AXA Investment Managers

Marketing communication
Investment involves risk, including loss of capital
Recorded 9th October 2024
Fixed Income

Multi Asset Views, October transcript

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We remain constructive on risky assets in our multi-asset portfolios. First, the so-called Fed Put is back. In plain English, this means that the market confidence that the US monetary policy will ease not just when faced with a major systemic shock, but also in a preemptive fashion to cushion any concern of an economic slowdown.

Already in Jackson Hole, Fed (Federal Reserve) Chair Jerome Powell was very clear in describing this shift of focus from inflation to employment and from balanced to downside risks. And that's how the US Central Bank cut interest rates in September, not just by 25 basis point, but by 50.

Second, top down macroeconomic indicators are rather reassuring, with economic surprises back in positive territory in the US. Bottom-up corporate earnings have encouraging perspectives with upside revisions in the US, especially compared to somewhat softer expectations.

Third, and more importantly, in our view, market complacency has faded. For example, the soft landing narrative is no longer as consensual. Market volatility rose sharply in August and has only partly reversed since then, illustrating that investors remain mindful of risks. That's visible, for example, in the VIX, the famous fear index,which corresponds to the implied volatility on the US stock market and which remains relatively elevated.
Lastly, investors' positioning reduced significantly in August and early September.

We are closely monitoring the risk of investors going back into stretched territory, but we find that we are not quite there yet. With interest rates going progressively lower, we have been increasing our exposure to rate sensitive equities in the US and in Europe, from US small caps to European listed real estate.

We conversely took some profits on large capitalisations in the eurozone stock market. As the domestic economy posts lackluster momentum. Contrary to the US, the eurozone still faces credible risk of a recession, and we therefore remain defensive in our European equity allocation.

On the fixed income side, the market has been quite volatile. The US 10 Year interest rate fell rapidly from 4.7% in late April to almost 3.6% in September, reflecting an extreme repricing of the US Fed willingness to cut interest rates.

With some consolidation to the upside and yields back above 4%, we are progressively increasing our duration exposure. Mindful of tensions in the Middle East, we have also diversified our flexible portfolios into commodities and the US dollar.

Altogether, we are confident in the risk return diversification of multi-asset to conclude a great year.

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