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Assessing risks worth taking

Cross Asset Investment Strategy | MID-YEAR OUTLOOK

JULY 2024 • Document for professional investors only

"In a world with decelerating but sticky inflation and multi-speed growth, Central Banks will need to carefully assess their stance and communication. Their actions may not be synchronised, but we expect any divergences to be limited."

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

"The economic context supports earnings and risky assets, but most of the upside potential is already priced in and finding clear catalysts for further gains will be challenging."

VINCENT MORTIER
GROUP CHIEF INVESTMENT OFFICER

"To navigate the uncertain transition into the next phase of the cycle, we favour high-quality equities, a positive duration stance and commodities to hedge against inflation risk."

MATTEO GERMANO
DEPUTY GROUP CHIEF INVESTMENT OFFICER

KEY INSIGHTS

The seven main convictions for H2 2024

For the second half of the year, we have identified seven key convictions that will shape our investment strategy.

1 Multi-speed growth with sticky inflation and diverging dynamics

Global growth is expected to reach 3.1% in 2024. However, there are divergences: the US is slowing down without entering a recession, the Eurozone is on a recovery path, India's strong growth continues while China is on a controlled slowdown trajectory. Inflation has been stickier than expected, but it is expected to decelerate further towards Central Bank targets in 2025. This will allow Central Banks to initiate and continue the new cycle of cuts at different speeds.

2 Geopolitical risk is high and rising

Geopolitical risk is expected to increase in the coming years, with factors such as protectionism, sanctions, tariffs, export controls and trade wars intensifying. Some regions, notably Europe, may be less able to afford the costs. The outcome of the US election will be pivotal, as US foreign policy in particular is expected to differ significantly under a Biden or a Trump presidency, although confrontation with China is expected to rise in any case.

H1 2024: mid-year in review

	Macro views vs our 2024 outlook expectations	Financial markets views vs our 2024 expectations
CONFIRMED	▪ Persistent **geopolitical** tensions ▪ **Europe anaemic** growth ▪ **Emerging Markets (EM) resilient** and fragmented picture ▪ **India strong** growth ▪ **Moderating global inflation** pressures ▪ **Low inflation** in **China**	▪ **Equities** Japan and India strong performance, China weakness ▪ **Bonds** appealing yields in a trading range ▪ **Commodity prices** sustained by geopolitical tensions ▪ **Recovery in balanced allocations** ▪ **Strong USD**, weak CHF, weak commodities FX
SURPRISE	▪ **United States no recession** thanks to strong consumption driven by benign household wealth. Stickier inflation ▪ **Fed and ECB pivot postponed** ▪ **China more resilient** compared to our expectations ▪ **Less dovish EM Central Banks**	▪ High volatility in bonds with **strong repricing of Central Bank expectations** ▪ **Very strong equity markets**, with concentration risk further increased, particularly in the US market ▪ **High Yield outperformance** with spreads well below long-term average ▪ **Weak JPY**

Source: Amundi Investment Institute as of 3 July 2024. DM: developed markets. EM: emerging markets. CB: central banks. Economy and markets expectations refer to our 2024 investment outlook.

3 Equity: time for a breather and broadening

Equities are still attractive unless we enter a recession, which is not our base case. However, there are concerns about excessive valuations in US mega caps. Opportunities abound in US quality, value and international equity. In Europe, consider small-cap stocks to capitalise on the economic recovery, attractive valuations and the ECB cutting rates.

4 Seize opportunities in bonds and prepare for structural steepening

After trading in a narrow range, yields are set for a new course with rate cuts approaching and curves expected to structurally steepen. With yields already at historically appealing levels, a window of opportunity is opening. We favour government bonds and investment grade credit which maintain the best risk/reward profile. EM bonds also offer an attractive risk-return profile and will benefit from the Fed cuts in the second semester.

5 Emerging Markets will benefit from Fed easing and domestic resilience

Resilient growth, supply chain rebalancing and Fed rate cuts mean Emerging Market equities offer interesting opportunities. They are also supported by attractive valuations compared to the US. We favour Latam and Asia, with India in focus thanks to its robust growth and transformative trajectory. Bonds also will be lifted by Fed cuts, with local currencies set to become attractive.

