Research & Investment Strategy

European insurers in a persistent low-yield environment

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November 2017

AXA INVESTMENT MANAGERS

Summary – Key messages

Insurers' investments diversification is here to stay

Low yields and regulation as drivers of asset allocation

- European insurers have seen their investment environment change in two key dimensions: the low interest rate environment and regulation (Solvency II). Basel III for banks has also had indirect implications
- Two key strategies have been implemented to adapt: geographic diversification (global/US credit) and asset class diversification (real estate, corporate loans, infrastructure, commercial real estate loans)
- These changes in asset allocation are likely to be permanent. Some evolution is possible if interest rates normalise or regulation evolve

Macro sweet spot: buoyant economy, subdued inflation, accommodative policies

- Global GDP should accelerate further in 2018 with peak global growth at 3.8% (after 3.7% in 2017), reflecting a robust US expansion and improvement in several emerging markets
- While the Federal reserve will continue its gradual tightening, global quantitative easing should only peak in 2018, with asset purchases from the BoJ and ECB offsetting the Fed's balance sheet unwinding

Some profit taking, we stay the course

- After a strong run, risky assets experienced a small correction this month that we mostly see as healthy profit taking as year-end approaches
- We keep our core convictions unchanged: overweight non-US equities, European high yield and long the US Dollar

Summary – Key messages

Central scenario

Inflation

Accelerating wages should eventually put upward pressures on core inflation but slowly and unevenly

Monetary policy

After a Dec FFR hike, 3 more in 2018. ECB's QE down to €30bn/m in 2018. BoE to hike once in H2 2018

Fiscal policy

Minimal fiscal stimulus in the US (+¼pp GDP), neutral policy elsewhere

Growth

Robust momentum in the euro area and the US. Some slowdown in China, the UK and Japan

Our central scenario: Normalisation

Political and policy uncertainty in the US fade. Reflation trades resume. Global growth remains solid and supports earnings. Expected returns are modest everywhere given valuation levels

EM & trade

Buoyant global trade, rising commodity prices and benign financial conditions support the EM outlook

Rates

Core interest rates should remain broadly stable until end-2017 and rise slowly by end-2018 (UST@2.7%, Bund@0.8%)

FX

We see EURUSD stable by year-end but USD has room to strengthen elsewhere (AUD, CHF)

Credit

With supportive monetary policy and moderate but stable growth, credit looks rich but well supported

Equities

Performance should be modest as earnings are strong but valuations above average

Alternative scenarios

False start *(probability 30%)*

What goes differently?

- The US economic cycle is in a later stage than expected: activity slows down and disappoints the Fed with global spillovers
- Inflation fails to recover and remains below target

What it means

- Central banks have to make a pause in their exit strategies
- Secular stagnation fears re-emerge
- Growth/inflation expectations tank

Market implications

- Risk appetite deteriorates moderately
- Rates rally and the search for yield resumes
- Equity and commodity markets soften, credit spreads remain resilient, EURUSD rises beyond 1.25

Rates tantrum *(probability 5%)*

What goes differently?

- Inflation accelerates across the globe triggering aggressive responses from central banks (Fed, BoE, ECB, BoJ)

OR

- A spike in volatility leads to forced deleveraging and a self-fulfilling sell-off (VaR shock similar to Japan in 2003)

What it means

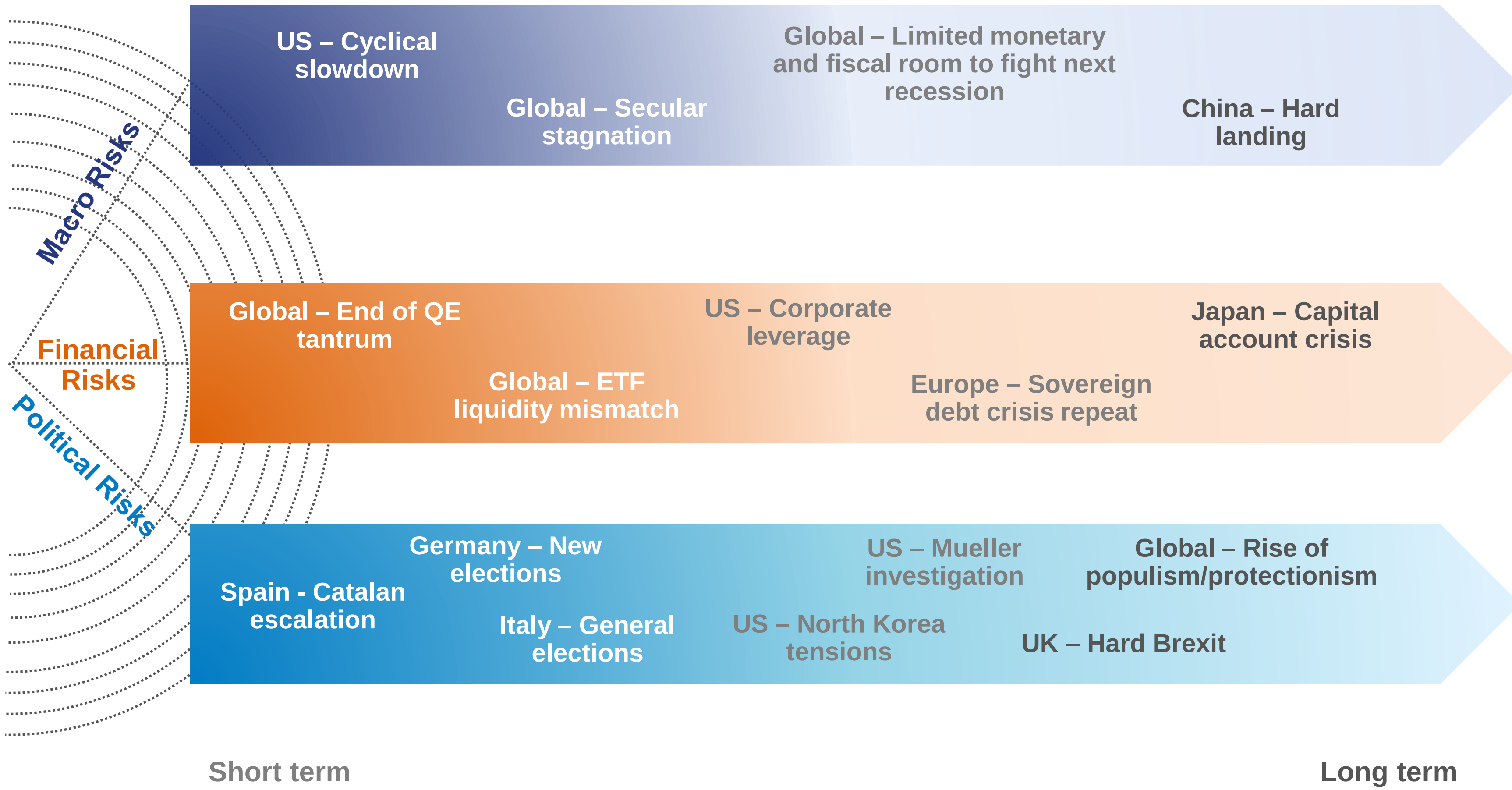
- Government bond yields rise sharply, with central banks unable to contain markets
- Global rates move higher in sympathy

Market implications

- A disorderly sell-off hurts government bonds; credit spreads widen
- The correlation to stocks turns positive as equity valuation declines on higher discount rates
- EM assets suffer with limited differentiation

Summary – Key messages

RIS.k Radar



Multi-Asset Investment views

Overweight Equities, including EM

#1
Solid global growth and resilient profit margins should support earnings growth

#2
US Inflation should accelerate as labour market tightens, comforting the Fed in its hiking mode

Long inflation breakeven

Underweight government bonds

#3
Despite rich valuations, the search for yield environment is far from over and the default outlook remains benign

Overweight Eurozone HY debt

#4
Political and geopolitical may generate uncertainty and volatility

Long volatility

Source: AXA IM

Theme of the Month

Insurance companies are complex animals mainly invested in bonds

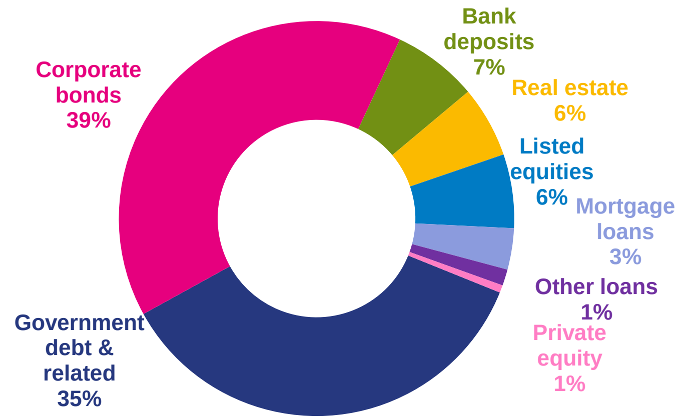
Insurers provide risk protection to policy-holders through the pooling, diversification and management of risk, focusing essentially on life and savings (L&S) and property and casualty (P&C)

They are living in a multi constraint world…

- **Economic constraints** to optimise long-term economic return while managing duration and asset allocation in line with liabilities
- **Accounting constraints** penalising P&L realisation and favouring buy & maintain strategies to ensure recurring earnings
- **Regulatory constraints** to optimise solvency margin

…leading to a balance sheet mainly invested in bonds

European insurers' total general account - end 2015



Insurers invest in long-term assets to match long-term liabilities (L&S) and have to manage their duration gap. They also hold a structural long liquidity position by nature

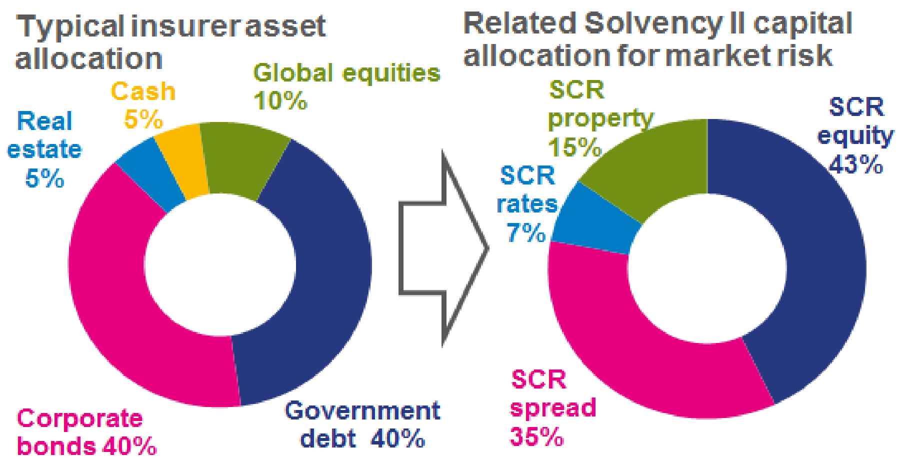
- PC liabilities or annuities are not callable at will and relate to exogenous events
- L&S callable liabilities often include penalties or tax benefit vanishing in case of withdrawal

Source: EY 2017 European insurance outlook, EIOPA 2017

Regulation affects asset allocation

Solvency II impacts all European Insurers since January 2016

Capital charges for a standard insurer under Solvency II



- Equities & Hedge Funds have a bad treatment
- Duration & interest rate risk are expensive
- Credit risk is the less punitive asset class
- Illiquidity is not penalised

Liability valuation methodologies foster credit investments by reducing the impact of credit & sovereign spreads volatility (volatility adjusters)

