April
2023

CROSS ASSET
INVESTMENT STRATEGY

TOPIC OF THE MONTH

Financial stability concerns to tip the balance towards a US recession

GLOBAL INVESTMENT VIEWS

Crisis memories return in vulnerable markets

Confidence must be earned

Amundi ASSET MANAGEMENT

Monica DEFEND
Head of Amundi Institute

"We are moving towards a more uncertain economic backdrop, with lower visibility on central bank action. A US recession is now on the cards."

Vincent MORTIER
Group Chief Investment Officer

"We confirm a prudent stance; vulnerabilities are growing, as a consequence of higher interest rates in an over-indebted world."

Matteo GERMANO
Deputy Group Chief
Investment Officer

"The banking sector drove markets down, but European banks are solid."

April 2023

Table of contents

Financial stability concerns should drive the US economy into recession

KEY TAKEWAYS: Recent stress in parts of the banking sector will raise funding costs and reduce lending to many sectors. We now expect the US economy to shrink by -1.1% in 2023, driven by a contraction in domestic demand. Eurozone growth should stagnate amid inflation remaining high.

Mahmood PRADHAN
Head of Global Macroeconomics - Amundi Institute

Annalisa USARDI, CFA
Senior Economist – Amundi Institute

The recent stress in large parts of the US banking sector is significant. It adds to pressure on funding costs and profitability stemming from the fastest monetary tightening on record and the protracted period of an inverted yield curve. These stresses will constrain many banks' ability to lend and will have a material impact on the outlook. **As a result, we are revising our US forecast. We now expect a more protracted recession during the course of 2023 rather than mild weakness.**

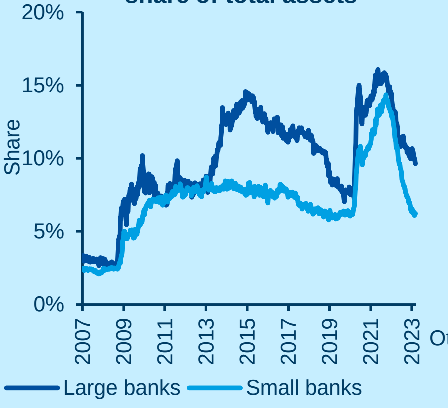
Small- and medium-sized banks account for a significant share of lending in the United States (some 40-60% of commercial real estate, residential real estate and consumer loans). These banks are under stress from deposit outflows and losses on their asset portfolios. Their ability to lend will be constrained by the inverted yield curve, with competition from higher rates on money market funds and short-maturity US Treasuries, as well as losses on low-yielding legacy assets and a higher cost of capital.

This effect will last well beyond the policy responses currently underway to stabilise the banking sector. While policymakers can reduce the risk of bank runs by expanding deposit insurance, they cannot reduce the cost of funding or limit losses on assets. **Similarly, CB liquidity provision will reduce the pressure on these banks to sell assets, but it will not help reduce their funding costs**.

Banks under stress has led to unprecedented volatility in market interest rates and market expectations of policy rates, volatility has been higher recently than during the GFC or at the start of the Covid-19 lockdown. Such a volatile environment does not bode well for the stabilisation of market funding for banks. It will also make banks more conservative in their lending. As a result, **we view this as a structural decline in the availability of credit and the higher cost of credit to large sections of the US economy, and the continued impact of monetary tightening**.

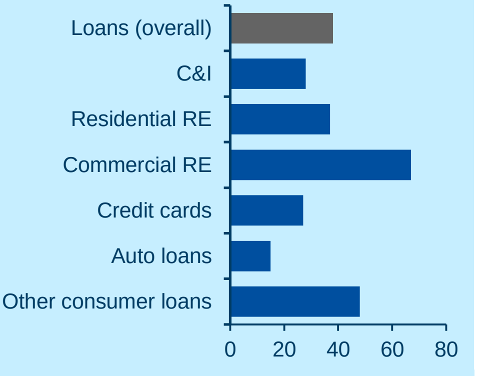
With an additional dose of tightening coming from tighter bank lending, policy rates will depend on the extent of the slowdown in activity, but **we maintain our view that Fed policy rates will peak at 5.25%.**

US banks: cash assets as a share of total assets



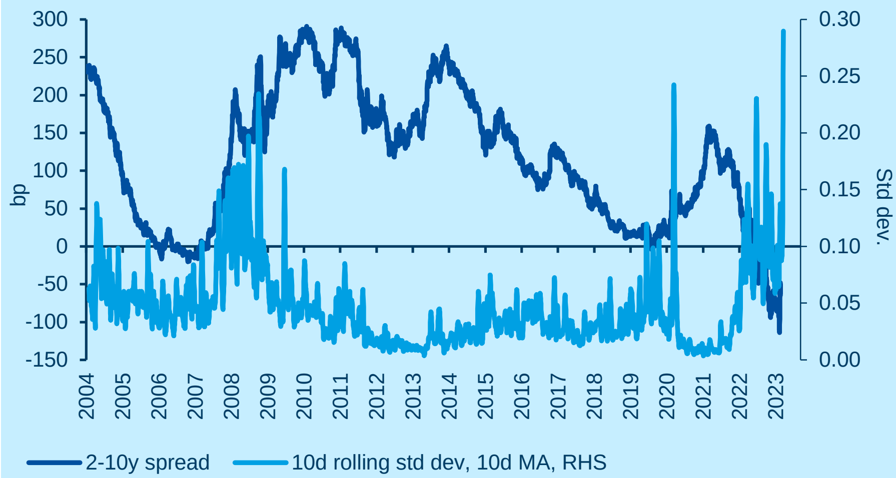
Source: CPR asset management, Datastream as of 22 March 2023.

Small- and medium-sized banks' share of outstanding loans, %



Source: Amundi Institute, Federal Reserve as of 22 March 2023. C&I: commercial and industrial.

US yield curve and volatility on 2y bond yields



Source: Amundi Institute, Eikon. Data is as of 22 March 2023.

"For the United States, we have moved from a projection of 0.2% Q4/Q4 growth to a contraction of 1.1% in 2023."

Similar effects of monetary tightening – pressure on deposit rates and valuation losses on asset portfolios – are affecting European banks, though in Europe we are not seeing extreme stresses in the banking sector stemming from the weak regulation and inadequate risk management that has affected some of the small US banks.

Forecasts revision

Reduced availability and a higher price for credit will reduce consumer spending and capex, and will constrain corporate growth and hiring, exacerbating the already weak domestic demand in the United States and the Eurozone.

In the **United States**, where we had expected the economy to suffer at least one quarter of contraction in the second half of this year, this new credit shock is a larger setback and will further exacerbate financing conditions for large sections of the economy. In particular, small businesses – which account for over 45% of employment (over 60 million workers) – will face acute financing pressures.

We expect the knock-on effects to ease pressure in the labour market and weaken consumption spending, which has been remarkably resilient until now. **This implies more pronounced contractions in Q2 and Q3 and a recession in 2023.**

Therefore, **we have moved from a projection of 0.2% Q4/Q4 growth to a contraction of 1.1% in 2023**. Among the main components, we expect real personal consumption expenditures to contract for at least two quarters, both residential and non-residential investment to decline, and an increase in savings. Labour market pressures should begin to ease and over time weigh less on cost-push inflation pressures.

Notwithstanding the deterioration in domestic demand, core inflation remains sticky this year and well above the Fed's target, although sequentially it should normalise faster than before and get closer to its target by the end of 2024.

In the **Eurozone,** both consumption and investment spending were very weak in Q4 2022 and we had expected a weak 2023 even before the current financial stability concerns. **Now, this additional headwind implies higher cost-of-funding and balance-sheet constraints for banks**. With over half of the total credit in Europe provided by banks, this weakens the prospects of a recovery in the second half of this year. China's reopening will provide a partial offset, but we would judge that this will not be sufficient to offset the weaker US outlook. **We see limited upside for Europe and a continuation of stagnant growth with inflation remaining stubbornly high**.

MACROECONOMICS, GEOPOLITICS, AND STRATEGY

by Amundi Institute

Disinflationary trend to ease pressure on central banks to hike further

Mahmood PRADHAN
Head of Global Macroeconomics - Amundi Institute

Annalisa USARDI, CFA
Senior Economist – Amundi Institute

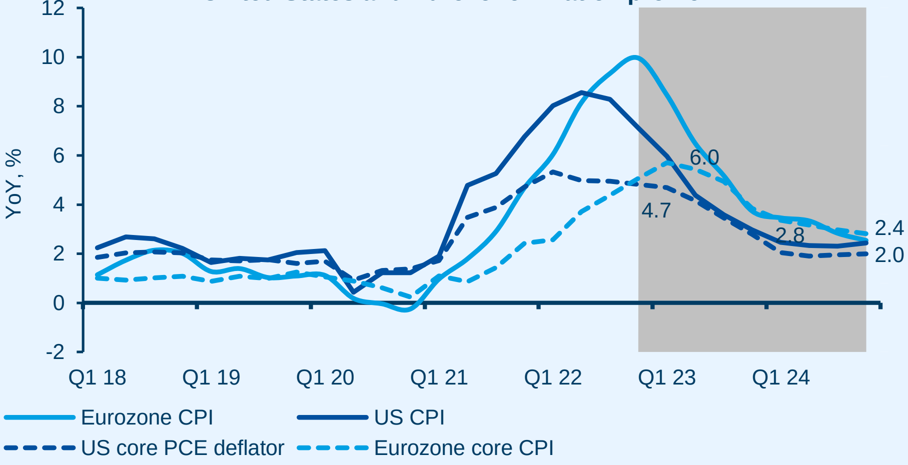
Core inflation has been persistent across both the United States and the Eurozone, slightly reversing previous indications of a smoother path and a faster deceleration. With few signs that underlying inflation will decelerate rapidly in the near term and significant weaknesses emerging in parts of the banking sector, market expectations of policy and short-term rates have seen unprecedented volatility. While policy efforts can stabilise financial stability concerns regarding the banking sector, higher lending rates and tighter lending conditions will persist. **Central banks appear to be caught between a rock and a hard place and now have a policy trilemma: setting the stance of monetary policy vis-à-vis inflation and growth, while protecting financial stability at the same time.**

