



March 2024

TOPIC OF THE MONTH

6 questions concerning the weakness behind US resiliency

GLOBAL INVESTMENT VIEWS

Markets, economy and
valuations: debate rages on

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TABLE OF CONTENTS

TOPIC OF THE MONTH	
6 questions concerning the weakness behind US resiliency	4
MACROECONOMICS, GEOPOLITICS, AND STRATEGY	
Macroeconomic focus	7
Emerging markets	8
Macroeconomic snapshot	9
Central banks watch	10
Geopolitics and policy	11
Scenarios and risks to central scenario	12
Amundi Investment Institute models	13
Key monthly charts	14
Commodities and currencies	16
GLOBAL INVESTMENT VIEWS	
CIO views	18
Markets, economy and valuations: debate rages on	
Three hot questions	20
Asset class views	21
MACROECONOMIC AND FINANCIAL MARKET FORECASTS	
	25





**MONICA
DEFEND**

HEAD OF AMUNDI
INVESTMENT INSTITUTE

“While we expect the Fed, Bank of England and ECB to start rate cuts around June, we will keep an eye on the pace of disinflation for any surprises.”



**VINCENT
MORTIER**

GROUP CHIEF
INVESTMENT OFFICER

“An extension of the economic cycle is keeping us close to neutral on risk, but we are monitoring the uncertainty regarding domestic US consumption and extreme valuations in some segments.”



**MATTEO
GERMANO**

DEPUTY GROUP CHIEF
INVESTMENT OFFICER

“While we remain neutral on DM equities, EM such as India and those in Latin America, offer opportunities based on strong fundamentals of economic growth, domestic consumption and exports.”



TOPIC OF THE MONTH

6 questions concerning the weakness behind US resiliency

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KEY TAKEAWAYS

The US economy is showing signs of deceleration, with falling profit margins and a decline in the leading economic index suggesting a potential slowdown in the coming quarters.

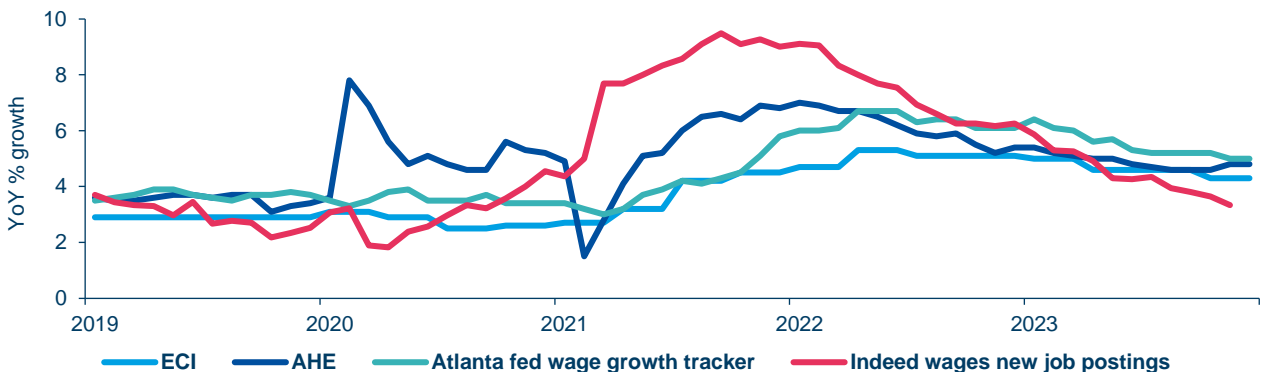
Rising delinquency rates on credit card and auto loans signal increased financial stress, especially among younger and lower-income households.

Restrictive monetary policy and high mortgage rates are contributing to low housing market activity and this trend should also continue in 2024.

Do you see recent US data pointing to stubborn inflation? In January we had some upside surprises, encompassing import prices, producer prices, both headline and core CPI, and the PCE deflator. We think prices were in part boosted by seasonal factors which are not fully accounted for in the usual seasonal adjustment, something that also happened last year. While part of core services inflation remains supported by buoyant domestic demand, we expect core disinflation to continue over the rest of the year as shelter, and rent inflation in particular (a major part of the services component of inflation), move lower.

Can the US economy remain as resilient in 2024? What about consumption? The weakness in January retail sales and a downward revision of November and December readings signal, in our opinion, **a potential downshift in consumer spending** – some survey data, such as Michigan consumer confidence, are down for the first time in six months. Some of the weakness was likely a payback following the rise in holiday spending. But we believe that real excess savings are being squeezed by ongoing high prices and the increased cost of borrowing, which are not accounted for in the inflation index, and we expect this to translate into **further moderation ahead**.

CHART: Wage growth is expected to moderate towards more normal levels



Source: Amundi Investment Institute, Bureau of Labour Statistics, Indeed, Atlanta FED. Data is as of 29 February 2024. ECI = Employment Cost Index, AHE = Average Hourly Earnings all employees.



Mentioning the increased borrowing costs from households, what are the recent trends? Credit Card and Auto Loan Delinquency Rates continue to rise according to the New York Fed report; consumption so far has been supported by the depletion of excess savings but US households have also taken on more debt, and some of those loans are becoming delinquent, especially credit card and auto loans, which are now above pre-Covid levels. About 8.5% of credit card balances and 7.7% of auto loans moved into delinquency in the fourth quarter. This uptrend signals increased financial stress, especially among younger and lower-income households. Higher interest rates have kept monthly payments elevated and this is hitting purchasing power.

What is your assessment of the labour market? The labour market is giving **mixed signals**. While payrolls posted upside surprises and the unemployment rate remains historically low, we see slowing cyclical employment and falling weekly hours (which are now back to pre-Covid levels) as evidence of slowing labour demand. Indeed, the low participation rate may have extended labour hoarding and companies may delay headcount reduction. But the labour market behaviour of workers is changing: the quit rate has been declining indicating that workers are finding it more difficult to switch jobs and many more workers holding two or more jobs; employment growth has stalled in the households survey; job vacancies and hiring are falling. In our view, this suggests a **weakening in employment growth ahead and weaker wage growth as well**.

How do you see wage growth evolving? Importantly, employment costs are moderating: the Employment Cost Index (ECI) is moving (slowly) lower, in line with our expectations and with projections related to the quit rate dynamics; wage growth, as measured by the Atlanta Fed, shows significant moderation from its peak, while wage growth from Indeed's data on new job postings shows that wage growth is now back to the 2019 range, suggesting wage growth normalisation will continue.

What other signs are pointing to a significant slowdown ahead?

Leading indicator: the Conference Board's Leading Economic Index dropped for the 22nd straight month in January, continuing to point towards a recession. This indicator suggests that weakness may start becoming more visible. Normally we would have expected a recession earlier, but this time around fiscal policy has been unusually active given low unemployment, together with excess household savings.

Industrial production stagnating: if computer and defence production have been strong and rising, overall manufacturing production has been deteriorating, driven by consumer-oriented companies in particular. Regional Fed manufacturing indicators remained on a weak trend and the latest manufacturing ISM posted its 16th straight month below 50, indicating protracted difficulties in manufacturing.

Falling profit margins: declining profit margins (e.g. S&P 500, as per FactSet), will incentivise companies to cut unprofitable investments and unnecessary costs. Also, a weak outlook for profits of small businesses (as reported by the NFIB survey), which account for around 40% of employment in the US, are in recessionary territory. This should prompt likely reductions in non-residential investments, capex and employment.

Gross Domestic Product vs Gross Domestic Income: real GDP has reaccelerated, while real GDI, which should be driving demand, has been flattish for seven quarters, something that is very unusual. The divergence between GDP and GDI suggests an increased reliance on borrowing and running down savings to fund demand, but we think that this situation will have to correct, especially in a higher rate environment.

Restrictive Monetary Policy: housing market activity (sales transactions) in 2023 was at a 20-year low due to high mortgage rates. Some have suggested it should recover in 2024. But we note that 30-year mortgage rates have again risen above 7%. Housing activity will likely stage a rebound but from a very low base.

The labour market is showing signs that it is slowing with declining average weekly hours, a low participation rate, and a decline in job vacancies and hiring.

The leading indicator, industrial production, and regional manufacturing indicators all point to a potential economic slowdown.



