AXA Investment Managers

Fixed Income

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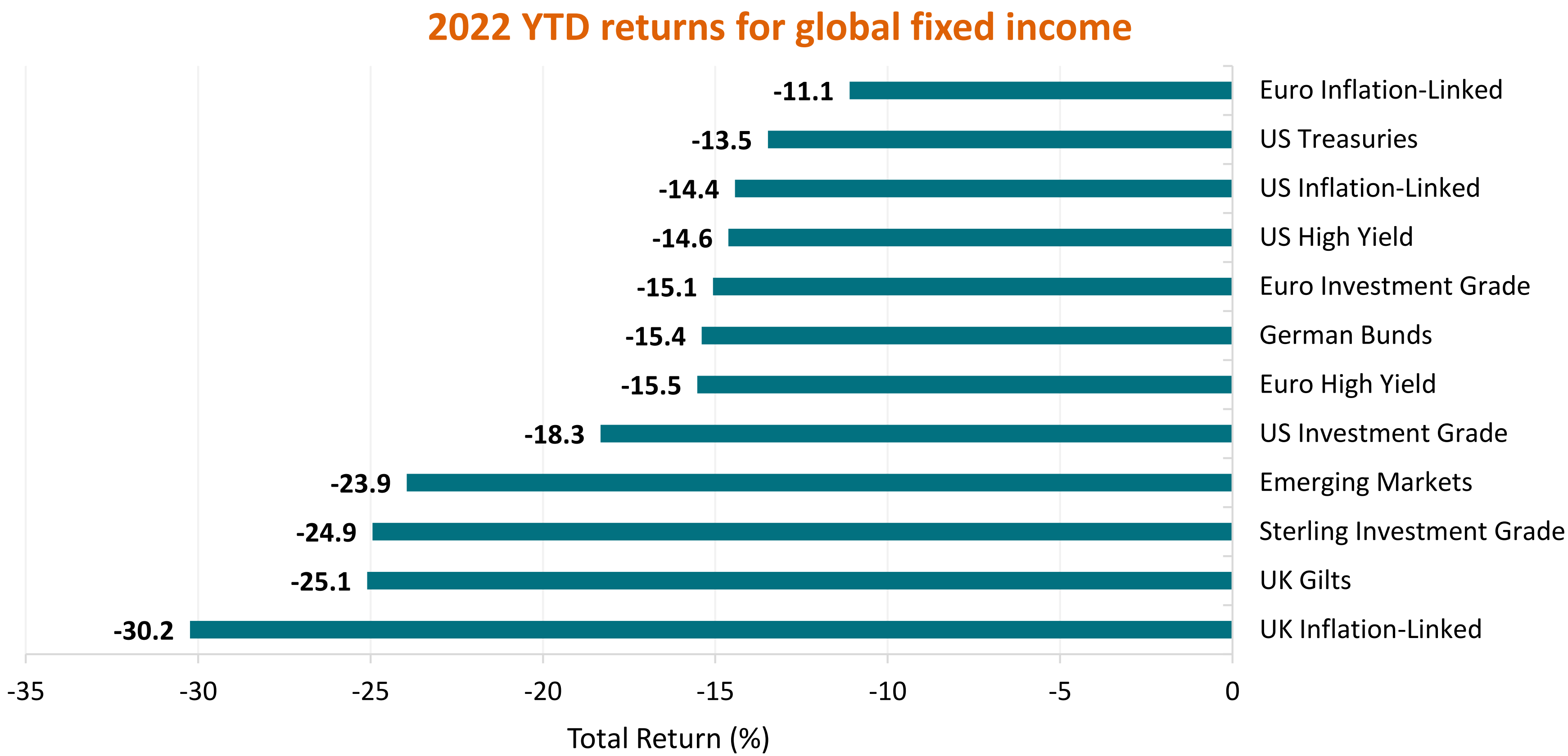
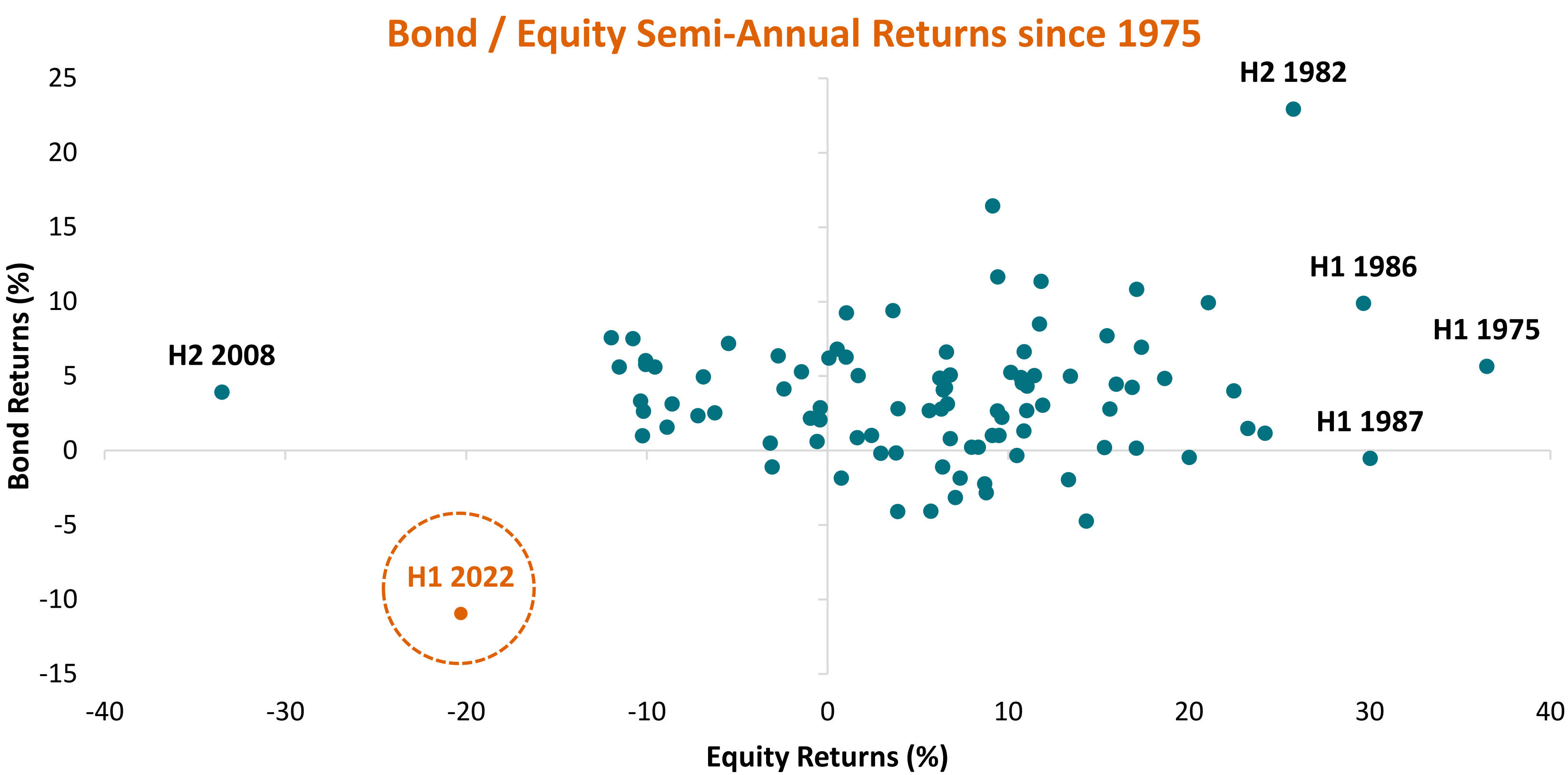
12 October 2022

