

Markets between love and fear

In February, the markets have shown that love is in the air: despite new tariff announcements, inflation risks, and the DeepSeek shakeup, positive market sentiment continues to prevail. In Europe, equities reached new all-time highs, and in the US, there is evidence of a broadening equity rally, as the dominance of the Magnificent Seven may be starting to fade. However, uncertainty remains at extreme levels, with renewed fears emerging following the higher-than-expected January CPI, which recorded its fastest increase in a year and a half, and some weak US economic data. To assess whether the current environment of positive market sentiment can continue, we focus on the following themes:

- **First, inflation is the dominant concern**, as the market remains highly sensitive to it, which could pose a significant challenge for Trump. Recent consumer surveys highlight growing uncertainty, with long-term consumer inflation expectations surging to 3.3%, the highest since 2008, with the highest dispersion since the 80s.
- **Second, global growth is set to stabilise** as inflation gradually declines, but **policy uncertainty under Trump adds risks**.
- **Third, the Eurozone is supported by a clearer ECB policy path**. Fiscal support in Germany following the elections and a possible increase in defence spending are key themes to monitor.
- **Finally, China remains focused on avoiding a disruptive trade war**, as evident in its measured response to Trump's tariffs.

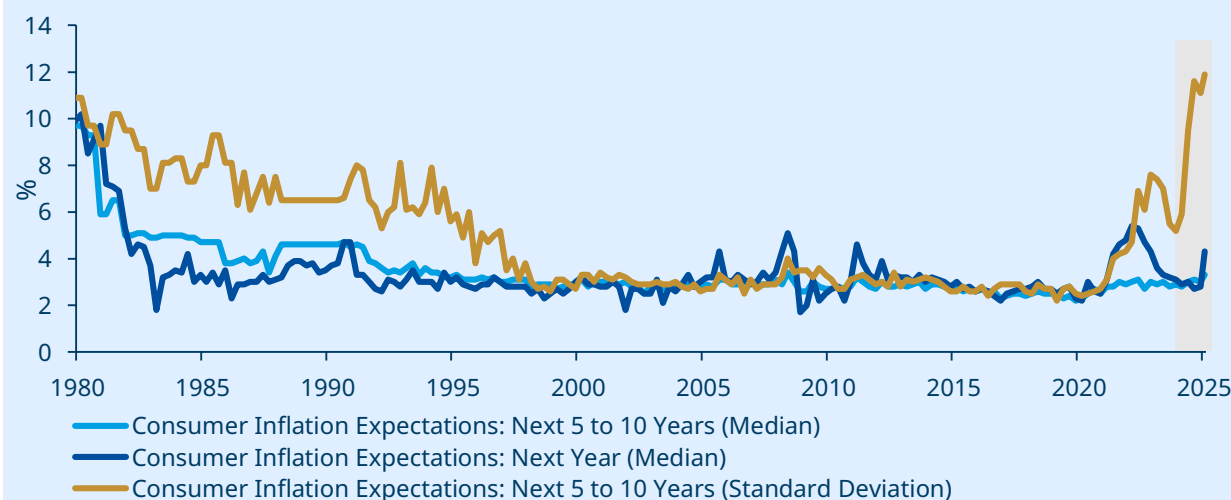


VINCENT MORTIER
GROUP CIO



MONICA DEFEND
HEAD OF AMUNDI INVESTMENT INSTITUTE

Consumer inflation expectations are rising and growing more dispersed



Source: Amundi Investment Institute, Bloomberg, Data refers to the University of Michigan Consumer Surveys. Data as of 20 February 2025.

All this translates into a still supportive backdrop for risky assets, but areas of complacency call for rotating into segments that offer more compelling opportunities and keeping a strong focus on diversification.

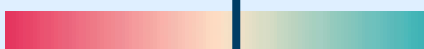
- **In fixed income, we have strengthened our positive duration stance for the Eurozone, as growth is lagging and we expect the ECB to continue to cut rates.** In the US, repricing of Fed rates has been fast: we continue to expect rate cuts in 2025 and we believe the possibility of a Fed rate hike is very low for now amid an already restrictive policy stance and a relatively quiet fiscal landscape. In **global credit**, the outlook is positive and supported by a combination of resilient economic activity, inflation moderation, and less restrictive monetary policy in both the United States and the Eurozone. We favour European IG credit while remaining cautious on US HY due to stretched valuations.
- **Leveraging the broadening rally in equities.** We are increasingly positive on the Eurozone, both relative to the US, due to its more compelling valuation, and compared to the UK, where the economic outlook is weaker. Within Europe, we look for companies with strong balance sheets and pricing power. In the US, our focus is beyond the mega caps. We favour banks and materials and look for domestic-oriented companies that are well-positioned to benefit from anticipated tax cuts and reduced regulation.
- **On Emerging Markets, we maintain an overall neutral stance, due to the ongoing macroeconomic and geopolitical developments.** We have become more optimistic about India after the recent sell-off which led to less stretched valuations and signs of bottoming out in earnings revisions.
- **Cross-Asset:** We maintain a **positive view on risky assets**, with a constructive stance on equities and credit while making internal rotations to seize opportunities. In particular, we have become **more positive on European equities**, while we turn from positive to **neutral on Japanese equities**, as we see no immediate catalysts for growth amid a stronger yen and potential volatility. To enhance overall allocation resilience against potential adverse scenarios, we maintain some hedges in equities and duration, while continuing to have a **positive stance on gold**.

