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

January 2022

Global Strategic Bonds
Reasons for optimism in 2022

Strategy update

There is no doubt that 2021 was a difficult year for fixed income returns in light of the strong rebound in GDP growth and some of the highest inflation prints in many decades, which have followed the gradual unlocking of economies as we cautiously learn to live with the pandemic. Markets have focused on resulting expectations for central bank policy, with interest rate rises and the tapering of asset purchasing programmes high on the agenda. Unsurprisingly in this environment, duration-sensitive assets struggled in 2021. However, asset classes such as high yield – driven by low default expectations and tightening credit spreads, as well as inflation breakevens – fuelled by rising inflation that proved not to be as short-lived as central banks expected, fared much better. The story was more complex for emerging markets, which notably suffered from heightened volatility in Asia – particularly in the Chinese property sector.

The Global Strategic Bonds strategy delivered a flattish return in 2021, with an absolute performance of +0.30% (gross of fees in USD). Since inception in May 2012, the long-term performance of the strategy remains very attractive, with a cumulative total return gross of fees in USD of +58.73% (+4.91% annualised).[1] Despite a tough start to 2022, here are some reasons why we believe the case for a flexible, unconstrained approach to fixed income investing remains a compelling proposition.

Reasons for optimism

1

Market pricing for monetary policy may be too aggressive

In many ways, 2021 was defined by market expectations for central bank policy in the wake of higher inflation data, which provided to be stickier than originally anticipated, along with strong growth as economies kicked into life again. 2022 should see a continuation, and even escalation, of the “reopening” theme. However, central banks face a difficult balancing act between “normalising” policy to tackle inflation, whilst ensuring that growth remains robust. Therefore, as the market aggressively prices in interest rate rises (in the US, the market is now pricing in four Fed hikes in 2022), it is perhaps worth considering the potential for central banks to disappoint the market – given the current starting point of incredibly loose policy and an uncertain outlook. We also remain firmly in the camp believing that inflation *should* subside in 2022 as supply chain issues subside, demand normalises somewhat, and attention turns once again to the deflationary impacts of ageing demographics, globilisation and an increased reliance on automation and technology. No doubt we will move to tighter financial conditions in 2022 and rate rises are inevitable (indeed the Bank of England have already hiked in December), but the more aggressive market pricing for rate rises gets, the more excited we get about the potential opportunity.

2

Higher yields, higher carry

Fixed income can often be simplified: what we are witnessing at the moment is an asset class that is getting cheaper. For many investors, particularly institutional – who are less price sensitive but need to own high quality government bonds for regulatory reasons – the valuation argument for buying bonds is strengthening by the day. Clearly, timing is key and many will be cautious that yields may have some way to go higher still, but just like Q1 2021 when everyone fixed on US 10-year treasury yields going through 2% (they peaked at 1.75%), there is a level at which cheaper bond yields may become too much for many to resist – thereby creating a powerful technical demand for the asset class – particularly if the economic recovery hits further bumps in the road. It is worth considering also that credit spreads are at historic tights following the recovery since March 2020 and that any sort of repricing could be perceived as a buying signal for many.

3

Consecutive negative years for bond returns are very rare

In 2021, developed market government bonds unanimously delivered a negative calendar year return. It is worth noting that this is a pretty rare occurrence. Taking the broad US treasury market as an example, 2021 was just the fifth negative return year since the index began in 1978 (i.e. 44 calendar years). More notably still, there has never been consecutive negative return years. In fact, the years after a negative return have tended to bounce back strong: in 1995 the treasury market delivered a +18.5% return, whilst in 2000, 2010 and 2014 it posted +13.4%, +5.9% and +6.0% respectively. Although we would clearly stop short of guaranteeing a similar outcome in 2022, the same logic applies that, after a sell-off, a recovery tends to follow. Emerging markets is another asset class to watch in this respect after a difficult 2021. Sentiment towards fixed income is pretty low at the start of 2022, meaning that it shouldn't be too difficult for it to surprise investors to the upside!

4

Appetite for risk remains strong

Despite the emergence of the Omicron variant, the outlook is still positive for high yield. We do not see default rates moving much off historic lows and Covid-related growth scares could keep the Fed from tightening too much, which could be positive for high yield if there still is some growth. While acknowledging some outflows from retail investors, appetite for the asset class remains strong as global fixed income markets still offer little yield for institutional investors and the US HY default rate remains at record lows. Recent market weakness has slightly improved the total return outlook for the US HY market, which should help with market sentiment as investors analyse their asset class allocations for 2022. From a technical supply/demand perspective, we see positive drivers due to the amount of potential rising stars next year and beyond, with an estimated $80-120bn of bonds to be upgraded to IG in the near future. This means that those bigger issuers will fall out of the HY index and become IG issuers.

