

**Investment
Institute**

It's all about confidence

Assessing risks
worth taking

Cross Asset Investment Strategy | MID-YEAR OUTLOOK

JULY 2024





**MONICA
DEFEND**

HEAD OF AMUNDI
INVESTMENT INSTITUTE

“In a world with decelerating but sticky inflation and multi-speed growth, Central Banks will need to carefully assess their stance and communication. Their actions may not be synchronised, but we expect any divergences to be limited.”

“The economic context supports earnings and risky assets, but most of the upside potential is already priced in and finding clear catalysts for further gains will be challenging.”



**VINCENT
MORTIER**

GROUP CHIEF
INVESTMENT OFFICER

“To navigate the uncertain transition into the next phase of the cycle, we favour high-quality equities, a positive duration stance and commodities to hedge against inflation risk.”



**MATTEO
GERMANO**

DEPUTY GROUP CHIEF
INVESTMENT OFFICER

KEY INSIGHTS

The seven main convictions for H2 2024

For the second half of the year, we have identified seven key convictions that will shape our investment strategy.

1

Multi-speed growth with sticky inflation and diverging dynamics

Global growth is expected to reach 3.1% in 2024. However, there are divergences: the US is slowing down without entering a recession, the Eurozone is on a recovery path, India's strong growth continues while China is on a controlled slowdown trajectory. Inflation has been stickier than expected, but it is expected to decelerate further towards Central Bank targets in 2025. This will allow Central Banks to initiate and continue the new cycle of cuts at different speeds.

2

Geopolitical risk is high and rising

Geopolitical risk is expected to increase in the coming years, with factors such as protectionism, sanctions, tariffs, export controls and trade wars intensifying. Some regions, notably Europe, may be less able to afford the costs. The outcome of the US election will be pivotal, as US foreign policy in particular is expected to differ significantly under a Biden or a Trump presidency, although confrontation with China is expected to rise in any case.

H1 2024: mid-year in review

Macro views vs our 2024 outlook expectations



CONFIRMED

- Persistent **geopolitical** tensions
- **Europe anaemic** growth
- **Emerging Markets (EM) resilient** and fragmented picture
- **India strong** growth
- **Moderating global inflation** pressures
- **Low inflation** in China

Financial markets views vs our 2024 expectations

- **Equities** Japan and India strong performance, China weakness
- **Bonds** appealing yields in a trading range
- **Commodity prices** sustained by geopolitical tensions
- **Recovery in balanced allocations**
- **Strong USD**, weak CHF, weak commodities FX



SURPRISE

- **United States no recession** thanks to strong consumption driven by benign household wealth. Stickier inflation
- **Fed and ECB pivot postponed**
- **China more resilient** compared to our expectations
- **Less dovish EM Central Banks**

- High volatility in bonds with **strong repricing of Central Bank expectations**
- **Very strong equity markets**, with concentration risk further increased, particularly in the US market
- **High Yield outperformance** with spreads well below long-term average
- **Weak JPY**

Source: Amundi Investment Institute as of 3 July 2024. DM: developed markets. EM: emerging markets. CB: central banks. Economy and markets expectations refer to our [2024 investment outlook](#).

3

Equity: time for a breather and broadening

Equities are still attractive unless we enter a recession, which is not our base case. However, there are concerns about excessive valuations in US mega caps. Opportunities abound in US quality, value and international equity. In Europe, consider small-cap stocks to capitalise on the economic recovery, attractive valuations and the ECB cutting rates.

4

Seize opportunities in bonds and prepare for structural steepening

After trading in a narrow range, yields are set for a new course with rate cuts approaching and curves expected to structurally steepen. With yields already at historically appealing levels, a window of opportunity is opening. We favour government bonds and investment grade credit which maintain the best risk/reward profile. EM bonds also offer an attractive risk-return profile and will benefit from the Fed cuts in the second semester.

5

Emerging Markets will benefit from Fed easing and domestic resilience

Resilient growth, supply chain rebalancing and Fed rate cuts mean Emerging Market equities offer interesting opportunities. They are also supported by attractive valuations compared to the US. We favour Latam and Asia, with India in focus thanks to its robust growth and transformative trajectory. Bonds also will be lifted by Fed cuts, with local currencies set to become attractive.

6

Enhance the asset allocation with commodities and real and alternative assets

It's time to strike a balance between opportunities from supportive earnings dynamics and appealing bond yields with risks from high uncertainty about growth and inflation. This means combining a positive equity stance with a long-duration bias and searching for additional sources of diversification, such as commodities, and real and alternative assets, including hedge funds. These assets will be key to enhancing portfolios' risk-return profile.

