Investment Institute Asset Class Views

# Outlook 2025: Core Investment Implications

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## KEY POINTS

| | | |
|---|---|---|
| **We believe the central macroeconomic outlook remains favourable** | **In equities we favour US technology and automation stocks** | **In fixed income, short duration bonds have the potential to deliver attractive income opportunities** |

US president-elect Donald Trump's radical policy agenda has fuelled some financial market uncertainty, in terms of future investment returns.

Nevertheless, we believe the central macroeconomic outlook remains favourable for both bonds and equities. Ultimately, growth, stable inflation and lower interest rates should support markets.

But investment decisions need to consider cashflow resilience and valuations, given policy risks and broader concerns. For now, we don't expect a recession in 2025 which should help deliver positive equity returns, while credit markets should provide attractive income opportunities.

IMPLEMENTATION IDEAS

## CENTRAL SCENARIOS

### *US policy agenda should be positive for equities*

**Our view**

The underlying macroeconomic backdrop and potential policy mix in the US looks supportive for equities. Trump's agenda creates a potentially positive growth impetus. Lower corporate taxes and deregulation should also support equity markets.

Earnings momentum will be a key driver and we expect US equities to continue to lead the way, with potential upside coming from thematic sectors like automation, while continued strong investment in technology and artificial intelligence (AI) should also be a key contributor. Outside the US, the outlook is more mixed. Emerging market equities would struggle amid tariff wars and a stronger dollar, and while Europe's growth and equities earning outlook is more subdued than the US, it offers more compelling valuations.

**US TECHNOLOGY-EXPOSED EQUITIES SUCH AS NASDAQ 100 COMPANIES**

**ROBOTICS AND AUTOMATION-FOCUSED STRATEGIES**

***Rationale***

*We expected earnings growth in the US will continue to be driven by the technology sector with there being no evidence of any softening in demand for AI-related technologies. In 2024, close to half the growth in the entire market's earnings per share came from the US's information technology and communications sectors.*

### *Lower interest rates are good for fixed income*

**Our view**

The likely path of interest rates should support decent yield in fixed income markets, with credit continuing to potentially deliver attractive income opportunities.

Prevailing yield levels in developed bond markets provide the basis for robust income returns, which should remain above inflation. On the credit side the additional return and the continued healthy state of corporate balance sheets underpin the attractiveness of both investment grade and high yield bonds. Valuations are a concern, and of course, investor sentiment towards credit will be subject to the uncertain evolution of policy and geopolitical risks but on a risk-adjusted return basis, credit is attractive.

**EURO CREDIT TOTAL RETURN STRATEGIES**

***Rationale***

*European fixed income investors may see total returns boosted by some decline in bond yields. Additionally, the relative picture should continue to support a strong dollar. For non-dollar investors, on a currency hedged basis, European fixed income looks more attractive especially as we continue to see opportunities in the credit markets.*

### *Risks have increased, short duration strategies remain attractive*

**Our view**

There are numerous risks to consider - the uncertain evolution of policy and geopolitical tensions, as well as the government debt profile of many countries. More cautious investors could consider short-duration credit-focused strategies which are providing a potentially attractive risk-adjusted expected return.

The additional return and the continued healthy state of corporate balance sheets underpin the attractiveness of both investment grade and high yield bonds. This is especially the case for short-duration strategies. We continue to see US high yield, a short-duration asset class, potentially delivering healthy returns.

**SHORT DURATION CREDIT IN US AND EUROPE (INVESTMENT GRADE AND HIGH YIELD)**

***Rationale***

*Cash returns will ease further as interest rate cuts continue. But income should remain the focus in bond markets and compounding returns from short-duration exposure in credit and high yield remains a favoured strategy.*

## CONTINUED PURSUIT OF NET ZERO AMBITIONS

Investment in the green transition will remain a major theme globally, and even in the US, despite the Trump administration's expected preference for oil and gas production over subsidies for renewable energy. Joe Biden's Inflation Reduction Act (IRA) has driven $493bn in clean technology investment in the two years following the IRA's introduction, so even if some companies backtrack some of those investments in response to the new political climate, many clean manufacturing investments already have steel in the ground[1]. Forecasts of significant increases in electricity consumption – driven by the technology sector and China's power demand – will promote further integration of solar and wind energy assets into power networks. As such, sustainably-focused investment approaches will continue to benefit from a wide and growing opportunity set.

