Amundi
Investment Solutions

Trust must be earned

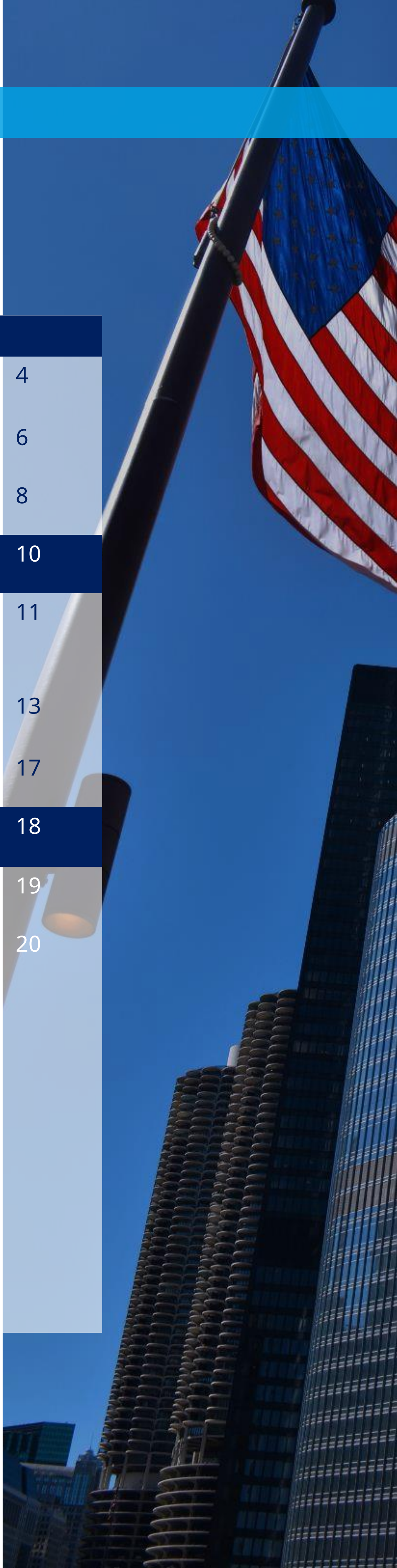
Investment Institute

What Trump 2.0 means for the economy and markets

CROSS ASSET INVESTMENT STRATEGY

FEBRUARY 2025 • Document for professional investors only

TABLE OF CONTENTS



"The US Fed faces an uncertain outlook, with a high expected fiscal deficit and possible labour supply shocks, which will weigh on the inflation outlook"

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

"With uncertainty looming – from Trump tariffs to the impact of DeepSeek on AI – we are focusing on global equity opportunities, diversifying with gold and maintaining a tactical approach to duration."

VINCENT MORTIER
GROUP CHIEF INVESTMENT OFFICER

TOPIC OF THE MONTH

What Trump 2.0 means for the global economy

AUTHORS

MAHMOOD PRADHAN
HEAD OF GLOBAL MACROECONOMICS, AMUNDI INVESTMENT INSTITUTE

ANNALISA USARDI, CFA
SENIOR ECONOMIST, HEAD OF ADVANCED ECONOMY MODELLING, AMUNDI INVESTMENT INSTITUTE

KEY TAKEAWAYS

Our simulations indicate that tariffs could negatively impact economic growth by 0.2-0.3% and increase inflation by approximately 0.3%, in both imposing and affected countries.

The size, timing, and sequence of these measures are key to understanding their impact, with the strategy likely targeting specific sectors and products rather than broad measures.

China is likely to implement fiscal support measures to shift production chains to Asia and Latin America, reducing US imports and mitigating tariff effects. In contrast, Europe lacks this flexibility but could accelerate reforms and investments.

The policy environment in the US has become very uncertain. making conventional macro forecasting difficult. But the early indications from executive orders, policy announcements and orders to review bilateral trade relations suggest that President Trump intends to follow through on: immigration control; tariffs; and tax cuts. Withdrawing the US from the OECD agreement on corporate taxation is new and has potentially very adverse consequences – tax competition will reduce competitiveness and the tax base in many advanced economies.

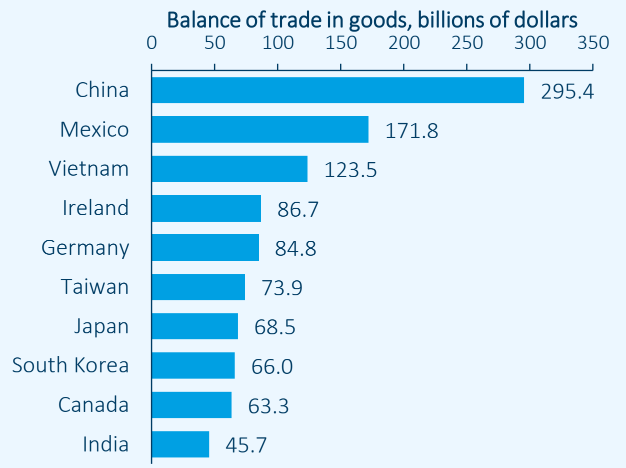
Expected impact on the US and global economy

Overall, we **expect the Trump policy package to reduce growth by about 0.2% to around 2% in 2025 and below 2% in 2026,** and raise inflation to around 2.5% in 2025 (similar to what the Fed now expects). **Deregulation and tax cuts will provide a near-term boost,** but they also have the potential to **keep yields high given elevated public debt and constrain private spending.** Reversing part of Biden's Inflation Reduction Act will also weigh on investments.

Uncertainty also complicates the Fed's task. Until there is more clarity, we expect a near-term pause from the Fed and market expectations of higher for longer.

The global implications of tariffs are more difficult to discern because Trump may be transactional for many countries. **But given Trump's primary concern is large bilateral trade deficits, it is difficult to see how these can be brought down without tariffs** (or fiscal restraint in the US). Moreover, countries with large trade surpluses with the US (Germany, China, Canada, Mexico, for example), may not be in a position to credibly offer to reduce these surpluses through lower tariffs on US exports and pledges to buy more from the US, at least not in the near term.

Biggest US trade deficits in goods, 2024



Source: Amundi Investment Institute, on BEA data. Data as of 5 February 2025.

Impact on Europe

With a trade surplus of more than $200 bn with the US, the EU will be bracing itself to be next to suffer US tariffs. **The US is the biggest destination for EU exports –** at over €500 bn (20% of exports) it is a bigger market than China. Even relatively low tariffs of 10% would have a substantial impact, with Germany, Ireland and Italy the most exposed, while France and Spain are more insulated. **We estimate growth would be reduced by around a quarter of a percentage point to 0.8% in 2025**, potentially derailing the recovery to potential growth this year. It is difficult to gauge how the EU might respond because, even though EU officials will have been drawing up a retaliation list, consensus among political leaders may take time. Some have called on the EU to exercise restraint. **The EU has the legal competency to respond, including through tariffs, which it did in 2018 when the Trump 1.0 administration raised tariffs on iron and aluminium from Europe**. But with surprisingly high proposed tariffs on close and integrated allies (Canada and Mexico), **the EU may consider how to limit the risk of a wider trade war**. Some EU leaders will want to negotiate to try to meet President Trump's demands, but the outcome of such negotiations is very uncertain. Though the EU can agree to buy more LNG and defence equipment from the US (consistent with Trump asking Europe to raise its Nato contribution), this would only reduce Europe's large bilateral trade surplus over the medium term. Beyond the immediate challenge, the EU (like China) will seek to extend its network of bilateral and regional trade agreements (such as the recent Mercosur agreement) to reduce its dependence on the US.