Despite high uncertainty, the investment environment remains supportive for equities. Here we favour opportunities in Europe which could benefit from a possible ceasefire in Ukraine and better valuation compared to the US.

Overall risk sentiment

Risk off

Risk on



The overall risk stance remains slightly positive with some rotations within equities and an overall positive duration stance.

Overall risk sentiment is a qualitative view towards risk assets (credit, equity, commodities) expressed by the various investment platforms and shared at the global investment committee. Our stance may be adjusted to reflect any change in the market and economic backdrop.

ECB= European Central Bank, DM= Developed Markets, EM = Emerging Markets, CBs = central banks, IG = investment grade, HY = high yield, HC = Hard Currency, LC = Local Currency. For other definitions see the last page of this document.

Changes vs previous month

- Fixed income: we have made some tactical adjustments to our duration stance during the month.
- Cross-assets: we have become more positive on European equities while shifting towards a neutral stance on Japanese equities.

Three hot questions

1

What is your view on Trump's reciprocal tariffs?

On 13 February, Trump announced the Fair and Reciprocal Trade Plan, aimed at addressing imbalances in US trade relationships and countering non-reciprocal trading arrangements. However, the execution of these measures is by no means a done deal, partly because up-to-date, accurate, and consistent bilateral tariff data is difficult to obtain. Considering the repercussions of higher tariffs, we have recently moderately revised down US growth forecasts and upgraded inflation projections. While this doesn't change the soft-landing path, it does return the US economy to trend faster, making it less 'exceptional' relative to others.

Investment consequences

- Maintain a diversified global equity stance
- Positive on gold

2

How do you view the latest developments in US inflation?

Recent CPI data shows that inflation remains sticky, with headline inflation rising to 3.0% YoY and core inflation at 3.3% YoY. This first inflation report of the year may reflect some seasonal effects, along with annual price increases that typically roll out at the start of the year. Despite this seasonal noise, we anticipate headline CPI to remain around 2.6% in H1 and rise to 2.9% in H2, with medium-term upside risks due to strong consumer demand and stalled disinflation in shelter costs. Overall, we believe that the Fed may adopt a 'no hurry' approach to rate cuts, pausing this quarter while monitoring the economic impacts of new US administration policies.

Investment consequences

- Tactical duration management, favouring the intermediate part of the US curve

3

What is your take on India's 2025-26 budget?

India's updated budget points to fiscal consolidation. The fiscal deficit for FY26 projects the budget deficit to shrink to 4.4% of GDP from 4.9% currently. The income tax structure has been revised to enhance disposable income for the middle class, while food subsidies are set to increase. Enhanced rural schemes are anticipated to improve economic conditions in rural areas. Following the announcement, the RBI cut its benchmark interest rate by 25bp to 6.25% to support economic growth.

Investment consequences

- Maintain a strategic positive stance on Indian equities

The US Fed faces an uncertain outlook, with a high expected fiscal deficit and possible labour supply shocks, which will weigh on the inflation and growth outlook.

MONICA DEFEND
HEAD OF AMUNDI
INVESTMENT
INSTITUTE



* 2% is the result of tentative assumptions on US policy shift, unknown at the time of writing.

MULTI-ASSET

AUTHORS

Navigating inflation uncertainty

We expect an overall benign economic outlook, although data from Q4 has revealed diverging trends amongst economies. In the US, growth has been solid, driven by strong personal consumption, while in Europe, growth is exhibiting a weaker momentum. Due to uncertainties surrounding trade wars, global growth faces downside risks, and central banks have begun to act asynchronously. The Fed is temporarily on pause, the ECB is determined to follow a clear trajectory toward neutrality, and the BoJ is expected to hike rates in 2025. Overall, while macro, credit, and liquidity conditions remain reasonably supportive, we remain mindful of inflation risks and potential earnings revisions in the second half of the year and therefore favour a mildly pro-risk allocation with hedges and gold.

