Confidence must be earned

Amundi ASSET MANAGEMENT

H2 2020 INVESTMENT OUTLOOK

Investing during a de-freezing cycle

"As the global economy emerges from its current hibernation and geopolitical factors re-enter the scene, investors should retain a moderate exposure to risky assets, playing relative-value opportunities and dislocations that could benefit from the de-freezing of the economic cycle. They should also watch for new themes that emerge or are further reinforced during the crisis, such as ESG."

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Letter from the CIOs

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The Covid-19 crisis drove the global economy into an **unprecedented deep freeze** in the first half of 2020. **The combination of monetary and fiscal stimulus will help the global economy de-freeze** in H2. As was the case with the virus cycle, **the recovery will be sequential** and involve different regions at different times - on a 'first in, first out' basis - **and will depend on the size of the policy response. As the global economy gradually de-freezes, investors will turn their focus back to geopolitics.** The climax will be the **US presidential election** – the outcome of which appears increasingly open. It will influence the US vs. China dispute, which will shift from trade to technology and healthcare supremacy – and more broadly – the new geopolitical order and the role of Europe within it. In Europe, we are monitoring the **budgetary process** and the recovery plan. This could redesign the future of Europe towards more sustainable and equal growth. Also in focus are the **upcoming end of Merkel's political era, Brexit** and **the response of the ECB to the German constitutional court, due in August**.

For financial markets, **this extraordinary year has been the story of the interconnection between the three cycles (pandemic, economic and financial cycle).** With the flattening of the contagion curve, markets have started to price in the effects of unlimited policy action and of a subsequent economic recovery. **Risk assets have recovered too much and too quickly in our view:** discounting an **immediate return to normality** at a time when many painful adjustments in the real economy and the corporate sector need to be made. In the second part of the year, a reality check on earnings growth has to be considered. **Investors should be aware that the cycle remains fragile** and could be derailed by many factors, such as the risk of a second pandemic wave, high debt, geopolitical risk and expensive valuations in some equity segments. These elements will keep volatility high. **As such, investors should not jump blindly into risk assets, but instead keep a moderate exposure to them, playing relative-value themes and dislocations that could benefit from the de-freezing of the economic cycle.**

We see four themes for H2:

- **Search for yield in good quality credit, EM debt, illiquid assets.** On the yield-hunting front, H2 will open on a better starting point than H1 for investors, as valuations are now slightly more attractive in both the credit and EM space, and central banks (CBs) will be a key element of support. Balance sheet resilience and quality of assets will make all the difference and investors should be highly selective.
- **In equities, remain cautious and play the rotation towards cyclical and new structural themes.** As the economic recovery unfolds, the equity recovery will likely broaden towards cyclical sectors, small caps and value. The sustainability of balance sheets and of business models will remain a key element of discrimination. Once the catch-up of the cyclical part of the market is exhausted, the focus will return to earnings, and **this could become a moment of truth, with some volatility returning to the market.** We believe the Covid-19 crisis will also accelerate some structural themes such as digitalisation, medi-tech, e-learning/education and infrastructure investing with a green focus, and that this could provide long-term opportunities to investors.
- **In EM equities, it is a 'first in, first out' story.** The Covid-19 crisis will further exacerbate the differences between EMs, with some more resilient to the crisis than those with external vulnerabilities, high debt and limited policy room. **China and Asia** are the main candidates to exploit the road to recovery. With globalisation under threat, the relocation of supply chains and the domestic demand engine theme will be further reinforced.
- **ESG more and more mainstream.** ESG investing has proven resilient during the crisis, attracting flows both on the passive and active side. The pre-existing trends will remain at the forefront, with a dominance of climate-related themes, but with a **rising relevance of the 'S' pillar and increasing attention on long-term societal issues.** From an investment perspective, we see a progressive shift from a ESG-static rating approach (investing in the ESG leaders of today) to a "**dynamic improvers" concept**, towards companies that can embrace a virtuous path in ESG.

INVESTMENT OUTLOOK H2 2020
Investing during a de-freezing cycle

Five global themes drive our central and alternative scenarios

1 Monetary and fiscal policies to the next level

2 Deglobalisation accelerates and geopolitics takes centre stage

3 US election becomes more uncertain

4 Global consumption comes under strain

5 Focus on debt sustainability and earnings growth

CENTRAL SCENARIO – *Slow U-shaped recovery* 60%

Analysis

- Short-term rebound (Q3) from a deep, short-lived recession and convergence to pre-crisis levels, with divergences on timing across regions
- Credit fragmentation and default surge
- Debt monetisation and ballooning CB balance sheets
- Manufacturing recovers faster than services, consumption recovers slowly
- Global trade recovers, but remains sluggish the global cycle is increasingly based on domestic engines

Market implication

- After the recent rally, consolidation will follow, with FX as a likely catalyst for the upside/downside scenarios
- In **fixed income,** be active in duration management (favour US duration); favour linkers
- Be selective in credit and cautious in EM FX
- In **equities,** 'first in, first out' theme as a regional positioning criterion; prefer long-term winners tilting to **cyclicals**
- Play sector rotation, small cap, min vol
- Favour **gold** on pervasive uncertainty

UPSIDE SCENARIO – *V-shaped recovery* 20%

Analysis

- Economic activity recovers to pre-crisis levels by mid-2021 (United States, Eurozone), with above-potential growth in H2 2020-H1 2021
- Pandemic almost suppressed
- Monetary and fiscal stimuli will feed through to the real economy and financial markets
- Pent-up demand visible

Market implication

- Prefer linkers
- Favour risky assets and commodities (oil)
- Be cautious on the USD

DOWNSIDE SCENARIO – *Secular stagnation* 20%

Analysis

- Economic relapse (Q4/Q1)
- Monetary and fiscal stimuli continues, but liquidity does not feed through to real economy
- Economic crisis evolves into a financial crisis
- Protectionism and deglobalisation accelerate, harming trade and global value chains

Market implication

- Favour cash and US treasury
- Favour gold, CHF, YEN, NZD
- Play min vol strategies

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All we need is growth

The global shock resulting from the coronavirus pandemic has altered the sequence of economic and financial phases, shortened the time frame and expanded the scale of the ripple effect. The speed and strength of the recovery will depend on the ability of economic policy to mitigate self-reinforcing recessionary dynamics.

Our current base scenario foresees a deep recession, massive support from central banks and governments and rising unemployment. A subsequent **gradual recovery in late 2021 from the H1 2020 economic freeze** would see activity retracing at different regional speeds – with Asia leading though still below its 2019 levels (EMs excluded) – rising labour costs and the cooling of monetary and government actions. This will eventually end in a late-cycle or, potentially, an asset-reflation regime should central banks remain ultra-supportive. Global trade would decline, as fault lines surface along supply chains and whole economies come to a standstill. Monetary authorities have acted swiftly to assuage the markets, having learned the lessons from the GFC. The insidious deflation risk has become a reality because of the oil price freefall. Even if the main cause has been the price war among oil producers, it is in itself having a meaningful impact on the energy and financial sectors worldwide. The big questions surround the structural impacts of the crisis: in light of these considerations, we have been evolving the investment themes we identified at the beginning of the year.

1. Monetary and fiscal policies move to the next level

'Crisis management' has eventually occurred: monetary policy moved further beyond new frontiers and eventually a nexus with fiscal policy was created. Short- to medium-term rates are anchored and are set to stay low for a long time.

→ ***Low rates, FX tensions and ample liquidity seeding an equity rally should investors start to price in an EPS recovery.***

2. Deglobalisation accelerates and geopolitics takes centre stage

The global reassessment of trade dynamics was already impacting areas and countries differently, especially among EMs. Today, the pandemic has triggered a new spin on the globalisation narrative, which questions the conventional wisdom about cross-border supply chains, just-in-time inventory management and reliance on external demand to boost economic growth.

→ ***Opportunities extend from EMs to all countries and regions backed by a credible domestic growth story.***

3. US elections become more uncertain

The pandemic may have modified priorities among voters, highlighting new social and economic themes around which the presidential candidates will need to define themselves, reshaping the narrative of their campaigns.

→ ***Volatility spikes as elections approach, with the appointment of vice president candidates in July an opportunity to reposition.***

4. Global consumption comes under strain

Government support aims to prevent the destruction of livelihoods and firms in the aftermath of the pandemic. The magnitude and duration of unemployment will determine consumers' resilience, whose initial conditions in terms of balance sheets and debt capacity repayments differs substantially across regions. As before, we are convinced that consumers' behaviour will determine the time taken for the road to recovery.

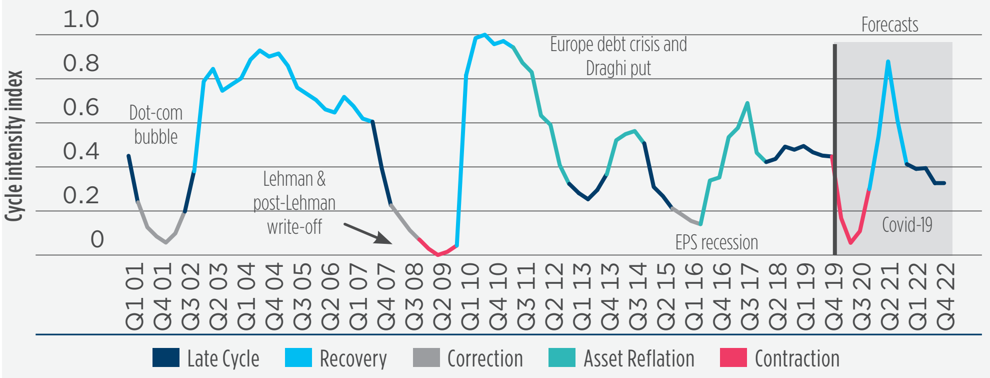
→ ***For investors, it is time to be prudent in allocation and search for quality opportunities.***

5. Debt sustainability and earnings growth matter more than ever

The pandemic has exacerbated the risk of high corporate leverage amid sluggish earnings generation. In a mature phase of the crisis, we expect higher levels of bankruptcies and shutdowns, which will be reflected in higher default rates, tracing a deep furrow between winners and losers.

→ ***Cash flow-rich balance sheets should be a key driver of selection.***

Advanced Investment Phazer: A contraction followed by a multi-speed recovery



Source: Amundi Research as of 29 May 2020. Advanced Investment Phazer.

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Monetary and fiscal policies move to the next level to support the recovery

With the Covid-19 crisis, CBs and governments have once again crossed new limits. Should the crisis deepen, CBs will continue to explore new avenues to support government efforts. There is no easy exit strategy. For the next crisis, we must 'think the unthinkable': full-blown debt monetisation, helicopter money, debt cancellation or very negative nominal interest rates.

CBs have crossed new limits but are still far from being out of ammunition

A spectacular change in economic policy has taken place in just a few months: while governments have become the buyers of last resort, CBs are playing their role as lenders of last resort. **Fiscal and monetary policies have become intertwined.** CBs are by nature more flexible than governments.

