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Global Strategic Bond Fund

Global Fixed Income markets cool

- Investors are paid well for owning fixed income while volatile markets play out
- Central banks keep policy rates unchanged and push back on expectations of early cuts
- January sees Fixed Income markets move sideways as government bond yields move higher after the strong year end rally
- Credit markets continue to perform well as economic data remains stronger than many expect albeit mixed across the world

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Portfolio Manager, Global Strategic Bonds strategy

What's happening?

- Global government bond yields reverse some of the strong Q4 rally as expectations for Q1 rate cuts looked overly optimistic.
- January's economic data prints have generally surprised to the downside. However, strong growth and low unemployment persists in the US. And whilst growth is far weaker in the UK and Europe concerns still remain around elevated wage growth and sticky inflation.
- Corporate bond spreads initially moved higher in January but overall tightened throughout the month. High yield outperformed investment grade with European high yield leading the way.

Fund in focus

Assets under management	£155 m
Duration	3.92 years
Yield ¹	5.80%
Running yield ¹	4.31%
Spread to government ²	229
Number of holdings	263
Launch date	19/10/2020

Net performance (GBP)

One month	-0.16%
Three months	7.49%
One year	1.28%
2023 YTD	-0.16%
Since launch (cumulative)	-6.71%

Source: AXA IM as at 31/01/2024. 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 (29%):** The aggressive rally seen at the end of 2023 has partially unwound in January and given the cuts that are already priced in our near term view is that rates markets will be volatile but stay within a wide range. In this context we have trimmed back duration to 3.92 years diversified across the three major markets of US, UK and Eurozone. We currently hold slightly more cash with our government bond holding remaining unchanged.
- **Intermediate (28%):** We continued to cut our exposure to US and European investment grade credit during January. At current spread levels we are being more selective in which credits we own. Given the significant rally over the last 12 months and on a relative value basis high yield currently looks more attractive.
- **Aggressive (43%):** The fund continues to benefit from a high allocation to both developed market high yield and emerging market debt as the tightening of spreads reflects a slow cooling of the global economy. More recently the expectations of rate cuts gave a boost to risk assets in the prospect that the global economy soft lands without a material negative effect on the tightening of financial conditions experienced in recent years.

Outlook

- Our view is that over the medium term the combination of spread and rates risk should be able to produce decent returns given the current attractiveness of fixed income yields. The price of this extra yield appears to be reflected in economic uncertainty and the pickup up in bond market volatility being experienced.
- Amongst the volatility we believe that the core bond themes of 2024, including lower inflation, moderation of central bank policy, modest growth, lower yields and high amounts of money on the side-lines are positive for fixed income.
- Throughout the year the market will fluctuate between more hawkish and dovish extremes of future monetary policy, but fixed income now appears a more attractive alternative to other asset classes than it has for some years.
- In credit we remain optimistic that issuers will benefit from decent fundamentals and strong demand, but we are increasingly selective in our approach as the tighter levels of spread leave less room for error.



Strategy breakdown

Defensive	29.0%
Intermediate	27.9%
Aggressive	43.1%
Total	100%



Defensive breakdown

US Government Bonds	11.5%
Core Europe Government Bonds	5.1%
Inflation-Linked Bonds	5.1%
Cash	7.2%



Intermediate breakdown

US IG Credit	8.5%
Euro & Sterling IG Credit	19.3%



Aggressive breakdown

Emerging Markets (HC 11.0%/LC 0%/FX 0%)	11.0%
US High Yield	22.2%
European High Yield	9.9%



Derivatives breakdown

Bond Futures	-7.3%
Credit Default Swaps	0.0%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	7.2%
	AAA	5.3%
	AA	16.5%
	Total	29.0%
Intermediate	AA	0.8%
	A	5.9%
	BBB	21.2%
	Total	27.9%
Aggressive	AA	0.0%
	A	0.7%
	BBB	2.4%
	BB	17.7%
	B	15.5%
	CCC & Below	6.7%
	Not rated	0.0%
	Total	43.1%
Total		100%

(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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