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# Global Short Duration strategy

## Mixed market performance as inflation remains elevated

- Credit spreads widened on the back of concerns about the ailing Chinese economy and still hawkish stances from central banks
- Yields on US treasuries and UK gilts rose while German bund yields fell as inflation remained stubbornly high
- The risk profile was broadly stable

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### What's happening?

- Credit spreads widened on the back of concerns about the ailing Chinese economy, the downgrade of the US credit rating from AAA to AA+ by Fitch citing rising debt levels, and still hawkish stances from central banks due to stubbornly elevated inflation.
- The US Federal Reserve chair Jerome Powell failed to commit to a course of action at the Jackson Hole Symposium, unnerving markets which continued to expect no further rate rises for the remainder of the year. The Bank of England increased interest rates by 0.25% to 5.25% in August as governor Andrew Bailey said policymakers needed to ensure inflation 'falls all the way back to the 2% target'.
- Yields on US treasuries and UK gilts rose while German bund yields fell. US inflation rose for the first time in a year in July, ticking up to 3.2% from 3% in June, but remained below forecasts of 3.3%, while eurozone inflation was unchanged at 5.3% in August, defying expectations for a drop to 5.1%. As expected, UK inflation fell sharply in July to 6.8% from 7.9% due the drop in energy prices.

<b>Strategy in focus – representative account (31/08/23)</b>	
Assets under management	£100m
Yield (GBP hedged) <sup>1</sup>	6.3%
Duration <sup>1</sup>	2.7 yrs
Average rating <sup>2</sup>	BBB+
Number of issuers	137
Launch date	17/05/2017

Past performance is not a reliable indicator of future results

<b>Cumulative net performance – representative account (GBP)<sup>3</sup></b>	
One month	+0.47%
Year-to-date	+3.26%
One year	+3.86%
Three year (cumulative)	+2.48%
Five year (cumulative)	+7.28%
Since launch (cumulative)	+7.60%

<b>Annualised net performance – representative account (GBP)<sup>3</sup></b>	
One year	+3.86%
Three year	+0.82%
Five year	+1.41%
Since launch	+1.17%

Source: AXA IM as at 31/08/2023. 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

- **Sovereign:** Our exposure to sovereign bonds was stable at 16% as we remained invested in US treasuries, German bunds, UK gilts, and government guaranteed debt. We kept the duration towards the top of our range during the period as US treasury and UK gilt yields rose.
- **Investment Grade:** Our exposure to investment grade markets increased by 2% to 62% as we were very active in the sterling primary market, focusing on A-rated or better names.
- **High-Yield and Emerging Markets:** Our exposure to high-yield and emerging markets was unchanged at 22% as we retained a lower exposure due to expensive valuations.

## 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. As such, we expect market conditions to remain very volatile with an increased likelihood of a global recession early next year as central banks' ability to cut interest rates to support growth is curtailed by still elevated inflation.
- With valuations looking fair to expensive, we plan to continue gradually reducing the level of credit risk so that we could benefit from a potential widening in credit spreads late this year or early next year by re-risking the portfolio at much better levels.

## Asset class breakdown

Category	Asset Class	Total
<b>Cash</b>		<b>1%</b>
<b>Sovereign<sup>5</sup></b>	Nominal	15%
	Inflation-Linked	1%
	<b>Total</b>	<b>16%</b>
<b>Investment Grade Credit</b>	EUR IG Credit	10%
	GBP IG Credit	40%
	USD IG Credit	11%
	<b>Total</b>	<b>62%</b>
<b>High-Yield &amp; Emerging Markets</b>	EUR High-Yield	15%
	USD High-Yield	2%
	Emerging Markets	5%
	<b>Total</b>	<b>22%</b>
<b>Total</b>		<b>100%</b>

## Portfolio breakdowns

### Breakdown by region

Cash	1%
UK	35%
Core Europe – ex UK	23%
Periphery Europe	12%
North America	21%
Emerging Markets	5%
Developed Asia	2%

### Breakdown by sector

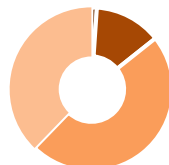
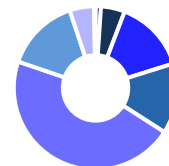
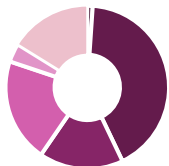
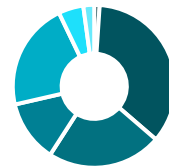
Cash	1%
Financial	42%
Defensive	17%
Cyclical	21%
Securitized	4%
Sovereign <sup>4</sup>	16%

### Breakdown by rating<sup>2</sup>

Cash	1%
AAA	5%
AA	14%
A	14%
BBB	46%
BB	15%
B	5%
CCC & below	0%

### Breakdown by maturity

Cash	1%
0-1 year	13%
1-3 years	48%
3-5 years	38%



(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.

(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.

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

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

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