The ability for more sophisticated insurers to use internal models rather than the standard formula has mitigated the capital charge on more complex but diversifying asset classes (real estate, CLOs, BBB credit, non-rated credit)

On-going Solvency II revisions could also increase insurers' appetite for private debt & infrastructure

Source: AXA IM estimations, Bloomberg, Q4 2015 Solvency II delegated acts. For illustrative purposes only

Basel & accounting regulations also affect insurers' investments

Basel III impacts banks but also insurers indirectly

- Basel III requires banks to strengthen their capital and liquidity positions leading to a review of their business model with less trading activity, more loans to consumers and less short-term funding on the liability side
- This implies a more constrained access to banks' balance sheet and market liquidity for investors using cash & derivatives instruments
- Creation of new types of debt investable and new products related to liquidity and leverage transactions

Uncertain Basel IV regulation could also potentially put pressure on banks to deleverage some assets, creating investment opportunities for insurers

Accounting reforms (IFRS 9 & 17) will increase insurers' net income volatility and will penalise some asset classes

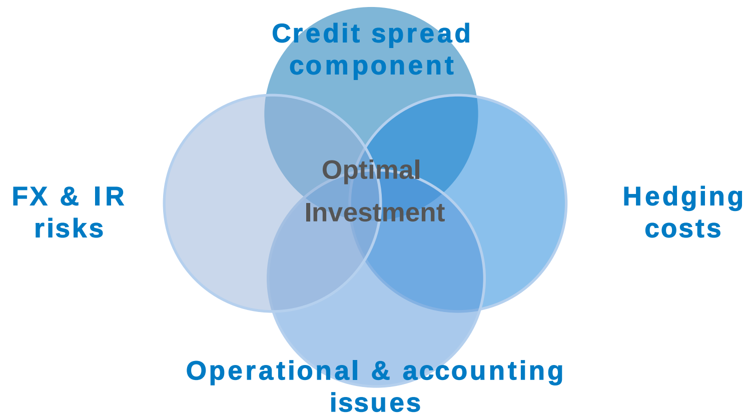
- More investments will be accounted for income statement with potentially limited netting capacity with liabilities, like Equity & Mutual Funds
- Assets with recurring fixed flows will be preferred as well as strategies with low volatility

Strategies in a low rate environment (1/2)

1. Pursue risk diversification using foreign credit:

- Enrich core portfolios with non-domestic fixed income
- Increase diversification & benefit from potential relative value strategies
- These include US credit strategies, global credit, emerging market debt, high yield
- Diversification has led to a larger role for FX & interest rate hedging strategies, balancing risks and extra yield

The optimal investment under constraints



Strategies in a low rate environment (2/2)

2. Search for non-traditional/less liquid assets: in the chase for yield, complexity and liquidity premia have become key targets for European insurers

- Alternative asset classes are numerous and include infrastructure debt, private debt, private equity, SME lending
- A recent survey from Goldman Sachs Asset Management points to the largest changes in asset allocation among European insurers being infrastructure debt, middle market corporate loans, real estate equity and commercial mortgage loans

An extended field of possibilities

Macro Outlook

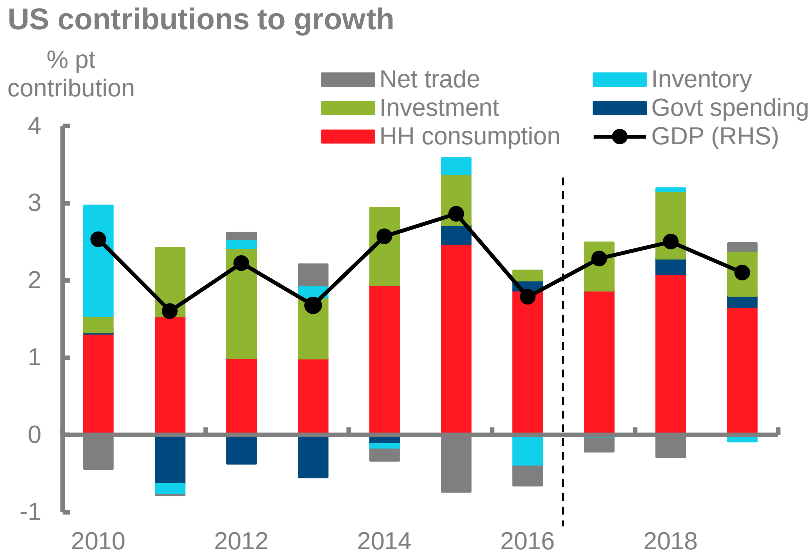
Solid 2017 to underpin faster 2018

Progress has been made towards a tax reform with a corporate tax rate cut to 20%, household and 'pass-through' tax cuts, a dollar repatriation and 100% capital expensing. Congress is working towards a deficit increase capped at $1.5trn, which we forecast to lift GDP by around 0.25%. Separate House (passed) and Senate (in progress) bills require reconciling. Political developments have increased the urgency to pass legislation by year-end

Short-term growth dynamics have proven stronger than we forecast. Q3 GDP growth returned 3.0% (annualised) despite the hurricanes and Q4 sees 'now-trackers' are currently near 3%. Loose financial conditions and subdued inflation underpin a firmer tone. We revise our 2017 growth forecast to 2.3% (from 2.1%, consensus 2.2%)

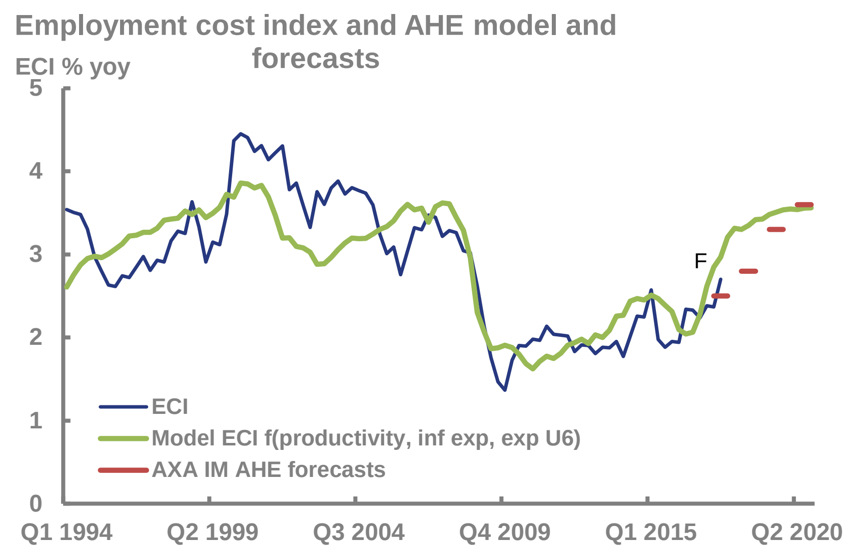
2017 momentum should underpin solid expansion in 2018, further aided by modest fiscal stimulus and gradual wage acceleration. We forecast GDP growth of 2.5% in 2018 and 2.1% in 2019 (consensus 2.4% and 2.1%)

2017 momentum underpins 2018 growth



Source: BEA, AXA IM Research, November 2017

Growing likelihood of wage growth emergence



Source: BLS, AXA IM Research – November 17

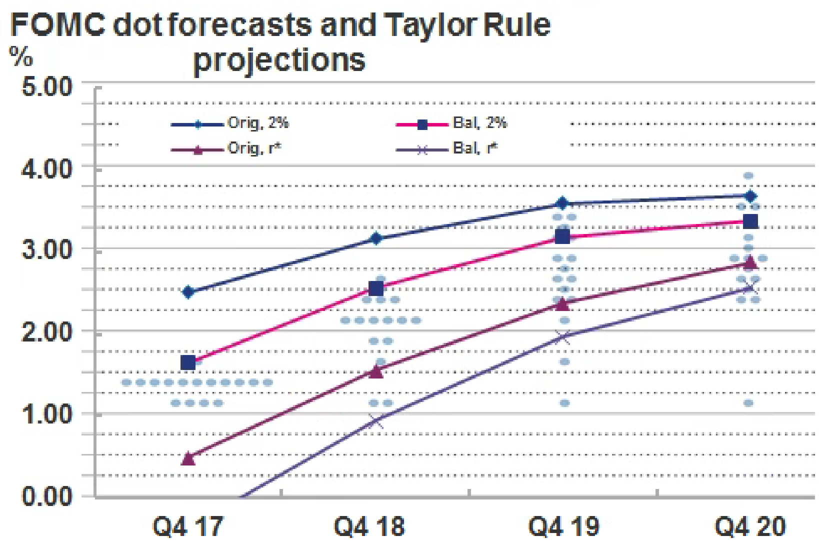
Change of Fed guard, change of framework?

President Trump nominated Fed Governor Powell to replace Chair Yellen in February. Powell is considered a status quo candidate. More uncertainty surrounds the remaining vacancies on the Fed Board, particularly if like Quarles, they are appointed by VP Pence's office and conform more to Republican, hard money doctrines

With the exception of Bullard, the Fed appears to project policy rates on a Taylor Rule/Phillips Curve basis. We do not envisage a shift in this reaction function. Yet discussion about the Fed's 'framework' has grown. Beyond communications changes (including a quarterly report), a review of the inflation target has been mentioned

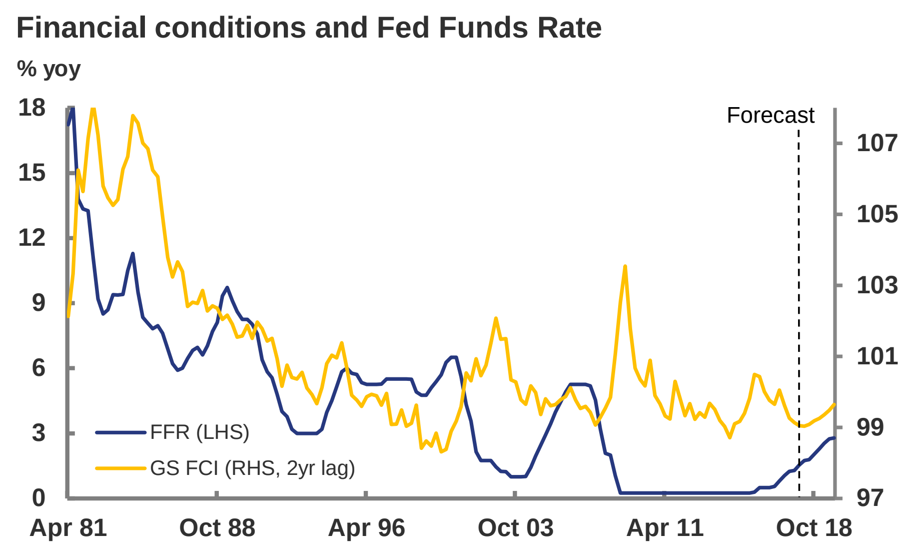
The scale of Fed tightening will depend on broader financial conditions. Our outlook suggests three hikes in 2018 and 2019, based on a modest (5%) rise in trade-weighted dollar. If financial conditions remain loose, as this year, the Fed could tighten further, if they tighten the Fed would do less. Our balance of risks over-weights the former