We maintain a constructive outlook on equities, as the backdrop remains supportive of risky assets, but with some adjustments. In equities, **we have further upgraded our positive stance in the Eurozone**, supported by a dovish ECB and relatively attractive valuations, while **downgrading Japanese equities to neutral** due to expectations of a stronger yen. The growth premium still favours emerging markets, particularly China, where pro-growth and pro-stimulus policies are expected to mitigate the impact of tariffs.

In fixed income, we remain positive on the US 2-year Treasury and maintain our view of a steepening yield curve for 5-30 year maturities. We also remain positive on EU rates but **we have become less positive in UK rates**, as we now see the undervaluation as less stretched. We remain cautious on JGBs, while holding our positive stance on Italian BTPs versus German Bunds. We still see **European IG credit as the brightest spot in the credit market**, while we remain neutral on both EM hard currency debt and local debt.

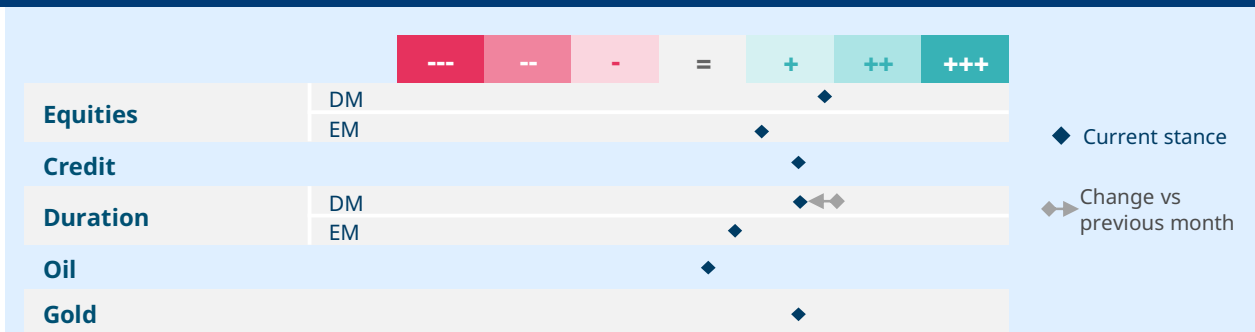
In order to hedge against geopolitical risks and inflation-driven volatility, we believe investors should consider equity hedges in the US, where valuations appear stretched, and duration hedges to manage inflation risk, while maintaining an allocation to gold.

We remain optimistic about opportunities in Europe, while actively hedging against inflation risks and geopolitical uncertainty.

FRANCESCO SANDRINI
HEAD OF MULTI-ASSET STRATEGIES

JOHN O'TOOLE
HEAD OF MULTI-ASSET INVESTMENT SOLUTIONS

Amundi Cross-Asset Convictions



Source: Amundi. The table represents a cross-asset assessment on a three- to six-month horizon based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/+/+/+). This assessment is subject to change and includes the effects of hedging components. FX = foreign exchange, BTP = Italian government bonds, BoJ = Bank of Japan, JGB = Japanese govt. bonds, BoE = Bank of England. For other definitions and currency abbreviations see the last page of this document.

