Global Strategic Bond Fund

Positive momentum continues through festive season

- Following a strong rally, bond markets have shifted from pricing in the 'higher for longer' narrative to rate cuts through 2024 and 2025
- Fed's dot plot, released at the start of the month, signalled an unexpectedly large 75bps of cuts in 2024
- Economic data releases continue to surprise to the downside
- Continued positive expectations for global fixed income as we head into 2024

Nick Hayes
Portfolio Manager, Global Strategic Bonds strategy

What's happening?

- Though not quite as impressive as November, December continued the very strong bond rally which began at the end of October.
- Low liquidity in the market and little primary issuance where undoubtedly contributing factors. The final economic data releases of the year also surprised to the downside helping to further push up government bond prices.
- Themes which began in October continued through to the end of the year; high conviction that central banks have won their fight against inflation and markets pricing in several cuts in 2024.

Fund in focus	
Assets under management	£156 m
Duration	4.58 years
Yield[1]	5.68%
Running yield[1]	4.16%
Spread to government[2]	210
Number of holdings	259
Launch date	19/10/2020
Net performance (GBP)	
One month	3.42%
Three months	6.10%
One year	3.29%
2023 YTD	3.29%
Since launch (cumulative)	-6.56%

Source: AXA IM as at 31/12/2023. 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

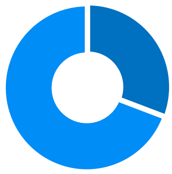
- **Defensive (31%):** We remain constructive on government bond markets although slightly moderated given the rally, and rate cuts that are currently priced into markets. Markets are now pricing in more rate cuts than many expect and also to begin earlier. This should lead to continued volatility in government bond markets, even if we expect lower yields through the year ahead.
- **Intermediate (28%):** Exposure remains around 30% below where we were earlier in 2023, as we continue to add risk in the lower rated, higher yielding bucket. Credit spreads tightened during the month, and investment grade risk benefitted both from lower yields and tightening credit markets.
- **Aggressive (41%):** During the month we increased our exposure to the fund's aggressive bucket. Developed market high yield and emerging market debt have responded well to the rate hikes beating many expectations that the higher rates would invoke an accelerated default cycle. Risk assets appear to be under held as bearish expectations for the underlying economy fail to materialise which has supported valuations throughout 2023 and quite possibly well into 2024.

Outlook

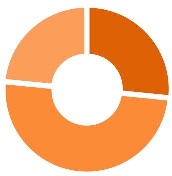
- Looking ahead we have high expectations for fixed income and believe the merits for taking risk for reward are high.
- Although there are risks to the contrary, we believe we will see weaker economic data and a moderation of monetary policy leading to rate cuts across developed markets. Historically these trends produce strong total returns for fixed income.
- Bonds and credit may benefit from capital moving out of cash like securities whose returns are less appealing as the market prices in rate cuts.
- Investors are reasonably well paid for taking fixed income risk with a combined benefit of attractive yields, and the potential for capital appreciation in a world of rate cutting cycles.
- We expect markets to be volatile with a high dispersion between higher and lower quality issuers and disjointed performance of global markets. This favours fundamentally driven active investors who have high conviction in their investment process and individual credit selection.

Strategy breakdown	
Defensive	30.9%
Intermediate	27.8%
Aggressive	41.3%
Total	100%

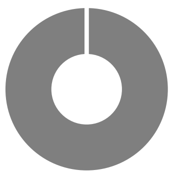
Defensive breakdown	30.9%
US Government Bonds	11.6%
Core Europe Government Bonds	9.0%
Inflation-Linked Bonds	5.1%
Cash	5.1%



Intermediate breakdown	27.8%
US IG Credit	8.6%
Euro & Sterling IG Credit	19.3%



Aggressive breakdown	41.3%
Emerging Markets (HC 11.0%/LC 0%/FX 0%)	11.0%
US High Yield	20.6%
European High Yield	9.7%



Derivatives breakdown	10.5%
Bond Futures	10.5%
Credit Default Swaps	0.0%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	5.1%
	AAA	5.3%
	AA	20.5%
	Total	30.9%
Intermediate	AA	0.8%
	A	6.0%
	BBB	21.0%
	Total	27.8%
Aggressive	AA	0.0%
	A	0.7%
	BBB	2.5%
	BB	17.3%
	B	14.9%
	CCC & Below	5.9%
	Not rated	0.0%
	Total	41.3%
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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