

Western Asset Global Bond Fund

MAR 2023 | 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)	3.06	2.96	-5.34	-1.27	0.54
Benchmark	2.11	2.38	-5.48	-2.82	0.27

Calendar year performance (%)

	2022	2021	2020	2019	2018
Fund (net)	-13.89	-1.06	7.39	9.11	-0.28
Benchmark	-12.28	-1.54	5.09	7.19	1.65

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?

Developments in the banking sector came to the forefront during the past month. Medium-sized regional banks—Silicon Valley Bank and Signature Bank—were shut down and taken over by the Federal Deposit Insurance Corporation (FDIC) after the banks failed to stem deposit outflows. These events triggered bank runs and financial stability concerns at similarly sized regional banks, but contagion risks were mitigated when the FDIC announced that it would guarantee uninsured deposits at the two banks. The Fed and Treasury also launched the Bank Term Funding Program, a new emergency liquidity provision tool that allowed banks to borrow in exchange for eligible collateral—at par—to fund potential deposit outflows. In terms of US economic data, inflation and jobs reports released earlier in March were mixed, adding to evidence of both a bumpy path for inflation as well as monetary policy's long and variable lags. Headline Consumer Price Index rose both year-over-year and month-over-month, in line with the median forecast from a Bloomberg survey of economists. In Europe, the Swiss government, central bank and market regulator orchestrated the state-backed takeover of Credit Suisse by UBS for 3 billion Swiss francs (\$3.3 billion). In an unprecedented move, Swiss officials forced Credit Suisse's AT1 securities to be written down to zero and subordinated to equity. In China, official Purchasing Managers' Index manufacturing and services indices rebounded in February—with the manufacturing gauge rising to its highest reading since 2012—pointing to signs of a broad-based economic recovery after policymakers substantially eased COVID-19 restrictions in December.

What happened in the Fund?

The Fund was up 3.06% during the month of March, and was up 2.96% over the March quarter. In comparison the benchmark was up 2.11% over the month of March and was up 2.38% over the March quarter.

Within the Fund, investment-grade and high-yield corporate credit spreads were wider over the month. USD-denominated emerging market (EM) bond spreads widened, while EM local yields fell but underperformed US Treasury yields. The US dollar was generally weaker across both developed market (DM) and EM currencies.

What is the outlook?

In line with our expectations, global growth appears to be downshifting and inflation is trending lower. Declining new order activity, rising inventories and improving supply chains worldwide have resulted in lower manufacturing inflation. Signs of moderating price pressures are also evident across service sectors, globally. These trends, combined with the major central banks continuing to advocate for tight monetary policy, should further temper growth and inflation. In the US, ongoing rate hikes and the Fed's intent to maintain a restrictive policy stance are weighing on inflation expectations, wage growth and housing activity. That stated, our view is that the Fed is in a position to pause and that the US will avoid a recession. In Europe, the outlook is mixed as demand has improved and the labor market remains buoyant, albeit with forward-looking growth indicators pointing to additional softening. Meanwhile, macro conditions in the UK continue to deteriorate—deeply negative real wage growth and higher costs of living (e.g., energy and food prices) have crimped discretionary spending and pushed consumer confidence to all-time lows. The one bright spot in the global picture is China, where we see broad policy accommodation (to support the reopening of its economy following the end of its zero-Covid strategy) acting as a positive growth catalyst for Asia and emerging markets as a whole. As global growth and inflation continue to moderate, and recent concern over the stability of the US and EU banking systems abates, we expect DM government bond yields to trend lower. In such an environment, we anticipate that the US dollar will weaken modestly and that EM—where central banks are at the end of their tightening cycle—will outperform. Credit markets currently offer attractive value but we acknowledge that they remain vulnerable to unanticipated shifts in macro-related sentiment, geopolitical developments and the risk of central bank overtightening.

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.

Awards and Ratings



Qualitative



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.



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



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