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Sterling Credit Short Duration strategy

Markets rebound as US inflation moderates

- Sterling investment grade credit spreads were tighter, supported by resilient economic data, and continued strong demand.
- Sovereign yields were mixed, with UK gilt yields broadly unchanged.
- The risk profile was stable.

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Portfolio Manager, Sterling Credit Short Duration strategy

What's happening?

- Sterling investment grade credit spreads tightened in May, supported by resilient economic data, continued strong demand, and in-line US inflation. In the UK, prime minister Rishi Sunak announced a general election for 4 July.
- The US Federal Reserve (Fed) held interest rates steady at the range of 5.25% to 5.5% in May, stating that it did not expect 'it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably towards 2%'. The Bank of England (BoE) also held interest rates unchanged at 5.25%, but governor Andrew Bailey said that he was 'optimistic that things are moving in the right direction' and signaled that the first interest rate cut could be made this summer. The European Central Bank (ECB) did not meet but that did not stop president Christine Lagarde from saying that there was a 'strong likelihood' of a rate cut in June.
- Sovereign yields were mixed, with US treasury yields falling as US inflation was in-line with expectations at 3.4% in April, ending a four-month streak in which inflation outstripped expectations. UK inflation fell to 2.3% in April, its lowest level for almost three years, but the decline was smaller than expected, with UK gilt yields broadly unchanged as a result. German bund yields rose as eurozone inflation rose for the first time this year to 2.6% in May, beating expectations.

Strategy in focus – representative account (31/05/24)

Assets under management	£870m
Yield (GBP hedged) ¹	5.5%
Duration ¹	2.3 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	+0.46%
Year-to-date	+0.61%
One year	+7.21%
Three years	+3.60%
Five years	+7.82%
Ten years	+17.18%
Since launch	+32.30%

Annualised net performance – representative account (GBP)³

One year	+7.21%
Three years	+1.18%
Five years	+1.52%
Ten years	+1.60%
Since launch	+2.09%

Source: AXA IM as at 31/05/2024. 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.

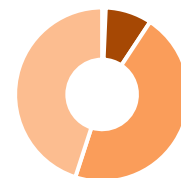
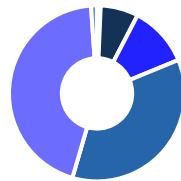
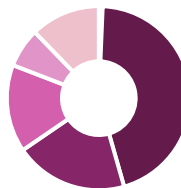
Portfolio positioning and performance

- Despite sterling investment grade primary issuance picking up to £4.8bn in May, we did not participate in any new issues as they were largely biased towards longer maturities. We were still active in the sterling secondary market. As a result, our exposure to financials and BBB-rated bonds remained broadly stable at 44% for both.



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 sectors, 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 sterling short-dated bonds remain attractive due to an inverted gilt yield curve and flat sterling credit curve.



Portfolio breakdowns

Breakdown by region

Cash	1%
UK	38%
Europe Core – ex UK	32%
Europe Periphery	8%
North America	14%
Emerging Markets	2%
Developed Asia	6%

Breakdown by sector

Cash	1%
Financial	44%
Defensive	20%
Cyclical	15%
Securitized	7%
Sovereign	14%

Breakdown by rating

Cash	1%
AAA	7%
AA	13%
A	35%
BBB	44%
BB or below	1%

Breakdown by maturity

Cash	1%
0-1 year	9%
1-3 years	46%
3-5 years	44%

(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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