Asset Class Return Forecasts

Quarterly Update

Medium and Long-Term Return Forecasts | Q4 - 2019

Finalised in November 2019

Our medium-term baseline scenario is that of a late business cycle slowdown supported by the dovish U-turn of central banks. We expect economic growth to move below potential for most developed economies in 2020, a trend that will be further exacerbated in 2021 by a deteriorating cyclical environment and still anaemic global trade. Nevertheless, growth is expected to stay in positive territory.

In the developed economies, central banks are expected to cut their policy rates to mitigate the economic slowdown. The ECB has moved to an unconventional monetary policy that will protract long into the future.

Against this backdrop, short-term rates are likely to go on declining, yield curves will steepen, spreads will widen moderately, mostly on low ratings, and default rates will rise from current levels for the HY sector.

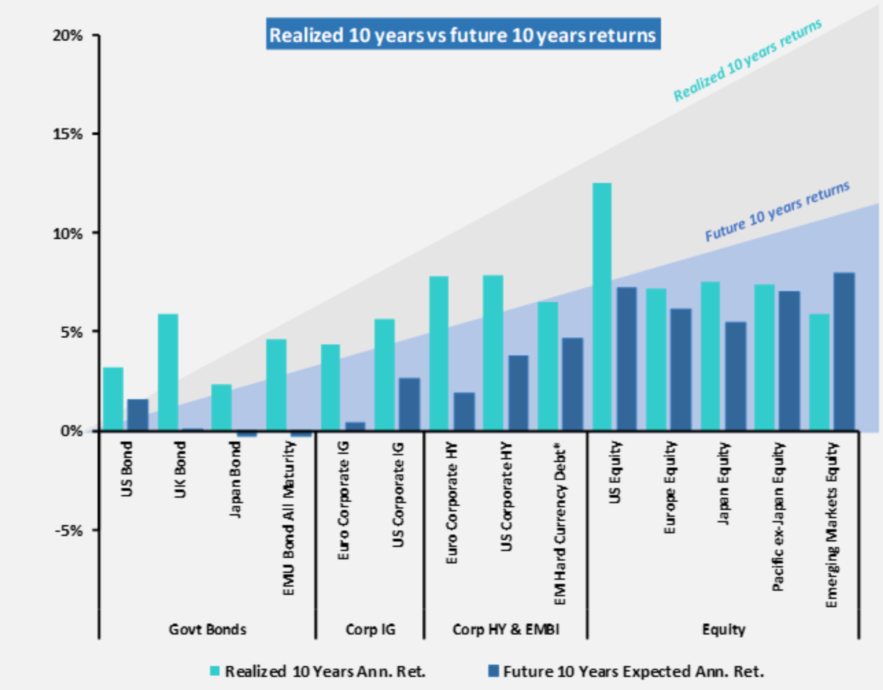
Growth in EM is also expected to decelerate but will continue to be supported by a generally accommodative (monetary and fiscal) policy mix globally and domestically.

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

In the medium to long term, we expect interest rates and valuations to slowly normalise, reaching or approaching equilibrium levels in the most dynamic countries (US and UK) within a 10-year horizon, while the adjustment is likely to be slower for the Eurozone and Japan.

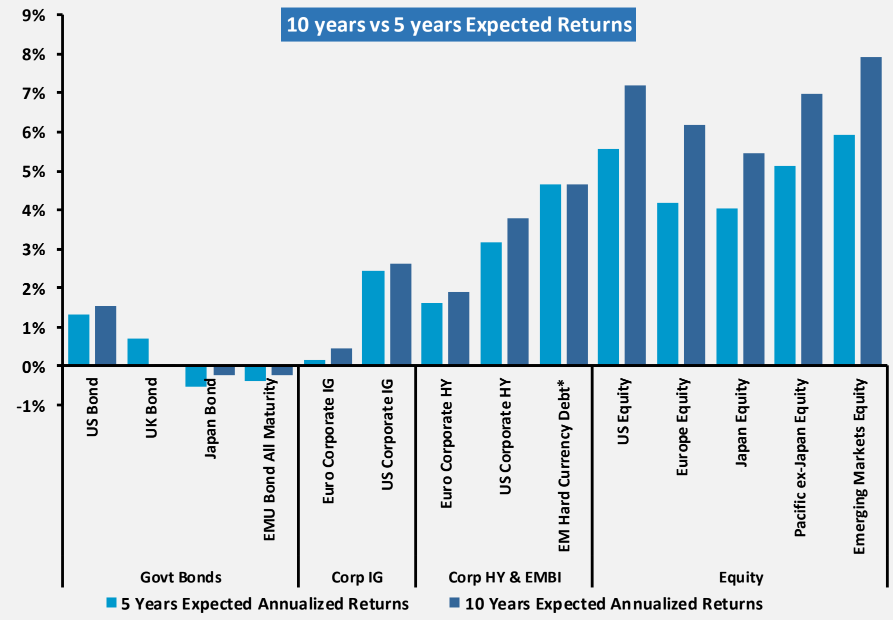
GOVERNMENT BONDS	*Since the latest release of this publication, yield curves have further decreased and flattened, increasing the negative effect of the lower carry components on the decreased overall returns across all horizons.* *In the medium term (3-year horizon), the decreased carry accrual narrows the outperformance of government bonds over cash. The price losses resulting from the gradual and widespread increase in rates in the long term (>10-year horizon), further depresses the total returns.* *US Treasuries should continue to deliver the highest returns amongst developed countries. In the Eurozone, we expect bond yields to stay lower for longer, despite future recovery in the term premium, and sovereign spreads to widen moderately during the macro and financial slowdown.* *The outlook on EM debt remains moderately positive as high carry and resilient fundamentals outweigh potential unstable growth and trade dynamics.*
CREDIT	*In the medium term, the IG sector is expected to be affected by the lower carry and exhibits lower total returns, while returns in the high-yield sector remain depressed as the downward shift is countered by moderate spread widening and by an increase in default rates.*
EQUITIES	*As with last quarter, the synchronised deceleration and profit recession look set to moderate total equity returns.* *Under such conditions, developed equities are expected to be affected to a greater degree than emerging markets, supported to a larger extent by the sturdier fundamentals and higher ceiling.*

