Confidence must be earned

Amundi ASSET MANAGEMENT

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INVESTMENT TALKS

The Rotation to US Value

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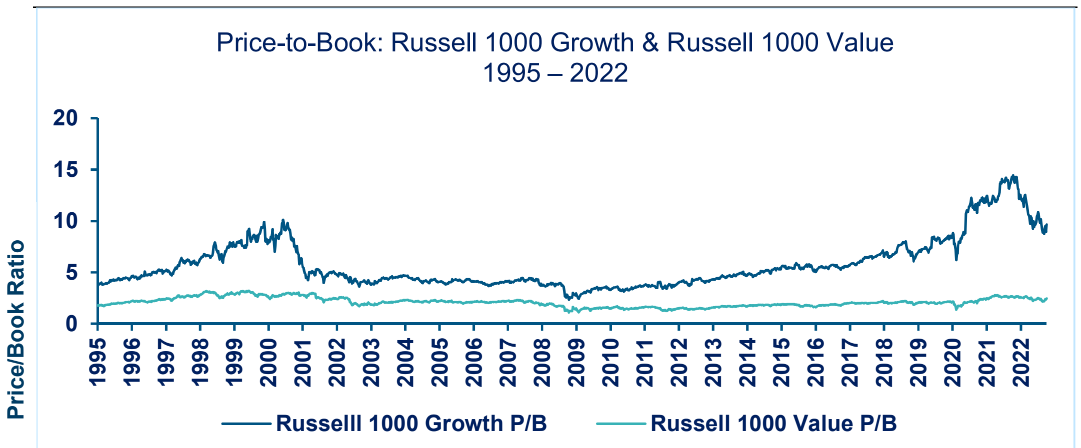
Executive Summary

- As the US Federal Reserve raises interest rates in an effort to curb stubbornly high levels of inflation, we continue to favor US value securities relative to overall US market.
- We believe value companies provide a unique combination of structural growth potential, quality, stability and relative valuation support.
- Secular changes of value vs. growth are best measured in quarters, or even years; therefore, we view any short-term rallies of growth stocks not indicative of a larger long-term trend.
- We also believe we are still in the early days of a commodity super-cycle that will further position value companies for outperformance.

Value over Growth

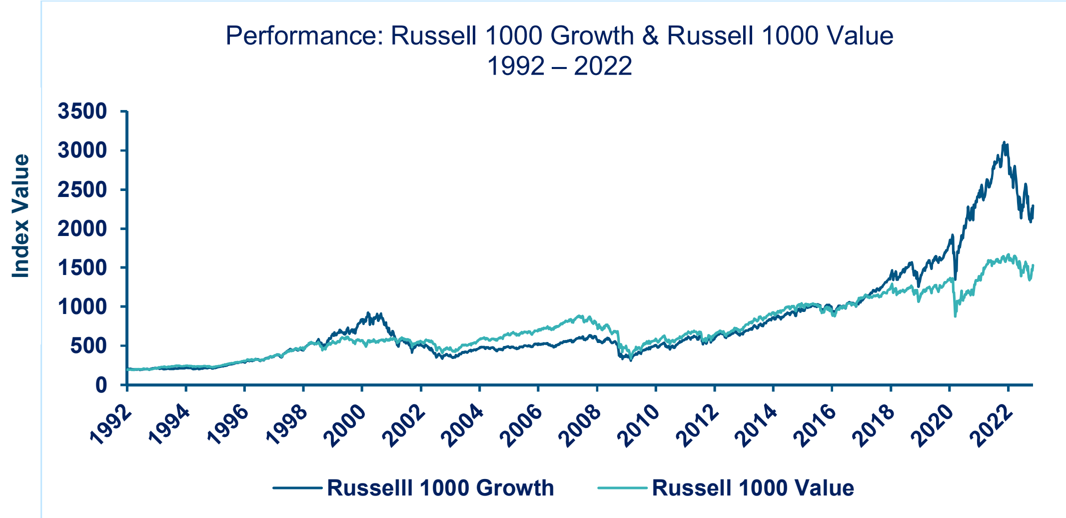
Drivers of the post-Global Financial Crisis (GFC) period, including quantitative easing, low interest rates and the globalization of manufacturing and labor that started decades ago, are all reversing. We believe today's investing environment, which is characterized by higher normalized inflation, higher supply-constrained commodity costs, labor shortages and quantitative tightening, offers primary conditions for the potential outperformance of value over growth. This cycle's transition, which began in November 2020 with the COVID-19 vaccine rollout, has likely only just begun, in our view. It is strengthened by the current backdrop of still-excessive relative valuation of growth vs. value.

