



May 2024

TOPIC OF THE MONTH

IMF spring meeting take-aways: short-term resilience, but no reacceleration in the mid term

GLOBAL INVESTMENT VIEWS

Searching for bright spots in a trickier phase

Trust
must be earned

Amundi
ASSET MANAGEMENT

TABLE OF CONTENTS

TOPIC OF THE MONTH	
IMF spring meeting take-aways: short-term resilience, but no reacceleration in the mid term	4
MACROECONOMICS, GEOPOLITICS, AND STRATEGY	
Macroeconomic focus	7
Emerging markets	8
Macroeconomic snapshot	9
Central banks watch	10
Geopolitics and policy	11
Scenarios and risks to central scenario	12
Amundi Investment Institute models	13
Key monthly charts	14
Commodities and currencies	16
GLOBAL INVESTMENT VIEWS	
CIO views	18
Searching for bright spots in a trickier phase	
Three hot questions	20
Asset class views	21
MACROECONOMIC AND FINANCIAL MARKET FORECASTS	
	25



**MONICA
DEFEND**

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“Europe is displaying a clearer picture concerning continued disinflation vs the US, and hence this leaves room for the ECB to act before the Fed.”

“As uncertainty on Fed policy and inflation persists, we think bright spots can be found in attractively-priced equities, and investment grade credit. EM bonds are attractive from a medium-term perspective.”



**VINCENT
MORTIER**

GROUP CHIEF
INVESTMENT OFFICER



**MATTEO
GERMANO**

DEPUTY GROUP CHIEF
INVESTMENT OFFICER

“In an environment of uncertainty on monetary policy and economic evolution, we maintain our slightly positive-risk view but focus on resilient markets that can withstand heightened volatility.”



TOPIC OF THE MONTH

IMF spring meeting take-aways: short-term resilience, but no reacceleration in the mid term

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KEY TAKEAWAYS

The IMF outlook highlights the remarkable resilience in growth and declining inflation in most countries. However, the medium-term outlook remains subdued when compared to the pre-pandemic growth average.

Although inflation is softening, its reduction remains a priority and central banks need to calibrate monetary policy at a country level.

The tremendous optimism in financial markets based on the soft-landing narrative presents challenges: inflation persistence, compressed volatility and high correlation across assets with elevated fundamental uncertainty.

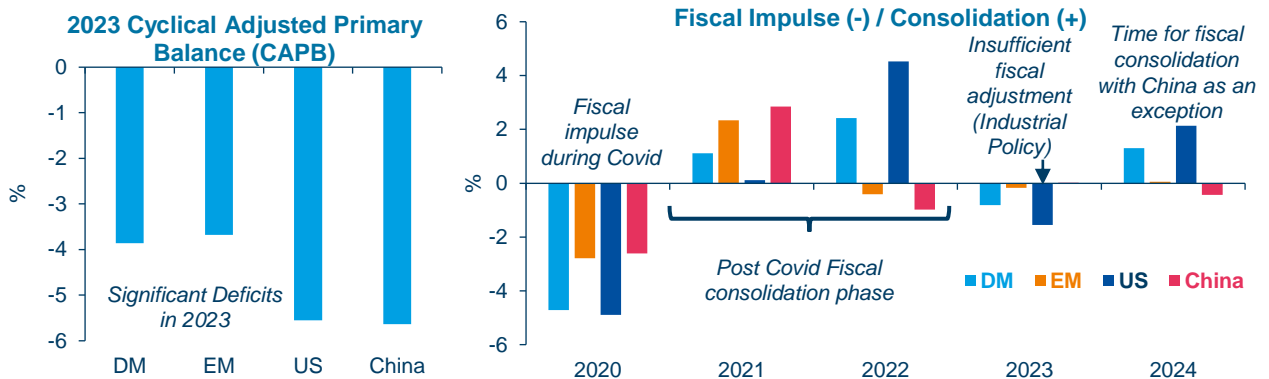
Remarkable short-term economic resilience

In recent months, the IMF and other economic forecasters have raised **their growth projections for 2024**. The April World Economic Outlook showed revisions (+0.3% Global) that primarily affected the US, China and Emerging Markets (EM). These revisions were based on expectations of less **economic scarring** from the recent crisis, **insufficient fiscal adjustment** supporting short-term growth and less effective **monetary policy transmission** compared to the past.

To further support economic performance, many countries have reintroduced **industrial policies, driven by both economic and non-economic factors**. Moreover, the IMF advocates the use of fiscal measures when necessary. These measures aim to enhance competitiveness, address climate change, strengthen supply chain resilience and bolster national security. The main sectors targeted are advanced technology, military/civil dual-use industries, low-carbon technology, steel and aluminium.

Since October 2023, **the short-term risk of recession** (with global growth at 2.0%) **has decreased from 15% to 10%**. While the various risks to the baseline scenario are generally balanced, it is worth noting that EM appear to be in a relatively **better position than advanced economies**. The only exception to that relates to the risk of deflation **in China**, due to the larger global economic slack and China's excess capacity in the goods sector.

CHART: 2023 was expansionary, 2024 will see increasing regional differences



Source: Amundi Investment Institute, IMF Fiscal Monitor April 2024. Fiscal Impulse is the change in CAPB. While the 2023 starting point is expansionary, 2024 will see increasing regional differences, particularly the US moving into fiscal consolidation.



An important exception to this remarkable resilience can be observed in low-income countries where the effects of the recent crisis still persist. Growth projections for these countries have been revised downward, while inflation has increased. Inequality is increasing not only within countries but even among countries. The Common Framework for debt restructuring remains largely absent and market access is very limited. Meanwhile, **the IMF’s lending efforts are progressing in large Frontier countries such as Argentina, Egypt and Pakistan. However, the IMF needs to refine its lending toolkit and improve its effectiveness,** while also considering a more robust approach to prevent a long list of serial users. The current global macro environment presents challenges for maintaining IMF programmes, as financial conditions have tightened and geopolitical volatility is affecting risk premiums.

Inequality is increasing not only within countries but even among countries.

Lack of medium-term economic acceleration

Although the medium-term outlook still appears decent, global GDP growth is projected to oscillate between 3.1% and 3.2% until 2029. This highlights a **lack of significant economic acceleration compared to the pre-pandemic average growth of 3.8%. The main culprit for this sluggishness is the decline in total-factor productivity (TFP)** caused by the misallocation of resources, with the exception of the **US (US Exceptionalism)**. Additionally, **the current reliance on fiscal stimulus may become a future concern if the necessary buffers are not adequately replenished.** It is important to note that the potential positive **impact of Artificial Intelligence** on the economy, which is not accounted for **in the IMF’s baseline projections, could act as an upside risk.** While the dichotomy between technological progress and labour displacement should affect advanced economies more in the short run, EM are likely to reap fewer benefits in the medium term.

Inflation is the priority: need for vigilant and asynchronous policies

Inflation is expected to continue to moderate, although the **final stage of disinflation may prove more challenging** due to factors such as persistent services inflation and tight labour markets. Central banks are therefore encouraged to remain vigilant and patient. This implies that monetary policies should be implemented asynchronously among both Advanced and Emerging economies. **The Fed should be more patient and not market-driven, while the ECB may act more quickly. EM central banks should continue with their easing cycle, in most cases starting from a position of tight conditions,** in order to tackle inflation on both domestic and import fronts. **However, each CB should take into account the Fed’s patient approach when determining its own monetary policy stance.**

Monetary policies should be implemented asynchronously.

Amundi Investment Institute vs IMF	Amundi Investment Convictions
<ul style="list-style-type: none"> ▪ We expect a softer landing compared to the IMF (which sees higher growth), with similar inflation stickiness. ▪ We expect central banks to be more dovish compared to the IMF and market consensus, but we recognise high uncertainty, as inflation risk remains tilted towards the upside. ▪ Similar to the IMF, we expect a gradual and granular economic impact from AI in the medium term with differences across emerging economies (see our annual Capital Market Assumptions publication). 	<ul style="list-style-type: none"> ▪ A soft-landing scenario supports a preference for risky assets but a lot is already priced into the market. Favour equity vs credit and look at opportunities globally. ▪ Current yield levels are attractive for bond investors (US Treasuries) but we expect volatility to persist. In EM, while HC looks safer in the short term, more compelling valuations in Local Debt could offer opportunities moving ahead. ▪ In a sticky inflationary backdrop, enhance diversification with Alternative Asset Classes, but be selective amid areas of stretched valuations. ▪ On a medium-term view, consider thematic opportunities for example linked to gains from AI.



