Global Strategic Bond Fund

More mixed data, credit spreads benefit but government bond yields move higher

- Universally low PMI numbers
- Bond yields move higher as the focus moves to "higher for longer" rates
- Market expectations are for peak or near peak in Fed and ECB rates
- Persistent weakness in Chinese economy

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What's happening?

- Universally August PMI numbers have come in below expectations. Notably the US Composite PMI declined to 50.4 and the Eurozone Composite to 47.0. Readings at or below 50 are signs of contraction in the economy. While the employment data is still robust the downward trend in PMI data points towards a slowdown.
- Across all major economies government bond yields have moved higher over the summer months, with US 10 year treasuries hitting a new peak at 4.3% before moving back down to 4.1% at month end as the market prices in higher interest rates for longer.
- Credit spreads once again tightened during August. In general earnings and balance sheet strength has been more robust than market expectations although there is greater levels of dispersion as the economic strength is not felt evenly across sectors.

Fund in focus	
Assets under management	£144 m
Duration	6.81 years
Yield[1]	6.50%
Running yield[1]	4.42%
Spread to government[2]	242
Number of holdings	272
Launch date	19/10/2020
Net performance (GBP)	
One month	-0.50%
Three months	-0.20%
One year	+0.90%
2023 YTD	-0.45%
Since launch (cumulative)	-9.95%

Source: AXA IM as at 31/08/2023. The data is shown for the AXA Global Strategic Bond Fund. Performance is based on the Z share class net of ongoing charges (50bps), dividends reinvested. **Past performance is not a reliable indicator of future results**.

Portfolio positioning and performance

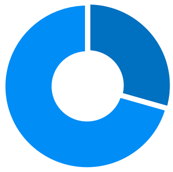
- **Defensive (27%):** During August we have maintained our >6 years duration exposure and are continuing to concentrate this in shorter dated US Treasuries. Duration exposure to UK gilts remains zero. While we did not make any tactical trades within the defensive bucket, our overall exposure decreased over the last few months as we deployed cash further down the credit curve.
- **Intermediate (30%):** We have maintained our allocation to developed market investment grade. This exposure is entirely made up of US, Europe and UK IG credit and we are not currently adding periphery government bonds into the fund. Our larger exposure (21%) to European credit outperformed US credit during the month as credit spreads tightened but not enough to offset the negative contribution from higher government bond yields.
- **Aggressive (44%):** Allocation to US high yield remains highest at 23%, increased from 15% at the start of the year. August proved another strong month for US credit spreads and a positive contribution. Emerging markets (13%) on the other hand saw spreads widened during the month after a strong couple of months, with underperformance in African high yield names.

Outlook

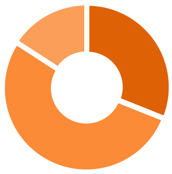
- Expectations remain that central banks are close to the peak in rates in this cycle, although the change in market tone is that they will maintain rates at these higher levels for longer than expected.
- Signs of a global slowdown are currently coming from two of the world's largest economies which should have a knock-on effect. China's post covid consumption boom has not happened, there are persistent problems in the housing market and there has been a worsening of youth unemployment data. In the US, non-farm payrolls posted their second successive downside surprise after over a year of upside surprises, there is a stagnation in the housing market and our view is that we expect a slowdown in consumer spending by year-end.
- We retain our constructive view on government bond yields and are positioned for lower yields, which have yet to materialise. On the other hand, our more aggressive exposure to lower rated credit has been beneficial to performance as the market pushes our further expectations of a deterioration in credit conditions, and we also retain this positioning without adding further.

Strategy breakdown	
Defensive	26.7%
Intermediate	29.5%
Aggressive	43.8%
Total	100.0%

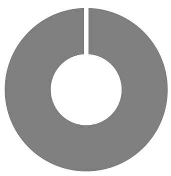
Defensive breakdown	26.7%
US Government Bonds	7.8%
Core Europe Government Bonds	7.6%
Inflation-Linked Bonds	5.4%
Cash	5.9%



Intermediate breakdown	29.5%
US IG Credit	8.6%
Euro & Sterling IG Credit	20.9%



Aggressive breakdown	43.8%
Emerging Markets (HC13.1%/LC0%/FX0%)	13.1%
US High Yield	23.1%
European High Yield	7.7%



Derivatives breakdown	71.6%
Bond Futures	71.6%
Credit Default Swaps	0.0%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	5.9%
	AAA	4.4%
	AA	16.3%
	Total	26.7%
Intermediate	AA	0.8%
	A	5.8%
	BBB	22.9%
	Total	29.5%
Aggressive	AA	0.0%
	A	0.4%
	BBB	3.5%
	BB	17.9%
	B	15.8%
	CCC & Below	6.1%
	Not rated	0.0%
	Total	43.8%
Total		100.00%

(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.

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