Global Strategic Bonds strategy

Strong start to the year in fixed income after a bumpy beginning

- Government bond markets continued the year end sell off before rallying into month end
- Credit and inflation markets outperformed during January
- As expected, the new Trump administration intends to challenge recent norms, as markets try and price-in both growth and inflation expectations alongside a changing attitude to global trade

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What's happening?

- Inflation data continues to be the main market focus as prices remain both elevated and broadly above central bank targets.
- January provided positive news against expectations as both US and UK inflation came in slightly lower which helped bonds market to reverse the selloff in the first 2 weeks.
- UK government bond markets came into focus as high inflation, weak growth and concerns around fiscal headroom brings UK politics under scrutiny, although Gilts rallied along with global bonds towards month end dispelling immediate concerns, albeit the topic hasn't gone away.
- The new Trump administration focussed on Tariffs, although as with most things-Trump, differentiating headlines from concrete action proves a challenge. Inflation expectations in the form of bond breakevens markets performed well during the month.
- US 10-year yields hit 4.8%, the highest level since October 2023, before rallying back to near 4.5% at month end, lower than the starting point of the year. German yields ended broadly unchanged on the month at 2.4% and UK yields tracked US yields higher and lower, ending at 4.5%.

Strategy in focus – representative account (31/01/25)		
Assets under management	$612 m	
Duration	4.98 years	
Yield[1]	5.23%	
Running yield[1]	4.50%	
Spread to government[2]	154 bps	
Number of holdings	233	
Launch date	11/05/2012	
Net performance – representative account (USD)[3]		
	Cumulative	**Annualised**
One month	0.81%	-
One year	5.82%	5.82%
Three years	1.29%	0.43%
Five years	5.01%	0.98%
Ten years	28.52%	2.54%

Source: AXA IM as at 31/01/2025. 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.

- Once again Emerging markets and US high yield were the best performing markets during the month. Benefitting from both lower bond yields and tighter credit spreads as global growth remains robust and corporate balance sheets strong with few signs of a pick-up in default rates beyond manageable levels.

Portfolio positioning and performance

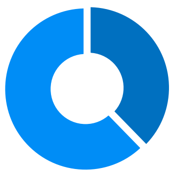
- **Defensive (30%):** Duration remains at c.5 years, diversified across US, UK and German exposure. US and UK bonds outperformed during the month of January. The fund owns 8% of inflation linked bonds, up from 4% in the last quarter of last year, which continued to perform well during the month of January as higher inflation drove higher short dated breakevens.
- **Intermediate (25%):** Exposure remained the same as previous months with the strongest performance coming from lower rated and wider spread credits, particularly GBP bonds, which benefitted most in the spread tightening environment. Financial bonds continue to perform well as interest rates remain high and this has yet to impact non-performing loans.
- **Aggressive (45%):** We remain constructive on the lowest rating bonds, which have proved to be such strong performers for many months. Whilst there have recently been some modest spread widening episodes, these have proven to be short lived. We have however reduced some exposure to the more expensive names in the last few months as credit spreads grind tighter.

Outlook

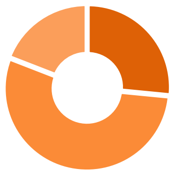
- January 2025 has continued a recent theme of government bond volatility and tighter credit spreads, with ultimately lower yields and positive total returns during the month.
- For the short term the focus continues to be on a robust US economy, weakness in Europe, with divergent central bank policy to reflect this. Current expectations are for modest, if any rate cuts from the Federal Reserve, whilst the ECB and Bank of England remain on course for 3 to 4 rate cuts over the year.
- Given the maturity of the economic cycle and rising tail risks of both higher inflation and potentially for the robust growth to disappoint with elevated interest rates, we expect some volatility, potentially driven by rising geopolitical tensions.
- That said, with attractive bond yields, and a portfolio of diversified risk, our outlook for fixed income for the year is constructive as we navigate the intra-month volatility

Strategy breakdown	
Defensive	30.1%
Intermediate	25.3%
Aggressive	44.6%
Total	**100%**

Defensive breakdown	30.1%
US Government Bonds	8.5%
Core Europe Government Bonds	8.2%
Inflation-Linked Bonds	8.3%
Cash	5.1%



Intermediate breakdown	25.3%
US IG Credit	9.5%
Euro & Sterling IG Credit	15.8%



Aggressive breakdown	44.6%
Emerging Markets (HC 11.8%/LC 0%/FX 0%)	11.8%
US High Yield	24.2%
European High Yield	8.5%

Derivatives breakdown	8.7%
Bond Futures	12.1%
Credit Default Swaps	-3.4%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	5.1%
	AAA	0.0%
	AA	25.1%
	Total	30.1%
Intermediate	AA	0.6%
	A	7.5%
	BBB	17.2%
	BB	0.0%
	Total	25.3%
Aggressive	AA	0.0%
	A	0.4%
	BBB	1.8%
	BB	19.2%
	B	15.5%
	CCC & below	7.7%
	Not rated	0.0%
	Total	44.5%
Total		

(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.

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