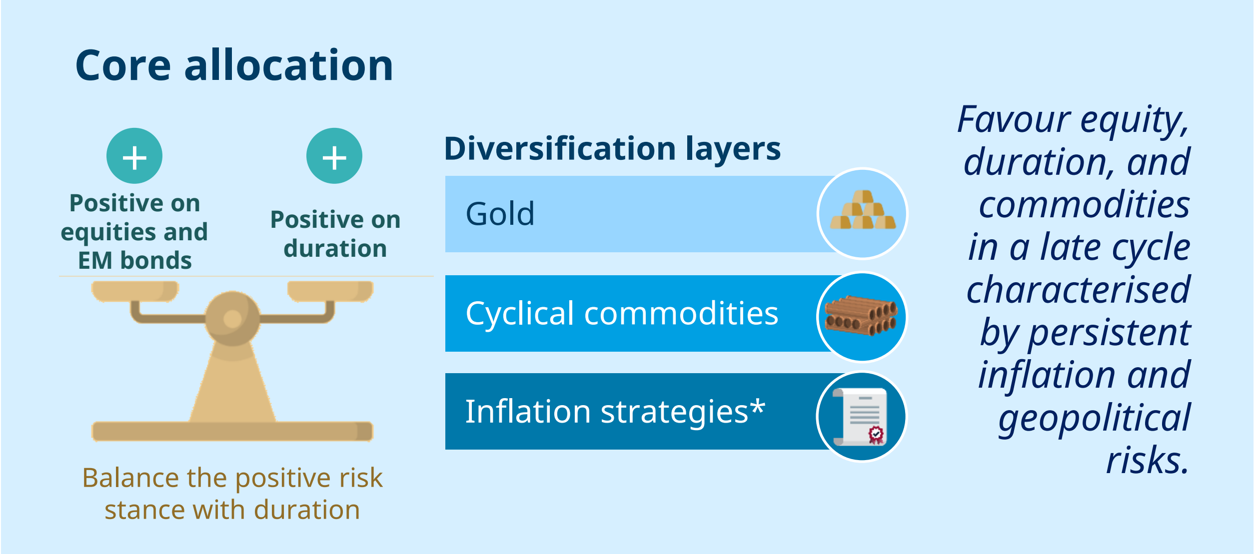
6 Enhance the asset allocation with commodities and real and alternative assets

It's time to strike a balance between opportunities from supportive earnings dynamics and appealing bond yields with risks from high uncertainty about growth and inflation. This means combining a positive equity stance with a long-duration bias and searching for additional sources of diversification, such as commodities, and real and alternative assets, including hedge funds. These assets will be key to enhancing portfolios' risk-return profile.

7 Look for companies that will help ramp up the energy transition

To achieve a low-carbon energy system, the world must triple renewable capacity by 2030. This means investing heavily in critical minerals and expanding electricity grids. Investors should focus on companies that can drive the energy transition in both Developed and Emerging Markets.

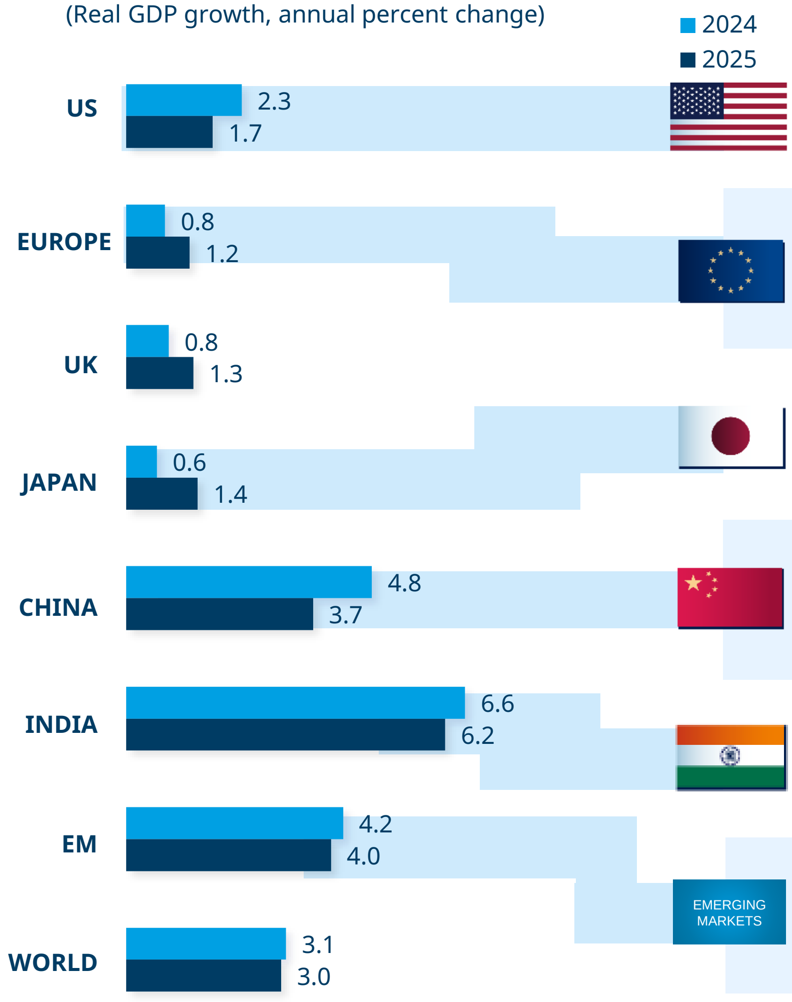
Building resilient portfolios



*Inflation strategies include Inflation linked bonds and inflation breakeven.

