

MAY 2021 | Commentary

LEGG MASON BRANDYWINE GLOBAL INCOME OPTIMISER FUND

Investment objective

The Fund's investment objective is to seek to generate a high and consistent level of income in all market conditions over a full market cycle with a secondary objective of capital preservation.

Performance (%)						Fund details	
	1 mth	3 mths	6 mths	1 yr	3 yr pa	Inception date	May 2017
Fund (net)	0.25	1.39	2.07	10.11	8.01	ISIN	AU60SSB05156
Calendar year performance (%)						APIR	SSB0515AU
	2020	2019	2018	2017	2016		
Fund (net)	15.12	8.95	-1.33	-	-		

Monthly review

What happened in the market?

While readings for first-quarter growth were mixed, there are continued expectations for a global rebound as the year progresses, given broad positive trends in fighting the pandemic. In the U.S., first-quarter 2021 annualized GDP growth was 6.4% versus a 4.3% expansion during the previous quarter. In contrast, the eurozone and Japanese economies contracted 0.6% and 1.3% quarter over quarter, respectively. Meanwhile, the U.S. Federal Reserve ("Fed"), the European Central Bank, the Bank of England, and the Bank of Japan all maintained their accommodative stances, although inflationary concerns persist. From a yield perspective, the 10-year U.S. Treasury rate fell for a second consecutive month in May. U.S. investment-grade credit spreads narrowed in May, while high-yield spreads moved modestly wider. Investment-grade total returns were the beneficiary of falling yields, given their longer durations. The U.S. high-yield market posted a positive return as investors continued to look for incremental yield in the relatively low rate environment. Lastly, U.S. mortgage-backed security (MBS) spreads widened and posted a negative return over the month.

What happened in the Fund?

The Fund posted a positive absolute return in May. The Fund's allocation to investment-grade corporate bonds continued to be the largest contributor to returns. In particular, its cyclical and commodity-related issues performed well, as they benefited from the opening of the economy. These positions align well with the manager's theme over the past year to allocate to corporate bonds that could experience narrowing spreads. During the month the Fund increased its allocation to BBB-rated securitized credit in a defensive move, as the manager believes they will stand up better than high-yield securities if risk aversion increases. The manager is emphasizing very strong companies that can withstand volatile environments. Elsewhere, the Fund reduced its overall duration by roughly half a year to reduce its interest rate risk.

What is the outlook?

The consensus view is for the global economy to gather momentum as the vaccine rollout continues. One wild card is the prospect for higher inflation, although many central banks, led by the Fed, believe it is transitory. As the manager anticipated, rising 10-year U.S. Treasury yields and the strength of the U.S. dollar reversed course over the last two months. In the manager's opinion, the structural factors that have held inflation in check remain largely in place. Meanwhile, despite continued elevated COVID-19 cases in some countries presenting headwinds for their recovery, the manager expects economic conditions to improve as the year progresses. Emerging markets continue to offer relatively higher yields compared with developed markets, and they should be longterm beneficiaries of improving global growth and trade, along with rising commodity prices as the impact from COVID-19 diminishes. That said, the manager is closely monitoring the potential for tighter credit conditions in China and whether the Fed remains true to its word and remains on hold from raising interest rates for an extended period. Despite the Fed's assurances, markets are pricing in more hikes than what the central bank is telegraphing.

Highlights

- Aims to provide an attractive and stable income by investing across diverse sources of income in global fixed income markets
- Seeks the best global income opportunities, with a strong focus on protecting capital
- Seeks to limit downside risk by rotating risk across different sectors of the fixed income market and through tactical hedging of credit and interest rate risk

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.

Brandywine Global

Acting with conviction and discipline, Brandywine Global looks beyond short-term, conventional thinking to rigorously pursue long-term value. Since 1986, Brandywine Global has provided a range of differentiated fixed income, equity and alternative solutions from its headquarters in Philadelphia, USA and offices around the globe.



Ratings

Quantitative



The Legg Mason Brandywine Global Income Optimiser Fund received an overall rating of 5 stars out of 84 Global Multi-Strategy Income as of 31 May 2021.

Qualitative



Meet the team

The Fund is led by a team of long-tenured investment professionals who provide a broad range of experience across global sovereign bond, currency, emerging market debt, and corporate and structured credit markets. The portfolio management team includes:

Brian L Kloss, JD, CPA

Portfolio Manager

With firm since 2009

Jack P McIntyre, CFA

Portfolio Manager

With firm since 1998

Anujeet Sareen, CFA

Portfolio Manager

With firm since 2016

Tracy Chen, CFA, CAIA

Portfolio Manager, Structured Credit

With firm since 2008

For enquiries, please contact Client Services team on 1800 679 541, email auclientadmin@franklintempleton.com or visit leggmason.com.au.

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