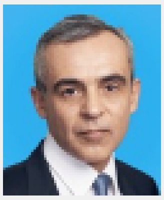
Confidence must be earned
Amundi
ASSET MANAGEMENT

September 2017

Global Investment Views



Pascal BLANQUÉ
Group Chief Investment Officer

Vincent MORTIER
Deputy Group Chief Investment Officer

MORE SELECTIVE ON RISK ALLOCATION

Context

Despite a very strong Q2 earnings season, equity markets halted their march higher in August, amid renewed geopolitical tensions. Meanwhile, the economic cycle is sound and synchronized at a global level. In the US, there are no signs of imminent recession, even though we are probably reaching the late stage of the business cycle, while Europe is enjoying strong and widespread growth, which has surprised on the upside. If the appreciation of the Euro remains limited, as we believe, it should not derail positive economic and earnings momentum. The subdued global inflation outlook, confirmed by July figures both in the US and Eurozone, is enabling Central Banks to hold back from any aggressive moves in terms of both interest rates and balance sheet normalisation. Also in Emerging Markets (EM), the fundamental backdrop remains supportive. In this scenario, we believe investors should continue to maintain a **moderate risk-on stance,** with an **increasingly selective approach as valuations become tight in some areas of the market.** Risk allocation should therefore favour equity versus credit, with a focus on areas of the market which still retain a valuation gap. However, we believe hedging strategies continue to be appropriate try to manage risks. Over a longer investment horizon (12-24 months), we believe investors may face an asymmetric portfolio payoff. Upside (gains) could be limited (due to market performance and high valuations), while the probability of downside (losses) may increase in line with a natural deceleration of the US economy, the shifts in monetary policy and geopolitical risks. Therefore, we believe investors will need to be ready to reduce risk should this shift in economic and market conditions start to materialise, while also continuing to focus on the still unrewarded market opportunities.

High Conviction Ideas

- **Multi-Asset:** we are increasing the focus on hedging due to a resurgence of geopolitical risk and currency swings. The preference for equities is still our highest conviction asset allocation idea, reflecting the view of a gradual shift from an asset reflation phase (ultra-accommodative Central Banks) towards a late cycle phase in 2018 (more restrictive in terms of monetary policy and with increasing inflation). We maintain a neutral view on credit markets (still valuable from an income perspective) and a negative bias on government bonds.

- **Fixed Income:** we still maintain a moderate short duration bias. We do not see the risk of a rapid acceleration of growth and inflation in the coming months, but we believe that the current level of government bond yields underestimate the shift in Central Bank policy in both the Eurozone and US. Inflation linkers are also attractive, as they discount inflation forecasts that are too conservative, as are floating rate notes. In fixed income, we continue to favour credit in developed markets, but with an increasing focus on credit quality and liquidity, as valuations have become stretched across the board.

- **Equities:** the equity outlook is still constructive, driven by earnings growth and the positive economic backdrop. We do not see broad risk due to current valuations, but markets can be vulnerable to any disappointing news, in an absence of a strong positive catalysts. As the business cycle is aging, especially in the US, a selective approach, with more focus on value, is favoured.

- **Real Assets:** we continue to see opportunities in the real asset space to play the gentle reflation scenario. Real estate and infrastructure will continue to be attractive for hedging purpose against inflation, in our view.

MACRO

Philippe ITHURBIDE
Global Head of Research, Strategy and Analysis

If the Euro stabilises (or continues a gradual appreciation path as in our base scenario), the ECB could announce – maybe in October - a reduction (starting in January 2018) of the Quantitative easing programme.

Stronger growth and stronger Euro

The global expansion continues

Data and business surveys continue to point to the pursuit of the global expansion driven, in most countries, by domestic demand. The economic recovery in the Eurozone has strengthened in Q2 and it is becoming widespread, as confirmed by recent GDP figures. Business confidence indicators are reaching new cyclical highs, not only in Germany, but also in Italy and France, as well as consumer confidence surveys pointing upward. In addition, investment spending is recovering and positive news is also coming from the job market, with a continued fall in unemployment rates accompanied by a modest rise in the participation rate. This suggests likely improvements to potential growth ahead as well as upward revision of consensus and ECB forecasts. We still expect GDP growth to stabilize in the US at around 2% and to be closer and closer to 2% in the Eurozone. We continue to see the UK economy at risk, while Emerging Market Economies are solid globally (especially Asia), and Russia and Brazil should exit recession gradually. The situation is also becoming more positive in Japan, with GDP growth (above 1.5%) much higher than potential growth (around 0.5%). As a consequence, and thanks to the re-synchronization of the global cycle, global trade has strengthened: +6.5% at an annual rate in H1, i.e. +5.1% yoy, a level unseen since 2011. However, we expect a deceleration in the coming months (with a stabilization of the world-trade to world GDP ratio). Core inflation has declined in the US since the start of the year. This is due to temporary factors, the low level of core inflation illustrates that structural (supply-side) factors are at play. We expect core inflation to re-accelerate but to remain subdued.

