INVESTMENT research



19 June 2015

Research & Investment Strategy team

# Approaching crunch time

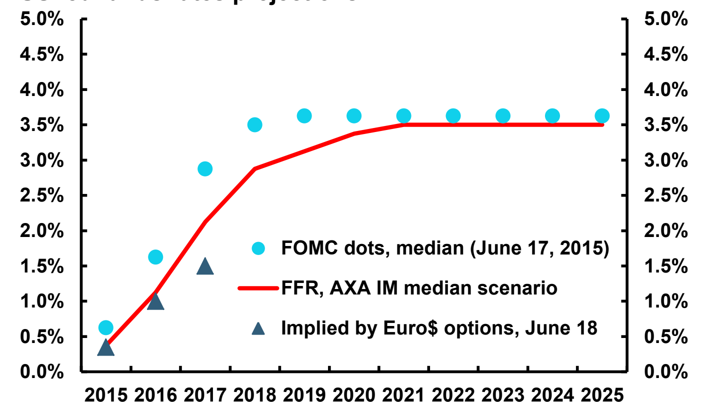
*Higher fixed income volatility and the risk of Grexit suggest more caution*

## Key points

- We are reaching crunch time on two major issues. The Fed will most likely lift off this year. The climax of the Greek crisis is imminent. Unless a deal is struck next week, Greece will miss its payment to the IMF. Capital and deposit controls could be soon enacted.
- The recent dataflow confirms that US growth is accelerating while reports in the euro area confirm steady momentum. We are starting to see signs of stabilisation or improvement in China.
- The re-pricing of Bunds has been violent. Volatility has hit levels usually reached during systemic crises and global fixed income markets have moved in sync. Yet we think policy monetary divergences should make such correlation temporary. Volatility is here to stay, however.
- **Asset allocation:** We confirm a neutral stance across asset classes. Within fixed income we reiterate a negative stance on US Treasuries but remain positive on Bunds. Although we are cautious on periphery bonds in the short term, we believe that the ECB has the means to prevent large spreads widening in case of a Grexit. The tussle between better growth and ample liquidity vs. the Greek risk suggests adding downside protection to euro-area equities. Chinese equities show signs of bubbles: we confirm our prudent view.

*Exhibit 1*

**Expect a gentle Fed normalisation, starting in September**




*Source: Federal Reserve, AXA IM Research*

**Asset allocation recommendation**

| | Short term (3-6M) | Medium term (12-24M) |
|---|---|---|
| Cash | = | − |
| Equities | = | + |
| Government bonds | = | − |
| Credit | = | = |

▲/▼ Changes of the month
*Source: AXA IM Research*

AXA INVESTMENT MANAGERS
redefining / investment solutions

As we approach the mid-point in an already eventful year, we are reaching crunch time on two major issues for financial markets: the Fed's lift-off and Greece. Both are likely to dominate the price action in coming months.

**Overall, we expect the Fed to keep a dovish tone, despite the start of policy normalisation this year, and to be mindful of limiting volatility in bond markets. The Greek case however is a lot less clear and we still think the climax lies ahead of us, possibly occurring around the first bond repayment to the ECB on 20 July**.

## Spring's thaw

Starting with US monetary policy, a number of indicators suggest that **the Fed's outlook is looming large on investors' radar screens once again**. Treasury yields have risen in recent weeks and thus got back into the driving seat of global bond markets. Capital flows in emerging markets are also starting to feel the heat of US policy normalisation, and the only missing component over the past month has been the US dollar, which has depreciated against its main counterparts.

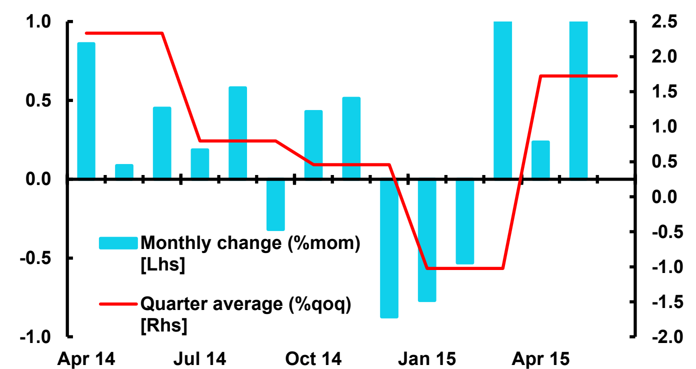
**The recent dataflow has confirmed our expectation that the US economic slowdown early this year was temporary**. First, the current estimate of -0.7% for the first quarter growth may be revised closer to zero. And the reasons for such weakness, be it a harsh winter, port disputes or dubious seasonal adjustments, all look set to fade from the second quarter. Second, the dataflow has strengthened in recent months and we now expect the second quarter growth to print around 3%. Indeed, the labour market points to further normalisation, with job creations north of 200,000 in April and May. Moreover, wage pressures are starting to emerge, with the closely-watched Employment Cost Index growing 2.8% year-over-year in March. An important paper by the San Francisco Fed also brought evidence that the lack of normalisation in involuntary part-time work may be due to structural rather than cyclical reasons, raising further questions about the magnitude of spare capacity. Overall, we see the expansion trending around 3% through 2015 and the annual growth rate at 2.7% for 2015, a modest acceleration from 2.4% in 2014.

## Enough to feed the Fed?

Such reassuring news is welcomed by the Federal Reserve. Nevertheless the softness of the first quarter GDP led the Fed to lower its 2015 growth forecast at June's meeting to 1.8-2.0%, from 2.3-2.7% and saw FOMC participants become less certain of the need for multiple rate hikes this year. In her June press conference, **Chair Yellen described a need for "more decisive evidence"** that moderate growth will be sustained before a policy tightening was warranted. On balance, we still envisage the emergence of firmer activity (*Exhibit 2*) as sufficient to warrant the first hike in September (*Exhibit 1*).

