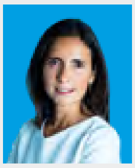
Confidence must be earned

Amundi
ASSET MANAGEMENT

# Monthly Market Review

Our investment perspectives for the month

November 2017




**Silvia BOCCHIOTTI**
Head of fund selection and retail & private banking advisory



**Vincent MORTIER**
Group Deputy Chief Investment Officer


## Faith in the world leaders

Written on 30th October 2017

**In October, equity markets experienced a "perfect month" and set new records, supported all the while by the synchronized recovery of global growth, by a good third quarter results season and by the optimism generated by the implementation of tax reform in the United States.**

Though the Brexit negotiations, the legal woes of President Michel Temer in Brazil and the referendum in Catalonia created political uncertainty, other political developments were positive: the recent elections in Japan and the holding of the 19th Communist Party Congress in China confirmed the two incumbent leaders, Shinzo Abe and Xi Jinping, for several years to come.

Xi becomes the supreme leader, now given the same status as Mao Zedong in the communist pantheon, with his name being written into the Party's constitution. He presented a road map setting out the various phases of the transformation to be carried out by 2050 and promised a new era for socialist China. Xi also took the occasion to speak about the "Beautiful China" concept, making the protection of the environment one of the country's top priorities. While the goal of having more balanced growth is clear, two important questions remain: Will China's growth, driven by domestic consumption, continue? And will the "Belt and Road" initiative be pursued?

If the appointment of the leader of the Communist Party in China is of particular importance for global growth, another change of leadership is also being closely followed in the United States - the appointment by Donald Trump of the next Chairman of the Board of Governors of the Federal Reserve (Fed), with Janet Yellen's mandate coming to an end in February.

This appointment could have a significant impact on the financial markets as it comes at a time when the Fed, which has already raised its key rates by 100 basis points since 2015, is suggesting that a rate hike is likely in December. In this context, the European Central Bank (ECB) announced its decision to reduce its asset purchase policy gradually between now and September 2018. On the markets, with the gradual withdrawal from the asset purchase programmes, the Fed and the ECB have also adopted divergent rate hike policies, already reflected in the spread between US short term interest rates and those of the Eurozone.

The appointment of the two leaders in China and the United States will be decisive not only for the two countries directly concerned but also for the whole world. China has an undeniable influence on global growth and, for the markets, the candidate appointed head of the Fed will be called on to guide the monetary policy of the most influential of all central banks. The markets hope that the policy that will be adopted by these key leaders will be conducive to stronger global growth.

**The new Silk Route or the One Belt, One Road (also known as the OBOR) strategy is a rail link between China and Europe, but is also a development strategy to promote cooperation between the countries in a broad strip of land extending across Eurasia and to strengthen China's position globally.*

**Philippe ITHURBIDE**
Head of Research, Strategy and Analysis

# Macroeconomy & Markets

**Economic data published in October painted a positive picture, confirming the continuation of a synchronised expansion cycle in developed nations and emerging economies.**

- On a political level, the main developments were the headway made by the Republicans in the US with a view to voting on the budget for 2018, the 19th National Congress of the Communist Party of China and, to a lesser extent, the crisis in Catalonia.
- On the markets, the main equity indices moved up. Bond yields fell in the Eurozone but rose in the United States.
- A cyclical recovery is still in progress and the global expansion should continue. Both advanced and emerging market economies are taking part and global trade has recovered.
- Debt deleveraging remains a risk to growth. G7 global debt reached an all time high in 2016 - close to 260% of GDP. Debt burdens are still a constraint on economic policies, even if austerity programmes have disappeared everywhere. In China, private debt is also a concern.

| | 09/11/2017 | Over the month | Since 30/12/2016 |
|---|---|---|---|
| **Equity Markets** | | | |
| CAC 40 | 5471 | 2.0% | 12.5% |
| S&P 500 | 2594 | 2.0% | 15.9% |
| EuroStoxx 50 | 3655 | 1.2% | 11.1% |
| MIB | 22831 | 1.6% | 18.7% |
| DAX 30 | 13382 | 3.1% | 16.6% |
| Nikkei 225 | 22869 | 10.5% | 19.6% |
| MSCI Emerging Markets | 1135 | 3.1% | 31.6% |
| **Commodities - Volatility** | | | |
| Crude Oil (Brent) | 63.5 | 13.8% | 11.7% |
| Gold ($/ounce) | 1281 | -0.2% | 11.2% |
| VIX | 9.8 | -0.6 | -4.3 |
| **Currencies** | | | |
| EUR/USD | 1.160 | -1.2% | 10.3% |
| USD/JPY | 113.5 | 0.7% | -2.9% |
| EUR/GBP | 0.88 | -1.2% | 3.4% |
| EUR/CHF | 1.16 | 0.8% | 8.2% |
| **Money Rates & Government Bond Yields** | | | |
| Euribor 3M | -0.329 | - | -1 bp |
| Libor USD 3M | 1.40 | +5 bp | +40 bp |
| 2 years Yield (Germany) | -0.76 | -6 bp | - |
| 10 years Yield (Germany) | 0.33 | -12 bp | +12 bp |
| 2 years Yield (US) | 1.65 | +14 bp | +46 bp |
| 10 years Yield (US) | 2.32 | -4 bp | -13 bp |