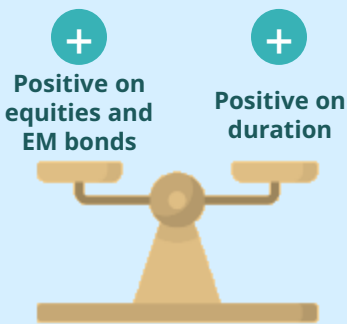
7

Look for companies that will help ramp up the energy transition

To achieve a low-carbon energy system, the world must triple renewable capacity by 2030. This means investing heavily in critical minerals and expanding electricity grids. Investors should focus on companies that can drive the energy transition in both Developed and Emerging Markets.

Building resilient portfolios

Core allocation



Balance the positive risk stance with duration

Diversification layers

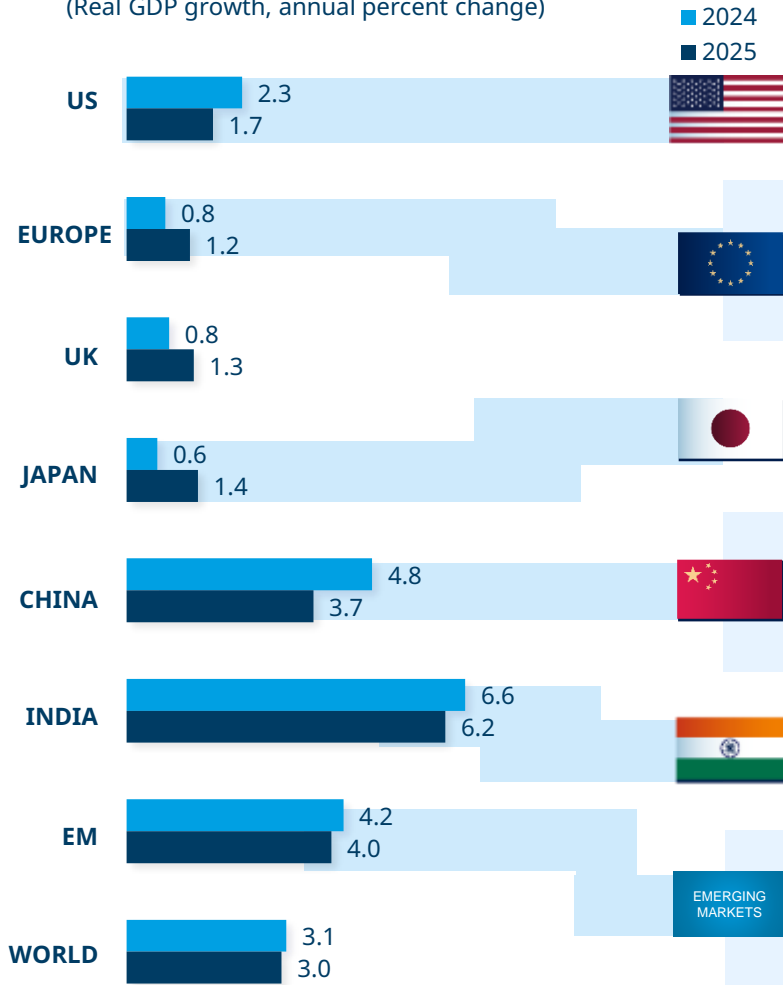
- Gold 
- Cyclical commodities 
- Inflation strategies* 

Favour equity, duration, and commodities in a late cycle characterised by persistent inflation and geopolitical risks.

*Inflation strategies include Inflation linked bonds and inflation breakeven.

Multi-speed growth with inflation slowing down

Amundi Investment Institute Projections at 3 July 2024
(Real GDP growth, annual percent change)



US landing, eventually

Converging to potential from high growth as domestic demand rebalances.

Europe multi-speed recovery

Steadily recovering as the effects of past shocks recede with Spain in the lead and Germany on the weak side.

Japan: above-trend growth to last

Consumption is slowly gaining traction, with purchasing power slowly rebuilding.

China growth: a dual-track recovery

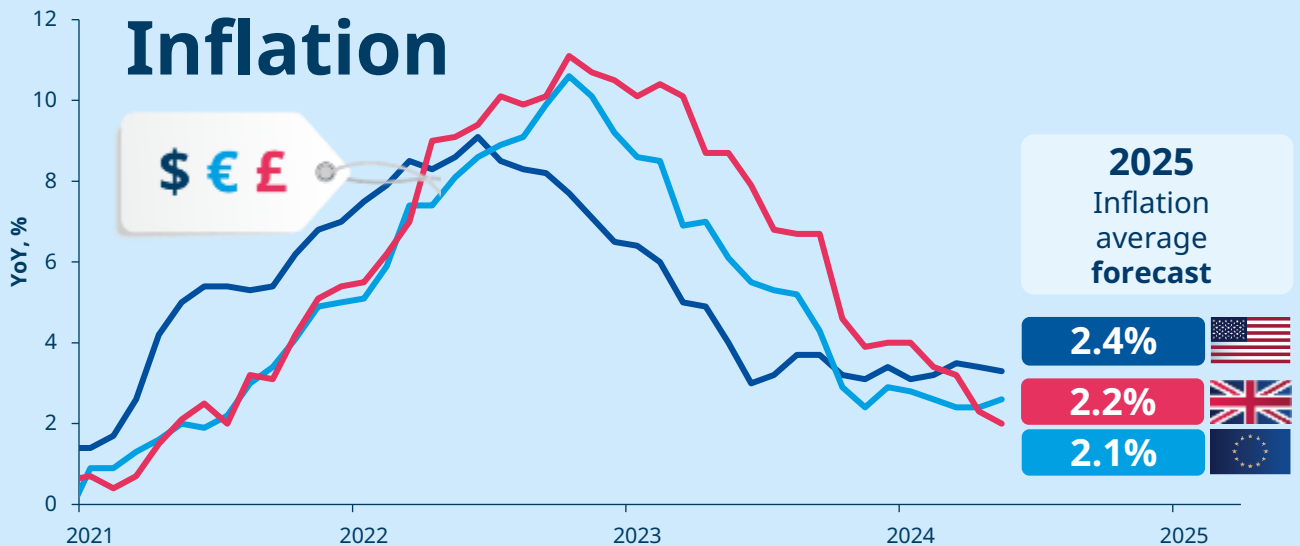
Controlled slowdown with weak domestic demand, main positive contribution from exports.

