Investment Institute Asset Class Views

The view from the Core CIO Office

April 2025

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

KEY INVESTMENT THEMES

Growth and inflation risks ratchet up	Germany's Bunds disruptor	India and China's macro inflection points

CIO Office: Opinions

Chris Iggo, CIO AXA IM Core

Fresh market disruption

Investors face both growth and inflation risks. Uncertainty around policymaking and shifting global political and economic relations have pushed up market volatility and investors are struggling to adapt portfolios to changing fundamentals. So far, it appears growth risks dominate. This is most obvious in the downward revisions to US GDP forecasts, S&P 500 earnings expectations and the relative performance of US versus European markets. For the last decade, the US equity market has had an earnings growth premium over other markets - justifying the valuation premium that has increased since the pandemic. While the US market's long-term strengths are not in doubt, some of them are challenged in the near term by concerns over the impact of trade and domestic policies on confidence and spending.

Meanwhile, inflation risk premiums and bond yields are stable. Tariffs will disrupt consumer prices, but the bigger delta is on growth expectations. This suggests that US equity market underperformance might persist. Bonds have outperformed and we still retain a positive view towards credit, but for the bond-equity valuations adjustment to go much further, current rate expectations need to be validated. If investors and market valuations keep marking down growth prospects however, a dovish Federal Reserve pivot becomes more likely. If stocks move further away from extreme overvaluation, 10-year US bond yields could eventually move below 4%, extending the surprising relative moves seen already this year.

Alessandro Tentori, CIO Europe

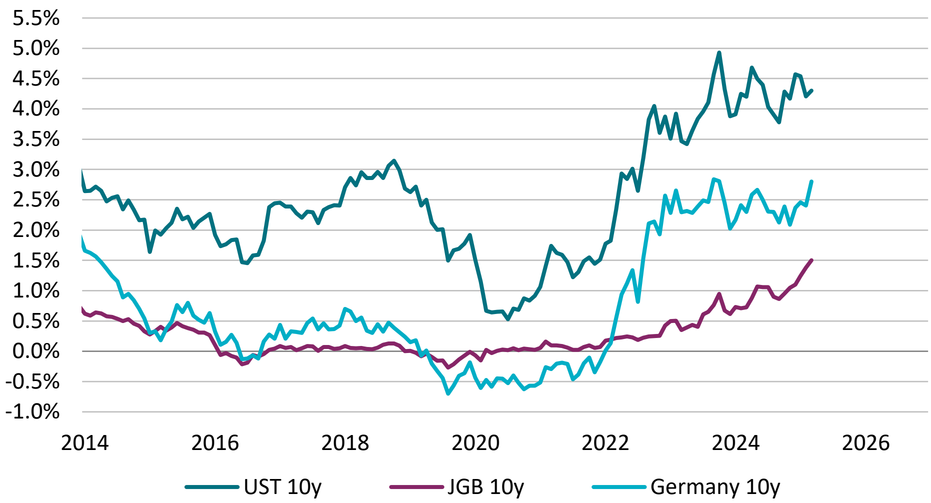
Bunds: Losing my religion

German government bonds (Bunds) suffered their worst day in Eurozone history on 5 March, when the yield on the 10-year benchmark Bund increased by 30 basis points and the iBoxx Germany Sovereign index declined by a notable 1.8%. The move was uniformly spread across all European government bond curves, with little volatility on cross-country spreads, while the iBoxx Eurozone Sovereign index declined in line with Germany.

The reason for such unusual volatility was Germany's perceived drift away from fiscal prudence. In fact, Germany has only adopted a countercyclical expansionary fiscal stance on two occasions since 1999, thus cumulating a modest 14% in budget deficit since the 2008 global financial crisis. By comparison, France has cumulated almost 80% and Italy almost 70% in budget deficits over the same period.

In our view, the sharp market reaction is linked to Berlin moving away from championing orthodox fiscal policy to deploying the ample fiscal space at its disposal for structural projects. While this may signal an epochal transition in Europe's economic framework, the message for markets is straightforward. It means more Bunds will have to be issued to finance German structural projects; German GDP growth will be boosted in the medium term; and other Eurozone countries might adopt a similar fiscal approach. This is good news for advocates of structurally high(er) yield levels.

