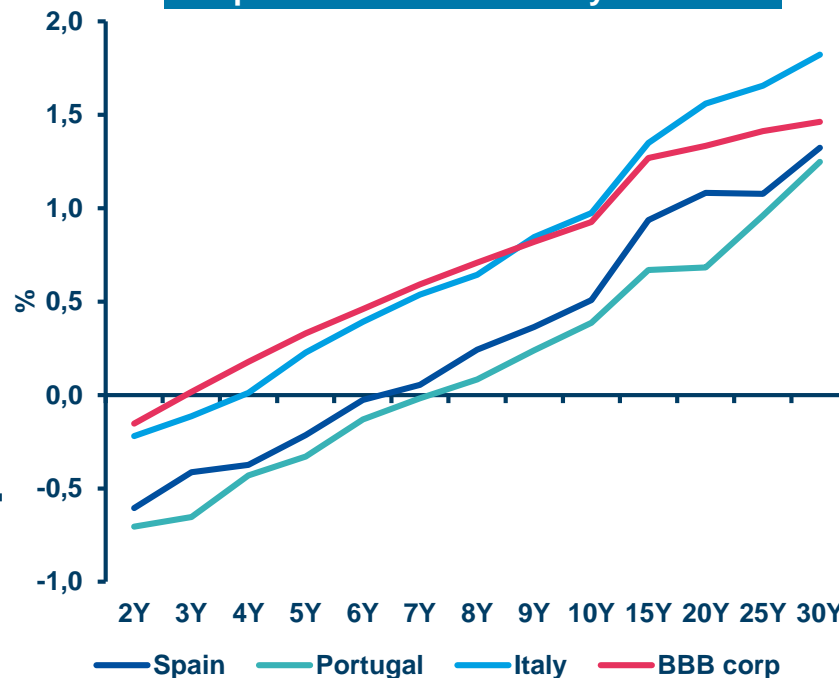
Source: Amundi, Bloomberg, as of 2 November 2021. Dividend yield refers to the past twelve months.