From COVID emergency to inflation emergency – a huge rate re-pricing



Source: AXA IM, Bloomberg, ICE BofA as at 30/09/2022. **Past performance is not indicative of future results**.

The first half of 2022 saw the worst correlated sell-off on record



Source: AXA IM, Bloomberg, Factset, as at 30/06/2022. Bond returns are proxied by the ICE BofA US Corporate & Government Index (B0A0) and equity returns by the MSCI World Index USD (gross dividends). **Past performance is not a guide to future performance**.

But that does not mean investors should lose faith in fixed income

1

Valuations

Yields rising means that **carry** has improved dramatically

2

Pull-to-par

Significant **price upside potential** in bond markets

3

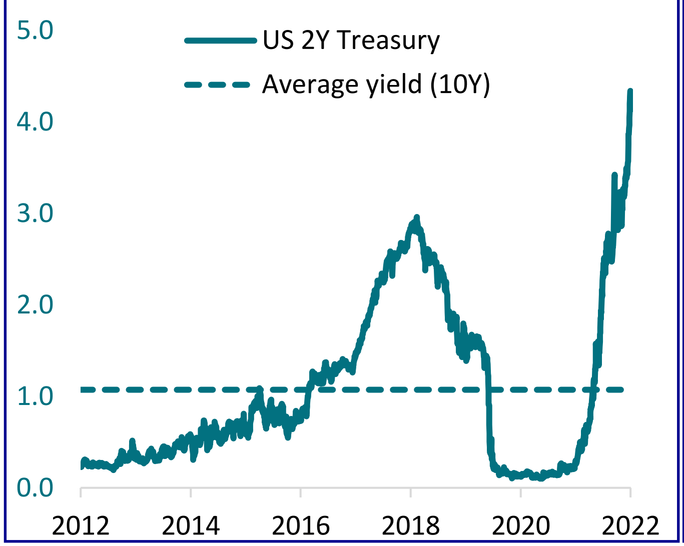
Single names

A lot of opportunities out there for **less credit risk**

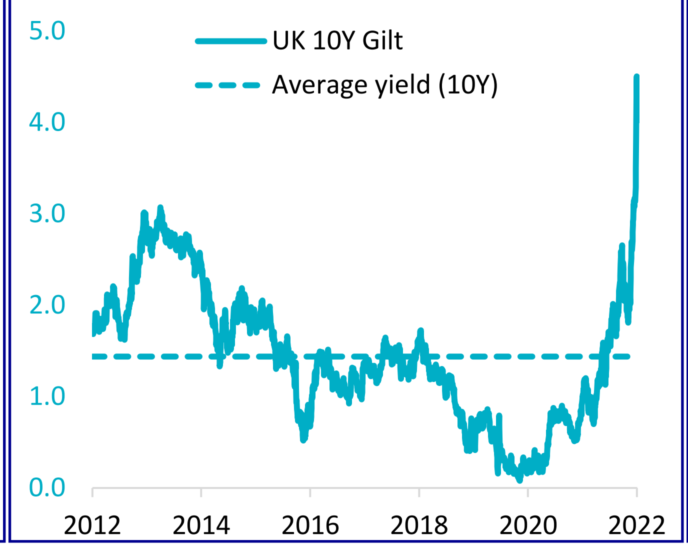
Source: AXA IM.

Valuations: higher yields, higher carry

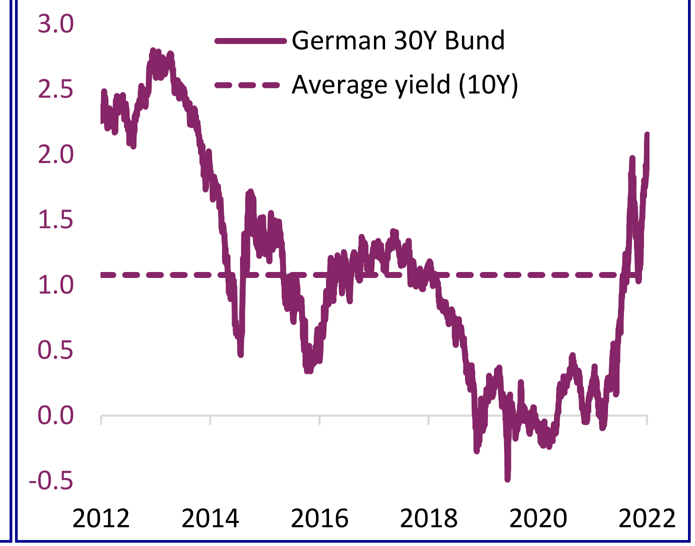
US 2Y treasury yield compared to 10Y average



UK 10Y gilt yield compared to 10Y average



German 30Y bund yield compared to 10Y average



Source: AXA IM, Bloomberg, ICE BofA, as at 30/09/2022.

