Investment Institute

November 2023

2024 INVESTMENT OUTLOOK

CROSS ASSET INVESTMENT STRATEGY SPECIAL EDITION

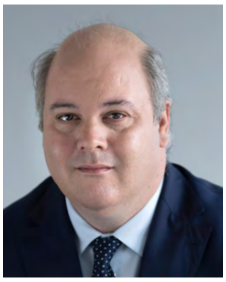
Steering through turning tides

Trust must be earned

Amundi ASSET MANAGEMENT

Monica DEFEND
Head of Amundi Investment Institute

“Turning tides in growth, inflation and monetary policy will generate opportunities for investors to rotate from a more defensive to a more constructive stance during the year.”



Vincent MORTIER
Group Chief Investment Officer

“Adding duration is the mantra entering into 2024 as government bonds now offer an attractive asymmetric profile with very appealing upside potential and limited downside.”

Matteo GERMANO
Deputy Group Chief Investment Officer

“With the peak of inflation, rates, and the US dollar behind us, it’s time for investors to reconsider Emerging Markets as a key performance engine.”

November 2023

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Ten CIO convictions for 2024

1

Turning tides in global growth, with US recession in sight for H1 2024

Assuming that the Middle East crisis remains contained, we expect a weaker global economic outlook, mainly driven by the slowdown in Developed Markets (DM). The US will tiptoe into a recession in H1, as tight financial conditions begin to bite on consumption and business sentiment. Eurozone growth remains mildly positive, thanks to healthy household disposable income and despite extraordinary fiscal measures being lifted. In Japan, growth should moderate but stay above potential.

2

Emerging Markets (EM) resilient but with higher fragmentation, Asia winner in investment flows

A great reallocation, friend/near-shoring, supply chain de-risking, as well as the net zero or technological transition/transformation should continue to direct investments towards Asia. India's economic prospects remain bright amid strong domestic demand and investments. In China, the structural shift and deleveraging will go ahead, with GDP growth slowing to a 3/3.5% target in 2025.

3

Inflation continues to moderate, but Central Banks remain vigilant

Weaker demand should help inflation converge towards Central Banks' targets by the end of next year, barring a major energy shock. DM Central Banks remain on a hawkish pause for H1, until inflation appears further under control, while EM Central Banks have some room to cut rates. Inflation risks remain tilted to the upside in an era of disorderly energy transition and global reordering (local conflicts, higher protectionist measures, unexpected climate events).

4

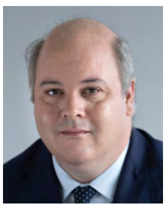
Financing the green transition is the main target for fiscal policies

Investments targeting the energy transition continue to be deployed in a constrained fiscal space, with governments trying to regain discipline. In the Eurozone, we see an acceleration in the release of NextGenerationEU (NGEU) funds (less than 30% of these funds have been allocated so far). In the US, more investment will stem from incentives (IRA and CHIPS acts), but not enough to offset the consumption slowdown. Japan is expected to implement similar measures with its Green Transformation policy.

5

Geopolitical realignment at play in 2024

As new challenges to the global order emerge, most countries will continue to prioritise individual needs and improve their positioning. We expect 2024 to be a year of transition, higher tension and growing protectionism, which will benefit countries at the centre of new supply chain routes in Asia but also countries and / or regions rich in natural resources, for example, Latin America.



Vincent MORTIER
Group Chief Investment Officer

"2024 will be about long duration, building income with credit, EM bonds and dividends, and seeking growth in Asia, as well as exploiting structural themes."

Matteo GERMANO
Deputy Group Chief Investment Officer

KEY CONVICTIONS FOR 2024

6 Diversification in 60/40 portfolios restored in a low growth/falling inflation scenario, but watch out for volatility increase

The high disparity in valuations and the drying up of excess liquidity will lead to higher equity volatility. Lower growth/diminishing inflation may favour a return to negative bond-equity correlation, benefitting cross asset strategies. Hedge funds (macro and fixed income) may further add to traditional diversification. Gold can provide protection from geopolitical risk and some commodities can hedge against inflation.

7 Fixed income is king amid peaking rates

High debt levels and the normalisation of central bank balance sheets will mean that markets will have to absorb a higher supply of bonds. Yields, at their highest levels in multiple years, may attract long-term investors willing to reload the income engine of their portfolios. Adding duration on entering 2024 will be key, as well as favouring high-quality credit. US high yield may be pressured by high refinancing costs in H1 and could come back when financial conditions ease in H2. Euro HY short-term is already attractive in H1. Currency management will be key next year, with a weaker US dollar on the cards.

8 Prioritise defensiveness and quality value in equities, then cyclical markets/sectors when the easing cycle starts

Concentration risk is high as US equity market upside has been driven by just a few names. Entering 2024, favour value in the US and Japan, and sustainable dividends globally. Later, move towards more cyclical markets and sectors, such as Europe. The energy transition, healthcare, capital allocation and artificial intelligence will be themes to watch in equity.

9 EM bonds lifted by peaking rates and inflation, Asia in focus for equities

A pause, followed by cuts from the Fed and a possible US dollar depreciation, bode well for EM assets. Fixed income hard currency debt is favoured at the start of the year and local currency debt should be in focus when the Fed pivot approaches. An earnings rebound should support equities, particularly in Asia, where we favour countries with policy room and structural stories (India).

10 ESG investing should focus on net zero and exploring themes that are gaining traction

The energy transition remains the top focus when it comes to ESG. We expect investments into EM to accelerate with the private sector playing a key role. In equities, we are focusing on the decarbonisation of buildings, food waste reduction, sustainable farming and technologies that can boost the transition. Infrastructure linked to the energy transition should also benefit from government support. Other themes include biodiversity in credit and private debt sustainable-linked financing.

2.5%
Global GDP growth expected for 2024 (down from the 3% expected for 2023)*.

2.9%
Growth gap between EM and DM in 2024 vs 2.4% in 2023.

150
Basis points of expected cuts in rates by the Fed in 2024.

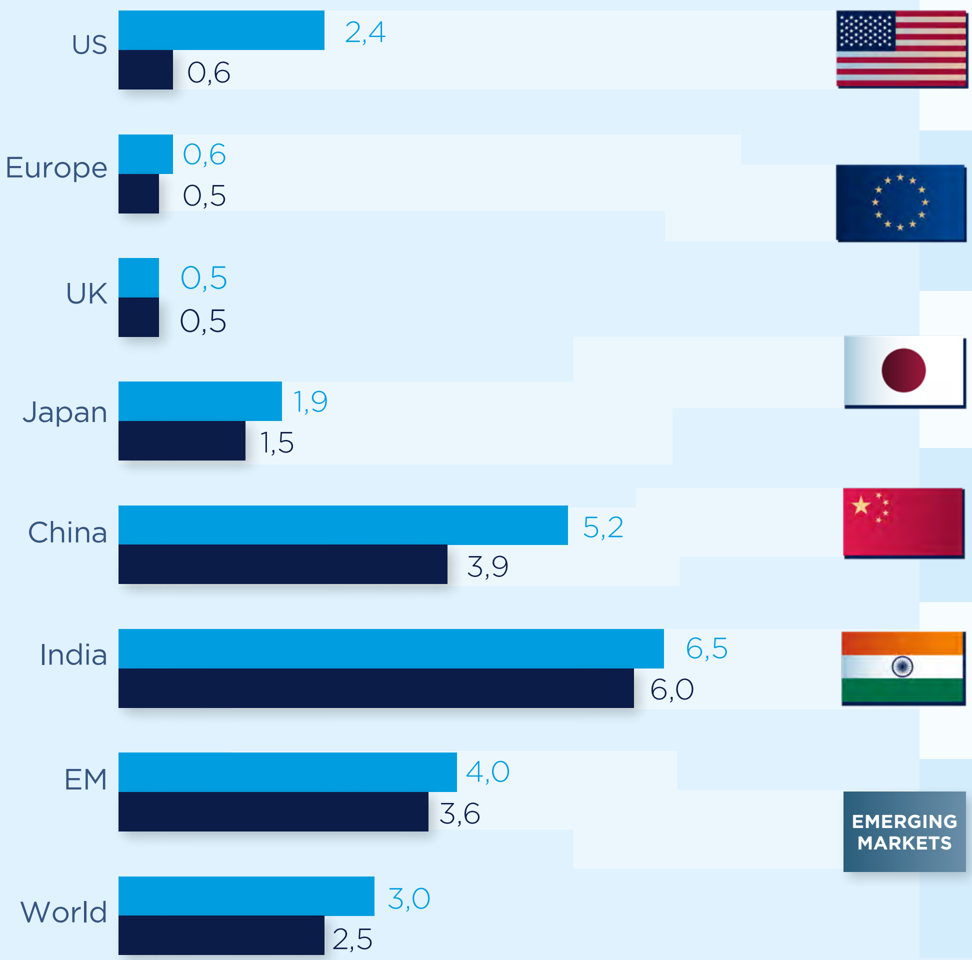
80%
Share of private climate finance in total climate investments needed in EM and DM to reach net zero emissions by 2050 according to IMF.

**Amundi Investment Institute forecasts.*

Slowing and fragmented growth

Amundi Investment Institute Projections at 7 November 2023

(Real GDP growth, annual percent change) 2023 2024



US in an election year
- Mild recession in H1 2024
- Inflation to stay above 3%

⚠ **Higher inflation**

Eurozone in a global slowdown
- Sluggish growth
- Inflation slowing to target

⚠ **Low growth & lack of fiscal levers**

Japan: the return of inflation
- Above-trend growth
- Moderate underlying inflation

⚠ **Inflation higher for longer**

China: a lower growth paradigm
- Deleveraging to outweigh easing
- Low inflation

⚠ **Real estate fails to stabilise**

India still above potential
- Softening economic cycle & sound policy mix with national elections

⚠ **Higher oil prices**

EM in a fragmented world
- EM in cyclical downturn but more resilient than DM
- Inflation just good enough

⚠ **Supply-side disruption**

Central Banks: assessing the time for a dovish turn

FED

Recent bond market-driven tightening adding to monetary policy-lagged effects.

Fed cycle likely to turn mid-next year (first cut in May/June), with inflation moving towards target in H2 and shallow recession in H1.

We expect 150bp of overall cuts in 2024 and the Fed's Quantitative Tightening to keep going.

ECB

Inflation has fallen markedly but most of the effect of monetary policy is still to come.

ECB cycle likely to turn mid-next year (first cut in June) on current and expected macro deterioration and lower inflation.

We expect 125bp of overall cuts in 2024 and ECB to continue its balance sheet reduction.

Turning tides in growth, inflation and monetary policy

Monica DEFEND
Head of Amundi Investment Institute

"Price pressure from energy prices could complicate Central Banks' job."

2024 will see the tide turn for the economic and monetary policy outlooks, while fiscal policy may experience constrained consolidation **with the focus remaining on the energy transition (see table below).**

A fragmented outlook, with low tide on growth

We expect a gradual weakening of global growth, while inflation is expected to temper but stay above Central Bank (CB) targets. We call this a **fragmented outlook, marked by divergent economic trajectories.**

The United States (US) is expected to face a recession in H1 as stringent financial conditions begin to impact consumers and businesses. In H2, we expect growth to stabilise below its potential and inflation to move closer to its target. In the **Eurozone, growth should remain low** with heterogeneous dynamics across countries, as fiscal policy becomes progressively more restrictive on top of already tight monetary policy. **In China, we observe an ongoing structural shift towards lower growth** (just above 3% by 2025), and, despite some additional fiscal stimulus at play, we do not expect the bigger picture to change. In this fragmented outlook, India is emerging as a new power.

Inflation is cooling down, but Central Banks need to remain vigilant

US inflation will influence the Federal Reserve's (Fed) response and, consequently, determine whether **we witness a gentle recession or a hard one. Our outlook assumes that energy prices will remain contained and that recent geopolitical risks will be confined to specific regions.** A surge in energy prices would significantly impact headline inflation, although less than in previous periods amid a lower dependency on oil. The risk would be significant if higher headline inflation spreads to services and core inflation. Monetary policy is currently sufficiently restrictive and expected to remain so with ongoing balance sheet normalisation, which should prevent a price-wage spiral. In the Eurozone, weak domestic conditions would help reduce demand-related inflationary pressures and core inflation dynamics will progressively moderate.

With limited fiscal space, energy transition policies become a tool to support growth

	US	EU	CHINA
Main Measures	Tax credits and other incentives, loans.	Carbon pricing, electricity market reform, industrial policy, state aid, treatment of investment in the expected new fiscal rules.	Soft incentives.
Policies	Inflation Reduction Act (IRA), CHIPS and Science Act.	NGEU (RRF) to finance REPowerEU, Fit for 55.	5-year plan.
Size	IRA: $750bn tax, energy & healthcare package with $370bn in energy security and climate investments. Chips Act: $280bn of incentives for domestic semiconductor invest. and R&D.	The main component of NGEU is the Recovery and Resilience Facility (RRF), €723bn available (€338bn in grants; €385bn in loans).	Energy investments rose to $130 billion in H1 2023. Installed capacity of wind and solar power to reach over 1,200GW by 2030 from 760GW in 2022.
Views	In 2024 further roll-out of existing measures.	Less than 25% of the total package has been mobilised, leaving €220bn in grants and €329bn in loans to be deployed.	

