2021 INVESTMENT OUTLOOK

Market rotations in an uneven recovery

Confidence must be earned

Amundi ASSET MANAGEMENT

“Marked by the most severe recession in modern history, 2020 was an unprecedented year. With the global pandemic continuing, we enter 2021 with a mildly positive outlook for the upcoming recovery, but with the assumption that the path to pre-crisis growth levels will be long and uncertain. Against this backdrop, investors should be ready to play rotations in their portfolios, favouring cyclical themes but also keeping a strong focus on quality.”

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CIO letter

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The Covid-19 pandemic drove an unprecedented collapse in economic activity in H1, which was followed by a desynchronised rebound. The recovery phase has been uneven, with the virus cycle dictating the sequence of it. We believe that the damage to the global economy will last well beyond 2021. Output and personal income losses, the rise of inequality and the disruption in some sectors will be the legacies of the pandemic. Expecting that a vaccine will cause these to dissipate within a few months is too optimistic.

Expectations of additional fiscal and monetary measures will continue to mount in the coming months amid possible virus relapses. This will drive sentiment in financial markets, in line with the 'bad news for the economy, good news for the markets' narrative that saved the day for investors in the dramatic year of 2020. The performances of risk assets rebounded strongly amid the policy support. However, investors in a traditional balanced portfolio experienced a doubling of volatility compared with the previous decade, a nasty drying up of market liquidity and an increased correlation among risk assets. These features will affect portfolio construction in 2021 and beyond.

We see five investment themes to play in 2021 at portfolio level.

From a cross-asset perspective, a rotation from credit (HY) into equities. Equities will likely have a better risk-return profile than high yield in a phase of mild recovery and earnings re-acceleration in 2021. **Investors should add exposure to cyclicals stocks, quality value and post-Covid-19 ESG themes.** We believe old-fashioned geographical diversification will come back into focus, thanks to global trade no longer driving global growth, the repatriation of value chains and the desynchronisation of cycles. At the same time, sector discrimination will become even more evident, providing additional diversification opportunities.

Move from fixed income to smart income. With the amount of negative yielding debt close to historical highs and interest rates expected to remain low in the short term, investors should build an income engine by searching for opportunities across the board, including emerging market bonds, private debt, loans, real assets (infrastructure, real estate) and high-income equities. Opportunities in credit markets remain, but the big theme for 2021 is what we call **'the great discrimination'**. What is sound and expensive will become even more expensive. Some areas of the market will likely deteriorate further, as the abundant liquidity injected by central banks is hiding weakening fundamentals. Selection will be key in 2021.

Consider govies for liquidity. Investors should consider allocating a portion of their portfolio to core government bonds, regardless of their valuations, primarily for liquidity reasons in case there are phases of liquidity shortages.

Play the recovery through emerging markets assets. In a still highly uncertain virus and economic cycle, the Chinese and Asian economies are emerging as the most resilient, having been able to effectively manage their outbreaks. So far, China has been the only country to recover to its pre-crisis GDP level. The outlook of EM countries in LatAm should also improve through 2021 as the virus cycle is improving in this area. These trends should support EM regional themes and EM bonds in local currency.

Include 'true' diversifiers. In a world of high correlation among risk assets, adding uncorrelated sources of returns may help balance the allocation. **Absolute returns approaches, volatility, hedging strategies and gold** may help improve overall portfolio diversification, as well as **real assets, private markets and insurance-linked securities.** Those asset classes show a lower correlation to traditional asset classes, and some, like real estate and infrastructure, can provide an hedge against inflation.

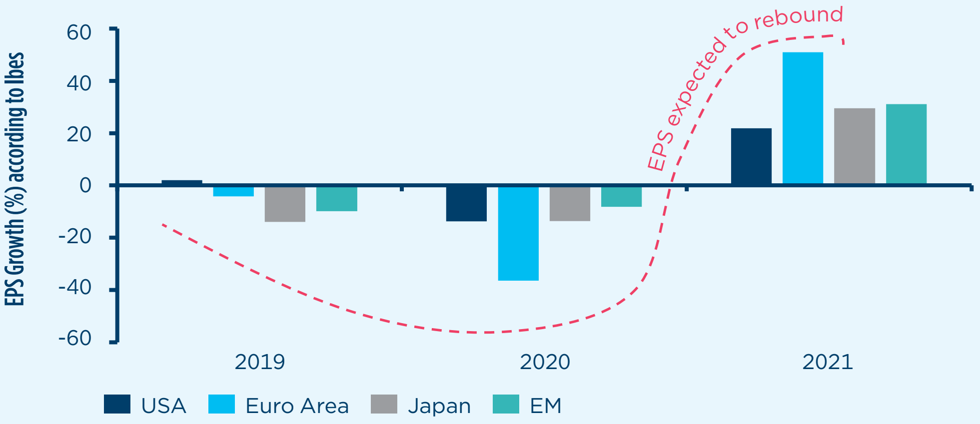
In the medium term, the **main risk for investors will be the de-anchoring of real rates and inflation expectations** due to the massive fiscal stimulus, the monetisation of public deficits, the rebalancing of social and political support in favour of labour and the retreat of global trade. Markets are not pricing in this risk yet, but investors should start looking at strategies for a possible inflation comeback.

INVESTMENT OUTLOOK 2021
Market rotations in an uneven recovery

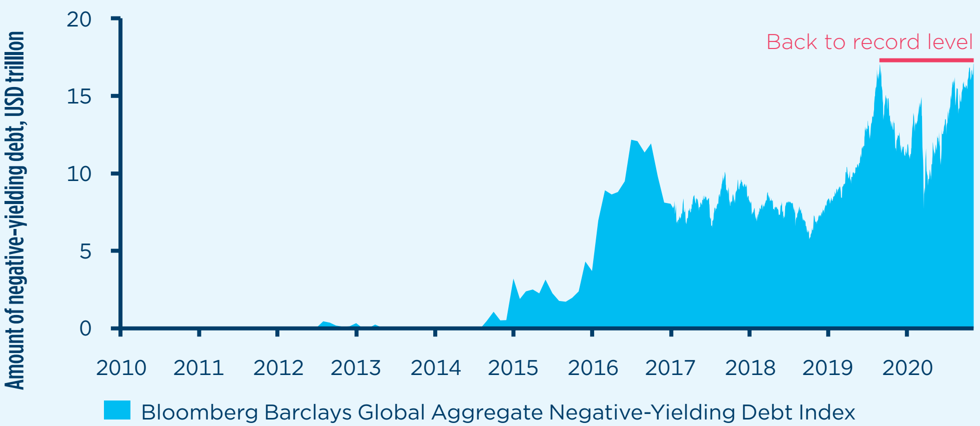
Global CIOs investment themes

GLOBAL THEMES

Cyclical recovery...



Low rates, with a continuous search for income

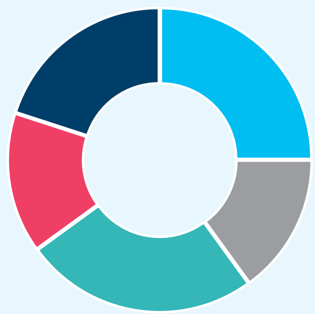


... and high volatility and high correlation among risk assets

2021 PORTOFLIO IDEAS

1. Consider core govies for liquidity purposes. Include core govies to maintain adequate liquidity buffers and hedge in risk-off phases

5. Play the recovery with EM assets. China and Asia resilience will support the recovery in EM assets and in particular EM equities and EM bonds in local currency



2. Rotate from credit (HY) risk into equities. Add exposure to equities with a tilt towards cyclical (some EM, sectors, commodity-driven themes), value and post-Covid-19 ESG themes

3. Move from fixed income to smart income. While searching for income, explore opportunities across the board, with strong selection: HY, EM bonds, private debt, infrastructure, real estate and high dividend equities

4. Include 'true' diversifiers. Balance risk allocation with the inclusion of a diversification bucket to search for uncorrelated sources of returns (absolute return, volatility strategies, gold, real assets)

Source: Amundi Research, Bloomberg, IBES, Datastream. Data as of 28 October 2020.

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Setting the scene: central and alternative scenarios

CENTRAL AND ALTERNATIVE SCENARIOS

65% CENTRAL SCENARIO – *Multi-year and multi-speed recovery*

- Multi-year process to get the world back in order
- 2021 may see a sequence of economic relapses/infection outbreaks/selective lockdowns/policy boosters (our assumption is that vaccines/treatments will be available in H2 2021)
- Low growth, low inflation, low rates: 'unconventional' monetary policies to persist. Strong political commitment to fiscal dominance in advanced economies but execution is a material risk
- Global trade to global GDP ratio to slip further
- The Covid-19 crisis exacerbates income and wealth inequality, with rising social tensions

MARKET IMPACT

- Limited steepening of the US yield curve
- Rotation from credit HY into equity
- Maintain income pockets: EM bond, IG
- Equity themes are sector-specific and more domestically driven
- Favour gold on pervasive uncertainty, deflation and recession fears

25% DOWNSIDE SCENARIO – *Secular stagnation*

- Protracted economic downturn
- Due to uncertainty, the policy multipliers in place are low. As financial conditions tighten, liquidity does not feed through to the real economy and the labour market deteriorates further
- Economic crisis evolves into a financial crisis, forcing policymakers to move even further into uncharted territory (nationalisations, negative rates, helicopter money, etc.)
- Protectionism and deglobalisation accelerate, negatively affecting trade and value chains. Global potential growth is hit and pockets of inflation emerge

MARKET IMPACT

- Favour cash and US Treasuries
- Favour gold, CHF and JPY
- Play minimum volatility strategies

10% UPSIDE SCENARIO – *V-shaped recovery*

- Rapid development and wide distribution of safe, effective vaccines/treatments. New outbreaks are avoided
- Productivity boosts on new digital/green developments or faster recovery normalisation. With lower uncertainty, policy boosts feed through to the real economy and financial markets, closing the gap between the manufacturing and service sectors
- Sustainable recovery and diminishing need for further (fiscal) policy support

MARKET IMPACT

- US curve steepens on economic recovery and some inflation returns
- Favour risky assets
- Favour linkers and gold as inflation hedges

Source: Amundi Research, as of 10 November 2020.

Looking for antidotes to uncertainty in an uneven recovery

A multi-year process will be required to get the world back in order from a GDP and income per capita perspective. This process will drive increasing inequalities and lasting sectoral divergences, and will come with monetisation of debt that could eventually push inflation higher, though this is highly unlikely in 2021.

We are approaching 2021 with Covid-19 still propagating and caseloads rising. While advances in testing and treatments continue, we do not expect the rapid development or wide distribution of a safe and effective vaccine before H2 2021. **Covid-19 developments will continue to be the central theme feeding into our 2021 investment narratives.**

The outlook remains uncertain and unstable. The duration of the epidemic (which is an exogenous variable) will ultimately determine the form of the recovery, and we believe the use and abuse of the alphabet letters could be misleading at this point. This will leave the door wide open to an **erratic growth profile in the short term and ultimately would tend to confirm our central scenario of a slow, uneven and multi-speed recovery, depending on the country and sector.**

To pencil in our forecasts we rely on specific, reasonable yet conservative assumptions amid factors that are inherently difficult to predict. Against a backdrop of fundamental uncertainty related to the pandemic, we are conscious that **the key step forward will be to transition from monetary to fiscal dominance which, unlike in the 60s/70s, is unlikely to create inflation in 2021.** In fact, central banks worldwide are equipped and sufficiently autonomous to avoid inflation rushes in the short term, while supporting governments to deliver the required support for the current crisis by providing liquidity to allow buffers to absorb prospective losses and ease financial conditions.

