Institute

#11
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2022

CROSS ASSET
Investment Strategy

CIO VIEWS

Fed pivot is not around the corner

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Where is China heading to?

Confidence must be earned
Amundi
ASSET MANAGEMENT

#11 - November 2022

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CIO VIEWS

Fed pivot is not around the corner

Vincent MORTIER,
Group Chief Investment Officer

Matteo GERMANO,
Deputy Group Chief Investment Office

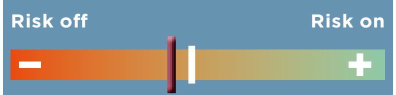
Central banks (CBs) are trying to work out how far they should go in terms of their aggressive tightening talk. We see four main factors to consider when assessing whether we will see pivots from CBs: **(1) The still strong job market** does not support a shift in stance from the Fed. Signs of some moderation are emerging in wage growth, but this remains above pre-crisis trends, though decelerating sequentially; **(2) Inflation is persistent and challenging.** While the peak in US inflation is likely behind us, recent data confirm that core inflation remains sticky. Goods inflation is falling, while the services inflation print came in at a 40-year high; **(3) Sovereign debt sustainability is under scrutiny, together with the functioning of markets.** Slowing economic growth would require a fiscal push, especially in Europe, at a time of rising interest rates. Questions over long-term debt sustainability come at a time when markets are clearly addicted to CB liquidity. This has become the key to supporting market functioning and the UK is an example that shows how miscalibrated fiscal and monetary policies can affect market functioning and force a central bank to act; and **(4) Financial conditions are tight,** but could become even tighter as the risk of the Fed being forced to overshoot remains high.

The high-inflation/low-growth backdrop, with CBs on a tightening path, means that a profit recession is materialising, not only in Europe but in the US as well, and the probability that this will translate into an economic recession as we move into 2023 is rising. After the September sell-off, risk assets are less expensive, but still do not discount a profit recession. It's also difficult to see what catalyst might come before a Fed's pivot and lower rates, although some short-term relief is possible after the recent sell-off. Therefore, we confirm an overall cautious stance around five investment convictions:

- **We keep a cautious risk stance in light of stagflation fears,** recession concerns and the energy crisis. Both in the US and Europe, we think downward revisions to earnings are on the cards. In particular, we are watching for pain points and forward guidance around rising input costs and their effects on margins, the strengthening dollar, which lowers international earnings for domestic companies, and supply chain constraints. Finally, investors should remain vigilant for some signs of capitulation in equities and downward EPS revisions that may pave the way for a better backdrop for equities. For now, we are convinced that relatively better inflation, economic growth and consumption in the US should mean US companies remain resilient compared with European firms, confirming our preference for the US over Europe. We also recognise that there could be a short-term rebound after the recent sell-off.
- **In FI, current yields make US Treasury valuations attractive,** allowing us to stay neutral on duration in the US. But we are active and keep a tactical view so we are ready to adjust this stance depending on the evolution of the Fed's rhetoric and economic growth. In core Europe, we are close to neutral and believe the ECB's tightening stance could move short-term yields in Euro area curves.
- **Corporate refinancing is an important factor to watch.** We retain a preference for US IG, but are cautious on HY as the risks are mounting. While corporate fundamentals are currently solid, the near future is uncertain, particularly when demand is slowing and margins are under pressure. Nonetheless, the effect of monetary tightening on IG and HY spreads in the US and Europe has been limited so far given companies currently have low refinancing needs and have dipped into their reserves. However, this has resulted in declining cash balances in most sectors, leading us to be cautious about the evolution of liquidity, companies' working capital needs and the default outlook in low-quality segments. In Europe, fiscal policies could be supportive of businesses, thereby slightly limiting the drag on corporate cash holdings, but we do not rule out higher spread volatility.
- **Still neutral on EM given the environment of weak global growth,** with an increasing need for selection. On China, despite the short-term challenges, the country could see a rebound in demand next year amid accommodative policies and fiscal support for local governments. Across EM assets, our preference remains for HC debt, while we are defensive on local rates in light of the continuing USD strength. CBs for Latin American exporters, such as Brazil, have been proactive in tightening policy to tame inflation, providing a favourable environment given the attractive carry.

Investors should increase the focus on liquidity because any rise in market stress could make it difficult for them to exit more volatile assets.

Overall risk sentiment



Our view remains defensive on risk assets with hedges in place, in light of earnings concerns and liquidity/stability issues.

Changes vs. previous month

- Play preference for EUR IG vs. HY.
- Tactically slightly less cautious on equities in multi-asset, but ready to adjust.
- Increase focus on liquidity.

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

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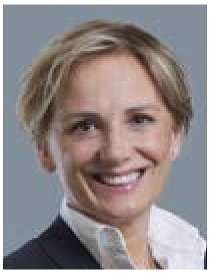
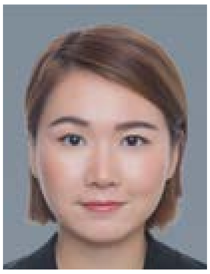
China stabilisation: recovery requires patience



Monica DEFEND,
Head of Amundi Institute

Alessia BERARDI
Head of EM Macro & Strategy Research, Amundi Institute



Claire HUANG
Senior EM Macro Strategist, Amundi Institute

While China's 2023 growth recovery hinges on its Covid policy, its domestic environment remains disinflationary. Q3 growth came in stronger than expected at 3.9%YoY (Amundi forecasts: 3.4%). The solid headline growth, in part attributable to a rebound in the trade surplus, masked the uneven recovery in domestic demand. Consumption is overall soft except for auto sales, whereas investment growth was underpinned by public projects. **Given the better-than-expected Q3 results, we revise our 2022 growth forecasts up from 2.9% to 3.2%. However, we revise our 2023 GDP growth down to 5.2% from 4.5% due to the weaker Covid policy outlook.** The main factors likely to affect growth are:

(1) Down. Our conviction of a full reopening in H2 2023 is now lower. While the 'dynamic clearing' slogan will likely remain in place, we expect a gradual relaxation is likely at execution level, but without a full reopening. Disruptions from time to time will continue to weigh on growth. **(2) Unchanged. Housing sales still expected to stabilise at the end of 2022.** We hold the view that housing sales are near their cyclical bottom. The transmission of policy easing has improved, thanks to the additional easing done by the PBoC since September. In 2023 we expect housing sales to register a small positive performance.

Subdued domestic demand will keep inflation tepid. Core and services inflation rates are expected to stay below 3% throughout 2023 due to the disruptions from Covid restrictions. PPI inflation will turn negative soon. The policy mix will remain accommodative. We don't expect the central government to step in to help individual private developers. The intention behind policy is clearly to preserve demand.

Regarding the reopening, we think patience is a virtue and there is no clear exit roadmap expected for 2023. Indeed, when China is going to fully reopen remains one of the main unknowns for the markets. We have low convictions on the various forecasts drawing up zero Covid exit roadmaps, and are skeptical that high vaccination rates will be a sufficient precondition for reopening.

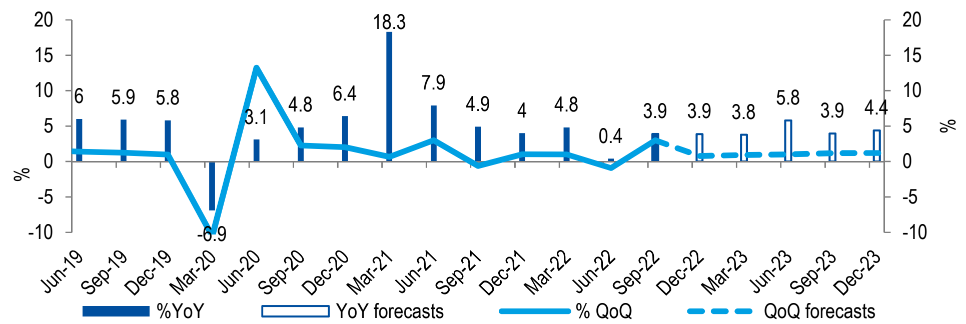
We believe the death toll matters more to the government than the death rate. The change of this implicit target, if it exists, should trigger a change in the ZCP exit. Despite the ongoing 'dynamic clearing' goal, we could see adjustments at the execution level. During the small Omicron outbreaks in autumn, the measures taken were not as restrictive as in Shanghai's April lockdown. For one, a nationwide logistics breakdown was avoided (zero expressway closures), ensuring production could continue. Second, the intervention was earlier and the lockdowns shorter in each city, helping to contain the overall economic impact. A gradual relaxation of restrictions is our baseline case, with disruptions from time to time but without paralysing the whole economy. This assumption underpins our growth forecasts.

Housing sales stabilisation is in sight. Our trend estimate of sales volumes indicates a stabilisation in momentum: the September sales volume trend dropped less when compared to August or April. We expect housing sales will finally turn positive in April 2023. Indeed, the latest high-frequency data suggest that the housing market has become more resilient to lockdown shocks. Thanks to the continuous easing efforts of the PBoC and the MoF, household expectations have started to shift in Q3, with an increased share of survey respondents willing to buy homes in Q4. **Overall, we expect the housing market to be less of a drag on growth in 2023.**

Party Congress: a confirmation of the Xi era. The 20th Party Congress confirmed Xi remains at the core of China's leadership. The politburo is even more capable of executing and reinforcing policy execution. The 20th Party Congress report confirms China's economic course, with a Leftism tilt in the long run. It emphasises security, growth quality and wealth redistribution. Xi's administration has a high tolerance for slow growth, and a preference for a less debt-dependent model. The growth outlook will be more volatile and the risk of overreach needs to be monitored.

We upgrade China's 2022 growth forecasts, but downgrade growth for next year on the impact of the 'dynamic clearing' Covid policy, with some relaxation at execution level

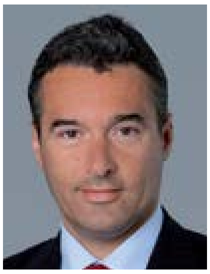
China's GDP growth



Source: Amundi Institute, as of 26 October 2022. Quarterly data above. QoQ numbers are seasonally adjusted. Forecasts start from December 2022. PBoC = People's Bank of China, MoF = Ministry of Finance, PPI = Producer Price Index, a measure of inflation at the manufacturer's level, ZCP = Zero Covid Policy.

MULTI-ASSET

Defensive, but open to some tactical readjustment



Francesco SANDRINI,
Head of Multi-Asset Strategies

John O'TOOLE,
Head of Multi-Asset Investment Solutions

We are defensive overall, but remain vigilant for opportunities to benefit from any tactical market movements, without altering our medium-term convictions

High (core) inflation prints confirm that the Fed could maintain a tightening trajectory despite the deteriorating economic backdrop, which is only partially reflected in asset valuations. On the earnings side, estimates in the US and Europe are still optimistic and are likely to be revised down. As a result, for now we remain cautious and patient in risk assets, and wait for an improvement in earnings growth before we increase risk. **A vigilant but agile approach, with enhanced hedges, is the key to ensuring that investors navigate this uncertain environment, but we are ready to act on any attractive entry levels.** We favour a well-diversified approach that rests on a combination of quality assets in DM and EM, commodities (oil, gold) and FX.

High conviction ideas

We remain cautious on equities, but from a tactical view, we think the recent decline presents opportunities to benefit from the brief rally in some segments. However, we remain flexible to alter this stance should the situation change. We continue to prefer the US over the EZ, given that the latter is more exposed to the stagflationary episode. In EM, we are monitoring the Chinese housing sector and Covid-19 policies. The country maintains its supportive fiscal and monetary policies. Hence, we continue to favour China over India, as Indian valuations are still high despite the recent falls. **On duration, we are marginally constructive** and we will upgrade this view only if we see signs of a dovish Fed pivot, although valuations look attractive from a historical perspective. In the UK, we became cautious well before Liz Truss's budget plan announcement, which triggered a massive sell-off across the gilt curve due to concerns about increased issuance and fiscal imprudence. **In Europe,** we maintain a small preference for BTPs over the Bund, but are monitoring any signs of weakness from a risk management perspective. We think the BTP-Bund spread is no longer being driven by domestic Italian factors. In addition, valuations are appealing given the ECB's policy and supportive technicals, which provide time to reassess the stance if volatility increases.