The Euro, at the current level, is not a threat for the Eurozone recovery

At the current level, the Euro is not a threat for the Eurozone (up about 14% vs the US Dollar since January and +6% in trade-weighted terms since May). As long as the Euro appreciation remains gradual and driven by fundamentals, it will have little impact on our macro forecasts. In fact, it supports our macroeconomic scenario. The ECB's models indicate that a persistent appreciation of the Euro has limited impact on GDP growth, but a significant - and negative - impact on core inflation. Note that some concerns on recent currency trends and an overshoot of risk were debated during the ECB's July policy meeting, as it represents an implicit measure of monetary policy tightening and could modify the inflation outlook (the ECB would be forced to revise down its inflation forecast). The Euro dynamic will certainly take center stage in the debate on ECB monetary policy in September. If the Euro stabilises (or continues a gradual appreciation path as in our base scenario), the ECB could announce – maybe in October - a reduction (starting in January 2018) of the quantitative easing programme. Should the Euro continue to appreciate rapidly (in trade-weighted terms), the ECB could become more dovish and postpone its tapering.

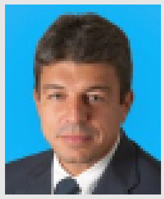
Is the US growth at risk?

The Euro is solid because the European economy is doing better and political risks, intense at the beginning of the year, have gradually disappeared. But it is also solid because the risks have returned to the US economy, including two topics that are currently attracting media and investors' attention: the impact of Hurricane Harvey and the risks of a "government shutdown". The impact of the hurricane in Texas is expected to be temporary and quickly erased from GDP growth figures, as it was the case for the Sandy hurricane, for example. As regard a potential government shutdown, we tend to consider that such a scenario - which means that the government runs out of money because of the Congress's refusal to vote on the budget - is unlikely to happen, one year before the mid-term elections. In summary, our US GDP forecasts are still unchanged despite these two risks.

ECB: European Central Bank. Quantitative Easing (QE): it is a type of monetary policy used by central banks to stimulate the economy by buying financial assets from commercial banks and other financial institutions.

Multi-Asset: Hedging in focus

MULTI-ASSET



Matteo GERMANO
Head of Multi-Asset

"The focus on risk has increased over the last few weeks amid geopolitical tension and currency volatility, but we believe it is still time to maintain a moderate risk on stance with hedges in place."

Overall assessment

A continuation of earnings growth, supported by positive global economic momentum, confirms our preference for equity markets. We see little or no value in government bonds, especially in Europe and we maintain a cautious view on credit, preferred to govies, but with limited space for further spread tightening.

