Multi Asset Allocation Views

June 2024

Multi-Asset Investment views

Our key messages and convictions

Positive stance on DM Equities

#1

Better than expected earnings season reinforces positive stance on equities. Receding cross-asset volatility also positive.

#2

Divergences in inflation, economic growth and fiscal stance incite us to be long € duration while patiently awaiting to expand into US duration

Positive on € government bonds

Waiting for a more attractive entry point for adding Commodities

#3

Signs of exuberance in Precious and Industrial Metals, while oil prices back to the middle of the range

#4

Spreads are tight whilst investor flows remain positive

Neutral on Investment Grade Credit

Source: AXA IM as of 30/05/2024

Asset allocation stance

Positioning across and within asset classes

Asset Allocation

Key asset classes

	Negative	Neutral	Positive
Equities			Positive
Bonds			Positive
Commodities		Neutral	
Cash	Negative		

Equities

Developed

	Negative	Neutral	Positive
Euro area			▲
UK		Neutral	
Switzerland		Neutral	
US			▼
Japan			Positive

Emerging & Equity Sectors

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

Fixed Income

Govies

	Negative	Neutral	Positive
Euro core			Positive
Euro peripheral		Neutral	
UK		Neutral	
US		Neutral	

Inflation Break-even

	Negative	Neutral	Positive
US		Neutral	
Euro		Neutral	

Credit

	Negative	Neutral	Positive
Euro IG		Neutral	
US IG		Neutral	
Euro HY		Neutral	
US short duration HY		Neutral	

EM Debt

	Negative	Neutral	Positive
EM Bonds HC		Neutral	

Legend Negative | Neutral | Positive **Change** ▲ Upgrade | ▼ Downgrade

Source: AXA IM as of 30/05/2024

Investment Managers

Central & alternative scenarios

Entrenched Supply Shock 15%

- Banking turmoil escalate, credit conditions tighten.
- Geopolitical tension escalate: Ukraine, Middle East and Indo-Pacific
- 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 3.2% in 2024 and 3.1% in 2025. Disinflation slower this year, spreading to core.
- Central banks move closer to easing restrictive policy, but slower disinflation delaying delivery. Balance sheet policy from Fed and ECB to the fore mid-year.
- Delayed delivery of easier policy lifts term rates higher. Actual cuts should see yields lower. Slowdown probabilities could lower rate outlook into summer.
- European fiscal consolidation, focus to sharpen in Sept/Oct. US longer term outlook now an election issue.

- **Equities:** Upside earnings surprises and revisions drive market performance. Valuations would welcome monetary easing
- **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 investor demand 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/migration strength, strong income growth and easing inflation pressures.
- Productivity boost following investment rebound and structural post-pandemic adjustments, AI impact becomes visible .
- 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 suffer
- **Credit:** Spreads grind tighter.

Source: AXA IM as of 30/05/2024

AXA Investment Managers

Setting the scene: our Global Economic Outlook

Global economy softens, sticky inflation, Central Banks signal more cautious policy easing

- US household consumption should slow given the combination of slower real employment income growth, increased tax payments and a rising saving rate. **This should translate in the economy slowing to a below trend pace, consistent with a soft-landing.** The recent inflation numbers saw an easing of headline inflation and signs of a material easing of services inflation. **We thus expect GDP growth of +2.4% for 2024 to slow to +1.6% in 2025.**
- **Eurozone economic growth surprised to the upside in Q1, although construction boosts in Germany and Italy look unlikely to last and a softer pace is likely for the rest of the year. Inflation fell back to 2.4%, but services disinflation disappointed.** We still expect subdued growth but **raise our GDP forecast to +0.6% in 2024 improving to +1.1% in 2025.**
- **Following China's firmer than expected 1st quarter GDP,** April's data was more mixed: industrial output rose further, boosted by SoE investment, while consumer spending continued to soften. House prices also fell further and the authorities introduced additional support measures. We maintain **our GDP growth at +5.0% in 2024 however slowing to +4.2% in 2025.**
- **Emerging markets** saw a better start to the year, particularly in CEE, where growth had been slower, and Asia where the pace of growth converged. Policy easing has slowed in Latam, although remains ongoing. It is set to begin later in the year across most of EM Asia. Upcoming key elections.
- **Central Banks are more cautious in starting or continuing their pace of easing.** US Fed* should initiate rate cuts in September and expectations reduced to only two cuts this year. ECB** still likely to begin easing in June and still expect 3 cuts in total this year. BoE*** to postpone initial cut until August with a further cut in November. BoJ**** expected to modestly tighten monetary policy over the coming quarters.

