

Confidence  
must be earned

**Amundi**  
ASSET MANAGEMENT

JULY 2021

# Global Investment Views



**Pascal  
BLANQUÉ**  
Group Chief  
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Investment Officer

## Overall risk sentiment

Risk off Risk on



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

## Changes vs. previous month

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

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

## Waters appear calm, but there are strong undercurrents

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

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

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

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

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

MACRO & STRATEGY



**Monica DEFEND**  
Global Head of Research



**Patryk DROZDZIK**  
EM Macro Strategist

## Latin America’s left-leaning political shift

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

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

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

increase the risks related to the presidential elections to be held later this year.

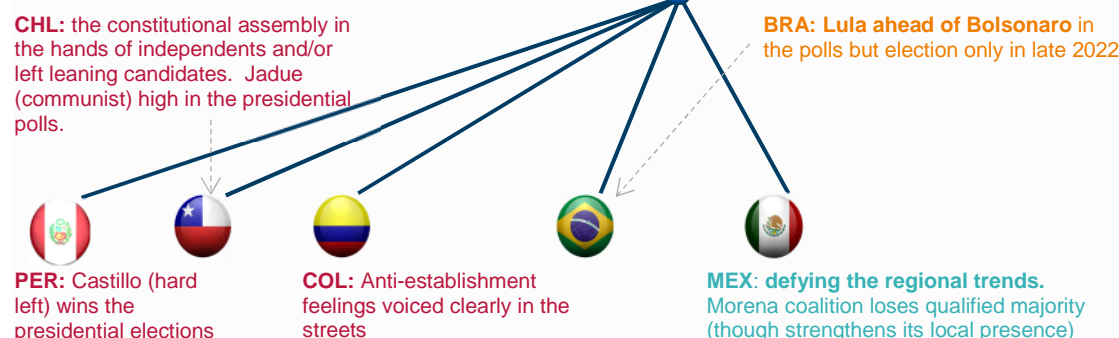
Social dissatisfaction has spilled over to the streets in Colombia. Triggered by the ambitious, prudent but poorly-timed tax reform, social unrest hit Colombian streets via robust protests and strikes. The fiscal reform has since been withdrawn but social demands have risen and a credit rating downgrade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

However, Mexico is defying the regional trends to some extent. In the early-June midterm election, the Morena coalition lost the qualified majority and thus the power to amend the constitution. The coalition’s simple majority though will allow it to control the budget and the legislative agenda - AMLO’s administration will keep pursuing his state-centric vision of the energy sector and fund projects he feels strongly about (refinery, airport etc.).<sup>1</sup> And while losing quite a few seats at the federal level, the Morena coalition did well in the state elections, winning 12 governorships and in fact strengthened its local presence (but not in Mexico City).

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

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

### Recent political developments in Latin America



Source: Amundi, as of 18 June 2021. <sup>1</sup> Andrés Manuel López Obrador.

MULTI-ASSET



**Matteo GERMANO**  
Head of Multi-Asset

## Positive backdrop but lack of market-directionality

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

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

### High conviction ideas

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

**We maintain our reflationary outlook in the form of a cautious stance on UST 10Y**, a view that looks attractive relative to the 10Y inflation swap, on which we are no longer positive as valuations are now close to our target. We keep a watchful eye on a regime shift towards higher long-term inflation. In the UK, we maintain our 2/10Y curve steepening view amid the country's successful vaccination campaign and BoE's hawkish stance.

On Euro peripheral debt, we stay positive on 30Y Italy BTP vs German Bund on the back of ECB support, strong growth expectations for Italy, and robust technicals amid slowing BTP supply.