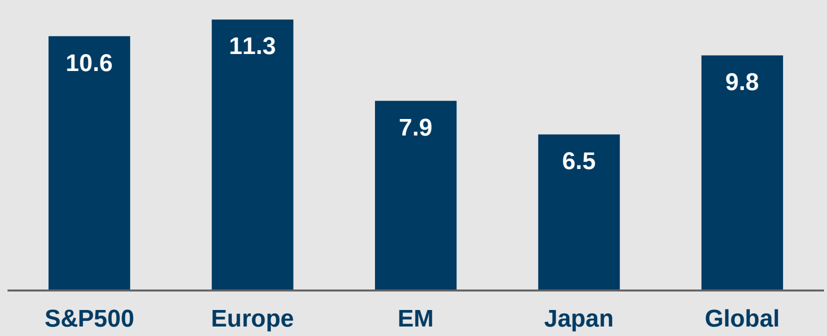
High conviction ideas

We continue to believe investors should consider playing the positive economic momentum by seeking to exploit growth opportunities in equities, in particular in Europe, Japan and selectively in Emerging Markets. Despite the Euro's recent appreciation, European equity remains our strongest positive conviction, thanks to its pro-cyclical nature and flow dynamics. We also believe that the impact of the Euro's appreciation on earnings will be contained by firmer European domestic demand, a mild recovery in global trade, high corporate margins and a moderate steepening of the yield curve. Our view remains constructive also on Emerging Market equities, with a focus on Asia, where we see interesting long-term stories linked to structural reform (China, S. Korea). The area may be temporary under pressure due to the situation in North Korea. However, we assess the probability of military confrontation as being extremely low at this stage. In terms of fixed income, high conviction ideas, we remain negative on European Government bonds (German and UK). Cheap valuations and a misalignment between inflation expectations and the economic backdrop could benefit inflation linked bonds both in the US and Eurozone and we are also positive on floating rates notes. We are now more cautious overall on credit markets, where we have a neutral view; an improvement in fundamentals face a late stage environment of "ultra" supportive conditions (ultra-low rates, ultra-low volatility, ultra-easy Central Banks) and valuations, which are now stretched. The yield component is still attractive, versus government bonds, even if technical factors (scarcity, crowded positions in the market, robust issuance schedule) leave the asset class in a more vulnerable position.

Risks and hedging

Our focus on risk has increased over the last few weeks on the back of renewed geopolitical tensions and higher currency volatility. Investors should consider keeping hedging strategies in place, and trying to protect their assets through gold, US dollar, Yen or option strategies.

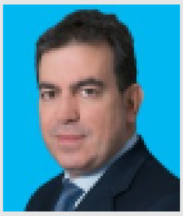
Earnings per share growth (EPS, %): Outlook to June 2018



Source: Amundi Multi Asset Team, Bloomberg, Factset, as of August 24, 2017. S&P500 index, MSCI Europe, MSCI EM, MSCI Japan, MSCI All Country.

FIXED INCOME

Eric
BRARD
Head of Fixed Income



Mauro
RATTO
Head of Emerging Markets

Kenneth J.
TAUBES
CIO of US Investment Management

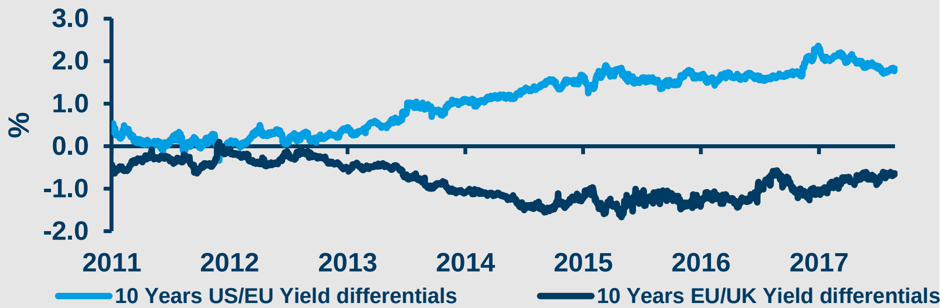
"Seeking income in credit and Emerging Market bonds continues to be at the forefront of investor demand, but selection is key as valuations are becoming stretched across the board."

Fixed Income: Flight to quality

Overall assessment

In August, lower than expected inflation figures and the "flight to quality" effect drove market speculation that Central Bank policy normalization would slowdown further.
In this environment, we believe that the risk on government bonds is rising and therefore we prefer asset classes with yield premium (credit, EM bond, and Euro peripheral bonds). However, we believe investors with an absolute return perspectives should consider to recalibrate credit risk in their portfolios, as the gain/loss profile is becoming asymmetric for this asset class.

Moves in yield differentials



Source: Amundi, Bloomberg, as of August 24, 2017. 10 year German Bund as EU reference rate.

DM government bonds

We are still negative on duration in core markets. We expect the spread between US and EU govies to tighten and between EU and UK to widen driven by the differential in regional growth momentum. In the US, we think that the recent fall in inflation could be temporary, while potential policy changes such as easier fiscal policy could push inflation higher going forward. In our view, the expectation of the Fed not hiking rates again in 2017 is too dovish and exposes government bonds to risks. We keep a positive view on inflation linked bonds, as we believe they are pricing-in an inflation outlook that is too negative. We are also positive on floating rate notes.

DM corporate bonds

In DM bonds, credit remains favoured versus govies. In Europe, we maintain a focus on financials, industrials and high yield. Corporate credit offers moderate value also in the US, where we prefer loans to high yield. Valuations are becoming stretched across the board and we believe selection will be crucial.

EM bonds

EM debt continues to be attractive from an income perspective. Spreads are tight in absolute terms, however the macro economic momentum in EM remains positive. This supports our view of improving corporate earnings and credit fundamentals. Selectively and on quality names, we prefer credit versus sovereign debt. At a sector level, we are positive on select financials (Brazil, Mexico, Argentina) and on sectors with competitive advantages (i.e., pulp and paper in EM vs DM). We also like some reform/normalisation stories (Argentina utilities, Brazil energy). On sovereigns, we have revised down our outlook for South Africa (to neutral) and up for Argentina.
Overall, we have further increased the focus on quality in this phase.

