Amundi ASSET MANAGEMENT | Research & Macro strategy

CROSS ASSET Investment Strategy

Monthly

#04

April 2020

CIO VIEWS

Contagion speed is key for markets to reach turning point

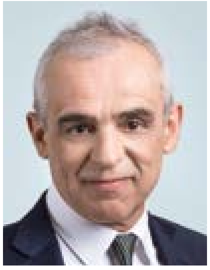
THIS MONTH'S TOPIC

Central banks are entering a new regime: unlimited support

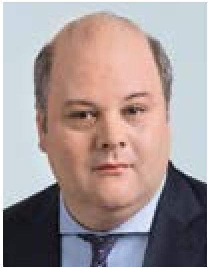
#04 - April 2020

Table of contents

CIO VIEWS



PASCAL BLANQUÉ,
Group Chief Investment Officer



VINCENT MORTIER,
Deputy Group Chief Investment Officer

Contagion speed is key for markets to reach turning point

Markets (financial cycle) are leading the economic cycle and will bottom out before the end of the coronavirus pandemic. However, they would stabilise once reassured on three points:

- **The cyclical pattern of the pandemic**, or when there is some sign of an improvement on the speed of the contagion. This depends on the 'time' variable (extension of the crisis period) and on the mobilisation efforts (containment measures introduced in different countries). There is still a lot of uncertainty at this point.
- **The 'whatever is necessary' tactics of the fiscal and monetary authorities**, and whether these policies are considered credible when it comes to easing financial conditions for the corporate sector or providing adequate resources to households so the latter can endure a period of higher unemployment resulting from an economic shutdown. Markets seem to have finally understood how big and unprecedented these efforts are.
- **The short end of the credit curve**, after recent dislocations, **and core bond yields**, which rose since the fiscal measures were announced, discounting higher future debt. Bond yields now appear to be under control, while on the credit side there is still room for improvement.

However, the policy bazookas won't be effective unless there is a corresponding fall in the speed of Covid-19 contagion. The combination of the two will drive the timing of the recovery and, as long as the pandemic does not seem to be under control, volatility will persist. What matters most to investors, in our view, is the speed of the pandemic's direction that is still pointing towards a rise in the number of cases, with an acceleration in recent weeks. When containment measures start to produce results, the speed of contagion should decelerate. This happened in China first, and we now see some signs of it in Italy. Most countries are still some way from their peak. The UK and the US are still in an acceleration phase, as are many EU countries, while some EM countries are at an early stage.

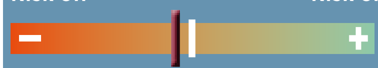
If the global lockdown proves successful, the pandemic should accelerate toward its peak in the next month, after which the speed of the increase in new cases should start to decline. We are moving in this direction, but we are not there yet. **In the short term, we can only expect temporary relief from the extreme market dislocation rather than a full and stable recovery.**

In this transitionary phase, as the crisis unfolds, **it will become clear to investors that the day after the pandemic ends they will find themselves with lower core bond yields and thus a need to find yield elsewhere.** Credit markets and EM debt will be the natural candidates in the public markets, though pressure on these assets remains high at present and it's not yet time to call aggressive entry points. **In credit, we remain cautious and highly selective in high yield, while we prefer the IG space** which should benefit from central banks' umbrellas, as will peripheral bonds. A continuation of the downward loop in the market could only be justified by a permanent shock to potential growth, but this is not the most likely scenario right now.

Equity markets will remain under pressure until signs of stabilisation in the curve of the epidemic's evolution materialise. We see opportunities arising in quality cyclical sectors that could bounce back strongly once the appeal of cyclicals is restored, as we approach the peak of the pandemic. Some bottoming out could begin earlier at regional level and China is a good candidate for that. In terms of portfolio management, **this backdrop calls for a continued-cautious approach**, as we recognise that global risk aversion will persist in the short term, and will legitimately drive a flight to safety into a combination of high-quality, defensive and liquid assets. **Active management and selection will be key** to managing this 'in-between phase' and, in particular, the trade-off between performance and liquidity. **Now, more than ever, robust liquidity management will make a difference**.

Overall risk sentiment

Risk off **Risk on**



Keep a cautious stance on risk assets, try to improve liquidity management and hedge some credit risk.

Changes vs. previous month

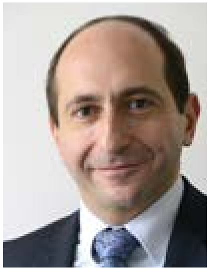
- More cautious on EM bonds and US HY
- Some bottom up opportunities in cyclical value space

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

MACRO

New base-case and alternative scenarios

MONICA DEFEND,
Global Head of Research



DIDIER BOROWSKI,
Head of Global Views

The view that the global economy can achieve a -shaped recovery is our base scenario, but the belly of the U will be wider and deeper than previously expected and the rebound will be smoother than the collapse

Global spread of the coronavirus outbreak with sequential lockdown of most of the economic activities was unexpected in severity and deepness only few weeks ago and **is the reason behind the revision of our base and alterative scenarios.** By nature, any epidemic is a containable and reversible shock. However, in the case of the current outbreak, it remains unclear how to scale down the contagion rate and, once population is safe, how quickly economies could rebound thereafter. What happens in China, and then in Italy will be a sort of leading indicator for rest of the world. The US, in terms of resilience of the household consumption, will be key for the evolution of the global economy.

Not all affected countries have adopted the same measures to contain the virus. When the crisis erupted in China, the rest of the world, and much less the Eurozone, pointed toward a cyclical rebound at the beginning of the year. Now, with a few weeks' delay, all economies have been hit, and **this will lead to a synchronized sequential severe economic contraction in most DMs and EMs in the coming months**. Key determinants of the outcome will be the speed, strength and coordination of policy efforts, the pace and efficacy of outbreak-containment measures and whether or not a treatment or vaccine can be tested.

The efforts of the monetary and fiscal authorities are unprecedented. Central banks (CBs) rates are back to 2009 levels. and DMs' CB balance-sheet expansion will surpass 2009 levels at 2020-end. Fiscal support is expected to be wide, both for its amount and for the amplitude of measures, targeted to preserve social stability, reinforce the health care system, prevent massive defaults in the corporate sector and support households. It is nevertheless clear that these measures won't be sufficient to prevent a significant economic contraction in the next two to three quarters. However, as we think potential growth is unlikely to be affected for the time being, support measures could drive a rebound in economic activity at the end of the year, or most likely the beginning of 2021. **The view that the global economy can achieve a -shaped recovery is our base scenario**, but the belly of the U will be wider and deeper than previously expected and the rebound will be smoother than the collapse.

Two alternative scenarios are also possible, and which one prevails will depend on the level of interaction of the economic shock, the extent of the corporate solvency crisis and the potential resurgence of political risk on pre-existing areas of strain.

In our downside scenario, containment measures will fail to slow the pandemic and the crisis becomes prolonged and systemic. This is not yet priced in by the market, and would lead to another correction in equities and a substantial increase in default rates, with entire sectors completely disrupted. The ballooning and unsustainable debt would be the feature of this scenario, and the full monetization of it is likely the end game.

On the upside, if containment measures prove effective and the situation stabilizes in two to three months (as in China), economic activity could resume quickly, with permanent impairment only in the most unsustainable business models. This scenario is not priced in by the market either, and could drive significant upside for risk assets from current levels in the second part of the year.

DOWNSIDE L shaped recovery 20%	CENTRAL SCENARIO Base shaped 50%	UPSIDE U shaped recovery 30%
– Pandemic continues with slow medical progress. National lockdowns for an extended period – Deep and long global recession stretching beyond the health emergency. – Full debt monetisation worldwide – Loss of potential output on collapsing businesses – Ballooning public debt and central bank' (CB) balance sheets – Long period of financial depression	– Pandemic under control at end-Q3 2020 – Global deep recession in Q1/Q2/Q3 2020 – Global CBs and governments introduce "bazooka" policies to assuage fears, preserve incomes and businesses – Slow recovery from Q4-Q1 (hysteresis effects, sluggish growth), followed by a rebound in 2021, mostly due to base effects – Corporate defaults surge in 2020, significant credit-market fragmentation	– Pandemic under control in H1 2020 – Recession is deep but short-lived (H1 2020) – Global CBs and fiscal coordinated measures support a re-ignition of the economy (catch-up). Pent-up demand emerges – Above-potential growth in 2021 and possibly in some countries as soon as in H2 2020

Source: Amundi Research, as at 23 March 2020. ROW=Rest of the world

MULTI-ASSET

Remain cautious on risk assets

MATTEO GERMANO,
Head of Multi-Asset

We believe it is crucial to monitor fresh data on the contagion, remain diversified and avoid aggressively adding risk given that volatility is likely to persist

Severe disruptions on the domestic and international fronts, which can lead to various degrees of economic impact and recession-like patterns, are a clear risk. **As a result, we remain cautious on risk assets.** Our strategy is to stay vigilant and monitor fresh data to better assess effects on the global economy and the extent to which the economic downturn is priced in by the market. **Right now, it's crucial for investors to remain highly diversified.** The measures announced by global governments and central banks are pretty impressive, but **volatility is likely to persist** until markets get a feel for how long economic disruption is set to last. We are also witnessing a "liquidation" phase of the correction, when positions are closed due to stop-losses. There are some areas of the market that are looking attractive on a long-term basis, but we do not feel the time is right to aggressively add risk now.

