

Confidence  
must be earned

**Amundi**  
ASSET MANAGEMENT

AUGUST 2021

# Global Investment Views



**Pascal  
BLANQUÉ**  
Group Chief  
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Deputy Group Chief  
Investment Officer

## Overall risk sentiment

Risk off Risk on



We stick to our risk-neutral conviction and avoid any knee-jerk reaction to market noise by staying active, selective in credit and equities.

## Changes vs. previous month

- Positive Chinese gov't bonds, CNY, and BRL (relative value) in multi asset
- Hedges to protect DM equity exposure

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

## From growth euphoria to inflation blues

The past weeks have confirmed that phase one of the 'great recovery' is now behind us. We have entered a new sequence: PMIs decelerating from their peaks and concerns about the spread of the Delta Covid-19 variant are features of it. Some cracks in the reflation trade that has lifted markets in 2021 have driven a pause in the cyclical/value outperformance. In contrast, the acceleration in inflation continues, with the latest numbers in the US once again far above expectations. **Where things will land in terms of economic growth and inflation are the big questions now.** On growth, future expectations have been revised downwards but on inflation markets believe the inflation pick-up is temporary. This means that while a few weeks ago the consensus was for 'great' higher growth with still-low inflation, in recent days we have moved to somewhat lower 'good' normal growth with still-low inflation. **The next move may be more challenging, as the probability is rising that we are entering a scenario of uncharted territory, with lower growth and lasting inflation above central bank-target** (strong housing market, mismatch in labour market). The inflation-versus-job-markets equilibrium is increasingly an issue for the Fed as economic growth decelerates and inflation risks look like they may last longer than expected. **The window of opportunity for the Fed to start tapering is narrow and communication matters more than ever now.** On the investment front, we stick to some key convictions to navigate this uncertain time:

- It is not a time to add risk, we maintain a neutral risk stance.** We are approaching an inflection point on Fed policy and conditions could quickly turn more volatile as markets are still too complacent on inflation/yields. Any short-term correction in equities could offer better entry points. In fact, equities tend to perform better than bonds in an inflationary environment (but not hyperinflation). However, investors should remain vigilant on economic data and the Q2 earnings season to assess whether or not companies will be able to pass rising costs on to consumers and keep margins safe.
- Regarding equities, we confirm the value rotation call but are aware the road will remain bumpy.** Markets face two concerns regarding valuations: (1) how rates will increase and how this will affect valuations; and (2) if growth stalls, how this will affect earnings and margins. We think the latter is driving markets more. But when there is clarity on growth and the potential spread of virus variants, the focus should return to rising rates and favour value once again.
- In bonds,** a short duration stance is recommended, together with greater scrutiny on credit. When the Fed decides to announce tapering, investors could be forced to judge how that affects their credit exposure. Credit that is extremely sensitive to core yield movements should be avoided. Instead, the focus should be on businesses with the potential to improve fundamentals and credit metrics (sales growth vs. debt growth). CBs remain the key players in this inflation/growth trade-off. The ECB continues to appear dovish, as it switched from its lower-than-2% inflation target to a more symmetrical 2% inflation goal, where upside and lower deviations are equally undesirable. This review removes an inherent deflationary bias present in the previous system, which made above-target movements in inflation unacceptable. It also puts at the forefront the ECB's green agenda in its asset buying. In China, the reality of slowing growth has resulted in the PBoC realising that economic momentum is slowing, leading it to end tightening by reducing the amount banks are required to hold as reserves. Given that Chinese demand now drives global demand and inflation, movements in the Chinese economy and money supply have the potential to affect DM. **These differences in CB policies provide the opportunity to play relative value trades in bonds and FX.** We see value in Chinese bonds and the CNY amid the prospect of their inclusion in global bond benchmarks (FTSE global index).
- In EM,** some headwinds should be taken into consideration. While we do not expect to see a 2013-like taper tantrum, we are preparing for gradual hikes in US rates with a cautious duration stance and with selection in credit. In EM, the cyclical recovery is likely to be delayed, as infections due to the Delta Covid-19 variant have been on the rise because vaccination rates in EM lag those in DM. Against this backdrop, we maintain a prudent approach, in particular on LC markets.

