Research

#07/08
July/August
2021

CROSS ASSET
Investment Strategy

CIO VIEWS

Waters appear calm, but there are strong undercurrents

THIS MONTH'S TOPIC

Monetary policies are at a crossroads

Confidence must be earned

Amundi
ASSET MANAGEMENT

#07/08 - July/August 2021
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Large economies are at different stages of their journey towards peak acceleration, but rising prices appear to be a common theme. While for the time being markets have bought into the Fed's narrative of temporary inflation, any de-anchoring of long-term inflation expectations could force the Fed to act aggressively. In this environment, we maintain our neutral stance on risk assets as markets are likely to stay in a 'holding' pattern. On USTs, investors should stick to a cautious but active stance as the long-term direction of yields is upwards. Overall, this is not a time to be complacent or to take strong directional calls.

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This Month's Topic

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Central banks have put in place ultra-accommodative monetary policies to support economies during the Covid crisis. The strong recovery taking shape in developed economies should allow a gradual reduction in monetary support. As a strategic element of global financing conditions, the Fed's monetary policy normalisation is gaining attention. In developed economies, the rebound in economic activity should allow central banks, first, to gradually reduce purchasing programs and, second, to raise rates. The Bank of England and the Bank of Canada have already made "tapering" announcements. We expect the Fed to follow suit.

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EMU-10 EGB net issuance, net of ECB QE purchases, is likely to be negative in H2 this year for three main reasons: 1) front loading of sovereign debt supply in H1, 2) roughly 60% of yearly bond redemptions still to come, and 3) ECB QE purchases to remain steadily high. The supranational debt market will keep growing remarkably, driven by NGEU EU funding, following SURE bond issues in H1, with the ECB likely to keep playing a supportive role in this segment, too.

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The disruption of global supply chains has been a wakeup call for the European Union. For years, the principle of an open and free Single Market has led to a massive transfer of industrial production and outsourcing mainly to Asia. The Covid-19 crisis showed that Europe's dependency was higher than most political leaders and decision makers would have imagined and could lead to greater disruption with sometime deadly consequences. It has become crucial to ensure at least some form of self-sufficiency when it comes to critical products but the cost of independence might be much higher than expected.

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The latest Census results suggest China's population is aging faster than expected, prompting Beijing to relax birth restriction and move to a three-child policy. Recognizing the challenges to reverse low fertility, we expect China to rely more on the productivity driver for growth in the long run.

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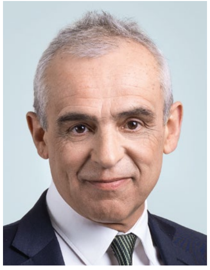
CIO VIEWS

Waters appear calm, but there are strong undercurrents



Pascal BLANQUÉ,
Group Chief Investment Officer

Vincent MORTIER,
Deputy Group Chief Investment Officer

The waters look to have remained calm in financial markets, despite the hot numbers coming from the real economy. Although **we view the outlook as generally positive, the larger economies are at different stages in their journeys towards peak acceleration. Europe and some EM still have some room to go in this respect.** But what all regions have in common is **rising pressures on input and producer prices** amid supply-chain disruptions, and inflation figures trending firmly higher. Strong undercurrents could make the environment far less safe than it seems.

We are approaching a pivot point for the US job market, as emergency benefits will stop in many states by the end of June. We know that the Fed will look at official data, not forecasts, and the changes in job data will not be seen before the August release, when some of the base effects in inflation should also start to fade. This will represent the pivot point. The Fed's communication has already changed in this June meeting, acknowledging a strengthening economy and upgrading its 2021 inflation forecasts. However, it maintained the narrative that inflation has risen "largely reflecting transitory factors" with some risks on the upside. Uncertainty remains elevated: while markets buy into the transitory inflation path, we probably have some tougher months ahead. **Inflation expectations have already risen, with 5Y-5Y inflation forward breakeven inflation reaching a seven-year high of 2.55%.** This level already supports average inflation of 2%, the Fed target. Any further upside may risk de-anchoring long-term inflation expectations, thus forcing the Fed to act more aggressively than what markets expect.

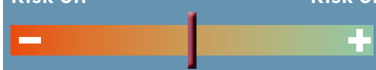
On the investment front, this outlook **confirms the need to move cautiously**. While recognizing that the economic rebound still supports risk assets, investors may find themselves in rough waters if the narrative on inflation changes. With this background, we outline our convictions below:

- **The cyclical reflation trade is not over but is getting less straight-forward** – With economic surprises in the US fading, we appear to be moving towards a more balanced situation between expectations and reality. The reopening narrative that lifted all boats is losing steam, and this means that from here opportunities in the US equity market look more idiosyncratic and less dependent purely on market direction. An exceptional 70% of active managers beating the Russel 1000 in May (best data since 1992) is a signal of this change in the market. In Europe, the reopening narrative is just starting, and this is even more the case in EM, where there is still room for a more convincing directional trade.
- **Rotations to continue amid high absolute valuations** – Equity valuations are tight in absolute but not relative terms vs bonds, meaning that, over the medium term, there is no alternative to investing in equities. At this stage, however, we prefer to keep a more neutral stance approaching the summer test regarding the Fed's policy direction. Furthermore, we believe the value rotation will continue, as the valuation gap is still very wide. However, we would not expect to see the same intensity that has been apparent since November. The trend will be less linear, but value looks set to dominate growth for many reasons (commodity cycle, cyclical recovery, rising interest rate path). In addition to value, we see the theme of **dividend stocks coming to the fore** that should outperform given the search for income.
- **On bonds, we keep a short duration stance,** while on credit we are constructive, especially in Europe, given the economic acceleration of the region.
- **In EM, we also stick to a cautious duration approach**. Inflation is not just a US matter – it is also an EM story, with EM central banks in a tightening mode, and a stronger dollar due to recent Fed signals could be a headwind for EM. So, we keep a neutral stance on EM bonds while we look for opportunities in currencies and equities.

Moving forward, we expect markets to remain in a holding pattern, with some movements resulting from the closing of positions by investors that are moving to neutral stances in this wait-and-see phase and from Fed's communication (UST yields rose after Fed's recent comments and the USD strengthened). Markets will need to see a big surprise to halt this calm trend. For the time being, we expect waters to continue to look calm. But, this does not mean they are actually safe, as strong currents may arrive soon. This is not a time to be complacent, or to take strong directional calls, and we suggest investors increase scrutiny to continue to benefit from the reflation trend.

Overall risk sentiment

Risk off | Risk on



Remain neutral but active on risk assets, relying less on market direction and more on selection for the next sequence of rotation.

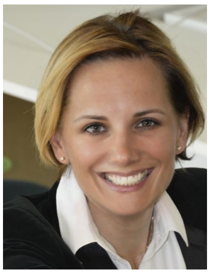
Changes vs. previous month

- More cautious on US duration
- Downgraded US 10Y inflation due to valuations, in cross-asset
- FX: Constructive on IDR/USD, no longer positive on BRL/JPY

Overall risk sentiment is a qualitative view of the overall risk assessment of the most recent global investment committee.

MACRO

Latin America's left-leaning political shift



Monica DEFEND,
Global Head of Research

Patryk DROZDZIK,
Senior EM Macro Strategist

While we are seeing significant political changes in Latin America, there are opportunities for active investors to benefit from the reform and demand potential of the region

Latin America's political pendulum has swung clearly to the left, pushed by both the pre-pandemic structural forces and, more recently, by the very challenging cyclical economic environment. Strong dissatisfaction with the status quo and anti-establishment feelings are more than evident in the recent events we outline below. The leftward move in politics is highly troubling from a macro and asset-price perspective. If extrapolated into policy, it will theoretically land economies in a sub-optimal equilibrium of lower output and higher prices. That, together with higher uncertainty, represents a headwind to relative prices/FX and leads investors to demand a higher risk premium.

In Peru, voters have handed the presidency to hard-left-leaning Castillo. While the results have yet to be certified, Pedro Castillo has most likely defeated the right-aligned Fujimori in an extremely polarised and tight election. Castillo's likely victory means visible changes to the country's economic model and attempts to rewrite the constitution in order to upgrade the subsidiary role of the state and increase social spending in a structural way. And while the Congress has the power to block the radical proposals, its highly fragmented set-up is a problem in itself. The recent moderation by Castillo's team is welcome but unlikely to divert the leftist direction of his policies.

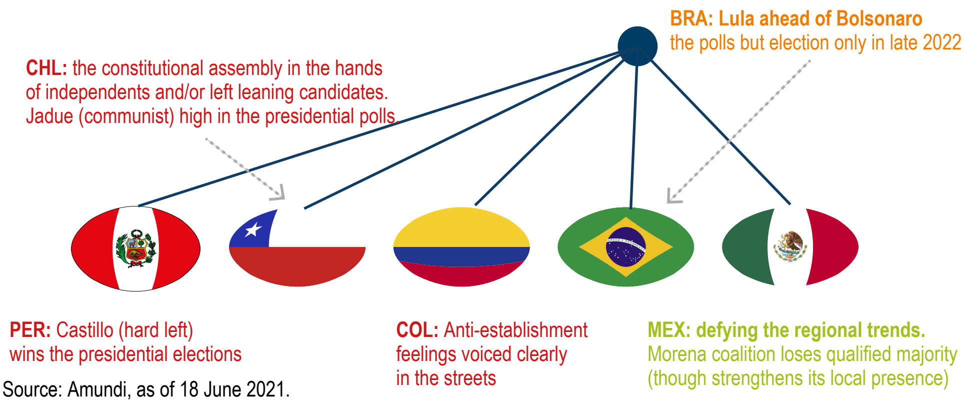
Chile's Constitutional Assembly is now in the hands of the left-leaning independents. The ruling right-leaning coalition, traditionally a recipient of around 40-45% votes, won only a fifth of the seats in the recent constitutional convention election. That's well below expectations and the one third required to block any radical proposals that might make it into the new Constitution. Left-wing delegates and independents will now control the constitutional agenda and will likely push for a larger role for the State and social rights. The election results also increase the risks related to the presidential elections to be held later this year.

Social dissatisfaction has spilled over to the streets in **Colombia**. Triggered by the ambitious, prudent but poorly-timed tax reform, social unrest hit Colombian streets via robust protests and strikes. The fiscal reform has since been withdrawn but social demands have risen and a credit rating downgrade has been handed in the process. The fiscal story keeps deteriorating with the fiscal adjustment being pushed further back yet again. All these will play a role in the next set of general and presidential elections scheduled for 1H 2022, with Petro (communist) once again polling strongly.

However, **Mexico** is defying the regional trends to some extent. In the early-June midterm election, the Morena coalition lost the qualified majority and thus the power to amend the constitution. The coalition's simple majority though will allow it to control the budget and the legislative agenda - Andrés Manuel López Obrador's administration will keep pursuing his state-centric vision of the energy sector and fund projects he feels strongly about (refinery, airport, etc.). And while losing quite a few seats at the federal level, the Morena coalition did well in the state elections, winning 12 governorships and in fact strengthened its local presence (but not in Mexico City).

Brazil's Lula is back in the picture and is highly competitive, but elections are still far off. The presidential elections in Brazil scheduled for late next year give the authorities more time to get the economy on a firmer footing and a chance to avoid a leftward shift under the stewardship of Lula, who is polling strongly. It is thus the favourable timing of the elections rather than the political situation itself behind the apparent absence of a shift in policy direction. Ironically, that hasn't stopped Bolsonaro's administration from getting some reforms done in clear contrast to the rest of the region.

Recent political developments in Latin America



Source: Amundi, as of 18 June 2021.

MULTI-ASSET

Positive backdrop but lack of market-directionality

Matteo GERMANO,
Head of Multi-Asset

Investors should not chase the markets at the moment as we think markets are yet to price-in the softening of the positive economic momentum and there are risks of higher inflation

We continue to believe in the reflation story, as the economic background remains mildly positive for risk assets. However, tight valuations in some segments, markets pricing in a strong profit recovery, and P/Es that are above historical trends indicate some complacency. On the Fed's side, the evolution of the US labour market and strength of the economy should decide the timing of tapering, even though inflation numbers continue to surprise. We believe the Fed will wait for a string of strong employment numbers before discussing tapering in the summer or later this year, although in the June meeting the tone has become more hawkish.

In this environment, investors should remain neutral towards risk assets and explore relative value opportunities, especially in FX, with an overall diversified and active stance.

High conviction ideas

We maintain our risk-neutral stance on equities (Europe, US) for now as current market conditions are not conducive to re-entering long positions, due to upward pressures on input prices that may erode margins for some companies. Markets look complacent and there is potential for bond yields to rise, thereby negatively affecting stock valuations. Even market positioning is back to pre-pandemic levels, signalling that most of the repricing (from the good news) has occurred. However, we stay active and look for signs that may allow us to re-enter selective areas, provided the risk/return trade-off is favourable. In EM we see some headwinds from the USD but are slightly positive on Chinese H shares.

We maintain our reflationary outlook in the form of a cautious stance on UST 10Y, a view that looks attractive relative to the 10Y inflation swap, on which we are no longer positive as valuations are now close to our target. We keep a watchful eye on a regime shift towards higher long-term inflation. In the UK, we maintain our 2/10Y curve steepening view amid the country's successful vaccination campaign and BoE's hawkish stance. On Euro peripheral debt, we stay positive on 30Y Italy BTP vs German Bund on the back of ECB support, strong growth expectations for Italy, and robust technicals amid slowing BTP supply.

European credit offers attractive carry and some spread tightening potential, particularly in HY and subordinated IG, amid a favourable economic outlook, reopening, and downward trends in default rates. While the pace of HY issuance remains elevated, the asset class offers attractive carry, despite tight valuations when compared with the level of debt. We are also constructive on IG in light of its clear message to maintain "emergency support" to maintain a smooth flow of credit in the economy.

While EM debt remains a long-term lever in investors' search for income, for the time being we keep our neutral stance on EMBI spreads. **Instead we find opportunities in FX, which is a key pillar for us to implement relative value strategies**. We are now constructive on IDR/USD on the back of improving economic momentum in Indonesia, higher exports, the central bank's dovish stance and government's fiscal prudence. Our view on KRW (green transition) and CNH remains constructive. However, we are no longer positive on BRL/JPY on valuations and as better growth prospects appear already priced in to the real.

Interestingly, geopolitics and the long-term effects of Brexit and the UK's relationships with the US and EU provide an opportunity to monitor the movements of GBP vs the EUR. We maintain our USD/JPY position and our reflation-based FX basket position of long CAD/USD, long NOK, GBP and CAD vs the EUR and the CHF.

Risks and hedging

Geopolitics (US-China relations, Brexit), diverging growth and inflation trends, and subsequent communication from central banks present challenges to investor portfolios. We recommend investors to maintain hedges to protect IG credit exposure and explore efficient hedging structures in line with the view towards risk assets.

Amundi Cross Asset Convictions

	1 month change	---	--	-	0	+	++	+++
Equities					■			
Credit						■		
Duration				□				
Oil					■			
Gold					■			

Source: Amundi. The table represents a cross-asset assessment on a three- to six-month horizon based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/++/+++). This assessment is subject to change.
UST = US Treasury, DM = developed markets, EM/GEM = emerging markets, FX = foreign exchange, FI = fixed income, IG = investment grade, HY = high yield, CBs = central banks, BTP = Italian government bonds, EMBI = EM Bonds Index.

FIXED INCOME

Central banks are wary of inflation risks

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For the moment, markets are buying the Fed's narrative that inflation pressures are transitory, but investors should monitor how the Fed balances financial repression with the noise around stimulus tapering

We are witnessing a diverging recovery, driven by a combination of vaccine rollouts and fiscal packages. In the EZ, clarity on the Next Gen EU plan provides a positive backdrop for reopening. At the same time, huge pent-up demand is generating global shortages which, coupled with base-effects, are causing an increase in prices. In response, CBs are downplaying inflation as they prioritise employment, even though the Fed acknowledged an improving economy. **This environment is supportive of credit (provided growth doesn't disappoint),** but it requires investors to stay active and monitor CB messages, inflation expectations and yields.