Source: Amundi Investment Institute, data as of 25 October 2023.

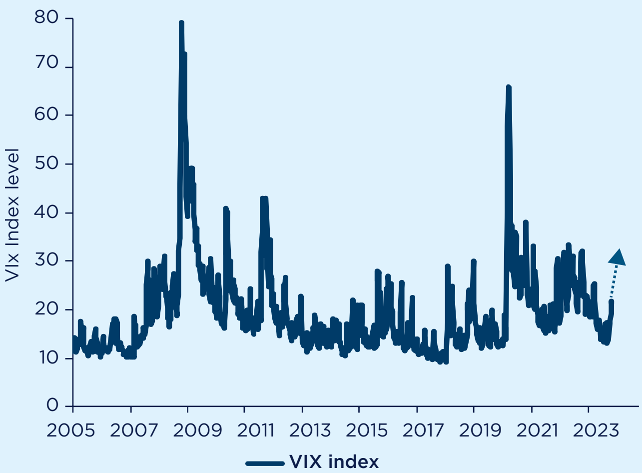
The process of disinflation is ongoing in emerging markets. Several countries, particularly in Eastern Europe and to some extent in Latin America (especially Colombia), still have room for further disinflation. In Asia, barring a few exceptions, inflation is less of a concern. In the other two regions, inflation is likely to land around the upper bounds set by Central Banks. **This leaves EM Central Banks with some space for easing, but little room for error.** Reaching the inflation target is one thing, structurally re-anchoring inflation is another. A surge in energy and food prices can halt, if not reverse, the benign process in place, limiting Central Banks' easing in an already challenging global financial environment.

Build an asymmetric risk profile to benefit from the turning tide of monetary policy

From a cross asset perspective, our 2024 fragmented economic outlook will have three main implications:

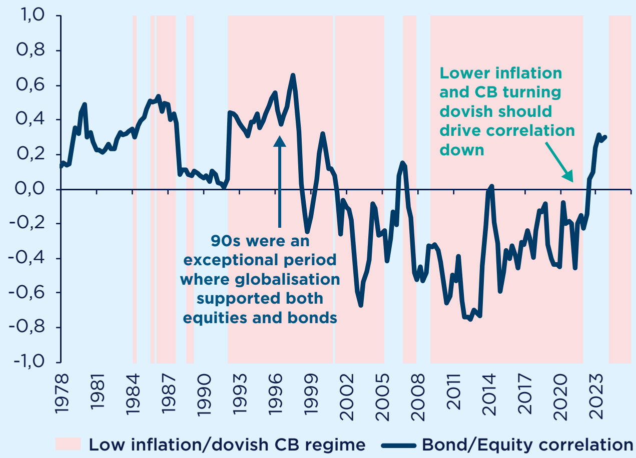
1. Investors should seek to build an **asymmetric profile by limiting exposure to areas with excess valuations and not properly priced for a global slowdown** (US growth, US high yield and cyclicals) and **gradually increase exposure to risky assets** that could benefit from a Fed pivot (EM, Europe, selective high yield) during the year. In this search, **quality bonds are the favoured asset class entering into 2024** as their downside is limited (should yields rise further), while they should benefit from lower inflation and dovish Central Banks during the year. Euro high yield short-term also offers an interesting asymmetric profile, amid attractive yields.
2. **Investors should combine long-term structural themes** (green transition, geopolitical realignment driving friend/near-shoring dynamics, and innovation with decent valuations) **with cyclical rotations** which will materialise at country and sector levels. Beneficiaries of these short and long-term dynamics include India (supported by the investment cycle, positive EPS outlook, digital transformation and relocation trend) and Brazil (cyclical improvement in EPS and a potential winner in the energy transition from commodities and biomass production), industrials exposed to capex and relocation.
3. Lastly, **the return of volatility in risk assets is on the horizon and correlation dynamics could also change.** The pronounced disparities in valuations and the drying up of excess liquidity will lead to a more turbulent environment but, at the same time, markets will be more fundamentally driven. This could limit strong directional views in equities at the start of the year but should offer more room for selection in stocks and sectors amid a higher dispersion of returns. On the correlation front, the challenging positive bond-equity correlation dynamic experienced over the past year could be reversed. We are moving towards a phase of lower inflation and more dovish Central Banks which in the past have been usually associated with negative bond-equity correlation. Hence, **the 60-40 paradigm may be back, but with some nuances.** Increasing exposure to Emerging Markets and adding real and alternative assets are strategic to enhancing long-term risk/return potential, while flexibility, liquidity and risk management will be the guide that enables investors to navigate these short-term tumultuous times.

Equity volatility



Source: Amundi Investment Institute, Bloomberg. Data is as of 25 October 2023. VIX index is an indicator of volatility in the S&P500.

Bond/equity correlation could reverse in 2024



Source: Amundi Investment Institute, Bloomberg. Data is as of 31 October 2023. Correlation between S&P500 and Bloomberg US Treasury Index. 1 year correlation is on weekly data. Low inflation is US CPI YoY < 3%.

The Sequence for 2024

The landing sequence for the global economy

Starting point

Slowing GDP amid weakening fundamentals

- Lower consumption and sticky inflation in Developed Markets (DM)
- DM Central Banks (CB) on hold
- China on a weakening path amid structural changes to its economic model
- Limited fiscal support

2024 evolution

Mild recession in the US, weak global demand

- Slowdown in DM labour market, real consumption, investments
- Inflation resumes its disinfla-tionary trend
- Central Banks start to ease moving into H2

Landing point

Extension of below-potential growth

- Weak fundamentals, but improving consumption and investment trends
- Inflation lands around target
- Central Banks in easing cycle

The investment sequence

	Start 2024	*End 2024*
Dynamic asset allocation when tides are turning	Start with a conservative allocation including hedges, and play diversification across alterna-tive assets and strategies (gold, volatility)	Gradually add to equities and rotate from govies to credit
Bonds' appeal amid peaking rates	Gradually add duration and focus on quality credit, EM focus on HC debt and Euro HY short-term	Add high yield and EM local currencies after the Fed starts cutting rates and USD weakens
Seek resilience in equities	Stay defensive entering 2024 with focus on dividends, quality and add low volatility. Favour Global to play regional divergencies and Japan, US equal-weighted (concentration risk)	Turn towards more cyclical markets when Fed starts cutting rates. Rotate into Europe, EM and small caps
EM winners in a fragmented world	Look at long-term winners (India), nearshoring stories across EM, winners in the energy transition (commodities) and technological advances (China)	
Energy transition and structural themes	Despite delays and a more disorderly trajectory towards net zero, energy transition remains in focus with: sustainable infrastructure, water, sustainable building and green bonds. Other relevant long-term themes are: ageing population and artificial intelligence	

Macro factors to watch

- Energy costs
- US Labour market dynamics
- China's deleveraging and stimulus
- Policy mistakes
- Geopolitical tensions
- Less fiscal support

Financial risks

- High inflation with low growth
- Risk premium repricing
- Debt rating (US/Europe)
- Extreme valuations in some sectors/stocks
- Credit spiral

Responsible Investment Views for 2024

Élodie LAUGEL
Chief Responsible Investment Officer

“Responsible investing is moving from a niche to a standardised environment.”

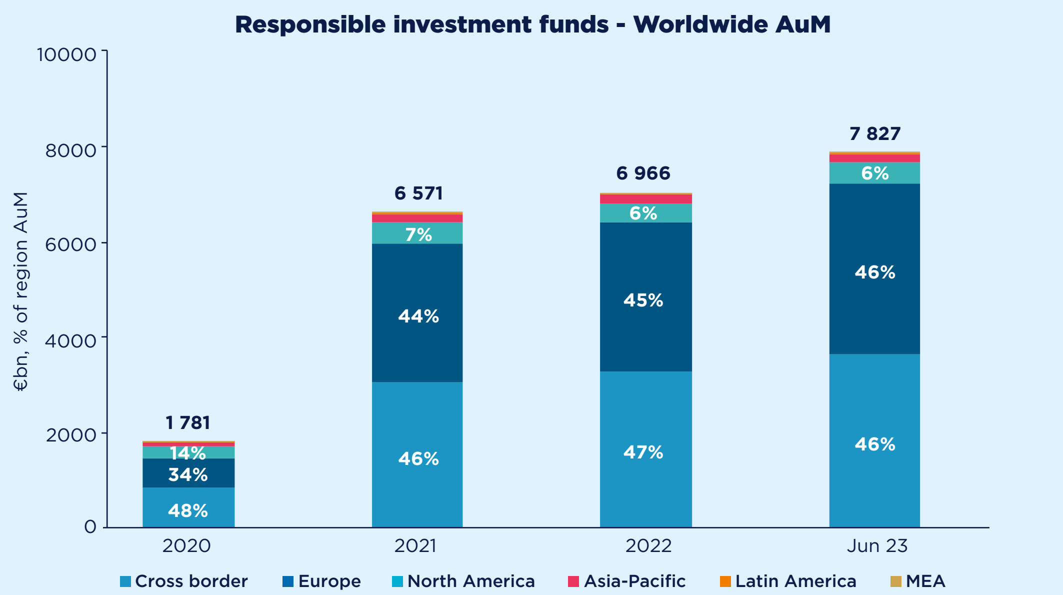
To reach the carbon neutrality objective by 2050, global clean energy spending has to increase to $4.5 trillion per year by 2030, with nearly half of this being dedicated to emerging markets. To support investments in clean energy infrastructure and technologies, the Inflation Reduction Act in the US and the Green Deal Industrial Plan in the EU aim to mobilise $400 billion in incentives and €300 billion in tax credits, respectively.

Sustainability issues will impact the economy, and our economic activities impact sustainability matters. Investors therefore need to address the investment context in a holistic manner to be profitable in the long run. While financial markets bear a higher level of complexity and uncertainty due to both the recent geopolitical and repeated extreme weather events, at **Amundi we stand firm in our conviction that responsible investment delivers long-term value to our end-savers.**

Despite challenging market conditions, responsible investment flows have continued to increase (see graph below) and there are several favourable numbers and trends that should support its future development:

- 67% of global asset owners are convinced of the materiality of ESG factors.
- Thematic and impact strategies are expected to dominate the market in 2024 and onwards (a shift driven by investors who not only prioritise financial returns but also measurable environmental and social impact).

At the same time, the successful, long-term decarbonisation of the economy will bring significant social challenges. **Social, climate and biodiversity issues cannot be considered in isolation.** For example, around 78 million jobs are estimated to disappear due to the transition to a low-carbon economy, replaced by 103 million jobs that workers must be trained for. Companies will increasingly be asked to prove their commitment to a just energy transition for all stakeholders: workers, suppliers, communities and consumers.



Source: Amundi business intelligence based on Broadridge data. Data is as of June 2023.

It is also important to advance our understanding of the interconnected risks between climate change and biodiversity. "Planetary boundaries" is a concept that delineates the environmental limits within which humanity can safely operate and provides a compelling framework to assess issuers' exposure to these interconnected risks.

As we look towards 2024, three main themes stand out for their implications on the responsible investment industry:

1. **The first Global Stocktake shows that global CO_2 emissions have exceeded interim targets for meeting the 2050 objective of the Paris Agreement.** To achieve the global objective of net zero, governments must issue and maintain more ambitious climate-related policies. Climate strategy has become an essential component of investors' long-term risk management toolbox: an integrated net zero framework, embracing alignment and contribution dimensions, should be favoured by responsible investors. Tail risks stemming from both physical and transition risks should not be underestimated by investors.
2. **The success of the transition at a global scale depends on its success in emerging markets, as they are the regions most affected by climate change.** Following China's Belt and Road Initiative, the US and EU have also launched their own infrastructure programmes focusing on low- and middle-income countries. However, public capital alone will not be sufficient. Blended finance appears to be an efficient solution to leverage public capital to de-risk private investments and channel private money where it is most needed.
3. **Responsible investing is quickly moving from a niche to a standardised and regulated environment.** To face the environmental and social challenges of today's economy, it is key to increase transparency related to investors' commitments and bring greater clarity to our value proposition. In the EU, we are convinced that to achieve its objective of financing the transition through individual choices, the Sustainable Finance Action Plan should:
   - Provide clarity in the range of sustainable finance offerings, to ensure comparability and comprehensiveness for end investors
   - Tailor sustainable finance offerings to the needs of end investors, to ensure savings are not restricted to a niche sector.

"Decarbonising the economy requires coordinated action from all players."

