

## Press release

### **Opportunities from great rotations: cyclical and value stocks, EM assets to outperform in 2021**

*Takeaways from Amundi's annual investment outlook*

**Paris, 12 November 2020** – Amundi, the largest European asset manager, today announces the main themes of its investment outlook for 2021.

#### **Amundi expects four main global themes to be at play in 2021**

*1. Slow, uneven recovery from the virus*

The duration of the epidemic will ultimately determine the form of recovery, and we believe trying to label it as V, U or K shape can be misleading. This will leave the door wide open to an erratic growth profile in the short term and ultimately tend to confirm our central scenario of a slow, uneven and multi-speed recovery depending on the country and sector. The availability of a vaccine is a game changer and encouraging news indeed, though the technical development and broad delivery will take time.

*2. Balanced deglobalisation:*

We expect a relatively larger share of the economic cycle to come from domestic demand. Global trade will remain weak and uneven. As such, business cycles will be more de-correlated, implying an increase of fragmentations and divergences across countries and sectors.

*3. Divergences in recovery will drive opportunities in Emerging Markets, particularly China:*

Countries such as China will emerge early from the crisis (first-in, first-out story) and become increasingly important as global growth engines. Most economies are expected to rebound next year, but global GDP growth should slow to about 3.5% over the medium term, as Covid-19 will weigh on long-term supply potential. Those economies that are able to adapt better to new rules, such as social distancing, will increase their share of global GDP. 15 economies are expected to account for 74% of global growth next year, and China is expected to be the global leader.

*4. Convergence in policy mix*

In 2021 we expect the political, fiscal and monetary trilogy to continue: we will have to move to execution of what has already been agreed on the fiscal front, while Central Banks will remain prominent, fine-tuning monetary accommodation. Balance sheet expansion will support commodities while rates will remain lower for longer.

#### **Amundi's base scenario: a multi-year recovery with 'unconventional' monetary policies set to continue**

Amundi sees opportunities from big rotations towards equity, unloved sectors, and quality value. Central Banks and fiscal action is set to continue, making MMT (Modern Monetary Theory) the new mantra.

Our assumption is that we are cautious on the wide distribution of a safe and effective vaccine before H2 2021. As such our base scenario is as follows:

- Multi-year process to get the world fully back in order
- Sequencing of economic relapses, infection outbreaks, selective lockdowns, policy boosters
- Low growth, low inflation, low rates: 'unconventional' monetary policies to persist. Strong political commitment to fiscal dominance in advanced economies but we see execution as a material risk.
- Financial markets looking through the economic cycles and next months' logistics. Price action (positive on the hope of a vaccine and expansive policies), might stay disconnected from the real economy, still challenged by the consequences of lockdowns especially in Europe.

**Amundi's main convictions for 2021: investors should progressively increase exposure to cyclical and quality and value stocks, Asian equities, and ESG themes**

**From a cross-asset perspective, a rotation from credit (HY) into equities.** Equities will have a better risk-return profile than high yield in a phase of mild recovery and earnings re-acceleration in 2021. Investors should add exposure to cyclical stocks (some EM equities - starting with North Asia and then Latam and CEMEA - and cyclical sectors), quality value and post-Covid-19 ESG themes. The reacceleration of global growth will push for a re-balancing from growth towards quality value. We believe old-fashioned geographical diversification -along with sector diversification - will come back into focus, thanks to global trade no longer driving global growth, the on-shoring of value chains and the desynchronization of cycles.

**Look further afield and be selective, moving from fixed income to smart income.** With the amount of negative yielding debt close to historic highs and interest rates expected to remain low in the short term, investors should build an income engine by searching for opportunities across the board, including emerging market bonds, loans, real assets (infrastructure, real estate) and high-income equities. Opportunities in credit markets remain, but the big theme for 2021 is what we call '**the great discrimination**'. What is expensive will become even more expensive. Some areas of the market will likely deteriorate further, as the abundant liquidity injected by central banks is masking weakening fundamentals. Selection will be key in 2021. Overall our outlook is more constructive for Investment Grade than for HY.