Global and European fixed income

We remain cautious (slightly more) but flexible on US and European duration due to inflation expectations and tapering risks. However, we are constructive on Euro peripherals, especially regarding Italy, as we expect spreads to tighten. Elsewhere, our constructive views on China and Australia are maintained. Unlike USTs, we are positive on breakevens in the US and Europe amid economic reopening and demand resurgence, but we stay diversified through a position in Australia. **On credit, we remain constructive** due to an improving default outlook, but the story is becoming more idiosyncratic and issuer-specific. Investors should keep portfolios' beta constant by increasing spreads and short-duration debt, and minimising duration risk. In EUR IG, we prefer cyclical sectors and BBB-rated short-duration debt but investors should rebalance away from senior financial debt. In HY, we are selectively optimistic on lower-rated, short-maturity names on expectations of improvement in fundamentals (earnings recovery, deleveraging, refinancing of current debt at lower yields). Overall, investors should avoid credit where a slight increase in yields could affect prices.

US fixed income

While the Fed seems happy to prioritise the labour market and ignore inflation as temporary, we think the huge money supply, a sort of demographic boom and limited manufacturing capacity (vs accelerating demand) is likely to create long-term inflation pressures. This, coupled with rising deficit, strengthening Fed economic environment and inflation forecasts, leads us to maintain a cautious, active stance on USTs, but we remain constructive on TIPS. **In corporate credit, investors should limit beta and long-duration debt**, particularly in IG (prefer idiosyncratic risks over beta) and aim to add value through selection. We also believe the carry in HY is more attractive and companies are improving fundamentals by refinancing debt at historically low rates, but selection is important. Agency mortgages are supported by the Fed and consumer markets by strong consumer earnings. However, with government support payments ending in some states and with higher rates expectations driving duration extensions, there is a need for monitoring.

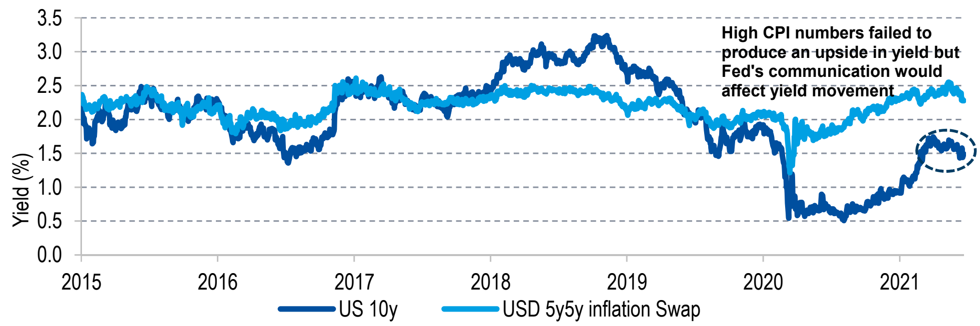
EM bonds

We are cautious on EM debt due to higher US rates and inflation, limited fiscal support, and geopolitical tensions, but in HC we are slightly constructive in the short term. Second, we prefer HY over IG in the sovereign and corporate spaces due as HY offers higher carry and could benefit from reflationary dynamics, but selection remains crucial to navigate rich valuations.

FX

While we maintain our slightly positive view on the USD in the near term on expectations of Fed tapering and rate hikes, we acknowledge the long-term pressures on the greenback from the growing twin deficits, fiscal and trade. On commodity FX, we remain constructive on the CAD and NOK.

Markets are buying into the Fed's 'benign neglect' narrative



Source: Amundi, Bloomberg, as of 17 June 2021.

GFI = global fixed income, GEMs/EM FX = global emerging markets foreign exchange, HY = high yield, IG = investment grade, EUR = euro, UST = US Treasuries, RMBS = residential mortgage-backed securities, ABS = asset-backed securities, HC = hard currency, LC = local currency, CRE = commercial real estate, CEE = Central and Eastern Europe, JBGs = Japanese government bonds, EZ = Eurozone, BoP = balance of payments.

EQUITY

A story of rotations, selection and dividends

Kasper ELMGREEN,
Head of Equities

Yerlan SYZDYKOV,
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Kenneth J. TAUBES,
CIO of US Investment Management

Investors should take the foot off the gas pedal a bit in terms of market directionality in rotations. In a stock picker's market, focus on strength of individual businesses and earnings growth are key

Overall assessment

We are entering an interesting phase of the markets where the optimists point to an earnings recovery, where Europe is likely to be the next in line after China and the US in terms of economic acceleration. On the other hand, the pessimists highlight that this good news is already priced-in. **In our view, we would face a situation that calls for a middle ground and cautious optimism where investors should not underestimate the strength and duration of a rebound**. The upside for markets will not be straightforward and thus investors should prioritise strong balance sheets/stock selection over market exuberance, focusing on businesses with sustainable earnings potential.

European equities

We believe outperformance based on cyclical recovery and value rotation should remain a long-term trend. However, now it is a story of bottom-up selection, idiosyncratic cases and return of dividends as we emerge from the crisis and as earnings improve. It is also about fundamental ESG analysis and how minority shareholders and activist investors can shape corporate strategies towards a low-carbon world. As a result, alpha generation will be key in this market, characterised by high stock dispersions and low correlations. We prefer a barbell approach, with a tilt towards normalisation that allows us to benefit from the rebound through quality cyclicals stocks in industrials and financials, in which we maintained our constructive stance. At the other end, we like attractive stocks in defensive sectors – such as consumer staples and we increased the positive bias to health care – that provides some cushion. However, we are cautious on IT (less so now) and raised our defensive view on consumer discretionary owing to excessive optimism in the latter.

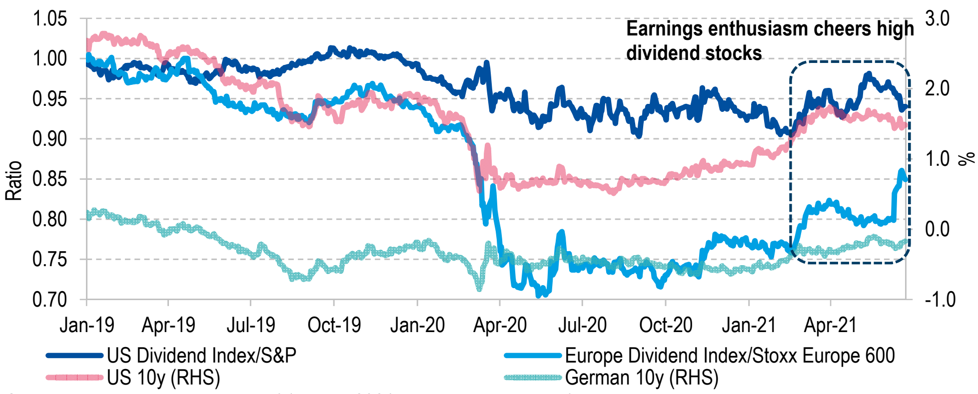
US equities

In a recovery phase where the Fed maintains low rates and prefers some inflation, **rotations and dividends will be key themes**. On the latter, we are seeing accelerating buybacks and profitability being restored, and the return of dividend increases (US financials/banks). These dividend stocks will become a big theme in the near future due to investors' search for income. On rotations, value, cyclicals would benefit from reopening. Importantly, despite reopening, companies are facing labour and raw materials shortages, which are pushing prices up. However, this is unlikely to cause margin compression for companies (pricing power) which are able to pass on the rising prices to consumers. Real concerns are the speculative growth/SPACs segments. We are also cautious on distressed value (airlines, retailers) but prefer quality value. On the other hand, we see some traps as these rotations will not be straightforward. As actual growth numbers stop overshooting forecasts, rotations would move from being 'beta-driven' to be more individual stock-driven. Hence, investors should focus on stock picking, complemented by an active, bottom-up style that allows for the identification of strong businesses with company-specific drivers.

EM equities

We expect earnings improvement to continue in H2 2021, especially in EMEA (Russia) and LatAm (despite political changes). We are exploring value stocks with sufficient cyclical growth traits in our preferred sectors, such as consumer discretionary, real estate and industrials. However, we are cautious on Chinese financials, health care and staples. The global bond yield environment, plus geopolitical and idiosyncratic tensions are the main risks that could affect EM equities, but overall, relative valuations are attractive.

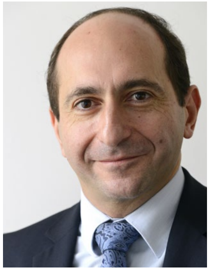
Appeal of dividend stocks rising amid EPS growth, low rates



Source: Amundi, Bloomberg, as of 15 June 2021. Ratio is calculated after rebasing the indices. Dividend indices - S&P 500 Dividend Aristocrats, Euro Stoxx Select Dividend 30.

THEMATIC GLOBAL VIEWS

Housing boom: what are the consequences for monetary policy?



Didier BOROWSKI,
Head of Global Views

Tristan PERRIER,
Global Views

Despite the Covid economic shock, house prices have continued to rise in most advanced economies, and are also increasing rapidly in some emerging economies. This is not (yet) a global housing boom. Indeed, indicators of overvaluation remain below those observed before the Great Financial Crisis (GFC) and are still very contrasted across regions. However, the simultaneity of price increases in very different countries raises the question of a possible "common factor". All eyes are naturally on the expansion of central banks' balance sheets. Here, we ask what role house prices can play in determining monetary policy in general, as well as in advanced economies (mostly the US and Europe) in the current situation.

Globally, house prices rose by 7.3% YoY in Q1 2021 (the average across 56 countries), their fastest pace since 2006. Thirteen countries recorded double-digit price growth. Several countries have seen a deceleration in house prices since Q1 2020 (Italy) or even declines (Spain and India) due to the restrictive measures and the economic crisis. Among the national price indices available at the end of Q1 2021, the increases since Q4 2019 were 14.8% in the US, 10.0% in the UK and 7.8% in France (i.e., in these three cases, higher rates of increase than in the previous five quarters). This is the continuation of an upward trend that has been observed almost everywhere since at least the mid-2010s. Since January 2021, the authorities have intervened in several countries (China, New Zealand and Ireland) with a series of measures to tighten lending rules.

What should or can CBs do about a housing boom?

House price booms fuelled by a credit boom have proved particularly pernicious in the past. Reinhart and Rogoff (2009) have shown that the collapse of real estate prices (residential and/or commercial) is one of the main causes of financial crises. In many cases, these collapses occur after real estate bubbles, which often seem to be associated with excessive credit availability. When bubbles burst, the financial sector and the real economy are hit hard.

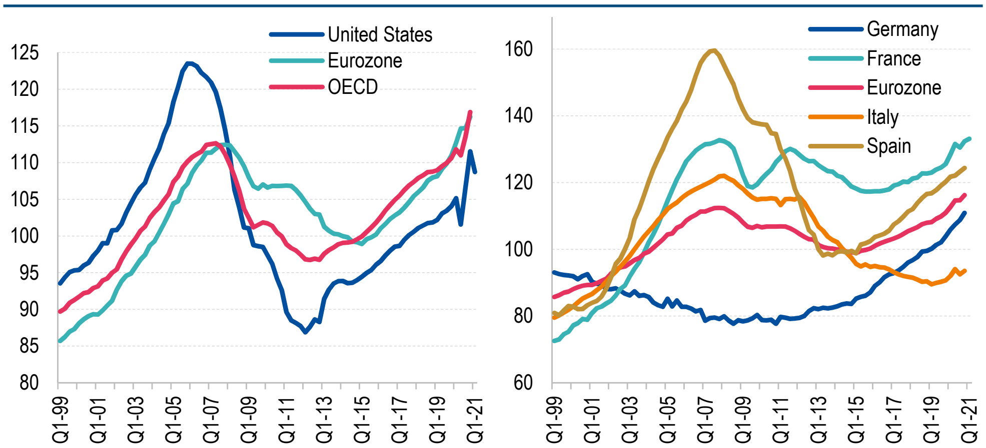
The question of whether monetary policy should play a role in preventing housing bubbles is controversial. In theory, an appropriate macroprudential regulatory policy relieves monetary policy from reacting to house price developments. Discretionary macroprudential policies, which selectively tighten lending conditions, play an important role in preventing or mitigating housing bubbles.

At the same time, however, CBs must ensure that their monetary policy does not exacerbate household debt. Monitoring house prices is therefore an important element of the *risk management* approach. Indeed, low short-term interest rates often lead to an easing of lending conditions and increased risk-taking by banks. This effect is amplified when interest rates are kept low for a prolonged period. The easing of credit conditions may be exacerbated by the use of securitisation.

In economies where a large proportion of consumers are credit-dependent, a sharp rise in house prices can have pronounced effects on consumption (wealth effect). Leverage tends to be very high in the real estate sector, and for many households, residential property is both the main asset and the main liability (which is not the case for equities).

In theory, an appropriate macroprudential regulatory policy relieves monetary policy from reacting to house price developments

1/ Price-to-income and price-to-rent ratios (average)



Source: OECD, Amundi Research - Data as of June 2021

Source: OECD, Amundi Research - Data as of June 2021

THEMATIC GLOBAL VIEWS

Delayed shockwaves from the Covid crisis may still hit real estate markets

The desire to "calm the game" could end up winning out

The global house price boom that preceded the GFC was driven by many factors (disposable income, interest rates, bank lending and a number of factors related to supply). However, **the downward trend in long-term global real interest rates was one of the main drivers of the rise in global house prices during the 2000s**. There is always a risk that in the medium to long term, real interest rates will rise again, creating problems in countries where housing purchases have been financed by credit. In addition, increased liquidity may also lead to higher house prices.

However, raising short-term interest rates is not a panacea. It may be desirable in economies with a high degree of homogeneity (e.g., small countries like Sweden or medium-sized countries like the UK). On the other hand, in regions with very heterogeneous housing markets (such as the Eurozone or the US), tightening monetary policy to contain house price pressures is often considered inappropriate and possibly counterproductive, given its potentially severe consequences on the rest of the economy.

Could the current rise in house prices despite the Covid crisis precipitate monetary tightening?

The Covid crisis has led the CBs to reintroduce asset purchase programmes (QEs). For the moment, tightening is therefore less a question of raising (key) interest rates than of tapering.

Ultra-low mortgage rates on the back of non-conventional CB measures are widely seen as a major cause of the continuation of the rise in house prices during the Covid crisis, even though a number of other factors have also played a role (notably public support for household income, specific protection measures for borrowers and renters and, possibly, behavioural factors such as a more pronounced search for living space and security).

For the moment it is true that, despite this continued rise, most valuation indicators remain below pre-Lehman levels. While nominal average prices often exceed those of 2006-2008 (this is the case, among others, in the United States, the United Kingdom and France), the same is not generally true of valuation and affordability metrics that adjust prices for household income and mortgage rates (at least in the US, EU and UK, while some smaller DMs do show these metrics at or close to their peaks).

Moreover, in terms of fragility, in the specific case of the United States, the average profile of borrowers was (at least before the Covid crisis), much more solid than before the GCF. The massive distribution of credit to fragile households, seen as a major cause of the Lehman crisis, was not repeated during the 2010s.

Nonetheless, even though the threat of another Lehman-like crisis looks distant, the current rise in prices and debt raises at least two threats:

- **Delayed shockwaves from the Covid crisis may still hit the now more stretched real estate markets.** These deferred effects could come, first of all, from the withdrawal of public protections and guarantees relating to the real estate itself. On this topic, the US Federal Reserve notes, in its May Financial Stability Report, the dependence of many borrowers on temporary Covid-related protective measures, many of which have been extended until the summer. Other delayed effects could come from a fall (or at least a deceleration) in household income via the labour market. This particularly concerns Europe, where unemployment could still rise when the very protective short-hour work (and other income support) measures are withdrawn. The ECB mentions this risk, along with its perception of "signs of overvaluation" in the residential real estate market, in its May Financial Stability Review.
- Even absent a delayed Covid-related shock, the sustainability of current prices and debt levels relies more than ever on ultra-low rates. Over time, this can only make any tightening of monetary conditions at the initiative of the CBs even more difficult than today (for fears of generating negative macro effects through price decreases or increased costs for borrowers), as well as increase the risks associated to any widening in risk premiums that would be unwanted by the CBs.

