May 2024

Bond investing when Central Banks are in motion

Fixed Income Charts and Views

Trust
must be earned

Amundi
ASSET MANAGEMENT

Bond investing when Central Banks are in motion

2024 is establishing a new market dynamic for bond investors. After the great repricing of 2022 and 2023 when market attention was mainly tilted towards inflation, 2024 is increasingly seeing **a more balanced focus towards both inflation and growth**. Moving ahead, the **slowdown in inflation should continue**, although reaching the 2% target may take longer than initially expected by the market, and the route is going to be bumpy as inflation remains sticky.

This means that **the next Central Bank move will most likely be a cut** and so the focus is now on When and By How Much.

Central Banks are in different positions. The ECB could start cutting rates shortly, while the Fed will need more evidence of an inflation slowdown and economic cooling, yet it is still paving the way for rate cuts in 2024.

Against this backdrop, bond investors can benefit from **appealing yields**, **regional and curve opportunities** driven by the different timing and speeds of Central Bank action and also from a positive outlook for **Emerging Market bonds**. Fixed income investing is back as a core part of investor portfolios to deliver attractive risk/adjusted returns and seek portfolio stability at a time of high macroeconomic uncertainty.

Amaury D'Orsay
Head of Fixed Income

Amundi ASSET MANAGEMENT | Investment Institute

Main themes for fixed income investors

1. The yield appeal

Bonds are a reliable **source of income** in times of economic uncertainty and market volatility.

High bond yields from a historical perspective make the asset class appealing to global investors.

2. Diversification and flexibility

Monetary policy easing could start during the summer. The cycle may not be synchronised and the trajectory is still highly uncertain.

With volatility remaining high, investors should embrace a **flexible and agile approach in order to adapt to a still uncertain macroeconomic backdrop**. Different bond segments may perform well in different inflation-growth environments.

3. Long-term opportunities

After the yield repricing in 2022 and 2023, bonds with a long-term horizon are also appealing.

Emerging Market bonds offer an interesting risk-return profile and diversification appeal for long-term allocations.

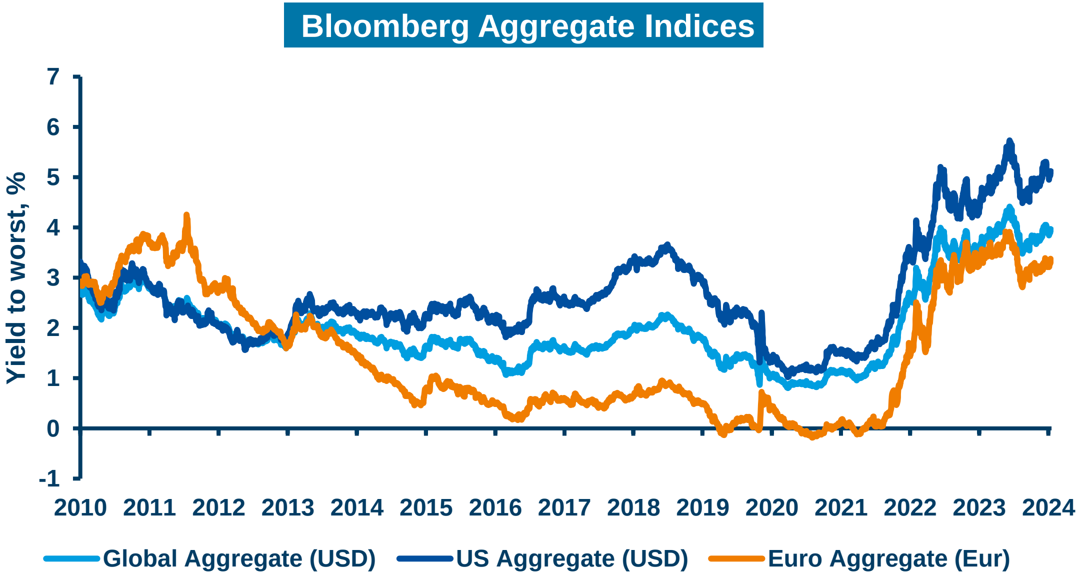
Green bonds play an important role in long-term asset allocation offering investors the opportunity to diversify their portfolios and align with green transition and net zero targets.

Source: Amundi Investment Institute, as of May 2024.

1

The yield appeal: income is back

Bond markets offer appealing entry points in terms of yield from a historical perspective.

