Multi Asset Allocation Views

April 2024

Multi-Asset Investment views

Our key messages and convictions

#1

Further upside for Developed Market equities in a context of a soft landing combined with strong fundamentals

Positive stance on DM Equities

#2

Technical consolidation provides a starting point for reinforcing duration

Positive on € government bonds

#3

Offering some diversification in case of accrued geopolitical risk with higher positioning providing support

Positive on Commodities

#4

Spreads are tight , offering limited upside, whilst investors remain overweight

Neutral on Investment Grade Credit

Source: AXA IM as of 28/03/2024

Asset allocation stance

Positioning across and within asset classes

Asset Allocation

Key asset classes

Equities			
Bonds			▲
Commodities			
Cash			

Equities

Developed

Euro area			
UK			
Switzerland			
US			
Japan			

Emerging & Equity Sectors

Emerging Markets			
Europe Cyclical/Value			
Euro Financials			
European Autos			
US Russell 2000		▼	
NASDAQ			▲

Fixed Income

Govies

Euro core			
Euro peripheral			
UK			
US			

Inflation Break-even

US			
Euro			

Credit

Euro IG		▲	
US IG			
Euro HY			
US short duration HY			

EM Debt

EM Bonds HC			

Legend Negative | Neutral | Positive

Change ▲ Upgrade | ▼ Downgrade

Source: AXA IM as of 287/03/2024

Central & alternative scenarios

Entrenched Supply Shock 15%

- Banking turmoil escalate, credit conditions tighten.
- Escalation in Ukraine conflict or Middle East tensions.
- Post-pandemic structural adjustments continue. Supply shocks persist.
- Inflation expectations rise, affecting wages and persistence
- Growth weaker, employment could start to fall, but inflation remains elevated
- Monetary ill-equipped to deal with supply shocks and financial instability, deteriorating inflation credibility forces still tighter policy in DMs.

- **Equities:** Risk appetite deteriorates / equities sell off
- **Government bond yields** reprice higher.
- **Credit** spreads widen.
- **EM debt** comes under pressure.
- **US Dollar** remains elevated

Central scenario 65%

- Global economy to slow to 3% in 2024 and 3.1% in 2025.
- Headline disinflation likely to pause, with geo-politics providing some upside risks. Core disinflation to broaden this year.
- Central banks have peaked, most developed central banks likely cut from mid-year. Balance sheet policy from Fed and ECB to the fore around mid-year.
- Actual cuts should see yields lower by year-end, but structural drivers make a return to post-GFC levels unlikely
- European fiscal consolidation. US Congress politics delays further funding requests, long-term outlook in question.

- **Equities:** Stable to falling bond market yields improves visibility for companies. Earnings outlook improving.
- **Government bonds:** Bond yields to soften as central banks begin to ease policy. However, term premia rises to limit overall retracement whilst curves re-steepen.
- **Credit:** Spreads expensive but underlying quality dampens the widening pressure.

Global Boost 20%

- Geo-political tensions ease in Ukraine, Middle East and with China over trade relations.
- Labour market participation recovers, strong income growth and easing inflation pressures.
- Productivity boost following investment rebound and structural post-pandemic adjustments.
- Growth surprises to the upside in most regions.
- Inflation fades more quickly towards and below central bank targets
- Monetary policy softens quicker than signalled

- **Equities:** Risk-on environment with equities making further gains, growth retains lead over value.
- **Government Bonds**: Treasuries hit
- **Credit:** Spreads grind tighter.

Source: AXA IM as of 28/03/2024

Setting the scene: our Global Economic Outlook

Global economy to soften marginally; Central Banks to start cutting interest rates by mid-year

