Research

#05
May
2021

CROSS ASSET
Investment Strategy

CIO VIEWS

The fine line between confidence and euphoria

THIS MONTH'S TOPIC

2021 Recovery to continue and beat potential

Confidence
must be earned

Amundi
ASSET MANAGEMENT

#05 - May 2021

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The progression of economic recovery will likely be the key market driver going forward, leading to greater divergences, with US growth leading the DM. We believe investors should play the rotation in risk assets favouring cyclical and value stocks but avoid the over-exuberant segments. In regions such as Europe, the reopening of economies will drive further acceleration that is not yet priced in, but selection is key. Meanwhile in bonds, relative value is king. Investors should stay cautious on duration and overweight on credit. Overall, the investment environment remains benign, but the consensual view of a recovery may itself prove to be a risk.

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This Month's Topic

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- Goldilocks continues to allow a tempered risk on positioning. Longer term, growth will likely revert to potential amid a normalised inflation rate (at least in the US).
- This environment provides a constructive view on risky assets, while in relative terms credit might be under pressure only later on if inflation stabilises above 3%. Not our central scenario, but still worth hedging via inflation linkers.

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March saw ECB increasing its PEPP purchases and injecting higher than expected liquidity through a successful TLTRO tender. In this piece, our analysis dives into QE recently published figures, demand/supply balance of Euro fixed-income markets and PEPP expected trends. ECB's role is going to remain prominent in supporting both sovereign and corporate debt.

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Eighteen months after the first Covid-19 cases hit China, the outbreak is still uncontrolled globally and remains the main source of economic uncertainty outside Northern Asia. As long as there is no treatment, access to effective vaccines is the main factor in returning to a 'normal' life. Only a handful of countries can produce jabs on a large scale, whereas we already know it will take years to reach herd immunity. Therefore, vaccines have become a form of geopolitical soft power, which exacerbates or redesigns the influence of the US, Europe, China and Russia.

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CIO VIEWS

The fine line between confidence and euphoria

Pascal BLANQUÉ,
Group Chief Investment Officer

Vincent MORTIER,
Deputy Group Chief Investment Officer

April started on a positive note for financial markets, after an exceptional first quarter, with divergent fortunes for equities and global bonds. **Going forward, the progression of the recovery will likely be the key market driver, leading to greater divergences.** Last year, the 'first in, first out' theme benefitted China and the country is now clearly on a growth path again and will continue to be the global growth engine in the medium term. In coming quarters, the focus will be on avoiding bubble areas. The idea is to engineer stable loan growth, targeting specific sectors, such as innovative technology and manufacturing, to further support the economic recovery and avoid overheating.

While markets digest the next phase in China's growth strategy, **the recovery runner's baton has been handed over to the US, where GDP growth looks set to rise to levels not seen since the 1980s.**

However, the extraordinary expansion of the US will be an additional cause of divergences. Rising Treasury yields and a strengthening dollar will weigh on potential growth prospects for the most vulnerable EM, which risk being left (further) behind in the aftermath of the crisis. Some idiosyncratic stories are also resurfacing (Turkey, Argentina and, to a lesser extent, Russia, due to sanctions, and Brazil).

With China in 'control' mode and the US already well-advanced regarding market expectations, the next area that could enjoy extensions of bullish sentiment is Europe. From a macro standpoint, Europe will lag the two global growth engines and will take years to return to pre-crisis GDP levels. From a market perspective, European stocks should benefit from strong global growth. In addition, the reacceleration of the vaccination campaign and positive profit forecasts may now trigger further upside.

Concerning investment themes, **our main convictions include the following:**

- **At the overall asset allocation level, stay risk-on. Do not increase risk further, but play some rotation in preference to riding the new recovery waves.** Risk assets continue to be favoured in a cyclical recovery and due to still-accommodative central banks in DM. This bodes well for equities, with a focus on those that are most cyclical and regions (Europe) where the reopening of economies will drive further acceleration that is not yet priced in. US markets can still perform well, but here avoiding hyper growth areas is paramount, as well as not becoming trapped into riding any excess euphoria that is building up. The possible rise in corporate taxes could impact the profitability of some sectors and businesses and this situation should be carefully scrutinised.
- **In bonds, relative value is king. Stay cautious on duration and overweight in credit.** The biggest move in Q1 was the selloff in US bonds. In the coming weeks, the environment could become less challenging, as part of the yields repricing has already occurred. Nevertheless, an improving economic backdrop continues to call for a prudent duration stance and a positive stance on credit – in particular, regarding high yield, which continued to be favoured in an environment of improving fundamentals. Different growth and inflation expectation paths for the US and Europe are driving different speeds in adjustments in rates, opening relative value opportunities for active investors. In the search for higher yield, EM bonds continue to be an area of interest, with increasing selection as divergences are intensifying.
- **In equities, continue to play the rotation towards value and cyclicals.** This rotation towards equity will continue. The summer earnings season will further test the trajectory of the recovery, but until then, vaccines rollout and economic reopening will be the main triggers for a further upside leg in this bull run. With regard to EM equities, Asia remains the key area to play cyclicality.

All in all, the investment environment remains benign, but the consensual view of a recovery may itself prove to be a risk. Confidence is high, euphoria is limited to certain areas (cryptocurrencies, IPOs, SPAC) and this could last for a while, due to the ample liquidity in the system. There is no short-term catalyst for a change of direction. This could be a deterioration in the virus cycle, but this seems highly unlikely while vaccination campaigns accelerate globally. The second catalyst could be an inflation surprise, with central banks behind the curve. Investors should take this seriously, once the sentiment fades and most of the acceleration is behind us.

Overall risk sentiment

Risk off | Risk on

Same level of risk budget. Preference for cyclical and value equity and, in fixed income, for credit (HY)
Flexible duration management amid pressures on rates.

Changes vs. previous month

- Increased European equities at the expenses of EM equities
- Higher conviction on a stronger USD, and cautious on weak EM FX and bonds

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

MACRO

Asian HY default outlook: stay selective

Monica DEFEND,
Global Head of Research

Debora DELBO,
EM Macro Strategist

Claire HUANG,
EM Macro Strategist

Emerging Asia's high yield default rate picked up to 3.7% in Q1 from under 2% a year ago. Unlike the estimated downtrends in US/Europe, we expect Asia's default rate to stabilise at the current level in the next six months based on multiple market factors.

On the positive side, we expect Asia to recover further from the pandemic in 2021. Despite slower vaccine rollouts in Asia compared with the US and Europe, Asian exports have rebounded strongly across the region, supporting earnings outlooks. Global financial conditions remain favourable, with major central banks likely staying on hold through the year. Meanwhile, a few market variables look supportive for HY in the near term: **the region's credit default swap (CDS) rate is stable (the lowest in GEM), stock market volatility remains low, and commodity momentum is recovering.**

However, we note several factors will cast shadows over the credit outlook. For one, net leverage of Asian HY issuers is relatively high, given the large share of Chinese property developers. This segment drove issuance in 2020 and dominates maturities through 2025 (>50%). Furthermore, Asia's average credit rating is the worst in GEM, along with the possibility of spreads widening from an already high level. Lastly, the region's short-term refinancing pressures are also the highest in EM.

China's policy tapering is not helping either, adding extra pressures on the corporate bond sector. As the economic recovery continues at a strong pace, the policy focus has shifted to debt risk management. Monetary policy started to normalise from May 2020. With the overarching goal to control macro leverage, credit growth has decelerated.

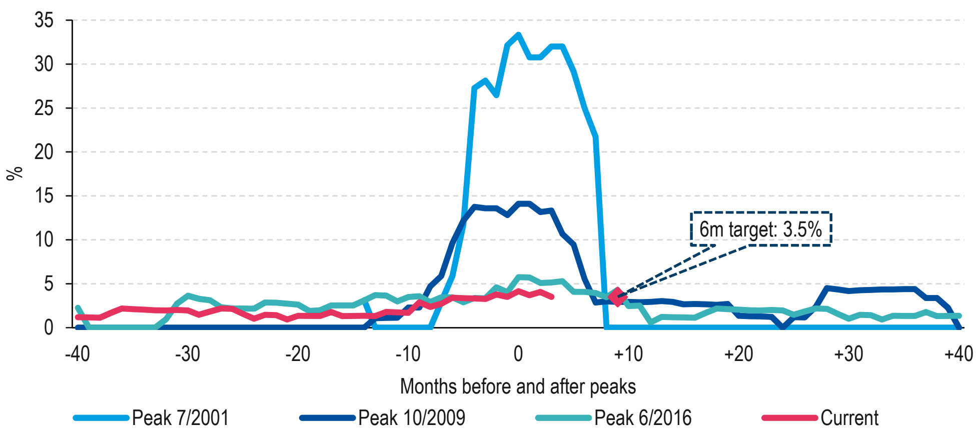
More importantly, policymakers continued to tighten the housing market, introducing stricter funding rules for developers and restricted speculative purchase demand at local level. A tightening of credit policy has caused Chinese defaults to pick up.

The recent case of a potential default in the IG space is another shock weighing on overall market sentiment. Huarong Asset Management Company, which is 57% owned by the Chinese Ministry of Finance and one of the four state-owned bad banks, delayed the release of its 2020 financial reports and reportedly will undergo a restructuring that will affect both onshore and offshore bondholders. At one point, the market was pricing in a worst-case scenario, trading Huarong's offshore USD bonds at deep discounts. While recent comments from financial regulators were positive, the extent of support is unclear and the situation remains fluid. Given the systematic importance of Huarong (US$170bn in debt), the handling could be cautiously slow. Hence, regardless of the outcome, this credit event is likely to drag on for months, prolonging the risk aversion in the China credit market.

As a result, we believe, divestment to other Asian economies is likely. Given that Asia is a heterogeneous region, with both domestic consumption and exports driving markets, the case for differentiation and selection is very strong. Investors should remain focused on bottom-up credit selection and fundamental analysis to avoid areas of risk and exploit selective opportunities in Asian credit.

While the peak default rate in Asian HY this time is expected to be lower than the previous crises, the case for selectivity and research remains strong

Asia HY default rate %: current trend vs. previous cycles



Source: Bloomberg, Amundi Research, April 2021. Data for ICE BofA EM High Yield Corporate Asia Index from Bloomberg.

MULTI-ASSET

Use “rotations” to ride the next recovery wave

Matteo GERMANO,
Head of Multi-Asset

There are opportunities to rotate equity exposure towards Europe to benefit from the next wave of the reflation trade and in credit to favour high yield

We confirm our **risk-on stance and a preference for equities over credit.** Short-term signals are supportive, as are economic data and accommodative CBs. Valuations remain expensive and might be challenged by high expectations that are already priced in. However, they should not be the catalyst for a structural de-risking. The sequence of recovery and divergences that are opening up at the global level suggest rotating risk exposure — keeping the overall risk budget unchanged for now — **into new themes aligned with the evolution of market confidence.** However, we are mindful of the excess euphoria in some segments and are looking out for signs of market fatigue for a slightly cautious stance depending on future data.

High conviction ideas

We believe investors should stay **constructive on equities,** but rotate across regions, with a **preference for DM**. We confirm our positive stance on **Japan** as a pro-cyclical market but now believe Australia doesn’t offer opportunities. On the other hand, **European equities could now benefit from the new recovery wave**, an acceleration in vaccinations, favourable relative valuations, strong EPS growth, and strong technicals. **We confirm our positive view on the UK domestic market**, as the pace of the vaccine rollout is leading to an early reopening of the economy. UK equities are also an attractive play on the reflation theme (exposure to energy, miners, banks), with a potential asymmetric profile due to the large weight of defensive stocks, which offer some cushion against a consensus recovery trade. **We recommend some exposure to EM equity** but with a lower conviction now, as we are aware that the recent volatility and dollar strength are short-term headwinds. We continue to like Chinese shares but prefer the Hong Kong route.

In fixed income, **we remain neutral on both US and EU** nominal rates, but positive on US inflation, as we believe that reflation trade may have further room to go following the approval of the US$1.9tn Covid relief package.

On peripherals, we remain **constructive on** the **30Y Italy vs Germany** spread, based on supportive technicals and valuations and the ECB’s increased purchases in March which may limit bond volatility and encourage investors to search for yield in the longer-duration market segments. We remain **moderately constructive on EM debt**, but investors should try to protect against risk of higher growth/inflation.

Credit is still the main conviction in fixed income allocation: it is attractive based on a combination of technical factors, relative value and, in Europe, credit metrics, despite tighter valuations. Such a conviction is based on the rise in the ECB’s purchases of corporate bonds that occurred in March. More generally, we recommend **being invested in HY rather than IG** credit, as the cost of funding remains close to all-time lows for HY corporates. Both the **US and EU HY markets enjoy low average duration**.

Investors could also play the **reflation trades through currencies:** eg, preferring CAD to the USD and the NOK, GBP and CAD vs the EUR and CHF. **Commodity currencies** should continue to outperform in a recovery scenario while the rise in US yields is negative for low-yielding currencies. **In EM FX, it is important to be selective**. For example, we still like the Mexican peso, due to strong US-Mexico economic links, the ruble vs the EUR, thanks to supportive fundamentals, and the Korean won and Chinese yuan vs the EUR, as China is the main geopolitical driver for intra-Asia regional trade while the Korean economy is exposed to the global semiconductor cycle.

Risks and hedging

Main risks are linked to an extraordinary increase in US rates which could affect European rates and erode value where spreads are already very compressed (IG). Therefore, investors should look for some protection in these areas.

