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Global Short Duration strategy

Sovereign yields rise as central banks remain hawkish

- Credit spreads were mixed as central banks remained hawkish
- US treasury, UK gilt and German bund yields were higher, with the latter underperforming
- The risk profile was stable

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What's happening?

- Despite the reopening of the Chinese economy following the easing of its stringent zero-Covid-19 policy, credit spreads were mixed in December on the back of stronger than expected US economic data and continued hawkishness from central banks.
- The US Federal Reserve did slow down the pace of interest rate hikes, with a 0.50% increase to a range of 4.25-4.50% in December, but it also reaffirmed that it would stick to its aggressive monetary policy stance due to a persistently tight labour market. The Bank of England (BoE) and European Central Bank (ECB) also slowed the pace of interest rate rises, with 0.50% increases to 3.50% and 2% respectively. Despite the dovish split of the votes, the minutes from the BoE policy meeting remained hawkish while the ECB tone was resolutely hawkish as it stressed that significant tightening remained ahead. Finally, in a hawkish shift, the Bank of Japan (BoJ) unexpectedly doubled the cap of bond yield in its 'yield curve control' policy.
- Despite falling inflation numbers, US treasury, UK gilt, and German bund yields rose as central banks remained hawkish, with the latter underperforming after the ECB policy meeting.

Strategy in focus – representative account (31/12/22)

Assets under management	€105m
Yield (EUR / USD hedged/ CHF hedged / GBP hedged) ¹	4.9% / 7.8% / 3.6% / 6.8%
Duration ¹	2.2 yrs
Average rating ²	BBB
Number of issuers	148
Launch date	06/07/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (EUR)³

One month	+0.07%
One year	-4.95%
Three years	-2.07%
Five years	-1.13%
Since launch	-1.11%

Annualised net performance – representative account (EUR)³

One year	-4.95%
Three years	-0.69%
Five years	-0.23%
Since launch	-0.20%

Source: AXA IM as at 31/12/2022. 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

- **Sovereign:** Our exposure to sovereign bonds was stable at 9% as we switched some of our UK short-dated inflation-linked bonds into 5-year nominal gilts following their underperformance at the end of December. We remained invested in German short-dated inflation-linked bonds.
- **Investment Grade:** Our exposure to investment grade markets was slightly reduced by 2% to 50% as we were active in the US dollar and euro secondary markets.
- **High-Yield and Emerging Markets:** Our exposure to high-yield and emerging markets was broadly stable at 37%. Following hawkish surprises from the ECB and BoJ leading to wider credit spreads, we unwound the protection we bought last month on the Markit iTraxx Europe Crossover Index.

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 risk of a global recession in 2023. In such an environment, it is paramount to retain flexibility and manage actively the duration and credit exposure.
- As inflation should keep on gradually falling over the coming quarters, we expect yields to consolidate at these levels since they already broadly reflect our expectations for additional tightening by central banks, helping credit spreads to also stabilise.

Asset class breakdown

Category	Asset Class	Total
Cash		4%
Sovereign ⁵	Nominal	4%
	Inflation-Linked	5%
	Total	9%
Investment Grade Credit	EUR IG Credit	11%
	GBP IG Credit	26%
	USD IG Credit	14%
	Total	50%
High-Yield & Emerging Markets	EUR High-Yield	22%
	USD High-Yield	5%
	Emerging Markets	10%
	Total	37%
Total		100%



Portfolio breakdowns

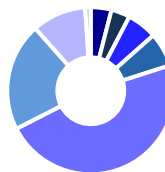
Breakdown by region

Cash	4%
UK	32%
Core Europe – ex UK	17%
Periphery Europe	13%
North America	21%
Emerging Markets	10%
Developed Asia	2%



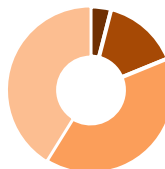
Breakdown by sector

Cash	4%
Financial	41%
Defensive	19%
Cyclical	23%
Securitized	4%
Sovereign ⁴	9%



Breakdown by rating²

Cash	4%
AAA	4%
AA	6%
A	7%
BBB	47%
BB	21%
B	10%
CCC & below	1%



Breakdown by maturity

Cash	4%
0-1 year	15%
1-3 years	40%
3-5 years	41%

(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.

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(4) Any Emerging Market Sovereigns are classified under "Sovereign" for the purpose of this breakdown.

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