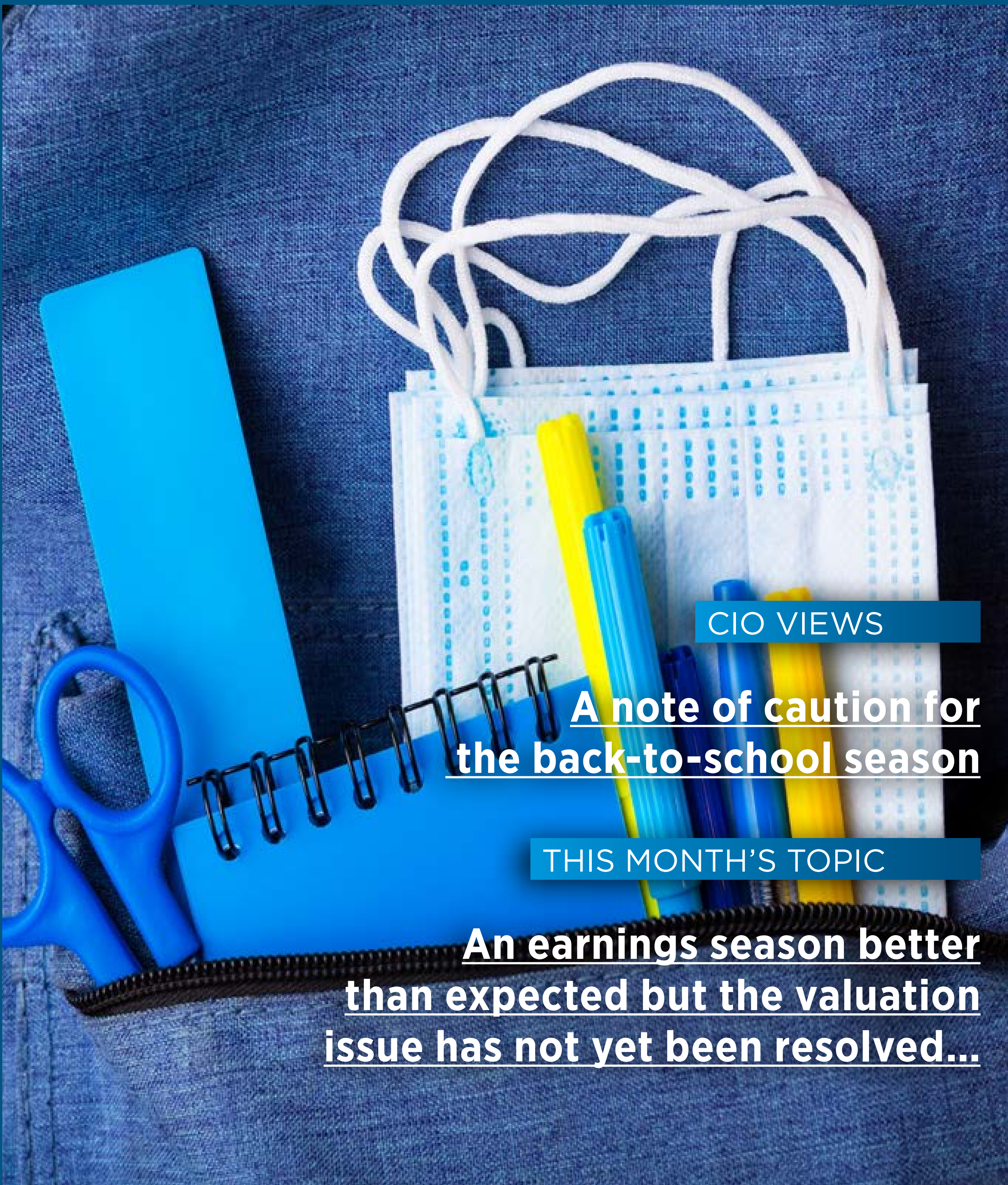
Amundi ASSET MANAGEMENT | Research

CROSS ASSET Investment Strategy

Monthly

09

September 2020



CIO VIEWS

A note of caution for the back-to-school season

THIS MONTH'S TOPIC

An earnings season better than expected but the valuation issue has not yet been resolved...

#09 - September 2020

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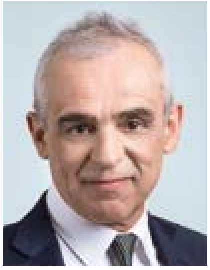
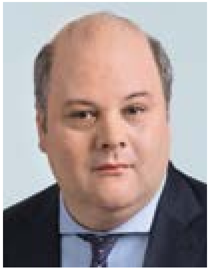
CIO VIEWS

A note of caution for the back-to-school season



PASCAL BLANQUÉ
Group Chief Investment Officer

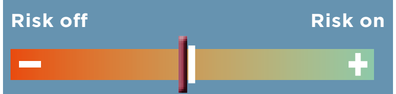


VINCENT MORTIER
Deputy Group Chief Investment Officer

The appetite for risk assets has remained strong over the summer lull. This summer season has seen both the **confirmation of existing themes and the emergence of new ones.** On the former, the decoupling between the real economy and financial markets has proved persistent. Another confirmed trend is that **the virus is not over**: the back-to-school test in September will be key. A sharp reacceleration of the virus cycle would hit the financial markets, leading to mounting expectations of additional support measures, and this would again drive markets. A W-shaped recovery would be the most likely scenario in this case. On geopolitics, the US-China confrontation has taken a new twist recently in the tech sphere. President Trump has to resist the temptation to break the trade deal, as this would be disruptive for the fragile recovery and markets, but he is likely to keep pressure high ahead of the elections. The Presidential race is still very uncertain and a Democratic sweep would be a market mover, possibly leading to higher volatility in the corporate sector. **For investors, the scenario is uncertain, with asymmetric risks**. Markets are becoming similar to their February conditions (high valuations and complacency). Many sectors are far from recovering to pre-crisis levels, many companies have been kept alive with subsidies and the level of debt in the system has ballooned. Risk assets are discounting additional stimuli, a near-term vaccine and any net positive benefit from Democratic policies. Any disappointment is a reason for caution, and all the more so with tight valuations. In terms of investment strategies, this means:

- **Investors should remain prudent, but not risk-off**: Autumn and the above mentioned risks could trigger a reality check, or at least limit any further detachment between the real and the financial world. Monetary policy will remain the guiding light for the markets, with the Fed sending the message that it will do whatever is needed to support the nascent economic recovery. This remains key for supporting risky assets, although **the bullishness we have seen over the summer is unlikely to persist.** All the elements that supported the risk asset rally are slowing down: the additional fiscal expansion is unlikely to be comparable to the first time, the same is true for monetary policy and the early signs of a recovery could be challenged. As risks are elevated, it will be vital to **hold well-diversified portfolios, with quality assets and adequate levels of cash buffers**.
- **In risk assets, the focus remains selectively on credit and EM bonds**: We remain positive on credit, with a note of caution for September in light of the heavy issuance in Europe and for bonds whose valuations are full. In Europe, financial and subordinated debt are the areas of focus, together with selective opportunities in TMT, energy and cyclicals. Euro peripheral bonds are also an area where we maintain a positive bias. In US, corporate credit is preferred, with a focus on carry. The US market also offers attractive valuations in securitised credit and value in subordinated and consumer ABS. In **EM debt, spreads have continued to narrow, but are still far off their pre-Covid tights. The discrepancy is particularly large between HY and IG.** We view the latter as increasingly expensive, while in HY we still see ample room for compression from current levels. However, a significant degree of selectivity is needed in EM and investors should be aware of idiosyncratic stories: Turkey's looming balance of payment crisis in September/October (negative); the finalisation of debt restructuring in Argentina and Ecuador (positive); and the Belarus crisis, which may potentially affect Russia sentiment.
- **Valuation dispersion in equities may offer opportunities**: Markets seem priced for perfection, but the valuation dispersion is extreme, offering investors selective opportunities to play the recovery. In Europe, construction materials is a fertile hunting ground as there are high barriers to entry and it is a key beneficiary of the Recovery Fund. Conversely, technology (software in particular), despite good structural growth, is not immune from the effects of Covid-19. Current valuations are extreme, suggesting that caution is warranted in this space. In the US, the divergence between the big five mega caps and high-growth large caps and the rest of the market is huge. This means investors should prepare for a leadership rotation, focusing on the high-quality value space. **Equities are still more attractive than bonds, but the direction of interest rates is a key element to watch**. Higher rates at the margin could challenge current valuations. On the rosier side, the US consumer balance sheet doesn't look that bad and the savings rate has gone through the roof. The cost of financing debt doesn't appear to be a problem, either, and real estate is now somewhat resilient and in better shape than expected.

Overall risk sentiment



Cautious and balanced stance, with a view to exploiting market imperfections and relative value

Changes vs. previous month

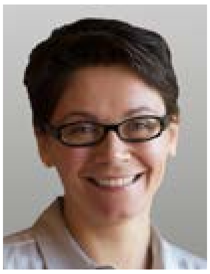
- Utilise valuation gap to gain from move towards cyclicals.
- Lock-in gains where appropriate in credit.

Overall risk sentiment is a qualitative view of the overall risk assessment of the most recent global investment committee.

MACRO

Growth and inflation expectations post Covid-19

MONICA DEFEND
Global Head of Research



ALESSIA BERARDI
Head of Emerging Markets Macro and Strategy Research

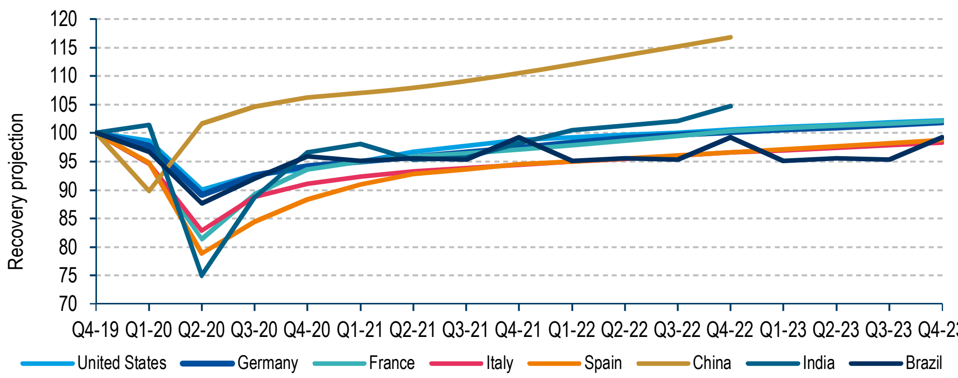
ANNALISA USARDI
Senior Economist, CFA

We have downgraded our growth forecasts for this year, but upgraded the numbers for 2021 driven by a stronger base effect. We believe inflation will be subdued in 2021, but will pick up next year

The ambiguous and unprecedented nature of the crisis has made economic forecasting difficult, underpinning the need for updates as fresh data comes to light**. We have slightly downgraded our growth forecasts for this year but upgraded the numbers for next year.** On the other hand, we believe inflation will remain subdued this year, with an uptick in 2021.

Official Q2 GDP data is now available, and therefore it is possible to properly assess the lockdown-induced economic contraction and reassess from the up-to-date starting point, the future economic outlook. **Global GDP is now expected to contract by between -3.5% and -4.7% y-o-y** (prior estimates -2.9% to -4.2%), led by downgrades in several countries. It is worth mentioning the **downgrade for the UK and a few south Asian economies** (e.g. Malaysia, Philippines) where Q2 GDP came in weak. The 2020 downward revision will trigger a stronger base effect in 2021: we therefore mildly **revised upwards our GDP growth forecasts for next year to 4.4-5.7%** (vs 4.1-5.1% previously). On the downward revision, we also confirm a slower recovery path in the second part of Q3. After a robust post-lockdown rebound in activity starting around May and early June, **the pace of recovery seems to have slowed and stabilised** between July-end and August, and this is visible in both soft and hard data. The recovery curve based on HFD gauges of production activity, the labour market and consumer sentiment* has begun to flatten almost everywhere, without reaching pre-crisis levels, with very few exceptions. After the losses experienced in H1, the Q3 recovery does not seem to be enough to bring the majority of economies back to their pre-crisis levels any time soon. **The bottom has passed, but economies do not seem to be climbing out of it quickly enough to ensure a fast healing**. In our view, economic performance will progress along a gradual upward sloping catch-up process. In the central scenario, this translates into **pre-Covid-19 levels not being reached before several quarters from now**, on average, with the exception of China, which will likely reach an end of 2019 growth level by end-2020 (see chart). A vaccine, expected by many analysts by mid-2021, would prevent temporary damages from morphing into long-lasting losses and would support the recovery via stronger confidence on households and businesses. In the meantime, localised new hotspots of virus resurgences may not prompt new full-scale lockdowns, yet do pose some risk to a smooth path forward. The combination of the lockdown-induced demand and supply shocks introduced **distortions in price dynamics far beyond seasonality**, as demand for "essential" goods and services skyrocketed, pushing prices up, while prices of "non-essential" goods and services collapsed. While these distortions are expected to correct, in the meantime they will still add some **volatility in inflation data in the months to come**, as these adjustments may come with unpredictable timing. **For DM, we expect inflation to remain subdued in the near term but to move higher next year** due to a combination of a) disappearing negative energy base effects b) the narrowing gap between output and input prices due to cost-push pressures and c) the vanishing base effects of VAT cuts, where implemented. However, this upward trend will stabilise around target, after peaking in mid-2021. In EM, inflation started to pick up in July, mainly driven by supply shocks. Goods and food, in particular, are still playing an important role in CPI baskets. The overall picture is expected to remain benign, bringing headline inflation within CBs' targets, however, the price dynamics are worth monitoring given the huge dovish efforts put in place by most of the CBs.

GDP recovery projections



Source: Amundi Research, as at 31 August 2020. China and India forecasts available till Q4 2022. HFD = High frequency data, CPI = Consumer Price Index, VAT = Value Added Tax, DMs = Developed Markets, EMs = Emerging Markets. * Electricity production, mobility data, job search etc.

