AXA WF US Credit Short Duration IG

Why it remains a compelling alternative to cash in 2025

1. Fewer interest rate cuts are now priced in for 2025.

Bond yields moved up quite significantly throughout 4Q 2024, with the US 2Y Treasury rising by 60bps to close the year at 4.25% and the YTW of the ICE BofA 1-3 Year US Corporate Index rising by 49bps to 4.84% by year-end.[1] This was driven by resilient US economic data that supported a slower pace of easing than initially suggested at the outset by the Fed's larger-than-anticipated 50bps rate cut, as well as the outcome of the US election. The market is anticipating that the combined impact of Trump's agenda – notably around fiscal policy, immigration and trade tariffs – could be inflationary, thereby limiting the Fed's ability to cut rates to the extent the market was previously anticipating. As a result, fewer interest rate cuts are priced in today than when the Fed made its first rate cut back in September. Current pricing has slightly less than two cuts priced for the US in 2025 (our own view is no cuts for 2025 before resuming in 2026).[2] **The fact that the market now anticipates less rate cuts in 2025 means that yields on short-duration bonds have become more attractive and carry should be higher as a result.**

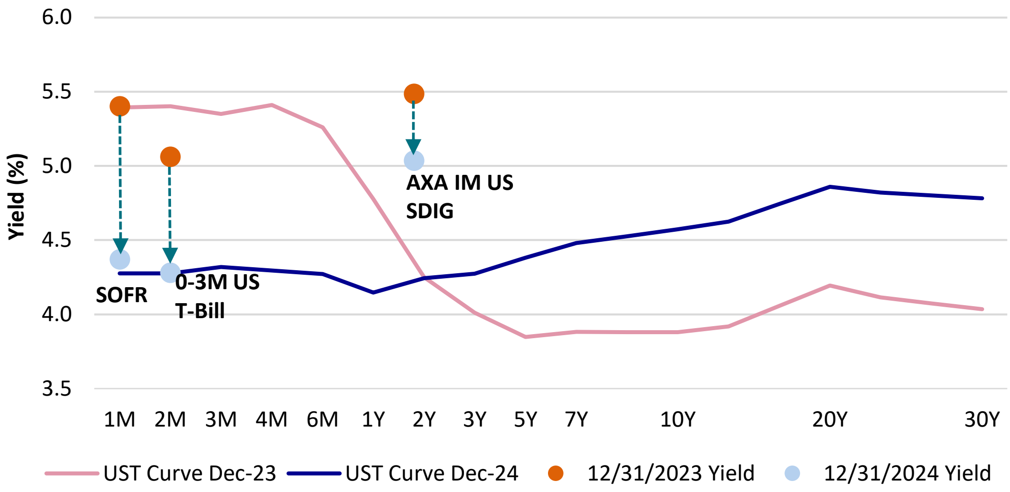
2. Yields on short duration bonds are attractive relative to cash and other asset classes.

At the fund level, we continue to target a yield advantage relative to the 1-3 Year Index, meaning that the YTW on the AXA WF US Credit Short Duration IG fund has risen from 4.68% as of Sep-24 to 5.03% by Dec-24 (~20bps higher than the 1-3 Year Index).[3] These yield levels are above policy rates and well above prevailing and expected inflation rates. Whilst bond yields have been rising, cash rates have been declining due to the combined 100bps of realized cuts by the Fed. As a proxy, the YTW of the ICE BofA 0-3M US Treasury Bill Index declined from 4.71% to 4.28% over 4Q.[3] Similarly, the overnight SOFR cash rate has also declined from 4.84% to 4.27%.[3] Put simply, in our opinion, cash rates now look less attractive due to monetary policy moves and we would anticipate that the current gap between the income-driven return generated by the fund and cash rates may widen further in 2025. The fact that the Fed has declared that it is in "no hurry" to cut rates further should keep market expectations for further rate cuts limited, thus supporting bond yields at the front end of the curve.[4]

The first chart below demonstrates how the US Treasury curve has evolved as of Dec-23 relative to Dec-24, as well as how the yield available on cash investments (represented by the SOFR overnight rate and the ICE BofA 0-3M US Treasury Bill Index) has evolved over the same time frame. The chart highlights the more significant fall in cash rates over 2024 relative to the fund's YTW, as interest rates declined. Although the curve is no longer inverted, it remains relatively flat, with the gap between the 2Y and 10Y Treasury just 33bps for significantly less duration, as of Dec-24. The second chart shows that the fund's yield per unit of duration remains highly attractive relative to other asset classes, with a YTW of 5.03% and effective duration of 1.74 more attractive than even the broad US HY market (as of Dec-24). The fund is also capturing 94% of the broad US IG Corporate Index YTW (as of Dec-24).

