Confidence must be earned
Amundi
ASSET MANAGEMENT

July 2017

Global Investment Views

Pascal BLANQUÉ
Group Chief Investment Officer

Vincent MORTIER
Deputy Group Chief Investment Officer

PLAY GLOBAL UPTURN, BUT STAY ALERT

Context

Global economic activity has continued to expand worldwide (or even accelerate) in H1 2017 driven, in most countries, by domestic demand. Business investment has strengthened in several areas (US, Eurozone, Japan) and global trade has improved since the start of the year, thanks to a re-synchronization of the global cycle. With this backdrop, our outlook for the Eurozone has further improved in June, with growth expectations up from 1.6% to 1.8%. Emerging economies are also favoured by the strong global cycle, US dollar weakness and Fed's prudent normalization policy.

On inflation, core inflation remains subdued even in countries at, or close, to full employment (US, Germany, Japan) and oil prices have dropped in response to an excess of supply. Looking forward, we continue to forecast oil prices around $50 per barrel in the coming years and core inflation should re-accelerate, but still remain subdued by historical standards. Consequently, Central Banks are expected to remain accommodative in 2017.

This "gentle reflation" scenario, with inflation in line with Central Bank targets and global growth slightly above 3%, remains our base scenario (70% probability). While political risks have receded in Europe, they remain alive across the rest of the world with major geopolitical risks in North Korea and China which could have massive spillover effects globally. The risk of US economic policy disappointing is also high at this stage and remains an important risk to monitor.

High Conviction Ideas

- **Multi-Asset:** overall we maintain a risk on stance, played mainly through equities (Europe, Japan and selective Emerging Markets). Nevertheless, we do not think that the current investment environment is without risk for investors: market complacency - in terms of low volatility and high correlation among asset classes - has increased further and some areas of the market (notably US credit) seem priced for perfection. Therefore, we believe it is important to be selective on credit and strive to shield investor portfolios from tail risks through hedging.

- **Fixed Income:** valuations are getting expensive across the board. In Developed Markets (DM) government bonds remain unattractive and exposed to interest rate risk, especially in consideration of the future unwinding of Central Banks' extraordinary monetary policy. Therefore we maintain a focus on short duration and we prefer corporate over government bonds in the US and Eurozone. We believe it is important to take a more cautious approach to High Yield (HY), due to excessive spread tightening in this segment, while searching for income opportunities in Emerging Market (EM) bonds.

- **Equities:** we are positive on equities, especially in Europe, thanks to the earnings outlook, investor flows and stronger economic momentum. We also favour Japan and EMs, where earnings have been revised up for the first time in 5 years. In EMs, we prefer selective stories at a country/sector level. We are cautious on US equities which are exposed to the risk of disappointment from policy implementation.

- **Real Assets:** we believe there is value along the liquidity continuum in particular in the leveraged loan space. We are more cautious overall on private equity because of the valuation issue. In a reflationary scenario, there is still some value left in European real estate (attractive property valuations and possible rent increase), to play through diversification.

MACRO

Philippe ITHURBIDE
Chief Economist

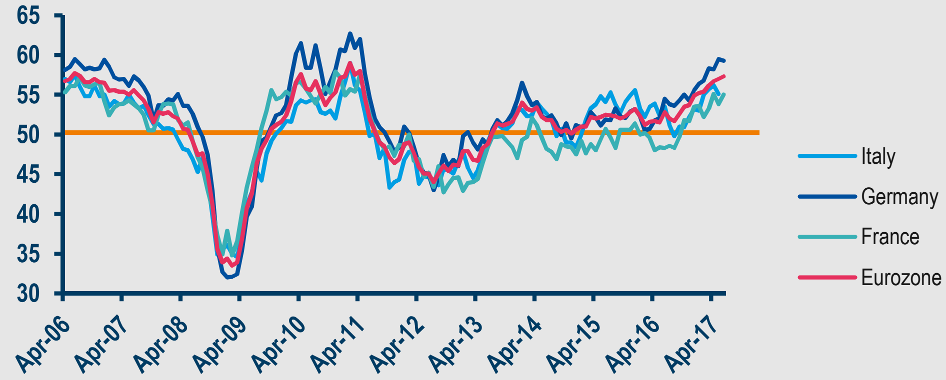
"The global economy continues to improve, especially in the Eurozone, amid fewer political risks, leaving room for Central Banks to plan their exit moves."

Central Banks take centre stage

Central Banks' tone under the spotlight

The economic environment is globally enjoying a sweet spot, especially in Europe where recent business indicators such as the manufacturing PMI indices are reaching new highs. With this backdrop, Central Banks are set to remain accommodative, but they are also gradually preparing the markets for their next move.

