CENTRAL & ALTERNATIVE SCENARIOS (12 TO 18 MONTHS HORIZON)

Monthly update

We keep the narratives and the probabilities of our central and alternative scenario unchanged versus last month. However, the war in Ukraine could evolve in several ways (see Ukraine crisis tree) with significant implications on economic and financial markets. The new wave of Covid-19 in China is another source of uncertainty over the short-term.

DOWNSIDE SCENARIO 30%

Renewed slump toward stagflation

Analysis

- Long lasting **war in Ukraine** is hurting confidence and activity, and pushes commodities and energy prices higher for longer, and disrupting supply.
- **Covid-19** Omicron (or another variant) resurgence leads to renewed mobility restrictions and bottlenecks across the globe.
- Both triggers lead to an **economic downturn** while **inflation** remains elevated and uncontrolled.
- **Renewed monetary and fiscal accommodation** to support the economy, possibly a further step in financial repression.
- Inflation amid slower growth, forces some **Central Banks** and the ECB in particular, to **deviate** from their guidance and potentially lose credibility.
- Policies and investments designed to fight **climate change** are postponed and/or countries policies are disorderly implemented.

Market implications

- Favour cash, USD and US Treasuries
- Play minimum-volatility strategies
- Gold
- Commodities and energy

CENTRAL SCENARIO 60%

Bumpy road, regional divergences

Analysis

- The **war in Ukraine** is hitting confidence and pushes commodities and energy prices higher but only temporarily.
- **Covid-19** becomes an endemic disease, with random contagion waves.
- **Global activity** to hold better against waves, but supply chain bottlenecks will remain until end-2022.
- **Global growth** progressively abate to trend in 2022. Opening 2023's to downside risk. Soft patch in H1 2022 due to China's GDP contraction in Q2 (lockdowns) and weaker Euro-area growth (Ukraine).
- Persistent **inflation** pressures throughout 2022 due to high energy and commodity prices, supply-side bottlenecks, rising wage pressures; and abating in 2023. Inflation is a psychological and political issue.
- **Monetary policy asynchrony:** Fed in fast move from tapering to QT and a steep hiking cycle; BoE in a soft hiking cycle, ECB recalibrating QE and probably hiking rates in 2022; PBoC on an easing bias. Rates to move higher but to stay low for longer.
- **Fiscal policy:** withdrawal of some support, but public funding and subsidies are needed to smooth the impact of the energy transition on households.
- **Climate change** bites into growth and pushes commodity and energy prices higher, adding to stagflationary trends.

Market implications

- Lower risk-adjusted real returns expected
- Contained steepening of US Treasuries yield curve as well as EZ and EM
- Inflation hedge via gold, linkers and equities
- EM: Short-term caution, long-term real income and growth story intact

UPSIDE SCENARIO 10%

Inclusive and sustainable growth

Analysis

- The **war in Ukraine** ends quickly with limited disruption of the energy and commodities market.
- **Endemic recedes** faster than anticipated, despite variants.
- Extra savings and wage rises fuel **consumption** with low erosion of corporate margins.
- **Productivity gains** thanks to digital and energy transitions and structural reforms.
- **Inflation** remains under control.
- **Higher interest rates,** due to stronger investment and less savings.
- **Central banks'** policy normalisation is well received by financial markets.
- **Debt is sustainable** thanks to strong growth and a gradual shift towards fiscal discipline.
- **Inclusive growth** and effective fight against inequality.
- **Possible triggers** include end of the war in Ukraine, structural reforms, effective drugs and vaccine campaigns, and inclusive de-centralised finance.

Market implications

- US Treasuries curves bear steepen
- Favour risky assets with cyclical and value exposure
- Favour linkers and equities as an inflation hedge

Geopolitic · *Covid-19 related topics* · *Growth and inflation expectations* · *Monetary and fiscal policy* · *Recovery plans or financial conditions* · *Solvency of private and public issuers* · *Economic or financial regime* · *Social or climate related topics*

TOP RISKS

Monthly update

We keep the probability of economic and geopolitical risks to 30% to take into account the war in Ukraine and its potential implications on the economic and financial risks. We consider Covid-19-related risks (including lockdowns in China) to be part of the economic risks.
Risks are clustered to ease the detection of hedging strategies, but they are obviously linked.

