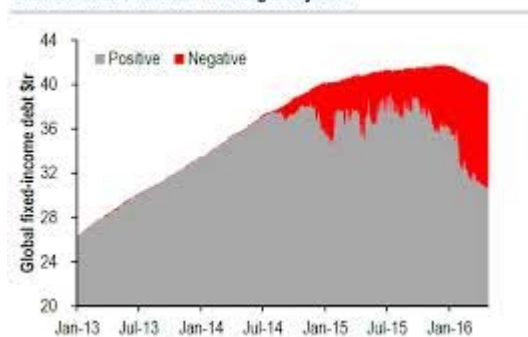




Chart 2: Global % of bonds with negative yields



Has the World Changed?

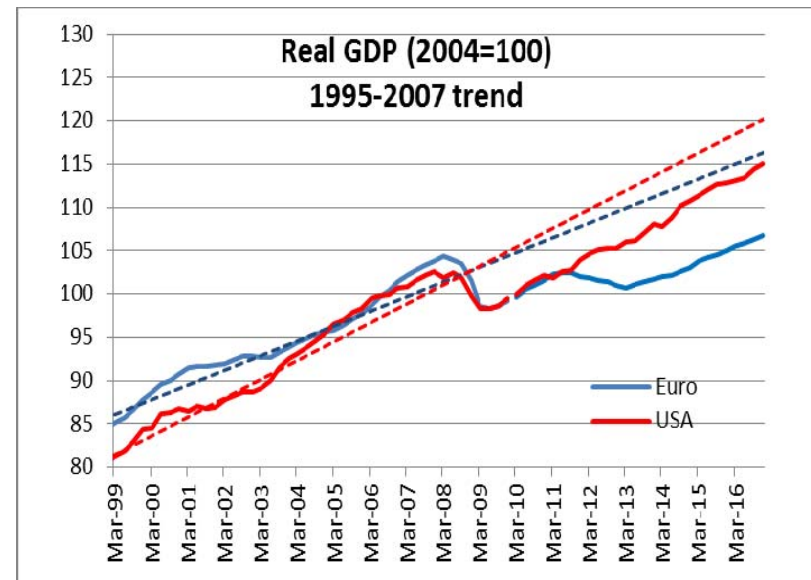
Myles Bradshaw, Head of Global Aggregate Fixed Income, Amundi

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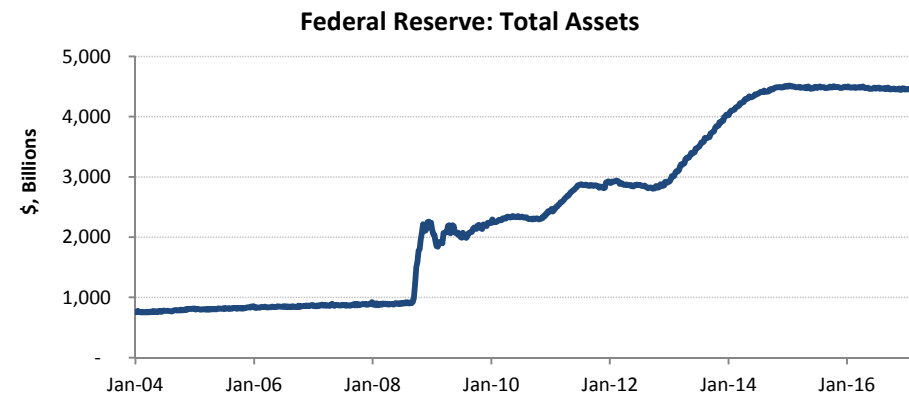
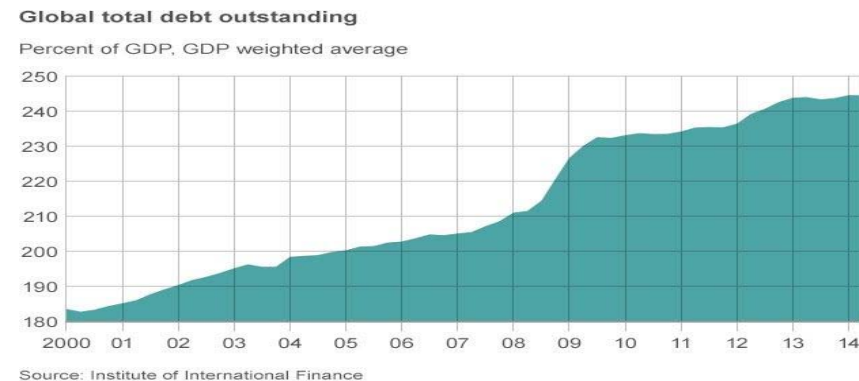
Secular Context: Since 2008 Policy-makers have failed to close the post-crisis economic gap

