Seeking sustainable income in a low rate environment

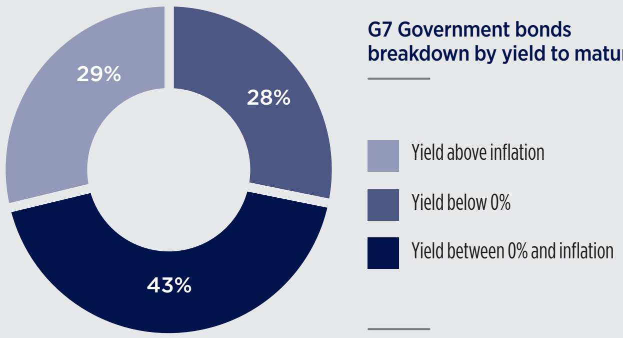
OCT 2017

> *"The dilemma of how to seek income in a world of* ***low yields, tighter credit spreads*** *and potentially higher* ***risk on bonds"***

Low yield

We estimate that around 70% of developed market government bonds currently trade at negative real yields and believe this trend will continue despite a gradual increase in interest rates.

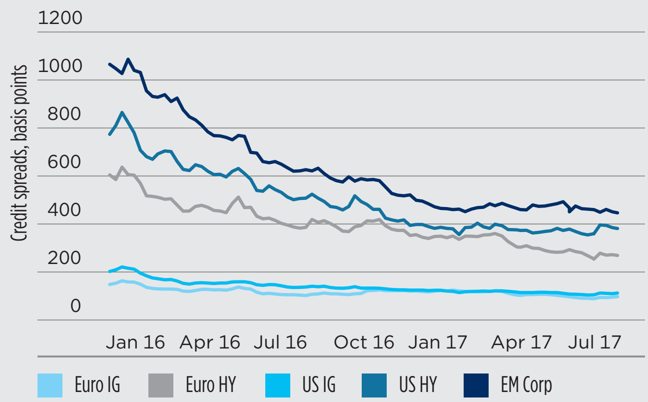
G7 Government bonds breakdown by yield to maturity [1]



Tighter credit spreads

In their hunt for yield investors have moved higher on the risk spectrum towards lower graded bonds. This trend, combined with current accommodative monetary policy, has resulted in further spread tightening in credit markets.

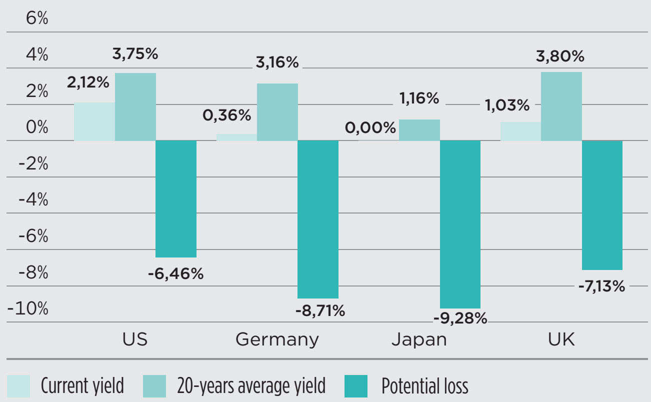
Spread tightening in credit [2]



Risk for fixed income

Even a small rise in interest rates could pose significant challenges to bond investing, which has been a traditional source of income. A 0.5% rise in yields on 10 year bonds over a 6 month period could result in significant capital losses.

10 Year yields and impact of a 0.5% rise in bond yields on capital [3]
Valuations with investment horizon to February 28, 2018



Source: Amundi analysis on Bloomberg. Data as at August 31, 2017. Please see accompanying Paper for more details. 1 Analysis on the Yield to Worst of each constituent of the BoA Merrill Lynch All Maturity All G7 Government Index vs the reference country headline inflation. 2 Merrill Lynch indexes. Euro IG = ML Euro Corporate, Euro HY = ML Euro High Yield, as of August 31, 2017, US IG = ML US Corp Master, US HY = ML US HY Master II, EM Sov = ML Global EM Sovereigns, EM Corp = ML Global EM Corp. It is not possible to invest in an index. 3 The calculation shows the total returns pre-tax based on an interest shock analysis, on generic 10-year government bonds, supposing a shock of 50 basis points with an horizon from August 31, 2017 to February 28, 2018. This example represents a hypothetical illustration of what potentially happens to Government bond prices when yields rise. It does not represent a specific investment. This hypothetical example is for illustrative purposes only and does not represent any particular Amundi product or strategy. This effect only applies if the bonds are sold prior to maturity.

