AXA Investment Managers

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Multi Asset Allocation Views

March 2024

Multi-Asset Investment views

Our key messages and convictions

Positive stance on Equities

#1

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

#2

Technical consolidation provides a starting point for reinforcing duration

Positive on government bonds

Positive on Commodities

#3

Offering some diversification in case of accrued geopolitical risk with balanced physical market providing support

#4

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

Prudent on € Investment Grade Credit

Source: AXA IM as of 29/02/2024

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 Financials			
US Russell 2000			▲

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 29/02/2024

Central & alternative scenarios

Entrenched Supply Shock 25%

- Banking turmoil returns, credit conditions tighten.
- Escalation in Ukraine conflict or Middle East tensions.
- Post-pandemic structural tensions persist. Supply shocks (labour).
- 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** shift higher.
- **Credit** spreads widen.
- **EM debt** comes under pressure.
- **US Dollar** remains elevated

Central scenario 60%

- Global economy to slow to 2.9% 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 15%

- 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 29/02/2024

Setting the scene: our global economic outlook

Global economic growth to slow; Central Banks to proceed mid-year with interest rates cuts

- **US growth remained strong at year end and despite weaker retail sales growth in January, still suggests firm activity.** Strong labour supply growth, rising productivity growth and a higher neutral rate might in part explain this growth resilience. However, slower income growth, a rising tax contribution and an increasing saving rate should all slow growth over the coming quarters. **We raised our 2024 GDP growth forecast to +2% from 1.4% previously albeit slowing to +1.5% in 2025.**
- **Eurozone economic activity continues to lack momentum.** However , GDP should rise as employment and real disposable income growth picks-up. Latest services surveys have shown improvement however manufacturing activity remains weak. We continue to anticipate growth to remain **anaemic at +0.3% in 2024 with a slight improvement to +0.8% in 2025.**
- **China's economic weakness also continues, with recent stock market declines echoing concerns.** However, concerted fiscal support from last year has seen credit growth accelerate, while recent accelerated monetary easing suggests more pre-emptive policy. We thus **maintain a deceleration in GDP growth to 4.5% in 2024 and 4.2% in 2025.**
- **Emerging market economic activity diverging** with robust economic growth in most Asian economies. Central European economies weakened with a rebound expected this year whilst economic activity appears to be tapering off in Latin America amidst falling inflation.
- **Material shift in market expectations for Central Banks in line with our expectations.** US Fed* expected to cut rates in June and could ease faster if inflation falls. ECB** is also likely to begin easing in June but could embrace aggressive rate cuts. BOE*** is apparently considering when, not if, to cut rates. BoJ**** indicating a small hike (10 bps) most likely in April.

Source: AXA IM, Consensus Economics, IMF and Datastream as at 29/02/2024
*Federal Reserve **European Central Bank *** Bank of England ****Bank of Japan

AXA IM Research & Investment Strategy economic forecasts*

Real GDP growth (%)	2023*	2024*	2025*
World	3.1	2.9	3.1
Advanced economies	1.6	1.2	1.2
US	2.5	2.0	1.5
Euro area	0.5	0.3	0.8
UK	0.3	0.2	0.6
Switzerland	0.6	0.8	1.3
Japan	1.9	1.2	1.0
Emerging economies	3.9	3.9	4.2
China	5.2	4.5	4.2

Global PMI indices

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

Source: Purchasing Managers Indices (PMI) and AXA IM, November 2023
* 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

