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## Overall risk sentiment

Risk off Risk on



We keep our previous cautious stance, waiting for further visibility from the earnings season.

## Changes vs. previous month

- More positive on EM equities vs. DM
- More cautious on US credit and on US duration
- Limited upside for EM LC debt

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

## Still some juice left, but not much

Equity markets have remained buoyant in recent weeks: the S&P 500 is trending towards an all-time high, the European equity market (STOXX 600) is close to last year's peak and the performances of emerging markets have also been very strong. Renewed hopes of a trade deal between China and the US drove the last leg of the upside, following the previous boost from the recent central banks' dovish turns. Credit markets have also been significant beneficiaries of the positive sentiment, with spreads tightening massively in Europe and stable at tight levels in the US in recent weeks.

Market complacency seems to be the name of the game in an environment of strong financial markets amid weak real economic performance. To explain this, we should note that the global risk asset rally has essentially been driven by a single factor: inflation. The downward adjustment of inflation expectations has driven yield curves lower across the board and steered developed market and emerging market central bank policies towards dovish territory. Central banks have successfully recreated the 'Goldilocks' environment, which boosted risk asset returns in 2012-2017.

The question is, where will we go from here? Is the low interest rate force strong enough at this point of the cycle and at current market valuations to push the rally further? While there is little probability of seeing a reversal on this front – the low interest rate environment looks to be here to stay – **we believe market sensitivity to the growth factor will increase in a late cycle phase**, with a clear focus on recession risk and earnings sustainability. Consensus expectations are for double-digit earnings growth in 2020 for the S&P 500, which is an optimistic view, in our opinion. To us, the risk of disappointment looks to be significant. This means that investors should aim to enhance diversification, stay defensive and seek opportunities that could emerge in case of positive market evolution.

In the short term, three factors point to an extension of the rally: easier financial conditions, the favourable relative valuations of equities vs. bonds (the differential between the earnings yield and the 10Y government bond yield is attractive compared with historical averages since 1987), and the fact there is still some potential for price/earnings ratio expansion. Further relaxation of trade concerns, based on signs of a US-China deal possibly approaching and macro figures catching up, with the increased fiscal spending possibly passing through real activity, should support movement in this positive direction.

Therefore, **we believe that while there is still some juice left, it's not that significant, especially as markets are already pricing in some perfection.**

Looking beyond the short term, the picture is rather blurry. The probability of negative returns will increase, in particular stemming from the combination of two elements. The first is that market valuations are not particularly compelling. According to our forecasts, the Shiller cyclically adjusted price-to-earnings (CAPE)<sup>1</sup> ratio, a measure of market valuation, should drift to about 28 at the end of 2019, from the current level of 31. This projection, even if lower than the level reached at the beginning of 2018 (33), is close to 1929 figures and historically expensive. The second element is that looking at history, a material downward earnings revision (i.e., one driven by an economic recession), combined with expensive valuations, is negative for equity markets. Hence, the earnings outlook is becoming the key factor in whether or not the market continues its positive uptrend.

*In balancing the short-term upside potential with these downside medium-term risks, our overall approach has been (and should continue to be) to trim the total risk in portfolios, take profits on strength and reallocate on setbacks to areas where we still see value to exploit in relative terms. In this regard, emerging markets, European equity and some segments of the credit market are the natural candidates.*

<sup>1</sup> Cyclically adjusted price-to-earnings (CAPE) ratio, otherwise known as the Shiller PE after Robert Shiller, who popularised it, measures the price of a company's stock relative to average earnings over the past 10 years.

## MACRO &amp; STRATEGY



**Philippe ITHURBIDE**  
Global Head of Research



**Monica DEFEND**  
Head of Strategy,  
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**Didier BOROWSKI**  
Head of  
Macroeconomic  
Research

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**After weak global economic data in Q1, some signs of stabilisation seem to be emerging.** ”

## Multi-speed global growth

**Relaxed financial conditions: a supportive factor for domestic demand.** Since the beginning of the year, monetary and financial conditions have eased, thanks to falling interest rates and credit spreads, along with rising stock markets. This is what led us to revise upwards our GDP growth forecast in the US from 1.8% to 2.0% in 2020. This supportive factor is expected to last as the major CBs have promised implicitly to maintain very accommodative monetary policies.

