Sterling Credit Short Duration strategy

Sovereign yields rise as global growth concerns subside

- Sterling investment grade credit spreads tightened as global growth concerns subsided, and the US Federal Reserve paused its rate hiking cycle
- UK gilt yields rose significantly as UK inflation surprised again to the upside
- We reduced further our exposure to BBB-rated debt

Nicolas Trindade
Portfolio Manager, Sterling Credit Short Duration strategy

What's happening?

- Despite the ongoing slowdown in the Chinese recovery, sterling investment grade credit spreads tightened as the US Federal Reserve (Fed) paused its interest rate hiking cycle, the US avoided a debt default, and global growth concerns subsided.

- While the Fed left interest rates unchanged at 5% to 5.25%, chair Jerome Powell signalled that two further rate hikes were still on the table for this year as inflation makes its way towards the 2% target. The European Central Bank and Bank of England did not follow suit with the former increasing interest rates by 0.25% to 3.50% while the latter lifted them by 0.50% to 50% as inflation failed to fall in May.

- UK gilts significantly underperformed US treasuries and German bunds as UK inflation surprised again to the upside for May, remaining at 8.7%, while jobs growth and wages continued to be strong. As a result, UK gilt yields soared towards levels not seen since 2008.

Strategy in focus – representative account (30/06/23)	
Assets under management	£702m
Yield (GBP hedged)[1]	6.8%
Duration[1]	2.5 yrs
Average rating[2]	A-
Number of issuers	131
Launch date	12/11/2010

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)[3]	
One month	-1.22%
Year-to-date	-0.08%
One year	-0.41%
Three years	-2.09%
Five years	+0.83%
Ten years	+10.72%
Since launch	+21.90%

Annualised net performance – representative account (GBP)[3]	
One year	-0.41%
Three years	-0.70%
Five years	+0.16%
Ten years	+1.02%
Since launch	+1.58%

Source: AXA IM as at 30/06/2023. 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

- Sterling investment grade primary issuance rose again to £8.3bn in June. As such, we participated in six sterling new issues, with a bias towards better rated names. We were also very active in the secondary market. As a result, our exposure to A-rated bonds increased by 2% to 29% while our exposure to BBB-rated bonds decreased further by 4% to 48%.

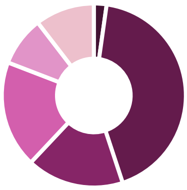
Outlook

- The macroeconomic outlook remains very uncertain given high (but falling) inflation, rising (but peaking) interest rates, slowing (but resilient so far) growth, and tighter lending conditions caused by the recent banking turmoil. As such, we expect market conditions to remain very volatile with an increased likelihood of a global recession in the second half of this year as central banks' ability to cut interest rates to support growth is curtailed by elevated inflation.

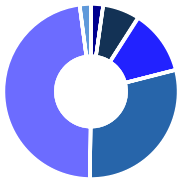
- As a result, we plan to continue reducing the level of credit risk so that we could benefit from a potential widening in credit spreads in the second half of this year by re-risking the portfolio at much better levels.

Portfolio breakdowns

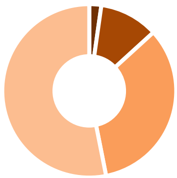
Breakdown by region	
Cash	*2%*
UK	*41%*
Europe Core – ex UK	*28%*
Europe Periphery	*9%*
North America	*11%*
Emerging Markets	*3%*
Developed Asia	*6%*



Breakdown by sector	
Cash	*2%*
Financial	*43%*
Defensive	*17%*
Cyclical	*19%*
Securitized	*9%*
Sovereign	*10%*



Breakdown by rating	
Cash	*2%*
AAA	*7%*
AA	*12%*
A	*29%*
BBB	*48%*
BB or below	*2%*



Breakdown by maturity	
Cash	*2%*
0-1 year	*11%*
1-3 years	*34%*
3-5 years	*53%*

(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.