Global Short Duration strategy

Yields fall supported by dovish central banks

- Credit spreads tightened further, supported by dovish central banks, resilient economic data, and continued strong demand.
- Sovereign yields fell, with UK gilts outperforming on the back of a lower-than-expected inflation print.
- We increased our exposure to US inflation-linked bonds to 5% due to stickier-than-expected inflation on the back of strong economic data

Nicolas Trindade
Portfolio Manager, Global Short Duration strategy

What's happening?

- Credit spreads tightened further, supported by dovish central banks, resilient economic data, and continued strong demand. A surprise interest rate cut from Switzerland's central bank confirmed that other central banks would not necessarily wait for the US Federal Reserve (Fed) to start cutting first.

- The Fed left interest rates unchanged at a range of 5.25-5.5% and held onto its outlook for three cuts this year despite higher-than-expected inflation. As expected, the European Central Bank (ECB) also kept all its policy rates unchanged, with the depo rate remaining at 4% and the first cut still expected in June. Similarly, the Bank of England (BoE) left interest rates unchanged at 5.25%, with no members of the rate setting committee voting for a rate rise for the first time since 2021. Meanwhile, Japan made the historic decision to end its era of negative interest rates with its first rate rise in 17 years.

- Sovereign yields fell on the back of dovish central banks. UK gilts outperformed US treasuries and German bunds as UK inflation surprised on the downside, falling to 3.4% in in the year to February, its lowest level for two and half years. Meanwhile, US inflation unexpectedly rose to 3.2% from 3.1% in January while eurozone inflation also surprised on the upside at 2.6%.

Strategy in focus – representative account (31/03/24)	
Assets under management	£304m
Yield (GBP hedged)[1]	5.2%
Duration[1]	2.5 yrs
Average rating[2]	A-
Number of issuers	166
Launch date	17/05/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)[3]	
One month	+0.81%
Year-to-date	+0.99%
One year	+5.93%
Three year (cumulative)	+5.23%
Five year (cumulative)	+10.94%
Since launch (cumulative)	+12.60%

Annualised net performance – representative account (GBP)[3]	
One year	+5.93%
Three year	+1.72%
Five year	+2.10%
Since launch	+1.74%

Source: AXA IM as at 31/03/2024. 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.

Portfolio positioning and performance

- **Sovereign:** Our exposure to sovereign bonds was broadly stable at 24% as we switched some nominal debt into US treasury inflation-linked bonds due to stickier-than-expected inflation on the back of strong economic data. We remained invested in German bunds, UK gilts, and government-related debt. We increased the duration from mid-month, with a bias towards euro and sterling duration, enabling us to benefit from the fall in sovereign yields.
- **Investment Grade:** Our exposure to investment grade markets was also largely unchanged at 57% as we continued to be active in the euro and sterling primary markets. We were also active in secondary markets.
- **High-Yield and Emerging Markets**: Our exposure to high-yield and emerging markets decreased further to 16% as we increased our underweight position due to increasingly expensive valuations.

Outlook

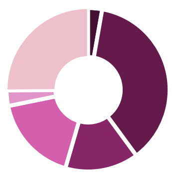
- A divergence in monetary policy between Europe and the US could appear this year as the latter is faced with stickier inflation on the back of much stronger growth, potentially preventing the Fed from cutting rates not nearly as much as the ECB or BoE.
- We have reduced the overall level of credit risk as valuations look fair to expensive across most asset classes, particularly in a scenario where the Fed would not cut rates at all in 2024.
- Still, we believe the yields available on short-dated bonds remain attractive due to inverted sovereign yield curves and flat credit curves.

Asset class breakdown

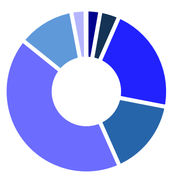
Category	Asset Class	Total
Cash		3%
Sovereign[5]	Nominal	19%
	Inflation-Linked	5%
	Total	24%
Investment Grade Credit	EUR IG Credit	15%
	GBP IG Credit	30%
	USD IG Credit	12%
	Total	57%
High-Yield & Emerging Markets	EUR High-Yield	10%
	USD High-Yield	2%
	Emerging Markets	4%
	Total	16%
Total		100%

Portfolio breakdowns

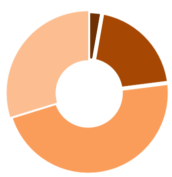
Breakdown by region	
Cash	3%
UK	31%
Core Europe – ex UK	24%
Periphery Europe	12%
North America	24%
Emerging Markets	4%
Developed Asia	2%



Breakdown by sector	
Cash	3%
Financial	37%
Defensive	15%
Cyclical	17%
Securitized	3%
Sovereign[4]	25%



Breakdown by rating[2]	
Cash	3%
AAA	4%
AA	21%
A	15%
BBB	42%
BB	11%
B	3%
CCC & below	0%



Breakdown by maturity	
Cash	3%
0-1 year	20%
1-3 years	47%
3-5 years	30%

(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.

(5) Any Emerging Market Sovereigns are classified under "Emerging Markets" for the purpose of this breakdown.

No assurance can be given that the Global Short Duration strategy will be successful. Investors can lose some or all of their capital invested. The Global Short Duration strategy is subject to risks including credit risk, liquidity risk and interest rate risk and counterparty risk. The strategy is also subject to derivatives and leverage, emerging markets and global investment risks.

Not for Retail distribution: This marketing communication is intended exclusively for Professional, Institutional, Qualified or Wholesale Clients / Investors only, as defined by applicable local laws and regulation. Circulation must be restricted accordingly.

This marketing communication does not constitute investment research or financial analysis relating to transactions in financial instruments as per MIF Directive (2014/65/EU), nor does it constitute on the part of AXA Investment Managers or its affiliated companies an offer to buy or sell any investments, products or services, and should not be considered as solicitation or investment, legal or tax advice, a recommendation for an investment strategy or a personalized recommendation to buy or sell securities.

Due to its simplification, this marketing communication is partial and opinions, estimates and forecasts herein are subjective and subject to change without notice. There is no guarantee that forecasts made will come to pass. Data, figures, declarations, analysis, predictions and other information in this document is provided based on our state of knowledge at the time of creation of this document. Whilst every care is taken, no representation or warranty (including liability towards third parties), express or implied, is made as to the accuracy, reliability or completeness of the information contained herein. Reliance upon information in this material is at the sole discretion of the recipient. This material does not contain sufficient information to support an investment decision.

Before making an investment, investors should read the relevant Prospectus and the Key Investor Information Document / scheme documents, which provide full product details including investment charges and risks. The information contained herein is not a substitute for those documents or for professional external advice.

The products or strategies discussed in this marketing communication may not be registered nor available in your jurisdiction. Please check the countries of registration with the asset manager, or on the web site https://www.axa-im.com/en/registration-map, where a fund registration map is available. In particular units of the funds may not be offered, sold or delivered to U.S. Persons within the meaning of Regulation S of the U.S. Securities Act of 1933. The tax treatment relating to the holding, acquisition or disposal of shares or units in the fund depends on each investor's tax status or treatment and may be subject to change. Any potential investor is strongly encouraged to seek advice from its own tax advisors.

Past performance is not a guide to current or future performance, and any performance or return data displayed does not take into account commissions and costs incurred when issuing or redeeming units. The value of investments, and the income from them, can fall as well as rise and investors may not get back the amount originally invested. Exchange-rate fluctuations may also affect the value of their investment. Due to this and the initial charge that is usually made, an investment is not usually suitable as a short term holding.

Issued in the UK by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales No: 01431068. Registered Office: 22 Bishopsgate, London EC2N 4BQ. In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.