Arguing that circumstances were exceptional, they have not only committed themselves to increasing their balance sheets at a pace not seen before, but have also crossed new limits: on the Fed's side, with the buying of 'fallen angel' bonds, and on the ECB's side, with the decision to deviate significantly from the capital key rule if needed. **They can do more to support governments.** In addition to 'conventional' QE, CBs still have new avenues to explore

- **Helicopter money (HM).** A nickname for direct money transfers from a CB to private agents. It is a form of QE but with different consequences for the CB's balance sheet. HM is equivalent to a fiscal stimulus financed by the CB. However, the increase in the balance sheet no longer corresponds to an increase in the Treasury's debt to the CB. As a result, the CB falls into negative equity and – in theory – should be recapitalised by the Treasury. In practice, nothing prevents CBs from operating in negative equity. Technically, a debt cancellation by the CB is akin to HM, with a permanent transfer to the Treasury. **We believe that HM is unlikely** due to legal constraints.
- **Yield-curve control (YCC).** The CB seeks to control a particular point or segment of the yield curve (often the ten-year yield). To do so, the CB implicitly commits to purchase the amount of government bonds needed to achieve its goal and, as such, loses control of its balance sheet. The YCC is a distinct possibility when there is only one single public debt instrument, thus not in the Eurozone, where there are several yield curves and the ECB has no legitimacy to estimate the credit risk embedded in each sovereign's debt. We note that YCC has been in place in Japan since 2016 and is being considered by the Fed.
- **(Very) negative nominal interest rates.** CBs have less room for manoeuvre when key rates reach their 'zero-lower bound' (ZLB). However, the ZLB is not a law of nature. From 2012-16, several CBs tried to free themselves from this bound. The BoE might be joining the club soon. The effectiveness of negative interest rate policies is highly controversial. The dominant view is that nominal interest rates cannot move significantly below zero due to the possible substitution of cash. However, legal, regulatory and tax measures could increase the cost of cash hoarding. Electronic money and technological progress have renewed interest in very negative key rates. **Such an option would ultimately boost inflation expectations and steepen the yield curve.**

Macro-financial stability is at stake

All these policies have unwelcome side effects. The unlimited expansion of CB balance sheets, when coupled with rising public debts, **could lead to a collapse in the external value of a currency and a de-anchoring of inflation expectations.** States that have little credibility on the international stage, such as many EMs, cannot implement such policies. By anchoring the risk-free rate at a very low level for a long period, they distort market prices and tend to inflate risky assets, regardless of their fundamentals. **These policies may ultimately generate bubbles in a wide range of assets** (e.g., corporate credit, equities, real estate, illiquid assets), endangering macro-financial stability. Macro-prudential measures are thus likely to be needed.

Key investment implications

- ***Inflation-linked bonds*** *are attractive from a medium-term perspective.*
- ***Currencies*** *should play an increasingly relevant role, as they will be the only market variables likely to absorb cyclical divergences among economies.*
- ***EMs should benefit indirectly from the policies*** *implemented in most DMs, thanks to higher potential growth and higher bond yields.*
- *With a persistently low discount rate,* ***the equilibrium value of risky assets might be revised upwards over time.***

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Global trade: deglobalisation accelerates and geopolitics takes centre stage

Trade discrimination and protectionist policies have been increasing since the Great Financial Crisis and Covid-19 is accelerating this process. The world is moving away from a global multilateral approach towards a more regional customised approach. Selection at the sector and company level is needed to play this theme.

Change in the global power distribution

We left 2019 with an awareness that world trade dynamics were definitely showing an accentuated inversion of the globalisation trend and its robust contribution to the global economic performance. The GFC marked a historic turning point for global economic integration. Since then, global trade has entered a period characterised by increasing trade barriers, a deceleration of trade-intensive growth components such as investments, a rise in policy uncertainty and, more recently, trade tensions. **In 2020, the unexpected advent of the Covid-19 pandemic is adding momentum to a trend started more than a decade ago.**

In response to the current health and economic crisis, countries are redefining their priorities in terms of economic integration, interconnectedness, strategic autonomy and domestic economic sovereignty, while policymakers seem to be taking deliberate steps to reinforce the deglobalisation trend. Countries such as the United States, which had already become more protectionist, and China, which has focused its policies on the domestic economic transformation, are likely to continue along the same path. **For other countries, the Covid-19 crisis may push them to rethink their dependency in key sectors** such as technology (e.g., data protection, privacy and national security). In Europe, frustration with the tech giants is increasing due to the 'imposition' of their technical standards in managing the current crisis. As a matter of fact, American and Chinese companies are dominating this sector and the lack of a European option could push Europe to adopt a more defensive and regulated stance vis-à-vis foreign companies and countries. Healthcare has been one of the sectors exposed as being most sensitive during the pandemic crisis: several countries have become aware of their overwhelming dependence on external companies and felt an urgency to develop sufficient domestic production of medical equipment and pharmaceuticals. Among the several fronts of confrontation with China, the United States has intensified its efforts to shore up its healthcare sector. Some initiatives have increased domestic capacity, such as the larger budget under the CARES Act and specific loans. However, it will take time to fill the gap with domestic capability.

Past experience suggests that, once started, this process is difficult to stop: when a country restricts trade on certain goods, it generates a similar reaction from trading partners. Undoing the resulting damage may prove difficult and avoiding a spiralling of protectionism would require strong leadership at the international level to maintain constructive collaboration and multilateralism.

Even if the world is getting more and more polarised between two antagonist power centres, the global multilateral approach is not shattering in hundreds of autarchic countries (isolationism). **We still see as more likely an evolution into more customised regional organisations with different power distributions** (USMCA, RCEP and CPTPP, to name just a few). At this stage, we believe that both China and the United States have an interest in keeping the Phase One deal going and keeping separate the other confrontational fields. However, **the probability assigned to downside risks generally is higher now, and this could impact the trade deal as well.**

Spotting medium-term winners and losers

The global reassessment of trade dynamics is impacting areas, countries and sectors differently. The IT sector is one winner, despite giving rise to a point of contention in the 'tech war'. However, the massive geopolitics around the sector warrant careful selection in terms of countries, areas and companies. National champions should be fostered in Europe to offer an alternative to the foreign tech giants. In a world where the physical movement of people and goods is diminishing, services and digital knowledge (education) are the big winners. And whether or not a second pandemic wave is included in a base-case scenario, investments in the health sector at national level are paramount.

Investors could play regional divergences arising from protectionist policies. Asset allocation at both the sector and company level could help play geopolitical themes and provide protection from the negative impact of geopolitics.

US elections become more uncertain

We expect the 2020 presidential elections to take place on 3 November, as scheduled. But the pandemic may have changed priorities among voters, highlighting new themes around which the presidential candidates will need to reshape the narrative of their campaigns.

We expect the presidential election to occur on 3 November 2020, as scheduled

According to the US Constitution, only Congress can set the date of any presidential election. It is unlikely to pass any delay, as a system of several laws sets out in detail the choice of an election day. The current presidential term will expire on 20 January 2021 at noon. Thus, the election must occur by January at the latest. In the unlikely event of a delay, the role of ad interim president would be covered by the pro tempore Senate president, as the current president, vice president and the third in line – the House speaker – are all running for re-election and, as such, are not eligible. Under such circumstances, the Senate would be Democratic, as senators running for re-election cannot be counted and the GOP are defending 23 seats vs. only 12 for the Democrats. As a result, this role would go to Democratic senator Patrick Leahy, the party dean. This scenario is unlikely to be favoured by the current administration

Could the turnout be hit by the pandemic?

The introduction of alternative ballot techniques (e.g., absentee voting, online voting or mail voting) would help balance people's desire to vote with their safety concerns, making turnout less dependent on the spread of the virus. For instance, the Wisconsin primaries took place on 7 April when the pandemic was rising and a surge was recorded among absentee ballots. The alternative ballot systems allowed in each state are a key variable to monitor.

Trump vs. Biden programmes

Trump	Biden
▪ Protectionism ▪ Push public-private partnerships in infrastructure ▪ Reduce prescription drug prices ▪ Expand choice, reduce prices and make insurance portable ▪ Tighten immigration policy ▪ Propose Tax Cuts and Jobs Act 2.0	▪ Focus on climate change and possibly re-entering the Paris agreement ▪ Higher spending on renewable energy, possibility of a carbon tax ▪ Changing the balance between personal income and corporate tax cuts, with a larger gap between high earners and big corporations

Discover more on US elections

Has the pandemic changed voters' priorities and political leanings?

The crisis may have brought under the spotlight the need to elect a capable leader for both the reconstruction phase and the next crisis. As such, **the role of two groups will be crucial to tip the balance: senior citizens**, who leaned in favour of Trump in 2016; and **voters who did not feel represented by either candidate four years ago** but supported Trump in the end. These groups represent about 20% of voters and at this stage appear **unwilling to confirm their 2016 preferences.** Unsure and swing voters will also be key in the race.

Has the pandemic changed the campaign themes?

As the economic and social landscape has been severely hit by the crisis, both candidates have had to adjust their campaigns to the new reality. While a bipartisan and constructive approach is needed from both parties to manage the emergency, both candidates have to focus on new economic and social urgencies, such as **rising inequality, which has been exacerbated by the crisis,** as recent unrests highlight. Whether Trump can keep public support or not will hinge on his management of the health crisis and the socio-economic fallout. **While early in the crisis Trump may have enjoyed the 'rally around the flag' phenomenon, his position now appears increasingly vulnerable.** Thus, the incentive to take a moderate approach in both domestic and international politics is diminishing. **For Joe Biden, the narrative around the need to jumpstart the economy will hinge critically on the selection of his running mate,** who will be key in getting a wider audience of swing voters and minorities. He has already announced this will be a woman and her role will be even more key in case of a Democratic win, as she will represent the incumbent in 2024 with Biden having already ruled out running for a potential second term.

Key investment implications

- ***Following the debt spike, raising tax revenue will be crucial:*** *a Democratic President may increase taxes on large corporation (e.g., digital tax), high income earners and on financial wealth (capital gains and dividends).*
- *Post-Covid-19, some **reshoring** may take place or accelerate **in key industries.***
- *US-China tensions: **from trade to technology, communication and infrastructure.***

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Global consumption comes under strain

As an early re-opener, China is witnessing an uneven and gradual recovery in its consumer sector, which should continue against the backdrop of persistent labour market pressures and weaker incomes. In the United States and Europe the consumer outlook is intertwined with labour market dynamics.

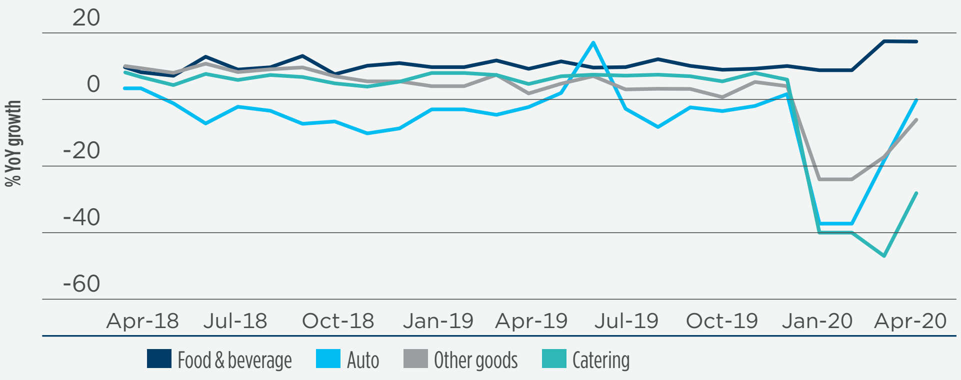
The US consumer entered the recession on strong fundamentals

Following the GFC, a sharp deleveraging drove US household debt* down from 133.5% of GDP to 97.1% in Q4 2019. The cost of servicing household debt is at its lowest level since 1980. Savings* were also at a healthy 7.7% at the end of 2019, and have increased dramatically during the pandemic, rising to 33.0% in April. The lockdown has weighed heavily on US consumers, with retail sales highlighting the dichotomy between non-durable goods consumption and services consumption, with the former up strongly and the latter in freefall. As lockdown measures are lifted gradually, services seem far from a recovery. Soft consumer confidence reflects the labour market weakness, with the unemployment rate up sharply from 3.5% in February **to 14.7% in April. It could peak at about 15% and be volatile in the near term. The massive government support and generous unemployment benefits provide the means for consumers to weather a short but deep recession.**

European consumers entered the crisis in different shape

This year, some EU countries will face their third contraction in 12 years, as is reflected in their labour markets. Average Eurozone wage growth was 2.3% YoY in early 2020, yet with a mixed picture at the country level. **Governments have implemented extraordinary schemes to encourage the use of reduced hours work schemes rather than layoffs.** If their implementation is at least partly successful, **we could see the Eurozone unemployment rate peak in the 12-14% range.** At the country level, such a peak will fall within a wide range, depending on each country's previous situation and vulnerability. **In both the United States and Europe, the consumer outlook will be intertwined with the labour market recovery. Thus, we are monitoring closely the magnitude and duration of unemployment.**

China nominal retail sales growth



Source: Amundi Research, CEIC, NBS. Data as of 4 June 2020.