MULTI-ASSET

Maintain balanced views to avoid extreme positions

MATTEO GERMANO
Head of Multi-Asset

Credit remains our main conviction in risk assets. Hedging against an uncertain back-to-school phase remains key, in our view, to protecting portfolios

As we progressed through this summer's earnings season, we saw the pandemic resume in some parts of Europe as well as an escalation in US-China tensions, possibly linked to the upcoming US elections. On the other hand, the news around vaccines, economic data and corporate earnings (better than the very low expectations) drove the markets. While we acknowledge the marginal improvement in economic conditions, we believe, it is not a time to be extremely ebullient. At the same time, it is not advisable to be completely risk-off. Instead, investors should adjust their portfolios to deal with asymmetric risks. Overall, **a balanced, defensive and diversified stance is preferred.**

High conviction ideas

In DM equities, we have become more constructive on Europe over the summer as the region appears to be in a better shape now, with strong growth and lower political risk. However, this should not come at a cost of a lower liquidity focus and investors should constantly monitor liquidity amid the second wave of the virus in the region and prospects of localised lockdowns. Across the Atlantic, political tensions in the US, both within the country and with China, seem to be ratcheting up in an election year, leading us to maintain our cautious stance. In addition, US is displaying areas where valuations are extreme historically and they are driving up the entire market. **Selected emerging markets** have demonstrated a better containment of the contagion. Our regional preference remains for China, Indonesia, South Korea and Taiwan, not least because of the strong stimulus and sector exposure.

On duration, we remain close to neutral on US Treasuries as the Fed is likely to keep its ultra-loose monetary policy stance, which will prevent long-term yields from rising too much. In its latest policy minutes, even though the Fed refrained from providing guidance on forward rates and yield curve control, we believe we are already in a curve control environment of sorts. We still prefer the US 5Y vs. the German 5Y bonds, as relative value is even more in favour of the US now due to its safe haven status. However, we are now monitoring the 5-30Y curve which is still driven by sentiment. With respect to US inflation, we maintain our positive view in light of attractive valuations and support from the still nascent recovery.

Euro peripheral debt remains attractive amid the collective support from the EU initiative and accordingly we are slightly positive on Spain. **Credit is an oasis of income for investors** in the yield-starved fixed income world, where we maintain a preference for IG (especially in Europe) over HY, but selectivity is key. In general, valuations in IG are attractive vs HY, particularly US HY, when compared with fundamentals and the continued central bank support. **EM debt**, where we remain neutral, seems to be the only cheap asset class in terms of spread in fixed income, but requires active selection. In **EM FX**, we are positive on selective high yielding currencies, given that they will benefit from a risk-on sentiment; however, we remain watchful of any tension around the US-China geopolitical environment or oil price wars.

On DM FX, given the low visibility, it is prudent to remain positive on NOK vs EUR as the former could provide an upside if the economic situation improves.

Risks and hedging

A second wave of Covid-19, limited or no progress on Brexit talks and uncertain US elections all present risks to portfolios. Investors should maintain sufficient hedges in the form of JPY and gold. However, given the already sharp movement in the precious metal, gold prices should be actively monitored. USD options may also serve as a safeguard against downside, as we expect the USD to strengthen in a risk-off environment.

Amundi Cross Asset Convictions

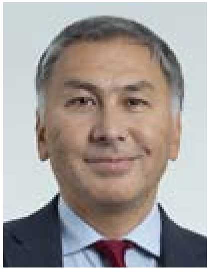
	1 month change	---	--	-	0	+	++	+++
Equities				□				
Credit						■		
Duration						■		
Oil					■			
Gold						■		

Source: Amundi. The table represents a cross-asset assessment on a three-six month horizon, based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/++/+++). This assessment is subject to change. USD = US Dollar, JPY = Japanese yen, UST = US Treasury, DM = Developed markets, EM/GEM = Emerging markets, FX = Foreign exchange, FI = Fixed income, IG = Investment grade, HY = High yield, CHF = Swiss franc, NOK = Norwegian Krone, EUR = Euro, CBs = central banks, TIPS = Treasury Inflation-Protected Security, BTP = Italian government bonds.

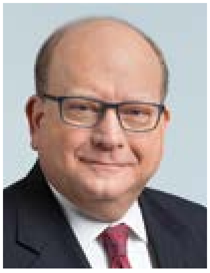
FIXED INCOME

Hunt for income, but stay mindful of pricey areas

ÉRIC BRARD
Head of Fixed Income



YERLAN SYZDYKOV
Global Head of Emerging Markets



KENNETH J. TAUBES
CIO of US Investment Management

Credit and EM debt, particularly high yield, offer the potential to deliver additional yield to investors. However, the focus on quality and liquidity should not be diluted

Markets are being influenced by the news flow around fiscal and monetary interventions, which continue to drive rates and spreads lower even though governments are scrambling to restore fiscal support in some countries. However, increasing debt levels, the risk of a second wave of the virus and geopolitical tensions in a US election year remain an overhang. From investors' perspective, while the temptation to move further down the credit quality spectrum for that extra yield remains high, **this should be balanced with the need for high selection and a focus on liquidity**.

Global and European fixed income

We refrain from making any strong call on duration, **carefully maintaining our close to neutral view overall (positive US, cautious Euro) and are now constructive on China.** Our focus is on relative value opportunities, where we are more optimistic on US vs. Germany and towards Australia vs. Canada. Euro peripheral debt remains attractive as political risks subside, although we believe investors should lock-in gains where appropriate. Amid a staggered economic reopening, we are only slightly constructive on inflation, as a spike seems unlikely in near term, but breakeven valuations remain attractive. **On yield curves**, we now see a higher possibility of curve flattening in the US and Japan and believe steepening is unlikely in core Euro as ECB will limit rate hikes. However, we now believe investors could benefit from UK curve steepening. In a world of lower-for-long rates, credit is one of the few areas where investors can get yield. **While remaining positive on credit in the medium term**, we think, for tactical reasons, there is need for some caution ahead of heavy issuance in September. We are constructive on financials and subordinated debt.

US fixed income

High frequency and real data remain encouraging even as the Fed maintains an easing stance. However, we are seeing a socio-economic divide among classes and between large and small businesses. While we realise a Democrat win could be a headwind for corporate growth, Trump should not be written off completely yet. **As a result, our overall stance is of caution, mixed with sufficient liquidity buffers.** We remain defensive on USTs (overvalued): increased UST issuance, a pick-up in economic activity and deficit spending are all elements to monitor. The last two are likely to push long- and medium-term inflation upwards. In corporate credit, we are positive but recommend investors to take profits in bonds and loans where valuations are full. **A strong housing market, and a resilient, deleveraged consumer**, bode well for the consumer and residential mortgage credit markets (attractive valuations). Here, we remain optimistic on non-agency RMBS and believe agency MBS are a good way to gain UST exposure as they provide liquidity. We also like uncorrelated assets, such as ILS and TIPS.

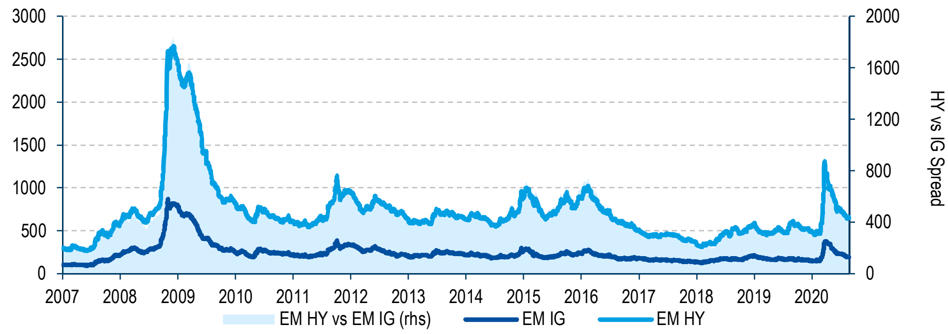
EM bonds

Hard currency debt remains our favoured asset class. In HY, we think there is still ample room for further spread compression, while we view IG as increasingly expensive. We remain positive in EM rates overall, but are selective.

FX

We remain constructive on EUR/USD (EU agreement) and positive on JPY/USD but believe GBP could remain weak amid a hard Brexit. In EMs, we are more positive towards Asian FX (first-in, first-out), but neutral on commodity FX and we prefer relative value trades.

EM IG vs HY credit spreads



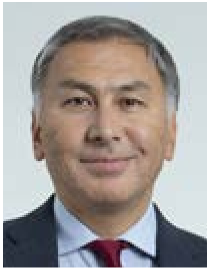
Source: Bloomberg, daily data as at 25 August 2020. Analysis based on ICE BoFA indices.

GFI= Global Fixed Income, EM FX = Emerging markets foreign exchange, HY = High yield, IG = Investment grade, CHF = Swiss Franc, EUR = Euro, USD = US dollar, UST = US Treasuries, RMBS = Residential Mortgage Backed Securities, ABS = Asset Backed Securities, HC = Hard currency, LC = Local currency, TIPS = Treasury Inflation-Protected Security, GFC = Global Financial Crisis of 2008, JPY = Japanese yen.

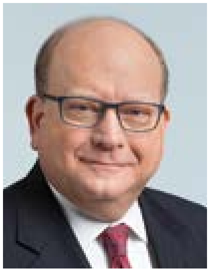
EQUITY

Time of huge contrasts: play market dislocations

KASPER ELMGREEN
Head of Equities



YERLAN SYZDYKOV
Global Head of Emerging Markets



KENNETH J. TAUBES
CIO of US Investment Management

We are cautious on high growth stocks with extreme valuations, and prefer quality and cyclical names

Overall assessment

Abundant liquidity lifted equities higher over the summer, supported by Q2 earnings season that turned out to be stronger than depressed market expectations, implying potential for positive earnings revisions. We are seeing an extreme valuation dispersion with significant underlying differences among stocks and sectors (expensive technology names vs materials for instance). The uptrend appears uncertain as current levels seem to fully price-in an economic recovery, and to some extent a vaccine availability. Corporate solvency is another risk as the "whatever it takes" rhetoric has left investors complacent. This, coupled with limited forward guidance, underpins the need for caution with an attention to company balance sheets, extensive scenario analysis and balanced portfolios.

European equities

Our focus **on stock selection, robust bottom-up discipline and liquidity** is evident through our stance towards cyclical luxury and materials sectors, where we reinforced our positive view on construction materials. The latter experiences high barriers to entry, non-disrupted businesses, attractive valuations and has seen strong earnings revisions. It will also be a key beneficiary of the EU Recovery Fund, which could provide additional upside potential. On the other end, we also see prospects for attractive defensive names such as in healthcare. However, we are cautious on consumer discretionary (retail, media, auto) owing to structural weakness, and on technology. Technology offers a very expensive source of structural growth, and has excessive valuations and implied expectations in our view. We also view the current low-rate regime is negative for banks, where return on tangible book value remains weak.

US equities

US equities continue to offer better value than bonds and this explains investor appetite for this market which is reaching record highs despite the uncertainty around a second wave of Covid-19, the November US elections and tensions with China. Looking at fair valuation for the overall market, we see the tech sector is reaching some extremes and thus requiring caution.

We have a balanced view across sectors due to the wide range of outcomes from the Covid-19 and the presidential elections. We are exploring quality names in industrials that are not subject to the challenges of permanently low rates. We also still prefer industrials to financials/energy, and staples/utilities (attractive valuations now) to real estate.

In light of the increasing valuation divergence between mega caps and the high growth large caps vs. the rest of the market, **we are constructive on high-quality value names.** We like stocks with the potential for high returns and balance sheet/secular advantages, and are even willing to look for quality in the lower rungs of the large-cap universe. However, we remain cautious on distressed value and high-growth names.

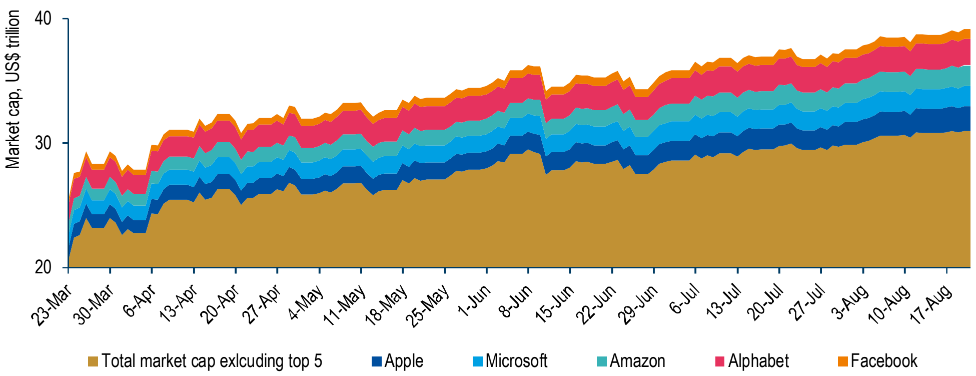
EM equities

A coronavirus resurgence and unstable US-China relationship are weighing on EM outlook, pushing us to remain cautious.

We favour countries in Asia (Korea, China) as they proved to be the first ones to navigate out of the pandemic.

We like some inexpensive EMEA countries and/or those with good dividend yield prospects (Russia, Poland). At sector level, we recommend a balance between growth and value areas, with selectivity in discretionary, industrials, materials, tech and IT.

S&P 500 market cap from 23 March 2020: Big 5 and the rest



Source: Amundi, Bloomberg as at 21 August 2020.

THEMATIC

DIDIER BOROWSKI
Head of Global Views

PIERRE BLANCHET
Head of Investment Intelligence

Little change on the economic front… but the political landscape has dramatically evolved

Back to school, back to politics?

The macro-economic backdrop has improved, albeit at a slower pace more recently. The European response to the crisis has further strengthened investor sentiment. However, the political picture has changed over the summer in the US and deteriorated in emerging markets.

As Back to School season kicks off, we see little change on the economic front…

A recovery is underway, but it is not a "V-shaped" rebound. The epidemic is clearly not under control yet and a "W-shaped" scenario can no longer be ruled out. Conversely, progress in vaccine research and better medical treatments of the disease provide a glimmer of hope.

