Confidence must be earned

Amundi
ASSET MANAGEMENT

May 2020

Emerging Markets Charts & Views

Market dislocation creating long-term opportunities

Investment Insights | Market Stories

Short-term challenges, long-term opportunities

Yerlan Syzdykov

Global Head of Emerging Markets

Two major drivers are shaping the landscape for EM countries: Covid-19 and oil dynamics. We are mindful that current events will have very significant negative effects on the economic outlook for EM this year, leading many countries into recession.

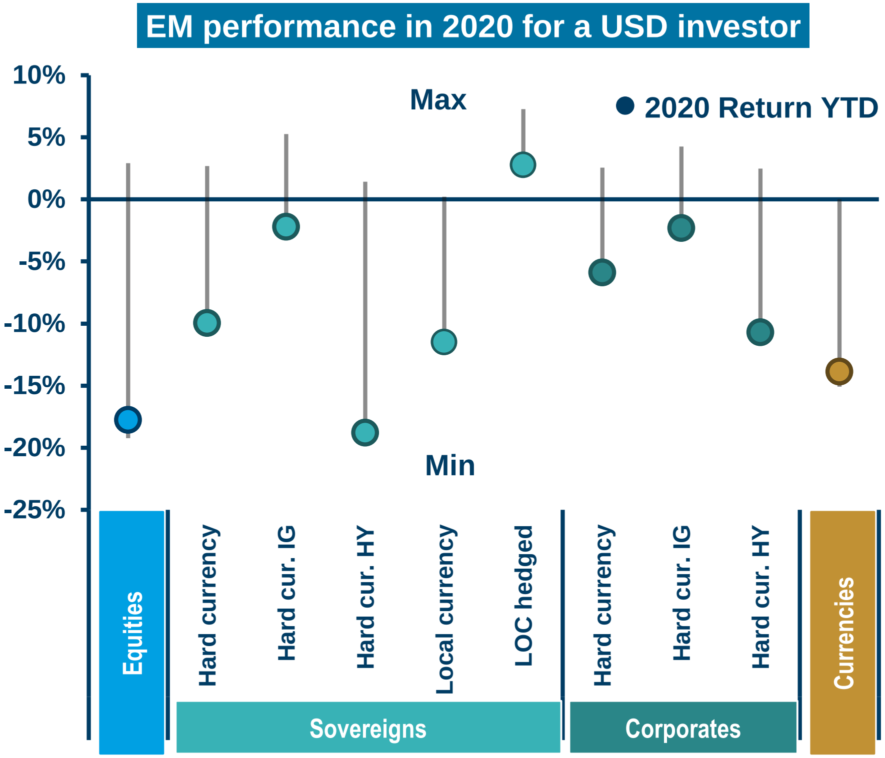
However, for those experienced in financial markets, shocks are nothing new, particularly within EM. The GFC and the US-China trade war are two recent examples of crises that we have learned from and that mean the current shock has not caught us unprepared.

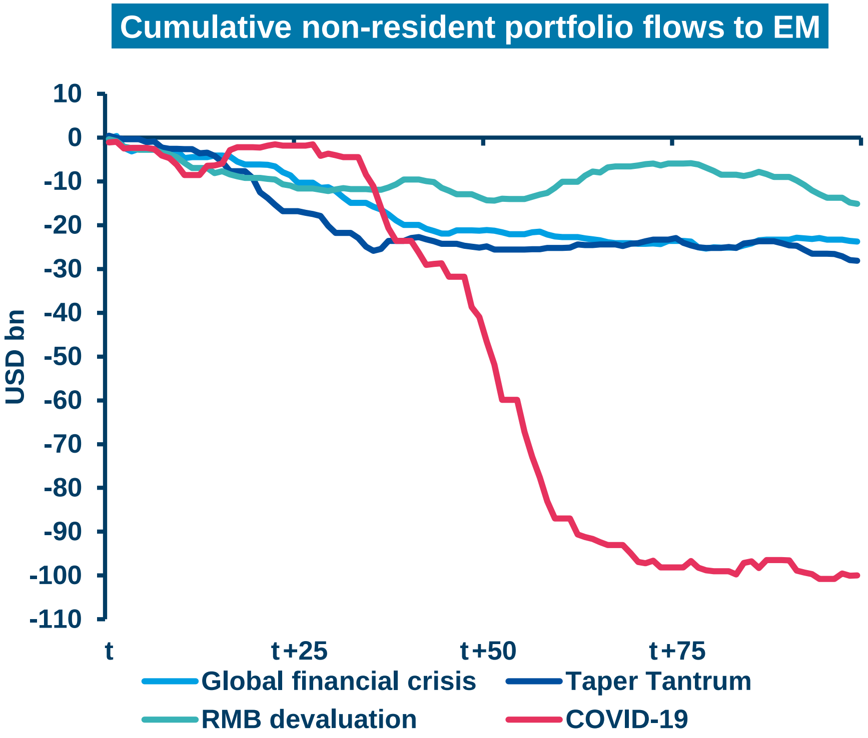
What we have learned from the past is that through strong active management – ability and experience in asset allocation, security selection and risk management – investors can weather such storms.

Crises create market dislocations and accelerate long-term trends, providing new and evolving opportunities.

Investors have to stay agile, focused and prepared to capture new opportunities in fast changing environment.

EM performance and flows: a tough start to the year...





» After a very good 2019 in terms of returns, markets have tumbled due to coronavirus worries. EM equities and HY have been hit hardest, but the impact has been widespread across the board. Cumulative outflows since late January have surpassed the levels observed at the peak of the global financial crisis and in other stress episodes.

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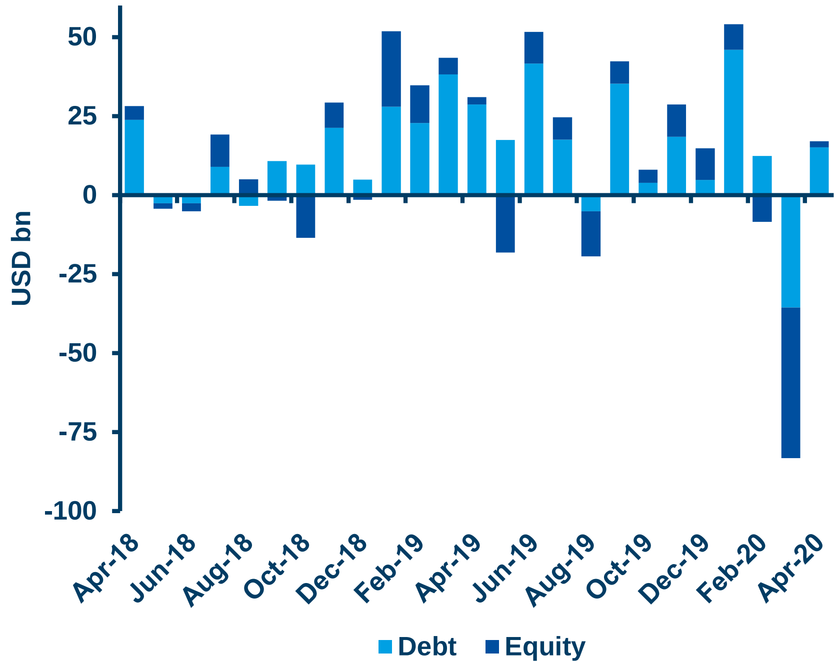
Source: Amundi elaborations on Bloomberg data. As of 8 May 2020. **Past performance is no guarantee of future results.**

Source: Amundi elaborations on IIF data. As of 30 April 2020.

… but some risk appetite has already returned

Non-resident portfolio flows to EM



EM new bond issuance

Macro Themes
Equities
Fixed Income
Currencies

» Portfolio flows to emerging markets have recovered over the past month, supported by debt flows and China equity flows. New bond issuance is likely to materially increase as the size of fiscal response measures will depend on countries' ability to fund new spending.

Source: Amundi elaborations on IIF data. As of 4 May 2020.

Source: Amundi, JP Morgan. As of 30 April 2020.

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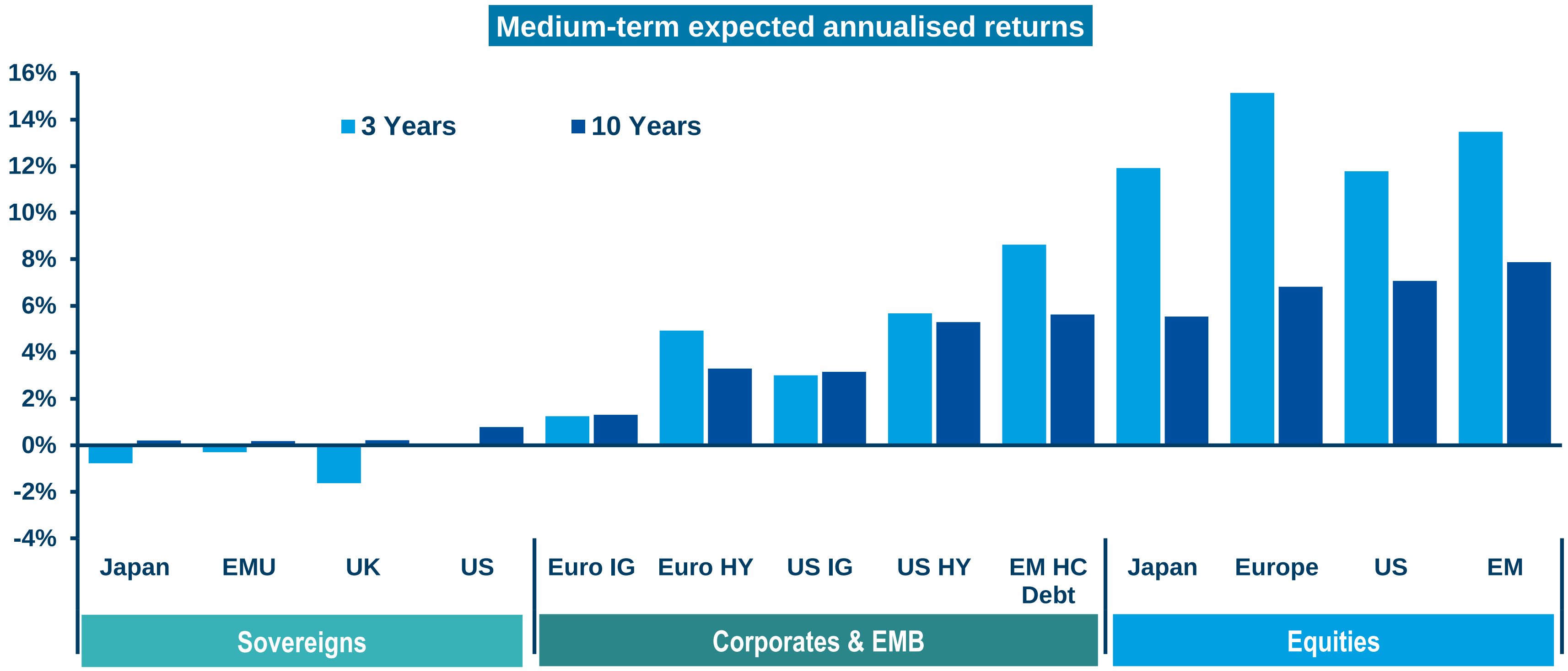
Long-term potential in EM still looks intact



If we look at what investors can expect over the medium to long term (from three to 10 years), we can see that the key sources of potential returns are still present in EM, especially in the equity markets.

Source: Amundi Asset Management CASM Model, Amundi Asset Management Institutional Advisory and Research Teams, Bloomberg. Data as of 5 May 2020, in local currency.

Emerging markets high conviction ideas

Macro Themes
Equities
Fixed Income
Currencies

Macro themes

There are five main themes to watch closely in the EM space: (1) the Covid-19 story. It will be important to observe how quickly normal economic activity is resumed once the lockdown measures are relaxed, notwithstanding the risk of a second wave; (2) the collapse in oil demand and an outright price war between Saudi Arabia and Russia, which is weighing on several EM countries that are linked either to energy prices or more broadly to commodity prices; (3) policymakers' ability to support the economy through the shock on both the monetary and fiscal fronts; (4) China's economic recovery as the world heads towards a recession, as well as its relationship with other affected countries; and (5) the long-term global trends that are set to reshape the geopolitical landscape.

Equities

While valuations look very attractive at this stage, we remain relatively defensive on EM equities. Nonetheless. we are starting to see encouraging developments in countries that look to be at a later stage of the coronavirus cycle. We believe that Covid-19 will favour countries that are close to being autonomous regarding internal demand and that are less dependent on global supply chains and trade. We therefore prefer countries with fiscal buffers and strong domestic bases, such as China, Korea and Taiwan. On the other hand, we are extremely defensive on export-, commodity- and tourism-related stories. The New Silk Road is also an attractive long-term theme.

Fixed Income

We are still cautious but optimistic on EM debt as sentiment has started to improve in terms of asset prices, as well as fund flows. We see value in EM external debt as we think technicals are fairly clean. Overall, we see value in the high-yield space, where spreads have already discounted an extremely high level of defaults. Within local debt, our preference is for EM rates, although we have slightly reduced our bias as rates have performed quite well so far. Nonetheless, there are some tactical opportunities worth exploiting.