*Exhibit 2*

**US consumer likely an important part of Q2 rebound**




*Source: US Commerce Dept, Bureau of Economic Analysis and AXA IM Research*

However, there is a **growing risk that the Fed may push out the lift-off date to December**. On the domestic front, some FOMC members need more convincing of the economy's momentum and upcoming data may fail to provide such evidence by September. Also, inflation remains fragile, with the core PCE rate running at only 1.2% in April. Finally, the Fed might hold off if an extreme scenario in Greece triggers a significant financial market reaction - Chair Yellen warned that while the US has "*limited direct exposure [to Greece] … spill overs would affect the outlook*."

## Greece: end of the road

Few market participants expected the Greek saga to stretch over nearly six months after the January general elections that brought a Syriza-led government to power. The next few weeks may take us to the end of the road, however. Indeed, three factors have the potential to break the deadlock negotiators are stuck in: the Greek state's cash balances, the ECB and a new plebiscite.

**Greece running out of cash may force an outcome in the next few weeks, as the government needs to pay back €1.6bn to the IMF on 30 June**, the very date on which the current bailout programme ends. Therefore, absent an agreement by then, not only would Greece probably default on the IMF, but the payment of the pending last tranche of €7.2bn would not materialise. A reasonable compromise would be to reach a minimal agreement before that date, making it possible to extend the programme and disburse part of the tranche. But expecting the "reasonable" is probably no longer so safe a bet.

**Missing the 30 June payment would not trigger an immediate formal default**, as the IMF would then launch a several-week long process to officially acknowledge default. Even so, market nervousness could increase substantially. **The hard deadline thereafter looks to be 20 July, when a €3.5bn bond to the ECB comes due**. Missing a payment to the ECB would end liquidity provision and lead to an immediate collapse of the banking sector. In that case,

introducing a parallel currency looks inevitable and may initiate discussions on a Grexit .

So far, the ECB has refrained from forcing a decision by gradually increasing emergency assistance to Greek banks and maintaining a lenient haircut on local collateral. But this could prove insufficient to shield the banks. Were deposit withdrawals to accelerate before or after 30 June, Cyprus-like capital controls would become likely.

**If no agreement is found before 20 July, the government will come under increasing pressure to go back to voters**. PM Tsipras' line of defence has consistently been that he was merely applying the Syriza platform, but that programme also included staying in the euro area. The initial inconsistency between crossing the 'red lines' and staying in the monetary union may thus imply snap elections or a referendum. In both cases, the current parliamentary majority may not survive the test and a new coalition would have to be formed.

## Good old PBC

Economic performance is not always correlated with market performance. There is no clearer illustration than China today. Just as growth is slowing to its lowest level since 2009, the equity market is posting stellar performances. We attribute this inverse relationship to monetary policy. Yet this negative correlation may change. **We are indeed starting to see signs of stabilisation or improvement on the activity side**. Industrial production, retail sales and net trade all improved in May and the signals from hard data were also confirmed by improving the PMIs (*Exhibit 3*).

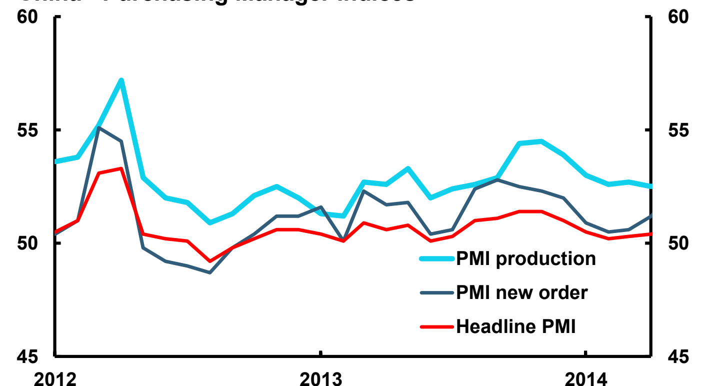
**The recent data are consistent with our view that the Chinese economy will reaccelerate gradually over the course of the year**. But the gradualist approach to reforms adopted by the authorities will depend on a stable growth backdrop.

This framework will continue to apply in the foreseeable future, implying in our view a very strong 'policy put'. As demonstrated over the past two years, policy reacted aggressively every time the economy threatened to fall short of the target. The People's Bank of China cut rates and reserve requirements earlier this year, while some public spending on infrastructure was brought forward.

These policy moves go a long way towards explaining the recent stabilisation in the economy. **Some additional stimulus is likely later this year, because the recovery remains fragile**. But the room for further stimulus is more limited in the second half of the year, especially if economic momentum strengthens. Still, reliance on policy stimulation and public investment highlights the challenge of transitioning from the traditional emerging market growth model to a modern services-oriented model while keeping a tight lid on growth. Like it or not, business cycles are an essential part of free markets.

*Exhibit 3*

**Chinese PMI shows timid signs of life**




*Source: Markit and AXA IM Research*

## Elsewhere

Things look strangely quite in Europe, with little in fundamentals to explain the violent bond rout. The recovery should continue at a stable pace in the euro area and accelerate a bit in the UK. The ECB remains on auto-pilot with regards to the quantitative easing (QE) programme and little is likely to alter the pace of purchases in the near term. In Japan, a stronger-than-expected growth print in the first quarter is unlikely to mark a sustained acceleration of the expansion.

