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Global Short Duration strategy

Market sell-off deepens due to central banks' continued hawkishness

- Credit spreads widened as global central banks remained committed to aggressive monetary policy tightening
- Government bond yields were again sharply higher, with UK gilts underperforming substantially following the UK's disastrous mini-Budget
- We decreased the risk profile

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What's happening?

- Credit spreads widened as recession fears weighed on markets due to the ongoing interest rates rises from the US Federal Reserve (Fed) and its continued hawkish rhetoric. The announcement of a swathe of unfunded tax cuts in the UK's mini-Budget, fueling inflation fears, accelerated the sell-off in UK gilt and credit markets.
- The Fed increased interest rates by a third consecutive 75 basis points (bps), taking its federal funds rate to 3%-3.25%, the highest since 2008. Meanwhile the European Central Bank raised interest rates by an unprecedented 75bps to 0.75%. Finally, the Bank of England (BoE) increased the base rate by 50bps to 2.25%, its seventh consecutive increase. In a bid to "restore orderly market conditions" in the UK gilt market, the BoE was forced to intervene, suspending the planned start of its gilt selling and instead temporarily buying up to £65bn of long-dated bonds.
- US treasury, German bund and UK gilt yields rose again sharply on the back of hawkish rhetoric from central banks and as inflation hit a new record high in the eurozone at 10% in September while slightly easing in the UK and the US to 9.9% and 8.3%, respectively, in August. UK gilts underperformed sharply following the UK's mini-Budget, with the yield on the five-year gilt up by a staggering 160bps in September.

Strategy in focus – representative account (30/09/22)

Assets under management	€113m
Yield (EUR / USD hedged/ CHF hedged / GBP hedged) ¹	4.6% / 7.2% / 4.3% / 6.5%
Duration ¹	2.5 yrs
Average rating ²	BBB
Number of issuers	155
Launch date	06/07/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (EUR)³

One month	-2.66%
Year-to-date	-7.48%
One year	-7.77%
Three years	-4.29%
Five years	-3.95%
Since launch	-3.74%

Annualised net performance – representative account (EUR)³

One year	-7.77%
Three years	-1.45%
Five years	-0.80%
Since launch	-0.73%

Source: AXA IM as at 30/09/2022. 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 increased by 2% to 14% as we added 4% of short-dated German bunds following the significant rise in yields while slightly reducing our exposure to inflation-linked bonds by 2%. Nonetheless, we remained invested in US, German, and UK inflation-linked bonds to benefit from still attractive inflation indexation over the next couple of months. The active management of the duration helped us limit the drawdown as we reduced it to below 1.5 years mid-month as yields rose before increasing it back to 2.5 years towards the end to benefit from these higher yields.
- **Investment Grade:** Our exposure to investment grade markets decreased by 3% to 44% as we were active in the sterling primary market and the US dollar secondary market.
- **High-Yield and Emerging Markets:** Our exposure to high-yield and emerging markets also decreased by 3% to 36% as we reduced our exposure to US high-yield, waiting for better entry points. We also used the Markit iTraxx Xover during the month to hedge tactically half of our exposure 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 high risk of a global 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.

Portfolio breakdowns

Breakdown by region

Cash	6%
UK	28%
Core Europe – ex UK	19%
Periphery Europe	11%
North America	20%
Emerging Markets	13%
Developed Asia	2%

Breakdown by sector

Cash	6%
Financial	36%
Defensive	17%
Cyclical	21%
Securitized	4%
Sovereign ⁴	15%

Breakdown by rating²

Cash	6%
AAA	8%
AA	6%
A	6%
BBB	44%
BB	20%
B	9%
CCC & below	1%

Breakdown by maturity

Cash	6%
0-1 year	18%
1-3 years	42%
3-5 years	33%

Asset class breakdown

Category	Asset Class	Total
Cash		6%
Sovereign ⁵	Nominal	4%
	Inflation-Linked	10%
	Total	14%
Investment Grade Credit	EUR IG Credit	10%
	GBP IG Credit	21%
	USD IG Credit	13%
	Total	44%
High Yield & Emerging Markets	EUR High Yield	20%
	USD High Yield	3%
	Emerging Markets	13%
	Total	36%
Total		100%

(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.

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

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