#04
April
2022

CROSS ASSET
Investment Strategy

CIO VIEWS
Winds of war blow on economic outlook

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Ukraine: where do we stand?

Confidence must be earned
Amundi
ASSET MANAGEMENT

#04 - April 2022

Table of contents

CIO VIEWS

Winds of war blow on economic outlook

Vincent MORTIER,
Group Chief Investment Officer

Matteo GERMANO,
Deputy Group Chief Investment Office

The first month of the Russia-Ukraine war has driven volatility up across the board, though with some recent signs of stabilisation in equity markets. **Europe is the area most exposed to the war – in particular, through the effects of higher energy prices, supply chain disruptions, and geographic proximity**, but the commodity squeeze goes far beyond energy to include agricultural commodities and metals. Against this backdrop, safe-haven demand remains strong for gold while Treasury yields have recently been driven by higher inflation and rate expectations, with the yields moving upwards across the curve. While uncertainty on the war front remains high, markets are trying to assess what additional sanctions could be put in place against Russia or if the next diplomatic steps could become more productive – or, in the bear case, the risks of an extension in terms of time and geographical reach of the crisis.

At this stage, four hot questions are crucial to reassessing the investment stance:

1. **Are we heading towards a global recession?** Taking into account the impact of the rise in commodity prices, we have revised down global growth by 0.5% in 2022 (now in a 3.3-3.7% range), but the impact is not homogenous across countries. The US, while not immune, appears to be more resilient to the shock than the EZ. A global recession should be averted while Europe is more at risk for a technical one.
2. **How high is the risk of central bank (CB) policy mistakes?** The task of CBs is not easy and the potential for policy mistakes is high, especially at the ECB level amid a more uncertain economic outlook (also at a single country level) and rising risks of fragmentation in the Eurozone. It's not easy for the Fed either. Despite hiking rates for the first time since 2018, it continues to stay behind the curve and it may have to adjust its policy path in an environment in which the inflation topic is hot in the political debate.
3. **What is the risk of a liquidity crunch?** Liquidity has been deteriorating across all main asset classes, with market depth worsening across the board. While at the moment, we don't see significant risk of a liquidity crunch, the need to remain vigilant and build liquidity cushions is high.
4. **Markets: How far along is the process of restoration of value?** We confirm a cautious stance, but recognise that buying opportunities may open up in the near future and therefore we stay ready to tactically adjust our risk stance. While a process of restoration of value is under way, it is incomplete and fragmented. In particular, the real-life impacts of the movements from the Fed and ECB remain to be seen. This argues in favour of a bit of patience as additional volatility going forward will offer entry points.

Against this backdrop, our main convictions are as follows:

- **Long-term rates remain too low in a persistently high inflationary environment**. Recent hawkish turns by CBs confirm that the rate direction is up. We continue to hold a short duration bias and remain tactical in adjusting our duration stance, as this can assist with hedging during periods of turbulence.
- **In equities, we stick to a value tilt, with a further marked focus on quality as a way to navigate this crisis.** It remains important to be highly selective and look at names with strong business models and the ability to pass through higher prices to consumers. At the regional level, **the US should continue to be more resilient compared to Europe, given the higher risk of an earnings recession, and therefore we are turning relatively positive on US vs European equity**. The outlook for Chinese equity is tactically more cautious, due to the heightened regulatory risks and extreme volatility.
- **In credit, risks are more related to liquidity than fundamentals at this stage**. Financial conditions are tightening, so it's important to stay on the lookout for liquidity risk. We are more cautious in general on the high yield space – in particular, in Europe, where a further widening of credit spreads is possible.
- Volatility will remain high, and despite strong market corrections, **we maintain hedges in place against the uncertain outcome of the crisis**. In addition, to build more resilient portfolios, investors should continue to focus on areas of diversification. With this aim, they could explore Chinese government bonds with a long-term perspective. Currencies can also play a role regarding diversification. Here, we favour the Swiss franc, given its appeal in times of market stress.

In conclusion, we believe it's important to resist the temptation to go for an aggressive asset allocation, as visibility is still too low, and **continue to look at portfolio construction through the inflation (and real rates) lens in the search for areas of resilience.**

Overall risk sentiment

Risk off   Risk on

Amid uncertainty over CB policy and earnings growth, refrain from increasing risks and maintain focus on liquidity.

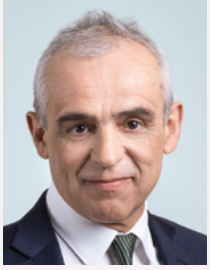
Changes vs. previous month

- Playing the relative impact of the crisis on the earnings outlook with a preference for US vs Europe.
- Tactical adjustments on duration.
- Adjust hedging including FX.

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

AMUNDI INSTITUTE

Amundi Institute column



Pascal BLANQUÉ,
Chairman, Amundi Institute

As long as valuations do not significantly readjust to the new regime and to looming stagflationary risks, investors should stay on the cautious side

An investor view on the war impact in an era of regime shift

In the recent past, geopolitical crises have led to short-lived initial negative market shocks, followed by fast relief rallies on perceived positive developments leading to buying opportunities for investors. This time, however, the Russia-Ukraine conflict adds an additional element to the puzzle of higher fragmentation and higher inflation that will characterise the regime shift that I call the "Road back to the '70s". In particular, investors should look at the four macro factors that will drive portfolio returns:

1. **The growth factor is turning less supportive,** in particular in Europe (see focus below), where the global trajectory back to potential is augmented by the crisis. ➔ Credit more exposed to repricing than some equity segments.
2. **The inflation factor is further reinforced and red hot.** ➔ The earnings trajectory is even more crucially dependent on the ability to pass on inflationary pressures.
3. **The real rate factor is still supportive.** Central banks continue to stay behind the inflation curve even when taking into account what is expected. ➔ Real rates will stay negative in a financial repression environment. This should compensate for the negative impact from the weaking growth factor in some equity segments (the US, in particular).
4. **The liquidity factor has passed the peak,** with global macro liquidity turning down. ➔ Lower liquidity support from central banks will keep volatility high across the board.

The re-adjustment of monetary policy expectations and the assessment of the economic damage from the conflict are driving the process of reordering of risk premia, which will eventually align with the new equibrium of the new regime. Therefore, in the search for entry points, investors will have to look at when **valuations start to be consistent or even offer a positive attractive gap vs what the estimated equilibrium should be in the new regime (where stagflation is the core risk).**

Investors should resist the temptation to add significantly to government bonds. There is room for more flexibility in duration management, but the short duration trend is your friend. In the search for safety vs higher stagflationary risks, equities offer a space for stocks with bond features that could attain the status of "safe" core assets. These are names with high earnings visibility and low debt.

Monica DEFEND,
Head of Amundi Institute

Stagflationary risks in Europe

The Russia-Ukraine war is likely to affect the European economy mainly through two channels. **(1) Direct exposure.** In 2020, Russia was the EU's fifth-largest trading partner, with exports to Russia accounting for approximately 6% of total EU exports. **(2) Indirect exposure.** European energy vulnerability remains considerable, as Russia is the main EU supplier of crude oil, natural gas and solid fossil fuels. Thus, channels of oil and gas are the main sources of stress:

- **Growth downgraded, inflation raised for 2022**. GDP would be impacted by -1% to -1.5% (lower consumption and lower investments), causing YoY growth to be in a range of 2-3.2%. The region faces the highest stagflationary risk, and the possibility of a temporary recessionary outcome is embedded in the lower end of our projections. On inflation, CPI would be higher by 1.5% vs our previous estimate, with peak inflation (6-7%) still ahead of us (possibly in Q2) and 6% average annual inflation on the cards for the year. However, in Q4, inflation could subside to 4-5%.
- **Fears on the earnings front.** An earnings recession is possible in Europe even before an economic recession kicks-in. If we look at PPI and CPI inflation and supply chain bottlenecks (ie, rising input prices, commodities, energy), we realise there is a considerable gap. This means margins would be affected if producers fail to increase prices because they would be forced to absorb rising costs. But if companies do raise prices, the risk is that volumes would be affected, which could eventually weigh on profits.

Investment consequences. We recommend a neutral stance on global equities. In FI, a recalibration is under way. Weak technicals, underlined by a combination of factors such as withdrawal of CB support, rising rates and economic growth pressure, call for a defensive allocation to credit. In addition, liquidity pressures and flight to quality mean upgrades for govies and cash. Finally, continued inflation calls for a positive tilt on sensitive assets in the form of inflation-linkers bonds, gold, some real assets.

PPI = Producer Price Index, CPI = Consumer Price Index.

MULTI-ASSET

Don't jump into the market, but play US vs Europe

Francesco SANDRINI,
Head of Multi-Asset Strategies

John O'TOOLE,
Head of Multi-Asset Investment Solutions

We prefer relative value opportunities over making strategic bets at the moment, without increasing our directional risk exposure

Financial markets and the economic environment are being influenced by three broad forces at the moment: inflation and growth expectations, policymakers' responses (fiscal and monetary) to these, and the evolving geopolitical landscape. We expect the first two to be increasingly affected by the third, therefore decreasing overall visibility on future economic directions.

Thus, this is not time to re-enter the market aggressively, despite recent signs of stabilisation, while investors should focus on liquidity, diversification (to include gold and commodities, among other assets) and fine-tune exposure with an eye on relative value opportunities. In addition, hedging and FX should be key pillars of portfolios, with a focus on political risks and flight-to-quality flows.

High conviction ideas

We remain neutral overall on equities but we seek tactical relative value opportunities. We are becoming more constructive on US vs Europe. A Fed with a strong commitment to fighting inflation in the short term is causing curve flattening that should benefit the US market, including some growth areas. Hence, we have implemented a coherent stock picking approach, reducing our value tilt in this phase. Heightened risks of a weakening earnings momentum in Europe call for a more prudent stance in the region. In EM, we stay neutral, and we have moved to neutral as well on Chinese equities amid exceptional volatility and risks from the renewed lockdowns.

While maintaining an overall cautious view on duration, we now think German Bunds could benefit from safe-haven flows and from European economic growth concerns stemming from the Ukraine-Russia conflict. However, the German volte-face on higher military spending is increasing the government's funding projections. This may potentially increase bond issuance, thereby pushing yields up (also supported by the ECB's recent hawkish comments). Thus, we are closely monitoring the situation and stay flexible.

On peripheral debt, we maintain our optimistic stance on Italian BTPs vs German debt. Although we acknowledge some pressures on BTPs from flight-to-quality moves in the market, we believe Italian fundamentals in terms of economic growth (thanks to NGEU funds) and political stability are strong. In China, while our long-term view on the diversification benefits of local debt remains, we believe the asset class is facing headwinds from the FX component due to risks of outflows in light of US-China tensions and the resulting weakness in the CNH.

Credit markets may be affected by increasing volatility, upwards pressures on core rates, and higher inflation. In addition, there are concerns about corporate earnings due to potentially weakening GDP growth in Europe. Collectively, all this may cause spreads to widen. Thus, we removed our marginally positive stance on EUR HY and stay neutral on IG and credit overall. Having said that, we believe corporate fundamentals at the moment are strong and balance sheets are healthy, allowing us to be vigilant in this area.

We believe the FX universe is increasingly driven by geopolitics and the macro-economic environment. Given the improving flows into CHF assets due to its protective features, we are now positive on the CHF vs the EUR. We maintain our defensive stance on the GBP vs the EUR owing to the increasing isolation of the UK regarding the US and EU. In addition, we are no longer positive on the CNH vs the EUR because we see the EUR gaining from any potential improvement on the Ukraine crisis front.

Risks and hedging

A higher inflation regime and tighter policies from central banks are the main risks to monitor in 2022 on top of the Russia-Ukraine conflict. The current environment underscores the need to maintain and adjust protections on risk asset exposure through derivatives and gold (tactical hedge).

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.