In emerging markets, the prospect of policy tightening in the US is fuelling financial volatility and weighing on already weak economic momentum. Those countries with large current account deficits should come back under the spotlight. Political risk remains an important market driver, most recently in Russia, Turkey and Poland.

## Keep faith in risky assets but beware short-term volatility

The most recent data confirms our view that global growth will recover from a disappointing first quarter. Yet global markets took a breather following the hectic period that lasted from the start of the year all the way through to April. This bull market has since lost some of its steam. The most substantial headwinds are valuation concerns in equity markets, soaring volatility in euro fixed income markets and the upcoming first Fed hike.

The tug of war between an improving cyclical outlook and hence better earnings perspectives on the one hand, and elevated valuations in conjunction with higher US rates and increasing idiosyncratic risks on the other hand, suggests **a neutral recommendation across the major asset classes in the short run.**

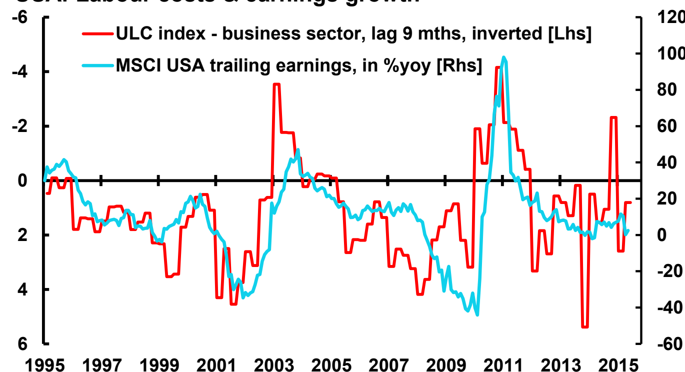
Nonetheless **we remain of the view that the equity bull market has another leg to it. As regards fixed income we think that the yield adjustment is still in its early stages**.

**We thus confirm our longer-term conviction of being long risky assets, to the detriment of sovereign debt.**

The main rationale for sticking to our long-risk view is that growth remains benign and, even more importantly, the lack of any substantial inflation pressure, which would spark the perception that central banks are behind the curve. Besides, our long-held view that cost control is the mantra of corporate captains remains intact. We therefore see hardly any wage pressure in the pipeline (*Exhibit 4*).

*Exhibit 4*

**Tame unit labour costs support profit margins**




*Source: Datastream and AXA IM Research*

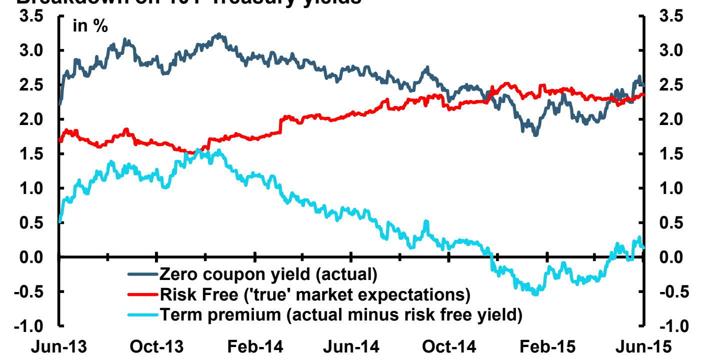
As regards **fixed income** we think that the broad-based rise in yields most likely heralds the beginning of a kind of normalisation. To better understand the various drivers we use a statistical tool and decompose yields and yield movements into the risk-free rate (investors' expectations about future policy rates, i.e. a geometric average of expected risk free rates over next 10 years) and a risk premium associated with the term structure, which compensates the investor for holding a risky asset (the term premium, i.e. the part of the 10-year yield which remains unexplained).

The change in yields was hardly caused by a sharp increase in the risk-free component, which includes changes in the economic conditions as well as forward interest rate policies. **More than 80% of the rise in yields is due to a rise in the term premium rather than to market participants' changing assessment of monetary policy** and hence economic conditions (*Exhibit 5*).

The re-pricing of Bunds has been violent and volatility has hit the stratospheric level of 300%, usually reached during systemic crises. Numerous explanations made the headlines. The most relevant ones were quoted by ECB President Mario Draghi himself: rising inflation expectations, an improving growth outlook as well as technical factors such as crowded positioning, supply/demand mismatches and poor market liquidity. The key takeaway of the ECB's press conference was that investors *"… should get used to periods of higher volatility*".

*Exhibit 5*

**Term premium pushes yields higher**




*Source: Bloomberg and AXA IM Research*

Furthermore, a principal component analysis suggests that **90% of the variance of yields is explained by one common factor.** In other words, fixed income markets behave as if there was only one market and conditions were similar on both sides of the Atlantic.

Yet the contrary seems more realistic. **We think it is most likely that such a tight correlation of global bond market moves will prove temporary and most likely decrease going forward.** Indeed the split between euro and US monetary policy could not be greater, at least over the next six to twelve months. We think it would be unwise to bet against the ECB, which, through QE, is trying to keep the term premium low, if not negative. Besides, net supply will be particularly favourable for the periphery over the coming months, while core bonds might hedge fixed income portfolios against any major accident in Greece. Our take on the most recent FOMC meeting is that lift-off will take place later this and continue gradually next year.

Hence **we confirm our relative call: long euro sovereign yields versus short US Treasuries, which also implies a neutral stance on bond markets**.

As regards **inflation break-evens we are keeping our long call recommendation with a preference for the US**, which has cheapened, in particular against euro break-evens. Furthermore genuine inflation pressures remain subdued in the euro area.

**Credit remained resilient in May**, despite having suffered. Yet the tussle between long duration risk and high spread risk will most likely prevail given our expectation that global rates will continue to rise. What is notable though is that with the exception of euro Investment Grade (IG) the drawdown in total returns since Bund yields started to increase in late April has not been as severe as the May/June 2013 taper tantrum was.

