Optimal Income Strategies

Anticipating reducing risk as uncertainty bites

- Trump's shifting policies and tariffs fuel new tensions for risky assets.
- Getting selective with equity US and increasing diversification.
- Eurozone Bonds Favoured on Dovish ECB Stance

Laurent Ramsamy, Lead Portfolio Manager

What's happening?

Rising US policy uncertainty is casting a shadow over economic performance, with disruptions early in the year likely to sharply weigh on first-quarter GDP. Import front-loading and inventory adjustments are expected to drag growth further, with consumer spending projected to slow to just 1% on an annualised basis. Despite these headwinds, there are some indications that the underlying momentum of the US economy remains solid, which could allow for a modest recovery later in the year. However, given the near-term drag from trade and inventory effects, we have revised our US growth forecast down to 2.1% for 2025, with a further slowdown to 1.5% expected in 2026.

Europe has responded decisively to these US developments, reinforcing its geopolitical stance with the launch of the "EU ReArm" initiative. This policy relaxes borrowing constraints for national defence spending and signals a stronger commitment to European security. Still, the combined impact of tariffs, financial market volatility, and rising yields has led us to trim our eurozone GDP forecast to 0.8% for 2025, with 1.2% growth maintained for 2026.

In China, authorities have doubled down on fiscal stimulus to meet an ambitious growth target of "around 5%" for 2024. While re-engagement with the private sector is a welcome step, subdued consumer spending may hinder overall progress. Our projections now stand at 4.5% growth for 2025 and 4.1% for 2026.

Emerging markets, particularly those with structural vulnerabilities, remain exposed to the ripple effects of US trade policy shifts and global security tensions. Central banks in these economies face a delicate balancing act, as the inflationary implications of US policy constrain their ability to ease monetary conditions.

Meanwhile, the Fed appears increasingly cautious about inflation risks, which has contributed to expectations of delayed rate cuts. In contrast, the ECB is expected to continue easing policy, potentially lowering rates to 2% by mid-2025 and 1.5% by year-end, in response to more immediate downside risks. The Bank of England is set to proceed with a gradual withdrawal of monetary support, while the Bank of Japan continues its path toward policy normalization.

Source: AXA IM as end of March 2025

Positioning & Performance :

	GLOBAL OPTIMAL STRATEGY			OPTIMAL STRATEGY			DEFENSIVE OPTIMAL STRATEGY		
	Dec-24	Feb-25	Mar-25	*Dec-24*	Feb-25	Mar-25	*Dec-24*	Feb-25	Mar-25
Net Equity	*87,9%*	78,0%	78,7%	*76,3%*	73,5%	69,8%	*34,6%*	35,8%	27,8%
Equities	*79,7%*	77,6%	71,1%	*72,9%*	69,8%	66,7%	*37,0%*	35,6%	32,9%
Equities derivatives	*13,9%*	5,4%	12,6%	*5,2%*	6,1%	5,5%	*-2,4%*	0,2%	-5,1%
Risk Mitigation Strategies	***-5,7%***	**-5,0%**	**-5,0%**	***-1,8%***	**-2,4%**	**-2,4%**	***0,0%***	**0,0%**	**0,0%**
Fixed Income	*5,0%*	9,4%	10,5%	*23,6%*	24,6%	25,0%	*62,9%*	45,4%	50,9%
Govies	*0,0%*	0,0%	0,0%	*0,0%*	0,0%	0,0%	*0,2%*	0,2%	5,3%
Bond Derivatives	*45,0%*	27,2%	31,5%	*27,4%*	20,0%	25,7%	*10,4%*	4,3%	2,8%
High Yield Credit	*1,0%*	1,7%	2,3%	*5,6%*	5,8%	5,9%	*16,3%*	15,5%	6,9%
Investment Grade	*3,9%*	7,6%	8,2%	*17,6%*	18,5%	18,8%	*46,0%*	29,4%	38,4%
Emerging Debt	*0,1%*	0,1%	0,1%	*0,3%*	0,3%	0,3%	*0,5%*	0,3%	0,3%
Diversification	*11,6%*	8,4%	11,2%	*2,2%*	2,2%	2,2%	*5,9%*	7,6%	8,2%
Cash & Money Market	*-4,4%*	4,1%	-0,5%	*-1,9%*	-0,2%	3,0%	*-3,4%*	11,2%	13,1%

In March, we continued to maintain a positive outlook on global equities while adopting a selective approach, particularly in light of President Trump's tariffs announcement, which has the potential to disrupt market dynamics. Our cautious optimism was supported by the resilience of the US consumer as of the end of March, which remains a key driver of domestic growth. While some moderation in consumption is expected following years of strong spending, delinquency rates, though rising, are still below the levels typically observed before past recessions.

US markets lagged behind global peers early in the year, particularly in comparison to Europe, where a combination of improving economic data and a sharp reversal in investor positioning contributed to a rally. However, we are beginning to see signs that this European outperformance may be ahead of fundamentals, with positioning looking stretched and vulnerable to a potential correction.
In contrast, China is benefiting from improving sentiment and a rebound in technology stocks, which remain attractively valued relative to their US counterparts. As a result, we increased our exposure to Chinese equities from 6% to 17% by the end of March, as the country adopted a more pro-growth stance following years of deflationary pressures and challenges in the housing sector.

