Amundi ASSET MANAGEMENT | Research & Macro strategy

CROSS ASSET Investment Strategy

#03

March 2020

Monthly

CIO VIEWS

Modest risk reduction, looking for entry points

THIS MONTH'S TOPIC

US and European corporate earnings: after four flat quarters, what is the outlook for 2020?

#03 - March 2020

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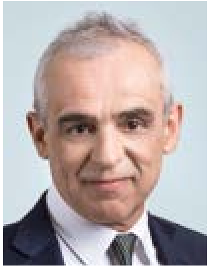
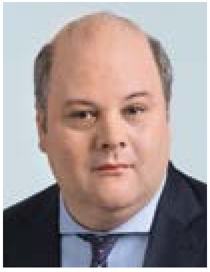
CIO VIEWS

Modest risk reduction, looking for entry points



PASCAL BLANQUÉ,
Group Chief Investment Officer



VINCENT MORTIER,
Deputy Group Chief Investment Officer

The spread of coronavirus outside China has rattled risk assets in the recent trading sessions. Investors triggered **some profit taking** in markets, which reached historical highs and even broke psychological thresholds in previous weeks: European Stoxx 600 moved above the 20-year broad trading range. The atmosphere of fear has remained consistently high only in the so-called safe assets — the USD, UST and gold — signalling that investors have been looking for effective hedging strategies. **Our central scenario is for a temporary deterioration of the global economic picture in the first quarter of this year, with some possible spill over into the second quarter**, given that weaker-than-expected global trade growth is ultimately affecting industrial production and manufacturing activity and there are some impacts on the internal demand. **After that, we should see a recovery over the remainder of the year.** Overall, in our scenario, **global growth has been downgraded to 3.0% from 3.2%.**

Clearly, **the main risk now is the unwinding of recent market complacency** and the reaction of "animal spirits." The good run in risky assets has been driven by investors who believe (1) coronavirus episode will be temporary (our central scenario); (2) a worsening situation will trigger more Central Bank (CB) action; (3) they have no alternatives, given the moves of safe-haven assets. Therefore, we can expect to see some profit-taking, short-term market volatility and overreaction.

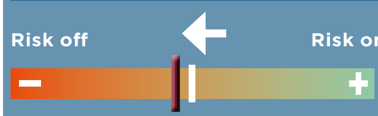
A tactical move towards neutrality in risk exposure and an increase in hedging looks to be a good strategy to navigate this phase. Beyond that, coronavirus must be seen as a way to implement our investment convictions, exploiting entry points in some areas of the markets such as the cyclical value component in European equities (already attractive, but even more so now), EM equities (help-yourself-countries or domestic-demand stories), and EM currencies. All these stories will be back in focus once the headlines on the virus recede. In addition, falling core yields, will likely reignite **the search for yield in credit or in the richer government bond space both in EM and DM (i.e. Italy).** We should also not underestimate the fact that if the situation worsens, CBs and governments could start to use stimulus on a massive level, **renewing the narrative of *bad news is good news*. Fed's recent inter-meeting emergency rate cut of 50 bps is a step in that direction.**

As main areas of risk and opportunity lie in the credit market, the main question for investors is: **To what extent will the coronavirus generate non-idiosyncratic disruptions?** We expect resilience in the credit market, in particular EU IG, but we expect divergences between good quality names and bad quality names, which could come under stress. This reinforces our view of **an increased scrutiny in credit, focus on bottom-up research and a rise in attention on liquidity**.

From a long-term perspective, the coronavirus epidemics reinforces some pre-existing trends:

- **De-globalisation and retreat in global trade** should support insulated investment themes, such as domestic-demand driven EM countries or a focus on more domestic real assets.
- **Low interest rates at equilibrium**. Core US bonds are providing a cushion for risky assets in reaction to setbacks, but they are also leading the rebound of risky assets. It follows that duration management must be asymmetric: it is much more risky being short duration than long duration, and there is a clear hedging-role for US Treasuries. In this scenario, the interest rate factor dominates the growth and earnings components of equity returns. Investors should be alert to the early signs of either a change in equilibrium rates or a shift pointing to more prominence for the real component of returns versus the monetary component, but we are not yet at this point.
- **Demand for real assets**. The absence of real illiquid assets is a recurring weakness as they represent an already large, but rising component of relative value plays. De-globalisation is driving demand for real estate on the basis that it provides significant international geographical diversification. The search for a better remuneration of the interest factor (infrastructure) or simply equity-like returns with bond features is also driving demand. This mismatch in supply and demand, along with trade and pandemic noise, can only accentuate this sort of safe-haven status with fast rising complacency.

Overall risk sentiment



Tactical risk reduction, looking for entry points to recalibrate risk once the situation calms.

Changes vs. previous month

- Cautious on equities and EM FX, and constructive on duration, from a cross-asset perspective.

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

MACRO

Coronavirus impact on economy and markets

MONICA DEFEND,
Global Head of Research

DIDIER BOROWSKI,
Head of Global Views

The economic fallout is likely to prove transitory — albeit profound and impactful — as long as the virus spread is contained and activities can resume over a reasonable time horizon

Since the virus outbreak started, governments have implemented restrictions on travel to China and many activities have been shut down. This will affect both Chinese and global economic outlook in Q1. **We have consequently downgraded our 2020 growth forecasts for China and the main DMs**. We believe that such economic fallout will **prove transitory** — albeit profound and impactful — as long as activities resume in a reasonable time frame. Chinese authorities and many Central Banks (CBs) in EM have already loosened monetary policy and announced more fiscal stimulus to help their economies weather the virus fallout. We expect this shock to spillover to China's Asian trading partners, causing temporary disruptions to the supply chain, followed by a rebound and growth stabilisation at potential.

Global trade and GDP growth will be the main casualties of such idiosyncratic shocks, along with those economies that are more open to external trade, such as Eurozone countries - Germany and Italy above all. For instance, Germany's exports to China as a share of GDP were 2.8% in 2018, the highest share of any Eurozone country. Conversely, **the US economy should prove more resilient** thanks to its strong domestic demand (its exports to China accounted for only 0.6% of GDP in 2018). We also expect to see a hit to confidence indicators, with lower global PMIs eventually hitting earnings formation**.**

In our revised base scenario, the expected rebound in the global manufacturing sector only gets delayed. Operational hurdles will affect the automotive and energy sectors, and the Q1 reporting season could deliver below-expectation results. Financial markets still rely on CBs' ability to support economies under difficult circumstances. Such a scenario remains mildly supportive of risk assets. **Since the uncertainty on virus-related developments is high, we stress our central scenario**, with China's economic recovery proving slower than expected and the virus fallout more persistent. Global trade would contract by 2.0%, entailing significant supply chain disruptions and causing a 2.3% contraction in US industrial production in 2020. In the Eurozone, the drop is likely to be larger — at 3.3% — with Germany and Italy heavily hit. In the longer run, Western corporations might insource activities from China. Under such circumstances, the stall in economic activity would cause a plunge in confidence indicators and tighter financial conditions.

Based on historical evidence, we modelled the fallout of a four-point (or higher) drop in the global manufacturing PMI for a quarter, followed by a rebound. Such developments would cause a 4.8% fall in US equities and around 7.4% for Japanese and European equities. If this is the case, in the last few days the market has probably overshoot on the downside (our base scenario at the moment) or it has started to price in a darker scenario, under which the downside move would continue.

Finally, we built a **downside risk-off scenario** in which the efforts of Chinese authorities to restart growth falter, China's 2020 GDP slows to 4.9% YoY — rather than 5.6% as outlined in our revised base scenario — and the global economy moves into recession. In addition, as new virus hotspots are emerging in Europe, we have included in our analysis an endogenous slowdown of Italy's economy where cities are put into quarantine and activities are shutdown to contain the spread of the virus. Italy might experience a recession this year, as affected areas account for about 40% of its GDP. Should similar occurrences be seen in other European countries, we would need to review our forecasts accordingly. In that case, the global economy would experience a supply as well as a demand shock to both the manufacturing and the services sectors and US GDP growth would be barely positive this year, while both Eurozone and Japan's GDP would contract. Financial risks would rise, along with a spike in default rates and distressed ratios and tightening of financial conditions. Corporates would experience contracting EPS growth – our estimates are for a 6% EPS contraction in the US and an 8% contraction in the Eurozone. CBs may have to jump in with emergency liquidity injections. The US Fed would cut rates by 75 bp (50 already cut) and global CB balance sheet expansion would hit 4%.

In Asia, fiscal authorities will likely support the outlook with a massive fiscal expansion aimed at restoring both production and consumption trends. However, some countries have limited room for manoeuvre, and may not be able to put in place powerful countercyclical tools. In such a scenario, we would switch to a defensive asset allocation and European equities may suffer as poor Q4 results would be intensified by new hurdles related to the virus outbreak.

For now, **we estimate a low probability that this scenario will materialise.**

MULTI-ASSET

Time to reduce risk, but be prepared to re-enter

MATTEO GERMANO,
Head of Multi-Asset

In search for protection from continued market volatility, we moved to a lower risk stance and would look for more favourable entry points when visibility improves.

Our fundamental view on the stabilisation of global growth around potential has not changed and we believe the continued active role of monetary and fiscal policies will support this. However, the spread of Covid-19 beyond China into other areas in Asia, Europe and America could have an impact on demand and this is now reflecting in asset prices. As a result, **we have become more cautious on risk assets to accommodate these possible events**. Having said that, our strategy is to stay vigilant and monitor fresh data to better assess the effects on the global economy.

High conviction ideas

Given this volatile environment, **we moved to a lower risk stance and recommend investors to keep risk at low levels in their portfolios.** Derivatives have been a good tool to safeguard against further downward movements in European and US equities. Overall, we are now negative on these markets. **These actions are tactical in nature,** and driven by risk management considerations in order to try to protect investors' portfolios from short-term volatility. In EMs, we have removed our positive view on China and the relative preference for Korea vs GEM as these are among the most directly (and indirectly) affected areas by the spreading of the virus. Nonetheless, we remain ready to reconsider our stance on the EM equity asset class once the situation calms down.
In fixed income, **we are more constructive on duration in Europe and the US** as this is also an hedge in case of further volatility in the market. We maintain our relative preference for 5Y UST vs Germany 5Y, owing to stronger safe-haven demand for the former and given that the Fed has more scope to cut interest rates than the ECB, as reflected in the recent comments by Ms. Lagarde. The **Italian BTPs remain a search for yield strategy**, where we see some short-term pressure if the markets start discounting an economic recession and also if investors start to book profits from their long market positions. However, we prefer a wait-and-see approach amid favourable technicals, relative value and lower political risks. BTPs continue to offer attractive yields (compared with similar-rated sovereign and corporate bonds). We maintain our relative preference for Italy 30Y vs Germany 30Y.

