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**Amundi**  
ASSET MANAGEMENT

# CROSS ASSET

## INVESTMENT STRATEGY

### CIO VIEWS

RISK-TAKING AROUND THE 3Gs:  
GEOPOLITICS, GROWTH, GREEN

### THIS MONTH'S TOPIC

INVESTMENT PHAZER UPDATE:  
DOWNWARD TREND IS CONFIRMED

Research  
& Macro  
Strategy



## CIO VIEWS

## Risk-taking around the 3Gs: Geopolitics, Growth, Green

PASCAL BLANQUÉ, Group Chief Investment Officer

VINCENT MORTIER, Deputy Group Chief Investment Officer

At the start of the 2020s, **markets continued to be dominated by geopolitical issues**, with short-lived Iran tensions at the forefront initially, followed by the news regarding a phase one trade deal between the US and China. **Now, growth expectations are becoming the main driver of the market.** That's why the recent volatility due to the news about the spreading of the corona virus in China is higher than in the case of US-Iran tensions, as the epidemic could harm China (and global growth) if not contained soon (not our base case at the moment). Other than this issue, recent data point to a 'so far, so good' assessment as Germany has avoided a recession and the Euro area is bottoming out. Inflation uptrends are materialising to some extent, but risks appear to be limited and the overall inflation outlook remains benign. Central banks are likely to continue to pause on policy changes, which should help to maintain dovish financial conditions across regions. Therefore, in the search for further growth, attention is globally moving towards fiscal measures: Japanese stimulus package; approval of 2020 Budget Laws for Indonesia, the Philippines and India; and hopes for support in Germany, the UK and broader Europe (€1tn European Green Deal).

**Green investing and climate change are increasingly themes to watch in 2020.** Whether it was the recently released 2020 World Economic Forum report or the latest Davos WEF, climate change and environmental risks are dominating discussions. Europe and China are working together to reduce emissions by launching the Emission Trading System (ETS) which will be the largest carbon market worldwide. Climate change could also be a strong theme in the US electoral debate as global disasters, such as the Australian bushfires, put pressure on politicians to act. Overall, **green objectives could be the catalyst for fiscal push, but they could also become the new frontier for trade wars** as the European Green Deal considers the possibility of an EU carbon border tax. From a top down perspective, the interplay between geopolitics, growth and green issues will likely be the main theme driving the risk-on/risk-off mood.

From a bottom-up standpoint, **credit market dynamics should be the key driver of the financial cycle.** The narrative of low rates continues to play in favour of the asset class, despite rich, though not extreme, valuations. Thus, we believe investors should be overweight credit. However, some idiosyncratic stories could still pop up, especially if renewed concerns about a slowdown play out. We believe flexibility and selectivity in managing this asset will be key in generating returns this year.

This backdrop translates into some key investment convictions:

- **It is not a time to be too defensive.** Some short-term issues related to the coronavirus in China or Europe-US trade negotiations may open buying opportunities to add to risk assets. If the situation in China stabilises, growth momentum may improve in a low yield environment. Beyond the short term, when US equities may prove more resilient, **Europe is the market in which to play cyclical value themes.** We would add exposure to **EM equities**, with earnings expectations gaining traction, once virus issues fade.
- **In bonds, the focus remains less on the duration play and more on credit picking.** Europe, EM bonds and US securitised assets are the way to play the continuing risk-on phase.
- **Selection in focus.** Given tighter spreads, more expensive equity markets globally, and an overall exposure to the "growth factor" across the board, selection is crucial so that investors are not caught in less valuable names that **could hurt returns if volatility rises.** Selection should rely on fundamentals as well as on ESG, taking into consideration all the risk factors that could affect future business valuations, of which climate change remains the most discussed.
- **Finally, ESG will be the area that sees new regulations.** This should be the case in the financial sector as well. As shareholders are becoming increasingly demanding on all ESG fronts, **we expect to see a rise in the impact of ESG on market performances<sup>1</sup>.**

<sup>1</sup> See the new Amundi Paper, *ESG INVESTING IN RECENT YEARS: NEW INSIGHTS FROM OLD CHALLENGES*, December 2019

## Overall risk sentiment

Risk off



Risk on

We are slightly more positive on risky assets, but remain selective

## Changes vs previous month

- Relatively constructive on equities in Europe and looking for buying opportunities in EM equities
- Positive on US 10Y Treasury inflation-protected securities

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



## MACRO

## Towards a weakening dollar

DIDIER BOROWSKI, Head of Global Views

MONICA DEFEND, Global Head of Research

Theoretically, it is not possible to conclude whether a currency should appreciate in line with its position in the (global) cycle. Nevertheless, empirical studies tend to distinguish between two groups of currencies: those that appreciate when the economy is doing well (and therefore depreciate in times of crisis or slowdown) and those that – in contrast – appreciate when things are going badly. A currency that appreciates in good times and depreciates in bad times is traditionally described as **procyclical**, while in the opposite case, a currency is described as **countercyclical**. Procyclical currencies are generally found in EM while countercyclical ones dominate in DM. It is clear, for example, that currencies that traditionally serve as safe havens when things go wrong (USD, Swiss franc, yen) tend to be countercyclical. The USD benefited last year from the deterioration of the international environment and the global industrial recession, which appears to confirm its countercyclical nature. It is now estimated to be overvalued by about 10% in real effective exchange terms.

**In countries with procyclical currencies, the exchange rate acts as an automatic stabiliser:** it depreciates when growth is weak (benefiting exports) and appreciates when economic growth accelerates (weighing on domestic demand). Countries with procyclical currencies tend to benefit from capital inflows, which themselves tend to be procyclical in emerging economies (i.e., which increase when growth accelerates). However, the causality between capital flows and the exchange rate is not easily explained. It is likely that the two are mutually reinforcing: indeed, investors who anticipate procyclical behaviour in a currency will be inclined to position themselves in the assets of the country concerned, which in turn will tend to reinforce the appreciation of the currency.

**These considerations are important at this stage of the global cycle:** we expect that the global industrial recession will end in the first half of this year and that global trade will slowly recover as we move towards the end of the year. The countries most severely affected by the trade contraction and industrial recession last year should therefore be the first to benefit from renewed capital inflows. On the other hand, currencies that have benefited from their safe-haven status could logically be expected to weaken, starting with the US dollar. This

“We believe that risks are skewed to the downside on the US dollar (countercyclical currency), while they are skewed to the upside on many emerging currencies (procyclical).”

## USD dollar spot



Source: Amundi on Bloomberg data, as of 27 January 2020

is all the more true when the environment of low interest rates and sluggish growth in developed countries is fuelling investors' search for yield and diversification. The strongest emerging countries are therefore serious candidates.

**Under these conditions, we believe that risks are skewed to the downside on the USD (countercyclical)** while they are skewed to the upside on many emerging currencies (procyclical). This bias is all the more justified given that the USD appears overvalued while many emerging currencies are undervalued.

**The consequences in terms of asset allocation are quite significant**, as it means that investors will need to reconsider their exposure to emerging debt in local currency. However, this should be done with caution for two reasons: 1) global recovery is not yet sufficiently entrenched to expect a significant depreciation of the USD, which is still supported by higher interest rates in the US than in other DM; and 2) global uncertainty (trade, geopolitics), which may continue to support safe-haven currencies.

## MULTI-ASSET

### Play positive fundamentals once uncertainty fades

MATTEO GERMANO, Head of Multi-Asset

The overall economic picture continues to point towards a stabilisation in global growth with a convergence of DM growth towards potential and a rebound in EM. The inflation outlook remains benign and temporary upside risks appear to be contained, with only a few situations to monitor (India and China). A possible evolution of the policy mix towards more fiscal expansion could limit downside risks. This scenario is supported by recent improvements in economic momentum along with decreasing geopolitical risks in the aftermath of the China-US phase one deal.

