Confidence must be earned

Amundi ASSET MANAGEMENT

KEEPING UP WITH CLIMATE CHANGE

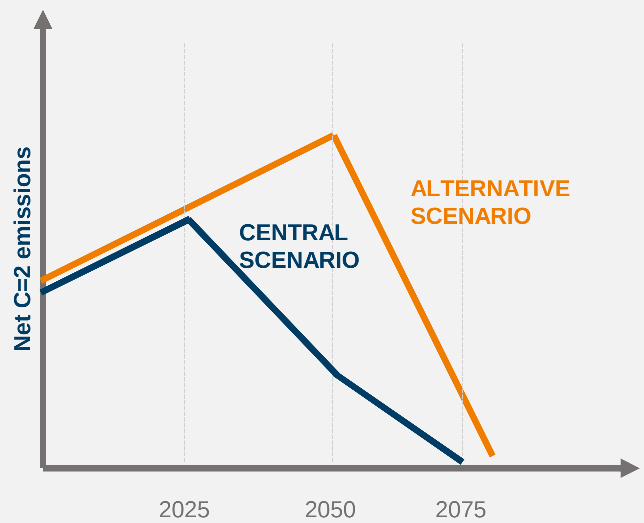
Long-term asset class views | *May 2022*

AMUNDI INSTITUTE INFOGRAPHIC

New climate change aware Central and Alternative scenarios

	Central	Alternative
Transition Pathways	Orderly transition incorporating some risk of delays	Delayed & disorderly transition
	Lower economic growth	Significantly lower growth
	Inflationary pressure partially neutralised by CBs	Persistent inflationary pressures
	Monetary policy, higher debt	CBs fail on yield control, less accommodative, higher debt
	Lower productivity triggers lower EPS generation	Well below trend EPS generation
Financial Impacts	**Agg. Bonds:** Expected returns marginally affected: lower yield increase, but lower carry	**Agg. Bonds:** Expected returns marginally affected: higher carry, default risk
	HY: Low quality credit ER decrease: higher default risk and more volatile spreads	**HY:** Low quality credit ER are depressed: significant default risk and very volatile spreads
	Equity: Equity ER decrease: lower EPS and lower valuations	**Equity:** Negative ER amid very low EPS and no favourable valuations

Net CO2 emissions under the new scenarios



Source: Amundi Institute, CB = Central Banks, EPS = Earnings per share, ER = expected returns. Agg. Bonds refer to government and Investment Grade bonds. HY= high yield.

Global themes to watch

Ballooning debt from energy transition

Debt will be needed to finance the infrastructure and electrification process behind the green transition.

Green commodities' super cycle

To address climate change, a targeted taxation policy will push the costs of coal, natural gas and oil higher forcing their replacement with renewables.

Green quantitative easing (QE)

Central banks will provide the necessary support to finance government debt, limit the cost of capital and mitigate higher rates through green QE.

Further country fragmentation

Higher production costs and a less efficient production function will have different impacts on countries depending on their initial energy mix and future paths.

Cloudy markets amid lower earnings

We expect lower earnings per share growth, low government bond yields, wider spreads and less complacent valuations to drive lower absolute returns.

Source: Amundi Institute For further information please refer to Amundi Institute paper "Asset Classes Views: Keeping up with climate change".
Date of First Use: 5 May 2022. Devised by: Laura Fiorot, Investment Insights Unit, Amundi Institute.

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10 year expected return under the climate Central scenario

Old World: No specific evidence to tackle climate targets.

10 year relative preferences

Government bonds

↑ US and China govies	↓ EU and Japan govies

Credit & EM bonds

↑ Green bonds, EM	↓Euro IG

Equities

↑ Value (financials, materials, energy), IT in US, dividends	↓ Cons. staples, comm, services in EM

Real assets

↑ Green real estate, infrastructure	↓ Brown real estate

“Investors will have to focus on real returns amid higher structural inflation. Equities are preferred to bonds, but with lower returns vs the past. Higher country/sector divergences and companies’ sensitivity to energy prices will increase dispersion of returns and offer sector/country allocation opportunities.”

Pascal BLANQUÉ,
Chairman, Amundi Institute

Monica DEFEND,
Head of Amundi Institute

Source: Amundi Asset Management CASM Model, Amundi Asset Management Quant Solutions and Amundi Institute, Bloomberg. Macro figures as of last release. Equity returns based on MSCI indices. Reference duration are average figures. Local Currency. Returns on credit asset are comprehensive of default losses. Forecast and fair values up to 3-year horizon provided by Research team (macro, yields, spread and equity). Forecasts for annualised returns are based upon estimates and reflect subjective judgments and assumptions. These results were achieved by means of a mathematical formula and do not reflect the effect of unforeseen economic and market factors on decision making. The forecast returns are not necessarily indicative of future performance, which could differ substantially. Equity indexes are from MSCI, IG and HY credit indexes are ICE BofAML indexes, EM bond index is the JPMorgan EMBI Global diversified. All indexes are Total Return in Local Currencies. Regarding real assets, the data represents the modelling of core (moderate risk) real estate and direct lending on the private debt side. We assumed a leverage in the range 20-30% for Real Estate and a leverage of 100% for Direct Lending. In private equity, we considered the risk premium (and the leverage) calculated using a Beta versus the public market. Unlisted infrastructure equity is represented by Edhec Infra300 index. These results do not take into account neither the potential value added from alternative asset specialists when they select and manage these assets, nor the very strong dispersion of returns within the different real and alternative asset types. In other words, these models do not consider any alpha component and can be considered representative of the average manager. Forecasts for annualised returns are based upon estimates and reflect subjective judgments and assumptions. For further information refer to “Asset Classes Views: Keeping up with climate change”.

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