Research

#02
February
2022

CROSS ASSET
Investment Strategy

CIO VIEWS

Fast and furious market gyrations

THIS MONTH'S TOPIC

Keeping up with our Investment Outlook for 2022

Confidence must be earned

Amundi ASSET MANAGEMENT

#02 - February 2022

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CIO VIEWS

Fast and furious market gyrations

Pascal BLANQUÉ,
Group Chief Investment Officer

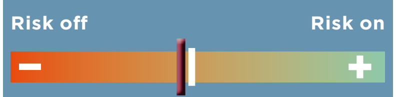
Vincent MORTIER,
Deputy Group Chief Investment Officer

January has seen strong gyrations in markets, with nominal and real yields rising sharply, driving a strong shift from growth to value in equities. The reassessment of the inflation premium in the wake of demanding valuations has driven a strong repricing of risk premia**. Going forward, we are likely to see continuation of this more uncertain and volatile environment as the market assesses four themes:** (1) evolution of the Omicron variant, which could impact growth negatively and further exacerbate supply bottlenecks; (2) uncertainty over CBs' reactions to high inflation numbers (US and Europe), in a context of growth slowing somewhat and the psychological dimension of inflation resurfacing, with the possible spiraling of wage/growth inflation; (3) geopolitical risk is back, with Kazakhstan and Ukraine in the news and role of Russia and China in the region. Energy and commodity markets are tight, volatile and extremely exposed to political risk. In Europe, the political agenda is getting crowded with Italian and French elections at a time when new fiscal rules unfold and the Next Generation EU plan is implemented; (4) ongoing troubles in the Chinese real estate sector. Policies are turning supportive but investors should forget the high GDP growth figures of the past. **Against this backdrop, we see three main themes for investors:**

- **A confirmation of a cautious risk allocation stance over the short term.** This is not a time to add risk, but to stick to the core convictions (defensive on duration, preference for value, protection against inflation). **It is too early to consider the recent repricing as an entry point.** With a strategic perspective, in a world of low expected returns, it is paramount that investors enhance their diversification, include appropriate allocations to, for example, Asian markets such as China and India and real assets which could benefit from an inflationary environment. Low correlated strategies targeting absolute returns or real returns should be favoured as well, as with rising rates and inflation, the traditional bond-equity correlation dynamics tend to fade. Liquid alternative strategies could also help diversify portfolios while cost-efficient solutions will become even more important in a world of low yields. Tactical allocation will also be vital in capturing opportunities. Moving towards H2, we should see a mild slowdown for inflation and improvement in growth momentum (more positive for equities).
- **Equity volatility is on the rise and will stay higher as markets reassess the inflation path and central banks' response. However, decent economic growth and reasonably accommodative financial conditions should be able to prevent a major market crash.** Single-digit equity returns in 2022 is our base case. Regionally, we prefer Europe/Japan and selective EM, such as India and China where valuations are more appealing. **The US market could end the year almost flat, but with great divides that will provide relative value opportunities.** Structurally high inflation is not yet priced in and the market is pricing the cost of capital remaining low for a long time. A modest repricing of inflation risk – and rates – could have a big impact on equities in terms of performance and composition (S&500 is broadly a growth market). **The great rotation inside the indices and among value/growth markets is going to be the main theme for equity investors this year. Therefore, investors should favour value over growth in the US market and even more so at the global level. Higher inflation and higher rates will take a bite out of equity earnings and will be barely sustainable for expensive growth names.** Value will be favoured vs technology growth. We are also more cautious on the large-sized overvalued names and prefer companies with high pricing power.
- **In bonds, flexibility and a short duration bias are recommended.** Traditional bond benchmarks face the challenges of high duration risk and low yields. If rates rise, these indices will experience losses. Investors should therefore favour flexible approaches in FI to exploit opportunities from the asynchrony among CBs and FX dynamics. Bonds are not dead, but relative value will be the name of the game. Opportunities across curves and geographies and in higher-yielding assets such as EM bonds will be crucial to extracting additional value in a negative real yield environment. Investors could benefit from dislocations by adding exposure to fixed income once some of the repricing in yields is behind us. In credit there are still opportunities, for example, in HY, but here investors should avoid over-indebted names that could suffer from lower liquidity.

After decades on the backburner, the great inflation comeback will mean investors need to shift their mindsets from nominal to real returns. **Playing ongoing market gyrations will be paramount for generating returns and real yields will be the key driver of these.**

Overall risk sentiment



Remain neutral, avoid the temptation to add fundamentally weak assets, at a time when financial conditions are easy but valuations demanding.

Changes vs. previous month

- Confirmation of the value rotation.
- Adjustment to equities allocation in cross-asset, neutral risk overall.
- More constructive on Chinese assets.
- Fine-tune FX amid geopolitical risk.

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

CROSS ASSET RESEARCH ANALYSIS

Growth, inflation and monetary policy

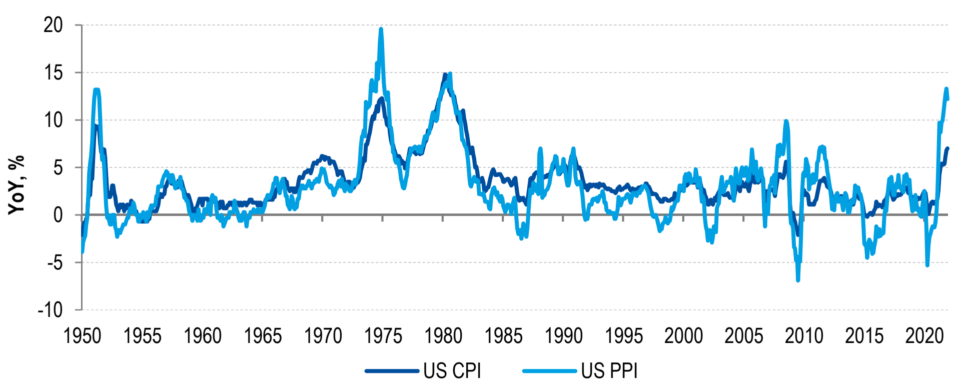
Monica DEFEND,
Global Head of Research

A hawkish Fed now amid slowing growth momentum and persisting inflation signals high volatility ahead for markets, underscoring our cautious view on duration and the need for high selection across risk assets

Since we published our *Outlook* in mid-November 2021, we have been witnessing significant evolutions in the main themes surrounding our convictions: **(1) growth/inflation mix and (2) monetary policy sequencing. Growth and inflation.** We noticed a broad-based deterioration in the growth/inflation mix. We confirm the slowdown in economic momentum and believe growth will decelerate progressively to trend in 2022. In China, the Omicron outbreak complicates the Q1 recovery path. Holding to a Covid zero tolerance policy, local governments stepped up social distancing rules ahead of the Chinese New Year, which will weigh on mobility and services consumption again. **Meanwhile, US labour markets showed widespread improvements in both levels and composition, surprising on the upside and encouraging the Fed to trend more hawkish.** Here, it is key to monitor wage growth and capex. We assume salaries will be plateauing, reducing their contribution to inflation and pressures on corporate margins. Specifically, our US projections see a milder consumption profile, cooling savings, and inventory rebuilding moving forward. As often mentioned, we expect a more lasting inflation trend globally. Price dynamics continue to move on factors outside central banks' control, diluting the efficacy of their interventions. Since December, the Fed, the BoE and the ECB have repositioned to control inflation. The ECB in particular surprised regarding its hawkishness, although it is still relatively dovish vs other CBs. We envisage that it will take some time for rate hikes to temper price dynamics while we are concerned about the effect of QT on financing conditions (accommodative at the moment) and the real economy. We expect supply chain bottlenecks to extend to H2 2022 while we are closely monitoring the gap between PPI and CPI for early signs of pipeline pressures globally. This is a risk worth considering, as it is not yet priced in by the markets. The forthcoming reporting season should shed some light on potential margin compression while possibly resulting in earnings disappointment. However, if the pass-through of inflation from producers to consumers has started, that will be another factor lifting CPI higher. **On the other hand, inflation dynamics in China are on a different path:** in general, figures have surprised to the downside due to the unusual decline in food prices before the Chinese New Year and a sharp fall in PPI. We expect China's CPI to remain contained in 2022 and PPI to drop sharply, driven by high base effects and slower increases in commodity prices. Global commodities still have room to move higher on demand/supply imbalances fuelled by the green transition. These dynamics are assuming a political angle: the transition to net zero might be delayed.

Monetary policy sequencing. We remain convinced that the Fed, BoE and ECB will have to act to control inflation: an aggressive Fed (and ECB) amid high inflation and decelerating growth is negative for risky asset, and exposes authorities to reputational risk and financial instability. While the US growth profile will flirt with trend levels, we are sceptical as to whether growth in the Euro area will be strong enough to justify the end of QE in 2023. In contrast, the PBoC has positioned itself for more accommodation to control FX fluctuations and support the economy. At this stage, further monetary easing is likely (not yet our base case) if growth continues to disappoint or if we see a new outbreak. All this translates into higher volatility for fixed income, affecting the short end of yield curves. We will look into the reporting season as a potential trigger for equity repricing that could weigh on credit spreads. We remain defensive duration and neutral equity, emphasising the tilt to value stocks. **To trigger a change in our positioning, we look for a stabilisation (or improvement) in the growth/inflation mix reverberating into real interest rate dynamics.**

US PPI-CPI disconnect



Source: Amundi, Bloomberg as on 20 January 2022

PPI - Producer Price Index, a measure of inflation at company level. CPI - Consumer Price Inflation, a measure of inflation faced by end-consumers.

MULTI-ASSET

Rotation in equity risk favouring China and Europe

Matteo GERMANO,
Head of Multi-Asset

Risks, such as inflation, are discouraging us from changing our neutral stance, even as we became positive on European equities at the margin and more constructive on Chinese assets

We start the year with inflationary pressures looking more persistent, along with a sharp upward movement in rates and geopolitical risk. On the other hand, the economic backdrop remains constructive, driven by a lower-than-expected impact of the Omicron variant. This, coupled with decent earnings expectations for next 12 months, continues to favour risky assets. However, volatility and valuations in some segments call for a neutral risk stance. **We believe investors should avoid the temptation to enter the markets without carefully evaluating fundamentals.** Instead, they should fine-tune exposure, balancing long-term and tactical opportunities with valuations. In addition, we recommend keeping hedges in place and exploring a broad array of global, diversified assets to extract real returns from multiple sources.