Fixed income: upward pressure on yields, opportunities in periphery

Amundi 10y yield forecasts, +12 months



Peripherals and BBB-rated yield curves

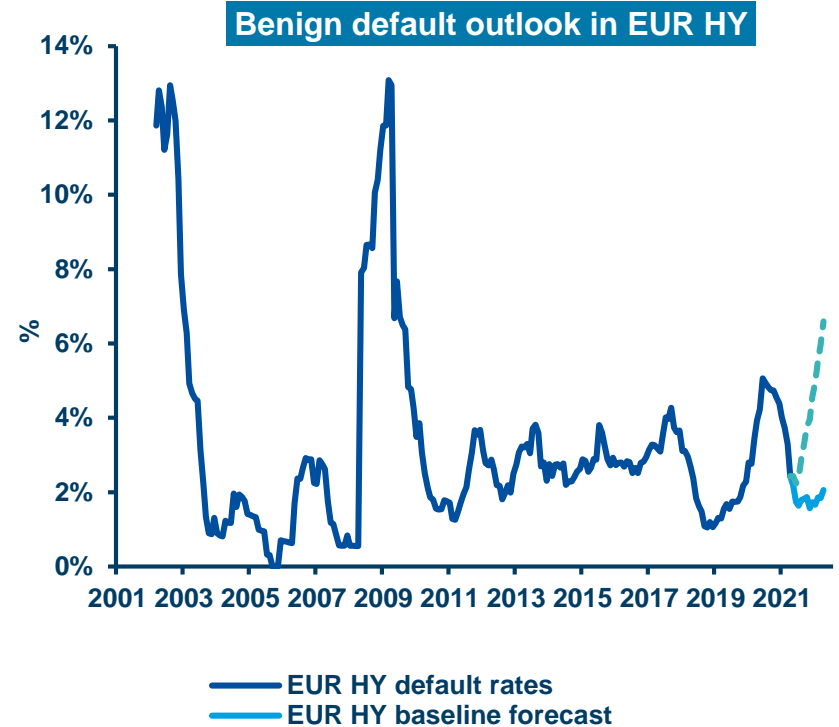
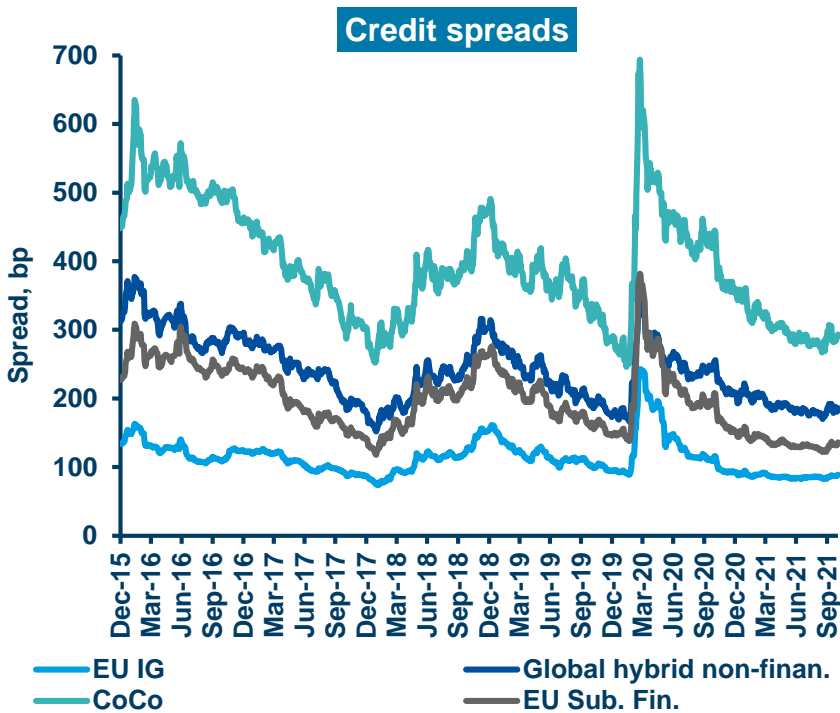


Core yields may rise from current levels as markets realise some inflation components will not be transitory. Hence, investors should remain active and flexible. Peripheral debt presents opportunities in investors' search for income, but political risks should be monitored.

Source: Amundi, Bloomberg. Data is as of 8 November 2021. Forecasts are by Amundi Research.

Source: Amundi Research, Bloomberg, as of 25 October 2021.

