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Amundi ASSET MANAGEMENT

Asset Class Return Forecasts

Quarterly Update

Medium and Long-Term Return Forecasts | Q3 - 2019 *Finalised in August 2019*

Our medium-term baseline scenario is that of a late business cycle slowdown supported by the dovish U-turn of central banks. We expect economic growth to evolve around potential for most developed economies in 2020. It could subsequently decrease below potential in 2021 driven by a deteriorating cyclical environment and still anaemic global trade. Nevertheless, growth should stay in positive territory.
In the developed economies, central banks are expected to cut their policy rates to mitigate the economic slowdown. The ECB is expected to move back to an unconventional monetary policy.
In that context, short-term rates are likely to initially decline, yield curves steepen, spreads widen moderately, mostly on low ratings, and default rates rise from current levels for the HY sector.

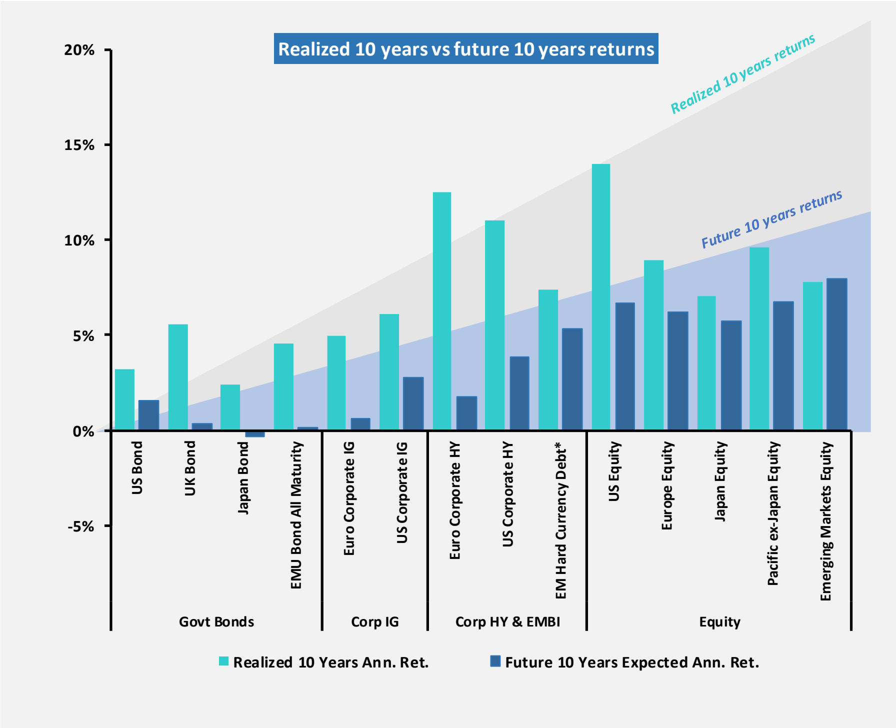
Growth in EM is also expected to decelerate but will continue to be supported by accommodative monetary policies globally and by a supportive policy mix (monetary and fiscal) domestically.

We nevertheless expect a period of falling profits driven by the pullback in global manufacturing and trade policy uncertainty, leading to modest equity returns.