Exhibit 1: Russell 1000 Growth Valuation Still Far Exceeded Russell 1000 Value



Source: Bloomberg as of November 11 2022. **Past performance is no guarantee of future results**. For illustrative purposes only; not meant to represent performance of any Amundi US portfolio. Indices are unmanaged and their returns assume reinvestment of dividends and, unlike mutual fund returns, do not reflect any fees or expenses. It is not possible to invest directly in an index. See page 7 for further information about indices shown.

Exhibit 2: Value Recovery Could Unwind 14 Years of Outperformance



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The Market in Late 2022

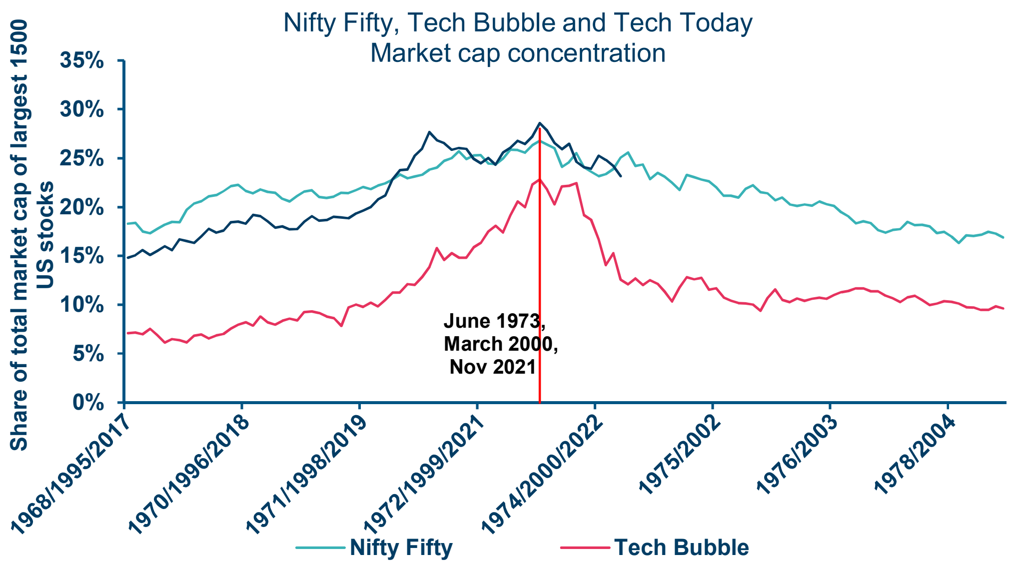
In the last few months, the market has been increasingly concerned about a recession and high inflation. Looking ahead, we expect headline inflation to begin to fall sharply as we approach the end of 2022. Nevertheless, the rate at which inflation settles will be structurally higher than we have seen in a long time, and we do not expect a quick reversal of the Fed's recent and signaled future rate hikes. Additionally, the Fed has barely begun to unwind its massive balance sheet after providing $23 trillion of stimulus since the Lehman Brothers collapse in 2008; as this process continues, it can be as impactful as explicit Fed interest rate policy on reducing the liquidity that has driven growth stocks for the past 14 years.