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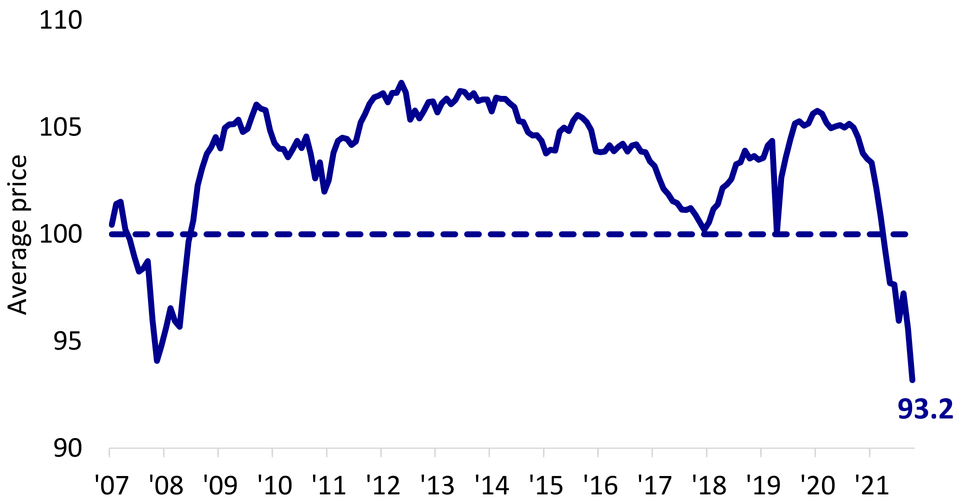
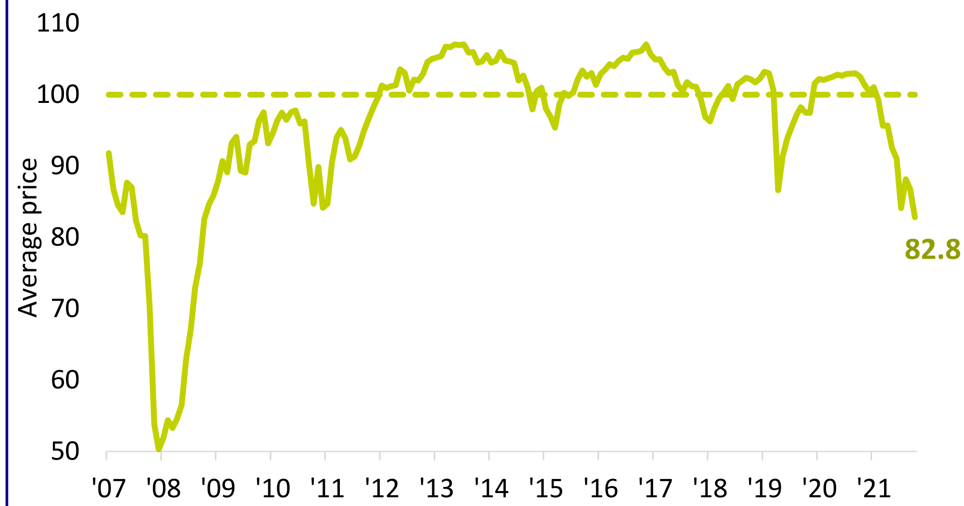
Pull-to-par: significant price upside potential