Amundi Cross Asset Convictions

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

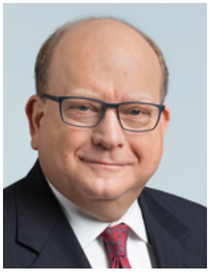
Source: Amundi. The table represents a cross-asset assessment on a three- to six-month horizon based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the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

FIXED INCOME

Fundamentals improve, but divergences emerge

Éric BRARD,
Head of Fixed Income

Yerlan SYZDYKOV,
Global Head of Emerging Markets



Kenneth J. TAUBES,
CIO of US Investment Management

With the economic recovery accelerating, the peak of defaults is likely behind us, as long as central banks remain accommodative

The sharp increase in US 10Y Treasury yields, the steepening of the yield curve and the fast repricing of inflation expectations all reflect the perspective of a strong acceleration for the US economy and an uptick in inflation. **Markets have probably moved too fast in repricing Fed expectations** regarding raising rates. We **may now see a pause** in yield upside in the short term. However, we acknowledge the risk of some overheating in the US and of a policy mistake, which could result **in higher rates,** especially in the second half of the year. Investors could play **divergent paths in DM rates** and discrimination in EM debt. Credit is favoured in a cyclical recovery, although valuations are tight, especially in IG.

Global and European fixed income

Higher EU rates are a source of concern for the ECB, which recently stepped up QE purchases to avoid any unwanted imported tightening in financial conditions. **The role of the ECB is also crucial for credit market.** In **EU credit, fundamentals are improving moderately,** although divergences are evident between more resilient sectors, which have already recovered well, and the most vulnerable sectors, such as retail, gaming and building materials, which also have a high share of weaker credits and may face further pressure if Q2/Q3 performances prove worse than expected. In terms of our global view, the **case for shorter duration (in particular, US Treasuries) has strengthened further,** as has the case for **US and Euro break-even**. In the EU, we maintain a preference for peripheral debt and Italy, which have more room to tighten vs peer countries. In light of some challenges for **EM debt, we have taken a more cautious approach**.

US fixed income

Investors should remain flexible in duration management, keeping a short stance but also taking the opportunity to add positions in light of market volatility. The view on US Treasuries is cautious and we prefer Treasury Inflation Protected Securities (TIPS) as an attractive diversifier and agency mortgages, which may offer opportunities as the Fed remains active. **We keep a positive view on credit** thanks to massive liquidity, low borrowing rates, strong earnings, and a reopening trajectory. But investors should limit sensitivity to higher rates, to volatile sectors, and should reduce risks slowly where valuations are expensive. HY offers better opportunities than IG amid an improving default rate situation, but maintaining a strong focus on security selection is critical. We also remain positive on consumer and residential mortgages. However, considering high volatility and scarce liquidity, we remain selective.

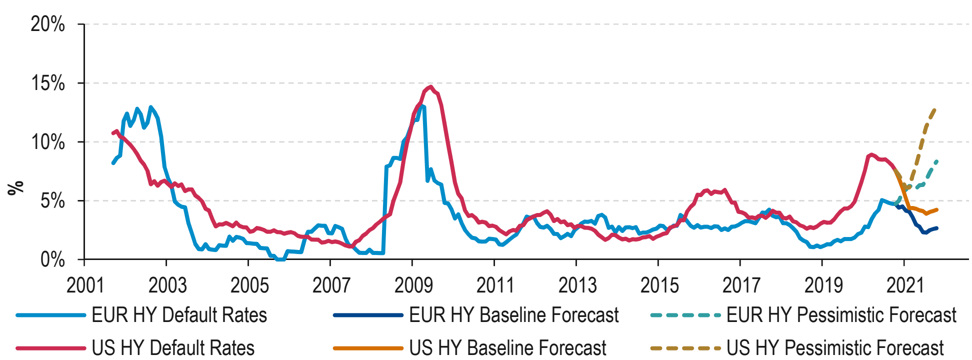
EM bonds

We maintain our cautious stance and believe that LC is more vulnerable at this stage. In EM rates, we think the bullish cycle is behind us. March saw the first hikes for EM CBs (Russia, Brazil, Turkey) trying to tame inflation pressures. LC bonds are not cheap and selection remains crucial. We are more positive on HC. We look for selective opportunities in frontier markets while we maintain a cautious stance on Turkey, Brazil and Ukraine due their idiosyncratic risks.

FX

We expect the USD to continue to be supported against almost all currencies in the short term We see space for further appreciation for commodity driven currencies (CAD/AUD/NOK), while we are cautious on the EUR and JPY.

High yield default outlook



Source: Moody's, Amundi, as of 31 March 2021. Forecasts start from April 2021.

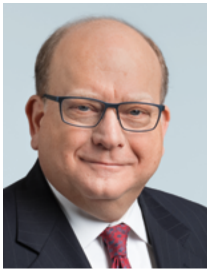
GFI = global fixed income, GEMs/EM FX = global emerging markets foreign exchange, HY = high yield, IG = investment grade, EUR = Euro, UST = US Treasuries, RMBS = residential mortgage-backed securities, ABS = asset-backed securities, HC = hard currency, LC = local currency, CRE = commercial real estate,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

EQUITY

Earnings in the driver's seat for equity returns

Kasper ELMGREEN,
Head of Equities

Yerlan SYZDYKOV,
Global Head of Emerging Markets



Kenneth J. TAUBES,
CIO of US Investment Management

Earnings growth is expected to remain strong for the next couple of years and should drive equity returns as markets renew focus on fundamentals

Overall assessment

Confidence regarding the economic recovery is the main driver of equity markets, pricing in strong earnings growth amid loose financial conditions and an only temporary inflation pick-up. In Q2, we will probably see the peak of the acceleration against a **backdrop that will remain positive for equities, but with probably lower steam**. The reflation trade will continue to support **exposure into cyclical markets, small cap and value stocks**, now sustained by a strong EPS cycle rebound. We also expect the **dividend theme to be back in focus**. Overall, beyond 2021, earnings growth is likely to continue at a double-digit pace for the next two years. However, earnings recovery is now a consensual view and this in itself is a major risk, along with a sustained pick-up in bond yields. As a result, investors should stay active and focus on fundamental analysis.

European equities

Despite weak economic figures for Q1, the roadmap for reopening and for acceleration in earnings in the coming quarters looks strong, with **some divergences among sectors**. Those most sensitive to summer activities, such as travel and leisure, are suffering from further delays due to slow vaccination campaigns while the most cyclical sectors linked to the global recovery continue to perform well. On the other end, we are exploring selective defensive names in the pharma and beverages sectors for attractive valuations. From a style perspective, value and cyclicals remain key themes, but it is important to remain focused on strong balance sheets. Finally, the **US infrastructure plan** could provide opportunities for European players in the **materials, industrials and alternative energy sectors regarding which we already had positive views.**

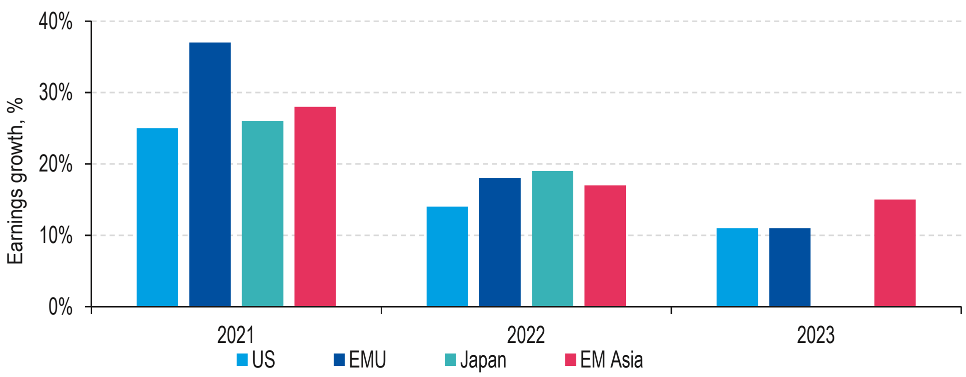
US equities

The US economy is clearly accelerating, and the infrastructure plan could further extend the Goldilocks scenario for the US economy in 2022. Sector dispersion has been wide, a **sign that the great rotation is going on**. The shift to cyclical value is being sustained due to a wide valuation gap vs growth, potentially improving cyclical earnings later in 2021, and a steeper yield curve. **A risk to monitor**, which is now underpriced by the market, is an **increase in corporate taxes**. The market is complacent and expects to see a mild increase in taxation. To reflect these views **we remain positive on high-quality cyclical value stocks** – in particular, financials and energy, and consumers directly affected by the Covid-19 crisis. However, a selective approach is becoming much more important now as valuations become richer and as some value segments have not yet priced in a recovery, whereas others have already done so. At the same time, we keep a **very cautious stance** on **growth stocks** and minimise exposure to deep/distressed value as well. **ESG themes should also gain momentum** due to President Biden's agenda, with the energy transition in value sectors and social inequality topics at the forefront.

EM equities

EM companies should benefit from the global/EM growth rebound, a revitalisation in earnings, and increasing flows. However, we continue to monitor risks linked to the speed of US rate increases, disappointment on vaccination rollout in emerging countries, and possible geopolitical tensions (eg, Russia/Ukraine). At that point, **we like some inexpensive EMEA countries and LATAM**. Main convictions at country levels are **India, Greece and Russia.** We maintain our tendency to **increase value/cyclicals over growth.**

Robust earnings outlook



Source: IBES consensus, Amundi, EPS in USD for country group (World AC, EMU, Emerging...). MSCI Indices as at 31 March 2021. Japan data for 2023 is not available.

THEMATIC
GLOBAL VIEWS

The end of the Great Moderation and the return of volatility

Since the mid-1980s, the macroeconomic volatility has declined to a post-war low. The Covid-19 crisis brought one of the largest economic shock in modern history and could mark the end of the Great Moderation i.e. a turning point with higher economic volatility and a shift to a higher inflation regime. Those factors are likely to lead to higher financial market volatility than in the previous two decades."

Didier BOROWSKI,
Head of Global Views

Pierre BLANCHET,
Head of Investment Intelligence

Since the mid-1980s, the decline in macroeconomic volatility is due to both good policy and good luck

Since the mid-1980s, the volatility of output growth and inflation has declined to a post-war low in most OECD countries. A number of factors have been put forward to explain this period, known as the "Great Moderation".

First, many structural changes have taken place: (i) increasingly sophisticated computer technology has enabled companies to optimise inventory control; (ii) development and deregulation of financial markets have made it easier for companies to finance their investments; (iii) the transition in advanced countries from industrial to service economies has helped to smooth the business cycle; and (iv) the growth of global trade and the free movement of capital have increased the flexibility of economies, making them more stable.

Second, progress has been made in terms of economic policy. In particular, central banks have gained greater independence, which has enabled them to better fulfil their primary responsibility of ensuring price stability. Central banks have become more transparent in their operations and have improved their communication with the markets. The result of these developments has been a better anchoring of inflation expectations.

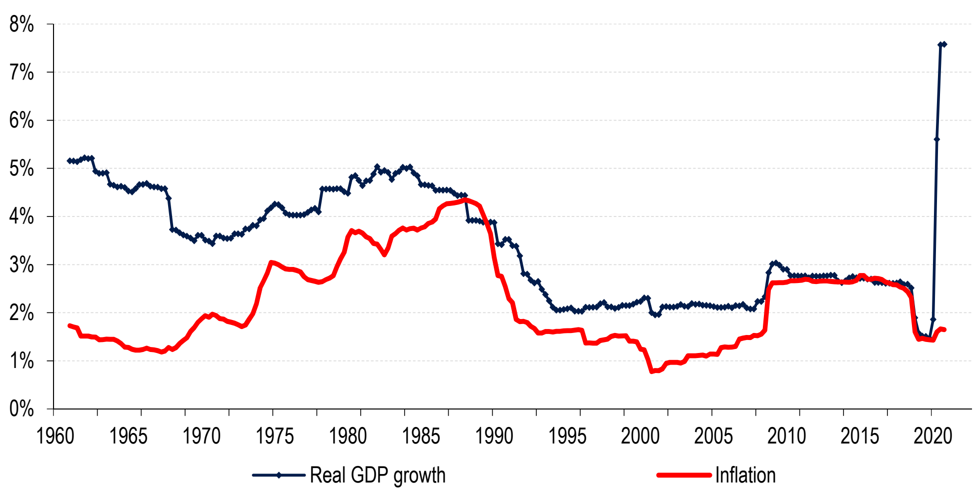
Finally, exogenous shocks have become rarer and less destabilising. In short, the decline in macroeconomic volatility is due to both "good policy" and "good luck". Surprisingly, the great **financial crisis did not end the Great Moderation.** In the US, for instance, output volatility was never as low as in the 10 years preceding the Covid-19 crisis.

However, looking ahead, it is open to question whether some of the factors that led to the Great Moderation will act in the opposite direction: the reshoring of certain value chains in the wake of the Covid-19 crisis, the fragility of the service sector in the event of an epidemic, and the expected rise in inflation are all factors that are paving the way to bumpier cycles.

This may lead to an unstable scenario of 'fiscal dominance', in which expansionist fiscal policies are combined with accommodative monetary policies to alleviate the debt burden. But such a situation would put central banks in a difficult position of having to contain inflationary pressures and maintain financial stability at the same time. At the end of the day, the ability of the policy mix to smooth out cyclical fluctuations as effectively as in the past is questionable.