**This supports a positive view on equity.** However, as some elements of the outlook remain uncertain (spreading of the virus in China), we suggest investors **keep hedging in place, or potentially increase it**, especially in the conservative allocations and seek buying opportunities in the equity markets once the situation is more clear.

#### High conviction ideas

**Our overall assessment of equities has improved** on expectations of a pick-up in inflows, a reduction in geopolitical risks, and potentially more expansionary fiscal stances. **European markets and EM Asia** could be best positioned to benefit from these tactical factors, given their cyclical/value bias. However, we are mindful of mounting vulnerabilities to corporate profits and uncertainty linked to the spreading of the corona virus. At a granular level, we now have a neutral view on the US and a slightly positive one on EU stocks. We are looking at **EM equities**, as EM economic and earnings momentum is improving, **particularly in Asia**. However, given current uncertainty, we believe investors should hedge against a possible continuation of high volatility in this space.

**In fixed income**, we have a **neutral view on US duration** and we believe investors should remain flexible and tactically play the trading range (1.7-2%) for the 10Y US Treasury. We maintain our relative preference for the 5Y UST vs the Germany 5Y. Regarding **US breakevens**, **we are more positive** on the 10Y, as there is now less slack in the economy.

The **search for yield** continues, specifically in the **Italian curve**, which is an exceptional case of attractive positive yields. Thus, we remain constructive on the Italy 30Y vs the Germany 30Y.

In **credit**, while valuations are rich, the asset class continues to be supported by the current late cycle environment and technical factors, especially in Europe (TLTRO, ECB QE2). **We prefer EUR IG to US because of the better leverage profile** of the former. **Elsewhere, benign inflation, attractive carry, dovish EM central banks, and strong relative yields all support EM debt (HC)**, although we recommend hedging the duration and currency risk, and from a risk/return perspective, we prefer HC over LC for the time being.

“An improvement in the economic picture could support stocks. We look for buying opportunities once issues related to the current corona virus outbreak start to dissipate.”

On **FX**, while we keep a positive mid-term view on some selected EM currencies, we suggest remaining cautious over the short term amid high uncertainty. In **DM FX**, we are now positive on the EUR/CHF as geopolitical tensions have already pushed the CHF higher. We remain constructive on the EUR/USD. The NOK/EUR is likely to do well on tighter policy and a resilient Norwegian economy.

### Risks and hedging

In a more volatile environment, we suggest that investors **maintain adequate hedges** in the form of the Japanese yen, gold and options strategies to limit declines in case of further rises in volatility.

USD = US Dollar, UST = US Treasury, DM = Developed markets, EM/GEM = Emerging markets, EM bonds (HC) = EM bonds hard currency, LC = Local currency, FX = Foreign exchange, IG = Investment grade, HY = High yield, NOK = Norwegian krone, CB = Central banks, CHF = Swiss franc.

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

### Relative value to generate returns in tight markets

ERIC BRARD, Head of Fixed Income

YERLAN SYZDYKOV, Global Head of Emerging Markets

KENNETH J. TAUBES, CIO of US Investment Management

The stabilisation of the growth outlook should continue, but there are no expectations of a reacceleration in the global economy. However, core government bond yields are still not picking up despite the improved picture, due to an excessive search for quality and safety, global liquidity, and quantitative easing (particularly in Europe). While the search for yield is supportive of credit markets in general, **it could also lead investors to overcrowded segments**, which may display high volatility in the event of a minor disappointment on growth expectations. In the current environment, **investors should look at segments that may offer attractive relative value** and at names that could hold up well in case of a slowdown.

### DM bonds

In **global fixed income**, we maintain a **close to neutral stance on duration**, with a preference for the US, where conditions have recently improved, while we remain negative on core Euro (Germany) and the UK (fiscal stimulus should push rates higher). We have a constructive view on Euro peripherals as they still offer attractive positive yields, particularly Italy, on which we are more positive. There are opportunities for investors to play curve movements in the core Euro curve, in the UK, in Euro peripherals, and also in Japan, the US and Australia. In credit, **we are optimistic overall on IG, but are more constructive on Europe than the US**. From a **US perspective**, the current macro-economic environment and a supportive central bank bode well for risk assets and for the country's growth stabilisation around potential (2% annual). But, valuations of some



asset classes already reflect this and, therefore, selectivity is important. **We are positive on inflation-linked Treasuries (TIPS) on the back of firmer inflation expectations** as global and domestic asset prices remain stable amid declining trade and political uncertainties. The US-China phase one deal has now been signed and the House of Representatives approved the US-Mexico-Canada agreement. But, the delay in the phase two deal until after the US elections heightens volatility for 2H20. **In IG, we remain cautious on corporate bonds** and see more appeal in hybrid structures, particularly in the banking sector. We also maintain our preference for securitised assets, which are relatively attractive vs corporate bonds, as spreads in the former have not tightened as much. In addition, fundamentals in consumer credit remain solid in light of robust wages, balance sheets and consumer confidence.

**“We keep a positive view on the peripheral European countries, where Italy is one of the few areas with attractive yield.”**

## EM bonds

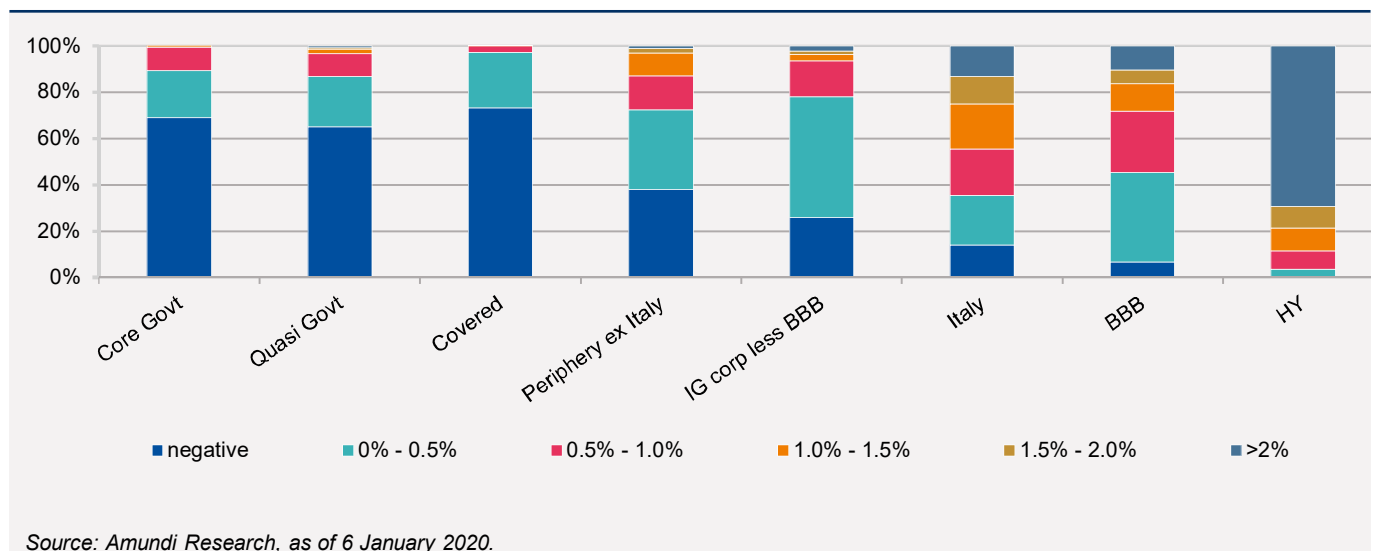
While the fundamental and technical backdrop will likely remain supportive of the asset class in 2020, valuations currently look tight. It's hard to see pockets of value, especially given the limited space for the Fed to loosen further and for EM FX to perform strongly in the short term. **Our outlook is still moderately positive for EM debt, but we believe a more cautious stance is appropriate** now, as the strong performance delivered in 2019 is behind us. We believe investors should reduce duration in their portfolios and tactically favour some idiosyncratic stories in countries such as Turkey and South Africa.

