INVESTMENT INSIGHTS | BLUE PAPER | October 2017

Seeking sustainable income in a low rate environment

Seeking sustainable income in a low rate environment

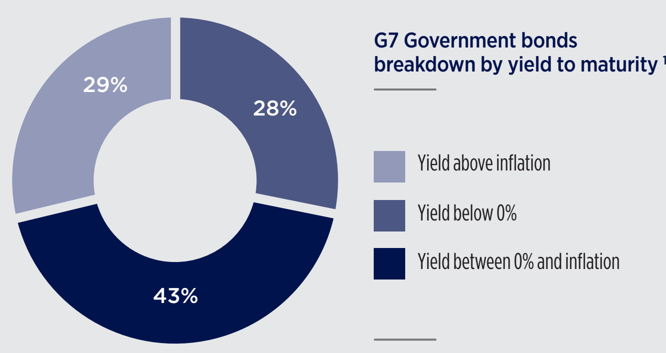
OCT 2017

*“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.

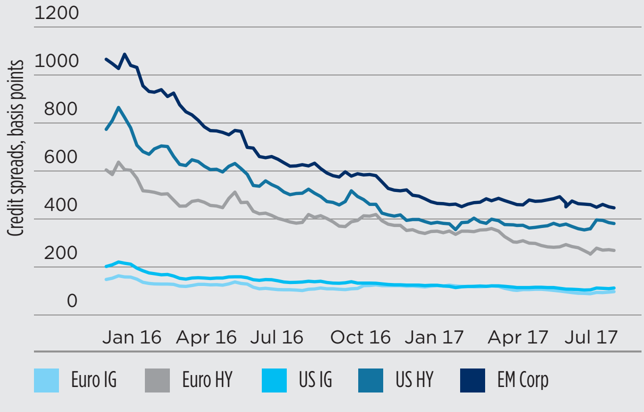
G7 Government bonds breakdown by yield to maturity [1]



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.

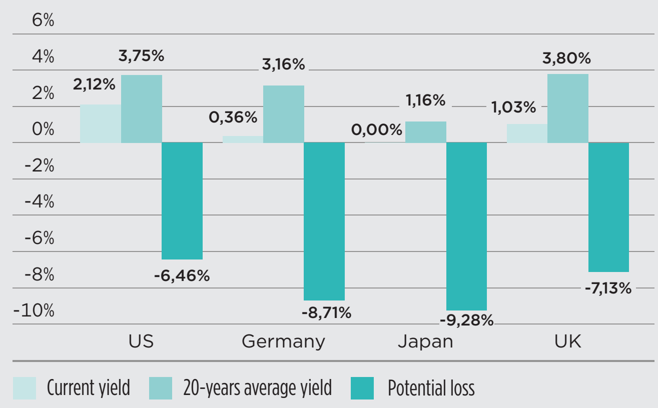
Spread tightening in credit [2]



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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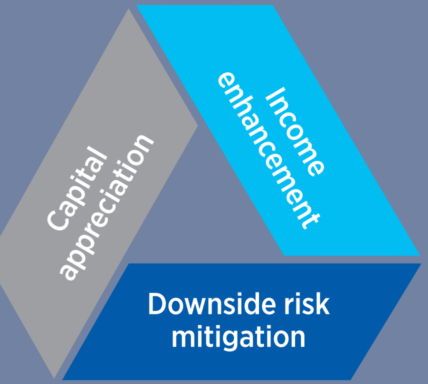
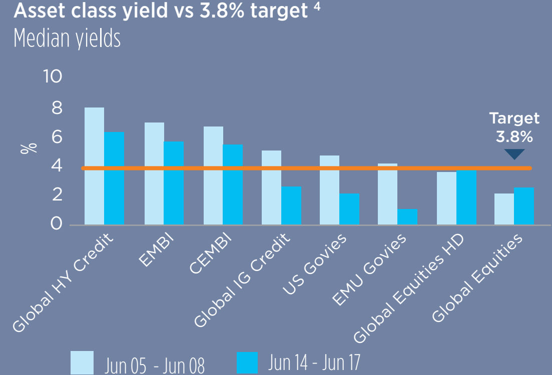
Seeking to solve the dilemma around income investor goals

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.



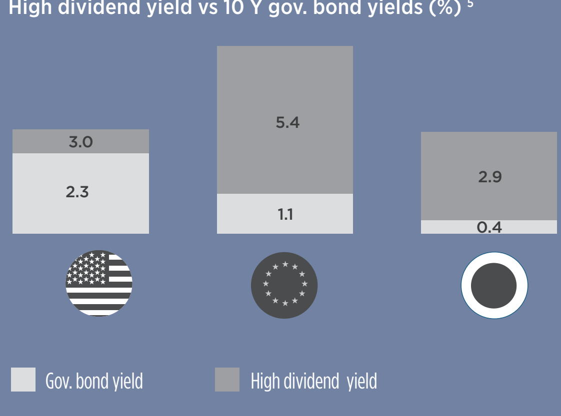
Income and downside risk mitigation

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.

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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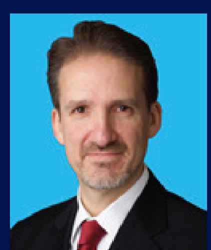

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Seeking to resolve the income dilemma in 10 tweets

1. Four secular trends will continue to drive investor's demand for income in the coming years (Fig.1)
2. Financial repression is set to continue despite a potential gradual increase in interest rates (Fig.3)
3. Regardless of the zero rate environment, many investors continue to hold a significant allocation in currency and deposits (Fig.4)
4. Since the crisis, not only has the income available in markets shrunk, but the sources of this income have also rotated (Fig.8)
5. Today income investors should explore opportunities across the board to help avoid the low yield trap (Fig.9)
6. Income investing is tougher than in the past and requires a constant assessment of the evolving risk environment (Fig. 10)
7. A multi-asset income approach can benefit from a broad range of opportunities, but requires a strong focus on the different aspects of risk (Fig.10)
8. For income investors with a long-term horizon, equities can offer higher capital appreciation and income generation potential (Fig.12)
9. In our view, income from equities can provide interesting yielding opportunities with managed duration, credit and liquidity risk. (Fig. 13)
10. It's not just about income. Downside risk management and capital appreciation are also factors to consider when designing income solutions (Fig. 7)

The income dilemma

The great income shortage

Income generation will likely continue to be at the forefront of investor needs.

