Investment Managers

For professional clients only
August 2021
Monthly Perspectives
Fixed Income

Global Short Duration strategy
Tapering talks intensify

- Investment grade credit spreads were broadly unchanged while high yield spreads were tighter
- Government bond yields rose as tapering talks intensified in the US and Europe
- The risk profile was broadly stable

Nicolas Trindade
Portfolio Manager, Global Short Duration strategy

What's happening?

- Despite positive corporate results and the US Senate's approval of a $1trn infrastructure bill, credit spreads were mixed in August. Concerns about the spread of the Delta variant of COVID-19 and signs of slowing economic growth in China continued to unsettle markets, while worries earlier in the month that the US Federal Reserve (Fed) was likely to begin tapering its monthly asset purchases before the end of the year added further pressure.

- However, at the Fed's annual Jackson Hole symposium, Chairman Jerome Powell sought to reassure investors by explaining that interest rate hikes were not imminent, even if tapering was, as there was still 'much ground to cover' before the economy hit full employment. Meanwhile, the Bank of England maintained its accommodative stance, although it indicated that it could start raising interest rates sooner than previously expected.

- US treasury, German bund and UK gilt yields rose in August as tapering talks intensified in the US and Europe.

Strategy in focus – representative account (31/08/21)	
Assets under management	£185m
Yield (GBP hedged)[1]	1.3%
Duration[1]	1.5yrs
Average rating[2]	BBB+
Number of issuers	142
Launch date	17/05/2017

Cumulative net performance – representative account (GBP)[3]	
One month	+0.46%
Year-to-date	+0.93%
One year	+3.05%
Three year (cumulative)	+7.88%
Since launch (cumulative)	+8.20%

Annualised net performance – representative account (GBP)[3]	
One year	+3.05%
Three year	+2.56%
Since launch	+1.85%

Source: AXA IM as at 31/08/2021. 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

- **Sovereign:** While our sovereign exposure remained stable at 28%, we decreased the duration of the portfolio from 1.8 years to 1.5 years as tapering talks intensified in the US and Europe.

- **Investment Grade:** Our exposure to investment grade markets also remained unchanged at 35%. We were still active in the secondary market, adding to banks in US dollars.

- **High Yield and Emerging Markets**: While our exposure to high yield and emerging markets also remained constant at 36%, we sold protection on the Markit iTraxx Xover in order to unwind our position as concerns around the Delta variant and Fed tapering somewhat abated during the month.

Outlook

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

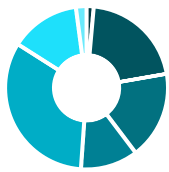
- However, with valuations remaining very expensive, we plan to retain our barbell strategy by keeping a higher exposure to sovereign bonds and high yield and emerging markets, for defensiveness and carry purposes respectively, while keeping a lower exposure to investment grade markets.

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

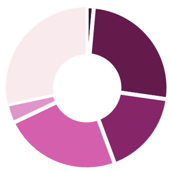
Asset class breakdown

Category	Asset Class	Total
Cash		1%
Sovereign[5]	Nominal	23%
	Inflation-Linked	5%
	Total	28%
Investment Grade Credit	EUR IG Credit	7%
	GBP IG Credit	14%
	USD IG Credit	14%
	Total	35%
High Yield & Emerging Markets	EUR High Yield	16%
	USD High Yield	7%
	Emerging Markets	14%
	Total	36%
Total		100%

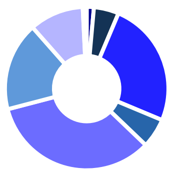
Portfolio breakdowns



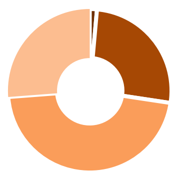
Breakdown by region	
Cash	1%
UK	21%
Core Europe – ex UK	17%
Periphery Europe	11%
North America	33%
Emerging Markets	14%
Developed Asia	2%



Breakdown by sector	
Cash	1%
Financial	26%
Defensive	17%
Cyclical	24%
Securitized	4%
Sovereign[4]	28%



Breakdown by rating[2]	
Cash	1%
AAA	5%
AA	25%
A	6%
BBB	34%
BB	18%
B	11%
CCC & below	1%



Breakdown by maturity	
Cash	1%
0-1 year	26%
1-3 years	46%
3-5 years	26%

(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.

(5) Any Emerging Market Sovereigns are classified under “Emerging Markets” for the purpose of this breakdown.

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.

Past performance is not a guide to current or future performance, and any performance or return data displayed does not take into account commissions and costs incurred when issuing or redeeming units. The value of investments, and the income from them, can fall as well as rise and investors may not get back the amount originally invested. Exchange-rate fluctuations may also affect the value of their investment. Due to this and the initial charge that is usually made, an investment is not usually suitable as a short term holding.

Issued in the UK by AXA Investment Managers UK Limited, which is authorised and regulated by the Financial Conduct Authority in the UK. Registered in England and Wales No: 01431068. Registered Office: 22 Bishopsgate, London EC2N 4BQ. In other jurisdictions, this document is issued by AXA Investment Managers SA's affiliates in those countries.