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. The war in Ukraine could evolve in several ways over the coming weeks (see Ukraine crisis tree) with significant implications on economic and financial markets

DOWNSIDE SCENARIO 30%

Renewed slump toward stagflation

Analysis

- Long lasting **war in Ukraine** is hurting confidence and activity, and pushes commodities and energy price higher for longer, and disrupting supply.
- **Covid-19** Omicron resurgence leads to renewed mobility restrictions and bottlenecks.
- Both triggers lead to an **economic downturn** while **inflation** remains elevated and uncontrolled.
- **Renewed monetary and fiscal accommodation,** 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 price temporarily higher.
- **Covid-19** becomes an endemic disease, with random contagion waves.
- **Global activity** to hold better than previous waves, but supply chain bottlenecks will remain until end-2022.
- **Growth** progressively abate to trend in 2022. Opening 2023's to downside risk. Soft patch in H1 2022 due to China's slowdown, negative impact of Omicron and accelerating inflation.
- 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 a light QT and initiating a hiking cycle; BoE in a soft hiking cycle, ECB recalibrating QE and potentially hiking rates in 2022; and 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 used to smooth the impact of the energy transition on households in the short term.
- **Climate change** bites into growth and pushes commodity and energy prices higher, adding to stagflationary trends.

Market implications

- Lower risk-adjusted expected returns real
- 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** more quickly than anticipated, despite variants.
- Extra savings and wage rises fuel **consumption** with low erosion of corporate margins.
- **Productivity gains** thanks to digital and energy transition 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 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 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**
- The extended war would hurt DM vulnerable public finance with public debt as a share of GDP already at historically high levels
- Most countries are vulnerable to rating downgrades and rising interest rates.
- De-anchoring inflation expectations could lead to a bond market dislocation and harsher monetary tightening
- 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 leading to western military confrontation and potential market capitulation

— **EU political fragmentation** and 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

— **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. 9***

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

- Credit & equity, EMBI

CROSS ASSET DISPATCH: Detecting markets turning points

Monthly update: The traffic light on sentiment has turned from green to orange

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

ECONOMIC BACKDROP

- The Ukraine war brings significant uncertainty in the macroeconomic context, linked to the development of oil and commodities prices and risks on the trade front. Both are related to the disruption of the war, sanctions and renewed supply chain disruptions as China implements new lockdowns.
- Inflation is set to grind higher for some months on higher energy food and in general commodity prices, impacting negatively consumers and businesses and, as a consequence, lowering the domestic demand outlook.
- Stagflationary risks remain prominent in euro-area in particular.
- While hard data do not show the impact of the war, yet confidence data started to deteriorate highlighting material downside risks to the growth outlook.

FUNDAMENTALS & VALUATION

- Liquidity will be less supportive to markets and higher rates are eroding the relative value considerations
- Inflation like is another headwind to multiples expansion while expectations are still very optimistic at least in Europe.
- All in all valuations and current levels are vulnerable to potential negative surprise on fundamentals.

NEUTRAL + ASSET ALLOCATION

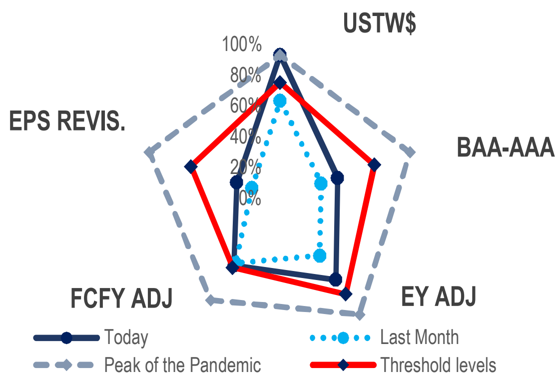
TECHNICALS

- Technical indicators keep lacking leading properties as of today.
- Most risky assets medium-term trends failed to flash a structural de-risking (trend following signals deteriorated sharply at the beginning of the month, before turning back to neutrality) and oversold signals were unable to sustain a structural re-bound.
- The current market environment keeps absorbing quickly dislocation opportunities. The deteriorating macro backdrop coupled with the need to normalize monetary policies is preventing the technical pillar to drive asset allocation decisions.

SENTIMENT

- Relaxation of geopolitical tension between Russia and Ukraine pushed most risky assets higher in the latest trading sessions of March 2022.
- Our risk sentiment indicators moves were consistent with the rise in volatility this time, with two out of three indicators (namely MoMo and Financial Conditions) signalling above average risk-off in the markets.
- CAST, on the other hand, is signalling how fundamentals resiliency would be key when deciding whether to fade or buy the recent rebound in the risk spectrum. Credit risk premium (Moody's Baa-Aaa) flirted with our estimated alert (100 bps) and sell-side EPS revisions are still positive, whilst deteriorating.

Cross Asset Sentinels Thresholds (CAST) still supportive



Source: Amundi Institute, Data as of 30 March 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 Growth and inflation macroeconomic forecasts

US • Growth is revised lower: Q4/Q4 22 from 2.5% to 1.9% , Q4/Q4 2023 from 1.9% to 1.7% , the key message here is that growth goes to potential and below potential sooner than expected.