To conclude, we think we have entered a new phase: the **euphoria regarding growth has gone and the focus is now on inflation blues.** Markets should not be worried about the Fed's action at this point: for example, with regard to a scaling back of purchases in the mortgage markets. **A little dose of tapering could help avoid nasty consequences and bubbles later on.**

CROSS ASSET RESEARCH ANALYSIS



**Monica DEFEND**  
Global Head of Research

## Unconventional monetary policy and UST rates

The long end of the UST yield curve has endured years of unconventional monetary policy (UMP). At the beginning of Q2, we were prepared for higher volatility in bond markets, calling the end of the “great moderation” endorsed by policymakers. The speed and the direction of long-term Treasury yields caught us by surprise. In particular, the persistent descent of the UST10Y in the face of rising inflation and improving economic and corporate earnings growth challenges our short duration view. A variety of explanations lie behind this move: market participants fully buying the ‘transient’ inflation story, CTAs’ automatic repositioning (systemic strategies), ‘irrational exuberance’ in the financial markets and, more recently, the flight to safe havens amid fears of the spread of the Delta Covid-19 variant.

**Where do we stand in all this? We think the Delta variant is a prominent risk but that recession fears are overdone at this stage.** While vaccines alone may not be the endgame, governments have learnt how to temper the spillover of the pandemic on economic growth. Incidentally, US growth peaked in Q2 and will progressively decelerate to potential in 2023. We also believe that **current inflation levels are transient but an inflationary regime shift is in place** (estimated US CPI for 2021 is 4.1%), with some key elements such as shelter, PPI and the green transition being more persistent. **This leads us to the view that a first leg up of higher rates this year will rely on a genuine growth improvement and a further one will rely on drifting higher price dynamics.** This is not materialising yet. While we are convinced that positioning played a role in yield movements, long-term real yields have endured years of UMP and therefore fundamentals must be considered. Based on our simulations<sup>1</sup> applied to the US yield curve, we can draw certain conclusions: **(1) central banks’ UMP has induced a paradigm shift to key drivers of rates, i.e., long-term inflation**

expectations (the 5Y5Y inflation swap), the Fed balance sheet (B/S) to total US debt ratio, and investors’ sensitivity to this ratio. Importantly, rate hikes will have a limited impact on the long end (i.e., a 25bps hike would likely lift the UST10Y yield by 6bps). Long-term expectations remain anchored (5Y5Y at 2.46%) and **asset purchases remain the major driver of long-end real rates.** In addition, the combination of balance sheet changes to US total debt and investors’ sensitivity to this ratio explains almost -100bps on the UST10Y real rates and -180bps on the UST30Y. The Fed balance sheet/total US debt ratio is now at a record high of 28.06% and is expected to move to 28.6% in a year. Surprisingly (and unrealistically), if it is reduced to 26.9% (i.e., tapering the \$120bn in 2021 to \$0 asset purchases in 2022), everything else being equal, the UST10Y will shift to 1.8%. For even higher rates, we would need higher long-term inflation expectations and/or the Fed to lose credibility;

