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Amundi
ASSET MANAGEMENT

H2 2022 INVESTMENT OUTLOOK

Life above zero: investors' journey at a time of rising rates

AMUNDI INSTITUTE
INFOGRAPHIC



Stagflation risk rising amid divergences

Global economy is slowing, due to the fallout from the Russia-Ukraine war, supply bottlenecks and China's zero-tolerance Covid-19 policy. CBs will tighten financial conditions to tame persistent inflation. A global recession is not our main scenario, but there are areas of strong vulnerability such as Europe, areas for attention such as the US consumer, and potential sweet spots such as China in H2.



Policy mix: in search of a new balance

The policy mix will need to find a new balance as most DM CB have embarked on rate hiking cycles or will start soon, removing the Covid-19-era policy accommodation. Fiscal deficits will fall but should remain above pre-pandemic levels. **Cooperation between monetary and fiscal policy will also be required to address the issue of debt sustainability.**



Geopolitical shock waves and political noise

The war in Ukraine will have **long-lasting consequences on the geopolitical landscape and international alliances**. A **likely political gridlock in the United States** following the US mid-term election would challenge US geopolitical power and lower the potential to deliver on the fiscal front. Short term, this could put some less market friendly reforms on hold, which would be positive for markets.



EM and China: fragmentation has increased further

The Russia-Ukraine war will exacerbate divergences further. Accordingly, the CB response will vary worldwide. **Commodity exporters and countries with policy room** are favoured. **China's economy is close to a turning point** due to its policy accommodation, but is still impacting some Asian countries.

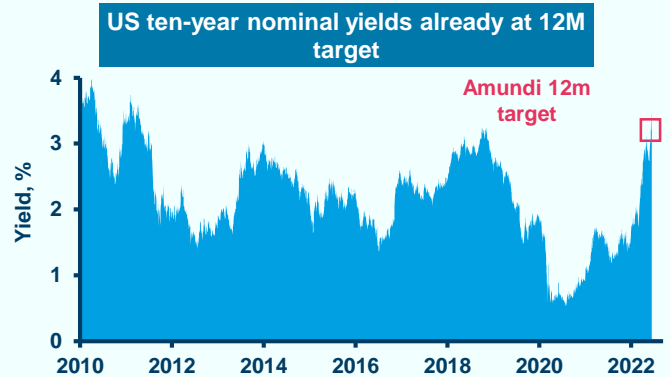
“ *In H2 higher stagflationary risks will call for caution, but diverging economic and inflationary paths will offer opportunities* ”

Source: Amundi Institute as of 17 June 2022. DM: developed markets. EM: emerging markets. CB: central banks. PBoC: People's Bank of China.

INVESTMENT THEMES FOR H2 2022

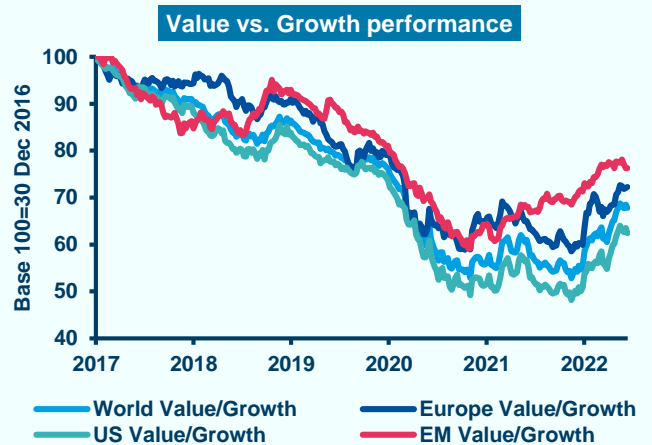
Bonds: rebuild core bond allocation after the great repricing

- » It is time to go back to neutrality in duration, government bonds, credit IG, and some EM bonds.
- » Include Chinese bonds for diversification purposes and green bonds in the core allocation.
- » Prefer quality credit and stay selective on high-yield credit and watchful of liquidity risks.



Equity: play value and quality, US earnings resilience, and China's reopening

- » Focus on value stocks with a quality tilt and appealing dividends.
- » In the short term, the United States is favoured over Europe thanks to stronger fundamentals.
- » China may be back in H2, alongside its economic recovery.

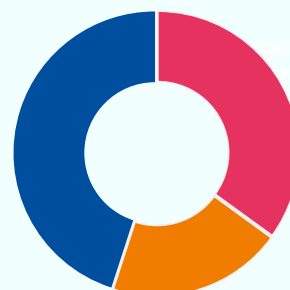


Add inflation-sensitive diversifiers amid break-up of correlation dynamics

- » More unstable cross-asset correlation dynamic will require investors to seek additional diversification and focus on real returns.
- » Include commodities, currencies, and alternative strategies with low correlation to equities and bonds.
- » Real assets are favoured in a higher inflationary backdrop, with a focus on infrastructure, real estate and floating private debt.

1. Bonds with focus on real returns

2. Equity with focus on real returns



3. Inflation-sensitive diversifiers:

- Commodities
- Currencies and absolute return strategies
- Real assets

Source: Amundi Institute, Bloomberg. Data is as of 16 June 2022. Value and Growth indices are from MSCI. For illustrative purposes only.

AMUNDI ASSET CLASS VIEWS

	Asset class	Current positioning	Expected positioning H2 2022
EQUITY PLATFORM	United States	=/+	=/+
	<i>US value</i>	+	+
	<i>US growth</i>	-	-
	Europe	-	=
	Japan	=	=
	China	=/+	=/+
	Emerging markets ex-China	-/=	=
FIXED INCOME PLATFORM	US govies	=	=
	US IG corporate	=/+	=/+
	US HY corporate	=	=
	European govies (core)	=	=
	European govies (peripherals)	=	=
	Euro IG corporate	=	=
	Euro HY corporate	=	=
	China govies	=/+	=/+
	EM bonds HC	=/+	+
	EM bonds LC	=	=
	OTHER	Commodities	+
Currencies (USD vs. G10)		+	+

-- - = + ++
Negative **Neutral** **Positive**

Source: Amundi Institute as of 23 June 2022.

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