Investment Managers

Select

Global Market Outlook

September 2024

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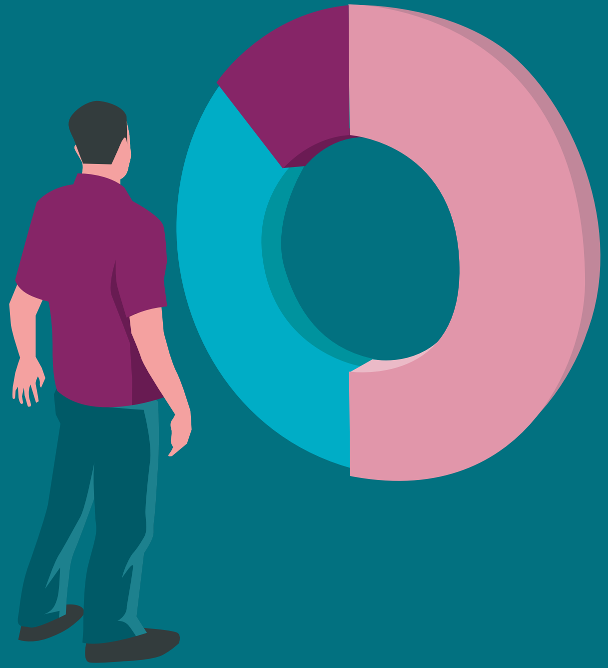
August

What happened in markets?

Market themes



Key market themes

01

An economic soft landing in the US is the most likely scenario. But what about the weakening of the labour market?

02

Major central banks on the move. Sharp reactions to the latest BOJ hike. Expectations for Fed rate cuts excessive?

03

Emerging equity market performance diverges. Weak Chinese economic dynamics and stretched valuations in India and Taiwan.

04

US election outcome now more balanced. What does this mean for the economy and the financial markets?

05

Equity market correction followed by rebound and sector rotation. Will these trends last?

01 Current state of the US economy

A weakening labour market: is a recession likely?

Global soft landing expected, with US and global GDP growth rates of 2% and 3% respectively.

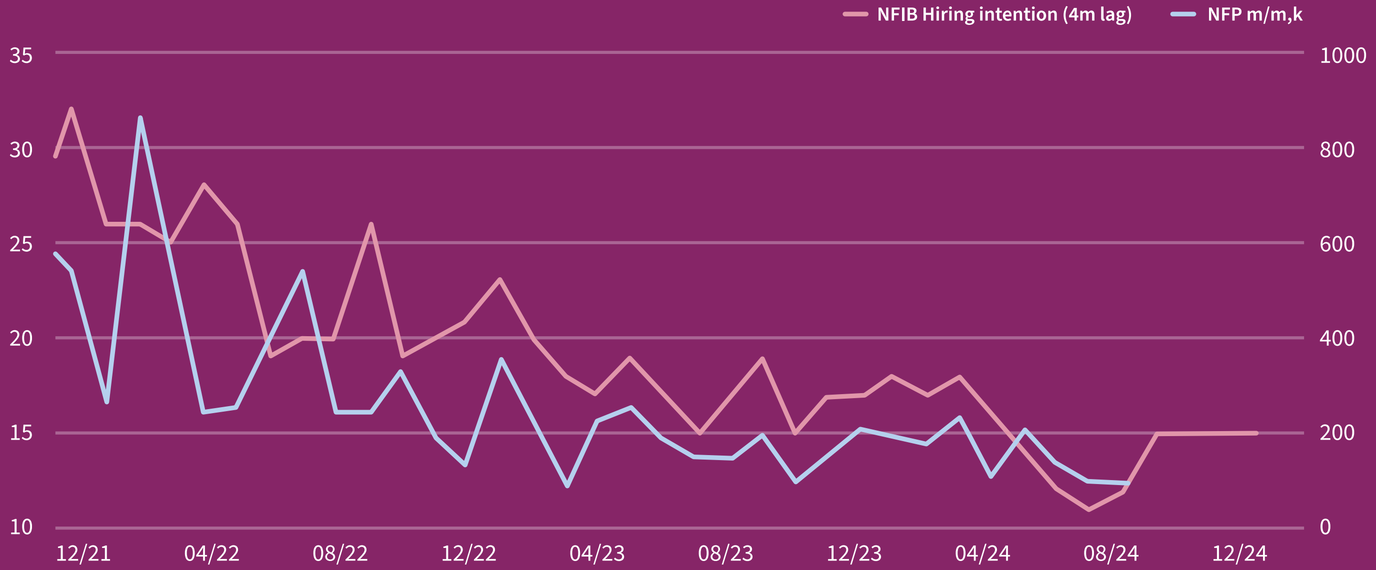
Two risks: weaker employment data raise recession fears; reigniting inflation if Trump is elected.

Although employment risks are tilted to the downside, hiring intentions and announced job cuts show healthy signs.

July was likely the lowest point for payrolls.

