Investment Managers

Investment Institute *Asset Class Views*

Monthly Investment Viewpoint

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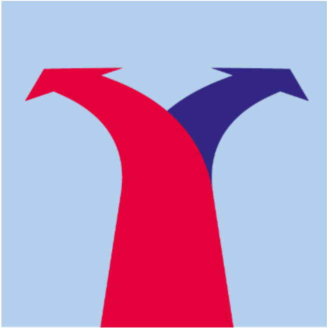
KEY INVESTMENT THEMES

Growth and inflation risks ratchet up

Germany's Bunds disruptor



India and China's macro inflection points

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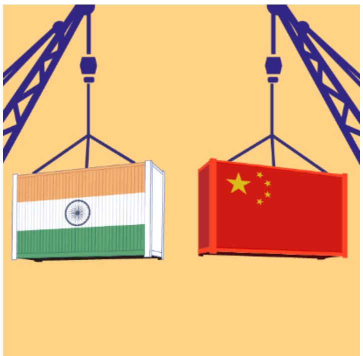
Fresh market disruption

Shifting global political and economic relations have increased market volatility. Growth risks dominate, with downward revisions to US economic growth forecasts, S&P 500 earnings expectations and the relative performance of US versus European markets. While the US market's long-term strengths are not in doubt, there are near-term challenges. Tariffs will disrupt consumer prices, but the bigger issue is growth expectations, suggesting US equity market underperformance might persist. Bonds have outperformed and we are still positive on credit, but for the bond-equity valuations adjustment to go much further, current interest rate expectations need to be validated, i.e. if growth prospects decline, a rate cut becomes more likely. If stocks move further away from extreme overvaluation, 10-year US bond yields could eventually move below 4%, extending the surprising relative moves seen already this year.

Bunds: Losing my religion

German government bonds (Bunds) suffered their worst day in Eurozone history on 5 March, when the yield on the 10-year benchmark Bund increased by 30 basis points and the iBoxx Germany Sovereign index declined by a notable 1.8%. The reason was Germany's perceived drift away from fiscal prudence and its decision to deploy the ample fiscal space at its disposal for structural projects. While this may signal an epochal transition in Europe's economic framework, the message for markets is straightforward. It means more Bunds will have to be issued to finance German structural projects; German GDP growth will be boosted in the medium term; and other Eurozone countries might adopt a similar fiscal approach. This is good news for advocates of structurally high(er) yield levels.

A tale of two economies



India and China are at economic turning points, which has implications for asset valuations. China wants its consumers spending, and India needs to up its infrastructure investment. China has a lower share of consumption to GDP, at 45% compared to India's 60% (69% in the US). A rise to 60% would equate to annual consumption of some US$10trn; $3trn higher than currently. But achieving this requires concerted reforms and consumer-directed incentives. India's ambition to become a $10trn economy with greater manufacturing share needs more infrastructure rollout to reach China's standards. India accounts for only 3% of global manufacturing - half where China was in 2000. For now, its success is in exporting more services, which account for 55% of GDP; manufacturing is at 15% and has been largely stagnant for the past decade.

IMPLEMENTATION IDEAS

EUROPEAN EQUITIES

Rationale

Germany's increased spending on infrastructure and defence will generate growth effects in Europe and benefit European companies. Earnings growth expectations have been moving higher and presently European markets provide better value than US equity markets. Europe's geopolitical shift should mean more domestic investment is directed towards European markets.

EURO CREDIT TOTAL RETURN STRATEGIES

Rationale

Away from mixed macroeconomics, which are subject to volatility, European credit is supported by resilient fundamentals, attractive yields and strong inflows. Demand is likely to increase further given the rotation away from money market funds, as institutional investors aim to lock in current yields. Accounting for the current rates and macroeconomic volatility, unconstrained strategies allow for flexible duration management and strong conviction positioning.

SHORT DURATION AND OTHER HIGH YIELD STRATEGIES

Rationale

Flat yield curves and the risk that policy uncertainty pushes long-term yields higher argue for short-duration exposure. Increased coupons in high yield markets allow the asset class to compete with expected equity returns but with less volatility. High levels of income also cushion returns from any concerns about downside growth risks. Fundamentals generally remain solid with refinancing and supply risks in high yield markets being less of a concern than in investment grade credit.

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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		Timing of further rate cuts is uncertain, with no clear direction for bond yields
US Treasuries		Fed on hold; chance of lower yields if growth concerns persist
Euro – Core Govt.		Recent sell-off has improved valuations; ECB still expected to cut rates
Euro – Govt Spreads		Spreads stable but need to watch for any new spending plans
UK Gilts		Fiscal uncertainty and Bank of England on hold drive stable yields
JGBs		Yields can move higher with expectations of further monetary policy tightening
Inflation		US and UK inflation breakeven rates look too low

Credit		Recent widening in spreads should maintain investor interest
USD Investment Grade		Yields attractive relative to Treasuries
Euro Investment Grade		Corporate spreads are expected to remain stable; tariffs are a risk
GBP Investment Grade		Risk of wider spreads if growth outlook remains weak
USD High Yield		Technical factors and valuations remain supportive, equity weakness a risk
Euro High Yield		Attractive yields and improved financing environment
EM Hard Currency		Need to monitor effects of tariffs on different countries

Equities		Global rotation out of the US could persist on tariff uncertainty
US		Credible plan to resolve tariff uncertainty will allow business cycle to continue
Europe		German fiscal plan is boosting long-term growth expectations
UK		Attractive valuations, but policy needs to become more growth positive
Japan		Upturn in industrial cycle will benefit Japanese stocks; tariffs are a risk
China		Tech sector leading market recovery on AI developments; tariffs are a risk
Investment Themes*		AI-related spending continues to be strong

*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