For professional clients only
October 2021
Monthly Perspectives
Fixed Income

Global Short Duration strategy

The yield curve flattens as the front-end underperforms

- Credit spreads were mixed due to continued worries about inflation and policy tightening
- Government bond yields rose, with the front-end underperforming
- We continued to add to short dated inflation-linked bonds

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What's happening?

- Despite positive corporate results, credit spreads were mixed in October due to continued worries about inflation, with oil prices soaring to multi-year highs, and the prospect of imminent monetary policy tightening.
- The US Federal Reserve signalled that it could start 'tapering' its asset purchases in November, with a view to ending the programme by mid-2022, while the European Central Bank maintained its accommodative policy stance, emphasising the fragility of the economic recovery and temporary factors driving up inflation.
- US treasury, German Bund and UK gilt yields rose in October, with the front-end underperforming, due to the prospect of looming policy tightening as illustrated by Bank of England officials hinting about the possibility of an imminent interest rate hike.

Strategy in focus – representative account (31/10/21)	
Assets under management	£186m
Yield (GBP hedged)[1]	1.8%
Duration[1]	1.2yrs
Average rating[2]	BBB+
Number of issuers	139
Launch date	17/05/2017

Cumulative net performance – representative account (GBP)[3]	
One month	-0.09%
Year-to-date	+0.65%
One year	+2.27%
Three year (cumulative)	+7.68%
Since launch (cumulative)	+7.90%

Annualised net performance – representative account (GBP)[3]	
One year	+2.27%
Three year	+2.50%
Since launch	+1.72%

Source: AXA IM as at 31/10/2021. 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:** Our overall sovereign exposure remained stable at 30% as we switched out of nominal bonds into German and French inflation-linked bonds, early in the month, to benefit from supportive inflation indexation into year-end. As a result, our exposure to inflation-linked bonds increased by 8% to 15%.

- **Investment Grade:** Our exposure to investment grade markets was broadly constant at 32% (vs. 33% last month) as several bonds matured and we reinvested some of the proceeds in the sterling market to benefit from attractive yields.

- **High Yield and Emerging Markets**: While our exposure to high yield (HY) and emerging markets (EM) remained stable at 36%, we participated in an attractive new HY issue and sold protection on the Markit iTraxx Xover to unwind our position following improving market sentiment in the latter part of the month.

Outlook

- With valuations remaining very expensive and inflationary pressures persisting, we plan to retain our barbell strategy by keeping a higher exposure to sovereign bonds (and linkers) for defensiveness purposes and HY / EM to optimise carry, while keeping a lower exposure to investment grade markets.

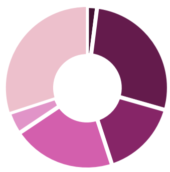
- We continue to expect higher yields by the end of the year as the impact of the pandemic on the global economy keeps on receding and inflationary pressures continue.

Asset class breakdown

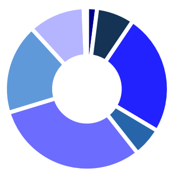
Category	Asset Class	Total
Cash		2%
Sovereign[5]	Nominal	15%
	Inflation-Linked	15%
	Total	30%
Investment Grade Credit	EUR IG Credit	7%
	GBP IG Credit	13%
	USD IG Credit	12%
	Total	32%
High Yield & Emerging Markets	EUR High Yield	17%
	USD High Yield	7%
	Emerging Markets	12%
	Total	36%
Total		100%

Portfolio breakdowns

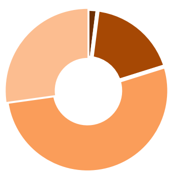
Breakdown by region	
Cash	2%
UK	23%
Core Europe – ex UK	26%
Periphery Europe	10%
North America	25%
Emerging Markets	12%
Developed Asia	2%



Breakdown by sector	
Cash	2%
Financial	27%
Defensive	16%
Cyclical	21%
Securitized	4%
Sovereign[4]	30%



Breakdown by rating[2]	
Cash	2%
AAA	7%
AA	24%
A	6%
BBB	31%
BB	18%
B	11%
CCC & below	1%



Breakdown by maturity	
Cash	2%
0-1 year	18%
1-3 years	53%
3-5 years	27%

(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.

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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.

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