Manufacturing PMI reaches post-2011 high



Source: Bloomberg data as of July 18, 2017. 50 is the threshold between expansion and contraction.

ECB

In Europe, the ECB has recently become more vocal in preparing the market for a normalization of its unconventional monetary policy starting in 2018. The sequence should initially see a gradual reduction in the asset purchases until the elimination of the program, followed by the start of the hiking cycle and the standardization of the balance sheet. That said, the Fed has shown that the process can be very long (the Fed stopped its purchasing programme back in 2013 and only started raising rates in 2015). So, we believe that the ECB's policy shift will be a major market theme for the second half of the year, that should drive European rates higher by year end. Things to watch should be the core inflation trend and labour market conditions, as these will determine how the ECB will act.

FED

On the other hand, the Fed should continue to hike rates on continued economic improvement, sound labour market conditions and expectations of an upturn in inflation after the recent soft inflation readings. Currently, market expectations on the FED hiking cycle diverge from the "dots" (the projections from FOMC members), as the market expects a more gradual hiking cycle, while the unwinding of the balance sheet will be quite slow (it should take three years). In the US, the focus will be on the implementation of Trump's pro-growth policies and how they will impact growth and inflation. If inflation remains moderate and growth is more fragile, the Fed might have to lower its tightening ambitions to converge on market expectations.

Asia and Emerging Markets

In Asia, the BoJ is expected to stick to its current monetary policy, while the PBoC may also want to remove some accommodation. In EMs, monetary conditions remain generally accomodative with India, Brazil, Russia still having scope for interest adjustments.

BoJ: Bank of Japan; ECB: European Central Bank, FED: Federal Reserve. FOMC: Federal Open Market Committee. PBoC: People's Bank of China.

Multi-Asset: play risk through equity

Overall assessment

The preference for global equities over bonds remains a major theme for playing the reflation trend in multi-asset. Flows should also benefit equities going forward as the improved economic backdrop may drive a reallocation out of perceived safe havens towards areas of the markets that have been neglected by investors so far. In bonds, we expect DM government bond rates to remain low but on an upward trend. Therefore, we prefer credit to govies (we are negative on German and UK rates), even if we are becoming increasingly cautious on the credit market.

In fixed income, we promote a focus on short-term bonds in an effort to mitigate interest rate risk and believe investors should seek to continue to exploit carry opportunities in the credit markets, but with less conviction due to tighter valuations. In particular, we are more cautious on US HY, where spreads are tight, pricing in strong growth and low default rates.
Markets expectations on inflation are too low relative to the underlying economic backdrop, so we favour inflation-linked securities in Eurozone and US.

High conviction ideas

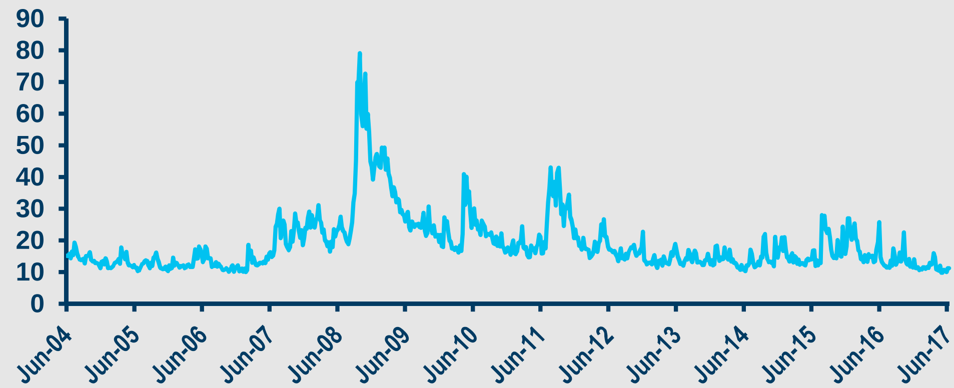
We maintain a positive view on global equities. Our favoured asset class to play in the current reflation environment is European equity, which may benefit from benign economic backdrop, positive momentum in earnings revisions, stronger outlook for capital expenditure and reduced political risk.
We also like value style and financials.
In Asia, we are positive on Japanese equity (though to a lesser extent) backed by supportive government policies and we continue to favour areas enacting long-term structural reforms (China) or showing strong improvements in micro and macro fundamentals (South Korea).

We also see opportunities in the currency market. We think GBP at the current level is already discounting a positive economic outlook and suggest investors to stay defensive vs Euro.

