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# AXA Global Strategic Bond Fund

## Strong month as market rallies on improved outlook

- Bond markets rallied in January with a continued trend towards disinflation and peak rates
- Investors were also attracted by improved valuations, particularly in govies and IG credit
- We increased duration exposure and continued a rotation towards better quality assets

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### What's happening?

- Good start to the new year with lower yields, tighter credit spreads and higher equities, driven by a strong relief rally given current attractive valuations, particularly in fixed income, together with an improved macroeconomic backdrop with lower inflation and expectations that we are approaching the peak in central bank interest rates.
- US 10-year treasuries reversed December's sell off and moved back below 3.5% during the month. European and UK yields moved in a similar direction, while credit spreads in both investment grade and high yield moved a long way below their recent highs in October 2022.
- Key central banks continue to raise rates and signal that more is to come, but economic growth and confidence data is deteriorating. Most inflation data is off its recent peaks, which is benefitting bond yields and, in turn, is supporting most markets. Meanwhile, the global employment data is proving to be more resilient than many expect at this point in the economic cycle, which still leaves markets poised for further volatility.

### Fund in focus

Assets under management	£106m
Duration	5.43 yrs
Yield (GBP Hedged) <sup>1</sup>	5.14%
Running yield <sup>1</sup>	3.67%
Spread to government <sup>2</sup>	191
Number of holdings	262
Launch date	19/10/2020

### Net performance (GBP)

One month	+1.82%
Three months	+4.75%
One year	-7.11%
2023 YTD	+1.82%
Since launch (cumulative)	-7.89%

Source: AXA IM as at 31/01/2023. 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.**

## Portfolio positioning and performance

- **Defensive (37%):** we added 3 years of duration in both US and European bond markets, to end the month with 5.5 years of exposure. High cash levels at year-end came down as we bought government and investment grade bonds.
- **Intermediate (32%):** we continue to find attractive opportunities in the investment grade space – predominantly in BBBs and the Financials sector, but over the last few months we have added to A-rated bonds that look attractive from both a yield and credit spread perspective.
- **Aggressive (31%):** the new year started with strong returns in the high yield market, but also a reopening of the new issue market, which again gave confidence to investors – boosted by large demand. Our exposure to CCC companies, particularly in the US high yield market, performed particularly well. Towards the end of the month, we slightly dampened down credit exposure with a tactical hedge using CDS, as markets have moved quickly to price out the recessionary risks.

## Outlook

- The outlook for global fixed income markets is attractive, with a starting point of high yields and reasonably attractive credit spreads. There seems to be a consensually constructive view, particularly focused around higher quality fixed income in terms of government bonds and investment grade credit, with a more mixed view further down the credit curve.
- While inflation remains elevated and central banks are still raising rates, there is much confidence that we are approaching the peak in global interest rates, which should provide support for fixed income.
- Over the medium term there is potentially quite a bullish scenario in which investors, who for now seem to prefer taking short duration exposure in both credit and government bonds, reinvest as yields come lower either further out the yield curve or further down the credit curve, leading to quite attractive return potential.
- While we remain constructive in the medium term, it is entirely possible we may see some bouts of 2022's volatility return in the short term, even though yield and carry on fixed income assets is much more attractive than in previous years. That said, for now the year has started very strongly indeed.



## Portfolio breakdowns

### Strategy breakdown

Defensive	37.1%
Intermediate	31.6%
Aggressive	31.3%
<b>Total</b>	<b>100.0%</b>

### Defensive breakdown

US Government Bonds	14.8%
Core Europe Government Bonds	10.2%
Rest of World Governments	0.0%
Inflation-Linked Bonds	6.0%
Cash	6.2%

### Intermediate breakdown

US IG Credit	9.4%
Euro & Sterling IG Credit	22.2%
Periphery Governments	0.0%

### Aggressive breakdown

Emerging Markets (HC 10.2%/LC 0%/FX 0%)	10.2%
US High Yield	15.1%
European High Yield	6.0%

### Derivatives breakdown

Bond Futures	1.5%
Credit Default Swaps	-4.2%

## Credit rating breakdown

Category	Rating	Total
Defensive	Cash	6.2%
	AAA	8.7%
	AA	22.2%
	<b>Total</b>	<b>37.1%</b>
Intermediate	AA	0.9%
	A	5.0%
	BBB	25.8%
	<b>Total</b>	<b>31.6%</b>
Aggressive	AA	0.0%
	A	0.2%
	BBB	3.3%
	BB	12.8%
	B	10.5%
	CCC & Below	4.5%
	Not rated	0.2%
	<b>Total</b>	<b>31.3%</b>
<b>Total</b>		<b>100.0%</b>

Source: AXA IM as at 31/01/2023.

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

(2) Average credit spread relative to government bonds.

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