For professional clients only
June 2025
Monthly Perspectives
Fixed Income

Global Strategic Bonds strategy

May moves government bond yields higher and credit spreads tighter

- Upward pressure on yields as markets price out some 2025 central bank rate cuts and the long end reacts to supply, deficit and fiscal concerns
- Progress on US-China and US-UK trade agreements but less straightforward between US and Europe
- A bounce back for Emerging market debt, mixed returns in credit and negative returns for government bonds
- Some market concerns on US assets performance but we think concerns are overdone and our focus remains on structural diversification

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What's happening?

- US data was mixed, we started the month with stronger than expected non-farm payrolls, followed by weaker flash PMIs and a revision down of Q1 US GDP. We then ended the month with higher-than-expected weekly jobless claims.
- In the UK, the unemployment rate rose to 4.5% and wage growth slowed, but in contrast, UK growth exceeded expectations, and headline inflation jumped to 3.5% from 2.6%. In Europe, flash PMIs fell into contraction, and Euro area inflation decreased by 30bps to 1.9%.
- Both the Fed and the BoE made policy rate decision in May. The Fed kept rates on hold, 4.25% to 4.50%, once again sticking to the patient approach citing higher uncertainty and that there are higher risks to inflation and unemployment. A

Strategy in focus – representative account (30/05/25)	
Assets under management	**$648 m**
Duration	**5.33 years**
Yield[1]	**5.07%**
Running yield[1]	**4.49%**
Spread to government[2]	**182 bps**
Number of holdings	**231**
Launch date	**11/05/2012**

Net performance – representative account (USD)[3]	Cumulative	Annualised
One month	**0.30%**	-
One year	**5.71%**	5.71%
Three years	**7.77%**	3.09%
Five years	**6.38%**	0.99%
Ten years	**27.53%**	2.49%

Source: AXA IM as at 30/05/2025. The data is based on a representative account that follows the Global Strategic Bonds strategy. **Past performance is not a reliable indicator of future results**. Performance calculations are net of fees, based on the reinvestment of dividends.

day later and as expected the BoE cut rates by 25bps to 4.25%. The vote split was two votes for a 50bps cut, five votes for the 25bps cut and two votes for a hold, overall, this was interpreted hawkishly by markets.

- On the trade front, US and China as trade talks resulted in a dramatic 90-day reduction in Tariff levels and the UK became the only US partner to agree a deal with the US, arguably putting the UK in stronger position than other US trading partners. Things were less straightforward between US and Europe; on May 24, Trump threatened a 50% tariff on the EU to take effect June 1, but after a positive call with EC President Ursula von der Leyen, the deadline was extended to July 9. Additionally, a ruling by the US Court of International Trade stated that the Trump administration lacked the authority to impose many of the tariffs, posing a setback for the current US trade policy agenda.
- Other notable news items included Moody's downgrading its AAA rating for US sovereign debt, citing significant fiscal challenges. The House of Representatives narrowly passed the "One Big Beautiful Bill", which extends tax cuts and raises the debt ceiling by $4 trillion. Meanwhile, in Japan, the finance minister conducted a rare survey regarding sovereign bond issuance, suggesting a potential reduction in the supply of longer-dated JGBs, prompting a 20bps rally in 30-year JGBs in one day.
- Against this backdrop government bond yields moved higher, there was more pressure at short maturities earlier in the month as markets began to price out interest rate cuts, and towards the end of the month debt sustainability and fiscal concerns put pressure on longer term yields. The result was negative returns for rates with Gilts, and US Treasuries underperforming Bunds, returns were, -1.2%, -1.1% and -0.4% respectively. There were positive returns for credit markets, with lower duration higher spread markets outperforming, indeed, US HY achieved a total return of +1.7% and European HY +1.3%. Positive returns though were not universal and despite tighter spreads the duration component of US IG and Sterling IG indices led to flat and negative, -0.2%, returns respectively. Emerging Market Debt (EMD) rebounded strongly, generating a healthy +1.1% return, bolstered by the significant 90-day tariff reduction between the US and China and declining JGB yields.