High conviction ideas

On equities, we are neutral on DM and EM. Importantly, recent movements in the more expensive segments that were weighed on by inflation concerns convince us of our selective approach. **Investors should consider rotating their exposure to benefit from the recent movement without increasing their overall risk.** This allows us to be marginally positive on Europe (overall, we stay neutral equities), given prospects of robust economic recovery and earnings growth, attractive relative valuations, and the region's tilt towards value stocks. Similarly in China, Hong Kong listed stocks appear attractive now, given that policy visibility has improved and current low valuations already price in future uncertainty. **In FI, with an overall cautious stance on duration,** we confirm our defensive view on 5Y German bunds. This view is consistent with the global environment of high inflation, more hawkish CB (Fed, BoE) communications, and a potential gradual reduction in QE by the ECB, which has been less dovish than expected but seems in no rush to hike policy rates. However, we are monitoring the political situation in Euro peripheral countries such as Italy. In Asia, we are more positive on Chinese government local debt owing to its diversification benefits, a favourable backdrop amid weakening growth, and targeted monetary easing. We are following the PBoC's more accommodative policy tone and the weak growth momentum there. In broader EM bonds, we maintain our neutral stance. **On the other hand, we are optimistic about EUR IG and HY amid a continued search for real yields.** Despite weakening slightly, economic momentum remains supportive. Secondly, technicals, reasonably strong demand from the ECB (albeit slightly reduced), and low defaults in HY support the case for European credit. Nonetheless, we cannot lose sight of asymmetric risks, the negative effects of higher real rates, and potentially tighter financial conditions (not a risk currently). Hence, we stay vigilant amid tightening spreads in IG. **FX remains a playground for us to implement our views through a geopolitical and relative value lens.** In DM, we are constructive on the FX carry trade basket of GBP/CHF, but are cautious on the GBP vs the EUR and USD. While we acknowledge that slowing global economic momentum and rising inflation is less supportive for a negative view on safe-haven FX such as the CHF, we believe the franc is among the most overvalued FX in the G10 universe. Furthermore, the GBP is likely to be supported by the less severe (than earlier expected) impact of the Omicron variant on the country's growth. Meanwhile, in EM, we continue to believe that China's ambitions of becoming a global superpower and its geopolitical importance in Asian trade would support Chinese assets, including the CNH. However, we now believe, the current international environment around Russia could weigh on the RUB despite the country's strong current account and the currency's attractive valuations.

Risks and hedging

Inflation and policy mistakes are some of the main risks that could have a huge impact on markets. In general, investors should use derivatives to safeguard DM equity and credit (US HY) exposure from downside risks and volatility.

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.

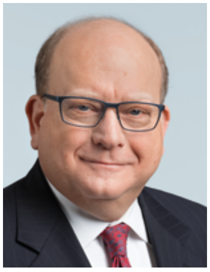
CGB = Chinese government bonds, EM = emerging markets, PBoC = People's Bank of China, FX = foreign exchange, IG = investment grade, HY = high yield, CBs = central banks, BTP = Italian government bonds, EMBI = EM Bonds Index.

FIXED INCOME

Easy financial conditions still supportive of credit

Amaury D'ORSAY,
Head of Fixed Income

Yerlan SYZDYKOV,
Global Head of Emerging Markets



Kenneth J. TAUBES,
CIO of US Investment Management

Entering 2022, even though we are seeing a more hawkish Fed, the broader policy stance is likely to stay benign

Recent yield movements are similar to those seen at the beginning of last year, but the pace of increase and monetary policy stances are much different. Now, the Fed seems concerned that inflation may get 'entrenched' if it doesn't act. For the moment, the ECB believes, and the market agrees, that inflation is not as big a problem as it is in the US and hence the regulator is on hold with respect to rate hikes. We however think there could be some room for surprises here, as inflation will be structural in Europe too, led by commodity prices, supply bottlenecks and resurging demand. **Thus, investors should be vigilant and cautious on duration with an eye on financial conditions.** Carry opportunities exist in credit, peripheral bonds and EM assets, but the focus should be on areas resilient to rising real rates.

Global and European fixed income

Current market moves fall within our ambit of a cautious duration stance in the US and core Europe. But, we are flexible and manage this from both long- and short-term perspectives to benefit from yield curve movements. We are positive on China and Euro peripheral debt such as Italy, but are monitoring political events. Breakevens present some opportunities, but valuations are getting tight here. With limited yield options in traditional areas, we look for income in credit HY and IG. **We focus more on selection and prefer short-term maturities and loans.** We also believe there is a need to be selective to identify winners and losers through a focus on a companies' pricing power and stay clear of companies with unsustainable business models and tendencies to add leverage. In addition, we like BBs as their spreads are likely to tighten vs BBBs. From a sector view, we like subordinated debt, banks & insurers, and energy names, but avoid consumer, transportation and utilities. Banks in particular should see consolidation in Europe and we are following any opportunity that may emerge.

US fixed income

The Fed may be under pressure to act on inflation (excess savings, wage pressures), despite slowing economic momentum. The recently indicated rate hikes point to this and have already caused upward yield movements. **But, we think the Fed is likely to stay behind the curve even as financial conditions remain accommodative**. We remain cautious on USTs with an active stance. Instead, we look for income in securitized credit, such as agency MBS, which present selective opportunities that offset the risk of spread-widening. We are also exploring consumer markets where demand, earnings and savings remain strong. However, the impact of the concluding fiscal support and persistent inflation must be monitored. Corporate credit is another area where we stay moderately positive, given that valuations are attractive. But investors should consider limiting beta and long-duration IG, and prefer idiosyncratic risks. As new issue premiums expand, we remain selective in identifying high-quality credit.

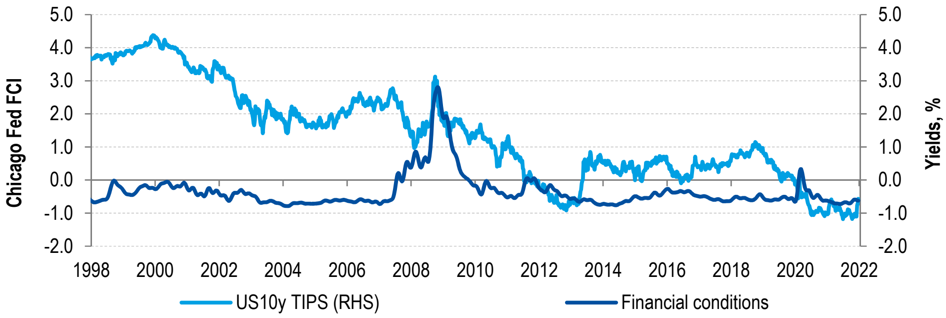
EM bonds

EM present a heterogeneous universe in which the failure to recognise the inherent fragmentation may wrongly hide the key benefits for a global portfolio: inflation (low inflation in China), internal demand and currency valuation themes (well remunerated for the risk of depreciation). While we stay watchful overall, we continue to favour HY over IG. On LC, we are more selective. Our preference remains for commodity-driven countries, and we like Indonesia but are cautious on Kazakhstan, Brazil and Turkey.

FX

We are constructive on the USD amid prospects of US policy tightening and cautious on low-yielding currencies (JPY and CHF). However, we are positive on high-beta EM currencies including the IDR and MXP and watchful on the RUB in light of geopolitical risks.

Financial conditions remain accommodative



Source: Amundi, Bloomberg, 21 January 2022. Financial conditions index = Positive value indicates financial conditions are tighter than on average, whereas value below zero indicates conditions are looser than on average.

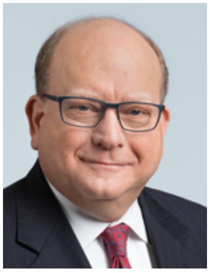
GFI = global fixed income, GEMs/EM FX = global emerging markets foreign exchange, HY = high yield, IG = investment grade, EUR = euro, UST = US Treasuries, RMBS = residential mortgage-backed securities, ABS = asset-backed securities, HC = hard currency, LC = local currency, MBS = mortgage backed securities

EQUITY

Play the value theme, beware of concentration risks

Kasper ELMGREEN,
Head of Equities

Yerlan SYZDYKOV,
Global Head of Emerging Markets



Kenneth J. TAUBES,
CIO of US Investment Management

Overall assessment

Sharp movements in core yields have caused a powerful rotation so far this year and we believe this will continue but not in a straight line. The question now is: to what extent will future rate hikes and inflation fears affect economic growth? On the demand side, we think there are enough excess savings, pent-up demand, and easy financial conditions to support economic recovery. However, as rates rise, it is fair to conclude that valuation multiples will contract, particularly for non-profitable companies and expensive growth stocks, which also present concentration risks. **Thus, investors should remain selective and watchful regarding earnings growth and valuations.** Overall, the strength of business models and balance sheets remains important for us.

European equities

With a normalisation tilt, we focus on how inflation is likely to affect profits because, for now, companies are comfortably passing rising costs on to consumers. But we are evaluating how this could impact volumes and it is an important criterion in our selection process. Businesses that can sustain earnings growth should be able to offer attractive dividends in times of scarcity of real returns. At a sector level, we believe earnings will rise in rate-sensitive sectors, eg, financials, value and others linked with economic reopening. In this respect, we remain positive industrials (more so) and banking owing to valuations and continued potential for strong returns on capital. On the other hand, we remain sceptical of IT and discretionary, although we reduced our cautious stance in the latter. At the other end of the barbell, we are constructive on attractive defensive names in sectors such as health care. Overall, we look for quality businesses with potential for improving ESG profiles.

US equities

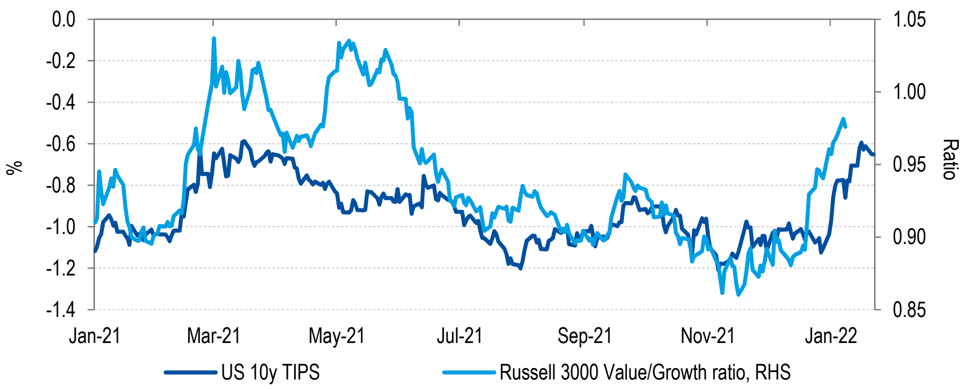
We are witnessing high valuations for some growth stocks and concentration risks in market indices. This is aggravated by labour shortages (due to the evolving Covid situation) amid rising wages that could feed into the wage-inflation loop. We believe investors should be aware of these risks and adopt a very selective approach. Thus, we explore high-quality, cyclical value stocks that display core competencies, sustainable pricing power, and potential for long-term earnings growth. Company-specific drivers remain more important than directionality, and we look for attractive relative value opportunities. On the other hand, growth stocks, which were boosted by low rates and QE-driven flows last year, could be weighed on. We are cautious on high-momentum growth stocks and long duration names. At a sector level, we prefer financials (mainly banks), materials and energy in the cyclicals space. We also note that some segments in defensive sectors, eg, health care, staples and telecoms, are becoming attractive from a valuation perspective. Overall, we remain active in markets where expensive segments exist in tandem with attractive long-term structural growth stories.