## FX

We are positive on the EUR/USD, but believe that it will trade in a range and much of the direction will likely come from the USD, which has been showing signs of some weakness owing to mild political risks (US elections). The USD is currently overvalued and capital flows are also less supportive than they have been in the past.

*EM FX = Emerging markets foreign exchange, IG = Investment grade, EUR = Euro, USD = US dollar*

## Yields distribution in European markets



## EQUITY

## Temporary noise may provide buying opportunities

KASPER ELMGREEN, Head of Equities

YERLAN SYZDYKOV, Global Head of Emerging Markets

KENNETH J. TAUBES, CIO of US Investment management

## Overall assessment

In the near term, the combined impact of overbought conditions, China virus newsflow, and trade negotiations between the US and Europe returning to focus are likely to generate a buying opportunity in capital markets. In this phase, US equity may prove more resilient. Beyond this short-term view, we expect that a cyclical rebound should support additional upside this year on the back of improvement in fundamentals. We expect to see an earnings rebound driven by accommodative monetary policies, fiscal stimulus, and a weakening USD. However, an increase in political risks related to the US elections and Middle East tensions could weigh on markets. Returns in 2020 will likely be lower than they were in 2019, with opportunities in European and US cyclical value and EM.

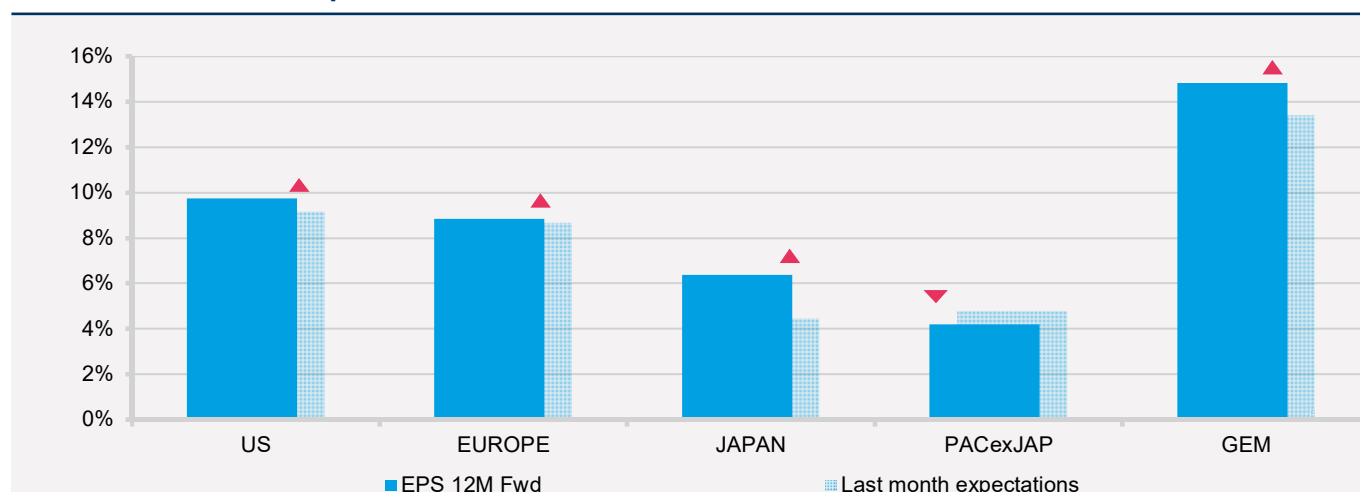
“A rebound in manufacturing should support earnings growth, but selectivity is crucial to identify high-quality names in cyclical value.”

## DM equities

A resilient services sector, low unemployment rates, and a possible bottoming of the manufacturing sector support the outlook for **European equities**. For prices to rise further, we need corporate earnings growth: this highlights the importance of stock selection. Value remains an attractive hunting ground vs Growth in light of expectations of sector rotation and attractive valuations. Opportunities exist in **cyclical names** of energy and industrials and in health care (defensive). We are cautious on areas where valuations are elevated, as is the case in information technology (IT) and consumer staples. While European small caps should benefit from growth stabilisation, monitoring liquidity will be key.

Separately, **US valuations** look reasonable and are supported by low interest rates and credit spreads. Given the dovish Fed stance of 2019, the lagged impact of low rates and other input costs should now boost earnings. In addition, around 40% of earnings in the S&P 500 index are dependent on international operations of companies and consequently a weakening USD would have a positive impact. A majority of earnings growth would come

## Consensus EPS 12M expectations



Source: Amundi Research, as at 17 January 2020. GEM = Global Emerging Markets.



from consolidation of these international earnings. This, in turn, would drive returns in 2020. **We remain constructive towards cyclical value over growth and low beta stocks**, but continue to reduce focus on expensive names that massively outperformed in 2019. CBs have provided sufficient stimulus to boost global growth. So, we prefer high-quality cyclicals that are more closely linked with receding recession risks. Accordingly, we are constructive on mega cap financials, autos & components, and industrials. We are cautious on health care, IT, consumer staples, and utilities on valuation concerns. Geopolitics has again played a role in our positioning, as we are now less negative on energy amid a limited possibility of escalation between the US and Iran.

## EM equities

On a mid-term perspective, we have a **positive view on EM equity** as we see signs of stabilisation in economic activity – with regard to improving earnings expectations – along with improving relations between the US and China, and a continuation of policy easing in 2020. Volatility is elevated in the short term, as the markets assess the possible consequences of corona virus on the Chinese economy. In the EM space, we like **Russia (technology)** and **Brazil**, due to market friendly reforms and historically low interest rates. Moving ahead, China could offer opportunities, once the current situation stabilises. We are becoming more cautious on India as our growth targets for 2020 carry an increasing downside risk.

Amundi asset class views				
	Asset Class	View	1M change	Rationale
EQUITY PLATFORM	US	=		Valuations are reasonable and are supported by low credit spreads and interest rates. However, for any further upside in prices, earnings would need to grow. Encouragingly, the lagged impact of low rates and input costs would indeed boost earnings. Overall, we favour Value over Growth and low beta names.
	Europe	+	▲	Expectations of a rebound in manufacturing, low unemployment, accommodative monetary policy, fiscal stimulus, and US-China phase one deal support the case for European equities. In addition, Europe is home to companies with sound ESG profiles, and given that ESG factors will be increasingly important in investor pricing going forward, this collectively boosts the case for the region's equities. Market dislocations continue to offer opportunities in cyclical value names.
	Japan	=		Japanese corporate fundamentals remain solid as profits are growing and buybacks are increasing, and at the same time balance sheets remain underleveraged. However, if geopolitical risks re-emerge, Japanese companies (most of which are exporters) will be vulnerable to a rising yen. Therefore, we maintain our neutral stance.
	Emerging markets	=/+	▲	Diminishing trade war tensions, low interest rates, fiscal easing, and hopes of limited appreciation in the USD could support EM equities in the medium term. Unless the "elevated uncertainty" derails the global economy into a shock – which is not our assumption – excessive downward setbacks in prices could provide entry points.
FIXED INCOME PLATFORM	US govies	=		With a global fixed income approach, we maintain our neutral view on duration as stabilising economic growth signals would allow the Fed to maintain the current level of rates, unless growth slows significantly so as to bring the Fed off the sidelines.
	US IG Corporate	=/+		Spreads are grinding towards multi-year tight levels and US corporations have elevated levels of leverage, which are affordable with low interest rates. Therefore, investors should watch for stress in the event of higher rates. Structured securities, including non-agency Residential Mortgage Backed Securities (RMBS), are attractive relative to most other IG sectors.
	US HY Corporate	=		Spreads in the HY segment are tight, but the outlook for default is benign as economic and liquidity conditions remain supportive. We are very selective owing to leverage levels in this market.
	European govies	-/=		We maintain our cautious stance on Europe duration. Expectations of fiscal stimulus could push rates even higher, particularly in the UK. However, we are positive on peripheral country bonds, particularly Italy.
	Euro IG Corporate	++		EUR IG should benefit from the ECB's Corporate Sector Purchase Programme (CSPP) and, accordingly, we are positive. In particular, subordinated debt financial looks attractive.
	Euro HY Corporate	+		We are positive on EUR HY in light of robust technical factors and strong activity in the primary market, but remain selective in the energy, automobiles and telecoms sectors. We are also mindful of increases in idiosyncratic risks in this segment.