"Meaningful market regime shifts through history have been measured in quarters and years, not weeks and months."

With the market focused on a recession and negative earnings revisions to adjust to slower economic activity, prior pull forward of consumer demand, and continued supply chain challenges, economically sensitive value cyclicals outside of energy have meaningfully underperformed this year. While such pressures weigh on value cyclicals, we believe valuations already include most of the potential for a meaningful slowdown and/or shallow recession. However, given that the longest-duration growth stocks have already de-rated from last year's peaks, our view is that valuations among the large secular growers and defensives that still comprise an over-indexed share of the overall US stock market will face the most future pressure from higher rates as valuation multiples compress. Moreover, many of the large secular growers are also proving to be more cyclical than not. Meaningful market regime shifts through history have been measured in quarters and years, not weeks and months. With this in mind, we believe any short-term rebound of growth fits well in the context of an unwind of an approximately 14-year outperformance of growth over value, and are brief counter-rallies in what are clear long-term trends toward value.

Exhibit 3: Market Cap Concentration: Similarities in performance of Nifty Fifty, Tech Bubble and Tech

Share of total market cap of largest 1,500 US stocks



Source: Bernstein Quantitative Services as of October 31 2022. Top 50 names in S&P 500 based on earnings growth. Largest 25 companies are taken from each group to compute market cap concentration. The 25 stocks (from Nifty50 and Technology sector) are determined each month. Nifty fifty peak- June 1973, Tech bubble peak - March 2000, Tech today - Nov 2021. **Past performance is no guarantee of future results**. For illustrative purposes only; not meant to represent performance of any Amundi US portfolio. Indices are unmanaged and their returns assume reinvestment of dividends and, unlike mutual fund returns, do not reflect any fees or expenses. It is not possible to invest directly in an index. See page 7 for further information about indices shown.

"Importantly, we are at the precipice of the single-most important change in the financial markets in more than a decade: the end of quantitative easing."

Beware of the Secular Growth Argument

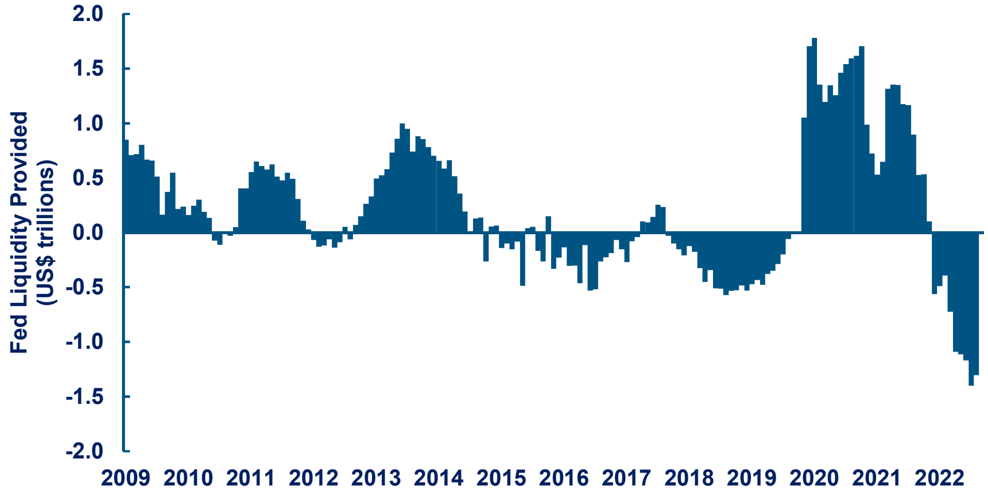
For most of the period following the aftermath of the GFC and throughout much of the pandemic, there was a widespread view that the secular growth stocks of mostly tech and internet industries were largely immune from macro-economic pressures. And with good reason: on an equally weighted basis, the FAANG companies (Meta Platforms, formerly known as Facebook; Amazon; Apple; Netflix; and Alphabet, formerly known as Google[1]) outperformed the S&P 500 72% of the time that the market was down between 2012 and 2021[2]. That trend has begun to unwind in 2022, which is consistent with our overall view that inflation will remain sticky and the pressure on long-term interest rates will continue to be higher, not lower, and that all equities should be viewed through the lens of their duration.