EM equities

While we note some headwinds for EM, we keep a medium-term constructive stance owing to attractive valuations. We also think fears about China – a key component of the EM universe – are overdone. Going forward, we believe, the cyclical (loosening of the stance) and the structural (a source of diversification and of positive real returns) factors are likely to play in favour of the country, even as some risks remain. In addition, we favour positive consumption and energy and commodities stories, such as India, Russia and Hungary. Here, we are monitoring geopolitical risk

We are witnessing a moment of truth for growth stocks. The rotation towards value, along with the selection of companies resilient to inflation risk, remains a multi-year theme for investors

Value rotation boosted by rising yields this year



Source: Amundi, Bloomberg, as on 20 January 2022.

THEMATIC GLOBAL VIEWS

The journey back to zero real rates

Real interest rates in the US and Europe have reached negative levels that are unprecedented in recent history. We have to go back to the 1970s to find similar levels, and only a handful of past examples since WWII can be used as reference points. We think the journey back to zero could be one of the key drivers of cross-asset relative returns and volatility. The move could hurt bonds' risk adjusted returns and credit IG; it should weigh on equities, favour Value over Growth stocks and cyclicals vs defensives; and it should be negative for gold.

Pierre BLANCHET,
Head of Investment Intelligence

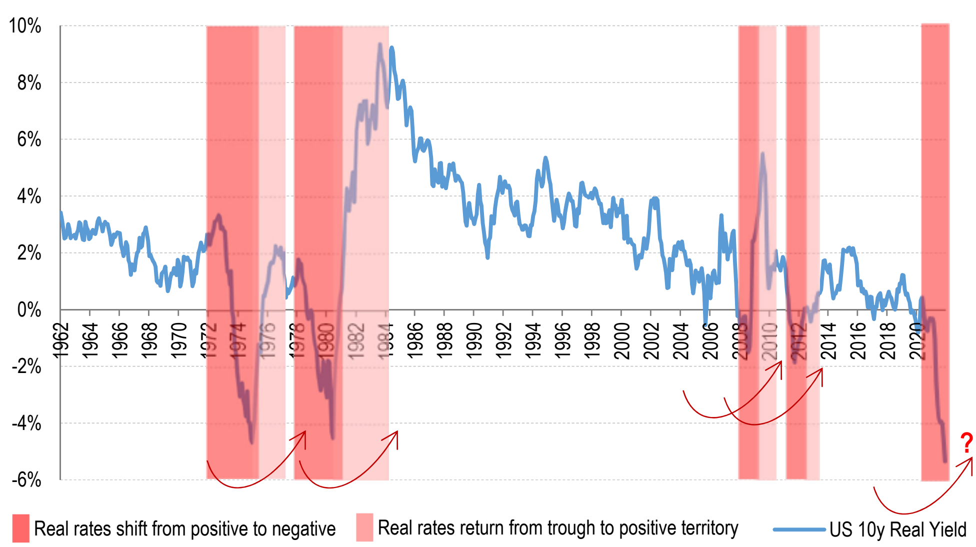
Didier BOROWSKI,
Head of Global Views

Jean Baptiste BERTHON,
Strategist

Inflation is raging across the globe and has reached record levels in the US and Europe. Low policy interest rates and central banks' asset purchase programs have kept nominal interest rates at low levels, while headline and core inflation keep rising. This brought real interest rates first below zero and now deeply into negative territory, to levels unseen since the 1970s.

According to Amundi's scenario, real bond yields should bottom out in the first quarter of 2022 in the US and Europe. The Federal Reserve could make more hikes than anticipated and implement quantitative tightening faster – or more aggressively – than expected. The European Central Bank could also be pressured to stop its negative interest rate policy and end its asset purchase program sooner. Assuming that inflation does not rise much further from today's levels, we could even see real yields move faster towards zero than expected by the market. Significant changes in real interest rates have macroeconomic consequences, particularly in the assessment of capital investment trends, savings real returns, and public debt sustainability, just to name a few.

US real interest rates basic measure since 1962: UST10y yield – CPI (monthly)



Source: Refinitiv, Amundi Research - Data as of 15 January 2022

Assessing the impact of real interest rate moves across the asset classes

The journey back to zero will have significant implications for cross-asset relative returns and style rotation. Although one variable cannot alone explain all assets returns and co-movement, studying asset class behaviour in a rising-real-yield environment should be helpful for implementing the right investment strategies in 2022.

- The first finding is that moving up real yields from their negative trough is not a progressive trending move, but more **an abrupt upward move towards zero.** Indeed, real yields are far more volatile when they are in negative territory than not. The sharp move back to zero happens because both parameters are moving in opposite directions at the same time, i.e., nominal rates are moving up while inflation is moving down. The speed is a function of the initial level of inflation and the break-evens' embedded pricing premium.
- The second important impact of rising real interest rates is that **bond volatility should rise** on both the front and the long end of the curve. TIPS are more volatile, too, during those phases. Higher bond yield volatility combined with tight monetary conditions; rising real yields could be headwinds for credit markets in the US and elsewhere.
- Third, **the impact on equities is more complex and unclear than usually described.** Indeed, the correlation between equity index returns

THEMATIC GLOBAL VIEWS

and changes in real bond yields is not stable and is close to zero over the long term. The outcome is a function of the underlying positive or negative growth trend. Changes in real yields are a **key driver of sector and style rotation.** In a nutshell, the journey back to zero should lead to an outperformance of value stocks versus growth stocks, and an outperformance of financials and some cyclical sectors. Because of sectors' relative weights, Europe should benefit in relative terms.

- Finally, rising real interest rates **should supportive for the USD** and in particular versus the EUR, as long as the ECB keeps its existing policy. Changes in **gold** prices are highly correlated with the level of real interest rates[1]. The price of gold in dollar terms has historically risen when real interest rates are entering negative territory and tend to fall when real interest rates are returning back to zero.

Timing the way back to zero

Real interest rates being the difference between nominal and inflation (realised or expected), they can increase because of higher nominal rates or lower inflation (and expectations) or a combination of both. Looking at previous periods when real interest rates turned (significantly) negative, and using our macroeconomic scenario and interest rates assumptions for the US, we believe the movement will mainly come from lower inflation and last between 12 to 18 months.

Where can real interest rates go?

The long-term drivers of real interest rates are monetary policy, the savings/investment balance, the relative demand for safe assets, and output relative to potential. According to IMF studies[2] , monetary policy was the main driver of real rates in the 1980s and 1990s, by the sharp rise of savings in EM while global investments declined in the 2000s, and the demand for safe assets since the Global Financial Crisis due to the volatility of equities. The factors maintaining real interest at low levels are still at play post-Covid, particularly the relative riskiness of equities vs bonds, and excess savings. Therefore, we should expect real interest rates to revert back to the range of the last decade, but they are unlikely to move further up at least over the medium term.

Diverging real interest rates as a source of diversification

Over the previous decade, real interest rates have increasingly moved together to the extent that market participants and economist have been forecasting a "global interest rate". Post-Covid, the asynchrony of business cycles, and monetary and fiscal policies between regions is such that we are more likely to see a **variety of real interest rates,** impacting asset prices and valuations in a different way. The most obvious case today is the comparison between Europe and the US. Therefore, we should expect a temporary divergence of real interest rates on both sides of the pond. The People's Bank of China, on the other hand, is done with tightening policies and is starting to reduce nominal interest rate and real rates, too. Therefore, real interest rates could become a source of portfolio diversification.

"In or out" of negative territory are important steps or critical zones for markets, but so is the bottoming-out process. The impact on markets comes more from the rate of change rather than the actual level, although starting from a very low negative real interest rate should make the adjustment more brutal and push market volatility even further.

Finalised on 28 January 2022

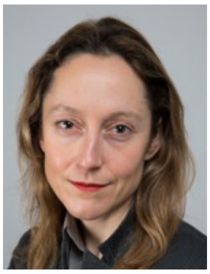
Defining real interest rates

There are many ways to define real interest rates, using actual inflation (headline or core) or inflation expectations from market participants (forward inflation or TIPS), or short or long-term maturity bonds. To highlight some of the key market moves, we use the simple measure of the US 10-year Treasury yield compared with actual CPI on a monthly basis. In a more detailed study to be published we show a more sophisticated measure, adjusting for the liquidity premium to assess the "pure" real rate. We have noticed that under the extreme circumstances that we are going through now, both measures provide a similar outcome.

[1] *12 month rolling correlation of gold price in USD and UST10y – CPI over 30 years is close to 0.6*
[2] *Perspective on global real interest rates, IMF, April 2014*

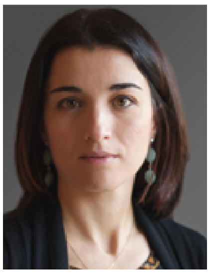
THIS MONTH'S TOPIC

Keeping up with our Investment Outlook for 2022



Valentine AINOUZ,
Deputy Head of Developed Markets Research

Alessia BERARDI,
Head of Emerging Macro and Strategy Research



Annalisa USARDI,
Cross Asset Research Senior Macro Strategist

2022 will be the "year of reckoning" for DM economies when they will test the effectiveness of the policies deployed since the peak of the pandemic phase and face the challenge of retuning to normality: fiscal and monetary policies will tighten up at a time when the growth/inflation mix is becoming more challenging and there is much less room for manoeuvre in terms of policy. Fundamentals will be key to disentangling divergent trends, in a year that started on a much weaker footing than many expected.

For Emerging markets overall, the growth outlook into 2022, which had already moderated in comparison with 2021, has been further revised down. The Fed's next actions will play an increasingly important role. In an orderly Fed outcome, the first rate hikers should revert to a dovish stance before the end of the year.

The Fed has no choice but to act quickly: the labour market is historically tight and inflation is well above target. The Fed's priority is inflation. The high level of inflation is also challenging ECB stance.

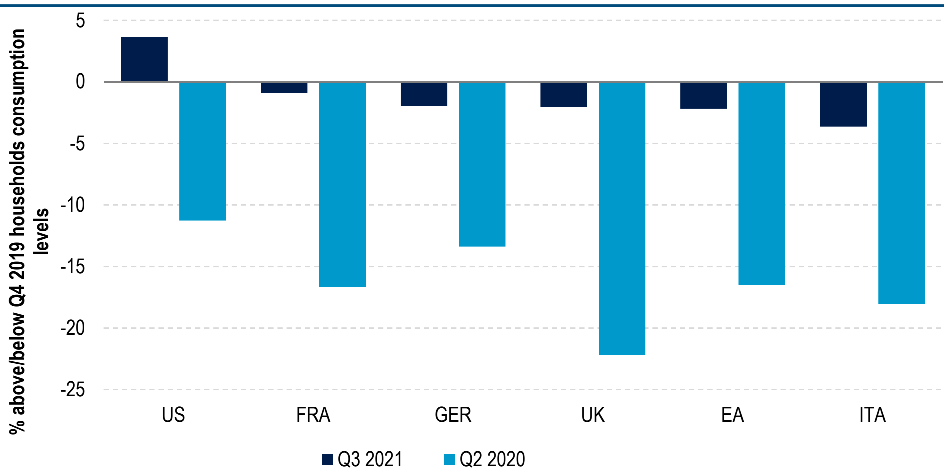
Developed markets

In the United States, since we published our outlook, **the growth/inflation mix has deteriorated,** providing a much weaker start to the year for growth and more near-term upside risks for inflation. **Revisions to projected US growth (trimmed) and inflation (upgraded)** ensued. Growth is still expected to remain above trend and move towards potential over our forecast horizon, while inflation remains above the Fed's target for most of this year and next, **but momentum has changed.**

On the growth front, momentum has decelerated more than expected. While we did not have hopes for a smooth passage of the full Build Back Better plan in the first place, the mini fiscal cliff expected in January combined with the weakness related to the (unexpected) Omicron wave amplifies the headwinds on demand at the beginning of the year, after December's already very weak retail sales data. The labour market has shown signs of strength and tightness, translating into healthy fundamentals for consumers, who are nonetheless facing higher prices and greater uncertainty on the inflation outlook. On the supply side, while acknowledging early signs of easing, we still see bottlenecks capping production. Growth is starting on a much weaker footing.