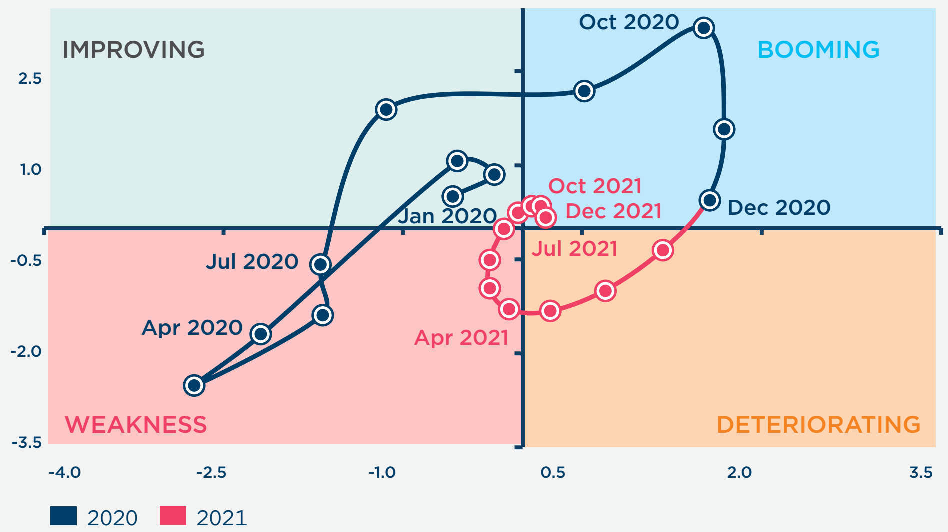
Moreover, this support underlines an important change in the orthodoxy: we will see **governments switching towards more flexible budgetary management,** evolving (if not revolutionising) their policy frameworks. We believe a **multi-year process will be required to get the world back in order from a GDP and income per capita perspective.** The recovery will exacerbate existing fragmentations, leading to an increase in inequalities and lasting sectoral divergences, which we are monitoring and will address in the following pages.

We expect macro factors to continue to influence market dynamics: liquidity, growth, inflation, rates, debt and monetary aggregates are the key factors on which we structure next year's investment narratives.

Low growth, low rates, low inflation and looser monetary and fiscal policies will help balance the rising debt burdens and rising income and wealth inequalities.

Against this uncertain backdrop, investors will have to tactically look at rotation opportunities. In particular, improvements in economic momentum could support a rotation in risk asset themes (more cyclical) through 2021.

Global composite economic momentum (CEMI)
set to rebound in Q4 2020, tactically supporting risk assets



The Global Composite Economic Momentum index is an Amundi proprietary indicator based on four regional baskets (US, Eurozone, Japan and EM) and on the following variables: earnings revisions, 10y interest rates, leading indicators, CPI YoY, PMI surveys, the Economic Surprise Index and the Inflation Surprise Index. We consider the level and the momentum (variation) of the index in order to define four economic cycles: **booming:** uptrend level and positive momentum; **deteriorating:** uptrend level and negative momentum; weakness: downtrend level and negative momentum; **improving:** downtrend level and positive momentum. Source: Analysis by Amundi Research, Bloomberg. Data as of 26 October 2020.

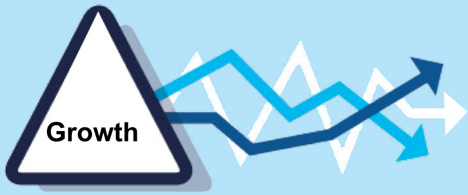
Global macroeconomic themes

GLOBAL THEMES

1 A more balanced globalisation will offer new investment opportunities

The unbridled growth of trade will tend to fade away as a relatively larger share of the economic cycle should come from domestic demand. **We expect global trade to remain weak** and uneven: the regions and countries more dependent on highly impacted sectors (i.e., tourism, leisure, travel) are particularly vulnerable. **We expect more decorrelated business cycles** across countries and areas than in the past and this implies there will be **more opportunities for diversification** amid increased fragmentations and divergences at country and sector level.

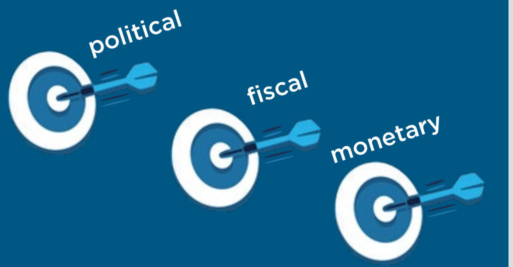
2 The big divergences in growth engines with on-off periods dictated by outbreaks



The timing and extension of the pandemic, outbreaks and targeted lockdowns will set the economic paths and further increase divergences. Asia has been leading the *first in, first out* timeline with successful policy boosters and virus containment measures, and as such we expect **Asian countries to dominate the macro-financial scene.** Therefore:

- Inflation expectations will likely grind higher in EM than DM; EM FX should rebound vs. the USD; and
- the growth/value dislocation should eventually move to a tipping point.

3 Political, fiscal and monetary trilogy seek the *'triplete'*



The bar to prevent further amplification of the Covid-19 shock is set very high: execution from political to fiscal dominance is the challenge for 2021 and beyond. We expect central banks to continue fine-tuning their accommodation, providing credit provisions to a wide range of borrowers and simultaneously supporting sentiment. **This multi-year global effort will end with larger debt levels.** Debt composition, quantity and repayment will open up an arduous debate on taxation to avoid financial repression, hyperinflation and defaults. It is unlikely debt will constitute the highest vulnerability for 2021, but we believe we have to consider it.

Source: Amundi Research, as of 10 November 2020.

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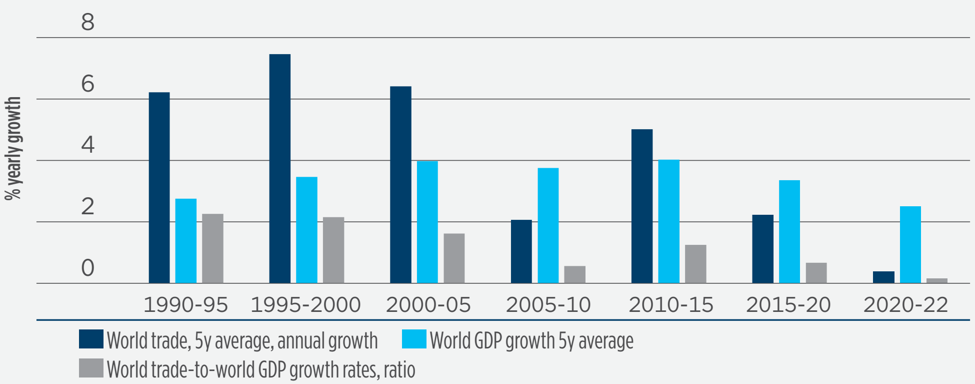
A more balanced globalisation may offer new investment opportunities

The Covid-19 crisis may have been the catalyst for a third wave of globalisation, where economic actors, more aware of the vulnerability of the current system, shift their behaviour in search of resilience. This may generate lower trade growth, the reallocation of trade flows and more decorrelated business cycles.

A third globalisation phase has started

From a historical perspective, so far there have been two waves of globalisation, and we may have entered into a third wave with the Covid-19 crisis. The first wave started in the 19th century, and came to an end with the beginning of WWI. Until 1870, worldwide exports accounted for less than 10% of global output. Today, the value of exported goods is close to 25% at global level. This means that over the intervening period, trade increased faster than GDP growth. The second wave started after WWII. It was enabled by technology and in particular by the reduction in transaction costs, which in turn had an impact not only on the volumes of trade, but also on the types of exchanges that were possible. Since the 1990s, economic integration has strengthened due to global value chains (where the different stages of the production process are located across different countries/areas) and today about 30% of the value of global exports comes from foreign inputs (in 1990 the share was about 25%). Global trade peaked in 2010–2012 after two decades of continuous increases. But this marked the end of the "great globalisation", during which world trade grew twice as fast as global GDP. After the Great Financial Crisis (GFC), there was a slowdown in global trade: from the GFC until the Covid-19 crisis, global trade has been more aligned with global GDP.

Average GDP growth and world trade growth since the 1980s



Source: Amundi Research CPB, Datastream, Bloomberg, as of 10 November 2020.

Unbridled globalisation ends, sustainable globalisation may begin

Today trade is a fundamental part of economic activity everywhere and it is difficult to envision it will end abruptly. In today's global economic system, countries exchange not only final products, but also intermediate inputs, creating an intricate network of economic interactions at a global level as production processes have become intertwined: the production chains for good and services have become increasingly complex and global. **There is no willingness to backtrack from the achievements of globalisation** (trade generates efficiency gains, and via competition/economies of scale/learning and innovation processes creates a virtuous circle of growth, with trade liberalisation leading also to productivity gains). **Yet new impetuses are building as the crisis has exposed underestimated vulnerabilities, leading economic actors to become more resilient. Governments may embrace the concepts of economic and strategic sovereignty, as well as** health sovereignty, while **companies** have become more aware they need to carefully evaluate their **vulnerability** to a range of shocks (geographical risks, cybersecurity risks, trade disputes and long and somewhat uncontrollable value chains). **Consumers**, especially the younger generation, are shifting their preferences towards more **transparent, fair and green local products.** Looking at the medium term, the redesign of production chains could see trade flows shifting from their current patterns. To give an idea of the sizes involved, a McKinsey study found that 16-26% of world trade could, over time, shift to different countries, worth the equivalent of $2.9-4.6tr in exports each year.

Economic and investment implications

There was a "common factor" that boosted world growth (the unbridled growth of trade) that is likely to fade away and in future a relatively larger share of the economic cycle should come from domestic demand. In addition, both the fundamentals of private consumption and the fundamentals of business investment vary greatly from country to country. **Looking ahead, this means that business cycles will tend to be more decorrelated across countries and areas than in the past. In terms of portfolio construction, more decorrelated cycles mean more opportunities for portfolio diversification through selection.**

Macro divergences reverberate on sector allocation

Growth divergences will continue, with on-off periods dictated by outbreaks and targeted lockdowns. Sector divergences have style and regional investment implications.

Growth lacklustre and uneven until a large-scale vaccination arrives

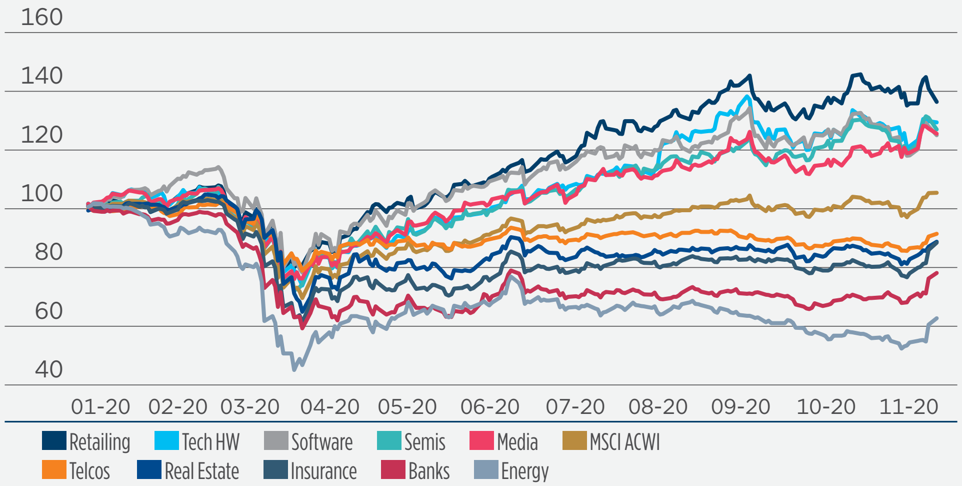
The global synchronised rebound, with small divergences due to the timing of crisis entry and the extension of the pandemic, has led to increasingly **diverging growth dynamics at country level,** dictated by on-off periods (outbreaks and targeted lockdowns). **The strongest divergence is represented by China vs. the rest of the world,** with China better managing any coming second wave and recovering faster to pre-crisis levels. In Europe, most of the vulnerability is concentrated in peripheral countries, with a higher proportion of the gross value added in sectors most affected by the lockdowns and curfews (hospitality, leisure, travel, tourism). Only a large-scale vaccination (from mid-2021) can synchronise the uneven economic paths, drive a pick-up in mobility and help the services sector rebound. The **2021 economic recovery is expected to be mediocre** versus recent history, with important output losses. 2021 will be a transition year towards a post-pandemic economy: high contact sectors will shrink in favour of digitalisation and there will be a massive effort to retrain workers.