Income shortage is set to be one of the biggest challenges for investors in the future. An aging population and the need to reduce the high levels of debt in developed markets could result in potential cuts to public welfare and, consequently, increase the need for income in retirement. Demand for income is also highly relevant in the institutional space for investors, such as pension funds, that require predictable cash flows. We believe that income generation will continue to be at the forefront of investor needs, as four major secular trends shape the outlook and behaviour of investors.

Fig.1. Secular trends driving the demand for income

SECULAR TRENDS			
	1	Demographic challenges	Globally there are more pensioners and fewer workers to support their retirement: a big issue for developed economies. This could result in additional income needs for retirees to compensate potential cuts in public welfare.
	2	Public debt mountain	Debt ratios for advanced economies could rise to unsustainable levels due to the demographic challenges. Many countries could be required to further reform their pension and healthcare systems. The result, once again, is an increased need for income in retirement.
	3	Increased regulation	The increase in regulation is resulting in greater responsibility at the investor level to ensure a sufficient income in retirement. Low rates and prudential regulation have caused retirement income to reach record low levels. For this reason many pensioners are already sourcing additional income through capital or work.
	4	The middle class squeeze	Subdued economic growth has led to low or negative income growth for the middle class in developed countries. In our opinion, the middle class is also set to demand higher income from capital in pre-retirement to support their children's education and housing needs.

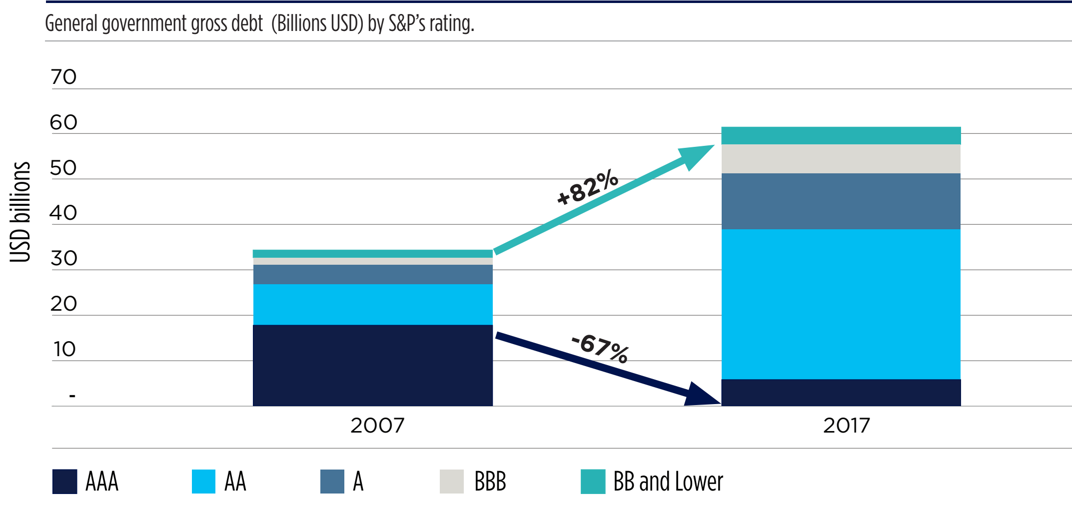
Source: Amundi analysis. Data as at August 31, 2017.

The search for income comes at a time of financial repression, with many developed market government bonds trading at zero, or very low yields, that in most cases are below inflation. In fact, we estimate that around 70% of developed market government bonds currently trade at negative real yields, exacerbating the income shortfall.
In addition, the income from "safe" government bonds, the traditional source of income for investors, could come under further pressure from a lack of supply, as the amount of AAA rated sovereign bonds has shrunk by 67% over the last 10 years, despite an 82% increase in overall government bond supply.

Supply of "safe" sources of income (AAA sovereign bonds) has shrunk by 67% over the last 10 years.

Fig.2. Lack of supply of "safe" assets (AAA sovereign bonds)

General government gross debt (Billions USD) by S&P's rating.



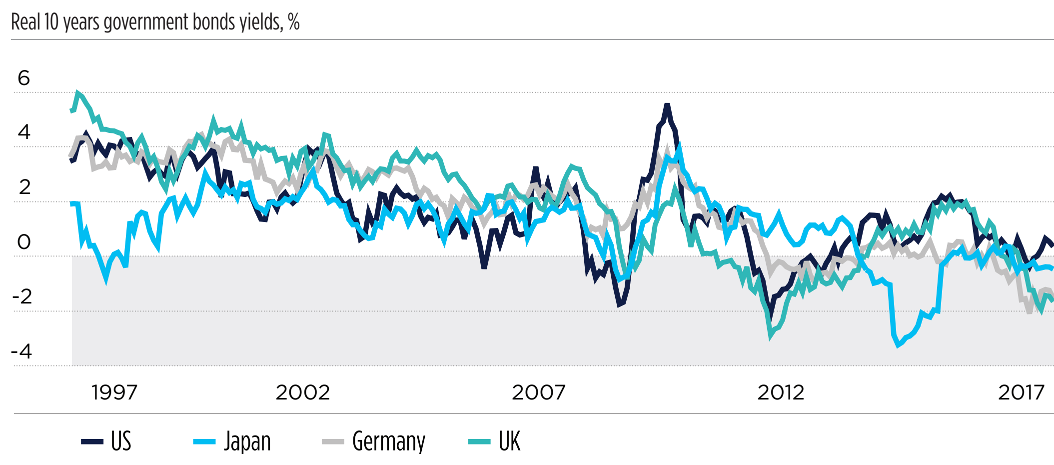
Source: Amundi estimates based on IMF database. Data as at August 31, 2017. Please see the Additional Notes section for the methodology of the analysis.