Short-Dated Global Investment Grade Index monthly average price



European High Yield Index monthly average price

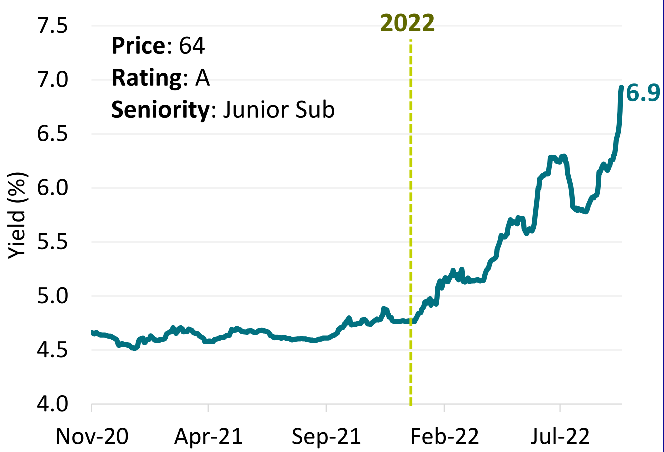


Source: AXA IM, Bloomberg, ICE BofA, as at 30/09/2022.

Single names: more yield for less credit risk

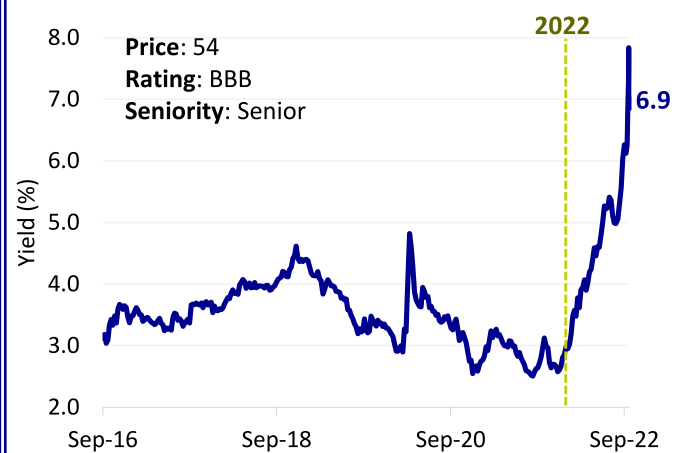
Allianz

ALVGR 2.625% Var - 30/10/2030 Perp



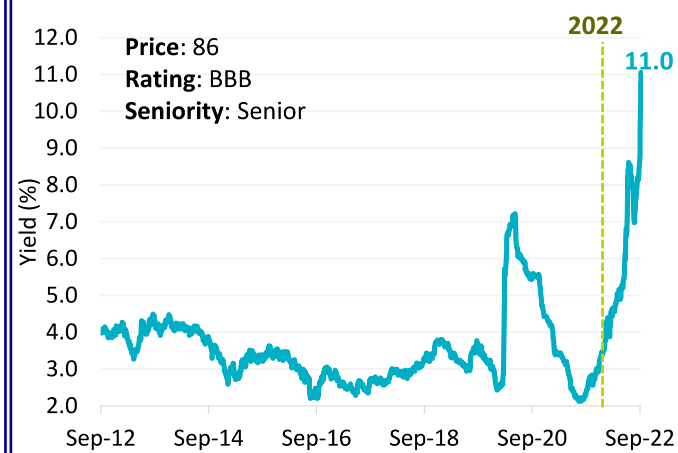
WPP

WPPLN 2.875% - 14/09/2046



Hammerson

HMSOLN 6% - 23/02/2026



Source: AXA IM, Bloomberg, as at 30/09/2022. Issuers shown for illustrative purposes only and should not be considered as advice or a recommendation.

