ACT Multi Asset Optimal Impact Strategy

Impact investing continues to resonate with a strong majority of investors

- Most financial markets moved higher in January
- Strong performance driven by the "Healthcare Solutions," "Resource Scarcity," and "Sustainable Resources" themes, with a minor contribution from Impact bonds
- Despite political challenges (e.g., US exit from the Paris Agreement, Net Zero Asset Managers initiative halt), surveys show broad support from retail investors for climate action, nature protection, and addressing economic inequality

Laurent Ramsamy, Lead Portfolio Manager

What is happening?

The U.S. economy remains resilient but is expected to slow as consumer spending moderates. President Trump's administration has prioritized migration and deregulation through a series of executive orders, while trade policy remains uncertain. Inflation is likely to stay elevated, weighing on growth prospects. We anticipate GDP growth of 2.3% in 2025, slowing to 1.5% in 2026. In the Eurozone, economic activity remains sluggish, with early indicators pointing to weak momentum in the first quarter. While U.S. trade policies have yet to significantly impact the region, rising energy prices have nudged inflation higher. However, this is unlikely to deter the ECB from easing monetary policy. We expect GDP growth of 1% in 2025 and 1.3% in 2026. China continues to grapple with economic headwinds, with domestic demand under pressure and external trade softening. Consumer caution is dampening spending and inflation, prompting expectations for further stimulus measures in March aimed at restoring confidence. We forecast growth of 4.5% in 2025 and 4.1% in 2026. Emerging markets face increasing risks from tariff threats, while currency policies and inflation pressures are likely to limit central banks' ability to ease monetary policy. Some central banks may struggle to implement rate cuts as inflationary pressures persist, particularly in response to U.S. policies.

Global central banks are adjusting to shifting economic conditions. The U.S. Federal Reserve is expected to pause its easing cycle after a final rate cut in March or later this year or even no cut, adopting a cautious stance amid inflationary policy initiatives. The European Central Bank is likely to push rates into accommodative territory as economic momentum remains weak. Meanwhile, the Bank of England is expected to cut rates four times this year. In contrast, the Bank of Japan has raised rates to 0.50%, marking a 17-year high, with another 0.25% increase expected.

After a hesitant start to the year, equity markets rebounded following softer-than-expected December inflation and retail sales data, easing concerns over a hawkish Fed. Long-term yield retreated from their highs, benefiting long-duration equities like Industrials and Homebuilders. This shift provided an opportunity to rebuild our equity overweight, reinforcing our conviction that inflation and Fed policy will remain key drivers of market sentiment.

Source: AXA IM as end of January 2025

The Q4 2024 earnings season began on a strong note, led by Financials, as major U.S. banks posted robust results fuelled by higher interest margins and strong trading activity.

Fixed income markets experienced volatility, with yields fluctuating in response to shifting Fed expectations. The recent drop in long-term yields has offered some relief, yet short-term rates remain elevated amid ongoing policy uncertainty. The market is currently mispricing the risk of a rate hike, despite a divergent economic landscape where cash-rich tech firms thrive while highly leveraged companies are struggling. This economic divide underscores the challenge facing the Fed as it balances growth resilience with inflation risks.

In a highly anticipated move, newly inaugurated President Donald Trump confirmed his plans to withdraw the U.S. from the Paris Agreement that aims to limit the global temperature increase in this century to below 2C° in the effort to combat climate change. Meanwhile, the Net Zero Asset Managers (NZAM) initiative, made up of investment managers committed to supporting the goal of net zero greenhouse gas emissions by 2050, announced that it will suspend its primary activities following the decision by BlackRock, the largest global investment management company and an early NZAM signatory, to leave the group.*

Positioning and performance:

ACT MA OPTIMAL IMPACT

	Dec-23	Dec-24	Jan-25
Net Equity	*44,2%*	*69,3%*	56,6%
Equities	*44,2%*	69,3%	67,7%
Equities derivatives	*0,0%*	0,0%	-10,7%
Risk Mitigation Strategies	***0,0%***	**0,0%**	**-0,4%**
Fixed Income	***50,5%***	**26,5%**	**26,9%**
Govies	*17,8%*	6,9%	7,1%
Bond Derivatives	*0,4%*	16,8%	11,0%
High Yield Credit	*1,8%*	1,5%	1,4%
Investment Grade	*28,6%*	16,5%	16,9%
Emerging Debt	*2,4%*	1,5%	1,5%
Diversification	***0,0%***	**0,0%**	**0,0%**
Cash & Money Market	***5,2%***	**4,1%**	**16,5%**

Equity performance benefited from gains of most themes in particular People oriented “Healthcare Solutions” theme led by Thermo Fisher, Veeva Systems and Dexcom as well as Planet based themes such as “Agriculture & Sustainable Food” (Deere), “Recycling & Waste Reduction” (Republic Services) and “Sustainable Materials” (Air Liquide and Linde). The only underperforming themes were Planet based “Renewable Energy & Infrastructure” which only posted a slight gain in January dragged down by pure plays such as Brookfield Renewable despite gains in more general utility providers while “Low Carbon Transport” was the only theme to deliver a slight negative performance after last month’s stellar performance.