China's consumer sector is recovering unevenly

In April, two months after the peak in new infections, retail sales were still growing below trend. **High-frequency data show that sales in catering, travel and the hotel industry – the hardest hit sectors – remained well below their normal levels in May (-30-40%),** due to a combination of deteriorating household cash flows, ongoing epidemic control and cautious consumer behaviour. Having said that, **goods consumption is recovering faster than services consumption, as it is facilitated by online shopping.** Pent-up demand has supported discretionary consumer goods spending, especially auto sales. Consumer staples demand has proved resilient throughout the outbreak, and this strength has extended into the reopening phase. Food sales were particularly strong, up to 18.2% YoY in April from 12.7% YoY in Q1. **Against such a backdrop, China's consumption will recover slowly. While the loss in services consumption is permanent, the momentum of goods sales could cool somewhat after the pent-up demand wears out.**

Key investment implications

- *Consumer behaviour has been affected by lockdown measures, yet the huge **fiscal support delivered should help consumers** land safely in the recovery phase.*
- ***This trend supports an ongoing rotation toward more cyclicality within the DM equity space.***
- *Looking at China, we can identify a **few trends:** the strengthening of online education, e-commerce players on the rise, with higher logistic efficiency across segments, and bright prospects for food delivery companies in the medium term.*

Corporate earnings vulnerabilities amid depressed top lines and high debt

We expect global earnings per share to recover gradually in H2 and 2021. As the pandemic hit top lines hard, adding much uncertainty on consumption and growth patterns, the strong focus on debt sustainability remains even more paramount.

Top line hit by global economic lockdown as revenues evaporated

The current global profit recession was caused by the top-line collapse induced by the global economic lockdown. Financial conditions remain under control for DM profits and are not eroding corporates' ability to generate margins in a context of recovering economic growth and revenues. Nevertheless, **profits remain vulnerable to the cost of funding and the risk of insolvency**, especially in the United States, should the recovery be bumpier than expected. Weak recovery signals in manufacturing PMIs and relative resilience in services PMIs will both impact the profits recovery.

	Indicators	Last value	Average in periods of profit recession (34% of times)	Average in periods of profit growth (66% of times)	Profit recession traffic light
TOP LINE	Nominal GDP YoY	2.1%	4.1%	5.4%	●
TOP LINE	Personal consumption YoY	-3.8%	4.5%	5.5%	●
TOP LINE	Unemployment rate	14.7%	5.9%	6.0%	●
TOP LINE	Sales YoY	-4.9%	-0.5%	6.0%	●
TOP LINE	Trade YoY	-4.3%	-1.5%	5.7%	●
TOP LINE	Trade weighted USD 1Y change	6.9%	4.0%	1.6%	●
TOP LINE	GEM exports YoY	-9.1%	-6.1%	18.5%	●
TOP LINE	Purchasing Managers Index	41.5	49.1	54.1	●
TOP LINE	TOP Line Overall				●
BOTTOM LINE	Unit Labour Cost YoY	1.4%	2.1%	1.5%	●
BOTTOM LINE	Producer Price Index YoY	-5.3%	0.8%	2.6%	●
BOTTOM LINE	Moody's spread	1.7	1.21	0.88	●
BOTTOM LINE	Spread two years - three months US yields	-0.36%	0.05%	0.13%	●
BOTTOM LINE	10Y US Treasury yield	0.6	5.4%	4.9%	●
BOTTOM LINE	BOTTOM Line Overall				●

Source: Amundi Research, Bloomberg, as of 29 of May 2020. Analysis for the period 1986-2019 on the US market. Moody's spread is the delta of Moody's BAA and Moody's AAA yields. This spread has proved to be a suitable proxy for the credit/infrastructure cycle.

On EM earnings, our scenario is consistent with extended weakness for the rest of 2020 and the first quarters of 2021, as both world trade and emerging exports – the most important drivers of EM earnings – are flashing red. Some recovery is expected from H2 2021, when commodities and global demand will recover.

Rising default rates driven by the pandemic and amplified by high corporate leverage

A key area of attention is **the likely rise in corporate defaults among HY issuers on both sides of the Atlantic.** Defaults were already rising and will be driven higher by a combination of many factors. These include:

1) the high level of corporate leverage, especially in the United States;
2) the tightening of financial conditions due to the impact of the pandemic emergency;
3) the unprecedented negative macro and micro fallout caused by the Covid-19 emergency; and
4) the effect on the energy sector of the dramatic fall in energy prices.

According to our top-down models and to bottom-up factors, **US defaults should rise more than European defaults:** the gap between the US and Europe could reach 4%, with US default rates in the low double digits and European HY close to 8% in one year. Lower exposure to the energy sector, together with average credit quality, should keep European HY more resilient than US HY to credit events. Mitigating factors will include the unprecedented monetary and fiscal stimulus: besides the very low cost of funding by historical standards, the Fed's support for fallen angels and government guarantees on credits will both reduce tail risks. Meanwhile, the present crisis has come at a time when corporate leverage was already high, especially in the United States, and may have a prolonged effect on balance sheet vulnerability, despite the central bank support reducing the negative impact in the short term. **We expect corporates to manage their leverage more carefully** and to profit from central banks' support to build cash cushions and increase the maturity of their debt in order to reduce any negative impact on their credit ratings.

For investors, it will be key to assess any critical situation at the company level (e.g., high leverage, liquidity) and focus on resilient business models that can withstand the crisis and benefit from central bank support.

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Risks to watch

Wall of worries

Probabilities: High → Low

		Analysis	Market impact
25%	US-China tensions	US-China fissures are opening up in many areas, ranging from the Covid-19 response to trade and geopolitics. The US election campaigns and the hard rhetoric from President Trump could exacerbate tensions, with negative spill-over effects. Topics such as the tech war and Huawei, the capital war on foreign holdings, reshoring and the recent HK events are sources of risk for markets. The trade deal remains in place, but Phase Two may be more challenging with the deteriorating economic backdrop. Under extreme circumstances this 'cold war' might involve also Europe.	▪ Risk on the HK peg ▪ Negative for Chinese equities and CNY ▪ Positive for USD, JPY, US Treasury and gold
25%	Corporate default	Prior to the Covid-19 crisis, corporate leverage had reached levels above the pre-GFC highs. The magnitude of the recession will increase solvency risks regardless of central banks' actions and government guarantee schemes. Default rates could rise to 15% or even 20%, with spill-over on the credit markets and stress on banks' balance sheets. Widespread distress and default rate spikes will force deleveraging and a pullback on investment and employment, exacerbating the recession.	▪ Negative for risky assets ▪ US IG BBB downgrade, EURO and US HY B-CCC default increase ▪ Positive for USD, DM sovereign bonds and gold
20%	European fragmentation	The Covid-19 crisis has highlighted tensions within the EU that are exacerbated by economic imbalances (public debt and growth). As the implementation of the EU Recovery Plan will take time, national budgets will remain key to supporting the recovery. The ECB PEPP acts as an umbrella protecting the union, but is itself facing pressure from the German Constitutional Court and northern countries, which oppose risk sharing. Upcoming national elections, as well as the Brexit negotiations, could fuel further tensions. Therefore Europe faces economic and political divergences, and eventually a fragmentation risk.	▪ Negative for BTPs, and European equities ▪ Positive for Bunds and core bonds ▪ Positive for gold and CHF
10%	Covid-19 second wave with global lockdowns	Given that our ability to deal with the virus has improved significantly (treatment, health infrastructure, social distancing, masks, tests etc.), a second wave -- which is a real possibility with a probability of well above 10% -- should not be accompanied by global lockdowns and a fall in economic activity as severe as in H1 2020. Rather, uncertainty about the 'virus cycle' reinforces our view that the recovery will be slow (no V-shaped recovery).	▪ Positive for US Treasury, Bund and gold ▪ Negative for oil, basic materials, currencies of commodity exporters, EM bonds
10%	Sovereign debt crisis	Public debt will rise as a share of GDP across most countries over the coming years, starting from already high levels in Europe, Japan and the United States. This could become a risk in the long term, while in the short term EM countries could face interest payment issues. EM and frontier markets have been attracting capital flows from advanced economies, increasing their external debt. Lower oil prices, sluggish global demand, tightening financial conditions and higher rates could hurt their ability to pay down their debt, leading to a sovereign debt crisis.	▪ Negative for EM HCD and EM equities ▪ Positive for USD and JPY ▪ Positive for core govies
10%	Depression	A deep and long global recession where demand remains weak regardless of stimulus packages and unemployment stays high could undermine the mid-term economic prospects. When the sanitary crisis is over, a coordinated response will be more difficult to achieve, leading the global economy into a prolonged stagnation or even a depression.	▪ Positive for US Treasury, Bund and gold ▪ Negative for oil and basic materials

Source: Amundi Research as of 24 June 2020.