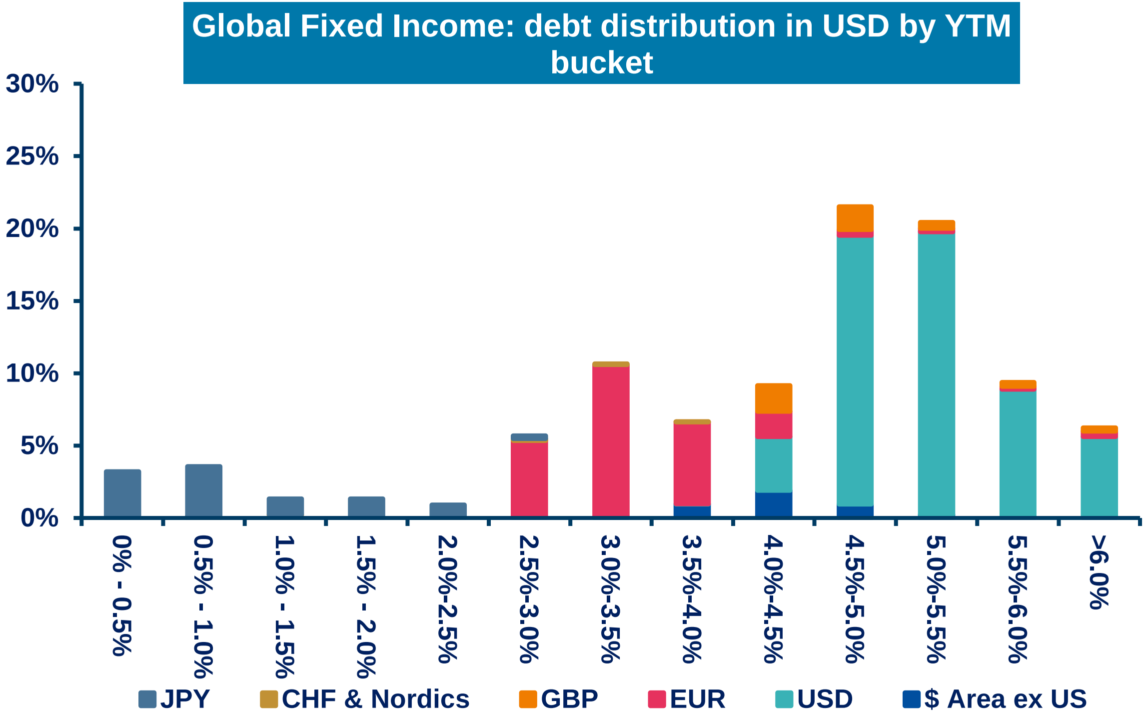


Source: Amundi Investment Institute. Data is as of 27 May 2024. All indices are unhedged.

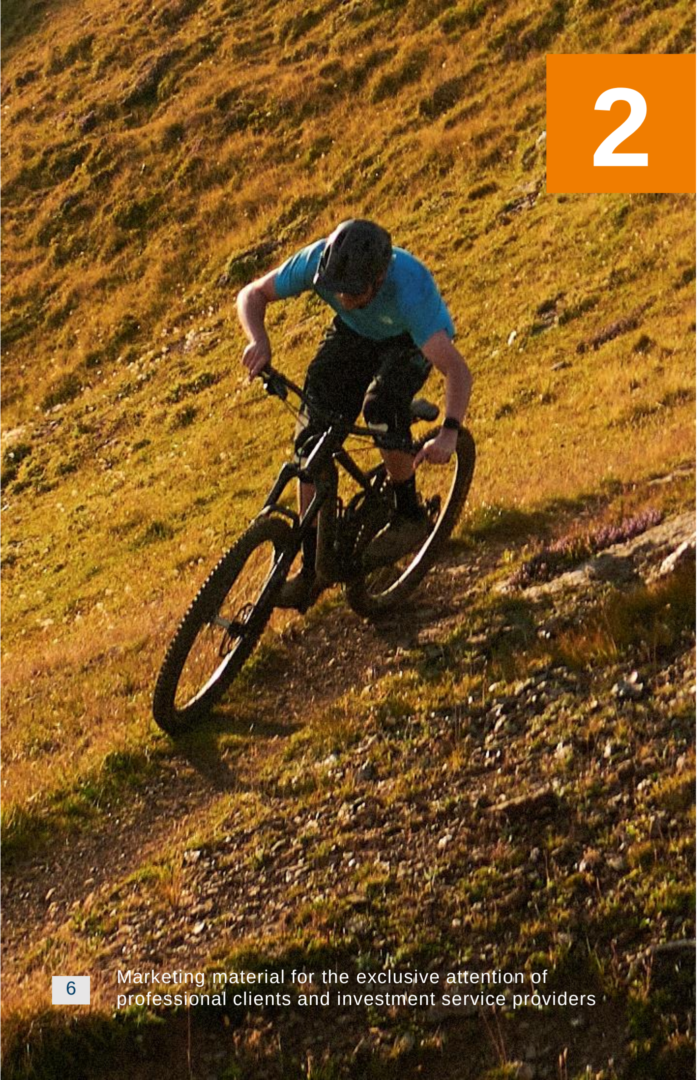
Amundi ASSET MANAGEMENT | Investment Institute

Bonds offer attractive entry points

- Yields for global-bond indices are nearing 15-year highs, providing a carry buffer against increasing interest rates.
- Global investors could benefit from a diversified range of opportunities, with yields being particularly attractive in the US and UK markets.
- With yields set to diminish, now is the time to look beyond short-term bonds to handle reinvestment risk. A ‘buy and watch’ investment strategy can offer investors the opportunity to lock in interesting yields over a desired investment horizon.



Source: Amundi Investment Institute. Debt distribution refers to ICE BofA Global Fixed Income Markets Index, including government and corporate bonds. Data is as of 24 of May 2024.



2

Diversification and flexibility

After the great repricing of Bonds we are in the “Bonds are back” phase. This phase will still see high bond volatility driven by the market’s repricing of Central Bank actions. This phase calls for a diversified approach to adapt to this ongoing high level of uncertainty.

