

Confidence  
must be earned

**Amundi**

ASSET MANAGEMENT

September 2020

# Global Investment Views



**Pascal  
BLANQUÉ**  
Group Chief  
Investment Officer



**Vincent  
MORTIER**  
Deputy Group Chief  
Investment Officer

## Overall risk sentiment

Risk off Risk on



Cautious and balanced stance, with a view to exploiting market imperfections and relative value

## Changes vs. previous month

- Utilise valuation gap to gain from move towards cyclicals
- Lock-in gains where appropriate in credit

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

## A note of caution for the back-to-school season

The appetite for risk assets has remained strong over the summer lull. This summer season has seen both the **confirmation of existing themes and the emergence of new ones**. On the former, the decoupling between the real economy and financial markets has proved persistent. Another confirmed trend is that **the virus is not over**: the back-to-school test in September will be key. A sharp reacceleration of the virus cycle would hit the financial markets, leading to mounting expectations of additional support measures, and this would again drive markets. A W-shaped recovery would be the most likely scenario in this case. On geopolitics, the US-China confrontation has taken a new twist recently in the tech sphere. President Trump has to resist the temptation to break the trade deal, as this would be disruptive for the fragile recovery and markets, but he is likely to keep pressure high ahead of the elections. The Presidential race is still very uncertain and a Democratic sweep would be a market mover, possibly leading to higher volatility in the corporate sector. **For investors, the scenario is uncertain, with asymmetric risks**. Markets are becoming similar to their February conditions (high valuations and complacency). Many sectors are far from recovering to pre-crisis levels, many companies have been kept alive with subsidies and the level of debt in the system has ballooned. Risk assets are discounting additional stimuli, a near-term vaccine and any net positive benefit from Democratic policies. Any disappointment is a reason for caution, and all the more so with tight valuations. In terms of investment strategies, this means:

- Investors should remain prudent, but not risk-off**: Autumn and the abovementioned risks could trigger a reality check, or at least limit any further detachment between the real and the financial world. Monetary policy will remain the guiding light for the markets, with the Fed sending the message that it will do whatever is needed to support the nascent economic recovery. This remains key for supporting risky assets, although **the bullishness we have seen over the summer is unlikely to persist**. All the elements that supported the risk asset rally are slowing down: the additional fiscal expansion is unlikely to be comparable to the first time, the same is true for monetary policy and the early signs of a recovery could be challenged. As risks are elevated, it will be vital to **hold well-diversified portfolios, with quality assets and adequate levels of cash buffers**.
- In risk assets, the focus remains selectively on credit and EM bonds**: We remain positive on credit, with a note of caution for September in light of the heavy issuance in Europe and for bonds whose valuations are full. In Europe, financial and subordinated debt are the areas of focus, together with selective opportunities in TMT, energy and cyclicals. Euro peripheral bonds are also an area where we maintain a positive bias. In US, corporate credit is preferred, with a focus on carry. The US market also offers attractive valuations in securitised credit and value in subordinated and consumer ABS. **In EM debt, spreads have continued to narrow, but are still far off their pre-Covid tightness. The discrepancy is particularly large between HY and IG**. We view the latter as increasingly expensive, while in HY we still see ample room for compression from current levels. However, a significant degree of selectivity is needed in EM and investors should be aware of idiosyncratic stories: Turkey's looming balance of payment crisis in September/October (negative); the finalisation of debt restructuring in Argentina and Ecuador (positive); and the Belarus crisis, which may potentially affect Russia sentiment.
- Valuation dispersion in equities may offer opportunities**: Markets seem priced for perfection, but the valuation dispersion is extreme, offering investors selective opportunities to play the recovery. In Europe, construction materials is a fertile hunting ground as there are high barriers to entry and it is a key beneficiary of the Recovery Fund. Conversely, technology (software in particular), despite good structural growth, is not immune from the effects of Covid-19. Current valuations are extreme, suggesting that caution is warranted in this space. In the US, the divergence between the big five mega caps and high-growth large caps and the rest of the market is huge. This means investors should prepare for a leadership rotation, focusing on the high-quality value space. **Equities are still more attractive than bonds, but the direction of interest rates is a key element to watch**. Higher rates at the margin could challenge current valuations. On the rosier side, the US consumer balance sheet doesn't look that bad and the savings rate has gone through the roof. The cost of financing debt doesn't appear to be a problem, either, and real estate is now somewhat resilient and in better shape than expected.