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

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

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

### Risks and hedging

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

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

Amundi Cross-Asset Convictions

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

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

FIXED INCOME



**Eric BRARD**  
Head of Fixed Income



**Yerlan SYZDYKOV**  
Global Head of Emerging Markets



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

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

## Central banks are wary of inflation risks

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

### Global and European fixed income

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

### US fixed income

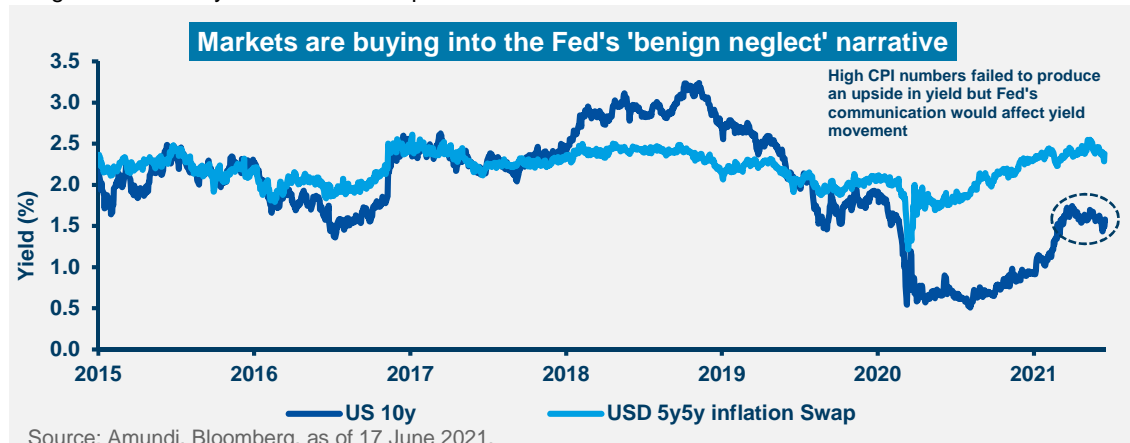
While the Fed seems happy to prioritise the labour market and ignore inflation as temporary, we think the huge money supply, a sort of demographic boom and limited manufacturing capacity (vs accelerating demand) is likely to create long-term inflation pressures. This, coupled with rising deficit, strengthening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

### EM bonds

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

### FX

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



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

## A story of rotations, selection and dividends

### Overall assessment

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

### European equities

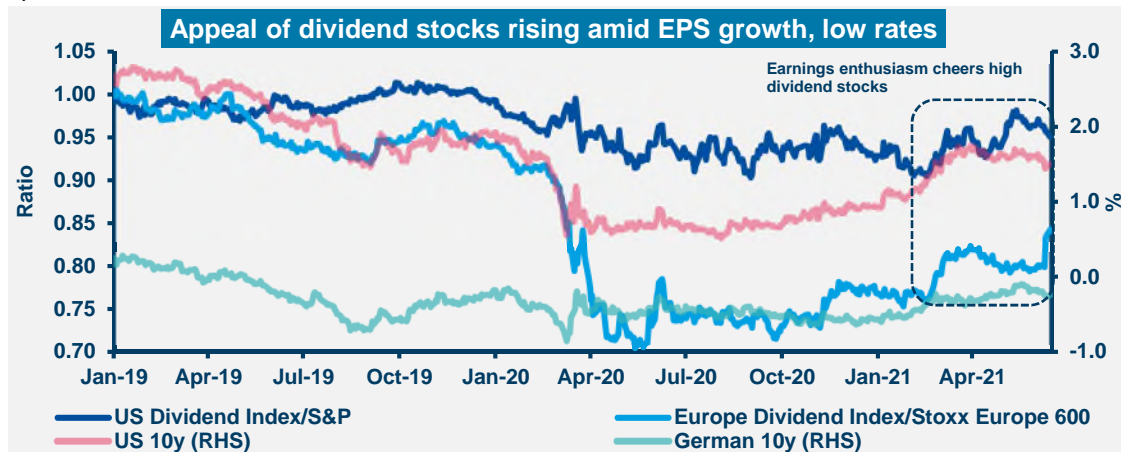
We believe outperformance based on cyclical recovery and value rotation should remain a long-term trend. However, now it is a story of bottom-up selection, idiosyncratic cases and return of dividends as we emerge from the crisis and as earnings improve. It is also about fundamental ESG analysis and how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

### US equities

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

### EM equities

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



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

## EQUITY

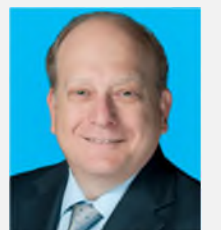
“  
**Investors should take the foot off the gas pedal a bit in terms of market directionality in rotations. In a stock picker's market, focus on strength of individual businesses and earnings growth are key.**”



**Kasper  
ELMGREEN**  
Head of Equities



**Yerlan  
SYZDYKOV**  
Global Head of  
Emerging Markets



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

# Amundi asset class views

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



Source: Amundi, as of 22 June 2021, views relative to a EUR-based investor. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product. IG = investment grade corporate bonds, HY = high yield corporate; EM bonds HC/LC = EM bonds hard currency/local currency. WTI = West Texas Intermediate. QE = quantitative easing.