Credit: still positive for carry, but increase scrutiny



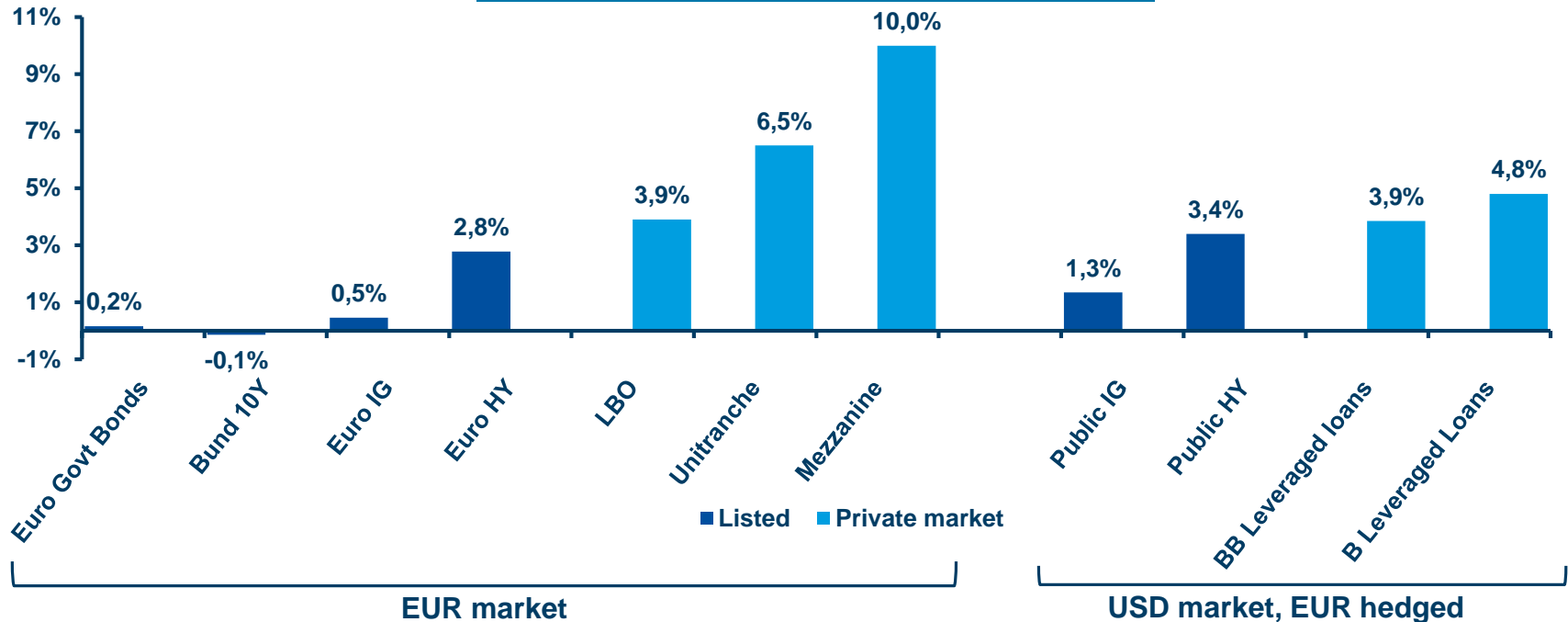
» We see opportunities in IG, subordinated debt and ‘rising stars’ as credit metrics and corporate fundamentals are improving. HY also offers interesting opportunities to get that extra return which must be balanced with liquidity and quality. Overall, a selective bottom-up approach with an ESG bias is key to ensuring long-term, sustainable returns.

Source: Amundi, Bloomberg. Data as of 1 November 2021. CoCo bond: a contingent convertible bond is a fixed-income instrument that is convertible into equity if a pre-specified trigger event occurs.

Source: Moody's, Amundi Research. Data as of 25 October 2021. Forecasts from September 2021. IG: investment grade. HY: high yield.

In the search for income, widen the opportunity set in the credit continuum, with a strong focus on selection

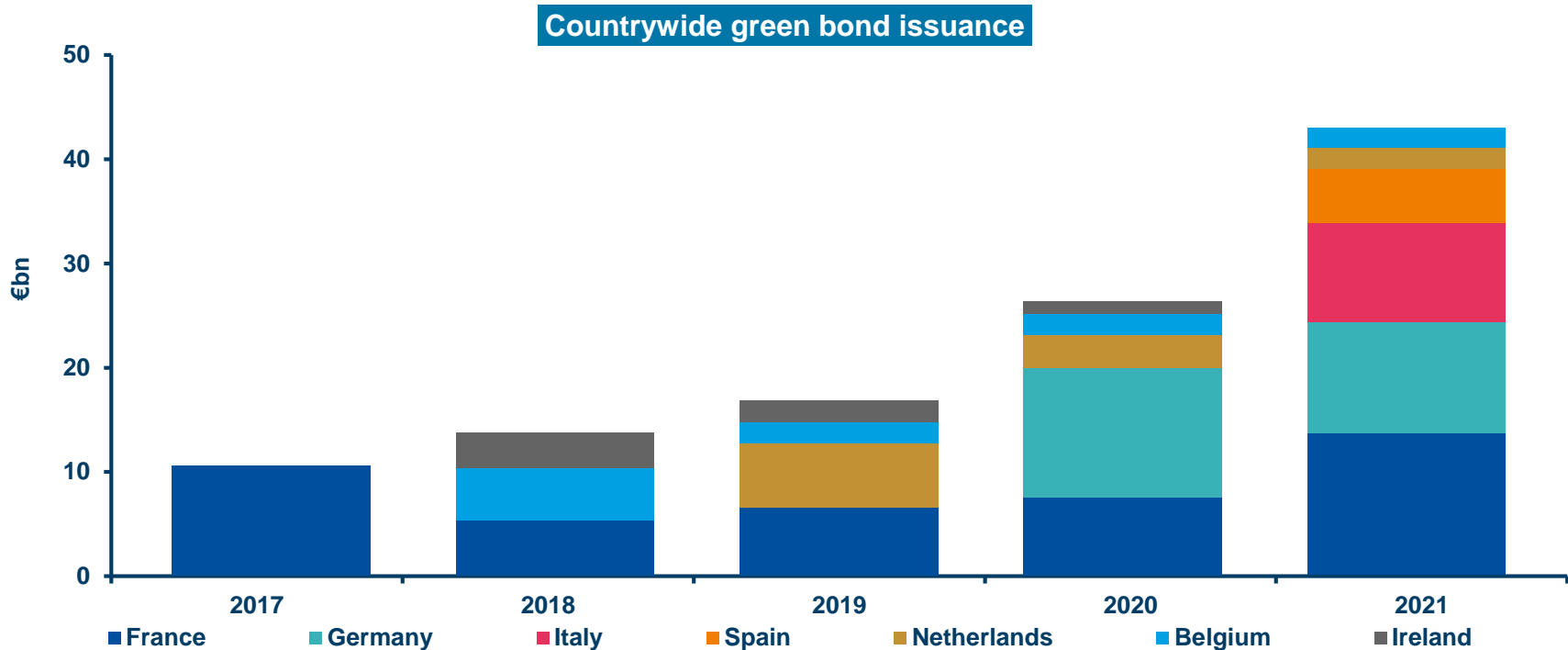
Yield to worst across the fixed income universe