MACRO & STRATEGY



**Monica DEFEND**  
Global Head of Research



**Alessia BERARDI**  
Head of EM Macro and Strategy Research



**Annalisa USARDI**  
Senior Economist, CFA

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*We have downgraded our growth forecasts for this year, but upgraded the numbers for 2021 driven by a stronger base effect. We believe inflation will be subdued in the short-term, but will pick up next year.*  
”

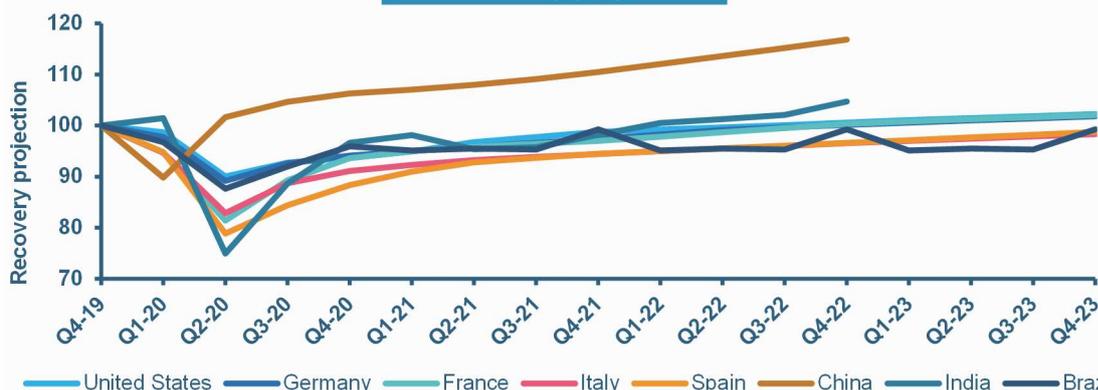
## Growth and inflation expectations post Covid-19

The ambiguous and unprecedented nature of the crisis has made economic forecasting difficult, underpinning the need for updates as fresh data comes to light. **We have slightly downgraded our growth forecasts for this year but upgraded the numbers for next year.** On the other hand, we believe inflation will remain subdued this year, with an uptick in 2021.

Official Q2 GDP data is now available, and therefore it is possible to properly assess the lockdown-induced economic contraction and reassess from the up-to-date starting point, the future economic outlook. **Global GDP is now expected to contract by between -3.5% and -4.7% y-o-y** (prior estimates -2.9% to -4.2%), led by downgrades in several countries. It is worth mentioning the **downgrade for the UK and a few south Asian economies** (e.g. Malaysia, Philippines) where Q2 GDP came in weak. The 2020 downward revision will trigger a stronger base effect in 2021: we therefore mildly **revised upwards our GDP growth forecasts for next year to 4.4-5.7%** (vs 4.1-5.1% previously). On the downward revision, we also confirm a slower recovery path in the second part of Q3. After a robust post-lockdown rebound in activity starting around May and early June, **the pace of recovery seems to have slowed and stabilised** between July-end and August, and this is visible in both soft and hard data. The recovery curve based on HFD gauges of production activity, the labour market and consumer sentiment\* has begun to flatten almost everywhere, without reaching pre-crisis levels, with very few exceptions. After the losses experienced in H1, the Q3 recovery does not seem to be enough to bring the majority of economies back to their pre-crisis levels any time soon. **The bottom has passed, but economies do not seem to be climbing out of it quickly enough to ensure a fast healing.** In our view, economic performance will progress