Amundi asset class views				
	Asset Class	View	1M change	Rationale
FIXED INCOME P.	EM Bonds HC	+		We are positive on EM debt due to good fundamentals and a strong technical backdrop. However, the strong performance of 2019 will be difficult to repeat and hence some caution will be helpful, as spreads are tight.
	EM Bonds LC	=		We expect central banks to continue monetary easing in countries where inflation is under control and therefore real yields in local currency bonds are likely to remain attractive. However, we are cautious, given that EM currencies are unlikely to appreciate, at least in the short term, due to growth uncertainty in China.
OTHER	Commodities			We are constructive on gold as it looks to be the most efficient hedge against several global risks as we have seen recently with corona virus fears. For oil, we reiterate our target range of \$55-65/bbl for WTI and \$60-70 for Brent, despite recent events exerting some pressure to the downside due to temporary concerns about economic growth. Overall, US oil production and OPEC strategy will drive oil prices in 2020. The latter should remain vigilant and active on output cuts, mitigating external shocks. Elsewhere, expectations of a stabilising manufacturing sector and a marginal rebound in global trade and economic data support the case for base metals, provided concerns of a slowdown in activity in China are temporary and limited.
	Currencies			We expect the EUR/USD to appreciate to around 1.14 in the next 12M, but investors need to see growth in order to turn structurally positive on the EUR. The USD/JPY is undervalued vs fundamentals, but should be a strong hedge in a low conviction world. We see the yen at 104. Meanwhile, the GBP paused after the strong rally that began in mid-October last year; our 12M target for the GBP/USD is 1.33. For EM FX, the mid-term view is supportive, but we expect volatility to continue amid uncertainty on the spread of the corona virus in China.

**LEGEND**

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 Negative Neutral Positive Downgrade vs previous month Upgraded vs previous month

Source: Amundi, as of 29 January 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.

## THIS MONTH'S TOPIC

## Investment Phazer Update: downward trend is confirmed

ANNALISA USARDI, Senior Economist, CFA  
LORENZO PORTELLI, Head of Cross Asset Research

Finalised on 28/01/2020

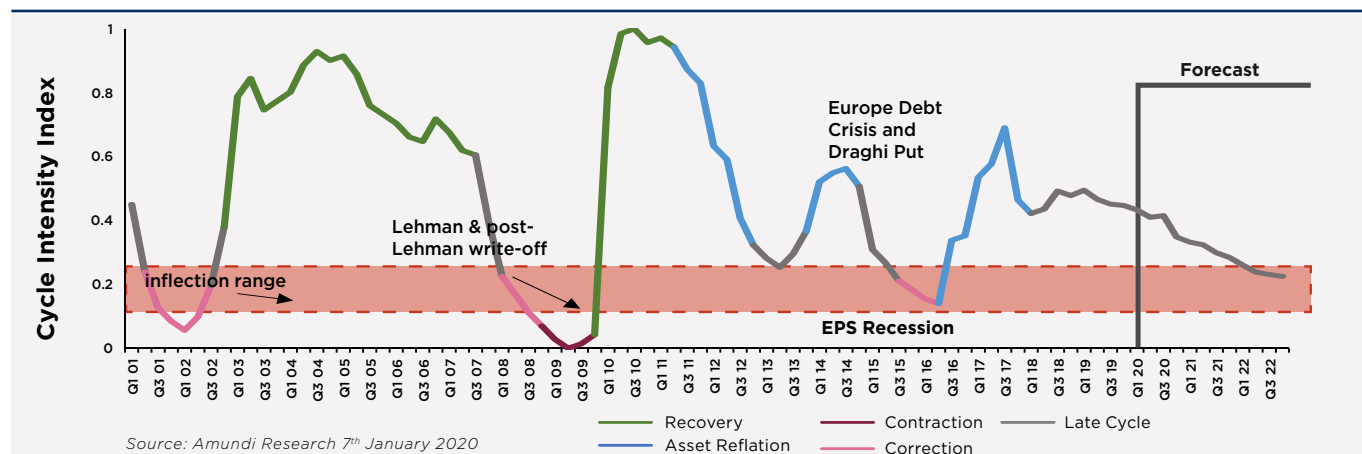
## The essential

While in the short term we do expect some temporary relief coming from positive economic surprises and supportive news on the trade front (should coronavirus impact be limited), on a medium-term horizon our economic scenario confirms the fragility of the profit cycle.

Exceptional features of this cycle are lower growth due to trade war escalation, unprecedented low interest rates due to unconventional monetary policy and a fairly resilient labour market due to the strong domestic sector resilience. Notwithstanding these specificities, the 2020 is still compatible with a late cycle phase; but the most likely scenario for the end of 2021 is the transition into a correction phase

**Growth: deceleration in United States and stabilisation in Eurozone are confirmed. The profit cycle remains fragile**

- Real GDP growth is expected to gradually decelerate towards potential in the US (1.8% vs Fed 2%, q4/q4, with the growth driver mix becoming less broad based. While we maintain our opinion that the US consumer will post an “average” year, thus becoming the main engine of growth, investments will decelerate, in particular non-residential investments. Compared to our last update, we have revised up our expectations on residential investment performance, which will no longer be a drag on growth.
- While for the US “normalisation” will come from the top, the picture is more mixed for the Eurozone (EZ), with Germany and Italy improving their trend profile after their poor 2019 performance, while France remains close to potential and Spain is slowing down. The Eurozone as a whole is set to stabilise at potential, and currently there are few signs of accelerating momentum ahead. Indeed, the manufacturing PMI is still showing concern that a turn of the tide in the trade war escalation will not suffice to remove the drag on the sector.
- Despite some short term relief, profits are still in the final phase of this cycle. A rebound in global trade is needed to prolong growth until 2021. Margins, which have been the key factor behind EPS growth for the past decade, may come under pressure due to higher ULC and high debt leverage, specifically in US corporates.

