Institute

April 2023

Emerging Markets Charts and Views

Springtime for Emerging Markets amid China's reopening and the outlook for Fed policy

Confidence must be earned

Amundi ASSET MANAGEMENT

Investment Insights | Market Stories

The comeback for EM in 2023

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While 2022 was a challenging year for Emerging Markets, amid the Fed's aggressive response to high inflation, we are more constructive for 2023 across four main themes:

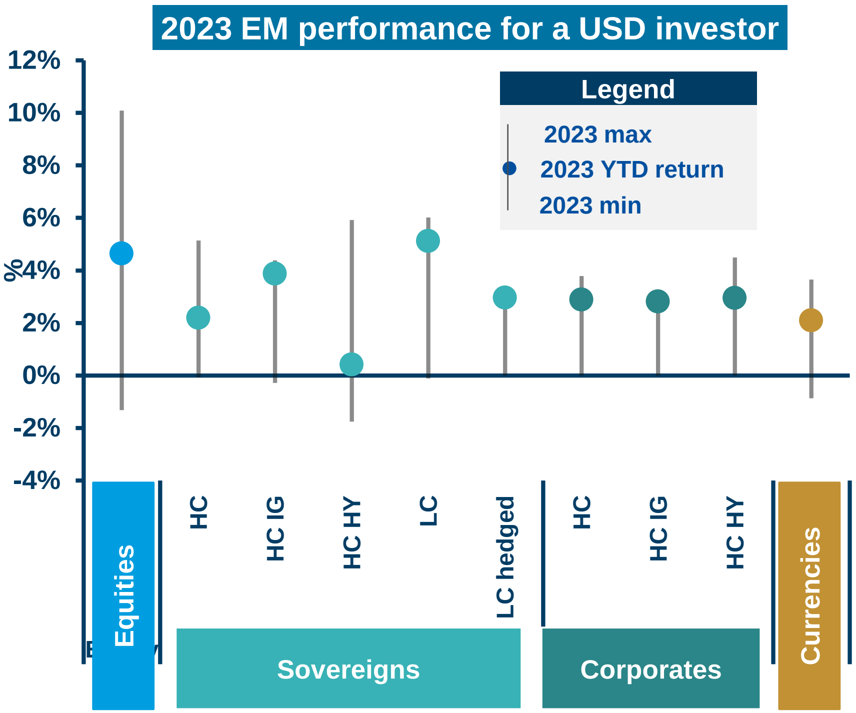
1. ***The reopening in China**. This is becoming a major catalyst for EM in 2023. The **economic recovery after reopening is well on track**, so much so that we have revised up our growth expectations for 2023 to 6%.*
2. *The second supportive point is linked to the first as China's earlier-than-expected reopening and a downturn in US economy should contribute to a **widening EM-DM growth differential playing in favour of the former**.*
3. *The global scenario is complex due to the stickiness of inflation. However, recent tightening of financial conditions following the banking turmoil could reduce the need for aggressive Fed rate rises. **As the end of the US tightening cycle looms, we expect the dollar to be stable / weaken in the second half of 2023**.*
4. *After significant monetary **policy tightening in many EM countries** over the past two years, they are **in an advanced stage compared to DM**. The tightening in EM may be behind us in the vast majority of cases, but the EM landscape is very diverse.*

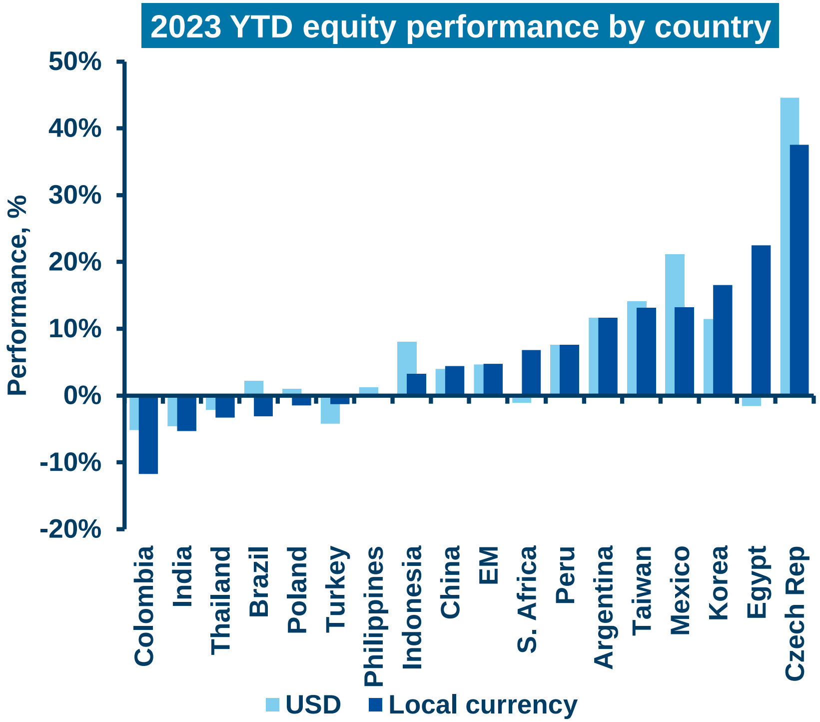
*However, investors need to be aware of various risks from a global-to-local perspective. One **risk to watch out for is stronger-than-expected tightening by the Fed**. Another issue to monitor is **geopolitical risk**, which is still rising, as evidenced by the ongoing war in Ukraine and tensions over Taiwan. The final point worth mentioning is the **likely increase in sovereign defaults** due to higher refinancing costs, large outflows, lower liquidity and increasing areas of weak fundamentals.*

*In terms of **asset allocation** and considering the above context, we see opportunities in all EM segments:*

- ***EM bonds offer an interesting entry point in terms of carry and spreads**. We see opportunities in Hard Currency, local rates and FX. We are selective and we prefer commodity exporters, thanks to China's reopening, as well as other LatAm countries, which are supported by their higher carry over other regions. We are also constructive on countries that are at the end of their tightening cycle.*
- *On the equity side, **EM should benefit from the Chinese reopening, reasonably attractive valuations and earnings expectations**, which have improved recently.*
- ***From a long-term perspective, China and India are key markets** which offer the opportunity to play the internal demand story and allow investors to diversify their portfolios, due to their lower correlation, and achieve a similar return to a 60-40 historical portfolio.*
- ***Finally,** the expansion of sustainable finance in EM is evident, making ESG factors critical in EM selection.*

The confirmation of comeback for EM assets in 2023



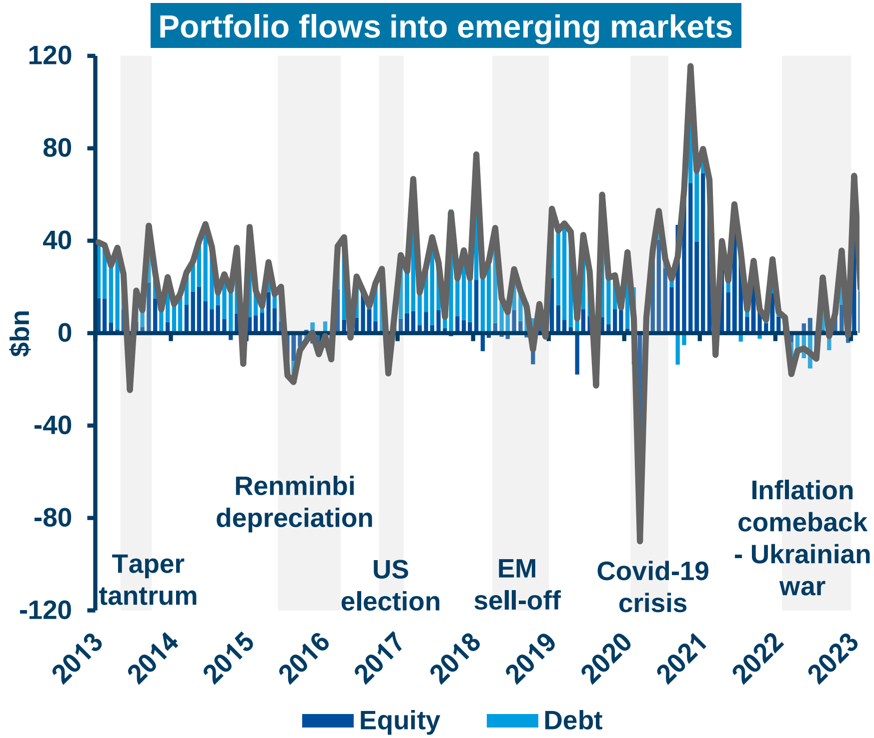


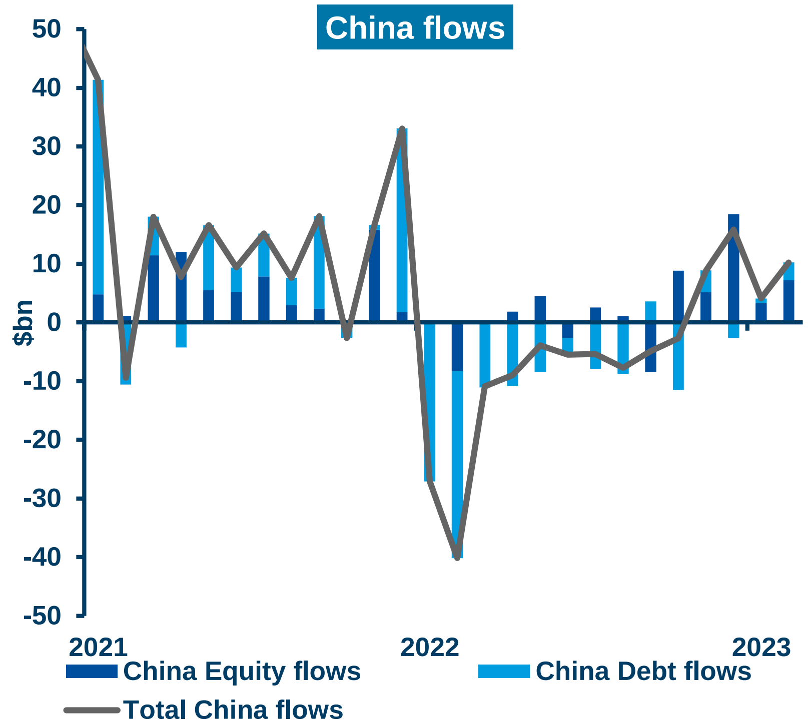
After a tough and difficult 2022 for financial markets, where EM assets suffered from Fed policy tightening and dollar strength, Q1 2023 has started amid an improved sentiment reflecting expectations of a more stable monetary policy and inflationary outlook.

Source: Amundi Institute, Bloomberg. Data as of 12 April 2023. **Past performance is no guarantee of future results.**

Source: Amundi Institute, Bloomberg. Data as of 12 April 2023. **Past performance is no guarantee of future results.**

Global investors are returning to EM and Chinese equity

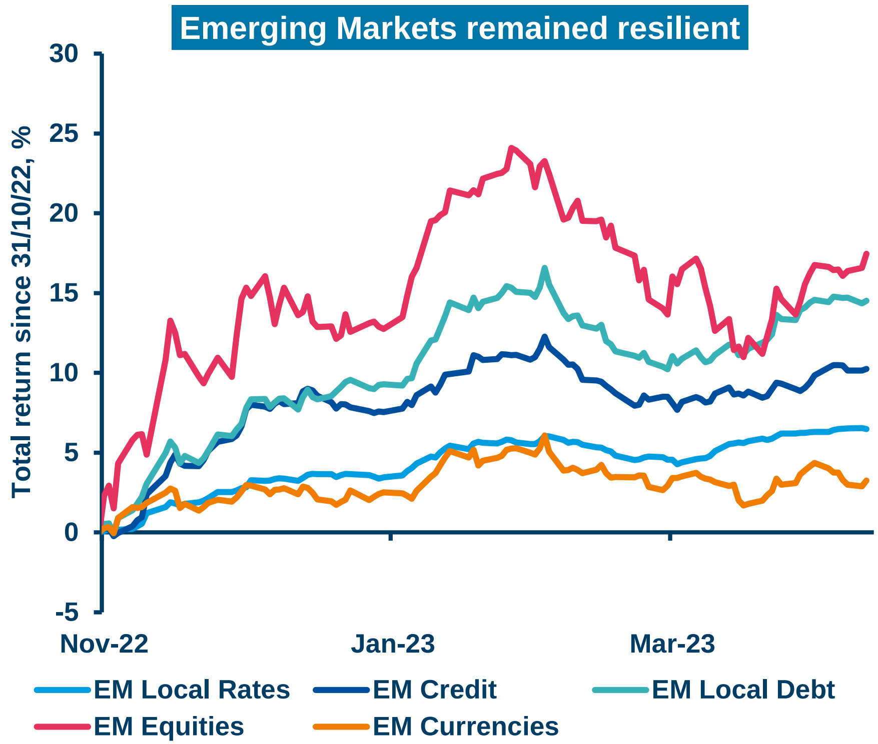


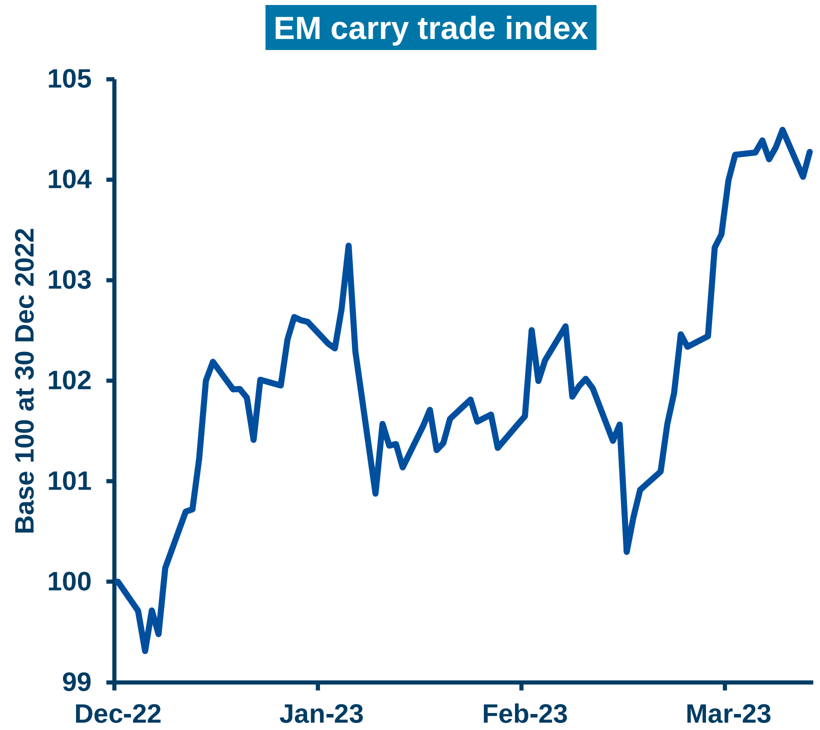


Capital is flowing back into EM after a complicated 2022. Flows have returned recently, accumulating a net inflow of $163bn from August 2022 to March 2023, supported by expectations of less aggressive global monetary policy tightening and a macro soft-landing scenario. The flow tracker also reflects a clear increase in Chinese equity in 2023, thanks to China's reopening.

Source: Amundi Institute, IIF. Data is as of 12 April 2023. The IIF Capital Flows Tracker includes flows data until March 2023.

EM assets showed resilience during the market turmoil





EM largely maintained the positive trend initiated since November during the March market turmoil. After three consecutive years of losses for the EM carry trade, 2023 has shown a different path (the Bloomberg index of borrowing dollars and putting the funds into a basket of 8 EM currencies has returned almost 5% this year), supported by attractive yields and expectations of an end to the Fed tightening cycle.

Source: Amundi Institute, Bloomberg. Data as of 12 April 2023. EM Local Rates = Bloomberg EM Local Curr Gov 10, EM Credit = Bloomberg EM USD Aggregate Tot, EM Local Debt = Bloomberg EM Local Curr Gov 10, EM Equities = MSCI Emerging Markets Index, EM Currencies = J.P. Morgan Emerging Market Cu.

Source: Amundi Institute, Bloomberg. Data as of 12 April 2023. The Bloomberg EM-8 Carry Trade Index measures the cumulative total return of a buy-and-hold carry trade position that is long eight EM currencies (Brazilian real, Mexican peso, Indian rupee, Indonesian rupiah, South African rand, Turkish lira, Hungarian forint, Polish zloty) that is fully funded with short positions in the U.S. dollar. It is assumed that the investment is in three-month money-market securities, with each of the eight EM currencies assigned an equal weight in the currency basket.

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Main themes for 2023

Key themes for investing in EM in 2023

CHINA REOPENING AND EM GROWTH

EM-DM growth differential to move in favour of EM in 2023 driven by China's reopening and the slowdown in Developed Markets. Expectations that the Fed is nearing the end of its tightening cycle are also supportive.

PEAK OF CB TIGHTENING - INFLATION

After a significant tightening of monetary policy by many EM CBs, we **expect a more stable monetary policy**, due to the peak for inflation being behind us, (though from very elevated levels and with wide differences across countries). In some countries we could even see rate cuts in the second half of the year.

