For professional clients only
November 2024
Monthly Perspectives
Fixed Income

Global Short Duration strategy

US labour data and UK Budget drive yields higher

- Despite looming US elections and worries about earnings results, credit spreads tightened, supported by signs of resilience of the US economy
- US treasury, German bund and UK gilt yields rose sharply on the back of stronger than expected US labour data, upside surprise in US inflation, and the UK Budget
- We remained underweight US dollar duration in the run-up to the US elections as a Donald Trump presidency should lead to higher US inflation

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What's happening?

- Despite looming US elections and worries about earnings results, credit spreads tightened in October, supported by signs of resilience of the US economy. Meanwhile, in the UK, a sizeable fiscal loosening was announced at the Budget, with increased spending and borrowing, and higher taxes.

- The European Central Bank (ECB) delivered its third rate cut this year, with the 0.25% reduction taking it to 3.25%. Officials said inflation was increasingly under control and the outlook for the bloc's economy was worsening. The back-to-back cut marked a shift in focus for the ECB from bringing down inflation to protecting economic growth. The US Federal Reserve (Fed) and Bank of England did not meet in October, but a November interest rate cut was widely expected to follow for both.

- US treasury, German bund, and UK gilt yields rose sharply on the back of stronger than expected US labour data and upside surprise in US inflation, coming at 2.4% in the 12 months to September. Despite inflation in the UK surprising to the downside at 1.7%, gilt yields ended the month higher due to the significant increase in borrowing announced at the Budget. Finally, eurozone inflation surprised to the upside at 2% in the 12 months to October.

Strategy in focus – representative account (31/10/24)	
Assets under management	€99m
Yield (EUR / USD hedged/ CHF hedged / GBP hedged)[1]	3.4% / 5.0% / 0.9% / 4.9%
Duration[1]	2.2 yrs
Average rating[2]	A-
Number of issuers	141
Launch date	06/07/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (EUR)[3]	
One month	-0.33%
Year-to-date	+3.66%
One year	+6.62%
Three years	+4.53%
Five years	+8.07%
Since launch	+8.82%

Annualised net performance – representative account (EUR)[3]	
One year	+6.62%
Three years	+1.48%
Five years	+1.56%
Since launch	+1.16%

Source: AXA IM as at 31/10/2024. 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. **Return may increase or decrease as a result of currency fluctuations.** Performance calculations are net of fees, based on reinvestment of dividends.

Portfolio positioning and performance

- **Sovereign**: Our exposure to sovereign bonds was stable at 25% as we remained invested in UK gilts, French government bonds, US treasury inflation-linked bonds, German bunds, and government-related debt. We started the month with only 1.1 years of duration helping us to mitigate the negative impact from rising yields. We subsequently increased the duration as yields kept on rising, ending the month at 2.2 years, but remained underweight US dollar duration as a Trump presidency should lead to higher US inflation through tariffs, fiscal easing, and immigration restrictions, with US treasuries expected to underperform as a result.
- **Investment Grade**: Our exposure to investment grade markets was broadly unchanged at 62% as we were active in the US dollar, euro, and sterling secondary markets.
- **High-Yield and Emerging Markets**: Our exposure to high-yield and emerging markets was stable at 12% as we maintained our underweight position due to expensive valuations.

Outlook

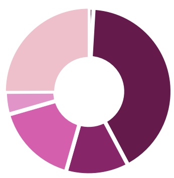
- Fixed income markets continue to be very volatile as the outlook for the Fed remains uncertain due to still high interest rates, sticky inflation, mixed data, and looming US elections.
- We remain underweight US dollar duration in the run-up to the US elections as a Donald Trump presidency should lead to higher US inflation through tariffs, fiscal easing, and immigration restrictions, with US treasuries expected to underperform as a result.
- Although the Budget could be mildly inflationary over the medium term, we still expect the UK base rate to bottom out at 3.25% in 2026 after 100bps of cuts next year, making the front-end very attractive, with yields close to 5.5% for the short-dated sterling credit market.
- We also continue to carry less credit risk, particularly since valuations still look fair to expensive across most asset classes.

Asset class breakdown

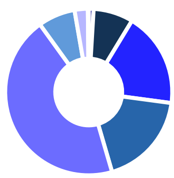
Category	Asset Class	Total
Cash		1%
Sovereign[5]	Nominal	18%
	Inflation-Linked	7%
	Total	25%
Investment Grade Credit	EUR IG Credit	18%
	GBP IG Credit	31%
	USD IG Credit	13%
	Total	62%
High-Yield & Emerging Markets	EUR High-Yield	8%
	USD High-Yield	1%
	Emerging Markets	3%
	Total	12%
Total		100%

Portfolio breakdowns

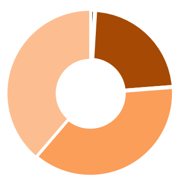
Breakdown by region	
Cash	1%
UK	23%
Core Europe – ex UK	31%
Periphery Europe	12%
North America	28%
Emerging Markets	3%
Developed Asia	3%



Breakdown by sector	
Cash	1%
Financial	41%
Defensive	12%
Cyclical	16%
Securitized	4%
Sovereign[4]	25%



Breakdown by rating[2]	
Cash	1%
AAA	8%
AA	18%
A	18%
BBB	45%
BB	7%
B	3%
CCC & below	0%



Breakdown by maturity	
Cash	1%
0-1 year	23%
1-3 years	37%
3-5 years	39%

(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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