For European and US equity markets and MSCI indices: the values are the closing prices of the day before. For Asian equity indices: closing price of the indicated date. For FX rates, bond yields, gold: values of the indicated date, around 9am (Paris time). Sources: Bloomberg, Amundi Strategy.

## Equity markets

Equity markets continued to be buoyed in October by the good third-quarter earnings season, hopes tied to future fiscal reform in the US and the ECB's accommodative tone. After rising 1.9% in September, the MSCI World AC index moved up a further 2.6% in October, bringing its year-to-date growth to 14.8%. Most markets contributed to the October uptrend, with London's FTSE gaining 1.6%, the EuroStoxx 50 in the Eurozone 2.2%, the S&P 500, Nasdaq and Dow Jones on Wall Street 2.2%, 3.6% and 4.3% respectively, emerging markets 3.5% (MSCI Emerging Markets index measured in dollars) and Tokyo's Nikkei index as much as 8.1%, boosted by the incumbent prime minister's sweeping victory in the elections, the firmer dollar and acclimatisation to the tension with North Korea. In the Eurozone, the CAC 40 in Paris (up 3.3%) and the DAX in Frankfort (up 3.1%) continued to outperform the EuroStoxx 50, whereas the MIB in Milan took a breather after the surge of the previous month (edging up 0.4% in October after climbing 4.7% in September). Madrid's IBEX index (up 1.4%) underperformed for the third month in a row, weighed on by the Catalan crisis in particular.

## Interest rate markets

European long-term yields slipped in October on news that the ECB would not be tapering debt purchases as much as anticipated in 2018. German and French 10-year yields were sent down from approximately 0.45% and 0.75% to around 0.35% and 0.60% respectively. The ECB announcement was very positive for Italian and Spanish bonds, with a narrowing of their 10-year spreads against the Bund. Italian and Spanish 10-year yields ended the month at 1.75% and 1.45% respectively. US long-term yields edged up from around 2.35% to 2.40%, mainly on better business figures. Corporate bonds performed well, both in the less risky and high-yield categories.

## Foreign exchange markets

The euro weakened in October amid a slight widening of the US/Bund spread. EUR/USD parity slipped from 1.18 to 1.16. USD/JPY parity moved up slightly to 113.6. The Swiss franc continued to depreciate slightly against the euro.

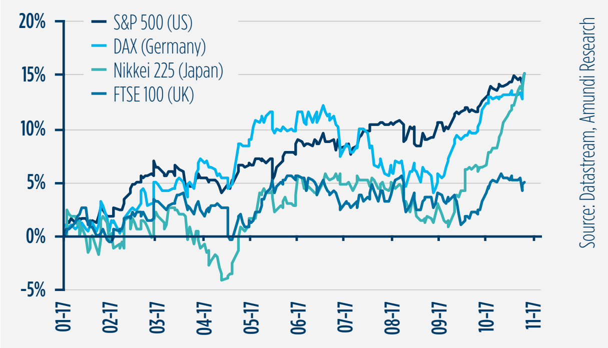
**Past performance and market behaviors do not prejudge future performance and behaviors.**

# A macro and micro environment **supportive but diversification is key**

**Markets have been relatively immune to the geopolitical news flow, despite North Korean nuclear threats and the Catalonia crisis, which remains broadly unresolved.**

Historical highs have been reached once again on equity markets backed by the synchronized recovery of global growth and good corporate earnings. As we near a more mature phase of the cycle, this leads us to adopt strategies to reduce risk and increase diversification.

**Equity market performance** (YTD)




## OUR ANALYSIS

<table>
<tr><th colspan="2">Negative</th><th colspan="2">Neutral</th><th colspan="2">Positive</th></tr>
</table>

### Asset classes

We remain positive on risky assets with a preference for equities over bonds, which are generally not attractive in terms of risk/return in a context of a monetary policy normalization from the main central banks. The recent rally incites us to remain neutral on equities.

