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AXA WF US Credit Short Duration IG

Fund Manager commentary for the 2024 calendar year

In 2024, the US treasury curve began the year still inverted, with the 2s10s at -37bps. Strong economic data and sticky inflation in the first few months of 2024 supported this positioning, with the US 2Y Treasury moving higher to a peak of 5.0% by the end of April, having started the year at 4.3%, as the market priced out nearly all its rate cut expectations (6-7 at the beginning of the year) and the “higher-for-longer” narrative dominated markets once again.¹ As economic data started to moderate throughout the summer, rates came off from their peak, instigated particularly by the non-farm payrolls miss at the start of August. As the focus shifted from sticky inflation towards weakening data in the labor market, a further tailwind for all fixed income markets was provided by the Fed’s larger-than-anticipated 50bps rate cut in September, which we usually only see during recessions or in response to major market volatility. The Fed also indicated that we could see additional cuts, potentially at a measured pace. By the end of the third quarter, the US 2Y Treasury had fallen by >130bps from its peak to 3.7% and the yield curve had steepened and un-inverted, with the 2s10s reaching +14bps.² The narrative during the fourth quarter was driven by the outcome of the US election, with US treasury yields moving higher and credit spreads tighter once again as markets predicted that the implications of a decisive Trump victory and Republican sweep of Congress would likely be inflationary, thus limiting the Fed’s ability to cut rates in 2025 to the extent previously anticipated. Despite this backdrop, the Fed continued to cut rates as expected by 25bps in November and December, but messaging heading into year-end was increasingly hawkish as it considers how material the new administration’s impact will be on the growth and inflation outlook for 2025 and beyond.

The primary performance driver in 2024 was positive security selection particularly in the Banking, Financial Services, Automotive, Capital Goods, Consumer Goods, Energy, Healthcare and Transportation sectors. Security selection was positive across nearly all sectors with the exception of Leisure and Basic Industry which had a neutral contribution. The fund entered 2024 with an underweight position in the Banking sector but has moved to a more overweight position over the course of the year, with positions in the GSIBs and super regionals. Within the broader Industrial sector, the fund is overweight the Energy, Media and Telecommunications sectors and underweight Retail, Technology & Electronics, and Basic Industry. We also maintained an underweight position in the more defensive Utility sector given continued strength in the US economy. Sector allocation had a slightly positive impact on the fund’s performance overall in 2024; the fund benefited from its underweight positions in Technology & Electronics and Retail, which continued to be negatively impacted by consumer headwinds. The largest individual contributions to performance came mostly from large money center banks, to which we increased exposure, such as Bank of America, Morgan Stanley, and JP Morgan. From a macro positioning perspective, the yield curve effect had a slight negative contribution to the fund’s performance over the year, while duration effect had a neutral contribution.

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¹ Source: Bloomberg 30 April 2024.

² Source: Bloomberg 30 September 2024.

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