**Stabilising global trade.** An agreement between the US and China is expected. Donald Trump, however, has threatened to tax imports of certain products from Europe (aeronautics in particular), which shows that the protectionist risk has not disappeared yet. The US President has, however, refrained from threatening the European automotive sector, which may mean that he does not have the domestic support needed to move in this direction. We note that uncertainty indices fell in most advanced economies in March, including in the US, with respect to trade-related uncertainty, which bodes well for trade.

**Surveys (PMI): first signs of stabilisation (or even recovery) in March.** More than half of the purchasing manager indices have improved, especially in new orders. The movement is still tentative but tends to confirm that the cycle trough has passed. The improvement is clear in the US and China, but not in Europe where the manufacturing sector is particularly weak.

However, there are signs that Eurozone economies will recover: PMI services, household confidence, industrial production, retail sales and car registrations are on the rise. Given the degree of integration of global value chains, it is expected that the global recovery will gradually spread to Europe. Domestic demand is supported by rising incomes, job creation and an expansionary fiscal policy, which is estimated to support growth in 2019 by 0.2%. Italy remains the weakest link in the Eurozone, where it is even possible that GDP contracted in Q1 for the third consecutive time. Public debt will not be sustainable in the long term without a rebound in growth. Short-term risks are nevertheless very limited given the accommodative fiscal policy and the hitherto rather conciliatory attitude of the European Commission ahead of the European elections.

**The risks on growth remain tilted to the downside.** On the one hand, the threat of a 'no deal Brexit' is receding with the postponement to the end of October of the deadline, while China and the US are managing their trade disputes through negotiation. But we cannot definitively exclude a tougher confrontation between the US and China or between the US and Europe on trade, particularly in a context where the EU is weakened both economically and politically. Moreover, Trump's repeated threats to the Fed's independence are starting to seriously worry CBs around the world.

### The strategist's view – US govies overreacted to a dovish Fed

The dot plot chart published at the last Federal Open Market Committee meeting has erased both of the 2019 hikes indicated in December: this move was more dovish than expected, as it was the downward revision to long-term forward guidance below the neutral rate. The end of quantitative tightening (QT) was widely pre-communicated, but the timing of the announced stop was earlier than expected. The Fed's balance sheet will stabilise at about 17% of GDP, significantly higher than pre-great financial crisis (GFC) levels. Starting in October, maturing mortgage-backed securities will gradually be reinvested in US Treasuries, but with lower maturities. Finally, the Fed also marked down near-term growth projections to the outlook, confirming at the same time a reassuring picture for the next two years. Taken by surprise, bond markets likely overreacted, initially pricing in a rate cut in September, and then slightly repricing to a less dovish expectation (a rate cut between October and December 2019) on the back of softer macro numbers from China, the US and the Eurozone.

The 2-10 yr Treasury yield differential signals that downturn expectations are growing, but we are convinced that the curve's predictive power on the cycle has probably been reduced by special factors at work in the post-GFC regime, such as QE's persisting effects.

In this environment, we keep our preference for US Treasuries among developed government bonds, as we have lowered our expected US 10 yield targets in six months (2.5%-2.7%) and one year (2.4%-2.6%), with this reduction being more material than for other markets. However, we believe that better entry points to increase duration in US Treasuries will materialise in the coming weeks, as Treasuries probably overreacted to the Fed surprise and are already somewhat correcting.

Fed dot plot chart is a representation of how the Fed's members see the evolution of interest rates in the next few years. The neutral (or natural) rate of interest is the rate at which real GDP is growing at its trend rate, and inflation is stable.

