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Global Strategic Bonds strategy

Positive fixed income returns while credit events tick up

- Fed, BoE and ECB kept policy rates unchanged but further afield central banks moved rates in both directions
- Pick up in credit events and negative headlines
- A resilient and stable US economy helps create favourable conditions for EMD

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What's happening?

- Major central banks kept rates unchanged and there was a surprise 25bps cut in Switzerland. There were also cuts in Brazil, Mexico and the Czech Republic, but hikes in Japan, Taiwan and Turkey - different actions of central banks show divergence in the global economy.
- The lag effect of monetary policy seems to have punished issuers with too much debt and weaker balance sheets in March – leading to a succession of credit-specific, idiosyncratic situations which dominated news flow - the closest to home being Thames Water.
- Rates markets were positive for the first month in 2024. US Treasuries underperformed following mixed economic data, but German Bunds and UK Gilts produced strong total returns of +0.9% and +1.7%.
- Strong performance for emerging markets continued in March - producing a total return of +2.0%. Tailwinds for the asset class are coming from the stability and resilience of the US as well as many emerging markets being further ahead of developed markets in their cutting cycles.

Strategy in focus – representative account (31/03/24)

Assets under management	\$674 m
Duration	4.84 years
Yield ¹	5.73%
Running yield ¹	4.51%
Spread to government ²	184
Number of holdings	243
Launch date	11/05/2012

Net performance – representative account (USD)³

	Cumulative	Annualised
One month	1.45%	
One year	4.83%	4.83%
Three years	-4.11%	-1.39%
Five years	7.06%	1.37%
Ten years	25.04%	2.26%

Source: AXA IM as at 31/03/2024. 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.

Portfolio positioning and performance

- **Defensive (29%):** Over the month we have continued to rotate out US duration risk and into UK and European duration risk. We have maintained an overall duration exposure of 5 years with only c.1 year in the US.
- **Intermediate (27%):** Allocation to the strategy's Intermediate risk bucket has increased by c.2%. While we prefer to take risk further down the credit curve, our IG exposure has increased due to several rising stars which we are happy to hold on to.
- **Aggressive (44%):** With continuing concern surrounding the sector we exited several high yield real estate names and used the proceeds to add to our Emerging Market Sovereign exposure, specifically Argentina which has performed strongly year to date. In line with our view that risk assets present a more favourable risk reward profile than credits further up the curve we are keeping our exposure to the strategy's Aggressive risk bucket to a > 40% level.

Outlook

- Peak rates are behind us and as markets have dialled back expectations of rate cuts and we now have a gentler path towards lower policy rates - our expectations are for three cuts from each of the major central banks in 2024.
- A clearer outlook and constantly moving nearer cuts means we like duration – we prefer European duration risk over the US and expect the divergence across global economies to continue.
- We are more positive on emerging market fixed income than we have been for some time. Stable to lower interest rates, a strong US economy and signs of improved macro activity across emerging market economies all suggest to us we should be bullish on the asset class.
- We expect the uptick idiosyncratic credit situations to continue – however we believe that at index level there will not be any significant widening of spread if the soft-landing narrative and strong technical environment continues.



Strategy breakdown

Defensive	29.4%
Intermediate	27.0%
Aggressive	43.6%
Total	100%



Defensive breakdown

Defensive breakdown	29.4%
US Government Bonds	11.4%
Core Europe Government Bonds	9.7%
Inflation-Linked Bonds	5.2%
Cash	3.1%



Intermediate breakdown

Intermediate breakdown	27.0%
US IG Credit	8.4%
Euro & Sterling IG Credit	18.6%



Aggressive breakdown

Aggressive breakdown	43.6%
Emerging Markets (HC 11.7%/LC 0%/FX 0%)	11.7%
US High Yield	23.1%
European High Yield	8.8%



Derivatives breakdown

Derivatives breakdown	-2.61%
Bond Futures	-2.6%
Credit Default Swaps	0.0%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	3.1%
	AAA	3.9%
	AA	22.5%
	Total	29.4%
Intermediate	AA	0.6%
	A	7.2%
	BBB	19.2%
	BB	0.0%
	Total	27.0%
Aggressive	AA	0.0%
	A	0.8%
	BBB	2.4%
	BB	17.9%
	B	15.1%
	CCC & Below	7.3%
	Not rated	0.0%
	Total	43.6%
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.

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

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