November 2022

Investment Outlook 2023
Some light for investors after the storm

Marketing communication

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Confidence must be earned

Amundi
ASSET MANAGEMENT

01

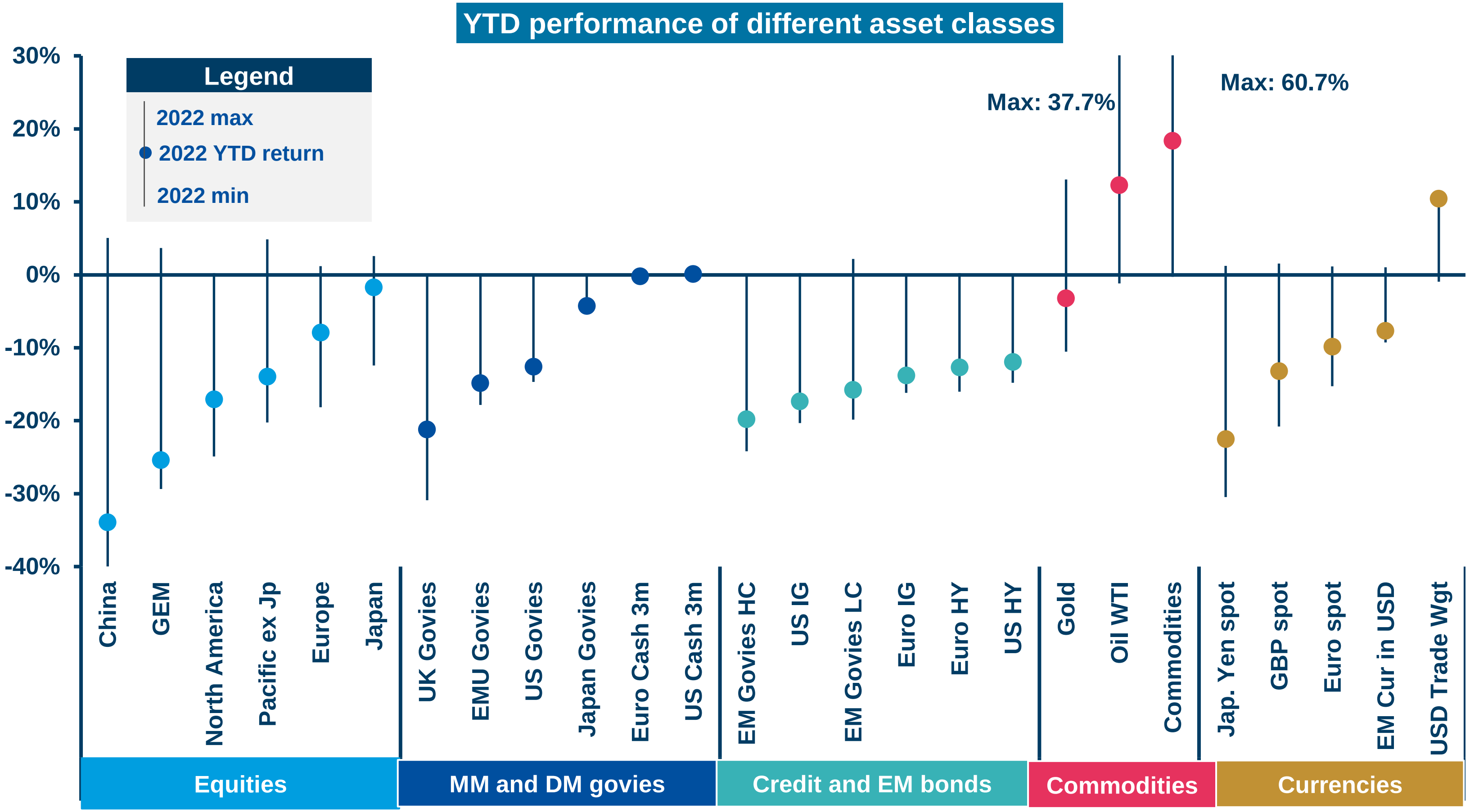
2022: the great repricing

2022: a year of turbulences

	Economy and politics	Financial markets
Expected	▪ Slowing growth momentum in 2022. ▪ Persistent inflation pressure. ▪ Monetary policy asynchrony.	▪ Search for real income; focus on portfolio resilience. ▪ Equity focus value over growth. ▪ Add ESG exposure with material impact on risk / returns.
Surprise	▪ Rising geopolitical tensions. ▪ From High to Sticky inflation and aggressive monetary policy hikes by CBs. ▪ Weakness of Chinese economy.	▪ Skyrocketing fixed income volatility and risk assets correction. ▪ Underperformance of tech stocks and China. ▪ Rally of USD and commodities.

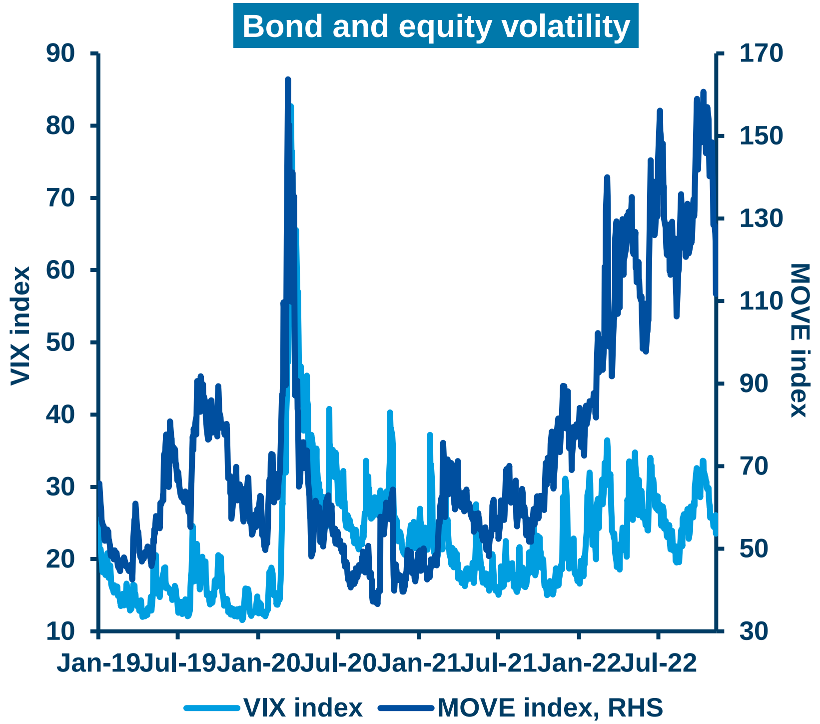
Source: Amundi as of 7 November 2022. DM = developed markets. EM = emerging markets.

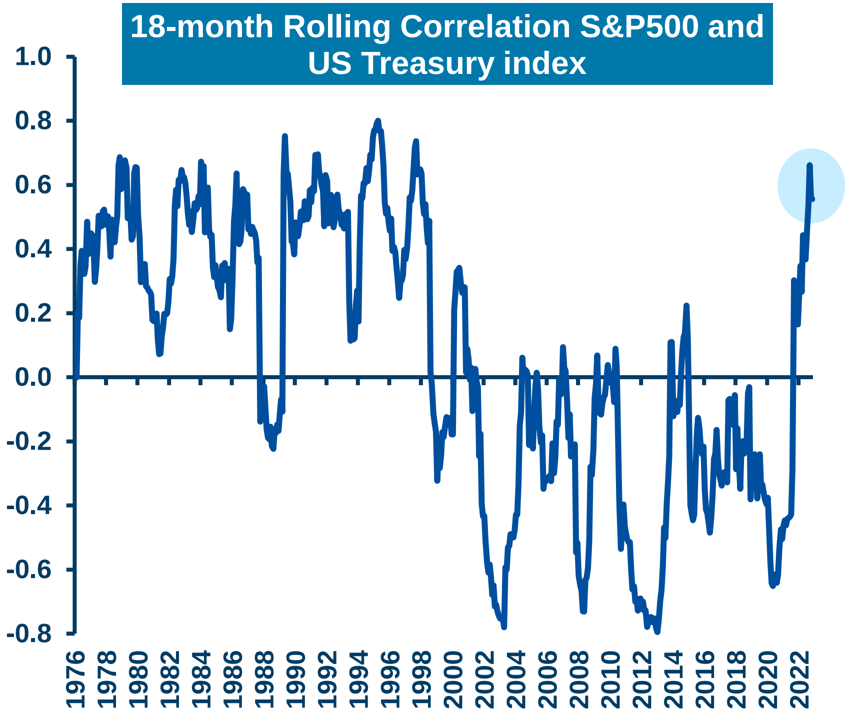
2022: the year of the great repricing



Source: Bloomberg, analysis by Amundi Institute of 26 asset classes and FX. Data is as of 11 November 2022. MM: money markets. DM: developed markets. Index providers: cash, government bond and EM bond indices are from JPMorgan; corporate bond indices are from BofA; equity indices and EM currency indices are from MSCI; commodities indices are from Bloomberg Barclays. All indices used to represent asset classes are in local currency. **Past performance is no guarantee of future results**.

