AXA WF Defensive Optimal Income A EUR

Fund Managers's Comment

Economic and Markets overview

January was mixed in terms of economic performance (strong in the US, lacklustre in the euro zone) with central banks meetings confirming that rate cuts are highly likely in 2024 but not as soon as markets had been anticipating previously.

In the United States, the economic "miracle" continues, with GDP growth in the 4th quarter coming in at +3.3% annualised, following the exceedingly strong +4.9% in the 3rd quarter, with the resilience of US households constituting on of the biggest drivers. Households are benefiting from a very buoyant labour market, wage growth that more than offset inflation, a strong dollar and deflation in China. As expected, Federal Reserve (Fed) made no changes to its monetary policy, but Chair Powell did signal that, given the resilience of the macroeconomic data, a rate cut as early as March would be complicated. However, Powell confirmed that rate cuts were likely to come in 2024 whilst discussions on a potential reduction in the pace of QT would take place in the coming months.

The eurozone appears to have narrowly escaped a technical recession (two negative quarters in a row) according to the preliminary estimate of 4th GDP at 0% quarter-on-quarter (q/q)). Nevertheless, this aggregate figure masks major disparities between countries. On the one hand, Spain continues to outperform (+0.6% q/q) while Germany slumped (-0.3%). The initial January surveys are not particularly optimistic as the Ifo in Germany fell back as did the region’s flash Services PMIs and the manufacturing sector, although improving, remains anchored in contraction territory. The ECB left its key rates unchanged and, whilst clearly opening the door to rate cuts in 2024, reiterated that these decisions will remain closely linked to the inflation and wage data. Inflation continued to decelerate, coming in at 2.8% year-on-year (y/y) in January. The gradual deceleration in prices is rather reassuring, except perhaps for Services inflation which stabilised at 4% y/y for the third month in a row.

In the UK, economic activity is stabilising and even attempting to rebound, as shown by the flash PMIs for January. The manufacturing sector remains in contraction territory, albeit improving, while the services sector expanded for the 3rd month in a row. The Bank of England also kept rates unchanged but maintained a cautious stance on possible rate cuts. This stance is understandable given that inflation data stopped declining in December, but above all the country is facing some of the highest wage pressures in the developed world.

In China, 4th quarter GDP growth came in at 1% q/q, bringing growth in 2023 to 5.2%. More recent data hardly point to an immediate rebound. The situation in the manufacturing sector remains weak (NBS Manufacturing PMI at 49.2; Caixin Manufacturing PMI stable at 50.8) although activity in the services sector is keeping the economy afloat (Caixin PMI at 52.7). The Central Bank lowered the reserve requirement rate for banks to 10% in the hope of stimulating the supply of credit. Demand obviously remains very weak which is well illustrated by sluggish prices in December (+0.1% y/y) and remains in deflation based on the annual variation (-0.3% y/y).

Japan is in the process of recovering from its slump in the 3rd quarter. We will have to wait until mid-February for the initial 4th quarter GDP estimate but the PMI surveys ended the year on a positive note, particularly those in the services sector (at 52.7 up +1.2 p). The manufacturing PMI was stable at 48, still in contraction territory. Inflation in December fell only slightly, but the January Tokyo leading indicator of inflation shows a significant drop to around 1.6% y/y. The Bank of Japan left its monetary policy unchanged albeit opening the door to an exit from its negative interest rate policy if its macroeconomic scenario unfolds as expected, particularly on the wages front.

Most equity markets continued to climb in January despite markets slashing ambitious bets on interest rate cuts by the US Federal Reserve and other central banks amidst heightened Middle East geopolitical tensions, disappointing tech stock earnings and pessimism around the Chinese economy. US equities hit a record high thanks to strong economic growth with the S&P 500 gaining +1.6% despite trading lower at month-end following disappointing

Benchmark

The fund doesn't have a benchmark.

The Fund is actively managed without reference to any benchmark.

