For professional clients only
July 2021
Monthly Perspectives
Fixed Income

Sterling Credit Short Duration strategy

The relentless government bond rally continues

- Credit spreads were broadly unchanged
- Gilt yields continued to fall despite higher inflation data
- The risk profile was stable

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What's happening?

- Despite positive corporate results, sterling credit spreads were broadly unchanged in July as continued worries about inflation and the global spread of the Delta variant of COVID-19, combined with a slump in Chinese equities due to concerns about a regulatory clampdown, all weighed on sentiment.

- The US Federal Reserve adopted a relatively dovish tone at its policy meeting, keeping interest rates at record lows while indicating that the process to start winding down its massive bond-buying programme was drawing closer. Meanwhile, the European Central Bank insisted that it would maintain policy support as long as necessary, despite worries about growing inflation.

- Despite rising inflation, UK gilt yields fell in July, taking their cue from US treasuries, as rising COVID-19 infections unnerved investors due to concerns that the economic recovery might be weakening.

Strategy in focus – representative account (31/07/21)	
Assets under management	£509m
Yield (GBP hedged)[1]	0.9%
Duration[1]	1.6 yrs
Average rating[2]	A-
Number of issuers	109
Launch date	12/11/2010

Cumulative net performance – representative account (GBP)[3]	
One month	+0.08%
Year-to-date	+0.47%
One year	+2.24%
Three years	+5.87%
Five years	+7.83%
Ten years	+24.76%
Since launch	+28.00%

Annualised net performance – representative account (GBP)[3]	
One year	+2.24%
Three years	+1.92%
Five years	+1.52%
Ten years	+2.23%
Since launch	+2.33%

Source: AXA IM as at 31/07/2021. 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 are net of fees, based on reinvestment of dividends.

Portfolio positioning and performance

- Despite sterling investment grade primary issuance posting a robust £3.5bn, we did not participate in any new issues as most of the supply came in the form of longer dated bonds. As such, we kept our exposure to sovereign debt and BBB rated bonds stable at 7% and 49% respectively.

Outlook

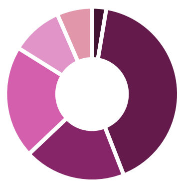
- As we expect continued monetary and fiscal support over the medium term to ensure a full economic recovery, we believe the second half of 2021 will remain all about carry.

- While we aim to remain overweight in BBB rated bonds in order to optimise the carry of the portfolio, we also plan to gradually reduce this overweight over the coming months as valuations remain very expensive.

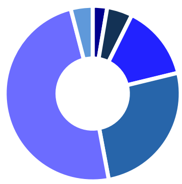
- We continue to expect higher yields by the end of the year as successful vaccination programmes in most developed countries should lead to a faster and sustainable reopening of their economies.

Portfolio breakdowns

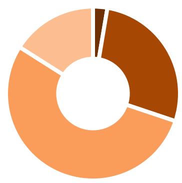
Breakdown by region	
Cash	*3%*
UK	*35%*
Europe Core – ex UK	*27%*
Europe Periphery	*9%*
North America	*12%*
Emerging Markets	*6%*
Developed Asia	*8%*



Breakdown by sector	
Cash	*3%*
Financial	*41%*
Defensive	*19%*
Cyclical	*21%*
Securitized	*10%*
Sovereign	*7%*



Breakdown by rating	
Cash	*3%*
AAA	*5%*
AA	*14%*
A	*26%*
BBB	*49%*
BB or below	*4%*



Breakdown by maturity	
Cash	*3%*
0-1 year	*27%*
1-3 years	*54%*
3-5 years	*16%*

(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.