**Downward trend is confirmed: 2020 still late cycle while the most likely scenario for the end of 2021 is a transition to the correction phase**

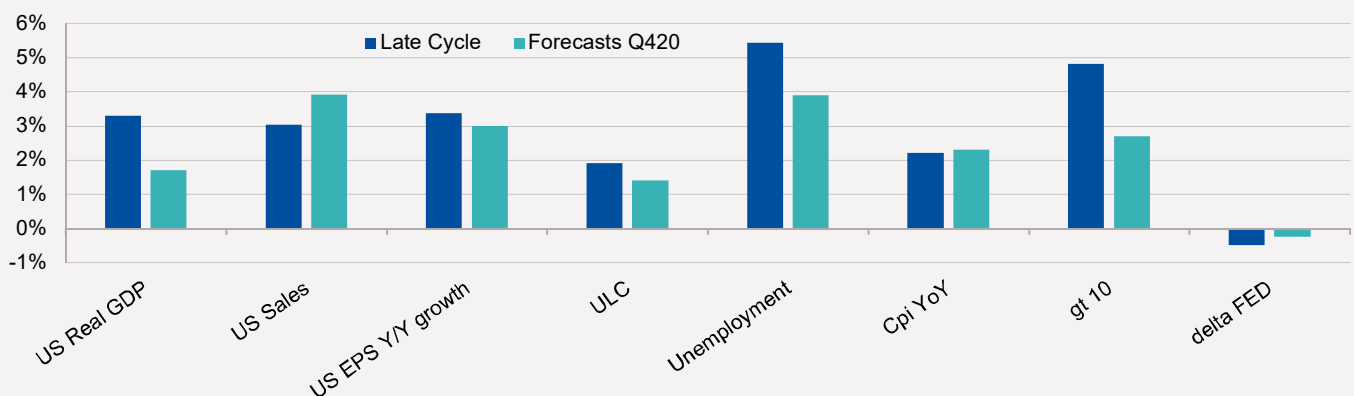


## Inflation: Price dynamics are expected to keep their positive momentum during 2020 across the US and Eurozone

- Price dynamics are expected to keep their positive momentum during 2020 across the US and EZ, although there are clearly differences between countries in terms of their proximity to the central bank target. Headline inflation in the US will move higher in the first part of 2020 and then decelerate into 2021, but the Fed's preferred inflation gauge, the core PCE price index, will only gradually converge towards 2%. This gradual uptrend will be supported by a positive output gap, with unemployment well below NAIRU and ULC continuing to grow, although at a slower pace than seen in 2019; production prices in the pipeline will move higher too, in part as a result of the impact of tariffs implemented in the past. The consequent risk of margin reduction may prompt some final price increases, which will be acceptable for consumers who are still seeing their wages rise.
- In the EZ, inflation dynamics remain on a slight uptrend but are far from the ECB's target. Although the labour market broadly speaking remains strong, wage growth is not following the same trends everywhere and the inflation outlook remains weak and heterogeneous by country. In aggregate terms, wages will keep rising at a pace slightly slower than in 2019, but this will be offset by some improvements in productivity so that unit labour costs will grow but more slowly than in 2019 (though still above the average of last 5 years). Producer price growth should remain slightly below the pace of 2019. Overall, core inflation should remain supported but will hover far away from the target, without any major push as the economy grows at or slightly below potential.

**The exceptional features of this cycle are lower growth due to trade war escalation, unprecedented low interest rates due to unconventional monetary policy and a fairly resilient labour market due to the strong domestic services sector.**

### Internal forecast vs Investment Phazer reference values



Source: Bloomberg, S&P Website, Amundi Research, Data as of 31-dec-2019

- On the fiscal front we do not expect any major push: in the US, according to the CBO, the deficit is projected to reach 4.6% of GDP (up from 4.5% in 2019), with debt held by the public increasing from 78.9% to 80.7%. In the Eurozone, it is currently difficult to foresee a major coordinated fiscal push, unless a major economic downturn occurs; we expect easing in the countries with more fiscal room, such as Germany and the Netherlands. Overall, according to the European Commission estimates, the aggregate deficit targets in 2020 should be around 0.9% of GDP (vs 0.8% in 2019), leading to further easing (looking at structural balance change, moving from -0.1% in 2019 to -0.2% of potential GDP). Debt to GDP (EA19) will move from 86.4% of GDP to 85.1% according to EU Commission estimates. Looking at recent developments, in Germany, the 2020 budget announces a 0.75% fiscal stimulus (measured as the decrease in structural surplus) through a large variety of tax and spending measures. However Germany has a recent history of not meeting fiscal expansion targets. The EC only factors in a 0.4% increase. The UK budget will be announced on 11 March: at the moment, estimates based on the September spending announcements, the planned change in budget rules (the new rule is a balanced current budget and up to 3% of GDP in investment spending) and the Tory electoral promises indicate a fiscal stimulus of just under 1% of GDP. In Japan, a sizeable (EUR220 billion) economic package was announced to dodge contagion from the global economic slump. It also addressed the urgent need to replace infrastructure that has exceeded its service life. The measures are expected to boost GDP by 0.7% over the next two years. Emerging

Markets are slowly moving towards a more expansionary fiscal stance. In December we saw the approval of bold budget laws for 2020, and Indonesia, Philippines and India announced larger expenditure plans. The Indian budget will be released on 1 February – fiscal figures released so far for FY20 are disappointing and fall short of the funding needed for more expenditure.

### Monetary policy remains focused on supporting growth

**In developed markets we expect central banks to maintain their current accommodative stance, which is supportive to growth and made possible by an overall soft inflation outlook. Among the main emerging markets, central banks will maintain their easing bias but recent developments on the inflation front in a few countries may limit their room to manoeuvre.**

- **DMs:** The Fed will keep its easing bias despite moving to a more data dependent approach and we are pencilling in another rate cut in 2020, in order to maintain accommodative financial conditions and to keep US growth on track. In the Eurozone, the ECB's QE2 has just started and no major new measures are expected to be delivered in the short-term, especially in light of the ongoing strategic review, unless a material deterioration in the macro picture occurs. In the UK, provided the economy recovers and behaves broadly in line with the MPC's projections, the likeliest approach will be to keep rates on hold over the next 12 months. Finally, in Japan we expect one rate cut by 10 bps in the next 12 months.
- **EMs:** The PBoC's accommodative stance is proceeding as expected, using every tool considered necessary. New higher-than-expected headline inflation figures will not prevent the central bank from maintaining its accommodative stance. In India, domestic economic activity indicators have started to show a mixed picture with a few green shoots in an overall depressing economic environment while inflation surprised on the upside, which will probably require a further upward revision in the RBI central case and further delay any policy rate decision in the short term. Further easing by the BCB was widely expected following constructive progress on the reforms side (pension reform in primis). As previously announced by the BCB, the current stage of the business cycle requires caution when considering possible new changes in the degree of stimulus. In Russia, inflation has receded and the CBR has mentioned the possibility of a further key rate reduction in the first half of 2020. With inflation remaining well behaved, we expect a total of two 25 bps cuts in the next twelve months.



# Top Risks Map

Macroeconomic Research Team

The table below presents risk factors with judgmental probabilities (i.e. not market based). It also develops the possible market impacts.

Finalised on  
January 29, 2020

**20%**

Trade war escalation

## Analysis

The signature of the Phase one deal is in line with our base case. Yet, the most complex issues (such as the current tariffs already in place and the Huawei case) have not been addressed and have been postponed till after the US elections. 2020 is a presidential election year and whoever the US President is next year, opposition between the two countries on strategic issues could worsen their relations. The likelihood of a comprehensive trade agreement is very low. Twists and turns could continue to deteriorate business confidence, investments and trade flows.

## Market impact

- Negative for equities and CNY
- Positive for USD, US Treasury and gold

**20%**

Mounting corporate vulnerabilities

Corporates have been piling up debt to levels even higher than pre-GFC. Sobering earnings are denting corporates' ability to service that debt and cover interest rates payments. At the same time, EM and frontier markets have been attracting capital flows from advanced economies, increasing their external debt. Tightening financial conditions and higher rates will hurt their ability to pay down their debt. Widespread distress and spikes in default rate will force deleveraging and a pullback on investment and employment, exacerbating the recession.

- Negative for risky assets
- US IG BBB downgrade, increase in EURO and US HY B-CCC default
- Positive for USD, US Treasury and gold

**10%**

China hard landing

Chinese economic growth is slowing down, but authorities are working hard to stimulate the economy (through monetary and fiscal policies), so that it will remain on a manageable slowdown path. Recent data in November/December have shown a sort of mini cycle recovery; however, the brutal spread of the coronavirus out of Wuhan is offsetting the positive macro momentum. China's economic model is fragile, with signs of excessive credit. Non-financial corporate debt has surged since the GFC.