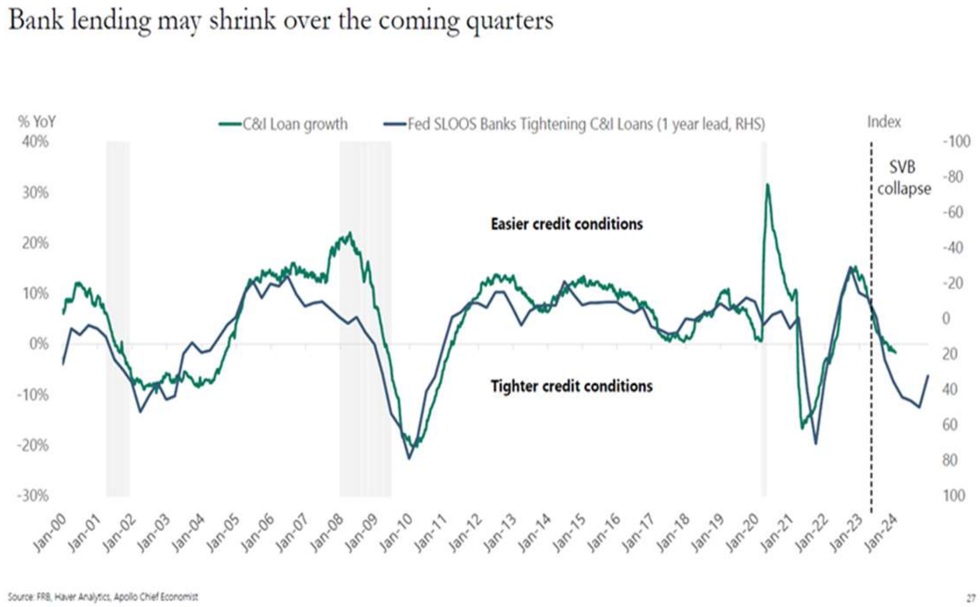
Our views:

- Financial markets have **digested an uncomfortable amount of outlook volatility** over the past three months. Meanwhile, volatility measures in the fixed income market have been well-behaved relative to last year's ructions. Risk assets and especially equities have held up well or performed strongly in the face of higher bond yields.
- The elements that could **drive a slowdown** in the US, or even a tip into recession in Europe, have however **not disappeared**. Our Macroeconomic Outlook calls for some weakness ahead in the labour market, which will allow the Fed to engage with policy normalisation this year.
- Indeed, Main Street (households and corporates) is not as healthy as Wall Street. As long as the pace of disinflation holds with the past six-month trends, the weaker news from Main Street should **focus the Fed's attention on the path to a series of cuts** that will bolster the outlook for the US and allow **the ECB to follow suit with rate cuts.**
- Fast money positioning has been reduced on rates whilst institutional investors' demand is proving resilient in the face of heavy supply. This argues for **building a stronger duration position** at current levels. Further softening of financial conditions will also provide **support to equities** where valuations are currently at lofty, albeit not extreme levels.

Our key convictions:

- **Positive on global equities –** In the context of a macroeconomic soft landing combined with strong microeconomic fundamentals, we expect further upside in DM equities.
- **Positive on duration –** The technical consolidation in rates since the start of this year provides levels to build duration positions
- **Positive on US$ cash and commodities –** We maintain an allocation to commodities, as a hedge against heightened geopolitical risks. The US dollar should benefit from relative economic strength

Divergence in financial conditions between Wall Street and Main Street



Key asset classes

Equities			▲
Bonds		▲	
Commodities			
Cash	▼		

Change ▲ Upgrade ▼ Downgrade

Source: FRB, Citi, Bloomberg and AXA IM, as of 29/02/2024

Equity markets outlook and convictions

Our views:

- **Equity markets power ahead with many reaching all-time highs.** A perfect soft landing continues to be discounted which could prove a challenge. Markets looked past the hotter January US CPI data and continued to ride AI and Nvidia related optimism. Inflation needs to cool just enough to justify Fed rate cuts but growth to resist just enough to support earnings.
- **Valuations ex Tech do not give strong signals either way. Q4 Earnings season was generally positive.** Consensus expects 8-10% EPS growth led by Technology, Healthcare and Financials. Country-wise, Italy, Japan and the US stand out. A stronger earnings growth and dividend outlook helps offset the lack of visibility around the rates trajectory.
- **Sentiment** improves with many momentum and risk models ticking up.
- Our factor model suggests that the global economy is still in a modestly expansionary phase which favours **growth, quality and momentum**, or in terms of sectors, communication services, healthcare and semiconductors.

Our key convictions:

- Our 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.
- **Upgrade to overweight EZ and Japan**. Japan continues to benefit from structural and corporate governance changes whilst in the EZ growth is stabilizing and rates cuts, buy-backs can support valuations.
- We also upgrade **US Small Caps.** Underperformance and valuation differential relative to Large Caps is very stretched. Stabilizing growth and prospect of lower rates could support better quality names.