A benign inflation trajectory is under way, with only a gradual pickup in 2021 vs. 2020 due to the slack in the economy. Developed markets (DM) Inflation will see only temporary overshoots in the US, while in Europe inflation will remain below target. Non-core components, such as food prices, will drive up emerging markets (EM) inflation due to supply disruptions and food export restrictions related to the pandemic.

Finding the right policy mix: nature and timing

Keeping a very accommodative policy mix is paramount. On the monetary policy front, the focus on unconventional measures is firm in DM. EM CBs will mostly use the more conventional of the unconventional tools to manage and enhance liquidity. On the fiscal side, in the US and in Europe we expect to see a boost in growth coming from the fiscal packages, but on the other hand are accounting for milder multipliers due to the social distancing rules in place. China's fiscal policy will turn less expansionary in comparison to 2020, providing less support for infrastructure investments. Overall, **debt levels will remain at record highs next year and the return to a more sustainable path will be delayed at best,** particularly in countries with subdued growth dynamics and higher borrowing costs.

MSCI ACWI price return YTD base 100 (12 November 2020)



Source: Amundi Research Datastream, as of 12 November 2020.

Sector divergences with style and regional implications

The collapse of Q2 2020 results will probably mark the low point of the cycle. At this point, strong sectoral divergences were noted, both in term of results and performances. Only two sectors managed to report positive earnings growth, namely healthcare and IT. These sectors are overweighted in growth-style indices, and also within country and regional indices such as the S&P 500 and the MSCI Emerging Asia. Their divergence with lagging sectors, including those most affected by the pandemic (transport, leisure, automobile, etc.) and energy (also neglected given its non-SRI status) is extreme. **In 2021, a rebound in the most impacted sectors is expected.** This should therefore see the performance of style and regional indices move in the opposite direction. Within DM, European and Japanese markets are expected to benefit, at least temporarily, as are LatAm and EMEA within EM. It will then be necessary to sort out the short- and long-term winners. And in this game, Asia and the United States may not have had their last word.

Political, fiscal and monetary trilogy seek the *'triplete'*

The reaction to the Covid-19 crisis will be dominated by the leading and connected roles of fiscal policy and political actors. Monetary policy will adapt not only to funding needs, but also to the time needed for fiscal policy to deploy its support. QE expansion and extension will be a key factor for financial markets and valuations.

Execution from political to fiscal dominance is still a key challenge

2020 will be remembered as the year of **record growth in global public debt,** driven by the unprecedented fiscal response needed to counteract the Covid-19-related crisis. However, the bar to prevent further amplification of the shock not only remains high, but has moved even higher as the pandemic's second wave poses additional risks to an already slow and uneven recovery. Furthermore, great expectations built in the US and the Eurozone during the summer, for a Fiscal 4 package in the US and a joint project in the EU. But after summer, progress on both fronts has slowed. As the economy recovered, the appetite for a massive and bipartisan pre-election deal decreased, while on the EU front, there has been friction among states on several points of the agreement. Looking at next year, in the US we expect only a small package to be delivers and it may be more likely to play a role in the first part of 2021, while in the NGEU, except for some upfront payments, we foresee the bulk of the funding being disbursed from 2022 onwards. Although some instruments, such as the SURE, could help public finances in the near term, on the European front the fiscal support to economic actors will still play out mainly via national plans in the meantime, with the risk of countries with less fiscal space and greater vulnerability to economic shocks being left behind. On the other hand, the acceleration of the second pandemic wave may lead European political authorities to make more effort to promptly and effectively start the NGEU programme.

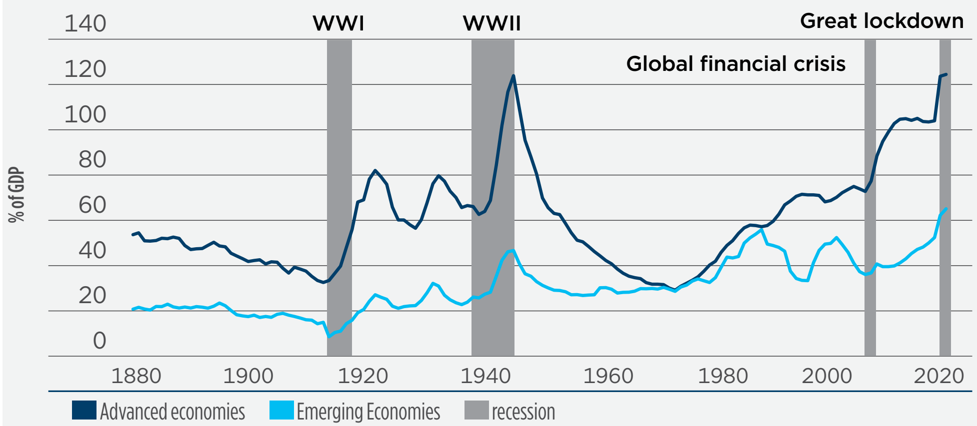
The supremacy of fiscal policy and the supporting role of monetary policy

Our guess is that this strenuous fiscal global match will last many years and will conclude with larger debt levels. Its composition, quantity and repayment will open up an arduous debate on taxation to avoid financial repression, hyperinflation and defaults. **It is unlikely debt will constitute the highest vulnerability for 2021,** but we believe we have to consider it. Next year we expect central banks to continue fine-tuning their accommodation beyond sheer scale to also assist and cheer fiscal spending (and impressive debt accumulation), both in terms of volumes and timing, allowing credit provisions to a wide range of borrowers and simultaneously supporting sentiment.

Monetary policy remains key for financial markets and valuation

Interest rate control from central banks, which prevents any spikes in the long-term part of the curve, has several implications from a cross-asset perspective as well as in the fixed income space. For instance, low rates will provide equity risk premia support for equities despite the 11-year bull market and the recent recession. In addition, PE adjusted for central banks' balance sheet expansion suggests a potential upside close to double digits. Moreover, **low rates preserve the benign environment for margins and EPS**. This environment bodes well for the growth factor even if it is expected to underperform value, according to our central scenario. Another hot topic for this theme is commodities as according to our calculations, financial conditions and CBs' new monetary policies have become a powerful driver for these, especially precious metals. As such, **we reiterate our positive view on gold** as it remains the most meaningful hedging tool, especially considering the extremely low interest rates.

Historical patterns of general government debt



Source: IMF, as of 20 October 2020. Based on historical public debt database, IMF World Economic Outlook database, Maddison Database project and IMF staff calculations. Note: the aggregate public-debt-to-GDP series for advanced economies and EM economies is based on a constant sample of 25 and 27 countries, respectively, weighted by GDP in purchasing power parity terms. WWI: World War I; WWII: World War II.

NGEU = Next Generation EU. PE = price to earnings. EPS= earnings per share.

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Risks to watch

RISKS & PROBABILITIES

Risk	Analysis	Market impact
20% Financial instability due to multi-wave pandemic	Multiple waves of Covid-19 may trigger a sharp market correction and hit financial stability. Although the economic outlook remains uncertain, market participants remain confident that policy actions will be bold in the event of an economic relapse. The longer the crisis lasts, the greater the doubts will be on the marginal effectiveness of new measures and the capacity of authorities to implement them. Financial conditions would tighten. The magnitude of the recession would increase solvency risks regardless of CBs' actions and government guarantee schemes, and despite banks' stronger capital bases.	▪ Positive US Treasury/Bund and gold ▪ Negative oil, basic materials, currencies of commodity-exporting countries, EM bonds
20% Increase in corporate defaults	Liquidity shortfalls, rising defaults and downgrades degenerate into bankruptcies and financial sector impairment. The magnitude of the recession increases solvency risks regardless of CBs' actions and government guarantee schemes. Banks' capital bases are stronger but corporate defaults and NPLs spike as state support fades and "grace" periods end (i.e., retail and commercial real estate). A financial crisis with widespread distress and deleveraging is a risk in countries that entered the crisis in a weak position.	▪ Negative for risky assets ▪ US IG BBB downgrade, EURO and US HY B-CCC default increase ▪ Positive for USD, DM sovereign bonds and gold
20% Hard Brexit	A no-deal Brexit in the context of partial lockdowns could push the UK into a deep recession, with spillover effects on the EU. With or without a deal, the UK will be outside the EU in 2021, and a phase of adjustment to the new framework will begin. As the UK will try to get trade deals outside the single market, with potentially better terms, it could create tensions between EU members with similar economic priorities.	▪ US equities underperform, raising risk asset volatility
10% Post US elections, frictions to redesign the political board	The outcome of the US elections is unlikely to change the US stance against China. 5G, foreign holdings, the situation in HK, potential US sanctions on Chinese banks and a Phase 2 of the trade deal are all topics that will make a strong comeback in 2021. This "cold war" might also extend to Europe. The EU received the green light from the WTO to hit the US with US$4bn in tariffs on the back of Airbus Boeing and France has initiated a tax on Big Techs.	▪ Risk on the HK peg ▪ Negative for Chinese equities and CNY ▪ Positive for USD, JPY, UST and gold ▪ The harsher the escalation, the more detrimental it is for risky assets
10% Inflation surprise	QE programmes may become problematic during the recovery phase when inflation enters the equation. In EM, inflation is at an inflection point. DM governments' responses to rising inequality and social instability could change the inflation dynamics. The unknown reaction function of CBs confronted with a positive shock on inflation (or on inflation expectations) could be a source of uncertainty. This risk is very low in the coming year, but is expected to increase over time.	▪ Positive TIPS, gold ▪ Positive equities, rotation from growth into selected value and sectors with pricing power that are investment driven ▪ Negative long-term UST and Bunds
10% EM financial crisis	The health and economic crisis is potentially conducive to geopolitical stress and national instability within EM. At this point, there is no identified 'systemic' crisis with market impact, but a number of events must be monitored such as Libya, Greece/Turkey, Lebanon, Belarus, the protests in Eastern Russia and the India and China frontier dispute. For Turkey, which is already on very thin ice with domestic imbalances flashing warning lights, the economic headwinds carry additional risks.	▪ Negative EM equities and LC debt ▪ Positive UST ▪ Positive gold, USD and CHF

Source: Amundi Research, as of 10 November 2020.