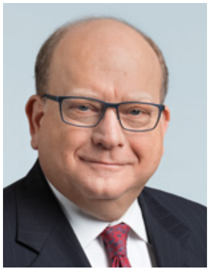
CGB = Chinese government bonds, EM = emerging markets, PBoC = People's Bank of China, FX = foreign exchange, IG = investment grade, HY = high yield, CBs = central banks, BTP = Italian government bonds, EMBI = EM Bonds Index. QT = Quantitative tightening.

FIXED INCOME

Credit is the first candidate for repricing: be watchful

Amaury D'ORSAY,
Head of Fixed Income

Yerlan SYZDYKOV,
Global Head of Emerging Markets



Kenneth J. TAUBES,
CIO of US Investment Management

With limited support from policymakers (monetary and fiscal), credit spreads could widen, particularly if real rates start rising and earnings come under pressure

As we see stagflation risks looming, we also believe divergences in US and European economic growth and inflation patterns could emerge. While in the US, inflation is driven by rising wages and higher commodity prices, in Europe, commodity prices are the reason. Consequently, future moves could be characterised by policy divergences and unpredictability. That said, CBs are staying happily behind the curves and now hawkish overtures from both sides of the Atlantic are some commonalities. Combine these hawkish tones with potential pressures on earnings and **you get a situation where investors should tread cautiously regarding risk assets, despite strong corporate fundamentals. Government bonds should be considered for their protective nature in times of market stress, but keep in mind that the rate direction is up.**

Global and European fixed income

While our long-term stance remains defensive on duration in core Europe, the US and UK, we are slightly less cautious amid markets' flight to quality and repricing of Euro rates. On peripherals, given fragmentation risks, we are more cautious on Italian BTPs. Investors can tactically play opportunities at curve levels: here, we see flattening on the Euro yield curve, steepening in Canada/Australia. Elsewhere, Chinese duration exposure is providing some diversification, whereas US TIPS appear suitable for hedging. We are converging to a neutral view on credit through derivatives which also offer safeguarding features for portfolios. The uncertainty on the geopolitical front is generating high volatility, with a downward skew in particular for high beta cyclicals. Thus, we are slightly less positive on subordinated debt, cyclicals (energy, auto) due to potential fallout from economic growth weakening. Overall, investors should prioritise liquidity, be watchful of earnings deterioration and avoid leveraged areas.

US fixed income

Core yields will continue to fluctuate on the back of inflation, expected policy action, and investors' search for safety. **We acknowledge that domestic economic activity should be driven by strong labour markets, consumer earnings, and relatively easy financial conditions.** These, coupled with subsiding winters and prospects for increasing energy supplies from other countries, should help offset the effects of rising oil on the US economy. Thus, we maintain a short bias towards duration but remain agile across yield curves. On the other hand, securitised assets (non-residential, CRE), and agency MBS offer selective opportunities. In corporate credit, we maintain a cautious attitude. Interestingly, we are noticing generous new issue concessions in the primary markets as companies look to raise credit in an environment of widening spreads. But, we prefer idiosyncratic factors (company-specific), under-scoring the need for issuer-level selection and robust hedges.

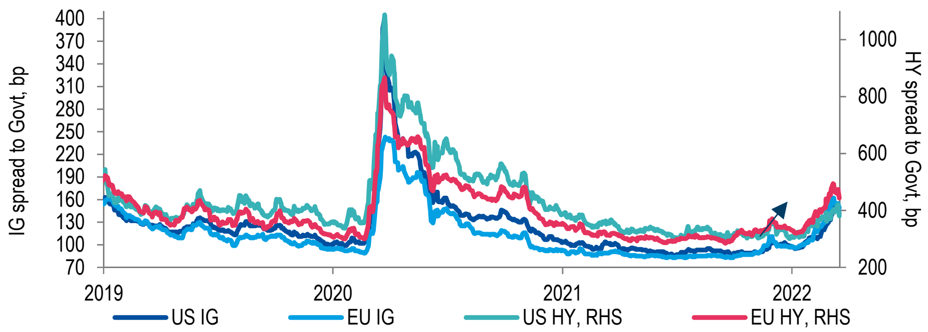
EM bonds

In a fragmented EM world, we keep a defensive view on duration and **remain watchful of liquidity risks due to the heightened volatility.** This should allow investors to dynamically adapt, should attractive entry points materialise. In HC, we prefer HY vs IG while in LC, we are cautious on the FX front and highly selective. Commodity exporters could benefit from recent events. Hence, we actively explore sovereign/corporate bond areas that could benefit from rising energy prices.

FX

We remain positive on the USD and cautious on the EUR and JPY, but have reduced our defensive view on the yen, given its safe-haven nature under market stress. In EM, we our constructive on commodity currencies, owing to higher energy prices, and on select LatAm FX, such as MXP, CLP.

Credit spreads under pressure



Source: Amundi Institute, Bloomberg, 18 March 2022. Spreads for ICE BoFA Indices.

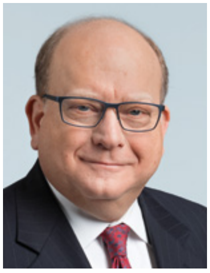
GFI = global fixed income, GEMs/EM FX = global emerging markets foreign exchange, HY = high yield, IG = investment grade, EUR = euro, UST = US Treasuries, RMBS = residential mortgage-backed securities, ABS = asset-backed securities, HC = hard currency, LC = local currency, MBS = mortgage-backed securities, CRE = commercial real estate

EQUITY

In a more uncertain earnings path, US is favoured

Kasper ELMGREEN,
Head of Equities

Yerlan SYZDYKOV,
Global Head of Emerging Markets



Kenneth J. TAUBES,
CIO of US Investment Management

Overall assessment

Market volatility has increased over the past few weeks, significantly raising risk premiums and widening the outcomes related to economic growth. Europe, with its proximity to the crisis, is more affected; the US less so. Now, the narrative is more of the same – more inflation, and even less growth that could weigh on earnings. In this environment, we continue to rely on bottom-up analysis and prefer to measure the effect of the war on upcoming data related to inflation, the economy and corporate earnings to assess future directions. But it is clear that inflation is here to stay in the medium term. **Thus, through an overall balanced mindset, investors should exploit the fundamental analysis lever, along with value, quality and dividend themes to navigate stormy waters.**

European equities

The European economy is most at risk, with the earnings outlook for European companies deteriorating. **In this environment, we remain committed to exploring relative value opportunities presented by market dislocations.** Clearly cyclical, economically-sensitive sectors, such as autos will be more affected, with severity depending on the duration and depth of the crisis.

Overall, we believe investors should consider increasing higher quality and stronger capitalised companies within cyclical as well as defensive sectors. Our preference for value as a medium term call remains. From a sector perspective, we remain positive on consumer staples and healthcare, and have upgraded our outlook for industrials, given attractive bottom-up names in this area. On the other hand, we are still cautious on information technology (slightly less) and have maintained our cautious view on utilities.

US equities

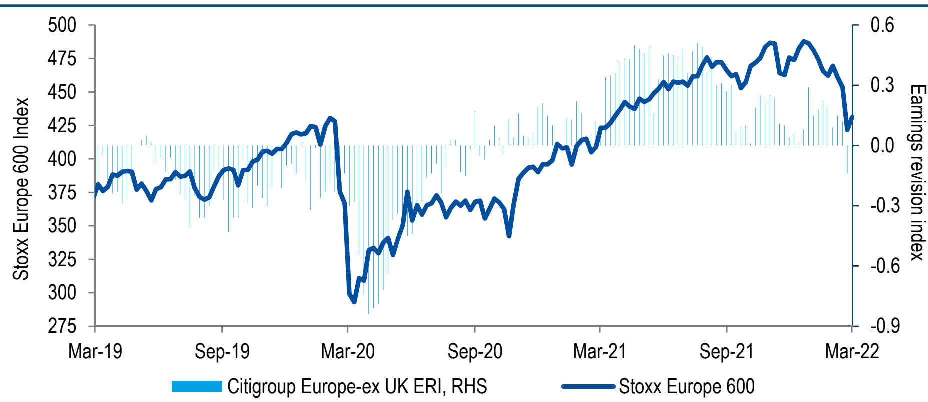
In the US, we don't expect an economic recession to occur, as market liquidity is ample, along with strong labour markets and robust consumer earnings. However, we see pressures on economic recovery that could create difficulties for companies in meeting 2022 profit expectations. **Thus, in our search for names, we continue to focus less on cyclical businesses and more on value, quality.** We look for characteristics of operational efficiency (low capex/sales, low inventory/sales growth, low employee turnover). **Secondly, we are constructive on companies that reward minority shareholders through buybacks and dividend payouts.** In contrast, we believe as a group, growth prices vs value are still high and we avoid unprofitable growth names. At a sector level, we are constructive on consumer services over retail in discretionary. In banks, we are focusing on well-capitalised names that have reduced leverage and are more retail oriented with large domestic operations. These features should allow them to better navigate the crisis. In the tech sector, we explore reasonably priced quality names that are less cyclical, given that tech spending is generally less economically sensitive.

EM equities

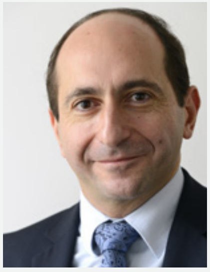
The current disruption (higher commodity price, inflation) will not affect all EM equally. In this respect, Eastern Europe is the most exposed to economic spillovers, but LatAm could benefit from higher commodity prices (positive Brazil). We are also constructive on oil & gas exporters in the Middle East (UAE). In Asia, China's position on Russia, its fiscal stimulus, and how the country deals with a renewed wave of Covid-19 cases are key points we are monitoring. At a sector level, we favour discretionary, real estate, and we maintain our tendency to increase value over growth.

Lower expected growth and looming stagflationary risks in Europe call for caution in the cyclical space and support the relative appeal of US equities, with a focus on quality and dividends

US and Europe equity volatility



Source: Amundi Institute, Bloomberg. Weekly data as of 16 March 2022. European Earnings Revision Index on the RHS. Negative reading indicates earnings have been revised downwards, where as positive number shows an upward revision.



Didier BOROWSKI,
Head of Global Views

Foreword

The war in Ukraine at a turning point

By calling the war in Ukraine a «tectonic shift in European history», European leaders are giving an indication of the regime changes this war could lead to in the medium term.

In the short term, the economic consequences of the war will depend on how long and how intense the conflict is. A few elements allow us to make an initial assessment after one month of war:

- **Russian forces are bogged down on the ground,** experiencing serious logistical problems (lack of fuel, rations and perhaps even ammunition) and are suffering initial military setbacks.
- **The resistance and fighting spirit of the Ukrainians, supplied with weapons by at least 28 countries, is proving effective.** The fight is more intense and longer than Russian military strategists had anticipated. The human and material cost for the Russians is considerable. Ukrainian officials estimate that some 17,000 Russian soldiers have been killed, which is more than during the war in Afghanistan (15,000 dead in 10 years).
- **President Zelensky has established himself as a warlord both within his country and globally.** His high-profile appearances before the parliaments of Western democracies have made him a heroic figure who embodies and galvanises the resistance.
- **On the diplomatic front, talks resumed in Turkey between the Ukrainians and Russians after a three-week break.** Russians announced a change of strategy and promised de-escalation but there has been no significant breakthrough. The focus is on the conditions for a ceasefire. The status of the occupied territories (Donbass and Crimea) is not on the agenda, but it is clear that this will be at the heart of the upcoming negotiations. President Zelensky would accept Ukraine's neutrality subject to guarantees for his country's security (with a guarantee close to that of NATO's Article 5) and approval by referendum.
- **The EU has decided to gradually reduce its energy dependence on Russia with the support of the G7 countries.** The hydrocarbon sector is still relatively untouched by the Europeans, but pressure has been stepped up; Germany is already aiming to: (i) halve its Russian oil imports by the summer, (ii) stop importing Russian coal by the autumn; and (iii) stop importing Russian natural gas by mid-2024.

