

MAR 2022 | Commentary

WESTERN ASSET GLOBAL BOND FUND

Investment objective

The Fund aims to outperform the Benchmark over rolling three to five year periods.

Performance (%)						Fund details	
	1 mth	3 mths	1 yr	3 yrs pa	5 yrs pa	Inception date	January 2017
Fund (net)	-2.96	-6.45	-4.78	1.37	2.16	Benchmark	Bloomberg Global Aggregate Bond Index (hedged into Australian dollars)
Benchmark	-2.13	-4.98	-4.01	0.84	1.99	Morningstar peer group category	Australia fund - OE - Bonds Global
Calendar year performance (%)						APIR	SSB8320AU
	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		

Monthly review

What happened in the market?

Global government bond yields ended the month significantly higher. Markets increasingly turned their focus towards rising inflation and prospective accelerated trajectories for monetary policy tightening. The Federal Reserve (Fed) and the European Central Bank (ECB) provided hawkish tilts to their March policy meetings. In the US, aside from raising the federal funds target rate by 25 basis points (bps) to 0.25% to 0.50%, the median Federal Open Market Committee (FOMC) member revised up their interest rate forecast to see another six rate hikes in 2022, followed by a further three in 2023. The ECB accelerated the tapering of the Asset Purchase Program (APP) which could end as soon as 3Q22. The Bank of England (BoE) hiked the Bank Rate by 25 bps to 0.75%, back to pre-pandemic levels. However, guidance on future policy-tightening was moderated and one committee member voted to keep interest rates unchanged, citing fears over declining real incomes. The fallout from Russia's invasion of Ukraine continued as Moody's, S&P and Fitch downgraded local Russian sovereign debt to junk and Russia was removed from global bond indices. Geopolitical tensions, inflation concerns and higher developed market (DM) yields pushed local emerging market (EM) yields higher. Hard currency EM and corporate bonds traded in a wide range but spreads ended the month tighter. In corporate bonds, following some risk aversion at the beginning of the month, a pick-up in primary issuance and signs of investors putting cash reserves to work given higher absolute yields caused spreads to narrow materially towards the end of the month. The US dollar ended the month modestly weaker.

What happened in the Fund?

The Fund was down 2.96% during March, and was down 6.45% over the March quarter. The Fund's underweight to core European duration was positive but this was offset by overweight positions in US, Australian and Canadian duration. While an overweight to spread sectors contributed to performance. On the other side, an overweight to local EM government bonds detracted from performance while currency positioning was modestly negative.

The Fund switched from underweight to overweight overall Fund duration, while adding to core European and UK duration as yields rose. We reduced the Fund's US yield curve-fattening position and we rotated from hard currency EM bonds into investment-grade corporates. The Fund also reduced EM currency exposure versus the US dollar and closed underweights to the Australian and Canadian dollars.

What is the outlook?

The investment landscape faces enormous uncertainty following the Russian invasion of Ukraine. The long slog to a post-Covid world has been meaningfully derailed. Energy and soft commodity prices are likely to remain high. The case for DM government bond yields is less clear given current elevated inflation readings but the traditional desire for such a global safe haven is likely to be powerful. Our view remains that the global economic recovery from the Covid pandemic will be underpinned by responsible central bank policy that recognizes the detrimental effect that elevated energy prices and the uncertain situation in Eastern Europe will have on global growth. We have seen a rapid re-pricing of monetary policy expectations. While tensions in Ukraine are pushing up short-term energy prices and inflation, the medium- to long-term impacts have yet to be determined. Western Asset's view is that while data on inflation and labour markets will likely lead to accelerated tightening schedules across a number of key DM central banks, the 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. We have taken some defensive measures in global Funds, reducing EM currency exposure versus the US dollar and adding to European duration as we feel that the ECB may now be more cautious in tightening financial conditions. We continue to believe fundamentals remain strong for corporate bonds. 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 reopening industries where valuations have yet to fully recover 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 4 stars out of 66 global bond funds as of 30 November 2021.

Qualitative



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

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