For professional clients only
July 2022
Monthly Perspectives
Fixed Income

AXA Global Strategic Bond Fund

Positive month for bonds as recession fears start to bite

- July saw a strong rebound in global fixed income, with positive returns for most markets
- The rally appears to be driven by a sense that central banks may tighten less aggressively
- A stabilisation in government bond yields led in turn to increased demand for risk assets

Nick Hayes
Portfolio Manager, AXA Global Strategic Bond Fund

What's happening?

- If June was the toughest month so far in 2022 for global fixed income, July was definitely the strongest – with a rally across all asset classes as markets rebounded.
- Government bonds, which started rallying in mid-June, continued their momentum – with US 10-year treasury yields approaching 2.6% towards month-end, as the market speculated that central banks are actually further along their rate hiking cycle than previously expected.
- Risk assets took comfort from the government bond rally and credit spreads tightened, with emerging markets and high yield posting very strong gains during the month.
- Higher interest rates and elevated inflation data still remain the dominant themes as central banks grapple to control inflation. That said, some economic data pointed towards a peak, or lowering of inflation, whilst some indicators pointed towards the rising threat of a recession as a consequence of tightening financial conditions.

Fund in focus	
Assets under management	£70m
Duration	6.10 yrs
Yield (GBP Hedged)[1]	4.63%
Running yield[1]	3.56%
Spread to government[2]	261
Number of holdings	210
Launch date	19/10/2020
Net performance (GBP)	
One month	+1.86%
Three months	-4.00%
One year	-11.73%
2022 YTD	-10.41%
Since launch (cumulative)	-9.96%

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

Portfolio positioning and performance

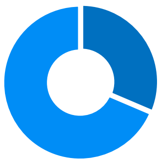
- Defensive (37%): we added to interest rate risk and increased the portfolio's duration position to above 6 years by month-end. We continue to prefer US government bonds and longer-dated bonds with an expectation that the shape of the yield curve will continue to flatten (i.e. long-dated bonds outperforming short-dated bonds). Overall government bond exposure has moved higher over the last few months.

- Intermediate (31%): overall exposure remained stable, although we rotated from some BBB-rated to A-rated exposure, as part of a step-up in quality across the portfolio. We have greater exposure to UK / European credit risk and a bias still towards financial over corporate debt.
- Aggressive (31%): lower-rated bonds posted their strongest single month return for many months. Developed market high yield and emerging market debt took support from a stabilisation in government bond yields, with the resulting increase in investor demand leading to support for credit spreads, which reversed recent losses. We continue to hold more developed market high yield (25%) than emerging markets (9%).

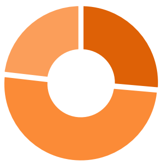
Portfolio breakdowns

Strategy breakdown	
Defensive	37.3%
Intermediate	31.4%
Aggressive	31.3%
Total	**100.0%**

Defensive breakdown	37.3%
US Government Bonds	16.0%
Core Europe Government Bonds	10.0%
Rest of World Governments	0.0%
Inflation-Linked Bonds	7.5%
Cash	3.8%



Intermediate breakdown	31.4%
US IG Credit	9.9%
Euro & Sterling IG Credit	21.6%
Periphery Governments	0.0%



Aggressive breakdown	31.3%
Emerging Markets (HC 8.3%/LC 0%/FX 0%)	8.3%
US High Yield	15.8%
European High Yield	7.2%

Derivatives breakdown	-6.3%
Bond Futures	0.8%
Credit Default Swaps	-7.2%

Outlook

- Global financial markets have finally found some support after the worst six-month start to a year in history. The rebound in both government bonds and risk assets appears to have been driven either by speculation that central banks will be less aggressive in tightening conditions, or possibly a sense that markets had priced in too much bad news.
- Despite this, inflation remains elevated and we see continued geopolitical threats, weak economic data and elevated energy prices, which should all keep tail risks to a continued recovery high.
- Whilst the fund has benefited from the rebound, we remain more cautious on credit risk and have rebalanced the portfolio with a greater weighting to interest rate sensitivity. The fund has benefited from a higher duration, although depending on how markets evolve, we may seek to reduce this position – given the size of the move in recent weeks.
- For the remainder of the year, we generally expect heightened volatility, although hopefully the more extreme price action of the first six months will mark the low point in most markets. With attractive yields and spreads on offer, we believe that fixed income may start to offer more attractive return potential for investors, although the recovery will probably not be in a straight line.

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	3.8%
	AAA	7.5%
	AA	25.9%
	Total	37.3%
Intermediate	AA	1.0%
	A	4.2%
	BBB	26.2%
	Total	31.4%
Aggressive	AA	0.0%
	A	0.2%
	BBB	2.6%
	BB	11.7%
	B	10.7%
	CCC & Below	5.9%
	Not rated	0.2%
	Total	31.3%
Total		100.0%

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

(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.