AXA Investment Managers

Investment Institute *Asset Class Views*

Monthly Investment Viewpoint

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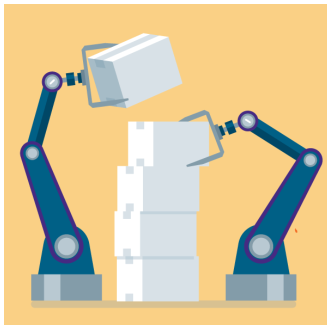
KEY INVESTMENT THEMES

Rate cut hopes **boost bonds**

Europe’s **tech imbalance**



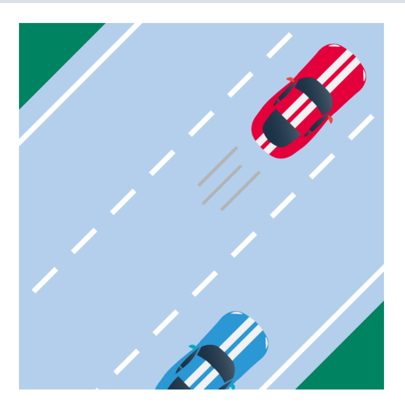
AI powers Asia-Pacific trade

Fixed income benefiting from lower rate expectations

Lower interest rate expectations – further confirmed by the Federal Reserve's September cut - have helped drive recent strong fixed income performance. Global government and corporate bond returns over the third quarter have been among the strongest of the last 10 years. Bond yields may not be able to fall much further given what is already priced in. For rate expectations to decline further, markets would need to think that recession risks are increasing, which is not currently the case.

We prefer bonds with shorter maturities, which should benefit from lower central bank interest rates, and corporate bonds which are attractive at current yields. Fundamentals in the corporate sector are solid and demand for higher yielding, income-generating assets remains strong.

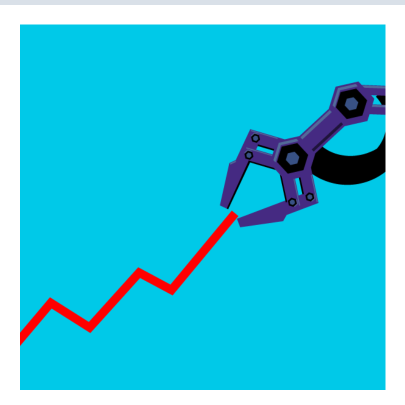
European earnings improve, but still lag the US



Following five quarters of negative earnings growth, European equities are back in positive territory. However, absolute earnings growth still lags Wall Street by a considerable margin. This could be for two reasons: firstly, structural factors including relatively low productivity, regional fragmentation and implementation issues on European Union projects – such as the Banking Union - continue to depress Europe's potential growth rate.

Secondly there are sectoral differences. Some 20 years ago, the information technology sector represented 16% of the S&P 500's and 4% of the Stoxx 600's market capitalisation. By the end of 2023, that had increased to 29% in the US, but only 7% in Europe. Industrials and healthcare have gained in importance in the bloc since 2004 – but the tech imbalance could be a key factor in Europe's long-term outlook.

Asia-Pacific trade powered by AI



US investment in technology is supporting Asia's tech trade - despite worries about artificial intelligence (AI) overhype. US capital goods imports remained robust over the past year, driven by industrial machines, computers, computer accessories and semiconductors - likely due to AI-related investment and the 2022 CHIPS act.

The initial winners of the investment cycle have been infrastructure firms, storage providers and chipmakers – many of them based in Asia ex-Japan. Taiwan recorded sharp growth in chip exports of 89.8% year on year to September 2024, while South Korea's rose by 44%. The drivers are undoubtedly narrow and could be derailed if demand falters, but for now, with under-investing in AI perceived as a bigger risk than over-investing, the cycle likely has further to run.

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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		Easing cycle in full swing but much is already priced in
US Treasuries		Market already priced for significant rate cuts in 2025
Euro – Core Govt.		Little value right now with ECB rate cuts priced in
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		Market pricing not discounting any post-election inflation shock

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		Soft landing to support stocks into year-end
US		Lower rates should sustain confidence in earnings
Europe		Attractive valuations, along with positive economic and earnings surprises
UK		Relatively more attractive valuations and positive economic momentum
Japan		Benefiting from semiconductor growth. Reforms and monetary policy in focus for broader performance
China		Policy announcements may lead to improved growth and market performance
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.

Data source: Bloomberg