

AN INDIAN SUMMER IN THE CARDS?

Summer 2021 is coming to close on a far more favourable note on the financial markets than for the weather, driven by several factors – economic figures that are solid on the whole, central bank actions, an acceleration in vaccinations, particularly in Europe, and company results that met or exceeded forecasts. On the heels of this strong summer, autumn 2021 is looking less certain. Economies have reopened at a healthy pace during the summer and should be back to normal late this year or early next, depending on the region. The only negative point is emerging and Asian economies, which remain under pandemic pressure, with new, Delta-related restrictions and disruptions in production chains.

As a corollary to this improvement in the economic environment, questions are now being raised by the roadmap for winding down the exceptional stimulus put in place by governments and large central banks at the peak of the crisis. With this in mind, all eyes will be on upcoming inflation and job market figures to estimate central banks' timing. The market scenarios we set up in late August for the coming three months contained several possible paths.

We lowered the probability assigned to our central scenario (to 50%), which projects a gradual normalisation, with the receding in the pandemic, the strengthening in growth, and a Fed tapering announcement between now and yearend. This scenario would come with the start of normalisation of interest rates and moderate gains on the equity markets. We are retaining our alternative scenario (25%) centred on the US and the Fed, where demand would outstrip supply, triggering an inflationary spiral requiring stronger and prompter intervention by the Fed. In this configuration, we would see a more marked increase in interest rates and equity market declines. We also introduced a second alternative scenario (25%) of a recovery delayed by a stubborn pandemic pressure. In this case, interest rates would remain low, and the equity markets would trend downward, with cyclical markets affected more than the US market. Keep an eye on the September monetary policy committees for some initial answers.

MONTHLY
NEWS

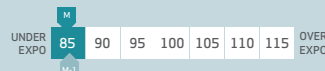
-13.8%

**Performance of the Chinese market
(MSCI CHINA) over the past
two months**

EXPOSURE in %

FIXED INCOME

85%



EQUITY

95%



IN THIS EDITION

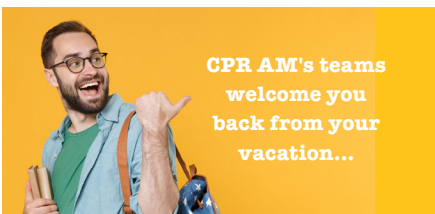
SUSTAINABLE DEVELOPMENT

**IMPACT INVESTING:
Shifting Gears**

ASSET ALLOCATION

**A POST-VACATION
MARKET UPDATE:
an initial assessment of 2021 and
the outlook for the rest of the year**

PODCAST - CPR AM.COM

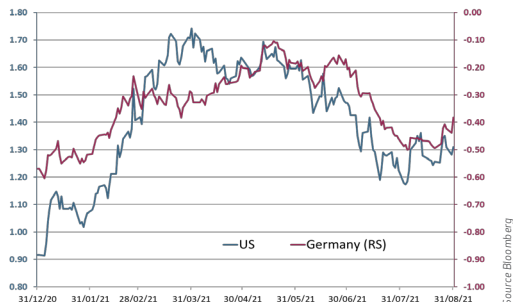


KEY INDICATORS

WHAT'S THE BEST GOVERNMENT BOND STRATEGY AFTER JACKSON HOLE?

This summer's government bond rally sent euro and US 10-year yields down by about 30 basis points in early August. This was driven by the slowing in global growth (due mainly to supply-side bottlenecks) and the spread in the Delta variant (despite the acceleration in vaccination campaigns), but especially by massive central bank asset purchases as issuance became rarer. Inflation remained an issue and pushed bond yields up slightly, but the markets held steady, as central banks insisted that it was only transitory. While the Jackson Hole symposium was eagerly awaited, it ultimately told us nothing new, and attention shifted to the coming US job reports. This was due to the minutes of the latest FOMC meeting, as well as the tone of certain Fed members who had hinted that a tapering plan could gradually be put into place by yearend, as long as the economic environment remained favourable. Likewise, some ECB members are calling for a gradual withdrawal of the exceptional measures, as the economy has improved. Against this backdrop, interest rates are expected to resume their upward march, as central banks prepare, announce and then implement tapering. This will, in turn, make short US and core euro short positions attractive again.