On the fixed income side, our Impact bond bucket had a slight positive impact on performance given the drop of bond yields dropped over the month as sovereign bond yields held mostly steady and spreads on corporate issuers sank to new lows. Meanwhile, issuance of sustainable bonds notched its busiest month in a year despite a -13% drop compared to January 2024 as demand in Europe and Asia powered ahead despite muted interest in the US under the new Trump administration known for being sceptical of climate change policies.**

In January, we significantly decreased our allocation to impact equities in early January as the Fed scaled back its expectations for future rate cuts. With U.S. rate expectations shifting higher and equities already vulnerable, we opted for a more cautious stance. Following the release of December’s U.S. inflation data, which reinforced our confidence in a cooling trajectory despite a resilient labour market, we slightly reinforced our equity exposure. While equities remain in the "Danger Zone," where high rates pose risks, the easing of long-term yields offers relief. Meanwhile, we maintained our allocation to impact bonds thus significantly increasing our cash allocation.

Source: AXA IM as end of January 2025

Focus stock of the month:

: Republic Services is one of the leading providers of waste management services (collection, treatment, recycling, landfilling…) and other environmental services in the US with over 13 million customers for essential waste collection services, 353 collection stations and an average of 5 million pick-ups per day. The company contributes primarily to SDG targets 11.1 (Safe and Affordable Housing including access to basic services) and 11.6 (Reducing the Environmental Impact of Cities) by providing essential waste management services (such as collection, disposal and recycling) to households and businesses and mitigating the adverse environmental effects of landfills. We also note contributions to SDG targets 12.4 (Responsible Management of Chemicals and Waste) and 12.5 (Substantially Reduce Waste Generation) as the company collects and disposes of hazardous waste, mitigates the adverse environmental effects of landfilling, and offers recycling services (as well as develops advanced/specialized recycling capabilities for plastics and other non-municipal types of waste). While Republic has ambitious goals and measures in place in terms of limiting the environmental impact of its landfills and ensuring the health and safety of its employees, it is nevertheless involved in several controversies in these areas.

Outlook:

Donald Trump's return to the presidency has been marked by swift action, particularly in deregulation, which aligns with his pro-business stance. While his "America First" agenda remains a concern for inflation and market stability, his trade policy has been less aggressive than feared, offering temporary relief to investors. However, tariff threats persist, and an escalation could push interest rates higher.

Looking to the outlook for 2025, it appears certain that it will be a year of change. Voters around the world have rejected incumbent governments and demanded something different in the U.S., Germany, France, the U.K., Japan and beyond. Nevertheless, times of upheaval are also times of opportunity, and Impact Investing should continue to play an increasing role as well as finding new avenues to improve lives and protect our planet. Amongst the major trends to watch out for, the Global Investing Network (GIIN) points to the need to nail down the narrative that connects impact investing to the solutions people are seeking. Despite the headlines focusing on the US exiting the Paris Agreement or the halt in the activities of the Net Zero Asset Managers initiative following the exit of major US asset managers, 82% of U.S. retail investors said it is important to consider protecting nature and wildlife in investments with 78% saying that reducing economic inequality is important to consider in investments, according to a 2024 GlobeScan survey. According to the same survey, most retail investors across the globe support action by investment funds on climate change, protecting nature and wildlife, and addressing economic inequality. These statistics confirm that impact investing resonates across the political spectrum with a strong majority who want to invest their hard-earned money in a better society and a healthy environment. Within Impact Investing, the GIIN also predicts that there will be more interest in climate solutions investing. Investors are increasingly moving from tracking emissions to driving progress in emissions reduction. This will lead to more investment in solutions, which includes the technologies, assets, or business models that substitute zero or low-emissions products and services for high-emitting ones. Investors will increasingly address specific needs for people and companies in areas like agriculture, energy, food, materials and transportation, among others.*** As such, AWF Act Multi Asset Optimal is part of this trend in continuing to address the ongoing planet challenges by investing in providers of solutions towards decarbonisation including Renewables, Energy Efficiency, Green Buildings and Low Carbon Transport in both the developed but also developing world as well as investing in companies and projects that address the biggest barriers to equity and prosperity by focusing on companies and projects that provide a positive impact in terms of Healthcare solutions as well as companies promoting social inclusion or promoting empowerment within underserved communities.

*ESG Today 26/01/2025 & 19/01/2025
**Bloomberg 04/02/2025

***“Seven things to watch in impact investing in 2025“ Global Impact Investing Network 08/01/2025

Disclaimer

Past performance is not a guide to current or future performance, and any performance or return data displayed does not take into account commissions and costs incurred when issuing or redeeming units. The value of investments, and the income from them, can fall as well as rise and investors may not get back the amount originally invested. Exchange-rate fluctuations may also affect the value of their investment. Due to this and the initial charge that is usually made, an investment is not usually suitable as a short term holding.

This document is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities. The strategies discussed in this document may not be available in your jurisdiction.

The products or strategies discussed in this document may not be registered nor available in your jurisdiction. Please check the countries of registration with the asset manager, or on the web site https://www.axa-im.com/en/registration-map, where a fund registration map is available. Please note that the management company reserves the right, at any time, to no longer market the product(s) mentioned in this 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.

SFDR product categorization: the product categorization is provided based on the basis of the European Directive (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (“SFDR Regulation”). The attention of each recipient is drawn to the fact that, as of today the SFDR related regulatory technical standards (“RTS”) have not been finalized and remain subject to the approval and formal adoption by the European Commission and the European Parliament and Council. Furthermore, there may be further guidance in relation to the interpretation of the SFDR Regulation. We are monitoring regulatory developments closely, and the product categorization shall be re-assessed and may evolve when the RTS and/or further guidance is published.

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.