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# Global Strategic Bonds strategy

## Fed's hawkish tone causes yields to move higher

- Fed announces tolerance for targeted “average” inflation levels going forward
- Government bonds gave up some of their recent gains during August
- Spreads continue to tighten thanks to sustained strong inflows into credit

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### What's happening?

- Government bonds gave up some of their recent gains during August as speculation increased around a more hawkish tone from central banks.
- This was confirmed late in the month when the Fed Chairman, Jerome Powell, confirmed that the US Central Bank would target “average” inflation levels going forward, meaning tolerance for higher than historic target inflation.
- Risk assets, high yield and emerging markets continued to perform well during the month as spreads tightened. Investment grade credit delivered negative total returns due to higher government bond yields.

### Portfolio positioning and performance

- **Defensive (40%):** we lowered duration during the month as government bond volatility picked up. We still hold a US bias, but at the shorter rather than longer end. Overall exposure remains elevated, although lower than in Q1.
- **Intermediate (25%):** we increased European investment grade credit with a growing exposure to Financials, as certain single name bonds present attractive spread in the BBB-rated space.
- **Aggressive (36%):** allocation to lower-risk bonds remained stable during the month as we continue to hold a preference to US high yield companies. This is enhanced with an 11% exposure to hard currency emerging markets in both corporates and sovereign bonds.

### Strategy in focus – representative account (31/08/20)

Assets under management	\$887.9m
Duration	2.91 yrs
Yield <sup>1</sup>	2.00%
Running yield <sup>1</sup>	3.50%
Spread to government <sup>2</sup>	189
Number of holdings	278
Launch date	11/05/2012

### Net performance – representative account (USD)<sup>3</sup>

One month	-0.24%
One year	+5.14%
Three years (cumulative)	+16.28%
Five years (cumulative)	+27.53%

Source: AXA IM as at 31/08/2020. The data is based on a representative account that follows the Global Strategic Bonds strategy and is not intended to represent actual past or simulated past performance of the strategy. **Past performance is not a reliable indicator of future results.** Performance calculations are net of fees, based on the reinvestment of dividends.

## Outlook

- August saw a pick-up in bond volatility as investors started to question whether yields will remain at the lower range following a very long period of strength. We continue to believe that there are opportunities in government bonds although short term we have reduced duration risk as bonds adjust to new yield levels.
- For the moment, credit spreads have remained resilient, with strong inflows into the asset class in line with such large monetary policy stimulus in response to the weak economy.
- We remain vigilant to volatility further down the credit curve but for the foreseeable future the preference is for higher yielding, lower-rated bonds to generate returns.

## Credit rating breakdown

Category	Rating	Total
Defensive	Cash	2.6%
	AAA	23.6%
	AA	13.3%
	<b>Total</b>	<b>39.5%</b>
Intermediate	AA	0.6%
	A	5.2%
	BBB	18.9%
	<b>Total</b>	<b>24.7%</b>
Aggressive	AA	0.7%
	A	0.2%
	BBB	4.5%
	BB	10.6%
	B	11.1%
	CCC	7.6%
	Not rated	1.1%
<b>Total</b>	<b>35.9%</b>	
<b>Total</b>		<b>100.0%</b>



## Portfolio breakdowns

### Strategy breakdown

Defensive	39.5%
Intermediate	24.7%
Aggressive	35.9%
<b>Total</b>	<b>100.0%</b>



### Defensive breakdown

<b>Total</b>	<b>39.5%</b>
US Government Bonds	23.1%
Core Europe Government Bonds	8.9%
Rest of World Governments	0.0%
Inflation-Linked Bonds	4.9%
Cash	2.6%



### Intermediate breakdown

<b>Total</b>	<b>24.7%</b>
US IG Credit	8.4%
Euro & Sterling IG Credit	16.3%
Periphery Governments	0.0%



### Aggressive breakdown

<b>Total</b>	<b>35.9%</b>
High Yield (US 18.8%/Europe 6.1%)	24.9%
Emerging Markets (HC 11.0%/LC 0%/FX 0%)	11.0%



### Derivatives breakdown

<b>Total</b>	<b>-37.1%</b>
Bond Futures	-25.7%
Credit Default Swaps	-11.5%

(1) Yield figures quoted will vary in the future and are not guaranteed.

(2) Average credit spread relative to government bonds.

(3) Representative account has been selected based on objective, non-performance based criteria, including, but not limited to the size and the overall duration of the management of the account, the type of investment strategies and the asset selection procedures in place. Therefore, the results portrayed relate only to such accounts and are not indicative of the future performance of such accounts or other accounts, strategies and/or services described herein. In addition, these results may be similar to the applicable GIPS composite results, but they are not identical and are not being presented as such. Account performance will vary based upon the inception date of the account, restrictions on the account, along with other factors, and may not equal the performance of the representative accounts presented herein. The performance results for representative accounts are net of all fees and reflect the reinvestment of dividends or other earnings.

No assurance can be given that the Global Strategic Bonds strategy will be successful. Investors can lose some or all of their capital invested. The Global Strategic Bonds strategy is subject to risks including credit risk, operational risk and counterparty risk. The strategy is also subject to derivatives and leverage, emerging markets, global investment grade and high yield securities, securitised assets and collateralised debt risks.

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