AXA Investment Managers

Multi Asset Allocation Views

May 2024

Multi-Asset Investment views

Our key messages and convictions

Positive stance on DM Equities

#1

Positive growth and earnings supportive; higher inflation and US rates challenging near term

#2

Increasing transatlantic divergences in inflation, economic growth and fiscal stance

Positive on € government bonds

Profit taking on Commodities

#3

Useful diversification but sharp price moves across the complex prompted profit taking

#4

Spreads are tight and stable whilst investor flows remain positive

Neutral on Investment Grade Credit

Source: AXA IM as of 29/04/2024

Asset allocation stance

Positioning across and within asset classes

Asset Allocation

Key asset classes

Equities			■
Bonds			■
Commodities		▼	
Cash	■		

Equities

Developed

Euro area			■
UK		■	
Switzerland		■	
US			■
Japan			■

Emerging & Equity Sectors

Emerging Markets		■	
Europe Cyclical/Value		■	
Euro Financials		■	
European Autos		■	
US Russell 2000		■	
NASDAQ			■

Fixed Income

Govies

Euro core			■
Euro peripheral		■	
UK		■	
US		■	

Inflation Break-even

US		■	
Euro		■	

Credit

Euro IG		■	
US IG		■	
Euro HY		■	
US short duration HY		■	

EM Debt

EM Bonds HC		■	

Legend Negative | Neutral | Positive

Change ▲ Upgrade | ▼ Downgrade

Source: AXA IM as of 29/04/2024

Investment Managers

Central & alternative scenarios

Entrenched Supply Shock 15%

- Banking turmoil escalate, credit conditions tighten.
- Geopolitical tension escalate: Ukraine, Middle East and Indo-Pacific
- Inflation expectations rise, affecting wages and persistence
- Growth weaker, employment could start to fall, but inflation remains elevated
- Monetary ill-equipped to deal with supply shocks and financial instability, deteriorating inflation credibility forces still tighter policy in DMs.

- **Equities:** Risk appetite deteriorates / equities sell off
- **Government bond yields** reprice higher.
- **Credit** spreads widen.
- **EM debt** comes under pressure.
- **US Dollar** remains elevated

Central scenario 65%

- Global economy to slow to 3.1% in 2024 and 2025. Disinflation slower this year, spreading to core.
- Central banks have peaked, most developed central banks likely cut from mid-year but Fed uncertainty spilling to other markets. Balance sheet policy from Fed and ECB to the fore around mid-year.
- Actual cuts should see yields lower by year-end, but structural drivers make a return to post-GFC levels unlikely
- European fiscal consolidation but not too sharply for 2024. US Congressional politics delays further funding requests, long-term outlook in question.

- **Equities:** Stable to falling bond market yields improves visibility for companies. Earnings outlook improving.
- **Government bonds:** Bond yields to soften as central banks begin to ease policy. However, term premia rises to limit overall retracement whilst curves re-steepen.
- **Credit:** Spreads expensive but underlying quality dampens the widening pressure.

Global Boost 20%

- Geo-political tensions ease in Ukraine, Middle East and with China over trade relations.
- Labour market participation recovers/migration strength, strong income growth and easing inflation pressures.
- Productivity boost following investment rebound and structural post-pandemic adjustments, AI impact becomes visible .
- Growth surprises to the upside in most regions.
- Inflation fades more quickly towards and below central bank targets
- Monetary policy softens quicker than signalled

- **Equities:** Risk-on environment with equities making further gains, growth retains lead over value.
- **Government Bonds**: Treasuries suffer
- **Credit:** Spreads grind tighter.