Fund Profile

ESG Rating	

% of AUM covered by ESG absolute rating: Portfolio = 95.3% (not meaningful for coverage below 50%)

For more information about the methodology, please read the section 'ESG Metrics Definition' below

Fund Manager

Qian LIU

Laurent CLAVEL - Co-Manager

Source(s): AXA Investment Managers as at 29/02/2024

Fund Managers's Comment (Continued)

results in the Tech sector and Fed chair Powell dashing hopes of a rate cut in March. European shares rose to a two-year high with the Euro Stoxx up +2.8% albeit with mixed performances across the regional bourses with a flat performance (-0.2%) for the Spanish IBEX and meagre gains (+0.9%) for the German Dax. On the other hand, UK stocks faltered, with the FTSE 100 down -1.3%, on mixed economic data and fears that interest rates will have to stay higher for longer as inflation rose unexpectedly. In Asia, stock markets posted contrasting performances with Japanese TOPIX jumping +7.8% higher whereas Chinese stocks tumbled to a five-year low. The Hang Seng index in Hong Kong declined -6.3% whilst the Shanghai index dropped -9.2% amidst ongoing disappointing economic data and the decision to liquidate the beleaguered property group Evergrande. Emerging Markets were also impacted as well as by concerns over domestic monetary policies and the trajectory of interest rates in the US moving -4.6% lower in US Dollars albeit dropping a lesser -3% in Euros.
Sovereign bond markets reacted negatively as investors reassessed the Fed's pace of interest rate cuts. The 10-year US treasury bond yield rose merely 3bps to 3.91% as the recent jobs report showed continued strength in the economy. In the euro zone, yields rose across geographies with the 10-year German bund yield up +14bps to 2.17% whilst in the periphery, the 10-year Spanish Bonos and Italian BTP yields increased +11 bps to 3.09% and +3 bps to 3.72%, respectively. In Japan, the yield on 10-year JGBs also climbed +12bps to 0.73% as the BoJ indicated it might shift its ultra-loose monetary policy. Credit markets on both sides of the Atlantic suffered from higher government bond yields which was partially compensated by marginally tighter spreads for Investment Grade and even more so for High Yield which benefited from a bigger narrowing of spreads.

On the currency front, the dollar has enjoyed a relatively strong start to 2024 with the dollar index up +1.9%. The Euro thus lost -1.9%, the Swiss Franc depreciated -2.3% and the Japanese Yen gave back most of its recent gains dropping -3.8% whereas the British pound was flat (-0.4%) against the dollar.

In commodity markets, higher energy prices were offset by lower industrial metal and gold prices resulting in a flat performance (-0.2%) for the Bloomberg Commodities excluding Agriculture and Livestock index. Oil prices bounced back in January (Brent +6.6%, WTI +5.6%) on concerns of a wider Middle Eastern conflict. Most industrial metals declined on weaker Chinese data. Gold dropped -0.8% as investors dialled back their expectations of a US rate cuts earlier in the year.

Our asset allocation & Portfolio positioning

The macroeconomic news flow confirms the resilience of the US economy at the start of this new year. The Atlanta Fed's growth tracker points to real GDP still increasing more than 2% annually. Job creations remain relatively strong, with more than 300,000 jobs per month, enough to maintain the US unemployment rate at its current cyclical low. The latest US inflation reading surprised marginally on the upside, just shy of 4% year-on-year. All these elements do not challenge our 2024 outlook. The destination remains one of decent economic growth and further disinflation, back into the Fed's "comfort zone". These latest figures however do question the journey to this destination and, most importantly, its speed.

This is most obvious in interest rates. As we had noticed at the end of last year, market anticipation of monetary policy had moved too far towards an imminent, sizeable easing. For example, the market-implied probability of an interest rate cut in March, above 80%, is making the Fed's decision sound like a near certainty. We believe this degree of confidence is exaggerated and reflects an extreme positioning, from discretionary investors and systematic strategies alike. The start of the year has already seen some reversal, with slightly higher yields. We expect further technical consolidation in bonds prices and investors' positioning. We therefore maintain our underweight tactical allocation to bonds.

