

Asset Allocation team's convictions

Sovereign debt fears spoil the party



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February 2010

Review and Outlook

Continuing in the same vein as at the end of 2009, first two weeks of the year 2010 were marked by a widespread optimism encouraged by the confirmation of the improving macroeconomic environment. Only the soft employment indicators threatened to spoil the party.

However, the threat of tighter Chinese monetary policy, new banking regulation projects in the United States aiming to reduce the size of banks and finally the risks associated with certain European sovereign debt markets caused a dramatic reversal in financial markets.

The good mood quickly soured and markets rapidly gave up their earlier gains. The Eurozone was hard hit by the turmoil in the peripheral debt markets and fell -4,7%, the US fell -3,5%, Japan fell by -0,8% and Emerging markets dropped -4,4% (MSCI Indexes in local currencies).

This situation was beneficial to some but not all government bond markets. American 10-year yields rallied to 3.61% (-0.23%) whilst those of the Eurozone decreased from 3.39% to 3.19%. Greece sold off sharply with yields rising from 5.76% to 6.84% due to fears as to the refinancing of the deficit. Investment Grade credits widened slightly during the month.

On the currency front, the Euro suffered from the worries about the huge level of debt in some Eurozone member states and depreciated against most currencies. The European currency lost -3.3% against the USD but also 6.45% against the JPY and -2.13% against the GBP.

Meanwhile, the price of Brent corrected heavily, dropping back from a high early January (\$ 83) to \$ 71 at the end of the month.

The current crisis of sovereign debts is not too underestimated but does not, in our opinion, call into question our overall scenario. We therefore maintain our current asset allocation.

We keep our overweight on equities, especially after the recent correction. However, we modify our geographic allocation returning to neutral position on the Eurozone for the benefit of United States and Emerging/Asiatic markets. Similarly, we maintain our underweight on government bonds and we continue to favour Investment Grade credit.

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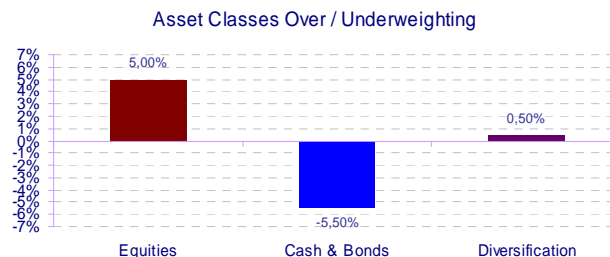
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Sources: AXA Investment Managers Paris as of 11/02/2010. Editor: AXA Investment Managers Paris

Our tactical bets –balanced portfolio

	Févr-10	Janv-10	Déc-09
EQUITIES	++	++	++
Euro Zone	=	++	++
Europe ex Euro	-	-	-
US	++	++	++
Japan	+	=	=
Asia ex Japan	+	=	=
Large caps	=	=	=
Small caps	=	=	=
Energy sector	+	+	+
FIXED INCOME	-	-	-
Euro Zone Bonds	-	-	-
World ex Euro Zone Bonds	-	-	=
Inflation linked Bonds	=	=	=
Investment Grade Credit	+	+	+
Cash	-	-	-
DIVERSIFICATION	+	+	+
Convertible Bonds	+	+	+
Us Short Duration High Yield	+	+	+
Yen	=	=	=
USD	=	=	=
Commodities	+	+	+

Asset Allocation



Our indicators headlights

	02/2010*	01/2010**	Tendency
EUR/USD	1.36	1.4528	-
S&P 500	1065	1145	-
EuroStoxx 50	2643	3040	-
Crude	71.2	86.6	-
Bund 10 years	3.13	3.39	-

* Figures as of 08/02/2010. ** Figures as of 11/01/2010.



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