WEAKER USD

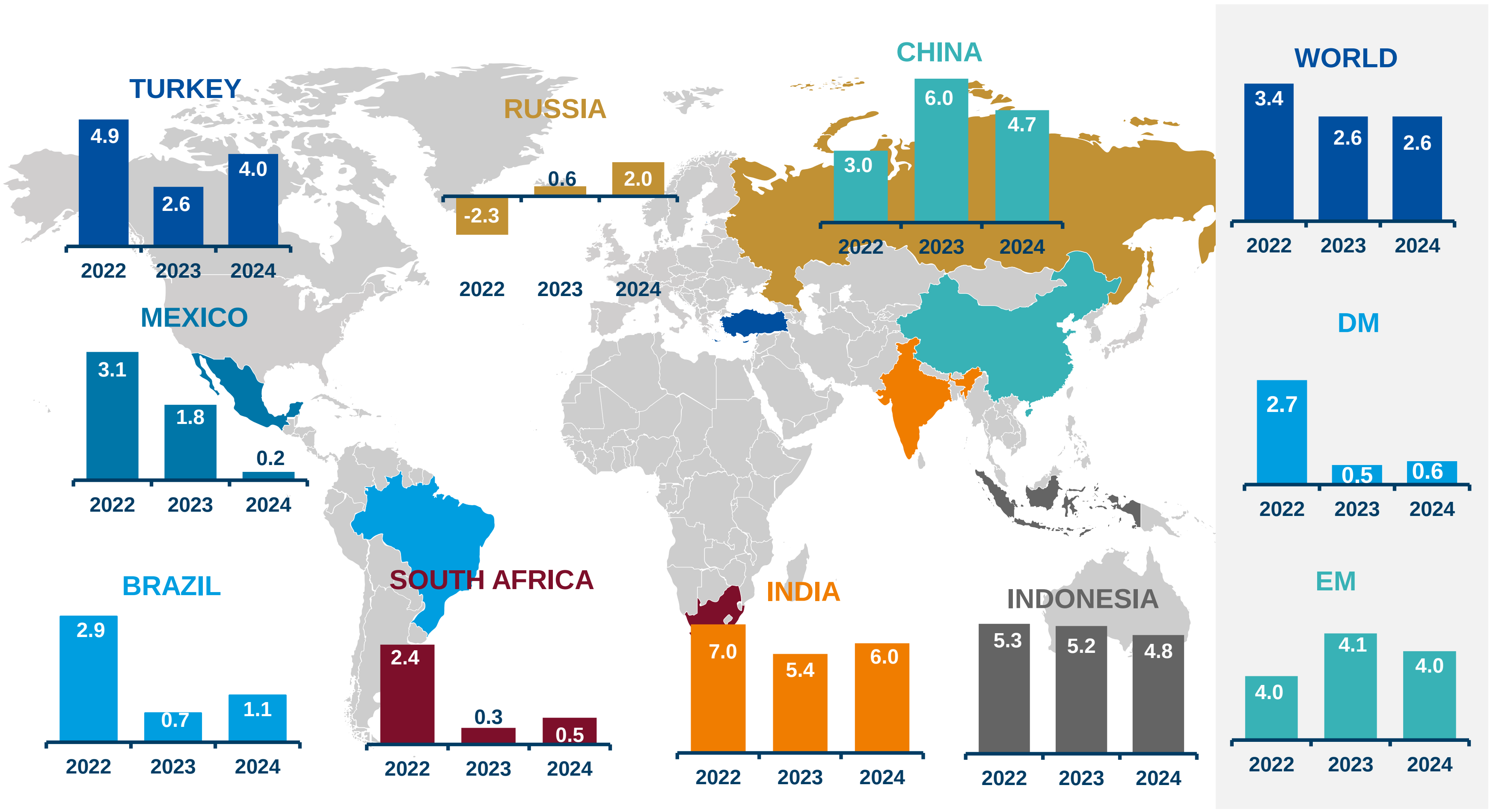
The appreciation of the US currency in 2022 was a major challenge for many EM countries. However, different from last year, the weak fundamentals in the US currently are reverting fast and a deteriorating outlook for the US vs the rest of the world is **less positive for the USD and supportive for EM currencies in H2 2023.**

RISKS TO WATCH

One of the main risks to watch out for is the excessive tightening of financial conditions affecting economic growth. Some low-income countries have already been impacted by the higher cost of refinancing. Another key topic to look at is **geopolitical risk, which is still high.** Investors also need to monitor idiosyncratic stories, and internal vulnerabilities which can increase EM fragmentation.

Source: Amundi as of 12 April 2023. DM: developed markets. EM: emerging markets. CB: central banks.

EM-DM growth differential to widen



Source: Amundi Institute. Data is as of 20 April 2023. Latest forecasts are as of 18 April 2023.

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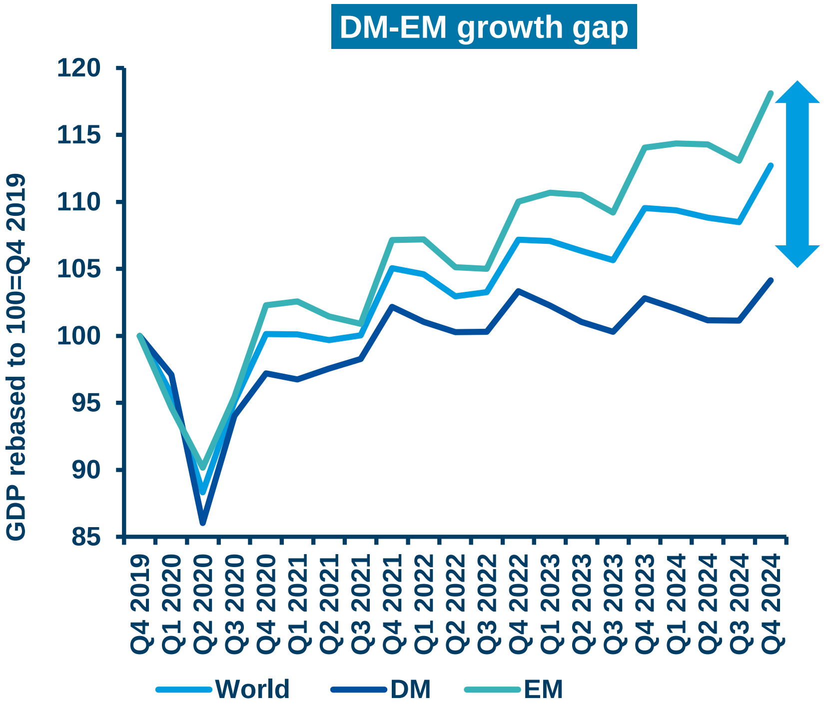
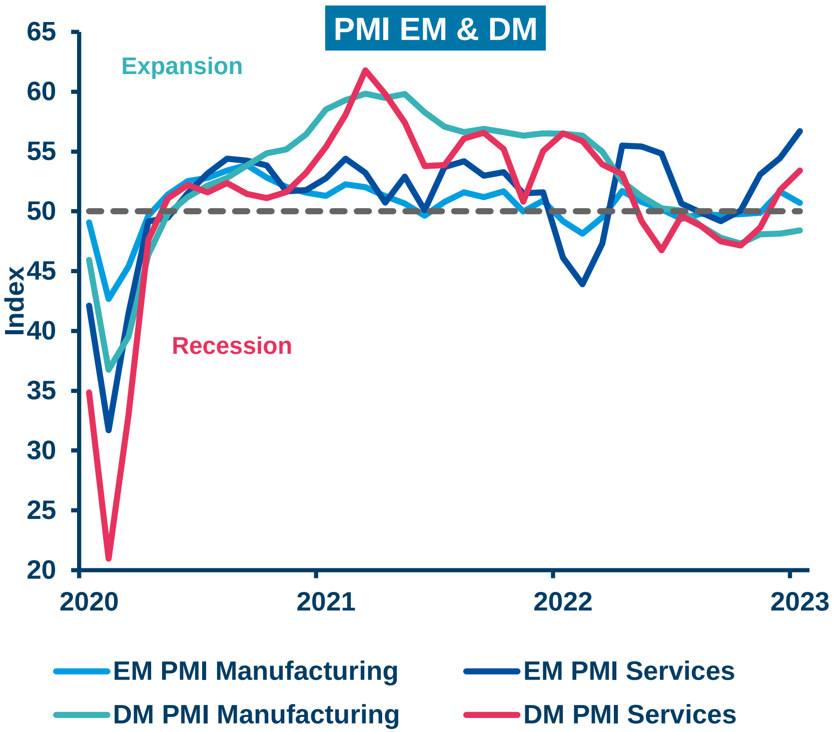
The macro backdrop is supportive for EM



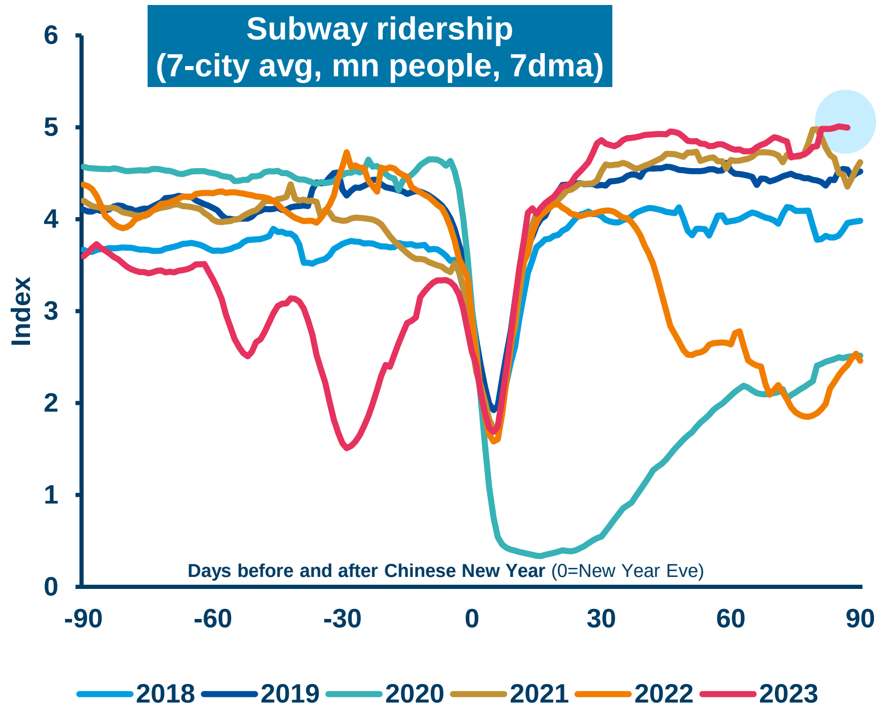


Global growth outlook for 2023 has been revised up to 2.6%, driven by China's rebound. China's earlier-than-expected reopening is contributing to the increasing EM-DM growth differential in favour of EM. PMIs show EM outperforming DM recently, with an improving trend.

Source: Amundi Institute. Data is as of 20 April 2023. Latest forecasts are as of 18 April 2023.

Source: Amundi Institute, Bloomberg. Monthly data as of 31 March 2023. Data is seasonally adjusted.

China is back: solid recovery with stronger rebound in home sales



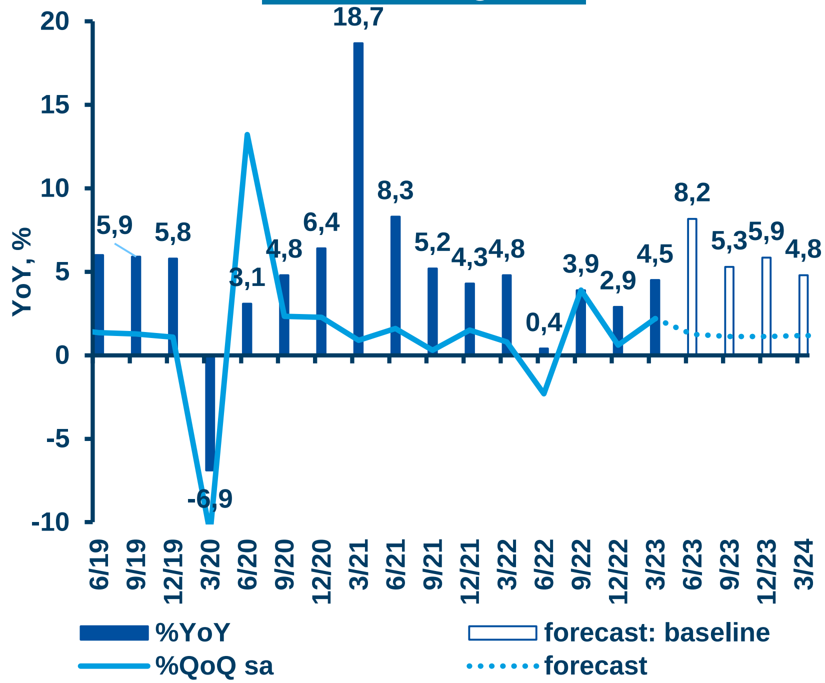
Given the quicker-than-expected reopening, mobility growth has recovered substantially, showing a clear improvement. With regards to the housing market, policies governing housing demand have reached their most accommodative level in history and we expect sales to return dramatically in April due to base effects, with housing sales growth taking off. In this respect, we have revised up our 2023 home sales growth forecast.

Source: Amundi Institute, Wind. Data is as of 19 April 2023.

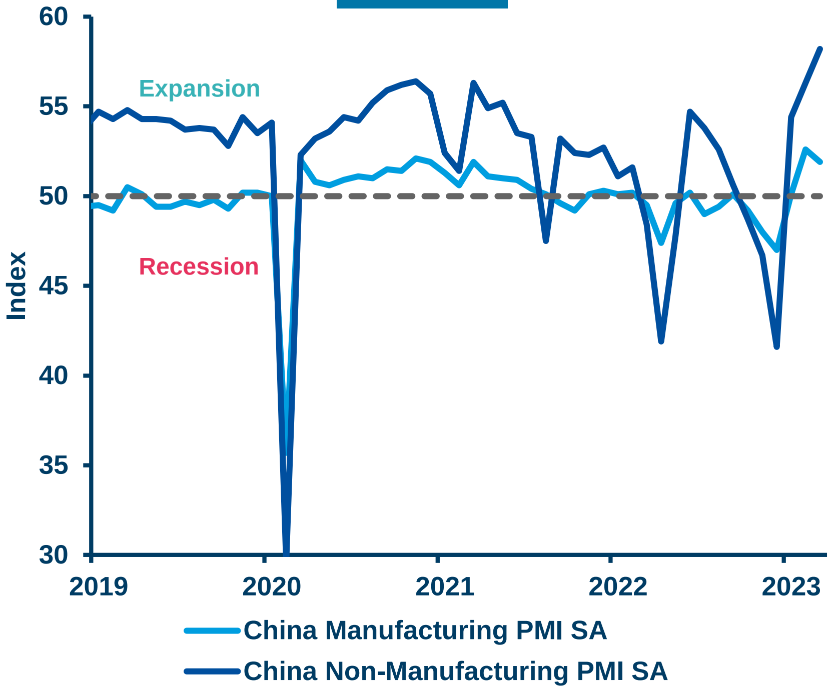
Source: Amundi Institute, Wind. Data as of 19 April 2023. Forecasts are by Amundi Institute and are as of 19 April 2023.

Growth is accelerating in 2023

China's GDP growth



China PMI



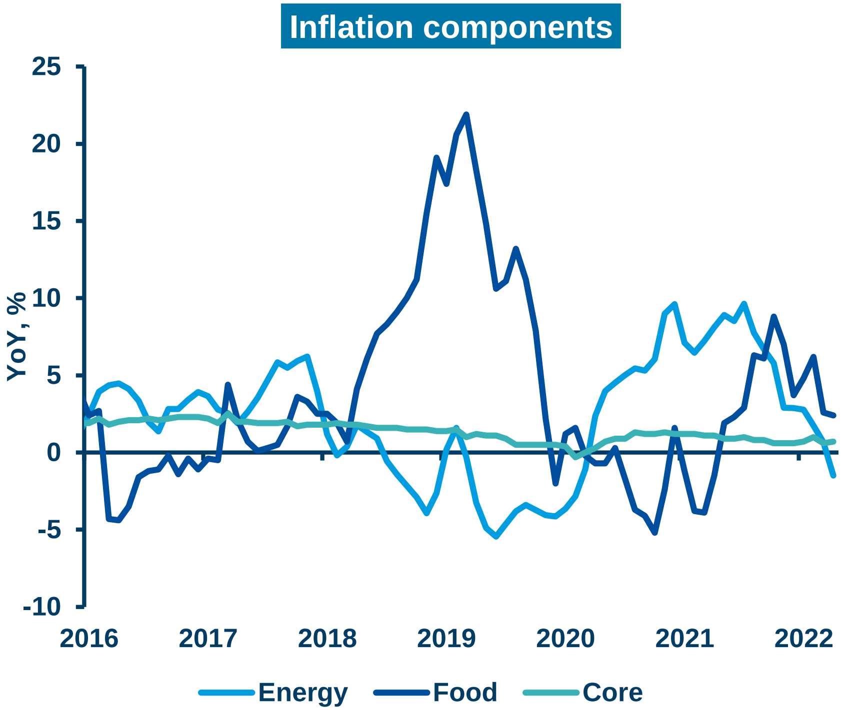
The modest growth target announced after the annual National People's Congress at 5% for 2023 reflects the central government's low appetite for extra stimulus. This is because the economic recovery after reopening has been self-sustained. Consumption is performing well, supported by accumulated savings from 2022. In this respect, the manufacturing PMI rose to its highest level since 2012, confirming the economic reopening of China.

Source: Amundi Institute, NBS, CEIC. Data and forecasts are as of 19 April 2023. sa: seasonally adjusted. PBoC: People's Bank of China.

Source: Amundi Institute, Bloomberg. Monthly data as of 31 March 2023. Data is seasonally adjusted.

China's inflation is under control

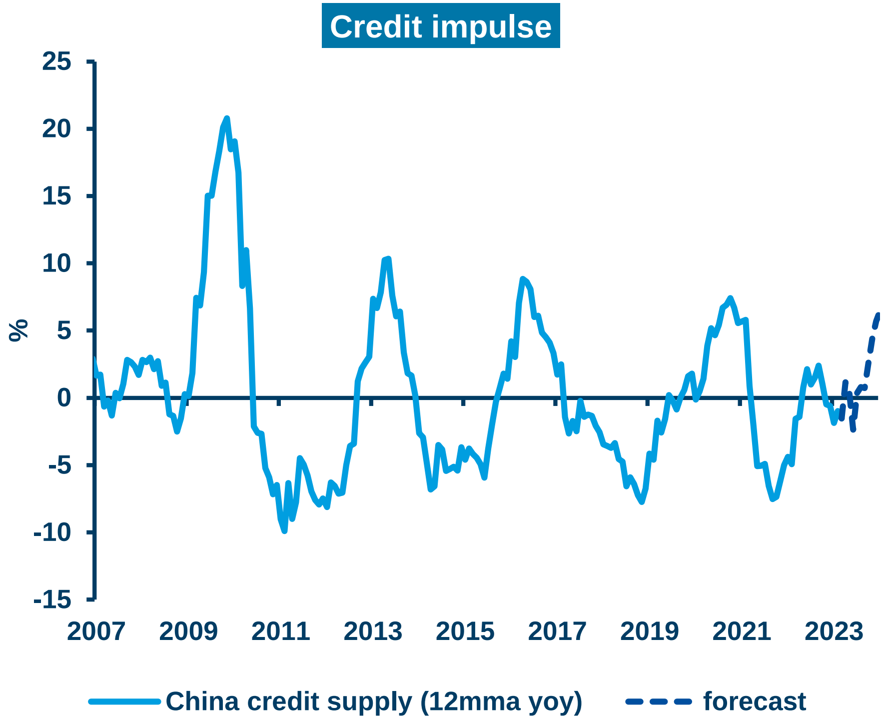
Source: Amundi Institute, CEIC. Monthly data as of 19 April 2023.