MACROECONOMICS,
GEOPOLITICS,
AND STRATEGY



MACROECONOMIC FOCUS

2024: a more challenging context for the Fed's pivot

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We have markedly revised up our forecast for US growth, in particular for H1 2024. **We continue to expect GDP growth to decelerate** below its potential pace over the next few quarters, before recovering in 2025. Regarding inflation, although the downward trend in core CPI inflation has recently stalled, **we think that the disinflationary process will continue**, albeit along a bumpy road with stickier dynamics. The Fed will still be in a position to pivot towards rate cuts and **we expect 75 bps of cuts in 2024** (vs 40 bps by markets) as: 1) monetary policy remains restrictive and will become more restrictive as inflation declines; 2) growth will slow down; and 3) recent inflation data have not altered our year-end projections.

Easier financial conditions have supported growth so far, although the recent repricing of expectations about the Fed has produced some tightening. As long as financing conditions remain broadly accommodative, **the odds of a recession will remain low**. Also, the recent CBO (Congressional Budget Office) upward revision to population growth and labour supply, not previously accounted for, increases the probability of a “soft landing” scenario: higher potential growth and easing wage and inflationary pressures. Nonetheless, we still expect a deceleration to materialise as small businesses and lower-income households are likely to continue suffering in the high interest rate environment, while the recent relative tightening of financial market conditions and the increase in oil prices may compound and contribute to slowing the economy. We expect consumption to moderate as even the **excess savings of middle-income households will be depleted soon**. This should lead to a gradual increase in savings. **We project core inflation to be stickier for longer at around 2.5%-3%**, with momentum likely to remain strong, especially during H1; importantly, we do not expect a reacceleration of core inflation.

We expect 75 bps of rate cuts in 2024 as monetary policy remains restrictive, growth will slow down, and inflation data do not alter our projections.

CHART: Core Services and Core Goods inflation, 3-month moving average



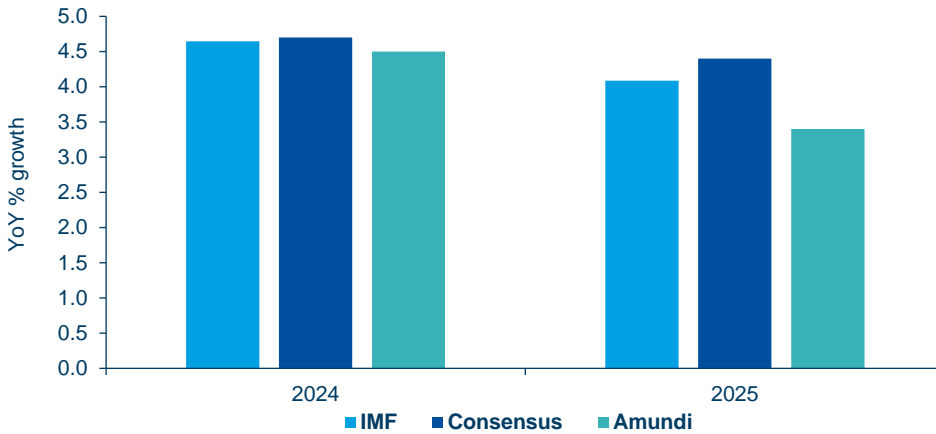
Source: Amundi Investment Institute, Bloomberg. Data is as of April 2024.



CHINA

Domestic demand stalemate

CHART: China GDP forecast comparison



Source: Amundi Investment Institute, CEIC, IMF. Data is as of 25 April 2024.

Real GDP exceeded expectations in Q1, growing by 5.3% YoY. This prompted us to revise our full-year forecast to 4.5%, up from the previous 3.9%. However, this revision is entirely retrospective. We lowered our growth forecast for Q2, anticipating a reversal of consumption momentum and an acceleration of the housing market decline. In contrast, export growth strength is likely to continue in Q2, supporting industrial production. After Q1 data, there is no urgency to step up fiscal stimulus despite persistent deflationary pressures. Our conviction of additional monetary easing has also decreased.

AUTHORS

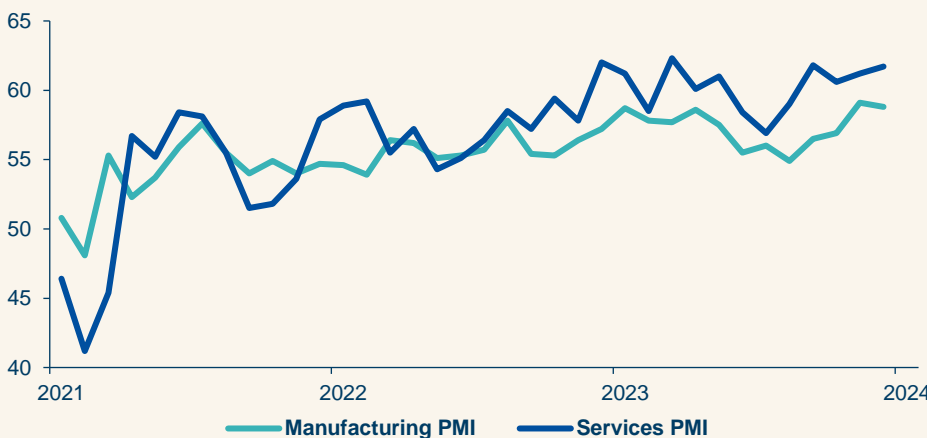
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INDIA

India's economy remains robust

CHART: PMIs keep signalling strong expansionary business conditions



Source: Amundi Investment Institute, Bloomberg. Data is as of 2 May 2024.

The economic outlook remains robust. Q1 high-frequency data keep showing economic acceleration in credit, electricity generation, steel and cement production. Moving into Q2, Manufacturing and Services PMIs (58.8 and 61.7 respectively in April) continue to signal strong expansionary business conditions. Elections are ongoing (results are expected by early June) and the country's economic performance remains one of the key factors behind the consensual view of Modi winning a third term. On the monetary policy side, India appears more insulated vis a vis the market repricing of the Fed Fund dynamics: RBI is not in a rush to cut and, in any case, the room is quite limited (25/50bps by the end of the year).

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MACROECONOMIC SNAPSHOT



Even though we still expect a deceleration in the US economy later in the year, we slightly revised up our growth rate for GDP in 2024 based on stronger momentum and expected performance in H1. We also project core inflation to remain stickier for a bit longer than previously expected as momentum is likely to remain more solid in the first half of the year.



Positive signals from business surveys and a slightly better outlook for domestic demand and trade (exports) make us think that the Eurozone could grow in 2024, slightly more than we previously expected. Headline inflation data surprised us on the downside, while core inflation remains on the path that we have previously outlined, as we expect it to progressively slow towards target, with some volatility among countries.



Although the outlook for the UK remains subdued in 2024 (as domestic demand fundamentals are still relatively weak), we are now more positive than before, as headline inflation is falling relatively quickly and real disposable income is increasing, thus we have revised up our growth forecast for 2024. Core inflation is also proceeding towards target, which will be reached in 2025.



With real wage growth staying negative in Japan, private consumption remained soft in Q1. Underlying inflation indicators have cooled further to around 2% or below. While the BoJ is caught between a rock and a hard place, facing a quickly depreciating currency, we believe the Bank will prioritise its inflation target among others, maintaining accommodative financial conditions to allow wage-inflation dynamics to take deeper root.

At its 26 April meeting, the Central Bank of Russia (CBR) left the policy rate unchanged again at 16% with a hawkish tone suggesting higher rates for longer. According to the CBR, while inflationary pressures were gradually easing, they remained strong with domestic demand outstripping supply in a tight labour market. The CBR raised its forecast for the average key rate in 2024 and 2025 to 15.0–16.0% and 10.0–12.0%, respectively. The CBR also revised its 2024 real GDP growth forecast higher to 2.5-3.5% from 1-2%.



The Ukraine-Russia war continues with the risk of spilling over into 2025. In the meantime, Ukraine is in need of more aid from its allies. The country received approval for \$61bn of aid from the US in the form of a loan, most of which is earmarked for the purpose of military equipment purchases. On the other hand, the seizure and use of Russia's frozen reserves is looking unlikely, except for the accumulated interest on the part invested at Euroclear, which is around \$5bn – not even equivalent to two months of Ukraine's budgetary funding needs.



Brazil's economic activity is picking up YTD after stagnating in 2H23 thanks to declining interest rates, some fiscal stimulus (via 'precatórios') and (min) wage hikes. Inflation is moderating but, like the rest of the world, it is suffering from the 'last mile' syndrome – services inflation is sticky due to solid labour market conditions. Banco Central do Brasil has turned more hawkish as a response to tighter global financial conditions but also domestic fiscal deterioration. Lula's administration has indeed revised its 24/25 budget target lower.