The great income shortage comes at a time when we are approaching a major paradigm shift from monetary to fiscal policy.

This shortage of income is happening while we approach a major paradigm shift driven by a less dominant role for Central Banks in favour of an expected loosening of fiscal policy. In the U.S., the handover from monetary to fiscal stimulus has already started, with the Federal Reserve on a path of rising rates alongside expectations of a pro-growth fiscal stance from the Trump administration. Europe and Japan are a different story. Here, ultra-loose monetary policy remains in place, but the fiscal agenda is also taking centre stage amid looser fiscal conditions. Major developed economies are also escaping the deflationary trap supported by stronger economic conditions, although we do not forecast a new period of structurally high global inflation. In our view, the income reality is that the way out from accommodative monetary policy by major Central Banks is expected to be slow, despite the improving cyclical economic and inflation outlook, and the imbalance between income demand and supply will persist. Consequently, real yields could remain very low or in negative territory as inflation could rise faster than yields, as has happened in recent months.

Financial repression is set to continue despite a gradual increase in interest rates.

Fig.3. The financial repression regime is set to continue



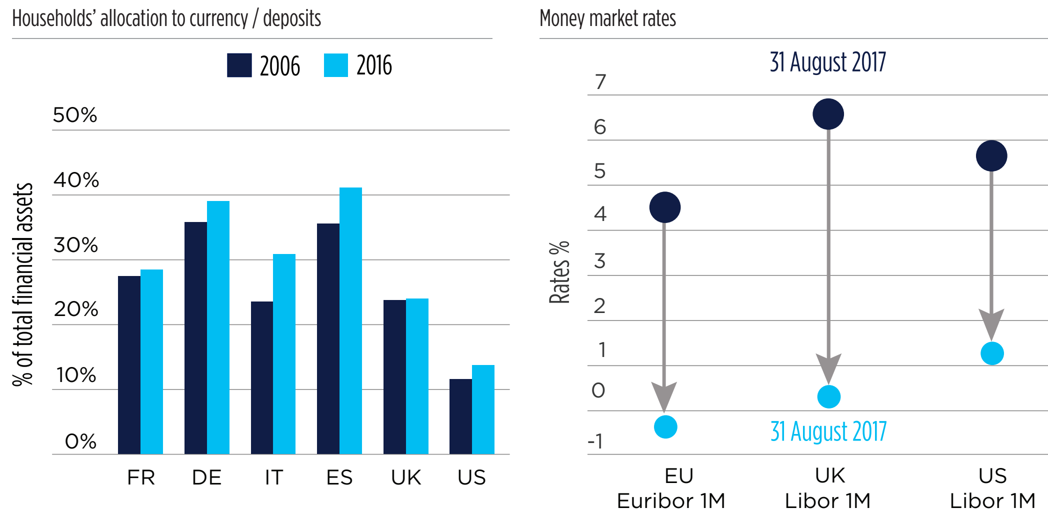
Source: Amundi analysis on Bloomberg data. Data as at August 31, 2017. Please see the Additional Notes section for the methodology of the analysis.

Are investors' portfolios positioned to face future income challenges?

Regardless of the zero interest rate environment, many investors continue to hold a significant allocation to currency and deposits.

Despite the ongoing zero interest rate environment, investor allocations remain very conservative and in a period of financial repression such an allocation could risk eroding households' wealth in real terms.

Fig.4. Households' conservative allocations, despite zero money market rates

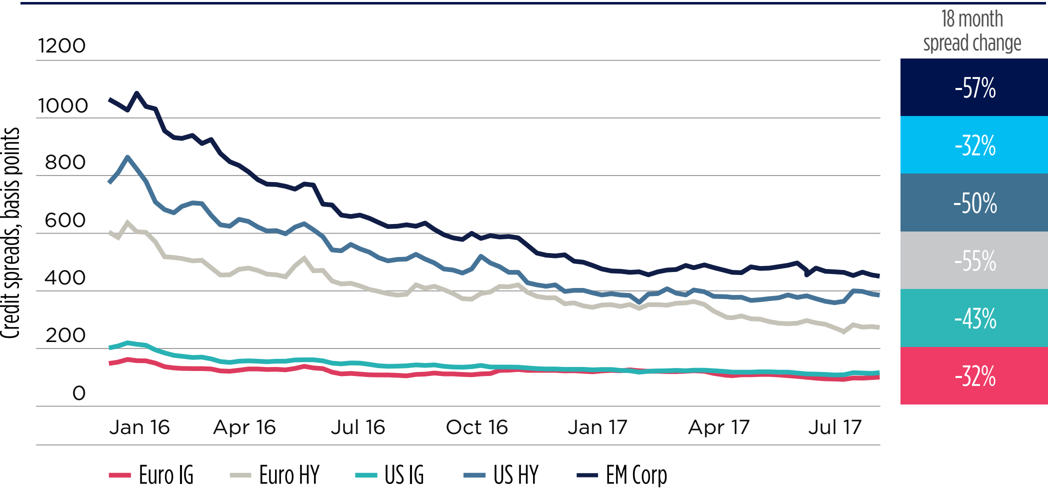


Source: Amundi analysis on Bloomberg, OCED, Central Banks data. Data as at August 31, 2017.

The hunt for yield has led to significant spread tightening over the last 18 months.

In addition, investors have continued to pile into bond portfolios, with €467bln net flows globally in 2016 (73% of the total global net flows[1]). Indeed, in their hunt for yield many investors have moved higher in the risk spectrum towards lower graded bonds. This trend, combined with the current accommodative monetary policy has resulted in further spread tightening in credit markets.