In short, Vladimir Putin is already facing deep economic and political challenges. And on the military front, the setbacks are mounting. From our point of view, the events of March increase the probability of a "short" war with a cease-fire and full-fledged negotiations in the coming months. China's bargaining power has *de facto* increased considerably and we continue to believe China will play a key role in ending the crisis. In the short term, the risk of a "vertical escalation" - with the use of unconventional weapons: chemical, biological or even tactical nuclear weapons - has been reduced. However, the negotiations will take a long time and it seems to us that it would be a mistake to consider that the risks of an escalation or even a widening of the conflict have disappeared. Uncertainty is elevated and it remains necessary to consider alternative scenarios.

In any case, this war will mark a turning point in international relations and military doctrine in Europe, and lead to a new form of globalisation. This conflict challenges doctrines that have been well established for decades, in particular the paradigm that economic integration is a bulwark against war. This crisis exacerbates the need to diversify supply chains and to relocate some production for strategic and/or resilience purposes. Economic links with Russia are definitely weakened.

Finally, from an economic point of view, the war in Ukraine aggravates the dilemma of the main central banks because, on the one hand, it will push inflation even higher (with spillover effects into all prices), and on the other hand, it increases the risks of a slowdown in growth. This dilemma is all the more pronounced as central banks underestimated the inflationary consequences of the fiscal and monetary measures taken during the Covid crisis. This is particularly true in the US. One lesson from the late 1970s and early 1980s is that late action can lead to inflation taking root, requiring more aggressive tightening and causing longer-term pain. But the other lesson is that soft landings are difficult to achieve, and that the risks of recession increase when financial conditions tighten too quickly.

It is between these two pitfalls that central banks – and investors – will have to navigate. In this document, we seek to provide some guidance to investors in this very uncertain and shifting world.

Finalised on 30 March 2022

Ukraine Crisis Tree

[A] Russia has partially invaded Ukraine, but is facing resistance and unprecedented economic sanctions. High level talks have started but no resolution - Russia nuclear forces are placed on high alert

<table>
<tr><th colspan="4">[B] Short-term resolution with limited military escalation</th><th colspan="2">[C] Prolonged military conflict and global military escalation</th></tr>
<tr><th>B1] Sanctions deterrent effects and diplomatic talks end the conflict with an acceptable way out for V. Putin</th><th>B2] Russia wins the war with contained casualties and no Kiev siege, then creates a “subdued” government in Ukraine</th><th>B3] Russia wins after war with a siege in Kiev, high number of casualties and risk of military escalation</th><th>B4] Unrest or military putsch ends Putin’s regime</th><th>C1] Low intensity conflict with limited supply chain disruptions (evolution of B2)</th><th>C2] High intensity conflict (evolution of B3]</th></tr>
<tr><td colspan="2">Partitioning and/or demilitarisation of Ukraine moving to “neutral” status i.e not joining NATO</td><td>Full sanctions against Russia which enters an economic and financial crisis</td><td>Russia economic and financial crisis</td><td>Global stagflation</td><td>Worst case scenario, we can be expected including West and Russia military confrontation and Ukraine becomes a battlefield</td></tr>
<tr><td>Markets relief: limited repricing of global relative risk premia, limited global spillover but profit recession in EU still a tangible risk</td><td>Worse growth than our central scenario with EU GDP contractions and growth [0%-2%], Inflation towards 8%-10%</td><td colspan="2">Spillover into Eastern Europe</td><td>GDP and inflation close to our central scenario</td><td>Global GDP contraction comparable with GFC or Covid-19</td></tr>
<tr><td>Better growth prospects than our central scenario and CBs back to normalisation</td><td colspan="2">Energy prices to remain high as sanctions remain and rationing of energy coming from Russia and limited substitution capabilities</td><td>High uncertainty on Russian political new situation</td><td>Oil decelerating towards 75-80 by Q1 23 or even 60-65 in case of partial diversification (horizon 12-18months)</td><td>EU GDP down -4.5% to -2% with rationing of energy supply and economies to support the war efforts</td></tr>
<tr><td>Energy prices remain temporarily high before supply diversification materializes (e.g., Saudi or Iran) and the search to diversify suppliers makes further progress</td><td>Market instability starting to price in Russia crossing new red lines in Europe</td><td>Worse growth than our central scenario with EU GDP contractions and growth [0%-2%], Inflation towards 8%-10%</td><td>Energy prices to remain high and unstable</td><td>GDP for EA at 2.2%-2.4% (annual average growth), inflation in the 5.5%/6% (average)</td><td>Inflation skyrockets to double digit on severe shortages of commodities, even higher energy prices, food emergency</td></tr>
<tr><td></td><td colspan="3">Profit recession in Europe</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>GDP contractions and growth [0%- 2%], Inflation towards 8%-10%</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>CBs back to normalisation</td><td></td><td></td></tr>
<tr><td>• Positive: European and Chinese equities, EM credit
• Negative: Gov Bonds, commodities and energy and gold</td><td>• Positive : safe havens (USD), Oil prices stays close to 100-120
• Negative : liquid assets, and EUR</td><td>• Equity markets capitulation with US outperf.
• Bond yields collapse
• Oil prices high and volatile
• Stronger USD and gold</td><td>• Yield curves flatten
• Euro weakens, EM FX turmoil
• Oil prices high and volatile
• Equities high dividends and quality
• Within EM favour Latam and China</td><td>• Negative real rates favour real assets gold commodities, EM debt
• Equity value, quality and defensive
• Short duration</td><td>• Markets capitulation
• Favour UST and secured real assets
• Bond yields collapse
• Stronger USD weaker EUR and strong gold
• Negative EM</td></tr>
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Source Amundi Institute

Éric MIJOT,
Head of Developed Markets Strategy Research

Combining value with quality and secure dividends

1] What in your view are the most resilient areas on global equity markets?

The current market phase corresponds to a certain maturity of the US cycle. While the equity market has been facing the acceleration of the Fed's tightening of monetary policy since the beginning of the year, commodity prices continue to rise. This situation has been exacerbated since February by the Russian invasion of Ukraine, especially in Europe. The markets therefore have to cope with rising rates, rising commodity prices, and a probable slowdown in earnings growth.

In terms of style, it is prudent to diversify. The **Value style** takes into account a further rise in interest rates and has historically held up well in a stagflationary environment. **Quality stocks** (low leverage) and those with **high and secure dividends**, which are more defensive, also have their place.

Regionally, the US market has not failed to live up to its reputation for resilience during the market sell-off early this year. Nevertheless, it remains more expensive than the others. We should therefore **take advantage of its depth to look for quality value stocks**, as growth stocks are still under pressure from rising interest rates for the moment. Otherwise, **rising commodity prices are benefiting Canada, Australia, Norway and Mexico,** for example; these are good complements to consider. **The UK market can be used to play the transitional phase** between the commodity price rise and the economic slowdown. Energy stocks are heavily represented there, contrary to industrial stocks. At the same time, it has one of the highest dividend yields of any equity market. Finally, **the Swiss market provides a further step in the cycle** should the economic downturn eventually cause commodity prices to fall. It acts as a proxy for health stocks versus energy stocks.

In the end, we should not forget that any prospect of a resolution to the conflict in Ukraine would be conducive to a sharp equity rebound, which would instead benefit the segments that have suffered the most in the downturn, such as the Eurozone, financials and consumer discretionary stocks. Being heavily underweight, these segments would then be a source of underperformance during the rebound.

Finalised on 25 March 2022

Lorenzo PORTELLI,
Head of Cross Asset Research

2] Is there more upside for commodities?

Commodities are always driven by four sets of factors – fundamental, geopolitical, structural and cyclical. Today all four factors are supportive and are underpinning commodities price and in particular those of base metals and energy.

Recent commodity markets rallies have closed the undervaluation gap relative to nominal growth (i.e., the cyclical factor). Therefore, sustainable upside in commodities cannot be based solely on the recovery narrative.

The **geopolitical factor** is obviously **critical** these days. Natural gas will be under pressure from undersupply issues related to the recent tragic events in Ukraine. Sanctions and closed activities in Ukraine ports are creating a generalised shortage in a wide spectrum of commodities, from grain to steel. As a reminder, Russia and Ukraine combined account for 30% of global wheat exports.

Our structural constructive view on commodities is related to the **green transition** and a potential long-lasting **demand-supply mismatch** in crucial base metals. Inventories are at historic lows, and there are no signs of improvement there. If we adjust the main commodities valuations for growth and inventories, they look cheap, despite the recent rally, and are among the cheapest of asset classes.

Given this backdrop, **we reiterate our constructive view for commodities,** despite the recent rally, with logical repercussions on inflation.

Finalised on 29 March 2022

Alessia BERARDI,
Head of Emerging Macro and Strategy Research

3] How to evaluate emerging markets exposure to the Russia-Ukraine conflict?

In order to assess the impact of the most recent geopolitical events on the EM universe, we have been focusing on a few possible **channels of transmission,** one being the risk of **supply shock and the consequences on the commodities universe,** the second being the **decrease in demand from the areas/countries in proximity to the conflict.**

While **proximity** to the conflict zone could be easily assessed through **geographical distance (in which an important role is played by the flow of migrants),** there are other, more global aspects to consider when we refer to proximity, including **commercial/investment interlinks and tourism flows, as well as remittances.** In this sense, **Eastern Europe (either emerging or frontier economies) is expected to take most of the direct hit** from exposure to Russia and Ukraine, as well as the indirect hit coming from a more subdued demand from core European countries. That said, across neighbouring frontier countries that are able to maintain a certain degree of neutrality and not incurring a secondary type of sanctions, **proximity can open up opportunities, such as benefitting from business relocation and rerouting of trade and financial flows from Russia or exporting agro products in place of Ukraine.**

When we look at the **commodity channel**, first of all, due to the type of countries involved, we need to look at the **broader universe including energy, agro** and even **metals** where short-term shocks are adding to more structural pushes from net-zero transition ambitions. Second, it's fair to say that an increase in commodity prices will have more complex ramifications than drawing a net preference line between exporters and importers to identify winners and losers. While we started by considering the external position of these countries vis-a-vis commodities trade, the relative weight of these items in their inflation baskets as well as the fiscal cost to limit inflation spikes are certainly factors worth considering, too. **Energy and net food importers will experience an external and a fiscal deterioration indiscriminately.** Imports bills are skyrocketing and several governments are in a hurry to limit the pain to households by drafting **fiscal initiatives, such as higher subsidies, price caps, cash hand-outs, excise taxes cuts, resulting in higher fiscal cost.** Of course, the economies already reporting heavy twin deficits (fiscal and external), along with a more fragile debt position are likely to suffer the most and more likely to incur rating revisions or default. The Russia-Ukraine conflict has certainly accelerated the Sri Lanka discussion with the IMF (after long hesitation) where high oil prices and decline of touristic revenues have further limited the country's ability to service its external debt.

Higher commodity prices are good for net exporters but watch out for high inflation and higher fiscal costs to contain it

Conversely, commodity exporters should be the relative beneficiaries of the consequences of the recent geopolitical events. Indeed, Latin America countries are not only physically distant from the conflict zone and, trade-wise, relatively less connected (more so if we consider the Eurozone as a whole), but also those that are most positively correlated to the commodities cycle, either via oil, agro or metals, with Mexico representing the most important exception among the main countries in the region. **However, higher input costs are further weighing on inflation profiles that are already very stretched (Latam, but not only, being an example), possibly prolonging the tighter stance of their central banks (negative on growth). Moreover, the sense of urgency to contain further inflation spikes is calling for larger fiscal support, yet diverting fiscal resources or deteriorating fragile fiscal positions.** Indeed, it looks like high oil prices are not benefitting a country like Nigeria, where the government would use its fiscal revenues to finance fuel subsidies. The issue is even bigger in countries in need of ensure food security and where inflation is biting (e.g., in Africa). On the brighter side, if not immediately spent on public capex, the increase in oil revenues will allow Gulf Cooperation Council (GCC) countries to replenish oil fund reserves depleted during the pandemic crisis.

