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Global Strategic Bonds strategy

Volatile rates and stable spreads

- New fiscal regime across Europe and threats of US Tariffs dominates markets
- US Treasuries outperform as US markets subtly shift towards a risk off tone
- A more bullish outlook on duration and changing our focus away from Europe into the US

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What's happening?

- February was an exceptionally eventful month for markets; however, amidst the noise, a more risk-off sentiment emerged, with US Treasuries outperforming. This straightforward assessment, though, overlooks the month's deluge of data releases, policy announcements, and geopolitical developments.
- US economic data revealed higher-than-expected inflation, a decline in consumer confidence, and a services PMI slipping into contraction at 49.7. US labour markets remain tight though and despite falling equity valuation the strength of US corporates shouldn't be underestimated.
- European data was mixed; the EMU composite PMI was unchanged, while the services PMI declined by 0.6 points, and although the manufacturing PMI improved, it remains in contraction. In the UK, inflation rose to 3.0% vs expectations of 2.8%, an unwelcome development for inflation that put pressure on UK yields.
- In February, the only major central bank decision was from the BoE, which as expected cut rates by 25bps. Surprisingly though two of the nine committee members voted for a reduction of 50bps. No decision was made on US interest rates, but market expectations for further Fed rate cuts this year rose.
- It was more Trump rhetoric though, that dominated markets. Markets grappled with the potential impact of US tariffs and what an increase by Europe on defence spending would mean. Additionally, US talks with Russia raised hopes for a possible peace accord, which could serve as a tailwind for European assets.
- Amidst the month's events, higher-quality fixed income assets outperformed, with US Treasuries delivering the strongest total returns, +2.2% at index level. US 10-year Treasury yields fell by -33bps, while declines for their German and UK counterparts were more modest at -5bps and -6bps, respectively. Although there was some spread widening across

Strategy in focus – representative account (28/02/25)

Assets under management	\$627 m
Duration	5.29 years
Yield ¹	4.92%
Running yield ¹	4.45%
Spread to government ²	147 bps
Number of holdings	232
Launch date	11/05/2012

Net performance – representative account (USD)³

	Cumulative	Annualised
One month	0.92%	-
One year	7.03%	7.03%
Three years	4.40%	1.45%
Five years	5.41%	1.06%
Ten years	28.10%	2.50%

Source: AXA IM as at 28/02/2025. 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.

credit markets, US High Yield experiencing the most significant widening at +27bps, total returns remained positive. In contrast, spreads for European High Yield and Emerging Market Debt (EMD) tightened, resulting in total returns that surpassed those of US High Yield.

Portfolio positioning and performance

- **Defensive (30%):** There was limited cash bond trading activity during the month, but our allocation to US Treasuries increased in line with market moves. We also used futures to add to and shift our duration exposure. We extended duration by approximately 0.4 years but shifted our focus away from European curves and into the US, reflecting a more constructive view on US rates. Overall duration exposure at the end of the month was 5.3 years, comprised of 0.9 years European duration, 1.7 years UK duration, and 2.8 years of US duration.
- **Intermediate (25%):** There was quite a bit of trading activity across the intermediate risk bucket, but overall allocation remained stable. With increasing concern around how tariffs will affect the sector, we exited a couple of US car firms, GM and Ford. Proceeds from these sales were put into several longer-dated, high-conviction US IG Healthcare, Consumer Goods, and Media names.
- **Aggressive (44%):** After strong performance in the previous month, we took profits on and reduced our EMD exposure by approximately 1%. We reduced our exposure to Argentinian sovereign debt and sold out of some low-quality EMD corporates. We also rotated out of the 2030 Sri Lankan government bond into the 2036 issue to secure a decent yield pick-up. Overall, though, our allocation to risk assets remained stable from the previous month, and we maintained our preference for US High Yield, increasing exposure by approximately 1% to the asset class during February

Outlook

- As in the previous month, government bond volatility persisted alongside relatively stable credit spreads. We expect this trend to continue in the near to medium term, with high all yields insulating credit markets against losses should spreads widen.
- We believe there is a growing risk that robust US growth may disappoint, and that the potential disruption from evolving US policy is underpriced in global markets. Consequently, we are adopting an increasingly bullish duration outlook and shifting our focus from European to US curves.
- Further down the curve, we acknowledge that credit valuations are less attractive; however, we remain constructive on higher-yielding fixed income. In the near term, we expect these asset classes to continue delivering decent returns, supported by attractive all-in yields, a positive technical environment, and strong underlying company fundamentals.
- Higher volatility and getting ever later in the cycle reinforce our conviction of the ability for a diversified portfolio of global fixed income with a flexible approach to produce attractive risk adjusted returns.



Strategy breakdown

Defensive	30.1%
Intermediate	25.4%
Aggressive	44.4%
Total	100%



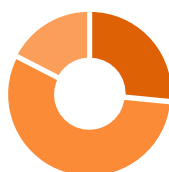
Defensive breakdown

Defensive breakdown	30.1%
US Government Bonds	8.7%
Core Europe Government Bonds	8.1%
Inflation-Linked Bonds	8.2%
Cash	5.1%



Intermediate breakdown

Intermediate breakdown	25.4%
US IG Credit	9.8%
Euro & Sterling IG Credit	15.7%



Aggressive breakdown

Aggressive breakdown	44.4%
Emerging Markets (HC 11.8%/LC 0%/FX 0%)	11.8%
US High Yield	24.9%
European High Yield	7.7%



Derivatives breakdown

Derivatives breakdown	13.0%
Bond Futures	16.3%
Credit Default Swaps	-3.3%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	5.1%
	AAA	0.0%
	AA	25.0%
	Total	30.1%
Intermediate	AA	0.6%
	A	7.8%
	BBB	17.1%
	BB	0.0%
	Total	25.4%
Aggressive	AA	0.0%
	A	0.4%
	BBB	1.8%
	BB	19.1%
	B	15.1%
	CCC & below	7.7%
	Not rated	0.0%
	Total	44.4%

(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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