Credit is attractive, particularly in Europe, supported by technical factors, inflows and the ECB's quantitative easing programme. **However, we believe it's prudent to protect credit exposure through derivatives** in case there is a sell-off as witnessed in equities recently. We prefer EUR over US in both IG (lower leverage in EUR) and HY (better quality in EUR and lower exposure to the energy sector).
In EMs, attractive carry, subdued inflation and dovish EM central banks are supportive of EM debt, where we prefer HC over LC. However, we suggest partially hedging the duration and currency risk.
On FX, while we believe the effect on Chinese growth should be transitory, the virus outbreak could have negative consequences for EM currencies. Accordingly, **we are more cautious now and have temporarily removed our positive stance on EM FX**. In DM, EUR/USD moved lower, given that the US economy appears to be less exposed to external risks. This **extreme movement has already started to reverse.** However, the strength of the USD could last for some time as growth concerns in Europe are expected to continue and interest rate differentials are also in favour of UST. Therefore, **we prefer to move to a neutral view on EUR/USD** and monitor market conditions to reassess this view.

Risks and hedging

The virus impact, high market expectations regarding central banks policies, and the evolution of the Brexit transition process are all risks that could cause volatility. **We recommend hedges such as gold, UST and the Japanese yen** to safeguard investor portfolios.

USD = US Dollar, UST = US Treasury, DM = Developed markets, EM/GEM = Emerging markets, EM bonds (HC) = EM bonds hard currency, LC = Local currency, FX = Foreign exchange, IG = Investment grade, HY = High yield, NOK = Norwegian krone, CB = Central banks, CHF = Swiss franc.

Amundi Cross Asset Convictions

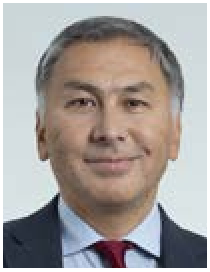
	1 month change	---	--	-	0	+	++	+++
Equities	↘			■				
Credit	↘					■		
Duration	↗					■		
Oil					■			
Gold						■		

Source: Amundi Research. The table represents cross asset assessment on a 3-6 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.

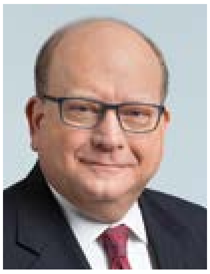
FIXED INCOME

High selectivity in credit, but there are opportunities

ÉRIC BRARD,
Head of Fixed Income



YERLAN SYZDYKOV,
Global Head of Emerging Markets



KENNETH J. TAUBES,
CIO of US Investment Management

With elevated uncertainties on the macro side and investors' continued search for safety, **we expect the core government bond yields to remain very low**, with limited upside pressure. Negative yielding debt is back to US$14tn in value and this continues to push investors towards the 'oasis of yield' in credit, securitized assets and peripheral debt.

Here, a close look at the evolution of the macro economic situation is crucial. While abundant macro-liquidity supports financing of corporations, **a deterioration of the economic environment could affect the most leveraged areas of the market**.

DM bonds

In global fixed income, we maintain a slightly positive bias on duration, with a preference for the long end of the curve and flattening. We continue to prefer US, despite some profit-taking, as safe-haven demand is likely to support UST. Elsewhere, we have a short to neutral stance on core Euro duration (negative on Germany) and a short one on Japan and the UK as fiscal stimulus is likely to push rates higher and the BoE is likely to keep rates on hold. EU peripheral countries continue to offer attractive yields and we are constructive on Italy. Investors can also play curve flattening opportunities in Euro peripheral areas and steepening in the UK. Credit remains an area of opportunity for us but selection is crucial. EUR IG has been resilient and we continue to prefer it vs US IG as the former should benefit from the ECB programme, in particular in the subordinated debt financial sector. In HY, EUR remains our favoured pick over US. Overall, we suggest investors to partially reduce the credit exposure to make room for additions in the future.

In the US, solid economic data and corporate earnings have helped propel credit spreads to near all time tight levels before coronavirus risk erupted. Tail risks to economic growth remain, potentially weighing on credit fundamentals. As a result, we are cautious and selective overall. In US credit, while we realise that prospective returns from securitized credit would be lower after last month's strong performance, we continue to favour securitized over unsecured due to the former's better risk/return profile. Structured securities, including non-agency RMBS and consumer debt, remain attractive vs most other IG sectors. Given that employment, wealth and confidence are strong, and as fundamentals in the housing market remain positive, low mortgage rates should boost home sales, prices and affordability. Spreads in the agency MBS are attractive, but their potential for further tightening is limited owing to the net supply impact of the Fed's dwindling MBS holdings.

EM bonds

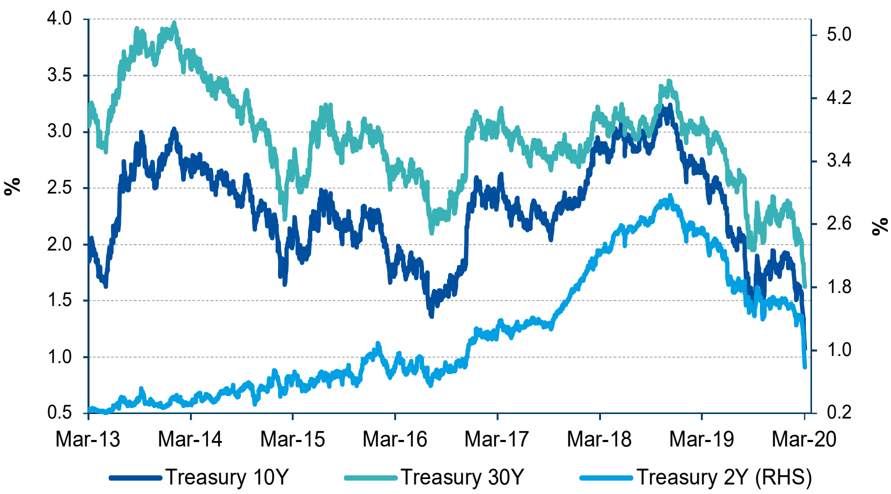
We remain constructive on HC bonds, notwithstanding the risks from the coronavirus and the US election cycle, as the technical backdrop remains favourable and monetary policy easing along with fiscal stimulus should be supportive. We **prefer select high-yielding names such as Indonesia, Ukraine and South Africa**. In LC, we think valuations have become less attractive and there will be some negative impact from currency weakening. Nevertheless, we continue to see pockets of value, especially in frontier markets.

FX

We maintain our cautious view in aggregate on EM FX, particularly regarding currencies more exposed to a further slowdown in Chinese growth and currencies of commodity exporting countries such as Thailand and Chile.

FX = Emerging markets foreign exchange, HY = High yield, IG = Investment grade, EUR = Euro, USD = US dollar, UST = US Treasuries, BoE = Bank of England, RMBS = Residential Mortgage Backed Securities, HC = Hard currency, LC = Local currency.

Yields falling across the curves



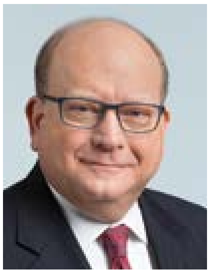
Source: Amundi, Bloomberg, as of 2 March 2020.

EQUITY

Volatility will reinforce bottom-up selection

KASPER ELMGREEN,
Head of Equities

YERLAN SYZDYKOV,
Global Head of Emerging Markets



KENNETH J. TAUBES,
CIO of US Investment Management

Overall assessment

There is an elevated uncertainty regarding the short-term outlook for global equities. The coronavirus outbreak will weigh on economic growth this quarter and next. There is some political risk — underestimated in case of US election — and the expected earnings rebound will likely be postponed. Despite this short-term challenge, we expect the economy to rebound once the most acute phase is over. Moreover, the dovish stance of central banks and fiscal stimulus should support a manufacturing stabilisation and improvement in the outlook for equities. It's important to note that US markets, in general, are more defensive in a weak environment for equities. But **as soon as the situation stabilises, investors who are cautious in this phase, should exploit opportunities in the most dislocated areas of the market** (EU and EM equities). **Bottom up selection is extremely important,** to navigate the markets in this phase.

DM equities

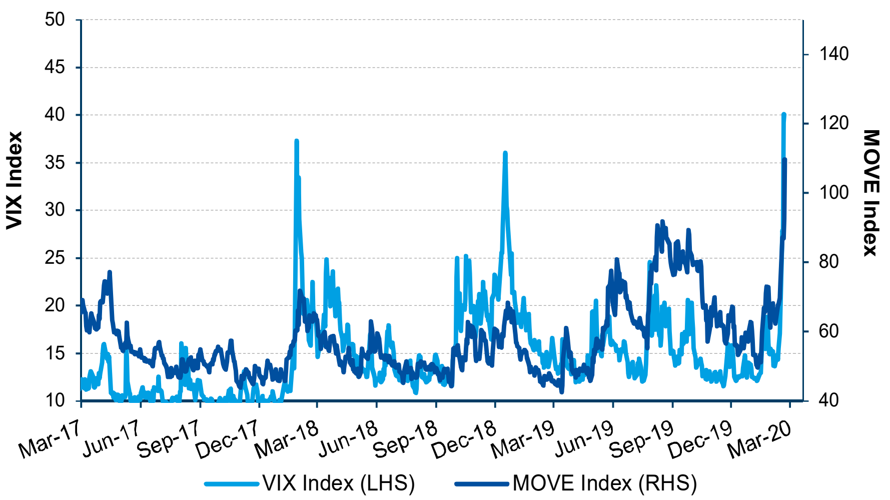
In European equities, we did not change our main conviction that **price dislocations in the cyclical value space are an opportunity for bottom up investors.** For the overall market, due to the deterioration of the economic outlook, earnings growth is critical for future performance. The situation in China has created new headwinds and it's difficult to assess with complete accuracy the potential impact. We have used market volatility to favour companies where we are convinced about strong balance sheets and resilient business models. At a sector level, we have become more positive on banks, industrials among cyclicals, and health care, among defensive, and we are less positive on energy. We believe markets are expecting too much from the IT and consumer staples sectors, making us cautious in these areas.

In the US, **we think markets are too optimistic** about the macro-economic situation and underestimate the political risk. Although an earnings rebound will likely be delayed, earnings should eventually improve later in 2020 on the back of lagged effects of lower interest rates and input costs (lower energy prices). This would benefit the consumer-dominated US market. Higher earnings are likely to support our conviction of cyclical value outperforming growth, **but this should happen only when the manufactury recovery materialises.** We are cautious overall on the market at the moment**.** At a sector level, we favour relatively conservative (less cyclical) cyclicals in financials and industrials. In healthcare, we realise that the meaningful discount that existed in the sector when candidate Elizabeth Warren's chances peaked last summer has now corrected and value is no longer obvious, especially with drug pricing legislation likely to come up soon in US Congress. We are cautious on IT (expensive valuations), consumer staples and utilities sectors.

EM equities

We are selectively positive on EM equity with a medium term perspective. **We focus on companies related to domestic consumption** that are relatively insulated from the coronavirus story and those that can potentially benefit from strong domestic demand or the continuing shift in the value chain (Russia, Indonesia, Vietnam). On the other hand, we have become very cautious on Chinese tourism-related sectors such as hospitality, aviation and consumer discretionary. In this regard, we are defensive on companies listed in countries such as Thailand, Korea and the Philippines that are beneficiaries of demand from Chinese tourists

Bond and equity volatility on the rise



Source: Amundi, Bloomberg, as 2 March 2020.

