

DEC 2020 | 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 (%)

	1 mth	3 mths	6 mths	1 yr	3 yr pa
Fund (net)	1.50	6.14	9.87	5.45	4.96

Fund details

Inception date	August 2016
ISIN	AU60SSB00702
APIR	SSB0070AU

Calendar year performance (%)

	2019	2018	2017	2016	2015
Fund (net)	15.94	-5.42	14.51	-	-

Monthly review

What happened in the market?

The fourth quarter began with a focus on the US Presidential election and the impact various outcomes might have. With Democratic nominee Joe Biden's win, and the prospect of the Democrats gaining control of the Senate (pending Senate run-offs in Georgia), US Treasury bond yields rose given Biden's intended program of large-scale government spending and associated borrowing. Globally, soaring Covid infection rates and new, targeted lockdowns raised concerns for 4Q20 growth. The crystallization of downside risk was acknowledged by the European Central Bank (ECB) at its Governing Council meeting as it explicitly signaled additional monetary stimulus would be forthcoming at its December meeting. November saw risk assets rally meaningfully on improved political certainty following Biden's victory and in response to a string of impressive COVID-19 vaccine breakthroughs. Pfizer, Moderna and AstraZeneca each announced trial results with very high efficacy rates and no safety concerns, suggesting regulatory approval and initial rollout would be likely to follow by year-end. Regarding the election, the Democratic nominee Joe Biden won a close contest, but Democrats failed to gain enough seats to flip control of the Senate from the Republicans. A divided US Congress is likely to limit Biden's intended program of large-scale government spending and associated borrowing. Developed market government bonds yields did not rise materially as Covid infections remained persistently high in Europe and the US registered record numbers of new cases. In December the rally in risk assets continued despite a continuing rise in infections and tighter restrictions. Markets remained forward-looking as a number of vaccines with high efficacy levels began to receive regulatory approval. This allowed for distribution and administration to start and brought forward the timing when economic activity should normalize. Further support for risk sentiment came from the approval of the EU's landmark €750 billion recovery plan, a new \$900 billion relief package in the US, and a post-Brexit free trade agreement between the UK and the EU.

What happened in the Fund?

The Fund was up 1.50% in December and the Fund rose 6.14% for December quarter. Emerging markets (EM) debt was the most significant contributor, mainly as a result of long rate exposures in Mexico, Indonesia, Russia and Brazil. Investment-grade credit was a significant contributor mainly as a result of financial and energy holdings as those spreads tightened. EM currency exposures were positive as the Russian ruble, Mexican peso and Brazilian real all strengthened versus the US dollar. High-yield was a modest contributor as a result of energy positions. Overall duration positioning detracted from performance mainly due to long US duration exposure. No major theme or position changes took place during the fourth quarter. As it has been since early 2Q20, the portfolio was positioned risk-on, to take advantage of progress toward economic normalization underpinned by extraordinary monetary and fiscal policy. Investment-grade credit, being directly supported by the Federal Reserve (Fed), was one major theme; EM countries with positive real yields was another major theme in the portfolio. With Fed Chair Jerome Powell's commitment to keep rates near zero for the foreseeable future, and with meaningful progress toward global vaccinations, we believe EM real yields will become increasingly attractive. Toward the end of the quarter, headline duration increased by a little more than a year, with the increase concentrated in the 10- and 20-year part of the curve. A 30-year breakeven trade was closed given the more conservative outlook for inflation, and the swap spread widener was decreased as 10-year swaps widened into positive territory. The US-German short was increased by about a quarter of a year as the spread between US and German 10-year bonds continue to widen.

What is the outlook?

The combination of the global vaccination process beginning and reasonable economic momentum aided by fiscal help should support fixed-income and risk markets. However, challenges remain with record global infection rates as well as in vaccine production, acceptance and distribution; as a result, we maintain our base case outlook for a longer, U-shaped economic recovery. Central bank purchases will likely support continued spread compression and the liquidity of investment grade markets moving forward. Credit fundamentals remain challenged, but we expect a number of sectors to demonstrate resilience, including banking, while others continue to face downgrade pressure. We acknowledge markets remain most sensitive to statistics around COVID-19. Once we begin to see declines in the viral spread, we believe that ultimately the power of the very accommodative policies will combine with an eventual recovery in demand to propel the global economy back toward trend-line growth.

Past performance is not a reliable indicator of future performance.

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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Ratings

Qualitative



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

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