For professional clients only
April 2022
Monthly Perspectives
Fixed Income

Global Short Duration strategy

Market sell-off deepens as growth outlook deteriorates

- Credit spreads widened as still-rising inflation should lead to aggressive monetary policy tightening by central banks
- Government bond yields surged, reaching levels not seen since before the pandemic
- We reduced our exposure to high-yield

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What's happening?

- Credit spreads widened as still-rising inflation should lead to aggressive monetary policy tightening by central banks, sparking investor concerns. A mixed bag of earnings reports and economic data, combined with continued disruption to supply chains and the ongoing conflict in Ukraine, all weighed further on sentiment. The French election result brought little relief to markets.

- The European Central Bank (ECB) surprised investors on the hawkish side. Despite making no changes to interest rates, policymakers indicated the first rate rise could be seen in July and as many as three hikes in total could happen this year. The ECB also confirmed its bond-buying programme will end in the third quarter.

- US treasury, German bund, and UK gilt yields surged as investors focused on the impact of rising inflation and increasing interest rates. Yields on 10-year government bonds are now at levels not seen since 2015 for Germany and the UK, and 2018 for the US.

Strategy in focus – representative account (30/04/22)	
Assets under management	£178m
Yield (GBP hedged)[1]	4.0%
Duration[1]	2.3 yrs
Average rating[2]	BBB
Number of issuers	161
Launch date	17/05/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)[3]	
One month	-0.75%
Year-to-date	-2.04%
One year	-1.68%
Three year (cumulative)	+3.63%
Since launch (cumulative)	+5.60%

Annualised net performance – representative account (GBP)[3]	
One year	-1.68%
Three year	+1.20%
Since launch	+1.11%

Source: AXA IM as at 30/04/2022. 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 exposure to sovereign bonds was broadly stable at 14% (versus 13% last month) as we remained invested in US and German inflation-linked bonds, nominal US treasuries, and government guaranteed debt. We increased the duration of the portfolio to 2.3 years from 2 years to benefit from a higher level of carry as government bond yields further surged.

- **Investment Grade:** Our exposure to investment grade markets was also broadly stable at 49% (versus 48% last month) as we participated in only one sterling new issue and were also active in the sterling secondary market.

- **High Yield and Emerging Markets**: Our exposure to high-yield and emerging markets decreased by 3% to 35% as a combination of bond redemptions, upgrades to investment grade, and sales led to a reduction of our allocation to high-yield.

Outlook

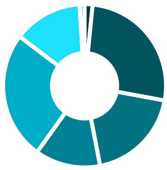
- Following the sharp tightening of credit spreads in the second half of March, we reduced our exposure to high-yield, waiting for better entry points to start re-risking again the portfolio.

- We expect market conditions to remain very volatile over the medium-term due to the combination of continued inflationary pressures, hawkish central banks, protracted conflict in Ukraine, and increased likelihood of a recession next year. In such an environment, it is paramount to retain flexibility and manage actively the duration and credit exposure.

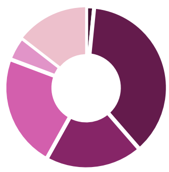
Asset class breakdown

Category	Asset Class	Total
Cash		2%
Sovereign[5]	Nominal	5%
	Inflation-Linked	9%
	Total	14%
Investment Grade Credit	EUR IG Credit	13%
	GBP IG Credit	23%
	USD IG Credit	13%
	Total	49%
High Yield & Emerging Markets	EUR High Yield	19%
	USD High Yield	2%
	Emerging Markets	14%
	Total	35%
Total		100%

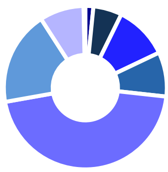
Portfolio breakdowns



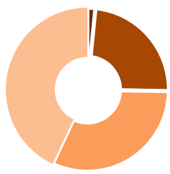
Breakdown by region	
Cash	2%
UK	26%
Core Europe – ex UK	19%
Periphery Europe	13%
North America	25%
Emerging Markets	14%
Developed Asia	1%



Breakdown by sector	
Cash	2%
Financial	37%
Defensive	19%
Cyclical	23%
Securitized	5%
Sovereign[4]	14%



Breakdown by rating[2]	
Cash	2%
AAA	6%
AA	11%
A	9%
BBB	45%
BB	19%
B	9%
CCC & below	0%



Breakdown by maturity	
Cash	2%
0-1 year	24%
1-3 years	32%
3-5 years	43%

(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.