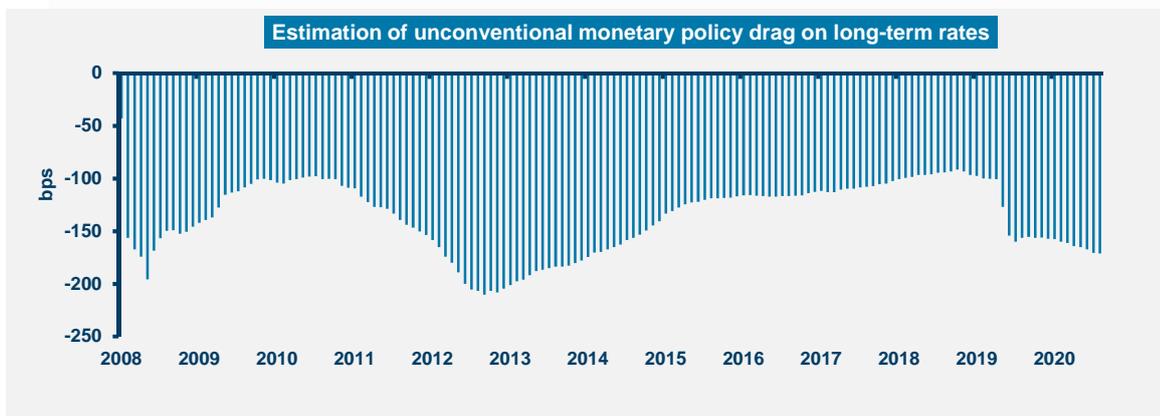
**(2) fundamentals at present set the UST10Y fair value at 1.7%.** Market participants’ addiction to UMP sets a cap to the upside potential of yields;

**(3) for the UST10Y to rise above 2%,** long-term inflation expectations must move persistently above 2.75-3%, and a remarkable shrinkage of the Fed’s B/S or an increase in US debt would be needed;

**(4) in an alternative scenario, for the UST10Y to move above 2%,** rates must turn inelastic to B/S changes, everything else remaining equal. This might happen if the Fed loses credibility (bad) or successfully normalises to pre-Lehman levels. Only this case is positive for risk assets.

**To conclude, we believe it will be difficult to ‘de-addict’ the markets from years of UMP and hence changing the sensitivity to the Fed’s B/S will take some time.** We reiterate our view of the UST10Y yield moving to 2-2.30% in the next 12 months.

“  
*Unconventional monetary policies largely explain the subdued levels of yield on the 10Y US treasury, despite higher inflation: we confirm our target of 2-2.3% for the next 12 months.*  
”



Source: Amundi Research, as of 22 July 2021. PPI: Producer Price Index.  
<sup>1</sup>Nelson Siegel estimation

MULTI-ASSET



**Matteo GERMANO**  
Head of Multi-Asset

## Explore all ‘levers’ and wait for better entry points

The economic backdrop continues to be favourable for risk assets, but importantly we are now approaching the peak of the growth resulting from the post-Covid-19 reopening. On the other hand, inflation is increasingly becoming a risk to consider, and this is not yet priced into markets. However, now is not the time for a structural de-risking but rather a time to monitor hard/soft data and the Fed’s communication. Investors should also look for indications of sustainable earnings growth, which could provide attractive entry levels in equities. **Thus, with a vigilant stance, investors should use a diversified array of assets, including Chinese debt, to ensure robust risk-adjusted returns in a low-rate environment in DM. Investors should also implement relative value strategies and enhance hedges amid the Covid-19-related risks on the horizon.**

### High conviction ideas

**We are neutral on equities, maintaining a ‘wait-and-watch’ view in both DM and EM.** We believe the focus on valuations is even more important now because the return of inflation and potential stagflation worries are raising some questions on corporate margins. While there are some headwinds (i.e., the recent curve flattening) to the cyclical/value rotation, the reopening of economies, the spread of virus variants and earnings growth are the key variables to watch. On EM, we are neutral overall but with a positive stance on offshore Chinese equities, given the country’s stable economic growth, its reorientation towards domestic consumption and continued government policy support (policy divergences from the US) should benefit equities in the long term.

**Our defensive stance on the 10Y UST and on core Euro debt is maintained.** The former should be weighed down by a recovering US economy, rich valuations, rising deficit and inflation. But this upward yield movement will not be linear, so it is important to remain flexible. In addition, we keep our UK 2-10Y curve steepening view in light of the economic reopening and inflation expectations, but

we are closely monitoring rising infections.

