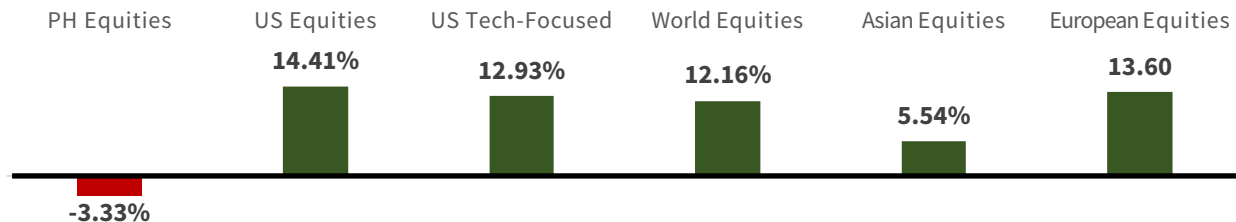




Special Edition Market Update

August 2021

Despite the challenges brought about by the global pandemic, major global stock indexes performed well, with many reaching double-digit returns during the first half of the year. This recovery was sparked by strong vaccination efforts and economic re-openings globally. The U.S. Tech-Focused index, the index that AXA's Global Advantage Fund invests in, posted a 12.93% return through June 30, 2021.



Right now, expensive index valuation, inflation in the U.S., and the emergence of the Delta variant of COVID-19 are some of the factors that may halt or slow down the growth of the Global Advantage Fund. In this Market Update, we will discuss the potential risks tied to the fund given our current environment, as well as the outlook on the index and the U.S. economy.

Overview of the Global Advantage Fund

The Global Advantage Fund (GAF) invests in a large-cap growth index containing 100 of the biggest, most actively-traded companies (excluding the financial industry) in the U.S. GAF is also often cited as the 'technology index' as majority of the index is made up of companies in the tech sector. The popular GAFAM stocks (Google, Apple, Facebook, Amazon, Microsoft) remains to be its heavyweight. These companies come with their own pros and cons as investments.

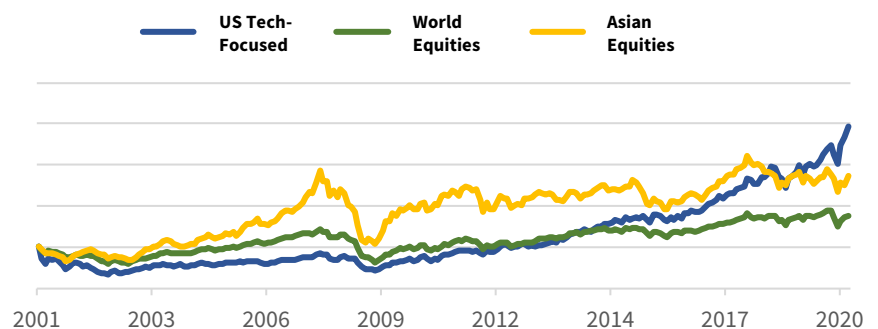
Pros:

- ✓ Recent increase in demand for electronics, e-commerce, and online services could translate to rise in earnings.
- ✓ Very high barrier to entry that makes it tough for lower-level competition to challenge these top companies.

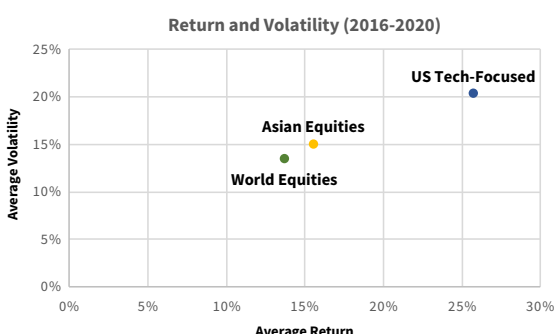
Cons:

- ✗ Regulatory risks, such as the emergence of antitrust lawsuits and stricter privacy laws, could significantly affect target-based ad revenue (e.g. Facebook and Google are heavily based on ad revenue).
- ✗ Stock prices are currently at high valuation, with many in the mid-30s price-to-earnings (P/E) ratio. Amazon even reached 58.3x P/E. Higher price-to-earnings ratio means you are paying more for every unit of stock earnings compared to other cheaper options.

Below is the returns profile of the U.S. Tech-Focused Index vs other broad benchmarks over the past 20 years.



The tech-focused index has outperformed other broad indices due to the large adoption to technology and online services in the recent years, especially in 2020.



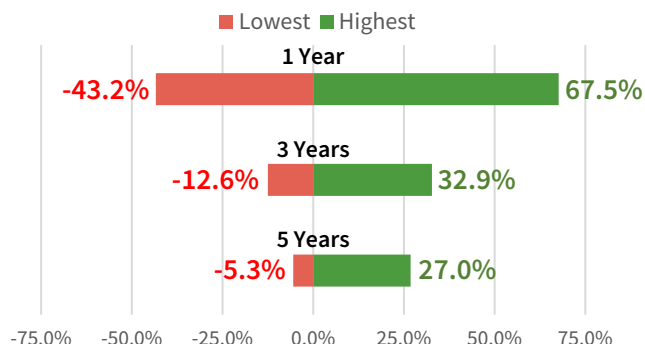
This has also resulted in its current high price and high volatility. The technology index had the highest volatility among the other broad benchmarks in each of the last four years.

Potential and risks of investing in the Global Advantage Fund

The fund has inherent equity risks, especially because the index is one of the most actively traded in the world. GAF is subject to the same type of price movement we see from other assets that are influenced by macro and micro economic news and events.

