Global Strategic Bonds strategy

Lift off in UK as market shrugs off Covid concerns

- Markets looked beyond the rapid spread of Omicron, with risk assets ending the year strongly
- Central banks were increasingly hawkish, with the Bank of England raising rates by 15bps
- 2021 was dominated by high inflation and a strong economic recovery, but bond yields end the year lower than the bearish expectations of many investors

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What's happening?

- December was a relatively news heavy month dominated by the new Covid variant which appears to spread rapidly, although expectations are for a less severe strain.
- Central banks were active as the Bank of England surprised the market with a rate hike that many expected in November, albeit expectations for the hike had subsequently been pushed into 2022. The Fed announced higher "tapering" (reducing bond buying) and brought forward expectations for more rate hikes. There was even talk that the ECB may do less quantitative easing (QE).
- Commodity prices also spiked, particularly natural gas in Europe, due to fears that Russian aggression towards Ukraine may lead to supply disruption, which in turn led to higher inflation data during December.
- Risk assets started the month on the back foot and wobbled mid-month, before moving higher into year-end as the market shrugged off Covid concerns.
- Bond yields moved lower in the first half of the month as the demand for safe haven assets increased, although yields moved higher again towards month-end.

Strategy in focus – representative account (31/12/21)	
Assets under management	$1,478m
Duration	4.05 yrs
Yield[1]	2.14%
Running yield[1]	3.57%
Spread to government[2]	139
Number of holdings	319
Launch date	11/05/2012

Net performance – representative account (USD)[3]		
	Cumulative	Annualised
One month	-0.07%	
One year	-0.35%	
Three years	+16.50%	+5.22%
Five years	+22.20%	+4.09%

Source: AXA IM as at 31/12/2021. The data is based on a representative account that follows the Global Strategic Bonds 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 the reinvestment of dividends.

Portfolio positioning and performance

- Defensive (27%): we retained a duration of 4 years, concentrated in US treasuries and conventional government bonds, as opposed to inflation breakevens, in order to benefit from a safe haven rally. Whilst this worked early in the month as the virus data created renewed concerns, we gave back these gains as yields rose towards month-end.
- Intermediate (33%): credit spreads tightened, which was somewhat offset by higher underlying government bond yields and meant more muted returns for better quality credit. Our investment grade credit exposure is very concentrated in BBB-rated, which outperformed higher quality. We still prefer European credit and financial debt.
- Aggressive (40%): we have increased exposure to US and European high yield over Q4 to nearly 40% as the economic recovery continues and demand for lower-rated debt, with more attractive credit spread valuations, underpins the strong performance in high yield markets during the month and year overall. The strategy did not feel the full benefit of the rally as the exposure was partly hedged using credit default swaps (CDS), which helped to manage through the volatility early in the month but acted as a headwind into year-end.

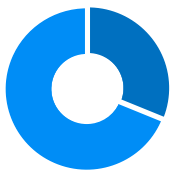
Outlook

- 2021 will doubtless be remembered as the year of high inflation but where bonds yields, albeit higher at the end of the year, once again failed to live up to the bearish expectations of many, and certainly did not reach the 2% yield in US 10-year treasuries that many had anticipated.
- More reward was received the further down the credit spectrum that investors were prepared to go as the ample liquidity, strong economic recovery and decreasing perceived Covid risks meant high yield performed well. 2022 looks like it will begin in a similar vein, with high yield being the favoured asset class.
- Duration assets will surely be volatile although, as yields rise, we expect that increasing exposure to safe haven assets in a diversified bond portfolio will benefit performance, particularly in an environment where credit spreads could start to look expensive.

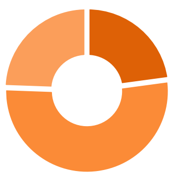
Portfolio breakdowns

Strategy breakdown	
Defensive	27.2%
Intermediate	33.3%
Aggressive	39.5%
Total	100.0%

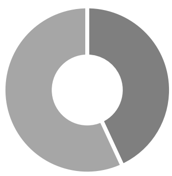
Defensive breakdown	27.2%
US Government Bonds	11.7%
Core Europe Government Bonds	5.5%
Rest of World Governments	0.0%
Inflation-Linked Bonds	5.2%
Cash	4.9%



Intermediate breakdown	33.3%
US IG Credit	10.4%
Euro & Sterling IG Credit	22.9%
Periphery Governments	0.0%



Aggressive breakdown	39.5%
Emerging Markets (HC 9.0%/LC 0%/FX 0%)	9.0%
US High Yield	20.8%
European High Yield	9.6%



Derivatives breakdown	-32.9%
Bond Futures	-14.2%
Credit Default Swaps	-18.7%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	4.9%
	AAA	6.5%
	AA	15.8%
	Total	27.2%
Intermediate	AA	1.3%
	A	4.2%
	BBB	27.8%
	Total	33.3%
Aggressive	AA	0.1%
	A	0.1%
	BBB	2.5%
	BB	15.0%
	B	13.3%
	CCC & Below	7.7%
	Not rated	0.8%
	Total	39.5%
Total		100.0%

(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 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.

No assurance can be given that the Global Strategic Bonds strategy will be successful. Investors can lose some or all of their capital invested. The Global Strategic Bonds strategy is subject to risks including credit risk, operational risk and counterparty risk. The strategy is also subject to derivatives and leverage, emerging markets, global investment grade and high yield securities, securitised assets and collateralised debt risks.

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