- Global financial instability
- Negative for oil, basic materials, currencies of commodity-exporting countries, EM bonds
- Positive for US Treasury /Bund and gold

**10%**

US elections

At this stage, there are no trivial consequences from the US presidential election outcome. While the investor community focuses on the polls, it is critical to have a look at the policy actions that will follow from the person elected president (welfare and financial regulation, in particular). The risk scenario escalates from impeachment proceedings, more extreme foreign policy measures that might lead the situation to implode in Ukraine, Iran and Syria, the possibility of tax rates applied to corporate earnings under a new administration therefore faltering confidence and sinking economy.

- Increase in volatility
- US markets disruption
- Positive for gold

**10%**

Escalating military tensions with global spillover

China/US, China/HK, Brexit, Iran/ ME, Libya – geopolitics is having a prominent influence on markets. The January strikes in Iraq raised concerns about military escalation with an impact on oil prices and global dynamics. The markets continue to price in that a major escalation is unlikely, with minimal corrections in safe havens (gold, treasury, oil, USD, and the yen) and risky assets (DM equities) after gain/losses. We expect no further escalation from US or Iraq; we expect oil price spikes to stay short-lived (unless oil supply disruption from Iraq takes place).

- Positive for oil prices and safe haven assets (FX and gold)
- Negative for risky assets

**10%**

Credit illiquidity & risk misallocation

In a low rate environment, the search for yield has pulled institutional investors towards credit risk accumulation in their portfolios. Liquidity buffers have been decreasing to achieve nominal targets. The critical juncture of a maturing credit cycle and a shift in markets' structures amid regulatory changes, in the event of a sharp sell-off, might prove a tangible obstacle to investors selling their positions.

- Positive for cash, govies (US, Euro) and gold
- Negative for EM bonds, global equity, HY, oil and basic materials

**10%**

Drying USD liquidity

US dollar funding liquidity and a shrinking USD liquidity base could amplify the impact of a tightening in funding conditions and create spillover to countries that receive cross-border USD loans.

- Global financial instability
- Positive for gold and US Treasury
- Negative for risk assets (EM in particular)

## MACROECONOMIC CONTEXT

### Our convictions and our scenarios

Macroeconomic Research Team

This section provides a reminder of our central scenario and alternative scenarios.



#### CENTRAL SCENARIO (55% PROBABILITY): Resilient domestic demand and services despite policy uncertainty

- **Slower global growth:** the economic weakness seen worldwide during the summer continued into the fall with very few exceptions. Industrial data and business surveys continued to show that the global manufacturing sector is not out of the woods yet, although the Phase One deal between US and China may provide some relief. Domestic demand remains more resilient, due primarily to household consumption, which continues to be buoyed by very low inflation and, in certain economies, by strong labour markets. Still, services have proved more resilient than manufacturing.
- **Global trade expected to bottom out in H1 2020:** global trade has plummeted over the past 18 months, driven down by protectionist rhetoric. The damage so far to world trade momentum and the real economy will not be easily or quickly reversed, although the US and China have reached the much-awaited Phase-One deal. We expect global trade to recover very slowly in 2020. Indeed, global trade is expected to remain under pressure in the short run and to grow at a slower pace than global GDP next year. The impacts on economies differ from one region to another. European exports are being hit hard. The US is advancing steadily on the path of import substitution (imports of industrial supplies and materials fell from 27% of total imports in 2007 to 18% in 2019). EMs are trying to transform the challenges posed by trade tensions into opportunities. The clamp down on economic activity in China is expected to negatively impact world trade dynamics in the short term. In addition, we must not underestimate the role of the resilience of domestic demand as global trade patterns and production chain become more integrated at regional level.
- **United States:** a gradual return to potential, with slightly greater downside risks. The US economy, boosted by very accommodative fiscal policy in 2018, began decelerating in H2 2018 and continued to do so in the following quarters. After peaking at 3.2% YoY in Q2 2018, GDP growth gradually slowed to around 2%, with a deceleration in domestic demand driven by fixed investment deceleration against a resilient personal consumption expenditure pattern. We expect this gradual deceleration to continue as protracted weakness in global trade and manufacturing, somewhat eased by the phase one deal, may have longer-lasting impact on the economy, on the investment side. On the consumption side, signs of decelerating total labour income growth may somewhat restrain personal consumption, which anyhow we expect to be the main driver of growth. In our scenario, corporate and consumer confidence, after suffering in 2019, should stabilise and recover somewhat. Inflation is expected to gradually move higher, while still remaining in a benign framework. In this environment, monetary policy remains supportive, and we are still pencilling in a rate cut this year. Overall, we still believe the balance of risks remains tilted towards the downside. Although a truce on the trade front has been reached, geopolitical tensions will persist and political uncertainty may be added to the framework as the presidential elections approach. Although we do not expect a recession, doubts on the extension of the current cycle could intensify over the next few quarters (with less support from fiscal policy, and domestic demand decelerating).
- **Eurozone:** the Eurozone economy remains under pressure, as uncertainty continues to characterize the global economy, although sentiment has improved recently on the US-China trade front. The Eurozone has seen a deterioration in external demand, and the manufacturing sector has been hit severely, raising the question of whether spillovers into services and other important economic sectors are materializing. However, as domestic growth drivers have remained broadly resilient, expectations on economic fundamentals have progressively turned towards a more constructive outlook and economic surprises have turned positive. In this context, we expect Eurozone growth to stabilize in 2020-2021, converging to potential, as the manufacturing crisis gradually is resolved and global trade stabilizes, albeit to a lower norm. Domestic demand should remain supported by overall health labour market, with aggregate low unemployment and moderate wage growth. These are supportive for household consumption, which is expected to be the main driver of growth. Investments should benefit from a stable economic environment, and upside risks may materialize around the new EU Commission's Green New Deal. Signals of expansionary fiscal policies remain limited to country-level implementation but have not yet taken shape as a coordinated effort. A further push remains theoretically possible, in particular should the economy worsen and struggle to rebound.

As inflation is supported in its very gradual upside move by growth stabilizing, in this context we are not expecting any new easing by the ECB.

- **United Kingdom:** The Conservative Party's victory in the 12 December elections made it possible to ratify the Withdrawal Agreement negotiated with the EU in October, which opened the door to a smooth Brexit on 31 January. A transition period will allow the UK to retain most of its access to the European Single Market until the end of 2020. During the transition period, the future permanent framework will be negotiated on UK-EU trade relations, including a free-trade agreement and provisions on services. Even so, the deadline is very tight, as the UK has served notice that it doesn't wish to extend the transition period. Uncertainty on negotiators' ability to reach an agreement could stoke fears of a trade shock at the end of 2020 (with a sudden denial of UK access to the EU market). We nonetheless expect pragmatism to carry the day and that, regardless of how tough positions are when negotiations open, an agreement will be reached allowing free trade to continue for at least the majority of goods.
- **Oil prices:** Oil prices spiked after Iraq's strikes and in the immediate aftermath of military events/retaliations could move even higher on a temporary basis as the possibility of further actions cannot be ruled out. Yet, unless a full-blown military escalation takes place, with a disruption in Iraq oil production, a sustainable shift to significantly higher oil prices is unlikely, as the elasticity of oil prices to temporary supply shock is lower than in the past, as other producers can absorb the shock. In particular, US oil production is more flexible than in the past and has proven very resilient, making oil less vulnerable than in the past to supply disruption concerns.
- **Central banks:** back to a "wait and see" attitude in AEs.
  - **Fed:** The soft outlook for inflation is maintaining a dovish stance for the future. The Fed is sticking to its easing bias, despite moving to a more data-dependent approach. In line with market expectations, our central scenario is for another rate cut in 2020, in order to maintain accommodative financial conditions and to keep US growth on track.
  - **ECB:** In a context of stabilising growth and inflation gradually moving in the right direction, and in the year of the ECB strategic review, we are not expecting any major policy change, unless the macroeconomic picture materially changes. QE2 has just started and no major new measures are expected to be delivered in the short term. **Unless a material deterioration in the macro picture occurs, we expect the ECB to keep its rates on hold for the next 12 months, as the bar looks quite high for another cut, given the very limited room left by risks of additional negative effects to the banking system.**
  - **BoJ:** The BoJ may still consider additional easing in 2020 if geopolitical risks increase again and JPY strengthens materially. We expect one, 10bps rate cut in the next 12 months on two conditions. First, a cut in the short-term interest rate target must be accompanied by realignment of the three-tiered structure in the BoJ's current account deposit in order to mitigate adverse effects on financial institutions. Second, the BoJ will obviously keep the longer-end of the curve from declining, in order to secure the slope of the curve.
  - **BoE:** The BoE still seems keen to flag that monetary policy could respond in either direction to changes in the economic outlook in order to ensure a sustainable return of inflation to the 2% target. Provided that incoming data continue to support *the case of MPC's projections*, we still believe the likeliest attitude will be to keep rates on hold over the next 12 months.