Aside from persistently higher inflation than the 2012-2021 period, part of the support for this view is an unwinding of the massive liquidity from central banks from the GFC until early this year. Importantly, we are at the precipice of the single-most important change in the financial markets in more than a decade: the end of quantitative easing. This alone will end the distortions that drove performance of growth stocks, secular winners, and the FAANG stocks, as their effective cost of capital was negative for much of the period.

[1] Securities listed are not meant to represent any current or future holding of an Amundi US portfolio, and should not be considered recommendations to buy or sell any security.

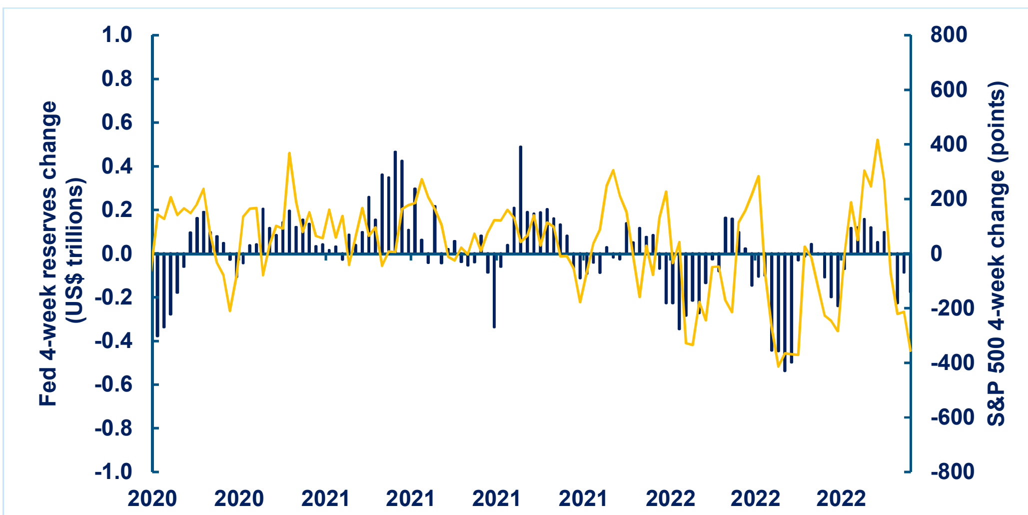
[2] Source: Bloomberg, Amundi, 2022.

Exhibit 4: Quantitative Tightening: Federal Reserve Liquidity Provided Since 2008 & the Recent Drawdown



Source: Citi Research as of November 2022. **Past performance is no guarantee of future results**. For illustrative purposes only; not meant to represent performance of any Amundi US portfolio. Indices are unmanaged and their returns assume reinvestment of dividends and, unlike mutual fund returns, do not reflect any fees or expenses. It is not possible to invest directly in an index. See page 7 for further information about indices shown.

Exhibit 5: Quantitative Tightening: Federal Reserve 4-Week Reserves and S&P 500 4-Week Change



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While some of constituents of the FAANG stocks have changed, leaving us (for now) with Microsoft, Apple, Google, Amazon, and Tesla[], it is important to note that although this group, and its secular growth brethren, are a unique set of companies that have near-monopoly-like power, great companies do not always make great stocks. In normal times, valuation matters,