A key negative, however, is that the ongoing rise in rates has pushed IG total returns into negative territory. This, in turn, may raise the risk of retail fund outflows in the coming months. Such outflows, combined with heavy supply in primary markets, could weigh adversely on credit spreads

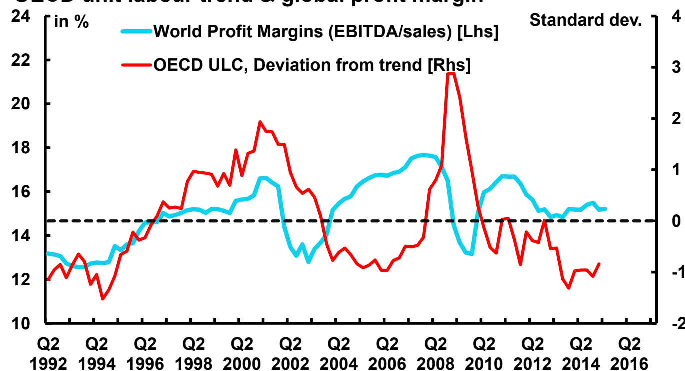
because investors would be compelled to adopt a more defensive stance. Certainly, the second Bund tremor in early June could make credit investors weary of longer duration credit exposures. On that basis, we expect High Yield credit to outperform IG credit through the summer.

## Enforce downside protection for euro area equities due to idiosyncratic risks

**We confirm our prudent view as regards Wall Street**. The main reasons are i) rising labour costs, which should start weighing on profit margins (*Exhibit 6)*, ii) a stronger dollar, which has become a headwind and iii) our expectations that the Fed will lift off later this year .

*Exhibit 6*

**USA: rising labour costs pose a risk to corporate earnings**




*Source: Datastream and AXA IM Research*

**Euro-area equities have been consolidating despite** improving macroeconomic readings and ample liquidity. Yet valuations are still expensive and have discounted the lion's share of this year's earnings recovery (5 – 10%). **We see two risk factors weighing on the market in the near term: interest rate volatility and the Greek drama.** At this stage, there is a distinct possibility that negotiations will fail, causing Greece to default on its payments to the IMF (30 June) and the second bailout programme to be curtailed, thus triggering a chain reaction in financial markets. **Hence our suggestion to add downside protection.**

**Japan remains our strong conviction call in the short term.** The main reasons are the uptick in economic momentum and expectations of a further monetary stimulus.

**We remain prudent as regards non-Asian emerging markets.** Valuation is certainly appealing. Yet the upcoming policy tightening in the US remains a major obstacle for emerging markets in general. Valuation, though cheap, is not enough to overcome this hurdle. Central banks in Asia (e.g. India, Korea, New Zealand) continued to easy policy. We thus confirm our preference for this region. **A word of caution on China**, however. After a stellar performance mainland Chinese stocks are outright expensive with valuations in excess of 20x (Shenzhen) and the ChiNext, which trades well above 100x multiples.

**Risks:**

- **Greece – negotiations take a turn for the worse, capital controls follow.**
- **Global terrorism, including global cyber-attacks; instability** in the **Middle East.**
- **Deflationary forces prevailing in the euro area** and, worse still, spilling over into other regions.
- Popular backlash against economic policies, leading to **instability in Europe :**
    - **sparked by votes for independence**;
    - **fiscal divergence** within the euro area.
- **Ill-designed exit strategies** by the big central banks.
- A violent market reaction that could have second-round economic implications.

# RECOMMENDED ASSET ALLOCATION

| Global allocation | Short term (3-6M) | Medium term (12-24M) |
|---|---|---|
| Cash | = | − |
| Equities | = | + |
| Government bonds | = | − |
| Credit | = | = |

▲/▼ Changes of the month

## Our convictions

- Economic recovery favours long equities, despite elevated valuations.
- Fixed income more broadly remains a short, mainly driven by US Treasuries.
- Credit still offers value but mind the duration headwinds.

| Equities | Short term (3-6M) | Medium term (12-24M) |
|---|---|---|
| United States | − | = |
| € area | = | + |
| UK | = | − |
| Switzerland | − | = |
| Japan | + | = |
| Latin America | − | − |
| Emerging Europe | − | − |
| Emerging Asia | + | + |

▲/▼ Changes of the month

- Underweight US due to elevated valuation, top line headwinds (strong dollar) and risk of margin compression (top line/wage pressures).
- Positive on Euro area due to and improving growth and ample liquidity but add protection in the short run due to Greece
- Positive Japan as institutional investors keep rebalancing toward equities, appealing valuation and accelerating wage growth
- Cautious in Emerging markets with the exception of Asia (chief beneficiary of cheap oil), as recession, commodities' weakness and currency gyrations may weigh on the rest.

| Government bonds | Short term (3-6M) | Medium term (12-24M) |
|---|---|---|
| United States | − | − |
| € area | + | = |
| € core | + | = |
| € periphery | + | = |
| UK | + | − |
| Japan | = | = |
| Emerging | = | = |
| Swap spreads | = | − |
| Break-even | = | + |
| United States | + | + |
| Europe | = | + |

▲/▼ Changes of the month

- Cautious on US duration risk given evidence of recovery combined with wage growth (employment cost index) as well as the approaching Fed hike
- Duration pressures should eventually subside in the Euro area, given the ECB liquidity/supportive technical
- XXL BoJ QQE will keep JGB yields at very low levels.
- Start building positions in break-evens; first in the US followed by the euro zone.