Annualised Return Forecasts



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

Our long-term scenario assumes lower growth rates (related to decreasing population growth), lower short-term interest rates, less steep curves than historically, lower inflation rates (in the range of central bank targets), lower long-term earnings growth (directly related to lower economic growth).



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

Source: Amundi Asset Management CASM Model, Amundi Asset Management Institutional Advisory and Research Teams, Bloomberg. Data as of 22 October 2019. Macro figures as of last release. Interest rates, Equity, spread and FX updated as of 30 September 2019. Equity returns based on MSCI indices. Reference duration are average figures. Local Currency.

One-year forward views and fair values provided by Research team (macro, yields, spread and equity). Forecasts for annualised returns are based upon estimates and reflect subjective judgments and assumptions. These results were achieved by means of a mathematical formula and do not reflect the effect of unforeseen economic and market factors on decision making.

The forecast returns are not necessarily indicative of future performance, which could differ substantially.

Asset Class Expected Returns

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

Assets in local currency	Reference Index	Duration	3 Years	5 Years	10 Years
Cash					
Euro Cash	JPCAEU3M Index	0.3	**-0.7%**	**-0.6%**	**-0.1%**
US Cash	JPCAUS3M Index	0.2	**1.2%**	**1.3%**	**1.7%**
Government Bonds					
US Bond	JPMTUS Index	6.2	**2.7%**	**1.3%**	**1.5%**
UK Bond	JPMTUK Index	9.9	**1.0%**	**0.7%**	**0.0%**
Japan Bond	JPMTJPN Index	9.5	**-0.6%**	**-0.5%**	**-0.3%**
Emu Bond - Core	JPMTWG index	7.3	**-1.1%**	**-1.2%**	**-0.9%**
Emu Bond - Semi Core (France)	JPMTFR Index	7.6	**-0.4%**	**-0.7%**	**-0.6%**
Italy Bond	JPMTIT index	6.6	**0.6%**	**0.7%**	**0.7%**
Spain Bond	JPMTSP Index	6.7	**-0.7%**	**-0.1%**	**0.3%**
EMU Bond All Maturity	JPMGEMUI Index	7.2	**-0.4%**	**-0.4%**	**-0.2%**
Barclays Global Treasury	BTSYTRUU Index	5.7	**0.9%**	**0.5%**	**0.7%**
Credit Investment Grade					
Euro Corporate IG	ER00 index	5.0	**-0.3%**	**0.2%**	**0.4%**
US Corporate IG	C0A0 index	7.0	**4.0%**	**2.4%**	**2.6%**
Barclays Euro Aggregate	LBEATREU Index	6.4	**-0.4%**	**-0.3%**	**-0.1%**
Barclays US Aggregate	LBUSTRUU Index	5.7	**3.1%**	**1.7%**	**1.9%**
Barclays Global Aggregate	LEGATRUU Index	5.7	**1.5%**	**1.0%**	**1.1%**
Credit High Yield					
Euro Corporate HY	HE00 index	3.5	**0.8%**	**1.6%**	**1.9%**
US Corporate HY	H0A0 index	4.2	**2.9%**	**3.2%**	**3.8%**
Emerging Market Debt					
EM Hard Currency Debt*	JPEGCOMP Index	6.7	**5.6%**	**4.7%**	**4.7%**
EM-Global Diversified**	JGENVUUG Index	5.5	**4.2%**	**4.9%**	**5.5%**
Convertible Bond					
Europe Index (Eur Hedged)	UCBIFX20 Index		**0.3%**	**1.8%**	**2.5%**
Equities					
US Equity	NDDLUS Index		**1.9%**	**5.6%**	**7.2%**
Europe Equity	NDDLE15 index		**1.6%**	**4.2%**	**6.2%**
Euro zone Equity	NDDLEMU Index		**1.8%**	**4.2%**	**5.8%**
UK Equity	NDDLUK Index		**1.2%**	**4.0%**	**6.9%**
Japan Equity	NDDLJN Index		**1.3%**	**4.1%**	**5.4%**
Pacific ex-Japan Equity	NDDLPXJ Index		**2.1%**	**5.1%**	**7.0%**
Emerging Markets Equity	NDLEEGF index		**2.6%**	**5.9%**	**7.9%**
World Equity	NDDLWI index		**1.8%**	**5.2%**	**6.9%**
AC World Equity	NDLEACWF Index		**1.9%**	**5.3%**	**7.0%**

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

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

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Cascade Asset Simulation Model (CASM)

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

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

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

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

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

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

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

Important information

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