Month Ending December 2021
Active Fixed Income

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Perspectives
US High Yield

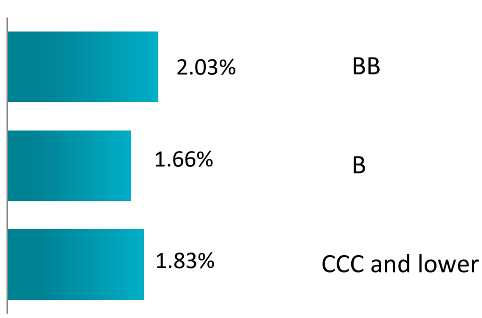
Market Update

The month's data highlighted two main issues: the persistence of higher prices and the potential economic impact from a rising rate of Covid infections. That said, the strength in the nation's job market, despite a slight slowing in hires, continued to reflect an economy essentially at full employment. Goods and service consumption expanded further. Manufacturing activity was robust. Construction activity rebounded and business inventory builds slightly outpaced sales, enabling some reductions in shortages. And while there was some easing in energy prices, the general level of prices remained stubbornly elevated.

The ICE BofA Merrill Lynch U.S. High Yield Index closed out the year with its best month of performance, returning +1.88% during December. The strong monthly return more than offset the consecutive monthly declines in October and November, and performance was driven by positive technicals and receding Omicron fears. The high yield market saw an inflow during December of approximately +$3.8 billion, bringing the full-year outflow to $-13.6 billion. December primary market activity was the lightest of the year, as 20 bonds priced totaling roughly $10.7 billion. This was lower than the roughly $32.4 billion that priced in November, and the $30.1 billion that priced in December 2020. There were no high yield bond defaults and no distressed exchanges in December. The par-weighted default rate set a new record low of 0.27% at year-end, down from 0.36% at the end of November.

During December, U.S. High Yield underperformed U.S. Equities (S&P 500 +4.48%), but outperformed U.S. Corporates (-0.17%) and U.S. Treasuries (-0.57%). Within U.S. High Yield, single B-rated credits (+2.03%) outperformed both CCC and lower-rated issues (+1.66%) and BB-rated credits (+1.83%). From a sector perspective, all 18 sectors in the index posted positive monthly returns. The best performing sectors were Energy (+2.84%), Transportation (+2.32%) and Media (+2.19%). On a relative basis, the worst performing sectors were Banking (+0.50%), Utility (+1.15%) and Consumer Goods (+1.34%). The High Yield Index's Option Adjusted Spread was 310 basis points at the end of December, 57 bps tighter for the month. The yield-to-worst of the index ended the month at 4.32%, a decrease of 53 basis points from the start of the month (4.85%). Finally, the High Yield Index's average price was $103.31 at month end, $1.41 higher than the $101.90 average price at the start of the month.

Returns by Rating[1]



High Yield Industry[1]	YTD Total Return	OAS Dec-21	YTW Dec-21
US HIGH YIELD INDEX	**5.36**	**310**	**4.32**
Automotive	6.38	219	3.29
Banking	4.76	178	3.00
Basic Industry	4.92	293	4.18
Capital Goods	4.78	324	4.27
Consumer Goods	5.36	250	3.88
Energy	13.70	359	4.86
Financial Services	4.44	312	4.33
Healthcare	2.74	287	4.02
Insurance	4.63	346	4.80
Leisure	6.19	310	4.17
Media	2.11	341	4.76
Real Estate	4.70	284	4.03
Retail	5.14	294	4.23
Services	5.27	324	4.42
Technology & Electronics	3.45	269	4.02
Telecommunications	1.36	373	5.04
Transportation	8.04	328	4.33
Utility	1.27	277	4.07

Sources: AXA IM, ICE BofA ML, J.P. Morgan
as of December 31, 2021.
(1) ICE BofA Merrill Lynch US High Yield Index.

Past performance is not indicative of future results. For illustrative purposes only.