On financial markets, real interest rates have declined further into negative territory (in the US in particular) on the back of higher inflation expectations and sizeable Central Bank (CB) bond purchases. Low real interest rates have been (and still are) **one of the main supportive factors for risk assets.** We expect this to continue.

ECB and Fed activism is here to stay. In the absence of inflationary threat, nominal rates are under control. If inflation rises a bit, CBs will not abandon their QEs. In the Eurozone (EZ), there is some evidence that the negative interest rate policy has fuelled loan growth with limited side effects. In other words, positive effects have dominated so far. In the US, the new strategy revealed by Chair Powell at Jackson Hole (average inflation targeting over the cycle) means that a "low for longer" rate policy has been formally adopted by the Fed. A similar approach is likely to be adopted by the ECB at some point. This means that government bond yields will continue to decouple from their fundamentals for an extended period. **Thanks to this unprecedented long-lasting central bank support, governments are continuing to support their economies without worrying** about debt overdose or rising bond yields. It's therefore more of the same on the macro front.

… the political landscape has dramatically evolved since June.

The July EU summit brought cohesion to European policy response, but risks have resurfaced. The **EU Recovery fund is a strong positive signal** for markets and a sizable fiscal push. However, **a few things could still go wrong**: disagreement over supply-side reforms, lack of eligible investment projects and red tape delays. In addition, **the Brexit cliff theme is set to rise again from September on.** We expect Free Trade agreements (FTAs) for most goods, but only sector-by-sector agreements on services by the end of the year. And yet, no-deal risk is high with negative spillovers on business activities. Meanwhile, geopolitical tensions have arisen at the European border. After Ukraine, Belarus may further weaken an already fragile relationship with Russia. **Turkey has become Europe's Achilles heel.** In addition to the already deteriorated macro-financial situation, tensions with Greece have emerged over the summer (dispute over drilling rights).

The US election will take centre stage over the next few months, although both the Democratic and Republican conventions have promoted more "measured" positions than initially feared. On the Democratic side, **Biden has confirmed a centrist stance.** In particular, regulation/dismantling of big techs (one of the most disruptive topics for the markets) should not be on the agenda. A Democratic senate looks less likely, which would prevent a "Biden" administration from raising taxes significantly (the number one fear for the US equity market). The Republican platform remains vague at this point. But its general tone is no surprise (less taxes, more deregulation, more reshoring of US companies located in China, deglobalisation, less interventionism, less immigration). And with the polls showing the President Trump campaign regaining momentum, we believe the uncertainty on the outcome of the election has reduced its embedded risk. After all, if the incumbent candidate had less and less chances to win, he might have become even more unpredictable with a negative impact on markets.

Instability risk within and among EM countries

The health and economic crisis, combined with the political situation in the United States (Trump moving away from multilateralism + incoming election), is potentially conducive to geopolitical stress and national instability within EMs. Authoritarian leaders are threatened by domestic discontent, and may try to "act" before the US elections to consolidate power or advance geopolitical objectives.

At this point, we do not see a natural candidate for a "systemic" crisis, but we must closely monitor the situation in many regions/countries: Libya, Greece/Turkey, Lebanon, Belarus, protests in Eastern Russia, India & China frontier dispute. For Turkey already on a very thin ice with domestic imbalances flashing warning lights, the dispute with Greece carry additional risks.

Finalised on 01/09/2020

THEMATIC

SERGIO BERTONCINI
Head of FI and FX Research

Eurozone government bonds A supportive mix of remarkable funding progress and ECB QE still to come

Funding progress looked quite encouraging at July end for Eurozone government bonds, as roughly 80% of estimated yearly net issuance have been placed, mostly (more than 50%) in just four months, between April and July. Putting remaining supply in perspectives with ECB flows, the technical picture for EZ government bonds looks friendly to the current environment of low core yields and subsequent, persisting search for carry.

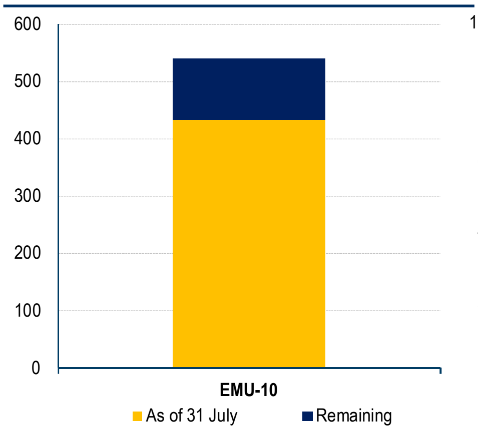
70% and 80% of overall gross and net EZ sovereign supply, respectively, estimated for all of 2020 was placed in the first seven months of the year

2020 funding progress: so far, quite good

On the back of the huge fiscal response needed to counteract the Covid-related global crisis, yearly borrowing requirements have suddenly jumped to record levels for all major sovereign debt issuers of advanced economies. Eurozone countries were no exception, and in a few months the sharp increase in projected fiscal deficits has led to a skyrocketing in gross and net issuance of public debt needed for all of 2020. Just to take a few examples, Italy's and Spain's net bond issuance on the year has increased by, respectively, 3.5 and 4 times vs initial yearly targets, while among core countries Germany's funding needs rose even higher, consistent with its huge fiscal stimulus. Revisions and heightened refunding needs, furthermore, came at the end of a first quarter with, on average, a lower increase in funding. This because the first two months of the year had been run based on previously much lower estimated refunding activity, while March, at the peak of the crisis, was quite challenging in terms of market conditions. This combination led to an even stronger acceleration in primary market activity in the second quarter and in July. In the four months from April to July, in fact, unusual and unprecedented efforts were made by treasuries of all EZ countries to rapidly meet higher funding needs. These efforts were undoubtedly effective thanks mainly to ECB activism on the demand side and to monetary policy's indirect supportive effects for private investors' demand for sovereign debt, mainly among banks.

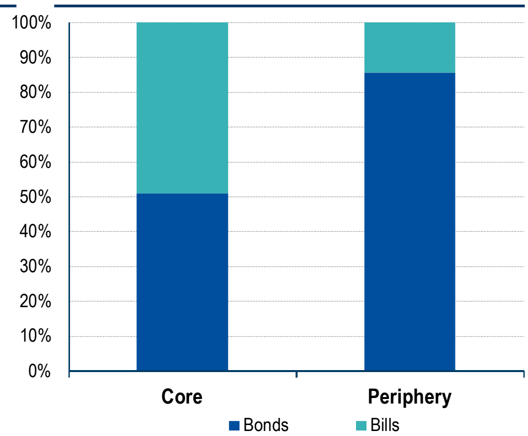
Moving closer into the numbers, 2020 funding progress looked quite encouraging in late July. **In a nutshell, 70% and 80% of overall gross and net EZ sovereign supply, respectively, estimated for all of 2020 was placed in the first seven months of the year**, with quite broad progress among different countries (see chart 1). While the "big four" – namely Germany, France, Italy and Spain – still have limited remaining net supply to be placed, other countries have already reached their yearly net targets or even surpassed them. As we were anticipating, most of the issuance (more than 50% of yearly volume) came from April to July, as the end of March saw only 28% of EZ public debt net issuance being placed. We guess it is worth considering that this jump in supply did not prevent bond markets from rallying. EGB's average YTM fell from a 50 bps peak in April to -3 bps as of end-July, meaning that record issuance volumes concentrated in just a few months were more than matched by stronger demand.

1/ **EMU-10 ytd and remaining estimated net issuance of sovereign bonds**



Source: Bloomberg, Amundi Research
Data as of 31/07/2020

2/ **Ytd (as of July 31st) sovereign debt net issuance breakdown by bonds and bills, in %: core vs periphery countries**



Source: Bloomberg, Amundi Research
Data as of 31/07/2020

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Numbers reported in the chart 1 are relative to M/L term bonds and aggregate numbers of the following 10 countries: Germany, France, Italy, Spain, The Netherlands, Belgium, Austria, Finland, Ireland and Portugal.

Different funding mixes between core and periphery countries, reflected in different ECB WAM purchases

Extraordinary funding needs produced by the Covid-crisis were matched by quite different funding mixes between core countries on one side and periphery countries on the other. As in the aftermath of the GFC and the sovereign crisis, core countries turned to sizeable issuance of bills and short-dated government bonds, while periphery countries continued to prefer mid and longer dated bonds, in order to keep average debt maturity high and reduce next years' refunding risk. Reported figures (chart 2) show that year-to-date net debt issuance is split almost 50-50 between bonds & bills for core countries, while periphery mix is 85% weighted in bonds. Details on major countries show Germany even reaching a mix of 25-75 mix in favour of bills so far, while France's mix looks more balanced between the two. This different mix was reflected in ECB purchases, too, as Germany (and the Netherlands) saw the lowest QE WAM of any Eurozone countries.

On the back of available refunding announcements and numbers released so far, we project that the year-to-date picture is quite representative of the overall expected mix for all of 2020. The remaining months of the year are still likely to show a tilt in favour of short dated-instruments for German debt, while the French balance shows limited needs left in bond refinancing and the "bill side" almost done is not going to change significantly. As far as periphery countries are concerned, we should expect current funding mix to be confirmed around current weights by year end.

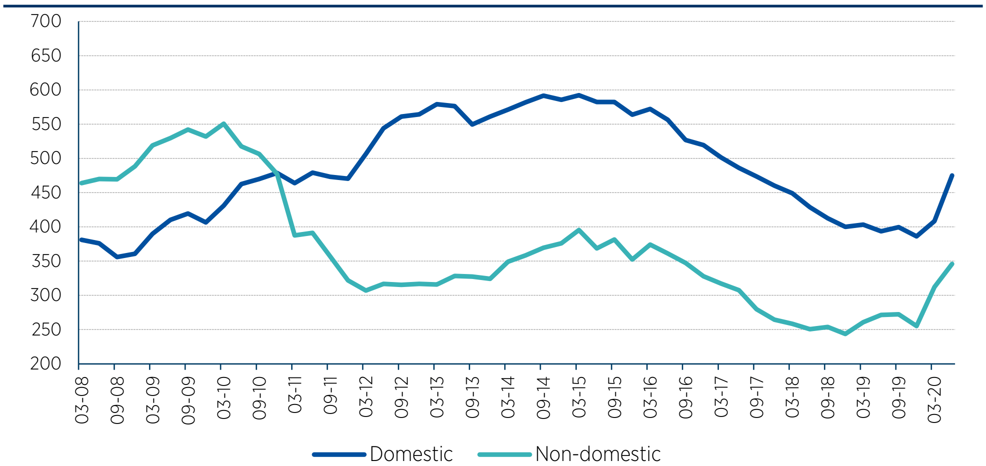
On the demand side, core banks increased their holdings of both non-domestic and domestic government debt quite evenly

The role of MFIs on the demand side

Eurozone banks have purchased record amounts of government debt in the post-Covid months. According to ECB data, MFIs' holdings of government debt increased by EUR 330bn in H1-2020, with a jump of 22% vs December 2019 levels. Most of the increase, roughly EUR 250bn, took place from March to May alone. During these three months banks bought a volume of public debt not so far from the correspondent EUR 268bn purchases accumulated by the ECB. The pace slowed in June, but there was still an additional increase in banks' holdings of EUR 37bn.

The role of MFIs in supporting domestic sovereign debt in challenging times is not new. However, the interesting part of the present story is that for the first time in years, core banks increased their holdings of both non-domestic and domestic government debt quite evenly, respectively by EUR 91bn and EUR 89bn in H1-2020. As the reported figures (chart 3) show, one of the key characteristics of MFIs' behaviour in recent years has been quite a strong home bias, with banks' preferring their own domestic government debt. This trend, as we know, started during the Eurozone debt crisis with huge reductions in exposure of peripheral countries' debt from core banks, a trend that, to some extent, forced periphery banks to be even more tilted to their domestic debt, especially in volatile times. **We have now seen six straight months of increases in non-domestic government debt holdings.** No doubt, this trend was certainly supported by ECB QE & huge liquidity injections first and more recently by growing expectations of EU deal, both reducing perceived tail risks and representing incentives to cross-country flows in a sort of portfolio rebalancing channel of QE, something hoped for, but hardly achieved by the ECB for quite some time.

3/ EZ core banks: holdings of domestic and non-domestic sovereign debt (in EUR bn)



Source: Bloomberg, Amundi Research - Data as of 30/06/2020

THEMATIC

The past few months have pointed to some changes not only in that aspect but also in the link between banks and Long Term Refinancing with the ECB. Until February this year, LTROs/TLTROs facilities had been very much a sort of "periphery banks story", with Italian and Spanish banks accounting for the lion's share of reliance, and core banks on the opposite end, having a limited portion of existing TLTROs and owing most of the excess liquidity in the system, parked (actually charged at negative rates) with the ECB. Under this respect, first partially through March-May weekly LTROs and then mostly with June TLTRO, these roles changed (see chart 4). Overall, core banks moved from only one quarter to almost half usage of their TLTRO overall allowance with the ECB, for the first time surpassing periphery banks' outstandings. As of end-June, French banks showed higher TLTRO take-up than Italian banks, and German banks were at a higher levels than Spanish banks. Dutch banks, just to take another example, moved from just 26% to 67% of maximum allowance. Something seems changed for the better, for less fragmentation, both in the attitude towards a pure home bias on sovereign debt and on the use of funds made available by the ECB.