ECONOMIC RISK 30%

— **Global recession** driven by an oil and gas shock and a deteriorating sentiment as the war in Ukraine stalls

— **Economic crisis in Eastern Europe** following a collapse of the Russian economy, elevated energy prices, uncontrolled inflation and a migrant crisis

— **Pandemic 3.0**
- After Omicron (2.0) a more dangerous and vaccine resistant variant starts a new wave
- New lockdowns or mobility restrictions could further undermine the global recovery

— **Supply chain disruptions** carry on (China new lockdowns), and input cost pressures lead to corporate earnings recession

— **China zero Covid policy combined with regulatory crackdown and property market collapses,** leading to lower growth prospects

— **Monetary policy mistake**
- Central banks' miscommunication in the context of a high geopolitical uncertainty.
- Central banks underestimate the strength of supply driven inflation and lose control

— **Climate change-related natural events** hurt growth visibility and social balance.

+ Cash, linkers, JPY, Gold, USD, Quality vs. Growth, Defensive vs Cyclicals, Oil

- Risky assets, AUD CAD or NZD, EM local CCY

FINANCIAL RISK 20%

— **Sovereign debt crisis**
- An extended war in Ukraine would hurt DM vulnerable public finance with public debt as a share of GDP already at historically high levels
- De-anchoring inflation expectations could lead to a bond market dislocation and harsher monetary tightening
- Most countries are vulnerable to rating downgrades and rising interest rates.
- EM weaknesses could also face a balance of-payments crisis and increased default risks.

— **Corporate solvency risk increases,** despite strong fundamentals as uncertainty rises and corporate margins are under pressure (high input cost, double orders lead to profit warnings)

— **Widespread greenwashing and ESG investment bubble** undermine the energy transition funding

— **USD instability** and gradual loss of its reserve currency status lead to unstable currency markets

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

- Oil, risky assets, frontier markets and EMs

(GEO)POLITICAL RISK 30%

— **War in Ukraine ***
- Short term resolution following Russia military success: markets instability remain as investors are starting to price in Putin crossing new red lines
- Prolonged military struggle leading to a high intensity conflict and potentially western military confrontation

— **EU political fragmentation** or populist vote bring a disagreement on how to manage the relationship with Russia

— **The US takes a hard line with China** in order to block any tentative to invade Taiwan. Risk of accidental confrontations in the South China Sea or the Taiwan Strait

— **EM political instability driven by:**
- Chaotic virus crisis management
- Higher food and energy prices, leading to a wave of unrest similar to the Arab Spring

— Iran or Korea **nuclear programs** renewed concerns and sanctions

— **US & China lose credibility** on the energy transition and undermine the Paris agreement

— **Global warming** leads to an increased risk of conflicts, driven by water shortages and migratory movements

— **Cyber-attack or data compromise,** disrupting IT systems in security, energy and health services

* *For more detailed on potential outcomes see "Ukraine crisis tree" P. 20*

+ DM Govies, Cash, Gold, USD, Volatility, Defensive, Oil

- Credit & equity, EMBI

Ukraine Crisis Tree

[A] Russia has partially invaded Ukraine, but is facing resistance and unprecedented economic sanctions. Russia has moved his action to the Donbass region. High level talks have started but no resolution - Russia nuclear forces are placed on high alert

[B] Short-term resolution with limited military escalation

B1] Sanctions deterrent effects and diplomatic talks end the conflict with an acceptable way out for V. Putin

B2] Russia controls Donbass and land north of Crimea. End of the conflict

B3] Russian army controls East and South Ukraine and the conflict extends to Moldova

B4] Unrest or military putsch ends Putin's regime

[C] Prolonged military conflict and global military escalation

C1] Low intensity conflict with limited supply chain disruptions (evolution of B2)

C2] High intensity conflict (evolution of B3)