DIDIER BOROWSKI, HEAD OF MACRO POLICY RESEARCH, AMUNDI INVESTMENT INSTITUTE

Impact on China

Following the February 4 deadline, the 10% US tariffs on imports from China remain in effect. While we had not anticipated a sweeping 60% tariff on all imports or the removal of China from Permanent Normal Trade Relations (PNTR) status, a gradual and incremental protectionist approach has begun. **As of today, China's response has been limited and targeted, allowing room for further negotiations**, especially considering that the America First Trade Policy report, which includes a more thorough trade investigation, is due by early April. Starting on February 10, **China is implementing a 10% tariff on crude oil, agricultural machinery, large vehicles and pickups, while imposing a 15% tariff on coal and natural gas**. Additionally, China has initiated an antitrust investigation against Google. **An extra 40% blanket tariff from US could reduce China's growth by an accumulated 1.2% over the period from 2025 to 2028, assuming no significant fiscal support from the authorities.** However, we expect that the implementation of US tariffs over a four-year period will be accompanied by **additional fiscal stimulus to mitigate the negative impact**. Adjustments and reassessments will be necessary as the situation evolves, ensuring that the effects on both domestic and international markets are carefully managed. With the adoption of expansionary fiscal policies aimed primarily at stabilising domestic demand and countering the adverse effects of US policies, we **anticipate GDP growth of 4.1% in 2025.**

ALESSIA BERARDI, HEAD OF EMERGING MACRO AND STRATEGY RESEARCH - AMUNDI INVESTMENT INSTITUTE

Trump's foreign policy

Trump's foreign policy will be influenced by various factors, including the desire to wield tariffs for policy goals, a push for reindustrialisation and an interest in weakening competitors, while leaving a legacy as a peacemaker. Trump's agenda will encounter both domestic and international constraints. The 'landing zone' of these overlying dynamics will likely lead to deteriorating US-China relations dominated by economic decoupling in key sectors. However, the relationship will also include upsides as both sides strive to start on good terms. Negotiations between Russia and Ukraine will begin in H1, although achieving a ceasefire will be challenging, with the US likely to impose further economic pressure on Russia. The US-EU relationship will remain unstable, with EU leaders facing a mix of intimidation and cooperation. Additionally, relations with Latin American countries and Canada will be strained as the US seeks to expand its influence.

Despite significant volatility, new winners will emerge amid global diversification efforts.

ANNA ROSENBERG, HEAD OF GEOPOLITICS - AMUNDI INVESTMENT INSTITUTE

TOPIC OF THE MONTH

What Trump 2.0 means for markets

AUTHORS

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

GUY STEAR
HEAD OF DEVELOPED MARKETS STRATEGY, AMUNDI INVESTMENT INSTITUTE

ERIC MIJOT
HEAD OF GLOBAL EQUITY STRATEGY, AMUNDI INVESTMENT INSTITUTE

Since Trump's inauguration, the market has modestly revised down the 'Trump trade' (i.e., tech sector, US dollar, crypto) while maintaining an overall positive sentiment. Attention is now focused on trade announcements, as markets have yet to fully price in the potential mix of Trump's policies. We expect volatility to persist with any additional news on tariffs. However, if **Trump adopts a transactional approach rather than escalating into a harsh trade war, we anticipate that equity markets will remain resilient**. On fixed income, inflation and expectations regarding the Fed's actions will continue to be the primary drivers. With the **Fed currently on hold**, upcoming tariff announcements and economic data will be crucial in determining the Fed's next steps.

Overall, **the market environment is likely to remain supported by the current positive economic backdrop in the first half of the year, but uncertainty is heightened**. As we move into the latter part of the year, the impact of tariffs on economic growth and inflation could prompt **earnings revisions, potentially harming risk sentiment**. Tail risks – such as a full-blown trade war, higher geopolitical tensions, rising inflation pressures, and a new oil price war – appear little priced in. On the positive side, a ceasefire in the Russia-Ukraine war is not priced in either and could be a positive catalyst for European assets.

Fixed Income – Expect volatility to stay high

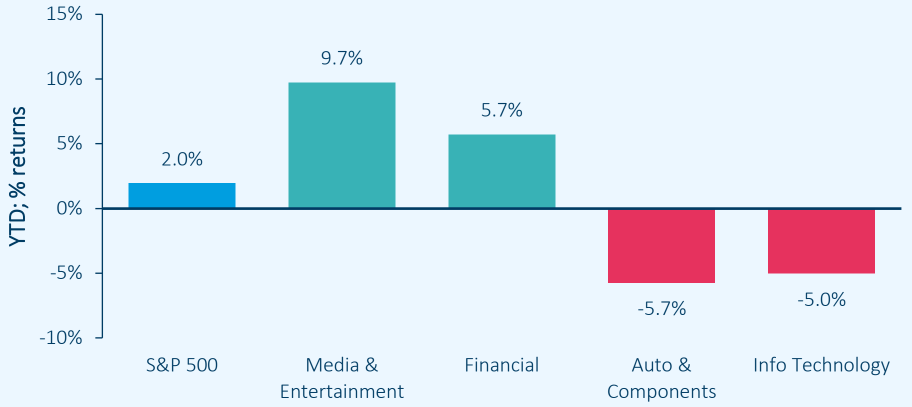
Fixed income markets are still trying to assess whether Donald Trump's policies will change the outlook for growth and inflation, and central banks' responses. Markets will remain focused on actual economic releases, with the recent below-expectations CPI reading driving yields lower. Yields continued to drop to 4.5% after the inauguration, while the 30-day realised volatility also fell. With renewed tariff threats, yields could again test the 4.8% level by the end of Q1, before moving lower as growth slows.

In the absence of a full-blown trade war, markets should remain resilient in the first half of the year, favouring a risk asset exposure with some hedges in place.

US 10-year Treasury yields likely to stay volatile

Source: Amundi Investment Institute, Bloomberg. Data as of 3 February 2025.

Equity sector rotation at play



Source: Amundi Investment Institute, Bloomberg. Data as of 3 February 2025.

Financials, software, media and telecoms are expected to remain resilient, as they are less exposed to trade tariffs.

Equity – Rotations within the US market are set to continue

As the US government implements expected tariff policies, **a clear divide is emerging between the winners and losers in the market.** While some sectors stand to benefit, others may face significant challenges.

Tax cuts are anticipated to benefit companies with a strong presence in the **US, particularly US small- and mid-cap firms and financials**, as well as non-US companies with production facilities located in the US. In contrast, tariffs are likely to affect non-US producers, especially those from countries with significant trade deficits. Sectors reliant on goods exports, such as autos, face greater risk, **while service sectors like software, media, and telecoms are expected to be more resilient**.