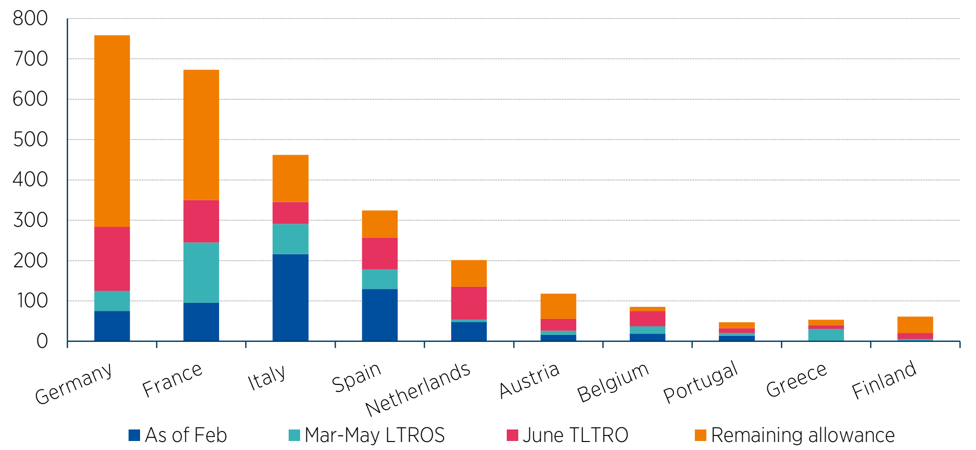
Eurozone sovereign bond net issuance, "net" of ECB purchases, should become negative in the remaining part of the year

The role of ECB demand in the remaining months of the year

Putting remaining supply in perspective with ECB flows, the technical picture for EZ government bond looks friendly to the current environment of low core yields and the subsequent search for carry. So far, according to our estimates, the ECB has covered for most of YtD net supply for many countries, reaching a proportion of 90% of bond net issuance. Assuming that most overall QE potential will be allocated to public debt (80%) through capital key rules, with a proportion of two thirds this year and one third left in H1 next year, the ECB purchases should more than cover for remaining fiscal needs over these last months of 2020. This would be the case for both core and periphery countries as far as M/L term bonds are concerned. In light of deviations accumulated so far, the assumption on capital keys looks to some extent hard to completely achieve by yearend, because that would imply a massive turn of ECB purchases towards German debt in just the five remaining months and quite a sharp slowdown in periphery flows. One implicit assumption of our analysis is that the ECB will make full use of the PEPP amount by June next year. This is also the baseline scenario underlined by the ECB President at the last meeting and also revealed in the minutes, as a condition of the alternative scenario of lower usage (PEPP size as a "ceiling") would be a significant upside surprise to the medium-term inflation outlook, a bar quite high in the current environment. Furthermore, an eventual partial "saving" of full PEPP power would likely take place more in Q2 than in Q1 next year. The assumption on time distribution of ECB purchases between this year (two thirds) and 2021 (one third) has both to do with the number of QE months and trends in fiscal needs. First, PEPP is going to last nine months in 2020 and six months in 2021 and PSPP + the EUR 120bn added envelope should be entirely a 2020 story. Second, fiscal deficits are projected to be much lower in 2021 than this year, in the case of some countries even halving from 2020.

Under the above assumptions, a closer look at the numbers of the two biggest periphery countries shows that ECB QE volumes still to come should more than cover for remaining limited net supply. By end-July, together with the additional net placement of more than EUR 20bn of Bills, Italy's net funding roughly reached EUR 130bn of its estimated yearly target close to EUR 150bn M/L term bonds. Likewise,

4/ TLTROs outstanding evolution, by country, after Mar-May weekly LTROs and June TLTRO



Source: Bloomberg, Amundi Research - Data as of August 2020

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Spain delivered overall net issuance of EUR 82bn of its EUR 102bn target, together with a net bill issuance of EUR 16bn. Each of the two countries is therefore are left with roughly just EUR 20bn in additional net funding needed to be done, while ECB purchases projected under previous assumptions should be close to EUR 40bn for both countries. It is also worth mentioning that these last numbers are calculated under a capital key allocation and that any deviation from that would mean a higher net negative issuance post-ECB purchases.

Among core countries, the demand/supply balance of France and Germany also looks better than so far. Year-to-date data show that cumulative ECB purchases covered for most of French bond net issuance and for most of combined bonds & bills net issuance of German debt. Under previous assumptions, forthcoming ECB demand appears higher than net supply for both countries, as well, with eventual deviations from capital key rules reducing the positive gap between QE flows and supply.

Conclusion

Eurozone sovereign bond net issuance, "net" of ECB purchases, was modestly positive in the first seven months of the year for most Eurozone countries. The sign should turn negative if the ECB doesn't significantly slow its path of purchases of sovereign debt in the last part of the year. This is true for both core and periphery countries. The PEPP increase, adapting QE overall firepower to cover also for most of next year's funding needs, made the programme much more effective and quite credible in its time extension. Together with huge TLTRO liquidity injection, its indirect supportive effects on private demand finally reduced the need for the ECB to act directly in support of public debt, therefore gaining flexibility at its disposal for the next months.

This flexibility could be used by the central bank in additional support of private programmes, or kept intact for action next year, or could work as a backstop in case of need, as yields are at lows and spreads have tightened not far from pre-Covid levels. It could as well balance an eventual, partial reduction of holdings by the banking system, as year-end approaches and in light of the sharp increase we referred to previously. Banks still have incentives to keep govies holdings in the current environment of very attractive funding facilities put in place by the ECB and negative rates charged on excess reserves, therefore probably limiting an eventual reduction in exposure.

This demand/supply backdrop is likely to support the present environment of low and negative yields in core countries at the same time to support the search for carry through periphery debt, despite the strong tightening in spreads delivered in the last months.

Finalised on 24/08/2020

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An earnings season better than expected but the valuation issue has not yet been resolved...

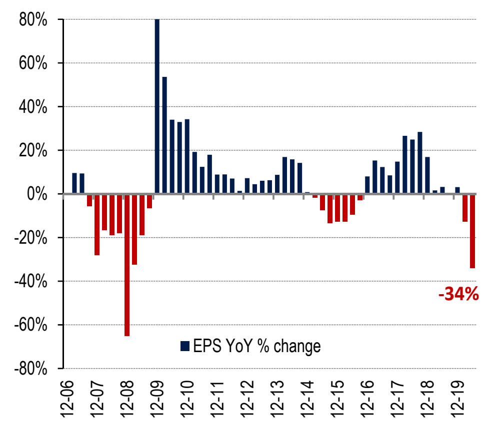
IBRA WANE
Senior Equity Strategist

There was a substantial decline in Q2 earnings but they turned out to be better than expected; their decline being ultimately less pronounced than during the Great Financial Crisis (GFC) of 2008-2009, whereas the current recession is much more severe. This surprising resilience is due in large part to sector aspects. Financial stocks have generally proved more resilient than during the GFC. Furthermore, the Healthcare and Technology sectors have emerged remarkably unscathed. The other side of the coin is that, without these last two sectors, the decline in earnings would have been much more pronounced. Given the revisions made and the achievements in H1, barring a new general lockdown episode, most of the consensus adjustment seems to be behind us. However, the valuation debate - excessive or not - is still far from being resolved. The duration of the crisis will be the key parameter in responding to this question.

An unprecedented decline since the Great Financial Crisis

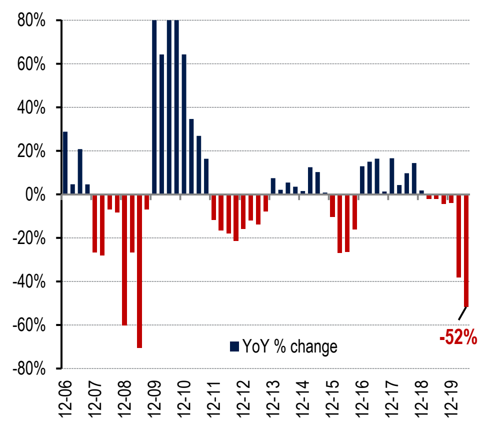
The publications for Q2 2020 literally collapsed, with a much more pronounced decline in revenues (-10% for the S&P 500 and -20% for the Stoxx 600) and earnings (-34% and -52%) than in Q1 and unprecedented since the Great Financial Crisis of 2008-2009, with the subprime crisis and the bankruptcy of Lehmann Brothers. Given the much longer duration of the lockdown than in Q1 – six weeks on average vs. two weeks - this further deterioration in earnings compared with the first three months of the year is not surprising.

1/ **S&P 500 Quarterly results**



Source: IBES, Amundi Research, August 11 2020

2/ **Stoxx 600 Quarterly results**



Source: IBES, Amundi Research, August 11 2020

The fall could have been worse...

Better than expected earnings following a combination of sector effects

Although substantially lower, these earnings were nevertheless much **better than expected** both in the United States (-34% vs. -44%, or +10 points) and Europe (-52% vs. -66%, or +14 points). Given the extent of the downgrades since 1 April (-30% in Europe, -22% in the United States), this "pleasant surprise" nevertheless needs to be **put into perspective**.

However, the real **"pleasant surprise"** stems from the fact that **the current decline is ultimately less pronounced than during the GFC,** whereas the current recession is much more severe than at that time. Accordingly, in Q2 2020, US GDP contracted by -9.5% year-on-year vs. -3.9% at the height of the GFC (Q2 2009). Similarly in the eurozone - the EU average not yet being known - GDP declined by -12.1% vs. -3.1% at its peak in Q1 2009 (and -5.5% for the EU).

This "good relative resilience" can be attributed primarily to a **combination of sector effects**. Firstly, unlike the GFC, **Financials are no longer at the centre of the crisis** this time. Moreover, **the Healthcare and Technology sectors have emerged remarkably unscathed** during the pandemic.

In the case of the **Financial sector**, its earnings plummeted (-54% in the United States and -43% in Europe in Q2) but there is no comparison with the extent of the losses incurred during the subprime

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crisis. Accordingly, in Q2 20, Financials only accounted for 30% of the decline in the earnings of the S&P 500 and 29% of those of the Stoxx 600. This remains significant but there is no possible comparison with 2008, where Financials alone caused 84% of the decline in the earnings of the S&P 500 and more than 100% of those of the Stoxx 600 (106%). Finally, not only have Financials proved more resilient, but their relative weighting is also much less than at the time of the GFC. Accordingly, at 30 June 2020, the sector accounted for only 15% of the capitalisation of the Stoxx 600 vs. 24% eleven years previously Similarly, Financials' share of the S&P 500 has declined by a quarter, from 13.5% to 10.1%.

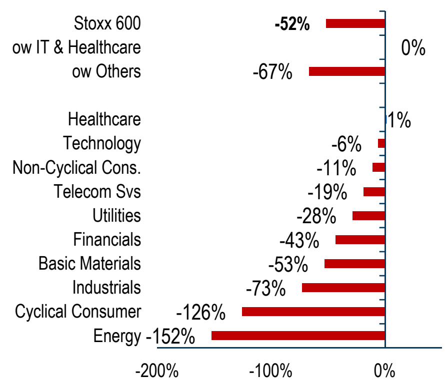
Financials proved more resilient than in 2008-2009

Conversely, the weighting of the **Technology** sector has increased substantially over the same period, from 18% to 27% for the S&P 500 and from 3% to 8% for the Stoxx 600. Moreover, the forced lockdown and the enthusiasm for home-working have been a tremendous accelerator for this sector, from upstream (semi-conductors) to downstream (end-users). Consequently, both revenues (+13% for the Stoxx, +4% for the S&P) and earnings in the sector in Q2 (-6% for the Stoxx, +2% for the S&P) stand out significantly from the general trend (Revenues: Stoxx -20%, S&P -10%, Earnings: Stoxx -52%, S&P -34%).

Given the nature of the crisis, **Healthcare** is the other major sector that has managed to emerge unscathed. Accordingly, on both sides of the Atlantic, the Healthcare sector has proved to be very resilient with earnings rising by +1.4% in Europe and +5.5% in the United States. In Europe, it is even the only sector to have seen an increase in its earnings in Q2 2020. However, the resilience of the Healthcare and Technology sectors conceals **a deteriorated situation in large areas of the market**. The average declines of the S&P 500 (-34%) and Stoxx 600 (-52%) therefore need to be put into perspective since, without these two sectors, the average falls by 15% to 20% (see charts 3 &4).

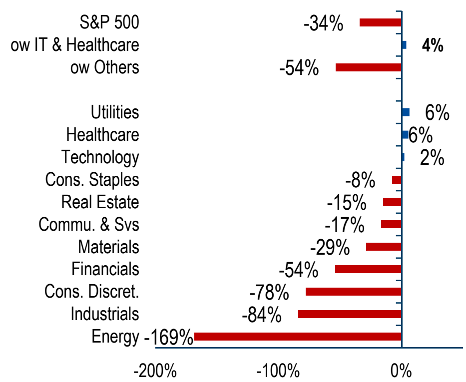
In addition to the generally highlighted macroeconomic aspects, **these sector aspects also largely explain the differences in earnings between the United States and Europe**. The S&P 500 benefits from much greater **exposure to the Technology** sector than the Stoxx 600 (27% of its weighting vs. 8%). Conversely, the weighting of the **Energy, Capital Goods, Luxury and Automotive** sectors, which have borne the full brunt of the crisis, is generally twice as high in Europe (20% vs. 9%).

3/ Stoxx 600: Q2 20 Earnings, (% chge YoY)



Source: IBES, August 11 2020, Amundi Research

4/ S&P 500 Q2 20 Earnings (% chge YoY)



Source: IBES, August 11 2020, Amundi Research

The same sectors in the front line on both sides of the Atlantic.

On both sides of the Atlantic, three sectors have been particularly affected: Energy, Consumer Discretionary and Industrials. We will return in more detail to the case of the first two which we consider to be very revealing.

Energy, Consumer Discretionary and Industrials have been particularly hit

In the case of the **Energy** sector, the Majors have not only been hit by plummeting crude oil prices and the decline in demand due to Covid-19 but they have also had to book massive provisions to take account of a sustainably lower price for a barrel of oil.

Accordingly, BP anticipating "the potential for weaker demand for energy for a sustained period … (or even)…an energy transition that could accelerate under post-Covid-19 stimulus plans" wrote down its assets by USD 17.5 billion in Q2, representing the equivalent of 20% of its balance sheet. ENI (USD 3.0bn), Total (USD 8.1bn) and Shell (USD 16.8bn) having basically done the same, the **European Majors** have booked no less than USD 45 billion of provisions in their accounts in a single quarter, representing (on average) the equivalent of 73% of their total EBIT for the whole of last year! Admittedly, these asset write-downs do not generate

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any cash outflow but, by reducing equity, they automatically increase debt ratios. In turn, this casts a shadow over the outlook for dividends, whereas this was one of the sector's main attractions. In the **United States,** while Exxon Mobil and Chevron both plunged into the red in Q2 (-USD 1.1bn and -USD 8.3bn respectively), it is mainly the situation of the shale oil or gas producers that is worrying. According to a study by Deloitte on 22 June[1], the sector may need to provision the equivalent of 50% of its net assets if low prices were to persist...