FOMC participants broadly use Taylor Rule/Phillips Curves



Source: FRB, AXA IM Research – November 17

Reaction of financial conditions to govern scale of Fed reaction



Source: Goldman Sachs, FRB, AXA IM Research – November 17

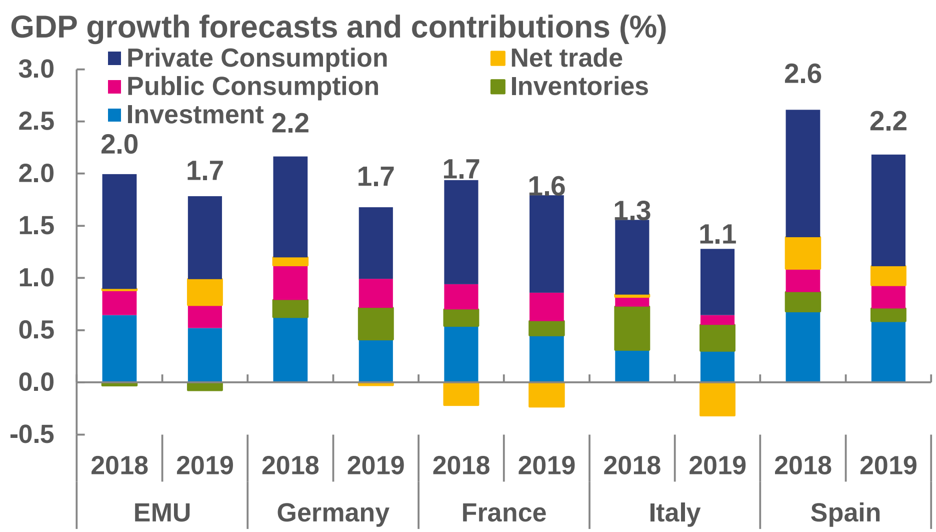
Repeatedly surprising on the upside

Euro area Q3 GDP growth printed at 0.6%qoq stronger than expected (consensus 0.5%) while Q2 was revised up to 0.7%. At country level, the surprise mainly came from Germany at 0.8% (0.2pp above consensus). Others in line with expectations, at +0.5% for France and Italy, +0.8% in Spain

October composite PMI stood at 56, still in positive territory, and points to a strong momentum; ESI concurs

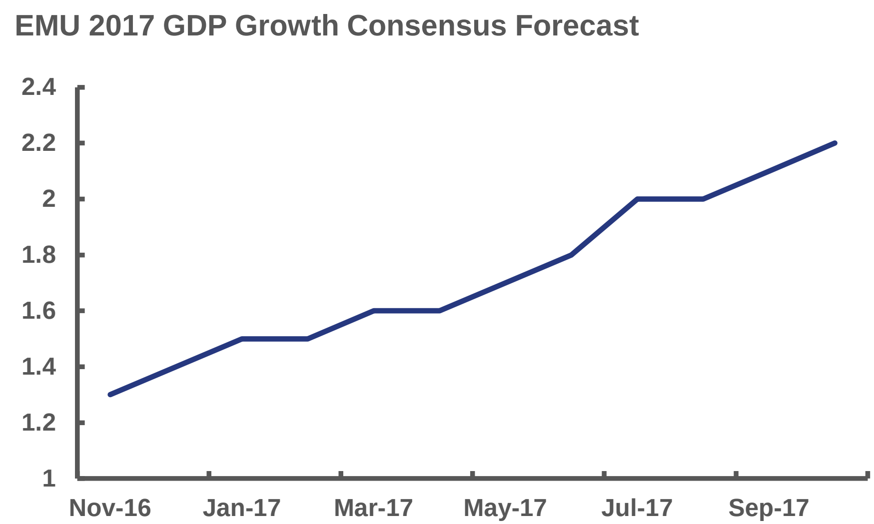
We forecast GDP growth at 2.3% in 2018 (0.4pp above consensus and stable from 2017) driven by solid consumption, resilient investment, as well as more favourable net exports contribution as global trade recovers

Another year of cyclical healing



Source: Eurostat and AXA IM Research

Consensus keeping up with reality



Source: Bloomberg and AXA IM Research

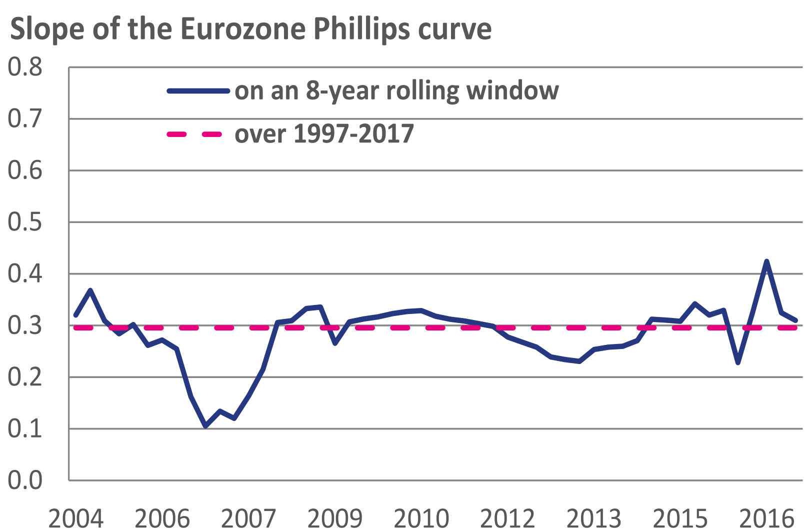
ECB normalisation, awaiting inflation

EMU inflation disappointed in October (especially core CPI at 0.9%, down 0.2pp) but, with decreasing labour market slack and emerging wage pressures, we expect core inflation to pick up (1.2% in 2017 then 1.3% in 2018) and headline at 1.4% both in 2017 and 2018

The ECB October meeting announced the QE extension and slowdown, from €60bn/month until end-2017 down to €30bn/month from Jan to Sept 2018. With such a reduction in pace, neither scarcity nor the 33% technical constraint are an issue

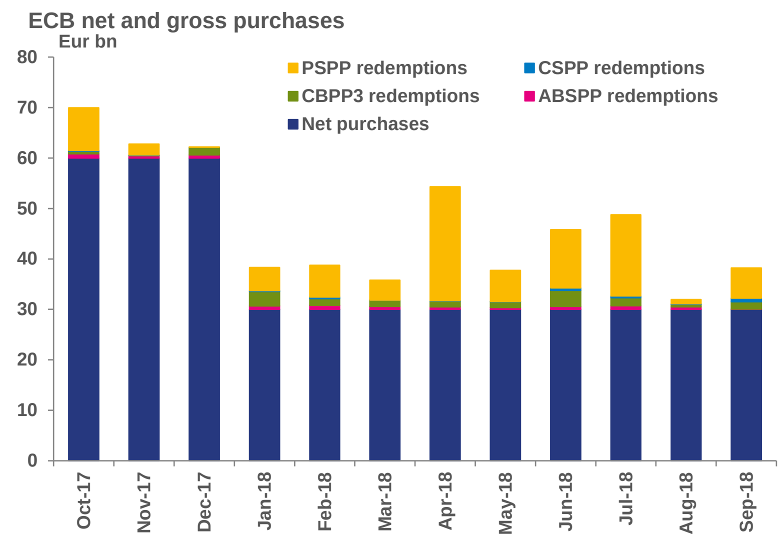
ECB is now switching to its rate forward guidance, with stable rates until mid-2019 at least

EMU Phillips Curve is dormant, not extinct



Source: Eurostat and AXA IM Research

Clear view on purchases until last quarter of 2018



Source: Datastream, ECB and AXA IM Research

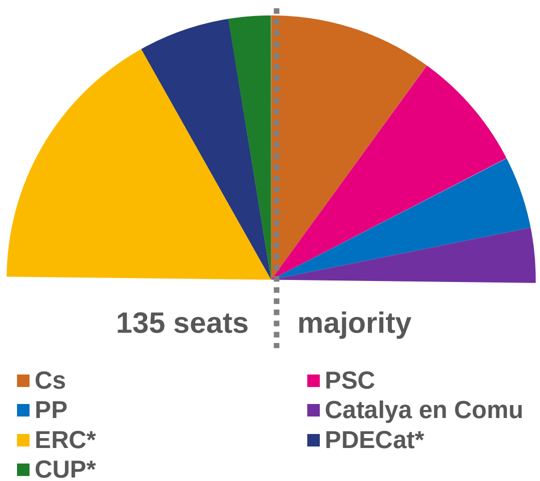
Catalonia: new elections may not be a game-changer

Following the 1 October referendum, Spanish PM Rajoy dissolved the Catalan parliament, calling snap regional elections on 21 December

Recent polls indicate that separatists would still control almost half of the regional parliament after the new elections; this may spark renewed tensions

We expect Catalonia to eventually (re)gain some autonomy lost in 2010 but not become independent

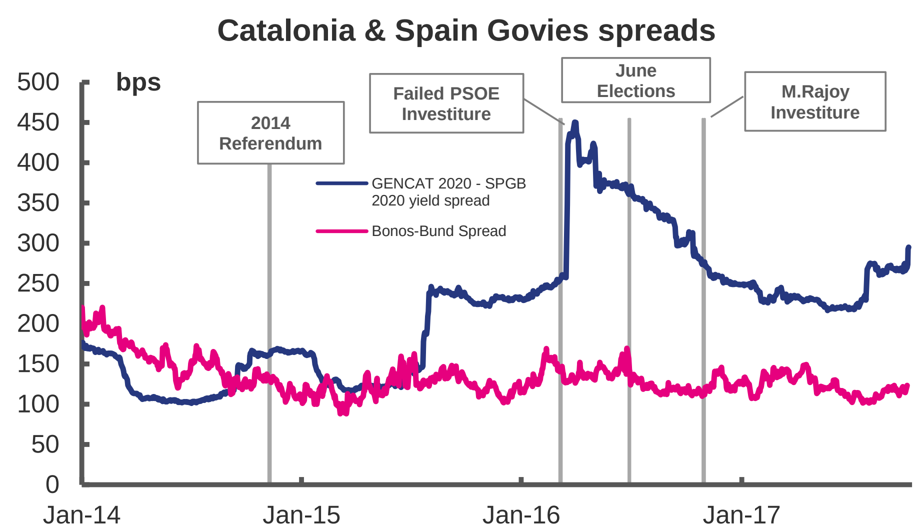
Separatists likely to remain strong in regional parliament



**Separatist party*

Source: La Vanguardia and AXA IM Research, as of 20 Nov

Rain in Barcelona, not in Madrid



Source: Bloomberg and AXA IM Research

Germany: heading towards new elections?

