

SEP 2021 | Commentary

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 (%)

	1 mth	3 mths	1 yr	3 yrs pa	5 yrs pa
Fund (net)	0.03	0.02	0.62	1.24	1.69
Benchmark	0.00	0.01	0.04	0.79	1.20

Calendar year performance (%)

	2020	2019	2018	2017	2016
Fund (net)	0.94	2.03	1.95	2.43	2.87
Benchmark	0.37	1.50	1.92	1.75	2.07

Fund details

Inception date	June 2001
Benchmark	Bloomberg AusBond Bank Bill Index
ISIN	AU60SSB01312
APIR	SSB0131AU

Monthly review

What happened in the market?

Global investment markets remained focused on major central bank progress towards taper of various asset purchase programs and/or normalisation of policy rates due to concerns around persistent inflation. As broadly expected, the Fed indicated that the taper of asset purchases was likely to begin this year; however, the pace of taper was projected to be faster than many in the market had previously anticipated. In New Zealand, the market was anticipating the Reserve Bank of New Zealand would raise its policy rate in October for the first time since the pandemic began, while Norges Bank raised its policy rate from 0% to 0.25%. The Reserve Bank of Australia (RBA), on the other hand, held firm on its view that current inflationary pressures were transitory and would only increase rates once inflation was sustainably within the 2%-3% target band, which it anticipated would be 2024 at the earliest. Global bonds sold off and heavily influenced the rise in Australian bond yields where the yield curve bear-steepened as yields at the very long end of the curve climbed 35-37 bps, while the three-year yield rose 7 bps with front-end yields anchored by the RBA cash rate and yield curve control.

Domestically, the Australian Prudential Regulation Authority's (APRA) announcement that ADIs were expected to eliminate their reliance on the CLF to meet their regulatory liquidity requirements by the end of 2022 had market participants questioning if that signalled the reversal of a prolonged period of spread-tightening for bonds issued by Australia's major banks and a reversal of recent spread-widening on semigovernment bonds. It turned out that corporate spreads did widen a touch—1 to 2 bps on average—and semigovernment bond spreads tightened 2 bps on average. Supranational, Sovereign and Agency (SSA) bond spreads widened marginally, as did covered bonds. Issuance in September was solid with Woolworths bringing a two-part sustainability linked deal and CBA issuing a green bond. The Australian dollar underperformed the stronger US dollar by 1.2%, marginally underperformed the yen but outperformed the euro and pound sterling, losing 0.7% on its trade-weighted index as iron ore prices dropped significantly over the month due to constraints imposed by Chinese authorities on steel.

What happened in the Fund?

The Western Asset Conservative Income Fund returned 0.03% during September and 0.02% for the quarter. Outperformance was largely attributable to the Funds interest rate strategies and asset backed allocations. Over the last 12 months, the fund has returned 0.62%, outperforming the benchmark by 0.58%.

What is the outlook?

Some guarded optimism has emerged regarding the flattening of the global daily infection curve for Covid as vaccination rates reach levels that assist in curbing its spread and ameliorate its health impact for those infected. The approaching northern hemisphere winter will be somewhat of a litmus test regarding whether the worst is now behind us for this pandemic. Most economists agree that an economic contraction in Australia for 3Q21 is a given but it's less clear for 4Q21 and is highly dependent on the success of the vaccination drive, which will determine how far into the fourth quarter lockdowns persist. One query is whether consumers, and indeed businesses, will have lost more wealth during the current lockdowns versus previously under various government Covid-relief programs that have since ended, and therefore whether the resurgence in consumer activity will be as strong once social restrictions are eventually removed. This will make a difference regarding the extent of the economic bounce-back on the other side of the current outbreak, when the majority of the population is vaccinated. Notwithstanding taper of various central bank asset purchase programs either imminent or already underway, we expect both domestic and global monetary conditions to remain easy for some time as emergency settings are gradually removed, with a keen eye on achievement of policy objectives. We believe such conditions will continue to favour spread sectors, particularly corporate bonds, which have benefited from substantial support. In our opinion, these sectors should be the best performing fixed-income assets.

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

About us

Franklin Templeton

Franklin Resources, Inc., is a global investment management organisation, operating as Franklin Templeton, which is headquartered in California. Franklin Resources, Inc., provides, through its subsidiaries, deep investment expertise across all asset classes - including equity, fixed income, and multi-asset solutions. Franklin Resources, Inc. is listed on the New York Stock Exchange and has employees in over 34 countries.

Western Asset

Western Asset Management is one of the world's leading fixed-income managers. With a focus on long-term fundamental value investing that employs a top-down and bottom-up approach, the firm has nine offices around the globe and deep experience across the range of fixed-income sectors. Founded in 1971, Western Asset has been recognized for an approach emphasizing team management and intensive proprietary research, supported by robust risk management.



Ratings

Quantitative



The Western Asset Conservative Income Fund received an overall rating of 3 stars out of 39 Australian Short Term Fixed Interest funds as of 30 September 2021.

Qualitative



For enquiries, please contact Client Services team on 1800 673 776, email auclientadmin@franklintempleton.com or visit franklintempleton.com.au.

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