US Short Duration High Yield: Strategy Activity and Performance

Portfolio management comments

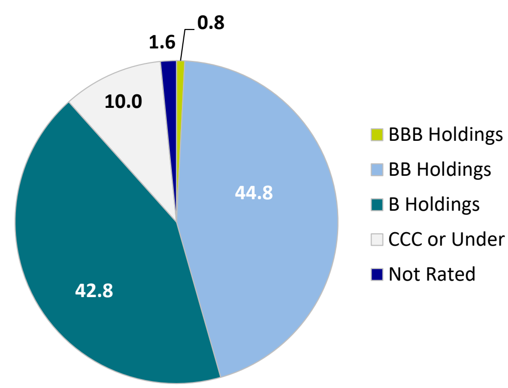
AXA IM's U.S. Short Duration High Yield strategy bounced back during December and generated a solid return, however could not keep pace with the strong market rally, capturing roughly 60% of the market's +1.88% return. Performance was limited by the shorter duration nature of our holdings and our positioning and security selection within the energy sector. The yield-to-worst of the strategy (exclusive of cash) tightened by 97 bps to 3.11%, while the market yield tightened by 53 bps to 4.32%. The Option Adjusted Spread of the strategy tightened by 82 bps to 245 bps. The overall strategy duration (using a calculation of modified duration-to-worst) decreased to 1.1, while the market duration decreased to 3.8.

Position count decreased slightly during December and the strategy remains well diversified. We believe that diversification of portfolio holdings is important for the strategy and helps to manage credit risk. Our top holding, a 1.4% position, was Aramark Services, Inc. At month-end, approximately 85% of the portfolio was invested in securities in excess of three years, which we expect to be redeemed early. This is flat versus the previous month. Market technicals improved during December as flows turned positive and the primary market had its slowest month of the year. The majority of new issue proceeds for the full year were used for refinancings, thus limiting the amount of net new issuance, however these volumes have slowed more recently. That being said, we still expect to see a healthy amount of refinancing transactions in the new year. With an extremely low high yield default rate and generally improving corporate earnings, the overall health of the high yield market continues to improve. We expect interest rates and inflation expectations, as well as concerns regarding the new Omicron variant, to drive near-term market movements, however would view any pronounced weakness as a buying opportunity. And with markets focused on the trajectory of interest rates, we believe the Short Duration strategy remains well positioned in this rising rate environment.

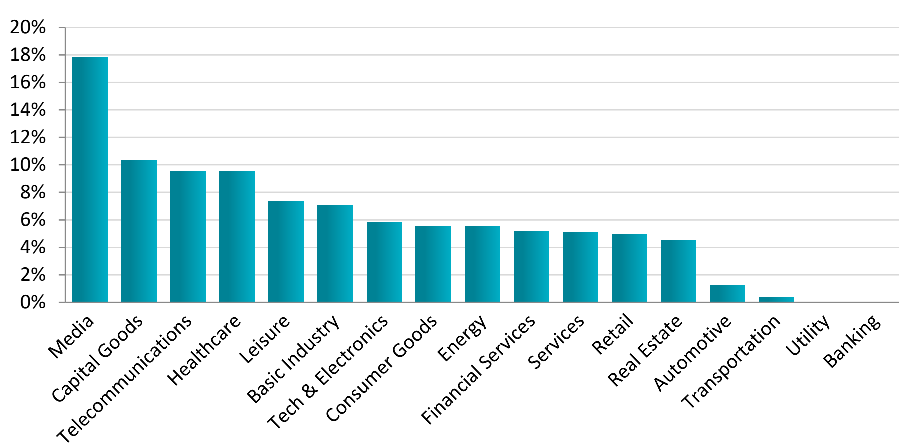
Characteristics

CHARACTERISTICS	Portfolio
Average Years to Maturity	3.9
Yield to Maturity	4.74%
Yield To Worst	3.11%
Current Yield	5.65%
Duration To Worst	1.1
Average Coupon	5.84%
Option Adjusted Spread	245
Average Price	103
Cash Position	2.2%
Number of Issuers	144
Number of Positions	202
Average ML Rating	B1

Ratings



Sector Exposure



Source: AXA IM, FactSet, as of December 31, 2021. All data exclusive of cash. The examples shown herein are intended only to illustrate the investment process and should not be considered a recommendation or solicitation to buy or sell any particular security. The representative account shown has been selected because it utilizes an investment setup that is typical for accounts in the relevant strategy and/or on the basis that it has adequate assets under management to effectuate a fair comparison. Diversification does not ensure a profit or protection against a loss.
Please refer to the appendix for additional information about representative accounts.

US Core High Yield: Strategy Activity and Performance

Portfolio management comments

AXA IM's core unconstrained US high yield strategy performed in-line with the broader high yield market during the month of December. The strategy benefited from making slight portfolio adjustments and by keeping cash low at the end of November and early December, which allowed it to keep pace with the strong market rally in December after outperforming November's sell-off. Although the strategy added some duration to the portfolio early in the month, the lower duration relative to the index still had a negative impact on relative returns. Specifically, an overweight to shorter duration securities and an underweight to higher quality securities both had a negative impact on relative returns. Security selection had a positive influence on performance, particularly in the shorter duration segment of the market. Cash was kept to a lower range during the month, which helped minimize its drag on performance.

