Monthly Portfolio Update

*Amundi Funds II – Global Multi-Asset Target Income**

30 April 2018

MULTI-ASSET

COMMENTARY

Market Review

Following a turbulent February and March, global equity markets staged a recovery in April, mainly thanks to a cooling in U.S./Chinese trade tensions, a surprising outbreak of "entente cordiale" between North and South Korea, some positive macro-economic data and a good earnings season. However, the on-going rise in bond yields, with the U.S. 10-year yield briefly breaking above 3%, has acted as a headwind for risk assets.

The MSCI World equity index was up +1.1% in April (in total returns), but with diverging performance across countries. In Europe, a stabilisation in the Purchasing Manger Indices, a weaker Euro and a slightly dovish ECB helped European bourses (EuroStoxx 50 +5.2%) to deliver stronger returns. Japanese stocks also benefited from a weaker currency (Nikkei +4.7%). Meanwhile, in the U.S, the S&P500 rose a more modest +0.4% with value stocks outperforming growth stocks marginally for the first time in a while. Emerging Markets (EM) equities, (as measured by the MSCI EM Index) underperformed the other major markets in April, falling -0.4% over the month. Weakness was mainly driven by U.S. Dollar strength, and higher U.S. bond yields.

Yield expansion was evident across government bond markets but yield curves remained flat, raising suspicions amongst some market participants that the flattening of the yield curve is signalling slower economic growth in the future. Overall the JP Morgan Global Bond Index EMU 5-7 years fell -0.2%. In the U.S, the 10-year Treasury yield rose +21bps to 2.95%, while the yield spread between the 2-year and 10-year maturities remained below 50bps. In Europe, dovish central banks kept yields in check. Germany 10-year Bund yields rose by 6bps while equivalent maturities in the periphery, Spain for instance, were higher by +12bps.

Corporate bonds outperformed government bonds in April although the moves were benign in lower beta sectors. Bloomberg Barclays Euro Aggregate Corporate index, which represents Euro Investment Grade (IG) was basically unchanged (+0.04%), whilst the Bloomberg Barclays U.S. Corporate index fell -0.9%. High Yield (HY) sectors posted stronger returns; with the Euro High Yield index rising +1.0%, whilst the U.S. High Yield index rose +0.6%.

In currency markets, higher U.S. yields, strong macro data and robust corporate results provided support for the U.S. Dollar, which rebounded strongly, particularly versus EM currencies. Among Developed Market (DM) currencies, dovish rhetoric from the ECB and BOJ resulted in the Euro and Japanese Yen sliding -2.0% and -2.9% versus the U.S. Dollar. The UK Sterling lost -1.8% as the probability of a rate hike by the Bank of England waned due to weaker inflation and GDP growth data.

Commodities had a strong month, with the S&P GSCI Index rising +5.0% mostly driven by a strong increase in the oil price. West Texas Intermediate rose +5.6% due to rising tensions in the Middle East and concerns of a reinstatement of Iran sanctions, although rising inventories in the U.S. curtailed gains. Industrial metals were weighed by concerns surrounding U.S. sanctions and a stronger U.S. Dollar, while better Chinese macro data helped to sustain prices. Nickel and Copper rose +2.6% and +1.4% respectively, while Aluminium was up +13.7%. The risk-on market backdrop did not help precious metals as Gold lost -0.3%.

Portfolio Review

The Portfolio performance was positive for the month of April, partly offsetting losses from the first quarter that were caused by market turmoil. Macro Strategy, Selection Strategies and Satellites contributed positively to performance, while Macro Hedging detracted. In terms of asset classes, especially long exposure to equities resulted in positive returns followed by the allocation to HY bonds. Contributions from exposure to IG corporate bonds were mixed, while EM bonds suffered from rising yields and higher spreads. Currency exposure detracted from performance as the U.S. Dollar appreciated versus major currencies.

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*Prior to 16 February 2018, Pioneer Funds – Global Multi-Asset Target Income.

Amundi
ASSET MANAGEMENT

Marketing Material

Within equities, the directional exposure to markets across regions led performance higher and especially allocations to Europe, Japan and EMs contributed positively. Some volatility reduction strategies within Macro Hedging (Europe and Japan for instance) were negative as volatility declined on easing political tensions. Satellites, which include reflationary focused asymmetric and relative value strategies, posted an overall positive performance. Selection contributed positively overall as well, namely driven by selection in rates, corporates and commodities. Selection strategies in equities slightly detracted in April.

Within fixed income, rates strategies in EMs and the U.S. were negative in April as yields increased substantially in these markets. A short position in Core Euroland and long position in peripheral bonds could offset some of the losses and were positive contributors to performance. In credit space, exposure to European and UK corporate bonds was positive for performance, while U.S. corporate bond exposure detracted. Although spreads slightly declined in the U.S. credit markets, rising yields caused a negative performance for the month.

Currency strategies were negative for the month as the U.S. Dollar strengthened versus the Euro, the Japanese Yen and a basket of EM currencies, which were overweight in the Portfolio. Exposure to Real Assets and Commodities was positive and added to performance.

Asset Allocation (Macro Strategy and Satellite Strategy)

We maintain a slightly positive bias towards risky assets, as fundamental data is still supportive. However, geopolitical tensions, the introduction of protectionist trade measures as well as a gradual normalisation of central bank monetary policies are acting as headwinds and call for a more defensive and regionally diversified asset allocation.

