Confidence must be earned

Amundi
ASSET MANAGEMENT

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Global Investment Views

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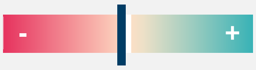
Overall risk sentiment

Risk off — Risk on



Neutral stance on risk assets, with increased vigilance on real rates and higher emphasis on selection, in light of persistent inflation and asymmetric risks.

Changes vs. previous month

- Adjustment to core Euro duration (still cautious), higher selectivity in credit.
- Tactical changes to FX, more cautious on GBP.
- Valuation-conscious on TIPS.

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

Markets in quicksand: inflationary risks persist

Like it or not, the alignment of the planets regarding inflation will last for a while. October saw the recognition of a more permanent than expected inflation, with the IMF officially stating that we are entering a phase of inflationary risk and CBs partially admitting that inflation is proving stickier than anticipated. **In our view, this adds an extra dimension to the idea that markets are moving in quicksand and the permanent inflation narrative is getting a boost**. The mismatch between supply and demand is widening, with shortages all over the world and full economic reopenings in the main markets fuelling demand. Supply bottlenecks are intensifying and the astonishing rise in energy and food prices is further driving inflation dynamics in a vicious circle. The additional factor that could trigger further inflation rises is the wage component. Persistent rises in prices will, in our view, push workers to ask for wage increases.

Given the known risks regarding the I (inflation) part of the equation, the market's focus will return to the G (growth) side. Are we heading towards a deceleration around potential or below, therefore feeding *stagflation* fears? On growth, all economic areas (US, Europe, China) face some challenges.

Our base case is for a controlled deceleration entering 2022, while further fiscal support to address the different open issues should kick in next year and help reinvigorate growth throughout 2022. Longer term, the energy transition is the key priority that might once again fuel an additional global fiscal push. COP26 will be a key milestone to watch to assess the future path of policy actions. Market reactions will depend on CBs and there is no room for mistakes on their side. We think any action by CBs will be incredibly gradual because there is little that CBs can do to address supply-side inflationary forces.

This scenario confirms our current stance:

- **Real rates are the key variable to watch**. In this phase of growth reassessment, we expect nominal rates to drift marginally higher but stay capped, while real rates trend lower. This phase will still favour equities over bonds. Later in the sequence there will likely be a catch-up, with nominal rates trending higher and real rates staying flat (at some point in 2022). This phase may trigger volatility in both equities and bonds and will require investors to add additional sources of diversification. The third sequence is about real and nominal rates both trending up. This could be a more challenging development, but we do not think this is around the corner.
- **Overall duration stance remains short, but we do not expect much of a rise in rates for now**. Credit remains favoured as fundamentals have been improving, but at current spread levels selection is vital to prepare for the next sequence, when liquidity risks will rise. China local government bonds remain in demand in the hunt for yield and more generally, so do EM bonds with a short-maturity bias.
- **Stay neutral on equity and search for possible entry points at better levels**, but be aware of risks and keep hedges amid phases of higher volatility, should growth deteriorate further and/or central bank communications be weak. In equity, each business case should be tested against rising inflation and rising rates. Value remains a good hunting ground for companies that can show real inflation-proof business models. This reporting season should be one of the toughest in terms of visibility. Expectations are already discounting headwinds, so the earnings season should not be a bad one, but uncertainty is very high and some of the energy pressure is not yet priced in and therefore it will be important to assess its impact in terms of forward guidance. The growth part of the market remains more vulnerable to rising rates. While at the moment the rise is capped, the next sequence will be more challenging and investors should prepare to embrace a very cautious stance in areas where valuations are excessive.
- **In EM**, which may now join the reopening narrative thanks to an improvement in the virus cycle, discrimination is increasingly relevant. Countries that can benefit from rising energy prices, such as Russia/Indonesia, are favoured, while those most exposed to the China slowdown look weakest.