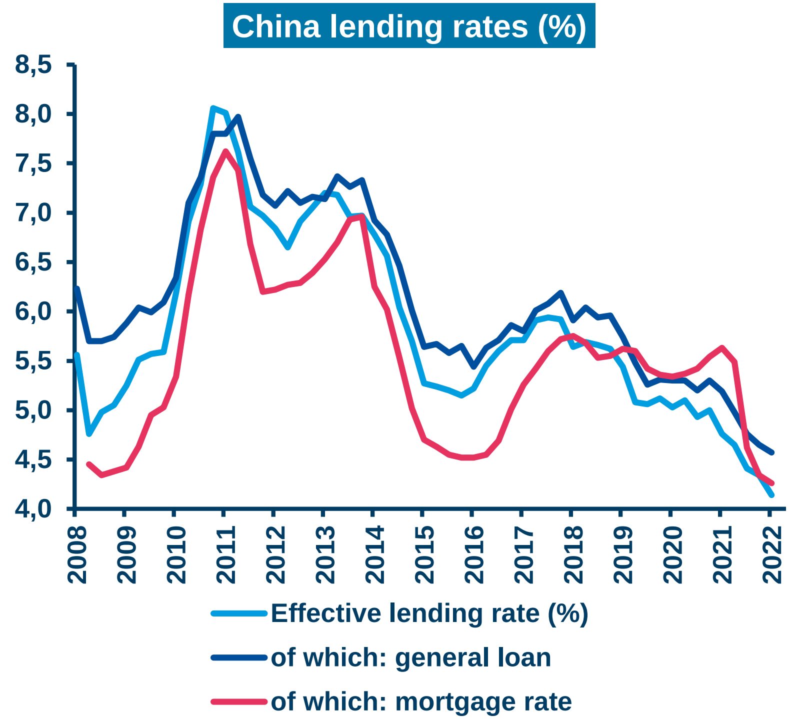


Source: Amundi Institute, CEIC. Monthly data as of 19 April 2023.

With regards to the inflation outlook, core CPI is set to firm up on reopening, but disinflationary energy and food components will offset this increase, as we can observe with China's consumer and producer prices in February, remaining subdued as food and commodities costs eased.

Policy stance: pro-growth policies for 2023



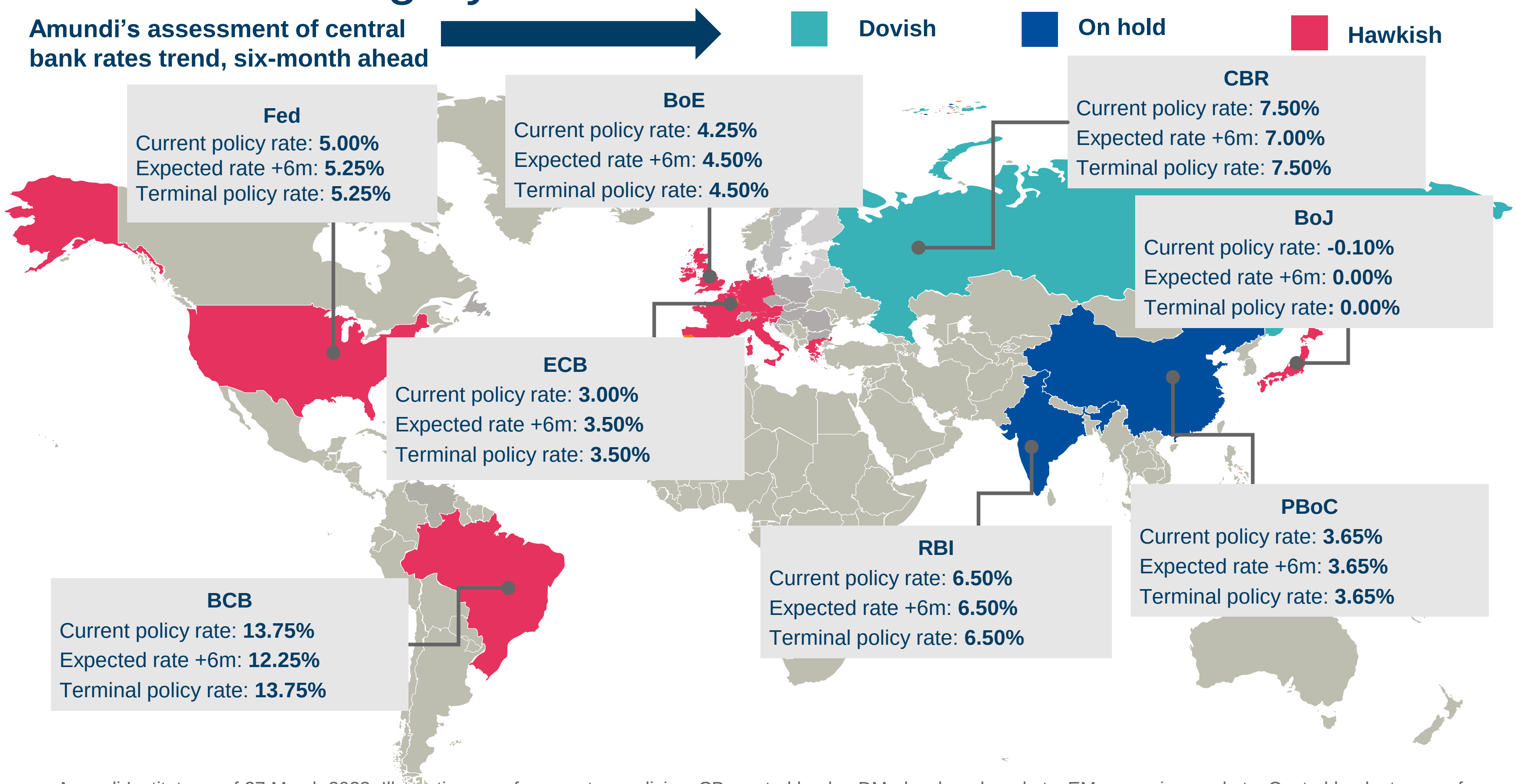


We foresee credit easing coupled with spending on the fiscal side being stepped up. However, the credit impulse recovery could be bumpy. As for macro policy, we expect the PBoC to maintain an accommodative monetary policy but with a break on the rates-cutting front.

Source: Amundi Institute, data as of 19 April 2023. PBoC: People Bank of China.

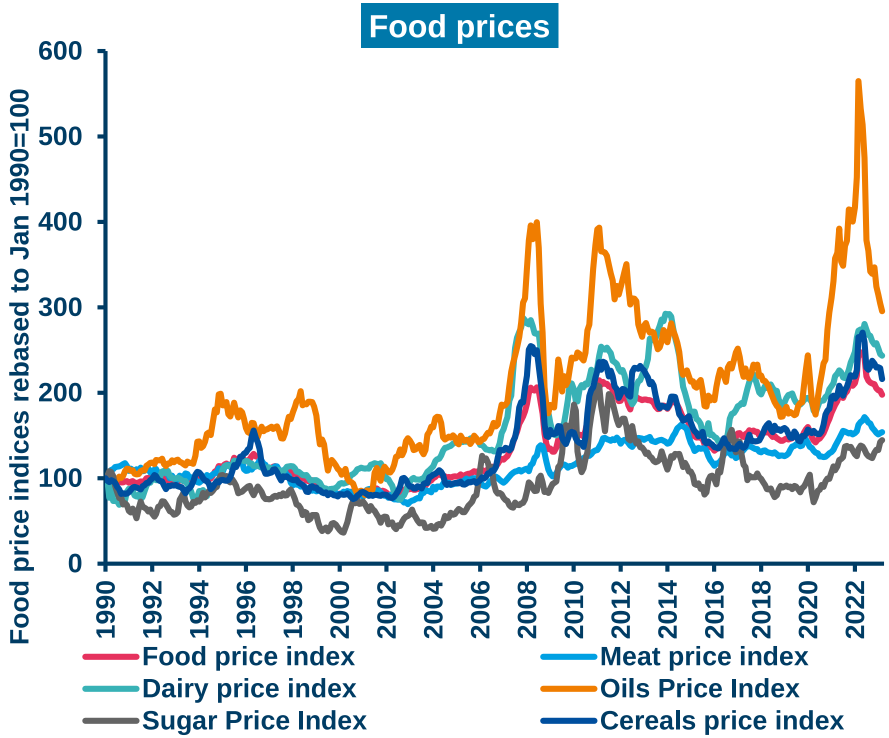
Source: Amundi Institute, CEIC. Data as of 19 April 2023.

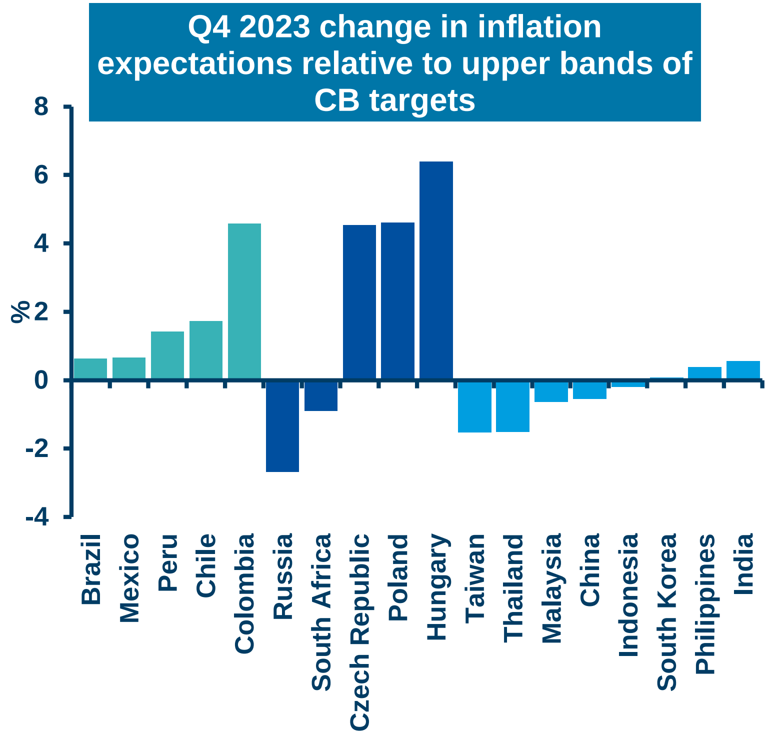
Central banks: more uncertain territory on DM side at the end of the hiking cycle



Source: Amundi Institute as of 27 March 2023. Illustrative map for monetary policies. CB: central banks. DM: developed markets. EM: emerging markets. Central bank stance refers to expected changes in CB balance sheets, policy rates, or real rates in 2023. Fed: Federal Reserve, ECB: European Central Bank, BoE: Bank of England, BoJ: Bank of Japan, PBoC: People's Bank of China, BCB: Central Bank of Brazil, CBR: Central bank of Russia, RBI: Reserve Bank of India. For the Federal Reserve, current rate refers to the upper bound of the target range. For the ECB, current rate refers to the deposit facility.

EM inflation: a declining path supported by most volatile components



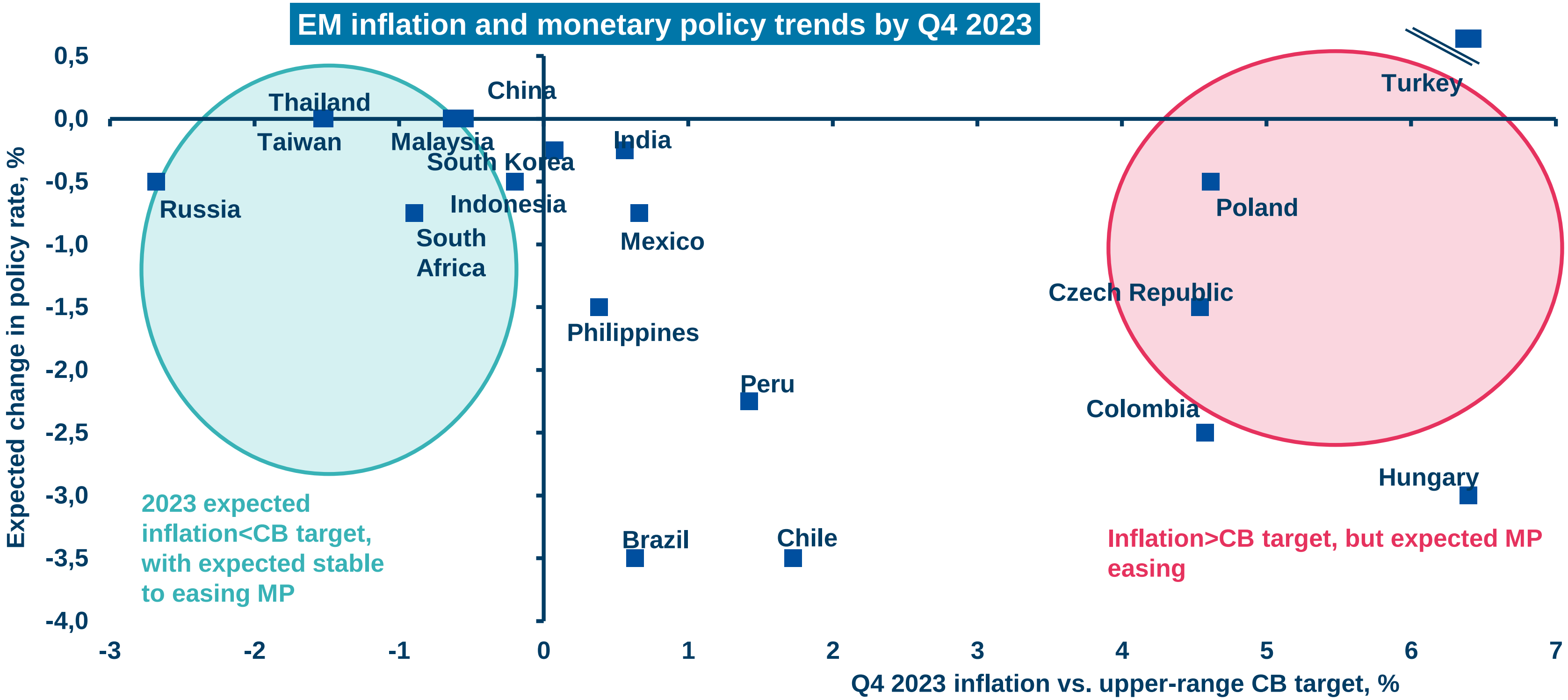


In some countries inflation is still high vs EM CB targets but should be on a declining path over the coming quarters as base effect continue to play a benign role until the summer. The picture is diverse across EM countries, but the peak could be behind us for the vast majority of countries. Expected average inflation for 2023 is generally lower than the last reading, showing a descending trend, stabilising or marginally picking up around Autumn in 2023.

Source: Amundi Institute, FAO. Data as of 14 April 2023.

Source: Amundi Institute, CEIC, Bloomberg. Data is as of 19 April 2023.

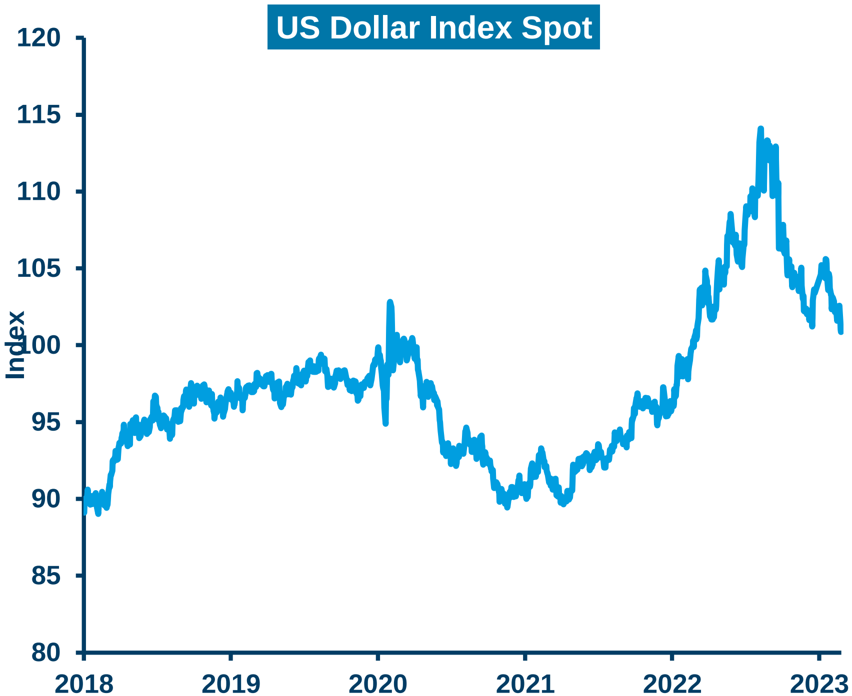
Inflation-monetary policy mix appealing for some countries

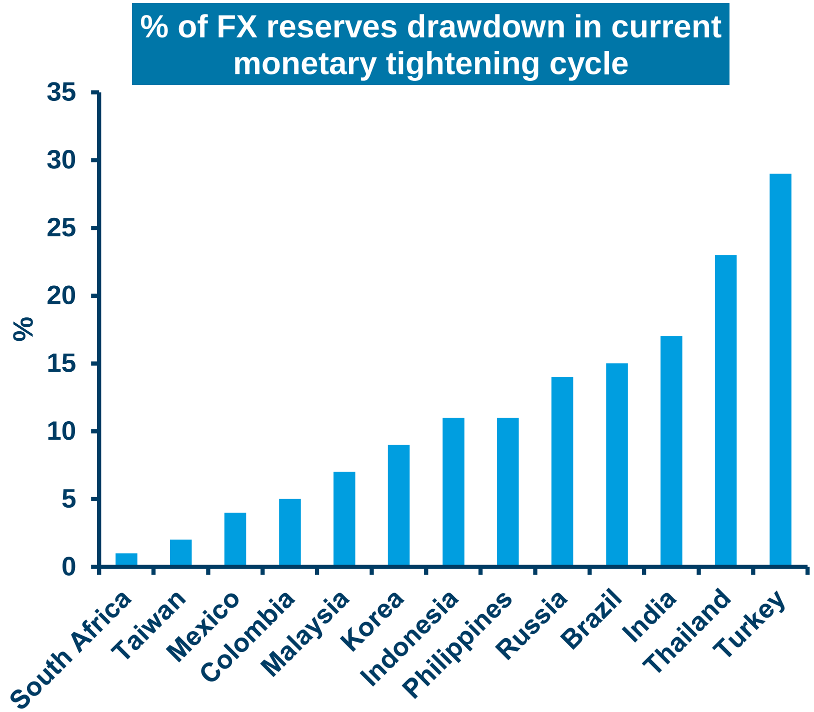


Although the EM picture remains scattered in terms of inflation and monetary policy, reinforcing the view of EM fragmentation, some countries are more advanced in their monetary policy normalisation. Looking ahead, some of the countries currently on pause, will start cutting rates over a year's horizon, amid lower inflation and the decelerating economic cycle.