Source: AXA, GS, Factset, as of 29/02/2024

Small cap discount now extreme

Source: FactSet, Goldman Sachs Global Investment Research

Developed

Eurozone			▲
UK		■	
Switzerland		■	
Japan			▲
US			▲
EMG		■	

Emerging & sector diversification

European cyclicals/value		■	
EU Financials		■	
EU reopening basket		■	
UK domestic stocks		■	
US cyclicals/value		■	
US Small Caps			▲
Semiconductors			■

▲ Upgrade | ▼ Downgrade

Government and inflation-linked bonds outlook and convictions

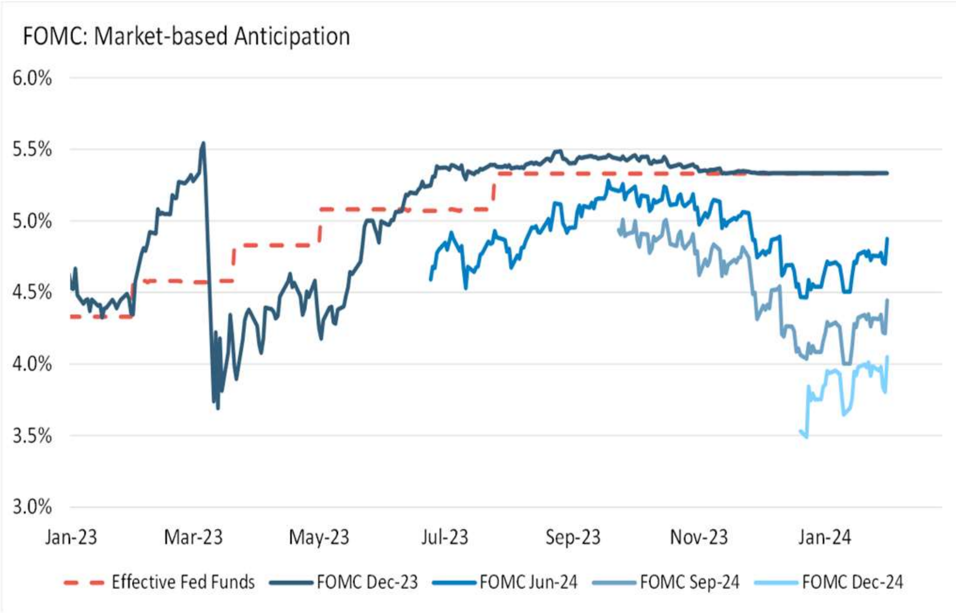
Our views:

- **Global nominal bond yields –** The short squeeze into year end that saw rates markets lead global markets higher has largely been unwound in the first 2 months and in a remarkably calm fashion. Large levels of supply from both Governments and Corporates has been absorbed with barely a ripple of discomfort. Even surprisingly strong US inflation and jobs numbers and a nascent recovery in EU PMI's have failed to generate anything more than a gradual slippage higher in yields. Add to this background a colossal amount of cash still sitting in money markets funds that will seek yields elsewhere when Central Banks begin, perhaps sometime before the summer, to ease policy and conditions appear provident to begin increasing duration in portfolios.
- **Inflation breakeven pricing –** levels are consistent with Central Bank targets.
- **Macro (neutral) –** Normalization of monetary policy is set to provide support to bond markets, but the 'neutral' score is informed by the unexpectedly strong inflation prints (US) and tight labour markets (US & EU) which need to be resolved in the coming months.
- **Valuation (neutral) –** Levels now at more neutral level and will allow markets to more easily absorb any noise in inflation prints.
- **Sentiment (positive) –** Flows remain supportive for Govvies.
- **Technicals (neutral) –** QT, Treasury supply remain issues for 2024 but cash stocked in Money Markets will return to bond markets eventually.

Our key convictions:

- **Government Bonds**: Opening long position
- **Inflation Break-evens:** Neutral

An orderly repricing without a spike in bond volatility.