In our view, inflation is set to decline over the next 12-18 months towards CB targets, although the path may be bumpy and the landing point may be somewhat above CB targets. Lower energy and food prices should represent a significant disinflationary driver for headline inflation, which is expected to decelerate markedly over the year. However, sticky underlying inflation will pose dilemmas for policymakers. Some core inflation components are showing persistence – both in the United States and Europe – pointing to a mix of resilient domestic demand (especially in the United States) and ongoing transmission of past supply-side shocks (notably in the Eurozone). While both should fade as monetary tightening takes its toll on growth and supply shocks are finally absorbed, it may take some time and growth and financial stability concerns are emerging.

Recent events in the banking sector highlight that the aggressive policy tightening, while acting with lags and delays, is producing effects that remain uncertain. Against such a background, we expect CB to be even more data-dependent, with little to no forward guidance, as the recent ECB meeting confirmed. While there is still a high degree of uncertainty on the landing point of inflation over a 12-18 month horizon, the tightening of credit growth on top of tightening financial conditions should produce an additional factor depressing domestic demand and reducing core inflationary pressures. Market-induced tightening of financial conditions – higher borrowing rates and more stringent lending conditions – will, in principle, allow CB to tighten less. How much less will depend both on how sticky inflation is and on how much demand is weighed down by higher borrowing costs.

"The tightening in credit conditions should reduce core inflationary pressures, partly replacing the need for monetary policy action."

United States and Eurozone inflation profile



Source: Amundi Institute, Bloomberg. Data is as of 22 March 2023.

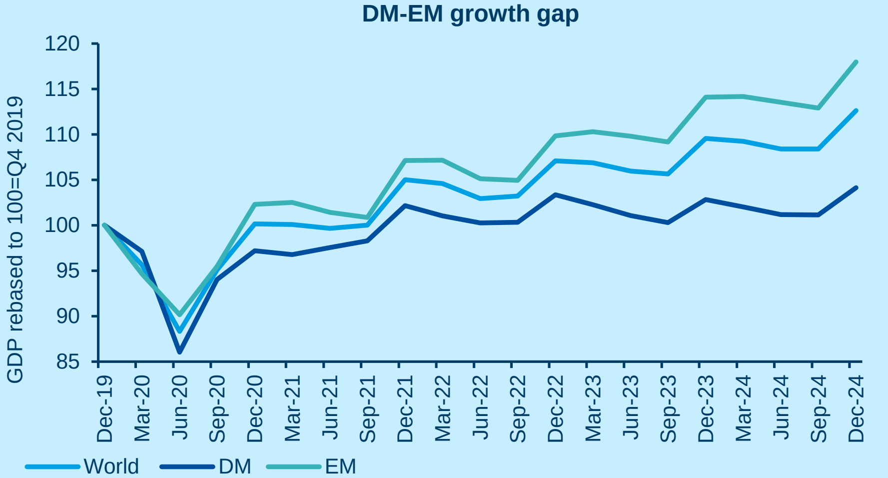
Scenario reassessment favours EM over DM

Alessia BERARDI
Head of Emerging Macro and Strategy Research - Amundi Institute

The recent banking sector turmoil has triggered a reassessment of growth conditions across key DM, namely the United States, where now we expect an economic recession to be spread over the next three quarters. On the other hand, we have upgraded China's 2023 growth forecast from 5.1% to 5.6%, based on the stronger-than-expected recovery in real estate and larger credit impulse. On top of the revised macroeconomic backdrop, markets have been repricing significantly core central banks' monetary policy (MP) trends, in a direction more favourable to EM, notwithstanding the MP conduct so far has not deviated from the primary goal of fighting inflation.

Barring a global liquidity squeeze impairing the banking and financial system, the above signals taken together do not unequivocally add negative momentum to the EM outlook. Indeed, the sell-off across EM asset classes was limited in the aftermath of the banking sector stress. The hard-currency debt spread widened, mainly in the HY segment. Within EM FX, Asian currencies have been outperforming the rest of the universe and the MSCI EM index has underperformed mildly, by around 1.5% – both in local currency and USD terms. On the other hand, over the same period, local-debt duration has definitely outperformed.

In order to assess the macroeconomic and market impact on EM, we should insulate a few key pillars. Firstly, on the back of recent revisions, the still fragile economic environment is envisaging a growth premium between DM and EM that is tilted even more in favour of the latter. Having said that, looking more granularly, weaker external demand from the United States – and partly from the EU – will be offset by Chinese demand according to the geography and the export destination (e.g. Mexico should be on the weaker side). In addition, while still constructive, our oil outlook is catching up with weaker fundamentals, reducing the benefits for exporters. Secondly, the higher cost of funding will widen the divide between fragile and sound sovereigns or corporates. The already high number of frontier countries that struggle to access credit is rising, as highlighted by widening HY spreads, which are not offset by a lower base rate and without more lenient IMF rules. Finally, the underlying repricing of core central banks' MP path, if not prompting an earlier, faster, and more dovish stance across EM central banks, should at least reduce external pressure to keep hiking and allow a greater focus on domestic disinflationary forces to start easing, with LatAm economies driving this.



Source: Amundi Institute, CEIC. Data is as of March 2023.

Macroeconomic snapshot

The rapid Fed tightening is starting to bite the US economy. In particular, the economic landscape could be harsher than initially thought. We are already witnessing a tangible deterioration in the US economy, which should move into recession in Q2. The credit crunch should weigh on growth and will define how pronounced the recession is, while inflation is set to remain sticky, at least in the near term. The recession and below-par growth will help drive core inflation towards target over the forecasting horizon.

Notwithstanding our upgraded growth forecasts at the start of the year – mainly due to carry-over effects – we expect very weak activity for the Eurozone, especially as financial conditions tighten and weak lending drags investment and weighs on growth. Although China’s reopening represents a tailwind, it won’t be able to completely offset the recession that now we expect in the US. Above-target and persistent inflation, at least in the near term, will hold back consumption and keep the ECB in a tight stance.

With inflation remaining above target for several quarters, we keep seeing a cost-of-living-induced recession playing out in the UK. Although the outlook has improved on the back of incoming data and news flow, with lower energy prices removing downside risks, we still see the economy facing headwinds, which will also keep growth subdued in 2024. Energy remains a key risk for both the growth and inflation outlooks.

We have further upgraded Japan’s inflation forecasts. Despite the distortion from the one-off government energy subsidies, the increase in Tokyo’s core inflation broadened in February and was stronger than expected. With improving consumer sentiment and a pick-up in wage growth, core CPI is likely to hold high at around 3% in H1. The banking crisis in the US and Europe challenges our call for faster and earlier BoJ policy normalisation. BoJ’s pressures to intervene have eased since ten-year JGB bond yields fell back below the upper-bound target of 0.5%.

We upgraded China’s 2023 growth from 5.1% to 5.6%. While the moderate rebound in consumption is in line with expectations, investment has exceeded expectations due to upbeat credit growth, and the real estate sector has registered a broad-based recovery in January-February. We now expect housing sales to grow by 5.3% in 2023, compared to the previously projected decline of 2.7%. Policies will remain selectively accommodative throughout the year, as external uncertainties increase. However, we caution against the risk of selective tightening in the housing sector in H2.

Following a surprise spike in January, India’s headline inflation declined moderately in February from 6.5% to 6.4% YoY, with the main contributor being food prices (2.9% out of 6.4%). Similarly, core prices stayed high and above 6.0% (6.1% YoY). According to our expectations, India’s inflation should move within target by March (data released in April) and remain within target for the coming quarters. While we still believe that RBI has reached its terminal policy rate at 6.5%, following the latest hike in February, we do not expect it to ease in 2023.

The State Bank of Vietnam (SBV) unexpectedly cut its key policy rates by 100bp on 14 March. We believe the primary reason behind the move was to ease domestic liquidity stress, particularly for the real estate sector which is facing elevated refinancing needs. The central bank has also taken advantage of more favourable external conditions, as the Fed’s terminal rate expectation was repriced downwards significantly and the Vietnamese dong appreciated again. A more benign growth and inflation outlook also allows room for such a move to ease financial conditions.

Brazil’s economy contracted in Q4 2022 after three robust quarters, highlighting how tight monetary policy has started to bite. We forecast growth below 1% in 2023, as the labour market is also softening, even though the headline rate will benefit from strong agricultural output. The BCB cannot come to the rescue just yet. Despite inflation peaking nearly a year ago, and almost halving, the BCB needs to wait for new fiscal rules and for inflation expectations to stabilise in the context of the – possibly revised – inflation target. Still, we see signs that the SELIC rate will be cut over the summer months rather than in Q4.