Overall, the backdrop for investors is becoming more uncertain and riskier, with little upside potential in the short term. Markets are stuck in the middle. Rising inflation fears push long-term yields higher, but only to a certain extent because when growth is under threat, CBs are reluctant to tighten policy significantly. Equities is the place to remain given the low yields from bonds, but in an already stretched valuation environment in absolute terms, any rise in inflation and long-term yields should result in a reassessment of each business case.

CB = central bank, HC = hard currency, FI = fixed income, EM = emerging market, DM = developed markets, YTD = year to date, HY = high yield.

CROSS ASSET RESEARCH ANALYSIS

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Global Head of Research

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Current supply pressures could affect economic growth through a pass-through to inflation, but a shift to a long-term high price for oil seems unlikely for the time being.

Energy shortage: Europe, China the most affected

- The current energy crisis is related to short-term pressures,[1] imbalances over the green transition.
- Europe and China are being hit harder than other areas as they are the largest natural gas importers.
- A global power crunch is not likely in 2022, but energy sector turmoil will affect inflation and weigh on growth and profit margins.

Since the beginning of the summer, we have seen significant repricing in various energy and related commodities. While there are many interconnected factors at play (recovery seasonal bottlenecks), the catalyst was strong global electricity demand. According to the IEA, after falling by about 1% in 2020 due to Covid, global demand is expected to increase by close to 5% in 2021 and slightly less in 2022, almost double the 10-year annual average (2.7%). All this occurred at a time when the green transition and the global fight against climate change intensified, limiting coal emissions, mainly in the EU and China.

Europe and Asia are in an uncomfortable position in terms of gas production as they have historically been the largest net importers and the deficit to fill in the coming years will be huge. Natural gas demand pressures materialised in Europe as the increased requirements were barely matched by supply from the two largest suppliers (Russia, Norway). In China, aggravated by a very hot and dry summer, energy demand has been remarkable. Typically, about 65% of electricity consumption is powered by coal, and 17% is powered by hydro. However, the supply of power from both sources has been limited – for coal, domestic production has struggled due to regulatory reforms and emission limitation goals; for hydro the dry summer limited its contribution. As a result, demand for natural gas in China has been very strong. Increasing concerns over supply shortages in green commodities and the potential power crunch underpinned several commodities, from copper to aluminum and gas to oil.

The rush in Europe and Asia to store gas is unprecedented and the two regions are struggling the most to restore gas and oil inventories amid the approaching winter. The skyrocketing price of natural gas has spilled over to oil markets, lifting oil prices as many countries were forced to find substitutes for coal and gas. Oil moved above $80 due to potential undersupply concerns, despite a decelerating growth environment, as oil suppliers[2] seem reluctant to boost production in the next weeks for different and opposite reasons. US production lagged global oil demand due to a temporary pause in drilling amid hurricanes and subdued shale oil production. At current prices and without the market being flooded with US supply, OPEC is piling up revenues in an attempt to correct sovereign fiscal balances. In the meantime, the energy sector, mainly in Europe, will remain under pressure given that we are entering the winter with historically low gas inventories and Russia and Norway will not be able to boost their flows to the EU in the near term; if anything, Russian flows to Europe are already higher than pre-Covid levels. **Our central case is not for a power crunch in winter but the turmoil and higher prices will hit European growth** through high inflation, household consumption, a corporate profits squeeze and decreasing productivity.

WTI crude should remain at about $80 for a while, and it is premature to call for a structural shift to the $80-100 range. This is because US oil production should progressively recover in H122. Second, OPEC+ members are likely to match any unexpected demand spikes. Should the power grip exacerbate further and prices move out of control, the group is likely to respond. Third, despite the fact that the switch from coal to gas and oil will support these markets in the long run, the economic cyclical contribution to demand should diminish in 2022 as growth decelerates toward trend levels. **Thus, we expect to see oil below $80, in line with the EIA official outlook, by the end of 2022.**

Natural gas: deficit/surplus (2020 to 2021)

Source: IEA = International Energy Agency; APAC includes China, Eurasia includes Russia, North America includes US numbers. Chart shows increase/decrease in production minus increase in demand from 2020 to 2021.
EIA = US Energy Information Administration.[1] Winter, pick-up in demand, [2] OPEC+ and US.