Finalised on 29 March 2022

THEMATIC

Credit markets: more attractive valuations but we remain cautious

Mickael BELLAICHE,
Fixed Income and Credit Research Strategist

Sergio BERTONCINI,
Senior Fixed Income Research Strategist

Persistently high cost-inflation forces central banks to aggressively tighten monetary policy

Valuations are now a little more attractive. However, the environment remains challenging, particularly in Europe. We remain cautious and more constructive on US credit markets relative to euro markets.

Global picture: we prefer the United States to the Eurozone

Credit markets are being driven today by two factors: the war in Ukraine and central banks' tightening of monetary policies.

- With the war in Ukraine, the global economy is facing a double shock: rising energy and food costs, and a financial market shock. It is difficult today to quantify the impact of the war in Ukraine on the global economy. Forecasts remain subject to an extremely high level of uncertainty. The Russian-Ukrainian conflict and the accompanying sanctions imply an economic scenario with less growth and more inflation. The effects of slowing growth and accelerating inflation will affect Europe more than the United States. We have revised our growth prospects sharply downwards in the Eurozone to 2% on annual average. US economic activity is being little impacted by this war.
- Central banks are behind the curve: inflation is a global phenomenon. In February, inflation was close to 8% in the US and 6% in the Eurozone. The surge in prices of crude oil and other commodities will put additional upward pressure on near-term inflation. The Fed has far more "good" reasons to act than the ECB. In the Eurozone, inflation is being driven mainly by energy prices. In the US, inflation is broad-based. Companies are increasing their margins. Wages have risen at their fastest rate in decades, and demand is strong. In this context, we will have to monitor the end of strong central bank support.

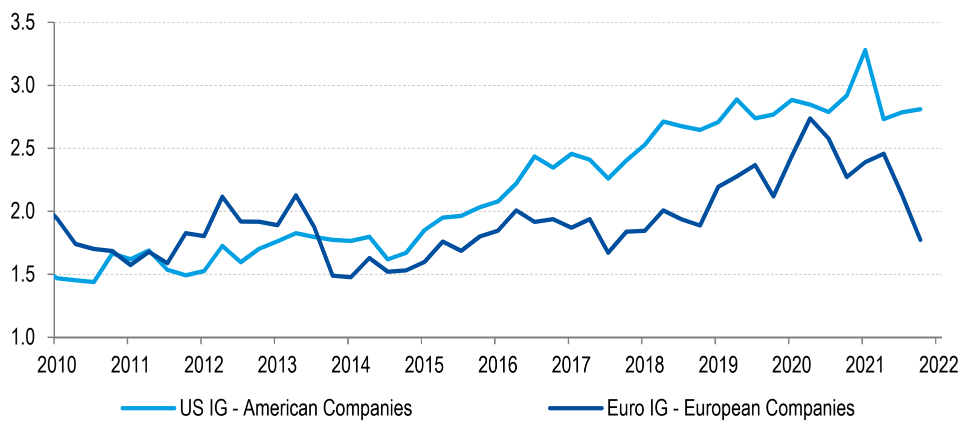
Solid balance sheet but the impact of rising costs on margins needs to be monitored

Companies are emerging from the Covid crisis with stronger balance sheet, thanks to unprecedented support from governments and central banks in response to this crisis. Indeed, companies have taken advantage of the strong recovery in economic activity, ultra-accommodative financing conditions, and the strong appetite of investors to strengthen their balance sheets. Well-rated companies have been very active in mergers and acquisitions, especially in the United States. However, low-rated companies have focused heavily on deleveraging. By the end of 2021, most companies' net leverage had returned to 2019 levels or below, and companies were benefiting from a high level of liquidity. The maturity wall is well manageable for the next two years. This is key in an environment where central banks will raise rates.

For 2022, we are more comfortable with the outlook for US corporate fundamentals than European ones. The strong pricing power of American companies bodes well for near-term operating performances. However, we are more cautious on the impact of rising energy prices on European corporate margins. Furthermore, we will be particularly attentive to the impact of rate hikes on financial conditions. The "easy phase" of the recovery is now over, and the "normal" phase will likely see a greater dispersion of corporate earnings.

The maturity wall is well manageable for the next two years

1/ Net leverage is back to or even below pre-covid levels



Source: Bloomberg, Amundi Institute, Data as of Q4 2021

THEMATIC

The ECB will end its QE in September

Euro credit technicals will be challenged by the end of the QE

EUR credit markets were resilient to the last hawkish surprise from the ECB, pointing to an early end of stimulus but also to a more flexible timing of first lift-off, depending on macro dynamics. Furthermore, the ECB "flexibility" tool option still counts only on PEPP reinvestments so far. Spreads were resilient to the latest sharp rise of bond yields, too, as the focus turns to the fiscal side and to possible response at EU level (in light of the pandemic effective experience) after recent announced supportive measures at national level to mitigate the impact of higher energy prices on consumers and companies. Furthermore, current ECB hawkish tilt is based on a baseline scenario that looks relatively optimistic in terms of expected GDP growth, still at 3.7% for 2022. Therefore, the ECB, which is data-dependent in calibrating policy normalisation and rates hikes, may be driven to re-assess a possible stronger impact on GDP growth from higher inflation. In this respect, market implied cumulated 12-month rate hikes (as this writing, at 86bps) have already been upgraded quite aggressively. Accelerated APP tapering, upward repricing of rate hikes implied on markets and no new tools introduced to counteract eventual fragmentation (apart from flexible PEPP reinvestments) so far represent a mix of more challenging technicals for EUR-denominated credit markets. Therefore, even more than in the Covid crisis, the fiscal policy reaction in terms of size and promptness, especially at the EU level, has the potential to become the real game-changer this time.

Credit valuation do not take into account a recession scenario

Euro credit valuations are more attractive but do not price a recession

EUR IG was the hardest-hit credit segment by cumulated effects of rates repricing in January, hawkish ECB surprises in February, and recent geopolitical escalation in Europe. In this respect, credit spreads increased well before meaningful signs of a slower economy appeared. Despite the return of spreads the last two weeks to levels not far from where they were before the Ukraine invasion, EUR IG valuations were the only ones to reach levels touched in the Fed QT & trade confrontation episode of 2018 and in China's 2015 growth scare-driven phase among different credit markets. The eventual fiscal policy response, in light of the experience of the tools effectively used in the Covid-crisis, may result crucial in keeping valuations resilient from rising further to Covid peaks, as to some extent they already discount a downturn in economic trends while companies face this new crisis with repaired balance sheets and supportive fundamentals.

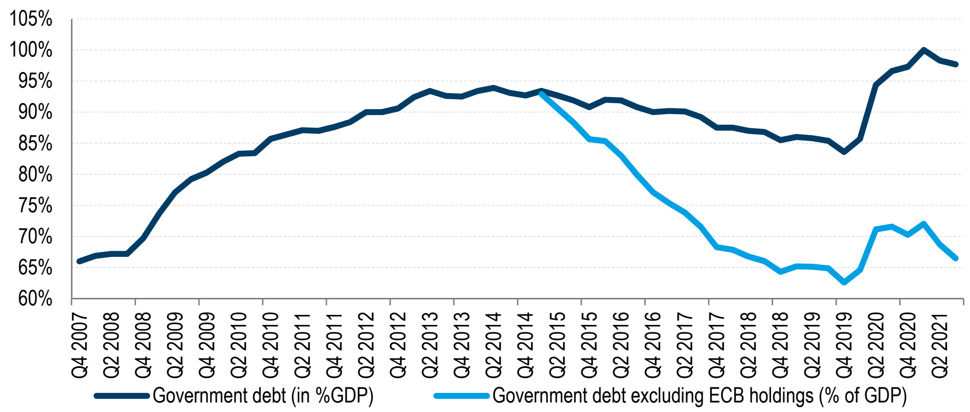
The default rate outlook will be sensitive to a deterioration in the economic environment. However, corporate fundamentals are solid

...And HY defaults cycle depending on policy mix dynamics

In the HY space current levels of distress ratios are still contained by historical standards, while the bank loan channel is finding support in abundant excess liquidity and high bank capitalisation. Geopolitical de-escalation is an obvious potential supportive catalyst, but state aid, liquidity lines and financial assistance all kept corporate insolvencies at bay during the Covid-crisis. Many of these tools are still an option for policy makers today. Conversely, monetary dovishness now looks much less likely as a candidate, given central banks' focus on high headline inflation. Under its baseline scenario Moody's did not change the previous expected trend, pointing to stabilisation over the next two quarters and then a move to 3% in 12 months in US and to 2.6% in Europe. Under this respect, we assess baseline forecasts from Moody's underpinned by positive factors already mentioned above, but at the same time risks of a more severe impact on growth, and conversely on default prospects, have recently increased.

Finalised on 31 March 2022

2/ The Eurosystem has played a determinant role in absorbing the supply of Euro area debt since 2015



Source: Datastream, Amundi Institute, Data as of Q3 2021

THEMATIC

Will the Fed manage to restore prIce stability without a recession?

Valentine AINOUZ,
Deputy Head of Developed Markets Research

Delphine GEORGES,
Senior Fixed Income Research Strategist

The Fed signals that the inflation fight is going to get harder

The question now is what will be the pace of the slowdown in US economy

The Fed is determined to hike rates rapidly. In the short-term the US economy will be supported by the many cushions present in the economy, as a result of all the fiscal and monetary support provided during the Covid crisis. The Fed will be in a more difficult situation in 2023.

The Fed admits to being behind the curve. The Fed is determined to hike rates rapidly, as the labour market is extremely tight and inflation is stronger and more persistent than expected. Now, two questions for investors: (1) the pace of slowdown in US economic growth in a context of tighter financial conditions and (2) what trade-off would the Fed make in the case of a sharp slowdown in growth?

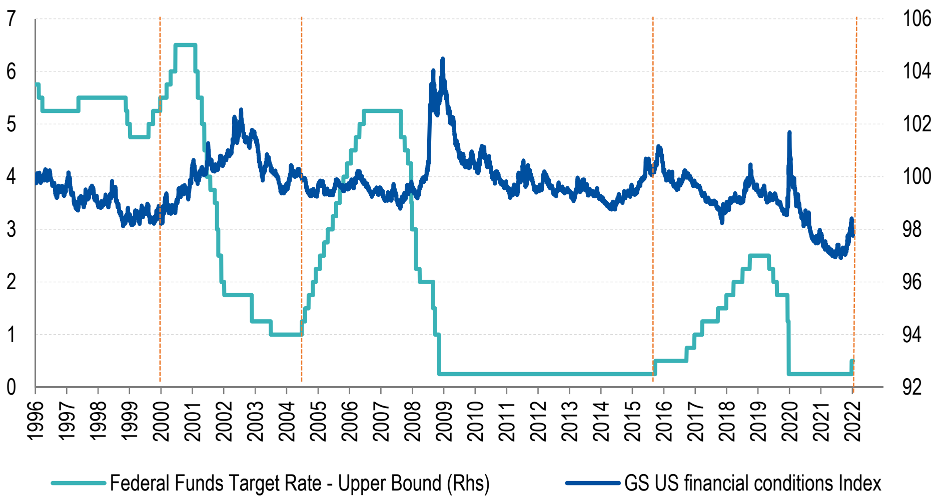
The Fed has far more reasons to act than the ECB. Inflation is a global phenomenon. Inflation is skyrocketing in the United States and the Eurozone. In February, it was close to 8% in the US and 6% in the Eurozone. The surge in prices of crude oil and other commodities will put additional upward pressure on near-term inflation. However, there are fundamental differences between the US and the Eurozone. In the Eurozone, inflation is driven mainly by energy prices. Wage growth even slowed to 1.9% year-on-year in the fourth quarter of 2021 from 2.3% in the previous period. In the United States, inflation is broader-based. Indeed, the US economy is running hot. American companies are increasing their margins, and prices are rising faster than their costs. The US labour market is extremely tight and pushing wages to grow at the fastest pace in decades.