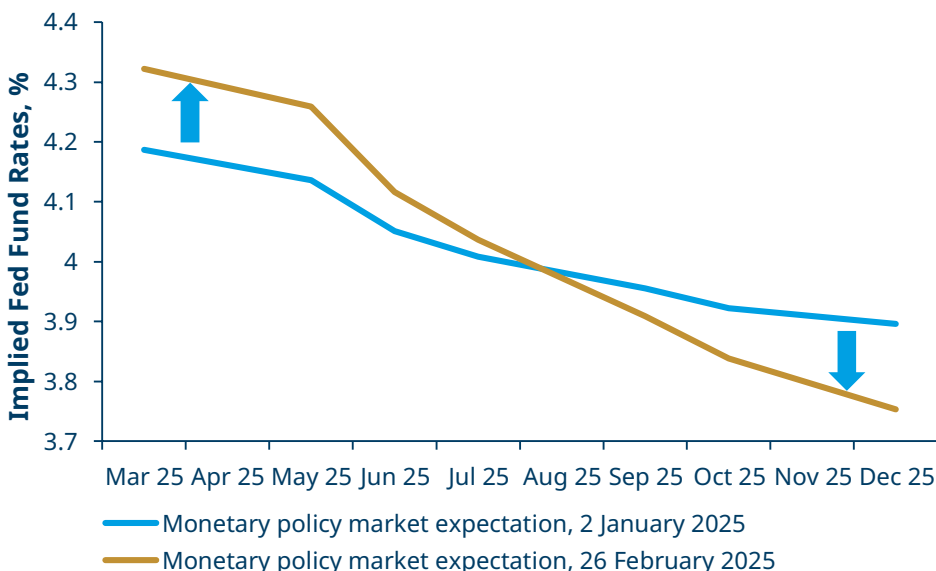
FIXED INCOME

Fast-paced changes in rate expectations

In 2025, the inflationary and growth impact of Trump’s policies is the primary concern when evaluating the Fed’s trajectory. After initial fears of higher inflation, markets have now started to price risks of growth disappointment. This has resulted in a strong and rapid reassessment of market expectations on the Fed’s trajectory. Such strong market movements call for maintaining an **active duration stance and looking for opportunities across the board**. Overall, we maintain our positive stance on duration and credit with a preference for high quality and shorter maturities. In emerging markets, we remain overall neutral with a preference for hard currency versus local currency debt.

Global & European fixed income	US fixed income	EM bonds
<ul style="list-style-type: none"> ▪ We are overall positive on duration. We have slightly increased our positive duration stance for the Eurozone and the UK, as we believe that there is room for rates to be lower. We remain cautious on JPY duration, as the BOJ has signaled more hikes to come. ▪ We are positive on credit. We remain favourable on Euro financials, in particular IG over HY. ▪ Regarding FX, we favour JPY and USD and have upgraded our stance on GBP to positive. We remain cautious on EUR and CNY. 	<ul style="list-style-type: none"> ▪ On duration, we remain tactical and continue to prefer intermediate maturities seeing that they offer a reasonable risk-reward. ▪ In credit, we prefer high-quality names and we are shifting towards shorter issuer maturity curves. We still favour Financials over Industrials, though less so than last month. ▪ We continue to prefer HY alternatives, such as leveraged loans, as spreads are at multiyear lows and yield valuation is not that compelling. 	<ul style="list-style-type: none"> ▪ We maintain a neutral duration stance with a bias to add to duration on sell-offs. ▪ Regarding hard currency, our outlook continues to be constructive but selective. ▪ In local rates, we are highly selective, favouring countries that have greater monetary policy room and exploring some tactical opportunities, such as the Mexican Peso. ▪ We remain constructive on credit, especially the HY segment, as we do not anticipate substantial spread widening.

Strong market repricing of Fed rate path (for futures market)



Source: Amundi Investment Institute, Bloomberg, as of 26 February 2025. Data shows rate expectations for 2025 from futures.

AUTHORS

AMAURY D'ORSAY
HEAD OF
FIXED INCOME

YERLAN SYZDYKOV
GLOBAL HEAD OF
EMERGING MARKETS

MARCO PIRODINI
CIO OF US
INVESTMENT
MANAGEMENT

EQUITIES

Market rotation continues

The US's outperformance has been ongoing for a long time, with a faster rise since 2023 driven by enthusiasm around AI. However, the first months of 2025 have signalled a pause in this trend, with international markets, particularly Europe, outperforming the US, where areas of excessive valuations may see some reassessment. With high uncertainty surrounding tariffs, AI developments, and still high concentration risks, **the main market theme remains diversification**. Earnings revisions and better risk sentiment continue to support European equities, where valuations remain relatively attractive. EM markets in Asia also offer opportunities, with India more appealing after the recent sell-off.

European Equities	Global & US Equities	EM Equities
<ul style="list-style-type: none"> ▪ The broadening of the market remains highly beneficial for European equities. Markets will continue to watch for the potential impact of Trump's policies. ▪ For Europe, we focus on resilience and undisrupted business models with strong balance sheets. ▪ Sector-wise, we remain cautious on industrials and technology and have grown more cautious on telecom. We maintain a positive stance on consumer staples and healthcare, while seizing opportunities in luxury goods. 	<ul style="list-style-type: none"> ▪ We focus on equities with stable earnings momentum and a strong return on investment capital. As US equities remain expensive across the board, the shift away from mega caps continues to help mitigate against valuation fluctuations driven by reversals in risk sentiment. ▪ We remain focused on companies that will benefit from Trump's policies. ▪ We are cautious on tech and consumer sectors, favouring materials and financials, such as banks that can benefit from the higher yield curve. 	<ul style="list-style-type: none"> ▪ We remain neutral on emerging market equities due to geopolitical uncertainties and tariff risks. However, we note potential rebounds in Mexico and South Korea. ▪ We have upgraded our positive view in India following the recent sell-off and signs of bottoming out in revisions. We remain positive in Indonesia, while we are cautious on Taiwan amid uncertain growth. ▪ At sector level, we favour real estate and consumer staples, which offer earnings stability at a reasonable price.

