For professional clients only
November 2021
Monthly Perspectives
Fixed Income

AXA Global Strategic Bond Fund

Fed changes tune on "transitory" inflation

- Credit spreads were wider towards month-end following emergence of the Omicron variant
- Fed Chair Powell claimed that "transitory" was no longer appropriate in relation to inflation
- We added duration and implemented a credit hedge as volatility could increase into year-end

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What's happening?

- November was dominated by the emergence of a new Covid variant, subsequently named Omicron, renewing fears around both the sanitary situation and the economic recovery, whilst driving risk assets weaker and government bond yields lower. Credit spreads widened sharply at month-end, with high yield underperforming.
- Away from Covid, the Fed distanced itself from the word "transitory" in relation to ongoing high levels of inflation and moved closer to interest rate rises, which are now priced in for the second half of 2022.
- The Bank of England surprised the market with no action after markets priced in higher yields. UK gilts continue to be more volatile compared with US or German bonds.

Fund in focus	
Assets under management	£72m
Duration	4.27 yrs
Yield (GBP Hedged)[1]	2.68%
Running yield[1]	3.45%
Spread to government[2]	195
Number of holdings	241
Launch date	19/10/2020
Net performance (GBP)	
One month	-0.40%
Three months	-1.27%
2021 YTD	-0.40%
Since launch (cumulative)	+0.70%

Source: AXA IM as at 30/11/2021. 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 (28%): we added UK and US duration risk towards month-end as bond yields moved lower on risk aversion. However, we reduced our bias towards longer-dated assets as the US treasury curve has flattened significantly this year.

- Intermediate (34%): activity was relatively quiet in high quality credit with a continued positioning bias towards euro and sterling BBB-rated assets. During the month, we added more exposure to the UK financial services sector via a new issue from an existing name, following a bond tender offer on our previous holding.
- Aggressive (39%): slight increase to US high yield over the month as market momentum was positive until the Covid-related volatility towards month-end. We continue to prefer shorter-dated, lower-rated names. Smaller issue sizes have generated decent performance recently.

Outlook

- Government bonds have failed all year to push as high as many would have expected given such negative macroeconomic data. Once more it looks like structural, possibly less price sensitive, demand is still strong and supportive to core yields, albeit they are higher than earlier in 2021.
- An increase in uncertainty around Covid variants presents itself as a renewed risk to the market for the turn of the year. With this in mind, we have added duration and a credit risk hedge as market volumes are expected to be thin at year-end.
- 2022 will presumably have to contend with the twin forces of increasingly hawkish central banks alongside some well flagged tail risks, pointing towards a pick-up in volatility for an asset class that offers low yields after such huge monetary stimulus, hence some caution seems appropriate.

Credit rating breakdown

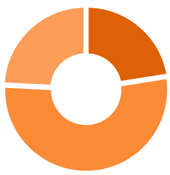
Category	Rating	Total
Defensive	Cash	5.3%
	AAA	4.3%
	AA	18.1%
	Total	27.8%
Intermediate	AA	1.2%
	A	3.1%
	BBB	29.2%
	Total	33.6%
Aggressive	AA	0.0%
	A	0.2%
	BBB	3.1%
	BB	14.1%
	B	12.9%
	CCC & Below	8.3%
	Not rated	0.2%
	Total	38.6%
Total		100.0%

Portfolio breakdowns

Strategy breakdown	
Defensive	27.8%
Intermediate	33.6%
Aggressive	38.6%
Total	100.0%

Defensive breakdown	27.8%
US Government Bonds	11.8%
Core Europe Government Bonds	5.5%
Rest of World Governments	0.0%
Inflation-Linked Bonds	5.1%
Cash	5.3%

Intermediate breakdown	33.6%
US IG Credit	10.8%
Euro & Sterling IG Credit	22.8%
Periphery Governments	0.0%



Aggressive breakdown	38.6%
Emerging Markets (HC 8.7%/LC 0%/FX 0%)	8.7%
US High Yield	20.6%
European High Yield	9.4%

Derivatives breakdown	-7.8%
Bond Futures	-5.7%
Credit Default Swaps	-2.1%

Source: AXA IM as at 30/11/2021.

(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.