AXA Global Strategic Bond Fund

Reflation turns to stagflation

- Bond yields driven higher over concerns around higher persistent inflation and slower growth
- In this environment, most fixed income markets delivered negative monthly total returns
- We reduced the duration exposure whilst momentum seemingly remains with higher yields

Nick Hayes
Portfolio Manager, AXA Global Strategic Bond Fund

What's happening?

- Markets dealt with a new focus in September as "stagflation" became the primary concern. Higher inflation and slowing growth led to higher government bond yields and weaker risk assets.
- US 10-year treasury yields headed back to 1.5% from the lows of 1.2% during the summer, with renewed emphasis from the bearish community who expect to revisit the peak in yields of Q1 2021. Most fixed income total returns were negative as government bond yields headed higher.
- We witnessed much nervousness around central banks' appetite to begin reversing 2020's accommodative monetary policy, with the Bank of England seemingly positioning as the first major central bank to potentially raise rates.

Fund in focus	
Assets under management	£71m
Duration	1.58 yrs
Yield (GBP Hedged)[1]	2.06%
Running yield[1]	3.20%
Spread to government[2]	116
Number of holdings	241
Launch date	19/10/2020
Net performance (GBP)	
One month	-0.88%
Three months	-0.49%
2021 YTD	0.00%
Since launch (cumulative)	+1.10%

Source: AXA IM as at 30/09/2021. 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**.

Portfolio positioning and performance

- Defensive (33%): duration suffered during the month as yields moved higher, which negatively impacted on the strategy as we began the month with 4 years of duration. This was partially offset by a positive contribution from our 11% exposure to inflation breakevens. By month-end we had hedged out most of our duration, with a 1.6 year exposure, as the momentum around higher yields looks set to continue.
- Intermediate (32%): allocation remains stable, with a bias towards BBB and European credit. We participated in some GBP insurance new issues and increased allocations to the secondary market, as higher bond yields led prices lower.
- Aggressive (35%): slight increase in US and European high yield exposure out of cash. Emerging markets were volatile during the month, driven by increased volatility and weakness in Asia, particularly in the Chinese property sector

which we have exited, although over the medium term we expect to find attractive opportunities. Our biggest allocation remains to US high yield, which delivered a flat monthly return, thereby outperforming many negative returns across fixed income.

Outlook

- 2021 appears to be ending as it started, with bond yields driven higher around concern for higher inflation and less central bank support. Although inflation is certainly elevated, for longer than expected, there is still a view that it is transitory and should head lower over coming quarters.
- Central banks' response will be key and, should they prove to be less tolerant than many investors expect, we could see some volatility from both interest rate and credit sensitive assets. However, for most of 2021 we have seen government bond yields lower than many predicted as the continued "passive" demand from investors such as central banks and financially regulated entities remains a very positive flow dynamic.
- We do not see this environment changing materially and would view the current spike higher in yields as another opportunity to add duration and deliver decent returns in the medium term.

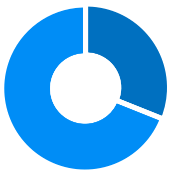
Credit rating breakdown

Category	Rating	Total
Defensive	Cash	1.5%
	AAA	10.1%
	AA	21.2%
	Total	32.8%
Intermediate	AA	1.2%
	A	3.2%
	BBB	28.0%
	Total	32.4%
Aggressive	AA	0.0%
	A	0.2%
	BBB	3.1%
	BB	12.9%
	B	12.2%
	CCC & Below	6.2%
	Not rated	0.2%
	Total	34.8%
Total		100.0%

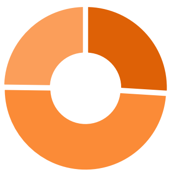
Portfolio breakdowns

Strategy breakdown	
Defensive	32.8%
Intermediate	32.4%
Aggressive	34.8%
Total	100.0%

Defensive breakdown	32.8%
US Government Bonds	14.6%
Core Europe Government Bonds	6.1%
Rest of World Governments	0.0%
Inflation-Linked Bonds	10.6%
Cash	1.5%



Intermediate breakdown	32.4%
US IG Credit	10.1%
Euro & Sterling IG Credit	22.4%
Periphery Governments	0.0%



Aggressive breakdown	34.8%
Emerging Markets (HC 9.0%/LC 0%/FX 0%)	9.0%
US High Yield	17.1%
European High Yield	8.6%

Derivatives breakdown	-44.1%
Bond Futures	-31.9%
Credit Default Swaps	-12.2%

Source: AXA IM as at 30/09/2021.

(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.