

JUN 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	Inception date	January 2017
Fund (net)	0.49	1.88	3.02	4.86		
Benchmark	0.49	0.93	-0.17	4.03	Benchmark	Bloomberg Barclays Global Aggregate Bond Index (hedged into Australian dollars)
Calendar year performance (%)					ISIN	AU60SSB83203
	2020	2019	2018	2017	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?

Despite fears over a new COVID-19 variant derailing global economic growth progress, the focus in June was very much on central bank policy and inflation. In the US, CPI inflation data surpassed expectations for the second month in a row while in a hawkish move, the Federal Open Market Committee (FOMC) median members pulled forward their forecast for the first interest rate hike, and now expects two increases in 2023. As a consequence, the US yield curve flattened sharply over the month as markets brought forward their expectations of policy normalization. Concerns surrounding growth and the labor market still persist, however, with surprisingly weak employment data helping to push longer-dated US yields lower. In Europe, the European Central Bank (ECB) pledged to keep asset purchases at a significantly higher pace, while the Bank of Japan announced a continuation to its COVID support scheme until March 2022. In the UK, despite consumer price inflation data surpassing the Bank of England's target, Monetary Policy Committee members reiterated the view of many policymakers globally that the upward pressure on inflation is likely to be transitory as the economy re-adjusts to a post-Covid world. While oil prices continued to rise, longer-term inflation expectations and breakeven inflation spreads fell over the month. Credit sectors continued to outperform in June, led by strong technicals and as economies continued to reopen following lockdown restrictions. The US dollar strengthened over the month, driven by strong gains following the FOMC meeting.

What happened in the Fund?

The Fund was up 0.49%, in line with the Benchmark. An overweight to the long-end of the US yield curve added strongly to returns as the yield curve flattened. An overweight to longer-dated Australian government bonds added value. An overweight to spread sectors and in particular high-yield corporates, where permitted, contributed. EM currency exposure detracted as the US dollar strengthened. In terms of activity within the Fund, the US yield-curve flattening position was reduced, and an overweight to UK was closed out, and initiated overweight to Canadian duration. The Fund also increased overweight to emerging market currencies versus the US dollar

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, semi-core and central 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) and Australian government bonds for diversification, and to select high-quality emerging market (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 (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.

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 Legg Mason Western Asset Global Bond Fund received an overall rating of 5 stars out of 65 global bond funds as of 30 June 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 679 541, email auclientadmin@franklintempleton.com or visit leggmason.com.au.

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