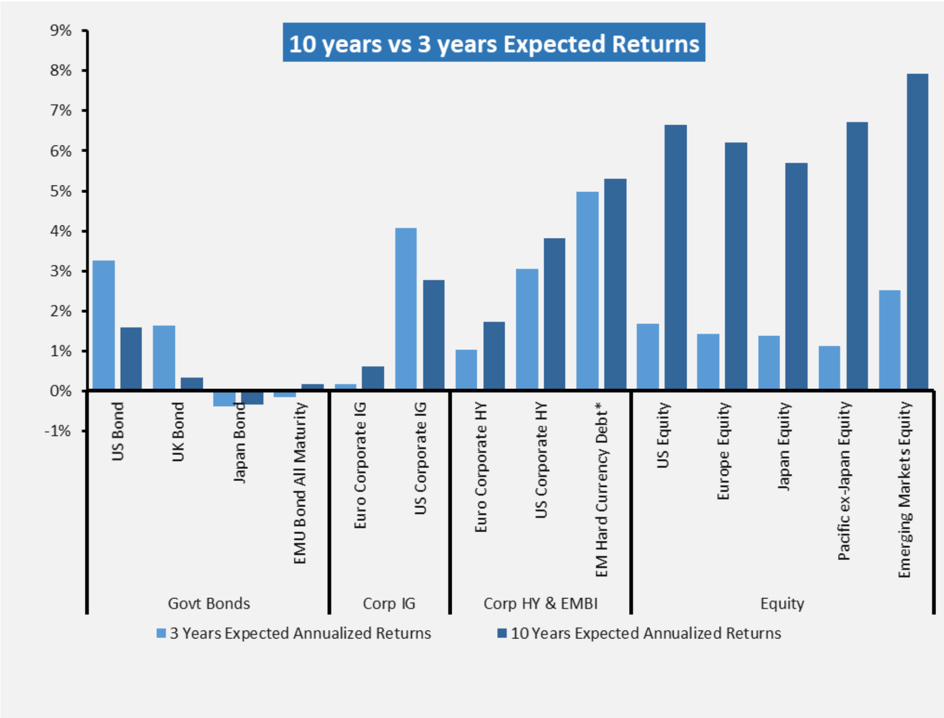
In the longer run, we expect interest rates and valuations to slowly normalise, reaching or approaching equilibrium levels in the most dynamic countries (US and UK) within a 10-year horizon, while the adjustment is likely to be slower for the Eurozone and Japan where equilibrium levels are expected to be reached beyond 10 years.

GOVERNMENT BONDS	*Recent market developments have resulted in some flattening and downward shifts in yield curves, leading to lower carry and consequently lower expected returns on bonds.* *Nevertheless, government bonds across regions should outperform cash and deliver decent returns in the medium term (3-year horizon). However, moving to the 10-year horizon, as we anticipate a widespread and gradual increase in interest rates, total returns are likely to decrease, as the incremental accruals will be offset by price losses.* *US Treasuries should deliver the highest returns amongst developed countries. In the Eurozone, we expect bond yields to stay lower for longer, despite some recovery in the term premium, and sovereign spreads to widen moderately in the medium term.* *The outlook on EM debt is moderately positive due to the high carry and resilient fundamentals.*
CREDIT	*In the medium term, the IG sector should benefit from falling interest rates, while returns in the high yield sector are likely to be negatively affected by a moderate widening in spreads and an increase in default rates.* *Default and recovery rates are expected to start rising from current levels as we move into a late-cycle regime with rising risk and uncertainty.*
EQUITIES	*On the equities front, expected returns are almost unchanged in relation to last quarter's update.* *In the medium term, returns look set to remain moderate as a consequence of the expected profits recession.* *As developed markets will be at the origin of the macroeconomic slowdown, returns on emerging market equities could be slightly more resilient, due also to their higher return potential.*

Annualised Return Forecasts



Our 10-year forecasts are lower than those delivered during the asset reflation period (the past 10 years), as we entered a late cycle phase in 2018 with economic growth surpassing its peak.



In the medium term, we expect equity returns to moderate against a backdrop of slowing economic growth and the rising risk of a profits recession. Government bonds should benefit from falling interest rates. We anticipate widening corporate bond spreads and an increase in default rates, which is likely to penalise the high yield sector.

Source: Amundi Asset Management CASM Model, Amundi Asset Management Institutional Advisory and Research Teams, Bloomberg. Data as of 31st July 2019. Macro figures as of last release. Interest rates, Equity, spread and FX updated as of 28th June 2019. Italy and Spain yields are as of 15th July 2019. Equity returns based on MSCI indices. Reference durations are average figures.
One year forward views and fair values provided by Research team (macro, yields, spread and equity). Forecasts for annualised returns are based upon estimates and reflect subjective judgments and assumptions. These results were achieved by means of a mathematical formula and do not reflect the effect of unforeseen economic and market factors on decision-making.
The forecast returns are not necessarily indicative of future performance, which could differ substantially.

Asset Class Expected Returns

In the following table, we present our annualised return forecasts across different asset classes, calculated as the average of simulated returns, on different forward-looking horizons (from 3 to 10 years).