**Going forward, the importance of Chinese assets will increase for global portfolios.** Hence, we are now constructive on local government debt as it should benefit from positive sentiment and continued flows (passive investors) for the next few years based on its inclusion in global indices. In Europe, we are constructive on our relative 30Y BTP vs. Bund position. Peripheral debt is supported by the reaffirmed ultra-easy stance of the ECB and a lower BTP supply for the remainder of the year.

**Credit remains a key source of return** and we like EUR IG and HY due to their attractive carry, deleveraging and improving credit metrics. Despite tight valuations, IG continues to be supported by the global reopening, the favourable risk sentiment and technicals, driven by ECB purchases. In HY, favourable economic prospects and financial conditions for the EZ, downward trends in default rates and attractive carry allow us to stay positive. On EMBI spreads we remain neutral.

**Further, when tight valuations and positive economic backdrops persist simultaneously,** we believe a relative value approach towards FX can unearth strong investment ideas. We are now optimistic on BRL/EUR because of rapid vaccinations, the improving economy and normalising rates (attractive carry). We also look at FX through a geopolitical lens. We maintain our positive stance on KRW (semiconductor cycle and green transition) and CNY (driver of intra-Asian trade) vs. the EUR. In DM we are cautious on GBP/EUR but maintain our reflationary view through the FX carry trade basket of the NOK, CAD, GBP, USD vs. the EUR, CHF and JPY.

### Risks and hedging

While the economic environment is positive for risk assets, we see some risks related to the spread of the Delta Covid-19 variant, with some possibility of renewed lockdowns after the summer. Hence, we recommend the use of hedging strategies to safeguard DM equity exposure.

“  
*In an environment of stabilising growth momentum and an upswing in inflation, a diversified allocation allows investors to extract value from a broad array of assets and protect their exposure in case of a downturn.*  
”

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. BoE = Bank of England, 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.

FIXED INCOME



**Eric BRARD**  
Head of Fixed Income



**Yerlan SYZDYKOV**  
Global Head of Emerging Markets



**Kenneth J. TAUBES**  
CIO of US Investment Management

“  
**Investors should prioritise selection over market exposure in order to limit their duration exposure and asymmetric risks, and also to generate robust inflation-adjusted returns.**  
”

## Don't chase the falling yield trend at these levels

While the inflation and growth debate continues, bond markets seem to have gone too far in pricing in a pessimistic scenario of very low growth due to the spread of the Delta variant. We believe the low hospitalisation levels indicate only a limited possibility of a repeat of the complete lockdowns we saw last year. However, uncertainties remain in the form of the size of the US fiscal package and slowing vaccinations. Thus, while staying agile, and tactically playing opportunities (on duration, and yield curves), investors should maintain long-term convictions, not chasing the downside trend in US bond yields, and monitor the movement of real rates and the Fed's communication. **We remain mildly positive and active on risk assets as the economic recovery continues.**

### Global and European fixed income

**With an overall active stance, we remain cautious on UST and core Euro bonds** but recommend investors **balance these with some tactical positions at curve and country level.** Overall, we see some curve steepening potential in Europe but think investors should reduce their flattening stance on Italy. We remain constructive on euro peripheral bonds and Chinese bonds. Unsurprisingly, we are optimistic on inflation in the US and Europe.

In credit, the environment is benign as metrics are improving but it not a story of sectors but rather of idiosyncratic risks. **We are constructive on credit and advise investors to keep shorter duration debt** amid the risks to portfolios from rising rates, inflation and liquidity concerns. Interestingly, investors can avoid asymmetric risks by focusing on selection and fundamental ESG analysis (increasing importance in light of the ECB review, COP26). Furthermore, we like the themes of subordination, ratings (rising stars in BB-rated debt) and sectors (cyclical recovery).