Fig.5. Spread tightening in credit



Source: Amundi analysis on Bloomberg data. Data as at August 31, 2017. Please see the Additional Notes section for the index definitions.

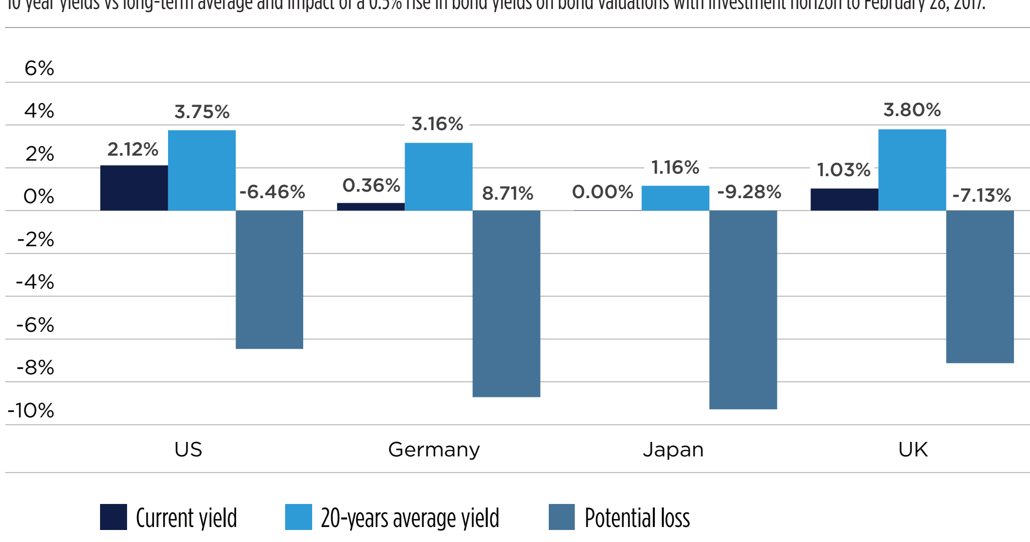
For investors, the dilemma is how to seek income in a world of low yields, tighter credit spreads and potentially higher risk in bonds

In our view, this increased focus on fixed income, which has been a traditional source of income, could pose a significant challenge for investors if interest rates start to rise more broadly.

In fact, a 0.5% rise in yields on 10 year bonds over the next 6 months could result in significant drawdowns on a mark-to-market basis, and credit markets could also be exposed to higher volatility when the still accommodative monetary policy in Europe starts tightening.

Fig.6. Government bonds: low income and potential risk of capital losses

10 year yields vs long-term average and impact of a 0.5% rise in bond yields on bond valuations with investment horizon to February 28, 2017.



Source: Amundi analysis on Bloomberg data. Data as at August 31, 2017. This example represents a hypothetical illustration of what potentially happens to Government bond prices when yields rise. It does not represent a specific investment. Please see the Additional Notes section for the indexes definitions.

In the future, we believe investors will need to rethink their traditional asset allocation and focus on new ways to seek sustainable income in an environment of low and slowly rising yields, but better economic conditions.

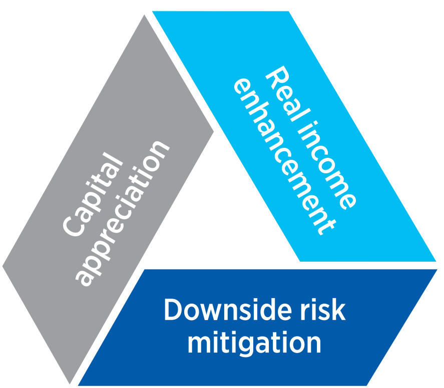
Source: 1. Strategic Insight Simfund data as of February 3, 2017.
Global net flows on mutual funds, including ETF and Fund of Funds.

Things to watch when investing for income

It's not just about income. Downside risk management and capital appreciation are also important factors to consider when designing income solutions around investors' needs.

In the search for income, the starting point is to understand investors' priorities. In fact, each investor may have a different set of income goals (primary and secondary) which may also be linked to the role that income investment plays in their overall portfolio (for instance, investors may be searching for diversified sources of income, whereas other investors may be searching for a more holistic approach to managing their income sources, especially if they are already retired). Different risk profiles and capital preservation requirements should also be considered, as well as an investor's appetite for long-term capital appreciation.
Accordingly, we have identified three major income objectives in what we call the Triangle of Income Investor Goals (see Fig.7.). These three objectives are Income Enhancement, Downside Risk Mitigation (in terms of capital preservation and volatility) and Capital Appreciation Potential (the potential for long-term growth above inflation).

Fig.7. The triangle of income investor goals



Source: Amundi. For illustrative purpose only.

These three goals are very interconnected. In fact, while the major goal of an income investor is to gain a predefined, annual level of real income, this amount depends on both the income yield of the underlying investments and also their capital appreciation. Therefore, if we consider an investment with a constant target income yield, any drawdown (or capital appreciation below inflation) on this investment would not only imply a potential wealth reduction for the future, but also a lower level of real income delivered to the investor in the short-term.
Consequently, in their search for income investors should carefully assess yield and the risk/return profile of each investment.
With this in mind, we assess the challenges involved in targeting each one of our three Income Goals in the current environment and the approach investors should consider when seeking sustainable sources of income.

Income: harder to find after the crisis

Most income investors (retail and also institutional, such as pension funds) usually target a defined and stable level of income/yields in their portfolios. How challenging is it to achieve an income goal in the current environment? For example, 3.8%, which is the average yield for US treasuries over the last 20 years (Fig.6.).