In Europe, less than half of the European equities sales are domestic and therefore potentially exposed to an EU GDP slowdown. With regards to global sales, only about 6% of sales are at risk of tariffs, so the market should remain resilient overall. A relaxation of regulations is likely to spur corporate activity, further supporting the equity market.

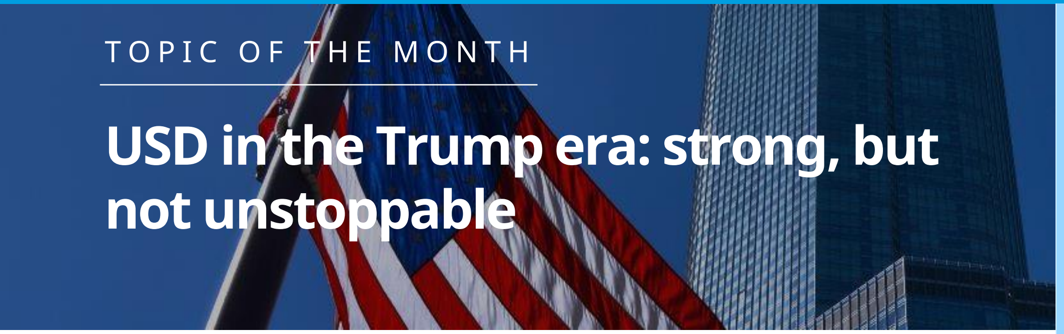
Overall, US financials tick all the positive factor boxes: they are domestic, benefit from deregulation, and stand to gain from persistently high bond yields if inflation remains sticky or if a high budget deficit continues. The commodity and tech sectors may also see advantages from reduced regulatory burdens.

Artificial Intelligence (AI) will continue to be a key market theme, as evidenced by the 'Project Stargate' announcement. However, the emergence of the new Chinese DeepSeek model challenges the crowded AI trade – a symbol of US exceptionalism. Its cost efficiency points to a rotation from spending hyperscalers to adopters, with software likely to benefit. This also argues in favour of a broadening of participation in the bull market.

Beyond geopolitical constraints, all else being equal, increased competition and open-source Gen-AI models should enhance global productivity over the long term and remain a positive driver for equities.

Emerging Markets – FX and equity risk sentiment to stay weak in the short term

Tariff uncertainty will weigh on risk sentiment in EM markets, particularly in equity and FX. In equities, we moved to neutral ahead of Trump's inauguration. Key risks include developments with China, Russia and Iran, which currently skew EM equities towards the downside but could also present significant upside potential if geopolitical tensions ease. India remains a long-term story but is at risk due to current high valuations, while Mexico and South Korea appear well-positioned for a rebound once tariff tensions ease. On China, we favour the domestic A-share markets which could benefit from fiscal stimulus targeted to sustain domestic demand. **Renminbi depreciation is in China's toolbox to offset tariff increases. Our target for Q1 2025 is 7.5 from 7.25 currently**. Regarding EM bonds, we favour hard currency debt, particularly in the HY segment where yield levels are more appealing.



TOPIC OF THE MONTH

USD in the Trump era: strong, but not unstoppable

AUTHORS

FEDERICO CESARINI
HEAD OF DEVELOPED MARKETS FX STRATEGY, AMUNDI INVESTMENT INSTITUTE

LAURENT CROSNIER
GLOBAL HEAD OF FOREX, AMUNDI

Since the beginning of Q4 2024, the US dollar (USD) has strengthened, affecting both G10 and EM currencies. Amplified by the outcome of the US elections (given the Trump administration's aim to boost US growth at the expense of the rest of the world), the movement was further intensified by the Federal Reserve's (Fed) shift in communication in December. In the wake of the subsequent bond and equity sell-off (which lasted until the miss in US CPI and PPI inflation), the USD has emerged as the only effective diversifier.

In the near term, we have a positive outlook on the USD, which still has a tailwind supported by its high carry vs G7 currencies. We are positive for its performance against the Euro in particular, due to contrasting macroeconomic fundamentals and divergent central bank policies. The January central bank meetings highlighted these differences: the Fed held rates steady amid risks of rising inflation from tariffs and immigration policies, while the European Central Bank (ECB) cut rates in response to slower growth and declining inflation.

Uncertainty supports the USD in the short term, yet too violent an appreciation seems unlikely.

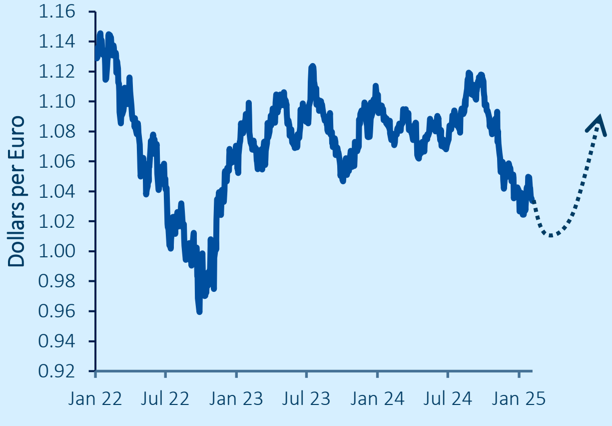
Risks to this outlook include Trump's potential desire to weaken the dollar, increasing scrutiny of the Fed's independence and the impact of a rising budget deficit, which may affect the medium-term perspective.

The medium-term perspective is more challenging for the USD

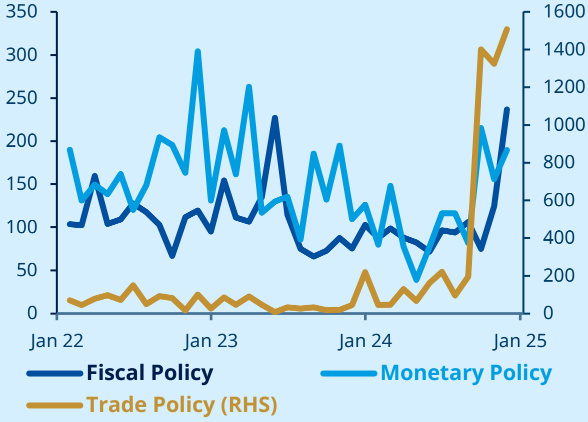
A strong USD trend (i.e. a repetition of what was experienced in 2022) seems unlikely to us, unless the market begins to price in interest rate hikes for 2025 and beyond. Consistent with the revisions we have made about the Fed (on hold in Q1 and reaching a higher terminal rate than previously expected) and the rising risks on trade, we expect a firmer USD in the short term, but still see EUR/USD around 1.10 for year-end.

USD short-term strength in a world of high uncertainty

USD to remain strong in the short term. EUR/USD to bounce back towards 1.10 in H2



Uncertainty supports the USD in the short term, but the bar for additional upside is high now



Source: Amundi Investment Institute (AII), Bloomberg. Policy uncertainty indexes are from Baker, Bloom & Davis. These are derived using results from the Access World News database of over 2,000 US newspapers. Each sub-index is calculated using specific economic, uncertainty, and policy terms as well as a set of categorical policy terms. Data as of 3 February 2025.