To conclude, successfully decarbonising the economy requires urgent and coordinated action from all players, including from the financial industry. The coming years are crucial if we want to avoid huge financial, environmental and social costs in case of a delayed or not successful transition, and make the most of the massive financial, environmental and social opportunities a steady and orderly transition can gift us with. All investors should stay the course.

RESPONSIBLE INVESMENT THEMES FOR 2024

1. Green tech investment trends following the US Inflation Reduction Act and the EU Green Deal Industrial Plan
2. Net zero investment trends following the Global Stocktake exercise and the development of net zero investment frameworks
3. Development of future investment frameworks following the mapping of planetary boundaries and the increased attention given to biodiversity and the just transition
4. Development of sustainable capital markets in emerging markets and developing economies through blended finance and reforms of international finance institutions
5. Implications for the asset management industry of the EU Sustainable Finance Action Plan
6. Implications for the asset management industry of the ESG and greenwashing backlash

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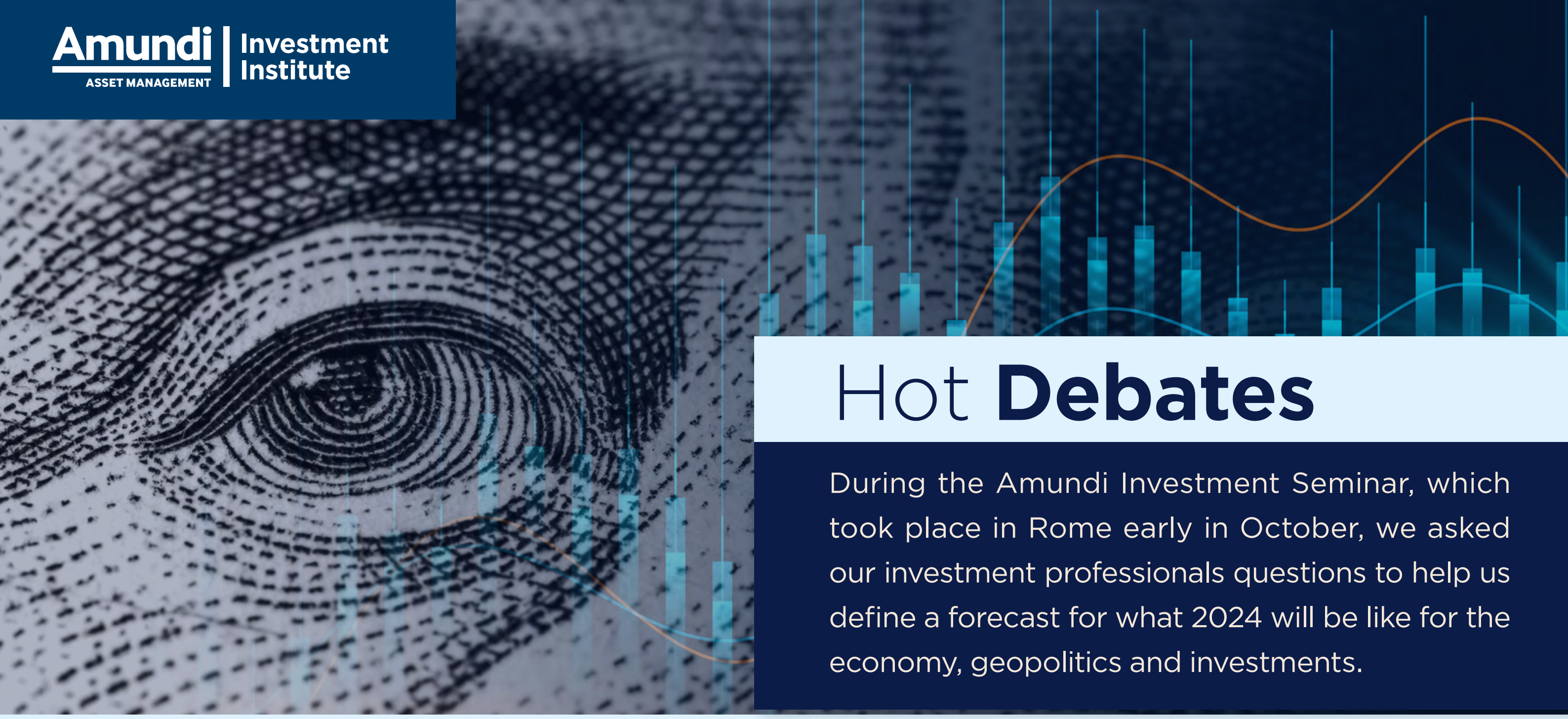


Hot **Debates**

During the Amundi Investment Seminar, which took place in Rome early in October, we asked our investment professionals questions to help us define a forecast for what 2024 will be like for the economy, geopolitics and investments.

Themes that will have the biggest impact on investments in 2024

Top 5 answers received the highest number of votes

US		EU	
Slump in consumer spending	27%	Global slowdown to spillover	25%
FED pivot on rates	26%	Bond market fragmentation risk	21%
Presidential elections	12%	ECB excessive tightening	17%
Boom investment spending (IRA)	12%	Energy prices	15%
Weaker labour market	12%	Russia-Ukraine war	11%

Top 3 risks to the 2024 macroeconomic outlook

The #1 risk is by far the most relevant (with three times as many votes as the following two answers, which tied for second place).

Spike in oil prices

Rate hikes start to bite

Crash in private markets

US: engineering a slowdown

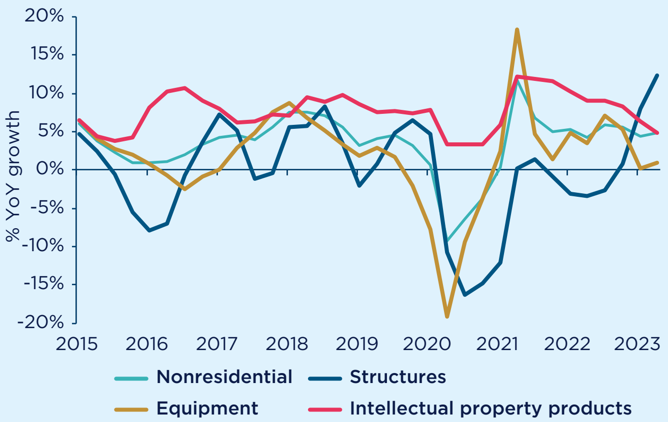
"The effects of higher rates will start biting domestic demand during the next few quarters and investment stemming from incentives such as the IRA and CHIPS Act would only partly mitigate the slowdown."

The US economy has proven to be stronger-than-expected in 2023, with domestic demand supported by a strong labour market, excess savings and investment through government incentives, while inflation has been moderating consistently. The most recent activity and price data suggest that the services component may remain elevated through to the year end. Despite its resilience thus far, we continue to expect economic growth to slow notably over the coming quarters as the renewed surge in long-term Treasury yields compounds the impact of Fed tightening. The usual lags associated with monetary policy imply that the full impact has yet to materialise. And this effect will be amplified by a further tightening of financial conditions stemming from the recent increase in bond yields across the yield curve.

As a result, we still expect the economy to experience a mild recession in the coming quarters. The imbalances in the labour market are narrowing and wage growth is moderating. This process of easing labour market conditions should lead to a continued easing of wage pressures and a decline in unit labour costs. **With the depletion of excess savings and less support from wage growth, consumption will continue to moderate.** On the investments side, the deterioration in capex intentions points **to a weak outlook for equipment investments**, while the boom in non-residential structures (equipment, intellectual property products) seems to have lost momentum recently, though there will be some support from government investment in infrastructure. There will likely be more investment stemming from incentives provided by the IRA and CHIPS Act, though this remains difficult to estimate. This could provide more support for investment than the typical deceleration seen during economic downturns, but not enough to offset the consumption downturn.

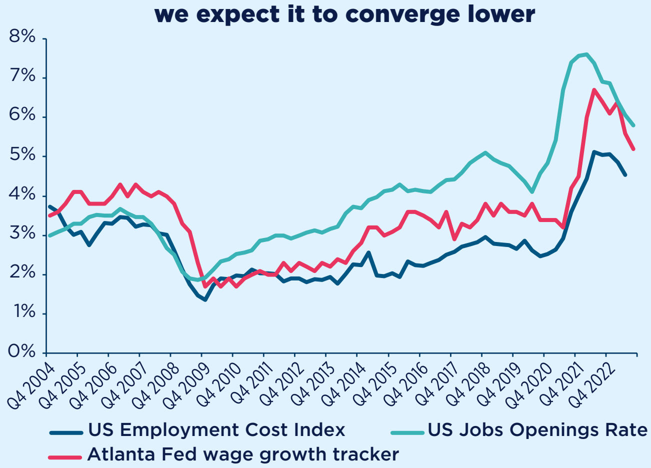
Regarding inflation, core inflation should converge towards the Fed's target by the end of next year. Core inflation momentum has steadily declined with ex-shelter inflation already close to target. Shelter inflation is also expected to moderate further from here. Barring further and persistent shocks in oil prices, headline inflation will appear somewhat sticky over the next few months and then converge towards target by the end of next year.

Private investment dynamics



Source: Amundi Investment Institute, Bloomberg. Data is as of 30 October 2023.

Wage growth has peaked in the US and we expect it to converge lower



Source: Amundi Investment Institute, Datastream. Data is as of October 2023.

Europe: redefining policies in an era of challenges

> *"There is a difficult balance to strike between the need to stimulate investment to accelerate the energy transition (and increase potential growth) and the need for fiscal discipline (to reduce debt ratios)."*

Structural challenges are mounting: an ageing population, rising energy costs and the need to finance the climate transition and foster IT innovation. **Short-term market conditions are favourable.** On the economic front, **still high saving rates should support the economy.** On the debt side, interest rates below nominal GDP growth make debt/GDP ratios manageable, while the long maturity of debt (7-8 years) has limited the impact of rising rates.

However, the dynamics of long-term debt are not yet under control. The European Commission (EC) considers that the phasing out of exceptional support measures for households to combat the energy crisis is insufficient to reduce the public deficit, particularly in France and Italy. And this is **at a time when EU countries have not yet reached an agreement on the new fiscal rules** proposed by the EC. If an agreement is not reached by the end of March 2024, the Eurozone will not have a credible budgetary framework before the European elections next June. Finally, **macro-financial conditions will not always be so favourable.** The rise in nominal GDP has been driven more by inflation than by real GDP growth, which is not very healthy. Moreover, **rising interest charges will gradually be reflected in the average cost of debt.**

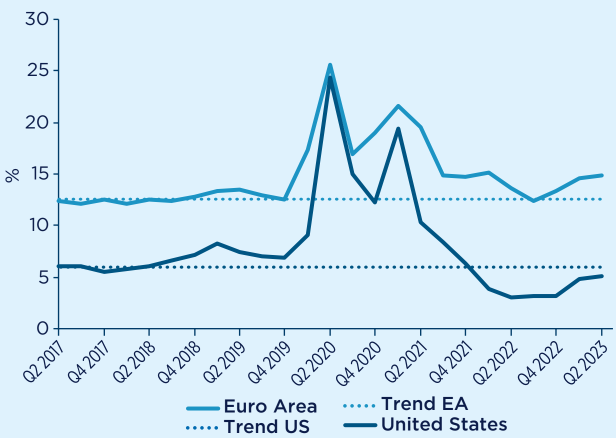
There are nevertheless a number of reassuring factors. Public investment, which is stagnating in the Eurozone, **should be supported by an acceleration in the release of NGEU funds** (less than 30% of these funds have been allocated so far). And today's investment will determine tomorrow's potential growth and competitiveness. Moreover, **an agreement to reform the European electricity market has just been reached that will make it possible to contain electricity prices and accelerate the deployment of renewable energy.** It also shows that France and Germany are capable of finding compromises, despite the points of contention between them. This is encouraging for the fiscal rules under discussion. Finally, **the European Central Bank (ECB) is now able to combat the financial fragmentation** resulting from the uncontrolled budgetary excesses of an isolated State. So, **EU countries are more incentivised to act together.**

Public balance, % of GDP

	2022	2023	2024	2025	2026	2027
Eurozone	-3,6	-3,4	-2,7	-2,3	-2,1	-2,1
Germany	-2,5	-2,9	-1,7	-0,9	-0,6	-0,5
France	-4,8	-4,9	-4,5	-4,0	-3,6	-3,5
Italy	-8,0	-5,0	-4,0	-3,3	-2,7	-2,7
Spain	-4,7	-3,9	-3,0	-3,4	-3,4	-3,4
UK	-5,5	-4,5	-3,9	-3,7	-3,7	-3,5
US	-3,7	-8,2	-7,4	-7,4	-7,0	-6,7

Source: IMF Fiscal monitor. Data is as of October 2023.

Savings rate dynamics across EA and US



Source: Amundi Investment Institute, US Federal Reserve. Data is as of October 2023.