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

When looking at historical data on the evolution of yields across different asset classes (Fig 8), we see that the yields available have generally dropped since the Great Financial Crisis (2008) compared to pre-crisis levels and the sources of income have also changed over time. In fact, an investor that was targeting a hypothetical yield of 3.8% in the years before the Crisis could have achieved this level by investing in the “safest” segments of the fixed income space (government bonds and credit investment grade). After the Crisis, there has been a significant change in the sources of income available. With yields in core bonds so much lower, the only asset classes with yields persistently above our 3.8% target have been global high yield bonds, Emerging Markets bonds, US energy MLPs (Master Limited Partnership) and global high dividend stocks. These asset classes have traditionally been more volatile than government bonds and credit investment grade debt.

Fig.8. Yield evolution across different asset classes vs 3.8% target

Median yields on a 3-year period

Pre-crisis		Post-crisis		
Jun 02 - Jun 05	Jun 05 - Jun 08	Jun 08 - Jun 11	Jun 11 - Jun 14	Jun 14 - Jun 17
EMBI 8.5%	Global HY Credit 7.8%	Global HY Credit 9.4%	Global HY Credit 6.6%	US MLP 7.1%
Global HY Credit 8.1%	EMBI 6.8%	CEMBI 7.1%	US MLP 5.8%	Global HY Credit 6.2%
CEMBI 7.0%	CEMBI 6.6%	US MLP 6.7%	EMBI 5.5%	EMBI 5.6%
US MLP 6.9%	US MLP 5.9%	EMBI 6.6%	CEMBI 5.5%	CEMBI 5.4%
US Govies 4.2%	Global IG Credit 5.0%	Global Equities HD 4.7%	Global Equities HD 4.4%	Global Equities HD 3.9%
Global IG Credit 4.1%	US Govies 4.6%	Global IG Credit 4.7%	TARGET 3.8%	TARGET 3.8%
EMU Govies 4.0%	EMU Govies 4.1%	TARGET 3.8%	Global IG Credit 2.9%	Global IG Credit 2.6%
TARGET 3.8%	TARGET 3.8%	EMU Govies 3.7%	EMU Govies 2.8%	Global Equities 2.5%
Global Equities HD 3.4%	Global Equities HD 3.5%	US Govies 2.9%	Global Equities 2.7%	US Govies 2.1%
Global Equities 2.1%	Global Equities 2.1%	Global Equities 2.7%	US Govies 1.9%	EMU Govies 1.1%

Source: Amundi analysis on Bloomberg data. Data as at August 31, 2017. Please see the Additional Notes section for the indexes definitions and methodology of the analysis. Data represents past performance, which is no guarantee of future results.

Today income investors should explore opportunities across a broader range of asset classes in an effort to avoid the low yield trap.

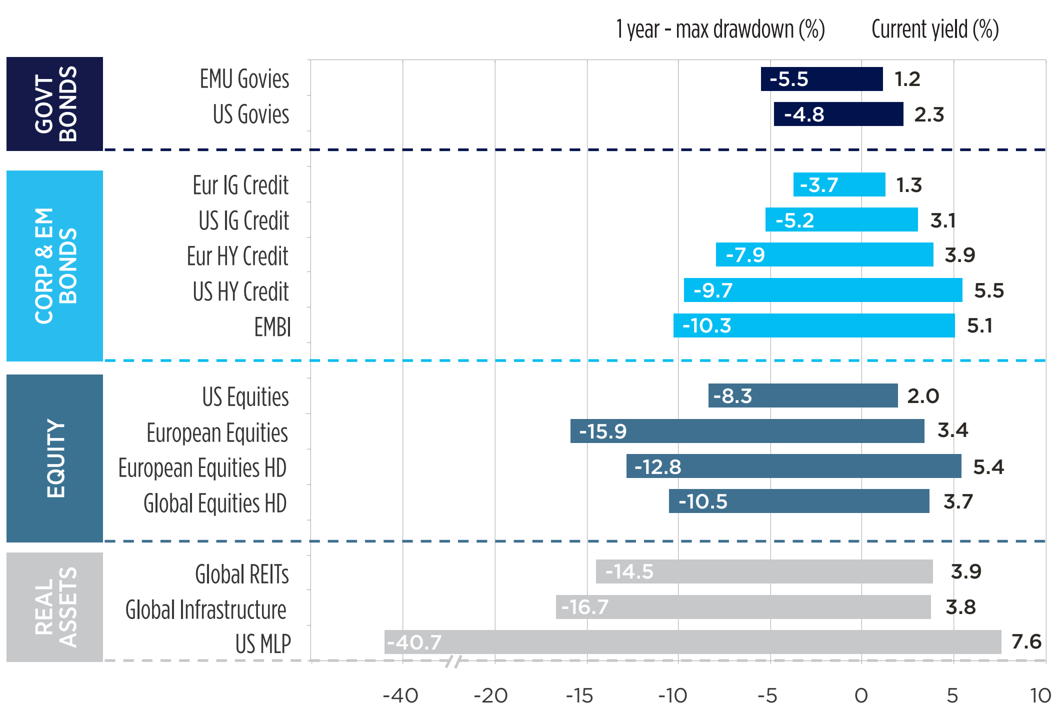
In our view, seeking a stable source of income has become more challenging since the crisis. The above analysis suggests that nowadays income investors should rethink their approach to income investing that has traditionally focused on “safe” bonds and consider how they can access a wider array of income sources.
In conclusion, we believe that for income investors, it’s time to consider broadening their perspective, taking a more active approach and exploring a wider range of potentially higher-yielding investment opportunities across different asset classes with varying levels of risk.

When exploring a wider range of income opportunities, investors should be aware of the downside risk associated with each investment.

Downside risk: how to manage it

As with all investments, an investor's tolerance for risk is a relevant factor to consider in the design of income investment solutions. Risk should be measured not simply in relation to volatility, but also in terms of potential drawdowns. Investors should be aware of the downside risks associated with each asset class, which may be exposed to different types of risk: credit, market or liquidity risk.