along a gradual upward sloping catch-up process. In the central scenario, this translates into **pre-Covid-19 levels not being reached before several quarters from now**, on average, with the exception of China, which will likely reach an end of 2019 growth level by end-2020 (see chart). A vaccine, expected by many analysts by mid-2021, would prevent temporary damages from morphing into long-lasting losses and would support the recovery via stronger confidence on households and businesses. In the meantime, localised new hotspots of virus resurgences may not prompt new full-scale lockdowns, yet do pose some risk to a smooth path forward. The combination of the lockdown-induced demand and supply shocks introduced **distortions in price dynamics far beyond seasonality**, as demand for “essential” goods and services skyrocketed, pushing prices up, while prices of “non-essential” goods and services collapsed. While these distortions are expected to correct, in the meantime they will still add some **volatility in inflation data in the months to come**, as these adjustments may come with unpredictable timing. **For DM, we expect inflation to remain subdued in the near term but to move higher next year** due to a combination of a) disappearing negative energy base effects b) the narrowing gap between output and input prices due to cost-push pressures and c) the vanishing base effects of VAT cuts, where implemented. However, this upward trend will stabilise around target, after peaking in mid-2021. In EM, inflation started to pick up in July, mainly driven by supply shocks. Goods and food, in particular, are still playing an important role in CPI baskets. The overall picture is expected to remain benign, bringing headline inflation within CBs’ targets, however, the price dynamics are worth monitoring given the huge dovish efforts put in place by most of the CBs.

GDP recovery projections



Source: Amundi Research, as at 31 August 2020. China and India forecasts available till Q4 2022. HFD = High frequency data, CPI = Consumer Price Index, VAT = Value Added Tax, DMs = Developed Markets, EMs = Emerging Markets.  
\* Electricity production, mobility data, job search etc.

MULTI-ASSET



**Matteo GERMANO**  
Head of Multi-Asset

## Maintain balanced views to avoid extreme positions

As we progressed through this summer’s earnings season, we saw the pandemic resume in some parts of Europe as well as an escalation in US-China tensions, possibly linked to the upcoming US elections. On the other hand, the news around vaccines, economic data and corporate earnings (better than the very low expectations) drove the markets. While we acknowledge the marginal improvement in economic conditions, we believe, it is not a time to be extremely ebullient. At the same time, it is not advisable to be completely risk-off. Instead, investors should adjust their portfolios to deal with asymmetric risks. Overall, **a balanced, defensive and diversified stance is preferred.**

### High conviction ideas

In DM equities, we have become more constructive on Europe over the summer as the region appears to be in a better shape now, with strong growth and lower political risk. However, this should not come at a cost of a lower liquidity focus and investors should constantly monitor liquidity amid the second wave of the virus in the region and prospects of localised lockdowns. Across the atlantic, political tensions in the US, both within the country and with China, seem to be ratcheting up in an election year, leading us to maintain our cautious stance. In addition, US is displaying areas where valuations are extreme historically and they are driving up the entire market. **Selected emerging markets** have demonstrated a better containment of the contagion. Our regional preference remains for China, Indonesia, South Korea and Taiwan, not least because of the strong stimulus and sector exposure.

**On duration**, we remain close to neutral on US Treasuries as the Fed is likely to keep its ultra-loose monetary policy stance, which will prevent long-term yields from rising too much. In its latest policy minutes, even though the Fed refrained from providing guidance on forward rates and yield

curve control, we believe we are already in a curve control environment of sorts. We still prefer the US 5Y vs. the German 5Y bonds, as relative value is even more in favour of the US now due to its safe haven status. However, we are now monitoring the 5-30Y curve which is still driven by sentiment. With respect to US inflation, we maintain our positive view in light of attractive valuations and support from the still nascent recovery.

**Euro peripheral debt** remains attractive amid the collective support from the EU initiative and accordingly we are slightly positive on Spain.