Portfolio positioning and performance

- **Defensive (34%):** Cash bond trading activity in the defensive risk bucket was minimal during May, and overall exposure was maintained at approximately 34%, with 11% in US Treasuries, 9% in UK and European Sovereigns, and 10% in inflation-linked bonds. While there were no purchases, we did dispose of a single US Sovereign that was approaching maturity. As there was increasing upward pressure on government bond yields, we reduced overall duration quarter of a year. The majority of this was taken away from US curves, which leaves our duration exposure at 1.1 years to Europe, 1.3 years to the UK, and 2.9 years to the US.
- **Intermediate (25%):** Overall allocation to the Intermediate risk bucket dropped by approximately 1%; the decline in allocation was primarily due to negative price returns across investment grade credit during May. While trading activity was limited, we did use the opportunity to switch out of two US IG Financial names that were beginning to look expensive and into two other US IG Financials that were trading at more attractive prices.
- **Aggressive (42%):** Whilst still at more moderate levels than we had six months ago, exposure to the Aggressive risk bucket increased by approximately 1% during the month. We remain cautious on Emerging Market Debt and used the strong total returns from the asset class as opportunity to sell down and take profits on one Emerging Market quasi-sovereign and one Emerging Market pure sovereign. Strong returns for US high yield, particularly further down the curve, allowed us to sell down and take profits on lower quality names we own and rotate into higher quality and cheaper US high yield names. Overall, this meant our allocation to US high yield increased by 0.9% over the month. We are comfortable holding and maintaining our current level of high yield risk but continue to hold 7.0% CDS to hedge away some of this risk should spreads start to materially widen.

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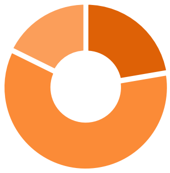
Outlook

- Our central view has not changed, and we continue to forecast that government bond volatility will persist but the deteriorating growth and inflation outlook, coupled with uncertainty across markets, will mean higher levels of scrutiny on central banks. On balance we believe the Fed will react more to slower growth than higher inflation and as the impacts of US Trade Policy start to pass through into the real economy and have a lasting effect on markets the likelihood for more immediate central bank action increases.
- Structural changes should see curves continue to steepen increasing long end risk premia, prompting us to rotate into longer maturities to benefit from a pickup in yield and better opportunities for capital appreciation.
- Whilst there of plenty of headwinds for credit, for now, fundamentals and demand remain strong. This is helping to reduce risk premiums and upward pressure on spreads. In the short to medium term our base case is for this to continue, and we will continue to use widening episodes as an opportunity to selectively add to high conviction credits.
- Our expectations are for the current levels of uncertainty and volatility to persist, and we do not a expect a slowdown in US Policymaking over the coming months. Our expectations are for US assets to outperform longer term due to relative value and structural factors, but there is also good value in other parts of the market. Our focus remains on diversification as volatility and dispersion continues

Strategy breakdown	
Defensive	33.7%
Intermediate	24.8%
Aggressive	41.5%
Total	**100%**

Defensive breakdown	33.7%
US Government Bonds	11.3%
Core Europe Government Bonds	8.5%
Inflation-Linked Bonds	10.1%
Cash	3.7%

Intermediate breakdown	24.8%
US IG Credit	9.4%
Euro & Sterling IG Credit	15.4%



Aggressive breakdown	41.5%
Emerging Markets (HC 9.2%/LC 0%/FX 0%)	9.2%
US High Yield	24.9%
European High Yield	7.3%

Derivatives breakdown	16.0%
Bond Futures	23.0%
Credit Default Swaps	-7.0%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	3.7%
	AAA	0.0%
	AA	30.0%
	Total	33.7%
Intermediate	AA	0.6%
	A	7.5%
	BBB	16.7%
	BB	0.0%
	Total	24.8%
Aggressive	AA	0.0%
	A	0.3%
	BBB	1.6%
	BB	17.1%
	B	15.4%
	CCC & below	7.0%
	Not rated	0.1%
	Total	41.4%

(1) Yield figures quoted will vary in the future and are not guaranteed. Yield calculated to maturity, assuming next call date, using local currency yields.
(2) Average credit spread relative to government bonds.

(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 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.

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