Source: AXA IM, Consensus Economics, IMF and Datastream as of 30/05/2024
*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	3.2	3.1
Advanced economies	1.7	1.5	1.4
US	2.5	2.4	1.6
Euro area	0.5	0.6	1.1
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	5.0	4.2

Global PMI indices

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

Source: Purchasing Managers Indices (PMI) and AXA IM, Apr 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:

- Dark clouds hanging over financial markets dissipated with stocks indices rising to new highs and credit spreads tightened markedly as interest rates fell across the board whilst cross-asset volatilities collapsed.
- This sharp return to optimism has first to do with a stronger than expected earnings season. Q1 earnings surprised to the upside, showing margin resilience across sectors in the US while Europe had the strongest EPS revision ratio trajectory among major global regions leading us to broaden our equity exposure to the European market.
- Secondly, Fed Chair Jerome Powell's assertion that monetary policy is sufficiently restrictive, ruling out that the next policy move would be a rate hike. Given the Fed needs to see that inflation is converging back towards 2%, April's weak US job creations print indicating that the labour market is starting to ease - a prerequisite for the sticky services inflation to resume a downward path – is an example that bad news is indeed good news allowing interest rates volatility to recede and support further multiple expansion.
- In Europe, a stronger level of economic activity is a good omen so long as it does not derail the inflation outlook. ECB officials have clearly telegraphed a first interest rate cut at the June meeting however we expect the ECB to remain cautious in its forward guidance regarding the extent of policy adjustment given negotiated wage rates in the Euro Area (+4.7% YoY in Q1 2024, see chart) are growing at twice the pre-pandemic rate.

Our key convictions:

- **Positive on Global equities –** A better than expected earnings season, coupled with comforting macro indicators reinforce our positive stance on equities. Receding cross-asset volatility should allow further upside.
- **Constructive on € duration –** Chair Powell stabilized markets by dismissing the possibility of a hike as the FED's next move. Bearish positioning has been cleaned out. However, we need confirmation that disinflation is still underway before we increase our long duration positions.

Euro zone Percentage Change of Negotiated Wage Rates still way above pre-covid years

Key asset classes

Equities			
Bonds			
Commodities			
Cash			

Change ▲ Upgrade ▼ Downgrade

Investment Managers

Source: ECB, Bloomberg 30/05/2024

Equity markets outlook and convictions

Our views:

- **Equity markets continue to grind higher with the Nasdaq leading the charge.** Concerns about the potential pace of US rate cuts are offset by resilient growth, stronger earnings and signs that the global manufacturing cycle has troughed. Lower rate volatility is a tailwind for equities.
- **Valuations ex Tech whilst not cheap do not give strong signals either way and do not seem extreme.** We think that decent earnings growth, higher dividends and buy-backs should support the total return for equities going forward.
- **The Q1 Earnings season was generally positive. In the US, top line and margins surprised on the upside.** There were also welcome beats from Tech heavy weights and in particular Nvidia which reassured the market as to the fast-growing AI induced demand and revenues. **EU results were a positive surprise with quite strong beats relative to low expectations.** Sales were soft but margins strong with improving revisions led by Banks and Healthcare. Consensus expects @10% EPS growth in the US and @5% in Europe.

Our key convictions:

- Top pick **remains the US equity market**. The US is more defensive and has the highest exposure to the structural growth cash rich technology sector and AI thematic. US is also energy independent in the event of an oil spike.
- **Overweight Europe and Japan**. Eurozone growth is bottoming whilst expected rates cuts, buy-backs, dividends and earnings provide support. EZ also trades at a significant discount to the US. Japan benefits from structural changes, weaker Yen and EPS revisions. Both markets provide some cyclicality versus improving macro cycle.
- We are also constructive on **Eurozone Banks**. Valuations, earnings power, share buy backs, dividends and a potential M&A cycle offer support.
- We trim our **NASDAQ exposure** but still like the exposure to themes such as AI, robotics, cybersecurity, semi-conductors, and its superior earnings power.