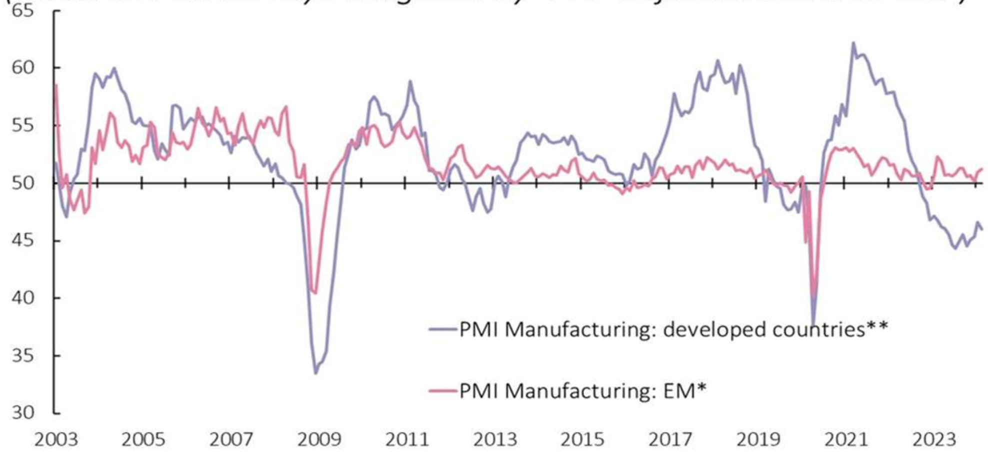
- **US growth is expected to slow due to softer consumer spending.** Consumer confidence and services surveys are also on a softening trend. Latest inflation in both headline and core surprised to the upside. While we expect disinflation to resume, service inflation may remain quite sticky. **We edge our GDP growth forecast higher to +2.1% for 2024, then slowing to +1.5% in 2025.**
- **Eurozone economic growth remains weak, particularly industrial, but there are some signs of services recovery, underpinned by recovering real wages. Disinflation has slowed.** Headline inflation has come down, albeit not at the same pace across the board, while services inflation has proven stickier even if expected to gradually converge to the downside. We anticipate growth to remain **anaemic at +0.3% in 2024 improving to +0.8% in 2025.**
- **China** exports and industrial activity improved **at the start of 2024, but consumer spending remains subdued,** weakened by continued property sector weakness. The PBoC left rates unchanged this month, although hinted at future RRR cuts. Altogether, we **maintain a deceleration in GDP to +4.6% in 2024 and +4.2% in 2025.**
- **Emerging markets exhibit heterogenous trends.** EM Asia has shown impressive growth, with inflation slowly coming off. Some central banks in EM Latam have accelerated their monetary policy easing recently. CEE weak growth led to some easing across the region already.
- **Market expectations for Central Banks are increasingly aligned with ours.** US Fed* expected to cut rates in June and has indicated 3 cuts this year. ECB** is also likely to begin easing in June and looking for 3 cuts in total this year. BoE*** is also likely to cut rates in June. BoJ**** hiked rates for the first time in 17 years, ending 8 years of negative rates.

Source: AXA IM, Consensus Economics, IMF and Datastream as of 28/03/2024
*Federal Reserve **European Central Bank *** Bank of England ****Bank of Japan

AXA IM Macro Research's economic forecasts*

Real GDP growth (%)	2023*	2024*	2025*
World	3.2	3.0	3.1
Advanced economies	1.7	1.3	1.2
US	2.5	2.1	1.5
Euro area	0.5	0.3	0.8
UK	0.3	0.4	0.8
Switzerland	0.6	0.8	1.3
Japan	1.9	1.2	1.0
Emerging economies	4.1	4.0	4.2
China	5.2	4.6	4.2

Global PMI indices
(national PMI surveys weighted by PPP-adjusted nominal GDP)



Source: Purchasing Managers Indices (PMI) and AXA IM, Feb 2024
** Poland, Mexico, Chile, South Africa, Russia, China, India, Brazil, Turkey, Hungary, Czech*
*** US, Euro area, Japan, UK, Australia, Canada, Sweden, Switzerland*

