Global Strategic Bonds strategy

Tariffs, trade deals and tighter spreads but inflation fears loom

- Spreads tighten with more clarity on trade agreements, but positive returns were dampened as inflation fears loom and sovereign yields move higher across the curve
- An effective tariff rate of 18.3%[1] is a *"less bad"* scenario than markets had feared
- Our appetite to take US duration is pretty strong, valuations are attractive and the Fed has plenty of room to cut rates
- Continued spread tightening is making lower quality fixed income increasingly expensive

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What's happening?

- As the end of the 90-day pause in US reciprocal tariffs approached, markets were buoyed by a series of trade deals. Without providing all the details, it is fair to say that markets reacted positively, perhaps the most notable deals were the 15% headline rates on European and Japanese imports. There was also clarity on minimum tariff levels for all trading partners — 10%, or 15% for trade surplus countries. The Yale Budget Lab estimates this raises the effective import tariff rate to 18.3%, the highest since 1934, but probably a *"less bad"* scenario than markets had feared.
- Key US economic data included stronger than expected non-farm payroll, (146k vs 106k) and a larger than expected dip in the unemployment rate, (4.1% vs 4.3%). US Q2 GDP figures were also strong, 3.0%. At face value this shows a robust US economy, however labour market data may be skewed by weakness on the supply side and there was a significant degree of front loading by US corporates.

Strategy in focus – representative account (31/07/25)	
Assets under management	**$650 m**
Duration	**6.06 years**
Yield[1]	**5.00%**
Running yield[1]	**4.69%**
Spread to government[2]	**160 bps**
Number of holdings	**232**
Launch date	**11/05/2012**

Net performance – representative account (USD)[3]		
	Cumulative	**Annualised**
One month	**0.28%**	**-**
One year	**4.97%**	**4.97%**
Three years	**13.43%**	**4.28%**
Five years	**3.87%**	**0.76%**
Ten years	**31.24%**	**2.75%**

Source: AXA IM as at 31/07/2025. 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.

[1] *Yale Budget Lab estimation*

- Month on month growth in the UK continued to decline and the unemployment rate ticked up to 4.7%. UK headline inflation remains above the target 2.0% and climbed 2bps on the month to 3.6%. In Europe where the situation is more benign, GDP growth for Q2 came in at +0.1% vs expectation of 0.0% and headline and core inflation remained broadly steady, headline inflation showed 1bps increase to 2.0% and core inflation which strips out more volatile food and energy prices, came in at 2.3%.
- UK gilts suffered a bout of volatility after the government backtracked on welfare cuts and amid speculation about the possible replacement of Chancellor Rachel Reeves'. Although soon dismissed, the UK's fiscal outlook remains in focus. In the US, Trump's Big Beautiful Bill was signed into law, offering tax cuts, fiscal stimulus, and raises the debt ceiling, overall though the bill has the potential to increase deficits and be detrimental to lower-income Americans.
- In July and as expected both the ECB and Fed held rates steady. Tariff uncertainty and inflation, arguably more of an issue in the US, were central to their decisions. Markets interpreted the ECB decision hawkishly and the Fed decision as a dovish hold – in fact two members of the FOMC dissented and voted for a 25bps cut. The ECB's and Fed's actions in July mean that European interest rates have moved from a high of 4.5% 12 months ago to currently 2.0%, whereas US interest have remained at 4.25%-4.50% since December - to us, this, and different interpretations of July's decisions show the lack of synchronisation across major central banks.
- Rising yields caused negative returns across rates markets. Year-to-date US Treasuries have outperformed UK and European equivalents, but in July, the Treasury index (G0Q0) declined 0.4%, while the Gilts (G0L0) and German Bunds (G0DB) indices both fell 0.3%. Spread tightening offset the move higher in sovereign yields and lower-quality credit outperformed investment grade asset classes. European High Yield having lagged for the past two months outperformed US High Yield, +1.1% (HE00) vs +0.4% (H0A0) respectively. The strongest performing asset class through July was Emerging market debt, and at index level (DXEM) produced a +1.3% total return.