On the inflation front, momentum is consolidating, with inflationary pressures persisting longer and across a broader base, from food to energy to core. Core-goods inflation is not yet abating while services inflation still has not incorporated the rental price surge seen in past months. Key to this view some key aspects hoe evolution is important to monitor and confirm: 1. domestic demand that, despite its slowdown, remains on solid ground; 2. projected productivity growth that is unable to offset increased labour costs; 3. pass-through to final demand and pricing power that still has room to operate.

1/ **Households consumption recovery has been uneven across developed markets**



Source: Amundi Global Research, Datastream, as of 25 January 2022

THIS MONTH'S TOPIC

Since the publication of our outlook, in the US and in the EA the growth/ inflation mix deteriorated somewhat

Eurozone

Similarly to the US, **in the Eurozone we have also trimmed growth and upgraded inflation projections, but on different grounds.**

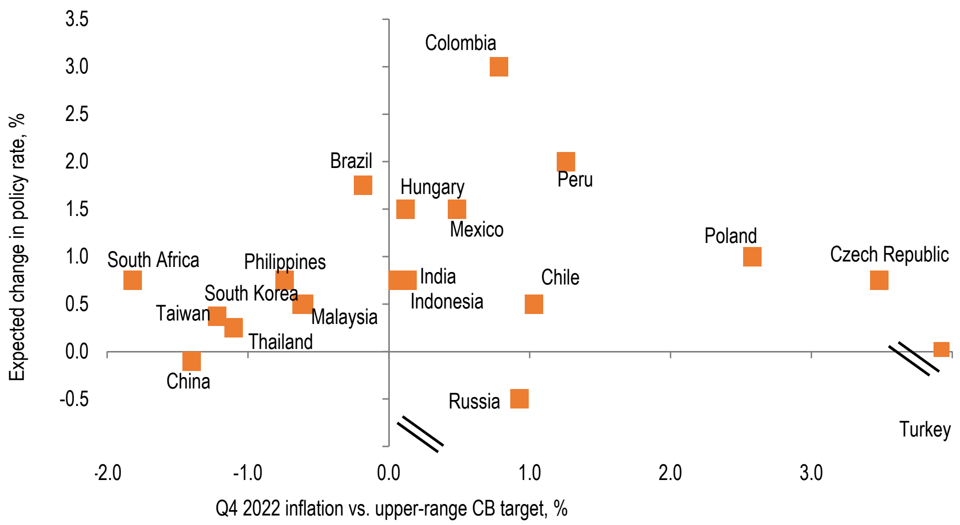
On the growth front, momentum has slowed due to a combination of headwinds, in particular high energy prices, supply chain bottlenecks and the restrictions to contain the Omicron variant, which **translated into much weaker activity between the end of 2021 and the beginning of 2022,** deferring the recovery in sectors already lagging behind and delaying personal consumption recovery, which is still below pre-pandemic levels. **Growth fundamentals within the Eurozone are diverse and have different vulnerabilities against a backdrop of less supportive fiscal and monetary policies,** where any mishap in the recovery translates into more vulnerability. For instance, **so far the recovery in domestic demand has been very uneven across the G4, with highly divergent recovery paths** in terms of household consumption expenditure (the EZ is 2.2% below its pre-crisis level on average as of Q3 2021, with Spain being the laggard and France almost back to pre-crisis levels) and gross fixed capital formation (the EZ is still 9% below its pre-crisis level, with Italy significantly above pre-crisis and Spain on the other extreme). Aslo we don't' have to forget the different pre-crisis starting points in terms of economic performance (for instance, in Q4 2019, Italy had not yet managed to return to its 2007 real GDP level, unlike its peers) or national public and private indebtedness. Indeed, the NGEU will represent a significant direct and indirect support for growth, especially for the periphery, yet is subject to implementation risk. So, while we expect to see the recovery continue on the back of an improving labour market and decent demand, we are aware of the delicate juncture.

On the inflation front, we have revised our projections up for the Eurozone on the back of recent upside surprises and extended bottlenecks, while we continue to expect it to decline within the ECB's target range by the end of this year. Unlike the US, EZ domestic consumption did not overheat on fiscal stimulus and labour markets do not appear to be as tight as in the US, where the reduced participation rate is likely to persist for some time. Meanwhile, the Eurozone has already recovered its pre-pandemic levels, with different implications on wage growth outlook and second-round effects.

Emerging markets

In late 2021, across the emerging markets, the physiological deceleration expected after the sharp economic rebound post reopening was exacerbated by further Covid outbreaks driven by new variants such as Omicron, particularly impacting countries with low or less effective vaccination rates. Growth momentum has remained weak and has only recently stabilised. Overall, the growth outlook into 2022, which has already moderated in comparison with 2021, has been further revised down, in a few cases reaching quite disappointing levels, such as in Brazil with GDP at 0% year-on-year. It's worth adding that the largest Latin American economy, in addition to experiencing one of the biggest and fastest monetary policy hiking cycles since early 2021, remains one of the most exposed EM countries to the Chinese economic slowdown. In this regard, while two important drivers of China's economic weakness – policy tightening and the decarbonisation effort – have eased, the continuous low tolerance towards the virus and the related restrictive measures have

2/ **EM inflation and monetary policy trends in 2022**



Souce: Amundi Research - Data as of 25 January 2022

THIS MONTH'S TOPIC

The significant change in the Federal Reserve's stance on inflation, moving from tolerance to concern, is bringing a new catalyst into the EM central banks' narrative

Inflation will continue to play a leading role in the monetary policy normalisation movie

been dragging down economic performance and are responsible for the growth forecast downgrade in 2022 from 4.7% YoY to 4.5% YoY. The greater than expected weakness to be registered in Q1 2022 hasn't changed the sequential positive path moving forward. Indeed, on the monetary policy side, we do expect a further 10bp in cuts with growth continuing to disappoint on the downside and the Omicron variant spreading further. Meanwhile, for fiscal spending, the policy tone has been clear: issuance of local government bonds will speed up in early 2022 to support infrastructure and manufacturing investments.

The significant change in the Federal Reserve's stance on inflation, moving from tolerance to concern, is bringing a new catalyst into the EM central banks' narrative. Throughout 2021, the normalisation process at most EM central banks had two distinct features: first, the domestic nature of the driver, namely inflation vs. their target mandate; second, its gradual pace when assessed through real rates levels, which remain pro-growth regardless the size of the hikes. Looking at 2022 monetary policy trends in EM, while inflation will remain a key driver, it is fair to say that the timeline and size of the Fed's next actions (whether in terms of policy rate hikes or balance sheet reduction) will play an increasingly important role. Starting with the domestic driver, the EM inflation trends, we reiterate that the expected path has not changed. Overall, inflation will remain high in the first half of this year and will moderate substantially moving into the second half, though remaining in many cases above the central banks' targets. On one hand, the cost pressure is expected to ease through more moderate growth in commodity prices (in comparison with 2021) and declining food prices; on the other hand, downward revisions to growth rates are further reducing the possible pressures from demand. However, the assumption we are making on the adjustment of supply bottlenecks must be watched closely. Events such as the spread of the Omicron variant and further virus outbreaks could extend the supply disruption environment beyond the second half of 2022, not to mention more structural trends at play (such as in-shoring). When looking at freight rates, their benign decline which started in October 2021 has already shifted towards stabilisation or even a slight increase in December/January. This is all to say that inflation will continue to play a leading role in the monetary policy normalisation movie, although going forward it will have the Federal Reserve as co-protagonist. More reluctant to hike central banks, that have so far enjoyed a more benign inflation environment, will find themselves in a need to keep a stable rate spread with the US curve and/or prevent any disruptive impact on their local currency. Concerns about the Fed's next moves have entered the most recent monetary policy statements by central banks such as the Bank of Indonesia. These concerns have not yet translated into any sudden and unexpected rate hike; however, liquidity withdrawal measures are starting through the announced increase in statutory reserves at the different banks.

On one hand, an earlier than expected hike by the Fed in March will move the laggards' rate hike cycles ahead (Asia, primarily South Asia). On the other hand, a more or less orderly outcome by the Fed will dictate the pace for the new hikers, and will fine-tune the final rate for the EM central banks that are already fully engaged in their normalisation process. In this respect, the peak of the EM central banks' hiking could end up being higher and brought forward versus previous expectations. With that said, in an orderly Fed outcome, the first hikers should revert to a dovish stance before the end of the year (e.g. Brazil, Russia, Chile and Czech Republic). Meanwhile, it's worth mentioning that the PBoC moved in this direction of a relatively dovish stance earlier than the other EM CBs. Early this year, responding to heightened downward pressures on growth, the PBoC explicitly signalled additional front-loaded easing. Walking the talk, it cut the OMO (7d repo) and 1yr Medium-term Lending Facility rates by 10bp, for the first time since March 2020. The 1yr Loan Prime Rate (LPR) was lowered again by 10bp following the 5bp reduction in December, while the 5yr LPR – the rate linked to mortgages – was down by 5bp. This easier stance should continue (LPR and RRR cuts) given that the weakness in domestic economy is likely to persist, in particular in the housing sector.

With few exceptions, such as Turkey, the EMs' external vulnerability has diminished but has not disappeared. Current account trends are safer for many but not all; foreign debt ownership has decreased.

All in all, the appetite for the EM asset classes remains tepid in light of the uncertainty surrounding growth (China and pandemic-related) and the Fed's shift in stance. Equity selection should follow the trend in earnings (recovery based or less moderating than the expectations) while fixed Income investors, in a stable global environment, should be ready to enter local debt at a mature hiking cycle and declining inflation trend and favouring shorter duration exposure through HY vs. IG.