Indeed, the March FOMC meeting was hawkish on many fronts. The Fed wants get to a neutral policy stance as rapidly as possible to move to more restrictive levels if that is what is required to restore price stability. Chair Powell was clear on its determination to do whatever it takes to bring inflation down when he said the FOMC would like to slow demand so that it is better aligned with supply and that they are aiming for less accommodative financial conditions. As a result, the Summary of Economic Projections is now showing a median terminal rate at 2.75%, above the neutral level of 2.5%. Furthermore, Powell recently reiterated his commitment to use all the tools available to achieve price stability, including 50bp moves during the coming meetings, which means that the neutral level of 2.5% could be reached in late 2022 or early 2023.

So far, demand has been supported by a strong labour market, accommodative financial conditions and the strong fiscal policy measures taken in response to the coronavirus crisis. Fed rate hikes will slow demand, the question now is what will be the pace of the slowdown in the US economy.

- The Fed is feeling comfortable in moving forward with its tightening process without putting the US economy in a recessionary-type environment. At the press conference, Powell repeated that the number of job openings far exceeds that of unemployed workers, creating the potential that the economy could cool without putting anyone out of work. The board, meanwhile, projects sub-4% unemployment through 2024, despite lots of rate increases and balance sheet runoff.
- In addition to the strength of the US labour market, the US economy will be in the short-term supported by the many cushions present in the economy, mainly as a result

1/ **Fed starts hiking as financial conditions begin to tighten**



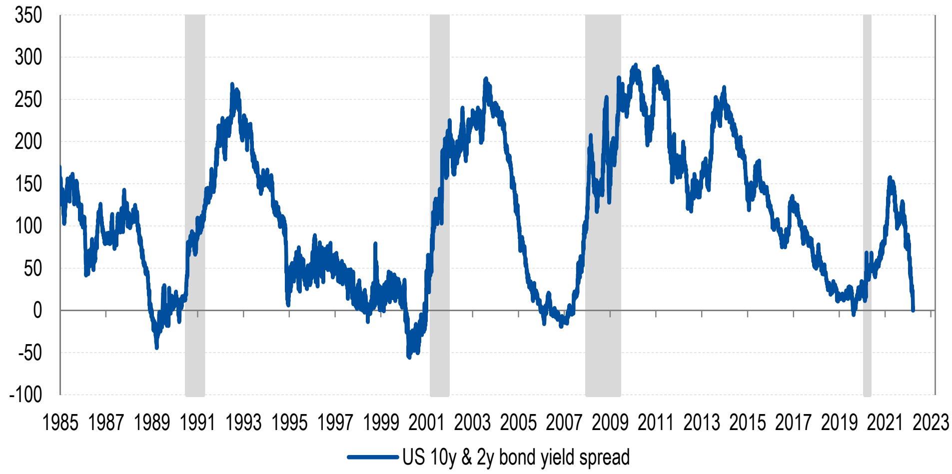
Source: Bloomberg, Amundi Institute - Data as of 15 March 2022

THEMATIC

The risk is that the Fed pushes the US economy into recession as it tries to bring inflation down

The Inversion of the curve is driven by the strong inversion of the inflation breakeven curve

2/ **2S/10S touches inversion has been good recession indicator, albeit with long lead time**



Source: Bloomberg, Amundi Institute - Data as of 1 April 2022

of all the fiscal and monetary support provided during the Covid crisis:

- for the corporate sector: higher cash holdings, higher debt duration and lower effective cost of debt than before the Covid crisis.
- for households: healthy balance sheets, large stacks of accumulated savings, and a constructive wealth effect, as housing prices and shares rose sharply from pre-pandemic levels.
- increased borrowing costs could weaken demand for homes, but with the inventory of homes for sale at a record lows, it could take time before that shift affects home prices.

- As a result, the terminal rate could rise to around 2.75%-3% above the neutral ratio, due to short-term buffers to absorb rate hikes.
- However, in the longer run, the economy's vulnerability to rising rates has increased significantly compared to past decades due to record debt levels and tight asset valuations. We will monitor closely the impact of the Fed's monetary policy tightening on financial conditions. This time is different. The Fed is starting to raise rates as financial conditions have already started to tighten.
- **The Fed will be in a more difficult situation in 2023. The trade-off between growth and inflation may be a story of H2 2023.**
- Inflation may continue to surprise on the upside in 2023, pushed up by costs. In a context of still-high inflation and a sharp slowdown in economic activity.
- Indeed, central banks have few "tools" to fight cost-driven inflation without hurting growth. Higher energy costs are already a tax on the economy. **This is where the ECB stands today.**
- The Fed could be obliged to support growth, in particular in a context of heavy indebtedness and strong investments necessary for the green transition.

Towards an inversion of the yield curve...

- A policy rate meaningfully above estimates of neutral this cycle is unlikely without long-run inflation expectations becoming meaningfully unanchored. Nevertheless, the probability that the Fed might have to deliver more hikes to bring inflation back to target remains significant and will put upward pressure on the front end of the curve. At the same time, the upside at long end of the curve will be capped by the continued strong demand and the expected slowdown in growth in 2023. In that context, the yield curve is likely to curve.
- It is worth though noting that the nature of the recent **2s10s flattening** may provide less information about future growth expectations, as it is also **driven by two factors:**
  - an **inverted breakeven curve** as result of the inflation shock; the breakeven curve is pricing in a return to pre-pandemic inflation regime in the beyond-three-year range.
  - an **inverted term premium curve,** as yields at the long end of the curve have been under pressure from strong demand by US banks and the Fed.

Finalised on 25 March 2022

THEMATIC

French elections: let the race begin

Pierre BLANCHET,
Head of Investment Intelligence

The French 2022 election cycle is starting in the context of the war in Ukraine which favours to the incumbent president. Structural reforms, notably of the pension system, and the energy transition are debated but the main topic is household purchasing power as energy and food prices are hurting low income households. The electoral turnout might be very low which usually helps far left or right candidates.

With Emmanuel Macron's entry into the presidential race, the French electoral cycle has finally begun, and will end with the legislative elections on 19 June. For the first presidential election round, scheduled for 10 April, the incumbent is polling ahead with 30% of the vote, far outpacing Marine Le Pen, who is closer to the 20% mark. Three other candidates are vying for second place in the first round: far-left candidate Jean Luc Mélenchon, who is attempting to rally a divided left behind his banner; the centre-right candidate Valérie Pécresse, whose campaign has lost momentum over the past weeks; and at the far right, political pundit Eric Zemmour, who has managed to win part of the conservative and identity politics vote. At this stage, none of them appears poised to beat Emmanuel Macron in the second presidential round of voting.

In contrast to 2017, no candidate with any chance of winning the presidency is suggesting a French withdrawal from the Eurozone, or "Frexit". This electoral cycle is therefore unlikely to generate much volatility on the financial markets, in particular the bond markets. In addition, in spite of their ideological differences, the major candidates are all facing a need to restore purchasing power to households in a context of strong inflation and great uncertainty due to the war in Ukraine. Geopolitical tensions have clearly changed the campaign narrative as most candidates had to align themselves behind the incumbent president in opposing the Russian aggression and supporting French diplomatic efforts.

On the economic front, Emmanuel Macron's programme appears to be a continuation of the previous five years, with around €15 billion more in tax cuts, increasing the legal retirement age to 65 for people born after 1969, work incentives and a reform of the jobs centre (Pôle Emploi), as well as a programme of investment in the energy transition (nuclear and wind energy) and in the army. Most of the public investment projects were presented last October at the launch of the "France 2030" plan.

The French election cycle

French electors will first vote for the president in a two-round election[1]. Then, two months later, 577 MPs from the lower house (Assemblée Nationale) will be chosen in two-round local elections, which will define a majority either directly issued from the new elected president party or via a coalition. Both president and MPs serve a five-year term. The elected president will then appoint his prime minister, who will present himself and his government to the Parliament for a vote of confidence.

Presidential elections

Twelve candidates have been approved by the Constitutional Court and will run in the first round.

Far left	Centre left	Centre	Centre right	Far right
N. Arthaud	A. Hidalgo	J. Lassalle	V. Pécresse	N. Dupont-Aignan
J-L. Mélenchon	Y. Jadot	E. Macron		M. Le Pen
P. Poutou				E. Zemmour
F. Roussel				

Presidential elections	Dates
First round	10 April
Second round	24 April

Household purchasing power has become the main theme of the campaign

Comparing the main candidates' manifestos

Note: We focus only on the platforms of candidates who are polling above 10% and highlight the parts of their platforms with economic and financial implications.

Although they disagree on the solutions, all candidates have the common objective of protecting or increasing low- and middle-income household purchase power, which has been hurt badly by rising energy and food prices.

The retirement system is also at the heart of the debate, including for the incumbent president, who did not manage to implement his reform in his previous term. Finally, candidates want to rebuild French industrial capabilities and ensure a smooth energy transition but disagree on how to do so. However, a consensus has arisen from centre to far right to restart the nuclear power programs.

[1] *The president can theoretically be elected in a single round if he or she secures an absolute majority of votes, including blank and void ballots*

THEMATIC

Candidates are ranked in alphabetic order

- **M. Le Pen**

— Change the wealth tax to focus on financial assets and exclude real estate
— Reduce VAT on energy from 20% to 5.5%
— Increase base salaries by 10% by reducing corporate charges
— Retirement age at 60 years for those who have worked for 40 years
— Stop windfarm development and focus on nuclear, hydroelectric and hydrogen
— Change the wealth tax to focus on financial assets and exclude real estate
— Prioritise French SMEs
— Create a French sovereign fund

- **E. Macron**

— Has the most pro-European program
— Push the retirement age from 62 years to 65 years
— Reduce taxes, including the end of non-profit-based corporate taxes (estimated at €6bn)
— Amend inheritance tax system to favour direct and indirect wealth transfers
— €30bn in investments to support the energy transition and the French industrial sector
— Financial support and innovation for agriculture
— Reform of unemployment benefits
— Reform of social benefits to reduce red tape and improve their efficiency

Candidates disagree on the retirement system reform

- **J-L. Mélenchon**

— Increase the minimum wage and the public-sector base salary index
— Change the retirement age to 60
— Universal benefits financed by an inheritance tax (100% above €12m)
— Revive the wealth tax, including in financial assets
— Reduce taxes for low and middle incomes
— Significant public investments and subsidies for the energy transition (€45bn per year)

- **V. Pécresse**

— Increase net salaries by 10%, no payroll taxes on hours worked above 35, transfer of holidays (RTT) into income
— Extend family benefits and exempt single-mother pensions from taxes
— Exempt 95% of households from the inheritance tax
— Reduce taxes for households
— Reduce taxes for corporates by €10bn
— New saving products to raise €120bn and fund the energy transition
— Launch a European carbon tax
— Increase the Justice budget

- **E. Zemmour**

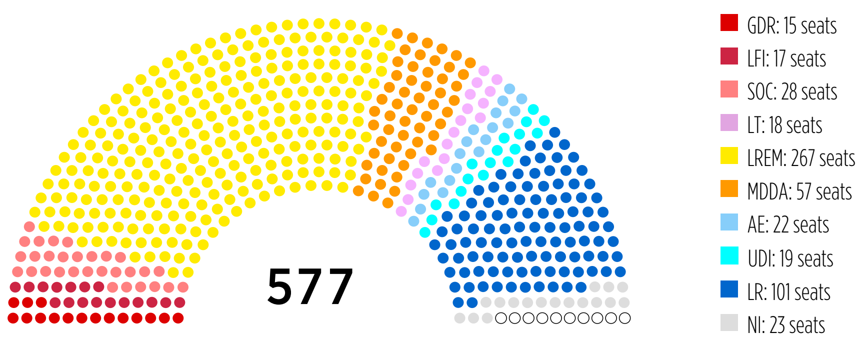
— Reduce taxes by €70bn, including lowering production taxes by €30bn and the SME corporate tax by 15%
— Reduce taxes on low salaries
— Tax exemption and making employees benefits available to boost consumption
— Exclude the main residence from the actual wealth tax
— Reduce the inheritance tax
— Move the retirement age to 64 years after 2030
— Focus on nuclear power to ensure the transition to net zero

Parliament elections

Following the presidential election, the lower house will be renewed. Since 2017, the government majority has been based on a three-party coalition between LREM Emmanuel Macron's party, the Modem and Agir. In the event of a second term for Emmanuel Macron, a similar coalition is likely and would include the party of former Prime Minister Edouard Philippe, Horizons.