## THREE KEY NET ZERO INVESTMENT OPPORTUNITIES

**Jane Wadia** | Head of Sustainability, Core Products & Clients

Investors targeting net zero objectives can consider two broad ways to do this across both equities and fixed income.

One is around decarbonisation, which focuses on seeking opportunities associated with the transition to a low-carbon economy and reducing exposure to carbon emissions. In essence this means investing in companies committed to delivering robust transition plans. The other is actively looking to channel capital towards climate and biodiversity solutions investments which are helping to drive positive impact on the environment. Below, we explore the specific opportunities investors are favouring as we enter 2025.

### CARBON TRANSITION STRATEGIES

Carbon transition strategies are becoming an increasingly popular way to support a decarbonisation pathway and drive a shift in investor portfolios. They allow investors to move from commitment and high-level target setting to concrete action within an investment portfolio to support the transition to a lower carbon economy. This is a trend we're seeing across both fixed income and equities. In addition, we are seeing increased appetite for Paris-Aligned Benchmark exchange-traded funds, which offer building blocks to decarbonisation-focused investors seeking access to key markets in a simple and efficient way.

### GREEN BONDS

Green bonds have existed for many years and issuance continues to grow. Investors are truly waking up to the diversity of sectors that issue green bonds today compared to a few years ago. What is truly compelling is that we're seeing more and more clients investing in green bonds as part of their global aggregate allocation, rather than just for sustainability-focused portfolios. This trend has been enabled by the expansion of the green bond market and is something we expect to continue in the years ahead.

### BIODIVERSITY

Biodiversity is an emerging but fast-growing investment opportunity. While biodiversity is arguably more complex than climate change, the good news is there are ways to incorporate it into listed and private markets investments. In particular, we are seeing increased appetite for concrete investment solutions such as dedicated biodiversity equity strategies which aim to identify the leaders of the biodiversity transition.

[1]What a Second Trump Presidency Means for Climate Action | TIME

## 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** | Budgetary concerns and US politics suggest higher volatility even if rates in fair-value range |
|---|---|
| **US Treasuries** | Yields have stabilised with the Fed still expected to cut interest rates |
| **Euro – Core Govt.** | ECB easing cycle is supportive but there is risk of contagion from higher US rates volatility |
| **Euro – Peripherals** | Risk of wider spreads from fiscal concerns |
| **UK Gilts** | Bank of England should cut rates in early 2025 |
| **JGBs** | Uncertainty over Bank of Japan policy normalisation path. Yen remains volatile |
| **Inflation** | Market pricing not discounting any post-election inflation shock |

| **Credit** | Favourable pricing is increasing credit’s contribution to excess returns |
|---|---|
| **USD Investment Grade** | Credit spreads are tight but fundamentals remain supportive to returns |
| **Euro Investment Grade** | Modest growth and lower interest rates support credit’s income appeal |
| **GBP Investment Grade** | Returns supported by better growth and expectations of rate cuts |
| **USD High Yield** | Stronger growth, resilient fundamentals, and higher quality universe are supportive |
| **Euro High Yield** | Resilient fundamentals, technical factors and ECB cuts support total returns |
| **EM Hard Currency** | Higher quality universe, well-placed with US interest rate cuts commencing |

| **Equities** | Soft landing to support stocks into year-end |
|---|---|
| **US** | Trump policy agenda positive for stocks, performance could broaden |
| **Europe** | Concern about earnings growth but valuations remain attractive |
| **UK** | Budget policies might constrain earnings growth in UK corporate sector |
| **Japan** | Resilient global growth is supportive; reforms, monetary policy key for sustained performance |
| **China** | Policy support has scope to lead to improved growth and market performance |
| **Investment Themes*** | 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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