Currencies

Even though most of the EM currencies are undervalued, we maintain our bearish view on EM currencies in the short term given the current uncertain macro environment. We think this leaves EM currencies more exposed than in a usual crisis, when EM central banks tend to tighten policy in order to defend their currencies. The absence of carry, along with an uncertain macro environment, has pushed the carry-to-volatility ratio of EM currencies to decade lows.

Source: Amundi. Data as of 7 May 2020. EM = emerging markets, DM = developed markets.

Main drivers shaping the landscape for EM

COVID-19: The economic fallout from the coronavirus outbreak will be severe. It is important to assess the impact on EM economies of reduced tourism, the reduction in China's demand and the disruption of supply chains.

OIL: Forecasts for global oil demand this year have been cut due to the Covid-19 outbreak. OPEC+ members did not reach an agreement on cuts, which has triggered an oil price war.

POLICY MEASURES: EM authorities have shifted to more aggressive easing, exacerbating vulnerabilities in some countries. More action is expected and should come on the fiscal side. The IMF and the World Bank have stepped in to support emerging economies.

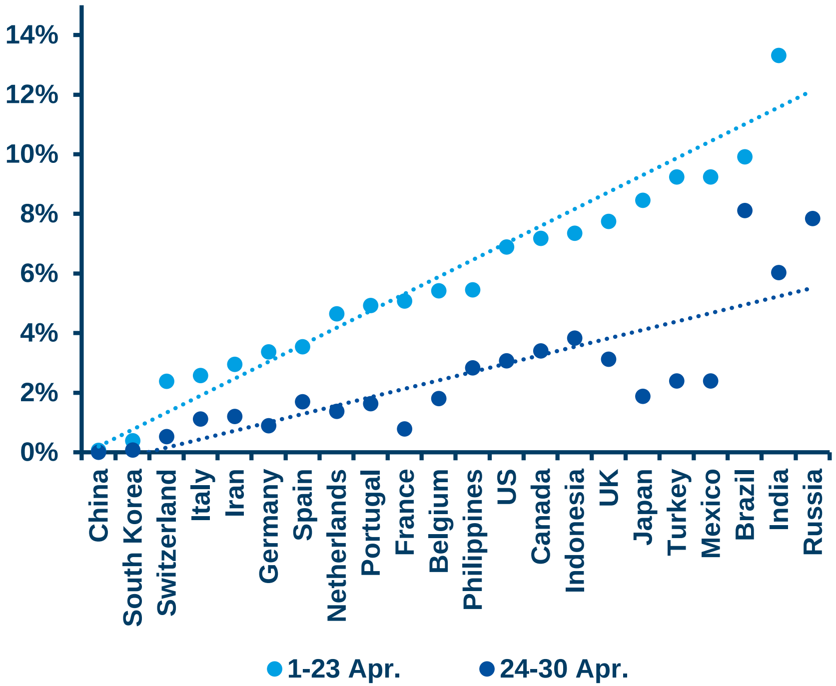
CHINA'S RECOVERY: China's economy has been hit hard and the Chinese government's stimulus will play a key role in managing the growth slowdown and avoiding a hard landing scenario.

LONG-TERM TRENDS: A number of long-term global trends will have far-reaching consequences and are set to reshape the global geopolitical landscape.

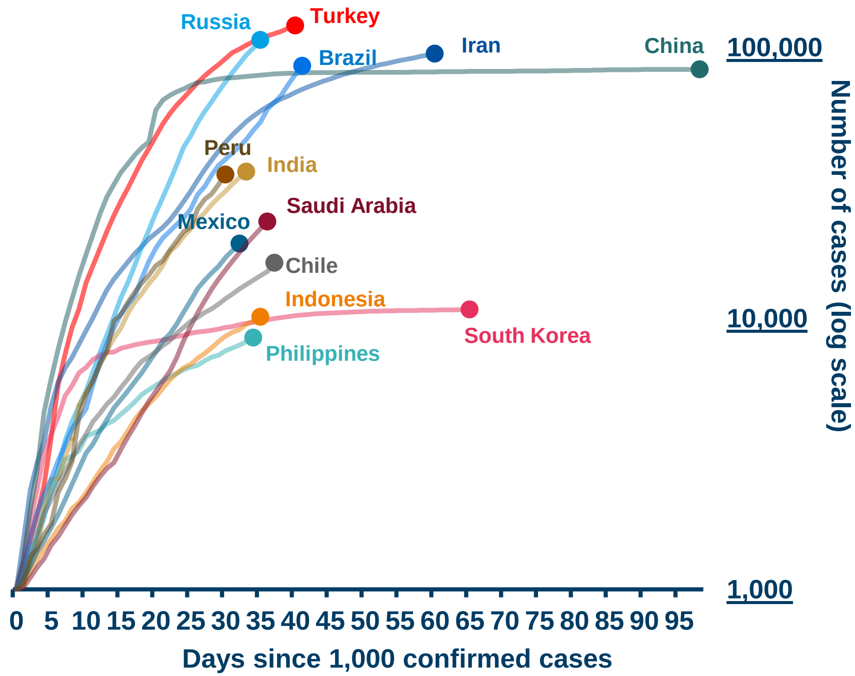
Source: Amundi. As of 30 April 2020.

Covid-19 outbreak now building in several EM

Average daily change in Covid-19 cases



Spread of Covid-19

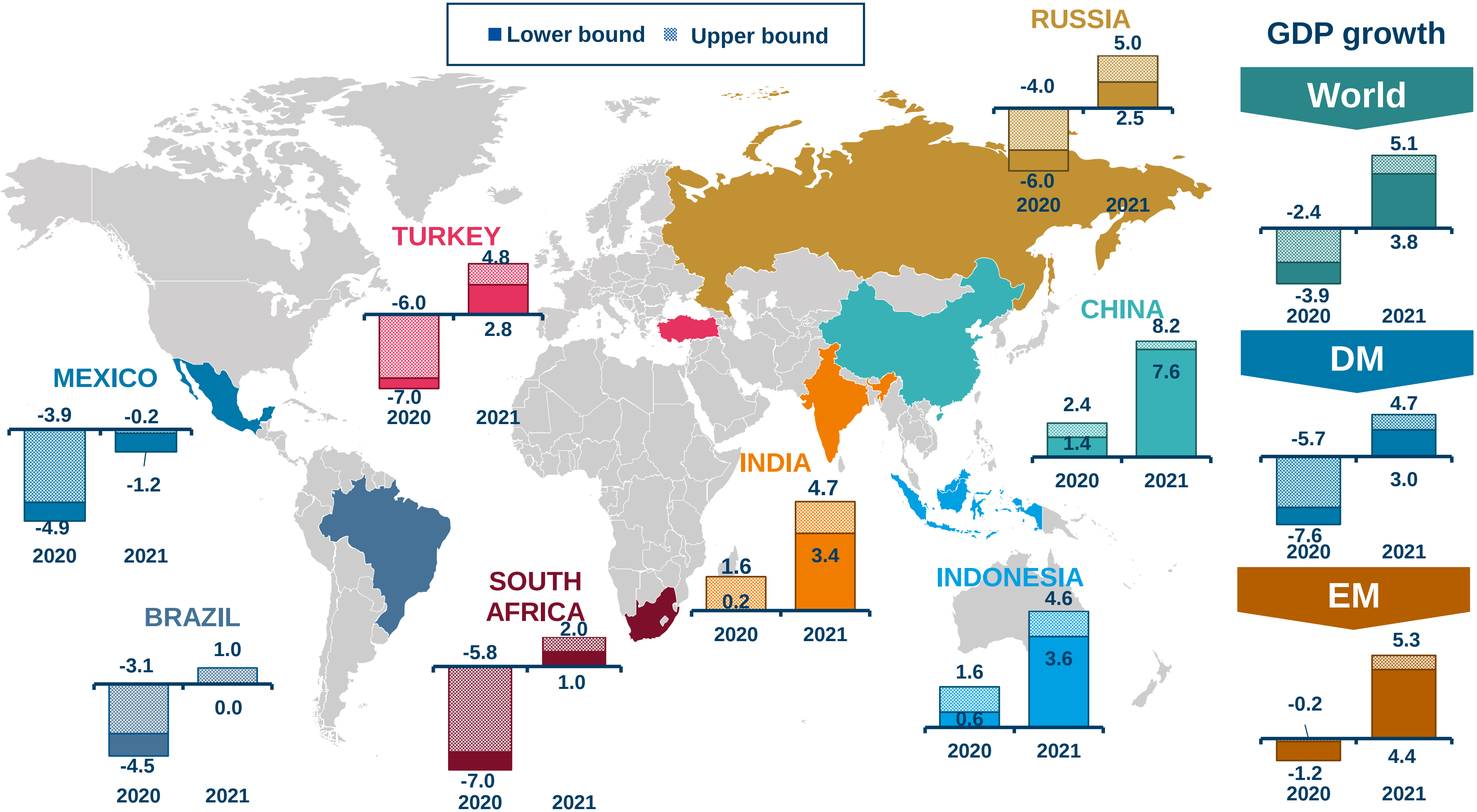


» After the first wave of the Covid-19 outbreak in China and East Asia, and the second wave in Western Europe and North America, a third wave is now building in several EM and frontier markets. However, most of these countries do not have well-equipped health systems and lack the resources to deal with a health emergency.

Source: Amundi elaborations on Worldometers data. As of 30 April 2020.

Source: Amundi elaborations on Worldometers data. As of 30 April 2020.

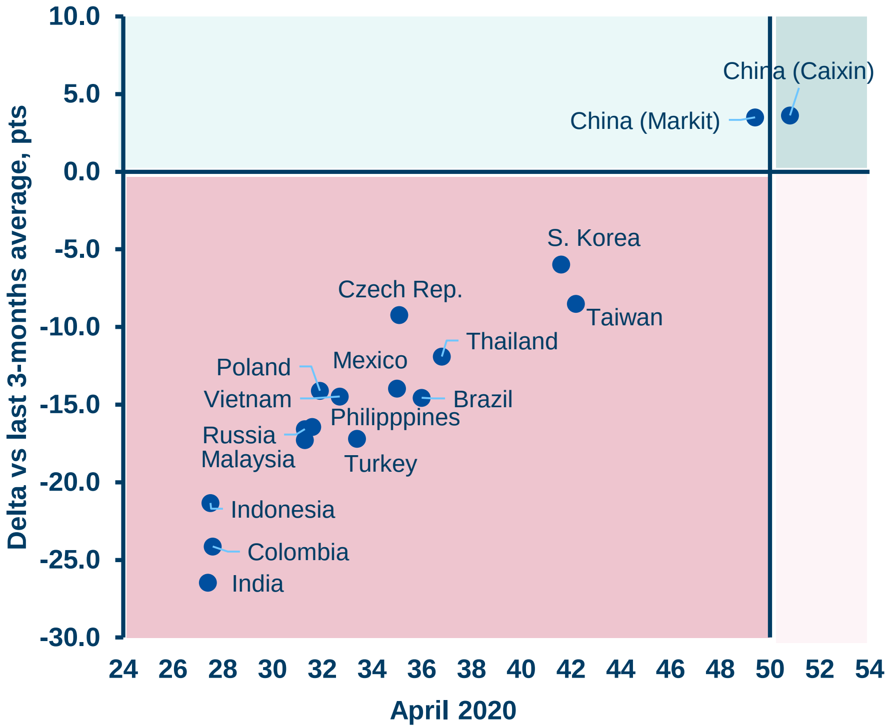
Estimated GDP growth impact of Covid-19



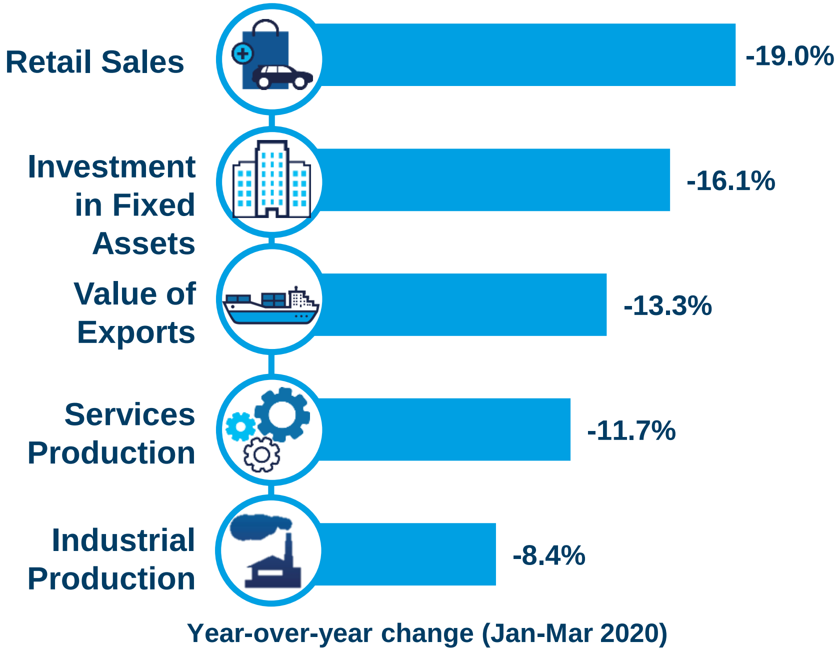
Source: Amundi Research. Latest forecasts are as of 7 May 2020. Data in percentages. Bars represent real GDP growth (YoY%) forecasts.