Rate outlook

1. The Fed is accelerating the normalisation of its monetary policy on the back of inflationary pressures and a historical tight US labour market

The Fed has no choice but to act quickly: the labour market is historically tight and inflation is well above target. The Fed's priority is inflation. The Fed is clearly

THIS MONTH'S TOPIC

The Fed is committed to fighting inflation, which has been described as "high" and is focused on inflation risks

concerned about more persistent inflation while it has no concerns about growth. The Fed will raise rates quickly until the Fed is comfortable with the outlook for inflation. The door is wide open for a quick tightening if needed. We expect four hikes this year, possibly at two back-to-back meetings (March and May) and a reduction in the Fed's balance sheet starting in June or July. The Fed is committed to fighting inflation, which has been described as "high" and is focused on inflation risks. "Problems have been larger and longer-lasting than anticipated". "Price increases have now spread to a broader range of goods and services". "Wages have also risen briskly, and we are attentive to the risks that persistent real wage growth in excess of productivity could put upward pressure on inflation". The median core inflation forecast was sharply revised to the upside to 2.7% (+0.4bp) in 2022, due to higher realised inflation and continued supply chain disruption.

- **The Fed strongly emphasised the solid macro backdrop and the tight labour market.** Jerome Powell was optimistic about economic growth in the US: "Economic activity is set to develop at a sustained pace this year, reflecting progress in vaccinations and the reopening of the economy" and "Global demand remains very strong". 2022 GDP growth was revised up to 4.0% from 3.8%. Powell cited the falling unemployment rate as evidence that the job market is rapidly approaching maximum employment. The projected unemployment rate improved to 3.5% in 2022 from 3.8% previously. "Most FOMC participants agree that labour market conditions are consistent with maximum employment in the sense of the highest level of employment that is consistent with price stability."
- **The Fed is accelerating the normalisation of its monetary policy.** The Fed announced the acceleration of tapering in light of elevated inflation pressures and a historical tight labour market. The pace of tapering will be doubled to $30bn per month in January. As a result, the Fed will end net asset purchases at the end of March, which should allow for a first rate hike in March. He indicated that communication with the market was working well, implying that the pricing of the fed funds was fairly in line with their views. However, Powell highlighted that the FOMC will be "humble and nimble". "It is not possible to predict with much confidence exactly what path for our policy rate is going to prove appropriate". It should be noted that the economy is in a very different situation than it was when the Fed started raising rates in 2015.
- **The Fed intends to reduce holdings significantly as well as sooner and faster than over last cycle.** The QT will be discussed at the next two meetings and the pace, composition and timing will be communicated subsequently. It could start as soon as June or July.
- **The Fed sold and the market bought the story that a short, rapid rate hike cycle will be enough to stem these inflationary pressures.** The Fed continues to believe that the upward trend in prices will weaken next year, as global supply chains are restored. It is unanimous in thinking that in 2023 it will be barely above 2%. Median core inflation is projected to be back to 2.3% in 2023 (range: 2%-2.5%). At the same time, the rate hiking cycle is expected to remain gradual and limited. The median forecast for rates in 2024 increased only from 1.8% to just over 2.1%. The longer run dots have stayed the same. In the coming quarters, monetary policy will be highly accommodative, with negative real Fed Funds rates. The Fed is signalling a policy move close to neutral only by 2024.

Our views

- **This cycle is very different from the previous ones.** The Fed is tightening the monetary policy while the labour market is already tight. The US demand is currently supported by temporary factors (savings, inventory rebuilding). The strength of US demand in the second half of 2022 will be decisive. We also have to monitor cost-push inflation and the boom in the real estate market.
- **Regarding the Fed: we expect four hikes in 2022 and a reduction of its balance sheet.**
- **In the short term, we expect strong data on the US labour market and US inflation to remain high.** The recovery in the US labour market is so far impressive and broad based. Consequently:
  - **We are short duration.** 5Y yields are usually the most responsive when the employment gap closes.
  - **We expect a massive upside for short-term real rates.**

2. The ECB wants to massively reduce its purchases while maintaining a backstop strategy

The outcome of December's meeting was more hawkish than expected, but ECB policy will remain much more dovish than the Fed and BoE, with QE to persist and no rate normalisation in sight next year. The ECB is strongly focused today on high inflation data.

- **The ECB will end its emergency measures linked to the pandemic (PEPP and TLTRO III),** while leaving itself some room for manoeuvre if the situation were to deteriorate again in the Eurozone.
- **The ECB wants to massively reduce its purchases while maintaining a backstop strategy.** A "large majority" on the Governing Council finally agreed upon

THIS MONTH'S TOPIC

ECB policy will remain much more dovish than the Fed and BoE, with QE to persist and no rate normalisation in sight next year

2022 for the quantitative easing outlook, combining more than EUR 500bn in additional net purchases. These decisions represent a very significant reduction in net asset purchases: they will be progressively reduced from EUR 90bn per month in 2021 to EUR 20bn in October 2022. At the same time, the ECB adopted a backstop strategy while maintaining the open nature of the asset purchase programme and introducing potential flexibility on reinvestment of the PEPP by asset class and by jurisdiction. This is to avoid financial fragmentation as long as economic fragmentation prevails in the Eurozone. The credibility of the ECB will be crucial in this approach.

- **The ECB's inflation projection is below target in the medium term.** As we were expecting, the revision to the set of forecasts kept showing mid-term inflation below target, despite having been raised to 1.8% in both 2023 and 2024. Therefore, the unchanged forward guidance still looks consistent with an accommodative stance through QE in 2022 and a stable rate outlook.

Our views on EUR rates and spreads

The strength and sustainability of the Eurozone recovery will be essential for the ECB to reduce its monetary support. We need to monitor the impact of stimulus packages and structural reforms on potential growth in peripheral countries. Anyway, we should be vigilant in the face of the growing divergence of views and interests within the ECB's Executive Board. This could bring some volatility late in 2022. In the short term:

- **ECB announcements reinforce our short duration and curve steepening views going into Q1 2022.** Despite the taper and improved macro picture, however, we still expect the ECB's QE to absorb most of net issuance to contain the upward yield move vs. other developed areas. The potential tilt of reinvestments into non-core bonds may be an additional factor supporting the expected curve move.
- **We are more cautious on peripheral debt.**

The APP will continue to support the euro credit market, but to a lesser extent than in previous years.

Finalised on 27 January 2022

THEMATIC

European strategic sovereignty must be an investment opportunity

Pierre BLANCHET,
Head of Investment Intelligence

The concept of strategic sovereignty goes far beyond the issues of security and defence. It also assumes relative self-sufficiency, and the ability to impose one' standards and to create global leaders in tomorrow's ecosystems. This political objective must be founded on economic reality and will first require new investment momentum in Europe.

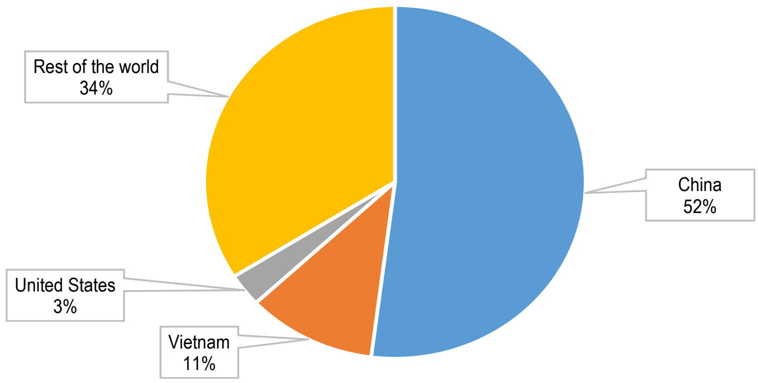
The issue of European strategic sovereignty has been thrust back into the centre of public debate by the public health crisis. And as France assumes the rotating presidency of the European Union, President Emmanuel Macron has once again made it a political issue. And yet, it is a hard concept to grasp, as it takes in several realities and goes well beyond the issues of security and defence. Strategic sovereignty is understood to be the possibility of broadening the range of what is possible while remaining consistent with one's own objectives; and the European Union is still far from achieving that.

Reducing strong external dependencies

The sudden halt in imports during the lockdowns reminded us that sovereignty is, first and foremost, a matter of securing the supply of essential goods. There are almost 140 products for which Europe depends almost entirely on non-European suppliers. This list includes raw materials and fossil fuels, as well as electronic components and medicines. Oil dependence will be reduced by the energy transition, but the transition will entail just as much dependence on metals, rare earths and photovoltaic cells[1] .China currently accounts for more than half of imports, by value, of products for which the EU's external dependence is very high. But the EU is also closely dependent on India for pharmaceutical components, and it is almost completely dependent on Taiwan for advanced semiconductors.

Strategic sovereignty requires first a lower dependency on critical good

1/ **Origin of imports of 137 products for which the EU is dependent (in value)**



Source: European Commission, Amundi Research, June 2021

Geological constraints are hard to get around, but production of industrial goods in Europe, combined with greater diversification of suppliers, would help make the continent more autonomous. That being said, it will require billions of euros in investment over about a decade[2]. And European companies' return on invested capital has fallen constantly since the financial crisis and has diverged dangerously from that of their US peers[3]. Such investments will require creating the right regulatory environment[4], steering savings and institutional investment towards the long term, and ensuring that returns on investments are consistently higher than the cost of capital.

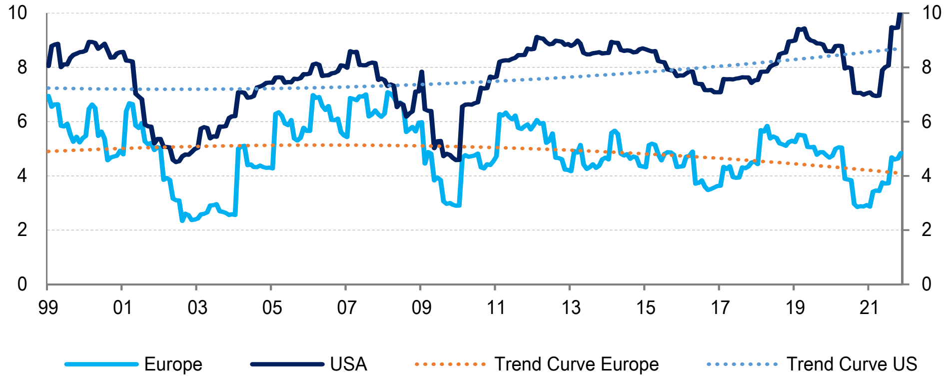
Being able to set the rules of the game

The second aspect of strategic sovereignty is autonomy of standards. If, during peacetime, war is commercial in nature, then standards and regulations are its weapons of choice. Setting and imposing these standards is a hallmark of sovereignty. Incidentally, we have seen that most of the conflicts between China and the United States are engaged over standards, with the US accusing China of not applying the rules that it have established very broadly over the past 30 years, while China asserts its legitimate right to impose its own standards. The European Union, whose ability to churn out standards is at times controversial, is at least able to impose its own standards, as it showed with the GDPR[5]. The green taxonomy that the EU is now finalising is a major strategic importance in the context of the energy transition. Europe will ensure its autonomy if it manages to impose its own rules, which will direct the 200 to 300 billion euros in investment needed each year to ensure this transition on the continent.

