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AXA Global Strategic Bond Fund

Hawkish central banks trigger broad market sell-off

- 2022 started with a month of negative correlated returns across many asset classes
- Markets grappled with expectations around inflation and increasingly hawkish central banks, as well as geopolitical risks on the Ukraine border
- Portfolio activity was elevated, both in terms of duration positioning and security selection in emerging markets and high yield

Nick Hayes
Portfolio Manager, AXA Global Strategic Bond Fund

What's happening?

- January was a difficult month for all asset classes, driven by continuing elevated inflation and increasingly hawkish central bank outlooks. Higher interest rate expectations led to a re-evaluation for many investors across asset classes.
- The yield on US 10-year treasuries got back to pre-Covid levels and German 10-year yields moved into positive territory for the first time since early 2019.
- With the threat of rate hikes from the Federal Reserve, ECB and Bank of England, credit spreads and equities weakened during the month as volatility increased.
- On the geopolitical front, the threat of a Russian invasion into Ukraine did little to improve risk asset sentiment, but it also provided limited stabilisation in high quality government bonds which were clearly more focused on the very high inflation prints at the start of the year.

Fund in focus	
Assets under management	£73m
Duration	4.17 yrs
Yield (GBP Hedged)[1]	3.49%
Running yield[1]	3.48%
Spread to government[2]	208
Number of holdings	242
Launch date	19/10/2020
Net performance (GBP)	
One month	-1.33%
Three months	-1.92%
2022 YTD	-1.33%
Since launch (cumulative)	-0.84%

Source: AXA IM as at 31/01/2022. 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 (28%): duration exposure ended January at 4 years, having been reduced to below 2 years very early in the month as yields started the year on the backfoot. We added duration back in long-dated US treasuries as a defensive move against heightened geopolitical risk and on improved valuations. The bond market now prices in multiple rate hikes for 2022, which may or may not materialise. Long-dated treasuries continue to outperform short dated as the curve flattens.
- Intermediate (34%): activity was low in January as investment grade total returns were negatively affected by higher government bond yields. Whilst credit spreads in better quality credit were relatively immune to volatility during January, it looked increasingly likely in early February that contagion from risk asset volatility might spread to credit.
- Aggressive (38%): primary issuance was busy in the emerging market space and we sought opportunities in more renewable energy credits at the expense of carbon intensive commodity producers. Our US high yield exposure is concentrated on shorter-dated credits which have performed relatively well in a rising government bond yield environment. We are increasingly finding more attractive yield and spread in high yield as the market cheapens up, with credit fundamentals remaining robust.

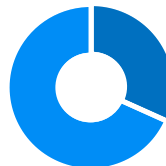
Outlook

- 2022 increasingly looks like the year that central banks will shift their policy stance. Government bond markets have finally started to price in multiple rate rises as the largest central banks move towards a very different environment of rising interest rates and less monetary stimulus. With this comes a pickup in volatility across most, if not all asset classes, and so far this has led to negative total returns in 2022.
- A period of negative, correlated returns across many fixed income assets classes is an uncomfortable environment but one that we have only witnessed a few times in recent history. At some stage the improved valuations, combined with reasonably solid fundamentals in credit, will be too attractive to ignore.
- Our expectation for returns further out in the year remains constructive, although short term the increased volatility may persist and we look for ways to reduce risk and mitigate volatility.

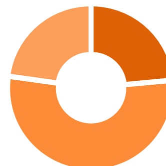
Portfolio breakdowns

Strategy breakdown	
Defensive	28.4%
Intermediate	34.2%
Aggressive	37.5%
Total	100.0%

Defensive breakdown	28.4%
US Government Bonds	11.7%
Core Europe Government Bonds	5.2%
Rest of World Governments	0.0%
Inflation-Linked Bonds	5.0%
Cash	6.4%



Intermediate breakdown	34.2%
US IG Credit	10.8%
Euro & Sterling IG Credit	23.3%
Periphery Governments	0.0%



Aggressive breakdown	37.5%
Emerging Markets (HC 8.8%/LC 0%/FX 0%)	8.8%
US High Yield	20.1%
European High Yield	8.5%

Derivatives breakdown	-34.4%
Bond Futures	-24.2%
Credit Default Swaps	-10.3%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	6.4%
	AAA	4.7%
	AA	17.3%
	Total	28.4%
Intermediate	AA	1.1%
	A	3.0%
	BBB	30.1%
	Total	34.2%
Aggressive	AA	0.0%
	A	0.2%
	BBB	3.2%
	BB	12.5%
	B	13.5%
	CCC & Below	7.9%
	Not rated	0.2%
	Total	37.5%
Total		100.0%

Source: AXA IM as at 31/01/2022.

(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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