On the fixed-income side, we kept our core exposure to Eurozone bonds and maintained interest-rate sensitivity in line with long-term targets. Yields across the region rose as governments announced large-scale public investments, which lifted both growth expectations and term premiums. However, given that Eurozone GDP growth is projected to remain subdued at just +0.8% this year, we remain cautious about further downside in bond prices. Our duration exposure reflects a balanced perspective.

Source: AXA IM as end of March 2025

Outlook

The start of President Trump's second term has revived memories of 2018, with a renewed emphasis on trade tariffs over deregulation or fiscal stimulus. The announcement of new tariffs on April 2nd added to market unease, highlighting the unpredictable nature of current US trade policy. Investors are struggling to determine whether this is a strategic move or a more ideologically driven stance. While these policy shifts have stirred volatility, the broader macro environment remains relatively stable, with limited disinflation and ongoing economic resilience—keeping markets just shy of the "Danger Zone" where high rates weigh heavily on equity valuations.

That said, the US economy showed some early signs of softening in 2025. Retail sales weakened in January due to poor weather and a post-holiday slowdown, while trade data was skewed by unusually high gold imports. Uncertainty around tariffs added to the noise. These factors led our economists to downgrade growth expectations for Q1 to barely above zero and trim the outlook for the full year. However, we still expect a rebound in Q2 as temporary disruptions fade. The US economy should continue expanding at around 2% annualized, supported by steady job creation and only marginal increases in unemployment. However, these number could be revised depending on market reactions to Trump's Tariffs policy.

Yet the main engine of this growth remains the US consumer. While spending is likely to moderate now that excess pandemic savings have been depleted, real income growth should provide an ongoing boost. Concerns about rising credit card and consumer loan delinquencies are understandable, yet current levels remain well below those seen before past recessions. Encouragingly, delinquencies began to ease in late 2024, helped by falling interest rates, a weaker dollar, and improved credit conditions.

In markets, US equities have underperformed relative to other regions, notably Europe. While some of Europe's outperformance reflects improving economic data, it has also been driven by positioning shifts, with global investors rotating out of the US. This trend could now appears stretched, increasing the likelihood of profit-taking ahead.

Meanwhile, China is showing signs of a domestic-led recovery. Stronger internal demand and a rebound in technology valuations are narrowing the gap between Chinese and US tech stocks.

In fixed income, Eurozone bond yields have climbed as governments unveiled large infrastructure and defense spending plans. While these initiatives support growth expectations, they also imply higher future debt issuance. Despite this, our economists forecast only 0.8% growth in the Eurozone this year. As such, we see limited scope for further yield increases and expect a modest bond market recovery in the near term.

Disclaimer

communication in an European Union country by notification to its authority of supervision in accordance with European passport rules. In particular units of the funds may not be offered, sold or delivered to U.S. Persons within the meaning of Regulation S of the U.S. Securities Act of 1933. The tax treatment relating to the holding, acquisition or disposal of shares or units in the fund depends on each investor's tax status or treatment and may be subject to change. Any potential investor is strongly encouraged to seek advice from its own tax advisors.

In the event of dissatisfaction with the products or services, you have the right to make a complaint either with the marketer or directly with the management company (more information on our complaints policy available in English here). You also have the right to take legal or extra-judicial action at any time if you reside in one of the countries of the European Union. The European online dispute resolution platform allows you to enter a complaint form (by clicking here) and informs you, depending on your jurisdiction, about your means of redress (by clicking here).

Due to its simplification, this document is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There is no guarantee forecasts made will come to pass. Data, figures, declarations, analysis, predictions and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain sufficient information to support an investment decision.

Issued in the UK by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales No: 01431068. Registered Office: 7 Newgate Street, London EC1A 7NX. In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.

In Hong Kong, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document is to be used only by persons defined as "professional investor" under Part 1 of Schedule 1 to the Securities and Futures Ordinance (SFO) and other regulations, rules, guidelines or circulars which reference "professional investor" as defined under Part 1 of Schedule 1 to the SFO. This document must not be relied upon by retail investors. Circulation must be restricted accordingly.

In Singapore, this document is issued by AXA Investment Managers Asia (Singapore) Ltd. (Registration No. 199001714W) and is intended for the use of Institutional Investors only as defined in Section 4A of the Securities and Futures Act (Cap. 289) and must not be relied upon by retail investors. Circulation must be restricted accordingly

For Japanese clients: AXA Investment Managers Japan Ltd., whose registered office and principal place of business is at NBF Platinum Tower 14F 1-17-3 Shirokane, Minato-ku, Tokyo 108-0072, Japan, which is registered with the Financial Services Agency of Japan under the number KANTOZAIMUKYOKUCHO (KINSHO) 16, and is a member of Japan Securities Dealers Association, Type II Financial Instrument Firms Association, Investment Trust Association of Japan and Japan Investment Advisors Association to carry out the regulated activity of Financial Instrument Business under the Financial Instrument Exchange Law of Japan. In Japan, none of the funds mentioned in this document are registered under the Financial Instrument Exchange Law of Japan or Act on Investment Trusts and Investment Corporations. This document is purely for the information purpose for use by Qualified Institutional Investors defined by the Financial Instrument Exchange Law of Japan.