The **Consumer Discretionary** sector - which has also gone into the red in Europe and is among the largest declines in the United States - covers different **sub-sectors** with widely varying characteristics such as Luxury, Consumer Electronics, Automotive and Consumer Services. While the **Luxury** sector is usually a fast-growing sector and relatively immune to the cycle, this time it has been heavily impacted by the collapse of international tourism and the virtual disappearance of offshore purchases. Accordingly, after -15% in Q1, the total revenues of LVMH, Hermès and Kering plummeted by 39% in Q2, or -27% over the whole of H1. Similarly, their H1 earnings plummeted on average by -75%, which - even if these groups do not publish quarterly earnings - points to a loss in Q2, which would be unprecedented for this sector. More accustomed to crises, the **Automotive** sector was unsurprisingly also hard hit, with revenues down by -9% in Q1 and -38% in Q2, or -26% over the whole of H1. With sector margins very sensitive to volumes, this resulted in the collapse of the total Ebit (-61%) and net income (-88%) of BMW, Daimler, Fiat Chrysler and BMW from Q1 (Michelin, Peugeot and Renault not publishing quarterly financial statements). Given the further deterioration in activity in Q2, the decline in earnings for the whole of H1 was even sharper, with -108% for EBIT and -171% for net income. Finally, the prize goes to **Consumer Services** which covers in particular Hotels & Restaurants and Air Transport, two sectors affected first and foremost by the lockdown and the travel bans. Accordingly, Air Transport's total revenues fell by 87%(!) in Q2 2020, with peaks up to 99.6% for Easy Jet. Consequently, all the companies in the sector, including the most profitable hitherto such as Ryanair, have plunged into the red. Similarly, in the hotel sector, the two European companies in the global top 10 experienced a massive decline in their RevPar (revenue per available room) in Q2, with -75% for InterContinental and -88% for Accor.

Even Luxury was under pressure this time around

In the **United States**, Consumer Discretionary earnings also plummeted (-78%) albeit to a lesser extent than in Europe (-126%). However, here again, the differences can be attributed to a large extent to sector weightings. Thus, in Europe, the Automotive (22%), Luxury (46%) and Hotel-Leisure (11%) sectors together account for nearly 80% of Consumer Discretionary but only 26% in the United States. The remainder, corresponding to Retail (74%), and in particular to Internet Sales and direct marketing; a sub-category dominated by **Amazon**, which alone accounts for 43% of Consumer Discretionary and 4.8% of the S&P 500! Amazon having been much in demand during the lockdown, its Q2 earnings soared, with revenues (+40%), and net income (+100%) well above the consensus. Note, however, that without Amazon, Consumer Discretionary earnings would have plummeted by 98%, instead of 78%, thus approaching the 126% recorded in Europe.

The consensus has now largely adjusted ...

With nearly 5 billion of the planet's inhabitants simultaneously in lockdown at the beginning of May, the circumstances of **Q2 2020** were quite exceptional and this is therefore expected to durably mark the **low point** of the next publications.

However, the environment over the next eighteen months remains very uncertain. Between the unknown health factors (developments in the easing of the lockdown, second wave or not, discovery and availability of a vaccine, etc.), economic factors (developments in household and corporate confidence, etc.) and geopolitical factors (US elections, taxation, protectionism, etc.), economic analysts are balancing between all kinds of symbols to characterise the future recovery: V, W, U, L, square-root or even inverted-comma shaped recovery. In these circumstances, it is clearly difficult to give an opinion on the growth of future earnings.

However, barring a new general lockdown episode, most of the consensus adjustment seems to be behind us. Therefore, over the months, EPS revisions have reduced (see chart 5) and analysts' net-up has recovered (see chart 6). The net-up corresponds to the net balance of upward EPS revisions in total revisions. This indicator, which varies from -100% (all revisions are negative) to +100% (all revisions are positive), is more sensitive than EPS revisions as such. Consequently, it is used in addition to the latter in order to better anticipate trend changes. In the chart 6, we clearly see that after reaching a low point at -81% in mid-April, the net-up has now returned to neutral territory.

[1] *https://www2.deloitte.com/us/en/pages/about-deloitte/articles/press-releases/the-great-compression-implications-of-covid-19-for-the-us-shale-industry.html*

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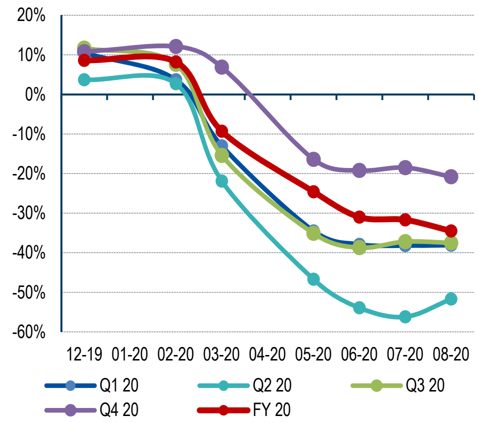
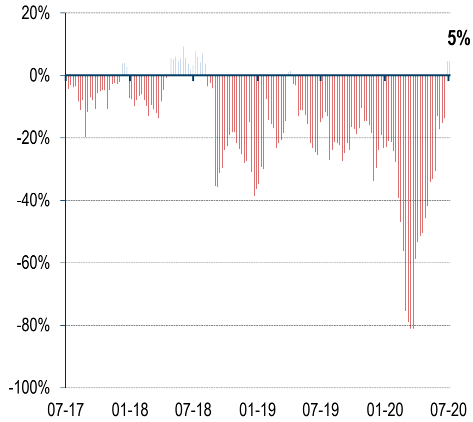
5/ Stoxx 600 Earnings estimates over time



Source: IBES, Refinitiv as August 11 2020

6/ Europe Earnings Revision momentum



Source: Datastream, Amundi Research, Aug 11 2020

The **Stoxx 600's bottom-up consensus** is currently expecting a **decline in EPS of -35% in 2020**, followed by a rebound of **+38% in 2021**. In other words, 2021 EPS is expected to be 10% lower than the EPS of the 2019 pre-Covid departure point. In our case, **we remain slightly more cautious regarding 2020** (-45%) due to the divergences in Q4 to which we will return. **However, we converge with regard to level for 2021**, where we forecast EPS down by 12.5% vs. 2019. (vs. -10% for the Consensus).

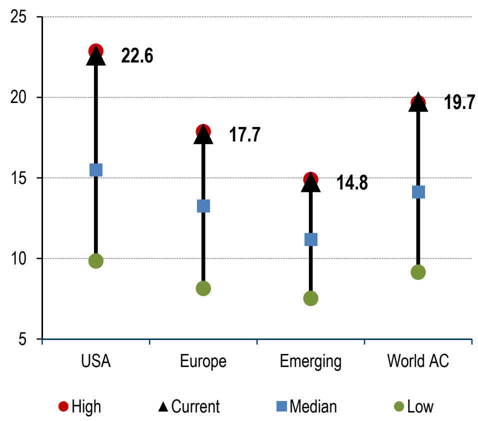
In the case firstly of **Q3** earnings, after the decline in Q2, they should see a sequential rise but continue to significantly decline year-on-year. In this respect, we share the view of the Consensus (-38% according to IBES, -40% according to our estimates). Apart from very defensive sectors such as Utilities, Healthcare and Telecoms, or Technology which is currently on a roll, the other sectors which together represent more than 70% of total revenues in Q2 2020, will be far from returning to their level of last year. However, we diverge significantly from the Consensus for **Q4**, with the Consensus expecting a decline of 21% vs. 50% for us.

In reality, the difference is less spectacular than it seems and is more of an accounting than an economic difference. Firstly, like the majority of observers, we assume that there will not be a second general lockdown and that the pandemic will be gradually controlled. Consequently, it seems logical to conclude like the consensus that the decline in earnings in Q4 should diminish (-21% in Q4, after -38% in Q3 and -52% in Q2). However, we believe it necessary to include significant **exceptional items** to this relative improvement in **operational performance**. Given visibility that is likely to remain very limited at the end of the year, we would not actually be surprised if companies made further asset write-downs (goodwill, deferred tax assets, brands, reserves, etc.) or restructuring provisions. Finally, half of the 50% fall in Q4 earnings that we anticipate, would correspond to current items and for the other half to exceptional items.

... but the valuation debate has not yet been resolved...

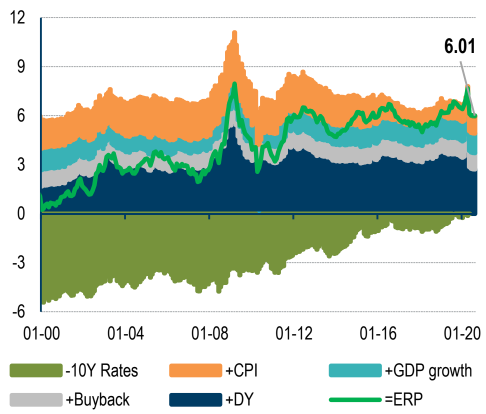
Whatever the precise trend in EPS in 2020 and 2021, given the extent of the earnings

7/ 12M Fwd PE from 2008 to 2020 (Aug 13)



Source: Datastream, Amundi Research

8/ European Equity Risk Premium (Aug 13)



Source: Datastream, Amundi Research

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downgrades over the last six months and the rebound in the markets since mid-March, valuation multiples have increased significantly. Accordingly, whether it is the 12M forward PE (chart 7) or the CVI[2], these indicators are at the highest or virtually highest level for twelve years, or even twenty years in the United States. However, the equity risk premium (chart 8) sends a completely different signal due to the nosedive in long term interest rates which makes it attractive. What should we therefore conclude? The response is not clear and the duration of the crisis will be crucial for deciding between these two views. If the crisis is intense but relatively short, investors, reassured by the monetary and fiscal support measures, should be able to wait. In other words, given the few alternatives (TINA), they would continue to overlook the poor earnings and rely on the conclusions of the risk premium. However, if the normalisation of the economy were to be disappointing next year or even worse durably called into question, then the market would have no alternative but to consolidate. Therefore, the next few months will be crucial. Q4 in particular will need to be closely monitored. However, for the moment the message of Q2 earnings is rather that of the glass half full.

Finalised on 14 August 2020

[2] *The CVI is an indicator combining Trailing PE, Fwd PE, Price to Book, Dividend Yield and Price Cash Flow*

Emerging markets Q2 earnings

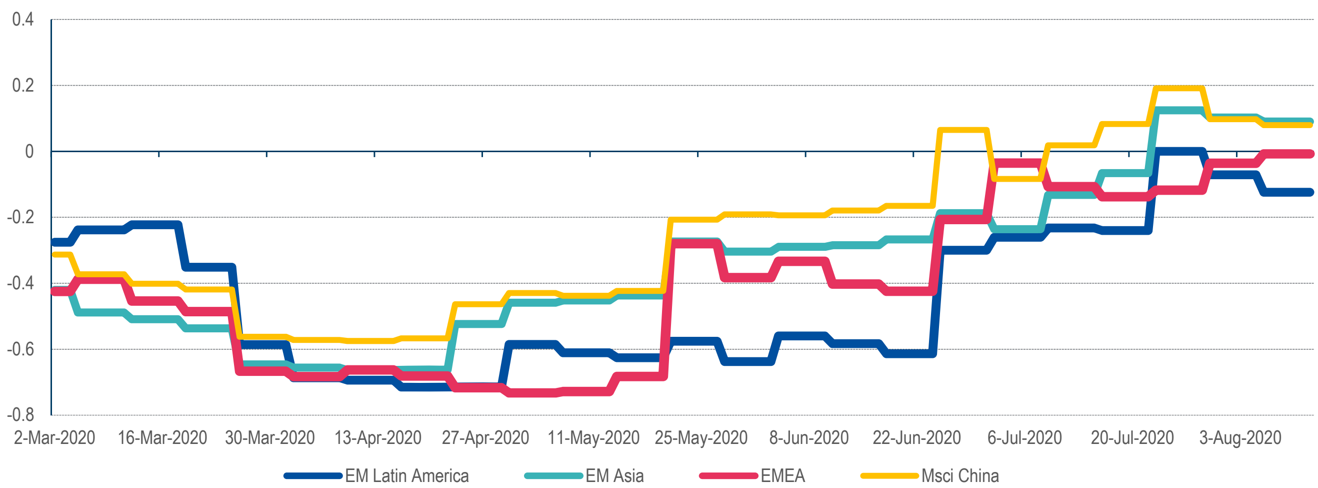
DEBORA DELBO', *Global EM Senior Strategist*

In the ongoing reporting season, Q2 2020 net YoY income growth is negative (at -6.6%) in local currency. Percentage YoY growth is negative almost everywhere, with the exception of few countries like Poland, Taiwan, Greece, China and Malaysia. Some 59% of total MSCI EM stocks put out positive surprises. Overall, the average percentage of surprises among all companies is positive and close to 20%. At the country level, negative average percentage surprises were in Russia, the Philippines, Malaysia and, marginally, Indonesia.

FY2020 earnings revisions continue to bottom out everywhere. MSCI China and EM Asia earnings revisions are now back into positive territory. In EMEA, they are close to zero. They are still negative (though improving) in Latam.

Trailing MSCI EM EPS growth decreased slightly to -19% (from -18% in July). Twelve-month forward expectations (Source: IBES) increased from +10% to +13% and are still high in China (+12%), Korea (+33%), South Africa (+29%), Turkey (+23%) and Taiwan (+12%). Expectations increased last month in Brazil (+18% from +2%) and Mexico (from +10% to +16%), as well. Our internal 12-month MSCI EM EPS forecasts (in USD) are still negative, though improving, at -6.9% YoY on weak world trade and Emerging exports dynamics in 2020, with a recovery expected to begin in 2021. Our oil price outlook is very close to the current level in 2020 and slightly higher in 2021.