Legislative elections	Dates
First round	12 June
Second round	19 June

1/ Actual majority in parliament



Source: National Assembly, January 2022

THEMATIC

Polls suggest E. Macron would win against all candidates in a second round

Latest polls are showing Emmanuel Macro is leading the first round

The incumbent president is leading the polls for the first round, with a wide margin at 30-32%.

Marine Le Pen comes next, at close to 20%, while three candidates (Mélenchon, Pécresse and Zemmour) are polling close to 10. This means that the remaining seven candidates are sharing 20% of the votes and have at this stage a very low probability of reaching the second round. Polls are showing voters are highly undecided, and turnout might be very low, which could favour the far-right or far-left candidates.

First round	Latest polls average*	Trend
M. Le Pen	19%	up
E. Macron	29%	flat
J-L. Mélenchon	14%	up
V. Pécresse	10%	down
E. Zemmour	11%	down

** As of 24 March 2022*

Second round

Polls are showing that Emmanuel Macron would win against all candidates in a second round by a wide margin. However, given the large number of uncertain voters for the first round, second-round intentions have a low predictive power.

Second round	Latest polls*	E. Macron
M. Le Pen	40%	60%
J-L. Mélenchon	36%	64%
V. Pécresse	33%	70%
E. Zemmour	30%	67%

** Source: Le Parisien, based on average polls from 19 to 24 March 2022*

Finalised on 29 March 2022

THEMATIC

Macron's 2017-2022 economic policies: predominantly supply-side, before Covid shifted the priority to fiscal support

Tristan PERRIER,
Global Views

The first half of Emmanuel Macron's term (from H2 2017 to the Covid outbreak, in Q1 2020) featured a significant number of "structural" or "supply-side" reforms, of the type generally considered favourable to long-term growth.

In fact, this policy prolonged a shift that had already occurred during the second half of François Hollande's term. Although elected in 2012 on a clearly left-leaning platform, Hollande made a sharp turn towards supply-side policies in 2014 while maintaining a somewhat ambiguous communication. Macron, incidentally, led some of these efforts as minister of the economy from 2014 to 2016. He could thereafter, as President, continue this momentum, while openly communicating on it as it was in accordance with his electoral platform.

Therefore, throughout the 2014 to 2019 period, France took the lead among large Euro countries in terms of supply-side reforms, after the champions in this field had been Germany (in the early 2000s) and **Spain** (forced down this road from 2012 to 2015) after the Eurozone sovereign crisis.

On the whole, the main directions of reform then being conducted in France (generally in line with the Nordic "flex-security" model and the recommendations of major business-friendly international organisations) consisted in: 1/ reforming taxation to make it more favourable to labour, corporations and investors; 2/ making the job market more flexible; 3/ opening several sectors up to more competition; 4/ retaining a large welfare state in volume terms but one that is more transparent, easier to manage and whose benefits are less dependent on which professional sectors recipients belong to.

Significant economic regulatory and tax changes were thus decided between 2017 and 2020 *(see box)*.

Throughout the 2014-2019 period, France took the lead in terms of supply-side reforms

Main economic reforms conducted under Macron

2017-2018 (before the "Yellow Jackets" crisis):

- Shifting some employee-paid social contributions towards broader-based contributions (including on wealthier retirees) that are administered less by trade-unions.
- Other pro-capital tax reforms, e.g., a flat tax on capital income, elimination of the wealth tax on financial assets, and a gradual reduction in corporate taxes.
- Gradually abolishing local taxes that were based on obsolete property values.
- Reform of SNCF (French railways), a bastion of traditional trade-unionism, in order to phase out its employees' special status.
- Job market reforms, including an easing of conditions and procedures of dismissal, change in rules on jobless benefits, and reworking of professional training mechanisms.
- Reforms of the markets for goods and services, including in very large, heavily-administrated sectors, such as education, health and public housing.

2019-2020 (after the "Yellow Jackets" crisis but before the Covid-19 crisis).

- Civil-service reform, facilitating the mobility of public-sector workers across various administrations and reducing trade-union powers.
- 2d round of reform of jobless benefits. However, the implementation of certain provisions was delayed, by the Covid crisis.
- Announcement of a complete reform of the pension system to unify all of the more than 40 regimes into one and to establish a points-based matching of dues paid and benefits received. The shift towards the new regime was nonetheless planned to be very gradual. However, this reform's parliamentary approval process was suspended due to the Covid crisis, and the horizon of a complete reform of the pension system has been postponed to beyond the 2022 presidential election.

Momentum from the "supply-side" reforms outlasted the "Yellow Jackets" social crisis

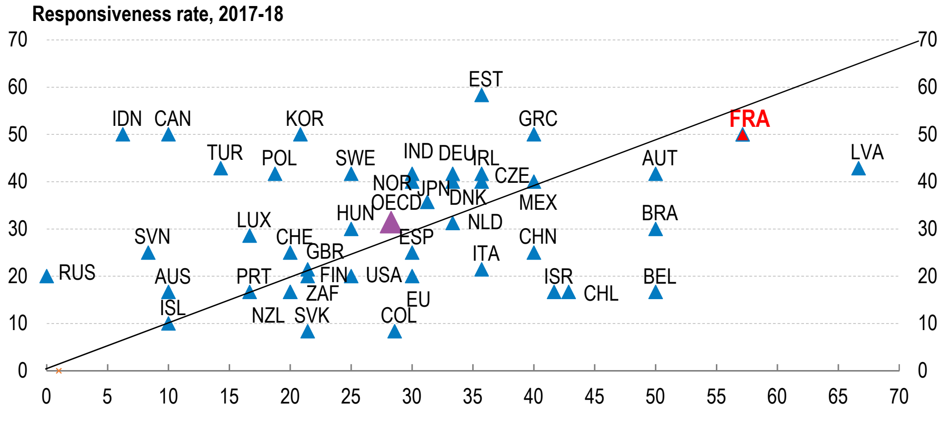
Some of these reforms were what triggered severe social unrest during the "Yellow Jackets" crisis of late 2018 and early 2019 (particularly the fuel tax, even though other taxes had been lowered). Nonetheless, supply-side policies were maintained beyond this episode at the cost of additional tax cuts and public money giveaways, which helped restore calm.

THEMATIC

“Pro-market” international organisations have judged favourably the measures put through during this period.

As part of its **“Going for growth”** evaluation, the OECD considered in 2019 that, of all euro zone countries, France had one of the highest responsiveness rates to its 2017-2018 reform recommendations (alongside Greece, with only Estonia faring better). The OECD had also ranked France among its top countries from 2015 to 2016 (behind only Latvia).

1/ **Responsiveness to Going for Growth recommendations**

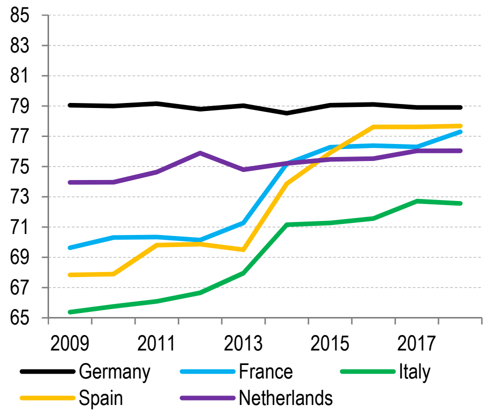


Source: Going for Growth 2018 Report, OECD - Amundi Institute

- In its **report on France** of April 2019, the OECD also stated that the reforms of 2017 and 2018 could **boost its GDP by 3.2% within 10 years.**
- **France’s rating or ranking has also risen significantly in the major indices of competitiveness and economic openness** as calculated by organisations such as the World Bank and the World Economic Forum.

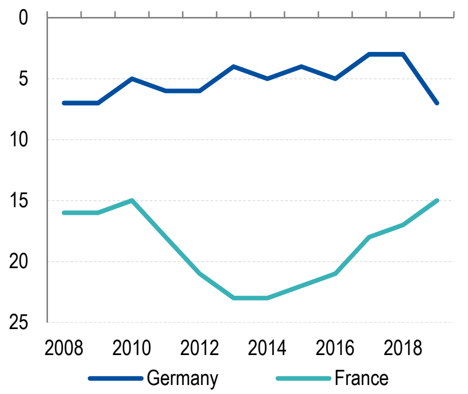
Covid shifted priorities towards fiscal support and stimulus

2/ **World Bank’s Ease of Doing Business Index distance to frontier**



Source: World Bank, Amundi Institute - Data as of 31/03/2022

3/ **Global Competitiveness Index, Ranking**



Source: World Economic Forum, Amundi Institute - Data as of 31/03/2022

Just before the Covid crisis, some macroeconomic figures appeared to show that these policies were beginning to pay of

- **Even when well-designed, a supply-side policy usually takes several years to produce benefits and in the short term can even have negative repercussions on economic activity** (the “J-shaped” curve). Meanwhile, the short-term gap between the economies of France and its neighbours often reflect mainly differences in sector exposure; for example, France’s clear lead over Germany in 2018 and 2019, a reversal from the situation in 2016 and 2017, was due mainly to trends in the global manufacturing cycle, to which Germany is more exposed.
- That being said, it is worth pointing out that, just prior to the Covid crisis, economic indicators such as the **unemployment rate** (7.7% in February 2020) and **corporate profit margins** (33.2% in 2019) had hit their best levels since 2008 and that France displayed good figures on attractiveness for international investments[1].

[1] *According to Ernst & Young’s Attractiveness Survey of January 2020, in 2018 France was the top destination in Europe for setting up manufacturing facilities financed by foreign capital.*

THEMATIC

However, as a corollary to these reforms, France has fallen behind in shoring up its public accounts, even before Covid. From the start of Macron's term, the choice was made not to accompany reforms with austerity measures that would have made those reforms even less palatable to part of the population. This was even more the case with spending measures and tax cuts granted to ease the "Yellow Jackets" crisis. All in all, France's structural deficit actually widened slightly between 2017 and 2019 (from -3.1% of potential GDP to -3.3%).

Major macroeconomic figures, 2017-2021 : France, Germany and the Euro area

	France	Germany	Euro area
Real GDP Growth, %, Q4 2017- Q4 2019	2.4	1.0	2.3
Real GDP Growth, %, Q4 2019- Q4 2021	0.9	-1.1	0.2
Unemployment rate, %, Jan 2022	7.0	3.1	6.8
Structural gov. budget balance, % of GDP, 2019	-3.3	0.9	-1.2
Structural gov. budget balance, % of GDP, 2021	-6.7	-5.0	-5.7
Debt/GDP ratio, %, 2019	97.5	58.9	86.4
Debt/GDP ratio, %, 2021	114.6	71.4	101.0

Source : Eurostat, DG ECFIN (latest forecast for some 2021 figures)

Whoever wins the election, current economic and social conditions may not lend themselves to a return of aggressive supply-side policies

However, in France, as elsewhere, the Covid crisis radically shifted economic policy priorities from early 2020 on towards fiscal support for the economy

The major channels of these measures in France were similar to those of other Eurozone countries – protection of working contracts through job retention schemes, assistance to independent workers, state-guaranteed loans to businesses, grace periods on corporate social contributions, and spending on healthcare and preventive measures. These efforts were generally evaluated by international organisations as generous in international comparison, notably when it comes to the job retention scheme and the finance terms of loan guarantee schemes[2] (amounting to about €150bn in effective take-up). The cost of emergency measures was around 2.9% of 2019 GDP in 2020, and 2.6% in 2021[3]. At the end of 2021, real GDP of France, Italy and Germany were all three back very close to their pre-Covid levels (Q4 2019), whereas France's public debt burden had ballooned, from 97% in 2019 to 115% of GDP in 2021, higher than in Germany but lower than in Italy and France.