In corporate credit, we now believe EUR IG should outperform the HY segment (slightly high valuations). The latter would be more vulnerable in a recession, which would hurt earnings and fundamental metrics. The default rate is holding low but is expected to tick higher on growth concerns. In the US, we stay marginally positive on IG credit, given the better valuations after the recent spread widening, the low risks of debt refinancing and the lack of increase in leverage in the near term.

Finally, FX remains a key pillar of our multi-asset strategy and we think the USD will remain strong amid the prospects of higher rates in the US. However, we are no longer positive on USD/CAD. This is not due to any negative view on the dollar, but because the greenback has already risen substantially vs. the CAD this year. Secondly, the negative news flow from the Swiss banking sector could affect the CHF/EUR, considering the franc has already gained. We stay positive on USD/EUR and JPY/EUR. On the other hand, we think the ZAR is a good way to play the weak sentiment in EM FX. Hence, we are now constructive on BRL/ZAR (attractive carry, macro environment and a lot of negative news on elections already priced in). In Asia, we maintain our view on IDR/CNH due to Indonesia's improving fiscal position and growth.

Risks and hedging

The risk of CB policy mistakes in the form of excessive tightening is high in light of inflation. Hence, we think increasing the protection on credit (US HY) is appropriate. At the same time, investors should maintain safeguards on US equities and consider exploring opportunities arising from the weakening of the EUR/USD.

Amundi Cross Asset Convictions

	1 month change	---	--	-	0	+	++	+++
Equities	↗			■				
Credit & EM bonds					■			
Duration						■		
Oil					■			
Gold					■			

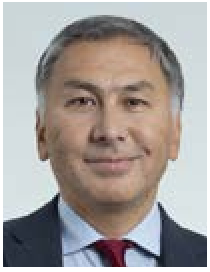
Source: Amundi. The table represents a cross-asset assessment on a three- to six-month horizon based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/++/+++). This assessment is subject to change and includes the effects of hedging components.

CGB = Chinese government bonds, EM = emerging markets, PBoC = People's Bank of China, FX = foreign exchange, IG = investment grade, HY = high yield, CBs = central banks, BTP = Italian government bonds, EMBI = EM Bonds Index, QT = quantitative tightening. BRL= Brazilian Real, CAD = Canadian Dollar, CNH = Chinese Yuan, EUR = Euro, IDR = Indonesian Rupiah, JPY = Japanese Yen, USD = US Dollar ZAR = South Africa Rand. Marketing material for the general public.

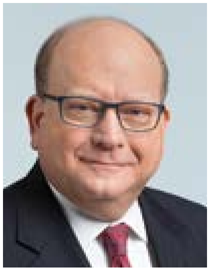
FIXED INCOME

Vigilant on the liquidity evolution in credit

Amaury D'ORSAY,
Head of Fixed Income



Yerlan SYZDYKOV,
Global Head of Emerging Markets



Kenneth J. TAUBES,
CIO of US Investment Management

When nominal revenues grow due to inflation, companies do not usually default. But if FCs tighten, the situation may deteriorate (spreads, distress), particularly for low-quality names

Recent economic data pushes any dovish pivot from the Fed further into the future, with implications for global bond yields at a time when the risk of policy mistakes is increasing and economic growth is slowing. Furthermore, rising real rates are leading to some tightening of financial conditions, which in turn are affecting corporate credit spreads. On the other hand, we are seeing pressures on earnings and cash flows. Hence, **investors should be watchful of the cash/liquidity on balance sheets as companies spend their cash (accumulated during the Covid-19 crisis), and take note of whether any policy tightening turns into a solvency/financial stability issue.** Select opportunities in the high-quality area of the market, including in EM HC, should be explored with an agile duration mindset.

Global and European fixed income

We are marginally cautious/close to neutral on duration in the US, core Europe and the UK (less than before), **but slowing economic growth keeps us tactical on this front.** We are active on multiple yield curves, thereby exploring flattening opportunities in Europe, Japan and the US. In the UK, we are assessing the monetary/fiscal policies and their effects on sovereign yields. On the global front, we continue to believe in the diversification potential of Chinese debt. Regarding inflation, we are slightly constructive on the US and European breakevens. **So far, the impact of monetary tightening on credit spreads has been limited** due to companies' limited refinancing needs as they used their internal cash holdings. But this might change in the near future. Thus, we maintain a neutral risk stance, look for short maturity debt and prefer IG over HY, without increasing our exposure to high-risk securities. We favour quality assets at the higher end of the capital structure.

US fixed income

The Fed maintains its focus on controlling inflation, which is causing a decline in the possibility of our 'soft landing' scenario. The reasons for both upwards and downward yield movements persist, and as a result, we have been active in our stance on duration. We think the risk-reward of being cautious on duration is less compelling now than it was earlier because of emerging growth concerns. **Consequently, we are neutral with a bias to raise our stance.** In addition, TIPS are looking attractive, particularly in the intermediate range. In corporate credit, high-quality businesses with low leverage will fare better if things deteriorate. IG and HY spreads remain close to average despite the weak economic environment, with markets not fully appreciating the downturn. We favour IG over HY and within IG, financials over non-financials. Elsewhere, we favour securitised over unsecuritised credit, under an actively managed stance.

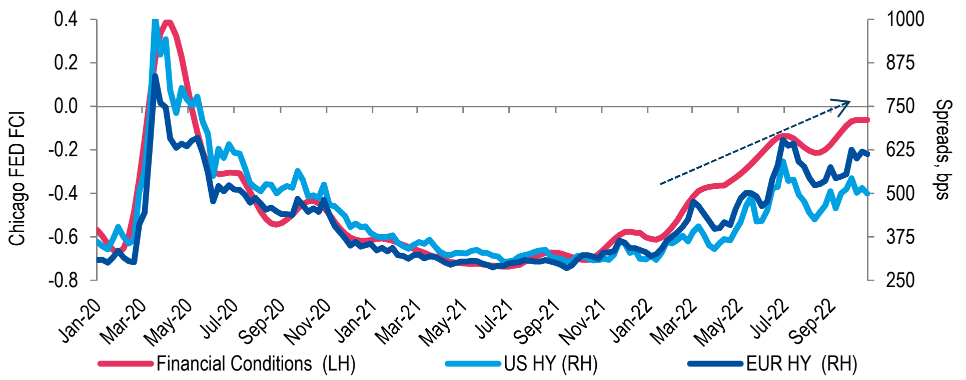
EM bonds

We are monitoring liquidity and financial stability risks across EMs and remain selective, favouring HC. But we keep a more cautious stance on local rates amid regional inflation divergences, the different paces of policy normalisation and the dollar strength. Our preference is for countries where CBs have been proactive in taming inflation, and those providing compelling carry (Brazil).

FX

Any change in the strong USD trend could only come from a change in the Fed's stance or inflation moving lower. Policy uncertainty in the UK is affecting the GBP's stability, on which we are negative. In EM, we are slightly positive on select LatAm FX (MXN, COP) but are cautious on Eastern European FX, TWD and KRW.

Tightening financial conditions could lead to further spread widening



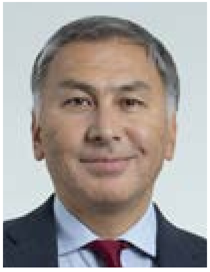
Source: Amundi Institute, Bloomberg. Weekly data as of 21 October 2022. Positive financial conditions index (FCI) indicates that conditions are tighter than average, whereas negative values signal looser than average conditions.

GFI = global fixed income, GEMs/EM FX = global emerging markets foreign exchange, HY = high yield, IG = investment grade, EUR = euro, UST = US Treasuries, RMBS = residential mortgage-backed securities, ABS = asset-backed securities, HC = hard currency, LC = local currency, MBS = mortgage-backed securities, CRE = commercial real estate, QT = quantitative tightening.

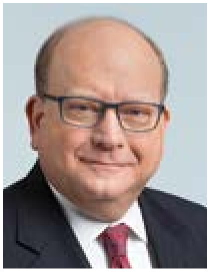
EQUITY

Increasingly selective, with a focus on margins

Kasper ELMGREEN,
Head of Equities



Yerlan SYZDYKOV,
Global Head of Emerging Markets



Kenneth J. TAUBES,
CIO of US Investment Management

We believe earnings expectations are still too high, leading us to focus on bottom-up selection and to prefer idiosyncratic risks

Overall assessment

We expect earnings downgrades to continue for some time as we enter a stock picker's market. Until now, earnings have been supported by companies' pricing power, which has allowed higher input costs to be passed on to consumers. At the same time, consumer spending has been sustained, partly due to the high level of savings accumulated during the Covid-19 crisis. But now some of the benefits of these factors are beginning to fade. **Thus, we are focusing on margins and carefully evaluating forward guidance to better understand how long these margin pressures will persist. In addition, we continue to prioritise bottom-up analysis, and maintain a focus on our dynamic ESG approach.**

European equities

In a barbell-style investing approach, we like defensive consumer staples names and quality cyclical stocks, and prefer taking cyclical risks through banks than autos. Financial names are likely to benefit from higher interest rates. Retail banks, in particular, are trading at huge discounts to fair value, in our view, as the markets have excessively priced in the worsening economic environment. However, we are selective and look for resilient business models and balance sheet strength. We also acknowledge that a depreciating euro would benefit global European companies. **Importantly, the energy crisis is an opportune moment to encourage ESG investing and guide Europe towards greener and cleaner energies.** We are cautious on the technology (excessive valuations) and utilities sectors, given the latter's high level of regulatory risk.

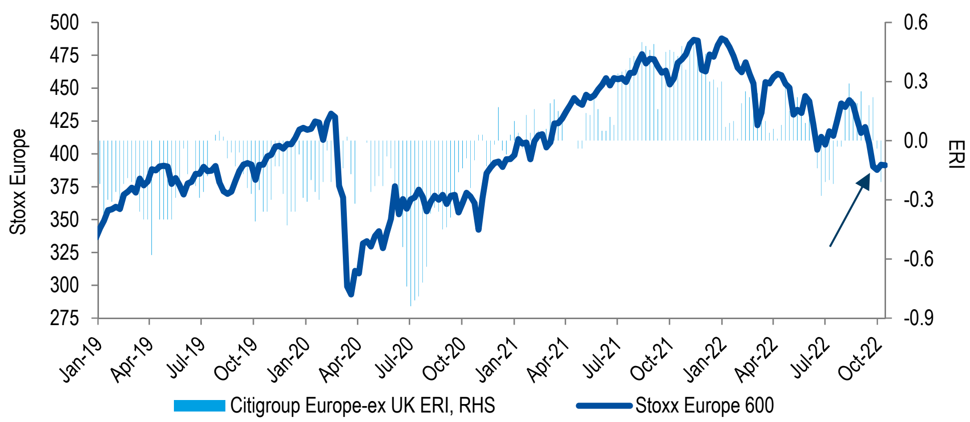
US equities

We are seeing a bit of a mixed bag, wherein hard data, i.e., labour market and industrial production, are strong but surveys (ISM) and leading indicators are weak. **On the other hand, while inflation seems to have peaked, consumers are dipping into their savings as wage growth is slower than inflation (falling real incomes).** Thus, we are evaluating how changes to consumption could affect corporate earnings, leading us to be very selective. We like names that can deliver dividends even in a difficult environment, and where customer stickiness is maintained through market leadership, pricing power and product differentiation. From a style perspective, **we prefer quality value stocks. Some quality cyclical and quality growth names have been hammered excessively, and we are selective on this front.** However, the large cap defensive names are still expensive. At sector level, we like energy, materials and banks. Banks are showing very limited credit-related issues and their investments in technologies, which could help them maintain leadership, are not appreciated by the markets.