After catching a breather at the turn of the year, the Mexican economy is regaining momentum as highlighted by February's activity prints. Inflation is moderating again but the dichotomy between core goods and services persists. In light of that, Banxico seems to want to remove emergency hikes in a discontinuous fashion even if the Fed stays high for longer. The domestic elections on 2 June should result in policy continuity with a bit more of a business, environment and security-friendly approach.





CENTRAL BANKS WATCH

Fed diverging from main DM central banks; EM peers turning slightly more cautious

Developed Markets

The Fed is taking a different turn from other major central banks. **The US economy remains remarkably strong and inflation has re-accelerated over the past three months, despite high interest rates.** Jerome Powell said that persistently elevated inflation will probably delay any Fed interest rate cuts until later this year, opening the door to a period of higher-for-longer rates.

Conversely, the June ECB rate cut remains firmly in play if there are “no surprises”. Some ECB members state that the ECB should cut interest rates in June to avoid falling behind the inflation curve.

Bank of England Governor Andrew Bailey also remarked that the outlook in Europe differed from that in the US and voiced **optimism that UK inflation was falling.**

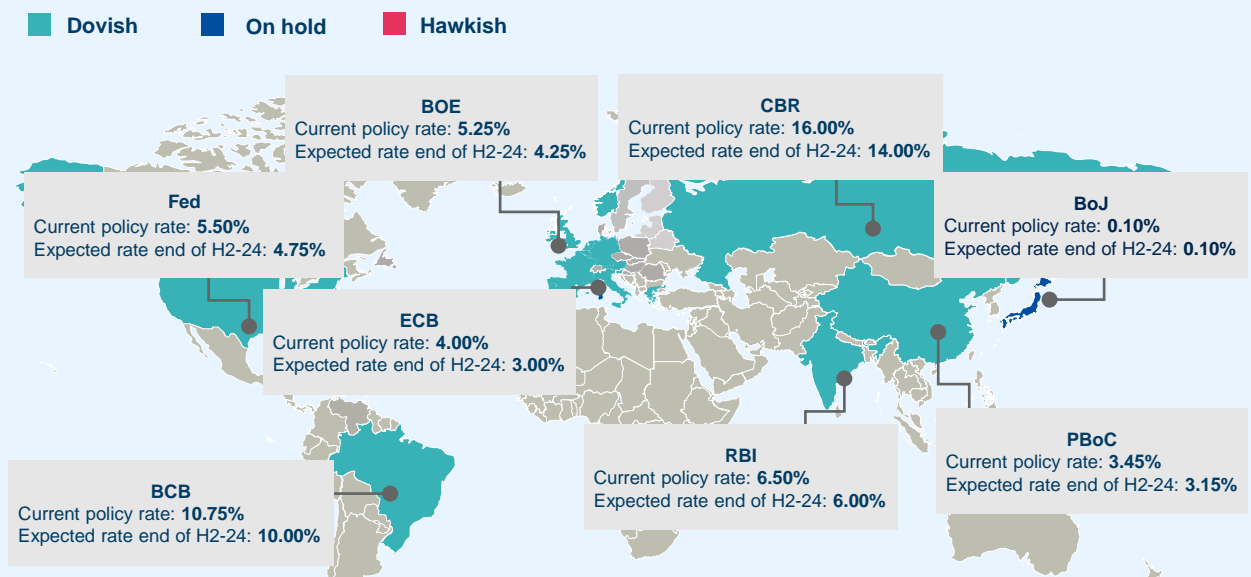
A “higher-for-longer” Fed also puts the BoJ under pressure. The Yen has done nothing but weaken since the end of negative rates.

Emerging Markets

Robust US economic data and sticky US inflation prints have led to a ‘higher for longer’ Fed repricing that the EM central banks have clearly made a note of. **Emerging central bankers have become more cautious in South East Asia,** where Bank Indonesia has even felt compelled to raise interest rates on the back of Indonesian Rupiah weakness, **and in the LatAm region,** where BCB (Brazil) shortened its forward guidance even before the ‘last mile’ tantrum and fiscal events which have deteriorated the consolidation outlook occurred.

But the Fed’s extended ‘wait and see’ stance does not mean EM easing cycles won’t continue. On the contrary, policy rates are very likely to be reduced further from already (mostly) contractionary levels thanks to moderating inflation, better fundamentals and cleaner external positions, but with the caution and flexibility that the uncertain global (Fed and geopolitics) and domestic (sticky services inflation) environment very much requires. We suspect markets will be content with such an EM CB bias.

Upcoming rate decision meeting and Amundi’s assessment for H2 2024



Source: Amundi Investment Institute as of 24 April 2024. Amundi’s assessment of central bank rates trend is based on Amundi Investment Institute’s forward-looking judgement of policy rates direction, based on our intake from forward guidance and CB communication. For the Federal Reserve, current rate refers to the upper bound of the target range. For the BoJ, current rate refers to the upper bound of the target range. For the ECB, current rate refers to the deposit facility.

KEY DATES	9 May	6 June	12 June
	BOE Monetary Policy Committee meeting	ECB Governing Council meeting	US Federal Open Market Committee (FOMC) meeting



GEOPOLITICS

The geopolitical heat is rising

Not only did we witness a heightening of tensions in the Middle East during the last few weeks, but the geopolitical temperature has also increased overall. **Our analysis points to the 2020s remaining a period of growing geopolitical risk for a variety of reasons.** In a historical comparison, the level of tension witnessed up until 2024 is comparable to that seen during the Cold War. The 2020s have already seen a rapid succession of multiple crises with a global impact. **Our data shows that more countries are now driving geopolitical risk as more bilateral relations are souring.** Furthermore, there are even more sanctions and export controls, natural resources used for political leverage... effectively amounting to growing economic warfare and this increases the risk of hot war. The interests of Iran, Russia and North Korea are aligning and, while China is not a rogue state, it has increasingly common interests with Russia and Iran as tensions in the South China Sea mount. The next US administration will preside over worsening China ties, no matter who sits in the White House. The recent ‘tit for tat’ between Iran and Israel means a new direct front has opened. On top of this, there are the threats posed by AI and climate change. While inflation is not driven merely by geopolitics, all geopolitical trends put upward pressure on costs: on-shoring, near-shoring, rerouting, sanctions adaption and monitoring, defence spending, fiscally expansionary and protectionist governments, and growing risk premia – to name but a few.

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All geopolitical trends are putting upward pressure on costs.

POLICY

EU: New proposals to deepen the CMU

Christian Noyer (former Governor of the Banque de France) has just submitted his report for **ambitious proposals to deepen the Capital Market Union (CMU)**. The starting point is well known: **Europe faces massive investment needs** (to finance the green and digital transitions), which, from now until 2030, are estimated at around **€1,000bn a year**. Moreover, there is a growing need for defence to also be included. Yet, **neither governments nor banks will be in a position to support such an investment effort.** Governments, because public debt ratios have risen sharply in recent years; banks, because they already dominate corporate financing and are subject to greater capital constraints.

It will thus be **essential to mobilise** the very abundant **household financial savings (over €35,000bn)**, which are poorly allocated. Europe exports its savings by acquiring foreign debt securities and imports the equity needed to develop its businesses. This poor allocation is detrimental to the returns offered to European savers. The Noyer report proposes a new approach to deepen the CMU, including **the creation of long-term savings products** to better channel household savings into the European economy. The taxation of savings products favours bond investments to the detriment of equities. This penalises long-term investment, which helps to explain the under-investment in Europe and widens the gap with the US. The report also recommends **bold and decisive action to relaunch the securitisation market**, with a European guarantee of last resort for the securitisation of mortgage loans or loans to SMEs.

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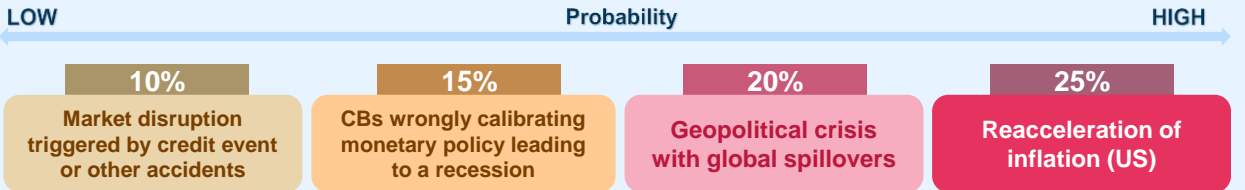
The ball is now in the court of France's European partners, particularly Germany.