MULTI-ASSET

Stay neutral, amid higher risks and strong earnings

Economic growth continues to be robust, but there are risks emerging in the form of production capacity constraints, which, coupled with the base effects from lockdowns and the recent CPI data, are fuelling the inflation narrative moving into H1 2022. They are also putting pressure on CBs to act, with the high likelihood of a Fed tapering announcement at its November meeting being a signal of this. On the other hand, risk sentiment is still constructive and pro-cyclical amid the evolution of the pandemic. Financial conditions are accommodative despite some upward movement in core yields and the weakness in China. Thus, investors should **remain neutral on risk assets, with a patient, active approach and wait for better opportunities, keeping hedges in place.**

High conviction ideas

Equity valuations now depend on low rates, allowing us to stay in a ‘buy-the-dip’ mode, which could offer attractive levels that are in sync with fundamentals. Thus, while remaining close to neutral on DM and EM, we focus on the earnings season to understand forward guidance and see which companies have pricing power. Currently, the market’s earnings growth expectations are disconnected from economic data surprises. This is important when considering margin pressures emanating from higher input costs, tight labour markets and bottlenecks. We are also balancing the positive factors with the not-so-positive ones (stagflation, tapering, higher real rates and weakness in China).

Our defensive stance on 10Y USTs is maintained, but managed tactically, because the fundamentals indicate higher yield levels in the face of high debt and inflation. The UST supply will remain high in spite of a better fiscal deficit situation in 2022, further supporting our stance. Although we believe there is scope for yields to increase further and the curve to steepen despite the recent surge, we are monitoring movements carefully.

We keep our view for a UK curve steepening, even though the rationale for this has changed from reflation to stagflation. We remain constructive also on BTP vs. Bund, amid attractive carry, potential economic surprises from Italian growth and the impetus from the Next Gen EU funds.

Chinese govt bonds are a strong diversifier for global portfolios when yields in DM are expected to rise. Unlike US yields, Chinese yields should remain stable over the next six months amid PBoC support. However, we remain neutral on EMBI more broadly.

The search for income in European IG and HY continues, in light of better fundamentals, positive technicals and CBs’ policies of keeping short rates anchored. Interestingly, given the downward trend in default rates, improving distress ratios and benign financial conditions, we believe subordinated debt and high yield are attractive credit segments to be in.

FX offers attractive relative value plays. For instance, stabilising global growth and the Fed’s policy normalisation have been positive for the USD, providing investors an opportunity to benefit from the rising USD/JPY. We are no longer negative on the EUR vs. NOK as the latter could suffer from increased volatility. We maintain our view on the FX carry trade GBP/CHF, and our cautious stance on GBP/EUR. With respect to the greenback, the GBP could be under pressure from the UK’s geopolitical isolation vs. the US and the EU, as well as the ongoing energy crisis. Thus, we are now defensive on GBP/USD. In EM we now believe the IDR could be affected by potential risk-off sentiment stemming from the Chinese slowdown. However, we keep our positive stance on the KRW and the CNH vs. the EUR and on RUB/EUR.

Risks and hedging

Rising cost pressures from inflation could potentially affect margins and P/E ratios, making this a high-impact risk on our radar and potentially affecting prices. As a result, we recommend investors maintain protection to safeguard equity exposure.

Matteo GERMANO
Head of Multi-Asset

> ***We are neutral on risk assets and well-diversified overall, keeping a balanced stance on equities, favouring value names and avoiding those with limited pricing power.***

Amundi Cross-Asset Convictions

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

Source: Amundi. The table represents a cross-asset assessment on a three- to six-month horizon based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/++/+++). This assessment is subject to change. CGB = Chinese government bonds, EM = emerging markets, PBoC = People’s Bank of China, FX = foreign exchange, IG = investment grade, HY = high yield, CBs = central banks, BTP = Italian government bonds, EMBI = EM Bonds Index.