MACROECONOMICS,
GEOPOLITICS,
AND STRATEGY



MACROECONOMIC FOCUS

European PMIs recovering, but manufacturing / services dichotomy persists

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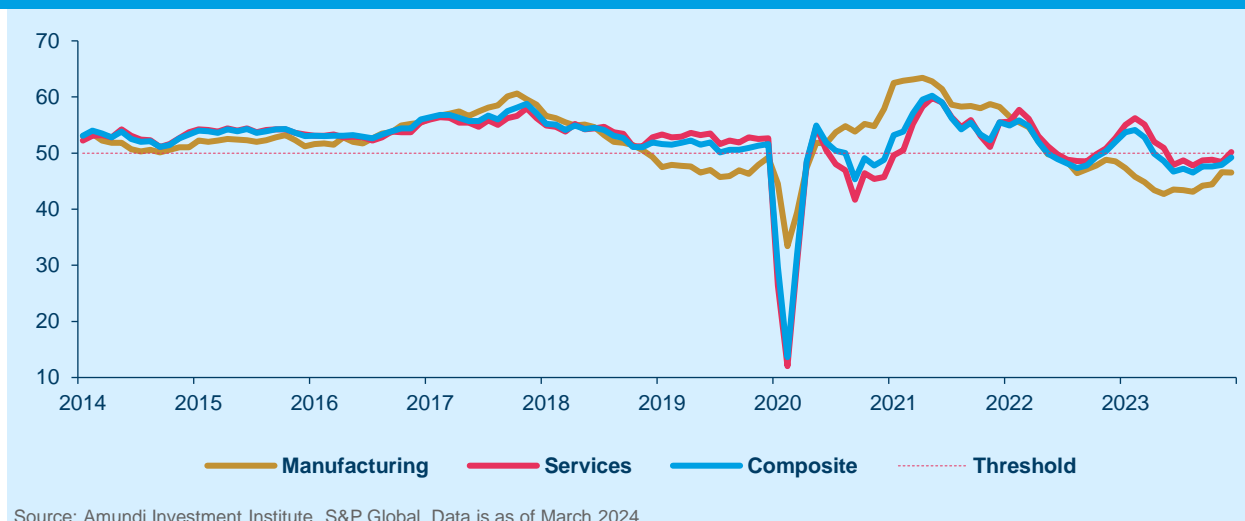
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The Eurozone composite PMI for February increased to 49.2 from 47.9, which is still below the expansion threshold but signals a **slower pace of the decline in activity and a potential bottoming out**. The improvement was driven by a broad stabilisation in services activity up from 48.4 to 50.2, while manufacturing remains in an ongoing contraction, slowing to 46.1 from 46.6. **Divergences persist not only between the services and manufacturing sectors, but also across countries and sub-components**. Looking at countries, Germany's composite activity indicator continued to deteriorate in February at a faster pace (declining to 46.3 from 47 in January); France is contracting at a much slower pace (from 44.6 to 48.1); Italy and Spain improved for the fourth consecutive month in February, confirming their expansion in activity. While Italy recorded a mild increase, to 51.1 from 50.7, Spain expanded at a higher pace, from 51.5 to 53.9. **Also at a country level, the manufacturing / services dichotomy was broadly confirmed**. The only exception is Spain, which is expanding in both manufacturing and services. Looking at the underlying components, **the composite employment indicator improved again, pointing to a resilient labour market**, but, underneath the surface, sectoral differences at the activity level translate into employment dynamics, as the services sector increased jobs, while manufacturing firms reduced their workforce. Focusing on price dynamics, **services maintained pricing power** and price pressures remained elevated in the sector, with marginal increases in input prices, stabilising at high levels translating into much more significant increases in output prices, where the index reached the highest level since May 2023. **Conversely, in manufacturing both input and output price indices remain in the contraction territory**, signalling a disinflationary contribution on the goods side that has, apparently, not been affected by the Red Sea disruption, at least so far.

European PMI data diverge not only in terms of sectors, but also in terms of countries and sub-components.

CHART: Eurozone PMIs



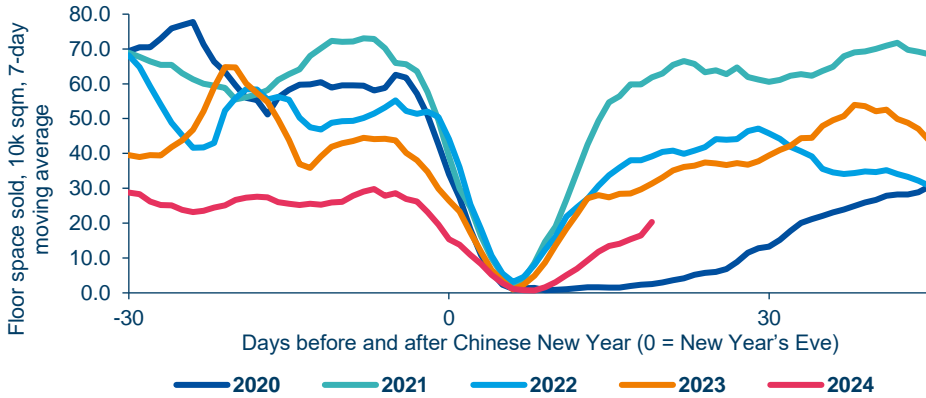
Source: Amundi Investment Institute, S&P Global. Data is as of March 2024.



CHINA

Ongoing housing dip

CHART: China's new home sales in 30 major cities



Source: Amundi Investment Institute, Wind. Data is as of 29 February 2024.

New home sales have continued to fall sharply in the first months of 2024. In 30 major cities, the amount of floor space sold was down by 38.5% YoY in January and February. Sales from the top 100 developers dropped by 51% YoY in the first two months. We maintain a cautious stance on China's housing market and overall economic outlook. The rising supply of existing homes, auctioned properties and public affordable housing is likely to further undermine the market for commercial new builds, exacerbating the housing downturn.

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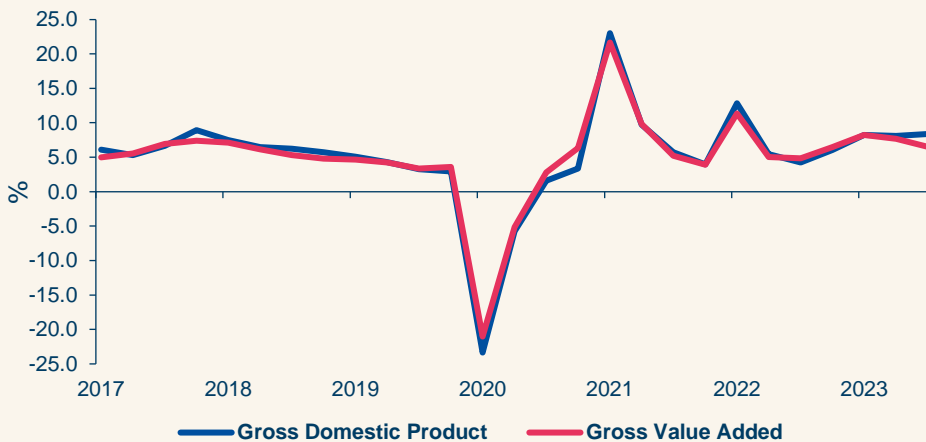
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INDIA

Buoyant end to 2023

CHART: India GDP vs GVA



Source: Amundi Investment Institute, CEIC. Data is as of 1 March 2024. GVA is GDP excluding indirect taxes and subsidies. Gross Value Added (GVA) is GDP excluding taxes and subsidies.

India GDP for calendar year (CY) Q4 2023 has turned out to be much stronger than expected, at 8.4% YoY (vs 6.6%). Domestic demand (private consumption and investments) has been driving growth, while net exports have been detracting from it. In addition, the GDP series has been revised for recent years and recent quarterly revisions alongside new data have shown much stronger growth from the previously expected. High frequency data, as the PMIs, point to a still robust, but much softer growth in the quarter (as reported in the GVA release at 6.5% YoY). For 2024 we keep a bright but more moderate growth path (around 6% YoY).

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MACROECONOMIC SNAPSHOT



The US economy started the year on a stronger footing, but we expect significant deceleration as 2024 progresses. Data are still mixed, with several activity and leading indicators pointing south, while others – such as financial conditions and easing sentiment indicators – suggest resilience. We continue to expect inflation to decelerate thanks to moderating services inflation, although so far it has remained sticky.



We expect the Eurozone economy to see monetary policy tightening peak in the first months of the year; alongside modest global growth and less supportive fiscal policy, this will ensure Eurozone growth remains sub-par in 2024, although it should improve in the second half of the year. Inflation will progressively slow towards target, although this will be faster for headline inflation than for core.