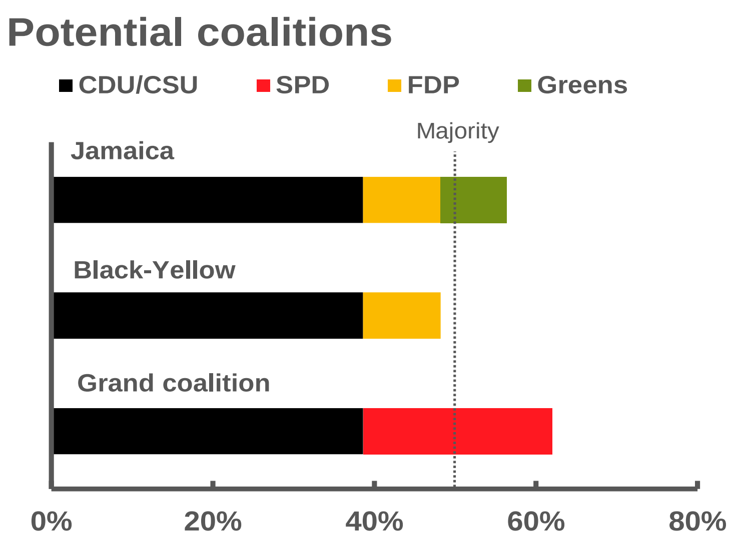
Coalition talks failed in Germany on 19 November as the Free Democrats (FDP) left the negotiation table after deadlock on migration and energy

Looking forward, the alternative scenarios include:

- a minority government (unprecedented in German history)
- a grand coalition with the Socialists (should the SPD make a U-turn on its post-election decision not to work with Angela Merkel's CDU/CSU)
- or new elections, probably in Spring 2018

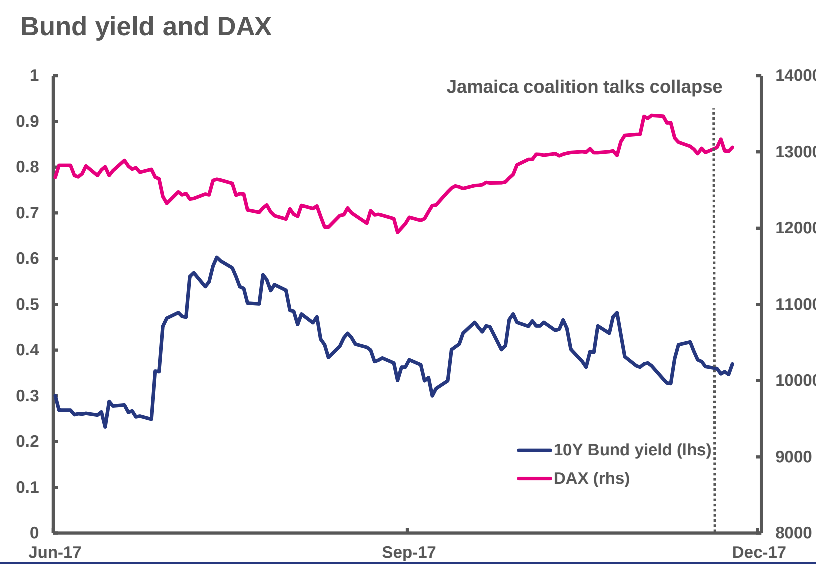
Market reaction was muted, even though the scope of European integration in the coming years is at stake

CSU/CDU + FDP : 39 seats short



Source: AXA IM Research

Muted Market reaction following Jamaica collapse



Source: Bloomberg and AXA IM Research

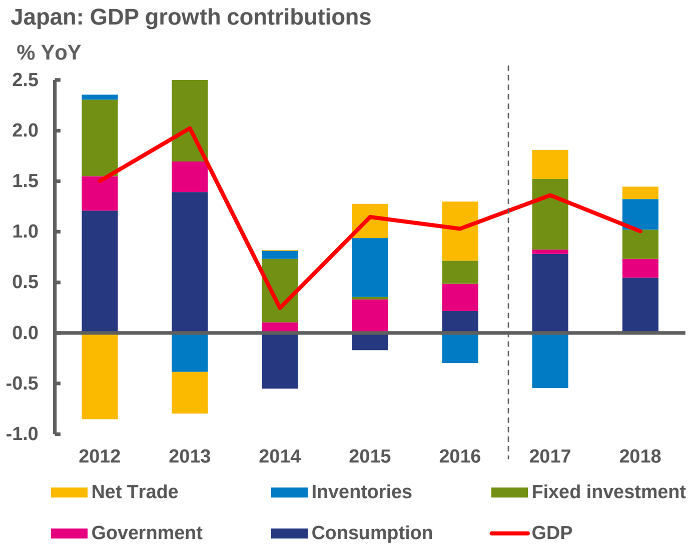
BoJ to reduce net QQE with successful YCC and inflation pick-up

Business surveys remain soft, pointing to a slowdown after a resilient Q3 (1.4%qoq ann. after 2.6%). We forecast growth at 1.4% in 2017, down to 1.0% in 2018 with a slowdown in corporate investment (after a strong 2017) and consumption

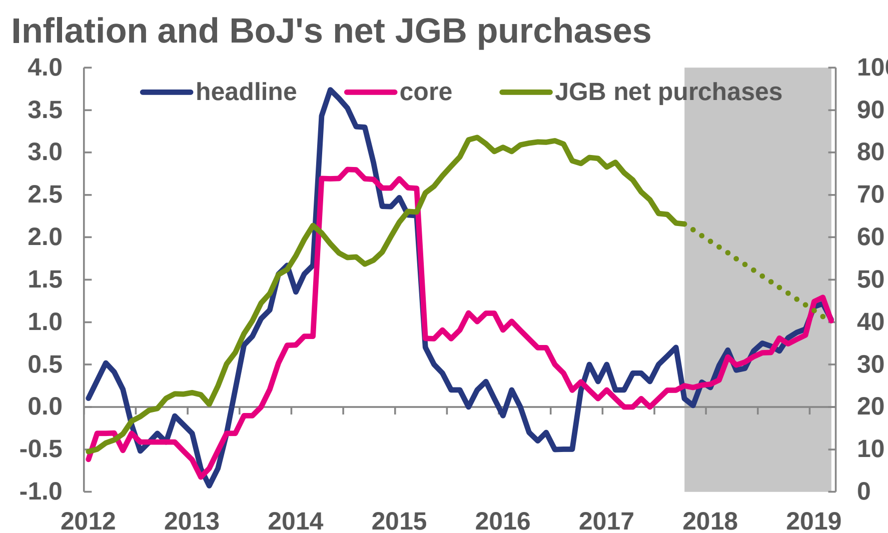
Inflation should rise slowly, partly thanks to the past yen depreciation. Wage acceleration largely reflect a (positive) labour force composition effect with limited associated inflationary pressures

We expect the BoJ to remain on hold with its Yield Curve Control and the Spring 2018 board renewal to provide continuity. The pick-up in inflation should provide enough comfort to reduce asset purchases (¥40tr net JGB purchases in the coming 12 months versus ¥80tr in 2016), eventually leading to a limited upward deviation from the 0.0% 10Y JGB yield target

PM Abe confirmed in snap general elections



Uptick in inflation means less BoJ purchases



Source: BoJ, Cabinet Office and AXA IM Research

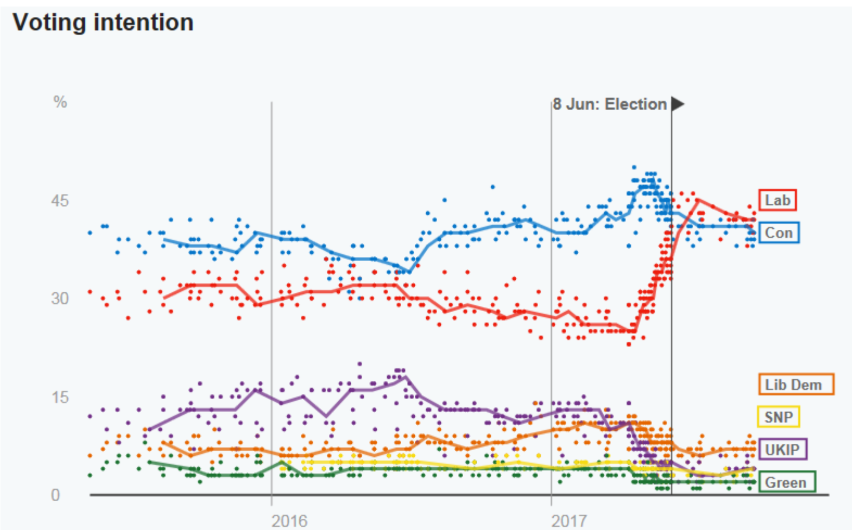
Government weakness as negotiations 'deadline' looms

The enfeebled Tory government has seen pressure mount. One minister resigned over a foreign trip, the Foreign Secretary is under pressure for endangering a UK national detained in Iran and the Defence Minister resigned after sexual harassment charges, which could prove more widespread.

The Chancellor had seen pressure mount to revive flagging fortunes in an Autumn Budget. He announced £25bn in net spending measures, including on NHS, housing and productivity boosts. Better momentum in the public finances and a reclassification of public sector debt allowed some manoeuvre. However, a weaker productivity outlook increased the structural deficit. Measures were within the fiscal rules, but margins are narrower.

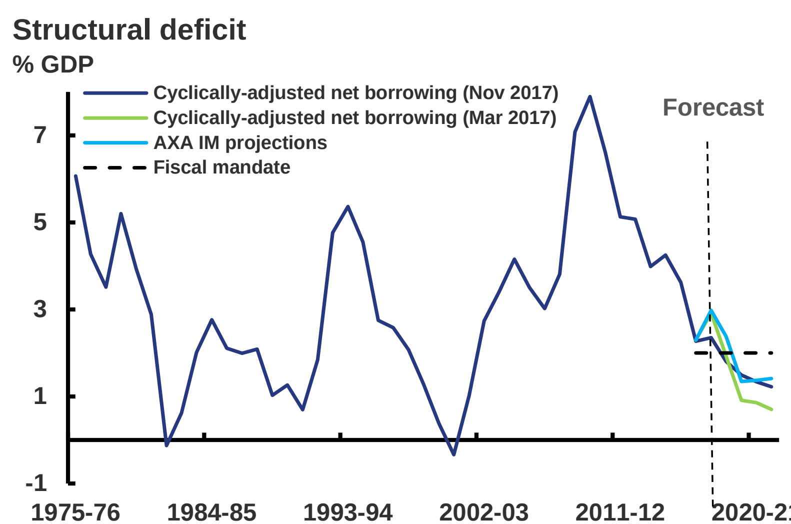
Brexit negotiations continue to bleed the government. With the next EU Summit four weeks away, the EU suggested "sufficient progress" would require an improved offer around now. The UK government is aware that failure to achieve passage onto the next stage of negotiation in December risks increasing investment overseas

UK Opinion Polls – Labour ahead



Source: BBC – November 2017

Chancellor increases spending as structural deficit rises



Source: National Statistics, OBR, AXA IM Research – November 2017

BoE hike as inflation peaks?