B1]	B2]	B3]	B4]	C1]	C2]
Partitioning and/or demilitarisation of Ukraine moving to "neutral" status i.e not joining NATO		Full sanctions against Russia which enters an economic and financial crisis	Russia economic and financial crisis	Global stagflation	Worst case scenario, we can be expected including West and Russia military confrontation and Ukraine becomes a battlefield
Markets relief: limited repricing of global relative risk premia, limited global spillover but profit recession in EU still a tangible risk	Worse growth than our central scenario with EU GDP contractions and growth [0%-2%], Inflation towards 8%-10%	Spillover into Eastern Europe		GDP and inflation close to our central scenario	Global GDP contraction comparable with GFC or Covid-19
Better growth prospects than our central scenario and CBs back to normalisation	Energy prices to remain high as sanctions remain and rationing of energy coming from Russia and limited substitution capabilities		High uncertainty on Russian political new situation	Oil decelerating towards 75-80 by Q1 23 or even 60-65 in case of partial diversification (horizon 12-18months)	EU GDP down -4.5% to -2% with rationing of energy supply and economies to support the war efforts
Energy prices remain temporarily high before supply diversification materializes (e.g., Saudi or Iran) and the search to diversify suppliers makes further progress	Market instability starting to price in Russia crossing new red lines in Europe	Worse growth than our central scenario with EU GDP contractions and growth [0%-2%], Inflation towards 8%-10%	Energy prices to remain high and unstable	GDP for EA at 2.2%-2.4% (annual average growth), inflation in the 5.5%/6% (average)	Inflation skyrockets to double digit on severe shortages of commodities, even higher energy prices, food emergency
	Profit recession in Europe				
			GDP contractions and growth [0%- 2%], Inflation towards 8%-10%		
			CBs back to normalisation		
• Positive: European and Chinese equities, EM credit • Negative: Gov Bonds, commodities, energy and gold	• Positive : safe havens (USD), Oil prices stay close to 100-120 • Negative : liquid assets, and EUR	• Equity markets capitulation with US outperf. • Bond yields collapse • Oil prices high and volatile • Stronger USD and gold	• Yield curves flatten • Euro weakens, EM FX turmoil • Oil prices high and volatile • Equities high dividends and quality • Within EM favour Latam and China	• Negative real rates favour real assets, gold, commodities and EM debt • Equity value, quality and defensive • Short duration	• Markets capitulation • Favour UST and secured real assets • Bond yields collapse • Stronger USD, weaker EUR and strong gold • Negative EM

Source Amundi Institute

CROSS ASSET DISPATCH: Detecting markets turning points

The turning point has occurred | Approaching the turning point | Not reached yet too early to call it

ECONOMIC BACKDROP

- Macroeconomic uncertainty on the growth and inflation front has been progressively increasing as the Ukraine war extends, new sanctions are elaborated, renewed supply chain disruptions materialise, and China implements new lockdowns under its zero-Covid policy.
- Directions of revisions diverge on inflation and growth, as inflation is set to grind higher still for a few months on higher energy, food and commodity prices, while growth is impacted negatively on both the demand and supply sides. Stagflationary momentum is evident in the Eurozone in particular.
- While hard data do not show the impact of the war yet, confidence data have started to deteriorate, highlighting material downside risks to the growth outlook.

FUNDAMENTALS & VALUATION

- The QT announcement is likely to impact valuations and multiples, with possible repricing should the economy falter more than expected.
- Inflation is another headwind to the expansion in multiples expansion, while expectations are still very optimistic, at least in Europe, considering the potential shortages in raw materials.
- All in all, valuations and current levels are vulnerable to potential negative surprises on fundamentals or higher-than-expected rates. So far, reporting season is going well in the US, providing some ground to markets.

NEUTRAL + ASSET ALLOCATION

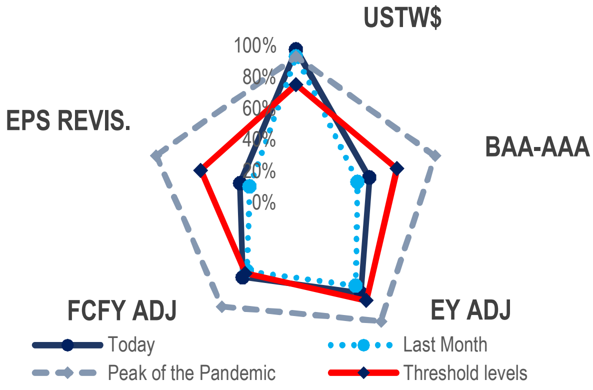
TECHNICALS

- No changes in technical signals for risky assets compared to last month.
- Despite expectations of a global downturn, trend-following signals are still lacking to call for a clear-cut short on risk. The problem we have today is that contrarian signals are still far from oversold levels (most equity indices are not at full discount vs start of year levels) – something which prevents confidence in sustainable rebounds.
- The current market environment keeps absorbing dislocation opportunities quickly, leaving no strong space for technical signals to drive risk-budgeting decisions.

SENTIMENT

- sentiment perspective. Whilst most survey-based indicators are flashing excessive pessimism on the global picture, sentiment metrics have failed to drive a substantial cut in risk exposure.
- Our risk sentiment indicators are close to neutral as we speak, yet flirting with alerts during most trading sessions. Financial conditions are showing greater resiliency than expected in April, despite the rising rates that we have experienced globally.
- CAST keeps signalling how resiliency in fundamentals would be key when deciding whether to fade or buy the recent rebound in the risk spectrum. The strong bounce in the USD and the drop in EPS revisions are still balanced by the resilient credit risk premium (the Moody's Baa-Aaa spread is still below our estimated alert).