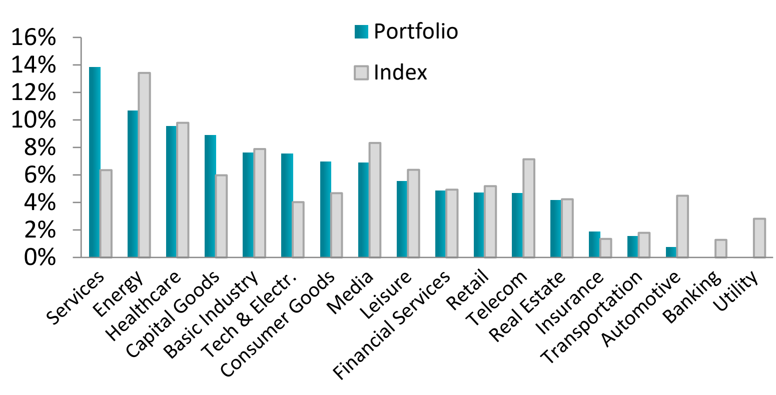
From a sector perspective, the strategy was positively impacted by security selection in the Telecommunications and Retail sectors. An underweight positioning and security selection in the Energy sector had a negative impact on relative performance. In addition, security selection in the Transportation and Healthcare sectors had a negative impact on relative performance due to the predominance of shorter duration securities held by the strategy in these sectors.

Our flagship strategy finished the month with a yield-to-worst of 4.43% (exclusive of cash) compared to the benchmark yield-to-worst of 4.32%. The duration-to-worst was 2.9, lower than the benchmark duration of 3.8.

Characteristics

CHARACTERISTICS	Portfolio	Index
Average Years to Maturity	**5.9**	6.5
Yield to Maturity	**5.43%**	4.90%
Yield To Worst	**4.43%**	4.32%
Current Yield	**6.01%**	5.48%
Duration To Worst	**2.9**	3.8
Average Coupon	**6.20%**	5.66%
Option Adjusted Spread	**334**	310
Average Price	**103**	103
Cash Position	**2.5%**	N/A
Number of Issuers	**201**	954
Number of Positions	**262**	2123
Average ML Rating	**B2**	B1

Sector Exposure



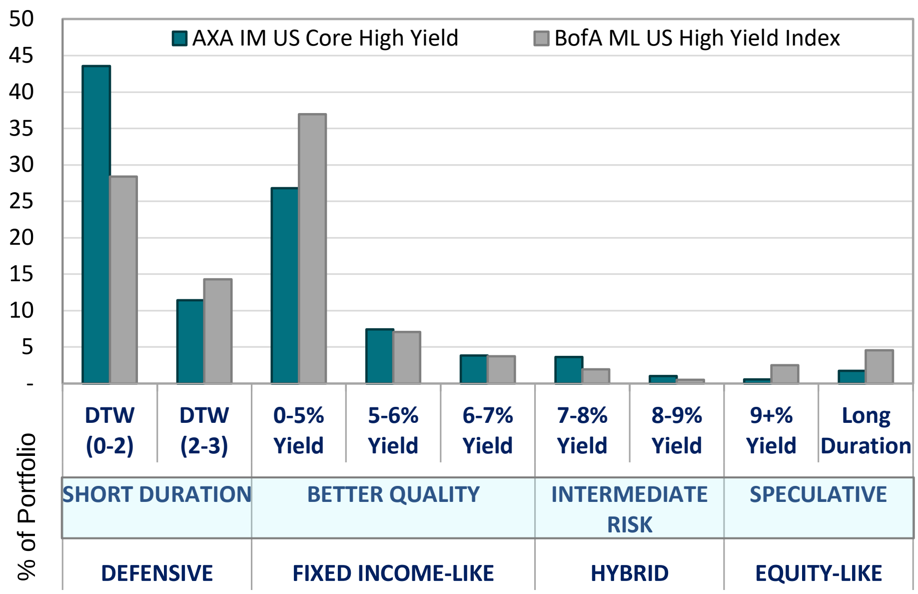
Source: AXA IM, FactSet, as of December 31, 2021. Index: ICE BofA Merrill Lynch US High Yield. All data exclusive of cash. The examples shown herein are intended only to illustrate the investment process and should not be considered a recommendation or solicitation to buy or sell any particular security. The representative account shown has been selected because it utilizes an investment setup that is typical for accounts in the relevant strategy and/or on the basis that it has adequate assets under management to effectuate a fair comparison. Please refer to the appendix for additional information about representative accounts.

