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Rosenberg Equities

Global Factor Views

Jonathan White, Head of Investment Strategy, AXA IM Rosenberg Equities
Gregory Venizelos, Investment Strategy, AXA IM Core Research

Macroeconomic and equity market backdrop

- Growth: Re-opening and fiscal stimulus is driving faster-than-expected economic recovery in the US. In the first quarter of 2021, this resulted in rising inflation expectations and higher bond yields. Beyond the US, many economies remain focused on the coronavirus and the slow roll-out of vaccines has delayed recovery. There are, however, encouraging signs that this is gathering pace in the eurozone. Globally, we expect growth to rise by 5.5% in 2021 and 4.3% in 2022.
- Rates: We expect upward pressure on real and nominal US bond yields to resume as rising headline inflation leads to inflationary concerns. However, we do not expect bond yields to rise substantially this year as the Federal Reserve seeks to carefully manage the recovery and avoid another 'taper tantrum'.
- Equity markets: The overall outlook remains positive for equities. Macroeconomic prospects appear to be strong, meaning the earnings recovery should stretch into 2022. Valuations in absolute terms are elevated but equities remain attractive compared to bonds, even under a scenario where yields move modestly higher.

With the above macro and market conditions as context, we update our outlook for equity market factors below.

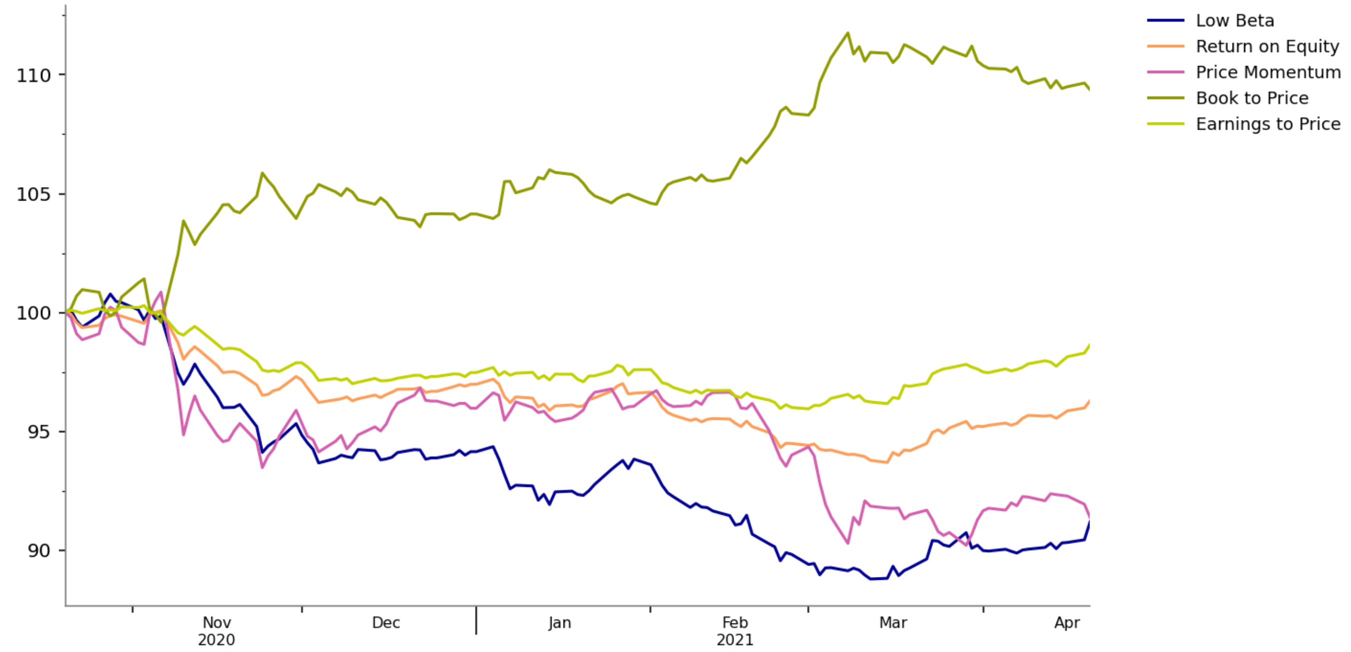
Outlook for equity factors

Quality Neutral	The COVID-19 crisis has boosted the profitability of some quality-growth segments of the market such as health care, software and consumer technology. Rather than reversing post-pandemic, we believe the crisis has acted as an accelerant to existing structural trends, which should provide support for quality-growth. We remain neutral on quality overall as we expect modest upward pressure on US bond yields, which is likely to hamper the performance of some defensive quality stocks.
Low Volatility Neutral	Low-volatility investing typically has high exposure to defensive sectors and is likely to come under pressure during a cyclically-led rebound. Rising US bond yields are also likely to weigh on the performance of the low volatility factor. However, we maintain a neutral stance because the economic recovery remains fragile outside of the US and valuations remain reasonable.
