

Not for Retail distribution: this document is intended exclusively for Professional, Institutional, Qualified or Wholesale Investors / Clients, as defined by applicable local laws and regulation. Circulation must be restricted accordingly

# Global Convertibles Strategy

## As convertible bonds investor, we remain constructive for 2022

- Developed market equities continued to rally in December
- Our strategy outperformed the Global Convertible market
- We continued to take profit in high-delta positions

**Xavier Lattaignant**  
**Lead Portfolio Manager, Global Convertibles Strategy**

### What's happening?

In December, developed market equities continued to rally, providing investors with the third calendar year in a row of strong positive returns. Strong earnings growth drove equities higher. Fixed income performance was flattish, as markets had to digest rising inflation and less easy policy from central banks.

The emergence of the highly infectious Omicron variant led to a spike in equity market volatility at the end of November, but markets quickly recovered as data from South Africa and the UK indicated a lower risk of severe disease. Current corporate strength and the prospect of further potential earnings growth in 2022 outweighed the risk factors over the month, despite the fact that hospitalisations rose towards the end of the year in several countries.

The MSCI All Country World returned -4%<sup>1</sup> (USD) in December. The Nasdaq 100 and the Euro Stoxx 50 were also up 4.5%<sup>1</sup> (USD), 1.2%<sup>1</sup> (USD) and 5,8%<sup>1</sup> (EUR) respectively. Convertible bonds also lost grounds with the TR Global Focus Hedged (EUR) index being down -0.9%<sup>1</sup>.

### Portfolio positioning and performance

Over the month, our Global Convertibles strategy outperformed the Global Convertible market (TR Convertible Global Focus Hedged).

**LG Display**, the Korean producer of OLED and LCD panels, soared following the announcements of a potential long-term panel supply contract under negotiation with Samsung Electronics (SEC). The endorsement of its OLED panels by SEC could be a big win for the company as the total contract could represent 20% of its production capacity. Better volume visibility from the world's biggest TV manufacturer could also help LG Display stave off pricing pressure from other customers thereby enhancing long-term revenue visibility and rerating on the stock.

---

<sup>1</sup> Source: Bloomberg as at 31/12/2021.

**Schneider Electric**, the French company specialized in electrical engineering, soared following a strong outlook at its Capital Market Day. Management announced an ambition to grow organically over the coming years, significantly above its prior targets. The analysts' consensus was at the low range of the new management guidance which helped earning and recommendation upgrades during the month.

Our exposure to semiconductors' companies including **On Semiconductor** continued to contribute positively as the stock benefited from earning upgrades.

On a relative basis, we benefited from the fall of **Everbridge** as CEO David Meredith unexpectedly resigned and new management introduced below-consensus FY22 revenue growth guidance leading to multiple downgrades. We did not own the company as we were cautious on the equity story. Our second relative overperformance was linked to our underweight on **Bridgebio Pharma** which plummeted after a failure in Phase 3 results for one its drug.

**EDF**, the French electricity provider, dropped following the announcement of reactor maintenance outages impacting nuclear output for 2021-22. The company adjusted its guidance accordingly, below consensus. Whilst we were underweight compared to the benchmark, it still costs us performance on an absolute basis.

**Wuxi App Tech**, a pharma testing and clinical research company, dropped after a day of wild speculation over possible inclusion in President Joe Biden's blacklist. Reports circulated about a new cohort of Chinese companies set to be hit with U.S. sanctions, traders feared that biotech firms could be next.

Finally, **Sea**, the South East Asian platform for gaming and ecommerce, contributed negatively again as the investors continued to sell the stock after disappointing results announced in November.

During the month, we didn't participate in the primary market given the market jumpiness and lower quality issuers. The global convertible bonds primary market issued \$7.3bn<sup>2</sup> in December, down meaningfully from November's \$15.6bn<sup>3</sup>. We continued to take some profit in high-delta positions like Silicon Labs, Datadog and Zscaler and reinvested into Splunk and Akamai with a more balanced profile. We closed our positions in Alibaba and Zynga as the bonds' premiums became too high with no carry and reinvested in higher yielding convertible bonds like MTU Aero Engines or Spotify.

## Outlook

For convertible bonds investors, 2021 has been a fairly disappointing year with a negative performance for the index compared to a rewarding 19%<sup>4</sup> return year-to-date for the MSCI All Country World in local currency. It is explained by the sector and factor discrepancies between the convertible bonds universe and the MSCI World. Indeed, while the sector composition of the convertible bonds universe favors high-growth sectors such as tech, consumer discretionary, and media (which comprise more than half of the universe), last year's leaders were energy and materials (these make up less than 10%). Overall, commodity-linked sectors and value-oriented names outperformed amid the late-cycle dynamic and rising inflation.

Against the backdrop of rotation into value, our strategy outperformed in 2021 the Global Convertible market (TR Convertible Global Focus Hedged) and emphasised its **successful approach to provide convexity**.

Despite Omicron's wobble, we remain constructive for 2022, even if the balance of risk is less supportive than in 2021. In our view, equities will remain a positive driver this year. Nevertheless, we foresee increased headwinds and volatility throughout the year as the macro backdrop worsens with weaker growth, while longer-term rates should increase, driven primarily by rising real

---

<sup>2</sup> Source: Bofa as of 31/12/21

<sup>3</sup> Source: Bofa as of 30/11/21

<sup>4</sup> Source: Bloomberg as of 31/12/2021

rates in what we see as a gentle monetary tightening cycle. As such, we continue to **decrease our exposure to high growth names** whose valuation is sensible to long term rate moves and **increase our exposure to more cyclical companies**.