DM CB to turn cautious, EM CB appear less affected by market turmoil

Developed markets

We expect DM CB to adopt a more cautious approach in an environment of still high inflation, but increasingly tight credit conditions. The **Fed** delivered a dovish 25bp hike in March, taking the Fed Funds target range to 4.75-5.00%. This meeting marked a shift towards a more gradual and cautious approach. **The big question today is to what extent the stress in the banking sector will tighten lending conditions and slow the economy**. The door is open to a pause. In our baseline scenario, we expect a terminal rate at 5.25% and no rate cuts in 2023 subject to some stabilisation of the banking sector and sticky core inflation.

The **ECB** stuck to its guidance, with a 50bp hike in March and failed to pre-commit to future rate hikes given the high level of uncertainty. Decisions will be made meeting by meeting and will be data-dependent. We confirm our expectations for the ECB terminal rate at 3.5%.

At its latest meeting, the **BoE** delivered a 25bp rate hike, taking the Bank Rate to 4.25%. We expect one further 25bp rate hike.

The tightening of global financial conditions has posed a challenge to our earlier prediction for a fast normalisation of **BoJ** policy. A YCC tweak remains likely in April or June, as Shunto wage results and inflation exceeded expectations. The BoJ is likely to proceed at a more gradual pace to achieve its 0% terminal rate target.

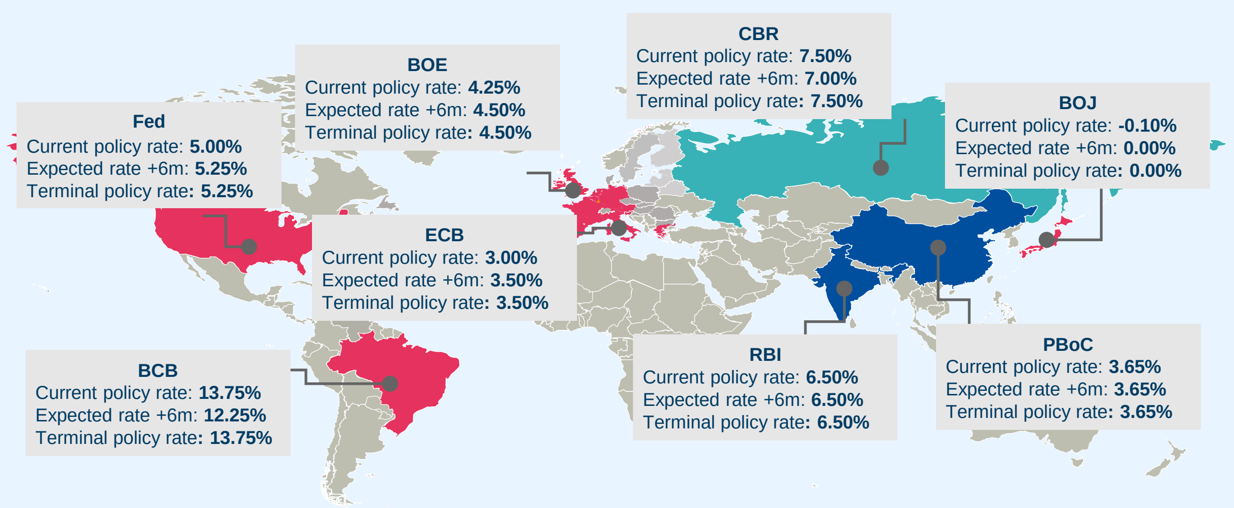
Emerging markets

The significant market repricing of monetary policy trends for core CB has led to a reassessment of the next steps for EM CB as well. **While market expectations have shifted towards a more dovish – or less hawkish – direction, changes in expectations are not significant**. Several EM CB (in LatAm and Eastern Europe) were already expected to cut their policy rates over the one-year horizon and these expectations are now even more pronounced. For the few countries where further tightening is expected (such as Thailand, Mexico, and South Africa), market expectations point to these plans being reduced in scope or eliminated altogether.

Since the onset of the banking system turmoil, the few CB that have announced monetary policy changes have confirmed a marginally more accommodative stance. The PBoC has discreetly strengthened credit support by easing lending standards for property developers and mortgage borrowers. Additionally, it cut the RRR by another 25bp to prevent market rates from rising too quickly.

Our reassessment of the macroeconomic backdrop and the ongoing disinflationary path **is consistent with a more dovish stance by several EM CB and it does not suggest an urgent need to accelerate the easing trend**.

Amundi's assessment of central bank rates trend, six-month ahead



Source: Amundi Institute as of 23 March 2023. Amundi's assessment of central bank rates trend is based on Amundi Institute's forward-looking judgement of policy rates direction, based on our intake from forward guidance and CB communication.

KEY DATES	**2-3 May** US Federal Open Market Committee (FOMC) meeting	**4 May** ECB Governing Council meeting	**11 May** BOE Monetary Policy Committee meeting

GEOPOLITICS

Bank failures will have political consequences

Anna Rosenberg
Head of Geopolitics -
Amundi Institute

"A worsening economic outlook increases geopolitical risks stemming from the United States, China, and Russia."

Although the **extent of the banking failure saga is not clear yet**, there are some specific implications that are – and these will have political and geopolitical implications. The failure of SVB and Credit Suisse is likely to cause lending conditions to tighten, impacting the real economy. A recession in the EU and the United States now seems more likely. Consumers are already struggling with high inflation and rates, they are angry and strikes are occurring in many countries. Deteriorating conditions for banks, which will aggravate the economic realities, will not help. Costly bailouts of financial institutions would only add fuel to the fire. **There are various risk areas for geopolitics resulting from this new reality:**

- Should the United States enter a recession, **the re-election of US president Joe Biden will be more difficult**. Historically, hardly any sitting president facing a recession has been re-elected**. Biden would turn more hawkish on foreign policy issues (China) and more protectionist.** Both would be problematic for the EU.
- **For the EU, calls for more banking regulation should increase** alongside calls to deepen the banking union, at a time when EU leaders are struggling to find common ground on new fiscal rules and a common European response to the US Inflation Reduction Act.
- For China, a weakening global economy is not good news when it wants to accelerate domestic growth. **Should weak global growth weigh on Chinese growth over time, the geopolitical risk emanating from China increases** for the need to distract from domestic problems.
- **For Russia a worsening economic outlook in the West is good news as it reduces Western appetite to support Ukraine.** It could encourage a strategy of 'waiting out' Western support to renew wider-scale attempts to capture more Ukrainian territory.

POLICY

EU: a protectionist industrial policy in the making

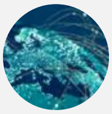
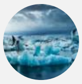
Didier BOROWSKI
Head of Macro Policy Research -
Amundi Institute

"Europe's Net-Zero Industry Act may reinforce protectionist pressures already at work."

The Net-Zero Industry Act (NZIA) – the European response to the US IRA – was presented by the European Commission on 16 March. The aim is to create a favourable regulatory environment for the energy transition and favourable conditions for key sectors (wind energy, heat pumps, solar energy and clean hydrogen) for which demand is also stimulated by the existing NextGenerationEU and REPowerEU plans. **The focus is on simplifying and accelerating the permitting of new clean technology production sites.** The NZIA sets clear targets for clean technologies by 2030. **The aim is to focus investment on strategic projects to ensure Europe's resilience.**

Most funding is supposed to come from the private sector, but this will not be enough. Public funding through state aid is foreseen, under relaxed rules. The Temporary Crisis and Transition Framework adopted on 9 March aims to ensure a level-playing field, targeting sectors where there is a risk of relocation. Several funding programmes (e.g. Recovery and Resilience Facility (RRF), InvestEU and Innovation Fund) are available. At the same time, the EU may choose to create a European sovereign fund to maintain cohesion and prevent the risks caused by an unequal availability of state aid, as not all countries have the same fiscal room for manoeuvre. However, there is no question at this stage of providing new European funding through new debt. The priority is to mobilise existing resources (over €250 billion of RRF loans have not yet been deployed). **The NZIA is not without risk, as it will reinforce protectionist pressures already at work with policies in the United States and China.** This is the price to pay for maintaining and developing industry in key sectors and ensuring Europe's strategic independence in the medium term.

