

## Market Overview

**Developed-Market Sovereign Debt** In a headline-driven month, markets moved quickly past Italy's new coalition government and a historic summit between the U.S. and North Korea. Central bank news next dominated investor attention, followed by escalating trade tension and surging oil prices. Central bank policies showed signs of divergence in June as the European Central Bank (ECB) outlined a plan to wind down its bond purchases by year end while the Bank of Japan (BOJ) adhered to its easy money policy in the wake of persistently low inflation. As expected, the Federal Reserve (Fed) raised rates along with the probability of two additional hikes by year end in light of robust jobs, inflation, and manufacturing numbers. Global data was less sanguine as U.S. tariffs were met with significant rebukes from Canada, Europe, and China. Higher interest rates and fears of a trade war sent the dollar higher. Treasuries were pulled between stronger growth and growing trade concerns, but the yield curve continued to flatten. In Europe, benchmark 10-year German, French, and British sovereign yields were flat. However, Italian bonds rallied along with the euro after the EU agreed to measures to help Italy deal with migration. Mexican bonos were stronger leading into the election, with an Andrés Manuel López Obrador (AMLO) victory virtually assured and priced into the markets. While confidence in South Africa's political future improved, investors continued to shed the bonds alongside the broader selloff in emerging markets. Commodities also clouded the outlook for global growth and inflation in June; oil prices rose sharply, fueled by supply concerns, while other commodity prices weakened as new tariffs created uncertainty about future demand.

**Developed-Market Currencies** The Australian dollar (down 2.3% against the US dollar) fell to trade rhetoric and the impact on commodities. The U.S. dollar however, rallied against most currencies, benefiting from relatively stronger growth, Fed tightening, and trade uncertainty. The euro finished stronger (up 2.3%) against the Australian dollar after regaining some strength ahead of the EU summit and following an agreement on migration that helped restore confidence in the bloc. The Japanese yen (up 0.4%) faced mixed economic data alongside the higher U.S. dollar and interest rates. The Mexican peso (up 3.3%) reversed its downward trend in the final days of the month ahead of the election and the possibility of a radical shift in the country's politics. The selloff in emerging markets spread to the South African rand (down 5.6%), while tariffs weighed on trade-dependent currencies, like the South Korean won (down 1.0%).

**Emerging Markets Currencies and Debt** Emerging markets saw significant outflows in June as the USD rally, a slowdown in Chinese growth, and trade concerns led investors to shed risk. Countries with large current account deficits, fragile economies, or large USD-denominated debt burdens were especially hard hit, including Argentina, Turkey, India, and Indonesia. Although their central banks have been forced to raise rates to prop up their currencies, the Argentine peso (down 11.9%), and Indonesian rupiah (down 0.8%) were both down in June. In addition to the broader emerging market selloff, Turkish assets and the lira faced additional pressure given the political uncertainty and concerns over the central bank's independence and responsiveness. Indonesian bonds also sold off while the central bank raised rates again at month end to halt the currency rout. Brazil and the real (down 1.7%) recently emerged from a crippling truckers strike only to face new economic challenges from rising oil prices and the USD. These factors were exacerbated further by political uncertainty for the Colombian peso (up 0.9%).

**Credit and Securitized Markets** Despite an increase in market volatility, U.S. high yield credit generated positive performance for the month, led by strength from the energy and retail sectors.

Source: Brandywine Global

## Fund Overview

On June 15, 2018 the 1290 Unconstrained Bond Managers Fund changed its subadvisor to Brandywine Global, changed its strategy, and changed its name to the 1290 Diversified Bond Fund. The 1290 Diversified Bond Fund seeks to maximize total return consisting of income and capital appreciation. Under normal circumstances, the Fund invests at least 80% of its net assets, plus borrowings for investment purposes, in a diversified portfolio of U.S. and foreign bonds or other debt securities of varying maturities and other instruments that provide investment exposure to such debt securities, including forwards or derivatives such as options, futures contracts or swap agreements.

## Fund Highlights

As of the end of the second quarter, the Fund has a duration (a measure of the sensitivity of the price) of 3.18 (roughly half of the benchmark). The bulk of the Fund's allocation (roughly 2/3rd of the duration) is currently in U.S. securities, split fairly evenly between U.S. Government and U.S. corporate/mortgage-backed securities (MBS). The rest of the duration positioning sits in Spanish MBS and Sovereign exposure to South Africa, Mexico, and Brazil. From an FX perspective, the Fund is largely in U.S. Dollar (87.68 percent) with small foreign currency exposures to Sweden, Poland, South Africa, Mexico, and Brazil. Given the recent deluge of geopolitical uncertainty and the volatility it has injected into bond markets globally, current positioning represents a fairly defensive posture for the Fund. Over time, as markets settle, the subadvisor would expect to be more heavily allocated to areas such as emerging market debt, U.S. high yield, and non-dollar currencies. However, the sub-advisor is being prudent and disciplined in waiting for the proper entry point into these areas, which they feel represent some of the best risk adjusted return potential globally.

Source: Brandywine Global

**An investor should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. To obtain a prospectus containing this and other information, please call 1-888-310-0416 or download the file from [www.1290funds.com](http://www.1290funds.com). Read the prospectus carefully before you invest.**

1290 Diversified Bond Fund seeks to maximize total return consisting of income and capital appreciation. Performance may be affected by one or more of the following risks.

*Investment Grade Securities Risk:* Debt securities are generally considered to be investment grade if they are rated BBB or Higher. Securities rated in the lower investment grade rating categories (e.g., BBB or Baa) are considered investment grade securities, but are somewhat riskier than higher rated obligations because they are regarded as having only an adequate capacity to pay principal and interest, are considered to lack outstanding investment characteristics, and may possess certain speculative characteristics.

*Credit Risk:* The Fund is subject to the risk that the issuer or the guarantor of a fixed income security is unable or unwilling to make timely principal and/or interest payments.

*Foreign Securities Risk:* Investments in foreign securities involve risks not associated with investments in U.S. securities. Foreign markets may be less liquid, more volatile and subject to less government supervision and regulation than U.S. markets. Security values, also may be negatively affected by changes in the exchange rates between the U.S. dollar and foreign currencies. There are greater risks involved in investing in emerging market countries and/or their securities markets, and investments in these countries and/or markets are more susceptible to loss than investments in developed countries and/or markets.

**Past performance is no guarantee of future performance.**

The Fund may not be successful in implementing its investment strategy or may not employ a successful investment strategy, and there can be no assurance that the Fund will grow to or maintain an economically viable size, which could result in the Fund being liquidated at any time without shareholder approval and at a time that may not be favorable for all shareholders. Until the Fund is fully capitalized it may not be pursuing its investment objective or executing its principal investment strategies.

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