Amundi Convictions for H2 2020

--- -- - Negative View | = Neutral | + ++ +++ Positive View

	Asset class	View	Change from 2020 outlook	Rationale
EQUITIES	US	=		The US market has been a core holding in the 2009-19 cycle. There is room for more cyclical markets to catch up, as US elections could bring uncertainty. The huge liquidity fueled into markets is here to stay, as well as low interest rates, which may again support quality stocks, which make up a large portion of the US market.
EQUITIES	Europe	=/+		Europe has suffered during the past cycle. Two factors have revived international interest: the Recovery Fund plan, should it be confirmed, and the cyclical/value catch up. This revival has further to go. The risk is that if Europe is a value play, financials and energy – which are value sectors -- are also disrupted sectors, which might limit their outperformance.
EQUITIES	Japan	+	▲	Japan has experienced ups and downs in the previous cycle. Being one of the most cyclical markets in the world, it is benefiting from the current cyclical catch-up. Corporates have low leverage, and the yen – inversely correlated to Japan's relative performance – usually weakens when risk perception recedes. A revival of risk would cancel such an advantage.
EQUITIES	Emerging markets	=		Globally, EMs have underperformed since 2011, except for the 2016-18 period. They could catch up, should the USD confirm a breakdown. Asia is potentially safer, given, among other factors, its exposure to technology, but US-China tensions could be a drag.
FIXED INCOME	US govies	=/+		We maintain our preference for US Treasuries duration vs. other DMs, on better absolute and relative valuations and the Fed having more leeway available through unlimited QE. We expect the Fed to absorb most net additional issuance of US Treasuries over the next months.
FIXED INCOME	US IG corporate	=/+		Despite recent tightening, US IG spreads still offer attractive absolute and relative valuations. Primary market activity is high, benefiting from the search for yield and investment flows, while the Fed will keep supporting the demand for this asset class thanks to its QE programme. Selectivity is increasingly relevant in a weak macro and microeconomic environment.
FIXED INCOME	US HY corporate	-/=	▼	Valuations of US HY spreads look tighter than those in other credit markets. For this reason, together with liquidity matters, we favour high-quality versus low-rated names, as the latter discount only partially the rising default risk. Together with name selection on high idiosyncratic risks, sector selection remains key, as distress is concentrated in a few sectors.
FIXED INCOME	European govies	-/=		Among European government bonds, we remain constructive on the main peripheral countries, possibly even more so after the recent ECB action in terms of the size increase and extension of its PEPP programme, together with the encouraging steps on the EU fiscal front. Core curves should remain stable, close to current yield levels.
FIXED INCOME	Euro IG corporate	++		We are positive on Euro IG, particularly on BBB-rated debt and financials. The ECB will support the technicals of this asset class directly through CSPP and PEPP and indirectly as they push investors to hunt for yield. Among different credit markets, valuations look attractive, while fundamentals tend to show a lower financial leverage than in the US. However, selection remains key
FIXED INCOME	Euro HY corporate	=	▼	Among global HY markets we favour EU HY, as default rates should rise less than in the US, thanks to the higher average credit quality and the lower exposure to the distressed energy sector. We prefer high-quality and more liquid BB-rated debt on the back of an attractive risk-return profile. We focus on selection, idiosyncratic risks and liquidity.
FIXED INCOME	EM bonds HC	=/+	▼	We are constructive on this asset class over a medium-term horizon, and we expect further spread tightening as the virus and economic conditions normalise. We see even more value in the HY space, where valuations are more attractive. The support from the USD strength should remain in the short term. The risk of sovereign default has to be monitored carefully.
FIXED INCOME	EM bonds LC	=	▼	We are constructive on this asset class, as real yields should drop further, while remaining more attractive than DM yields. We expect a positive performance for EM FX, benefiting from cheap valuations and the economic recovery. Risks relate to the lower carry, which can make it difficult to defend the currency. This could increase volatility in the asset class.
OTHER	Commodities			The outlook is moderately positive for commodities, assuming a global recovery. WTI oil should move in the $/b 30-40 range, while dovish CBs and low real rates will support gold. Geopolitical tensions related to the US-China dispute should inflate some volatility within base metals as we approach the US elections.
OTHER	Currencies			As most countries ease lockdown measures and with the prompt policy intervention, USD will lose ground as we move into 2021. The reduction of rates advantage and expectations of a global growth rebound reduce the appeal of US assets. The path will not be linear, as the short-term picture remains gloomy and liquidity does not necessarily translate into higher solvency.

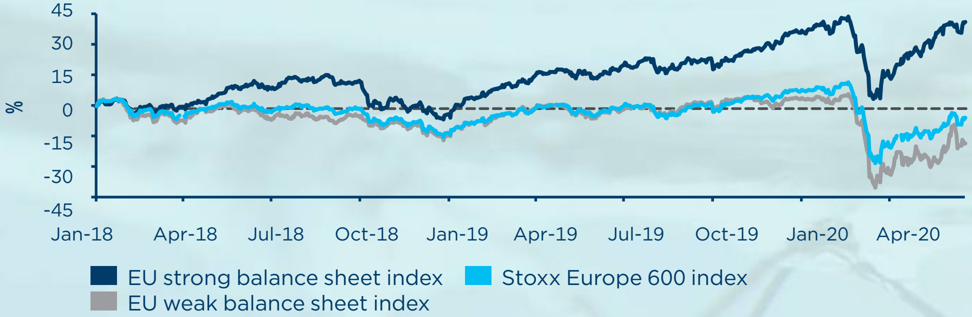
Source: Amundi, as of 24 June 2020. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a 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.

Investment convictions

EQUITY

PLAY THE CYCLICAL RECOVERY AND LONG-TERM THEMES

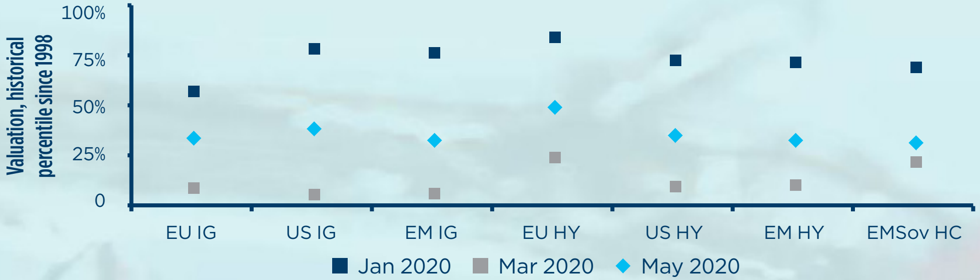
Focus on selection of companies with strong balance sheets



BONDS

SEARCH FOR YIELD IN GOOD QUALITY CREDIT & EM DEBT

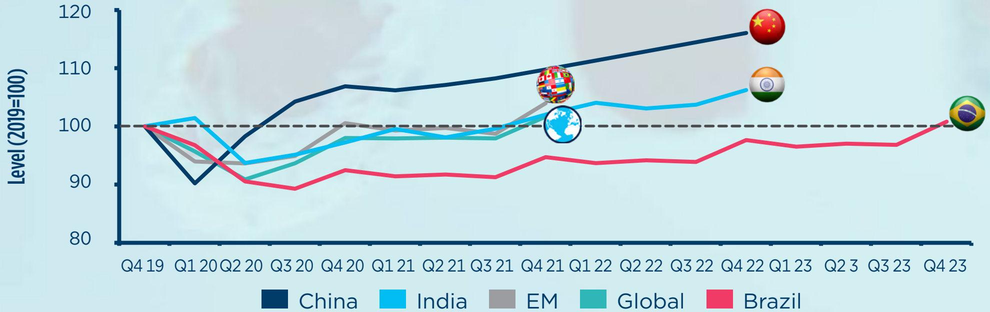
Benefit from the CBs' support and attractive valuations, be aware of credit risk



EMERGING MARKETS

ASIA IN FOCUS IN THE 'FIRST IN - FIRST OUT' PATH

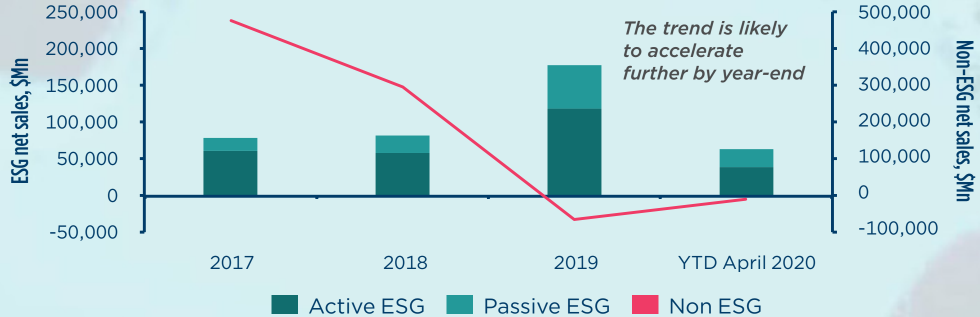
First countries to enter the pandemic will recover first



ESG

ESG MORE AND MORE MAINSTREAM

Flows are switching from non-ESG to ESG funds



Source: Amundi Research, Bloomberg. Data as of 18 June 2020. Equity chart: data are from Amundi, Morgan Stanley and Bloomberg. Fixed income chart: Amundi on Bloomberg and Thomson Reuters data. EU IG, US IG, EM IG, EU HY, US HY and EM HY are based on BofA ICE indices (IG = investment grade, HY = high yield). EM Sov HC = JPMorgan EMBI Global Diversified. All indices are for a specific region (EU = Europe, US = United States, EM = Emerging Markets). Analysis based on spreads for bond indices. Emerging markets chart :Amundi Research, GDP growth forecast estimates as of 22 May 2020. Significant uncertainty surrounding macroeconomic forecasts may lead to more frequent reassessments. Macroeconomic forecasts currently include a material qualitative component, reducing the statistical accuracy and adding to the uncertainty, with increasingly wide ranges. ESG chart: Broadridge, data on worldwide open-ended funds as of 9 June 2020.

Devised by: Amundi Investment Insights Unit. Chief Editors: Pascal Blanqué and Vincent Mortier.

Amundi
ASSET MANAGEMENT

Equity DM: combining long-term winners and some cyclicality

Corporate profits are sharply contracting, but monetary and fiscal policies are supporting valuations. We favour a balanced strategy, looking for some cyclicality in the short term and to long-term winners as a core position.

Sharp downward revision of profits and much uncertainty...

The crash of the first quarter of 2020, which was as powerful as that of 1987, was followed by a drastic revision of earnings forecasts. The drop could exceed that of the 2008-09 GFC in Europe (-48%), while the United States should do better (-35% in 2008) thanks to its disruptive companies, **as the pandemic is increasing the digitalisation of the economy and benefiting mega caps.** The second quarter should mark the low point of such an adjustment, although the following period will remain uncertain for several quarters. Over and above the US-China tensions, the reopening has its share of unknowns, including the pace at which the economy will restart, especially the supply chain, uncertainty over consumer behaviour and the risk of a second wave. **It is difficult to see profits returning to their peak of 2019 before the end of 2021 at the earliest**, and this assumption remains very uncertain at this stage.

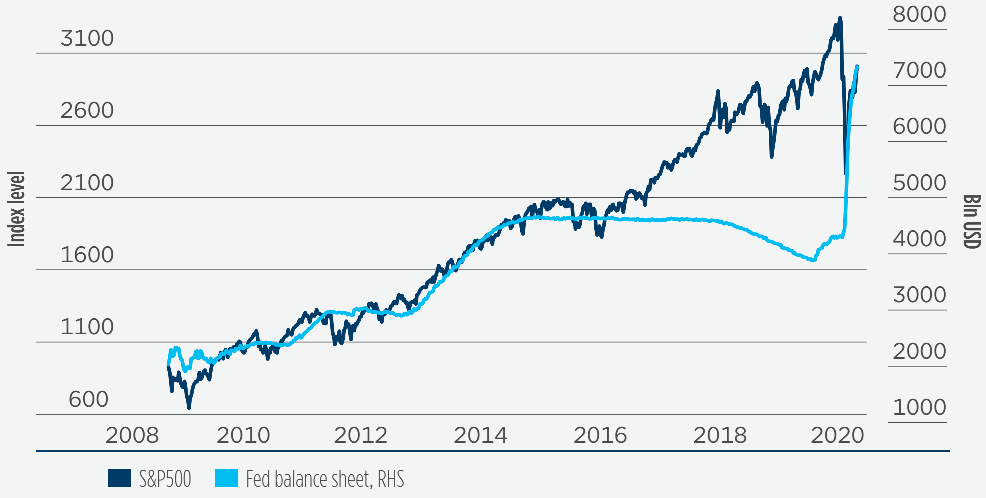
...counterbalanced by powerful supporting and hopeful factors

The monetary and fiscal response has been much faster and more significant than in 2008, spurring a rally that began on 23 March, with a more powerful recovery than in 1987. Liquidity injections are driving equity valuations. The close relationship between the size of the Fed's balance sheet and the US equity market between 2009 and 2016 is evident again. While current efforts are mainly compensation measures, the proactive approach by authorities everywhere will focus on stimulus measures next. At this stage, the risk of a second wave is being partially offset by the possibility of finding an effective treatment for the virus. **For the liquidity-driven market rebound to last, cyclical factors must also be engaged.** High-yield spreads – which tend to lead equities by zero to three months – have started to tighten. Purchasing managers indices are bottoming out and the bulk of profit revisions may be behind us after Q2, even if they are not over yet. **These positive signals have kick-started a catch-up rally of cyclicals and laggards.** Long rates, oil prices and the copper-to-gold ratio, which tend to move in tandem with the cyclicals-versus-defensives ratio, are stabilising. These will have to be monitored to see how much potential this rally has. A breakdown of the dollar (which is not the case as we write) would also confirm this move.