1
The Great Repricing
Central banks abruptly tighten their monetary policies to fight inflation. Strong market reaction and volatility. Reduced visibility

2
Bumpy adjustment
Readjustment of the yield curve. Market attention gradually shifts from inflation to growth. High uncertainty and volatility.

3
The return of visibility
Less uncertainty about inflation and growth. More predictable monetary policies reduce rate volatility. Credit spreads fully readjust. Attractive entry points.

Keep away from duration

Bonds are back

Add risk

Amundi ASSET MANAGEMENT | Investment Institute

Base scenario of resilient and multi-speed growth

2024 Base Scenario

RESILIENT & MULTI-SPEED GROWTH

Global: multi-speed growth: remarkable, resilient, notably divergent

US: strong demand and tight labour market call for resilient growth in H1, mild deceleration in H2 with no negative quarters

Europe: the worst appears over, soft landing with a recovery progressively gaining steam

China: controlled structural deceleration

INFLATION & MONETARY POLICY

Sticky inflation, but disinflation trend maintained at a lower speed

DM Central Banks are becoming dovish (rate cuts remain on the table): calibration of easing size and timing

Sticky inflation and Fed policy will **reduce the amount of easing in EM**

VULNERABILITIES

Short-term:
- inflation builds back up
- compressed volatility & high correlation across asset class
- credit quality deterioration

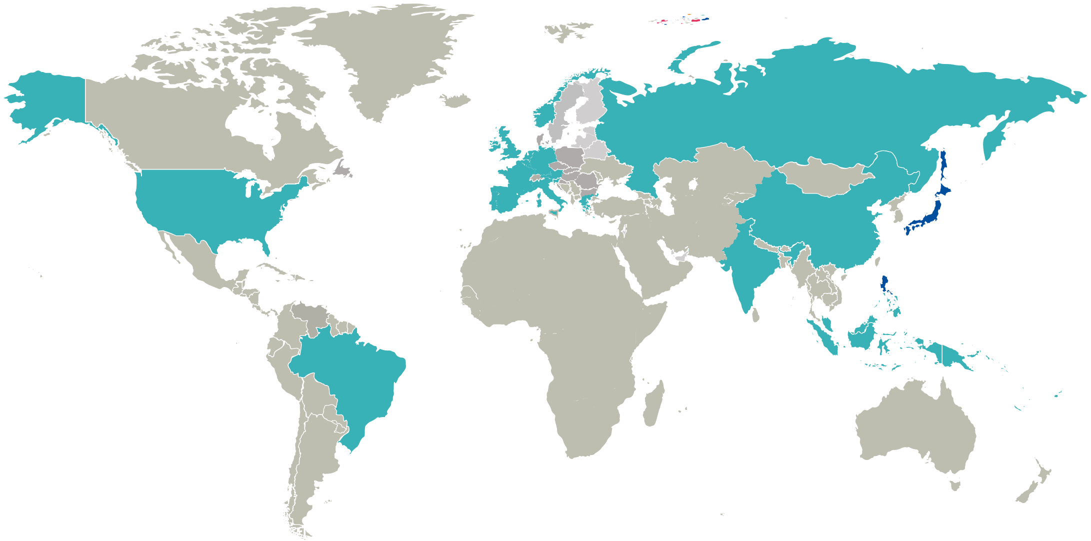
Medium-term:
- new geopolitical order
- debt overhang
- delayed and disorderly net zero transition
- food security

Source: Amundi Investment Institute, as of May 2024.

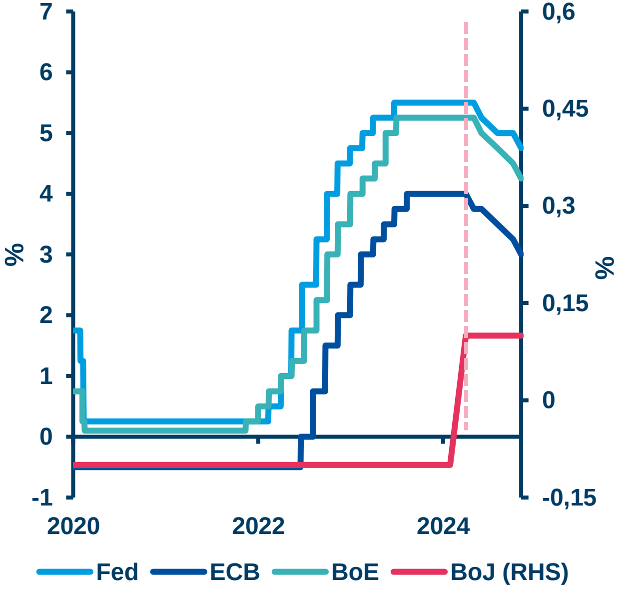
Central Bank directions will determine future scenarios – uncertainty remains high

