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AXA Global Strategic Bond Fund

Macro risks decline but lockdowns persist

- Vaccine rollout begins but surge in global virus cases curtails opening of economies
- UK 10-year gilt yields moved 11bps lower during the month, closing at 0.20%
- We reduced government bond exposure in favour of credit opportunities

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What's happening?

- UK 10-year gilt yields moved lower during the month, outperforming US and German equivalents.
- Despite rising virus cases, further restrictions in Europe and uncertainty around the Brexit deadline, risk markets rallied as they took confidence from the start of the vaccine rollout and an increasingly isolated Donald Trump.
- With monetary stimulus plentiful, very low government bond yields and no sign of higher official interest rates across the world, December again saw large inflows across various capital markets, which drove valuations higher.

Portfolio positioning and performance

- **Defensive (41%):** we reduced government bond exposure during the month, finding better opportunities in credit. Duration exposure came back down to 5 years, still preferring US duration, although we recently added to German duration which outperformed US over the month.
- **Intermediate (24%):** we added to US credit exposure during the month, topping up a broad diversified pool of higher quality credit. We continue to prefer BBB assets as high quality, at times long duration AA / A credit, already prices in much good news.
- **Aggressive (35%):** we increased exposure to US high yield during the month, with exposure near 20% the highest for many months, to benefit from further credit tightening as the "hunt for yield" trade looks set to continue in 2021.

Fund in focus

Assets under management	£55m
Duration	5.08 yrs
Yield ¹	1.78%
Running yield ¹	3.27%
Spread to government ²	168
Number of holdings	208
Launch date	19/10/2020

Net performance (GBP)

One month	+1.01%
Since launch (cumulative)	+1.01%

Source: AXA IM as at 31/12/2020. The data is shown for the AXA Global Strategic Bond Fund. Performance is based on the Z share class net of ongoing charges (54bps), dividends reinvested. **Past performance is not a reliable indicator of future results.**

Outlook

- 2020 has been an extraordinary year, but as it comes to a close, the strength in credit and high yield markets is in stark contrast to the events of the first quarter of the year.
- Such is the strength in central bank support that markets are prepared to look through further lockdown restrictions and a slower recovery, to give the economic recovery the benefit of the doubt.
- Looking ahead to 2021, it should be the year that we focus on the positive vaccine developments and unlocking of virus related restrictions, even if in the first few months the attention will be on further lockdowns.

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	5.5%
	AAA	14.1%
	AA	21.8%
	Total	41.4%
Intermediate	AA	0.7%
	A	3.6%
	BBB	19.4%
	BB	0.3%
	Total	24.0%
Aggressive	AA	0.0%
	A	0.3%
	BBB	3.1%
	BB	11.3%
	B	13.1%
	CCC & Below	6.7%
	Not rated	0.3%
	Total	34.7%
Total		100.0%



Portfolio breakdowns

Strategy breakdown

Defensive	41.4%
Intermediate	24.0%
Aggressive	34.6%
Total	100.0%



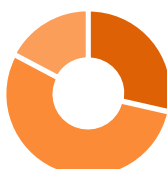
Defensive breakdown

Total	41.4%
US Government Bonds	9.9%
Core Europe Government Bonds	14.7%
Rest of World Governments	0.0%
Inflation-Linked Bonds	11.3%
Cash	5.5%



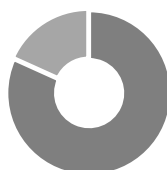
Intermediate breakdown

Total	24.0%
US IG Credit	9.4%
Euro & Sterling IG Credit	14.6%
Periphery Governments	0.0%



Aggressive breakdown

Total	34.6%
Emerging Markets (HC 9.9%/LC 0%/FX 0%)	9.9%
US High Yield	18.7%
European High Yield	6.0%



Derivatives breakdown

Total	-14.5%
Bond Futures	-11.9%
Credit Default Swaps	-2.7%

Source: AXA IM as at 31/12/2020.

(1) Yield figures quoted will vary in the future and are not guaranteed.

(2) Average credit spread relative to government bonds.

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