AXA Global Strategic Bond Fund

Russia's invasion of Ukraine exacerbates market sell-off

- Geopolitical tensions escalated and led to a full-scale Russian invasion of Ukraine
- The West responded with severe sanctions on Russia and markets were materially weaker
- Despite reducing the portfolio's credit risk, the yield rose to its highest level since launch

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Fund in focus	
Assets under management	£77m
Duration	4.12 yrs
Yield (GBP Hedged)[1]	4.11%
Running yield[1]	3.44%
Spread to government[2]	270
Number of holdings	231
Launch date	19/10/2020
Net performance (GBP)	
One month	-2.18%
Three months	-3.67%
2022 YTD	-3.48%
Since launch (cumulative)	-3.00%

Source: AXA IM as at 28/02/2022. 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**.

What's happening?

- February started in a similar vein to January with an increase in volatility following improved economic data, higher than expected inflation, higher interest rate expectations and an earlier end to monetary stimulus.
- Weakness in technology equity stocks, driven by some earnings misses, affected credit risk and added to the uncertainty. This materially accelerated towards month-end as Russia launched a full-scale invasion of Ukraine, leading the West to respond with massive economic sanctions, with the situation deteriorating at time of writing. Credit spreads were weaker, with emerging market debt again feeling the brunt of the sell-off.
- US 10-year treasury yields moved higher through 2% for the first time since 2019, although found support and rallied towards month-end in light of the escalating geopolitical situation. German 10-year bunds were positive yielding for the first time since early 2019, as the market started to price in two rate hikes from the ECB in 2022.
- The focus now is on the opposing forces of higher and more sustained inflation, due in part to the conflict and commodity disruption, and central banks' response to that. On top of that, markets are coming to terms with the negative impact of weak confidence, tighter financials conditions and a period of uncertainty and weaker risk asset prices.

Portfolio positioning and performance

- Defensive (32%): duration was generally low at 2 years of exposure for most of the month, although we increased it – particularly in German government bonds – as the situation in Ukraine deteriorated. Whilst we reduced our exposure to inflation-linked bonds to just 5% last year, we still benefit somewhat from rising breakevens. Overall government bond exposure has increased to 32% during the month.
- Intermediate (34%): credit exposure remains stable, still with a bias towards BBBs and financial bonds within European credit. Credit spreads were wider during the month as risk-off sentiment hurt valuations.
- Aggressive (34%): we reduced exposure to US high yield by 4% during the month as we looked to lighten up credit risk. Overall global high yield and emerging markets exposure was down to 34%. We have only 8% exposure to emerging markets, which is currently the weakest part of the market. We held no Russian government bond exposure, which has suffered materially during the crisis.

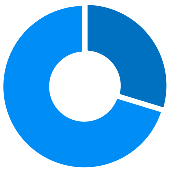
Outlook

- The list of issues that the bond market faces in 2022 seems to be growing. As we evolve from a sustained inflation problem and the threat of rising interest rates in all key central banks, the aggressive military action by Russia has led to a material weakness in credit risk sentiment.
- One possible consequence is that we may not see as many rates rises, which should be supportive for government bonds as investors seek the safe haven of the highest rated bonds. Having reduced some credit exposure, we will look to use that capital to boost our government bond exposure, before re-entering credit, hopefully at more attractive levels.
- Despite the reduction in credit risk, the yield on offer across the portfolio has jumped and is part of the reason that we feel confident about stronger returns later in the year, despite the increased volatility in the short term.

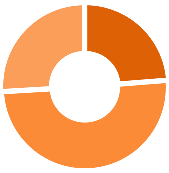
Portfolio breakdowns

Strategy breakdown	
Defensive	31.7%
Intermediate	34.1%
Aggressive	34.2%
Total	100.0%

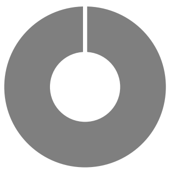
Defensive breakdown	31.7%
US Government Bonds	13.2%
Core Europe Government Bonds	6.3%
Rest of World Governments	0.0%
Inflation-Linked Bonds	5.4%
Cash	6.7%



Intermediate breakdown	34.1%
US IG Credit	10.1%
Euro & Sterling IG Credit	24.0%
Periphery Governments	0.0%



Aggressive breakdown	34.2%
Emerging Markets (HC 8.1%/LC 0%/FX 0%)	8.1%
US High Yield	17.2%
European High Yield	8.9%



Derivatives breakdown	-22.3%
Bond Futures	-24.2%
Credit Default Swaps	-10.3%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	6.7%
	AAA	6.1%
	AA	18.8%
	Total	31.7%
Intermediate	AA	1.0%
	A	2.8%
	BBB	30.4%
	Total	34.1%
Aggressive	AA	0.0%
	A	0.2%
	BBB	2.9%
	BB	12.3%
	B	11.5%
	CCC & Below	7.2%
	Not rated	0.2%
	Total	34.2%
Total		100.0%

Source: AXA IM as at 28/02/2022.

(1) Yield figures quoted will vary in the future and are not guaranteed.

(2) Average credit spread relative to government bonds.

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