Source: AXA IM as of 28/03/2024

Setting the scene: our Global Economic Outlook

Divergence of inflationary pressures; Central Banks policy may also diverge

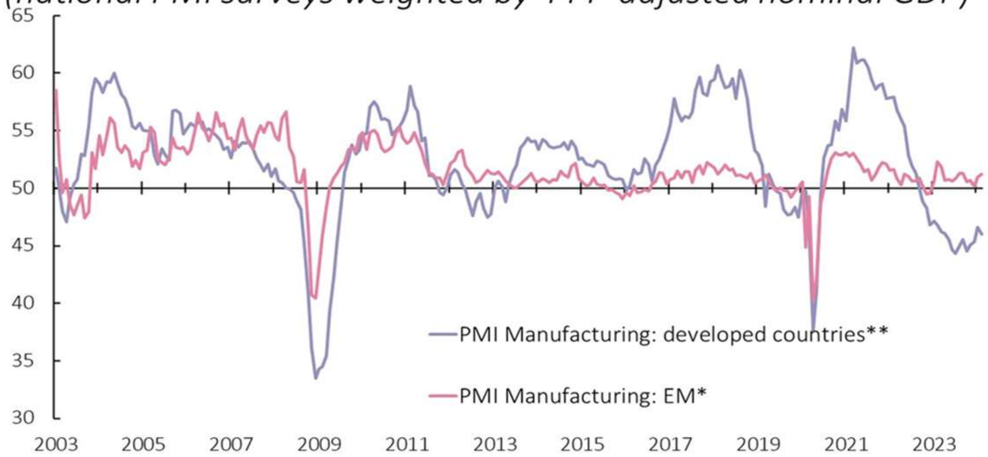
- **US inflation, according to both the March CPI and 1Q price deflator, surprised to the upside.** In line with recent data, household spending remains solid at +2.5% in line with strong gains in employment but slowing. However, 1st quarter GDP came in weaker than expected due to softer government spending, business investment and net trade. **Nevertheless, the steady stream of positive surprises led us to revise our GDP growth forecast up to +2.4% for 2024 albeit still slowing to +1.6% in 2025.**
- **Eurozone economic growth expected to gradually recover led by improving dynamic in the services sector** while the manufacturing sector remains weak. Both headline and core inflation continue to decelerate despite sticky services inflation. We continue to forecast subdued growth at **+0.3% in 2024 improving to +0.8% in 2025.**
- **China's 1st quarter GDP was firmer than expected** suggesting fiscal policy has been well implemented. However, subdued inflation remains an issue and the ongoing property decline threatens to weigh. We thus **increased our GDP growth to +5.0% in 2024 however slowing to +4.2% in 2025.**
- **Emerging markets** facing sticky services inflation and weaker currencies dissuading central banks from continuing with easing paths. EM Asian central banks left policy on hold, pace slowing in Latam albeit some easing still expected in CEE. Higher real rates to pose a challenge for some.
- **Market expectations for Central Banks are beginning to diverge.** US Fed* may only initiate rate cuts in September and expectation reduced to 2 cuts this year. ECB** still likely to begin easing in June and still expect 3 cuts in total this year. BoE*** also likely to cut in June. BoJ**** expected to cautiously hike again before year-end, but unlikely to react directly to support weaker Yen.

Source: AXA IM, Consensus Economics, IMF and Datastream as of 29/04/2024
*Federal Reserve **European Central Bank *** Bank of England ****Bank of Japan

AXA IM Macro Research's economic forecasts*

Real GDP growth (%)	2023*	2024*	2025*
World	3.2	3.0	3.1
Advanced economies	1.7	1.3	1.2
US	2.5	2.4	1.6
Euro area	0.5	0.3	0.8
UK	0.3	0.4	0.8
Switzerland	0.6	0.8	1.3
Japan	1.9	1.2	1.0
Emerging economies	4.1	4.0	4.2
China	5.2	5.0	4.2

Global PMI indices
(national PMI surveys weighted by PPP-adjusted nominal GDP)



Source: Purchasing Managers Indices (PMI) and AXA IM, Feb 2024
** Poland, Mexico, Chile, South Africa, Russia, China, India, Brazil, Turkey, Hungary, Czech*
*** US, Euro area, Japan, UK, Australia, Canada, Sweden, Switzerland*