Exceptional Volatility in Bonds and Rising Correlation between Bonds and Equities



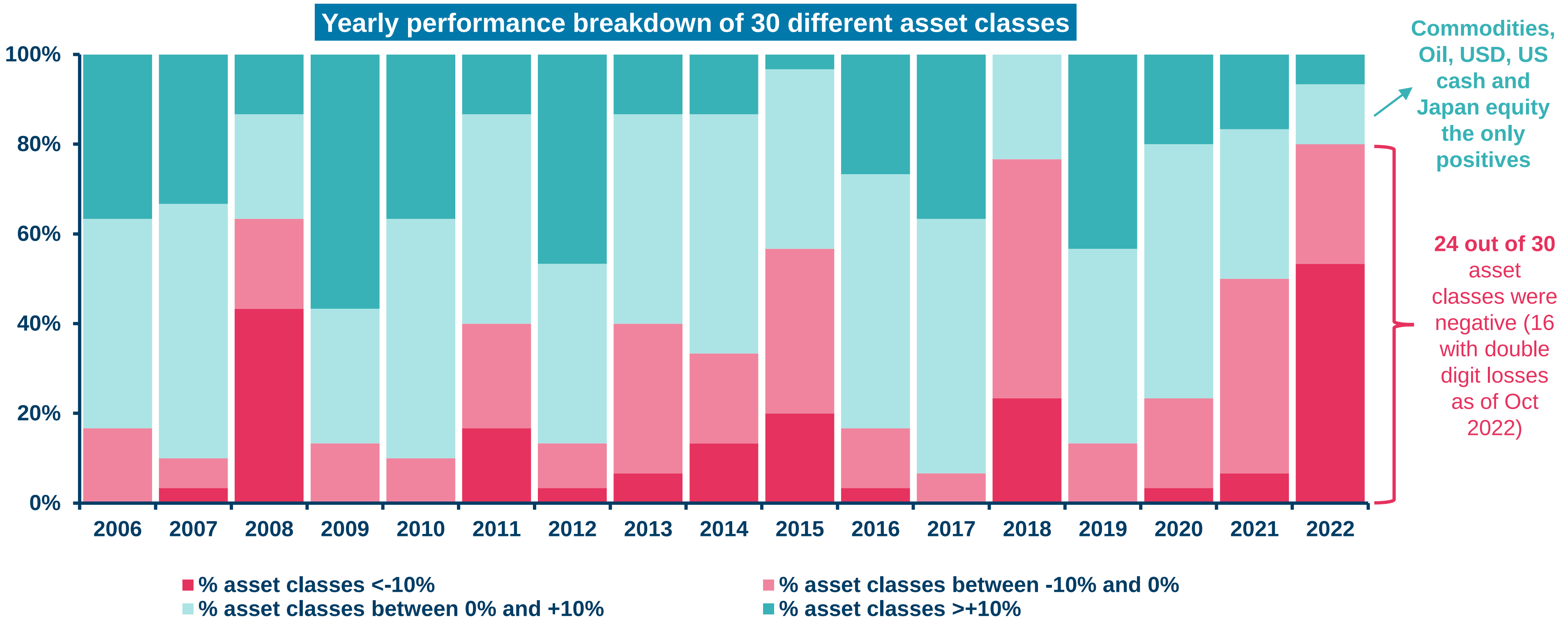


- **Bond volatility skyrocketed** amid Central Bank interest rate hikes, while equity volatility remain range bound
- At the same time, **Equity / bond correlation turned positive** in September 2021 and has risen since then as inflation is now the main driver of markets.
- Current environment calls for additional sources of diversification.

Source: Amundi Institute, Bloomberg. Data is as of 11 November 2022.

Source: Amundi Institute, Bloomberg. Data is as of 7 November 2022.

Diversification didn't work: 2022 worse than 2008



- **80%** of asset classes had negative returns to 14 Nov 2022. There was no safe harbour.
- Only positive performers were oil, commodities and the USD making it difficult for investors to mitigate losses

Source: Amundi Institute, Bloomberg. Analysis on 30 asset classes. Data is as of 14 November 2022. Index providers: cash, government bonds, and EM bond indices are from JPMorgan. Corporate bond indexes are from BofA. Equity indexes and EM currency indices are from MSCI. Commodities indices are from Bloomberg Barclays. All indices used to represent asset classes are TR in local-currency terms. Asset classes are: Euro Cash 3m; US Cash 3m; Japan Govies; US Govies; EMU Govies; UK Govies; EM Govies HC; EM Govies LC; US INFL LNK; Japan INFL LNK; UK INFL LNK; Euro INFL LNK; Euro IG; US IG; Euro HY; US HY; EUR Equity; North Am Equity; Japan Equity; Pac. ex Jp Equity; GEM; China Equity; Oil WTI; Gold; Commodities; Euro Spot; USD Trade Wgt; Jap. Yen Spot; GBP Spot; EM Cur in USD.

Past performance is no guarantee of future results.

02

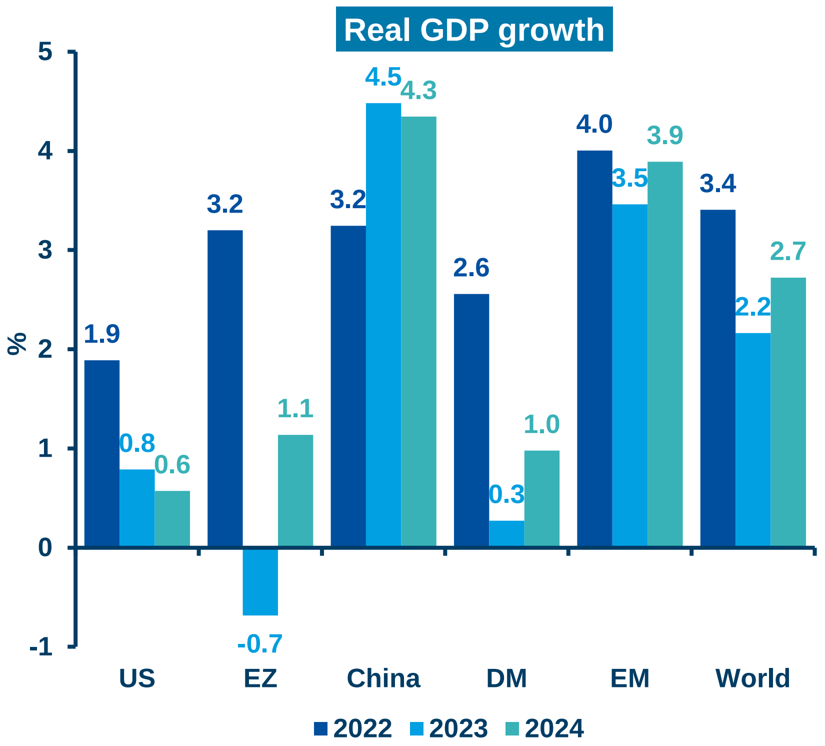
Three key global themes for 2023

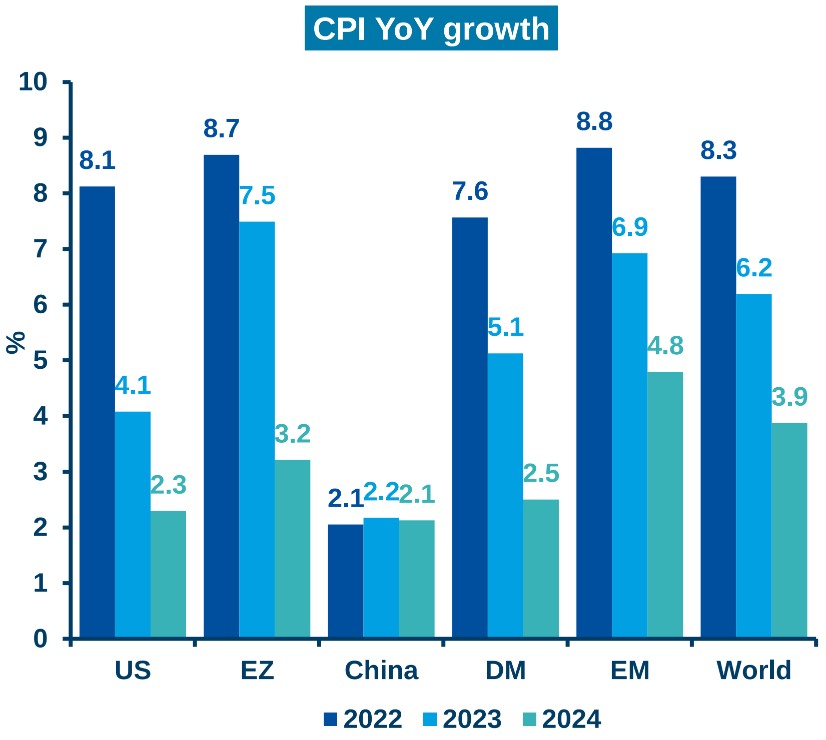
Central and alternative scenarios and probabilities

	15% DOWNSIDE SCENARIO Deep global slump	70% CENTRAL SCENARIO Stagflationary episode, with rising divergences and persistence	15% UPSIDE SCENARIO Inflation falls back ending the stagflationary episode
Geopolitics	▪ Worsening / expanding Ukraine war.	▪ Stalemate in the Ukraine war.	▪ Ceasefire in Ukraine. ▪ Russia partially resumes gas exports to Europe.
Policy mix	▪ De-anchored inflation expectations, CBs overreact.	▪ Inconsistent fiscal and monetary policy. ▪ **Fed** ends tightening in Q1 2023, more dovish stance in Q4 2023; **BoE**: soft hiking cycle; **ECB** raises rates / activates TPI; **PBoC** eases. ▪ EU activates rescue plan to deal with energy crisis.	▪ Fiscal discipline gradually restored.
Economic path	▪ Global economic downturn (US, China, Europe) / renewed deflationary pressures, inflation out of control / de-anchored inflation expectations. ▪ Energy crisis back acute in H2 2023.	▪ Softening energy crisis in H2 2023. ▪ Inflation: above CB targets until 2024. ▪ Global nominal GDP growth trends higher with recession (EU), modest rebound (China), sub-par growth (US). ▪ Corporate profit recession to go on in H1 2023, followed by recovery.	▪ Inflation falls back quickly. ▪ Lower uncertainty, extra savings. and renewed purchasing power fuel DM demand.
Financial path	▪ Global financial crisis, debt crisis with several EM defaults. ▪ Credit event.	▪ Global financial conditions to deteriorate amid continuation of the tightening cycle. ▪ Limited spread widening.	▪ Return of risk-on sentiment in the market.
Climate Change	▪ Climate transition measures postponed. ▪ Broad-based extreme climate conditions.	▪ Climate change adds to stagflationary trends. ▪ Climate risk hampers growth.	▪ Climate change policy and energy transition as top priorities.

Source: Amundi Institute as of 7 November 2022. DM: developed markets, EM: emerging markets. CB: central banks. Fed: Federal Reserve. BOE: Bank of England. ECB: European Central Bank. PBoC: People's Bank of China. QE: quantitative easing. QT: quantitative tightening. TPI: Transmission Protection Instrument by ECB.

