

Investment Strategy

9th February 2012

AXA Investment Managers - Research & Investment Strategy MONTHLY OVERVIEW

The triumph of central banks

Key points

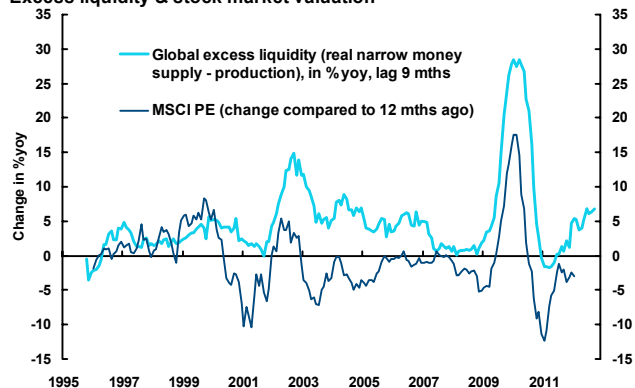
by

Raphaël Gallardo
& Franz Wenzel

Exhibit 1

Liquidity is an important driver of stock markets

Excess liquidity & stock market valuation



Source: Datastream, AXA IM Research

- The ECB's 3-year funding operations reduce the systemic banking risk and enable a return of investor appetite. We are cutting the odds for a breakup of the euro area from 25 to 15%.
- However, the cyclical outlook for Europe remains a mixed bag between the North—re-accelerating—and the periphery—which is feeling the pain of fiscal adjustments and a worsening credit crunch.
- US is accelerating slightly above 2% and looks less vulnerable to shocks thanks to an improving unemployment picture.
- We are raising equities from Underweight to Neutral in light of improving cyclical factors and ample liquidity, but recommend protecting the additional equity exposure due to idiosyncratic risk.
- Within fixed Income, we confirm our neutral view on core sovereign and positive view on peripheral bonds (Spain in particular) as well as on Credit (Investment Grade).
- A better cyclical outlook and bold actions by central banks justify moving inflation-linked bonds from underweight to neutral, with a preference for US breakevens.

The world's financial markets are getting off to an optimistic start in 2012. The rays of hope that were detected in late 2011 – progress in the area of fiscal integration in Europe, better unemployment data from the US – have been confirmed as this year begins. The central banks have also played a decisive role in bringing about the change in investor perception.

America gets back to work

After a disappointing performance in 2011 (real GDP up +1.7%), the American economy seems to embark on the virtuous circle of self-sustained growth thanks to job creation.

The uptick in growth in the second half of 2011 seemed in many ways artificial. The rebound in the auto industry (inventory rebuilding, catch-up sales following the shortage of Asian imports), the impact of tax incentives on investment, and the decline in the household savings rate inflated GDP growth to 1.9%. This dynamic was tempered by more subdued private consumption and export data in December, but further rebounds in ISM indices (new orders at 57.6 in manufacturing and 59.4 in services) and record job creations in January (+243k s/a) leave room to hope that growth will be well above 2% for the first half of the year. Unlike the false starts of 2010 and 2011, the decline in unemployment (from 9.1% in September 2011 to 8.3% in 2012) is not a statistical artefact related to a lower rate of participation on the part of the active working population. The pace of job creations is now comfortably cruising above 170k, which corresponds to trend growth in the labour force. Higher employment will offer support to the household disposable income dynamic, despite tepid wage growth (+1.4% a.r. for hourly wages in the private sector) and the decline of federal transfers (the unemployment insurance extension and payroll tax cuts expire at the end of February).

On the business side, the slowdown in capital goods orders suggests that the beginning of the year will be disappointing for productive investment. However, investment intentions reported by regional Federal Reserve surveys rebounded in January, and fundamentals for investment remain positive (capex to cash-flow ratio, Tobin's Q, bank lending conditions). We are expecting capex growth of around 5%qoq for 1Q12. In addition, investment in structures, which traditionally lags behind expenditures on equipment and software, should remain robust, as the architectural billing index confirms.

Probably getting a boost from clement weather in the early part of winter, residential investment grew by 11%qoq in 4Q11. This sector's newfound dynamism is related to the rebound in multifamily housing starts. The NAHB multifamily index suggests a rebound to pre-crisis levels, i.e., 300k/year. Although this segment represents only a tiny portion of GDP, it is legitimate to hope that residential construction will make a marginally positive contribution to GDP growth. Single family dwelling housing starts remain mired in a supply glut caused in part by banks selling foreclosed homes at distressed prices (the total available supply of single family homes on the market represents 17 months of sales).

