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AXA IM Equities

Global Factor Views

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Macroeconomic and equity market backdrop

- **Growth**: Overall we expect the global economy to continue to exhibit decent growth underpinned by ongoing vaccine roll out. The strongest period of growth - the recovery phase - is now likely behind us, and we expect global GDP growth of 5.7% in 2021 and 4.4% in 2022.
- **Macro risks**: There are a growing number of risks that could derail the pace of global recovery and drive volatility in equity markets. The delta in fiscal impulse is starting to turn negative. Supply constraints are driving inflationary pressures, especially evident in sharply higher commodity prices, which is a common theme across many economies.
- **Equity markets**: Amid the recent rise in bond yields, the equity market still appears, on balance, to be pricing in the 'transitory' inflation narrative of central banks. However, increased 'inflation anxiety' will likely drive increased equity market volatility. Furthermore, concerns about supply disruptions could start to impact corporate revenues and earnings guidance, especially in areas of the market suffering from the greatest supply and demand imbalances

While our central scenario is that the global economy will continue to grow, which will support earnings and equity markets, there are mounting risks that argue for a more cautious stance. Given this back drop we update our outlook for equity market factors below.

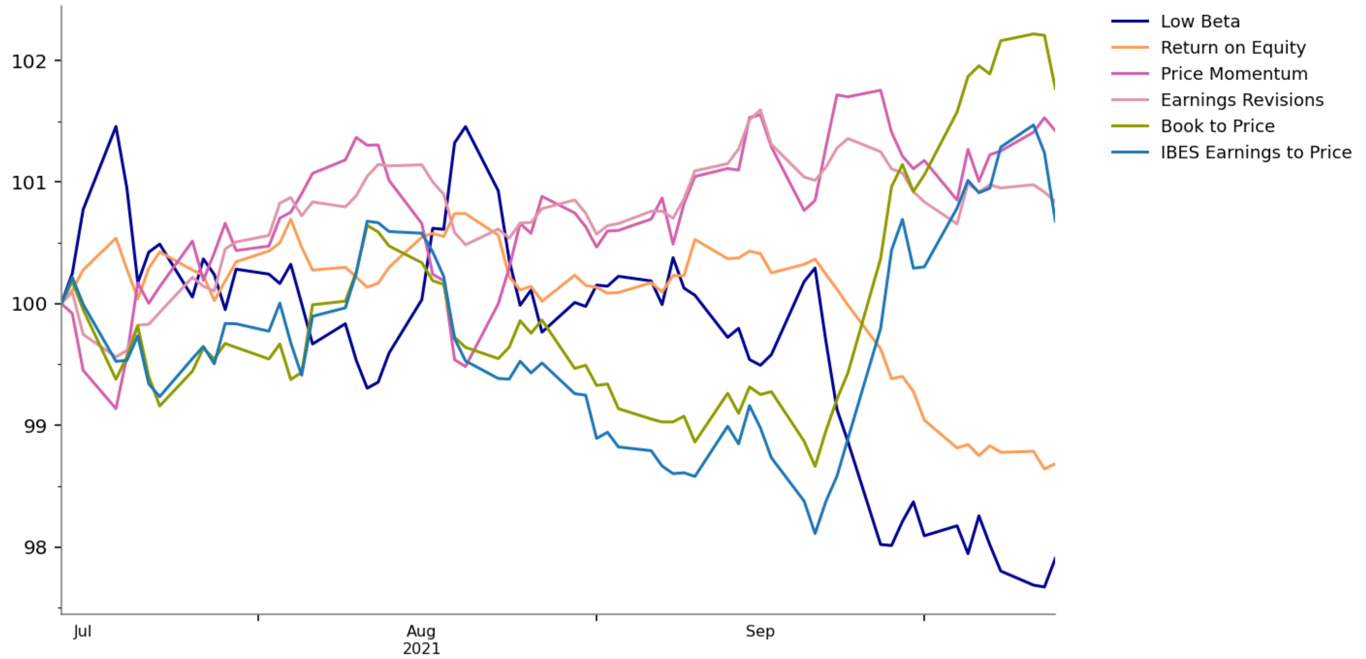
Outlook for equity factors

Quality Positive	Against a backdrop of rising macro risks and potential supply chain disruptions investors are likely to favour companies with a strong track record of earnings delivery. As such we move from a neural to a positive stance on quality. We do note some areas of Quality remain expensive and would advocate for a active approach to avoid expensive Quality stocks
Low Volatility Neutral	Rising inflation and higher bond yields typically weigh on the performance of the low volatility factor particularly via the factor's exposure to bond proxies. However, we maintain a neutral stance because as growing macro risk driving more market volatility and supply chain disruptions risk negatively impacting corporate earnings.