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Amundi convictions for 2021

	Asset class	2021 view	2021 outlook rationale
EQUITIES	US	=	The US economy is due to return to 2019 levels around mid-2022, after China but before Europe. A steepening of the yield curve and a weaker USD should help the more cyclical/value markets to rebound first, but the US, which is rich in disruptive stocks, is a winner due to its low rates, which will be the other part of the equation in 2021.
EQUITIES	Europe	=/+	In 2020, the EU recovery fund made Europe investable again. In 2021, the strong relationship between EMU and MSCI World in bond yields should eventually help the region to benefit tactically from a steepening of the yield curve. The more defensive UK, also a proxy for energy (ESG unfriendly) vs. industrials (among the winners of the next cycle) will likely still lag.
EQUITIES	Japan	+	Japan is one of the most cyclical markets, with the biggest weighting in industrials (20%), a winner of the coming cycle, and consumer discretionary (18%) the second biggest. As such, Japan is a candidate to benefit from the recovery. The biggest headwind would be a strong rebound of the JPY, which we do not expect if global risks eventually fade next year.
EQUITIES	Emerging markets	+	EM are an interesting combination of secular technology-related sector plays (IT, consumer discretionary and communication services), mostly in North Asia, and more traditional cyclicals (financials and materials), especially in LatAm and EMEA. Asia has been strong in 2020. A USD breakdown would be a catalyst for a broader EM outperformance.
FIXED INCOME	US govies	=	As the recovery progresses, the medium-term trend will be for the curve to continue to gradually steepen on the very long part. The extent of the steepening will be contingent on the evolution of the virus and on the fiscal stimulus put in place after the elections. The inflation premium at the long end of the US curve should continue to rise moderately.
FIXED INCOME	US IG corporate	=	We maintain a constructive view on US IG on the back of: (1) central bank support; and (2) the search for yield. The curve steepened with Fed buying and the sweet spot is in 7-10y.
FIXED INCOME	US HY corporate	=	We expect to see increasing fragmentation in US HY on two fronts: (1) companies that maintain high cash levels for any contingency vs. those that burn cash to sustain themselves; (2) the increasing gap between sectors (tourism, energy) that experienced heavy falls in revenues vs. those that witnessed higher sales (technology). For investors, this means idiosyncratic and default risks are not correctly priced in and spread compression will not be uniform. As a result, attention to selection and quality is paramount.
FIXED INCOME	European govies	-/=	On the back of unattractive valuations and with an expected stable outlook for yields, we maintain a cautious view on core government bonds. However, on peripheral debt, we remain positive amid strong ECB support, to be strengthened further in 2021 through additional purchases and coming EU support, starting with the SURE programme.
FIXED INCOME	Euro IG corporate	=/+	Despite most of the spread tightening having been delivered, IG and especially BBB-rated corporates are still targeted by yield searchers and look resilient thanks to ongoing ECB QE. We continue to prefer EUR over US, due to the lower leverage in the latter, and play this through financial and subordinated debt that offers the potential for extra yield.
FIXED INCOME	Euro HY corporate	=	Among European HY we recommend the higher quality segment (BBs in particular), in order to combine the need to reduce volatility and to profit from remaining carry. EUR HY continues to be more resilient to default risk than US HY, thanks to its higher credit quality and sectoral exposure. However, the need for selection and cash buffers remains high.
FIXED INCOME	EM bonds HC	=/+	While the spread tightening potential in EM bonds is limited for 2021 given what has already occurred in 2020, we believe the asset class could still benefit from inflows from investors in search of carry in a world of low rates. Among EM asset classes, HC debt would be the most resilient in case of a deterioration of the outlook.
FIXED INCOME	EM bonds LC	+	In a scenario of economic recovery, the low yields in DM and the weak dollar are supportive for EM debt in local currencies and the FX component should benefit in 2021. However, selection will be relevant as some countries are still vulnerable in the current uncertain environment.
OTHER	Commodities		In 2021 commodities will be supported by the recovery in the economic cycle and by the still favourable financial conditions. WTI oil should stay in the $40-50 range in H1 2021, while base metals should also recover. Gold will also benefit from easing central banks and is favoured in the case of continuing uncertainty.
OTHER	Currencies		A shift from a contraction phase to a recovery will likely put the USD under pressure. A broad USD move lower is expected, but considering the higher policy flexibility and the direct link to China, we believe commodities-related currencies will be the relative winners in G10. On EM FX, volatility will remain throughout 2021, but some appreciation is on the cards.

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Negative View Neutral Positive View

Source: Amundi, as of 12 November 2020. 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.

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Cross-asset: playing the (challenging) rotation from HY to equities

The de-freezing of the global economy is our central case, hence the growth theme remains key, although with different features vs. a 'normal' recovery. Investors should search for yield across the credit spectrum, favour inflation-linked bonds to govies, cyclical sectors and, selectively, EM assets.

How to navigate the fragile recovery environment

The second wave of the contagion is materialising and brings many risks to economic activities and uncertainties on many fronts, however a recovery scenario remains our central one. **According to our macroeconomic projections, the profits rebound should be robust at about 30%, though this is lower compared to the consensus of 40%** due to the fat tail risks (the probability of correction and contraction phases in our proprietary tool, the Advance Investment Phazer, is 20%). **Nevertheless, current profits expectations should be enough for a cross-asset risk rerating throughout 2021, focusing on growth-related asset classes such as equities, HY and GEM bonds.** The anaemic strength of the recovery would suggest, however, that investors should not play the highest beta markets too much but rather maintain a focus on quality and more defensive themes. For this reason, in DM we favour the equity space and in GEM we favour bonds. In a low-yield world, we prefer IG credit to govies for risk-adjusted carry reasons. Exposure to inflation linkers could help to mitigate any negative impact on the duration front, should rates move higher in case of inflation spikes in the upside scenario. On the commodity front, base metals are typically the best performers, while at this time gold should also be considered as a way to hedge cross-asset allocations given the significant probability of the downside risk scenario and the ultra-dovish central banks.

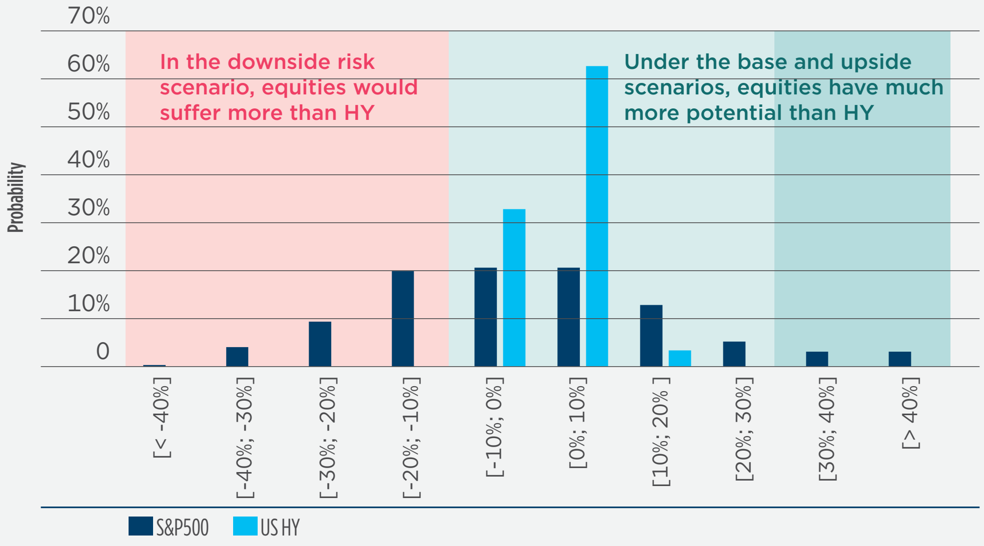
How to play the growth theme in an unprecedented recovery

The severe recession induced by the pandemic has led to an unprecedented situation in which HY spreads are artificially close to their historical lows. Historically, during recessions DM HY spreads have been about 1,000 bps, so the current dislocation effect due to CB interventions is massive. For this reason, it's **unlikely during this crisis that HY will outperform equities in the central or upside risk scenarios.**
According to our fair value calculations, the expected returns distributions are significantly skewed to the downside due to the painful combination of fat tail risks, anaemic growth and expensive valuations due to CB interventions. However, the upside is definitely capped for HY due to limited spread tightening, while equities have much more space to overperform, should profits surprise on the upside.

Profits and fiscal stimulus implementation

One of the (few) risks to the upside is the full speed implementation of fiscal stimulus plans in the US (and Europe), which would boost our profits growth expectations by 10%-15%. In this scenario equities would be even more preferable.
On the downside, the corporate sector's vulnerability remains the key risk to monitor. In such an unpleasant scenario, equities would suffer more than HY as CBs have proved to be more successful in controlling debt markets and therefore de-risking would likely occur via equities selling.

According to our fair value calculations, equities have more upside than HY should the recovery surprise on the upside.



The fair value calculation tool is an Amundi proprietary model that generates N- simulations according to our internal macro-financial forecasts and official probabilities of the economic financial regimes from the Advanced Investment Phazer. Based on the simulations' results, conditional expected distributions are calculated through Kernels estimation. Source: Analysis by Amundi Research, Bloomberg, S&P website. Data as of 20 October 2020.

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Equity DM: a diversified portfolio with pro-cyclical and quality convictions

Even if it is slow, bumpy or delayed, the economic recovery will eventually emerge and even if the yield curve steepens, rates will remain low for a long time. These factors suggest investors should consider pro-cyclical positioning, while still favouring quality. The resulting regional allocation is quite diversified.

Still a wall of worries to climb, but a bottoming out of the cycle is under way

2020 was an extraordinary year. The manufacturing recovery, which began to take shape at the start of the year, turned into a sharp recession. Profits bottomed out in Q2. The strong cut in rates, the depressed oil price, and in the US, the weakening of the dollar, bodes well for **a cyclical recovery in 2021 and a proportional upturn in profits.** For now, IBES forecasts a level of earnings per share in 2021 that is broadly equivalent to that of the 2019 peak year in the United States and the Eurozone. The real extent of the recovery will depend on the revival of consumer confidence, which is linked to the containment of the virus. **False starts cannot be ruled out,** but the commitment of governments, combined with that of central banks, which will respond again in the event of further shocks, will eventually dispel consumers' doubts. Taking a 12-month view, **cyclical stocks should ultimately benefit.**

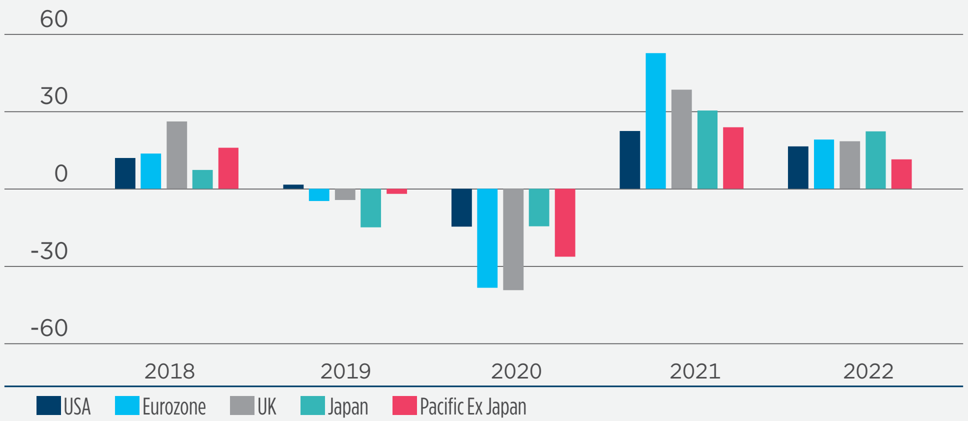
Three specificities for the new cycle

- The historically low level of interest rates: while absolute equity market valuations (PER) are tight, equity risk premiums remain attractive. Equities therefore appear to be an essential alternative for investors (TINA).
- Disruption: the pandemic accelerated changes already under way and created a very strong divergence between "disruptive" sectors, those of long duration with superior earnings growth and that benefit from a low discount rate, and "disrupted" sectors, with short duration. This has happened to such an extent that regional performances are now above all impacted by the sectoral composition of the indices.
- The combination of these two factors have strongly benefited some growth stocks, such that a bubble may be taking shape, which is unusual at the start of a cycle. In the 1990s, the bubble in technology stocks appeared at the end of the cycle and amplified the uptrend of the rest of the market, whereas they diverge today. Moreover, bubbles usually burst only when central banks withdraw liquidity, which is not on the agenda for many quarters; a strong exaggeration of high growth stocks therefore remains a credible scenario for 2021, beyond a cyclical rebound at first.

In 2021, investors should be prepared to play the recovery with a focus on quality cyclicals, while watching for possible areas of bubbles.

PER = price-to-earnings ratio. TINA = there is no alternative (to equities, because all other investments appear less remunerative).

EPS growth according to IBES



Source: Refinitiv, Amundi Research. Data as of 26 October 2020.

Diversified positioning, but pro-cyclical with a quality bias

On the one hand, the looming economic recovery suggests a focus on cyclicals versus defensive stocks. On the other hand, the historically low level of interest rates could eventually push stocks that benefit from disruption to levels beyond reason. In both cases, the quality factor should be favoured. The industrial sector is perhaps the one that best meets all of these criteria. Regionally, this translates into a fairly diversified portfolio, but one with a pro-cyclical nature. As pro-cyclical markets, Europe ex-UK and Japan should bounce back first in the recovery. However, the US could eventually take the lead again, should a bubble develop further. Although very cheap, the UK market, which is rather defensive and is a proxy for the energy/industrials ratio, should underperform the Eurozone again in 2021. The Pacific ex-Japan (rich in financial stocks and very much exposed to global trade) could temporarily beat Japan during the first round of the recovery, but should underperform Japan (rich in industrial stocks) in the longer term.

