For professional clients only
July 2023
Monthly Perspectives
Fixed Income

Global Strategic Bond Fund
Rates and credit markets push out expectations of a slowdown

- Labour markets remain strong despite economic data heading weaker
- Historically high allocation to US high yield and emerging market debt as risk assets continue to be the strongest performing fixed income asset class year to date
- Carrying zero UK duration exposure to protect from UK underperformance

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What's happening?

- Fixed income volatility during the month remained high with interest rate sensitive bond yields moving higher but credit risk outperforming.
- Concerns of further central bank rate rises resurfaced for the government bond market with the Bank of England raising interest rates by 50bp, and the market moved to price in further hikes from the Fed.
- European economic data was disappointing, with some similar signs of slowdown in US, but inflation, and employment data remains robust and is the point of most concern for central banks and bond markets alike.
- Despite the persistent inflation concerns, and prevailing view that economic data is heading weaker, risk assets continue to perform well. High yield spreads have held up very well year to data, brushing off concerns around rising default levels.

Fund in focus	
Assets under management	£143 m
Duration	6.05 years
Yield[1]	6.36%
Running yield[1]	4.24%
Spread to government[2]	236
Number of holdings	274
Launch date	19/10/2020
Net performance (GBP)	
One month	-0.57%
Three months	-1.12%
One year	+1.49%
2023 YTD	-0.82%
Since launch (cumulative)	-10.28%

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

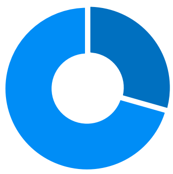
- **Defensive (29%):** We continue to run higher duration exposure of > 6 years, concentrated in both US treasuries and towards the shorter end of the curve. We have reduced our UK duration exposure close to zero as it continues its underperformance.
- **Intermediate (30%):** Marginal reduction in allocation to investment grade credit on the month, coming out of our exposure to European credit in favour of US equivalent. BBB credit remains the most attractive option in our view with a combination of attractive credit spreads, with high absolute yields given the move in government bonds year to date.
- **Aggressive (41%):** We increased exposure to high yield and emerging market debt again during the month to 42%, having been as low as 34% at the end of last year. Performance in lower rated credit continues to perform well as the expectations for deterioration in credit fundamentals is pushed further out. While default levels are starting to pick up, it is generally perceived as orderly and well within market expectations.

Outlook

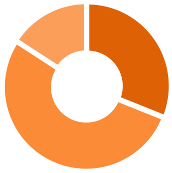
- The first half of 2023 has proven to be more resilient from a credit risk perspective, with greater reward for those that have taken greater credit risk, government bonds have traded in a wide range of yields but 10-year US treasuries pretty much ending where they started and shorter dated bonds underperforming.
- At the half year point markets are increasingly pricing out a weakening of economic growth, and that the central banks have more to do, and that a soft landing for the economy is increasingly likely. With that as a backdrop we continue to think that markets could be disappointed given the magnitude of financial policy tightening and more importantly the speed of the change in financial conditions.
- Over the last few quarters, we have seen an increase in credit events, as businesses deal with higher interest rates and elevated volatility. Considering this we continue to hold more duration risk, which should benefit with the theme of disinflation and signs that central banks are approaching the peak.
- Further down the credit curve the fund has benefited from higher exposure to credit risk, but this is the area of the fund that we are spending most time reviewing and for the moment find it difficult to justify further additions.

Strategy breakdown	
Defensive	28.7%
Intermediate	30.2%
Aggressive	41.2%
Total	100.0%

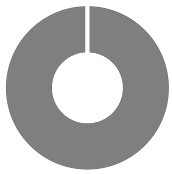
Defensive breakdown	28.7%
US Government Bonds	9.5%
Core Europe Government Bonds	7.2%
Inflation-Linked Bonds	5.3%
Cash	6.7%



Intermediate breakdown	30.2%
US IG Credit	8.9.%
Euro & Sterling IG Credit	21.3%



Aggressive breakdown	41.2%
Emerging Markets (HC12.8%/LC0%/FX0%)	12.8%
US High Yield	21.9%
European High Yield	6.5%



Derivatives breakdown	36.2%
Bond Futures	36.2.%
Credit Default Swaps	0.00.%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	6.7%
	AAA	5.9%
	AA	16.1%
	Total	28.7%
Intermediate	AA	0.8%
	A	5.6%
	BBB	23.8%
	Total	30.2%
Aggressive	AA	0.0%
	A	0.4%
	BBB	3.3%
	BB	17.0%
	B	14.8%
	CCC & Below	5.7%
	Not rated	0.0%
	Total	41.2.%
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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