AXA Investment Managers

For professional clients only
May 2024
Monthly Perspectives
Fixed Income

Sterling Credit Short Duration strategy

Yields rise as US inflation surprises again on the upside

- Sterling investment grade credit spreads were rangebound, supported by resilient economic data, and continued strong demand
- Gilt yields rose significantly on the back of higher-than-expected US and UK inflation
- 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, sterling investment grade 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.

- Gilt yields rose significantly on the back of higher-than-expected US and UK inflation. 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	£857m
Yield (GBP hedged)[1]	5.6%
Duration[1]	2.3 yrs
Average rating[2]	A-
Number of issuers	137
Launch date	12/11/2010

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (GBP)[3]	
One month	-0.38%
Year-to-date	+0.15%
One year	+5.78%
Three years	+3.21%
Five years	+7.69%
Ten years	+17.07%
Since launch	+31.70%

Annualised net performance – representative account (GBP)[3]	
One year	+5.78%
Three years	+1.06%
Five years	+1.49%
Ten years	+1.59%
Since launch	+2.06%

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

- Sterling investment grade primary issuance disappointed in April at only £1.6bn, the second lowest for April in a decade. As a result, we did not participate in any new issues and secondary market activity was limited. Our exposure to financials and BBB-rated bonds remained broadly stable at 45% and 44%, respectively.

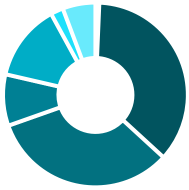
Outlook

- 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.

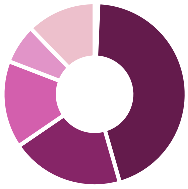
- We have reduced the overall level of credit risk as valuations look fair to expensive across most sectors, particularly in a scenario where the Fed would not cut rates at all for an extended period of time.

- 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.

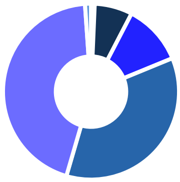
Portfolio breakdowns



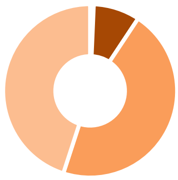
Breakdown by region	
Cash	*1%*
UK	*36%*
Europe Core – ex UK	*33%*
Europe Periphery	*9%*
North America	*13%*
Emerging Markets	*2%*
Developed Asia	*6%*



Breakdown by sector	
Cash	*1%*
Financial	*45%*
Defensive	*20%*
Cyclical	*15%*
Securitized	*7%*
Sovereign	*12%*



Breakdown by rating	
Cash	*1%*
AAA	*7%*
AA	*11%*
A	*36%*
BBB	*44%*
BB or below	*1%*



Breakdown by maturity	
Cash	*1%*
0-1 year	*9%*
1-3 years	*46%*
3-5 years	*45%*

(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.