QE: Quantitative easing (QE) is a type of monetary policy used by central banks to stimulate the economy by buying financial assets from commercial banks and other financial institutions. QT: Quantitative tightening is the opposite of quantitative easing.

DM= Developed Markets, EM = Emerging Markets, CB= Central Bank, ECB= European Central Bank, Fed= Federal Reserve.

MULTI-ASSET



**Matteo GERMANO**  
Head of Multi-Asset

## Remain defensive, but watch for positive surprises

We maintain a **cautious approach** as the strong market rally now appears to lack supporting factors, particularly in DM equities. Improving dynamics on the earnings side, or positive surprises in lacklustre European growth could justify a more positive stance on equities, but at the moment visibility is limited and the **geopolitical situation does not encourage an aggressive stance**. In Europe, the ongoing Brexit saga, the European Parliament elections and surging populism are putting the entire EU institutional architecture under scrutiny. The changing nature of various trade disputes (with the relationships between US-China and US-Europe fluctuating depending on the newsflows) also add further uncertainty. However, we recognise that some of these risks could become opportunities in the event of positive surprises on the geopolitical side (for example Brexit, or US-China trade negotiations), that could trigger further upside in the market.

### High conviction ideas

**Risk assets' performance** has been significant so far in 2019, and as a result undervaluation gaps have closed almost entirely after the strong rebound from December 2018's falls.

As a result, we maintain our **short-term cautious stance on DM equities** as euphoria could wane, but we are also looking for opportunities to benefit in case of potential positive surprises. In **Europe**, for example, **call options on UK stocks** could prove attractive in the event of a potential resolution of Brexit and come at a low cost given the current depressed levels of volatility.

We also favour **EM equities**, (particularly China, which is supported by recent policy stimulus, suggesting a more gradual slowdown and supportive risk sentiment). Korea is also an area of interest to us. The market is seeing some

improvement in fundamental (exports, consumer sentiment) and **Korean stocks** should also benefit from positive developments on the trade front and from a short-term mild recovery in the global economic cycle.

**In credit markets our preference is for the European investment grade space**, where fundamentals are positive (no excess leverage, and no specific refunding issues), valuations are still decent and the expected TLTRO could support the asset class in the medium term.

**On rates**, we believe valuations are extremely expensive in Europe. Hence we maintain our preference for US Treasury versus German Bunds, and we plan to adopt a more aggressive stance on duration should US yields back up to more appealing levels. We are negative on UK long-end real yields.

**On currencies**, the outlook for the USD remains bearish in the medium term given its overvaluation. However, for the Euro to rebound materially, an improving global trade outlook is necessary. Short term, we are positive on the Norwegian Krone (NOK) on the back of tightening monetary policy. We also see opportunities in EM currencies, preferring these with positive carry (Indonesia, Russia, Brazil) against higher risk currencies (South African Rand).

### Risks and hedging

**Key risks to monitor are:** political tensions over trade disputes (US-China, US-Eurozone), the Eurozone's heightened political uncertainty and the effectiveness of policy mix in China to avoid hard landing. As a hedging strategy, we maintain a positive view on the Japanese Yen vs. USD (the Yen should behave as a safe heaven in the event of a negative surprise on the trade front). Some structural hedges through options are also recommended in this regime of low volatility.

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*Within a defensive approach, it is time to seek opportunities that could emerge in case of the positive evolution on current areas of uncertainty (Brexit, trade).*  
”

Amundi Cross-Asset Convictions

|           | 1 month change | --- | -- | - | 0 | + | ++ | +++ |
|-----------|----------------|-----|----|---|---|---|----|-----|
| Equities  |                |     |    | ■ |   |   |    |     |
| Credit    |                |     |    |   |   |   | ■  |     |
| Duration  |                |     |    |   | ■ |   |    |     |
| Oil       |                |     |    |   | ■ |   |    |     |
| Gold      |                |     |    |   | ■ |   |    |     |
| Euro cash |                |     |    | ■ |   |   |    |     |
| USD cash  |                |     |    |   |   | ■ |    |     |

3 The table above represents cross-asset assessment on a 3-6 month horizon, based on views expressed at the most recent global investment committee. The outlook, changes in outlook and opinions on the asset class assessment reflect the expected direction (+/-) and the strength of the conviction (+/+/+/+). This assessment is subject to change.

