Investment Institute *Asset Class Views*

The view from the Core CIO Office

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KEY INVESTMENT THEMES

Investors remain bullish on US equites	Europe offering relative value	Diverging macroeconomics impacting Asia

CIO Office: Opinions

Chris Iggo, CIO AXA IM Core

US equities: Price vs. value

The US equity market's valuation is a recurring investor concern. On some estimates, the S&P 500 is priced at 22 times estimated 12-month forward earnings. On the same measure, the Nasdaq 100 is priced at 26 times. These are high valuations. The equity earnings yield is the inverse of the price-to-earnings ratio - a lower yield represents a potentially overvalued index - and for the S&P 500, it is currently 4.54%, just above the 10-year US Treasury yield (4.23%). Even the equally weighted S&P 500 multiple is priced at 19.8 times expected earnings. When we calculate price-earnings ratios on an inflation and cyclically adjusted basis, the S&P 500 is at the 90th percentile of its 1995-2024 history. A broader measure puts the US at its 93rd percentile valuation ranking since 1983. No other major equity market comes anywhere close to the US's current valuation level.

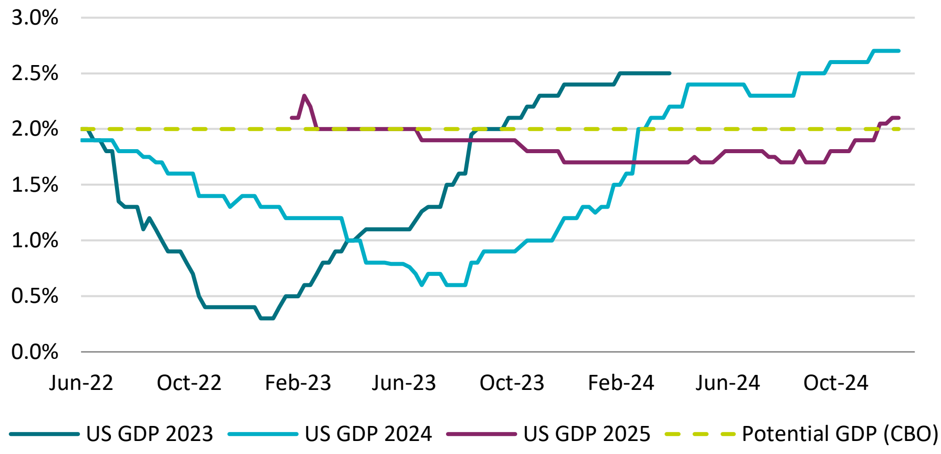
But valuation is no guarantee of future returns. Investors seem bullish on US equities with earnings growth expected to be 14% over the next year and President-elect Donald Trump's policy agenda appears supportive. But a valuation adjustment is a risk if fundamentals or sentiment quickly deteriorates. Other assets are cheaper than US stocks – including Europe and Asia equities and, importantly, US Treasuries. Like other government bonds, Treasuries have cheapened on a relative value basis to swaps and corporate bonds. A rapid rotation out of stocks into bonds could be one of the great surprises of 2025.

Alessandro Tentori, CIO Europe

No 'surprise effect' in 2025

During the past 24 months, we've witnessed a significant repricing of US GDP estimates. Initial estimates for 2023 were in the range of 0.3% - 0.5%, while growth turned out to be a solid 2.5%. Similarly, the consensus expected 2024's US GDP to grow around 1.3% at the end of 2023, while realised growth is probably closer to 2.7% (see chart). The market's reaction followed suit with an equally impressive acceleration in the S&P 500's earnings-per-share growth, thus beating pre-season expectations in seven of out of the last eight quarters. Our impression is the consensus might have improved substantially both in terms of macroeconomics as well as for markets for 2025. US GDP forecasts are starting from a higher base compared to both 2023 and 2024, as the consensus expects the economy to grow by 2.1% (AXA IM forecasts 2.3%). According to Bloomberg, median expectations for the S&P 500 are at 6,600 points at the end of 2025 - quite a shift in mood from a rather downbeat initial expectation for the end of 2024 at 4,800 points. Therefore, we might have to live without the strong 'surprise effect' seen in the past two years, despite a faster than potential GDP growth. This does not necessarily mean the stock market's performance will be disappointing in 2025, but rather that the bar for yet another result in excess of 20% is unmistakably high.

