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## Overall risk sentiment

Risk off Risk on



Overall cautious approach; explore market dispersions and divergence to benefit from relative value opportunities

## Changes vs. previous month

- Neutral in European equities but keep portfolio protection
- Weak GBP amid no-deal Brexit risk

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

## Markets at a crossroads, opportunities in divergences

Back from holidays, investors are dealing with **rising volatility in the equity markets and initial signs of a fall in the extreme market complacency over the last few months**. After the summer overshoot, Big Tech stocks have seen a pullback and some tensions have also materialized in the US HY segment, while IG markets remained more or less flat in the last month. The relative calm in credit and US Treasuries reassures that the readjustment is mainly due to investor repositioning, and is not driven by financial-market stress.

At the investment strategy level, this means that investors should follow the evolution of some key divergences that the post Covid-19 recovery phase is highlighting, in order to exploit current opportunities and monitor possible rotations on the horizon.

- The first and most important of these is the detachment of the market from economic reality** due to the extreme policy support, which mainly benefitted the long tech, long duration trade that became increasingly crowded over the summer. Central banks will remain accommodative but markets will ask for additional accommodation, that will come only if conditions worsen materially. Some volatility is therefore on the cards entering the autumn, when the direction of the economy and, most importantly, the pandemic will be tested. **Investors should therefore maintain a cautious (normalization of economy will not happen soon), but not risk-off stance.** It would be difficult to see any further upside in risk assets in absence of a clear catalyst. This means investors should prioritize liquidity and quality, explore relative value opportunities and remain watchful of bubbles. On duration, instead, investors should be neutral.
- A second divergence we see is in credit.** After a first wave of indistinctive sell-off at the beginning of the crisis, the subsequent bounce-back has triggered a divergence between quality companies that will be able to navigate the crisis and the more challenged ones. With deflationary fears abounding and CBs highly accommodative, yields are set to remain suppressed. Search for yield will continue, but at this point in the cycle, with possible rising defaults, we reiterate the importance of being highly selective and not compromising on quality and liquidity. This is because while technicals remain strong due to central bank support, fundamentals still remain weak. We see opportunities in IG, securitized credit and hybrid/subordinated debt. In HY, investors should be cautious on names and sectors at higher risk (consumer, cyclicals, financials).
- China (and selective Asian countries) vs. rest-of-world divergence.** With still-high uncertainty around the evolution of the cycle in Europe and in the US, China is emerging as the engine of growth. Strong recent Chinese economic data enables the recovery narrative to continue, with the pendulum shifting toward some Asian countries (Korea, Taiwan). China's strength is behind the appetite for selective EM bonds and EM equity, and also EM currencies. This pattern has translated into a strengthening Yuan and into the outperformance of those European equities which have high sales exposure to China vs. the rest of the European equities. Emerging dominance of Chinese assets or assets exposed to China's growth will likely endure. The relative weakness of the dollar also supports selective EM currencies, making exposure to EM LC bonds more appealing; some rerating has started.
- ESG will continue to gain prominence, particularly the 'S' factor.** Governments will have to deal with rising inequality and diverging social standards as reducing fiscal payments and unemployment support exacerbate the effects of a slow economic rebound. Overall, the growing trend toward the adoption of green standards, as well as best practices in the social space, should benefit those companies able to improve their profile in this area, and investors will likely reward them.

In conclusion, markets are pricing a lasting deflationary and low discount rate environment, and the ability of monetary and fiscal policies to continue to feed the "financial multiplier," hence keeping a positive momentum of policy support. **This support generates a certain dispersion of returns that offers opportunities for relative value play. This is the game investors should play as long as the policy mix keeps markets in a relative calm.** Yet, at some point, stronger rotations will come from either higher than expected growth or higher inflationary expectations or loss of momentum of policy support (second derivative), and this calls for a watchful approach especially to areas of extreme market complacency (high growth big tech space).