Overview of asset allocation stance

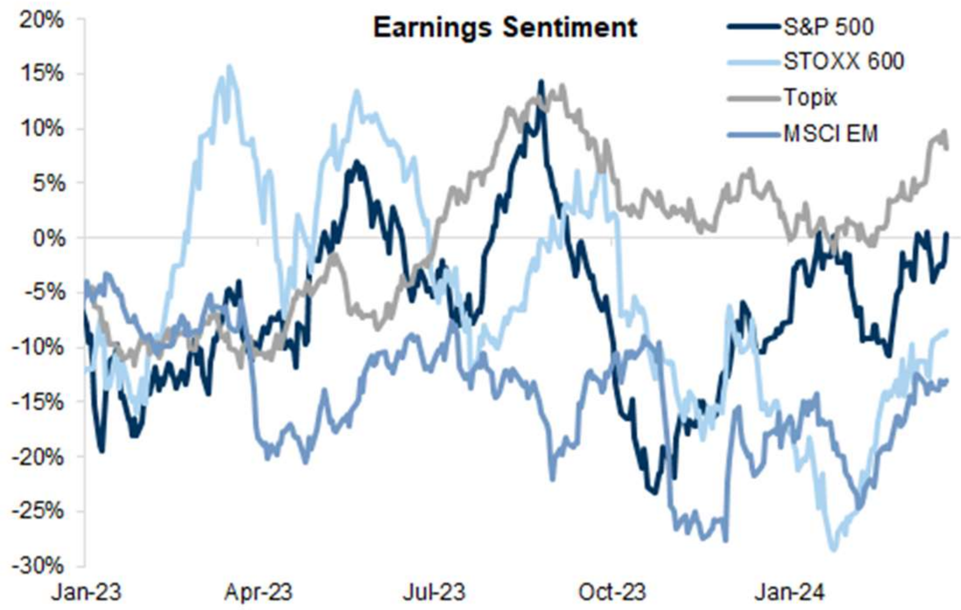
Our views:

- Since our last publication equity markets have continued to grind higher. We **stay constructive** despite strong performance year-to-date.
- Some of the **recent optimism was provided by Central Banks**. The US Federal Reserve left policy unchanged in March, but the median rate outlook continued to see 3 cuts for 2024, most likely starting in June. **Growth expectations were raised** for 2024 (end year 2.1%) and future years growth also nudged higher to 2%.
- The argument for a '**soft landing**' which the US economy is currently experiencing seems **well supported** in that growth is a little better, unemployment is stable whilst inflation subsides slowly. We now have more visibility on Central Bank policy whilst economic growth is relatively resilient.
- A **better growth/inflation mix** and **lower rates** should continue to be a positive support for equities.
- **Fixed Income markets** are now **aligned** with CB rate normalization expectations and in the absence of negative surprises on inflation offer **support** into the first round of cuts.

Our key convictions:

- **Positive on DM equities –** In the context of a macroeconomic soft landing combined with strong microeconomic fundamentals, we expect further upside in DM equities. Improving earnings growth, higher pay-out ratios and share buy backs, should support some further equity market gains.
- **Constructive on € duration –** Recent market action provided the technical consolidation in rates we were looking for. Building a higher duration position from current levels makes sense for our multi-asset strategies.
- **Positive on US$ and commodities –** The US dollar should benefit from relative economic strength. We maintain our allocation to commodities as a hedge against geopolitical risks and supply constraints.

Earnings sentiment improving



Key asset classes

Equities			
Bonds			▲
Commodities			
Cash			

Change ▲ Upgrade Downgrade

Investment Managers

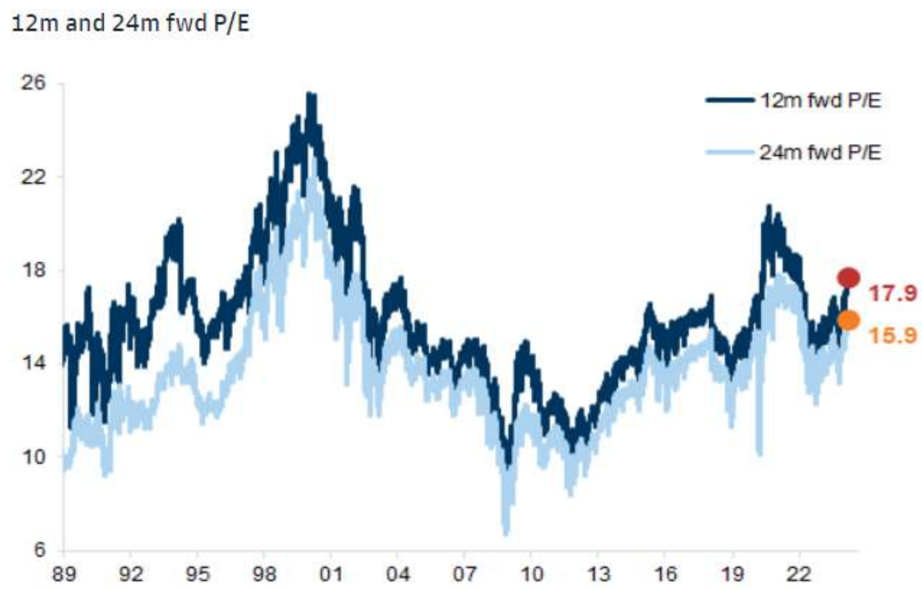
Source: Facset, Stoxx,GS GIR and AXA IM 28/03/2024