The Macro Outlook: Soft Landing for the Global Economy, with inflation expected to remain high

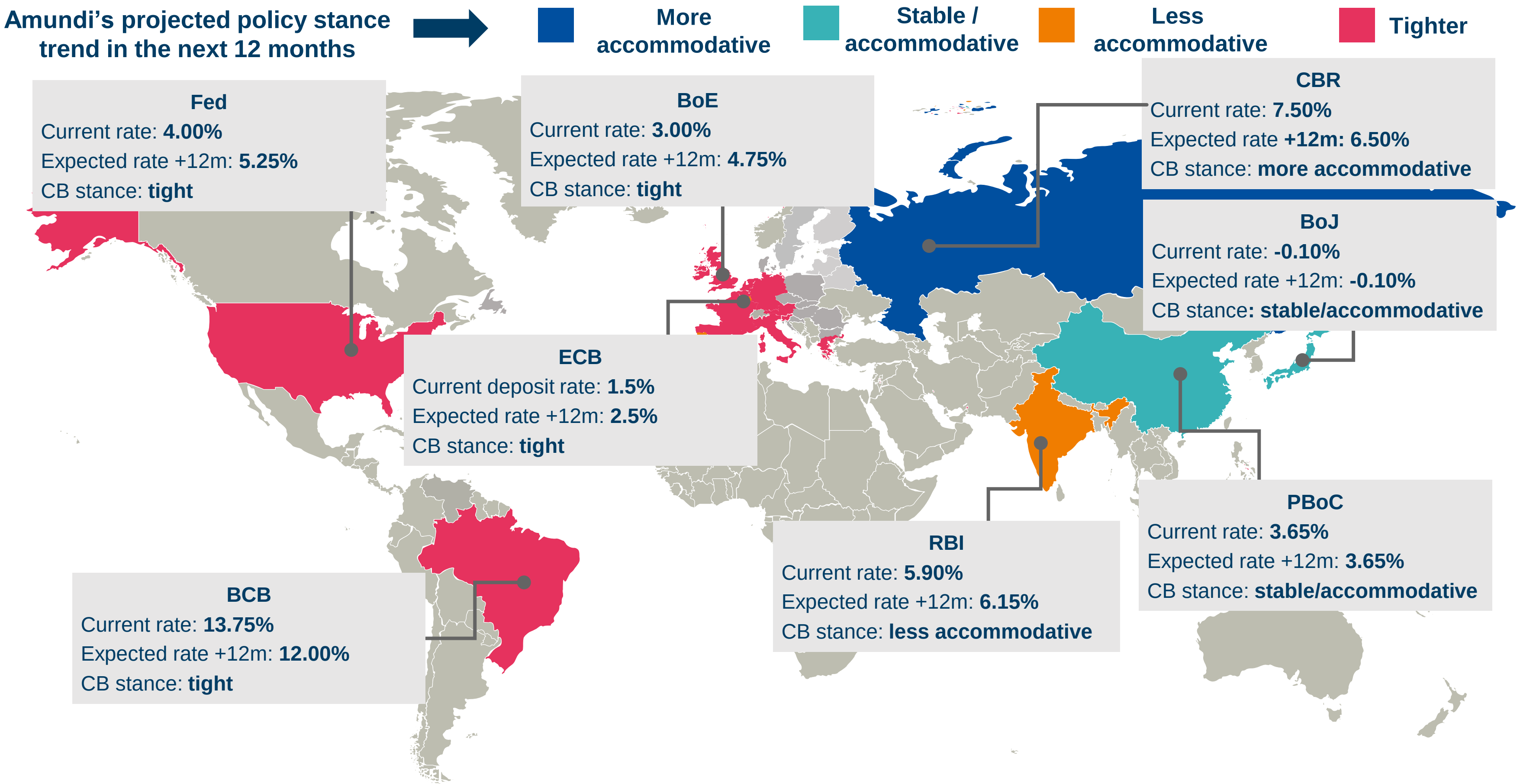




- **Decelerating growth in 2023, particularly in developed markets, with some divergences.**
- **Inflation will slow but will likely remain above Central Bank targets of 2%.**

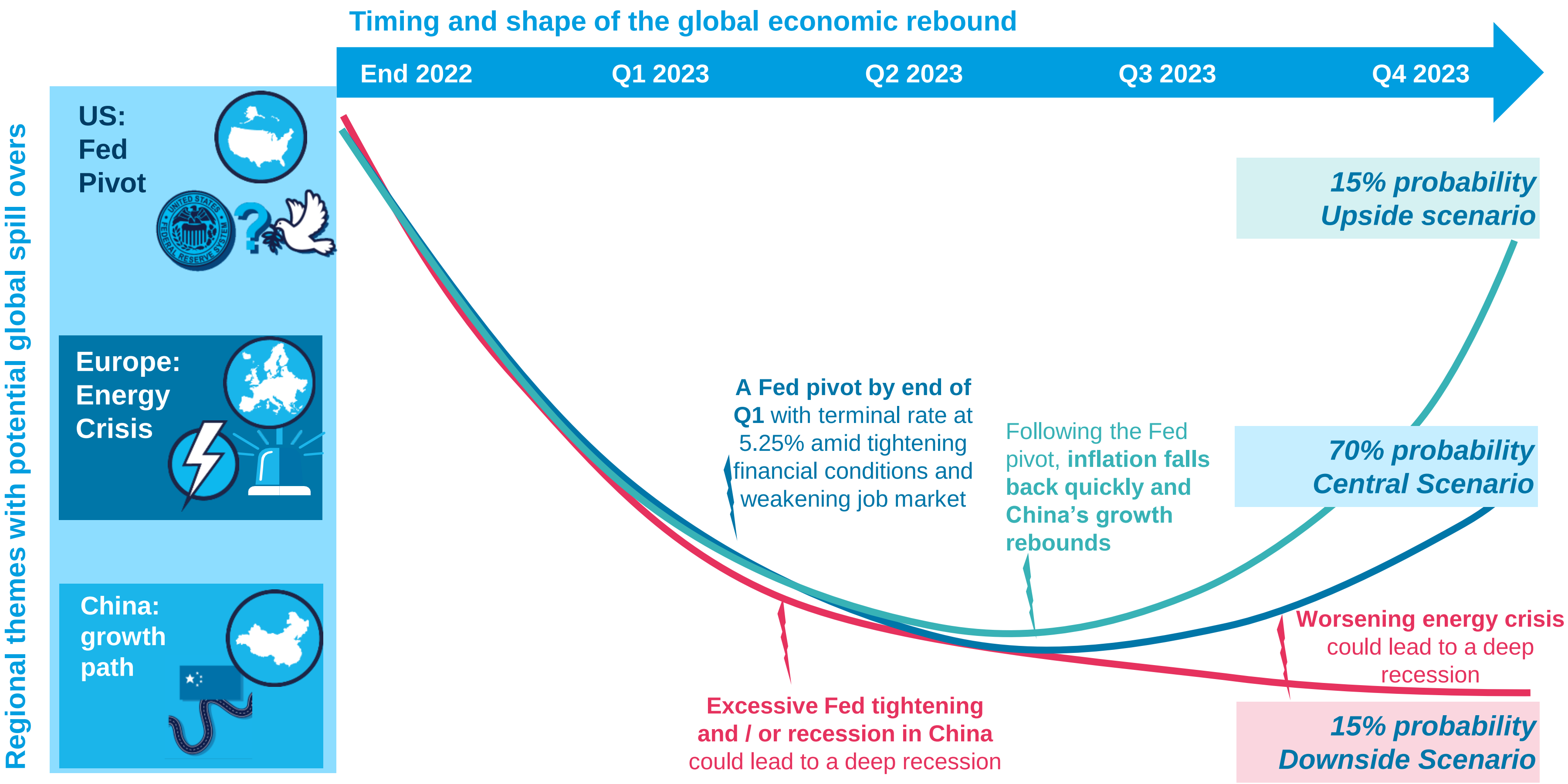
Source: Amundi Institute, Datastream, Bloomberg. Data is as of 4 November 2022. Forecasts are by Amundi Institute and are as of 3 November 2022. CPI: consumer price index. DM: developed markets. EM: emerging markets. EZ: Eurozone.

Central Banks committed to fight inflation, but most hikes are likely behind us



Source: Amundi Institute as of 7 November 2022. Illustrative map for monetary policies. CB: central banks. DM: developed markets. EM: emerging markets. Central bank stance refers to expected changes in CB balance sheets, policy rates, or real rates in 2022. Fed: Federal Reserve, ECB: European Central Bank, BoE: Bank of England, BoJ: Bank of Japan, PBoC: People's Bank of China, BCB: Central Bank of Brazil, CBR: Central bank of Russia, RBI: Reserve Bank of India. For the Federal Reserve, current rate refers to the upper bound of the target range. For the ECB, current rate refers to the deposit facility

Three global themes shaping our scenarios



Source: Amundi Institute as of 7 November 2022.