Four conditions support our view.

1. A high bar for positive surprises in the US: The macroeconomic landscape in 2025 differs significantly from 2024 when expectations pointed to a gloomier economic outlook and markets were anticipating six or seven cuts from the Fed. Now, growth expectations are at around 2% and the market expects fewer Fed cuts ahead. If the rising uncertainty supports the USD, already high USD positioning among investors raises the bar for positive surprises.

2. Depressed sentiment outside the US: Weak growth in Germany and France, along with China struggling to revive its private sectors and risks to world trade from higher US tariffs, limit alternatives to the USD. However, the current depressed sentiment outside the US highlights that the bar is high for further disappointments. Potential game changers, like fiscal easing in China, the German elections or a resolution to the Ukraine war, could boost sentiment and challenge the USD.

3. Impact of falling US rates: The USD typically appreciates when the US economy outperforms others or during global growth weakness (leading to safe-haven flows). While we expect the former condition to hold in 2025, we do not anticipate USD strength based on a risk-off environment driven by growth concerns. The correlation structure since the pandemic shows the USD appreciating mainly when US interest rates rise and equities fall, but also shows the USD has sold off when US interest rates drop, even in the presence of risk capitulation. Something we experienced in the summer of 2024 and, more recently, when DeepSeek drove the entire equities market down.

4. Peaking US core and services inflation: Although inflation remains above target, its most sticky components are subject to negative base effects and should experience little impact from US tariffs. This may alleviate pressure on the Fed and justify lower rate expectations

The outlook for the USD carries significant risks. The primary risk stems from the rising probability of interest rate hikes. Should the market start to price in a scenario where the Fed has to hike at the expense of growth, USD appreciation will become acute. This was the primary driver behind the USD surge against other currencies in 2022 and remains a key risk for 2025.

The USD correlation structure

USD correlation vs S&P500 in different equity and bond environments.

	Falling rates	Flat rates	Rising rates
Equity Risk off	11%	-24%	-37%
Equity Risk on	-34%	-25%	-27%

Expected USD behaviour

	Falling rates	Flat rates	Rising rates
Equity Risk off	$ ↓	$↑	$↑
Equity Risk on	$ ↓	$ ↓	$ ↓

Correlation dynamics since the pandemic show the USD tends to appreciate when US rates rise and equities fall, but it can also weaken when rates fall, even amid risk asset sell-offs.

Source: Amundi Investment Institute, Bloomberg. Correlation analysis on weekly returns on S&P 500 vs the US Dollar Index (DXY). Data from 1 January 2020 to 31 January 2025.

Short-term currency reaction from Trump's tariffs

The magnitude, timing and scope of the recently announced tariffs by the US administration remain unclear, yet the initial market reaction has been predictable. The USD rallied across the board, except against the JPY – where growth concerns support the currency – and to some extent the GBP, which faces minimal tariff risks due to the UK's lack of a trade surplus with the US. While this reaction is understandable, its long-term impact is uncertain. In the coming weeks we expect:

- **Prevailing uncertainty to support the USD,** as investors will likely seek a higher risk premium before considering short positions.
- **Small open economies to face significant challenges**, as a global trade shock will adversely affect export-oriented nations already burdened by high debt service ratios**.** This may lead to monetary policy divergence, putting pressure on their currencies **(CAD and antipodeans)**.
- **While tariffs may impact inflation, we believe the net effect will be a drag on growth. The JPY will shine** when growth disappoints.
- **Should Europe be the next target, the EUR trade-weighted index will have to adjust lower.**

GLOBAL INVESTMENT VIEWS

Markets: a tug of war between inflation fears and optimism

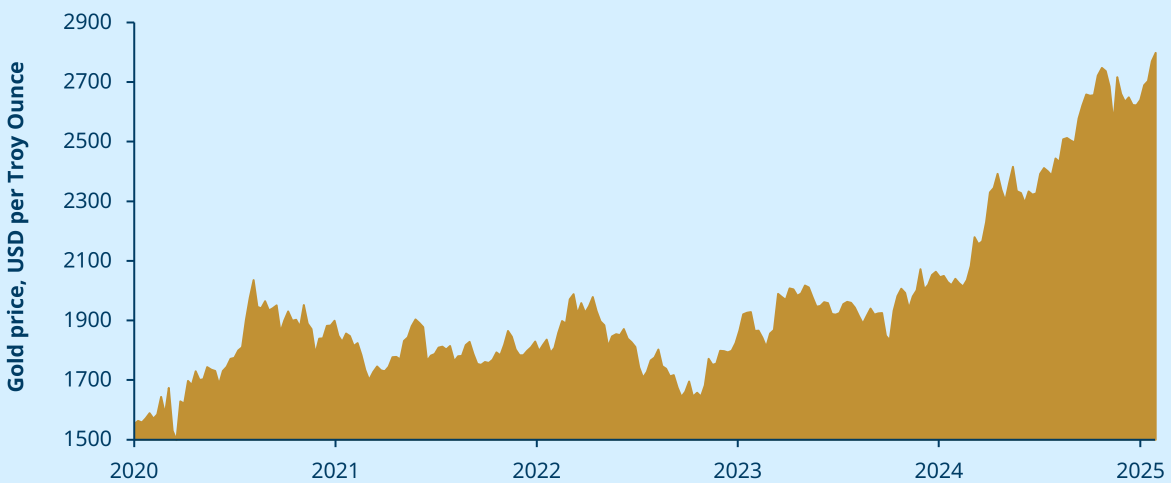
The Trump 2.0 era is upon us and markets have already become extremely sensitive to inflation data, a trend that will likely last in the coming months. Higher inflation sensitivity has also turned equity/bond correlation back to positive. Markets are currently influenced by two opposing forces: the prospect of Trumponomics reinforces the narrative of US exceptionalism, while the imposition of tariffs introduces uncertainty into global supply chain dynamics and inflation trajectories. As the battle between these two narratives will keep volatility high, investors should focus on:

- **Earnings trajectory amid US fiscal policy, tariffs and AI.** While fiscal loosening and deregulation may provide a temporary boost to GDP, the negative effects of tariffs and reduced immigration are likely to weigh on economic performance in the last part of the year. Tariffs will also impact corporate earnings, with potential risks of revisions in H2, while short-term focus will be on how the recent announcement of a new low-cost AI model by Chinese DeepSeek could affect global players.
- **Asynchrony in central banks' actions.** The Fed is on pause, with cuts likely to come later in 2025 if inflation data retains a downward trend. In Europe, we expect both the ECB and the BoE to cut rates sooner, while the Bank of Japan (BoJ) remains in the hiking mode.
- **US dollar volatility, rising oil prices and China's stimulus are key themes for Emerging Markets.** Uncertainty remains high amid high geopolitical risks and expectations of Trump's tariffs.

VINCENT MORTIER
GROUP CIO

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

Global uncertainty driving gold to new highs



Source: Amundi Investment Institute, Bloomberg. Data as of 31 January 2025.