FY2020 Earnings Revisions (IBES)



Source : IBES, Amundi Research

CENTRAL & ALTERNATIVE SCENARIOS

Monthly update

We marginally amend the narrative of our central and alternative scenario on the back of recent development. Recent data confirm a slower recovery path in line with our central scenario. We therefore increase the probability of our central scenario from 60% to 70% while reducing the likelihood of the upside alternative scenario from 20% to 10%.

DOWNSIDE SCENARIO 20%

Secular stagnation

Analysis

- Economic relapse (Q4 2020/Q1 2021).
- Policy accelerators in place but with diminishing impact: liquidity does not feed through to the real economy and the labour market suffers fading employment benefits.
- Economic crisis evolves into a financial crisis.
- Protectionism and deglobalisation accelerate, negatively affecting trade and global value chains.
- Vaccine efficacy is limited and/ or people's compliance is poor

Market implications

- Favour cash and US Treasuries.
- Favour gold, CHF, Yen, NZD.
- Use minimum volatility strategies.

CENTRAL SCENARIO 70%

Slow U-shaped recovery

Analysis

- Short-term rebound (Q3), flatter and gradual convergence to pre-crisis levels, with significant divergences on timing. Economic backdrop still in the grip of the pandemic as a vaccine won't be available before H2 2021.
- Credit fragmentation and rising default rates.
- Debt monetisation and ballooning CB balance sheets.
- Global trade recovers on economies re-opening, driving the global cycle as well as domestic engines.
- Widening social gaps and inequalities

Market implications

- Sideways dynamics prevent directional positioning.
- In fixed income, be active in duration management (favour US, EU peripherals), prefer carry to beta.
- Long BBB/BB, very selective on low high yield rated issuers, cautious on EM FX. USD to be monitored.
- In equities, for the rally to continue a widening of the market's breadth beyond the FAANGs is required. Prefer long-term winners, maintain the tilt to cyclicals.
- Favour gold on pervasive uncertainty.

UPSIDE SCENARIO 10%

V-shaped recovery

Analysis

- Economic activity recovers to pre-crisis levels by mid-2021 (US, Eurozone), with above-potential growth in H2 2020 and H1 2021.
- Pandemic almost eradicated with medical treatments for cure and prevention. A vaccine is available H1 2021.
- Monetary and fiscal stimuli feed through to the real economy and financial markets.

Market implications

- Favour risky assets with a rotation from credit to equity and commodities (oil).
- Favour linkers.
- Negative USD driven by negative interest rates and widening interest rate differential with the RoW.

Covid-19 update: managing summer tourists' way back

Over the recent weeks, the number of cases in Europe has continued to rise, in particular in those countries that have registered an increase of visitors during the summer break. It is also true, though, that there has been a ramp-up in testing, and we will need to wait mid-September to draw conclusions that are more indicative of the potential for a second wave. In the worst case, we do believe that lockdowns, if any, will be selective, as economies are too fragile to afford extensive shutdowns. In contrast, in the US the number of cases has fallen almost 40% since peaking in July, providing a boost to its equity markets.

On a more long-term perspective: medical treatment is improving, including the use of blood plasma from survivors. Despite the lack of trial data, markets welcomed the US regulators' approval of plasma transfusion. A much bigger focus is scaling up production of specific antibodies (more than 70 are now under deployment by different companies) that will likely have the potential for both therapy and prevention. These treatments (in the end more expensive than vaccines) will likely be ready for the next summer, while companies are working together to boost production that will have to be massive.

TOP RISKS

Monthly update

Risks are clustered to ease the detection of hedging strategies, but they are obviously linked. We maintain the overall narrative and probabilities on the risk outlook with the pandemic exacerbating existing fragilities and vulnerabilities.

ECONOMIC RISK 10%

Depression

– **No V-shaped recovery but a dismal labour market**
  - After a fast recovery the economy might slow down or even decelerate
  - While all policy efforts and social benefits have been activated to preserve personal income, the deterioration of the labour market might still derail the recovery

– **Inflation surprises**
  - QE programs may become problematic during a recovery when inflation enters the equation.
  - We have seen the Fed reducing its balance sheet expansion over the summer on the back of higher inflation prints
  - Inflation dynamics and the CB reaction function could be sources of uncertainty. In particular, EM inflation is at an inflection point but the trend ahead remains comfortable due to depressed demand (watch Turkey, India and Mexico)

– **A second Covid-19 wave**
  - The fast-growing number of cases in Europe raises the risk of a second wave during the back-to-school period
  - Although our ability to deal with the virus has improved significantly (e.g., treatment, health infrastructure, and social distancing), the fallout in sentiment, consumer spending and the economic recovery could be negative, and trigger a W-shaped recovery.

+ Cash, linkers, JPY, Gold, USD, Defensives vs. Cyclicals

- Oil, risky assets, AUD CAD or NZD, EM local CCY exporters

FINANCIAL RISK 15%

Financial instability

– **Mounting corporate vulnerability**
  - Prior to the Covid-19 crisis, corporate leverage reached levels above 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 spillover into the credit market and stress on banks' balance sheets

– **Sovereign debt crisis**
  - Public debt will rise as a share of GDP across most countries in the coming years, starting from already high levels in Europe, Japan and the United States. This could lead to rating downgrades and rising interest rates over the long term
  - Emerging market fragilities (single commodity exporters, tourism), could also face a balance of payment crisis and increase default risks
  - Risks incurred in implementing the European Recovery Fund should not be underestimated. Dissensions among EU members could bring back EZ periphery bond risk

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

- Oil, risky assets, frontier markets and EM

(GEO)POLITICAL RISK 15%

Covid-19 exacerbates political tensions

– **US elections and China tensions**
  - The US elections campaign and tough rhetoric from President Trump could exacerbate tensions with China.
  - The equally hawkish tone from Democratic Party brings new policy uncertainties to the bilateral relationship in a Biden-win scenario.
  - On top of the tech war & Huawei, the capital war on foreign holdings and reshoring out of the global supply chain, the situation in HK introduces risks of possible US sanctions on Chinese banks and exclusion from the USD system.
  - Possible accidental confrontations in the South China Sea or the Taiwan Strait

– **Instability within and among EM countries**
  - The health and economic crisis, combined with the US moving away from multilateralism and with incoming elections, are potentially conducive to geopolitical stress and national instability within EM.
  - At this point, there is no identified 'systemic' crisis with market impact, but a number of events are worth monitoring, including Libya, Greece/Turkey, Lebanon, Belarus, protests in Eastern Russia, and the India & China border dispute
  - For Turkey, which is already on very thin ice with domestic imbalances flashing warning lights, economic headwinds carry additional risks

+ DM Govies, cash, gold, linkers, USD, volatility, quality

- Oil, risky assets, EMBI

CROSS ASSET DISPATCH: Detecting markets turning points

How to the read turning point assessment

Not reached yet too early to call it | Approaching to the turnaround | Turnaround happened

ECONOMIC BACKDROP

- Operating conditions continue to improve with firms reporting strengthening business activity across an increasing number of major sectors.
- Service providers highlighted the weak global demand and the restrictive measures still in place across the globe as the key drags, disrupting in particular tourism and leisure related activities. Accordingly, divergences across sectors intensified recently.
- The recovery rate is moderating within the main Eurozone economies.

FUNDAMENTALS & VALUATION

- **Risky assets look expensive from almost all traditional metrics.**
- For equities absolute PEs look very high even considering high EPS expectations. Low Equity Risk Premium is still a valid argument thanks to extremely low interest rates and Central Banks balance sheet expansion.
- So far, CBs have prevented any negative spillovers of the recession on corporate default rates protecting credit investors and banks.

DEFENSIVE ASSET ALLOCATION

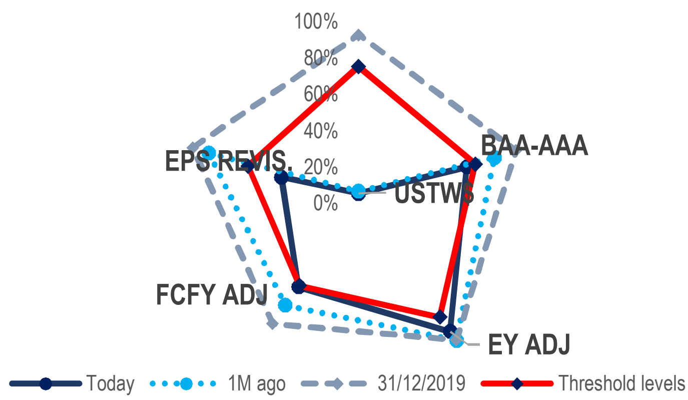
TECHNICALS

- Tactical signals (technical factors in addition to pure sentiment indicators) are **showing an improvement recently and momentum is still in favour of markets.**
- From a contrarian point of view, markets seem a bit stretched though.

SENTIMENT

- Financial conditions eased over the summer on the back of Central Banks' intervention i) banking system's health proxies (TED, Libor/OIS, Comm. Papers) are back to normal levels and, ii) corporate spreads have tightened further.
- **CAST component remains the main contributor in sentiment with almost all components in "ON" territory.**
- From a flow perspective (State Street data), the mood still in RISK ON territory with renewed appetite for high yielders (both corporate and sovereign) and equities lately.

Cross Asset Sentinels Thresholds (CAST) still supportive



Amundi Research, Data as of 25 August 2020

CAST flags extremely low risk perception.

Sentinels remain in pro risk territory due to a general improvement in all the components (except ERP adjusted for credit risk).

<u>Methodology</u> We consider five inputs which we call "Sentinels": USTW$, Moody's Baa-Aaa, EPS revisions, Earning Yield risk adjusted and Cash Flow yield risk adjusted. 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 visualizes 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 V shape recovery

We don't buy the V-shaped view markets are pricing in

- The fastest part of the recovery is over. A flatter, more gradual track will follow. The economic backdrop remains fragile and is still in the grip of the pandemic.
- Preliminary Q2 data were broadly in line with our expectations, with no major revisions on the growth front except negative surprises in Spain and Germany. Q3 GDP tracking seems to confirm our expectations of slowing momentum in late July, in line with a gradual recovery. The resurgence of cases is an emerging risk after a post-lockdown rebound in activity.
- After the Q1 and Q2 declines, the Q3 recovery does not seem enough to bring most economies back to normal. Economic performance will progress along a slow upward sloping catching-up process. A vaccine would avoid temporary damage morphing into long-lasting loss and reinforce the recovery.
- Policy measures in developed markets have primarily targeted households' income preservation with the prospect of a V-shaped recovery via different forms of employment benefit. We therefore see a risk in the transition towards 2021, when these benefits will progressively expire. Consumption remained resilient but will be likely be challenged in the event that labour market conditions deteriorate.
- In our central scenario, this implies GDP pre-Covid levels not being reached before several quarters from now on average, with China being the exception. This translates in our cautious projections on EPS growth that we expect to rebound in 2021 albeit to lower levels than expected by the consensus.

2 Eurozone debt market

Eurozone funding needs are almost covered for the year, lightening the pressure on ECB and allowing some relapse on asset purchase programs

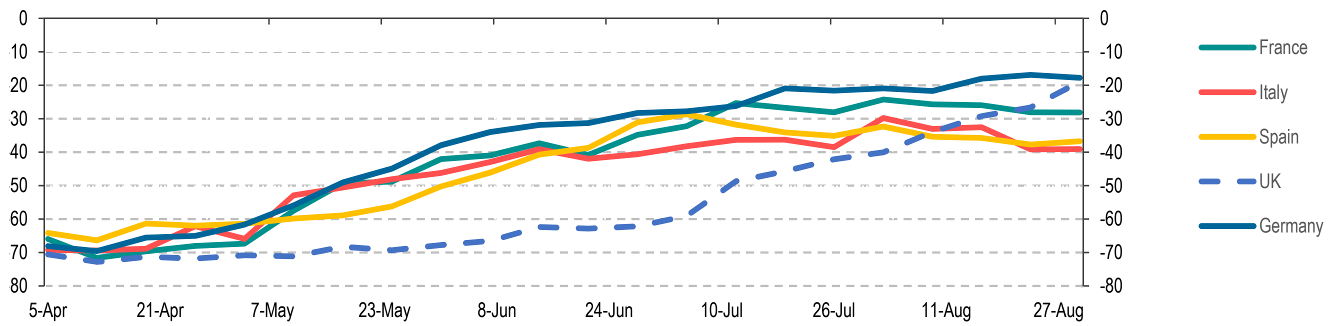
- The technical picture for Eurozone (EZ) government bond looks friendly to the current environment of low core yields and subsequent search for carry.
- According to our estimates, the ECB has so far covered for most of YTD net supply, for many countries reaching a proportion of 90% of bonds net issuance. Assuming that most of QE overall potential will be allocated to public debt (80%) through capital key rules, with a proportion of two thirds this year and one third left in H1 next year, the ECB purchases should more than cover for remaining fiscal needs until year end.
- EZ yields are at lows and spreads tightened not far from pre-Covid levels. As a result, the ECB is gaining flexibility to be potentially used to support private programs and keep sovereign bond purchase capacity for next year as a backstop in case of need or banks' year-end holding rebalancing.
- However, EZ banks are incentives to keep govies holdings in the current environment of very attractive ECB funding facilities and negative rates charged on excess reserves, which therefore limit an eventual reduction in exposure.
- This demand/supply backdrop is likely to support the present environment of low and negative yields in core countries, while, at the same time, supporting carry search through periphery debt.

3 Fragile momentum

Markets dynamic should be more sideways going forward

- We don't expect the global economy to get into pre-Covid levels soon, in the labour market (unemployment) in particular, and believe the market is pricing in an unrealistic V-shaped recovery.
- Valuations are highly distorted by central banks activities, and we consider current stock market levels are pricing in our base scenario fully. Slicing and dicing broad equity indices, we notice a highly polarized market that definitely offers opportunities for stock pickers but constitute a risk where extreme, too.
- We are therefore avoiding directional exposure to equities since the dispersion of returns and valuation between regions (mainly US) and sectors (Tech) makes the momentum fragile. We see rising political risk and macro imbalances in EMs.