THEMATIC

Europe's return on capital is falling

2/ Return on invested capital in the US and Europe (average aggregate since 1999)



Source: MSCI, Amundi Research, January 2022

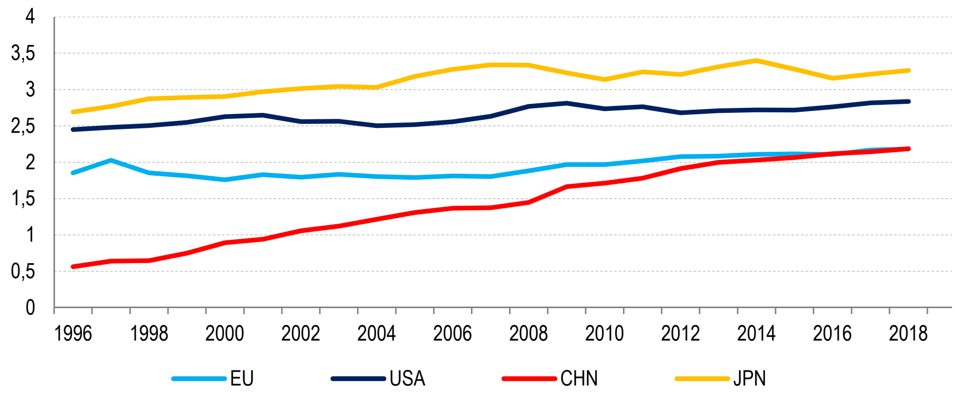
Giving birth (or rebirth) to global leaders

A third avenue of strategic sovereignty is creating or strengthening European leaders in segments that will ensure sovereignty of tomorrow. This doesn't just involve sectors but entire value chains and ecosystems that will lead to the development of new products and services. Some examples of this are artificial intelligence, cybersecurity, e-commerce platforms, the cloud, the Internet of things, green mobility, hydrogen, space and advanced medical equipment. These segments offer returns on invested capital that are higher than the European average of the past 10 years, but developing them will require greater financial integration in Europe[6].

To become a political reality, European strategic sovereignty must be an investment opportunity. This will, in turn, require that returns on investment are attractive and at least equal to those on offer in the world's other major regions. Public funds will point the way but won't be enough to meet all equity capital needs. Private investment and long-term savings will also be needed, in the form of thematic listed or private equity or debt funds that align the goals of governments, companies, and investors.

Finalised on 14 January 2022

3/ R&D expenditure (% of GDP)



Source: World Bank, Amundi Research, data from 1996 to 2019 i.e. before the covid crisis

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[1] *"The EU's success in transforming and modernising its economy depends on a sustainable supply of primary and secondary raw materials needed for developing clean and digital technologies in all the EU's industrial ecosystems." Statement by the Parliamentary Committee and the European Council, September 2020.*

[2] *€350bn based on our estimates in the case of the semiconductor sector to reach 20% global market share. See also Intel's 10-year €80bn in investment plans in Europe.*

[3] *Source: MSCI & IBES*

[4] *For example, the European Chips Act currently being prepared by the European Commission*

[5] *General Data Protection Regulation*

[6] *Capital Markets Union and Banking Union*

THEMATIC

Inflation in Turkey could very well reach 50% and more in the coming months

Karine HERVÉ,
Senior EM Macro Strategist

Because of unorthodox economic policies, Turkey will face a tough year ahead, with inflation peaking at a 20-year high... but we do see some lights at the end of the tunnel!

Unorthodox government economic policies to ensure political continuity

President Erdogan and his party (AKP) are facing their lowest popularity ever, and elections are not far away, in June 2023. At this point, the government is betting on a policy-mix based on low interest rates, a weaker currency and a fiscal package to support economic growth and extend its political life. This is a highly risky bet in an environment where inflation is surging.

What is the economic "theory" behind the unorthodox policy-mix of the government? First, the government considered that high interest rates are a brake on productive investments and therefore on domestic demand and employment. Second, it expects that a weaker currency will boost exports, decrease imports, improve the current account balance, support growth and, by the way, stabilise the lira at some point, and then re-anchor inflation expectations. Third, the authorities assume that Turkey will: i) continue to attract foreign direct investment, as it is a huge market that offers many opportunities with a young population and low labour costs; and ii) avoid a balance of payments crisis, as Turkey is able in the current context to finance its external obligations for at least one year. Fourth, they think that administrated prices may help to contain inflationary pressures. Fifth, using the country's fiscal room (with public debt now below 40% of GDP) and implementing fiscal stimulus should offset inflation's negative impacts on households' purchasing power and companies' production costs.

The CBRT has launched an easing cycle that fed the storm

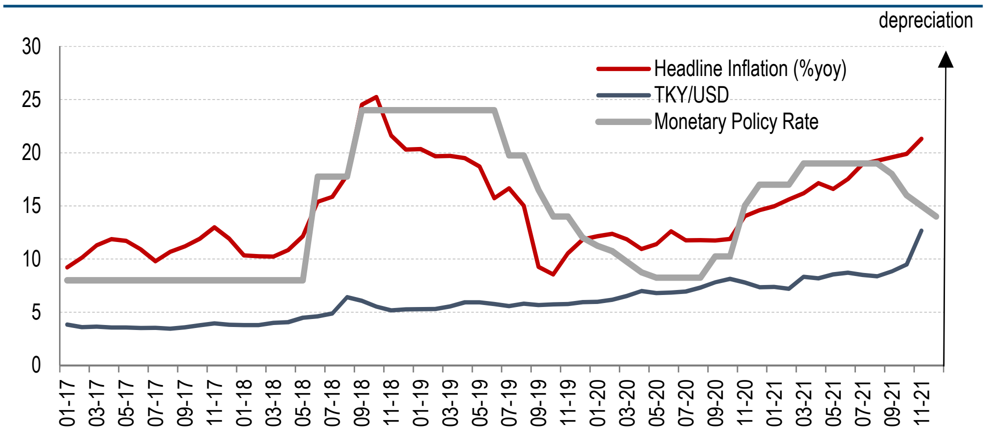
As a staunch defender of low interest rates, President Erdogan has called several times for rate cuts; Calls that have been likely heard by the Central Bank of the Republic of Turkey (CBRT) as the latest launched a monetary easing cycle in September 2021 while Turkish inflation was already approaching 20% year-on-year. The policy rate has been cut by a total of 500bp to 14% end of December (see chart 1). This unusual shift in monetary policy and the successive changes at the leadership of the central bank raised doubts among market participants on the CBRT's independence and on the medium-term sustainability of such a policy. This has generated steep volatility and a sharp depreciation in the lira despite the CBRT's various interventions.

Unorthodox monetary policy is one of the main causes of high Turkish inflation

#1: Measures to limit high inflation's negative impact on the real economy and support domestic demand:

- Net minimum wages will be raised by 50% by 2022.
- Income tax and stamp taxes will be abolished for all wage earners up to the amount of the new minimum wage.
- New government support for private pensions: the government will match 30% of all contributions made by private sector workers to the optional pension system, up from the current 25%.
- Reduction of withholding tax on corporate dividends to 10%.
- Exporters and industrialists are receiving a 1pp corporate tax discount.

1/ **Inflation and Rates**



Sources: CEIC, Amundi Research - Data as of 25 January 2022

THEMATIC

The stabilisation of the lira is key to the success of the government's policies

On 16 December, the government announced a set of measures to limit the negative impact of high inflation on the real economy and to support domestic demand (see box 1) while at the same time the CBRT cut again its rate. The lira dropped by 20% in few days and reached an all time low of 18.4 per dollar. On 21 December, additional measures were put through to promote domestic deposits and savings in lira and de-dollarisation in order to stabilise the currency (see box 2). CBRT interventions and the new measures provided a slight boost to the lira, to about 13.5 today.

#2: Measures to stabilise the lira (TRY)

- FX-indexed TRY deposits: if lira depreciation exceeds the lira interest rate, then deposit holders will be compensated by the difference by the Treasury and exempt from tax.
- FX-instrument of non-deliverable forwards to exporters: the central bank will grant advance exchange rate to exporters to mitigate FX risks.
- Reduction of withholding tax for investments in TRY notes issued by the government from the current 10% to 0%.
- Exporters have to sell 25% of their FX revenues to the CBRT.
- New financial products to bring the "under-mattress" gold savings into the financial system.

As long as the inflation path does not reverse, the lira will remain under pressure

Nevertheless, few countries are suffering inflationary pressures as much as Turkey. Inflation hit 36.1% year-on-year in December, a 20-year high and far above November's figure (21.3%) and consensus forecasts (27.4%). Higher prices for food (43.8% in December, vs. 27.1% in November) and for energy (42.9% vs. 32.1%) were the main drivers of the increase in total inflation. Services prices and core inflation also rose by 22.3% and 31.9%, respectively, in December, vs. 16.9% and 17.6% the previous month. Production prices rose by more than 80%. Inflation has spread throughout all goods and services.

As in many countries, inflationary pressures have been, and are still, driven by high commodity prices, increases in transport and freights costs, and higher prices of intermediate goods caused by supply-chain disruptions. Still, it is clear that the steep depreciation in the lira (fuelled by unorthodox monetary policy) has exacerbated higher prices of imported goods and is the main reason for the current inflation figures.

Given base effects, global inflationary pressures to stay longer than expected, incoming increases in domestic energy prices[1], special consumption taxes such as on tobacco and alcohol (+25%), a large increase in the minimum wage (+50% in 2022) and wage hikes in the public sector, inflation is expected to rise above 50% year-on-year in the coming months. Against this backdrop, the CBRT could not afford to put further pressure on the lira by continuing to lower rates. The decision to pause at its latest monetary policy meeting, held on 20 January, was expected by market participants.

Will supportive measures and the CBRT's pause be sufficient to stabilise Turkey's economic situation?

As the lira's depreciation has been one of the main drivers of the surge in Turkish inflation, will official measures already taken and the CBRT's pause manage to stabilise the currency? That is the crucial question!

We expect FX-linked TRY deposits measures to have a kind of "one-off" and limited impact on lira stabilisation and to be costly. Demand for FX is "structural" in Turkey (the share of FX in household's deposits is above 60%) and in an environment where inflation and related uncertainties are huge, we do not expect households to massively change their behaviour. Furthermore, high inflation and negative real interest rates are not factors driving an increase in deposits, demand for assets and savings. In other words the incentive for saving is low. Moreover, while the public deficit should widen from 3% of GDP to 5% in 2022 and public debt is expected to rise by 2ppt to 5ppt, these measures could deteriorate fiscal indicators further. An additional 10% depreciation of the lira would widen the fiscal deficit by 1ppt of GDP over a six-month horizon.

Another way to stabilise the lira would be, as mentioned earlier, an improvement in the current account balance. In theory, a weak currency helps to boost exports through gains in competitiveness and reduced demand for imports, so the current account improves. However, in Turkey's case today, several factors could play the other way around.