Central and alternative scenarios

	DOWNSIDE SCENARIO Recession in DM 20%	CENTRAL SCENARIO Persistent stagflation, reassessment of risk premiums 70%	UPSIDE SCENARIO Economic resilience 10%
Geopolitics 	▪ Worsening / expanding war in Ukraine. ▪ Worsening energy crisis.	▪ Stalemate in the Ukraine war. Risk of escalation in the short run. We expect de-escalation in late 2023-early 2024. ▪ Gas prices have fallen and are becoming less sensitive to the war (mild winter, untapped stocks).	▪ De-escalation in Ukraine. ▪ Lower energy / food prices.
Inflation and policy mix 	▪ Either persistent inflationary pressures (1) **[10%]** or strong cyclical disinflation (2) **[10%].** ▪ In case (1) CB status quo (no pivot in 2023), while in case (2) CB may return to rate cuts depending on the severity of the crisis.	▪ CB are data-dependent and reach terminal rates by mid-2023, with rates staying high for longer. ▪ Protectionist policies with green industrial policies: IRA in the United States; Net Zero Industry Act (NZIA) in the EU. ▪ EU fiscal support removed gradually. US fiscal impulse to stay in negative territory amid debt ceiling constraints. ▪ Sticky core inflation, unlikely to return to CB targets before H2 2024.	▪ Either persistent inflationary pressures (1) or disinflation due to commodities (2). ▪ In case (1) CB would push terminal rates up, while in case (2) CB would maintain the status quo.
Growth path 	▪ Financial crisis or worsening energy crisis. ▪ Strong recession in the United States and Europe.	▪ Global economic slowdown in 2023, with large divergences: anaemic growth in Europe and recession in the United States, rebound in China with the reopening. ▪ Reassessment of risk premiums following the market turmoil: tightening of credit conditions. ▪ Sub-par growth expected in 2024 in most DM.	▪ No V-shaped recovery, but with reduced uncertainty, excess savings may still fuel domestic demand. ▪ Growth back to potential in 2024
Climate change 	▪ Climate transition measures postponed.	▪ Climate change adds to stagflationary trends. ▪ Climate risk hampers growth.	▪ Climate change policy and energy transition are top priorities.

Risks to central scenario

HIGH ← PROBABILITY → LOW

	25%	20%	20%	20%	15%
	Geopolitical risk and war escalation	**Economic risk: deeper profit recession (US / Europe)**	**Persistent stagflationary pressure (US / Europe)**	**Macro financial risks triggered by recent market turmoil**	**US debt ceiling**
Market Impact +	**Positive** for DM govies, cash, gold, USD, volatility, defensive assets, and oil.	**Positive** for cash, JPY, gold, quality vs. growth, defensives vs cyclicals.	**Positive** for TIPS, gold, commodity FX, and real assets.	**Positive** for US Treasuries, cash, and gold.	**Positive** for EUR, JPY, CHF, and Bund.
Market Impact –	**Negative** for credit, equities, and EM.	**Negative** for risky assets and commodity exporters.	**Negative** for bonds, equities, DM FX, and EM assets.	**Negative** for credit.	**Negative** for US Treasuries, US equities, and risky assets.

Source: Amundi Institute as of 22 March 2023. DM: developed markets. EM: emerging markets. CB: central banks. USD: US dollar. EUR: Euro. CHF: Swiss franc. JPY: Japanese yen. TIPS: Treasury inflation-protected securities. FX: foreign exchange markets.

Yield curve fair value – Nelson-Siegel model

Lorenzo PORTELLI
Head of Cross Asset Strategy, Head of Research at Amundi Italy - Amundi Institute

"Robust and consistent valuations across every maturity allow us to detect signals not only on yield levels, but also on the shape of the curve."

What is the model about?

- **The rationale:** bond yields are among the key factors on which investment choices are based. The level and shape of the yields' term structure reflect an investor's expectations of future interest rates, economic growth, and inflation. In addition, they are key determinants of the profitability of banks and of monetary policy transmission. The correct assessment of the main determinants of the yield curve and their underlying drivers is of crucial relevance in the set-up of a rigorous dynamic asset allocation process.
- **Model setup:** at Amundi Institute, our approach to the valuation analysis for bonds follows two steps: firstly, we leverage the Nelson-Siegel (NS) model to extrapolate different yield-curve factors. Then, we model each component using sound and consistent macro-financial variables. Such a framework results in robust and consistent valuations across every maturity, allowing us to detect signals not only for yield levels, but also for the shape of the curve.
- **Goal:** by generating a valuation framework based on macroeconomic and monetary policy dynamics, Amundi Institute's yield-curve assessment aims to maximise the chance of allocating assets optimally and allows us to build reliable alternative scenarios for efficient and solid risk management.
- **Model output:** according to Amundi Institute's twelve-month outlook, a forward-looking central scenario is defined for each variable that has historically proven statistical significance in explaining the evolution of the yield curve's components, resulting in the fair-value curve.

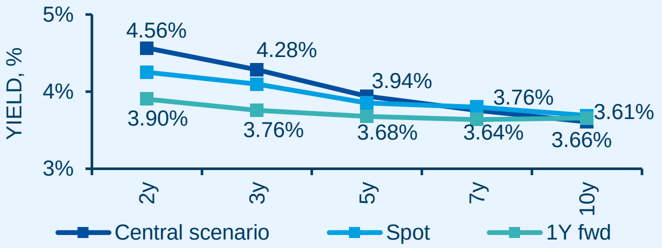
Assumptions behind our 12m-ahead central scenario

	Fed rates	US 5y5y inflation swap	Fed balance sheet/debt	Unit labour cost	Capacity utilisation	ECB refi rate	EU 5y5y inflation swap	ECB balance sheet	Capacity utilisation
US yield curve	5.25%	2.30%	23.34%	2.73%	76.75%				
German yield curve						4.00%	2.00%	54.38%	83.39%

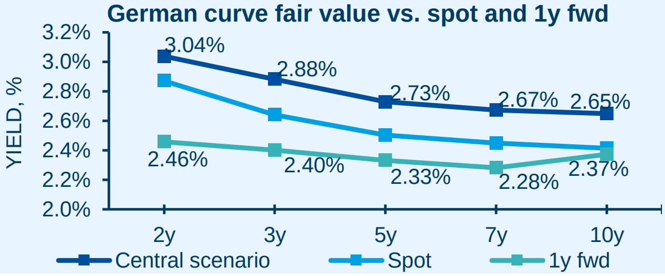
What are the current signals?

- The US fair value curve flags overvaluation, particularly at the short end, due to higher twelve-month forward Fed rates projections against market expectations and a flatter curve bias induced by lower 5y5y inflation swap expectation vs. current market pricing.
- The German fair-value curve also signals that current spot yields are expensive across all maturities, as Amundi's ECB rate forecast is above current market pricing.

US curve fair value vs. spot and 1y fwd



German curve fair value vs. spot and 1y fwd



Source: Amundi Institute, Bloomberg. Data is as of 14 March 2023.

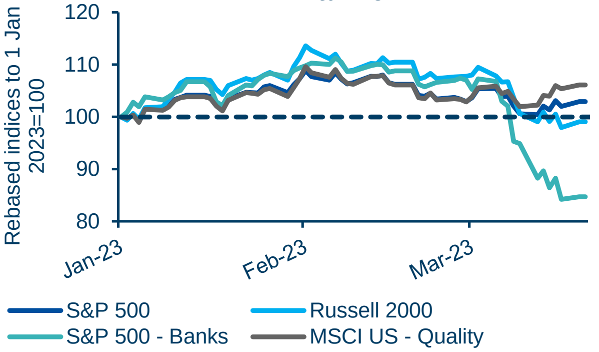
Equities in charts

Developed markets

Quality stands out during banking sell-off

The collapse of some US regional banks has driven small caps lower, while quality (low-leverage) stocks have proven resilient.

US equity indices in the 2023 banking turmoil



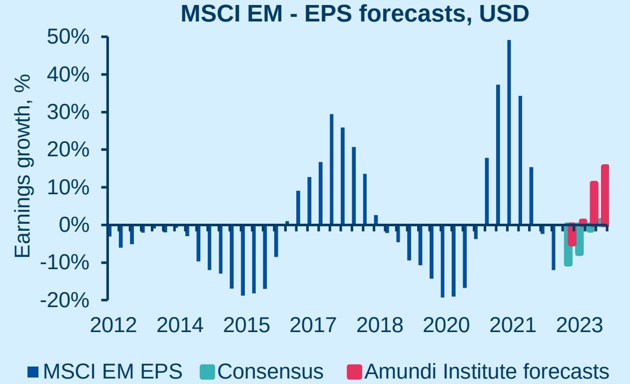
Source: Amundi Institute, Datastream as of 21 March 2023.

Emerging markets

EM equity: earnings set to recover in 2023

About 57% of MSCI EM constituents reported Q4 2022 results, which show flattish growth. Overall, MSCI YoY results have, for now, been positive in EMEA and LatAm and mixed in EM Asia.

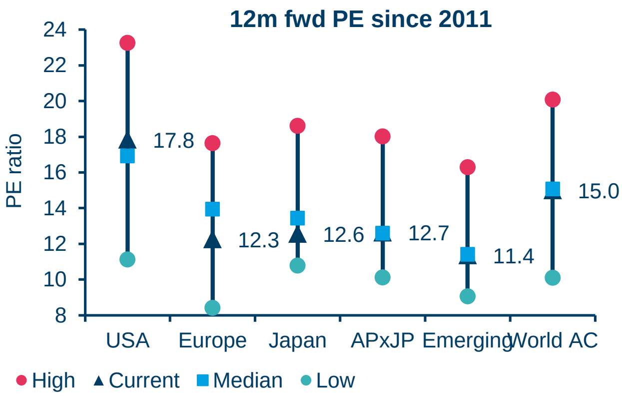
MSCI EM - EPS forecasts, USD



Source: Amundi Institute, Datastream. Data is as of 28 February 2023.

More appealing valuations

The United States remains the most expensive region, while Europe is the cheapest. Japan, Pacific ex-Japan, and EM are in the middle.



Source: Amundi Institute, Datastream as of 21 March 2023.

China's A-shares have room to recover

Looking at China's CSI 300 fair value, we foresee room for the index to catch up with its fair value over the twelve-month horizon.