Therefore, in the end, despite the virtuous effects of rising house prices during the current recovery (notably the wealth effects on confidence), the desire to "calm the game" could end up winning out. In our view, this is especially true in the US, where the Fed is buying $120bn of securities each month, of which $40bn of MBS. If house prices continue to rise in the US, the Fed may conclude that credit conditions are excessively accommodative and proceed to tapering, starting by reducing its MBS purchases.

Eurozone housing markets are less securitised and more heterogeneous than US markets. Moreover, the situation is very different with still moderate price dynamics in several countries. At this point, the evolution of real estate prices therefore has less reason to lead the ECB than the Fed to reduce securities purchases. Overall, we see housing market trends as a further element of divergence between the US and the Eurozone.

Finalised on 22 June 2021

THIS MONTH'S TOPIC

DM monetary policies are at a crossroads

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Central banks have put in place ultra-accommodative monetary policies to support economies during the Covid crisis. The strong recovery taking shape in developed economies should allow a gradual reduction in monetary support. As a strategic element of global financing conditions, the Fed's monetary policy normalisation is gaining attention.
In developed economies, the rebound in economic activity should allow central banks, first, to gradually reduce purchasing programs and, second, to raise rates. The Bank of England and the Bank of Canada have already made "tapering" announcements. We expect the Fed to follow suit.

The Fed's determination to let the US economy run hot is the biggest difference in this cycle compared to post-2008. A sustainable economic rebound is the priority. The Fed changed its policy framework with a determination to stay behind the curve. The new strategy puts more weight on bolstering the labour market and less on worries about inflation that is too high:

- **The Fed has redefined its inflation goal in terms of the average rate of inflation,** rather than the rate of inflation at any given point in time. "The Committee seeks to achieve inflation that averages 2% over time, and therefore judges that, following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time."
- **The labour market is the priority.** Full employment is defined as "a broad-based and inclusive goal". The new policy statement pledges that the US central bank will make policy decisions based on "shortfalls" with regard to full employment.

These two major changes in its monetary policy framework have two consequences:

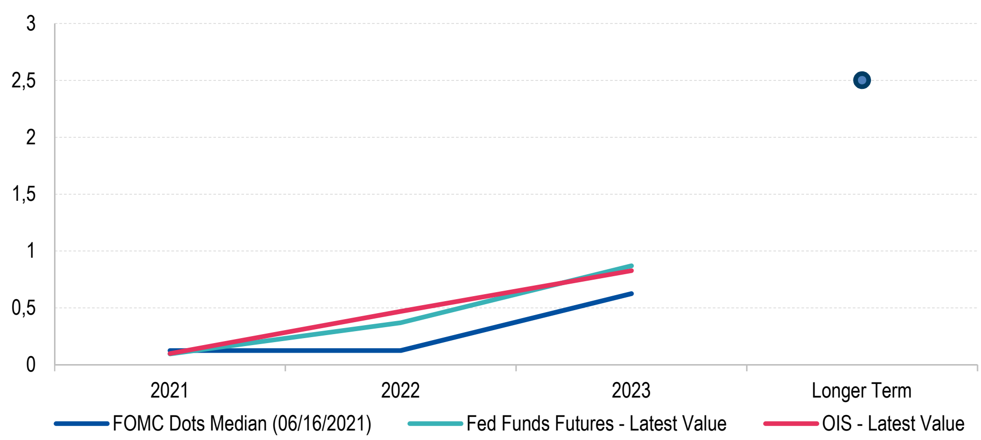
- **The Fed will keep rates low for longer.** Jerome Powell stressed that the Fed will not act pre-emptively and that an increase in rates would be possible under certain conditions: (1) maximum employment, (2) inflation reaching and staying at 2%, and (3) inflation increasing moderately above 2% for a certain length of time.
- **The timing of the tapering will depend on labour market trends.** We expect the Fed to keep a prudent tone concerning any change in its QE policy. Purchases will continue at least at the current pace (USD 80bn of Treasuries and USD 40bn of MBS per month) "until substantial further progress has been made toward the Committee's maximum employment and price stability goals". Powell reiterated that any reduction in the asset purchase program would be "clearly communicated well in advance".

What do the latest communications from the Fed tell us?

- **The Fed has struck a positive tone on the economic outlook**. "Indicators of economic activity and employment have continued to strengthen." "The sectors most adversely affected by the pandemic remain weak, but have shown improvement." Powell also remained optimistic on the labour market, despite some near-term weakness. The Fed is expecting a very strong labour market: "factors related to the pandemic, such as caregiving needs, ongoing fears of

The rebound in economic activity should allow the Fed to reduce its asset purchase program

1/ **Implied Fed Funds target rates**



Source: Bloomberg, Amundi Research - Data as of 25/06/2021

THIS MONTH'S TOPIC

"It is going to be a very strong labour market" (Jerome Powell)

The dollar is key

In 2020, the huge liquidity injection (with more than USD 5trn liquidity pumped into the system) and the deteriorating US fiscal and trade position have coupled with a quite elevated greenback overvaluation and implied a persistent USD sell-off.

Back in Q1 2021, we argued that conditions for a mild USD bull-run were realigning, as fiscal loosening was pointing to higher US growth advantage and as US rates had started accelerating faster than in the rest of the world. Unlike what we saw in 2020 in fact, US real rates started climbing with US break-evens, and that is one of the key catalysts to start accumulating the USD, in our view. Something the disappointing labour market dynamics and the perceived Fed commitment to its transitory inflation narrative began challenging in April.

However, the Fed is now preparing the ground for the normalisation of its QE policy, as it remains confident in the economic outlook. We expect the Fed to start to reduce its QE by 2022 and while Dots suggest two-rate hikes starting in 2023, data releases will be back on investors' focus, thus shortening the FED's forward guidance and adding volatility. US nominal rates remained low, even more than Break-evens. Indeed, mid- and front-end nominal rates have room for adjustments should data confirm what expectations point to today. In that scenario, the USD would strengthen against the entire board. We see that starting with low-yielders to include high-yielders when inflation expectations deteriorate.

This is something we see as consistent with the rising USD exceptionalism narrative in fact. If the US twin deficits are big in size and often translate into currency depreciation in the medium run, we see both growth and carry advantage proving strong enough to sustain the USD rather than to prevent its rebound. Those conditions were able to offset the USD overvaluation in the recent past and the fact that today the currency seems almost fairly priced with respect to fundamentals (after the 2020 correction, the USD is only 2% above its average fair valuation),we believe they will matter even more.

the virus, and unemployment insurance payments appear to be weighing on employment growth. These factors should wane in the coming months against a backdrop of rising vaccinations, leading to more rapid gains in employment."

- **The Fed continues to view the rise in inflation as temporary, but it is ready to act.** Bottleneck effects have been greater than expected, and FOMC participants have revised upward their projection for core inflation for this year (3% compared to 2.2%). As these transitory supply effects abate, inflation is expected to pull back in 2022 and 2023 into a range "between 2% and 2.3%, which is consistent with (the Fed's) goals". However, some members appeared increasingly concerned about inflation and less confident that inflation will recede in 2022, remarking that supply chain bottlenecks and input shortages may not be resolved quickly and could put upward pressure on prices beyond this year.
- **The Fed is now preparing the ground for the normalisation of its QE policy.** If the economy continues to make rapid progress, the Fed considers it will be appropriate to consider announcing a plan for reducing asset purchases at a future meeting. We expect the Fed to remain very cautious for two reasons: (1) "any policy change will be communicated to the market well in advance"; and (2) the slowdown in purchases will be very progressive.
- **According to the dots, Fed officials expect to start raising interest rates in 2023.** We should not give dots too much credit. According to Powell: "the dots are not a great forecaster of future rate moves". "These are, of course, individual projections." "They are not a plan." In addition, "rate increases are really not at all the focus of the committee". "The near-term thing is really a discussion that will begin about the path of asset purchases".

Very accommodative monetary policy is not a free lunch

The Fed's monetary policy normalisation is focusing attention:

- **If the economy continues to make rapid progress, we anticipate a gradual reduction in the Fed's purchasing program from the first quarter of 2022.** Very accommodative monetary policy is not a free lunch. Some FOMC members have already voiced concerns regarding financial stability, stressing the risk that the prolonged period of low interest rates and highly accommodative financial market conditions could lead to reach-for-yield behaviour that could raise financial stability risks.

THIS MONTH'S TOPIC

"The dots are not a great forecaster of future rate moves" (Jerome Powell)

- **Regarding rates, two scenarios:**
  1. **If the Federal Reserve's benign view on inflation prevails, employment will be key.** Disappointment in growth, persistence of the public health crisis, or a sharp correction in the financial markets would force the Fed to maintain its support. Rates only will be raised if inflation and the labour market target are met.
  2. **However, if inflation runs too high, the Fed may be forced to tighten monetary policy faster than it wants to.** The Fed is clear: it is ready to act "if inflation or inflation expectations significantly and persistently exceed what it sees as its long-term goals", "Price stability is half of our mandate". The big risk remains on potential inflationary pressure that could result from a tightening of resource utilisation across the whole economy.

The strong recovery expected in the United States should allow a gradual reduction in the Fed's asset purchase program from the first quarter of 2022. In this context, we expect higher US real rates, supporting the US dollar. Nonetheless, the potential normalisation of US monetary policy will be limited by record levels of US sovereign and corporate debt and very tight asset valuations. The effects of a US policy tightening could also manifest themselves abroad via declines in international risky asset prices, tighter financial conditions and capital outflows. The US policy tightening has been shown to affect emerging economies more forcefully than advanced economies.

Finalised on 25 June 2021

THIS MONTH'S TOPIC

Alessia BERARDI,
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EM monetary policies normalisation as the low tide is getting higher

The monetary policy conditions in the emerging markets are still definitely dovish. Domestic factors as Inflation and, in certain cases, strong economic rebound are driving the EM Central Banks to normalise their monetary policy course. Tighter global financial conditions should trigger a faster and more generalised normalisation.

Still dovish monetary policy conditions among the EM with negative or modestly positive real rates

March 2021: the EM monetary policy course started to "normalise"

While limited to a couple of countries, monetary policy (MP) in emerging markets (EM) started changing course in March 2021. In the same week, Banco Central do Brazil (BCB) raised the Selic Rate more than expected, by 75bps, and the Central Bank of Russia (CBR) raised its policy Rates earlier than expected, by 25bps.

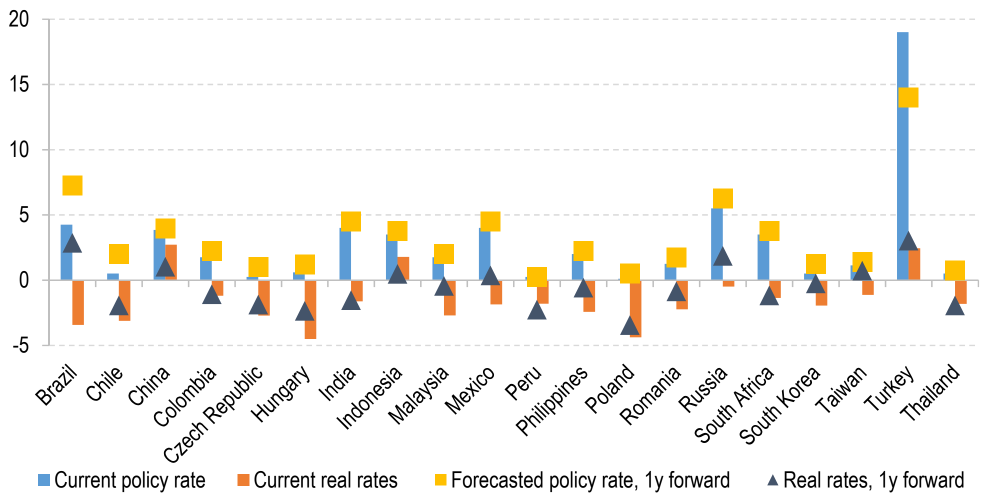
Early in the year, the markets began to reassess the US macro picture (higher growth and higher inflation) with an increase in US long rates. However, the most important driver behind the change in the MP stance in both countries mentioned above were spikes in their headline inflation, which were unexpected in their magnitude, as well as forecasts of higher Inflation levels. Therefore, a domestic factor has played a more important role than external factors, for a very orthodox CBR and for a reluctantly (at first) orthodox BCB.

Since then, these two central banks have continued their monetary policy normalisation (+225bps BCB and +125bps CBR) and only few others have followed (Ukraine +150bps and Turkey +200bps), notwithstanding the inflation figures have generally increased and in many emerging market economies are now above the upper end of CB target ranges. **As of today, monetary policy and liquidity conditions in EMs are still definitely dovish. Real rates, measured as the delta between nominal policy rates and inflation, are mostly negative and are expected to remain negative or modestly positive even over a 12-month horizon, barring any abrupt change in global financial conditions.** On top of that, EM CBs have embarked on less orthodox monetary policy conduct (QE of different natures, from liquidity injection to fiscal QE) as well as in a more targeted measures coordinated with various public agencies (e.g., sectoral credit incentives or debt moratoria extensions).

Dovish and unorthodox monetary policy is getting more neutral/hawkish on higher inflation

During the pandemic it has become **a new normal for some EM CBs to embark in securities purchasing programs** (government and central banks debt, bank bonds) aiming at mitigating the effects arising from the pandemic, directly financing fiscal deficits, easing credit conditions and stabilising domestic financial markets. These operations have mainly happened in the secondary market, with few examples of primary market purchases or private placements. Contrary to expectations that these programs will scale down in emerging markets in 2021, **the first half of the year has seen, on average, an increase of assets purchases as a percentage of GDP, although concentrated in few countries** (India, Indonesia, South Korea, Hungary or

1/ EM Monetary Policy Rates and Real Rates (Current vs Expectations 12M FWD)



Source: Amundi Research - Data as of 22 June 2021

THIS MONTH'S TOPIC

The direction of MP is clear: policy rates are heading up

While domestic factors push for a tighter MP, global financial conditions will play an important role

Poland to name a few) and a reduction in a few others (Colombia, Chile or, marginally, the Philippines).

Although a lot of uncertainty is still around about possible new waves of pandemic in countries with unsatisfactory vaccinations programs, still struggling to reach levels of pre-pandemic growth, **the next direction of monetary policy rates has become clearer and clearer in recent months: policy rates are "gradually" heading up.** Indeed, more EM central Banks will join soon the BRUT group (Brazil, Russia, Ukraine and Turkey), calibrating their actions according to different aspects, including too high inflation for longer, a classic trade-off between growth and inflation, and their external vulnerability to tighter global financial conditions (namely the Fed).

Regardless of the "optically" brilliant GDP growth rates expected in 2021, driven mainly by a positive base effect, the recovery in emerging markets is not yet fully sustainable without a continuing supportive policy mix. Monetary and fiscal policies should only gradually pull back, securing the necessary support for the most vulnerable sectors.

Notwithstanding that economic growth is still a caveat for faster monetary policy normalisation, there are other important aspects pushing in the opposite direction: the ramp-up in inflation and early talks/ signals of monetary policy changes in the US. Moreover, the risk to the domestic banking system of lower lending rates and debt moratoria for longer are not negligible either.

With few exceptions, headline inflation has been sharply increasing in EMs, driven mainly by its most volatile components (magnified by the local currency weakness), by higher shipping costs and, in some cases, by higher administered prices. Sequential growth in global food prices (FAO Index) has been extraordinarily robust since last year, bringing yearly growth to almost 40% in May 2021, the third highest peak registered in the statistics since 1991. While weighing differently, the food prices component in the EM CPI basket is still very relevant and much more relevant than in advanced economies. Indeed, the previous peak (by a similar magnitude) happened between H2-10 and H1-11, a period characterised by political turmoil in EMs. Persistently increasing since the beginning of the year, the oil price has reinforced its impact on final prices in the latest couple of months, aided by a very low base in the same period last year. Tapering of production cuts by the OPEC+ countries has been slowly catching up with the increase in demand and, overall, oil prices in 2021 should stay higher than in 2020, even if declining towards our FV at around $65/bbl.

