

OCT 2020 | Commentary

LEGG MASON WESTERN ASSET CONSERVATIVE INCOME FUND

Investment objective

The Fund aims to achieve a before-fee-and-tax return in excess of the Bloomberg Ausbond Bank Bill Index over rolling one year periods.

Performance (%)						Fund details	
	1 mth	3 mths	1 yr	3 yrs pa	5 yrs pa	Inception date	June 2001
Fund (net)	0.14	0.28	1.05	1.69	2.11	Benchmark	Bloomberg AusBond Bank Bill Index
Benchmark	0.01	0.03	0.51	1.35	1.59	ISIN	AU60SSB01312
Calendar year performance (%)						APIR	SSB0131AU
	2019	2018	2017	2016	2015		
Fund (net)	2.03	1.95	2.43	2.87	2.52		
Benchmark	1.50	1.92	1.75	2.07	2.33		

Monthly review

What happened in the market?

There were some substantial positives for the Australian economy and its outlook in October. In its budget, the Commonwealth Government brought forward personal income tax cuts, provided a business investment tax allowance and enabled the carry-back of tax losses. The government also introduced the new JobMaker scheme whereby subsidies will be paid for certain new hires, and increased its infrastructure commitment over the next few years. Expectations then firmed for further monetary easing to support the economic recovery after Reserve Bank of Australia (RBA) speakers expressed the benefits of doing so when the economy was in a position to take advantage of it, i.e., once COVID-19 was contained domestically, allowing the economy to reopen. This was indeed the case by the end of October as Melbourne finally ended one of the world's longest pandemic lockdowns. A number of social restrictions were relaxed and most businesses were permitted to reopen as the state of Victoria recorded its first day of no new infections in more than four months.

Spread sectors resumed their tightening trend. Corporate sector bonds compressed around 9 bps on average while semi government spreads narrowed around 5 bps and the supranational, sovereign and agency (SSA) sector tightened around 3 bps. Non-bank corporate issuance was a little lighter in October with the Port of Melbourne, Charter Hall Prime Industrial Fund and Lend Lease all issuing 7-10 year bonds in the BBB space. International banks stepped in to issue in a month bereft of local major bank deals. Bank of China, Mizuho, United Overseas Bank and Woori Bank all issued in the 3-5 year tenors. ABS and MBS issuers continued to tap the market with new deals from AFG, Firstmac, Pepper, Think Tank and Green deals from Flexi and Brighte Trust.

The Australian dollar depreciated around 2%-2.5% versus most of the major currencies as the export commodity prices declined and the expectation of further monetary easing gained momentum. The Australian trade-weighted index decreased 2% for the month.

What happened in the Fund?

The Fund rose 0.14% outperforming the Bloomberg Ausbond Bank Bill Index which was flat in October. Outperformance was primarily attributable to the portfolio's corporate and asset backed allocations as spreads tightened during the month.

What is the outlook?

With Victoria's lockdown finally removed there is cautious optimism that the country as a whole can build some momentum in the economic recovery, particularly if interstate borders reopen, which would bring greatly needed activity back to the travel, tourism and hospitality sectors. The national accounts for 3Q20 are yet to be released but despite the drag from Victoria, the national economy may still have grown during the previous quarter as the other states enjoyed low or no Covid community transmission. With daily community transmissions across the country approaching zero, the aggressive suppression of the disease has put Australia in a strong and enviable position for much of the economy outside the tourism and education sectors, which rely on greater cross-border movement, and it provides a solid platform for recovery and growth.

The Commonwealth Government budget is by far Australia's largest peace-time budget deficit and is commensurate with the economic challenge that has been created by the pandemic. Communications from the RBA reiterated that the central bank will continue to support the economy with extremely accommodative policy settings for at least three years, explicitly stating that there would be no tightening of monetary policy until realized inflation was sustainably within the target range of 2%-3%, and hinted that additional easing at this juncture could be effective.

Highlights

- Invests in a portfolio of Australian short duration credit, cash and cash-like securities
- Seeks to protect capital and deliver returns in excess of the cash rate
- Designed to capture relative value opportunities in duration management as well to identify securities with attractive yield characteristics

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Western Asset

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Ratings

Quantitative



The Legg Mason Western Asset Conservative Income Fund received an overall rating of 4 stars out of 41 Australian Short Term Fixed Interest funds as of 30 October 2020.

Qualitative



For enquiries, please contact Client Services team on 1800 679 541, email auclientadmin@leggmason.com or visit leggmason.com.au.

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