High conviction ideas

As the situation has been very fluid since the end of February, **we tactically adjusted our asset allocation**, moving to a lower risk stance and downgrading our view on equities, but looking for re-entry points once the situation calms down. Since Feb-end, we have been **cautious on European and US equities, and now we have a neutral view on the UK**. Even if the US market has sold off more than 25% since this year's peak, we maintain our stance for the time being, monitoring the development of the coronavirus outbreak and the potential impact of the lockdown measures on corporate earnings. These will be severely affected by tighter financial conditions and falling sales. **In EM equities we are neutral**, with a preference for the China FTSE A50 vs. the GEM, as China is ahead in the pandemic cycle and should remain more resilient.

In **fixed income**, we maintain a neutral view on **duration overall**, but prefer US 5y vs. Germany 5y as the latter may benefit from continued safe-haven flows. However, current level of yields is not considered attractive enough to add duration exposure as yields still look tight in valuation terms. We are now **cautious on US 10y breakeven inflation**. The Italian curve continues to offer attractive yield, and **we maintain our relative position in Italy 30y vs. Germany 30y**, on expectations of ongoing ECB support to ease pressure on peripheral bonds.

Elsewhere, after showing some resilience to Covid-19 developments initially, **credit markets** have suffered from the broad risk-off trend, with the US underperforming Europe in HY and IG. We are **slightly constructive on credit overall, particularly on high-quality securities, but with a focus on hedging of tail risk.** We still prefer EUR vs. US in both IG and HY. The high leverage of US HY corporations, US HY exposure to the energy sector and falling oil prices are a concern in this asset class.

On EM fixed income, the recent spread widening has been fast and strong, driven by escalating diffusion of the virus and by the collapse of oil prices that damaged the picture for oil exporting countries. Therefore, **we believe, the outlook is more challenging now for the asset class**. Many countries are at the early stage of the crisis, with limited containment measures, and will face severe recession. Recently, we have taken a more cautious approach, assuming a neutral view on the asset class.

In currencies, the view on the Euro is neutral vs the USD amid signs of significant economic weakness in Europe, but we maintain our positive stance on the EUR vs. the CHF due to the latter's expensive valuation.

Risks and hedging

In this phase of high volatility, it is particularly important to try to **limit downside, which is why we recommend that investors maintain hedges** in the form of Japanese yen, gold and options in equities and credit.

USD = US Dollar, EM= Emerging markets, IG = Investment grade, HY = High yield, CHF = Swiss franc, China FTSE A50 = a stock market index by FTSE Group comprising of Chinese domestic names, ECB = European Central Bank.

Amundi Cross Asset Convictions

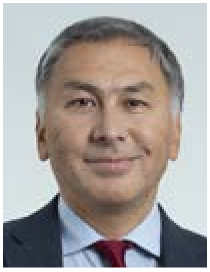
	1 month change	---	--	-	0	+	++	+++
Equities				□				
Credit						■		
Duration						■		
Oil					■			
Gold						■		

Source: Amundi Research. The table represents cross asset assessment on a 3-6 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.

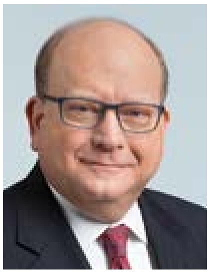
FIXED INCOME

Prioritise liquidity amid outbreak and default risks

ÉRIC BRARD,
Head of Fixed Income



YERLAN SYZDYKOV,
Global Head of Emerging Markets



KENNETH J. TAUBES,
CIO of US Investment Management

While governments and central banks have responded with extreme policy actions to smooth the markets, the economic impact of the crisis and lack of liquidity could raise the risk of corporate defaults

Central banks unleashed their "**bazookas" and governments also responded** amid global recessionary fears. Market reaction following the spread of the Covid-19 worldwide was extreme, pushing first core government bond yields at an all-time low, and then triggering a rebound once markets started to price in higher debt as a result of huge fiscal stimulus. Spread products have been under severe pressure across the board, discounting a global recession, **rating downgrades and higher default in HY space**. The focus on resilient business models that can survive the economic downturn is critical to preserve assets from permanent impairment. **Volatility is extremely high, and liquidity management with cash and similar assets is a top priority.** Finally, it's crucial to position portfolios to build capacity to recover when markets improve.

DM bonds

In global fixed income, we have a **positive duration bias**, with a constructive view on US (safe-haven flows), close to neutral in core euro and negative in Japan. We adjusted our duration view elsewhere, becoming more constructive on Australia and neutral on UK and Canada. We are less constructive on inflation bonds in the US (falling energy prices) and Europe. **EU peripheral bonds continue to offer attractive yields** and we remain constructive (ECB's massive liquidity injection), although a bit less than in the past in Italy and Spain. We still expect high volatility on peripherals and liquidity shortages. **We are positive on credit but have reviewed our sector views:** less constructive on cyclicals and sectors (shipping, autos) that are directly exposed to this crisis. **Quality of issuers** is also important especially in the riskier segments. We are **constructive on IG**, but we have increased the focus on liquidity. We prefer EUR over US in IG (strong fundamentals and support from QE) as well as in HY (avoiding US energy). Overall, we would need to see some evidence of a bottom before adding risk. **In the US**, tightening financial conditions still weigh on market liquidity. However, over past few days, we have seen that the dramatic drop in inflation expectations has been recovered, particularly in the TIPS market. This is also confirmed in the yield curve which has steepened quite steadily. Together, both suggest that actions from CBs and fiscal stimulus is starting to catch-up and may even be getting some control of the situation. **We remain cautious and selective, and continue to focus on liquidity.** We also look for long-term high quality US corporate credit at deep discount.

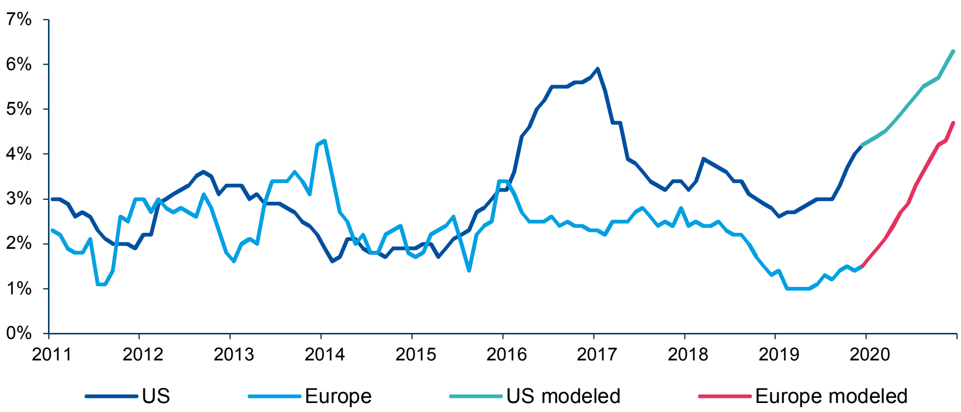
EM bonds

We are cautious in short term due to the current crisis. Some EMs are at an early stage of the virus outbreak and others may see a second wave, which will affect the domestic-consumption story. With appropriate selection country by country, EM bonds offer value in the medium term. However, investors will remain cautious before exploring entry points during this phase. On hard currency, Indonesia, Ukraine and South Africa are attractive, but we are less positive on oil-exporting countries. In local currency, we prefer higher-yielding countries where local real rates are at multi-year highs (Serbia, Egypt, Ukraine).

FX

We are **positive on USD and cautious on EUR**, and on most of commodity currencies. US assets are some of the most liquid in the world and are popular in a crisis. In EM FX, we are still cautious.

Default outlook for Credit High Yield (percentage of issuers

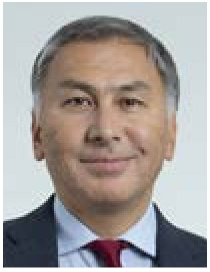


Source: Amundi Research forecasts, Moody's, as of 18 March 2020.