| Credit | Short term (3-6M) | Medium term (12-24M) |
|---|---|---|
| Corporate credit - US | − | = |
| Corporate credit - € | + | = |
| High Yield - US | + | = |
| High Yield - € | + | = |

▲/▼ Changes of the month

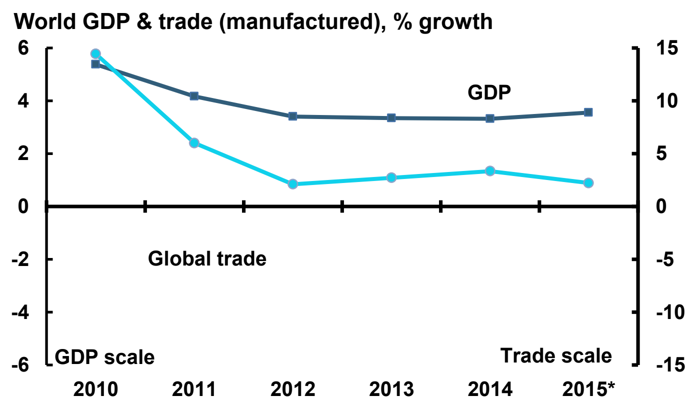
- Credit duration to continue underperforming spread/HY, while sovereign yields will remain volatile.
- Favor short HY, especially in the US, that is less exposed to € sovereign interest rate volatility.

## FORECAST SUMMARY

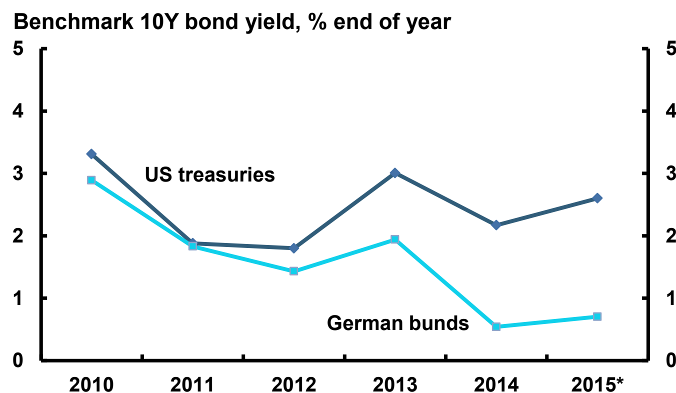
| 19 June 2015 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015* | 2016* | 2017* |
|---|---|---|---|---|---|---|---|---|
| **Growth** | | | | | | | | |
| World GDP RIS (PPP) | 5.4 | 4.2 | 3.4 | 3.3 | 3.3 | 3.6 | 3.6 | 3.4 |
| World GDP RIS (market FX rate) | 4.1 | 3.0 | 2.4 | 2.9 | 2.9 | 3.2 | 3.2 | 3.1 |
| USA | 2.5 | 1.6 | 2.3 | 1.8 | 2.4 | 2.7 | 2.9 | 2.5 |
| Euro area | 2.0 | 1.7 | -0.8 | -0.4 | 1.1 | 1.5 | 1.5 | 1.5 |
| UK | 1.9 | 1.6 | 0.7 | 1.4 | 2.8 | 2.6 | 2.7 | 2.6 |
| Japan | 4.7 | -0.4 | 1.7 | 1.8 | 0.5 | 1.4 | 1.3 | 1.3 |
| China | 10.4 | 9.3 | 7.8 | 7.8 | 7.2 | 6.8 | 6.9 | 6.7 |
| Rest of Asia | 8.3 | 5.4 | 5.3 | 6.0 | 5.0 | 5.6 | 5.2 | 5.1 |
| RoW | 5.3 | 4.7 | 3.5 | 3.2 | 3.0 | 3.2 | 3.2 | 3.2 |
| **Global trade** | | | | | | | | |
| Manufactures goods | 14.4 | 6.0 | 2.1 | 2.7 | 3.3 | 2.2 | 3.9 | 3.8 |
| **Inflation** | | | | | | | | |
| US | 1.6 | 3.1 | 2.1 | 1.5 | 1.7 | -0.2 | 1.4 | 2.0 |
| Euro area | 1.6 | 2.7 | 2.5 | 1.4 | 0.4 | -0.1 | 1.2 | 1.2 |
| UK | 3.3 | 4.5 | 2.8 | 2.6 | 1.5 | 0.2 | 1.5 | 1.6 |
| Japan | -0.7 | -0.4 | -0.5 | 0.0 | 2.7 | 0.5 | 1.5 | 1.5 |
| **Crude oil (Brent), US$/bbl** | 79.9 | 111.6 | 112.0 | 108.9 | 99.2 | 63 | 70.0 | 74.2 |
| **Interest rates, FX (end of period)** | | | | | | | | |
| **US** | | | | | | | | |
| Fed funds (actual / target) | 0.20 | 0.15 | 0.17 | 0.09 | 0.06 | 0.38 | 1.13 | 2.13 |
| 10Y Treasuries yield | 3.31 | 1.88 | 1.80 | 3.01 | 2.17 | 2.60 | 2.98 | 3.54 |
| **Euro area** | | | | | | | | |
| EONIA | 1.00 | 0.63 | 0.13 | 0.17 | -0.05 | -0.10 | -0.1 | 0.0 |
| 10Y Bund yield | 2.89 | 1.83 | 1.43 | 1.94 | 0.54 | 0.70 | 1.10 | 1.87 |
| €1 = …US$ | 1.34 | 1.33 | 1.33 | 1.38 | 1.21 | 1.05 | 0.95 | 1.02 |
| **Japan** | | | | | | | | |
| Overnight call rate | 0.00 | 0.10 | 0.09 | 0.10 | 0.05 | 0.05 | 0.05 | 0.05 |
| 10Y JGB | 1.12 | 0.99 | 0.79 | 0.74 | 0.33 | 0.69 | 0.91 | 1.14 |
| US$1 = … JPY | 85 | 78 | 76 | 105 | 120 | 125 | 130 | 125 |
| €1= … JPY | 114 | 104 | 115 | 145 | 145 | 131 | 124 | 127 |
| **UK** | | | | | | | | |
| BoE base rate | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 1.0 | 2.5 |
| 10Y gilt | 3.51 | 1.98 | 1.96 | 3.03 | 1.76 | 2.3 | 2.7 | 3.4 |
| €1= … GBP | 0.85 | 0.86 | 0.81 | 0.83 | 0.78 | 0.70 | 0.68 | 0.70 |
| **Switzerland** | | | | | | | | |
| O/N | 0.1 | 0.1 | -0.2 | -0.1 | -0.2 | -0.8 | -0.8 | -0.8 |
| 10Y | 1.76 | 0.74 | 0.45 | 1.09 | 0.37 | 0.4 | 0.7 | 1.1 |
| €1= ... CHF | 1.25 | 1.21 | 1.21 | 1.23 | 1.20 | 1.05 | 1.05 | 1.04 |