**Credit is an oasis of income for investors** in the yield-starved fixed income world, where we maintain a preference for IG (especially in Europe) over HY, but selectivity is key. In general, valuations in IG are attractive vs HY, particularly US HY, when compared with fundamentals and the continued central bank support. **EM debt**, where we remain neutral, seems to be the only cheap asset class in terms of spread in fixed income, but requires active selection. In **EM FX**, we are positive on selective high yielding currencies, given that they will benefit from a risk-on sentiment; however, we remain watchful of any tension around the US-China geopolitical environment or oil price wars.

**On DM FX**, given the low visibility, it is prudent to remain positive on NOK vs EUR as the former could provide an upside if the economic situation improves.

### Risks and hedging

A second wave of Covid-19, limited or no progress on Brexit talks and uncertain US elections all present risks to portfolios. Investors should maintain sufficient hedges in the form of JPY and gold. However, given the already sharp movement in the precious metal, gold prices should be actively monitored. USD options may also serve as a safeguard against downside, as we expect the USD to strengthen in a risk-off environment.

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**Credit remains our main conviction in risk assets. Hedging against an uncertain back-to-school phase remains key, in our view, to protecting portfolios.**  
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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-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. USD = US Dollar, JPY = Japanese yen, UST = US Treasury, DM = Developed markets, EM/GEM = Emerging markets, FX = Foreign exchange, FI = Fixed income, IG = Investment grade, HY = High yield, CHF = Swiss franc, NOK = Norwegian Krone, EUR = Euro, CBs = central banks, TIPS = Treasury Inflation-Protected Security, BTP = Italian government bonds.

FIXED INCOME



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Head of Fixed Income



**Yerlan SYZDYKOV**  
Global Head of Emerging Markets



**Kenneth J. TAUBES**  
CIO of US Investment Management

## Hunt for income, but stay mindful of pricey areas

Markets are being influenced by the news flow around fiscal and monetary interventions, which continue to drive rates and spreads lower even though governments are scrambling to restore fiscal support in some countries. However, increasing debt levels, the risk of a second wave of the virus and geopolitical tensions in a US election year remain an overhang. From investors' perspective, while the temptation to move further down the credit quality spectrum for that extra yield remains high, **this should be balanced with the need for high selection and a focus on liquidity.**

### Global and European fixed income

We refrain from making any strong call on duration, **carefully maintaining our close to neutral view overall (positive US, cautious Euro) and are now constructive on China.** Our focus is on relative value opportunities, where we are more optimistic on US vs. Germany and towards Australia vs. Canada. Euro peripheral debt remains attractive as political risks subside, although we believe investors should lock-in gains where appropriate. Amid a staggered economic reopening, we are only slightly constructive on inflation, as a spike seems unlikely in near term, but breakeven valuations remain attractive. **On yield curves**, we now see a higher possibility of curve flattening in the US and Japan and believe steepening is unlikely in core Euro as ECB will limit rate hikes. However, we now believe investors could benefit from UK curve steepening. In a world of lower-for-long rates, credit is one of the few areas where investors can get yield. **While remaining positive on credit in the medium term**, we think, for tactical reasons, there is need for some caution ahead of heavy issuance in September. We are constructive on financials and subordinated debt.

### US fixed income

High frequency and real data remain encouraging even as the Fed maintains an easing stance. However, we are seeing a socio-economic divide among classes and between large and small businesses. While we realise a Democrat win could be a headwind for corporate growth, Trump should not be written off completely yet. **As a result, our overall stance is of caution, mixed with sufficient liquidity buffers.** We remain defensive on USTs (overvalued); increased UST issuance, a pick-up in economic activity and deficit spending are all elements to monitor. The last two are likely to push long- and medium-term inflation upwards. In corporate credit, we are positive but recommend investors to take profits in bonds and loans where valuations are full. **A strong housing market, and a resilient, deleveraged consumer**, bode well for the consumer and residential mortgage credit markets (attractive valuations). Here, we remain optimistic on non-agency RMBS and believe agency MBS are a good way to gain UST exposure as they provide liquidity. We also like uncorrelated assets, such as ILS and TIPS.