Cross Asset Sentinels Thresholds (CAST) still supportive



Source: Amundi Institute, Data as of 19 April 2022

The CAST risk perception has failed to show a structural increase, despite the recent data show risk-off probability above 20%. The deterioration in EPS revisions remains limited and credit risk premiums (we proxy, using Moody's' Baa-Aaa spread) failed to jump above our alert threshold (i.e. 100 bps). Yet, the USD is the dimension calling loudly for risk-off, and its spillover into residual dimensions would complicate the picture, in our view.

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

GLOBAL RESEARCH CLIPS

1 Global growth revised lower – inflation revised higher

- Tighter monetary policy ahead to fight inflation: Fed funds rate @ 2.50% by yearend; ECB to exit from negative deposit rates in 2022, amid serious risks of recession in Germany and Italy over the next few quarters
- Higher commodity prices (in energy, industrial metals, and food) for a more protracted period, further exacerbated by the war in Ukraine have severe implications on global inflation and growth: 1) negative impact on consumption (through lower real disposable income), and 2) higher input costs' putting a cap on production.
- 12M yield targets revised higher: US 10Y @ 2.90/3.10% (from 2.50/2.70%) and Germany 10Y @ 0.80/1% (from 0.40/0.60%).

Investment consequences

- Reduced risk exposure, slight UW on equities.
- Recalibration in fixed-income from credit to govies and cash.
- Maintain focus on inflation via linkers and commodities.

2 More downside on the euro

- EUR/USD revised six-month target to 1.02 (from 1.09)
- Eurozone's economic backdrop for 2022 has turned gloomier, due to the commodity shock induced by the Ukrainian war and the related struggles for energy independence from Russia, with Germany and Italy challenged the most.
- Valuation of the FX deteriorates dramatically when correcting its purchasing power parity by the loss in productivity caused by the all-time high gap between PPI and CPI.

Investment consequences

- Short EUR/USD over the next 6M, as we see consensus expectations on EA economy and ECB hawkishness in 2022 as too optimistic.

3 Commodities, holding on to our constructive view

- All historical drivers of commodity prices are currently supportive:
  - **Cyclical and fundamental:** undervaluation gap with global growth is now closed thanks to the economic recovery being driven by fundamentals (increasing economic activity, infrastructure, cyclical demand)
  - **Geopolitical:** the most critical factor due to the Ukrainian war, which generated undersupply issues on natural gas and a generalised shortage in a wide spectrum of commodities, from grain to steel (Russia and Ukraine account for 30% of global wheat exports).
  - **Structural:** the green transition and a potential long-lasting demand-supply mismatch in crucial base metals are the bulk of our constructive view. As inventories are still at historical lows, commodities valuations are being adjusted by growth, and inventories look cheap in absolute and relative term.
- The rally seen over the past 24 months (CRB index up 83% since the end of April 20) closed the gap with growth. Nevertheless, valuations are not expensive when adjusted by the level of inventories.

Investment consequences

- Commodities are a key portfolio diversifier and offer opportunities in all phases of the economic cycle when managed proactively.
- Will remain structurally supported as demand in "green" commodities is going to increase due to the electrification transition.