MACRO & STRATEGY



**Monica DEFEND**  
Global Head of Research



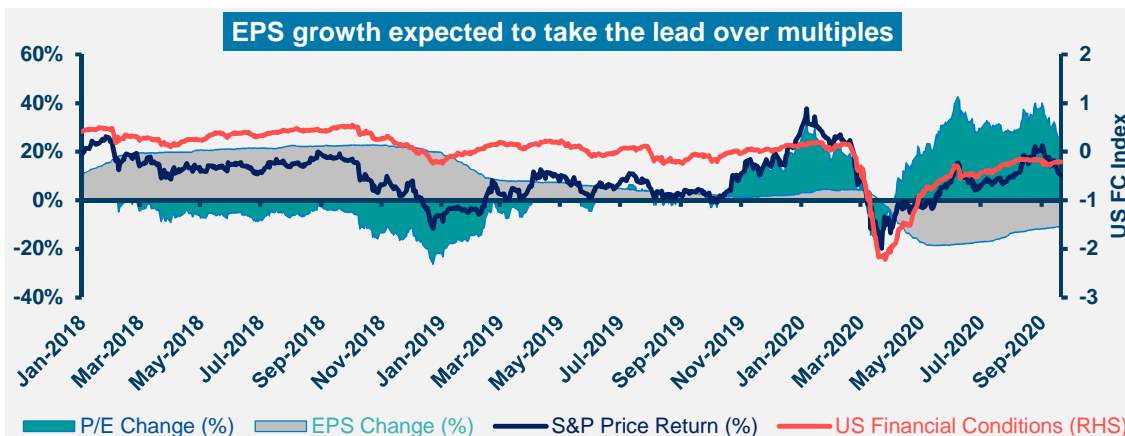
**Federico CESARINI**  
Cross Asset Strategist

## Rotation from credit to equities in the pipeline

A transition towards a new financial regime is happening, hiccups may occur but policy boosts will intervene to mitigate relapses. While the bottom has passed, **economies do not seem to be climbing out quickly enough to ensure a quick recovery.** On the other hand, **earnings will prove to be more resilient** and quick to recover, whereas the picture is more scattered within credit. **It is now time to consider a rotation from credit (starting from HY low rated issuer) into equities (deep value, quality), all the while leaving the risk budget balance unchanged.** After responding quickly to the Covid-19 economic shock, CBs confirmed their role as lenders of last resort and extended the measures to include the private non-financial sector among the main beneficiaries. Conventional and unconventional tools were enough to restore confidence in markets and offset one of the sharpest contractions of economic activity. With artificially high demand for spread products, financial conditions eased and translated into higher multiples, which in turn, drove a rebound in equities. Six months after the intervention, policy accelerators have already pushed business confidence higher and shaped the standard features of a recovery scenario for 2021. **Whilst both equities and credit are likely to perform well in this scenario, investors will start questioning whether the relative preference “Credit vs. Equities” still holds.** Earlier, with the direct support of CB, corporate bonds were perceived as safer than stocks and inflows to the asset class surged since March 2020. But the economic recovery is on track and the second quarter is expected to have marked the trough for earnings, suggesting P/E dynamic should not be the only driver of equities going forward. Given the expectations of double-digit growth in earnings and the limited potential for financial conditions to ease further, we think the case for profit growth, taking the

