



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	22851	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 Frankfurt (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.

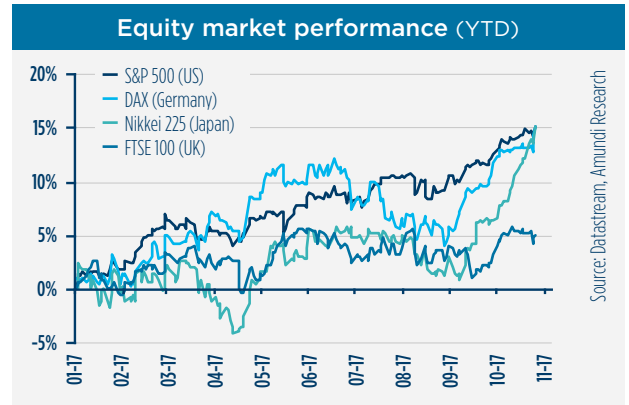


Past performance and market behaviors do not prejudice future performance and behaviors.

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.



OUR ANALYSIS

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.

	Negative	Neutral	Positive
Equities			
Bonds			
Cash			

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.

	Negative	Neutral	Positive
Euro Zone			
United States			
Emerging			
Japan			
World			

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.

	Negative	Neutral	Positive
Euro Zone - Core			
Euro Zone - Peripherals			
United States			
Euro Inflation			
US Inflation			

Currencies vs EUR

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

	Negative	Neutral	Positive
USD			

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.

	Negative	Neutral	Positive
Investment Grade EUR			
Investment Grade US			
Subordinated Financials			
High Yield EUR			
High Yield US			
Emerging Local Cur.			
Emerging Hard Cur.			

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.

	Negative	Neutral	Positive
Value			
Growth			
Quality			
High Dividend			
Small Cap			
Cyclical			
Defensive			

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.

	Negative	Neutral	Positive
Volatility			
Gold & related			

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

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.



DISCLAIMER

Document completed on 09/11/2017.

Consideration should be given to whether the risks attached to any investments are suitable for prospective investors who should ensure that they fully understand the contents of this document. A professional advisor should be consulted to determine whether an investment is suitable. The value of, and any income from, an investment can decrease as well as increase. Further, past performance is not a guarantee or a reliable indicator for current or future performance and returns. This document does not constitute an offer to buy nor a solicitation to sell in any country where it might be considered as unlawful, nor does it constitute public advertising or investment advice. This document has not been drafted in compliance with the regulatory requirements aiming at promoting the independence of financial analysis or investment research. Amundi is therefore not bound by the prohibition to conclude transactions of the financial instruments mentioned in this document. Any projections, valuations and statistical analyses herein are provided to assist the recipient in the evaluation of the matters described herein. Such projections, valuations and analyses may be based on subjective assessments and assumptions and may use one among alternative methodologies that produce different results. Accordingly, such projections, valuations and statistical analyses should not be viewed as facts and should not be relied upon as an accurate prediction of future events. The information contained in this document is deemed accurate as of 09/11/2017. Data, opinions and estimates may be changed without notice. This material is solely for the attention of institutional, professional, qualified or sophisticated investors and distributors. It is not to be distributed to the general public, private customers or retail investors in any jurisdiction whatsoever nor to "US Persons". Moreover, any such investor should be, in the European Union, a "Professional" investor as defined in Directive 2004/39/EC dated 21 April 2004 on markets in financial instruments ("MIFID") or as the case may be in each local regulations and, as far as the offering in Switzerland is concerned, a "Qualified Investor" within the meaning of the provisions of the Swiss Collective Investment Schemes Act of 23 June 2006 (CISA), the Swiss Collective Investment Schemes Ordinance of 22 November 2006 (CISO) and the FINMA's Circular 2013 on distribution of collective investment schemes. In no event may this material be distributed in the European Union to non "Professional" investors as defined in the MIFID or in each local regulation, or in Switzerland to investors who do not comply with the definition of "qualified investors" as defined in the applicable legislation and regulation. Amundi has prepared and presented these performances in compliance with the Global Investment Performance Standards (GIPS®). Amundi, the «firm», groups together all the fee-paying portfolios managed in a discretionary manner by the worldwide management centers. The 2010/01/01, asset management activities for third parties represented by Crédit Agricole Asset Management and Société Générale Asset Management (AIMR/GIPS compliant and verified since 1994/01/01) merged, giving birth to a new asset management company Amundi. As of 2014/12/31, the investment centers include Amundi Paris, London, Tokyo, Hong Kong, Singapore, Malaysia, Amundi IS (only structured management), Amundi Smith Breeden and Amundi AI. According to the GIPS® standards, the total firm assets include the assets of all portfolios falling within the definition of the Firm, i.e. EUR567 billion as of 2014/12/31. A complete list and description of all of firm's composites is available upon request by e-mailing: 'gips-aimr-information@amundi.com In compliance with French applicable laws, Amundi Asset Management's contacts have the right to receive, rectify or ask for deletion of the personal data Amundi holds on them. To enforce this right, they can contact Amundi Asset Management at: info@amundi.com Document issued by Amundi Asset Management, French joint stock company ("Société Anonyme") with a registered capital of €1 086 262 605 and approved by the French Securities Regulator (Autorité des Marchés Financiers-AMF) under number GP 04000036 as a portfolio management company - 90 boulevard Pasteur - 75015 Paris France - 437 574 452 RCS Paris. - www.amundi.com - Composition : ART6 - Photos : i23rf ; iStock.