

# Western Asset Global Bond Fund

JUN 2023 | Commentary

## Investment objective

The Fund aims to outperform the Bloomberg Barclays Global Aggregate Bond Index (hedged into Australian dollars) (Benchmark) over rolling three to five-year periods.

## Performance (%)

	1 mth	3 mths	1 yr	3 yrs pa	5 yrs pa
<b>Fund (net)</b>	-0.30	-1.36	-1.76	-3.63	0.04
<b>Benchmark</b>	-0.16	-0.30	-1.16	-3.64	0.18

## Calendar year performance (%)

	2022	2021	2020	2019	2018
<b>Fund (net)</b>	-14.27	-1.49	6.88	8.61	-0.69
<b>Benchmark</b>	-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?

In June, risk assets gained as concerns over a near-term economic hard landing eased. Government bond yield curves flattened significantly as front-end bond yields rose with global central banks reiterating their resolve to bring inflation back to target. President Biden signed an agreement to raise the US debt ceiling, averting a potential major risk event for markets. US inflation continued to moderate, as headline Consumer Price Index (CPI) decelerated from 4.9% to 4.0% year-over-year (YoY), which was the smallest annual gain since March 2021 and provided further evidence that inflation may have peaked. These prints were supported by a series of forward-looking data points that guided toward a further softening in inflationary pressures with the ISM prices paid measures and the University of Michigan inflation expectations surveys also moving lower. Softer inflation readings set the stage for the Fed to leave the fed funds target rate unchanged at 5.00%-5.25% in its first rate pause since beginning its hiking cycle in March 2022. However, in what was interpreted by markets as a “hawkish pause,” the updated Summary of Economic Projections showed that the median Federal Open Market Committee (FOMC) member projected two more quarter-point hikes this year to a peak rate of 5.50%-5.75%. Fed Chair Jerome Powell said that the FOMC’s decision to hold rates in June should not be considered a “skip,” but that the July FOMC meeting remained “live” for a rate-hike. During the month, Powell stated “I wouldn’t take moving at consecutive meetings off the table” and that “the process of getting inflation back down to 2% has a long way to go.” At the end of the month, fed funds futures contracts priced in an 80% chance of a rate hike at the July FOMC meeting. In Europe, the European Central Bank (ECB) hiked the Deposit Facility Rate by 25 bps to 3.50% as had been widely expected. ECB President Christine Lagarde highlighted that a July hike is “very likely” and that the ECB was “not thinking about pausing.” June headline and core inflation both printed in line with expectations, but emphasized the disparity across eurozone economies and the corresponding challenges for the ECB; Spanish headline CPI inflation grew 1.6% YoY in June, compared to 6.8% in Germany. In the UK, core inflation surprised above expectations, rising 7.1% YoY in May; the highest reading since 1992. This pushed the Bank of England to hike the Bank Rate by 50 bps to 5.00%, versus consensus expectations for a 25-bp hike. In China, authorities reiterated their commitment to supporting their economic recovery, notably cutting several policy rates including its benchmark 7-day reverse repo rate for the first time in 10 months. Corporate credit spreads tightened over the month while structured product spreads were mostly tighter. Inflation continued to ease across the emerging market (EM) universe, following the recent moderation in energy prices, which pushed local EM yields lower and saw USD denominated and other hard-currency EM bond spreads tighten. The US dollar was generally stronger versus developed market (DM) and EM currencies.

### What happened in the Fund?

The Fund was down 0.30% during the month of June. In comparison the benchmark was down 0.16 over the month of June. Within the Fund, duration positioning had a negative impact on performance as yields in the US and the UK moved higher. While, short-dated US and UK government bond yields moved sharply higher, also detracting from returns. On the other side, positives within the Fund included, the spread between long-term inflation expectations in the US versus Germany declining modestly, adding to returns. While Emerging Market country and foreign exchange exposure were positive contributors. High yield corporate bonds also had a positive impact on returns. In addition, an overweight to corporate bonds added to returns as spreads narrowed. While an overweight to US agency MBS also added value.

### What is the outlook?

In line with our expectations, global growth is downshifting and the disinflation process is clearly underway, albeit unevenly. Lessening bottleneck pressures, financial stability concerns contributing to tighter credit conditions in the US and Europe, and softer manufacturing and services demand worldwide are helping to alleviate price pressures globally. These trends, combined with the major central banks continuing to advocate for restrictive monetary policy for an extended period, should further temper growth and inflation. In such a scenario, we expect developed market government bond yields to trend lower and that the US dollar will weaken modestly. These factors should act as a tailwind for EM where central banks are closer to the end of the tightening cycle relative to the developed world, and valuations are attractive. Spread sectors such as high-yield, bank loans and select areas of the MBS space also offer attractive yield but we acknowledge that credit markets remain vulnerable to unanticipated shifts in macro-related sentiment, geopolitical developments and the risk of central bank overtightening.

## Highlights

- The Fund invests in a diversified portfolio of global fixed income securities.
- A professionally managed active portfolio, with a focus on adding value through duration management, yield curve positioning, sector allocation, issue selection, country and currency allocation.
- The Fund utilises fundamental bottom-up research to identify inefficiencies and market mispricing and subsequent investment opportunities.

## 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 options. Franklin Resources, Inc. is listed on the New York Stock Exchange and has employees in over 34 countries.

### Western Asset

Founded in 1971, Western Asset is one of the world's leading fixed income managers. With a primary focus on active fixed income investment management, the firm brings unique value to the asset class with a time-tested, value-oriented investment approach. This approach is supported by an international team of fixed income specialists with expertise in every market sector, including an extensive credit research team experienced in evaluating companies across the entire ratings spectrum. Western Asset's reach extends across all of the world's major bond markets with offices in Pasadena, New York, London, Zürich, Tokyo, Singapore, Hong Kong, Melbourne, and São Paulo.

## Ratings

### Qualitative



The Morningstar Analyst Rating™ for Western Asset Global Bond Fund is 'Silver' as at February 2023.



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