Main and alternative scenarios

	Probability 70%	Probability 20%	Probability 10%
	MAIN SCENARIO Resilient multi speed growth	DOWNSIDE SCENARIO Renewed stagflationary pressure	UPSIDE SCENARIO More disinflation with productivity gains
GEOPOLITICS	<ul style="list-style-type: none"> Ukraine/Russia: ongoing fighting (no ceasefire in sight). Israel: Higher risk of escalation. But conflict to stay local. China/US: a controlled downward trajectory. More protectionism, friend-shoring 	<ul style="list-style-type: none"> Worsening Ukraine war. Extension of the conflict in the Middle East / Red Sea. More protectionism and increased retaliation to protectionist measures. 	<ul style="list-style-type: none"> De-escalation / ceasefire in Ukraine. End of the Israel / Hamas war. Lower energy / food prices.
INFLATION & POLICY MIX	<ul style="list-style-type: none"> Disinflation trend in place but slower, sticky core DM CBs: Fed funds rate -75bp by end-24, ECB -100bp. Starting cutting cycle over summer with the ECB Most EM CBs at peak rates. Different fiscal policies: restrictive stance in the EU, negative impulse in the US; moderate measures in China. 	<ul style="list-style-type: none"> Sticky or resurging inflation leads to tighter financial conditions. Financial stress. Central banks initially refrain from cutting rates because of inflation. A possible recession could lead to rate cuts, but only later. 	<ul style="list-style-type: none"> Fewer rate cuts than in the central scenario.
GROWTH PATH	<ul style="list-style-type: none"> Resilient multispeed growth: slow recovery in Europe; a mild deceleration in the US; controlled deceleration in China. Growth gap still in favour of EM. 	<ul style="list-style-type: none"> Recessionary outlook. 	<ul style="list-style-type: none"> Growth returns to potential in Europe and remains at potential in the United States.
CLIMATE CHANGE	<ul style="list-style-type: none"> Climate change hampers growth and exacerbates stagflationary trends. 	<ul style="list-style-type: none"> Further delays with more adverse climate events. 	<ul style="list-style-type: none"> Orderly transition coordinated across regions.

Risks to central scenario



MARKET IMPACT	10%	15%	20%	25%
	<p>Positive for US Treasuries, cash and gold.</p> <p>Negative for credit.</p>	<p>Positive for cash, JPY, gold, quality vs growth, and defensives vs cyclicals.</p> <p>Negative for risky assets and commodity exporters.</p>	<p>Positive for DM govies, cash, gold, USD, volatility, defensive assets and oil.</p> <p>Negative for credit, equities and EM.</p>	<p>Positive for TIPS, gold, commodity FX and real assets.</p> <p>Negative for bonds, equities, DM FX and EM assets.</p>

Source: Amundi Investment Institute as of 29 April 2024. DM: developed markets. EM: emerging markets. CB: central banks. USD: US dollar. TIPS: Treasury inflation-protected securities. FX: foreign exchange markets..



AMUNDI INVESTMENT INSTITUTE MODELS

Combining Economic and Inflation Cycles: Amundi Twin Phazers

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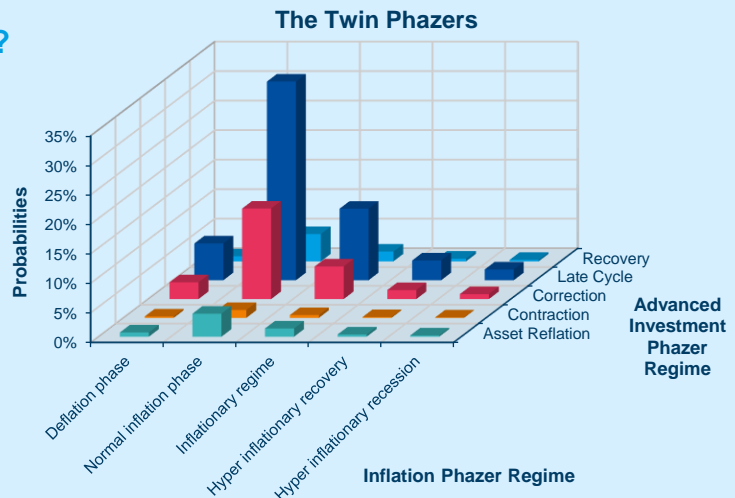
- The rationale:** the complex environment we have witnessed in the post-pandemic years has reinforced the notion of a strong interconnection between economic-financial regimes and inflation dynamics. The role of monetary policy in such an intricate context has become an even more relevant driver of financial markets and debt sustainability. As a result, Amundi Investment Institute leverages the synergy of its *Advanced Investment Phazer* and *Inflation Phazer*: the *Twin Phazers*.
- Model setup:** the combination of the 5x5 regimes defined by the two *Phazers* results in 25 states of the world. According to their characteristics, these can be grouped into 4 broad categories: 1) *Normal conditions*, reflecting the 4 typical economic cycles and inflation centred around central banks targets; 2) *Exceptional Inflation conditions* reflecting hyperinflation; 3) *Exceptional Liquidity conditions* reflecting extremely expansive unconventional monetary policies in times of subdued inflation; 4) An *uncharted territory* of extreme easing of monetary policy during times of hyper hyper-inflation. We then analyse the historical behaviour of the main asset classes through each of these broad regimes, aiming to find recurring patterns for performance and correlations.
- Goal:** the aim of the tool is to define the asset allocation that best fits each interconnection of regimes, taking into account both the most likely scenario and alternative ones.
- Model output:** it is a probability distribution that covers every combination of the 5x5 regimes, along with the respective allocation that historically delivered the optimal return/risk profile in a diversified portfolio.

Stocks-bonds correlation is highly dependent on inflation dynamics through the business cycle.

CHART: Late Cycle paired with Normal Inflation in 2024

What are the current signals?

- The central scenario for the rest of 2024 is Late Cycle, within a context of Normal Inflation. Price pressures stabilising to more conventional levels suggest a decreasing correlation between equity and bond returns, with the latter gradually getting back their hedging properties versus risky assets in a balanced portfolio context.
- Late Cycle favours a positive stance on developed markets equity and high quality credit. Potential risks of stickier inflation suggest keeping a moderate exposure to cyclical commodities.



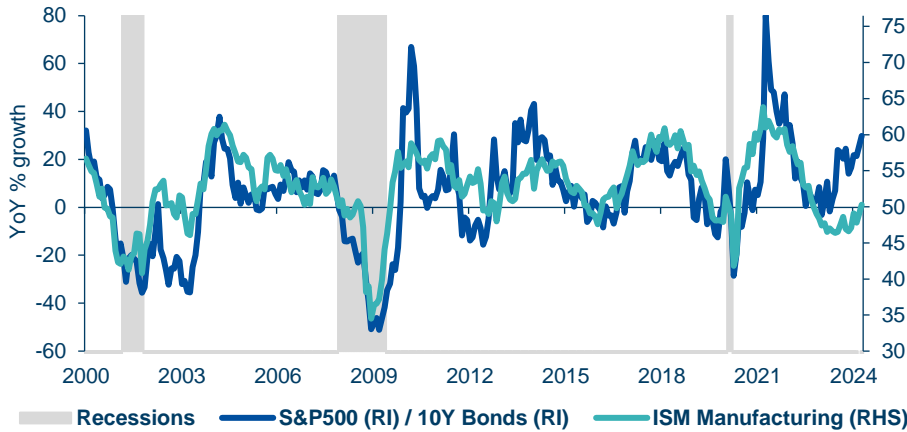
Source: Amundi Investment Institute, Bloomberg. Data is as of 19 April 2024.



EQUITIES IN CHARTS

DM: A breather and a broadening would make sense

CHART: US Equity vs Bonds and ISM Manufacturing

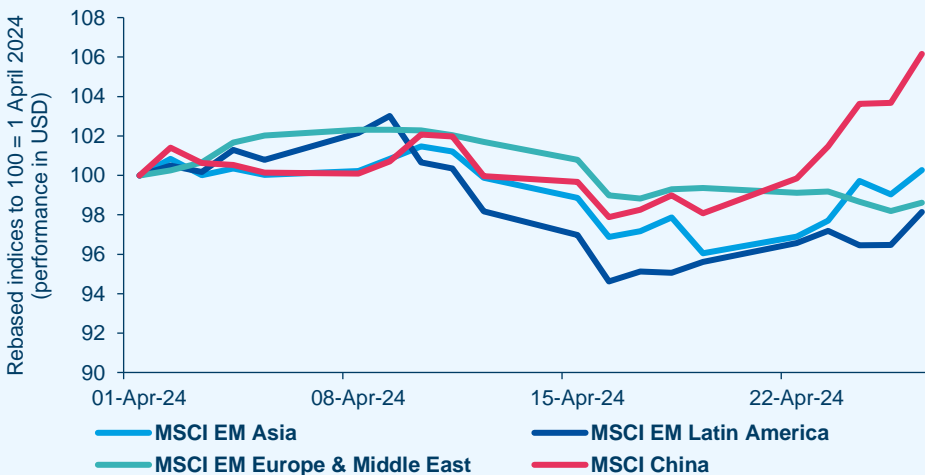


Source: Amundi Investment Institute, LSEG Datastream. Data is as of 17 April 2024. RI: total returns.