Risks and hedging

Volatility remains at historic lows as economic data confirms a positive outlook for the economy while political risks have eased in Europe. However, the risk of market complacency has increased and could have a meaningful impact. Therefore, we believe it remains crucial to implement hedging strategies to mitigate possible periods of volatility.

VIX at lowest quarterly average level since 2006



Source: Bloomberg data as of July 7, 2017. VIX Index is an indicator of future volatility on the S&P500 Index implied in the option market.

MULTI-ASSET

Matteo GERMANO
Head of Multi-Asset

> ***The market environment supports global equities, but given the increased complacency, investors should also focus on hedging multiple tail risks.***

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FIXED INCOME

Eric BRARD
Head of Fixed Income

Mauro RATTO
Head of Emerging Markets

Kenneth J. TAUBES
Head of US Expertise

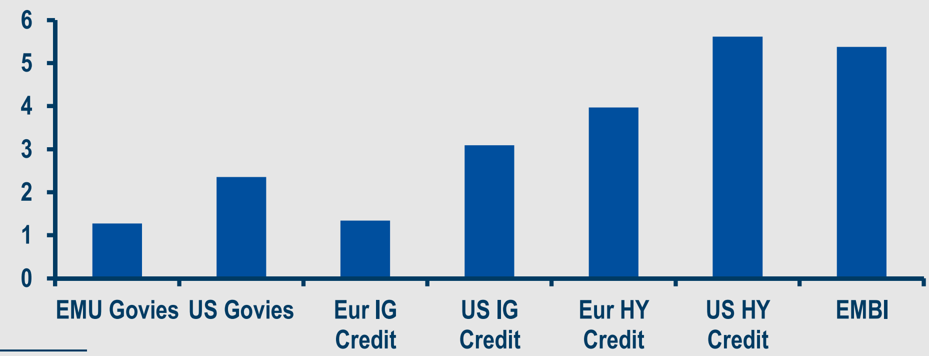
In a gentle reflation scenario, we favour low/short duration and carry opportunities in a bid to protect investor portfolios and deliver income.

Fixed income: search for carry in credit and EM bonds

Overall assessment

With DM sovereign bonds at unattractive valuations, we believe a cautious approach on duration is recommended, while searching for income opportunities across the board. We consider that turnaround of CB monetary policy is the main risk at the moment and we are mindful that certain areas of the market are getting expensive, namely in HY segments. Therefore, we believe that a flexible approach able to exploit a wide range of opportunities across fixed income could be beneficial in a period of still low, but rising, interest rates.

Yields across the fixed income spectrum (%)



Source: Bloomberg data as of July 17, 2017. EMU Govies, US Govies and EMBI are JPMorgan Indexes, EUR IG Credit, US IG Credit, EUR HY Credit, US HY Credit are Bloomberg Barclays Indexes.

DM government bonds

With no value on the Bund and the US Treasury, we see opportunities in European peripheral countries (mainly Italy) and in inflation-linked bonds in the EU and US, that should continue to benefit from reflation. In the US, we expect a flattening of the curve, favouring 30 year bonds.

DM corporate bonds

In the US, we have slightly reduced our positive stance on credit (both investment grade IG and HY). We have a positive view on US banks, insurance and energy. On higher yielding segments we prefer bank loans to HY. In Europe, our preference is for financials, high beta and HY.

EM bonds

We believe that the positive momentum for EM bonds should continue, supported by strong inflows that are not currently showing signs of overcrowding as institutional investors remain underweight overall.

In EM, credit is still attractive in terms of carry, but we don’t see further spread compression from current levels. Going forward it will be crucial to improve the credit quality. Low oil prices and high valuations suggest some protection strategies in this asset class. We prefer financials mainly in LatAm and selective sectors with competitive advantage in EM (i.e. Russian Steel, Asian Textile).

In EM sovereign, macro fundamentals still favour local currencies vs hard currencies, in our view.

Currencies

On currencies, we expect GBP to weaken against the USD and Euro on the back of potential challenges in the Brexit negotiations. The positive economic backdrop should support a constructive outlook for the Euro vs. main currencies.

Equity: Eurozone in the spotlight

Overall assessment

The Eurozone is our favoured equity market. Earnings growth, in Q1 has been the strongest in a decade and is supportive as is economic momentum. Japan is an increasingly attractive area. Emerging Markets remain an interesting long-term story for investors and is currently supported by currency dynamics.

MSCI EMU is closing the gap with the S&P500

Source: Bloomberg, data as of July 7, 2017. Indexes based 100 at January, 3 2014.