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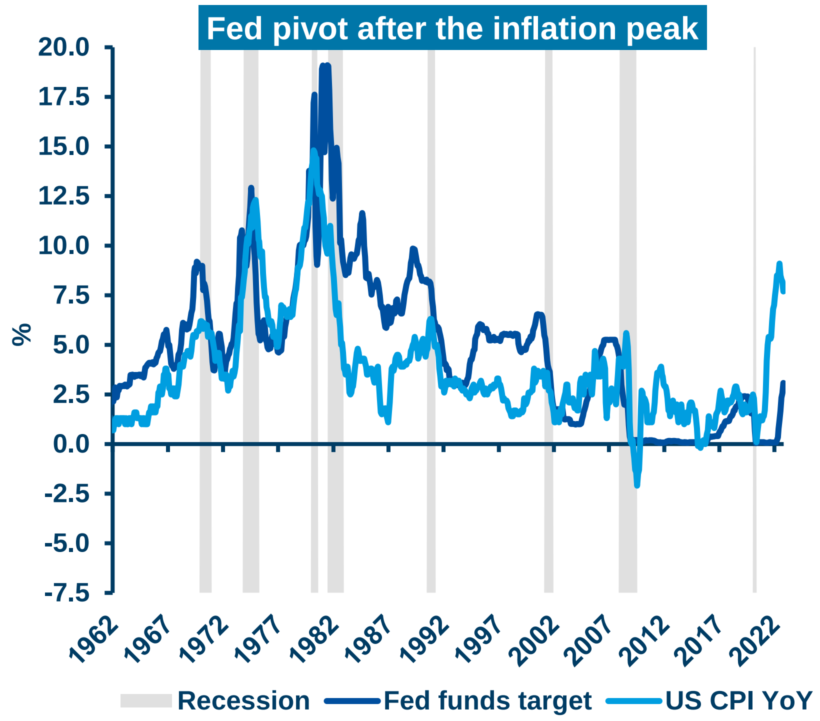
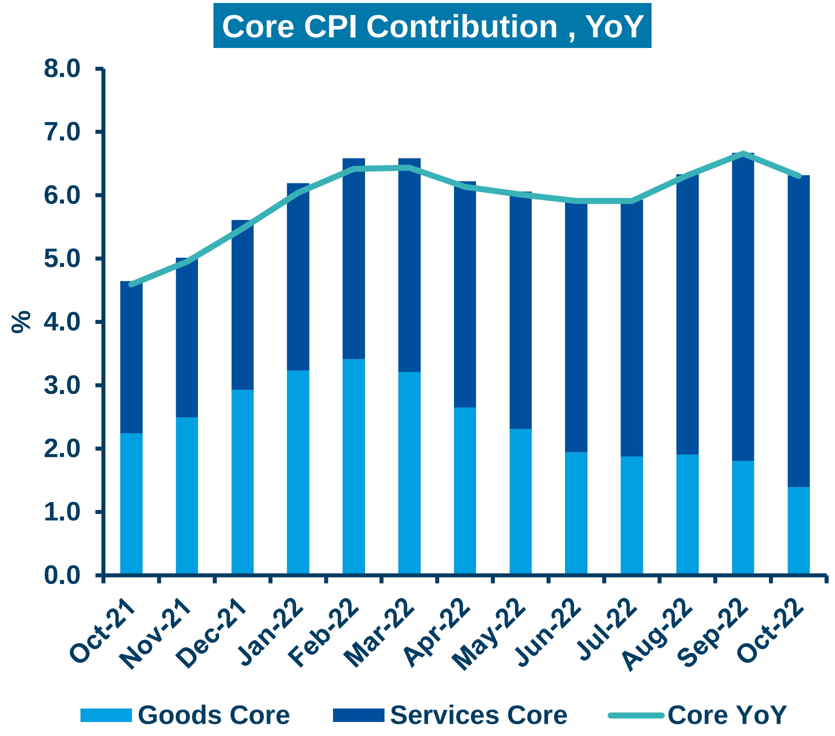
The Fed Pivot - Market Driver hinging on Inflation Path

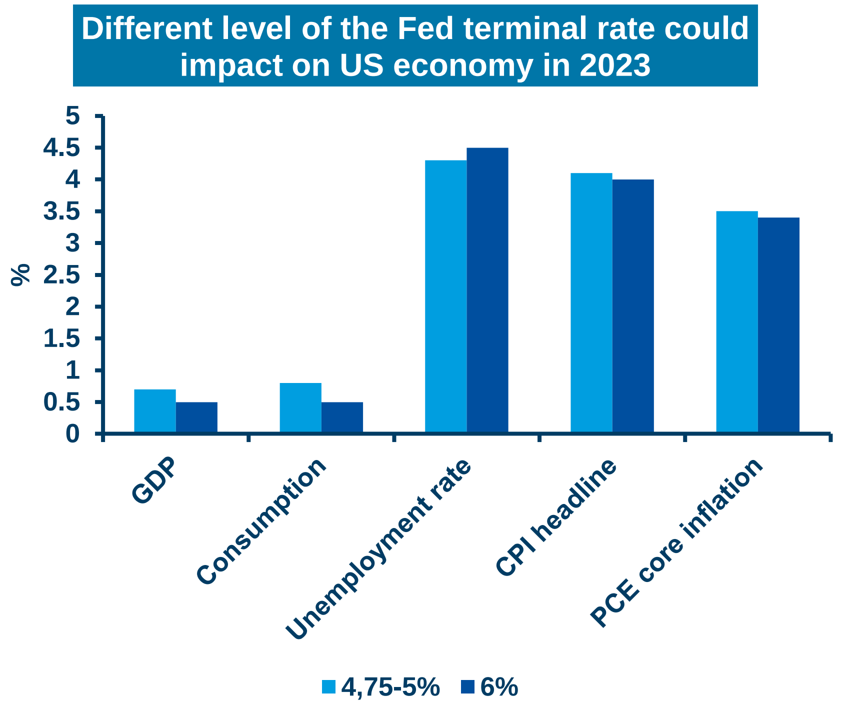


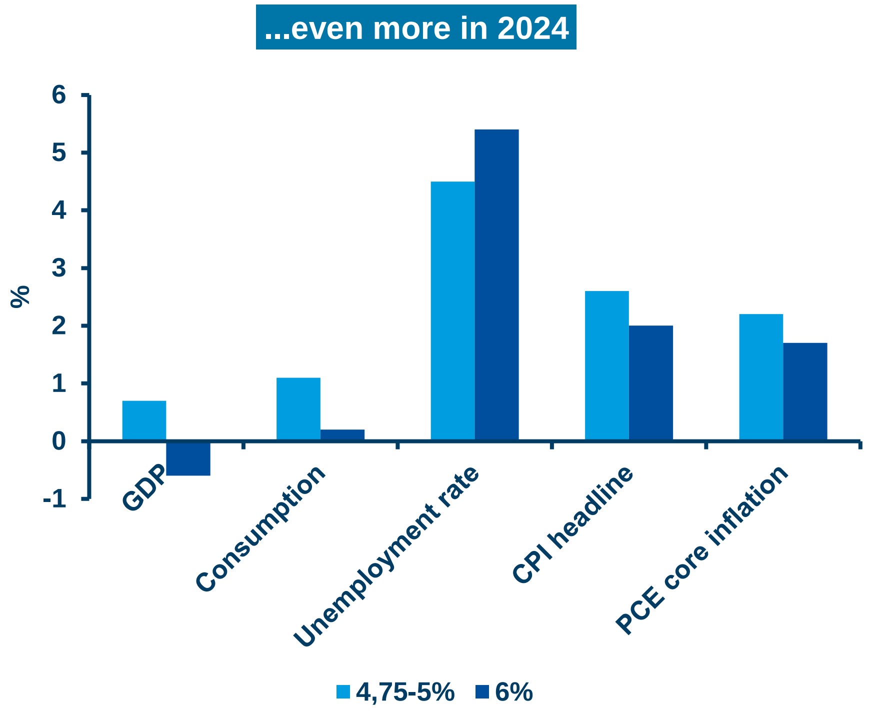


- **Tighter monetary policy ➔ higher risk of growth deterioration in H2 2023 ➔ possibility of Fed pivot.**
- **The market is discounting a Fed rate around 5.15% in 2Q 2023 and a pause to interest rates hikes with the federal funds rate decreasing to 4.9% by the end of 2023.**

Source: Amundi Institute, Bloomberg. Data is as of 11 November 2022.

The Fed Terminal Rate dictates Severity of Economic Pain

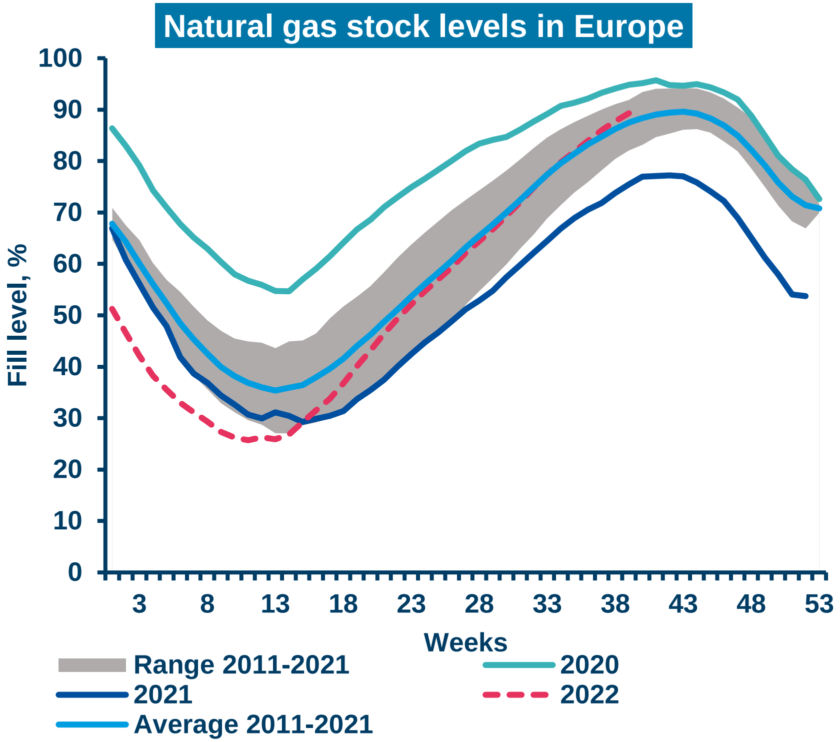


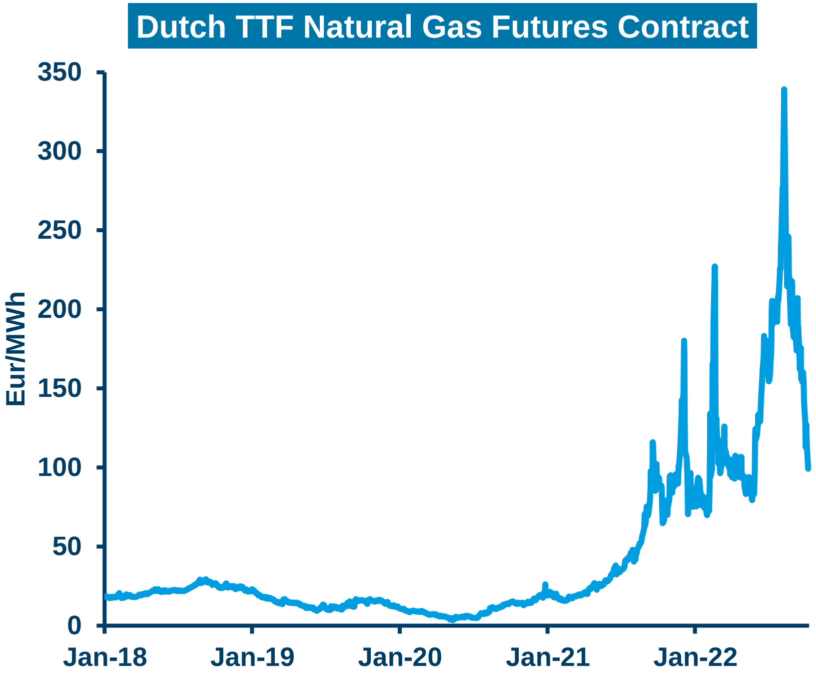


- **At 6% terminal rate, longer than expected recession, higher unemployment rate (above 5% in 2024), inflation back at 2% in 2024.**
- **Under this assumption, we foresee stronger USD, higher rates and an equity bear market coupled with increased stress at corporate level.**

Source: Amundi Institute, data is as of 24 October 2022. In both scenarios, once reached the peak in March 23, the terminal rate is left on hold, there is no pivot.