### US fixed income

Biden's stimulus plans are hitting speed bumps but the Fed continues to prioritise employment generation over inflation. We think rising debt and the fiscal deficit are likely to pressurise the USD and Treasuries. Hence, we are cautious on duration but stay active and are monitoring the growth concerns stemming from the slowing vaccinations. Our convictions on growth and inflation allow us to believe in yield curve steepening. **The search for income persists in corporate credit as real rates are negative.** Our focus is on resilient names amid rates and inflation pressures. We prefer idiosyncratic risk over beta exposure (IG). HY, on the other hand, is more attractive from a carry perspective, but selection is important. Residential and consumer mortgage markets remain strong amid high consumer earnings and low delinquencies. However, expectations of duration extension could be a risk.

### EM bonds

Resurfacing inflation in certain countries and concerns about peaking global growth are the key factors to watch. We favour HC credit risk but are cautious on duration. LC bonds are still expensive and require a selective approach. Not surprisingly, lower-rated names in HY have been weak but higher-rated ones have shown resilience. Thus, we remain focused on selection to balance yield, quality and liquidity.

### FX

The situation is nuanced on the USD amid twin US deficits and the rising growth differential with the world. We have reinforced our dollar view and look for signs at the Jackson Hole meeting. We are now positive on the CNY but less constructive on commodity FX (AUD, MXN, RUB). However, we keep our cautious view on EUR, JPY and CHF.



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

## Better entry points to play the value rotation

### Overall assessment

Reflationary momentum has been affected by growth concerns and the spread of virus variants. However, hospitalisations remain low and that serves as a confidence booster for the value/cyclical trade even if we continue to believe earnings growth will drive markets. The recent correction of value is not, in our view, the end of the trade but provides better entry points for it. **The important questions for companies now are how transitory price pressures are and what their ability to pass price rises on to consumers is.** Companies with intellectual property and strong brands are better positioned in this respect. Overall, the relative valuation of equities vs. bonds is attractive but assessing the inherent strength of businesses is the path going forward.

### European equities

We continue to believe in a recovery supported by vaccinations but are monitoring hospitalisations, which may affect the reopening in certain countries. We also believe in rotations towards quality value and cyclical stocks, although we are aware that it **will not be linear.** We are positive on industrials and financials. On the other hand, we acknowledge the risks to some peaking of growth momentum and keep a balanced stance. We like defensive sectors, such as telecoms and healthcare (less positive). Some segments of the market, notably information technology (IT), are extremely ebullient, leading us to raise our cautious stance. Overall, we continue to explore opportunities through fundamental ESG analysis. We are defensive on the energy sector due to issues around sustainability but valuations are very attractive, so we may find selective opportunities. We also favour the dividend theme.

### US equities

The value vs. growth performance has weakened recently due to concerns related to reopenings, virus variants and falling yields. We believe this recovery should continue amid the low hospitalisations and that the accompanying demand (demographics) will be supportive of a recovery in the medium term. As a result, the growth outperformance of the past month is unlikely to be sustained. **While we like high-quality cyclical value names, we focus more on businesses' strengths and strategies.** We are **exploring value tech** in light of the higher margins and **domestic value, as well as cyclical names** as these companies tend to have better control over supply chains relative to the more global names. Pricing power and bottom-up selection are crucial. Our sectoral preferences in financials and energy reflect our continued tilt towards normalisation and reflation. We also like select defensive names in the healthcare sector that provide some balance to our normalisation bias. We avoid expensive growth names in the technology sector and distressed value.

### EM equities

EM prospects are supported by attractive relative valuations and strong earnings potential. We believe the upward trend in the earnings recovery in 2H21 will be concentrated in EMEA (Russia) and LatAm (Brazil). At a sector level, we favour discretionary, real estate and industrials, but maintain a cautious stance on healthcare and have downgraded Chinese financials. However, the moderation of Chinese growth, the global bond yield environment, the spread of the Delta variant and idiosyncratic tensions are all risks.