- Financial crisis: 2008-09
- Economic crisis: post-2010
- Political crisis: post-2015



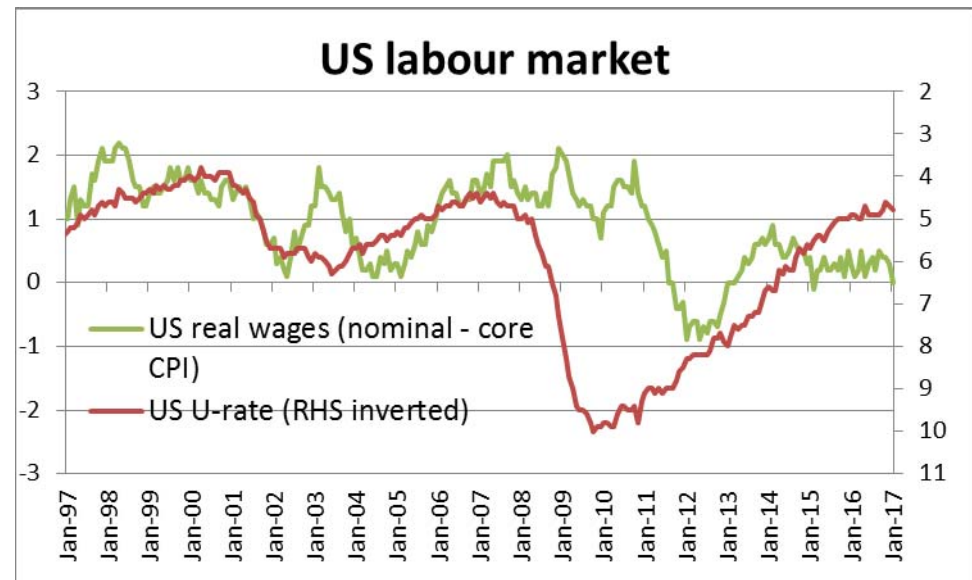
Secular Context – the Great Recession

- 2008-2009: Financial crisis
 - Government bail-outs & Fiscal stimulus
 - Unconventional central bank policies
 - Economies stabilised but at the cost of higher government debt levels



Secular Context – Why does it not feel like a recovery?