After the drop in equity markets in early April, we have tactically increased the exposure to stocks, taking advantage of more appealing valuations. During the course of the month, we gradually reduced our equity exposure to a neutral level again, while maintaining some upside potential through optionality. Although fundamentals remain sound due to the ongoing resilient global growth, equity markets have been more volatile in the current environment. We have trimmed down our exposure in Japan somewhat, keeping our positive view on the Japanese Banking sector. In Europe, we have added exposure to participate in the dividend paying season. Furthermore, European equities could benefit from a strengthening U.S. Dollar. We also maintain our increased allocation to U.S. equities where earnings growth prospects are favourable due to the fiscal package. With respect to EM, we prefer to remain selective, while they generally benefit from a higher resilience, positive earnings momentum and a positive commodity outlook, we also acknowledge that individual country risks have increased. We have reduced the exposure to Russia for example as political tensions escalated and renewed political sanctions are likely to weigh on the economy. We maintain an overweight to China versus the overall EM index.

On fixed income, we have reduced the duration exposure in April as yields backed up globally. We keep a very short duration tilt with a negative exposure in Core Europe, Japan and the UK, while we continue to overweight the U.S. and European peripheral bonds. We are positioned for higher break-even rates in Europe, Japan and the U.S, where we anticipate increased price dynamics. We have also positioned for a steeper curve in the U.S. as we expect longer maturities to underperform in this environment. In Germany, we continue to anticipate higher yields and maintain our short positions in short-dated maturities.

EM bonds have seen a modest spread widening in April, however, the asset class remains appealing for carry. Technical factors are also supportive for EM debt in our view, as positioning is not overcrowded and capital flows remain persistent. Additionally, improved current account balances and declining external vulnerabilities benefits our exposure. As with equities, we focus on selective countries in Latin America, Asia and Eastern Europe.

We maintain a constructive view for the IG Corporate sector. The sector has been relatively resilient during the recent market sell-off due to supportive fundamentals and low default rates. Although valuations are ambitious, we continue to like European credits as the continued demand from ECB's corporate bond purchases limits downside risk.

Within HY we are becoming more cautious and have set up hedges on the U.S. HY sector. Although positive earnings and low default rates have been supportive for the sector so far this year, higher leverage levels and tightening financing conditions (especially in the U.S.) warrant more defensive stance and a strong focus on security selection.

In the current late cycle environment, we also place a higher emphasis on uncorrelated and broadly market-neutral Satellite Strategies. For example, we currently

have a long position in Russell 2000 versus short Nasdaq as smaller, domestic corporations should be affected less by the discussions on trade restrictions than large international high tech companies. Reflecting the current strength in oil prices and rising interest rates, we have a long exposure in the U.S. Energy sector versus a short position in U.S. REITS. In addition, we employ several other Satellite Strategies on yield curves, sectors, volatility or duration.

In terms of currencies, we reduced our strategic Euro long position vs. the U.S. Dollar at the beginning of April considering the asynchrony in global growth (U.S. growth resilience and Eurozone macro data disappointment). At the end of April, we increased the Long Yen position on the recent strength. Within the “monetary policy normalisation” theme we prefer long Yen for the low valuation, high short positioning and “safe heaven” status. We are short on Australian Dollar (versus Euro) given the dovish outlook from the Reserve Bank of Australia and headwinds from a potential trade war between China and U.S.

Macro Hedging

We maintain partial hedges on spread duration (via CDS and CDS options on European IG, U.S. HY and EM hard currency bonds) as well as equities and equity volatility aiming to manage downside from tail risk events. We also maintain volatility management strategies on European interest rates aiming to benefit from a pick-up in rate volatility.

Security Selection

Within credit, we hold a majority of our exposure in the crossover area (BBB+ to BB ratings). Lower default expectations amid solid fundamental data makes positioning attractive despite tight spreads. In terms of sector allocation, we prefer Financials, which could benefit from improved fundamentals amidst higher interest rates and better asset quality. Moreover, deregulation could increase profitability especially for U.S. banks. We maintain a tilt to Subordinated Financials, which are preferable for their carry. However, we have started to cut exposure to Subordinated Non-Financials as we note that valuations are stretched and further excess return potential is limited.

In terms of equities, we maintain a bias to Europe given the dividend paying season. We maintain a tilt to pro-cyclical sectors such as Financials and Energy, where earnings may benefit from rising rates and higher oil prices. We hold some exposure to bond-proxy sectors such as Healthcare and Consumer Staples, which offer the prospects of sustainable dividend yields

In April, we wrote options on single stocks primarily in Europe. We sold puts on Materials, Metals/Mining and Telecommunication companies. At the end of April, after the peak in earnings, we overwrote Semiconductors. Furthermore, we reduced our beta by underwriting real estate security with an attractive dividend expectation.

Outlook

Global growth is expected to remain above potential in 2018 and 2019 with the current recovery set to run until 2020. DM economies (with the notable exception of the UK) should continue to experience above potential growth while a majority of the emerging economies should also continue to grow at a sustained pace. The ongoing rebalancing in China is progressing soundly. Importantly, the recent deterioration in lead indicators does not signal a reversal of the cycle. The synchronous global recovery is being driven by domestic demand, and we note a recovery in capex in many regions (U.S, Europe, Japan, Asia), which should support risk assets, particularly equities, in our view.

Global inflation should pick-up correspondingly due to the stronger economic backdrop. Despite the up-tick in inflation, we note that it is from a low base and expect inflation on average to remain well below its historical levels for structural reasons. As a result, we believe monetary policies should remain accommodative with the exception in the U.S, where the pro-cyclical fiscal policy stance has accelerated inflationary prospects.

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