Right now, the larger-than-expected magnitude in the inflation spikes and the persistence of the aforementioned factors have lifted headline inflation profiles in most of EMs above the CBs' target ranges and are slowing down their return to more comfortable levels, challenging the MP authorities to persevere in such accommodative monetary policy stance for longer. However, on the back of subsiding input prices and in the absence of more structural demand-side pressures, we do expect inflation to moderate within the CBs' targets, or closer to it, keeping a still relative benign inflation outlook. The prolonged slack still present in the EM economies is well visible in the more subdued dynamics in the core components of consumer prices. Therefore, **we have gradually brought forward the start of the normalisation cycle where the policy stance is excessively dovish in consideration of the more tangible economic rebound and the higher risk of inflation de-anchoring.** Latam and CEEMEA are on the frontline (NBH, CNB and BCCh are next in the pipeline), South Asia will follow later, though the recent and unexpected spike in Indian Inflation has suddenly moved up the RBI shift in stance (from dovish to neutral) and possibly the first rates hike in CY21, from CY22.

Last but not least global financial conditions will add pressure to the EM central banks

The Federal Reserve's next change of stance is definitely an important variable in EM central banks' monetary policy. It's now commonly understood that EM external vulnerability has decreased since the taper tantrum episode in 2013, looking at the current account or basic balance measures, as well as the reserves adequacy ratios in terms of imports cover. Moreover, the pandemic has further helped rebalance external accounts in many countries that entered the crisis already in better external conditions than some years ago. There is no such a group like the fragile five today (besides Turkey). However, **higher global rates and a stronger USD could still hurt emerging markets, due to their important external debt positions, and push their CBs to normalise earlier, in order to keep a stable currency and to try to preserve a stable rates differential to attract foreign portfolio inflows.**

This was again recently proven in June when the Fed, in a more "hawkish" tone, changed its dots and flagged two rates hikes in 2023 instead of one and EM asset classes, FX primarily, underperformed on the back of a stronger USD, while the US10 years was mostly unchanged. Amid the domestic issues, to prove the importance of the external factors in the EM MP decision

THIS MONTH'S TOPIC

The faster and sharper tapering will subside in H2

process, the overall negative performance was less pronounced in FX, whose the monetary policies are perceived as ahead of the curve. The BRL is resilient on the back of a full normalisation process in place.

China faster and sharper tapering to subside

PBoC begun its policy normalisation in the interbank market by rolling back liquidity supports and then shifted to rein in credit growth. So far, **the tapering has been faster and sharper than expected**. Although policy communication reiterated no abrupt turn in macro policies, total social financing (TSF) growth – the broad credit proxy – continued to surprise on the downside in the past months. Its growth rate of 11% YoY in May was already close to pre-Covid level (10.7% YoY in late 2019). The unexpected liquidity tightening ahead of the Chinese New Year was another reminder of embedded tightening bias when the equity and housing markets are boiling.

After a year's "fast tapering", we expect policymakers to take a breather in H2. Economic growth momentum has moderated, due in part to the weakening credit and fiscal impulse. Meanwhile, consumption recovery has lagged behind. With a softer economic outlook, the deleveraging pace is likely to slow. TSF growth is expected to hold slightly above 10% throughout the rest of the year. We expect PBoC to maintain its neutral stance in the interbank market, anchoring rates around its desired levels.

Rate hikes expected only in early 2022. At Lujiazui Forum (10 Jun), PBoC Governor Yi conveyed a clear message that the central bank will look at average inflation rates instead of recent months of high prints in PPI. Hence, we expect PBoC to stay behind the curve in H2, in particular when commodity inflation risks are easing. However, core CPI will continue to strengthen gradually and rise above 2% in early 2022, while the headline is likely to pick up to over 2.5%. Given strengthening inflation, we expect PBoC to conduct two 5bp hikes in LPR in H1 2022.

Finalised on 22 June 2021

THEMATIC

Euro fixed income: EGB supply/demand dynamics to improve in H2-21

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According to our estimates, EMU-10 countries altogether have already placed almost two/thirds of the overall net issuance projected for 2021

EMU-10 EGB net issuance, net of ECB QE purchases, is likely to be negative in H2 this year for three main reasons: 1) front loading of sovereign debt supply in H1, 2) roughly 60% of yearly bond redemptions still to come, and 3) ECB QE purchases to remain steadily high. The supranational debt market will keep growing remarkably, driven by NGEU EU funding, following SURE bond issues in H1, with the ECB likely to keep playing a supportive role in this segment, too.

After record Q1 issuance, EMU-10 countries kept the primary market quite busy in Q2, too

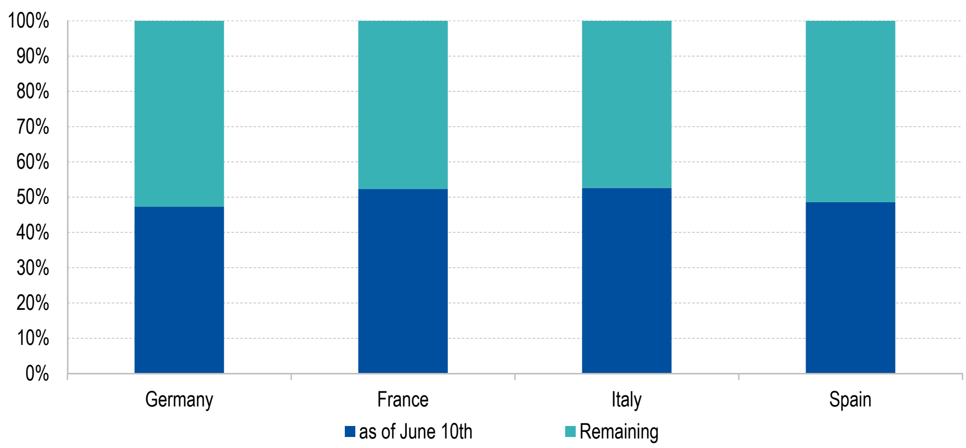
After Q1, which saw EMU-10 EGB gross supply record its second-largest quarter since 2015, and on a 10-yr WAM[1]-equivalent basis, a new record high, Q2 is about to deliver significantly greater progress in matching yearly funding targets, despite increasing in the meantime, on the back of additional recently-approved fiscal packages. At the time of writing, by 10 June EMU-10 EGB cumulative gross supply rose from EUR 370bn in March to EUR 660bn and in 10-yr WAM-equivalent climbed from roughly EUR 460bn to EUR 770bn: more importantly, net issuance (gross issuance less bond redemptions) increased from EUR 265bn in Q1 to EUR 380bn.

The picture looks quite different moving from gross to net issuance: progress on gross issuance points to a broad, average 50% placed so far, while momentum in net issuance looks much better for most countries, as roughly 60% of the overall scheduled yearly redemptions for EMU-10 countries are still ahead. According to our current yearly estimates, accounting for higher deficits now expected vs. the start of the year, EMU-10 countries have altogether already placed quite a remarkable share (almost two/thirds) of the overall amount projected for 2021, estimated to be in the region of €590bn. Despite differences in funding progress at country level, front-running activity also looks strong by historical standards. A look at the positioning of single countries from that standpoint sees Italy leading the “big four”, while the other six countries are almost all quite close to reach their net funding targets for the entire year.

The progress in the funding mix, to some extent “re-balance” differences among the “big four” on gaps in net supply delivered so far. Countries lagging on volumes of year-to-date net issuance generally achieved more progress by maintaining a high duration of gross issuance. Average weighted maturity of new French and Spanish bond supply, for example, was quite high year to date: in 10-yr equivalent terms, in fact, gross issuance volumes for both countries was respectively 1.34 and 1.20 times the overall volume placed, while for both Italy and Germany this ratio came out just under 1.0. At the same time, a look at progress in Bills net funding still sees Germany (EUR 12.5bn) and France (EUR 6.6bn) relying more on short-term debt, while Italy, with negative net issuance year to date (-EUR 4bn), still has some leeway to reduce bond supply in the remaining months of the year. Spain is instead making use of short-term supply (EUR 6.3bn), also thanks to the high duration of its bond debt.

[1] *Weighted Average Maturity*

1/ **Progress in yearly bond gross issuance, in %: “big four” countries**



Source: Bloomberg, Amundi Research - Data as of 10 June 2021

THEMATIC

As the ECB is going dy demand for sovereign debt, the progress in year-to-date funding clearly means better dynamics to come in H2-21

The combination of the front-loading of sovereign supply and upcoming ECB QE should mean lower upside pressure from technicals on yields and spread levels in H2

As the ECB is going to keep a relatively steady monthly volume in its demand for sovereign debt, in light of the recently-announced "steady hand" on PEPP at its June meeting, the progress in year-to-date funding clearly means better dynamics to come in H2-21. Overall, so far the ECB has not matched net supply issued by countries more active in front-running, but looking forward the balance is set to turn with the ratio between central bank estimated purchases and remaining net supply likely to rise to more than 2x. The ratio of the expected balance between ECB demand and new debt is going to be high for Italy and Germany in the big four and quite high for all other smaller countries, assuming no deviations from capital keys. In the case of Italian sovereign debt, for example, according to our estimates the ECB had bought roughly two-thirds of year-to-date net issuance, but is estimated to cover 2.3x for the remaining net funding in 2021. These estimates already take into account 10% of public programmes to be allocated to Supranational bonds (see the sections below and inset). Last but not least, the ECB steadily increased the average weighted maturity of its PEPP portfolio, especially among core countries, finally strengthening the "qualitative" support beyond the pure numbers. This should help ECB targeting stable spreads and yields levels, in order to maintain easy financing conditions.

Following supply of SURE bonds in H1, supranational debt market to keep growing in H2, driven by NGEU EU new issuance

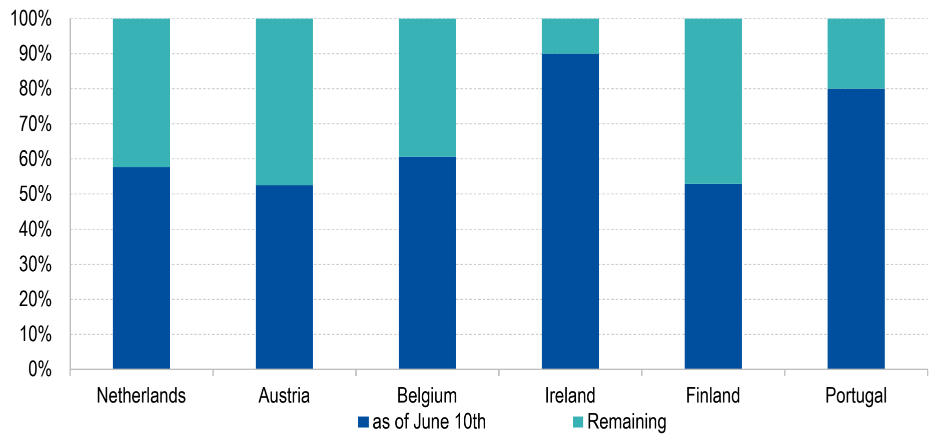
Shortly following the announcement of the funding plan for H2 this year, the EU issued its first NGEU bond (EUR 20bn, 10Y). The deal was a success, both in terms of demand (more than 7x the final size) and in terms of pricing vs. initial guidance, confirming the strong demand for such high-rated debt in the European fixed income segment. As the funding plan estimates *"around EUR 80bn"* of bonds until year-end **(see inset for more details)**, this first bond already represents one-quarter of the overall targeted size, while two additional deals are expected to be placed next month, before August break.

The NGEU issuance follows on the heels of SURE bond supply, which started in autumn last year and remained active in H1 this year, in January (EUR 14bn) but especially in February/March (EUR 22bn) and to a lesser extent in April/May (EUR 14bn). The EUR 80bn issuance volume currently planned by the EU for the rest of the year almost matches roughly EUR 90bn in remaining net issuance estimated to be placed in the semi-core sovereign debt segment.

ECB still playing a major role in supporting EU issuance

Since EU SURE bonds started in Q4 last year, the ECB increased its allocation to supranationals and has more leeway to do so. For the third time in a row, the latest bi-monthly detailed figures published by the ECB confirmed a more sustained path of purchases for supranational debt in the PEPP public debt segment. The share of SSA purchases in April-May '21 was only marginally lower (close to 9%) than in Dec 2020-Mar 2021 (at 10%). The latest slightly lower proportion could be also related to the fact that SURE issuance in April/May dropped to EUR 14bn from EUR 22bn in February/March, but at the same time, in absolute terms, the last two months saw the highest volume allocated to SSA since the PEPP began. Following the start of EU SURE issuance (in autumn 2020), the share of PEPP allocated to SSA moved higher, from a previous 6% average to almost 10%

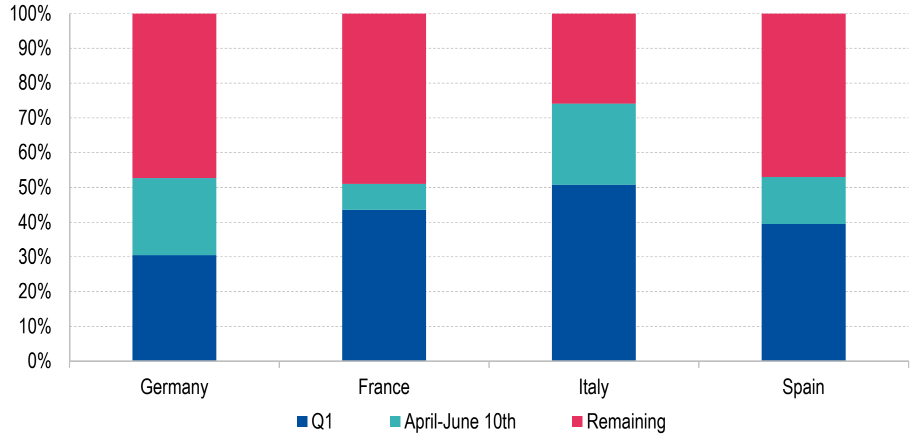
2/ **Progress in yearly bond gross issuance, in %: other EMU-10 countries**



Source: Bloomberg, Amundi Research - Data as of 10 June 2021

THEMATIC

3/ **Progress in yearly bond net funding, in%: "big four" countries**



Source: Bloomberg, Amundi Research - Data as of 10 June 2021

NGEU issuance: background and current announced plan

The EU announced its first 6-month funding plan under NGEU, estimating "around EUR 80bn" of bonds until year-end, "to be topped up by tens of billions of euros of short-term EU-Bills to cover the remaining financing requirements." The EC "will update the funding plan in Sept, when it has a more precise overview of the funding needs of the EU Member States (MS) for the last months of the year."

"The first bond issuance will take place via a syndication. Further syndicated transactions are foreseen to take place before the end of July." Market expectations point to an issuance volume of between EUR 30bn and EUR 40bn before August break, i.e. close to half of the currently announced volume, probably with two issues following the first placed in June, all to be syndicated. "The Commission also intends to start issuing EU-Bonds and EU-Bills through auction procedures as of September 2021. Once the auction system is in place, the Commission will regularly organise syndications and auctions for the bonds. It will also organise regular auctions for EU-Bills." Since September, syndicated and regularly auctioned deals will be combined. NGEU H2-21 funding will increase the debt universe targeted by ECB PEPP, but is unlikely to change the supportive balance of technicals on the EGB market.

EU-Bonds

"Issuing bonds through benchmark maturities (3, 5, 7, 10, 15, 20, 25, 30 years) is the principal way for an issuer to implement its funding plan. The Next Generation EU issuance programme will give the Commission the opportunity to consolidate a regular presence on all parts of the yield curve with as liquid as possible EU-Bonds. Rather than issuing new bonds with new maturities, the Commission will, where possible, augment the amount of already issued bonds. By doing so, the outstanding amount of the bond will make these bonds more liquid in the secondary market trading and hence more attractive to investors."