## DOWNSIDE RISK SCENARIO (30%): full-blown contagion into domestic demand

- Trade war escalates and materialises into a deeper contraction of global trade, a manufacturing slump (with a spillover into services) and a currency war. Recession due to globalisation unwinding.
- Exacerbation of idiosyncratic risks (Middle East, Hong Kong, US elections), Chinese hard landing with the policy mix's inability to support a gradual slowdown, with regional and global implication on growth and macro stability.



## UPSIDE RISK SCENARIO (15%): modest reacceleration of global growth in 2020

- Fiscal policy support stronger than anticipated both in Europe (Germany and the Netherlands) and possibly the US, too; unexpected coordinated fiscal push at the Eurozone level; this would pose key upside risks of a better policy mix and powerful support to a monetary-policy stance.
- Europe: significant progress on the financial architecture (capital market union, banking union, and flexible fiscal rules) could create a better framework for investments to thrive, stabilise expectations, and improve the monetary-policy transmission mechanism.
- True de-escalation between China and the US, with a meaningful trade agreement.



## Macroeconomic picture by area

Macroeconomic Research Team

Finalised on 30/01/2020

### United States

#### US growth slows, Uncertainty switches from trade to politics

- Domestic demand keeps slowing, with investment spending hit worse than private consumption. Business climate surveys show resilient services and still suffering manufacturing, but recently signs of a tentative bottoming-out are appearing.
- Seasonal factors and base effects lifted December retail sales, but overall consumption should continue to moderate gradually. Consumer confidence is compatible with decent consumption growth in the near future but softening signs for aggregate income growth coming in tell us consumption should moderate going forward. On the investment front, spending plans have significantly moderated, although there have been few signs of tentative bottoming.
- Inflation remains benign, although in the near term some upside movement is materialising (2.3% core and headline inflation); yet core PCE (1.6% YoY) remains close to, but below, the Federal Reserve's target.
- The Fed considers its policy stance appropriate and well calibrated to support moderate growth and resilience on the labour market. Yet, as we expect some disappointment to come on growth, we are pencilling in another cut in 2020.

#### Risk factors

- The Phase One deal may help sentiment in the short run, yet we think past trade actions have materially impacted the economy and will gradually be more visible
- Political uncertainty to rise around the Democratic candidate's program
- Geopolitical developments could pose an upside risk to oil prices if they generate a persistent supply shock, impacting our inflation outlook

### Eurozone

#### Bottoming out

- Q3 GDP growth (+0.2% QoQ, 1.2% YoY) was slightly better than expected; economic activity was supported by personal consumption, while fixed investments moderated after a very strong performance in Q2.
- The Q4 bank lending survey confirms the relative strength of the consumer sector, with strong net demand from households across the board; though, while conditions and standards remain broadly unchanged, lending demand from corporates remains weak in aggregate,
- Preliminary Euro Area composite PMI in January remained steady, resulting from an improvement in manufacturing and a softening in services, which warrants monitoring.
- While remaining subdued, the year ended with an upside note on inflation, as both core and headline moved to 1.3% YoY.
- With this backdrop, we expect the ECB to remain on hold this year, as long as the economies develop according to a gradual recovery/stabilisation scenario while financial conditions remain accommodative.

#### Risk factors

- The signature of the Phase One deal should provide support to sentiment, but data on global trade flows are still having a hard time finding a bottom. The external sector may still be a drag
- Domestic political tensions may still resurface during the year
- Lack of strategic plans/ reforms implementation and design, due to political fragmentation
- While the hard Brexit risk have been removed, the risks of Brexit "cliffs" persists

### United Kingdom

#### Growth is being driven by public expenditure but slowed by the uncertainty as to what will happen after 2020

- Brexit went smoothly on 31 January 2020. The latest economic signals are mixed.

#### Risk factors

- A trade shock at the end of 2020 if a free-trade agreement cannot be signed with the EU by then

# Macroeconomic picture by area

Finalised on 30/01/2020

## United Kingdom

### Risk factors

- The increased public expenditure planned by the Conservative government should provide a boost to growth.
- Uncertainty surrounding the future trade framework with the EU (after the transition period expires at the end of 2020) will nonetheless continue to impede investment.

## Japan

### Risk factors

#### Virus concerns to hamper a reacceleration from the Q4/19 trough

- Consumer spending has finally started showing signs of recovery from the VAT hike-induced weakness, once households had realized fiscal compensation to disperse cashless settlements and to assist child-raising. Exports stopped falling, as demand for electronic devices from China gained momentum.
- The Diet approved the FY19 supplementary budget, which contains a part of the recent sizable economic package. Meanwhile, base money growth has accelerated, as the BOJ has suspended its tapering of JGB buying since December.
- However, inbound tourism into Japan is bearing the brunt of the outbreak of the coronavirus, now that one-third of foreign visitors come from Greater China, which normally celebrates the Lunar New Year holidays. Disruption of supply chains could exacerbate problems in the auto industry, which is already struggling with poor sales.

- The depth, duration and dispersion of the outbreak of the coronavirus
- The Japanese yen soars by attracting risk-averse money
- Consumer demand fails to recover on an anaemic spring wage negotiation

## China

### Risk factors

- Most of the economic data monitored rebounded in December (stable property sector and infrastructure Investments). GDP figures for Q4 2019 released as expected at 6.0% YoY. Notwithstanding the rebound, the sudden spreading of the coronavirus out of Wuhan is posing serious downside risk to growth in China.
- Headline inflation remained stable at 4.5% YoY in December and food prices shifted slightly.
- The policy mix once again proved only marginally supportive: 50bps RRR cut at the beginning of the year, and LPR on hold in January at 4.15%.
- Even so, it's rational to expect that the virus impact will fade away getting out from the winter season, the incremental lock-down/travel ban and their duration will determine how much Chinese growth and, to a far greater extent than in 2003, global growth, slows.

- Improving macro momentum in China is offset by negative news related to the spread of the coronavirus
- Still high inflation with a deflecting food contribution
- The policy mix is still mildly supportive

## Asia (ex JP & CH)

### Risk factors

- Economic conditions in the region improved on the back of constructive export flows out of countries such as South Korea, Taiwan and China that are heavily exposed to the semiconductor sector.
- The region's inflation figures remained very benign, although they generally increased in December. Noteworthy December figures once again came from India and China, with a high contribution from food basket components, at 7.4% YoY and 4.5% YoY, respectively.
- In January, the Malaysia Central Bank (BNM) unexpectedly reduced its reference policy rate by 25bps to 2.75%, on concerns about economic growth and the external risks to it.
- The spread of the coronavirus out of China is expected to negatively impact neighbouring countries, in particular ones receiving important touristic inflows, such as Thailand and Vietnam.