Amundi's assessment of central bank rates trend, end of 2024

Dovish On hold Hawkish



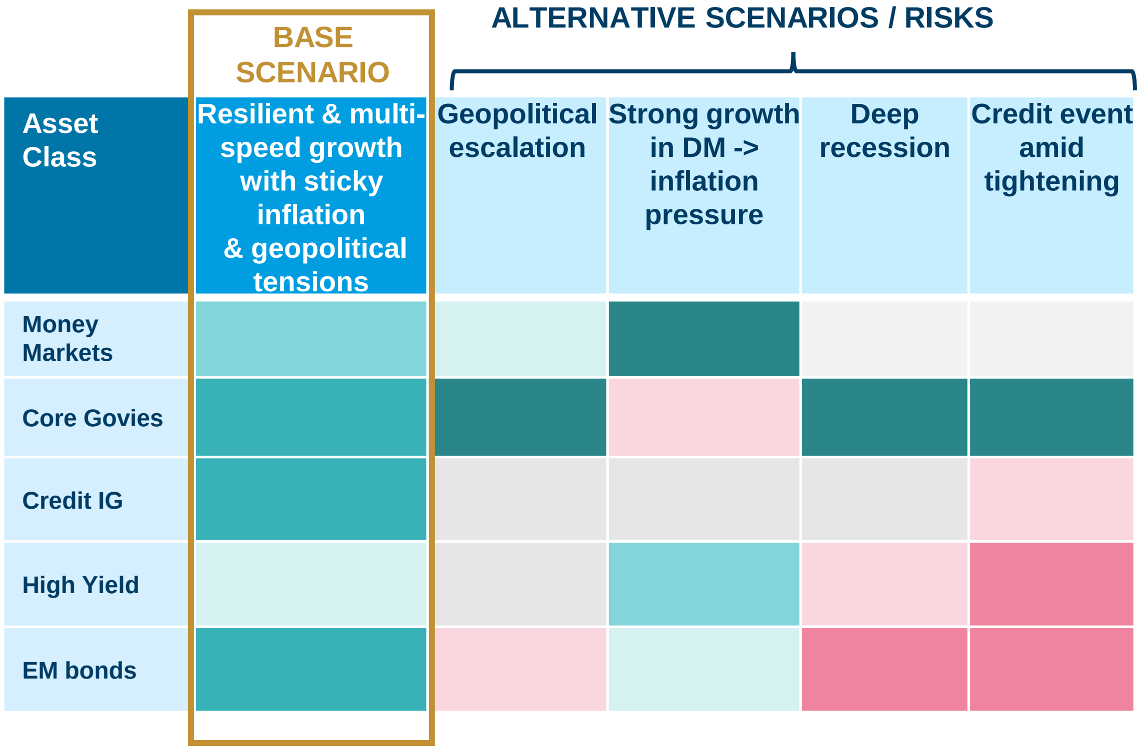
CB rates and forecasts



Source: Amundi Investment Institute as of 29 May 2024. Illustrative map for monetary policies. CB: central banks. DM: developed markets. EM: emerging markets. Central bank stance refers to expected changes in CB balance sheets, policy rates, or real rates in 2024. CB Forecasts are by Amundi Investment Institute and are as of 28 May 2024. Fed: Federal Reserve, ECB: European Central Bank, BoE: Bank of England, BoJ: Bank of Japan. For the Federal Reserve, current rate refers to the upper bound of the target range. For the BoJ, current rate refers to the upper bound of the target range. For the ECB, current rate refers to the deposit facility.

Different fixed income strategies for different scenarios

- A wide range of fixed income asset classes should benefit in our baseline scenario.
- With Central Banks starting to cut rates, money markets' appeal should diminish in favour of adding core govies and quality credit.
- Core government bonds should perform well in all different scenarios except a stronger-than-expected growth and inflation scenario.
- HY and EM bonds should benefit from the Fed cutting rates, while in the unlikely case of a deep recession or a credit or liquidity event, they would be the most affected.

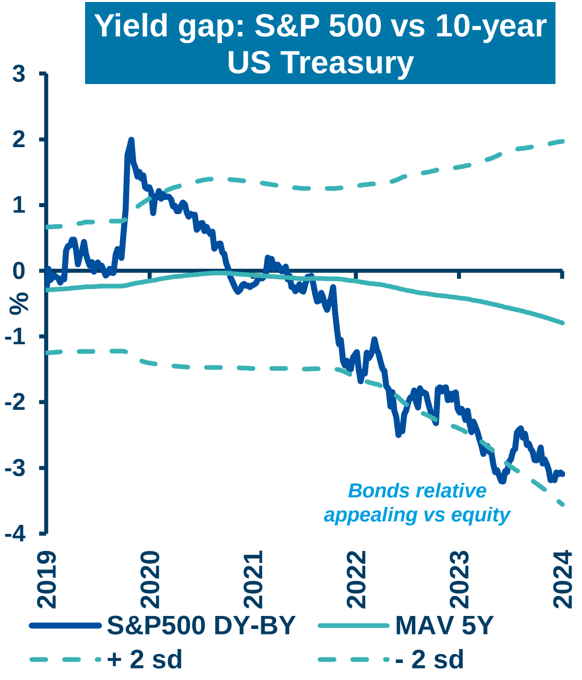


Source: Amundi Investment Institute, as of May 2024. IG= Investment Grade, HY = High Yield. DM = Developed Markets, EM = Emerging Markets. Colors indicate expected performance from negative (red) to positive (green) on an absolute and relative vs own history under different scenarios. For illustrative purposes.