Value Positive	We maintain our positive stance on value given the continued prospects for cyclically-led economic recovery. Rising inflation expectations driving modestly higher bond yields are typically supportive of value investing styles. We believe we have now moved past the initial 'vaccine euphoria' stage of the value rotation that was led by book-to-price. Looking ahead, we expect the value rally to become broader based and that any increase in real interest rates will drive investor interest in higher quality value stocks that are underpinned by solid earnings and are well-placed for a post-COVID-19 world.
Momentum Negative	Price trends over the past 12 months have been very mixed, from the initial COVID-19 drawdown and subsequent stimulus-driven recovery to the vaccine-related risk-on rotation. As such, we remain cautious on trailing measures of share price movement as predictors of future returns. Within the spectrum of momentum signals, we prefer to focus on near-term earnings revisions, which may offer a more responsive and accurate gauge of evolving investor sentiment.

Source: Rosenberg Equities, April 2021. The views expressed above are as of the date of this document. No guarantee or warranty is made regarding the outlook above. Investors should not base their investment decisions on the commentary provided and should consult their advisers before doing so.

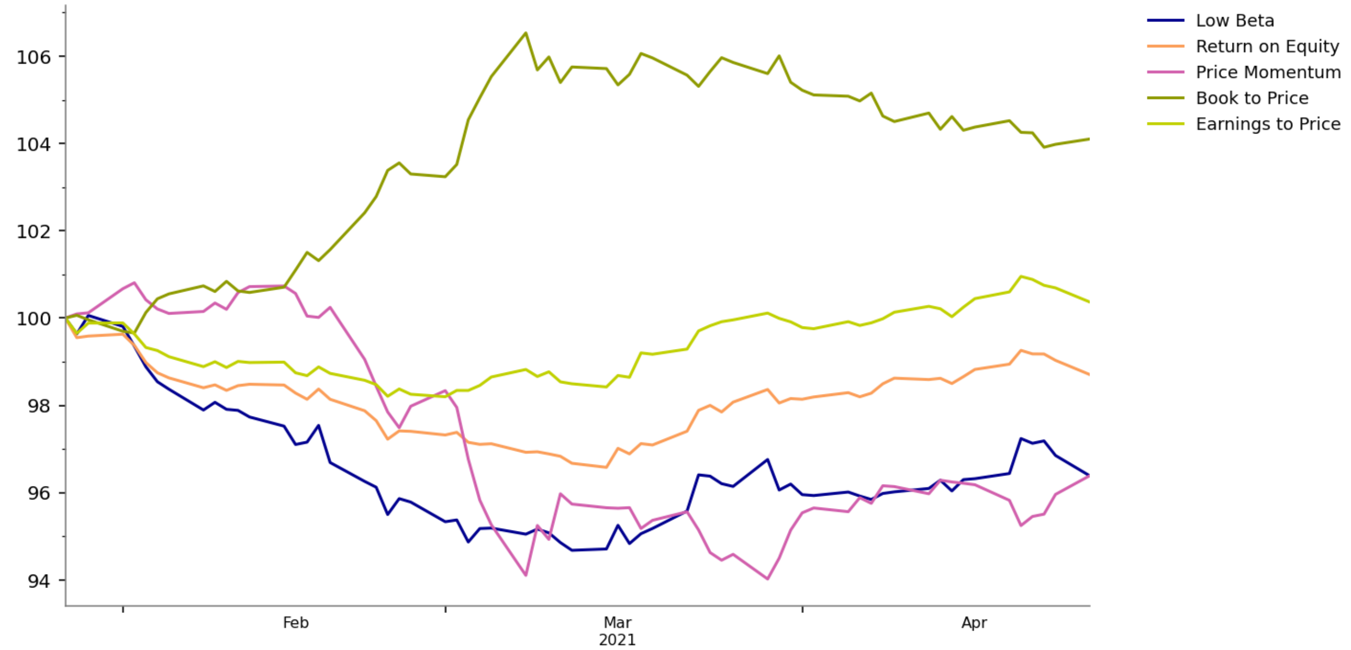
Global factor performance : Last 6 months

Vaccine announcement in early November 2020 triggers a strong value rally that was led by book-to-price



Global factor performance : Last 3 months

Rising bond yields in Q1 2021 provide further impetus to Value rotation



Source: Rosenberg Equities. Factor returns data presented as of Aptil 24th 2021. The chart plots univariate factor returns calcucated by Rosenberg Equities based on MSCI World investment universe. The data are shown for illustrative purposes only and are not based on actual portfolio returns. Past performance is not a guide to future performance.

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