EM equities

Our current stance remains prudent and selective given the rising global rates and geopolitical risks. Even though the stagflationary scenario is gaining momentum and affects all geographies, the EM space seems somewhat insulated, and the EM-DM growth differential favours the former. We keep our preference for Brazil and the UAE, as well as a close to neutral position on China, with a special focus on discretionary, amid the expected rebound in Chinese demand.

Earnings concerns reverberate in markets

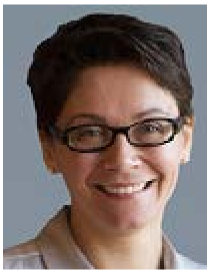


Source: Amundi Institute, Bloomberg. Weekly data as of 19 October 2022. Earnings revision index on RHS.

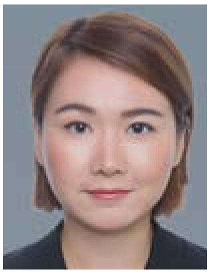
THIS MONTH'S TOPIC

Where is China heading to?

China's cyclical recovery outlook hinges critically on developments in Covid-19 policy. Housing will become less of a drag as the sector manages an L-shaped landing. In the long run, China faces multiple structural headwinds. It will be difficult for it to maintain the miraculously high growth it experienced in the past.



Alessia BERARDI
Head of Emerging Macro and Strategy Research, Amundi Institute



Claire HUANG
Senior EM Macro Strategist, Amundi Institute

Cyclical rebound hinges on reopening

The just concluded Party Congress proved markets wrong once again. China's reopening is not attached to any single political event, although there were extra travel restrictions before the Congress, most of which will be reversed before year-end.

The Party Congress did not directly address the issue of reopening, but, in an interview[1] days before the Party Congress, public health expert Liang Wannian said there is no timeline for exiting zero-Covid-19 controls. Based on lessons from Singapore and Taiwan, high vaccination rates do not offer perfect protection against Covid-19. Deaths and strained hospitals could still be a consequence to deal with. In this regard, we have low conviction predicting when China will reopen fully.

Nonetheless, we expect China's Covid-19 policy to remain responsive. The overarching dynamic clearing strategy aside, Chinese policymakers will take an incremental approach and some gradual relaxation of restrictions – and setbacks – are likely. Meanwhile, investors need to see an acceleration in governments' precautionary measures. These include, but are not limited to, an acceleration of vaccinations for the elderly, the construction of extra intensity-care units or general wards with oxygen support, and more effective vaccines and medicines.

Recent signals from state media and public health experts suggest the gradual reopening process could drag along over quite a long period. A full reopening must wait until all precautionary measures are put in place and the public is confident enough to live with the virus. Under this scenario, China's economy will have to cope with various disruptions. As officials learn from constant waves of outbreaks, they accumulate experience and knowledge, which will be helpful in containing damage to the overall economy. Odds of a chaotic forced reopening scenario are low in our view, considering Wuhan and Shanghai were isolated rather quickly from the rest of the nation. Without paralysing the whole economy, the adapted zero Covid-19 policy remains a drag on growth. **We expect China to grow at a much slower rate than before the pandemic, at roughly 1% QoQ in 2023.**

How the housing market lands will set the tone for long-term growth

The housing market is another major concern among investors. From their Q4 2020 peak to Q3 2022, new home sales volumes fell 40%, wiping out all growth of the previous five years. Monthly sales volume dropped back to its mid-2015 level. Governments continued to step up their easing efforts. Mortgage rates declined in a year by 162bp and 109bp to 4.1% and 4.9%, respectively, for first- and second-home buyers. It now takes on average 25 days for an individual to get mortgage approval. Local purchase restrictions have relaxed to the cyclical low.

Signs of stabilisation are emerging. The Q3 PBoC survey showed the share of households planning to buy homes rising for the first time since mid-2021. Seasonally adjusted new home sales volumes increased for the second consecutive month in September. Our trend estimate indicates that the fall has slowed significantly. Meanwhile, high-frequency October data suggests the housing market has become more resilient to lockdown shocks, thanks to continuous easing efforts from PBoC and MoF.

This evidence points to **a stabilisation of housing sales at end-2022.** Hence, we believe that housing sales are close to their cyclical bottom. The transmission of the easing in housing policy has improved. In 2023, we expect housing sales to post a small gain and become less of a drag on growth. With the help of cyclical easing policies, new home sales may be able to return to 1.2bn square meters (sqm) in 2023. However, the market's long-term fate has been determined by its demographic profile, including a shrinking population, slower household formation, and increasing urbanisation. A couple of conclusions can be drawn for long-term housing equilibrium:

- The urban population will expand by around 10mn per year in next decade, half the pace of the 2010s.
- Demand for new residential homes will decrease by 40% to less than 1bn sqm per year in 2031-35 from 1.54bn in 2019-21.

One case of collateral damage of the collapsing housing market is land sales, which fell by 48% YoY in Q3 2022. This

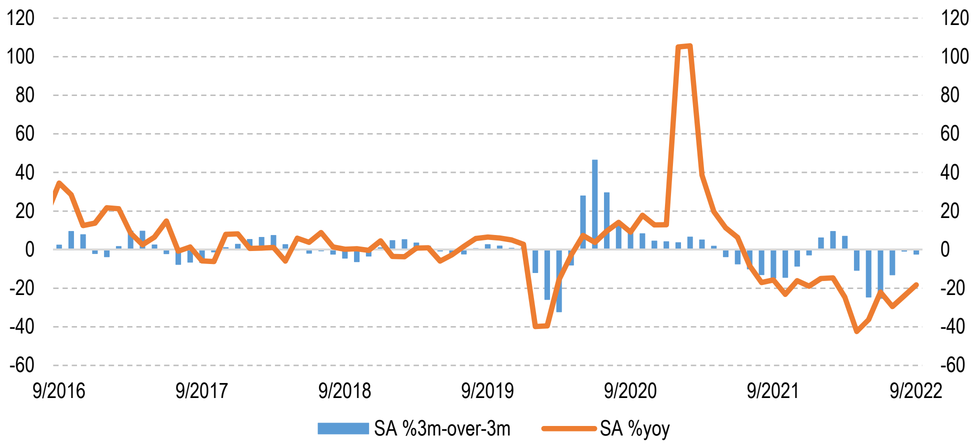
Chinese policymakers will take an incremental approach, and some gradual relaxing of restrictions and setbacks is likely

[1] *SCMP: Coronavirus in China: 'No timeline' for exit from zero-Covid controls*

THIS MONTH'S TOPIC

reduced source of tax revenues and called into question local government fiscal positions, which were temporarily covered by increased bond issuance. Arguably, if the housing market continues its free fall in 2023, the cost will be significant and the incident has a higher chance of becoming a systemic crisis.

1/ Residential housing sales in China



Source: CEIC, Amundi Institute. Data as of October 2022.

China's economic priorities in 2022-27

High-quality growth:

- Raise total-factor productivity;
- Provide an enabling environment for private enterprises;
- Achieve **greater self-reliance** and strength in science and technology;
- Make industrial and supply chains **more resilient and safe;**
- Cultivate **new growth engines** such as next-generation information technology, artificial intelligence, biotechnology, new energy, new materials, high-end equipment, and green industry.
- **New industrialisation:** boost China's strength in manufacturing, product quality, aerospace, transportation, cyberspace, and digital development; accelerate development of the Internet of Things;
- **Increase investment in science and technology** through diverse channels and strengthen legal protection of intellectual property rights;
- Build an efficient logistics system to help cut distribution costs;
- Build a modern infrastructure system, improve urban infrastructure, and upgrade environmental infrastructure.

Financial sector:

- Deepen structural reforms in the financial sector;
- Place all types of financial activities under regulations;
- Increase the share of direct financing;
- Modernise the central bank system.

Regulation:

- Take stronger action against monopolies and unfair competition;
- Break local protectionism and administrative monopolies;
- Advance law-based government administration.

Wages, income and wealth:

- Ensure that personal income grows in step with economic growth;
- Ensure that wages rise in tandem with increases in productivity;
- Raise the share of personal income in the distribution of national income;
- Give more weight to work remuneration in primary distribution;
- Enhance the roles of taxation, social security, and transfer payments;
- Keep the means of accumulating wealth well-regulated.

THIS MONTH'S TOPIC

In the longer run, China's growth will converge down further to 3%

Structural headwinds still there, massive stimulus not on the agenda

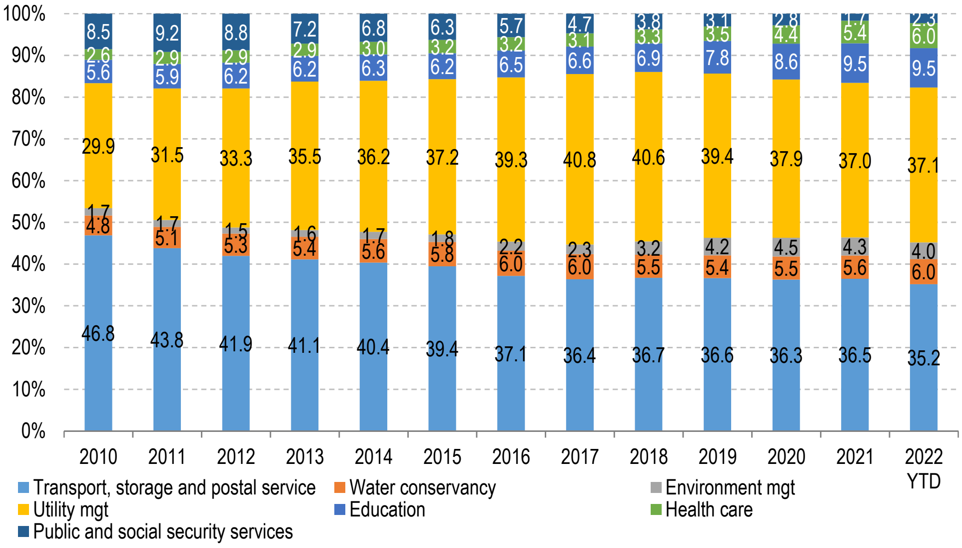
The pressing housing issue brings the market focus back to how fast China can grow in the long term. To solve this equation, there are already two well-known sources contributing to slower potential growth: a fast-aging population and a declining return on capital. There were no hints from the Party Congress that Chinese leaders will opt to inflate the problems away. While addressing the opening ceremony at the Party Congress, President Xi laid out several objectives and tasks for the next five years. His speech[2] strikes a tone that is more balanced between growth, security, and sustainability.

In short, China will pursue a growth model that concentrates resources on raising productivity. However, total-factor productivity is being treated as a residual in the Solow model, and a sudden technology advance or productivity breakthrough is out of predictable territory. Taking the housing sector out of the economy would reduce China growth by 2 percentage points in the long term, assuming the sector manages a soft landing. Infrastructure investment is not only smaller than housing, but also has a lower leverage effect on growth. Besides, tracking where China has spent on infrastructure projects, we found the money is increasingly directed to soft infrastructure, e.g., education, public services, and environment management, while the share of physical infrastructure investments is on a declining trend (see figure 2).

In 2022-24, we expect China to grow by about 4%. The 2022 experience shows how, without services consumption or housing, China can grow at most by 1% per quarter. In the longer run, China's growth will converge down further to 3%.

Finalised on 28 October 2022

2/ Where China spends its money for infrastructure projects



Source: CEIC, Amundi Institute. Data as of October 2022.