» A combination of listed and private debt could be attractive in the search for yield for investors with the appropriate investment horizon and tolerance for lower liquidity.

Source: Amundi, data as of 2 November 2021. Past performance does not prejudice future performance. Mezzanine debt is an estimate based on past deals. **Past performance is no guarantee of future results.**

The EU green imperative



» Annual EU green bond issuance is likely to exceed that of euro area sovereigns due to the region’s move towards clean energy. The EU’s first ever green bond offering of €12bn securities, due in 2037, received a thumping response from the market with subscription requests of €135bn, indicating investor demand. Such instruments are the first in a line of €250bn worth of planned green bonds to be issued by the EU, given its pledge to move towards net zero by 2050.

Source: Amundi, BoFA Global Research, Bloomberg as of 12 October 2021. 2021 issuance is as of end-September.

Key takeaways

EUROPE

EQUITIES

FIXED INCOME

KEY THEMES

- Continuing economic growth and Next Gen EU implementation should support equities
- Sustainable investment and a rotation towards value/quality stocks are ways to play European recovery
- Dividend income will support overall returns in times of high inflation

- Go beyond traditional benchmarks to stay flexible and minimise duration risk; explore the full credit continuum with an emphasis on selection and fundamentals.
- Use ESG to broaden the investment horizon and complement the search for income

HOW TO PLAY?

- **Improvers strategy:** identify tomorrow's ESG leaders before ESG premium sets in.
- **Concentrated strategy with ESG focus:** invest in fundamentally strong companies displaying robust ESG characteristics.
- **Value:** in a rising yields environment, invest in value rotation through an emphasis on bottom-up selection.

- **Social bonds** are a way to benefit from opportunities arising from the financing of social projects without compromising on returns.
- **Green continuum** provides access to public and private debt to gain from the transition towards green energy.
- **Subordinated credit** offers additional yield to complement investors' search for real returns amid high inflation.

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Date	Title
27 Oct 21	Global Investment Views – November 2021
4 Oct 21	Cross Asset Investment Strategy – Oct 2021
1 Oct 21	Adapting equity portfolios to a regime of higher inflation
16 Sep 21	Post-summer check-up on the regime shift
7 Sep 21	Cross Asset Investment Strategy –Sep 2021

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Indices reference and definitions

Bond Indices (JPMorgan)

Sov. HC HY = JPM EMBI Global Diversified High Yield; Sov. HC = JPM EMBI Global Diversified Composite; Sov. HC IG = JPM EMBI Global Diversified Inv. Grade; Local FX = JPM GBI-EM Global Diversified FX Return; Local HC = JPM GBI-EM Global Diversified Composite Unhedged USD; Local Euro = JPM GBI-EM Global Diversified FX Return in EUR; Local Rates = JPM GBI-EM Global Diversified Composite LOC; Corp. HC HY = JPM Corporate Broad EMBI Diversified High Yield; Corp. HC = JPM Corporate EMBI Broad Diversified Composite; Corp. HC IG = JPM Corporate Broad EMBI Diversified High Grade.

