Investment Managers

JP MORGAN IPB INTERNAL USE ONLY
April 2025
Active Fixed Income

AXA WF US Credit Short Duration IG Manager Commentary Q1 2025

During 1Q25, as President Trump took office, tariffs and policy have been the biggest story. In January, the market continued to benefit from "animal spirits" and deregulation dynamics anticipating Trump taking office and the potential implications of his policies. Following his inauguration, which occurred on January 20th, Trump's early days in office were received well by financial markets; however, this narrative reversed in February. The month of February saw risk-off sentiment take hold given growth worries, hotter inflation and ongoing uncertainty regarding the Trump trade and tax policies. Trade war developments dominated headlines. Specifically, Trump announced 25% tariffs on all cars not made in the US, as well as setting the date of April 2nd as "Liberation Day" for reciprocal tariffs, including the renewed potential for a universal tariff. March saw not only further discussion around policy, but also some doubts about the quality of the tailwind from growth measures expected later in the year. Tariffs were also behind the pickup in inflation expectations seen in the consumer surveys during the month. Multiple retailers guided below estimates for Q1 and noted increased consumer caution. US equities were lower in Q1, as the S&P 500 posted its worst quarter since 3Q22. Treasuries[1] rallied sharply with the biggest gains in the belly of the curve with the 2-year yield declining -36bps to 3.88% and ended the quarter near the lowest levels since October. The 10-year yield also fell -36bps to 4.21%. During the quarter, the AXA WF US Credit Short Duration IG fund outperformed the ICE BofA 1-3 Year US Corporate Index (gross and net of fees, USD)[2].

Following significant issuance in 2024[3], we continued to see issuance trending ahead of expectations during 1Q25. Primary issuance in 1Q25 totalled $575bn, up sequentially from 4Q24 issuance of $238bn. Issuance was down y/y from 1Q24 of $656bn. Financials printed $192bn during the quarter, while Industrials issued $239bn. During January, we saw a surge in supply from Financials as is typical in January, post earnings. By tenor, short-end issuance picked up to 55%, the highest share since September 2023. This is a due to the significant Financial supply which is focused on the short end of the curve. After a heavy month of Financial supply in January, Industrial issuance picked up in February as company's reported 4Q earnings and came out of blackout periods. M&A funding was more active during the month with $16.4bn issued including the $10bn issued by Synopsys for its ANSYS acquisition. In March, M&A funding continued with $50bn issued, the highest since February 2024. We saw jumbo issuance from Mars for its Kellanova acquisition, issuing $26bn marking the 8th largest deal on record. Given uncertainty in the market we could see a decline in M&A over the next quarter or more. ESG issuance remains muted. New issue supply for April is projected to be ~$100bn, which is below the 5-year average of $143bn.

In 1Q, the AXA WF US Credit Short Duration IG Fund outperformed its performance indicator, the ICE BofA 1-3 Year US Corporate Index (gross-of-fees, USD)[2]. The primary performance driver in 1Q was positive yield curve and duration effect. Sector allocation was also a slight positive contributor to performance, while security selection had a neutral impact. The index posted +1.66% of total return for the quarter as the 2-year yields declined -36bps to 3.88%. The index posted +7bps of excess return as credit spreads widened. The ICE BofA 1-3 Year US Corporate Index (gross-of-fees, USD)[2] average OAS was +5bps wider and ended the quarter at +61bps. The fund aims to maintain a yield advantage relative to the performance indicator (4.74% yield to worst relative to 4.59%)[4].

[1] Treasury Yields data: Bloomberg
[2] Source: AXA IM / ICE Index Platform
[3] Issuance, Supply, M&A data: JPM Morgan Research
[4] AXA IM, FactSet

We continue to target neutral duration and maintain both a moderate OAS and yield advantage relative to benchmark, with a neutral DTS target. Market outlook remains cautious, driven by weak sentiment from trade tensions. We have been improving portfolio quality by reducing higher beta credits with weaker credit profiles, anticipating underperformance in a tougher environment. We have continued preference for high-quality, liquid names. Risk appetite is low, and volatility remains elevated, with cyclicals and tariff-exposed names underperforming. Economic growth forecasts may face downward revisions, though the impact on corporate fundamentals will take time to materialize. Across sectors, we are relatively neutral Financials and Utilities, while within the broad Industrial sector, we are overweight Energy, Media, and Telecommunications and underweight Technology & Electronics, Retail, Basic Industry, and Autos.

The outlook for the US Investment Grade market is now cautious on spreads dominated by poor sentiment from trade tensions, while yields may benefit from lower benchmark rates. We are seeing macro impact influenced by potential economic growth revisions post tariff announcement, although this will take time to filter through to hard data. Additionally, corporate fundamentals have been stable. Valuations have been running at the lower end of the range but are likely to see further spread widening driven by sentiment, increased volatility and equity market correction. Technicals have been decent with supply running slightly ahead of last year's run rate and expected to be down on a net basis for the year, while flows have been positive but may get tested with upcoming volatility.

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