From an investment perspective, the backdrop remains mildly supportive for risky assets thanks to a resilient growth outlook, accommodative central bank policies and abundant liquidity.

- **In fixed income, ongoing yield volatility calls for an active and tactical duration approach.** Globally, current yield levels are historically appealing, so we have slightly increased our duration stance, particularly in Europe. In the US, while rates are attractive, we expect high rates volatility and favour the intermediate part of the yield curve on a risk-reward basis. We maintain a positive stance on global IG credit, where we have been seeking opportunities in the primary market. Overall, we continue to favour IG over HY and financials over industrials. We also like HY alternatives, such as leveraged loans, due to their more attractive valuations.
- **In equities, we are positive overall with a focus on global diversification to play the broadening rally.** In the US, we prefer equal-weighted indices compared to the overvalued cap-weighted indices. We like financials and materials, and focus on companies likely to benefit from Trump policies but that remain unpriced, and defensives that have reasonable valuations. In Europe, with expected rate cuts and inflation moderation, we see potential in defensive consumer staples and healthcare stocks with price leadership, as well as quality banks with strong balance sheets and lower sensitivity to rate changes.
- **Emerging Markets (EM) continue to be a selective story**. We maintain a neutral stance on global EM equities due to uncertainty surrounding Trump's policies. In bonds, the outlook for EM HC debt is constructive. Overall, we favour local rates in nations offering high nominal and real yields, and that are less exposed to the new US administration's policies. We look for selective opportunities in HY credit, expecting no significant spread widening as new issuances are well absorbed.
- **From an asset allocation perspective, the positive backdrop for risk assets leads us to maintain** a mildly positive risk stance in global equities. We have also become more positive on Euro Investment Grade (IG) credit, while we moved to a neutral stance on EM debt. We believe investors should maintain a focus on equity hedges in the US market due to tight valuations and diversify with gold to better cope with the potential volatility arising from geopolitical and inflation risks.

With uncertainty looming – from Trump tariffs to the impact of DeepSeek on AI – we are focusing on global equity opportunities, diversifying with gold and maintaining a tactical approach to duration

Overall risk sentiment

Risk off **Risk on**

The overall risk stance remains slightly positive. We believe investors should favour IG credit and equity, and balance this with equity hedges and gold.

Changes vs previous month

- Fixed income: we have become more constructive on duration, particularly in Europe
- Cross assets: we have become more positive on Euro IG credit, moved to neutral from positive in EM local debt and increased focus on equity hedges and gold.

*Overall risk sentiment is a qualitative view towards risk assets (credit, equity, commodities) expressed by the various investment platforms and shared at the global investment committee (GIC) held on **24 January 2025**. It reflects views over a one month horizon, from one GIC to the other. Our stance may be adjusted to reflect changes in the market and economic backdrop.*

ECB= European Central Bank, DM= Developed Markets, EM = Emerging Markets, CBs = central banks, IG = investment grade, HY = high yield,. HC = Hard Currency, LC = Local Currency. For other definitions see the last page of this document.

Three hot questions

1

What is your outlook for the US economy in 2025?

Our 2025 US GDP forecast is around 2%*. We believe it is prudent to factor in some of Trump's policy intentions, such as the implementation of tariffs – 10 % on all imports and an increase to 60 % on China – beginning in H1 2025, with effects on growth expected from H2 2025 to H1 2026. We also expect higher yields, which will impact the real economy, including consumption, housing and investment. While some pressures on investment may be mitigated by deregulation in the banking and energy sectors, as well as increased investment in AI, there remains uncertainty regarding Trump's position on the Inflation Reduction Act (IRA). Overall, the net effect of this entire package is likely to be negative for growth. Immigration policy will be crucial for labour supply, impacting wage growth and inflation, which we see at around 2.5% in 2025.

Investment consequences

- Prefer a neutral stance on US equities.
- Short-term positive on the USD, USD weakness in the medium term.

2

What are your views on DM central banks?

The US **Fed** faces an uncertain outlook, with a high expected fiscal deficit and possible labour supply shocks, which will weigh on the inflation outlook. We expect three cuts this year (Fed Funds upper target at 3.75% by year-end). The **ECB** will face less uncertainty, as US tariffs loom, clouding the economic outlook. As such, policy rates should be reduced steadily. We expect five 25bp rate cuts overall in 2025, with the policy rate at 1.75% by mid-2025. In the UK, progress on disinflation has been slow and the government's fiscal constraint is tight, meaning that growth could be weaker than expected. Hence, the **BoE** should cut at least four times, with the bank rate at 3.75% by year-end. The **BoJ** hiked rates by 25bp to 0.5% in January and we see another 25bp hike this year.

Investment consequences

- Steeper US curve, 5-30y steepeners.
- Tactical duration management, adding duration overall.

3

What are the implications of higher US yields on default rates?

As Trump's policies are likely to result in a higher deficit and increased inflation expectations, Treasury yields could test the 5-5.25 range if growth weakens further. While higher interest costs alone may not significantly impact defaults, a slowdown in economic growth and weak cash flow could lead to an increase in defaults, particularly among CCC-rated issuers, whose EBITDA has been declining over the past couple of years despite relatively benign growth dynamics.

Investment consequences

- Positive in Credit IG
- Neutral in HY

The US Fed faces an uncertain outlook, with a high expected fiscal deficit and possible labour supply shocks, which will weigh on the inflation outlook

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

* 2% is the result of tentative assumptions on US policy shift, unknown at the time of writing.

MULTI-ASSET

AUTHORS

FRANCESCO SANDRINI
HEAD OF MULTI-ASSET STRATEGIES

JOHN O'TOOLE
HEAD OF MULTI-ASSET INVESTMENT SOLUTIONS

Risk on, but with hedges and gold

We continue to expect a benign overall economic outlook, with DM countries running at different speeds and China stimulating the economy in an effort to mitigate structural downtrend and tariff risks. In the US, economic growth is normalising, but Trump policies raise uncertainties on various fronts – risks of labour supply shortages due to restrictive immigration policies, tariffs and fiscal policy. In the Eurozone we expect some modest and heterogeneous recovery with downside risks linked to tariffs. All in all, this paints a benign but uncertain outlook, which leads us to remain positive on risky assets, while at the same time we believe investors should increase hedges on equities and favour gold to enhance diversification.