In the US, the performance of equity vs bonds is consistent with ISM manufacturing being back to 60. This is one way to say that a lot is currently in the price, which argues for a breather. As ISM manufacturing, a good proxy of earnings, is effectively rising and is now just above 50, it argues for a broadening of participation.

EM: Local policies support China's momentum

CHART: China outperformed the other EM indices in April



Source: Amundi Investment Institute, Factset. Data is as of 26 April 2024.

Investors are still cautious but, overall, China stocks gained momentum in recent weeks thanks to a recovery in property stocks on hopes of more policies aimed at destocking and the restrictive property policy easing in Tier-1 cities.

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BONDS IN CHARTS

DM: Pricing of Fed and ECB easing for 2024 – a gap is opening up

CHART: Pricing of rate cuts for the Fed and the ECB



AUTHORS

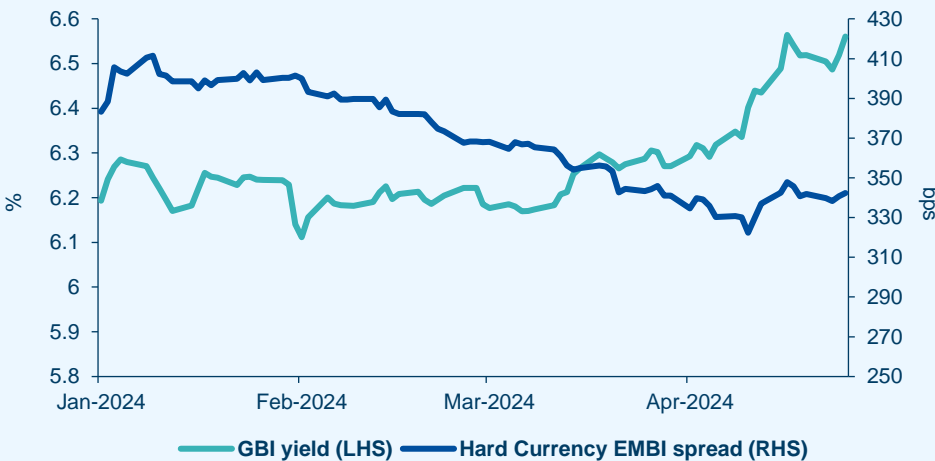
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Source: Amundi Investment Institute, Bloomberg. Data is as of 24 April 2024. SOFR: Secured Overnight Financing Rate.

The Fed is taking a different turn from the other major central banks. Powell says the Fed wants to see 'more good inflation readings' before it can cut rates. On the other hand, the June ECB rate cut remains firmly in play as long as there are 'no surprises'.

EM: Hard Currency EMBI spread moving laterally

CHART: Hard Currency EMBI spread quite resilient



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Source: Amundi Investment Institute, Bloomberg. Data is as of 25 April 2024. GBI: JPMorgan Government Bond Index-Emerging Markets; EMBI: Emerging Markets Bond Index.

The spread between Hard Currency Emerging Markets bonds and US Treasuries has been quite resilient, moving laterally during the recent spike in US Treasury yields and EM Local yields.



COMMODITIES

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Gold



The latest surge was primarily driven by hedging and momentum flows. With a delayed monetary pivot, a pause is likely. Yet, planets are aligning for the medium term. We target \$2,300/oz in 3M and \$2,500/oz in 12M.

Oil



Oil fundamentals are supportive given stable supply, resilient demand and geopolitical risk. Yet, the upside looks limited given ample spare capacity and prospects for higher non-OPEC supply. In the short term, we would hold position as a hedge and to capture the appealing roll yield.

Industrial Metals



Copper is surging due to tight mining supply, as China starts hoarding stockpiles and as Russian metals are banned from trading on the LME and CME exchanges. We expect a consolidation in the short term, but see more upside in the long run as supply struggles to match demand.

Appealing Gold and Base Metal medium-term outlook. Oil to hedge inflation and geopolitics.

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CURRENCIES

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Euro



Monetary policy divergence between the Fed and the ECB remains a headwind for the EUR, which we expect to stay weak towards Q3. Yet, this mainly reflects a strong USD rather than a weak EUR, which has appreciated relative to most G10 currencies YTD, apart from the USD and GBP.

Dollar



Higher-than-expected US inflation continues to push forward expectations of Fed rate cuts and to support the USD. The lack of challengers at this stage is notable, but a meaningful trend remains unlikely if the distribution of forward US rates does not skew toward rate hikes once again.

Sterling



Sticky UK services inflation limits the ability of the BoE to cut in 2024 and in turn supports the currency given its high carry profile within G10. Yet, UK growth remains weak and the evidence of rising stagflation does not bode well for the currency. We keep expecting modest depreciation ahead.

Yen



The BoJ failed to introduce any hawkish shifts to support the currency in April; the global backdrop is still far from what the JPY likes (i.e. slowing growth, falling yields and risk appetite) and we doubt FX intervention can translate into long-lasting JPY support with no help from G7. We expect a delayed JPY appreciation.

Global and local conditions are still far from what the JPY likes.

GLOBAL
INVESTMENT VIEWS



GLOBAL INVESTMENT VIEWS

Searching for bright spots in a trickier phase

Recent inflation and growth data from the US indicates continued strength in the economy, leading us and various institutions including the IMF to revise up US growth. We see the current strong momentum to continue into Q2 but expect a deceleration in H2, without negative growth in any quarter. Data on the inflation side also points to stickier prices, with upside risks from the recent geopolitical escalation (oil). This opens a difficult phase for central banks such as the Fed for which we expect fewer rate cuts but higher uncertainty around policy actions. In addition, investors should assess the following factors:

- **The dichotomy in US economy.** Small business vulnerability to high rates vs large business resilience and the low income households fragility vs the high income strong consumption are key features of this cycle. Higher for longer rates will further increase these vulnerabilities. We still see the Fed cutting rates but at a slower pace, with a small risk of no cuts.
- **Europe shows a clearer picture vs US allowing the ECB to start cutting earlier.** Here as well we see slower rate cuts and also highlight that divergences in Central Bank actions will require FX to be closely monitored.
- **Emerging markets offer bright spots to consider.** Asian economies in particular prove overall much more resilient and more autonomous/driven by regional forces. India remains a bright spot and a structural growth story.
- **Rising geopolitical risks will affect overall market visibility.** With inflation risk in focus, geopolitics is increasingly relevant for oil prices, while demand for gold as a safe-haven diversifier could support the metal.

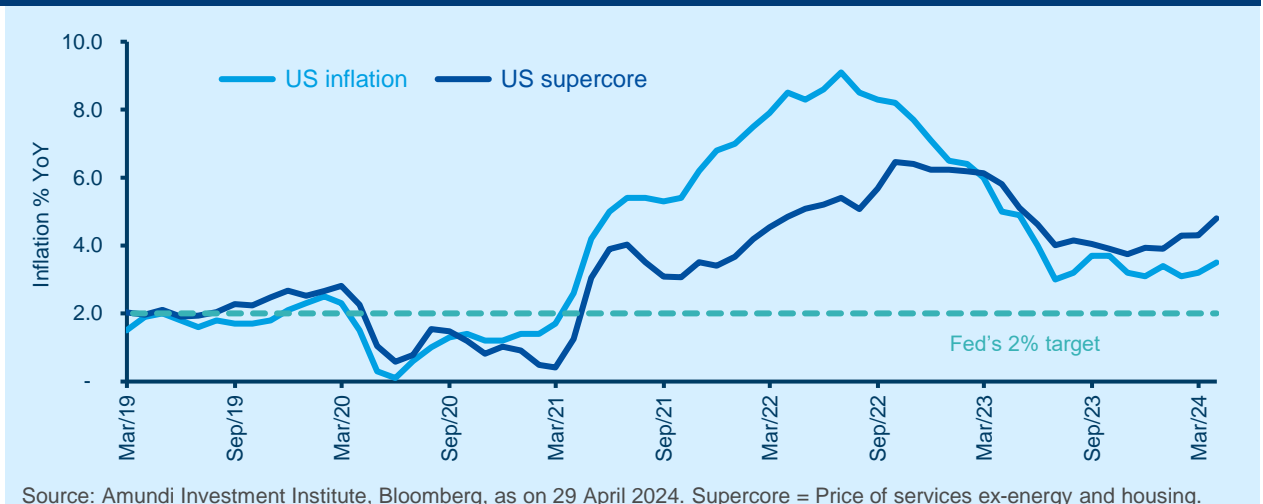


VINCENT MORTIER
GROUP CIO



MATTEO GERMANO
DEPUTY GROUP CIO

US inflation ticked up recently, but disinflation process should continue





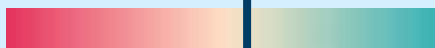
Markets seem to have priced in much of the good news on resilient growth and slowing inflation, and there are risks to consider. Investors should focus on these bright spots that could provide better risk-return:

- **In cross asset, we maintain a slightly constructive view on risk assets but focus on resilient market segments.** US duration offers potential but we continue to diversify into Italian BTPs. On Japanese bonds, however, we are cautious. In our view, Euro high quality is the brightest spot in credit. We also like EM debt for carry, but we slightly reduced our stance as sticky EM inflation lowers the potential for further rates compression. In equities, we are positive on Japan and now also on the UK. We did some recalibration in EM towards our long term convictions. While we are positive on India, Indonesia and South Korea, we reduced the stance on Korea slightly but turned positive on Mexico.
- With an active duration stance overall, we have reduced our expectations of Fed rate cuts owing to strong US growth and inflation. However, rates volatility would remain high. There is good value in the short to intermediate portion of the US Treasury curve. In Europe, we are neutral on duration, positive on UK but cautious Japan. Selection is important in credit, leading us to maintain our preference for investment grade (IG) over high yield (HY), both in Europe and the US.
- In equities, there are signals of rotations within equity markets, that favour global equity approaches. We expect top-of-market earnings to decelerate in the US, supporting a catch-up of the rest of the market which should favour an equal weighted approach. In Europe, we stay balanced and slightly raised the tilt towards defensives through utilities. Overall, we are positive on industrials and consumer staples and cautious on tech and consumer discretionary (slightly less though).
- **We are positive on EM, but recognise that sentiment in bonds is less supportive due to a delayed Fed pivot/fewer rate cuts).** However, yields remain attractive and so is economic growth. In hard currency, we prefer HY over IG due to better valuations and carry. The EM universe offers plenty of opportunities even in equities. We choose to be more selective in favour of Brazil, Mexico, Indonesia, India and Korea (slightly less than before). But geopolitical risks present a major overhang.

As uncertainty on Fed policy and inflation fronts persists, we think bright spots can be found in attractively-priced equities, and investment grade credit. EM bonds are attractive from a medium term perspective.

Overall risk sentiment

Risk off **Risk on**



We keep our risk stance unchanged but have recalibrated our views across asset classes, considering their valuations and the economic backdrop.

Changes vs previous month

- Cross asset: Recalibration in risky assets, with positive view on UK equities. Less constructive on EM bonds and oil.
- Equities: More constructive on global value.

Overall risk sentiment is a qualitative view towards risk assets (credit, equity, commodities) expressed by the various investment platforms and shared at the global investment committee (GIC) held on 24 April 2024. It reflects views over a one month horizon, from one GIC to the other. Our stance may be adjusted to reflect changes in the market and economic backdrop.

ECB= European Central Bank, DM= Developed Markets, EM = Emerging Markets, CBs = central banks, IG = investment grade, HY = high yield, BTPs = Italian government bonds, JBGs = Japanese government bonds. For other definitions see the last page of this document.



Three hot questions

1

What is your outlook for US and European growth?

We upgraded our US growth expectations from 1.8% to 2.3% for this year, but still see a deceleration in the second half. Inflation, which is key for the Fed's decisions, could be sticky and disinflation slower than anticipated. But the overall disinflationary trend is likely to continue, albeit inflation volatility will remain high. We think Fed rate cuts will be fewer in number (than expected before), starting in H2. But uncertainty is high as the central bank is keenly monitoring incoming data. In EZ, we lifted our growth forecasts for 2024 owing to better trade and domestic demand, with divergences across countries.

Investment Consequences

- Equities: Favour US equal weighted over market cap-weighted; positive Japan and the UK
- Close to neutral/positive US duration

2

How do you view the Q1 GDP growth data for China?

Q1 GDP growth at 5.3% (YoY) was definitely above our and market's expectations but this doesn't change our cautious outlook (a similar sharp jump was witnessed in 2023 reopening). Given this better Q1, we revised up our full-year forecast to 4.5% but lowered our Q2 growth expectations to take into account reversal of consumption growth. Deteriorating capacity utilisation signal underlying weaknesses in domestic demand and persistent excess capacity. In addition, housing markets is not showing signs of stabilization.

Investment Consequences

- Neutral on China govies and equities
- Cautious on CNH

3

Do you expect the rally in gold prices to continue this year?

Gold prices have been rising despite prospects of a delayed Fed pivot and expectations of fewer rate cuts. Although we may see a pause in the near term, the metal could benefit from near-term doubts over disinflation process, geopolitical tensions and fiscal profligacy of governments. Increasingly, as the world becomes more multipolar, governments and central banks would like to diversify away from the dollar and gold could benefit from that in the long run. On oil, geopolitical risks in the middle east are supportive but we think the upside is still limited, given ample spare capacity.

Investment Consequences

- Gold: 6M target upgraded to \$2,300/oz.
- Oil: 6M target \$85/bbl for Brent.

Europe is displaying a clearer picture with respect to continued disinflation vs the US, and hence this leaves room for the ECB to act before the Fed.

MONICA DEFEND
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MULTI-ASSET

Recalibrate amid an evolving global economy

As the year progresses, we are getting more clarity on how economic growth and inflation are behaving in the developed world. Growth is resilient and inflation stalling but not resurging. Central banks are still expected to move towards cutting rates, albeit more cautiously. This backdrop is positive but is already priced in by the markets. Thus, investors should look across asset classes and within each region to adjust their stance and explore ideas offering robust risk-reward potential in Pan-Europe and EM.

In this economic environment, we turned slightly constructive on DM equities, mainly through the UK and our existing positive views on Japan, whereas we stay neutral on the US. UK markets should benefit from high dividend, low valuations and exposure to energy sector. In EM, we are positive on Asia. But we adjusted our views, becoming slightly less positive on South Korea and diversifying our stance in favour of Mexico.

Our stance on US duration remains positive. Yields have risen significantly since the start of the year amid market's assessment of Fed actions. We acknowledge this hawkish assessment but continue to believe that rate cuts would still materialise this year. The picture is slightly more clear in Europe where we stay constructive, and even on Italian BTPs we are positive. But on Japanese bonds risk-return profile appears asymmetric, leading us to remain negative. Japanese growth and inflation are main risks to monitor.

On the other hand, European IG credit remains a bright spot to us. This segment should benefit from better valuations vs HY, and a clearer path of monetary policy easing by the ECB. In EM bonds, while we remain positive, we think stickier inflation in the US may lead the Fed to reduce rates by a lower than expected amount. This may affect US dollar and returns from EM bonds in the near term.

USD may benefit from a move up in US yields and a spike in rates volatility. Thus we stay positive on dollar in short term and are no longer cautious on the currency against the yen. However, yen should do well against the CHF, and the regional FX EUR/GBP is likely to benefit from better carry. In addition, we are constructive on INR/CNH and BRL/EUR.

Hedging for US duration and geopolitical risks is crucial, and oil provides an attractive backdrop for the latter. But after the strong oil price movements this year, we slightly reduced our stance on the commodity.

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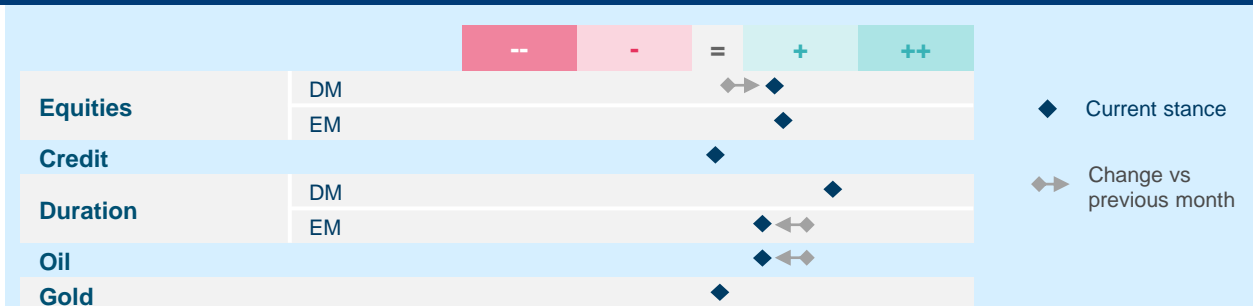
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Amid better-than-expected growth in developed markets, we keep a slightly positive risk stance, with a preference for equities over credit.