Emerging markets in a fragmented world

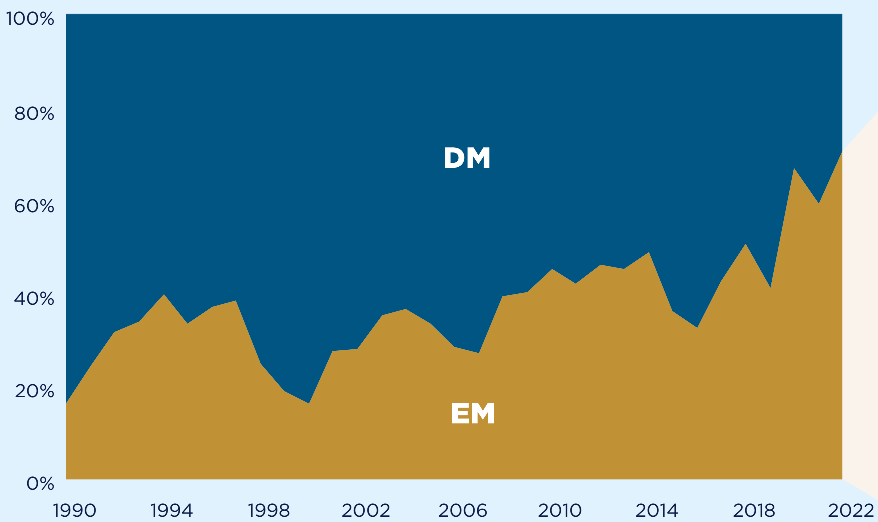
“While EM may struggle in a challenging global environment, there are nonetheless advancing structural factors that can benefit some peripheral countries.”

In an environment of weak global demand, **Emerging Markets (EM) are likely to soon enter a cyclical downturn phase.** Despite China’s pronounced deceleration and a tighter policy mix across the board, **EM as a whole has displayed remarkable resilience,** with GDP growth for 2023 being repeatedly revised upward. This growth has been driven by large countries such as India, Mexico and Brazil. While a broader softening of growth is expected, it is unlikely to spiral into a general recessionary scenario and a mild recovery is anticipated by mid-2024. Next year, EM growth is expected to decelerate to 3.6% on average from around 4% this year. Importantly, the **growth premium in favour of Emerging Markets over Developed Markets is projected to continue widening.** Asia is set to register the strongest contribution to world GDP once again.

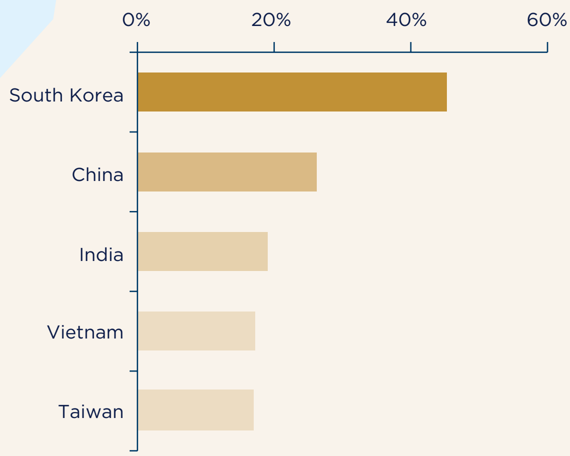
Beyond the cyclical downturn, there are structural factors at play that support EM. These factors include an incrementally higher global fragmentation, involving a **great reallocation, near/friend-shoring, supply chain de-risking** as well as the need for **critical materials** for the Net Zero Transition. Critical raw materials exporters sit mostly among EM (e.g. Chile, China).

Although fragmentation is costly, the subdued growth backdrop is expected to limit pressure on Inflation. EM inflation mostly reduced in 2023, with few exceptions where the disinflationary trend is expected to accelerate over the next few months. **In 2024, inflation is projected to land in the upper part of Central Banks’ target ranges** or mildly exceed them. However, upside risks to inflation remain, such as supply-side disruptions. Additionally, the current economic downturn, coupled with a tight labour market and worker shortages, is causing core inflation to remain stickier. Hence, complacency on inflation dynamics should be avoided and a prudent policy mix should be continued. Risks of fiscal profligacy or inefficiency need to be monitored, particularly in relation to the electoral cycle. Recent pressure from global financial tightening has prompted unexpected rate hiking. Yet, a reversal of the trend is not expected, and EM Central Banks are likely to continue cutting policy rates in a gradual manner given the present circumstances.

WORLD FDI (EM Share vs DM Share)



Growth in FDI: 2020-2022 vs 2015-2019 average



Source: Amundi Investment Institute on Unctad FDI World data. Annual data as of end-2021. Right chart shows growth in Foreign Direct Investments for selected EM countries.

China: a new growth trajectory

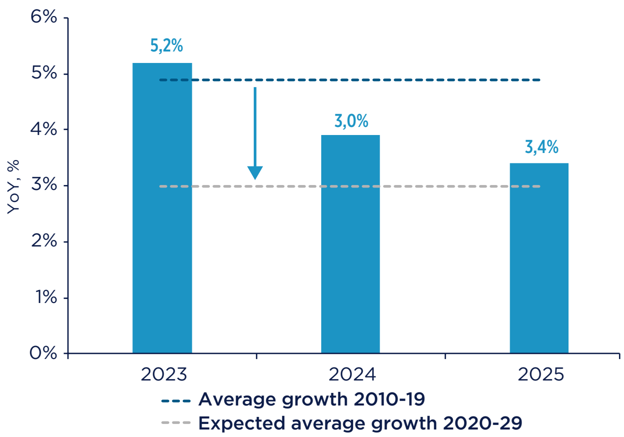
Slower growth with debt discipline

China's economy is projected to end 2023 with a growth rate just over 5%. Throughout the year, market expectations for policy stimulus have been realigned in accordance with Beijing's long-term vision, which shifts away from a singular focus on growth and incorporates national security as well as income equality. This shift comes as China grapples with secular challenges including demographic ageing, diminishing capital returns, and geopolitical fragmentation.

In 2024-25, we believe that deleveraging will be a central growth determinant. Chinese assets have weathered the storm of real estate consolidation since 2021, with remaining developers grappling to stay afloat. The next step involves Local Government Financing Vehicles that are heavily reliant on financing through land sales. This effort to control contingent public debt will restrain local government easing. We anticipate **fiscal policy to stay moderately expansionary,** setting the headline deficit at 3.4% and approving a RMB4tn special local government bond quota in 2024. **Mini monetary easing will persist, with a 20bp rate cut likely in H2 2024.**

This easing, however, is not enough to offset the drag from real estate and the new local debt discipline. **We expect China's economy to grow just below 4% in 2024.**

China GDP forecast



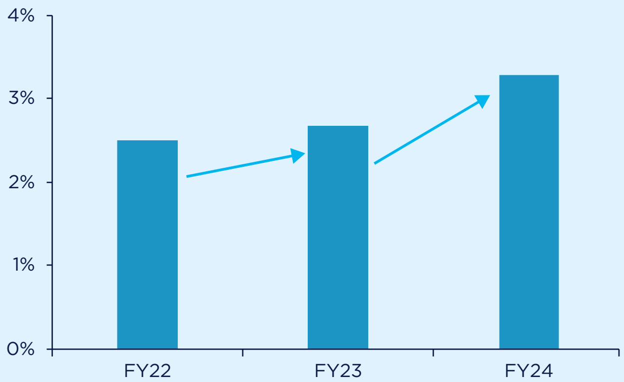
Source: Amundi Investment Institute. Data is as of 25 October 2023. Forecasts are by Amundi Investment Institute as of 24 October 2023.

India: an emerging power

Investments driving the economy

While mildly decelerating, with GDP expected to grow at 6.5% in calendar year (CY) 2023 and at 6.0% in CY2024, **India's economic prospects remain bright** and will remain supported by mainly domestic demand over external demand. Signs of deceleration will be more visible on the consumption side than for investments. The government's efforts to keep prices under control, particularly in an electoral year, will weigh on the rural sector of the economy via more compressed income. In 2024, external demand shouldn't contribute significantly to GDP growth and that, together with our constructive outlook on oil prices, will prevent a material improvement for India's current account. While maintaining an erratic path, **inflation should stay within the Reserve Bank of India's upper range and therefore the RBI won't have meaningful room for its easing cycle,** which is not expected to start earlier than H2 2024 and be aimed at neutral or only mildly positive real rates. **In addition, the policy mix is expected to remain supportive on the fiscal side.** The fiscal consolidation path is expected to advance at a very gradual pace – with the fiscal deficit at 4.5% of GDP by fiscal year (FY) 26 from 5.8% in FY24 – and the expenditure tilt should remain biased to capital expenditure in the context of an unchanged political landscape.

Capital expenditure as % of GDP



Source: Amundi Investment Institute, Ministry of Finance, Bloomberg Economics. Data is as of October 2023.

Geopolitics: more risks in 2024

The geopolitical realignment will also play out in 2024, with messy consequences

As 2023 draws to a close and the conflict between Israel and Hamas rages on, **the geopolitical realignment underway is now in plain sight.** The ruptures that have come to the forefront since Russia's invasion of Ukraine and China's emergence as a challenger to the US world order, will continue to play out in 2024. **As global powers compete, most countries will refuse to be boxed into a bipolar world, but instead continue to prioritise individual needs.** The US and the EU will lose influence as other powers rise. Regimes keen to undermine the US will seek to exploit this vulnerability and will work together to do so, while others will seek to improve their negotiating position. While the US will try to keep its allies close, its ability to do so will be constrained. On the one hand, the US is stretched by having to offer military support on multiple fronts. On the other, the possible return of Donald Trump to the presidency also threatens the US relationship with allies. The EU and UK's efforts to position themselves anew for the geopolitical context will also be hindered by elections. **We expect 2024 to be a year of transition, growing tensions and protectionism.**

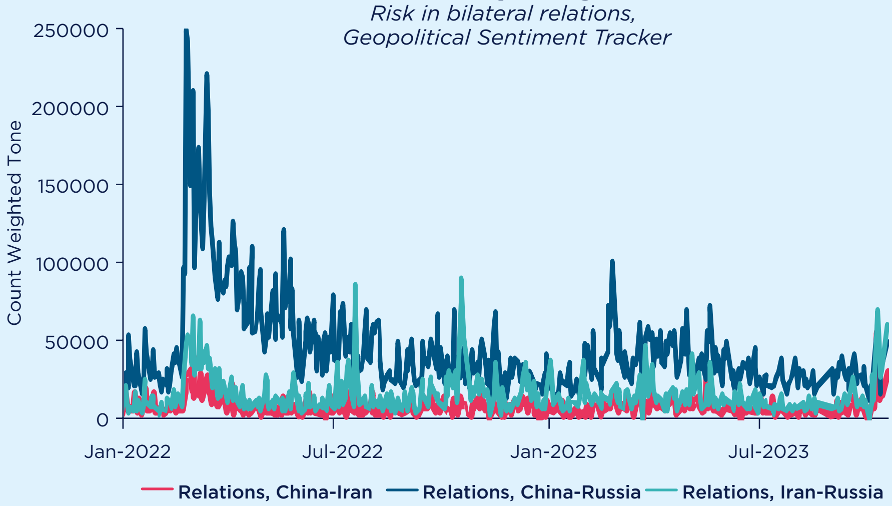
Higher odds for downside scenarios in 2024

There are higher downside risks to many geopolitical scenarios next year. While it is our base case that the current situation in the **Middle East** will not escalate into a regional war (supporting our oil view), an **expansion of the conflict drawing in Iran** would significantly alter the geopolitical environment to the downside. The expected outcome of **elections in Taiwan** – a more China-hawkish government – will see tensions with China rise. That, coupled with the dynamics of the US election and China's faster-than-expected tech advance, will lead to further **downsides for the US/China relationship.** On the **Russia/Ukraine war,** Russia will be motivated to hold out for most of 2024 in the hope of a change in the White House.

Nevertheless, there are also some upsides

Despite bigger downsides, our base case remains that **most of these tensions will not 'boil over' next year.** Further, as investors, we need to spot the upside of geopolitics: there are the **'winners' benefiting from the need to diversify away from China and Russia,** but also from China having to diversify away from the US. These are countries at the centre of new supply chain routes in Asia but also countries rich in natural resources in Latin America. There are also countries benefiting from **new security treaties with the US,** as these often come with investment 'carrots' beyond defence, like the Philippines. Then there are the countries gaining global influence, establishing themselves as new 'poles' in the multi-polar world, for example India. Rising US-China tensions mean that European investors in China are better positioned than their American peers, while for China, Europe also offers a better investment environment.