Virus outbreak is disrupting manufacturing activity …

Manufacturing PMI



China economic indicator



» A reading of manufacturing activity shows that the economies in EM countries have taken a hit from the measures taken to contain the coronavirus. The economic activity lockdown has significantly hurt the manufacturing sector, industrial production and retail sales.

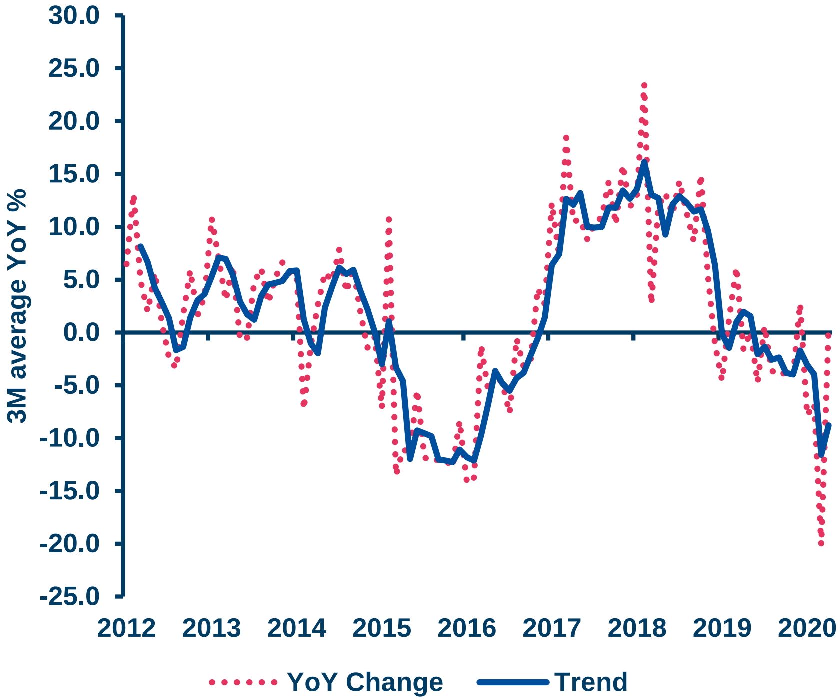
Source: Amundi elaboration on Markit data. As of 6 May 2020.

Source: Amundi, Bloomberg, National Bureau of Statistics of China. Data as of 24 April 2020.

Macro Themes
Equities
Fixed Income
Currencies

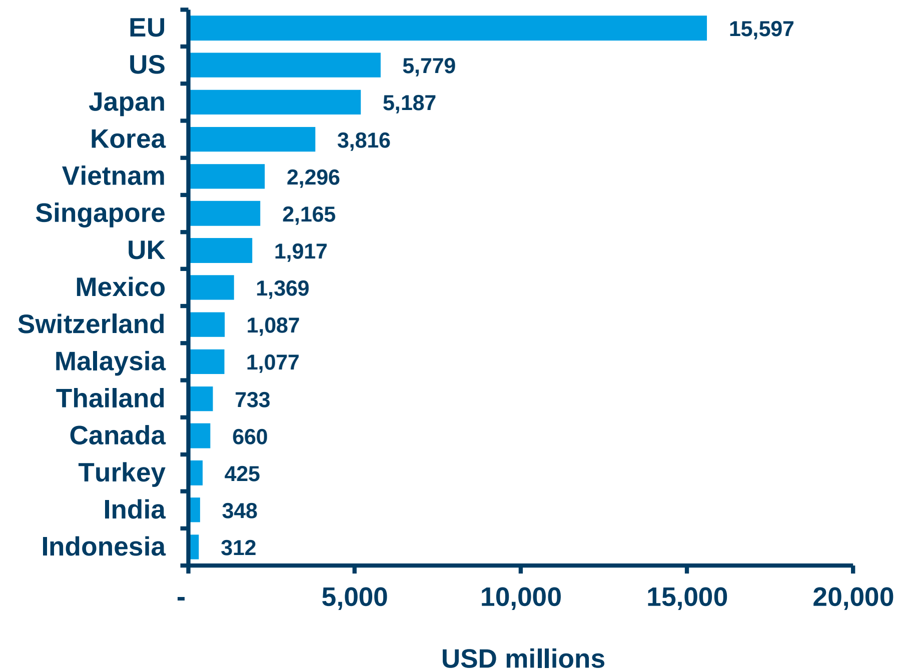
… and having a knock-on effect on global trade

EM aggregate exports



Source: Amundi elaboration on Markit data. As at 7 May 2020.

Most affected countries by supply disruption in China



Source: Datastream, Amundi Research. Data as of 30 April 2020.

» Global trade growth in 2020 could fall by as much as 32%, with the possibility of a 24% rebound in 2021, according to WTO forecasts. The slowdown of manufacturing in China due to the coronavirus outbreak is disrupting world trade and global value chains, according to estimates by UNCTAD.

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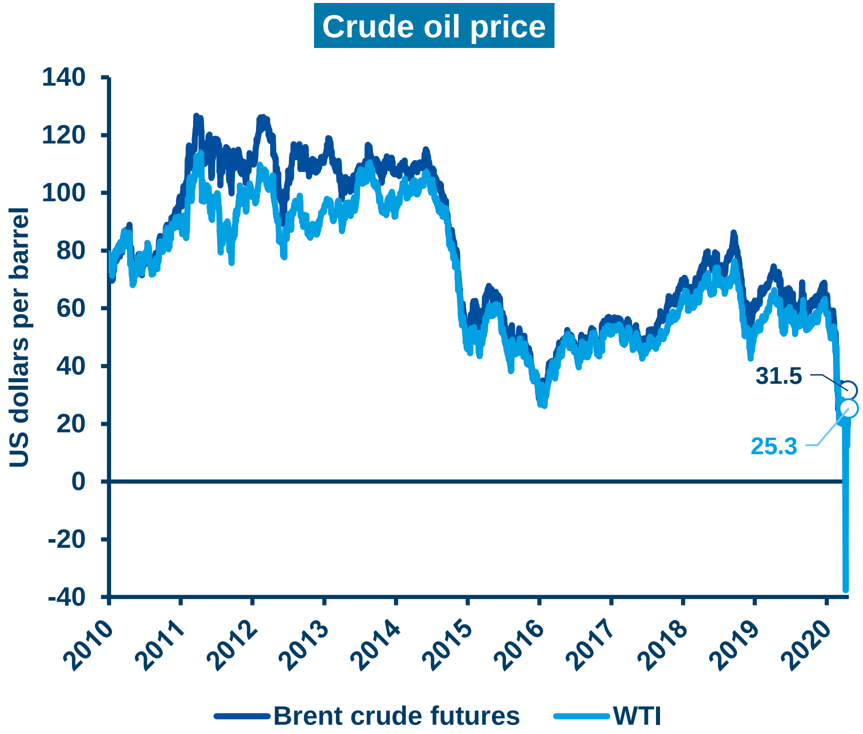
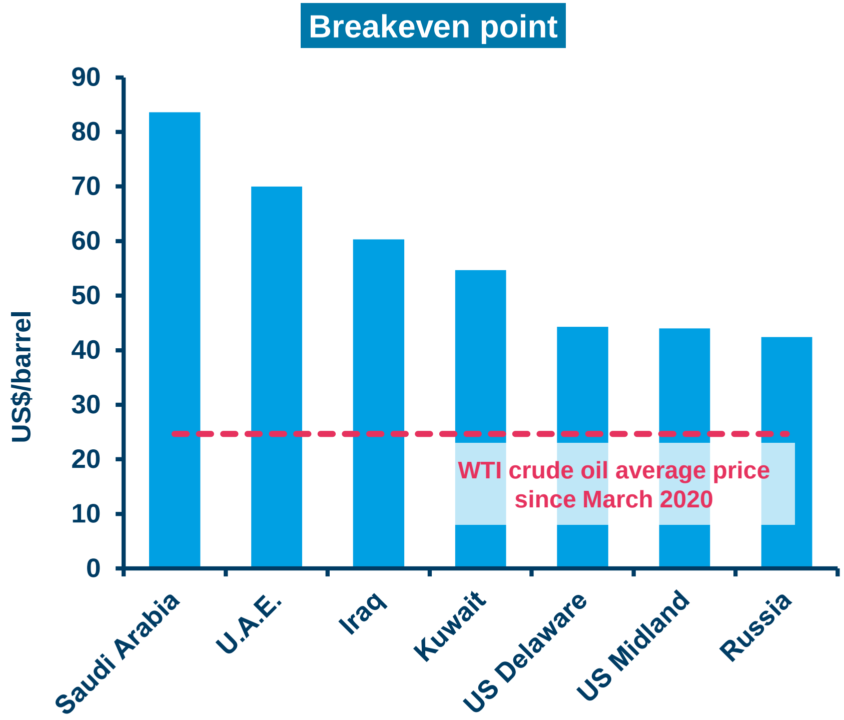
Current oil price is unsustainable



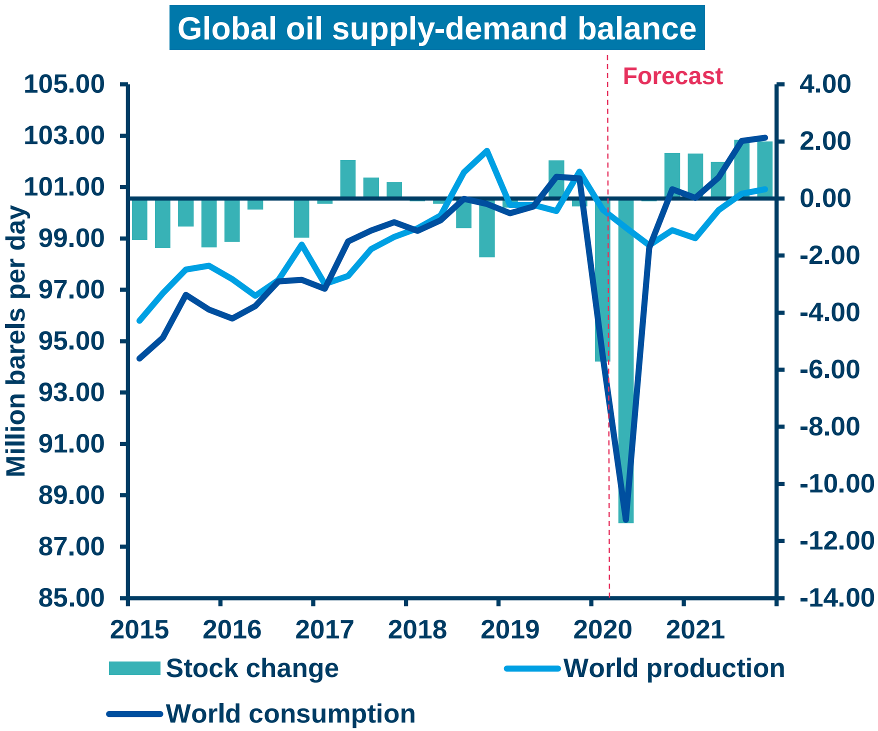


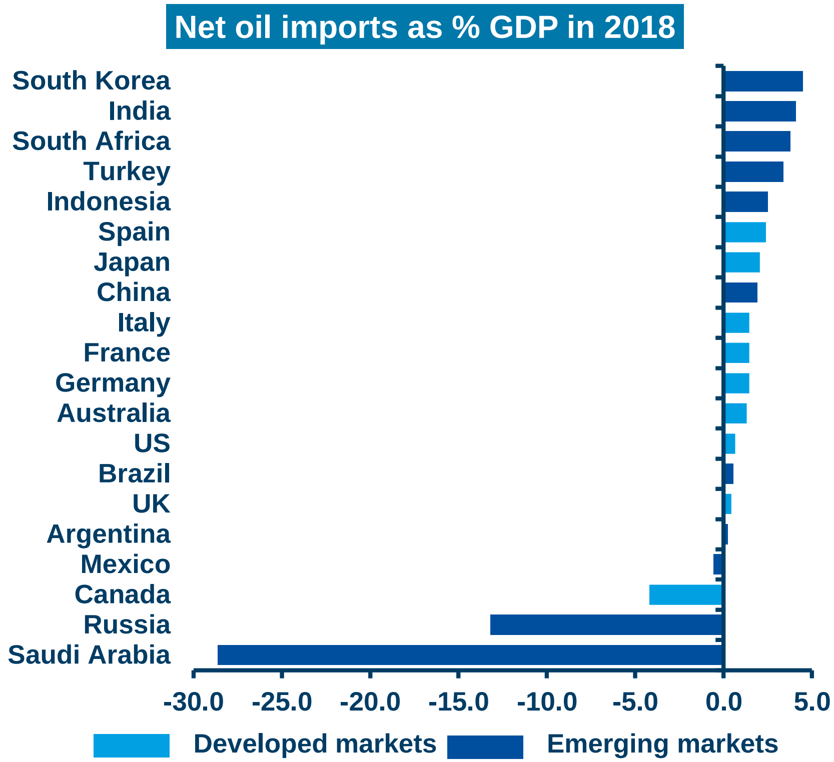
» Cyclical commodities such as oil are not getting any support from the economic backdrop due to the current global lockdown. The current level of oil prices is unsustainable for oil producers as the breakeven on their oil production is lower than that at which exporters balance their budgets.

