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Global Strategic Bonds strategy

Markets price in good news on the recovery

- Central bank support appears to have suppressed volatility in government bond yields
- Risk assets remain relatively volatile, but continue to move higher
- Downside risks are clear, with macro and political uncertainties ahead

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What's happening?

- Another strong month for risk assets as lockdown restrictions are eased and economic data starts to improve from dire levels.
- Despite better returns from risk assets, government bond yields remain robust, thanks to technical demand.
- The virus data in some US states started to deteriorate towards month-end but, for now, markets are broadly ignoring the concerns.
- US 10-year yields are stuck in a very low trading range as central banks have reduced volatility in high quality bonds.

Portfolio positioning and performance

- **Defensive (43%):** re-implemented higher duration exposure with an increase of 2 years. New inflows were put into higher quality government bonds. We continue to prefer US treasuries over their European equivalents. Our exposure to long-dated France performed very well.
- **Intermediate (24%):** we increased exposure to European credit during the month. New issues continue to provide attractive opportunities, with a specific focus on financials.
- **Aggressive (33%):** whilst continuing to build positions in high yield and emerging markets, we have been active on our CDS protection by taking profit from strong gains over last few months, as markets have priced a lot of good news on the economic recovery, whilst also being mindful of further volatility ahead.

Strategy in focus – representative account (30/06/20)

Assets under management	\$711.2m
Duration	4.38 yrs
Yield ¹	2.26%
Running yield ¹	3.38%
Spread to government ²	210
Number of holdings	268
Launch date	11/05/2012

Net performance – representative account (USD)³

One month	+0.99%
One year	+5.29%
Three years (cumulative)	+15.30%
Five years (cumulative)	+24.45%

Source: AXA IM as at 30/06/2020. The data is based on a representative account that follows the Global Strategic Bonds strategy and is not intended to represent actual past or simulated past performance of the strategy. **Past performance is not a reliable indicator of future results.** Performance calculations are net of fees, based on the reinvestment of dividends.

Outlook

- Markets continue to focus on the economic recovery and central bank stimulus, rather than any medium-term economic pain inflicted by the global lockdown. Economic data has generally surprised to the upside and, in tandem with the loosening of lockdown restrictions, there is more positive sentiment in the short term.
- Whilst government bond volatility appears to have suppressed, risk assets show some signs of volatility yet have continued to move higher over the month. As well as central bank stimulus, it appears that high levels of cash continue to move in from the side-lines to support asset prices.
- This is supportive of higher valuations but we maintain vigilance and moderate our bullishness accordingly.

Credit rating breakdown

Category	Rating	Total
Defensive	Cash	5.4%
	AAA	27.6%
	AA	10.2%
	Total	43.2%
Intermediate	AA	1.1%
	A	6.0%
	BBB	16.9%
	Total	24.0%
Aggressive	AA	1.3%
	A	0.3%
	BBB	3.8%
	BB	10.1%
	B	9.0%
	CCC	8.1%
	Not rated	0.4%
Total	32.9%	
Total		100.0%



Portfolio breakdowns

Strategy breakdown

Defensive	43.2%
Intermediate	24.0%
Aggressive	32.9%
Total	100.0%



Defensive breakdown

US Government Bonds	22.5%
Core Europe Government Bonds	9.4%
Rest of World Governments	0.0%
Inflation-Linked Bonds	5.9%
Cash	5.4%



Intermediate breakdown

US IG Credit	10.2%
Euro & Sterling IG Credit	13.7%
Periphery Governments	0.0%



Aggressive breakdown

High Yield (US 18.1%/Europe 5.6%)	23.7%
Emerging Markets (HC 9.2%/LC 0%/FX 0%)	9.2%



Derivatives breakdown

Bond Futures	-16.6%
Credit Default Swaps	-13.4%

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

(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 will 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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