In Taiwan, this document is issued by AXA Investment Managers Asia Limited (SFC License No. AAP809), which is authorized and regulated by Securities and Futures Commission. This document and the information contained herein are intended for the use of professional or institutional investors and should not be relied upon by retail investors. They have been prepared and issued for private informational and educational purposes only at the sole request of the specified recipients, and not intended for general circulation. They are strictly confidential, and must not be reproduced, circulated, distributed, redistributed or otherwise used, in whole or in part, in any way without the prior written consent of AXA IM Asia. They are not intended for distribution to any persons or in any jurisdictions for which it is prohibited.

If any fund is highlighted in this communication (the "Fund"), its offering document or prospectus contains important information on selling restrictions and risk factors, you should read them carefully before entering into any transaction. It is your responsibility to be aware of and to observe all applicable laws and regulations of any relevant jurisdiction. AXA IM Asia does not intend to offer any Fund in any country where such offering is prohibited.

The offer, distribution, sale or re-sale of fund units/shares in Taiwan requires approval from and/or registration with Taiwanese regulatory authorities. To the extent that any units/shares of the Funds are not so licensed or registered, such units/shares are made available in Taiwan on a private placement basis only to banks, bills houses, trust enterprises, financial holding companies and other qualified entities or institutions (collectively, "Qualified Institutions") and other entities and individuals meeting specific criteria ("Other Qualified Investors") pursuant to the private placement provisions of the Rules Governing Offshore Funds. No other offer or sale of such units/shares in Taiwan is permitted. Taiwanese purchasers of such units/shares may not sell or otherwise dispose of their holdings except by redemption, transfer to a Qualified Institution or Other Qualified Investor, transfer by operation of law or other means approved by the Taiwan Financial Supervisory Commission.

In Korea, AXA Investment Managers Asia (Singapore) Ltd is a registered Cross Border Investment Advisor/Discretionary Investment Management Company under the Financial Investment Services and Capital Markets Act (the "Act"). The activities referenced under the Act are 5-2-2 Investment Advisory Business and 6-2-2 Discretionary Investment Management Business, respectively. Its financial services are available in Korea only to Professional Investors within the meaning of Article 10 of Enforcement Decree of the Financial Investment Services and Capital Markets Act.

To the extent that any fund is mentioned in this document, neither the fund nor AXA IM Asia is making any representation with respect to the eligibility of any recipients of this document to acquire the units/shares in the fund under the laws of Korea, including but without limitation the Foreign Exchange Transaction Act and Regulations thereunder. The units/shares have not been registered under the Financial Investment Services and Capital Markets Act of Korea, and none of the units/shares may be offered, sold or delivered, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to applicable laws and regulations of Korea.

For Malaysian investors: As the recognition by the Malaysian Securities Commission pursuant to Section 212 of the Malaysian Capital Markets and Services Act 2007 has not been / will not be obtained nor will this document be lodged or registered with the Malaysian Securities Commission, the shares referred to hereunder (if any) are not being and will not be deemed to be issued, made available, offered for subscription or purchase in Malaysia and neither this document nor any other document or other material in connection therewith should be distributed, caused to be distributed or circulated in Malaysia.

For Thailand investors: Nothing in this document shall constitute in any manner whatsoever a proposal to make available, offer for subscription or purchase or to issue an invitation to purchase or subscribe for any securities in Thailand or a proposal to implement any of the foregoing in Thailand nor has this document been approved by or registered with the Securities and Exchange Commission of Thailand ("SEC"). No person receiving a copy of this document may treat the same as constituting an invitation or offer to him in Thailand and such person shall not distribute or make available this document in Thailand. The issuer of this document shall not be liable in any manner whatsoever in the event this document is distributed or made available to any person in Thailand receiving a copy of this document. Since no application for approval has been or will be made to the SEC for the offering of the securities, or for the registration of this document, the securities shall not be offered for subscription or purchased or made available, whether directly or indirectly, in Thailand. It is the sole responsibility of recipients wishing to take any action upon this document to satisfy themselves as to the full observance of the laws of Thailand, to comply with all relevant government and regulatory approvals, and to comply with all applicable laws, including but not limited to exchange control laws.

For Investors in People's Republic of China (PRC): This document does not constitute a public offer of the product., whether by sale or subscription in the PRC. The product is not being offered or sold directly or indirectly in the PRC to or for the benefit of, legal or natural persons of the PRC. Further, no legal or natural persons of the PRC may directly or indirectly purchase any of the product or any beneficial interest herein without obtaining all prior PRC's governmental approvals that are required, whether statutorily or otherwise. Persons who come into possession of this document are required by the issuer and its representatives to observe these restrictions.