India robust economic momentum

The investment cycle continues to support strong growth.

EM in a fragmented world

EM resilience will continue, with Central Banks on the dovish side.



Source: Amundi Investment Institute, as of 3 July 2024. DM = Developed Markets; EM = Emerging Markets.

Amundi asset class views for H2 2024

	Asset class	Stance as of 19 June 24	Direction of views for H2 2024	
EQUITY PLATFORM	United States	=	=	Stable
	<i>US equal weighted</i>	=/+	=/+	Stable
	Europe	=/+	+	Improving
	Japan	=	=/+	Improving
	China	=	=	Stable
	Emerging Markets ex-China	+	+	Stable
	India	+	+	Stable
FIXED INCOME PLATFORM	US govies	=/+	+	Improving
	US IG corporate	=	=	Stable
	US HY corporate	-	-	Stable
	EU govies (core)	=	+	Improving
	EU govies (peripherals)	=	=	Stable
	EU IG corporate	+	+	Stable
	EU HY corporate	-/=	-/=	Stable
	China govies	=	=	Stable
	EM bonds HC	=/+	+	Improving
	EM bonds LC	=	+	Improving
	OTHER	Gold	=	=/+
Oil		=/+	=/+	Stable
Currencies (USD vs. G10)		=/+	-/=	Deteriorating

Source: Amundi Investment Institute, as of 19 June 2024. DM: developed markets. EM: emerging markets. Summary of views expressed at the most recent global investment committee held on 23 May 2024.

