Investment Institute *Asset Class Views*

Monthly Investment Viewpoint

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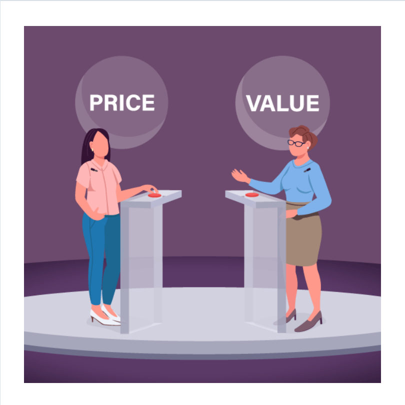
KEY INVESTMENT THEMES

Investors remain bullish on US equities

Europe offering relative value

Diverging macroeconomics impacting Asia

US equities: Price vs. value



A recurring investor concern is the US equity market's valuation. In 2024 the blue-chip S&P 500 index reached multiple new highs while the excitement around generative artificial intelligence saw the tech-heavy Nasdaq 100 index also make considerable gains. As a result, the US is by far the most expensive major equity market. But valuation is no guarantee of future returns.

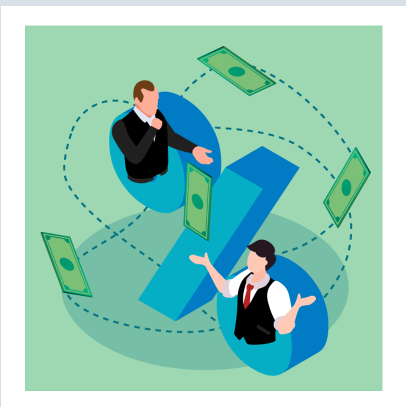
Investors appear bullish on US equities with earnings growth expected to be 14% over the next year and President-elect Donald Trump's policy agenda is supportive. But prices could adjust quickly if the sentiment deteriorates. There are cheaper equity markets – European and Asia. Importantly, US Treasuries, like other government bonds, have cheapened on a relative value basis compared to corporate bonds. Could a rotation out of stocks into bonds be one of 2025's surprises?

No 'surprise effect' in 2025

During the past 24 months, we've seen US economic growth estimates significantly repriced. For example, consensus expectations for 2024 in late 2023 was for 1.3% but it's probably closer to 2.7%. However, the consensus might have improved substantially both in macroeconomics and market terms for 2025. US GDP forecasts are starting from a higher base - consensus forecasts are at 2.1% growth (AXA IM forecasts 2.3%).

Bloomberg, median expectations for the S&P 500 are at 6,600 points at the end of 2025 - quite a mood shift from a rather downbeat initial expectation for the end of 2024 at 4,800 points. Therefore, we might have to live without the recent 'surprise effect'. This doesn't necessarily mean the market's performance will disappoint in 2025, but the bar for another result of 20% plus is unmistakably high.

Multispeed in a multipolar world



Diverging global economic policies and geopolitical dynamics continue to influence Asia's economies. As a result, monetary policymakers will need to be astute.

India is experiencing a slowdown in industrial activity, consumption and private investment, and lower interest rates may be warranted. Inflation, however, is above target and subject to large weather-related shocks in food prices. More positively, as one of Asia's most domestically oriented economies, it is less susceptible to global trade tensions.

South Korea faces several challenges – alongside the current political uncertainty, it must tackle global manufacturing weakness and slow domestic demand as well as uncertainty over the impact of likely US tariffs. Taiwan appears more resilient, benefiting from semiconductor demand thanks to ongoing growth in artificial intelligence. Taiwan's central bank has a limited scope to cut interest rates, in part due to the level of borrowing in the residential property market.

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		Divergence between US and European rates outlook
US Treasuries		Modest further Fed easing expected but yields in fair value range
Euro – Core Govt.		Significant ECB rate cuts priced in
Euro – Peripherals		Fiscal and political concerns could underpin volatility in early 2025
UK Gilts		Signs of slower growth should bring yields down
JGBs		Yields to head modestly higher
Inflation		Upside risks to US inflation should become priced in

Credit		Investor confidence in credit market remains strong
USD Investment Grade		All-in yields remain attractive and demand is strong
Euro Investment Grade		ECB rate cuts to support returns from investment grade credit
GBP Investment Grade		Attractive yields but concerns over macro outlook
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		Healthy growth backdrop and attractive yields to support performance

Equities		Donald Trump's policy agenda seen as supportive for US equities
US		Q3 earnings growth looks to be robust with financials and technology leading
Europe		Weak growth could impact earnings growth expectations
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		Data remains weak and market awaits more stimulus in 2025
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