

# DEC 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)	0.03	0.28	0.94	1.64	2.04	Benchmark	Bloomberg AusBond Bank Bill Index
Benchmark	0.00	0.02	0.37	1.26	1.52	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?

Risk markets continued to rally in the face of rising coronavirus infections and deaths in a number of countries, while the UK had to contend with a more infectious strain of the disease. Tighter social restrictions were imposed in a bid to slow the spread, particularly across Europe. In Australia, after no community spread was detected in the entire country for first half of the month, a fresh outbreak was discovered in Sydney and eventually spread to Melbourne. Local authorities were quick to act and limit the rise of infections although had not fully contained the outbreak at month end. Markets shrugged off disease concerns and instead focused on forward-looking news with several vaccines receiving regulatory approval for use by the general public, while large relief/stimulus packages were approved in the US and Europe and a Brexit deal was finally agreed at the last minute between the UK and the EU.

Bond yields increased amid the risk rally, as central banks continued to affirm commitment to extended periods of extraordinarily easy monetary policy. With the exception bonds in the 3-year futures basket, which remained anchored due to the RBA's YCC, most bond yields rose 5-7 basis points (bps), resulting in negative performance of the Australian bond market in December. Economic data picked up in the Australian economy and further contributed to the rise in yields with the 3Q20 GDP release beating expectations as the economy grew 3.3% quarter-over-quarter after the 2Q20 contraction of 7.0%. Monthly labour data saw a rise of 90,000 jobs while the unemployment rate dropped back to 6.8% from 7.0%, even as the participation rate returned to its highest level. Retail sales grew 7.0% with consumer and business confidence measures rising sharply.

#### What happened in the Fund?

The Legg Mason Western Asset Conservative Income Fund returned 3 bps during December, outperforming the Bloomberg AusBond Bank Bill Index which was flat. The Fund was up 0.3% for the last quarter of 2020 outperforming the benchmark. Outperformance was primarily attributable to the Fund's corporate and asset backed allocations as spreads tightened.

#### What is the outlook?

The national accounts for 3Q20 exceeded expectations and left a very reasonable chance that the domestic economy may actually have grown in 2020. While employment appears to be making a strong recovery, the JobKeeper wage subsidy program, among a number of other pandemic related fiscal initiatives, will roll off in March. The expectation is that by that time activity will be significantly back to normal and businesses will be able to continue employing their staff. The delayed rollout of coronavirus vaccines in Australia—slated for March—reinforces that some social constraints will necessarily remain in place well into 2021 whether or not nil community transmission is again achieved and at the least puts a cap of sorts on the degree to which activity can open up in the first half of the year. That said, the successful suppression of COVID-19 domestically leaves Australia's economy in a strong and enviable position for the year ahead.

The Australian dollar rallied further in December, as expected in a risk-on trading environment, and finished the year 5% higher on a trade-weighted basis. However, it is the inverse of the RBA's intention when easing policy rates and commencing QE. Despite a deepening rift with China that has seen a number of Australia's export industries increasingly sidelined, iron ore has remained a strong commodity export with prices remaining elevated which provides some justification of the currency around the mid to high US\$0.70 range.

## 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 Legg Mason Western Asset Conservative Income Fund received an overall rating of 3 stars out of 35 Australian Short Term Fixed Interest funds as of 31 December 2020.

### Qualitative



For enquiries, please contact Client Services team on 1800 679 541, email [auclientadmin@leggmason.com](mailto:auclientadmin@leggmason.com) or visit [leggmason.com.au](http://leggmason.com.au).

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