Source(s): AXA Investment Managers as at 29/02/2024

Fund Managers's Comment (Continued)

Meanwhile, equity markets have also slowed down, especially for the riskier parts of the market such as small capitalisations or emerging markets. The S&P500 has posted new gains, slowly creeping to a new all-time high, on the back of solid earnings. This slowdown is welcome and eases overbought levels. Our aggregate risk indicator suggests a neutral exposure to equities, which we therefore maintain. Whilst we remain positive over the medium term, we are indeed mindful of the impact of rate consolidation in this regime of equity-rate correlation (we are still on the right side of the chart below with US core inflation at +3.9%). Besides, our fundamental equity colleagues also advise patience whilst the ongoing 2023 Q4 earnings season could reflect some weakness for some European corporates. We therefore favour a defensive allocation within equities, for example favouring large corporates in the US. Our factor work suggests that the global economy is still in a modest expansionary mode which favors a quality growth bias and sectors such as communication services, energy, semi-conductors and healthcare.

Although China's sharp economic slowdown reduces global demand, commodity prices have been modestly rising lately. In our view, this reflects partly technical factors, as oil prices had been reaching the lower bound of their trading range and investors' positioning was thin. It only relates to heightening geopolitical stress. We expect both sources of upside for commodity prices to remain for a while. For example, systematic strategies are on aggregate max short on oil. Besides, we like the geopolitical hedge this asset class offers to our portfolios.

To conclude, markets have been broadly moving in the direction and along the highly correlated pattern that we expected a month ago: bond yields up, higher beta equities down. We expect the yields volatility to continue short term until it settles down more comfortable within the central banks' acceptable range.

In January, our portfolio delivered a robust performance, yielding a 0.51% positive return prior to fees. As we methodically execute our investment strategy, reallocating capital from maturing short-term Italian government bonds, now approximately 40% of the portfolio has been invested in a balanced mix of Equity and Fixed Income assets. We plan to strategically invest the remaining funds throughout the rest of the year.

This month, the contribution to performance was broad-based. A significant driver was our investment in Euro credit, which alone added 18 bps to our monthly returns. Additionally, investments in US and European Equities also made substantial contributions, delivering 12 bps and 10 bps respectively. The investments in short-term Italian government bonds have also been fruitful. Despite an uptick in long-term yields during the period, our holdings in Italian government bonds (BTPs) have continued to provide positive returns. The shorter maturities of our BTP holdings and their inherently high yield have bolstered the portfolio's profitability, offsetting the minor increase in interest rates.

Looking ahead, we will persist with our investment strategy, allocating funds in an orderly fashion as they become available. The sustained economic growth and a favorable inflation outlook advocates for the case of staying invested throughout the year. Nevertheless, we remain vigilant regarding inflation dynamics, particularly the potential for overheating in the US economy.

For January, the fund reported a 0.5% gain before fees, with contributions primarily from Equity and Credit investments. Our strategic overweight position in the technology sector paid off, enabling us to benefit from the steadily climbing equity market. In terms of duration, we have adopted an underweight stance relative to our long-term strategic asset allocation, exercising caution due to the market's anticipation of rate cuts amid a notably robust economy, especially in the US.

We have shown a preference for the USD over the EUR, underhedging some of our dollar-denominated assets. The divergence in economic performance and the yield

Source(s): AXA Investment Managers as at 29/02/2024

Fund Managers's Comment (Continued)

differential are expected to continue favoring the USD. Looking ahead, we maintain an optimistic stance, keeping our equity allocation at the upper end of our portfolio's maximum weight. Supported by a positive economic outlook and a very favorable earnings season, we believe the equity market has the potential for further gains, ensuring our continued investment in this sector.