THEMATIC

Should Central Banks save us from ourselves?

From unemployment and inflation to climate change and social inequality, central banks (CB)are on the frontlines. In the context of the ECB's and the Federal Reserve's strategic reviews there are now open debates about their new tools, targets and mandates. But a more profound change in central banks' behaviour should also be discussed, regarding recession aversion, fiscal dependence and markets interaction.

DIDIER BOROWSKI,
Head of Global Views

PIERRE BLANCHET,
Head of Investment Intelligence

Central banks have become recession-adverse

Over the past decades, CBs have mainly been re-active to external shocks and significant accelerations or slowdowns affecting the economy. They have carefully dealt with the normal phasing of the economic cycle as a natural adjustment, in a sort of cyclical neutrality. Hence, the common view that central banks are "behind the curve" i.e. financial markets are adjusting faster than monetary policy.

But 2018-19 shows a different picture. Major central banks have pro-actively changed their policies without hard evidence of an economic slowdown, as if they were trying to erase the risk before the fact. This recession aversion is different from the implicit "Fed put" often discussed by market participants and researchers as an ultimate safety net for investors in phases of significant turmoil. Both Fed and ECB policies intended to prevent a negative phase of the economic cycle. This behaviour has surprised investors, hence the stellar performances across asset classes in the second half of last year.

Why is it so important to avoid a recession?

The first explanation is that the global economy is still fragile, and a traditional cyclical slowdown could cause significant damage. Many countries that did not improve their economic resilience through structural reforms and public debt reductions might struggle in a recession if the bond market questioned their debt sustainability. In a context of rising populism, a wait-and-see attitude can therefore be dangerous. Secondly, central banks might simply be short of ammunitions to deal with a recession, and therefore need to stop the disease as soon as the early symptoms appear. These good reasons emphasize CBs' cyclical dependency.

Fiscalisation of monetary policy

Another important change is the link between fiscal and monetary policy. According to textbooks, monetary policy is a short-term fix in reaction to an economic shock (such as Covid-19) or to a pronounced slowdown of the economy, before fiscal policy kicks in to restore the growth path. Monetary policy can be implemented in a timely and technocratic manner while fiscal policy requires political support. The independent central bank pursues inflation targeting and carefully avoids long-term imbalances. We know that, in reality, things are more complex. But still, this has been the intellectual framework among advanced economies. Now Christine Lagarde is calling for more support from euro-area countries with budget surpluses. Although a closer coordination of fiscal and monetary policy looks reasonable, the new mantra is *fiscalisation of monetary policy*. There is a difference between coordination and condition, just as there is a difference between correlation and causality. Though coordination is needed, if monetary policy becomes a condition of fiscal policy then it undermines CBs' independence. Moreover, in an economy where debt to GDP is close to 100%, interest rates are below 1%, taxes account for 40% of GDP, and the central bank is buying 60% of net government debt issuance, the difference between *fiscalisation of monetary policy* and *monetization of fiscal policy* is only semantic. The risk is therefore a loss of credibility in an attempt to support economic growth.

Market and CB reflexivity

Like never before, investors' behaviour and asset classes' movements have become a direct function of central bank decisions, as well as a measure of success of their policies. QE and negative interest rates have significant implications for financial markets, as they erase the need for, and therefore the value of, hedging strategies, while lowering risk premia and artificially increasing diversification. Yet, central banks' influence on wide range of financial instruments leads to a form of Hegelian master-slave dialectic at the expense of their independence. As they try to protect investors and states, CBs become market-dependent.

To be fully comprehensive, the CB strategic reviews need to take these developments into account. While central banks are trying to save us from ourselves, they undermine their own credibility in a form of triple dependence on the economic cycle, fiscal policy and financial markets.

Finalised on 26/02/2020

To be fully comprehensive, Central Banks reviews need to reassess their independence

As part of Global Research, the main mission of the newly established Global Views team is to strengthen Amundi's thought on key cross-cutting thematics

Central banks reviews	
European Central Bank	4Q 2020
Federal Reserve	2Q 2020

THEMATIC

Coronavirus and Italy's vulnerability

A deep dive: from local impact to national implications

ANNALISA USARDI, *CFA*
Senior Economist

We leverage data from the Italian statistics office (ISTAT) at a regional and provincial level to put the possible impact of the virus outbreak on economic growth into perspective. With considerable uncertainty about how long the crisis will last, as of now, a zero-growth scenario this year already seems on the cards.

Over the past week, several cases of coronavirus have been confirmed in key production and tourism districts of northern Italy, quickly raising concerns of a recession risk. **Time is a key factor: broad implications will depend on the duration of emergency measures and on the most acute phase of the crisis. A quick return to business as usual may limit the impact to Q1 and facilitate a quick rebound in Q2, limiting the impact on the Italian economy**. Also, any better-than-expected developments on the external front might temper the negative impact on domestic demand. Yet, risks remain skewed to the downside.

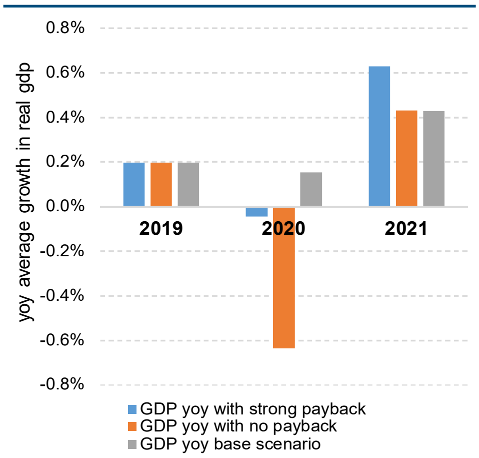
In a recent interview, the **Bank of Italy Governor said that 0.2% of GDP is at stake.** Assuming this as a fair estimate of the shock and that it is concentrated in Q1, **the stress would likely imply a significant contraction in Q1 (-0.6% QoQ), hence a technical recession (after -0.3% QoQ in Q4 2019), and would bring growth to zero in 2020 (if we assumed a significant rebound in Q2 and an average growth rate of 0.2% QoQ for H2 2020). In the absence of V-shaped rebound, growth could well move to -0.6%YoY in 2020.**

Far from any attempt at being exhaustive, we put in perspective the extent of damage, while focusing on two direct channels of domestic stress (loss in consumption and production), trying to find possible "benchmark" scenarios in line with the level of stress described above.

Impact via stress on consumer behaviour: Assuming considerable stress, i.e. that for four weeks three categories in particular of consumption (transport, clothing and footwear, hotels and restaurants, which we assume to have a weight on regional consumption equal to the national one) halve in those regions (Lombardy, Veneto, and Emilia Romagna, which account for 37% of final consumption expenditure of resident and non-resident families and up to 32.2% of the total Italian population, i.e. more than 19.4 million people) the impact is approximately between €4.2 billion and €4.5 billion. It is clearly a significantly stressed combination of factors, in terms of breadth (regional level and not the town/area level), duration (four weeks) and impact (halving consumption in selected categories with no offsetting factors). By attributing this impact totally to the first quarter (but allowing payback in Q2), 2020 GDP projections move to below -0.1% YoY. By relaxing the assumptions either on the duration of the stress (two weeks) or geographical extent (only selected provinces), the effects are clearly reduced so that growth projections come back in line with a 0% GDP growth in 2020 if the Q2 payback effect is allowed. Indeed, on the one hand, several factors could mitigate the estimated impact, considering that other spending may partly offset the decrease in the selected categories (e.g. for disinfectants, personal care, online sales vs retail sales); on the other hand, some consumption can be assumed to be gone forever (restaurants, travels etc) with little payback effect to be considered. At the same time, while areas affected are limited in extent, irrational behaviour could

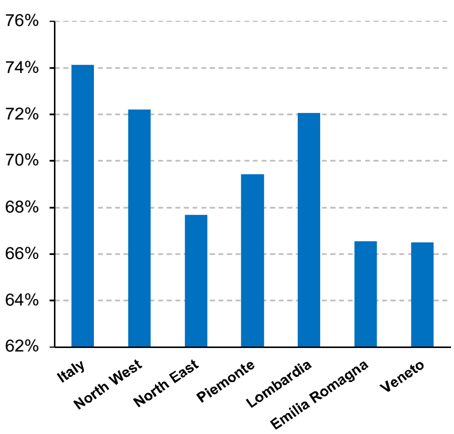
We evaluate two direct channels of domestic stress, consumer and production

1/ **Italy real GDP projections for 2020-2021 under three assumptions**



Source: Amundi Research, Datastream, ISTAT, as of 25/02/2020

2/ **Services weight as % of reference area value added**



Source: Amundi Research, Datastream, ISTAT, as of 25/02/2020

THEMATIC

Little visibility, yet stagnating growth (at best) very likely

heighten risk perception and severely impact consumer confidence not only in the regions affected but also at the national level, amplifying the effects.

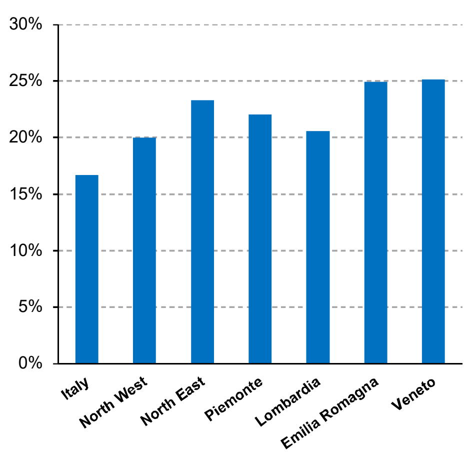
Impact via the production channel: Lombardy, Emilia Romagna and Veneto account for around 40% of Italian GDP. At this stage, the implied regional impact is enormous. Assuming that services and manufacturing work at 70% for two weeks, the impact would be around negative €7 billion. GDP growth would decline to -0.3% YoY in 2020, (allowing for payback in Q2). Assuming only a few provinces are affected (Milan, Cremona, Lodi, Padua, Piacenza, for instance) at 50% capacity, then the impact would move GDP growth to 0% YoY in 2020, allowing for payback in Q2. Reports from those areas and companies do not point to a shutdown of activities of this sort. Yet, looking at energy consumption, at a national level energy consumption on Monday, 24 February was 6.6% below the weekly average, and on Tuesday the 25th 2% lower, which could point to a normalisation impact on the production front already taking place.

Data are available at regional or province levels. On that basis, **we simulate scenarios where the areas involved are much broader than the actual areas shut down or where significant limitations are in place.**

Although not necessarily realistic, this exercise may be helpful for putting the numbers and the risks in context. We already expected the Italian economy to grow by a meagre 0.2% YoY this year, supported by weak but positive growth in domestic demand and international trade, with high vulnerability to external and internal shocks. **Recent developments put this projection at high risk**, with the downside scenario projection of GDP growth down to -0.5% YoY (or less) becoming not unlikely, should an extension of the domestic stress limit the extension of payback effects in Q2, or external demand deteriorates further (or a combination of both). Indeed, the stress will work though interacting factors that are difficult to estimate in advance and perhaps focused on selected sectors. For instance, the impact on tourism is estimated to be significant for H1 at least, but may also significantly affect the summer period. According to Bank of Italy, in 2017, activities directly attributable to tourism account for more than 5% of GDP and 6% of employment.