-- Negative - Neutral = + Positive ++

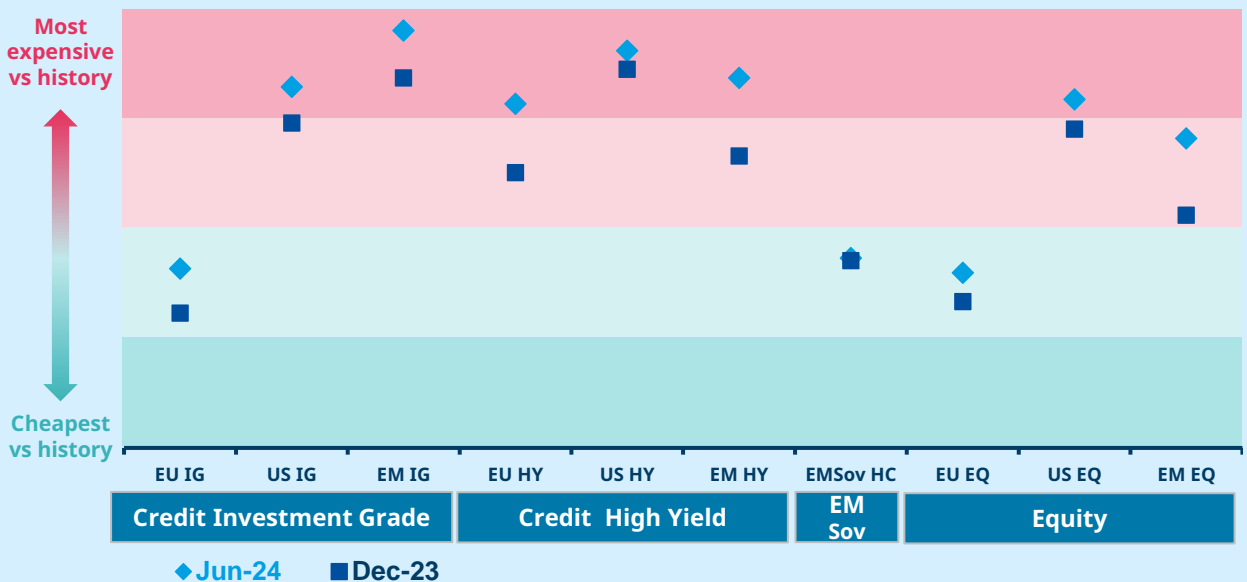
The investment sequence

End 2024

	<p>Dynamic asset allocation in a late cycle with inflation risk</p>	<p>After becoming slightly positive in equities in Q1, we expect to maintain this stance and look at commodities in the search for hedges against inflation risk.</p>
	<p>Bonds' appeal with Central Banks at a turning point</p>	<p>We hold a positive view on US duration and expect to add further to European duration. In credit we continue to favour IG vs HY.</p>
	<p>Broaden the opportunity set in equities</p>	<p>Equities are appealing in a no-recession scenario. But there are some excesses in the US in particular. Look at Europe including small caps, the US beyond of the mega caps and international equities.</p>
	<p>EM winners in a fragmented world</p>	<p>Look at long-term winners (India), nearshoring stories across EM, winners in the energy transition (commodity-rich countries) and technological advances (China).</p>
	<p>Energy transition and structural themes</p>	<p>Explore structural themes in a world in transformation: sustainable infrastructure, water, green bonds and artificial intelligence.</p>
	<p>Diversify with real and alternative assets</p>	<p>In a market environment that may offer fewer directional opportunities, real and alternative assets are key to enhancing the overall portfolio risk-return profile.</p>

Seek opportunities worth taking in a world of tight valuations

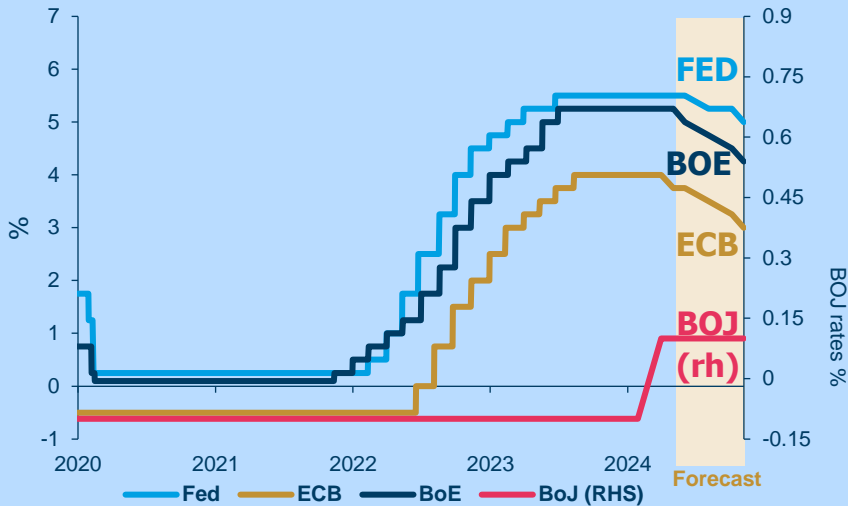
Valuation levels, historic percentiles since 1998



Source: Amundi Investment Institute, Bloomberg, Datastream, latest monthly data as of 28 June 2024. 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.

Bonds appeal with Central Banks turning to rate cuts

Central banks' rates and forecasts



“With rate cuts approaching and yields already at historically appealing levels it’s time to favour a long-duration stance.”

Source: Amundi Investment Institute forecasts, as of end of June. Fed rate = Upper Fed Funds target range. ECB rate = Deposit rate. BOJ on right scale.

What if scenarios: fixed income’s expected performance under various scenarios

Asset Class	BASE SCENARIO	ALTERNATIVE SCENARIOS			
	Resilient & multi-speed growth with sticky inflation & geopolitical tensions	Geopolitical escalation	Strong growth in DM -> inflation pressure	Deep recession	Credit event amid tightening
Money Markets	Green	Green	Dark Green	Yellow	Yellow
Core Govies	Green	Dark Green	Red	Dark Green	Dark Green
Credit IG	Green	Yellow	Yellow	Yellow	Red
High Yield	Green	Yellow	Green	Red	Red
EM ¹ bonds	Green	Red	Green	Red	Red