Increase in the temporary unemployment rate

NFIB as a leading indicator for Non Farm Payrolls



Source : Bloomberg, AXA IM Select, 26 August 2024

02 Central banks in action

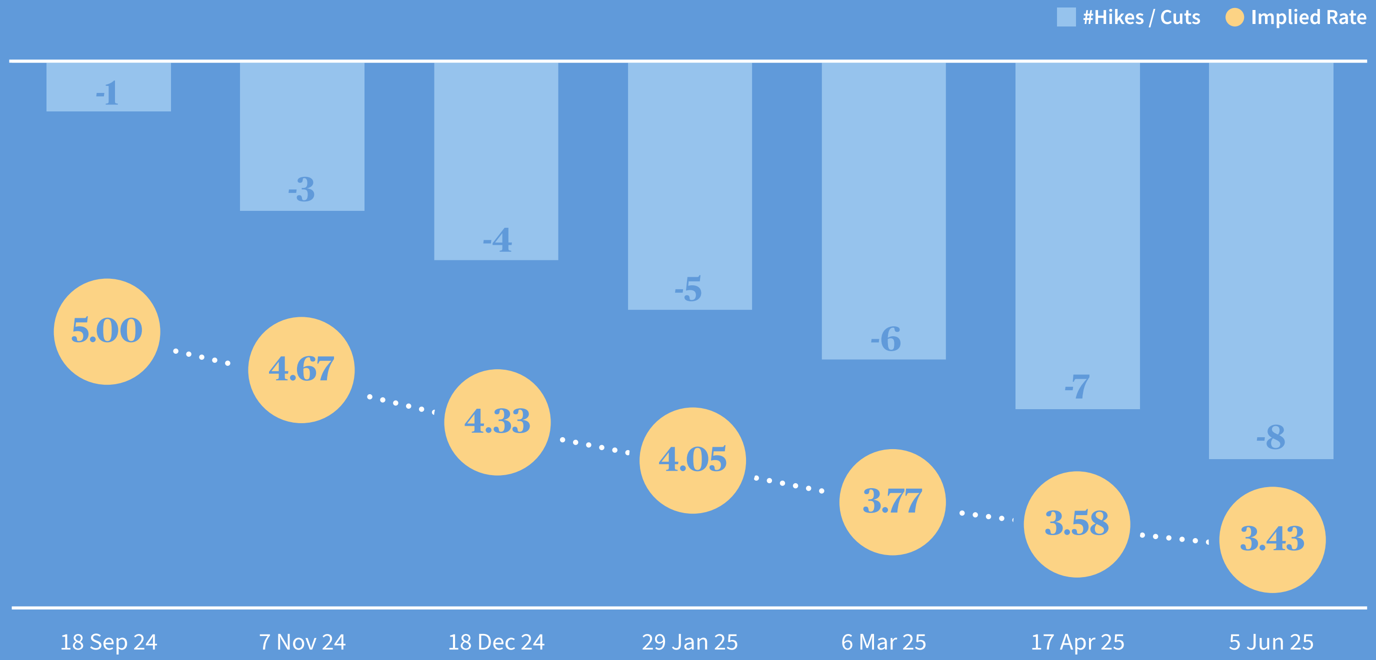
Sharp reaction to BOJ hike, and heightened expectations for US rate cuts

Markets are expecting three Fed cuts in 2024. AXA IM expects two cuts in 2024, and two more in 2025.

The ECB may be slower to cut rates due to services inflation, but we expect two more cuts this year.

The BoJ rose 15 basis points to 0.25%, limiting the yen's depreciation but triggering a “reverse” carry trade.

Fed implied rates and number of expected cuts



Source : AXA IM Select, Bloomberg, 26 August 2024

AXA Investment Managers

03 Diverging performances within emerging equity markets

Weak Chinese economic dynamics and stretched valuations in India and Taiwan

The economic situation in China remains a concern. Although deflation risks have stabilised, inflation remains below 1%.

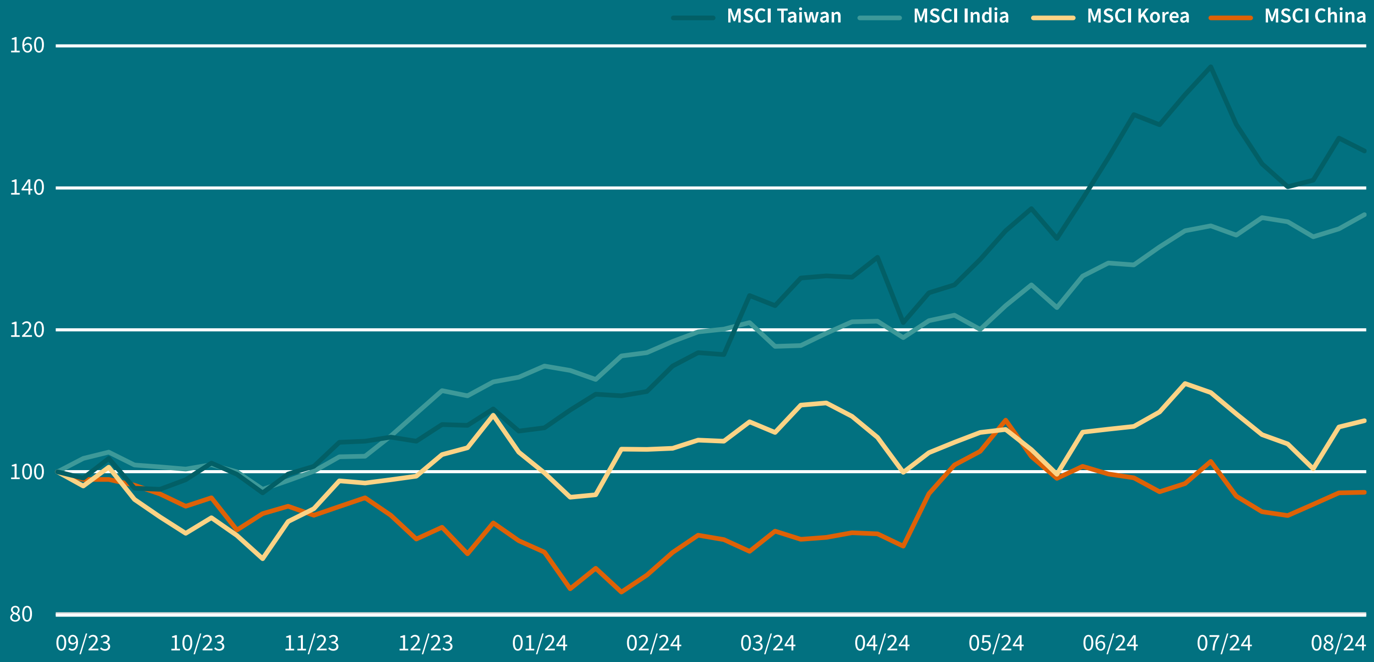
Benefits of new measures to boost consumption have yet to be felt.

