

APR 2021 | Commentary

LEGG MASON 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	5 yrs pa	Inception date	January 2017
Fund (net)	0.73	-1.82	4.35	4.41	-		
Benchmark	0.24	-1.73	-0.11	3.98	-	Benchmark	Bloomberg Barclays Global Aggregate Bond Index (hedged into Australian dollars)
Calendar year performance (%)						ISIN	AU60SSB83203
	2020	2019	2018	2017	2016	APIR	SSB8320AU
Fund (net)	6.88	8.61	-0.69	7.00	-		
Benchmark	5.09	7.19	1.65	3.68	-		

Monthly review

What happened in the market?

April saw a continuation of the optimism over US growth and inflation seen in March, as the vaccine rollout increased the prospects of a sustained reopening of the economy. During the month, data releases supported those expectations; GDP growth accelerated in Q1 while inflation data surpassed economists' expectations and the March unemployment data showed strong progress. President Joe Biden unveiled a further two-part economic plan: \$2.25 trillion infrastructure spending over eight years, and \$1.8 trillion spending over 10 years on child care, education, and tax cuts and credits. While the above would typically be expected to result in higher US Treasury (UST) yields, instead UST yields closed the month lower; an indication that stronger data had already been discounted, and recognition that the additional fiscal spending would be distributed across a much longer period and will be funded by offsetting tax increases. Conversely, Europe had seen its vaccination program begin at a disappointing pace in Q1 alongside a rise in COVID-19 infections and extended restrictions. During April, however, European bond yields rose as growing vaccine supplies facilitated a marked acceleration of inoculations. Additional upward pressure on German bund yields came as polls showed a surge in support for the Green Party, which favors greater fiscal spending, ahead of the parliamentary election later this year. The European Central Bank's (ECB) announced increase in purchase pace under the Pandemic Emergency Purchase Program became more evident in April, partly limiting the increase and volatility in European government bond yields. Supported by the consolidation of UST yields, both local and hard currency emerging market (EM) bonds posted positive excess returns over the month. Investment-grade and high-yield credit allocations also contributed positively given the optimistic growth outlook. The US dollar weakened over the month, as the global risk appetite improved.

What happened in the Fund?

The Fund was gained 0.73% in April, ahead of the Benchmark which gained 0.24%. Duration positioning added to returns benefitting from an overweight to US duration and an underweight to core European duration. A bias towards the long end of the US yield curve also contributed as the curve flattened. Overweight Australian and Indonesian government bonds added value and the Fund's overweight to corporate bonds contributed. EM currency exposure contributed as the US dollar weakened. Within the Fund, an underweight to French government bonds was initiated and an overweight to South African rand was closed out and added to the Hungarian forint and the euro.

What is the outlook?

Western Asset expects that the second half of the year should see very strong growth in global GDP as the world economy reopens. That stated, we are cautious about extrapolating short-term cyclical boosts into a presumption of a higher secular trend rate of growth or inflation. The secular challenges that have kept US and global growth to a moderate pace at best over the last several decades persist. These include the stagnation of Western societies' middle-class wages, aging demographics and rising global debt burdens. Moreover, the small and medium-sized business destruction in many countries not seen since the Great Depression may take years to repair. Given this backdrop, Western Asset expects central banks to remain extraordinarily accommodative for the foreseeable future. Global portfolios remain positioned to benefit from Western Asset's base case outlook, but also to withstand further market volatility, while remaining flexible enough to capture value opportunities as they emerge. Portfolios maintain modest exposures in peripheral and semi-core and central European bonds, which we believe will continue to benefit from the ECB and EU support programs and the ongoing economic recovery in the region. Portfolios also maintain modest exposures to longer-dated USTs, UK gilts and Australian government bonds for diversification. We also continue to hold select high-quality EM exposures. The Firm's bias is to remain modestly overweight corporate bonds (especially in financials and through higher-quality issuers with robust franchises), solid balance sheets and the wherewithal to survive in the challenging environment.

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.

Awards and Ratings



Quantitative



The Legg Mason Western Asset Global Bond Fund received an overall rating of 4 stars out of 69 global bond funds as of 30 April 2021.

Qualitative



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.



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 679 541, email auclientadmin@franklintempleton.com or visit leggmason.com.au.

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