Equity markets outlook and convictions

Our views:

- **Equity markets continue to rally with many reaching all-time highs.** The argument for a 'soft landing' which the US economy is currently experiencing seems well supported in that growth is a little better, unemployment is stable whilst inflation subsides slowly. Elsewhere growth is bottoming and there are some patches of improvement.
- **Visibility as to the rate path going forward improves** with Federal Reserve signaling 3 rates in 2024 likely from June. This is positive and removes an overhang.
- **Valuations excl. Tech do not give strong signals either way.** IBES Consensus expects 7- 10% EPS growth led by Technology, Healthcare and Financials. Decent earnings growth, higher dividends and increasing buy-backs should support the total return for equities going forward.
- US and Japan show strongest 12m Forward PE increases whilst EZ and UK least.
- **Sentiment** improves with many momentum and risk models ticking up. There is much talk of euphoria and bubbles, but we think that the very strong performance from a narrow group of AI related stocks and market leaders in Europe was supported by better earnings growth. Breadth is expanding much more in the US than in the Europe for now.
- ## Our key convictions:
- Top pick **US equity market**. The US is more defensive and has the highest exposure to the structural growth cash rich technology sector and AI thematic.
- **Overweight EZ and Japan**. Japan continues to benefit from structural/corporate governance changes and an exit from deflation. In the EZ, growth is bottoming whilst rates cuts, buy-backs, dividends provide support.
- We switch tactical **US Small Caps trade into NASDAQ.** We like the exposure to themes such as AI, robotics, cybersecurity, semi-conductors, and its superior earnings power.

MSCI AC World valuations reasonable



Developed

Eurozone			
UK			
Switzerland			
Japan			
US			
GEM			

Emerging & sector diversification

EU Financials			
US Small Caps			
UK domestic stocks			
US cyclicals/value			
Nasdaq			▲
Semiconductors			

▲ Upgrade ▼ Downgrade

Source: AXA, GS, Datastream, IBES **28/03/2024**

Investment Managers

Government and inflation-linked bonds outlook and convictions

Our views:

- **Global nominal bond yields –** Relatively quiet bond markets of late belie some concern that inflation may struggle to hit Central Bank targets whilst growth remains above potential in the US and productivity gains from the AI revolution are yet to be material and quantifiable. The FED and ECB have maintained the narrative that policy cuts to reflect the change in inflation dynamics are within grasping distance, but some caution is still required. We are confident that the ECB will act independently and will not require a move from the FED before any change in its own policy rate. For the ECB, wages remain the last shoe to drop and, as indicated by President Lagarde, some encouraging signs appeared into the end of 2024. We therefore prefer € duration over the US market and, with positioning cleaned out on last years uber-consensus steepening trade, enter a US2Y10Y yield steepener.

- **Inflation breakeven pricing –** levels are consistent with Central Bank targets.

- **Macro (neutral) –** Normalization of monetary policy continues to provide support to bond markets, but the 'neutral' rather than 'positive' score is informed by the repeat of stronger inflation prints (US) and tight labour markets (US & EU) which need to be resolved before Central Banks can act.

- **Valuation (neutral) –** Slightly higher yields leave markets better positioned to absorb any noise in inflation prints.

- **Sentiment (positive) –** Flows remain supportive for Govvies.