Recovery Tracker



Source: Blavatnik School of Government, University of Oxford, ENTSO-E, OpenTable, ShopperTrack, Moovit App, Amundi Research - Data as of 30/08/2020

AMUNDI ASSET CLASS VIEWS

	Asset Class	View	1M change	Rationale
EQUITY PLATFORM	US	-/=		US equities continue to offer better value than bonds; however, the momentum and valuation divergence between mega caps and large caps vs. the rest of the market is extreme. This is despite the uncertainty around US elections and a resurgence of virus cases in some states. In this environment, it is important to remain balanced. We believe a leadership rotation is likely, and investors should look to high quality value names.
EQUITY PLATFORM	Europe	=		The economic environment is improving but the risks of a second wave of the virus have emerged that could affect a staggered recovery. The Q2 earnings season surpassed expectations which were already depressed, with very low forward visibility. As a result, valuation dispersions remain high. Looking ahead, investors should stay very selective and aim to identify resilient business models.
EQUITY PLATFORM	Japan	=		Improving prospects for global growth and a favourable environment for cyclical stocks should benefit Japanese equities, given the country's dependence on exports.
EQUITY PLATFORM	Emerging markets	=		Geopolitical issues such as US-China relations and the Covid-19 pandemic are the key factors affecting emerging markets at the moment and we favour countries in the Asian region (South Korea, China) in light of our first-in, first-out approach. Some countries in the EMEA region have attractive valuations and we also like those with good dividend yield prospects such as Russia and Poland.
FIXED INCOME PLATFORM	US govies	=/+		From a global fixed income standpoint, we prefer USTs for their safe-haven status but we don't make any strong call on duration overall. From a US portfolio perspective, we are cautious in light of certain factors such as pick-up in economic activity and deficit spending which could weigh on the market.
FIXED INCOME PLATFORM	US IG Corporate	=/+		Stimulus measures continue to support demand for IG, but markets are now already discounting the impact of additional stimulus and vaccine effects. We recommend investors to maintain appropriate liquidity buffers and take profits in bonds and loans where appropriate. Overall, name and sector selectivity is essential to avoid permanent impairment.
FIXED INCOME PLATFORM	US HY Corporate	-/=		While the Fed's actions should support this asset class, in order to avoid defaults and safeguard portfolios investors should focus on high quality and liquid names that can withstand a slow-paced recovery.
FIXED INCOME PLATFORM	European govies	-/=		We maintain our cautious stance on core Euro and remain positive on peripherals, although investors should lock in some gains. Core Euro yield-curve steepening seems unlikely for the time being, as the ECB should limit rate hikes amid subdued inflation.
FIXED INCOME PLATFORM	Euro IG Corporate	++		We are constructive on EUR IG, and believe overall defaults in European credit have been stable. The leverage of IG companies in the Eurozone remains lower than that of their US counterparts and overall cost of funding is also lower thanks to ECB support. While we maintain our positive view on financial and subordinated debt in IG, overall, we are keeping an eye on heavy issuance in September. All in all, selection remains paramount.
FIXED INCOME PLATFORM	Euro HY Corporate	=		The high-rated BB segment BB in HY still presents opportunities on a selective basis. We are cautious here and look for extra yield in names that can successfully emerge out of the crisis. As always, focus on liquidity is important.
FIXED INCOME PLATFORM	EM Bonds HC	=/+		We continue to favour Hard Currency (Euro over USD) EM debt. We see room for further spread compression in HY and are turning cautious on IG. Overall IG sovereign spreads are only 30 bps off their pre-Covid tights whilst HY spreads remain 300 bps above their pre-Covid tights. However, risks of sovereign defaults should be monitored.
FIXED INCOME PLATFORM	EM Bonds LC	=		We are neutral/cautious on EM rates and continue to believe that selectivity is essential. On EM forex, we are constructive on commodity currencies amid a staggered reopening of economies and an oil price rebound.
OTHER	Commodities			Economic recovery favours commodities, although uncertainties prevail over the evolution of the pandemic and possible lockdowns. However, recent macro numbers in China and the US remain supportive. In general, commodities are still the cheapest risky asset class, and may well benefit more than others from an economic recovery. Oil demand is expected to recover after collapsing by 11 million b/d in H1, and we project an oil price of $/b 35-45 for the WTI. In metals, the recent sell-off in gold (and silver) is related to the concerns of higher real rates, "normal" risk-on and the Fed pausing its assets purchases. However, CBs will remain extra dovish, preventing any painful sell-off going forward.
OTHER	Currencies			Central bank interventions, initiatives at national level and the EU recovery fund have stabilized sentiment towards EUR/USD, but, the path for USD correction as we move toward 2021 will not be linear and we could see a stabilization of the USD against the EUR. As far as GBP is concerned, the environment is more favourable for the EUR when we consider regional growth, financial conditions and political risk premium (Brexit).

LEGEND

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Negative Neutral Positive Downgrade vs previous month Upgraded vs previous month

Source: Amundi, as of 31 August 2020, 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.

DEVELOPED COUNTRIES

Macroeconomic outlook

Data as of 31/08/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	**3.1**	**-5.0/-3.8**	**4.8/6.0**	**3.0**	**2.5**	**2.7**
Developed countries	**1.7**	**-7.6/-6.1**	**3.6/5.3**	**1.5**	**0.8**	**1.4**
US	**2.3**	**-6.7/-4.7**	**2.7/4.7**	**1.8**	**1.1**	**1.6**
Japan	**1.2**	**-5.1/-4.5**	**2.1/2.7**	**0.7**	**0.1**	**0.5**
UK	**1.4**	**-11.5/-10.5**	**7.0/9.0**	**1.8**	**0.8**	**1.5**
Eurozone	**1.2**	**-9.4/-7.4**	**4.2/6.2**	**1.2**	**0.5**	**1.3**
Germany	0.6	-7.6/-5.6	2.6/4.6	1.5	0.7	1.5
France	1.2	-11.2/-9.2	6.0/8.0	1.3	0.5	1.2
Italy	0.3	-11.7/-9.7	4.1/6.1	0.7	0.1	1.1
Spain	2.0	-12.5/-11.5	7.5/8.5	0.7	0.1	1.2

Source: Amundi Research

- **United States:** A new Covid-19 outbreak in several states in July and August imposed more caution in reopening the economy, slowing recovery momentum. The labour market remain distressed. In the coming quarters, the US economy is expected to continue along a gradual and progressive recovery path, underpinned by easy monetary policy and a delayed new round of fiscal support. We expect quarterly growth to remain supported by recovering domestic and external demand, although uncertainty stemming from November elections may delay new investments. Inflation, which has been more volatile due to lockdown-induced distortions, will gradually return towards target, with temporary mild overshooting in mid-2021 due to energy base effects.
- **Eurozone:** Economic activity recovered fast in the early stages of Q3, although new Covid-19 hotspots in several countries during July and August prompted a deceleration in high-frequency indicators of activity. As schemes to avoid massive layoffs are still in place, the unemployment rate did not surge to all-time highs, but did increase nonetheless. Uncertainty linked to risks of new outbreaks may keep economic activity from returning to pre-crisis levels for several quarters, while we expect a gradual pickup in both domestic and external demand, supported by extraordinary easy monetary policy and counter-cyclical fiscal policies. Inflation will remain subdued in the near term, yet base effects and correction of lockdown-induced distortions will move inflation higher into 2021, but still below target.
- **Japan:** The economy continues to bounce back from the Q2 dip, albeit at a slower pace entering August amid a Covid-19 resurgence. The government has refrained from declaring another state of emergency, despite the fact that daily new cases have far exceeded the previous peak. Having said that, the risk of recurring epidemic waves adds uncertainties to the recovery path, together with a worse-than-expected GDP performance in Q2. We are therefore downgrading our full year growth forecast. Inflation will remain soft in the rest of 2020, given a negative output gap.
- **United Kingdom:** The UK continues to recover after the steep economic downturn of Q2. High-frequency data confirm the ongoing rebound in summer, with consumption being particularly supportive as the country emerges from the lockdown. After rebounding in Q3, a progressive stabilisation from Q4 onwards is expected to materialise, supported by stronger domestic demand and recovering global trade. Yet, uncertainty from Brexit remains a key risk for 2021. The labour market remains under pressure, with a possible unemployment surge should furlough schemes (ending in October) not be extended. This outcome would make a new round of fiscal support more likely, together with some easing on the monetary front, later in the year.

Key interest rate outlook

	28-08 2020	Amundi + 6m.	Consensus Q1 2021	Amundi + 12m.	Consensus Q3 2021
US	**0.13**	**0/0.25**	**0.08**	**0/0.25**	**0.08**
Eurozone	**-0.50**	**-0.55**	**-0.51**	**-0.58**	**-0.55**
Japan	**-0.05**	**-0.2**	**-0.05**	**-0.2**	**-0.05**
UK	**0.10**	**0.00**	**0.06**	**0.00**	**0.01**

Source: Amundi Research

- **Fed**: As widely expected, the last FOMC failed to deliver policy changes, while reaffirming quite a dovish stance of the Fed. In his Jackson Hole speech, Powell explained the changes undertaken as part of the Fed's strategy review and announced the adoption of a flexible form of average inflation targeting. The Fed has formalized a new reaction function and a more dovish path compared with previous recoveries, with the FOMC aiming to push unemployment as low as possible, at least until inflation pressures are reflected in the data. More monetary stimulus could come as soon as the September FOMC with stronger Forward Guidance and QE.
- **ECB:** The ECB refrained from announcing additional stimulus at the July meeting, given the strong packages already put in place and pending the outcome of the summit on the recovery fund, ultimately leading to quite a supportive deal for the entire Eurozone. Communication confirmed the ECB's dovish stance. The main message was reassuring, underscoring the need to tap into the full arsenal of PEPP firepower. In response to some hawkish members who had previously raised the possibility of only partially using the recently expanded QE programme, President Lagarde stated quite clearly: "Our baseline remains that we will use the entire envelope of the PEPP".
- **BoJ:** The central bank's latest economic outlook re-confirmed guidance of keeping rates low for longer and basically ruled out policy normalization in 2021. While we expect loose monetary policy to continue, we are not expecting the central bank to cut rates further in light of the concerns voiced by officials on the cost of negative rates. The policy combination of fiscal spending and asset purchases with YCC will continue. Forward guidance and special credit programs are likely to be strengthened if the second wave outbreak starts to weigh on the economy.
- **BoE:** At its last meeting, the BoE did not deliver new policy measures: there was a unanimous vote to keep rates on hold at 0.1% and to maintain its previous asset purchase target at GBL 745 billion. Reiterating previous guidance that the remaining purchases would be completed by the turn of the year, the CB confirmed quite a pronounced tapering in its purchases. Despite negative rates being mentioned as a possible tool at its disposal, the CB underlined the risks and shortcomings associated with this option, so we do not expect the MPC to move to NIRP.

Monetary policy agenda

Central banks	Next meeting
Federal Reserve FOMC	**September 16**
ECB Governing Council	**September 10**
Bank of Japan MPM	**September 17**
Bank of England MPC	**September 17**

Source: Amundi Research

EMERGING COUNTRIES

Macroeconomic outlook

Data as of 31/08/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	3.1	-5.0/-3.8	4.8/6.0	3.0	2.5	2.7
Emerging countries	4.0	-3.3/-2.4	5.6/6.5	4.0	3.7	3.5
Brazil	1.1	-5.5/-4.1	3.1/4.1	3.7	2.6	3.1
Mexico	-0.3	-10.5/-9.5	3.6/4.6	3.6	3.4	3.7
Russia	1.3	-4.5/-3.9	2.5/4.5	4.5	3.2	3.8
India	4.9	-9.5/-8.1	7.6/8.9	3.7	6.5	5.8
Indonesia	5.0	-3.4/-2.4	2.9/3.9	2.8	2.1	2.9
China	6.2	1.8/2.4	7.9/8.5	2.9	2.6	2.0
South Africa	0.1	-6.3/-5.3	4.1/5.1	4.1	3.4	4.4
Turkey	0.9	-6.8/-5.8	4.0/5.0	15.5	11.4	8.7

Source: Amundi Research

- **China:** The economic recovery continued upon entering Q3, albeit at a slower pace sequentially. Momentum was uneven across sectors. The state-led stimulus boosted land sales, construction and related equipment sales, while manufacturing capex and private consumption lagged behind. Looking ahead, we expect growth to continue to normalize down in sequential terms, but the equivalent headline YoY growth will move higher. We expect headline CPI to resume its downtrend throughout the rest of the year. A meaningful pick-up in inflation is not expected until 2021.
- **Indonesia:** The easing in the lockdown has brought partial relief, as the pandemic continues to spread. MoF and BI have embarked in a burden-sharing scheme, with BI acting as a backstop for funding a very high deficit. In the past two months, monetary policy has been prudent with only 25bps of easing, notwithstanding very subdued inflation (1.5% YoY), a narrow CAD and a huge output gap. The 2021 budget announced in mid-August, has slightly widened the FD expected next year from 5.2% to 5.5% out of GDP. As of today, the revenue shortage is being offset by a very timid fiscal disbursement.
- **Brazil:** The economy is recovering robustly, except in services, thanks to whatever it takes policy response of a both monetary and fiscal nature – the latter totalled 9% of GDP – and normalising mobility thanks to better Covid dynamics. In fact, GDP is expected to shrink by about 5% and 'only' half of Mexico's near double-digit contraction. The administration has some contrasting choices to make in the near future such as spending cap compliant 2021 budget that would, however, weigh on growth and fiscal consolidation itself. There might be another option – trade a temporary breach of the cap in exchange for fiscal reform that would both support the recovery and improve the medium-term fiscal story.
- **Turkey:** In addition to the Covid-related economic slowdown, Turkey has been facing growing headwinds due to widening imbalances and rising geopolitical tensions. The credit-fuelled growth model has been accompanied by a widening current account deficit, capital outflows and a continued decline in international reserves, the latter having reached precarious levels. Given the lack of credible tightening on behalf of the CBRT, the TRY has depreciated by almost 20% year to date -- among the worst performers in EMs. On August 20th, the CBRT decided to hold the policy rate at 8.25% (headline CPI is running at above 10%), a decision which does not augur well for the TRY and Turkish assets.