'Long-term winners' and some cyclicality is the right balance

At this stage, it makes sense to combine two strategies, bearing in mind that the cycle will probably develop chaotically: 1) '**the long-term winners' strategy,** as the pandemic is accelerating the ongoing transition, while interest rates will have to stay low for longer. These are, for instance, technology, pharmaceuticals and luxury stocks; and 2) **some cyclicality, as a shorter-term and more opportunistic strategy to capture the inflection of the cycle.** 'First in, first out' has been a prudent way to start to increase a portfolio's cyclicality, with emerging Asia the prime candidate for this theme. **Now Europe and Japan are lifting their lockdowns and have become the new candidates.** With this in mind, we prefer Japan (cheap, low corporate leverage, improving earnings profile and an inverse sensitivity to the yen), followed by the Eurozone (also cheap but with a less positive earnings profile) and the United States (expensive, but a quality play), while underweighting the United Kingdom (the Brexit issue is still pending) and Pacific ex-Japan (the epicentre of the US-China tensions).

S&P 500 and Fed balance sheet



Source: Analysis by Amundi Research, Datastream. Data as of 29 May 2020.

Factor investing: navigating between secular and cyclical forces

Quality remains a secular play. Otherwise, a transition has been engaged from minimum volatility to more cyclical factors such as small caps and value. While monitoring this transition, high dividends is also to be considered for diversification.

Quality stocks have proved resistant to the pandemic

Unlike what happened during the bursting of the internet bubble, quality stocks outperformed during the crash and retained their advantage in the first part of the rally, either because they are defensive (in Europe), or because they are disruptive (in the United States). By accelerating the digitalisation of the economy, the pandemic has only underscored their relevance, which has been further supported by a favourable earnings season. The limitless monetary response to prevent a depression and the necessity to keep rates low to finance huge fiscal deficits are also supporting these stocks structurally, beyond the cyclical moves. **At least some of them remain candidates for a leading role during the next cycle.**

A second chance for cyclical factors (small-mid caps and value) to outperform

The Fed started cutting rates in July 2019. In the fall, there was hope for a deal between the United States and China. For the first time since 2016, the Fed and the Trump administration were in sync. In early 2020, the foundations were in place for a global manufacturing recovery to take shape, which started to benefit small-mid caps and value, even though we were waiting for the USD to weaken before implementing a full offensive strategy. The pandemic has dashed these hopes, generating a recession that is affecting the economy as a whole, including services. This contraction phase has been conducive to the most defensive factors, such as minimum volatility, which reacted well before giving up during the equity rally that started in March, **leading to a second chance for small-mid caps and value to take the lead in a catch-up rally.**

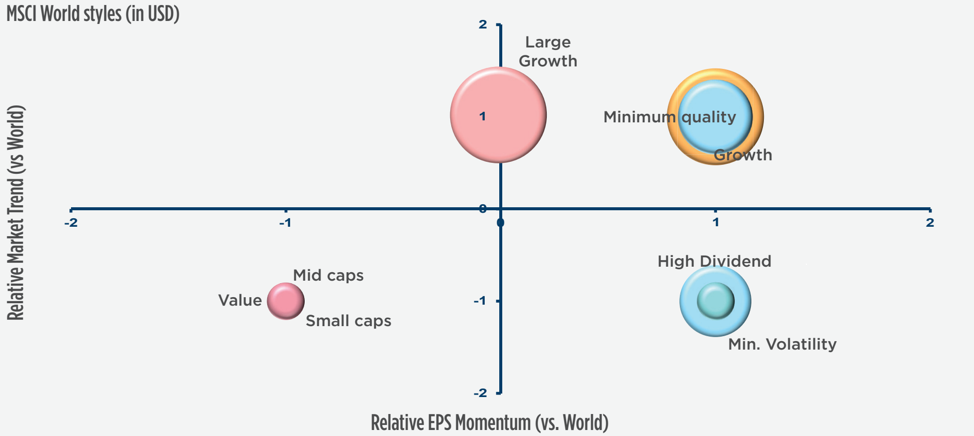
High dividend could also bring some diversification

Though a catch-up rally or pro-cyclical forces could favour small caps and a value style rebound, we must bear in mind that the latter is extremely present in disrupted sectors, such as finance and energy. Therefore, it would need both long-term rates and oil prices to go up. There is some room for them to do so, however, the ability of bond yields to move up could be limited in this cycle. The sustainability of this style's rebound will also depend on the ability of the dollar to break down. As was the case earlier this year, this transition cannot be ignored but a long-lasting trend is not evident yet.

Focusing on **the dividend factor, which has value features, is an alternative at first, as our core scenario favours a very slow economic recovery.**

Our core strategy remains focused on the quality factor. The catch-up rebound of more cyclical styles such as small caps and value cannot be ignored, even if it might only be transitory. But minimum volatility is no longer the place to be. High dividends are still good add-ins at this point to help diversify portfolios.

Mapping of MSCI World factors in three dimensions



Source: Analysis by Amundi Research, Datastream. Data as of 29 May 2020.

The natural direction of rotation on this mapping is clockwise:
- Horizontal axis: the farther on the right, the more the EPS outperforms;
- Vertical axis: the higher the factor, the more it outperforms;
- Circle size: the larger the circle, the more expensive the factor;
- Colours: red (size), orange (value, growth), blue (other factors).

Fixed income: optimise the search for yield with rising default rates

With interest rates expected to remain low, the search for yield will be a key investor theme. The starting point appears more appealing than in early 2020 as credit spreads have widened. However, selectivity remains paramount as the corporate sector is fragile and defaults are rising.

Interest rates will remain range-bound for the remainder of the year

We believe that growth will remain low in the short to medium term, with downward inflationary pressures. DM governments will run up record deficits to address the crisis. In the United States, the federal budget deficit for FY 2020 and FY 2021 is to hit its highest level since WWII as a share of GDP: 18% in 2020 (or $3.7tr) and 9.8% in 2021 (or $2.1tr).

We expect this massive supply will not lead to a massive rates sell-off. CBs are buying assets at an unprecedented pace, absorbing the new government funding needs. Basically, **sovereign core bond yields are now controlled by CBs.** The Fed announced unlimited Treasury and MBS purchases and Chairman Jerome Powell added that "the Fed will continue to use their tools at their fullest until the crisis has passed and the economy recovery is well under way".

Positive on euro peripheral debt, especially on Italy

Covid-19 has accelerated the pre-existing Eurozone economic fragmentation. France, Italy and Spain have been hit hard by the pandemic. The combination of rising debt and falling GDP will push up their debt-to-GDP ratios (Italy: 159% in 2020, France: 117% and Spain: 116%). These countries have less fiscal room to embark on growth-supportive investment policies.

At the same time, **the ECB is working to reduce financial fragmentation and prevent peripheral spreads from widening. It is ready to do more,** as it is committed to ensuring monetary policy transmission to every Eurozone country. In March, it launched the Pandemic Emergency Purchase Programme (PEPP) to address the Covid-19 crisis. This is a flexible programme in terms of maturity and composition, both across asset classes and jurisdictions. **A joint fiscal policy and deficit spending at the EU level is an important step to make the European project and the euro more resilient.**

IG and BB-rated issuers will remain a sweet spot in a slow-recovery environment, with low interest rates and rising default rates.

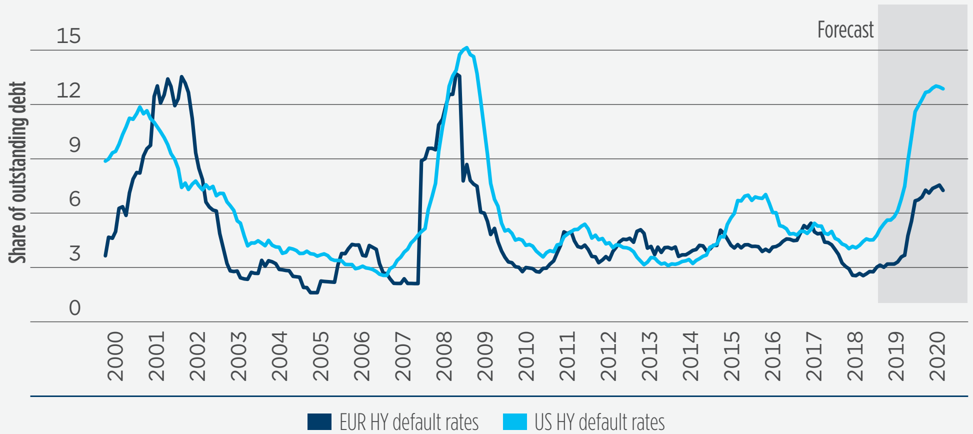
We remain positive on IG bonds:

- Major CBs will directly support IG issuers via their purchasing programmes for an extended period of time.
- IG corporates are increasing their cash holdings. The primary market has recorded high activity levels, with strong bond issuance among IG issuers.
- Financing conditions should remain accommodative for IG issuers, with solid investor demand, as these bonds offer good investment opportunities in a low-yield environment with rising default rates.

We are cautious on HY and favour BB-rated issuers:

- Activity in the primary US HY market has resumed within BB-rated issuers following the Fed's decision to include fallen angels and HY ETFs in its purchase programmes. The ECB could go down the same road.
- **We expect default rates to rise for low-rated HY issuers.** It is difficult to assess the impact of the current crisis due to the many forbearance measures being offered to borrowers. Firms are also drawing down existing credit lines. However, financing conditions are likely to tighten with the end of state guarantees.
- The market does not price in a double-digit default rate scenario in the US HY market.

12m forward default rate: EUR HY vs. US HY (%)



Source: Moody's, Amundi Research. Data as of 31 May 2020.

Emerging markets: bonds attractive in the search for income

In the second half of 2020 EMs will take their first recovery steps after the Covid-19 shock. We remain defensive on emerging equities, favouring dividends and domestic stories, bearing in mind the first-in first-out narrative. EM bonds will benefit from the accommodative monetary policy stances of the main EM CBs.

Recovering from a double shock (Covid-19 and oil)

The positive 2020 outlook has been derailed by the Covid-19 outbreak across the world and the resulting global economic recession. The negative growth revisions are ongoing, although many countries are easing lockdown measures and authorities have put in place unprecedented support policies. Monetary policy remains in the driving seat of the current policy mix, while fiscal policy is becoming incrementally more expansionary, though unevenly across EM countries. A second unexpected shock has come from the extremely low oil prices. Oil is now converging to our fair value estimate, $/b 30-40 for WTI, while remaining much lower than what we had been anticipating in our 2020 outlook. **These factors are triggering a heavy wave of downgrades and outlook revisions by the main rating agencies** on the back of severe recessions, aggressive policy interventions where there is little room and low oil prices (for countries highly dependent on oil production and with poor buffers).

EM equity: focusing on the recovery path

Emerging countries generally lag developed ones along the Covid-19 contagion curve. Their stock markets remain driven by the news flow on the success of the containment of the virus. In many cases, the recovery remains far off. **Aggregate valuations are basically neutral, but many differences remain at the country level.** Trailing earnings had been deteriorating throughout 2019 and in Q1 2020. Currently, they stand at about -14% YoY, hit by the adverse impact of lockdown measures on Q1 2020 data. In addition, the Covid-19 spread offset the upward trend of revisions early this year, causing another collapse into deeply negative territory. Internal MSCI EM EPS forecasts (in USD) show a drop for H2 2020 (of about -30% YoY) and a gradual recovery in 2021, in line with our scenario for global trade and emerging exports. Such a scenario is consistent with an ongoing contraction, with some recovery signals in the second half of 2020. **We remain cautious in the short term but opportunities could arise over the longer term.** On styles, we favour **valuations and dividends,** as they work as a hedge in contraction and recovery phases. We like some inexpensive EMEA countries (e.g., Poland) with good dividend yield prospects and low investor positioning.