Multi-speed growth with inflation slowing down

Amundi Investment Institute Projections at 3 July 2024
(Real GDP growth, annual percent change)



US landing, eventually
Converging to potential from high growth as domestic demand rebalances.

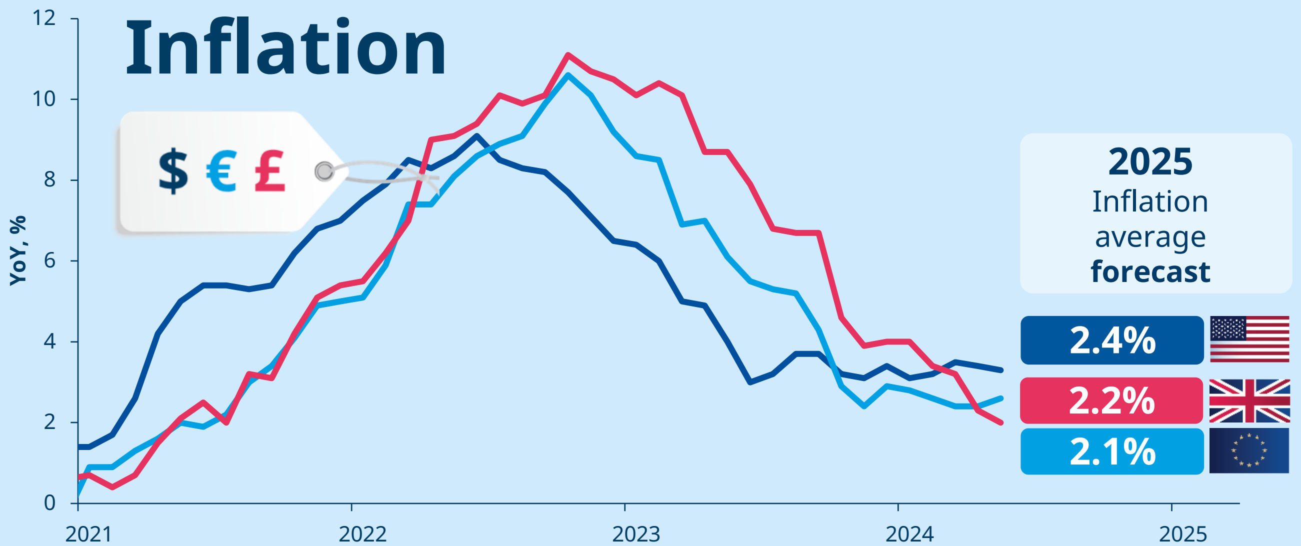
Europe multi-speed recovery
Steadily recovering as the effects of past shocks recede with Spain in the lead and Germany on the weak side.

Japan: above-trend growth to last
Consumption is slowly gaining traction, with purchasing power slowly rebuilding.

China growth: a dual-track recovery
Controlled slowdown with weak domestic demand, main positive contribution from exports.

India robust economic momentum
The investment cycle continues to support strong growth.

EM in a fragmented world
EM resilience will continue, with Central Banks on the dovish side.



Source: Amundi Investment Institute, as of 3 July 2024. DM = Developed Markets; EM = Emerging Markets.

INFOGRAPHIC

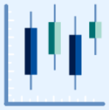
Amundi asset class views for H2 2024

	Asset class	Stance as of 19 June 24	Direction of views for H2 2024	
EQUITY PLATFORM	United States	=	=	Stable
	US equal weighted	=/+	=/+	Stable
	Europe	=/+	+	Improving
	Japan	=	=/+	Improving
	China	=	=	Stable
	Emerging Markets ex-China	+	+	Stable
	India	+	+	Stable
FIXED INCOME PLATFORM	US govies	=/+	+	Improving
	US IG corporate	=	=	Stable
	US HY corporate	-	-	Stable
	EU govies (core)	=	+	Improving
	EU govies (peripherals)	=	=	Stable
	EU IG corporate	+	+	Stable
	EU HY corporate	-/=	-/=	Stable
	China govies	=	=	Stable
	EM bonds HC	=/+	+	Improving
	EM bonds LC	=	+	Improving
OTHER	Gold	=	=/+	Improving
	Oil	=/+	=/+	Stable
	Currencies (USD vs. G10)	=/+	-/=	Deteriorating

Source: Amundi Investment Institute, as of 19 June 2024. DM: developed markets. EM: emerging markets. Summary of views expressed at the most recent global investment committee held on 19 June 2024.