Overview of asset allocation stance

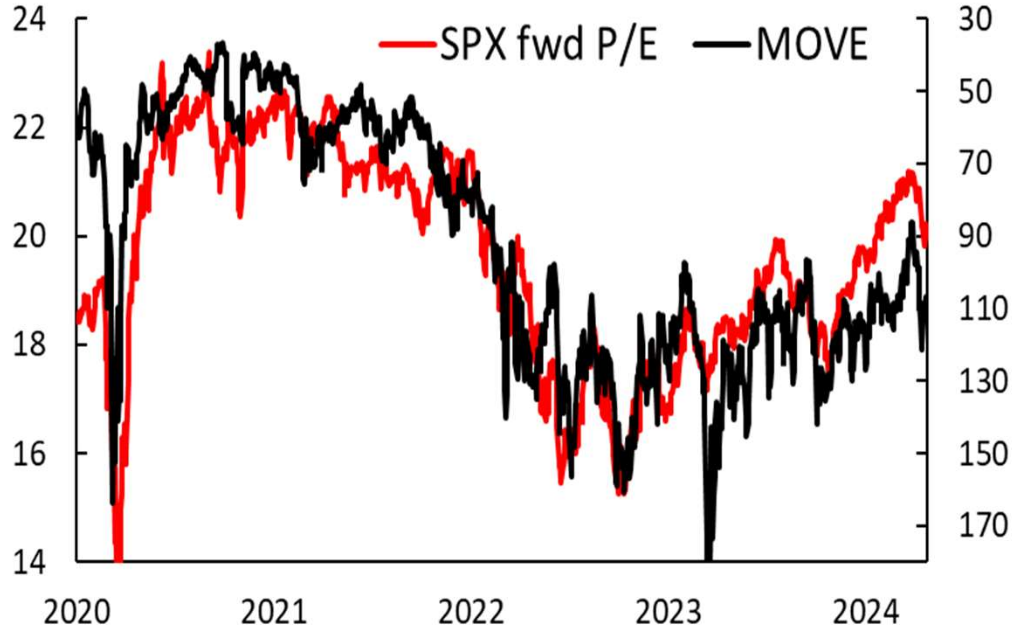
Our views:

- Our positive outlook for equities is not predicated on the start date for Fed rate cuts but rather on the subsequent path and landing of these cuts. As illustrated in the chart, equity valuations is more closely linked to the **volatility in interest rates** more than to the absolute level of interest rates.
- Beyond the recent market wobble, we remain confident that, on balance, **monetary tightening is over**. Significantly tighter financial conditions have been transmitted to the real economy primarily through bank lending with some signs of stress in the most vulnerable parts of the US economy. As market participants regain confidence in rate cuts, regardless of the timing, this should translate into **lower interest rate volatility**, offering additional **support for equities**.
- Meanwhile in Europe, disinflation is still on track and the economic backdrop is more hesitant with fiscal policy, in stark divergence with the US, heading into contraction territory. As a result, **ECB communication is more prudent** confirming our **expectation of monetary policy loosening by summer**.
- We remain **overweight equities**, viewing the recent pullback as almost over and not a change of paradigm. We also hold on to our **duration through Eurozone sovereign debt**, whilst we patiently wait to expand into US duration, favouring the front-end of the curve for now (2-year).

Our key convictions:

- **Positive on DM equities –** Macroeconomic soft landing and strong microeconomic fundamentals still call for further upside in equities, even if near term is challenging with higher for longer inflation and rates in the US.
- **Constructive on € duration –**The increasing transatlantic divergences in inflation, economic growth and fiscal stance advocate for holding on to a Euro duration bias.
- **Neutral on commodities –** Diversification to commodities was a useful hedge against rising tensions in the Middle East and improving activity in China but took profits after the significant price moves across the complex.

