

JUN 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)	2.94	8.44	-1.58	8.14	6.69	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?

June saw the Fed back in focus as employment data came in weaker than expected, while inflation surprised to the upside. In response, Fed governors brought forward their interest rate hike projections such that the median member now expects two hikes in 2023, having previously predicted the first hike would come only in 2024. This shift had the effect of lowering longer-term market-based inflation expectations, which had built steadily since the start of the year, as market participants were anticipating a more reactive Fed. As a result, long-dated U.S. Treasuries rallied strongly and the yield curve flattened to end the quarter quite positively.

What happened in the Fund?

The Fund was up 2.94% in June. Duration and yield-curve positioning was the most significant contributor on a net basis, mainly as a result of overall long U.S. duration. Emerging market (EM) FX was an overall positive contributor, mainly due to long Brazilian real, Russian ruble and Mexican peso exposures. EM rates also contributed to performance, helped mostly by exposures to Mexico, Indonesia and Russia. Investment-grade credit, mainly financial and energy exposures, was positive for returns. High-yield allocations, mainly to energy names, also added modestly over the quarter.

While duration was actively managed over the quarter, there were no major changes in the recovery theme or positioning. The effective duration averaged approximately six years with a flattening bias, reflecting the view that rates were too optimistically priced relative to the pace of the recovery and that current price inflation would prove transitory. Going forward, the expectation is that as the economy recovers slowly and the Fed begins tapering and ultimately raising rates, the yield curve will flatten. Additionally, the flattening exposure adds a defensive element to the portfolio in the event unforeseen problems arise, especially those unrelated to the pandemic. With respect to risk assets, the main themes remain in investment-grade credit and EM. Over the quarter, there was some rotation out of investment-grade into high-yield energy and industrial exposures in the spirit of reopening trades. EM also remains a critical theme as Western Asset believes it represents the highest beta trade to a meaningful global economic recovery. Relative to global equities and credit, prices in the EM complex have not recovered to pre-pandemic levels and represent a tremendous value opportunity.

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 small and medium-sized business destruction in many countries not seen since the Great Depression may take years to repair. 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

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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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