lead over multiples (see chart) and, supporting equities over credit remains valid. Currently, spreads are tight across the board and not far from pre-pandemic levels even in the HY space, despite concerns on defaults. A clear anomaly of this exceptional situation is that investors’ search for yield has offset the weak fundamentals story. Now, with less juice to squeeze in credit from current levels and the approaching recovery, **we see asymmetric profiles for the two asset classes – credit will offer better downside protection (than equities), but equities will offer higher gains in case of a potential upside.** Despite the bumpy road, with recovery extending to the early stages of 2022, we see opportunities to rotate progressively to stocks, as we see only limited carry in corporate bonds. **On the other hand, equities are attractive from an income standpoint.** ERPs remains well supported and the percentage of stocks with higher DY than corporate bonds yield has surged since CB intervention. Moreover, inflation expectations are bouncing back and could prove to be a source of volatility for FI investors. As commitment on lower rates for longer seems strong, we see limited risks for the time being. If any, early spikes in nominal rates would favour equities over credit, as stocks remain among the best “growth-based” hedges against rising inflation figures. Considering the limited participation of international institutional investors in the March-to-August rally — apart from US retail investors and option volumes — **a repositioning in equities is likely along 2021.** Current positioning remains below historical standards, as investors preferred credit to play the first leg of the rebound. We think something is changing in the landscape and expect further confirmations on the recovery path would trigger a gradual rotation to equities in the coming months.

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*Investors should consider a rotation from credit to equities, without changing the risk budget, amid expectations of double-digit earnings growth and the limited potential for financial conditions to ease further.*  
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Source: Amundi Research, FactSet, as at 21 September 2020. Data for S&P 500. 12 month forward P/E (price equity ratio) change y-o-y, 12 months forward EPS (Earnings per share) change y-o-y, Price return y-o-y. US Financial Conditions is an Amundi-created index – A positive number means easing conditions, whereas a negative reading means tightening conditions. DY = Dividend yield, ERP = Equity Risk Premium. CB = Central banks, FI = Fixed income.

MULTI-ASSET

# Keep portfolio protection, consolidate performance

We expect the economic performance to progress along a slow and a gradual upward path, fuelled by the long-lasting central bank support as confirmed by the recent shift in the Fed stance to a more (flexible) average-inflation-targeting regime. We believe this 'lower for longer' rates environment and improving economic backdrop call for preparation for some risk rotation while keeping a balanced, defensive and diversified stance. **Investors should stay neutral on risk assets (slightly cautious on equities, positive on quality credit) but remain watchful to identify opportunities, book profits where the upside seems limited and maintain appropriate hedges.**

### High conviction ideas

**On DM equities, we upgraded our stance on Europe to neutral. This could be done by making some changes to derivatives strategy rather than by increasing outright positions in order to maintain an overall cautious stance.** Equity risk premia are high, although absolute valuations are stretched. We believe expectations of a recovery and a stronger link between fiscal and monetary policies have slightly improved the case for DM equities (and EU equities in particular), but due to the uncertainties on virus evolution and economic recovery we prefer to remain conservative. In addition, we acknowledge that key risks remain in the form of uncertainty over the US elections supporting our slightly cautious view on the US. In EMs, we prefer Asia (China and Indonesia), as we believe the region can continue to drive the EM rally in light of a more pronounced recovery and higher expected earnings in the near term. On duration, we remain neutral to long amid continued expectations of low interest rates. **We are cautious now on UST 5y vs Germany 5y, and believe investors should lock-in gains,** as markets are reluctant to price in negative rates in the US and this has led the volatility of the spreads to collapse. We are positive on US inflation amid the aforementioned Fed comments. Some pick up in prices should continue, due to cost pressures

and the vanishing negative base effect of energy prices. We are constructive on Euro peripheral debt due to ECB support, favourable technicals and the EU recovery fund, but deem it prudent to hedge upside risks related to reflation, vaccine availability and stronger growth. In this context, we are no longer positive on the Italian BTP 10y; **instead we believe the BTP 5y could offer better protection** as this would suffer less if a bear steepening of curves materializes in Europe.