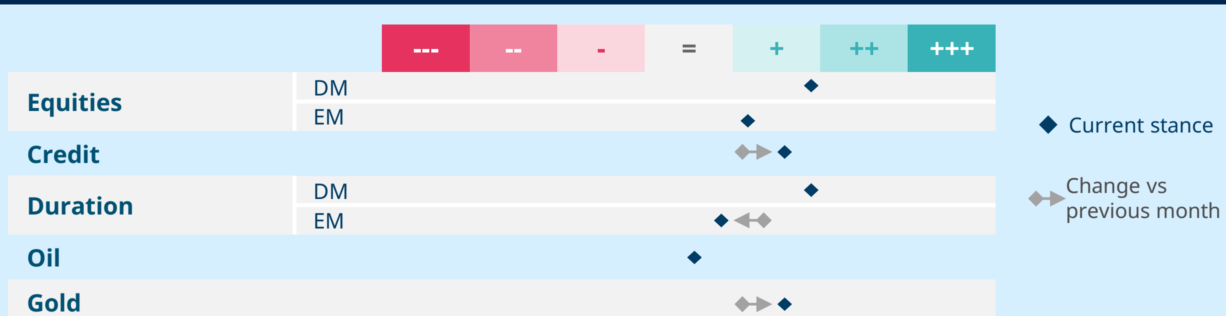
Therefore, we maintain our **positive stance on global equities**. We believe it is important to diversify by regions and styles. Growth opportunities are more prominent in the US, while Japan and the UK offer more value-oriented investments. The Eurozone still faces significant challenges, but much of this risk is already priced into valuations which remain appealing compared to the US. **We remain close to neutral in EM** equity and are cautiously optimistic on China, due to its appealing valuations and expectations of policy support.

In fixed income, we remain **positive on the 2-year Treasury** and maintain our view of a steepening yield curve in 5-30 year maturities. We maintain our positive stance on EU rates and UK rates as well, and we remain cautious on JGBs. We also remain positive on Italian BTPs versus German Bunds. In credit, we **have become more constructive on European IG credit** due to strong demand and solid fundamentals. In **EM debt, we have moved to a neutral stance** on EM local debt as disinflation slows and the capacity for EM central banks to cut rates is fading, while we remain neutral on hard currency debt.

We actively diversify the overall allocation with currencies by keeping a preference for USD vs CHF and for JPY vs CHF. We keep a cautious view on the trade-weighted EUR as Eurozone is weaker and the ECB is dovish. In EM, we still like BRL but we are no longer positive on INR.

"Now is the time to diversify across multiple axes: regions, styles, adding gold, and seizing regional and curve opportunities in bonds"

Amundi Cross-Asset convictions



Source: Amundi. The table represents a cross-asset assessment on a three- to six-month horizon based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/++/+++). This assessment is subject to change and includes the effects of hedging components. FX = foreign exchange, BTP = Italian government bonds, BoJ = Bank of Japan, JGB = Japanese govt. bonds, BoE = Bank of England. For other definitions and currency abbreviations see the last page of this document.

FIXED INCOME

In Trump 2.0, bonds will be a key income engine

Trump 2.0 policies are likely to diverge from current market expectations as 2025 unfolds. Inflation will be a key factor in evaluating the Fed's trajectory, with Trump's policies potentially limiting future Fed easing unless a significant growth shock occurs. At current levels, **global fixed income markets provide attractive yields**, serving as a buffer against macroeconomic and monetary policy uncertainties, **which makes them appealing as income generators and portfolio diversifiers**. Global investors should also look at opportunities in Europe, which offer higher visibility on the ECB's direction and in **EM hard currency debt**. Here the outlook remains positive, supported by attractive absolute yields, although careful country selection is key.

Global and European fixed income

- **We have increased our duration stance** and are now positive on Europe and the UK where CBs remain more dovish. We **have become slightly positive on US duration** and **remain cautious on JPY**.
- We **are positive on credit,** tactically adjusting our stance based on market conditions and new issuance opportunities. We favour Euro financials and subordinated debt, and IG over HY (favouring non-cyclicals and cautious CCC).
- In FX, we favour USD and JPY, neutral GBP, cautious EUR.

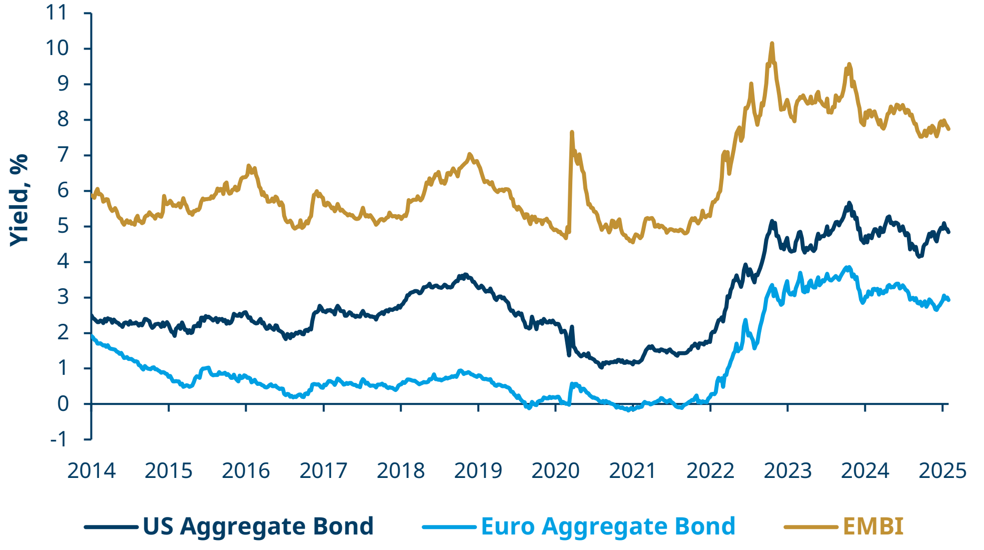
US fixed income

- **We remain tactical on duration** and continue to favour the intermediate part of the curve which offers a reasonable risk-reward.
- In **credit**, in a tight valuation environment, we are biased towards higher quality. We **favour Financials** over Industrials, and we are moving towards **shorter issuer maturities.**
- We like **HY alternatives** (securitised/structured credit, insurance-linked securities) given their more attractive valuations.

EM bonds

- **We maintain a neutral duration stance** with a bias to increment during market sell-offs.
- Our **outlook on EM hard currency debt remains constructive**, but we remain selective.
- We favour EM local rates in nations that provide high nominal and real yields while being less exposed to new Trump policies.
- **We remain optimistic on HY credit** and do not foresee substantial spread widening. We focus on **sectors less exposed to potential sanctions**/tariffs.

Appealing yields across bond markets



Source: Amundi Investment Institute, Bloomberg. Data as of 31 January 2025. Aggregate indexes are from Bloomberg, EMBI is J.P. Morgan EMBI Global Diversified Blended Yield. Yield refers to the Yield to Worst.

AUTHORS

AMAURY D'ORSAY
HEAD OF FIXED INCOME

YERLAN SYZDYKOV
GLOBAL HEAD OF EMERGING MARKETS

MARCO PIRONDINI
CIO OF US INVESTMENT MANAGEMENT

EQUITIES

Market rotation in favour of Europe and US-ex mega caps

Recent volatility, driven first by uncertainty around interest rates and more recently by the DeepSeek announcement, has continued to **favour a broadening of the rally, particularly in European equities and sectors outside technology**. High valuations leave little room for disappointment; however, lower expected taxes for corporates and reduced regulation should benefit US domestic stocks and global companies with significant US operations. All eyes will now be on the earnings season, which could further support the continuation of the recent rotation. Against this backdrop, **we continue to see opportunities in Europe, in US large caps-ex mega caps and financials**, while remaining more cautious on Emerging Markets for the time being.

