



Press Release

High fragmentation and a new policy mix to dominate H2 investment landscape, according to Amundi

- **Stagflationary risks are on the rise, with real growth below potential and inflation above central bank targets**
- **Country and regional risks are back amid increasing de-globalisation pressures, exacerbated by the crisis in Ukraine**
- **A full monetary normalization is unlikely**
- **In this complex environment, investors should look for resilience and a more balanced allocation.**

Paris, 1st June 2022 – Investors will have to navigate a fragmented world of slowing growth, higher inflation and increasing divergences between regions and sectors in which policy mix dynamics will be crucial, said Amundi today in its investment outlook for the second half of the year. In this increasingly complex landscape where global trade is no longer the main driver of world growth, investors should look for resilience and seek to exploit opportunities that may arise from de-synchronised economic cycles and diverging paths in fiscal and monetary policy accommodation.

Stagflationary risks on the rise

Stagflationary risks appear widespread, with real growth falling below potential and inflation remaining persistently higher than central bank targets. But while a soft landing is a possibility in the U.S, the euro zone looks much more fragile as it bears the brunt of rising energy prices and full-year GDP growth in China should slow below 4% due to Covid restrictions. Within emerging markets, commodities exporters such as Brazil, South Africa and Indonesia are poised to come out on top, as well as countries with the most significant policy room.

Inflation has likely peaked but price pressures should continue to be felt due to supply-chain bottlenecks, high energy and food prices and wage growth in the U.S, bringing the era of ultra-low and even negative interest rate of the past decade to an end. However, according to Amundi, a full normalization of monetary policies is not on the cards as central banks try to balance out the need to tame run-away inflation with that of preserving growth, making central bank “benign neglect” towards inflation a probable outcome. In this context, policy mix dynamics and the extent to which central banks are prepared to accommodate additional fiscal stimulus in the various regions will be key: while the US has almost no fiscal leeway ahead of mid-term elections in November, Amundi expects to see targeted accommodation in China.

Investment implications

Amid higher inflation and elevated volatility, slower growth and shrinking global liquidity, investors should remain cautious in terms of risk allocation and look for resilience and sources of positive real returns, according to Amundi, while trying to profit from discrepancies between regions and sectors on the back of de-synchronised economic cycles.

After the great asset repricing in the first half of the year, the strong relative equity appeal versus bonds has eroded, and a more balanced allocation is appropriate. **In equity investing**, value, quality and dividends should be a good mix, as dividends represent a stable component of returns when inflation is high. US equities appear more resilient than EU stocks despite rich valuations, while Chinese equities, with the economic slowdown and earnings downgrades already priced in, could afford positive surprises. **In fixed income**, investors should move tactically to a more neutral duration stance and play divergences in monetary policies, as well as look to inflation-linked securities and floating rates for protection against inflation. In the **credit segment**, Amundi favors investment grade in developed markets and high yield in emerging markets. Finally, a more unstable cross-asset correlation dynamic against the inflationary backdrop will require investors to seek **additional diversification in commodities, currency strategies** in particular those favoring currencies from commodities exporters, and **alternative strategies with a low correlation with equities and bonds, such as Real assets**. In that space, Amundi favors real estate and floating private debt.

Vincent Mortier, Group CIO of Amundi, said: *“The era of ultra-low and negative interest rates is over. This will continue to clean up excesses in liquidity-driven areas of the market - Spacs, cryptocurrencies, ultra-growth stocks - and will refocus investors on fundamentals, corporate leverage and earnings. Uncertainty regarding the evolution of the policy mix and on the geopolitical front will continue to keep volatility high, across the board.”*

Monica Defend, Head of The Amundi Institute added: *“In this complex landscape, investors should look for resilience and opportunities that may arise due to a de-synchronised economic cycle and different paths in fiscal and monetary accommodation. Portfolio liquidity will be at the forefront, as global macro liquidity will progressively dry up. “*

About Amundi

Amundi, the leading European asset manager, ranking among the top 10 global players¹, offers its 100 million clients – retail investors, institutional investors and companies – a complete range of savings and investment solutions in active and passive management, in traditional or real assets.

With its six international investment hubs², 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 4,700 employees in nearly 35 countries. A subsidiary of the Crédit Agricole group and listed on the stock exchange, Amundi currently manages over €2 trillion in assets³.

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¹ Source: IPE “Top 500 Asset Managers”, published in June 2021, based on AuM at 31/12/2020.

² Boston, Dublin, London, Milan, Paris and Tokyo

³ Amundi data as of 31/03/2022