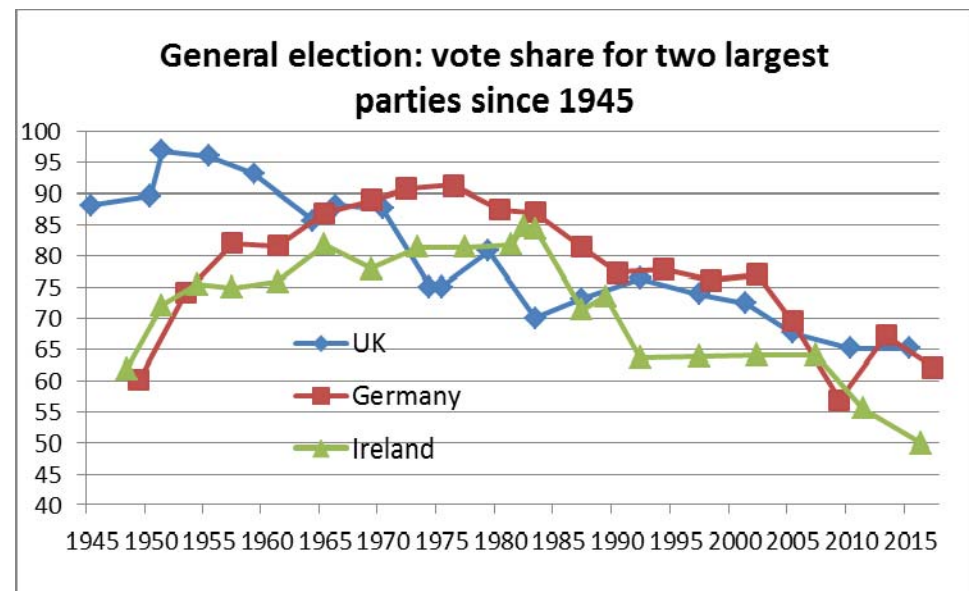
- 2010 – today: Economic crisis
 - Monetary policy the only game in town
 - Weak recovery & productivity growth
 - Weak real wage growth & low inflation



Secular Context – Why does everyone keep referring to the 1930s?

- 2016 – today: Political crisis

- No clear solution to economic challenges
- Frustration boosts Political fragmentation
- Populism: less fiscal responsibility
- Protectionism: leads to lower real growth & real financial returns



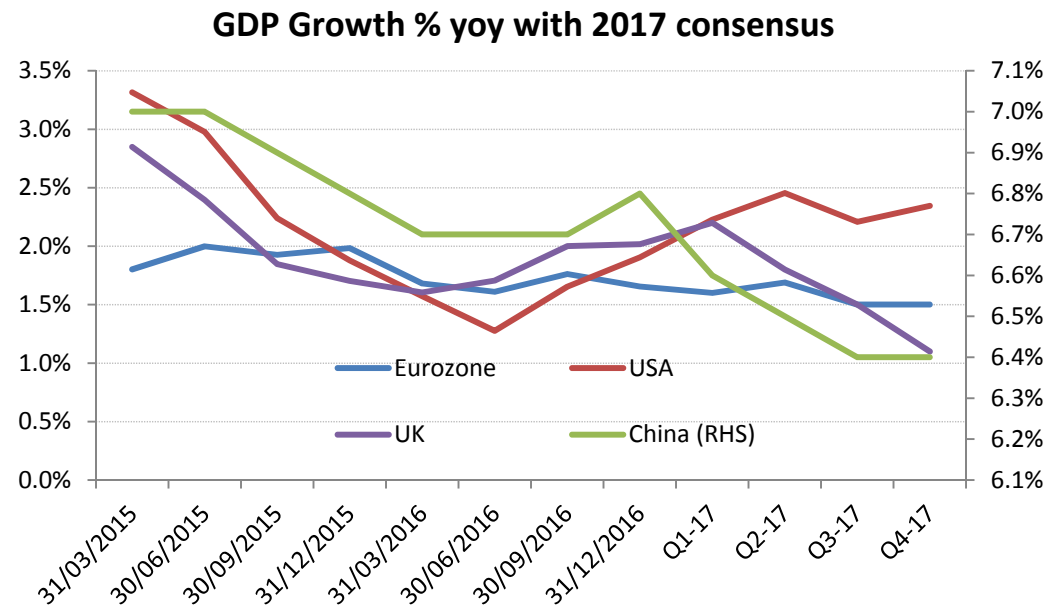
Is 2016 a turning point?