*Sources: IMF, Datastream, AXA IM Research* **AXA IM forecasts*

**World GDP & trade (manufactured), % growth**




**Benchmark 10Y bond yield, % end of year**

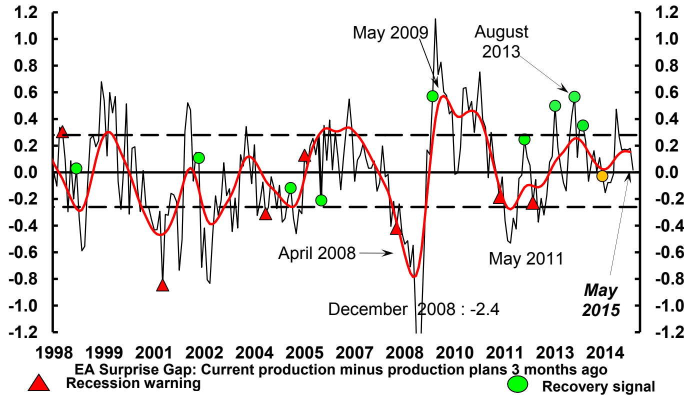



*These projections are not necessarily a reliable indicator of future results.*

# CHARTBOOK: SURPRISE GAPS AND RAB

*Exhibit 7*

**Euro zone surprise gap: back in the neutral zone**



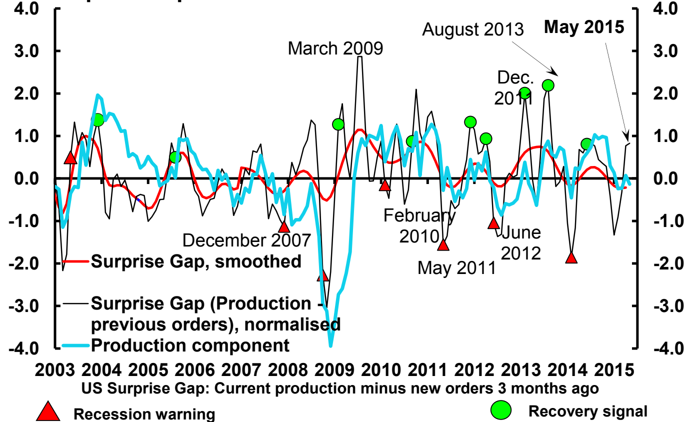

*Source: Ifo, Insee, Istat, INE, CBS, NBB, AXA IM Research*

## Euro area surprise gap

In the euro area, the Surprise Gap drifted further, falling back to the neutral line. This suggests neither acceleration nor deceleration, consistent with our view on growth in the remaining of this year. Since euro-area manufacturing growth was strong in the first quarter (3.7% quarterly annualised), this is rather good news for the short term, though. The risk to manufacturing activity is a large reversal in the euro depreciation, that could to some extent disappoint sales prospects.

*Exhibit 8*

**US surprise gap: rebound confirmed**



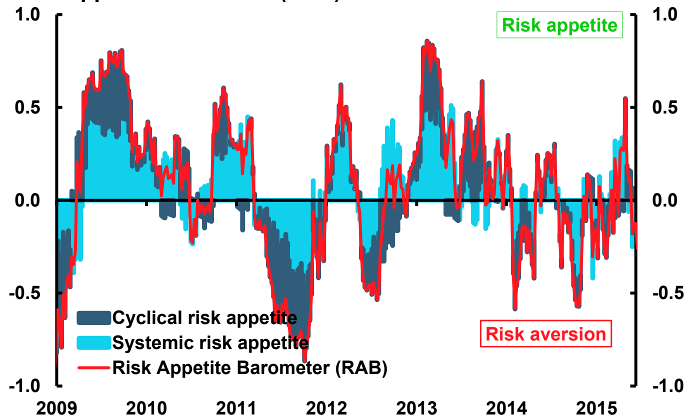

*Source: ISM, AXA IM Research*

## US Surprise Gap

Although the production component of the May ISM survey slid slightly, the headline index advanced further to 52.8 due to the new orders component. As a consequence, the Surprise Gap remained elevated, at +0.8 standard deviations. Overall, industrial activity is expected to accelerate. The more good news we get from the US, the more US Treasury yields and the US$ should rise.

*Exhibit 9*

**RAB: back into 'risk-aversion' territory**




*Source: Markit, Bloomberg, Datastream, AXA IM Research*

## Risk Appetite Barometer (RAB)

The growing uncertainty, which dominates global markets pushed the Risk Appetite Barometer back into 'risk-aversion' territory.

