

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 curve flattens after less dovish tone from the Fed

- Government bonds rallied in June, driven by the long end of the US treasury curve
- The Fed's less dovish tone created a strong market reaction
- We are improving the portfolio's credit quality as valuations seem very expensive

**Nick Hayes**

**Portfolio Manager, AXA Global Strategic Bond Fund**

### What's happening?

- Government bond yields moved lower in a bout of volatility which probably caught many investors out, as the reflation narrative and higher government bond yields continues to be a popular theme.
- Volatility was greatest in the long end of the US treasury curve, which flattened very aggressively subsequent to the less dovish tone in the Federal Reserve's June update.
- Broadly speaking, credit markets have been well behaved, leading to a narrative of "the everything rally" sponsored by central banks' loose monetary policy. However, there are signs of certain pockets of weakness, in particular with Asian credit and to a lesser extent emerging market debt.
- With stable credit spreads in developed markets, many credits are starting to look fully priced for a very positive outlook which may or may not materialise.

### Portfolio positioning and performance

- **Defensive (35%):** during June the fund benefited from our recent addition to duration, particularly in 30-year US treasuries. We also reduced exposure to inflation linked break-evens, which should cheapen up if the lower nominal yield is reflecting less growth or inflation than many investors expect.

### Fund in focus

Assets under management	£60m
Duration	3.24 yrs
Yield (GBP Hedged) <sup>1</sup>	2.17%
Running yield <sup>1</sup>	3.21%
Spread to government <sup>2</sup>	137
Number of holdings	234
Launch date	19/10/2020

### Net performance (GBP)

One month	+0.69%
Three months	+1.40%
2021 YTD	+0.49%
Since launch (cumulative)	+1.60%

Source: AXA IM as at 30/06/2021. 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.**

- **Intermediate (30%):** we have slightly increased our exposure to investment grade at the expense of high yield over the last few months as we look to improve the quality of the portfolio and have more exposure to higher quality rather than lower quality credit.
- **Aggressive (36%):** in our high yield allocation we reduced exposure to some Asian credits where the market is seeing some volatility, possibly a reflection of excessive risk taking over previous months. In US dollar high yield, we still favour short-dated carry bonds and carry less risk than the market generally.

## Outlook

- The government bond market has rallied significantly and the period of higher yields is increasingly in the rear view mirror. There are two current narratives: one that the rally is being driven by a short squeeze and increased technical demand for bond buying, with the other that the bond market is pricing in a rolling-over of growth and inflation expectations.
- Whichever narrative is most plausible, there is certainly a conflict between what the bond market and credit market are telling us. We are minded to reduce credit risk and improve the quality of the portfolio to reflect very expensive credit valuations after many successful months.
- The summer may provide some opportunities to rotate further down the credit curve but, for the moment, we maintain a more cautious stance.

## Portfolio breakdowns

### Strategy breakdown

Defensive	34.7%
Intermediate	29.6%
Aggressive	35.7%
<b>Total</b>	<b>100.0%</b>



### Defensive breakdown

US Government Bonds	13.5%
Core Europe Government Bonds	10.4%
Rest of World Governments	0.0%
Inflation-Linked Bonds	8.9%
Cash	1.9%



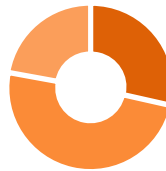
### Intermediate breakdown

US IG Credit	9.8%
Euro & Sterling IG Credit	19.8%
Periphery Governments	0.0%



### Aggressive breakdown

Emerging Markets (HC 10.2%/LC 0%/FX 0%)	10.2%
US High Yield	17.6%
European High Yield	7.9%



### Derivatives breakdown

Bond Futures	-33.5%
Credit Default Swaps	0.0%



## Credit rating breakdown

Category	Rating	Total
Defensive	Cash	1.9%
	AAA	10.4%
	AA	22.4%
	<b>Total</b>	<b>34.7%</b>
Intermediate	AA	1.2%
	A	2.9%
	BBB	25.6%
	<b>Total</b>	<b>29.6%</b>
Aggressive	AA	0.0%
	A	0.3%
	BBB	3.1%
	BB	12.6%
	B	13.0%
	CCC & Below	6.7%
	Not rated	0.2%
	<b>Total</b>	<b>35.7%</b>
<b>Total</b>	<b>100.0%</b>	

Source: AXA IM as at 30/06/2021.

(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.