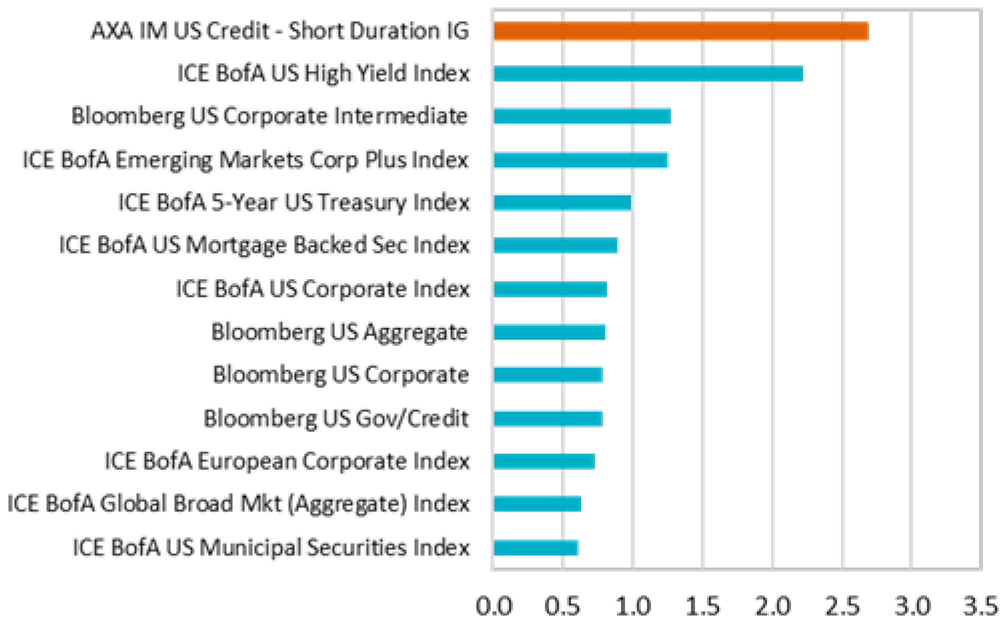
[1] Source: ICE BofA as of December 31, 2024.
[2] Source: Bloomberg, AXA IM Research, as of February 2025.
[3] Source: AXA IM, ICE BofA, as of December 31, 2024.
[4] Source: Chairman Powell's comments at the FOMC meeting of January 29, 2025.

Moves in the US Treasury curve relative to yields on cash investments and the AXA WF US Credit Short Duration IG fund



Source: AXA IM, ICE BofA, as of December 2023 & 2024. For illustrative purposes only. These examples do not represent all of the securities purchased, sold or recommended for the client's accounts, and should not be considered a buy/sell recommendation. An investor's actual experience may vary.

AXA WF US Credit Short Duration IG – yield % per unit of duration relative to other asset classes as of Dec-24



Source: AXA IM, ICE BofA, Bloomberg as of December 31, 2024. For illustrative purposes only. These examples do not represent all of the securities purchased, sold or recommended for the client's accounts, and should not be considered a buy/sell recommendation. An investor's actual experience may vary.

3. Short duration remains attractive amidst a backdrop of continued rates volatility.

Short duration credit strategies proved their worth as bond yields rose during 4Q. Given its longer duration, the broad US IG market (as represented by the ICE BofA US Corporate Index) posted a negative return of -2.84% for the quarter, compared to a positive return of +0.21% for the 1-3 Year Index.[5] The AXA WF US Credit Short Duration IG fund delivered a return in line with the 1-3 Year Index, net of fees, with a +0.21% return for the UA m USD share class.[6] Given the macro and policy uncertainties, we believe short duration bond strategies are well suited to this environment. Returns are likely to beat or at least match cash returns, as they did in 2024. The advantage of bonds over cash is that there is also the optionality for higher returns should interest rates turn out to be reduced more than is currently priced in. Meanwhile, we expect longer duration asset classes to

[5] Source: ICE BofA, as of December 31, 2024.
[6] Source: AXA IM as of December 31, 2024. Past performance is not a guide to future performance.

continue to be subject to much greater price sensitivity in 2025, given the constantly changing narrative around rates. We consider our approach, which focuses on delivering consistent alpha generation by compounding income through bottom-up security selection, to be much more predictable than trying to make a call on the future direction of rates. **Credit markets continue to be driven by attractive carry, with 70% of the 1-3 Year Index's 2024 total return driven by income.[7] In summary, current yields and the lower sensitivity to interest rate movements in short duration strategies should ensure meaningful total returns in 2025.**

4. A supportive fundamental and technical backdrop for US corporate credit.

We believe that US investment grade corporates will continue to be supported in 2025 by a decent macro environment as economic growth should support earnings momentum and cash flows of US investment grade issuers, while corporate fundamentals do not appear to be exhibiting later-cycle leverage concerns. On valuations, credit spreads appear tight to long-term averages, with absolute yields still attractive. The decent fundamental backdrop appears to be mostly priced into valuations at current levels, although the market continues to trade at a discount of around $95 ($98 for the 1-3 Year Index).[8] This means that the upside potential for price return remains very much in play, although it is likely that bouts of volatility will remain in the near term given the uncertain outlook, particularly regarding the new administration's policy agenda. Sentiment towards US investment grade has been bolstered by continued economic strength and the Fed easing cycle, whilst the post-election boost in pro-growth tax cuts and deregulation needs to be balanced with the potential inflationary impacts of tariffs and immigration policies, which could limit the ability of the Fed to ease much further. Technicals are also supported by demand for credit which remains strong as investors focus on still attractive all-in yields and limited concerns around credit spreads. We expect flows to continue into the asset class, bolstered by elevated yields, with large money market balances providing a source of larger inflows as the Fed eases. Overall, we continue to view the current backdrop as favorable and expect corporate spreads to remain well supported around current levels, particularly should the Fed continue its easing cycle.

[7] Source: ICE BofA, as of December 31, 2024.
[8] Source: ICE BofA, as of December 31, 2024.

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