Investment Managers

Marketing communication
Investment involves risk, including loss of capital
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Multi Asset

Multi Asset Views

June transcript

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Looking back at the first half of 2025, the main word that comes to mind is uncertainty. Mainly the uncertainty on US protectionism and on US fiscal policy. The level of this uncertainty has been rigorously quantified by a couple of Stanford professors, by aggregating 2000 newspapers daily. Their metric find that the shock from the second Trump mandate is at least four times stronger than the previous one during Donald Trump's first mandate.

This uncertainty quickly translated into loss of confidence from households and corporates alike, as illustrated in the sharp drop in business and consumer service. Risk adversity is a rational survival strategy for economic agents. If the future looks blurry, it's urgent to do nothing and wait for more clarity before making large purchases, investments or hiring. And so private demand falters and, even if the full adversity of the shock does not materialize, say in this case that tariffs are not implemented or only mildly, still, the delay in spending leads to an economic slowdown. Mindful of this risk, the US Treasury Secretary, Scott Bessent, managed to convince President Trump to very quickly backtrack, offering delays and the promise of deals around the globe.

In the meantime, the US economy remains resilient, with activity and the labour market holding up, while the softness in surveys has retraced back up to some extent. The real time aggregation of the data provided by the GDP Growth Tracker from the Atlanta Fed is now higher than US potential growth, confirming that the contraction we witnessed in the first quarter of this year was more a one-off than the start of a recession.

Add to this a decent earnings season, and we can explain, if not fully understand, the strength of the stock market rebound. Investors positioning is now back to its long term average with heterogeneous situations. The US retail and hedge funds, bought the dip in equities and are now fully invested. Conversely, most systematic strategy failed to capture the rebound, hampered by the extreme spike in volatility to a level only surpassed twice during the Covid pandemic and during the 2008 global financial crisis.

Bar another major shock systematic strategies should therefore provide supportive inflows into equities, which leaves us modestly overweight developed equities. We are, however, mindful of the persistent US dollar weakness, which illustrates the fatigue of global investors with US policy gyrations, and therefore their lack of appetite for US assets in general. We are also monitoring the Middle East situation and its potential impact on oil prices. So far modest enough to avoid an impact on growth.

Altogether, we favour growth in quality names within large caps, whereas we are underweight US small caps, which are tied to domestic growth, more sensitive to interest rates and vulnerable to a potential cyclical downturn. Here again, we monitor positioning with US tech names generally under-owned, whereas recent inflows into US small caps make for an attractive risk return profile. In the fixed income market, we favour German sovereign bonds to US Treasuries, in part because of the US fiscal outlook and supply is set to remain elevated, but also when factoring in the deteriorating attractiveness of US

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debt and US dollar for non-US investors. Mindful of the rise in US, but also Japanese, interest rates pulling all global yields higher, we have reduced the long term interest rate sensitivity of our portfolios back to neutral and favour short dated German bonds. Altogether, after an extremely volatile first half of the year, we remain confident that well-diversified multi-asset portfolios will keep delivering appealing risk adjusted returns in the second part of 2025.

Source : AXA IM as of June 2025

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