Energy Crisis Extends Beyond 2023



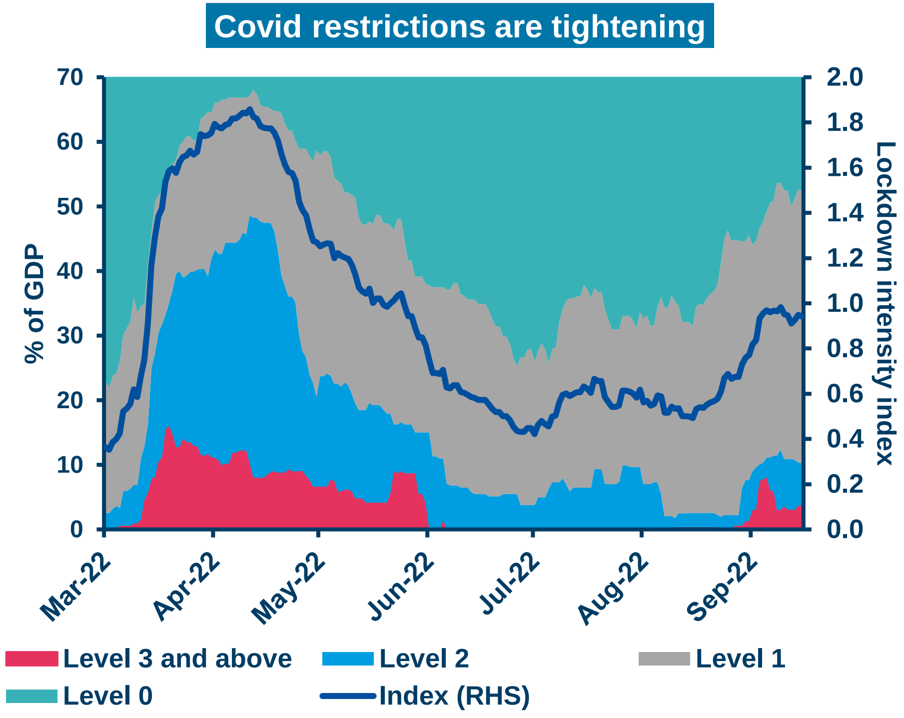


- **The base case scenario remains Europe avoiding widespread gas rationing, helped by its recent restocking, demand destruction and power saving, but uncertainty remains high.**
- **Even if the EU dodges aggressive rationing, lost Russian supply will keep gas and electricity prices elevated well beyond this winter, ensuring energy inflation remains elevated.**
- **The moment of truth will be in Q4 2023, when the gas inventories need to be replenished.**

Source: Amundi Institute, data is as of 30 September 2022.

Source: Amundi Institute, data is as of 26 October 2022. Weekly moving average.

The two headwinds for China's Growth Continue

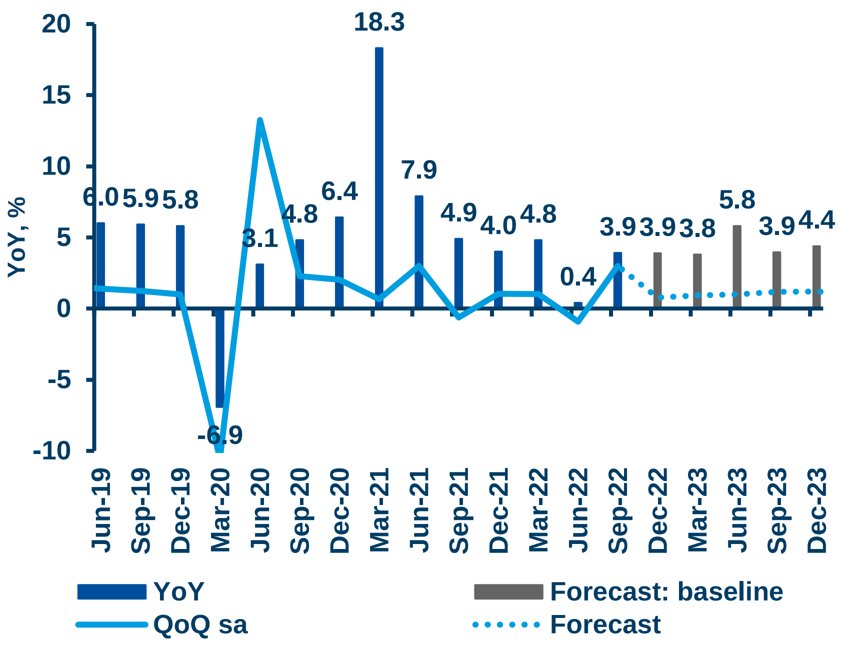


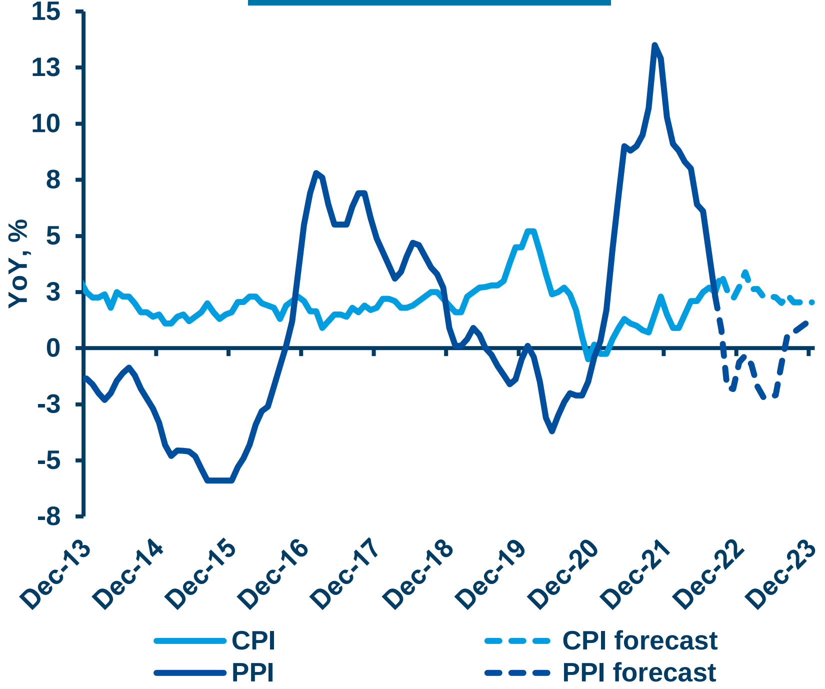
- Zero-Covid doctrine to **stay for most part of 2023**, hindering our GDP growth expectations.
- **Housing sales** to trend down throughout the rest of 2022 before starting to **stabilise in 2023.**

Source: Amundi Institute on Gavekal Dragonomics / Macrobond, Wind. Data is as of 26 September 2022. 12-months moving average.

Source: Amundi Institute, CEIC as of 31 October 2022. sqm: square meters.

Cyclical Recovery hinges upon Dynamic Zero-Covid Policy





- Although China's Q3 growth came in stronger than expected at 3.9% YoY, we have revised **2023 growth down to 4.5%** on a dimmer Covid policy outlook with a more balanced risk.
- **Inflation to stay below 3%** throughout 2023 due to the disruption of Covid restrictions. Accommodative monetary and fiscal policies will continue in the current disinflationary environment.

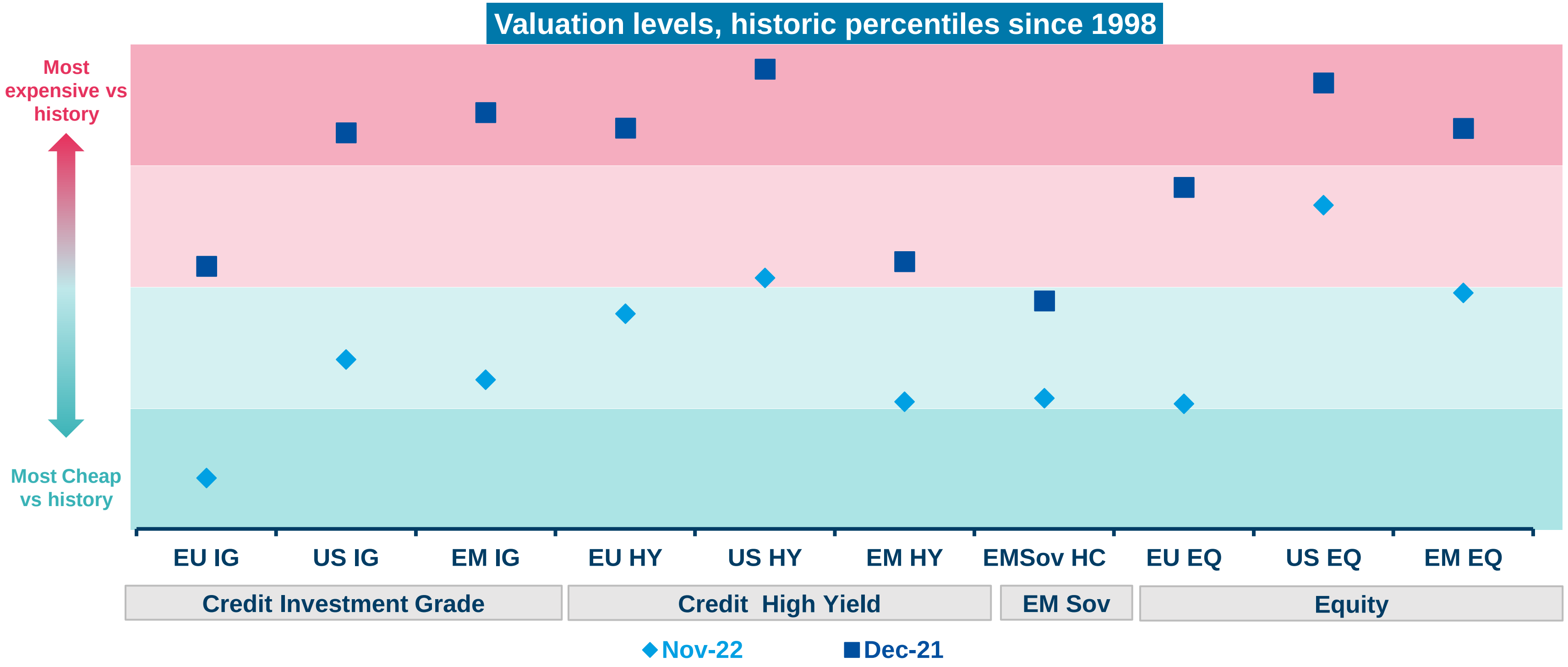
Source: Amundi Institute, NBS, CEIC. Data and forecasts are as of 25 October 2022. sa: seasonally adjusted. PBoC: People's Bank of China.

