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Investing in the post-pandemic world

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Confidence
must be earned

Amundi
ASSET MANAGEMENT

The pandemic counts for regimes' shifts

Macro Dynamics



Transition: macro financial environment includes a larger role for central authorities in the market functioning pencilling a new macro financial ecosystem

Financial Markets



Influence: policies overwhelm asset classes' specific drivers, blurring market correlations and inducing a deep disconnect between macro fundamentals and markets

Long term convictions and positioning



Evolution: more explicit factor based approach to empower the search for cross asset opportunities amid unconventional market behaviours and narratives

Source: Amundi as of August 2021.

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Macro Dynamics

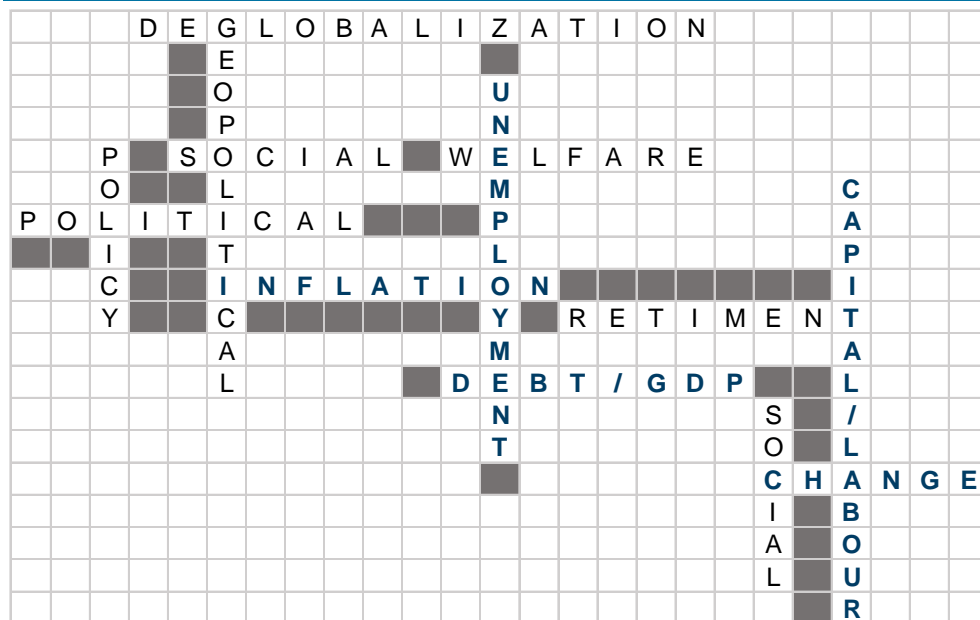
Transition: macro financial environment includes a larger role for central authorities in the market functioning pencilling a new macro financial ecosystem

A look through major macro fundamentals fast evolution

Profound shifts in the macro dynamics

Realize that everything connects to everything else

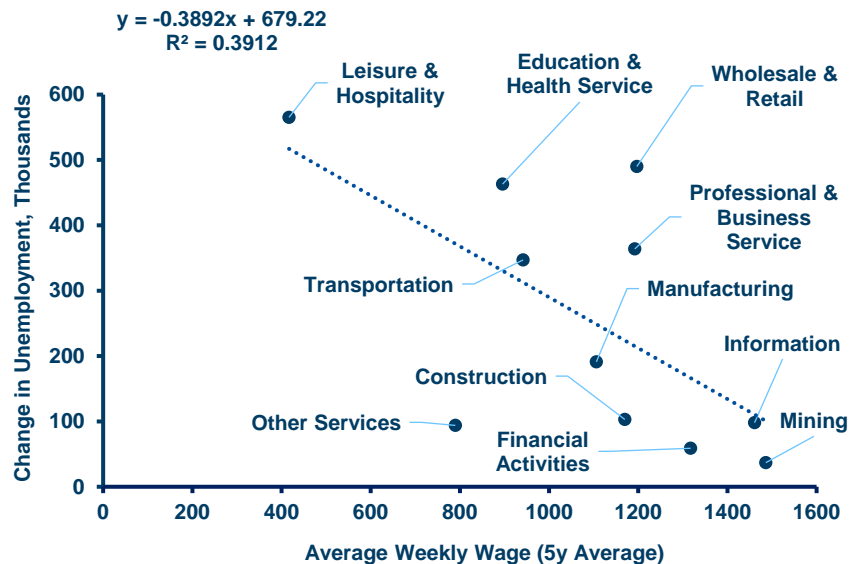
The possible unthinkable crosswords



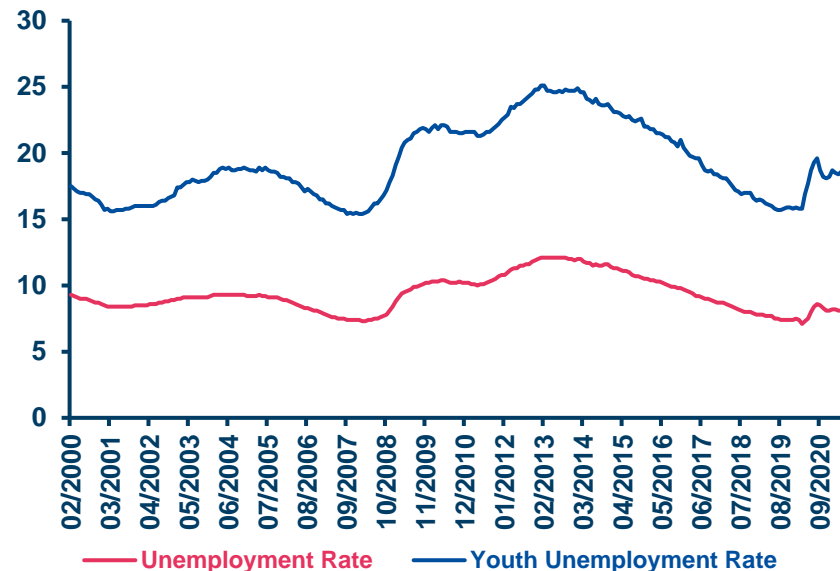
The “social virus”

unemployment, inequality

Increase in Unemployment Over the Course of the Pandemic by Business Sector



Eurozone Unemployment Rate (%)