Relations between Russia, Iran and China are improving
Risk in bilateral relations, Geopolitical Sentiment Tracker



Sources: Amundi Investment Institute Geopolitical Sentiment Tracker. Data is as of October 2023. Spikes indicate higher risk in the bilateral relation. *Following Russia's invasion of Ukraine, relations to Russia (measured through negative sentiment keywords in media) deteriorated; however, they have since improved as Iran, Russia and China became closer geopolitical allies.*

2024 ELECTIONS

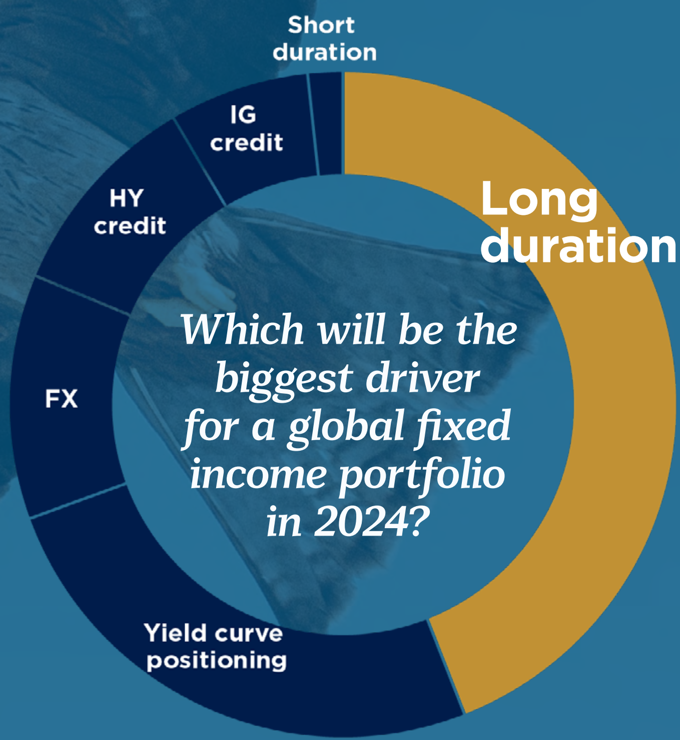
High stakes elections will shape 2024

Taiwan	13 January
Russia	17 March
Ukraine	TBD
India	TBD
Mexico	2 June
EU	6-9 June
US	5 November
Venezuela	TBD
South Africa	TBD
UK	TBD

Investment Convictions

What do you think will be the best performing asset class over the coming year?

The size of the circles represents the relative preference of the participants at the Amundi Investment Seminar held in Rome in October 2023.



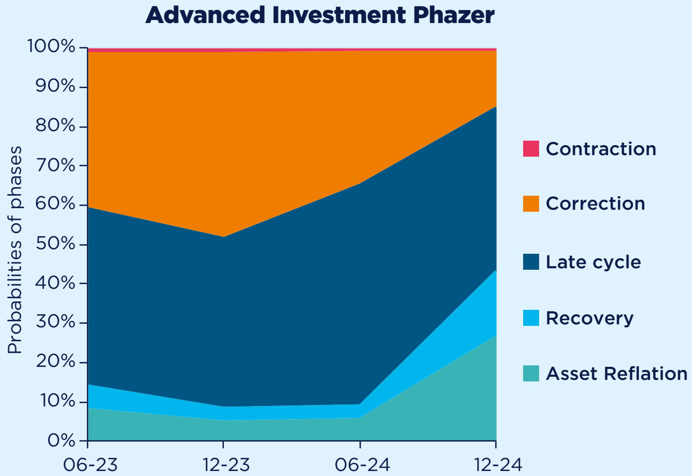
What could be the surprise that is hardest to manage next year?

On top of a «Breakdown in correlations», other surprises under the spotlight were *«Tightening credit conditions»* and *«Liquidity drainage»*.

Breakdown in correlations

Dynamic Asset Allocation (DAA)

- The economic environment remains highly uncertain entering into 2024; moving ahead, our model for assessing financial market phases (Advanced Investment Phazer) indicates an increased probability of a late-cycle phase, which is more supportive for risky assets.
- On the inflation front, while the most likely scenario is a return towards more normal levels, we still see a significant probability of inflation persisting in 2024, requiring allocations to be tilted towards more inflation-resilient businesses.

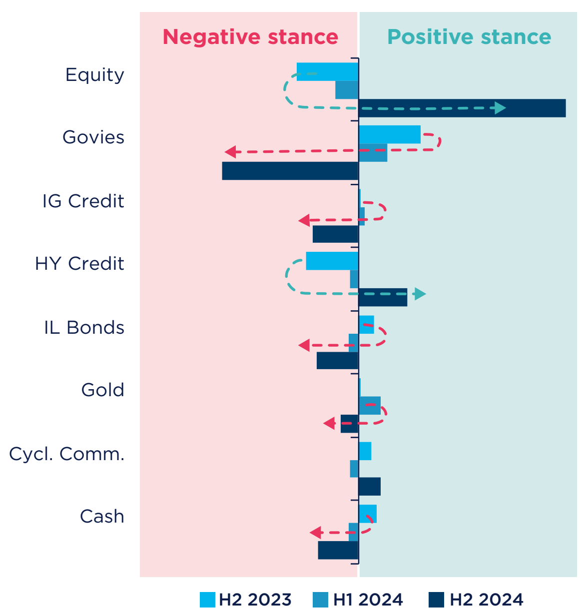


Growth		Inflation	Monetary policy	Leverage, financial conditions
GDP	EPS			
▼▼	▼▼	▼▼	▲▲	▼
▼	▼	▼▼	▲	◁▷
▲	◁▷	◁▷	◁▷	◁▷
▲▲	▲▲	▲	▼	▲
◁▷	▲	▼	▲	▲

A late cycle could favour risk assets in H2

- Start with a defensive AA (short risky assets, long duration, gold IG & cash neutral).
- At the beginning of 2024, move to a more traditionally defensive AA for bear markets and Fed pivot (short risky assets, increasing duration, adding gold, shorting cyclical commodities and IL).
- In the second part of 2024, go for a pro-risk Asset Allocation. Inflationary pressure is hedged by commodities tilt (with commodities rotation).

Rotation towards risky assets in 2024



Source. Amundi Investment Institute. **For illustrative purposes only.** Growth variables (GDP, Unemployment, Sales, EPS), inflation variables (consumer prices, produced prices, unit labour costs), Monetary Policy variables (M1 –M2 –M3, CBs G4 Total assets as & of GDP, policy rates, credit spreads), Leverage variables (household debt, public debt, corporate debt). Red (green) indicates: Growth/ Inflation trending lower (higher), tightening (easing) monetary policy, tighter (easier) financial conditions. IL bonds = Inflation linked bonds. As of 10 October 2023.
The allocation rotation chart shows indications of absolute preferences on a risk adjusted basis derived from the forecasted financial regimes. They are not intended to be relative allocation versus a benchmark.

Amundi asset class views

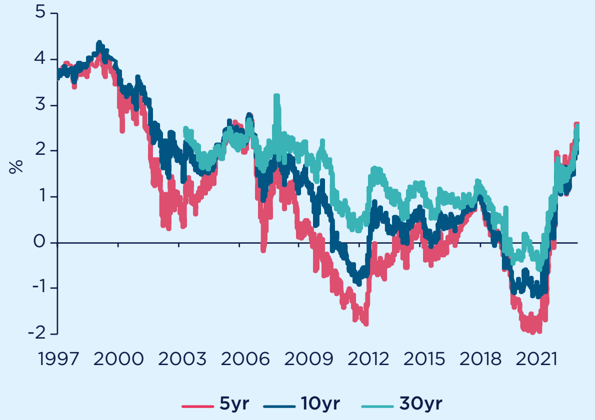
	Asset class	Stance as of 7 Nov. 2023	Direction of views for H1 2024	
EQUITY PLATFORM	**United States**	–/=	=	Improving
	US value	+	+	Stable
	US growth	– –	–	Improving
	Europe	–/=	=	Improving
	Japan	=	=/+	Improving
	China	=	=	Stable
	Emerging markets ex-China	=/+	+	Improving
FIXED INCOME PLATFORM	**US govies**	=/+	+	Improving
	US IG corporate	=/+	=/+	Stable
	US HY corporate	–	–	Stable
	European govies (core)	=	=/+	Improving
	European govies (peripherals)	=	=	Stable
	Euro IG corporate	=/+	=/+	Stable
	Euro HY corporate	–	=	Improving
	China govies	=	=	Stable
	EM bonds HC	=/+	+	Improving
	EM bonds LC	=/+	=/+	Stable
OTHER	**Commodities**	=/+	=/+	Stable
	Currencies (USD vs. G10)	–	–	Stable

– – – – **Negative** | = **Neutral** | + ++ **Positive**

Source: Amundi as of 7 November 2023. Direction of views for H1 2024 refers to the possible evolution of stance on each asset class during the period.

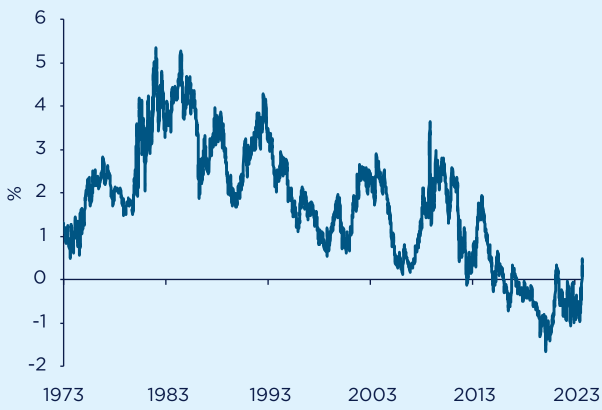
Govies: "higher for longer" does not mean "higher forever"

US real yields surge



Source: Federal Reserve Bank of New York, Amundi Investment Institute. Data is as of 26 October 2023.

10 Year Treasury Term Premium



Source: Bloomberg, Amundi Investment Institute. Data is as of 23 October 2023. The chart refers to Adrian, Crump & Moench (ACM) model.

Growth is slowing, inflation is coming down and these trends will accelerate in 2024 due to the impact of global monetary tightening. **Therefore, in Q4 2023/Q1 2024, we will have to add duration and yield curves will enter a bull-steepening episode.** Investors should price in more rate cuts as the growth picture deteriorates. In this sequence, timing is essential.

We expect Central Banks to be done with rate hikes. Investors are assuming the Fed and fellow Central Banks are unlikely to cut rates quickly amid sticky inflation.

However, the US economy has surprised with its resilience in recent months despite the steepest rate increases in decades. The market adjusted higher the equilibrium level of rates that the economy can tolerate. Many new factors are changing the game: the labour market, fiscal policy and a decade of low rates.

The term premium is rising amid a context of resilient growth (see graph), strong supply, lower Central Bank support and higher uncertainty around long-term trends. Additional compensation for holding long-term bonds may be necessary due to a structural increase in funding needs and inflation volatility. As Central Banks shrink their balance sheets, budget deficits have become the main concern for bond investors looking at the long end of the curve. In the US, Treasury supply has risen sharply and will keep doing so.

The change in the composition of the market is adding pressure. The Fed is reducing its bond holdings, while the holdings of foreign investors are waning. In their place, hedge funds, mutual funds, insurers and pensions have stepped in. These buyers are more interest rate-sensitive.

"Higher for longer" does not mean "higher forever". Borrowing costs have increased following the rapid global cycle. US real rates have now returned to pre-global financial crisis levels. In 2024, the interest burden for highly-leveraged companies could begin to tighten.

We remain cautious about peripheral issuers as growth is slowing and the ECB is withdrawing support. Christine Lagarde has acknowledged that the "effects of monetary policy are already more forceful than expected". The ECB is expected to remain cautious and fully reinvest securities under the PEPP until the end of 2024, as forecast in the current guidance. EMU-10 net supply, net of ECB flows, is projected to remain close to 2023 levels.

We expect Japanese government bonds (JGB) yields to rise further. The BoJ has de-facto lifted the cap on 10y JGB and we expect negative interest rates to end in January 2024. However, as inflation moderates, we don't see the BoJ launching a hiking cycle in 2024. It will anchor terminal rate expectations at around 0%. The persistent monetary policy gap with other DMs makes Japan more vulnerable to external pressures on JPY and JGB rates.

Credit: quality to remain in focus, supported by absolute valuations

Quality in focus: credit metrics redit metrics still sound but should feel the impact of weakening macro trend

The expected upcoming economic slowdown, together with the assessment of relative value and technicals, supports the need to keep focusing on **quality in credit markets,** with a preference for Investment Grade credit over Speculative Grade and also for higher credit quality within the High Yield space.

Fundamentals show some deterioration, but credit metrics still look sound from a historical perspective, mostly thanks to margins supported by higher pricing power and lower input costs which are preventing leverage from rising as has occurred in some previous cycles. The impact of monetary tightening on corporate fundamentals has been limited so far, because of the huge liquidity accumulated during the Covid-19 crisis and low short-term refinancing needs. However, despite no immediate wall of maturities looming next year, the transition towards higher funding costs will be more painful and faster for low HY-rated corporates, which have less ability to generate cash flow and look more vulnerable to higher short-term refinancing needs and are more sensitive to the strong repricing in bank loan costs. Current and expected trends in High Yield default rates provide evidence of a cycle mostly driven by the lowest-rated names, while BBs and high Bs look more resilient than in the past, due to a less severe macro picture.