Source: Amundi, Bloomberg. Data as of 6 May 2020.

Note: Fiscal breakeven oil prices aren't the same as oil producer breakevens, but provide a good comparison for countries with national oil companies. Source: Amundi, IMF, BTU Analytics. As of 24 April 2020.

Oil price crash amid demand and supply concerns



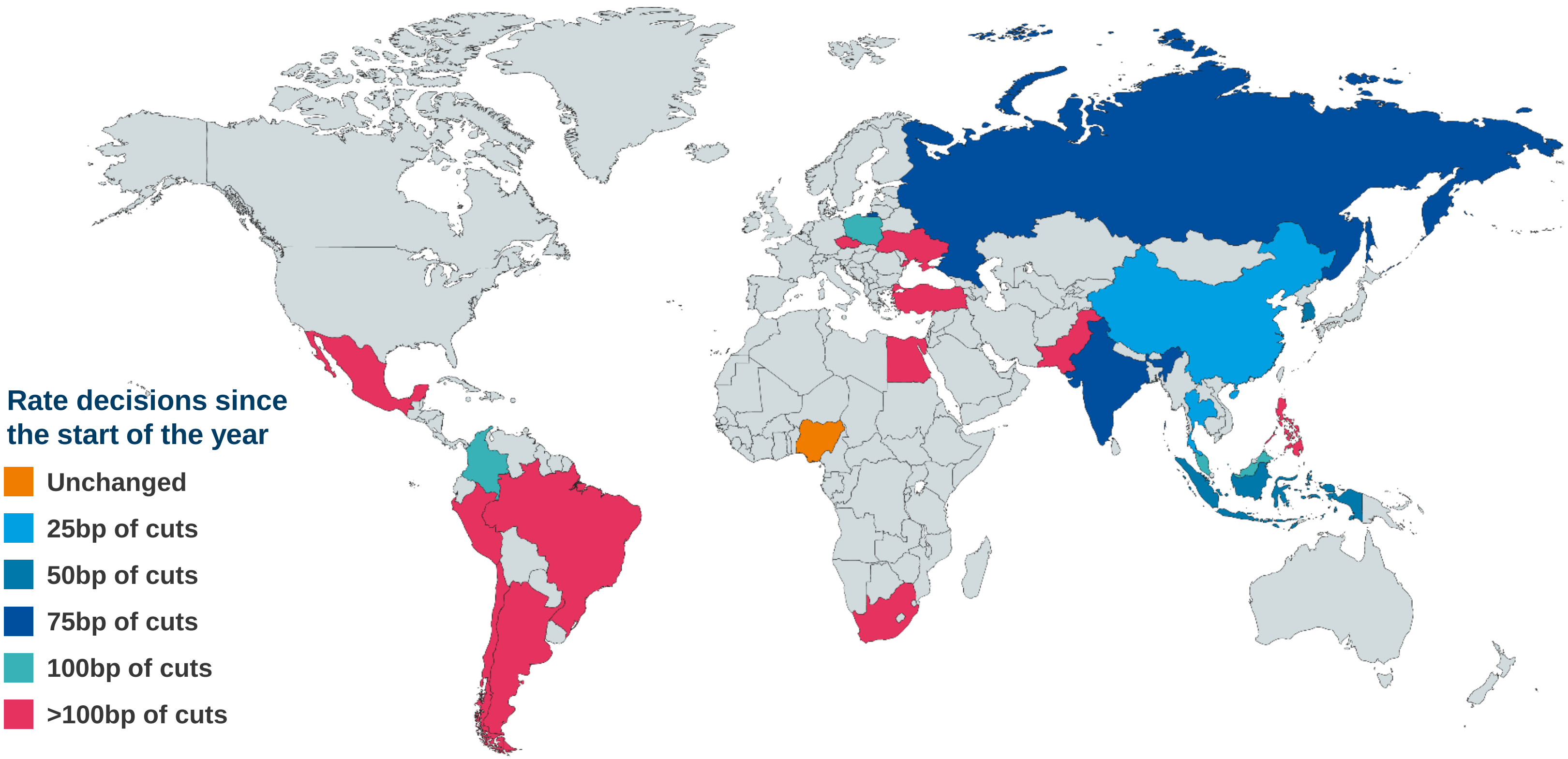


» The International Energy Agency projects that coronavirus will cause a record slump in global demand. While oil prices may benefit from a recovery in economic activity, markets are currently discounting a huge structural oversupply. Net importers of oil such as China, South Korea, India and Turkey are expected to benefit from the weaker oil price.

Source: Amundi, EIA Short-Term Energy Outlook, April 2020. As of 24 April 2020.

Source: Amundi, IMF, Bloomberg Economics. As of 30 April 2020.

Emerging CBs cut interest rates to sustain economy



Emerging central banks continue to cut interest rates as policymakers try to sustain economies hit by the coronavirus outbreak. Policymakers are also using bond buying and liquidity injections in an attempt to ease the economic hit from the virus.

Note: People's Bank of China cut is 30 basis points. Source: Amundi, Bloomberg.. As of 7 May 2020.

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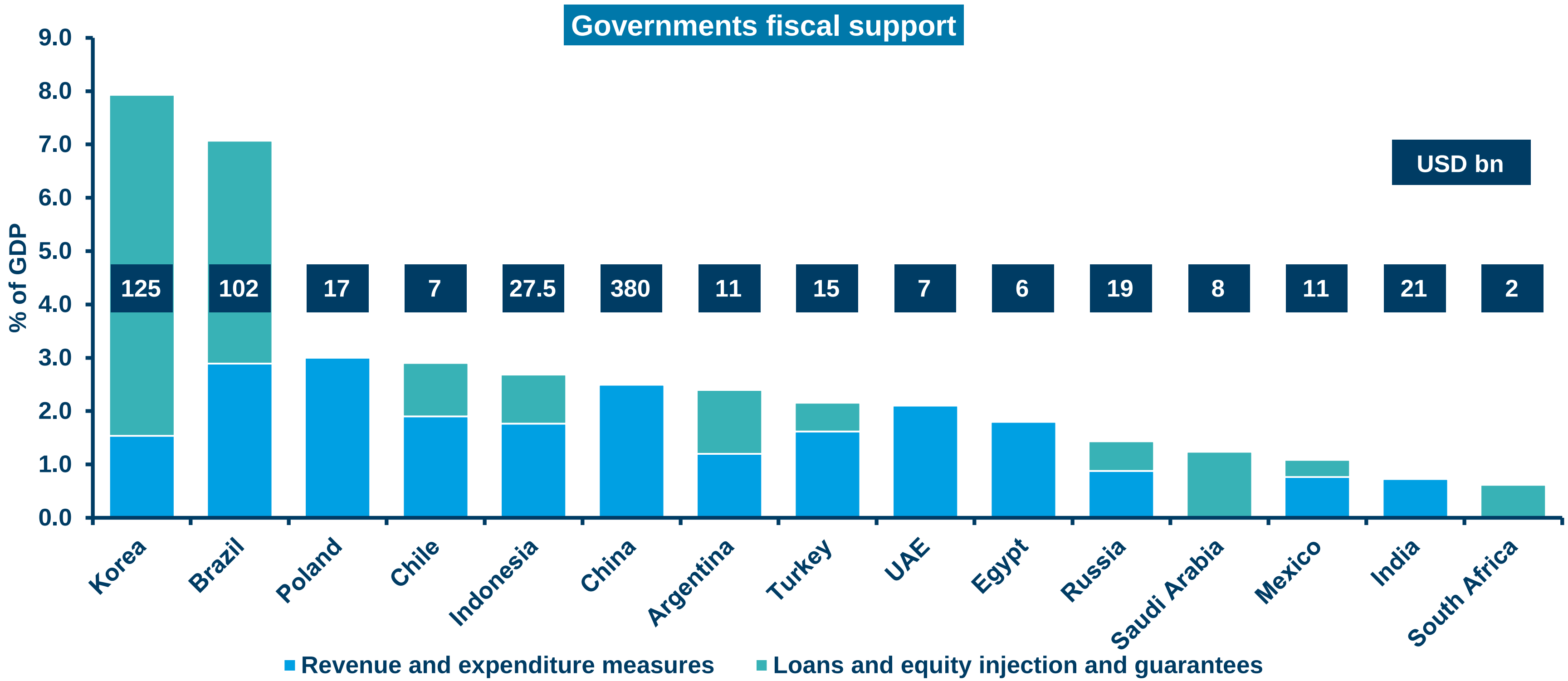
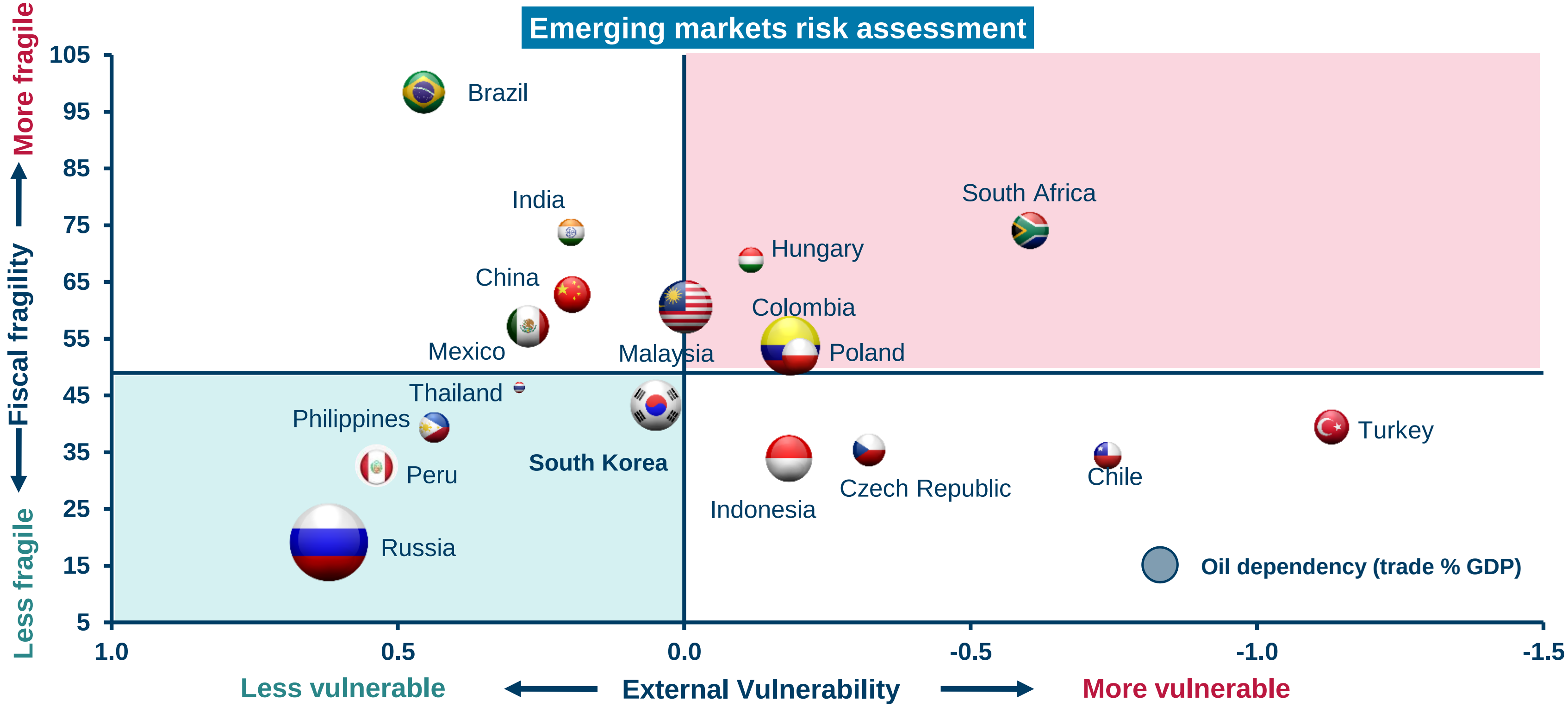
Fiscal measures to contain the damage from Covid-19



Emerging markets governments have responded to the crisis with fiscal measures to keep their economies afloat. We expect continued recourse to monetary and fiscal policies will help economies stabilise.

Source: Amundi. IMF Fiscal Monitor – April 2020. As of 8 April 2020.