Equity Indices (MSCI)

Argentina = MSCI Argentina Net Total Return; Brazil = MSCI Brazil Net Total Return; China = MSCI China Net Total Return; Czech Republic = MSCI Czech Republic Net Total Return; Colombia = MSCI Colombia Net Total Return; Egypt = MSCI Egypt Net Total Return; India = MSCI India Net Total Return; Indonesia = MSCI Indonesia Net Total Return; Mexico = MSCI Mexico Net Total Return; Peru = MSCI Peru Net Total Return; Philippines = MSCI Philippines Net Total Return; Poland = MSCI Poland Net Total Return; Russia = MSCI Russia Net Total Return; South Africa = MSCI South Africa Net Total Return; South Korea = MSCI Korea Net Total Return; Taiwan = MSCI Taiwan Net Total Return; Thailand = MSCI Thailand Net Total Return; Turkey = MSCI Turkey Net Total Return; Emerging Markets = MSCI Emerging Net Total Return.

Yield & Duration Indices

German Govt Bonds = JP Morgan GBI Germany Index; US Govt Bonds = JPMorgan GBI US Index; Euro IG Bonds = Bloomberg Barclays Pan European Aggregate Corporate; US IG Bonds = Bloomberg Barclays US Aggregate Credit; Euro HY bonds = Bloomberg Barclays Pan-European High Yield ISMA; US HY Bonds = Bloomberg Barclays US Corporate High Yield; EMBI Div = JPMorgan EMBI Global Diversified Blended; CEMBI BD = JPMorgan CEMBI Div Broad Composite Blended; CEMBI BD HY = JPMorgan CEMBI Broad Div High Yield; Euro Corp Short Term = Bloomberg Barclays Euro Corporate 1-3Yr; US Corp Short Term = Bloomberg Barclays US Corporate 1-3Yr; EMBI Short Term = JPMorgan EMBIG Diversified 1-3Yr.

Indices reference and definitions

Definitions

- **Basis points:** one basis point is a unit of measure equal to one one-hundredth of one percentage point (0.01%).
- **Carry:** the carry of an asset is the return obtained from holding it.
- **CEEMEA:** Central and Eastern Europe, Middle East and Africa.
- **Correlation:** the degree of association between two variables; in finance, it is the degree to which assets or asset class prices have moved in relation to each other. Correlation is expressed by a correlation coefficient that ranges from -1 (perfectly negative correlated) through 0 (absolutely independent) to 1 (perfectly positive correlated).
- **Credit spread:** differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration possible embedded options.
- **Diversification:** Diversification is a strategy that mixes a variety of investments within a portfolio, in an attempt at limiting exposure to any single asset or risk.
- **Duration:** a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates, expressed as a number of years.
- **External vulnerability index:** this index is built by aggregating five different indicators that can monitor a country's dependence on overseas economies and capital flows.
- **FX:** FX markets refer to the foreign exchange markets where participants are able to buy and sell currencies.
- **Investment grade:** Refers to securities issued by an issuer of negotiable debt securities (Treasury bonds...) or bonds for which the Standard & Poor's rating is greater than or equal to BBB-. 'Investment grade' bonds are considered by the various rating agencies as having a low risk of non-repayment.
- **High yield:** High yield paying bond with a low credit rating due to the high risk of default of the issuer.
- **P/E ratio:** The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings (EPS).
- **Quasi sovereign:** companies wholly or partially owned by the government.
- **Spread:** the difference between two prices or interest rates.
- **VIX:** the CBOE volatility index. The VIX index is a measure of market expectations of near-term volatility on the S&P 500 (US equity).
- **Volatility** is a statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.

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