FIXED INCOME

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> ***We will witness more discrimination in credit, as sound businesses become more expensive and low-quality names cheapen further. Thus, the need for selection and idiosyncratic stories will be high.***

Inflation-adjusted returns through credit selection

High borrowing, aggravated by the fiscal response to the Covid crisis, combined with economic reopenings, supply shortages and demographics, is pushing inflation up. While financial repression (government borrowing below market rates) works when inflation is under control, this could now be a problem for asset values. Even some CBs that kept rates low are realising that inflation is not transitory. We think the Fed and the ECB are likely to taper but will refrain from extreme actions, although we might see asynchronous policies. Overall, liquidity will remain high. Investors should resist a positive stance on duration despite the recent upward yield movements and should stay active. **In credit, subordinated debt and EM bonds offer decent real returns but investors should be mindful of leverage and increase their scrutiny of investment cases amid the tight valuations**.

Global and European fixed income

We remain cautious but active on duration in the US, core and semi-core Europe and the UK, but positive on Chinese govt bonds. We now see steepening potential in Canada vs. flattening in Australia. On peripheral debt, our positive view is maintained (marginal adjustment) as Italy offers a good risk/reward trade-off. In credit, fundamental metrics continue to improve, albeit at a slower pace, and we see no increase in distress or defaults, while carry remains decent. Investors should increase selection to identify companies that can pass on price increases to consumers. However, we are cautious on long-term debt (duration risk) and focus on shorter maturities. We are constructive on lower-rated names but balance this with the potential for extra yield to play the compression card, and on subordinated financials in HY and IG. **Carbon intensity and ESG performances are key factors to watch**. The energy crisis reaffirms our view that investments in low-carbon-intensive technologies must accelerate for us to reach Net Zero by 2050.

US fixed income

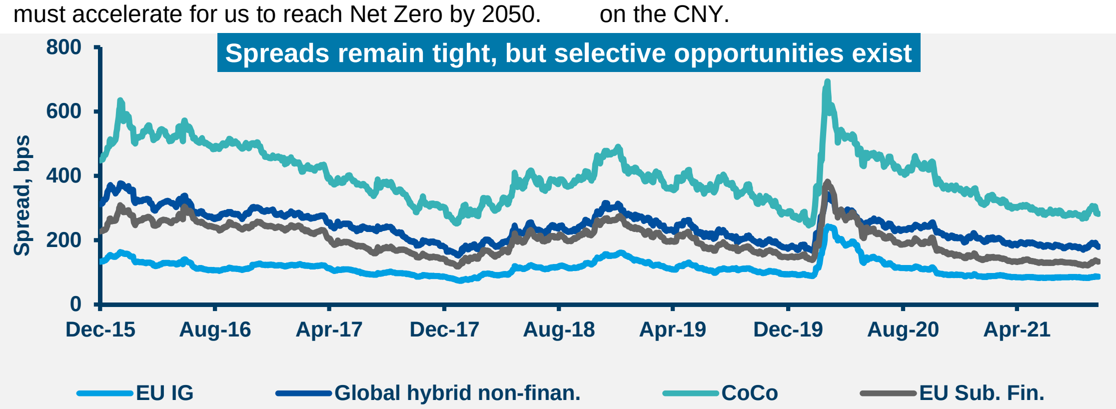
We believe inflation is a global, long-term phenomenon, driven by lower participation rates in the US, declining birth rates in China and worker shortages. In this environment, markets are currently in a wait-and-watch mode, but core yields should eventually move higher. We remain sceptical but flexible on USTs amid the high debt as we track the path of nominal and real rates. In contrast, **we are constructive on TIPS, but are watchful of valuations and their limited upside potential**. Credit fundamentals are supportive and we recommend investors be highly selective to limit portfolio beta and exposure to long duration IG. Given that spreads have already compressed this year, we focus on idiosyncratic risks. **Securitised credit – RMBS and consumer credit – is relatively attractive** given consumer earnings are strong. Overall, we remain vigilant on housing and see value in selective non-residential mortgages.