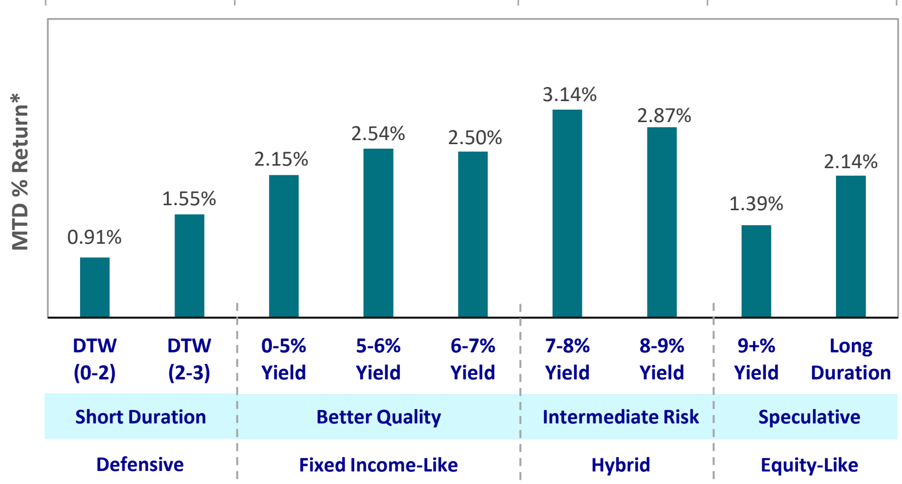
US Core High Yield: Strategy Activity and Performance

Portfolio management comments

We still expect the duration of the strategy to be below the benchmark, but we will continue to opportunistically add duration and yield during these short bouts of volatility, similar to what we did in early December. The strategy's current positioning of relatively lower duration, slightly higher yield and modestly higher credit risk when compared to the benchmark will remain in the near term in the absence of volatility. Given our positive fundamental view of the market, if rates or spreads were to rise, we would methodically increase the duration and yield of the strategy. While acknowledging some market outflows over the past 12 months from retail investors, the appetite for the asset class remains strong as global fixed income markets still offer little yield for institutional investors and the US High Yield default rate remains at record lows.

Broad Risk Positioning





**Returns are for bucket partitions of the BofAML US High Yield Index*

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US Dynamic High Yield: Strategy Activity and Performance

Portfolio management comments

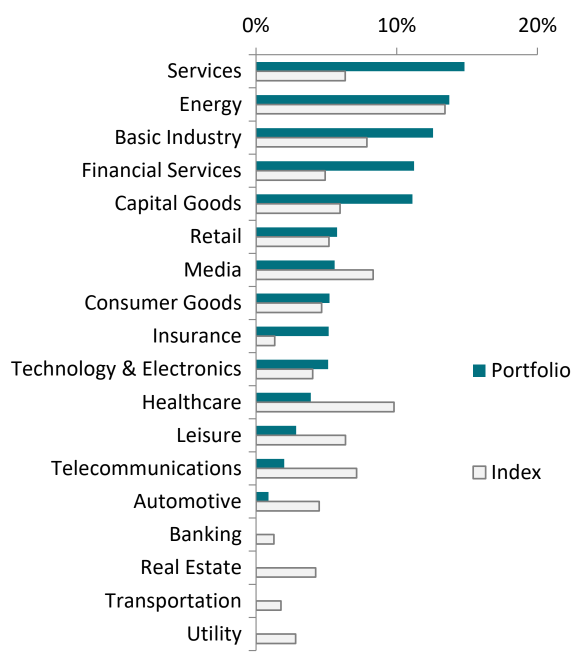
AXA IM's US Dynamic High Yield Bonds outperformed the ICE B of A Merrill Lynch US High Yield Index during the month of December. The strategy also outperformed the triple C market (+1.66%) but underperformed the equity market (S&P +4.47%, Russell 2000 +2.23%). The strategy's outperformance to the high yield index was driven by a combination of positive security selection and overweight positioning in the highest yielding portion of the market, which outperformed. The strategy's derivative positions also had a positive impact on performance during the month.
From a sector perspective, the strategy's performance was positively impacted by security selection in the Media sector, where holdings in Diamond Sports Group outperformed. Performance was also positively impacted by security selection in Retail and Services sectors. Performance was negatively impacted by security selection in the Consumer Goods sector.