Year-to-date evolution of 10-year sovereign yields

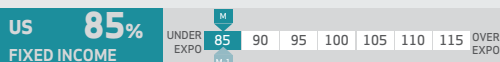


US FIXED INCOME

REASSURING WORDS FROM THE FED

Jerome Powell reassured investors at the Jackson Hole symposium. The Fed chairman did open the door to tapering (i.e., a gradual decline in asset purchases) in 2021 but provided no precise timetable. Rather, he painted an optimistic picture of the US economy, while pointing out the persistent Covid-19 threat. He was once again reassuring on inflation, calling it high but transitory. On the review period, the 10-year US yield fell by 16bp to 1.3088.

US
FIXED INCOME



EURO FIXED INCOME

INFLATION AT A 10-YEAR HIGH

Inflation accelerated further in the euro zone in August to 3% from 2.2% in July. Core inflation (ex energy and food), a number that the ECB keeps a close eye on, rose by 1.6% in August vs. 0.9% in July. Meanwhile, the ECB's chief economist expects to put its monetary policy on hold. During the period under review, 10-year yields fell by 17bp to -0.386% in Germany, by 19bp to +0.70% in Italy, and by 12bp to +0.33% in Spain.

EURO
FIXED INCOME



KEEP AN EYE ON...

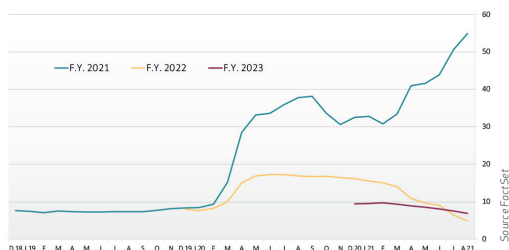
SLOWER EARNINGS GROWTH: WHAT IMPACT ON THE EQUITY MARKETS?

We are in the middle of an economic recovery, in which the Fed has announced a gradual tapering and low rates for a long time to come. The performance of equity markets therefore depends mainly on all the good news that has not yet been priced in. So far this year, flows – mainly US retail investors – and positive momentum in revisions of earnings forecasts have carried the markets to their highs. But this momentum appears to be running out of steam and has actually completely reversed itself for 2022 as 2021 delivered positive surprises.

In January, analysts were forecasting +24% for 2021 and +17% for 2022 for global equities. As of the end of August, these forecasts were +43% and +7.5%, respectively. In other words, the “magic” of 2021 won’t be back in 2022. As a result, those already invested may be wondering whether the time has come for profit-taking. So, is there much hope 12 months out for those who are just now getting in? For, if we were willing to pay 22.7 times 2021 earnings last January, would we be willing to “still” pay 21 times (downgraded) 2022 earnings?

In conclusion, on top of the health risk, which is receding very slowly, equity market valuations are beginning to be undermined not by the rise in bond yields, as expected, but simply because there is no more good news in the pipeline. In short, 2021 valuations have already priced in most of the good news for European equities.

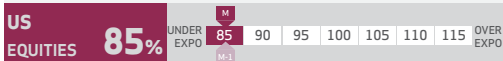
Estimated MSCI Europe EPS growth in EUR
as of 27 August 2021



US EQUITIES

A FLOOD OF RECORDS IN THE US

Indices continue to set records, driven by very good corporate results and by the easing in financial conditions. The resurgence in infections has caused consumer confidence to dip. However, investors were reassured by the jobs report, which showed stronger job creations, along with an increase in average hourly wages. During the summer, the S&P 500 gained 5.9% in euros, driven by the dollar appreciation by +0.41% to 1.1809.



EUROPEAN EQUITIES

SEVENTH CONSECUTIVE MONTH OF GAINS

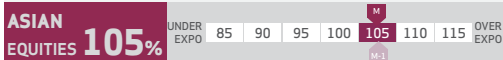
In Europe, flash business survey data for July showed a stabilisation of economic activity despite the recent upturn in new case numbers. The reasons that equity markets held up so well are highly accommodating financial conditions, ongoing vaccination campaigns, and very good company results. Pricing pressures and supply chain bottlenecks continue to pose problems. The EuroStoxx gained +3.37% this summer.