EM bonds

While the growth differential between EM and the US is moving in favour of the former, supply-side bottlenecks and high energy prices persist. Thus, investors should look at countries where CBs are acting to control inflation (LatAm and Russia) and avoid those where CBs are not. The third category is China, which is facing near-term weakness but where selective long-term opportunities remain. For LC bonds our conviction is for countries such as Russia. In HC, we maintain our preference for HY vs. IG, as well as for EM corporates.

FX

We maintain our near-term constructive view on the dollar amid the currency's safe-haven status but are watchful given that it is a consensual view. On EM FX, we are selectively positive (RUB, INR, MXN) but think the Fed's change in tone could dampen the mood. We remain vigilant, particularly on the CNY.



Source: Amundi, Bloomberg, as of 20 October 2021

GFI = global fixed income, GEMs/EM FX = global emerging markets foreign exchange, HY = high yield, IG = investment grade, EUR = euro, UST = US Treasuries, RMBS = residential mortgage-backed securities, ABS = asset-backed securities, HC = hard currency, LC = local currency, CRE = commercial real estate, CEE = Central and Eastern Europe, JBGs = Japanese government bonds, EZ = Eurozone, BoP = balance of payments.

EQUITY

Energy crisis is testing the markets

Overall assessment

The key issue for markets currently is inflation and whether companies will be able to withstand the pressures on their margins. This is relevant in light of the spike in energy prices that is affecting companies as well as households (politically sensitive issue). We believe the current situation in Europe will accelerate the energy transition in the long term. On the other hand, valuations in some areas seem expensive, leading us to question the sustainability of these in the face of high inflation and rates increases. From an investor perspective, **we believe the range of outcomes is wide, and thus investors should maintain a thorough selection process that prioritises fundamentals (earnings quality and growth), and look to play rotations favouring value, quality stocks.**

European equities

We maintain a balanced stance, with a tilt towards normalisation and reopening, and implement this view through a barbell approach of quality cyclical stocks in industrials and financials (value). Here, the economic reopening is not fully discounted by the market and thus valuations are selectively attractive. On the other hand, the picture in the consumer and energy sectors looks mixed. In the latter, we have become more cautious in our view because of the strong run lately and are looking for answers beyond the earnings season, especially in terms of the impact of green investing on the broader green energy landscape. We think there is a need to invest in the energy sector with an ESG improver approach that could have a meaningful impact and push clean energy investments. At the other end of the barbell, we hold attractive defensive names in healthcare and telcos. Overall, we look for opportunities offering strong risk/reward profiles, and hence avoid expensive growth names.