Source: Amundi Institute on Bloomberg Intelligence data. Data is as of 18 April 2023. EM includes CB from: Brazil, Chile, China, Colombia, Czech, Hungary, India, Indonesia, Israel, Malaysia, Mexico, Peru, Philippines, Poland, Romania, Russia, South Africa, South Korea, Thailand, and Turkey. DM: developed markets. EM: emerging markets. Fed: Federal Reserve. MP: monetary policy. Turkey's inflation is expected at 40,35% in Q4 2023, while Turkey's policy rate is expected to rise by 1300bp in one-year forward.

Weaker dollar to support EM currencies in 2023



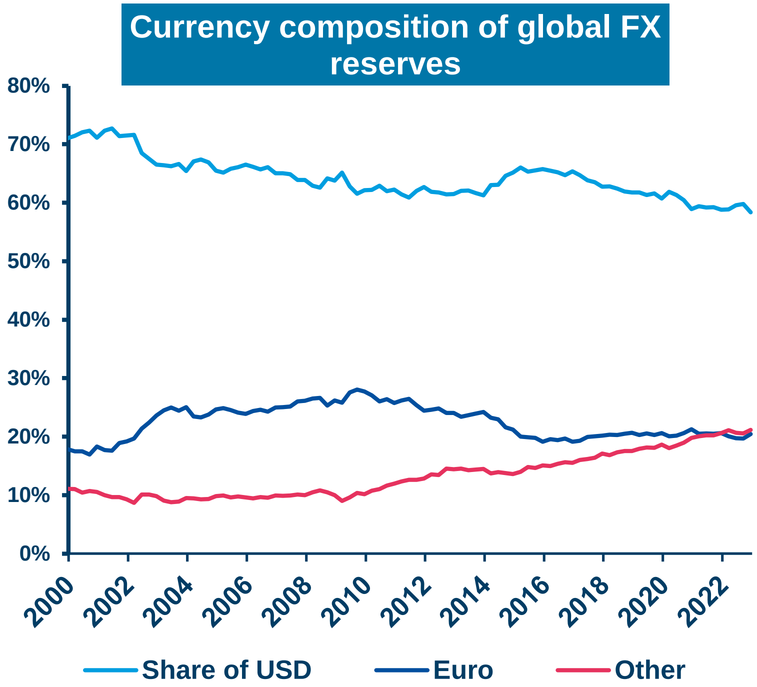


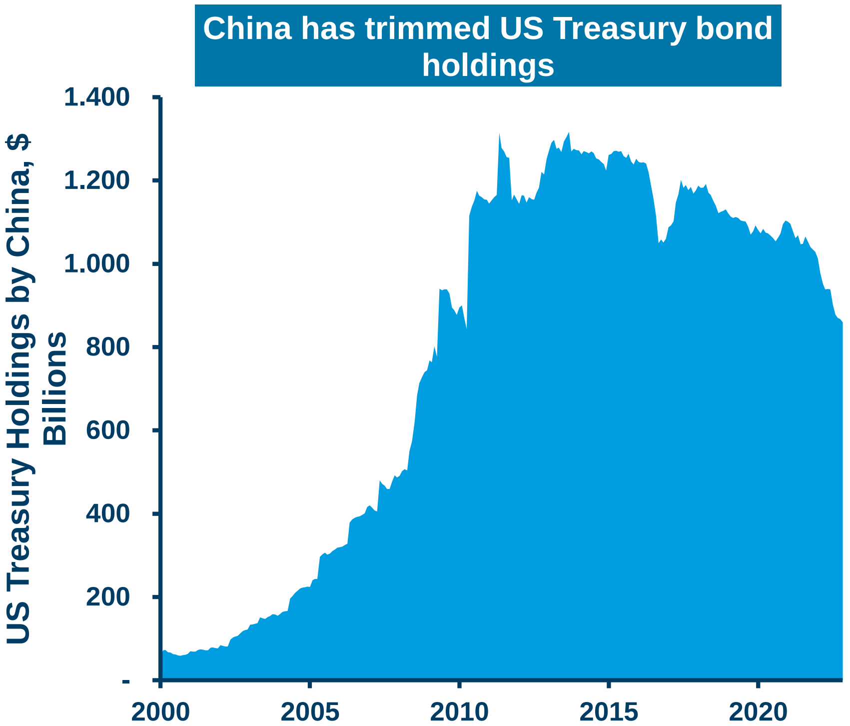
The dollar exceptionalism during 2022 – which registered one of its strongest rallies on record, with Fed policy tightening being the main driver – forced several EM CB to sell an important amount of their reserves to mitigate the depreciation of their currency. However, since the beginning of November, a huge correction has been underway and we expect a more stable path as most of the Fed rate hikes are over.

Source: Amundi Institute, Bloomberg. Data is as of 14 April 2023.

Source: Amundi Institute, Bloomberg. Data is as of 22 February 2023.

From a USD regime to a new global FX regime



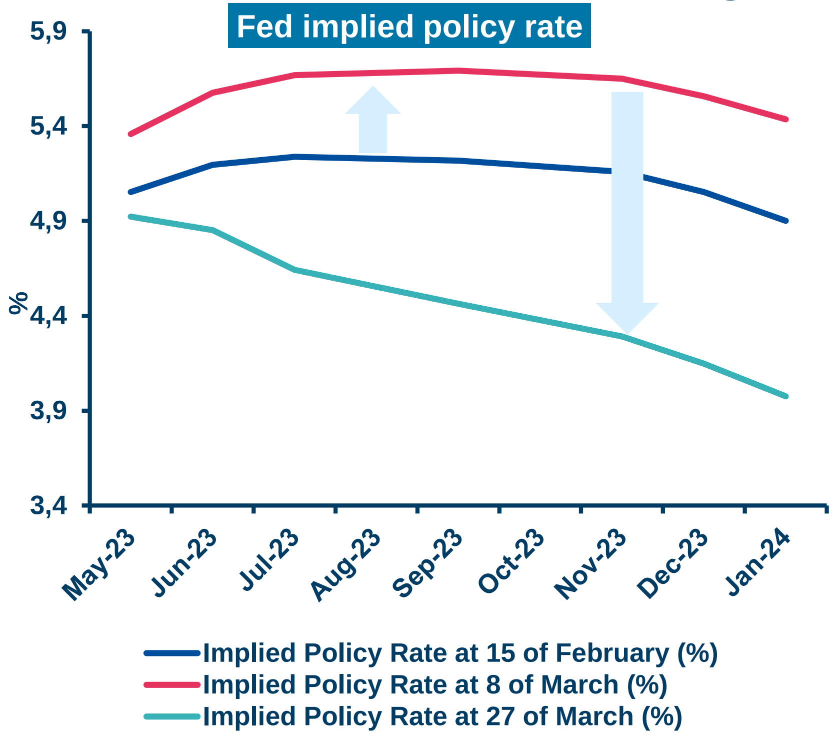


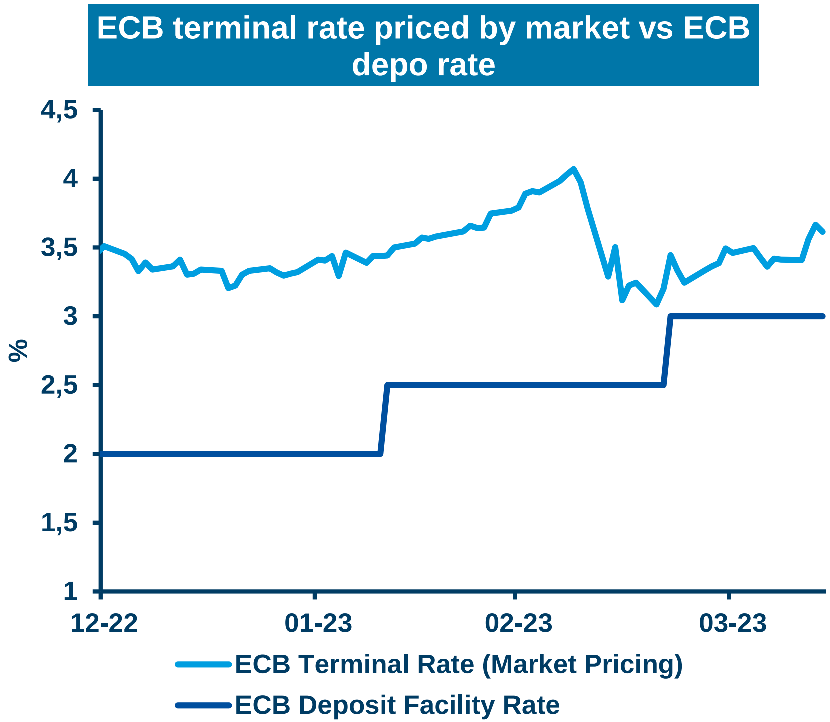
The global FX regime of the last 20 years has been dominated by USD-denominated FX reserves. However, the long-term FX regime is at a crossroad and it's difficult to expect a continuation of the USD-centric system due to the current deglobalisation trend coupled with the rising importance of China in the East-Asian bloc area.

Source: Amundi Institute on IMF Currency Composition of Official Foreign Exchange Reserves (COFER). Data as of 31 December 2022. The Other category includes all the other reporting currencies (not euro or USD).

Source: Amundi Institute, Bloomberg as of 14 April 2023. Monthly data, latest available data is as of January 2023.

Risk of higher terminal rates has dissipated significantly due to the recent banking turmoil





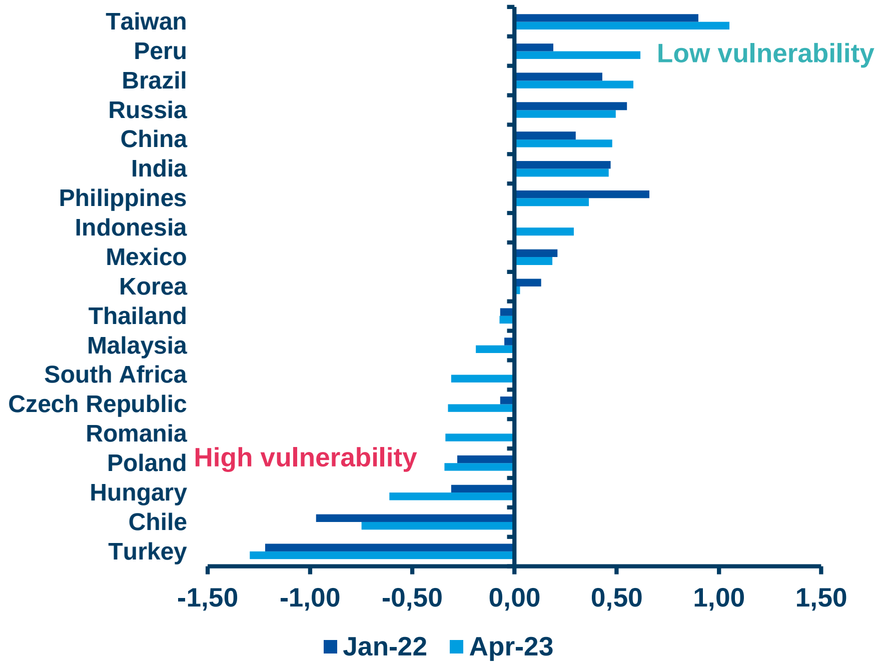
Although the market has priced in a lower terminal rate or even a pause in the Fed's tightening cycle due to the problems at some regional banks in the US, higher terminal rates by the Fed and ECB are one of the main risks to look at for EM countries.

Source: Amundi Institute, Bloomberg. Data is as of 27 March 2023.

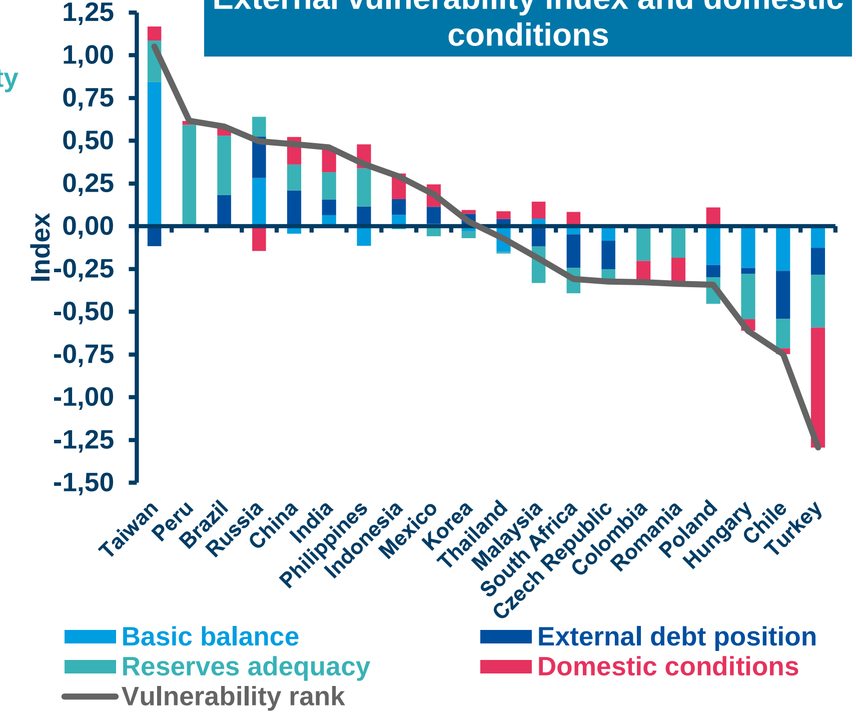
Source: Amundi Institute, Bloomberg. Data is as of 14 April 2023.

External vulnerability rank: fragmentation of the EM space

EM external vulnerability index vs Jan-22



External vulnerability index and domestic conditions

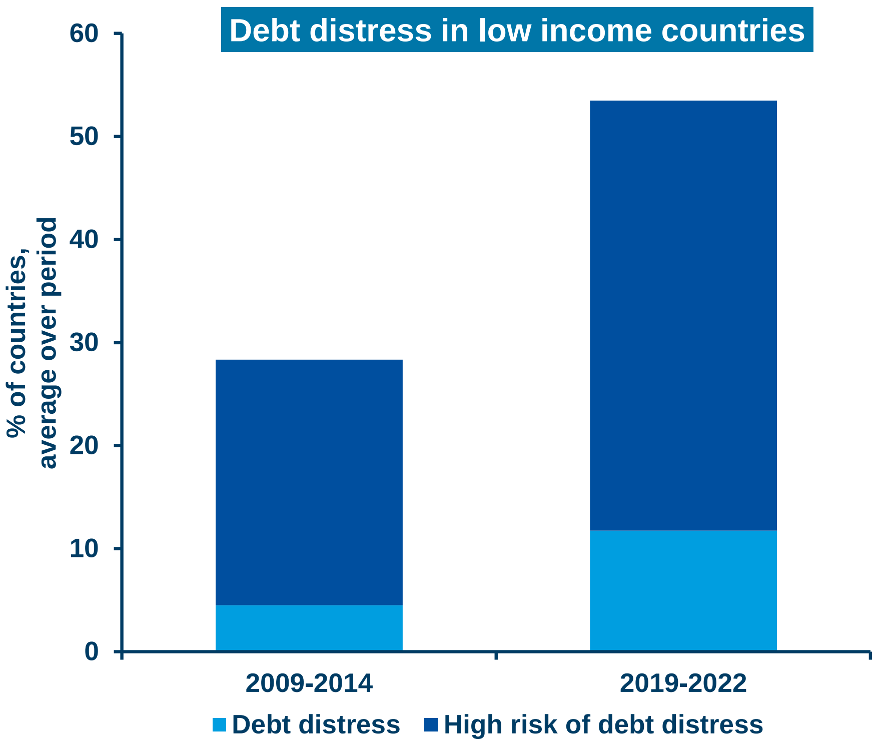


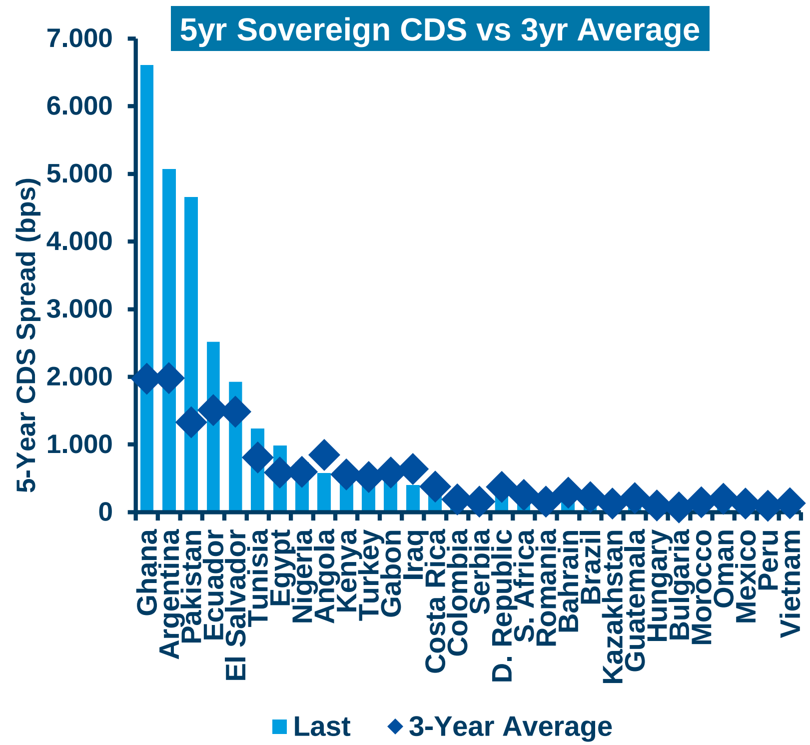
The impact of the Chinese slowdown and the ongoing war in Ukraine in 2022 increased fragmentation within the EM space. The vulnerability ranking shows Eastern European countries as the most vulnerable area while LatAm and Asia are more resilient.

Source: Amundi Institute's external vulnerability rank. Source: Amundi Institute, CEIC, IMF, WTO. Data is as of 18 April 2023.

Source: Amundi Institute's external vulnerability rank. Source: Amundi Institute, CEIC, IMF, WTO. Data is as of 18 April 2023.