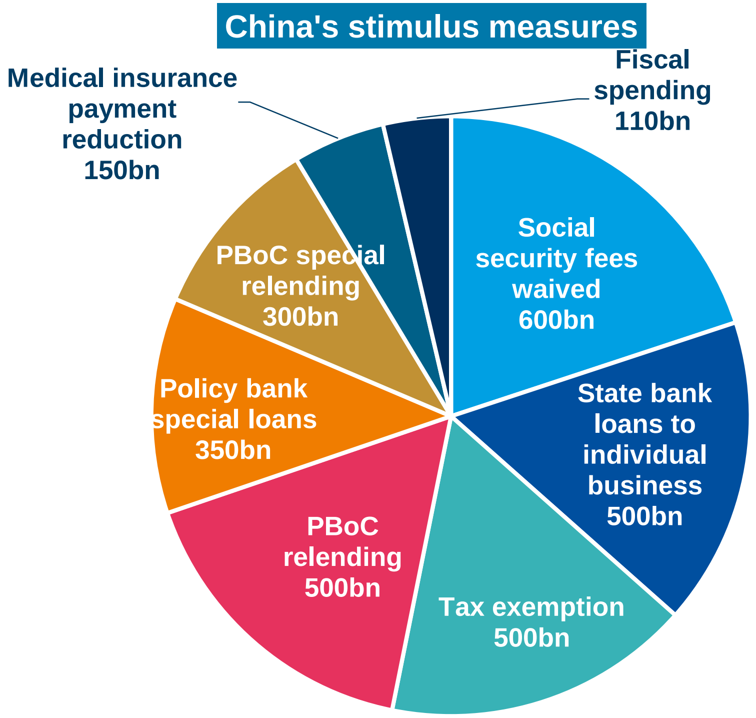
Not all countries have the same firepower



Governments are announcing packages of fiscal and monetary stimulus, but they need to balance the particularly difficult challenge of addressing capital flow reversals and commodity shocks. In a climate of higher debt, a strong USD and low oil prices, the countries in the bottom-left quadrant have adequate fiscal and reserves buffers.

Notes. Y-axis: Fiscal fragility is based on Amundi Research's debt projections, which take into account nominal growth, rates, the primary deficit (post Covid-19), external vulnerability and oil dependency on the trade side. X-axis: Amundi Research's external vulnerability rank. Source: Amundi Research, CEIC, IMF, WTO. As of 30 April 2020,

China's economy contracts, but measures in place



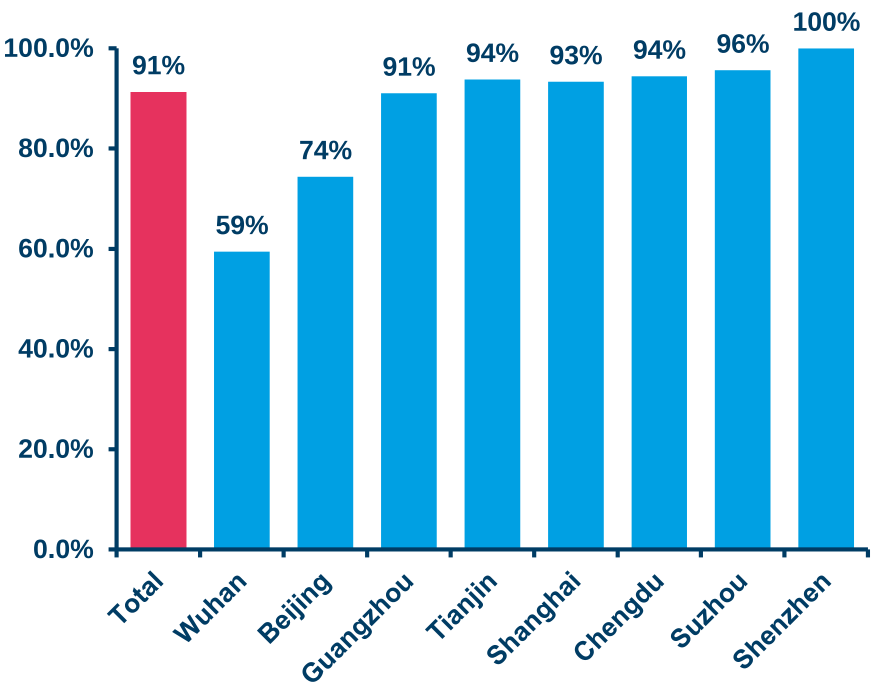
» China's economy collapsed by 6.8% in the first quarter of 2020. The economic activity lockdown significantly hurt the manufacturing sector, industrial production and retail sales. However, China has launched policy measures to support economic growth, with the PBoC providing medium-term lending for banks and cutting the interest rate.

Source: Bloomberg, forecasts by Amundi Research. Growth projections in 2020 and 2021 is the average between lower and upper bound estimates. Data as of 27 April 2020.

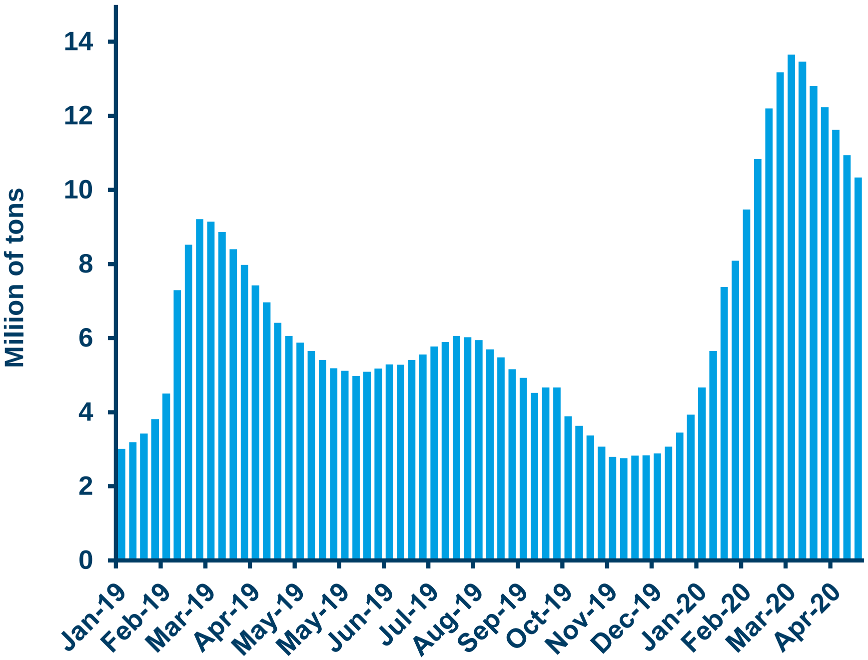
Source: Amundi, WSJ, Offical sources. As of 20 March 2020.

Economic activity recovering in China

China economic recovery index



China steel inventory

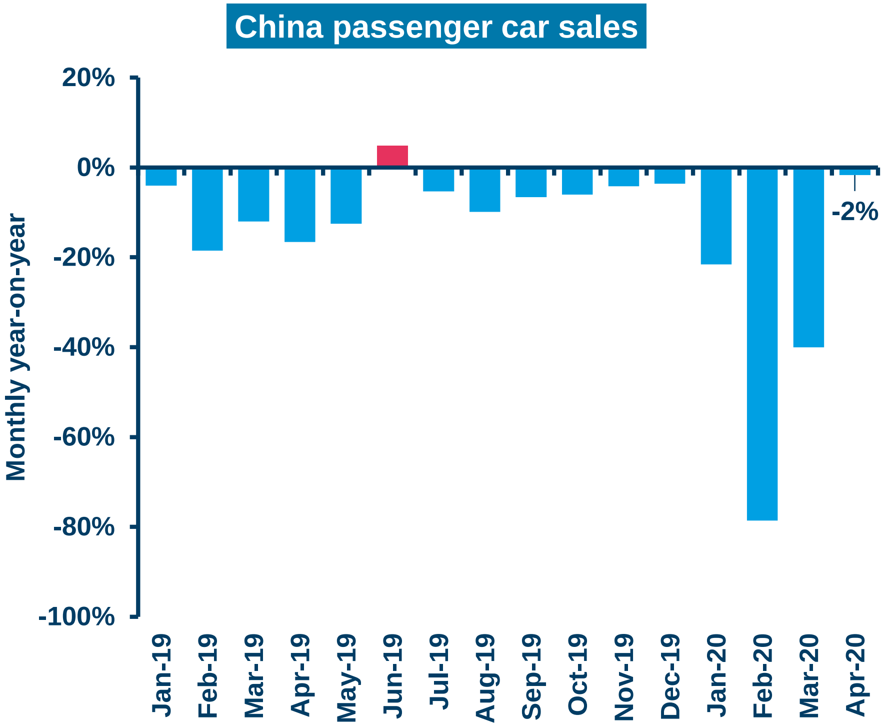


» China is slowly emerging from its shutdowns by restarting production at factories and resuming some flights. Employees are returning to work and production lines are starting to roll. China's steel inventories continue to drop as activity recovers.

Source: Amundi, Bloomberg Economics. As of 30 April 2020.

Source: Amundi, Bloomberg. Data as of 30 April 2020.

Chinese consumer spending to recover



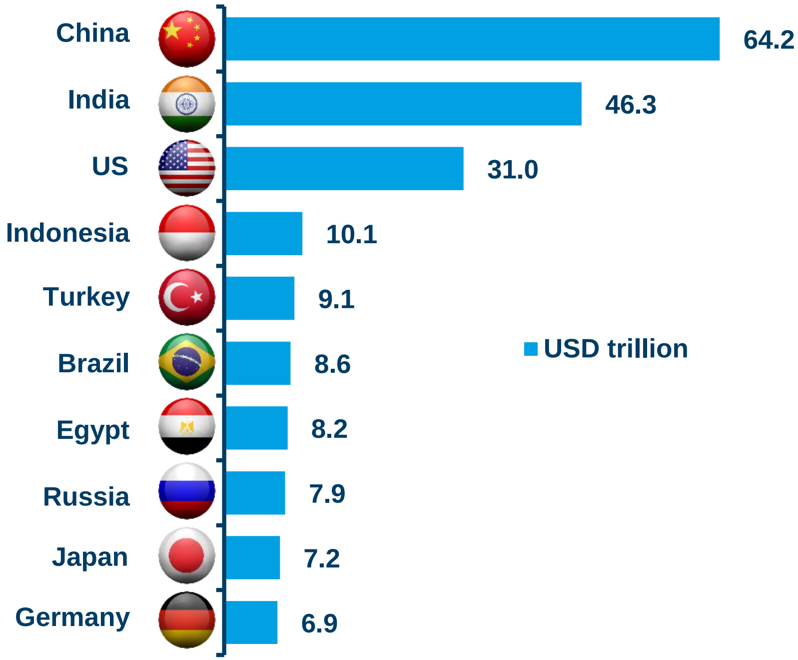
» Consumer shares are outperforming, suggesting that households are starting to spend. Car sales in China probably hit a bottom in February and are set to gradually rebound as the spread of the virus slows and consumers return to shopping.

Source: Amundi, Bloomberg. As of 30 April 2020.

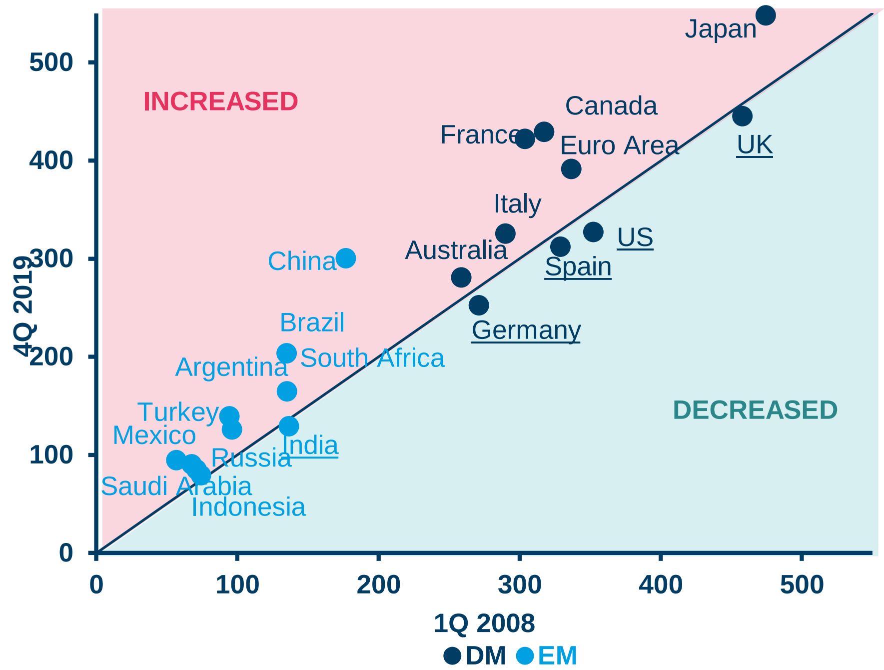
Source: Amundi, China Passenger Car Associaton. Data as of 30 April 2020, Macro Themes | Equities | Fixed Income | Currencies

Consumer spending and relatively low debt ratios

Global purchasing power in 2030



Total debt to GDP



Note: Total debt is the sum of government debt, household debt, financial sector debt and non-financial corporate debt.

Emerging economies are making up a bigger share of global purchasing power. By 2030, it is expected that emerging markets will represent the lion's share of total consumer spending.

Source: Amundi, World Economic Forum, Standard Chartered. As of 30 April 2020.

