AXA Investment Managers

For professional clients only
March 2023
Monthly Perspectives
Fixed Income

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AXA Global Strategic Bond Fund

Stronger economic data renews hawkish sentiment

- Robust economic data led markets to price in further central bank hawkishness
- Government bond yields rose sharply and credit spreads moved wider during February
- We maintained our duration exposure given the attractiveness of bond valuations

Nick Hayes
Portfolio Manager, AXA Global Strategic Bond Fund

What's happening?

- February reversed January's strong market returns as the inflation and growth data printed stronger than expected and the risk that central banks may have to do more rate hikes in the coming months was top of investors' mind.
- US 10-year treasuries rose back towards 4%, levels not seen since November, whilst German 10-year bond yields rose higher than the levels see in Q4.
- Despite the stronger than expected economic data, credit markets, usually a beneficiary of better economic data, posted negative returns. This was partly driven by the government yield component of returns, but also risk asset markets were negative on the fear that 2023 market correlations might repeat the pattern of most of 2022 – when higher interest rates negatively affected all markets across the risk spectrum.

Fund in focus	
Assets under management	£101m
Duration	5.38 yrs
Yield[1]	5.94%
Running yield[1]	4.00%
Spread to government[2]	213
Number of holdings	264
Launch date	19/10/2020
Net performance (GBP)	
One month	-1.88%
Three months	+0.49%
One year	-6.82%
2023 YTD	-0.09%
Since launch (cumulative)	-9.62%

Source: AXA IM as at 28/02/2023. 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**.

- There is much attention once again on the shape of the government bond yield curve, with short-dated bonds underperforming longer-dated bonds. As such, the yield curve is deeply inverted (difference between US 2-year and 10-year), meaning that short-dated bonds yield more than longer-dated bonds. This implies an expectation of higher interest rates in the short term, but rate cuts in the future – in response to a recessionary economic environment on the horizon.

Portfolio positioning and performance

- Defensive (34%): we retained our higher duration of 5 years during February's volatility as the attractiveness of bond yields and potential pricing in of future weaker economic growth merits exposure. We have greater exposure to the US duration curve after increasing duration towards the shorter end of the curve earlier this year.
- Intermediate (32%): allocation remained constant, but we took advantage of a strong start to the year in the real estate sector after its underperformance of last year. Given the dispersion of spreads across names and sectors, we look for more relative value opportunities, and reinvested in other real estate BBB names with stronger credit metrics but similar credit spreads.
- Aggressive (34%): the lower rated part of the credit market gave back some of January's gains but remains reasonably robust in the face of heightened volatility. New issue market was open, and we participated in B-rated exposure in both the Leisure and Retail sectors. Notably this year, the market is seeing support for lower rated parts of high yield and we continue to like, very selectively, some CCC names that have strong results operationally but may have high leverage. That said, many parts of the CCC market are of no interest to us in the potentially deteriorating macro-economic environment.

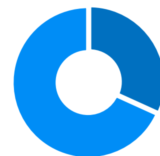
Outlook

- Whilst our more medium-term outlook for global fixed income is positive, after the negative returns and hence higher yields of 2022, the start to 2023 has continued to see bond market volatility. After the high and persistent inflation witnessed over the course of the last 18 months, it is entirely reasonable in the short term to see more uncertainty in economic outlook.
- The market is trying to deal with a narrative of lower inflation, from very high levels, but clearly running the risk that this path will not be in a straight line nor happen quick enough for many investors liking.
- We think that global central banks are near to the peak in interest rates in this cycle, but over the coming months the market will speculate how near we are, and indeed how much more work is to be done.
- Meanwhile, the higher yield and therefore carry on most fixed income acts as a strong starting point to invest in global fixed income and we think that this year taking risk through either duration or credit selection will be rewarded, although this is not guaranteed. But, as ever with risk taking, there is no easy path to reward and the first two months of the year are evidence of the difficulty in outlook on the back of a very challenging last 12 months.

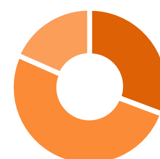
Portfolio breakdowns

Strategy breakdown	
Defensive	34.0%
Intermediate	32.4%
Aggressive	33.6%
Total	100.0%

Defensive breakdown	34.0%
US Government Bonds	15.1%
Core Europe Government Bonds	10.5%
Rest of World Governments	0.0%
Inflation-Linked Bonds	6.3%
Cash	2.2%



Intermediate breakdown	32.4%
US IG Credit	9.6%
Euro & Sterling IG Credit	22.7%
Periphery Governments	0.0%



Aggressive breakdown	33.6%
Emerging Markets (HC 10.3%/LC 0%/FX 0%)	10.3%
US High Yield	17.1%
European High Yield	6.2%

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

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	2.2%
	AAA	9.0%
	AA	22.8%
	Total	34.0%
Intermediate	AA	0.9%
	A	4.9%
	BBB	26.6%
	Total	32.4%
Aggressive	AA	0.0%
	A	0.0%
	BBB	3.4%
	BB	13.6%
	B	11.2%
	CCC & Below	5.2%
	Not rated	0.2%
	Total	33.6%
Total		100.0%

Source: AXA IM as at 28/02/2023.

(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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