Source: Amundi Institute, Bloomberg. Data is as of 30 March 2023.

"Equities are under the influence of banking stress."

Eric MIJOT
Head of Global Equity Strategy - Amundi Institute

"Earnings momentum stalled in Q4 2022 across EM, with room to recover this year."

Alessia BERARDI
Head of Emerging Macro Strategy - Amundi Institute

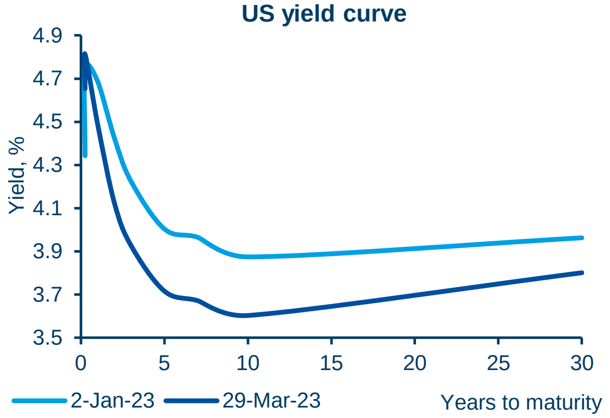
Bonds in charts

Developed markets

Huge repricing in Fed expectations

Recent market movements drove Fed expectations down, with a fall in yields across all maturities.

US yield curve

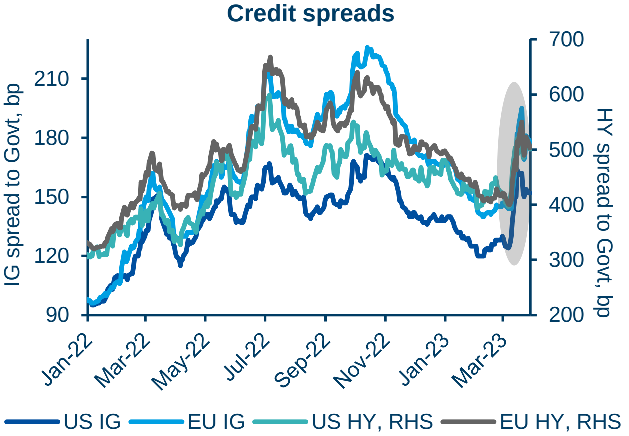


Source: Amundi Institute, Bloomberg. Data is as of 29 March 2023.

Impact of market turmoil on credit spreads

Recent banking sector turmoil caused a widening of credit spreads, across both the IG and IG spectrum.

Credit spreads



Source: Amundi Institute, Bloomberg. Data is as of 29 March 2023.

> *Increase selectivity in credit amid tighter financial conditions.*

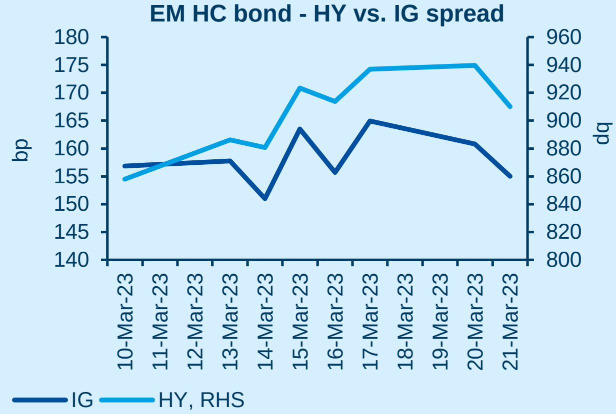
Valentine AINOUZ
Head of Global Fixed Income Strategy - Amundi Institute

Emerging markets

Flight-to-quality amid contagion risks

Recent tensions in the banking sector unevenly affected EM hard-currency bonds. HY spreads widened against IG ones.

EM HC bond - HY vs. IG spread

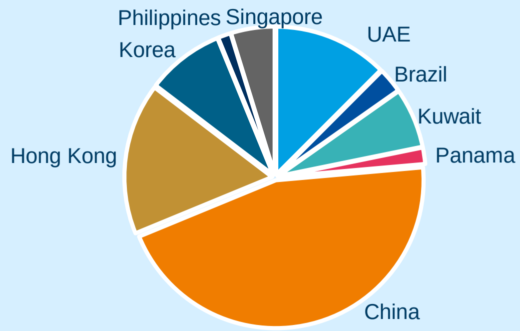


Source: Amundi Institute, Bloomberg. Data is as of 23 March 2023.

AT1 bonds: a small share across EM

They represent only 1.4% of the BofA EM Corporate index, a small share of the financial sector, which accounts for 21% of the index. They are concentrated mainly in Asia.

AT1 in the EM Corporate index (BofA)

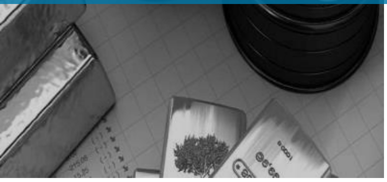


Source: Amundi Institute calculations on ICE BofA data as of 23 March 2023.

> *EM bonds have been hit unevenly by the recent flight-to-quality move.*

Alessia BERARDI
Head of Emerging Macro Strategy - Amundi Institute

COMMODITIES



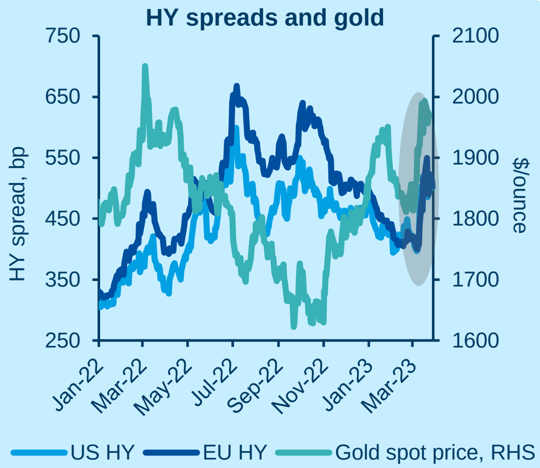
Limited downside on oil, but confidence should recover

Jean-Baptiste BERTHON
Senior Cross Asset Strategist - Amundi Institute

"Limited downside risk on oil, but a lack of any upside near-term catalysts; on gold, the risk-reward balance might be becoming asymmetric, starting a lock-in of profits."

Oil was hit by the stress in the banking sector, amid weakening fundamentals and was amplified by technical factors. **The psychological damage to investors will need time to repair, but positioning and valuations suggest limited downside risk from here.** The supply-demand balance is set to tighten, but at a slower pace and to a lower extent than previously anticipated. We see Brent's medium-term equilibrium price within a $85-90/barrel range, down from $100/barrel.

Gold was boosted powerfully by the plunge in real rates, widening credit spreads, and the dollar remaining in check. Gold could get further support from retail flows, but will need the Fed on its side, as well as persisting banking concerns. Investors' fast and broad reshuffling of the Fed's hiking cycle and quantitative easing expectations leaves limited room for surprise. **Amid less attractive valuations, gold looks vulnerable.** As such, we would start to lock-in profits.



Source: Amundi Institute, Bloomberg as of 21 March 2023.

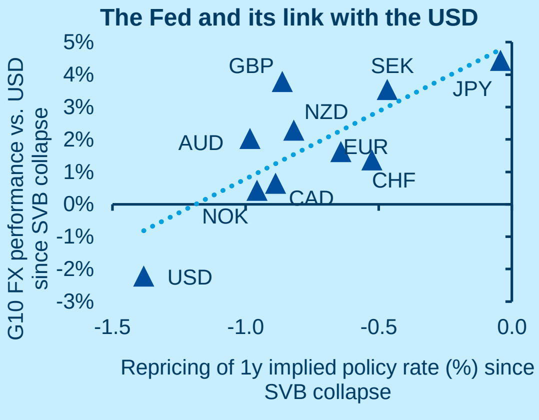
CURRENCIES

The strict link between the Fed and the dollar

Federico CESARINI
Head of DM FX - Amundi Institute

"The USD has been driven more by rate repricing rather than by fly to quality."

Monetary tightening is spilling over to financial conditions and lending standards, challenging the resiliency of the global economy. Rates volatility surged to historically high levels, banks plunged and spreads widened, yet the USD struggled to react, thwarting its usual diversification properties. Yet, the break in correlation comes with little surprise once we look under the surface. In a difference to February, this time monetary authorities' intervention and the subsequent fall in US rates triggered a surge in rates volatility in March. The US yield curve bull steepened as the Fed path was repriced and the USD showed its Achilles' heel. The response to the shock matters more than the shock itself. In this context, and without a global liquidity crisis, the USD status loses its appeal (JPY and CHF are better hedges in a low-growth environment), reinforcing our expectation for a weaker USD in 2023. A reacceleration of US inflation remains the key to short-term risk, yet a cyclical downturn should fend off a too-hawkish Fed response.



Source: Amundi Institute, Bloomberg as of 21 March 2023.