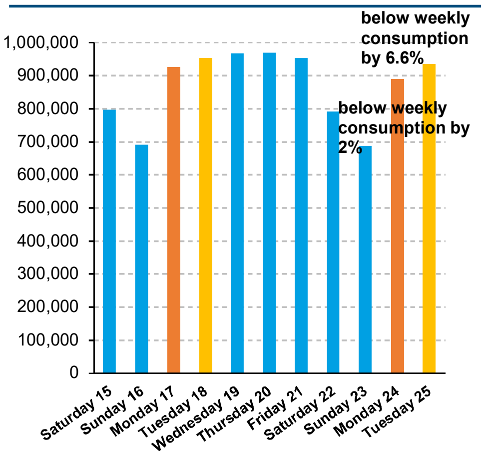
Finalised on 27/02/2020

3/ Manufacturing weight as % of reference area value added



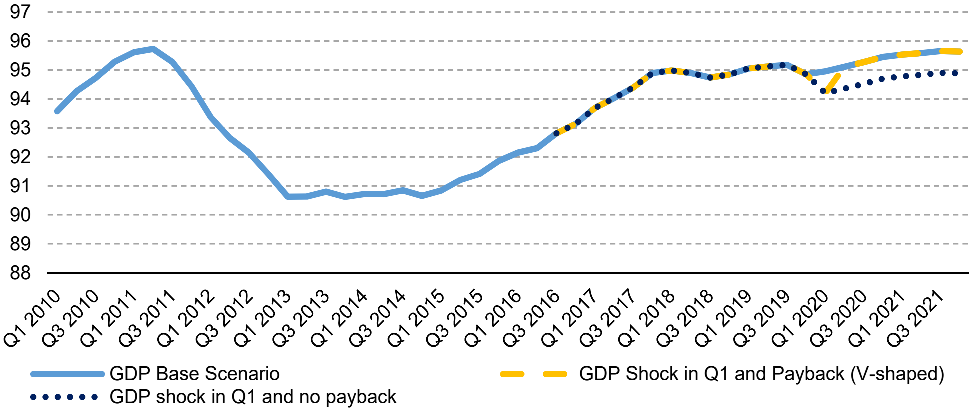
Source: Amundi Research, Datastream, ISTAT, as of 25/02/2020

4/ Italy energy consumption, February (daily megawatt)



Source: Amundi Research, Terna, as of 27/02/2020

5/ Italy GDP projections under 3 scenarios, Q1 2008=100



Source: Amundi Research, Datastream, ISTAT, as of 25/02/2020

THEMATIC

The repricing of credit risk

Markets are now questioning the assumption of world growth stabilization. Before the sell-off, corporate debt market was driven by liquidity/search for yields without worrying about fundamentals: huge inflows, very active primary market, and tight valuation. This risk-off market moves could penalize global growth, especially given how late we are in the cycle.

VALENTINE AINOUZ, *CFA*
Deputy Head of Developed Market Strategy Research

In 2019, we switched from low interest rates to ultra-low interest rates for longer with central bank liquidity injections

The global economy entered a synchronized slowdown. Global growth was downgraded to 3%, its lowest rate since 2008. The weakness in growth was driven by a sharp deterioration in global manufacturing activity to levels not seen since the financial crisis, on the back of rising trade and geopolitical tensions, the slowdown of the Chinese economy, and a slump in the auto industry. Domestic demand in developed economies remained solid, supported by strong employment gains and the expansion of the service sector.

The world's major central banks returned to an easing stance, due to weak global growth and muted inflation. In particular:

- The Federal Reserve made a sharp U-turn in the path of its monetary policy in January of last year, ultimately cutting its key rate three times in 2019, compared with its previous own forecast of three hikes. FOMC members consider these cuts as "insurance cuts", as the US economy is driven by solid consumer spending but threatened by global weakness, the US-China tariff war and Brexit uncertainties.
- The European Central Bank delivered a full package, cut its deposit rate by 10bp to minus 0.5% and restarted its asset purchase program in November. The size is modest (€20bn per month) but the program is open-ended and would last "as long as necessary".

All in all, negative yields have become the new norm after central bank policy and weak growth prospects led to a huge bond rally. The global pool of negative-yielding bonds has jumped to more than $15 trillion. The vast majority of bonds in Europe and Japan carry negative yields to maturity. In the euro fixed-income space, debt in negative yield rose back to 55% by the end of January, after falling to 45% by end December 2019. Italy, BBB corporates and HY account for almost all available yields above 1%.

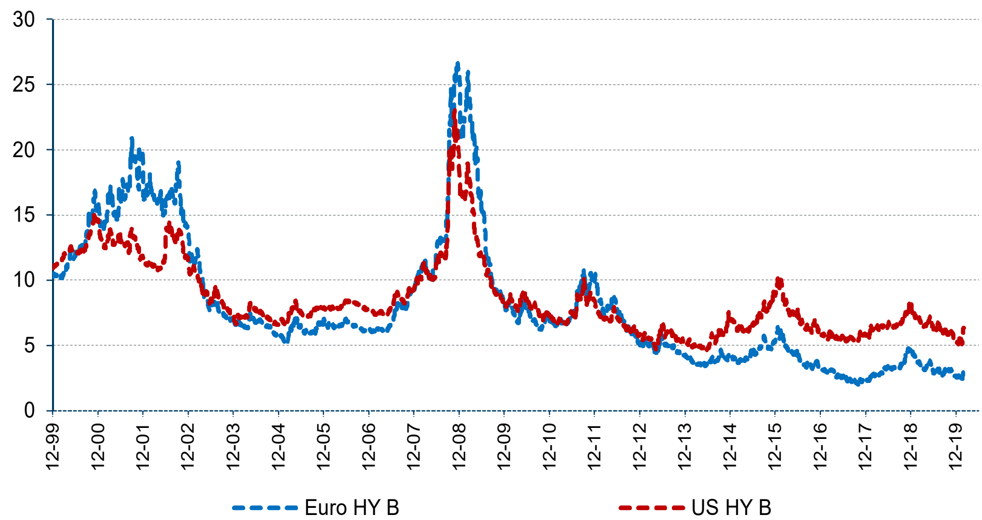
The credit market has become addicted to liquidity

Before coronavirus concerns hit the markets, fixed-income investors were looking for a strategy to generate income in a world of low or negative interest rates. The result was:

- **Huge inflows into the corporate bond market.** The growth and persistence of negative yielding debt has pushed investors into taking more risks.
- **Intense activity on the corporate debt primary markets.** Strong demand easily absorbed this new supply and the order books were often spectacular. On Euro IG market, 2019 volumes reached decade-high levels with huge activity in

The credit market has become addicted to liquidity

1/ **Yield: Sovereign and Corporate debt (in %)**



Source: Bloomberg, Amundi Research - Data as of 28/02/2020

THEMATIC

BBB-rated issuers, long maturities and US-domiciled issuers.

- **Tightening in IG and strong compression in HY.** Investors' demand for spread products pushed spreads and volatility lower and flattened spread curves. In particular, the yields offered by US B-rated issuers reached an all-time low of 4.9% in early February.

Because of this environment, corporate default rates were below long-term average despite heavy leverage of some issuers and weak earnings growth. As long as a company can refinance its debt at advantageous rates, it does not default. In other words, default rates projections are lagging behind current market conditions!

The assumption of global growth stabilisation is now challenged by the coronavirus crisis

Before the coronavirus, the scenario for 2020 priced in by the markets was a stabilisation in global growth as trade tensions and monetary policy eased. In light of the very low/negative returns on offer on sovereign core bond markets, this backdrop would have been favorable for risky assets despite tight valuations.

Ultra-accommodative monetary policy stretched the credit cycle, but it has not disappeared

The assumption of a stabilisation of world growth is questioned today by the markets. The health crisis has the potential to shock the economy via direct impacts (lower tourism, lower goods exports and global supply chain disruption) and indirect impacts (tightening in financing conditions).

Going forward, we have no doubts on central bank willingness to keep a dovish bias. This unprecedented landscape of "negative yields combined with central bank purchases" is unlikely to change substantially soon. Nevertheless, investors could pay more attention to fundamentals and it is difficult at this stage to assess the magnitude of the damage the virus will do to the economy.

The risk is a jump in corporate default rate and wave of BBB downgrade

Corporate fundamentals are at the center of the game. The coronavirus could have a significant impact on companies via:

- **A tightening in financing conditions.** In recent days, growing fears about global growth have caused market volatility and risk premiums on bonds to rise. The coronavirus stopped the euphoria of the primary corporate bond market. The risk is that the market will close for an extended period.
- **Earnings pressure.** If the coronavirus is not contained quickly, it will affect earnings significantly. It is worth noting that earnings growth was already weak even before the coronavirus. The energy, automotive and tourism sectors will be particularly affected by this health crisis.

This could lead to an increase in:

- **Downgrades.** The riskier environment could encourage rating agencies to downgrade high-leverage US BBB issuers (50% of US IG).
- **Defaults**. Increase in risk aversion and sluggish earning growth is a big threat to low-rated HY companies. Indeed, interest coverage is more closely related to earnings than to interest expense, as interest coverage could be quickly eroded by a hit to earnings.

The shock could possibly prove stronger in the short term, but we are sticking with the view that the situation will stabilize at some point in the coming months, leading to a catch-up thereafter. Additional support from central banks and governments to fight any further deterioration in the economic outlook is a key assumption regarding this view. Nevertheless, we have to remain vigilant, accommodative monetary policies are stretching the credit cycle but it has not disappeared. Sustained risk-off market or a significant risk premium adjustment by the markets could seriously penalize global growth, especially given how late we are in the cycle.

Finalised on 27/02/2020

THIS MONTH'S TOPIC

US and European corporate earnings: after four quarters of stagnation, what is the outlook for 2020?

IBRA WANE,
Senior Equity Strategist

Fourth quarter 2019 earnings season confirmed the flat trend of the past 12 months. Hardly had 2019 ended than all eyes turned to 2020. For several months now, the earnings growth consensus for 2020 looked too optimistic. The spreading of coronavirus has only made us more cautious. The epidemic will certainly have a big impact on the first quarter of 2020 but some catching-up can be expected in the following quarters. In the short term the market should remain nervous. In the longer term a cautious optimism should eventually prevail.

2019 results marked by a mediocre global context and the fading impacts of the US tax reform

Flat earnings for the fourth consecutive quarter...

Q4 2019 earnings season is gradually coming to its end. The time is ripe for an assessment and to adjust our forecasts for 2020 while factoring in the coronavirus impact.

Earnings were flat for the fourth consecutive quarter in Q4 2019 on both sides of the Atlantic, at +3.1% for S&P 500 companies and -0.2% in Europe (see carts 1& 2). They continued to be driven by the sharp slowdown in global growth since its 2017-2018 peak, and, in the case of the US, the fading of the impact of the 2017 tax reform.