<table>
<tr><td></td><td></td><td colspan="2">Equities</td><td></td><td></td></tr>
<tr><td></td><td colspan="2">Bonds</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td colspan="2">Cash</td><td></td></tr>
</table>

### Equities

We remain constructive on equities as we believe that global equities continue to be supported by good corporate earnings growth. We still have a strong preference for Eurozone and emerging equities where valuations are more attractive. Our positive view on European equities is based on stronger economic growth, improved corporate earnings growth, supportive market conditions (valuations, M&A outlook). Emerging equities are favored by the global trade rebound and a more synchronized global cycle. The asset class remains attractive and any short-term downturn could be an investment opportunity. We remain neutral on the United States as some areas of attention are emerging particularly in terms of valuation. Even though, in the short term, the interpretation of macro-economic figures could be more complex due to the latest climatic events, the recent budget resolution could indeed create positive political surprises, particularly on an agreement on tax reform.

<table>
<tr><td></td><td></td><td></td><td colspan="2">Euro Zone</td><td></td></tr>
<tr><td></td><td></td><td colspan="2">United States</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td colspan="2">Emerging</td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Japan</td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">World</td><td></td><td></td></tr>
</table>

### Bonds

We maintain a cautious view on duration as we are moving towards a more mature phase of the cycle and potentially less accommodating central banks stance. This could be the driver of an interest rate rebound from year-to-date lows.

<table>
<tr><td></td><td colspan="2">Euro Zone - Core</td><td></td><td></td><td></td></tr>
<tr><td></td><td colspan="2">Euro Zone - Peripherals</td><td></td><td></td><td></td></tr>
<tr><td></td><td colspan="2">United States</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Euro Inflation</td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">US Inflation</td><td></td><td></td></tr>
</table>

### Currencies vs EUR

The policy divergences between the Fed and the ECB remain favorable to the US dollar.

<table>
<tr><td></td><td></td><td></td><td colspan="2">USD</td><td></td></tr>
</table>

### Spreads

We believe that within credit exposure, investors should focus on quality as we see limited space of spread compression from these levels and we remain cautious on lower credit quality strategies such as High Yield bonds.

<table>
<tr><td></td><td></td><td colspan="2">Investment Grade EUR</td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Investment Grade US</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td colspan="2">Subordinated Financials</td><td></td></tr>
<tr><td></td><td colspan="2">High Yield EUR</td><td></td><td></td><td></td></tr>
<tr><td></td><td colspan="2">High Yield US</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td colspan="2">Emerging Local Cur.</td><td></td></tr>
<tr><td></td><td></td><td></td><td colspan="2">Emerging Hard Cur.</td><td></td></tr>
</table>

### Styles, Factors

We remain positive on value, quality and cyclical stocks. The persistence of positive global macroeconomic dynamics continues to support rotation towards cyclical sectors/industries. Better diversification within the portfolio should be provided when rebalancing between cyclical and more defensive sectors.

<table>
<tr><td></td><td></td><td></td><td colspan="2">Value</td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Growth</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td colspan="2">Quality</td><td></td></tr>
<tr><td></td><td></td><td colspan="2">High Dividend</td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Small Cap</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td colspan="2">Cyclical</td><td></td></tr>
<tr><td></td><td></td><td colspan="2">Defensive</td><td></td><td></td></tr>
</table>

### Diversification

Volatility indicators remain at historically low levels despite emerging geopolitical risks. Gold remains an interesting asset in the event of a market shock and specially for macro-protection purposes.

<table>
<tr><td></td><td></td><td colspan="2">Volatility</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td colspan="2">Gold & related</td><td></td></tr>
</table>

*Diversification does not guarantee a profit or protect against a loss.

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# Glossary

### Deleveraging
The process or practice of reducing the level of one's debt by rapidly selling one's assets.

### Investment Grade
Bonds that are Investment Grade are deemed low risk by the rating agencies. AAA is the highest rating that an issuer can receive.

### MSCI Emerging Markets
Stock index representing about 820 companies listed in the equity markets of 21 emerging countries (South Africa, Brazil, Chile, Colombia, Korea, Egypt, Hungary, Indonesia, Malaysia, Morocco, Mexico, Peru, Philippines, Poland, Czech Republic, Russia, Taiwan, Thailand and Turkey).

### S&P 500 (Standard and Poor's Composite Index of 500 Stocks)
Index representing the 500 largest stocks on the US market.