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Global Short Duration strategy

Political uncertainty drives sovereign yields lower

- Credit spreads were wider, mostly due to heightened political uncertainty following the decision by French president Emmanuel Macron to call a snap election
- Sovereign yields were lower, with German bunds outperforming on the back of worries about the upcoming French elections
- We bought French government bonds and increased our exposure to French banks ahead of the first round of the elections to benefit from their sharp underperformance

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Portfolio Manager, Global Short Duration strategy

What's happening?

- Credit spreads widened, mostly due to heightened political uncertainty following the decision by French president Emmanuel Macron to call a snap election.
- The US Federal Reserve (Fed) held interest rates steady at the range of 5.25% to 5.5% in June, with its Summary of Economic Projections showing the median dots signaling just one cut this year (from three). The Bank of England (BoE) also held interest rates unchanged at 5.25%, but policymakers described the decision as 'finely balanced' in a subtly dovish message. The European Central Bank (ECB) reduced its main interest rate from an all-time high of 4% to 3.75% in a widely anticipated move. However, ECB president Christine Lagarde added that interest rate policy would remain 'sufficiently restrictive for as long as necessary' and was not committing to a particular path.
- Sovereign yields were lower, with German bunds outperforming on the back of worries about the upcoming French elections and despite eurozone inflation rising for the first time this year to 2.6% in the 12 months to May. UK inflation dropped to the BoE 2% target for the first time in nearly three years while US inflation surprised to the downside at 3.3%.

Strategy in focus – representative account (30/06/24)

Assets under management	€94m
Yield (EUR / USD hedged/ CHF hedged / GBP hedged) ¹	4.0% / 5.6% / 1.5% / 5.4%
Duration ¹	2.5 yrs
Average rating ²	A-
Number of issuers	138
Launch date	06/07/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (EUR)³

One month	+0.58%
Year-to-date	+1.38%
One year	+6.42%
Three years	+1.87%
Five years	+6.01%
Since launch	+6.43%

Annualised net performance – representative account (EUR)³

One year	+6.42%
Three years	+0.62%
Five years	+1.17%
Since launch	+0.90%

Source: AXA IM as at 30/06/2024. 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 stable at 25%. We switched some German bunds and UK gilts into French government bonds ahead of the first round of the elections following their sharp underperformance as we believed an outright majority from the far-right or far-left was unlikely. We also remained invested in US treasury inflation-linked bonds and government related debt. We reduced gradually the duration during the second half of June as yields fell sharply due to heightened political uncertainty about the upcoming French elections.
- Investment Grade:** Our exposure to investment grade markets increased by 3% to 61% as we continued to be active in the US dollar, euro, and sterling primary markets. Toward the end of the month, we increased our exposure to French banks to benefit from their sharp underperformance.
- High-Yield and Emerging Markets:** Our exposure to high-yield and emerging markets was unchanged at 14% as we maintained our underweight position due to expensive valuations.

Outlook

- With US economic data predicted to weaken over the coming months, we expect the market narrative to switch from inflation fears to growth fears which should lead to lower front-end yields, with more rate cuts being priced in, and wider credit spreads.
- As a result, we continue to carry less credit risk, particularly since valuations still look fair to expensive across most asset classes.
- 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		1%
Sovereign ⁵	Nominal	18%
	Inflation-Linked	7%
	Total	25%
Investment Grade	EUR IG Credit	16%
	GBP IG Credit	31%
	USD IG Credit	14%
	Total	61%
High-Yield & Emerging Markets	EUR High-Yield	8%
	USD High-Yield	1%
	Emerging Markets	5%
	Total	14%
Total		100%



Portfolio breakdowns

Breakdown by region

Cash	1%
UK	22%
Core Europe – ex UK	31%
Periphery Europe	10%
North America	29%
Emerging Markets	5%
Developed Asia	3%

Breakdown by sector

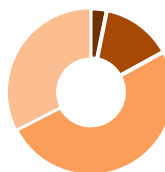
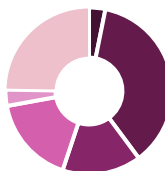
Cash	1%
Financial	38%
Defensive	15%
Cyclical	17%
Securitized	3%
Sovereign ⁴	25%

Breakdown by rating²

Cash	1%
AAA	9%
AA	17%
A	18%
BBB	44%
BB	7%
B	3%
CCC & below	0%

Breakdown by maturity

Cash	1%
0-1 year	14%
1-3 years	48%
3-5 years	37%



(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.

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

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