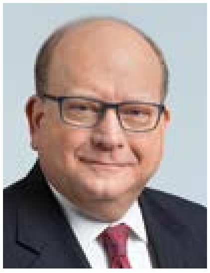
EQUITY

Cautious times call for attention to fundamentals

KASPER ELMGREEN,
Head of Equities



YERLAN SYZDYKOV,
Global Head of Emerging Markets



KENNETH J. TAUBES,
CIO of US Investment Management

This unprecedented crisis has led to extreme market volatility, but investors should focus on business/ companies that can withstand the economic lockdown

Equities have witnessed the fastest correction ever, with S&P 500 falling into bear market in just 17 trading sessions. Markets moved sharply from pricing an economic re-acceleration earlier to a profit recession now. However, a deep and long lasting profit recession is still not priced in, but if it happens, (not our central scenario) would lead to a further deterioration in prices. On the other hand, as markets struggle to digest new data and assess the potential impact of the huge policy support measures, volatility and behavioural biases will remain very high. Thus, investors should balance risks and prioritise liquidity. At the same time, focus should be on identifying sectors/stocks with strong balance sheets, resilient business models that will not be disrupted by the crisis (or may even emerge stronger from it) and are trading at a deep discount.

DM equities

In Europe, weak players in weak industries such as national incumbents in the auto and airlines sectors look very vulnerable, and some are likely to require debt guarantees, equity issuance and potentially nationalisation in a matter of months. **Dislocations are emerging as a result of the selloff**. We remain constructive on companies with resilient business models and strong balance sheets, and certain structural winners (in consumer staples and health care) within these parameters are now attractively priced. We are also keeping an eye on developments in the technology sector, which was previously viewed as too expensive. **Separately, there are idiosyncratic opportunities in value**, which has never been so cheap relative to growth in Europe. In this space, we are particularly positive on consumer discretionary and financials owing to attractive valuations.

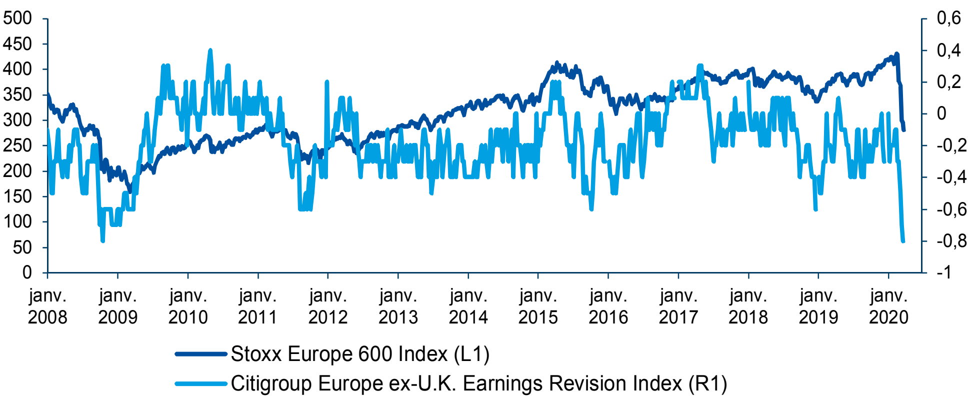
In the US, the recent sell-off shows that fear factor is dominating the markets at a time when recession in international markets seems priced in but not in the US (more to go). Policymakers have shown a full desire to provide complete fiscal and monetary support. But given that it is a healthcare crisis first, **market sentiment will improve if we see fewer coronavirus cases**. Equity risk premiums are attractive but negative real rates may undermine the strength of this signal. From a style perspective, **value stocks underperformed growth** since the financial crisis ended and the story was similar in the current market correction. Nonetheless, we could see a rebound in value once economic growth bottoms-out; we remain positive towards cyclical/value names and we believe investors should avoid the energy sector (falling oil prices and severe disruptions).

Overall, we believe current market dislocations could provide selective long-term opportunities.

EM equities

We are cautious in EMs (vulnerability to the economic impact and uncertain commodity markets) overall and very defensive on countries and sectors driven by services and tourism as it will take them longer to recover. Likewise, we are defensive on energy sector as the supply-demand balance looks increasingly unfavourable. At this stage, we favour **China and Korea** – in particular consumer discretionary companies – as they are **approaching a recovery phase regarding coronavirus**. After uncertainty recedes, there will be pockets of opportunities, thanks to policy support and compelling valuations.

Strong earnings downgrade and market correction



Source: Bloomberg, as of 23 March 2020

THEMATIC

The Eurozone's quantum leap: on the road to debt mutualisation

DIDIER BOROWSKI,
Head of Global Views

PIERRE BLANCHET,
Head of Investment Intelligence

The Eurozone's architecture does not allow it to contain all the risks arising from the current shock. Recourse to an European Stability Mechanism (ESM) credit line without strong conditionality is a de facto first step towards debt mutualisation. Looking ahead, this could pave the way to a European budget and a common debt.

Economic policies implemented on both sides of the Atlantic are unprecedented on both the fiscal and monetary fronts. **We are witnessing a *de facto* merger of central bank and state balance sheets.** Let us consider the guarantees provided by EZ governments for companies whose business activity has suddenly stopped. Given the scale of the looming recession, public debts will rise very sharply, and bond yields would soar if there were no QE from central banks (ECB, BoE and the Fed). Subsequently, central banks' balance sheets will soar in tandem with public debts. **Governments have become the buyers of last resort, while central banks are playing their role as lenders of last resort. Fiscal and monetary policies have become intertwined, and this is not reversible.**

Financial crises provide an opportunity for institutional reform

Historically, economic and financial crises have always given the authorities an opportunity to equip themselves with the appropriate instruments to contain them. Indeed, it was following the crisis of the 1930s that the Fed adopted the statutes that enabled it to deal with the GFC. And it is thanks to the 2012 EZ sovereign debt crisis that the ECB is today able to support (among other things) the guarantees provided by the governments. Most of the tools mobilised (or that could be mobilised) by the ECB today were put in place after 2012 to save the euro.

Over the decades, the US policy mix has become more flexible and transparent. Actually, the Eurozone has not yet reached the same degree of policy maturity. So, debt monetisation is a distinct possibility in the US while it is still a taboo for some EZ countries.

The tools that will be used to deal with this crisis will shape the debates once the crisis is over

The EMU is incomplete

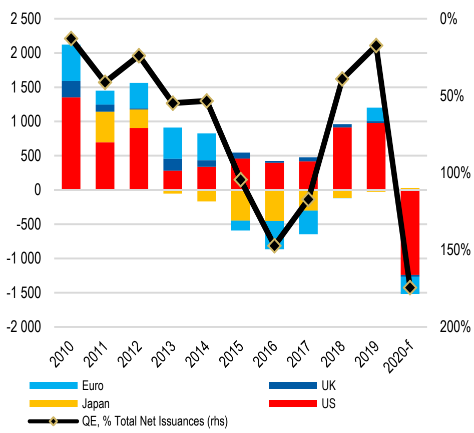
The EMU cannot cope with a systemic shock with the tools at its disposal now. Irrespective of the debate on monetisation, **the EZ's institutional and financial architecture is not in a position to contain *all* the risks incurred from the current epidemic shock.** In the absence of a federal budget, governments were initially forced to act individually by taking poorly calibrated measures, particularly in the weakest countries. **It probably won't be enough**. Interestingly, the Eurogroup on Tuesday 23 March suggested mobilising the European Stability Mechanism (ESM) by opening a special credit line (ECCL), amounting to 2% of GDP for all EZ States that request it. This credit line would only be conditional upon a "return to stability". The absence of strong conditionality was clearly not in the original spirit of the ESM financial assistance created in 2012. However, the coronavirus epidemic constitutes a symmetric external shock, and the objection of moral hazard should disappear.

Surprisingly, the European Council of Heads of State and Government held two days later did not adopt this proposal. For the moment, two countries – Germany and the Netherlands – still refuse to go in this direction. However, we continue to believe that the ESM credit line will, at some point in time, be mobilised. And if so, it **would *de facto* be a first step towards debt mutualisation.**

Ultimately, the tools that will be used to deal with this crisis will inevitably shape the debate once the crisis is over. European leaders will then be forced to recognise that a single federal budget and a single financing instrument for the EZ would have been more efficient to manage the crisis. **The birth of a European budget and a common debt (possibly monetised) will perhaps be the institutional traces that this crisis will leave in history: a forced march towards more Europe!**

Finalised on 30/03/2020

Sovereign issuances net of redemptions and central banks purchases (USD bn)



Source: Amundi, Data as of 31 March 2020

As part of Global Research, the main mission of the newly established Global Views team is to strengthen Amundi's thought on key cross-cutting thematics

THIS MONTH'S TOPIC

Central banks are entering a new regime: unlimited support

VALENTINE AINOUZ, *CFA*
Deputy Head of Developed Market Strategy Research

Coordinated actions by central banks and governments have a clear objective to prevent a sharp rise in bankruptcies. We are confident in central banks' ability to address the liquidity crisis as central banks have entered a new regime: unlimited support. However, we have no strong convictions on the depth of the coming solvability crisis.