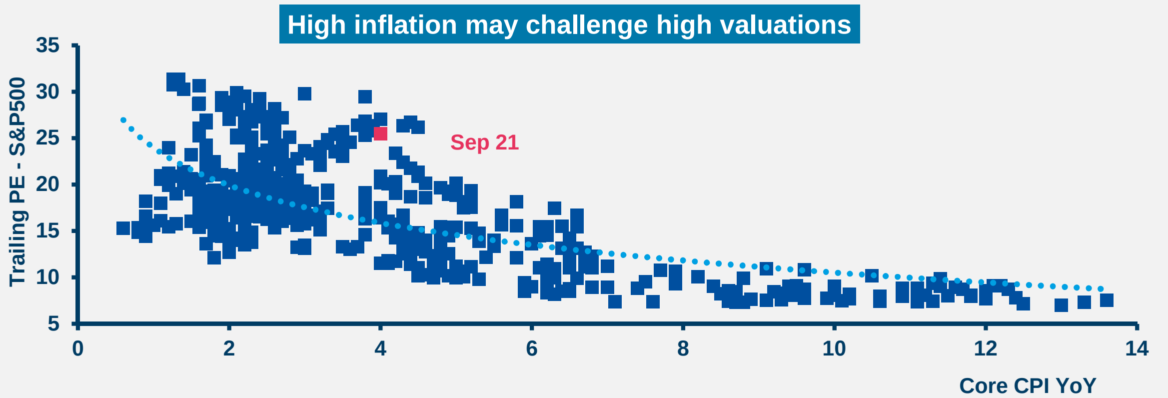
US equities

Inflation, even if it peaks in the coming quarters, is likely to affect equity valuations, underscoring the need for investors to protect their portfolios from rising prices. In addition to base effects and energy prices, a key aspect pushing inflation up is worker wage growth, which has been developing for quite some time now (demographics, deglobalisation, China). We believe value stocks provide an opportunity to inflation-proof portfolios but these require strong selection. **Energy and financials present some interesting value**. As investors, while we are aggressive in phasing out coal and oil from energy generation, our capital should be tilted towards companies that will support this transition, in the process benefitting from the move. This, we think, is the only solution to take us to Net Zero emissions by 2050. Furthermore, we look at financials, particularly banks, that are active in rewarding shareholders through buybacks and dividends. On the other hand, we are reducing cyclicality in global sectors affected by higher logistics and input price risks. We avoid expensive growth and distressed value stocks, but focus on relative value.

EM equities

Attractive relative valuations and the receding effects of Covid are important factors supporting EM equities. However, there are some risks on the horizon, such as the near-term weakness in China and idiosyncratic stories, especially in some LatAm countries. Our main convictions are Russia (energy and commodities exporter) and India (domestic consumption, will benefit from the China situation), whereas in sectors we favour consumer discretionary and communication services, maintaining our preference to increase value/cyclicals over growth.

High inflation may challenge high valuations



Source: Amundi, Bloomberg, as of 20 October 2021. P/E ratio for S&P 500 Index. Historical monthly data since 1970.

Markets will reward companies that can increase prices and preserve margins vs. those that are unable to pass on rising costs to consumers, thereby affecting stock prices.

