Investment Managers

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January 2024

AXA Global Strategic Bond Fund 2024 Outlook

AXA Global Strategic Bond Fund update

If market pricing is to be believed, 2024 will see weaker economic data and a moderation of monetary policy leading to rate cuts across the developed market. Historically these trends produce strong total returns for fixed income. However, with the existing geopolitical tensions and conflicts showing no signs of relief and more democratic elections scheduled in 2024 than ever, the risk of further volatility and shocks cannot be ruled out.

2023 though, was a year, where we experienced a number of bond positive and negative themes. Starting with the negative; mixed economic data, persistent inflation and an allusive global recession after such monetary tightening meant volatile fixed income markets. Adding to this, deficit sustainability concerns with large issuance of government bonds and hawkish central banks, we found ourselves in a prolonged rates sell-off during Q2 and Q3.

On the positive side, it was a good year for credit; resilient global growth, balance sheet strength and more recently the market's rejection of a hard landing has helped spreads grind tighter throughout the year. In addition, since late-October, the sell-off in rates has now reversed and bonds have rallied aggressively as central banks move to a more dovish tone, with strong signals that the rate hiking has come to an end and expectations of rate cuts for 2024.

Against this, our Global Strategic Bonds Fund remains focussed on structural diversification across rates and credit to deliver risk adjusted returns. Our investment approach continues to be centred on active, long-term, fundamentally driven and unconstrained fixed income management. Over the fund's track record we have remained consistent to this approach, and in 2023 by combining interest rate and credit risk, the fund achieved a total return of 3.79% (Z GBP gross).

Here, we offer five reasons why we have high expectations for fixed income in 2024 and why we believe the case for a flexible, unconstrained approach to fixed income investing is a compelling proposition.

Five reasons why we have high expectations for fixed income in 2024

1

Falling government bond yields

Our conviction is that we are now entering the next phase of the economic cycle, characterised by weaker economic data a pause in monetary tightening and eventual rate cuts. Historically this is a good time to own duration.

We expect the medium-term trend is for yields is to remain higher than we have seen for many years but trend downwards. In 2024 we believe investors will be paid well for taking fixed income risk through attractive yields.

2

Diminishing risk of higher rates providing a positive returns outlook

The likelihood of positive fixed income returns increases with the reduced risk of rate hikes.

Across developed markets inflation is falling faster than expected and we are starting to see signs of loosening labour markets. In the UK and Europe there is little to no growth, and in the US the Fed has suggested they are unlikely to hike rates further. Geopolitical and global supply chain shocks withstanding, the risk of higher central bank rates is diminishing as we enter 2024.

In this environment returns from cash like low duration instruments is diminishing but the attractiveness of owning duration risk is high. Government bonds and credit could be the beneficiaries of this as investors with trillions of dollars in money market funds and cash face increasing re-investment risk 2024.

3

Cross-market and curve opportunities

We do not expect markets to be synchronised in 2024 and the extent and speed of which central banks necessitate rate cuts will vary. This means choosing where to take duration risk, rather than just owning duration will be a way in which investors can enhance their contribution from rates.

We expect the long term steepening of yield curves to continue in 2024. However, markets do not move in straight lines and yield curves will change shape as different economic scenarios are priced in. In this environment there are opportunities for managers who can successfully tactically allocate across different maturities.

4

Credit selection in tighter economic conditions

As we move into 2024 we expect the dispersion between higher and lower quality issuers to increase.

The lag effect of monetary policy passing through into the real economy and imminent maturity walls will punish issuers with weak balance sheets and with excessive leverage. However, those which borrowed long and have maintained strong balance sheets will, on the other hand, be rewarded. This presents an opportunity for fundamentally driven investors who have confidence in their single name credit selection. No longer is the difference in yield between a good issuer and a bad issuer negligible.

5

The power of diversification

Given the richness of the fixed income asset class, bonds offer an unparalleled source of diversification and multiple sources of return.

The negative medium term correlation of rates and spread that returned to fixed income in 2023 we believe will continue into 2024 and beyond. Taking advantage of this negative corelation means investors can find different sources of fixed income performance in different market environments. A diversified risk exposure across fixed income risk factors helps create attractive, fixed income risk-adjusted returns across a full market cycle.

The risk-return balance for fixed income is the best it has been for a generation and fixed income assets rightly deserve a place in investor's portfolio in 2024.

Annualised calendar year performance – net of fees in GBP[1]

	2023	2022	2021	2020*
AXA Global Strategic Bond Fund	3.27%	-10.02%	-0.59%	1.10%

The fund is actively managed without reference to any benchmark. * Since the first NAV date of 20/10/2020.

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(1) Source of all performance data is AXA IM, net of fees in GBP, as at 31/12/2023. The data is shown for the AXA Global Strategic Bond Fund, based on the Z share class net of ongoing charges (53bps), dividends reinvested. Peer group is the IA Sterling Strategic Sector. The fund launched in October 2020, but forms part of an existing strategy launched in May 2012, represented by the offshore AXA WF Global Strategic Bonds fund. Past performance is not a reliable indicator of future results.

Fund Risks

All investment involves risk and capital is not guaranteed. The AXA Global Strategic Bond Fund is invested in financial markets and uses techniques and instruments which are subject to sudden and significant variation, which may result in substantial gains or losses.

Counterparty Risk: failure by any counterparty to a transaction (e.g. derivatives) with the Fund to meet its obligations may adversely affect the value of the Fund. The Fund may receive assets from the counterparty to protect against any such adverse effect but there is a risk that the value of such assets at the time of the failure would be insufficient to cover the loss to the Fund.
Derivatives: derivatives can be more volatile than the underlying asset and may result in greater fluctuations to the Fund's value. In the case of derivatives not traded on an exchange they may be subject to additional counterparty and liquidity risk.
Interest Rate Risk: fluctuations in interest rates will change the value of bonds, impacting the value of the Fund. Generally, when interest rates rise, the value of the bonds fall and vice versa. The valuation of bonds will also change according to market perceptions of future movements in interest rates.
Emerging Market Risks: emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. As a result, investments in such countries may cause greater fluctuations in the Fund's value than investments in more developed countries.
Liquidity Risk: some investments may trade infrequently and in small volumes. As a result, the fund manager may not be able to sell at a preferred time or volume or at a price close to the last quoted valuation. The fund manager may be forced to sell a number of such investments as a result of a large redemption of shares in the Fund. Depending on market conditions, this could lead to a significant drop in the Fund's value and in extreme circumstances lead the Fund to be unable to meet its redemptions.
Credit Risk: the risk that an issuer of bonds will default on its obligations to pay income or repay capital, resulting in a decrease in Fund value. The value of a bond (and, subsequently, the Fund) is also affected by changes in market perceptions of the risk of future default. The risk of default for high yield bonds may be greater.
Risks linked to investment in sovereign debt: Where bonds are issued by countries and governments (sovereign debt), the governmental entity that controls the repayment of sovereign debt may not be able or willing to repay the capital and/or interest when due in accordance with the terms of such debt. In the event of a default of the sovereign issuer, a Fund may suffer significant loss.
High yield bonds risk: These bonds are issued by companies or governments with lower credit ratings and as such are at greater risk of default or rating downgrades than investment grade bonds.
The fund is also subject to geopolitical risk, securitised assets or CDO assets risk and contingent convertible bonds (“CoCos”).

Further explanation of the risks associated with an investment in this fund can be found in the prospectus.

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