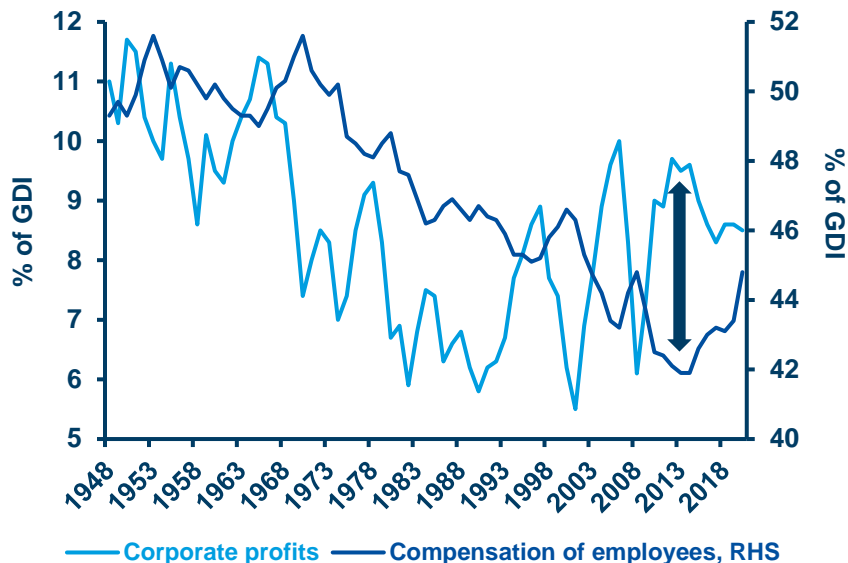


Source: Amundi Research calculations on Bloomberg, August 2021

Rebalancing capital and labour power

To fight inequality

US shares of gross domestic income



Source: Amundi, Fred database. Data is as of 24 August 2021.

Top 1% vs. bottom 50%, United States

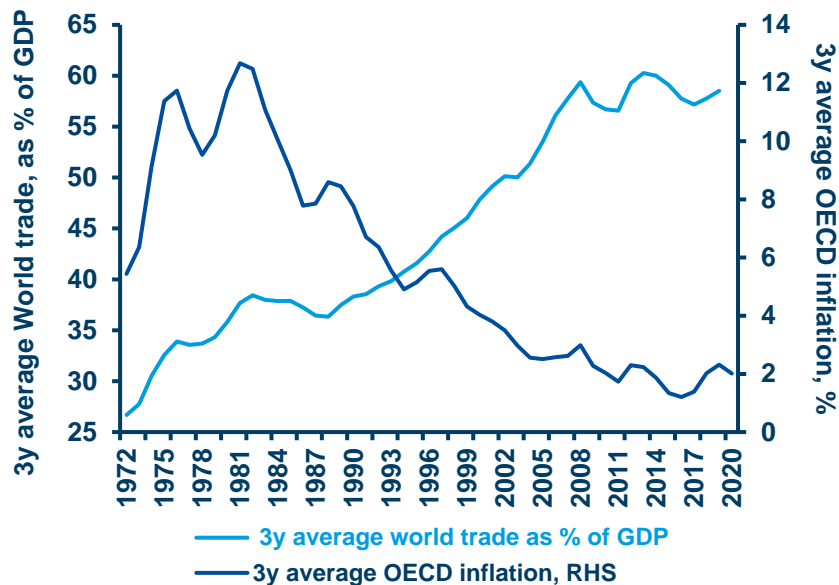


Source: Amundi, World Inequality database. Data is as of 24 August 2021.

From unbridle globalisation, to sustainable globalisation

Trade flows and de-correlated business cycle

Global trade and OECD inflation trends



Food supply chain challenged by global lockdown along all its parts

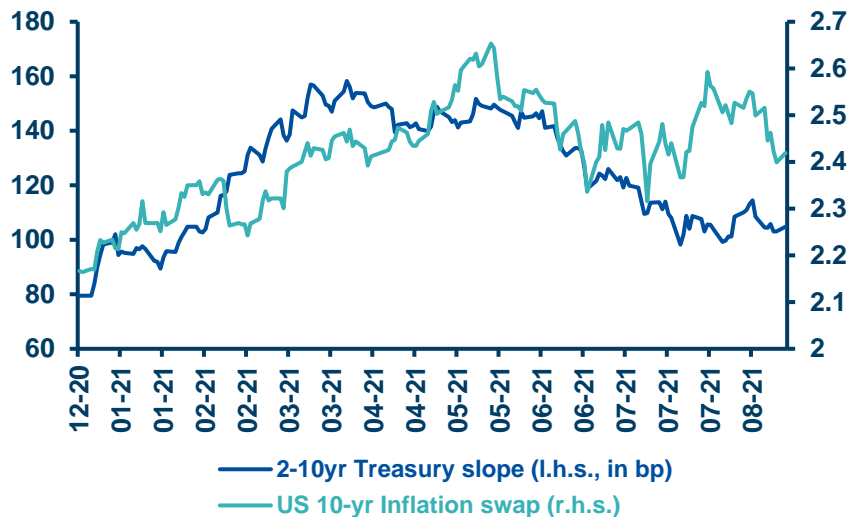


Source: Amundi, Bloomberg, World Bank. Data is as of 24 August 2021.