In Asia, **we prefer Chinese A-shares,** which should benefit from supportive policies, and some domestic-oriented Asian countries with decent fundamentals that were mostly penalised over the first half of 2020, for example, Indonesia.

EM fixed income: attractive yield-hunting ground

We remain positive on EM bonds, in both local and hard currencies:

- **EM HC bonds** have room to recover. Despite the **EMBI diversified spread** having narrowed significantly since its mid-March peak, **we expect further tightening. Our target is 450bp over the next six to nine months.** We see even more value in the HY space, where valuations are more attractive. IG names are expensive at this stage and the support from the dollar's strength should stay in place in the short term. Issuance will remain strong, as funding needs are high. The risk of sovereign default has to be monitored carefully.
- **EM corporate bonds:** in the corporate space, the EM HY default rate – as measured by the ICE BofA HY Emerging Markets Corporate Plus Index – has increased mildly but it remains under control (close to 2% in Asia and 1.6% in Latin America). **The default rate expected over the next six months is higher but still limited,** at about 5%, mainly concentrated in Latin America and Asia.
- **EM LC bonds:** we are constructive on this asset class, as real yields should drop further, while remaining more attractive than DM yields.
- **EM currencies remain volatile:** EM CBs have provided huge monetary easing to support capitulating economies. The ever lower carry could make it difficult to defend currencies. Meanwhile, EM FX is also the asset class offering the highest upside opportunities thanks to its cheap valuations. EM FX will remain volatile. All in all, **we expect a positive contribution from EM FX** to the total return of local bonds, with reference to the JP Morgan GBI weighted index.

Emerging fixed income remains a key area for investors to search for income. Some opportunities are also available in equities, such as in China and other domestic stories, and in some defensive places.

Amundi
ASSET MANAGEMENT

Commodities: positive outlook amid a de-freezing global economy

The outlook is moderately positive for commodities, assuming a recovery in the global economy. WTI oil should move in the $/b 30-40 range, while dovish central banks and low real rates will support gold.

Oil: the unprecedented oversupply shock is gradually receding, thanks to the easing of lockdown measures

The recent agreement by OPEC+ countries and the commitment of G20 producers to reduce output will support WTI in the $/b 30-40 range until year end, when we expect some recovery in global demand.

The drop in global demand was enormous in April – estimated at 28mln b/d – due to the global economic lockdown. Following this, there were some signs of a recovery in the first weeks of May, based on the implied US demand: about 50% of the April shock has been absorbed over the past three weeks. **We expect a recovery in global demand over the second half of the year, taking the overall decline in demand at the end of 2020 to 8mln b/d.**

OPEC+ and the United States announced an agreement for production cuts, which should reduce the oversupply issue over the next few months (they have already cut most of the announced 10mln b/d). The recent oil rebound reflects ongoing adjustments and its current level is in line with our year-end target: $/b 30-40 for WTI and $/b 35-45 for Brent. We see higher risks on the demand side rather than on the supply side, especially in case of a second virus wave and renewed lockdown measures.

Base metals should recover from depressed levels in line with China's growth and a rebound of PMIs in H2 2020

The pandemic has brought about another difficult year for base metals, which were choked at the beginning of their recovery in end-2019/early-2020. This asset class remains very much tied to the geopolitical tensions between China and the United States; the recovery of global trade and Asian economic activities are necessary conditions for a rise.

Aluminum and copper have suffered the most from the lockdown measures and the oversupply issue, although the scenario is improving gradually and the inventories cycle remains less problematic than that of oil. **The rebound of business confidence in the manufacturing sector should facilitate a recovery,** especially in the second half of the year.

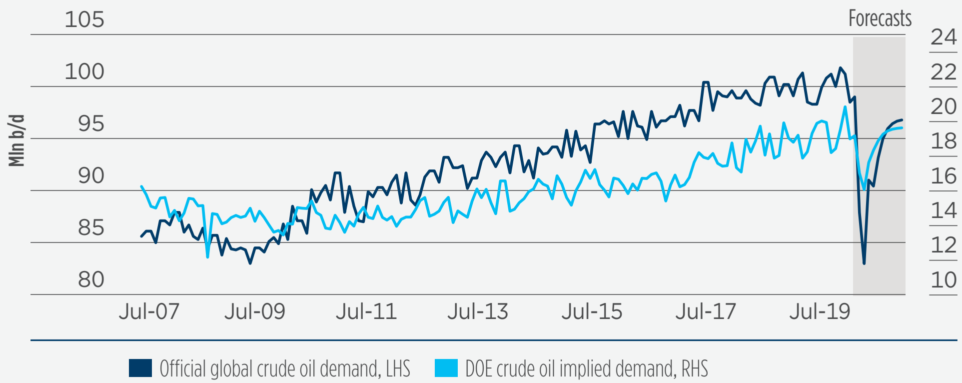
The most relevant risks relate more to macroeconomic trends than financial developments, including the dollar and interest rates.

Easing central banks and economic uncertainty remain positive for gold

Gold is undoubtedly the commodity most likely to gain from the current uncertain and fragile economic environment. It has benefited from the dramatic change in central banks' monetary policies during the pandemic crisis.

The massive liquidity injection into the financial system by central banks resulted in higher hedging demand and gold is perceived as the last resort in case of a CB failure. Interest rates will remain low and the dollar is likely to depreciate marginally. **All variables underpinning the appreciation of gold will remain in place in the second half of 2020.**

Crude oil demand



Source: Analysis by Amundi Research, Bloomberg, US Department of Energy (DOE). Data as of 8 June 2020. Methodological note: Crude oil demand monthly forecast is derived by interpolating monthly data on weekly crude oil implied demand (DOE) (implied demand: crude oil tot inv. (-1) - Crude oil tot inv. + Crude oil imp. + US tot production.

Currencies: king dollar on the road to be dethroned

With most countries easing lockdown measures and the prompt intervention by CBs and governments, the dollar may lose ground as we move towards year end, as lower US rates and expectations of global growth bottoming out are reducing the appeal for US assets. However, this path will not be linear, as the short-term picture remains gloomy and liquidity does not necessarily translate into solvency.

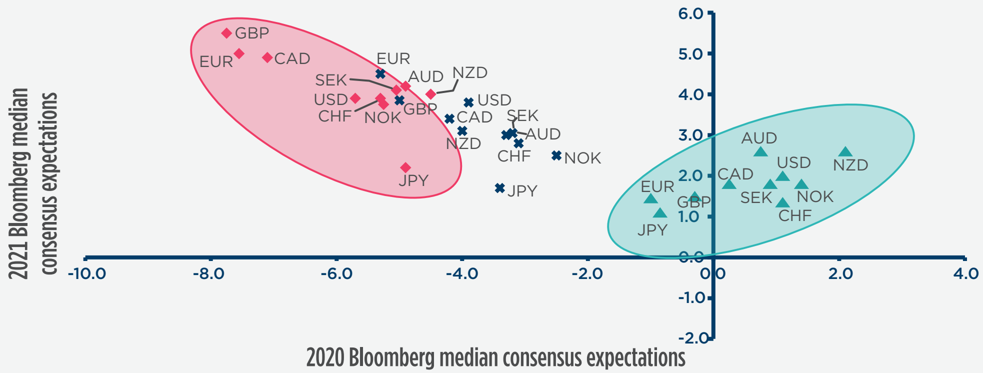
USD: from sentiment and US rates advantage to growth and sentiment again

Currency markets have had a clear winner in H1 2020: the US dollar. While the Fed's intervention removed the cyclical support from higher rates, the flight-to-quality move and dollar liquidity needs took the lead, pushing the currency away from its fair value. The Covid-19 crisis added to an already fragile economic environment, which was pointing to the usual resiliency of the US economy. In fact, **valuations do not always work, especially when global growth is collapsing and visibility is low.** In such an environment, sentiment and flows are the main drivers and, with a strong preference for dollar duration and low-beta markets (e.g., S&P 500), it would have been surprising to see the dollar depreciate substantially.

Now lockdown measures are being eased globally and CBs' strong commitment, together with some ambitious initiatives at the national level (e.g., the EU Recovery Fund), are boosting growth expectations. According to Bloomberg median expectations, 2021 is likely to see a global recovery, planting the roots for valuation to perform. On the other hand, it is interesting to note that median expectations remain skewed to the upside, as it took almost three months for analysts to realise how bad 2020 could have been (see chart, from green triangles – March – to red diamonds – May) and as the 2020 economic loss is expected to be recovered almost entirely next year. Analysts appear to be upgrading their 2021 estimates by the same amount cut from their 2020 forecasts. Optimism is a well-known behavioural bias among market participants and sentiment has already moved in response to that. So far, the CB put has been a high-conviction trigger for risky assets to bounce back, but it takes time for currencies to absorb the shock, especially when it comes to financial conditions, which have eased but remain fragile and subject to corporates' ability to remain afloat in an environment of lower expected cash flows. Banks have been provided with ample liquidity (TED, LIBOR-OIS spreads are back to normal levels), however, it remains uncertain whether or not they will push such liquidity into the system at a far higher risk level compared with the pre-Covid-19 period. **We expect volatility to remain high throughout the summer and converge to fair values starting from Q3 2020.**

- **G3 currencies.** The proposal of a Recovery Fund could be a game changer for the euro, at least until Eurozone assets become more appealing to international investors. Even if tail risks are lower, growth expectations remain too upbeat in our view and the short-term cyclical support is missing. For now, we play this view against the British pound rather than the dollar and the Swiss franc. In fact, the United Kingdom is experiencing the worst economic fallout among the G10 countries and the Brexit risk will add noise in the short term. The Japanese yen is the winner, as it is undervalued and its safe-haven status adds support when growth expectations are downbeat. Although we foresee it as stronger vs. the dollar, its hedging features could be maximised when played against the pound. Negative surprises are needed for EURJPY to move lower in the short term.
- **Nordics, AUD, NZD and CAD:** These are among the most undervalued currencies within the G10 space, as they are pro-cyclical and commodity-related. They should perform well over a 12-month horizon. For 2020, we expect AUD and NOK to be the relative winners, while SEK and NZD could suffer from dovish expectations on the main policy rates.

Real GDP growth expectations development since March 2020



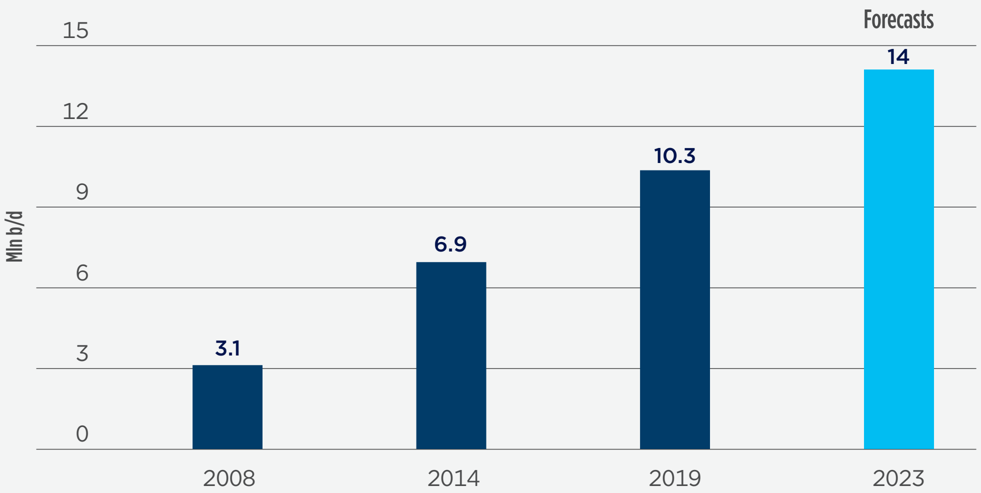
Source: Amundi Research on Bloomberg data as of 29 May 2020. Green triangles: 31 March, blue squares: 30 April, red diamonds: 29 May.