We expect weak growth for the UK in 2024 due to slowing domestic demand, a deteriorating labour market and weak capex spending. Tight monetary policy and a weak external environment will cap economic momentum, although some modest offset may come from fiscal policy. Inflation is expected to moderate going forward, moving closer to target before year-end.



We have revised down our 2024 Japan growth forecasts to 1.1% from 1.6%, following the disappointing Q4 GDP figures and a likely stagnant Q1. That said, Japan's growth is volatile in nature and our forecast still implies an above-trend recovery and a mildly positive output gap. The recovery will be mainly driven by external demand, while private consumption is expected to remain lacklustre. Inflation has stayed on a moderating path and does not support the BoJ to hike beyond 0%.

The Czech National Bank (CNB) surprised with a 50-bps cut to 6.25% vs 25bps expected. This decision was motivated by a sharp fall in inflation in January (below 3% YoY) and weak growth momentum. According to the Q4-2023 preliminary GDP figures, the economy contracted by 0.4% YoY in 2023 and the CNB's expectations for 2024 are low (0.6%). We expect it to continue easing in the coming months.



While South African inflation (5.2% YoY) is already back within the target band, its current account deficit has narrowed and growth is currently flat, so the South African Reserve Bank (SARB) has not started to cut rates yet. Elevated fiscal deficits, global market sentiment volatility and elections in May weigh on ZAR and SAGBs (South Africa Government Bonds), limiting SARB's room to manoeuvre. However, when the timing of Fed cuts is a "done deal", this should alleviate some of these pressures and SARB should start to cut its rates.



Soft activity in Brazil in 2H23 is starting to reaccelerate, with another strong harvest (although not as robust as last year), lower rates and some fiscal stimulus (via 'precatórios') providing tailwinds. Inflation is already within the target range and continues to head lower as confirmed by the recent IMPCA-15. We see the Central Bank of Brazil continuing to guide for 50-bps cuts for now and easing below 9% in this cutting cycle, subject to Fed actions and domestic fiscal development naturally.



Chile's economy is finally accelerating after undergoing a prolonged process of rebalancing and stagnation – e.g. January data surprised on the upside across the board. Meanwhile, inflation is moderating with the headline just slightly above target now. The Central Bank of Chile has been easing in a fast and furious way, cutting policy rates by 100bps at times to the detriment of the Chilean peso. The question is whether it will slow things down now that the economy is showing more momentum.





CENTRAL BANKS WATCH

DM Central Banks are lagging behind their EM peers on the easing cycle

Developed Markets

Towards the end of H1, the Fed, ECB and BoE are all likely to start cutting rates, **with the year's rate cuts totalling 100 bps for the Fed and 125 bps for the ECB and BoE.**

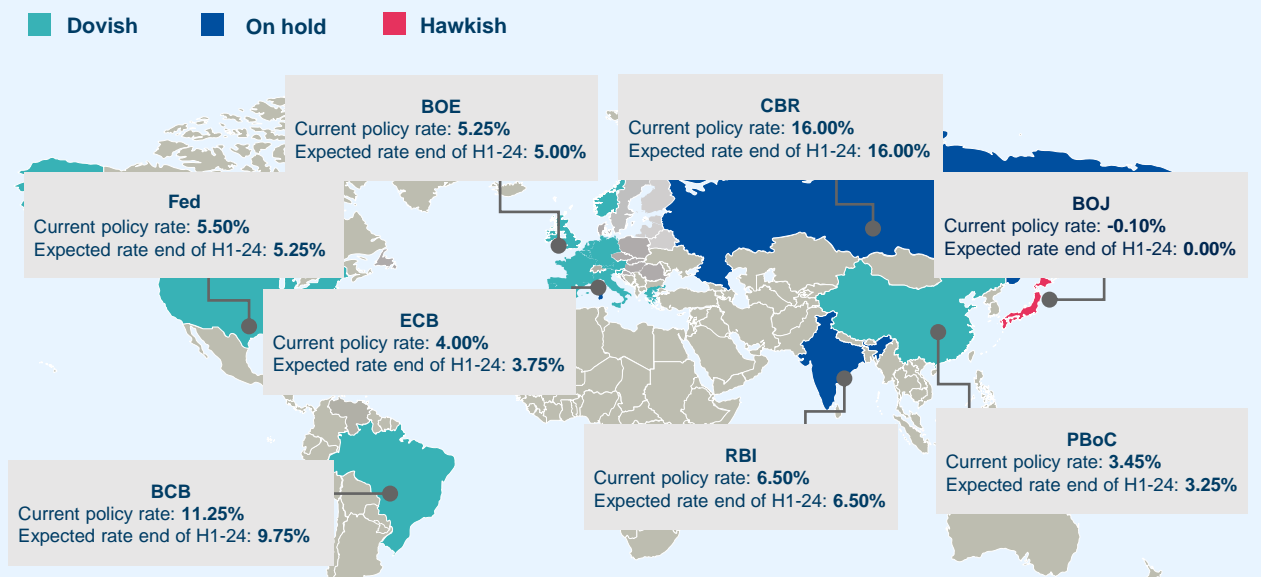
The Fed should remain on the hawkish side given the recent rebound in inflation and the resilience of the US economy. **The ECB remains cautious about the pace of disinflation**, especially in the service sector and rising wages. Our attention is focused on the risk of overtightening in the Eurozone. Monetary policy has a much faster impact on the economy in the Eurozone than in the United States. The disinflation process also appears more rapid in the Eurozone than in the US. **In the UK, headline inflation is likely to fall quickly** and a majority of the BoE's Monetary Policy Committee appears to be in the rate-cutting camp.

Meanwhile, **we hold our view that the BoJ will seize this once-in-decades opportunity to normalise its monetary policy**, but with a 0% terminal rate.

Emerging Markets

Amid an overall benign inflation picture, and the market pricing more prudent easing from the Fed, **EM CBs have kept their easing activity on autopilot, with a few exceptions.** Asia remains uneventful aside from China, **with the PBoC cutting its 5-year loan prime rate by a larger-than-expected 25bp.** In LatAm, after several prudent cuts in January (with the usual exception of Chile), the Central Reserve Bank of Peru again cut by 25bps and Banxico finally opened the easing door by suggesting its March meeting will be live. Again, **the fastest easing train is passing through CEMEA.** The Czech Republic CB unexpectedly sped up easing (50bps vs 25bps), with its next steps depending on the balance between currency stability and accelerating easing. Mindful of the same balance, the National Bank of Hungary could moderate the easing pace in the next future. While remaining on hold, Turkey's CB is expected to pivot to easing soon, although robust growth performance and sticky inflation should dictate more prudent monetary policy conduct.

Upcoming rate decision meeting and Amundi's assessment for H1 2024



Source: Amundi Investment Institute as of 26 February 2024. Amundi's assessment of central bank rates trend is based on Amundi Investment Institute's forward-looking judgement of policy rates direction, based on our intake from forward guidance and CB communication.

KEY DATES	20 March	21 March	11 April
	US Federal Open Market Committee (FOMC) meeting	BOE Monetary Policy Committee meeting	ECB Governing Council meeting



GEOPOLITICS

The Middle East faces an uncertain future

While we currently do not expect an escalation in the short term in the Middle East from current levels, **there are many serious medium-to-longer term risks emanating from the political situation within Israel, a possible war between Lebanon and Israel, and a potential escalation between Israel and Iran.** Despite negative news flow with regards to Israel's possible ground offensive in Rafah, the sluggish pace of ceasefire talks and ongoing strikes within Lebanon, overall, **there are plenty of signposts pointing towards a ceasefire and hostage deal to be announced soon, most likely to be timed with Ramadan, which starts on 10th March. There seems to be an overlap of all parties to commence Ramadan with a deal in place, while Hamas is keen to delay/halt an Israeli manoeuvre in Rafah.** The Houthis are continuing to strike, but the frequency seems to have reduced and ongoing US/UK attacks against Houthi capabilities seem to be bearing fruit on Red Sea traffic. Looking at the data, **freight rates seem to be normalising and, all in all, developments are in line with our base case expectations.** Over the longer term, **Israel will continue to face existential threats** as a result of the forces unleashed since 7th October. The threat Iran poses to the US has also grown significantly. Its nuclear advance adds another dimension of risk, meaning **Iran is a growing threat that the US and Israel may soon feel it necessary to deal with.**

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Israel will continue to face existential threats as a result of the forces unleashed since 7th October.

