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# AXA Global Strategic Bond Fund

## Higher yields, flatter curve

- Short-dated bonds underperform as expectations for interest rate rises are brought forward
- Inflation breakevens continue to perform well as inflation expectations remain elevated
- We added to our credit risk exposure in developed market high yield and emerging markets

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### What's happening?

- Government bond volatility increased during October as markets brought forward expectations for interest rate rises in the major global economies. One major feature of the sell-off this month was the pressure that short-dated bonds came under compared with longer-dated bonds, which even rallied in places. As such, key government bond curves flattened during the month.
- The Bank of England and Federal Reserve are guiding the market towards the tapering of QE and potential rate rises, with the UK pricing in a first rate rise in early November.
- One feature of this year's interest rate volatility is that it appears to have had very little impact on credit or indeed equity risk. Spreads continue to trade in a very tight range, sell-offs are well supported and, where total returns have been negative, is due to higher government bond yields rather than any weakness in credit spreads.
- As the economic recovery evolves and inflation expectations remain elevated, inflation breakevens continue to perform well, outperforming conventional government bonds. Within global high yield, developed market total returns remain attractive, while Asian high yield default expectations are increasing, leading to negative total returns.

### Fund in focus

Assets under management	£72m
Duration	2.23 yrs
Yield (GBP Hedged) <sup>1</sup>	2.53%
Running yield <sup>1</sup>	3.20%
Spread to government <sup>2</sup>	156
Number of holdings	241
Launch date	19/10/2020
<b>Net performance (GBP)</b>	
One month	0.00%
Three months	-0.88%
2021 YTD	0.00%
Since launch (cumulative)	+1.10%

Source: AXA IM as at 31/10/2021. 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 (33%):** we increased exposure to long-dated bonds at the expense of short dated, whilst keeping overall duration low at 2 years. We reduced overall government bond exposure, specifically inflation-linked bonds after recent rallies.

- **Intermediate (32%):** slight increase in high quality credit exposure via financials in the new issue market. We selectively prefer credit spreads in BBB-rated assets and financials, which continue to offer opportunities.
- **Aggressive (35%):** we added to high yield and emerging markets as the positive demand for the asset class continues to be very supportive of returns. We maintain our preference for developed market over emerging markets and see the shorter-dated, lower-rated space as the relative sweet spot for returns with valuations where they are.

## Outlook

- Government bond volatility remains elevated, although for the moment this seems to be relatively contained. Returns further down the credit curve have been strongest and there appears to be no let-up in demand for credit risk in a world of rising bond yields.
- As bond yields rise, the market is pricing in prolonged inflation and several interest rate rises in the near future.
- If this scenario doesn't materialise, however, then government bonds start to look attractively priced as per the start of 2021, meaning that an increased duration position could be rewarded.

## Credit rating breakdown

Category	Rating	Total
Defensive	Cash	6.5%
	AAA	7.9%
	AA	18.6%
	<b>Total</b>	<b>33.0%</b>
Intermediate	AA	1.2%
	A	3.1%
	BBB	27.9%
	<b>Total</b>	<b>32.2%</b>
Aggressive	AA	0.0%
	A	0.2%
	BBB	3.0%
	BB	12.6%
	B	12.2%
	CCC & Below	6.6%
	Not rated	0.3%
<b>Total</b>	<b>34.9%</b>	
<b>Total</b>		<b>100.0%</b>



## Portfolio breakdowns

### Strategy breakdown

Defensive	33.0%
Intermediate	32.2%
Aggressive	34.9%
<b>Total</b>	<b>100.0%</b>



### Defensive breakdown

<b>Defensive breakdown</b>	<b>33.0%</b>
US Government Bonds	14.2%
Core Europe Government Bonds	5.4%
Rest of World Governments	0.0%
Inflation-Linked Bonds	6.9%
Cash	6.5%



### Intermediate breakdown

<b>Intermediate breakdown</b>	<b>32.2%</b>
US IG Credit	9.8%
Euro & Sterling IG Credit	22.4%
Periphery Governments	0.0%



### Aggressive breakdown

<b>Aggressive breakdown</b>	<b>34.9%</b>
Emerging Markets (HC 8.6%/LC 0%/FX 0%)	8.6%
US High Yield	17.7%
European High Yield	8.5%



### Derivatives breakdown

<b>Derivatives breakdown</b>	<b>-48.8%</b>
Bond Futures	-48.8%
Credit Default Swaps	0.0%

Source: AXA IM as at 31/10/2021.

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

(2) Average credit spread relative to government bonds.

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