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Global Short Duration strategy

Markets sell-off as global growth concerns re-emerge

- Credit spreads widened on concerns of a global slowdown and uncertainty around the US debt ceiling
- UK gilts significantly underperformed US treasuries and German bunds as UK inflation surprised again on the upside
- We decreased further our exposure to high-yield, switching into sovereign debt

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What's happening?

- Credit spreads widened as concerns about a global slowdown on China's weak economic data and uncertainty around the US debt ceiling outpaced optimism around slowing inflation across major economies.
- The US Federal Reserve (Fed) increased interest rates by 0.25% to a range of 5%-5.25%, its highest level since 2007. Fed chair Jerome Powell said no decision on a pause was made and dropped the forward guidance language. The European Central Bank and Bank of England both increased interest rates by 0.25% to 3.25% and 4.5%, respectively, with additional hikes priced in by the market.
- Yields on US treasuries, German bunds, and UK gilts increased, with the latter significantly underperforming as UK inflation for April fell less than expected to 8.7%. As a result, UK gilt yields soared towards levels not seen since the mini-Budget crisis in September 2022. Meanwhile, US and eurozone inflation were broadly in-line with expectations at 4.9% and 7.0%, respectively.

Portfolio positioning and performance

- **Sovereign:** Our exposure to sovereign bonds increased by 2% to 14% as we topped up our exposure to German bunds and bought some supranational bonds, switching out of expensive euro high-yield bonds. We remained invested in UK nominal and inflation-linked bonds. We actively managed the duration throughout the month to benefit from the heightened level of volatility in sovereign yields.

Strategy in focus – representative account (31/05/23)

Assets under management	£99m
Yield (GBP hedged) ¹	6.4%
Duration ¹	2.9 yrs
Average rating ²	BBB
Number of issuers	143
Launch date	17/05/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)³

One month	-0.28%
Year-to-date	+2.11%
One year	+0.76%
Three year (cumulative)	+3.70%
Five year (cumulative)	+6.08%
Since launch (cumulative)	+6.40%

Annualised net performance – representative account (GBP)³

One year	+0.76%
Three year	+1.22%
Five year	+1.19%
Since launch	+1.03%

Source: AXA IM as at 31/05/2023. 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.

- **Investment Grade:** Our exposure to investment grade markets was stable at 58% as we were active in the US dollar and euro secondary markets and the sterling primary market.
- **High-Yield and Emerging Markets:** Our exposure to high-yield and emerging markets decreased by 2% to 26% as we sold some expensive euro high-yield bonds on the back of a heightened risk of a global recession in the second half of this year.

Outlook

- The macroeconomic outlook remains very uncertain given high (but falling) inflation, rising (but peaking) interest rates, slowing (but resilient so far) growth and tighter lending conditions caused by the recent banking turmoil. As such, we expect market conditions to remain very volatile with an increased likelihood of a global recession in the second half of this year as central banks' ability to cut interest rates to support growth is curtailed by elevated inflation.
- As a result, we plan to continue reducing the level of credit risk so that we could benefit from a potential widening in credit spreads in the second half of this year by re-risking the portfolio at much better levels.

Asset class breakdown

Category	Asset Class	Total
Cash		2%
Sovereign ⁵	Nominal	13%
	Inflation-Linked	1%
	Total	14%
Investment Grade Credit	EUR IG Credit	10%
	GBP IG Credit	36%
	USD IG Credit	12%
	Total	58%
High-Yield & Emerging Markets	EUR High-Yield	17%
	USD High-Yield	3%
	Emerging Markets	6%
	Total	26%
Total		100%

Portfolio breakdowns

Breakdown by region

Cash	2%
UK	37%
Core Europe – ex UK	21%
Periphery Europe	12%
North America	20%
Emerging Markets	6%
Developed Asia	2%

Breakdown by sector

Cash	2%
Financial	39%
Defensive	16%
Cyclical	25%
Securitized	4%
Sovereign ⁴	15%

Breakdown by rating²

Cash	2%
AAA	4%
AA	12%
A	9%
BBB	50%
BB	15%
B	7%
CCC & below	1%

Breakdown by maturity

Cash	2%
0-1 year	17%
1-3 years	44%
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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