Equity valuation move in tandem with interest rate volatility



Key asset classes

Equities			
Bonds			
Commodities		▼	
Cash			

Change ▲ Upgrade ▼ Downgrade

Source: Facset, Stoxx,GS GIR and AXA IM 29/04/2024

Equity markets outlook and convictions

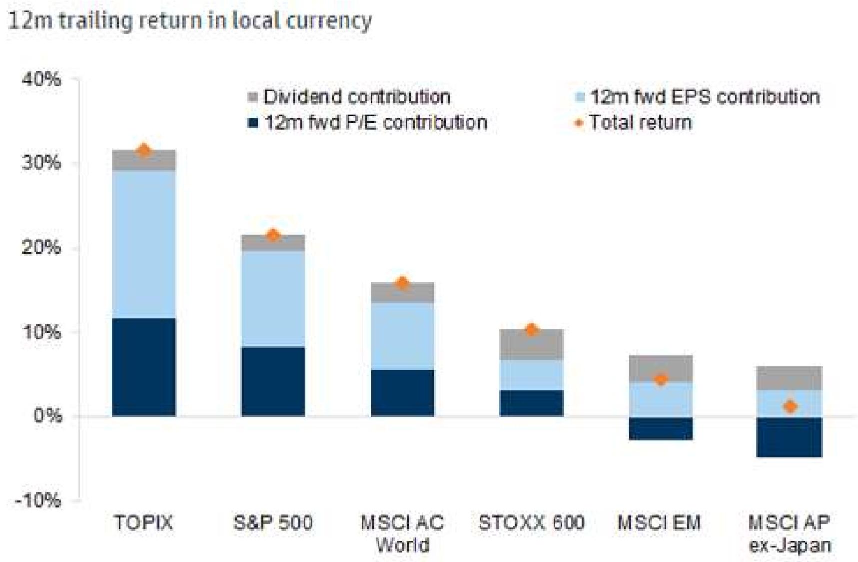
Our views:

- **Equity markets experienced their first bout of volatility recently due to Fed repricing and a flare up of Israel/Iran tensions.** The ‘no landing’ narrative for the US economy is gaining traction whilst inflation is proving sticky, and market now only expects 2 Fed rate cuts at best if at all. Elsewhere growth is bottoming and there are some patches of improvement in the EZ and in China.
- **Valuations ex Tech do not give strong signals either way, but higher rates means that ERP are falling particularly in the US.** However decent earnings growth, higher dividends and increasing buy-backs should support the total return for equities going forward.
- **Q1 Earnings season** is in full swing and, so far, numbers are quite good. Earnings are key to sustain the rally. **In the US, top line and margins are surprising to the upside.** Welcome beats from heavy weights Alphabet and Microsoft also help reassure the market as to the fast-growing AI induced demand and revenues. **EU results are also beating estimates** mostly on the margin side and revisions continue to improve led by Banks and Basic Resources. Consensus now expects @10% EPS growth in the US and @5% in Europe.
- **Sentiment** took a hit as volatility jumped but is now recovering.

Our key convictions:

- Top pick **US equity market**. The US is more defensive and has the highest exposure to the structural growth cash rich technology sector and AI thematic.US is also energy independent in the event of an oil spike.
- **Overweight EZ and Japan**. Japan benefits from structural/governance changes, weaker Yen and EPS revisions. In the EZ, growth is bottoming whilst expected rates cuts, buy-backs, dividends and earnings provide support. Both markets provide some cyclicality versus improving macro cycle.
- We hold our **NASDAQ exposure.** We like the exposure to themes such as AI, robotics, cybersecurity, semi-conductors, and its superior earnings power.