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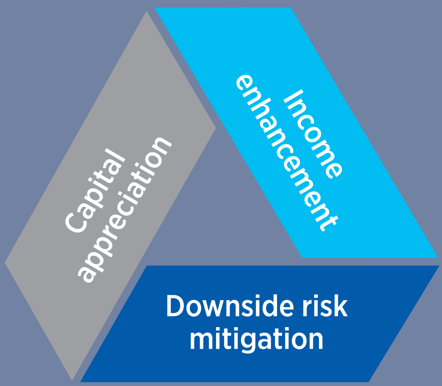
Seeking to solve the dilemma around income investor goals

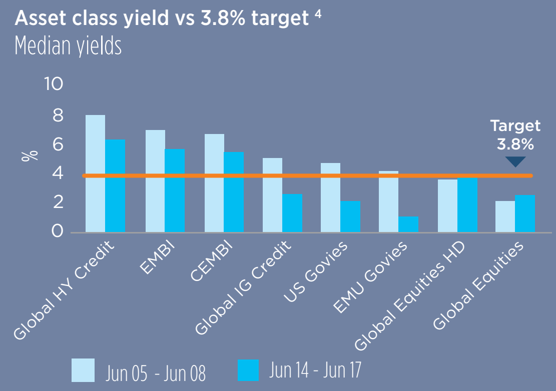
OCT 2017



Income enhancement

After the Great Financial Crisis of 2008, the income available in the market shrunk and the role of different asset classes as income producers has changed over time.

We believe it's time to take a more active approach and explore a wider range of investment opportunities across different asset classes.



Income and downside risk mitigation

Investing for income requires a constant assessment of the changes in the risk environment to identify how the risk profile of each asset class changes over time. Protecting portfolios from losses is extremely important for income investors in order to preserve the potential to generate income in the future.

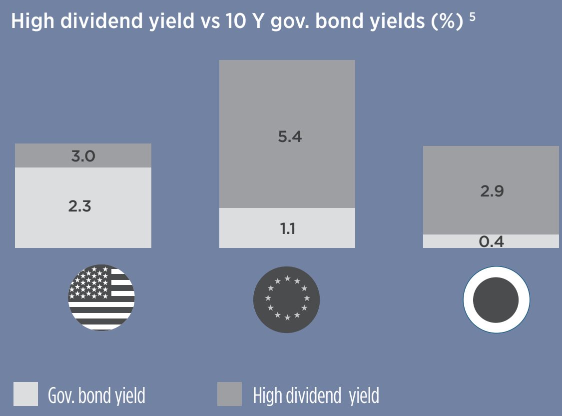
Risks to watch

- Market risk
- Credit risk
- Liquidity risk

Not just about #income. #Downsiderisk management and #capitalappreciation are also factors to consider when designing income solutions.

Income and capital appreciation potential

In our view, equities can provide higher potential capital appreciation than other asset classes over the next few years, but are subject to additional risk. While investors have neglected equity investing as a source of income, in a period of ultra-low interest rates, equities, and particularly, stocks able to deliver sustainable high dividend yields, can be a valuable source of income.



Source: 4. Amundi analysis on Bloomberg. Data as at September 20, 2017. US Govies = JPMorgan GBI US, EMU Govies = JPMorgan GBI EMU, Global IG Credit = Bloomberg Barclays Global Aggregate Corporate Bond, Global HY Credit = Bloomberg Barclays Global High Yield Bond, EMBI = JPMorgan EMBI Global Diversified Blended, Global Equities = MSCI World, Global Equities HD = MSCI World High Dividend Yield, Target = 3.8% that is the 20 years average yield on the US Treasuries. 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). 5. Amundi on Bloomberg. Data as of August 31, 2017. Dividend Yields are the 12 months dividend yields for the local MSCI indexes, High Dividend Yields are the 12 months dividend yields for the local MSCI High Divides indexes, Govt Bond Yields are the Yields of the local Generic 10 Year Government Bond.

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