In total, taking into account a fiscal tightening equal to 1.3% of GDP, we are raising our growth forecast for the United States from 1.9 to 2.3% in 2012. This improvement is not expected to have a big impact on the extreme caution of the Fed, which in January extended its commitment to keeping rates close to zero until the end of 2014. The likelihood of a QE3 centred on residential mortgage-backed securities (RMBS) remains above 50% in the second half of 2012.

Europe: the ECB breaks the vicious circle...

In Europe, the ECB's 3-year funding operation carried out last December was enough to re-spark investor appetite for peripheral risk. The liquidities injected (EUR489bn gross, EUR210bn net) and the expansion of the list of admissible collateral considerably reduced the bank liquidity risk over the medium term. A second 3-year funding operation is planned for the end of the month. The banks are expected to stock up on liquidities massively from the ECB in order to hedge the risk that their bond debt falling due in the rest of 2012 (around EUR700bn) will not be renewed.

The decline in the systemic banking risk automatically led to renewed appetite for risk. The yield curves for the peripheral nations were the main benefactors, essentially on the short end. Unwilling to provide assurance against sovereign risk by ramping up its securities purchase program (SMP), the ECB quite deftly disconnected the medium-term bank liquidity risk from the sovereign debt problem. In doing so, it has partially neutralized the banking part of the vicious circle linking fiscal austerity, recession and credit crunch. Admittedly,

liquidities with a 3-year term will not allow banks to fund long-term investment projects, but the tightening of credit conditions to the non-financial private sector should be cushioned. The ECB agreed to considerably increase the size and credit risk of its balance sheet via expanded collateral, in order to give governments the time needed to contain the sovereign crisis.

... buying time for governments

This respite should be used by governments to (i) prevent a messy default on the part of

Greece in the spring, (ii) consolidate the refinancing programs of Ireland and Portugal, (iii) successfully complete the bank recapitalizations requested by the EBA, (iv) work to establish credibility for the reform programs in Italy and Spain, (v) double the size of the European firewall (EFSM, EFSF, ESM). Other than the case of Greece, which seems to us destined to end tragically, there are reasons for optimism on the progress made on other cases, judging from the determination of governments and the spirit of cooperation that is once again blowing through European summits.

The odds for the « Eurogeddon » scenario have significantly declined

By Eric Chaney

While the financial outlook for 2012 remains essentially bipolar, with either a “business almost as usual scenario” made of a mix of better cyclical news and reduced systemic risk, or a worst case scenario where a key euro area country such as Italy would opt out of the single currency, the balance of risks has shifted in favour of the former outcome. In our ‘Special 2012 Outlook’ report dated 16 December 2012, we had assigned a 75% probability to the main case scenario and a 25% probability for the breakup scenario. We are now cutting the latter to 15%. These estimates are largely a matter of judgment, but our quantitative research based on the prices of 5Y sovereign bonds and CDS contracts is showing that the markets have also dramatically slashed the implicit probability of Italy leaving the euro, down to a 5% to 25% range, from a 15% to 50% range in early December 2011.

Three factors explain the shift in market sentiment as well as our own more constructive assessment.

First, the strategy implemented by the ECB –explained in details in the core piece of this report- has proved much more successful than anticipated.

Second, the negotiation of a new Treaty (named ‘fiscal compact’ by the new president of the ECB) binding countries sharing the euro and eight other EU countries, has gone surprisingly smoothly and, for once, European policy makers have managed to be ahead of their own schedule.

Third, PM Mario Monti continues to benefit from a strong support from the Italian population, despite the tough fiscal decisions he had to take and the depth of the structural reforms he is now preparing.

We thought and continue to think that the worst case scenario could be triggered by a rapidly declining popularity of the reformer of Italy without reward from the financial markets, i.e. lower funding rates. In the event, the opposite is happening. Mario Monti’s popularity has marginally increased since the beginning of the year, maybe because he made clear to his counterparts, starting with the German Chancellor, that Italy had done its fiscal homework and would not go further down the road of fiscal retrenchment. Simultaneously, Italian 5Y sovereign bond yields have shrunk by 350 basis points, declining from 7.8% in mid November to 4.3% at the time of this writing.