Currencies

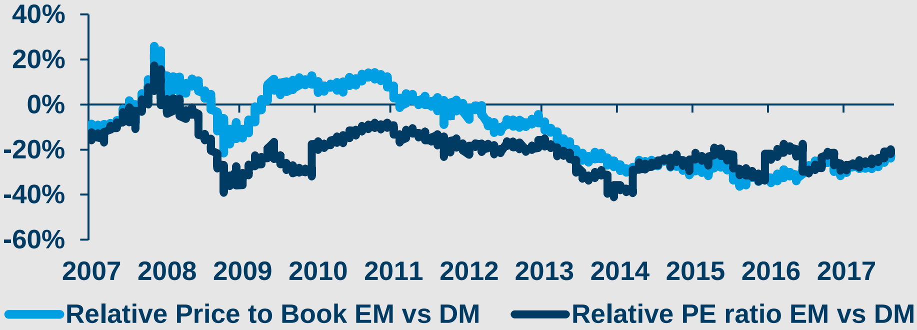
We believe that the Euro will remain well-supported vs GBP and we do not see an overshooting of the Euro above 1.20 vs. the USD in the short-term. Yen and Swiss Franc should remain well supported by their "safe" currency status.

Equity: Playing valuation gaps

Overall assessment

Global GDP growth acceleration, positive earnings momentum and investor flows, are supportive for equities, where valuation gaps remain. In fact, areas of attention such as the Euro strength, the maturing of the US cycle and a high level of optimism make markets vulnerable to any disappointment.

Emerging markets equities: Potential for catch up



Source: Amundi, Bloomberg, as at August 24, 2017. MSCI EM and MSCI World index.

Europe

The Q2 earnings season has been encouraging, supported by the improving economic momentum which we continue to see in the region. This resulted in ongoing inflows into the asset class. The more tepid market environment experienced in recent months, coupled with the notable uptick in earnings has helped to dampen valuations (MSCI Europe 12 month forward Price/ Earnings of about 14.5X). While this is above the long term median valuation, we believe that we can see further upside from here providing companies continue to grow their earnings. We continue to seek balance, recognising that the potential for sectorial rotations remain prevalent within the market. Our focus is on names which can deliver reliable earnings growth, which we believe will be the primary driver of further upside.

United States

The outlook for US equity is still constructive for US large cap and value, but the short-term risks to the asset class are elevated compared to few months ago. We are reaching the late stage of the economic and market cycle. The domestic political stalemate, the debt ceiling issue and geopolitical tensions could also weigh on the market. Valuations are reasonable, compared with alternatives, but are high in absolute terms, especially in select technology-related stocks and consumer staples. The catalyst for further upside could be a positive surprise on corporate tax reform, but this isn't likely to emerge soon.

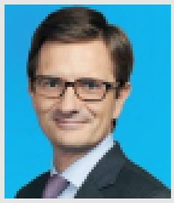
Emerging Markets

We see the asset class continuing to benefit from the synchronised global cycle and significant valuation gap with DM (Developed Markets) equities. If the positive global macro momentum should persist, we could see a rotation towards cyclical sectors/industries. We see opportunities from restructuring stories (Greece, Nigeria). Asia continues to be our favourite area. We like China, for the reform momentum benefiting some industries (cement, aluminum), export growth and the resilience of real estate, and South Korea for earnings growth and corporate governance improvements. In CEMEA, the main theme is Greece and the re-rating of the financial sector in the region, aided by core European strength. Revisiting Turkey, it is interesting on valuation and earnings momentum. LatAm remains relatively unattractive.

Price to book ratio indicates the ratio between index's market value and his book value. PE ratio: the ratio between market value and earnings.

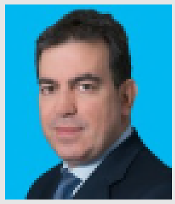
EQUITY

"Earnings growth is the biggest theme in the market, but more catalysts are needed going forward."

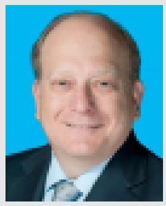


Romain BOSCHER
Co-Head of Equities

Diego FRANZIN
Co-Head of Equities



Mauro RATTO
Head of Emerging Markets



Kenneth J. TAUBES
CIO of US Investment Management

Amundi ASSET MANAGEMENT

REAL ASSETS

Pedro-Antonio ARIAS
Global Head of Real & Alternative Assets

"Real estate and infrastructure can provide a hedge against inflation trending higher, albeit keeping liquidity risk in mind."