Turning upside down to stabilize Debt /GDP

No “Magic Money Tree” but low rates for longer, higher inflation area a good medicine

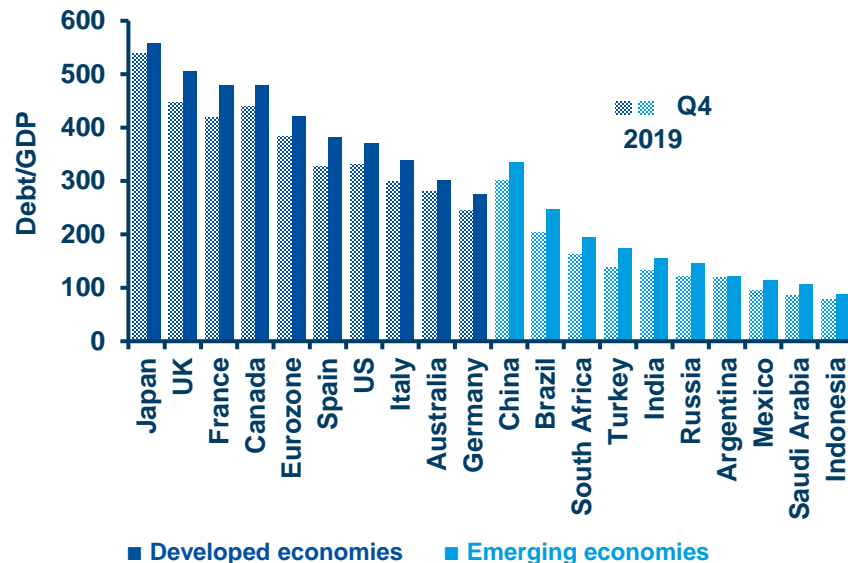
US Treasury 2-10 slope vs 10-yr inflation expectations



Source: Bloomberg, Amundi Research

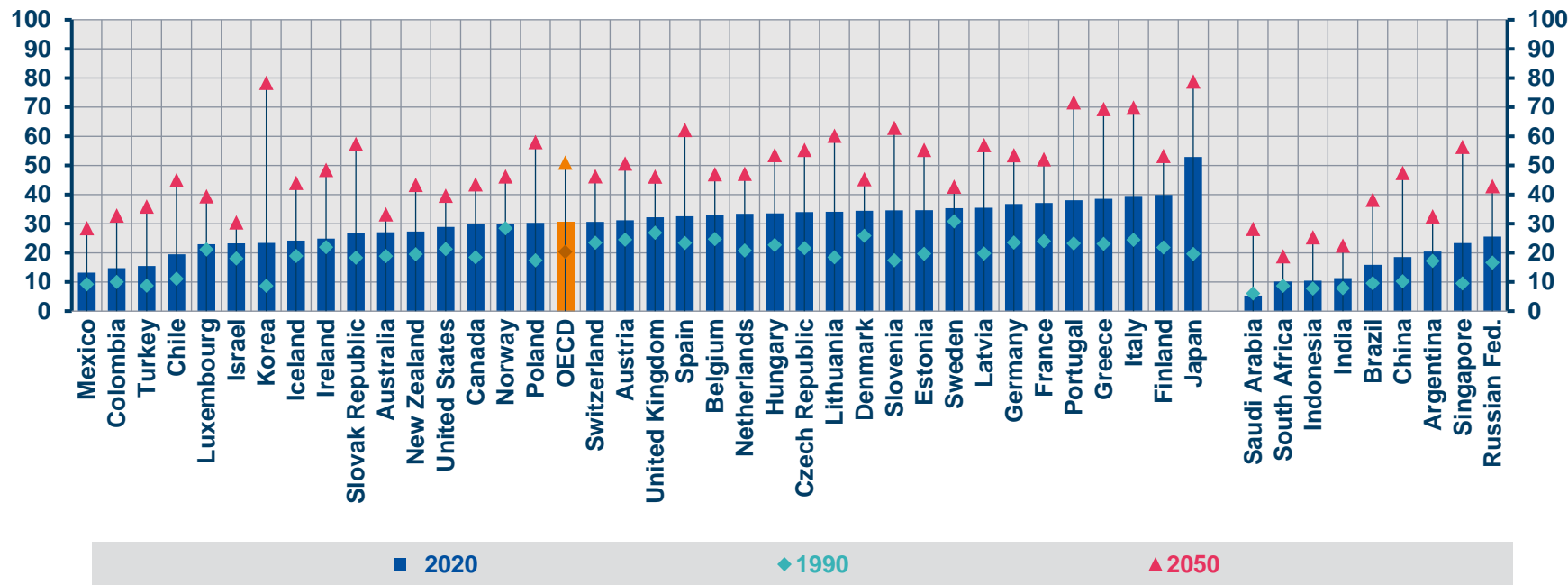
Source: Amundi Research, August 2021

Total debt/GDP



Social welfare and retirement

Population ageing is rapid and widespread



Source: OECD population projections database (unpublished).

