Global Short Duration strategy

Upside surprises on inflation trigger recession fears

- Credit spreads widened significantly due to rampant inflation and recession fears
- Government bond yields were higher despite the large sell-off in risk assets
- The risk profile was broadly unchanged

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What's happening?

- Despite the easing of COVID-19 quarantine restrictions in China, credit spreads widened significantly due to rampant inflation and increased recession fears as central banks pressed ahead with interest rate hikes.
- The US Federal Reserve raised interest rates for a third consecutive time by 0.75% to the range of 1.5% to 1.75%, its biggest hike since 1994, as inflation surprised to the upside in May at 8.6%, a 40-year high. Meanwhile the Bank of England raised interest rates for a fifth consecutive time by 0.25% to 1.25% as inflation reached 9.1% in May, also a 40-year high. Finally, the European Central Bank struck a hawkish tone at its policy meeting and is expected to announce an interest rate rise in July as inflation reached a new record high of 8.6% in June.
- Despite the large sell-off in risk assets, US treasury, German bund and UK gilt yields rose as the market focused on the impact of still rising inflation on the future path of interest rates.

Strategy in focus – representative account (30/06/22)	
Assets under management	£171m
Yield (GBP hedged)[1]	5.0%
Duration[1]	2.9 yrs
Average rating[2]	BBB
Number of issuers	157
Launch date	17/05/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)[3]	
One month	-2.65%
Year-to-date	-4.64%
One year	-4.73%
Three year (cumulative)	+0.00%
Five year (cumulative)	+2.83%
Since launch (cumulative)	+2.80%

Annualised net performance – representative account (GBP)[3]	
One year	-4.73%
Three year	+0.00%
Five year	+0.56%
Since launch	+0.54%

Source: AXA IM as at 30/06/2022. 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 13% (versus 12% last month) as we remained invested in US, German and UK inflation-linked bonds to benefit from still attractive inflation indexation over the next couple of months. We increased the duration of the portfolio to 2.9 years from 2.7 years due to attractive valuations and rising recession risk which should support government bonds.

- **Investment Grade:** Our exposure to investment grade markets was unchanged at 48% as activity was limited with only one new issue being bought in the US dollar primary market.
- **High Yield and Emerging Markets**: Our exposure to high-yield and emerging markets decreased by 2% to 37% as we reduced our exposure to US high-yield due to the risk-off environment. We are waiting for better entry points before adding back to these asset classes.

Outlook

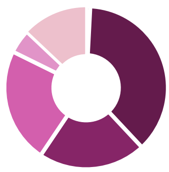
- We expect market conditions to remain very volatile over the short-term due to continued inflationary pressures, hawkish central banks, a protracted conflict in Ukraine and increased risk of a recession next year. In such an environment, it is paramount to retain flexibility and manage actively the duration and credit exposure.
- As inflation should start gradually falling over the coming quarters, we expect yields to consolidate at these higher levels since they already reflect a very aggressive pace of tightening by central banks, helping credit spreads to also stabilise.

Asset class breakdown

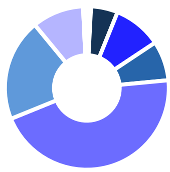
Category	Asset Class	Total
Cash		2%
Sovereign[5]	Nominal	0%
	Inflation-Linked	13%
	Total	13%
Investment Grade Credit	EUR IG Credit	13%
	GBP IG Credit	22%
	USD IG Credit	13%
	Total	48%
High Yield & Emerging Markets	EUR High Yield	19%
	USD High Yield	4%
	Emerging Markets	14%
	Total	37%
Total		100%

Portfolio breakdowns

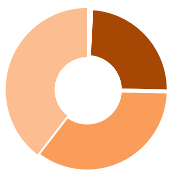
Breakdown by region	
Cash	2%
UK	28%
Core Europe – ex UK	19%
Periphery Europe	12%
North America	24%
Emerging Markets	14%
Developed Asia	1%



Breakdown by sector	
Cash	2%
Financial	37%
Defensive	20%
Cyclical	22%
Securitized	5%
Sovereign[4]	13%



Breakdown by rating[2]	
Cash	2%
AAA	6%
AA	10%
A	8%
BBB	45%
BB	19%
B	9%
CCC & below	1%



Breakdown by maturity	
Cash	2%
0-1 year	22%
1-3 years	39%
3-5 years	37%

(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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