For professional clients only
July 2022
Monthly Perspectives
Fixed Income

Sterling Credit Short Duration strategy

Market rebound fuelled by hopes of less aggressive tightening

- Sterling investment grade credit spreads tightened on the back of hopes of a slower pace of interest rate increases in the US going forward
- UK gilt yields were lower, being also supported by renewed recession talks
- The risk profile was broadly unchanged

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What's happening?

- Sterling investment grade credit spreads tightened in July on the back of positive corporate earnings and hopes that the US Federal Reserve (Fed) would slow down its aggressive tightening of monetary policy in the face of a surprise fall in GDP, which pushed the US into a technical recession.

- The Fed raised interest rates for a fourth consecutive time by 0.75% to the range of 2.25% to 2.50% as it remained steadfast in its decision to tame inflation. However, Fed chairman Jerome Powell said that a slower pace of increases will be likely "while we assess how our cumulative policy adjustments are affecting the economy and inflation". Meanwhile, the European Central Bank raised interest rates for the first time in more than 11 years by 0.50% to 0.00% as it tried to control soaring inflation.

- Despite inflation numbers accelerating once again, UK gilt yields fell due to hopes of a slower pace of interest rate increases in the US going forward and renewed recession talks.

Strategy in focus – representative account (31/07/22)	
Assets under management	£492m
Yield (GBP hedged)[1]	3.8%
Duration[1]	1.9 yrs
Average rating[2]	A-
Number of issuers	111
Launch date	12/11/2010

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)[3]	
One month	+1.06%
Year-to-date	-2.83%
One year	-3.36%
Three years	-0.08%
Five years	+2.49%
Ten years	+15.50%
Since launch	+23.70%

Annualised net performance – representative account (GBP)[3]	
One year	-3.36%
Three years	-0.03%
Five years	+0.49%
Ten years	+1.45%
Since launch	+1.83%

Source: AXA IM as at 31/07/2022. 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

- Sterling investment grade primary issuance remained weak at £1.9bn in July. As such, we did not participate in any new issues and secondary market activity was limited. We kept therefore the positioning broadly stable with our exposure to the financial sector and BBB-rated bonds unchanged at 43% and 57% respectively.

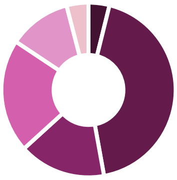
Outlook

- We expect market conditions to remain very volatile over the short-term due to continued inflationary pressures, hawkish central banks, a protracted conflict in Ukraine and increased risk of a recession next year.

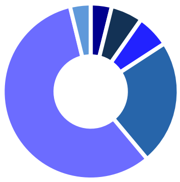
- As inflation should start gradually falling over the coming quarters, we expect yields to consolidate at these higher levels since they already reflect a very aggressive pace of tightening by central banks, helping credit spreads to also stabilise.

Portfolio breakdowns

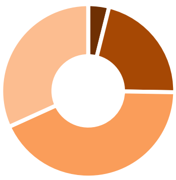
Breakdown by region	
Cash	*4%*
UK	*36%*
Europe Core – ex UK	*29%*
Europe Periphery	*10%*
North America	*10%*
Emerging Markets	*4%*
Developed Asia	*6%*



Breakdown by sector	
Cash	*4%*
Financial	*43%*
Defensive	*16%*
Cyclical	*21%*
Securitized	*12%*
Sovereign	*4%*



Breakdown by rating	
Cash	*4%*
AAA	*6%*
AA	*6%*
A	*23%*
BBB	*57%*
BB or below	*4%*



Breakdown by maturity	
Cash	*4%*
0-1 year	*21%*
1-3 years	*43%*
3-5 years	*32%*

(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.

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