GLOBAL INVESTMENT VIEWS

Crisis memories return in vulnerable markets

Vincent MORTIER
Group Chief
Investment Officer

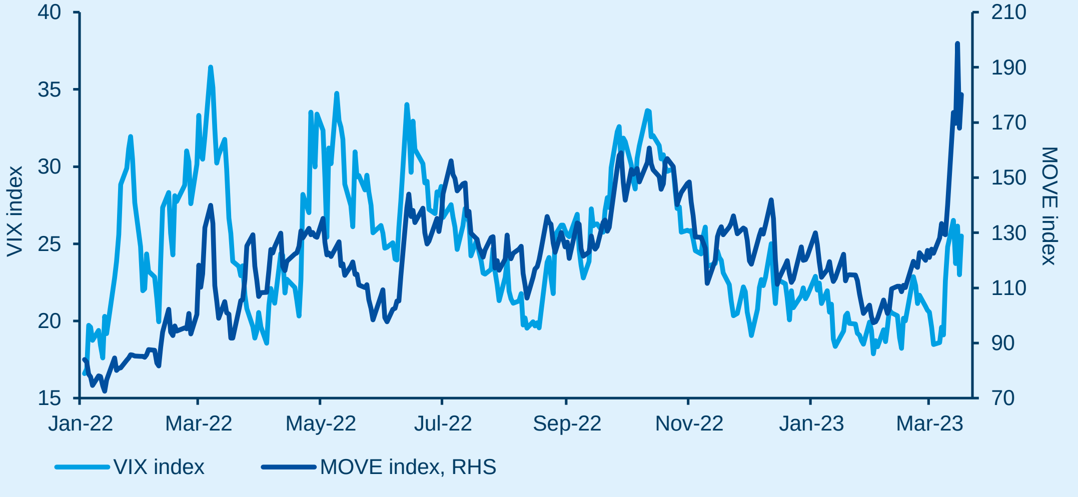
Matteo GERMANO
Deputy Group Chief
Investment Officer

March brought a wake-up call to markets after a complacent start to the year. The trigger was the failure of Silicon Valley Bank and other US regional banks, followed by Credit Suisse in Europe. The repricing of core yields and changes to market expectations regarding central bank actions have been massive in both the United States and Europe. Bond volatility reached the highest levels since the Great Financial Crisis, while equity volatility also spiked, but to a lesser extent.

Looking ahead, we think investors should consider the following factors:

- **Concerns around systemic risks**. We don't think we face a systemic crisis as banks in the United States and Europe are in much better shape compared to 2008, with more stringent regulation. Importantly, European regulators' affirmation that they do not aim to change the credit hierarchy (the Swiss case is idiosyncratic) should provide support to markets.
- **Economic growth in stressful conditions**. Recent events mean the economy's landing could be harder than previously expected. The credit crunch will impact growth, and also determine how pronounced the recession is. While globally the Chinese reopening will help, it will not be sufficient to offset the US recession.
- **Central bank actions when inflation is persistent.** Swift action from CB to stabilise markets indicates that they are taking this turmoil seriously, while at the same time continuing to focus on inflation. They will now be even more data dependent, with little or no policy guidance. This, in turn, will keep bond volatility high as inflation is still above targets.
- **The impact on EM**. The EM world has been affected by the aforementioned volatility, but the EM vs. DM growth advantage should persist. Selectivity will be key in a more vulnerable market environment.

Extreme bond volatility



Source: Amundi Institute, Bloomberg. Data is as of 17 March 2023.

"We are moving towards a more uncertain economic backdrop, with lower visibility on central bank actions. This calls for a prudent stance on risk assets."

Given this increasingly risky environment, we confirm our cautious stance, with specific points below:

- **From a cross-asset perspective, to strengthen safeguards we had raised our already positive stance on US duration before the recent downward repricing in yield. We are increasingly cautious on high-yield credit**. On risk assets, we remain defensive in equity, where our preference remains for China. We continue to favour high-quality names in both equities and credit. We also think investors should enhance their hedges on US equities and stay well-diversified through gold. On oil, we have become tactically neutral in light of the slowing economic growth.
- **In fixed income, movements in rates markets have been very strong, initially driven by sticky inflation readings, and then by the flight to safety move from the banking turmoil**. For our part, we remain active and keep a neutral to positive bias on duration in US fixed income, while we have a slightly defensive stance on European duration. In credit we focus on high-quality names and avoid highly leveraged businesses in both the EU and the US, while we remain cautious on HY. Overall, we think the European banking system is robust and that the current repricing could offer opportunities in names with robust capital positions and governance standards.
- **On equities, we have been cautious for quite some time because we were not comfortable with the excessive valuations. The recent volatility in the United States and Europe has been partly a result of markets being complacent**. We think investors should aim to benefit from the strong performance so far in segments such as cyclicals, and that they should now consider exploring defensive areas with attractive valuations and strong earnings potential. On the other hand, as inflation remains above central bank targets, we favour dividend-paying stocks that boost investor income. Finally, this turmoil reaffirms our stance on quality, with a value tilt and a preference for non-US banks with a high selection focus.
- **The risk-off sentiment mainly affected EM in HC debt, which had performed well recently, but LC looks resilient**. With the EM-DM growth differential and the weak dollar acting as positives for EM, we are prioritising selection. In LC we like Mexico, Colombia, South Africa and India. We also like countries such as Thailand, where the hiking cycle has almost reached an end. In equities, we are positive on China, but have lowered our positive stance on Brazil. On the other hand, select Latin American FX, such as MXN, offer attractive carry.

Overall risk sentiment

Risk off **Risk on**

Strengthen portfolio protection and stay diversified as inflation, growth and earnings concerns remain, with additional stability risks now to be considered.

Changes vs. previous month:

- Cross assets: defensive on credit, more constructive on US Treasuries and looking for opportunities beyond the core European curve.
- In fixed income we are now overall neutral to long US duration across the board.
- Tactical opportunities in EM LC debt and select EM FX.

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. Our stance may be adjusted to reflect any change in the market and economic backdrop.

Three hot questions

1
What is your view on the European banking sector?

We expect net interest margins will be smaller than previously anticipated and volumes will be lower given tighter credit conditions following the recent turmoil. This will have consequences for European earnings growth as a whole as banks were expected to be the number one drivers of European earnings per share (EPS) in the short to medium term. European banks' earnings growth will still be positive, just less so than previously expected. Concerns about credit crunches appear excessive amid the strong liquidity profiles and capital positions of European banks.

Investment consequences:

- Cautious on European equities overall.
- Focus on quality.

2
What is your take on China's institutional reform and government reshuffle?

President Xi Jinping's institutional reforms have reinforced the concentration of power, while creating new 'super ministries' directly under the party to oversee finance and technology. These reforms are also aimed at increasing defence spending and strengthening domestic security, reflecting growing concerns over regional instability and domestic unrest. On the economic front, growth could still surprise to the upside, especially in the housing sector, while the long-term agenda aims to stabilise the debt-to-GDP ratio.

Investment consequences:

- Cautious on equities overall, positive on China and Hong Kong.
- Defensive on high yield, but constructive on investment grade, especially short duration.

3
What is your final take on the Q4 reporting season?

The Q4 reporting season has seen mixed EPS results in the US, while Europe proved stronger than expected. The S&P 500 EPS was in negative territory for the first time since 2020. The Q4 results out so far – with some 96% of companies having reported – point to -3.2% from +4.4% in Q3, mainly driven by margins being revised down. Stoxx 600 earnings fell sharply, but by less than expected, remaining strong at +16.9%, down from +33.1% in Q3.

Investment consequences:

- Defensive stance on US equities confirmed.
- Preference for value, quality, and high dividend styles.

"We are moving towards a more uncertain economic backdrop, with lower visibility on CB action. A US recession is now on the cards."