Source(s): AXA Investment Managers as at 29/02/2024

Additional Information

Administration: A EUR

Legal form	SICAV
UCITS Compliant	Yes
AIF Compliant	No
Legal country	Luxembourg
1st NAV date	18/01/1999
Fund currency	EUR
Shareclass currency	EUR
Valuation	Daily
Share type	Accumulation / Income
ISIN code C / D	LU0094159042 / LU0094159125
Distribution Type	Gross Income
SEDOL Code C / D	B01Q233 / B01Q244
Transaction costs	0.08%
Ongoing charges	1.29%
Financial management fees	1%
Maximum management fees	1%
Performance fees : none	
Management company	AXA INVESTMENT MANAGERS PARIS S.A.
Delegation of account administration	State Street Bank International GmbH (Luxembourg Branch)
Custodian	State Street Bank International GmbH (Luxembourg Branch)

As disclosed in the most recent Annual Report, the ongoing charges calculation excludes performance fees, but includes management and applied services fees. The effective Applied Service Fee is accrued at each calculation of the Net Asset Value and included in the ongoing charges of each Share Class.
The investment will be reduced by the payment of the above mentioned fees.

Fund Objectives

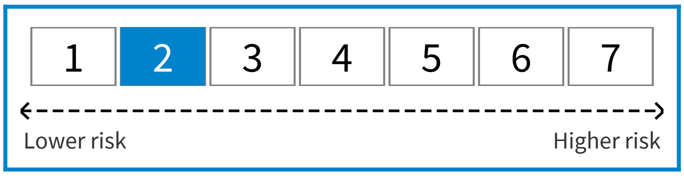
The Sub-Fund seeks to achieve medium term capital growth by investing in a diversified portfolio of broad asset classes, through a defensive approach.

Investment Horizon

The risk and the reward of the product may vary depending on the expected holding period. We recommend holding this product at least for 3 years.

Risk Indicator

The information shown below is from the KID PRIIPS.



The risk indicator assumes you keep the product for 3 years.

The actual risk can vary significantly if you cash in at an early stage and you may get back less.

The summary risk indicator is a guide to the level of risk of this product compared to other products. It shows how likely it is that the product will lose money because of movements in the markets or because we are not able to pay you.

We have classified this product as 2 out of 7 which is the a low risk class. This rates the potential losses from future performance at a low level. The risk category associated to this product was determined based on past observations, it is not guaranteed and can evolve in the future.

Be aware of currency risk. You will receive payments in a different currency, so the final return you will get depend on the exchange rate between the two currencies. This risk is not considered in the indicator shown above.

Other risks not included in the Summary risk indicator can be materially relevant, such as derivatives risk. For further information, please refer to the prospectus.

This product does not include any protection from future market performance so you could lose some or all of your investment.

Subscription Redemption

The subscription, conversion or redemption orders must be received by the Registrar and Transfer Agent on any Valuation Day no later than 3 p.m. Luxembourg time. Orders will be processed at the Net Asset Value applicable to the following Valuation Day. The investor's attention is drawn to the existence of potential additional processing time due to the possible involvement of intermediaries such as Financial Advisers or distributors.The Net Asset Value of this Sub-Fund is calculated on a daily basis.

** 1st NAV date: 18/01/1999*
Fund AXA WF – Balanced Profile became AXA WF Force 5 on the 25/11/2002. The fund preserves the integrality of its previous track record.

Additional Information (Continued)

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Retail Investors

Retail investors should contact their Financial intermediary.

ESG Metrics Definition

Our approach to ESG measurement seeks to combine qualitative and quantitative techniques. The tree rating shown in this report is a simple pictorial representation of the overall ESG rating of the fund's portfolio. A fund which has 1 tree has a poor ESG rating, whereas a fund with 5 trees has a high ESG rating. For more information on our ESG standards, approach and methodology please visit: Putting ESG to work | AXA IM Core (axa-im.com).

ESG indicators are for informational purposes only.

The portfolio has a contractual objective on one or more ESG indicators.

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Additional Information (Continued)

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