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Global Strategic Income strategy¹

An everything rally

- September marks the first month of 2025 where fixed income returns are universally positive across rates and credit
- Downside surprise to payrolls prompts US Treasury rally and a significant increase in market pricing for Fed funds rate
- The global trend of steepening of bond yields curves cooled down during the month
- We're adopting a more neutral stance on duration, cutting overall exposure back to 4.2 years

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What's happening?

- September marks the first month of the year where fixed income total returns were universally positive. It was also a busy month for central banks, politics stayed in frame and the months' economic data prints were highly scrutinised.
- Opening the month, US labour market data surprised to the downside. JOLTS data was weak, but US non-farm payrolls was what moved markets – the print came in at +22k from +79k in July and below +75k expectations. After which August's PPI was soft: the headline index fell 0.1% versus +0.3% expected, and the year-on-year rate stood at +2.6%, down from +3.8% in January. These prints show a weakening labour market and progress on inflation – markets reacted accordingly pricing in more Fed easing and Treasury yields moved lower.
- Other US data retracted from this exuberance. Core CPI held steady and headline CPI rose from 2.7% to 2.9%. Q2 growth was revised up from an annualised 3.3% to 3.8%. This underscores the Fed's tricky balancing act between a softer labour market and above target inflation, and the risk of cutting into a strengthening economy. Tariff-driven inflation has yet to materialise, but upside risks persist and were amplified in September, with several new tariffs due to take effect on 1 October, most notably a 100% levy on branded pharmaceuticals.
- Across Europe, there is an overall picture of resilience and optimism. Euro-area composite PMI rose to 51.2, the fourth consecutive monthly increase. Inflation remains contained, German fiscal policy is stepping up, and 2025 Euro area growth has been revised up to 1.2% from 0.9%. However, disparities persist. France stood out as the outlier: Fitch downgraded French sovereigns, a fifth (and counting) French prime minister in under a year was appointed, and French PMIs fell to

Strategy in focus – representative account (30/09/25)

Assets under management	\$593 m
Duration	4.20 years
Yield ¹	4.93%
Running yield ¹	4.33%
Spread to government ²	148 bps
Number of holdings	223
Launch date	11/05/2012

Net performance – representative account (USD)³

	Cumulative	Annualised
One month	0.74%	-
One year	3.65%	3.65%
Three years	18.93%	5.94%
Five years	5.54%	1.08%
Ten years	36.10%	3.13%

Source: AXA IM as at 30/09/2025. 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.

¹As from 08 September AXA WF Global Strategic Bonds has changed name to AXA WF Global Strategic Income

Source: All data sourced from Bloomberg, local currencies, as at 30/09/2025



48.4 from 49.7. This left French sovereign bonds trading at higher yields or on parity with bonds of similar maturities from larger, higher-quality French corporates.

- UK inflation remains the principal risk to UK, holding at 3.8%, the unemployment rate also remains at an 18-month high of 4.7% - a tough situation between upside risks to inflation and downside risks to the labour market. UK politics was not out of the spotlight, Manchester Mayor Andy Burnham challenged Kier Starmer's Leadership advocating higher UK borrowing and arguing that policy should not be dictated by bond markets. With the Liz Truss gilt crisis still fresh in investors' minds, this news cycle renewed and strengthened fears around the UK's fiscal discipline.
- September saw plenty of central-bank activity. The ECB kept policy rates at 2.0% for the second consecutive meeting, with markets pricing rates to stay at this level for the foreseeable future. A week later the FOMC delivered its first cut of 2025, lowering the target range by 25bps to 4.0–4.25%. Framed as a "risk-management cut", markets read it as somewhat hawkish, dampening hopes of further easing and lifting yields. The BoE left the Bank Rate at 4.0% and maintained its forward guidance of a gradual and carefully approach for further easing. The BoE also noted to slow the pace of QT for the coming year. Both actions were in line with market pricing so there was little reaction in gilts yields.
- Sovereign curves retraced their recent steepening: with longer maturity (≥ 25 years) outperforming shorter maturities, and medium maturity yields were broadly unchanged. European sovereigns lagged given the lower starting yield despite similar moves across the curve. Credit spreads inched tighter, and the moves in spread were uniform across markets, although high yield asset classes did benefit from a few extra basis points of tightening. From a total return perspective though investment grade outperformed high yield in part due to having a longer maturity profile and therefore less impacted by underperformance at the short end of sovereign curves. Across markets it was US credit that outperformed UK and European equivalents, and in a similar fashion to rates despite comparable moves European credit markets lagged due to a lower starting yield.