**Credit has been the asset class used by investors to play out the rally in risky assets.**

We don't expect further spread tightening across the board, as the movement since March has already been sharp. Consequently, we remain positive on quality **credit for carry and 'search for yield' purposes.** We favour EUR IG on the back of the combination of attractive valuations, strong CB support and lower leverage than their US counterparts. **In EMs, we remain constructive on HC debt** and believe overall EMBI spreads are not far-off fair value. While HY spreads could still see some tightening in the next three months, in IG the levels are already in line with historical averages. Local rates are still on a declining trend, but room for further compression is more limited, the main driver being currency exposure. On FX, we believe investors should favour a diversified basket of high-yielding EM currencies amid improving growth dynamics, light positioning and rising inflows into the region. **On DM FX, we now believe that the GBP would be pressurized, vs the EUR and the USD,** by the continued uncertainty over Brexit due to the UK Internal Market Bill and over 2021 economic recovery in the UK.

### Risks and hedging

Markets could be affected by insolvency risks when stimulus measures are withdrawn, as well as by another wave of defaults and geopolitical tensions. **We recommend investors to maintain all pillars of the hedging including,** in high yield credit, gold and the yen and readjust option strategies that enable savings on hedging costs.



**Matteo GERMANO**  
Head of Multi-Asset

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*We stay overall neutral on risk assets, maintaining a cautious stance on US equities but converging to neutrality in Europe. Credit, especially EUR IG, remains attractive for carry reasons.*”

### Amundi Cross-Asset Convictions

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

Source: Amundi. The table represents a cross-asset assessment on a three-six month horizon, based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/+/+/+/+). This assessment is subject to change. USD = US Dollar, JPY = Japanese yen, UST = US Treasury, DM = Developed markets, EM/GEM = Emerging markets, FX = Foreign exchange, FI = Fixed income, IG = Investment grade, HY = High yield, CHF = Swiss franc, NOK = Norwegian Krone, EUR = Euro, CBs = central banks, TIPS = Treasury Inflation-Protected Security, BTP = Italian government bonds, 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

## Relative value, sector allocation is the story for now

The markets are operating in the context of better-than-expected economic data, large monetary/fiscal support and accommodative liquidity and financial conditions. However, huge uncertainty remains over the evolution of the pandemic and availability of a vaccine, which could be the game changer. **We believe this environment is conducive for carry and relative value opportunities, without taking any strong directional risk but with a focus on selection, quality and liquidity.**

### Global and European fixed income

**We keep a neutral view on duration overall**, with some distinctions. The Fed Chair's recent comments on inflation have led us to reassess our positive stance on US duration (still positive) and made us more constructive on US breakevens. We are now positive on JGB. In Europe, we think it is the right time to implement a barbell strategy on the euro yield curve – a positive stance on 10y on one end, and cautious view on the longer 30y (and 5y) position, with a view of curve flattening for the time being amid low inflation in EZ. In addition, we remain constructive on peripheral bonds vs. Germany (ECB support and spread tightening). **Within credit, we maintain positive view through financials and subordinated debt** but believe we will see increasing fragmentation on two fronts – (1) companies that maintain high cash levels for any contingency vs. those that burn cash to sustain themselves; (2) increasing gap between sectors (tourism, energy) that experienced heavy fall in revenues vs. those (technology) that witnessed higher sales. For investors, this means idiosyncratic and default risks are not correctly priced in and spread compression will not be uniform. As a result, attention to selection and quality is paramount. Overall, we prefer EUR vs. US in HY.

### US fixed income

We are witnessing a US recovery amid slowing employment gains and positive consumption and small business sentiment. On the other hand, after Congress failed to pass a stimulus bill, we believe the demise of fiscal support may stress consumer credit and stymie job growth. It now appears the Fed is left to do most of the heavy lifting as evident in its recent forward guidance (average inflation, full employment/tight labour market). **This allows us to stay constructive on TIPS but cautious on USTs** given a negative real rates environment, fiscal deterioration and increased UST issuance. The last two also underpin our continued stance on a steepening yield curve. **On corporate credit**, we maintain our positive view, but believe investors should pare back duration risk and safeguard against any further fall in rates. We also believe exposure to HY cash bonds should be trimmed in order to deal with default risks in line with a slow recovery. **Housing and consumer markets remain strong**, as demonstrated by a resilient consumer and a low loan-to-value ratio in residential housing debt market. We now prefer agency MBS to RMBS, given the added protection of the former coupled with their liquidity and yield advantages.

