For professional clients only
December 2021
Monthly Perspectives
Fixed Income

Global Short Duration strategy

Market rallies on limited Omicron impact

- Credit spreads tightened as it became increasingly clear that the impact of Omicron would not be as severe as initially feared
- Government bond yields rose as central banks were increasingly hawkish
- We continued to increase our exposure to investment grade markets

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What's happening?

- Despite several countries introducing tighter restrictions to try and limit the spread of Omicron, credit spreads still tightened as fears about its potency and ability to evade vaccines gradually dissipated and investors began to believe that its economic effects would be relatively short-lived.

- The US Federal Reserve (Fed) said it would bring forward plans to end its asset-purchasing scheme by March, to open the way for earlier interest rate increases, as it projected three hikes in 2022. Meanwhile, the European Central Bank said it would also halt its emergency asset-buying programme in March but would expand its bond purchases under an older scheme. Finally, the Bank of England surprised the market by raising interest rates by 0.15% as it sought to tame inflation.

- US treasury, German bund and UK gilt yields rose as central banks were increasingly hawkish to counter sharp rises in inflation.

Strategy in focus – representative account (31/12/21)	
Assets under management	€136m
Yield (EUR / USD hedged/ GBP hedged)[1]	1.0% / 2.1% / 1.7%
Duration[1]	1.1 yrs
Average rating[2]	BBB+
Number of issuers	167
Launch date	06/07/2017

Cumulative net performance – representative account (EUR)[3]	
One month	+0.18%
Year-to-date	+0.28%
One year	+0.28%
Three years	+6.38%
Since launch	+4.04%

Annualised net performance – representative account (EUR)[3]	
One year	+0.28%
Three years	+2.08%
Since launch	+0.89%

Source: AXA IM as at 31/12/2021. The data is based on a representative account that follows the strategy and is not intended to represent actual past or simulated past performance of the strategy. **Past performance is not a reliable indicator of future results**. Performance calculations are net of fees, based on reinvestment of dividends.

Portfolio positioning and performance

- **Sovereign**: Our overall sovereign exposure was broadly stable at 31% (versus 30% last month), with 15% still invested in US, German and French inflation-linked bonds to benefit from supportive inflation indexation over the next couple of months.

- **Investment Grade**: Our exposure to investment grade (IG) markets increased by 3% to 37% as we were active in the sterling and euro secondary markets, adding attractive new names.

- **High Yield and Emerging Markets**: Our exposure to high yield (HY) and emerging markets (EM) increased by 2% to 32% despite maintaining a very low exposure to US HY due to expensive valuations and less supportive technicals.

Outlook

- With the market having to grapple with expensive valuations and a hawkish Fed, we plan to retain our higher exposure to sovereign bonds (and linkers) while continuing to gradually switch out of HY and EM into IG to increase the overall defensiveness of the portfolio.

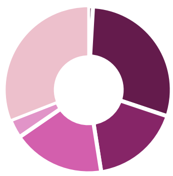
- We also plan to keep the duration at the lows, close to one year, as we expect to see higher yields in 2022 due to continued inflationary pressures and receding Omicron uncertainties.

Asset class breakdown

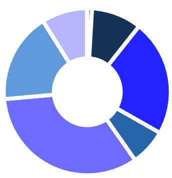
Category	Asset Class	Total
Cash		1%
Sovereign[5]	Nominal	16%
	Inflation-Linked	15%
	Total	31%
Investment Grade Credit	EUR IG Credit	11%
	GBP IG Credit	14%
	USD IG Credit	12%
	Total	37%
High Yield & Emerging Markets	EUR High Yield	19%
	USD High Yield	1%
	Emerging Markets	12%
	Total	32%
Total		100%

Portfolio breakdowns

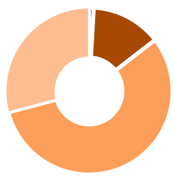
Breakdown by region	
Cash	1%
UK	25%
Core Europe – ex UK	26%
Periphery Europe	10%
North America	24%
Emerging Markets	12%
Developed Asia	2%



Breakdown by sector	
Cash	1%
Financial	29%
Defensive	17%
Cyclical	18%
Securitized	4%
Sovereign[4]	31%



Breakdown by rating[2]	
Cash	1%
AAA	10%
AA	23%
A	7%
BBB	33%
BB	17%
B	9%
CCC & below	0%



Breakdown by maturity	
Cash	1%
0-1 year	14%
1-3 years	56%
3-5 years	29%

(1) Yield and duration calculations include cash held within the portfolio, use the next-call method for all Financials in the portfolio and duration/yield-to-worst for all other holdings. The yield is calculated gross of fees. Please note that the yield calculations are based on the portfolio of assets and may NOT be representative of what clients invested in the strategy may receive as a distribution yield. Yields are not guaranteed and will change in future.

(2) Rating is the worst of S&P, Moody's and Fitch. In the rare case of an unrated issuer we will assign an internal credit rating.

(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 will 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.

(4) Any Emerging Market Sovereigns are classified under "Sovereign" for the purpose of this breakdown.

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