ASIAN EQUITIES

TIGHTENING OF CHINESE REGULATION

After technology, Beijing plans to step up regulation of other sectors, such as healthcare, financial services, education and transport, and to crack down in key economic sectors. On top of these announcements, pandemic uncertainties are creating a clear slowdown, particularly in services, which contracted in July. In Japan, the resurgence in new cases is raising concerns, and new elections are scheduled for late September. During the review period, the Topix ended up +2.42%, while the MSCI AC Asia-Pacific ex Japan corrected by -4.80%.





IMPACT INVESTING: SHIFTING GEARS

The global macro environment has shifted. Societal challenges are now on the agenda of the world's political leaders. The United States' return to the Paris Agreement on climate change comes with federal spending to address longstanding social and economic challenges in a way not seen in a half-century. President Biden's \$2 trillion plan to overhaul and upgrade the nation's infrastructure, would also accelerate the fight against climate change by hastening the shift to new, cleaner energy sources, and would help promote racial equality in the economy.

One more example of the transition towards a sustainable development model, the Federal Reserve rewrote in 2020 its approach to inflation set four decades ago. In the revised statement of its long-term goals and monetary policy strategy, the Federal Reserve now shares a degree of tolerance for inflation. More interestingly, the policymaker acknowledges that the FOMC should take into account the substantial differences in labor market outcomes across communities, when thinking about full employment. This shift to a more inclusive employment mandate for the Fed sparks a combat against inequality. Will future policies favour educational opportunities that boost long-term earnings prospects?

While the Federal Reserve was reviewing its goals, eighty-nine other central banks reaffirmed their priority to curb global warming this past year. Central bankers agree that climate change is, at the very least, a concern for financial stability, if not an existential threat, a Green Swan.



By **Frédéric Samama**,
Chief Responsible Investment Officer - CPRAM

The alarming conclusions of the new IPCC report published at the beginning of August reminded us of the urgency to act and the scale of the challenge.

This is a new "environment" in which businesses and investors are operating, much like globalisation or the internet revolution of recent decades.

MATERIALITY ASSESSMENT

At the dawn of the industrial age, financial capital was a scarce resource, and this situation prompted companies to report on its use. In today's economy, financial capital is a commodity. Conversely, natural capital and human capital, once considered abundant, have become key.

Several prominent reporting standards and frameworks help companies produce high-quality sustainability reports and disclosures on environmental, social and governance (ESG) issues. The European Commission guidelines on non-financial reporting integrate the recommendations of the Financial Stability board's taskforce on climate-related financial disclosures (TCFD), which have become the benchmark on climate-reporting. The non-binding recommendations of the European Commission also take account of the

forthcoming taxonomy on sustainable activities that is under development. Companies can also apply other extra-financial reporting standards, such as those developed by the Global Reporting Initiative, the Sustainability Accounting Standards Board or the Climate Disclosure Standards Board. Many efforts are being made to achieve the convergence between these standards.

CHANNELING INVESTOR MONEY

Investors can take part in the construction of a profitable economy that preserves public goods. Through taxonomy, codes of conduct and labelling, public authorities channel institutional investments according to their understanding of sustainable capitalism.

The European Union has proposed a taxonomy of sustainable activities to mobilise and redirect financial investments towards the green economy. The financing needs to meet Europe's climate goals alone are estimated at between €175 and €290 billion per year by 2050. The taxonomy focuses on environmental objectives, including climate change mitigation and adaptation of different economic sectors. Gradually, this benchmark will address the sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention control, and protection and restoration of biodiversity and ecosystems... With the taxonomy, the European Union now has a methodology to reach its goal of carbon neutrality by 2050.

The "stewardship codes", which have been drawn up by the UK public authorities and are now adopted by 27 countries worldwide, also illustrate a desire to channel investors' practices with regard to the disruptions that affect them, in particular the climate risk. A last trend is the development of labels. In France, asset managers must now comply with a more demanding socially responsible investment (SRI) label, which also evaluates their ability to improve their consideration of ESG criteria.

BUILDING SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

As an independent branch of Amundi Group, CPR Asset Management has been committed to building a 100% responsible investment offer for the past three years. As end of June 2021, our team managed more than €43 billion in funds with a sustainable approach, including article 8 and 9 products under the EU Sustainable Finance Disclosure Regulation (SFDR).