Europe trades at a deep discount to the US

Exhibit 5 : Europe's discount to the US is especially large

Europe relative to US 12m forward P/E

Source: Datastream, Worldscope, Goldman Sachs Global Investment Research

Developed

Eurozone			▲
UK		■	
Switzerland		■	
Japan			■
US			▼
GEM		■	

▲ Upgrade ▼ Downgrade

Emerging & sector diversification

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

Source: AXA, GS, Datastream, IBES 30/05/2024

Government and inflation-linked bonds outlook and convictions

Our views:

- **Global nominal bond yields –** For global bond markets, the best one might say after the past month is that headline inflation is no worse than previous prints this year. Yields remain under pressure but haven't thus far been pushed to significantly higher levels, on a real (black) or term premium basis. This had led to a period of risk aversion across markets in Q3 2023. The tone from Fed speakers on one side of the Atlantic and more hawkishly inclined members of the ECB on the other focused investors attention on the starting point for rates normalization and also the landing point envisaged for the neutral rate. Nevertheless, volatility pricing (pink) remains contained and, as with longer term measures of inflation, still inclined lower.

- **Inflation breakeven pricing –** levels (blue) are consistent with Central Banks.

- **Macro (neutral) –** Contained headline inflation, especially expectations, coupled with some early signs of labour market weakness support rates but sticky supercore inflation needs to soften for medium term performance.

- **Valuation (positive) –** Yields compared to recent history are attractive.

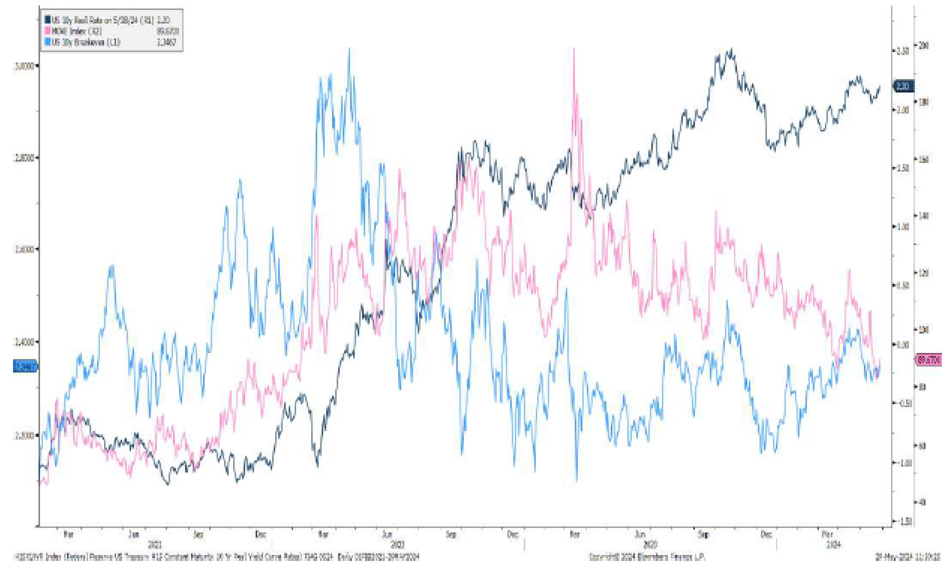
- **Sentiment (positive) –** Flows remain supportive for markets.

- **Technicals (neutral) –** Future sources of liquidity and thus demand in bond markets from money market holdings and even the TGA at the Fed.

Our key convictions:

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

US real yields have risen but no stress break-evens and volatility



Govies

Euro core			
Euro periph			
UK			
US			
Japan			

Inflation Break-even

US			
Euro			

Emerging

Emerging Markets			

Change ▲ Upgrade ▼ Downgrade

Source: Bloomberg, Axa IM Research 30/05/2024

Credit bonds outlook and convictions

Our views:

- **Credit markets** (IG and HY) investor flows were largely positive over the month but suffered as geo-political risk resurfaced and macro risks pushed yields higher as the market further repriced the path for the Fed policy rate. Nonetheless the spread widening was very muted and quickly reversed with the overriding investor sentiment still comfortable with credit risk as growth remains underpinned in the US and perhaps even improving in the Euro Zone where credit markets offer a discount to the US equivalents. Positioning remains very strong still and this should provide headwinds to spread performance potential. We remain reluctant to add at these levels.

- **Macro (neutral)** – Growth and corporate earnings continue to provide a positive backdrop to the credit market. Whilst bond volatility remains contained or indeed falling, there is no immediate danger to spreads. Any reversal to this positive sentiment on a re-pricing of the future path for rates from the FED or ECB would prove extremely challenging to investor positioning.