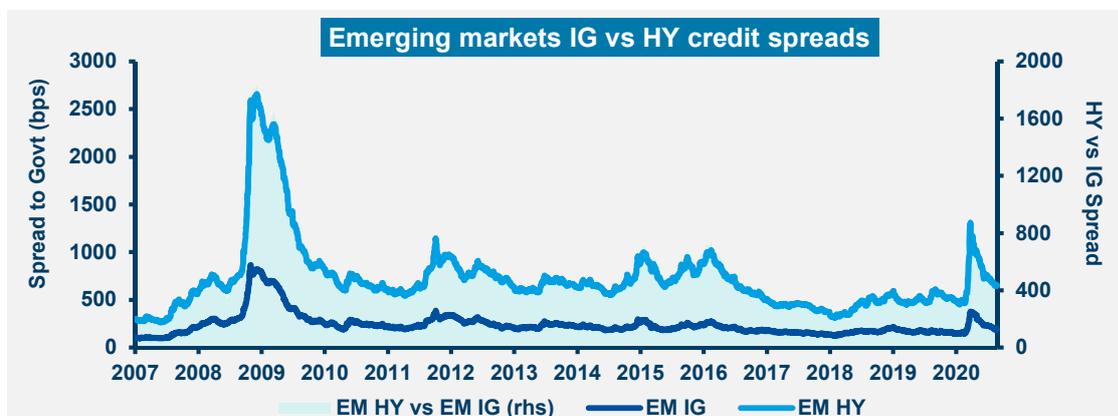
### EM bonds

**Hard currency debt** remains our favoured asset class. In HY, we think there is still ample room for further spread compression, while we view IG as increasingly expensive. We remain positive in EM rates overall, but are selective.

### FX

**We remain constructive on EUR/USD** (EU agreement) and positive on JPY/USD but believe GBP could remain weak amid a hard Brexit. In EMs, we are more positive towards Asian FX (first-in, first-out), but neutral on commodity FX and we prefer relative value trades.

“  
**Credit and EM debt, particularly high yield, offer the potential to deliver additional yield to investors. However, the focus on quality and liquidity should not be diluted.**”



Source: Bloomberg, daily data as at 25 August 2020. Analysis based on ICE BoFA indices.

GFI= Global Fixed Income, GEMs/EM FX = Global emerging markets foreign exchange, HY = High yield, IG = Investment grade, EUR = Euro, USD = US dollar, UST = US Treasuries, RMBS = Residential mortgage-backed securities, ABS = Asset-backed securities, HC = Hard currency, LC = Local currency, TIPS = Treasury Inflation Protected Security, ILS = Insurance linked securities, CRE = Commercial real estate, JPY = Japanese yen.

## Time of huge contrasts: play market dislocations

### Overall assessment

Abundant liquidity lifted equities higher over the summer, supported by Q2 earnings season that turned out to be stronger than depressed market expectations, implying potential for positive earnings revisions. We are seeing an extreme valuation dispersion with significant underlying differences among stocks and sectors (expensive technology names vs materials for instance). The uptrend appears uncertain as current levels seem to fully price-in an economic recovery, and to some extent a vaccine availability. Corporate solvency is another risk as the “whatever it takes” rhetoric has left investors complacent. This, coupled with limited forward guidance, underpins the need for caution with an attention to company balance sheets, extensive scenario analysis and balanced portfolios.