Europe

Eurozone equity has been playing catch up with the US market since 2014. This trend should continue in the coming months and the outlook for investor flows is constructive. We continue to see opportunities in industrial, materials and consumer discretionary sectors. As GDP growth and bond yields continue to move higher, we think selected "value" stories may again outperform and the financial sector could bottom out, particularly if earnings growth materializes.

United States

US equity valuations are high in absolute terms, but not excessive. Revenue growth has reaccelerated in aggregate terms over the past quarters, driving profit growth and enabling invested capital to be scaled for the first time since 2013. We find value in some retailers/consumers, which are discounting the disruption of their business model, and in home repair/remodel, benefiting from stronger labour market and demographic factors. We also favour secular winners among mega cap technology stock and we believe that giant pharma & biotech may regain momentum as soon as the regulation outcome become clearer.

Japan

Japanese equities are becoming increasingly attractive thanks to positive earnings growth (expected to be double-digit for many companies in 2017), improving domestic demand and currency dynamics - we do not expect a significant appreciation of the Yen against the USD. Japan could benefit from a cyclical rebound over the summer.

Emerging Markets

EM earnings expectations for 2017 have been revised up for the first time in five years. In Asia, we see improvement in south Korean earnings growth thanks to stronger corporate governance and a good momentum in IT consumer stocks. We also maintain a positive view on consumption-related sectors in China, where we have a better outlook than the market consensus. In CEMEA, the main focus is on Greece, with a re-rating of the financial sector. LatAm is the weakest area in EM.

EQUITY

*"**Focus on Eurozone equity (particularly value), supported by earnings growth and economic momentum.**"*

Romain BOSCHER
Co-Head of Equities

Diego FRANZIN
Co-Head of Equities

Mauro RATTO
Head of Emerging Markets

Kenneth J. TAUBES
Head of US Expertise

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Amundi high conviction investment ideas

		1 month-change	-	=	+
EQUITIES	US	→	-		
	Eurozone	→			++
	UK	→		=	
	Japan	→			+
	Pacific ex Japan	→			+
	Global Emerging Markets	→			+
GOV. BONDS	US, short	→	- -		
	US, long	→	-		
	Euro core, short	→	-		
	Euro core, long	→		=	
	Euro peripherals	→			+
	UK	→	-		
	Japan	→	-		
CORP. & EM BONDS	US IG	→			+
	Euro IG	→			+
	US HY	→			+
	Euro HY	→			+
	GEM debt hard cur.	→			+
	GEM debt loc. cur.	→			+
FX	EUR vs USD	→		=	
	EUR vs GBP	→			+
	EUR vs JPY	→		=	
	USD vs JPY	→			+

The table above represents an investment horizon of 6 to 12 months. The changes reflect the outlooks expressed at our most recent investment committee meeting. The different colours provide relative outlooks for each major asset class and absolute outlooks for forex and commodities. The outlooks, changes in outlooks and opinions on the asset classes reflect the expected direction (+ green /- red) and the strength of the convictions (+/++/+++). This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. **This information does not represent the actual current, past or future holdings or portfolio of any Amundi product.**

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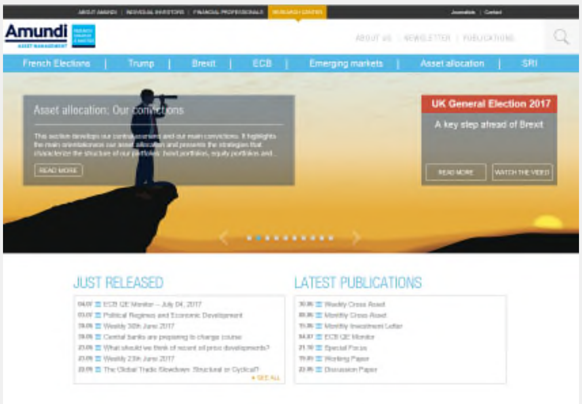
AMUNDI INVESTMENT INSIGHTS UNIT

The Amundi Investment Insights Unit (AIIU) aims to transform our CIO expertise, and Amundi's overall investment knowledge, into actionable insights and tools tailored around investor needs.

In a world where investors are exposed to information from multiple sources we aim to become the partner of choice for the provision of regular, clear, timely, engaging and relevant insights that can help our clients make informed investment decisions.



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INSIGHTS UNIT

Claudia BERTINO
Head of Amundi Investment Insights Unit

Laura FIOROT
Deputy Head of Amundi Investment Insights Unit

Correlation: The degree of association between two or more variables; in finance, it is the degree to which assets or asset class prices have moved in relation to one another. Correlation is expressed by a correlation coefficient that ranges from -1 (never move together) through 0 (absolutely independent) to 1 (always move together).

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