A bigger source of concern and uncertainty for 2022 is inflation. The sharp acceleration in demand for goods coupled with supply-side shocks, particularly in goods, commodities, and labour markets, has resulted in increased inflation pressures, with headline inflation in November standing at 6.8%<sup>5</sup> YoY in the US, its highest level since 1982. We should be positioned to benefit from those short-term bottlenecks by our **exposure to semiconductors companies** where undersupply won't be matched by new capacities until 2023. Otherwise, we remain focus on our core value creation by picking quality companies exposed to **long term structural trends** like **digitalisation** and the **energy transition**.

No assurance can be given that the Global Convertibles strategy will be successful. Investors can lose some or all of their capital invested. The Global Convertibles strategy is subject to risks including equity; Emerging markets; credit risks; counterparty risks; Investments in specific sectors or asset classes; Global investments.

---

<sup>5</sup> Source: Bloomberg, December 21.

El presente documento y cualquier información y/o datos financieros reseñados en el mismo no suponen invitación o recomendación de adquisición o inversión, ni deben constituir la base para la toma de decisiones inversoras ni de garantía de rentabilidad futura de inversiones financieras y, en ningún caso, está dirigido a clientes minoristas y/o inversores finales. La información contenida en el mismo está destinada a clientes profesionales y contrapartes elegibles tal y como son definidos en tanto en los artículos 205 y 207 del Texto Refundido de la Ley del Mercado de Valores como en las normas MiFID (Directiva sobre Mercados de Instrumentos Financieros) 2004/39/CE, presumiéndose, por tanto, la experiencia, conocimientos y cualificación necesarios para tomar sus propias decisiones de inversión y valorar correctamente sus riesgos y el de sus clientes. Dicha información y datos tienen una finalidad meramente informativa y se recomienda tener un conocimiento más detallado a través de los documentos y folletos inscritos en los organismos nacionales e internacionales de regulación especialmente la toma en consideración y conocimiento del Documento de Datos Fundamentales para el Inversor (DFI). El receptor de esta información debe tener presente que la evolución de las variables económicas y los valores de los mercados financieros pueden cambiar significativamente y ser diferentes a los análisis e indicaciones que figuran en este documento. Los inversores deben tener en cuenta que el mercado financiero es fluctuante y que está sujeto a variaciones y que los tipos de cambio pueden sufrir oscilaciones que incidan directamente en la rentabilidad de las inversiones, tanto al alza como a la baja. No debe tomarse como referencia la rentabilidad pasada del producto pues no implica que se comporte de igual forma en el futuro. Para una mayor información y especialmente para el conocimiento de la disponibilidad de los productos se recomienda visitar las páginas web, [www.axa-im.com](http://www.axa-im.com) y [www.axa-im.es](http://www.axa-im.es). Les invitamos a verificar con la sociedad de gestión o directamente en nuestra página web, [www.axa-im.com](http://www.axa-im.com), la lista de países en los que se comercializa el fondo.

AXA INVESTMENT MANAGERS no asume responsabilidad alguna por cualquier acto u omisión derivada del uso de la información facilitada, declinando toda responsabilidad por el uso incorrecto o inadecuado del presente documento.

AXA INVESTMENT MANAGERS PARIS, S.A., SUCURSAL EN ESPAÑA, tiene su domicilio social en Madrid, Paseo de la Castellana núm. 93, 6ª planta, se encuentra inscrita en el Registro Mercantil de Madrid, hoja M-727252, tomo 41006, folio 1; y se encuentra registrada en la CNMV bajo el número 38 como Sociedad gestora UCITS del espacio económico europeo con sucursal.

AXA FUNDS MANAGEMENT, es una sociedad anónima constituida conforme a la legislación vigente en Luxemburgo, con número de Registro en Luxemburgo B 32.223RC, y con domicilio social situado en el nº 49, Avenue J.F. Kennedy L-1885 Luxemburgo.

AXA ROSENBERG MANAGEMENT IRELAND LIMITED es una sociedad de responsabilidad limitada constituida y regulada por las leyes de Irlanda, con domicilio social en 78 Sir John Rogerson's Quay Dublín 2, regulada por el Banco Central de Irlanda y registrada en dicho Estado con el número 310308.

Los subfondos de AXA WORLD FUNDS, SICAV de derecho luxemburgués armonizada domiciliada en 49 Avenue J.F. Kennedy L-1855 (Luxemburgo), registrada en la CSSF y en el Registro Mercantil de Luxemburgo bajo el número B-63.116 están inscritos en la CNMV con el número 239 (\*verificar en CNMV las clases registradas).

Los subfondos de AXA ROSENBERG EQUITY ALPHA TRUST, fondo de derecho irlandés armonizado, domiciliado en Dublín 1 (Irlanda) Guid House Guid Street registrado en la Ireland Financial Market Authority (IFMA) bajo el número 310308 están inscritos en la CNMV con el número 294 (\*verificar en CNMV las clases registradas).

Los subfondos de AXA IM FIXED INCOME INVESTMENT STRATEGIES, Fondo de Inversión de derecho luxemburgués armonizado, domiciliado en 49 Avenue J.F. Kennedy L-1855 (Luxemburgo), autorizado y registrado en la Commission de Surveillance du Secteur Financier CSSF bajo el número 3692 están inscritos en la CNMV con el número 867 (\*verificar en CNMV las clases registradas).