

Western Asset Global Bond Fund

DEC 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)	-1.36	1.86	-14.27	-3.36	-0.54
Benchmark	-1.31	0.64	-12.28	-3.18	-0.22

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?

Government bond yields ended the month higher, as a result of an unexpectedly hawkish European Central Bank (ECB) policy meeting, action by the Bank of Japan (BoJ) towards the end of the month and developments in China's management of Covid. The Federal Reserve (Fed), Bank of England (BoE) and ECB each hiked their respective policy rates by 50 basis points (bps). ECB President Christine Lagarde delivered a hawkish message, stating it is "obvious to expect more 50-basis-point hikes" as the central bank also announced it will begin quantitative tightening in March 2023. The BoJ surprised markets by unexpectedly easing its yield curve control target, widening the band around zero for bonds with a 10-year maturity to 50 bps (up from 25 bps). Consumer Price Index (CPI) inflation data in the US and UK was weaker than expected and showed a modest deceleration. Chinese officials eased several Covid-related restrictions, which is expected to see economic activity improve despite new Covid case numbers rising sharply. This combined with signs that inflationary pressures are easing saw risk sentiment improve. Investment-grade corporate bonds and hard currency emerging market (EM) bonds modestly outperformed. The US dollar weakened as Fed rate hike expectations slowed relative to other developed market (DM) central banks and global growth expectations were lifted by China's reopening prospects.

What happened in the Fund?

The Fund was down 1.36% during the month of December, and was up 1.86% over the December quarter. In comparison the benchmark fell 1.31% over the month of December and was up 0.64% over the December quarter.

Within the Fund, overweight positions in US, UK and core European duration detracted as yields rose. An underweight to Japanese duration contributed to returns. US yield-curve positioning added modestly to returns in December, and currency positioning was also a positive as the US dollar weakened. An overweight to US high-yield corporate bonds detracted to the Fund's return.

From a positioning perspective, we reduced the overweight allocation to UK duration early in the month. We added to core European duration as yields rose in the aftermath of the ECB policy meeting, and we tactically traded the South African rand.

What is the outlook?

The key to an improved tone and more stability in fixed-income markets is a moderation in inflation. Evidence is beginning to suggest global supply chains are normalising. 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. Recent inflation prints across a number of key DMs offer optimism in the fight against inflation. While global central banks are expected to raise interest rates further in the short term, weaker economic data and lower inflation have caused markets to pare back policy rate hike expectations. As inflation continues to moderate, we expect DM government bond yields to stabilise as we move through 1H23. 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. In our view, 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 EM 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



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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