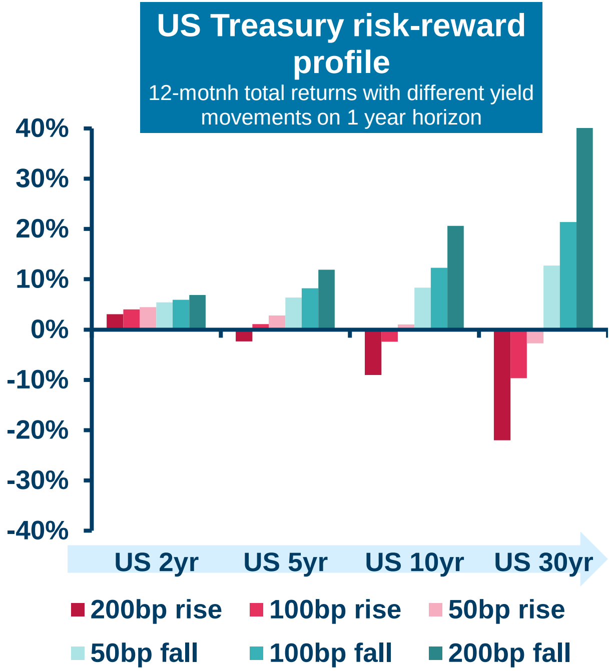
Amundi ASSET MANAGEMENT | Investment Institute

US Treasuries: an attractive asymmetric profile

- With attractive yields, US Treasuries are set to perform well in our base scenario and offer a diversification benefit in the case of a deteriorating economic outlook.
- The yield spread between US equities and bonds also remains in favour of bonds and is well below its 5-year average. This appealing relative valuation favours a positive stance towards bonds in a cross asset allocation.
- US Treasuries offer an attractive risk-return profile with higher potential gains in the case of falling yields vs potential losses if higher inflation persists and leads to higher yields.



Source: Amundi Investment Institute, Datastream. Data is as of 29 May 2024. MA: Moving Average; SD: Standard Deviation; DY: Dividend Yield; BY: Bond Yield.

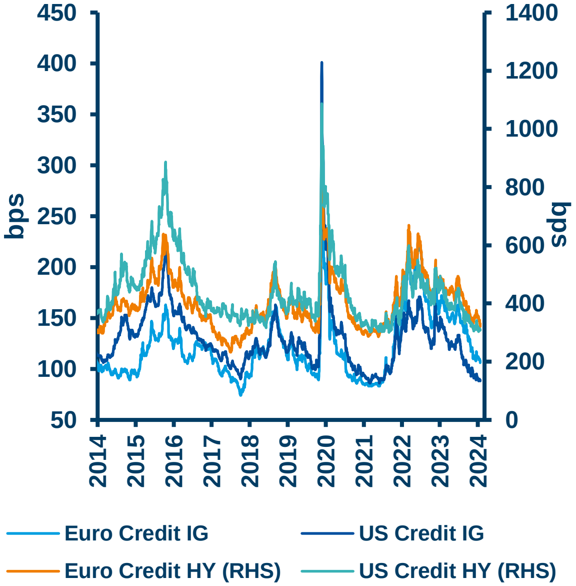


Source: Amundi Investment Institute estimations, Bloomberg. Data is as of 29 May 2024.

Global credit opportunities in the search for yield

- Global credit markets still appear to be an appealing source of carry, with a supportive monetary policy backdrop, fundamentals and technicals.
- Credit spreads are tight from a historical perspective, particularly in the US markets. The US High Yield segment appears the least appealing from a risk-return profile.
- In our view, quality is the way to navigate this environment. This part of the market should also be more resilient if the risk of a recession increases (low probability). In this occurrence, interest rates moving lower would help mitigate the negative impact of wider spreads.

Tight spreads in credit



Source: Amundi Investment Institute. Analysis of latest data from Bloomberg. Data is as of 23 May 2024 and refers to spread to Govt OAS for ICE BofA indices.

Credit Assessment

	US IG	Euro IG	US HY	Euro HY
Macro	+	+	=/+	=/+
Monetary policy	=/+	+	=/+	+
Fundamentals	=	=	=	=
Technicals	+	+	=	=/+
Valuations	−	=	−	−/=
Overall assessment	=/+	+	−	−/=

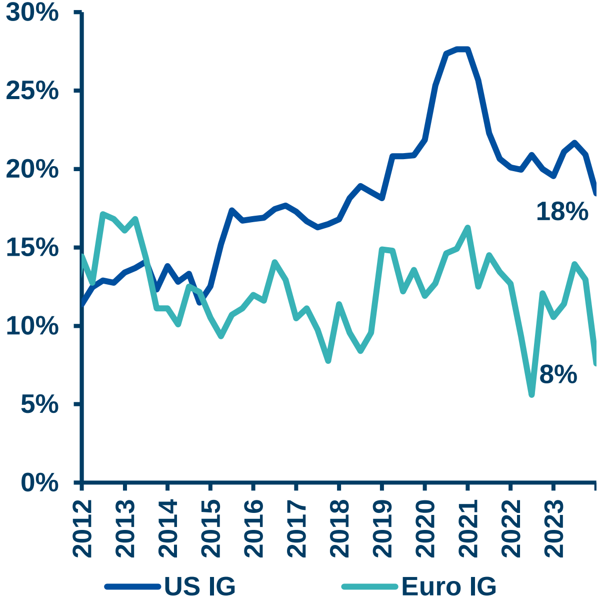
Source: Amundi Investment institute as of 23 May 2024 Amundi Investment institute views are subject to change. For illustrative purposes only.