Geopolitical order

ICELAND: Parliamentary election, 13 Sept 2021

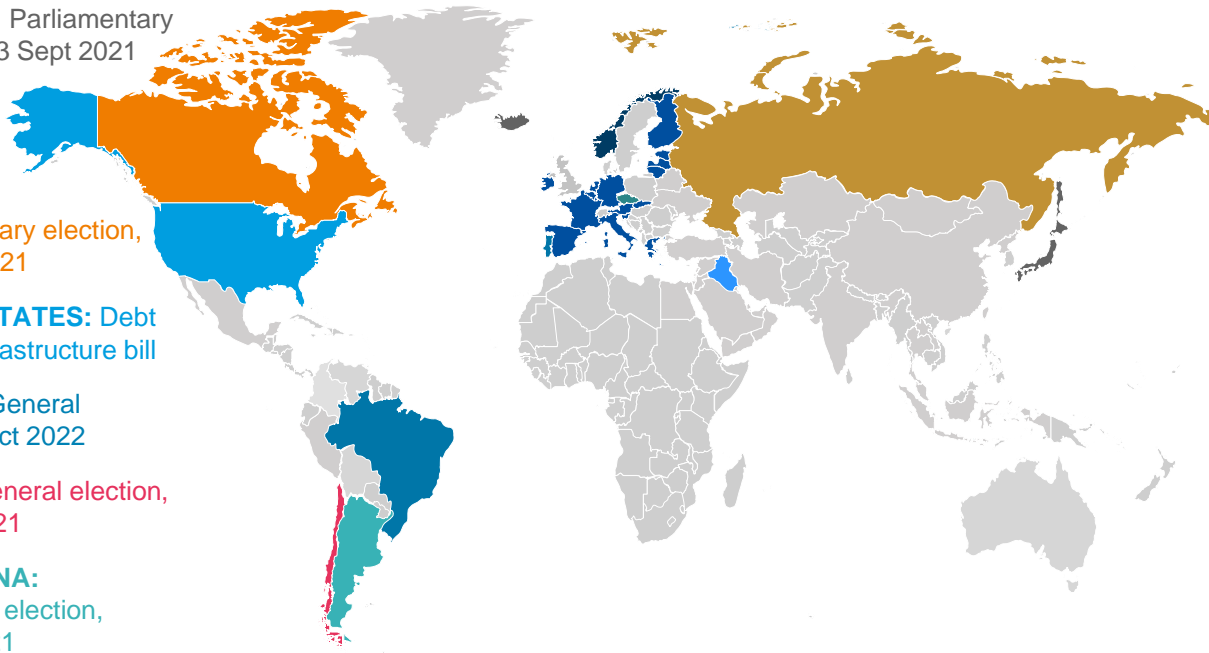
CANADA: Parliamentary election, 20 Sept 2021

UNITED STATES: Debt ceiling, infrastructure bill

BRAZIL: General election, Oct 2022

CHILE: General election, 21 Nov 2021

ARGENTINA: Legislative election, 24 Oct 2021



NORWAY: Parliamentary election, 13 Sept 2021

GERMANY: Parliamentary election, 26 Sept 2021

FRANCE: Presidential election, Apr 2022

CZECH REPUBLIC: Parliamentary election, 8-9 Oct 2021

RUSSIA: Parliamentary election, 19 Sept 2021

JAPAN: Parliamentary election Oct 2021

IRAQ: Parliamentary election, 10 Oct 2021

Source: Amundi, Refinitiv. Data is as of 24 August 2021.

Seeking the triplet

To tackle social anxiety

E	R	T	Y	U	I	O	H	K	L	C	H	F	S
L	E	A	G	U	E	E	U	R	O	P	E	I	T
F	I	S	C	A	L	T	Y	F	G	J	S	D	F
O	P	A	S	M	O	N	E	T	A	R	Y	M	I
Q	S	C	G	U	K	L	N	J	H	Y	T	F	T
A	W	D	C	F	T	Y	J	M	N	K	L	P	G
Q	L	R	X	W	O	U	Z	B	F	W	X	L	E
J	H	F	S	R	U	I	O	P	P	A	C	D	W
T	R	W	F	N	D	A	S	W	E	Y	J	L	S
P	G	Z	X	Q	P	O	L	I	T	I	C	A	L
N	M	X	C	V	F	P	G	F	S	S	D	Y	S
B	E	R	X	A	S	W	S	C	C	B	G	S	S
E	S	H	D	C	G	H	J	R	K	W	E	A	F

- **Execution** from political to fiscal dominance is still a key challenge (in Europe in particular)
- **Supremacy** of fiscal policy and supporting role of monetary policy to overcome social distress but concluding with larger debt levels

Low rates to preserve debt sustainability and benign environment to margins and EPS

2

Financial Markets

Policies overwhelm asset classes' specific drivers, blurring market correlations and inducing a deep disconnect between macro fundamentals and markets

A look through major macro financial shifts to pencil long term convictions

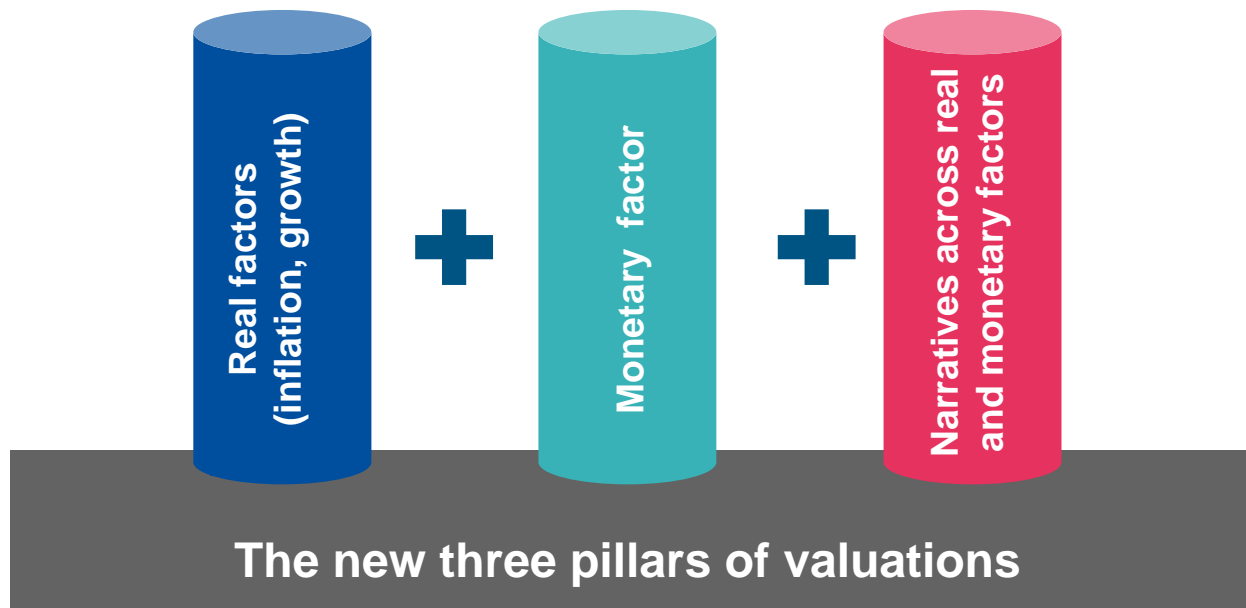
Profound shifts in the financial markets' dynamics

