AXA Investment Managers

For professional clients only
February 2022
Monthly Perspectives
Fixed Income

Global Short Duration strategy

Market sell-off deepens as Russia invades Ukraine

- Credit spreads significantly widened due to the continued hawkishness from central banks and Russia's invasion of Ukraine
- Government bond yields were volatile, ending February higher despite a late month rally
- We re-risked the portfolio by mostly increasing our allocation to investment grade markets

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What's happening?

- Credit spreads significantly widened due to the continued hawkishness from central banks and Russia's full-scale invasion of Ukraine. This led to a range of sanctions from the West in a bid to cut off Russia from financial markets and hobble its economy. As a result, oil prices spiked above $100 a barrel to a seven-year high, further adding to inflationary pressures.

- The European Central Bank kept its monetary policy unchanged but president Christine Lagarde delivered a hawkish press conference, highlighting unanimous concern about inflation. Meanwhile, the Bank of England raised the bank rate by 0.25% to 0.50%, the first back-to-back hike since 2004, with four members even voting for a 0.50% increase. Inflation rates hit a new record high in January in the eurozone at 5.1%[1] and a three and four decades high in the UK and US at 5.5%[1] and 7.5%[1], respectively.

- US treasury, German bund, and UK gilt yields rose sharply in the first half of the month due to the continued hawkishness from central banks before falling in the second half as worries over a potential invasion of Ukraine by Russia increased.

Strategy in focus – representative account (28/02/22)	
Assets under management	£181m
Yield (GBP hedged)[1]	2.9%
Duration[1]	2.3yrs
Average rating[2]	BBB+
Number of issuers	156
Launch date	17/05/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)[3]	
One month	-0.93%
Year-to-date	-1.21%
One year	-0.47%
Three year (cumulative)	+5.65%
Since launch (cumulative)	+6.50%

Annualised net performance – representative account (GBP)[3]	
One year	-0.47%
Three year	+1.85%
Since launch	+1.32%

Source: AXA IM as at 28/02/2022. 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. **Return may increase or decrease as a result of currency fluctuations.** Performance calculations are net of fees, based on reinvestment of dividends.

Portfolio positioning and performance

- **Sovereign:** Our exposure to sovereign bonds decreased by 11% to 20% as we mostly reduced our exposure to UK gilts and sterling-denominated government guaranteed debt to re-risk the portfolio. We kept our exposure to US, German, and

[1] Source: Bloomberg.

French inflation-linked bonds broadly stable at 13% to benefit from attractive inflation indexation over the next couple of months. The duration was actively managed during the month and as the risk of an armed conflict between Russia and Ukraine increased, we kept it towards the top of our range at 2.3 years near the end of the month.

- **Investment Grade:** Our exposure to investment grade markets increased by 8% to 46% to benefit from wider credit spreads. We were mostly active in the sterling secondary market, adding to attractive opportunities in the financial and cyclical sectors.

- **High Yield and Emerging Markets**: Our exposure to high-yield and emerging markets also rose by 2% to 31% as we increased our allocation to European high-yield to benefit from wider credit spreads, buying attractive names in the secondary market. We also actively traded the Markit iTraxx Xover Index during the month to take advantage of the heightened level of volatility.

Outlook

- We re-risked the portfolio in February to benefit from the broad market sell-off and should spreads keep on widening we stand ready to further increase our allocation to riskier asset classes out of sovereign debt.

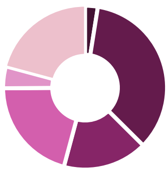
- While we still expect to see higher yields in 2022 due to continued inflationary pressures, Russia's invasion of Ukraine has led to a much more volatile environment hence the importance to keep on managing actively the duration.

Asset class breakdown

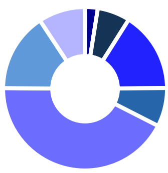
Category	Asset Class	Total
Cash		3%
Sovereign[5]	Nominal	7%
	Inflation-Linked	13%
	Total	20%
Investment Grade Credit	EUR IG Credit	13%
	GBP IG Credit	20%
	USD IG Credit	13%
	Total	46%
High Yield & Emerging Markets	EUR High Yield	18%
	USD High Yield	2%
	Emerging Markets	11%
	Total	31%
Total		100%

Portfolio breakdowns

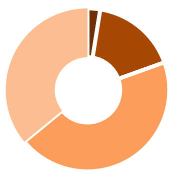
Breakdown by region	
Cash	3%
UK	25%
Core Europe – ex UK	25%
Periphery Europe	11%
North America	24%
Emerging Markets	11%
Developed Asia	2%



Breakdown by sector	
Cash	3%
Financial	35%
Defensive	17%
Cyclical	21%
Securitized	4%
Sovereign[4]	21%



Breakdown by rating[2]	
Cash	3%
AAA	6%
AA	16%
A	8%
BBB	43%
BB	16%
B	9%
CCC & below	0%



Breakdown by maturity	
Cash	3%
0-1 year	17%
1-3 years	44%
3-5 years	36%

(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.

tax treatment relating to the holding, acquisition or disposal of shares or units in the fund depends on each investor's tax status or treatment and may be subject to change. Any potential investor is strongly encouraged to seek advice from its own tax advisors.

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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