**Positive on Emerging Markets assets, while recognising variation within the EM universe.** Emerging Market Bonds will be a key engine of income. We have a positive view for next year, in particular for Local Currency debt and high yielding segments. In Equities, **we see an earnings re-acceleration**, where we are positive on Asian assets: China, Korea- while we see a recovery in Latam and EMEA over the year, when the cyclical rebound will be more pronounced. A weak dollar partly supports the positive case for EMs. On China, we have to look at the US government's stance though we don't expect a significant departure from Trump's conflictive stance.

**Consider government bonds for liquidity purposes.** Investors should consider allocating a portion of their portfolio to core government bonds, regardless of their valuations, primarily for liquidity reasons in case there are phases of liquidity shortages.

**Include "true" diversifiers.** In a world of high correlation among risk assets, adding uncorrelated sources of returns may help balance the allocation. Gold, absolute return approaches to volatility and hedging strategies may help improve the overall portfolio diversification.

**Inflation will make a comeback.** In the medium term, the main theme for investors will be the de-anchoring of real rates and inflation expectations due to the massive fiscal stimulus, the monetisation of public deficits, the rebalancing of social and political support in favour of labour and the retreat of global trade. Markets are not pricing in this risk yet, but investors should start looking at strategies for a possible inflation comeback.

**Pascal Blanqué, Chief Investment Officer at Amundi, said:** "Markets are now pricing in a rosy scenario: broad availability of a vaccine, abundant liquidity, and policies that will remain accommodative forever. The sequence will not be so linear. The transition from relapses induced by the virus cycle to reacceleration in the second part of the year will bring some volatility and opportunities for portfolio repositioning. Great discrimination in credit is the name of the game in fixed income. Selectively, Emerging markets are the area to look for income and growth. We expect a great rotation from HY to equities and within equities investors should favour cyclical and quality value stocks and beware of bubbles in the hyper-growth stocks. The fight against growing social

*inequalities and a re-focus on climate issues, revitalised by a Biden win, will make ESG even more relevant for investors.”*

**Monica Defend, Global Head of Research at Amundi, added:** *“The duration of the pandemic will ultimately determine the form of recovery, and that is likely to vary significantly across the globe. The slow, uneven and multi-speed recovery will differ by sector and country, and as such investors need to take advantage of these divergences in growth profiles.”*

For more information on Amundi’s investment views please check the [Amundi Research center](#).

-ENDS-

## **About Amundi**

Amundi, the leading European asset manager, ranking among the top 10 global players<sup>1</sup>, offers its 100 million clients - retail, institutional and corporate - a complete range of savings and investment solutions in active and passive management, in traditional or real assets.

With its six international investment hubs<sup>2</sup>, financial and extra-financial research capabilities and long-standing commitment to responsible investment, Amundi is a key player in the asset management landscape.

Amundi clients benefit from the expertise and advice of 4,500 employees in nearly 40 countries. A subsidiary of the Crédit Agricole group and listed on the stock exchange, Amundi currently manages more than €1.650 trillion of assets<sup>3</sup>.

*Amundi, a Trusted Partner, working every day in the interest of its clients and society*

[www.amundi.com](http://www.amundi.com)



### **Press contact**

#### **Amundi**

Fany de Villeneuve

Co-Head of International PR

[Fany.devilleuneuve@amundi.com](mailto:Fany.devilleuneuve@amundi.com)

+33 6 03 20 51 05

---

<sup>1</sup> Source: IPE “Top 500 Asset Managers” published in June 2020, based on assets under management as at 31/12/2019

<sup>2</sup> Boston, Dublin, London, Milan, Paris and Tokyo

<sup>3</sup> Amundi data as at 30/09/2020