ESG VIEWS

Taking **Scope 3* emissions** into account may change sector references.

Biodiversity is coming to the fore, thanks to a maturing regulatory framework

Designing 2030 **objectives for Net Zero Asset** Owner Alliance

Demand flows to remain supported by attractive absolute yields, mostly in High Grade space

Despite not looking particularly attractive on a spread basis, corporate bond **valuations look attractive at absolute levels** and keep attracting positive flows from investor demand mostly in the High Grade space, thanks to the attractive trade-off between the yield offered and resilient credit quality. Among credit segments, US HY looks less attractive, while **we already see opportunities in Euro HY Short-Term.**

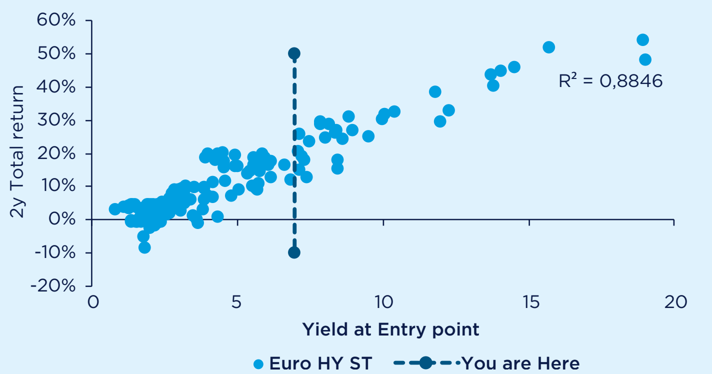
Technicals look more favourable for High Grade than High Yield on the demand/supply balance. Primary markets are likely to keep showing healthy activity in the IG sector, although without pressure being too strong in terms of net issuance versus the past. Meanwhile, the volume of new issuance from HY companies is likely to remain more modest, even though some pickup is expected on renewed refinancing needs. Demand flows are mostly targeting High Grade for the attractive balance between absolute valuations and duration.

* Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organisation, but that the organisation indirectly affects in its value chain, Source: US Environmental Protection Agency.

Attractive yields in credit space

Source: Amundi Investment Institute. Analysis of latest data from Bloomberg. Data is as of 27 October 2023 and refers to Yield to worst for ICE BofA indices.

Euro High Yield Short-Term offers an attractive opportunity on 2-year horizon from a historical perspective



Source: Amundi Investment Institute, Bloomberg and ICE's total return index value. Monthly data, latest available data is as end of October 2023. The index includes 1-3y maturity EUR corporate HY bonds excluding Financials and CCC rated bonds. HY: High Yield.

DM equity: follow the sequence, look for resilience

Now → **1H 2024** → **2H 2024**

Fed plateau stage

- **Directional:** Not clear cut
- **Regional:**
  - Japan vs Pacific ex Japan unhedged
  - UK
- **Sectors:**
  - Balanced (Defensives and Cyclicals)
- **Styles:**
  - Quality Value
  - High/Safe Dividends

Entering US recession

- **Directional:** Down
- **Regional:**
  - US (equal weighted)
  - Switzerland
- **Sectors:**
  - Defensives
- **Styles:**
  - Quality
  - Low Beta
  - Low Volatility

Fed cutting rates

- **Directional:** Up
- **Regional:**
  - EM
  - EMU
- **Sectors:**
  - Cyclicals
- **Styles:**
  - Small Cap
  - Value
  - High Beta

Source: Amundi Investment Institute. Data is as of 31 October 2023.

The path of least resistance for equities is on the downside in 1H2024

When Fed rates plateau, equities rise only if there is no recession ahead or if a bubble is building. Otherwise, after some resistance, equities give up. Our mild recession scenario, and the overvaluation of some US stocks (Magnificent 7), point to this second option. Revisiting the lows of October 2022 is a possibility for the MSCI World in 1H2024.

US 10Y yields breaking out the 4% on the top of rising oil prices and the USD suggests a downturn of Price / Earnings as in 2022, but also disappointment on earnings which will recover only later in the year. IBES forecasts for FY24 (USA +12%, Europe +7%) are too high relative to our real GDP forecasts and should be more flattish.

The impact of monetary policy on the economy is just beginning to be felt. It usually has a cyclical impact on equity volatility with a 2-year lag, going potentially along with outflows.

It will therefore be advisable to shift from a balanced to a defensive profile entering 2024 and to only pick up cyclical bets again when the Fed telegraphs rate cuts.

Regions: Japan vs Pacific ex Japan unhedged (domestic appeal vs global synchronised slowdown) and the UK (proxy for Energy vs Industrials, high dividend yield) are a good starting point. The US (equal-weighted) and Switzerland could prove to be even more defensive. Fed rate cuts will then favour EM and the excessively de-rated EMU.

Styles: Safe dividends should now be considered alongside Quality. Value remains in focus (particularly in Japan); next steps will favour low volatility and small caps will benefit from central banks' impulse.

Sectors: We favour Energy, Healthcare and Staples to start with, as we approach the recession, adding Utilities and Telecommunication when bond yields start to fall. We will add to Financials and Consumer Cyclicals only when monetary policy reverses.

ESG VIEWS

Decarbonisation is becoming urgent, particularly in relation to **buildings.** We favour building insulation businesses.

More than 25% of GHG emissions are from **agriculture,** where we see opportunities linked to sustainable farming.

Food waste is also an important area of focus. We analyse businesses that can help reduce emissions.

Equity themes for 2024

	Capital Allocation	Artificial Intelligence	Obesity Medicine
US	**Opportunities linked to a robust capex outlook** (thanks to recent underinvestment, fiscal stimulus and automation spend) **and M&A.** **Favour structural themes** (e.g. precision agriculture, electrification supplies).	**Opportunities in infrastructure, software and services** that use generative AI for automation and transformation. **Prefer AI deployers** (e.g. fintech, consumer and healthcare firms) with potential upside.	**Opportunities in GLP-1 medicines t**hat are approved for diabetes but aid weight loss in treating obesity. **Favour GLP-1 losers with attractive valuations** while remain cautious on leaders with growth priced in.
EU	**Opportunities linked to capex** initiated by Next Generation European funds and factory automation. **Buybacks are rising.** **Prefer exposure to high total return stocks,** particularly among the Oil & Gas and Financial sectors.	**Benefit of AI earnings for European semi-conductor names has been limited so far.** **Favour IT service companies** (such as Consultants) who are well-positioned to assist with AI preparatory work on data/IT infrastructure.	**Opportunity in a certain large European pharmaceutical** company involved in GLP-1 medicines, but has already seen strong performance.
EM	**Nearshoring offers opportunities** to protect supply chains, increase employment and boost domestic demand. **Favour economies close to major markets** (e.g. Vietnam, Morocco, Mexico and Turkey).	**Opportunities in South Korea** (i.e. dominance in memory boosts its lead in chips) **and Taiwan** (i.e. foundries will gain from chip demand). **EM-domiciled firms invested in the US** can benefit from the IRA.	NA

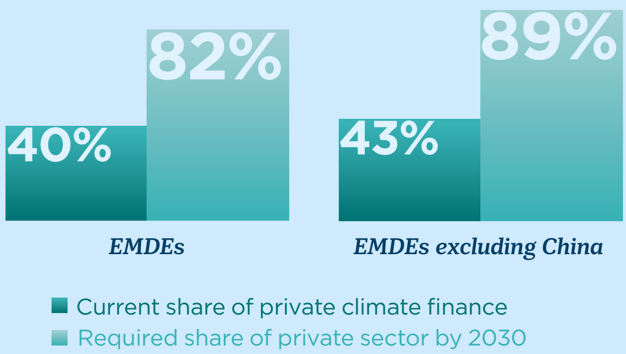
Energy transition in focus

	Themes	Convictions
US	**Positive momentum amid incentives from IRA (Inflation Reduction Act)** **Key themes:** the evolution of traditional hydrocarbon firms; the increased share of new and lower-cost tech; the energy grids' ability to handle more intermittent power; and the adoption of new technologies.	**Favour the traditional hydrocarbon firms as well as the capital goods technology providers** (e.g. building controls, electrification components) **and commodity firms. Favour those exposed to CCUS** (carbon, capture, usage and storage) **and hydrogen** with competitive advantages in those areas.
EU	**A notable theme for the EU, but with some challenges** The European Green Deal should support the transition, but there are challenges related to delays, planning permission in some countries and regulation.	**Favour exposure to renewables** that can finance their transition through internal cash flows, EV trucks, solar panels, sustainable aviation fuels and the structural growth in automation, as well as reshoring activities. Conviction also in some of the cable and building insulation companies.
EM	**Greater private financing needed to support EM critical players** EM play a vital role in global supply chains and the energy transition, but these countries will need about $2 trillion annually by 2030 to reach net zero emissions by 2050*. The private sector will have to support around 80-90% of the investment needed.	**Favour countries where commitment to fighting climate change is increasing.** China is among the favoured countries in the long-term. In the EM, Sustainable Development Goals are gaining traction. In particular, these regions play a key role in the EV and renewable energy space.

* Source: IMF and International Energy Agency.

"According to the IMF the share of private sector climate finance in Emerging and Developing economies will have to rise significantly to reach the net zero transition"

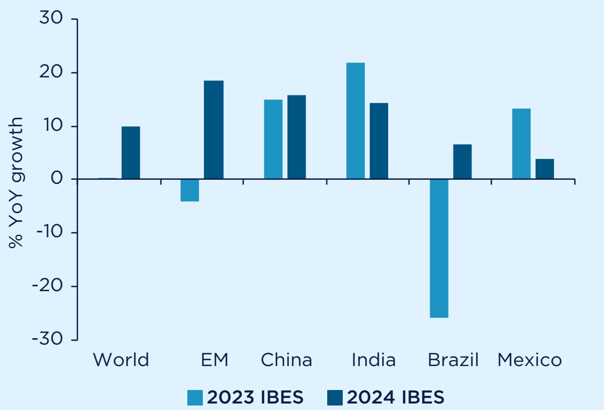
Necessary increasing role of private sector for EM climate goals



Source: Amundi Investment Institute, IMF and IEA on Climate Policy Initiative with staff calculations. The estimation share of private climate finance to achieve net-zero emissions by 2050 is based on public climate financing share in total public investment that increases by a factor of 1.5 until 2030. Bloomberg. Data is as of 30 October 2023. EMDEs: Emerging Markets and Developing Economies.

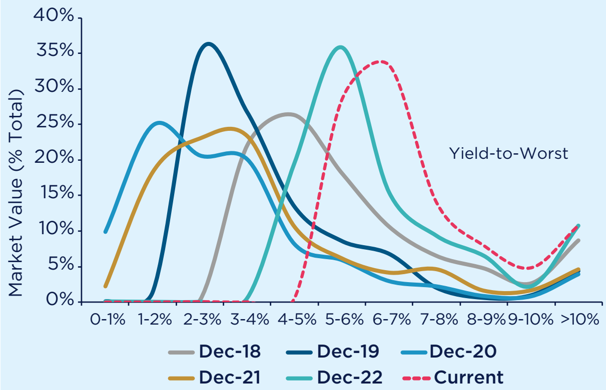
Emerging Market (EM) assets favoured due to tamer inflation and earnings recovery

Earnings Per Share growth to benefit EM



Source: Amundi Investment Institute, Datastream. IBES forecasts are subject to be reviewed due to earnings reporting season update. Data is as of 13 November 2023.

EM USD-denominated debt by yield range



Source: Amundi Investment Institute, Bloomberg. Data is as of 31 October 2023 and refers to yield to worst for the Bloomberg Emerging Markets Hard Currency Aggregate Index that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

Room for optimism for EM equity in 2024

In 2023, EM equity experienced diverse dynamics with China underperforming, while MSCI EM ex China was flat and India equities outperformed. **For 2024, we expect to see the appetite for this asset class return as both the capital expenditure cycle and growth premium should be more in favour of EM, but divergences will persist.** In the short term, EM growth is expected to remain below the historical average and to decelerate mildly; this phase is still supportive for Quality and Growth styles (mainly EMEA and India). Moving further into 2024, a recovery in EM Growth would favour a shift to valuation styles (LatAm favoured). The tech sector slowdown was exacerbated by a slower global economy and less demand after Covid, and contributed to a series of negative reporting seasons during 2023 and to negative YoY trailing earnings. Yet, with the stabilisation and recovery of the export cycle, we expect GEM earnings to deliver double-digit growth in 2024.

EM bonds hard currency to be favoured

Geopolitical tensions and rising Treasury yields have recently raised concerns about the stability of EM currencies and the sustainability of external debt. On the latter, risks are lower than in the past thanks to pre-emptive hikes and the increased credibility of monetary authorities, while EM currencies are broadly undervalued in our view.