Taiwan is benefiting from AI demand for semiconductors. India from robust growth and slowing inflation.

Equity valuations reflect these opposing forces. The global EM equity index remains in no-man's land.

Diverging performance among top four EM equity index weights

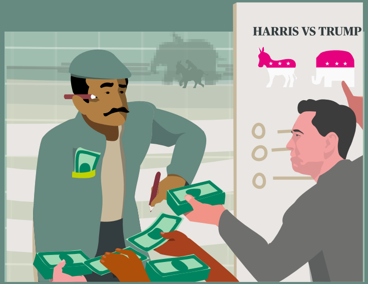
1 year return diverging within EM markets (rebased 100)



Source : Bloomberg, AXA IM Select, 29 August 2024

04 US political agenda and its implications

Chances of a Trump victory have fallen, but Republicans expected to win both chambers



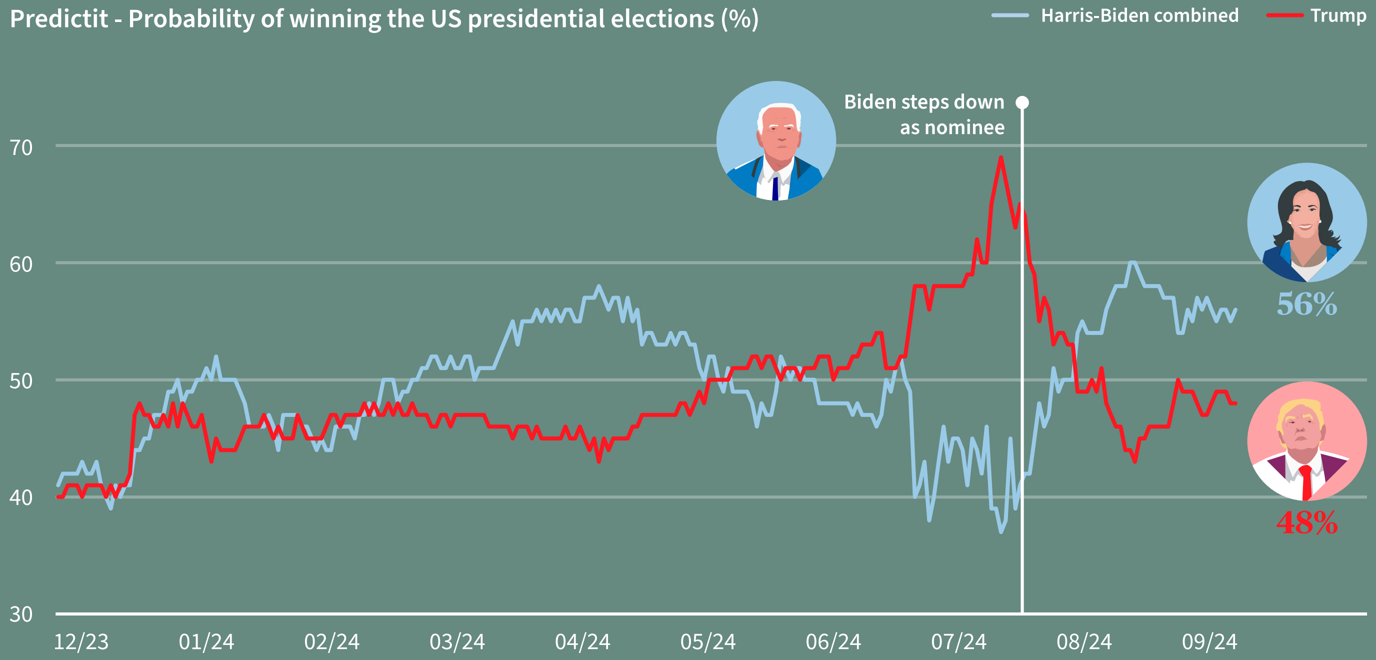
Harris is leading the popular vote by 2 to 3 pts margin.