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Factor investing: selective preference for size, value and quality factors

The economic recovery looming in 2021 is atypical (disruption and historically low rates). It will therefore be necessary to find a compromise between pro-cyclicality and long-term winners.

The current phase suggests focusing on the size factor

In early 2020, after a decade-long bullish cycle, we proposed remaining rather defensive, favouring the minimum volatility factor and gradually increasing pro-cyclical factors, as the first signs of a manufacturing recovery were emerging. The pandemic ultimately precipitated a recession; prudence was therefore rewarded.

For 2021, we envision a more risk-on approach. The unprecedented combined response of central banks and governments to the crisis lends credibility to a scenario of economic recovery. The timing and the pace of this recovery are still unknown, but any economic relapse will provide arguments for strengthening monetary and/or fiscal stimulus further. Also, we believe that beyond possible false starts, we must be mindful of pro-cyclical factors.

Small and mid caps (Smids), which are usually more cyclical, often do well at the start of a cycle. We favour this theme, especially in Europe. In the United States, if there are also opportunities within this universe, the relative performance of the Smids indices will depend above all on the more uncertain behaviour of the mega caps, which are already very expensive but benefit from disruption and very low rates. **Minimum volatility, on the other hand, is a factor to be avoided.**

Prefer value and quality to growth and momentum

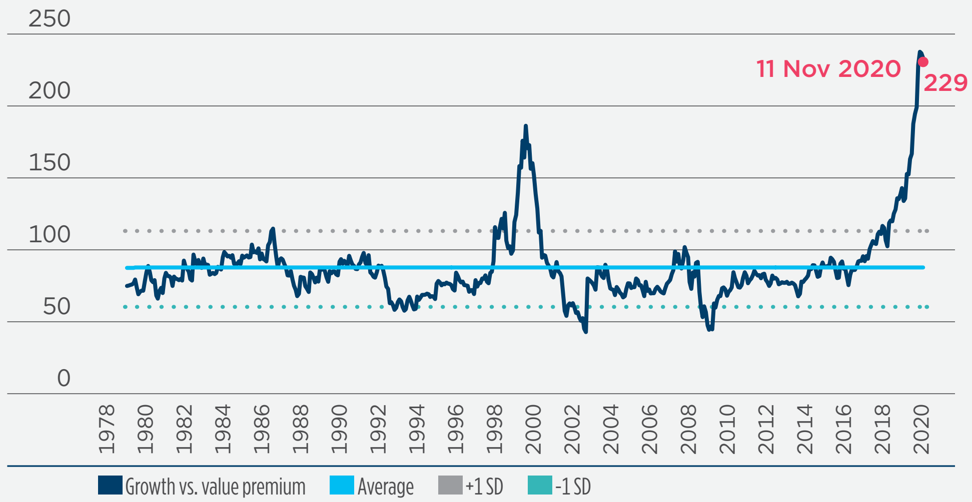
The difference in valuations between the value and growth factors has never been so big, even during the internet bubble. At that time, betting on a normalisation seemed an obvious choice, all the more so as a slight steepening of the yield curve on long maturities made sense in the context of an economic recovery. The current situation would therefore seem supportive in principle of the value factor.

However, the situation today presents a notable difference compared with the internet bubble. At the end of the 1990s, the growth factor had exaggerated a bullish trend in the market at the end of the cycle. Today, the cycle has only just started and the growth factor is already diverging from value (a phenomenon recently described as a K recovery). The economic recovery could thus revitalise the value factor at some point, but we cannot rule out that in a context where interest rates are set to remain low, the growth factor will eventually amplify this rise despite its valuation.

Thus, beyond a rebound in favour of value, prudence dictates that investors should hedge against the possibility of a more lasting upward exaggeration of growth (bubble?). To do so, the quality factor, which takes the sustainability of growth into account and helps avoid excessively indebted stocks at the same time, should clearly remain a core holding, particularly compared to the more speculative growth or momentum factors.

In 2021, we intend to play the cyclical recovery through Smids (in Europe) first and will monitor the situation with a view to selectively extending our pro-cyclical exposure to the value style, while also maintaining a structural bias on quality at the global level. We will stay away from minimum volatility.

MSCI World growth vs. value composite premium (PE, P/BV, DY)



Source: Analysis by Amundi Research, Datastream. Data as of 12 November 2020.

Fixed income: search for yield to continue, but watch corporate vulnerabilities

With central banks set to continue expanding their balance sheets, bonds are likely to be supported by monetary stimulus. The search for yield in developed markets, both through spread (mainly in Europe) and duration (more in the US) is likely to remain key in 2021, offering opportunities in the lower for longer yield environment.

Global easing to continue, and to keep supporting bond markets

Central banks will continue to **expand the size of their balance sheets** next year to support fiscal policy, keeping financing costs low and covering most of the additional net issuance. At the same time, **ZIRP and NIRP are likely to persist for quite a long time.** In Europe, an extension and expansion of the current net QE purchases and of reinvestments would ultimately continue to support yield hunting. In the US, the Fed will continue to buy at least at the current pace of $80bn treasury purchases every month until the end of 2021. The Fed can easily adapt the size and composition of the purchases (increasing the maturity) in case of a disorderly sell-off in bonds or a weakening of the US economy. We expect central banks to continue to absorb a lot of governments' extra issuance, limiting the risk of a steepening induced by excess supply. The Fed wants to keep long-term bond yields moderate because of the high levels of public and private debt. The Fed and Treasury will likely maintain the section 13(3) facilities designed to support credit markets and this will serve as a backstop as long as downside risks related to the pandemic remain.

Govies: Look for a steeper US curve, in Eurozone favour the periphery

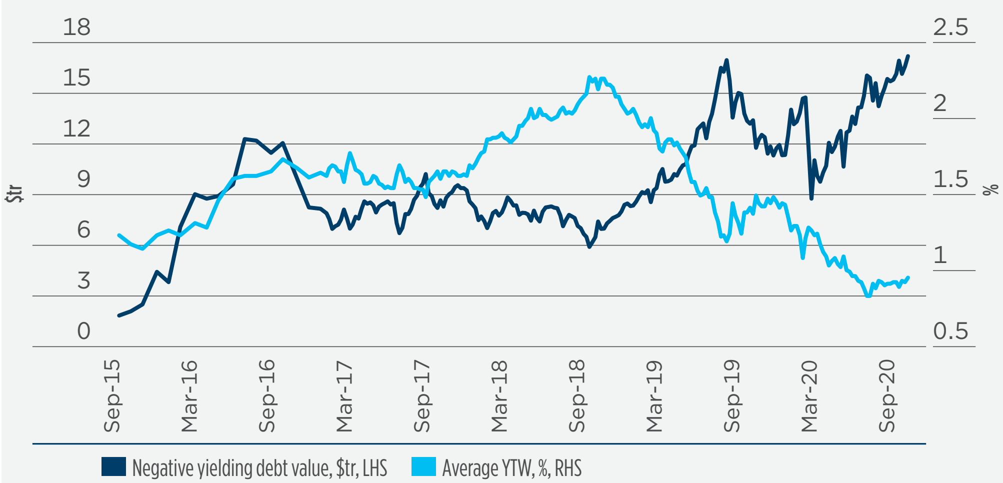
A slightly **steeper yield curve in the United States** would be consistent with the economic recovery scenario. As the recovery progresses, the medium-term trend will be for the curve to continue to gradually steepen as 10y and 30y yields will likely increase from current levels over the next year. **The timing** of the steepening **will be contingent on the evolution of the virus and the fiscal stimulus put in place** after the elections. The rise at the very long end of the curve should be driven by both the real yield and the breakeven component. The **inflation premium** at the long end of the US curve should continue to rise moderately and the big question now is whether the prolonged period of combined fiscal and monetary stimulus and the move to average inflation targeting will succeed in changing the inflation landscape. In the **Eurozone,** our preference stays with periphery vs. core, with Italian bonds accounting for most of the limited positive yield left, especially in the longer segments of the yield curve, where available alternatives are more limited in private debt.

The recovery fund deal, SURE support and the ECB's QE and liquidity injections strengthened the demand for **peripheral debt,** improving their technicals. Despite valuations tightening significantly, some limited space for compression in risk premiums is envisaged for periphery debt. In **credit markets,** we still favour EUR IG on the back of the combination of powerful CSPP and PEPP support, the intensified search for yield, their lower leverage levels than their US counterparts and their resilience to short-term volatility spikes.

The environment is very positive for credit

Recent news on an upcoming vaccine gives us confidence on the economic growth outlook. Meanwhile, monetary and fiscal policy will stay supportive across DMs and rates will stay low for longer compared to the previous recovery cycle. The search for yield will remain a major theme for 2021. In the IG space, we prefer BBB and subordinated debt, while in the HY space we expect spreads to narrow as the economy recovers. Default rates should peak in Q1 but at much lower levels than initially estimated, thanks to coordinated monetary and fiscal action. Defaults will be mainly a sector, a CCC-rated corporates and a US story.

The legacy of the crisis: search for yield turned global



Source: Analysis by Amundi Research, Bloomberg. Data as of 6 November 2020, Graph uses Barclays Global Aggregate: average yield and negative yielding debt market value.

NIRP = negative interest rate policy. ZIRP = zero interest rate policy. CSPP = corporate sector purchase programme. PEPP = pandemic emergency purchase programme.

Emerging markets: positive outlook for 2021

The emerging markets outlook is constructive for 2021. EM bonds still have some space in valuation terms and will likely benefit from the search for yield. In the equity space, as soon as the recovery becomes more solid, we will see a rotation from growth to value. Asia is favoured in the first phase of the earnings recovery.

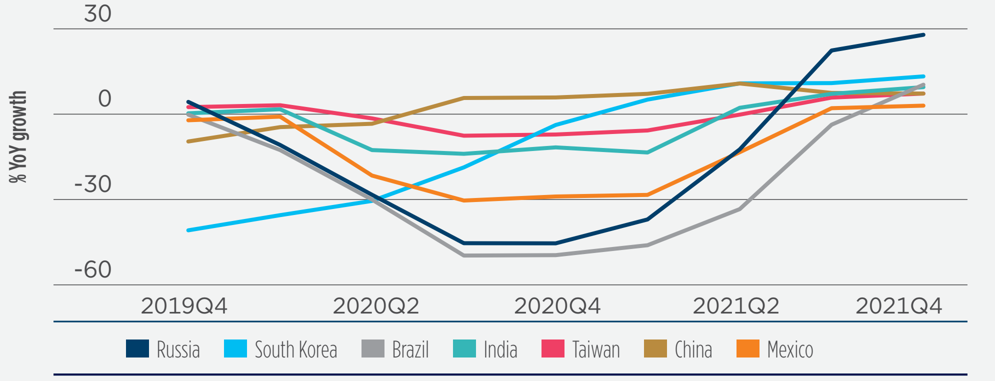
EM equity

Equity valuations are giving different signals across the regions. Asian stock markets appear expensive: they have already rallied a lot since March, while Latin America and EMEA are lagging behind at well below pre-crisis levels. In terms of earnings, the divergence is also strong: at aggregate level MSCI EM trailing earnings (in USD) are currently at -19% YoY, while EM Asia is at -9% and the picture is only slightly negative for China. In China, the recovery after the lockdown has been quicker and the containment of the virus much more effective. Moreover, China, and emerging Asia in general, benefited from their index compositions being more concentrated in those sectors that have been able to achieve profits in these difficult times: healthcare, information technology, communication services and retailing (part of the consumer discretionary sector and including some ecommerce stocks such as Alibaba). Looking to 2021, our internal forecasts are for a double-digit (+13% in USD) MSCI EM earnings recovery at aggregate level, mainly driven by a strong rebound in world trade, emerging exports and a mild but positive increase in commodities. **The profits growth in the first half of 2021 will be more concentrated in emerging Asia,** which is much more advanced in the recovery and also more linked to the booming ecommerce sector. The laggards, such as **LatAm and EMEA, should return to positive YoY numbers only in the second half of 2021.** In the short term, as the robustness of the revival is still questionable and there is a risk of further lockdowns, mainly in the Americas and Europe, emerging Asia looks set to continue to outperform (except for the laggards in the region, such as Indonesia). As we move further into 2021, **we will see a gradual shift from growth to value and the cheap countries outside Asia should also benefit from the revitalisation in earnings and the increase in flows.** Here, the preference should go to the inexpensive EMEA countries with good dividend yield prospects and low positioning, for example, Poland and South Africa. LatAm could follow, but valuations are less appealing; much will depend on the pattern in commodity prices.