Portfolio positioning and performance

- **Defensive (32%):** Overall allocation to defensive assets increased by 5%. The primary reason for the increase is sales from further down the credit curve has meant we're holding a slightly higher cash balance, which we are ready to deploy into areas of the market where we see value. The main action in the Defensive risk bucket though was dialling back on duration. Mid-month when US 10 Year yields were in touching distance of 4%, we chose to trim 0.7 years of US duration. We also trimmed back 0.8 years of European and 0.3 years of UK duration risk, bringing overall duration exposure to 4.2 years at month end. Overall, this is a more neutral stance, but exposure remains tilted to US curves and concentrated at 5-to-10-year maturities. This move reflects our view that US curves have moved to fairly priced the upcoming rate cuts.
- **Intermediate (27%):** Our allocation to investment grade credit remained broadly unchanged, although after a strong monthly performance for both US and European Investment Grade credit we took the opportunity to sell down and take profits on several A rated and BBB credits. The A rated names we sold down were across Insurance and Real Estate and the BBBs were across Financial Services and Banking – this though did little to change portfolio allocation across these two asset classes. Our top-down view remains that we want a neutral allocation, approximately 25% to 30%, to investment grade credit, however, at issuer level and as supply is starting to pick up, we think there could be some interesting opportunities in this part of the market.
- **Aggressive (41%):** During the month we reduced exposure to the Aggressive risk bucket by 4%. This was fairly equally split between reductions in both US High Yield and Emerging Market Debt. Whilst performance in these two asset classes had slowed down from previous months, September did mark another month of tightening spreads, so once again our major concern is how expensive valuations are. Notable sales included a low rated Lebanese sovereign, which over the month had seen the largest % change in price, +18%, and in our US HY allocation we reduced exposure to several higher quality (BBB- & BBs) high yield names as we would prefer to concentrate our exposure in areas of this market, withstanding a strong fundamental view, where the yields are more attractive. The capital raised from these sales has been rotated into the Defensive risk bucket as cash ready to deploy into areas of the market where we see value.

Outlook

- US Treasuries yields have moved to fairly priced, however this may shift back should markets retrace expectation for Fed easing, or if there is a downside surprise to labour-market or inflation data.
- We're more cautious on European and UK duration. The ECB has less room to ease, and Euro area economics are improving. Relative value makes UK duration look attractive but moves higher or lower in yield from either a worsening inflation and fiscal picture or a shock to growth are finally balanced.
- We expect steepening to continue, albeit there may be a reversal of this in the short term - at some point, but not yet, we will look to roll out into longer maturities to crystallise profits and capture yield.
- The macro environment is supportive for credit, fundamentals are strong, and supply and demand dynamics are still robust, but at current credit valuations a more selective approach is key. Even At current credit valuations though it's possible that either moves sideways or modest wider in spread would deliver decent returns.
- Policy uncertainty and the risk of a more pronounced slowdown in the US is the key risk to credit valuations and if the upside risks to inflation have not been fully priced or if the Fed were to cut into a strengthening economy market yields could indiscriminately move higher.
- Alternatively, if tariff induced inflation goes unrealised, the Fed achieves a much-vaunted soft landing, and markets are right not to excessively price geopolitical risk, we could experience a bull steepening of sovereign curve and tighter credit spreads into year end.



Strategy breakdown

Defensive	31.6%
Intermediate	27.3%
Aggressive	41.1%
Total	100%

Defensive breakdown

US Government Bonds	6.1%
Core Europe Government Bonds	9.4%
Inflation-Linked Bonds	10.6%
Cash	5.5%

Intermediate breakdown

US IG Credit	10.8%
Euro & Sterling IG Credit	16.5%

Aggressive breakdown

Emerging Markets (HC 8.5%/LC 0%/FX 0%)	8.5%
US High Yield	26.4%
European High Yield	6.1%

Derivatives breakdown

Bond Futures	9.4%
Credit Default Swaps	0.0%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	5.5%
	AAA	0.0%
	AA	26.0%
	Total	31.6%
Intermediate	AA	0.6%
	A	7.0%
	BBB	19.8%
	BB	5.5%
	Total	27.4%
Aggressive	AA	0.0%
	A	0.3%
	BBB	2.1%
	BB	15.3%
	B	16.0%
	CCC & below	7.3%
	Not rated	0.1%
	Total	41.1%

(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.

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.

Source: All data sourced from Bloomberg, local currencies, as at 30/09/2025

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