[2] *Nikkei Asia: Transcript: President Xi Jinping's report to China's 2022 party congress (18 October 2022).*

THEMATIC

For the Fed, the impossible QT

Bastien DRUT

Head of Thematic Macro Strategy, CPR Asset Management

The Fed's quantitative tightening cannot work in its current format

The Fed has started shrinking its balance sheet as part of its fight against elevated inflation. However, QT is being challenged by the Fed's new role as a counterparty of money-market funds. The process would be greatly improved if the Treasury were to announce a debt buyback financed by the issue of T-bills.

The Fed's QT as a component of the fight against inflation

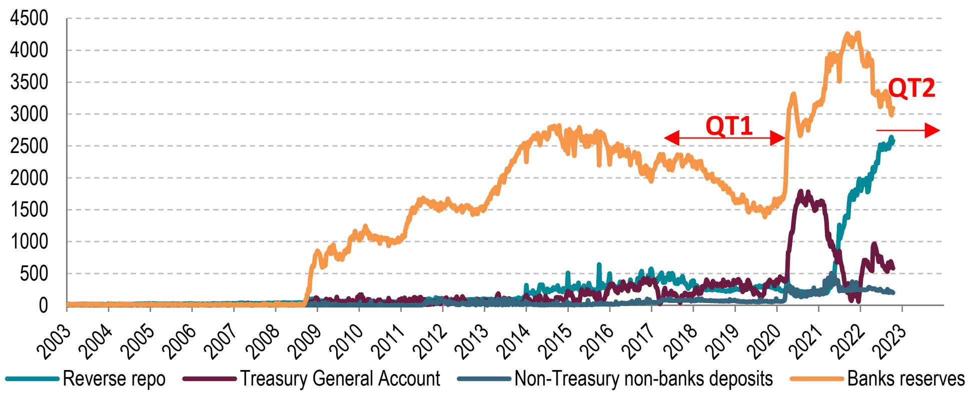
As part of its fight against elevated inflation, the Fed has raised its key rates very rapidly in 2022 and in June began to shrink its balance sheet by non-reinvesting a portion of its maturing agency MBS and Treasury securities. As a reminder, the Fed currently holds \$2.7tn of MBS and \$5.6tn of Treasury securities. One of the motivations behind the process of shrinking the balance sheet, known as 'quantitative tightening' (QT), is the fact that the Fed pays an interest rate on some liabilities: the reserves held by commercial banks and the reverse repo agreements, operations under which the Fed borrows overnight, mostly from money-market funds (MMFs). Recently, the cost of the Fed's liabilities has increased sharply and outpaced the earnings on its assets. These 'losses' could grow if the Fed continues to raise its key rates and if it maintains them at a high level for some time to come. Another motivation of QT is to regain room of manoeuver for 'quantitative easing' (QE) in the future.

A major difference with the previous episode of QT (2017-19)

Embarking on QT is not unprecedented for the Fed. It also did so from end-2017 until September 2019, when a crisis emerged in the US repo market. By then, too much central bank money had been destroyed by QT, money-market rates went out of the Fed's target range, and the Fed had to come back to a 'technical' QE from October 2019.

A large difference between the current QT and the 2017-19 one relates to the composition of the Fed's liabilities: its reverse repo agreements account for around \$2.5tn currently, vs. very small quantities during the previous QT episode. While in 2017-19 QT could only lead to a reduction of commercial banks' reserves held at the Fed, nowadays it could theoretically also lead to a reduction in the Fed's reverse repo agreements. This is due to a shift in US MMFs over the past three years.

1/**Fed: non-currency liabilities (\$bn)**



Source: CPR AM, Datastream. Data as of 20 October 2022.

The impressive rise of US money-market funds

Assets under management (AuM) of US money-market funds (MMFs) exploded with the Covid-19 crisis and have held up since (at some \$5tn), because of the persistent economic uncertainties and the accumulated excess savings of households and corporations. Taking a little more historical perspective, we see that MMFs' AuM increase when key rates are high (or rise) and then deflate in the years following a recession, when key rates are still low and when more attractive investment opportunities appear. This did not happen in this cycle, possibly because the phase where rates remained low was short compared to other cycles. The fact that the Fed has kept raising its Fed funds target range in 2022 – and will possibly do so next year as well – is more likely to boost the MMFs' AuM, rather than lower them: a recent note[1] from Fed economists estimated that they would increase by \$600bn by end-2024.

[1] *Morgan L., Sarver A., Tase M., and Zlate A., 2022, "Bank Deposit Flows to Money Market Funds and ON RRP Usage during Monetary Policy Tightening", Fed papers.*

THEMATIC

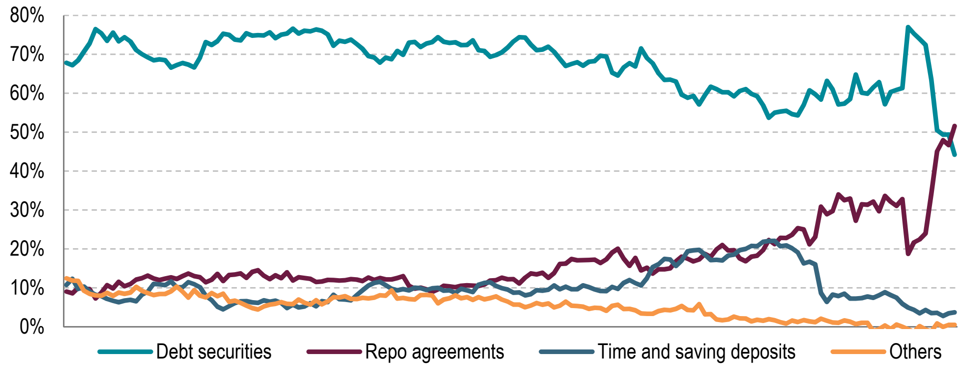
The Fed has initiated a new role as 'borrower of last resort'

A lack of investment opportunities for MMFs

MMFs' AuM should therefore increase, but these funds have had fewer and fewer investment opportunities because of the sharp reduction in the outstanding amounts of T-bills by the US Treasury over the past two years (the stock of T-bills has fallen by approximately $1.5tn over this period)[2]. At this level, something new and rather extraordinary is happening, since the majority of MMFs' assets, which have historically been invested in debt securities, are now made up of repo agreements, almost exclusively with the Federal Reserve as counterparty. The average maturity of MMF portfolios collapsed with the greater weight of repo agreements with the Fed.

In Q2 2022, it was the very first time that over half of the assets of US MMFs consisted of repo agreements. This was facilitated by the Fed, as it had twice raised the limit per counterparty of its reverse repo agreements ($180bn currently) and as it had raised the interest rate on reverse repo agreements in June 2021 compared with the lower end of the Fed funds target range. At that time, Fed Chairman Jerome Powell argued that the move was necessary to "provide a floor for money-market rates and help ensure that the federal funds rate stays within the target range". In other words, it was supposed to be a technical measure in the face of the explosion of liquidity the Fed had created with its QE operations. By doing so, the Fed initiated a new role as 'borrower of last resort', whereas central banks are known for their traditional role as 'lender of last resort' instead.

2/**US money market funds: breakdown of assets**



Source: CPR AM, Datastream. Data as of 20 October 2022.

The 'impossible' QT that FOMC members want

Getting back to the Fed's QT, it seems that there is a form of consensus among FOMC members on the fact that the 'excess of excess liquidity' to be purged corresponds to the amount of the Fed's reverse repo operations, possibly because they are uncomfortable with this new role as 'borrower of last resort'. For QT, FOMC members may prefer to see a decrease in reverse repo agreements instead of a decrease in the commercial banks' reserves. In a recent speech, a New York Fed official[3] expressed confidence in the fact that QT would lower the amount of reverse repo agreements over time as "greater certainty about the economic outlook and the path of policy may also moderate demand for the shortest tenor money market instruments". This may sound like wishful thinking, as there are clearly no signs of a decline of MMFs' AuM for the time being. Consequently, the amounts of reverse repo agreements have gone up strongly, while commercial banks' reserves held at the Fed have fallen sharply since the start of QT. If this trend were to continue for some time, some localised reserves shortage might reappear at some point, as happened in September 2019.

The necessary coordination with the US Treasury

In reality, the Fed's QT cannot work in its current format. For reverse repo operations to fall sharply, the US Treasury would have to change its issuance strategy and issue much more T-bills. This may ultimately be what will happen – with the aim of improving liquidity on the Treasury market, the US Treasury has begun asking primary dealers whether it should buy back securities with long-dated maturities by issuing T-bills. This would be a great way to run QT without lowering the reserves held by commercial banks too far and too fast. **In short, a possible announcement of Treasury buybacks would be positive for financial markets.** Ultimately, this shows that monetary policy cannot work properly nowadays without coordination with the Treasury.

Finalised on 20 October 2022

[2] *In 2020, the Treasury issued a lot of T-bills to rapidly finance the various rescue packages – in particular the CARES act – and has adopted later a financing strategy through long-term bonds and notes, which led to a shrinkage of the stock of T-bills.*

[3] *Zobel P., 2022, "The Ample Reserves Framework and Balance Sheet Reduction: Perspective from the Open Market Desk".*

THEMATIC

False sense of security from easing energy prices

Jean-Baptiste BERTHON
Senior Cross-Asset Strategist, Amundi Institute

Natural gas prices have plunged since their summer peak, supported by ample stocks and by the EU emergency measures. While near-term stress has eased, longer-term supply/demand tightness remains, calling for higher risk premiums. As Russia loses its leverage, demand elasticity and weather might be the new pivotal gas drivers.

Near-term stress eased, longer-term supply/demand risks remain

Demand destruction, liquefied natural gas (LNG) imports and mild weather have helped restore EU inventories. Gas prices have plunged 70% from their summer peak, due to several factors:

- LNG imports have soared, especially from the United States, Norway, and the United Kingdom.
- Demand destruction in response to high prices has intensified, especially from industry, which makes up 40% of EU gas demand. Industrial gas consumption dropped by over 25%, especially in those sectors most sensitive to gas, such as metal fabrication, chemicals, food transformation, and machinery.
- China's gas demand has slowed, due to the country's disappointing economic performance, freeing up some volumes for Europe.
- Finally, mild weather in Europe, as well as encouraging November temperature forecasts, have helped reduce heating demand.

EU countries have now filled 93% of their aggregate storage capacities, a remarkable achievement considering the low starting level in spring 2022, at 26% vs. the seasonal average (35%).

A ballooning energy bill is helping bridge differences across EU countries

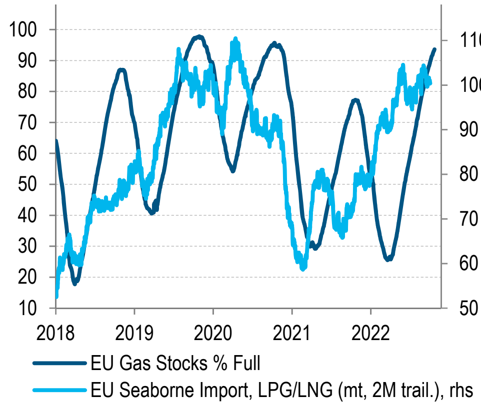
The EU is currently spending an extra €30-40bn per month on its energy bill, that is, an annualised 3% of GDP. That cost looks unsustainable but is helping to bridge EU differences. On 21 October, the EU crossed two of its red lines. Firstly, **member-countries agreed on the principle of a 'dynamic price corridor' to cap gas prices.** Germany overcame its reluctance; while being in a position to outbid other EU countries and having the financial reserves to mitigate the impact of skyrocketing energy bills through subsidies, Germany conceded some of its purchasing power and leeway.

