Global Strategic Bond Fund
The great government bond sell off

- ECB hike to 4.0% and the BoE and Fed hold fire but markets price higher for longer
- Higher yields provoke nervousness about the sustainability of government debt
- Valuations more attractive, momentum negative but arguably the higher yields are tightening financial conditions, and doing the work of central banks

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What's happening?

- The ECB hiked interest rates to 4.0% in September while the BoE and Fed left rates unchanged, despite the different actions of the three major central banks they share the common narrative of keeping rates higher for longer.
- Following central banks' policy decision government bonds sold off at the end of September and are yielding at their highest levels both year to date and some markets are back to pre-global financial crisis levels.
- The curve steeping trend continues as the 30-year Treasury saw its biggest quarterly increase since 2009.
- Unlike August, risky assets fell throughout the month and of the 12 bond indices which broadly represent the Global Strategic Bonds strategy's investment universe, European high yield was the only fixed income asset class which achieved a positive total return in September, 0.4%.

Fund in focus	
Assets under management	£142 m
Duration	6.92 years
Yield[1]	6.92%
Running yield[1]	4.60%
Spread to government[2]	263
Number of holdings	271
Launch date	19/10/2020
Net performance (GBP)	
One month	-2.20%
Three months	-1.84%
One year	+0.95%
2023 YTD	-2.64%
Since launch (cumulative)	-11.93%

Source: AXA IM as at 30/09/2023. 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

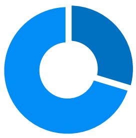
- **Defensive (25%):** As with previous months we have maintained our >6 years duration exposure and are continuing to concentrate this in the US Treasuries curve, with focus on shorter dated maturities to benefit from further steepening of the yield curve.
- **Intermediate (30%):** Exposure to the strategy's intermediate risk bucket remains broadly unchanged, however we have added to a US IG name in the energy sector following a recent new issue. We also reduced exposure to the banking sector as the volatility from much earlier in the year gets increasingly priced out.
- **Aggressive (46%):** Small increase to our allocation to US and European high yield throughout the month, with a preference for banking and financial names in Europe. The lower credit quality markets continue to outperform other markets although it has been slightly negatively impacted by the broader government bond sell off during the month.

Outlook

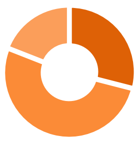
- We remain with the view that government bonds are attractively priced although has been challenged during a very difficult September. We believe we are now more than ever are closer to the peak in interest rates and we should position ourselves for a curve steepening and weaker economic environment.
- Rising government bond yields make it more expensive for governments to service national debt, as such the bond sell off we have seen in September has added to the fear that the current level of yields are unsustainable for issuers. This creates a nervousness around the stability of bond markets, potentially fuelling further volatility.
- The positive side to government bonds selling off is the attractive valuations on offer. Our view is that despite potential short run volatility, over a medium to long term horizon there has not been a more attractive entry point into rate sensitive fixed income assets in past 10 years.
- Spreads have outperformed rates year to date and September was no different. This rosy picture surrounding credit can only continue as long as the underlying credits continue to perform well. Whilst, by-and-large, they still are, we are keeping a close eye on tentative signs of a worsening macroeconomic picture.

Strategy breakdown	
Defensive	24.8%
Intermediate	29.6%
Aggressive	45.6%
Total	100.0%

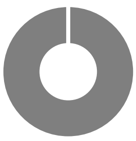
Defensive breakdown	24.8%
US Government Bonds	7.8%
Core Europe Government Bonds	7.7%
Inflation-Linked Bonds	5.6%
Cash	3.7%



Intermediate breakdown	29.6%
US IG Credit	8.7%
Euro & Sterling IG Credit	20.9%



Aggressive breakdown	45.6%
Emerging Markets (HC 13.4%/LC 0%/FX 0%)	13.4%
US High Yield	24.0%
European High Yield	8.2%



Derivatives breakdown	75.3%
Bond Futures	75.3%
Credit Default Swaps	0.0%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	3.7%
	AAA	4.5%
	AA	16.7%
	Total	24.8%
Intermediate	AA	0.8%
	A	5.9%
	BBB	22.9%
	Total	29.5%
Aggressive	AA	0.0%
	A	0.4%
	BBB	3.7%
	BB	18.7%
	B	16.6%
	CCC & Below	6.2%
	Not rated	0.0%
	Total	45.6%
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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