ESG integration is carried out within our investment solutions according to a risk-based qualification. When we analyse a company, we review its relationships with its suppliers and its employees, as well as its governance. We examine whether the way it operates is sustainable or whether there are indicators that highlight weaknesses. We consider that there are long-term risks associated with poor ESG practices (e.g., reputational risk) that are not fully priced in the market, but which can be costly in terms of performance. Reducing these ESG risks generates higher risk-adjusted returns over the long term.

Our responsible investment approach is best reflected in thematic investing, where megatrends and positive impact share the same long-term vision. CPR AM has developed a range of solutions that aim to have a concrete and measurable impact, be it social or environmental, for our investors. Our latest thematic funds address the energy transition, education and the reduction of inequalities, and the nutritional challenge. In the interests of transparency and in order to make investment more concrete, we publish an annual impact report for each of these funds.

At CPR AM, we are deeply convinced that finance can contribute to the foundation of a responsible society. By designing solutions that combine returns, profitability and a positive impact on society, we are committed to helping every investor do their part and act to shape a more sustainable, responsible and inclusive way of life for mankind.



2021

A POST-VACATION MARKET UPDATE: AN INITIAL ASSESSMENT OF 2021 AND THE OUTLOOK FOR THE REST OF THE YEAR

As we return from our summer holidays, let's take a look back at events that have occurred on the markets so far this year, the lessons and convictions that we have drawn from them, and how we have positioned our resulting asset allocation range.



By **Malik Haddouk**,
Head of Multi-Asset and Convertibles
Management - CPR AM



By **Gauthier Saint Olive**,
Product Specialist - CPR AM

THE YEAR SO FAR HAS FALLEN INTO TWO SEPARATE PERIODS.

The first quarter was highlighted by the rally in yield stocks and cyclical value stocks in reaction to the strength of the economic recovery. Beginning in April, growth and quality stocks roared back, led by, US FAANGs in particular, which put up impressive numbers. The gains now look unstoppable, no matter how extreme valuations have become.

SINCE JANUARY, THE MARKETS HAVE ALSO FLUCTUATED WITH THE PACE OF THE DELTA VARIANT'S SPREAD AND VACCINATIONS.

Vaccinations have had a big impact on economies across the globe. For example, the US, where most of the population has been vaccinated, is ahead of the global recovery curve. Growth and job market indicators are all in the black. All of this news has spilled over into the equity markets, with US indices setting one record after another in the second and third quarters. By the end of August, the S&P 500 had hit 4520 points.

Europe is now also benefiting from these large-scale vaccination roll-outs, albeit while lagging several

months behind the US. In contrast, emerging markets are further behind, in Latin America, Africa and south Asia. We also see that countries that adopted a "zero-case" policy are now paying a big price economically, whether in Australia, Japan or some developed Asian economies.

China is a special case. Xi Jinping's regulatory crackdown over the past few months has hit the education and video game sectors hard, along with companies in the new technologies and communications sectors. The Chinese government has embarked on a process of retaking control of entire swaths of the economy. While the measures will probably end up being virtuous in the medium and long term – Joe Biden himself would not dispute the value of many of Xi Jinping's measures to make China more socially oriented and egalitarian – they have had heavy negative impacts on the markets and sectors concerned. Valuations of US and Chinese tech companies, for example, have uncoupled drastically, with the latter underperforming the former by more than 50% on the year to date.

BUT LET'S NOT OVERLOOK THE FACT THAT THE MARKETS PERFORMED WELL ON THE WHOLE IN THE FIRST EIGHT MONTHS OF THE YEAR, WITH GLOBAL EQUITIES UP BY 19%.

Let's also keep in mind the seven consecutive months of gains since February. As a direct result, valuations are still high although they have pulled back as a result of the very good earnings growth achieved by most US and European companies. The global economic recovery was a decisive factor in this rebound in corporate earnings. However, any reversal in earnings momentum could potentially disrupt the equity markets in the next two months. 2022 earnings forecast have already begun to be revised downward, whereas 2021 has been constantly revised upward worldwide with the exception of emerging markets.

CENTRAL BANKS' ATTITUDES COULD ALSO HELP CHANGE THE COURSE TEMPORARILY.

The ECB may take the lead in the monetary tightening race and alter its policy by reducing PEPP purchases, and the Fed could flag a reduction in its purchases by yearend. The issue of raising the US debt ceiling, which has still not been resolved, could also raise concerns by yearend if a bipartisan agreement is not reached, particularly on the 3,500 billion dollar plan.