Under this proposal, gas prices would trade in a flexible range, below what EU importers currently pay, but slightly above what overseas importers pay, to offer competitive premiums and reduce supply risks. It would apply across the EU to minimise internal competition. For such a mechanism to be effective, the EU would have to coordinate the distribution of gas across countries, a potential source of disputes. To such a respect, leveraging on the EU's common purchasing power to buy gas could be part of the solution. Importantly, such a price cap should prevent fostering demand by offering consumers artificially lower prices.

The EU is also considering introducing a new gas benchmark, replacing the Dutch Title Transfer Facility (TTF), designed to reflect the growing share of LNG in its imports. As Russian gas flows have dried out, Dutch LNG regasification has saturated, while available spare gas capacities have dwindled. As a result, TTF has decorrelated from other LNG indices and became highly volatile, making it costlier to hedge. As such, it has encouraged the search for alternative references. Yet, creating a liquid and reliable benchmark, both reflecting supply/demand dynamics and constrained EU gas infrastructure, will be challenging.

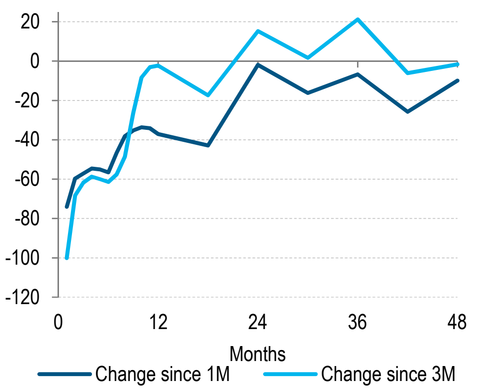
Refiled storage and EU solidarity efforts suggest hard rationing will not be necessary; however, there is no quick fix to replace lost Russian supply

1/EU Inland and Floating Gas Storage Saturation



Source: Comtrade, Amundi Institute. Data as of 23 October 2022.

2/TTF Natural Gas Futures Curve Changes (€/MWh)



Source: GIE, Amundi Institute. Data as of 24 October 2022.

THEMATIC

While aiming at reducing gas price levels and volatility, the price cap mechanism would need simultaneously to address supply security and the impact on demand. Common gas purchases and a new gas benchmark could help despite multiple challenges. The energy crisis might be a litmus test for European solidarity.

Supply/demand dynamics under stress beyond winter

Russia's leverage on gas markets is declining. The relative supply inelasticity puts demand under the spotlight

Fundamental gas drivers are likely to shift in 2023. Yet, with no quick fix to replace Russian volumes, stress would linger for longer. In 2023, LNG imports should rise modestly, by 5 billion cubic meters (bcm). This will not be a game changers. Higher relative EU price premium and new partnerships would make up for declining Norway output. However, LNG imports would be capped by the slow addition of regasification capacity.

Energy outages should also be milder next year. French nuclear reactors are expected to be online again by then, as well as the US Freeport unit, a key hub for LNG exports to the EU. Assuming the 2022 drought does not repeat, hydropower production could normalise. Yet, the ramp-up of other renewable energies is expected to take several years, starting with wind and then moving to solar production. Renewables could add 3 bcm in 2023.

These additions would be offset by an almost full shutdown of Russian flows. EU subsidies and price caps could also discourage energy savings and demand destruction. Demand from China would increase, reviving the EU-Asia competition for gas. Finally, we see no evidence that Dutch authorities are planning to revive the Groningen field, nor do we expect the EU to start pumping its wide underground shale reserves.

Overall, a modest rise in LNG imports and renewable production and fewer outage situations would be offset by a full cut of Russian flows and milder demand adjustment. This would leave the EU vulnerable to weather surprises and meaningful damages inflicted to its gas infrastructures.

Gas is now priced for perfection

Front-end futures are signalling lower near-term stress, not the end of the energy crisis. The drop in gas prices primarily results from higher-than-expected EU gas stocks. Both inland and floating LNG storage are near full capacity, while LNG regasification units are saturated. As such, the EU is struggling to take on more volume, which has sent gas markets into deep contango, with the one-month contract trading above the one-day forward. While front-end futures plunged, back-end futures barely moved, reflecting a still tense situation for winter. **Gas prices might also reflect declining liquidity stress,** thanks to measures to mitigate gas utilities' margin calls and weaker capital base, including easier trading collateral requirements and several bailouts. Bid-ask spreads and price volatility have weakened accordingly.

The sharp drop in prices following the EU emergency measures suggests that **markets have become convinced that necessity may force EU countries to overcome their differences.** While we agree broadly, EU solidarity still has a long way to go and disagreement down the road could be a source of volatility.

At the same time, the **EU vs. Asia gas price premium has vanished,** suggesting a fading gas competition between these regions. Longer-term futures, as well as our expectation of higher Chinese gas demand next year tell yet a different story.

The relative cost of generating electricity still favours coal over gas despite the drop in gas prices. As such, power producers and industrial companies that can choose their energy source still have an incentive to favour coal over gas. **Markets now expect coal to replace increasingly gas as the energy of last resort,** hardly a signal that EU energy crisis is over.

Remaining Russian flows now account for a tiny fraction of EU supply. As such, Russia's leverage on EU gas markets is fading. As a result, **prices would become less sensitive to Russian manoeuvres,** as suggests the fading correlation between TTF and assets sensitive to the Ukraine war.

Demand is now the true variable

After overshooting over summer, gas prices may now complacently factor in the vulnerability of EU energy markets

After overshooting over summer, gas prices may now complacently factor in the vulnerability of EU energy markets. Lost Russian volumes and the slow ramp-up of both gas infrastructures and renewable production would require demand contraction well beyond this winter, with limited room for surprises. **Given the limited supply variability, demand would be the decisive factor in the gas equation.**

The liquidity of gas markets and Russia are expected to have a declining influence on prices. More relevant price drivers for 2023 are likely to be the weather, inventory levels by spring, and demand elasticity . As a result, recession and rates prospects are expected to matter increasingly, too. We expect gas prices to rebound.

Meanwhile, energy inflation is expected to stay elevated. Along with higher rates, industrial demand destruction would hit manufacturing activity and add extra supply-chain disruptions. While the EU is expected to try to better calibrate its subsidies, public deficits are still expected rise. In the longer run, lost Russian supply would prevent EU energy prices from reverting to the old price regime, eroding EU corporate competitiveness and leading some businesses to move their operations abroad, at least until renewables, greater storage and regasification capacities allow the EU to fill the gap.

Finalised on 24 October 2022

CENTRAL & ALTERNATIVE SCENARIOS (12 TO 18 MONTHS HORIZON)

Monthly update

We maintain the probabilities of our scenarios unchanged. Some of the risk factors we identify may occur in our central scenario, which is probably not yet fully priced-in by markets. Risks remain skewed to the downside in the short term, but it would take a combination of several risk factors to trigger the downside scenario at the 12-18 month horizon. At this horizon, we believe that the downside is counterbalanced by an upside scenario, that of a rapid decline in inflation due to an easing of gas prices, a ceasefire in Ukraine, and/or to the combined tightening of global monetary policies, the impact of which can be underestimated.

DOWNSIDE SCENARIO 15%

Deep global slump

Analysis

- Worsening/expanding **war in Ukraine.**
- Energy crisis and **deep recession in Europe.**
- **Covid-19 resurgence.**
- **De-anchoring of inflation expectations,** CB lose control.
- **Recession in China.**
- **Global economic downturn** with, in a second stage, renewed deflationary pressures.
- **Global financial crisis/debt crisis with several EM defaults.**
- **Governments can no longer implement countercyclical fiscal policies.** Decisive action on financial repression.
- **Climate transition measures postponed.**

Market implications

- Favour cash, USD and US Treasuries.
- Play minimum-volatility strategies.
- Gold.

CENTRAL SCENARIO 70%

A stagflationary episode, with rising divergences

Analysis

- **Stalemate in the Ukraine war.** We expect a ceasefire at some point in 2023; in the meantime the situation may deteriorate further.
- **Confidence shock in EU,** due to high energy prices.
- **Covid-19** is an endemic disease.
- **Inflation fails** to return to CB target by 2024.
- Global **nominal GDP to trend higher,** mitigating the impact on earnings.
- **Growth divergences:** recession in the Eurozone and in the United Kingdom, sluggish rebound in China, sub-par growth in the United States (far below potential in 2023).
- **CB divergences:** Fed to continue its tightening cycle, but adopting a less hawkish stance (end of Q4); ECB to raise rates, adopt a passive QT and activate the TPI; PBoC on easing bias.
- **Divergent fiscal policies:** accommodative in the EU, restrictive in the United States in 2022, but more neutral 2023-24.
- **Climate change** disrupts the commodity cycle and adds to stagflationary trends.

Market implications

- Lower risk-adjusted real returns expected.
- Contained steepening of US Treasury yield curve, as well as Eurozone and EM.
- Inflation hedge via gold, linkers, equities, real assets and commodities.
- EM: short-term caution, long-term real income and growth story intact.

UPSIDE SCENARIO 15%

Inflation falls back quickly, ending the stagflationary episode

Analysis

- **Ceasefire in Ukraine paving the way for peace talks.**
- **Russia partially resumes gas exports to Europe,** commodity market normalises.
- **Covid-19** recedes.
- **Inflation falls back quickly,** supply bottlenecks ease.
- **Global recession fears** dissipate and inflation gradually returns to more normal levels, easing pressure on CB.
- **Lower uncertainty,** extra savings and renewed purchasing power can fuel consumption and investment in DM without erosion of corporate margins.
- **Fiscal discipline** gradually restored. In Europe, a new plan (common debt) is put in place to address the changing energy mix.
- **Climate change** policies and energy transitions become first priority.

Market implications

- US Treasury curve to bear steepen.
- Favour risky assets with cyclical and value exposure.
- USD depreciation.
- Favour linkers and equities as an inflation hedge.

Geopolitic · *Covid-19 related topics* · *Growth and inflation expectations* · *Monetary and fiscal policy* · *Recovery plans or financial conditions* · *Solvency of private and public issuers* · *Economic or financial regime* · *Social or climate related topics*

TOP RISKS

Monthly update

We keep the probabilities unchanged for the three families of risks. We see risks growing on all fronts, closely linked to each other. Economic fundamentals are deteriorating globally, which is reflected in the central scenario. The course of the Ukraine war and its potential implications can tip the scenario in either direction, but risks are tilted to the downside in the short term. We consider Covid-19-related risks (including lockdowns in China) as part of the economic risks. Risks are clustered to ease the detection of hedging strategies, but they are obviously related.

ECONOMIC RISK 30%

— **Global recession** driven by an oil/gas shock, a tightening of monetary conditions, and a loss of purchasing power.

— **The *weaponisation* of gas supply** by Russians could cause a **severe energy crisis in Europe,** leading to a **deep recession** (confidence shock).

— **Economic crisis in Eastern Europe** following a collapse of the Russian economy, elevated energy prices, uncontrolled inflation, and a migrant crisis.

— **Disordered CB adjustments**, which underestimate supply-driven inflation and lose control.

— **Global profit recession** triggered by the global slowdown, coupled with persistent input-cost pressures (margin compression).

— **Recession in China.** Zero Covid-19 policy combined with a housing crisis spiralling out of control.

— **End of the great coincidence:** with the persistence of stagflationary pressure, CB and governments' goals are no longer fully aligned: the room for countercyclical fiscal policies is reduced.

— **Pandemic:**
- Risk of a more dangerous and vaccine-resistant variant.
- New lockdowns or mobility restrictions.

— **Climate change**-related natural events hurt growth visibility and social balance.