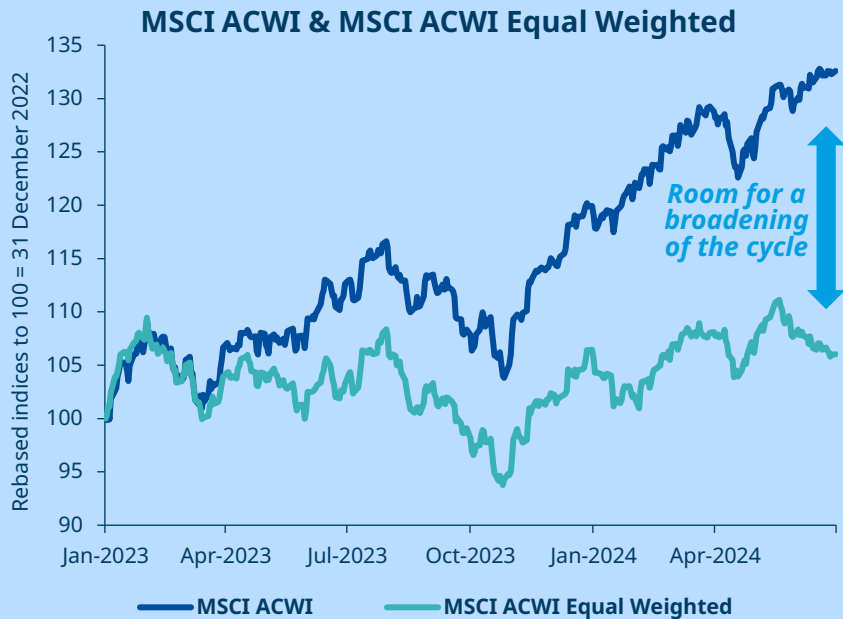
Colours indicate expected performance from negative (red) to neutral (grey) to positive (green) on an absolute and relative vs own history under different scenarios. For illustrative purposes.

Broadening the opportunity set in equities

Globally we expect a breather and the broadening of the rally to continue

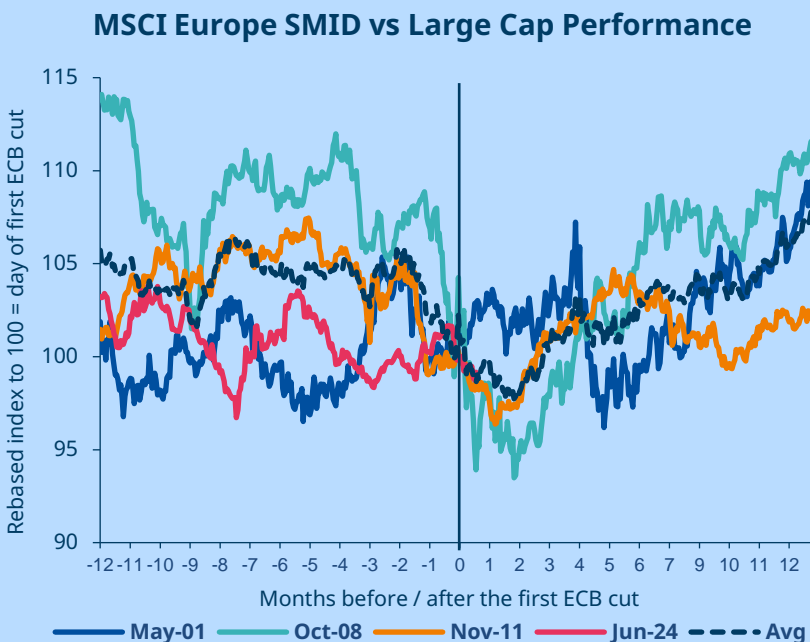
There is room for the equal-weighted index to close the gap with the market capitalisation index.

In fact, the very high concentration of profit growth around certain sectors and names should gradually give way to a more balanced earnings profile.



Source: Amundi Investment Institute, Refinitiv. Data is as of 30 June 2024.

In Europe, small- and mid-caps could see a comeback in H2



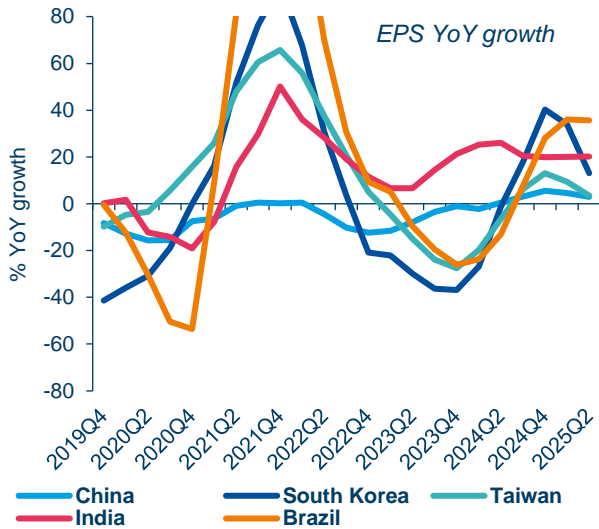
Source: Amundi Investment Institute, Refinitiv. Data is as of 28 June 2024. The y-axis represents the ratio between MSCI Europe small- and mid-caps, and large-caps.

European small-cap stocks could outperform in the second half of the year supported by stronger earnings and a 20-year low valuation gap vs large caps.

The ECB could be an additional support. Small- and mid-caps historically outperform large-caps after the first ECB rate cut post a hiking cycle.