A Trump victory could be more inflationary. A Harris victory could deliver higher taxes.

Both scenarios risk supply shocks and a demand boost restricting the Fed's space to cut rates next year.

Trump's policies could strengthen the US dollar. A Harris win could favour ESG, clean energy and bond proxies.

Harris leaps ahead, but probability of winning is stalling



Source: AXA IM Core, AXA IM Select, Bloomberg, Predictit, 2 September 2024

05 Markets draw breath

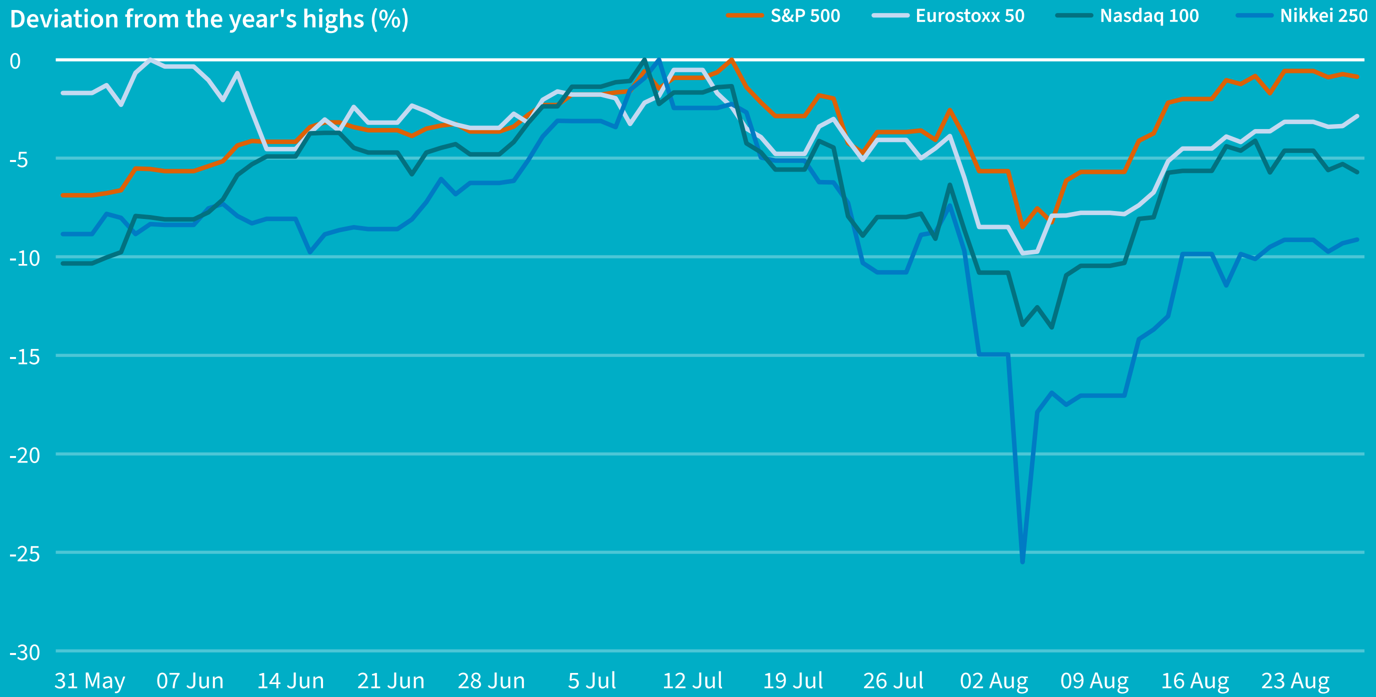
Is this the beginning of a new phase?

Equity markets corrected, as recession fears mounted. Bonds rallied, re-establishing a negative correlation between stocks and bonds.

The first week of August was particularly volatile. The most notable example was the Nikkei, which fell 25% from its highs.

Market moves were significant, but markets rebounded as they discounted the risk of imminent recession. The recovery was broad based and led by quality and defensive stocks.

Markets correct then rebound, as recession fears subside



Source: AXA IM Select, Bloomberg, 26 August 2024

AXA IM Select view

AXA IM Select tactical asset allocation

No change: preference for US equities remains but with reduced expected returns

Assets	U	MU	N	MO	O
Global Equities				●	
Developed				●	
Emerging			●		
US				●	
Europe			●		
Japan			●		
Asia			●		
Fixed income			●		
US Govies			●		
Euro Govies			●		
Emerging Debt $			●		
Global IG			●		
Global HY			●		
Alternatives		●			
Cash		●			

Source: AXA IM Select , 14 August 2024

Equities

Moderately overweight US equities, earnings growth, monetary policy and a soft-landing scenario should support equity markets.

Neutral emerging equities, torn between expensive but growing Indian and Taiwanese stocks and an underperforming Chinese economy.

European neutral equities with a preference for UK and pan-European markets over Eurozone equities due to economic and political conditions.

Neutral Japanese equities: Rising consumer activity and a favourable stabilisation of the currency could favour domestic equities and SMID equities.