Tightening financial conditions have already impacted EM



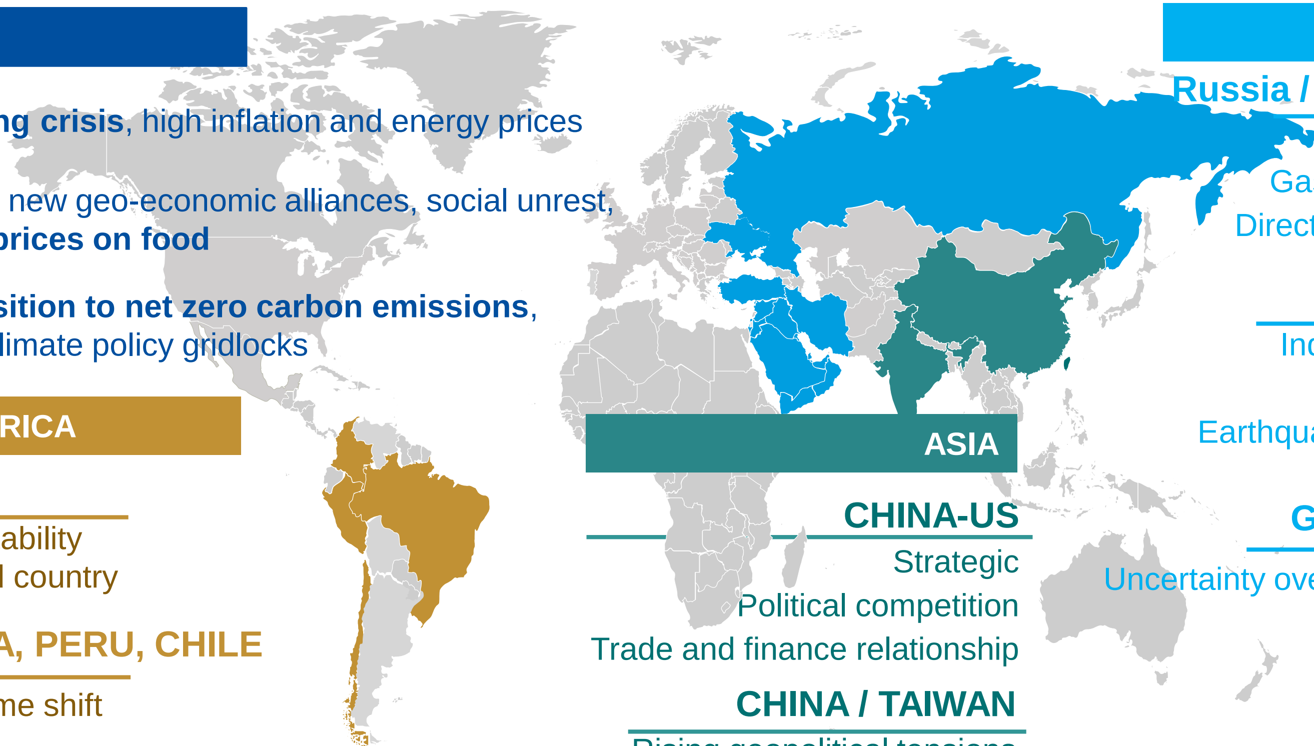


Some developing countries, especially frontier markets, are in a difficult situation due to the dollar strength during 2022, interest rate increases, and rising energy and food costs. Although many low-income countries have lower debt levels than DM peers, almost 60% of low-income countries (around 40 countries) are likely to be under severe debt distress, due to rising debt costs for sovereigns coupled with a lack of space for fiscal measures.

Source: Amundi Institute on OECD economic outlook data, 22 November 2022.

Source: Amundi Institute, Bloomberg Intelligence. Data is as of 15 February 2023.

Political and geopolitical hotspots to monitor



GLOBAL

Cost-of-living crisis, high inflation and energy prices

EM: forming new geo-economic alliances, social unrest, facing high **prices on food**

Global **transition to net zero carbon emissions**, with some climate policy gridlocks

LATIN AMERICA

BRAZIL

Political instability
Fragmented country

COLOMBIA, PERU, CHILE

Political regime shift

ASIA

CHINA-US

Strategic
Political competition
Trade and finance relationship

CHINA / TAIWAN

Rising geopolitical tensions

INDIA

Domestic woes harming 2023 'success story'

EMEA

Russia / Ukraine / NATO

Ongoing war
Gas market sanctions
Direct war with the West

TURKEY

Independence of CB
General election
Earthquake reconstruction

GULF TENSIONS

Uncertainty over Iran nuclear deal

Source: Amundi Institute as of 14 April 2023.

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02

Convictions for investing in emerging markets

EM high-conviction ideas

Main convictions 2023 | During 2023 depending on the backdrop | Mid-to-long-term perspective

EM debt is back, a source of income	Play China fast-track reopening	Opening up opportunities for EM equities	The rise of ESG in emerging markets
After the surge in yields in 2022, **EM bonds offer an interesting entry point in terms of spreads and carry**, and also in relative terms to DM bonds. We are comfortable on rates in EM. On the back of an expected less aggressive Fed this year we are positive on LC and FX. But we believe investors should focus on countries where CB have been proactive in anchoring inflation and are at the end of their tightening cycles.	The abrupt turn in zero-Covid policy should continue to support China in the coming months, restoring confidence to global investors also supported by pro-growth active policies**. China's reopening has been a game changer for Chinese equity** and could be a catalyst for some EM and Asian countries, as well as commodity exporters.	**EM equities should start to benefit from the approaching conclusion for Fed tightening and a stable dollar**, coupled with the EM-DM growth premium as well as from attractive valuations. However a selective approach and timing are key. Investors should focus on fundamentals and domestic growth amid increasing fragmentation in the EM world.	Growing investor demand for green, social and sustainability-linked bonds could help achieve a green transition in EM and low-income countries, where the effects of climate change are among the most visible worldwide. **The sustainable bond market is rising globally and becoming crucial for EM.**

Source: Amundi Institute as of 19 April 2023. EM: Emerging Markets. LC: Local Currency.

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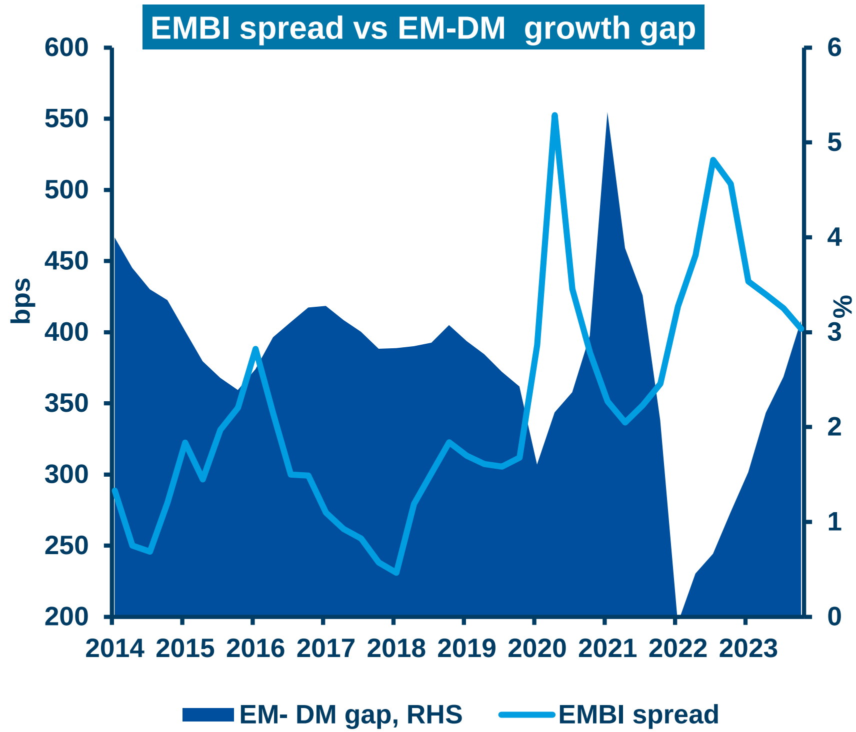
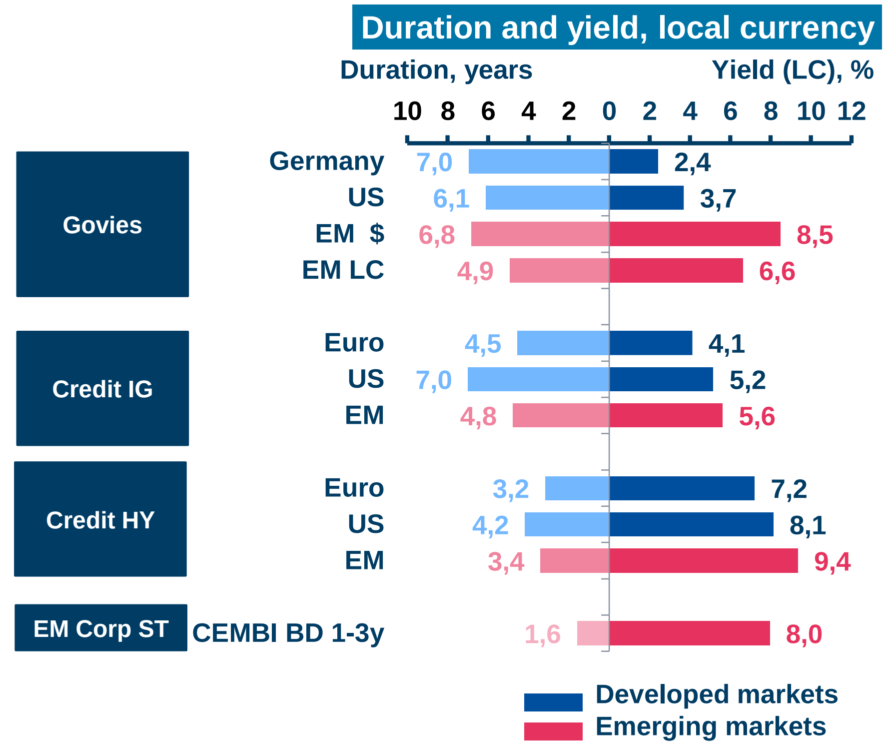
Bonds are back, also in EM space



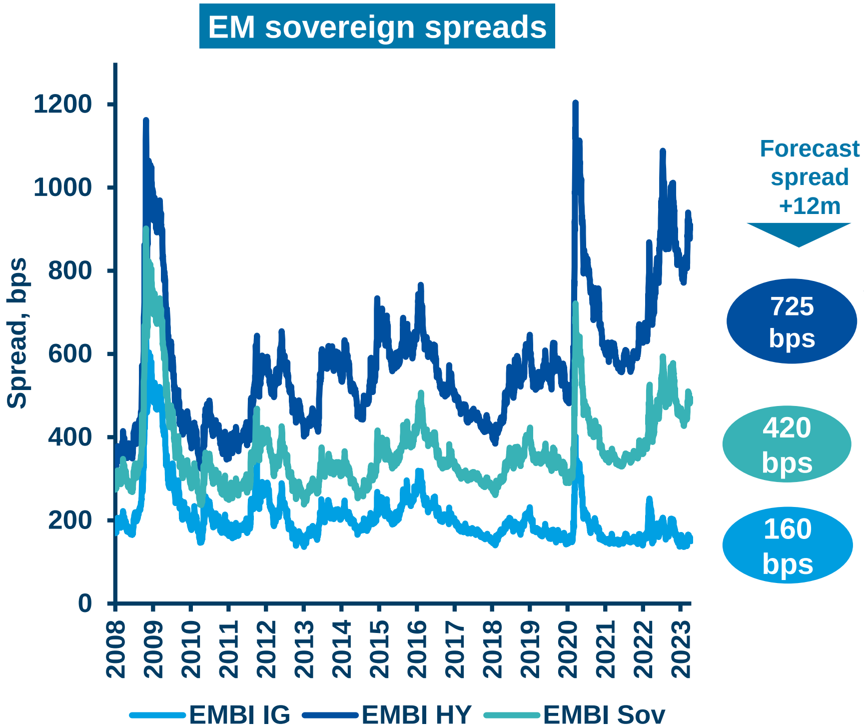


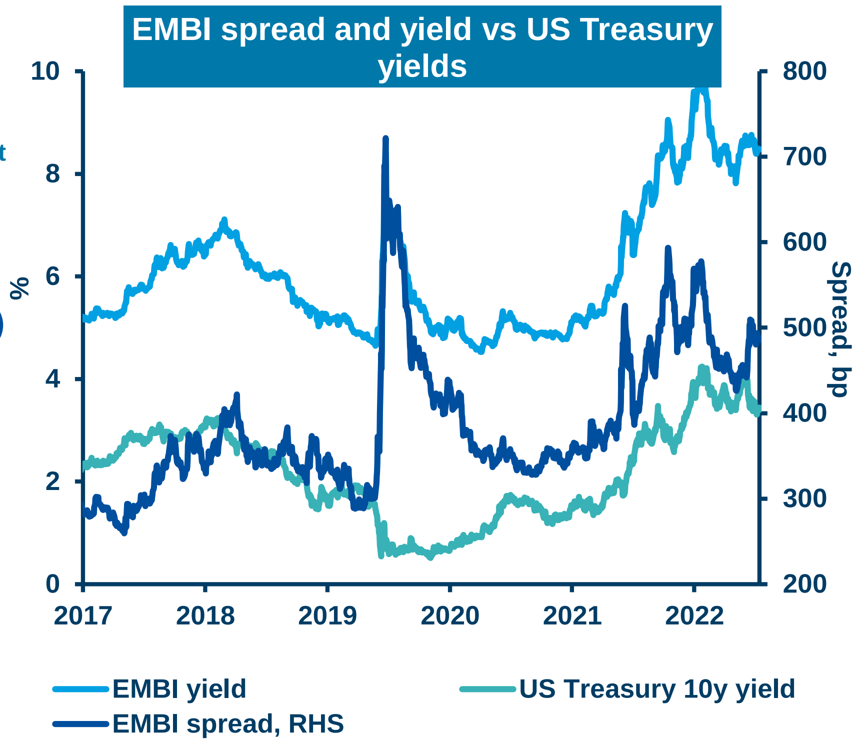
After the great repricing of 2022, yields in EM bonds are back to appealing levels from an absolute and relative standpoint. The DM-EM growth gap is expected to widen, favouring the hard-currency bond spread during 2023.

Source: Amundi Institute as of 20 February 2023

Source: Amundi Institute. Analysis on Bloomberg data. Data is as of 14 April 2023. Government and EM indices are from JP Morgan. Euro and US credit indices are from ICE-BofA. LC: local currency. IG: investment grade. HY: high yield. ST: short term. Yield for EM Corp ST is JP Morgan CEMBI Broad Diversified 1-3 Year while duration is JP Morgan CEMBI IG+ 1-3 Years.

Interesting entry points in terms of carry





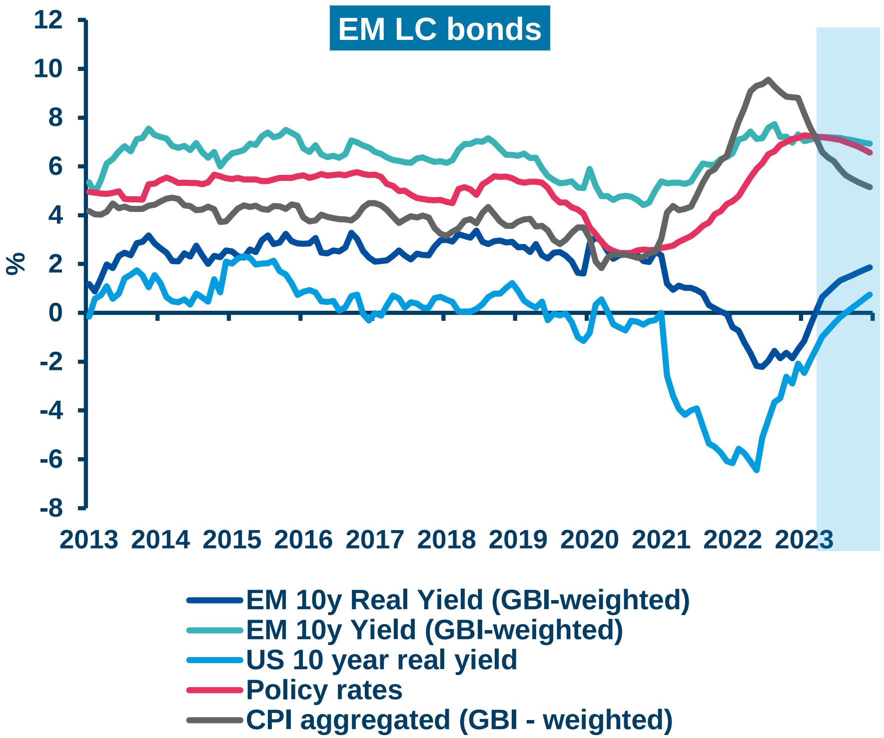
EM monetary policy normalisation is at an advanced stage, coupled with compelling entry points in terms of carry and spreads from a historical standpoint, making EM debt an interesting option. The preference remains for countries where tightening is already advanced and accurate selection remains crucial.

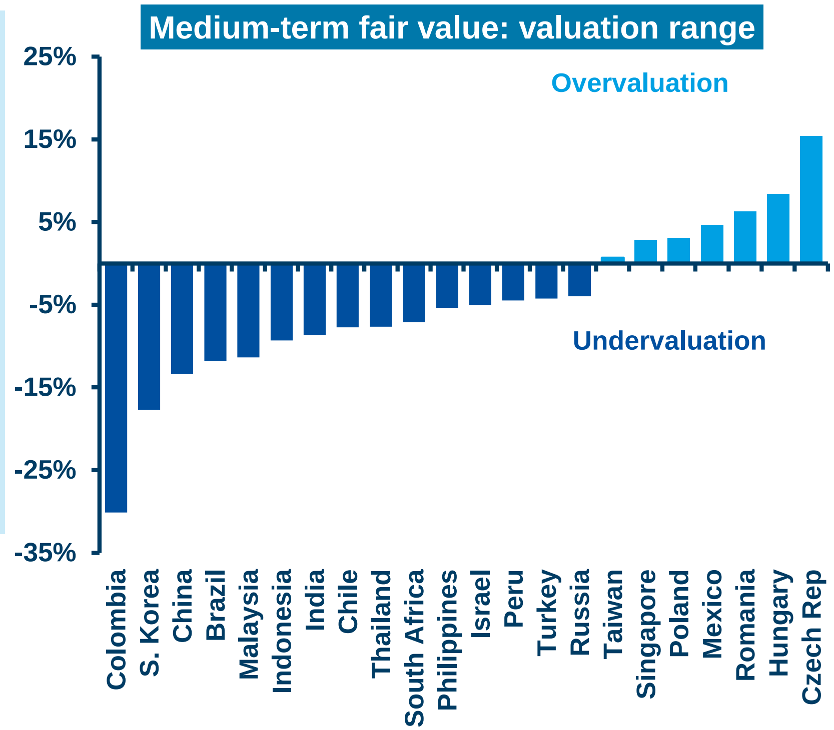
Source: Amundi Institute, Bloomberg. Data is as of 14 April 2023 and forecasts are as of 17 March 2023. Russia has been excluded from all of JPMorgan's fixed income indices since 31 March 2022, rebalancing all indices. EM: emerging markets.