Fig.9. Current yields and historical drawdowns for different asset classes



Source: Amundi, analysis on Bloomberg. Data as at September 18, 2017. Please see the Additional Notes section for the index definitions and analysis.
Data represents past performance, which is no guarantee of future results.

Investing for income requires a constant assessment of the changes to the underlying risk environment in order to identify how the risk profile of each asset class changes over time.

In fact, for income investors, drawdowns could have a significant impact on the potential to generate income in the future. Therefore, investing for income requires a constant assessment of the changes in the risk environment in order to identify how the risk profile of each asset might change over time.

When assessing current risk conditions, we see that higher yielding opportunities are available in the US HY market, where liquidity risk (which we analyse in terms of liquidity in both the primary and secondary markets and on the basis of flow dynamics) and credit risk (which is based on our assessment of whether the credit spread compensates for default rates) are at their highest, and EM Bonds, where there is also some liquidity and credit risk, but at a much lower extent (see Fig.10.).
Equity markets, and in particular the European Equity High Dividend segments, could also be a source of higher potential yield that is not exposed to liquidity and credit risk, but is exposed to market risk (volatility).

In our view, a multi-asset approach based on the combination of different sources of income, with different types of risk exposure may allow an investor to build a target income/risk profile that is not otherwise available in the market. However, this type of approach requires ongoing active management, in response to the constantly evolving risk/return and income landscape.

Fig.10. Current risk assessment on different asset classes

		Current income	Ann. volatility	Liquidity risk	Credit risk
GOVIES	EMU Govies	1.2%	3.63%	1.0	
GOVIES	US Govies	2.3%	3.55%	1.1	
CREDIT & EM	Eur IG Credit	1.3%	2.55%	1.8	1.0
CREDIT & EM	US IG Credit	3.1%	3.39%	1.4	1.0
CREDIT & EM	Eur HY Credit	3.9%	3.99%	3.3	3.0
CREDIT & EM	US HY Credit	5.5%	3.59%	4.1	3.0
CREDIT & EM	EMBI	5.1%	5.38%	1.9	2.0
EQUITY	US Equities	2.0%	9.02%	1.1	
EQUITY	European Equities	3.4%	10.90%	1.0	
EQUITY	European Equities HD	5.4%	11.60%	1.0	
EQUITY	Global Equities HD	3.7%	8.93%	1.0	
REAL ASSETS	Global REITs	3.9%	10.93%	1.5	
REAL ASSETS	Global Infrastructure	3.8%	9.60%	1.9	
REAL ASSETS	US MLP	7.6%	16.97%	3.0	

Source: Amundi, analysis on Bloomberg. Data as at September 18, 2017. The capital appreciation, volatility, liquidity and credit risk data refers to an Amundi Asset Management internal indicator (from 1 lowest to 5 greatest). The pink colour indicates higher risk or lower income or capital appreciation potential, while the green is for the areas of best income or capital appreciation potential and lower risk across the various asset classes analysed.
For illustrative purposes only. Please see the Additional Notes section for the indexes definitions.

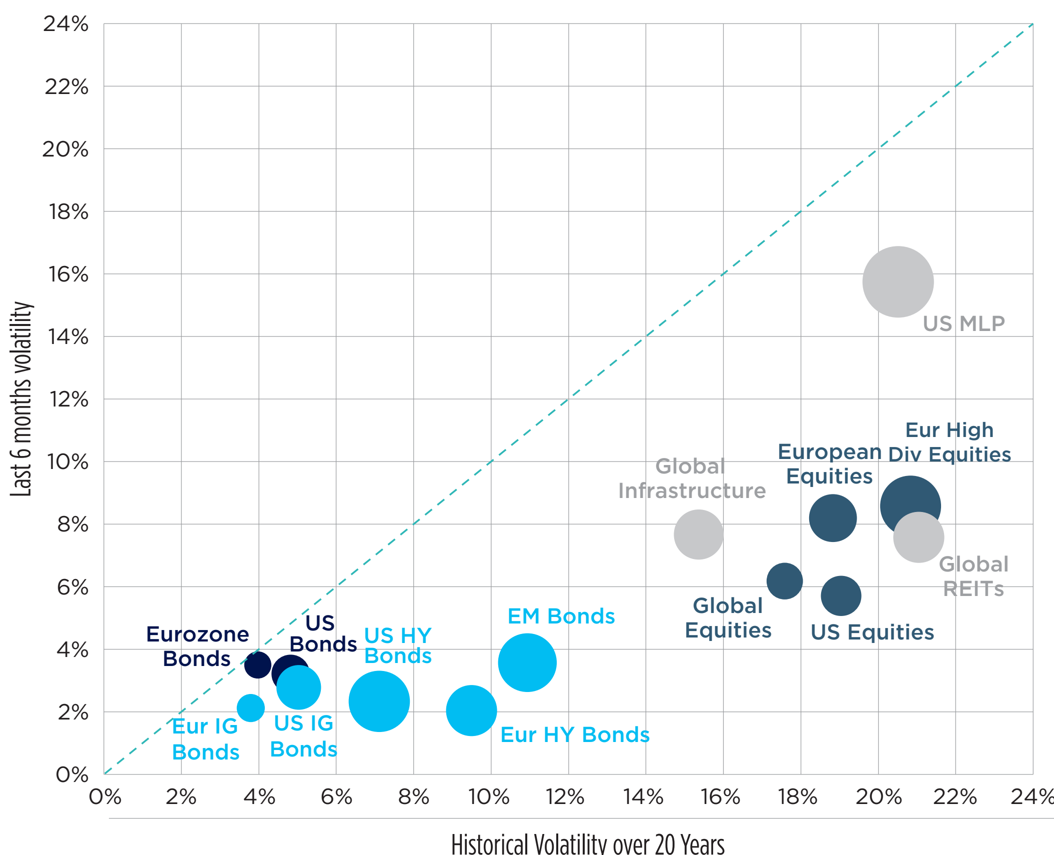
Low volatility could persist amid improving economic prospects and current accommodative Central Bank policy, but volatility spikes may occur on the back of geopolitical risks.

