

LEGG MASON WESTERN ASSET GLOBAL BOND FUND

Investment objective

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

Performance (%)					
	1 mth	3 mths	1 yr	3 yrs pa	5 yrs pa
Fund (net)	0.78	1.94	1.99	5.07	-
Benchmark	1.25	1.95	0.05	4.46	-

Calendar year performance (%)					
	2020	2019	2018	2017	2016
Fund (net)	6.88	8.61	-0.69	7.00	-
Benchmark	5.09	7.19	1.65	3.68	-

Fund details	
Inception date	January 2017
Benchmark	Bloomberg Barclays Global Aggregate Bond Index (hedged into Australian dollars)
ISIN	AU60SSB83203
APIR	SSB8320AU

Monthly review

What happened in the market?

Global government bond yields fell during July, as fears over the COVID-19 delta variant continued to weigh on investor sentiment and signs of weakness in US and Chinese data dampened global growth optimism. European government bonds rallied strongly following the outcome of the European Central Bank's (ECB) strategic review, which saw it adopt a symmetric 2% medium-term inflation target, an increase from the previous target of "below, but close to, 2%". At its subsequent policy-setting meeting, the ECB strengthened its forward guidance not to raise rates until it sees inflation at 2% "well ahead of the end of its projection horizon". Oil prices ended the month lower following an OPEC+ agreement to increase supply; however, despite this, breakeven inflation expectations rose over the month as strong consumer price index (CPI) inflation data for June in the US beat expectations. Despite acknowledging that progress had been made towards policy targets, Federal Reserve (Fed) Chair Jerome Powell continued to downplay the threat of higher inflation and indicated that there was still a long way to go before these key policy targets are met. This helped to push US Treasury (UST) yields lower. Within emerging markets (EM), local Chinese government bonds notably rallied strongly, following the lead taken by their developed market (DM) counterparts and boosted by a decision to cut the reserve ratio requirement (RRR) by 0.5% for banks. Spread sectors and in particular hard currency EM bonds underperformed during July as risk sentiment waned and global growth expectations were pared back, with ongoing concerns over the new Covid variant. The US dollar broadly strengthened over the month.

What happened in the Fund?

The Fund was up 0.78% in July, while the Benchmark which gained 1.25%. An underweight to core European duration detracted as global yields fell sharply. This was partially offset by an overweight to US duration. Overweight to Australian, Chinese and Indonesian government bonds added value while an overweight to spread sectors detracted. Emerging market currency exposure also detracted as the US dollar strengthened. During July, overall portfolio duration was reduced, switching from overweight to underweight. The Fund also initiated an underweight to UK duration, and an overweight to local Russian government bonds while reducing the overweight to the Chinese renminbi.

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 USTs and Australian government bonds 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 (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 68 global bond funds as of 31 July 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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