Confidence must be earned

Amundi ASSET MANAGEMENT

Global Investment Views

MAY 2021

THE FINE LINE BETWEEN CONFIDENCE AND EUPHORIA

Markets are displaying enthusiasm on the back of global recovery hopes, driven by the US and China and by the reopening of economies. On the other hand, certain market segments appear to be over-exuberant (technology sector). Investors should maintain their risk-on stance, but stay vigilant of asymmetric risks and monitor future data.

KEY INVESTMENT THEMES

REMAIN CAUTIOUS BUT FLEXIBLE ON DURATION[1]

A part of the repricing of US Treasuries[2] has already happened. Looking ahead, improving economic backdrop and inflation expectations, along with potential support from investor demand, call for a prudent stance on government bonds.

PLAY THE ROTATIONS IN RISK ASSETS

2021 will be a year of earnings recovery and investors should play this through cyclical[3] and value[4] equities (in regions such as Europe, and Japan), without increasing the overall risk. However, stock selection is essential.

BENEFIT FROM DIVERGENCES IN THE RECOVERY WAVE

High yield[5] credit, especially Euro high yield, is back in focus as prospects for the corporate sector are improving amidst an economic rebound. But selection is crucial as some sectors are displaying signs of recovery vs the more vulnerable sectors, such as Retail.

PICK-OUT THE JEWELS IN EMERGING MARKETS

While Emerging Market debt continues to offer higher yield, equities, particularly in Asia, may offer the opportunity to play cyclicality. Investors should remain selective as there is a high scope for differentiation among countries.

LOOK TO THE FUTURE WITH AN ACTIVE, BALANCED STANCE

Most of the good news around vaccination and economic recovery is already priced-in by markets but the next upside surge could come from a corporate earnings recovery. Accordingly, investors should remain constructive on risk assets, particularly cyclical and value equities (Japan, Europe), and stay active but not increase risk at the moment. In addition, this is the time to explore relative value within and across asset classes such as credit and Emerging Market fixed income. On the central bank front, it is crucial to monitor inflation movement and ensure investors are not blindsided by policy mistakes. Overall, staying well-diversified and agile is important.

1. Duration: Expressed in number of years, the duration is the present calculation, of the average lifetime, of all the interest and capital flows relating to a portfolio.
2. US Treasuries: Long-term bonds issued by the US Treasury on behalf of and for the purpose of financing the American Government.
3. Cyclical: Investment whose price movements follow that of the wider economy.
4. Value: Stocks considered under priced given the performance of the underlying company.
5. High Yield: Bonds with a lower credit rating but which therefore offer a higher return.

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