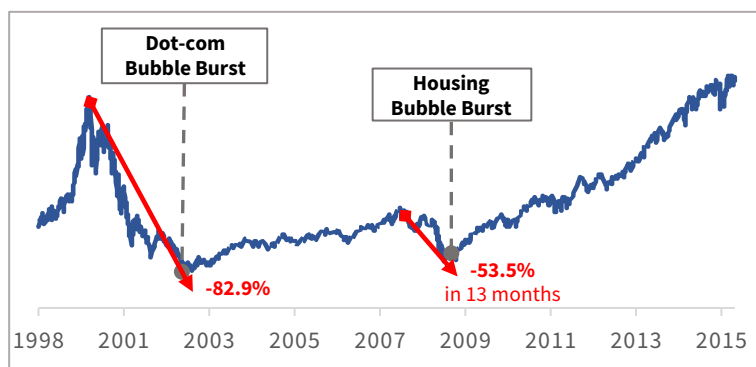
Historically, in any given year, it's possible for the index to return earnings up to 67.5%. However, it can also possibly dip by as much as -43.2%. Because of this, having a long-term investment horizon is important to help smoothen the upside and downside and maximize the growth potential of GAF.

Range of historical returns of the technology index

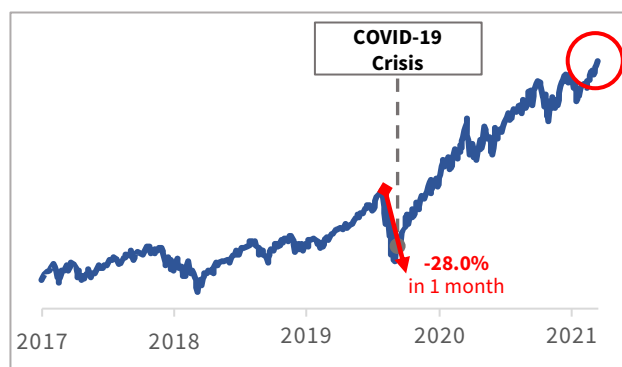


Risk of correction from an all-time high

Coming from the pandemic-induced market crash in March 2020, technology stocks have outperformed other indexes; thus, it has become a popular investment choice. More and more investors want to take part in its growth, which, in effect, has raised its stock price. But with the index reaching all-time highs, there's a risk that it may result in a correction or market decline down the line.



Technology Index Past Market Downturns (1998-2015)



Technology Index Past Market Downturns (2017-2021)

Stock market bubbles, or a situation where a stock price exceeds its fundamental value, have formed in the past. Certain stocks or securities were highly sought after and priced way over their actual value until a catalyst caused the bubble to burst resulting in a dip in the market. This was the case for tech stocks in the late 90s to early 2000s, as well as the mortgage-backed securities during the 2007-2009 Global Financial Crisis. Another crash was also experienced during the start of the COVID-19 pandemic in 2020, affecting a broader range of stock markets and assets.

We've yet to see if there is currently another bubble situation brewing for tech stocks. For now, tech companies continue to perform because their products and services remain in demand.

Risk of an expensive valuation

The technology index is projected to be at 29.5x P/E from 35.82 a year from now. Historically speaking, this is still high for the index compared to its valuation pre-pandemic. However, since the surge in 2020 brought the P/E to its all-time high, it's possible for the index's price to decline in the coming year. But in comparison with other major global indexes, the tech index is expected to continue trading at more expensive levels.

Snapshot of the global market outlook



- Global investors have hit pause on risky assets, such as tech stocks, as they examine two things:
 - Whether recent inflationary pressures are just short-lived
 - Whether the fast spread of the Delta variant will cause extended lockdowns that may throw the strong global economic rebound off track
- However, despite high U.S. inflation, many experts view this as transitory, considering how the economy is experiencing a post-pandemic consumption boom. In fact, bond investors barely reacted to the decade-high U.S. inflation. This tells us that they see this as temporary, with the rise in prices driven by COVID-19 related factors.
- Despite the alarming spread of the Delta variant, some experts believe that a sell-off may be too hasty. While there has been a push-and-pull between the rise in cases and lockdown implementations in the past, the main difference now is that many developed countries are armed with vaccine supplies.
- Still, the emergence of the Delta variant may significantly slow down any efforts to reopen the economy if vaccinations don't curb the spread.

Our recommendations

Considering the potential factors that may slow down the recovery of global markets, it is best to practice cautious optimism when it comes to investments. A good way to do that is to diversify your portfolio among various investment funds with different asset types from different industries. This way, if the U.S. and the technology sector slow down, you may still be able to take advantage of the growth of other markets that are just starting to recover.

Below is a guide on how you can diversify your investments according to your risk profile.

		Risk profile		
Asset type	Market	Cautious	Balanced	Aggressive
Bonds	Local	35%	25%	15%
	Global	35%	25%	15%
Equities	Local	15%	25%	35%
	Global	15%	25%	35%
Total		100%	100%	100%

Consult your AXA financial partner for a more in-depth discussion on how you can apply these recommendations.

Sources of information and data

- <https://www.bloomberg.com>
 - Global index performance
 - Nasdaq Top Holdings
 - P/E Ratio of Top Holdings
 - Returns and Volatility data
 - Max and Min Returns for Tech Index
 - Past Market Downturns
 - Forward P/E Ratio
- <https://money.usnews.com/investing/stock-market-news/articles/> (Pros and Cons of Top Stock Holdings)
- Invesco Update Materials (Outlook for Tech Index)

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