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Global Strategic Bonds strategy

Credit spreads continue to outperform duration

- Signs of weakness in the US labour market and comments from the Fed's Chairman take US rate hikes of the table
- UK headline inflation edges closer to 2% target and a general election is announced for the 4th July
- Weaker economic data prints give bonds a boost and Emerging Markets have their strongest monthly performance year to date

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What's happening?

- The BoE left policy rates unchanged, however, votes were split with two members voting for a cut. Jay Powell's comments played down any risks of a rate hike after Treasury market yields rose mid-month to price a more hawkish scenario.
- US payrolls cooled from 315k in April to 175k, US weekly jobless claims increased, and monthly US CPI inflation was marginally lower than expected 0.3% vs 0.4% - these prints gave bond markets a boost at the start of the month before selling off and rallying towards month end.
- The UK declared a general election to be held on 4th July – the announcement followed news that UK headline CPI fell to 2.3% from 3.2% in April. However, services CPI remains elevated down to 5.9% from 6.0% and core inflation which excludes food alcohol and tobacco is still running at 3.9%.
- Amidst this backdrop, most major fixed income indices produced positive total returns except for EU Inflation and

Strategy in focus – representative account (31/05/24)

Assets under management	\$645 m
Duration	4.05 years
Yield ¹	5.81%
Running yield ¹	4.68%
Spread to government ²	186
Number of holdings	254
Launch date	11/05/2012

Net performance – representative account (USD)³

	Cumulative	Annualised
One month	0.64%	
One year	5.43%	5.43%
Three years	-5.23%	-1.77%
Five years	5.13%	1.01%
Ten years	22.32%	2.03%

Source: AXA IM as at 31/05/2024. 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.

German Bunds. US Treasuries outperformed UK Gilts, 1.1% vs 0.2%, and in risk assets EMD outperformed EU and US HY with the former returning 1.7% and the latter both returning 0.9%. US IG had its strongest month in 2024 returning 1.5% outperforming other IG and HY indices.

Portfolio positioning and performance

- **Defensive (29%):** Our allocation to government bonds remained steady in May, however our outright duration exposure ranged between 4 and 5 years during a volatile month for markets. In May we both decreased and added to our US exposure, but we still favoured European curves as the ECB move close to the expectation of a June rate cut.
- **Intermediate (26%):** After a disappointing month in April, investment grade credit performed well in May. As such we took profits from our IG credit exposure, predominantly reducing our allocation to European and Sterling IG names such as Heathrow and National Express.
- **Aggressive (46%):** We are continuing maintain our exposure to risk assets between the c.40% to c.45% level. In doing so we are carefully selecting where take profits and where to add. In US HY we reduced our exposure to Bs and added to BBs, in Europe we sold BBs and bought Bs and within EMD we purchased several Energy names and increased our exposure to Senegal, Armenia and Macedonia.

Outlook

- Despite the risks of US rate hikes diminishing during the month we're still in the mindset that there will be a divergence of government bond performance at either side of the Atlantic and we're continuing to favour European duration risk over the US.
- In stark contrast to the US Presidential race, the UK general election seems to be a race between two centrist offerings and whoever wins most likely will not have so much bond moving impact due to fiscal constraints.
- Overall, we are constructive on credit - all in yields remain attractive and company fundamentals remain strong, however at current spread levels we are scrutinising which positions to add and which names to hold onto.
- Spreads are also tight across Emerging Markets - however we believe there is an improving trend in some of the key restructuring stories of the last few years and as such continue to like both Emerging Market Corporates and Sovereigns.



Strategy breakdown

Defensive	28.6%
Intermediate	25.7%
Aggressive	45.6%
Total	100%



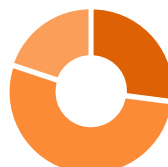
Defensive breakdown

US Government Bonds	11.5%
Core Europe Government Bonds	9.4%
Inflation-Linked Bonds	5.5%
Cash	2.3%



Intermediate breakdown

US IG Credit	8.7%
Euro & Sterling IG Credit	17.0%



Aggressive breakdown

Emerging Markets (HC 12.3%/LC 0%/FX 0%)	12.3%
US High Yield	24.2%
European High Yield	9.1%



Derivatives breakdown

Bond Futures	-14.1%
Credit Default Swaps	0.0%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	2.3%
	AAA	4.0%
	AA	22.4%
	Total	28.6%
Intermediate	AA	0.6%
	A	6.8%
	BBB	18.4%
	BB	0.6%
	Total	25.7%
Aggressive	AA	0.0%
	A	0.4%
	BBB	1.9%
	BB	19.5%
	B	16.0%
	CCC & below	7.8%
	Not rated	0.0%
	Total	45.6%
Total		100.0%

(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 GPS 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.

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