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Investment Institute *Asset Class Views*

Monthly Investment Viewpoint

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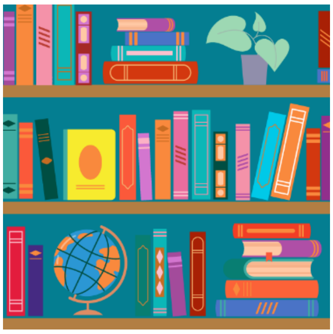

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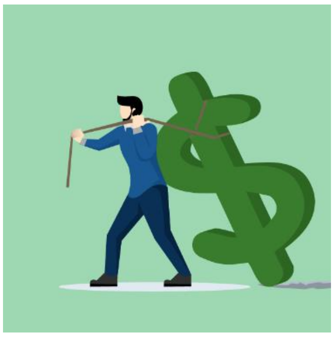
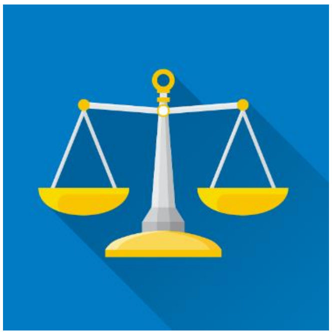
KEY INVESTMENT THEMES



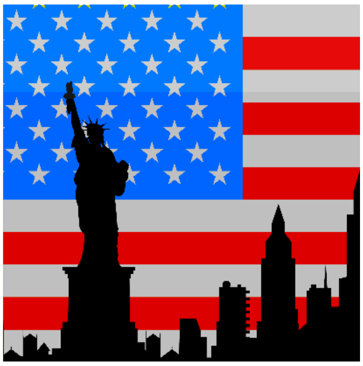
Dollar weakness implications



Revising price expectations

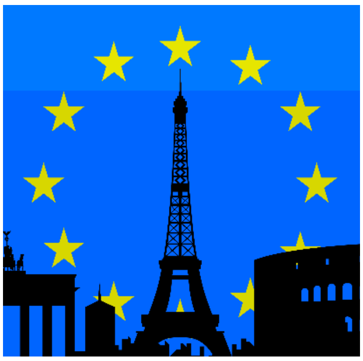
China's self-reliance

Weaker dollar could make US assets more attractive



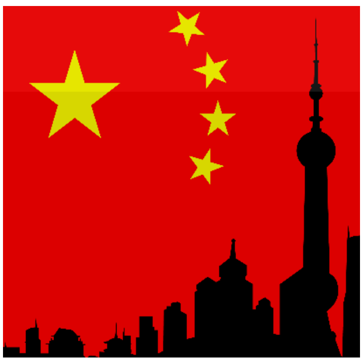
The short-term interest rate US dollar/euro differential has increased by more than 100 basis points over the past year. But instead of being supportive, the dollar has lost ground in foreign exchange markets. US policy, reduced foreign capital inflows into US assets, and the potential for Germany's fiscal boost to accelerate European growth have contributed to its weakness. The near-term outlook is uncertain as the dollar often benefits from increased geopolitical risks. However, historically it has displayed large cyclical moves and has been expensive in recent years. Higher US inflation and slower growth may create further downward momentum, as may fiscal tightening if Washington is forced to address its debt trajectory. Investors should remember the euro has been worth as much as $1.60 before and $1.25-$1.30 is not impossible given prevailing sentiment. A 10%-15% additional move in the dollar's value might be part of the solution to address the trade deficit and improve US assets' attractiveness, especially as equities remain expensive.

Curve or credit?



The concept of arbitrage - buying and selling assets to take advantage of price differences – means prices are ultimately forced into equilibrium. However, this does not necessarily mean that equilibrium is static - the constant flow of information requires investors to continually revise their price expectations. The relationship between government bond duration and corporate credit spreads is one example of dynamic equilibrium: investors have a choice between maintaining a risk-free overnight investment, extending duration on the government bond curve or assuming credit risk through a corporate bond index. The trade-off is between the government bond curve spread and the credit spread, and which could offer more protection from yield changes. Today, the market consensus seems to prefer exposure to the corporate rather than government balance sheet. However, at some point on the yield curve, arbitrage will kick in and investors will again revise their assumptions – though we do not seem to have reached that point yet.

Self-sufficiency: A powerful investment theme



Amid China's cyclical headwinds, structural imbalances and the challenging geopolitical backdrop, self-sufficiency is emerging as a powerful investment theme. Policymakers have emphasised it in various forms over the past decade, helping to drive technological advancement, reduce supply chain risk and encourage domestic demand. Technology, energy transition, healthcare and mass consumer platforms stand out as the main beneficiaries. In addition, the recent emergence of Chinese leaders in artificial intelligence and smart manufacturing indicates that growth is likely to come from a broader set of global players. Consequently, investors' focus should stay on those areas supported by policy and technological leadership, as broad macro-level recovery remains challenging. Entrenched deflation is likely to continue, while the domestic economy digests the tariff shock, the increasing manufacturing overcapacity and the ongoing property deflation cycle. Domestic deflation pressures are likely to increasingly weigh on growth and on earnings.

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		Yields close to fair value and range trading expected over the summer
US Treasuries		Federal Reserve on hold; waiting for direction from the data
Euro – Core Govt.		Core yields expected to reflect European Central Bank being on hold for now
Euro – Govt Spreads		Spreads expected to narrow further
UK Gilts		Gilts may get boost from Bank of England summer rate cut
JGBs		Further Bank of Japan rate hikes on hold
Inflation		Continue to like short-duration inflation-linked bonds

Credit		Spreads expected to remain stable amid solid credit demand
USD Investment Grade		Continued steady income returns expected
Euro Investment Grade		Demand continues to be strong but excess returns more modest
GBP Investment Grade		Sterling market held back by lack of foreign interest
USD High Yield		Total returns remain attractive in stable macro environment
Euro High Yield		Yields around 6% or higher are attractive given outlook for lower interest rates
EM Hard Currency		Geopolitical concerns but attractive yield opportunities

Equities		Corporate earnings remain resilient
US		Macro uncertainty and high valuations are risks
Europe		Prospect of growth revival and valuations supporting European equities
UK		Growth backdrop remains a drag on mid-cap sector
Japan		Artificial intelligence and robotics are supportive themes for Japan
China		Sentiment to remain at risk until more clarity on US trade deal
Investment Themes*		Long-term positive on artificial intelligence and carbon transition strategies

*AXA Investment Managers has identified several themes, supported by megatrends, that companies are tapping into which we believe are best placed to navigate the evolving global economy: Automation & Digitalisation, Consumer Trends & Longevity, the Energy Transition as well as Biodiversity & Natural Capital

Data source: Bloomberg