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Global Strategic Bonds strategy

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

Nick Hayes

Portfolio Manager, Global Strategic Bonds strategy

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.

Strategy in focus – representative account (31/01/23)

Assets under management	\$1,241m
Duration	5.44 yrs
Yield ¹	5.33%
Running yield ¹	3.96%
Spread to government ²	214
Number of holdings	302
Launch date	11/05/2012

Net performance – representative account (USD)³

	Cumulative	Annualised
One month	+2.01%	
One year	-6.67%	
Three years	-3.24%	-1.09%
Five years	+7.64%	+1.48%
Ten years	+25.39%	+2.29%

Source: AXA IM as at 31/01/2023. The data is based on a representative account that follows the Global Strategic Bonds strategy and is not intended to represent actual past or simulated past performance of the strategy. **Past performance is not a reliable indicator of future results.** Performance calculations are net of fees, based on the reinvestment of dividends.

Portfolio positioning and performance

- **Defensive (33%):** 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 (34%):** 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	33.2%
Intermediate	32.4%
Aggressive	34.4%
Total	100.0%

Defensive breakdown

US Government Bonds	14.6%
Core Europe Government Bonds	7.8%
Rest of World Governments	0.0%
Inflation-Linked Bonds	6.3%
Cash	4.4%

Intermediate breakdown

US IG Credit	9.7%
Euro & Sterling IG Credit	22.7%
Periphery Governments	0.0%

Aggressive breakdown

Emerging Markets (HC 10.5%/LC 0%/FX 0%)	10.5%
US High Yield	17.3%
European High Yield	6.6%

Derivatives breakdown

Bond Futures	-1.8%
Credit Default Swaps	-4.8%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	4.4%
	AAA	6.9%
	AA	21.9%
	Total	33.2%
Intermediate	AA	1.0%
	A	5.6%
	BBB	25.8%
	Total	32.4%
Aggressive	AA	0.4%
	A	0.0%
	BBB	3.5%
	BB	12.6%
	B	12.0%
	CCC & Below	5.4%
	Not rated	0.7%
Total	34.4%	
Total		100.0%

(1) Yield figures quoted will vary in the future and are not guaranteed. Yield calculated to maturity, assuming next call date, using local currency yields.

(2) Average credit spread relative to government bonds.

(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.

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