Nonetheless, downward momentum in earnings forecasts has been less pronounced in the US than in Europe. Q4 2019 blended earnings of S&P 500 companies were ultimately a little better than expected, (+3.1% as of 18 February vs. -0.3% on 1 January) while it was the contrary for the Stoxx 600 in Europe, (-0.2% vs. +3.7%). We mustn't read too much into this slight uptick in US Q4 forecasts as it has not spilled over into the following quarters; just the contrary.

...wide sector disparities

However, the stagnation Q4 2019 of earnings conceals wide sector disparities in both the US and Europe.

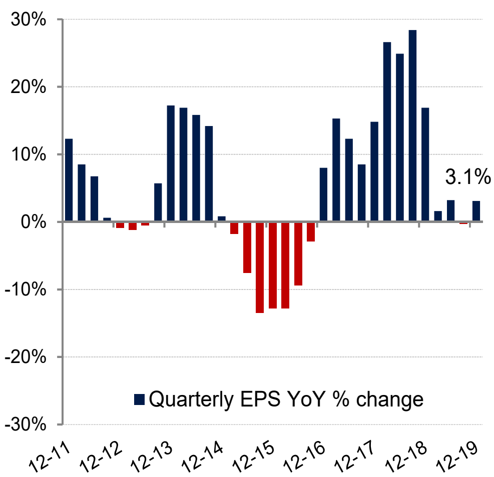
Energy and commodities stocks have dragged down overall earnings growth on both sides of the Atlantic. They alone have subtracted three to four points of EPS growth from the S&P 500 and the Stoxx 600 (see charts). These two sectors have declined over the past few quarters mainly because of slowing growth worldwide, particularly in China. Many commodity prices fell in Q4 2019, including an average year-on-year decline of 9% by both Brent and the CRB index of industrial commodities. Meanwhile, oil sector earnings fell far more in the US than in Europe, as US groups are more integrated upstream and, hence, more exposed to shifts in crude oil prices.

On the other hand, financial companies' earnings fared well, in both the US (+12%) and Europe (+4%), albeit more so in the US, given the economy's stronger growth, a more favourable yield curve, and the leading role played by their investment banks.

Across the other sectors, in the US, manufacturing (-10%) and consumer discretionary (0%) took a hit, due, respectively, to troubles at Boeing, Ford and GM.

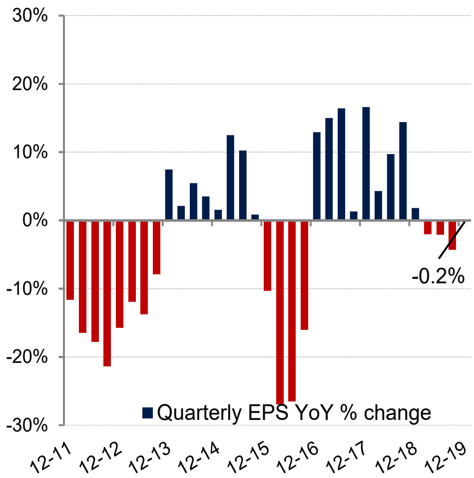
However, technology – a sector that is crucial to Wall Street, accounting for almost 25% of total capitalisation – recovered

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



Source: IBES, Amundi Research

2/ **Stoxx 600 Quarterly results**



Source: IBES, Amundi Research

THIS MONTH'S TOPIC

For months, the 2020 consensus seemed far too optimistic...

... The Coronavirus has reinforced these doubts!

The size of the Chinese economy has quadrupled since the time of SARS in 2003...

(+9%) after declining for three consecutive quarters.

In Europe, autos (-27%) were squeezed by lower volumes and the costs of future development (CO^2, autonomous cars, etc.) while luxury goods (+14%) continued to gain despite the Hong Kong demonstrations. Earnings improved as well in consumer staples (+7%), healthcare (+4%) and in industry (+5%); the latter being driven by the momentum of Airbus and the electrical equipment

After four flat quarters, what is the earnings outlook for 2020?[1]

To date (February 24), the IBES consensus continues to forecast 2020 EPS growth of about +9% for the MSCI ACWI, including +8% in the US, +7% in Europe and as high as +15% in emerging markets.

For many months we had felt that these forecasts were unrealistic and were rather considering a 5% EPS growth, both the US and Europe, given top-line pressures and poor pricing power of corporates, late-cycle wage rises spillover from higher customs duties and less share buybacks in the US ,

A new factor has now emerged – the coronavirus epidemic, with all its resulting uncertainties on global growth and business operations.

The coronavirus epidemic has thrown a wrench into forecasts

While the epidemic is developing and many restrictions remain in place, it would be guesswork to quantify the coronavirus's global impact. Still, it does appear greater than the SARS epidemic of 2003 which hit Chinese GDP hard in the 2nd quarter of that year. However, as usual in this type of crisis, the initial shock is likely to be mostly absorbed in the following months, due to firebreaks being set up (with a more favourable policy mix, etc.), automatic stabilisers (falling bond yields, etc.) and deferred consumption of some durable goods. For example, Chinese growth was hit by SARS for just three months before beginning to rebound sharply in the third quarter of 2003.

But this time, the initial shock should be greater, due to unprecedented quarantine measures taken in Wuhan and its Hubei region and nationwide travel restrictions. A lack of workers, of masks in sufficient numbers and of spare parts is nipping in the bud any attempt at relaunching work on a large scale. For example, according to the US Chamber of Commerce in Shanghai, which is 700 km from the epicentre of the epidemic, two thirds of US companies in the Shanghai region have resumed production since 10 February, but 78% of them don't have enough workers to operate at a normal pace. Meanwhile, Volkswagen, to take one example, had planned to reopen its Shanghai plant on 10 February, but has already pushed back this date twice, to 17 and then 24 February.

Beyond China, the global fallout of the coronavirus epidemic will be of another magnitude compared to SARS, as China's share of the global economy has quadrupled since SARS.

...especially as China is now at the heart of many value chains

China, the "world's workshop", is now at the heart of many value chains. As a result, the repercussions of the coronavirus-related standstill will be felt not just in China but well beyond.

Wuhan, for one, is a major auto production centre. That's where Dong Feng, China's second-largest automaker, is headquartered, along with many foreign automakers and equipment makers, such as GM, Nissan, PSA, Renault, Honda, Valeo or Faurecia. With supplies of electronic cables from Hubei cut off, Kia, Hyundai and Renault Samsung Motor plants 1500 km way, in Korea, have been forced to lay off 25,000 workers temporarily.

China is also a key player in electronics and many foreign manufacturers rely on its subcontractors. According to the *Nikkei Asian Review*, as of March 2019, 41 of Apple's 200 main suppliers were Chinese, i.e. three times greater than in 2012 and more than its US suppliers (37). On top of that, many foreign suppliers do some of their manufacturing in mainland China, such as Taiwan's Foxconn, which, early February, lowered its 2020 Sales guidance, as its workers were quarantined when they returned from vacation leave.

Something that is less widely known: China is also closely intertwined into pharmaceutical value chains. 80% of active principles used in Europe are from Asia, China in particular. This could lead to empty stocks or even supplies being cut off entirely.

Lastly, despite the support measures announced, the post-epidemic rebound should be less stark than in 2003, as the Chinese economy's structure has changed profoundly since then. In 2003, China was far more focused on manufacturing; nowadays, services are playing a much greater role. One way to think of it is this: in 2003, additional workers were all that was needed to ramp up the pace of production line and make up ground lost to SARS; this time, it will be harder to make up the lack of services.

[1] *See our longer version in a thematic paper soon available: US and European corporate earnings: overshadowed by Covid-19*

THIS MONTH'S TOPIC

...and the exposure to China of the Stoxx 600 companies increased eightfold over the same period!

Earnings cut are inevitable...

... the capacity of the market to look beyond the valley will depend of the length of the epidemic

In recent days, the epidemic seems to be slowing down in China but has started to spread beyond, especially in South Korea, Iran and Italy.

Within China, the preventive measures taken one month ago, just before the Chinese New Year (24-30 January) remain nonetheless very strict which is casting doubt on the announcements of business returning to normal. If these restrictions were to last a few more weeks, many companies would face liquidity squeezes. No doubt they would receive public assistance but, as usual, smaller private-sector companies would be much more vulnerable.

Earnings will be under particular pressure at one fourth of listed companies

Given the Chinese economy's increased weight and involvement in value chains, the global repercussions should be greater this time, and will spill over clearly into companies' financial results.

For example, Stoxx 600 companies' direct exposure[2] to China averages almost 8%, up from less than 1% in 2003. Meanwhile, of the 24 sectors of the GICS nomenclature, six are more than 10% exposed. These six sectors – autos, energy, luxury goods, semi-conductors, tech hardware and basic materials – together account for 23% of the market capitalisation of the Stoxx 600, but, more importantly, 37% of the rebound in earnings forecast for 2020.

In the US, S&P 500 companies' 5% exposure to China is slightly lower than Europe, but exposure is 10% or higher in six sectors as well, out of which five are in common with Europe (autos, energy, luxury goods, semi-conductors and tech hardware), along with a sixth, consumer services, which includes hotel and restaurant chains, cruise ships and casinos. These six sectors that are most heavily exposed to Chinese demand together account for 18% of the market capitalisation of the S&P 500 and 26% of the rebound in earnings forecast for 2020.

In light of the above, 2020 earnings forecasts will depend closely on how fast business returns to normal in China. This is particularly the case in Europe, which is more heavily exposed to China and where domestic margins are generally lower than those achieved in emerging markets. Sales warning and Profit warning should therefore bourgeon in Q1 2020.

If the epidemic wears off a bottoming out should take suit from April. However, the extent of this will vary from sector to sector. To take one example, only a very few restaurant meals, hotel stays, and cancelled travel plans will be made up. In contrast, a significant portion of lost sales in the first quarter in luxury goods, will be made up later.

All in all, assuming a peak in April,instead of the 7 to 8% 2020 EPS growth thus far forecast by the IBES consensus (for the United States and Europe), we feel it is more reasonable to adjust our post-coronavirus forecasts from +5% to +2% in the US and from +5% to 0% in Europe, as Europe is more heavily exposed.

It's still worth being cautiously optimistic

After showing very little reaction at the start of the epidemic, the equity markets finally buckled on 24 February, one month to the day after the start of quarantine measures in Wuhan. From peak to trough (from 19 to 25 February), the Stoxx 600 and S&P 500 lost 7%-8%, but given their previous rally, they were only down 3% since the start of the year, following increases of 23% and 29% last year.

In the past, sharp equity sell-offs have always been followed by a rebound in subsequent months. The same could happen this time, but the timing and extent of any rebound are uncertain.

In particular, the timeframe will depend on how the epidemic progresses. With SARS, the market bounced back after the epidemic hits its peak. This time, investors will also be looking at when businesses and supply chains return to normal, which could delay the rebound by a few more weeks.

As for the extent of the upturn, while valuations may still have some upside potential due to particularly low interest rates, it is also important to take into account forthcoming cuts to earnings forecasts.

Between the string of poor economic indicators, profit warnings and defaults to follow, a possible rebound of the epidemic and the unpredictability of the Democratic primary in the United States, the market could remain volatile for some weeks. That's why hedging strategies are crucial.