EM bond hard currency (HC) now offers a more attractive yield profile than in the last five years. The EM bond HC spread should be favoured mainly thanks to the high yield space tightening in the context of the improving EM-DM growth gap and less stretched financial conditions amid decreasing inflation, lower policy rates and yields. We are slightly positive on EM bonds in local currency, which we think are currently pricing in too much risk aversion. We favour EMEA and LatAm, which should benefit from a more rapid reduction in inflation and an advanced monetary policy cycle. We remain cautious on EM Asia, where there is less support from monetary policy and the yields are less attractive, with the exception of Indonesia and India.

ESG VIEWS

The EM sustainable fixed income universe has increased significantly in recent years. However, the size remains much smaller than DM and it's crucial for advancing the ESG agenda globally.

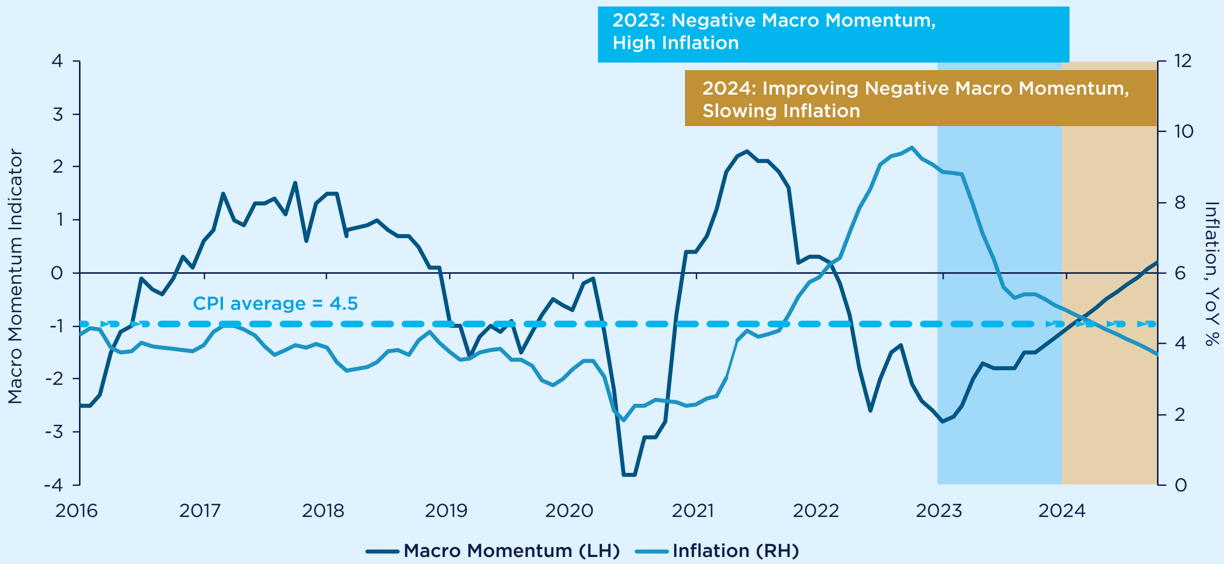
Fiscal policy will be key to financing the energy transition, but many EM countries face **difficulties in financing the green economic transformation** (debt and higher interest rates).

China leads the manufacturing and trade of **clean energy technology,** becoming the leader of energy transition supply chains worldwide for the vast majority of technologies.

Emerging market convictions 2024

We expect emerging markets to enter a positive backdrop in 2024, as inflation is trending lower allowing for a continuation of the easing cycle by EM Central Banks initiated in 2023. At the same time macro-economic momentum, while remaining low, is improving. In the past, this combination has been supportive for EM assets, particularly equities. Yet, the EM world remains a highly fragmented universe and not all countries are set to benefit to the same degree from this turning point.

Emerging markets cycle at a turning point



Source: Amundi Investment Institute on Bloomberg data. Data as of October 2023. The Macro Momentum is based on a broad based set of indicators aiming at assessing short-term momentum building in the economy. To follow the pillars considered: GDP expectations revisions, Domestic and External Demand Momentum, Fiscal Impulse Revision, Inflation Short Term expectations and Central Banks stance expectations for Brazil, Chile, China, Colombia, Czech Republic, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Philippines, Peru, Poland, Russia, South Africa, Taiwan, Thailand, Turkey.

EM CONVICTIONS

	$ DEBT	LC DEBT	EM equities	EM FX
Overall stance	+	= +	+	= +
	Positive on HC debt with preference for HY over IG given current spread levels.	Positive on LC debt with focus on areas of attractive real yields.	Positive on EM equities, with focus on valuations and structural themes (internal demand, supply chain relocation).	We are slightly constructive on EM FX, with preference for high-carry currencies.
Regional preference	▪ LatAm (Brazil, Mexico, Argentina); ▪ Indonesia; ▪ South Africa.	▪ LatAm: supported by quality of carry, Brazil, Mexico; ▪ Indonesia; ▪ South Africa; ▪ Romania; ▪ India.	▪ LatAm, especially Brazil; ▪ India; ▪ Indonesia; ▪ Vietnam (largest in the MSCI Frontier Index).	▪ Brazilian real; ▪ Mexican peso; ▪ Peruvian Sol; ▪ Indonesian Rupee; ▪ Indian Rupee.

Commodities in a slowing cycle with geopolitical risks

Oil: short-term upside from geopolitics and supply deficit.

While a serious escalation in the Middle East can't be ruled out, our base case is that the conflict will remain reasonably local, as Israel, Iran and the US have limited interest in a broad confrontation and there would be major risks. Under this assumption, the conflict would erase any supply relief that might come from Iran or Saudi Arabia. We see geopolitics and tight markets pushing Brent towards $95/b, with temporary spikes until Q1 2024. We then expect a mean reversion towards the $85/b-$90/b range. We expect a cap on oil prices in 2024 driven by multiple factors: 1) declining geopolitical stress, 2) rising OPEC+ spare capacity and weakening member discipline; 3) OPEC is cautious about avoiding reviving output abroad or causing a hard-landing; 4) economic deceleration; and 5) US efforts to lower prices ahead of its elections. Upside risks, beyond geopolitics, include Chinese stimulus, a cold winter and a producer outage.

"We expect high short-term volatility in oil, rising dispersion in metals and modest upside potential in gold."

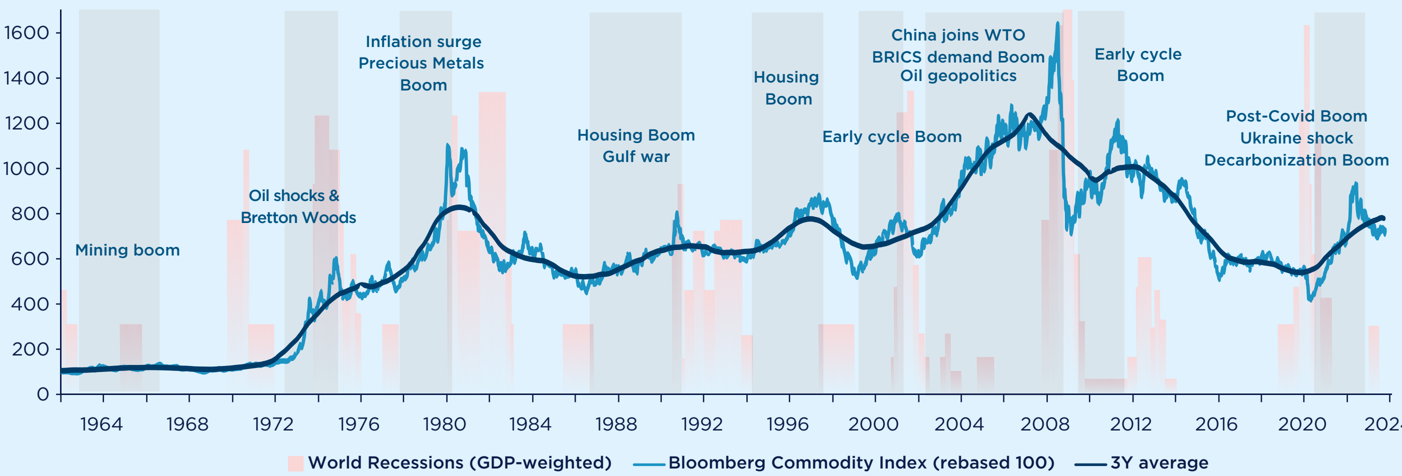
Base metals: limited directionality and rising dispersion.

We expect a lack of directionality in H1 2024, with prices capped by the economic deceleration and China's property issue, but floored by light positioning and China's extra stimulus. **In the long run, China's structural economic shift will have deep implications on demand that could mitigate the impulse from energy.** We see dispersion rising in 2024 driven by metals' supply/demand dynamics, their exposure to the energy transition, China construction, and world manufacturing. Copper prices should rise to meet demand, while nickel will face rising battery demand but also ample supply. We expect limited downside pressure on aluminium amid tight supply, while iron and zinc prices will be more affected by slowing global demand.

Gold: medium-term catalysts remain mixed.

Besides geopolitics, a central bank pivot would be a key support, but partially neutralised by the effects of quantitative tightening and by efforts to reduce deficits. We thus expect a modest upside in 2024 towards $2000/oz. Longer-term, pressure on DM debt and dollar diversification trends would become more relevant.

Commodity prices to be affected by geopolitical and economic trends



Source: Amundi Investment Institute Bloomberg. Data as of 23 October 2023.

USD to weaken, EM currencies to recover

2024 USD: walking on eggshells

Intense geopolitical tensions, restrictive financial conditions and high macroeconomic uncertainty make it hard to identify imminent catalysts for a substantial USD sell-off. Aside from US "exceptionalism", further shocks in energy prices pose the major risk, given the pass-through to inflation and the implications for the Fed (higher for longer). In our view, **these are the main reasons for concern that make us believe that a mild US recession** (our base case for H1 2024) **may not be as positive for the USD as in the past.** Barring a hard-landing scenario, worsening US data should hurt the USD via two main channels: i) reversal of US exceptionalism (even more likely if China stabilises) and ii) the Fed shifts focus to growth and enters a cutting cycle. Entering 2024, should the USD continue to trade at a higher premium relative to fundamentals (that have dropped compared to last year), it will be vulnerable to pullbacks when moving from policy tightening to policy easing.

When it comes to the JPY, prospects for policy normalisation are good news. Yet unless the BoJ takes significant steps, a more pronounced growth shock may be required for sustained appreciation vs peers. **We maintain the JPY as the best hedge for hard-landing risk.**

EM currencies set to recover in 2024

Following several months of correction, EM currencies vs USD seem oversold and are now extremely cheap. In addition, our USD internal expectation for depreciation reinforces our constructive view for the asset class in 2024.

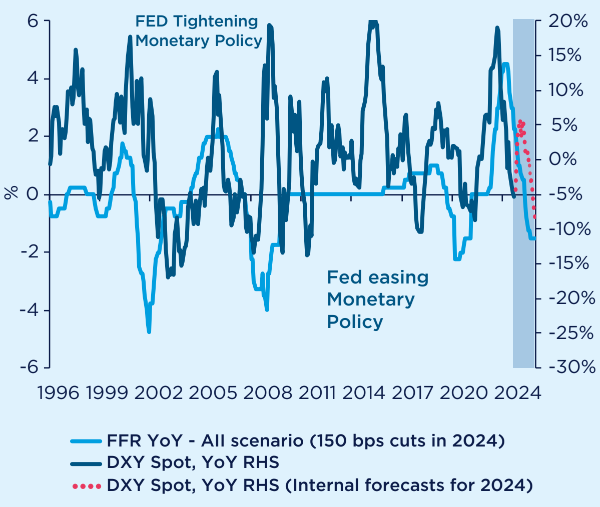
We expect EM Central Banks to continue cutting rates to support the domestic economy, also in line with the sizable price stabilisation. This will result in slightly higher real rates, with CEE countries still enjoying most of this. The region will benefit from its strong undervaluation as well as from its ties to the EUR, which is expected to strengthen during the year.

On the other hand, LatAm currencies have already enjoyed some recovery in 2023 and valuations are now more stretched.

Overall this translates into positive expectations mainly for EMEA and EM Asia currencies.