Key interest rate outlook

	01-09 2020	Amundi + 6m.	Consensus Q1 2021	Amundi + 12m.	Consensus Q3 2021
China	3.85	3.85	3.75	3.85	3.75
India	4	4	3.65	4	3.6
Brazil	2	2	2.05	2	2.45
Russia	4.25	4.00	4	4.25	4.1

Source: Amundi Research

- **PBoC (China):** The end-July Politburo meeting marked an end of broad monetary easing. We no longer expect MLF or LPR cuts this year. On 25 Aug, PBoC reiterated it would not over flood the market. Instead, the central bank is likely to deploy targeted relending tools that can "direct new financing to the real economy precisely, in particular to small- and micro-sized enterprises". In addition, banks are encouraged to break the "implicit floor" of actual lending rates and reduce their fee charges, in order to lower the financing burden on the business sector.
- **RBI (India):** While pausing in MP easing in early August (Repo Rate unanimously kept at 4.0%), the RBI conducted Special Open Market Operations (OMOs) of government bonds to ensure the orderly functioning of financial markets. Recent headline inflation levels well above the target range are limiting the RBI's room to ease further, notwithstanding they are maintaining a dovish stance due to dire economic conditions. On the back of inflation struggling to take a convincing disinflationary path, we see very small room to ease further ahead.
- **BCB (Brazil):** Will the BCB cut rates any lower? The bar to further easing was raised at the latest meeting, but the door has not been shut altogether – the central bank sees little room for adjustment if any at this point; this will also depend on fiscal developments. Far more interesting to us, however, is the BCB's new conditional forward guidance. Lower for longer looks to stay in place until inflation expectations arrive "sufficiently close to the inflation target" in 2021 and, to a lesser degree, the following year. That to us looks like no cuts until 2022, thanks to very benign inflation dynamics and wide output gap.
- **CBR (Russia):** Following the 100bps cut in June, the Central Bank of Russia cut its policy rate by 25bps on July 24th to 4.25% as the Covid-related disinflationary impact continued to exert downward pressure on inflation. The CBR said that, despite the easing of restrictions, the recovery of the global and domestic economy would be gradual, and that in there was the risk that in particular that inflation may be below the 4% target in 2021. Given the drop in domestic and external demand, and inflation running at around 3.4% YoY, the CBR remains open to further rate cuts in order to keep inflation close to 4%.

Monetary policy agenda

Central banks	Next communication
PBoC	**September 20**
RBI	**October 1**
BCB Brazil	**September 15**
CBR	**September 18**

Source: Amundi Research

MACRO AND MARKET FORECASTS

Macroeconomic forecasts (31 August 2020)

Annual averages (%)	Real GDP growth % 2019	2020 range	2021	Inflation (CPI, yoy, %) 2019	2020	2021
US	**2.3**	**-6.7/-4.7**	**2.7/4.7**	**1.8**	**1.1**	**1.6**
Japan	**1.2**	**-5.1/-4.5**	**2.1/2.7**	**0.7**	**0.1**	**0.5**
Eurozone	**1.2**	**-9.4/-7.4**	**4.2/6.2**	**1.2**	**0.5**	**1.3**
Germany	0.6	-7.6/-5.6	2.6/4.6	1.5	0.7	1.5
France	1.2	-11.2/-9.2	6.0/8.0	1.3	0.5	1.2
Italy	0.3	-11.7/-9.7	4.1/6.1	0.7	0.1	1.1
Spain	2.0	-12.5/-11.5	7.5/8.5	0.7	0.1	1.2
UK	**1.4**	**-11.5/-10.5**	**7.0/9.0**	**1.8**	**0.8**	**1.5**
Brazil	**1.1**	**-5.5/-4.1**	**3.1/4.1**	**3.7**	**2.6**	**3.1**
Mexico	**-0.3**	**-10.5/-9.5**	**3.6/4.6**	**3.6**	**3.4**	**3.7**
Russia	**1.3**	**-4.5/-3.9**	**2.5/4.5**	**4.5**	**3.2**	**3.8**
India	**4.9**	**-9.5/-8.1**	**7.6/8.9**	**3.7**	**6.5**	**5.8**
Indonesia	**5.0**	**-3.4/-2.4**	**2.9/3.9**	**2.8**	**2.1**	**2.9**
China	**6.2**	**1.8/2.4**	**7.9/8.5**	**2.9**	**2.6**	**2.0**
South Africa	**0.1**	**-6.3/-5.3**	**4.1/5.1**	**4.1**	**3.4**	**4.4**
Turkey	**0.9**	**-6.8/-5.8**	**4.0/5.0**	**15.5**	**11.4**	**8.7**
Developed countries	**1.7**	**-7.6/-6.1**	**3.6/5.3**	**1.5**	**0.8**	**1.4**
Emerging countries	**4.0**	**-3.3/-2.4**	**5.6/6.5**	**4.0**	**3.7**	**3.5**
World	**3.1**	**-5.0/-3.8**	**4.8/6.0**	**3.0**	**2.5**	**2.7**

Key interest rate outlook

Developed countries

	28/08/2020	Amundi + 6m.	Consensus Q1 2021	Amundi + 12m.	Consensus Q3 2021
US	**0.13**	**0/0.25**	**0.08**	**0/0.25**	**0.08**
Eurozone	**-0.50**	**-0.55**	**-0.51**	**-0.58**	**-0.55**
Japan	**-0.05**	**-0.2**	**-0.05**	**-0.2**	**-0.05**
UK	**0.10**	**0.00**	**0.06**	**0.00**	**0.01**

Emerging countries

	01/09/2020	Amundi + 6m.	Consensus Q1 2021	Amundi + 12m.	Consensus Q3 2021
China	**3.85**	**3.85**	**3.75**	**3.85**	**3.75**
India	**4**	**4**	**3.65**	**4**	**3.6**
Brazil	**2**	**2**	**2.05**	**2**	**2.45**
Russia	**4.25**	**4.00**	**4**	**4.25**	**4.1**

Long rate outlook

2Y. Bond yield

	28/08/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	**0.19**	**0.25/0.5**	**0.22**	**0.25/0.5**	**0.25**
Germany	**-0.673**	**-0.70/-0.50**	**-0.72**	**-0.70/-0.50**	**-0.73**
Japan	**-0.142**	**-0.30/-0.20**	**-0.14**	**-0.30/-0.20**	**-0.15**
UK	**-0.044**	**0/0.25**	**-0.04**	**0/0.25**	**-0.02**

10Y. Bond yield

	28/08/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	**0.71**	**0.7/0.9**	**0.81**	**0.8/1**	**0.89**
Germany	**-0.41**	**-0.60/-0.40**	**-0.39**	**-0.50/-0.30**	**-0.35**
Japan	**0.02**	**-0.10/0.10**	**0.07**	**0/0.2**	**0.11**
UK	**0.24**	**0.20/0.4**	**0.29**	**0.3/0.5**	**0.36**

Currency outlook

	31/08/2020	Amundi Q4 2020	Consensus Q4 2020	Amundi Q2 2021	Consensus Q2 2021
EUR/USD	**1.194**	**1.16**	**1.180**	**1.196**	**1.200**
USD/JPY	**106**	**105**	**106**	**105**	**105**
EUR/GBP	**0.89**	**0.91**	**0.91**	**0.91**	**0.91**
EUR/CHF	**1.08**	**1.07**	**1.08**	**1.11**	**1.09**
EUR/NOK	**10.41**	**9.97**	**10.50**	**10.21**	**10.30**

	31/08/2020	Amundi Q4 2020	Consensus Q4 2020	Amundi Q2 2021	Consensus Q2 2021
EUR/SEK	**10.32**	**9.77**	**10.40**	**9.97**	**10.30**
USD/CAD	**1.30**	**1.32**	**1.33**	**1.29**	**1.33**
AUD/USD	**0.74**	**0.75**	**0.71**	**0.75**	**0.72**
NZD/USD	**0.67**	**0.66**	**0.65**	**0.67**	**0.67**
USD/CNY	**6.85**	**7.00**	**6.99**	**6.90**	**6.90**

Source: Amundi Research

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.

A global recession is our base case today

1. How deep?

- The deepness depends on the virus longevity in the countries affected and the consequent gradual to complete lockdown in most of them. Downturn is evident in domestic demand (across its components at different degree) and in trade dynamics. We assume the largest downturn in the lockdown quarter and a milder downturn to follow. We monitor outbreak developments and lockdown/resumption of the economic activity.

2. How long?

- The timeline depends on the deepness of the economic disruption together with the credit conditions and the rise of corporate default, magnifying the financial markets turbulence and therefore the impact on the economy.
- The timeline of the shock has extended, and overall a peak is expected by May to June 2020. The global economy was showing signs of growth stabilization during the 4Q2020.
- The timeline is also a function of the specific developments of the outbreak together with pre-existent fragilities.

3. The fiscal impact

- The impacts of micro and macro fiscal measures are not included in our forecasts but it's fair to assume a normalization in the financial and liquidity conditions driven by Monetary Policy authorities

Financial targets

- Financial targets are reviewed on the same line and include policy actions implemented on a daily basis.

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. We use the k-means clustering algorithm to our enlarged macroeconomic dataset, splitting the observations into the K cluster, where K represents most of the variability in the dataset. Observations belong to one cluster or another based on their similarities. The grouping of the observations into the k clusters is obtained by minimizing the sum of squared Euclidean distances between observations and clusters centroids i.e. the reference values for each cluster. The greater the distance, the lower the probability to belong to a given regime. The GIC qualitative overlay is finally applied.

– 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.

PUBLICATIONS HIGHLIGHTS

THE DAY AFTER

The day after #10
Rethinking the macro and cross-asset research: what we have learned from the Covid-19 crisis (20-07-2020)
DEFEND Monica, Global Head of Research

The day after #9
Covid-19 crisis, a catalyst for change and strengthening the EU (06-07-2020)
BLANCHET Pierre, Head of Investment Intelligence — BOROWSKI Didier, Head of Global Views

The day after #8
Deglobalisation could improve diversification but also exacerbate financial contagion (23-06-2020)
BERARDI Alessia, Head of Emerging Markets Macro & Strategy Research — BRIERE Marie, Head of the Investor Research Center

INSIGHTS PAPER

The case for US equities in global portfolios (27-07-2020)
STERLING Craig, Director of Core Equity & Head of Equity Research, US — PIRONDINI Marco, Head of Equities US

The New Silk Road routes: Why investors should care (23-07-2020)
SYZDYKOV Yerlan, Global Head of EM

Time to play a cyclical recovery in European equity (10-07-2020)
BLANQUE Pascal, Group Chief Investment Officer — MORTIER Vincent, Deputy CIO, Asia ex Japan Supervisor

Covid-19: short-term pain, long-term opportunities for European commercial real estate (17-06-2020)
ARIAS Pedro Antonio, Global Head of Real & Alternative Assets.

EXPERT TALK

The Coronavirus and ESG Investing, the emergence of the Social pillar (03-06-2020)
SEKINE Takaya, Quantitative Research — LEPETIT Fréderic, Quantitative Research

WORKING PAPERS

Measuring and managing carbon risk in investment portfolios (2020-08)
RONCALLI Theo , LE GUENEDAL Theo, LEPETIT Fréderic, SEKINE Takaya, Quantitative Research — RONCALLI Thierry, Head of Quantitative Research

Improving the Robustness of Trading Strategy Backtesting with Boltzmann Machines and Generative Adversarial Networks (2020-07)
LEZMI Edmond, Quantitative research at Amundi — ROCHE Jules, École Nationale des Ponts et Chaussées — RONCALLI Thierry, Head of Quantitative Research — XU Jiali, Quantitative Research

Trajectory monitoring in portfolio management and issuer intentionality scoring (2020-05)
LE GUENEDAL Theo — Quantitative Research, GIRAULT Julien — ESG Analysis, JOUANNEAU Mathieu — ESG Analysis, LEPETIT Fréderic — Quantitative Research, SEKINE Takaya — Quantitative Research

THEMATIC PAPERS

Asset Class Return Forecasts – Q2 2020 (18 05 2020)
DEFEND Monica, Global Head of Research — GISIMUNDO Viviana, Deputy Head of Institutional Advisory — KIM MOON Jung Hun, Quantitative Analyst_Institutional Advisor — PORTELLI Lorenzo, Head of Cross Asset Research

PUBLICATIONS HIGHLIGHTS

INVESTMENT TALKS

Investing in the first in, first out theme: opportunities in Asia (07-08-2020)
MORTIER Vincent, Deputy CIO, Asia ex Japan Supervisor — BERARDI Alessia, Head of Emerging Markets Macro & Strategy Research — McCONWAY Nicholas, Head of Asia ex-Japan Equity — LAW Esther, Portfolio Manager Emerging Market Debt — with the contribution of HUANG Claire, EM Macro Strategist and LAHBABI Hicham, Deputy Head of Asia ex-Japan Equity

Challenges and opportunities in US Commercial Real Estate (29-07-2020)
SCHIAPPA Andrew, Credit Analyst - TODD Christine, Head of Fixed Income, US - UPADHYAYA Paresh, Director of currency strategy, US portfolio manager

EU agreement: a powerful answer that can lift further EU assets and ESG investing (22-07-2020)
BOROWSKI Didier, Head of Global Views — BRARD Eric, Head of Fixed Income — ELMGREEN Kasper, Head of Equities — With the contribution of de FAY Alban, SRI Corporate Bonds Portfolio Manager - Head of FI SRI Processes — VIC-PHILIPPE Isabelle, Head of Euro Govies and Inflation

Why USD fixed income may look increasingly attractive to European investors (15-07-2020)
CHOY Kevin, Vice President, Portfolio Manager — TODD Christine, Head of Fixed Income, US — UPADHYAYA Paresh, Director of currency strategy, US portfolio manager

Biden's election momentum and financial markets (23-06-2020)
UPADHYAYA Paresh, Director of currency strategy, US portfolio manager — TODD Christine, Head of Fixed Income, US — STERLING Craig, Director of Core Equity & Head of Equity Research, US

MARKET OUTLOOK

H2 2020 Investment outlook - investing during a de-freezing cycle (26-06-2020)
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INVESTMENT STRATEGY

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