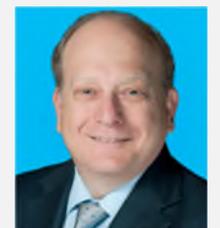
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**While relative valuation of equities is still attractive, investors should rely on a disciplined selection process to identify companies that can protect margins in the face of rising input costs.**”



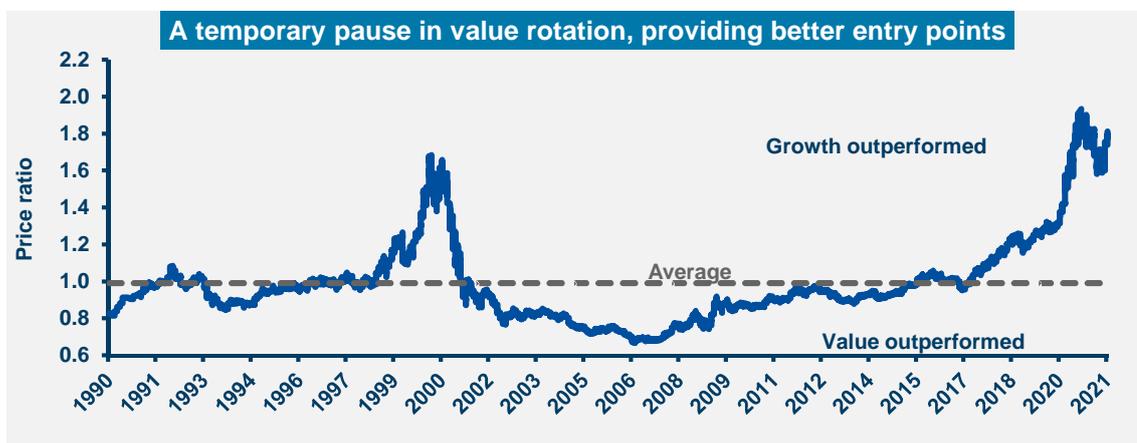
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Source: Amundi, Bloomberg, as of 23 July 2021. Russell 1000 Growth and Value indices shown above