Amundi ASSET MANAGEMENT | Investment Institute

Credit fundamentals are good overall. Favour quality, stay cautious on HY (particularly CCC)

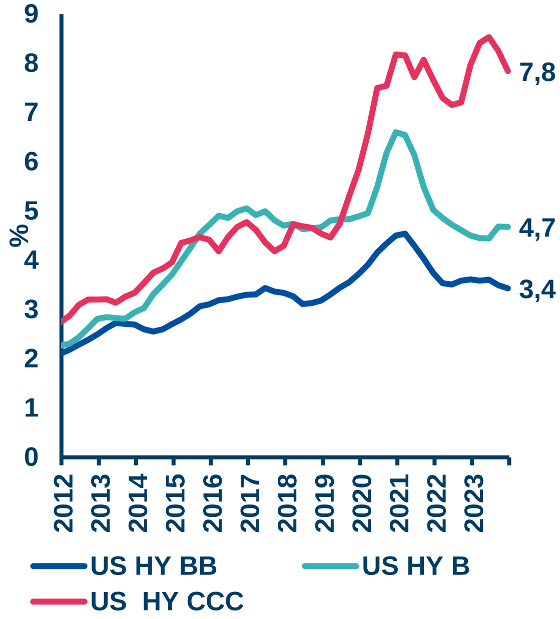
- Credit fundamentals remain sound. Companies are heavily focused on cost efficiency (as of Q4 2023).
- IG company fundamentals remain solid. The impact of higher rates on IG corporate fundamentals is very gradual because the average maturity of company debt is high.
- For HY companies, the fragmentation among companies increased in 2023. Higher rates' impact on the fundamentals of BB and B companies remains contained so far, although it is high for more heavily-indebted companies with significant short-term refinancing needs.

% of issuers recording a leverage above 4



Source: Amundi Investment Institute. Analysis of latest data from Bloomberg. Quarterly data, and latest available data is as of end of 2023.

US HY Net debt to EBITDA



Source: Amundi Investment Institute. Analysis of latest data from Bloomberg. Latest available data is as of end of 2023. 4 quarters moving average.

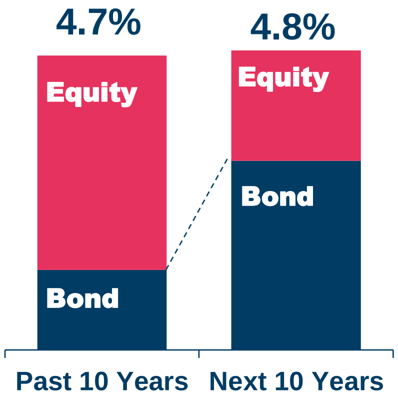
Amundi Asset Management | Investment Institute

3 Long-term opportunities

According to our 10-year expected returns, a conservative allocation (70% bonds – 30% equities) will see a similar performance in comparison to the past decade thanks to the better return potential for bonds, which should regain their role as a major performance contributor.

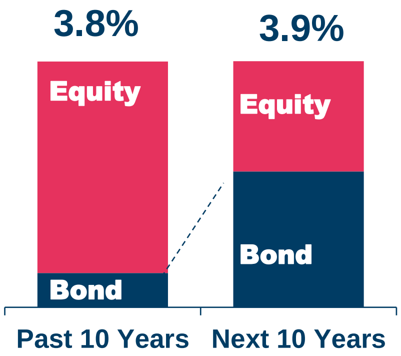
US Conservative Allocation in USD

70% US Aggr. Bond – 30% MSCI USA



Global Conservative Allocation in EUR

70% Global Aggr. Bond Hedge Eur – 30% MSCI World Eur



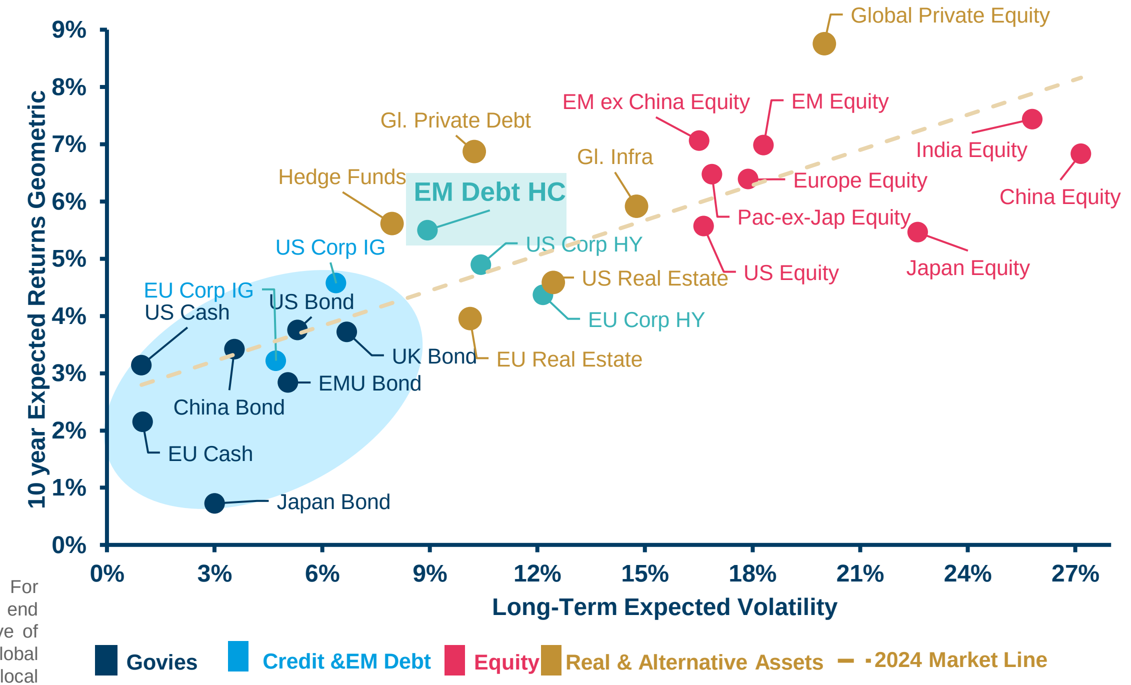
Source: Amundi CASM Model. Data as of 29 December 2023. For additional information see our annual Capital Market Assumption publications. Forecast returns are not necessarily indicative of future performance, which could differ substantially. IG=Investment Grade, HY=High Yield, RE=Real Estate, PE=Private Equity, PD= Private Debt, Infra.=Infrastructure. EM Debt HC, Global Infrastructure and Hedge Funds are in USD, all other indices are in local currency.