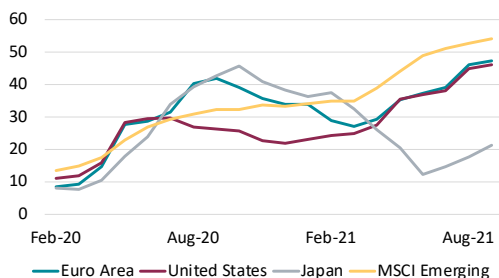
WE BELIEVE THAT VERY LOW REAL RATES ARE THE GLUE THAT IS KEEPING THIS PARADIGM IN PLACE, IN WHICH EQUITIES ARE BENEFITING FULLY FROM LOW GOVERNMENT BOND YIELDS.

With this in mind, we remain doubtful on the overall resilience of the US bond market, which continues to ignore the inevitable reduction in the Fed's emergency monetary accommodation, stronger-than-expected inflationary pressures, and the resumption in Treasury issuance to fund infrastructure plans.

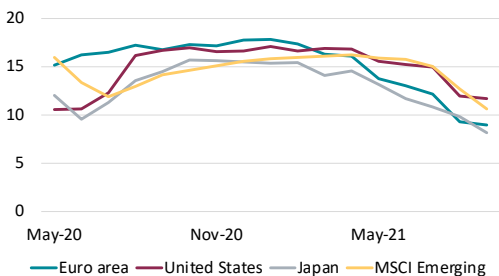
WE MAINTAIN OUR VIEW THAT LONG-TERM RATES ARE LIKELY TO RISE SLIGHTLY AND THEREFORE REITERATE OUR NEGATIVE STANCE ON US GOVERNMENT BOND YIELDS. Meanwhile, the peaking that is occurring in GDP and earnings growth will require enhanced prudence on the equities front.

Regarding the portfolio, we are therefore sticking to our median exposure (about 50% for the Reactive profile), which is centred around the US and Europe, while hedging through the use of options. During the summer we reduced our value bias and raised our exposure to Japanese equities, which have been hit excessively by the recent public healthcare episode.

2021 Earning Growth Prediction - Main Equity Markets



2022 Earning Growth Prediction - Main Equity Markets



Source Refinitiv Datastream

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FORECASTS AS OF 27 AUGUST 2021

REMINDER TO 24 JUNE 2021

1 > **70%** 2 > **30%**



CENTRAL GRADUAL NORMALISATION

The pandemic recedes, while vaccinations move forward as scheduled. Emerging markets lag behind on the whole.

Growth continues to strengthen, driven by highly accommodative fiscal and monetary policies, but probably peaked in Q2 in the US.

The Chinese government ratchets up pressure via increased regulation (a structural factor).

A slow and steady tapering is announced within three months. Interest rates continue to return to normal very gradually. The equity markets also gain but also very moderately.



ALTERNATIVE A POSTPONED RECOVERY

The Delta variant continues to circulate widely.

The health issue hinders reopenings and undermines growth prospects.

Supply chains remain disrupted, creating bottlenecks.

Interest rates remain very low.

The equity markets decline, less so in the US.



ALTERNATIVE 2 A FASTER PACE OF TAPERING

As a result of US fiscal support, demand outstrips supply, which is still constrained.

Inflation looks less transitory than expected.

The improvement in the job market stokes expectations of more rapid and more aggressive action from the Fed (tapering and rate hikes), while the real-estate market raises concerns.

Long bond yields rise more decisively. Companies' margins are hit negatively. Equity markets decline, albeit while diverging, depending on index composition.

	Key rate	Bond yields	Equities
United States	0.25% ►	1.50% ▲	2.50% ▲
Japan	-0.10% ►	0.05% ▲	5.00% ▲
Euro zone	-0.50% ►	-0.30% ▲	2.50% ▲

Emerging markets Equity	Currency
Latin America	2.50% ▲ EUR-USD 1.18 ►
Asia	2.50% ▲

	Key rate	Bond yields	Equities
United States	0.25% ►	1.15% ▼	-5.00% ▼
Japan	-0.10% ►	0.00% ►	-7.50% ▼
Euro zone	-0.50% ►	-0.55% ►	-7.50% ▼

Emerging markets Equity	Currency
Latin America	-7.50% ▼ EUR-USD 1.19 ▲
Asia	-5.00% ▼