Fixed income

Neutral government bonds, as rate cuts expectations seem excessive, and European yield curves are still inverted.

Credit neutral, with no immediate catalyst for spread-narrowing, limited excess return over cash may not fully offset duration and credit risks. We may consider diversifying the equity risk exposure with credit risk if equity valuations stretch more towards year-end.

Maintaining moderate underweight in cash or alternatives

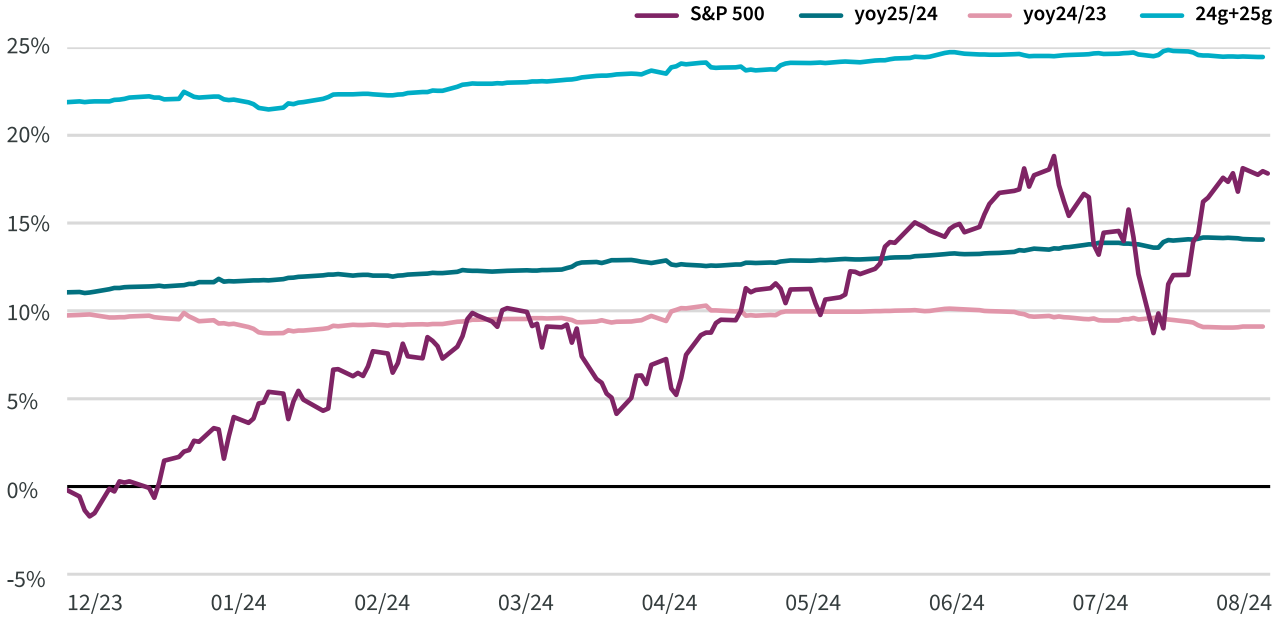
Monitor the rotation of US and Japanese equity markets for signs of structural change.

Q2 earnings season

A positive quarter, beating high expectations, but valuations remain stretched

Two thirds of 2023-2025 earning growth is priced into S&P 500 return YTD

S&P 500 and earnings growth



Source: AXA IM Select, Bloomberg, 26 August 2024

Key insights

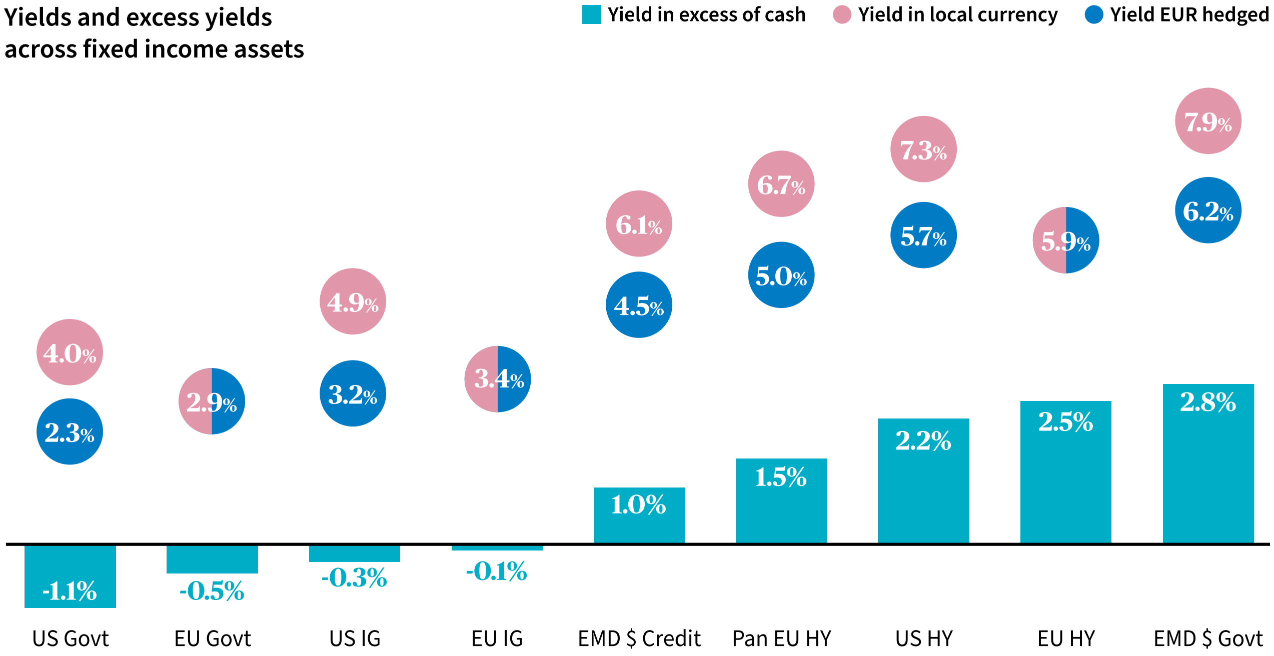
- Heightened expectations and elevated PEs opened the door to a technical correction.
- Investors bought the dip as EPS growth is expected to reach 10% in 2024 and 15% in 2025.
- The valuation of the S&P 500 is fully pricing in growth expectations for 2024, while also "borrowing" half of the growth expected in 2025.
- Unless S&P 500 companies can grow faster, this warrants only single digit returns for the next 12 months.