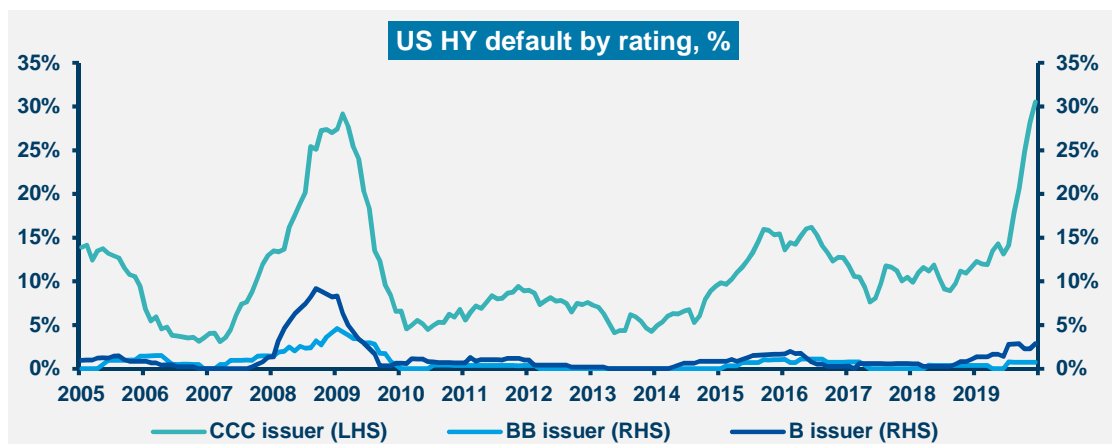
### EM bonds

We prefer HC debt, in particular in HY, as IG spreads have already tightened to pre-Covid 19 levels and prospect of new supply lingers. HY spreads are still wide compared to history and may offer opportunities. We remain selectively positive on rates.

### FX

We are cautious on the USD and GBP. In EMs, we like relative value trades, Asian names and are now positive on CEE FX.

**“We believe the defaults are expected to be concentrated in low-rated HY issuers in the US (CCC and below rated), particularly in sectors — energy, retail, tourism — worst affected by the crisis.”**



Source: Amundi, Moody's, as at 31 August 2020.

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

## Aim for portfolio balance, avoid expensive areas

### Overall assessment

The immediate demand recovery witnessed after the lockdown, coupled with a better-than-expected Q2 earnings season, has supported markets. Now, the pace of recovery will become the focus going forward. However, the recovery is still uneven, and markets are exhibiting high valuation dispersion. **For investors, this dispersion presents an opportunity for bottom-up stock selection. We urge an overall balanced stance given the high uncertainty, and a focus on balance sheet strength.**

### European equities

We selectively look for opportunities but are cautious to avoid expensive areas and value traps. For instance, in **technology**, we are now less negative, but disagree with the view that the sector is “anti-fragile,” and, believe valuation gravity is a powerful force that could make the sector vulnerable, though timing is uncertain. We maintain a balanced view through attractive names in defensive health care stocks on one hand, and quality cyclical names in **building materials** on the other. While we are marginally less constructive on the latter, we think the sector is increasingly recognised as an “infrastructure/green deal winner,” with good structural growth and is an attractive way to play the rotation towards quality cyclicals. On **financials (banks)**, the bull case is that Covid-19 will become a trigger for a push towards greater digitization, branch/cost reduction, and, eventually consolidation. However, we keep a neutral view as we evaluate Covid-19 related loan losses and signs of higher rates for any material rerating to happen, although it is unlikely. We remain defensive on **energy** amid concerns over weak short-term demand outlook and high medium term risk over “decarbonisation.”