5

Fixed income is not one asset class

Underpinning all these convictions is the ultimate belief that a diversified and flexible approach to fixed income can deliver attractive risk-adjusted returns over an economic cycle. 2021 was another reminder that, although government bonds and emerging markets lost money, there were strong positive returns in inflation-linked assets and high yield. Our simple and transparent investment framework, founded on three "risk buckets" (Defensive, Intermediate and Aggressive), allows us to access a broad range of fixed income asset classes where we can own bonds with negative yields all the way to double digit yields. With this broad opportunity set at our disposal, we remain convinced that there is money to be made in fixed income in 2022 and beyond.

Annualised calendar year performance – gross of fees in USD[1]

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012 (SI)
Global Strategic Bonds – representative account	0.30%	7.38%	10.27%	1.34%	4.87%	8.33%	-0.86%	3.22%	3.17%	9.94%

The strategy is actively managed without reference to any benchmark.

(1) Source of all performance data is AXA IM, gross of fees in USD, as at 31/12/2021. Past performance is not a reliable guide to current or future performance. The strategy launched on 11 May 2012.

Fund Risks

All investment involves risk and capital is not guaranteed. The Global Strategic Bonds strategy is invested in financial markets and uses techniques and instruments which are subject to sudden and significant variation, which may result in substantial gains or losses.
Counterparty Risk: risk of bankruptcy, insolvency, or payment or delivery failure of any of the fund's counterparties, leading to a payment or delivery default.
Credit Risk: risk that issuers of debt securities held in the fund may default on their obligations or have their credit rating downgraded, resulting in a decrease in the Net Asset Value.
Operational Risk: risk that operational processes, including those related to the safekeeping of assets may fail, resulting in losses.
Liquidity Risk: risk of low liquidity level in certain market conditions that might lead the fund to face difficulties valuing, purchasing or selling all/part of its assets and resulting in potential impact on its net asset value.
Impact of any techniques such as derivatives: certain management strategies involve specific risks, such as liquidity risk, credit risk, counterparty risk, legal risk, valuation risk, operational risk and risks related to the underlying assets. The use of such strategies may also involve leverage, which may increase the effect of market movements on the fund and may result in significant risk of losses.

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 or Qualified Clients / Investors only, as defined by applicable local laws and regulation. Circulation must be restricted accordingly.

January 2022

Luxembourg: In Luxembourg, this document is intended for Professional Clients only, as defined by local laws and the MIFID directive, and is distributed by AXA IM Benelux SA/NV, 1 Place du Trône – 1000 Brussels Belgium.

Netherlands: In the Netherlands, this document is intended for Professional Clients only, as defined by local laws and the MIFID directive, and is distributed by AXA IM Benelux-Netherlands Branch, Beethoven 500 – 4th Floor, Beethovenstraat 518 – 1082 PR Amsterdam - the Netherlands.

Portugal: In Portugal, this document is distributed by AXA Investment Managers GS Limited, Spanish Branch, has its registered office in Madrid, Paseo de la Castellana no. 93, 6th floor, is registered in the Madrid Mercantile Register, sheet M-301801, and is registered with the CNMV under 19 number as ESI of the European Economic Space, with Branch.

Spain: This document is intended for informational purposes only, and in no event is intended for retail customers and/or end investors. The information contained herein is for professional clients and eligible counterparties as they are defined in Articles 78bis and 79 ter of the Spanish Securities Market Act (Ley del Mercado de Valores), it is presumed, therefore, experience, knowledge and expertise to make their own investment decisions and properly assess their risks. In Portugal, this document is distributed by AXA Investment Managers GS Limited, Spanish Branch, has its registered office in Madrid, Paseo de la Castellana no. 93, 6th floor, is registered in the Madrid Mercantile Register, sheet M-301801, and is registered with the CNMV under 19 number as ESI of the European Economic Space, with Branch.

Switzerland: This document is intended exclusively for Qualified Investors according to Swiss law. Circulation must be restricted accordingly. Any reproduction of this information, in whole or in part, is prohibited. The Swiss representative and paying agent for the Luxembourg-domiciled FCP (fonds commun de placement) AXA IM Fixed Income Investment Strategies is BNP Paribas Securities Services, succursale de Zurich, Selnaustrasse 16, CH-8002 Zurich. The current prospectus, the Key Investor Information Document (KIID) as well as the annual and semi-annual reports can be obtained free of charge from the Swiss representative. In respect of the units distributed in Switzerland, the place of performance and jurisdiction is Zurich, Switzerland.

UK: AXA WF Global Strategic Bonds is recognised by the UK Financial Conduct Authority and is available for sale in the UK.

Liechtenstein: Investors and interested persons in the Principality of Liechtenstein receive the prospectus, the Key Investor Information Documents in German language, the annual and semi-annual report of AXA WF Global Strategic Bonds free of charge at AXA Investment Managers Deutschland GmbH Thurn-und-Taxis-Platz 6, D-60313 Frankfurt am Main, Germany or in electronic form on www.axa-im.li. or free of charge at the following paying agent: LGT Bank AG, Herrengasse 12, FL-9490 Vaduz