Navigating uncharted waters



Policies' dependency

overwhelm asset classes' specific drivers and disconnect macro fundamentals from markets



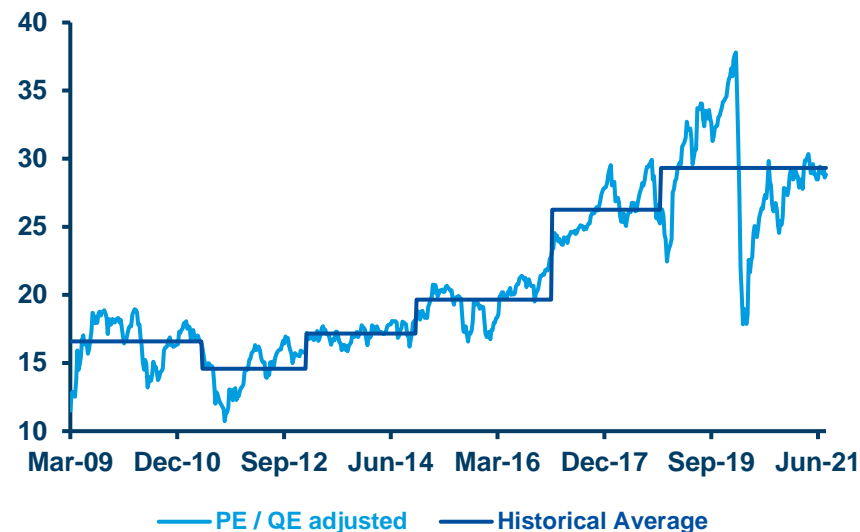
Policies' dependency

Needs to explicitly include the monetary factor in the relative valuation

Global Equities vs top down Fair Value
dynamic evolution



S&P500 PE adjusted for FED Balance Sheet expansion

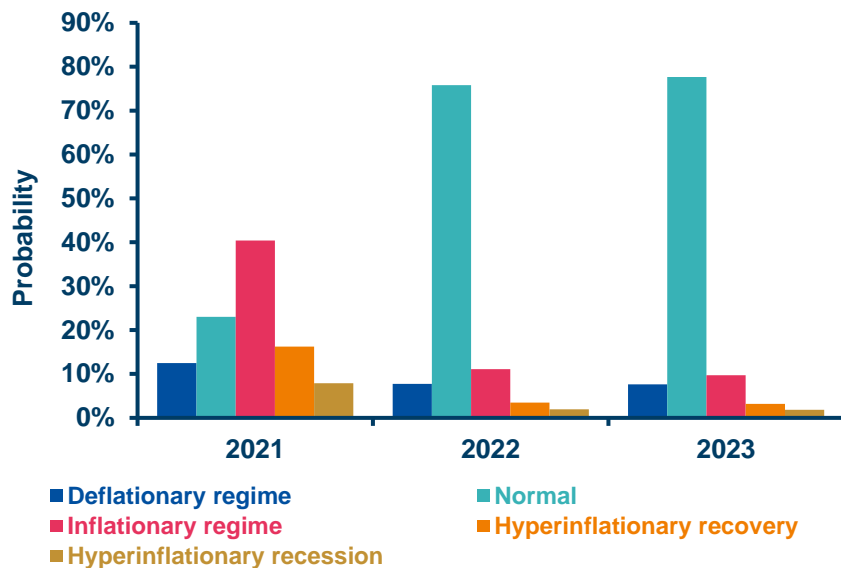


Source: Amundi Research elaborations on Bloomberg and S&P500 official website, August 2021

Inflation regimes shifts

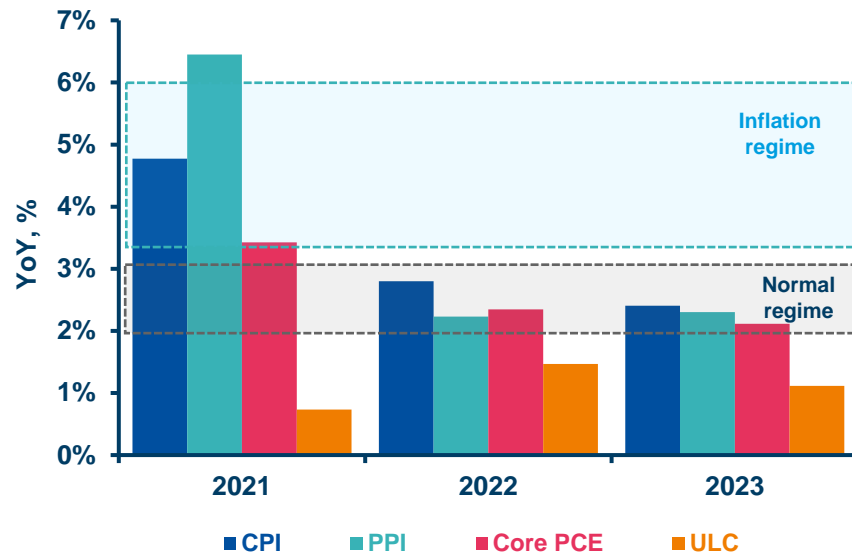
Widespread increase of different components