### US equities

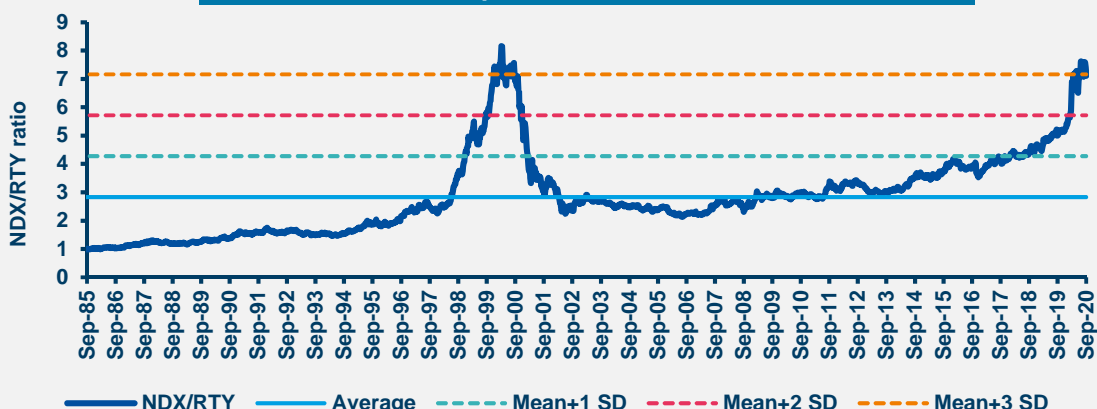
Although equity risk premiums are still supportive of broader markets, relative valuations and momentum for the big-five tech stocks will start to seem egregious, as it has happened since early September. **This calls for a very balanced approach across sectors now due to the high intra-sector correlations and a wide range of outcomes** driven by the upcoming Presidential elections. In addition, we believe, now is the time for a more sustained leadership rotation in favour of high-quality value and ‘growth at reasonable price’ stocks, which have strong balance sheets, and display secular advantages and a potential for high returns. On the other hand, we are cautious on deep value names and high-growth areas, particularly the big five mega-caps and high momentum stocks due to the diversification principle and their expensive valuations.

**Within cyclicals**, we prefer industrials to financials and energy, as quality names are easy to find among industrials and are not subject to the challenges of ‘lower rates for longer.’ Among defensives, we favour consumer staples and utilities — attractive valuations — over real estate because the latter may be affected by a weak economic recovery.

### EM equities

In the heterogeneous EM universe, we believe **select Asian countries (China, South Korea) have better managed the pandemic** (first-in, first-out). We are also assessing how the improving commodities outlook could affect prospects for Latin America. At a sector level, we see selective opportunities in value and cyclicals within industrials, discretionary and materials, and are exploring internet and tech names. However, risks such as US/China rivalry and the latter’s more assertive foreign policy must be monitored.

US Tech and small caps ratio close to dotcom bubble levels



## EQUITY

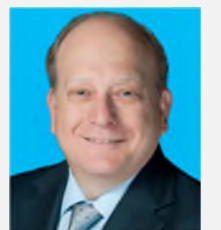
“*While the crisis affected all companies, preparedness made all the difference. The ones with strong balance sheets outperformed and will be better able to manage this slow recovery.*”