Amundi Asset Management | Investment Institute

Bonds offer an attractive long-term risk-return profile

- After the great repricing, bond 10-year expected returns are back at attractive levels, particularly for govies and IG credit.
- In the search for diversification opportunities, Emerging Market Bonds show an attractive return profile with a commensurate risk profile, making them an appealing asset class for strategic asset allocation.

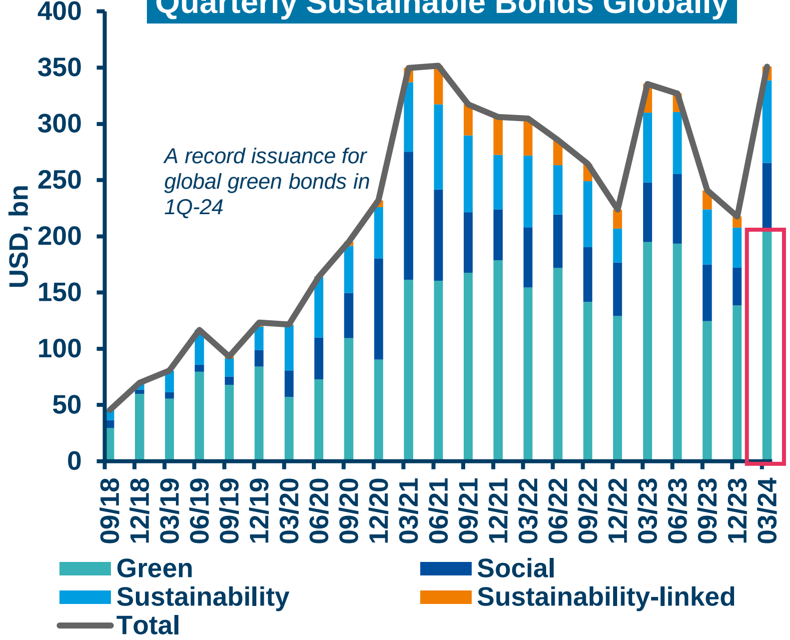
10-year Expected Returns vs Volatility scatter plot in local currency



Source: Amundi CASM Model. Data as of 29 December 2023. For additional information see 'Sources and Assumptions' section at the end of this document. The forecast returns are not necessarily indicative of future performance, which could differ substantially. EM Debt HC, Global Infrastructure and Hedge Funds are in USD, all other indices are in local currency.

Green bonds for the green transition

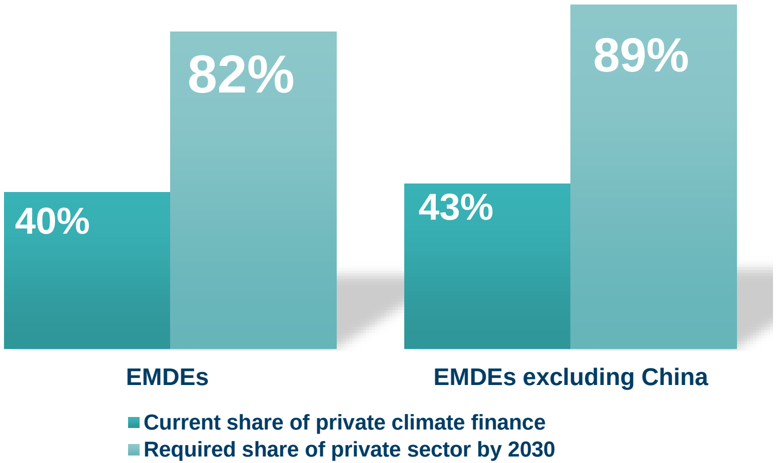
Quarterly Sustainable Bonds Globally



Source: Amundi Investment Institute, Bloomberg Intelligence, Data as of 31 March 2024. Green Bonds: proceeds are used to finance projects or activities with positive environmental impacts. Social Bonds: proceeds are used to finance social projects or activities that achieve positive social outcomes and/or address a social issue. Sustainable Bonds: proceeds are used to finance a combination of green and social projects or activities. Sustainability-Linked Bonds (SLBs): structurally linked to the issuer's achievement of broad SDG goals.