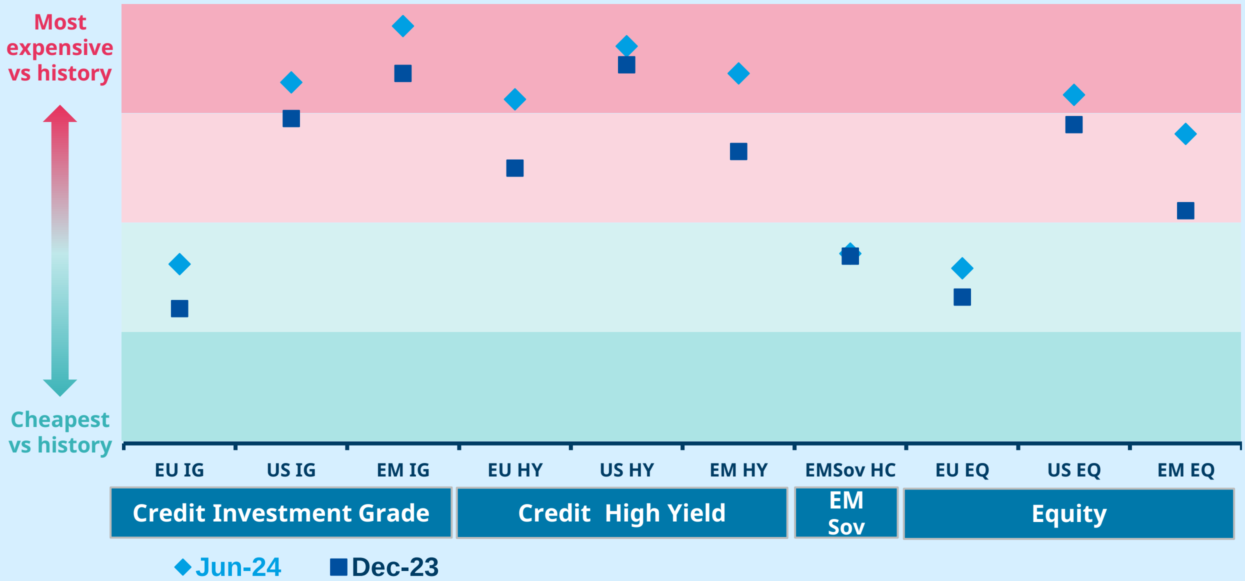
-- - Negative = Neutral + ++ Positive

The investment sequence

		End 2024
	**Dynamic asset allocation in a late cycle with inflation risk**	After becoming slightly positive in equities in Q1, we expect to maintain this stance and look at commodities in the search for hedges against inflation risk.
	**Bonds' appeal with Central Banks at a turning point**	We hold a positive view on US duration and expect to add further to European duration. In credit we continue to favour IG vs HY.
	**Broaden the opportunity set in equities**	Equities are appealing in a no-recession scenario. But there are some excesses in the US in particular. Look at Europe including small caps, the US beyond of the mega caps and international equities.
	**EM winners in a fragmented world**	Look at long-term winners (India), nearshoring stories across EM, winners in the energy transition (commodity-rich countries) and technological advances (China).
	**Energy transition and structural themes**	Explore structural themes in a world in transformation: sustainable infrastructure, water, green bonds and artificial intelligence.
	**Diversify with real and alternative assets**	In a market environment that may offer fewer directional opportunities, real and alternative assets are key to enhancing the overall portfolio risk-return profile.

Seek opportunities worth taking in a world of tight valuations

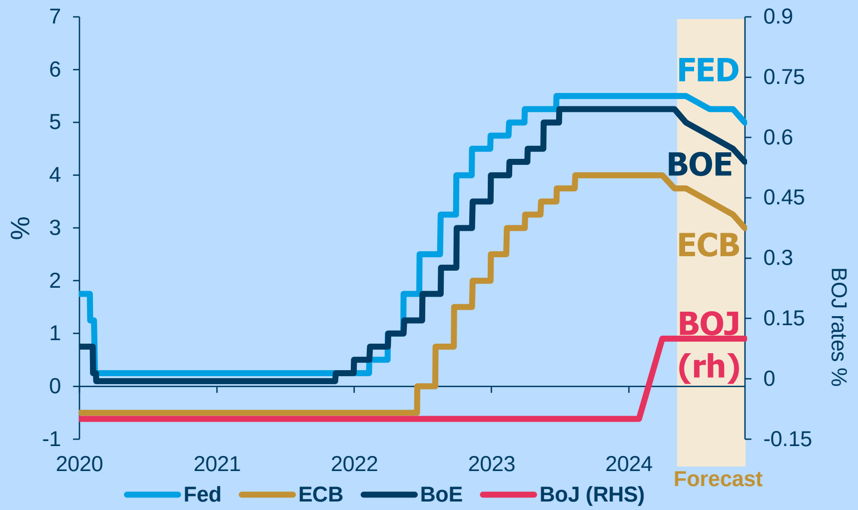
Valuation levels, historic percentiles since 1998



Source: Amundi Investment Institute, Bloomberg, Datastream, latest monthly data as of 28 June 2024. EU IG, US IG, EM IG, EU HY, US HY, EM HY are ICE BofA corporate bond indices. IG: investment grade. HY: high yield. EM Sov HC: JP Morgan EMBI Global Diversified. EU EQ, US EQ, EM EQ are MSCI indices for equity markets. All indices refer to a specific region (EU: Europe, US: United States, EM: emerging markets. Analysis is based on spreads for bond indices and on twelve-month forward PE ratio for equity indices. Valuation are in historic percentile since 1998. Cheapest means is in the first quartile, Most expensive is in the fourth quartile.