Source: Amundi, IIF Global Debt Monitor. As of 30 April 2020,

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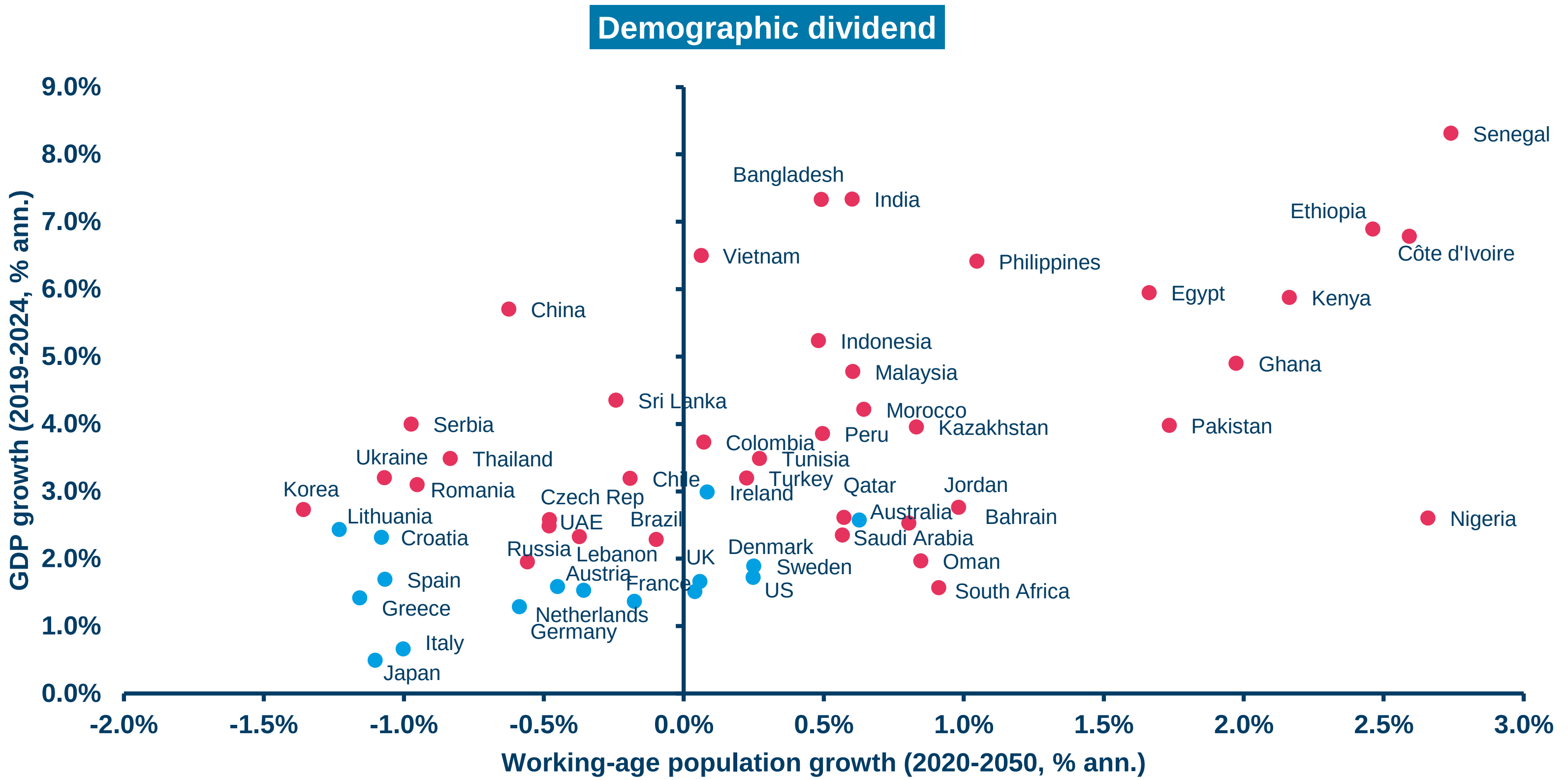
Demographic dividend and urbanisation rate



The demographic dividend is a key factor to consider. The change in the working age structure allows countries to reap relatively large economic growth. Demographic shifts will generally lead to higher levels of urbanisation and the higher the rate of urbanisation, the greater the investments in human capital and businesses.

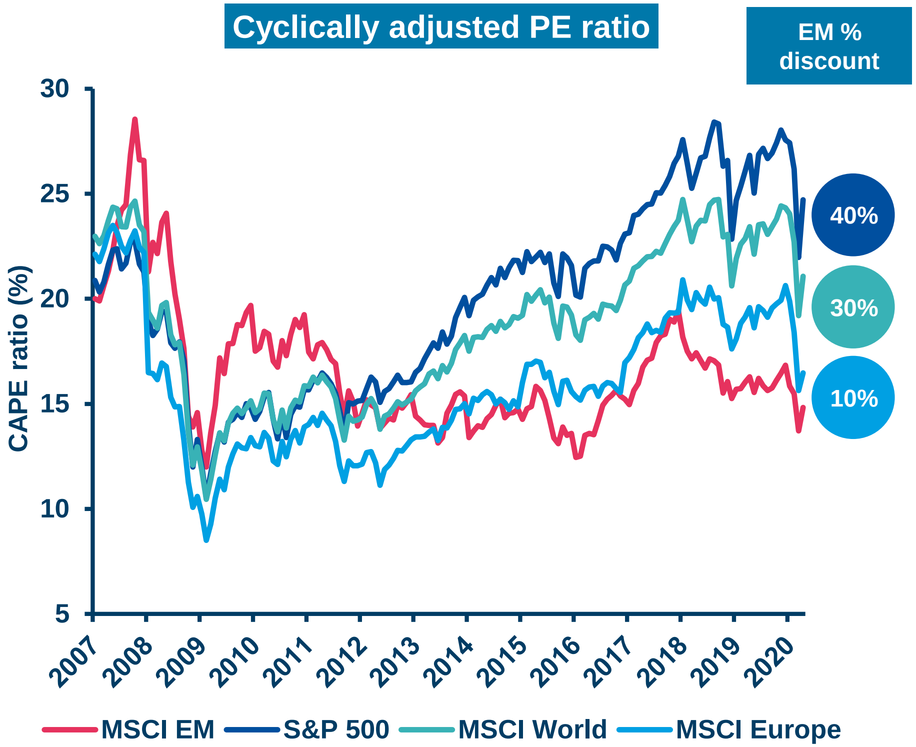
Source: Amundi, United Nations, IMF. As of 30 March 2020.

Three key themes for EM equities

VALUATIONS	Attractive valuations (historically and vs. DM), earnings expectations outpacing peers
MARKET DISLOCATIONS	Recent market conditions are creating pricing dislocations. Misalignments between coronavirus curves could offer opportunities
THE NEW SILK ROAD	Opportunities in countries with a relatively large demographic dividend and a rapid urbanisation process

Source: Amundi. As of 30 April 2020.

Valuations and earnings expectations favour EM

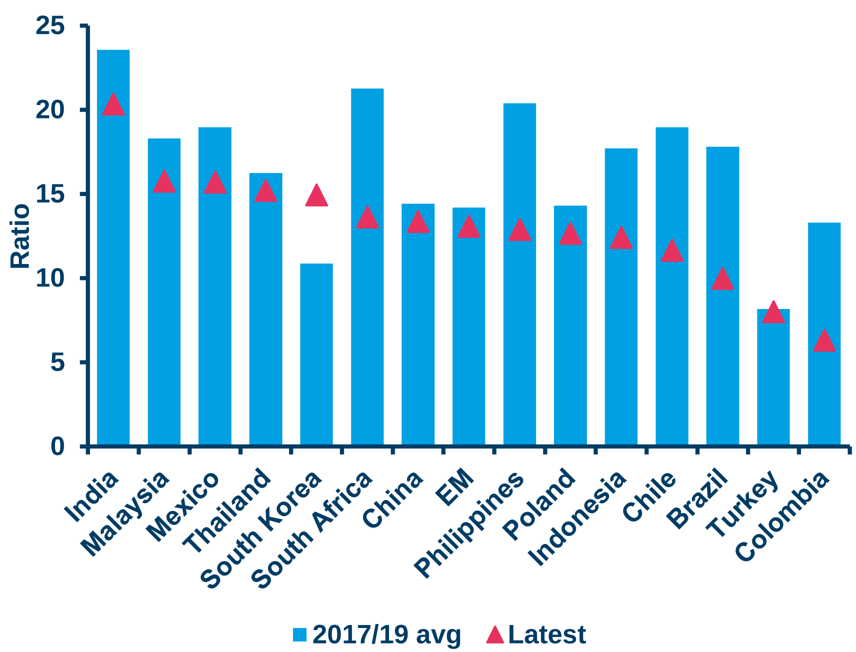


From a valuation perspective, EM still look attractive compared with DM. Based on the cyclically-adjusted price to earnings (P/E) multiple, EM trade at ~15 times one-year projected earnings and at a ~30-40% discount to DM valuations. EM earnings expectations have started to outpace DM peers again since March.

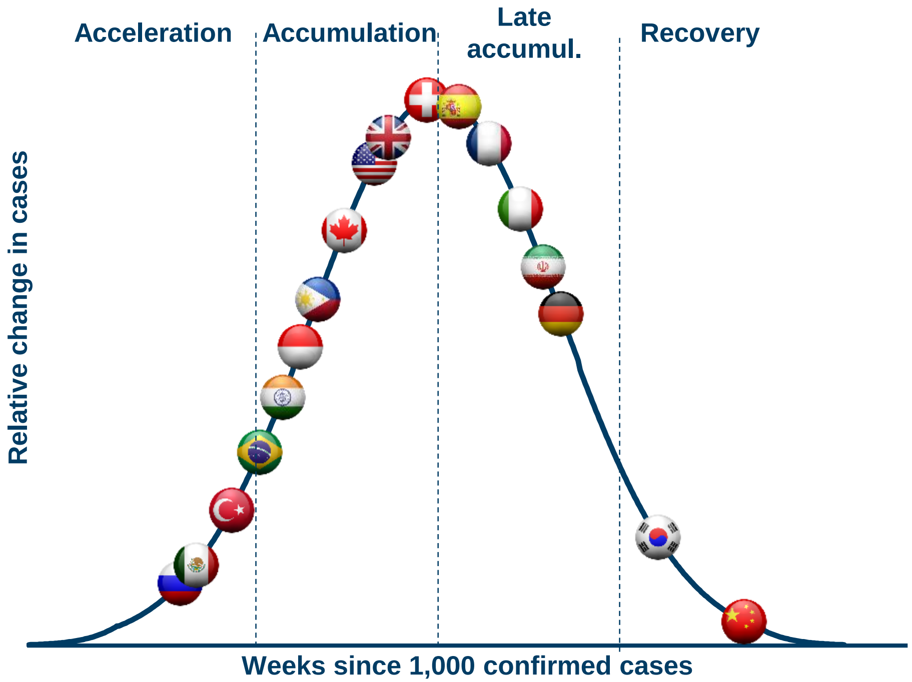
Source: Amundi, Bloomberg. Data as of 30 April 2020.

Source: Amundi, Bloomberg. Data as of 4 May 2020.

Exploit market dislocations



Source: Amundi, Bloomberg. Data as of 4 May 2020.



Source: Amundi, Bloomberg. Data as of 21 April 2020.

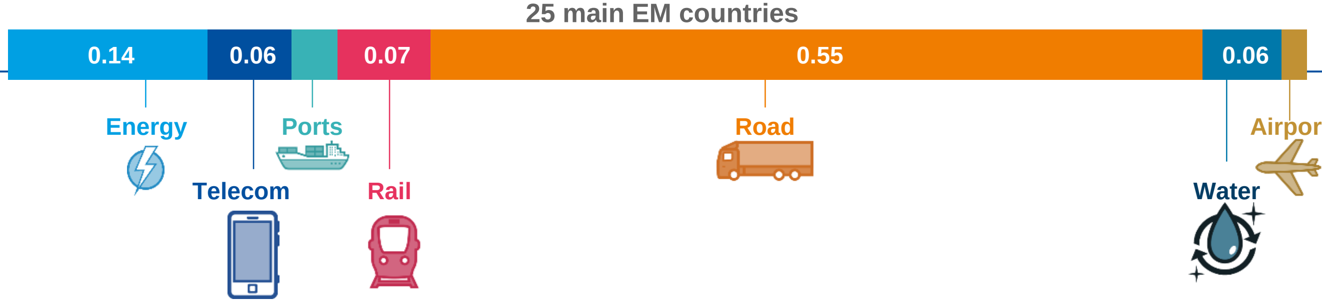
» At this stage, there are encouraging signs in countries that look to be at a later stage of the coronavirus cycle. After the uncertainty recedes, there will be pockets of opportunities, thanks to policy support and compelling valuations.

Opportunities surrounding the New Silk Road initiative

More than **130** countries involved	**70%** of world population	**55%** of World GDP	**75%** of global Energy Reserves	**30%** of global Goods & Services

0.9% of annual GDP

Average gap between current annual infrastructure spending and infrastructure need up to 2040 in the 25 main EM countries



Opportunities surrounding the New Silk Road are numerous and spread among all of the participating countries, especially those with a relatively large demographic dividend and a rapid urbanisation process. For these countries, spending under the initiative represents an opportunity to close their infrastructure gaps.

Source: Amundi. Data as of 30 April 2020.