Monica DEFEND
Head of Amundi Institute

Amundi asset class views

	Asset class	Current view	Change vs. m-1	Rationale
EQUITY PLATFORM	US	-/=		As markets digested the poor quality of Q4 earnings amid high inflation and higher rates, valuations were bound to be affected. The declines, led by the failure of regional banks, indicate that markets were ignoring risks that deserved attention. We remain cautious but like businesses that reward shareholders.
EQUITY PLATFORM	US value	+		We prefer value names amid a mild increase in yields, but remain focused on quality and earnings, as well as differentiated businesses that can outgrow the cycle. We are selective on banks.
EQUITY PLATFORM	US growth	--		Valuations are still excessive in big tech and large cap names despite the former's disappointing earnings season. We avoid unprofitable businesses that are more affected by higher rates.
EQUITY PLATFORM	Europe	-/=		Uncertainty around recession, inflation and earnings keeps us cautious, even though we saw some positive surprises in recent earnings in the cyclicals sector. On the banking side, we prefer businesses with strong capital positions and liquidity ratios. The current volatility may even open up entry points for names with strong long-term potential. Overall we like quality, value names.
EQUITY PLATFORM	Japan	-/=		The widening of the band (by BoJ) for bond yields and the market's expectations of the YCC could affect yen movements, making us slightly cautious on Japanese equities. We continue to monitor earnings and the effects of slowing global growth on the export-oriented Japanese markets.
EQUITY PLATFORM	China	+		We are constructive in sectors such as consumer discretionary on account of the rebound from Covid lockdowns that is also evident in hard data. But we are selective and vigilant on the evolution of geopolitical risks (US, Russia) and the fiscal policy framework.
EQUITY PLATFORM	Emerging markets ex China	=		Earnings dynamic are supportive in general but country-specific factors such as the political environment in Brazil (mild positive) and valuations in India and Malaysia keep us selective.
FIXED INCOME PLATFORM	US govies	=/+		The Fed's job on interest rates is being complicated by financial stability concerns, in addition to the difficult balancing tasks of boosting growth and taming inflation. We think the central bank will keep its tightening trajectory, but that it will become less aggressive. As a result, we are constructive on duration but remain very active as the situation is fluid.
FIXED INCOME PLATFORM	US IG corporate	=/+		Spreads are not fully accounting for the yield volatility and pressures on consumption, which will eventually impact corporate cash flows. We are slightly positive but favour businesses with high carry and the ability to withstand earnings pressures.
FIXED INCOME PLATFORM	US HY corporate	-		Slowing economic growth, a worsening default outlook and higher cost pressures on companies lead us to remain cautious. We are watchful of the effect of real rates and financial stability on spreads.
FIXED INCOME PLATFORM	European govies	-/=		The ECB appears determined to fight inflation, leading us to be slightly defensive on duration. However, we are agile in adjusting this stance for any change to the ECB's rhetoric and yield movements. We are vigilant on peripheral debt.
FIXED INCOME PLATFORM	Euro IG corporate	=		Leverage remains stable compared with history but the tightening monetary policy framework in Europe and the potential geopolitical risks leave us close to neutral. We are monitoring stability risks and how the economic deceleration affects the cash flows and liquidity needs of companies.
FIXED INCOME PLATFORM	Euro HY corporate	-		As internal liquidity buffers reduce, HY corporates may increase leverage at a time of weak earnings, rising interest costs and deteriorating default prospects. Hence, we remain cautious and are mindful of factors that could trigger any spread volatility.
FIXED INCOME PLATFORM	China govies	=		We are monitoring the government's fiscal and monetary policies and how they collectively affect Chinese yields. For now, we are neutral amid our view that it offers diversification advantages.
FIXED INCOME PLATFORM	EM bonds HC	=/+		In an environment of soft global growth, EM debt offers attractive carry even if spread compression may be limited from current levels. We are particularly monitoring the political events in Turkey and Nigeria and are cautiously optimistic on the former.
FIXED INCOME PLATFORM	EM bonds LC	=/+		We are constructive on EM duration and FX but remain very selective as directional certainty is still limited in the medium term. But we believe there are opportunities in Mexico and Thailand, and are tactically positive on Colombia, South Africa and India.
OTHER	Commodities			Oil prices were weighed down by concerns on growth, affecting the very near-term outlook. However, the production discipline of OPEC+ and US producers, and surging Chinese demand, leads us to maintain our 12m Brent target of $100/bl. We also keep our 12m gold price target of $2,000/oz.
OTHER	FX			We reduced our cautious stance on the GBP vs. the dollar owing to expectations of a weaker greenback. We also confirm our EUR/USD 12m target at 1.15. Select EM FX offer opportunities to play the strength in Latin America and Asia as sentiment improves.

--- -- - = + ++ +++

Negative view Neutral Positive view

owngrade vs. previous month

pgraded vs. previous month

Source: Amundi as of March 2023, views relative to a EUR-based investor. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product.

Enhance safeguards

Our call to stay defensive and not get carried away by the risk asset rally since the start of the year has been validated by the recent market stress. While excessive valuations were one reason for the stress, economic, earnings and contagion concerns also contributed and these concerns remain. In addition, there is increasing uncertainty around geopolitical tensions. The evolving eco-political environment calls for a defensive stance on risk assets and underscores the need to enhance portfolio protection. At the same time, investors should explore yield curves across geographies, for example, beyond core Europe, and stay well-diversified through assets such as gold.

High conviction ideas. Weak corporate margins, expensive valuations and the potential rebalancing of large pension funds away from stocks make us cautious on DM equities. **We expect the market to continue to be held hostage to adjustments in terminal rate expectations in the United States and Europe**. In the United States, amid the higher volatility we remove our relative preference for small caps. In contrast, we keep our positive view on China due to the improving economic outlook, cheap relative valuations and scope for increasing inflows.

In fixed income, we raise slightly our constructive view on US Treasuries, which should gain from the flight to safety driven by higher recession risks and financial stability concerns. In this risky environment, the diversification benefit of government bonds has returned. We remain active across geographies, playing opportunities in the Swedish and Canadian curves. We also are mildly positive on the 10y BTP-Bund spread, but cautious on Japanese government bonds owing to our expectation that the Bank of Japan could give up its control of the yield curve.

We do not think current corporate credit valuations are justified, due to the potential deterioration in financial conditions. We are increasingly cautious on EU HY as we see indications of a worsening environment in the future for HY overall. Even though credit supply has been well received by the market, some profit-taking is materialising. Thus, flows in the credit market will now be less supportive of spreads looking ahead, even more so after recent events.

In FX, the USD forms a key driver of our FX strategies. We think it should gradually weaken and hence we are no longer negative on the GBP against the USD, but this is more due to the dollar and less about any strength in the pound. We upgrade the AUD/USD and stay positive on EUR/USD. In EM, we are now constructive on MEX/EUR given the attractive carry. The currency should benefit from the structural effects of nearshoring (being close to the United States) and the robust monetary policy framework. Elsewhere in EM, we are also positive on BRL/USD and ZAR/USD.

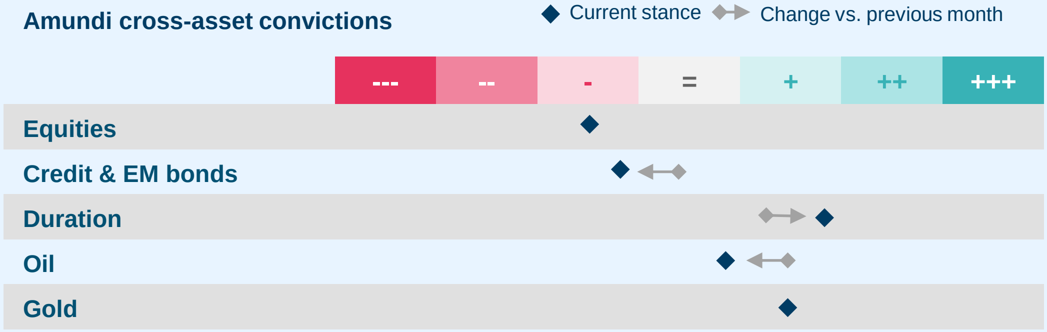
Risks and hedging. Looming risks around economic growth and still-high inflation underline the importance of gold as a safe asset. On the other hand, we see some risks around weakening demand in the US and Europe amid tightening lending standards that could affect overall consumption, potentially impacting oil. Thus, we are tactically neutral on oil for now, but will keep monitoring this stance. Finally, we see scope for strengthening financial hedges, particularly on US equities, and maintaining protections in credit.

Francesco SANDRINI
Head of Multi-Asset Strategies

John O'TOOLE
Head of Multi-Asset Investment Solutions

"Market movements reinforce our views on duration and our cautious, diversified stance. Investors should now strengthen hedges in this phase of low growth and stability risks."

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, IG = investment grade, HY = high yield, CB = central banks, BTP = Italian government bonds.

Explore quality resilience

Kasper ELMGREEN
Head of Equities

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

Overall assessment. The failure of some regional US banks and the stress in Europe, and the resultant volatility, has led to questions about the sustainability of market's exuberance. Although our stance has been cautious all along, recent events lead us to reassess our views based on fundamentals. Though supported by falling energy prices, the consumption backdrop is still weak as inflation continues to tax corporates/individuals. Hence, investors should focus on companies with strong balance sheets in the quality and value spaces. In these areas, we look at earnings potential of businesses with operational efficiencies. **There are opportunities in less-cyclical parts, and investors should explore countries such as China with limited correlation with DM, with a vigilant stance.**

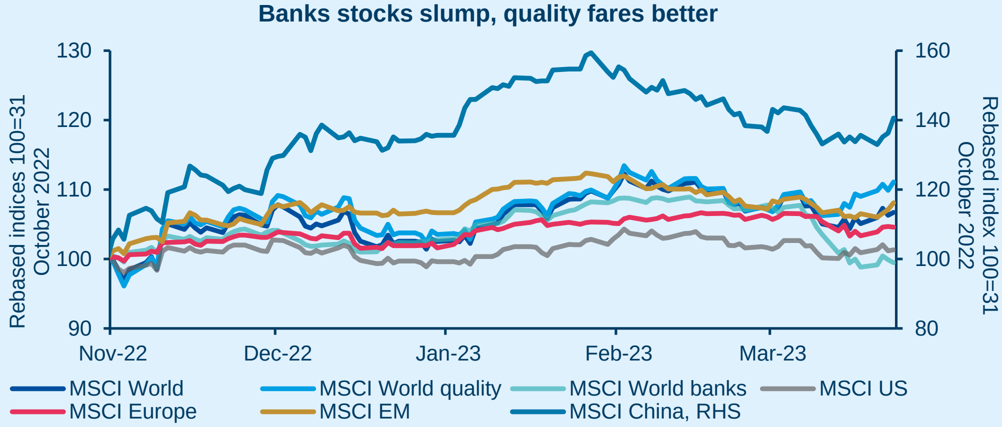
European equities. Even though fundamentals are deteriorating, we think the Q4 earnings season has been slightly better than expected, but it is too early to start discounting a better scenario. **Instead of getting overwhelmed by movements, investors should prioritise valuations and stay balanced, favouring the quality and value areas of the markets**. This may also be a time to rotate within the key convictions. **For instance, we prefer well capitalised core European retail banks**. In a barbell style approach, we explore quality cyclical businesses and defensive stocks, such as those in staples and healthcare. But in some cyclicals areas where valuations are now excessive (consumer, industrials), investors should be cautious. Having said that, we continue to maintain a preference for quality retail banks, given the beneficial effect of high interest rates on their net interest margins.