Amundi Cross-Asset Convictions



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 held on 24 April 2024. 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 and includes the effects of hedging components. FX = foreign exchange, BTP = Italian government bonds, BoJ = Bank of Japan, JGB = Japanese govt. bonds, BoE = Bank of England, NIRP = Negative interest rate policy, DM = Developed markets, EM = Emerging markets. For other definitions and currency abbreviations see the last page.



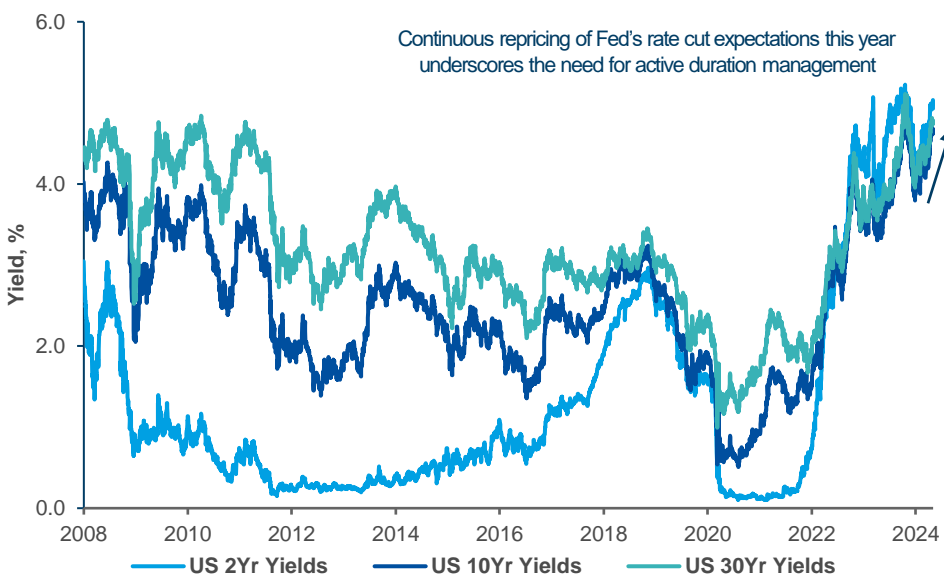
FIXED INCOME

Bonds remain attractive on a medium-term horizon

The latest US inflation readings have led the markets to assess the relevance of ‘higher for longer rates’ narrative as the Fed shows signs of delaying rate cuts. This more nuanced picture, has made US policy actions difficult. Consequently, this is a time to be very active on duration, and monitor inflation carefully. Bond yields are still attractive from a medium to long term perspective. And given that we expect rate cuts in the US and EZ to materialize this year amid a backdrop of weak growth, bonds offer strong value amid continued disinflation. In risk assets, quality is the way to navigate this environment, and investors may explore yields in high grade segments in developed and emerging markets.

Global & European fixed income	US fixed income	EM bonds
<ul style="list-style-type: none"> ▪ We believe EZ growth would be muted but slightly better than expected. ▪ This tricky situation calls for a flexible approach to duration. For now, our view is neutral overall, mainly through Europe. But we are positive UK. ▪ We like quality EU credit mainly through financials and subordinated debt. In HY, we are selective and becoming more cautious amid the recent spread tightening, in particular in low quality credit. 	<ul style="list-style-type: none"> ▪ Current nominal and real US rates levels support a positive duration stance with an active management approach to benefit from market movements. ▪ In corporate credit our preference is for IG vs HY. We are increasingly positive on shorter maturities amid flat credit curves. Sector wise, we prefer financials to non-financials. ▪ Securitised credit still offers long-term value, but we are selective after the recent strong performance. 	<ul style="list-style-type: none"> ▪ Sentiment has deteriorated a bit recently amid a more prudent Fed and its views on rate cuts. We remain positive on HC debt, while we are increasingly selective in LC. ▪ We continue to favour HY vs IG given the high carry. ▪ We like countries with good fundamentals, and those that are part of the global easing cycle such as Brazil, Mexico and Peru in LatAm. In Asia, Indian bonds should gain from inclusion in major benchmarks.

Current yield levels are appealing on a medium-term horizon



Source: Amundi Investment Institute, Bloomberg as at 2 May 2024.

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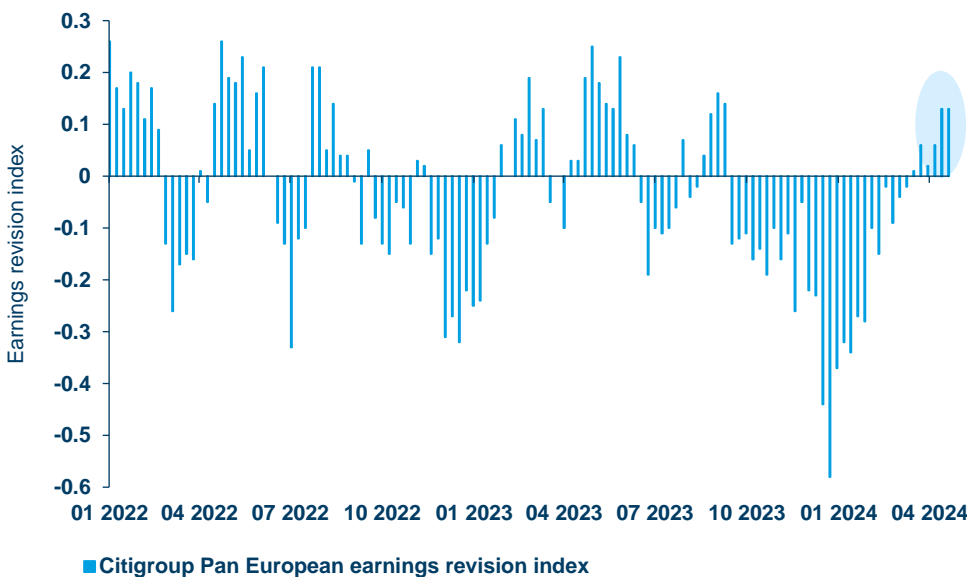
EQUITIES

Search for relative value in Europe and Emerging Markets

The rally this year has been led by optimism around tech and US large caps, and resilient growth so far. But stocks may see a breather now as the rally broadens towards other regions and segments. For instance, a slightly better growth outlook for Europe this year and more clarity on ECB rate cuts (vs the Fed), along with indications of bottoming out of the manufacturing sector could improve prospects for quality and value stocks in the region. However, earnings strength should be the key driver of future returns as valuations are full in select corners of the market. This is also true for Emerging Markets where country dynamics, geopolitical risks and inherent strength of the business models are all equally important criteria for us. Overall, we see opportunities in Asia (Japan, EM), US value and Europe.

European Equities	US & Global Equities	EM Equities
<ul style="list-style-type: none"> ▪ We maintain a balanced view, combining exposure to defensive and quality cyclical businesses. In the former, we are positive on utilities and staples. ▪ In cyclicals, we like industrials and discretionary but believe there are opportunities to trim the view after price movements in the recent past. In financials, select insurers have attractive valuations. ▪ Finally, the appetite for price increases and margin strength are crucial factors. 	<ul style="list-style-type: none"> ▪ We expect narrowing earnings growth gap between top of the market megacaps and the broader market for this year. This leads us to be positive on an equal weighted approach and on value. ▪ In financials, we like large cap names that show low credit risks. In defensive, our approach goes beyond the traditional sectors and we find defensive tilt through idiosyncratic cases. ▪ However, we are cautious on growth and large caps. 	<ul style="list-style-type: none"> ▪ The macro story for EM is well in place, but we prefer to benefit from the divergences in Asia, LatAm. ▪ In Asia, although we see better growth prospects in China, the underlying demand is likely to remain weak. However, countries like Korea, Indonesia (financials) and India (changes to global supply chain) look appealing. Brazilian valuations are also attractive. ▪ But we are cautious on energy, materials sectors.

Europe sees profit upgrades



Source: Amundi Investment Institute, Bloomberg, 26 April 2024. Positive reading means an optimistic earnings outlook, whereas negative reading indicates the opposite.

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VIEWS

Amundi asset class views

In focus this month

- **Value** stocks in EU, Japan and US could benefit from a broadening of the rally outside of US tech and large caps. This would be further supported by its valuation gap with growth in the US and Europe.