EU-Bills

The Commission will also start to issue securities with a shorter maturity – below one year – to be known as EU-Bills. These will give the EU access to the deep and liquid money market, offering it the flexibility to determine the size of each transaction based on actual liquidity needs. To issue EU-Bills, the Commission will rely on auctions, in line with standard market practice.

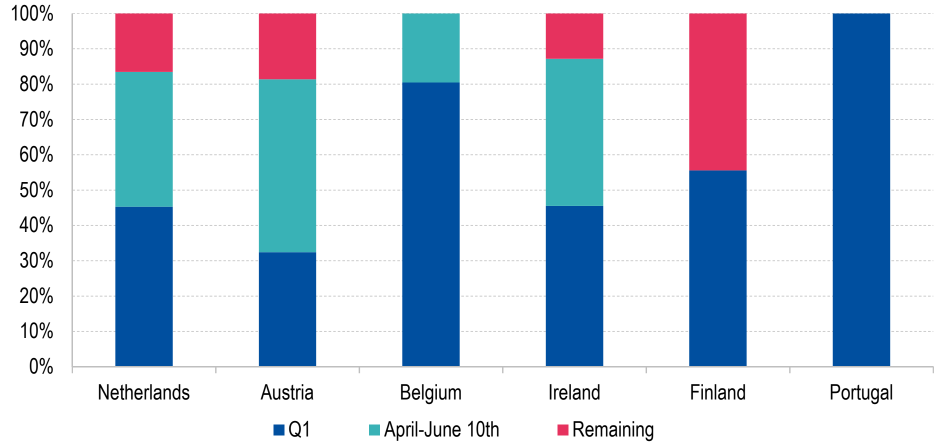
Funding technique

As "Syndications are the traditional technique for debt issuance by supranational issuers" and "the Commission has used syndication exclusively in the past", the adoption of auctions, "the favoured issuance technique used by large EU sovereigns", goes in the direction of moving on from a pure "supra status" in terms of funding. Bill issuance is also headed in this direction. The goal is to "enable the Commission to attract the necessary funding, even under difficult market conditions, enlarge the investor base and reduce funding costs."

THEMATIC

We can expect the ECB to use its flexibility to keep supporting upcoming EU issuance also in the NGEU funding plan over the coming quarters

4/ **Progress in yearly net funding, in%: other EMU-10 countries**



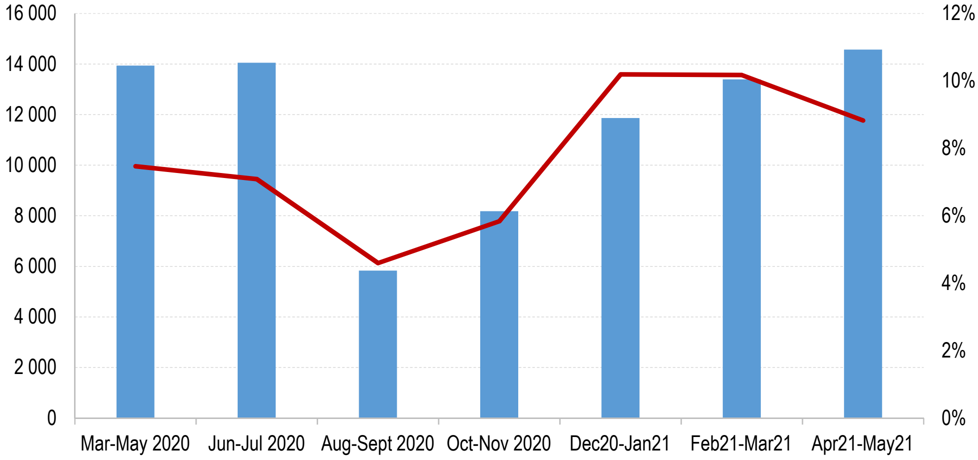
Source: Bloomberg, Amundi Research - Data as of 10 June 2021

of public debt purchases in the last six months. PEPP purchases have moved hand-in-hand with the rise in EU issuance, not only in terms of volumes but also average maturity. The WAM of SSA holdings has kept climbing, currently at 10.4 years, and its overall increase coincides with the launch of the EU SURE programme, including bonds with long tenors.

We can therefore expect the ECB to use its flexibility to also keep supporting upcoming EU issuance in the NGEU funding plan over the coming quarters. It is reasonable to assume that the share of PEPP allocation to the segment will remain close to the recent 10% or may even slightly increase, as SSA cumulative allocation is still lower since the programme started (in the 7% region). A 10% allocation would roughly mean potentially between EUR 55bn and EUR 60bn, to counterbalance the steady increase in EU supply. Even assuming a share higher than 10%, it would have only marginal effects on total volumes allocated to absorb sovereign debt: even in this case, in fact, EGB supply net of QE should remain in deeply negative territory in H2.

Finalised on 21 June 2021

5/ **PEPP bi-monthly purchases of supranational debt: in EUR mn (l.h.s.) and in % of public debt (r.h.s.)**



Source: ECB, Amundi Research - Data as of May 2021

THEMATIC

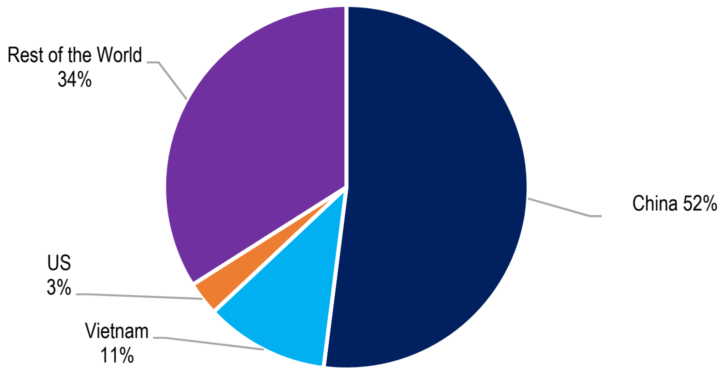
The price of self-sufficiency

The disruption of global supply chains has been a wakeup call for the European Union. For years, the principle of an open and free Single Market has led to a massive transfer of industrial production and outsourcing mainly to Asia. The Covid-19 crisis showed that Europe's dependency was higher than most political leaders and decision makers would have imagined and could lead to greater disruption with sometime deadly consequences. It has become crucial to ensure at least some form of self-sufficiency when it comes to critical products but the cost of independence might be much higher than expected.

Pierre BLANCHET,
Head of Investment Intelligence

Assessing Europe's dependency, the Commission has identified 137 products for which the EU is highly dependent on external production, 34 of which are unlikely to be replaced (raw materials and oil for instance). That leaves more than 100 products in sectors such as healthcare, electronics or chemicals. China represents more than half the value of imports of the most foreign-dependent products, followed by Vietnam, Korea, Singapore and Brazil with a much smaller value, while the US, the UK or Japan only accounts for 3% (see chart 1).

1/ Share of EU imports value of 137 dependent products



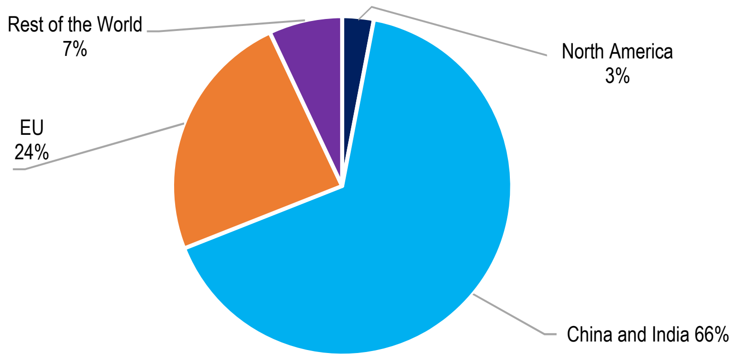
Source: EU commission, Amundi Research, June 2021

Looking at strategic sectors, we can see extreme concentration in certain areas such as semiconductors and pharmaceutical products, with European dependency set to become more critical in a post-Covid world. Europe's pharmaceutical industry boasts leading global players, but imports most of its active pharmaceutical ingredients (API) and excipients from India and China (see chart 2). Sole medicines are no longer produced in Europe due to cost pressure. China holds a strong position in the supply chain of antibiotic, antiviral, anti-bacterial and anti-inflammatory medications. India is world leader in the central nervous system and respiratory segments[1]. It is unclear though just how much it would cost to re-onshore the production of these drugs since the pharma industry is highly integrated. However, the impact on end customers would be higher prices if they were made in the EU.

China represents more than half of foreign dependant products

[1] *Source: COMMISSION STAFF WORKING DOCUMENT. Strategic dependencies and capacities. Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery.*

2/ API production worldwide



Source: CPGA report 2015, Amundi Research June 2021

THEMATIC

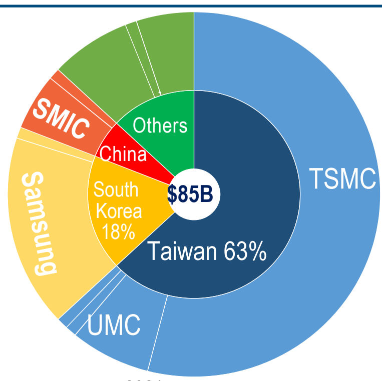
There are at least three different ways to deal with dependency issues. One is to diversify the sources of supply. Another is to build inventories, or to create (recreate in many cases) production capacities within the EU. The cost vs risk vs benefit is obviously not the same. Building inventory might not be possible in some cases such as perishable goods and ever-evolving technologies, or simply doesn't make sense in the case of software for instance. Diversification of sources doesn't entirely solve the issue. Europeans will still rely on a third party willingness to deliver what is needed which in the case of a global pandemic like Covid-19, might not be possible. Consequently, the on-shoring of highly dependent but critical production is the safest way, but might not be an easy or cheap journey.

Let's take the example of digital sovereignty. As Thierry Breton[2] points out, it requires "an autonomous European capacity in microelectronics" meaning Europe would have to be self-sufficient in the manufacturing of semiconductors. This sector has a very complex supply-chain with many players involved in design, lithography, manufacture (foundry) or distribution. Yet, when it comes to the production of chips, it has all the characteristics of an oligopolistic commodity market with a very small numbers of players (see chart 3), namely Taiwan, Korea and China... and very high barriers to entry (technologic edge and mass production capabilities). Moreover the region is subject to high seismic activity and political tensions

[2] *European Commissioner for the Internal Market*

The world relies on Taiwan and Korea for leading edge semiconductors

3/ **2020 Total foundry revenue and market share**



Source: TrendForce, SIA, Amundi Research, June 2021

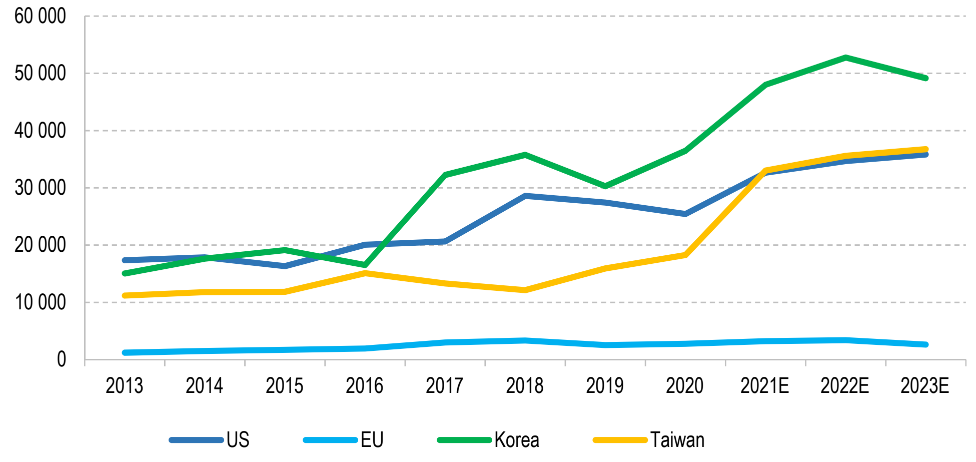
The European share of the €380 billion ($440bn) global semiconductor market is less than 10% in value, down from 44% in 1990. **The European Commission's ambition is to reach 20% by the end of the decade** (in line with its share of end users demand[3]). Today chips produced in Europe are mid-range (20 nm and above) mainly used in the auto industry, but there are no cutting edge semiconductors foundries, which are necessary for products such as mobile devices or self-driving cars. The challenge is thus not only to ramp up production capacities in Europe but also to upgrade manufacturing sites. Both require significant investments, a long-lead R&D strategy and talented engineers. TSMC (Taiwan) and Samsung (Korea) are currently the only manufacturers able to produce nodes below 7nm while customer demand will rise over the next 3 years for 5G and AI[4]. Europe can rely on the global lithography leader ASML but that's only one piece of the puzzle. Despite public support, it is not certain that European players will be able to reach Taiwan's leading production capabilities on a profitable scale even 10 years from now. To put things into perspective, leading players have invested from $10bn to $20bn per year over the past decade (see chart 4). In April, TSMC announced a 3-year $100bn capex plan to cope with strong client demand (Apple, Qualcom, and Nvidia). This followed Intel's announcement of an additional $20bn investment in two new plants in Arizona and Samsung's $100bn capex over the decade.

To have any chance of reaching 20% market share including cutting edge foundry capabilities in order to ensure self-sufficiency and strategic independence by 2030, **Europe needs to invest from €300bn to €400bn in public and private sector money** over the decade (see chart 5). That would go on top of the upfront €20bn to €40bn cost of building the plants. For comparison's sake, the entire Next Generation EU budget for the digital transformation and innovation is €143bn over 6 years. Assuming there is enough public and private sector funding to reach the production goal, and that European

[3] *Source SIA and BCG April 2021*
[4] *TSMC 2020 Annual Report*

THEMATIC

4/ Semiconductor Capex by Top Spenders ($MM) (Logic, DRAM, Foundry, NAND)



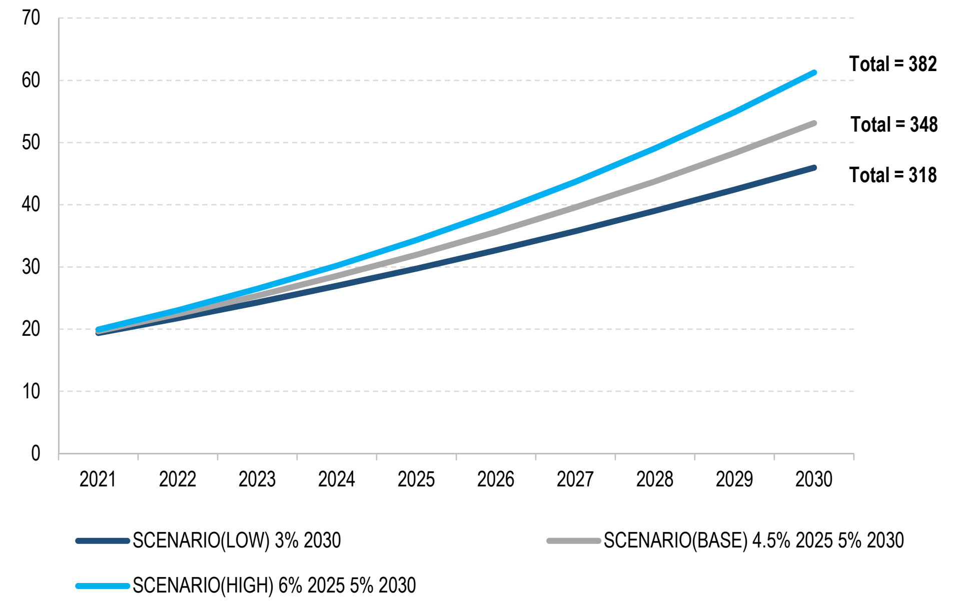
Source: UBS, Amundi Research, June 2021

Self sufficiency means higher inflation

engineers are able meet this R&D and production challenge, it is unlikely the marginal cost will be smaller than that of the northern Asian foundries. That means government subsidies or taxes on imports will probably be needed, at least on certain categories of imported chips, to ensure that EU semiconductor manufacturers gain market share and reach critical mass. This is inflationary in nature[5].

