Amundi ASSET MANAGEMENT ETF

FOCUS

Using ETFs to capture the potential of US equity and bond markets

As investors are getting more and more worried about the possibility of late US cycle fallout, there are several strategies which can be implemented to continue reaping returns from Stateside potential.

Uncertainty regarding the state of the world economy has recently returned to the fore. Yet the United States continue to exhibit especially strong growth, and it appears set for another year of growth in 2019.

Despite recurring anxiety about a possible 'late cycle' scenario and the gradual course of rate hikes by the Fed, the long-term effects of the Fed's accommodating policy continue to be felt, supporting business activity.

In this context, US market continues to offer significant and attractive opportunities for investment. For instance close to 45% of European flows have been funnelled into ETFs with exposure to the US markets in 2018[1].

1. Source: Amundi ETF, at end December 2018

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Five approaches to benefit from US potential

EXPOSURE TO THE MAJOR US INDEXES

In order to benefit from US equity markets potential, investors can gain exposure via **ETFs that mirror the S&P 500 or MSCI USA indices**. Both of these are large and diversified indices, which can provide an allocation that complements European or Emerging Markets exposure.

European investors must also ask themselves what degree of appetite they have for exposure to currency fluctuations: by choosing securities denominated in dollars or euros, investors will find themselves exposed to currency fluctuations, and stand to benefit from a potential strengthening of the dollar against the euro.

For investors who wish to avoid exposure to currency fluctuations, it is possible to choose exposures hedged against EUR/USD exchange risks, thereby hedging investors against lowered returns in the event of a fall in the dollar or rise of the euro[2]. ■

A FACTOR-BASED APPROACH TO LEVERAGE RISK PREMIA

Another way to gain exposure to US equity markets is to use a factor-based approach. This involves **seeking exposure to the main factors driving outperformance in the equity markets**.

One of the most widely known performance factors in the equity markets relates to market capitalization. Over the long term, small and mid-capitalisation companies can tend to outperform large-caps due to their structurally higher growth rates.

To take advantage of this tendency, **investors may turn to a US 'small & mid-caps' index**, such as the Russell 2000.

These stocks, however, have a tendency to exhibit more volatility than large-caps. Consequently, exposure to small & mid-caps is considered an aggressive investment strategy, often used to complement other, more defensive strategies.

Defensive solutions of this type available to investors include, for instance, Minimum Volatility ETFs. These products can provide a risk cushion in the event of temporary macroeconomic instability.

Investors looking for a turnkey solution to achieve diversified exposure to multiple factors also have the option of **choosing a multi-factor ETF**. ■

1. Source: Amundi ETF, at end December 2018
2. For more information on daily hedging, please consult the ETF legal documentation on amundietf.com

GAIN EXPOSURE TO US MARKETS WITH AN SRI APPROACH

Investors interested in **building a socially responsible investment (SRI) strategy can gain exposure to US markets through specific ETFs**. This condition is fulfilled by ETFs that reproduce SRI indices, such as the MSCI USA SRI for equities, or the Bloomberg Barclays MSCI US in the bond market.

MSCI's 'SRI' methodology makes it possible to exclude certain industries, such as weapons, tobacco or nuclear power, as well as screening for controversial stocks.

Across its equity indices, MSCI selects companies with the strongest ESG profiles, thus rewarding those businesses that most actively take into account ESG criteria and therefore promotes a dynamic for companies to make concrete steps on this front. On the bond market, MSCI works by excluding the lowest-ranked companies. ■

MAXIMIZING YIELD ON THE EQUITY OR BOND MARKETS

In the equity markets, **investing in companies undertaking a share buyback programme can be a source of additional returns**. Such operations create a mechanical increase in per-share value of the float. This strategy can be replicated by an ETF.

The US bond markets also offer many opportunities due to significantly higher interest rates than those prevailing in the euro zone. Exposure to short-term government bonds (eg. 1 to 3-year Treasury notes) from a solid issuer provides potential returns and low exposure to interest rate risk in the event of rising bond yields.

The negative impact of interest rate hikes can also be limited by selecting an ETF mirroring the performance of floating rate notes. The third solution suitable for the current context is selecting an ETF that replicates the performance of inflation-linked bonds, addressing the inflationary trend that has been taking shape in the US since 2015. ■

TARGETING TECHNOLOGY STOCKS, DRIVERS OF THE CURRENT CYCLE

For a number of years now, **the main performance driver in American markets has also been linked to the rise in technology stocks**, dominated by FANGs. Investors can choose the tech sector, selecting an ETF that replicates the Nasdaq-100 index. The index offers the advantage of significant exposure to technology stocks (60%)[1], while maintaining diversification across other sectors, such as healthcare or consumer discretionary. Investing in tech stocks nonetheless best fits within an aggressive investment profile, and it might be necessary to deploy a counter weight strategy to reduce a portfolio's overall volatility.

Investors seeking to avoid exposure to currency fluctuations may also choose to invest in the Nasdaq-100 via an index that is hedged against currency risks. ■

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Using ETFs to capture the potential of US equity and bond markets

Getting exposure to US assets with Amundi ETF

A wide offering ETFs to provide investors with cost-efficient access to US equity and bond markets:

Large equity exposures

- S&P 500
- MSCI North America
- MSCI USA

Factor exposures

- Russell 2000
- MSCI USA Min Volatility
- USA Equity Multi Smart Allocation

Technology stocks exposures

- Nasdaq 100

Search for yield

- S&P 500 Buyback
- Floating rate notes USD Corporate
- US Treasuries
- Barclays US Gov Inflation
- Barclays US Corp BBB 1-5

SRI exposures

- MSCI USA SRI
- US Corp SRI

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