For professional clients only
June 2020
Monthly Perspectives
Fixed Income

Sterling Credit Short Duration strategy

The rally continues, but the risks around a second wave increase

- Credit spreads further tightened following widespread easing of restrictions
- The risks around a second wave increased
- We kept on selectively adding risk

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What's happening?

- Credit spreads kept on tightening in June, as optimism grew around the recovery in the global economy following widespread easing of restrictions in developed countries and improving economic data. However, fears of a second wave created nervousness.
- The US Federal Reserve began to purchase individual corporate bond issues, rather than just corporate bond ETFs, while the European Central Bank significantly increased the size of its emergency bond-buying programme to €1.35 trillion. The Bank of England also announced that it would increase the size of its bond-buying programme as it held interest rates at an all-time low.
- Despite the risk-on environment and the prospect of higher borrowing, US treasury, German bund and UK gilt yields were slightly lower at the front-end as they remain anchored by central bank support.

Strategy in focus – representative account (30/06/20)	
Assets under management	£610m
Yield (GBP hedged)[1]	1.7%
Duration[1]	1.8 yrs
Average rating[2]	A-
Number of issuers	116
Launch date	12/11/2010
Net performance – representative account (GBP)[3]	
One month	+0.97%
Year-to-date	0.00%
One year	+1.14%
Three years (cumulative)	+3.49%
Five years (cumulative)	+8.26%

Source: AXA IM as at 30/06/2020. 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. **Past performance is not a reliable indicator of future results**. Performance calculations are net of fees, based on reinvestment of dividends.

Portfolio positioning and performance

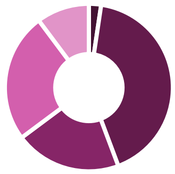
- We were active in June, managing flows while participating in the new issue from UK bank Lloyds as sterling investment grade primary issuance reached £8.4 billion. Due to the gradual re-risking undertaken since March, we now have a 49% allocation to BBB rated bonds (from 45% at the end of February).

Outlook

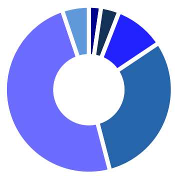
- Despite all advanced economies forecast to be in recession this year, we have now experienced the shortest bear market ever in credit markets, due to the unprecedented monetary and fiscal support.
- With the outlook remaining very uncertain and valuations having recovered a long way, we are growing cautious on adding more beta risk at this point and would rather focus on specific pockets of value that have lagged the recovery so far.

Portfolio breakdowns

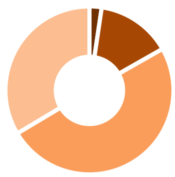
Breakdown by region	
Cash	2%
UK	33%
Europe Core – ex UK	27%
Europe Periphery	9%
North America	14%
Emerging Markets	5%
Developed Asia	10%



Breakdown by sector	
Cash	2%
Financial	42%
Defensive	20%
Cyclical	25%
Securitized	10%
Sovereign	0%



Breakdown by rating	
Cash	2%
AAA	4%
AA	10%
A	30%
BBB	49%
BB or below	5%



Breakdown by maturity	
Cash	2%
0-1 year	14%
1-3 years	50%
3-5 years	34%

(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. Please note that the yield calculations are based on the portfolio of assets and may NOT be representative of what clients invested in the fund 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.

No assurance can be given that the Sterling Credit Short Duration strategy will be successful. Investors can lose some or all of their capital invested. The Sterling Credit Short Duration strategy is subject to risks including credit risk, interest rate risk and counterparty risk. The strategy is also subject to derivatives and liquidity risks.