Covid-19 is acting as an incredible accelerator to put an end to the cycle. A global recession is now inevitable in response to a combination of supply disruptions, dropping demand, and a sudden tightening in financing conditions. Coordinated and aggressive fiscal and monetary policy responses aim to ensure that the recession will be limited and does not morph into a deep economic depression. The big challenge for central banks and governments now is to avoid mass business bankruptcies, a very significant rise in unemployment and bank failures.

Otherwise, this economic cycle in developed countries was characterized by its exceptional duration, a sharp increase in corporate and sovereign debt, and ultra-accommodative monetary policies. Indeed, the credit cycle was stretched by record low rates and the implementation of asset purchase programs. We need to keep in mind that:

- Corporate debt reached record high levels, especially in the US and China over the past few years. American companies raised huge amount of cash on financial markets to buy back shares and have financed record amounts of merger and acquisitions.
- The growth picture was already weak before the public health emergency. 2019 GDP growth came in at its slowest pace since the 2008-2009 financial crisis. We expected 2020 global growth to stabilize at already low levels.
- Corporate default rates have been low over the past few quarters despite the weak global growth environment because of ultra-accommodative monetary policies and investors' complacency.

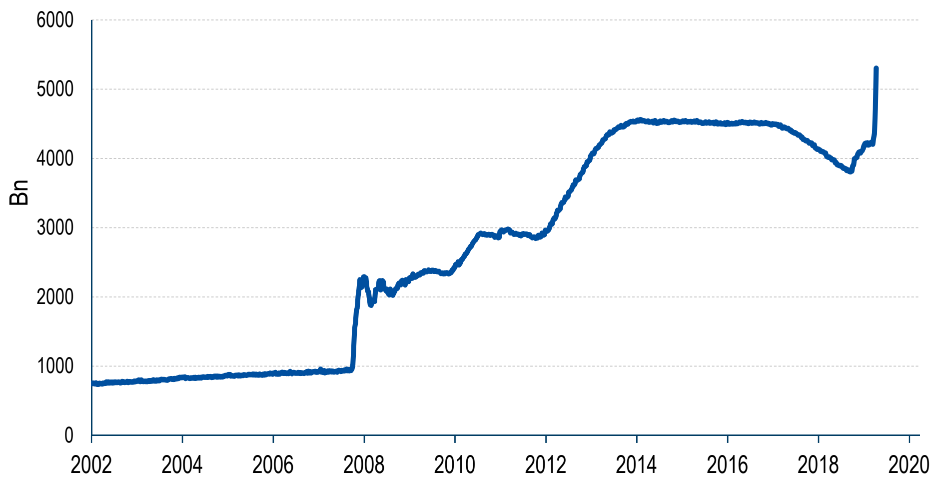
The non-financial corporate sector is the epicenter of this new crisis

The non-financial corporate sector is the epicenter of this new crisis. Covid-19 and dropping oil prices will push up default rates on the back of falling profits and tightening financing conditions. The extent of bankruptcies will be a key factor in how long economies continue to weaken. This is a big difference with the 2008 financial crisis, which hit banks and financial institutions. What are the key measures being taken by major central banks?

Central banks are now entering a new regime: unlimited support. Central banks are putting in place unprecedented actions in order to:

- **In the short term: avoid a liquidity crunch.** In recent weeks, we saw a rise in risk aversion and massive outflows from bond funds. The flight to cash exacerbated asset price dislocation on the bond market. In response, major central banks are now buying corporate bonds and taking steps to support the commercial paper market. The commercial paper

1/ **The Fed added $586bn in assets during the week ended March 25, bringing its total holdings to $5.3tr.**



Source: Bloomberg, Amundi Research - Data as of 25 March 2020

THIS MONTH'S TOPIC

market is vital for companies looking to fill short-term liquidity gaps, following the disruption caused by coronavirus.

- **In the medium term: monetize government debt**. Governments are deploying massive fiscal stimulus, including direct cash payments to households. In advanced economies, fiscal deficits will increase from 2-3% of GDP to around 10% or more. If this public assistance was financed through standard government debt, interest rates would rise sharply and kill the recovery. There is no choice but to fully monetize the upcoming increase in public debt.

The ECB announced a Pandemic Emergency Purchase Program (PEPP):

- This public and private securities purchase program covers €750bn and is in addition to the existing programs (€20bn monthly and envelope of €120bn till the end of the year). The ECB will buy assets at a pace never seen even in previous crises: it will buy more than €110bn per month by December; at most the ECB has bought €80bn per month.
- This new program is ultra-flexible: Greek securities are included, with no issuer limit, more latitude related to the capital allocation key, and the minimum residual maturity requirement lowered to 70 days.
- The ECB is now also buying commercial paper directly from big companies.

The Fed slashed rates to 0-0,25% and announced drastic measures to bolster market conditions:

- The Federal Reserve will buy an unlimited amount of Treasury and mortgage-backed securities. The FOMC will include purchases of agency commercial mortgage-backed securities in its agency mortgage-backed security purchases.
- Supporting the flow of credit to employers, consumers, and businesses by establishing new programs that, taken together, will provide up to $300 billion in new financing. The Department of the Treasury, using the Exchange Stabilization Fund (ESF), will provide $30 billion in equity to these facilities.
- Establishment of two facilities to support credit to investment grade companies – the Primary Market Corporate Credit Facility (PMCCF) for new bond and loan issuance and the Secondary Market Corporate Credit Facility (SMCCF) to provide liquidity for outstanding corporate bonds.
- Establishment of a third facility, the Term Asset-Backed Securities Loan Facility (TALF), to support the flow of credit to consumers and businesses. The TALF will enable the issuance of asset-backed securities (ABS) backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration (SBA), and certain other assets.
- The Fed has also expanded central bank liquidity swap lines

It is difficult at this stage to assess the magnitude of the damage the virus will do to the economy. Coordinated actions by central banks and governments have a clear objective to prevent a sharp rise in bankruptcies. We are confident in central banks' ability to address the liquidity crisis as central banks have entered a new regime: unlimited support. However, we have no strong convictions on the depth of the coming solvability crisis. We expect: (1) central bank measures to anchor sovereign yields as additional sovereign debt supply will be absorbed by central banks' purchase programs; and (2) large companies to be favoured, as they will be key to supporting the recovery and limiting the rise in unemployment.

CENTRAL & ALTERNATIVE SCENARIOS

Monthly update

Covid-19 progressively moving global in March was a game changer for the global economy and financial markets. As policies responses to contain the damages of the virus became bolder, we re-assessed the narrative of our base and alternative scenarios. We changed the probability in favour of the upsides scenario to 30% from 15%, while the downside scenario moved from a probability of 30% down to 20% and the central scenario from a probability of 55% to 50%.

DOWNSIDE SCENARIO L shaped

20%

- **Pandemic extended up to mid-2021,** with slow medical advances and a second round of outbreaks in late 2020
- **National lockdowns measure are extended**
- **Strong increase of fatalities.**
- **Deep and long global recession leads to a depression**. Demand and economic activity collapse, even beyond the direct impact of the public health emergency
- **Full debt monetisation** worldwide with ballooning public debts and CB balance sheets
- **Loss of potential output** on collapsing businesses
- Long period of **financial repression** (through regulation and zero-interest-rate policies)
- **Massive bankruptcies and mounting costs of collapsing businesses** undermine confidence in the banking sector and lead to financial instability
- **Secular stagnation** comes back to the fore and **de-globalisation is the new norm**

CENTRAL SCENARIO Base shaped

50%

- Temporary but prolonged shock:
  - **the pandemic is not over end 2Q20** (falling death rate, but the disease doesn't disappear)
  - thanks to national **lockdowns limited in time** (3-months max), the epidemic is finally under control (in late Q3)
  - health and economic crises in vulnerable emerging markets (Africa and South Asia)
- **Global deep recession in Q1, Q2 and Q3 2020**
- **Slow recovery beginning in 4Q20 beginning of Q1** (hysteresis effects and sluggish growth), followed by a rebound in 2021 (mostly driven by the base effect)
- Governments and CBs "**Bazooka" policies** fail to calm animal spirits (fear factor) in the short run (Q2) but **preserve incomes and businesses**
- **Corporate defaults surge in 2020** with tighter financing conditions and declining profits, coupled with the oil-price fall. Deep fragmentation of credit markets and solvency issues
- The **reversal in the manufacturing sector lags the reversal in services**
- **Chinese recovery** is curbed by weaker demand from the RoW
- Some stagflationary forces materialise (**de-globalisation**)

UPSIDE SCENARIO U shaped

30%

- **Time-limited shock, the pandemic** is under control in 2Q20
- **Deep but short-lived recession** (1H2020)
- Global central banks and fiscal **coordinated actions** support the restart of the economy (catch-up)
- **Reversal** of the manufacturing sector and services
- **Limited number of corporate defaults** thanks for government supports and central bank liquidity measures
- Pent-up demand materialises
- **Above potential growth in 2021**, and possibly in some countries as early as 2H2020

Where do we stand on Covid-19

"There are decades where nothing happens; and there are weeks where decades happen".