POLICY

EU: back to the 'guns versus butter' trade-off

Defence spending in Europe has been rising for 10 years. **Since 2014**, the year marked by Russia's annexation of Crimea, European countries have made a **very significant effort**, with a rise in real defence spending of 44% (Germany), 15% (France), 37% (Italy), 58% (Spain), 75% (Netherlands). But the major countries still have spending of between 1.3% and 1.6% of GDP. France is the exception (with 2% of GDP) because of its powerful defence industry. Germany has announced that it will reach the 2% target this year. By 2024, 13 NATO Member States will be devoting more or less 2% of their GDP to defence spending. Moreover, the EU as a whole already devotes 20% of its defence spending to investment (another NATO objective).

But this is far from enough to build a credible defence. **Additional efforts are required at a time when EU countries need to invest in transforming their economies**, while at the same time putting their public finances on a sounder footing. **The trade-off between military spending and other public expenditure (such as healthcare and education) is likely to arise at some point.**

Operations with military or defence implications cannot be covered by the EU budget (Article 41 of the EU Treaty). Ursula Von der Leyen has just proposed the creation of an EU defence commissioner and announced a "**European defence industrial strategy**" designed to boost production and facilitate the acquisition of defence goods in the EU. But it remains to be seen whether the EU will have the financial and institutional means to match its ambitions.

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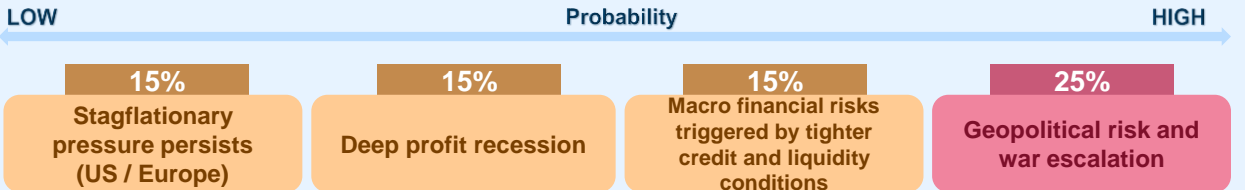
Policymakers have very little fiscal leeway to increase much-needed defence spending.



Main and alternative scenarios

	Probability 70%	Probability 20%	Probability 10%
	MAIN SCENARIO Slowdown in global growth	DOWNSIDE SCENARIO Global downturn	UPSIDE SCENARIO Economic resilience
GEOPOLITICS	<ul style="list-style-type: none"> Ukraine/Russia: ongoing fighting (ceasefire less likely). Israel: Conflict likely to stay local. China/US: a controlled downward trajectory. More protectionism, friend-shoring 	<ul style="list-style-type: none"> Worsening Ukraine war. Extension of the conflict in the Middle East / Red Sea. More protectionism and increased retaliation to protectionist measures. 	<ul style="list-style-type: none"> De-escalation / ceasefire in Ukraine. End of the Israel / Hamas war. Lower energy / food prices.
INFLATION & POLICY MIX	<ul style="list-style-type: none"> Inflation to slow; sticky core inflation (services) DM CBs: no urgency to cut rates. Fed funds rate -100bp by end-24, ECB -125bp. Most EM CBs at peak rates Different fiscal policies. restrictive stance in the EU, negative impulse in the US; moderate measures in China. 	<ul style="list-style-type: none"> Sticky core inflation leads to tighter financial conditions. Financial stress. Recession to drive rate cuts (large rate cuts in case of deep recession). 	<ul style="list-style-type: none"> Gradual reduction of interest rates, but fewer rate cuts than in the central scenario.
GROWTH PATH	<ul style="list-style-type: none"> Global slowdown with sharp divergences: very anaemic growth in Europe; a slowdown in the US; faster transition to lower growth in China. Growth gap favour EM. 	<ul style="list-style-type: none"> More widely spread recessionary outlook (global growth below 2%). 	<ul style="list-style-type: none"> Only a pronounced cyclical disinflation, could lead to a faster-than-expected return to potential growth in 2024 in Europe.
CLIMATE CHANGE	<ul style="list-style-type: none"> Climate change hampers growth and exacerbates stagflationary trends. 	<ul style="list-style-type: none"> Further delays with more adverse climate events. 	<ul style="list-style-type: none"> Orderly transition coordinated across regions.

Risks to central scenario



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

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



AMUNDI INVESTMENT INSTITUTE MODELS

Nelson-Siegel yield curve fair value model – focus and update on 10Y rates path for 2024

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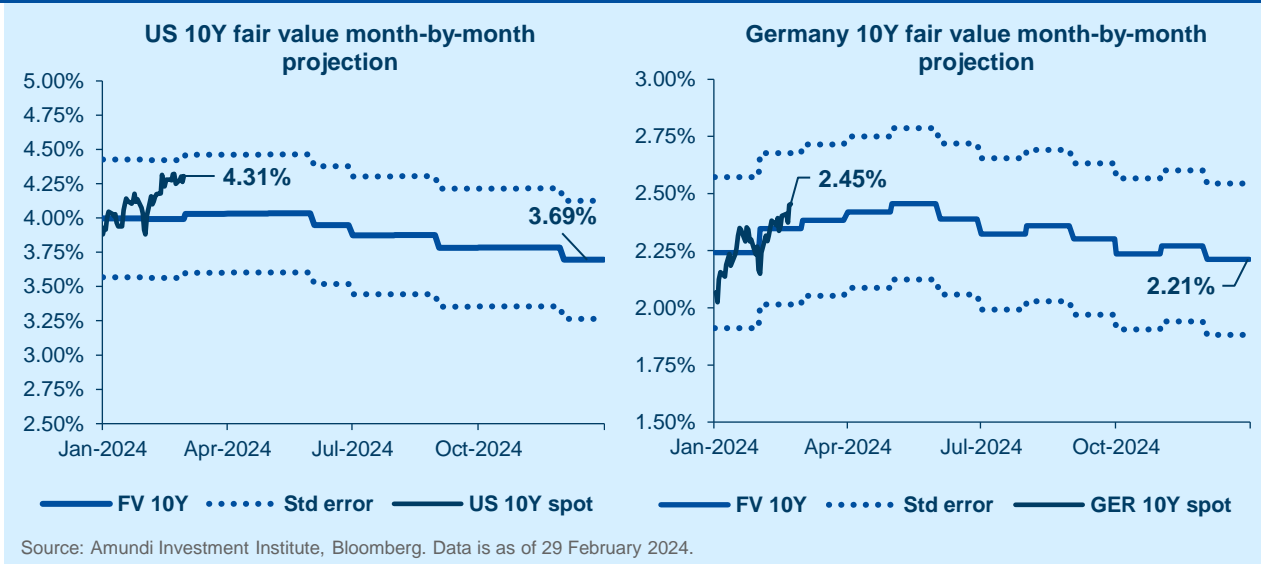
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- US 10Y:** in the US, the first two months of 2024 have seen a **resurgence of concerns around the likelihood of inflation converging towards the Fed’s target**, in a context of very resilient growth. In particular, strong upside surprises on two key economic releases (January’s Non-Farm Payrolls and the Consumer Price Index data) have fuelled an upward trend in yields and exerted flattening pressure on curves. Additionally, GDP growth for Q4 23 cast doubts on the extent to which monetary policy needs to become less restrictive throughout the year. **We continue to expect a delayed but pronounced US slowdown**, and the uptick in January’s inflation data should not derail the disinflationary process envisioned for the coming quarters. In such a context, the Fed should be in a position to deliver a total of 100 bps of rate cuts this year.
- Germany 10Y:** Eurozone economic releases were more in line with surveys. However, German rates struggled to meaningfully outperform those in the US and followed the move higher for global yields. **We see Eurozone growth continuing to deliver on the flattish side, with Germany likely being the main laggard this year.** Inflation converging lower should allow the ECB to cut rates by 125 bps this year.
- Valuation:** the above assessment implies more value in the **US 10Y from current levels than the German equivalent.** The former is getting very close to the upper side of the fair valuation range and is 60bps above its year-end fair level (3.69%, chart 1). The Bund moved from being slightly expensive at the beginning of January to just above fair and is currently 30bps higher than where the fundamental scenario would suggest it lands by the end of this year (2.21%, chart 2).

The current level of US 10Y yield is approaching the upper side of the fair value range.