| Bloomberg Consensus Forecast – USA



Source: Bloomberg

Ecaterina Bigos, CIO Asia ex-Japan

Multispeed in a multipolar world

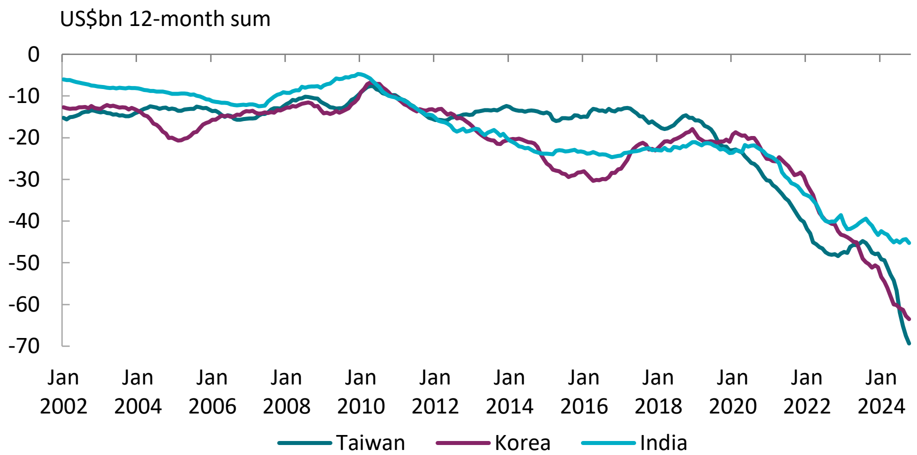
Diverging macroeconomic and geopolitical dynamics are expected to drive complexity for Asia's economies in 2025, and this will require astute management of fiscal and monetary policy.

Confidence in India's growth has deteriorated, given the slowdown in industrial activity, urban consumption and private investment. With increased need for fiscal consolidation, some monetary easing may be warranted. Inflation, however, is above target and subject to large weather-related shocks in food prices. Arguably as one of the most domestically oriented economies in Asia, with a relatively closed capital account and a limited trade footprint, India is less susceptible to direct trade tensions.

Korean externalities were an increasing risk leading up to December's political events. Growth is challenged by the cyclical weakness in global manufacturing, downside risks to automobile exports, and the uncertain outcome of the likely US tariffs. Internally, consumer demand is weak, notwithstanding the impact from a likely drop in inbound travel. Fiscal policy has room to boost demand, while monetary policy is restricted by elevated household debt.

Taiwan is showing economic resilience, with year-on-year momentum more backloaded. Growth has benefited from semiconductor and servers demand and order visibility. High performance computing demand and investment are expected to stay, as artificial intelligence supply chains are building capacity. Non-technology exports face headwinds and the trade surplus with the US is likely to get scrutinised. When it comes to policy, residential property market leverage limits potential easing.

| US trade balances with key Asian economies



Source: LSEG Datastream, AXA IM Dec 2024

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	Neutral	Divergence between US and European rates outlook
US Treasuries	Neutral	Modest further Fed easing expected but yields in fair value range
Euro – Core Govt.	Neutral	Significant ECB rate cuts priced in
Euro – Peripherals	Neutral	Fiscal and political concerns could underpin volatility in early 2025
UK Gilts	Positive	Signs of slower growth should bring yields down
JGBs	Negative	Yields to head modestly higher
Inflation	Positive	Upside risks to US inflation should become priced in

Credit	Neutral	Investor confidence in credit market remains strong
USD Investment Grade	Neutral	All-in yields remain attractive and demand is strong
Euro Investment Grade	Neutral	ECB rate cuts to support returns from investment grade credit
GBP Investment Grade	Neutral	Attractive yields but concerns over macro outlook
USD High Yield	Positive	Stronger growth, resilient fundamentals, and higher quality universe are supportive
Euro High Yield	Neutral	Resilient fundamentals, technical factors and ECB cuts support total returns
EM Hard Currency	Positive	Healthy growth backdrop and attractive yields to support performance

Equities	Positive	Donald Trump's policy agenda seen as supportive for US equities
US	Positive	Q3 earnings growth looks to be robust with financials and technology leading
Europe	Neutral	Weak growth could impact earnings growth expectations
UK	Neutral	Clarity on fiscal and regulatory plans required for UK equities to do better
Japan	Neutral	Resilient global growth is supportive; reforms, monetary policy key for sustained performance
China	Neutral	Data remains weak and market awaits more stimulus in 2025
Investment Themes*	Positive	Secular spending on technology and automation should 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.

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