AMUNDI ASSET CLASS VIEWS

	Asset Class	View	1M change	Rationale
EQUITY PLATFORM	US	=/+		Strong consumer spending and labour markets will support overall demand, allowing us to believe that a recession is unlikely, though we may see some pressures on economic growth. Given that real yields are close to positive and nominal yields are rising, we are watching how these affect equities. We remain selective, with a focus on companies (for instance, in banking) that reward shareholders through buybacks and those that can maintain high operational efficiencies.
	US value	+		The uncertainty around rising costs requires a focus on high-quality value companies that are less cyclical and can deliver sustainable earnings growth. While the rotation favouring value may suffer near-term setbacks, the move towards these names is likely to continue in the long term. The key point here is prioritising selection over market directionality.
	US growth	-		Despite the recent underperformance of growth vs. value, the long-term valuation of growth as a sector remains high. We also acknowledge some segments becoming attractive but believe rising rates could pressurise valuations.
	Europe	-/=		Slowing economic growth and persistent cost pressures are likely to affect consumer spending and, accordingly, corporate earnings. We are looking for signs of companies being able to pass on rising costs to consumers and how that may affect overall inflation. Thus we stay balanced and maintain our quality, value and dividend bias backed by our strong selection.
	Japan	=		A mild deterioration in economic momentum leads us to remain vigilant on earnings. Strong corporate governance, stimulus support and productivity gains should be supportive for the markets.
	China	=		The zero Covid policy is likely to weigh on economic growth (and supply chains) and we think the 5.5% target will be difficult to achieve, leading us to be a bit more cautious in the near term. However, selective, long-term opportunities remain amid policy support (monetary and fiscal) as the country transitions to a more balanced economic growth model.
	Emerging markets	=		The war in Ukraine doesn't bode well for global growth and inflation, and, accordingly, EM will be affected. However, divergences across EM are high, and as such selection is important. We are positive on commodity exporters such as Brazil and UAE, and on domestic-demand stories including India, but cautious on countries (Hungary) closer to the crisis.
FIXED INCOME PLATFORM	US govies	-/=	▲	Given that the Fed is continuing its hawkish pivot and inflation remains stubborn (particularly the sticky part of inflation), we are cautious on duration but are managing exposure tactically given the current flight to quality and the recent market movements. Our exposure to TIPS is minimal.
	US IG corporate	=		In light of the still-strong corporate fundamentals, we keep a stable risk stance in IG but prefer idiosyncratic risks and maintain broad hedges. We are also evaluating how the sector responds to the Fed's quantitative tightening and rising core yields. In this respect, we see relative value opportunities in securitised assets such as agency mortgage-backed securities.
	US HY corporate	=		We remain neutral and selective in HY. On the one hand, the sector is supported by high energy prices, but on the other hand, valuations must be monitored, particularly as waning liquidity as a result of QT could tighten financial conditions.
	European govies	-/=		While the long-term move towards higher core rates holds true, the geopolitical tensions and market stress are putting downward pressure on yields. This, coupled with the ECB's data-dependent approach wherein interest rates rise "some time" after the end of QE, underscores why investors should stay agile on duration. We are slightly less defensive on duration in core Europe and actively look for opportunities across the curve and geographies, such as in Belgium.
	Euro IG corporate	=		We are tracking the effects of the end of the ECB's asset purchase programme and the recession risks on IG spreads even as corporate balance sheets are strong, despite high producer prices (and therefore margin pressures). We think investors should consider moving from high-beta to low-beta segments/securities through a fundamental analysis-driven approach.
	Euro HY corporate	=		Concerns around Europe's economic growth and inflation could weigh on corporate earnings, although spreads are lower than the levels seen in early March, indicating strong corporate fundamentals. Looking ahead, markets will distinguish credit on the basis of quality and liquidity risks, causing us to be very selective across the market.
	China govies	=/+		Valuations in Chinese local government debt, Covid-19 lockdowns and geopolitical tensions with the US (pressures on FX) are near-term concerns. From a medium-term perspective, the asset class offers strong diversification benefits.
	EM bonds HC	+	▲	We are slightly constructive on HC, particularly on high-beta idiosyncratic stories that explain our strong bottom-up bias. Within this, we favour HY over IG on expectations of spread tightening in the former.
	EM bonds LC	=		We remain constructive on EM duration in LC and believe there is scope for a reallocation towards commodity-exporting FX, even though we are a bit cautious on EM FX as a group. The high fragmentation in EM allows us to be very selective.
OTHER	Commodities			The continued Ukraine war (undersupply issues, particularly in natural gas), the green transition and structural demand supply mismatches in crucial base metals allow us to be constructive on commodities.
	Currencies			The slowing economic backdrop in Europe is likely to weigh on the EUR/USD and we think consensus expectations are too optimistic; we have downgraded our six-month target to 1.02. We stay positive on CHF owing to its safe-haven status.

LEGEND

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	Negative		Neutral		Positive		Downgrade vs previous month	Upgraded vs previous month

Source: Amundi, as of 26 April 2022, views relative to a EUR-based investor. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product. IG = investment grade corporate bonds, HY = high yield corporate, EM bonds HC/LC = EM bonds hard currency/local currency, WTI = West Texas Intermediate, QE = quantitative easing.

DISCLAIMER TO OUR FORECASTS

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

METHODOLOGY

— Scenarios

The probabilities reflect the likelihood of financial regimes (central, downside and upside scenario) which are conditioned and defined by our macro-financial forecasts.

— Risks

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

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CROSS ASSET
INVESTMENT STRATEGY

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