Appetite for European private markets to resume when valuations stabilise...

Despite some short-term challenges, we expect the demand for private assets to bounce back as market conditions stabilise and the economy enters a recovery phase. The crisis is opening up a window of opportunity for investors able to bare a liquidity constraint as the repricing of private assets should lead to attractive valuations.

The uncertainty arising from the Covid-19 crisis will lead to a slowdown in transactions in private markets. In the coming months, we mainly expect funds to call capital in order to support portfolio companies. **Transactions could then resume when valuations stabilise:** Q1 valuations had been established when listed markets were bottoming, with little visibility on the long-term impact of the crisis. These valuations now need to be fine-tuned based on companies' revised business plans. **We believe investor appetite for real and alternative assets will be strong when markets resume for three reasons.** First, because this was already the case last year with higher valuation levels. Second, because most investors estimate that exposure to private markets should be built up via regular commitments irrespective of market conditions. Third, because the GFC has proven that post-crisis vintages are best positioned to deliver superior returns relative to other moments in the business cycle.

Alternative assets AuM are expected to reach $14tn by 2023



Source: Preqin Pro, Amundi. Data as of 19 June 2020.

Private debt (PD): be positioned at the top of the capital structure

The private debt market was big before the Covid-19 crisis, witnessing strong growth in AUM both globally and in Europe. European assets had reached a record of €221bn, over 7x the level seen during the Great Financial Crisis (GFC). Even though we still lack visibility on future performance, PD-backed deals should remain relatively quiet in the short term, in our view, and valuations should rebalance and reprice in the mid-term. PD rebounded sharply and quickly at the time of the GFC. **The Covid-19 is obviously very different in nature (a health vs a financial crisis), but it could lead to another extraordinary window of opportunity for PD**, as both crises, for different reasons, created very significant need for corporate financing, way beyond what banks can provide. In terms of the credit cycle, much had been said before the onset of the coronavirus crisis about how we were approaching the late stage of the cycle – and now there is a lot of noise in the market on a bifurcation into a distressed cycle. We do not think this is really the issue. What is important is that investors might end up having only two sound ways to invest in PD. The first, obviously, is to seize short-term opportunities arising in the distressed/special situations space. The second, which looks more sustainable and with a long-term view, is to position PD portfolios on the top of the capital structure which offers very attractive risk-adjusted returns. All in all, PD should prove its resilience and the strong added value that the segment brings to institutional portfolios should be apparent: from traditional benefits (diversification, alternative premiums, lower volatility, relatively uncorrelated, etc) to the embedded option due to stringent documentation to restructure (pricing, terms) and/or exit private credits.

Good timing to invest in private equity (PE)

As with other recent crises, the Covid-19 is creating a staggering opportunity-set for PE investors, basically for three main reasons. First, we should see **a decline in acquisition multiples, providing low-valuation entry points** into sound and attractive company businesses. This decline has clearly started and should continue. Regarding the European market, the drops were 25% following the euro crisis in 2011 and 38% following the GFC of 2008. When the economic recovery comes, PE investors can exit companies with positive arbitrations on multiples, thereby increasing the performance of their investments.

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… and as investors' search for income and diversification will intensify

The Covid-19 crisis reinforces the need for selectivity when investing in private markets, as the impacts fo the crisis will vary significantly across segments, company types and quality of assets.

A second reason is that **some companies will emerge weakened from the crisis and will have no choice but to be acquired:** consolidations should therefore accelerate in most sectors. Companies supported by PE funds should benefit more than others of the building up of opportunities, and the performance of those PE funds should emerge stronger. The third reason is that many private businesses will have increased the use of debt during the bottom of the cycle. Those **companies will need to strengthen their equity -- in some cases, significantly -- and many will not be able to find refinancing solutions** through bank credit lines. Many, particularly in the mid-market (SMBs), will have to call on private funding and, therefore, on PE.

Real estate (RE): strong defensive fundamentals

In the unprecedented and evolving context of the Covid-19 crisis, RE should face some significant challenges in the short term, with some upward pressure on yields -- in particular, for real estate segments and locations considered less resilient -- and with a likely change in the market rent dynamics. However, **RE should prove resilient in the longer term, given its defensive features, including its ability to dampen volatility and add diversification to any portfolio.** The high visibility on rental cash flows, especially for properties on long-term leases, is useful for institutional investors. In addition, consistently low interest rates have created a significant premium over most fixed income securities. Finally, should the current crisis lead to higher inflation, RE may offer a good hedge, as rents are indexed in most geographies and sub-asset classes.

The upbeat dynamics of the asset class are driven by deep-rooted societal and demographic changes, including the rising focus on climate change, the rise of smart working and wellness in offices, and the rise of e-commerce in retail and logistics, together with the importance of supply chains and locations. Some of those pre-existing trends could be strengthened by the crisis, and their impact on RE markets should bring some attractive opportunities.

Of course, much uncertainty remains around the impacts of the Covid-19 crisis on the economy and financial markets, and on real estate as well. However, RE investment has solid fundamentals that can help investors to seize opportunities arising from fast-growing trends in offices, retail, logistics or ESG.

Infrastructure: investor appeal

During the Covid-19 crisis, infrastructure has been much prized for its ability to resist market turbulence. In spite of a short-term downswing in fundraising activity, and taking the long-term view, investors seem to be as attracted as ever to infrastructure and are still planning to increase exposure.

However, until the full impact of the current crisis can be ascertained, the jury is still clearly out on valuations. Consequently, the pace of transactions has abated significantly so far. For the near future, **we believe that there will be a premium for Core/Core+ assets**, and investors will remain very cautious on Greenfield assets – with fully regulated renewables being an exception. There has also been a revival in discussions on the merit of a long-term cash yield approach to the sector, as opposed to the more traditional PE equity investment style.

Discover more on European commercial real estate

[*Covid-19: short-term pain, long term opportunities for European commercial real estate*]

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Cross-asset: playing tactical risky assets rebound

De-freezing of the global economy is our central case, hence the growth theme remains key, although with different investment implications compared with a 'normal' recovery. Investors should play this new phase while searching for yield across the credit spectrum in both DMs and EMs, favouring inflation-linked bonds to govies and the cyclical theme through cyclical sectors and global GEM (equities and fixed income). They should also remain exposed to gold, not just for hedging purposes.

How to play the growth theme in a 'normal' recovery environment

Normally, an economic recovery occurs as a result of a recession. The latter is a typical phase of the economic cycle needed to rebalance any distortion in the economy and financial markets. During this phase, monetary policies are usually accommodative to avoid permanent damage to economic and financial conditions. Hence, during a recovery the investment themes are naturally linked to growth. These include the search for yield, due to high spreads as a legacy of the recession, with global HY theoretically the best performer. Inflation-linked bonds are preferred to government bonds due to expectations of rising inflation from allegedly low levels. Another theme is for limited duration exposure due to expectations of monetary policy normalisation. Typically, growth-related commodities (e.g., base metals) and growth-related equities, such as GEM, especially Latin America, in cyclical sectors are favoured over beaten-down equities like the value factor.

How to play the growth theme in an unprecedented recovery

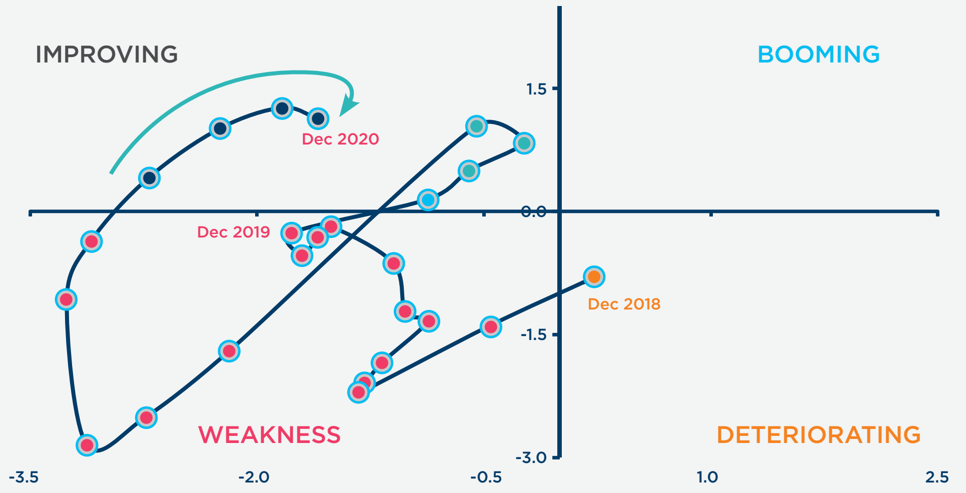
The severe recession induced by the pandemic has led to an unprecedented situation. The economic lockdowns and travel bans have caused growth to collapse and led to the adoption of extraordinary monetary and fiscal measures to preserve economic and financial conditions from fatal damage rather than facilitate their normalisation. **For these reasons, although the growth theme remains valid, the investment implications are somewhat different.**

The search for yield remains valid but investors should play this theme by remaining well-diversified in GEM bonds and by **balancing HY with IG.** The preference for inflation-linked bonds vs. government bonds remains valid, as uncertainties about the strength of the recovery have led to extremely low inflation expectations. Monetary policy normalisation will be very gradual, so **duration can be a good hedge to be managed tactically**. For the same reason, it is preferable to play the **cyclical recovery theme through cyclical sectors,** rather than through cyclical commodities, and through EMs, **with a preference for Asia** and **gold exposure**, as the latter has performed well in periods of non-conventional monetary stimulus.

The overall picture is moderately favourable to risky assets despite some concerns about the strength of the expected recovery and the global corporate leverage burden.

No second pandemic wave and earnings re-acceleration with limited default rates are the main factors that could drive risky assets further up in H2. The corporate sector's vulnerability remains the key risk to monitor.

Global composite economic momentum set to rebound in Q4 2020, tactically supporting risk assets



The Global Economic Momentum index is an Amundi proprietary indicator based on four regional baskets (US, Eurozone, Japan and EM) and on the following variables: earnings revisions, 10Y interest rates, leading indicators, CPI YoY, PMI surveys, the Economic Surprise Index and the Inflation Surprise Index. We consider the level and the momentum (variation) of the index in order to define four economic cycles: **booming:** uptrend level and positive momentum; **deteriorating:** uptrend level and negative momentum; **weakness:** downtrend level and negative momentum; **improving:** downtrend level and positive momentum.

Source: Analysis by Amundi Research, Bloomberg. Data as of 31 May 2020.

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ESG top of investors' mind: 'S' to emerge stronger

The recent market turmoil confirms our recent research findings that show the financial materiality of integrating ESG criteria into investment decisions. The social pillar has gained prominence, a trend that we believe will last in a world with rising inequality and greater responsibility of companies towards stakeholders.

In our view, Covid-19 will accelerate a pre-existing trend within the investing world: the relevance of ESG and sustainability themes in portfolios:

- **Social considerations** are now at the forefront amid companies' decisions related to the health and protection of employees, teleworking or unemployment policies. Companies need to be managed not only for the benefit of shareholders but also for the broader audience of stakeholders, including employees, customers, suppliers and governments. Businesses that fail to consider their wider responsibilities face significant reputational damage in the short term and fundamental headwinds in the long term, which could impact their long-term financial performance. In addition, we believe that pre-existing **inequalities** have aggravated the effects of the Covid-19 lockdowns on the most vulnerable and low-income populations. Going forward, the crisis will exacerbate inequalities further by causing large-scale unemployment — the primary source of inequality — in DMs. From an investing standpoint, there is a trade-off between income inequality and economic growth. Rising inequality negatively affects GDP growth. As a result, governments and companies will be encouraged to evaluate their policies towards a more equitable distribution of income and wealth.
- **Environment:** the cost of natural disasters is rising and academic studies are showing strong links between the outbreak of a pandemic, deforestation and the destruction of animal species. The last two support the transmission of diseases within animals and from animals to humans. Climate change and extreme events also cause animals to migrate, causing disease migration.