The Covid-19 outbreak has turned global, extending from Asia to Europe and the United States. The number of cases continues to increase, and health policies designed to contain and manage the crisis are under deep stress. Policies turned bolder during the course of March.

Containment measures were rolled out with different strengths and timing with social distancing, national lockdowns and increased supply chain disruptions, which weigh on both demand and supply. Preserving social and economic stability has become a focus of policy makers. Healthcare and economic policies to safeguard lives and livelihood and contain the economic fallout have been put through.

Financial markets' reaction has been brutally volatile on mounting uncertainty regarding the safeguarding of lives, livelihood and businesses. Central banks have anchored market participants' expectations on liquidity, on the short-end of the credit curve (in the US in particular) and on sovereign yields with the ECB capping the spread between Bund yields and peripherals. A "whatever it takes" attitude is in place to contain the risk that financial damage will spill over into the real economy and that the depth and duration of the disruption will be too great to bear.

TOP RISKS

Monthly update

Risks are clustered to ease the detection of hedging strategies but they are obviously linked. In March, we have seen a prominent increase of the economic risk. These days challenge is to detect the shape of Covid-19's economic impact while central banks' "bazookas" tempered the financial risk anchoring expectations on liquidity and sovereign spreads. Geopolitical risk remains elevated but likely to roll out a broader horizon

ECONOMIC RISK

7.5%

Probability

Depression

- **The pandemic continues with a second outbreak and rising fatalities**
- **A deep, long global recession:** demand and economic activity collapse and national lockdowns remain for more than six months
- **Loss of potential output** as businesses collapse
- **Debt burden** exacerbated by emergency fiscal policies and liquidity injection to overcome the coronavirus drawdown

+ Cash, linkers, USD, Defensives vs. Cyclicals

- Oil, risky assets, FX commodity exporters

FINANCIAL RISK

15%

Probability

Financial instability

- **Mounting corporate vulnerability**, solvency issues, and increase of default risks (>15 or even 20%)
- **Spill over into the banking sector** and financial risk exacerbation with a large number of defaults due to global recession and financial instability
- **Credit illiquidity** and risk misallocation
- **USD liquidity** drought
- **Central bank policies inefficacy**: UST long-term bond yields to rise despite the Fed QE with low pick-up in the primary markets (the same may occur in Europe)

+ CHF/AUD, YEN (AUD, NZD, CAD), CDS, optionality, Min Vol

- Oil, risky assets

(GEO)POLITICAL RISK

7.5%

Probability

Covid-19 exacerbates political tensions

- **US elections**: the virus outbreak across the country challenges physical voting turnout, and seriously undermines the presidential election legitimacy
- **Economic and national security interests** (and objectives) arising from a revival in the coronavirus, lead to a new wave of trade conflicts
- In the absence of coordinated policies and government leadership, anti-establishment parties take the lead (mainly a European risk)
- The UK is moving to **hard Brexit**
- US/China recriminations on the responsibility of the Covid-19 pandemic
- Open oil war

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

- Oil, risky assets, EMBI

Methodology

– Scenarios

The probabilities reflect the likelihood of financial regimes (central, downside and upside scenario) which are conditioned and defined by our macro-financial forecasts. We use the k-means clustering algorithm to our enlarged macroeconomic dataset, splitting the observations into the K cluster, where K represents most of the variability in the dataset. Observations belong to one cluster or another based on their similarities. The grouping of the observations into the k clusters is obtained by minimizing the sum of squared Euclidean distances between observations and clusters centroids i.e. the reference values for each cluster. The greater the distance, the lower the probability to belong to a given regime. The GIC qualitative overlay is finally applied.

– Risks

The probabilities of risks are the outcome of an internal survey. Risks to monitor are clustered in three categories: Economic, Financial and (Geo)politics. While the three categories are interconnected, they have specific epicentres related to their three drivers. The weights (percentages) are the composition of highest impact scenarios derived by the quarterly survey run on the investment floor.

GLOBAL RESEARCH CLIPS

1 A global deep recession in Q1-Q2-Q3 2020. The recovery in Asia, followed by Europe and then the US will be a game changer, setting the reversal path.

- The timeframe of the shock has been extended (with an overall peak expected by May or June). The geographical impact has also been extended globally from an external shock on the trade dynamics sourced in China to an endogenous shock of collapsing demand in most countries experiencing shutdowns. With the exception of a few countries (such as China and South Korea), no peak in the outbreak is yet visible. We are therefore adjusting our central scenario recovery profile to an extended U shape.

2 Central banks are addressing liquidity risks

- Central banks are stepping up to address liquidity issues, recalibrating sovereign risks and broadly anchoring yields; we expect them to succeed, limiting the spillover from the financial markets into the real economy via the credit sector. However, we are aware that central banks have limited firepower on the solvency front. This will be within the perimeter of economic policies.

3 Governments are safeguarding lives and household incomes

- Governments will have to target social stability, safeguarding lives first, and then maintaining incomes and minimizing the long-term costs of collapsing business to prepare the real economy for what will come thereafter. While in the US co-operation between the Treasury and the Fed is already settled, in the Eurozone, we are at the early stages of a more powerful common fiscal answer and co-ordination with monetary policy.

4 Oil prices should stay low throughout the year

- The oil price collapse has been triggered by a vicious supply-and-demand dynamic. The Covid-19 pandemic and globally spreading lockdowns have slashed demand expectations, and the Saudis' sudden decision to increase production by 3mln bbd. moved oil markets into deep oil oversupply territory. For this reason, the reasonable range for oil becomes $25-35, with a down pressure to $20, should the global technical recession deepen further in 2H20.

Stimulus packages

USA: A $2.2 trillion Covid-19 stimulus package. The plan is designed to protect the US economy against the extreme shock it is going through. The largest economic-relief plan in history (10% of GDP) will provide broad support to all segments of the economy, including self-employed and independent workers hit by the disease's economic fallout. The main items of this gigantic Emergency Aid Bill include a direct payment of $1,200 per adult and $500 per child (conditional on income) for a total of $290bn. Moreover, aid to the unemployed is being extended by $260bn. $510bn is being granted in the form of loans and guarantees, of which $454bn to support the Fed's lending programs and the rest for hard-hit sectors (incl. airlines, that will also receive grants). There will also be $377bn in loans, guarantees and grants to small business. Finally, state and local governments will be allocated $150bn, while $180bn will go to hospitals and other health spending. The rest of the package will be mostly tax provisions for business and funding other benefits.

EU: Significant support from governments and the ECB. The European Council has confirmed the suspension of budget rules and allowed member states to ease corporate state aid restrictions. A €37bn initial aid plan (mostly a reuse of cohesion policy funds) was agreed before national plans could be launched. The Eurogroup decided to activate the ESM for amounts in the range of 2% of GDP although further decisions are needed before it takes effect. At the country level, significant measures have been announced, for instance €45bn in France (2% of GDP) and €120bn in Germany (4% of GDP). Note that those amounts are not maximums as they will ultimately depend on the take-up rate of announced schemes, such as support to temporary unemployment. Large-scale public guarantees of corporate loans have also been announced, including €300bn in France and a total of more than €800bn in Germany (whose government communicated on 'unlimited' guarantees). Germany is also setting-up a €100bn fund for public capital injection in corporations.

UK: Three packages have already been passed, with the main measures being support to the NHS and medical research, support to temporary unemployment (with 3 month scheme to pay 80% of wages up to 2500 per month) and additional scheme to support the self-employed and temporary workers. These measures will add at least GBP42bn to the British budget this year. The government also offered an indicative GBP330bn of guarantees to corporate loans.

Japan: Two packages totaling $9.6bn have already been announced in February and March. They included cheap loans to support hard-hit small and mid-size companies (first in tourism activities, then in other sectors) as well as help for working parents and other social aid. Japan is currently preparing a much bigger package (up to $515bn, or 10% of GDP) that should include direct payments to households and loan guarantees. Part of the funds would be drawn from a previous stimulus package that was intended to minimize the damage from the US-China trade war.