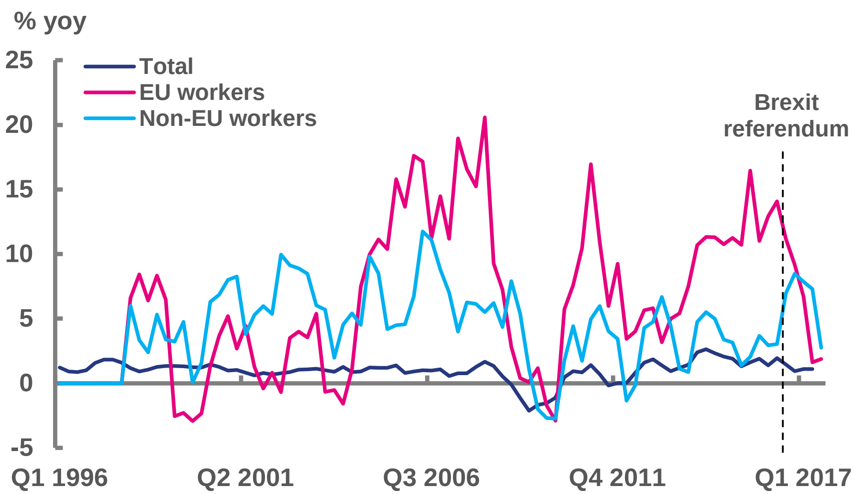
Slower potential growth is evident in the labour market. Beyond the productivity outlook, labour supply growth appears to have slowed with EU and more recently non-EU worker growth falling back from elevated levels. In Q3 2017, unemployment fell by 56k (leaving the rate at 4.3% - a 42-year low), despite employment falling by 14k

CPI inflation remained at 3.0% in October. We have long forecast inflation to peak a little *above* 3%, but more recent evidence suggests a lower peak. This would spare Governor Carney writing a letter to the Chancellor explaining an overshoot. Monetary policy is more likely to be governed by expectations of future inflation. Our GDP expectations remain at 1.5%, 1.4% and 1.4% for 2017, 2018 and 2019 (consensus 1.5%, 1.4% and 1.6%)

The BoE hiked Bank Rate for the first time in a decade this month. It broadly endorsed expectations for two more hikes over the forecast horizon. Our own outlook envisages a modestly faster pace, expecting one hike in 2018 and two in 2019

Overseas worker growth slows post-referendum

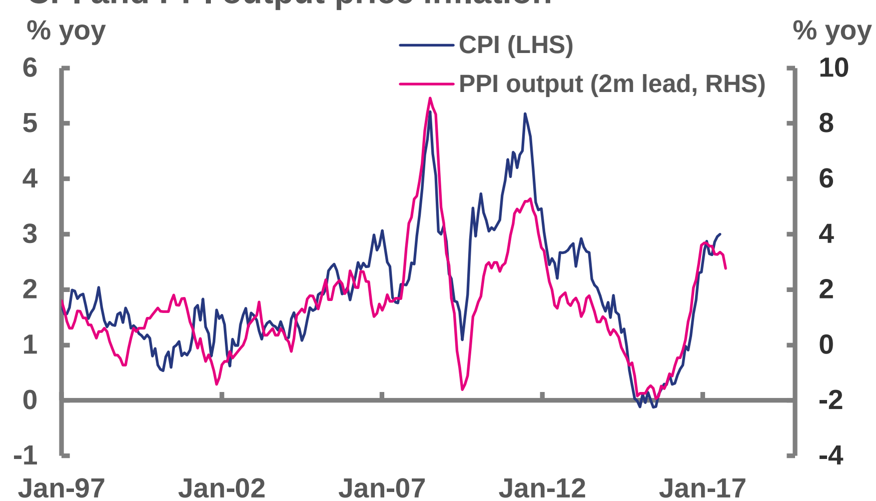
Employment growth by source



Source: National Statistics – November 2017

Has UK inflation peaked at 3%?

CPI and PPI output price inflation



Source: National Statistics – November 2017

Policy-induced slowdown weighs on "Old China" growth

Recent campaign on environment protection has curbed production in heavy-polluting industries

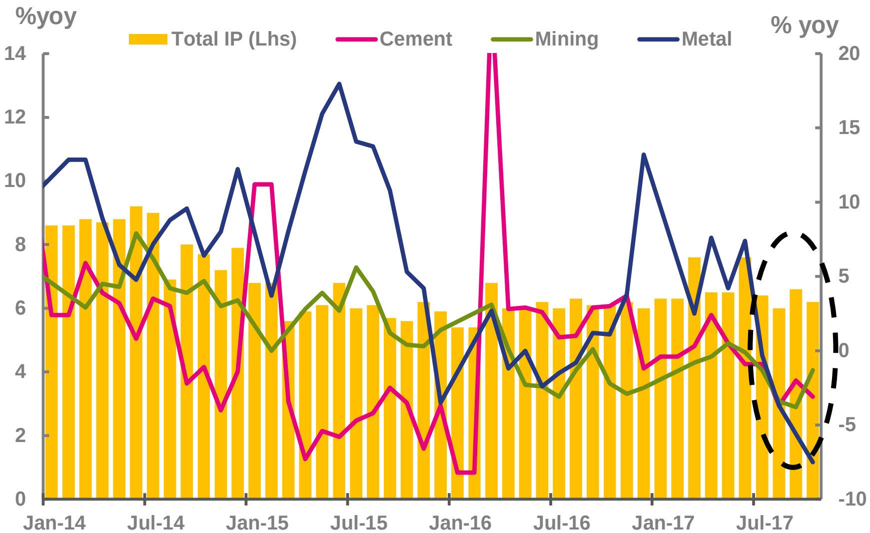
President Xi pledged to continue the operation as a part of his "building a beautiful China" campaign

Similar to capacity cuts, these moves will depress short-term growth, while support commodity prices

Property-market slowdown will continue, but hard-landing is unlikely against the better supply and demand balance

Pollution curbs weigh on industrial production

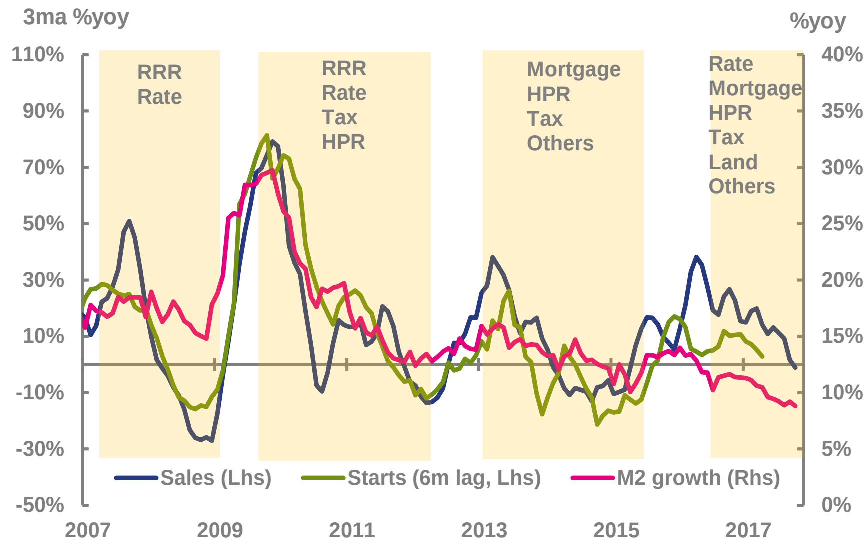
Growth of industrial production, total and of pollutingindustries



Source: CEIC and AXA IM Research (as of Nov-2017)

Policy now in reverse to cool the market

Housing sales, starts and M2 growth



Source: CEIC and AXA IM Research (as of Nov-2017)

INVESTMENT MANAGERS

Financial deleveraging set to continue in 2018

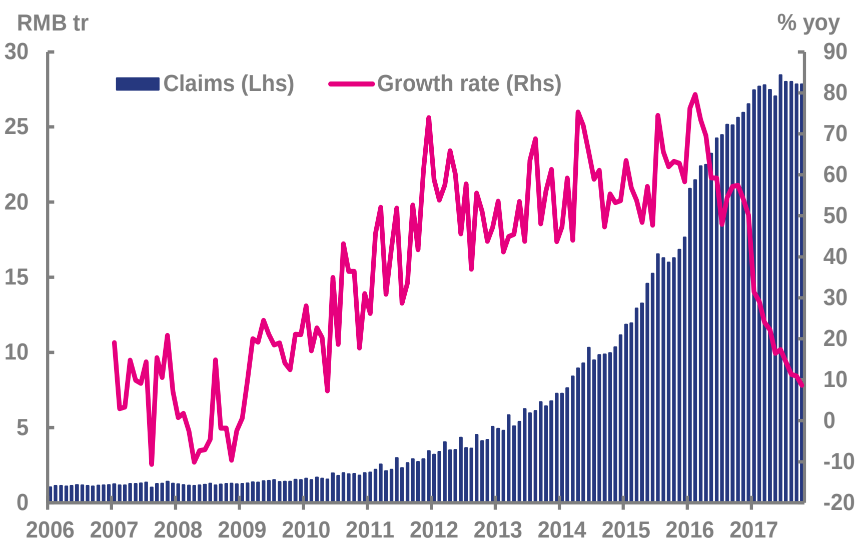
Tightened macro-prudential regulations have forced banks to withdraw liquidity from shadow banking system

Reduced “financial churning” has lowered M2 growth, while less WMP buying has pushed up bond yields

New regulations on shadow banking, if strictly implemented, will reshape China’s financial landscape

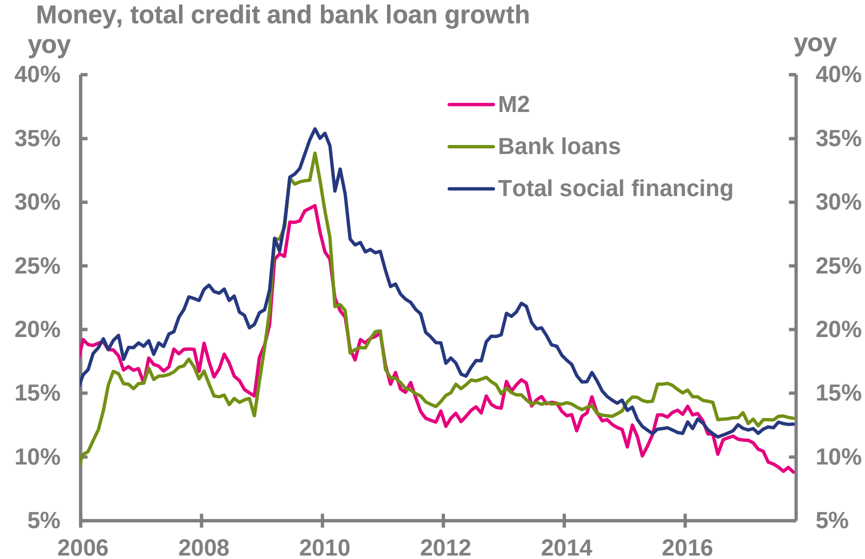
Neutral monetary policy and tighter regulatory policies will keep pressure on interest rates and the economy

Banks withdraw liquidity from shadow banking



Source: CEIC and AXA IM Research (as of Nov-2017)

Reduced financial churning lowers money and credit growth



Source: CEIC and AXA IM Research (as of Nov-2017)

EMs enjoying global synchronised sweet spot

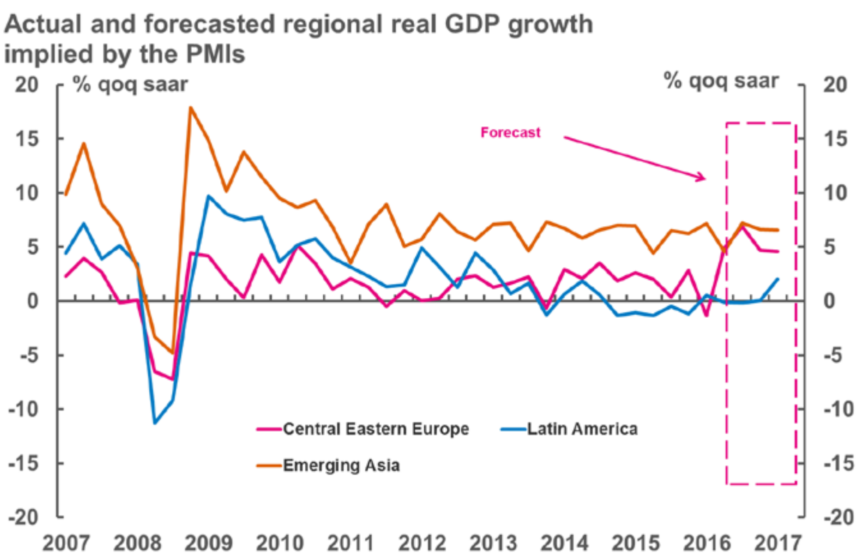
A virtuous global synchronised cycle, muted DM inflation, and benign financial conditions should further support real demand in EM economies