EM fixed income

The outlook for EM bonds remains mildly positive. The ongoing low-yield environment could attract flows to this asset class, as long as the global economy's growth becomes more solid. In terms of EM bonds in local currency (GBI), our scenario is coherent with further limited yield compression, both in nominal and real terms. **The gap between EM and DM real yields still favours EM.** EM central banks' monetary policies will remain quite diversified: still accommodative for some countries, but already moving to some tightening in financial conditions in others. EM currencies disappointed in the bottoming-out phase this year and are expected to remain volatile but to eventually provide a positive contribution. Selection is key: LatAm countries and Russia should benefit from higher oil prices and a cheap currency and so should attract some flows in 2021. On the hard currency side, the EMBI diversified spread appears tight in light of current conditions and seems to be already anticipating the recovery we have in mind for 2021. We see a stabilisation in the EMBI diversified spread during the year to a level close to 390, supported by a continuing recovery in EM GDP, a positive EM-DM GDP gap (even if turning less positive in the second half of 2021), a stabilisation in volatility and a supportive commodity outlook. On the negative side, debt is expected to increase but liquidity and support from institutions will remain very high, so the risk of defaults is contained. We still see some space for further tightening in HY, but IG remains expensive.

EPS set to rebound in some EM in 2021



Source: Analysis by Amundi, IBES. Data as of 31 October 2020.

Currencies: EM and commodities-related FX relative winners next year

Both USD growth and the rates advantage vanished in 2020 and the greenback remains expensive vs. fundamentals. We see a broad but contained USD sell-off, with commodities-related currencies the relative winners.

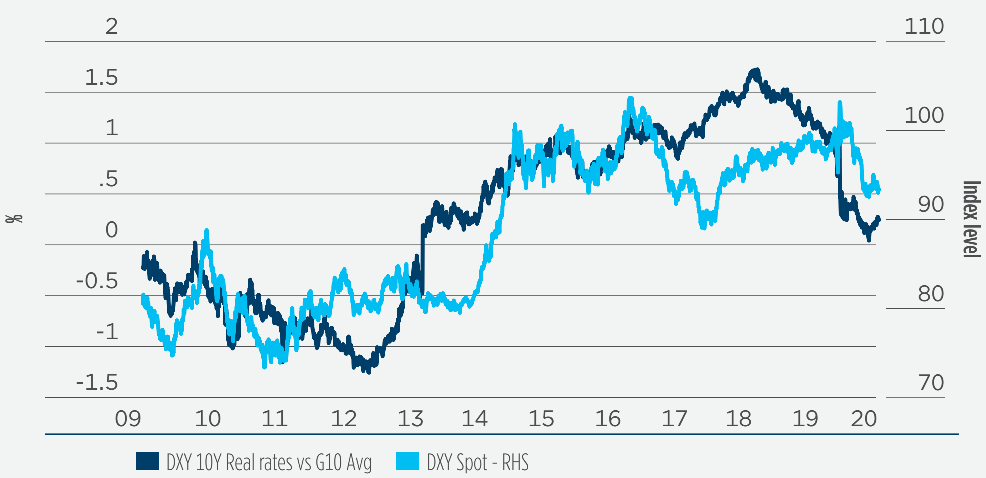
A shift from contraction to recovery will likely put the USD under pressure

As described in the previous pages, we see the case for a switch from contraction to recovery the further we move into 2021. The scenario is unfavourable for the USD, which remains 7% overvalued with respect to our fundamental framework. We see the relative overperformance of US assets and the too-high hedging costs as the main reasons behind the persistent USD deviation from fundamentals we have seen in the recent past.

However, Covid-19 has shifted the balance out of the US, suggesting investors will try to reposition to more under-owned, dislocated assets. In fact, the USD has lost two of its main cyclical drivers of the recent past. Its growth premium vs. the rest of the G10 countries collapsed in 2020 and the Fed has almost entirely removed the USD rates advantage that made the greenback a profitable investment opportunity as well as a defensive play. Against such a backdrop, we believe a convergence to fundamentals will occur in 2021.

However, there are key elements that suggest a complete mean reversion is unlikely. First, G10 FX dynamics remain highly linked to investor sentiment and risky asset performance. We never left "mood on, mood off" dynamics and we see an imminent inversion of that trend as unlikely. Second, although the fiscal package in the US is expected to be lower in size without a "Biden Blue Wave scenario", the additional boost to US growth should not be underestimated. While we believe the short-term impact would be USD negative (on the back of improving risk sentiment), this in turn could lead to a renewed cyclicality in support of the greenback. This is something that would limit, in our view, the USD's potential correction even if monetary tightening is far from the Fed's radar.

Anchored nominal rates and rising inflation expectations depressed US real rates relative to rest of G10 FX



Source: Analysis by Amundi Research, Bloomberg. Barclays, as of 26 October 2020.

G10 currencies: a broad but contained USD sell-off, with commodities-related currencies as relative winners

The agreement on the EU recovery fund has been a game changer. It enhanced fiscal solidarity and created a valid alternative to US treasuries for fixed income investors.

However, the implementation risks remain high and confirmation that the economic recovery is proceeding at the pace markets are pricing in remains crucial. A broad USD move lower is expected, but considering the higher policy flexibility and the direct link to China, **we believe commodities-related currencies will be the relative winners in G10, with NZD the relative loser in the group.**

EMFX: volatility to remain throughout 2021, but some appreciation on the cards

The carry has disappeared in many EM countries. The asset class will remain volatile but, overall, our internal scenario is coherent with, on average, a +2% upside over a 12-month horizon. Moreover, the expected recovery in commodity prices is potentially very supportive for undervalued currencies such as LatAm FX and the rouble. The still-attractive rates differential, the relatively more benign growth environment and the opening of the bond market should support CNY in 2021.

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Commodities: positive outlook even in a tepid recovery

The outlook is positive for commodities, despite the fragile recovery, as financial conditions are now more relevant in driving commodities dynamics and these are expected to remain supportive.

Global commodities: besides the economic cycle, financial conditions are now a key element in the pricing equation.

Historically, commodities have been driven by economic growth, supply and demand and inventories cycle assumptions. However, in the last 20 years, globalisation and financial conditions have also impacted these asset classes, as they have others.

Thus, **in addition to the economic cycle, currencies and more recently the financial reflation generated by central banks' monetary policies, have become crucial factors in the expectations for commodities** (especially gold and precious metals). Overall, despite a muted recovery, financial conditions remain supportive for commodities as we expect the dollar to depreciate vs. EUR, JPY and CNY, while CBs are expected to continue to expand their balance sheets.

WTI oil to stay in the $40-50 range in H1 2021 due to the gradual pickup in demand and the active management of supply by OPEC+.

OPEC+ countries succeeded in mitigating the extreme oversupply that occurred after the economic lockdown. The ongoing process of supply-demand adjustment is helping oil to move into the range we expect for 2021. Global consumption should recover by 6% to 99 mln bl/d in 2021, reaching levels close to pre-Covid-19 levels. In addition, financial conditions should be supportive as **energy prices are very sensitive to FX and we expect the dollar to depreciate.**

Base metals should keep recovering in 2021, in line with China's growth and a manufacturing rebound from depressed levels.

The pandemic significantly hit base metals in 2021. **Aluminium, copper, lead and tin look significantly undervalued** should our central case of a gradual recovery materialise in 2021. The downside risks are clearly related to the second wave of the virus and another global economic freezing.

Financial conditions also remain supportive for base metals, although not enough to offset the economic cooling down risk.

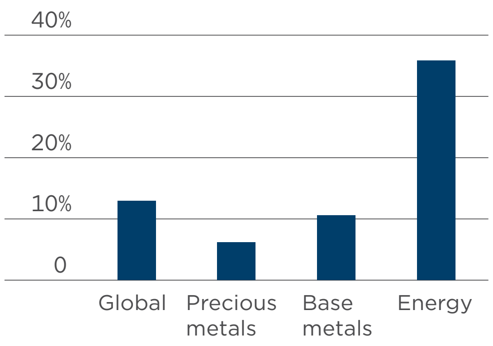
Easing central banks and economic uncertainty remain powerful drivers for gold and precious metals.

Gold and precious metals are the assets benefiting the most from the new paradigm of monetary policy. This will be the key factor to watch for 2021 as the most likely scenario is for ultra-dovish central banks. Such an environment should help real rates to stay close to current levels, which could lead gold to drift higher. The weak dollar, a fragile recovery and the relatively strong CNY are other supportive factors.

For all the above reasons, we reiterate our call for having structural gold exposure and not just considering it for hedging purposes.

Commodity outlook for 2021

Expected returns for 2021 to reach Amundi forecast fair value



	Sensitivity		
	Macro	FX	CBs
Precious metals	-	-	++
Base metals	++	+	+
Energy	++	++	--

Source: Analysis by Amundi Research, Bloomberg and US Department of Energy (DOE). Data as of 13 November 2020. Methodological note: Commodities fair values are calculated considering a pricing equation based on real economic conditions (growth, real rates, credit supply overcapacity), FX (USD, EUR, JPY and CNY) and central bank balance sheets (FED, ECB, BoJ).

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Private markets: a strong value proposition that may emerge reinforced after the crisis

Covid-19 has created challenges for short-term investment performance and fundraising, but the longer-term prospects are strong and the capital shift to real assets will continue. In 2021, more than ever, real assets are likely to be a source of attractive risk-adjusted returns.

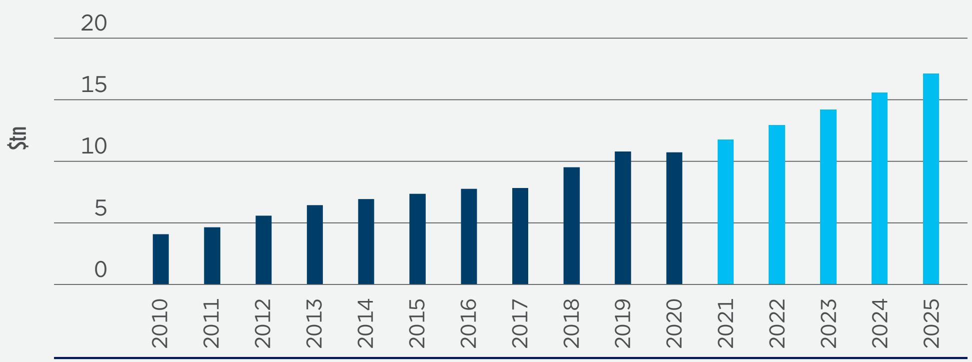
The Covid-19 crisis has caused significant disruption in private markets, with fundraising and deal making being impacted since the start of 2020. While activity is not at the record highs seen in recent years, **funds are still raising capital, and managers are putting money to work, as investor appetite for real assets stays unabated.** Global private markets have topped $10tn in terms of assets under management (AuM) as of October 2020 and should grow up to $17.2tn by 2025, according to Preqin. Most investors build their exposure to private markets via regular commitments, irrespective of market conditions. For investors looking for a good market timing, the GFC showed that private capital funds that deployed money throughout the crisis produced among the strongest returns. The GFC and the Covid-19 crisis are different in many ways. Currently, liquidity is abundant and CBs have been much more accommodative than they were in 2008-11. Fundraising will be supported by this liquidity. Market activity will benefit from the high level of dry powder. Given the current market circumstances of low or negative interest rates and volatile equity markets, real assets offer among the best risk-adjusted returns in the universe of investable assets. To capture the different premiums embedded in real asset investing, increased selectivity is mandatory. Only the best quality assets should be considered: Core and Core plus assets in RE and Infrastructure, senior secured instruments in PD, growth capital and LBO investing in the winning industries for PE. Private markets are witnessing strong divergences among sectors, and a dichotomy between healthy sectors with stable price and deal volumes, whereas some sectors are strongly affected by the crisis with almost no deal activity. Distinguishing the former from the latter is key to protect the income generation engine that real assets offer. **Diversification in exposure and asset selection is key to benefit from what private markets can offer to long-term investors.**

Real assets are key in the strategic asset allocation as they are a portfolio diversifier and volatility dampener. Given their long-term nature, investors should not rush tactically into these assets and be selective in order to capture the different premiums embedded in real asset investing.