Source: Amundi Institute, Bloomberg. Data is as of 14 April 2023. Russia has been excluded from all of JPMorgan's fixed income indices on since 31 March 2022, rebalancing all indices. EM: emerging markets.

Bonds

Time to get back to local-currency bonds



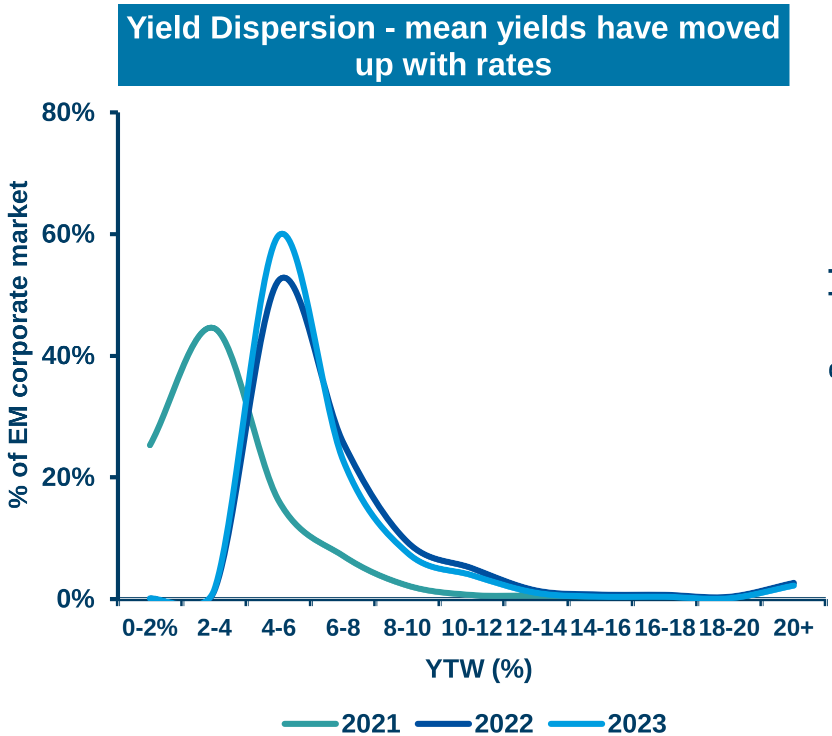


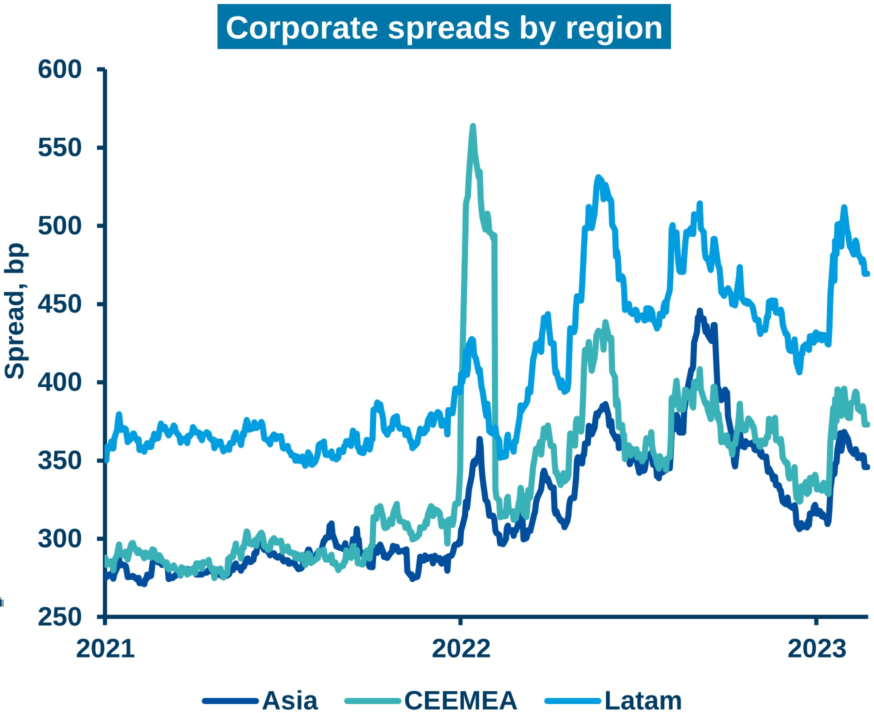
Inflation is already moving lower in EM (GBI-weighted) and we expect the real GBI-weighted 10y bond yield, currently negative, to recover around 2% over a 12m horizon. Moreover, the EM-DM gap is expected to widen, in favour of EM local currency debt. Another important point to consider is the USD being less-strong-than-expected in 2023, opening interesting opportunities and valuations across EM FX.

Source: Amundi Institute, Bloomberg. Data is as of 18 April 2023.

Source: Amundi Institute, Bloomberg. Data is as of 18 April 2023. Fair value is computed as an average of productivity, purchasing power parity, and real effective exchange rate. USD: US dollar. EM: emerging markets.

EM corporate bonds: attractive spreads





EM corporate bonds have also been impacted by the great repricing of 2022. However, spreads have tightened significantly since October 2022 but remain wide versus historical levels.

Source: Amundi Institute, ICE Data Indices, LLC., BofA Global Research. Data is as of 22 February 2022.

Source: Amundi Institute, Bloomberg. Data is as of 17 April 2023. Russia has been excluded from all of JPMorgan's fixed income indices since 31 March 2022, rebalancing all indices. EM: emerging markets.

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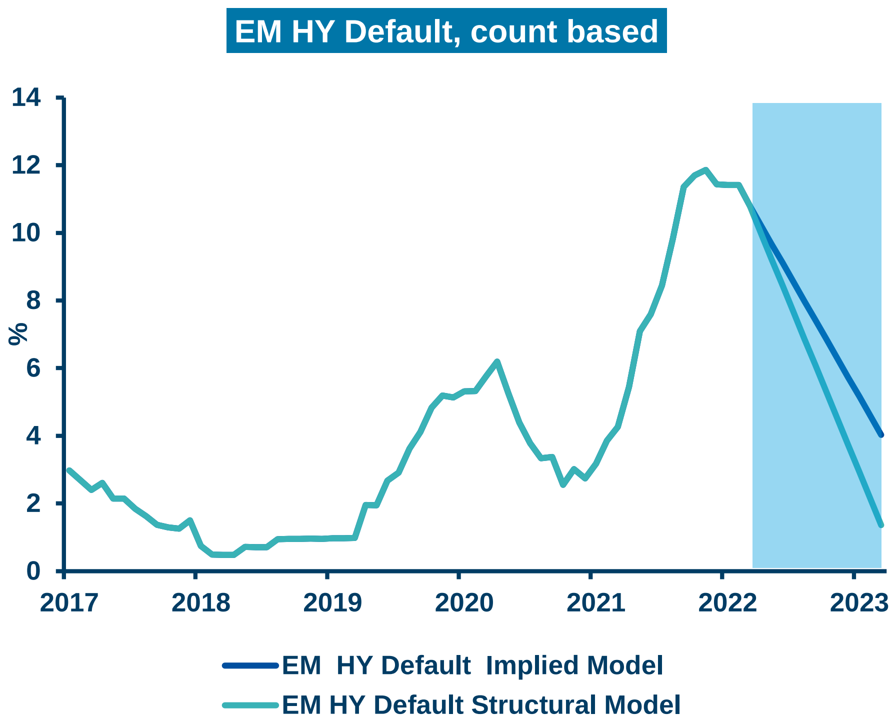
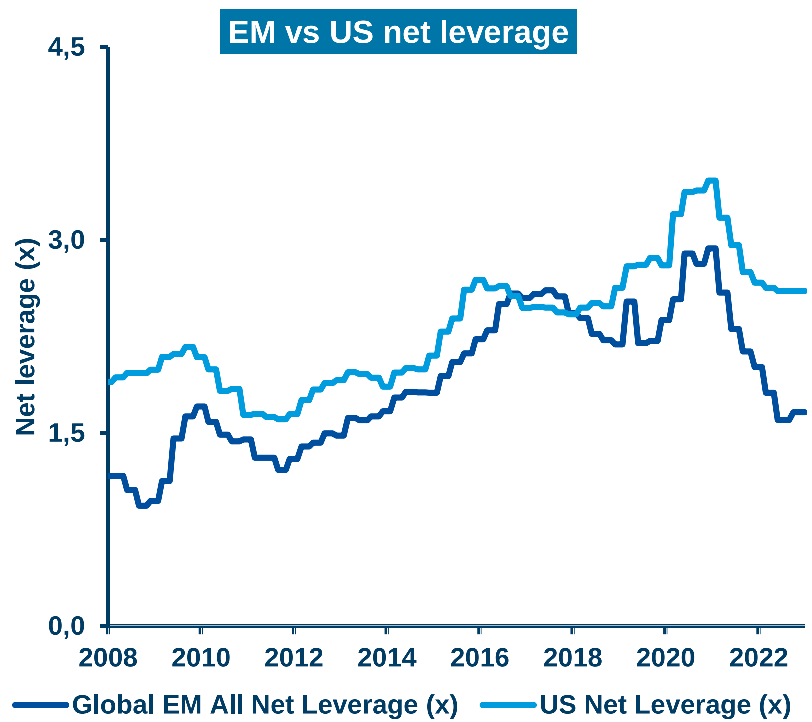
Bonds

EM good fundamentals in absolute and relative terms





Conditions in the EM corporate bond space are becoming more supportive, with the net leverage of companies in EM well under that of US company levels. Moreover, EM HY corporate defaults have peaked and are expected to moderate in 2023. However, higher funding costs and a slowing economic backdrop calls for a selective approach, focusing on quality and low-leverage corporates.

Source: Amundi Institute calculations on BofA data as of 18 April 2023.

Source: Amundi Institute, ICE Data Indices, LLC., BofA Global Research. Data is as of 22 February 2022.

Bonds

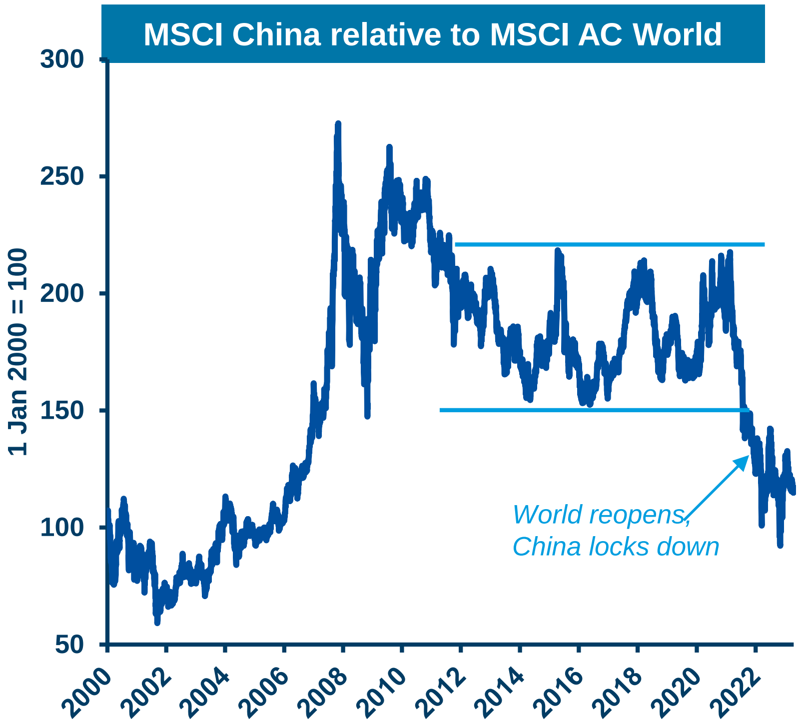
Major investment convictions in EM bonds and FX

SOV	HC bonds: spreads offer a compelling entry point in terms of carry and valuations from a historical standpoint, selective approach still required	Brazil, Mexico, Indonesia, South Africa
LOC	Cautiously optimistic view on local rates, focusing on countries and currencies where the tightening cycle is almost over	Brazil, Mexico, South Africa, Argentina, Romania
CORP	Valuations are supportive, attractive spreads vs DM credit and healthy fundamentals	Brazilian corporates; Mexican energy; Indonesian, Kazakhstani and GCC quasi-sovereign
FX	On the back of a less aggressive Fed and the expectation that its tightening cycle is finalised we expect the dollar to weaken in H2-23, turning more constructive for EM FX	BRL, MXN, IDR, INR, THB, ZAR

Source: Amundi Institute as of 18 April 2023. HC: hard currency. GCC: Gulf Cooperation Council. BRL: Brazilian Real. MXN: Mexican Peso. IDR: Indonesian Rupiah. INR: Indian Rupee. THB: Thai Baht. ZAR: South African Rand.

China’s comeback: play the fast-track reopening

China

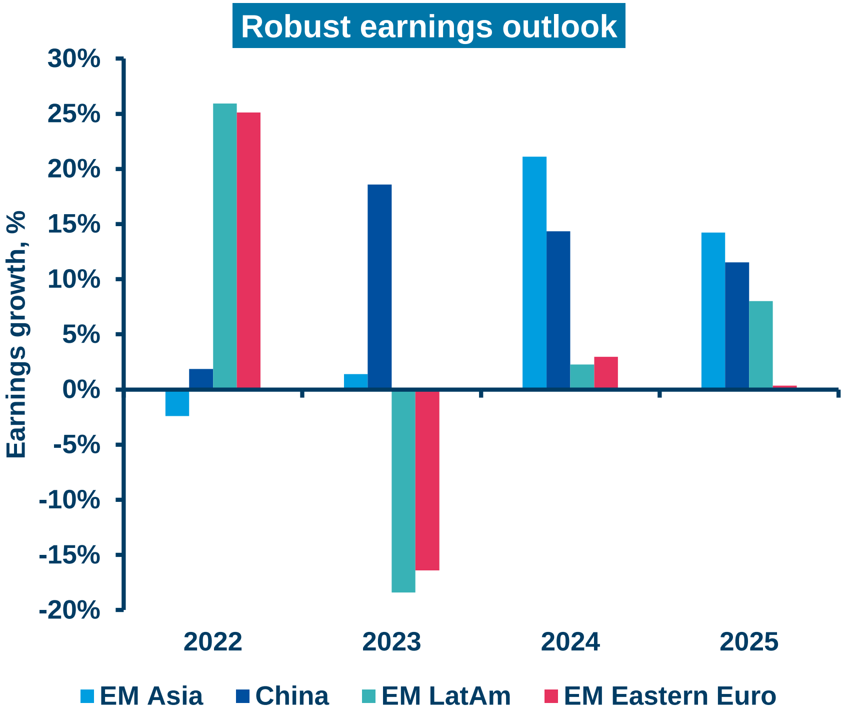


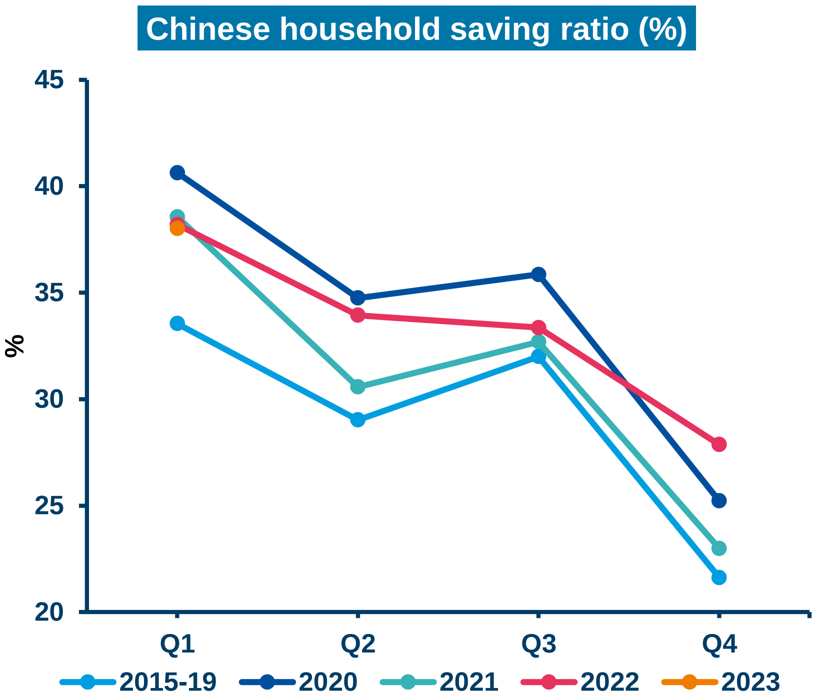
After two years of Chinese equity underperformance, the recent reopening of China’s economy is a huge catalyst for Chinese equities supporting a positive view for the asset class and opening up new opportunities in the Asian country. Looking forward, the Chinese equity market still offers an attractive valuation.

Source: Amundi Institute, Bloomberg. Data is as of 19 April 2023. Index returns are in USD.

Source: Amundi Institute, Bloomberg. Forecasts are by Amundi Institute. Data is as of 18 April 2023.

…the call is also supported by earnings and internal demand





The strength of the economic recovery and policy stance are supportive for the Chinese market, for example earnings growth is expected to pick up. The positive outlook on China is also supported by internal demand, a pillar for growth and consumption in 2023.

Source: Amundi Institute, Datastream. Data is as of 18 April 2023.

Source: Amundi Institute, CEIC. Data is as of 19 April 2023.