That is not to say that the global systemic risk associated with the euro crisis has vanished. A disorderly default of Greece leading to an early exit from the euro club might have less consequences than it would have had six months ago, but, as the massive sell-off of the Italian debt last August has shown, this cannot be taken for granted, at this stage. Structural reforms in Italy still have to be negotiated and implemented and this might trigger considerable social and political resistance. Last, the uncertainties created by the French elections, regarding the 17+8 agreement on legally binding fiscal rules, will not be lifted before several months. In other words, even though the odds of the worst case scenario have significantly declined, they are still high enough to call for some caution when it comes to rebalancing portfolios toward riskier assets.

Greece may leave the euro, later

The negotiations concerning the second bailout plan for Greece are currently at a standstill. On the one hand, it seems that Europeans have lost their patience in light of the Greek government's inability to respect the provisos of the agreement with the Troika. On the other hand, Greece's political parties are balking at the idea of committing to new austerity measures just two months ahead of elections. A break-off in negotiations followed by a messy default and an exit from the euro is becoming the most likely scenario one year out. Accordingly, it is now urgent to consolidate the bailout plans for Ireland and Portugal, which are supposed to return to the markets as early as next year to refinance a portion of their medium-term debt. These countries could undergo massive flights of capital via bank deposit runs in a panic reaction to a Greek default. The refinancing needs of their banking sectors are expected to be revised upward compared with the initial plans (EUR17.5bn in Ireland, EUR12bn in Portugal). Similarly, the EBA will have to orchestrate the completion of the recapitalization plans at the EU level with national regulators. Half of the recapitalization programs submitted by the banks to date have been deemed not credible, and will have to be supplemented by the governments or the EFSF in some cases.

In parallel, Spain and Italy are tackling the difficult part of their reform programs. The government of Mario Monti has begun difficult negotiations with social partners on the key reform of the labour market. The Spanish government has just launched a new plan for the provisioning and consolidation of its banking sector (at least EUR50bn in additional provisions). Thanks to the political capital that these governments have with the people, it is not unreasonable to hope for rapid progress.

Euro governance reform is making progress

Lastly, at the inter-governmental level, the institutional reform and the anti-contagion arsenal are progressing. The fiscal compact, which is the counterpart to Germany's financial solidarity, is now finalized and should be signed at the European summit on March 1. The Treaty creating the ESM has been signed, bringing anti-contagion ammunitions to EUR500bn

(EFSM/EFSF/ESM), half of which will be absorbed by programs underway or their extension (Greece, Ireland and Portugal).

Yet, this is not sufficient to declare the end of the crisis. This rampart is still much too modest to totally wipe the systemic risk off the radar screens. The financing needs of the peripheral countries (Greece, Ireland, Portugal, Spain and Italy) add up to around EUR1tn over the period 2012-2014. The IMF's involvement in resolving the European crisis appears to be legitimate, but the Fund's participation to the tune of half of Europe's commitments (EUR250bn), which until now has been the norm, would absorb virtually all of its remaining lending capacity (EUR300bn).

Up to now, calls for increasing the lending capacity of the IMF have not gotten any traction beyond Europe, which has pledged EUR200bn (EUR150bn by the euro area, EUR50bn by countries outside the euro area). The UK's part, EUR30bn, is contingent on a general agreement to recapitalize the Fund at the G20 level. But the US Congress is hostile to this idea, and the G20's other members are in favour if—and only if—the size of the ESM is first raised to EUR750bn. Its primary shareholder, Germany, will be hard to convince before the fiscal compact is ratified by its 25 sponsors.

All in all, we think that the European systemic risk, whether banking or sovereign in origin, has declined thanks to the efforts made by the central bank and the governments since last December. Greece is still a sword of Damocles, but the vulnerability of the rest of the continent has been reduced. The improvement in financing conditions for banks should limit the credit crunch and the depth of the recession. Moreover, the cyclical indicators seem to suggest some degree of stabilization in Euroland's GDP in the first quarter, thanks in particular to the resilience of German domestic demand. The long-awaited awakening of the German consumer, supported by a "wage spring", would be excellent news for the entire European periphery.