Inflation Phazer, regime probabilities



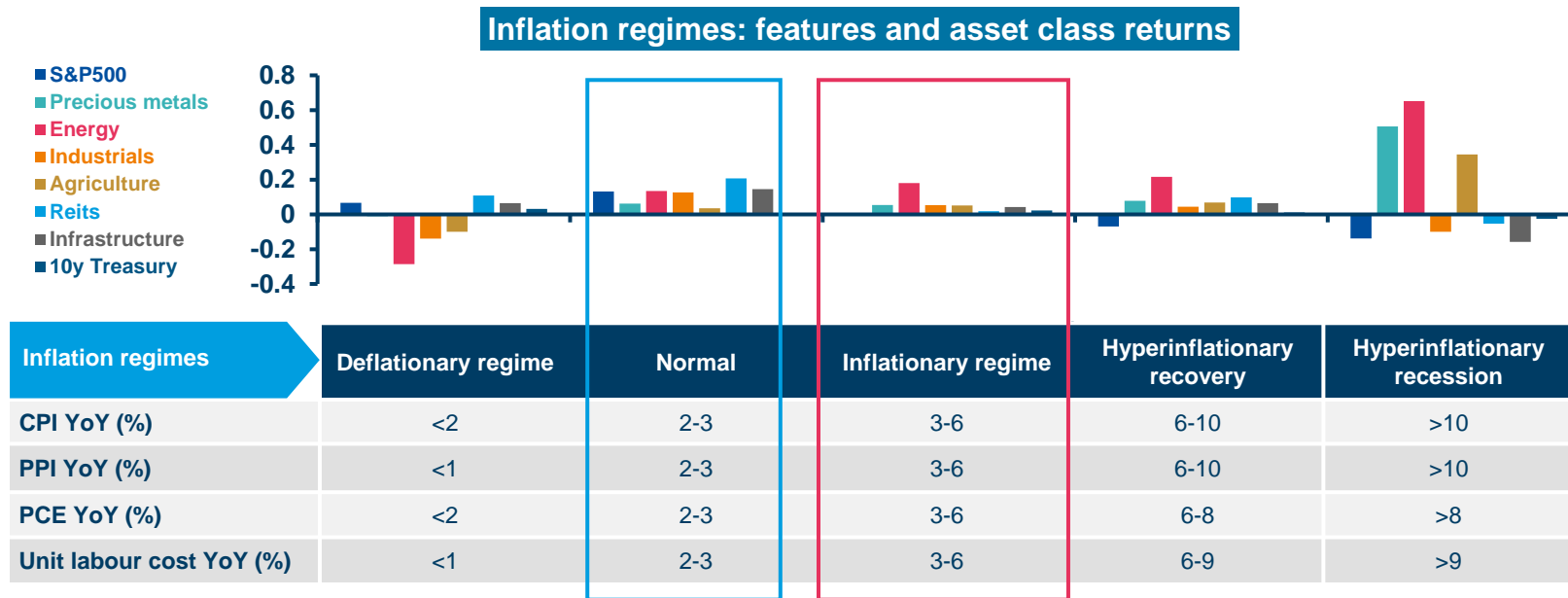
Source: Amundi Research, Bloomberg. Data as of 19 July 2021.

Amundi Macroeconomic forecasts



Source: Amundi Research, Bloomberg. Data as of June 2021. CPI: Consumer price index. PPI: Producer price index. PCE: Personal consumption expenditure deflator. ULC: Unit labour costs.

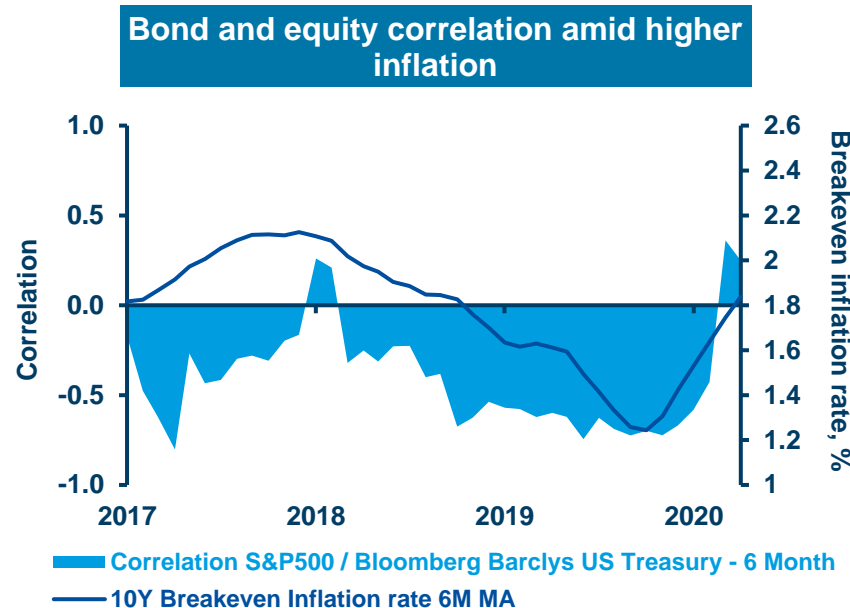
Markets dynamics under the inflation moment



Source: Amundi Research. Data as of 31 December 2020. S&P 500, US global REITS from global financial data; US T10yrs from Bloomberg; global infrastructure (equities): total returns series proxied by a basket of 50% utilities and 50% transportation; precious metal: GSCI Precious Metals Total Return Index, proxied by gold before index starts; Energy: GSCI Energy Total Return Index, proxied by Brent Crude Oil before index starts; Industrial metals: GSCI Industrial Metals Total Return Index, proxied by copper before index starts; Agriculture: GSCI Agriculture Total Return Index.