Fixed Income

Government bonds, credit or cash?

Variation in US nominal and real yield curves (10y-2y)

Yields and excess yields across fixed income assets



Source: AXA IM Select, Bloomberg, 28 August 2024

Key insights

- Real and nominal inverse yield curves remain favourable for short-term rates (including cash) relative to long-term rates.
- A Trump victory could keep long-term inflation expectations beyond the short-term, encouraging a steepening of the curve.
- Total return and breakeven analysis highlight unattractive valuations for credit (HY, IG and EMD).
- Annualised excess returns over cash are thin as you climb the risk ladder (1% to 2.5% per annum for HY and EM debt).

August

What happened in markets?

Macro snapshot: August

In brief

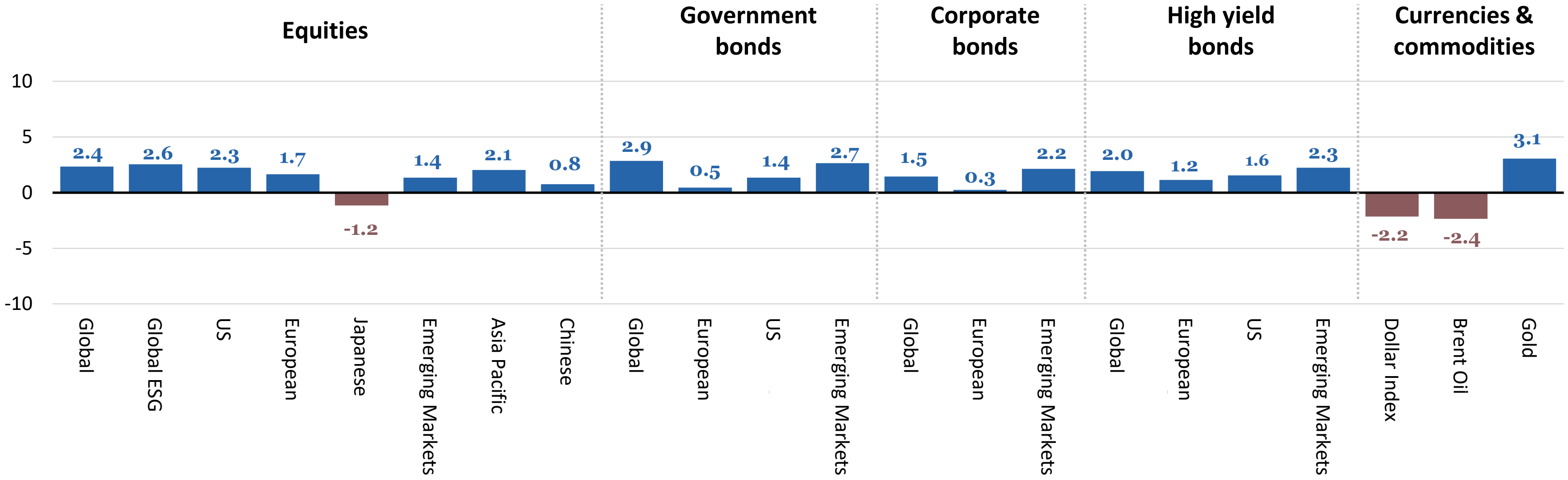
US job growth missed expectations in July, rising just 114,000. The data sparked recessionary fears in the world's largest economy, leading to a sharp sell-off in global equities. Stocks later recouped earlier losses as subsequent data proved more reassuring.

US inflation fell to 2.9% in July, the first time since March 2021 that it has been below 3.0%. With the job market weakening, US Federal Reserve (Fed) chair Jay Powell signalled that "the time has come" for the US central bank to start cutting rates.

Overall European economic activity picked up, particularly in the UK and France – with the latter boosted by the Paris Olympics. This was despite the HCOB Germany composite purchasing managers' index dropping to a weaker-than-expected 48.5 in August, the lowest level since March.