Bonds appeal with Central Banks turning to rate cuts

Central banks' rates and forecasts



"With rate cuts approaching and yields already at historically appealing levels it's time to favour a long-duration stance."

Source: Amundi Investment Institute forecasts, as of end of June. Fed rate = Upper Fed Funds target range. ECB rate = Deposit rate. BOJ on right scale.

What if scenarios: fixed income's expected performance under various scenarios

	BASE SCENARIO	ALTERNATIVE SCENARIOS			
Asset Class	**Resilient & multi-speed growth with sticky inflation & geopolitical tensions**	**Geopolitical escalation**	**Strong growth in DM -> inflation pressure**	**Deep recession**	**Credit event amid tightening**
Money Markets					
Core Govies					
Credit IG					
High Yield					
EM[1] bonds					

Colours indicate expected performance from negative (red) to neutral (grey) to positive (green) on an absolute and relative vs own history under different scenarios. For illustrative purposes.

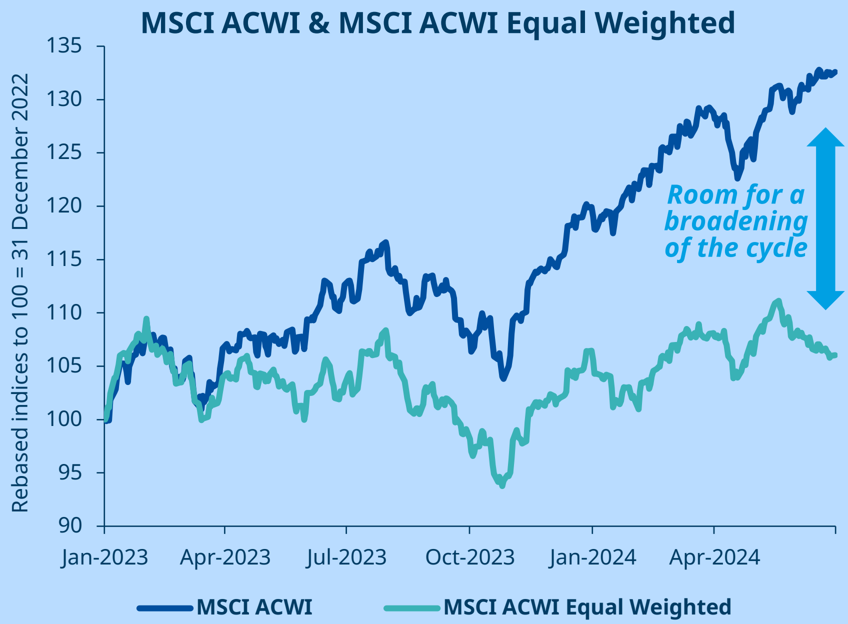
INFOGRAPHIC

Broadening the opportunity set in equities

Globally we expect a breather and the broadening of the rally to continue

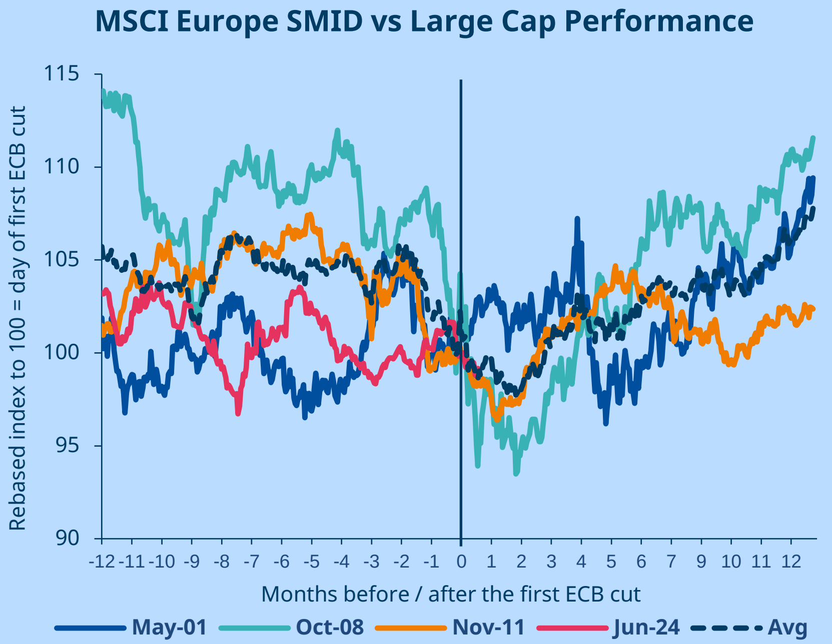
There is room for the equal-weighted index to close the gap with the market capitalisation index.