Emerging countries: monetary support on the horizon

The leading indicators in most of the emerging countries echo the industrial recovery that is taking shape in the advanced economies. Nonetheless, the rebound in growth should be limited by the slowdown in credit as a result of

the monetary tightening of 2011 and the deleveraging of European banks, which have been major purveyors of credit to emerging markets in the past. In addition, monetary easing is expected to continue to be gradual, including in China, where the authorities want to keep the pressure on the real estate market. The rebound in Chinese retail sales suggests that relaxing fiscal policy (by raising social transfers) will be enough to get the economy back on a track - to an 8% trend, with a long-awaited rebalancing of the growth regime towards consumption.

Tighter credit conditions in most of the emerging regions, transmitted by European banks, should provide a healthy pause to the leveraging cycle of the private sector in many countries. In some cases, overheating in domestic credit has created dangerous current account deficits (Turkey), or is maintaining persistent inflationary pressures (Brazil, India), not to mention the risks for bank equity capital related to lax risk management during the boom years.

Asset allocation: raising equities to neutral accompanied by downside protection

As far as the **overall asset allocation is concerned, we suggest raising risky assets to a Neutral weighting alongside a downside protection** in light of the still significant risks surrounding the sovereign debt crisis. Three drivers have led us to shift into higher gear.

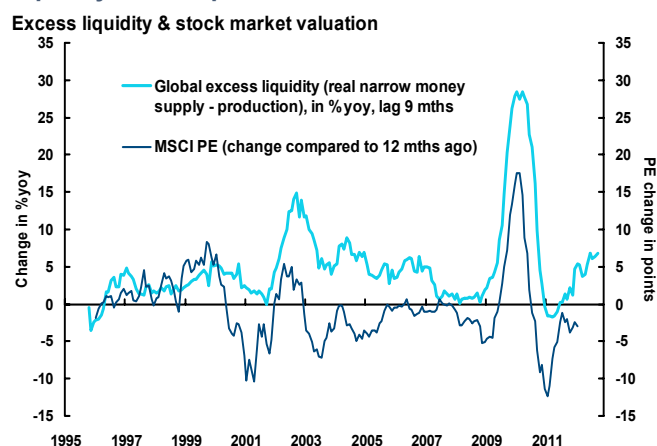
First, **surprisingly robust economic signals** have emerged around the globe. Not only have the risks of a global recession been fading, but early cyclical bellwethers point toward stronger growth globally. Stateside, we think that the dynamics have swung toward the potential rate of growth, as the manufacturing sector has been showing signs of strength that seem to have started supporting the job market. Moreover, the most recent Chinese data clearly corroborates our view of a soft landing, even though the housing market still remains our biggest concern for this country. The euro area remains the weak link growth-wise. Even though some of the most recent high frequency data have been encouraging, our take is that the euro area will most likely remain in a recessionary-type environment with an important difference – the north will be (relatively) robust, while the south will remain tangled in the web of recession.

Second, **liquidity** has become (and will most likely remain) a **very important lever** for equities in general. Basically all major central banks around the globe will most likely embark on further action. Whilst ECB might talk about the idea of quantitative easing, we take for granted that it will continue to provide ample liquidity.

History suggests there is a good relationship between excess liquidity and stock market valuation (see exhibit 1). Furthermore, numerous emerging market central banks have been embarking on an easier monetary policy path, which, given the still weak economic backdrop and the prospects of easing inflationary pressures, will leave the door open for further rate cuts, since real rates remain elevated.

Exhibit 1

Liquidity is an important driver of stock markets



Source: Datastream, AXA IM Research

Third, **equity valuation**, a necessary but not sufficient condition, still remains supportive – albeit to a lesser degree. The most recent equity performance has pushed multiples higher – the US now trades at 14x trailing PE whilst the euro area is just a tad below 11x. Such readings are all but a crying buy. However, the fact that earnings expectations might bottom out in the coming months should offer sufficient valuation support and thus accommodate a somewhat higher multiple. In essence, we would conclude that **valuation of equities trades presumably somewhere between “Neutral” and “Cheap”**.

Market cheer could (almost) make us forget the **euro area sovereign debt crisis**. Even though we now think that the risk of a euro

break-up has decreased overall, the remaining probability is elevated enough to wreak havoc in financial markets. **We therefore suggest protecting, at least partially, the equity portion, which, given the sharp drop in volatility, should come at a bearable cost.**

Fixed Income: preference for Spain

In Europe the first ECB 3-year LTRO alleviated money market tensions, offering enormous relief to all peripheral countries, with one exception: Portugal. Additional factors such as the agreement on the fiscal compact and the start of the structural reform process in Italy helped reduce credit risk perception. The performances of peripheral bond have been amazing: In Spain, the entire yield curve has normalized back to the levels seen last June. In Italy too, the short end yields have declined to pre-crisis levels and the decline of 10-year BTP yields below 6% has helped to restore market confidence.