Private equity (PE)

The PE market is sending messages that are complicated to interpret, as valuations have fallen relatively little, with a situation that is similar to the listed equity market that has not really fallen significantly either. However, for both listed and unlisted equity markets, this goes along with strong divergences between sectors, and the crisis exacerbates the winners vs losers' state of play. **We see companies that are doing well with good cash flows or even emerging strengthened by the crisis vs companies that are doing less well but may offer good opportunities in terms of entry prices.** Despite the disruption, 2020 has been another active year for the PE industry globally and in Europe. European PE raised about €50bn in H120, in line with the first half of 2019. In addition, investment remained resilient, with almost €40bn deployed and more than 3,000 companies backed and over 50% of the money directed at the IT, healthcare and biotech sectors, showing the key role that PE plays in innovation (European venture capital enjoyed a record half year, with investment approaching €13bn).

Alternative AuM and forecasts



Source: Preqin data and forecasts as of 12 November 2020, 2020 figure is annualised based on data up to October.

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PD should see a shift towards safer, more senior, and more secured strategies

Despite the adverse environment, European private debt funds have seen a rush of capital, raising €21bn in the first half of 2020, as investors seek to take advantage of potential counter-cyclical investments. In the coming months, we will have to deal with the many difficult situations and restructuring processes.

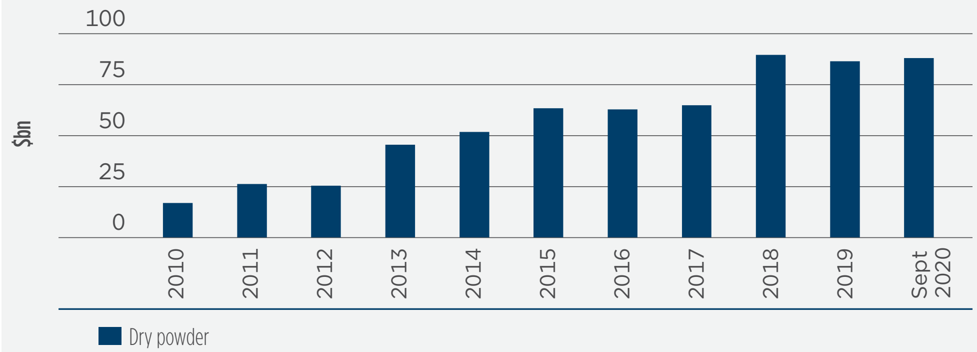
In the coming months, we expect to see an acceleration in corporate consolidations in most sectors, as many unlisted companies will emerge weakened from the crisis, with higher debt levels. Companies will need to strengthen their equity -- in some cases, significantly -- and many will not be able to find refinancing solutions through bank credit lines. Many small to medium businesses will have to call on private funding and PE. Structured equity can help entrepreneurs get through the crisis, and this is what PE funds using minority stakes investment strategies would typically do, mainly by using preference shares.

Overall, performances of PE funds should emerge stronger in the aftermath of the Covid-19 crisis, and we believe it is an extremely attractive time to invest in PE for investors who can bear some liquidity constraints. As evidenced by fundraising numbers, money has been funneling into the asset class from long-term investors, such as pension funds or insurance companies, and we expect the trend to continue in 2021 with the continuation of the crisis.

Private debt (PD)

There are now a record-high 486 funds on the road, seeking $239bn in aggregate capital globally. This is quite aligned with LPs' intentions that point to further growth over the medium term for the asset class, with a 2% median current allocation vs a 3-4% target. LPs have appetite for PD because it provides better diversification, reliable income streams, high risk-adjusted returns, and low volatility. Investors also appreciate the embedded option that is offered by PD over traditional liquid credit in the uncertain environment of the Covid-19 crisis – i.e., the stringent financial documentation, the ability to restructure pricing or terms, the floating rates, the ability to repossess hard assets if needs be, and the option to exit *at par*. In 2021, we will enter a new phase of the Covid-19 crisis environment for PD, where we will see a lot of work being done on the portfolios with much significant restructuring. In terms of dealmaking activity, investment opportunities should flourish for PD funds in the next 1-18 months, where we should see less banking competition, coupled with huge financing needs from issuers. Banks balance sheet have been highly mobilised in the past months with a lot of provisioning and an increased cost of risk that has led banks to reprice their credit offer. We should see a lower level of banks' underwriting for mid- to large-cap deals. For issuers, we expect the Covid-19 crisis to create opportunities in M&A and consolidation. The crisis has also highlighted the need to adapt most business models which will require capital expenditure, e.g., the length and complexity of supply chains or digital underinvestment, which will require capital expenditure. Finally, balance sheets' re-leveraging will require indebtedness rescheduling, where PD's bullet profile could emerge as a critical tool. The PD market is much larger than it was at the time of the GFC, and there is a lot of dry powder. With such an abundant capital available in the asset class, stringent selectivity will be key to deliver on PD's promises. We expect a flight to quality, with people wanting to invest in safer strategies, more senior, more secured, and in asset-based financing. This crisis will be a test for some LPs and GPs. We expect to see an increase in European defaults that should be concentrated in certain sectors (e.g., airline, oil & gas, travel/ leisure...) and typology of companies (poor governance, SMEs). **Broad diversification in geography and sector will be paramount, together with investing at the top of the capital structure, where risk-adjusted returns are the most attractive.**

European PD dry powder



Source: Amundi, Preqin. Data and forecasts as of 13 November 2020.

Real estate: opportunities from recent repricing, with differences among sectors

RE investment has solid fundamentals that can help investors to seize opportunities arising from fast-growing trends in offices, retail or logistics. We see the crisis as an opportunity to adjust RE market value scales, focusing on core assets and diversification.

Real estate (RE)

In the unprecedented and evolving context of the Covid-19 crisis, global commercial RE markets saw a YoY decline in deal activity as of September 2020 and fund raising experienced a sharp YoY drop in 3Q20. While some investors opted for a wait-and-see attitude, the ongoing repricing in some market segments could attract new commitments. We believe the flight to quality observed since March should continue, on the back of the current uncertainty around the second wave of the pandemic. This should benefit core assets and properties whose tenants boast strong balance sheets. **Investors still feel comfortable transacting high-quality assets,** as the assets' value should be more resilient than for secondary assets. So far, **repricing has hit risky assets, and we expect to see a scale of value among properties according to location, tenant's financial robustness, and asset's intrinsic features, something that had been dissipating before the crisis.** This is especially true for properties on the periphery and those not dedicated to a specific business sector. We believe investors will monitor the leasing markets, particularly rents. The crisis has occurred in a healthy leasing market for logistics and offices in Europe, with an office vacancy rate that is on average lower than before the GFC. Despite a rise in 3Q20, office vacancy rates remain at low levels in the central business districts of the main European markets, limiting the impact on rents. **Low interest rates should support the recovery,** starting from high-risk premiums on European prime real estate yields, many above 300bps as of September 2020. Finally, **the impact of the pandemic is not linear, with some real estate sectors hit harder than others.**

- We expect the **office sector** to refocus on core assets and remain relatively unscathed for the best quality assets. There are many long-term leases in the market and many firms have been able to adapt to social distancing and are operating with a mobile workforce using technology. Remote working could accelerate, but without disputing that working from the office drives corporate culture, brand and team-building.
- **Logistics** has benefited from high e-commerce activity, with a greater need for industrial warehousing and logistics properties, although a multichannel retailing strategy should become the norm. Since investors see online retailing as a long-term trend, logistics properties can be pricy. The boom in online sales has hit non-food shops harder. With new lockdowns in Europe, some retailers may have more difficulties paying high rents this time round.
- Lastly, **the hotel industry** could suffer the effects of the crisis for longer, assuming its model is not called into question. Although the Covid-19 crisis strongly affected retail and hospitality, they could present some investment opportunities in the longer run, when market fundamentals get rebalanced.

Infrastructure

Few investors were exposed to infrastructure during the GFC. Today, the asset class is undergoing its first global crisis and investors prize its ability to resist market turbulence. As for most private markets, we see divergences between sectors in terms of deal activity and valuation. The high level of dry powder that existed before the crisis is smoothing deal activity in 'safe-haven' sectors such as health, technology or renewables, where a stable number of transactions is happening. In the most affected sectors, such as transportation or midstream energy, there might be opportunities at discount prices, whereas we might see some pricier assets in health or technology. Overall, valuations should stay flattish. **Such stability confirms a core feature of infrastructure: its long-term time horizon.** Prices may be more attractive in some sectors today, but it will not make a big difference in terms of returns in the long run. Buy-and-hold strategies are gaining more traction in this environment. Infrastructure is a multi-faceted asset class that encompasses a complex mapping of risks, such as regulatory risks, political risks, country-level risks, and industrial risks. We believe diversification is key in this asset class in order to deliver the stable return pattern that investors expect. Finally, the Covid-19 crisis should lead to a supportive political and regulatory environment, as the pandemic has emphasised the need for communication and social infrastructures, but also for more renewable energy.

Infrastructure projects should be a key component of most governmental stimulus plans, and we expect to see a rise in greenfield projects. In that context, private capital should play a vital role, as the crisis has put a strain on national debt in most countries.

ESG Focus

Time to become forward-looking in ESG investing

When moving the ESG analysis from a simple snapshot in time to a more forward-looking approach, a natural integration between ESG and financial analysis is required. The result will be greater analysis, a deeper understanding of the fundamental drivers and potentially, improved performance.

Moving into 2021, ESG investing will witness three broad trends: (1) an increased focus on the 'E' and 'S' components; (2) a reduction of the gap between the US and Europe on ESG issues; and (3) the rising importance of ESG improvers.

E and S in focus after the Covid-19 crisis

With its triple hit on education, income and health, the Covid-19 crisis has exacerbated existing inequalities. According to the World Bank, about 88 million people (115 million in a downside scenario) could be pushed into extreme poverty in 2020 as a result of the pandemic.[1] From an investment perspective, the rise in inequality represents a threat to financial stability and could affect asset values. Therefore, **we believe the current crisis will accelerate investors' focus on the 'social' aspect,** even as the 'environment' angle remains in the limelight. In addition to identifying idiosyncratic risks, green or environment-friendly investing will serve as a means to support the economic recovery. In Europe, as part of its €750bn recovery fund, the EU announced a plan to sell green bonds worth €225bn — almost equal to the global total in 2019 — to boost green infrastructure.[2]

US closing the gap with Europe

The average support for environmental and social shareholder resolutions from the recent proxy season was just over 29% among S&P 500 companies, very close to the average support levels of governance-oriented resolutions for the first time ever.[3] Second, while Europe is the global ESG leader in terms of climate policies and AuM, the US is catching up. US ESG assets had increased from $96bn in 2017 to $145bn as of July 2020.