+ **Cash, linkers, JPY, Gold, USD, Quality vs. Growth, Defensive vs. Cyclicals.**

- **Risky assets, AUD CAD and NZD, EM local CCY.**

FINANCIAL RISK 30%

— **Sovereign debt crisis:**
- An extended war in Ukraine would hurt DM vulnerable public finances with public debt ratios already at historic highs.
- De-anchoring inflation expectations could lead to harsher monetary tightening and to a bond market dislocation.
- Most countries are vulnerable to rating downgrades and rising interest rates.
- Weak EM could face a balance-of-payment crisis and increased default risks.

— **Corporate solvency risk increases,** amid deteriorating fundamentals, rising uncertainty, and corporate margins under pressure (high input cost, double orders lead to profit warnings).

— **Widespread greenwashing and ESG investment bubble undermine the energy transition funding.**

— **USD overshooting** leads to unstable currency markets.

— **Currency wars:** currency appreciation is a way for CBs to fight inflationary pressures.

+ **CHF, JPY, Gold, CDS, optionality, Min Vol.**

- **Oil, risky assets, frontier markets and EMs.**

(GEO)POLITICAL RISK 30%

— **Ukraine war:**
- **Risks are titled to the downside.** There is a **60% likelihood** of a negative development of the war, including a **25% likelihood of direct confrontation with the West.** This risk grows the more Russia faces military defeats.
- Despite our expectation for the conflict to worsen in the meantime, **our base case is an end to hostilities 2023** (most likely H2) at **35%** likelihood.

— Following mid-term election, **the United States will focus on domestic political battles, which will heighten tensions with China,** as Republicans and Democrats compete for hawkishness, **contributing to growing the 'Taiwan' risk in 2023.**

— **EM political instability driven** by higher food and energy prices, leading to a wave of social unrest.

— Iran or Korea **nuclear programmes** renewed concerns and sanctions.

— **Cyber-attack or data compromise,** disrupting IT systems in security, energy, and health services is elevated as Russia seeks to undermine Western support to Ukraine.

+ **DM Govies, Cash, Gold, USD, Volatility, Defensive, Oil.**

- **Credit and equity, EMBI.**

CROSS ASSET DISPATCH: detecting markets turning points

The turning point has occurred | Approaching the turning point | Not reached yet too early to call it

ECONOMIC BACKDROP

- Economic momentum is slowing amid persistently high inflationary pressures and weakening domestic demand. The US economic outlook is deteriorating on the back of progressively tighter financial conditions and recession risks remain prominent for mid-2023. On the European front, we expect a cost-of-living and inflation-driven recession during the upcoming winter season, which we now expect to be deeper than previously expected and followed by a shallow recovery.
- The prolonged stress on the geopolitical front and the tug of war between fiscal and monetary policy make the final economic outcome uncertain, exacerbating data volatility.

FUNDAMENTALS & VALUATION

- Despite some correction in October and apparently decent valuations, it is still difficult to see strong catalysts for entry points.
- Stock multiples look aligned with the current inflationary environment and tight monetary policy, but are not discounting yet any recession risk. In relative value, considering high rates, they are not in favour of risky assets.
- Fundamentals have been worsening further, paving the way for a profit recession scenario.

NEUTRAL + ASSET ALLOCATION

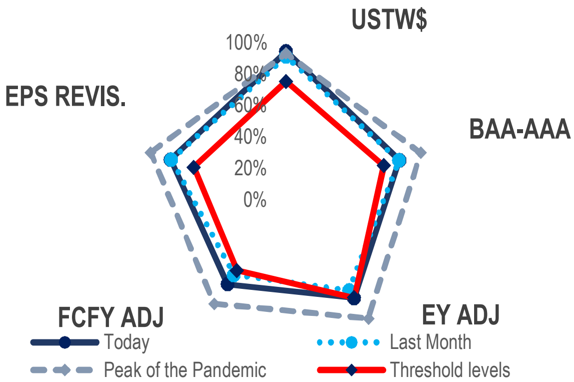
TECHNICALS

- Technicals remain highly volatile in the current market set up. We entered October with risky assets showing fragmented trends, but at the same time being oversold, highlighting the risk of short squeeze in most markets. At present, trends have stabilised and contrarian metrics, while still far from sell signals, have recovered substantially, thus limiting investors' appetite. The picture remains mixed, with technicals failing to show some clear directionality.

SENTIMENT

- Rising financial instability across the globe (BoE and Japan's MoF FX interventions) highlighted downside risks to the central banks ability to keep tightening policy at the same pace. Risky assets enjoyed a relief rally, but risk sentiment metrics failed to support the move. Financial conditions remain tight in all regions, while the USD, credit risk premium, and risk concentration keep fuelling into higher risk-off probability in our CAST and MoMo models, respectively.

Cross Asset Sentinels Thresholds (CAST) – Stay defensive, most sentinels are breaching alerts.



Source: Amundi Institute. Data as of 25 October 2022.

The CAST risk perception failed to show a structural increase in Q1, but has turned less favourable since Q2 and it's not reverting yet EPS revisions have turned negative in response to recession fears and the USD keeps reminding liquidity risks. Credit risk premium remains high and above alert, maintaining the preference for defensive assets.

Methodology: we consider five input variables, called 'sentinels': US trade-weighted dollar, Moody's Baa-Aaa spread, EPS revisions, adjusted earning yield risk, and adjusted cash flow yield risk. These sentinels are used to reposition our tactical asset allocation. Once sound thresholds are detected, the five variables are aggregated as an indicator that anticipates any market stress conditions, with a certain level of conviction. The pentagon visualises the five sentinels, where the red line represents the alert threshold. The greater the distance above the red line, the greater the risk perception, and eventually the need to move closer to a defensive asset allocation.

AMUNDI INSTITUTE CLIPS

1 Quantitative tightening prospects for the main central banks

- The Fed is unlikely to accelerate its pace of quantitative tightening (QT) over the next few months; rather, it will be focusing on keeping policy rates in restrictive territory for a prolonged period of time.
- For the ECB, we believe a reduction in the size of its asset purchase programme is unlikely; instead, we expect TLTRO repayments and redemptions to drive passive QT over the next quarters.
- Uncertainty is high on the BoE's £40bn QT plan, as it will hinge critically on fiscal policy developments.

Investment consequences

- Equity: stay UW.
- Core rates: slight UW/neutral on duration, with rising real yields and the US curve flattening.
- Stay cautious on peripherals.
- Credit: favour IG over HY.

2 US labour market is tight

- We expect the US participation rate to stay lower than its pre-Covid-19 level, as many workers in the 55+ age cohort have left the workforce.
- Since corporates have been experiencing challenges in recruiting skilled workers, now they look more likely to open fewer positions, rather than laying off staff.
- We believe that a structural shift in labour supply and higher labour market frictions may have shifted NAIRU higher, implying that tighter policy is needed to slow the labour market.
- Wage growth has been moderating very mildly.

Investment consequences

- Stay cautious on equity; favour the United States (US) over Europe; on factors, favour Quality, Value, High Dividend, and Min Vol.
- The dollar should strengthen further (EUR/USD cross exchange rate is foreseen at 0.92 and 1.02 in six and twelve months, respectively).

3 Earnings downgrade

- EPS have started experiencing more significant downgrades: 2023 EPS estimates are down 4.2% and 7.6% from their peaks in the US and Europe, respectively.
- The EPS downturn will be mostly driven by margins, as inflation supports top-line and nominal EPS.
- We are using the 1970s and 1980s recessions as a template. Back then, the US peak-to-trough EPS fall was -15% and -19%, respectively. Those EPS downturns lasted 12 and 15 months, respectively.

Investment consequences

- Margins compression, but they remain at high levels, especially in the US.
- Margins are likely to shrink, as the economic downturn accelerates.

4 Lessons from the UK episode: 'tug-o-war' between monetary and fiscal policy

- The UK situation remains unresolved, as the crisis started with a lack of fiscal credibility, sending Gilt volatility to the roof and with spillover into global rates. Hence, the ball is still mostly in the fiscal camp.
- The BoE is in a difficult position, preventing financial instability with temporary supportive measures. It may be forced to extend its support and delay active QT.
- Only a strong political U-turn could help restore some fiscal credibility.

Investment consequences

- UK rates should keep underperforming major countries.
- Short GBP against USD.

5 Private assets

- Rising rates and decelerating economy are weighing on private equity value, as happened during past recessions.

Investment consequences

- Private markets are benefitting from the illiquidity premium, but look expensive and should converge gradually to their fair value.

AMUNDI ASSET CLASS VIEWS

	Asset Class	View	1M change	Rationale
EQUITY PLATFORM	US	=/+		The Fed's monetary policy and corporate earnings are the two main factors that will drive equities in the medium term. While valuations are more attractive than before, the aforementioned factors are not favourable given the Fed is determined to push rate hikes to bring inflation under control (and eventually affect consumption). We continue to look for names showing balance sheet strength, margin resistance and an overlay of quality, value and dividend characteristics.
	US value	+		We are positive on value and prefer names that show quality features, are less cyclical and have the ability to maintain margins. However, we avoid distressed value names where the earnings potential doesn't match the valuation.
	US growth	-		Select growth names have corrected, but growth as a group doesn't present an attractive backdrop in light of rising rates, which that could affect valuations further. We remain cautious and are exploring the quality side of the markets.
	Europe	--		In light of the energy crisis and escalating geopolitical tensions, markets' earnings estimates for 2023 are being revised downwards, but it is likely the impact will also be felt in profit margins. However, companies that can maintain pricing power and strong balance sheets should be able to withstand these pressures and reward shareholders.
	Japan	=		Although low valuations, a weak yen (for exports) and an easing central bank are supportive factors, Japan is a cyclical market that could be affected by the deceleration in global economic growth.
	China	=		China continues to be affected by the government's zero tolerance for Covid and the slowdown in the housing sector. We are monitoring the evolution of its geopolitical relationships with the US and Europe and its fiscal support, which could boost consumer demand. For now, we remain close to neutral, with a possible improving outlook moving into 2023.
	Emerging markets-ex China	=		External vulnerabilities, internal growth momentum and political and geopolitical risks make EM equities a heterogeneous universe. We see deteriorating momentum, particularly in Eastern Europe, where we avoid Hungary and Poland. On the other hand, we like Brazil and the UAE but are cautious on Taiwan and South Korea.
FIXED INCOME PLATFORM	US govies	=		The high inflation prints strengthen the Fed's resolve to hike rates, even at the cost of damaging the economy. While we are neutral on duration at the moment, we remain active and inclined to upgrade our view depending on how far UST yields increase. Real yields (TIPS) have reached their highest levels in more than a decade, making them attractive.
	US IG corporate	=/+		IG spreads are not far from their long-term average, but bond yields are at multi-year highs, even as corporate fundamentals look strong. We are selective and believe investors should consider keeping their portfolio beta stable and balance the need for quality with liquidity and income.
	US HY corporate	-		As the Fed continues its tightening path, we think financing costs could rise for low-rated companies. This, coupled with liquidity constraints and potential cash flow problems from slowing demand, makes us defensive on HY.
	European govies	=		We are close to neutral in core Europe, but retain the flexibility to adjust this stance depending on what narrative is driving the market – economic growth concerns or high inflation (and therefore a hawkish ECB). In the peripheral debt markets, a tightening ECB, with a limitation to avoiding fragmentation in ECB, leads us to be cautious.
	Euro IG corporate	=		We believe that valuations are reasonable but geopolitical tensions persist and economic growth is weakening. On the other hand, company fundamentals are strong but companies are using their cash reserves. We are monitoring cash levels and avoiding segments with high debt. Overall, we keep our neutral stance.
	Euro HY corporate	-		While default rates remain low, a deteriorating economic backdrop could affect cash flows and a hawkish ECB may cause volatility in spreads. Thus we remain cautious, with an eye on liquidity, potential refinancing risks and quality.
	China govies	=/+		The diversification benefits of Chinese debt for global investors make the asset class attractive, along with the limited prospects of any significant monetary tightening in the medium term.
	EM bonds HC	=/+		EM debt is under pressure from the DM tightening cycle, but we see selective opportunities in HC, with a preference for HY over IG. This is true for countries where government finances are improving and external vulnerabilities are limited. We also like commodity exporters such as the UAE and Brazil and are vigilant on other sovereign defaults.
	EM bonds LC	=		We are very selective in LC, favouring countries in which central banks have brought inflation under control and those that provide attractive carry (Brazil). However, EM FX has been hurt by the USD strength, so some stability in US rates is needed for us to see value in the FX and LC bond space.
OTHER	Commodities			Oil prices are likely to remain capped by economic concerns in the short term, but supply-side issues (tight OPEC+ spare capacity, potential EU ban on Russian crude) mean the risks are tilted to the upside. On gold, while rising real rates are not supportive, the metal may act as a good diversifier, particularly if CBs (i.e., the Fed) alter their hawkish views next year.
	Currencies			We believe the USD should strengthen in the near term as high core inflation should lead the Fed to maintain its tightening stance. A dovish pivot from the Fed is the main catalyst that could invert this trend. However, we are negative on the GBP.

