AXA Global Strategic Bond Fund

No hiding place for global fixed income

- Central banks continued to raise interest rates in both the US and UK, pushing yields higher
- We are improving the overall credit quality of the portfolio as the growth outlook weakens
- Our medium-term outlook for bond returns remains positive, even with more pain ahead

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What's happening?

- Inflation data remained elevated, bond yields moved higher and central banks continued to move towards tighter financial conditions.
- The Federal Reserve raised interest rates by 50bps to 1%, while the Bank of England increased rates once again by 25bps to 1%. This drove US 10-year yields through 3%, although they found some support mid-month to rally lower. UK 10-year gilts also bounced off 2% levels while German 10-year government bonds went through 1% – the first time markets have seen this since 2014.
- Despite the rising inflation and higher yield environment, we saw growth and housing data weakness in the US. Chinese data disappointed as the impact of heavy lockdowns and zero covid policy brought to bear. Finally, we saw disappointing earnings from some major US retailers.

Fund in focus	
Assets under management	£76m
Duration	5.00 yrs
Yield (GBP Hedged)[1]	5.01%
Running yield[1]	3.62%
Spread to government[2]	268
Number of holdings	229
Launch date	19/10/2020
Net performance (GBP)	
One month	-1.35%
Three months	-4.62%
2022 YTD	-7.94%
Since launch (cumulative)	-7.48%

Source: AXA IM as at 31/05/2022. The data is shown for the AXA Global Strategic Bond Fund. Performance is based on the Z share class net of ongoing charges (53bps), dividends reinvested. **Past performance is not a reliable indicator of future results.**

- Credit spreads posted a rally towards month-end as government bond yields stabilised but still posted negative total returns during May.

Portfolio positioning and performance

- Defensive (34%): we added short-dated US duration during the month as markets speculated that the Fed may move towards a pause in the second half of the year. We continued to hold elevated cash across the portfolio as the outlook looks increasingly uncertain.
- Intermediate (33%): unchanged exposure during the month as the high-quality credit portion of the portfolio found some support during May after heavy losses year-to-date. Our concentration in BBB-rated credit had previously been hit by a combination of weakness in both interest rate and credit sensitivity, but our 10% US credit exposure performed strongly during May.
- Aggressive (34%): having recently reduced some exposure to high yield cash bonds, we further enhanced this more defensive credit position through a CDS hedge. This will reduce the credit beta of the portfolio should volatility pick up over the summer.

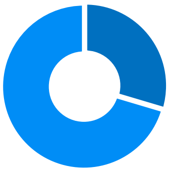
Outlook

- Fixed income total returns have suffered their worst ever start to a year since most relevant benchmarks have been established. With elevated inflation, central banks behind the curve and markets showing very little confidence, the period of volatility looks to be with us for the foreseeable future.
- We have started to improve the quality of the portfolio in the last few months. Increasingly it looks to us like government bonds and higher quality credit offer better risk-reward, as markets will likely start to focus on a weakening of the global economy. But for the moment, the short-term focus is on trying to find confidence that inflation has peaked and that central banks are in control of the situation.
- The medium-term prospects for positive fixed income returns seem realistic, but the short-term outlook is murkier than ever with little confidence that bond yields have found a clearing level. Once that happens, we expect spreads to perform well, but that might not be until later in the year.

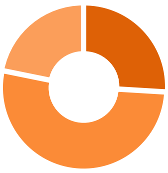
Portfolio breakdowns

Strategy breakdown	
Defensive	33.5%
Intermediate	33.0%
Aggressive	33.5%
Total	100.0%

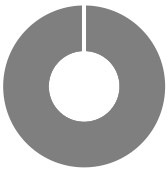
Defensive breakdown	33.5%
US Government Bonds	13.1%
Core Europe Government Bonds	8.8%
Rest of World Governments	0.0%
Inflation-Linked Bonds	6.9%
Cash	4.7%



Intermediate breakdown	33.0%
US IG Credit	10.0%
Euro & Sterling IG Credit	23.0%
Periphery Governments	0.0%



Aggressive breakdown	33.5%
Emerging Markets (HC 8.5%/LC 0%/FX 0%)	8.5%
US High Yield	17.7%
European High Yield	7.2%



Derivatives breakdown	-7.4%
Bond Futures	2.8%
Credit Default Swaps	-10.2%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	4.7%
	AAA	6.7%
	AA	22.1%
	Total	33.5%
Intermediate	AA	0.9%
	A	3.1%
	BBB	29.0%
	Total	33.0%
Aggressive	AA	0.0%
	A	0.2%
	BBB	2.6%
	BB	11.8%
	B	11.6%
	CCC & Below	7.1%
	Not rated	0.2%
	Total	33.5%
Total		100.0%

Source: AXA IM as at 31/05/2022.

(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.