Rising public debts and inflation could be an obstacle to stabilisation policies. Private and public debt levels have reached new heights with the Covid-19 crisis, surpassing previous peaks reached at the end of World War II. Looking ahead, rising debt levels are likely to dampen domestic demand. While inflation is welcome in facilitating deleveraging, it can also put central banks in

1/ **US: macroeconomic volatility (10-y rolling standard deviations)**



Source: Eikon-Datastream, Amundi Research as of April 2021 (quarterly data available until Q4 20)

THEMATIC
GLOBAL VIEWS

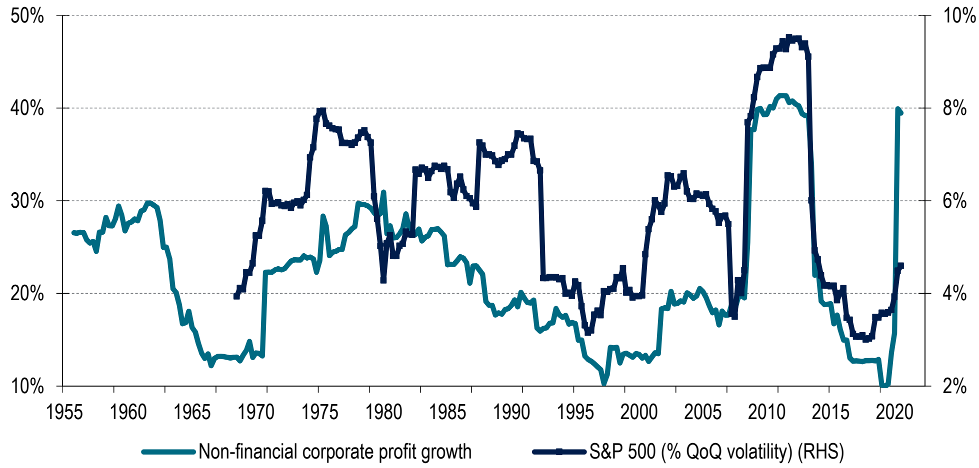
trouble, especially if inflation expectations are not well anchored.

Debt accumulation is a complete game changer from a macro-financial standpoint. Too sharp a tightening of monetary conditions (an increase in short- and long-term interest rates) would inevitably lead to a risk asset correction and trigger a "balance-sheet recession". Not to mention the fact that economies may face more exogenous shocks in the future (such as epidemics, climate shocks, and conflicts). **In a nutshell, both "good policies" and "good luck" may disappear at the same time.**

The recent surge in output volatility has been accompanied by an equally large increase in corporate earnings volatility, while inflation volatility has remained contained at this stage. Market volatility has so far been contained, thanks to the ultra-expansionist policy mix and the absence of inflation. This may not last. Bumpier business cycles would inevitably be accompanied by a resurgence of volatility in financial markets.

Bumpier business cycles would inevitably be accompanied by a resurgence of volatility in financial markets

2/ US: corporate profits vs equity-market volatility (5-y rolling standard deviations)



Source: Eikon-Datastream, Amundi Research as of April 2021 (quarterly data available until Q4 20)

Is market volatility likely to stay low or move higher going forward?

Financial markets went through a phase of extreme volatility last year. Stock markets fell by over 30% in a month, and implied volatility moved to levels not seen since the Global Financial Crisis, with the VIX above 80%. The selloff was followed by a strong rebound, which brought indices back to pre-crisis levels by the end of the year. Bond markets have been very volatile, too. Sovereign bonds rallied strongly at the peak of the crisis, followed by a bear market. As a reference, the Bloomberg Barclays US Long Treasury, which aggregates Treasury bonds maturing over 10 years or more, is down by 26% year-on-year. Credit spreads have moved up and down quite significantly over the same period. The oil price deserves an award in the volatility contest, with the 1-month WTI contract moving from $50 to $15 in one month and actually turning negative (-$40), due to an unprecedented glut at the Cushing hub for a couple of days. Did these extreme asset prices movements reset market volatility higher for a prolonged period?

In fact, they did not. Although bond market volatility remained high in the first quarter of 2021, due to higher-than-expected growth and inflation prospects on the back of US stimulus plans and accelerated vaccination rollouts, **equity and credit volatility came down sharply**.

Previous market moves over the past two decades have generated short-term spikes in asset price volatility but have not changed the volatility regime and average levels over longer periods. For example, in the European context, Brexit or the Euro crisis triggered volatility spikes but both realised and implied volatility came down quickly soon afterwards across asset classes, including sterling or Eurozone periphery bonds. Therefore, **these shocks in isolation have not been be enough to reset market volatility higher**, largely because the "whatever it takes" fiscal and monetary response managed to calm investor fears.

Last year, asset price volatility was the consequence of an economic crisis, which deserves all superlatives. Yet if cross-asset volatility has come down very quickly, it is because the fundamental backdrop does not allow otherwise or because market participants believe that the "Great Moderation" regime is still prevalent. Therefore, the Covid-19 crisis will be a turning point towards a higher volatility regime only if one or several factors, which define this regime (and drive volatility) change post-crisis.

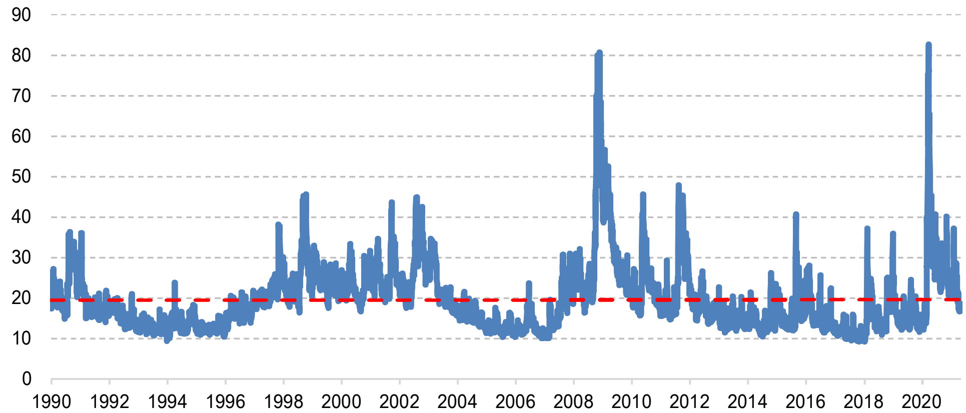
THEMATIC GLOBAL VIEWS

Over the past decades, various shocks have generated temporary spikes but have not been be enough to reset market volatility higher, largely thanks to fiscal and monetary responses

Asset prices in aggregate could be more volatile than in the "Great Moderation" regime going forward for at least two reasons: (1) shorter and /or more volatile economic cycles; and (2) lower diversification across the asset classes.

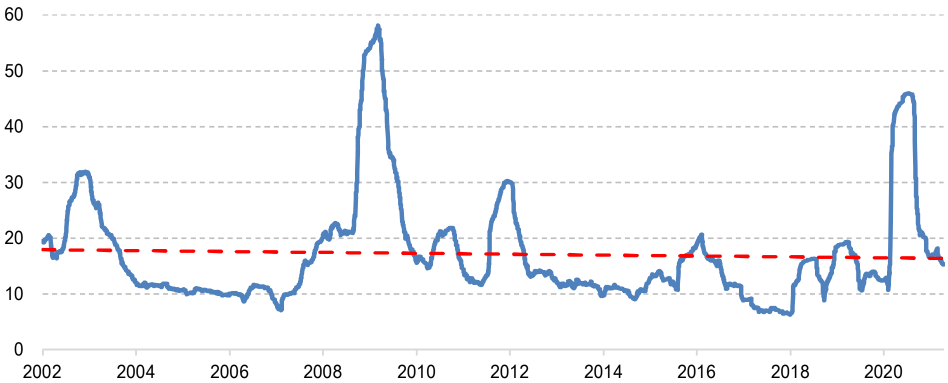
1. If "good luck and good policies" disappear at the same time with no strong-enough rebalancing mechanism, we should expect **shorter, more volatile and even desynchronised economic cycles**. One consequence would be **unstable bond yield curves**, with shorter steepening and flattening cycles, and therefore an unstable discount factor. Shorter economic cycle's means more **volatile corporate earnings**, and companies will find it more difficult to issue long maturity bonds as investors will ask for a higher premium to hedge against a shorter default cycle. In this context it's probably the volatility of volatility that could be higher.

3/ **VIX - S&P500 short term iVol**



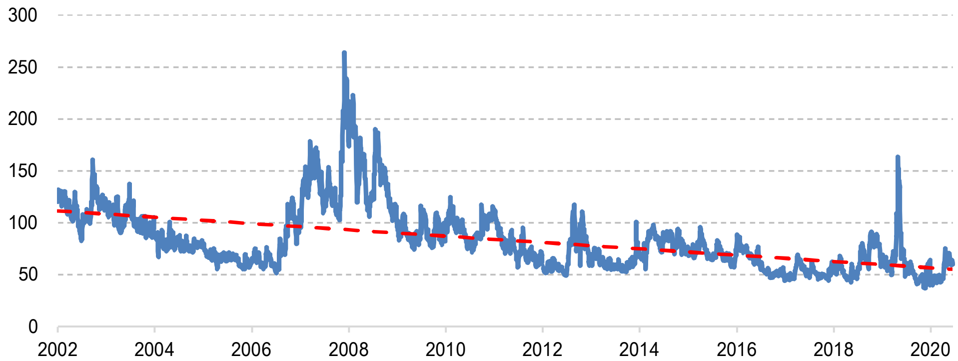
Source: Refintiv, Amundi Research as of 30th April 2021

4/ **S&P500 Volatility 6 Months since 2002**



Source: Refintiv, Amundi Research as of 30th April 2021

5/ **MOVE - UST10y short term iVol**



Source: Refintiv, Amundi Research as of 30th April 2021

THEMATIC GLOBAL VIEWS

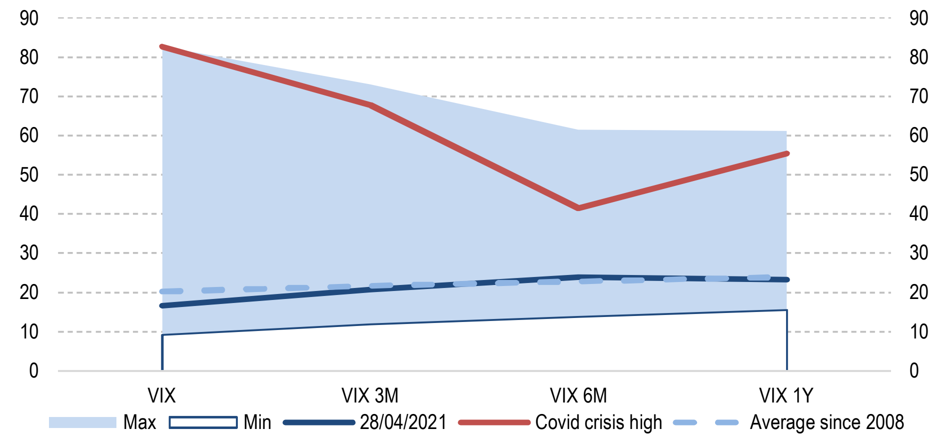
Unstable bond yield curves and unstable equity/ bond correlation would be the main consequences

2. The second changing factor could be **lower diversification**. The main source of diversification across financial markets is the negative correlation between sovereign bonds and equities. This negative correlation established since the middle of the 1990s acts like a shock absorber. Central banks emphasise this absorbing mechanism in lowering policy rates and buying long-term bonds via QE. But both the negative bond/equity correlation and monetary easing are possible in a low inflation regime where inflation expectations are well anchored within a long term deflationary trend. The end of the "Great Moderation"" could be an environment where inflation is higher than the past two decades and inflation expectations unanchored. In this environment, **the correlation between bonds and equities is close to zero or positive** (except in phases of equity market sell-offs). Central banks will not be able to keep loose monetary policies over long periods, and balanced portfolios will be less protected by their bond parts. Therefore, investors will tend to switch *on* and *off* their equity positions using cash to reduce risk, which leads to higher volatility of the equity market.

The Covid-19 crisis could be a turning point towards higher volatility of the economic cycle and/or a shift to a higher inflation regime. Those factors are likely to lead to higher financial market volatility than in the previous two decades. However, until the shift is confirmed, investors will remain in the "Great Moderation" paradigm, bringing asset price volatility back to its low average levels.