For example in recent months, financial markets have been highly complacent and volatility has been quite low compared to historical levels across almost all asset classes. In a period of improving economic prospects and current accommodative monetary policy from Central Banks, volatility on risk assets could remain low but subject to likely volatility spikes on the back of geopolitical risks as recent tension in North Korea testify.

Over the medium-term, we believe that this trend should revert as a consequence of the paradigm shift and we, therefore, take this into account when assessing the market risk of each asset class.

We believe that an active multi-asset approach can potentially benefit investors by providing a holistically managed solution across all asset classes, with a strong focus on managing downside risk.

Fig.11. Low volatility across risk assets compared to historical levels



Source: Amundi analysis on Bloomberg data. Data as at September 18, 2017. Please see the Additional Notes section for the indexes definitions.

When investing for income, volatility is just one of the many risk measures to watch. Liquidity and Credit risk are also important factors to consider when building an income portfolio.

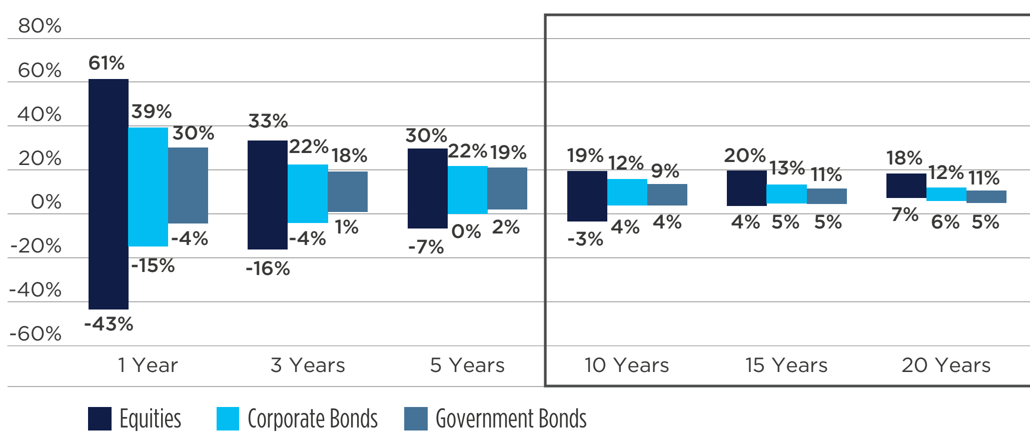
The high yield market is an example of an asset class that is typically exposed to these risks. Despite the higher income potential available in this segment, the liquidity risk premium may not always be enough to compensate for these risks and during these times investors should consider sourcing income from different asset classes / strategies (including, for example, carry from EM currencies) or focus on a disciplined selection of single securities to help ensure that the risk taken is properly remunerated.

Focus on Income and Capital Appreciation

Income investors interested in capital appreciation should consider equity income, an asset that could also benefit during a period of paradigm shifts.

The third goal we are considering is capital appreciation. This is the objective that many income investors target, especially when investing with a long-term horizon.
For investors who are less sensitive to short-term downturn, we believe that sourcing income from equities can offer the best capital appreciation potential over the long-term.

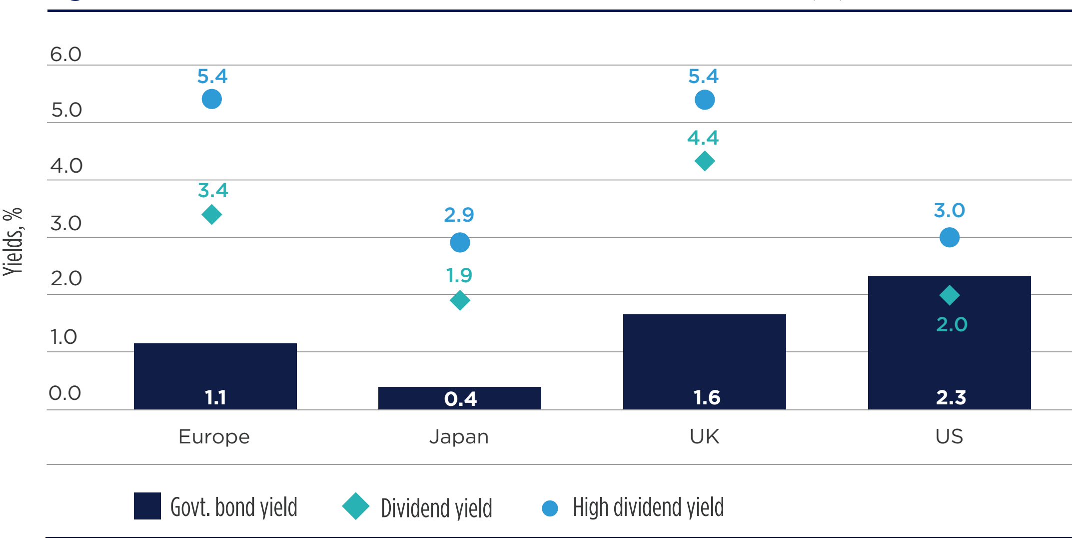
Figure 12. Range of historical annualized returns for different asset classes, on different time frames



Source: Amundi analysis on Bloomberg data. Analysis on monthly data from December 1972 to July 2017. Equities = S&P500 Index, Government Bonds = Bank of America Merrill Lynch US Treasury & Agency, Corporate Bonds = Bank of America Merrill Lynch US Corporate Master. All indexes are in USD, total return. Data represents past performance, which is no guarantee of future results.

In addition to higher capital appreciation, at a global level stocks are currently delivering income well above the 10-year government bond yields and we believe that this trend is set to continue as we see more and more focus on dividend growth and dividend sustainability from corporations.