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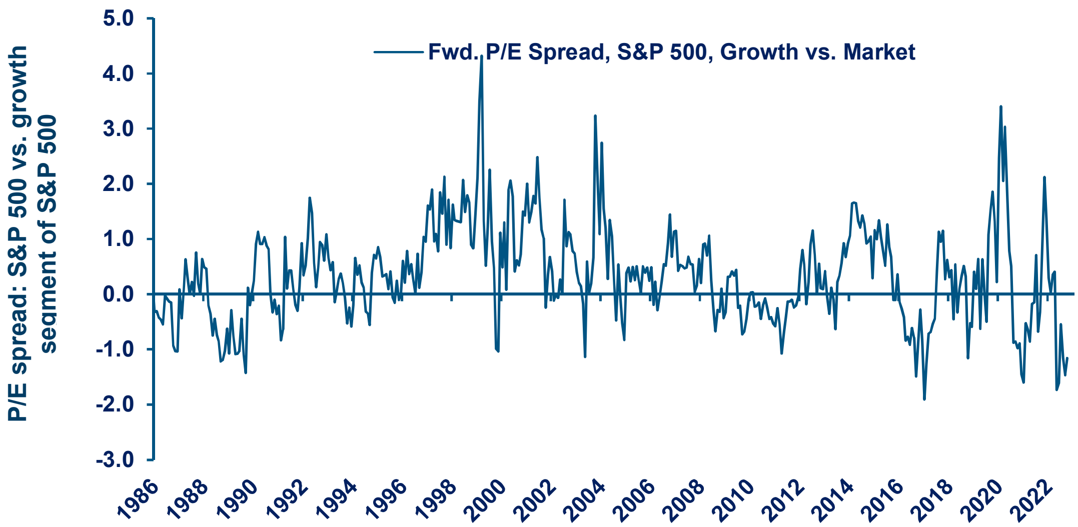
and we believe we are returning to financial conditions more consistent with the very long pre-GFC history.

Moreover, we believe that many of these stocks are more economically sensitive than investors appreciate. The most recent quarterly results demonstrate this point; this should add to the pressure on growth stocks relative to value. For example, digital advertising, which had been mostly immune to macro pressures in the past, demonstrated a meaningful slowdown during the COVID-19 period and in 2022. Similarly, we would expect $1000+ smartphones to have consumer macro pressure in the future.

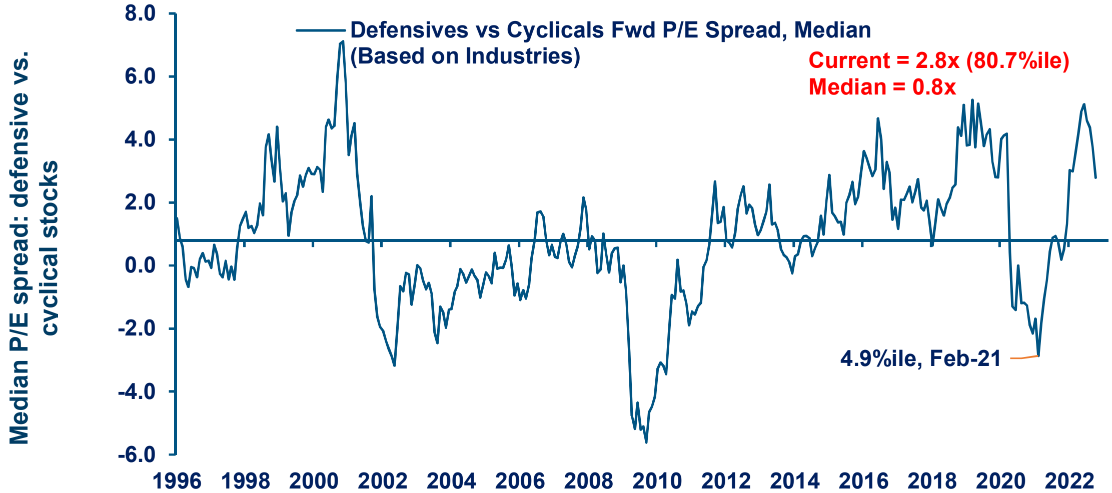
This group of companies is reminiscent of the Nifty-Fifty, the one-decision, large-cap U.S. stocks of the early 1970s. Looking back, we can see that a focus on earnings growth instead of the high relative price/equity ratios would not have been a wise investment strategy. The earnings-per-share (EPS) growth of the median Nifty-Fifty from 1972 to 1982 was more than 40% greater than that of the S&P 500, but because multiples contracted as interest rates increased, the group had less than half the return of the overall market in that time period. While we cannot predict exactly how it will play out this time, we are confident of the similar overall trend.