# Amundi asset class views

	Asset class	View	1M change	Rationale
EQUITY PLATFORM	US	=		We are seeing some hiccups in President Biden's fiscal stimulus plans amid slowing vaccinations and the spread of virus variants. However, markets seem to be underestimating the will of the government to reopen the economy as hospitalisations remain low. We believe this is not a time to reduce the cyclicality in portfolios, but to remain selective in light of growing consumer demand, expectations of an earnings revival and inflationary pressures on corporate margins.
	US value	+		The recent underperformance of value doesn't change our view of a medium/long-term rotation in sectors linked with a recovery. However, it does highlight our belief that the rotation to high-quality cyclical names will not be linear and merely 'owning the style' will not be sufficient. In this next leg, strong selection will be key to generating sustainable returns.
	US growth	-		We think the recent outperformance of growth is driven more by a fall in yields and is unlikely to be sustained, given the high valuations and inflationary pressures. We are particularly cautious on hyper-growth and high momentum.
	Europe	=		The region should witness robust growth but as we progress into the earnings season we will see future guidance (we think earnings should grow) on how companies will pass rising costs on to consumers to protect margins. On the other hand, the market is fixated on inflation and the spread of virus variants amid the reopening. The value/cyclical rotation will likely continue but will not be linear. We are increasingly focused on ESG and dividend themes.
	Japan	=		Some renewed uncertainty over the Covid-19 resurgence affected the markets but given the country's cyclical nature and a weakening yen, markets should eventually catch up.
	Emerging markets	=/+		Rebounding EM growth, attractive valuations and continuing vaccinations are supportive of equities but we continue to favour value/cyclicals over growth names. There are some headwinds in the form of geopolitical risks and concerns around peaking global growth momentum. Chinese equities offer selective opportunities.
FIXED INCOME PLATFORM	US govies	-		We remain defensive on USTs due to the rising fiscal deficit, debt and our expectations that once the base effect-induced inflation cools it will still settle above pre-pandemic lows. But we remain flexible and agile, given that economic growth concerns due to slowing vaccinations and the market's acceptance of the Fed's transitory inflation narrative could cause some temporary yield softening. Importantly, the upward yield movement will not be in a straight line. Treasury Inflation-Protected Securities, however, are a better way to generate inflation-adjusted returns.
	US IG corporate	=		Amid expectations of peaking US economic growth and rising inflation, we believe owning the market is not sufficient to generate robust real returns. Therefore, investors should limit duration and focus on idiosyncratic risks. Consumer and residential markets remain strong but a focus on valuations is imperative.
	US HY corporate	=		HY is attractive from a carry perspective, but investors should seek to balance their search for higher yield with quality and liquidity. This can be done by a thorough research-driven process that unearths names with sustainable cash flows and the potential to improve credit metrics.
	European govies	-/=		Economic reopenings supported by ongoing vaccinations and spending plans allow us to remain cautious on core Euro bonds, but we acknowledge the unfaltering support from the ECB. On peripheral debt, however, we are positive, primarily through Italy, due to relatively higher spread tightening potential and the ECB's aim to avoid fragmentation in EU markets.
	Euro IG corporate	=/+		We prefer shorter duration debt. Given the risks to portfolios from rising rates, inflation and even from falling rates, investors should not become complacent. Hence, bottom-up selection and fundamental ESG analysis are key for portfolio construction. At a sector level, we prefer areas linked with the recovery (financials, energy and auto) and are exploring the BBB-rated segment vs. the A-rated segment, in which there are risks of re-leveraging. In contrast, we avoid senior banking debt and long maturity instruments.
	Euro HY corporate	=		Risky assets have recently been driven by liquidity, but future concerns around lower liquidity, coupled with higher inflation, might be problematic and may lead to higher volatility. Selection is crucial amid an improving economy and a lower default rate environment. Thus, we selectively play on the 'rising stars' in the BB-rated (cheap valuations) category and suggest investors search for yield in areas where the risk/reward trade-off is not asymmetric.
	EM bonds HC	=/+		While valuations look tight in HC and the corporate bond (favourable fundamentals and technicals) space, there is some near-term potential for spread tightening in the former. We favour credit risk but are cautious on duration. Overall, selection remains important in light of the risks related to the spread of the virus variants and inflation in some countries.
	EM bonds LC	=		We are selective on LC and stay cautious on FX. We think there are selective opportunities in LC in countries where the interest rate cycle will be the main driver of performance, but are mindful of risks related to USD strengthening.
OTHER	Commodities			A cyclical recovery is positive for commodity demand but there are concerns related to the moderation of Chinese growth. Oil should avoid any strong upward push as additional supply comes to the market (the recent OPEC deal). We keep our 12m target range at \$65-\$75/b for WTI. Gold, however, may witness some upside from rising inflation in the medium term.
	Currencies			Rates and the economic growth differential between the US and the rest of the world, and recent 'less dovish' FOMC comments, are causing some upside to USD movements at present. We keep our Q1 2022 target at 1.16 for the EUR/USD.



▼ Downgraded vs. previous month ▲ Upgraded vs. previous month

Source: Amundi, as of 22 July 2021, views relative to a EUR-based investor. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product. IG = investment grade corporate bonds, HY = high yield corporate; EM bonds HC/LC = EM bonds hard currency/local currency. WTI = West Texas Intermediate. QE = quantitative easing.