Emerging Europe benefits from a buoyant EMU with Q3 GDP accelerating beyond already high expectations and Russia likely to see wage increases next year ahead of elections

The 2017 commodity recovery should push Latin America (in recession a year ago) with Brazil beating expectations whilst Mexico faces NAFTA negotiations and Presidential elections

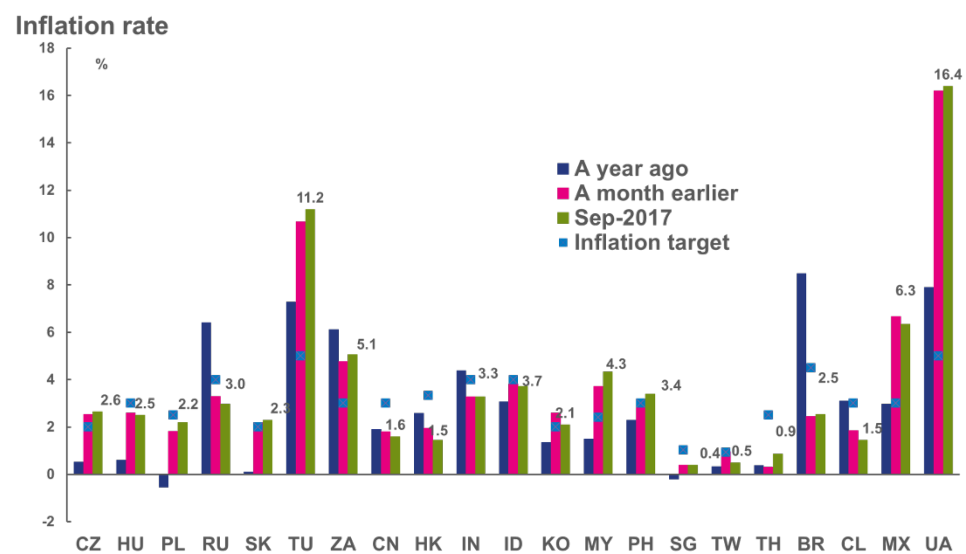
With inflation bottoming out in 2018, the interest rate cutting cycle is coming to an end

LatAm still underperforms, but is catching up



Source: IIF and AXA IM Research

Inflation remains below targets



Source: Bloomberg, Markit, Datastream and AXA IM Research

Investment Strategy

Overview of asset allocation stance

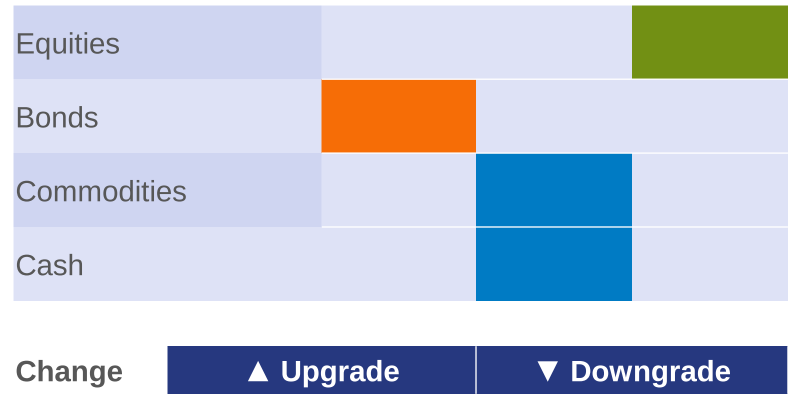
Our views:

- The global reflationary dynamic is still well in place. Indications are that we have entered a period of **synchronised above-trend growth**, even if a managed slowdown is underway in China; at the same time we think that the recovery in inflation is underway in the US. Nevertheless inflation should remain contained which will prompt central banks to continue to cautiously adjust their monetary policy allowing liquidity conditions to remain supportive
- **Valuation** is still very rich for sovereign bonds. Though absolute valuations are frothy for some stock markets, relative valuations remain attractive as the equity risk premium is too high and the outlook for profits is still reasonable
- **Market sentiment** remains supportive for growth assets despite some signs of exuberance which have showed up in **Technicals** which were extremely stretched for equities. They normalised quickly with the clean up of fast money positioning on Eurozone and Japanese markets

Our key convictions:

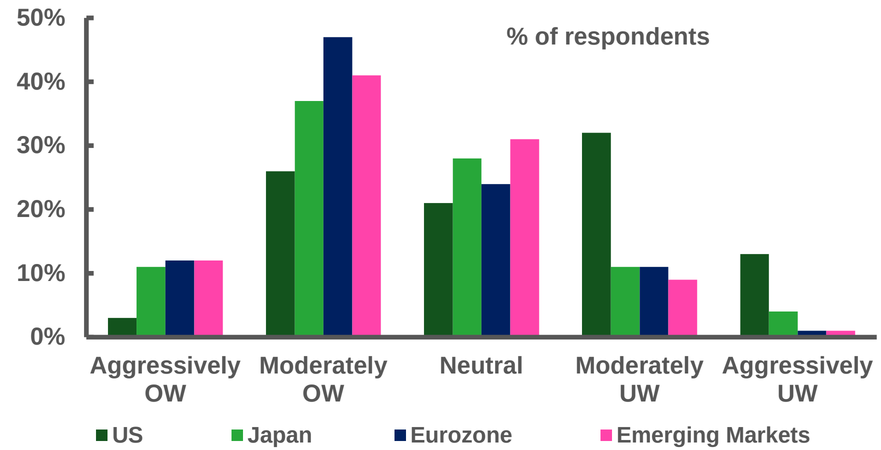
- **Overweight growth sensitive assets (equities, HY and emerging debt),** based on solid global growth, easy policy made possible by low inflation and reasonable market sentiment
- Structurally short position on **US Treasuries**, **Eurozone core government bonds and US IG credit** as less Central Bank accommodation and rising inflation should translate into higher bond yields and IG Credit usually underperforms late-cycle

Key asset classes



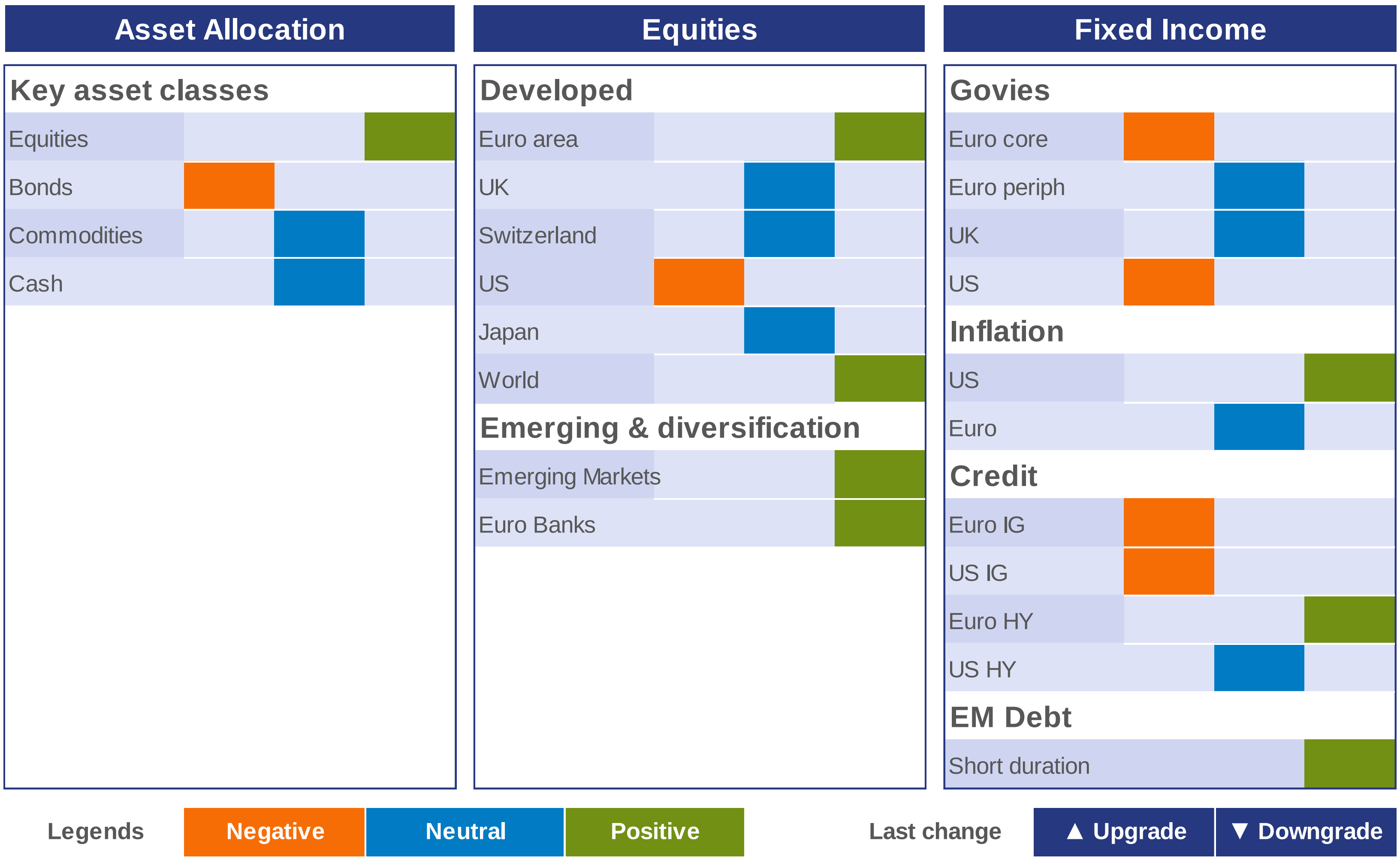
Most funds managers are overweight risk

BofA ML Funds Manager Survey: equities positioning



Source: BofAML, AXA IM

Allocation recommendation



Source: AXA IM – As of 29 November 2017

Tame market environment despite the risks

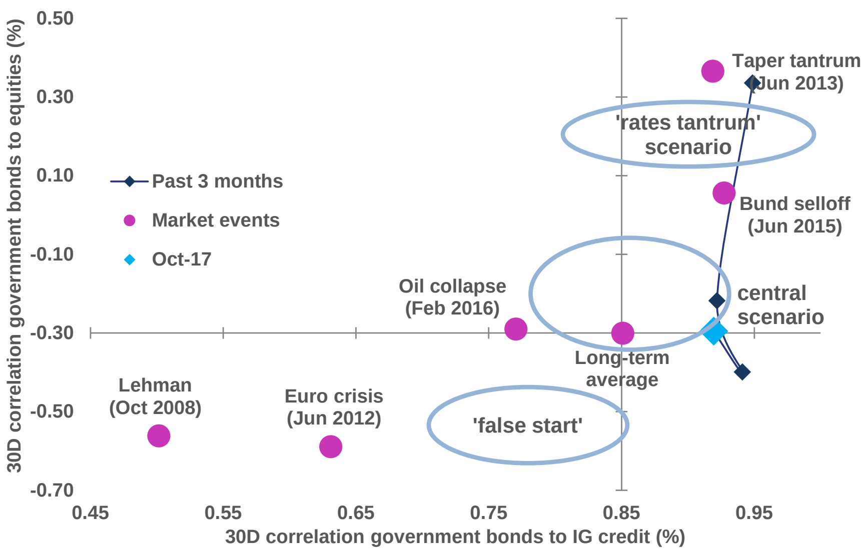
We map the market environment along two axes: the correlation of government bonds to IG credit (x-axis) and the correlation of government bonds to equities (y-axis)