FIXED INCOME



**Eric BRARD**  
Head of Fixed Income



**Yerlan SYZDYKOV**  
Head of Emerging Markets



**Kenneth J. TAUBES**  
CIO of US Investment Management

## Time to be flexible, amid higher uncertainty ahead

The backdrop for fixed income is one of global economic slowdown (with some reacceleration in Europe and in EM) and subdued inflation pressures. Central banks (CBs) confirmed their dovish stance and the Fed has put on hold the normalisation of its monetary policy, leading markets to almost discount a cut before year-end. The ECB confirmed its dovish stance, going further than previously anticipated by the market. Yet, should the economy deliver above expectations, uncertainty on CB actions will return. Hence, **we don't see a case for particularly aggressive positions on duration**, while we continue to view the environment as favourable for carry, with modest scope for further tightening of credit spreads after the movements seen since the beginning of the year.

### DM bonds

**With a global perspective**, we stick to three main convictions on government bonds: 1) There is no value in European core government bond yields at zero/negative level; 2) We have a more positive view on duration in peripheral bonds and we maintain a preference for the US to Germany; and 3) In Europe we expect the curve to flatten on the 5-30 years segment.

**In the US**, we think that uncertainty about the Fed's policy path may soon return as economic growth could prove more resilient than expected. The market could be overpricing a possible rate cut and as a result, we prefer a defensive stance on the US curve, especially in the 10-year space.

### Credit

**In Europe** the search for yield remains a key theme; we think there is still room for some further spread tightening on the back of a supportive ECB. Here, we prefer **short-term maturities**

**and higher yielding bonds**. We continue to see opportunities in financials (subordinated space). **In the US**, as spreads have almost fully retraced their fourth quarter widening, we are becoming more cautious. **As an alternative to credit, we prefer non-agency securitised sectors**. These assets are less exposed to global risks, they benefit from a positive backdrop in relation to US consumers (rising incomes and low indebtedness relative to income) and they generally offer attractive valuations relative to their risk.