[Find out more about our model in the April 2023 Cross Asset edition.](#)

CHART: Fair value ranges for 10Y yields in 2024

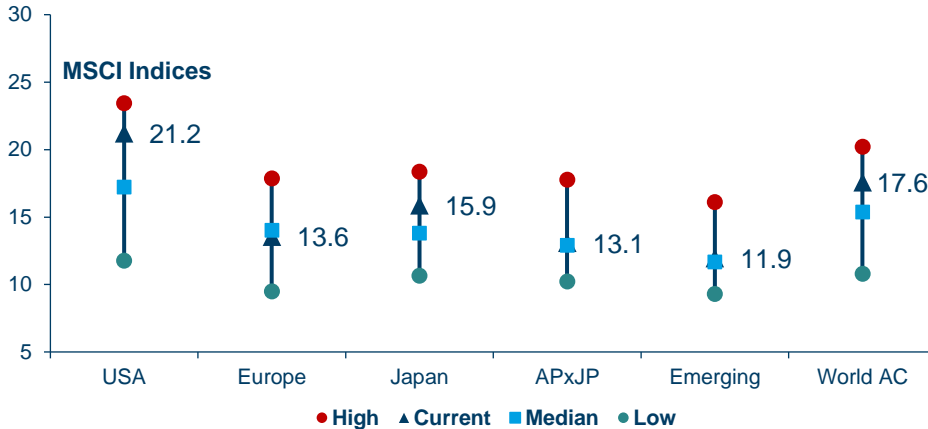




EQUITIES IN CHARTS

DM: After a strong start to the year, a breather is due

CHART: Price-Earnings Ratio 12M Forward over 12 years



Source: Amundi Investment Institute, LSEG Datastream. Data is as of 29 February 2024.

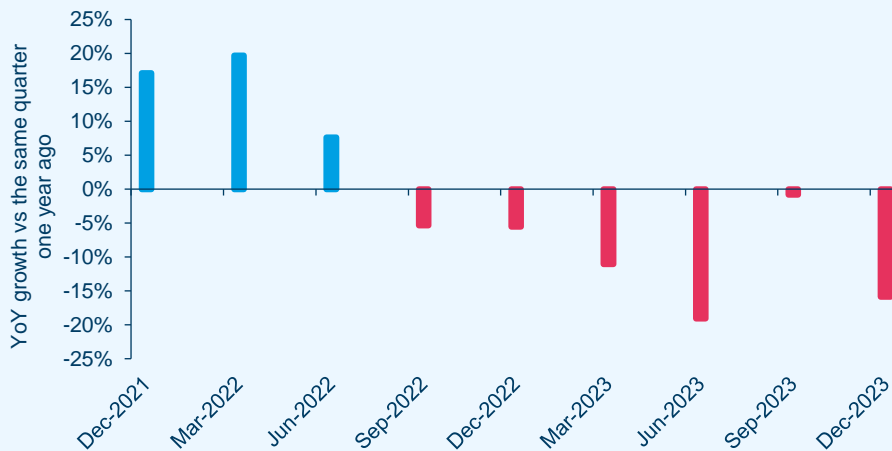
Equities are reaching historical records, notably driven by AI in the US, corporate governance, strong earnings and out-of-deflation themes in Japan. P/Es, including the one for the MSCI ACWI, are now far above their average. A breather would make sense.

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EM: Negative results from EM reporting season so far

CHART: MSCI EM USD – Latest Reporting Season



Source: Amundi Investment Institute, Capital IQ. Data is as of March 2024.

About 43% of MSCI EM constituents have reported Q4 2023 results. The growth of net income YoY is negative (-16% in USD). The reporting season, hitherto, shows positive MSCI YoY results in Greece, Qatar, India, Philippines, Indonesia and Thailand; but is negative in the other countries. At a sector level, the best results (on average) are in Consumer Discretionary, Energy, HC and Utilities; the worst are in Information Technology.

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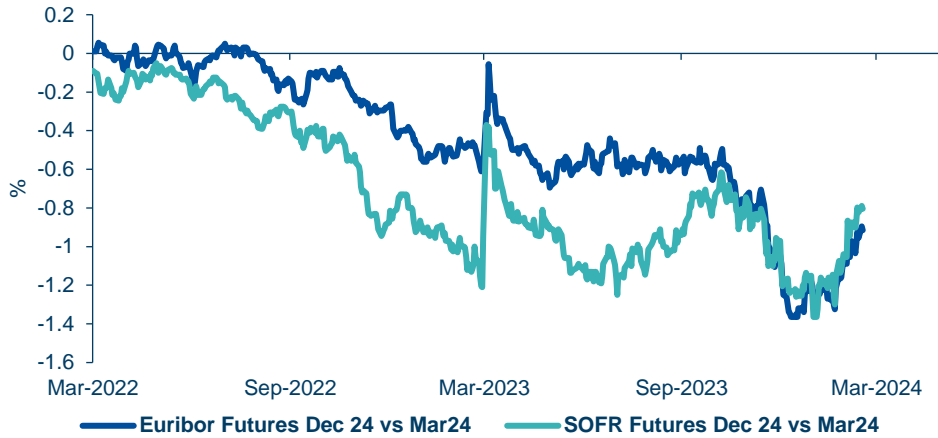
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BONDS IN CHARTS

DM: Excessive sell-off in Eurozone front-end rates

CHART: Pricing of rate cuts in 2024 for the Fed and ECB

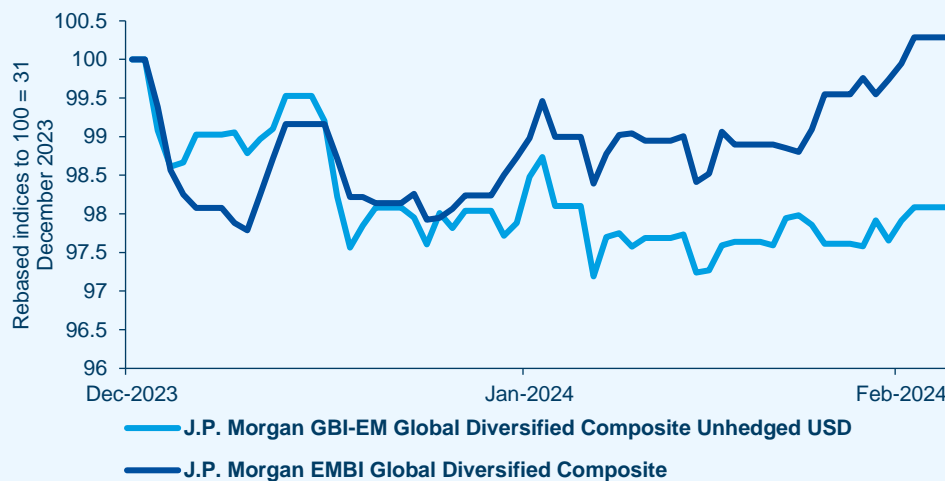


Source: Amundi Investment Institute, Bloomberg. Data is as of 27 February 2024. SOFR: Secured Overnight Financing Rate.

EU front-end rates have sold off even more than the US (year-to-date change in 2Y: +52bp in Germany and +35bp in the US). Given the ongoing divergence in growth and inflation expectations between the US and Eurozone, this seems excessive. US-EU rate spreads should widen further as the market reprices more ECB cuts.

EM: Local Currency bonds penalised by increase in 10Y US bond yield

CHART: EM HC bonds have started overperforming LC bonds



Source: Amundi Investment Institute, Bloomberg. Data is as of 4 March 2024.

After a weak start of the year, EM Hard Currency bonds have recently been outperforming EM Local Currency bonds: notwithstanding the sharp inflation decline in EM countries, the total return of this asset class has been penalised by a sharp increase in the 10Y US bond yield and by the depreciation of EM currencies versus USD.

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COMMODITIES

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Gold



Gold remains in 'wait-and-see' mode as markets delay their pivot timing expectations. This is only a delay as we see gold surging to \$2100/oz with extra support from fiscal profligacy, geopolitics and ETF flows.

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Oil



We expect Brent to trade in a range near our \$85/b target, capped by ample spare capacity, looser OPEC discipline, NOPEC output and softer Chinese growth. We expect more dispersion across refined products.

Modest upside still in the cards for Gold. Range trading in Oil.

Industrial Metals



Temporary oversupply is capping prices in the near term, but a cyclical rebound in China and global growth resilience could provide modest extra upside. We see more strength in H2 as tight supply starts to lag demand, especially for Copper.

CURRENCIES

AUTHORS

Euro



Lower growth and faster inflation normalisation relative to the US represent headwinds for the currency, but it remains hard to breach the range of 2023 given limited anxiety over the Fed and the improving fair valuation.