While the **environment** pillar was already at the top of investors' minds before the crisis, the **social** pillar is set to gain greater prominence due to the crisis.

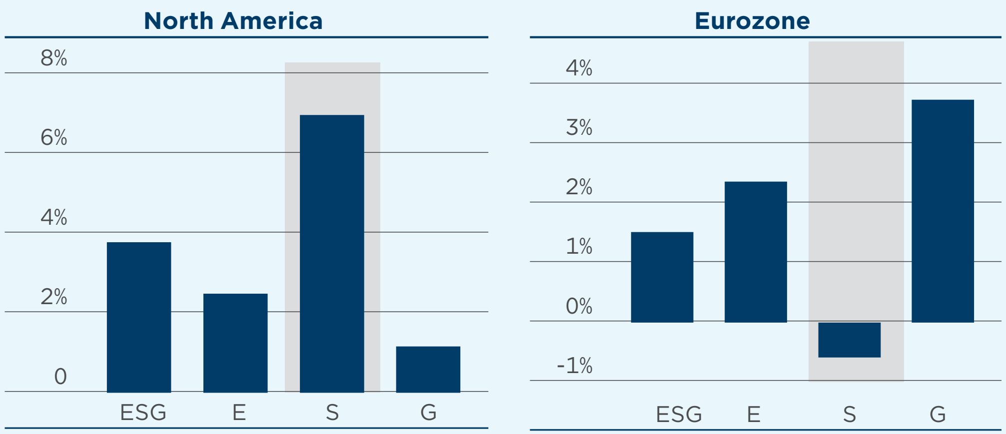
The social pillar becomes material in North America

Our research has showed that ESG is becoming financially material, meaning that it is a source of outperformance, both in equity and bond markets, though with a growing transatlantic divide between Europe and North America. Finally, while the E and G pillars had been outperforming since 2014, the S pillar has caught up from 2016 onwards. The crisis has pointed out relatively new outcomes.

1. The S pillar, which had been lagging behind other pillars in terms of contribution to performance, **has caught up during the crisis**. The transatlantic divide in ESG still exists, but it has taken on a new form: the outperformance of the S pillar in North America compared to the Eurozone.
2. There is a **link between this outperformance of the S pillar and investors' risk aversion** (high volatility should lead to higher risk aversion). Over Q1 2020, the outperformance of S and the increase in the VIX index followed the same path, leading us to conclude that the S performance was led by investor risk aversion in the Covid-19 market turmoil.
3. **Investor preference for S goes beyond the search for 'quality.'** The S pillar's outperformance remains a stock-specific return story, which cannot be traced to traditional factor returns. In fact, in the S dimension, investors would have searched for the capacity of North American corporates to weather the crisis and to maintain a workforce, enabling a rebound in output.

The ESG world is dynamic. The crisis has unlocked the S dimension. We believe this trend will continue and may open up new opportunities for investors.

ESG, E, S & G – long best and short worst strategies, Q1 2020



Source: Analysis by Amundi Research. Data as of 31 March 2020. Performance of an illustrative long-short portfolio of going long first quartile Amundi ESG scores stocks vs. short the fifth quartile. For illustrative purposes only. **Past performance is no guarantee of future results.**

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Economic forecasts

GDP growth (YoY%) and inflation (CPI, YoY%). Forecasts by Amundi Research as of 18 June 2020.

Macroeconomic forecasts

Countries/Areas	Real GDP growth (YoY%)			Inflation (CPI, YoY %)		
	2019	2020	2021	2019	2020	2021
United States	2.3	(6.5);(4.5)	3.0;4.0	1.8	1.0	1.2
Japan	1.2	(4.7);(4.1)	2.0;2.6	0.7	0.1	0.5
Eurozone	1.2	(10.0);(8.0)	4.5;6.5	1.2	0.6	1.1
Germany	0.6	(7.5);(5.5)	2.5;3.5	1.5	0.7	1.2
France	1.2	(11.0);(9.0)	6.4;8.4	1.3	0.6	1.1
Italy	0.3	(12.5);(10.0)	3.8;5.8	0.7	0.1	1.0
Spain	2.0	(13.5);(11.5)	6.5;8.5	0.7	0.3	1.0
United Kingdom	1.4	(9.0);(7.0)	3.0;5.0	1.8	1.2	1.4
Brazil	1.1	(6.4);(5.0)	(0.4);0.6	3.7	2.7	3.6
Mexico	(0.1)	(8.1);(7.1)	(1.0);0.0	3.6	3.0	3.5
Russia	1.3	(6.0);(4.0)	2.5;4.5	4.5	3.2	3.9
India	5.3	(2.7);(1.3)	2.3;3.6	3.7	5.8	4.9
Indonesia	5.0	(1.1);(0,1)	3.5;4.5	2.8	2.5	3.1
China	6.2	1.4;2.4	7.6;8.2	2.9	2.4	1.9
South Africa	0.2	(6.4);(5.4)	4.0;5.0	4.6	4.0	5.0
Turkey	0.8	(6.9);(5.9)	4.2;5.2	16.2	10.5	9.8
Developed countries	1.7	(7.5);(5.9)	3.6;4.8	1.5	0.7	1.1
Emerging countries	4.1	(2.1);(0.9)	4.3;5.2	4.0	3.5	3.4
World	3.1	(4.3);(2.9)	4.0;5.1	3.0	2.4	2.5

Central Bank Rates forecasts

	9 June 2020	Amundi +6m.	Consensus +6m.	Amundi +12m.	Consensus +12m.
United States	0.13	0.00/0.25	0.11	0.00/0.25	0.08
Eurozone	-0.50	-0.50	-0.56	-0.50	-0.58
Japan	-0.05	-0.20	-0.10	-0.20	-0.12
United Kingdom	0.10	0.00	0.02	0.00	-0.01
China	3.85	3.65	3.65	3.65	3.65
India	4.00	3.75	3.60	3.75	3.60
Brazil	3.00	2.50	2.25	2.50	2.50
Mexico	5.50	4.75	4.30	4.75	4.15
Russia	5.50	4.50	4.75	4.50	4.85
Turkey	8.25	8.00	8.30	8.00	9.50
South Africa	3.75	3.25	3.40	3.25	3.50

Financial market forecasts

Bonds yields

2-year bond yield forecasts

	9 June 2020	Amundi +6m.	Forward +6m.	Amundi +12m.	Forward +12m.
United States	0.22	0.25/0.50	0.27	0.25/0.50	0.32
Germany	-0.62	-0.70/-0.50	-0.64	-0.70/-0.50	-0.64
Japan	-0.14	-0.30/-0.20	-0.15	-0.30/-0.20	-0.15
United Kingdom	0.00	0.00/0.25	0.01	0.00/0.25	0.04

10-year bond yield forecasts

	9 June 2020	Amundi +6m.	Forward +6m.	Amundi +12m.	Forward +12m.
United States	0.84	0.70/0.90	0.94	0.80/1.00	1.03
Germany	-0.32	-0.60/-0.40	-0.25	-0.50/-0.30	-0.20
Japan	0.02	-0.10/0.10	0.08	0.00/0.20	0.12
United Kingdom	0.33	0.20/0.40	0.39	0.30/0.50	0.45

Equities

MSCI Index levels at	US	Europe	EMU	UK	Japan	Pacific ex-Japan	World	World AC
10 June 2020	3 070	1 503	209	1 794	985	450	2 275	541
Low bound	2 600	1 300	180	1 510	900	360	1 930	460
High bound	3 570	1 830	260	2 110	1 200	510	2 700	640

Exchange rates

Exchange rates forecasts vs. USD

	8 June 2020	Amundi Q3 2020	Consensus Q3 2020	Amundi Q1 2021	Consensus Q1 2021
EUR/USD	1.13	1.09	1.11	1.15	1.15
USD/JPY	108	107	107	105	107
GBP/USD	1.27	1.18	1.24	1.34	1.29
USD/CHF	0.96	0.99	0.96	0.96	0.96
USD/NOK	9.26	9.83	9.87	8.54	9.43
USD/SEK	9.20	9.82	9.60	8.48	9.25
USD/CAD	1.34	1.40	1.37	1.29	1.34
AUD/USD	0.70	0.65	0.65	0.72	0.68
NZD/USD	0.66	0.60	0.61	0.64	0.64
USD/CNY	7.07	7.15	7.07	6.95	7.00

Exchange rates forecasts vs. EUR

	8 June 2020	Amundi Q3 2020	Consensus Q3 2020	Amundi Q1 2021	Consensus Q1 2021
EUR/USD	1.13	1.09	1.11	1.15	1.15
EUR/JPY	122	116	118	121	121
EUR/GBP	0.89	0.92	0.89	0.86	0.88
EUR/CHF	1.08	1.07	1.07	1.11	1.09
EUR/NOK	10.46	10.67	10.90	9.86	10.58
EUR/SEK	10.39	10.66	10.60	9.80	10.47
EUR/CAD	1.51	1.52	1.52	1.49	1.53
EUR/AUD	1.61	1.66	1.71	1.59	1.68
EUR/NZD	1.72	1.82	1.82	1.80	1.78
EUR/CNY	7.99	7.76	7.85	8.03	7.98

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Definitions

- **Basis points:** one basis point is a unit of measure equal to one one-hundredth of one percentage point (0.01%).
- **CARES act:** the Coronavirus Aid, Relief, and Economic Security Act is an US law intended to address the economic fallout of the Covid-19 pandemic.
- **Core plus real estate investment strategy:** 'Core plus' is synonymous with 'growth and income' in the stock market and is associated with a low to moderate risk profile. Core plus property owners typically have the ability to increase cash flows through light property improvements, management efficiencies or by increasing the quality of the tenants. Similar to core properties, these properties tend to be of high quality and well occupied.
- **Core real estate investment strategy:** 'Core' is synonymous with 'income' in the stock market. Core property investors are conservative investors looking to generate stable income with very low risk. Core properties require very little hand-holding by their owners and are typically acquired and held as an alternative to bonds.
- **Correlation:** the degree of association between two 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).
- **CPTPP:** Comprehensive and Progressive Agreement for Trans-Pacific Partnership, a free-trade agreement between Canada and 10 other countries in the Asia-Pacific region.
- **Credit spread:** the differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration possible embedded options.
- **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.
- **FX:** FX markets refer to the foreign exchange markets where participants are able to buy and sell currencies.
- **GOP:** Grand Old Party, the US Republican political Party.
- **LIBOR-OIS spread:** this is the difference between LIBOR and the OIS rates. The spread between the two rates is considered to be a measure of health of the banking system. It is an important measure of risk and liquidity in the money market.
- **MBS, CMBS, ABS:** Mortgage-backed security (MBS), commercial mortgage-backed security (CMBS), asset-backed security (ABS).
- **MOVE** is the Merrill Lynch Option Volatility Estimate for the US Treasury.
- **RCEP:** Regional Comprehensive Economic Partnership, a free-trade agreement among 16 countries in the Asia-Pacific area.
- **TED spread:** the TED spread is the difference between the three-month Treasury bill and the three-month LIBOR based in US dollars.
- **USMCA:** United States-Mexico-Canada Agreement.
- **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:** the 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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