1. Light at the end of the economic tunnel?
2. Shift in macro-economic policy responses
3. Political populism: is the wave now breaking ashore

1. Is 2016 a turning point - Light at the end of the tunnel?

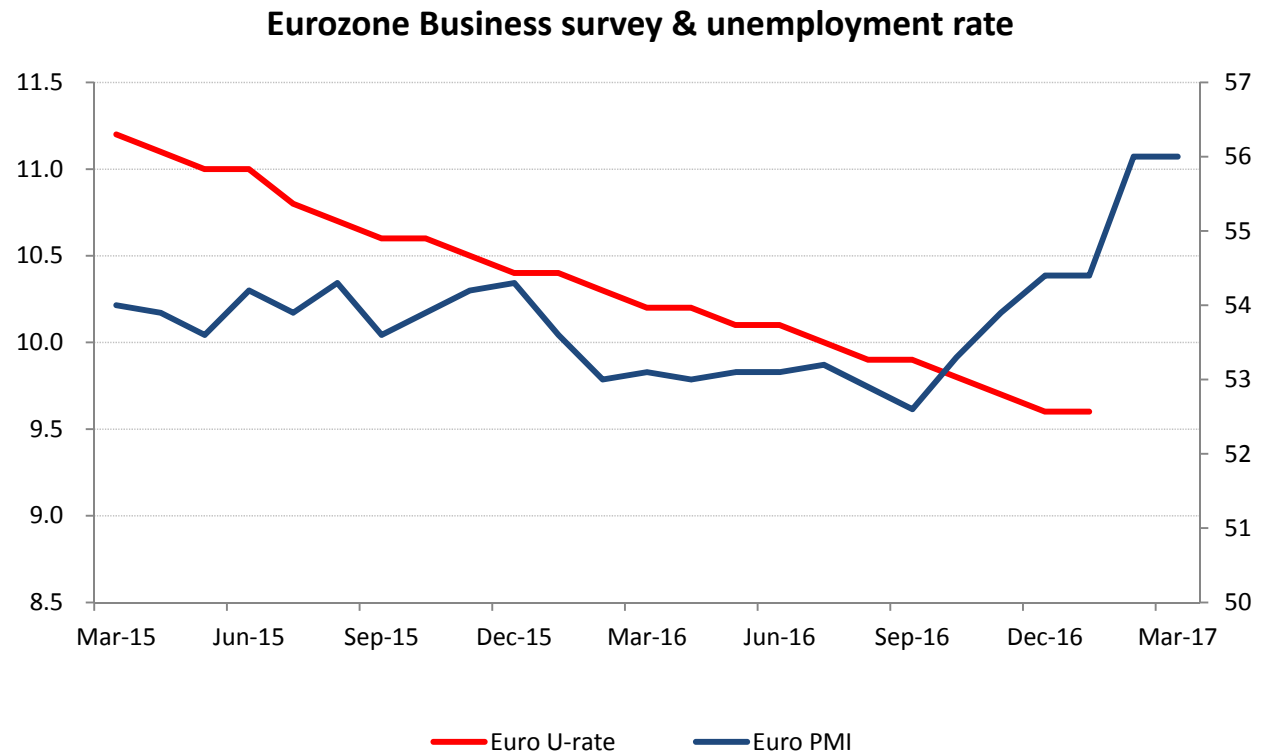
- **Macro-economies have been resilient to numerous shocks**

- China slowdown and 2016 Q1 equity collapse
- USA Today Oct 2016 “Is Deutsche bank the next Lehman moment?”
- IMF April 2016: “Brexit could do severe regional and global damage”
- Donald Trump January 2017 “From this day forward, it’s... America first.”