Source: Amundi Institute, CEIC. Monthly data as of 29 September 2022..

03

Investment convictions for 2023

The starting point: valuations are becoming attractive



The great repricing of 2022 has caused valuations to drop from past peaks across various asset classes. This is opening up opportunities for investors to recover losses and seek entry points to play the rebound in 2023.

Source: Amundi Institute, Bloomberg, DataStream, latest monthly data as of 14 November 2022. EU IG, US IG, EM IG, EU HY, US HY, EM HY are ICE BofA corporate bond indices. IG: investment grade. HY: high yield. EM Sov HC: JP Morgan EMBI Global Diversified. EU EQ, US EQ, EM EQ are MSCI indices for equity markets. All indices refer to a specific region (EU: Europe, US: United States, EM: emerging markets. Analysis is based on spreads for bond indices and on twelve-month forward PE ratio for equity indices. Valuation are in historic percentile since 1998. Cheapest means is in the first quartile, Most expensive is in the fourth quartile.

Fogbows and Rainbows over the Seasons

Investment Implications under the base scenario

	End 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Bonds are back	▪ Government bonds; ▪ US IG credit; ▪ Cautious on HY credit & Selective on EM bonds HC		▪ Focus still on high quality credit; ▪ Add EM bonds.		• HY credit may start to offer some selective opportunities.
Equity seek entry points	▪ Cautious overall ▪ Play quality-value & high dividend ▪ US equity vs rest of the world		▪ Add global equity; ▪ Look for some selective EM equities.		▪ Deep-value equity opportunities, cyclical, small cap & EM.
The 60-40 reloaded	60-40 paradigm back in a decelerating economic path, with focus still on inflation				
ESG themes	Look for ESG improvers, accelerate on the net-zero path, play the energy transition and food security themes and, more broadly, climate change and socially-orientated strategies (agriculture, infrastructure, transportation, healthcare).				

Source: Amundi as of 2 November 2022. CB: central banks. EM: emerging markets. IG: Investment Grade, HY: High Yield.

Bonds are back: why investors should look at bonds

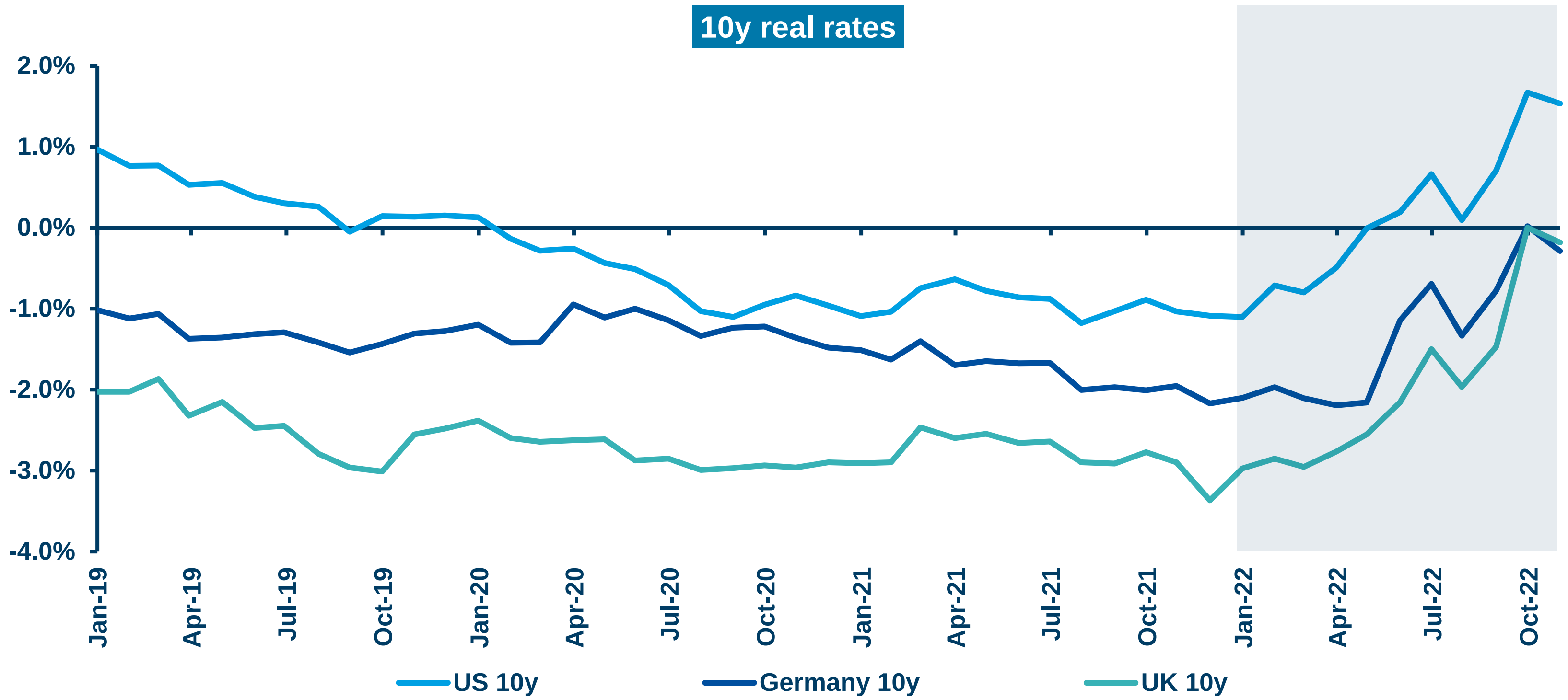
Bonds

STABILISATION IN RATES	After the great repricing we are close to a stabilisation in rates, before a final normalisation stage.
ATTRACTIVE YIELD AND DIVERSIFICATION	Overall, higher yields may offer interesting income opportunities. Bonds could be seen as a source of diversification against recession fears.
VALUATIONS	Focus on high-quality debt: core govies and IG credit, explore opportunities in selective EM, adopt a flexible approach and be mindful of liquidity risk.

Source: Amundi Institute as of 4 November 2022. EM: Emerging Markets. HC: Hard Currency. Govies: government bonds.

Bonds: real rates have moved a lot, difficult to see further increases in a slowing economy