More interestingly is, however the fact that the systemic component dropped significantly after having moved in tandem with the cyclical part. The pair-wise correlation as well as the negative momentum are the main drivers for the sharp drop and confirm our prudent view as regards equities globally.

## MARKET PERFORMANCE

| 19 June 2015 | | | Perf (%) | | | |
|---|---|---|---|---|---|---|
| | | | -1M | -3M | -12M | YTD |
| **Fixed Income** | | | | | | |
| **Government Bonds** | | | | | | |
| USA | *(JPM GBI US All Mats Index)* | | -0.5 | -1.9 | 3.0 | -0.3 |
| Europe | *(JPM EMU GBI ALL Mats Index)* | | -1.8 | -5.2 | 5.3 | -1.3 |
| United Kingdom | *(BofA ML UK Gilts All Mats)* | | -1.0 | -3.1 | 8.9 | -1.6 |
| Japan | *(BofA ML JP All Mats)* | | -0.3 | -0.4 | 2.3 | -0.8 |
| **Index-Linked Bonds** | | | | | | |
| USA | *(Barclays Glb Infl US)* | | 0.0 | 0.0 | 0.0 | 0.0 |
| Europe | *(Barclays Euro IL BD All Mats)* | | -0.4 | -1.8 | 0.2 | 0.7 |
| United Kingdom | *(Barclays Glb Inlf UK)* | | 0.0 | 0.0 | 0.0 | 0.0 |
| **Investment Grade Credit** | | | | | | |
| USA | *(BofA ML Corp Master)* | | -1.2 | -2.5 | 1.7 | -0.6 |
| Europe | *(BofA ML EMU Corp)* | | -1.6 | -2.8 | 2.1 | -1.4 |
| **High Yield** | | | | | | |
| USA | *(BofA ML US HY Master II)* | | -0.9 | 1.3 | 0.2 | 3.0 |
| Europe | *(BofA ML Euro High Yield)* | | -2.0 | -1.1 | 1.4 | 1.5 |
| **Emerging Bonds** | | | | | | |
| in local currency | *(perf in $) (JPM GBI-EM Global Composite)* | | -2.8 | 3.2 | -14.2 | -4.7 |
| in hard currency | *(JPM EMBI Global Composite)* | | -2.0 | 1.9 | -0.8 | 1.7 |
| **Equities (MSCI, total return indices)** | | | | | | |
| **MSCI World** | | | -1.2 | 0.4 | 11.1 | 6.5 |
| United States | | | -0.0 | 1.7 | 10.9 | 4.5 |
| Europe | | | -3.5 | -2.7 | 7.7 | 9.2 |
| Europe Small caps | | | -3.2 | 1.7 | 13.9 | 14.8 |
| EMU | | | -3.5 | -3.2 | 10.9 | 14.1 |
| France | | | -3.5 | -2.3 | 10.1 | 15.2 |
| Germany | | | -4.4 | -7.0 | 12.1 | 13.1 |
| Italy | | | -2.9 | 1.8 | 2.2 | 19.2 |
| Spain | | | -3.8 | 0.2 | 1.4 | 7.0 |
| United Kingdom | | | -3.4 | -2.4 | 2.1 | 4.0 |
| Switzerland | | | -3.6 | -2.7 | 4.9 | 1.4 |
| Japan | | | -1.0 | 2.5 | 31.5 | 15.2 |
| Emerging Markets | | | -4.4 | 1.2 | 6.1 | 5.3 |
| Asia | | | -4.6 | 0.5 | 9.2 | 5.4 |
| Eastern Europe | | | -4.9 | 3.4 | -1.2 | 7.3 |
| Latin America | | | -2.6 | 3.8 | -0.6 | 5.7 |
| **Commodities (S&P GSCI, total return)** | | | | | | |
| S&P GSCI Light Energy Total Return | | | -3.9 | 3.1 | -28.8 | -5.6 |
| Energy | *latest reading (Brent, USD/b)* | 62.9 | -2.0 | 14.1 | -45.2 | 4.7 |
| Industrial Metal | *latest reading (Copper, USD/mt)* | 5755.0 | -8.8 | -1.0 | -14.5 | -9.2 |
| Precious Metals | *latest reading (Gold, USD/ounce)* | 1204.4 | -2.9 | 4.2 | -7.6 | 1.5 |
| Agricultural products | | | -4.3 | -4.3 | -26.1 | -13.1 |
| **Currencies** | | | | | | |
| €1 = … USD | *latest reading* | 1.140 | 0.3 | 7.1 | -16.0 | -5.8 |
| $1 = … YEN | *latest reading* | 122.985 | 2.6 | 1.7 | 20.4 | 2.6 |
| £1 = … USD | *latest reading* | 1.588 | 1.2 | 8.1 | -6.2 | 1.8 |
| $1 = … YUAN | *latest reading* | 6.208 | 0.1 | -0.4 | -0.4 | 0.1 |

*Source: Datastream, AXA IM, In local currency*

*Past performance is not indicative of nor does it constitute a representation or guarantee as to future result*

