

Western Asset Global Bond Fund

JUN 2022 | Commentary

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)	-2.62	-5.37	-11.57	-1.43	0.42
Benchmark	-1.64	-4.66	-9.33	-1.63	0.78

Calendar year performance (%)

	2021	2020	2019	2018	2017
Fund (net)	-1.49	6.88	8.61	-0.69	7.00
Benchmark	-1.54	5.09	7.19	1.65	3.68

Fund details

Inception date	January 2017
Benchmark	Bloomberg Global Aggregate Bond Index (hedged into Australian dollars)
Morningstar peer group category	Australia fund - OE - Bonds Global
APIR	SSB8320AU

Monthly review

What happened in the market?

It was another volatile month in fixed-income markets. Global government bond yields traded in a wide range, ending the month higher. While inflation remained the dominant theme, an increasing number of activity indicators disappointed during the month across the US, UK and Europe, adding to growing fears over the global growth outlook. The US Federal Reserve (Fed) hiked rates by 75 basis points, the largest hike since 1994, as Fed Chair Jerome Powell reiterated his commitment to bringing inflation back towards the 2% target. The Bank of England raised the Bank Rate by a further 25 basis points. The European Central Bank indicated it would begin raising rates in July while initiating a program to avoid fragmentation across eurozone government bond markets. Emerging market government bond yields followed their developed market counterparts higher. Macroeconomic volatility weighed heavily on spread sector performance. Hard currency Emerging market, and investment-grade and high-yield corporate bonds, all underperformed. The combination of rising recession fears and waning investor demand saw liquidity challenged and credit spreads move sharply wider. The US dollar strengthened over the month as a result of higher interest rates and as investors moved into the currency as a safe haven.

What happened in the Fund?

The Fund was down 2.62% during June, and was down 5.37% over the June quarter. In comparison the benchmark fell 1.64% over the month of June and 4.66% over the June quarter.

From a performance standpoint, a modest overweight to overall portfolio duration detracted from performance. While, short positions in US and UK inflation swaps were positive contributors to performance. An overweight to Emerging market bonds and currencies detracted, while overweights to European financial issuers detracted over the month of June. In addition the Funds allocations to high-yield corporate bonds negatively impacted performance. While a short position in the Japanese yen provided useful diversification and added to returns over the month of June.

Form a positioning perspective within the Fund, we added to core European duration as yields rose and increased US yield-curve flattener, rotating 5-year duration exposure into 30-year bonds. We increased an underweight to Japanese duration and initiated an overweight to local currency Polish government bonds. The Fund also added to investment-grade corporate bonds with a focus on high-quality banks and moved from a short to long position in Japanese yen

What is the outlook?

The key to an improved tone and more stability in fixed-income markets is a moderation in inflation. Our base case is that the supply chains will slowly begin to normalise. This trend, combined with the Fed and other major central banks around the world tightening monetary policy along with negative real incomes slowing consumption, should see inflation moderate. In the US, there are signs that the housing market is beginning to slow as higher mortgage rates begin to bite. Anecdotal evidence from corporates indicates inventories are normalising and demand is softening. In Europe, higher energy costs and inflation are hampering consumption and negatively impacting business confidence. We anticipate inflationary pressures will peak in 3Q22 and decline into 2023. While global central banks are expected to raise interest rates further in the short term, we believe more aggressive action is already anticipated by the markets. Fundamental headwinds to global growth and inflation remain. These include the reduction of global fiscal stimulus, the withdrawal of monetary policy accommodation and the persistence of secular-related headwinds such as global debt burdens, aging demographics and technology displacement. As growth and inflation moderate and the risks surrounding central bank policy become more balanced, so too should the market environment for fixed-income investors. Not only may the rise in government yields abate, but lower volatility could also lead investors to reengage in fixed-income spread sectors, especially given current valuations. The repricing of credit risk and that of less directly exposed Emerging market bonds and currencies may present opportunities to add to positioning. Within corporate bonds we maintain a bias to banks, select industrial sectors such as energy, and rising star candidates, where allowed.

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



Fund Manager Of The Year: Undiscovered Manager Category, Australia
Finalist: Legg Mason Western Asset Global Bond Fund

Quantitative



The Western Asset Global Bond Fund received an overall rating of 4 stars out of 66 global bond funds as of 30 November 2021.

Qualitative



The Morningstar Analyst Rating™ for Western Asset Global Bond Fund is 'Bronze' as of February 2022.

For enquiries, please contact Investor Services Team on 1800 673 776, email auclientadmin@franklintempleton.com or visit franklintempleton.com.au.

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