[5] *A hypothetical alternative with parallel, fully "self-sufficient" local supply chains in each region to meet its current levels of semiconductor consumption would have required at least about $1 trillion in incremental upfront investment, resulting in a 35% to 65% overall increase in semiconductor prices and ultimately higher costs of electronic devices for end users." Strengthening the Global Semiconductor Supply Chain in an Uncertain Era, Boston Consulting Group, June 2021*

5/ Annual EU R&D and CAPEX expenditures projection (€, billion)



These scenarios are based on 2020 semiconductors industry sales of $440 billion (€380 billion according to the SIA). We assume an upfront cost of €20b. We then assume European industry total R&D expenditures of 20% of revenues and total Capex of 25% of revenues. The annual semiconductors market sales growth until 2030 is defined as low, base and high: low case assumes a 3% growth per annum, base case assumes a 4.5% growth per annum, high case assumes a 6% growth per annum.

Source: Amundi Research

Europe's response to the Covid-19 crisis is a legitimate call for self-sufficiency in strategically dependent sectors. In the case of electronic components, the EU can mobilize industrial stakeholders to design a European Flagship project in

THEMATIC

the form of a second Important Project of Common European Interest (IPCEI). The first IPCEI has already collected €8bn plus around €5bn of public and private sector money for R&D[6]. In total, the EC believes that it can collect €20bn to €30bn[7]. Part of the Recovery and Resilience Fund will be allocated to this project. Still, that might not be enough to achieve the ambitious goal of 20% market share. The EU can also ask its partners - starting with the US - to build manufacturing capacities in Europe. But that comes at a cost. According to recent talks between the European Commission and Intel, the US chipmaker is asking for an $8bn dollars welcome check to build a plant in Europe[8].

The implication for investors is twofold: (1) long term investment opportunities in these strategic sectors, backed by public sector funding and (2) distorted marginal production costs contributing to higher inflation.

Instead of pursuing a self-sufficiency through uncertain large industrial plans, Europe could strengthen its supply chain resilience, reach minimum autonomy in highly critical segments such as defense and security or aerospace, and use public money to support R&D and own intellectual property.

In reality, the price of self-sufficiency might be much higher than political leaders and taxpayers are ready to pay.

Finalised on 25 June 2021

[6] *Thierry Breton to CCFA and Les Echos 28 April 2021*

[7] *Thierry Breton to Le Monde 25 April 2021*

[8] *"Intel seeks €8b in subsidies for European chip plant", Politico, April 2021*

THEMATIC

China's demographic headwinds

The latest Census results suggest China's population is aging faster than expected, prompting Beijing to relax birth restriction and move to a three-child policy. Recognizing the challenges to reverse low fertility, we expect China to rely more on the productivity driver for growth in the long run.

Claire HUANG,
Senior EM Macro Strategist

China's TFR at 1.3 is among the lowest around the world

Population aging is more severe than projected

The results of the seventh Population Census show that the Chinese total population continued to grow, reaching 1.41 billion in 2020. However, population growth slowed further to 0.53% per annum in 2010-2020 from 0.57% in the previous decade. The share of working-age population (aged 15 to 64) shrunk to 68.5% in 2020 from the peak of 74.5% in 2010, while the senior population (aged 65 and above) rose to 13.5% of the total in 2020, from 8.9% in 2010.

Along with the slower-growing population, the birth rate is falling. The number of new-borns dropped to a record low of 12m in 2020, against the backdrop of declining new marriages and a shrinking cohort of women of childbearing age. The pandemic outbreak may also have affected new births owing to delayed family planning. The total fertility rate (TFR) - an indicator holds age cohorts unchanged – stood at 1.3 in 2020, lower than most demography watchers had foreseen[1]. Needless to say, this level of TFR is lower than the replacement rate of 2.1 and is among the lowest around the world.

The low fertility rate will be hard to reverse under the new three-child policy

Within weeks of the Census results, the Chinese Politburo announced a relaxation of birth restrictions, moving from a two-child policy to a three-child policy. This marks a further shift away from birth restrictions to encourage more births. However, although birth restrictions have effectively contained the Chinese fertility rate since the 1980s, they are no longer the major dampening factor. The willingness to give birth has declined rapidly under social changes, surging house price inflation and the increasing costs of raising children.

In fact, the shift from the one-child to two-child policy in October 2015 gave a moderate boost to the fertility rate for over a year, but new births started to drop quickly from 2018 as the "catch-up" effect faded out. A recent survey[2] reveals that the majority of Chinese households think two children are the ideal family size, but not more, indicating that the boost from the three-child policy or a full relaxation will be much smaller than the previous policy shift.

Total population will peak in around 2026

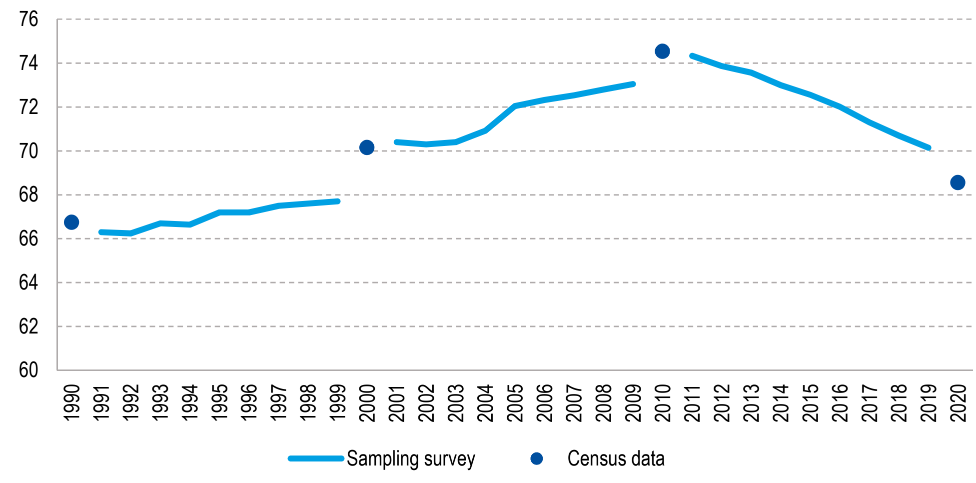
Assuming a full relaxation of birth restrictions in five years and a transitory rise in the total fertility rate, China's demographic profile still looks challenging. Its total population will start to decline in the mid-2020s. The number of new-borns could fall below 10m in the late 2020s, after an initial rebound following the policy relaxation. Consequently, the share of the old-age population (age 65+) will double in 20 years, to close to the level Japan has today.

For China's growth, this means the *first* demographic dividend is long gone. The

[1] *The UN World Population Prospects 2019 forecast an increase of China's total fertility rate from 1.70 in 2020-2025 to 1.77 in 2075-2100. In 2021, the CIA has estimated a rate of 1.6.*

[2] *2020 Survey by Fudan University (in Chinese).*

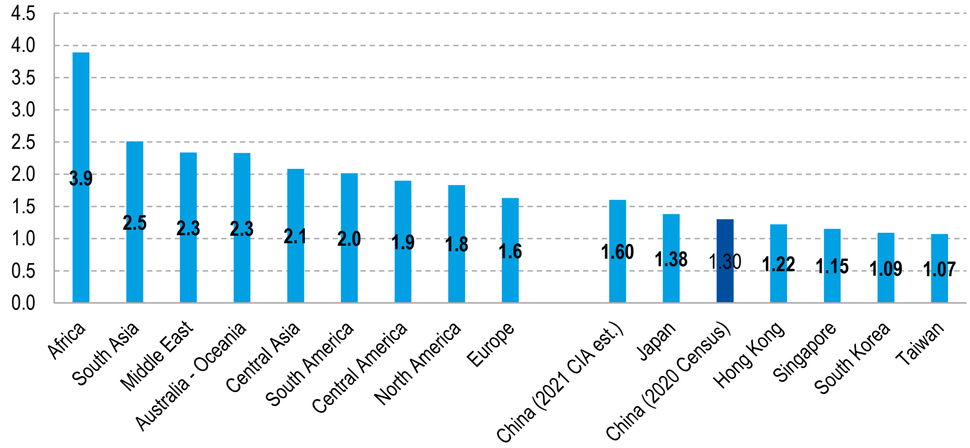
1/ **China: share of working age population (age 15-64, % of total)**



Source: NBS, Amundi Research. Data as of 11 May 2021

THEMATIC

2/ **Total fertility rate (%)**



Source: CIA, NBS, Amundi Research. Data as of 17 June 2021

Working-age population will continue to decline over the next half century

working-age population will continue to decline over the next half century, translating into lower potential growth. The *second* demographic dividend, achieved through investments in physical and human capital, is usually larger than the first one[3], and will become the policy focus. The prevailing low fertility rates in East Asian economies provide important lessons: it is difficult to reverse the demographic profile in the long run but it pays off to invest in human capital and to tap into the talent dividend.

Policy implications: innovation is the new driver of growth

To address the aging population challenges, **postponement of the retirement age** is already under discussion. We also expect to see an enhancement of the social security network and a more determined crackdown on housing price speculation, which is believed to be playing a major role in depressing the fertility rate during the urbanisation process.

In an internal speech in January, President Xi noted that China's old growth model is not sustainable amid environmental bottlenecks and rising labour costs. He regards **innovation as "a matter of survival" and key to long-term economic development,** indicating plans to boost potential growth by raising productivity over the long run. The Census results are a reminder of the demographic headwinds in China, which will add more weight to China's transition to an innovation-led growth model.

Finalised on 21 June 2021

[3] *IMF - What Is the Demographic Dividend?*

CENTRAL & ALTERNATIVE SCENARIOS (12 TO 18 MONTHS HORIZON)

Monthly update

On the back of our quarterly updates, we have reviewed the narrative and the probabilities of our central and alternative scenarios. In our central scenario, the policy mix and improving fundamentals support the recovery and markets. Beyond 18 months, we expect US growth to revert to potential amid a higher inflation regime, while stagflationary pressures rise, in particular across Europe. As valuations are stretched and economic momentum is fading, the expected risk-adjusted return of equities is diminishing. We now consider vaccine-resistant virus variants or vaccination-related issues as a risk to the central scenario.

DOWNSIDE SCENARIO 25%

Slumpflation

Analysis

- **Recovery undermined** by pandemic-related constraints, despite successful vaccination campaigns
- **Growth** in Advanced Economies (AEs) back at (or below) potential, despite fiscal support
- **Persistent inflationary pressures** due to prolonged supply-chain bottlenecks
- Faster than expected **slowdown** in **China** impacting AEs
- **Economic and financial fragilities** exacerbated by tighter financial conditions
- **Falling** medium-term **growth expectations** and higher interest rates undermine public debt sustainability and limit fiscal support
- **Protectionism** and **de-globalisation**, affecting trade and value chains
- **Stagflationay** pressures exacerbated by deleveraging and bottlenecks

Market implications

- Favour cash, USD and US Treasuries
- Play minimum-volatility strategies
- Gold

CENTRAL SCENARIO 60%

Multi-speed recovery

Analysis

- **Strong but uneven multi-speed** recovery in 2022 followed by a slowdown in 2023
- **Supportive policy mix** allowing debt to GDP ratios to stabilise
- AEs monetary policies to normalise gradually starting with the Fed
- **Narrower growth premium gap** between EMs and AEs (US policy boosters and China's deceleration)
- US growth and inflation peaked in Q2 and then normalise; EZ growth and inflation to peak in H2
- **NGEU** execution is **diluted**, despite political commitment
- **Lower solvency risk** thanks to positive corporate earnings momentum, active deleveraging and low funding costs
- **Income and wealth inequalities** increase social and political tensions

Market implications

- Lower risk-adjusted expected returns due to high valuations and decelerating growth
- Contained steepening of US Treasuries yield curve spills over into EZ and EM.
- Favour equity value and cyclicals
- Inflation hedge via gold, linkers and equities
- Favour barbell positioning in the currencies space
- EM: Short-term caution, long-term income and growth story intact

UPSIDE SCENARIO 15%

Sustainable & inclusive recovery

Analysis

- Mass vaccinations enables a **full global recovery**
- Closing gap between manufacturing and service sectors
- **Consumption strength** driven by savings and increased disposable income
- The **Fed stays on hold** despite the US job market recovery and wage pressures
- **NGEU** implementation is a **success**
- **Virtuous circle** of growth and inflation without global overheating
- **Inclusive** and sustainable recovery
- **Higher potential growth** thanks to productivity gains driven by digital and green developments

Market implications

- US Treasuries curves bear steepen
- Favour risky assets with cyclical and value exposure
- Favour linkers as an inflation hedge

TOP RISKS

Monthly update

This month, we are raising the probabilities of Economic and (Geo)political risks to 20%. We now consider Covid-19-related risks, including variants and vaccine issues, as part of the economic risks to our central scenario. Risks are clustered to ease the detection of hedging strategies, but they are obviously linked.

ECONOMIC RISK 20%

- **4th wave of Covid-19**
  - Despite mass vaccinations, a new wave kicks in after the summer holiday in the northern hemisphere
  - New lockdowns and restrictions derail the recovery
- **Pandemic 2.0**
  - One or several virus variants that would make existing vaccines ineffective OR
  - unexpected logistics issues or side-effects of the vaccines could undermine the economic recovery
- **Global tapering**
  - As inflation expectations rise, the Fed and other DM central banks could reduce their asset purchase programs earlier than expected and stop or slow the recovery
  - Central banks' reaction function, premature exit or miscommunication could be sources of uncertainty
- **A protracted recovery with multiple relapses** might hit business and consumer confidence, looping in sectors that have not yet been directly hit by the pandemic, such as financials

FINANCIAL RISK 20%

- **De-anchoring inflation expectations** leading to a bond market dislocation as an outcome of policy mistakes, such as pre-emptive monetary policy tightening or outsized fiscal plans
- **Corporate solvency risk:** despite improving fundamentals, the magnitude of the recession could increase solvency risks once central bank liquidity and government guarantee schemes are withdrawn
- **Sovereign debt crisis**
  - With public debt as a share of GDP reaching historically high levels in peacetime, most countries are vulnerable to rating downgrades and rising interest rates, in the event of policy errors
  - Emerging market weaknesses (single-commodity exporters, tourism) could also face a balance-of-payments crisis and increased default risks
- **USD instability, which could impact in both directions:**
  - **(1) depreciation** could push the Fed to stop its APP and negatively impact the Treasuries market, bring deflation into the EZ and Japan, and undermine the EM recovery;
  - **(2) appreciation** could hurt EM countries, with higher UST yields spilling over into the Eurozone bond market

(GEO)POLITICAL RISK 20%

- **US & Europe vs. China cold war**
  - US takes a hard line with China
  - Several sanctions and delistings of Chinese companies are signs of escalation
  - European countries could follow the US, despite their economic interests
  - Possible accidental confrontations in the South China Sea or the Taiwan Strait
- **European populist vote** in Germany, France or Italy could lead to a further fragmentation of the EU
- **EM political instability driven by:**
  - Chaotic virus crisis management and debt solvency measure
  - Higher food prices leading lead to a wave of unrest similar to the Arab Spring
- **Cyber-attack or data compromise,** disrupting IT systems (security, energy and health services)
- **Underestimated hysteresis effects in DM labour markets,** with rising unemployment, could generate social tensions

	Economic risk	Financial risk	(Geo)political risk
+	**Cash, linkers, JPY, Gold, USD, Defensives vs. Cyclicals**	**CHF, JPY, Gold, CDS, optionality, Min Vol**	**DM Govies, cash, gold, linkers, USD, volatility, quality**
-	**Oil, risky assets, AUD CAD or NZD, EM local CCY exporters**	**Oil, risky assets, frontier markets and EMs**	**Oil, risky assets, EMBI**

CROSS ASSET DISPATCH: Detecting markets turning points

How to the read turning point assessment

Not reached yet too early to call it | Approaching to the turnaround | Turnaround happened

ECONOMIC BACKDROP

- Economic activity strengthened in the eurozone as Covid-19 restrictions were eased, as confirmed by both high frequency data and the latest PMIs. Soft data confirm the optimism underlying the ongoing reopening, delivering strong upside surprises. In particular, upticks in retail and commercial activities confirmed the ongoing bottoming out of the sectors hit hardest by the pandemic. The consensus upward trajectory continues, with steeper trends in France and Italy.
- Economic activity in the US continues to grow at a sustained rate. Surveys remain supportive confirming the strong confidence underlying the reopening of the US economy. However, the CESI Index reversed downward underlain by moderating soft and hard data surprises, while the consensus remains overall stable.