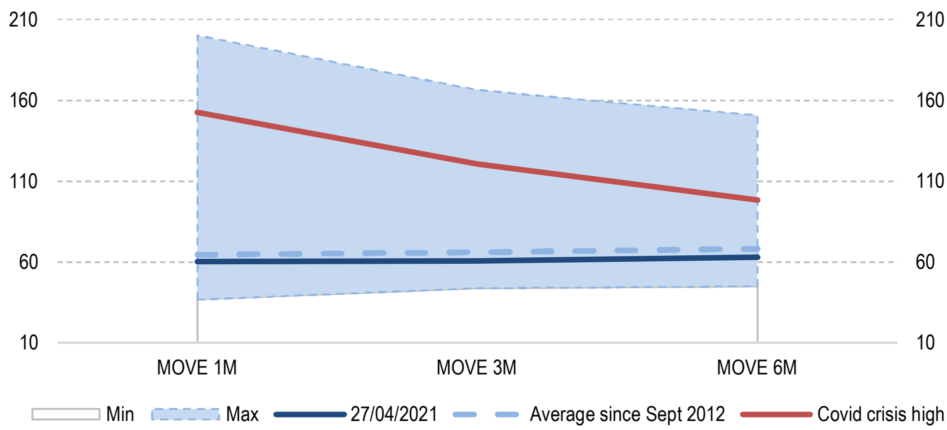
Finalised on 30 April 2021

6/ S&P500 iVol term structure since Jan 2008



Source: Refintiv, Amundi Research as of 30th April 2021

7/ UST10y iVol term structure since 2012



Source: Refintiv, Amundi Research as of 30th April 2021

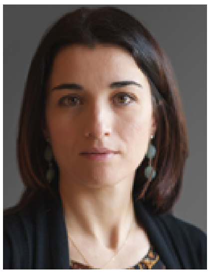
THIS MONTH'S TOPIC

2021 Recovery to continue and beat potential

- **Goldilocks continues to allow a tempered risk on positioning. Longer term, growth will likely revert to potential amid a normalised inflation rate (at least in the US).**
- **This environment provides a constructive view on risky assets, while in relative terms credit might be under pressure only later on if inflation stabilises above 3%. Not our central scenario, but still worth hedging via inflation linkers.**

Monica DEFEND,
Global Head of Research

Silvia DI SILVIO,
Macro Strategist



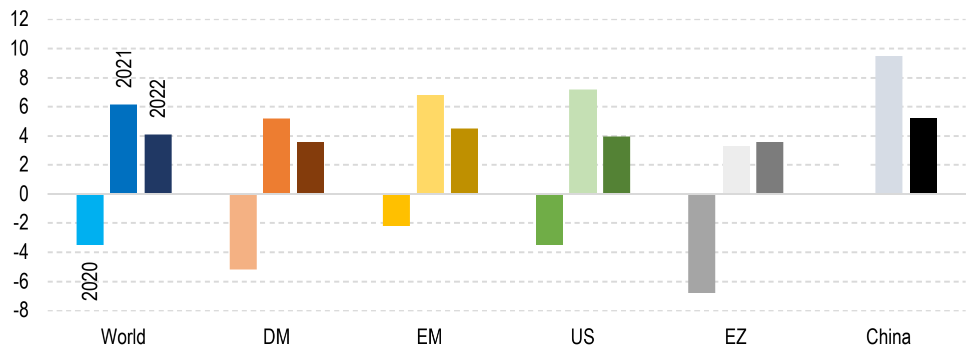
Annalisa USARDI,
Senior Macro Strategist Cross Asset Research

We confirm the financial "recovery regime" as a central scenario (with a 70% probability) for the next 12 to 18 months, with growth and macro determinants remaining paramount. This scenario assumes that the global fiscal boost and CB monetary support will be enough to achieve above-trend growth in the next 18 months, providing more support to multi-year expansionary economic development.

According to our estimates, corporate earnings will prove resilient and rebound throughout 2021 and 2022 as economic activity resumes. Under this scenario, rates should move gradually higher, although markets should be complacent enough to digest the repricing of multiples. Central banks will be crucial in keeping long-term inflation and rates expectations reasonably low. Extensive vaccine campaigns and, more importantly, **the rebound in inflation should not be a game changer for CBs' monetary policies**, and liquidity injections should remain solid, underpinning asset reflation and preserving positive financing and financial conditions in 2021.

Policy accelerators are supporting risk assets, but recent market complacency is pricing in an extreme goldilocks scenario, and pricing for perfection in expectations increases downside risks. This is reflected in the probability we assign to the downside scenario (10%), which includes a potential market correction of more than 10% i.e., in line with the historical average.

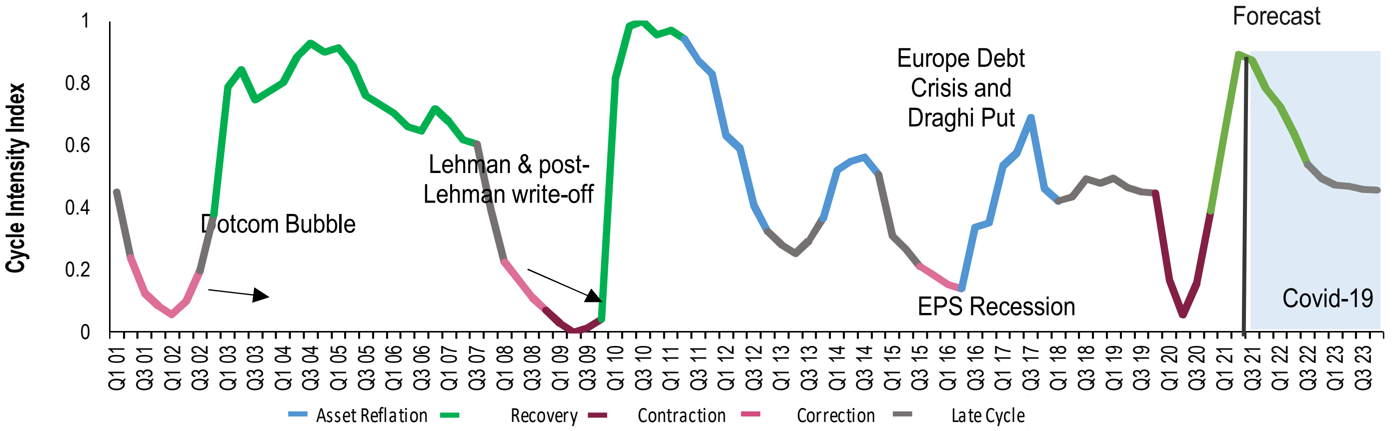
1/ Amundi Global Forecast a multi speed recovery



mid-point forecasts of average annual real GDP growth
lighter color: 2020; medium color 2021; darker color 2022

Source: Amundi Research, Data as of 19 April 2021

2/ Investment Phazer Dynamic - Smoothed



Source: Amundi Research - Data as of 31/03/2021

THIS MONTH'S TOPIC

1. Upgrading our 2021 global growth and inflation forecasts

From a growth perspective, we have revised our global outlook for 2021 slightly higher (global GDP from 5% to 6% 2021E, due to US upward revision in March). While the growth premium is still in favour of EMs, it has been declining marginally as the sharp resurgence in the pandemic across EMs affects mobility, even without triggering significantly broader restrictions. **Moving forward, the growth premium is expected to rebalance more in favour of DMs, due to the positive economic momentum expected in the US on the back of the new fiscal package and the prosecution of the massive vaccination campaign.** The recovery will remain multispeed, uneven and heterogeneous. While still dominated by base effects, the upward revision to the US outlook in particular is driving the improvement in developed markets, while the Eurozone is still in a tug-of-war between new waves of the virus and vaccination campaigns. **EM 2021 GDP forecasts have remained stable.** China's recovery likely continue at a solid pace, with full-year growth of 9-10%. The growth premium vs. the US will narrow.

The fiscal lever continues to play a pivotal role in supporting the recovery, especially among advanced economies, in a context of already supportive monetary policy. In the US, the approval of an unexpectedly massive $1.9 trillion fiscal package has lifted growth prospects significantly higher for 2021 and early 2022. Moreover, as we write, the recently unveiled American Job Plan (first of a likely two-tranche "Build Back Better" 10-year infrastructure plan) is beginning its legislative process through the US Congress, with the potential of providing a further boost to domestic demand and growth beginning next year. In the Eurozone, a new wave of Covid-19 spreading through countries will force governments to extend fiscal support to sectors affected by new lockdowns, with additional fiscal relaxation until the recovery is more firmly in place. The **Eurozone recovery will be deferred, not derailed, by the vulnerabilities and delays of the vaccination campaign.** On the one hand, Q4 GDP data have proven some degree of resilience and flexibility of Eurozone economies in adjusting to the "Covid-19 environment". On the other hand, the extension of lockdown measures into Q1 and part of Q2 will inevitably weigh on activity in the first half of the year. Yet, the vaccine rollout is progressing and, barring any adverse developments on the virus-variants side, a more solid rebound should take place from summer onwards. From 2022, then, the Next Generation EU plan is expected to extend growth momentum, supporting growth above potential for several quarters and particularly in key vulnerable countries, thus providing a virtuous circle supporting the whole Eurozone. Among **emerging markets, the policy mix looks more heterogeneous, and March saw the first decisive change in the policy mix and related market expectations since the beginning of the crisis.** Early hikers moved because they had cut too low and needed to start removing the extraordinary accommodation now that the extraordinary times are in the rear-view mirror and inflation is printing uncomfortably higher than expected. Other central banks favoured considerations of financial stability or very prudent and forward-thinking monetary policy management while facing FX weakness that is further complicating their risk story. Overall, we remain on the dovish side vs. market expectations, which, in some cases, are particularly hawkish. In Asia, the monetary policy tightening cycle should be the story of early 2022, due to still benign inflation dynamics and resilient external positions.

We are convinced that inflation next year will trend higher and episodically spike mainly on base effects

With growth recovering faster, **the annual inflation outlook has been revised higher for DMs, on a combination of higher commodity and energy prices, cost pressures and, in a few countries, stronger domestic demand prospects.** Much of the expected rise and overshoot of headline inflation this year will be linked to transitory factors, which will begin to fade in 2022, leaving core inflation dynamics to set the trend. In this respect, while we expect core inflation rates to land in slightly higher than pre-pandemic ranges in 2022, the stabilisation in the medium term at or above the central bank target seems like a US-only story. In fact, as core inflation dynamics are being prominently driven by domestic drivers, **the US economy will experience significantly lower labour slack and spare capacity compared to the Eurozone, where convergence to pre-pandemic levels will be reached much later than in the US**.

Among emerging markets, inflation is picking up, while the 2021 picture remains still benign and mostly anchored to the CBs targets on average. Although the acceleration has proven stronger than anticipated, moderating dynamics are expected after the peak (between Q2 and Q3 2021). **The main inflation drivers have been food and oil and commodity prices, all magnified by significant currency weakness since early 2021.** Countries to watch for any persistence in inflation dynamics: Brazil, Mexico, the Philippines, Russia and India (Core). Turkey is still an idiosyncratic story.

In conclusion, **while the recovery is progressing more confidently where the virus remains under firmer control (faster vaccination campaign and contained spread), several countries are currently**

THIS MONTH'S TOPIC

experiencing a new wave of infections and selective lockdowns, thus confirming that the global economic recovery is increasingly uneven and heterogeneous. Nonetheless, the end of the tunnel is approaching, making global growth prospects from the second half of the year more confidently on a positive tone.

Inflation: the elephant in the room

In 2021, inflation and inflationary expectations are likely to be in the spotlight.

Inflation Phazer

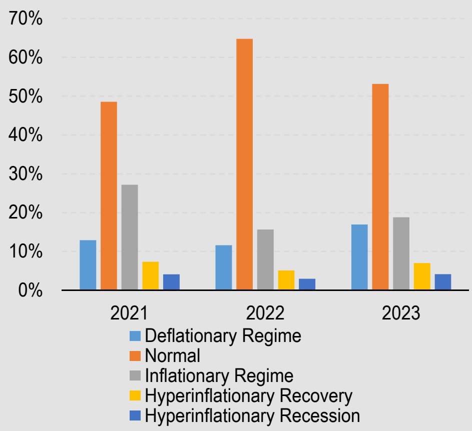
The Inflation Phazer is Amundi's proprietary tool aiming to identify five inflation regimes, looking back at pricing data since 1960. The analysis is developed by looking at the historical evolution of the most relevant inflation indices in the US economy: Consumer Price Index (CPI), Producer Price Index (PPI), Core Personal Consumption Expenditure (Core PCE), and Unit Labour Costs (ULC) (see table below).

Table 1: Inflation Regimes

	Deflationary regime	Normal	Inflationary regime	Hyperinflationary recovery	Hyperinflationary recession
CPI YoY (%)	<2	2-3	3-6	6-10	>10
PPI YoY (%)	<1	2-3	3-6	6-10	>10
Core PCE YoY (%)	<2	2-3	3-6	6-8	>8
Unit labour cost YoY (%)	<1	2-3	3-6	6-9	>9

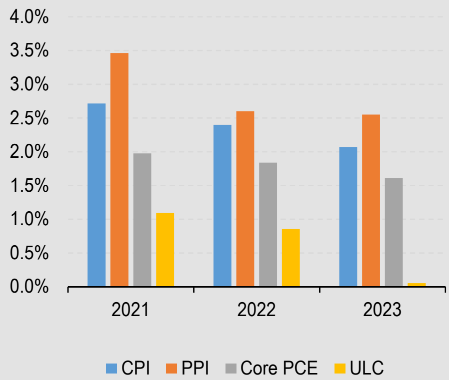
The Inflation Phazer gives each regime a monthly probability (see Chart 3), according to the values expected on each inflation index (see Chart 4).

3/ Inflation Phazer - Probabilities



Source: Amundi Research - Data as of 16 April 2021

4/ Amundi Macro Forecasts (YoY)



Source: Amundi Research - Data as of 16 April 2021

According to Amundi's current macro forecasts, there is a 70% to 80% probability through 2023 of US inflation being in the Normal to Inflationary regime.

Conveying our top-down assessment into the Advanced Investment Phazer framework.

We have described all the ingredients of our cycle indicator, the Advanced Investment Phazer, which underpins our medium-term investment views. Within this framework, we bridge our views and expectations on the macro outlook to our convictions and investment strategy.