Earnings are main driver of returns



Source: FactSet, Datastream, STOXX, Goldman Sachs Global Investment Research

Developed

Eurozone			
UK			
Switzerland			
Japan			
US			
GEM			

▲ Upgrade ▼ Downgrade

Emerging & sector diversification

European cyclicals/value		▲	
EU Financials			
US Small Caps			
UK domestic stocks			
US cyclicals/value			
Nasdaq			
Semiconductors			

Source: AXA, GS, Datastream, IBES **25/04/2024**

Investment Managers

Government and inflation-linked bonds outlook and convictions

Our views:

- **Global nominal bond yields –** Global bond markets have had to contend with a change in tone from the Fed on the potential starting point for monetary policy normalization which has added to investor uncertainty and market volatility on the back of a 3rd round of hotter inflation prints in the US. Global markets have also had to face somewhat higher energy prices and subsequent risks to inflationary pressures. Real yields and the term premium have risen gradually over the month but have thus far not entered the danger zone from last summer whilst a fall off in bond market volatility (MOVE Index) is key to markets regaining a more solid footing.

- **Inflation breakeven pricing –** levels are consistent with Central Bank targets.

- **Macro (neutral) –** Inflation and growth dynamics favour economic and policy divergence between US and Europe. Score is neutral overall but remain mindful of ongoing bottom-up risks from tightening cycle for Main Street.

- **Valuation (positive) –** Higher yields in Euro area now attractive.

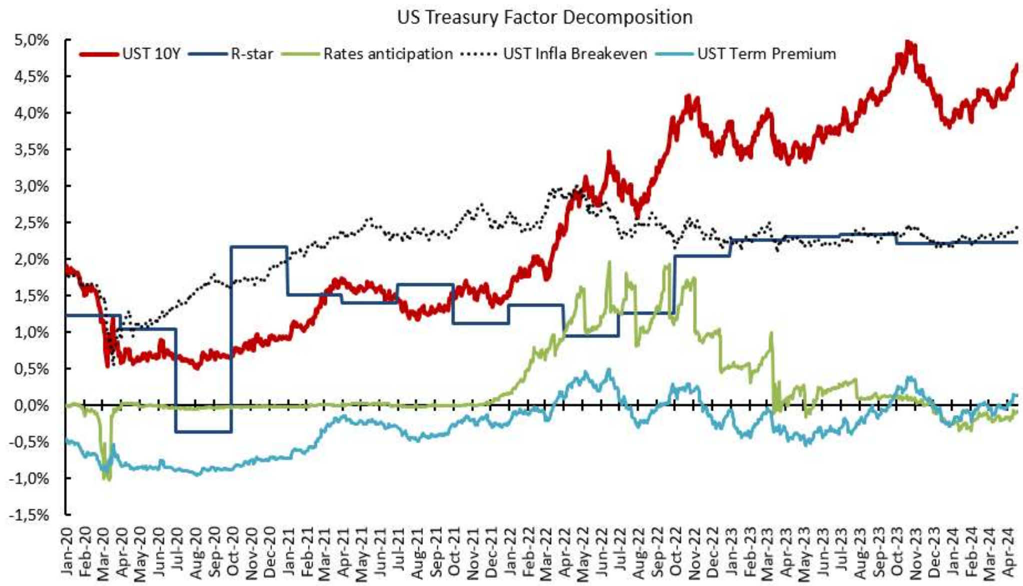
- **Sentiment (positive) –** Flows remain supportive for Govvies.

- **Technicals (neutral) –** Future sources of liquidity and thus demand in bond markets from money market holdings and even the TGA at the Fed.

Our key convictions:

- **Government Bonds**: Overweight € duration
- **Inflation Break-evens:** Neutral