EM directions for the second half of 2024

EM equities are favoured amid recovering earnings growth in the second half of the year

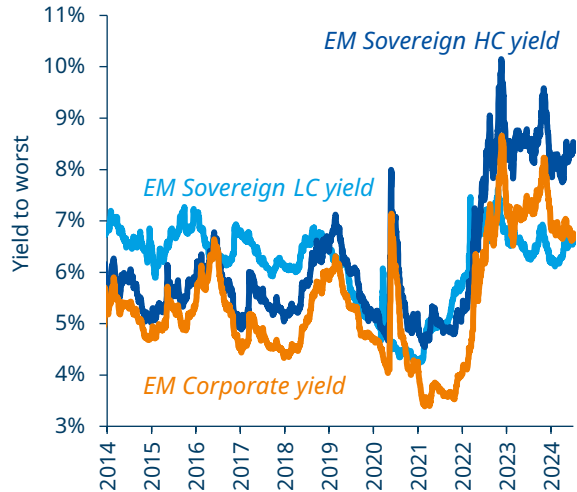


Source: Amundi Investment Institute on Bloomberg data. Data as of 3 July 2024.

We are positive on EM equities driven by strong demand and economic growth. Country-wise we like:




-  **India** benefits from **supply chain relocation** and internal policies and its capex cycle
-  **Indonesia** benefits from **structural tailwinds** such as exposure to critical minerals and favourable demographics
-  **South Korea** favoured by **improving corporate governance**
-  **Brazil** benefits from being **first to cut rates**, attractive valuations and growth supported by agriculture
-  Regarding **China**, recent supportive policies are encouraging, but we remain neutral overall

EM bonds offer attractive yields. Overall, we are positive across the board



Source: Amundi Investment Institute on Bloomberg data. Data as of 3 July 2024. Sovereign LC = J.P. Morgan GBI-EM Global Diversified Composite LOC, Sovereign HC = J.P. Morgan EMBI Global Diversified Composite, Corporate = J.P. Morgan Corporate EMBI Broad Diversified Composite Index.

The higher-for-longer rates narrative from the Fed is putting some pressure on EM debt, but we remain positive with a selective mindset.

-  **EM hard currency debt:** we are positive amid a supportive macro backdrop. Valuations and carry are attractive in HY vs IG and thus we maintain our preference for the former
-  **EM local currency debt:** we are selective and exploring high-yielding countries such as those in Latin America
-  **EM corporate:** we are positive, favouring HY over IG given the former's attractive valuations

What can we expect in EM currencies vs the US dollar (USD)?

While a Fed move to cut rates will eventually support EM currencies, for the time being we remain more neutral, as the higher-for-longer environment is supportive for the USD. We favour ultra-high yielding currencies such as **Brazilian Real, Peruvian Sol, Indonesian Rupee and Indian Rupee.**

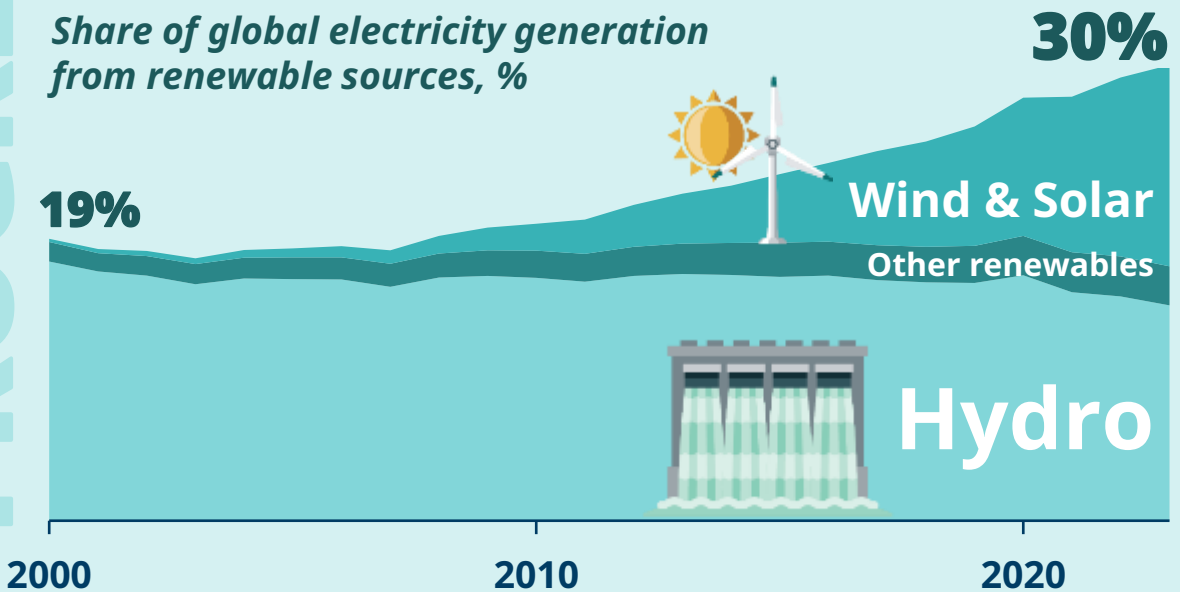


Energy transition needs to accelerate further

PROGRESS

The transition to clean energy sources has made significant progress, with renewables accounting for 30% of global electricity generation in 2023. This growth has been driven by the increasing adoption of solar and wind energy.