Two ways to play the current environment

1

Short duration

Mitigate **impact of rising rates**, without giving up yield

2

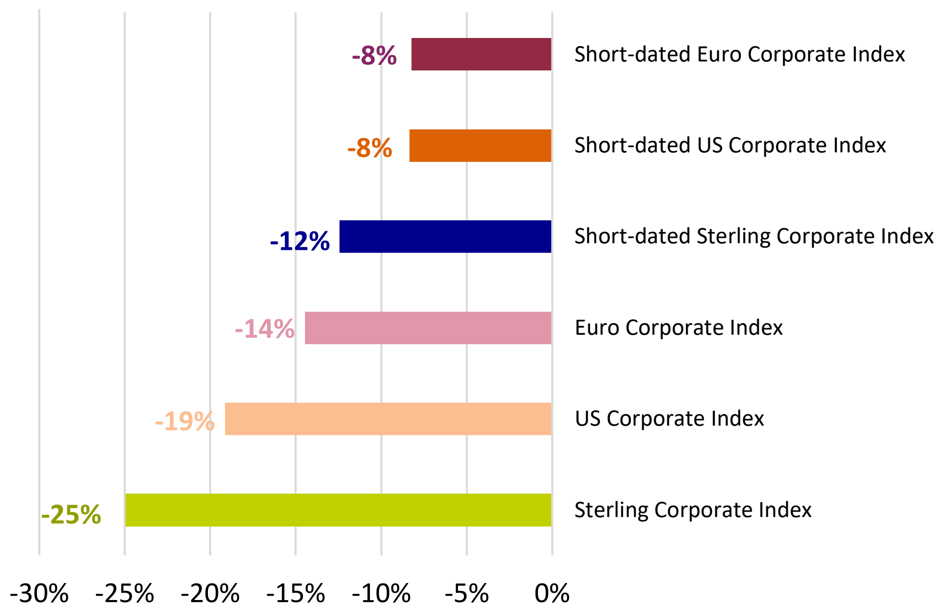
Flexible / unconstrained

Ability to play both **“offence”** and **“defence”** across the full maturity spectrum

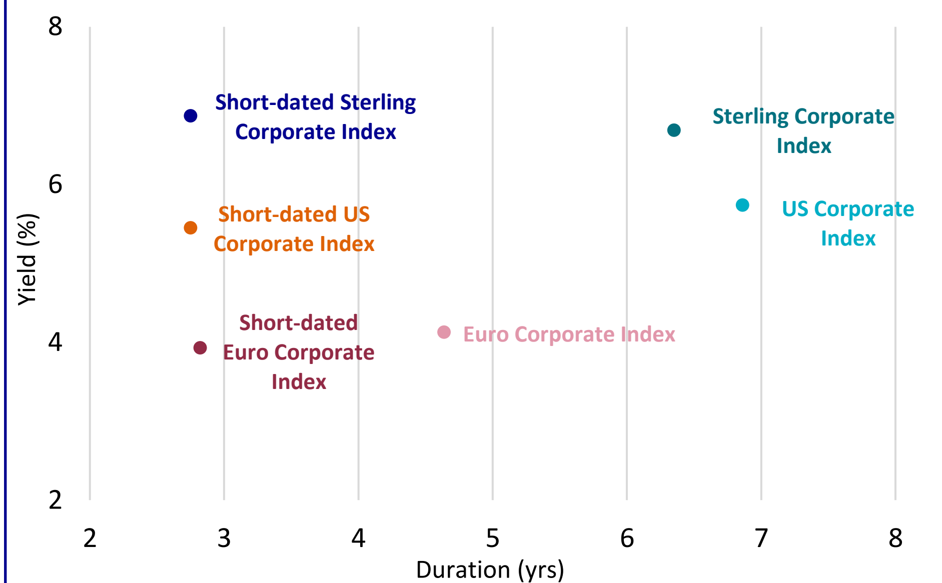
Source: AXA IM.

Short duration: an attractive entry point

YTD-22 Performance of selected indices



Yield / Duration of selected indices



Source: AXA IM, Bloomberg, ICE BofE, as at 30/09/2022. Performance is shown in GBP. **Past performance is not a guide to future performance**.

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Flexible / unconstrained: a broad opportunity set

Two key drivers of bond performance: interest rates and credit spreads

High Volatility / Higher Yield

Duration

Low Volatility / Lower Yield

Defensive

	Yield	Duration
US Treasuries	4.13	6.35
Bunds	1.94	7.44
Gilts	4.09	10.07
US Inflation-Linked	1.97	6.55
Euro Inflation-Linked	0.54	6.55
UK Inflation-Linked	-0.16	22.26

Intermediate

	Yield	Duration
US IG Credit	5.74	6.81
Euro IG Credit	4.13	4.75
UK IG Credit	6.69	6.46

Aggressive

	Yield	Duration
US High Yield	9.58	4.25
Euro High Yield	8.29	3.27
Emerging Markets	9.57	6.58

AAA AA A BBB BB B CCC and below

Low Volatility / Lower Yield — High Volatility / Higher Yield

Source: AXA IM, Bloomberg, as at 30/09/2022.