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Head of Equities

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Amundi asset class views

	Asset class	View	1M change	Rationale
EQUITY PLATFORM	US	=		After the Fed's taper update in late September, inflation expectations and bond yields gained strength and the reopening trade reasserted its relative performance. However, strong inflation data necessitates that investors protect their portfolios from rising prices and volatility from debt ceiling and tax hikes should also be kept in mind. While remaining overall neutral on equities, we believe investors should increase their focus on fundamentals as valuations remain high.
EQUITY PLATFORM	US value	+		The recent rise in core yields has been accompanied by escalating inflation. We believe value (financials, energy) is a strong way to inflation-proof portfolios, particularly in the case of quality companies that possess strong pricing power. The value vs. growth discount is high but long-term returns in this realm will be driven more by stock selection.
EQUITY PLATFORM	US growth	-		We think current valuations are inconsistent with expectations of high inflation and subsequently higher (real) rates, which could challenge excessive valuations. As we progress on this front, growth stocks that rely on low discount rates for their prices should experience volatility, thereby warranting a defensive stance.
EQUITY PLATFORM	Europe	=		Amid a spike in energy prices, economic recovery continues in Europe but valuations are extreme in some segments and are not justified by high inflation, which pressures companies to absorb costs, thereby affecting margins. However, amid the high valuation dispersion, investors should prioritise selection and explore value and quality stocks that can withstand price pressures through strong pricing power or a dominant market position beyond the current earning season.
EQUITY PLATFORM	Japan	=		Given that Japan is a more cyclical market, equities should remain supported by an earnings catch-up as new Covid cases recede and as the reopening continues. A weaker yen should further support this.
EQUITY PLATFORM	Emerging markets	=		We believe the case for selection is high in EM and it should no longer be seen as 'one block.' Looking ahead, normalisation of earnings and progress on the vaccination front paint an encouraging picture for EM, but there are some idiosyncratic risks. On China, some weakness in growth and potential regulatory measures make us cautious in the near term, but the long-term outlook is positive as the country embarks on more balanced and high-quality growth. We like countries such as Russia due to its strong exports, and India owing to its potential for domestic demand.
FIXED INCOME PLATFORM	US govies	-		Core yields have been rising after comments from the September FOMC meeting amid the Fed's tapering indications. But inflation remains elevated even as supply constraints persist. We believe USTs could be under pressure, but the risks of inflation derailing a recovery mean CBs may be unwilling to implement substantial tightening. As a result, we are cautious on duration but remain flexible. TIPS offer inflation-protected returns but there are valuation concerns.
FIXED INCOME PLATFORM	US IG corporate	=		Credit fundamentals are constructive but we are exploring the asset class through a highly selective lens that allows us to limit our beta and exposure to long duration debt. We are also watchful of the risks from rising core yields at the moment. Securitised credit and mortgages are attractive due to high consumer earnings and savings, but we are vigilant on housing markets amid the Fed's potential tapering.
FIXED INCOME PLATFORM	US HY corporate	=		We are moving towards a phase where market directionality will play a decreasing role in driving returns. Although the segment offers good carry and fundamentals are benign, we are increasingly relying on selection to separate the wheat from the chaff and avoid highly leveraged areas.
FIXED INCOME PLATFORM	European govies	-/=		Inflation is high amid supply bottlenecks and pressures from the energy situation, which is collectively reflected in rising yields. While the ECB indicated some slowing in asset buying, we believe it will strive to maintain accommodative financial conditions. Thus, we remain defensive and agile on core and semi-core European government bonds. On periphery debt, however, we are positive due to the recovery and support from the Next Gen EU fund, but are monitoring political risks.
FIXED INCOME PLATFORM	Euro IG corporate	=/+		Fundamentals continue to improve, albeit at a slightly slower pace, and liquidity remains high. However, we increase the selectivity in our portfolios to look for companies that can pass on the increase in costs to consumers. We like shorter maturity debt and BBB-rated names, but avoid higher rated names that may engage in unproductive M&A or add debt.
FIXED INCOME PLATFORM	Euro HY corporate	=		We believe this is not a time for structural derisking but are careful of longer-dated debt and prefer playing the spread compression card. Subordinated financial debt presents a strong theme across credit with its attractive yield, but overall we maintain a balance between higher yield and quality.
FIXED INCOME PLATFORM	EM bonds HC	=/+		Improving current account balances and the EM growth differential vs. DM are positives. We continue to favour HC debt and maintain our bias towards HY vs. IG in countries benefitting from strong fundamentals and higher commodity prices.
FIXED INCOME PLATFORM	EM bonds LC	=		A strengthening dollar in the near term and potential tightening in the developed world are a natural challenge for LC, underscoring the need to be selective. We focus on countries such as Russia, where monetary tightening is almost over. In Asia, the PBoC will strive to avoid any spillover to other parts of the economy.
OTHER	Commodities			While natural gas prices have increased due to demand/supply imbalances in Europe and Asia, they are not out of control. In the long run, the world is expected to be in net surplus. OPEC should increase oil production in order to avoid a hit to global demand. However, gold could see some volatility (Fed policy normalisation) but is still a decent portfolio diversifier.
OTHER	Currencies			Monetary policy divergences and slowing global growth should be positive for the USD (high quality carry) vs. low yielding FX such as the EUR, CHF and JPY. However, relative to high yielding cyclical currencies, the USD should stabilise. Long term, high US deficits and debt are likely to weigh on the greenback.

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Negative Neutral Positive

Source: Amundi, as of 26 October 2021, 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.

Amundi ASSET MANAGEMENT

AMUNDI Investment Insights Unit

The Amundi Investment Insights Unit (AIIU) aims to transform our CIO expertise, and Amundi's overall investment knowledge, into actionable insights and tools tailored around investors' needs. In a world in which investors are exposed to information from multiple sources, we aim to become the partner of choice for the provision of regular, clear, timely, engaging and relevant insights that can help our clients make informed investment decisions.