In fact, the very high concentration of profit growth around certain sectors and names should gradually give way to a more balanced earnings profile.



Source: Amundi Investment Institute, Refinitiv. Data is as of 30 June 2024.

In Europe, small- and mid-caps could see a comeback in H2



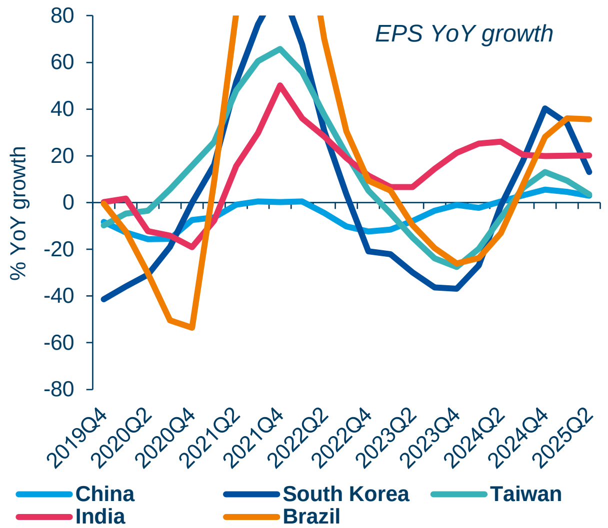
Source: Amundi Investment Institute, Refinitiv. Data is as of 28 June 2024. The y-axis represents the ratio between MSCI Europe small- and mid-caps, and large-caps.

European small-cap stocks could outperform in the second half of the year supported by stronger earnings and a 20-year low valuation gap vs large caps.

The ECB could be an additional support. Small- and mid-caps historically outperform large-caps after the first ECB rate cut post a hiking cycle.

EM directions for the second half of 2024

EM equities are favoured amid recovering earnings growth in the second half of the year



Source: Amundi Investment Institute on Bloomberg data. Data as of 3 July 2024.

We are positive on EM equities driven by strong demand and economic growth. Country-wise we like:

India benefits from **supply chain relocation** and internal policies and its capex cycle

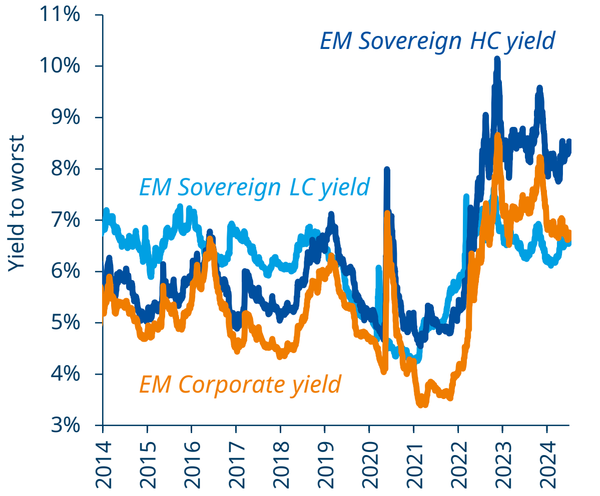
Indonesia benefits from **structural tailwinds** such as exposure to critical minerals and favourable demographics

South Korea favoured by improving corporate governance

Brazil benefits from being **first to cut rates,** attractive valuations and growth supported by agriculture

Regarding **China**, recent supportive policies are encouraging, but we remain neutral overall

EM bonds offer attractive yields. Overall, we are positive across the board



Source: Amundi Investment Institute on Bloomberg data. Data as of 3 July 2024. Sovereign LC = J.P. Morgan GBI-EM Global Diversified Composite LOC, Sovereign HC = J.P. Morgan EMBI Global Diversified Composite, Corporate = J.P. Morgan Corporate EMBI Broad Diversified Composite Index.

The higher-for-longer rates narrative from the Fed is putting some pressure on EM debt, but we remain positive with a selective mindset.

EM Sovereign HC

EM hard currency debt: we are positive amid a supportive macro backdrop. Valuations and carry are attractive in HY vs IG and thus we maintain our preference for the former

EM Sovereign LC

EM local currency debt: we are selective and exploring high-yielding countries such as those in Latin America

EM Corporate

EM corporate: we are positive, favouring HY over IG given the former's attractive valuations

What can we expect in EM currencies vs the US dollar (USD)?