First, regarding Turkish trade, a high share of goods is invoiced in FX currencies, and a large share of imports are intermediate goods. In that configuration, competitiveness gains might be limited. Second, many studies show

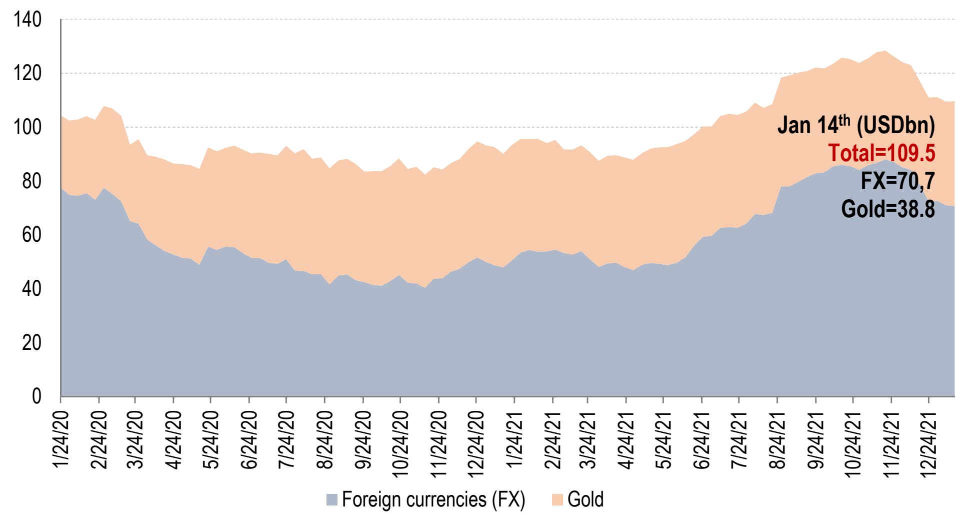
[1] *The rise on electricity prices will be comprised between +50% to +125 and on natural gas and gasoline +25%*

THEMATIC

that exports are more sensitive to external demand than real effective exchange rate depreciation. In the global context of high pandemic-driven uncertainties and downward revisions of global growth, external demand could disappoint. More importantly, Turkish exports receipts are mainly driven by tourism, which may fail to return to its pre-pandemic level, considering the new Omicron variant and further mobility restrictions. Third, if domestic demand and especially household consumption remains robust, thanks to loan growth and increased wages, then imports will not shrink; on the contrary, the lira's depreciation will make them more expensive. Finally, last year's improvement in the current account was due partly to the narrowing of the gold trade deficit. Now that this is close to being in balance, it is unlikely to be a source of improvement going forward.

The CBRT could continue to intervene in the market but it is costly and in any case, it will not be sustainable in the medium term. On 19 January, CBRT would have signed swap agreements amounting to about USD 6bn with the Centrals Banks of United Arab Emirates (USD 5bn) and of Azerbaijan (USD 1bn). These would be the fourth and fifth swap agreements the CBRT would have done with another central bank, following a USD 15bn swap agreement with with Qatar, USD 6bn with China and USD 2bn with South Korea; all of these were done in lira. Turkish gross reserves are now around USD 110bn, of which USD 40bn in gold and USD70n of FX currencies. Bilateral swaps account for around USD 30bn. Only around USD40bn FX is cash usable for direct interventions. In last December alone, CBRT's official interventions amounted USD 7.2bn and allegedly the same size unofficially (see chart 2).

2/ Reserves



Sources: Thomson Reuters, Amundi Research - Data as of 25 January 2022

No doubt, 2022 will be a tough year for Turkey

There is no consensus on CBRT's short-term monetary policy

As long as inflation expectations are not anchored, i.e., as long as the inflation path has not reversed, the lira will remain under pressure. The government will likely adopt further administrative and regulatory measures to contain inflation. Barring a further massive lira depreciation, we do not expect the CBRT to make a U-turn and to hike rates either in Q1 or in Q2. We expect the CBRT to adopt a wait-and-see attitude until the summer season, to monitor the recent moves' impact on inflation and to act after according inflation path.

In fact, both the short-term outlook and the government are so unpredictable that no consensus is emerging. Analysts are largely divided. Some are expecting the CBRT to remain on hold this year, whatever the inflation trend. Others see that the CBRT has no other choice than to hike rates in Q1 or, at worst, in Q2. Few, but some, believe that, given the authorities' pro-growth bias, the CBRT will cut rates again before this summer. There's no need to emphasise how much the economic and political outlook is fragile, increasing the risk perception.

Another element could also change the game: the Turkish people are starting to protest in the streets. The erosion of household purchasing power could play against the government and erode its popularity even more. Risks of social unrest are increasing. Even government supporters are raising their voices and will do so more as economic conditions will get direr.

This is not the first time Turkish policy makers have tried to implement unorthodox macroeconomic policies but they have generally returned to orthodoxy when the situation has got out of control. Would another U-turn by the authorities be possible especially will the CBRT hike rate? We think so, but expect it to be as late as possible.

Finalised on 20 January 2022

CENTRAL & ALTERNATIVE SCENARIOS (12 TO 18 MONTHS HORIZON)

Monthly update

We are marginally adjusting the narrative to take into account the recent economic news flow and the impact of the Omicron variant, but are keeping the probabilities of the scenarios unchanged. The central scenario assumes that Covid-19 will become endemic with multiple, albeit manageable waves, that fiscal levers will remain significant and tied to monetary policy, that inflation will remain elevated throughout 2022, and that growth will come back to potential in 2023.

DOWNSIDE SCENARIO 15%

Renewed slump toward stagflation

Analysis

- Several risks precipitate an **economic downturn,** whose depth depends on the nature and intensity of the shock.
- **Upward price pressures fade**, as global demand falls and labour markets deteriorate.
- **Renewed monetary and fiscal accommodation,** possibly a further step in financial repression.
- Inflation to resurface later amid slower growth, forcing **CBs to deviate** from their guidance and lose credibility.
- **Possible triggers** include China's hard landing, a harmful Covid variant, financial shocks, de-anchoring inflation expectations, climate-change-related natural disasters and policy mistakes.

Market implications

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

CENTRAL SCENARIO 70%

Bumpy road, regional divergences

Analysis

- **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 supply-side bottlenecks, rising wage/food/energy pressures; and abating in 2023. Inflation is a psychological and political issue.
- **Monetary policy asynchrony:** Fed in fast move from tapering to QT and hiking 4 times this year; BoE in a soft hiking cycle, ECB pressured to recalibrate QE; 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 will be needed for the energy transition and subsidies to smooth the impact 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 due to high valuations and decelerating growth
- 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 income and growth story intact

UPSIDE SCENARIO 15%

Inclusive and sustainable growth

Analysis

- **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.
- **Inclusive growth** and effective fight against inequality.
- **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.
- **Possible triggers** include structural reforms, effective vaccine campaigns, and inclusive de-centralised finance.

Market implications

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

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 make no change to the top risks to our 2022 central scenario this month since the Omicron wave was already part of Pandemic 2.0

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 20%

- **Pandemic 3.0**
  - After Omicron (2.0) a more dangerous and vaccine resistant variant starts a new wave.
  - New lockdowns or mobility restrictions are back again undermining economic growth and investors sentiment.
- **Supply chain disruptions** carry on, and input cost pressures lead to corporate earnings recession.
- **China property market collapses,** leading to lower growth prospects.
- **Oil & Gas shock** driven by surging demand and capex cuts fuels high inflation.
- **Monetary policy mistake**
  - As inflation expectations rise, the Fed and large DM central banks tighten financing conditions too early, hurting the recovery while inflation eventually falls back.
  - Central banks' miscommunication leads to greater uncertainty.
- **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%

- **De-anchoring inflation expectations** lead to a bond market dislocation and harsher monetary tightening.
- Pressure on **corporate margins** due to high input cost, and double orders lead to profit warnings.
- **Corporate solvency risk increases,** despite improving fundamentals once central bank liquidity and government supports are withdrawn.
- **Sovereign debt crisis**
  - With public debt as a share of GDP reaching historically high levels in peacetime, most countries are vulnerable to rating downgrades and rising interest rates.
  - Emerging market weaknesses could also face a balance- of-payments crisis and increased default risks.
- **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 20%

- **US & Europe vs. China & Russia**
  - Military action at the Ukraine border
  - Loss of US influence post Afghanistan withdrawal and mistrust from Nato allies
  - The US takes a hard line with China and Russia
  - The EU could follow the US, despite their economic interests
  - Accidental confrontations in the South China Sea or the Taiwan Strait
- Increased **EU fragmentation** on the back of rising tensions with Russia and populist vote.
- **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.

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

- **Oil, credit & equity, EMBI**

CROSS ASSET DISPATCH: Detecting markets turning points

Monthly update: The traffic light on fundamentals and valuations has turned from red to orange

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

ECONOMIC BACKDROP

- The Omicron wave, which is spreading fast globally, introduced a new element of uncertainty and weakness from mid-Q4 and into the new year. High-frequency data and surveys confirm a deceleration in mobility and activity, in some cases quite steep, especially when combined with tighter restrictions.
- At the same time, there are signs that the wave may be less deadly than previous ones and that it is now receding, giving hopes of a short-lived hit to activity. Indeed, some countries are starting to lift restrictions.
- Global consensus continued to adjust lower in the quarter, and is back into slightly negative territory now while global economic surprises have recently turned positive.
- Momentum in economic surprises is diverging. Among DMs, while in positive territory, momentum is up in the Eurozone and Japan and deteriorating in the US and UK. Among EMs, surprises are back in positive territory, with positive momentum in China.

FUNDAMENTALS & VALUATION

- Multiples and EPS expectations are starting to revert to more normal and less complacent levels, considering the economic deceleration and the less dovish Federal Reserve, even if we consider that interest rates will stay low in the near future.
- Liquidity has been the strongest driver of risky assets. This support should fade somehow, now that inflation pressures are pushing central banks to start normalising their policies.

NEUTRAL + ASSET ALLOCATION

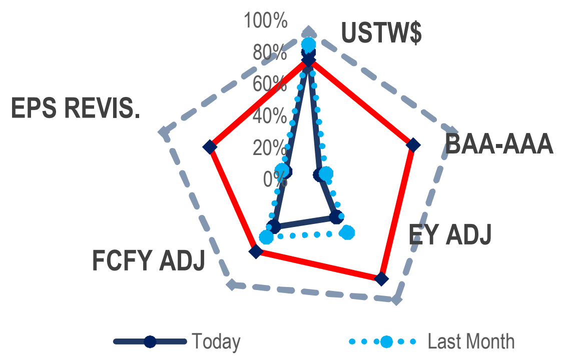
TECHNICALS

- The recent market sell-off has started showing signs of trend fragmentations across risky assets, with multiple breaks registered in short-term momentum indicators .
- On the other hand (and despite the global normalisation that is coming), we are still on liquidity-driven markets, where oversold levels are suddenly bought, preventing structural sell-offs.
- RSIs have hit oversold levels across the entire Multi-Asset universe, with very few exceptions. But is that enough? With no clear-cut directionality on technical metrics (contrarian supportive, but lack of medium-term momentum), we expect a lack of appetite in the short-term.