**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
<b>EQUITY PLATFORM</b>	US	-/=	US equity risky premiums vs bonds are still supportive of equity prices, although valuations divergence in some pockets of the markets such as between big 5 mega caps and rest of the markets is extreme. This calls for a balanced positioning across sectors as the recent correction reminded investors about the US elections risks and the still prevailing risks of a virus resurgence. Investors could focus on the leadership rotation towards cyclical and high quality stocks.
	Europe	=	The economic data improved but the second wave of virus in the France, Spain, the UK and other countries has increased the risks as governments balance the need to impose strict lockdowns with boosting consumption. However, Q2 earnings were better-than-expected, and we believe, valuation dispersion is still high. This presents an environment where investors should be active, focus on resilient businesses and remain cautious overall.
	Japan	=	Better global growth prospects should favour cyclical and export oriented markets such as Japan. While the new PM is likely to continue the economic support provided by the previous administration, investors should stay watchful.
	Emerging markets	=	Emerging markets such as China, Korea have been better able to handle the crisis and this is reflected in economic data coming out of EM Asia, which confirms our first-in, first-out story. However, geopolitical risks related to China's more assertive foreign policy must be monitored. At a sector level, we are selectively exploring names in industrials, consumer discretionary and materials, and focusing on lower valuation name in technology.
<b>FIXED INCOME PLATFORM</b>	US govies	=/+	In global fixed income, we keep a positive view on US duration, although we believe this has to be carefully monitored in light of the recent Fed comments on inflation. In US fixed income, we prefer TIPS to UST.
	US IG Corporate	=/+	IG markets should remain supported by central bank support, however, investors should not compromise on sector and name selectivity. Investors should also look to pare back some duration risk and maintain appropriate liquidity buffers.
	US HY Corporate	-/=	We are cautious/neutral on HY as we believe the markets will remain supported by CB actions, but investors should be careful of defaults particularly in sectors such as tourism, energy which are most exposed to the crisis. In addition, a slow recovery could cause weak companies to struggle amid low business activity. The case for selectivity remains high.
	European Govies	-/=	We find opportunities in this space in curve flattening amid low inflation in the Eurozone. On peripheral debt, we stay positive in light of continued ECB support and reducing risks of fragmentation with the rest of the European markets.
	Euro IG Corporate	++	We stay constructive on EUR IG as continued ECB support and lower leverage vs the US counterparts is positive for the asset class. Financials and subordinated debt remain our top pick, but selection is also important.
	Euro HY Corporate	=	We prefer the high-rated BB segment in HY because we believe investors should not go too low in the credit quality spectrum for that extra yield. There could be increasing fragmentation between companies with sufficient cash buffers vs those that struggle to meet day-to-day requirements due to lack of business activity. Therefore, selectivity is crucial.
	EM Bonds HC	=/+	We maintain our preference for Hard Currency debt, particularly in HY as IG spreads have already tightened to pre-covid levels, and the prospect of new supply lingers. However, risks of sovereign defaults should be monitored.
EM Bonds LC	=	We remain cautious in EM rates overall. On FX, we see selective opportunities in currencies that we believe have underperformed and where there is room for a catch-up.	
<b>OTHER</b>	Commodities		Commodities should benefit from expectations of economic recovery and availability of a vaccine. Going forward, oil demand may recover from the current subdued levels but we expect WTI price to stay between \$40 and \$50 per barrel over the coming few months. In precious metals, the recent sell-off in gold and silver was due to concerns over high real rates, worries about "risk-on" and a pause in asset buying by the Fed. Importantly, CB policies have been driving-up the gold prices and, as long as this accommodative stance is maintained, any painful sell-off is unlikely. However, if CBs unexpectedly change their stance, gold may be vulnerable to a serious de-rating, given that its fair value, based on traditional metrics (rates and FX), is much lower from current levels.
	Currencies		Structural and cyclical support for the USD is fading and this suggests that the greenback can continue to trend lower in 2021. Unlike the past when the USD kept on deviating from its fair value, now the USD has lost two of the main cyclical supports – the rate advantage and the US growth premium collapsed in H1 2020. However, we believe there are still short-term risks that will prevent a linear movement. In fact, correlation with risky assets stays high and some currencies (GBP, EUR above all) are still attached to the risk of disappointment in growth expectations.



Source: Amundi, as of 30 September 2020, views relative to a EUR-based investor. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product. IG = Investment grade corporate bonds, HY = High yield corporate; EM bonds HC/LC = EM bonds hard currency/local currency. WTI = West Texas Intermediate. QE = Quantitative easing.

## AMUNDI Investment Insights Unit

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



## INSIGHTS UNIT

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### Definitions

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

### Important Information

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