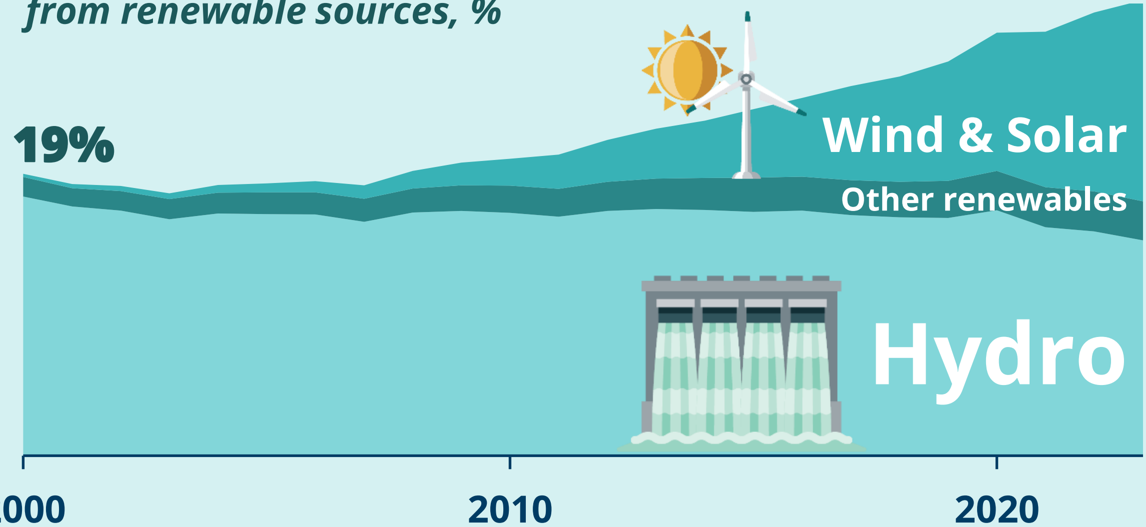
While a Fed move to cut rates will evenutally support EM currencies, for the time being we remain more neutal, as the higher-for-longer environment is supportive for the USD. We favour ultra-high yielding currencies such as **Brazilian Real, Peruvian Sol, Indonesian Rupee and Indian Rupee.**

Energy transition needs to accelerate further

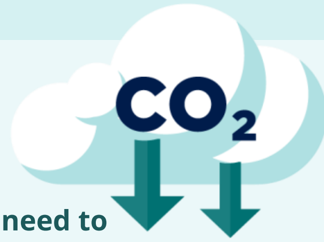
PROGRESS

The transition to clean energy sources has made significant progress, with renewables accounting for 30% of global electricity generation in 2023.
This growth has been driven by the increasing adoption of solar and wind energy.

Share of global electricity generation from renewable sources, %



Future goals and challenges



x3

To achieve a low-carbon energy system, there is **a need to triple the installed capacity of renewables**, according to the International Energy Agency (IEA). This would require significant investment in critical minerals and the expansion of electricity grids.

Implications for investors

Investors should focus on companies that can enable the energy transition in both Developed and Emerging Markets. These companies will play a crucial role in driving the adoption of clean energy sources and achieving decarbonisation goals. Additionally, investments in critical minerals and electricity grid infrastructure may present opportunities for investors particularly in Emerging Markets.

Source: Amundi Investment Institute, EMBER Global Electricity Review 2024.

Diversify with real and alternative assets

In private markets, infrastructure are favoured by the energy transition, the outlook for private equity is improving while private debt continues to benefit from high interest rates.

In hedge funds, we favour Long/Short neutral, Emerging Market fixed income, and merger arbitrage strategies in a context of economic fragmentation and collapsing micro correlations.

Private Markets views for H2 2024

	Infrastructure	Private equity	Private debt	Real estate
H2 2024 outlook	++	-/=	+	-/=
Inflation protection	++	=	++	+
Diversification benefit	+++	+	+	++

Source: Amundi Investment Institute, as of 10 June 2024.

Hedge fund views for H2 2024

		- -	-	=	+	+ +
L/S equity	Directional			■	■	
	Market neutral				■	
Event-driven	Merger arbitrage			■	■	
	Special situations			■		
FI arbitrage	L/S credit			■		
	FI EM arbitrage				■	
	FI macro arbitrage				■	
Global macro	Global macro		■	■		
CTAs	CTAs			■		

Source: Amundi Investment Institute, as of 10 June 2024.