2. Investment Consequences: higher growth, higher rate and yield perspectives

US rates are an important factor in global financial conditions and impact the main asset classes. We analysed rates' historical distributions to find empirical consistency of rates dynamics with past recoveries and, eventually, to simulate forward-looking scenarios. Results are reported in Chart 5 below, where the histogram shows US10Ys probability distribution. Ranges are clustered according to the financial regimes (and their probability of occurrence) according to our expectations[1]. The continuation of the financial regime labelled "Recovery"

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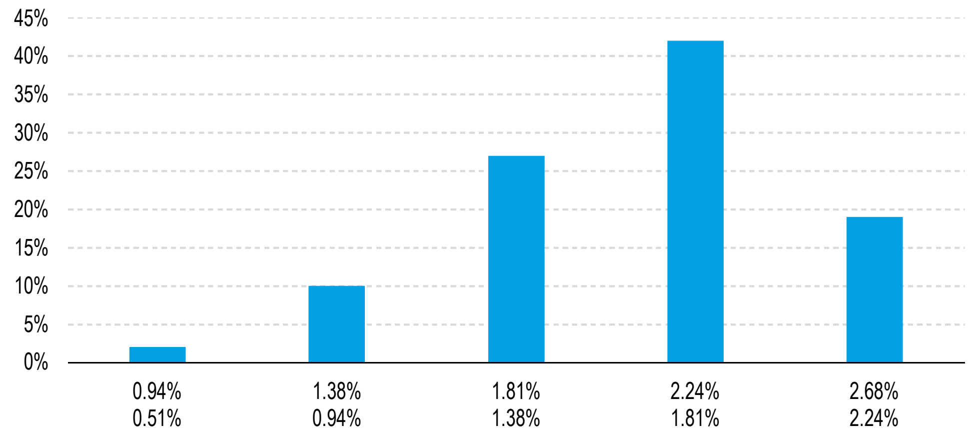
through H1 2022 implies a 42% probability for the 10Y US yield to fall in the 1.81-2.24% range (see Chart 5), in line with our expectations. In fact. **We have a target range for the 10Y US Ts around 1.8-2% over the next 12M.**

5/ **10Y US yield is expected to fall in the 1.81-2.24% range according to our economic regimes expectations (Recovery the central case)**



Source: Amundi Research. Data as of 16 April 2021

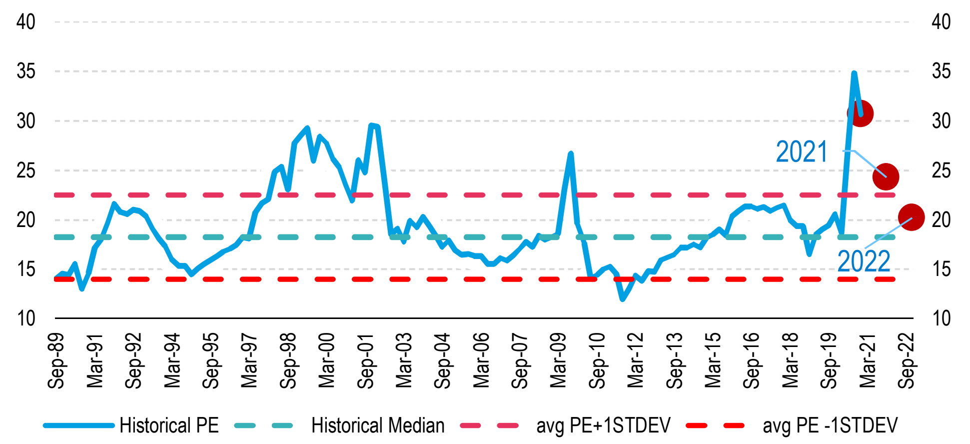
We expect the "Recovery" at the present time to be different from those seen in the past. Although the US economy is set to accelerate at a sustained pace, we expect the Fed to refrain from pulling back on its ultra-accommodative monetary support as long as tangible progress materialises in the real economy, the labour market recovers its slack, and inflation normalises around the central bank's target. As a matter of fact, the Fed has repeatedly emphasized that will be "outcome-based" rather than orienting its stance on forecasts, in part because of its experience during the last expansion, when inflation continually underperformed the Fed's expectation, but also because the high level of uncertainty surrounding the current outlook makes forecasts unreliable.

Such an outlook assumes that inflation will remain in check and not run out of control, therefore forcing an abrupt tightening intervention from the central bank (see Inflation Phazer box). Within this environment, **the search for yield is still the dominant theme** along the fixed-income spectrum. The focus is still on **emerging market bonds for diversification purposes and expected returns, although they have been historically vulnerable to US rate spikes.** We reiterate our preference for **inflation linkers** over government bonds. Inflation expectations remain anchored at low levels, and this is therefore a cheap hedge to have in case they move higher going forward.

> **Despite higher rates, in relative terms equities are the favourite pick within risky assets**

The **expected corporate earnings** recovery is the strongest argument in

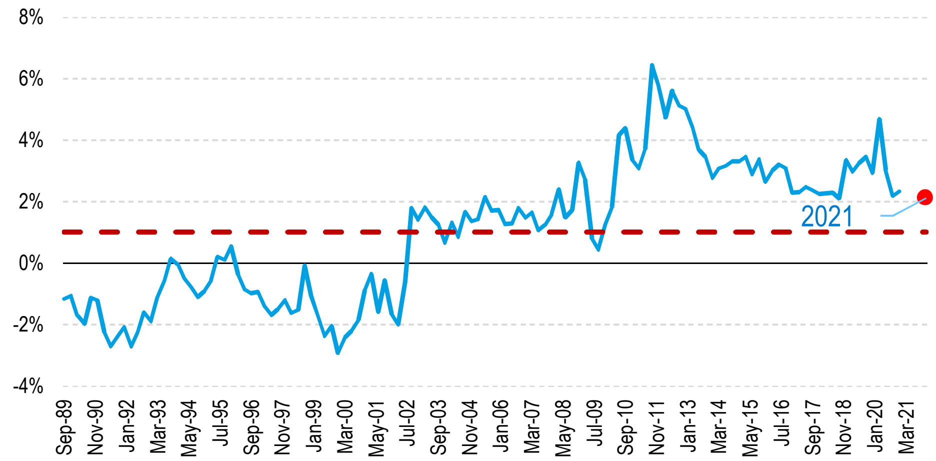
6/ **The expected P/E should start to revert to less complacent levels going forward, moving below +1 STDEV by end 2022**



Source: Amundi Research. Data as of 16 April 2021

THIS MONTH'S TOPIC

7/ The equity risk premium (EY-10Y US) compressed recently but it should remain above long-term average in 2021



Source: Amundi Research. Data as of 16 April 2021

favour of equities' upside, despite recent movement in rates, and our central case is closing the gap in the relative value metrics. The valuation gap has gone through different phases historically (see chart 6 & 7) and it's currently experiencing the regime that started with the Global Financial Crisis, when central banks began to deploy unconventional monetary policy tools (namely asset purchases resulting in balance sheet expansion). At 2% levels, the equity risk premium becomes very compressed and less supportive for equities vs Treasuries. We think that a combination of strong growth and subdued long-term inflation would be enough to maintain the focus on expectations and not on expensive valuations. For sure, this is a potential vulnerability for the equities outlook in the coming quarters.

Despite higher rates and expensive valuations, we expect the ongoing cross asset rotation from HY credit to equities, at least in developed markets, to continue. Current tight spreads and our forecasts are not consistent with HY returns similar to what equities can reasonably deliver, even when adjusting for volatility.

> Reality check on the continuation and sustainability of the rotation

According to our analyses, **the cross asset rotation will continue.** We recognise **a higher potential to the Eurozone when switching from HY to equities**, as the recent catch-up of this trade in the US has almost exhausted the relative appeal in the region. **Investment opportunities in the GEM risky assets spectrum remain in place in 2021, despite recent geopolitical issues, higher rates, and short-term dollar strength. Selection will obviously remain paramount.**

In light of these considerations, we feel it is appropriate to **maintain the "rotation" trade, focusing even more on lagging asset classes and playing this theme at the cross-asset level in order to guarantee the right risk diversification**. Financial conditions and relative value will continue to be monitored for risk as we approach summer.

Conclusion

We expect the goldilocks environment to continue to allow a tempered risk-on positioning despite risk assets stretched valuations. A key question for us is: what will be left after this "step-up" of activity and inflation. In this looming debate, we think that in the medium term growth will revert back to potential amid a higher inflation rate (at least in the US). This environment will prove constructive to risky assets, with credit potentially under pressure in relative terms should inflation stabilise above 3%. Not our central scenario, but still worth hedging via inflation linkers.

Finalised on 19 April 2021

[1] *Next-12M probabilities comes from the Advanced Investment Phazer. As economic cycles and financial regimes influence financial markets, we set them as the cornerstones of our scenario-based dynamic asset-allocation framework. We used growth, inflation, monetary aggregates and global debt to explore 120 years of history and clustered the dataset into five financial regimes: contraction, slowdown, recovery, late cycle and 'asset reflation', relying on unconventional policies. Each phase is identified in terms of distance from the macro risk factor and characterised by recurring persistency in returns streams. We identified some recurrences and consistencies whereby these regimes feature different patterns for financial markets not only in terms of asset class returns, risks and targets, but also in terms of cross asset interactions and exposure to relevant macro financial actors. Cesarini F, Defend M, Portelli L, The Advanced "Investment Phazer", 2011.*

THEMATIC

A deep dive into ECB stimulus and its support for Euro fixed-income markets

March saw ECB increasing its PEPP purchases and injecting higher than expected liquidity through a successful TLTRO tender. In this piece, our analysis dives into QE recently published figures, demand/supply balance of Euro fixed-income markets and PEPP expected trends. ECB's role is going to remain prominent in supporting both sovereign and corporate debt.

Sergio BERTONCINI,
Senior Fixed Income Research Strategist

Mickael BELLAICHE,
Fixed Income and Credit Research Strategist

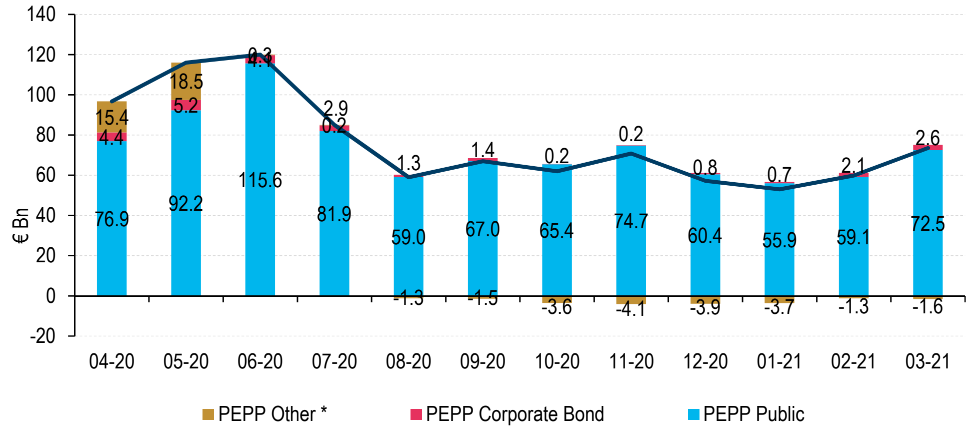
QE step-up and successful TLTRO tender to keep supporting fixed-income markets

1. Latest bi-monthly PEPP update: analysis of the numbers and main takeaways:

On 11 March 2021, the ECB announced that it expects "*purchases under the PEPP over the next quarter to be conducted at a significantly higher pace than during the first months of this year*". The chart below shows that, following the announcement, the pace has already increased in March with respect to January and February

Surprisingly, in the past two months, the ECB has increased its purchases of corporate bonds (€4bn over the two months), but this amount still accounts for less than 4% of PEPP purchases and barely exceeded commercial paper redemptions (€3.85bn). **We expect the ECB to keep buying mainly government bonds within the PEPP until the end of the program and**, if necessary, **to increase or decrease the allocation to private bonds in the APP**.

1/ **ECB monthly net asset purchases of PEPP breakdown (in €bn)**



Source: ECB, Amundi Research, As of 03/31/2021
* PEPP Other = commercial paper+cover bd

We expect the ECB to keep buying mainly government bonds within the PEPP and, if necessary, to increase or decrease the allocation to private bonds in the APP

The important facts of this latest bi-monthly publication are the following:

- **Longer maturities bought in the past two months:** The weighted average maturity (WAM) of all public-sector bond purchases under the PEPP has increased by almost a year, probably above nine years in February-March 2021. The bulk of the increase in the duration of the PEPP portfolio was recorded in key countries, particularly in Germany and the Netherlands. However, the same trend has also been noted in peripheral countries, such as Italy and Portugal, previously registering a relatively steady decrease in average duration since the start of the program. The generalised increase in duration of ECB purchases probably has two main reasons: **(1)** The ECB "adapted" its demand to record supply of longer duration debt at the EGB level YTD. **(2)** Higher bond reinvestments supported the lengthening of German Bunds' average duration in the PEPP, on the back of increased redemptions of short-term paper bought last year and reinvested in longer instruments in recent months.
- **Country breakdown is almost in line with capital keys across all major countries:** as peripheral spreads are now hovering around their tightest levels of the past decade, the ECB has continued to follow capital keys in country allocations, with marginal deviations due to limited availability of bonds in smaller issuing countries like Estonia, Malta, Luxembourg, Latvia, Lithuania and Slovakia. As a result, the ECB underbought these countries relative to their capital keys, automatically implying slight overbuying in larger countries like Germany, France, Italy and Spain.
- **PEPP purchases of supranationals achieved its target:** For the second time in a row, supranational PEPP purchases have reached 10% of public sector bond volumes, the target set under the PSPP.