LEGEND

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	Negative		Neutral		Positive		Downgrade vs previous month	Upgraded vs previous month

Source: Amundi, as of 27 October 2022, views relative to a EUR-based investor. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product.
IG = investment grade corporate bonds, HY = high yield corporate, EM bonds HC/LC = EM bonds hard currency/local currency, WTI = West Texas Intermediate, QE = quantitative easing.

DEVELOPED COUNTRIES

Macroeconomic outlook

Data as of 3/11/2022

Annual averages (%)	Real GDP growth %			Inflation (CPI. yoy. %)		
	2022	2023	2024	2022	2023	2024
World	3.4	2.2	2.7	8.3	6.2	3.9
Developed countries	2.6	0.3	1.0	7.6	5.1	2.5
US	1.9	0.8	0.6	8.1	4.1	2.3
Japan	1.6	0.5	1.2	2.3	1.3	0.4
UK	4.4	-0.6	1.1	9.1	7.7	3.8
Eurozone	3.2	-0.7	1.1	8.7	7.5	3.2
Germany	1.7	-0.7	1.0	9.0	7.6	3.1
France	2.5	0.0	1.0	6.1	5.3	3.0
Italy	3.7	-0.4	0.8	8.9	8.1	3.2
Spain	4.5	0.3	1.3	8.6	4.3	3.4

Source: Amundi Institute.

- **United States:** we cut our growth expectations on the back of tight and fast monetary policy action. We call for an extended period of sub-par growth for 2023-24, with increased downside risks from H2 2023. Should monetary policy become even more aggressive than anticipated, a recession may be unavoidable. Inflation: While headline inflation has peaked and should decelerate progressively, core inflation will remain sticky and close to current levels for a few months, before declining slowly, although remaining above target.
- **Eurozone:** we see a cost-of-living-driven recession during the 2022-23 fall-winter season, followed by a shallow recovery, as price levels remain elevated. We expect the Eurozone economy to contract by -0.5% in 2023 and to recover to 1.3% in 2024 , with downside risks into the 2023-24 winter season. Inflation: We believe inflation has to peak yet, rising into double-digit territory in Q4 2022-Q1 2023 (September 9.9%) and decelerate towards 4.0% by Q4 2023, staying well above target over the forecasting horizon. The outlook remains highly uncertain as highlighted by recent geopolitical events.
- **United Kingdom:** Growth: we foresee a recession extending for a few quarters, driven by increased cost of living and tight financial conditions. We expect the economy to contract in 2023 and then recover, expanding by 1.3% in 2024. Inflation: we expect inflation to remain elevated and in double-digit territory until Q1 2023 and peak in Q4 2022. Political uncertainty is adding further noise to the economic outlook.
- **Japan:** as the economy reopened fully in October, it will be boosted by resumed travel and services consumption in Q4. This positive catalyst will postpone Japan's recession to early 2023. The expected global economy slowdown to 2.2% in 2023 will be the main driver of Japan's growth. Meanwhile, the increase in underlying inflation is just at its initial stage. We expect core inflation (ex fresh food & energy) to climb above 2.0% in Q4 2022 and Q1 2023. The wage negotiation round due next spring will be a focal point, especially if unions can get wage rises above 3%.

Key interest rate outlook

	4-11 2022	Amundi +6M	Consensus +6M	Amundi +12M	Consensus +12M
US	4.00	5.00	5.10	5.25	5.00
Eurozone	1.50	2.50	2.80	2.50	3.00
Japan	-0.10	-0.10	0.02	-0.10	0.09
UK	3.00	4.50	4.50	4.75	4.70

Source: Amundi Institute.

Monetary policy agenda

Central banks	Next meeting
Federal Reserve FOMC	**14 December**
ECB Governing Council	**15 December**
Bank of England MPC	**15 December**
Bank of Japan MPM	**20 December**

Source: Amundi Institute.

- **Fed:** we expect the FOMC to deliver a fourth 75bp rate hike at its November meeting. Following the upward revision in inflation forecasts for Q4 2022 and Q1, Q2, and Q3 2023 and according to our expectation for core inflation to surprise on the upside further, we upgraded our Fed terminal rate forecast to 5.25% from 5.00%. This expectation is based on the following assumption: 75bp hike in November, 50bp in December, 50bp in February, and 25bp in March. We see further upward pressure on the terminal rate in the short term. However, the stronger the monetary policy tightening, the higher the risk of having a strong deterioration in economic growth in H2.
- **ECB:** at its October meeting, the ECB raised its policy rates by 75bp with the deposit rate now at 1.5% and announced changes to the terms of the targeted long-term refinancing operations. By acknowledging the substantial progress made so far in policy normalisation, the ECB sent an important message through a more dovish tone, mainly on the back of deteriorating economic outlook. We expect the ECB to slow the pace of rate hikes in the next meetings. Accordingly, we cut our projection on terminal deposit rate from 2.75% to 2.50%.
- **BoJ:** as the dollar-yen exchange rate weakened to 150, a 32-year low, MoF intervened on the FX market to slow such depreciation. Meanwhile, the BoJ had to defend its yield-control targets by offering emergency purchases of JGBs. The unprecedented dollar strength and monetary policy gap are exerting upward pressure on JGB yields, as a weaker yen feeds into stronger imported inflation, driving markets to bet that the BoJ will eventually follow up with tightening. However, so far the BoJ has stick to its ultra-loose monetary policy, repeating that wage growth needs to be seen for sustained inflation to emerge.
- **BoE:** we expect the BoE to deliver a 75bp rate hike at its November meeting, following the two previous hikes of 50bp each. The scaling back of most of the fiscal package previously announced is seen lowering medium-term inflation and gives the BoE a way to less aggressive tightening than the one that would have been induced by the initial package. At the same time, on the back of high inflationary pressures in the short term, we expect the BoE to keep its current stance, with a terminal rate forecast in the 4.50-4.75% area.

EMERGING COUNTRIES

Macroeconomic outlook

Data as of 3/11/2022

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2022	2023	2024	2022	2023	2024
World	3.4	2.2	2.7	8.3	6.2	3.9
Emerging countries	4.0	3.5	3.9	8.8	6.9	4.8
China	3.2	4.5	4.3	2.1	2.2	2.1
Brazil	3.1	0.9	1.6	9.3	4.3	4.1
Mexico	2.6	0.7	0.6	8.0	5.8	4.2
Russia	-3.3	-1.5	2.0	13.9	7.5	4.5
India	7.3	5.6	6.0	6.9	6.3	6.0
Indonesia	5.3	4.8	4.7	4.3	5.0	4.1
South Africa	1.7	1.2	1.5	6.8	5.6	4.8
Turkey	5.3	3.1	4.4	73.1	53.7	24.1

Source: Amundi Institute.

- **China:** Q3 growth came in stronger than expected at 3.9%YoY (Amundi: 3.4%). Solid headline growth, in part due to a rebound of trade surplus, masked the uneven recovery in domestic demand. Consumption remain soft except for auto sales, while investment growth was underpinned by public projects. We revise China's 2022 growth up to 3.2% from 2.9%, given the better-than-expected Q3 result. At the same time, we cut our 2023 growth forecast to 4.5% from 5.2% on a dimmer Covid-19 policy outlook. Delayed reopening alone will lower growth by 1pp.
- **Malaysia:** in October, in a few days, the government presented the 2023 budget and called for early election to be held on 19 November. The 2023 fiscal deficit was set on a very mild consolidation path, as expenditure is reallocated from the pandemic fund to capex, while revenues should decline from the robust 2022 level (commodity-related). The budget announcement lacks any exit plan from the high subsidies disbursed, as well as any plan for structural measures to increase the revenue flow (VAT). The vote should bring stability, but is unlikely to change what people voted for in 2018, that lasted less than two years.
- **South Africa:** inflation is subdued compare to peers (7.5% YoY) and has likely peaked (growth expected to slowdown, while global inflationary pressures should fade). However, SARB will have to hike further, as i) ZAR might be pressured by Fed's tightening, ii) still much uncertainty on some commodity and food prices and iii) wants to anchor inflation expectations. Thanks to robust tax revenue growth mainly driven by high commodity prices and strong import taxes, public deficit is expected to be below 5% of GDP for FY 2022-23, but to widen next year.
- **Brazil:** robust YTD economic activity is inflecting lower, as tight monetary policy is starting to weigh on credit dynamics and low-hanging reopening fruits are no longer available. Still, the economy will grow by around 3% this year, slowing to some 1% in 2023. Inflation peaked in April and keeps moderating. The BCB is on a hawkish wait-and-see mode, evaluating the impact of the aggressive hiking cycle that took rates to 13.75%.

Key interest rate outlook

	28-10 2022	Amundi +6M	Consensus +6M	Amundi +12 M	Consensus +12 M
China	3.65	3.65	3.65	3.65	3.65
India	5.90	6.15	6.20	6.15	6.15
Brazil	13.75	12.25	13.1	10.00	10.80
Russia	7.50	7.00	7.00	6.50	6.75

Source: Amundi Institute.

- **PBoC (China):** we expect the PBoC to keep its easing bias throughout H1 2023, with further LPR cuts likely, in particular for the dive-year tenor to support housing sales. China's economy remains weak, hit by the housing slowdown and Covid-19 restrictions. As the government indicates there is no timeline for reopening, we believe the PBoC is in a reactive position; it has to maintain an accommodative stance to stabilise the housing market, prevent a broader economic meltdown and spreading of systemic risks.
- **RBI (India):** the RBI has recently called for an additional MPC meeting on 3 November, before the official one schedule in early December. While the central bank has to explain formally to the Government the reasons for inflation remaining above the target after three quarters -- automatic mechanism) -- the RBI remains on a hiking path for domestic and external reasons. Indeed, the RBI may take advantage of this newly scheduled meeting (soon after the FOMC one) to hike again the policy rate, though in a smaller size than recent hikes (25bp).
- **BCB (Brazil):** done hiking, hawkish wait-and-see in place. While the Fed is still front-loading rate hikes in order to deflate the economy and the labour market, the BCB has wrapped up its extensive (1.5 years long) and aggressive (COPOM raised rates by 12pp to 13.75%) rates hiking cycle by now. The CB is by no means entertaining cutting rates at this point in line with its split (first since 2016) September decision, at which the tightening cycle was halted. Instead, the BCB will continue evaluating the impact of the hikes on growth and inflation that affect the economy with a lag.
- **CBR (Russia):** the CBR cut the policy rate further on 15 September, by 50bp to 7.5%. The main reasons for the cut were declining inflation and subdued consumer demand. However, the CBR referred to the external environment remaining challenging. The CBR's message was balanced (less cutting bias), referring to risks from the potential direction of fiscal policy and the reaction of external markets. Inflation keeps declining, down to 13.7% YoY in September from 17.1% in May. We expect another 50bp cut from CBR over the next six months and possibly additional 50bp after that.

