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Global Strategic Bond Fund

Continued rates volatility while credit remains resilient

- Fed and ECB hike rates by 25 bps in July
- More intra-month volatility as markets track the mixed economic data
- Credit spreads continue to grind tighter and are increasingly pricing out a recession

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What's happening?

- During July, the Fed and ECB hiked rates by 25 bps and were both non-committal on further rate hikes/cuts but emphasized any further moves being data dependent. A higher for longer interest rate outlook looks likely.
- The rate of inflation across all major markets was lower than expected prompting a rally in more rate sensitive fixed income assets and a steepening of the yield curve. Such is the story of 2023 though, the subsequent US downgrade conspired to push US Treasury yields back towards their 2022 highs.
- Corporate Bonds have performed well in July. High yield and emerging market debt once again proved to be the strongest performing fixed income asset classes during the month, supporting the thesis of a softer landing for the global economy, or a slowdown that will be slow to materialise.

Fund in focus	
Assets under management	£145 m
Duration	6.83 years
Yield ¹	6.15%
Running yield ¹	4.25%
Spread to government ²	230
Number of holdings	267
Launch date	19/10/2020
Net performance (GBP)	
One month	+0.87%
Three months	-1.02%
One year	+0.51%
2023 YTD	+0.04%
Since launch (cumulative)	-9.50%

Source: AXA IM as at 31/07/2023. The data is shown for the AXA Global Strategic Bond Fund. Performance is based on the Z share class net of ongoing charges (50bps), dividends reinvested. **Past performance is not a reliable indicator of future results.**

Portfolio positioning and performance

- **Defensive (28%):** We have increased our duration exposure to 6.83 years, this is concentrated in US treasuries towards the shorter end of the curve. Our longer duration positioning helped us capture the positive upside of the rates rally towards the end of July.
- **Intermediate (30%):** Marginal reduction in allocation to investment grade credit on the month, decreasing our exposure to US investment grade in favour for UK investment grade, and preferring to add both government bonds and high yield
- **Aggressive (42%):** Risk assets continue to perform well and our exposure to high yield and emerging market debt has marginally increased during the month. While current spread levels are not pricing in a recession we are approaching this area of the market with increased caution.

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Outlook

- The UK is behind the Euro area and US in their fight against inflation, the Euro area is already seeing “hardish” landing materialising and while the soft landing in the US is plausible this still looks far from certain. All major central banks hiked rates by 25bps in July (BoE first week of August) and while this may not signal peak in rates, the likelihood is a long plateau before we see rate cuts.
- We are continuing to hold more duration risk, which should benefit with the theme of disinflation and signs that central banks are approaching the peak.
- Credit continues to be resilient, and while we have benefited from higher exposure to credit risk and current spreads don’t price in recession, we are now cautious in our view on credit. If the economy were to deteriorate significantly, spreads would likely widen to price in more credit risk. We will though continue to look for opportunities in single name credits with strong fundamentals that would benefit from peak in rates and reduction in financing costs.



Strategy breakdown

Defensive	27.6%
Intermediate	30.0%
Aggressive	42.3%
Total	100.0%



Defensive breakdown

US Government Bonds	7.9%
Core Europe Government Bonds	7.1%
Inflation-Linked Bonds	5.3%
Cash	7.3%



Intermediate breakdown

US IG Credit	8.7%
Euro & Sterling IG Credit	21.3%



Aggressive breakdown

Emerging Markets (HC12.8%/LC0%/FX0%)	12.8%
US High Yield	21.7%
European High Yield	7.8%



Derivatives breakdown

Bond Futures	74.8%
Credit Default Swaps	0.0%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	7.3%
	AAA	4.4%
	AA	15.9%
	Total	27.6%
Intermediate	AA	0.8%
	A	5.8%
	BBB	23.4%
	Total	30.0%
Aggressive	AA	0.0%
	A	0.4%
	BBB	3.5%
	BB	17.6%
	B	15.2%
	CCC & Below	5.6%
	Not rated	0.0%
	Total	42.3%
Total	100.00%	

(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.

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