Global Short Duration strategy

2025: steeper curves, wider spreads, and increased volatility

- Despite a very volatile month, credit spreads still tightened supported by positive economic data, in-line US inflation, and strong demand
- Global sovereign yields rose early in the month on the back of positive US economic data and a more hawkish Fed before falling due to equity market jitters and in-line US inflation
- We remained defensively positioned, with 11% invested in US inflation-linked bonds

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What's happening?

- Despite a very volatile month marred with higher sovereign yields early in the month, a US tech sell-off, and the announcement of tariffs on Canada, Mexico and China from the new Trump administration, credit spreads still tightened, supported by positive economic data, in-line US inflation and strong demand.

- The US Federal Reserve (Fed) kept interest rates on hold at a target range to 4.25%-4.50%. The hold was considered hawkish given Fed chair Jerome Powell said policymakers were in no hurry to cut. Meanwhile, the European Central Bank cut rates by 0.25% to 2.75% as concerns over lacklustre economic growth superseded worries about persistent inflation. The Bank of England did not meet in January, but markets priced in a 0.25% cut for February, bringing the base rate to 4.50%.

- Global sovereign yields rose early in the month on the back of positive US economic data and a more hawkish Fed before falling due to equity market jitters and as UK inflation slowed unexpectedly in the 12 months to December to 2.5% and US inflation came in-line with forecasts at 2.9%. Eurozone inflation was also in-line with expectations at 2.4%. By the end of the month, US treasury and UK gilt yields fell in January while German bund yields still rose.

Strategy in focus – representative account (31/01/25)	
Assets under management	€107m
Yield (EUR / USD hedged/ CHF hedged / GBP hedged)[1]	2.7% / 4.3% / 0.3% / 4.5%
Duration[1]	2.2 yrs
Average rating[2]	A-
Number of issuers	138
Launch date	06/07/2017

Past performance is not a reliable indicator of future results

Cumulative net performance – representative account (EUR)[3]	
One month	+0.67%
One year	+4.59%
Three years	+6.43%
Five years	+8.57%
Since launch	+10.25%

Annualised net performance – representative account (EUR)[3]	
One year	+4.59%
Three years	+2.10%
Five years	+1.66%
Since launch	+1.30%

Source: AXA IM as at 31/01/2025. 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 broadly stable at 27% as we remained invested in US treasury inflation-linked bonds, German bunds, UK gilts and government-related debt. We reduced the duration of the portfolio early in the month to mitigate the negative impact of rising yields, before increasing it ahead of the release of UK inflation data due to very attractive valuations. As yields subsequently fell, we gradually reduced the duration again to take some profit.
- **Investment Grade**: Our exposure to investment grade markets was largely unchanged at 59% as we retained our bias towards the sterling credit market due to more attractive valuations. We were active in the sterling primary market and US dollar, euro, and sterling secondary markets.
- **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

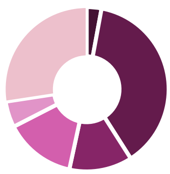
- Fixed income markets continue to be very volatile as the outlook for the Fed remains uncertain due to still high interest rates, sticky inflation, mixed data, and Trump's upcoming inflationary policies.
- As such, we continue to manage actively the duration to benefit from the volatility in sovereign yields, with a bias towards euro and sterling duration.
- We also continue to carry less credit risk, particularly since valuations still look fair to expensive across most asset classes.

Asset class breakdown

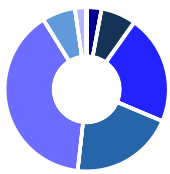
Category	Asset Class	Total
Cash		3%
Sovereign[5]	Nominal	17%
	Inflation-Linked	11%
	Total	27%
Investment Grade Credit	EUR IG Credit	16%
	GBP IG Credit	31%
	USD IG Credit	13%
	Total	59%
High-Yield & Emerging Markets	EUR High-Yield	8%
	USD High-Yield	1%
	Emerging Markets	2%
	Total	11%
Total		100%

Portfolio breakdowns

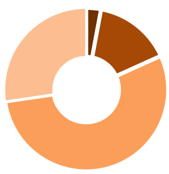
Breakdown by region	
Cash	3%
UK	25%
Core Europe – ex UK	26%
Periphery Europe	11%
North America	30%
Emerging Markets	2%
Developed Asia	2%



Breakdown by sector	
Cash	3%
Financial	38%
Defensive	12%
Cyclical	14%
Securitized	5%
Sovereign[4]	27%



Breakdown by rating[2]	
Cash	3%
AAA	7%
AA	22%
A	20%
BBB	39%
BB	7%
B	2%
CCC & below	0%



Breakdown by maturity	
Cash	3%
0-1 year	15%
1-3 years	54%
3-5 years	27%

(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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