### European equities

Our focus **on stock selection, robust bottom-up discipline and liquidity** is evident through our stance towards cyclical luxury and materials sectors, where we reinforced our positive view on construction materials. The latter experiences high barriers to entry, non-disrupted businesses, attractive valuations and has seen strong earnings revisions. It will also be a key beneficiary of the EU Recovery Fund, which could provide additional upside potential. On the other end, we also see prospects for attractive defensive names such as in healthcare. However, we are cautious on consumer discretionary (retail, media, auto) owing to structural weakness, and on technology. Technology offers a very expensive source of structural growth, and has excessive valuations and implied expectations in our view. We also view the current low-rate regime is negative for banks, where return on tangible book value remains weak.

### US equities

**US equities continue to offer better value than bonds** and this explains investor appetite for this market which is reaching record highs despite the uncertainty around a second wave of Covid-19, the November US elections and tensions with China. Looking at fair valuation for the overall market, we see the tech sector is reaching some extremes and thus requiring caution.

**We have a balanced view across sectors** due to the wide range of outcomes from the Covid-19 and the presidential elections. We are exploring quality names in industrials that are not subject to the challenges of permanently low rates. We also still prefer industrials to financials/energy, and staples/utilities (attractive valuations now) to real estate.

In light of the increasing valuation divergence between mega caps and the high growth large caps vs. the rest of the market, **we are constructive on high-quality value names**. We like stocks with the potential for high returns and balance sheet/secular advantages, and are even willing to look for quality in the lower rungs of the large-cap universe. However, we remain cautious on distressed value and high-growth names.

### EM equities

A coronavirus resurgence and unstable US-China relationship are weighing on EM outlook, pushing us to remain cautious.

**We favour countries in Asia** (Korea, China) as they proved to be the first ones to navigate out of the pandemic.

We like some inexpensive EMEA countries and/or those with good dividend yield prospects (Russia, Poland). At sector level, we recommend a balance between growth and value areas, with selectivity in discretionary, industrials, materials, tech and IT.

## EQUITY

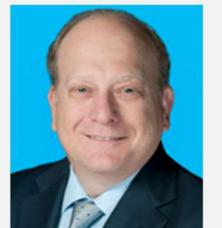
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*We are cautious on high growth stocks with extreme valuations, and prefer quality and cyclical names.*”



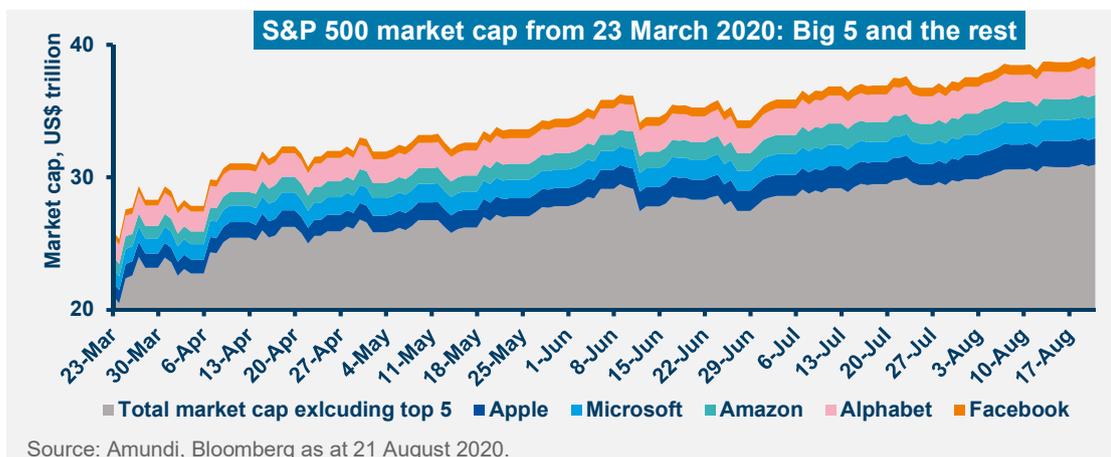
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TAUBES**  
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# Amundi asset class views