	Key rate	Bond yields	Equities
United States	0.25% ►	1.90% ▲	-5.00% ▼
Japan	-0.10% ►	0.10% ▲	-2.50% ▼
Euro zone	-0.50% ►	-0.05% ▲	-2.50% ▼

Emerging markets Equity	Currency
Latin America	-5.00% ▼ EUR-USD 1.13 ▼
Asia	-5.00% ▼

PERFORMANCE AS OF 24 AUGUST 2021

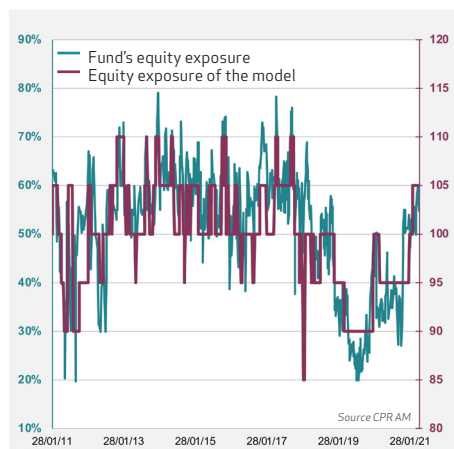
PAST PERFORMANCE IS NO GUIDE TO FUTURE RETURNS.

	Since 12.31.20	Over 1 year	Over 5 years	Level from 08.24.21		CENTRAL 50% proba.		ALTERNATIVE 25% proba.		ALTERNATIVE 2 25% proba.	
United States	0.16%	0.25%	1.25%	0.25%	Key rate	0.25%	►	0.25%	►	0.25%	►
	-1.81%	-3.08%	14.26%	1.27%	10-year interest rate	1.50%	▲	1.15%	▼	1.90%	▲
	2.80%	7.31%	21.19%	285	High Yield US	275	▼	310	▲	290	▲
	-3.77%	-0.27%	4.37%	1.18	Euro/dollar	1.18	►	1.19	▲	1.13	▼
	19.75%	33.20%	124.89%	4 486	S&P 500	2.50%	▲	-5.00%	▼	-5.00%	▼
Europe	-0.32%	-0.50%	-2.50%	-0.50%	Key rate	-0.50%	►	-0.50%	►	-0.50%	►
	-0.33%	0.09%	5.75%	-0.52%	10-year interest rate	-0.30%	▲	-0.52%	►	-0.05%	▲
	3.25%	8.06%	23.07%	286	High Yield Europe DJ	275	▼	310	▲	290	▲
	17.60%	25.40%	38.87%	4 178	EuroStoxx 50	2.50%	▲	-7.50%	▼	-2.50%	▼
Japan	1.05%	20.65%	67.09%	27 732	Nikkei 225	5.00%	▲	-7.50%	▼	-2.50%	▼

CHANGES IN ALLOCATIONS OF CPR INVEST - REACTIVE

This was the seventh consecutive month of equity market gains in Europe and the US. So summer was rather quiet on the whole, as volatility declined further. And yet, this upward trend came against a backdrop of events that were bad news for equities, such as the increase in Covid cases, the return of inflationary concerns, the outlook for monetary stimulus and the slowdown in economic activity figures, particularly in China and the US. While this slowdown is undeniable, the markets seem to be reassured by Powell's latest comments that fiscal and monetary stimulus will remain in place. The MSCI World gained +4.80% during the summer, driven by the US and Europe, while emerging markets were sold off, with the MSCI Emerging Markets index declining by -3.85%. This correction was due to measures by Chinese authorities on regulation of several economic sectors in order to combat inequalities. Underperformance by emerging markets was also due to the resurgence in the pandemic in most countries, due, in turn, mainly to delays in vaccination campaigns. On the bond front, high-quality and high-yield corporate bonds fared well, driven by the further decline in nominal rates and by favourable financial conditions, which encourage the quest for yield. Lastly, oil and commodities corrected somewhat and the dollar appreciated vs. most currencies. During

the summer we kept our portfolio's equity exposure at around 50%, while overweighting the US and Europe. In our fixed-income investments, we raised our corporate bond exposure and kept our below-benchmark sensitivity to US and German government bonds. We will be setting up hedges on US and European equity indices in anticipation of a correction in the coming months and will be raising our exposure to Japanese equities.



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