The last portion of Macron's term has featured the announcement of ambitious stimulus plans. Like their equivalents in other European countries, these plans aim both to prolong the post-Covid recovery and to address climate-change challenges and enhance long-term growth. Announced on 3 September 2020, the ***France Relance*** plan (€100bn over two years, including about 40% funded by the NGEU mechanism) earmarked €35bn to competitiveness and innovation, €35bn to social and territorial cohesion, and €30bn to the energy transition. An additional plan, *France 2030,* announced on 12 October 2021, adds an additional €30bn investment over five years in green energy, decarbonisation of economic activities, food, healthcare, culture, space and deep sea exploration. Taking these two plans into account, the OECD has qualified France as ranking "in an intermediate or high position" in terms of estimated recovery expenditures[4].

Emmanuel Macron's first term was therefore a two-stage process, as Covid forced the rapid transition from an agenda dominated by structural measures meant to be more or less fiscally neutral (regulatory and tax reform) to the prioritization of spending, first on economic support, then on recovery and, finally, on long-term investment. As the post-Covid economic situation moves back to normal, the French economy should (judging by past experience in this type of reform) continue to benefit from the lagging impact of the 2014-2019 supply-side policies. This could give it at least a small edge on growth vs. its neighbouring countries for a few years. Meanwhile, investments should provide at least short-term support to economic activity, pending longer-term productivity and labour supply benefits.

Note that Macron's 2022 electoral platform does include a number of additional reforms that can be qualified as supply-side (see previous article). Even so, and regardless of who wins the 2022 presidential elections, economic and political conditions (high inflation, social tensions, and the fact that anti-Covid measures may have led some citizens to believe that fiscal resources are unlimited) may not lend themselves to a rapid return to policies as aggressive as those conducted during the pre-Covid years.

Finalised on 30 March 2022

[2-3-4] *OECD Economic Surveys, France, November 2021.*

CENTRAL & ALTERNATIVE SCENARIOS (12 TO 18 MONTHS HORIZON)

Monthly update

We keep the narratives and the probabilities of our central and alternative scenario unchanged versus last month. The war in Ukraine could evolve in several ways over the coming weeks (see Ukraine crisis tree) with significant implications on economic and financial markets

DOWNSIDE SCENARIO 30%

Renewed slump toward stagflation

Analysis

- Long lasting **war in Ukraine** is hurting confidence and activity, and pushes commodities and energy price higher for longer, and disrupting supply.
- **Covid-19** Omicron resurgence leads to renewed mobility restrictions and bottlenecks.
- Both triggers lead to an **economic downturn** while **inflation** remains elevated and uncontrolled.
- **Renewed monetary and fiscal accommodation,** possibly a further step in financial repression.
- Inflation amid slower growth, forces some **Central Banks** and the ECB in particular, to **deviate** from their guidance and potentially lose credibility.
- Policies and investments designed to fight **climate change** are postponed and/or countries policies are disorderly implemented.

Market implications

- Favour cash, USD and US Treasuries
- Play minimum-volatility strategies
- Gold
- Commodities and energy

CENTRAL SCENARIO 60%

Bumpy road, regional divergences

Analysis

- The **war in Ukraine** is hitting confidence and pushes commodities and energy price temporarily higher.
- **Covid-19** becomes an endemic disease, with random contagion waves.
- **Global activity** to hold better than previous waves, but supply chain bottlenecks will remain until end-2022.
- **Growth** progressively abate to trend in 2022. Opening 2023's to downside risk. Soft patch in H1 2022 due to China's slowdown, negative impact of Omicron and accelerating inflation.
- Persistent **inflation** pressures throughout 2022 due to high energy and commodity prices, supply-side bottlenecks, rising wage pressures; and abating in 2023. Inflation is a psychological and political issue.
- **Monetary policy asynchrony:** Fed in fast move from tapering to a light QT and initiating a hiking cycle; BoE in a soft hiking cycle, ECB recalibrating QE and potentially hiking rates in 2022; and PBoC on an easing bias. Rates to move higher but to stay low for longer.
- **Fiscal policy:** withdrawal of some support, but public funding and subsidies are used to smooth the impact of the energy transition on households in the short term.
- **Climate change** bites into growth and pushes commodity and energy prices higher, adding to stagflationary trends.

Market implications

- Lower risk-adjusted expected returns real
- Contained steepening of US Treasuries yield curve as well as EZ and EM
- Inflation hedge via gold, linkers and equities
- EM: Short-term caution, long-term real income and growth story intact

UPSIDE SCENARIO 10%

Inclusive and sustainable growth

Analysis

- The **war in Ukraine** ends quickly with limited disruption of the energy and commodities market.
- **Endemic recedes** more quickly than anticipated, despite variants.
- Extra savings and wage rises fuel **consumption** with low erosion of corporate margins.
- **Productivity gains** thanks to digital and energy transition and structural reforms.
- **Inflation** remains under control.
- **Higher interest rates,** due to stronger investment and less savings.
- **Central banks'** policy normalisation is well received by financial markets.
- **Debt is sustainable** thanks to strong growth and a gradual shift towards fiscal discipline.
- **Inclusive growth** and effective fight against inequality.
- **Possible triggers** include end of the war in Ukraine, structural reforms, effective drugs and vaccine campaigns, and inclusive de-centralised finance.

Market implications

- US Treasuries curves bear steepen
- Favour risky assets with cyclical and value exposure
- Favour linkers and equities as an inflation hedge

Geopolitic · *Covid-19 related topics* · *Growth and inflation expectations* · *Monetary and fiscal policy* · *Recovery plans or financial conditions* · *Solvency of private and public issuers* · *Economic or financial regime* · *Social or climate related topics*

TOP RISKS

Monthly update

We keep the probability of economic and geopolitical risks to 30% to take into account the war in Ukraine and its potential implications on the economic and financial risks. We consider Covid-19-related risks to be part of the economic risks.

Risks are clustered to ease the detection of hedging strategies, but they are obviously linked.

ECONOMIC RISK 30%

— **Global recession** driven by an oil and gas shock and a deteriorating sentiment as the war in Ukraine stalls

— **Economic crisis in Eastern Europe** following a collapse of the Russian economy, elevated energy prices, uncontrolled inflation and a migrant crisis

— **Pandemic 3.0**
- After Omicron (2.0) a more dangerous and vaccine resistant variant starts a new wave
- New lockdowns or mobility restrictions could further undermine the global recovery

— **Supply chain disruptions** carry on (China new lockdowns), and input cost pressures lead to corporate earnings recession

— **China property market collapses,** leading to lower growth prospects

— **Monetary policy mistake**
- Central banks' miscommunication in the context of a high geopolitical uncertainty.
- Central banks underestimate the strength of supply driven inflation and lose control

— **Climate change-related natural events** hurt growth visibility and social balance.

+ Cash, linkers, JPY, Gold, USD, Quality vs. Growth, Defensive vs Cyclicals, Oil

- Risky assets, AUD CAD or NZD, EM local CCY

FINANCIAL RISK 20%

— **Sovereign debt crisis**
- The extended war would hurt DM vulnerable public finance with public debt as a share of GDP already at historically high levels
- Most countries are vulnerable to rating downgrades and rising interest rates.
- De-anchoring inflation expectations could lead to a bond market dislocation and harsher monetary tightening
- EM weaknesses could also face a balance of-payments crisis and increased default risks.

— **Corporate solvency risk increases,** despite strong fundamentals as uncertainty rises and corporate margins are under pressure (high input cost, double orders lead to profit warnings)

— **Widespread greenwashing and ESG investment bubble** undermine the energy transition funding

— **USD instability** and gradual loss of its reserve currency status lead to unstable currency markets

+ CHF, JPY, Gold, CDS, optionality, Min Vol

- Oil, risky assets, frontier markets and EMs

(GEO)POLITICAL RISK 30%

— **War in Ukraine** *
- Short term resolution following Russia military success: markets instability remain as investors are starting to price in Putin crossing new red lines
- Prolonged military struggle leading to a high intensity conflict leading to western military confrontation and potential market capitulation

— **EU political fragmentation** and populist vote bring a disagreement on how to manage the relationship with Russia

— **The US takes a hard line with China** in order to block any tentative to invade Taiwan. Risk of accidental confrontations in the South China Sea or the Taiwan Strait

— **EM political instability driven by:**
- Chaotic virus crisis management
- Higher food and energy prices, leading to a wave of unrest similar to the Arab Spring

— **US & China lose credibility** on the energy transition and undermine the Paris agreement

— **Global warming** leads to an increased risk of conflicts, driven by water shortages and migratory movements

— **Cyber-attack or data compromise,** disrupting IT systems in security, energy and health services

* ***For more detailed on potential outcomes see "Ukraine crisis tree" P. 9***

+ DM Govies, Cash, Gold, USD, Volatility, Defensive, Oil

- Credit & equity, EMBI

CROSS ASSET DISPATCH: Detecting markets turning points

Monthly update: The traffic light on sentiment has turned from green to orange

The turning point has occurred | Approaching the turning point | Not reached yet too early to call it

ECONOMIC BACKDROP

- The Ukraine war brings significant uncertainty in the macroeconomic context, linked to the development of oil and commodities prices and risks on the trade front. Both are related to the disruption of the war, sanctions and renewed supply chain disruptions as China implements new lockdowns.
- Inflation is set to grind higher for some months on higher energy food and in general commodity prices, impacting negatively consumers and businesses and, as a consequence, lowering the domestic demand outlook.
- Stagflationary risks remain prominent in euro-area in particular.
- While hard data do not show the impact of the war, yet confidence data started to deteriorate highlighting material downside risks to the growth outlook.

FUNDAMENTALS & VALUATION

- Liquidity will be less supportive to markets and higher rates are eroding the relative value considerations
- Inflation like is another headwind to multiples expansion while expectations are still very optimistic at least in Europe.
- All in all valuations and current levels are vulnerable to potential negative surprise on fundamentals.

NEUTRAL + ASSET ALLOCATION

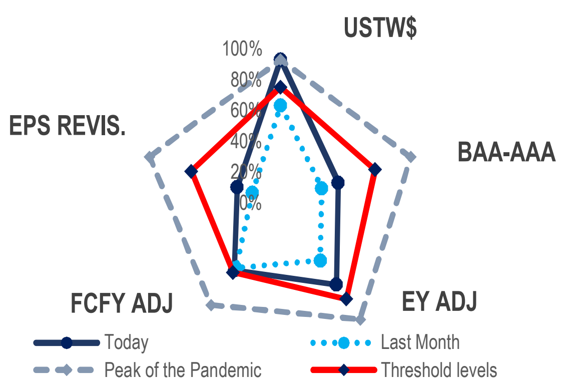
TECHNICALS

- Technical indicators keep lacking leading properties as of today.
- Most risky assets medium-term trends failed to flash a structural de-risking (trend following signals deteriorated sharply at the beginning of the month, before turning back to neutrality) and oversold signals were unable to sustain a structural re-bound.
- The current market environment keeps absorbing quickly dislocation opportunities. The deteriorating macro backdrop coupled with the need to normalize monetary policies is preventing the technical pillar to drive asset allocation decisions.

