For professional clients only
January 2021
Monthly Perspectives
Fixed Income

Sterling Credit Short Duration strategy

Hopes of additional US fiscal stimulus support spread performance

- Credit spreads continued to tighten, supported by hopes of additional US fiscal stimulus
- Slow start of the vaccine rollouts weighed on sentiment
- The risk profile was broadly unchanged

Nicolas Trindade
Portfolio Manager, Sterling Credit Short Duration strategy

What's happening?

- Despite concerns around the slow pace of coronavirus vaccine rollouts and the spread of new, more infectious strains, credit spreads still tightened. This was supported by hopes of additional US fiscal stimulus after the Democrats won control of the Senate, and some solid corporate results.
- The US Federal Reserve left interest rates and balance sheet policy unchanged while dismissing questions on tapering as 'premature'. The European Central Bank policy meeting was also uneventful, with all policy levers left unchanged.
- UK gilt yields rose in January, driven by higher US treasury yields, due to hopes of further US fiscal stimulus.

Strategy in focus – representative account (31/01/21)	
Assets under management	£565m
Yield (GBP hedged)[1]	0.9%
Duration[1]	1.7 yrs
Average rating[2]	A-
Number of issuers	109
Launch date	12/11/2010
Net performance – representative account (GBP)[3]	
One month	+0.00%
Year-to-date	+0.00%
One year	+1.92%
Three years (cumulative)	+5.46%
Five years (cumulative)	+10.40%
Ten years (cumulative)	+27.50%

Source: AXA IM as at 31/01/2021. 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

Portfolio positioning and performance

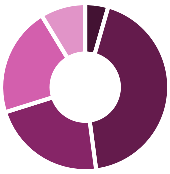
- Despite sterling investment grade primary issuance standing at £5.5bn in January, we did not participate in any new issues as we continued to gradually reduce our exposure to cyclical names due to expensive valuations. As such, our exposure to BBB rated bonds also fell from 53% to 51% over the last month.

Outlook

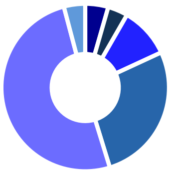
- Monetary and fiscal support remain paramount to help cushion the economic damage caused by the new round of lockdowns.
- Following hopes of additional US fiscal stimulus and the expected acceleration of the vaccine rollout globally, we are ready to look through some near-term risks and believe that 2021 will be all about carry. Therefore, we plan to remain overweight in BBB rated bonds in order to optimise the level of carry within the portfolio.

Portfolio breakdowns

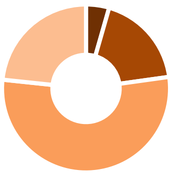
Breakdown by region	
Cash	4%
UK	33%
Europe Core – ex UK	26%
Europe Periphery	9%
North America	12%
Emerging Markets	5%
Developed Asia	11%



Breakdown by sector	
Cash	4%
Financial	43%
Defensive	22%
Cyclical	21%
Securitized	9%
Sovereign	0%



Breakdown by rating	
Cash	4%
AAA	4%
AA	10%
A	27%
BBB	51%
BB or below	4%



Breakdown by maturity	
Cash	4%
0-1 year	18%
1-3 years	54%
3-5 years	23%

(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. Please note that the yield calculations are based on the portfolio of assets and may NOT be representative of what clients invested in the fund 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.

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