

DEC 2020 | 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)	1.04	5.08	7.69	15.12	7.36	ISIN	AU60SSB05156
Calendar year performance (%)						APIR	SSB0515AU
	2019	2018	2017	2016	2015		
Fund (net)	8.95	-1.33	-	-	-		

Monthly review

What happened in the market?

As 2020 came to a close, risk assets continued their swift recovery from their COVID-19-induced shutdown. For the year, every major bond category posted a positive return, with lower interest rates providing the initial push forward, while credit spreads and currency appreciation delivered in the later portion of 2020. Political uncertainty in the U.S. caused some angst in October. However, investors reacted positively to the outcome given the predicted outlook for greater fiscal stimulus. Shortly thereafter, the results of the Pfizer-BioNTech vaccine's effectiveness provided a strong backdrop for further acceleration in risk assets.

What happened in the Fund?

The Fund was up 1.04% in December, and gained a solid 5.1% for the December quarter rounding out a solid calendar year return of 15.1%. Given the Fund's tilt to spread assets, the Fund's sizable allocation within corporate credit generated a substantial portion of its return. Led by high-yield's continued rally, positions within commodity-driven sectors delivered strong returns. The Fund's investment-grade allocation was also beneficial. The Fund's positioning within the more cyclical BBB-rated segment of the market provided outsized returns versus the broad index. Emerging markets continued to play a greater role this month, primarily through hard dollar corporate credit positions. While the Fund continues to be underweight developed market duration, the positions it did hold had a modest negative impact on returns. Two notable changes occurred in the Fund in December. First, the manager reduced the Fund's overall duration by almost two years. As developed market duration may not provide its historical ballast to risk positions during times of minimal stress, the Treasury yield curve should continue to steepen without much interference from central banks. Second, the manager reduced the Fund's U.S. dollar position, mostly against emerging market currencies. Inflation concerns continue to be modest overall, while commodity price recovery should support currency appreciation. While the securitized portion of the portfolio remained consistent at roughly 9%, the structure of the underlying holdings has changed. With lower delinquencies and higher home prices, the manager became more comfortable investing in lower-quality tranches. Overall, while valuations are not as compelling as they were during most of 2020, the top-down support by governments and central banks provides the framework where asset prices continue to be supported until the underlying economy recovers.

What is the outlook?

Global vaccinations have begun, now it's just a question of pace and location. The world will reopen, but who will have the solvency to reach the new normal? While the federal programs for direct corporate support have ended, most corporate entities participated in the record breaking 2020 issuance calendar and have built cash war chests to ride out the remainder of the pandemic. With rates still relatively low and capital markets fully open for business, corporate entities continue to term out debt and reduce overall costs of capital, while focusing on minimizing cash expenditures and maximizing cost reductions. While the overall level of corporate debt rose significantly over the year, interest coverage ratios have remained relatively stable. The double-edge sword that corporations will have to navigate in 2021 is simply: inflation. While the Federal Reserve Board ("Fed") has failed to meet its 2% inflation target for over a decade, arguments can be made that the fiscal decision to deposit money directly into individual bank accounts rather than using quantitative easing to bolster bank reserves or corporate balance sheets will finally unleash the inflation potential of a reopening economy. Post March 2020, savings rates skyrocketed, while bank lending and money velocity both retreated in a transfer of payments policy directly from the U.S. government. As people begin to feel more comfortable and deploy the newly found savings, money velocity should reverse course and inflation may be an issue the Fed has to deal with sooner than it thinks. The recent yield curve steepness in both the U.S. and Europe suggests that the market is already pricing in this potential threat. While inflation may be viewed as a way out of massive global debt increases, it will ultimately, if persistent enough, raise the cost of capital for everybody—a burden some entities may not be able to shoulder.

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 85 Global Multi-Strategy Income as of 31 December 2020.

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

Anujeet Sareen, CFA
Portfolio Manager

Jack P McIntyre, CFA
Portfolio Manager
With firm since 1998

Tracy Chen, CFA, CAIA
Portfolio Manager, Structured Credit
With firm since 2008

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