European equities

- **The broadening of the market is benefiting European equities**. From here, markets will focus on earnings direction and the potential impact of Trump's policies.
- Sector-wise, we are positive on **consumer staples and healthcare.** We took some profit from defensive stocks, and we seek opportunities in luxury goods. We are **cautious on technology and industrials**. In financials, we focus on quality European banks.

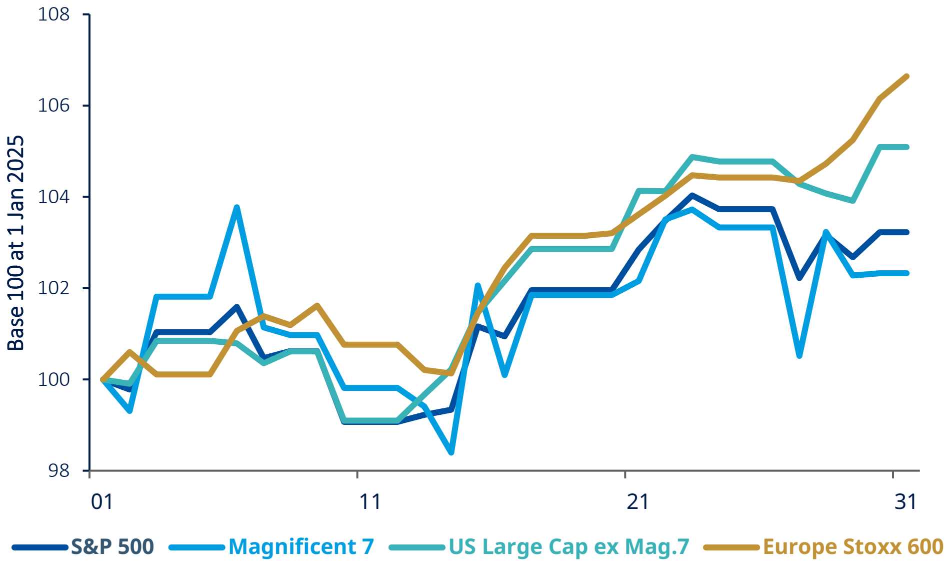
US and global equities

- **A shift away from the mega caps continues to be key** as their high valuation levels are at risk from any possible reversal in risk sentiment, as seen with the DeepSeek announcement.
- We focus on companies that will **benefit from Trump policies and look for defensives** that have reasonable valuations.
- **We favour materials and financials**, particularly banks that are structural winners and can benefit from the higher yield curve and lower taxes. We are cautious on tech and consumer.

EM equities

- **We became more cautious on EM equities** ahead of Trump's inauguration amid high geopolitical risks. However, we acknowledge that valuations are attractive and may offer entry points moving ahead.
- Geographically, **we favour the UAE, Indonesia, Malaysia and Greece**, while we are cautious on Taiwan and Saudi Arabia.
- Sector-wise, **we favour real estate, consumer staples and communication services** and are cautious on Materials.

Market rotation gained traction in January



Source: Amundi Investment Institute, Bloomberg. Data as of 31 January 2025.

AUTHORS

BARRY GLAVIN
HEAD OF EQUITY PLATFORM

YERLAN SYZDYKOV
GLOBAL HEAD OF EMERGING MARKETS

MARCO PIRONDINI
CIO OF US INVESTMENT MANAGEMENT

VIEWS

Amundi asset class views

In focus this month

- **EM equities** before Trump's inauguration we became more cautious on GEM equities. We remain watchful of developments under Trump 2.0 and anticipate high uncertainty in Q1 due to both macro and geopolitical factors; we are keeping our powder dry to step in to capture better opportunities ahead. India remains a long-term story, where we remain positive.

Equity and global factors

Regions	Change vs M-1	--	-	=	+	++
US				◆		
Europe					◆	
Japan					◆	
EM	▼			◆		
China				◆		
EM ex China	▼			◆		
India	▼				◆	

Global Factors	Change vs M-1	--	-	=	+	++
Growth			◆			
Value					◆	
Small caps					◆	
Quality					◆	
Low Volatility				◆		
Momentum				◆		
High Dividend				◆		

Fixed income & FX

Govies	Change vs M-1	--	-	=	+	++
US	▲				◆	
EU	▲				◆	
UK	▲				◆	
Japan			◆			

Credit	Change vs M-1	--	-	=	+	++
US IG				◆		
US HY			◆			
EU IG					◆	
EU HY				◆		

EM Bonds	Change vs M-1	--	-	=	+	++
China govt.				◆		
India govt.					◆	
EM HC					◆	
EM LC				◆		
EM corp.					◆	

FX	Change vs M-1	--	-	=	+	++
USD					◆	
EUR			◆			
GBP	▼			◆		
JPY					◆	
CNY			◆			

Source: Summary of views expressed at the most recent global investment committee held **24 January 2025**. Views relative to a EUR-based investor. Views range from double minus to double positive, = refers to a neutral stance. This material represents an assessment of the market 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. FX table shows absolute FX views of the Global Investment Committee.

▼ **Downgrade vs previous month**
▲ **Upgrade vs previous month**

SCENARIOS, RISKS AND MACROECONOMIC FORECASTS

Main and alternative scenarios

	Probability 70% **MAIN SCENARIO** Resilient multi-speed growth	Probability 20% **DOWNSIDE SCENARIO** Renewed stagflationary pressure	Probability 10% **UPSIDE SCENARIO** More disinflation with productivity gains
GEOPOLITICS	▪ Rising tensions and geo-economic fragmentation, including protectionism and sanctions. ▪ Disruptive trade policies and re-routing of global supply chains as a reaction to tariffs. ▪ Ukraine-Russia: ongoing fighting, but ceasefire odds increase. ▪ Middle East: talks and conflicts likely. ▪ China-US: decline of relations. ▪ US-Europe relations under pressure.	▪ Autarchical new alliances challenge advanced economy democracies: new & escalating conflicts. ▪ Countries forced to choose between US vs China. Global trade begins to decline.	▪ Geopolitical risk subsides. ▪ Shifting power dynamic reshapes global trade, fostering balanced growth and prosperity.
INFLATION & POLICY MIX	▪ Disinflation trend still intact. ▪ Developed Market central banks reaching their neutral rates in 2025. ▪ Most EM CBs at peak rates. ▪ Fiscal divergence: US under scrutiny; EU consolidating; China expansionary.	▪ Trade protectionism weakens growth outlook, constraining central bank response. ▪ Elevated fiscal debt keeps the cost of debt high and constrains policy space.	▪ Stabilisation of inflation around central banks' targets (and inflation expectations remain anchored).
GROWTH PATH	▪ Back to potential growth. ▪ Resilient multi-speed growth: subdued recovery in Europe, mild US deceleration. ▪ Growth gap still favours EM. ▪ India's growth potential revised up.	▪ Lower output and sharp reduction in migration into advanced economies lowers labour supply and growth. ▪ Economic unbalances persist, further lowering potential growth (China, EU,...).	▪ Growth enhancing reforms lifting medium term growth potential. ▪ Industrial / trade policies boosting investment and activity.
CLIMATE CHANGE	▪ Climate change hampers growth and exacerbates stagflationary trends. ▪ Chinese dominance in processing and supply of critical minerals.	▪ Further policy delays imply more adverse climate events, hampering economic dynamism.	▪ From zero to hero in the net zero transition: geo-engineering, globally coordinated policies.