Asset class	View	1M change	Rationale
<b>EQUITY PLATFORM</b>	US	-/=	US equities continue to offer better value than bonds; however, the momentum and valuation divergence between mega caps and large caps vs. the rest of the market is extreme. This is despite the uncertainty around US elections and a resurgence of virus cases in some states. In this environment, it is important to remain balanced. We believe a leadership rotation is likely, and investors should look to high quality value names.
	Europe	=	The economic environment is improving but the risks of a second wave of the virus have emerged that could affect a staggered recovery. The Q2 earnings season surpassed expectations which were already depressed, with very low forward visibility. As a result, valuation dispersions remain high. Looking ahead, investors should stay very selective and aim to identify resilient business models.
	Japan	=	Improving prospects for global growth and a favourable environment for cyclical stocks should benefit Japanese equities, given the country's dependence on exports.
	Emerging markets	=	Geopolitical issues such as US-China relations and the Covid-19 pandemic are the key factors affecting emerging markets at the moment and we favour countries in the Asian region (South Korea, China) in light of our first-in, first-out approach. Some countries in the EMEA region have attractive valuations and we also like those with good dividend yield prospects such as Russia and Poland.
<b>FIXED INCOME PLATFORM</b>	US govies	=/+	From a global fixed income standpoint, we prefer USTs for their safe-haven status but we don't make any strong call on duration overall. From a US portfolio perspective, we are cautious in light of certain factors such as pick-up in economic activity and deficit spending which could weigh on the market.
	US IG Corporate	=/+	Stimulus measures continue to support demand for IG, but markets are now already discounting the impact of additional stimulus and vaccine effects. We recommend investors to maintain appropriate liquidity buffers and take profits in bonds and loans where appropriate. Overall, name and sector selectivity is essential to avoid permanent impairment.
	US HY Corporate	-/=	While the Fed's actions should support this asset class, in order to avoid defaults and safeguard portfolios investors should focus on high quality and liquid names that can withstand a slow-paced recovery.
	European Govies	-/=	We maintain our cautious stance on core Euro and remain positive on peripherals, although investors should lock in some gains. Core Euro yield-curve steepening seems unlikely for the time being, as the ECB should limit rate hikes amid subdued inflation.
	Euro IG Corporate	++	We are constructive on EUR IG, and believe overall defaults in European credit have been stable. The leverage of IG companies in the Eurozone remains lower than that of their US counterparts and overall cost of funding is also lower thanks to ECB support. While we maintain our positive view on financial and subordinated debt in IG, overall, we are keeping an eye on heavy issuance in September. All in all, selection remains paramount.
	Euro HY Corporate	=	The high-rated BB segment BB in HY still presents opportunities on a selective basis. We are cautious here and look for extra yield in names that can successfully emerge out of the crisis. As always, focus on liquidity is important.
	EM Bonds HC	=/+	We continue to favour Hard Currency (Euro over USD) EM debt. We see room for further spread compression in HY and are turning cautious on IG. Overall IG sovereign spreads are only 30 bps off their pre-Covid tightness whilst HY spreads remain 300 bps above their pre-Covid tightness. However, risks of sovereign defaults should be monitored.
EM Bonds LC	=	We are neutral/cautious on EM rates and continue to believe that selectivity is essential. On EM forex, we are constructive on commodity currencies amid a staggered reopening of economies and an oil price rebound.	
<b>OTHER</b>	Commodities		Economic recovery favours commodities, although uncertainties prevail over the evolution of the pandemic and possible lockdowns. However, recent macro numbers in China and the US remain supportive. In general, commodities are still the cheapest risky asset class, and may well benefit more than others from an economic recovery. Oil demand is expected to recover after collapsing by 11 million b/d in H1, and we project an oil price of \$/b 35-45 for the WTI. In metals, the recent sell-off in gold (and silver) is related to the concerns of higher real rates, "normal" risk-on and the Fed pausing its assets purchases. However, CBs will remain extra dovish, preventing any painful sell-off going forward.
	Currencies		Central bank interventions, initiatives at national level and the EU recovery fund have stabilized sentiment towards EUR/USD, but, the path for USD correction as we move toward 2021 will not be linear and we could see a stabilization of the USD against the EUR. As far as GBP is concerned, the environment is more favourable for the EUR when we consider regional growth, financial conditions and political risk premium (Brexit).



