Investment Managers

For professional clients only
November 2020
Monthly Perspectives
Fixed Income

Global Short Duration strategy

The rally accelerates as risks substantially diminish

- Credit spreads significantly tightened thanks to the conclusive US elections and very positive vaccine news
- While coronavirus infections surged in the US, they seemed to broadly come down in Europe
- We have increased the risk profile by adding 5% of high yield and emerging markets

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Strategy in focus – representative account (30/11/20)	
Assets under management	£193m
Yield (GBP hedged)[1]	2.0%
Duration[1]	2.2 yrs
Average rating[2]	BBB-
Number of issuers	155
Launch date	17/05/2017
Net performance – representative account (GBP)[3]	
One month	+1.04%
Year-to-date	+2.40%
One year	+2.70%
Three year (cumulative)	+5.96%
Since launch (cumulative)	+6.60%

Source: AXA IM as at 30/11/2020. 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. **Past performance is not a reliable indicator of future results**. Performance calculations are net of fees, based on reinvestment of dividends.

What's happening?

- Despite surging coronavirus infections in the US, credit spreads significantly tightened, thanks to the very positive vaccine news and an ease in political uncertainty after Democrat Joe Biden's win was confirmed and President Donald Trump allowed the transition to get under way.
- The US Treasury said it would not renew three key US Federal Reserve (Fed) emergency lending facilities at the end of this year despite the Fed's public opposition to it. The Bank of England kept interest rates unchanged at 0.1% and expanded its bond-purchasing programme by £150bn, more than expected.
- German bund and UK gilt yields rose slightly in November due to the global risk-on environment while US treasury yields slightly fell as the market priced in a lower likelihood of a large fiscal stimulus following the Democrats' failure to win the senate.

Portfolio positioning and performance

- **Sovereign:** We remained invested in short-dated US treasury inflation-linked bonds due to attractive valuations.
- **Investment Grade:** We continued to gradually reduce our bias towards investment grade in the Fund in order to reallocate towards high yield and emerging markets. We were still active in secondary markets, increasing our exposure to the airport sector.
- **High Yield and Emerging Markets**: We increased our exposure to high yield and emerging markets by 5% during the month, being active in both primary and secondary markets. Due to the gradual re-risking undertaken since late March, we now have a 41% allocation to high yield and emerging markets, up from 19% at the end of February.

Outlook

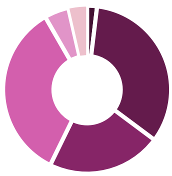
- With the world's economy not experiencing a 'V-shape' recovery, in our opinion, but rather a 'swoosh' one, monetary and fiscal support remain paramount to help cushion the economic damage caused by the new round of lockdowns.
- Following the conclusive US elections and very positive vaccine news, we are ready to look through some near-term risks, such as Brexit, and believe that 2021 will be all about carry. Therefore, we plan to remain overweight high yield and emerging markets in order to optimise the level of carry within the portfolio.

Asset class breakdown

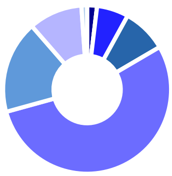
Category	Asset Class	Total
Cash		2%
Sovereign[5]		3%
Investment Grade Credit	EUR IG Credit	17%
	GBP IG Credit	20%
	USD IG Credit	17%
	Total	54%
High Yield & Emerging Markets	EUR High Yield	13%
	USD High Yield	8%
	Emerging Markets	20%
	Total	41%
Total		100%

Portfolio breakdowns

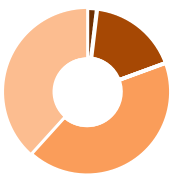
Breakdown by region	
Cash	2%
UK	17%
Core Europe – ex UK	17%
Periphery Europe	12%
North America	30%
Emerging Markets	20%
Developed Asia	3%



Breakdown by sector	
Cash	2%
Financial	33%
Defensive	22%
Cyclical	34%
Securitized	5%
Sovereign[4]	4%



Breakdown by rating	
Cash	2%
AAA	0%
AA	6%
A	9%
BBB	54%
BB	18%
B	10%
CCC & below	1%



Breakdown by maturity	
Cash	2%
0-1 year	18%
1-3 years	42%
3-5 years	38%

(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.

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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.