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# Sterling Credit Short Duration strategy

## Yields fall supported by dovish central banks

- Sterling investment grade credit spreads tightened further, supported by dovish central banks, resilient economic data, and continued strong demand.
- Sovereign yields fell, with UK gilts outperforming on the back of a lower-than-expected inflation print.
- The risk profile of the fund was stable

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**Portfolio Manager, Sterling Credit Short Duration strategy**

### What's happening?

- Sterling investment grade credit spreads tightened further, supported by dovish central banks, resilient economic data, and continued strong demand. A surprise interest rate cut from Switzerland's central bank confirmed that other central banks would not necessarily wait for the US Federal Reserve (Fed) to start cutting first.
- The Fed left interest rates unchanged at a range of 5.25-5.5% and held onto its outlook for three cuts this year despite higher-than-expected inflation. As expected, the European Central Bank (ECB) also kept all its policy rates unchanged, with the depo rate remaining at 4% and the first cut still expected in June. Similarly, the Bank of England (BoE) left interest rates unchanged at 5.25%, with no members of the rate setting committee voting for a rate rise for the first time since 2021. Meanwhile, Japan made the historic decision to end its era of negative interest rates with its first rate rise in 17 years.
- Sovereign yields fell on the back of dovish central banks. UK gilts outperformed US treasuries and German bunds as UK inflation surprised on the downside, falling to 3.4% in the year to February, its lowest level for two and half years. Meanwhile, US inflation unexpectedly rose to 3.2% from 3.1% in January while eurozone inflation also surprised on the upside at 2.6%.

### Strategy in focus – representative account (31/03/24)

Assets under management	£867m
Yield (GBP hedged) <sup>1</sup>	5.1%
Duration <sup>1</sup>	2.4 yrs
Average rating <sup>2</sup>	A-
Number of issuers	134
Launch date	12/11/2010

Past performance is not a reliable indicator of future results

### Cumulative net performance – representative account (GBP)<sup>3</sup>

One month	+1.23%
Year-to-date	+0.53%
One year	+6.61%
Three years	+3.77%
Five years	+8.36%
Ten years	+17.83%
Since launch	+32.20%

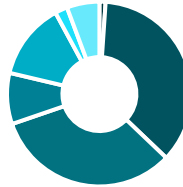
### Annualised net performance – representative account (GBP)<sup>3</sup>

One year	+6.61%
Three years	+1.24%
Five years	+1.62%
Ten years	+1.65%
Since launch	+2.11%

Source: AXA IM as at 31/03/2024. 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.

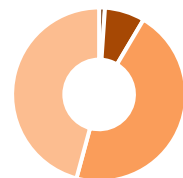
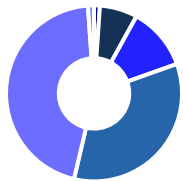
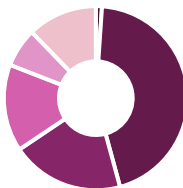
## Portfolio positioning and performance

- Sterling investment grade primary issuance rose in March to £6.2bn. As a result, we participated in four sterling new issues, with a bias towards the financial sector. We were also active in the secondary market. As a result, our exposure to financials increased by 2% to 45% while our exposure to BBB-rated bonds remained stable at 45%.



## Outlook

- A divergence in monetary policy between Europe and the US could appear this year as the latter is faced with stickier inflation on the back of much stronger growth, potentially preventing the Fed from cutting rates not nearly as much as the ECB or BoE.
- We have reduced the overall level of credit risk as valuations look fair to expensive across most sectors, particularly in a scenario where the Fed would not cut rates at all in 2024.
- Still, we believe the yields available on sterling short-dated bonds remain attractive due to an inverted gilt yield curve and flat credit curve.



## Portfolio breakdowns

### Breakdown by region

Cash	1%
UK	36%
Europe Core – ex UK	33%
Europe Periphery	9%
North America	13%
Emerging Markets	2%
Developed Asia	6%

### Breakdown by sector

Cash	1%
Financial	45%
Defensive	20%
Cyclical	15%
Securitized	7%
Sovereign	12%

### Breakdown by rating

Cash	1%
AAA	7%
AA	12%
A	34%
BBB	45%
BB or below	1%

### Breakdown by maturity

Cash	1%
0-1 year	7%
1-3 years	46%
3-5 years	46%

(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.**

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