

APR 2021 | Commentary

LEGG MASON WESTERN ASSET MACRO OPPORTUNITIES BOND FUND

Investment objective

The Fund seeks to maximize total return through capital appreciation and income by investing in a combination of investment grade, high yielding debt securities and financial derivative instruments.

Performance (%)						Fund details	
	1 mth	3 mths	6 mths	1 yr	3 yr pa	Inception date	August 2016
Fund (net)	3.87	-3.00	1.38	9.86	3.80	ISIN	AU60SSB00702
						APIR	SSB0070AU

Calendar year performance (%)				
	2020	2019	2018	2017
Fund (net)	5.45	15.94	-5.42	14.47

Monthly review

What happened in the market?

U.S. growth expectations were bolstered in April by an increasingly rapid vaccination program, which should clear the path toward a summer reopening with greatly increased economic activity. Data releases support these expectations; the March jobs report showed a strong gain in payrolls; consumer price inflation rose more than expected, as did retail sales; and GDP growth accelerated in Q1. President Biden unveiled a further two-part economic plan; \$2.25 trillion infrastructure spending over eight years, expected to be funded by corporate tax increases, and \$1.8 trillion spending over 10 years on childcare, education, and tax cuts and credits, which are expected to be funded by higher personal taxes. While these data points would typically result in higher U.S. Treasury yields, instead they closed the month lower—an indication that stronger data had been discounted, and a recognition that additional fiscal spending will be distributed across a much longer period and offset by tax increases.

What happened in the Fund?

The Fund was up 3.87% in April. Duration and yield-curve positioning was the most significant contributor, mainly as a result of overall long U.S. and short German duration exposures. FX positioning was an overall contributor, mainly due to long Brazilian real as well as Canadian dollar and Chinese yuan exposures. Emerging market (EM) debt also contributed to performance, mainly as a result of long rate exposures in Indonesia and Brazil. High-yield and investment-grade credit exposures, mainly energy and financials, were positive for returns. Peripheral Europe was a slight contributor mainly as a result of short 10-year Italian Treasury exposures.

In terms of positioning, headline duration decreased by almost two years as yields rallied and as we continued to readjust longer duration to shorter-dated key rates. Both high-yield and investment-grade positions were slightly reduced as spreads tightened. In high-yield, about a half percent of energy was added while reducing subordinated financials and industrials for an overall net reduction. In investment-grade, mainly financials and industrials were cut as spreads tightened over the month. In EM, the local Indian rupee rates position was reduced on the back of a worsening pandemic in the subcontinent. In developed market currencies, the short euro position became flat through long calls going in-the-money.

What is the outlook?

Western Asset expects the second half of the year should see very strong growth in GDP as the world economy reopens on continued progress with the Covid vaccination rollout. That stated, we are cautious about extrapolating short-term cyclical boosts into a presumption of a higher secular trend rate of growth or inflation. The secular challenges that have kept U.S. and global growth to a moderate pace at best over the last several decades—the stagnation of Western societies' middleclass wages, aging demographics and rising global debt burdens—still remain in place. Moreover, the destruction of small- and medium-size businesses in many countries, not seen since the Great Depression, may take years to restore. Given this backdrop, Western Asset expects central banks to remain extraordinarily accommodative for the foreseeable future.

Highlights

- A total-return focused, unconstrained fixed income fund that invests in a combination of investment grade, high yielding debt securities and financial derivative instruments
- Provides concentrated and opportunistic exposures to investment manager's key themes
- Designed to potentially have low correlations to equity and traditional fixed income over the long term

About us

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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.



Ratings

Qualitative



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

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