- Improved macro momentum on the back of semiconductor exports
- Inflation still very benign, with high levels in China and India
- BNM cut its policy rate by 25bps
- The spread of the coronavirus will impact neighbouring countries, such as Thailand and Vietnam

## Macroeconomic picture by area

Finalised on 30/01/2020

### Latam

- Macro momentum in the region remained stable and mildly positive. Brazil macro momentum has, in a way, stabilized but remains on the positive side, followed by Colombia. Mexico GDP decelerated in Q4 less than expected, at -0.3% YoY vs -0.5% YoY forecast.
- Inflation spiked in Brazil in December to 4.3% YoY from 3.3% YoY in November. The main driver was the food component, contributing by 1.3% YoY out of 4.3%. After two months of readings below 50% YoY, inflation in Argentina rose again in December to 50.6% YoY.
- Central banks in the region remained on hold, while the BCB Governor opened the door to further mild easing ahead.
- Talks between the Argentina government and the IMF began to deal with debt restructuring to avoid a default. A detailed timeline is expected to be released by February. On the 29<sup>th</sup> of January, the US president signed the USMCA, the trade deal replacing NAFTA.

### Risk factors

- Economic momentum overall mildly positive
- Inflation is overall benign. Brazilian CPI spiked on high food prices
- CBs in the region on hold.
- USMCA signed and Argentina has begun talks with the IMF

### EMEA (Europe Middle East & Africa)

**Russia: Real GDP growth is expected to slow to 1.2% in 2019. However, it is expected to accelerate in 2020 and over the medium term on the back of a significant infrastructure spending programme from 2019 to 2024 and a lower-interest-rate environment.**

- Despite the threat of potential US sanctions down the road, the macroeconomic scenario remains supportive. Russia is one of the few emerging market sovereigns with “twin surpluses” in 2019, while accumulating assets in its National Wealth Fund.
- The CBR cut its policy rate again in December by 25bps, to 6.25%. We expect two 25bp cuts over the next twelve months, given decelerating inflation.

### South Africa: unexpectedly, the SARB cut its rate

- Despite a challenging environment regarding capital outflows and exchange rate pressures due to fiscal concerns and low growth outlook, the SARB cut its rate by 25 bp to + 6.25% in the first committee of the year. The decision of the SARB has been motivated by a downward revision of its growth and inflation forecasts as well as inflation expectations for 2020. We don't expect much more easing in the coming months due to current increasing risk aversion.

### Turkey: December inflation's rebound did not change the monetary policy stance

- Despite a rebound in inflation in December, the Turkish central bank (CBRT) lowered again its rate in January by 75 bp to + 11.25% in line with the consensus. The CBRT favoured support for growth, indicating that the inflation trajectory was in line with its forecasts at 8.2% yoy by the end of 2020. The press release only contains minor changes foreshadowing further rate cuts.

### Risk factors

- Drop in oil prices, stepped-up US sanctions and further geopolitical tensions
- Increased risk aversion, risk of sovereign rating downgrades, rising social demands, and continued fiscal slippage in the absence of reforms
- Excessive easing by the central bank, a loose fiscal stance, escalation of geopolitical tensions, and a slowdown in Eurozone activity



## Macro and Market forecasts

Macroeconomic forecasts (4 February 2020)						
Annual averages (%)	Real GDP growth %			Inflation (CPI, yoy, %)		
	2019	2020	2021	2019	2020	2021
US	2.3	1.9	1.8	1.8	2.2	2.1
Japan	1.2	0.7	0.8	0.7	0.7	0.6
Eurozone	1.2	1.0	1.2	1.2	1.2	1.5
Germany	0.6	0.7	1.1	1.5	1.5	1.5
France	1.2	1.1	1.3	1.3	1.3	1.5
Italy	0.2	0.2	0.4	0.7	0.8	1.2
Spain	2.0	1.5	1.5	0.7	1.2	1.2
UK	1.3	1.1	1.4	1.8	2.2	2.1
Brazil	1.1	1.7	1.8	3.7	4.6	4.6
Mexico	-0.1	0.8	1.2	3.6	3.4	3.4
Russia	1.3	1.7	2.5	4.7	3.2	4.0
India	5.1	5.1	5.6	3.7	5.9	4.2
Indonesia	5.0	5.0	5.1	3.0	3.1	3.8
China	6.2	5.6	5.7	2.9	3.4	1.7
South Africa	0.3	0.8	1.0	4.6	4.1	4.9
Turkey	0.2	1.8	2.2	15.6	11.3	9.8
Developed countries	1.7	1.4	1.5	1.5	1.7	1.7
Emerging countries	4.1	4.1	4.4	4.0	4.4	3.4
World	3.1	3.0	3.3	3.0	3.3	2.8

Source: Amundi Research

Key interest rate outlook					
	29/01/2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
US	1.75	1.50	1.60	1.50	1.55
Eurozone	-0.50	-0.50	-0.50	-0.50	-0.50
Japan	-0.1	-0.2	-0.11	-0.2	-0.06
UK	0.75	0.75	0.81	0.75	0.95

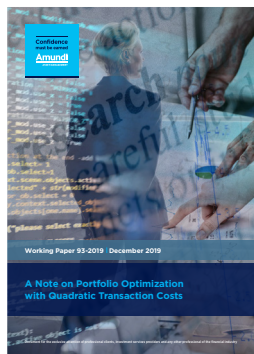
Long rate outlook					
2Y. Bond yield					
	29/01/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	1.57	1.30/1.50	1.60	1.30/1.50	1.63
Germany	-0.586	-0.70/-0.50	-0.58	-0.70/-0.50	-0.57
Japan	-0.136	-0.30/-0.20	-0.13	-0.30/-0.20	-0.14
UK	0.474	0.40/0.60	0.39	0.40/0.60	0.44

10Y. Bond yield					
	29/01/2020	Amundi + 6m.	Forward + 6m.	Amundi + 12m.	Forward + 12m.
US	1.84	1.70/1.90	1.90	1.50/1.70	1.96
Germany	-0.17	-0.20/0.00	-0.13	-0.40/-0.20	-0.08
Japan	0.00	-0.10/0.10	0.03	-0.10/0.10	0.06
UK	0.74	0.80/1.00	0.81	0.80/1.00	0.87

Currency outlook					
	30/01/2020	Amundi + 6m.	Consensus Q2 2020	Amundi + 12m.	Consensus Q4 2020
EUR/USD	1.10	1.13	1.13	1.14	1.16
USD/JPY	109	107	108	105	107
EUR/GBP	0.84	0.86	0.85	0.86	0.85
EUR/CHF	1.07	1.12	1.11	1.10	1.12
EUR/NOK	10.13	9.79	9.83	9.91	9.70
EUR/SEK	10.63	10.50	10.50	10.44	10.40
USD/CAD	1.32	1.30	1.31	1.27	1.30
AUD/USD	0.67	0.69	0.69	0.69	0.70
NZD/USD	0.65	0.65	0.66	0.67	0.67
USD/CNY	6.91	7.05	7.00	7.10	6.93

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Sarah PERRIN — Ecole Polytechnique, Thierry RONCALLI — Quantitative Research

**Forecasting Combination: An Application For Exchange Rates**

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Philippe ITHURBIDE — Senior Economic Advisor — Amundi

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# Amundi Research Center

Top-down

Asset Allocation

Bottom-up

Corporate Bonds

Fixed Income



Foreign Exchange

Money Markets

Equities

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