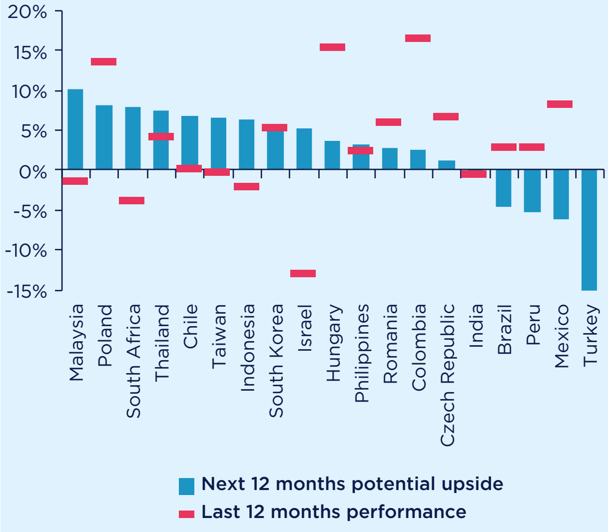
The main risks to this constructive outlook stem from geopolitical tensions resulting on one side in volatility spikes (detrimental for such a liquid asset class) and, on the other hand, in higher commodity prices (impairing the ability of EM Central Banks to ease as expected because of a stickier or higher inflation).

2024 will see a shift in monetary policy and we see it as headwind for the USD



Source: Bloomberg, Amundi Investment Institute. Data as of 30 October 2023. DXY: US Dollar Index. FFR: Fed fund rates. *Policy easing (Policy tightening) if FFR YoY negative (positive).*

Recovery still expected mainly in EMEA and EM Asia



Source: Amundi Investment Institute, Bloomberg. Data is as of 30 October 2023. Potential upside is based on fair value, including our 12-month scenario: Oil at 87.6, 10Y US Treasury at 3.7, USD at 1.16, and all the CPI forecasts by country. Turkey's figures (not fully included above) are -33.61% (last 12 months) and -50.34% (next 12 months potential upside).

Macro and fixed income hedge funds favoured

Over the last two years, hedge funds have displayed more resilient returns with lower volatility compared to traditional asset allocations. Recent performance has been supported by fixed income and equity-biased strategies, while performance from Global Macro and Commodity Trading Advisors (CTAs) strategies was modest.

In 2024, we are entering a new phase of the cycle. The cyclical rebound since late 2022 (supported by China's reopening, a fading EU energy crisis, and fiscal support) is coming to an end. As inflation slowly normalises, global liquidity is now tightening again, economic deceleration is intensifying, and higher rates are leading to a re-evaluation of risky assets. Cyclical turning points, such as the one we are living in, are usually uncertain with their many false starts and painful trades. This latest inflection point is about to end and soon, in 2024, macro visibility should start to improve when signs of a deterioration in the economic outlook materialise, setting favourable conditions for alpha generation.

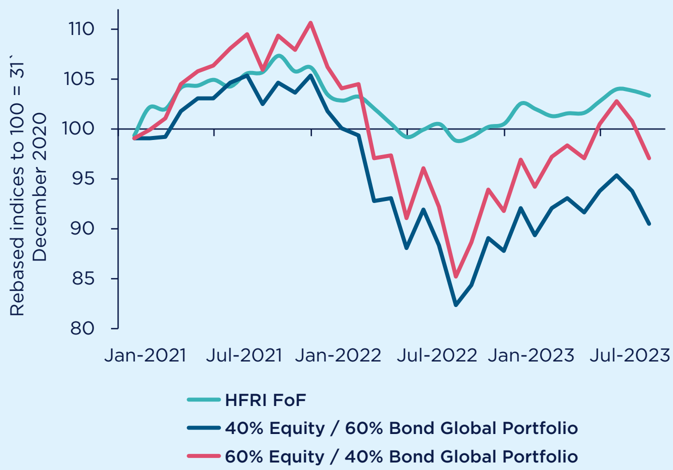
> *"In 2024 macro visibility should improve, setting more favourable conditions for hedge funds to generate excess returns (alpha)."*

As some clarity returns, alpha generation should improve. Indeed, we expect tighter liquidity to increase asset differentiation, while diverging world economies will open relative arbitrage opportunities. As investors' focus moves to more traditional growth drivers, we see asset prices increasingly reflecting their underlying fundamentals. A manageable economic slowdown, which we expect, will keep equity and bond volatility regimes modestly above par, opening up exploitable market timing opportunities.

However, dispersion across hedge fund managers appears to be high, as increasing geopolitical risks and structural secular changes (including the rise of AI, unclear productivity trends and the energy transition) will add complexity to the macro scenario.

Against this backdrop, we expect top-down strategies, particularly Global Macro, Macro Fixed Income and EM-focused managers, to be the main beneficiaries, while more directional equity and credit strategies should be favoured later in the year when the easing of rates starts.

Hedge funds vs traditional asset allocations



Source: HFR Inc., Bloomberg, Amundi Investment Institute. Data is as of 30 September 2023. HFRI FoF (Synthetic) Indices are comprised of funds that are constituents of the HFRI 500 Index and are designed to synthetically (S) represent the performance of Low, Mid or High volatility fund of funds.

Hedge fund strategies H1 2024 outlook

		-	N	+
L/S equity	Directional			
	Market neutral			
Event-driven	Merger arbitrage			
	Special situations			
FI arbitrage	L/S credit			
	FI EM arbitrage			
	FI macro arbitrage			
Global macro	Global macro			
CTAs	CTAs			

Source: Amundi Investment Institute as of November 2023.

Private Markets: tailwinds in a lower growth world

Sluggish economic growth, sticky inflation and weak consumer confidence is putting pressure on corporate earnings. Despite this, private markets and real estate offer opportunities that are resilient to slowing growth as well as risk and return diversification within portfolios.

We prefer infrastructure investment due to its steady cash flow and strong growth outlook for the year ahead and beyond. This growth is being boosted by the energy transition. Governments need to complement public funding with private capital in building renewable energy infrastructure and meeting transport electrification targets. We are particularly confident about European infrastructure as its regulatory environment is favourable, with a significant share of the EU 2021-27 multi-year budget and the Next Generation EU plan being committed to the green transition. Even though some repricing can be expected, we see no major downturn and believe there is a lot of value in this asset class in the long term.

Turning to private equity, transactions are slowing although a downward shift in pricing has yet to occur. Despite this, sectors such as healthcare are seeing robust structural growth trends (e.g. the aging population) as well as pricing power. Although trading is weak in other industries, we expect that over the next five years the asset class will offer attractive entry points. As institutional funds typically have 5-year investment horizons, subscriptions made today should benefit from this market opportunity, in our view.

As regards private debt, these funds are suffering from the private equity slowdown, but are profiting from transaction refinancing and bank-financing constraints.

Banks have reduced lending, as loans on their balance sheets have fallen in value causing the banks to be reluctance to sell them.

Private markets outlook for 2024

	Infrastruc.	Private equity	Private debt	Real estate
2024 outlook	++	−/=	+	−/=
Entry opportunities over the next five years	=	+	+	=
Inflation protection	++	=	++	+
Diversification benefit	+++	+	+	++

Sources: Amundi Real Assets qualitative assessment as of 30 September 2023. Infrastruc. = Infrastructure. For illustrative purposes only, on a scale ranging from --- to +++. 1 United Nations Environment Program, September 2022.

Finally, the rising interest rate environment has led to **a fall in real estate transactions**, as investors react to a lack of visibility and higher refinancing costs. As a result, capital values have been negatively impacted. Despite this, in the leasing markets, real estate in prime locations should continue to profit from relatively resilient demand, low vacancy rates and robust rental income. Furthermore, we consider that ESG issues are critical and need to be included in the outlook for cash-flows. With total return depending both on capital and income, the ongoing repricing might create entry points for investors, although a focus on quality properties is vital.

ESG IMPLICATIONS

Infrastructure linked to the energy transition will benefit from governments support to private capital.

Within private debt, sustainable-linked financing is gaining traction.

In real estate, prime buildings in urban centres can embrace high ESG standards less expensively than others.

Macroeconomic forecasts

Macroeconomic forecasts as of 7 November 2023

Annual averages, %	Real GDP growth, YoY, %			Inflation (CPI, YoY, %)		
	2023	2024	2025	2023	2024	2025
Developed countries	**1.6**	**0.7**	**1.5**	**4.8**	**2.6**	**2.1**
United States	2.4	0.6	1.6	4.2	2.6	2.1
Eurozone	0.6	0.5	1.2	5.7	2.6	2.2
Germany	*-0.2*	*0.4*	*0.9*	*6.3*	*2.7*	*2.2*
France	*0.9*	*0.5*	*1.2*	*5.8*	*2.8*	*2.2*
Italy	*0.8*	*0.5*	*1.0*	*6.3*	*2.3*	*2.1*
Spain	*2.3*	*0.8*	*1.7*	*3.5*	*2.8*	*2.2*
United Kingdom	0.5	0.5	1.3	7.4	2.9	2.3
Japan	1.9	1.5	1.4	3.3	2.0	1.1
Emerging countries	**4.0**	**3.6**	**3.6**	**5.8**	**5.7**	**4.2**
China	5.2	3.9	3.4	0.4	1.1	1.6
India	6.5	6.0	5.2	5.8	5.8	6.0
Indonesia	5.0	4.9	4.7	3.7	3.3	3.6
Brazil	3.0	1.5	2.0	4.6	3.8	3.6
Mexico	3.4	2.1	2.2	5.6	4.5	4.0
Russia	2.1	1.5	2.0	5.6	5.7	4.5
South Africa	0.6	1.0	1.3	5.9	4.5	3.6
Turkey	3.4	3.0	3.5	53.3	57.0	23.5
World	**3.0**	**2.5**	**2.7**	**5.4**	**4.5**	**3.4**

Central bank official rates forecasts, %

	7 November 2023	Amundi Q2 24	Consensus Q2 24	Amundi Q4 24	Consensus Q4 24
United States*	5.50	4.50	5.30	4.00	4.74
Eurozone**	4.00	3.75	3.85	2.75	3.21
United Kingdom	5.25	4.75	5.30	4.00	4.79
Japan	-0.10	0.00	0.00	0.00	0.19
China***	3.45	3.45	3.40	3.25	3.40
India****	6.50	6.50	6.30	6.25	5.90
Brazil	12.25	10.00	9.75	9.25	9.00
Russia	15.00	14.00	12.20	11.00	9.80

Source: Amundi Investment Institute. Forecasts are as of 7 November 2023. CPI: consumer price index. *: Upper Fed Funds target range. **: Deposit rate. ***: One-year loan prime rate. ****: Repurchase rate. Q2 2024 indicates end of June 2024; Q4 2024 indicates end of December 2024.

Financial market forecasts

Bond yields

Two-year bond yield forecasts, %

	7 November 2023	Amundi Q2 24	Forward Q2 24	Amundi Q4 24	Forward Q4 24
United States	4.93	3.80-4.00	4.61	3.60-3.80	4.39
Germany	3.00	2.50-2.70	2.61	2.20-2.40	2.31
United Kingdom	4.65	3.60-3.80	4.25	3.40-3.60	4.13
Japan	0.12	0.10-0.20	0.22	0.10-0.20	0.30

Ten-year bond yield forecasts, %

	7 November 2023	Amundi Q2 24	Forward Q2 24	Amundi Q4 24	Forward Q4 24
United States	4.56	3.70-3.90	4.57	3.70-3.90	4.56
Germany	2.63	2.40-2.60	2.63	2.30-2.50	2.62
United Kingdom	4.26	3.80-4.00	4.26	3.70-3.90	4.29
Japan	0.86	0.80-1.00	0.97	0.80-1.00	1.07

Equities forecast at Q4 2024

MSCI index levels at	US	Europe	EMU	UK	Japan	Pacific ex-Japan	World	World AC
7 November 2023	4145	1797	252	2125	1419	1212	2884	663
Lower bound	3970	1780	250	2100	1340	1110	2770	620
Upper bound	4590	2000	280	2380	1560	1330	3170	750

Exchange rates

	7 November 2023	Amundi Q2 24	Consensus Q2 24	Amundi Q4 24	Consensus Q4 24
EUR/USD	1.07	1.09	1.09	1.15	1.11
EUR/JPY	161	153	152	155	151
EUR/GBP	0.87	0.88	0.88	0.89	0.89
EUR/CHF	0.96	0.98	0.98	1.03	1.00
EUR/NOK	11.97	11.89	11.12	11.76	10.70
EUR/SEK	11.69	11.83	11.35	11.92	11.25
USD/JPY	150	141	140	135	134
AUD/USD	0.64	0.65	0.67	0.69	0.70
NZD/USD	0.59	0.59	0.62	0.62	0.63
USD/CNY	7.32	7.20	7.15	6.90	6.95

Source: Amundi Investment Institute. Forecasts are as of 7 November 2023. Q2 2024 indicates end of June 2024; Q4 2024 indicates end of December 2024.

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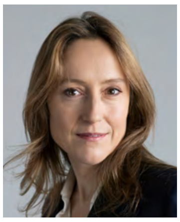

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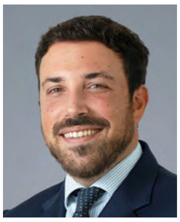

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Central banks' endgame: a new policy paradigm

Amundi Investment Institute

In an increasing complex and changing world, investors need to better understand their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios.

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IMPORTANT INFORMATION

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