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Global Short Duration strategy

Market rebound fuelled by hopes of less aggressive tightening

- Credit spreads tightened on the back of hopes of a slower pace of interest rate increases in the US going forward
- Government bond yields were lower, being also supported by renewed recession talks
- The risk profile was broadly unchanged

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What's happening?

- 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, US treasury, German bund and UK gilt yields fell due to hopes of a slower pace of interest rate increases in the US going forward and renewed recession talks.

Portfolio positioning and performance

- **Sovereign:** Our exposure to sovereign bonds was broadly stable at 12% (versus 13% last month) as we remained invested in US, German and UK inflation-linked bonds to benefit from still attractive inflation indexation over the next couple of months. We actively managed the duration of the portfolio during the month to benefit from the high level of volatility in government bond yields.

Strategy in focus – representative account (31/07/22)

Assets under management	£172m
Yield (GBP hedged) ¹	4.5%
Duration ¹	2.5 yrs
Average rating ²	BBB
Number of issuers	153
Launch date	17/05/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)³

One month	+1.75%
Year-to-date	-2.97%
One year	-2.88%
Three year (cumulative)	+1.16%
Five year (cumulative)	+4.18%
Since launch (cumulative)	+4.60%

Annualised net performance – representative account (GBP)³

One year	-2.88%
Three year	+0.39%
Five year	+0.82%
Since launch	+0.87%

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.

- **Investment Grade:** Our exposure to investment grade markets was broadly unchanged at 47% (versus 48%) as activity was limited with only one new issue being bought in the US dollar primary market.
- **High Yield and Emerging Markets:** Our exposure to high-yield and emerging markets was also broadly stable at 38% (versus 37%) as we added to US high-yield while slightly reducing our exposure to European high-yield and selling a Chinese State-Owned Enterprise. We are waiting for better entry points before adding back more to these asset classes.

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. In such an environment, it is paramount to retain flexibility and manage actively the duration and credit exposure.
- 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.

Asset class breakdown

Category	Asset Class	Total
Cash		2%
Sovereign ⁵	Nominal	0%
	Inflation-Linked	12%
	Total	12%
Investment Grade Credit	EUR IG Credit	12%
	GBP IG Credit	21%
	USD IG Credit	14%
	Total	47%
High Yield & Emerging Markets	EUR High Yield	18%
	USD High Yield	6%
	Emerging Markets	13%
	Total	38%
Total		100%



Portfolio breakdowns

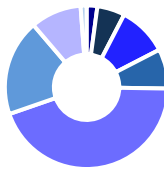
Breakdown by region

Cash	2%
UK	27%
Core Europe – ex UK	18%
Periphery Europe	12%
North America	26%
Emerging Markets	13%
Developed Asia	1%



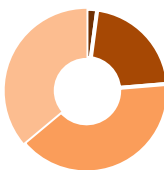
Breakdown by sector

Cash	2%
Financial	37%
Defensive	20%
Cyclical	23%
Securitized	5%
Sovereign ⁴	13%



Breakdown by rating²

Cash	2%
AAA	5%
AA	10%
A	8%
BBB	44%
BB	19%
B	10%
CCC & below	1%



Breakdown by maturity

Cash	2%
0-1 year	22%
1-3 years	40%
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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