We think that this liquidity rally has further legs based on the ECB-sponsored domestic buying, thus helping to avoid the sovereign liquidity squeeze. Current guestimates concerning the second LTRO range between EUR300bn all the way up to EUR1trn (or even more). Even though the ECB's president, Draghi, tempered expectations, we think the additional liquidity should empower banks with war chests front-loaded to support government bonds at least for the remainder of this year (around EUR650bn of government bonds will have to be rolled this year) . Such a backdrop should help to restore confidence and incentivise investors to take on more risk in their portfolios via higher exposure to peripheral countries. Against this backdrop, we stress our preference for Spain. Whilst we reckon that important reforms have been launched in Italy, "il Bel Paese" remains one of the sources of systemic risk in Europe.

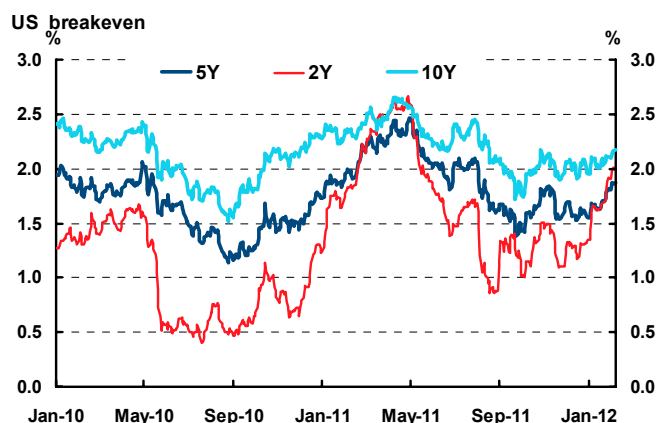
With regard to core markets, the balance of risks suggests a neutral view on duration. For German Bunds and US Treasuries, fundamental valuation measures continue to look rich but technical factors such as carry and momentum, remain supportive. Operation Twist is still ongoing, and in addition the Fed has pushed out the first rate hike expectations from mid-2013 to late 2014. We therefore remain convinced that the probability of substantially higher yields in the short term remain low.

Break-even – Advantage US

On the back of January FOMC front end, break-evens rose sharply, reflecting renewed inflation fears. The two-year segment trades just 15bps lower than 10-year breakeven (BE) at the time of writing. Meanwhile, forward breakeven inflation (5Y in 5Y) remains anchored near 2.5%. We think that the longer maturities now offer more value, as inflation expectations are historically low in this particular segment.

Exhibit 2

US breakeven curve is almost flat



Source: Bloomberg, AXA IM Research

In Europe, the Italian downgrade by S&P (from A to BBB+) has led to a decline in Italian BE. As a reminder, the Italian inflation-linked bond market is almost 30% of the euro area market. Furthermore, all three rating agencies have placed Italy under negative outlook, implying a risk that Italy would have to leave the index in the event of a further downgrade. Indeed, the probability of a further downgrade is not negligible . Rating agencies might wait and see how structural reforms develop in Italy before taking further action. Given the prospects of further moderation in inflation, we suggest keeping an underweight position on European breakevens in opposition to their US counterparts.

Credit – valuation remains appealing

Credit continued to perform well, be it in the US or in Europe. Unsurprisingly, High Yield took the lion's share performance-wise amid improving fundamentals as well as ample liquidity.

Despite the outstanding performance since the beginning of the year, we confirm our overweight on credit as valuation still remains appealing. From a regional perspective we also confirm our preference for the US, where the fundamentals are more robust than in Europe.

Even though high yield spreads have come in markedly, risks have also decreased as the likelihood of recession has declined globally, and in the US in particular. We therefore suggest some selective high yield exposure, tilted in particular toward short duration.

Equities - lifting beta

Against the backdrop of a combination of somewhat better than expected global economic news and more aggressive monetary policies, **we suggest moving up the risk curve and shifting the equity portfolio beta marginally above one.**

remains valid. Analysts' expectations of earnings growth just a tad below +10% looks to us difficult to achieve in light of even a mild recession. The combination of slower volume growth and the risks of tighter corporate margins imply a risk of further earnings downgrades.