Source: Amundi, as of 31 August 2020, 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.

## AMUNDI Investment Insights Unit

The Amundi Investment Insights Unit (AIU) aims to transform our CIO expertise, and Amundi's overall investment knowledge, into actionable insights and tools tailored around investors' needs. In a world in which investors are exposed to information from multiple sources, we aim to become the partner of choice for the provision of regular, clear, timely, engaging and relevant insights that can help our clients make informed investment decisions.

## INSIGHTS UNIT

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### Definitions

- Agency mortgage-backed security:** Agency MBS are created by one of three agencies: Government National Mortgage Association, Federal National Mortgage and Federal Home Loan Mortgage Corp. Securities issued by any of these three agencies are referred to as agency MBS.
- Break-even inflation:** The difference between the nominal yield on a fixed-rate investment and the real yield on an inflation-linked investment of similar maturity and credit quality.
- Credit spread:** The differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration possible embedded options.
- Currency abbreviations:** JPY – Japanese yen, GBP – British pound sterling, EUR – Euro, CAD – Canadian dollar, SEK – Swedish krona, NOK – Norwegian krone, CHF – Swiss Franc, NZD – New Zealand dollar, AUD – Australian dollar.
- Cyclical vs. defensive sectors:** Cyclical companies are companies whose profit and stock prices are highly correlated with economic fluctuations. Defensive stocks, on the contrary, are less correlated to economic cycles. MSCI GICS cyclical sectors are: consumer discretionary, financial, real estate, industrials, information technology and materials. Defensive sectors are: consumer staples, energy, healthcare, telecommunications services and utilities.
- Dividend yield:** Dividend per share divided by the price per share.
- Duration:** A measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates, expressed as a number of years.
- ECB:** European Central Bank.
- Esoteric ABS:** A subset of the ABS market, esoterics are securitised ABS backed by revenue streams from niche segments such as loans and leases on aircraft, railcars, timeshares and containers, as well as small business loans, whole business single family rentals and solar generation, etc. This contrasts with traditional ABS, which are backed by securitizations of credit card receivables and auto loans.
- FX:** FX markets refer to the foreign exchange markets, where participants are able to buy and sell currencies.
- ILS:** Insurance linked securities are financial instruments whose values are driven by insurance loss events.
- Liquidity:** The capacity to buy or sell assets quickly enough to prevent or minimise a loss.
- QE:** Quantitative easing (QE) is a type of monetary policy used by central banks to stimulate the economy by buying financial assets from commercial banks and other financial institutions.
- QT:** Quantitative tightening is the opposite of quantitative easing.
- Return on tangible book value:** Net profit (after interest and tax) as a percentage of tangible book value. The latter is calculated by subtracting total liabilities, intangible assets and goodwill from a company's total assets.
- Solvency:** The ability of a company to meet its long-term debts and financial obligations.
- Sovereign bond:** A sovereign bond is a debt security issued by a national government.
- TIPS:** A Treasury Inflation-Protected Security is a Treasury bond that is indexed to an inflationary gauge to protect investors from a decline in the purchasing power of their money.
- Volatility:** A statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.
- Yield curve control:** YCC involves targeting a longer-term interest rate by a central bank, then buying or selling as many bonds as necessary to hit that rate target. This approach is dramatically different from any central bank's typical way of managing a country's economic growth and inflation, which is by setting a short-term interest rate.
- Yield curve steepening:** This is the opposite of yield curve flattening. If the yield curve steepens, this means that the spread between long- and short-term interest rates widens. In other words, the yields on long-term bonds are rising faster than the yields on short-term bonds, or short-term bond yields are falling as long-term bond yields rise.

### Important Information

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