1. Is 2016 a turning point - Light at the end of the tunnel?

- Even Eurozone growth now accelerating

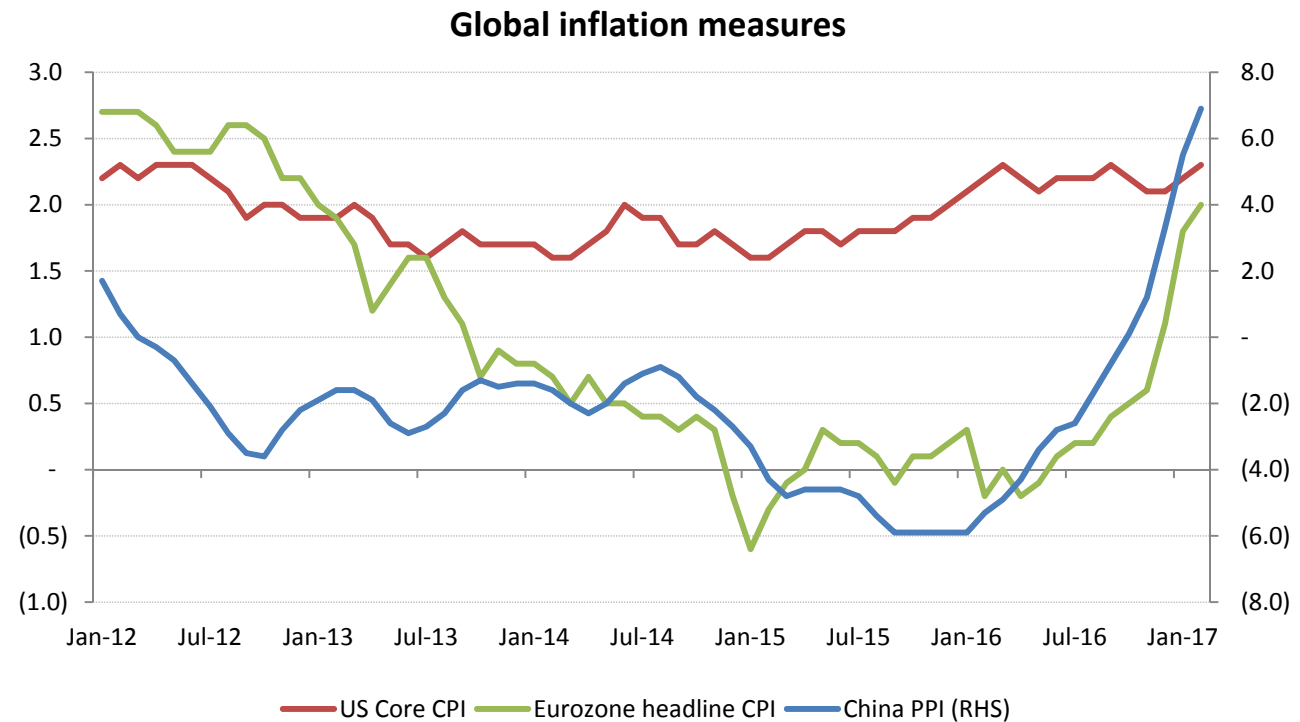


1. Is 2016 a turning point - Light at the end of the tunnel?

Mario Draghi, ECB
president
March 2017

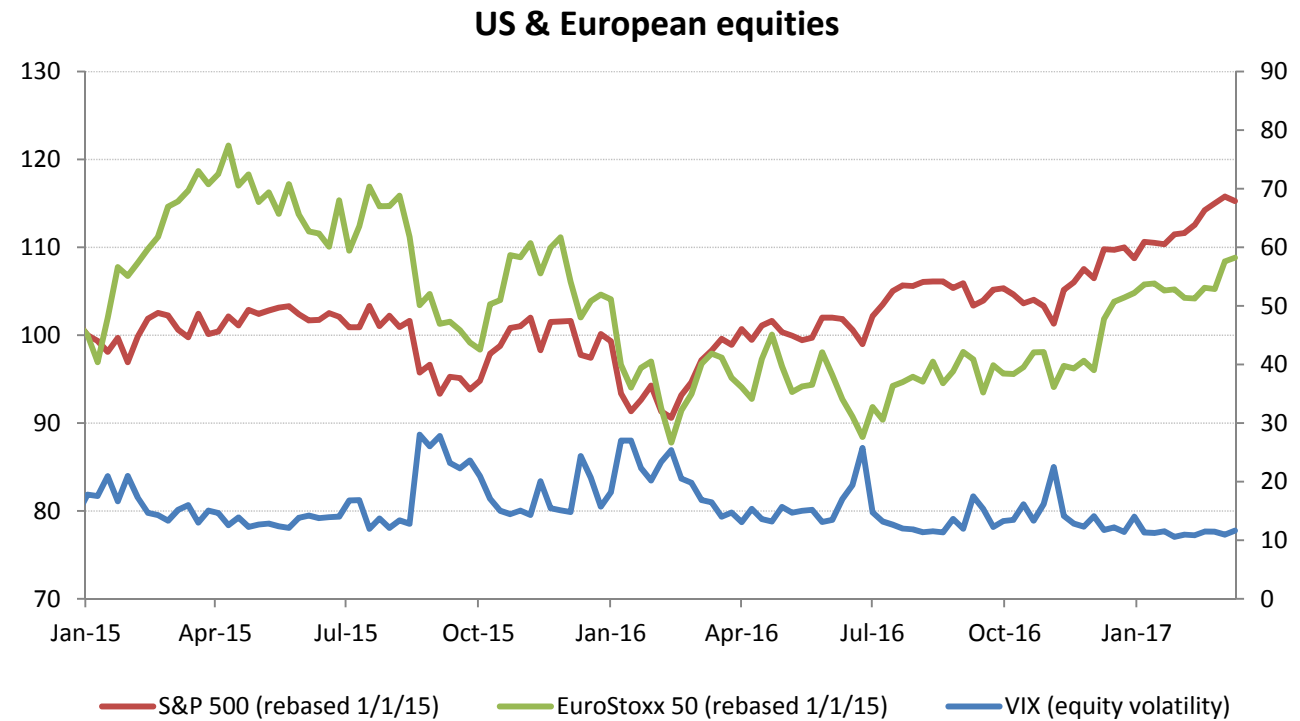
“Risks of deflation
have largely
disappeared”

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1. Is 2016 a turning point - Light at the end of the tunnel?

- Global risk appetite recovering



2. Is 2016 a turning point –shift in economic policy

Monetary policy

- Central banks reassess costs versus benefits of lowering interest rates
- Next steps: Winding down QE in Europe, Reducing size of US Federal Reserve's balance sheet

Bank of Japan Governor Kuroda

January 16

“... a negative interest rate will be a powerful weapon for monetary easing.”

October 16

“... it has become increasingly evident that excessively lowered and flattened [interest rate] yield curve can weaken the transmission mechanism of monetary easing...”

2. Is 2016 a turning point –shift in economic policy

Government policy

- Fiscal stimulus
- Trade protectionism
- De-regulation

Tax Policy Center on Trump's fiscal plan Nov 2016

“Including interest expense, the federal debt would rise by over \$7.2tr over the first decade”
[40% GDP]

International Trade Minister Chrystia Freeland, Oct 2016

“...it is now evident ... that the European Union is incapable of reaching an agreement, even with a country with European values such as Canada, even with a country as nice and as patient as Canada.”

3. Is 2016 a turning point – Is this the end of post-war multilateralism?

- Tail risks for the post-world multilateral order
 - Brexit & the EU: start of a trend or trigger to reform Europe
 - Trump: Shift in US foreign & trade policy?
 - OPEC & fracking: end of cartelism?
 - East Asia: accommodating or confronting China's rise
- Expect establishment politicians to react, implementing more “populist” measures



Conclusion

The World is changing so adapt your investment strategy:

- Avoid risks with low returns: passive vs active
- Global diversification lifts risk adjusted returns
- Illiquidity premia may be attractive given bank de-leveraging

Market views: Interest rates too low to trigger recession

- Outlook is for steady growth & continued recovery; politics a key risk
- Political tail risks: look for cheap insurance
- “Populist” policies: lift inflation risks, create “winners & losers”
- Valuations matter
 - ✓ Inflation looks cheap
 - ✓ Interest rate exposure looks expensive
 - ✓ Corporate credit: attractive way to generate returns
 - ✓ Forex: attractive way to hedge many political and macro risks