Having said that, we reckon that the ECB's LTRO has presumably become a game changer. We also think that further monetary easing is likely be it via the coming liquidity injection and/or lower short rates. We thus reckon that this new setup, accompanied by a brighter economic backdrop, is positive for European equities.

In sum, we suggest implementing a more positive equity view and raising the portfolio beta marginally above one.

Consequently we recommend two changes country-wise: First, we suggest putting euro area equities on a neutral weighting. Within the euro area, we propose a pair trade -long Italy and short France- as the latter will focus on the upcoming elections rather than implementing urgently needed reforms to restore a sound fiscal balance.

We also suggest trimming **UK equities** back to underweight amid the overall weak economic backdrop despite the further QE program of GBP50 or 75bn.

As for **European sectors**, we suggest **taking profits in Materials** and putting some money **back to work in information technology**, which has been lagging the recent cyclical rally.

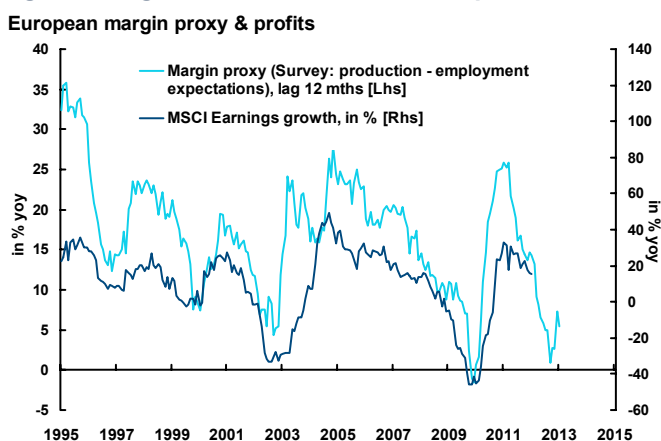
Risks to the investment strategy

Clearly the biggest millstone around investors' necks is the idiosyncratic risk concerning the ongoing euro area sovereign debt crisis. Any serious doubts about whether or not the political will exists to save the euro would rattle all markets, in particular the euro area.

From a more cyclical perspective, we think that a too positive growth backdrop accompanied by growing inflation fears would be a negative. This negative spin would last at least until the growth aspects have trumped doubts concerning the sustainability of this recovery. Such an outcome would call into question the current driver for risky assets – liquidity, which is at the heart of the ongoing rally.

Exhibit 3

Tighter margins remain a headwind for profits



Source: Datastream, AXA IM Research

Analysts still expect 2012 global earnings growth to come in at around 10%. Even though we remain convinced that such a reading looks ambitious, we reckon that earnings revisions might reach the bottom as more signals of an economic stabilisation appear on the radar screen. Yet wide regional divergence remains in place. Whilst our current forecast for US earnings growth (+5%) might prove too timid, we think that our negative view for the euro area (-10%)

RECOMMENDED ASSET ALLOCATION

Global	Underweight -	Neutral =	Overweight +	Last changes
Cash	●			Feb. 12 ▼
Equities		●		Feb. 12 ▲
Government bonds		●		Dec. 11 ▼
Credit			●	Sept. 09 ▲

Equities

Regional allocation	-	=	+	European sectors	-	=	+
▲ € – Large caps		●		Energy			●
▲ € – Small caps		●		Consumer staples		●	
Japan	●			Healthcare		●	
Switzerland		●		Utilities	●		
▼ UK – Large caps	●			Telecom		●	
▼ UK – Small caps	●			Cons. Discretionary	●		
United States			●	Industrials	●		
GEMs			●	▼ Materials		●	
– Emerging Europe	●			▲ Technology			●
– Latin America			●	Financials		●	
– Non Japan Asia		●					

▲/▼ Changes of the month

Fixed Income

Detailed FI	-	=	+	Government bonds	-	=	+
Government bonds		●		Euroland Core		●	
Swap spreads	●			▲ € Periphery			●
Corporate Credit			●	Japan		●	
High yield bonds		●		▼ United Kingdom		●	
Emerging bonds		●		▼ United States		●	
▲ Inflation linked bonds		●					
– Europe	●						
– United States			●				