AMUNDI ASSET CLASS VIEWS

	Asset Class	View	1M change	Rationale
EQUITY PLATFORM	US	-/=	▼	Despite the recent rebound, we stay cautious as we believe US equities are likely to remain volatile driven by virus newsflow and economic impact of containment efforts which increase the likelihood of a US recession. However, the recession may be short-lived, given expectations of fiscal stimulus and monetary easing (QE infinity) as the Fed has announced it will "continue to use the full range of tools."
EQUITY PLATFORM	Europe	-/=		Europe has witnessed an unprecedented economic sudden stop which could lead to temporary recession. Fragile players in weak industries could face nationalisation. However, balancing risks amid high volatility and low earnings visibility, and improving liquidity should be a priority. Idiosyncratic opportunities have emerged, but equities still look vulnerable overall.
EQUITY PLATFORM	Japan	=		Many Japanese companies are exporters that could be hurt by a stronger yen, which acts as a safe haven in times of extreme volatility. As a result, their earnings are linked with global PMIs and economic activity. However, valuations are attractive and companies' balance sheets are also underleveraged. We therefore remain neutral.
EQUITY PLATFORM	Emerging markets	=		Given the vulnerability of EMs to the economic impact of the coronavirus and uncertainty on the commodity markets, we are cautious overall, particularly in sectors and countries dependent on services and tourism, and on the energy sector. We favour China and Korea as they approach a recovery phase in coronavirus cases. As situation improves, there could be pockets of opportunities due to attractive valuations and policy stimulus measures.
FIXED INCOME PLATFORM	US govies	=/+		In Global Fixed Income, we maintain a constructive view on US duration in light of continuous safe-haven flows amid heightened volatility in markets globally. The unlimited QE will likely help to anchor bond rates, despite an increase in future debt.
FIXED INCOME PLATFORM	US IG Corporate	=/+		Tightening financial conditions are affecting market liquidity. However, the Fed's decision to provide PMCCF, SMCCF and support to agency mortgage- backed securities should provide some relief. We remain cautious overall and focus on liquidity. Market movements could present opportunities to selectively add high-quality, long-term corporate credit names at a discount.
FIXED INCOME PLATFORM	US HY Corporate	-	▼	We are very cautious amid high leverage, increased risks of default, economic impact of Covid-19 and falling oil prices.
FIXED INCOME PLATFORM	European govies	-/=		We don't see much value in core EU govies, but are constructive on peripheral bonds, as they continue to offer attractive yields. We are positive on Italy and Spain (although more challenged now) due to the ECB's commitment to a massive liquidity injection to prevent fragmentation in EZ and additional financial stress on countries hit hard by the outbreak. However, we still expect high volatility on peripherals with possible liquidity shortages.
FIXED INCOME PLATFORM	Euro IG Corporate	++		EUR IG remains our preference vs. US IG, given strong fundamentals of the former and continued support from ECB. However, we focus on quality of issuers as it provides comfort with respect to the risk in our portfolios. We are positive on subordinated debt financial as banks are much better prepared than in 2008 to face the crisis.
FIXED INCOME PLATFORM	Euro HY Corporate	-/=	▼	While we favour EUR HY to US HY, we are selective and realise that worsening liquidity conditions must be monitored, as well as the increase in default rates due to the economic downturn.
FIXED INCOME PLATFORM	EM Bonds HC	=/+	▼	We are cautious in the short term due to the coronavirus outbreak and the fact that many EMs are at the early stage of contagion. We favour Indonesia, Ukraine and South Africa and are cautious on bonds of oil-exporting countries.
FIXED INCOME PLATFORM	EM Bonds LC	=		We maintain our preference for higher yielding countries such as Serbia, Egypt and Ukraine where local real rates are at multi-year highs.
OTHER	Commodities			Commodity prices nosedived in recent weeks as two big shocks hit oil, base metals and, to a lesser extent, gold. The global lockdown due to Covid-19 slashed oil-demand expectations while the sudden decision by Saudi Arabia to increase production by 3mln b/d moved oil markets into oversupply. We downgrade oil to $25-$35 p/b, with the possibility of further downward pressure to $20 if the global recession moves into H2. Gold also suffered temporarily due to forced selling in order to finance margin calls on other risky positions. However, it remains an efficient hedge at times of unconventional monetary policies.
OTHER	Currencies			USD moved higher amid tightening financial conditions, capitulating growth expectations and increasing liquidity concerns. This is in contrast to the end of February, when a spike in volatility pushed low yielding currencies higher in response to closing carry positions. However, in March, USD moved up, ending 15% overvalued with respect to its fundamentals. Going forward, with no visibility on the potential length of the economic impasse, and growing liquidity needs, USD should remain strong, at least till the point the CBs' and governments' interventions are perceived as credible and till a bottom in risky assets is found.

LEGEND

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

Source: Amundi, as of 24 March 2020, 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.

DEVELOPED COUNTRIES

Macroeconomic outlook

Data as of 29/03/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	**3.1**	**-0.9/0.3**	**3.1/3.8**	**3.0**	**3.4**	**2.8**
Developed countries	**1.7**	**-3.4/-1.9**	**2.8/3.5**	**1.5**	**1.5**	**1.6**
US	**2.3**	**-3.1/-1.9**	**3.0/4.0**	**1.8**	**1.6**	**1.6**
Japan	**1.2**	**-3.0/-1.9**	**1.0/2.0**	**0.7**	**0.7**	**0.6**
UK	**1.4**	**-5.0/-3.2**	**3.1/3.8**	**1.8**	**1.6**	**1.7**
Eurozone	**1.2**	**-5.2/-3.0**	**3.2/3.8**	**1.2**	**0.8**	**1.3**
Germany	0.6	-5.5/-3.1	3.1/3.7	1.5	1.0	1.3
France	1.2	-5/-3	3.2/3.9	1.3	0.9	1.3
Italy	0.3	-6.1/-4.9	3.1/3.6	0.7	0.3	1.0
Spain	2.0	-5.8/-4.2	3.0/3.7	0.7	0.6	1.0

Source: Amundi Research

- **United States:** Heading towards a sharp contraction in H1; H2 recovery shaped by the duration of the crisis and by the effectiveness of the unprecedented policy response, once the post-containment normalization phase starts. While a state of emergency has been declared by the President, almost all states are implementing emergency measures with various degrees of severity, from preventing gatherings to statewide quarantines. Incoming data in late March show sharp drops in business and consumer sentiment, and an unprecedented rise in weekly jobless claims (3,2 millions).
- **Eurozone:** The Eurozone economy is entering a recession as after Italy, almost European countries are facing severe Covid-19 outbreak and have implemented increasingly stricter measures of containment, with ripple effects coming via the fall in domestic demand, disruption of supply chains, and loss of external demand. Almost all sectors of economic activity have been affected. The most likely scenario is a U-shaped type of recovery, with the belly of the U dependent on the length of the public health emergency and on the effectiveness of fiscal packages delivered to support the economy once the normalisation phase starts.
- **Japan:** By the end of March the overseas pandemic risk to the economy had moved to an endogenous one with the number of cases escalating in Tokyo and large cities. After having postponed the Tokyo Olympics (likely to 2021), Abe is not yet to the point of taking the decision to implement stricter lockdown measures. The Japanese economy is expected to fall into a profound recession as most economies go through a double shock of collapses in both internal and external demand. Capital investment in Japan is narrowly linked to its export dynamics.
- **United Kingdom:** The UK economy is set to face recession this year. The total number of Covid-19 cases has risen to worrisome levels, prompting the government to implement increasing limitations on people's movement and economic activity, which will significantly drag down H1 economic growth at least. An unprecedented governmental, fiscal and monetary policy response has followed, with the goals of containing the spreading of the virus, helping households and businesses to weather the storm and preparing the ground for the recovery, once the emergency is over.

Nota Bene: The uncertainty around our macroeconomic forecasts is very high, and it triggers frequent reassessments any time fresh high frequency data are available. Our forecasts at this point include a higher qualitative component, reducing the statistical accuracy and increasing the uncertainty through wider ranges around them.