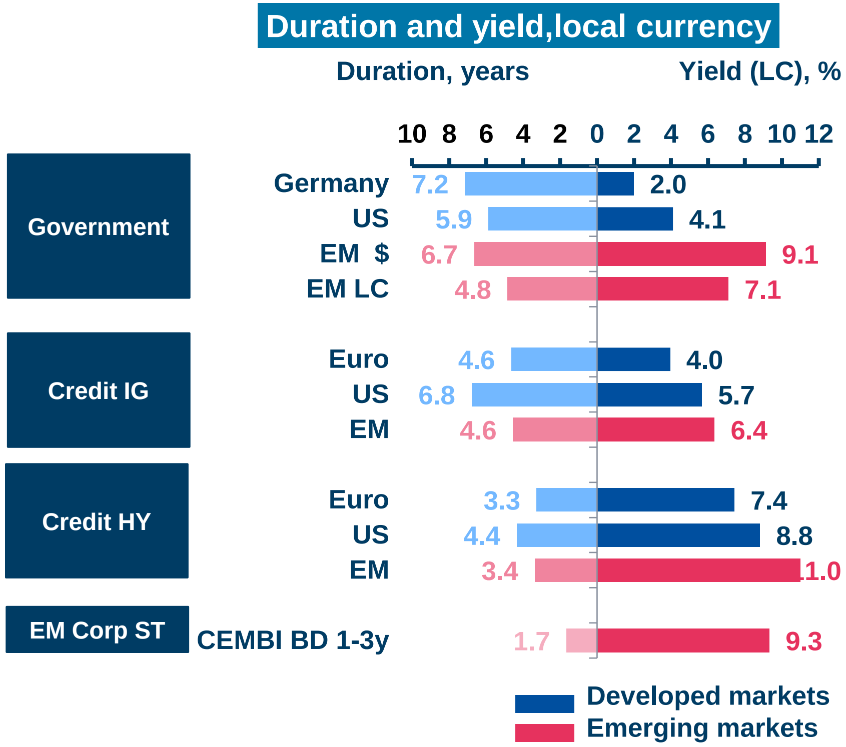
Bonds

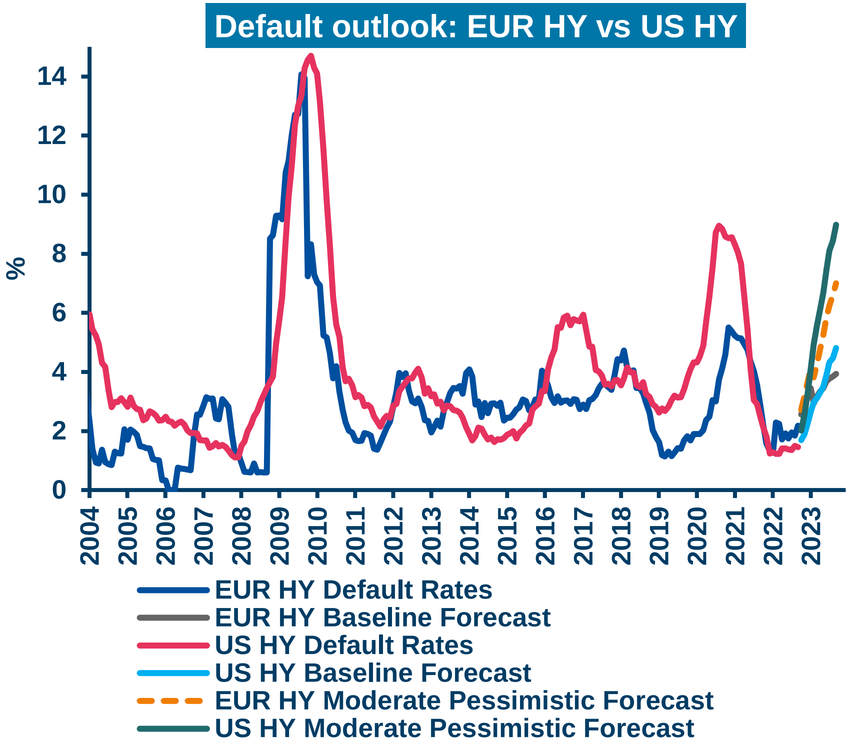


- **After the strong increase in real rates due to the increase of nominal rates, German, British and US 10-year inflation-linked bond yields were in positive territory in September.**
- **We do not expect a further increase if the economy deteriorates.**

Source: Amundi Institute, Bloomberg, as on 31 October 2022.

Quality Corporate Bonds offer Opportunities



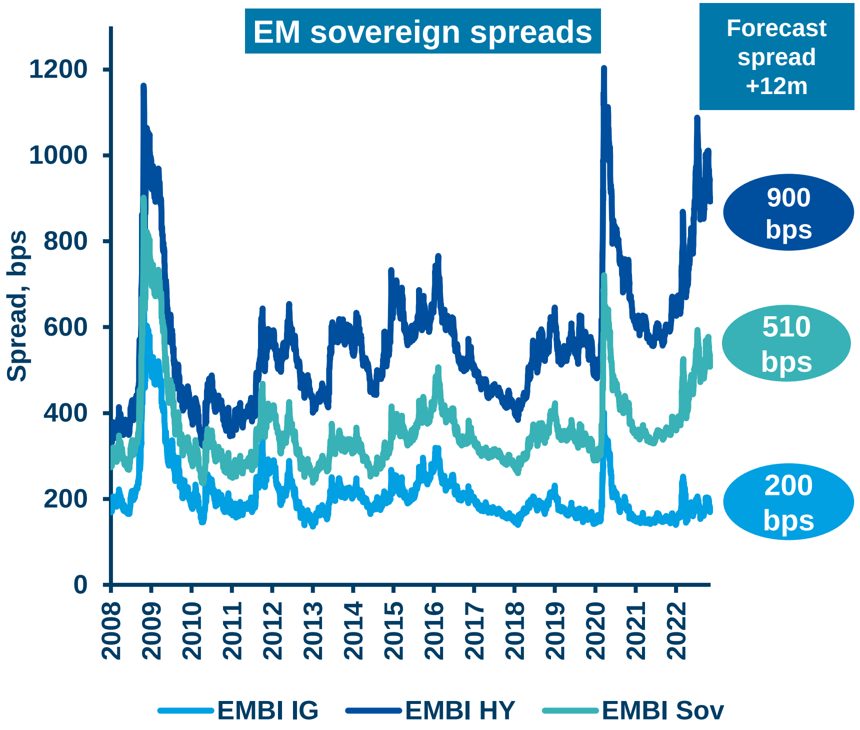


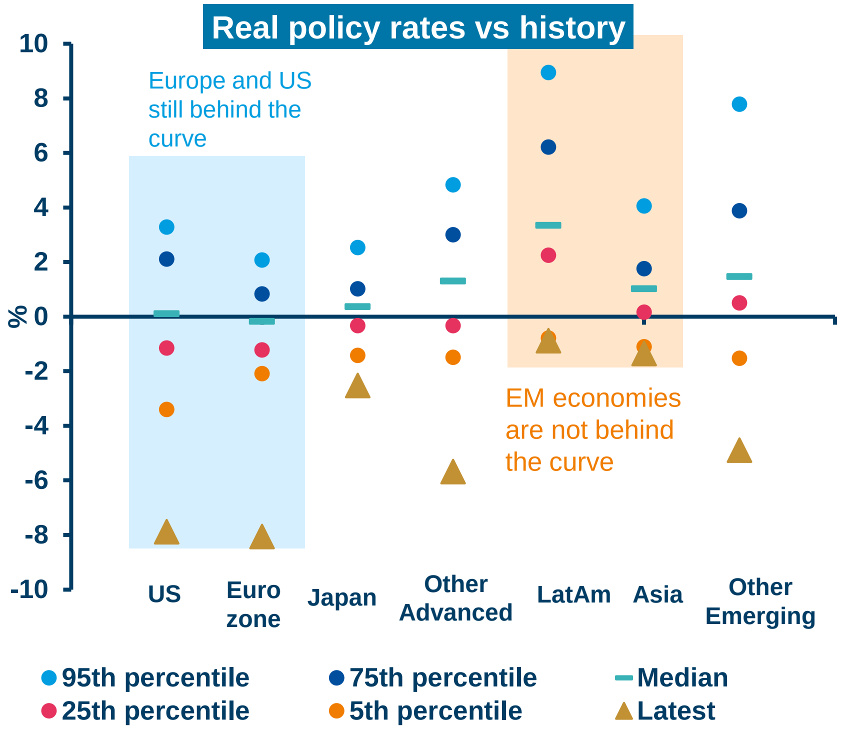
- **The current yield of a diversified bond portfolio is now attractive. Credit space also offers compelling entry points, but investors should be selective and focus on quality and low-leverage corporates.**
- **Main criteria to pick issuers: impact of the slowdown in economic activity, rising labour costs on margins and policy tightening, especially on US corporates paying attention to corporate leverage and liquidity risk.**

Source: Amundi Institute. Analysis on Bloomberg data. Data is as of 11 November 2022. Government and EM indices are from JP Morgan. Euro and US credit indices are from ICE-BofA. LC: local currency. IG: investment grade. HY: high yield. ST: short term. Yield for EM Corp ST is JP Morgan CEMBI Broad Diversified 1-3 Year while duration is JP Morgan CEMBI IG+ 1-3 Years.

Source: Amundi Institute, Moody's. Data is as of 7 November 2022. Forecasts start from October 2022. CB: Central Banks. HY: High Yield.

Increasingly Attractive EM Debt



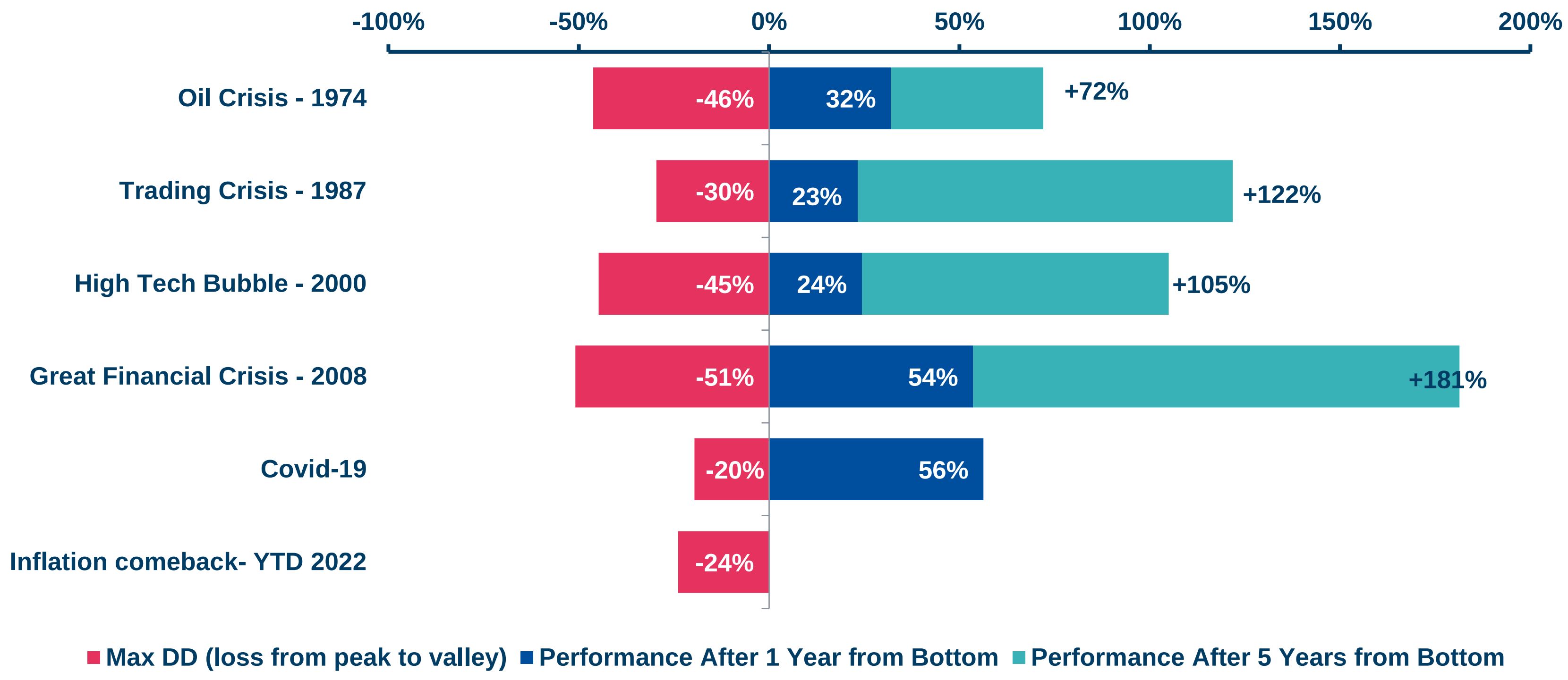


- **Advanced policy normalisation versus DM and appealing carry and spread relative to history, makes EM debt an interesting option.**
- **Prefers hard-currency bonds and for countries where tightening is already advanced.**

Source: Amundi Institute, Bloomberg. Data is as of 11 November 2022. Russia has been excluded from all of JPMorgan's fixed income indices on March 31, rebalancing all indices. EM: emerging markets. CEEMEA: Central Eastern Europe, Middle East, and Africa.

