For professional clients only
May 2024
Monthly Perspectives
Fixed Income

Global Strategic Bonds strategy

March rally reversed

- Bond markets appear stuck in tight trading range
- Bond yields moved higher during April with stronger than expected economic data – particularly from the US
- The "*higher for longer*" mantra continues and credit spreads remain robust

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What's happening?

- March's market momentum did not continue into April. Major global fixed income indices were negative or at best flat.
- Rates markets had the most severe reversal of recent performance. US labour market strength and higher inflation print that can no longer be dismissed as bumps in the road pushed 10 Year US Treasuries up 48bps to 4.68%.
- While overall inflation continued its downward trajectory in Europe and the UK, in both regions service sector inflation has remained elevated, >4% in Europe and >6% in the UK. Coupling this with the sell-off in US treasuries, 10-year Gilt Yields rose 42bp to 4.35% and 10-Year Bunds rose 28bp to 2.58% on the month.
- Credit spreads through April were broadly flat, however for the first time this year there was some widening across Sterling IG and US and Euro HY indices – whilst a few idiosyncratic credit situations ensued from March the slowdown in credit we believe is not indicative of a risk off move in markets.

Strategy in focus – representative account (30/04/24)	
Assets under management	$653 m
Duration	3.74 years
Yield[1]	5.95%
Running yield[1]	4.62%
Spread to government[2]	171
Number of holdings	250
Launch date	11/05/2012

Net performance – representative account (USD)[3]		
	Cumulative	Annualised
One month	-1.01%	
One year	3.49%	3.49%
Three years	-5.61%	-1.90%
Five years	5.55%	1.08%
Ten years	22.74%	2.07%

Source: AXA IM as at 30/04/2024. 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.

Portfolio positioning and performance

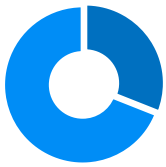
- **Defensive (29%):** Keeping lower duration exposure than in 2023 and rotating from US to European duration has been one of the strategies we have been implementing this year. In doing so we have mitigated some of the worst moves in bond markets. Despite improved valuations we are remaining cautious with our duration exposure, which at the end of the month stood at 3.74 years, with 0.50 years to US, 1.18 years to UK and 2.06 to Europe.
- **Intermediate (27%):** Our overall allocation to the fund's immediate risk bucket has remained unchanged since last month, however over the previous six months as we have sold investment grade credit and used the proceeds to buy more attractively valued credit further down the risk spectrum in high yield and emerging market debt.
- **Aggressive (44%):** We continue with our >40% allocation to the fund's aggressive risk bucket. During the month we took part in several issues on primary markets while at the same time taking profits on a few single B US credits. We remain constructive on lower rated credit but are being vigilant for any signs of weakness. Indicative of this sentiment we added some CDS protection, although this serves as a small tactical hedge to a constructive view rather than a material concerns over weakening credit metrics.

Outlook

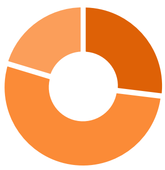
- April's rise in yields was a reversal of the previous months fall, in our view though this reversal is part of the process of yields finding a new equilibrium that is lower than the recent peak but higher than the extremely low yielding environment experienced post GFC.
- Higher yields mean fixed income investors can achieve attractive carry in the near and medium term and have the potential for capital gains when central banks do cut interest rates or if the equity bull market stalls.
- April's data prints gave further evidence to the scenario that the EcB and BoE will begin their rate cutting cycles before the Fed – it is also becoming clear that whilst policy rates are set to moderate, a higher rate regime than we have seen for the past 10 years is likely.
- Whilst credit spreads are the tightest they have been in many years – our view is that we may see spreads continue to grind tighter as policy rates moderate and the growth outlook becomes more supportive.

Strategy breakdown	
Defensive	28.5%
Intermediate	27.1%
Aggressive	44.4%
Total	100%

Defensive breakdown	28.5%
US Government Bonds	11.1%
Core Europe Government Bonds	9.1%
Inflation-Linked Bonds	5.3%
Cash	3.0%



Intermediate breakdown	27.1%
US IG Credit	8.4%
Euro & Sterling IG Credit	18.7%



Aggressive breakdown	44.4%
Emerging Markets (HC 12.0%/LC 0%/FX 0%)	12.0%
US High Yield	23.4%
European High Yield	9.0%

Derivatives breakdown	-23.7%
Bond Futures	-18.8%
Credit Default Swaps	-4.9%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	3.0%
	AAA	3.9%
	AA	21.7%
	Total	28.5%
Intermediate	AA	0.6%
	A	7.3%
	BBB	19.3%
	BB	0.0%
	Total	27.1%
Aggressive	AA	0.0%
	A	0.8%
	BBB	2.4%
	BB	18.2%
	B	15.2%
	CCC & Below	7.7%
	Not rated	0.0%
	Total	44.4%
Total		

(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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