• Inflation is revised higher: Core PCE, is now moving higher: from 3.2% Q4/Q4 in 2022 to 4.1%, while headline CPI Q4/Q4 upgraded to 5% from 3.5% on a combined effect from oil and commodities.

EA • GDP Growth: 2.3%Y in 2022 (was 3.4%), 1.8%Y in 2023 (was 2.1%) (annual averages). For 2022, H1 basically flat (0.1% QoQ), H2 small "recovery" as some of the drag from energy and inflation eases, based on our shared oil/commodities scenarios. An outright recession is not excluded at this stage, but more at country level than in EA aggregate.

• Inflation: 6.3% Y in 2022 (was 4.3%) , 2.6% Y in 2023 (was 2.1%). Peak in Q2 22 at 7.1% (quarter average), then slow deceleration (again, quite relevant the role of oil/commodities assumptions here).

UK • Growth is now revised lower from 4.3% to 3.8% in 2022 (carry over 2.6%), thus implying a very limited quarterly growth during the year, which is concentrated in Q1 (currently tracking at 1%+), followed by very weak growth in the following quarters as the inflation tax drags on consumption. Growth in 2023 is expected around approx. 1.5% (2% prior).

• Inflation is revised significantly higher, averaging 7.1% (5.7% prior) in 2022 and 3.5% (2.4% prior) in 2023, on stronger energy and food price dynamics. Peak is expected to occur around April, with Ofgem energy price cap increase of+54%. Another round will occur in October, but according to our forecast inflation should continue decelerate from Q2 onwards.

2 EUR/USD poised for more correction as the CPI/PPI ratio is expected to deteriorate further, due to the Ukrainian war

- Relative to international peers, the US is showing greater flexibility in passing higher input costs on to consumers.
- We see the Ukrainian war playing towards the same channel and deteriorating EUR productivity further relative to peers (CHF, USD, GBP are all much better positioned in the current juncture) as Eurozone's PPI may keep trending higher on the back of Ukraine war's impact on energy prices.
- EURUSD is also driven by the widening US-EUR yields differential and the increasing portion of the EUR yield curve shifting positive. Yet the net-productivity loss of the Euro area economy versus US is translating into structural deterioration in EUR medium term fundamentals. The currency may keep weakening in the months to come with geopolitics adding further pressure. In this context, CHF looks better positioned.

Investment consequences

- EUR/USD will have to absorb the shock, the valuation of the currency is expected to move lower, with, as a consequence, potentially greater weakness on the FX from current levels.

3 China policy stance post-NPC meeting

- The recent geopolitical events, influencing global demand and the perseverance of zero covid tolerance are overall growth-negative for China. We revised our 2022 GDP growth forecast down to 4% from (4.2-4.5%).
- While the cost pressure could slowdown the producer prices decline, consumer inflation is expected more muted amid a still subdued recovery in services demand.
- The NPC and other comments by officials confirmed a continuation in policy support to the economy as well as lately to the Equity markets (though short in details).
- Notwithstanding the recent blip, Credit growth should continue on its upward trend, government bond supply is expected to remain stable on the past year levels, and the Monetary policy easing is not over yet (additional LPR cut and RRR cut are expected soon).

Investment consequences

- Maintain long positive stance on China local government debt.

Covid-19 situation update

Pierre BLANCHET, *Head of Investment Intelligence*

While the attention of Western leaders is focused mostly on the war in Ukraine, Covid-19 and its Omicron BA.1 and BA.2 variants continue to make headway. In the United Kingdom, the number of reported cases is once again near the record set in late 2021. One out of 16 persons reportedly had the virus in England last week and 1 out of 11 in Scotland. In France, the number of new daily cases is almost 150,000, a level that would have triggered a nationwide lockdown just a few quarters ago. However, the ICU hospitalisation rate is still rather low, and the hospital system is not on the verge of saturation, as it might have been during previous waves.

In China, however, the virus's spread has pushed the authorities into imposing new lockdowns. This was the case at first in the region of Shenzhen, where large electronic component fabs are located, and, more recently, the city of Shanghai. China's financial capital is currently split in two, with the Huangpu river as the dividing line. Half of its 26 million people are being locked down until 1 April, and the other half of the city is expected to suffer an similar fate next week. The Chinese authorities' "zero-Covid" strategy is testing its limits, as locking down millions of people in key economic zones may appear, based on the official case numbers, to be disproportionate compared to Europe. The economic repercussions could be very serious for China's economic partners.