## EQUITY MARKET VALUATION

| 19 June 2015 | | Index | PE | | EPS growth (%) | | PEG ratio | |
|---|---|---|---|---|---|---|---|---|
| | | | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 |
| **United States** | *S&P 500* | 2121.2 | 17.9 | 15.9 | 1.5 | 12.1 | n.s. | 1.3 |
| **Canada** | *TSE300* | 14770.6 | 18.5 | 15.3 | -10.5 | 20.9 | n.s. | 0.7 |
| **Japan** | *Topix* | 1616.7 | 15.7 | 14.4 | 18.1 | 9.3 | 0.9 | 1.6 |
| **Euro area** | *DJ EUROSTOXX 50* | 3450.5 | 14.8 | 13.3 | 6.8 | 11.3 | 2.2 | 1.2 |
| **Germany** | *DAX* | 11100.3 | 13.7 | 12.5 | 12.9 | 10.1 | 1.1 | 1.2 |
| **France** | *CAC40* | 4803.5 | 15.6 | 13.8 | 3.7 | 13.0 | n.s. | 1.1 |
| **The United Kingdom** | *FTSE 100* | 6707.9 | 16.1 | 14.4 | -10.2 | 12.2 | n.s. | 1.2 |
| **Italy** | *FTSE MIB* | 22460.0 | 16.9 | 14.5 | 29.1 | 17.0 | 0.6 | 0.8 |
| **Spain** | *Madrid General* | 1102.8 | 16.9 | 14.2 | 22.1 | 19.1 | 0.8 | 0.7 |
| **The Netherlands** | *AEX* | 473.0 | 17.2 | 14.5 | -6.3 | 18.7 | n.s. | 0.8 |
| **Belgium** | *Bel 20* | 3584.1 | 17.8 | 16.5 | 10.3 | 7.8 | 1.7 | 2.1 |
| **Switzerland** | *SMI* | 8880.3 | 17.5 | 16.2 | -3.3 | 8.0 | n.s. | 2.0 |
| **Sweden** | *OMX* | 1562.4 | 16.7 | 15.1 | 12.0 | 10.6 | 1.4 | 1.4 |

*Source: Datastream, IBES, Bloomberg* *n.s. = not significant / n.a. = not available*

*Past performance is not indicative of nor does it constitute a representation or guarantee as to future results.*

## ABBREVIATION GLOSSARY

1Q11 first quarter of 2011
1H11 first half of 2011
[Lhs] left hand scale (graph)
[Rhs] right hand scale (graph)
a.r. annualised rate
ABS Asset-backed security
AQR Asset Quality Review
BoE Bank of England
BoJ Bank of Japan
bp(s) basis point(s)
CBI Confederation of British Industry
CPI Consumer price index
EBA European Banking Authority
EBITDA earnings before interest, taxes, depreciation, and amortization
ECB European Central Bank
EM Emerging market
EMU European Monetary Union
EPFR Emerging Portfolio Fund Research, Inc.
EPS Earnings per share
ESM European Stability Mechanism
ETF Exchange-Traded fund
€ Euro
FFR Fed fund rate
FOMC Federal Open Market Committee
GDP Gross Domestic Product
HKD Hong Kong dollar
HY High Yield
IDR Indonesian rupiah
IG Investment Grade
IMF International Monetary Fund
INR Indian rupee
ISM Institute of Supply Management
JGB Japanese Government Bonds
£ Pound Sterling
LatAm Latin America
LBO Leveraged buy-out
LTRO Long Term Refinancing Operation
MBS Mortgage-backed security
mom month on month
n.s/a non-seasonally adjusted
OECD Organisation for Economic Cooperation and Development
OMT Outright Monetary Transactions
P/E price/earnings
PBoC People Bank of China
PCE personal consumption expenses
PEG price/earnings to growth
PMI Purchasing Manager Index
pp percentage point
PPI Producer price index
QE Quantitative easing
QQE Quantitative and qualitative easing
qoq quarter on quarter
s/a seasonally adjusted
SMEs Small and medium size enterprises
SMP Securities Markets Programme
SWF Sovereign Wealth fund
REIT Real Estate investment trust
TLTRO Targeted Longer Term Refinancing Operation
US$ US dollar
¥ Yen
yoy year on year
ytd year to date
ZAR South African rand

**AXA IM research is available on line:** http://www.axa-im.com/en/research

**As well as on our free app**

**Available on :**

## DISCLAIMER

This document is used for informational purposes only and does not constitute, on AXA Investment Managers part, an offer to buy or sell, solicitation or investment advice. It has been established on the basis of data, projections, forecasts, anticipations and hypothesis which are subjective. Its analysis and conclusions are the expression of an opinion, based on available data at a specific date.
Due to the subjective and indicative aspect of these analyses, we draw your attention to the fact that the effective evolution of the economic variables and values of the financial markets could be significantly different from the indications (projections, forecast, anticipations and hypothesis) which are communicated in this document.
Furthermore, due to simplification, the information given in this document can only be viewed as subjective. This document may be modified without notice and AXA Investment Managers may, but shall not be obligated, update or otherwise revise this document.
All information in this document is established on data given made public by official providers of economic and market statistics. AXA Investment Managers disclaims any and all liability relating to a decision based on or for reliance on this document. All exhibits included in this document, unless stated otherwise, are as of the publication date of this document.
Furthermore, due to the subjective nature of these analysis and opinions, these data, projections, forecasts, anticipations, hypothesis and/or opinions are not necessary used or followed by AXA IM' management teams or its affiliates who may act based on their own opinions and as independent departments within the Company.
By accepting this information, the recipients of this document agrees that it will use the information only to evaluate its potential interest in the strategies described herein and for no other purpose and will not divulge any such information to any other party. Any reproduction of this information, in whole or in part, is unless otherwise authorised by AXA IM prohibited.
Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent.
Editor : AXA INVESTMENT MANAGERS, a company incorporated under the laws of France, having its registered office located at Cœur Défense Tour B La Défense 4, 100, Esplanade du Général de Gaulle 92400 Courbevoie, registered with the Nanterre Trade and Companies Register under number 393 051 826.
© AXA Investment Managers 2015