FEDERICO CESARINI

HEAD OF DM FX - AMUNDI INVESTMENT INSTITUTE

Dollar



A large US growth premium relative to DM points to a wider US rates differential and supports the USD in the short term. Expensive valuation and the Fed cutting cycle suggest strength is unlikely to persist into H2.

Strong US growth supports the USD; the Fed will limit the upside.

Sterling



Falling economic and inflation surprises suggest the market may gradually require more cuts from the BoE in 2024. We expect weaker GBP in H1, but low volatility and high carry will limit the downside.

Yen



A huge discount to fundamentals and extreme short positioning suggest the trend for the JPY should be higher from here. Without a proper hiking cycle from the BoJ though, US rates will remain the dominant driver.

GLOBAL
INVESTMENT VIEWS



GLOBAL INVESTMENT VIEWS

Markets, economy and valuations: debate rages on

The strength of economic activity, and the market’s expectations of central bank policies and corporate earnings, have been driving asset prices. Valuations are excessive in some segments such as mega caps where profit margins are also high. But the key question is whether these high margins justify current valuations? And will these companies be able to grow their top line quickly, while maintaining margins in a context of increased global competition and exhausted consumers? On the other hand, judging the direction of the economy is becoming increasingly difficult. We think the following factors will be important going forward:

- **A delayed but pronounced US slowdown:** We see a slowdown in domestic demand owing to limited/no fiscal push and strains in the corporate sector. So far consumption has been supported by a dip in savings, and even excessive borrowings. But as labour markets weaken, this reliance could fade, thereby impacting the economy.
- **Divergences/flattish growth in Europe:** Germany, which is facing many structural challenges, is likely to be the main laggard this year due to weak investment and exports. Countries such as Spain should fare slightly better. In this context, the role of collective EU fiscal and political strength is important amid the green transition.
- **Monetary policy.** Beginning around the end of H1, the Fed, ECB and BoE are likely to start cutting rates – total rate cuts of 100 bps for the Fed this year and 125 bps for ECB and the BoE. If inflation continues to fall, we see little reason for the Fed to keep rates restrictive.

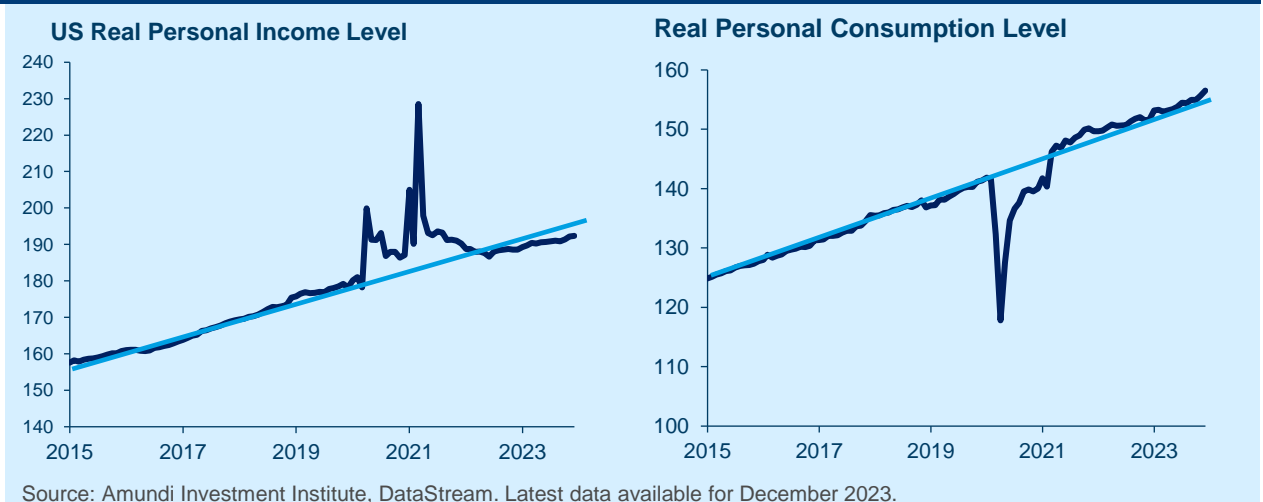


VINCENT MORTIER
GROUP CIO



MATTEO GERMANO
DEPUTY GROUP CIO

As real personal income in the US declines, personal consumption should deteriorate





We see value in four main areas:

- **Cross Asset.** We are now close to neutral on Developed Market equities as the economic cycle is proving better than previous expectations. But given current high valuations, we avoid getting too exuberant and look for regional opportunities in Emerging Markets (EM) and Japan. We have become neutral on the US. On duration, we are cautious on Japan, but positive on the US and Europe. Given the potential for fiscal stress and inflation surprises, investors should be active in managing duration. In addition, any near-term strength in the dollar could affect EM bond returns, and thus, calls for vigilance. Finally, oil is a good hedge amid geopolitical stress and potential for mild upside amid tight supply in the near term.
- **In fixed income, we remain slightly cautious on Europe and Japan duration but positive on the US as inflation continues its declining trajectory and in global quality credit.** In Europe, we are monitoring the ECB's assessment of the region's economy for any signs of policy actions. In the UK, we are slightly constructive amid pressures on the BoE to cut rates. Corporate credit remains an area of carry but liquidity considerations are important, particularly in HY. Thus, we are positive on IG in the US and even more in the EU. In the US, we like short maturity credit and insurance-linked securities. Overall, we are cautious on lower rated HY but see selective value in non-cyclical sectors amid rising dispersion.
- **Recent movements in US equities have been driven by select mega-cap stocks and this raises concentration risks.** This, to a lesser extent, is also true for Europe. As the economic cycle evolves, markets should start focusing more on earnings trajectory. We keep a selective stance and we are slightly cautious on the most expensive areas in the US and Europe. But any market anomaly around earnings and valuations is an opportunity to benefit from idiosyncratic stories. From a style/regional view, we stay positive on high margin businesses (quality), US Value and Japan.
- **Attractive EM yields** and continuing disinflation keep us positive on both Hard and Local Currency debt with a preference for HY over IG. Regionally, we favour LatAm and are more selective in Asia and EMEA. Unsurprisingly, the region is full of idiosyncratic stories such as Argentina. We are constructive also in equities, particularly in Asia (India, Indonesia, South Korea) and LatAm.

An extension of the economic cycle keeps us close to neutral on risk, but we are monitoring the uncertainty on domestic US consumption and extreme valuations in some segments.

Overall risk sentiment

Risk off **Risk on**



We are close to neutral on risk in light of divergences between market performance/valuations and the economic weakness ahead.

Changes vs previous month

- Cross asset: Neutral on US equities; Protection on US duration on potential surprises on inflation; Stay positive on EM bonds but tactical USD strength could affect returns in this space.

Overall risk sentiment is a qualitative view towards risk assets (credit, equity, commodities) expressed by the various investment platforms and shared at the global investment committee. Our stance may be adjusted to reflect any change in the market and economic backdrop.

ECB= European Central Bank, DM= Developed Markets, EM = Emerging Markets, CBs = central banks, IG = investment grade, HY = high yield, HC = Hard Currency, LC = Local Currency. For other definitions see the last page of this document.



Three hot questions

1

How will the major Developed Market central banks respond to slowing inflation?

Even as disinflation is underway in Europe, the risks of overtightening and the ECB falling behind the curve are not priced in by the markets. The central bank is monitoring incoming data, labour markets and the recent loosening of financial conditions. We maintain it will start rate cuts around the end of H1, with 125 bps of total cuts this year. The BoE has also dropped its hawkish guidance and is likely to reduce rates by 125 bps, beginning around mid-year, although we do not rule out the possibility of a surprise cut sooner. In the US, the Fed would need to be sure that inflation trend is moving towards its targets.

Investment Consequences ■ US & UK duration: slightly constructive

2

What is your view on equities reaching new highs?

As US and European equities reached record levels in February, it is a good time to reassess valuations. The broader markets appear stretched, and it is difficult to believe an additional premium to valuations can build up quickly and significantly. In addition, while the economic backdrop is less defensive than before, tight valuations are preventing us adopting a more favourable view on equities. If a tactical correction happens it could present opportunities to add more into this asset class at attractive levels. By then, we would have more clarity on the economic backdrop as well.

Investment Consequences ■ Close to neutral on the US and Europe
■ Slight positive on Japan

3

What is your outlook for commodities in the near term?