China offers diversification with limited correlation to DM and growing internal demand

	MSCI CHINA	MSCI China A NR Index USD	MSCI EM	MSCI INDIA	S&P 500 INDEX	MSCI EUROPE	MSCI WORLD
MSCI CHINA	1						
MSCI China A NR Index USD	0,75	1					
MSCI EM	0,84	0,46	1				
MSCI INDIA	0,22	0,02	0,44	1			
S&P 500 INDEX	0,53	0,36	0,66	0,48	1		
MSCI EUROPE	0,48	0,4	0,56	0,48	0,75	1	
MSCI WORLD	0,61	0,38	0,76	0,47	0,96	0,81	1

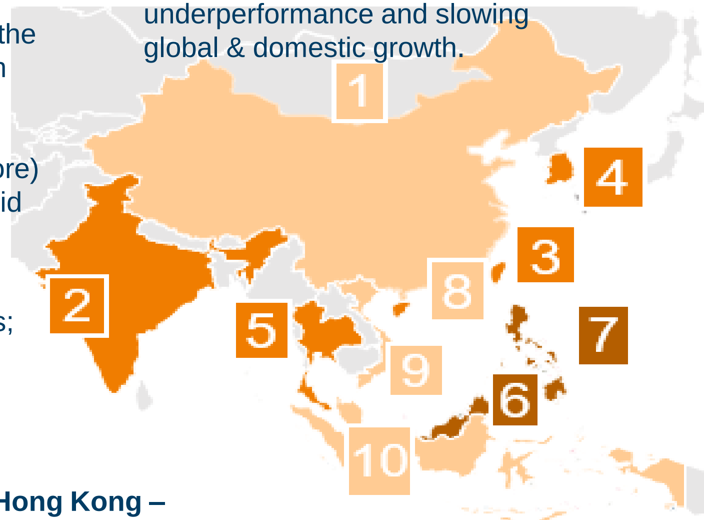
Investors should look at Chinese and Indian equity to increase their portfolio diversification and gain exposure to country-specific stories and internal demand growth. China's A-share market and Indian equities have limited correlation to DM equities, allowing investors to gain exposure to EM domestic demand.

Source: Amundi Institute on Bloomberg data. Calculations are based on monthly data for the ten years to March 2023. The correlations are with local-currency indices. DM: developed markets.

Equities: opportunities in Asia

1 **China –** ***positive***
Remain constructive on the back of an earlier than expected reopening with mobility already recovering, significant excess savings accumulated during the Covid period, and a pro-growth government stance with support to the property & private sector. Valuation not stretched after recent pullback, however the risk-reward appears more attractive for A-Shares (onshore) vs H-shares (offshore) markets amid rising geopolitical risk.

2 **India –** ***neutral***
Digital transformation, Made in India, financialisation of savings and increasing weight in indices with more IPOs to come in new economy sectors. Short term, this is offset by still high valuations despite recent underperformance and slowing global & domestic growth.



3 **Taiwan –** ***neutral***
Turning more constructive on semiconductors (logic & analog chips), with most of the negative news on pricing and volume mostly priced in together with a tentative bottoming-out in the earnings cycle after significant cuts.

4 **South Korea –** ***neutral***
Turning more constructive on semiconductors (memory chips) due to valuation, with the negative news on pricing and volume mostly priced in for memory prices together with a tentative bottoming-out in the earnings cycle after significant cuts.

5 **Thailand –** ***neutral***
Tourism to benefit from earlier-than-expected China reopening. Favour tourism & consumption plays.

6 **Malaysia –** ***cautious***
Cautious on sectors exposed to domestic consumption and investment; turning more constructive on exporters (e.g. IT)

7 **The Philippines –** ***cautious***
Cautious on sectors exposed to domestic consumption and property.

8 **Hong Kong –** ***positive***
Focus on reopening plays. Still favor travel-related consumer names.

9 **Vietnam –** ***positive***
Now the largest in the MSCI Frontier index. It could benefit from an upgrade to EM status in MSCI indices. Favour banks and real estate.

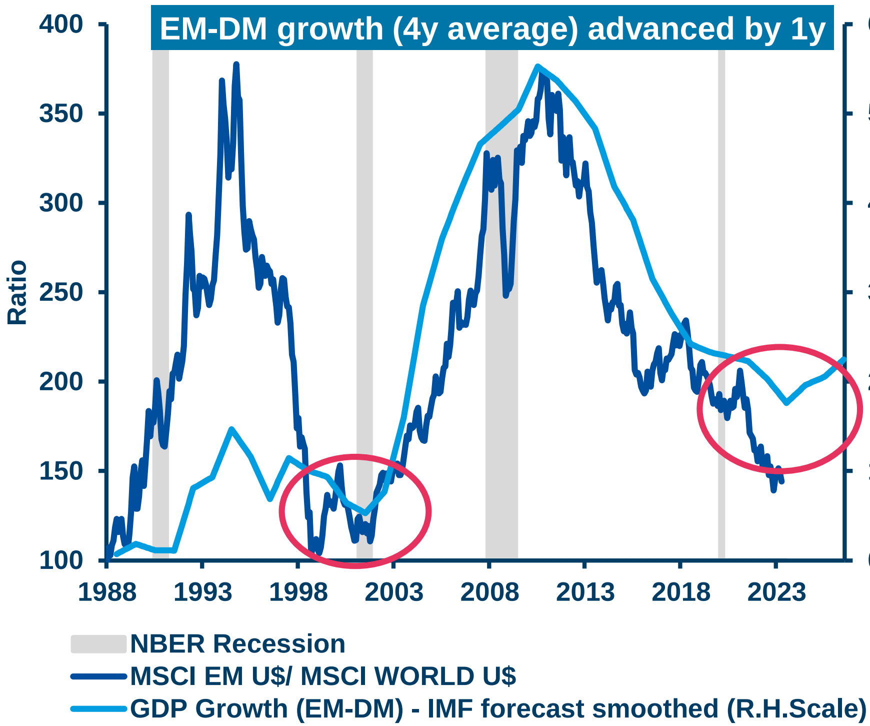
10 **Indonesia –** ***positive***
Beneficiary of rising commodity prices; favour banks and commodity-related names. Reducing overweight amid stretched valuation.

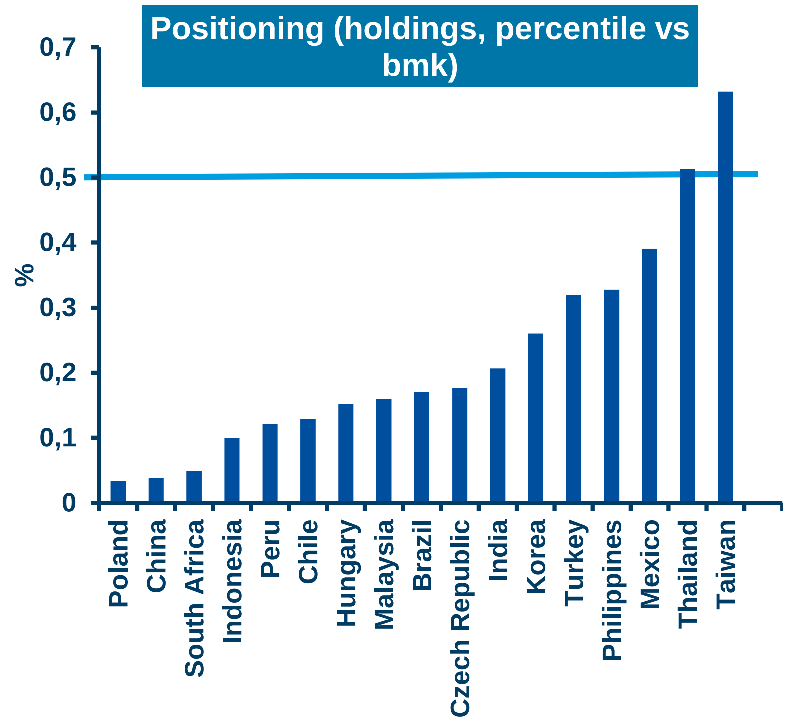
Colours indicate Amundi equity view on the country for Q1 2023

Cautious ***Neutral*** ***Positive***

Source: Amundi Institute. Data is as of 18 April 2023. EM: emerging markets.

China's reopening and EM-DM growth differential are positive catalysts for EM equities



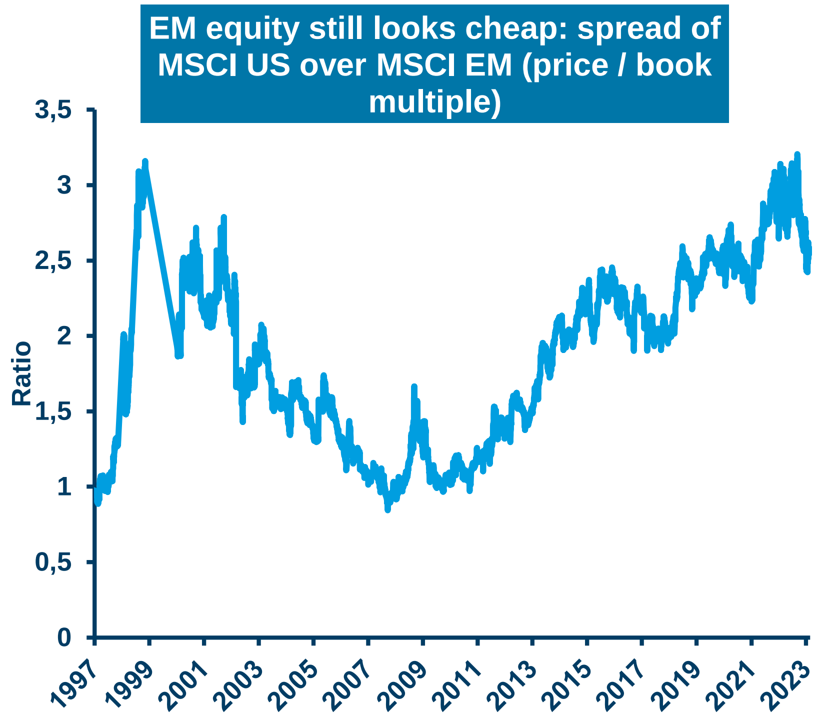


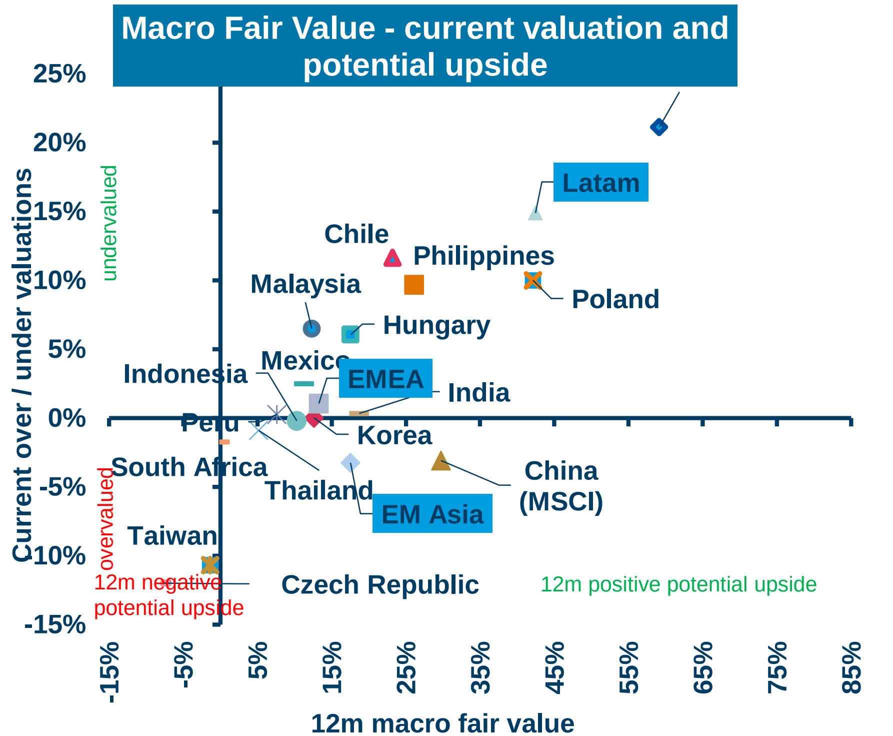
The recovery of the Chinese economy amid the reopening, coupled with the EM-DM economic growth differential and uncrowded EM equity positioning compared to the historical average, are supportive factors for the asset class. However, investors should note that the EM space presents a fragmented universe, implying a strong need to be selective so that country-specific factors can be taken into account.

Source: Amundi Institute, Datastream. Data is as of 18 April 2023. EM: emerging markets. DM: developed markets.

Source: Amundi Institute, State Street positiotning for institutional investors as of 4 April 2023.

EM equity: attractive valuations



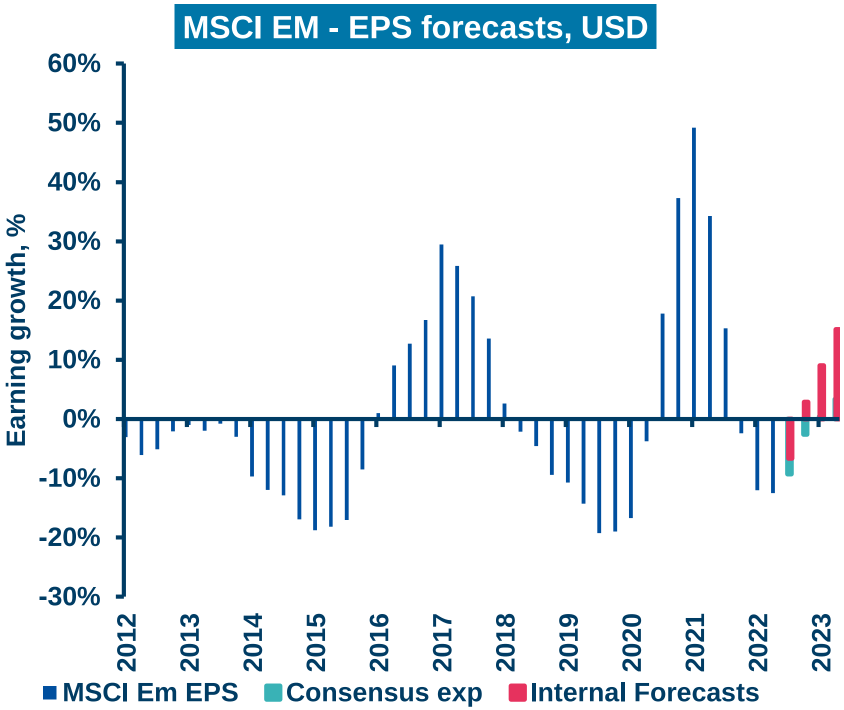


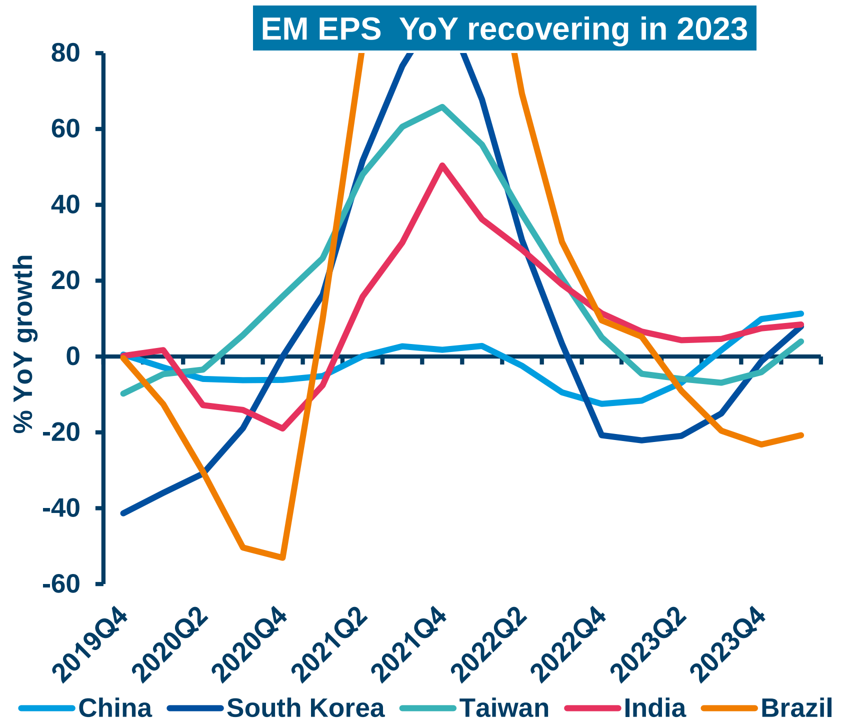
EM equity markets show historically cheap levels if you look at the valuation metrics, offering interesting entry points on a standalone basis and relative to DM for global investors. However, a dedicated approach is required in a fragmented EM universe.

Source: Amundi Institute, Bloomberg. Data is as of 17 April 2023. EM: emerging markets. DM: developed markets.

Source: Amundi Institute. Data is as of 18 April 2023.

Recovering earnings after a weak 2022



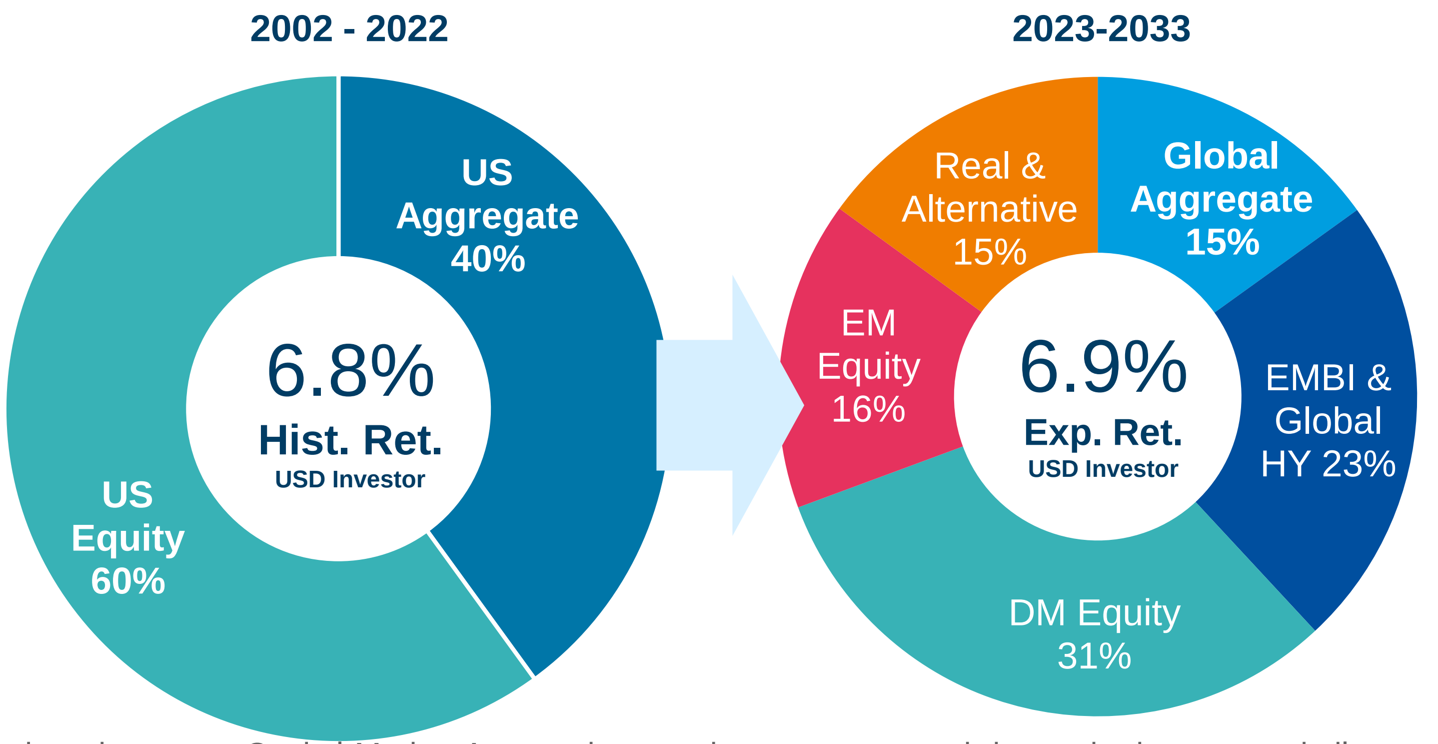


Earnings YoY growth is bottoming out everywhere (with the exception of LatAm). We expect a good recovery in H2 2023, with double digit growth for MSCI China.