Figure 13. Dividend Yields vs 10 Year Government Bond Yields (%)



Source: Amundi analysis on Bloomberg data. Data as at September 20, 2017. Please see the Additional Notes section for the indexes definitions.

This means that for income investors wishing to diversify their income allocation, equities can provide interesting yields, while at the same time not exposing investors to duration and credit risks. It also offers some protection against inflation, as historically dividends tended to increase in line with inflation.
Moreover, in a period of expected higher growth and inflation, equity markets could also benefit from supportive market sentiment.

Fig.14. Dividend Yields Growth vs Inflation in US

10%
9%
8%
7%
6%
5%
4%
3%
2%
1%
0%

1949 1954 1958 1962 1967 1971 1975 1980 1984 1988 1993 1997 2001 2006 2010 2014

Dividend Growth CAGR 10Y   Average Inflation 10Y

Source: Amundi analysis on Bloomberg data. Data as at December 30, 2016. Dividend compound annual growth rate over 10 years on the S&P500 index vs average 10 years US CPI.

In our view, income from equities can benefit investors who place higher priority in income generation (with managed duration, credit and liquidity risk) and capital appreciation (both cyclical and structural).

Conclusion

It is now paramount to carefully select each income opportunity and be ready to reallocate portfolios as the paradigm shift phase we have in front of us could reshuffle the risk and income cards once again.

We believe that income investing is set to remain at the forefront of investor needs. For investors, the income dilemma relates to how they can seek a sustainable income in a world of low yields on so-called safe assets, tighter credit spreads, rising inflation and potentially higher volatility on fixed income driven by the gradual normalisation of monetary policies.

Against this backdrop, we believe investors need to rethink their asset allocation and focus on new ways to seek sustainable income aligned with their investment goals. In doing this, investors should focus on three major income objectives: income enhancement, downside risk mitigation and capital appreciation potential, as different approaches are required to pursue these different goals.

Investors targeting income from bonds could embrace a flexible, multi-sector approach which seeks to exploit selective opportunities across the fixed income spectrum including Emerging Markets bonds and currencies, while helping to manage duration and credit risk.

Investors who want to target a higher level of income, compared to what is currently available in the fixed income space, but with a strong focus on downside risk management could consider a Multi-Asset approach. This selects income opportunities across a wide range of asset classes and calibrates the different sources of risk (market, credit and liquidity) with the aim to build portfolios that are resilient to different market scenarios and seek to deliver a sustainable income stream over time. This approach can also benefit from the potential to generate capital appreciation and also mitigate possible inflation surprises through an active allocation to real assets.

Finally, investors targeting income and growth or wanting to diversify their income portfolio out of the traditional fixed income space, could consider investing in Equity through the selection of stocks targeting high dividends. Despite higher volatility levels, equity income investing can also help diversify risk as it is not exposed to credit and liquidity risk.

Additional notes

Fig.2 The 2017 General Government Gross Nominal Debt (Billions USD) by S&P's Rating is calculates using the Nominal GDP and Gross Debt in % of GDP from the IMF World Economic Outlook, April 2017. Standard & Poor's Ratings as of May 10, 2017 compared to December 31, 2007 available on Bloomberg. AAA (highest possible rating) through BBB are considered investment grade; BB or lower ratings are considered non-investment grade. Standard and Poor's Copyright © The McGraw Hill Companies (2017). Copyright © 2013 by McGraw-Hill international (UK) Limited (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

Fig.3 Real 10 Years Government Bonds Yields calculated with difference between the yields on the generic 10 year government bonds and the headline inflation on the country of reference.

Fig.5 Merrill Lynch indexes. Euro IG = ML Euro Corporate Index, Euro HY = ML Euro High Yield Index, US IG = ML US Corp Master, US HY = ML US HY Master II Index, EM Corp = ML Global EM Corp Index.

Fig.6 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 a 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 graph represents the effect a rise in interest rates has on the price of the 10-year government bonds being shown. 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. Changes in interest rates may have a different effect on other types of fixed income investments based on various factors including duration and credit rating.

Fig.8 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, CEMBI = JPMorgan CEMBI Diversified Broad Composite Blended, Global Equities = MSCI World, Global Equities HD = MSCI World High Dividend Yield, US MLP = Alerian MLP, Target = 3.8% that is the 20 years average yield on the US Treasuries as in Figure 6. Yields are: Yield to Maturity for JPMorgan Indexes, Yield to Worst for Bloomberg Barclays Indexes and 12 months Dividend Yields for MSCI Indexes.

Fig.9,10,11 EMU Govies = JPMorgan GBI EMU, US Govies = JPMorgan GBI US, EUR IG Credit = Bloomberg Barclays Pan European Aggregate Corporate Bond, US IG Credit = Bloomberg Barclays US Aggregate Credit, EUR HY Credit = Bloomberg Barclays PanEuropean High Yield Bond, US HY Credit = Bloomberg Barclays US Corporate High Yield, EMBI = JPMorgan EMBI Global Diversified Blended, US Equities = S&P 500, Global Equities HD = MSCI World High Dividend Yield, European Equities = MSCI Europe, European Equities HD = MSCI Europe High Dividend Yield, Global REITs = FTSE EPRA/NAREIT Global, Global Infrastructure = Dow Jones Brookfield Global Infrastructure Index, US MLP = Alerian MLP Index. All indexes are total return in local currency.
Yields are: Yield to Maturity for JPMorgan Indexes, Yield to Worst for Bloomberg Barclays Indexes and 12 months Dividend Yields for MSCI Indexes.
Max Drawdown is the largest 1 year decline in value registered since December 2010 based on an analysis on monthly data. Drawdown – The peak-to-trough decline during a specific record period of an investment, fund or commodity, usually quoted as the percentage between the peak and the trough. Yield is the Yield to maturity for bonds and the dividend yield for equities.

Fig.13 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.

Important Information

Unless otherwise stated, all information contained in this document is from Amundi Asset Management and is as of September 20, 2017.

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