Global Strategic Bonds strategy

Rallying government bonds and a re-think on credit risk

- Trump 2.0 dominates news flow and greater focus on the outlook for US growth and inflation
- Weak German growth and France's political gridlock serve as catalysts for some weakness in European credit
- Balance of risk reward is starting to diminish across risk assets and we're finding opportunities further up the curve

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What's happening?

- Driven by falling front end government bond yields fixed income markets rallied throughout November – a reversal of October's negative returns and this first time since June that Government bonds and Investment Grade credit outperformed High Yield.
- The Trump victory in the US election dominated news flow, analysis, and market chatter. But politics were also a plenty in Europe and further afield; a political stalemate has emerged in France, a German snap election was announced, and Israel and Lebanon's Hezbollah started a 60-day ceasefire - undoubtedly these partisan developments will have a far-reaching impact on markets.
- In November, the US added only 12,000 jobs in October, mainly due to disruptions from strike action and Hurricane Helene. US annual inflation increased by 0.2% to 2.6%, but despite this marginal rise, US inflation still reflects a continued downward trend.
- UK inflation rose from 1.7% the previous month to 2.3%, as expected due to increasing energy bills but still higher than forecast. The UK economy expanded by just 0.1% in the third quarter of 2024 but European growth was even more glacial. Composite PMI for the Euro area fell well into contractionary

Strategy in focus – representative account (30/11/24)		
Assets under management	$621 m	
Duration	5.18 years	
Yield[1]	5.02%	
Running yield[1]	4.45%	
Spread to government[2]	153 bps	
Number of holdings	228	
Launch date	11/05/2012	
Net performance – representative account (USD)[3]		
	Cumulative	**Annualised**
One month	1.30%	-
One year	9.48%	9.48%
Three years	-0.44%	-0.15%
Five years	6.64%	1.29%
Ten years	28.22%	2.51%

Source: AXA IM as at 30/11/2024. 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.

territory to 48.1 from 50.0 in October. Germany's third quarter GDP growth was also revised down to 0.1% and expectations are for flat growth in the final quarter of the year.

- In November, the Fed and the BoE both made widely expected 25bps cuts, adjusting the fed funds rate to 4.5%-4.75% and the BoE policy rates to 4.75%. The Fed, ECB, and BoE are all set to make one more decision on interest rates this year, and market expectations for further cuts shifted throughout the month.
- Throughout November, investment grade credit spreads remained stable, while high yield spreads experienced some widening, particularly European high yield credit which widened by +24bps. The positive impact from declining government bond yields contributed to overall returns. 10-year Treasury yields fell by 15bps, 10-year gilts by 26bps, and 10-year bunds performed even better, falling by 43bps. Attractive valuations for Treasuries and Gilts likely drove yields lower, but the risk-off sentiment in European markets helped German Bunds to produce the strongest total returns for the month, at +2.4%.

Portfolio positioning and performance

- **Defensive (31%):** During November we increased exposure to the defensive risk bucket by c.5%. We rotated capital from further down the credit curve into government bonds, 2–3-year treasury inflation protected securities as well as holding slightly more cash. We saw increasing value in government bonds and post the US election the inflation outlook warranted an increased allocation to inflation protected securities. We also rotated and cut back on our duration exposure, cutting back by 1.3 years from US curves but adding 0.6 years to European curves. This brought our total duration exposure to 5.2 years, with 1.7 years in Europe, 1.8 in the UK, and 1.7 in the US.
- **Intermediate (25%):** Similarly to the previous month our allocation to the strategy's intermediate bucket remained broadly stable. However, we did use some of the capital received from selling down the aggressive risk bucket to add to two US BBB Retail and Consumer Goods names we continue to hold and like, Kroger and Bunge Global SA.
- **Aggressive (44%):** In our view that spreads are now at such tight levels and the risk reward pay-off is not as attractive as it was previously, we reduced our exposure to the strategies aggressive risk bucket by just over 5%. Risk was taken off the table equally across US High Yield and Emerging Market debt and we sold several positions which we had been holding for some time and took healthy profits on.

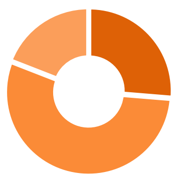
Outlook

- After a month where political risks increased and the global outlook for inflation adjusted, we still have an optimistic outlook for global bonds and our base case scenario remains for a soft-landing. What has changed is where we view opportunities lying within the global fixed income universe.
- The absence of a recession as well as investor appetite for credit should sustain credit spreads at current levels providing decent carry going forward. However, given that spreads are at such tight levels the risk reward pay-off for this trade has diminished. If there is a policy induced recession or growth slows to a skeletal pace in Europe, a risk asset correction is likely.
- In Emerging markets we're moving from an outright bullish stance towards cautious optimism. There are a vast number of outcomes which could be positive or negative for Emerging Markets - Beijing's stimulus and Tump 2.0 has the potential for early resolution to conflicts and prosperity, or further escalation.
- We like government bonds and specifically European duration. Trump 2.0 has led markets to price in higher inflation and higher interest rates but that has also meant Treasuries are valued attractively and offer more than just a hedge against our soft-landing base case. And, while we should not understate the Fed's influence on Europe, the ECBs path to lower monetary policy is clearer and the growth outlook and political situation suggests to us an under-pricing of monetary easing in Europe.

Strategy breakdown	
Defensive	30.8%
Intermediate	25.0%
Aggressive	44.3%
Total	**100%**

Defensive breakdown	30.8%
US Government Bonds	8.9%
Core Europe Government Bonds	8.4%
Inflation-Linked Bonds	8.2%
Cash	5.3%

Intermediate breakdown	25.0%
US IG Credit	9.3%
Euro & Sterling IG Credit	15.6%



Aggressive breakdown	44.3%
Emerging Markets (HC 11.6%/LC 0%/FX 0%)	11.6%
US High Yield	24.2%
European High Yield	8.4%

Derivatives breakdown	5.2%
Bond Futures	12.2%
Credit Default Swaps	-7.0%

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	5.3%
	AAA	0.0%
	AA	25.5%
	Total	30.8%
Intermediate	AA	0.6%
	A	7.9%
	BBB	16.5%
	BB	0.0%
	Total	25.0%
Aggressive	AA	0.0%
	A	0.4%
	BBB	1.8%
	BB	18.7%
	B	15.9%
	CCC & below	7.5%
	Not rated	0.0%
	Total	44.3%
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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