That being said, between the authorities' determination to provide support, the watchful eyes of the central banks and the lack of alternatives to equities in an environment of extremely low interest rates, cautious optimism is still the proper stance.

(Finalised on February 25, 2020)

[2] *Regarding luxury goods, a distinction must be made between direct exposure (purchases by Chinese persons in China) and indirect exposure (purchases by Chinese tourists outside China); indirect exposure is typically twice as high as direct exposure.*

CENTRAL & ALTERNATIVE SCENARIOS

Monthly update

We keep probabilities unchanged but we "darkened" and detailed the narrative in our different scenarios

DOWNSIDE SCENARIO Stormy waters

30%

- **Faltering effort to restart Chinese growth:**
  - Spill over to the banking sector and exacerbation of financial risks
  - Rising default rate due to global recession and risk of financial instability
  - Asia ex-China has limited ability to implement policy measures (second-round effect recession in the region)
- **Covid-19 spreading fast in the RoW:** Market re-assessment of risks leading to tightening in financial conditions
- **Emergency funding** (liquidity injections) triggered by policies to reduce the pressure on monetary policy, lead to debt unsustainability
- **Relocation and replacement of supply chains:**
  - Lower trend growth in China
  - Global recession due to a globalisation unwinding
- **Trade war escalates** and results in a deeper contraction in global trade, a manufacturing slump (with spillover to services) and a currency war
- **Exacerbation of idiosyncratic risks** (Middle East, Hong Kong, US elections, Brexit and Italy)

CENTRAL SCENARIO Hope it's a U

55%

- **Temporary shock to growth (V or U):**
  - The coronavirus impact proves "short lived" (H1)
  - The shock might be deeper than expected in the short run, but we stick to the view that it doesn't impact potential growth
  - Subsequently, we expect a progressive catch up in H2 followed by a stabilisation at potential
- **Low rates, low inflation, low single-digit profits growth** for corporates
- Record **high debt** (public and corporate)
- Prominent **geopolitical** dimension (watch US elections in particular)
- **Monetary and fiscal policy** combination mitigate trade uncertainty and manage coronavirus implications

UPSIDE SCENARIO Shine on risk assets

15%

- **Smart and robust packages in China** leading to a rebound of global growth
- **Monetary and fiscal policy support** (Europe/Germany, and possibly the US too) + **positive impact coming from the past policy mix**
- **Europe: significant progress on the financial architecture** (capital market union, banking union, flexible fiscal rules)
- **True de-escalation** between China and the US **with a meaningful Phase 2 trade agreement**

Where do we stand on Covid-19

- COVID-19 outbreak is a temporary but profound shock on Chinese economy (Q1), and contained spillover to trade partners in Asia and supply chain shortages globally at least short term.
- The Chinese economy will contract in Q1 and should then rebound, but how quickly and how fast remains uncertain. Watching data on energy consumption (coal), trade and PMIs is more crucial than forecasts. In our central scenario, we assume the Chinese government is attempting to offset COVID19 with easier policies, resuming normal production capacity in Q2 and will focus on continuity, social stability more than growth targets. We believe this recovery path from Q2 is our major call.
- We expect a downturn in global trade, affecting industrial production and manufacturing. Countries such as Korea, Japan and the Eurozone are the most vulnerable. We also expect a drop in global confidence (PMI Global Manufacturing).
- More recently, the COVID19 out-broke on a larger geographical scale. The impact is a demand/supply shock, internal and external and lastly involving both manufacturing and services sector endogenously at country level. This leads to higher recession risks.
- Longer term, the coronavirus will incentivise western multinationals to significantly reduce the Chinese labour forces, eventually triggering insourcing from China. Therefore de-globalisation faces a renewed spin, and financial markets will provide a premium to countries that are able to adjust and "self-help" themselves faster than others.

TOP RISKS

ECONOMIC RISK

12%

Probability

China / Asia growth

- **Faltering effort to restart Chinese growth,** spillover to banking sector and financial risk exacerbation, default rate lift landing on **global recession and financial instability.**
- Asia excluding China has **limited ability** to implement policy measures to adjust the cycle back to a virtuous path (recession).
- Debt burden exacerbated by emergency liquidity injection to overcome coronavirus drawdown.

DM growth

- **Virus expands globally,** governments seek expansionary policies to offset Covid-19 but it's **chaos leading to recession**

+ DM Govies, Cash, Gold, linkers, USD, Defensives vs. Cyclicals

- Oil, risky assets, FX commodity exporters

FINANCIAL RISK

15%

Probability

Market re-assessment of risks

- **Spillovers leading to tightening financial conditions,** PMI faltering to recessionary level generating financial turbulence (market washout) and eventually EPS recession
- Mounting **corporate vulnerability**
- **Credit illiquidity** and risk misallocation
- Drying up of USD liquidity
- Central Banks inefficacy

+ US Govies, CHF/AUD, YEN (AUD, NZD, CAD), CDS, optionality, Min Vol

- Oil, risky assets

(GEO)POLITICAL RISK

10%

Probability

Exacerbation of idiosyncratic risks

- US elections
- Germany
- Italy
- Brexit
- Middle East
- Hong Kong
- **Trade war escalates** and results in a deeper contraction of global trade, a manufacturing slump (with spillover to services) and a currency war

+ DM Govies, Cash, Gold, linkers, USD, volatility, quality

- Oil, risky assets, EMBI

Methodology

- **Scenarios**

The probabilities reflect the likelihood of financial regimes (central, downside and upside scenario) which are conditioned and defined by our macroeconomic 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 wrapped in three categories: Economic, Financial and (Geo)politics. While the three categories are not independent, 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.

GLOBAL RESEARCH CLIPS

1 Corona Virus Outbreak

- Temporary, albeit profound and impactful, shock to the Chinese economy (4.5% 2020Q1E (was 5.8%) and 5.6% YoY 2020E, was 5.8%), impact on Asian countries primarily regarding exports and tourism. This shock and the bleak tone of hard data (led by Germany) results in slowing global trade dynamics and shift of USD denominated paper. US remains resilient on weaker imports. The shock delays expectations for a global (tactical) momentum.

2 PMIs: manufacturing PMI was potentially recovering, but coronavirus impact not yet embedded

- In the US, the divergence between ISM and PMI narrowed: potential surveys do not fully reflect the coronavirus (surveys conducted in early stages of the news). Progressive recovery in the manufacturing PMI in the Eurozone but still below 50. Negative prints in China might reflect early coronavirus spillover to confidence already in December.

3 USD paper attracts investors, but the sharp repricing of fed funds rate expectations and the surge in volatility pushed down carry strategies, thus supporting the EUR.

- While concerns on global growth still point to a resilient USD, the USD rate advantage is sharply pointing south as the Fed cuts 50bps while ECB is perceived as having less ammunition from a monetary policy perspective. EUR/USD has recovered the loss registered since the end of January, as volatility surged and carry positions have been closed, with funding currencies like the EUR and SEK moving higher vs. the greenback.

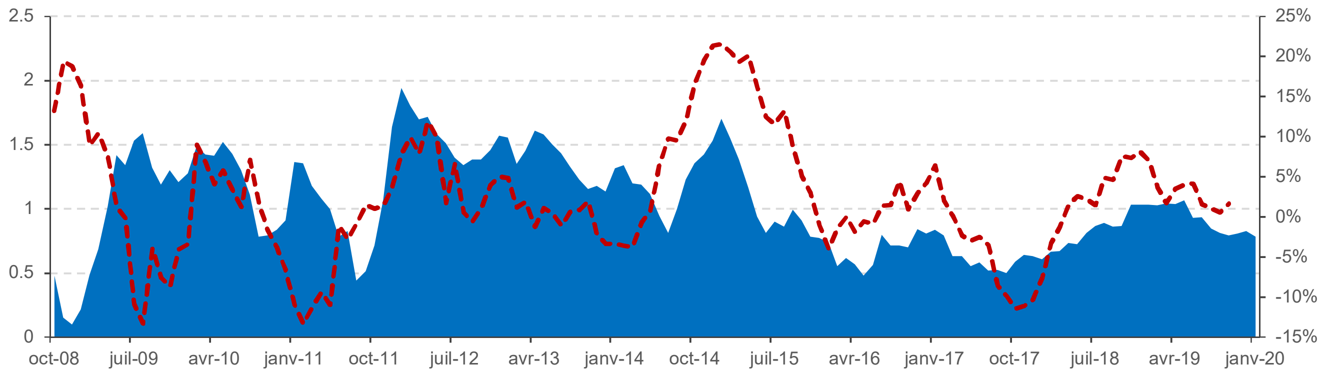
4 Global financial conditions corrected lower in response to Covid-19 concerns

- Global financial conditions tightened in February, with all regions in the “tightening” zone at the end of the month. GEM were the area with the strongest shift in financial conditions, which moved even lower to the levels seen during the summer of 2019. All sub-components moved lower, with the biggest negative contributions coming from stock market volatility, the widening in corporate spreads and USD strength vs. high yielders in the EMFX universe.

FX under the microscope - what’s behind the EUR/USD move?

With the USD trading at a premium on fundamentals, growth is what we need to see investors turning structurally bearish on the greenback. We entered 2020 with signs that the rest of the world (RoW) may have grown at a faster pace than the US, but the temporary, Covid-19-related shock to Chinese economic activity – with its negative spillovers to the RoW – is making this less likely. US assets are looking more attractive at this stage, and the USD safe-haven status, together with the highest carry in the G10 FX space, tends to attract foreign flows during periods of low market volatility like the one we are currently experiencing. Moreover, the USD’s positioning is less of a concern than a few months ago, and the possibility of further USD steps higher can therefore not be ruled out.
In other words, alternative scenarios need to materialize before we will see investors definitely closing USD longs – the flight to quality will need to dissipate, the policy mix will need to spur growth outside of the US, and the USD carry trade will need to vanish in response to a more aggressive Fed.
While it is true that the sharp repricing of fed funds rate expectations would point to a diminishing USD rate advantage in 2020, and that periods of high market volatility tend to push high yielders lower in response to closing carry positions, with no growth the USD safe-haven status will be predominant in our view, despite high valuations.
In other words, a few conditions will need to materialize before we see investors definitely closing USD longs – the flight to quality will need to dissipate on stabilizing global growth, the policy mix will need to spur growth outside of the US, and the USD carry trade will need to vanish in response to intervention from the FED.

