AXA Global Strategic Bond Fund

Duration reduced as sovereign yields reprice

- Markets are challenging central banks' commitment to low interest rates
- UK 10-year gilts reached 0.8% due to pick-up in short-term inflation expectations
- Repricing in sovereign yields spilled over into some risk asset volatility at month-end

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Fund in focus	
Assets under management	£57m
Duration	1.54 yrs
Yield (GBP Hedged)[1]	1.44%
Running yield[1]	3.26%
Spread to government[2]	135
Number of holdings	217
Launch date	19/10/2020
Net performance (GBP)	
One month	-0.81%
Three months	-0.52%
2021 YTD	-1.11%
Since launch (cumulative)	-0.02%

Source: AXA IM as at 28/02/2021. The data is shown for the AXA Global Strategic Bond Fund. Performance is based on the Z share class net of ongoing charges (54bps), dividends reinvested. **Past performance is not a reliable indicator of future results**.

What's happening?

- The global government bond sell-off accelerated as yields got back up to levels not seen for 12 months. UK 10-year gilts hit 0.8%, which starts to price in less QE and higher official interest rates earlier than most central bankers had guided over the last few months.
- The "reflationary trade" hit hardest in government bonds, although a slight pick-up in credit spread volatility and equities has focused the market's attention on the potential for a correlated sell-off to reverse some of the gains in the last few quarters.
- Short-term inflation data continues to be key and will probably move higher in the coming months as the base effects, focused in commodity markets, move inflation expectations higher. The global vaccine roll-out continues, although at varying speeds. The subsequent reopening of global economies will doubtless see mixed results.

Portfolio positioning and performance

- Defensive (39%): given the pick-up in volatility and subsequent aggressive sell off in rates markets, we have reversed our duration bias and materially reduced the duration risk in the fund. Mid-month, we significantly reduced US treasury exposure and reduced again towards month-end. We finished February with one and a half years of duration, with no exposure to the underlying US treasury curve. We also increased exposure to inflation break-evens, focused on short-dated US TIPS, to benefit from any move higher in inflation expectations.

- Intermediate (27%): we added long-dated BBB credit in bonds which had fallen in price due to the duration sell-off, although this duration exposure was hedged in line with our reduction in exposure towards month-end.
- Aggressive (34%): due to growing fear around a pick-up in risk asset volatility, we reduced exposure to some Asian credit, and increased our CDS index portfolio hedge to benefit from any spread widening. We still believe that risk assets will outperform and be a beneficiary of the reopening of global economies and the reflation trade, but we might see some volatility along the way.

Outlook

- 2021 is already seeing a pick-up in volatility and we have materially reassessed our duration positioning. In the short term, we have mitigated exposure to government bond risk on the basis that the outlook is probably for higher yields and hence our strategy is for capital preservation.
- Further down the credit curve, spreads should continue to outperform, although over years of QE we have seen periods of higher yields and wider credit spread correlation, which we are mindful of. Ultimately, this could be a good opportunity to buy risk assets.
- While the short-term duration view is bearish, we think that we will see good opportunities to add back duration risk as the economic recovery will not be in a straight line, central bank support is still plentiful and markets are now pricing in a reasonably optimistic outlook with higher interest rates that may not materialise. This should be good for fixed income returns going forward.

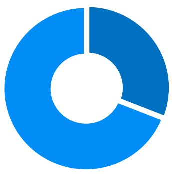
Credit rating breakdown

Category	Rating	Total
Defensive	Cash	5.2%
	AAA	13.2%
	AA	20.2%
	Total	38.5%
Intermediate	AA	1.3%
	A	3.3%
	BBB	22.5%
	BB	0.0%
	Total	27.1%
Aggressive	AA	0.0%
	A	0.3%
	BBB	2.9%
	BB	11.2%
	B	12.8%
	CCC & Below	7.1%
	Not rated	0.2%
	Total	34.4%
Total		100.0%

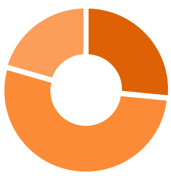
Portfolio breakdowns

Strategy breakdown	
Defensive	38.5%
Intermediate	27.0%
Aggressive	34.4%
Total	100.0%

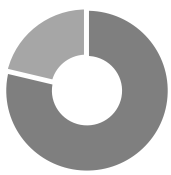
Defensive breakdown	38.5%
US Government Bonds	9.1%
Core Europe Government Bonds	13.5%
Rest of World Governments	0.0%
Inflation-Linked Bonds	10.7%
Cash	5.2%



Intermediate breakdown	27.0%
US IG Credit	8.4%
Euro & Sterling IG Credit	18.7%
Periphery Governments	0.0%



Aggressive breakdown	34.4%
Emerging Markets (HC 9.1%/LC 0%/FX 0%)	9.1%
US High Yield	18.2%
European High Yield	7.1%



Derivatives breakdown	-42.6%
Bond Futures	-33.6%
Credit Default Swaps	-9.1%

Source: AXA IM as at 28/02/2021.

(1) Yield figures quoted will vary in the future and are not guaranteed. (2) Average credit spread relative to government bonds.

No assurance can be given that the AXA Global Strategic Bond Fund will be successful. Investors can lose some or all of their capital invested. The AXA Global Strategic Bond Fund is subject to risks including counterparty risk, derivatives risk, geopolitical risk, interest rate risk, securitised assets or CDO assets risk, emerging market risk, liquidity risk, credit risk, risks linked to investments in sovereign debt, high yield bonds risk and contingent convertible bonds (“CoCos”) risk. Further explanation of the risks associated with an investment in this fund can be found in the prospectus.