Major investment convictions in EM equities

Positive on countries at a later stage of the virus cycle	**China – Korea – Taiwan Eastern Europe**
Favourable toward countries with strong domestic bases and fiscal buffers	**China consumer discretionary – Russia**
Constructive on countries able to benefit from the supply chain and trade disruption	**Korea – Taiwan – Turkey – East. Europe**
Defensive on names dependent on export, commodities and tourism	**Middle East – Chile – Thailand**

Source: Amundi. As of 6 May 2020.

Three key themes for EM bonds

GRADUAL ENTRY POINTS

Current valuations could present an attractive opportunity for investors seeking entry into the market

YIELD PREMIUM

Interesting yield premium, but focus on country fundamentals and vulnerabilities

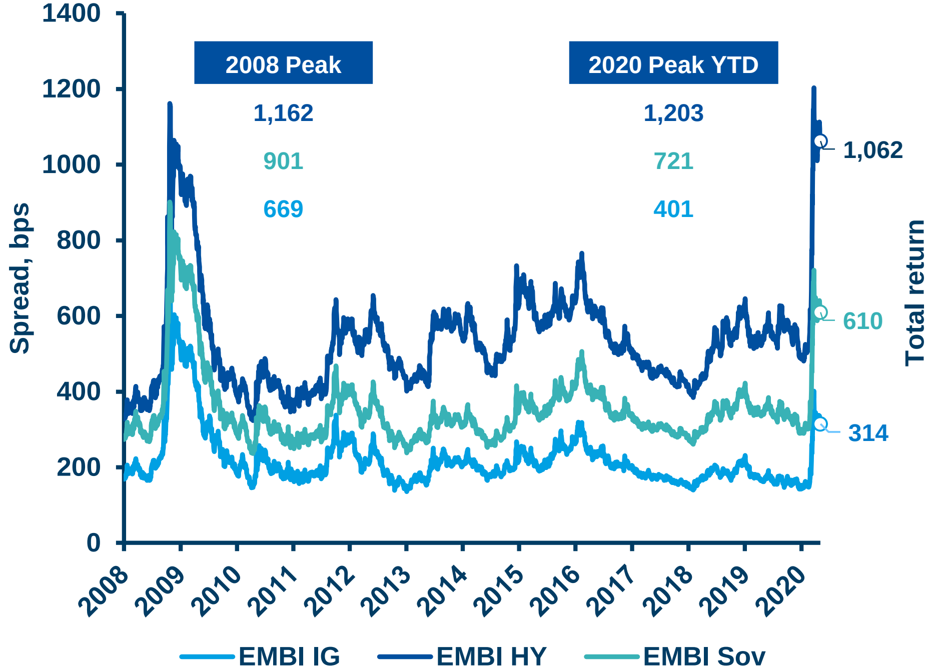
ESG FOCUS

Green bond market is growing and attracting new investors

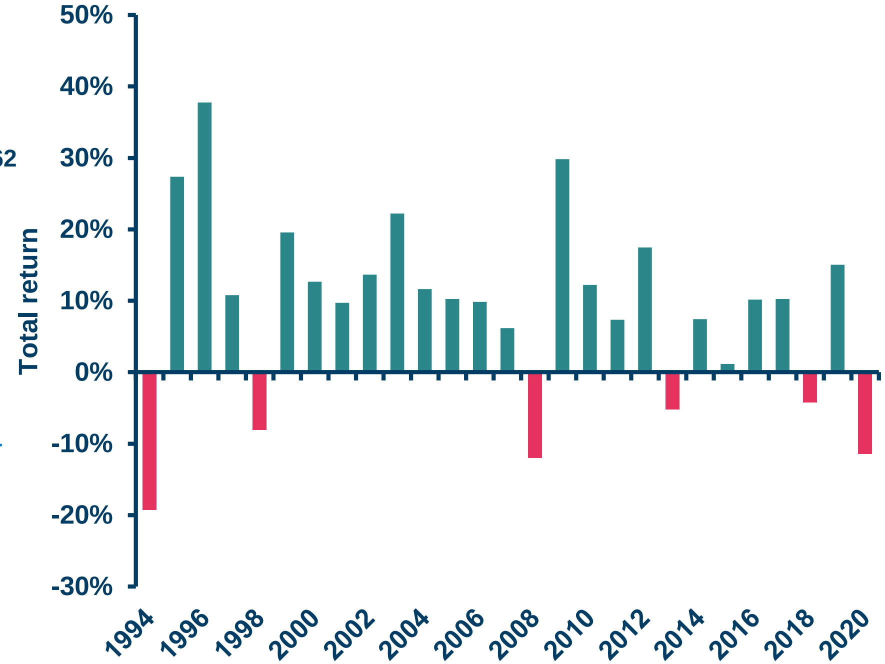
Source: Amundi. As of 30 April 2020.

Attractive valuations, buying the capitulation is rewarded

EM sovereign spread



EM hard currency sovereign debt index

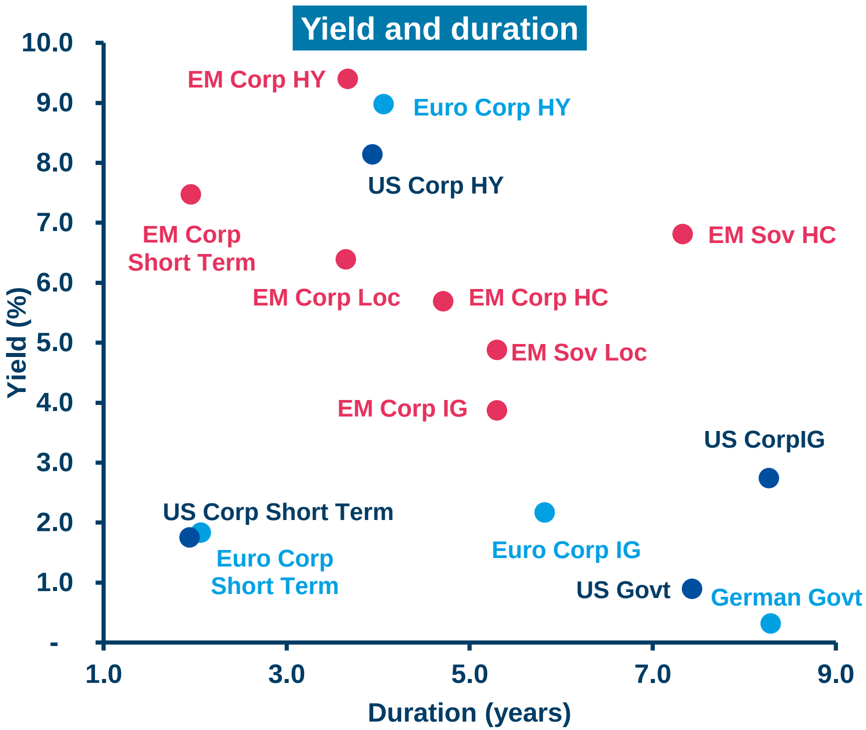


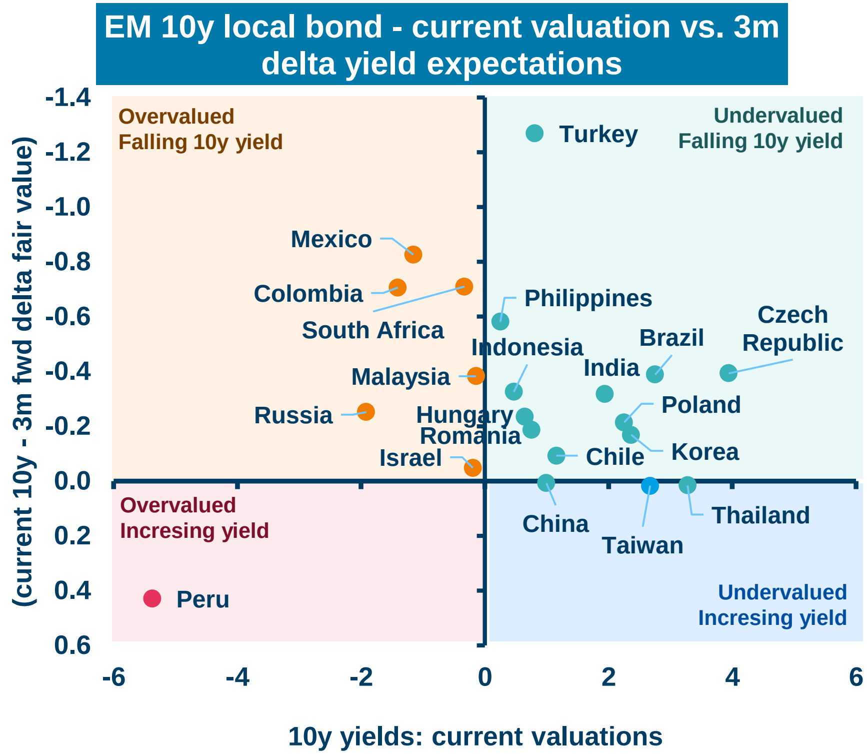
» Concern over the impact of the coronavirus has increased the level of yield EM sovereign dollar bonds must offer to investors. Current valuations could present an attractive opportunity for investors seeking entry into the market. Historically, a year of negative performance in the EM hard currency sovereign bond index has been followed by strong positive returns the next year.

Source: Amundi, Bloomberg. Data as of 4 May 2020.

Source: Amundi, Bloomberg. Data as at 4 May 2020.

Attractive yields for EM bonds, but selectivity is needed



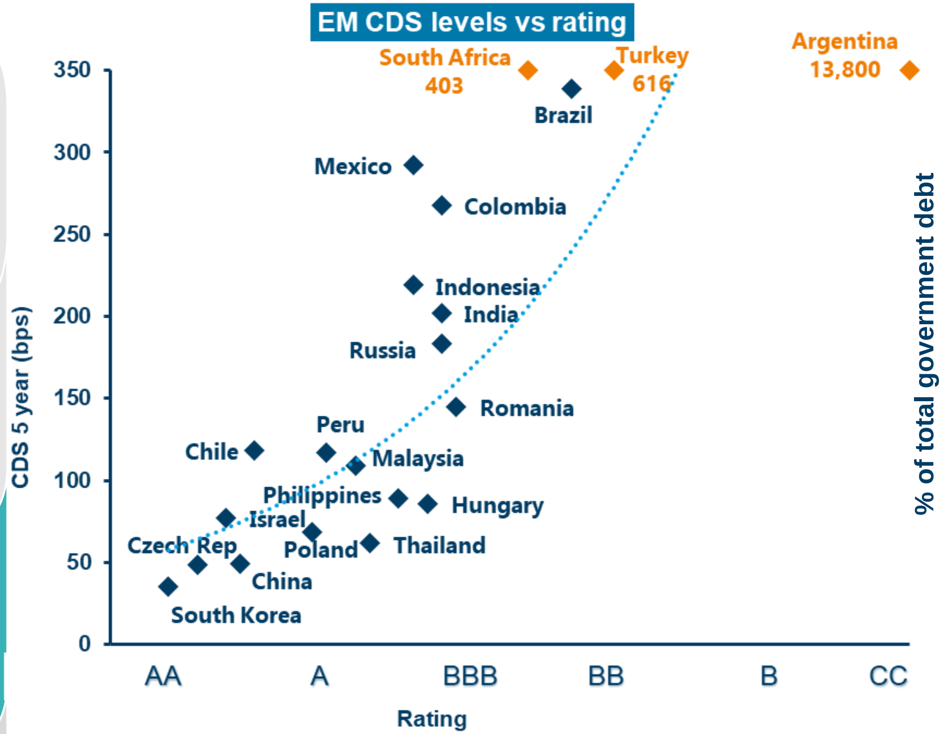


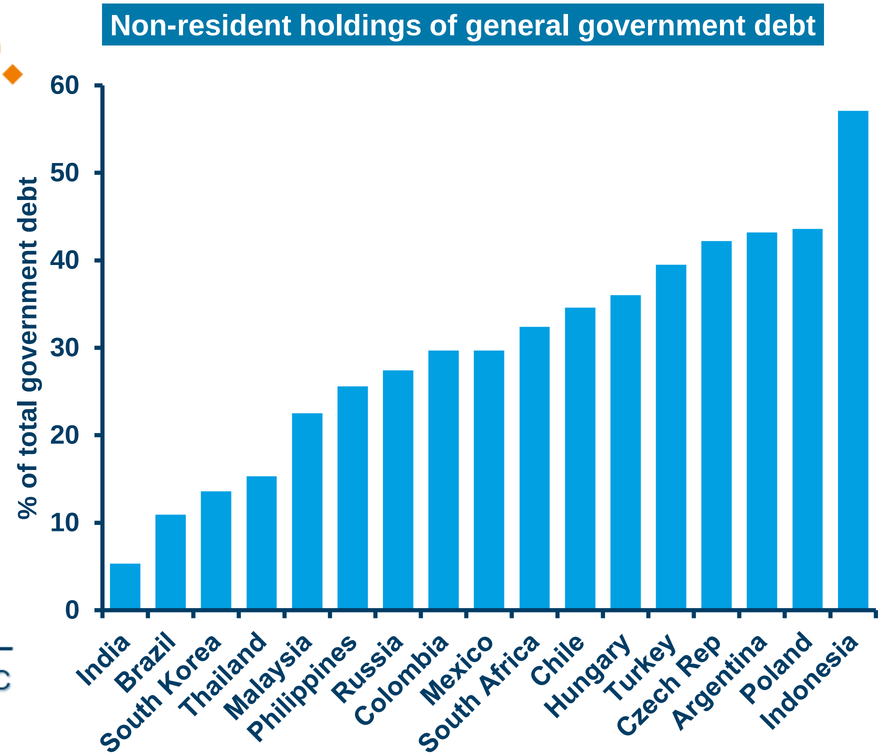
In the long run, investors may benefit from the higher yield level of EM bonds. The dovish stance from central banks is favouring long duration bonds. However, greater selectivity is needed as the risks to global growth have increased and market liquidity is scarce.

