Global Short Duration strategy

Yields rise as US inflation surprises again on the upside

- Credit spreads were rangebound, supported by resilient economic data, and continued strong demand
- Sovereign yields rose significantly on the back of higher-than-expected US inflation, with US treasuries underperforming
- The risk profile was stable

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What's happening?

- Despite the prospect of higher for longer interest rates in the US due to persistent inflation, credit spreads were rangebound, supported by resilient economic data, and continued strong demand.

- The US Federal Reserve (Fed) started its two-day meeting on the last day of the month, with expectations for the first interest rate cut being pushed out to December. The European Central Bank (ECB) left its main interest rate unchanged at a record high of 4% with ECB president Christine Lagarde stating she would not wait for the Fed to cut rates before the ECB does. The ECB all but promised a rate cut at its meeting on 6 June, provided there were no inflation surprises. The Bank of England (BoE) did not meet in April, with expectations for the first cut to happen in August.

- Sovereign yields rose significantly on the back of higher-than-expected US inflation, with US treasuries underperforming. US inflation rose more than expected to 3.5% in the year to March from 3.2% in February. UK inflation also surprised to the upside at 3.2% while eurozone inflation surprised to the downside at 2.4%.

Strategy in focus – representative account (30/04/24)	
Assets under management	£311m
Yield (GBP hedged)[1]	5.4%
Duration[1]	2.9 yrs
Average rating[2]	A-
Number of issuers	164
Launch date	17/05/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)[3]	
One month	-0.36%
Year-to-date	+0.63%
One year	+5.15%
Three year (cumulative)	+4.47%
Five year (cumulative)	+10.11%
Since launch (cumulative)	+12.20%

Annualised net performance – representative account (GBP)[3]	
One year	+5.15%
Three year	+1.47%
Five year	+1.94%
Since launch	+1.67%

Source: AXA IM as at 30/04/2024. 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

- **Sovereign:** Our exposure to sovereign bonds was broadly stable at 25% as we continued to switch some nominal debt into US treasury inflation-linked bonds due to stickier-than-expected US inflation, with the exposure to the latter reaching 7%. We also remained invested in German bunds, UK gilts, and government related debt. We increased the duration from mid-month, with a bias towards sterling duration, as sovereign yields rose significantly.
- **Investment Grade:** Our exposure to investment grade markets was unchanged at 57% as we continued to be active in the euro and dollar primary markets. We were also active in secondary markets.
- **High-Yield and Emerging Markets**: Our exposure to high-yield and emerging markets was also largely stable at 15% as we maintained our underweight position due to expensive valuations.

Outlook

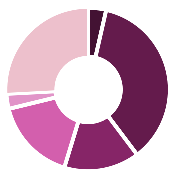
- A divergence in monetary policy between Europe and the US could appear this year as the latter is faced with stickier inflation on the back of stronger growth, potentially preventing the Fed from cutting rates not nearly as much as the ECB or BoE.
- We have reduced the overall level of credit risk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

Asset class breakdown

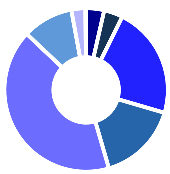
Category	Asset Class	Total
Cash		4%
Sovereign[5]	Nominal	18%
	Inflation-Linked	7%
	Total	25%
Investment Grade Credit	EUR IG Credit	14%
	GBP IG Credit	29%
	USD IG Credit	13%
	Total	57%
High-Yield & Emerging Markets	EUR High-Yield	9%
	USD High-Yield	1%
	Emerging Markets	4%
	Total	15%
Total		100%

Portfolio breakdowns

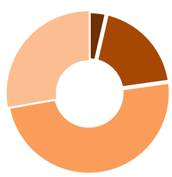
Breakdown by region	
Cash	4%
UK	30%
Core Europe – ex UK	23%
Periphery Europe	12%
North America	26%
Emerging Markets	4%
Developed Asia	2%



Breakdown by sector	
Cash	4%
Financial	36%
Defensive	15%
Cyclical	16%
Securitized	3%
Sovereign[4]	26%



Breakdown by rating[2]	
Cash	4%
AAA	4%
AA	22%
A	16%
BBB	42%
BB	10%
B	3%
CCC & below	0%



Breakdown by maturity	
Cash	4%
0-1 year	19%
1-3 years	49%
3-5 years	28%

(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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