

AUG 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 (%)					
	1 mth	3 mths	1 yr	3 yrs pa	5 yrs pa
Fund (net)	0.17	1.45	2.70	5.23	-
Benchmark	-0.22	1.53	0.55	4.28	-

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?

Fragile risk sentiment carried over from July into the month, hampered by softer data in the U.S. and China, regulatory headwinds in China, and concern over the impact the highly transmissible COVID-19 delta variant could have on supply chains as well as the pace of global economic growth. Despite this, developed market (DM) government bond yields ended the month modestly higher as the Federal Reserve ("Fed") signaled it is likely to taper asset purchases later this year—first through the minutes of the July Federal Open Market Committee meeting and then in Fed Chair Jerome Powell's speech at Jackson Hole. While a number of Fed officials have advocated for an earlier and faster taper, Powell's comments are consistent with an announcement in November or December, rather than September. German bund yields rose, as statements by European Central Bank officials were consistent with a slower pace of asset purchases being announced at its policy meeting next month and euro-area inflation data surprised to the upside, rising to 3%.

What happened in the Fund?

The Fund was up 0.17% during August, while the benchmark fell 0.22%. The combination of duration and yield curve positioning was the most significant positive contributor, mainly due to overall long U.S. and short German duration exposures. High-yield and investment-grade credit, mainly energy, but also credit default swap index (CDX) and financial exposures, were positive for returns. Peripheral Europe was a small contributor as a result of short 10-year Italian Treasury exposure. Emerging market (EM) debt was also a small positive for returns, mainly due to rate exposures in Indonesia and Mexico which offset the negative effect of exposure to Brazilian rates. Overall foreign exchange (FX) positioning was a small net positive for performance. EM FX contributed, mainly due to long Brazilian real exposures, and DM FX detracted, mainly as a result of long Canadian dollar and Japanese yen exposures.

Headline duration increased by almost two years, taking the Fund's effective duration close to five years. Most of the increase came in the 5- and 10-year key rates. Long-end duration was modestly trimmed against the increase. Swap spreads and Treasury inflation-protected securities (TIPS) positioning were unchanged during the month. The U.S.-Germany 10-year spread trade was reduced during the month by about a half-year after the spread broke through 170 basis points. In credit, investment-grade positions were trimmed by less than 1%, mostly in industrials and financials. Below-investment-grade credit was reduced by a little more than 1%, mostly in financials and CDX. In EM, the long Brazilian real exposure increased by a percent, as the Brazilian central bank continued to hike rates and it's midway through its hiking cycle, while the long Russian ruble position was reduced by a percent, as Western Asset believes Russia is near the end of its rate-hiking cycle.

What is the outlook?

Western Asset expects the second half of the year should see moderate growth in GDP as world economies reopen on continued progress with Covid vaccinations, but tempered from continuing challenges from the pandemic such as with the delta variant. Western Asset remains 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 U.S. and global growth to a moderate pace at best over the last several decades—the stagnation of Western societies' middle-class wages, aging demographics and rising global debt burdens—still remain in place. Moreover, the small and medium-size 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.

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 August 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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