Investment Institute Asset Class Views

Monthly Investment Viewpoint

March 2025

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

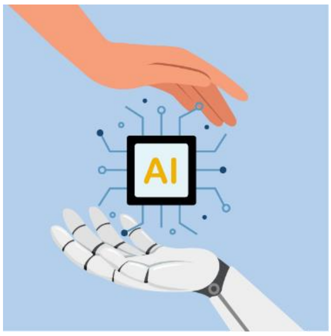
...to read more from the

AXA IM INVESTMENT INSTITUTE

KEY INVESTMENT THEMES

Tariffs, trade deficits and inflows

Interest rates and risk



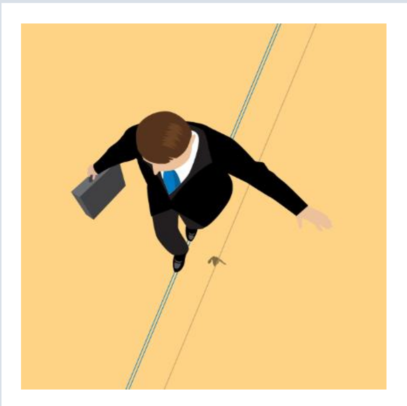
China needs more than AI

Tariffs vs. investment returns

US President Donald Trump isn't happy with the global economic and political order. He feels the US has been badly treated. The prolonged and large US trade deficit means the rest of the world owns increased amounts of dollar assets. His tariff focus is one way of addressing this.

The US has enjoyed plentiful capital inflows - the bigger the deficit, the bigger the flows as foreign investors take comfort in the dollar's reserve currency status. But what if tariffs do cut the trade deficit? Capital inflows should ease too. Flows into US equities have been significant, and inflows boost stock returns, which in turn attract more inflows. The US has outperformed as a result. But if flows diminish, the US valuation gap versus the rest of the world could be reduced. As the old saying goes, be careful what you wish for.

Understanding neutral rates can help investors allocate risk

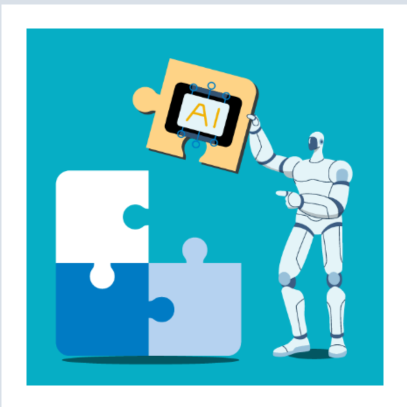


The European Central Bank (ECB) recently estimated the neutral rate - the short-term interest rate that would prevail when the bloc's economy is at full strength and inflation stable – to be between 1.75% and 3%. A simpler method looks at the sum of potential growth and the central bank's inflation target – which matches the ECB's main deposit rate of 2.75%.

In the US, models suggest the benchmark interest rate (at 4.50%) looks close to the neutral level. However, using the simpler method of assessment, the neutral rate could be lower, at around 3.50%.

Monetary policy decisions cannot be reduced to a single equation, but this is useful to investors when looking at the interest rate outlook and how they allocate risk.

China's economy needs more than AI



The emergence of DeepSeek - a rival to the popular ChatGPT - has been a gamechanger in terms of China's position in the artificial intelligence (AI) race. It has bolstered optimism about AI's potential growth and economic benefits. But it's early days in terms of real-world applications; and the risks are vast - AI data usage, industry regulation, national security and more. However, it indicates that innovation is likely to come from a broader group of players. China's recent market rally is narrowly focused; policy support is still required to address its deflationary challenges, to drive a broader, sustainable earnings recovery. Demand-side policy support and signs of a more market-friendly policy shift towards technology companies are encouraging but much more is needed to shore up confidence in consumers and investors, as well as in the private sector.

AXA Investment Managers

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		Medium-term rate expectations are stable but subject to policy triggered volatility
US Treasuries		Fed on hold until more clarity on inflation and Trump policy; bonds in range
Euro – Core Govt.		Range trading while markets wait for any new policy initiatives on the fiscal side
Euro – Govt Spreads		Spreads to remain narrow; focus on what eventual new German government will do
UK Gilts		Investors unsure about path of inflation and fiscal policy; gilts range bound for now
JGBs		Markets still expect further interest rate hikes
Inflation		Scope for breakeven rates to move higher as inflation continues to be sticky

Credit		Credit remains strong with spreads stable and positive returns
USD Investment Grade		Strong earnings backdrop supportive for US corporate debt
Euro Investment Grade		Demand for fixed income remains strong; fundamentals are solid
GBP Investment Grade		Spreads have narrowed in 2025, but demand remains strong
USD High Yield		Solid economic data, strong cash-flows and technical factors continue to support high yield
Euro High Yield		Resilient fundamentals, technical factors and ECB cuts support total returns
EM Hard Currency		Spreads over US Treasuries are attractive but Trump agenda could be disruptive

Equities		Signs of broadening of performance away from narrow US technology sector leadership
US		Earnings momentum starting to flatten; valuations are still expensive
Europe		Modest pick-up in earnings forecasts and possible beneficiary of global move away from US
UK		Markets need to see how government can improve growth prospects; lower rates will help
Japan		Solid combination of valuations and expected earnings growth
China		Tech sector bolsters investor optimism, with scope to broaden out on policy support
Investment Themes*		Competition in AI to create more opportunities for technology beneficiaries

*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.

Data source: Bloomberg