For professional clients only
May 2021
Monthly Perspectives
Fixed Income

AXA Global Strategic Bond Fund

A more positive outlook for bonds

- Bond yields moved slightly lower, suggesting that higher inflation data was expected
- A lot of good news appears to be already priced into markets
- Fund's risk exposure increased through higher duration and removal of CDS hedge

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What's happening?

- Economic data was mixed and volatile, perhaps unsurprisingly given the disruption of 12 months ago, but inflation data remains very elevated, although arguably meeting the already high expectations priced into markets.
- Bond yields moved marginally lower during the month and have certainly moved away from the negative sentiment surrounding higher inflation expectations and resulting bear market at the end of Q1.
- Despite slightly lower yields, suggesting that the inflation data was well expected, inflation break-evens moved higher during the month and returns outstripped those in credit and conventional government bonds.
- Credit and high yield spreads are proving to be robust, benefitting returns in the higher carry component.

Fund in focus	
Assets under management	£60m
Duration	2.98 yrs
Yield (GBP Hedged)[1]	2.33%
Running yield[1]	3.21%
Spread to government[2]	181
Number of holdings	234
Launch date	19/10/2020
Net performance (GBP)	
One month	+0.20%
Three months	+0.92%
2021 YTD	-0.20%
Since launch (cumulative)	+0.90%

Source: AXA IM as at 31/05/2021. 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**.

Portfolio positioning and performance

- Defensive (36%): we added long-dated US treasury duration during the month as the momentum around lower yields continued. Our 14% exposure to inflation-linked government bonds performed particularly well, with widening break-evens in both our UK and US exposure. The fund's overall duration is now 3 years – double what it was in February when yields were moving higher.

- Intermediate (28%): in the investment grade space we added to sterling financial credit, once again finding attractive valuations in the BBB part of the market. Exposure to GBP / EUR credit is now its highest level since inception.
- Aggressive (36%): activity in the US high yield market (18% exposure) was relatively low, although we participated in some new issues, specifically in the hotel REIT space. We added to exposure in the housing recovery theme, which appears to be a beneficiary of pent-up demand around the world post lockdowns. We reduced our CDS exposure as spreads moved a little higher, whilst going forward we want to run more risk and carry in the high yield component.

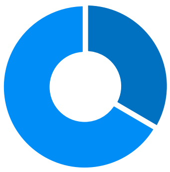
Outlook

- After a very difficult first quarter, with negative returns in various markets some of the worst on record, the outlook for bonds now looks more attractive. At worst, yields have consolidated and, in places, have even started to rally. In view of this, we are increasing our interest rate exposure along with greater credit and high yield exposure.
- While the macroeconomic data, and potential Fed rate rises, may look like a negative event for bonds, much of the positive news is already priced into markets. As ever in bond markets, the positive technical demand from central banks and investor positioning is maybe once again driving yields lower.
- As has been the case for many periods since the global financial crisis, central bank support is providing a positive backdrop for most market returns.

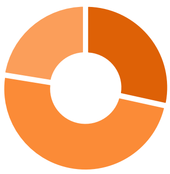
Portfolio breakdowns

Strategy breakdown	
Defensive	35.8%
Intermediate	28.3%
Aggressive	35.9%
Total	100.0%

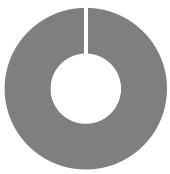
Defensive breakdown	35.8%
US Government Bonds	7.7%
Core Europe Government Bonds	10.5%
Rest of World Governments	0.0%
Inflation-Linked Bonds	14.4%
Cash	3.2%



Intermediate breakdown	28.3%
US IG Credit	9.5%
Euro & Sterling IG Credit	18.9%
Periphery Governments	0.0%



Aggressive breakdown	35.9%
Emerging Markets (HC 10.2%/LC 0%/FX 0%)	10.2%
US High Yield	17.6%
European High Yield	8.0%



Derivatives breakdown	-40.9%
Bond Futures	-40.9%
Credit Default Swaps	0.0%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	3.2%
	AAA	15.7%
	AA	16.9%
	Total	35.8%
Intermediate	AA	1.2%
	A	2.9%
	BBB	24.3%
	Total	28.3%
Aggressive	AA	0.0%
	A	0.3%
	BBB	3.0%
	BB	12.9%
	B	12.7%
	CCC & Below	6.8%
	Not rated	0.2%
	Total	35.9%
Total		100.0%

Source: AXA IM as at 31/05/2021.

(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.