FUNDAMENTALS & VALUATION

- Most equities have reached all-time highs and although the recovery in profits remains solid, valuations look expensive from different angles.
- CB liquidity injection is still the only argument for the markets' high levels, although these contributions are expected to vanish going forward.
- Absolute PE levels are above historical trends and are a sign of investor complacency.

NEUTRAL + ASSET ALLOCATION

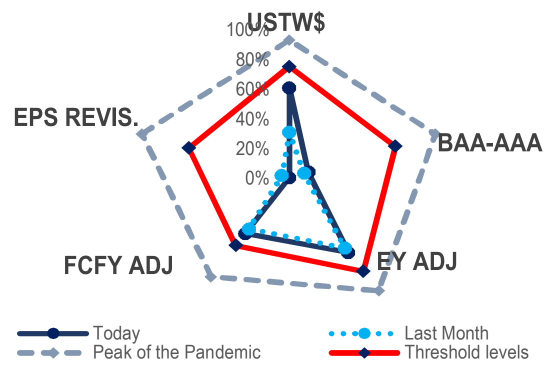
TECHNICALS

- There were no big shifts in contributions with respect to last month from our technical toolbox.
- Markets took the Fed's comments as hawkish, but the turbulence only lasted for few days before equity prices continued to move higher. This was not enough to structure stable "momentum" across the board and may be too quick for contrarian buy signals to last.
- RSIs were in overbought territory prior to the FOMC's June meeting, but turned the other way following the hawkish comments and moved back higher once waters calmed down. Technicals remain mixed with a lack of directional bias at the time of writing.

SENTIMENT

- The Fed changed its dot plot, which now points to two rate hikes in 2023. A hawkish communication relative to the market's expectations explains the sharp correction of risky assets in the aftermath of the event.
- However, volatility rose only slightly and there was no evidence of material deterioration in systemic risk sentiment in our framework.
- Financial conditions deteriorated modestly, with GEM FCIs being hurt the most. This was primarily due to the rebound in the USD, albeit with evidence from CAST offset by the still healthy EPS revisions and a Credit Risk Premium that remains well under control (Moody's belows 65 bps at the time of writing).
- Institutional investors' risk appetite (still pro-risk within the cross-asset spectrum) seems to confirm this but needs to be constantly monitored, given that most of the metrics seem stretched (though well-oriented) compared to historical standards.

Cross Asset Sentinels Thresholds (CAST) still supportive



Source: Amundi Research, Data as of 18 June 2021

CAST flags extremely low risk perception.

Sentinels remain in pro-risk territory due to a general improvement in all its components (except ERP adjusted for credit risk).

Methodology We consider five inputs which we call "Sentinels": USTW$, Moody's Baa-Aaa, EPS revisions, Earning Yield risk adjusted and Cash Flow yield risk adjusted. These sentinels are used to reposition our tactical asset allocation. Once sound thresholds are detected, the five variables are aggregated as an indicator that anticipates the market's stress conditions, with a certain level of conviction. The pentagon visualizes the five sentinels where the red line represents the alert threshold. The greater the distance above the red line, the higher the risk perception, and eventually the need to move closer to a defensive asset allocation.

GLOBAL RESEARCH CLIPS

1 DM: growth and inflation revised up on US and Eurozone

- Q1 GDP data surprised on the upside and so our forecasts have been revised accordingly.
- We are projecting 2021 US GDP at 7.4% (from 7.2%), 2022 at 4%, and 2021 Eurozone GDP at 4.4% (from 3.3%); 2022 at 3.6%.
- We also revised up inflation on stronger than expected monthly readings.
- For Central Banks we expect:
  - The Fed to start tapering at the beginning of 2022 and the rate lift-off to begin at the end of 2023.
  - The ECB to continue to provide stimulus through 2022 (details to come at the September meeting), either extending the PEPP/current APP or tapering/ending the PEPP while increasing the APP.

Investment consequences:

- 12M core govies targets updated: US 10Y at 2.10/2.30% (from 1.8/2%) – Germany 10Y at -0.10/+0.10% (from -0.20/0.00%) – UK 10Y at 1.10/1.30% (from 0.90/1.10%).

2 USD: short-term rates keep the greenback under pressure

- The cost of hedging dollars has been declining due to front end rates remaining flat as a consequence of the FED's commitment to FAIT (i.e. very dovish stance on the timing of the first lift-off).

Investment consequences:

- Even with the FED staying dovish, the strong growth outlook in the US sets the bar higher for further downside risks on the currency.
- We therefore expect USD to strengthen and are projecting EUR/USD at 1.16 in Q1 2022.

3 Commodities super cycle

- The current shortage in inventories for base metals is not new, as weaker demand due to sluggish growth over the past several years has been halting several new projects.
- Oil production remains well below pre-Covid levels and is expected to resume once issues related to Iran sanctions are resolved.

Investment consequences:

- The recent oil shortage should ease by year-end (12M target: $65 on WTI), as should the base metals inventory shortage.

4 China growth and RMB depreciation

- The economic recovery is expected to continue at a strong pace: GDP at 8.9-9.5% in 2021.
- The CPI should continue strengthening to 1-2% yoy, while the PPI is likely to peak in May at c.8% yoy.
- The PBoC's RRR increase and approval for outbound investments are an attempt to ease RMB appreciation.

Investment consequences:

- A slight RMB depreciation is ahead as a consequence of the PBoC's efforts to contain currency strength and due to expectations for a stronger USD.
- Target: USD/CNY at 6.5/6.6 for Q4 2021/Q2 2022.

Covid-19 situation update

by Pierre BLANCHET, *Head of Investment Intelligence*

Despite a successful vaccination campaign, the UK recorded 35k new cases of the Delta variant last week (+46% WoW). This has become the most dominant variant, with 90% of new cases. The British PM may have to postpone the final lifting of social restrictions. In Portugal, the situation is deteriorating rapidly, as well, and the number of new cases is rising in Brazil and Russia. The severity of the Delta variant is unclear, but it is estimated to be 60% more transmissible than the "British" variant. Projections show the Delta variant could account for 90% of all Covid-19 cases by the end of August and could potentially trigger another wave in the northern atmosphere after the summer holiday.

At the time of writing nearly a quarter of the world population has received at least one dose of a Covid-19 vaccine but less than 1% in poorer countries. More than 3.0 billion doses have been administered globally. With a daily run rate of more than 40 million doses administered each day, it will take from six to nine months (at least) to be close to herd immunity. We still consider one of the key risks to be that one of one or more of the virus variants would make existing vaccines ineffective and/or that the vaccines could generate unexpected side effects.

AMUNDI ASSET CLASS VIEWS

	Asset Class	View	1M change	Rationale
EQUITY PLATFORM	US	=		President Biden's spending plans, coupled with continued vaccinations and reopenings, should support consumer spending in goods as well services sectors. However, government payments ending in some states, potential tax hikes and inflation resulting from supply shortages could act as a dampener. In this environment, we remain selective and look for companies that have the pricing power to pass on the increase in input prices to consumers to preserve margins.
EQUITY PLATFORM	US value	+		We remain constructive on value (particularly high quality), cyclical stocks and realise that as economic data comes more in line with forecasts, the onus of outperformance shifts from market selection (beta) to security selection. These rotations will remain a long-term trend, supported by rising inflation, a mild increase in bond yields and strong economic growth.
EQUITY PLATFORM	US growth	-		We remain defensive on hyper growth/speculative growth segments which are already moving away from the excessive exuberance displayed earlier. As interest rate and inflation expectations increase further, this trend may continue.
EQUITY PLATFORM	Europe	=		Strong economic growth and accommodative policy (ECB and Next Gen EU plan) supports our view of a cyclical recovery that should benefit the region. However, lot of the good news is priced into the markets already and we prefer to focus on relative value and to be selective amid inflation pressures that could potentially affect margins for some companies. Interestingly, ESG, investor activism and minority shareholder rights remain key themes in the markets and for us.
EQUITY PLATFORM	Japan	=		Relative earnings trend suffered recently due to strong earnings in the US and Europe but, in the long term, global cyclical recovery and prospects of a weakening yen should be supportive for Japanese markets.
EQUITY PLATFORM	Emerging markets	=/+		The region is displaying a revival of growth and earnings, and attractive valuations, but the need to be selective and focus on value/cyclical areas is high. We see some headwinds from geopolitical risks and the speed of increase in US rates and inflation.
FIXED INCOME PLATFORM	US govies	-		We are cautious towards USTs in light of our view of persistent inflation, an environment of rising yields and massive fiscal deficit. Markets seems to have bought the Fed's narrative of temporary inflation that prevented any hike in yields for the time being but we believe the general direction of rates would be upwards (non-linear). This will be negative for duration. We prefer Treasury inflation-protected securities.
FIXED INCOME PLATFORM	US IG corporate	=		Investors should limit duration times spread (beta) and long-duration risk in portfolios as an increase in core yields going forward could affect credit prices. However, we like short-duration debt and prefer idiosyncratic opportunities to add value. In securitised credit, we are valuation-conscious as we think most of the sector has recovered.
FIXED INCOME PLATFORM	US HY corporate	=		Carry in HY remains attractive amid improving economy and fundamentals, and the opportunity to refinance debt at low yields. However, we remain very selective so as to balance quality with the potential for higher returns.
FIXED INCOME PLATFORM	European govies	-/=		We stay cautious on core Euro bonds as we believe that an improving economy (in light of the Next Gen EU plan), reopenings and inflation pressures could result in an upward move in yields. However, we acknowledge the continued conviction of ECB to maintain policy support and easy financial conditions that should prevent any quick increase in yields. This ECB support would also help the region avoid fragmentation, thereby supporting Euro peripheral debt.
FIXED INCOME PLATFORM	Euro IG corporate	=/+		We keep our beta stable but do so through high-quality names and are encouraged by ECB support, which provides a strong technical backdrop, especially in light of improving fundamentals. We prefer BBBs and short duration debt and cyclical sectors such as financials (subordinated debt) energy and auto. However, we think investors should rebalance away from senior financial debt.
FIXED INCOME PLATFORM	Euro HY corporate	=		Earnings recovery, deleveraging and debt refinancing at low yields are all factors that allow us to explore low-rated names but we maintain a balance among quality, yield and liquidity. We avoid names where an increase in core yield could affect prices substantially.
FIXED INCOME PLATFORM	EM bonds HC	=/+		We are slightly constructive on HC in the short term but acknowledge that there is very limited scope for spread compression in the medium term. We maintain our preference for HY over IG in corporate as well sovereign space as HY offers higher carry and could benefit from reflationary dynamics, but selection remains crucial.
FIXED INCOME PLATFORM	EM bonds LC	=		We are particularly cautious on rates but in FX we favour higher carry stories while being mindful of liquidity. We have a more positive view for the second half of the year despite expectations of USD getting stronger, but remain selective.
OTHER	Commodities			Economic recovery is positive for commodity prices in general. But it should be noted that current supply shortages of base metals are a result of stoppages in projects over the past few years due to sluggish demand in the past. These are more pronounced in commodities (copper) linked with the green transition. However, by year-end this should ease. Similarly oil supply should ease when issues related to Iran sanctions are resolved. We maintain our 12-month target of $65/b for WTI.
OTHER	Currencies			Monetary tightening and fiscal loosening should support USD (rates and economic growth advantage). We expect a stronger dollar – our EUR/USD target for year end is 1.17 and by Q1 2022 is 1.16. When real rates rise (remaining negative though) and inflation expectations move lower, the USD should strengthen against both low and high yielding FXs.

LEGEND

--- -- - Negative | = Neutral | + ++ +++ Positive | ▼ Downgrade vs previous month | ▲ Upgraded vs previous month

Source: Amundi, as of 22 May 2021, views relative to a EUR-based investor. 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.
IG = investment grade corporate bonds, HY = high yield corporate; EM bonds HC/LC = EM bonds hard currency/local currency. WTI = West Texas Intermediate. QE = quantitative easing.

DEVELOPED COUNTRIES

Macroeconomic outlook

Data as of 22/06/2021

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2020	2021 range	2022 range	2020	2021	2022
World	**-3.5**	**5.9/6.7**	**3.7/4.6**	**2.6**	**3.2**	**3.2**
Developed countries	**-5.2**	**5.3/6.0**	**3.4/4.1**	**0.7**	**2.3**	**2.0**
US	**-3.5**	**6.9/8.1**	**3.5/4.5**	**1.3**	**3.5**	**2.7**
Japan	**-4.9**	**2.9/3.1**	**2.8/3.4**	**0.0**	**-0.4**	**0.6**
UK	**-9.8**	**5.5/6.1**	**4.5/5.1**	**0.9**	**1.6**	**2.2**
Eurozone	**-6.7**	**4.1/4.7**	**3.2/3.9**	**0.3**	**2.0**	**1.6**
Germany	-5.1	2.7/3.4	3.6/4.2	0.5	2.5	1.6
France	-8.0	5.6/6.4	3.5/4.1	0.5	1.7	1.6
Italy	-8.9	4.0/4.9	3.2/3.8	-0.1	1.5	1.5
Spain	-10.8	4.6/5.4	4.6/5.2	-0.3	1.9	1.4

Source: Amundi Research

- **United States:** thanks to an extremely accommodative policy mix, the US economy will continue to recover strongly. While GDP most likely has reached pre-pandemic levels already, the labour market is recovering at a slower pace, which should pick up from Q3. While inflation is expected to peak in Q2 and then progressively decelerate, we have revised up our inflation outlook for 2021-22 on signs of somewhat more persistent, yet transitory in nature, upside pressures. The Fed will most likely keep considering these developments in line with its goal and keep an accommodative policy stance..
- **Eurozone:** after contracting in Q1 as a consequence of restrictions implemented in several countries, we expect moderate growth in Q2 as restrictions are removed, followed by a stronger acceleration from the summer as restrictions are broadly lifted, vaccination campaigns progress, and consumer and business confidence improve. Fiscal and monetary policy mix will remain accommodative, underpinning the recovery. Inflation should progress along an upward trend, due mainly to a transitory effect, overshooting in Q4 before reverting again below trend in 2022
- **Japan:** after the Q1 GDP miss and the low vaccination rate, we now expect Japan to grow at a relatively slower pace than the other DMs in 2021. Herd immunity is likely to be achieved at the end of the year, delaying any meaningful consumption recovery to early 2022. Meanwhile, Japan will continue to benefit from resilient external demand, in particular machinery orders from China and capital goods orders from the US. Global capex cycle bodes well for Japanese corporate earnings growth. Inflation will stay depressed, due to a soft recovery in domestic demand.
- **United Kingdom:** although the government has postponed the full reopening of the economy into mid-July to counter the spread of a new virus variant, signals of economic revival persist strong, confirming our expectations for growth to pick up from Q2, with strong momentum in the second half of the year. Inflation, which recently surprised on the upside for several transitory factors, is expected to persist above the target this year and next, yet without compromising the supportive monetary and fiscal policy mix.