US real yields and term premium are contained thus far



Govies

Euro core			
Euro periph			
UK			
US			
Japan			

Inflation Break-even

US			
Euro			

Emerging

Emerging Markets			

Change	▲ Upgrade	▼ Downgrade

Source: Bloomberg, Axa IM Research (Tentori) 29/04/2024

Credit bonds outlook and convictions

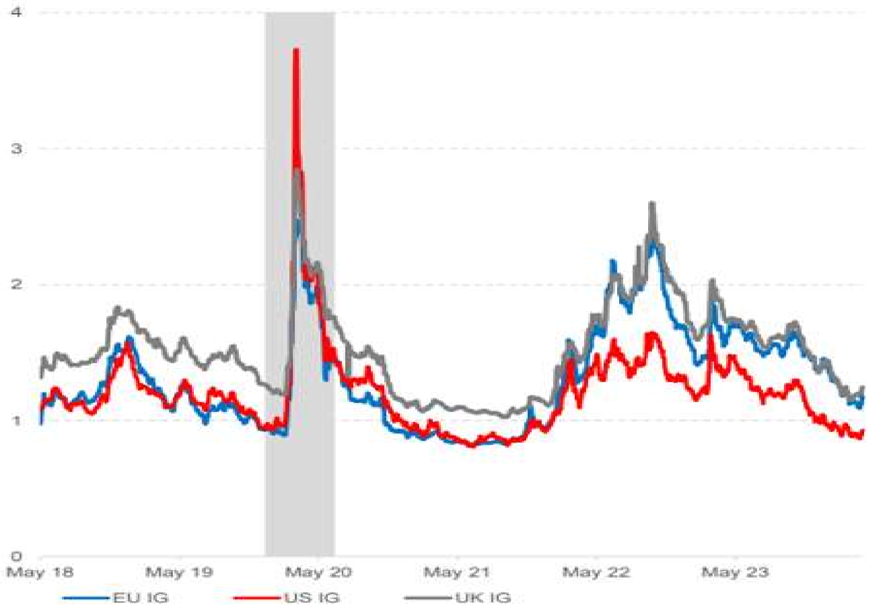
Our views:

- **Credit markets** (IG and HY) investor flows were largely positive over the month but suffered as geo-political risk resurfaced and macro risks pushed yields higher as the market further repriced the path for the Fed policy rate. Nonetheless the spread widening was very muted and quickly reversed with the overriding investor sentiment still comfortable with credit risk as growth remains underpinned in the US and perhaps even improving in the Euro Zone where credit markets offer a discount to the US equivalents. Positioning remains very strong still and this should provide headwinds to spread performance potential. We remain reluctant to add at these levels.
- **Macro (neutral) –** Credit is well supported by the outlook for growth yet any bout of risk aversion in a market that is already heavily exposed to credit assets would likely be painful. As mentioned previously, whilst bond volatility remains contained or indeed falling, there is no immediate danger to spreads. The danger now is that a subsequent hike from the Fed this year becomes a material rather than tail risk.
- **Valuations (negative) –** Spreads remain very tight, but investors are still receiving cash to be put to work in the markets. We are cautious and won't increase exposure at these levels.
- **Sentiment (positive) –** Credit markets remain well supported and absolute yield levels are attractive and helping the market to take down large supply.
- **Technicals (negative) –** Refinancing needs rising but only gradually whilst defaults are rising as previous rate hikes weigh on direct bank lending especially for smaller businesses.

Our key convictions:

- **Investment Grade:** Neutral
- **High Yield:** Neutral

April market volatility barely shows up on the graphs



Credit

Euro IG			
US IG			
Euro HY			
US HY			

Change | ▲ Upgrade | ▼ Downgrade

Source: Bloomberg 29/04/2024

Investment Managers

Currency market outlook and convictions

Our views:

- **USD:** Reconfirmation of US exceptionalism and higher uncertainty on monetary policy trajectory are supportive. However limited upside : already hawkish expectations on Fed and sizable long USD positioning.

- **JPY:** Japanese inflation surprises to the downside and BoJ remains prudent, triggering weakening to new historical lows. Current level looks excessive against rate differential and dominant driver will remain foreign rates. Normalization of global inflation and monetary policies ultimately supportive.

- **EUR:** Not cheap against rate differentials but positioning already short.

- **GBP:** UK inflation is normalizing, as well as inflation expectations and we expect downside surprises ahead. Unemployment is ticking up again. BoE now holds a more dovish stance but is still priced in line with Fed.