Global

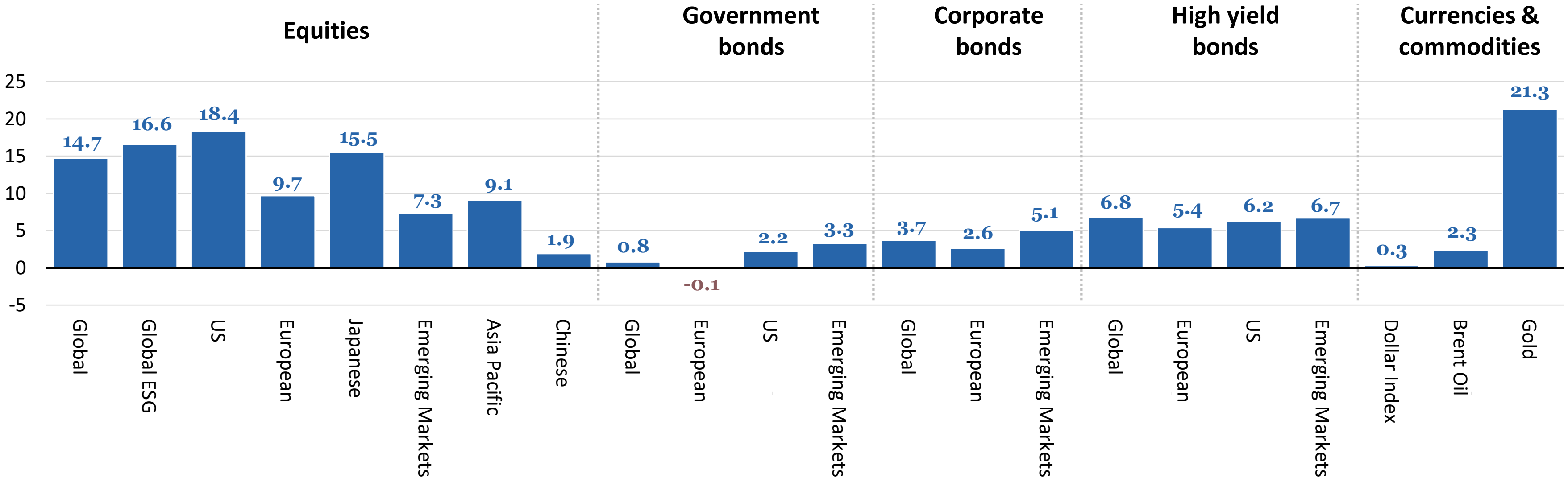
August 2024 returns (%)



Source: Bloomberg, 31 July 2024 – 31 August 2024. Past performance is not a guide to future performance. The value of investments, and any income, can go down as well as up and your client may not get back the amount they invested. Returns are in local currency on a percentage return basis. Please refer to indices slide for more information.

Global

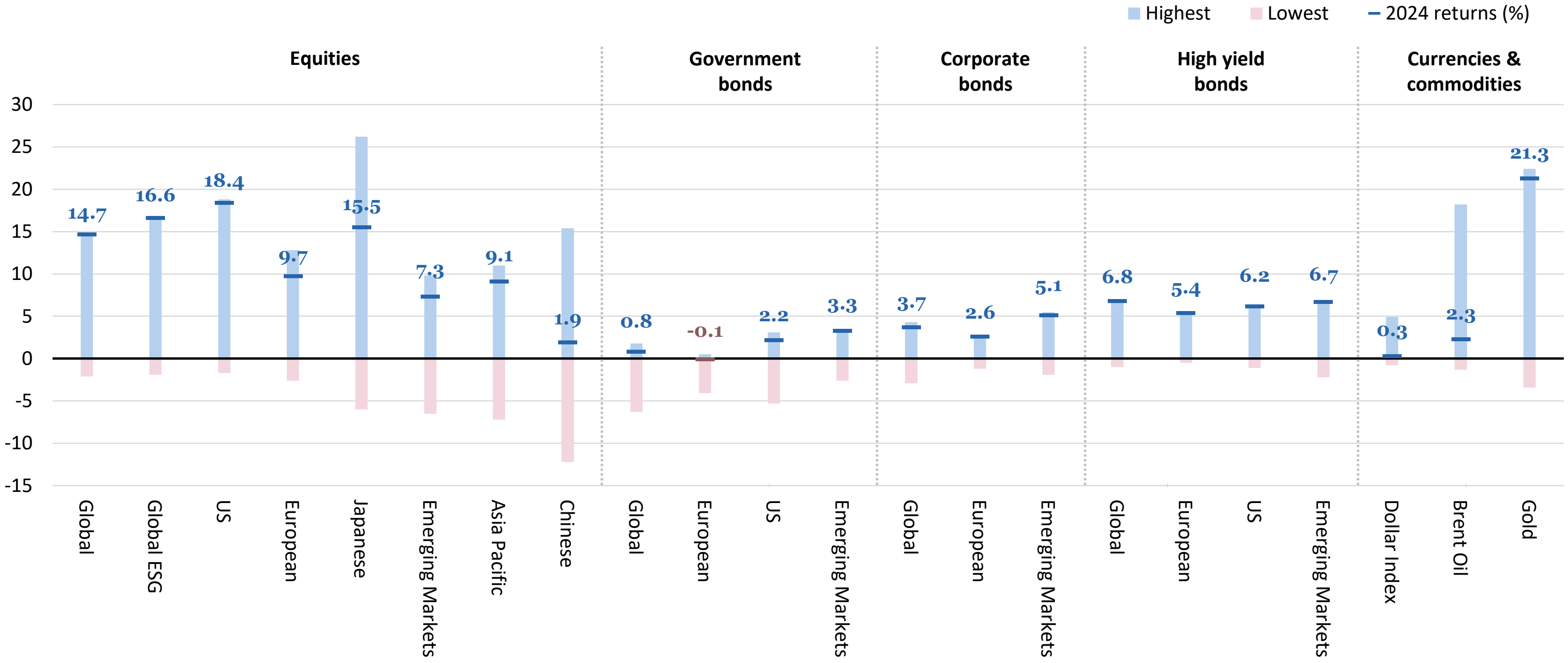
2024 returns (%)