Key interest rate outlook

	25-06 2021	Amundi +6M	Consensus +6M	Amundi +12M	Consensus +12M
US	**0.13**	**0/0.25**	**0.11**	**0/0.25**	**0.19**
Eurozone	**-0.50**	**-0.50**	**-0.51**	**-0.50**	**-0.51**
Japan	**-0.03**	**-0.1**	**-0.04**	**-0.1**	**-0.04**
UK	**0.10**	**0.1**	**0.11**	**0.1**	**0.23**

Source: Amundi Research

- **Fed:** the Fed is preparing the ground for a normalisation of its QE policy. It should start talking about QE in August/September and start tapering asset purchases in early 2022. The language on inflation has shifted to more explicitly acknowledging upside risks. The dots now show two rate hikes in 2023, but we should keep in mind that they are not a forward guidance but individual projections. The big uncertainty remains on how inflation will involve and what kind of inflationary pressure could result from a strong expansion and a tightening of resource utilisation across the whole economy and how long could it last.
- **ECB:** at its June meeting the ECB confirmed its PEPP purchases at a significantly higher pace than in the first months of the year. As broadly pre-announced, there is no sign of tapering for now, and policy remains ultra-easy. Revisions to the economic outlook improved for 2021 and 2022, while still pointing to unchanged and lower-than-targeted inflation levels in 2023. Monetary stimulus is expected to remain in place and, in this respect, the September meeting is likely to provide more guidance on stimulus deployment in Q4-'21 and in 2022.
- **BoJ:** on 18 June, BoJ left major policies unchanged, and extended corporate financing support by another six months to March 2022, as expected. The support includes the special financing program in response to Covid-19, with a current amount of JPY 68.6trn, and up to JPY 20trn in purchases of commercial paper and corporate bonds. Governor Kuroda maintains a cautiously optimistic outlook, noting that the economy is improving and that inflation will eventually pick up after vaccinations reach a critical level. With current slow vaccination, BoJ will stay behind the curve in 2021.
- **BoE:** at its latest meeting, the Bank of England kept the overall target for its asset purchase programme unchanged at GBP 895bn, despite one member's voting in favour of reducing the overall size. At the same time, since QE in the UK is not open-ended and since its bond buying is well ahead of schedule, the BoE announced a slowdown in its pace of bond buying. Despite a notable upward revision to the 2021 GDP forecast, from 5% to 7.25%, the MPC sent an overall dovish message as tightening remains a long way off.

Monetary policy agenda

Central banks	Next meeting
Federal Reserve FOMC	**July 28**
ECB Governing Council	**July 22**
Bank of Japan MPM	**July 16**
Bank of England MPC	**August 5**

Source: Amundi Research

EMERGING COUNTRIES

Macroeconomic outlook

Data as of 22/06/2021

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2020	2021 range	2022 range	2020	2021	2022
World	-3.5	5.9/6.7	3.7/4.6	2.6	3.2	3.2
Emerging countries	-2.2	6.4/7.2	4.0/4.9	4.0	3.9	4.1
China	2.3	8.6/9.2	5.1/5.7	2.5	1.1	2.4
Brazil	-4.1	4.9/5.9	1.0/3.0	3.2	6.9	4.3
Mexico	-8.3	5.8/6.8	2.0/4.0	3.4	5.1	4.1
Russia	-3.1	3.0/4.5	2.0/3.5	3.4	5.5	4.4
India	-7.1	9.0/10.2	4.6/6.0	6.6	5.5	6.0
Indonesia	-2.0	3.8/4.6	4.6/5.6	2.0	2.1	3.2
South Africa	-6.9	3.6/4.6	2.0/3.0	3.2	4.4	4.7
Turkey	1.6	4.3/5.3	3.7/4.7	12.3	15.3	11.4

Source: Amundi Research

- **China:** growth was once again weaker than expected in May. Industrial output growth also slid at a faster-than-expected rate, but we believe part of the weakness can be attributed to supply restrictions in the run-up to the 100th CCP anniversary on 1 July. That said, consumption growth was soft and the tourism recovery stalled in June due to renewed restrictions amid outbreaks in Southern China. As a result, we have downgraded our full-year growth forecast by 0.3 pt to 8.9%. On the inflation front, we expect commodity inflation risks to ease and CPI to remain weak in Q3 given falls in pork prices.
- **India:** the deceleration of the pandemic and partial lifting of restrictions has triggered a gradual yet persistent recovery in mobility data. Few monthly figures are available, but they still pointed to economic moderation in May and are consistent with a downward GDP revision in the range of 9%-10% YoY for FY22. The unexpected sharp rise in inflation (from Input prices to Core Prices) leaves little leeway in terms of monetary policy, while on the fiscal front small schemes have been announced or extended (Food program until November, free Vaccine for all, Rural jobs scheme).
- **Brazil:** mobility and activity have rebounded, and consensus revised '21 GDP forecast visibly higher – we see growth slightly north of 5%. Inflation already above 8%Y has yet to peak and also showing signs of second-order effects. BCB mindful of upside risk to price creation has dropped 'partial' w.r.t. renormalisation, hiked by 75 bp (to 4.25%) and 'pre-announced' another 75 bp hike (but is ready to quicken the pace if necessary). The administration will likely extend emergency income by another 3 months but further fiscal slippage is less concerning in light of lower debt ratio (on higher denominator) and progressing macro/micro reforms.
- **Russia:** the Russian economy is in rapid recovery mode, with real GDP expected to return to its pre-crisis level in Q2-2021. GDP growth is expected to be around 3.5% or even higher in 2021. While supply is expanding, demand pressures – both domestic and international – have been stronger, leading to an acceleration in inflation. May inflation reached 6% yoy, accelerating from 5.8% in April -- well above the target range of 4%. The CBR hiked the policy rate again by 50 bp to 5.5% on 11 June. According to the CBR, inflation is expected to return to target only in H2-2022. Given that the balance of risk is tilted toward more pro-inflationary risks, we expect more hikes at the July meeting.

Key interest rate outlook

	28-06 2021	Amundi +6M	Consensus +6M	Amundi +12 M	Consensus +12 M
China	3.85	3.85	4.02	3.95	4.27
India	4.00	4.25	4.00	4.50	4.20
Brazil	4.25	7.00	6.25	7.00	6.45
Russia	5.50	6.25	6.10	6.25	6.10

Source: Amundi Research

Monetary policy agenda

Central banks	Next communication
PBoC	July 20
RBI	August 6
BCB Brazil	August 4
CBR	July 23

Source: Amundi Research

- **PBoC (China):** at the Lujiazui Forum, PBoC Governor Yi conveyed a clear message that the Bank will look at average inflation rates instead of the recent high levels in the PPI. Hence, we expect the PBoC to stay behind the curve in H2, in particular as growth recovery momentum has slowed and inflation risks are easing. We expect two 5bp hikes in the LPR in H1 2022, when core CPI rises over 2%. In the interbank market, the PBoC has become less accommodative than a month ago, withdrawing from injecting extra liquidity amid rising government bond issuance, which caused rates to rise gradually.
- **RBI (India):** the RBI confirmed its dovish stance in early June, leaving the reference rate unchanged at 4% while announcing the extension of its QE programme (G-SAP) for Q2 FY22 (INR 1.2tn – slightly larger than in Q1 FY22). On top of that, the RBI has opened a new window of fresh lending for contact-sensitive sectors and for micro/small and medium enterprises through the Small Industries Development Bank. Since then, a set of higher inflation figures (headline inflation announced at 6.3% YoY in May) came as a surprise, paving the way for a shift towards a more neutral stance from the RBI.
- **BCB (Brazil):** while the Fed was busy reshuffling dots, the BCB was preoccupied with hiking (a further 75bps hike to 4.25%) – 'pre-announcing' another hike of a similar size in August (though it is ready to quicken the pace of normalisation if inflation expectations continue to deteriorate) and dropping its reference to 'PARTIAL' normalisation. Its policy committee Copom is now steadily heading back to neutral to dampen inflation pressures and second order effects. We are pencilling in a full/6.50% normalisation by October and see a fair chance of another hike in December (of 50bps), which would make the stance slightly less neutral and more contractionary.
- **CBR (Russia):** the CBR hiked the policy rate again by 50bps to 5.5% on 11 June. The tone was more hawkish than in the past, as according to the CRB, inflationary pressures have intensified. While real GDP will return to its pre-crisis level in Q2, demand, both domestically and internationally, is outpacing supply. May inflation reached 6% yoy, up from 5.8% in April and well above the target of 4%. According to the CBR, inflation is only expected to return to target in H2-2022. Given that the balance of risk is tilted toward more pro-inflationary risks, we expect more rate hikes at the July meeting.

MACRO AND MARKET FORECASTS

Macroeconomic forecasts (22 June 2021)

Annual averages (%)	Real GDP growth % 2020	2021 range	2022 range	Inflation (CPI, yoy, %) 2020	2021	2022
US	-3.5	6.9/8.1	3.5/4.5	1.3	3.5	2.7
Japan	-4.9	2.9/3.1	2.8/3.4	0.0	-0.4	0.6
Eurozone	-6.7	4.1/4.7	3.2/3.9	0.3	2.0	1.6
Germany	-5.1	2.7/3.4	3.6/4.2	0.5	2.5	1.6
France	-8.0	5.6/6.4	3.5/4.1	0.5	1.7	1.6
Italy	-8.9	4.0/4.9	3.2/3.8	-0.1	1.5	1.5
Spain	-10.8	4.6/5.4	4.6/5.2	-0.3	1.9	1.4
UK	-9.8	5.5/6.1	4.5/5.1	0.9	1.6	2.2
China	2.3	8.6/9.2	5.1/5.7	2.5	1.1	2.4
Brazil	-4.1	4.9/5.9	1.0/3.0	3.2	6.9	4.3
Mexico	-8.3	5.8/6.8	2.0/4.0	3.4	5.1	4.1
Russia	-3.1	3.0/4.5	2.0/3.5	3.4	5.5	4.4
India	-7.1	9.0/10.2	4.6/6.0	6.6	5.5	6.0
Indonesia	-2.0	3.8/4.6	4.6/5.6	2.0	2.1	3.2
South Africa	-6.9	3.6/4.6	2.0/3.0	3.2	4.4	4.7
Turkey	1.6	4.3/5.3	3.7/4.7	12.3	15.3	11.4
Developed countries	-5.2	5.3/6.0	3.4/4.1	0.7	2.3	2.0
Emerging countries	-2.2	6.4/7.2	4.0/4.9	4.0	3.9	4.1
World	-3.5	5.9/6.7	3.7/4.6	2.6	3.2	3.2

Key interest rate outlook

Developed countries

	25/06/2021	Amundi +6M	Consensus +6M	Amundi +12 M	Consensus +12 M
US	0.13	0/0.25	0.11	0/0.25	0.19
Eurozone	-0.50	-0.50	-0.51	-0.50	-0.51
Japan	-0.03	-0.1	-0.04	-0.1	-0.04
UK	0.10	0.1	0.11	0.1	0.23

Emerging countries

	28/06/2021	Amundi +6M	Consensus +6M	Amundi +12 M	Consensus +12 M
China	3.85	3.85	4.02	3.95	4.27
India	4.00	4.25	4.00	4.50	4.20
Brazil	4.25	7.00	6.25	7.00	6.45
Russia	5.50	6.25	6.10	6.25	6.10

Long rate outlook

2Y. Bond yield

	25/06/2021	Amundi +6M	Forward +6M	Amundi +12 M	Forward +12 M
US	0.27	0.20/0.35	0.47	0.35/0.50	0.68
Germany	-0.65	-0.70/-0.50	-0.67	-0.70/-0.50	-0.66
Japan	-0.11	-0.20/-0.10	-0.11	-0.20/-0.10	-0.14
UK	0.08	0/0.25	0.22	0.25/0.5	0.31

10Y. Bond yield

	25/06/2021	Amundi +6M	Forward +6M	Amundi +12 M	Forward +12 M
US	1.49	1.8/2.0	1.64	2.1/2.3	1.76
Germany	-0.18	-0.20/-0.0	-0.13	-0.10/+0.1	-0.06
Japan	0.05	0/0.20	0.10	0/0.20	0.13
UK	0.75	0.9/1.1	0.93	1.1/1.3	1.01

Currency outlook

	25/06/2021	Amundi Q4 2021	Consensus Q2 2022	Amundi Q4 2022	Consensus Q2 2022
EUR/USD	1.19	1.17	1.21	1.16	1.24
USD/JPY	111	113	109	114	110
EUR/GBP	0.86	0.85	0.85	0.85	0.85
EUR/CHF	1.09	1.11	1.12	1.11	1.13
EUR/NOK	10.14	9.83	9.83	10.19	9.80

	25/06/2021	Amundi Q4 2021	Consensus Q2 2022	Amundi Q4 2021	Consensus Q2 2022
EUR/SEK	10.13	9.97	9.95	10.23	9.90
USD/CAD	1.23	1.20	1.22	1.24	1.21
AUD/USD	0.76	0.79	0.78	0.74	0.79
NZD/USD	0.71	0.71	0.74	0.68	0.75
USD/CNY	6.46	6.55	6.39	6.65	6.30

Source: Amundi Research

DISCLAIMER TO OUR FORECASTS

The uncertainty around the macro forecasts is very high, and it triggers frequent reassessments any time fresh high frequency data are available. Our macroeconomic forecasts at this point include a higher qualitative component, reducing the statistical accuracy and increasing the uncertainty through wider ranges around them.

METHODOLOGY

- **Scenarios**

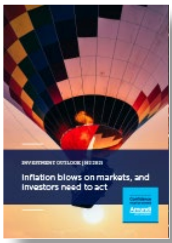
  The probabilities reflect the likelihood of financial regimes (central, downside and upside scenario) which are conditioned and defined by our macro-financial forecasts.

- **Risks**

  The probabilities of risks are the outcome of an internal survey. Risks to monitor are clustered in three categories: Economic, Financial and (Geo)politics. While the three categories are interconnected, they have specific epicentres related to their three drivers. The weights (percentages) are the composition of highest impact scenarios derived by the quarterly survey run on the investment floor.

PUBLICATIONS HIGHLIGHTS

INVESTMENT OUTLOOK

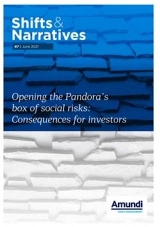


H2 2021 - Inflation blows on markets, and investors need to act (28-06-2021)
BLANQUE Pascal, Group Chief Investment Officer - MORTIER Vincent, Deputy Chief Investment Officer - DEFEND Monica, Global Head of Research

ASSET CLASS VIEWS

Asset Class Return Forecasts - Q2 - 2021 (07-05-2021)
DEFEND Monica, Global Head of Research - GISIMUNDO Viviana, Head of Quant Solutions - KIM Jung, Senior Quantitative Analyst - PORTELLI Lorenzo, Head of Cross Asset Research

SHIFTS & NARRATIVES



Shifts & Narratives #7 - Opening the Pandora's box of social risks: Consequences for investors (14-06-2021)
LE MEAUX Caroline, Global Head of ESG Research, Engagement, and Voting - SANTARSIERO Sofia, Business Solutions and Innovation Analyst

Shifts & Narratives #6 - Technology trends in Asset Management and Saving Industry (09-06-2021)
SAUVAGE Romain, Head of Product Marketing & Communication, Amundi Technology - LESAGE Guillaume, Chief Operation Office - EL GHARIB Joseph, Head of Business Development, Amundi Technology

Shifts & Narratives #5 - A unique crisis that opens the way to multiple regime shifts (08-06-2021)
Pascal BLANQUÉ, Group Chief Investment Officer - Didier BOROWSKI, Head of Global Views, Global Research

Shifts & Narratives #4 - In search of a new international order (26-05-2020)
MORTIER Vincent, Deputy Group Chief Investment Officer - BOROWSKI Didier, Head of Global Views

INSIGHTS PAPERS

Biden agenda: tackling income inequality and its potential inflation impact (18-06-2021)
UPADHYAYA Paresh, Director of Currency Strategy, US Portfolio Manager, US - AINOUZ Valentine, Deputy Head of Developed Markets Research

The inflation moment - Strategies to protect portfolios from inflation risk (08-06-2021)
BLANQUE Pascal, Group Chief Investment Officer - MORTIER Vincent, Deputy Chief Investment Officer

Insurers' portfolios: re-load the income engine, go beyond the traditional investment universe (07-06-2021)
DAUPHINE Gilles, Deputy Head of Fixed Income investment platform - MUNERA Romain, Head of Buy & Maintain - SINKOVA, CFA Natalia, Senior Portfolio Manager, Buy & Maintain

WORKING PAPERS

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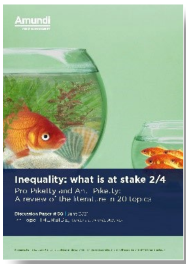

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