

Western Asset Global Bond Fund

SEP 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)	-4.49	-4.93	-15.92	-3.83	-0.79
Benchmark	-3.50	-3.78	-12.81	-3.63	-0.17

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	December 2016
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?

Volatility swept across fixed-income markets in September and global bond yields continued to rise. Developed market central banks' continued fight against inflation led markets to raise policy rate forecasts. Lower energy prices and a moderation of future inflation expectations did little to assuage macroeconomic uncertainty amid growing recession concerns. The Federal Reserve (Fed) and the European Central Bank hiked policy rates by 75 basis points (bps) to 3.00%-3.25% and 0.75%, respectively. The Bank of England (BoE) hiked the Bank Rate by 50 bps to 2.25% and confirmed a plan to begin quantitative tightening. Liz Truss was announced the new UK Prime Minister. The new UK Chancellor of the Exchequer, Kwasi Kwarteng, announced an expansive package of fiscal measures that triggered an unprecedented rise in UK gilt yields. The speed and magnitude of the selloff forced the BoE to act on financial stability grounds with operations to purchase long-dated UK gilts. At parliamentary elections in Italy, a coalition led by Giorgia Meloni and the Brothers of Italy party won, as the polls predicted. Risk appetite remained fragile and spreads on corporate bond and hard currency emerging market bond indices widened. The US dollar showed broad-based strength versus both developed market and emerging market currencies.

What happened in the Fund?

The Fund was down 4.49% during September, and was down 4.93% over the September quarter. In comparison the benchmark fell 3.50% over the month of September and fell 3.78% over the September quarter.

Within the Fund, overweight positions in US, UK and Australian duration detracted from returns. While a flatter US yield curve was also additive in September. Overweight's to emerging market government bonds and corporate bonds detracted from performance. While currency positioning detracted as the US dollar strengthened. Long positions in the Japanese yen, Norwegian krone and in select emerging market currencies detracted. This was partially offset by short British pound and Chinese renminbi exposures, which added to returns.

From a positioning perspective, we increased the underweight to Japanese duration and reduced the US yield-curve flattener. We purchased long UK inflation-linked government bonds. While also reducing our underweight to the British pound, initiated a long Canadian dollar exposure and added to the 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 the labor market data is softening and 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 and consumer confidence. We anticipate inflationary pressures will peak in the coming months and decline as 2023 progresses. 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 3 stars as at 30 September 2022.

Qualitative



The Morningstar Analyst Rating™ for Western Asset Global Bond Fund is 'Silver' as at 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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