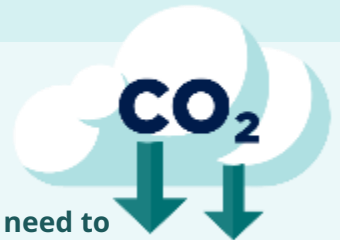
Share of global electricity generation from renewable sources, %



Future goals and challenges

x3

To achieve a low-carbon energy system, there is a need to **triple the installed capacity of renewables**, according to the International Energy Agency (IEA). This would require significant investment in critical minerals and the expansion of electricity grids.



Implications for investors

Investors should focus on companies that can enable the energy transition in both Developed and Emerging Markets. These companies will play a crucial role in driving the adoption of clean energy sources and achieving decarbonisation goals. Additionally, investments in critical minerals and electricity grid infrastructure may present opportunities for investors particularly in Emerging Markets.

Source: Amundi Investment Institute, EMBER Global Electricity Review 2024.

Diversify with real and alternative assets

In private markets, infrastructure are favoured by the energy transition, the outlook for private equity is improving while private debt continues to benefit from high interest rates.

In hedge funds, we favour Long/Short neutral, Emerging Market fixed income, and merger arbitrage strategies in a context of economic fragmentation and collapsing micro correlations.

Private Markets views for H2 2024

	Infrastructure	Private equity	Private debt	Real estate
H2 2024 outlook	++	-/=	+	-/=
Inflation protection	++	=	++	+
Diversification benefit	+++	+	+	++

Source: Amundi Investment Institute, as of 10 June 2024.

Hedge fund views for H2 2024

		--	-	=	+	++
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 10 June 2024.

FORECASTS

Macroeconomic forecasts

Macroeconomic forecasts as of 9 July 2024						
Annual averages, %	Real GDP growth, YoY, %			Inflation (CPI), YoY, %		
	2023	2024	2025	2023	2024	2025
Developed countries	1.6	1.5	1.5	4.7	2.8	2.3
United States	2.5	2.3	1.7	4.1	3.3	2.5
Eurozone	0.6	0.8	1.2	5.4	2.4	2.2
Germany	0.0	0.2	1.0	6.1	2.4	2.3
France	0.9	0.9	1.3	5.7	2.5	2.1
Italy	1.0	0.8	0.9	5.9	1.4	2.2
Spain	2.5	2.1	1.6	3.4	3.2	2.2
United Kingdom	0.1	0.8	1.3	7.5	2.4	2.1
Japan	1.9	0.6	1.4	3.3	2.4	2.0
Emerging countries	4.3	4.2	4.0	5.8	5.4	4.0
China	5.2	4.8	3.7	0.2	0.4	0.5
India	7.8	6.6	6.1	5.7	4.8	5.8
Indonesia	5.0	5.1	4.9	3.7	2.8	3.2
Brazil	2.9	2.0	2.3	4.6	4.3	3.5
Mexico	3.2	1.8	1.5	5.6	4.5	3.8
Russia	3.6	3.0	1.5	6.0	7.3	5.7
South Africa	0.7	0.8	1.4	5.9	5.2	4.6
Turkey	4.5	4.5	2.5	53.4	59.0	28.9
World	3.2	3.1	3.0	5.3	4.4	3.4

Central Banks' official rates forecasts, %					
	9 July 2024	Amundi Q4 24	Consensus Q4 24	Amundi Q2 25	Consensus Q2 25
United States*	5.50	5.00	5.35	4.25	4.75
Eurozone**	3.75	3.00	3.70	2.50	3.15
United Kingdom	5.25	4.25	5.14	3.75	4.65
Japan	0.10	0.10	0.25	0.50	0.50
China***	3.45	3.15	3.25	2.85	3.25
India****	6.50	6.25	6.20	6.00	5.95
Brazil	10.50	10.50	10.25	10.00	9.50
Russia	16.00	16.00	16.15	14.00	13.65

Source: Amundi Investment Institute. Forecasts are as of 9 July 2024. CPI: consumer price index. *: Upper Fed Funds target range. **: Deposit rate. ***: One-year loan prime rate. ****: Repurchase rate. Q4 2024 indicates end of December 2024; Q2 2025 indicates end of June 2025.