Necessary increasing role of private sector for EM climate goals

According to the IMF the share of private sector climate finance in Emerging and Developing economies will have to rise significantly to reach the net zero transition



Source: Amundi Investment Institute, IMF and IEA on Climate Policy Initiative with staff calculations. The estimation share of private climate finance to achieve net-zero emissions by 2050 is based on public climate financing share in total public investment that increases by a factor of 1.5 until 2030. Bloomberg. Data is as of 30 October 2023. EMDEs: Emerging Markets and Developing Economies.

Implementation ideas

1. The yield appeal

For income investors bonds are back. In the search for income focus on:

- Buy and watch solutions with different risk/investment horizons
- Yield from EM bonds

2. Diversification and flexibility

Bonds' role as a key component of a core asset allocation with a focus on:

- An active global (and/or US – Euro) "aggregate approach" offers an appealing return potential while having the flexibility to adapt its duration and credit stance.

Additional strategies that could benefit in H2 2024 include:

- Global credit, EM bonds in both local and hard currencies

3. Long-term opportunities

Over a long-term horizon, bonds are a key portfolio engine again particularly for a conservative global allocation:

- **Core allocation to**: US aggregate bonds for US investors, global aggregate bonds Hedged in Euro for Euro-based investors;
- **Core plus** (additional allocation to the core for enhancing return potential): EM bonds, Green Bonds

Source: Amundi Investment Institute, as of May 2024.

Authors

Authors

AMAURY D'ORSAY
HEAD OF FIXED INCOME

GILLES DAUPHINÉ
DEPUTY HEAD OF FIXED INCOME

VALENTINE AINOUZ
HEAD OF GLOBAL FIXED INCOME STRATEGY, AII

SERGIO BERTONCINI
SENIOR FIXED INCOME STRATEGIST, AII

Chief Editors

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

MATTEO GERMANO
DEPUTY GROUP CIO

VINCENT MORTIER
GROUP CIO

CLAUDIA BERTINO
HEAD OF AMUNDI INVESTMENT INSIGHTS AND PUBLISHING, AII

Editors, Amundi Investment Institute (AII)

POL CARULLA
INVESTMENT INSIGHTS & CLIENT DIVISION SPECIALIST, AII

LAURA FIOROT
HEAD OF INVESTMENT INSIGHTS & CLIENT DIVISION, AII

Marketing Communication

For the exclusive attention of professional clients and investment service providers

The The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.mscibarra.com). In the European Union, this document is only for the attention of “Professional” investors as defined in Directive 2014/65/EU dated 15 May 2014 on markets in financial instruments (“MIFID”), to investment services providers and any other professional of the financial industry, and as the case may be in each local regulations and, as far as the offering in Switzerland is concerned, a “Qualified Investor” within the meaning of the provisions of the Swiss Collective Investment Schemes Act of 23 June 2006 (CISA), the Swiss Collective Investment Schemes Ordinance of 22 November 2006 (CISO) and the FINMA’s Circular 08/8 on Public Advertising under the Collective Investment Schemes legislation of 20 November 2008. In no event may this material be distributed in the European Union to non “Professional” investors as defined in the MIFID or in each local regulation, or in Switzerland to investors who do not comply with the definition of “qualified investors” as defined in the applicable legislation and regulation.

This document is solely for informational purposes. This document does not constitute an offer to sell, a solicitation of an offer to buy, or a recommendation of any security or any other product or service. Any securities, products, or services referenced may not be registered for sale with the relevant authority in your jurisdiction and may not be regulated or supervised by any governmental or similar authority in your jurisdiction. Any information contained in this document may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. Furthermore, nothing in this document is intended to provide tax, legal, or investment advice. Unless otherwise stated, all information contained in this document is from Amundi Asset Management S.A.S. and is as of 27 May 2024. Diversification does not guarantee a profit or protect against a loss. This document is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The views expressed regarding market and economic trends are those of the author and not necessarily Amundi Asset Management S.A.S. and are subject to change at any time based on market and other conditions, and there can be no assurance that countries, markets or sectors will perform as expected. These views should not be relied upon as investment advice, a security recommendation, or as an indication of trading for any Amundi product. Investment involves risks, including market, political, liquidity and currency risks. Furthermore, in no event shall Amundi have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages due to its use.

Date of first use: 31 May 2024.

Document issued by Amundi Asset Management, “société par actions simplifiée”- SAS with a capital of €1,143,615,555 - Portfolio manager regulated by the AMF under number GP04000036 – Head office: 91-93 boulevard Pasteur – 75015 Paris – France – 437 574 452 RCS Paris – www.amundi.com. Photo credit: Luke Jarmey/ TFA/ Ascent, Getty Images.

Amundi Investment Institute

In an increasing complex and changing world, investors need to better understand their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios. 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.

Get the latest updates on:

- Geopolitics
- Economy and Markets
- Portfolio Strategy
- ESG Insights
- Capital Market Assumptions
- Cross Asset Research

Visit our Research Center

Trust
must be earned

Amundi

Visit us on