Value Neutral	Value remains cheaper than normal and the potential for modestly higher interest rates continues to argue in favour of Value over Growth. However, unlike the Covid recovery phase of late 2020/Q1 2021 we believe that growing macro risk will weigh on investor appetite for cyclical-value. Any upside surprise on real yields is still likely put pressure the most expensive growth names, but quality growth may fair better amid elevated macro risks. Given a more mixed outlook we move back to neutral stance.
Momentum Negative	Due to growing inflation 'anxiety' and unprecedented disruption to supply chain we remain cautious on trailing measures of share price movement as a predictor of future returns. Within the spectrum of momentum signals, we prefer to focus on near-term earnings revisions, which may offer a more responsive and accurate gauge of evolving investor sentiment.

Source: Rosenberg Equities, October 2021. The views expressed above are as of the date of this document. No guarantee or warranty is made regarding the outlook above. Investors should not base their investment decisions on the commentary provided and should consult their advisers before doing so.

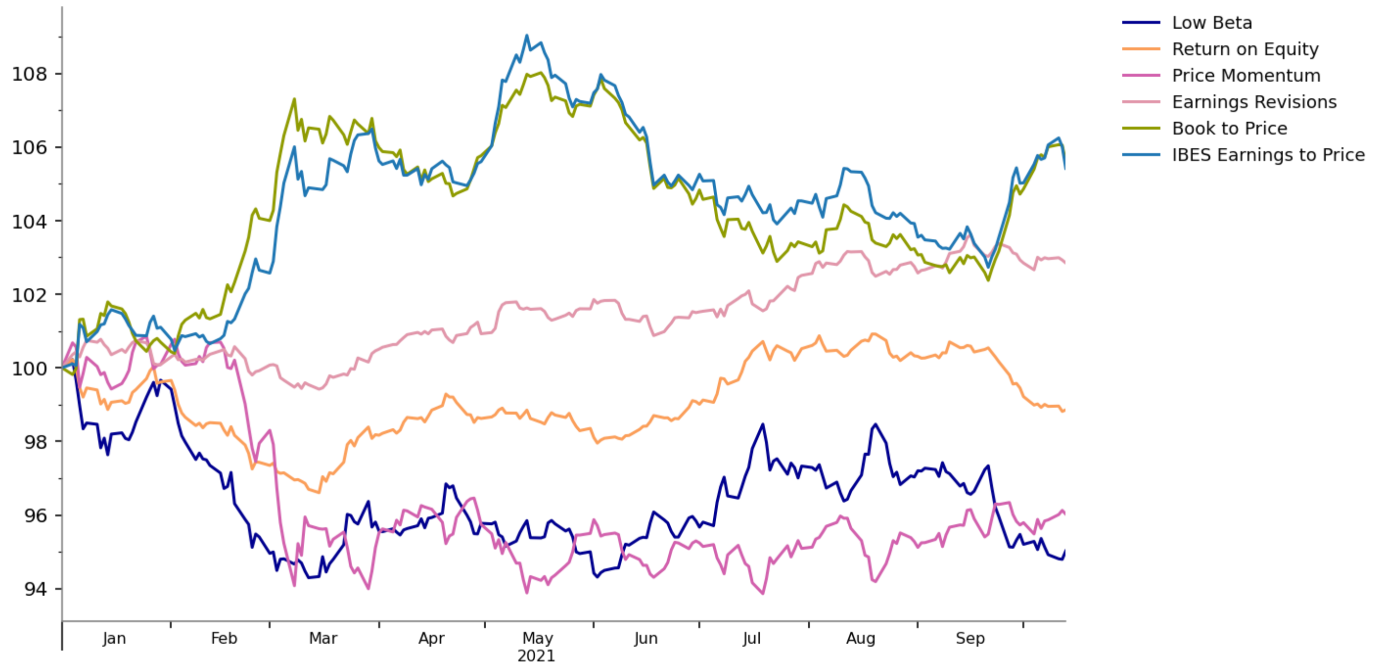
Global factor performance : Last 3 months

Bond yields rose during September, which provided some impetus for a Value rally. The weakness of Low Beta over the last 3 months can in part be explained by the relative strength of Energy (typically a sector comprising of higher beta stocks).



Global factor performance : 2021 to date

So far in 2021, value factors (Book to Price and IBES Earnings to Price) have outperformed other factors, as has our preferred momentum signal, earnings revisions.



Source for both charts: AXA IM. Factor returns data presented as of October 12th 2021. The chart plots univariate factor returns calculated by AXA IM Equities based on MSCI World investment universe. The data are shown for illustrative purposes only and are not based on actual portfolio returns. Past performance is not a guide to future performance.

Important Information

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