Investment Institute *Asset Class Views*

Monthly Investment Viewpoint

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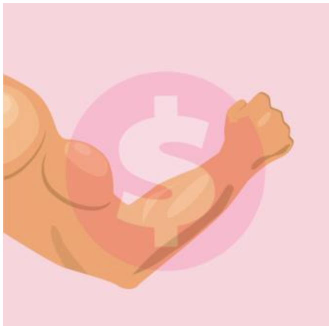
KEY INVESTMENT THEMES



US Q3 earnings **look robust**

Corporate bonds **show potential**

China's policy support **must continue**

Will US economic resilience continue?

Whether the US economy will remain resilient following the election is a key consideration for investors in US dollar-denominated financial assets. As of now, it is on track for a slowdown but not a recession, which we believe should underpin returns from both equity and fixed income markets. There is a lot that is going well for the US - corporate spending on generative artificial intelligence and other technologies could boost productivity, and the job market is seeing decent growth.

Policy uncertainty and how the US positions itself with the rest of the world are the main threats to this benign economic picture. Government spending and taxation will be a key consideration. In the early part of the new administration, (a winner had yet to be announced at the time of writing) indicators of how consumers and businesses spend will be key to whether markets continue to perform.

US dollar hedging costs set to increase

Hedging can help protect an investment against the effects of one currency moving against another – currently, the cost of hedging US dollar-denominated risk into euros for a three-month period is around 1.55%, or 155 basis points (bp). Two years ago, the same hedge cost over 300bp. This reduction has been good for European investors in dollar-denominated fixed income.

But dollar hedging costs are set to increase over the next 12 to 18 months as the US and Europe are likely to ease interest rates at different paces – something investors may want to consider when formulating their 2025 asset allocation.

However, other factors including macroeconomics, balance sheets and market structure support the view that the US corporate bond market could continue to add value, despite the increase in hedging costs.

China stimulus measures welcomed but challenges remain

China's recent monetary policy stimulus package - introduced to help bolster the world's second largest economy – was welcomed by investors, leading to a double-digit equity market rally. But with valuations now less attractive, investors are assessing the measures' potential impact on growth, while awaiting details on additional stimulus.

The housing market remains the largest drag on the economy and consumer confidence. While recent measures ease debt burdens and improve housing affordability, they are not sufficient to resolve developers' challenges. Geopolitical tensions are also likely to influence growth, notably through technology import restrictions and export tariffs.

Government policies must be implemented effectively to enable China's economy to rebalance away from investment to consumption, and towards services rather than manufacturing, to drive earnings growth from within.

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Asset Class Summary Views

Views expressed reflect CIO team expectations on asset class returns and risks. Traffic lights indicate expected return over a three-to-six-month period relative to long-term observed trends.

Positive	Neutral	Negative

CIO team opinions draw on AXA IM Macro Research and AXA IM investment team views and are not intended as asset allocation advice.

Rates		Budgetary concerns and US politics suggest higher volatility even if rates in fair-value range
US Treasuries		Recent rise in long-term risk premium may persist until there is more economic clarity
Euro – Core Govt.		ECB easing cycle is supportive but there is risk of contagion from higher US rates volatility
Euro – Peripherals		Asset class presents opportunities and higher real yields than Bunds
UK Gilts		Financial challenges may mean an increase in government bond issuance
JGBs		Uncertainty over Bank of Japan policy normalisation path. Yen remains volatile
Inflation		Market pricing not discounting any post-election inflation shock

Credit		Favourable pricing is increasing credit’s contribution to excess returns
USD Investment Grade		Without significant growth deterioration, credit should remain resilient
Euro Investment Grade		Modest growth and lower interest rates support credit’s income appeal
GBP Investment Grade		Returns supported by better growth and expectations of rate cuts
USD High Yield		Stronger growth, resilient fundamentals, and higher quality universe are supportive
Euro High Yield		Resilient fundamentals, technical factors and ECB cuts support total returns
EM Hard Currency		Higher quality universe, well-placed with US interest rate cuts commencing

Equities		Soft landing to support stocks into year-end
US		Q3 earnings growth looks to be robust with financials and technology leading
Europe		Supported by attractive valuations, global growth, rate cuts and China’s potential recovery
UK		Clarity on fiscal and regulatory plans required for UK equities to do better
Japan		Resilient global growth is supportive; reforms, monetary policy key for sustained performance
China		Policy support has scope to lead to improved growth and market performance
Investment Themes*		Secular spending on technology and automation should support relative outperformance

*AXA Investment Managers has identified six themes, supported by megatrends, that companies are tapping into which we believe are best placed to navigate the evolving global economy: Technology & Automation, Connected Consumer, Ageing & Lifestyle, Social Prosperity, Energy Transition, Biodiversity.

Data source: Bloomberg