Key interest rate outlook

	31-03 2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
US	**0.13**	**0.25**	**0.13**	**0.25**	**0.15**
Eurozone	**-0.50**	**-0.50**	**-0.64**	**-0.50**	**-0.66**
Japan	**-0.1**	**-0.2**	**-0.16**	**-0.2**	**-0.28**
UK	**0.1**	**0.00**	**0.20**	**0.00**	**0.20**

Source: Amundi Research

- **Fed:** The Fed has moved rapidly from words to deeds: 1) cutting rates (in two rounds) by a total of 150bp; 2) announcing an open-ended QE on Treasuries and MBS; 3) introducing support facilities for the CP market and primary dealers' liquidity; and 4) providing $300 billion in new financing available until the end September 2020 to support credit via three facilities: (1) Primary Market Corporate Credit Facility (PMCCF) to support new bond and loan issuance, (2) Secondary Market Corporate Credit Facility (SMCCF) to provide liquidity for outstanding corporate bonds, and (3) Term Asset-Backed Securities Loan Facility (TALF) to support issuance of asset-backed securities (ABS).
- **ECB:** The ECB acted twice: at its latest meeting it expanded QE, through additional net asset purchases of EUR 120bn, and approved liquidity tools and new long-term loans full allotment of liquidity at very preferential rates to support SME refinancing. At the same time, ECB banking supervision provided temporary capital and operational relief in reaction to the coronavirus. The ECB announced later an additional QE programme worth EUR 750bn (the new Pandemic Emergency Purchase Programme (PEPP)) with ample flexibility (no issuer limit constraints).
- **BoJ:** The BoJ joined other central banks in calling for more accommodation. In line with statements by other major central banks, the BoJ announced that it would provide ample liquidity and ensure stability in financial markets through appropriate market operations and asset purchases. The BoJ said it would inject ample funds via market operations to make sure banks have enough funding through the end of the Japanese fiscal year, on March 31 and announced measures to maintain stability of the repo market.
- **BoE:** The MPC reduced Bank Rate by 65 basis points, from 0.75% to 0.1%. It also announced an increase in the stock of asset purchases by £200 billion to a total of £645 billion. The majority of additional asset purchases will be of UK government bonds but some non-financial investment-grade corporate bonds will also be purchased. A new Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) was introduced.

Monetary policy agenda

Central banks	Next meeting
Federal Reserve FOMC	**April 29**
ECB Governing Council	**April 30**
Bank of Japan MPM	**April 27**
Bank of England MPC	**May 7**

Source: Amundi Research

EMERGING COUNTRIES

Macroeconomic outlook

Data as of 30/03/2020

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
World	3.1	-0.9/0.3	3.1/3.8	3.0	3.4	2.8
Emerging countries	4.1	0.8/1.7	3.3/4.0	4.0	4.6	3.5
Brazil	1.1	-3.2/-1.8	-0.1/0.9	3.7	4.2	4.5
Mexico	-0.1	-3.5/-1.5	-0.2/0.8	3.6	3.6	3.6
Russia	1.3	-1/1	1.0/2.5	4.5	3.5	4.0
India	5.3	1.2/2.6	3.6/4.9	3.7	6.4	4.4
Indonesia	5.0	3.3/4.1	4.1/5.0	2.8	2.8	3.3
China	6.2	2.3/3.3	5.0/5.6	2.9	4.0	2.0
South Africa	0.2	-5/-3	0.8/1.0	4.6	4.1	4.4
Turkey	0.8	1.3/1.8	2.3/2.5	15.5	10.9	9.2

Source: Amundi Research

- **China:** The string of data released for January and February were terribly weak across the different sectors of the economy (in household consumption, investments and trade). These data have triggered a sharp downward revision in our growth expectations for 2020, now in a range of 2.7%-3.7%. The policy mix remains accommodative, in particular on the fiscal side, with local governments allowed to retain more tax revenues and issue more than half of their annual quotas in the first months of the year. Economic activity is slowly resuming, but downside risks persist: a second wave of outbreak and vanishing external demand for Chinese products with the world in recession.
- **Mexico:** Economic performance in 2020 is expected to trend far lower than in 2019. Mexican GDP will be hit by three major shocks: the Covid-19 outbreak, the recession of its main trade partner, the US (destination of around 80% of its total exports), and low oil prices. Policy mix is turning accommodative at a very slow pace. Banxico cut its policy rates by 50bps and much more has to come. The unclear strategy in terms of outbreak containment and fiscal policy are expected to extend economic weakness. On top of that, low oil prices are darkening fiscal sustainability (already fragile, which is adding Pemex to sovereign liabilities).
- **Turkey** entered the public health emergency with strong momentum, due to a significant credit impulse and, with a debt to GDP ratio of 31%, has fiscal space. In an emergency meeting, the CBRT decided to cut rate by 100bps to 9.75%, and announced other liquidity-related measures. Erdogan unveiled a robust USD 15.4 billion economic package that will bolster the ability of businesses and the public to withstand the short-term economic fallout. The 2% of GDP in fiscal measures and monetary expansion are good first steps but more is likely to come.
- **Russia:** Record low oil prices, combined with the global slowdown expected from the Covid-19 crisis has prompted Russia to take a set of measures. While the central bank left the policy rate unchanged during the March meeting, a series of measures to support SMEs and households has been announced. The measures do not seem significant in terms of GDP, but more may come over time. Russia has substantial assets in the National Wealth Fund, which could compensate for the shortfall in oil revenues for several years. Overall public finances remain healthy with very low debt and hitherto fiscal surpluses.

Nota Bene: The uncertainty around our macroeconomic forecasts is very high, and it triggers frequent reassessments any time fresh high frequency data are available. Our forecasts at this point include a higher qualitative component, reducing the statistical accuracy and increasing the uncertainty through wider ranges around them.

Key interest rate outlook

	31-03 2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
China	4.05	3.85	-	3.85	-
India	4.4	4.15	4.95	4.15	4.9
Brazil	3.75	3.5	3.4	3.5	3.6
Russia	6	5.5	5.95	5.5	5.95

Source: Amundi Research

Monetary policy agenda

Central banks	Next communication
PBoC	**April 20**
RBI	**June 2**
BCB Brazil	**May 5**
CBR	**April 24**

Source: Amundi Research

- **PBoC (China):** PBoC Monetary Policy has been running at a pace only marginally faster since the Covid-19 outbreak, with targeted RRR cuts, and slight LPR and MLF reductions. Considering the sharp decline in economic activity in January and February, together with the gradual recovery in activity and the big risks lying ahead in terms of a second-wave outbreak and vanishing external demand for Chinese products, the PBoC is likely to intervene more aggressively. A benchmark deposit rate cut is becoming more and more likely, certainly if the March data fail to show the expected gradual improvement.
- **RBI (India):** Due to the destructive force of Covid-19, the RBI moved its bi-monthly monetary policy meeting up by one week, and cut its reference policy rate by 75bps from 5.15% to 4.4%. The RBI also lowered its reverse repo fixed rate by 90bps (4.0%) to make passive deposit funds with the RBI unattractive for banks, with the goal of expanding the credit supply. The policy mix is still being led by monetary policy, with little room ahead due to still-high headline inflation. It is clear that the RBI needs to do more to improve the transmission mechanism through the banks to the real economy.
- **BCB (Brazil):** Following 50bps in preventive rates cuts in response to the Covid-19 outbreak, the BCB has announced in late March "the highest liquidity injections and capital relief ever made" (BCB Governor): BRL 1.2 trn in liquidity. The many measures announced aim to provide liquidity to the financial system and to increase lending. The BCB was already at the end of a long and sizable easing cycle and real rates were negative. With not much easing room to work with, the BCB needs to turn to different tools in supporting the economy. Marginal further easing remains a possibility.
- **CBR (Russia):** After cutting its policy rate by 25 bps to 6% in February, the CBR left its policy rate unchanged at the March meeting. While inflation is running well below the 4% target, the CBR mentioned changes in external conditions related to the sharp drop in oil prices and the threat of global recession from the spread of coronavirus. The CBR expects a temporary acceleration in inflation resulting from the depreciation of the rouble to be offset by disinflationary pressures from slowing domestic and global demand.