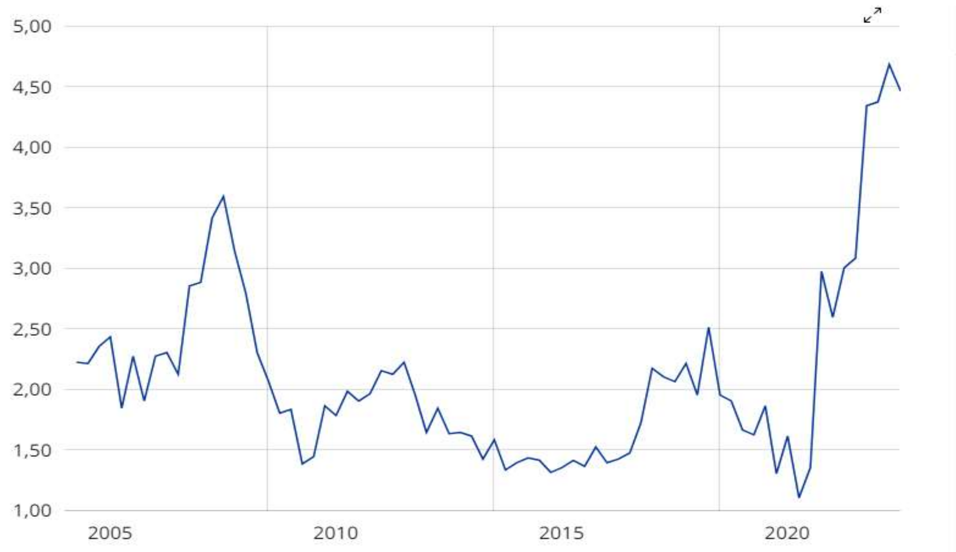
- **Technicals (neutral) –** cash parked in money markets still enormous.

Our key convictions:

- **Government Bonds**: Overweight € duration
- **Inflation Break-evens:** Neutral

Source: ECB 28/03/2024

Wages key to ECB on rates and 1st signs of easing now in play



Govies

Euro core			
Euro periph			
UK			
US			
Japan			

Inflation Break-even

US			
Euro			

Emerging

Emerging Markets			

Change ▲ Upgrade ▼ Downgrade

Credit bonds outlook and convictions

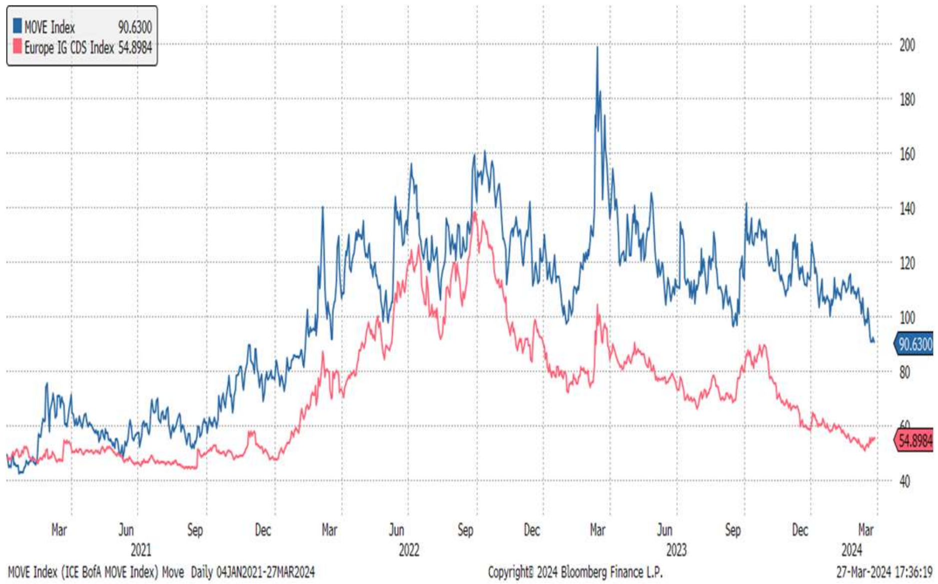
Our views:

- **Credit markets** (IG and HY) investor flows remain consistent with the play-book since the start of the year; clearly supportive with good appetite for risk whilst the background of rates volatility pricing remains subdued. Consensus has now settled on a smooth path of policy normalisation but obviously leaves heavy market positioning exposed to negative surprises should inflation struggle to fall further whilst the US economy performs, and the Euro Zone shows signs of improvement. We are left in no rush to add to credit risk at these levels.
- **Macro (neutral) –** Whilst markets remain focused on disinflation and normalization of monetary policy, credit is well supported by the outlook for growth. Too much growth risks the focus shifting to a neutral rate that is higher than previously expected thus negating the potential positives embedded in current market pricing for policy rate normalisation. The left-hand side risk of a recession is for now out of scope.
- **Valuations (negative) –** Spreads remain very tight, but investors are still receiving cash to be put to work in the markets. We are cautious and won't increase exposure at these levels.
- **Sentiment (positive) –** Credit markets remain well supported and absolute yield levels are attractive and helping the market to take down large supply.
- **Technicals (negative) –** Refinancing needs rising but only gradually whilst defaults are rising as previous rate hikes weigh on direct bank lending for smaller businesses.

