Global Short Duration strategy

Trump 2.0: steeper curves and higher US inflation?

- Following Trump's US election win, US dollar and sterling credit spreads tightened while euro credit spreads widened amid concerns about US tariffs and political turmoil in France
- US treasury, UK gilt, and German bund yields fell, with the latter outperforming due to expectations of a more dovish European Central Bank amid sluggish growth
- We lengthened our exposure to US treasury inflation-linked bonds and increased it by 3% to 10% while reducing our exposure to French government bonds and banks by 7%

Nicolas Trindade
Portfolio Manager, Global Short Duration strategy

What's happening?

- Following Trump's US election win, US dollar and sterling credit spreads tightened while euro credit spreads widened amid concerns about US tariffs and political turmoil in France.
- The US Federal Reserve (Fed) cut interest rates by 0.25% in November, reducing the target range to 4.50%-4.75% in a unanimous vote as supporting employment had become at least as much of a priority as controlling inflation. The Bank of England (BoE) also cut rates by another 0.25% to 4.75% in a widely expected move. BoE governor Andrew Bailey said rates were likely to 'continue to fall gradually from here' but cautioned they would not be cut 'too quickly or by too much'. The European Central Bank (ECB) did not meet but another cut is expected at December's meeting.
- US treasury yields dropped in November after a spike at the start of the month as Trump's victory ignited bets on economic policy shifts that would boost the deficit and inflation. However, Trump's choice of hedge fund executive, Scott Bessent, as treasury secretary calmed investor nerves about the future of the US economy. An in-line US inflation print in the 12 months to October at 2.6% also helped drive yields lower. German bund and UK gilt yields were also lower, with the former outperforming amid US tariffs fears, political turmoil in France and sluggish growth. Inflation in the UK surprised to the upside at 2.3% while eurozone inflation in the 12 months to November was in-line at also 2.3%.

Strategy in focus – representative account (30/11/24)	
Assets under management	€99m
Yield (EUR / USD hedged/ CHF hedged / GBP hedged)[1]	3.1% / 4.6% / 0.6% / 4.7%
Duration[1]	2.9 yrs
Average rating[2]	A-
Number of issuers	134
Launch date	06/07/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (EUR)[3]	
One month	+0.61%
Year-to-date	+4.29%
One year	+5.65%
Three years	+5.42%
Five years	+8.84%
Since launch	+9.48%

Annualised net performance – representative account (EUR)[3]	
One year	+5.65%
Three years	+1.78%
Five years	+1.71%
Since launch	+1.23%

Source: AXA IM as at 30/11/2024. 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 largely unchanged at 26% as, the day after the US election, we lengthened our 7% position in US treasury inflation-linked bonds (US TIPS) from 2025 to 2027 in order to fully benefit from an anticipated increase in US inflation expectations resulting from Trump's upcoming policies. We added another 3% of US TIPS maturing in 2027 by fully switching out of French government bonds as we feared the government might collapse due to 2025 budget negotiations. We gradually increased the duration over the month to benefit from attractive levels of yields, ending the month close to our upper limit of three years.
- **Investment Grade**: Our exposure to investment grade markets decreased by 2% to 60% as we reduced our exposure to French banks, focusing on subordinated debt, due to expensive valuations and fears that the government might collapse due to a no-confidence vote in parliament stemming from 2025 budget negotiations.
- **High-Yield and Emerging Markets**: Our exposure to high-yield and emerging markets was broadly stable at 11% as we maintained our underweight position due to expensive valuations.

Outlook

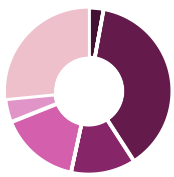
- Fixed income markets continue to be very volatile as the outlook for the Fed remains uncertain due to still high interest rates, sticky inflation, mixed data, and Trump's upcoming inflationary policies.
- We remain underweight US dollar duration as a Trump presidency should lead to higher US inflation through tariffs, fiscal easing, and immigration restrictions, with US treasuries expected to underperform as a result. Conversely, we remain overweight sterling duration to benefit from very attractive yields as well as euro duration as the ECB may have to be more dovish compared to market expectations in light of Trump's tariffs, sluggish growth and political instability in France and Germany.
- We also continue to carry less credit risk, particularly since valuations still look fair to expensive across most asset classes.

Asset class breakdown

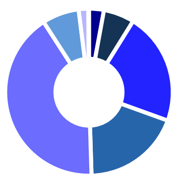
Category	Asset Class	Total
Cash		3%
Sovereign[5]	Nominal	16%
	Inflation-Linked	10%
	Total	26%
Investment Grade Credit	EUR IG Credit	16%
	GBP IG Credit	30%
	USD IG Credit	13%
	Total	60%
High-Yield & Emerging Markets	EUR High-Yield	7%
	USD High-Yield	1%
	Emerging Markets	3%
	Total	11%
Total		100%

Portfolio breakdowns

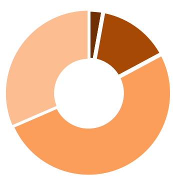
Breakdown by region	
Cash	3%
UK	26%
Core Europe – ex UK	24%
Periphery Europe	12%
North America	31%
Emerging Markets	3%
Developed Asia	2%



Breakdown by sector	
Cash	3%
Financial	38%
Defensive	13%
Cyclical	16%
Securitized	5%
Sovereign[4]	27%



Breakdown by rating[2]	
Cash	3%
AAA	6%
AA	22%
A	19%
BBB	41%
BB	7%
B	2%
CCC & below	0%



Breakdown by maturity	
Cash	3%
0-1 year	14%
1-3 years	51%
3-5 years	32%

(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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