The case for investing in ESG improvers

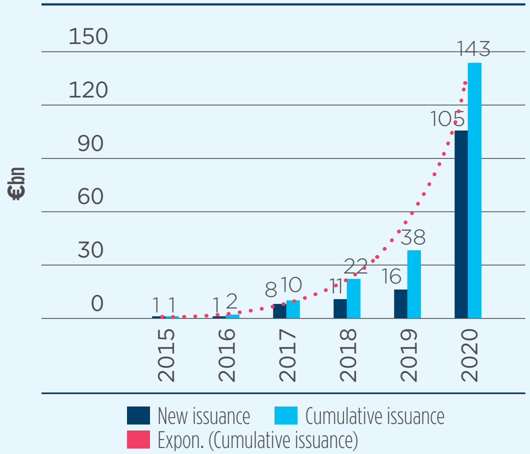
The key question for investors remains how to benefit from this mainstreaming of ESG. While investing in ESG leaders is one way to generate better risk-adjusted returns, ESG improvers (companies with a positive ESG momentum) present, in our view, an attractive opportunity to generate even higher returns. Investors could target a wide range of corporates that are not yet ESG leaders. to harvest the future ESG premium by investing in tomorrow's ESG winners and obtain better risk-adjusted return and better ESG impact.In our view, a combination of the ESG improvers and leaders should allow investors to extract value before a trend materialises and before the premium is established. This can be done by:

- Identifying the ESG drivers that are material to a corporate's ESG profile. For instance, the CO2 footprint is key for an energy company but less so for telecoms;
- Identifying the financial impact of those drivers through both ESG and financial analysis; and
- Understanding how these drivers have changed in the past, and assessing how they will change in the future.

We believe that an optimal portfolio will combine both features, with the ESG leaders acting as a sound quality foundation, while the improvers offer an additional source of potential growth and return.

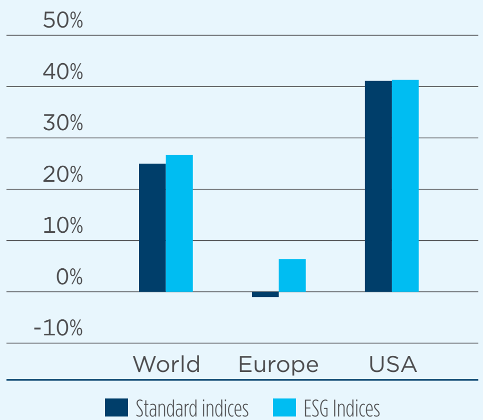
Investor interest in ESG is rewarded by performance

Social bonds market, €bn



Source: Amundi analysis on Bloomberg database on social 'use of proceeds' bonds. Data as of 11 November 2020.

Three-year equity performance



Source: Performance for Standard MSCI indices vs. ESG Leaders MSCI indices from Bloomberg for the period 29 Sep 2017-30 Sep 2020. **Past performance is no guarantee of future results.**

[1]World Bank, [2]Bloomberg, [3]Goldman Sachs. ESG winners/leaders are quality companies with attractive valuations and strong ESG ratings, while ESG improvers are corporates portraying a solid fundamental investment case and an improving ESG trend, but that are not yet ESG leaders.

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Economic forecasts

GDP growth (YoY%), inflation (CPI, YoY%) and Central Bank rates. Forecasts by Amundi Research as of 17 November 2020.

Macroeconomic forecasts

Annual averages (%)	Real GDP growth. YoY%			Inflation (CPI, YoY %)		
	2020	2021	2022	2020	2021	2022
US	-4.1;-3.5	4.7;5.3	2.6;3.2	1.3	2.0	2.1
Japan	-5.1;-4.5	2.9;3.5	1.1;1.7	0.0	0.2	0.2
Eurozone	-7.7;-7.1	4.7;5.3	3.7;4.3	0.2	0.9	1.5
Germany	-6.2;-5.6	3.2;3.8	2.8;3.4	0.7	1.3	1.5
France	-9.3;-8.7	6.0;6.6	3.6;4.2	0.5	0.9	1.6
Italy	-9.3;-8.7	4.4;5.0	2.9;3.5	-0.1	0.5	1.4
Spain	-12.2;-11.6	5.4;6.0	5.4;6.0	-0.5	0.6	1.3
UK	-11.4;-10.8	4.8;5.4	3.5;4.1	0.8	1.5	1.8
Brazil	-4.6;-4.1	3.0;4.0	1.0;3.0	3.1	3.6	3.4
Mexico	-9.5;-9.0	3.6;4.6	1.7;3.7	3.5	3.5	3.3
Russia	-4.0;-3.7	2.5;4.0	1.5;3.0	3.2	3.7	3.8
India	-8.8;-7.8	7.8;9.0	4.7;6.1	6.7	6.0	5.5
Indonesia	-2.8;-2.2	3.0;3.8	4.2;5.2	2.0	2.7	3.3
China	1.5;2.1	7.9;8.5	4.9;5.5	2.5	1.5	2.1
South Africa	-9.1;-8.1	1.9;2.9	0.8;1.8	3.0	3.8	4.3
Turkey	-5.2;-4.2	4.0;5.0	3.5;4.5	11.7	12.8	10.8
Developed countries	-5.9;-5.3	4.4;4.9	2.9;3.4	0.7	1.3	1.6
Emerging countries	-3.2;-2.5	5.5;6.4	3.9;4.8	3.9	3.6	3.7
World	-4.3;-3.7	5.1;5.8	3.4;4.3	2.6	2.7	2.8

Central bank rates forecasts

	6 November 2020	Amundi +6m.	Consensus +6m.	Amundi +12m	Consensus +12m.
US	0.13	0.00/0.25	0.08	0.00/0.25	0.07
Eurozone	-0.50	-0.50	-0.54	-0.50	-0.60
Japan	-0.05	-0.10	-0.06	-0.10	-0.09
UK	0.10	0.00	0.04	0.00	-0.04
China	3.85	3.85	3.80	3.85	3.80
India	4.00	4.00	3.70	4.00	3.70
Brazil	2.00	2.00	2.00	2.25	2.40
Mexico	4.25	3.75	3.95	3.75	3.95
Russia	4.25	4.00	4.15	4.25	4.15
Turkey	10.25	11.75	10.80	12.75	10.35
South Africa	3.50	3.50	3.50	3.75	3.50

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Financial market forecasts

Bonds yields

2-year bond yield forecasts

	12 November 2020	Amundi +6m.	Consensus +6m.	Amundi +12m.	Consensus +12m.
US	0.18	0.10/0.30	0.27	0.10/0.30	0.36
Germany	-0.72	-0.70/-0.50	-0.60	-0.70/-0.50	-0.57
Japan	-0.13	-0.20/-0.10	-0.11	-0.20/-0.10	-0.09
UK	0.00	0.00/0.25	0.01	0.00/0.25	0.06

10-year bond yield forecasts

	12 November 2020	Amundi +6m.	Consensus +6m.	Amundi +12m.	Consensus +12m.
US	0.93	0.80/1.00	0.93	1.10/1.20	1.11
Germany	-0.52	-0.60/-0.40	-0.35	-0.50/-0.30	-0.25
Japan	0.03	-0.10/0.10	0.02	0.00/0.20	0.03
UK	0.41	0.20/0.40	0.31	0.30/0.50	0.43

Equities

MSCI Index levels at	US	Europe	EMU	UK	Japan	Pacific ex-Japan	World	World AC
09/11/2020	3 435	1 545	217	1 738	1 019	470	2 502	600
Low bound	3 350	1 490	200	1 630	1 000	430	2 450	590
High bound	3 950	1 760	250	1 910	1 120	510	2 870	680

Exchange rates

Exchange rates forecasts vs. USD

	9 November 20	Amundi +6m.	Consensus +6m.	Amundi +12m.	Consensus +12m.
EUR/USD	1.18	1.20	1.20	1.21	1.21
USD/JPY	105	104	106	106	106
GBP/USD	1.32	1.31	1.33	1.34	1.34
USD/CHF	0.91	0.91	0.92	0.93	0.92
USD/NOK	9.04	8.74	8.92	8.50	8.68
USD/SEK	8,63	8.57	8.62	8.25	8.28
USD/CAD	1.30	1.30	1.31	1.28	1.30
AUD/USD	0.73	0.74	0.73	0.76	0.75
NZD/USD	0.68	0.68	0.68	0.68	0.7
USD/CNY	6.63	6.55	6.70	6.40	6.73

Exchange rates forecasts vs. EUR

	9 November 20	Amundi +6m.	Consensus +6m.	Amundi +12m.	Consensus +12m.
EUR/USD	1.18	1.20	1.20	1.21	1.21
EUR/JPY	124	124	126	128	129
EUR/GBP	0.90	0.91	0.90	0.90	0.90
EUR/CHF	1.08	1.09	1.09	1.12	1.11
EUR/NOK	10.69	10.44	10.48	10.30	10.25
EUR/SEK	10.19	10.25	10.28	9.99	10.14
EUR/CAD	1.54	1.55	1.57	1.55	1.57
EUR/AUD	1.62	1.62	1.64	1.60	1.61
EUR/NZD	1.73	1.76	1.76	1.78	1.73
EUR/CNY	7.86	7.83	8.04	7.75	8.14

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Definitions

- **Asset purchase programme:** A type of monetary policy wherein central banks purchase securities from the market to increase money supply and encourage lending and investment.
- **Basis points:** one basis point is a unit of measure equal to one one-hundredth of one percentage point (0.01%).
- **Core plus real estate investment strategy:** 'Core plus' is synonymous with 'growth and income' in the stock market and is associated with a low to moderate risk profile. Core plus property owners typically have the ability to increase cash flows through light property improvements, management efficiencies or by increasing the quality of the tenants. Similar to core properties, these properties tend to be of high quality and well occupied.
- **Core real estate investment strategy:** 'Core' is synonymous with 'income' in the stock market. Core property investors are conservative investors looking to generate stable income with very low risk. Core properties require very little hand-holding by their owners and are typically acquired and held as an alternative to bonds.
- **Correlation:** the degree of association between two variables; in finance, it is the degree to which assets or asset class prices have moved in relation to each other. Correlation is expressed by a correlation coefficient that ranges from -1 (perfectly negative correlated) through 0 (absolutely independent) to 1 (perfectly positive correlated).
- **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.
- **Curve steepening:** A steepening yield curve may be a result of long-term interest rates rising more than short-term interest rates or short-term rates dropping more than long-term rates.
- **Default rate:** The percentage of issuers that failed to make interest or principal payments in the prior 12 months. Default rate based on BofA indices. Universe consists of issuers in the corresponding index 12 months prior to the date of default. Indices considered for corporate market are ICE BofA.
- **Diversification:** Diversification is a strategy that mixes a variety of investments within a portfolio, in an attempt at limiting exposure to any single asset or risk.
- **Dry powder:** It refers to cash reserves kept on hand by a company, venture capital firm or individual to cover future obligations, purchase assets or make acquisitions. Securities considered dry powder could be Treasuries or other short-term fixed income investment that can be liquidated on short notice in order to provide emergency funding or allow an investor to purchase assets.
- **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.
- **FX:** FX markets refer to the foreign exchange markets where participants are able to buy and sell currencies.
- **GP:** General partner, a fund manager that raises capital from institutional investors through open-ended or closed-ended fund structures or non-fund vehicles with fund-like economics.
- **LBO:** Leveraged buyout. It is the acquisition of another company using borrowed money to meet the cost of acquisition. The assets of the company being acquired are often used as collateral for the loans, along with the assets of the acquiring company.
- **LP:** Limited partner, an institutional investor that commits capital to private funds through limited partnerships.
- **MOVE** is the Merrill Lynch Option Volatility Estimate for the US Treasury.
- **P/E ratio:** The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings (EPS).
- **Quantitative easing (QE):** QE is a monetary policy instrument used by central banks to stimulate the economy by buying financial assets from commercial banks and other financial institutions.
- **VIX:** the CBOE volatility index. The VIX index is a measure of market expectations of near-term volatility on the S&P 500 (US equity).
- **Volatility:** the statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.

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