Source: Amundi Institute on BIS. Data is as of July 2022. Per cent real policy rates from 1990 for the Advanced economies and from 2000 for the Emerging economies.

Equities usually Recover after the Storm



- **In all the past 5 episodes, equities markets have experienced strong rebounds in the years following strong market corrections.**
- **Stay invested!**

Source: Amundi Institute, Bloomberg. Data as of 11 November 2022. Analysis on monthly data for S&P 500 Index Total Return Net in USD. **Past performance is not indicative of future returns**

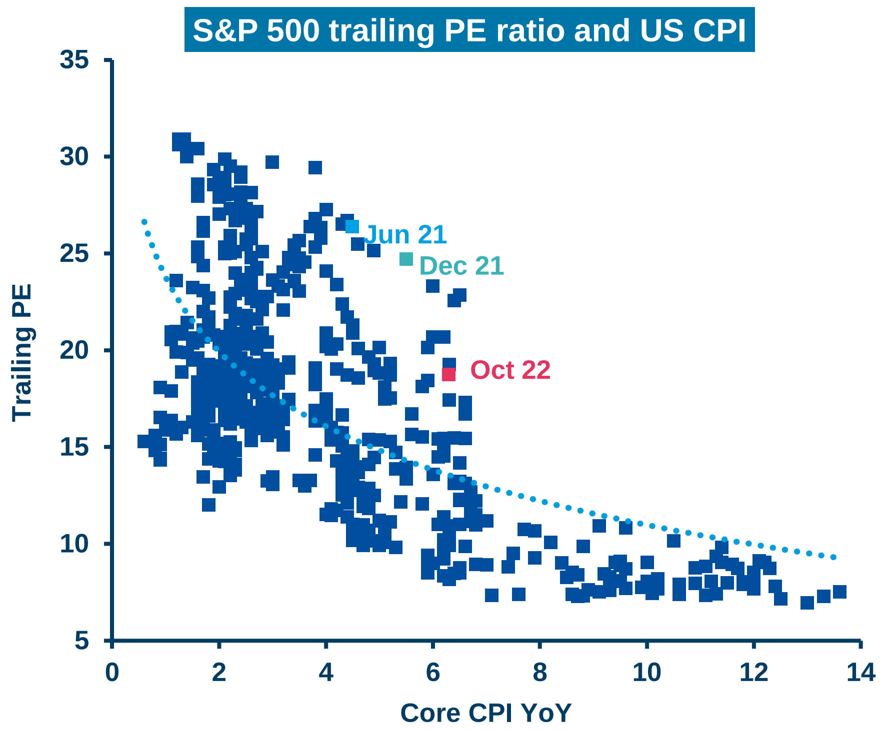
Equities: Be Selective as earnings expectations are too optimistic in front of macro deterioration

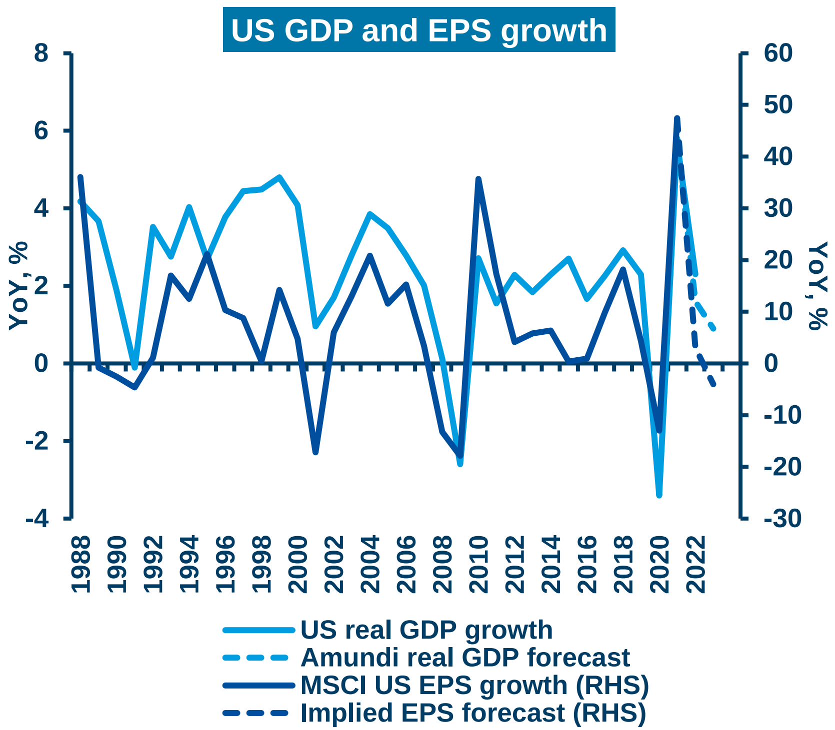
Profit recession	• Preference for robust business models that can maintain earnings growth through pricing power, product differentiation, customer stickiness.
High inflation	• When inflation takes a bite out of portfolio returns, investors should explore **companies which offer dividends**, share buybacks etc. that can boost income.
Balance quality, value	• At a time of slowing growth, a combination of **quality and value stocks in defensive areas is helpful**. But when we pass this slowdown next year, cyclicals could be back in favour.
Global divergences	• In an overall cautious stance**, we prefer the US over Europe,** given the better consumption environment in the former.
ESG	• The current energy crisis and income inequalities present opportunities to invest in companies (through a dynamic and engaging approach) that show improvement in these ESG parameters.

Source: Amundi Institute as of 4 November 2022.

Valuations not overly Compelling

Equities



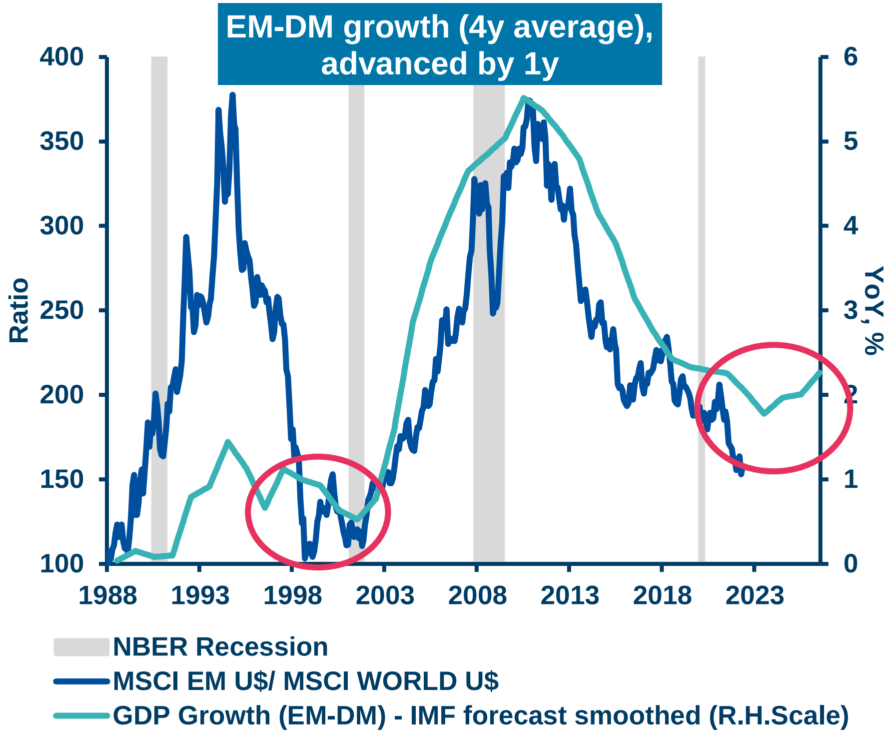


- As inflation persists and economic growth slows, we should see a **mild profit recession ahead**
- **Prefer companies than can preserve margins** by passing on rising input costs to consumers without compromising on volumes.

Source: Amundi Institute, Bloomberg, latest monthly data is as of 31 October 2022. Data starts from January 1970.

Source: Amundi Institute, Refinitiv, IMF. Data is as of 31 October 2022.

EM: recovery in 2023



EM-DM growth differential favours the former but investors should note that the region presents a fragmented universe, implying a strong need to be selective to take country-specific factors into account. For instance, at the moment, we see pressure in China from its zero-Covid policies but long-term potential persists.

Source: Amundi Institute, Datastream. Data is as of 7 November 2022. EM: emerging markets. DM: developed markets.

Source: Amundi Institute, Bloomberg. Forecasts are by Amundi Institute. Data is as of 4 November 2022.

Amundi convictions

	Asset class	Current stance	Outlook for H1 2023	
FIXED INCOME	US govies	=/+	+	Improving
	EU core govies	=	=	Stable
	Euro peripherals	-/=	=/+	Improving
	US IG	=/+	+	Improving
	Euro IG	=	=/+	Improving
	US HY	-	-/=	Improving
	Euro HY	-	-/=	Improving
	China govies	=/+	=/+	Stable
	EM bonds HC	=/+	+	Improving
	EM bonds LC	=	=/+	Improving

	Asset class	Current Stance	Outlook for H1 2023	
EQUITIES	US	=/+	=/+	Stable
	US Value	+	+	Stable
	US Growth	-	-/=	Improving
	Europe	-	=/+	Improving
	Japan	=	=	Stable
	China	=	=/+	Improving
	EMs ex China	=	=/+	Improving
OTHER	Commodities	=/+	=/+	Stable
	Currencies (USD vs. G10)	+	=	Deteriorating

LEGEND: -- - Negative; = Neutral; +++ Positive

Source: Amundi Institute as of 9 November 2022. This table represents the view for an **euro-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.

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