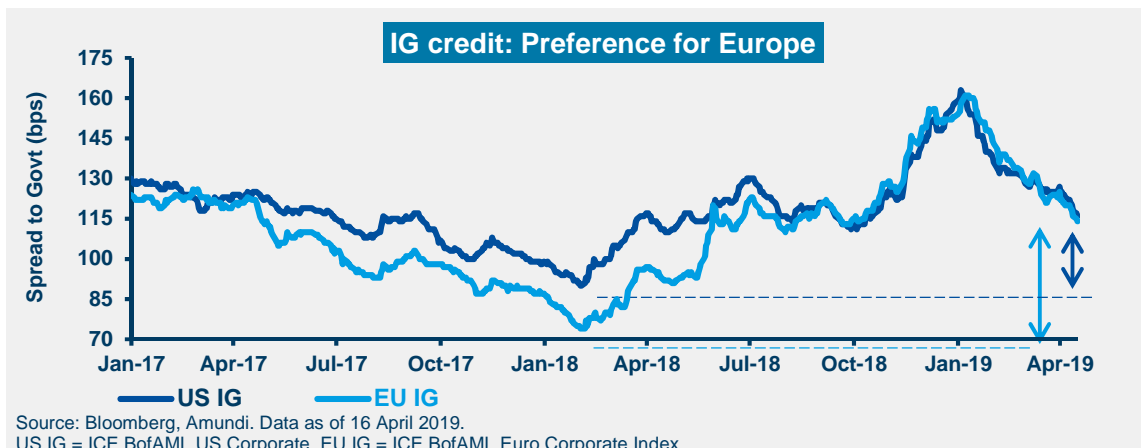
### EM bonds

Given the sharp rally since the beginning of the year, most of the returns might be behind us and we may be adopting a more cautious stance from now on. Nonetheless, the continued dovish stance by the world's major central banks and an expected further easing in trade tensions may still play in favour of EM debt markets, setting the tone for another bit of upside in the next months. We thus remain **moderately positive on EM debt, with a tilt towards hard currency** (especially in some high-yielding countries) over local currency, wherein we prefer to be very defensive at this stage, on recent sluggish risk-adjusted returns, and wait for stronger signs of global growth stabilisation before re-engaging.

### FX

In the short term, we stay positive on the USD, as with high yielding currency within DM; in the medium term we are neutral on the British Pound and on Japanese Yen, even if the policy normalisation could trigger some appreciation of the latter currency. On EM currencies, we suggest a cautious stance, but are watching growth dynamics as key triggers for a more constructive view moving ahead.

“  
*It is not time to be aggressive on duration, as the market may be overpricing a possible rate cut from the Fed.*  
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## Bull market to be tested by the earnings season

### Overall assessment

While March 2019 marked the 10-year anniversary of the bull market for the S&P 500 after its bottom during the great financial crisis, April saw the market lift back to the 2018 highs, while measures of expected volatility both in the US and Europe are back to very low levels. Lower inflation expectations driving the dovish turn in central banks' stance have been the key driver of the year-to-date moves. As we enter the earnings season, **the market's focus is now switching to assessing the outlook for corporate earnings for the second part of the year and for 2020**, and as a result we expect some short-term consolidation. Factors that could further drive a prolongation of the bull phase are: the Fed's ability to successfully manage the slowdown in the US, a weaker USD and some upturn in the Chinese and European economy in the second half of the year, which could help global growth stabilise. While waiting for the earnings season to confirm this outlook, less supportive valuations call for a cautious approach to equities and a preference for EM given the wider growth differential ahead with DM, the support of the Chinese stimulus and the improvements on the tariffs front.

### DM equities

**In the US market**, the market focus is on companies' forward earnings guidance. A stronger outlook on top-line growth, along with still-manageable wage inflation, would suggest that the trajectory of profit margins is likely to reverse quickly. Yet, as the economic outlook and Fed policy remain areas of uncertainty, we expect a

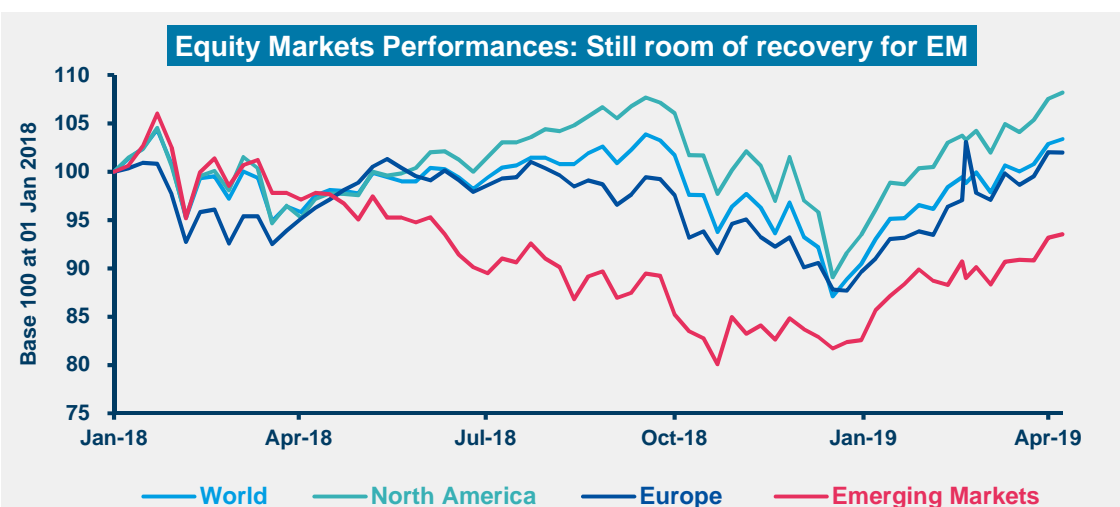
possible rise in volatility and markets to become more selective. The upside could continue, but will likely not affect the overall market. In this phase we focus on avoiding the overvalued areas of consumer staples and utilities, while exploring tech growth opportunities.