FORECASTS

Macroeconomic forecasts

Macroeconomic forecasts as of 9 July 2024						
Annual averages, %	Real GDP growth, YoY, %			Inflation (CPI), YoY, %		
	2023	2024	2025	2023	2024	2025
Developed countries	**1.6**	**1.5**	**1.5**	**4.7**	**2.8**	**2.3**
United States	2.5	2.3	1.7	4.1	3.3	2.5
Eurozone	0.6	0.8	1.2	5.4	2.4	2.2
Germany	*0.0*	*0.2*	*1.0*	*6.1*	*2.4*	*2.3*
France	*0.9*	*0.9*	*1.3*	*5.7*	*2.5*	*2.1*
Italy	*1.0*	*0.8*	*0.9*	*5.9*	*1.4*	*2.2*
Spain	*2.5*	*2.1*	*1.6*	*3.4*	*3.2*	*2.2*
United Kingdom	0.1	0.8	1.3	7.5	2.4	2.1
Japan	1.9	0.6	1.4	3.3	2.4	2.0
Emerging countries	**4.3**	**4.2**	**4.0**	**5.8**	**5.4**	**4.0**
China	5.2	4.8	3.7	0.2	0.4	0.5
India	7.8	6.6	6.1	5.7	4.8	5.8
Indonesia	5.0	5.1	4.9	3.7	2.8	3.2
Brazil	2.9	2.0	2.3	4.6	4.3	3.5
Mexico	3.2	1.8	1.5	5.6	4.5	3.8
Russia	3.6	3.0	1.5	6.0	7.3	5.7
South Africa	0.7	0.8	1.4	5.9	5.2	4.6
Turkey	4.5	4.5	2.5	53.4	59.0	28.9
World	**3.2**	**3.1**	**3.0**	**5.3**	**4.4**	**3.4**

Central Banks' official rates forecasts, %					
	9 July 2024	Amundi Q4 24	Consensus Q4 24	Amundi Q2 25	Consensus Q2 25
United States*	5.50	5.00	5.35	4.25	4.75
Eurozone**	3.75	3.00	3.70	2.50	3.15
United Kingdom	5.25	4.25	5.14	3.75	4.65
Japan	0.10	0.10	0.25	0.50	0.50
China***	3.45	3.15	3.25	2.85	3.25
India****	6.50	6.25	6.20	6.00	5.95
Brazil	10.50	10.50	10.25	10.00	9.50
Russia	16.00	16.00	16.15	14.00	13.65

Source: Amundi Investment Institute. Forecasts are as of 9 July 2024. CPI: consumer price index. *: Upper Fed Funds target range. **: Deposit rate. ***: One-year loan prime rate. ****: Repurchase rate. Q4 2024 indicates end of December 2024; Q2 2025 indicates end of June 2025.

FORECASTS

Financial market forecasts

Bond yields

Two-year bond yield forecasts, %

	9 July 2024	Amundi Q4 24	Forward Q4 24	Amundi Q2 25	Forward Q2 25
United States	4.63	3.90-4.10	4.30	3.60-3.80	4.11
Germany	2.92	2.30-2.50	2.60	2.10-2.30	2.38
United Kingdom	4.14	3.70-3.90	3.80	3.60-3.80	3.87
Japan	0.36	0.30-0.50	0.50	0.40-0.60	0.52

Ten-year bond yield forecasts, %

	9 July 2024	Amundi Q4 24	Forward Q4 24	Amundi Q2 25	Forward Q2 25
United States	4.29	3.90-4.10	4.30	3.90-4.10	4.28
Germany	2.57	2.20-2.40	2.50	2.20-2.40	2.53
United Kingdom	4.15	3.80-4.00	4.10	3.70-3.90	4.19
Japan	1.09	1.10-1.30	1.20	1.20-1.40	1.32

Equities forecast at Q2 2025

MSCI index levels at	US	Europe	EMU	UK	Japan	Pacific ex-Japan	World	World AC
2 July 2024	5238	2052	290	2322	1770	1311	3538	807
Lower bound	4990	2120	300	2360	1690	1260	3390	770
Upper bound	5610	2340	330	2640	1950	1480	3810	890

Exchange rates

	5 July 2024	Amundi Q4 24	Consensus Q4 24	Amundi Q2 25	Consensus Q2 25
EUR/USD	1.08	1.12	1.08	1.13	1.10
EUR/JPY	174	167	165	159	162
EUR/GBP	0.85	0.86	0.85	0.86	0.85
EUR/CHF	0.97	1.03	0.98	1.04	1.00
EUR/NOK	11.43	11.62	11.24	11.35	11.00
EUR/SEK	11.35	11.60	11.27	11.52	11.00
USD/JPY	161	150	152	140	145
AUD/USD	0.67	0.69	0.68	0.71	0.70
NZD/USD	0.61	0.61	0.62	0.63	0.64
USD/CNY	7.27	7.30	7.24	7.20	7.18

Source: Amundi Investment Institute. Forecasts are as of 9 July 2024. Q4 2024 indicates end of December 2024; Q2 2025 indicates end of June 2025.

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DEFINITION ABBREVIATIONS

Currency abbreviations: USD – US dollar, BRL – Brazilian real, JPY – Japanese yen, GBP – British pound sterling, EUR – Euro, CAD – Canadian dollar, SEK – Swedish krona, NOK – Norwegian krone, CHF – Swiss Franc, NZD – New Zealand dollar, AUD – Australian dollar, CNY – Chinese Renminbi, CLP – Chilean Peso, MXN – Mexican Peso, IDR – Indonesian Rupiah, RUB – Russian Ruble, ZAR – South African Rand, TRY – Turkish lira, KRW – South Korean Won, THB – Thai Baht, HUF – Hungarian Forint.

IMPORTANT INFORMATION

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