A product range to suit your needs

	Short Duration			Flexible/ unconstrained
	Sterling	**Global**		
	AXA Sterling Credit Short Duration Bond Fund	**AXA Global Short Duration Bond Fund**		**AXA Global Strategic Bond Fund**
Universe	Short-dated (<5 years maturity) Sterling IG corporate bonds	Short-dated (<5 years maturity) global fixed income universe		All maturities global fixed income universe
High yield	5% max	60% max		60% max
Target rating	A-	Average IG		N/A
Yield (GBP)	6.66%	6.54%		6.31%
Duration	1.89 years *(0-3 years)*	2.44 years *(0-3 years)*		0.90 years *(0-8 years)*

Source: AXA IM. Fund characteristics are presented as at 30/09/2022.

Fund specific risks

The capital of the Fund is not guaranteed. The Fund is invested in financial markets and uses techniques and instruments which may be subject to sudden and significant variation, which may result in substantial gains or losses. Counterparty Risk: failure by any counterparty to a transaction (e.g. derivatives) with the Fund to meet its obligations may adversely affect the value of the Fund. The Fund may receive assets from the counterparty to protect against any such adverse effect but there is a risk that the value of such assets at the time of the failure would be insufficient to cover the loss to the Fund. Derivatives: derivatives can be more volatile than the underlying asset and may result in greater fluctuations to the Fund's value. In the case of derivatives not traded on an exchange they may be subject to additional counterparty and liquidity risk. Geopolitical Risk: investments issued or traded on markets in different countries may involve the application of different standards and rules (including local tax policies and restrictions on investments and movement of currency), which may be subject to change. The Fund's value may therefore be impacted by those standards/rules (and any changes to them) as well as the political and economic circumstances of the country/region in which the Fund is invested. Hedging Risk: Currency Hedging within the Fund seeks to reduce the impact of exchange rate movements of the investments' currencies relative to the fund's base currency. Over a period of time the hedging strategy itself may create a positive or negative impact to the value of the Fund, mainly due to differences in short-term interest rates between the currencies. Interest Rate Risk: fluctuations in interest rates will change the value of bonds, impacting the value of the Fund. Generally, when interest rates rise, the value of the bonds fall and vice versa. The valuation of bonds will also change according to market perceptions of future movements in interest rates. Emerging Market Risks: emerging markets or less developed countries may face more political, economic or structural challenges than developed countries. As a result, investments in such countries may cause greater fluctuations in the Fund's value than investments in more developed countries. Liquidity Risk: some investments may trade infrequently and in small volumes. As a result the Fund manager may not be able to sell at a preferred time or volume or at a price close to the last quoted valuation. The Fund manager may be forced to sell a number of such investments as a result of a large redemption of shares in the Fund. Depending on market conditions, this could lead to a significant drop in the Fund's value and in extreme circumstances lead the Fund to be unable to meet its redemptions. Credit Risk: the risk that an issuer of bonds will default on its obligations to pay income or repay capital, resulting in a decrease in Fund value. The value of a bond (and, subsequently, the Fund) is also affected by changes in market perceptions of the risk of future default. The risk of default for high yield bonds may be greater. Securitised assets or CDO assets risk: Securitised assets or CDO assets (CLO, ABS, RMBS, CMBS, CDO, etc.) are subject to credit, liquidity, market value, interest rate and certain other risks. Such financial instruments require complex legal and financial structuring and any related investment risk is heavily correlated with the quality of underlying assets which may be of various types (leveraged loans, bank loans, bank debt, debt securities, etc.), economic sectors and geographical zones. High yield bonds risk: These bonds are issued by companies or governments with lower credit ratings and as such are at greater risk of default or rating downgrades than investment grade bonds. Contingent convertible bonds (“CoCos”): these financial instruments become loss absorbing upon certain triggering events, which could cause the permanent write-down to zero of principal investment and/or accrued interest, or a conversion to equity that may coincide with the share price of the underlying equity being low. It is possible in certain circumstances for interest payments on certain CoCos to be cancelled in full or in part by the issuer, without prior notice to bondholders.

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