**In Europe**, valuations have reset after the rally and are now in line with historical averages. Yet positioning in Europe is very light, and could improve in case of further earnings delivery and/or the resolution of political risks. Our preference is for cyclicals vs. the defensive sector and for industrials within the cyclical space.

We recommend a **neutral to cautious approach in Japan**, being aware that more attractive valuations come at the risk of a strengthening Yen in case of possible volatility bouts linked to negative surprises on the tariff front.

### EM equities

The macro and fundamental backdrop remains reasonably supportive for EM equities. In addition, the trade tensions relief and the more dovish central banks' tone have helped to foster risk sentiment. **EM equities valuations also look relatively attractive** vs. DM equities. We remain broadly **positive on China** in the expectation of a proper trade deal with the US, which is not yet fully priced in, and Chinese stimulus measures that have yet to kick in completely. We are also moderately positive on Russia given attractive valuations. More uncertainty is instead rising on the European side, which is becoming the new front of the US trade confrontation.



Source: Bloomberg, Amundi. Data as of 16 April 2019. MSCI Indexes Total Return in local currency rebased at 100 at 05 Jan 2018.

## EQUITY

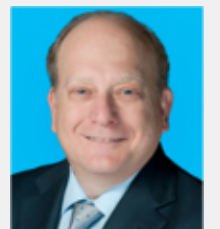
“  
**The earnings outlook will be key to assessing further upside in the market. We favour emerging markets with more appealing valuations.**”  
 ”