Portfolio positioning and performance

- **Defensive (32%):** Once again, overall exposure to the strategies' defensive risk bucket remained broadly unchanged, and we continue to favour US sovereign exposure over UK and European. Keeping our cash bond allocation stable, we chose to extend overall duration by 0.61 years to 6.06 years. We took additional duration risk in USD and trimmed our duration risk in Europe. Our duration risk across sovereign curves is currently 1.72 years in Europe, 1.39 years in the UK, and 2.95 years in the US. Across maturities, our duration is concentrated at the belly of the curve (7 to 20-year maturities). We are neutralising any long-end exposure (≥20 years) and, as curves have steepened, are reducing duration risk at the short end (≤3 years).
- **Intermediate (27%):** Positive market moves in investment grade credit led to an approximately 1% increase in our allocation to the intermediate risk bucket. We used these gains as an opportunity to sell down and take profits on several BBB US credits, reinvesting the capital into US IG credits, which we believe are undervalued and offer very attractive yields, above 5%. We are happy to maintain the overall allocation to the Intermediate risk bucket at this level, as it provides a natural hedge against some of the lower-quality high conviction credits we hold.
- **Aggressive (41%):** Positive market moves were felt even more further down the credit curve in high yield and emerging market asset classes. Overall, the aggressive risk bucket was the strongest contributor to portfolio performance during July. Nonetheless, we sold down and took profits on our allocation to US High Yield, Emerging Market Debt and European High Yield reducing overall exposure by approx. 2%. Whilst we continue to like lower quality asset classes, continued spread tightening makes valuations increasingly expensive.

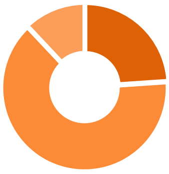
Outlook

- 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 think markets are right to start to price in more fed rate cuts this year and believe yields will move lower in line with market pricing. Fiscal challenges as well as a higher level of baseline inflation is likely to push yields in the opposite direction, but our view is that central banks will be more reactive to worsening labour and economic data.
- Our appetite to take US duration is pretty strong, valuations are attractive, the Fed has plenty of room to cut rates and weaker economic data could quickly prove an inflexion point for markets.
- Whilst there are plenty of headwinds for credit, for now, fundamentals and demand remain strong. Credit spreads are increasingly pricing in the continued resilience of corporates and investors lack of conviction in traditional safe-haven assets. For now, we continue to like lower quality credit but are wary of expensive valuations at this point in the cycle.

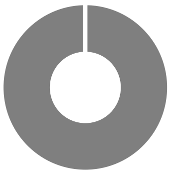
Strategy breakdown	
Defensive	32.4%
Intermediate	26.5%
Aggressive	40.5%
Total	**100%**

Defensive breakdown	32.4%
US Government Bonds	9.5%
Core Europe Government Bonds	8.4%
Inflation-Linked Bonds	10.1%
Cash	4.3%

Intermediate breakdown	26.5%
US IG Credit	9.3%
Euro & Sterling IG Credit	17.2%



Aggressive breakdown	40.5%
Emerging Markets (HC 9.7%/LC 0%/FX 0%)	9.7%
US High Yield	26.0%
European High Yield	4.9%



Derivatives breakdown	0.3%
Bond Futures	0.3%
Credit Default Swaps	0.0%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	4.4%
	AAA	0.0%
	AA	28.1%
	Total	32.4%
Intermediate	AA	0.6%
	A	7.3%
	BBB	18.0%
	BB	0.6%
	Total	26.5%
Aggressive	AA	0.0%
	A	0.3%
	BBB	2.5%
	BB	14.6%
	B	16.5%
	CCC & below	6.6%
	Not rated	0.0%
	Total	**40.7%**

(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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