For professional clients only
December 2021
Monthly Perspectives
Fixed Income

Sterling Credit Short Duration strategy

Market rallies on limited Omicron impact

- Sterling investment grade credit spreads tightened as it became increasingly clear that the impact of Omicron would not be as severe as initially feared
- UK gilt yields rose as central banks were increasingly hawkish, with the Bank of England hiking rates by 0.15%
- We continued to decrease our exposure to BBB-rated bonds

Nicolas Trindade
Portfolio Manager, Sterling Credit Short Duration strategy

What's happening?

- Despite several countries introducing tighter restrictions to try and limit the spread of Omicron, credit spreads still tightened as fears about its potency and ability to evade vaccines gradually dissipated and investors began to believe that its economic effects would be relatively short-lived.

- The US Federal Reserve (Fed) said it would bring forward plans to end its asset-purchasing scheme by March, to open the way for earlier interest rate increases, as it projected three hikes in 2022. Meanwhile, the European Central Bank said it would also halt its emergency asset-buying programme in March but would expand its bond purchases under an older scheme. Finally, the Bank of England surprised the market by raising interest rates for the first time in three years by 0.15%, as it sought to tame inflation.

- UK gilt yields rose, along with yields on US treasuries and German bunds, as central banks were increasingly hawkish to counter sharp rises in inflation.

Strategy in focus – representative account (31/12/21)	
Assets under management	£519m
Yield (GBP hedged)[1]	1.5%
Duration[1]	1.6 yrs
Average rating[2]	A-
Number of issuers	108
Launch date	12/11/2010

Cumulative net performance – representative account (GBP)[3]	
One month	-0.16%
Year-to-date	-0.08%
One year	-0.08%
Three years	+5.56%
Five years	+6.44%
Ten years	+24.32%
Since launch	+27.30%

Annualised net performance – representative account (GBP)[3]	
One year	-0.08%
Three years	+1.82%
Five years	+1.25%
Ten years	+2.20%
Since launch	+2.19%

Source: AXA IM as at 31/12/2021. 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

- We did not participate in any new issues in December as the sterling investment grade primary issuance was only £0.5bn. We were still active in the sterling and euro secondary markets buying bonds, for example, from UK utility company Anglian Water and French-Italian carmaker Stellantis. Our exposure to BBB-rated bonds decreased by 2% to 45% while our exposure to sovereign debt was stable at 10%.

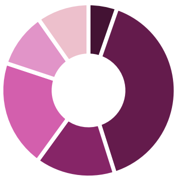
Outlook

- With the market having to grapple with expensive valuations and a hawkish Fed, we plan to continue reducing our exposure to BBB-rated bonds over the coming months.

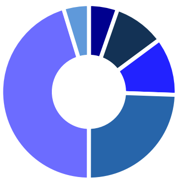
- We also plan to keep the duration at the lows, close to 1.5 years, as we expect to see higher yields in 2022 due to continued inflationary pressures and receding Omicron uncertainties.

Portfolio breakdowns

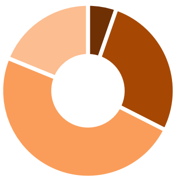
Breakdown by region	
Cash	*5%*
UK	*35%*
Europe Core – ex UK	*31%*
Europe Periphery	*7%*
North America	*10%*
Emerging Markets	*4%*
Developed Asia	*8%*



Breakdown by sector	
Cash	*5%*
Financial	*40%*
Defensive	*15%*
Cyclical	*20%*
Securitized	*10%*
Sovereign	*10%*



Breakdown by rating	
Cash	*5%*
AAA	*10%*
AA	*11%*
A	*24%*
BBB	*45%*
BB or below	*5%*



Breakdown by maturity	
Cash	*5%*
0-1 year	*27%*
1-3 years	*49%*
3-5 years	*19%*

(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.