Source: Amundi Institute, Datastream. Data is as of 21 February 2023.

Source: Amundi Institute, Datastream. Data is as of 19 April 2023.

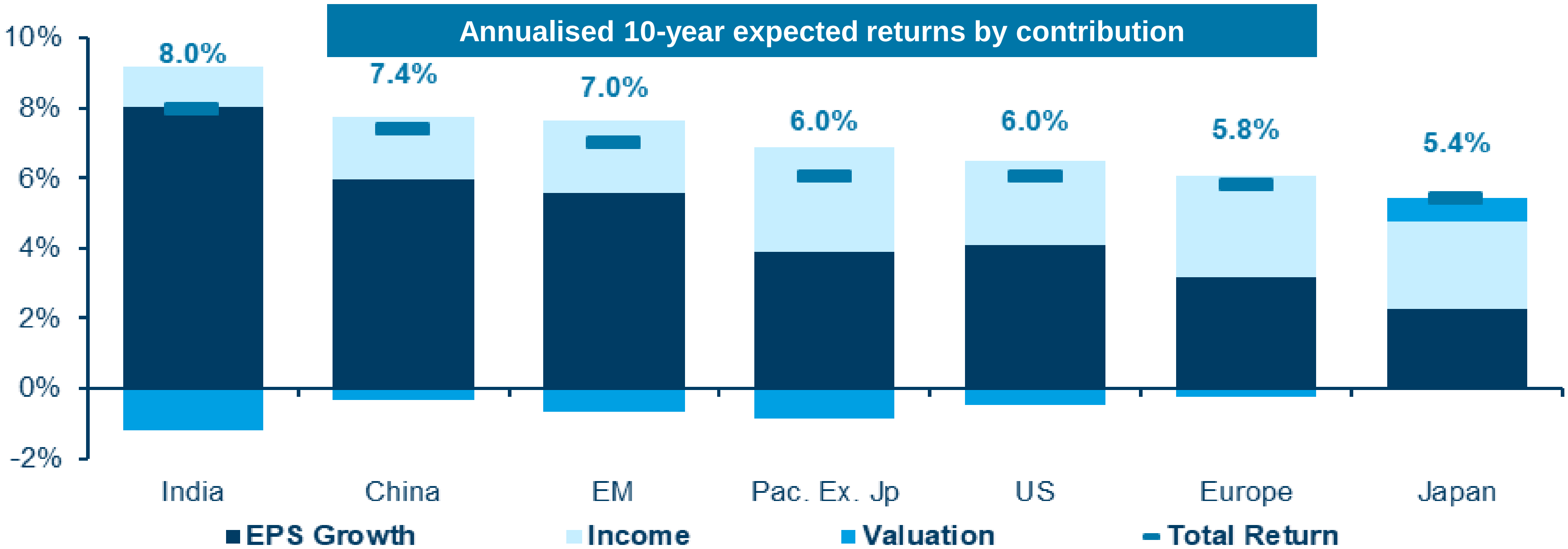
The increasing importance of EM assets in the new 60-40



Based on the recent Capital Market Assumptions study, a new approach is required to target similar returns to the historical 60-40 portfolio. EM and real assets could help boost returns to levels that traditional 60-40 portfolios will struggle to deliver, with Chinese and Indian equity markets being one of the most interesting opportunities.

Source: Amundi, data as of 31 December 2022. For illustrative purposes. Source Bloomberg for historical data and Amundi Quantitative Solutions Team portfolio optimization on CMA for expected returns and allocations.

...specially on the equity side for China and India



Equity

A challenging risk-return profile calls for increased diversification.

UP

- EM in focus to boost returns.
- US remains favoured in DM.

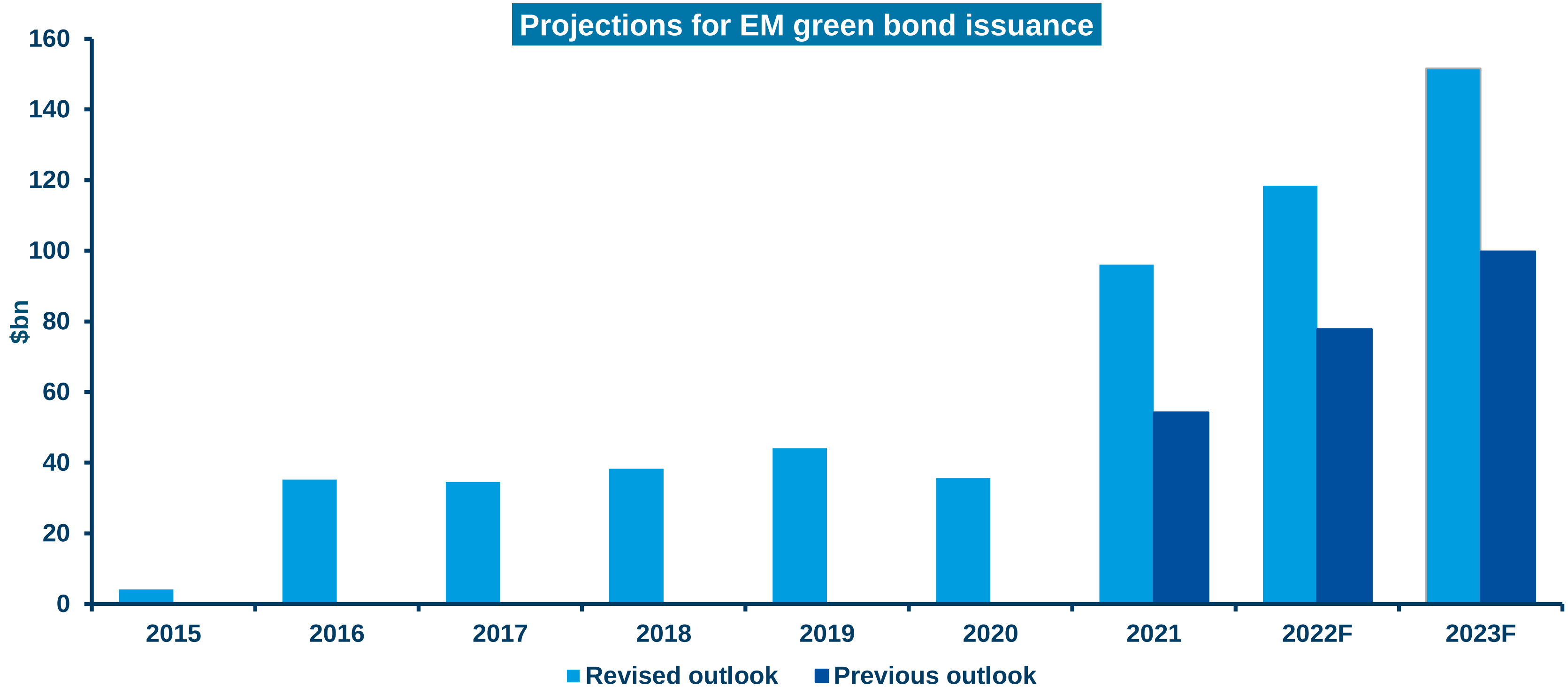
DOWN

- Expect higher volatility.
- Lower returns vs history for DM.
- Japanese equity will be the laggard.

Source: Amundi CASM Model Data as of 30 December 2022. For additional information see 'Sources and Assumptions' section at the end of this document. **The forecast returns are not necessarily indicative of future performance, which could differ substantially.**

Rising relevance of sustainable investing in EM

ESG

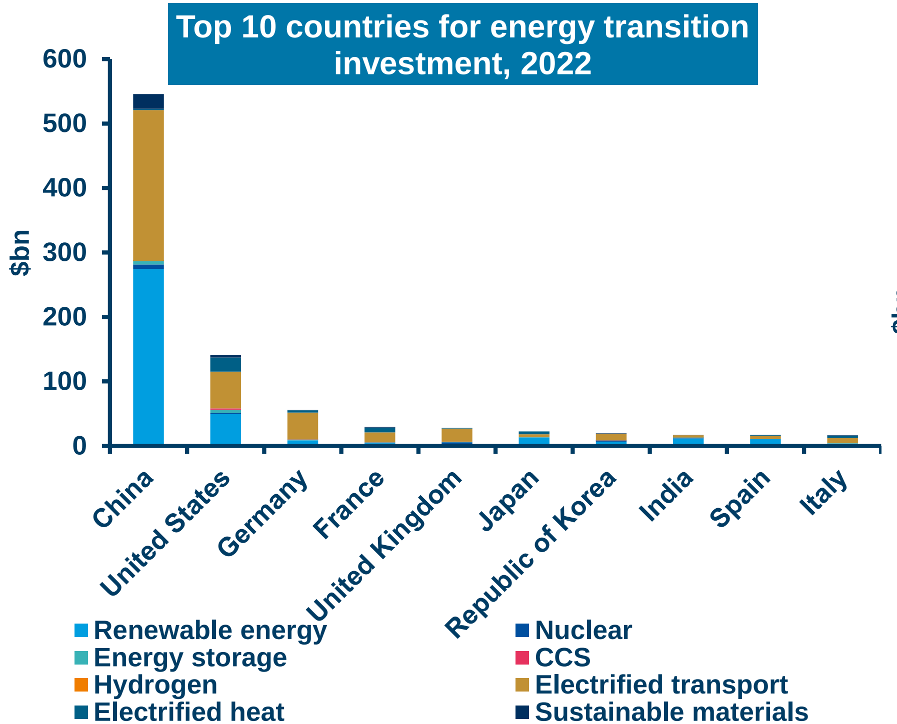


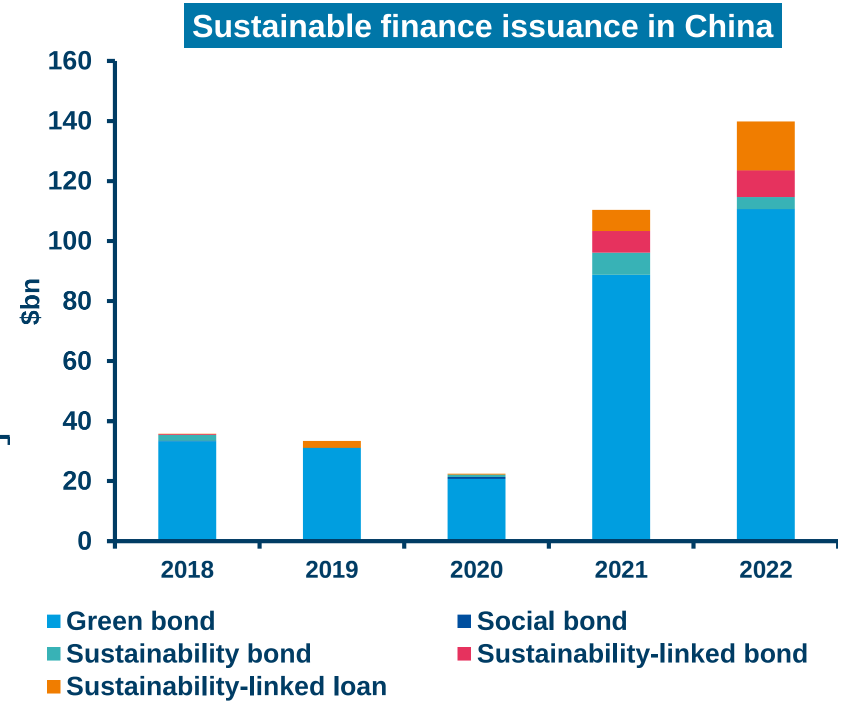
EM sustainable fixed income universe has increased significantly in terms of issuance in recent years. However, the size remains much smaller than DM and it's crucial for advancing the ESG agenda globally.

Source: Amundi Institute, IFC, Bloomberg, Environmental Finance, Climate Bonds Initiative. Data is as of 29 June 2022.

China leads investment in the energy transition globally

ESG





China has increased its sustainable issuance significantly for the last two years and the country is by far the largest issuer across EM countries. At the same time, China spent $546 billion in 2022 on energy transition investment, accounting for almost half of global expenditure.

Source: Amundi Institute, BloombergNEF. Data is as of 9 March 2023.

Source: Amundi Institute, BloombergNEF. Data is as of 23 February 2023.

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Recent EM publications

Available at the Amundi Research Center: http://research-center.amundi.com/

Date	Title
28 Mar 23	A rocky net zero pathway
20 Feb 23	A year of war in Ukraine: accelerating the energy transition and fragmentation
19 Jan 23	The market effect of acute biodiversity risk: the case of Brazilian corporate bonds
16 Jan 23	The impact of climate risks on social inequality
3 Jan 23	China: back to pragmatism
2 Dec 22	Recent developments do not change our expectations for the Russia-Ukraine war

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Indices reference and definitions

Bond Indices (JPMorgan)

Sov. HC HY = JPM EMBI Global Diversified High Yield; Sov. HC = JPM EMBI Global Diversified Composite; Sov. HC IG = JPM EMBI Global Diversified Inv. Grade; Local FX = JPM GBI-EM Global Diversified FX Return; Local HC = JPM GBI-EM Global Diversified Composite Unhedged USD; Local Euro = JPM GBI-EM Global Diversified FX Return in EUR; Local Rates = JPM GBI-EM Global Diversified Composite LOC; Corp. HC HY = JPM Corporate Broad EMBI Diversified High Yield; Corp. HC = JPM Corporate EMBI Broad Diversified Composite; Corp. HC IG = JPM Corporate Broad EMBI Diversified High Grade.

Equity Indices (MSCI)

Argentina = MSCI Argentina Net Total Return; Brazil = MSCI Brazil Net Total Return; China = MSCI China Net Total Return; Czech Republic = MSCI Czech Republic Net Total Return; Colombia = MSCI Colombia Net Total Return; Egypt = MSCI Egypt Net Total Return; India = MSCI India Net Total Return; Indonesia = MSCI Indonesia Net Total Return; Mexico = MSCI Mexico Net Total Return; Peru = MSCI Peru Net Total Return; Philippines = MSCI Philippines Net Total Return; Poland = MSCI Poland Net Total Return; Russia = MSCI Russia Net Total Return; South Africa = MSCI South Africa Net Total Return; South Korea = MSCI Korea Net Total Return; Taiwan = MSCI Taiwan Net Total Return; Thailand = MSCI Thailand Net Total Return; Turkey = MSCI Turkey Net Total Return; Emerging Markets = MSCI Emerging Net Total Return.

Yield & Duration Indices

German Govt Bonds = JP Morgan GBI Germany Index; US Govt Bonds = JPMorgan GBI US Index; Euro IG Bonds = Bloomberg Barclays Pan European Aggregate Corporate; US IG Bonds = Bloomberg Barclays US Aggregate Credit; Euro HY bonds = Bloomberg Barclays Pan-European High Yield ISMA; US HY Bonds = Bloomberg Barclays US Corporate High Yield; EMBI Div = JPMorgan EMBI Global Diversified Blended; CEMBI BD = JPMorgan CEMBI Div Broad Composite Blended; CEMBI BD HY = JPMorgan CEMBI Broad Div High Yield; Euro Corp Short Term = Bloomberg Barclays Euro Corporate 1-3Yr; US Corp Short Term = Bloomberg Barclays US Corporate 1-3Yr; EMBI Short Term = JPMorgan EMBIG Diversified 1-3Yr.

Definitions

- **Basis points**: one basis point is a unit of measure equal to one one-hundredth of one percentage point (0.01%).
- **Carry**: the carry of an asset is the return obtained from holding it.
- **Correlation**: the degree of association between two 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 (perfectly negative correlated) through 0 (absolutely independent) to 1 (perfectly positive correlated).
- **Credit spread**: 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 possible embedded options.
- **Default rate**: The share of issuers that failed to make interest or principal payments in the prior twelve months. Default rate based on BofA indices. Universe consists of issuers in the corresponding index twelve months prior to the date of default. Indices considered for corporate market are ICE BofA.
- **Diversification**: Diversification is a strategy that mixes a variety of investments within a portfolio, in an attempt at limiting exposure to any single asset or risk.
- **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.
- **EPS (Earnings per share)**: This is a company's profit divided by the outstanding shares of its common stock. The resulting number serves as an indicator of a company's profitability.
- **External vulnerability index**: this index is built by aggregating five different indicators that can monitor a country's dependence on overseas economies and capital flows.
- **FX**: FX markets refer to the foreign exchange markets where participants are able to buy and sell currencies.
- **Green bonds:** A green bond is a type of fixed-income instrument that is specifically earmarked to raise money for climate and environmental projects.
- **Investment grade**: Refers to securities issued by an issuer of negotiable debt securities (Treasury bonds...) or bonds for which the Standard & Poor's rating is greater than or equal to BBB-. 'Investment grade' bonds are considered by the various rating agencies as having a low risk of non-repayment.
- **High yield**: High yield paying bond with a low credit rating due to the high risk of default of the issuer.
- **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).
- **Quasi sovereign**: companies wholly or partially owned by the government.
- **Social bonds**: Social bonds are use-of-proceeds bonds that raise funds for new and existing projects with positive social outcomes.
- **Spread**: the difference between two prices or interest rates.
- **Volatility** is 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.

Disclaimer

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