▲/▼ Changes of the month

FORECAST SUMMARY

Growth and inflation

8-Feb-12	Real GDP, in %yoy			Inflation, in %yoy		
	2011*	2012*	2013*	2011*	2012*	2013*
World ⁽¹⁾	3.0	2.8	3.2			
US	1.7	2.3	2.2	3.1	2.2	1.9
Euro zone	1.5	-0.4	0.8	2.7	1.7	1.6
UK	0.9	0.7	1.6	4.5	2.6	2.1
Japan	-0.8	1.9	1.4	-0.3	-0.5	-0.9
China	7.4	8.5	8.7	5.4	3.9	4.2
Other EM Asia	4.3	4.2	4.6	3.9	3.2	3.4

Sources: AXA IM

(1) At 2010 exchange rates

*AXA IM forecasts

Official Rates (end of period)

Country		8-Feb-12	1Q 12*	2Q 12*	3Q 12*	4Q 12*	1Q 13*	Last action
US	<i>Fed funds</i>	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	-75 (16/12/08)
Euro zone	<i>ECB refi</i>	1.00	0.75	0.50	0.50	0.50	0.50	-25 (08/12/11)
UK	<i>BoE base</i>	0.50	0.50	0.50	0.50	0.50	0.50	-50 (05/03/09)
Japan	<i>jour le jour</i>	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	0-0.1	-5 (05/10/10)

Sources: Bloomberg as of February 8, 2012 - AXA IM estimates

*AXA IM forecasts

10-year bond yields

Country	8-Feb-12	3 Months May-12*	12 Months February-13*	Forward 12 months February-13
US	1.97	2.10	2.40	2.29
Euro zone	1.97	2.20	2.30	2.22
UK	2.19	2.30	2.60	2.63
Japan	0.99	1.10	1.20	1.18

Sources: Bloomberg as of February 8, 2012 - AXA IM estimates

*AXA IM forecasts

Currency

Country	8-Feb-12	12 Months February-13*	Variation en %*	Forward 12 months February-13
€1 = ... USD	1.32	1.25	-5.5%	1.33
€1 = ... GBP	0.84	0.86	2.7%	0.84
€1 = ... YEN	102	106	4.4%	101
\$1 = ... YEN	77	85	2.7%	76
£1 = ... USD	1.58	1.45	-8.0%	1.58

Sources: Bloomberg as of February 8, 2012 - AXA IM estimates

*AXA IM forecasts

These projections estimate are not necessarily a reliable indicator of future results.

Past performance is not indicative or constitutes a representation or guarantee as to future results.

MARKET PERFORMANCE

08/02/2012	Perf (%)			
	-1M	-3M	-12M	YTD
Fixed Income				
Government Bonds				
USA (JPM GBI US All Mats Index)	0.0	0.5	10.9	-0.4
Europe (JPM EMU GBI ALL Mats Index)	3.6	4.1	4.4	2.3
United Kingdom (BofA ML UK Gilts All Mats)	-1.5	0.9	16.9	-1.8
Japan (BofA ML JP All Mats)	0.1	0.4	3.2	0.1
Index-Linked Bonds				
USA (Barclays Glb Infl US)	1.0	0.5	17.2	1.6
Europe (Barclays Euro IL BD All Mats)	-0.0	1.2	9.5	0.2
United Kingdom (Barclays Glb Infl UK)	-2.7	4.7	22.1	-1.7
Investment Grade Credit				
USA (BofA ML Corp Master)	2.1	1.5	10.3	2.0
Europe (BofA ML EMU Corp)	2.7	2.6	5.4	3.1
High Yield				
USA (BofA ML US HY Master II)	2.9	4.1	5.3	3.7
Europe (BofA ML Euro High Yield)	7.1	7.1	2.4	8.5
Emerging Bonds				
in local currency (perf in \$) (JPM GBI-EM Global Composite)	9.9	5.6	8.8	10.0
in hard currency (JPM EMBI Global Composite)	2.8	2.4	11.7	2.6
Equities (MSCI, total return indices)				
MSCI World				
United States	5.8	6.9	-2.5	7.2
Europe	5.8	7.6	4.5	7.6
Europe Small caps	6.5	9.1	-6.4	7.3
EMU	11.7	10.7	-9.4	13.4
France	9.6	10.4	-12.3	9.5
Germany	8.9	10.3	-12.3	8.1
Italy	11.5	13.9	-6.9	14.7
Spain	12.2	7.5	-21.7	9.5
United Kingdom	8.6	6.5	-14.4	4.8
Switzerland	4.2	7.3	0.8	5.7
Japan	2.8	8.9	-4.5	4.0
Emerging Markets	6.0	2.8	-17.3	6.1
Asia	8.2	4.5	-2.6	9.4
Eastern Europe	8.9	3.9	-4.7	9.8
Latin America	10.7	4.3	-9.2	12.5
Commodities (S&P GSCI, total return)	7.2	7.0	3.0	8.7
S&P GSCI Light Energy Total Return				
S&P GSCI Light Energy Total Return	3.2	0.8	-5.8	4.5
Energy latest reading (Brent, USD/b)	116.68	-0.2	1.9	9.1
Industrial Metal latest reading (Copper, USD/mt)	8481	11.2	7.7	-17.0
Precious Metals latest reading (Gold, USD/ounce)	1738.6	9.4	-2.6	27.0
Agricultural products	2.4	-2.3	-20.6	1.2
Currencies				
€1 = ... USD latest reading	1.324	-4.2	3.7	2.2
\$1 = ... YEN latest reading	76.88	0.3	1.5	6.6
£1 = ... USD latest reading	1.587	-3.0	1.0	1.5
\$1 = ... YUAN latest reading	6.305	0.1	0.7	4.4