Source: Bloomberg, 1 January 2024 – 31 August 2024. Past performance is not a guide to future performance. The value of investments, and any income, can go down as well as up and your client may not get back the amount they invested. Returns are in local currency on a percentage return basis. Please refer to indices slide for more information.

Global

2024 returns (%)



Source: Bloomberg, 1 January 2024 – 31 August 2024. Past performance is not a guide to future performance. The value of investments, and any income, can go down as well as up and your client may not get back the amount they invested. Returns are in local currency on a percentage return basis. Please refer to indices slide for more information. Highs and lows when comparing closing prices of the listed securities.

Indices

Equities

Global	MSCI All Country World Index (MXWD)
Global ESG	MSCI World ESG Focus Index (NU712780)
US	S&P 500 Index (SPX)
European	EURO STOXX 50 Index (SX5E)
Japanese	NIKKEI 225 Index (NKY)
Emerging Markets	MSCI Emerging Markets Index (MXEF)
Asia Pacific	MSCI Asia Pacific ex Japan Index (MXAPJ)
China	MSCI CHINA (MXCN)

Government bonds

Global	Barclays Global Government Index (I28637)
European	Bund 10 year Index (BCEG9T)
US	UST 10 year Index (I00093US)
Emerging Markets	I20344US Index (I20344US)

Corporate bonds

Global	Global IG Credit Index (BGAUTRUU)
European	Euro IG Credit Index (LECPTREU)
Emerging Markets	I34287US Index (I34287 US)

High yield bonds

Global	ICE BofA Global High Yield Index (HW00)
European	Euro High Yield Index (H02500EU)
US	ICE BofA US Non-Financial High Yield Index (HCNF)
Emerging Markets	JPMorgan EMBI Global Diversified Index (JPEIDIVR)

Currencies & commodities

Dollar Index	US Dollar Index (DXY)
Brent Oil	Oil (Brent) (CO1)
Gold	Gold (XAU)

Appendix

Real GDP Growth (%)

	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
World	**3.2**	**3.2**		**3.2**	
Advanced economies	**1.7**	**1.6**		**1.4**	
US	**2.5**	**2.6**	2.3	**1.7**	1.8
Japan	**1.9**	**0.6**	0.1	**1.1**	1.0
UK	**0.3**	**1.2**	0.8	**1.4**	1.2
Switzerland	**0.8**	**1.2**	1.4	**1.3**	1.5
Canada	**1.1**	**1.2**	1.0	**1.7**	1.9
Euro area	**0.5**	**0.7**	0.8	**1.0**	1.5
Germany	**-0.1**	**0.0**	0.1	**0.6**	1.5
France	**1.1**	**1.1**	1.1	**0.8**	1.3
Italy	**1.0**	**0.8**	0.8	**0.8**	1.2
Spain	**2.5**	**2.8**	2.4	**2.1**	1.9

	2023	2024*		2025*	
	AXA IM	AXA IM	*Consensus*	AXA IM	*Consensus*
Emerging economies	**4.2**	**4.1**		**4.2**	
China	**5.2**	**4.8**	4.9	**4.4**	4.4
Asia (excluding China)	**5.3**	**5.3**		**5.3**	
India	**7.7**	**6.8**	7.0	**6.5**	6.7
South Korea	**1.4**	**2.5**	2.5	**2.6**	2.2
Indonesia	**5.0**	**5.1**	5.1	**5.1**	5.1
LatAm	**2.3**	**2.0**		**2.5**	
Brazil	**2.9**	**2.2**	2.1	**1.9**	2.0
Mexico	**3.2**	**2.2**	2.0	**1.4**	2.2
EM Europe	**3.0**	**3.1**		**2.7**	
Russia	**3.6**	**3.2**	3.2	**1.5**	1.1
Poland	**0.2**	**2.8**	2.9	**3.5**	3.4
Turkey	**4.3**	**3.0**	3.4	**3.6**	3.2
Other EMs	**2.4**	**3.0**		**3.9**	

Source: Datastream, IMF, Bloomberg and AXA IM Macro Research – As of 5 September 2024
*Forecast

Important information

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