

SEP 2021 | Commentary

WESTERN ASSET GLOBAL BOND FUND

Investment objective

The Fund aims to outperform the Benchmark over rolling three to five year periods.

Performance (%)					Fund details	
	1 mth	3 mths	1 yr	3 yrs pa	Inception date	January 2017
Fund (net)	-0.95	0.00	1.58	4.93	Benchmark	Bloomberg Global Aggregate Bond Index (hedged into Australian dollars)
Benchmark	-0.97	0.05	-0.79	4.07	Morningstar peer group	Australia fund - OE - Bonds category
Calendar year performance (%)					category	Global
	2020	2019	2018	2017	2016	APIR
Fund (net)	6.88	8.61	-0.69	7.00	-	SSB8320AU
Benchmark	5.09	7.19	1.65	3.68	-	

Monthly review

What happened in the market?

Risk sentiment turned negative during the third quarter as energy price concerns, supply-chain issues and regulatory headwinds in China all weighed negatively on investor sentiment. Longer-dated government yields declined at the start of the quarter but rose towards quarter-end as the US Federal Reserve (Fed) provided advance notice that it is likely to begin tapering its asset purchases this year, earlier than had been broadly anticipated. The Bank of England (BoE) stated that a rate hike could come as early as November, which led to a repricing of UK rate expectations. The European Central Bank (ECB) also announced a recalibration of the Pandemic Emergency Purchase Program (PEPP) to account for lower issuance towards year-end but emphasized that this was not tapering and that the asset purchase programs would be reviewed again in December. Energy prices rose meaningfully, with natural gas prices in particular in the spotlight amid low reserves and supply-chain concerns. Local currency emerging market (EM) bonds posted mixed returns, with many central banks raising policy rates including Brazil, Mexico, Hungary and the Czech Republic. Investment-grade corporate spreads were largely unaffected by the broader market volatility, hard currency EM bonds underperformed, while high-yield corporates posted positive returns. The US dollar strengthened with the prospect of tighter monetary policy in the US, and as investors reached for the currency as a safe haven.

What happened in the Fund?

The Fund was down -0.95% during September, and remained flat through the third calendar quarter of 2021. Over the quarter, tactical duration management added value as yields declined intra-quarter and rose again towards quarter-end added value. A flatter US yield curve was a strong contributor to performance through the quarter. Country exposure was positive overall. Emerging Market country exposure benefited from higher income carry and as longer-dated yields declined in Indonesia and China, partly offset by exposure to Mexico and South Africa where yields rose. Reducing duration in Australia added value as yields rose towards quarter end.

On the other side, an underweight to the US dollar detracted. This was partly mitigated by exposure to the Indonesian rupiah which outperformed and diversifying short positions in the Japanese yen and Taiwan dollar.

What is the outlook?

Western Asset expects global growth to decelerate as we move into 2022. Contributing factors include a sharp reduction in global fiscal stimulus, a reduction in monetary accommodation by key central banks such as the Fed, ECB and BoE, and the persistence of secular-related headwinds that include rising global debt burdens, aging demographics and technology displacement. Inflation remains challenging for policymakers, but we expect the impact of supply-chain disruptions to ease meaningfully through the course of next year. While Covid continues to bedevil global populations, we are optimistic that the worst is behind us, which bodes well for the continued recovery of reopening sectors and spread product performance. Portfolios maintain modest exposures in peripheral and semi-core European bonds, which we believe will continue to benefit from the ECB and EU support programs, and from the ongoing economic recovery in the region. Portfolios also maintain modest exposures to longer-dated US Treasuries (USTs) for diversification, and to select high-quality EM exposures. Following the significant market re-pricing of inflation in recent months, global portfolios have initiated short positions in breakeven inflation spreads in select economies to benefit from a decline in inflation expectations. The Firm's bias is to remain modestly overweight corporate bonds, with a bias to banks, select reopening industries where valuations have yet to fully recover and rising-star candidates, where allowed.

Highlights

- An actively managed global bond fund that aims to add value through country and currency allocation, sector rotation, duration and yield curve management, as well as issue selection
- Opportunistic allocations to high yield credit and emerging market debt securities
- Risk controlled through broad diversification across markets and sectors, duration management and active hedging of currency exposure

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.



Awards and Ratings



Quantitative



The Western Asset Global Bond Fund received an overall rating of 5 stars out of 69 global bond funds as of 30 September 2021.

Qualitative



The Morningstar Analyst Rating™ for Western Asset Global Bond Fund is 'Bronze' as at February 2020.

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

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