Growth expectations remain in favour of USD for the time being



Source: Bloomberg, Amundi Research. Data as of 31 January, 2020

AMUNDI ASSET CLASS VIEWS

	Asset Class	View	1M change	Rationale
EQUITY PLATFORM	US	=		Markets are not pricing in any meaningful election risks, which could come to haunt asset prices in the future and seems too optimistic on the macroeconomic front. US equities should be more resilient in a downturn, but we are overall cautious, and we favour conservative cyclicals in the financial and industrial sectors.
EQUITY PLATFORM	Europe	-/=	▼	The virus outbreak will delay the expected cyclical recovery and leads to a more cautious approach. Future earnings outlook remains crucial to identifying potential areas of value. We continue to favour cyclical value stocks over expensive growth names, but remain selective. Opportunities to add to good quality names at discounted prices.
EQUITY PLATFORM	Japan	=		Japanese corporates have lower debt and their profits are also growing. However, most Japanese companies are exporters and could be vulnerable to a rising yen, given its safe haven status, amid the spreading risks of the coronavirus and if geopolitical risks emerge. As a result, we remain neutral.
EQUITY PLATFORM	Emerging markets	=	▼	Attractive valuations relative to the developed markets and expectations of earnings growth should support EM equities, but short term volatility is likely to persist. Here we focus on stories linked to domestic consumption or shifts in value chain (Russia, Indonesia). We are watchful of sectors directly impacted by China tourism and trade.
FIXED INCOME PLATFORM	US govies	=/+	▲	From global fixed income perspective, we keep a relative preference for US duration as safe haven demand remain high and CBs stay ready to act in case of deterioration of the scenario. The Fed has already done a step in this direction.
FIXED INCOME PLATFORM	US IG Corporate	=/+		We remain cautious in light of elevated tail risks to growth that could affect credit fundamentals; we continue to favor securitized credit over unsecured. Structured securities, including non-agency Residential Mortgage Backed Securities (RMBS), consumer debt and auto loans, are attractive relative to most other IG sectors. In agency MBS, although spreads are increasingly attractive, the ‘net supply’ impact from Fed’s dwindling agency MBS holdings will likely hamper the potential for near-term spread tightening.
FIXED INCOME PLATFORM	US HY Corporate	=		We are cautious in HY amid leverage risks and higher risks linked to the coronavirus outbreak. Liquidity could also deteriorate in case of further market risk off. Selection is key to avoid areas potentially at stress.
FIXED INCOME PLATFORM	European govies	-/=		We don’t see value in EU core govies. We have a constructive view on peripherals, especially on Italy, although we are mindful of the potential volatility due to the spread of the coronavirus in the country. Further spread widening is in our view an opportunity to add Italian debt in European fixed income portfolios.
FIXED INCOME PLATFORM	Euro IG Corporate	++		EUR IG remains attractive relative to the US, and would also benefit from ECB’s quantitative easing program. In this regard, the subordinated debt financial sector remains our top pick. Short-term volatility provides opportunity to add to this asset class, with a selective approach.
FIXED INCOME PLATFORM	Euro HY Corporate	+		We remain contructive on EUR HY. However, idiosyncratic risks are increasing and we are selective.
FIXED INCOME PLATFORM	EM Bonds HC	+		We are positive on EM debt as favourable technicals, monetary policy easing and fiscal stimulus should outweigh the coronavirus impact and volatility from US elections. We prefer countries such as Indonesia, Ukraine and S. Africa.
FIXED INCOME PLATFORM	EM Bonds LC	=		Valuations in LC debt are less attractive and we could also see some negative impact from currency weakening. This is particularly true for commodity-exporting countries and those which are more exposed to a Chinese slowdown. However, there are some pockets of value, especially in frontier markets.
OTHER	Commodities			Commodities remain relatively cheap, due to easing financial conditions and decent economic growth despite recent concerns related to the coronavirus. We remain constructive on gold in 2020, as we think these drivers will underpin demand for precious metals. Gold also looks the most efficient hedge to several risks. However, base metals are likely to suffer from the global economic slowdown. For WTI, we recently revised down our target range to \$50-\$60/bbl and for Brent to \$55-\$65, due to recent cuts in oil demand as China contribution is expected to decrease dramatically in the short run. However, OPEC should remain vigilant and very active on output cuts, mitigating external shocks if required.
OTHER	Currencies			Our 12M target for EUR/USD remains around 1.14 and we believe there are asymmetric risks in favour of the EUR. However, for the time being, the virus threat in Europe, and weak Italian production and investor sentiment could weigh on the EUR. At the same time, the USD is expected to remain resilient as concerns on global growth are not expected to dissipate soon. We keep our USD/JPY target at 104 and believe JPY is cheap relative to its medium-term fundamentals and so is GBP. We maintain our cautious view in aggregate on EM FX.

LEGEND

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	Negative		Neutral		Positive		Downgrade vs previous month	Upgraded vs previous month

Source: Amundi, as of 2 March 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 03/03/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	**3.1**	**2.7 - 3.0**	**3.3**	**3.0**	**3.5**	**2.8**
Developed countries	**1.7**	**1.1 - 1.4**	**1.5**	**1.5**	**1.7**	**1.7**
US	**2.3**	**1.7 - 1.9**	**1.7**	**1.8**	**2.2**	**2.1**
Japan	**1.2**	**0.1 - 0.3**	**0.7**	**0.7**	**0.7**	**0.6**
UK	**1.4**	**0.9 - 1.1**	**1.5**	**1.8**	**1.8**	**1.8**
Eurozone	**1.2**	**0.6 - 0.9**	**1.2**	**1.2**	**1.2**	**1.5**
Germany	0.6	0.5 - 0.70	1.1	1.5	1.5	1.5
France	1.2	0.9 - 1.1	1.3	1.3	1.3	1.5
Italy	0.2	-0.2 - 0	0.4	0.7	0.8	1.2
Spain	2.0	1.3 - 1.5	1.5	0.7	1.2	1.2

Source: Amundi Research

- **United States:** Growth is gradually sliding to potential, and inflation is close to the target. The US economy has so far been resilient, although both actual investments and future capex plans have decelerated significantly. Manufacturing, which is now trying to recover, suffered the most, while services held up. Consumption remains supported by a resilient labour market and moderate wage growth, on track with our view of gradual moderation in consumer spending. Policy framework: broadly accommodative monetary policy (one more rate cut expected); no major fiscal push in 2020; presidential elections are an additional factor of uncertainty, along with trade.
- **Eurozone:** Stabilising around potential, heavy downside risks from external demand. After a setback in 2019 linked to the considerable weakening in manufacturing, deceleration in exports and trade war concerns, we expect the Eurozone economy to stabilise to potential. The key driver is expected to be domestic demand, as consumption fundamentals remain supportive in aggregate. External demand weakness is a major downside risk, with important implications in key economies such as Germany and Italy. No major action on the monetary policy front, while some fiscal leeway could be introduced in the event of major stress.
- **Japan:** Capital investment, a principal pillar to the economy, is at serious risk. Companies had already slashed machinery orders before the Covid-19 outbreak. The epidemic scare will worsen corporate sentiment as quarantines and the suspension of assembly lines lower capacity utilisation markedly. It took three months until consumer sentiment finally stabilised after the Great Northeast Japan Earthquake in 2011, suggesting that morale could improve by May or June. The Tokyo Olympic games starting on July 24 will accentuate consumers' buying frenzy (unless they are cancelled).
- **United Kingdom:** UK GDP growth was modest in 2019, as slower global growth and elevated Brexit-related uncertainty dampened activity. This year, growth is expected to stabilise in a low gear, supported by domestic consumption, to then resume at higher speed in 2021. We expect domestic investments to remain subdued till there is more clarity on the Brexit / EU relationship details and uncertainties are removed. Upside risk to domestic demand resides in March budget, should it prove to be significantly expansionary; on the monetary policy front, we still expect BoE to stay on hold till summer at least.

Key interest rate outlook

	02-03 2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
US	**1.25**	**1.00**	**0.68**	**1.00**	**0.55**
Eurozone	**-0.50**	**-0.50**	**-0.64**	**-0.50**	**-0.66**
Japan	**-0.1**	**-0.1**	**-0.16**	**-0.2**	**-0.14**
UK	**0.75**	**0.50**	**0.39**	**0.50**	**0.36**

Source: Amundi Research

Monetary policy agenda

Central banks	Next meeting
Federal Reserve FOMC	**March 17-18**
ECB Governing Council	**March 12**
Bank of Japan MPM	**March 18-19**
Bank of England MPC	**March 26**

Source: Amundi Research

- **FED:** On the back of rapidly "evolving risks" posed from the coronavirus cited by Jerome Powell, Fed signalled openness to easing policy and rapidly moved from statement to action, cutting rates by 50bp. Our central scenario for US monetary policy moved to a cumulated 75bp rate cuts in 2020 as a whole: we expect another 25 bp cut to be delivered in one of the next meetings, in order to prevent financial conditions from an unwanted tightening. Together with more activism on rates, the Fed is also likely to keep expanding the size of its balance sheet, in next months, both through T-Bill purchases and repos, in order to reach higher targeted levels of liquidity and excess reserves in the system.
- **ECB:** Mentioning risks for both the macro and financial outlook, the ECB joined other major central banks in opening the door for more accommodation to come, despite the space for further easing at disposal looks limited on rates. "Appropriate and targeted measures" cited by the central bank point to more efforts in support of liquidity and financial conditions: we expect the ECB to focus on leeway offered by more QE and by renewed measures on long term refinancing operations. A further rate cut remains an option, but it looks less effective than other measures in terms of monetary stimulus transmission.
- **BoJ:** In line with statements released by other major central banks, the BoJ communicated that it will provide ample liquidity and ensure stability in financial markets through appropriate market operations and asset purchases. We therefore expect more liquidity to be injected into the system, and we keep our previous expectations for 10 bps rate cut in the next 12 months. At the same time, we expect the central bank to keep focusing on the slope of the curve, in order to maintain the effectiveness of monetary stimulus.
- **BoE:** Within a broad turn to a more accommodative stance of G4 central banks, the Bank of England stated that it's working "to ensure all necessary steps are taken to protect financial and monetary stability". Within a sort of synchronized global easier policy scenario, therefore, markets turned to imply two rate cuts by the BoE in the next 12 months, the first of which in the short term. In our view, the probability of a rate cut has materially increased, despite in recent meetings the BoE kept rates on holds.