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Head of Equities



**Yerlan SYZDYKOV**  
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CIO of US Investment Management

# Amundi asset views

|                       | Asset class       | View | 1M change | Rationale   |
|-----------------------|-------------------|------|-----------|---|
| EQUITY PLATFORM       | US                | -/=  |           | We expect some volatility in the market in the coming weeks. The recent favourable movement has been due to good news from central banks and China-US trade talks, which stimulated risk appetite. Some early signals of the earnings season seem positive, showing that revisions are starting to improve again. Further confirmation is needed to see a continuation of the bull market.  |
|                       | Europe            | =    |           | Earnings delivery and/or the resolution of political risks is needed for further upside. Stabilisation of economic indicators, in Europe but also in China/Asia, could provide a catalyst for further upside in the coming months.  |
|                       | Japan             | -/=  |           | The earnings per share momentum is weak, although valuations are attractive. In the last few weeks we have become more cautious on Japanese equities, try to find some bottom-up opportunities.   |
|                       | Emerging markets  | ++   | ▲         | Earnings revisions further improved in March in Asia and showed some stabilisation in EMEA. If the cycle is to be prolonged, EM should benefit most from Chinese stimulation, a weak USD and the finalisation of the US-China trade agreement.  |
| FIXED INCOME PLATFORM | US govies         | =    | ▼         | The market is expecting a very dovish Fed and is starting to discount even an interest rate cut. This exposes the government bond market to some risk of upward pressure on yields, in case of stabilisation and an improvement of the global economy in H2.  |
|                       | US IG Corporate   | =    | ▼         | Valuations have become tighter, and there is little room left in the short term for further spread compression. Within corporates, we favour sectors less vulnerable to event risk and economic downturn exposure. We prefer to look at opportunities in securitised markets.   |
|                       | US HY Corporate   | =    |           | Our outlook for the asset class is broadly unchanged. We see valuable carry, but limited space for spread compression at the current level. The still sound economic picture is benign for the default outlook. Default rates are expected to remain very low in 2019.  |
|                       | European govies   | -/=  |           | Bund yields are very low, and exposed to some risks of modest increase should the EU economy mildly rebound in H2, as we believe it will. Pockets of value can be found playing yield curve flattening and Euro peripheral bonds.   |
|                       | Euro IG Corporate | +    |           | Valuations have become less compelling after the aggressive spread tightening but the asset class is still attractive for carry reasons. Subordinated debt is an area of interest on this respect.  |
|                       | Euro HY Corporate | +    |           | Leverage is still low and default rates are likely to stay low in the next 12 months. In a scenario of stabilising growth in the Eurozone, the asset class could provide attractive carry opportunities.  |
|                       | EM Bonds HC       | =/+  |           | Our view is still constructive on HC debt, as financial conditions are supportive at the global level and the risks of a Chinese hard landing are receding. We still see room for some upside.  |
|                       | EM Bonds LC       | =/+  | ▼         | We have become more cautious on the asset class in recent weeks, after the positive price action that reflects most of the expected good news. The asset class is still attractive for carry, while the overall spread tightening from current levels is limited in the short term.   |
| OTHER                 | Commodities       |      |           | Geopolitical tensions in the Middle East, Iran sanctions and the Venezuela political situation, in our view, will inflate volatility and will exacerbate supply disruption concerns. Recent events in Libya may offset entirely the overall picture related to shale oil production in US, which is expected to lift further in the next quarters. Our forecast is for WTI is in the 55-65 range year-end. Base metals will be affected by the global economic slowdown. The picture remains supportive for delivering decent returns as the inventories cycle remains reasonably supportive. |
|                       | Currencies        |      |           | We still expect the USD to be exposed to downside risks throughout the year, although it could remain supported in the short term as markets are questioning global growth prospects and political uncertainty (mostly related to Brexit) weighs on risk sentiment. Our target for the EUR/USD is 1.17, for the USD/JPY 107 and for the EUR/GBP 0.86 in 12 months.  |

## LEGEND



Source: Amundi, as of 19 April 2019, views relative to a EUR-based investor. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This information should not be relied upon by the reader as research, investment advice or a recommendation regarding any fund or any security in particular. This information is strictly for illustrative and educational purposes and is subject to change. This information does not represent the actual current, past or future asset allocation or portfolio of any Amundi product.

IG = Investment grade corporate bonds, HY = High Yield Corporate; EM Bonds HC / LC = EM bonds hard currency / local currency. WTI= West Texas Intermediate.

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Investment Insights Unit

### Definitions

- **Credit spread:** differential between the yield on a credit bond and the Treasury yield. The option-adjusted spread is a measure of the spread adjusted to take into consideration possible embedded options.
- **Cyclical vs. defensive sectors:** cyclical companies are companies whose profit and stock prices are highly correlated with economic fluctuations. Defensive stocks, on the contrary, are less correlated to economic cycles. MSCI GICS cyclical sectors are: consumer discretionary, financial, real estate, industrials, information technology and materials, while defensive sectors are consumer staples, energy, healthcare, telecommunications services and utilities.
- **Duration:** a measure of the sensitivity of the price (the value of principal) of a fixed income investment to a change in interest rates, expressed as a number of years.
- **FX:** FX markets refer to the foreign exchange markets where participants are able to buy and sell currencies.
- **MBS, CMBS, ABS:** mortgage-backed security (MBS), commercial mortgage-backed security (CMBS), asset-backed security (ABS)
- **TLTRO:** The targeted longer-term refinancing operations (TLTROs) are Eurosystem operations that provide financing to credit institutions for a predefined period of time. They offer long-term funding at attractive conditions to banks in order to further ease private sector credit conditions and stimulate bank lending to the real economy.
- **Volatility:** a statistical measure of the dispersion of returns for a given security or market index. Usually, the higher the volatility, the riskier the security/market.

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