Our key convictions:

- **Investment Grade:** Neutral
- **High Yield:** Neutral

Subdued volatility pricing is key to supporting credit



Credit

Euro IG		▲	
US IG			
Euro HY			
US HY			

Change ▲ Upgrade ▼ Downgrade

Source: Bloomberg 28/03/2024

Currency market outlook and convictions

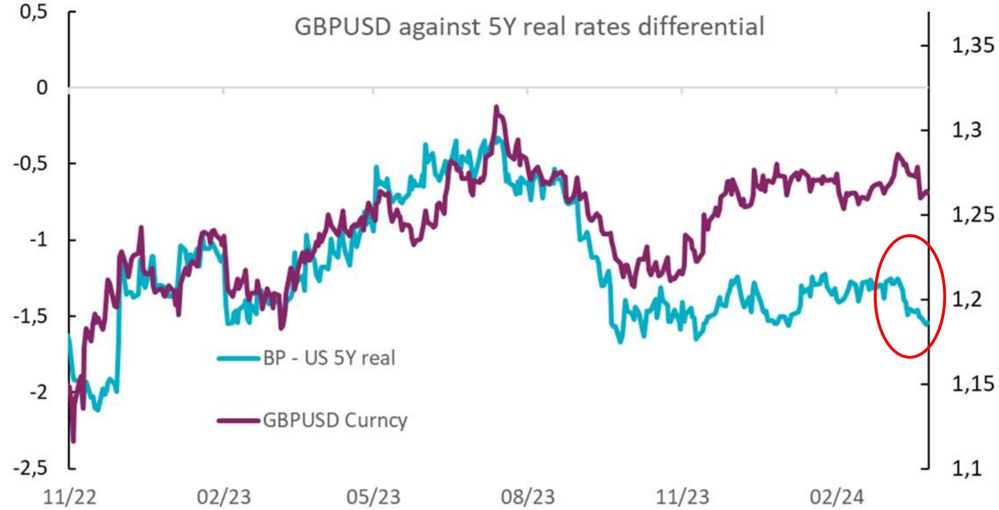
Our views:

- **USD:** Accumulated US growth outperformance and resilient inflation should remain supportive despite strong risk appetite and early signs of possible weakening of domestic labour and consumption. Trade and fiscal implications of a second Trump presidency could bring further support.
- **EUR:** EU inflation also resilient, and EU growth possibly bottoming out. However, EUR not cheap from a long-term perspective or against rate differentials.
- **GBP:** UK economy in recession, now persistently disappointing. Inflation and wages softening faster than expected. Positioning on GBP is still long with room for a sharp turnaround. UK equities lagging and not attracting flows.
- **JPY:** BoJ finally terminated negative interest rates and yield curve control. Yet potential terminal rate remains low and dominant driving factor is foreign rates. Normalization of global inflation and monetary policies supportive.
- **CHF:** SNB is the first G10 central bank to cut. CHF, which benefited so much from stagflation fears, can continue to weaken from a long-term perspective: softening global inflation, lower Swiss inflation, global growth rebound.

Our key convictions:

- Positive outlook on USD and JPY against GBP and CHF

Market starting to shift on BoE outlook, GBP yet to follow from already high valuation



Currencies relative to USD

EUR				CAD			
GBP		▲		NZD			
JPY				NOK			
CHF				SEK			
AUD				CNH			

Change ▲ Upgrade ▼ Downgrade

Source: Bloomberg , AXA IM 28/03/2023

Commodity market outlook and convictions

Our views:

- Oil prices ground higher to the high end of our trading range. Sentiment has improved as investors increase their positioning whilst technicals also improved for most major commodities.