Yields for the euro-denominated indices have been computed by taking into account the USD hedging costs. See notes at the end of this presentation for details of indices. Source: Amundi analysis on Bloomberg data. As of 4 April 2020.

Source: Amundi analysis on CEIC data. As of 30 April 2020.

Country solidity: a key element for selection



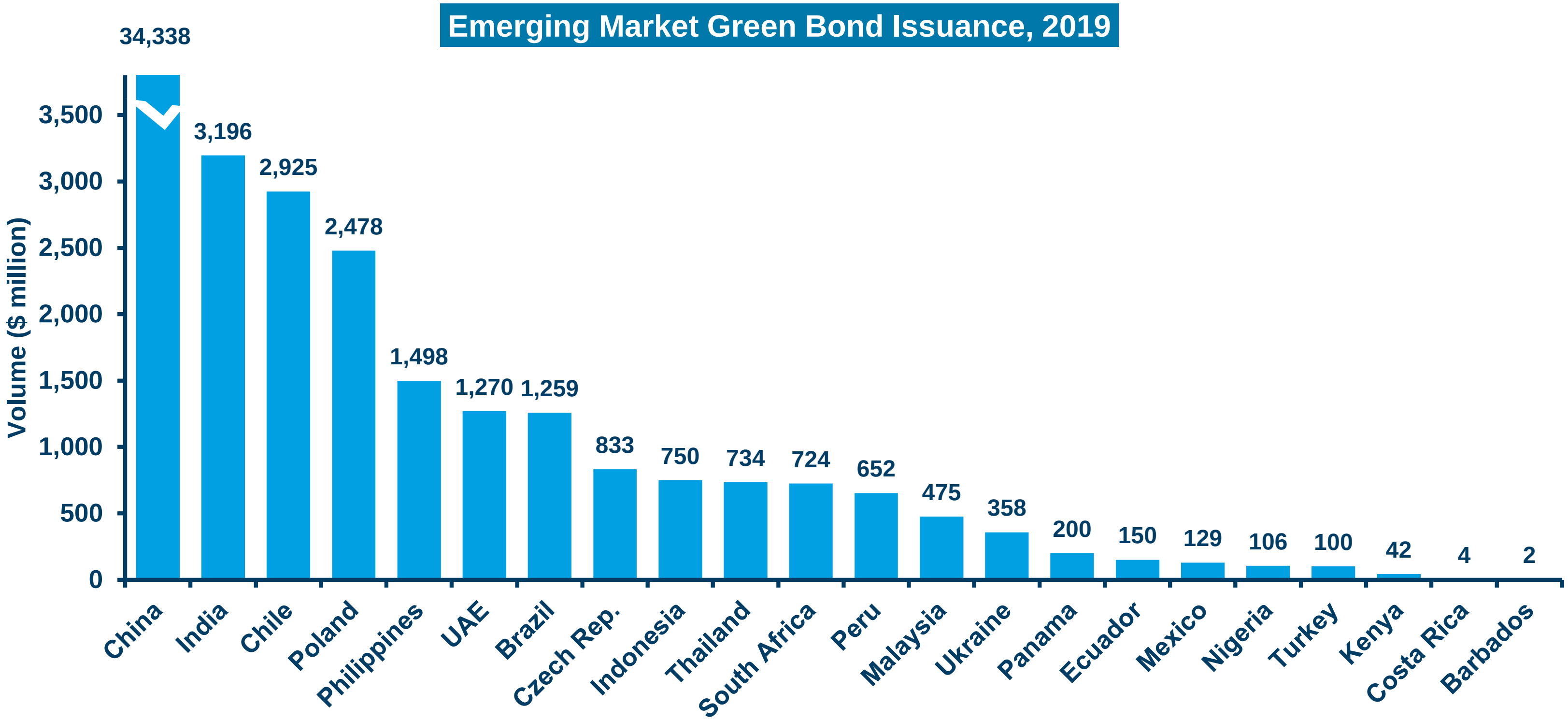


A key element of selection is assessing the strength of a country's financial position (and also of single bond issuers) as some emerging markets are less risky than others as they are less exposed to the currency and liquidity crisis. Emerging countries with low external financing availability have been more restrained in their fiscal response.

Source: Amundi, Bloomberg. Data as of 30 April 2020. Argentina, South Africa and Turkey are out of the y-axis scale.

Source: Amundi, IMF Fiscal Monitor April 2020. As of 30 April 2020.

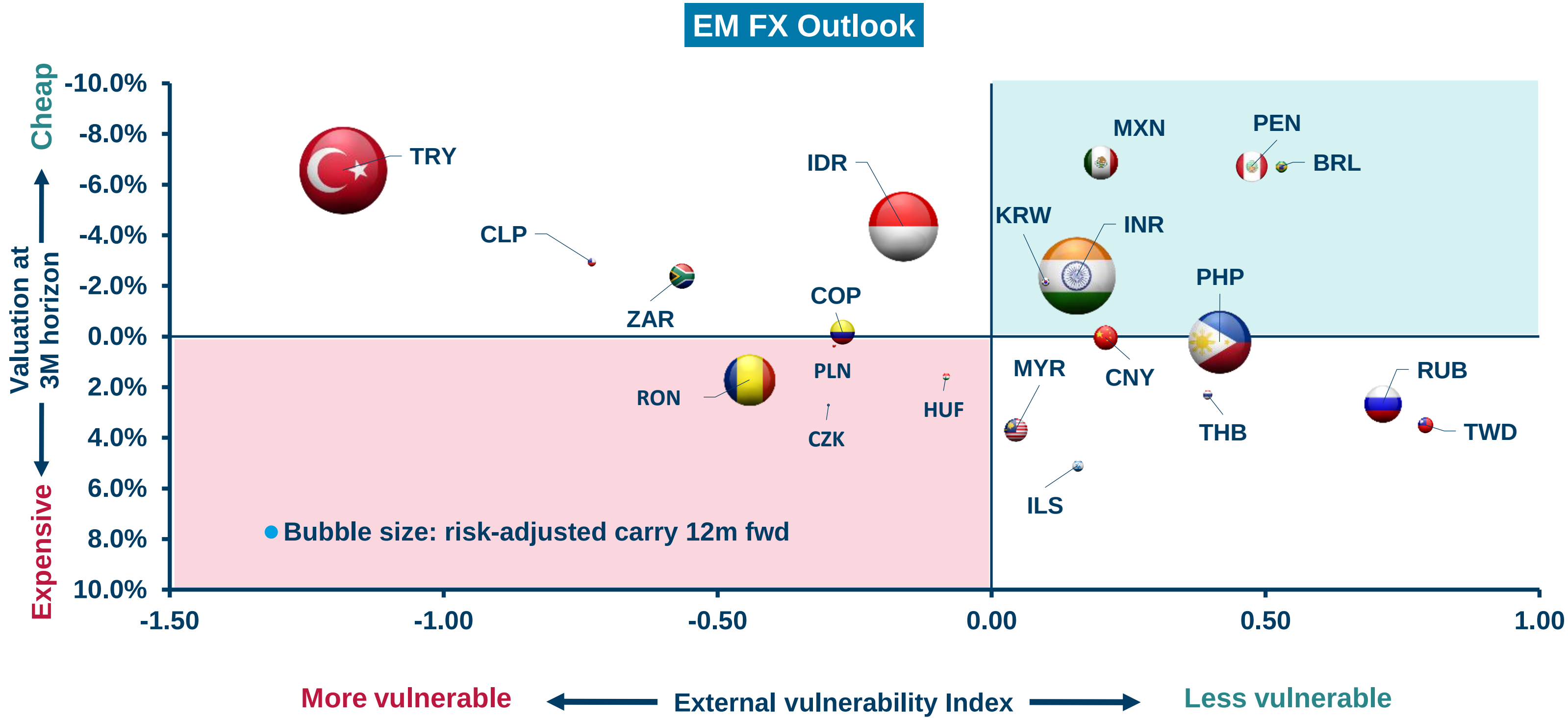
Momentum builds for EM green bonds



» Investors have shown an increasing appetite for green investments, which have proven more resilient when compared with their traditional counterparts. In an environment of low rates and greater recognition of the environmental challenges, the opportunity for yield and to invest with positive environmental impact are two key investor expectations that EM green bonds can perfectly match.

Source: IFC Global Macro & Market Research, Bloomberg, Dealogic, Environmental Finance, Climate Bonds Initiative.

EM currencies remain under pressure



EM currencies have tumbled due to concerns that the coronavirus will hurt growth. Commodity currencies and those with limited fiscal policy space are particularly vulnerable. At this stage, Asian currencies appear to be better placed to recover in H2.

Source: Amundi Research, Bloomberg. As of 30 April 2020.

Major investment convictions in EM bonds and FX

SOV	**Comfortable within the hard currency space. Preference for high-yield names**	**Brazil – Mexico – Bahrain Indonesia – CEE**
LOC	**Positive on countries with room for further interest rate cuts, little risk on FX valuations**	**Russia – Mexico Indonesia – Philippines South Africa – CEE**
CORP	**Constructive amid attractive valuations vs. EU and US credit. Focus on selective HY**	**Chinese Real Estate – Russian Financials – Brazilian Corps – Mexican Energy**
FX	**Very defensive on growth- and commodity-sensitive currencies**	**CNY – KRW – MYR – TWD – COP – TRY**

Source: Amundi. As of 6 May 2020.

Key takeaways

	EMERGING MARKETS	
	EM EQUITIES	**EM BONDS**
KEY THEMES	- **Valuations** - **Market dislocations** - **Domestic focus / regional themes**	- **Valuations and technicals** - **Yield premium** - **Green bonds**
HOW TO PLAY?	- **Global**: diversified and selective approach, with focus on domestic growth drivers - **Asia**: valuations and fundamentals, trade risk constantly monitored - **Latin America**: resilient growth stories, political stability and reforms - **CEMEA:** reasonable valuations and solid earnings outlook - **New Silk Road:** play the new role of China in the geopolitical landscape	- **Hard currency bonds:** attractive carry, better risk-return balance, support from strong liquidity measures by central banks - **Aggregate**: opportunity and diversification enhancement - **Corporates**: improved valuations, attractive premiums, benign default cycle, positive technical momentum - **Green bonds**: A new and fast growing market opportunity

Contributors

EMERGING MARKETS PLATFORM

Yerlan SYZDYKOV
Global Head of Emerging Markets

Sergei STRIGO
Co-Head of Emerging Markets Fixed Income

Patrice LEMONNIER
Head of Emerging Markets Equity

Colm D'ROSARIO
Deputy Head of Emerging Markets Fixed Income

ECONOMIC AND STRATEGY RESEARCH

Alessia BERARDI
Head of Emerging Markets Macro & Strategy Research

Karine HERVE
Senior Economist

Claire HUANG
Senior Economist

Debora DELBÓ
Senior Equity Strategist

Viviana GISMUNDO
Deputy Head of Institutional Advisory

Sosi VARTANESYAN
Senior Economist

INVESTMENT INSIGHTS UNIT

Claudia BERTINO
Head of Amundi Investment Insights Unit

Giovanni LICCARDO
Amundi Investment Insights Unit

Recent EM Publications

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

Date	Title
5 May	Emerging Market green bonds – Report 2019
30 April	Emerging markets, navigating among several shocks
17 April	Coronavirus crisis: impact and implications for Emerging Markets
17 April	Blue Convictions - SPECIAL COVID-19 - Emerging Markets: a lower pressure on outflows
21 February	Exports' dependence to China and Asia of more than 70 countries
18 February	What can we expect from CEE4's recent data
10 February	Turkey: inflation and monetary policy
30 January	Focus on fundamentals: virus volatility provides entry points for EM equities

Chief Editors

Pascal BLANQUÉ
Chief Investment Officer

Vincent MORTIER
Deputy Chief Investment Officer

Amundi ASSET MANAGEMENT

Indices reference & definition

Bond Indices (JPMorgan)

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

Equity Indices (MSCI)

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

Yield & Duration Indices

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

Definitions

- Basis points: one basis point is a unit of measure equal to one one-hundredth of one percentage point (0.01%).
- Correlation: the degree of association between two variables; in finance, it is the degree to which assets or asset class prices have moved in relation to each other. Correlation is expressed by a correlation coefficient that ranges from -1 (perfectly negative correlated) through 0 (absolutely independent) to 1 (perfectly positive correlated).
- Credit spread: differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration possible embedded options.
- Duration: a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates, expressed as a number of years.
- FX: FX markets refer to the foreign exchange markets where participants are able to buy and sell currencies.
- Volatility is a statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.

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