Assets in local currency	Reference Index	Duration	3 Years	5 Years	10 Years
Cash					
Euro Cash	JPCAEU3M Index	0.3	-0.7%	-0.6%	0.1%
US Cash	JPCAUS3M Index	0.2	1.2%	1.0%	1.6%
Government Bonds					
US Bond	JPMTUS Index	6.1	3.3%	2.1%	1.6%
UK Bond	JPMTUK Index	10.8	1.6%	0.6%	0.3%
Japan Bond	JPMTJPN Index	9.4	-0.4%	-0.4%	-0.3%
Emu Bond - Core	JPMTWG index	7.3	-0.5%	-0.8%	-0.7%
Emu Bond - Semi Core (France)	JPMTFR Index	7.6	-0.7%	-0.6%	-0.3%
Italy Bond	JPMTIT index	6.6	1.0%	2.0%	1.6%
Spain Bond	JPMTSP Index	6.6	0.2%	0.7%	0.4%
EMU Bond All Maturity	JPMGEMUI Index	7.1	-0.1%	0.1%	0.2%
Barclays Global Treasury	BTSYTRUU Index	7.2	1.1%	0.8%	0.6%
Credit Investment Grade					
Euro Corporate IG	ER00 index	4.7	0.2%	0.3%	0.6%
US Corporate IG	C0A0 index	6.8	4.1%	3.3%	2.8%
Barclays Euro Aggregate	LBEATREU Index	6.0	-0.1%	0.2%	0.3%
Barclays US Aggregate	LBUSTRUU Index	5.4	3.6%	2.6%	2.0%
Barclays Global Aggregate	LEGATRUU Index	6.3	1.8%	1.4%	1.2%
Credit High Yield					
Euro Corporate HY	HE00 index	3.4	1.0%	1.4%	1.7%
US Corporate HY	H0A0 index	4.2	3.0%	3.9%	3.8%
Emerging Market Debt					
EM Hard Currency Debt*	JPEGCOMP Index	7.0	5.0%	5.6%	5.3%
EM-Global Diversified**	JGENVUUG Index	5.4	4.2%	5.1%	5.7%
Convertible Bond					
Europe Index (Eur Hedged)	UCBIFX20 Index		0.9%	1.8%	2.6%
Equities					
US Equity	NDDLUS Index		1.7%	5.3%	6.7%
Europe Equity	NDDLE15 index		1.4%	4.1%	6.2%
Euro zone Equity	NDDLEMU Index		1.6%	4.3%	6.0%
UK Equity	NDDLUK Index		1.1%	3.8%	6.6%
Japan Equity	NDDLJN Index		1.4%	4.5%	5.7%
Pacific ex-Japan Equity	NDDLPXJ Index		1.1%	4.6%	6.7%
Emerging Markets Equity	NDLEEGF index		2.5%	5.5%	7.9%
World Equity	NDDLWI index		1.6%	5.0%	6.5%
AC World Equity	NDLEACWF Index		1.7%	5.0%	6.7%

* Hard Currency USD, ** USD Unhedged, including the USD currency expectation towards EM currencies.

Expected Returns figures are in local currency, for aggregate index the index reference is in USD as the local currency option is not available.

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Cascade Asset Simulation Model (CASM)

This long-term return forecast report is intended to provide some guidance for investor expectations. The time horizon under consideration is 10 years, a period deemed to be an appropriate timeframe, during which long-term trend factors and issues can reasonably be expected to play out, and therefore, market returns should accurately reflect this information. We use a Monte-Carlo methodology in order to generate the possible changes in different risk factors for the time horizon considered, representing the future states of these factors under objective measures. The resulting model is then used to price the instruments in line with these factor scenarios.

In order to determine possible interest rate scenarios, we analyse the changes in the major economic DM regions. We used a cascade-style modelling technique for simulating the different term structure, using risk factors such as the GDP cycle, inflation, real rates and slope for each of the economic regions in question.

Moving into spread-related assets (EM bonds and corporate bonds), we focus on implied volatility, quality, default and recovery rates, together with economic cycles, to estimate a forward-looking path for EM bonds (hard currency), EU corporate (IG and HY) and US corporate (IG and HY).

Our framework on equity focuses on earnings growth and price earnings, as a determinant of capital gains and dividend yields, to represent the income effect; these variables are analysed with the macroeconomic pillars of the model (the economic and inflation cycle).

Our medium/long-term model, known as CASM, is updated on a quarterly basis to incorporate new starting points, our short-term outlook along with long-term trends, the significance of which is verified on an annual basis.

Our CASM model focuses on key factors, which drive this change over the medium to long-term; the resulting forecasts look at the comparison between current and long-term readings for the key factors included in the model.

Note that these are simulated figures only and may not represent actual asset class returns. Actual returns are based on many factors, and may vary substantially from modelled ones.

Important information

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