- **Valuations (negative)** – Spreads remain very tight and approaching levels last seen in 2021 when Central Banks were direct buyers. We remain cautious and won't increase exposure at these levels.

- **Sentiment (positive)** – Credit markets remain well supported and absolute yield levels are attractive to recent history.

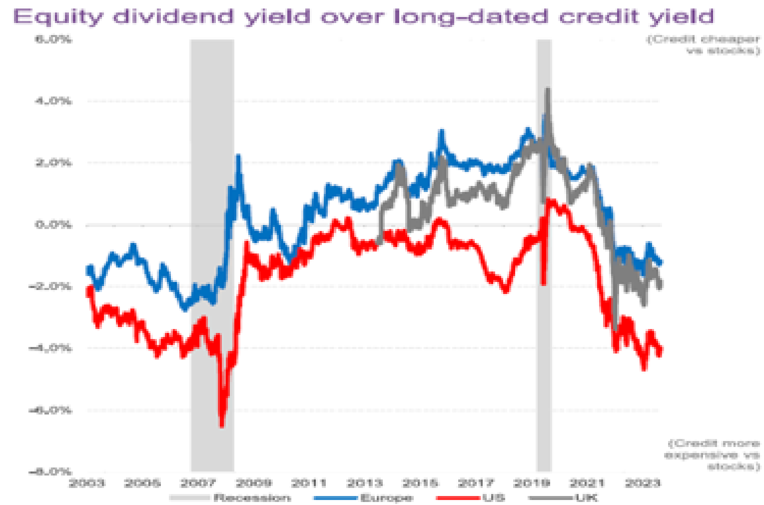
- **Technicals (negative)** – Refinancing needs rising but only gradually whilst corporate defaults are rising as previous rate hikes weigh on direct bank lending especially for smaller businesses.

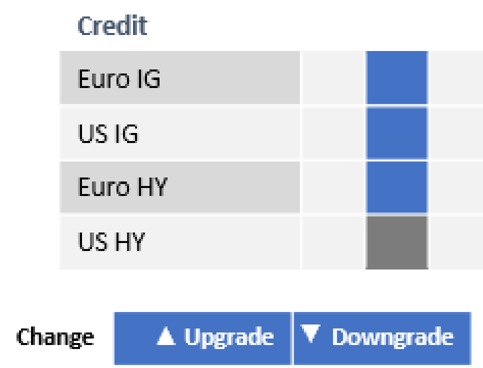
Our key convictions:

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

Source: NatWest Bloomberg 30/05/2024

Equities at highs can't keep up with Credit richness





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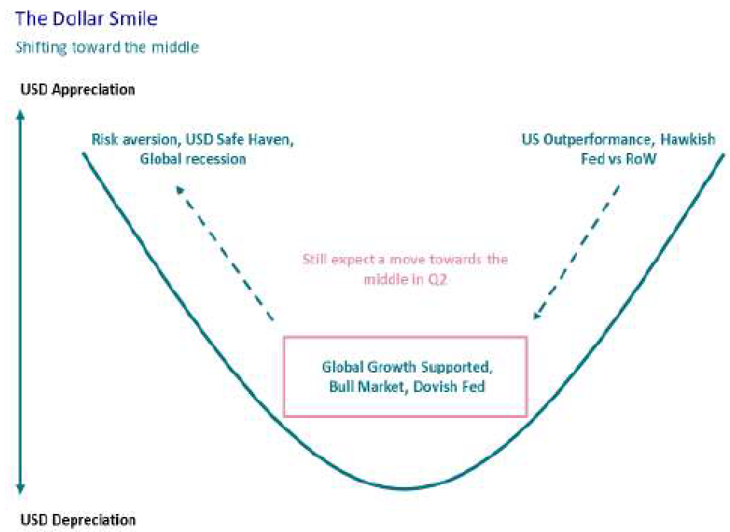
Currency market outlook and convictions

Our views:

- **USD:** Short-term softening of dollar strength as we enter the belly of the dollar smile (see chart). As US macro scenario transits from worryingly too hot to just good enough to avoid recession while allowing further easing of monetary policy, dollar will most likely temporarily pull back. Long positions to unwind further.
- **JPY:** Domestic dynamic does not make a strong case for BOJ to be overly hawkish except for the consideration of excessive Yen depreciation. The absolute carry remains too elevated to spark any significant appreciation of the currency until the effective easing cycle begins in the US.
- **EUR:** Short-term strength on the back of cyclical restart and rising risk appetite among dollar softening. Short positions are being reduced.
- **GBP:** UK inflation and wages are normalizing, but still surprise to the upside. As a cyclical and high yielding currency, the short-term momentum could be supportive despite a dovish BOE.
- **CHF:** First G10 central bank to cut. Swiss inflation continues to surprise to the downside. As a low yielding currency, it has limited short-term upside until risk appetite plummets for real.
- **AUD:** Best high yielding currency to play dollar weakness as risk appetite soars. Inflation still elevated with upside surprises. Cyclical restart with China bottoming out are tailwinds.
- **CNH:** Suppressed volatility by PBOC while further easing of monetary policy is inevitable for its deleveraging process among anemic growth.

Dollar Smile: we swing from the right side to the belly



Currencies relative to USD

EUR			▲	CAD			
GBP		▲		NZD			
JPY		▼		NOK			
CHF				SEK			
AUD			▲	CNH			

Change ▲ Upgrade ▼ Downgrade

Our key convictions:

- We hold a positive outlook on AUD against USD. We upgraded our GBP to neutral while maintaining negative bias on low yielding currencies such as CNH

Source: Bloomberg , AXA IM 30/05/2023

Commodity market outlook and convictions

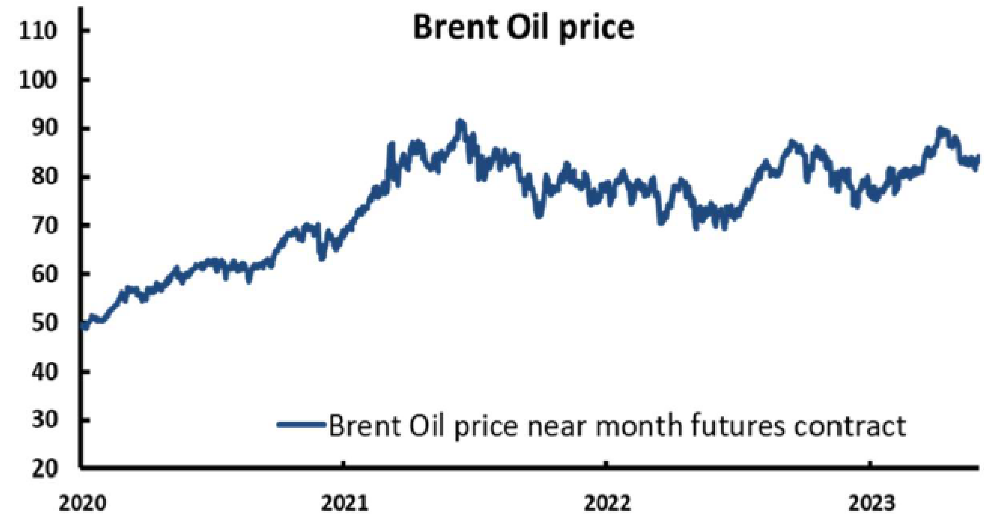
Our views:

- Divergence in the Commodity complex with oil prices retreating to mid-range whilst industrial and precious metals spiked higher. Sentiment continued to improve whilst technicals were mixed.
- **Oil prices corrected despite** resilient demand and increased confidence that OPEC cuts will continue to balance the markets. However, receding tensions in the Middle East did lower the geopolitical risk premium. In parallel, investor positioning dropped. Given the oil price is back to the middle of its recent trading range, we would adopt a **positive stance** given that the summer pick-up in demand could push oil prices to the **high end of multi-year trading range ($90 Brent).**
- **Industrials metals reacted positively to the combination of improving cyclical demand in addition to demand linked to decarbonisation** for China but also globally. Supply increasingly constrained for some key metals such as copper. However, the **recent sharp price rise and spike in speculative positioning** led us to maintain **our neutral stance.**
- **The consolidation** following the market's repricing of the initial Fed cut from June to September was **short-lived. Gold reacted positively to Chair Powel's dovish statement and should trade higher with a confirmation of policy easing.** In addition, Central Banks remain steady buyers of Gold. As such we again **adopt a positive stance on Gold.**

Our key convictions:

- Neutral stance across the commodity complex as we await more attractive levels before re-engaging.

Oil price back to the middle of its recent trading range



Commodities

Oil			▲
Industrial Metals		■	
Gold			▲

Change ▲ **Upgrade** ▼ **Downgrade**

Source: Bloomberg , AXA IM 30/05/2024

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