MAR 2022 | Commentary

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	1 yr	3 yr pa	5 yr pa
Fund (net)	-10.38	-18.80	-11.34	-2.09	0.37

Calendar year performance (%)

	2021	2020	2019	2018	2017
Fund (net)	-0.91	5.45	15.94	-5.42	14.51

Fund details

Inception date	August 2016
ISIN	AU60SSB00702
APIR	SSB0070AU

Monthly review

What happened in the market?

Global financial markets finished March dominated by the Russia/Ukraine conflict, volatile and illiquid Russian equity and debt markets, and with additional volatility from on-again/off-again peace talks. Early in the month Russian local sovereign bonds were marked down to zero on essentially zero trading volume. In the US, Federal Reserve (Fed) Chair Jerome Powell's hawkish post Federal Open Market Committee (FOMC) meeting press conference highlighted that the forecast for policy rates was revised substantially higher, with many officials now seeing policy rates in restrictive territory in both 2023 and 2024. The US yield curve responded by flattening excessively, even becoming inverted between the 5- and 30-year parts of the curve, reflecting the challenge that high energy prices and an extended humanitarian conflict in Europe may pose to global growth. Our view is that growth will moderate due to the fading of the extraordinary factors that boosted activity last year. Even prior to the conflict in Ukraine, the economic data had started to shift, with recent signs suggesting that demand is slowing and the peak of labour market tightness may be behind us.

What happened in the Fund?

The Fund was down 10.38% in March and down 18.80% for the March quarter. Within the Fund duration and yield-curve positioning was the most signifi-cant detractor on a net basis mainly due to long US duration exposure. Emerging markets (EM) debt was also a significant detractor mainly as a result of exposure to Russian rates. Overall foreign exchange (FX) positioning was a positive contributor to returns. Within EM FX, Russian ruble and Brazilian real exposures contributed the most. Within developed market (DM) FX, the Japanese yen detracted the most but its negative effect was partially offset by long Australian dollar exposure. High yield exposures, mainly energy, contributed positively to performance. Investment-grade credit, mainly CDX, energy and financial exposures, also added modestly to returns.

From a Fund positioning perspective headline duration increased by a little more than three years in March with the increase split between the 2-year key rate duration (KRD), after the mid-month repricing toward a more aggressive Fed hiking cycle, and at the long end in the 10- to 30-year KRDs to provide ballast as the war in Europe continues. Additionally, the paying on swaps position was decreased by approximately 1.5 years as 10- and 30-year invoice spreads widened mid-month. There was no change to inflation trades. We trimmed the German-US short from -4.25 years at the end of February to almost flat by month-end as 10-year rates rose significantly in Europe. In FX, the long Mexican peso and Brazilian real positions were materially reduced. In East Asian currencies, long positions in the Korean won and Malaysian ringgit were reduced, as was a short Chinese yuan position.

What is the outlook?

The investment landscape faces enormous uncertainty following the Russian invasion of Ukraine. The long slog to a post-Covid world has been meaningfully delayed. Energy and soft commodity prices are likely to remain high. The case for DM government bond yields is less clear given current elevated inflation readings, but the traditional desire for such a global safe haven is likely to be powerful. Our view remains that the global economic recovery from the Covid pandemic will be underpinned by responsible central bank policy that recognizes the detrimental effect that elevated energy prices and the uncertain situation in Eastern Europe will have on global growth. We continue to believe fundamentals remain strong for corporate bonds. The repricing of credit risk and that of less directly exposed EM bonds and currencies may present opportunities. Within corporate bonds we maintain a bias to banks and select reopening industries where valuations have yet to fully recover

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 manger's key themes
- Designed to potentially have low correlations to equity and traditional fixed income over the long term

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.

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.

PROFESSIONAL PLANNER | ZENITH FUNDAWARDS 17 WINNER

FUND MANAGER OF THE YEAR 2018 MONEY MANAGEMENT Lonsec WINNER Australian Fixed Income

MORNINGSTAR Awards 2020

Fund Manager Of The Year: Fixed Interest Category, Australia
Winner: Legg Mason Western Asset

Ratings

Qualitative

Recommended

Zenith Investment Partners Recommended

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