SENTIMENT

- Equities, credit, and carry are all reminding us that the auto-pilot is going to end and free lunches will be difficult to get. Investors have become nervous about inflation and what that means for the Fed and its policy intervention. Geopolitical tensions are complicating the overall macro environment and risky assets are being sold off in a VAR shock event.
- However, this is something that is not yet entirely translating into a sharp deterioration of our sentiment toolbox. Spreads, sell-side revisions, the soft USD rally and the relative valuation arguments remain far from alerts, despite the wall of worries that is mounting.
- The macro-backdrop suggests 2022 will be challenging, but we still lack evidence of a structural de-risking from the sentiment angle.

Cross Asset Sentinels Thresholds (CAST) still supportive



Source: Amundi Research, Data as of 24 January 2022

The CAST risk perception has failed to show a structural increase, despite the recent VaR shock. The deterioration in EPS revisions remains limited and credit risk premiums (we proxy, using Moody's' Baa-Aaa spread) seem to be ignoring the recent spike in vol. Yet, the USD is the dimension calling loudly for risk-off, and its spillover into residual dimensions needs to be closely monitored.

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 Omicron wave impacting growth

- While global activity has taken a hit, it has held up better than in previous waves; supply chains are likely to continue to be affected (→inflation).
- While the impact of Omicron on mobility looks similar across countries, policy reaction has not been uniform, which has led to regional disparities.
- Lockdown severity and mobility data point to softer growth in the eurozone, where GDP will be impacted the most (in Q4 2021 and Q1 2022) by both Omicron and rising energy prices.
- In the US, the initial Omicron wave appeared to have only a modest impact. However, December's very weak retail sales figure adds downside risks to our growth forecasts for both Q4 2021 and, more importantly, Q1 2022 due to lower consumption.
- In China, despite some signs of supply chain normalisation, the zero tolerance Covid policy might potentially extend the disruption. Rising input costs have not yet been passed through to prices, resulting in a downside risk to corporate margins.

Investment consequences:

- Higher growth volatility confirms the neutral exposure to equity and cautious approach to credit.

2 DM Central Banks more hawkish than expected, driving volatility higher

- The US Federal Reserve (Fed) is concerned about inflationary pressures with an already tight labour market. This tightening cycle will be very compressed and unusual.
- Amundi's path of rate hikes is in line with the Fed's forecasts, but we foresee a slightly lower terminal rate (2.25-2.5% vs. the Fed's 2.5%).
- We expect four rate hikes in 2022 and a terminal rate of 2.25%
- Quantitative Tightening is expected to start in H2, with a balance sheet reduction for the year of $250-300bn in Treasury securities and $200bn in Mortgage-Backed Securities. The Fed could start gradually and then increase redemption caps to a pace of $100bn per month: $60bn in TSY and $40bn in MBS. The balance sheet could be reduced by $250-300bn in TSY and $200bn in MBS this year.
- The euro market mirrored the trends in the US. We are more dovish than the market, which expects the ECB to correct excessively. The approaches from different CBs will remain asynchronous.
- We are increasing our US 10Y yield year-end target to 2/2.2% (from 1.8/2%)
- We are increasing our Germany 10Y yield year-end target to -0.1/0.1% (from -0.3/-0.1%).

Investment consequences:

- Short duration (5, 10Y), long US 5Y5Y inflation swaps, long EU peripherals

3 Global commodities update

- We are confirming our preference for base metals on the back of inventories and valuation considerations. Base metals are being driven by bottlenecks and low inventories in the green transition related metals, rather than growth or recovery considerations.
- In green commodities, the super cycle can last assuming there is strong demand for global electrification as the cheap valuation adjusted for inventories offsets the normalisation of the economic cycle. Such a scenario would likely call for close to a double-digit upside.
- We believe US Liquid Natural Gas (LNG) and Oil are fairly priced.
  - LNG: the energy sector is being driven up by heterogeneous factors: structural, tactical, fundamental and geopolitical. All four have supported LNG prices in the EU.
  - Oil: OPEC should maintain its promise to gradually increase production while demand is expected to decelerate in H2 2022, generating a potential oil surplus. As a consequence, our WTI short term target is $80, and we expect a $65-$75 range by the end of 2022.
- Gold is undervalued but is likely to remain under pressure as interest rates rise in H1 2022.

Investment consequences:

- Long base metals throughout 2022 combined with a preference for LNG in H1 and then a rotation to Gold in H2.

GLOBAL RESEARCH CLIPS

4 China: revising down our 2022 GDP growth forecast

- China's zero tolerance COVID policy and real estate sector rebalancing continue to affect the country's GDP.
- Omicron has introduced new downside risks to our China growth forecasts in 2022.
- If more cities step up restrictions ahead of the Lunar New Year, sinking mobility to last year's level, then this will lower full year GDP growth from our current estimate of 4.7% to around 4%.
- National property sector data is still on the weak side.
- The PBoC is being more accommodative to temper RMB appreciation and help SMEs.

Investment consequences:

- We prefer Chinese govies and wait for an entry point on equities

Covid-19 situation update

Pierre BLANCHET, *Head of Investment Intelligence*

The number of registered Covid-19 cases keeps rising fast as the Omicron variant spreads across the globe. Europe and the US are seeing the highest volumes in the northern hemisphere, and the rate of cases is three to five times higher than at the same period last year, with more than 20 million infections officially registered per week in mid-January. However, the number of cases is now rising faster in the Eastern Mediterranean region and Southeast Asia. Like Japan last year, China has implemented strict rules ahead of the Winter Olympics, with strict measures in order to avoid transmissions during the games.

The first "good" news is that the death rate keeps falling. However, the volume of casualty is rising because of the large number of cases. The second is that this wave is very steep but seem to fall very quickly, as the UK has shown, which means that its impact on the economy should be short-lived. The third is that in regions like Europe, 60% of the population will have had the disease by the end of March, a level that could trigger herd immunity according to the WHO.

So far nine vaccines have been granted the WHO Emergency Use Listing. Several studies have shown that existing mNRA vaccines provide high level of protection against severe disease and hospitalisation. Yet, Pfizer and BioNTech have enrolled the first participants in a clinical trial of a vaccine tailored to the Omicron variant, to assess the benefits of new vaccination campaigns targeting Omicron.

AMUNDI ASSET CLASS VIEWS

	Asset Class	View	1M change	Rationale
EQUITY PLATFORM	US	=		Company-specific factors will increasingly drive allocation because inflation pressures will affect each company differently, depending on their ability to pass rising costs on to consumers. On the other hand, operational challenges such as supply chain shortages and labour issues persist. Thus, selectively, we look for relative value and rotation plays.
	US value	+		The year started with a strong rotation favouring value stocks as core yields rose. We think this rotation will continue, though in a non-linear way. Thus, in order to maintain long-term returns, it will be key to own value stocks that display structural growth drivers and sustainable earnings growth potential in the face of high inflation.
	US growth	--		QE-driven flows seen last year are likely to wane and expensive growth stocks which are trading away from fundamentals will be negatively affected. We are defensive on hyper growth names not trading in line with fundamentals.
	Europe	=/+		Amid expectations of a milder economic impact from the latest Covid-19 variant, investors should focus on earnings growth, how to benefit from the rotations playing out favouring value and cyclical components of the market. Here, the key aspects are selection and pricing power. We assess that through a company's brand portfolio and its balance sheet strength.
	Japan	=		Japan should benefit from improving earnings momentum, attractive valuations vs the rest of the developed world, and a weakening yen. Improving external demand is also positive for the export-oriented Japanese economy.
	China	=/+		We see near-term risks in the zero-Covid policy and the resultant lockdown measures, along with a subdued environment around consumption and the real estate sector. However, we are watchful of selective opportunities amid a more supportive policy stance now, and the country's long-term transition towards a balanced growth model and 'common prosperity.'
	Emerging markets	=		While EM equity valuations are attractive from a global perspective, we are active with respect to geopolitical risks. Interestingly, fragmentation in the EM landscape (real rates, currency valuation, geopolitics, growth profile) sometimes obscures the advantage of geographical and thematic diversification for global portfolios. Thus, while investors should focus on country-specific risk-returns, this must not be confused with the absence of opportunities.
FIXED INCOME PLATFORM	US govies	-		Medium-term inflation risks are causing the Fed to indicate its quantitative tightening plans, which we think will depend on the strength of economic recovery. However, the Fed will balance the need to hike rates with high government debt and uncertain growth. We stay cautious and flexible on duration. On TIPS, we are only mildly positive.
	US IG corporate	=		In an environment of rising core yields, we avoid long duration IG and believe investors should limit portfolio beta. Instead, they should selectively look for names that can withstand upward yield pressures and display a good valuations/fundamentals backdrop. In addition, opportunities exist in securitised markets, as consumer earnings are strong.
	US HY corporate	=		Profits and fundamentals are improving in HY, but we are monitoring the effect of rising wages (on margins) and companies' pricing power. We stay clear of names with a tendency to raise leverage to finance unproductive M&A.
	European govies	-/=		Inflation pressures arising from resurging demand (energy prices, among others) caused core yields to rise and led the ECB to indicate tapering plans, although the central bank has been relatively dovish. Hence, we stay cautious on duration and active across the yield curves. We are also watching elections in France and Italy, and the Next Gen EU plan.
	Euro IG corporate	=/+		We look for income in IG (subordinated debt) through an increased focus on bottom-up selection, limiting the role played by sectoral allocation. We think economic growth remains robust, and ECB demand is also steady, even though the regulator plans to reduce asset purchases. However, identifying names that are resilient to rising yields is important.
	Euro HY corporate	=		While credit fundamentals are improving, we ignore names with stretched valuations with respect to their debt levels. BBs are an attractive area to play the story of rising stars, although selection is crucial amid rising core rates.
	China govies	=/+		Chinese debt provides attractive carry opportunities and could be supported by risks from the new Covid situation and structural inflows. Near-term pressures on the CNY persist. Thus, we stay neutral/positive amid the PBoC's dovish stance.
	EM bonds HC	=/+		In a world of low yields, EM bonds should deliver positive returns. However, there are some key considerations for us: policy tightening by the Fed, Omicron variant, inflation and China. We favour HC and maintain a bias towards HY vs IG.
	EM bonds LC	=		LC debt offers selective pockets of value, but we are cautious on EM FX. In EM corporates, spreads appear attractive compared to alternative options. Country-wise, Brazil could experience volatility as elections approach. Hence, we remain selective. We are cautious on Kazakhstan and are closely monitoring tensions around Russia vs Ukraine.
OTHER	Commodities			We are constructive on global commodities (6% upside by 2022-end), particularly on base metals due to supply bottlenecks and low inventories of metals related to the green transition. In energy, we confirm our WTI target of a $65-75/bbl range by year-end; recent movements are related more to geopolitical tensions. Gold could be affected in H1 by pressures on rates.
	Currencies			While the market already seems to be pricing in Fed intervention in 2022, we see very little information priced in for 2023 and 2024, especially if we factor in the productivity gains in US. This should keep supporting the USD, with some exceptions.

LEGEND

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Negative | Neutral | Positive | Downgrade vs previous month | Upgraded vs previous month

Source: Amundi, as of 24 January 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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