- **Oil prices continued to grind higher.** Recent numbers indicate resilient demand. Meanwhile, the worries over higher supply subsiding as the data points to only incrementally higher US production in parallel to increased confidence that OPEC+ will comply with its promised cuts. As a results, oil markets may tighten over the 2nd quarter. Meanwhile, the ongoing tension in the Red Sea region and attacks on Russian refineries keeps a focus on geopolitical risk. In parallel, investor positioning has improved. **We see the oil price well supported at these levels** albeit with limited upside to the high end of its multi-year trading range ($90 Brent).

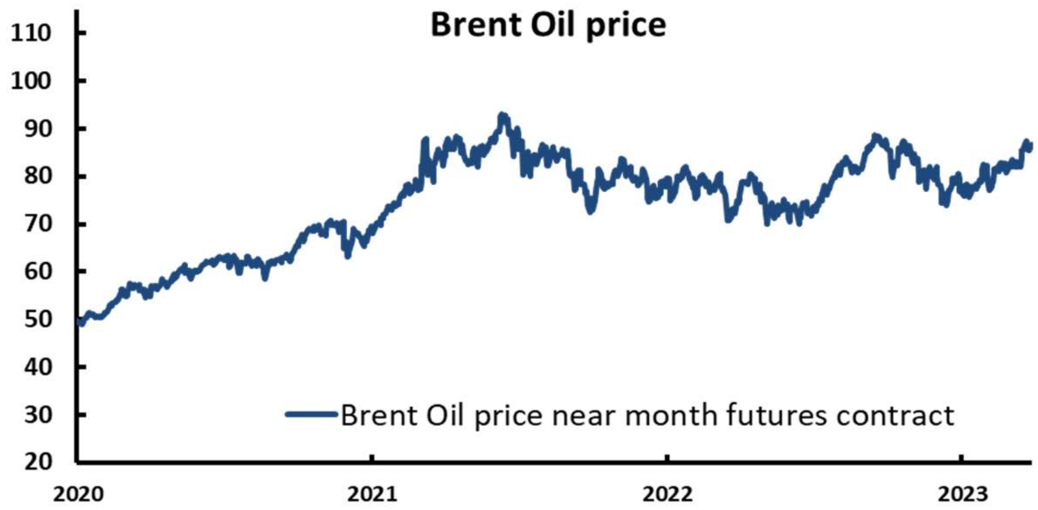
- **Industrials metals demand is stuck between resilient demand linked to decarbonisation, especially from China, whilst demand from traditional sectors remains subdued albeit improving from the lows.** Meanwhile, supply appears increasingly constrained for some key metals such as copper. We thus adopt a positive bias.

- We continue to advocate that the Fed will loosen its monetary policy with an initial rate cut in June which should continue to support a higher gold price. In addition, Central Banks remain steady buyers. While the confirmation of an **easing of monetary policy should be an important catalyst, we recommend holding gold beforehand .**

Our key convictions:

- Maintain a slightly positive stance on the commodity complex given some upside for Oil and a positive stance on industrial metals and gold.

Oil price at the higher end of its trading range



Commodities

Oil		▼	
Industrial Metals			▲
Gold			▲

Change	▲ Upgrade	▼ Downgrade

Source: Bloomberg , AXA IM 28/03/2024

Volatility outlook and convictions

Our views:

- **Volatility across asset classes has declined over recent months and appears to have stabilized**. Despite persistent US inflation, expectations for the Federal Reserve to enact three rate cuts this year remain unchanged. **In the US bond market, the trend towards normalization of volatility, which began six months ago, continued**. It has modestly breached what was previously a resistance level, as illustrated by the MOVE index in the upper chart. Nevertheless, monetary policy uncertainty persists, playing a pivotal role in maintaining high-range volatility, especially in the short-term maturities, maintaining a dichotomy between rate volatilities and those of other asset classes.