THEMATIC

We anticipate that the ECB could increase its purchases of supranational bonds when NGEU funding activity begins (expected in late Q2 2021), supporting EU primary market activity through its demand

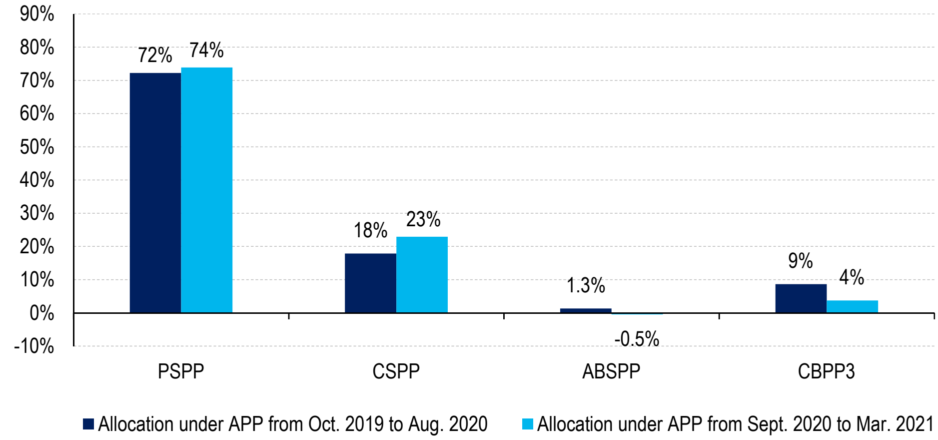
Purchases of supranational bonds were limited at the start of the PEPP, probably also because of their scarcity (the ECB was probably reluctant to hold more than 50% of these bonds). Nevertheless, since the start of EU issuance for the SURE fund (in autumn 2020), the ECB has gained more room for expanding its support to the asset class. **We anticipate that the ECB could increase its purchases of supranational bonds when NGEU funding activity begins (expected in late Q2 2021), supporting EU primary market activity through its demand.**

2. APP analysis: the focus on CSPP and the support for private programmes (mainly corporates)

In March 2021, the ECB's net asset purchases under APP increased to €23.3 billion from €21 billion in February. The breakdown by program in APP is as follows: PSPP (€15bn, 64.3% of the total), CSPP (€6.9bn, 29.8%), CBPP3 (€0.7bn, 2.9%) and ABSPP (€0.7bn, 2.9%).

Although the PEPP remains oriented towards the public sector, **the CSPP was weighted more heavily in the March APP** (up to 30% from 20% in February), confirming that the intensification of the PEPP may lead to a more "private-sector friendly" APP over the next few months. One of Lagarde's main commitments has been to maintain favourable financing conditions in all markets, including credit, and the ECB has so far achieved effective results. Euro credit spreads were quite resilient and also performed quite well during the March bond selloff. Subsequently, real EUR 10-year rates fell, thanks to the ECB's verbal intervention (while remaining higher elsewhere). The ECB put has therefore played a big role in reducing rate volatility in recent weeks. Due to strong corporate bond purchases, the ECB's exposure to European credit has increased over the past six months (see chart below). The average monthly Asset Purchase Program (APP) to Enterprise Sector Purchase Program (CSPP) allocation has increased from 18% between October 2019 and August 2020 to 23% from September 2020 to present. Euro credit spreads were quite resilient and performed well also during March bond selloff, with active primary market for speculative grade bonds supported by investors' flows. Technical factors are going to remain supported within the IG segment, also thanks to the recent slowdown in supply of corporate debt eligible for the CSPP: huge liquidity accumulated, higher volumes of bank loans and remarkable bond funding achieved last year are likely to prevent net issuance from growing as in 2020, ultimately improving the ECB demand/supply balance.

2/ **ECB has increased its exposure to credit since Q4 2020 via the APP**



Source: Datastream, Amundi Research, Data as of 03/31/2021

3. March TLTRO above expectations: main takes for markets and financials

Last but not least, the March tender was the second largest (€330bn) of recent TLTRO III operations, while market expectations pointed to a much lower take-up, with the highest estimates pointing to €250bn and a consensus closer to €100bn. The positive surprise is probably due also to the assumption of large participation by banks but with low take-up by bigger institutions. Our guess is that a higher-than-expected take-up signals that banks are probably confident about reaching needed thresholds in order to benefit from the lowest provided cost of funding, and are also therefore more confident in their credit lending trends over the coming months. The remarkable liquidity injection has had a positive effect in terms of additional monetary stimulus at work, indirectly supporting QE efforts on rates and yields, especially in curve front-ends. Our take is that IG financials' technicals should be more supported, as well, as debt supply is likely to be lower than previously estimated, on the back of higher reliance on ECB funding.

THEMATIC

EGB and corporate bond supply vs ECB purchases

- **Quite some progress in EGB funding achieved in Q1**

Q1 saw EMU-10 EGB gross supply record its second largest quarter since 2015, and, on a 10yr WAM-equivalent basis, a new record high, close to €460bn. Long maturities dominated EGB issuance, especially in syndicated issues. Moving from gross to net issuance, the picture looks even stronger vs previous years, despite Q1 tends showing a positive seasonality of net EGB supply, namely a combination of high issuance and low redemption volumes. According to our estimates, in fact, EMU-10 countries altogether placed more than €260bn net supply, quite a remarkable share (almost 50%) of the overall amount projected for the 2021, estimated to be in the region of €530bn, according to initial announcements. Despite remarkable differences in funding progress at country level, front-running activity was strong by historical standards, with peripheral countries (55%) in the lead, and core countries (45%) lagging but not far from the overall average.

Massive supply was favoured by many factors, still mostly at work, among them, very low funding costs, high volumes of liquidity available, yield search live and kicking, and ongoing support from ECB QE. Despite higher volatility in fixed-income markets, mainly imported by US Treasuries, the steepening of yield curves had only limited impacts on primary market activity, which also remained strong in March.

ECB QE and higher redemptions to support the technical picture, despite additional funding needs

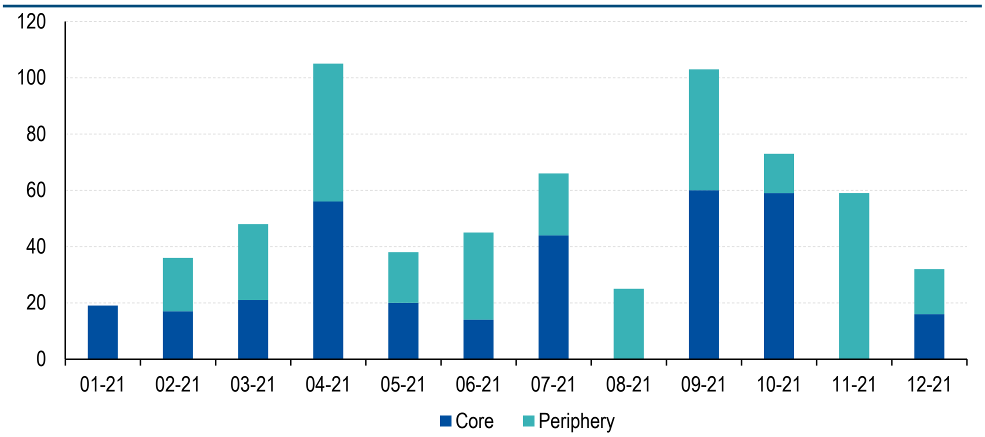
According to numbers published by the ECB, combined PEPP and PSPP volumes covered a bit more than three quarters of overall sovereign net funding in the first three months of the year, therefore failing to absorb the entire net funding, as happened most of last year. Following this unusual quarter, we expect net supply, net of ECB QE, to return to negative territory. The anticipated increase in ECB QE over the next quarter coincides with a drop in net EGB supply, the latter not so much the result of a big drop in issuance amounts but mostly due to a significant increase in bond redemptions in Q2 vs Q1. EGB redemptions scheduled for Q2 and Q3, in fact, are almost double (roughly €200bn) the volume recorded in Q1. Assuming an increase of ECB demand of roughly €50bn in the next three months, this would mean a powerful combined effect of these two forces. Even assuming a return to a €60bn monthly path in Q3, higher redemptions alone should keep the balance in favour of negative net issuance in summer. At the same time, however, initial 2021 issuance plans are going to be revised upward on the back of additional fiscal measures recently announced in many countries in order to counter the negative impact of lockdown extensions. Although the picture is not yet complete and evolving, revisions in budget deficits for 2021 already announced, for example in Italy and Germany, are going to lead to higher net funding needs over the coming quarters. Comparing ECB firepower with numbers announced so far, however, the technical picture still looks quite favourable: as we outlined in previous publications, the "buffer" offered by the increased PEPP envelope vs eventual additional funding needs looks high for 2021. Even an increase in the range of €100-150bn of LT debt net supply would keep ECB QE firepower for 2021 in the ratio of 1.3 times overall net issuance.

QE is expected to run until March 2022, but pandemic trends and post-Covid economic fragmentation in the euro area will likely prolong the needed support, also in order to make the NGEU more efficient

- **Different scenarios for the PEPP path vs Q1 2022**

The ECB's QE program is expected to run until March 2022, but pandemic trends and post-Covid economic fragmentation in the euro area will likely prolong the needed support, also in order to make the NGEU more efficient. ECB firepower for the next 12 months looks enormous: €905bn (PEPP) + €20bn / month (APP) or around €95bn / month. If the ECB continues to accelerate

3/ **EMU-10 scheduled redemptions, in €bn**

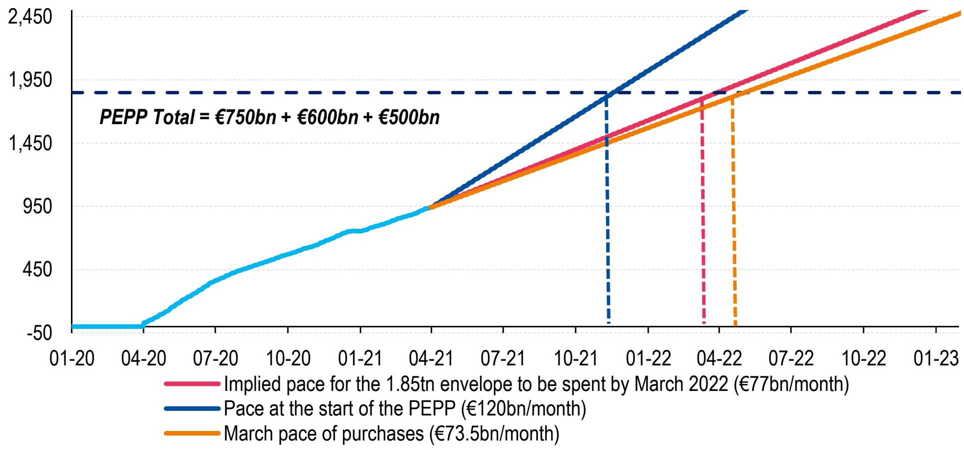


Source: Bloomberg, Amundi Research, Data as of 03/31/2021

THEMATIC

the pace of purchases, the PEPP envelope of €1,850bn could be entirely used up by March 2020. The chart below shows that a still relatively high average path (€73.5bn in March) could lengthen the horizon of entire PEPP use beyond 12 months.

4/ **ECB's PEPP cumulative purchases (€bn)**



Source: ECB, Amundi Research, Data as of 04/02/2021

Latest messages from the ECB's March minutes and what to expect over the coming months

What is clear from the minutes of latest ECB meeting is that the Council agreed to a quarterly review of PEPP path in the future, mainly based on developments of financial conditions and inflation outlook. Following the Q2 PEPP step-up, the market consensus points to a likely return to lower levels of purchases in Q3, probably back in the region of Q1 volumes of roughly €60bn per month. Although the debate about the assessment of "favourable financing conditions" still looks open within the ECB, the dovish stance keeps driving major policy decisions, like the extension/increase in PEPP at the end of last year and the more recent step-up in the PEPP path in Q2. This sort of step-by-step approach, confirmed by the quarterly review of purchases, is likely to proceed over the coming months, until a more structural decision will have to be taken about the size and horizon of monetary stimulus looking into 2022. Additional fiscal needs at country level this year and a recovery plan requiring a multi-year horizon to be deployed are good reasons to expect ECB dovish majority to prevail also in the future, although divergences are likely to increase inside the board as the economic recovery starts. In the meantime, over the coming quarters the technical picture for European fixed income markets will continue to be quite supported by ECB's increasingly prominent role in terms of both sovereign and corporate debt holdings. As long as economic fragmentation prevails in Eurozone, monetary policy has to keep targeting low funding costs of public debt, as fiscal stimulus, in presence of high deficits, may be effective only in such a stable financing environment. In the absence of a significant rise in growth expectations, the ECB will therefore keep preventing financial fragmentation.

Finalised on 20 April 2021

THEMATIC

Geopolitics of the vaccine

Pierre BLANCHET,
Head of Investment Intelligence

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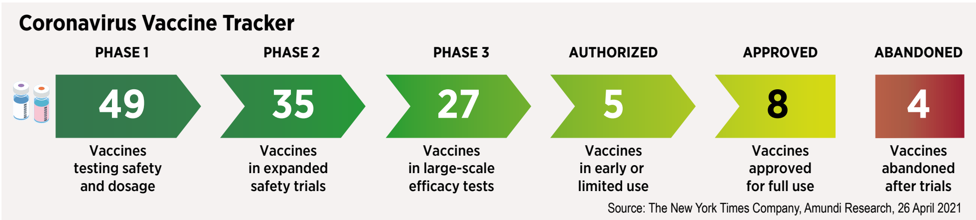
Eighteen months after the first Covid-19 cases hit China, the outbreak is still uncontrolled globally and remains the main source of economic uncertainty outside Northern Asia. As long as there is no treatment, access to effective vaccines is the main factor in returning to a 'normal' life. Only a handful of countries can produce jabs on a large scale, whereas we already know it will take years to reach herd immunity. Therefore, vaccines have become a form of geopolitical soft power, which exacerbates or redesigns the influence of the US, Europe, China and Russia.