US equities. We believe current valuations are not justified given the inflation backdrop, higher interest rates expectations and weak soft data. In the latest Q4 results, we noted that earnings growth was lower than the previous quarter and forward guidance from companies was weak. **As a result, we assess companies' quality of earnings to understand whether the increase in profits has been a result of the strength of business models and is therefore repeatable**. Here, we favour companies with high operational efficiencies and those with the potential to reward shareholders. In particular, we like quality, value names in sectors such as banks and energy, but avoid unprofitable growth and mega-cap names. In addition, there are select names in capital goods and energy that should be able to outgrow their sectors. However, valuations in discretionary are expensive and the sector will be affected by persistent wage pressures. Relatively defensive names in healthcare equipment and services and life science tools sectors are also attractive.

EM equities. EMs are displaying geopolitical/domestic political risks but we see select opportunities led by the recovery in China, attractive valuations and improving earnings. For instance, we are positive on China and Brazil. On the latter, while we are less positive than before, we expect a more market-friendly stance from the government in the future. We are constructive on consumer discretionary but keep a negative view on healthcare. On a relative basis, energy is preferred to materials and value to growth.

"Investors should avoid expensive names and consider moving towards quality businesses with strong balance sheets."

Banks stocks slump, quality fares better



Source: Amundi Institute, Bloomberg. Data is as of 22 March 2023.

Government bonds back as portfolio diversifiers

Overall assessment. Sharp yield movements in the United States and Europe, and the repricing in the market's terminal rate expectations, have been a result of heightened volatility and tightening financial conditions. While CB and regulators were swift to provide liquidity support to markets, their task is not yet done as high inflation and stability concerns remain. Thus, they must maintain that delicate balance to maintain their credibility. **This means investors should actively explore bonds, particularly US government bonds, to provide some stability to their portfolios at a time of tightening financial conditions in the markets and lending standards in the economy.** They should also include inflation protection assets and explore selective opportunities in credit and EM debt, with a focus on quality.

Global and European fixed income. High inflation leads us to be slightly **cautious on duration overall through Europe and Japan, but we are now neutral on the United States** after the recent concerns over financial stability and growth. However, we remain flexible here. On break-evens, we are now positive on Europe through BTPs, but believe 2y US break-evens are now expensive. For risk assets, markets are not fully recognising issues such as wage growth pressures, which could affect earnings and eventually cause a deterioration in credit metrics. While we are **marginally positive on credit**, we stay cautious on HY but favour EU IG. Corporate balance sheets in IG are strong, leverage is low and we largely see fixed rate loans. At a sector level, we acknowledge the volatility in banks but believe the repricing may present opportunities in financials with strong capital positions. In addition, we like green bond issuers with whom we can engage and improve their ESG performance.

US fixed income. The Fed faces a question of credibility at a time when it is grappling with the difficult task of taming inflation. In this environment, we keep a slightly constructive outlook on duration but stay active. **Risks to credit spreads have increased, particularly for the weaker, highly leveraged segments**. While spreads have widened across the board, markets are still not fully accounting for the slowdown. Hence, investors should consider using the rallies to lock in performance. Overall, we favour financials over non-financials such as industrials, and IG over HY, and we like names with robust capital buffers. In securitised markets, we think the US consumer is likely to retrench somewhat as the job market weakens and unemployment climbs. This will be compounded by banks tightening their lending standards and increasing pricing across loan books. Thus, we are very vigilant.

EM bonds. Recent movements in LC could open up opportunities and we focus on LatAm, South Africa and India. We also favour countries where the hiking cycle is almost at its end (Thailand, Colombia). Overall, EM growth and a stable policy backdrop are positive for EM assets, including HC. We are monitoring the political environment in Turkey, but do not see insolvency risks. Selection is essential amid the geopolitical tensions over China and the United States.

FX. We are close to neutral on USD amid the fading rates advantage of the US, but positive on safe haven FX (CHF, JPY). We favour MXN and BRL in LatAm and IDR and INR in Asia.

US financial conditions

Source: Amundi Institute, Bloomberg. Data as of 17 March 2023. The Bloomberg US financial conditions Index tracks the overall level of financial stress in the US money, bond and equity markets to help assess the availability and cost of credit. A positive value indicates accommodative financial conditions, while a negative value indicates tighter financial conditions relative to pre-crisis norms.

Amaury D'ORSAY
Head of Fixed Income

Yerlan SYZDYKOV
Global Head of Emerging Markets

Kenneth J. TAUBES
CIO of US Investment Management

"Tightening conditions and slowing consumption may pressurise corporate cash flows, potentially worsening the default outlook.".

Macroeconomic forecasts

Macroeconomic forecasts as of 23 March 2023						
Annual averages, %	**Real GDP growth, YoY, %**			**Inflation (CPI, YoY, %)**		
	2022	**2023**	**2024**	**2022**	**2023**	**2024**
Developed countries	**2.7**	**0.6**	**0.6**	**7.4**	**4.8**	**2.5**
United States	2.1	0.5	0.1	8.0	4.2	2.4
Eurozone	3.5	0.3	0.7	8.4	6.0	3.0
Germany	*1.9*	*0.0*	*0.7*	*8.7*	*6.2*	*2.9*
France	*2.6*	*0.3*	*0.8*	*5.9*	*5.6*	*3.0*
Italy	*3.8*	*0.4*	*0.8*	*8.7*	*6.8*	*2.3*
Spain	*5.5*	*0.8*	*0.9*	*8.3*	*4.0*	*3.1*
United Kingdom	4.0	-0.4	0.9	9.0	7.2	2.9
Japan	1.0	0.5	1.0	2.5	1.9	0.6
Emerging countries	**4.0**	**3.9**	**3.9**	**8.7**	**6.5**	**5.6**
China	3.0	5.6	4.7	2.0	1.5	2.5
India	7.0	5.4	6.0	6.7	6.0	6.0
Indonesia	5.3	5.2	4.8	4.2	4.3	4.1
Brazil	2.9	0.7	1.1	9.3	5.0	5.0
Mexico	3.1	1.4	0.4	7.9	6.0	4.7
Russia	-2.3	0.6	2.0	13.8	6.7	4.5
South Africa	2.1	0.3	0.5	6.9	5.9	4.8
Turkey	5.5	2.6	4.0	72.0	49.6	38.8
World	**3.4**	**2.5**	**2.6**	**8.2**	**5.8**	**4.3**

Central bank official rates forecasts, %					
	23 March 2023	**Amundi +6m.**	**Consensus +6m.**	**Amundi +12m.**	**Consensus +12m.**
United States*	5.00	5.25	4.50	4.75	3.90
Eurozone**	3.00	3.50	3.30	3.50	3.20
United Kingdom	4.25	4.50	4.40	4.25	4.10
Japan	-0.10	0.00	0.00	0.00	0.10
China***	3.65	3.65	3.65	3.65	3.65
India****	6.50	6.50	6.70	6.25	6.50
Brazil	13.75	12.25	13.30	10.25	11.70
Russia	7.50	7.00	7.55	7.00	7.20

Source: Amundi Institute. Forecasts are as of 24 March 2023. CPI: consumer price index. *: Upper Fed Funds target range. **: Deposit rate. ***: One-year loan prime rate. ****: Repurchase rate.

Date of first use: 3 April 2023.

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/Getty Images Plus - Charles O'Rear

Amundi Institute contributors

AINOUZ Valentine,
Head of Global Fixed Income Strategy, CFA

BERARDI Alessia,
Head of Emerging Macro and Strategy Research

BERTHON Jean-Baptiste,
Senior Cross-Asset Strategist

BERTONCINI Sergio,
Senior Fixed Income Strategist

BOROWSKI Didier,
Head of Macro Policy Research

CARULLA Pol,
Investment Insights and Client Division Specialist

CESARINI Federico,
Head of DM FX, Cross Asset Strategist

DHINGRA Ujjwal
Investment Insights and Client Division Specialist

DI SILVIO Silvia,
Cross Asset Macro Strategist

DROZDZIK Patryk,
Senior EM Macro Strategist

GEORGES Delphine,
Senior Fixed Income Strategist

HERVÉ Karine,
Senior EM Macro Strategist

HUANG Claire,
Senior EM Macro Strategist

MIJOT Eric,
Head of Global Equity Strategy

PORTELLI Lorenzo,
Head of Cross Asset Strategy, Head of Research at Amundi Italy

PRADHAN Mahmood,
Head of Global Macroeconomics

ROSENBERG Anna,
Head of Geopolitics

USARDI Annalisa,
Senior Economist, CFA

VARTANESYAN Sosi,
Senior Sovereign Analyst

Chief editors

DEFEND Monica,
Head of Amundi Institute

MORTIER Vincent,
Group Chief Investment Officer

Editors

BERTINO Claudia,
Head of Amundi Investment Insights & Publishing

FIOROT Laura,
Head of Investment Insights & Client Division

Deputy editors

PANELLI Francesca,
Investment Insights and Client Division Specialist

PERRIER Tristan,
Macroeconomist and Investment Insights Specialist

Amundi ASSET MANAGEMENT | Institute