FORECASTS

Financial market forecasts

Bond yields

Two-year bond yield forecasts, %

	9 July 2024	Amundi Q4 24	Forward Q4 24	Amundi Q2 25	Forward Q2 25
United States	4.63	3.90-4.10	4.30	3.60-3.80	4.11
Germany	2.92	2.30-2.50	2.60	2.10-2.30	2.38
United Kingdom	4.14	3.70-3.90	3.80	3.60-3.80	3.87
Japan	0.36	0.30-0.50	0.50	0.40-0.60	0.52

Ten-year bond yield forecasts, %

	9 July 2024	Amundi Q4 24	Forward Q4 24	Amundi Q2 25	Forward Q2 25
United States	4.29	3.90-4.10	4.30	3.90-4.10	4.28
Germany	2.57	2.20-2.40	2.50	2.20-2.40	2.53
United Kingdom	4.15	3.80-4.00	4.10	3.70-3.90	4.19
Japan	1.09	1.10-1.30	1.20	1.20-1.40	1.32

Equities forecast at Q2 2025

MSCI index levels at	US	Europe	EMU	UK	Japan	Pacific ex-Japan	World	World AC
2 July 2024	5238	2052	290	2322	1770	1311	3538	807
Lower bound	4990	2120	300	2360	1690	1260	3390	770
Upper bound	5610	2340	330	2640	1950	1480	3810	890

Exchange rates

	5 July 2024	Amundi Q4 24	Consensus Q4 24	Amundi Q2 25	Consensus Q2 25
EUR/USD	1.08	1.12	1.08	1.13	1.10
EUR/JPY	174	167	165	159	162
EUR/GBP	0.85	0.86	0.85	0.86	0.85
EUR/CHF	0.97	1.03	0.98	1.04	1.00
EUR/NOK	11.43	11.62	11.24	11.35	11.00
EUR/SEK	11.35	11.60	11.27	11.52	11.00
USD/JPY	161	150	152	140	145
AUD/USD	0.67	0.69	0.68	0.71	0.70
NZD/USD	0.61	0.61	0.62	0.63	0.64
USD/CNY	7.27	7.30	7.24	7.20	7.18

Source: Amundi Investment Institute. Forecasts are as of 9 July 2024. Q4 2024 indicates end of December 2024; Q2 2025 indicates end of June 2025.

AUTHORS

CHIEF EDITORS



MONICA DEFEND
HEAD OF AMUNDI
INVESTMENT
INSTITUTE



VINCENT MORTIER
GROUP CIO



MATTEO GERMANO
DEPUTY
GROUP CIO

EDITORS



CLAUDIA BERTINO
HEAD OF AMUNDI
INVESTMENT
INSIGHTS AND
PUBLISHING, AII*



LAURA FIOROT
HEAD OF
INVESTMENT
INSIGHTS & CLIENT
DIVISION, AII*

AUTHORS

VALENTINE AINOZ

HEAD OF GLOBAL FIXED INCOME STRATEGY, AII*

ALESSIA BERARDI

HEAD OF EMERGING MACRO STRATEGY, AII*

JEAN-BAPTISTE BERTHON

PORTFOLIO STRATEGY INSIGHTS, AII*

SERGIO BERTONCINI

SENIOR FIXED INCOME STRATEGIST, AII*

DIDIER BOROWSKI

HEAD OF MACRO POLICY RESEARCH, AII*

DOMINIQUE CARREL-BILLIARD

HEAD OF REAL & ALTERNATIVE ASSETS

FEDERICO CESARINI

HEAD OF DM FX STRATEGY, AII*

LAUREN CROSNIER

GLOBAL HEAD OF FX

DEBORA DELBÒ

SENIOR EM MACRO STRATEGIST, AII*

AMAURY D'ORSAY

HEAD OF FIXED INCOME

BARRY GLAVIN

HEAD OF EQUITIES

CLAIRE HUANG

SENIOR EM MACRO STRATEGIST, AII*

ERIC MIJOT

HEAD OF GLOBAL EQUITY STRATEGY, AII*

PAULA NIALL

INVESTMENT INSIGHTS AND CLIENT DIVISIONS SPECIALIST, AII*

JOHN O'TOOLE

HEAD OF MULTI-ASSET INVESTMENT SOLUTIONS

MARCO PIRONDINI

CIO OF US INVESTMENT MANAGEMENT

LORENZO PORTELLI

HEAD OF CROSS ASSET STRATEGY, AII*

MAHMOOD PRADHAN

HEAD OF GLOBAL MACROECONOMICS, AII*

ANNA ROSENBERG

HEAD OF GEOPOLITICS, AII*

FRANCESCO SANDRINI

HEAD OF MULTI-ASSET STRATEGIES

YERLAN SYZDYKOV

GLOBAL HEAD OF EMERGING MARKETS

ANNALISA USARDI, CFA

SENIOR ECONOMIST, HEAD OF ADVANCED ECONOMY
MODELLING, AII*

DEPUTY EDITORS

FRANCESCA PANELLI

INVESTMENT INSIGHTS & CLIENT DIVISION SPECIALIST

GIANLUCA GALLARATE

INVESTMENT INSIGHTS & PUBLISHING

DESIGN & DATA VISUALIZATION

CHIARA BENETTI

DIGITAL ART DIRECTOR AND STRATEGY DESIGNER, AII*

VINCENT FLASSEUR

GRAPHICS AND DATA VISUALIZATION MANAGER, AII*

DIGITAL PUBLISHING

SWAHA PATTANAİK

HEAD OF PUBLISHING AND DIGITAL STRATEGY, AII*



Trust must be earned

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.