A diversified source of potential returns

Structural demand still supportive

We believe that market conditions and structural factors will continue to support the demand for real asset in emerging and developed countries. There is a clear shift to private illiquid assets with fund raising recovering its pre-crisis level amid $600 Bln of inflows in 2016 to private equity, real estate, private debt and infrastructure. The AuM of those asset classes have reached a record high of $7,700 Bn in 20161, and PwC estimates that so-called 'alternative' assets will reach between $13.6 and $15.3 trillion in 20202.

In a low yield environment, with structurally high demand for income, we believe investors will likely continue to seek to diversify their portfolio exposure to potentially capture illiquidity premium to enhance returns. Beyond markets, prudential regulation (Solvency II for insurers, Basel III for banks) and demographic shifts (such as life expectancy, urbanisation) are raising the demand for alternative sources of financing to complement banks' intermediation in financing the real economy.

Inflation hedging opportunity

With an outlook of interest rates trending higher in the medium term, as a reflection of stronger growth and inflation, real assets can be seen, with a long-term perspective, as a hedging against inflation. With this purpose, real estate and infrastructure are the most appealing strategies.

A potential source of income

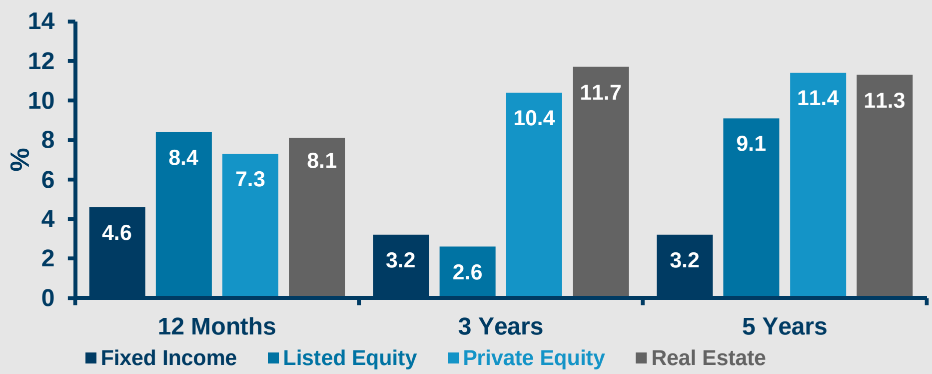
Real assets can also be considered as an interesting potential substitute to fixed income, albeit keeping the higher liquidity risk in mind. In fact, some real assets have a pattern of very predictable cash flows, on the back of a stringent contractual framework (private debt, infrastructure, real estate).

They are also interesting from an income stream perspective. Strong economic and commodity cycle stabilisation are supportive for real assets sensitive to these components, such as airports, oil sector/ commodity-related infrastructure. The European recovery could also favour real estate for attractive valuations and possible rent increases.

Risk management in real assets

A focus on selection is particular important for real assets to identify value-added strategies on the underlying asset itself (rental, renovation or total refurbishing strategies in real estate) and to mitigate risk, defined in a broader sense than in traditional asset classes (specific project risk, sourcing risk, industrial risk, political risk) and not just as volatility.

Median public pension fund net returns by asset class



Source: Amundi, Prequin. Data as of December 31, 2016.

(1) All data extracted from Preqin – Source of graph: Preqin. (2) PwC Market Research Centre analysis based on Preqin, HFR and Lipper data. PwC report published in June 2015: "Alternative Asset Management 2020 – Fast forward to centre stage".

Amundi high conviction 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 6-12 months. The changes reflect the outlooks expressed at our most recent Global Investment Committee meeting. The different colours provide relative outlooks for each major asset class and currencies. 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 asset allocation or portfolio of any Amundi product.**

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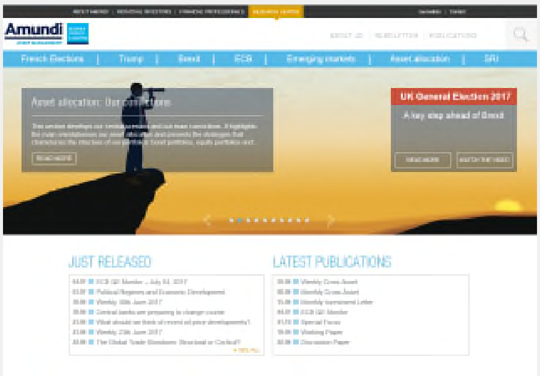
AMUNDI INVESTMENT INSIGHTS UNIT

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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