## AMUNDI Investment Insights Unit

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**Do not give up on fundamental valuations**

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### Definitions & Abbreviations

- Agency mortgage-backed security:** Agency MBS are created by one of three agencies: Government National Mortgage Association, Federal National Mortgage and Federal Home Loan Mortgage Corp. Securities issued by any of these three agencies are referred to as agency MBS.
- Beta:** Beta is a risk measure related to market volatility, with 1 being equal to market volatility and less than 1 being less volatile than the market.
- Breakeven inflation:** The difference between the nominal yield on a fixed-rate investment and the real yield on an inflation-linked investment of similar maturity and credit quality.
- Carry:** It is a return of holding a bond to maturity by earning yield versus holding cash.
- Correlation:** The degree of association between two or more variables; in finance, it is the degree to which assets or asset class prices have moved in relation to each other. Correlation is expressed by a correlation coefficient that ranges from -1 (always move in opposite direction) through 0 (absolutely independent) to 1 (always move in the same direction).
- Credit spread:** The differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration possible embedded options.
- Currency abbreviations:** USD – US dollar, BRL – Brazilian real, JPY – Japanese yen, GBP – British pound sterling, EUR – Euro, CAD – Canadian dollar, SEK – Swedish krona, NOK – Norwegian krone, CHF – Swiss Franc, NZD – New Zealand dollar, AUD – Australian dollar, CNY – Chinese Renminbi, CLP – Chilean Peso, MXP – Mexican Peso, IDR – Indonesian Rupiah, RUB – Russian Ruble, ZAR – South African Rand, KRW – South Korean Won.
- Cyclical vs. defensive sectors:** Cyclical companies are companies whose profit and stock prices are highly correlated with economic fluctuations. Defensive stocks, on the contrary, are less correlated to economic cycles. MSCI GICS cyclical sectors are: consumer discretionary, financial, real estate, industrials, information technology and materials. Defensive sectors are: consumer staples, energy, healthcare, telecommunications services and utilities.
- Duration:** A measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates, expressed as a number of years.
- Duration times spread:** It is the standard method for measuring the credit volatility of a corporate bond and is calculated by multiplying the spread-durations and credit spread.
- Equity risk premium:** refers to an excess return that investing in the stock market provides over a risk-free security such as US Treasuries.
- FX:** FX markets refer to the foreign exchange markets, where participants are able to buy and sell currencies.
- High growth stocks:** A high growth stock is anticipated to grow at a rate significantly above the average growth for the market.
- Liquidity:** The capacity to buy or sell assets quickly enough to prevent or minimize a loss.
- QE:** Quantitative easing (QE) is a type of monetary policy used by central banks to stimulate the economy by buying financial assets from commercial banks and other financial institutions.
- Quality investing:** to capture the performance of quality growth stocks by identifying stocks with: 1. high return on equity (ROE); 2. Stable year-over-year earnings growth; and 3. low financial leverage.
- Reaction function:** A function that gives the value of a monetary policy tool that a CB chooses, or is recommended to choose, in response to some indicator of economic conditions.
- TIPS:** A Treasury Inflation-Protected Security is a Treasury bond that is indexed to an inflationary gauge to protect investors from a decline in the purchasing power of their money.
- Value style:** refers to purchasing stocks at relatively low prices, as indicated by low price-to-earnings, price-to-book, and price-to-sales ratios, and high dividend yields. Sectors with dominance of value style: energy, financials, telecom, utilities, real estate.
- Volatility:** A statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.
- Yield curve control:** YCC involves targeting a longer-term interest rate by a central bank, then buying or selling as many bonds as necessary to hit that rate target. This approach is dramatically different from any central bank's typical way of managing a country's economic growth and inflation, which is by setting a short-term interest rate.
- Yield curve steepening:** This is the opposite of yield curve flattening. If the yield curve steepens, this means that the spread between long- and short-term interest rates widens. In other words, the yields on long-term bonds are rising faster than the yields on short-term bonds, or short-term bond yields are falling as long-term bond yields rise.

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