# AMUNDI Investment Insights Unit

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

## INSIGHTS UNIT

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### Definitions & Abbreviations

- Agency mortgage-backed security:** Agency MBS are created by one of three agencies: Government National Mortgage Association, Federal National Mortgage and Federal Home Loan Mortgage Corp. Securities issued by any of these three agencies are referred to as agency MBS.
- Beta:** Beta is a risk measure related to market volatility, with 1 being equal to market volatility and less than 1 being less volatile than the market.
- Breakeven inflation:** The difference between the nominal yield on a fixed-rate investment and the real yield on an inflation-linked investment of similar maturity and credit quality.
- Carry:** It is a return of holding a bond to maturity by earning yield versus holding cash.
- Correlation:** The degree of association between two or more variables; in finance, it is the degree to which assets or asset class prices have moved in relation to each other. Correlation is expressed by a correlation coefficient that ranges from -1 (always move in opposite direction) through 0 (absolutely independent) to 1 (always move in the same direction).
- Credit spread:** The differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration possible embedded options.
- Currency abbreviations:** USD – US dollar, BRL – Brazilian real, JPY – Japanese yen, GBP – British pound sterling, EUR – Euro, CAD – Canadian dollar, SEK – Swedish krona, NOK – Norwegian krone, CHF – Swiss Franc, NZD – New Zealand dollar, AUD – Australian dollar, CNY – Chinese Renminbi, CLP – Chilean Peso, MXP – Mexican Peso, IDR – Indonesian Rupiah, RUB – Russian Ruble, ZAR – South African Rand, KRW – South Korean Won.
- Cyclical vs. defensive sectors:** Cyclical companies are companies whose profit and stock prices are highly correlated with economic fluctuations. Defensive stocks, on the contrary, are less correlated to economic cycles. MSCI GICS cyclical sectors are: consumer discretionary, financial, real estate, industrials, information technology and materials. Defensive sectors are: consumer staples, energy, healthcare, telecommunications services and utilities.
- Duration:** A measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates, expressed as a number of years.
- Duration times spread:** It is the standard method for measuring the credit volatility of a corporate bond and is calculated by multiplying the spread-durations and credit spread.
- Equity risk premium:** refers to an excess return that investing in the stock market provides over a risk-free security such as US Treasuries.
- FX:** FX markets refer to the foreign exchange markets, where participants are able to buy and sell currencies.
- High growth stocks:** A high growth stock is anticipated to grow at a rate significantly above the average growth for the market.
- Liquidity:** The capacity to buy or sell assets quickly enough to prevent or minimize a loss.
- QE:** Quantitative easing (QE) is a type of monetary policy used by central banks to stimulate the economy by buying financial assets from commercial banks and other financial institutions.
- Quality investing:** to capture the performance of quality growth stocks by identifying stocks with: 1. high return on equity (ROE); 2. Stable year-over-year earnings growth; and 3. low financial leverage.
- Reaction function:** A function that gives the value of a monetary policy tool that a CB chooses, or is recommended to choose, in response to some indicator of economic conditions.
- TIPS:** A Treasury Inflation-Protected Security is a Treasury bond that is indexed to an inflationary gauge to protect investors from a decline in the purchasing power of their money.
- USD 5y5y inflation swap:** A common measure of markets' future inflation expectations. It is used by central banks and market participants.
- Value style:** refers to purchasing stocks at relatively low prices, as indicated by low price-to-earnings, price-to-book, and price-to-sales ratios, and high dividend yields. Sectors with dominance of value style: energy, financials, telecom, utilities, real estate.
- Volatility:** A statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.
- Yield curve control:** YCC involves targeting a longer-term interest rate by a central bank, then buying or selling as many bonds as necessary to hit that rate target. This approach is dramatically different from any central bank's typical way of managing a country's economic growth and inflation, which is by setting a short-term interest rate.
- Yield curve steepening:** This is the opposite of yield curve flattening. If the yield curve steepens, this means that the spread between long- and short-term interest rates widens. In other words, the yields on long-term bonds are rising faster than the yields on short-term bonds, or short-term bond yields are falling as long-term bond yields rise.

### Important Information

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