# Global Strategic Bonds strategy

# Bond rally short-lived as markets refocus on inflation

- August saw an abrupt reversal of July's strong gains within global fixed income markets
- The market moved to price out any sign of an imminent pivot from the Federal Reserve
- We halved the strategy's duration exposure from 6 years to 3 years as yields moved higher

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### What's happening?

- After a strong July, global fixed income returned to 2022's trend, with higher yields and wider spreads.
- US 10-year treasuries headed back through 3% from a recent low of 2.6% during the recent rally, as markets started to price out the immediate possibility of the Federal Reserve "pivoting" to a slower pace of rate hikes, or even pausing entirely. In turn, this moved credit spreads wider during the month and all fixed income assets posted negative returns.
- Several factors contributed to weaker markets. Global inflation data continued to print higher than market consensus and, with it, came higher official interest rates. Central bankers pushed back on the concept of the "pivot" and thin summer liquidity possibly exaggerated the negative shift in momentum.

| Strategy in focus – representative account (31/08/22) | | |
|---|---|---|
| Assets under management | $1,125m | |
| Duration | 3.08 yrs | |
| Yield[1] | 4.93% | |
| Running yield[1] | 3.82% | |
| Spread to government[2] | 232 | |
| Number of holdings | 292 | |
| Launch date | 11/05/2012 | |
| **Net performance – representative account (USD)[3]** | | |
| | Cumulative | Annualised |
| One month | -1.33% | |
| One year | -12.35% | |
| Three years | -4.77% | -1.61% |
| Five years | +5.32% | +1.04% |
| Ten years | +26.82% | +2.40% |

Source: AXA IM as at 31/08/2022. The data is based on a representative account that follows the Global Strategic Bonds strategy and is not intended to represent actual past or simulated past performance of the strategy. **Past performance is not a reliable indicator of future results**. Performance calculations are net of fees, based on the reinvestment of dividends.

### Portfolio positioning and performance

- Defensive (35%): following July's strong government bond rally and our highest ever month-end duration (6.14 years), we halved overall duration exposure to circa 3 years. We reduced UK government bond duration, from which we expect a continued underperformance. Cash remains relatively high and, whilst government bond exposure is still at 35%, duration exposure is limited through the use of government bond futures, offsetting cash bond exposure.

- Intermediate (32%): developed market investment grade yields offer attractive risk-reward potential, largely due to the contribution from higher government bond yields, combined with lower cash bond prices after this year's weakness, all within higher quality credit names. With an uncertain outlook and more volatility expected, we remain constructive with a decent sized allocation.
- Aggressive (34%): high yield and emerging market exposure is lower than in Q1 as we look to reduce risk further down the credit curve. In addition, our -7% exposure to CDS positively contributed to performance during the month.

## Outlook

- July and August were near mirror opposites in terms of market direction – proving, if anyone needed it, that the volatility of the first six months would continue into the second half of the year. While inflation is high and persistent, there is increasing concern about weakening growth and increasing recessionary fears, which add to the volatility, albeit the latter should prove to be beneficial to high quality bonds.
- Whilst the valuation argument to owning fixed income is strong, with yields not seen for many many years after the sell-off earlier in the year, sentiment remains negative and the macroeconomic outlook is clouded.
- We continue to remain active and flexible within our duration range, responding to market events, combined with an overall improved credit quality exposure, with a view that more risk asset volatility could follow.

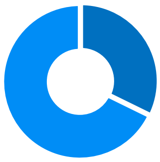
## Credit rating breakdown

| Category | Rating | Total |
|---|---|---|
| Defensive | Cash | 7.4% |
| | AAA | 7.2% |
| | AA | 20.2% |
| | Total | 34.8% |
| Intermediate | AA | 1.1% |
| | A | 5.3% |
| | BBB | 25.2% |
| | Total | 31.7% |
| Aggressive | AA | 0.3% |
| | A | 0.1% |
| | BBB | 3.0% |
| | BB | 11.5% |
| | B | 11.7% |
| | CCC & Below | 6.6% |
| | Not rated | 0.7% |
| | Total | 33.6% |
| Total | | 100.0% |

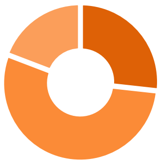
## Portfolio breakdowns

| Strategy breakdown | |
|---|---|
| Defensive | 34.8% |
| Intermediate | 31.7% |
| Aggressive | 33.6% |
| Total | 100.0% |

| Defensive breakdown | 34.8% |
|---|---|
| US Government Bonds | 15.2% |
| Core Europe Government Bonds | 6.0% |
| Rest of World Governments | 0.0% |
| Inflation-Linked Bonds | 6.3% |
| Cash | 7.4% |



| Intermediate breakdown | 31.7% |
|---|---|
| US IG Credit | 10.2% |
| Euro & Sterling IG Credit | 21.5% |
| Periphery Governments | 0.0% |



| Aggressive breakdown | 33.6% |
|---|---|
| Emerging Markets (HC 9.0%/LC 0%/FX 0%) | 9.0% |
| US High Yield | 18.1% |
| European High Yield | 6.5% |

| Derivatives breakdown | -73.3% |
|---|---|
| Bond Futures | -66.4% |
| Credit Default Swaps | -6.9% |

(1) Yield figures quoted will vary in the future and are not guaranteed. Yield calculated to maturity, assuming next call date, using local currency yields.

(2) Average credit spread relative to government bonds.

(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

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