Global Strategic Bonds strategy
A busy month for central banks but politics dominates news flow

- Politics dominates the headlines in Europe, UK and the US and Emerging markets seesaw following a series of elections results
- The EcB deliver a widely expected first rate cut and the BoE and Fed keep policy rates unchanged
- June becomes the first month of 2024 when rates outperform credit
- We expect more rate cuts across developed markets and moderate growth in the second half of 2024

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What's happening?

- The French Parliamentary election rocked markets in Europe - European IG and HY Spreads widened +10bps and +27bps respectively. Market reaction to the UK general election has been muted as it was increasingly becoming a one-horse race and yields moved off their mid-month lows following the first presidential debate which was disastrous for the Democrats and increased the risk of an inflationary Trump administration.
- In Emerging Markets initial market reaction from election result in India, South Africa and Mexico was for a sharp sell-off then subsequent rebound.
- Away from politics the EcB was the only one of the three major central banks to cut rates, cutting by 0.25% to 3.75%. Both the Fed and the BoE left policy rates unchanged in a month where both regions produced mixed economic data prints.
- US CPI eased in May slowing to 3.3% from 3.4% and encouragingly the print showed lower services inflation

Strategy in focus – representative account (30/06/24)	
Assets under management	**$612 m**
Duration	**4.56 years**
Yield[1]	**5.50%**
Running yield[1]	**4.68%**
Spread to government[2]	**145**
Number of holdings	**232**
Launch date	**11/05/2012**

Net performance – representative account (USD)[3]	**Cumulative**	**Annualised**
One month	**0.49%**	**-**
One year	**6.05%**	**6.05%**
Three years	**-5.35%**	**-1.82%**
Five years	**4.14%**	**0.81%**
Ten years	**22.49%**	**2.05%**

Source: AXA IM as at 30/06/2024. 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.

which had previously remained elevated. US unemployment rose marginally from 3.9% to 4.0% but bucking the trend of weaker data were higher than expected US jobs number > 270k vs expectations of 180K and persistently strong wage growth and hourly earnings.

- Helped by falling energy prices the UK saw headline inflation fall back down to the 2% target, digging into the data though services inflation remains elevated at 5.7%. Signs of a weaker UK labour market were evidenced by a 140k fall in employment in the three months to April vs expectations of an 100k.
- Despite the tumultuous backdrop fixed income markets posted positive total returns in June and rates markets outperformed credit. UK Gilts and Bunds had their strongest month of the year with total returns of 1.8% and 1.4% respectively.
- Although there were no specific credit events, credit was under more pressure than it has been for a while. During the month spreads widened across all developed markets, the US to a least extent as it was less impacted by regional and geopolitical tensions. During the month US IG and US HY Spreads widened +8bps and +5bps respectively vs +10bps and +27bps for Euro IG and Euro HY.

Portfolio positioning and performance

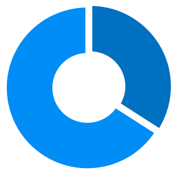
- **Defensive (27%):** In June we reduced our allocation to the defensive risk bucket. We sold positions in inflation linked bonds, UK Gilts and Bunds. In the current environment there is less need for inflation protection and given the stellar month UK Gilts and Bunds had we thought it was a good time to take profits. At the same time, we increased the duration exposure of the portfolio by circa.0.5 years and whilst still favouring Europe we took our exposure to a more neutral position across curves, 2.14 years to Europe, 1.20 years to the UK and 1.23 years to the US.
- **Intermediate (27%):** Allocation to the strategies intermediate risk bucket increased by 0.5% in June. We purchased several BBB names in Banking and Real Estate, the latter being a sector which investors have been giving a wide berth but in our view is now providing attractive relative value. In addition to these purchases the increase in exposure to our Intermediate risk bucket was in part thanks to June generally being strong for European and Sterling IG names.
- **Aggressive (46%):** Our allocation to the aggressive risk bucket increased by circa.1% in the month. Despite rotating in and out of several US HY credits our allocation to US HY remained stable at circa.24%. We did though increase our exposure to European HY and Emerging Market debt. In addition, we added a portfolio hedge to the credit component of the portfolio. Using CDS indices, as the political risk increased, we bought protection against further credit spread widening.

Outlook

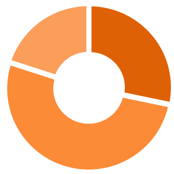
- Despite the political noise across developed and emerging markets our view is that we will see volatility start to come down across global fixed income markets. This we believe reflects the benign nature of the macro-backdrop and growing confidence in a soft-landing scenario where inflation continues to moderate without the need for a recession.
- To combat lower growth, we expect all major central banks will soon be starting their cutting cycles albeit not in a synchronised nor linear fashion. In this environment we are bullish on duration but highlight the importance on tactically allocating across curves and closely monitoring overall exposure as the economic data prints and sentiment continues to evolve.
- Whilst June saw some widening of spread, we remain constructive on credit. Fundamentals remain strong and lower policy rates create more favourable financing conditions. The widening of spread reflects political risks being priced into markets and in our view has created attractively valued credits with strong fundamentals. We also continue to be optimistic about lower quality credit, a part of the market that tends to be less impacted by political risk.
- Since the start of the year global fixed income returns have been modest, and either side of zero. Despite a better month, government bonds returns have so far been negative whilst the lowest quality credit has performed best. The fund has delivered a positive return due to its more cautious view on duration and positive allocation to high yield and emerging markets. As central banks start to cut rates in the second half of the year, duration sensitive markets could continue to improve performance.

Strategy breakdown	
Defensive	27.0%
Intermediate	27.0%
Aggressive	46.0%
Total	**100%**

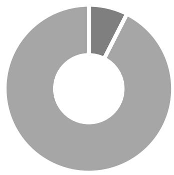
Defensive breakdown	26.0%
US Government Bonds	11.3%
Core Europe Government Bonds	8.7%
Inflation-Linked Bonds	5.0%
Cash	2.0%



Intermediate breakdown	27.0%
US IG Credit	9.2%
Euro & Sterling IG Credit	17.8%



Aggressive breakdown	46.0%
Emerging Markets (HC 13.0%/LC 0%/FX 0%)	13.0%
US High Yield	23.8%
European High Yield	9.2%



Derivatives breakdown	-18.2%
Bond Futures	-1.4%
Credit Default Swaps	-16.8%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	2.0%
	AAA	3.5%
	AA	21.6%
	Total	**27.0%**
Intermediate	AA	0.7%
	A	7.1%
	BBB	19.3%
	BB	0.0%
	Total	**27.0%**
Aggressive	AA	0.0%
	A	0.4%
	BBB	2.0%
	BB	19.2%
	B	17.0%
	CCC & below	7.2%
	Not rated	0.0%
	Total	**46.0%**
Total		**100.0%**

(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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