Oil prices may see some near-term strength owing to strong technicals and still resilient global growth. But we expect limited gains in the medium term owing to factors such as spare capacity and low supply discipline from OPEC. On the other hand, gold prices seem to be in a wait and see mode. Given modest valuations for the metal and fading hopes of an early Fed pivot, we expect marginal upside in the short term. However, if the Fed cuts sooner than expected, that could provide bigger upside.

Investment Consequences ■ Brent target: \$85/bbl in the short term
■ Gold: \$2050/oz

While we expect the Fed, Bank of England and ECB to start rate cuts around June, we would still keep an eye on the pace of disinflation for any surprises.

**MONICA
DEFEND**
HEAD OF AMUNDI
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INSTITUTE





MULTI-ASSET

Dynamic allocation: neutral, vigilant on risk

While we expect a slowdown in the US, the situation is not straightforward, particularly when we consider earnings and risk asset valuations. **Hence, we maintain a dynamic assessment that takes into account near-term nuances and balances long-term convictions.** Even though we turned neutral on DM equities, we are basing our conviction on geographical divergences (DM vs Asia). At the same time, we stay well-diversified through commodities, and have fine-tuned our FX views and hedges.

The **Global equities** environment is increasingly uncertain, with the US economic cycle extending, but future growth looking challenging. We turned neutral on the US amid disinflation and robust growth. In addition, we are cautious on Europe, and slightly positive on Japan despite recent data. However, our stance is more forthright in EM (Indonesia, Korea, India).

We stay marginally constructive on US and European duration in light of uncertainty on future activity and expectations of interest rate cuts. Given that inflation and fiscal imprudence/stress (due to US elections) could affect CB actions and yield movements, we remain very flexible. On Italian BTPs, we believe there are limited idiosyncratic risks and there is further potential. However, we are cautious on JGBs and monitoring how the latest GDP data could act as a headwind for the BoJ to exit its NIRP.

In DM credit, we like EU IG, given its high quality and attractive relative valuations. Elsewhere, the disinflationary trend in EM and start of DM central banks' easing cycle in the near future paint a positive picture for EM bonds. EM yields are attractive but higher-than-expected US inflation, better US growth prospects (vs rest of G10), and dovish monetary policy priced into the dollar (scope for appreciation) could prolong USD strength. Thus, investors should consider this aspect in their allocation.

While we stay tactically positive on the dollar, we think this trend is unlikely to be sustained. We are also constructive on EUR/GBP and JPY/CHF. Incidentally, US monetary policy and growth would also affect JPY. In EM FX, we maintain our preference for LatAm (BRL) over Asia.

US inflation is declining but any surprise could affect USTs, underscoring the need for some protection. At the other end, oil offers protection against geopolitical risks, given its strong technicals.

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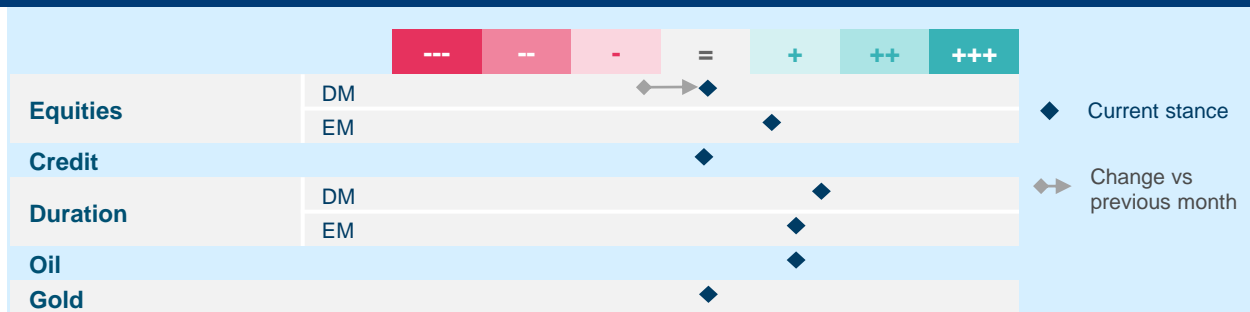
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US disinflation/ growth mix and rate cut expectations are providing impetus to US equities, making us tactically neutral on Developed Market equities.

Amundi Cross-Asset Convictions



Source: Amundi. The table represents a cross-asset assessment on a three- to six-month horizon based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/++/+++). This assessment is subject to change and includes the effects of hedging components. FX = foreign exchange, BTP = Italian government bonds, BoJ = Bank of Japan, JGB = Japanese govt. bonds, BoE = Bank of England, NIRP = Negative interest rate policy, DM = Developed markets, EM = Emerging markets. For other definitions and currency abbreviations see the last page.



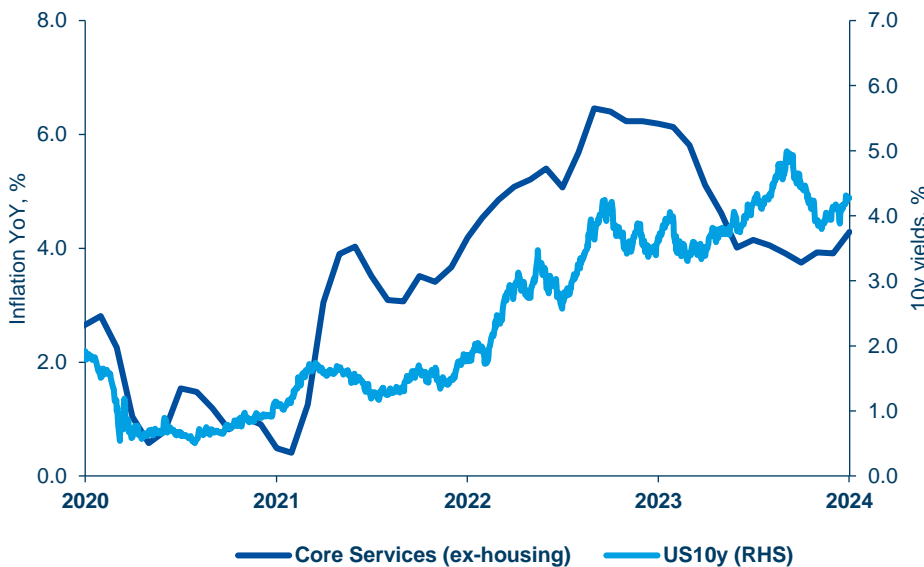
FIXED INCOME

Go global in bonds, with an eye on ‘last mile’ inflation

Markets have been reassessing their expectations (vs a few months ago) of Fed policy rate cuts on the back of central bank communication and US inflation data. Both the Fed and the ECB would like to see continued progress on inflation before they initiate their first rate cuts. And, given the recent trend in core services inflation in the US, it makes sense for them to be patient on this front. From an investor perspective, this means risk-free yields at current levels are attractive, particularly in the US. However, owing to uncertainty on the evolution of the economies, we remain very agile in bonds and look for global opportunities. We remain positive in global quality credit and in EM bonds.

Global & European fixed income	US fixed income	EM bonds
<ul style="list-style-type: none"> ▪ We stay slightly cautious on core European duration. But this could change amid greater clarity on ECB actions. ▪ On Japan, we are cautious and are monitoring BoJ actions. ▪ In credit we like EU IG but stay agile to adjust for market movements. We favour financials and subordinated debt and IG over HY. In HY segments we notice high dispersion, with selective opportunities in short-maturity EU credit. 	<ul style="list-style-type: none"> • We are positive on duration amid progress on inflation but are flexible. • We prefer IG to HY and within IG we like financials. In addition, the intermediate part of the credit curve and shorter maturities offer better value. • We are cautious in HY but look for higher-rated credit and insurance-linked securities. We are also mindful of liquidity. 	<ul style="list-style-type: none"> ▪ Continuing disinflation, robust EM growth and potential Fed easing are positive factors. ▪ We like HC and corporate debt but favour HY over IG, given attractive relative valuations and better carry. In LC, we maintain our tilt towards LatAm. ▪ We see positive idiosyncratic stories, ie, Argentina (strong harvest, attractive carry), Egypt. ▪ But we are cautious on the Middle East, while we like commodity exporters.

Headline inflation is falling but watch out for sticky services inflation



Source: Amundi Investment Institute, Bloomberg, as of 20 February 2024.

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EQUITIES

Focus on earnings resilience and valuations

As markets touched new highs and concentration risks increased in the US and Europe, we are assessing whether it is sustainable for stocks to push higher purely from a macro/growth perspective. Given full valuations, any downside catalyst in the form of disappointment in rate cuts, weak economic data etc., could hamper returns in the more expensive segments. So, the big question is whether we will see a slowdown in the US, and if so, how deep would it be? If we do see economic weakness in the US and Europe, earnings would be affected. Thus, investors should explore segments that offer the right balance of potential future earnings growth and valuations in the US, Europe, Japan and EM.

