AXA Global Strategic Bond Fund

Elevated volatility remains as growth outlook weakens

- Another challenging month for global fixed income, with higher yields and wider spreads
- We reduced the overall risk profile of the fund by selling high yield and boosting cash
- Duration exposure remained relatively low with 2-3 years, although we added some short-dated maturities towards month-end

Nick Hayes
Portfolio Manager, AXA Global Strategic Bond Fund

What's happening?

- April saw another aggressively negative month for global markets as the threat of high inflation and lower future global growth combined with growing sentiment that developed market central banks are increasingly behind the curve in raising interest rates.
- Expectations for rate hikes from the Federal Reserve now sit firmly for a 50bps rise in May and June. The Bank of England is slightly ahead of the US in its rate hiking cycle and the ECB is expected to raise rates above zero this year.
- The economic data will drive markets more than ever during this period of extreme volatility, with focus on the highest inflation for many years. That said, many think we have now seen the peak in inflation, which could combine with materially weaker growth in the coming quarters.

Fund in focus	
Assets under management	£76m
Duration	3.40 yrs
Yield (GBP Hedged)[1]	5.53%
Running yield[1]	3.55%
Spread to government[2]	356
Number of holdings	229
Launch date	19/10/2020
Net performance (GBP)	
One month	-1.88%
Three months	-5.42%
2022 YTD	-6.68%
Since launch (cumulative)	-6.21%

Source: AXA IM as at 30/04/2022. The data is shown for the AXA Global Strategic Bond Fund. Performance is based on the Z share class net of ongoing charges (53bps), dividends reinvested. **Past performance is not a reliable indicator of future results.**

- US 10-year yields closed in on 3% although moved lower towards month-end, as valuations not seen since late 2018 attracted some buyers. German 10-year yields approached 1% and UK equivalents went through 2%.
- Credit spreads moved wider during the month, in line with a weak equity market, as some of the recent gains in March were reversed.

Portfolio positioning and performance

- Defensive (34%): duration exposure remained relatively low with 2-3 years during the month, although we added some short-dated maturities towards month-end to benefit from both higher yields and the potential outperformance of short-dated bonds against long-dated bonds after a prolonged period of "yield curve flattening" (long-dated outperforming short-dated). In this period of much higher volatility, we have boosted cash higher to 8%.
- Intermediate (33%): small reduction in US credit as we look to build a higher cash buffer to protect against further volatility. We continue to own higher exposure to European credit with BBB-rated concentration, which offers attractive yields, although has suffered year-to-date with both the duration and credit spread negatively contributing to returns.
- Aggressive (33%): we reduced exposure to both US and European high yield based on negative momentum and possible fundamental deterioration, even though valuations have improved in many markets given the price depreciation in 2022. Volatility is expected to be elevated for the foreseeable future.

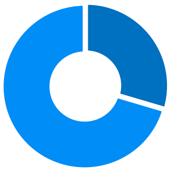
Outlook

- On various measures, global fixed income is having its worst start to the year for many decades, if not ever. Markets are trying to deal with elevated inflation and a potential weaker growth environment ahead, while central banks are in the process of reversing many years' worth of loose monetary policy.
- For the moment, we have positively correlated losses across nearly all asset classes, with high-quality bonds bearing the brunt of the losses – rather than offering the safe haven that historically has benefited many investors in such volatility. For markets to stabilise, it feels like we need to see lower prints in inflation and for central banks to be further into their interest rate hiking cycle.
- Typically in such an environment, one would expect investor flows to support government bond yields first as the market contagion spreads deeper and more negatively into riskier assets such as high yield and equities. Given that the number of interest rate hikes that are priced into developed market bond curves currently looks to be on high, there is potentially an attractive "valuation" argument for buying bonds, but for the moment the negative "momentum" is the primary sentiment.

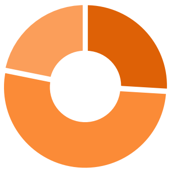
Portfolio breakdowns

Strategy breakdown	
Defensive	33.9%
Intermediate	32.9%
Aggressive	33.2%
Total	100.0%

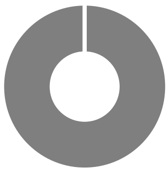
Defensive breakdown	33.9%
US Government Bonds	13.1%
Core Europe Government Bonds	8.8%
Rest of World Governments	0.0%
Inflation-Linked Bonds	5.6%
Cash	6.4%



Intermediate breakdown	32.9%
US IG Credit	9.7%
Euro & Sterling IG Credit	23.2%
Periphery Governments	0.0%



Aggressive breakdown	33.2%
Emerging Markets (HC 8.6%/LC 0%/FX 0%)	8.6%
US High Yield	17.4%
European High Yield	7.3%



Derivatives breakdown	-27.8%
Bond Futures	-27.8%
Credit Default Swaps	0.0%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	6.4%
	AAA	6.1%
	AA	21.3%
	Total	33.9%
Intermediate	AA	0.9%
	A	2.7%
	BBB	29.3%
	Total	32.9%
Aggressive	AA	0.0%
	A	0.2%
	BBB	2.8%
	BB	11.6%
	B	11.4%
	CCC & Below	7.0%
	Not rated	0.2%
	Total	33.2%
Total		100.0%

Source: AXA IM as at 30/04/2022.

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

(2) Average credit spread relative to government bonds.

No assurance can be given that the AXA Global Strategic Bond Fund will be successful. Investors can lose some or all of their capital invested. The AXA Global Strategic Bond Fund is subject to risks including counterparty risk, derivatives risk, geopolitical risk, interest rate risk, securitised assets or CDO assets risk, emerging market risk, liquidity risk, credit risk, risks linked to investments in sovereign debt, high yield bonds risk and contingent convertible bonds ("CoCos") risk. Further explanation of the risks associated with an investment in this fund can be found in the prospectus.