Monthly Investment Viewpoint

September 2024

Chris Iggo
Chair of the AXA IM Investment Institute
CIO of AXA IM Core

Alessandro Tentori
CIO of Europe
AXA IM Core

Ecaterina Bigos
CIO of Asia ex-Japan
AXA IM Core

CLICK HERE

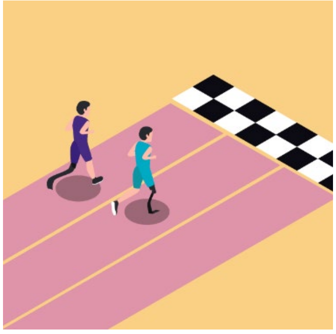
...to read more from the

AXA IM INVESTMENT INSTITUTE

KEY INVESTMENT THEMES

Markets withstand **August's volatility**

Federal Reserve likely to **cut rates soon**



Growth equities and high yield bonds show solid potential

August bounce may augur well for rest of 2024

August's volatility spike has not proved serious enough to derail markets' robust year-to-date performance. But while equities and bonds rebounded quickly, additional volatility cannot be ruled out given the market's sensitivity to the economic news flow. However, market fundamentals remain supportive. The US Federal Reserve will likely begin to cut interest rates soon - following the moves from other central banks, while company earnings have largely met growth expectations. Decent investment returns could well be sustained into the end of 2024, with growth equities, such as technology stocks potentially leading the way. High yield and other less interest-rate-sensitive bonds are showing the most potential in terms of offering the lowest risk path to sustaining positive returns for the rest of 2024.

High yield's opportunity

High-yield bonds are often seen as some of the riskier inhabitants of a portfolio, as their higher return potential – compared to say government-issued debt - means taking on more risk. But during the recent market wobble, partly driven by concerns that the Federal Reserve is being too slow to cut interest rates, the asset class held up very well. While the S&P 500 endured a sharp drop, US high yield lost less than 1% - and has fully recovered since. There are reasons for this resilience; for example, high yield bonds typically have shorter maturities than many investment grade bonds, meaning they can be less exposed to interest rate risk than bonds with longer maturities. Overall, we believe if the US continues to avoid recession – and we're not forecasting one – this attribute could prove helpful in the coming months.

China's uphill journey of rebalancing its economy

As China's economy rebalances towards consumption and productivity growth, two of its main tools have been infrastructure and manufacturing investment. But these come with the threat of deflation and overcapacity. This backdrop can affect export prices, contributing to fears of exporting deflation. While this is presently being tolerated, as countries grapple with high inflation, it may not be when inflation rates fall within target ranges. Therefore, an exit from deflation, helped by global trade, looks increasingly challenging. The export sector has been an important driver for China's economy and any slowing would imply growing uncertainty for the industrial sector's outlook. Trade tensions also remain a concern. The current stimulus plan, if fully implemented without changes, may add to disinflationary pressures, and increase the future debt burden.

Asset Class Summary Views

Views expressed reflect CIO team expectations on asset class returns and risks. Traffic lights indicate expected return over a three-to-six-month period relative to long-term observed trends.

Positive	Neutral	Negative

CIO team opinions draw on AXA IM Macro Research and AXA IM investment team views and are not intended as asset allocation advice.

Rates		Developed economy data points to interest rate cuts from September - path from there is less certain
US Treasuries		Fed likely to ease in September. Volatility remains a risk on new economic data and path from the first cut
Euro – Core Govt.		Further ECB rate cuts expected; political uncertainty remains a risk
Euro – Peripherals		Presents opportunities and higher real yields than Bunds
UK Gilts		Interest rate cuts fully discounted; markets await fiscal plans
JGBs		Uncertainty over Bank of Japan policy normalisation path. Yen remains volatile
Inflation		Stable expectations, with gradually lower inflation for the rest of 2024

Credit		Favourable pricing is increasing the asset class's contribution to excess returns
USD Investment Grade		Without significant growth deterioration, credit to remain resilient
Euro Investment Grade		Resilient growth and lower interest rates support credit's income appeal
GBP Investment Grade		Returns supported by better growth and expectations of rate cuts
USD High Yield		Narrative of growth without inflation is supportive. Fundamentals and funding remain strong
Euro High Yield		Strong fundamentals, technical factors and ECB cuts support total returns
EM Hard Currency		Higher quality universe, well-placed with US interest rate cuts commencing

Equities		Lower inflation will impact earnings cycle. Unmet return expectations from AI spending is a risk
US		Growth and quality to continue to dominate - but need to watch company earnings momentum
Europe		Attractive valuations, along with positive economic and earnings surprises
UK		Relatively more attractive valuations and positive economic momentum
Japan		Benefitting from semiconductor growth. Reforms and monetary policy in focus for broader performance
China		Growth remains unbalanced. Accelerating industrial output masks a weak consumer
Investment Themes*		Secular spending on technology and automation to support relative outperformance

*AXA Investment Managers has identified six themes, supported by megatrends, that companies are tapping into which we believe are best placed to navigate the evolving global economy: Technology & Automation, Connected Consumer, Ageing & Lifestyle, Social Prosperity, Energy Transition, Biodiversity.