

## Transcript - Market Review in video - October 2011 with Alain Pitous

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Hello, I'm Alain Pitous, Deputy Chief Investment Officer for Amundi Group. Every month, I'll provide you with our core convictions, based on our economic outlook. Starting with the last month's key events...

In September there was great concern for the global economy, particularly with regard to euro zone debt issues. In this context, equity markets have declined significantly.

Indeed, the euro zone debt crisis has not yet been resolved... and the prevailing situation in Greece, Italy and Spain is worrying.

It's true that until now, the default of a European country seemed unthinkable but for Greece this outcome is becoming more and more probable.

It must be said that Greece is dependent on the financial support of European countries in order to meet its future debt payments. But it will not get this help if the heavy reforms announced are not quickly implemented.

In case of a Greek default on payments, the markets fear contagion of the phenomenon to Italy and Spain, whose economic and financial weights in Europe are far greater.

At the same time, the rating agency Standard & Poor's lowered Italy's rating one notch a degradation motivated by the political instability and low growth prospects.

The consequence of this is an increase in the rate at which Italy can borrow on the open markets, adding to its debt burden and the risk of the crisis spreading to the country.

Finally, available data reflects an economic slowdown in Europe, the US and emerging countries. But these benefit from domestic demand, which should soften the effects of the crisis.

Having made this assessment, what is our forecast for the economy?

Banks are all making adjustments to their activities and disposing of assets. Their aim: to demonstrate their resilience in the event of a country default. They also benefit from the support of the major Central Banks in their search for liquidity, without having to resort to the markets.

Finally, concerning the debt issue, the solution must be global, political, and coordinated. We don't expect the euro zone to disband but emergence from the crisis will only happen under all 3 following conditions:

- An alleviation of the Greek crisis, for example via an organised and concerted restructuring of its debt
- The creation of a real European governance

- Finally, a substantive anti-contagion mechanism, with greater contributions from and greater clarification of the roles of the European Central Bank and the European Financial Stability Facility respectively.

Therefore, we maintain our outlook as compared to last month: economic growth is impaired, but we do not expect a recession.

The real catalyst for an improvement in the economic and financial situation will be political.

Let us now look at what all this implies for our asset allocations.

Last month we made the observation that the safest assets were too expensive. It is true that the rates of German government bonds remain at excessively low levels. However, the price of gold fell from 1823 to 1623 dollars during the month, to its pre-crisis level before of August. This decrease was primarily due to profit taking. The Swiss franc in turn stabilised at above 1.20 Swiss francs to the euro, following the intervention of the Swiss central bank.

Across all markets volatility remains high. In this very tense climate, it is best to remain cautious.

End of the month valuations reached levels close to those of the last low point in March 2009. The real problem facing equity markets is the degree of visibility of business results.

In the absence of clarity on the future of the euro zone sovereign debt, medium-term projections are scarce on the part of companies. As a result, current valuations of European equity markets are not sufficient reassurance. In contrast, international companies, notably those dealing with emerging markets, offer better visibility.

We also remain cautious on the interest rate market and privilege borrowing from AAA rated states.

With regards to private securities, we are waiting before increasing our position. We are maintaining a liquidity reserve to invest when the situation becomes clearer.

All of these convictions will of course be tailored to each investor profile and updated based on events. And remember the basic rules of market investment:

- An investment is made for the duration
- Diversification of assets is important
- Regular saving helps to smooth the large market movements

Thank you for your time and if you wish to know more, do not hesitate to write to me at [pointmarches@amundi.com](mailto:pointmarches@amundi.com). And of course, see you early November for a new view of the markets.