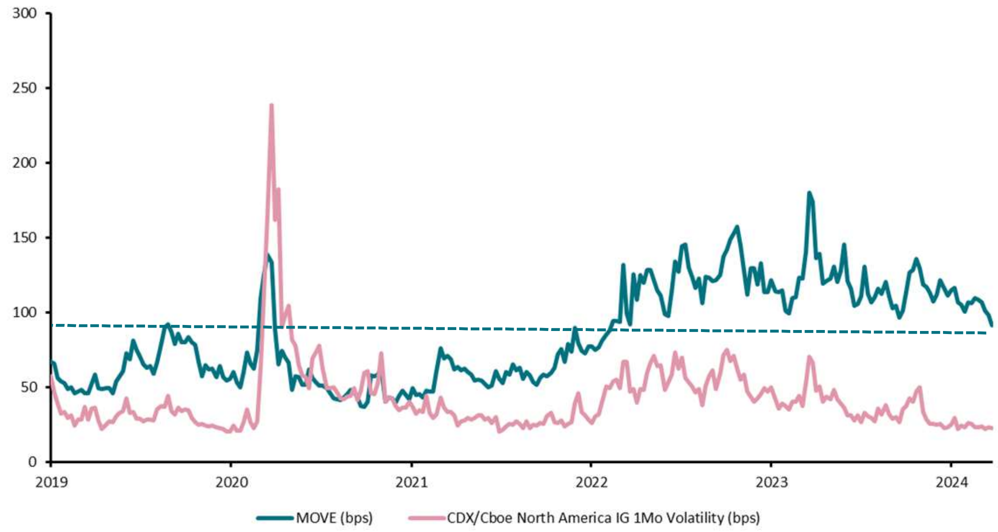
- **On Equity markets**, particularly for the SX5E, we have witnessed nine consecutive sessions of positive performance, inching closer to the 1999 record. **The market is predominantly driven by call demand**, indicative of a FOMO (Fear Of Missing Out) sentiment, as evidenced by client-side call delta positions outweighing those of puts. **Yet, due to the prevailing low volatility environment coupled with a relatively flat volatility skew, participants are inclined to build hedging strategies**. This has led to a volatility peak in the VIX term structure for October 2024 maturity, aligning with the upcoming US election. Technically on SX5E volatility surface, the term structure displays a 99th percentile valuation in a three-year range, while the skew is at the 0.5th percentile, a valuation pattern echoed across other large cap markets.

- **On Credit market**, spreads are currently trading at near-decade lows in the CDS IG market. **Coupled with more accessible implied volatility, it creates a resurgence in the interest to implement hedging strategies**.

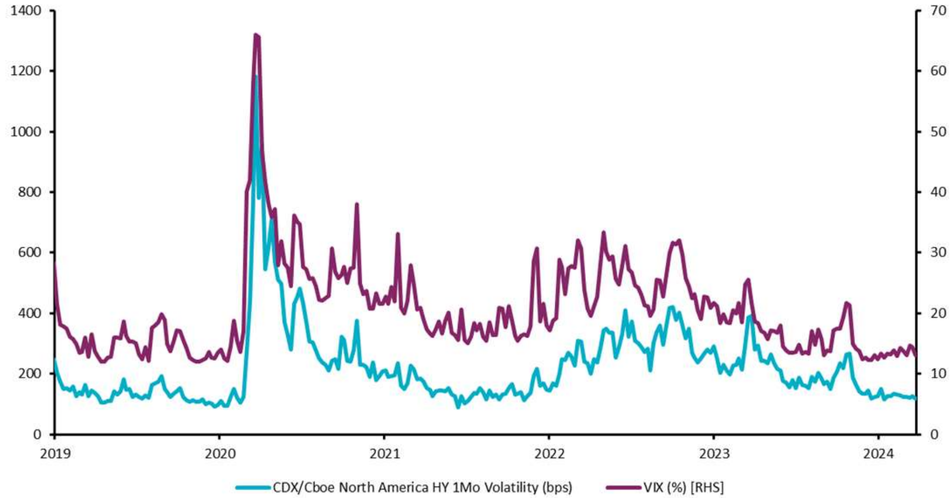
Our key convictions:

- **Enter into Bearish Risk Reversal on Credit IG maturity Sept 24**
- **Leverage duration position with long-dated IR swaption on EUR market**
- **Maintain long volatility position on EU equity on Q2 2024 with gamma active management**

US IG Credit volatility, one step ahead the US IR volatility



US Credit HY and US Equity volatility narrows historical lows



Source: AXA IM, Bloomberg finance L.P. 28/03/2024

AXA Investment Managers

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