AMUNDI ASSET CLASS VIEWS

Platform	Asset Class	View	1M change	Rationale
EQUITY PLATFORM	US	=/+	▲	While we see pressures from higher inflation and removal of Fed support, we also believe labour markets are strong and consumer earnings and savings high. This, coupled with robust corporate balance sheets and domestic energy supplies, should mitigate the risks from rising energy prices. We continue to rely on our bottom-up selection process.
EQUITY PLATFORM	US value	+		Quality value names that show strong pricing power, a tendency to maintain earnings growth and operational efficiencies present selective opportunities, as we believe that valuations in this segment are still attractive. This should be complemented with relative value opportunities favouring names that reward shareholders through buybacks, dividends.
EQUITY PLATFORM	US growth	-		Valuations are still high in this group, but we realise that certain names are incrementally becoming attractive after the recent correction. However, rising rates will pressurise prices in the still-overvalued segments. We stay cautious overall.
EQUITY PLATFORM	Europe	-/=	▼	We believe rising PPI inflation may affect earnings, particularly for companies that are unable to pass rising input costs to consumers. Importantly, although markets have bounced back, current valuations do not reflect the deteriorating earnings outlook in the region. Thus, while staying balanced, we look for relative value and focus on quality, value, dividend spaces.
EQUITY PLATFORM	Japan	=		While prices for oil and other inputs in general could affect company margins, we are seeing accommodative policies. The evolving Covid situation is another key factor that causes us to stay vigilant on earnings.
EQUITY PLATFORM	China	=	▼	Latest Covid-19-related lockdowns in two main cities of Shenzhen and Shanghai could impact supply chains and growth. While government support remains strong and targeted (the recent NPC), we are monitoring how the Russia-Ukraine conflict affects the commodity importer. On a long-term view, we think the country presents strong bottom-up opportunities.
EQUITY PLATFORM	Emerging markets	=		Upward pressures on commodity/energy prices from the shock of the war (in Eastern Europe) could impact global growth and hence EM. However, the effects will not be uniform, reaffirming our view of fragmentation across the emerging world. We are positive on commodity exporting LatAm countries (Brazil) and the UAE, but are cautious on the Philippines.
FIXED INCOME PLATFORM	US govies	-		Recent indications from the Fed have tilted on the side of controlling inflation with a tightening stance, even as some pressures remain on the economic growth side. We remain defensive on duration, but maintain a vigilant stance as Treasuries could benefit from investors' search for safety. On TIPS, our exposure is limited.
FIXED INCOME PLATFORM	US IG corporate	=		We are selective in credit and are limiting our net duration exposure, given that the Fed remains on track to raise rates. IG valuations reflect difficult market technicals as well as robust corporate fundamentals. So, it is a tricky phase where new issuers are offering concessions, but investors should not lose sight of bottom-up analysis. We remain active and continue to explore securitised assets owing to strong consumer earnings.
FIXED INCOME PLATFORM	US HY corporate	=		HY spreads are expensive compared with historical standards, but fundamentals for the asset class are strong. Although the sector should benefit from higher energy prices, we are monitoring the markets for any signs of waning liquidity from the Fed's tightening bias. The need for selection is high.
FIXED INCOME PLATFORM	European govies	-/=		ECB aims to minimise the economic shock and at the same time tame stubborn inflation (aggravated by rising energy prices) and is thus displaying relatively hawkish overtures. While our stance is still cautious on duration (core Europe), we remain flexible in our approach across the curves and geographies, given the flight to quality. On peripheral debt, we remain watchful on fragmentation risks, given the ECB's hawkish stance and tensions from the Russia-Ukraine conflict.
FIXED INCOME PLATFORM	Euro IG corporate	=		Receding policy support from the ECB in an environment of high inflation and economic growth concerns allows us to stay neutral on credit. While repricing of spreads is making the asset class attractive, we stay very selective due to potential pressures on earnings growth and liquidity, and focus on relative value opportunities.
FIXED INCOME PLATFORM	Euro HY corporate	=		We believe HY has cheapened, but it is still away from fair value, given the prevailing risks. However, corporate fundamentals are strong, as some companies are deleveraging and default rates are also benign. We remain watchful of financial conditions, which remain easy for now, and seek to balance yield opportunities with liquidity and quality.
FIXED INCOME PLATFORM	China govies	=/+		Chinese debt offers diversification for global portfolios and could benefit from concerns over the country's economic growth and the accommodative stance of the PBoC. But we are monitoring any pressures on the FX component.
FIXED INCOME PLATFORM	EM bonds HC	=/+		With a preference for HY over IG, we maintain a strong bottom-up bias, but believe policy tightening in the developed world presents a headwind. We also keep a short duration stance and are seeing how the Russia situation evolves.
FIXED INCOME PLATFORM	EM bonds LC	=		We are actively managing our bond exposure towards issuers that look set to benefit from rising energy prices, but do so with a high focus on selection. On the FX component, we are cautious.
OTHER	Commodities			We are positive on commodities, especially base metals and gold (geopolitical uncertainty) as the current regime is becoming more inflationary. Oil prices should be supported by concerns over supply disruptions.
OTHER	Currencies			EUR/USD is likely to weaken in the near term due to productivity gains in the US and the latter's safe-haven nature. The regional currency may weaken in the months to come owing to geopolitical tensions (CHF better positioned on this front).

LEGEND

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Negative			Neutral	Positive			Downgrade vs previous month	Upgraded vs previous month

Source: Amundi, as of 24 March 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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