European Equities	US & Global Equities	EM Equities
<ul style="list-style-type: none"> ▪ We prefer a barbell style, with positive views on quality defensives and cyclicals. ▪ Sector-wise, we are slightly more constructive on staples. Investors should also consider using market volatility to explore luxury businesses. ▪ In financials, we like banks offering high dividend yields and above-market earnings growth. ▪ But valuations of some semiconductor companies look stretched. 	<ul style="list-style-type: none"> • In markets that are skewed towards mega caps, we aim to benefit from discrepancies in Value vs Growth, Equal weighted vs mega caps. • Incrementally less positive on energy on oversupply concerns. • We favour defensive with reasonable valuations and like quality cyclicals that are becoming attractive after recent earnings. • In Japan, there is potential for adjustments, from a bottom-up perspective. 	<ul style="list-style-type: none"> ▪ Constructive on a divergent EM universe. We are vigilant on China owing to weak consumption, but the government’s willingness to improve sentiment is positive. ▪ Elsewhere in Asia, in South Korea, we are slightly more constructive amid improving corporate governance. ▪ Overall, we look for structural trends in Asia and LatAm, and continue to like India, Indonesia.

Relative valuations of S&P 500 call attention to concentration risks



Source: Amundi Investment Institute, Bloomberg, 19 February 2024. S&P 500 and S&P Equal Weighted Indices. SD = Standard Deviation.

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VIEWS

Amundi asset class views

In focus this month

- **US mega caps:** We are sceptical on the mega-caps and believe there are opportunities outside this segment, including in US Value. On Global Growth, we are close to neutral.
- **UK govies:** Headline inflation is likely to fall quickly and a majority in the Bank of England's Monetary Policy Committee appear to be in the rate-cut camp. Thus, we are slightly positive on Gilts.

Equity and global factors

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

Fixed income & FX

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

Source: Amundi, February 2024. 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.

▼ Downgrade vs previous month
▲ Upgrade vs previous month



FORECASTS

Macroeconomic forecasts

Macroeconomic forecasts as of 7 March 2024						
Annual averages, %	Real GDP growth, YoY, %			Inflation (CPI), YoY, %		
	2023	2024	2025	2023	2024	2025
Developed countries	1.6	1.1	1.2	4.7	2.5	2.1
United States	2.5	1.8	1.1	4.2	2.7	2.1
Eurozone	0.5	0.2	1.0	5.4	2.4	2.1
Germany	-0.1	0.1	0.9	6.1	2.4	2.2
France	0.9	0.5	1.3	5.7	2.7	2.0
Italy	0.7	0.5	1.1	5.9	1.5	2.2
Spain	2.5	1.3	1.5	3.4	2.8	2.2
United Kingdom	0.1	0.0	1.0	7.5	2.5	2.3
Japan	1.9	1.1	1.5	3.3	2.0	1.4
Emerging countries	4.3	3.7	3.7	5.8	5.4	4.0
China	5.2	3.9	3.4	0.2	0.2	0.2
India	7.7	6.3	6.0	5.7	5.4	6.0
Indonesia	5.0	5.1	4.8	3.7	3.1	3.9
Brazil	2.9	1.8	2.2	4.6	3.7	3.6
Mexico	3.2	1.7	1.9	5.6	4.5	3.8
Russia	3.2	1.6	2.0	6.0	6.4	4.5
South Africa	0.5	1.0	1.3	5.9	4.8	3.5
Turkey	4.1	2.8	3.6	53.4	59.0	29.0
World	3.2	2.7	2.7	5.3	4.3	3.2

Central Banks' official rates forecasts, %					
	7 March 2024	Amundi Q2 24	Consensus Q2 24	Amundi Q4 24	Consensus Q4 24
United States*	5.50	5.25	5.10	4.50	4.50
Eurozone**	4.00	3.75	3.70	2.75	3.00
United Kingdom	5.25	5.00	5.10	4.00	4.50
Japan	-0.10	0.00	0.09	0.00	0.27
China***	3.45	3.25	3.30	3.25	3.20
India****	6.50	6.50	6.40	6.00	6.00
Brazil	11.25	9.75	9.75	8.75	9.00
Russia	16.00	16.00	15.05	12.00	11.50

Source: Amundi Investment Institute. Forecasts are as of 7 March 2024. CPI: consumer price index. *: Upper Fed Funds target range. **: Deposit rate. ***: One-year loan prime rate. ****: Repurchase rate. Q2 2024 indicates end of June 2024; Q4 2024 indicates end of December 2024.



FORECASTS

Financial market forecasts

Bond yields

Two-year bond yield forecasts, %

	3 March 2024	Amundi Q2 24	Forward +6m.	Amundi Q4 24	Forward +12m.
United States	4.56	3.80-4.00	4.20	3.70-3.90	4.03
Germany	2.89	2.30-2.50	2.47	1.90-2.10	2.21
United Kingdom	4.29	3.60-3.80	3.91	3.40-3.60	3.84
Japan	0.18	0.10-0.20	0.24	0.10-0.20	0.28

Ten-year bond yield forecasts, %

	3 March 2024	Amundi Q2 24	Forward +6m.	Amundi Q4 24	Forward +12m.
United States	4.21	3.70-3.90	4.17	3.80-4.00	4.18
Germany	2.41	2.20-2.40	2.37	2.00-2.20	2.35
United Kingdom	4.11	3.80-4.00	4.06	3.70-3.90	4.09
Japan	0.72	0.80-1.00	0.83	0.80-1.00	0.92

Exchange rates

	7 March 2024	Amundi Q2 24	Consensus Q2 24	Amundi Q4 24	Consensus Q4 24
EUR/USD	1.09	1.08	1.09	1.14	1.11
EUR/JPY	162	154	159	154	156
EUR/GBP	0.85	0.87	0.86	0.87	0.87
EUR/CHF	0.96	0.96	0.97	1.01	0.98
EUR/NOK	11.39	11.28	11.20	11.31	11.12
EUR/SEK	11.20	11.37	11.20	11.46	11.13
USD/JPY	148	142	145	135	139
AUD/USD	0.66	0.65	0.67	0.70	0.69
NZD/USD	0.62	0.60	0.62	0.63	0.64
USD/CNY	7.19	7.10	7.15	7.00	7.06

Source: Amundi Investment Institute. Forecasts are as of 7 March 2024.



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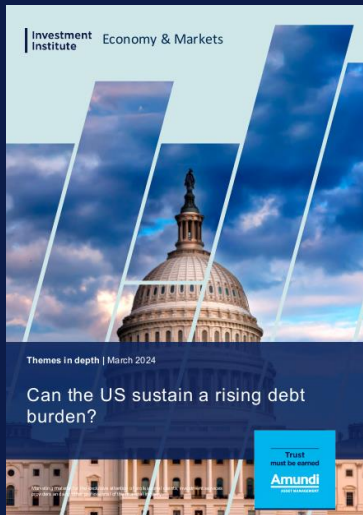
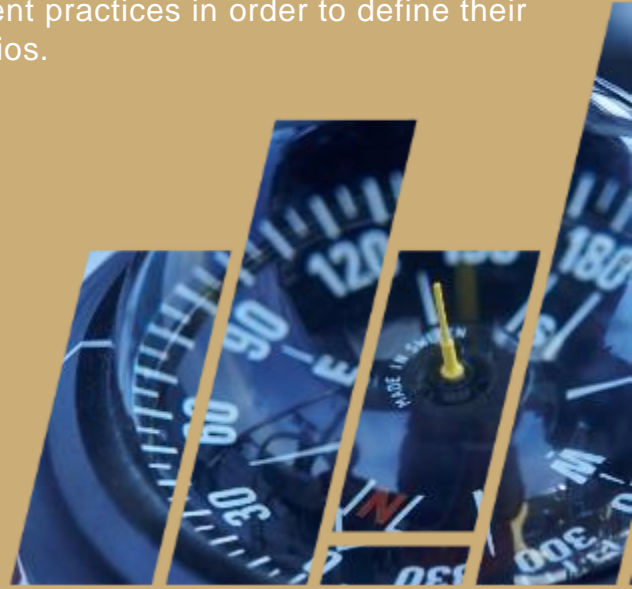
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Amundi Investment Institute

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



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