

# Western Asset Global Bond Fund

SEP 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>	-3.01	-3.15	0.08	-5.10	-0.57
<b>Benchmark</b>	-1.84	-2.14	0.53	-4.55	-0.24

## 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?

During the third quarter of 2023, global government bond yields rose to multi-year highs. Continued U.S. economic resilience as well as higher policy rate expectations from Federal Open Market Committee (FOMC) members revived a “higher-for-longer” narrative for global policy rates. A confluence of additional factors put further upward pressure on yields: Fitch’s downgrade of long-term U.S. debt to AA+, a higher-than-expected U.S. Treasury issuance announcement, as well as a surge in energy prices that stoked inflation concerns. Heightened uncertainty over long-run interest rates raised global term premiums and steepened global government bond yield curves. A moderating outlook for both employment and inflation ultimately set the stage for the Federal Reserve (“Fed”) to leave the fed funds target rate unchanged at 5.25%-5.50% in September, following the 25-basis point (bp) hike in July—its second rate pause since the current tightening cycle began in March 2022. However, in what was interpreted by markets as a sign of “higher-for-longer” policy rates, the updated Summary of Economic Projections in September showed Fed officials anticipate less easing over the next two years. Compared to June, the median FOMC member raised projections for the fed funds target rate by 50 bps to 5.10% and 3.90% at the end of 2024 and 2025, respectively—reflecting a strong growth outlook and in spite of a projected moderation in inflation. Projections for 2023 real gross domestic product (GDP) growth were raised to 2.1% from 1.0%, while forecasts for the unemployment rate were revised lower through 2025. Core Personal Consumption Expenditures Price Index inflation was projected to end the year lower at 3.7% from 3.9% previously and reach the Fed’s 2% target in 2026. In contrast to the U.S., the economic growth trajectory for Europe remains challenged. The European Central Bank (ECB) hiked the Deposit Facility rates by 25 bps on two separate occasions, bringing it to 4.00%. The policy statement from the September meeting highlighted that the current level of monetary policy will make a “significant contribution” to bringing inflation back to target. During the quarter, corporate credit and structured product spreads were flat to modestly wider. U.S. dollar-denominated emerging market bond spreads tightened and emerging market local yields rose. The S&P 500 fell 5.0% while WTI oil surged 28% to just above \$90/barrel. A relatively resilient U.S. economy pushed the U.S. dollar stronger versus EM and developed market currencies.

### What happened in the Fund?

The Fund was down 3.01% during the month of September. In comparison the benchmark was down 1.84% over the month of September. Within the Fund, an overweight to overall Fund duration detracted from returns as yields rose. While an underweight to Japanese duration was additive. An overweight to the 5-year part of the US yield curve and an underweight to 10-years added to returns as the yield curve steepened. An overweight to US agency mortgage backed securities detracted modestly from returns as spreads widened. While US high-yield corporate bonds underperformed. Emerging market country exposure had a negative impact on returns as currency positioning detracted from returns as the US dollar strengthened.

### 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 markets government bond yields to trend lower and that the US dollar will weaken modestly. These factors should act as a tailwind for emerging markets 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 mortgage backed securities 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.
- The Fund is predominantly hedged into Australian dollars.

## 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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