Source: Datastream, AXA IM, In local currency

Past performance is not indicative or constitutes a representation or guarantee as to future results.

EQUITY MARKET VALUATION

08/02/2012	Index	PE		EPS growth (%)		PEG ratio		
		2011	2012	2011	2012	2011	2012	
United States	S&P 500	1347.1	12.7	11.2	9.0	12.5	1.4	0.9
Canada	TSE300	12512.4	12.9	11.2	11.6	14.4	1.1	0.8
Japan	Topix	772.8	16.0	11.6	-4.4	37.4	n.s.	0.3
Euroland	DJ EUROSTOXX 50	2514.1	9.2	8.4	6.2	9.6	1.5	0.9
Germany	DAX	6754.2	10.0	9.0	7.2	11.1	1.4	0.8
France	CAC40	3411.5	9.4	8.5	4.0	10.8	2.3	0.8
The United Kingdom	FTSE 100	5890.3	10.0	8.9	4.4	11.5	2.3	0.8
Italy	FTSE MIB	16491.7	9.4	8.1	19.7	15.2	0.5	0.5
Spain	Madrid General	891.4	9.5	8.4	5.1	13.1	1.9	0.6
The Netherlands	AEX	326.0	9.6	8.4	2.5	13.8	n.s.	0.6
Belgium	Bel 20	2286.3	11.4	10.0	148.5	13.8	0.1	0.7
Switzerland	SMI	6157.6	11.8	10.8	10.7	10.1	1.1	1.1
Sweden	OMX	1074.4	12.1	10.9	6.5	11.3	1.9	1.0

Source: Datastream, IBES, Bloomberg

n.s. = not significant / n.a. = not available

These projections estimate are not necessarily a reliable indicator of future results.

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ABBREVIATION GLOSSARY

1Q11	first quarter of 2011	JPY	yen
1H11	first half of 2011	KRW	South Korea won
[RHS]	right hand scale (graph)	LTRO	Long Term Refinancing Operation
a.r.	annualised rate	mom	month on month
BRL	Brasilian real	n.s/a	non seasonally adjusted
CPI	Consumer price index	NAHB	National Association of Home Builders
EBA	European Banking Authority	OECD	Organisation for Economic Cooperation and Development
ECB	European Central Bank	OPEC	Organization of the Petroleum Exporting Countries
EFSF	European Financial Stability Facility	P/E	price/earnings
EFSM	European Financial Stabilisation Mechanism	PMI	Purchasing Manager Index
ESM	European Stability Mechanism	pp	percentage point
EUR	euro	QEIII	Third quantitative easing
FOMC	Federal Open Market Committee	qoq	quarter on quarter
GBP	sterling pound	RMB	Chinese renminbi (yuan)
GDP	Gross Domestic Product	RUB	Russian ruble
HKD	Hong Kong dollar	s/a	seasonally adjusted
IDR	Indonesian rupiah	USD	American dollar
IMF	International Monetary Fund	yoy	year on year
INR	Indian rupee	ytd	year to date
ISM	Institute of Supply Management		

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