Following the mini-tantrum in July, correlations have come back to more normal levels since August

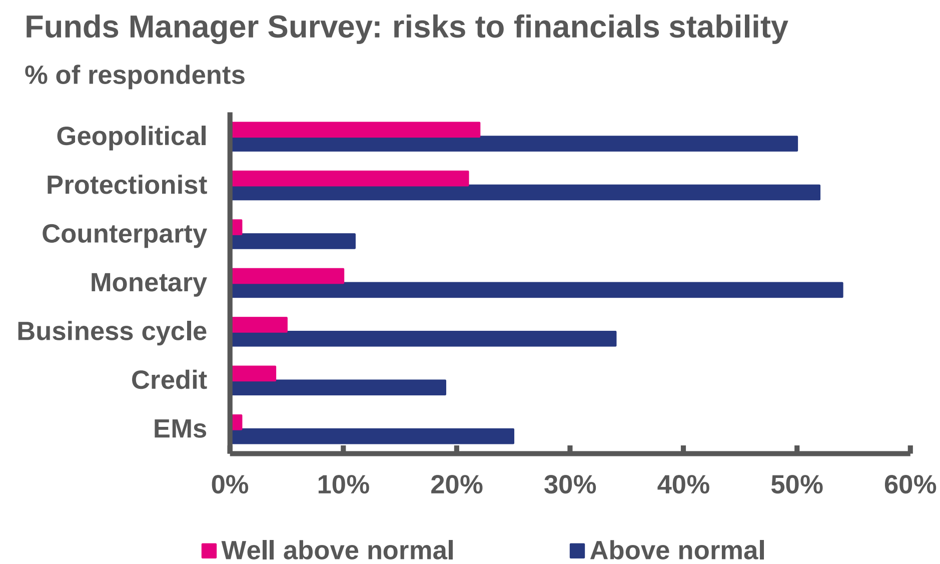
Investors assess risks as mostly related to politics & policies, followed by QE exits

Correlations between government debt , credit and equities

Cross-asset correlation diagram



Market participants' risk assessment



Source: BAML, MSCI and AXA IM Research
Note: indices used are the BAML global government index W0G1, the BAML global corporate index G0BC and the MSCI world. They are all expressed in local currency and in price returns.

Bear flattening in the US

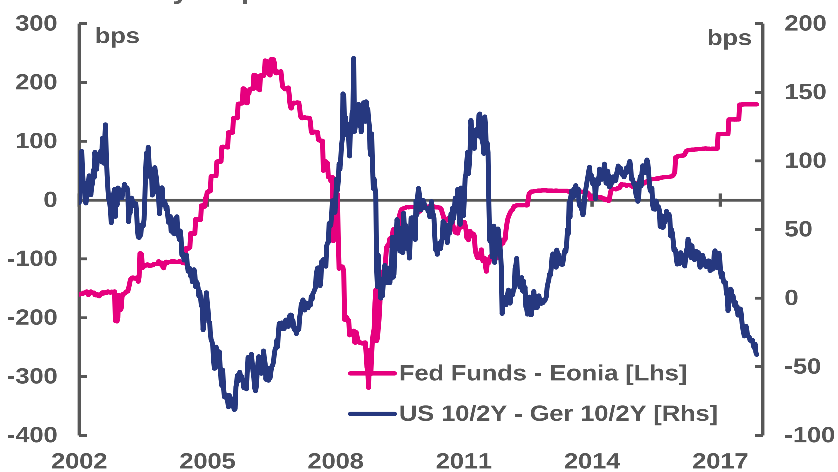
A dovish Bank of England (BoE) hike and the European Central Bank (ECB) recalibration of purchases have bolstered a mildly positive environment for global bonds. Yields continue to move within a narrow range.

The probability of four Fed hikes by the end of 2018 (AXA IM's view) is priced at only 20% by market. This leaves room for further flattening of US 10-2 slope (another 30/40 bps according to our model). We prefer outright short duration positions on the short-end of the US curve rather than on the long end.

Recent rating upgrades (Italy and Portugal) and ECB announcement reinforces the peripheral's positive sentiment and feeds the risk taking channel. We remain structurally neutral on peripheral spreads; our prudent view is based on the possible widening of spreads due to upcoming political events (Catalan and Italian elections).

US slope flattening linked to interest rate differential

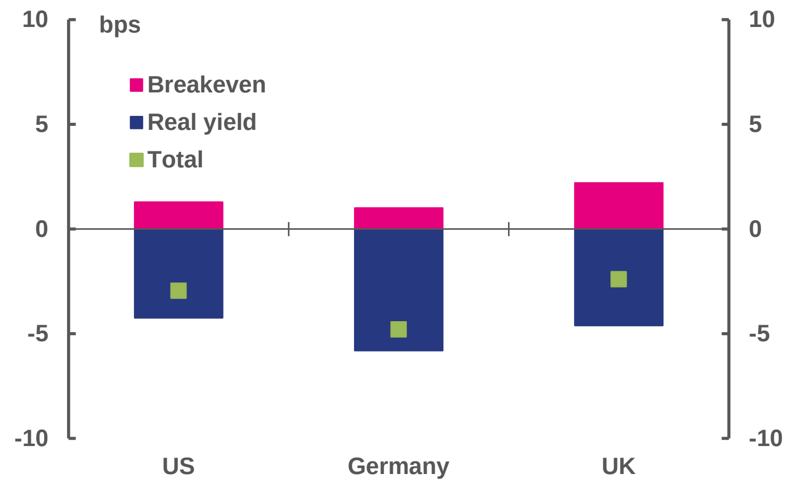
US-Germany slope and interets rate differential



Source: Bloomberg and AXA IM Research

Tiny movements and real yields down

US 10Y yield changes between 20 Oct and 20 Nov 2017



Source: JP Morgan and AXA IM Research

November correction brings a welcome arrest in declining breakevens

A correction at last in credit spreads in November, triggered by some earning disappointments in Telcos on both sides of the Atlantic, as well as in Retail and Healthcare and exacerbated by heavy supply.

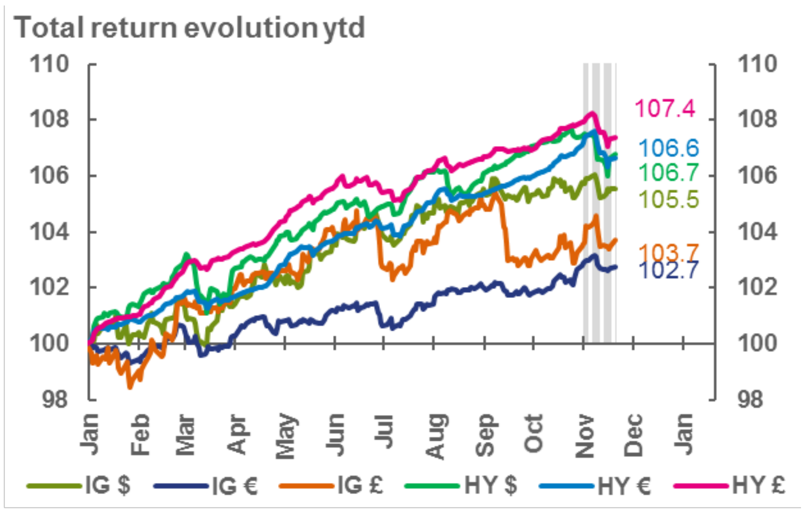
This has caused the inevitable drawdown in returns (also a welcome arrest in declining breakevens), but one which credit should be able to recoup, completing another year of healthy returns in 2017, approx 8% in HY and 5% in IG.

We do not view the recent correction as heralding a turn in the credit cycle. Indeed, the correction in Europe was mostly driven by half a dozen credits and investors took is as an opportunity to deploy cash at cheaper levels on credits they prefer.

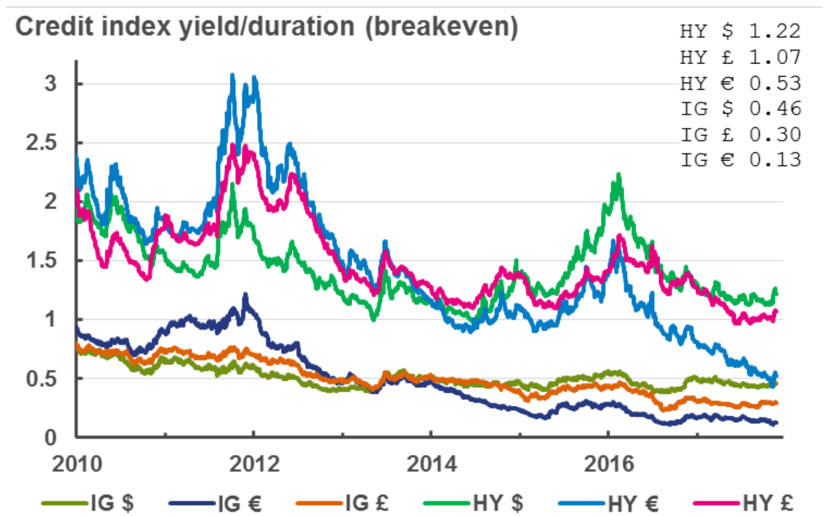
Telco/Cable market share within US HY is comparable to Energy/Metals but contagion risk should be limited. Telco/Cable do not face the 2015 earnings cliff of Energy/Metals when oil prices collapsed and thus default risk appears contained.

We continue to advocate long positioning in credit volatility (eg payer spreads) with Dec expiry to navigate event and policy risk into year end.

Credit should recoup the November drawdown into yearend



The November correction arrests the decline in breakevens



Source: BAML and AXA IM Research

Keep preference for emerging markets and euro area

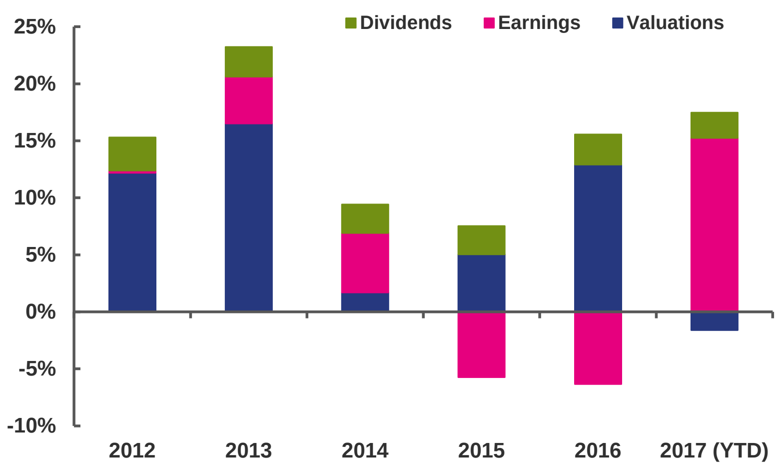
Unlike the largely liquidity-induced rally since 2011, most of 2017's positive equity returns can be attributed to earnings growth.

We remain underweight in the US and overweight the euro area and EM. Timely execution of the proposed tax reform poses a key upside risk for the US equity markets.