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Definitions & Abbreviations

- **Agency mortgage-backed security**: Agency MBS are created by one of three agencies: Government National Mortgage Association, Federal National Mortgage and Federal Home Loan Mortgage Corp. Securities issued by any of these three agencies are referred to as agency MBS.
- **Beta**: Beta is a risk measure related to market volatility, with 1 being equal to market volatility and less than 1 being less volatile than the market.
- **Breakeven inflation**: The difference between the nominal yield on a fixed-rate investment and the real yield on an inflation-linked investment of similar maturity and credit quality.
- **Carry**: Carry is the return of holding a bond to maturity by earning yield versus holding cash.
- **Correlation:** The degree of association between two or more variables; in finance, it is the degree to which assets or asset class prices have moved in relation to each other. Correlation is expressed by a correlation coefficient that ranges from -1 (always move in opposite direction) through 0 (absolutely independent) to 1 (always move in the same direction).
- **Credit spread:** The differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration the possible embedded options.
- **Currency abbreviations:** USD – US dollar, BRL – Brazilian real, JPY – Japanese yen, GBP – British pound sterling, EUR – Euro, CAD – Canadian dollar, SEK – Swedish krona, NOK – Norwegian krone, CHF – Swiss Franc, NZD – New Zealand dollar, AUD – Australian dollar, CNY – Chinese Renminbi, CLP – Chilean Peso, MXP – Mexican Peso, IDR – Indonesian Rupiah, RUB – Russian Ruble, ZAR – South African Rand, TRY – Turkish lira, KRW – South Korean Won.
- **Cyclical vs. defensive sectors:** Cyclical companies are companies whose profit and stock prices are highly correlated with economic fluctuations. Defensive stocks, on the contrary, are less correlated to economic cycles. MSCI GICS cyclical sectors are: consumer discretionary, financial, real estate, industrials, information technology and materials. Defensive sectors are: consumer staples, energy, healthcare, telecommunications services and utilities.
- **Duration:** A measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates, expressed as a number of years.
- **Duration times spread:** This is the standard method for measuring the credit volatility of a corporate bond and is calculated by multiplying the spread duration and credit spread.
- **FX:** FX markets refer to the foreign exchange markets, where participants are able to buy and sell currencies.
- **High growth stocks:** A high growth stock is anticipated to grow at a rate significantly above the average growth for the market.
- **Liquidity**: The capacity to buy or sell assets quickly enough to prevent or minimise a loss.
- **P/E ratio**: The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings (EPS).
- **QE:** Quantitative easing (QE) is a type of monetary policy used by central banks to stimulate the economy by buying financial assets from commercial banks and other financial institutions.
- **Quality investing:** This means to capture the performance of quality growth stocks by identifying stocks with: 1) A high return on equity (ROE); 2) Stable year-over-year earnings growth; and 3) Low financial leverage.
- **Rising star:** A company that has a low credit rating, but only because it is new to the bond market and is therefore still establishing a track record. It does not yet have the track record and/or the size to earn an investment grade rating from a credit rating agency.
- **TIPS:** A Treasury Inflation-Protected Security is a Treasury bond that is indexed to an inflationary gauge to protect investors from a decline in the purchasing power of their money.
- **Value style:** This refers to purchasing stocks at relatively low prices, as indicated by low price-to-earnings, price-to-book and price-to-sales ratios, and high dividend yields. Sectors with a dominance of value style: energy, financials, telecom, utilities, real estate.
- **Volatility:** A statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.
- **Yield curve steepening:** This is the opposite of yield curve flattening. If the yield curve steepens, this means that the spread between long- and short-term interest rates widens. In other words, the yields on long-term bonds are rising faster than the yields on short-term bonds, or short-term bond yields are falling as long-term bond yields rise.

Important Information

Amundi
ASSET MANAGEMENT