SENTIMENT

- Relaxation of geopolitical tension between Russia and Ukraine pushed most risky assets higher in the latest trading sessions of March 2022.
- Our risk sentiment indicators moves were consistent with the rise in volatility this time, with two out of three indicators (namely MoMo and Financial Conditions) signalling above average risk-off in the markets.
- CAST, on the other hand, is signalling how fundamentals resiliency would be key when deciding whether to fade or buy the recent rebound in the risk spectrum. Credit risk premium (Moody's Baa-Aaa) flirted with our estimated alert (100 bps) and sell-side EPS revisions are still positive, whilst deteriorating.

Cross Asset Sentinels Thresholds (CAST) still supportive



Source: Amundi Institute, Data as of 30 March 2022

The CAST risk perception has failed to show a structural increase, despite the recent data show risk-off probability above 20%. The deterioration in EPS revisions remains limited and credit risk premiums (we proxy, using Moody's' Baa-Aaa spread) failed to jump above our alert threshold (i.e. 100 bps). Yet, the USD is the dimension calling loudly for risk-off, and its spillover into residual dimensions would complicate the picture, in our view.

Methodology: We consider five inputs, which we call "sentinels": USTW$, Moody's Baa-Aaa, EPS revisions, Adjusted Earnings Yield Risk and Adjusted Cash Flow Yield Risk. These sentinels are used to reposition our tactical asset allocation. Once sound thresholds are detected, the five variables are aggregated as an indicator that anticipates the market's stress conditions, with a certain level of conviction. The pentagon visualises the five sentinels where the red line represents the alert threshold. The greater the distance above the red line, the higher the risk perception, and eventually the need to move closer to a defensive asset allocation.

GLOBAL RESEARCH CLIPS

1 Growth and inflation macroeconomic forecasts

US
- Growth is revised lower: Q4/Q4 22 from 2.5% to 1.9% , Q4/Q4 2023 from 1.9% to 1.7% , the key message here is that growth goes to potential and below potential sooner than expected.
- Inflation is revised higher: Core PCE, is now moving higher: from 3.2% Q4/Q4 in 2022 to 4.1%, while headline CPI Q4/Q4 upgraded to 5% from 3.5% on a combined effect from oil and commodities.

EA
- GDP Growth: 2.3%Y in 2022 (was 3.4%), 1.8%Y in 2023 (was 2.1%) (annual averages). For 2022, H1 basically flat (0.1% QoQ), H2 small "recovery" as some of the drag from energy and inflation eases, based on our shared oil/commodities scenarios. An outright recession is not excluded at this stage, but more at country level than in EA aggregate.
- Inflation: 6.3% Y in 2022 (was 4.3%) , 2.6% Y in 2023 (was 2.1%). Peak in Q2 22 at 7.1% (quarter average), then slow deceleration (again, quite relevant the role of oil/commodities assumptions here).

UK
- Growth is now revised lower from 4.3% to 3.8% in 2022 (carry over 2.6%), thus implying a very limited quarterly growth during the year, which is concentrated in Q1 (currently tracking at 1%+), followed by very weak growth in the following quarters as the inflation tax drags on consumption. Growth in 2023 is expected around approx. 1.5% (2% prior).
- Inflation is revised significantly higher, averaging 7.1% (5.7% prior) in 2022 and 3.5% (2.4% prior) in 2023, on stronger energy and food price dynamics. Peak is expected to occur around April, with Ofgem energy price cap increase of+54%. Another round will occur in October, but according to our forecast inflation should continue decelerate from Q2 onwards.

2 EUR/USD poised for more correction as the CPI/PPI ratio is expected to deteriorate further, due to the Ukrainian war

- Relative to international peers, the US is showing greater flexibility in passing higher input costs on to consumers.
- We see the Ukrainian war playing towards the same channel and deteriorating EUR productivity further relative to peers (CHF, USD, GBP are all much better positioned in the current juncture) as Eurozone's PPI may keep trending higher on the back of Ukraine war's impact on energy prices.
- EURUSD is also driven by the widening US-EUR yields differential and the increasing portion of the EUR yield curve shifting positive. Yet the net-productivity loss of the Euro area economy versus US is translating into structural deterioration in EUR medium term fundamentals. The currency may keep weakening in the months to come with geopolitics adding further pressure. In this context, CHF looks better positioned.

Investment consequences
- EUR/USD will have to absorb the shock, the valuation of the currency is expected to move lower, with, as a consequence, potentially greater weakness on the FX from current levels.

3 China policy stance post-NPC meeting

- The recent geopolitical events, influencing global demand and the perseverance of zero covid tolerance are overall growth-negative for China. We revised our 2022 GDP growth forecast down to 4% from (4.2-4.5%).
- While the cost pressure could slowdown the producer prices decline, consumer inflation is expected more muted amid a still subdued recovery in services demand.
- The NPC and other comments by officials confirmed a continuation in policy support to the economy as well as lately to the Equity markets (though short in details).
- Notwithstanding the recent blip, Credit growth should continue on its upward trend, government bond supply is expected to remain stable on the past year levels, and the Monetary policy easing is not over yet (additional LPR cut and RRR cut are expected soon).

Investment consequences
- Maintain long positive stance on China local government debt.

Covid-19 situation update

Pierre BLANCHET, *Head of Investment Intelligence*

While the attention of Western leaders is focused mostly on the war in Ukraine, Covid-19 and its Omicron BA.1 and BA.2 variants continue to make headway. In the United Kingdom, the number of reported cases is once again near the record set in late 2021. One out of 16 persons reportedly had the virus in England last week and 1 out of 11 in Scotland. In France, the number of new daily cases is almost 150,000, a level that would have triggered a nationwide lockdown just a few quarters ago. However, the ICU hospitalisation rate is still rather low, and the hospital system is not on the verge of saturation, as it might have been during previous waves.

In China, however, the virus's spread has pushed the authorities into imposing new lockdowns. This was the case at first in the region of Shenzhen, where large electronic component fabs are located, and, more recently, the city of Shanghai. China's financial capital is currently split in two, with the Huangpu river as the dividing line. Half of its 26 million people are being locked down until 1 April, and the other half of the city is expected to suffer an similar fate next week. The Chinese authorities' "zero-Covid" strategy is testing its limits, as locking down millions of people in key economic zones may appear, based on the official case numbers, to be disproportionate compared to Europe. The economic repercussions could be very serious for China's economic partners.

AMUNDI ASSET CLASS VIEWS

	Asset Class	View	1M change	Rationale
EQUITY PLATFORM	US	=/+	▲	While we see pressures from higher inflation and removal of Fed support, we also believe labour markets are strong and consumer earnings and savings high. This, coupled with robust corporate balance sheets and domestic energy supplies, should mitigate the risks from rising energy prices. We continue to rely on our bottom-up selection process.
EQUITY PLATFORM	US value	+		Quality value names that show strong pricing power, a tendency to maintain earnings growth and operational efficiencies present selective opportunities, as we believe that valuations in this segment are still attractive. This should be complemented with relative value opportunities favouring names that reward shareholders through buybacks, dividends.
EQUITY PLATFORM	US growth	-		Valuations are still high in this group, but we realise that certain names are incrementally becoming attractive after the recent correction. However, rising rates will pressurise prices in the still-overvalued segments. We stay cautious overall.
EQUITY PLATFORM	Europe	-/=	▼	We believe rising PPI inflation may affect earnings, particularly for companies that are unable to pass rising input costs to consumers. Importantly, although markets have bounced back, current valuations do not reflect the deteriorating earnings outlook in the region. Thus, while staying balanced, we look for relative value and focus on quality, value, dividend spaces.
EQUITY PLATFORM	Japan	=		While prices for oil and other inputs in general could affect company margins, we are seeing accommodative policies. The evolving Covid situation is another key factor that causes us to stay vigilant on earnings.
EQUITY PLATFORM	China	=	▼	Latest Covid-19-related lockdowns in two main cities of Shenzhen and Shanghai could impact supply chains and growth. While government support remains strong and targeted (the recent NPC), we are monitoring how the Russia-Ukraine conflict affects the commodity importer. On a long-term view, we think the country presents strong bottom-up opportunities.
EQUITY PLATFORM	Emerging markets	=		Upward pressures on commodity/energy prices from the shock of the war (in Eastern Europe) could impact global growth and hence EM. However, the effects will not be uniform, reaffirming our view of fragmentation across the emerging world. We are positive on commodity exporting LatAm countries (Brazil) and the UAE, but are cautious on the Philippines.
FIXED INCOME PLATFORM	US govies	-		Recent indications from the Fed have tilted on the side of controlling inflation with a tightening stance, even as some pressures remain on the economic growth side. We remain defensive on duration, but maintain a vigilant stance as Treasuries could benefit from investors' search for safety. On TIPS, our exposure is limited.
FIXED INCOME PLATFORM	US IG corporate	=		We are selective in credit and are limiting our net duration exposure, given that the Fed remains on track to raise rates. IG valuations reflect difficult market technicals as well as robust corporate fundamentals. So, it is a tricky phase where new issuers are offering concessions, but investors should not lose sight of bottom-up analysis. We remain active and continue to explore securitised assets owing to strong consumer earnings.
FIXED INCOME PLATFORM	US HY corporate	=		HY spreads are expensive compared with historical standards, but fundamentals for the asset class are strong. Although the sector should benefit from higher energy prices, we are monitoring the markets for any signs of waning liquidity from the Fed's tightening bias. The need for selection is high.
FIXED INCOME PLATFORM	European govies	-/=		ECB aims to minimise the economic shock and at the same time tame stubborn inflation (aggravated by rising energy prices) and is thus displaying relatively hawkish overtures. While our stance is still cautious on duration (core Europe), we remain flexible in our approach across the curves and geographies, given the flight to quality. On peripheral debt, we remain watchful on fragmentation risks, given the ECB's hawkish stance and tensions from the Russia-Ukraine conflict.
FIXED INCOME PLATFORM	Euro IG corporate	=		Receding policy support from the ECB in an environment of high inflation and economic growth concerns allows us to stay neutral on credit. While repricing of spreads is making the asset class attractive, we stay very selective due to potential pressures on earnings growth and liquidity, and focus on relative value opportunities.
FIXED INCOME PLATFORM	Euro HY corporate	=		We believe HY has cheapened, but it is still away from fair value, given the prevailing risks. However, corporate fundamentals are strong, as some companies are deleveraging and default rates are also benign. We remain watchful of financial conditions, which remain easy for now, and seek to balance yield opportunities with liquidity and quality.
FIXED INCOME PLATFORM	China govies	=/+		Chinese debt offers diversification for global portfolios and could benefit from concerns over the country's economic growth and the accommodative stance of the PBoC. But we are monitoring any pressures on the FX component.
FIXED INCOME PLATFORM	EM bonds HC	=/+		With a preference for HY over IG, we maintain a strong bottom-up bias, but believe policy tightening in the developed world presents a headwind. We also keep a short duration stance and are seeing how the Russia situation evolves.
FIXED INCOME PLATFORM	EM bonds LC	=		We are actively managing our bond exposure towards issuers that look set to benefit from rising energy prices, but do so with a high focus on selection. On the FX component, we are cautious.
OTHER	Commodities			We are positive on commodities, especially base metals and gold (geopolitical uncertainty) as the current regime is becoming more inflationary. Oil prices should be supported by concerns over supply disruptions.
OTHER	Currencies			EUR/USD is likely to weaken in the near term due to productivity gains in the US and the latter's safe-haven nature. The regional currency may weaken in the months to come owing to geopolitical tensions (CHF better positioned on this front).

LEGEND

---	--	-	=	+	++	+++	▼	▲
Negative			Neutral	Positive			Downgrade vs previous month	Upgraded vs previous month

Source: Amundi, as of 24 March 2022, 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.

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INVESTMENT STRATEGY

April 2022 #04

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