



Monthly Investment Viewpoint

July 2024



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



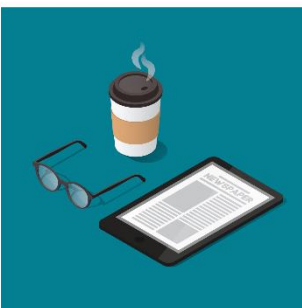
Alessandro Tentori
CIO of Europe
AXA IM Core



Ecaterina Bigos
CIO of Asia ex-Japan
AXA IM Core

[CLICK HERE](#)

KEY INVESTMENT THEMES



...to read more
from the

**AXA IM
INVESTMENT
INSTITUTE**

US exceptionalism is providing superior investment opportunities

Megatrends prevail, with technology, automation and the energy transition promising higher productivity, and returns

Bonds are bouncing back and are being supported by a more positive economic backdrop

US bond market opportunities



Bond markets are known for offering investors potentially attractive risk-adjusted returns. But investors need to pay attention to credit spreads - the yield difference between two bonds with the same maturity but different credit ratings. Since 2023's regional banking crisis US spreads have narrowed, allowing bonds to deliver very strong total returns. The average investment grade corporate bond spread is 100 basis points (bp) compared to government bonds, and in high yield it's 326bp. Presently, we expect US investment grade returns will be closer to their current yield (5.0%-5.5%) while high yield could possibly deliver some 8% total return over the next 12 months.

Where do interest rates go from here?



Presently there is much uncertainty about interest rates – and about how much restriction the Federal Reserve is effectively transmitting to the economy. As such there is plenty of uncertainty about future monetary policy. Looking ahead, and with current US interest rate levels at 5.25% to 5.50% we feel that markets and investors need to be careful about pricing in too many interest rate cuts. This in turn has implications for expected returns across bond markets but is potentially supportive for short-duration bonds, which are less sensitive to interest rate movements.

Can China's equity market match the US's performance?



Historically, China – the world's largest emerging market – tended to follow developed countries when it came to its equity market, especially the US. But since early 2023, it has diverged from this path. China's post-pandemic reopening was challenged largely due to a lack of consumer spending and confidence. In contrast, strong consumer spending, supportive government policies and a technology sector surge have seen the US power ahead.

But China certainly has the potential to rebound from here - stock valuations are more attractive and supportive government policy measures are coming into place, largely supporting industrial and infrastructure upgrades. Longer term, China needs to rebalance to a more consumption-based economy.

Asset Class Summary Views

Views expressed reflect those of the AXA IM Core CIO team. Traffic lights indicate expected return over a three-to-six-month period relative to long-term trends.

Positive	Neutral	Negative
----------	---------	----------

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

Rates		Short duration still preferred. Long-term yields in trading range.
US Treasuries		Yields in fair value territory
Euro – Core Govt.		ECB cut interest rates before Fed. Returns to be modest
Euro – Peripherals		Near-term political uncertainty suggests caution
UK Gilts		Lower inflation should allow interest rate cuts which will help asset class
JGBs		Bank of Japan policy indecision and weak yen make JGBs unattractive
Inflation		Market expects stable inflation over the medium term – five years
Credit		Income assets should be part of portfolios. Low spreads suggest limited excess returns.
USD Investment Grade		Yields are attractive. Excess return is limited though
Euro Investment Grade		Supportive macroeconomic environment is helping
GBP Investment Grade		Returns supported, given current yields and expectations of faster interest rate cuts
USD High Yield		Fundamentals and funding strength remain strong.
Euro High Yield		ECB interest rates cut supports returns although politics remains a risk
EM Hard Currency		Volatility has eased but when US interest rates fall it will help recovery
Equities		Growth supports earnings expansion in 2024. Rates cuts in scope to broaden the rally.
US		Slowing economic growth is unlikely to damage company earnings
Europe		Positive economic surprises, and attractive valuations but political instability a concern
UK		Monetary policy and change of government should provide sentiment boost
Japan		Benefitting from growth in semiconductor industry
China		Growth remains unbalanced. Accelerating industrial output, masks weak consumption
Investment Themes*		Secular spending on technology and automation to support relative outperformance.

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

Disclaimer

This document is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities. Due to its simplification, this document is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There is no guarantee forecasts made will come to pass. Data, figures, declarations, analysis, predictions and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain sufficient information to support an investment decision.

Issued in the UK by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales, No: 01431068. Registered Office: 22 Bishopsgate, London, EC2N 4BQ. In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.