Equity and global factors

Regions	Change vs M-1	--	-	=	+	++	Global Factors	Change vs M-1	--	-	=	+	++
US				◆			Growth				◆		
Europe	▲				◆		Value	▲					◆
Japan					◆		Small caps					◆	
EM						◆	Quality						◆
China				◆			Low Volatility				◆		
EM ex China					◆		Momentum				◆		
India					◆		High Dividend				◆		

Fixed income & FX

Govies	Change vs M-1	--	-	=	+	++	Credit	Change vs M-1	--	-	=	+	++
US					◆		US IG					◆	
EU core					◆		US HY			◆			
EU periph.					◆		EU IG						◆
UK						◆	EU HY	▼			◆		
Japan			◆										
EM Bonds	Change vs M-1	--	-	=	+	++	FX	Change vs M-1	--	-	=	+	++
China govt.					◆		USD						◆
India govt.						◆	EUR			◆			
EM HC						◆	GBP				◆		
EM LC	▼				◆		JPY						◆
EM corp.						◆	CNY			◆			

Source: Summary of views expressed at the most recent global investment committee held on **24 April 2024**. Views relative to a EUR-based investor. Views range from double minus to double positive, = refers to a neutral stance. This material represents an assessment of the market 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. FX table shows absolute FX views of the Global Investment Committee.



FORECASTS

Macroeconomic forecasts

Macroeconomic forecasts as of 29 April 2024						
Annual averages, %	Real GDP growth, YoY, %			Inflation (CPI), YoY, %		
	2023	2024	2025	2023	2024	2025
Developed countries	1.6	1.4	1.3	4.7	2.7	2.3
United States	2.5	2.3	1.3	4.1	3.0	2.4
Eurozone	0.5	0.5	1.2	5.4	2.3	2.2
Germany	-0.1	0.2	0.9	6.1	2.3	2.2
France	0.9	0.7	1.3	5.7	2.4	2.0
Italy	1.0	0.7	0.9	5.9	1.3	2.0
Spain	2.5	1.6	1.5	3.4	3.1	2.1
United Kingdom	0.1	0.4	1.2	7.5	2.8	2.3
Japan	1.9	1.1	1.5	3.3	2.1	1.7
Emerging countries	4.3	4.1	3.9	5.8	5.3	4.0
China	5.2	4.5	3.4	0.2	0.2	0.5
India	7.7	6.3	6.0	5.7	5.1	5.7
Indonesia	5.0	5.1	4.9	3.7	3.4	3.7
Brazil	2.9	2.1	2.1	4.6	3.9	3.5
Mexico	3.2	1.8	1.6	5.6	4.3	3.8
Russia	3.6	3.0	1.5	6.0	6.3	4.5
South Africa	0.5	1.0	1.3	5.9	5.2	4.6
Turkey	4.5	3.2	3.6	53.4	58.0	29.1
World	3.2	3.0	2.9	5.3	4.3	3.3

Central Banks' official rates forecasts, %					
	24 April 2024	Amundi Q3 24	Consensus Q3 24	Amundi Q1 25	Consensus Q1 25
United States*	5.50	4.75	5.00	4.25	4.50
Eurozone**	4.00	3.50	3.40	2.75	2.90
United Kingdom	5.25	4.75	4.80	4.00	4.30
Japan	0.10	0.10	0.10	0.10	0.25
China***	3.45	3.30	3.35	3.00	3.25
India****	6.50	6.50	6.30	6.00	5.85
Brazil	10.75	10.00	9.50	9.75	9.00
Russia	16.00	15.00	14.45	12.00	11.15

Source: Amundi Investment Institute. Forecasts are as of 24 April 2024. CPI: consumer price index. *: Upper Fed Funds target range. **: Deposit rate. ***: One-year loan prime rate. ****: Repurchase rate. Q2 2024 indicates end of June 2024; Q4 2024 indicates end of December 2024.



FORECASTS

Financial market forecasts

Bond yields

Two-year bond yield forecasts, %

	3 May 2024	Amundi Q3 24	Forward +6m.	Amundi Q1 25	Forward +12m.
United States	4.82	4.00-4.20	4.56	3.80-4.00	4.45
Germany	2.90	2.30-2.50	2.55	1.90-2.10	2.30
United Kingdom	4.36	3.60-3.80	4.01	3.40-3.60	3.96
Japan	0.29	0.10-0.20	0.36	0.10-0.20	0.45

Ten-year bond yield forecasts, %

	3 May 2024	Amundi Q3 24	Forward +6m.	Amundi Q1 25	Forward +12m.
United States	4.51	3.90-4.10	4.49	3.90-4.10	4.51
Germany	2.45	2.20-2.40	2.43	2.00-2.20	2.41
United Kingdom	4.22	3.80-4.00	4.20	3.70-3.90	4.23
Japan	0.90	0.80-1.00	1.01	0.80-1.00	1.11

Exchange rates

	24 April 2024	Amundi Q3 24	Consensus Q3 24	Amundi Q1 25	Consensus Q1 25
EUR/USD	1.07	1.05	1.08	1.12	1.10
EUR/JPY	166	156	159	156	156
EUR/GBP	0.86	0.86	0.86	0.87	0.86
EUR/CHF	0.98	0.98	0.98	1.03	0.99
EUR/NOK	11.76	11.50	11.38	11.47	11.10
EUR/SEK	11.64	11.52	11.34	11.48	11.20
USD/JPY	155	148	145	139	141
AUD/USD	0.65	0.65	0.67	0.69	0.69
NZD/USD	0.59	0.59	0.61	0.63	0.63
USD/CNY	7.25	7.20	7.20	7.20	7.15

Source: Amundi Investment Institute. Forecasts are as of 3 May 2024. Q3 2024 indicates end of September 2024; Q1 2025 indicates end of March 2025.



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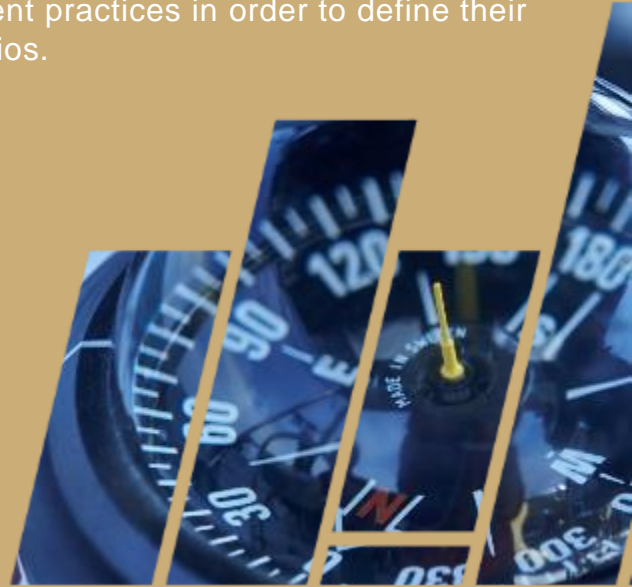
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Amundi Investment Institute

In an increasing complex and changing world, investors need to better understand their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios.

This environment spans across economic, financial, geopolitical, societal and environmental dimensions. To help meet this need, Amundi has created the Amundi Institute. This independent research platform brings together Amundi’s research, market strategy, investment themes and asset allocation advisory activities under one umbrella; the Amundi Institute. Its aim is to produce and disseminate research and **Thought Leadership** publications which anticipate and innovate for the benefit of investment teams and clients alike.



Amundi Investment Institute
Geopolitics
Themes at a glance | April 2024

Geopolitical risk will grow: here is how we track it

In order to better understand geopolitical trends, Amundi has developed the Geopolitical Sentiment Tracker (GST). The tool aims to inform the investment process. It includes a variety of datasets allowing investors and researchers to better understand and be alerted to rising risks. It also allows our teams to identify opportunities.

This paper focuses on the GST's first capability: risk identification. To illustrate what it can do, we outline the current geopolitical context, and how to track relevant risk events.

We expect geopolitical risk will remain elevated for the next several years as a result of the growing number of active hotspots, the technic, geopolitical and technological shifts underway, and deteriorating bilateral relations.

To get a better assessment of where the risk is emanating from, the Geopolitical Sentiment Tracker provides insights into these risks and alerts us to changes.

The 2020s will likely see growing levels of geopolitical risk

According to the Geopolitical Risk Historical Index¹ (which measures geopolitical risk since the early 1900s), the 2020s so far seem to rank "middle of the pack" when compared to periods marked by high or low geopolitical risk.

Interestingly, the level of risk calculated for the first few years of the 2000s is comparable to that seen throughout the duration of the cold war (roughly from the 1950s to the 1990s). A period that, characterized by the rivalry between two super powers, is some extent, comparable to today's environment marked by US-China tensions.

Global levels of geopolitical risk, 1900-2024

Source: Amundi Investment Institute and Pearson Institute for Advanced Economic Studies, and Data Science and Analytics Services, Geopolitical Risk Historical Index (1900-2024).

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