The strategy finished the month with a yield-to-worst of 6.17% (exclusive of cash and derivatives) compared to the benchmark yield-to-worst of 4.32%. The duration-to-worst of the strategy was 3.0 compared to the benchmark duration-to-worst of 3.8. Despite the recent period of increased volatility, yields for both the market and the strategy have returned to near historically low levels, and the investable universe of "higher yielding" securities, no matter how that is defined, is smaller today than most other time periods of the strategy's history. However, some interesting total return opportunities have emerged and could continue to emerge if volatility continues. We continue to manage cash at a higher level (5-10%), but we moved closer to 5% in December to minimize the performance drag from cash holdings in a month that historically produces strong returns. In general, we still believe there are better opportunities in off-the-run securities compared to higher beta securities, although that could shift if volatility continues. We remain happy to be invested in higher yielding carry trades, where we expect the bonds to stay outstanding longer than the market expects and the strategy can earn excess yield with minimal volatility. All together, we still expect to maintain our yield advantage compared to the overall high yield market without taking the aggressive risks that are common pitfalls in these reach-for-yield environments. The strategy will continue to participate in the primary market to provide incremental risk-adjusted return. As of month-end, the strategy holds 18 derivative positions related to 11 issuers. All of these derivative positions are expressing long credit views on individual issuers, and including these derivative positions, the strategy's exposure was 106% gross and 106% net.

Characteristics

CHARACTERISTICS	Portfolio	Index
Yield to Maturity	**6.99%**	4.90%
Yield To Worst	**6.17%**	4.32%
Current Yield	**7.33%**	5.48%
Duration To Worst	**2.95**	3.81
Average Coupon	**7.40%**	5.66%
Option Adjusted Spread	**502**	310
Average Price	**101**	103
Average ML Rating	**CCC1**	B1
Number of Issuers	**126**	954
Number of Cash Bonds	**134**	2,123
Number of CDS Positions	**24**	N/A

Sector Exposure



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Market Outlook

Macro Outlook - US View

The unanswered question that defines the outlook for economic activity in the coming months is, how will the current Covid outbreak be handled by state and local authorities? If lockdowns, proof of vaccination for entrance, remote work and learning are widely adopted, growth may quickly decelerate toward longer term trends last seen in 2019. On the other hand, if a more balanced strategy is undertaken at the state and local levels, it may serve to cushion some of the negative impact from a dramatically reduced level of federal pandemic-related spending.

Source: AXA IM as of December 31, 2021.

US High Yield Risks Overview

CREDIT RISK - If an issuer of bonds defaults on its obligations to pay income or repay capital, it may result in a decrease in portfolio value. The value of a bond (and subsequently, the portfolio) is also affected by changes in credit rating downgrades and/ or market perceptions of the risk of future default. Investment grade issuers are regarded as less likely to default than issuers of high yield bonds. High-yield, lower-rated, securities involve greater risk than higher-rated securities. Portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not.

RISK OF CAPITAL LOSS – Any investment in our high yield strategies are not guaranteed and returns can be negative. The performance of a portfolio may not be consistent with the objectives of investors and their investment may not be fully returned.

INTEREST RATE RISK - Fluctuations in interest rates will change the value of bonds, impacting the value of the investment portfolio. Often, when interest rates rise, the value of the bonds fall and vice versa. The valuation of bonds will also change according to market perceptions of future movements in interest rates.

LIQUIDITY RISK - Some investments may trade infrequently and in small volumes and the risk of low liquidity level in certain market conditions might lead to difficulties in valuing, purchasing or selling bonds.

HIGH YIELD BOND RISK - The portfolio will be exposed to a risk related to investments in high yield financial instruments. These instruments present higher default risks than those of the investment grade category. In case of default, the value of these instruments may decrease significantly, which would affect the value of the portfolio. Lower-rated securities generally tend to reflect short-term corporate and market developments to a greater extent than higher-rated securities which respond primarily to fluctuations in the general level of interest rates.

RE-INVESTMENT RISK - Reinvestment risk describes the risk that, as interest rates or market environment changes, the future coupons and principal from any bond may have to be reinvested in a less favorable rate environment. This is more likely to occur during periods of declining interest rates when issuers can issue bonds with lower levels of coupon. Re-investment risk may be greater with callable bonds.

Source: AXA IM as of December 31, 2021.

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