Monetary policy agenda

Central banks	Next communication
PBoC	**21 November**
RBI	**7 December**
BCB Brazil	**7 December**
CBR	**17 December**

Source: Amundi Institute.

MACRO AND MARKET FORECASTS

Macroeconomic forecasts

3 November 2022

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2022	2023	2024	2022	2023	2024
US	1.9	0.8	0.6	8.1	4.1	2.3
Japan	1.6	0.5	1.2	2.3	1.3	0.4
Eurozone	3.2	-0.7	1.1	8.7	7.5	3.2
Germany	1.7	-0.7	1.0	9.0	7.6	3.1
France	2.5	0.0	1.0	6.1	5.3	3.0
Italy	3.7	-0.4	0.8	8.9	8.1	3.2
Spain	4.5	0.3	1.3	8.6	4.3	3.4
UK	4.4	-0.6	1.1	9.1	7.7	3.8
China	3.2	4.5	4.3	2.1	2.2	2.1
Brazil	3.1	0.9	1.6	9.3	4.3	4.1
Mexico	2.6	0.7	0.6	8.0	5.8	4.2
Russia	-3.3	-1.5	2.0	13.9	7.5	4.5
India	7.3	5.6	6.0	6.9	6.3	6.0
Indonesia	5.3	4.8	4.7	4.3	5.0	4.1
South Africa	1.7	1.2	1.5	6.8	5.6	4.8
Turkey	5.3	3.1	4.4	73.1	53.7	24.1
Developed countries	2.6	0.3	1.0	7.6	5.1	2.5
Emerging countries	4.0	3.5	3.9	8.8	6.9	4.8
World	3.4	2.2	2.7	8.3	6.2	3.9

Key interest rate outlook

Developed countries

	4 Nov 2022	Amundi +6M	Consensus +6M	Amundi +12M	Consensus +12M
US	4.00	5.00	5.10	5.25	5.00
Eurozone	1.50	2.50	2.80	2.50	3.00
Japan	-0.10	-0.10	0.02	-0.10	0.09
UK	3.00	4.50	4.50	4.75	4.70

Emerging countries

	28 Oct 2022	Amundi +6M	Consensus +6M	Amundi +12M	Consensus +12M
China	3.65	3.65	3.65	3.65	3.65
India	5.90	6.15	6.20	6.15	6.15
Brazil	13.75	12.25	13.10	10.00	10.80
Russia	7.50	7.00	7.00	6.50	6.75

Long-term rates outlook

Two-year bond yields

	4 Nov 2022	Amundi +6M	Forward +6M	Amundi +12M	Forward +12M
US	4.75	4.50/4.70	4.71	4.30/4.50	4.57
Germany	2.10	1.80/2.00	2.11	1.80/2.00	1.96
Japan	-0.04	-0.10/0.00	-0.01	-0.10/0.00	0.01
UK	3.05	3.90/4.10	3.03	3.90/4.10	3.39

Ten-year bond yields

	4 Nov 2022	Amundi +6M	Forward +6M	Amundi +12M	Forward +12M
US	4.14	4.00/4.20	4.18	3.90/4.10	4.17
Germany	2.25	2.30/2.50	2.29	2.30/2.50	2.29
Japan	0.26	0.10/0.30	0.37	0.10/0.30	0.47
UK	3.49	3.70/3.90	3.60	3.70/3.90	3.72

Currency outlook

	31 Oct 2022	Amundi Q2 2023	Consensus Q2 2023	Amundi Q4 2023	Consensus Q4 2023
EUR/USD	0.99	0.92	1.00	1.04	1.05
USD/JPY	149	140	140	130	135
EUR/GBP	0.86	0.88	0.88	0.90	0.88
EUR/CHF	0.99	0.92	0.98	1.00	1.00
EUR/NOK	10.28	10.31	9.90	9.97	9.70

	31 Oct 2022	Amundi Q2 2023	Consensus Q2 2023	Amundi Q4 2023	Consensus Q4 2023
EUR/SEK	10.91	10.97	10.60	10.65	10.35
USD/CAD	1.36	1.40	1.32	1.30	1.30
AUD/USD	0.64	0.62	0.68	0.71	0.70
NZD/USD	0.58	0.56	0.61	0.61	0.63
USD/CNY	7.31	7.10	7.10	6.80	7.00

Source: Amundi Institute

DISCLAIMER TO OUR FORECASTS

The uncertainty around the macro forecasts is very high, and it triggers frequent reassessments any time fresh high frequency data are available. Our macroeconomic forecasts at this point include a higher qualitative component, reducing the statistical accuracy and increasing the uncertainty through wider ranges around them.

METHODOLOGY

— Scenarios

The probabilities reflect the likelihood of financial regimes (central, downside and upside scenario) which are conditioned and defined by our macro-financial forecasts.

— Risks

The probabilities of risks are the outcome of an internal survey. Risks to monitor are clustered in three categories: Economic, Financial and (Geo)politics. While the three categories are interconnected, they have specific epicentres related to their three drivers. The weights (percentages) are the composition of highest impact scenarios derived by the quarterly survey run on the investment floor.

PUBLICATIONS HIGHLIGHTS

THEMATIC PAPERS MACROECONOMICS

Themes at a glance: Only a new policy regime can stop rampant inflation, but don't count on it yet (26-08-2022)
BLANQUÉ Pascal, Chairman Amundi Institute

Themes at a glance: Gas rationing impact on European economy (29-07-2022)
DEFEND Monica , Head of Amundi Institute - SANDRINI Francesco, Head of Multi-Asset Strategies - USARDI Annalisa, Cross Asset Research, Senior Macro Strategist Amundi Institute

THEMATIC PAPERS PORTFOLIO STRATEGY

How do institutions segment their investment universe? (25-10-2022)
PORTELLI Lorenzo, Head of Cross Asset Research - Amundi Institute -TAZÉ-BERNARD Eric, Senior Advisor - Amundi Institute

Articulating asset allocation across different time horizons (6-09-2022)
FRANCERIES Karin, Head of OCIO advisory - PORTELLI Lorenzo, Head of Cross Asset Research - Amundi Institute - Tazé-Bernard Eric, Senior Advisor - Amundi Institute

THEMATIC PAPERS GEOPOLITICS

Themes in depth: Angst in the global FX village (30-09-2022)
Pascal BLANQUÉ, Chairman, Amundi Institute - Tristan PERRIER, Macroeconomist and Investment Insights, Amundi Institute

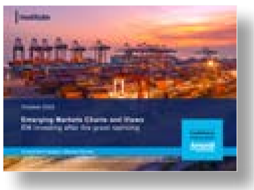
Themes at a glance: Upheaval in the global FX regime (30-09-2022)
Pascal BLANQUÉ, Chairman, Amundi Institute - Tristan PERRIER, Macroeconomist and Investment Insights, Amundi Institute

THEMATIC PAPERS GREEN & SOCIAL

Themes in depth/ Artificial intelligence for sustainable finance: why it may help (13-10-2022)
BRIERE Marie, Head of the Investor Research Center, Amundi Institute - KEIP Matthieu, Innovation Lead, Amundi Technology - LE BERTHE Tegwen, Head of ESG Scoring & Methodology

Themes at a glance/ Artificial Intelligence and ESG: How do they fit? (13-10-2022)
BRIERE Marie, Head of the Investor Research Center, Amundi Institute - KEIP Matthieu, Innovation Lead, Amundi Technology - LE BERTHE Tegwen, Head of ESG Scoring & Methodology

INVESTMENT INSIGHTS MARKET STORIES



Emerging Markets Charts and Views - EM investing after the great repricing (27-10-2022)
SYZDYKOV Yerlan, Global Head of Emerging Markets - DEFEND Monica, Head of Amundi Institute

INSIGHTS PAPERS

Time to refocus on bonds - Rethinking portfolios after the great repricing (28-09-2022)
MORTIER Vincent, Group Chief Investment Officer - DEFEND Monica, Head of Amundi Institute

PUBLICATIONS HIGHLIGHTS

INVESTMENT TALKS

A dovish pivot from the ECB: Euro bonds back in focus (28-10-2022)
AINOUZ Valentine, Head of Global Fixed Income Strategy – Amundi Institute -DAUPHINE Gilles, Deputy Head of Fixed Income

UK market turmoil points towards further volatility in global currencies (28-09-2022)
BERTONCINI Sergio, Senior Fixed Income Research Strategist – Amundi Institute - CESARINI Federico, Head of DM FX, Cross Asset Research Strategist - Amundi Institute - CROSNIER Laurent, Global Head of FX - USARDI Annalisa, Cross Asset Research Senior Macro Strategist – Amundi Institute

Italy election: no major surprise from the polls, maybe positive for markets (27-09-2022)
BERTONCINI Sergio, Senior Fixed Income Research Strategist - FERRARESE Elena, Head of Italian Equity - MARASCIULO Cosimo, Deputy Head Alpha Fixed Income Euro - USARDI Annalisa, Cross Asset Research, Senior Macro Strategist Amundi Institute

20-21 September FOMC meeting: the move into restrictive territory (23-09-2022)
Jonathan DUENSING, Head of US Fixed Income - Timothy ROWE, Director of Multi-Sector Fixed Income - Paresh UPADHYAYA, Director of Fixed Income and Currency Strategy - Alessia BERARDI, Head of Emerging Macro & Strategy Research, Amundi Institute

ECB meeting: bold rate hike; watch out for more to come (13-09-2022)
AINOUZ Valentine, Deputy Head of Developed Markets Strategy Research, Amundi Institute - DAUPHINE Gilles, Deputy Head of Fixed Income

WORKING PAPERS

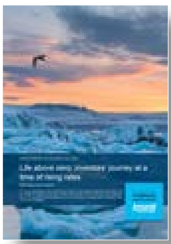
Capital Commitment (10-10-2022)
GOURIER Elise, ESSEC Business School and CEPR - PHALIPPOU Ludovic, University of Oxford, Said Business School - WESTERFIELD Mark M., University of Washington, Foster Business School

Fast Filtering with Large Option Panels: Implications for Asset Pricing (04-10-2022)
DUFAYS Arnaud, EDHEC - JACOBS Kris, Bauer College of Business, University of Houston - LIU Yuguo, University of Houston - ROMBOUTS Jeroen V.K., ESSEC Business School, France

Real-Time Macro Information and Bond Return Predictability: A Weighted Group Deep Learning Approach (22-09-2022)
FAN Yinghua, City University of Hong Kong - FENG Guanhao, City University of Hong Kong - FULOP Andras, ESSEC Business School, Paris-Singapore - LI Junye, Fudan University

Altruism or Self-Interest? ESG and Participation in Employee Share Plan (19-09-2022)
Marie BRIERE, Head of Investor Intelligence and Academic Partnerships, Amundi Institute - Maxime BONELLI, HEC Paris - François DERRIEN, HEC Paris

INVESTMENT OUTLOOK



H2 2022 Investment Outlook - Life above zero: investors' journey at a time of rising rates (01-07-2022)
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NOTES

NOTES

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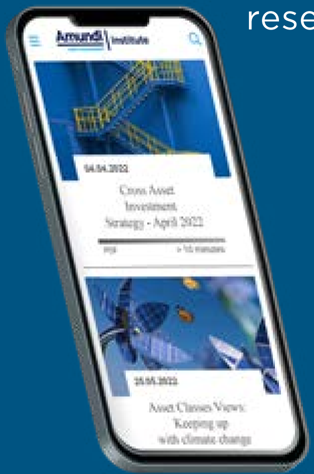

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