From a longer-term earnings perspective, EM and euro-area earning per share levels remain respectively at 24% and 50% – below their previous peaks and continue to improve

Earnings growth driving equity returns in 2017

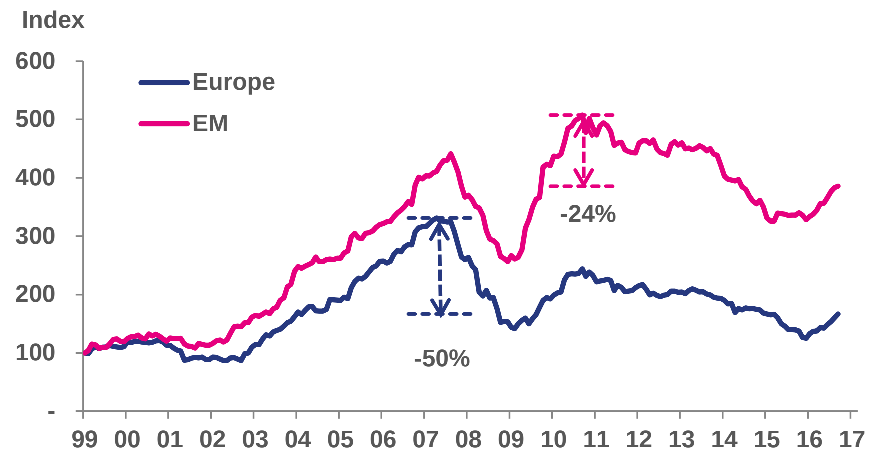
MSCI AC World total return attributation (local FX)



Source: AXA IM Research, MSCI and Datastream

Europe and EM earning recovery

Earnings per share: Europe vs. EM



Source: Bloomberg, Thompson Reuters and AXA IM Research

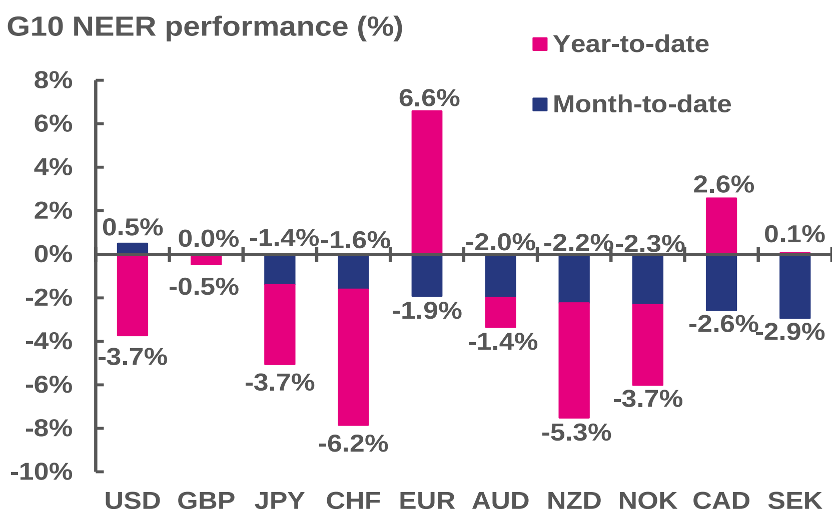
Lagging commodity currencies

Most G10 currencies declined further against US dollar. However, the greenback has lost some steam, appreciating just 0.5% over the past month

Commodity currencies have been lagging oil prices recently. While this is probably due to adverse monetary policy developments, especially for the Canadian dollar, we think an adjustment will take place sooner or later, to reflect more adequately the fact that oil prices have broken through the $60 per barrel threshold

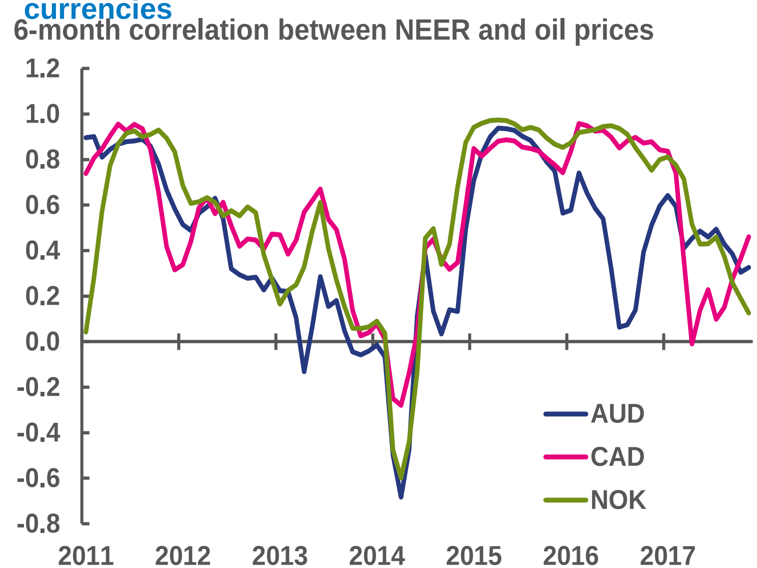
We recommend maintaining a long USD/Australian dollar positioning and have added a long New Zealand dollar (NZD) /AUD stance, to reflect recent upside macroeconomic surprises in New Zealand

USD modestly up, Scandies and CAD retreated the most



Source: Datastream, AXA IM Research

Falling correlation between commodity prices and commodity currencies



Source: Datastream, Bloomberg;, AXA IM Research

Forecasts & Calendar

Macro forecast summary

Real GDP growth (%)	2016	2017*		2018*		2019*	
			Consensus		*Consensus*		*Consensus*
World	**3.2**	**3.7**		**3.8**		**3.7**	
Advanced economies	**1.7**	**2.2**		**2.2**		**1.9**	
US	1.6	2.3	*2.2*	2.5	*2.5*	2.1	*2.0*
Euro area	1.7	2.3	*2.2*	2.3	*1.9*	1.8	*1.6*
Germany	1.9	2.5	*2.0*	2.4	*2.0*	1.8	*1.6*
France	1.2	1.8	*1.7*	1.7	*1.7*	1.6	*1.6*
Italy	1.0	1.6	*1.5*	1.4	*1.2*	1.1	*1.2*
Spain	3.2	3.1	*3.1*	2.7	*2.5*	2.2	*2.2*
Japan	0.7	1.4	*1.6*	1.0	*1.3*	1.0	*0.7*
UK	2.0	1.5	*1.5*	1.4	*1.4*	1.4	*1.6*
Switzerland	1.3	1.0	*0.9*	1.5	*1.8*	1.5	*1.6*
Emerging economies	**4.3**	**4.7**		**4.9**		**4.9**	
Asia	**6.4**	**6.5**		**6.4**		**6.4**	
China	6.7	6.8	*6.8*	6.5	*6.4*	6.3	*6.2*
Rest of EM Asia	6.1	6.2		6.4		6.5	
LatAm	**-0.9**	**1.2**		**2.2**		**2.5**	
Brazil	-3.6	1.0	*0.8*	2.4	*2.4*	2.3	*2.5*
Mexico	2.3	2.0	*2.2*	2.1	*2.3*	2.1	*2.4*
EM Europe	**1.6**	**3.4**		**2.8**		**2.6**	
Russia	-0.2	1.9	*1.7*	1.9	*1.8*	1.8	*1.8*
Poland	2.6	4.3	*4.1*	3.7	*3.5*	3.5	*3.5*
Turkey	3.2	5.5	*5.0*	3.8	*3.6*	3.2	*3.9*
Other EMs	**4.4**	**2.8**		**3.6**		**3.7**	

Source: Consensus Economics, IMF and AXA IM Research – As of 29 November 2017

Expectations on inflation and central banks

Inflation forecasts

CPI Inflation (%)	2016	2017*		2018*		2019*	
			Consensus		*Consensus*		*Consensus*
Advanced economies	**0.8**	**1.6**		**1.7**		**2.0**	
US	1.3	2.1	*2.1*	2.2	*2.1*	2.4	*2.2*
Euro area	0.2	1.4	*1.5*	1.4	*1.3*	1.9	*1.6*
Japan	-0.1	0.3	*0.4*	0.6	*0.7*	0.9	*1.1*
UK	0.7	2.7	*2.7*	2.7	*2.6*	2.2	*2.1*
Switzerland	-0.4	0.2	*0.5*	0.6	*0.7*	0.6	*1.0*
Other DMs	1.1	1.6		1.7		1.9	

Source: Consensus Economics, IMF and AXA IM Research – As of 29 November 2017

Central banks' policies: meeting dates and expected changes

		Current	Dec.-17	Jan.-18	Feb.-18	Mar.-18	Apr.-18	May-18
United States - Fed	Date	1.00 - 1.25	12th-13th	30th-31st	--	20th-21st	--	1st-2nd
	Rates (bp) / QE		+25bps	--	--	+25bps	--	unch
Euro area - ECB	Date	60bn until end-17	14th	25th	--	8th	26th	--
	Rates (bp) / QE		unch	QE 30bn	--	unch	unch	--
Japan - BoJ	Date	-0.1 / 80tn (JGBs)	20th-21st	22th-23th	--	8th-9th	26th-27th	--
	Rates (bp) / QE		--	--	--	--	unch	--
UK - BoE	Date	0.25	14th	--	8th	22nd	--	10th
	Rates (bp) / QE		unch	--	unch	--	--	unch

Source: Datastream, AXA IM Research - As of 29 November 2017

Asset classes forecasts

Asset classes			Target	
	Reference	Current	3 months	12 months
Rates (%)				
US 10Y Treasury		2.34	2.40	2.70
German 10Y Bund		0.37	0.50	0.80
British 10Y Gilt		1.32	1.30	1.70
Japanese 10Y JGB		0.03	0.10	0.20
Credit (bps)				
USD Investment Grade	BofA C0A0	104	105	125
EUR Investment Grade	BofA ER00	89	90	110
USD High Yield	BofA H0A0	367	360	400
EUR High Yield	BofA HE00	266	260	280
Equities				
US	MSCI US	2,502	2,480	2,600
Eurozone	MSCI Euro	228	230	235
Japan	MSCI Japan	1,051	1,060	1,100
Emerging markets	MSCI EM	1,147	1,170	1,240
FX				
EUR/USD		1.17	1.20	1.20
USD/JPY		114	115	115
GBP/USD		1.32	1.33	1.26

Source: Bloomberg, AXA IM Research - As of 29 Nov 2017

Main events in 2017-2018

Macro

Euro area

- 14 December – ECB meeting
- 25 January – ECB meeting

US

- 12 December – FOMC meeting
- 30 January – FOMC Meeting
- February – Powell replaces Yellen as Fed Chairman

UK

- 14 December – BoE meeting
- 8 February – BoE meeting

Japan

- 20 December – BoJ meeting
- 22 January – BoJ meeting

Politics

Europe

- December (tbc) – Government formation in Germany
- 15 December – EU summit on Brexit progress
- 21 December – Catalan election
- March – Italy general election

US

- 8 December – Deadline for the debt ceiling
- December (tbc) – Tax reform

Emerging Markets

- 13 January – Presidential election in Czech Republic
- 8 February – Presidential election in Egypt (round 1)

Latest publications

[Bear flattening in the US, but flattening in Europe](#)

20 November 2017

[Lagging commodity currencies](#)

16 November 2017

[Italy: improvements on all fronts but persistent structural challenges remain](#)

9 November 2017

[Oktoberfest ahead of festive season](#)

8 November 2017

[Stocks move higher on earning beats](#)

3 November 2017

[Muted market reaction to the Catalan crisis](#)

31 October 2017

[Bank of England to hike due to weak supply outlook](#)

26 October 2017

[Consider This - "Diagnostic expectations and stock returns"](#)

23 October 2017

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