Govies

Euro core			▲
Euro periph			
UK			
US			
Japan			

Inflation Break-even

US			
Euro			

Emerging

Emerging Markets			

Change	▲ Upgrade	▼ Downgrade

Source: AXA R&S, Bloomberg 29/02/2024

Credit bonds outlook and convictions

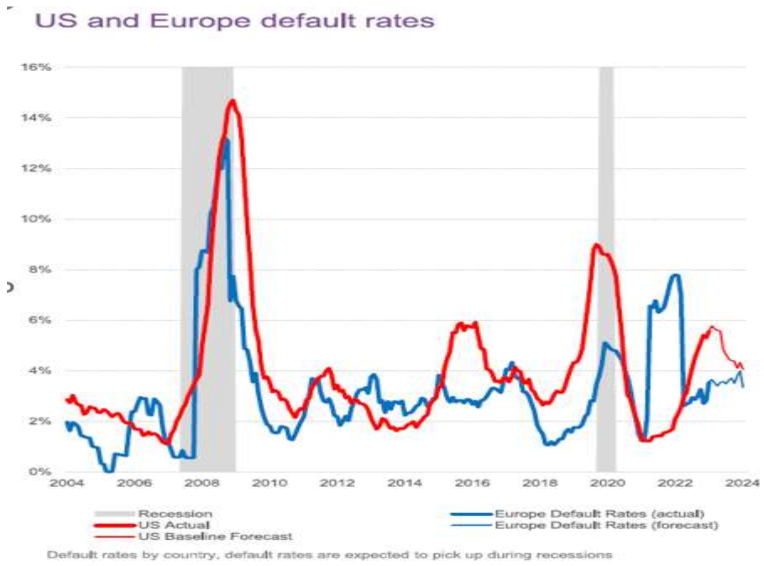
Our views:

- **Credit markets** (IG and HY) investor flows remain supportive and large supply is being absorbed with little to no pressure whilst the background of rates volatility pricing remains relatively subdued. Thus, the anticipation of a smooth normalisation of policy rates as inflation wanes leaves investors buying spreads at historically tight levels. After a good year where spreads buoyed fixed income portfolio returns, we turn more cautious.
- **Macro (neutral) –** Whilst markets remain focused on disinflation and normalization of monetary policy, credit is well supported. However, signs that the US economy is accelerating whilst Euro Zone recovers would push the influence to negative as neutral rate will necessarily be higher and risk will be impacted.
- **Valuations (negative) –** In recent memory, spreads have only been tighter when CB's have been in full QE buying more so some caution is justified at current levels of spreads. HY offers a better carry-cushion and we choose to lighten up on IG.
- **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 through 2024, defaults are rising, and surveys show investor positioning is now (very if not max) long.

Our key convictions:

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

Default rates still rising but from low levels



Credit

Euro IG			
US IG			
Euro HY			
US HY			

Change ▲ **Upgrade** ▼ **Downgrade**

Source: NatWest, Moodys 29/02/2024

Currency market outlook and convictions

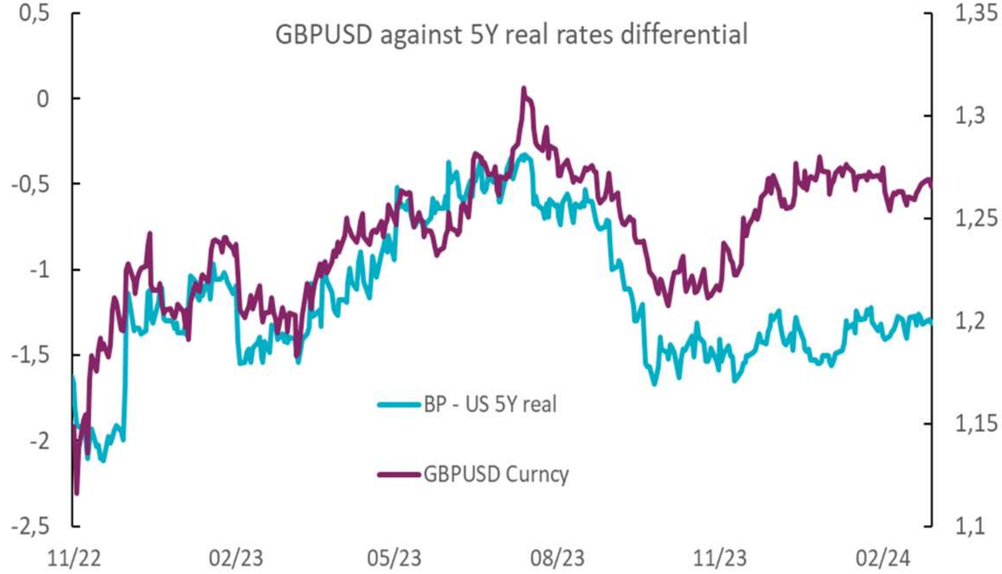
Our views:

- **USD:** US growth and inflation continue to show greater resilience. Fed is finally repriced accordingly, and USD rebound is justified. Trade and fiscal implications of a second Trump presidency could bring further support.
- **EUR:** EU looks underwhelming in contrast. EUR is not cheap from a long-term perspective or against rate differentials and looks biased to the downside.
- **GBP:** Similarly, the UK is falling into technical recession in Q4 and disappointing low expectations, while inflation is finally softening faster than expected. Positioning on GBP is still long with room for a sharp turnaround.
- **JPY:** Depreciated mechanically as rates, lead by the US, were repriced higher but this now seems to have reached exaggerated levels. MOF's tone hardens which could signal intervention to limit JPY further downside. Medium term should see appreciation with normalization of global inflation and monetary policies.
- **CHF:** Near all time highs. SNB pivoted more dovish and could well be the first to cut in March. Inflation, already below target over the past 6 months, has sharply surprised to the downside. Soft landing environment less supportive.

Our key convictions:

- Positive stance and long USD against GBP
- Positive outlook on USD and JPY against EUR and CHF

GBPUSD looks rich



Currencies relative to USD

EUR				CAD			
GBP	▼			NZD			
JPY				NOK			
CHF				SEK			
AUD				CNH			

Change ▲ Upgrade ▼ Downgrade

Source: Bloomberg , AXA IM 29/02/2023

Commodity market outlook and convictions

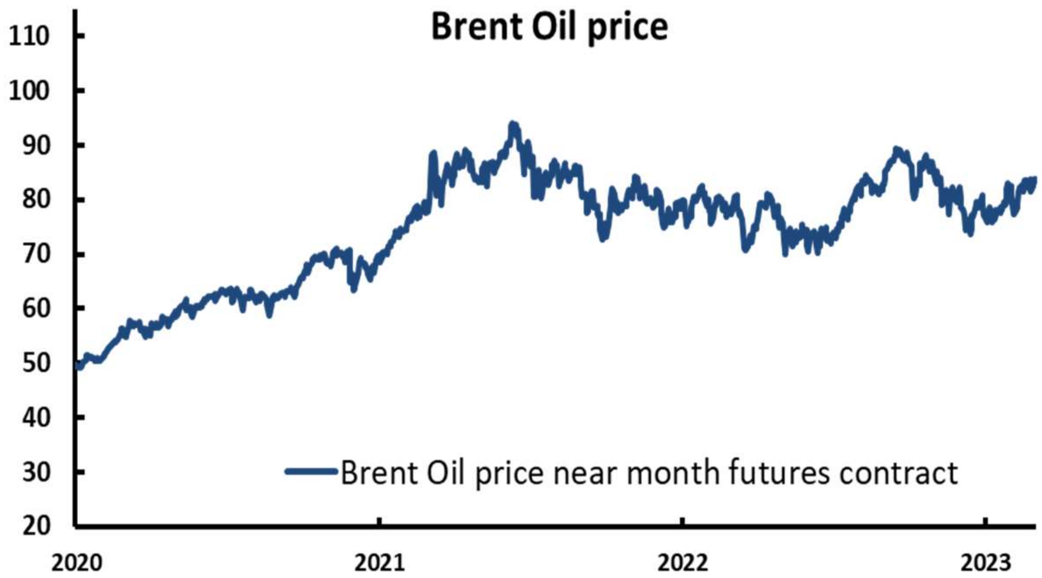
Our views:

- Oil prices ground higher to stabilise to stabilise in the middle of their trading range. Sentiment remains subdued whilst technicals for oil improved.
- **Oil prices continued to grind higher on a combination of a more balanced demand/supply dynamic and ongoing tension in the Middle East.** Recent numbers indicate resilient demand even from China. Meanwhile, the worries over higher supply are subsiding as the data points to incrementally higher US production in parallel to increased confidence that OPEC+ compliance with its promised cuts. All of which indicate a very balanced oil markets. Meanwhile, the ongoing tension in the Red Sea region is limiting access to the Suez canal thus increasing the cost to market for some suppliers. **We see the oil price well supported at these levels with some further upside** on geopolitical concerns.
- **Industrials metals demand is stuck between robust demand linked to decarbonisation, especially from China, whilst demand from traditional sectors remains weak.** Meanwhile, the pick-up in production remains muted. We thus maintain a **neutral stance**.
- While we believe that the recent indication that the Fed will loosen its monetary policy supports gold at its $2,000 threshold, we would need a confirmation of an **easing of monetary policy - expected the second half of 2024 - to see further upside. We thus maintain a neutral stance.**

Our key convictions:

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

Geopolitical tension provide upside for Oil prices



Commodities

Oil			
Industrial Metals			
Gold			

Change | ▲ Upgrade | ▼ Downgrade

Source: Bloomberg , AXA IM 29/02/2024

Volatility outlook and convictions

Our views:

- **“Sky is the limit”**, the year-to-date rally of >7% on equities had a strong impact on volatility pricing across equity indexes**. The FOMO sentiment is probably driving this first quarter *move*** reflected by the options ownership on SX5E index, the put delta is at 10th percentile (~900m) while calls are at 84th (~6bn). From a pure volatility perspective, **short term pricing has dropped near historically lowest levels especially on SX5E** with 3m implied volatility at 2nd percentile and SPX at 22th percentile over 10 years. In the volatility futures market, VIX and V2X index are currently pricing the same levels, with the same term structure slope leading to relative value opportunities.

- **Our Contagion signal confirms the risk-on mood**, anchored in safe territory from the beginning of the year.

- **On rates, the story is more challenging**. The market has repriced the number of rate cuts by the Fed from 7 at the start of year to 4 currently. US swaption volatility is repricing consequently creating a large valuation dispersion. US swaption 1x10Y at 33th percentile while EU remains bottom at 3th over 1 year

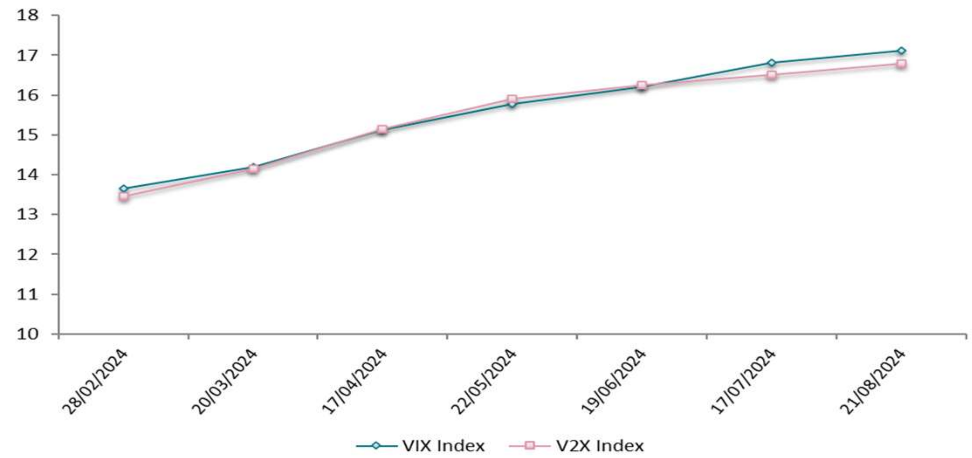
- On the equity volatility surface, skew remains muted with the large bulk of call flows. Term structure is relatively steep. Therefore, for equity hedging purposes we recommend to use very short-term maturities, with a strike around 95% moneyness spot.

Our key convictions:

- **Maintain long volatility position on equity on Q1 2024**
- **Enter into long V2X short VIX for same notional on June maturity**

EU & US rate implied volatilities diverging

Matching VIX and V2X term structures



Source: AXA IM, Bloomberg finance L.P. as of 29/02/2029

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