| Bunds: Testing the post-COVID-19 range



Source: Bloomberg, March 2025

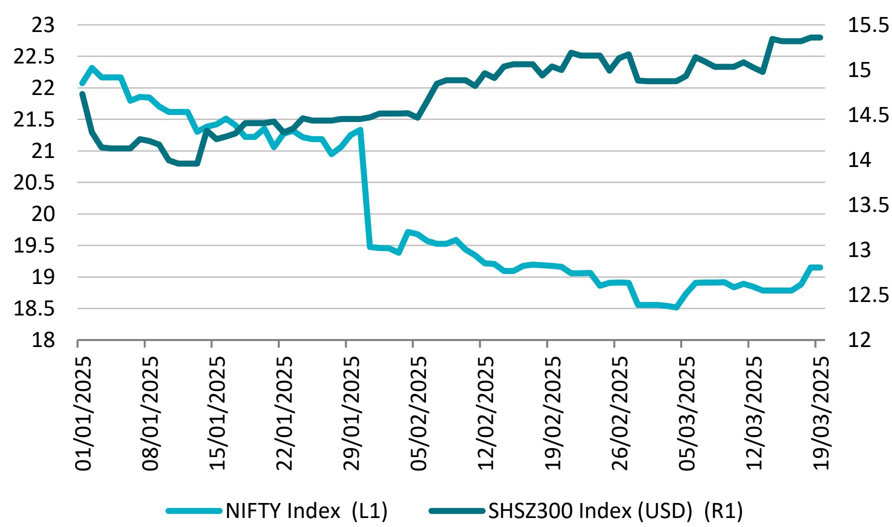
Ecaterina Bigos, CIO Asia ex-Japan

A tale of two economies

Both India and China are at turning points in their respective economic and policy cycles – and this has implications for asset valuations. Structurally and cyclically, both economies are going through a softer patch. While the Chinese government has introduced stimulus measures, India is keen to consolidate its fiscal position to improve macroeconomic stability. China currently has a high level of household savings - 34% at the end of 2024. And, structurally, it has a lower share of consumption to GDP, at 45% compared to India's 60% (69% in the US). A rise in personal consumption to 60% of GDP would equate to annual consumption of some US$10trn on today's GDP; $3trn higher from the current level. Achieving this scale of retail support requires market reforms and concerted policy efforts, with incentives directed at consumers.

Conversely, India's ambition to become a US$10trn economy with greater manufacturing share is dependent on a continued and accelerated infrastructure rollout to reach China's standards. India accounts for only 3% of global manufacturing, half of where China stood in 2000. Its manufacturing is more dependent on other economies, operates lower down the value chain and incentives are still small in a global context. For now, its success is in exporting more services, which account for 55% of GDP, with manufacturing at 15% but largely stagnant for the past decade.

| Price-to-estimated earnings for China's CSI 300 and India's Nifty 50



Source: Bloomberg, March 2025

IMPLEMENTATION IDEAS

EUROPEAN EQUITIES

Rationale

Germany's increased spending on infrastructure and defence will generate growth effects in Europe and benefit European companies. Earnings growth expectations have been moving higher and presently European markets provide better value than US equity markets. Europe's geopolitical shift should mean more domestic investment is directed towards European markets.

EURO CREDIT TOTAL RETURN STRATEGIES

Rationale

Away from mixed macroeconomics, which are subject to volatility, European credit is supported by resilient fundamentals, attractive yields and strong inflows. Demand is likely to increase further given the rotation away from money market funds, as institutional investors aim to lock in current yields. Accounting for the current rates and macroeconomic volatility, unconstrained strategies allow for flexible duration management and strong conviction positioning.

SHORT DURATION AND OTHER HIGH YIELD STRATEGIES

Rationale

Flat yield curves and the risk that policy uncertainty pushes long-term yields higher argue for short-duration exposure. Increased coupons in high yield markets allow the asset class to compete with expected equity returns but with less volatility. High levels of income also cushion returns from any concerns about downside growth risks. Fundamentals generally remain solid with refinancing and supply risks in high yield markets being less of a concern than in investment grade credit.

AXA Investment Managers

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		Timing of further rate cuts is uncertain, with no clear direction for bond yields
US Treasuries		Fed on hold; chance of lower yields if growth concerns persist
Euro – Core Govt.		Recent sell-off has improved valuations; ECB still expected to cut rates
Euro – Govt Spreads		Spreads stable but need to watch for any new spending plans
UK Gilts		Fiscal uncertainty and Bank of England on hold drive stable yields
JGBs		Yields can move higher with expectations of further monetary policy tightening
Inflation		US and UK inflation breakeven rates look too low

Credit		Recent widening in spreads should maintain investor interest
USD Investment Grade		Yields attractive relative to Treasuries
Euro Investment Grade		Corporate spreads are expected to remain stable; tariffs are a risk
GBP Investment Grade		Risk of wider spreads if growth outlook remains weak
USD High Yield		Technical factors and valuations remain supportive, equity weakness a risk
Euro High Yield		Attractive yields and improved financing environment
EM Hard Currency		Need to monitor effects of tariffs on different countries

Equities		Global rotation out of the US could persist on tariff uncertainty
US		Credible plan to resolve tariff uncertainty will allow business cycle to continue
Europe		German fiscal plan is boosting long-term growth expectations
UK		Attractive valuations, but policy needs to become more growth positive
Japan		Upturn in industrial cycle will benefit Japanese stocks; tariffs are a risk
China		Tech sector leading market recovery on AI developments; tariffs are a risk
Investment Themes*		AI-related spending continues to be strong

*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.

Click here for more from the ***Investment Institute***