Climbing the hill

Lower expected returns and changing correlations



3

Long-term convictions

Factors-based approach to empower the search for cross asset opportunities amid unconventional market behaviours and narratives

Profound shifts in the portfolio decisions

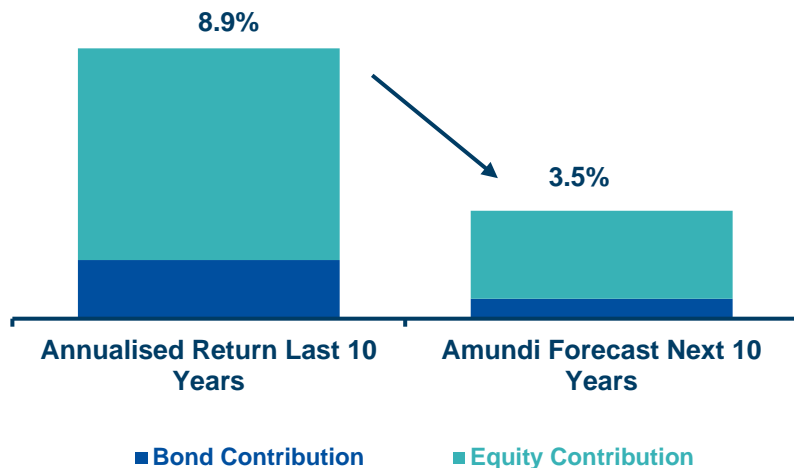
Making ready for a process of rebalancing risk premia and portfolio construction redesign



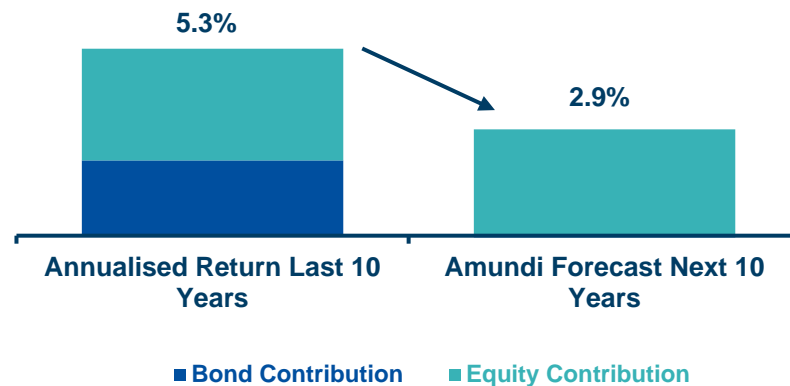
Challenging 60 / 40 allocation

zero returns in bonds, lower returns in equities, lack of beta, alpha from relative value

US balanced portfolio



Europe balanced portfolio



Absolute Valuation

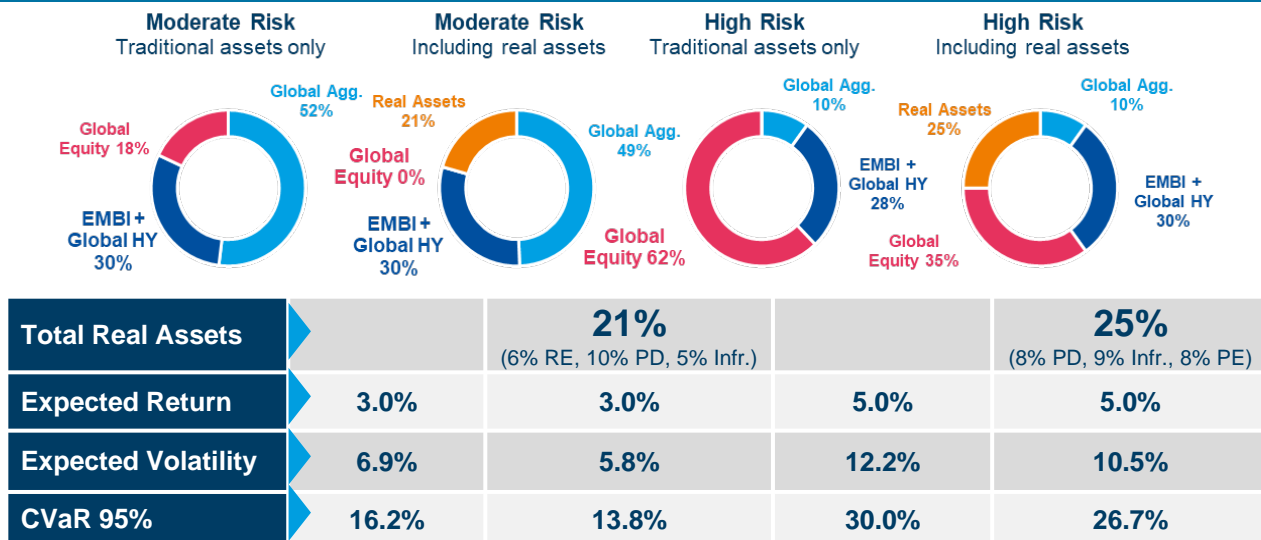
The only value left in the market TODAY is relative value

Asset Class	Relative Valuation – Short Term	Absolute Valuation – Long term
Equity	Attractive vs bonds	Expensive (higher rates most likely to impact equities)
Bond	Expensive vs equities	Expensive
Implications for investors:		
Re-thinking balanced portfolio	Bonds beyond benchmarks	Equities structurally a must have

