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# Global Strategic Bonds strategy

## Robust bond returns as the rally continues

- Intensification of Israel Iran conflict but an oil price shock averted
- A strong month for fixed income with European asset classes lagging the US and UK
- Wary of the pass-through effects of US tariffs and a worsening fiscal outlook
- Asset allocation broadly unchanged but moving up in quality in the Aggressive risk bucket and tactically adding European duration

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### What's happening?

- The Israel Iran conflict was the focus of markets in June. As the situation intensified investors feared an oil price inflation shock. Outweighing these fears though was the demand for safe- haven assets resulting in lower yields across the curve for US Treasuries. As a flight to safety ensued a US brokered ceasefire finally quashed any fears of an oil price shock.
- There was also plenty of economic data for investors to sieve thorough. Key pieces from the US were monthly CPIs' surprising to the downside and declines in US retail sales and US manufacturing production - to us this suggest the inflationary impact of tariffs, for now, is less than expected and weakening US growth.
- The UK labour market showed signs of weakness, with unemployment rising to 4.6% and PAYE measures down by 109K. Inflation remains stubborn, with headline inflation at 3.4% and core inflation at 3.5%. Adding to the UK's problems is concerns over its fiscal situation and promises of larger capital expenditure and a U-turn on welfare reforms which had promised £5bn savings have only made things worse. This has led to significant steepening of the Gilt curve; the spread between 5-year and 30-year gilts is now 133bps, up from less than 100bps at the year's start.

### Strategy in focus – representative account (30/06/25)

Assets under management	\$652 m
Duration	5.40 years
Yield <sup>1</sup>	4.95%
Running yield <sup>1</sup>	4.43%
Spread to government <sup>2</sup>	163 bps
Number of holdings	234
Launch date	11/05/2012

### Net performance – representative account (USD)<sup>3</sup>

	Cumulative	Annualised
One month	1.25%	-
One year	6.51%	6.51%
Three years	16.03%	5.08%
Five years	5.35%	1.05%
Ten years	31.10%	2.74%

Source: AXA IM as at 30/06/2025. 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.

- European inflation prints were mixed, but with Euro area inflation back below target this did not prompt much of a market reaction. Sluggish growth remains the main concern for Europe but providing one less thing to worry about was the de-escalation of Euro-US trade talks, which, the month prior had started to look quite fragile.
- All three major developed market central banks made policy rate decisions during June. The ECB cut rates by 25bps to 2%, the Fed delivered a hawkish hold, citing FOMC patience as they wait to assess the impact of tariffs. The BoE also paused but their actions were deemed dovish - three rather than an expected two members of the Governing council voted for a 25bps reduction.
- Whilst it was a bumpy ride, bond and credit total returns in June were some of the strongest we have seen this year. UK Gilts outperformed other government bond markets during the month and UK Inflation linked Gilts performed even better achieving a total return of 2.8%. Emerging Market Debt also had a strong month, achieving a total return of 2.4%. The asset class has achieved a very strong bounce back post the liberation day sell-off. US HY was the strongest performing credit market returning 1.9%, but not far behind were US IG and UK IG both returning 1.8%. Despite tightening across European spreads, European assets underperformed, as a more hawkish ECB, which suggested it is near the end of its cutting cycle, put upward pressure on European yields

### Portfolio positioning and performance

- **Defensive (32%):** Overall duration exposure was broadly unchanged and at the end of the month stood at 5.5 years. However, given the months relative weakness in European curves we rotated 0.7 years out of US and into Europe. Following a strong month for UK Gilts and US Treasuries saw the overall portfolio exposure to developed market sovereign increase to approx. 29%. Our Sovereign exposure includes a 10% allocation to inflation linked government bonds, which we intend to keep given the upside risks to inflation.
- **Intermediate (25%):** There was limited trading activity across our investment grade credit exposure, but strong performance meant a positive contribution to performance. Credit spreads continue to reflect little sign of deterioration in credit fundamentals, as well as limited macro-economic weakness. Whilst demand remains strong, spreads will doubtless display limited volatility.
- **Aggressive (42%):** Throughout June, we were active within the Aggressive risk bucket, bringing down CDS exposure by 7%, as credit continues to remain robust and the memory of 'Liberation Day' fades. Across both Emerging Market Exposure and US HY, we moved up in quality, CCC to Bs, and rotated out of bonds approaching maturity  $\leq 2030$  into longer dated issues  $>2030$ , sometimes from the same issuer. Risk assets have for some time been the major contributor to portfolio performance, but more expensive valuations and a weaker growth outlook mean we are slowly tempering this exposure.

## 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 Treasury yields and UK gilts will move lower in line with market pricing. We are wary though of the pass-through effects of US tariffs and a worsening fiscal outlook, which could pose a threat to lower US and UK yields.
- The move towards steeper government bond curves is now well under way, and we believe the spread between the long and short end still has room to widen further. The short end is likely to remain anchored by increased pricing of central bank cuts and macro uncertainties as well as fiscal risks will keep upward pressure at the long end.
- 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, our base case is for the stability in spreads to continue, and any widening episodes will be used as an opportunity to selectively add to high conviction credits.



### Strategy breakdown

Defensive	32.2%
Intermediate	25.4%
Aggressive	42.4%
<b>Total</b>	<b>100%</b>



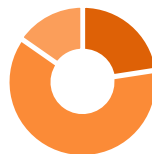
### Defensive breakdown

<b>Defensive breakdown</b>	<b>32.2%</b>
US Government Bonds	9.6%
Core Europe Government Bonds	8.7%
Inflation-Linked Bonds	10.1%
Cash	3.9%



### Intermediate breakdown

<b>Intermediate breakdown</b>	<b>25.4%</b>
US IG Credit	9.4%
Euro & Sterling IG Credit	16.0%



### Aggressive breakdown

<b>Aggressive breakdown</b>	<b>42.4%</b>
Emerging Markets (HC 9.6%/LC 0%/FX 0%)	9.6%
US High Yield	26.4%
European High Yield	6.5%



### Derivatives breakdown

<b>Derivatives breakdown</b>	<b>19.1%</b>
Bond Futures	19.1%
Credit Default Swaps	0.0%

## Credit rating breakdown

Category	Rating	Total
Defensive	Cash	3.9%
	AAA	0.0%
	AA	28.3%
	<b>Total</b>	<b>32.2%</b>
Intermediate	AA	0.6%
	A	7.3%
	BBB	17.4%
	BB	0.0%
	<b>Total</b>	<b>25.4%</b>
Aggressive	AA	0.0%
	A	0.3%
	BBB	2.1%
	BB	16.4%
	B	16.8%
	CCC & below	6.9%
	Not rated	0.1%
	<b>Total</b>	<b>42.4%</b>

(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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