More than a year after the outbreak shut down the world, new lockdown measures are perceived as political failures. They have a negative impact on the economy but also on social cohesion and probably people's mental health. Yet, as long as there is no treatment for Covid-19 and mass vaccination does not bring herd immunity, mobility restrictions and social distancing are the only solutions available. Hence, the race by governments to get access to effective vaccines in high volumes. As we speak, there are seven vaccines approved for full usage, six authorised for limited use, 23 in phase 3 development with large-scale efficacy tests, and more than 80 in phase 1 or 2. Therefore, it is likely that the number of available vaccines will double in the second quarter.

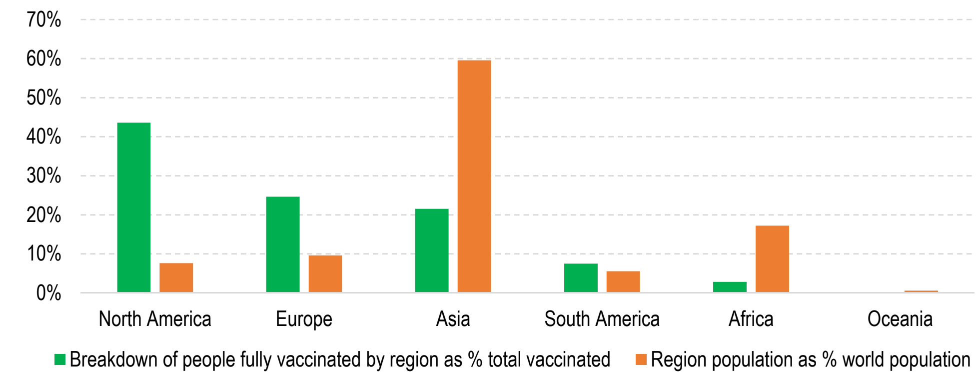


So far, 160 million people have been fully vaccinated according to OWD (University of Oxford), i.e., 2% of the world population, out of which 60% are living in the US or the European Union, which account for less than 10% of the world population (see Graph 1). A few countries are running ahead in the vaccine race, such as Israel, where 61% of the population has received at least one dose, the UK (46%) or the US (36%), but Europe is far behind, with 12% to 13% of the population who has received a jab. Emerging countries are even further behind, with less than 5% in India, Russia or Indonesia. China doesn't officially have Covid cases... and we don't have accurate vaccination numbers yet, but it's unlikely that more than 5% of the 1.4 billion Chinese have got a first jab at the time of this writing. COVAX[1] is running behind schedule, therefore the vast majority of the world population won't be vaccinated by the end of the year. Moreover, variants, the low duration of immunity, and the likely resurgence of the outbreak over the coming years means that we might need to be vaccinated regularly to keep our immune system effective.

There are two consequences to this: (1) it will take years to reached global herd immunity, (2) vaccines are very powerful geopolitical weapons.

[1] *COVAX is the vaccines pillar of the Access to COVID-19 Tools (ACT) Accelerator. The ACT Accelerator is a ground-breaking global collaboration to accelerate the development, production, and equitable access to COVID-19 tests, treatments, and vaccines. COVAX is co-led by Gavi, the Coalition for Epidemic Preparedness Innovations (CEPI) and WHO. Its aim is to accelerate the development and manufacture of COVID-19 vaccines, and to guarantee fair and equitable access for every country in the world.*

1/ Uneven vaccination among regions



Source: Our World in Data, World Bank, Amundi Research Data as of April 9 2021

THIS MONTH'S TOPIC

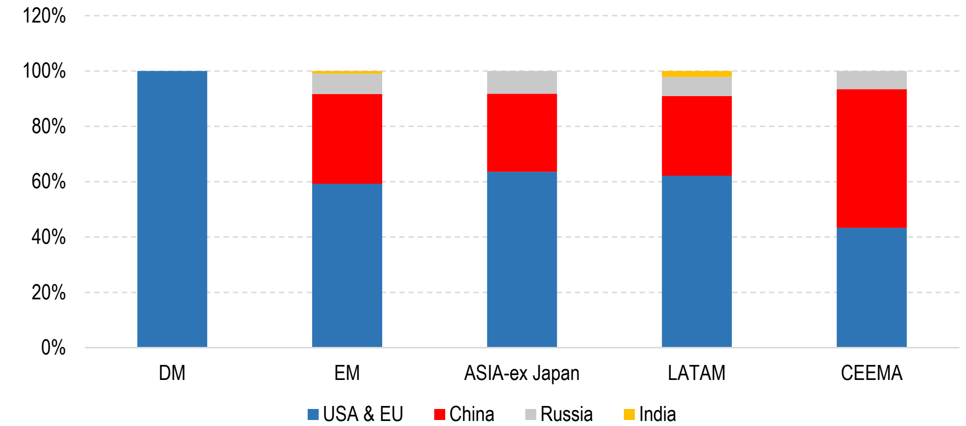
While through 2020, China came out more victorious from its successful management of the domestic health crisis and strengthened its influence as the leading economy in the global recovery, 2021 has been more favourable for the US and Europe.

The unprecedented technological innovation of mNRA vaccine development is leading to more domestic control of the virus and a strong comparative advantage in the geopolitics of vaccine diplomacy. Among the countries that have reserved enough vaccines to cover more than half of their population older than 15 years, 100% of vaccines reserved in Advanced Economies (AEs) are from these countries. For instance, in the US the breakdown is roughly 50% Pfizer/BioNTech and 50% Moderna. But in emerging economies, 32% of vaccines ordered are from China and 7% from Russia (see Graphs 2 and 3). For instance, in CEEMA 50% of vaccines reserved have come from China so far[2].

[2] *According to Duke Global Health Innovation Center as of April 9 2021*

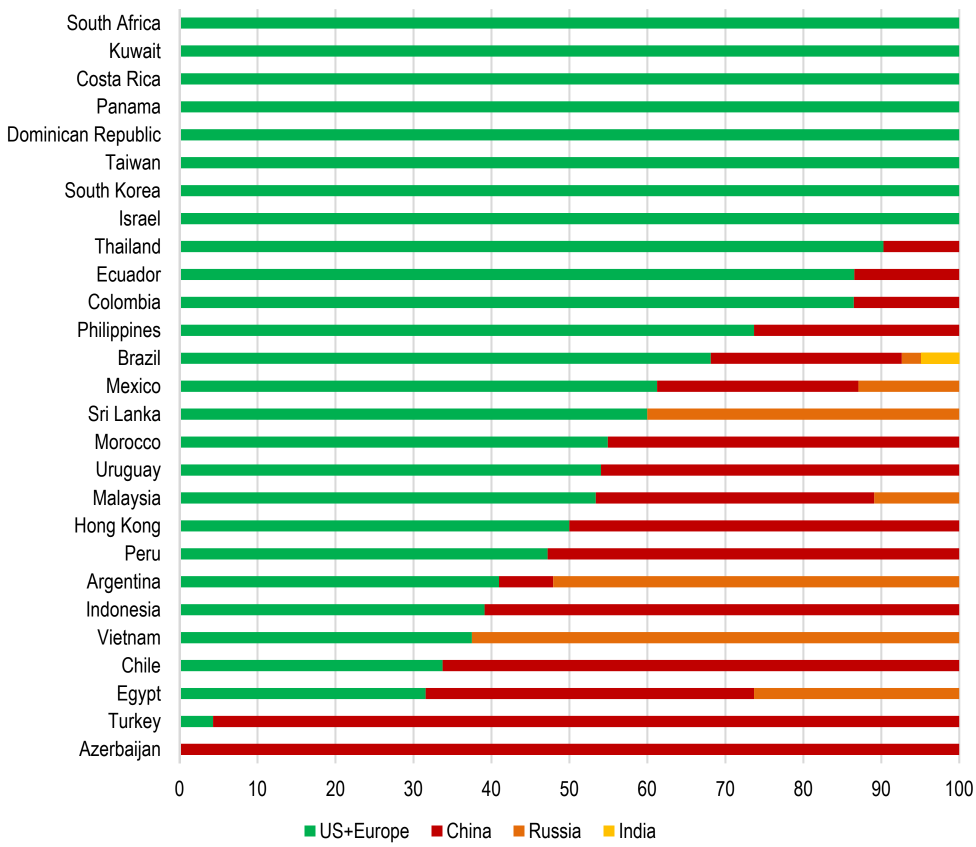
In EM, 32% of vaccines ordered are from China and 7% from Russia

2/ Vaccine providers' country by region



Source: Duke Global Health Innovation Center, Amundi as of April 9 2021

3/ EM Distribution of vaccines reserved per country's providers as of total (%)



Source: Amundi Research, Duke Global Health Innovation Center as of April 9 2021

THIS MONTH'S TOPIC

Vaccines are very powerful geopolitical weapons

The first strategic game for Europe and the US is to protect their own populations, close their markets by approving only AE products (see Russian SputnikV ban), and very quickly bring vaccines to Africa, Latin America and the Middle East to contain Chinese and Russian influence there. However, while AEs are still focusing on managing their domestic crises, China and Russia are taking advantage to fill the gap of short supply and long waiting periods in the emerging world, and, by this, consolidate diplomatic ties. The bilateral agreements between Russia and the EU's eastern countries (Hungary, Slovakia, and possibly the Czech Republic[3]) to access Sputnik V is a good example. Most importantly, it sheds light on the soft-power that vaccines can procure. Indeed, Russia may gain inside support to lessen the likelihood of EU's sanctions.[4] Nevertheless, Chinese vaccines recorded disappointing results abroad (Brazil and Chile), and both countries still need to vaccinate their own population (China has set a target of 40% by the end of June), or risk further outbreaks. The US, whose vaccination campaign is successfully running ahead of schedule, is organising with the other "quad's members" (Australia, India, and Japan) a common initiative to export vaccines in the Indo-Pacific that may counterbalance China's influence.[5]

The second strategic game is around contracts, i.e., price, volume and copyrights and is happening within advanced economies. In Europe, AstraZeneca (AZN) produces half of jabs. Since the AZN vaccine has a lower efficacy rate and has lost some public support, European demand for US patented vaccines is very high. As an early and successful "investor", the US wants to protect its return. The EU, which has been focusing on price and equal distribution but with the "wrong weapon", is under huge internal pressure to accelerate vaccination rollouts and produce US vaccines in its own labs. Moreover, US pharma companies that are distributing available vaccines are now working on boosters, next-gen vaccines and paediatric trials, which will be key to reaching full immunity. The US have the best products and have vaccinated a larger share of their population, so they are on the road to victory in this Covid-19 vaccine geopolitical game.

Finalised on 15 April 2021

[3] *Czech PM names fourth health minister amid Sputnik vaccine strife, Reuters – Apr. 7, 2021*
[4] *Vaccine diplomacy will bring modest gains, Eurasia Group – Apr. 1, 2021*
[5] *Vaccine initiative seeks to boost the quad's influence in the Indo-Pacific, Eurasia Group – Mar. 5, 2021*

Vaccines' efficacy

Company	**Pfizer-BioNTech**	**Moderna**	**AstraZeneca**	**J&J**	**Novavax**	**Sinopharm**	**Sinovac**	**CanSino Biologics**	**Gamaleya**
Country	**US & Germany**	**US**	**UK & Sweden**	**US & Belgium**	**US**	**China**	**China**	**China**	**Russia**
Efficacy rate	91%	>90%	76% (U.S study)	US: 72%, BRL: 68%, SAF: 64%	96%	79% no details published of Phase 3 trial.	BRL: 51%, TKY: 91%, CHL: <70% no publication of trials' details	65% no details published of Phase 3 trial and efficacy could decrease over time according to the chief scientific officer	92%
Variant efficacy									
Brazilian variant	expected to be effective	expected to be effective	effective				may not be effective		
South-Africa variant	slighlty less effective	slighlty less effective	not effective (however, small trial)	less effective	49%	slightly less effective but no publication in a medical journal			

Source: NY Times, Reuters, Amundi Research

CENTRAL & ALTERNATIVE SCENARIOS (12 TO 18 MONTHS HORIZON)

Monthly update

We note progress on the vaccine front despite logistics and side effects issues. In our central scenario, equities outperform on the back of abundant liquidity, improving fundamentals and accommodative monetary policy. Vaccine resistant virus variants, hawkish policy surprises and geopolitical tensions are the main sources of risks. Beyond 18 months, we expect (US) growth to revert to potential amid an higher inflation regime while stagflationary pressures will rise across Europe.

The balance of risks evolves over time. While it is premature to significantly de-risk portfolios while macro and micro fundamentals are still improving and accelerating, we believe there are narrower margins for a policy mistake or adverse events.