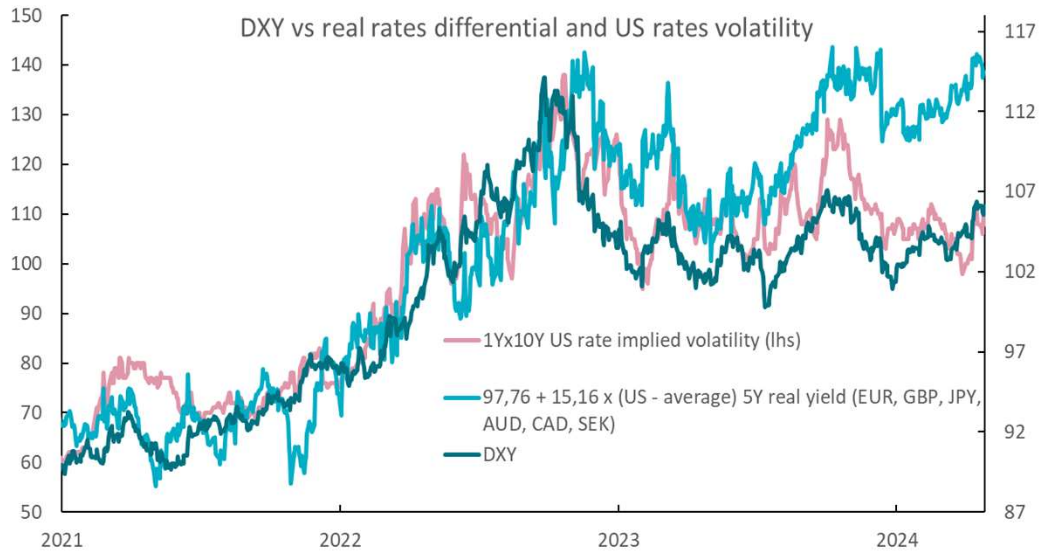
- **CHF:** First G10 central bank to cut. Swiss inflation continues to surprise to the downside. Also headwind from unwind of global stagflation environment.

- **CNH:** Higher US rates put upside pressure on USDCNH against PBOC intervention. CNH becomes expensive against others amid subdued growth.

Our key convictions:

- We hold a positive outlook on USD and JPY and a negative view on GBP, CHF and CNH.

Higher US rate uncertainty driving USD strength, more than rate level or risk sentiment



Currencies relative to USD

EUR				CAD			
GBP				NZD			
JPY				NOK			
CHF				SEK			
AUD				CNH			

Change ▲ Upgrade ▼ Downgrade

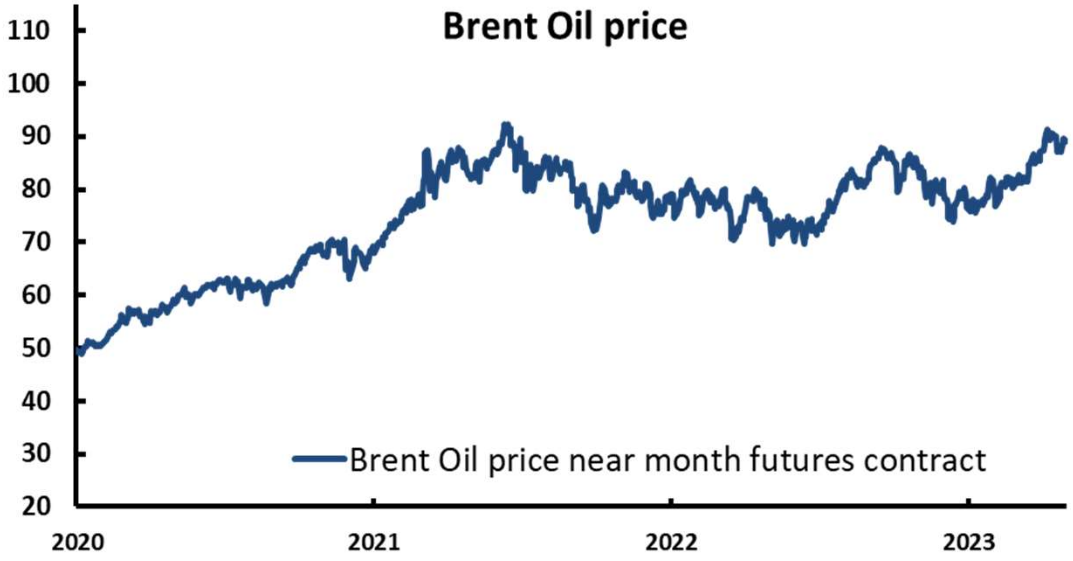
Source: Bloomberg , AXA IM 29/04/2023

Commodity market outlook and convictions

Our views:

- Prices moved higher across the commodity complex. Sentiment improved as investors positioning increased whilst technicals also improved for most major commodities.
- **Oil prices continued to grind higher.** Recent numbers indicate resilient demand whist concerns over higher supply are subsiding. Jet travel remains buoyant which augurs well for summer demand. Supply pressure are limited with only incremental US production increases and higher confidence in OPEC+ compliance. Meanwhile, the ongoing tension in the Middle East keeps a focus on geopolitical risk. In parallel, investor positioning has improved. Given the supportive fundamentals are integrated in the price, we see **little upside** now that oil has reached our summer target and the **high end of multi-year trading range ($90 Brent).**
- **Industrials metals reacted positively to the combination of improving cyclical demand - albeit from a low base - in addition to demand linked to decarbonisation** for China but also globally. Supply appears increasingly constrained for some key metals such as copper. However, the recent sharp price rise and spike in speculative positioning led us to **downgrade our outlook to neutral.**
- **Central Banks remain steady buyers of Gold and the eventual** ea**sing of monetary policy remain supportive.** However, following the recent price spike, we **reduced our stance back to Neutral** given we continue to delay when the Fed will ultimately loosen its monetary policy whilst geopolitical risks appear to be subsiding. .

Oil price at the high end of its trading range



Commodities

Oil			
Industrial Metals		▼	
Gold		▼	

Change	▲ Upgrade	▼ Downgrade

Our key convictions:

- Neutral stance across the commodity complex.

Source: Bloomberg , AXA IM 29/04/2024

Volatility outlook and convictions

Our views:

- "**To cut or not to cut**" Persistent inflation concerns recently led to a decrease in stock prices, with the S&P 500 dropping as much as -5.5% at its April lows. **This economic uncertainty coupled with recent geopolitical tensions is mirrored by a rise in market volatility and the VIX index reaching its highest point this year**. As the first quarter earnings season of 2024 begins, forecasts predict flat earnings growth, influenced by geopolitical tensions and a misalignment between Federal Reserve projections and market indices. **Options trading has become a significant catalyst for increased volatility**, with SX5E ATM dealer gamma reaching an extremely negative position, intensifying market movements. Clients are increasingly investing in put options, adding to the volatility while still holding significant call delta, indicating mixed expectations among investors.

- In early April, our internal contagion indicator exceeded its threshold, signalling a broadening of the market risk. **The upward trend at the end of March was propelled by fluctuations in the commodities market**, particularly by the concurrent increase in gold prices and volatility. Subsequently, the latest U.S. inflation data has intensified volatility in the equity, Interest Rate and foreign exchange markets, thereby elevating the overall risk of contagion.

- **There's heightened activity in options trading, particularly in SX5E Puts**, where the volume of Puts, positions has soared to a three-year peak. This demand has caused a sharp rise in short term equity volatility skews, 3mo 90/110 (+1.8v on SX5E to 8v, +1.5v on SPX to 9.2v). Meanwhile, the volatility term structure has flattened, even inverting in the Japanese equity market.

Volatility Contagion Risk was triggered early April

Our key convictions:

- Monitor the **Bearish Risk Reversal on Credit IG** maturity Sept 24**, to find an exit point**
- Exploit **Skew maturity heterogeneity across major Equity indices**
- **YTD accumulated volatility position to be partially rolled on longer maturities** to exploit term structure flattening

Source: AXA IM, Bloomberg finance L.P. as of April 16th, 2024

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