EMERGING COUNTRIES

Macroeconomic outlook

Data as of 03/03/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	3.1	2.7 - 3.0	3.3	3.0	3.5	2.8
Emerging countries	4.1	3.8 - 4.1	4.4	4.0	4.7	3.5
Brazil	1.1	1.5 - 1.7	1.8	3.7	4.2	4.5
Mexico	-0.1	0.7 - 0.8	1.3	3.6	3.4	3.5
Russia	1.3	1.5 - 1.7	2.5	4.5	3.0	4.0
India	5.3	4.9 - 5.1	5.6	3.7	6.4	4.5
Indonesia	5.0	4.8 - 5.1	5.2	2.8	2.9	3.6
China	6.2	4.9 - 5.6	5.7	2.9	4.2	2.0
South Africa	0.2	0.6 - 0.8	1.0	4.6	4.1	4.4
Turkey	0.8	2.8 - 3.0	2.5	15.5	11.4	9.2

Source: Amundi Research

- **China:** Following the Covid-19 outbreak, we promptly revised down our GDP forecasts for 2020 to around 5.5% YoY from 5.8% YoY, with the bulk of the weakness coming in the first quarter, based on the assumptions that the virus will not survive beyond March/April and that activity will gradually resume in China. As of today, the number of cases in mainland China (outside of Hubei province) has stabilized and activity, based on daily figures, is slowly recovering. The policy mix is turning marginally more accommodative on both the monetary and fiscal side.
- **South Korea:** Initially, the outlook for South Korea deteriorated as a consequence of the trade channel and the supply chain impact from China. More recently, the sharp increase in the Covid-19 cases has shifted the focus from an exogenous shock to an endogenous one. We expect GDP to grow by less than 2% YoY in 2020 from 2.2% in 2019. The policy mix is at full speed even in consideration of the coming elections. The Bank of Korea will reduce its policy rates to historically low levels, and a supplementary budget will likely add to the already sizable fiscal stimulus approved.
- **South Africa:** The budget deficit is expected to widen to an 18-year high in 2020/21 at 6.8% of GDP. In a context of weak economic growth, the minister said that no major tax increases will be implemented. All efforts will be focused on the expenditure side, with a huge cut in the wage bill. This consolidation will be unable to stabilize gross debt (forecasted above 70% of GDP in 2022/23). Risks are skewed to the downside as these projections are based on a very unpopular measure that would be hard to implement as unions are already threatening to protest.
- **Argentina:** The economy is in deep recession, with inflation running at over 50% yoy. With the imposition of capital controls, international reserves have stabilized, but external liquidity remains very poor. Regarding debt restructuring, the government does not have a coherent strategy and various options have been mentioned. The IMF was recently in Argentina and concluded that the debt burden has become unsustainable and a debt restructuring with a meaningful contribution from private creditors was necessary. We expect the restructuring process is likely to be long and complicated.

Key interest rate outlook

	27-02 2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
China	4.05	3.85	-	3.85	-
India	5.15	5.15	5.15	4.9	5.15
Brazil	4.25	4.25	4.25	4.25	4.25
Russia	6	5.75	5.75	5.5	5.75

Source: Amundi Research

- **PBoC (China):** Although the PBoC had already adopted a marginal dovish stance, the pandemic risk and its impact on the economy are increasing the need for a more accommodative stance going forward. After the 50bps RRR cut by the end of 2019, in February, the PBoC cut the MLF and the 1-year LPR by 10bps (5-year LPR by 5bps). We do expect more to come on the monetary policy easing as long as the crisis is in place and the economy doesn't return to a more comfortable growth path.
- **RBI (India):** Given the evolving growth-inflation dynamic, the MPC felt it appropriate to maintain the status quo on the policy repo rate. However, the MPC also recognised that there is monetary policy space for future action. Shortly after the Budget Law announced on 1st February, we pencilled in more easing to come by the RBI, albeit limited by the inflation path in terms of timing and size. Well aware of its constraints, the RBI has highlighted other ways to revive growth, such as incentivising bank credit to specific productive sectors or extending the one-time restructuring scheme for MSME advances.
- **BCB (Brazil):** The BCB has lately changed its stance, opening up to a further easing after letting the market understand that the easing cycle had finished at the end of last year. As clearly stated in the statement, the BCB is now ready to interrupt its easing cycle and monitor the trend in economic activity and the balance of risk, focusing more and more on 2021.
- **CBR (Russia):** January headline inflation fell to 2.4% yoy from 3% yoy in December 2019, with the decline mainly driven by food disinflation and lower import prices. The CBR sees limited inflation risk from the recently announced budgetary social spending measures, but rather sees disinflationary risks on a short-term horizon. With inflation trending well below the 4% target, we expect a total of two 25bps cuts in the next twelve months.

Monetary policy agenda

Central banks	Next communication
PBoC	March 20
RBI	April 3
BCB Brazil	March 13
CBR	April 24

Source: Amundi Research

MACRO AND MARKET FORECASTS

Macroeconomic forecasts (3 March 2020)

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
US	2.3	1.7 - 1.9	1.7	1.8	2.2	2.1
Japan	1.2	0.1 - 0.3	0.7	0.7	0.7	0.6
Eurozone	1.2	0.6 - 0.9	1.2	1.2	1.2	1.5
Germany	0.6	0.5 - 0.70	1.1	1.5	1.5	1.5
France	1.2	0.9 - 1.1	1.3	1.3	1.3	1.5
Italy	0.2	-0.2 - 0	0.4	0.7	0.8	1.2
Spain	2.0	1.3 - 1.5	1.5	0.7	1.2	1.2
UK	1.4	0.9 - 1.1	1.5	1.8	1.8	1.8
Brazil	1.1	1.5 - 1.7	1.8	3.7	4.2	4.5
Mexico	-0.1	0.7 - 0.8	1.3	3.6	3.4	3.5
Russia	1.3	1.5 - 1.7	2.5	4.5	3.0	4.0
India	5.3	4.9 - 5.1	5.6	3.7	6.4	4.5
Indonesia	5.0	4.8 - 5.1	5.2	2.8	2.9	3.6
China	6.2	4.9 - 5.6	5.7	2.9	4.2	2.0
South Africa	0.2	0.6 - 0.8	1.0	4.6	4.1	4.4
Turkey	0.8	2.8 - 3.0	2.5	15.5	11.4	9.2
Developed countries	1.7	1.1- 1.4	1.5	1.5	1.7	1.7
Emerging countries	4.1	3.8- 4.1	4.4	4.0	4.7	3.5
World	3.1	2.7 - 3.0	3.3	3.0	3.5	2.8

Key interest rate outlook

Developed countries

	02/03/2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
US	1.25	1.00	0.68	1.00	0.55
Eurozone	-0.50	-0.50	-0.64	-0.50	-0.66
Japan	-0.1	-0.1	-0.16	-0.2	-0.14
UK	0.75	0.50	0.39	0.50	0.36

Emerging countries

	27/02/2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
China	4.05	3.85	-	3.85	-
India	5.15	5.15	5.15	4.9	5.15
Brazil	4.25	4.25	4.25	4.25	4.25
Russia	6	5.75	5.75	5.5	5.75

Long rate outlook

2Y. Bond yield

	02/03/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	0.82	1.0/1.2	0.73	1.0/1.2	0.76
Germany	-0.824	-0.70/-0.50	-0.89	-0.70/-0.50	-0.88
Japan	-0.242	-0.30/-0.20	-0.28	-0.30/-0.20	-0.29
UK	0.262	0.40/0.60	0.20	0.40/0.60	0.20

10Y. Bond yield

	02/03/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	1.10	1.3/1.5	1.13	1.4/1.6	1.19
Germany	-0.62	-0.6/0.4	-0.60	-0.50/-0.30	-0.56
Japan	-0.12	-0.10/0.10	-0.09	-0.10/0.10	-0.06
UK	0.41	0.50/0.70	0.42	0.6/0.8	0.46

Currency outlook

	02/03/2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
EUR/USD	1.113	1.12	1.110	1.14	1.130
USD/JPY	108	107	108	105	107
EUR/GBP	0.87	0.85	0.85	0.84	0.85
EUR/CHF	1.07	1.08	1.08	1.09	1.10
EUR/NOK	10.34	10.00	10.03	9.95	10.00

	02/03/2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
EUR/SEK	10.62	10.53	10.54	10.69	10.49
USD/CAD	1.33	1.30	1.31	1.28	1.31
AUD/USD	0.65	0.67	0.67	0.70	0.68
NZD/USD	0.63	0.64	0.65	0.64	0.65
USD/CNY	6.96	7.10	7.00	7.10	6.98

Source: Amundi Research

PUBLICATIONS HIGHLIGHTS

INVESTMENT TALKS

Super Tuesday: why it is important and what to expect for US assets (2020-03-02)

- Super Tuesday: Following Senator Bernie Sander's good start and Senator Joe Biden's landslide win on 29 February, the field is now narrowed to a two-person race.
- We believe that markets have not priced in a meaningful probability of a Sanders presidency. Assuming a Trump vs. Sanders election, markets could stabilise with an expected Trump victory, while they would face more downside risks in response to the rising likelihood of Sanders' socialist democrat agenda.

Kenneth J. TAUBES, CIO of US Investment Management - Paresh UPADHYAYA, Director of currency strategy, US portfolio manager - Didier BOROWSKI, Head of Global Views

When the view is getting blurry, stick to main convictions (2020-02-27)

- Crisis communication tool issued for clients and media to state Amundi investment convictions and reinsure investors during the acute market turmoil.

Pascal BLANQUÉ, Group CIO, and Vincent MORTIER, Deputy CIO.

- Conversation call 27th Feb. In this call, assessed the potential impact of the coronavirus outbreak on global economy, and detailed possible investment implications and convictions in investment portfolios.

Pascal BLANQUÉ, Group CIO, Didier BOROWSKI, Head of Global Views and Pascal DUVAL Head of Retail Solutions

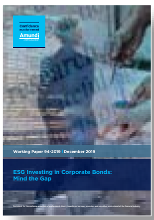
INSIGHTS-PAPERS

Global high yield outlook: be confident, but not complacent (2020-02-21)

- The search for income is likely to continue and possibly intensify, supporting the demand for global high yield bonds.
- Accommodative Central Banks could support fundamentals and technical.
- The recent increase in the US default rate has been mainly an energy sector story. In 2020, we expect defaults to stay benign and below their long-term average.
- Active selection could help exploit opportunities and mitigate the risks in the sectors more sensitive to the US election outcome.

Kenneth J. MONAGHAN, Co-Director of HY, Andrew FELTUS, Co-Director of HY, Matt SHULKIN, Portfolio Manager, Global HY, Marina COHEN, Head of Euro HY, Sergio BERTONCINI, Head of Rates and FX Research

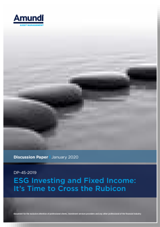
WORKING PAPERS



A Note on Portfolio Optimization with Quadratic Transaction Costs(2019-12)
Pierre CHEN, Edmond LEZMI, Thierry RONCALLI, Jiali XU — Quantitative Research

Machine Learning Optimization Algorithms & Portfolio Allocation (2019-10)
Sarah PERRIN — Ecole Polytechnique, Thierry RONCALLI — Quantitative Research

DISCUSSION PAPERS

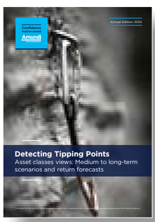


ESG Investing and Fixed Income: it's Time to Cross the Rubicon (2020-01)
Mohamed BEN SLIMANE — Quantitative Research, Eric BRARD — Head of Fixed Income Théo LE GUENEDAL, Thierry RONCALLI, Takaya SEKINE — Quantitative Research

FX wars, currency wars & money wars
Part 2: Fiat Money vs. Cryptocurrencies Private vs. Public digital currencies... (2020-01)
Philippe ITHURBIDE — Senior Economic Advisor — Amundi

FX wars, currency wars & money wars
Part 1: FX wars vs. currency wars USD vs. EUR vs. RMB vs. ... (2020-01)
Philippe ITHURBIDE — Senior Economic Advisor — Amundi)

THEMATIC PAPERS



Detecting Tipping Points: Asset classes views: Medium to long-term scenarios and return forecasts (2020-02)
Monica DEFEND, Global Head of Research, Viviana GISIMUNDO, Deputy Head of Institutional Advisory

U.S. inflation... what's up (2020-01)
Annalisa USARDI — Senior Economist — Amundi

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