Risks to main scenario

LOW — Probability — HIGH

	10%	15%	15%	20%
	Central banks quantitative tightening combined with structural shift in US Treasury buyers	**Geopolitical crisis with global spill-overs**	**Market volatility rises sharply to reflect higher geo-economic uncertainty**	**Reacceleration of DM inflation, due to trade/geopolitical tensions**
MARKET IMPACT	**Positive** for cash and gold. **Negative** for govies and expensive equities.	**Positive** for DM govies, cash, gold, USD, volatility, defensive assets and oil. **Negative** for credit, equities and EM.	**Positive** for cash and gold. **Negative** for risk assets.	**Positive** for TIPS, gold, commodity FX and real assets. **Negative** for bonds, equities, DM FX and EM assets.

Source: Amundi Investment Institute as of 3 February 2025. DM: developed markets. EM: emerging markets. CB: central banks. USD: US dollar. TIPS: Treasury inflation-protected securities. FX: foreign exchange markets.

FORECASTS

Macroeconomic forecasts

Macroeconomic forecasts						
Annual averages, %	**Real GDP growth, YoY, %**			**Inflation (CPI), YoY, %**		
	2024	**2025**	**2026**	**2024**	**2025**	**2026**
Developed countries	**1.6**	**1.5**	**1.4**	**2.6**	**2.3**	**2.2**
United States	2.7	1.9	1.7	2.9	2.6	2.4
Eurozone	0.7	0.8	1.1	2.3	2.0	1.9
Germany	*-0.1*	*0.6*	*0.9*	*2.4*	*1.9*	*1.9*
France	*1.1*	*0.7*	*0.9*	*2.3*	*1.7*	*1.8*
Italy	*0.5*	*0.7*	*0.9*	*1.1*	*1.8*	*1.7*
Spain	*3.1*	*2.2*	*1.8*	*2.9*	*2.4*	*2.0*
United Kingdom	0.8	1.0	1.3	2.5	2.6	2.4
Japan	-0.1	1.3	0.7	2.6	2.3	2.4
Emerging countries	**4.2**	**3.9**	**3.8**	**5.3**	**4.0**	**3.5**
China	5.0	4.1	3.6	0.2	0.2	0.4
India	6.4	6.5	6.3	4.9	5.5	5.9
Indonesia	5.0	5.2	5.0	2.3	2.6	3.8
Brazil	3.1	2.2	2.0	4.4	5.3	4.6
Mexico	1.4	0.8	1.5	4.7	3.8	3.9
Russia	3.7	1.0	1.5	8.4	7.0	5.0
South Africa	0.5	1.2	1.3	4.5	3.8	4.7
Turkey	3.0	2.9	3.4	60.0	30.5	19.3
World	**3.2**	**3.0**	**2.9**	**4.2**	**3.4**	**3.0**

Central Banks' official rates forecasts, %					
		Amundi	**Consensus**	**Amundi**	**Consensus**
	4 February 2025	**Q2 2025**	**Q2 2025**	**Q4 2025**	**Q4 2025**
United States*	4.50	4.00	4.20	3.75	3.95
Eurozone**	2.75	2.00	2.15	1.75	2.15
United Kingdom	4.75	4.00	4.15	3.75	3.70
Japan	0.50	0.50	0.50	0.75	0.70
China***	1.50	1.00	1.30	1.00	1.20
India	6.50	6.00	5.95	6.00	5.75
Brazil	13.25	14.75	15.00	14.75	15.00
Russia	21.00	19.00	20.30	16.00	16.40

Source: Amundi Investment Institute. Forecasts are as of 24 January 2025. Consensus and current rates are as of 4 February 2025. CPI: consumer price index. *: Upper Fed Funds target range. **: Deposit rate. ***People's Bank of China Reverse Repurchase Notes 7 Day Rate. Q2 2025 indicates end of June 2025; Q4 2025 indicates end of December 2025. Current rates and Consensus are from Bloomberg.

AII* CONTRIBUTORS

SERGIO BERTONCINI
SENIOR FIXED INCOME STRATEGIST

POL CARULLA
INVESTMENT INSIGHTS AND CLIENT DIVISION SPECIALIST

UJJWAL DHINGRA
INVESTMENT INSIGHTS AND CLIENT DIVISION SPECIALIST

SILVIA DI SILVIO
CROSS ASSET MACRO STRATEGIST

PATRYK DROZDIK
SENIOR EM MACRO STRATEGIST

DELPHINE GEORGES
SENIOR FIXED INCOME STRATEGIST

KARINE HERVÉ
SENIOR EM MACRO STRATEGIST,

SOSI VARTANESYAN
SENIOR SOVEREIGN ANALYST

CHIEF EDITORS

MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

VINCENT MORTIER
GROUP CIO

EDITORS

CLAUDIA BERTINO
HEAD OF AMUNDI INVESTMENT INSIGHTS AND PUBLISHING, AII*

LAURA FIOROT
HEAD OF INVESTMENT INSIGHTS & CLIENT DIVISION, AII*

DEPUTY EDITORS

FRANCESCA PANELLI
INVESTMENT INSIGHTS & CLIENT DIVISION SPECIALIST

FRANCESCO BORSARELLI
JUNIOR INVESTMENT INSIGHTS & CLIENT DIVISION SPECIALIST

DESIGN EDITOR

CHIARA BENETTI
DIGITAL ART DIRECTOR AND STRATEGY DESIGNER, AII *

* Amundi Investment Institute

Date of first use: February 2025
Document ID: 4218367

Document issued by Amundi Asset Management, “société par actions simplifiée”- SAS with a capital of €1,143,615,555 - Portfolio manager regulated by the AMF under number GP04000036 – Head office: 90-93 boulevard Pasteur – 75015 Paris – France – 437 574 452 RCS Paris – www.amundi.com

Photo credit: ©iStock Editorial/Getty Images Plus – Anne Czichos

Amundi Investment Institute

In an increasing complex and changing world, investors need to better understand their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios.

This environment spans across economic, financial, geopolitical, societal and environmental dimensions. To help meet this need, Amundi has created the Amundi Investment Institute. This independent research platform brings together Amundi's research, market strategy, investment themes and asset allocation advisory activities under one umbrella; the Amundi Investment Institute. Its aim is to produce and disseminate research and Thought Leadership publications which anticipate and innovate for the benefit of investment teams and clients alike.

Get the latest updates on:

- Geopolitics
- Economy and Markets
- Portfolio Strategy
- ESG Insights
- Capital Market Assumptions
- Cross Asset Research
- Real and Alternative Assets

Visit us on

Visit the Research Center

Amundi
Investment Solutions

Trust must be earned