Consider real assets to enhance diversification

To replace part of the high risk fixed income and equity allocation

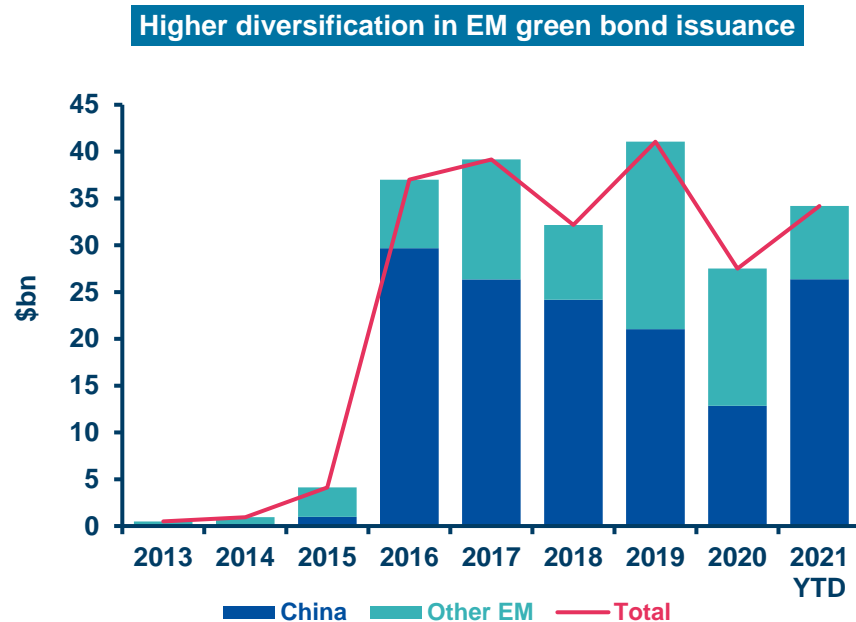
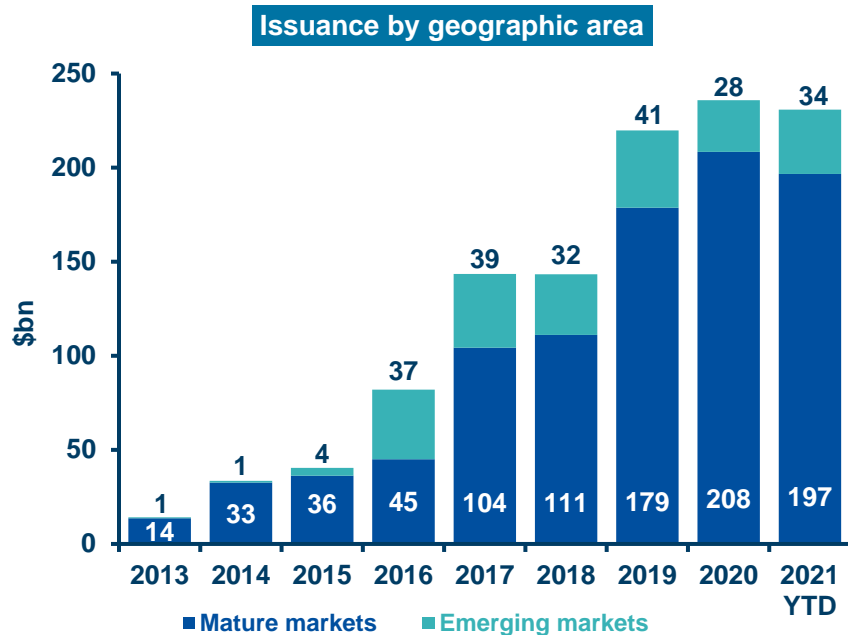
The benefit of including real assets – expected allocations optimised based on CVaR 95%



Source: Amundi Asset management, CASM model, February 2021. Local Currency. Optimization based on CVaR 95% minimization, 10 yr horizon. Constraints included: min 10% Global Aggregate, max 25% Real and alternative assets. Diversification constraints on high risk fixed income and EM assets. Optimization based on local currency indexes. CVaR stands for Conditional Value at Risk. It estimates the expected return of the portfolio in the worst and best 5-percentile scenarios. This analysis does not include FX effects, and is illustrative of the diversification benefit of adding real assets within a diversified asset allocation.

ESG urgency

Tackling the emergency and enhancing risk adjusted returns



Source: Amundi, IIF. Data is as of 17 August 2021. 2021 YTD data is up to June 2021.

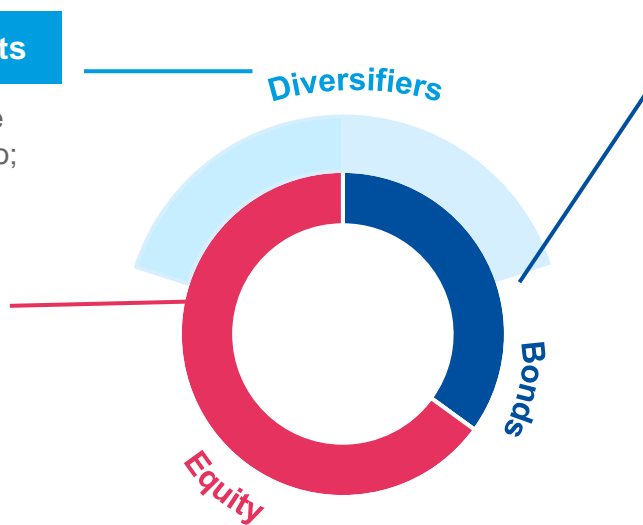
Rethinking a balanced portfolio during a regime shift towards higher inflation

Include real and alternative assets

- These assets should help enhance the risk-return profile of the overall portfolio; this will be crucial as a higher equity allocation will raise the overall risk.

Equities are a structural must-have in a world of lower returns

- Equities as a proxy for real assets, playing the growth-to-value rotation as a multi-year trend.
- Factor in inflation risk and more diversified equity exposure in this respect: EM, dividends, short-duration stocks and value.



Bonds beyond benchmarks

- Traditional bond benchmarks face a duration problem (high duration with low yields).
- Investors should consider unconstrained strategies to search for opportunities across the board.
- Core bonds may be relevant for liquidity purposes only.
- Positioning: short-duration stance with some flexibility.

Source: Amundi as of 31 July 2021.

4

Current Positioning

3D Market: Delta, Deceleration, Divergences

The acceleration in all the 3Ds is building fertile ground for a return in market volatility, a trigger for a pause in the equity market rally and for relative value opportunities.

Stick to your risk-neutral convictions, avoid any knee-jerk reactions



Cross-assets

Tactically calibrate the risk stance including some protection in case of fast deceleration of economic conditions due to COVID cycle



Bonds

Short duration management is the name of the game. Search for income in peripheral Europe, IG and HY global credit. including Chinese bonds



Equities

Enter the multi year value trade. Neutral EM equities

Source: Amundi as of August 2021.

Current Amundi cross-asset view

Asset allocation: multi-asset outlook								
	One-month change	---	--	-	0	+	++	+++
Equities					■			
Credit						■		
Duration				■				
Oil					■			
Gold					■			

Source: Amundi, as of August 2021. 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 asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/+/+++). This assessment is subject to change.

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