DOWNSIDE SCENARIO 10%

Multifaceted pressures*

Analysis

- Genetic evolution of the virus leads to cases spikes leading to growth relapses and lockdown measures until 4Q21, prolonging the crisis
- Vaccine side-effects and/or lasting shortages undermine confidence and diminish global prospects
- The highly pro-cyclical US policy ends up destabilising inflation expectations and causes a rise in interest rates, the USD and/or commodities, hurts risky assets (volatility shock) and impairs financial stability. Tighter financial conditions exacerbate economic and financial fragilities
- Euro-area fails to engineer the relaunch of the recovery with some countries falling into stagflationary spirals
- Lack of growth hurdles debt sustainability
- Chinese growth slowdown spills over to DM economies
- The rebalancing of geopolitical equilibria leads to protectionism and de-globalisation, negatively affecting trade and global value chains

Market implications

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

CENTRAL SCENARIO 70%

Multi-speed recovery

Analysis

- Vaccine rollouts surging in 1H21, though uneven across regions. Weakening in EM growth and likely in Europe, due to delays in vaccination and/or new lockdowns
- Policy boosters allow a multi-speed recovery narrowing the growth premium gap between EMs and AEs (US driven)
- Despite political commitment to mobilise fiscal policies in AEs, execution in the EU likely to be diluted
- Accommodative monetary and fiscal policies continue to support the recovery, keeping deflationary risks at bay and allowing debt/GDP ratios to stabilise for the time being
- Positive momentum, albeit at different speeds, in corporate earnings, reducing solvency risks
- The Covid crisis exacerbates income and wealth inequalities, thus increasing social and political tensions
- Macro and micro fundamentals positive momentum to pause. Stretched risk asset valuations and technical narrow the room for manoeuvre if something goes wrong

Market implications

- In a cross asset perspective, progressive rotation from Credit HY into equities. Value and cyclicals outperformance to continue. Favour barbell positioning in the equity and currencies space
- Contained steepening of US Treasuries yield curve spills over into EZ and EM.
- Maintain growth and income pockets with EM Equity and credit on rising earnings. Selective on EM HC.
- Favour linkers as an inflation hedge

UPSIDE SCENARIO 20%

Sustainable & inclusive recovery

Analysis

- Mass vaccinations resolve the public health crisis by the end of 1H21, eventually enabling a full global recovery in 2H21
- With less uncertainty, policy boosters feed through to the real economy and financial markets, closing the gap between manufacturing and service sectors
- Savings turn into consumption on increased disposable income, which allows a virtuous circle of growth/ inflation (no global overheating)
- Inclusive and sustainable growth diminishes the need for further policy support to reduce inequality gaps
- The US job market is recovering faster than expected and wage pressure arise
- Medium-term productivity gains from new digital and green developments

Market implications

- US Treasuries curves bear steepen on fast rising growth and inflation expectations
- Favour risky assets with cyclical and value exposure
- Favour linkers as an inflation hedge

* *There is no single downside scenario. Here, we take into account the many downside risk factors we have identified. These risk factors may or may not combine to give rise to a relapse in growth and/or higher inflationary pressures, and thus generate renewed volatility in the markets. Some risks are "exogenous" (pandemic dynamics, availability of vaccines), others are directly related to the crisis and/or economic policies. While the virus related risks should decrease over time thanks to the vaccination campaigns, the other risks mentioned in the Top Risks will have higher occurrence probabilities over the next 12 to 18 months.*

TOP RISKS

Monthly update

Risks are clustered to ease the detection of hedging strategies, but they are obviously linked. We have left the narrative and the risk of the central scenario unchanged this month.

ECONOMIC RISK 15%

- **Pandemic 2.0 with vaccine rollout issues**
  - Unexpected logistic issues or side-effects of the vaccine could have a very negative impact on investor and business sentiment
  - One or several virus variants that would make existing vaccines ineffective would undermine the economic recovery
- **A protracted recovery with multiple relapses** might hit business and consumer confidence, looping in sectors that have not yet been directly hit by the pandemic, such as financials
- **Underestimated hysteresis effects in the labour market,** with rising unemployment could generate social tensions
- **A rebirth of inflation and a second "taper tantrum"**
  - Upward inflation pressures could build up, as the epidemic fades away
  - QE programmes may become problematic as inflation expectations rise
  - Inflation dynamics and central banks' reaction function could be sources of uncertainty, in particular in EM, where inflation is close to most CBs' target
  - An early exit or miscommunication by the Federal Reserve could lead to a second taper tantrum similar to 2013

+ **Cash, linkers, JPY, Gold, USD, Defensives vs. Cyclicals**

- **Oil, risky assets, AUD CAD or NZD, EM local CCY exporters**

FINANCIAL RISK 20%

- **De-anchoring inflation expectations** leading to a bond market dislocation as an outcome of policy mistakes (such as pre-emptive monetary policy tightening or outsized fiscal plans)
- **Corporate solvency risk:** Despite improving fundamentals, the magnitude of the recession increased solvency risks once central bank liquidity and government guarantee schemes 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, in the event of policy errors
  - Emerging market fragilities (single-commodity exporters, tourism) could also face a balance of payments crisis and increased default risks
- **USD instability, which could impact in both directions:**
  - **(1) depreciation c**ould push the Fed to stop its APP and negatively impact the Treasuries market, bring deflation into the EZ and Japan, and undermine the EM recovery; **(2) appreciation** could hurt EM countries, with higher UST yields spilling over into the Eurozone bond market

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

- **Oil, risky assets, frontier markets and EM**

(GEO)POLITICAL RISK 15%

- **US/China cold war**
  - Democrats take a hard line with China
  - Several sanctions and delisting of Chinese companies are signs of escalation
  - Possible accidental confrontations in the South China Sea or the Taiwan Strait, where Chinese aircraft are regularly making incursions
- **Instability within, and among, EM countries** on the back of chaotic virus crisis management and rising food prices
- **Post-Brexit risk of undermined European cohesion**
  - 2020 ended with an exit deal but implementation proves to be a lot more disruptive than expected
  - Tensions arise in Northern Ireland on new boarder rules
  - The City might lose market share faster than expected
  - The UK has to decide where to stand between the US and the EU, as well as China

+ **DM Govies, cash, gold, linkers, USD, volatility, quality**

- **Oil, risky assets, EMBI**

CROSS ASSET DISPATCH: Detecting markets turning points

How to the read turning point assessment

Not reached yet too early to call it | Approaching to the turnaround | Turnaround happened

ECONOMIC BACKDROP

- Economic activity in the Eurozone remains heavily impacted by the Covid-19 restrictions, as confirmed by both soft and high-frequency data. Divergences at both national and sector level remain evident, with the manufacturing sector outperforming services. Growth should progressively gain momentum from Q2 onwards as economies gradually reopen.
- Economic activity in the US is gradually gaining momentum with both high-frequency and soft data showing a sustained increase in private-sector business activity in the manufacturing and service sectors. The new fiscal stimulus will further support growth.
- A gradual reversal in economic surprises will likely continue as further upside surprises become increasingly difficult to materialise, as the consensus remains very high.

FUNDAMENTALS & VALUATION

- Current market levels already discount a significant part of the expected recovery in profits.
- Absolute PE levels are above historical trends despite growth remaining a solid argument for a temporary divergence from the historical average.
- After the recent spike in rates, the relative value metrics offer less support for markets to move significantly higher.

NEUTRAL + ASSET ALLOCATION

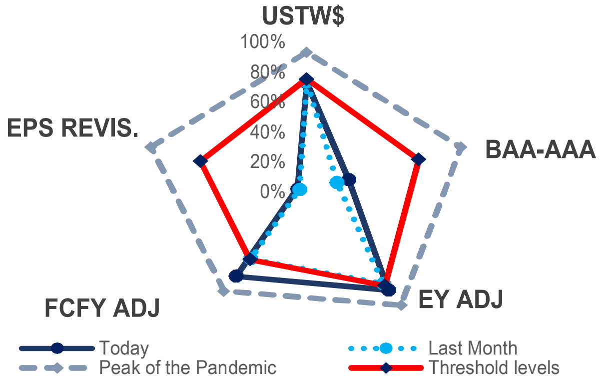
TECHNICALS

- Technicals remain mixed and challenging for the entire risky assets spectrum.
- While equities and HY still show decent momentum scores (signalling that investor appetite is still anchored to those assets), contrarian signals are flashing orange (i.e. neutral exposure), as most of those assets seem getting closer and closer to overbought territory.
- Our RSI-based signal looks less stretched now that markets are in a consolidation phase, yet we remain far from a green light.
- With rising interest rates weighing on multiples (which remain stretched and linked to the huge liquidity injected into the system) and no clear-cut directionality in many risky markets, we see no clear-cut signals from a technical perspective.

SENTIMENT

- Risk sentiment remains strong despite the turbulence associated with the quarterly rebalancing (Q1 2021).
- The overall RISK OFF probability remains low and continues to suggest an overweight in risky assets at the expenses of defensive.
- The following two points are to be closely monitored in our view. i) The sharp bounce back in the USD (so far contained) did not translate into lower EPS revisions and higher Credit risk premium. Should that happen, we expect our CAST indicator to deteriorate from current levels. ii) Financial conditions didn't deteriorate globally in response of the sharp nominal/real interest rates repricing we had in Q1 and seem currently stretched from historical standards (signalling complacency in the market).

Cross Asset Sentinels Thresholds (CAST) still supportive



Source: Amundi Research, Data as of 19 April 2021

CAST flags extremely low risk perception.

Sentinels remain in pro-risk territory due to a general improvement in all its components (except ERP adjusted for credit risk).

<u>Methodology</u> We consider five inputs which we call "Sentinels": USTW$, Moody's Baa-Aaa, EPS revisions, Earning Yield risk adjusted and Cash Flow yield risk adjusted. 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 visualizes 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 A tactical pause in global economic momentum

- We are observing a tactical pause in the very strong rerating of global economic momentum that began in April last year.
- EPS revisions and economic surprises seem to have peaked from very elevated levels, signaling that expectations may have already been priced in and a pause in the recent optimism build-up may be due.

Investment consequences:

- In cross asset, the current "risk-on" stance is confirmed, although cautiousness is required on valuations both in absolute and relative value terms
- The recent upward trend in the USD could affect the pro-risk stance if it spills over into credit and triggers EPS revisions

2 US inflation to normalise, differing trends within the EA, Brazilian inflation to watch

- In the most advanced economies, inflation is set to move close to the CB target by the end of 2021.
- US inflation is rising faster than Euro Area inflation. Germany should see the highest peak in headline inflation, while Spain and Italy should be the laggards.
- EM inflation is visible on the cost side, magnified by currency weaknesses
- Looking at the historical evolution of US inflation indices, we envisage a high probability of a normal (CPI between 2-3%) to inflationary regime (CPI 3-6%) up to 2023.

Investment consequences:

- Risky assets perform best when inflation is at a "normal" level.
- In an inflationary environment, while equities continue to make positive returns (single digit), credit spreads tend to widen as central banks resume a tightening policy. Unsurprisingly Linkers offer a hedge in such a regime.

3 The cyclical rotation will continue

- The first indications from the Q1 earnings season sound promising, with consensus expectations moving significantly upward over the last two weeks. For the S&P 500, IBES foresees +31% vs. +24% on April 1. Idem for the Stoxx 600 with +56% vs. +47% respectively.
- In both regions, sectors that were the first to be hit last year, such as financials and cyclical consumer, are now leading the rebound. Even if these preliminary numbers are poised to fluctuate, this pro-cyclical pattern looks here to stay.

Investment consequences:

- The pro-cyclical rotation continues, is mature, but has further to go. Value may also be supported by stronger EPS growth going forward as well as some momentum.
- We are keeping a pro-cyclical positioning also on regions with an overweighting in EM, EMU, Japan and Pacific excl. Japan, neutral on the US and the UK, and an underweighting of defensive markets such as Switzerland in Europe.

4 China's growth recovery to continue at a strong pace; reflation without high-flation

- We expect economic recovery to re-accelerate in sequential terms after the Q1 slowdown, driven by the services sector.
- Growth will be less of a concern for policymakers, leading to cautious fiscal/credit policy tapering plus targeted tightening in the housing market.
- Inflation should not be an issue for the PBoC in 2021. We expect PPI inflation to peak in Q2 amid moderating fiscal and credit impetus. CPI inflation should strengthen at a gradual pace in 2021/22, with core inflation staying below 3%.

Investment consequences:

- The transitory spike in inflation, re-acceleration of sequential growth and increased bond supply should cause upward pressure on government bond yields in Q2. We prefer to buy into yield pick-ups, if any, as yields are likely to hold stable 12m from now.
- As the liquidity tide begins to ebb, we remain selectively constructive on China's equity market, favouring dividend stocks over growth stocks. Small caps also have higher upsides in the near term, benefiting from a broadening economic recovery.
- Lingering SOE and LGFV default risks continue to weigh on the credit market and prolong risk aversion.

5 Japan's two-track recovery to continue, well-positioned in the global capex upcycle

- The vast contrast between domestic and overseas machinery orders in early 2021 suggests external capex demand remains the main driver of Japan's recovery.
- Japanese corporate profits tend to move in tandem with the global manufacturing cycle. In light of the global manufacturing recovery, Japan's profit growth should continue to bounce back.

Investment consequences:

- Japan remains a cyclical play, which should be favoured in a global recovery, while the Yen should weaken along with the potential increase in appetite for carry trades.
- We are keeping a slightly positive bias only as the risk is that the global recovery, once Japan and Europe join the US and China, could also be coupled with less upward pressure on the USD.

Amundi ASSET MANAGEMENT | Research

CROSS ASSET
INVESTMENT STRATEGY

May 2021 #05

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