Exhibit 6: Severe Multiple De-rating in Long Duration Growth Stocks



Source: JPMorgan October 31 2022. Price/earnings spread between S&P 500 and JPMorgan designated growth segment of S&P 500. **Past performance is no guarantee of future results**. For illustrative purposes only; not meant to represent performance of any Amundi US portfolio. Indices are unmanaged and their returns assume reinvestment of dividends and, unlike mutual fund returns, do not reflect any fees or expenses. It is not possible to invest directly in an index. See page 7 for further information about indices shown.

Exhibit 7: Defensives Trading at High Premium vs. Cyclicals



Source: JPMorgan October 31 2022 using defensive and cyclical segments of the S&P 500. **Past performance is no guarantee of future results**. For illustrative purposes only; not meant to represent performance of any Amundi US portfolio. Indices are unmanaged and their returns assume reinvestment of dividends and, unlike mutual fund returns, do not reflect any fees or expenses. It is not possible to invest directly in an index. See page 7 for further information about indices shown.

Summary

As interest rates climb and inflation remains high, we believe US value securities continue to look attractive relative to overall US and global markets. Their strength comes from their levels of structural growth, quality, stability, defensiveness and relative valuation support. We believe that any upcoming US recession will be mild, and these value companies should continue to be poised for outperformance.

Index and Term Definitions

- **Agency mortgage-backed security (MBS):** Agency MBS are created by one of three agencies: Government National Mortgage Association (known as GNMA or Ginnie Mae), Federal National Mortgage (FNMA or Fannie Mae), and Federal Home Loan Mortgage Corp. (Freddie Mac). Securities issued by any of these three agencies are referred to as agency MBS.
- **Basis points:** One basis point is a unit of measure equal to one one-hundredth of one percentage point (0.01%).
- **Curve steepening:** A steepening yield curve may be a result of long-term interest rates rising more than short-term interest rates or short-term rates dropping more than long-term rates.
- **FX:** FX markets refer to the foreign exchange markets where participants are able to buy and sell currencies.
- **Monetary policy reaction function:** A function that gives the value of a monetary policy tool that a CB chooses, or is recommended to choose, in response to some indicator of economic conditions.
- **Quantitative tightening (QT)**: The opposite of QE, QT is a contractionary monetary policy aimed to decrease the liquidity in the economy. It simply means that a CB reduces the pace of reinvestment of proceeds from maturing government bonds. It also means that the CB may increase interest rates as a tool to curb money supply.
- **Price/Book Ratio:** Compares a firm's market capitalization to its book value.
- **Purchasing Managers' Index (PMI):** An index of the prevailing direction of economic trends in the manufacturing and service sectors.
- **Russell 1000 Growth Index:** A stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index.
- **Russell 1000 Value Index:** A stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index.
- **Chart of Defensives vs Cyclicals constructed by JPMorgan as of Sep 30, 2022 using the following industries:**
  - **Defensives**: Pharmaceuticals; Life Sciences Tools & Services; Food & Staples Retailing; Food, Beverage & Tobacco; Household & Personal Products; Telecommunication Services; Utilities
  - **Cyclicals**: Materials; Capital Goods; Commercial & Professional Services; Transportation; Automobiles & Components; Consumer Durables & Apparel; Consumer Services; Media; Retailing; Banks; Semiconductor Equipment

Important information

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