US performance vs the rest of the world year-to-date



Source: Amundi Investment Institute, Bloomberg, as of 24 February 2025. MSCI Indexes in USD Total Return.

AUTHORS

BARRY GLAVIN

HEAD OF EQUITY PLATFORM

YERLAN SYZDYKOV

GLOBAL HEAD OF EMERGING MARKETS

MARCO PIRODINI

CIO OF US INVESTMENT MANAGEMENT

VIEWS

Amundi asset class views

In focus this month

- **Credit attractive in search for income:** corporate fundamentals are robust, with companies enhancing their credit profiles. Supportive technical conditions, including higher yields attracting income-seeking investors and limited net supply, bolster demand.

Equity and global factors

Regions	Change vs M-1	--	-	=	+	++	Global Factors	Change vs M-1	--	-	=	+	++
US					◆		Growth					◆	
Europe						◆	Value						◆
Japan	▼				◆		Small caps						◆
EM					◆		Quality					◆	
China					◆		Low Volatility					◆	
EM ex China					◆		Momentum					◆	
India	▲					◆	High Dividend					◆	
Overall						◆							

Fixed income & FX

Duration	Change vs M-1	--	-	=	+	++	Credit	Change vs M-1	--	-	=	+	++
US	▼				◆		US IG					◆	
EU						◆	US HY			◆			
UK						◆	EU IG						◆
Japan			◆				EU HY					◆	
Overall						◆	Overall						◆
EM Bonds	Change vs M-1	--	-	=	+	++	FX	Change vs M-1	--	-	=	+	++
China govt.					◆		USD					◆	
India govt.					◆		EUR			◆			
EM HC					◆		GBP	▲				◆	
EM LC					◆		JPY					◆	
EM corp.					◆		CNY			◆			

Source: Summary of views expressed at the most recent global investment committee held **19 February 2025**, with **US duration views updated as of 3 March 2025**. Views relative to a EUR-based investor. Views range from double minus to double positive, = refers to a neutral stance. This material represents an assessment of the market 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. FX table shows absolute FX views of the Global Investment Committee.

▼ Downgrade vs previous month
▲ Upgrade vs previous month

In an increasingly complex and changing world, investors have expressed a critical need to better understand their environment and the evolution of investment practices in order to define their asset allocation and help construct their portfolios. Situated at the heart of the global investment process, the Amundi Investment Institute's objective is to provide thought leadership, strengthen the advice, training and daily dialogue on these subjects across all assets for all its clients – distributors, institutions and corporates. The Amundi Investment Institute brings together Amundi's research, market strategy, investment insights and asset allocation advisory activities. Its aim is to project the views and investment recommendations of Amundi.

Visit us on:



Discover more of Amundi's insights at
www.amundi.com

The Artificial Intelligence revolution:
sector perspectives



Contributors

BERTINO Claudia, Head of Amundi Investment Insights & Publishing

FIOROT Laura, Head of Investment Insights & Client Division

CARULLA Pol, Investment Insights and Client Division Specialist

DHINGRA Ujjwal, Investment Insights and Client Division Specialist

NIALL Paula, Investment Insights and Client Division Specialist

PANELLI Francesca, Investment Insights and Client Division Specialist

Important Information

The issuer of this document is Amundi Hong Kong Limited. This document is not intended as an offer or solicitation with respect to the purchase or sale of securities, including shares or units of funds. All views expressed and/or reference to companies cannot be construed as a recommendation by Amundi. Opinions and estimates may be changed without notice. To the extent permitted by applicable law, rules, codes and guidelines, Amundi and its related entities accept no liability whatsoever whether direct or indirect that may arise from the use of information contained in this document. This document is for distribution solely to persons permitted to receive it and to persons in jurisdictions who may receive it without breaching applicable legal or regulatory requirements. This document and the mentioned website have not been reviewed by the Securities and Futures Commission in Hong Kong (the "SFC"). This document is prepared for information only and does not have any regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Any person considering an investment should seek independent advice on the suitability or otherwise of the particular investment. Investors should not only base on this document alone to make investment decisions. Investment involves risk. The past performance information of the market, manager and investments and any forecasts on the economy, stock market, bond market or the economic trends of the markets are not indicative of future performance. Investment returns not denominated in HKD or USD is exposed to exchange rate fluctuations. The value of an investment may go down or up. This document is not intended for citizens or residents of the United States of America or to any «U.S. Person», as this term is defined in SEC Regulation S under the U.S. Securities Act of 1933.

Discover more at www.amundi.com.hk