For professional clients only
January 2022
Monthly Perspectives
Fixed Income

Global Short Duration strategy

Hawkish central banks push yields higher and spreads wider

- Credit spreads widened due to the increased hawkishness from central banks and escalating tensions between Russia and Ukraine
- Government bond yields sharply rose again due to persistently high inflation
- We actively managed the level of duration and credit risks through derivatives

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What's happening?

- Despite receding Omicron worries, credit spreads widened due to the increased hawkishness from central banks to counter persistently high inflation, mixed corporate results, and escalating tensions between Russia and Ukraine, helping oil prices to soar to multi-year highs.

- The US Federal Reserve (Fed) left monetary policy unchanged but shrank its asset purchases by a further $30bn, to be concluded in early March. Fed chair Jerome Powell stated that the committee was 'minded' to hike interest rates in March and hinted that a balance sheet announcement could be made in June. Meanwhile, inflation rates in December hit a new record high in the eurozone at 5.0% and a four-decade high in the US at 7.0%.

- US treasury, German bund, and UK gilt yields sharply rose again as central banks turned increasingly more hawkish to ensure inflation expectations remained anchored.

Strategy in focus – representative account (31/01/22)	
Assets under management	£189m
Yield (GBP hedged)[1]	2.1%
Duration[1]	2.1yrs
Average rating[2]	BBB+
Number of issuers	150
Launch date	17/05/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)[3]	
One month	-0.28%
Year-to-date	-0.28%
One year	+0.47%
Three year (cumulative)	+7.07%
Since launch (cumulative)	+7.50%

Annualised net performance – representative account (GBP)[3]	
One year	+0.47%
Three year	+2.30%
Since launch	+1.55%

Source: AXA IM as at 31/01/2022. The data is based on a representative account that follows the strategy and is not intended to represent actual past or simulated past performance of the strategy. **Return may increase or decrease as a result of currency fluctuations.** Performance calculations are net of fees, based on reinvestment of dividends.

Portfolio positioning and performance

- **Sovereign:** Our overall sovereign exposure was stable at 31%, with 14% still invested in US, German, and French inflation-linked bonds to benefit from supportive inflation indexation over the next couple of months. Following the sharp rise in yields in January, leading to a more attractive level of carry at the front end, and increased tensions between Russia and Ukraine, we tactically increased the duration by c.1 year to 2.1 years.

- **Investment Grade:** Our exposure to investment grade markets increased by 3% to 38% as we were active in the euro and sterling primary markets to benefit from attractive new issue premia. We were also active in the sterling secondary market.

- **High Yield and Emerging Markets**: Our exposure to high-yield and emerging markets was stable at 29% as we were active in both primary markets. Due to expensive valuations, increased hawkishness from central banks, and escalating tensions at the Ukrainian border, we bought protection on the Markit iTraxx Xover to hedge c.50% of our exposure to high-yield rated bonds.

Outlook

- With the market having to grapple with expensive valuations and increased hawkishness from central banks, we plan to retain our higher exposure to sovereign bonds (and linkers), waiting for better entry points to significantly re-risk by adding back to investment grade, high-yield and emerging markets.

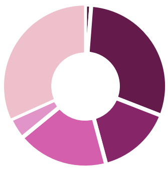
- We also plan to keep the duration towards the bottom of our range of one-to-three-years as we continue to expect higher yields in 2022 due to continued inflationary pressures and receding Omicron uncertainties.

Asset class breakdown

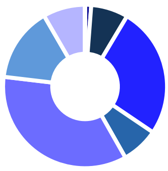
Category	Asset Class	Total
Cash		1%
Sovereign[5]	Nominal	17%
	Inflation-Linked	14%
	Total	31%
Investment Grade Credit	EUR IG Credit	12%
	GBP IG Credit	14%
	USD IG Credit	12%
	Total	38%
High Yield & Emerging Markets	EUR High Yield	16%
	USD High Yield	2%
	Emerging Markets	12%
	Total	29%
Total		100%

Portfolio breakdowns

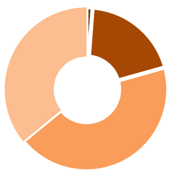
Breakdown by region	
Cash	1%
UK	25%
Core Europe – ex UK	26%
Periphery Europe	11%
North America	22%
Emerging Markets	12%
Developed Asia	2%



Breakdown by sector	
Cash	1%
Financial	30%
Defensive	15%
Cyclical	18%
Securitized	4%
Sovereign[4]	32%



Breakdown by rating[2]	
Cash	1%
AAA	7%
AA	26%
A	7%
BBB	35%
BB	15%
B	8%
CCC & below	0%



Breakdown by maturity	
Cash	1%
0-1 year	19%
1-3 years	43%
3-5 years	36%

(1) Yield and duration calculations include cash held within the portfolio, use the next-call method for all Financials in the portfolio and duration/yield-to-worst for all other holdings. The yield is calculated gross of fees. Please note that the yield calculations are based on the portfolio of assets and may NOT be representative of what clients invested in the strategy may receive as a distribution yield. Yields are not guaranteed and will change in future.

(2) Rating is the worst of S&P, Moody's and Fitch. In the rare case of an unrated issuer we will assign an internal credit rating.

(3) Representative Account has been selected based on objective, non-performance based criteria, including, but not limited to the size and the overall duration of the management of the account, the type of investment strategies and the asset selection procedures in place. Therefore, the results portrayed relate only to such accounts and are not indicative of the future performance of such accounts or other accounts, strategies and/or services described herein. In addition, these results may be similar to the applicable GIPS composite results, but they are not identical and are not being presented as such. Account performance will vary based upon the inception date of the account, restrictions on the account, along with other factors, and may not equal the performance of the representative accounts presented herein. The performance results for representative accounts are net of all fees and reflect the reinvestment of dividends or other earnings.

(4) Any Emerging Market Sovereigns are classified under "Sovereign" for the purpose of this breakdown.

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No assurance can be given that the Global Short Duration strategy will be successful. Investors can lose some or all of their capital invested. The Global Short Duration strategy is subject to risks including credit risk, liquidity risk and interest rate risk and counterparty risk. The strategy is also subject to derivatives and leverage, emerging markets and global investment risks.

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. Due to this and the initial charge that is usually made, an investment is not usually suitable as a short term holding.

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