MACRO AND MARKET FORECASTS

Macroeconomic forecasts (29 March 2020)

Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020 range	2021	2019	2020	2021
US	2.3	-3.1/-1.9	3.0/4.0	1.8	1.6	1.6
Japan	1.2	-3.0/-1.9	1.0/2.0	0.7	0.7	0.6
Eurozone	1.2	-5.2/-3.0	3.2/3.8	1.2	0.8	1.3
Germany	0.6	-5.5/-3.1	3.1/3.7	1.5	1.0	1.3
France	1.2	-5/-3	3.2/3.9	1.3	0.9	1.3
Italy	0.3	-6.1/-4.9	3.1/3.6	0.7	0.3	1.0
Spain	2.0	-5.8/-4.2	3.0/3.7	0.7	0.6	1.0
UK	1.4	-5.0/-3.2	3.1/3.8	1.8	1.6	1.7
Brazil	1.1	-3.2/-1.8	-0.1/0.9	3.7	4.2	4.5
Mexico	-0.1	-3.5/-1.5	-0.2/0.8	3.6	3.6	3.6
Russia	1.3	-1/1	1.0/2.5	4.5	3.5	4.0
India	5.3	1.2/2.6	3.6/4.9	3.7	6.4	4.4
Indonesia	5.0	3.3/4.1	4.1/5.0	2.8	2.8	3.3
China	6.2	2.3/3.3	5.0/5.6	2.9	4.0	2.0
South Africa	0.2	-5/-3	0.8/1.0	4.6	4.1	4.4
Turkey	0.8	1.3/1.8	2.3/2.5	15.5	10.9	9.2
Developed countries	1.7	-3.4/-1.9	2.8/3.5	1.5	1.5	1.6
Emerging countries	4.1	0.8/1.7	3.3/4.0	4.0	4.6	3.5
World	3.1	-0.9/0.3	3.1/3.8	3.0	3.4	2.8

Key interest rate outlook

Developed countries

	31/03/2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
US	0.13	0.25	0.13	0.25	0.15
Eurozone	-0.50	-0.50	-0.64	-0.50	-0.66
Japan	-0.1	-0.2	-0.16	-0.2	-0.28
UK	0.1	0.00	0.20	0.00	0.20

Emerging countries

	30/03/2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
China	4.05	3.85	-	3.85	-
India	4.4	4.15	4.95	4.15	4.9
Brazil	3.75	3.5	3.4	3.5	3.6
Russia	6	5.5	5.95	5.5	5.95

Long rate outlook

2Y. Bond yield

	31/03/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	0.23	0.25/0.5	0.30	0.25/0.5	0.35
Germany	-0.69	-0.8/-0.60	-0.74	-0.70/-0.50	-0.75
Japan	-0.14	-0.30/-0.20	-0.13	-0.30/-0.20	-0.13
UK	0.15	0/0.25	0.15	0/0.25	0.14

10Y. Bond yield

	31/03/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	0.69	0.5/0.7	0.79	0.8/1	0.86
Germany	-0.48	-0.8/-0.5	-0.45	-0.50/-0.30	-0.42
Japan	0.02	-0.10/0.10	0.09	0/0.2	0.13
UK	0.37	0.20/0.4	0.36	0.4/0.6	0.43

Currency outlook

	30/03/2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
EUR/USD	1.107	1.06	1.12	1.15	1.14
USD/JPY	108	106	107	105	106
EUR/GBP	0.89	0.92	0.86	0.85	0.86
EUR/CHF	1.06	1.05	1.07	1.10	1.07
EUR/NOK	11.69	11.83	10.27	11.01	10.65

	30/03/2020	Amundi + 6m.	Consensus Q3 2020	Amundi + 12m.	Consensus Q1 2021
EUR/SEK	11.02	11.55	10.59	10.25	10.54
USD/CAD	1.41	1.46	1.35	1.30	1.36
AUD/USD	0.61	0.59	0.67	0.72	0.65
NZD/USD	0.60	0.55	0.64	0.68	0.63
USD/CNY	7.10	7.10	6.97	7.10	6.99

Source: Amundi Research

DISCLAIMER TO OUR FORECASTS

The uncertainty around the macro forecasts is very high, and it triggers frequent reassessments any time fresh high frequency data are available. Our macroeconomic forecasts at this point include a higher qualitative component, reducing the statistical accuracy and increasing the uncertainty through wider ranges around them.

A global recession is our base case today

1. How deep?

- The deepness depends on the virus longevity in the countries affected and the consequent gradual to complete lockdown in most of them. Downturn is evident in domestic demand (across its components at different degree) and in trade dynamics. We assume the largest downturn in the lockdown quarter and a milder downturn to follow. We monitor outbreak developments and lockdown/resumption of the economic activity.

2. How long?

- The timeline depends on the deepness of the economic disruption together with the credit conditions and the rise of corporate default, magnifying the financial markets turbulence and therefore the impact on the economy.
- The timeline of the shock has extended, and overall a peak is expected by May to June 2020. The global economy was showing signs of growth stabilization during the 4Q2020.
- The timeline is also a function of the specific developments of the outbreak together with pre-existent fragilities.

3. The fiscal impact

- The impacts of micro and macro fiscal measures are not included in our forecasts but it’s fair to assume a normalization in the financial and liquidity conditions driven by Monetary Policy authorities

Financial targets

- Financial targets are reviewed on the same line and include policy actions implemented on a daily basis.

PUBLICATIONS HIGHLIGHTS

INVESTMENT TALKS

In search of the bottom in the Covid-19 crisis (2020.03.25)

- Markets are leading the real economic cycle and therefore they will bottom before the end of the pandemic
- However, markets will calm down and be reassured when they can anchor expectations on three points: (1) signs of an improvement on the speed of the contagion, (2) the 'whatever is necessary' tactics of fiscal and monetary authorities, (3) the short end of the credit curve and core bonds yields discounting higher future debt
- A new financial regime has started

Pascal BLANQUÉ, Group CIO, and Vincent MORTIER, Deputy CIO.

Policy action at the next level, but markets still in search of the "real" catalyst (2020.03.19)

- The dormant volatility finally woke up and risk parity funds and automatic selling strategies led to a volatility spike. Yet it is not a financial crisis but an economic crisis
- Credit is the area to monitor the most, to assess the potential spill-over of the crisis into a financial crisis, with possibly more profound implications
- This is a time when it is too late to sell and too early to buy

Pascal BLANQUÉ, Group CIO — Vincent MORTIER, Deputy CIO and Monica DEFEND, Global Head of Research.

US: Covid-19 & Oil Wars Warrant Decisive Action. Fed moves to ease financial stress (2020.03.16)

- Uncertainty surrounding the magnitude and duration of the global health crisis is driving volatility and testing liquidity across the world's financial markets.
- Oil-related supply shock compounds Covid-19 demand shock
- In US Fixed Income, we feel corporate spreads are selectively attractive, with a bias towards higher quality issuers and those that are more liquid
- In US Equities, we believe the most prudent approach is to invest in companies with manageable debt levels, high profit margins, and stable competitive positions

Christine TODD, Head of Fixed Income, US — Marco PIRONDINI, Head of Equities US and Paresh UPADHYAYA , Director of currency strategy, US portfolio manager.

ECB meeting: now, fiscal policy has to play its part (2020.03.13)

- At its meeting on 12 March, the ECB disappointed market expectations by not cutting rates in the wake of the coronavirus spread
- We recap the measures announced and answer the main questions on the impact of these on the Eurozone economy and financial markets
- We stress the fact that fiscal action is a prerequisite for an economic rebound to materialise once the epidemic has receded

Monica DEFEND, Global Head of Research — Valentine AINOUZ, CFA, Deputy Head of Developed Market Strategy Research and Didier BOROWSKI, Head of Global Views.

US elections: The Democratic race to nomination and implications for markets (2020.03.10)

- The race to Democratic nomination has boiled down to two candidates now, Joe Biden and Bernie Sanders with Biden being the new frontrunner based on delegate count, market expectations and national polls
- We believe Biden has a stronger path and we expect political risk premia to continue to decline
- We also believe that markets are under-appreciating the risks of a new party winning elections, given that the focus at the moment is on COVID-19, probability of global recession, and the damage to the US energy sector

Kenneth J. TAUBES, CIO of US Investment Management and Paresh UPADHYAYA, Director of currency strategy.

DISCUSSION PAPERS

ESG Investing and Fixed Income: it's Time to Cross the Rubicon (2020-01)
Mohamed BEN SLIMANE — Quantitative Research, Eric BRARD — Head of Fixed Income Théo LE GUENEDAL, Thierry RONCALLI, Takaya SEKINE — Quantitative Research

FX wars, currency wars & money wars
Part 2: Fiat Money vs. Cryptocurrencies Private vs. Public digital currencies... (2020-01)
Philippe ITHURBIDE — Senior Economic Advisor — Amundi

FX wars, currency wars & money wars
Part 1: FX wars vs. currency wars USD vs. EUR vs. RMB vs. ... (2020-01)
Philippe ITHURBIDE — Senior Economic Advisor — Amundi)

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Chief editor
BLANQUÉ Pascal, *Group Chief Investment Officer*
Editor
DEFEND Monica, *Global Head of Research*
Deputy-Editors
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BOROWSKI Didier, *Head of Global Views*
Conception & production
BERGER Pia, *Global Research*
PONCET Benoit, *Global Research*

With the Amundi Insights Unit contribution
BERTINO Claudia, *Head of Amundi Investment Insights Unit*
FIOROT Laura, *Deputy Head of Amundi Investment Insights Unit*
DHINGRA Ujjwal, *Amundi Investment Insights Unit*
LICCARDO Giovanni, *Amundi Investment Insights Unit*
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