

DEC 2020 | 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)	0.91	3.01	6.88	4.85	-		
Benchmark	0.26	0.79	5.09	4.62	-		
Calendar year performance (%)							
	2019	2018	2017	2016	2015	ISIN	AU60SSB83203
Fund (net)	8.61	-0.69	7.00	-	-	APIR	SSB8320AU
Benchmark	7.19	1.65	3.68	-	-		

Monthly review

What happened in the market?

The rally in spread sectors continued in December despite rising COVID-19 infections and tighter restrictions aimed at containing the spread. Markets remained forward-looking as a number of vaccines with high efficacy levels began to receive regulatory approval, thus bringing forward the timing when economic activity should normalize. Further support for risk sentiment came from the approval of the EU's landmark €750 billion recovery plan, a new \$900 billion relief package in the US, and a post-Brexit free trade agreement between the UK and the EU. Central banks continued to further support their respective economies as the European Central Bank (ECB) extended the Pandemic Emergency Purchase Program by €500 billion until at least March 2022. This led to spreads narrowing between core and peripheral European government bonds. Although the Federal Reserve committed to remain accommodative in its latest Federal Open Markets Committee meeting, US Treasury (UST) yields rose as growth and inflation expectations picked up as the fiscal package was signed into law. The UK saw renewed lockdown measures as a new strain of the virus caused a sharp rise in cases with containment measures imposed over the holiday period, including the closure of many retail, hospitality and leisure businesses, adding to short-term headwinds. The strong risk-on tone saw local and hard currency emerging market (EM) bonds outperform. Similarly, spread sectors outperformed across all currencies. Inflation expectations rose as OPEC+ decided to taper supply cuts more gradually than originally planned. The US dollar weakened on an improvement to the global growth outlook.

What happened in the Fund?

The Fund was up 0.9% in December, while the Benchmark rose 0.3%. The Fund was up 3.0% for the December quarter and the Benchmark rose 0.8%. An overweight to Italian and select EM government bonds added to returns. An overweight to spread sectors contributed strongly. Opportunistic allocations to inflation-linked bonds were positive as inflation expectations rose globally. An underweight to the US dollar contributed as the US dollar weakened. The Fund reduced its allocation to US TIPS and also initiated an overweight to the Australian dollar and British pound. The Fund also reduced overweight to the Norwegian krone and Japanese yen, while increasing overweight to the Russian ruble. The Fund reduced overweight to investment-grade financials.

What is the outlook?

Western Asset's base case outlook is for a U-shaped global economic recovery, with an expectation that short-term growth challenges will be followed by a continuation of the global rebound thereafter. The recent sharp increase in new COVID-19 cases has led to tighter restrictions in many countries and this is likely to weigh on growth in the near term. However, recent regulatory approvals of various vaccines and an acceleration of the roll-out in many countries together with significant ongoing policy support should boost growth in the second half of the year. Given this backdrop we expect central banks to remain extraordinarily accommodative, especially given ongoing subdued inflation pressures, a recognition that global growth remains fragile and the persistence of downside risks. Global portfolios remained positioned to benefit from our base case but also to withstand further market volatility, while remaining flexible enough to capture value opportunities as they emerge. We hold 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 the ongoing economic recovery in the region. We are maintaining exposure to longer-dated USTs, UK gilts and Australian government bonds for diversification. We continue to hold inflation-linked bonds in the US, Europe and Japan, as we believe inflation expectations will recover further over time, as well as select high quality EM exposures. Our 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 challenging environments.

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 3 stars out of 68 global bond funds as of 30 December 2020.

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@leggmason.com or visit leggmason.com.au.

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