

Not for Retail distribution: this document is intended exclusively for Professional, Institutional, Qualified or Wholesale Investors / Clients, as defined by applicable local laws and regulation. Circulation must be restricted accordingly

AXA Global Strategic Bond Fund

US treasury curve steepens

- Markets are pricing in impressive growth forecasts for major economies in 2021
- This is impacting on expectations for short-term inflation and future interest rates
- Yield curves have steepened as a result, with long-dated government bonds hit hardest

Nick Hayes

Portfolio Manager, AXA Global Strategic Bond Fund

What's happening?

- The “reflation trade” continued during March, with government bonds, particularly in the US, hardest hit. In the UK, 10-year gilts hit a yield of 0.88%, levels not seen since before the global pandemic over 12 months ago.
- Long-dated bonds underperformed and the US treasury curve steepened as future interest rate rises are priced in, albeit expectations for short-dated interest rates remain stable. The Federal Reserve reiterated the intention to keep official rates on hold for the foreseeable future.
- Vaccine rollout continues at speed in the UK and US, with Europe lagging but expected to pick up over coming months. The US pandemic fiscal stimulus also got passed and provided further support to risk markets.
- The unwind of a large, leveraged, Asian-focused hedge fund, and the supply chain disruption through the Suez Canal blockage, failed to dent investor confidence.

Portfolio positioning and performance

- **Defensive (40%):** we remain cautious on duration with a low 2-year exposure and a focus on trying to preserve capital. The strategy benefitted from low US duration and a bias towards the steepening of long-dated assets. We increased our exposure to inflation-linked bonds to benefit from higher break-evens, which did well during March.
- **Intermediate (26%):** exposure remained constant around 25%, but we rotated out of financial bonds into non-financial new issuance. We retain a preference for European investment grade, with a bias to lower-rated BBB assets.

Fund in focus

Assets under management	£58m
Duration	2.07 yrs
Yield (GBP Hedged) ¹	1.24%
Running yield ¹	3.21%
Spread to government ²	115
Number of holdings	219
Launch date	19/10/2020

Net performance (GBP)

One month	+0.22%
Three months	-0.89%
2021 YTD	-0.89%
Since launch (cumulative)	+0.20%

Source: AXA IM as at 31/03/2021. The data is shown for the AXA Global Strategic Bond Fund. Performance is based on the Z share class net of ongoing charges (54bps), dividends reinvested. **Past performance is not a reliable indicator of future results.**

- **Aggressive (34%):** small reduction to emerging market debt exposure in favour of developed market high yield. Higher government bond yields, and a pick-up in Asian debt and Turkish volatility, added to the weaker sentiment around emerging market debt.

Outlook

- In the short term, there is positive momentum around risk assets and a growing consensual view that government bond yields will head higher. Expectations for inflation are on the rise, although we believe that this will be relatively transitory, as short-term base effects will be offset by the longer-term deflationary pressures of globalisation, technology and demographics.
- There is also growing evidence of a pick-up in leverage in capital markets, which is starting to show some signs of volatility and small pockets of weakness. While we continue to prefer risk assets over high quality government bonds, we are focused on the fact that government bond valuations have improved, whereas spreads and yields further down the credit curve have got more expensive.
- Over the coming months, there could be an opportunity to improve the quality of the portfolio and once again hedge against a potential increase in volatility further down the line.

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	4.3%
	AAA	16.0%
	AA	19.8%
	Total	40.1%
Intermediate	AA	1.2%
	A	3.0%
	BBB	21.6%
	Total	25.7%
Aggressive	AA	0.0%
	A	0.3%
	BBB	2.8%
	BB	11.7%
	B	12.2%
	CCC & Below	7.0%
	Not rated	0.2%
Total	34.2%	
Total		100.0%



Portfolio breakdowns

Strategy breakdown

Defensive	40.1%
Intermediate	25.7%
Aggressive	34.2%
Total	100.0%



Defensive breakdown

40.1%	
US Government Bonds	8.9%
Core Europe Government Bonds	13.2%
Rest of World Governments	0.0%
Inflation-Linked Bonds	13.7%
Cash	4.3%



Intermediate breakdown

25.7%	
US IG Credit	8.2%
Euro & Sterling IG Credit	17.5%
Periphery Governments	0.0%



Aggressive breakdown

34.2%	
Emerging Markets (HC 8.6%/LC 0%/FX 0%)	8.6%
US High Yield	18.1%
European High Yield	7.6%



Derivatives breakdown

-53.3%	
Bond Futures	-44.6%
Credit Default Swaps	-8.7%

Source: AXA IM as at 31/03/2021.

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

(2) Average credit spread relative to government bonds.

No assurance can be given that the AXA Global Strategic Bond Fund will be successful. Investors can lose some or all of their capital invested. The AXA Global Strategic Bond Fund is subject to risks including counterparty risk, derivatives risk, geopolitical risk, interest rate risk, securitised assets or CDO assets risk, emerging market risk, liquidity risk, credit risk, risks linked to investments in sovereign debt, high yield bonds risk and contingent convertible bonds (“CoCos”) risk. Further explanation of the risks associated with an investment in this fund can be found in the prospectus.

Not for Retail distribution: This document is intended exclusively for Professional, Institutional, Qualified or Wholesale Clients / Investors only, as defined by applicable local laws and regulation. Circulation must be restricted accordingly.

Past performance is not a guide to current or future performance, and any performance or return data displayed does not take into account commissions and costs incurred when issuing or redeeming units. The value of investments, and the income from them, can fall as well as rise and investors may not get back the amount originally invested. Exchange-rate fluctuations may also affect the value of their investment.

This document is for informational purposes only and does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities. The strategies discussed in this document may not be available in your jurisdiction.

Due to its simplification, this document is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There is no guarantee that forecasts made will come to pass. Data, figures, declarations, analysis, predictions and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain sufficient information to support an investment decision.

Issued in the UK by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales, No: 01431068. Registered Office: 22 Bishopsgate, London, EC2N 4BQ. In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.