

Western Asset Macro Opportunities Bond Fund

SEP 2022 | Commentary

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)	-7.22	-2.05	-25.63	-6.25	-2.94

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?

In September, volatility swept across fixed income markets as inflation remained troublesome for policymakers. The Federal Reserve (Fed) and the European Central Bank both hiked policy rates by 75 basis points (bps) as expected, while the Bank of England (BoE) hiked by 50 bps and confirmed a plan to begin active gilts sales as part of its quantitative tightening program. In contrast to the rest of the developed world, the Bank of Japan maintained its expansionary policy stance with policy rates kept at -0.1% and no change to its yield curve control target.

Lower energy prices and a moderation of inflation expectations offered some optimism for policymakers but did little to assuage macroeconomic uncertainty amid recession concerns. While global government bond yields rose sharply and spread sectors underperformed.

Market anxiety increased dramatically near month-end when the U.K. announced an expansive package of fiscal measures, which triggered an unprecedented rise in gilt yields due to additional borrowing requirements and fiscal responsibility concerns, especially as it included a tax cut for the highest earners. The speed and magnitude of the sell-off triggered huge collateral calls and exacerbated the move, prompting an emergency intervention by the BoE.

What happened in the Fund?

The Fund was down 7.22% in September and down 2.05% during the September quarter. The Fund's duration and yield-curve positioning was the most significant detractor from performance, mainly as a result of overall long U.S. duration. Emerging markets debt contributed the most significantly as pricing on Russian government bonds continued to increase. While overall foreign exchange positioning was a net detractor from performance. The negative contribution from developed markets foreign exchange was driven by Australian dollar, Japanese yen and British pound exposures. Emerging market foreign exchange had a minimal negative impact as long Polish zloty exposure detracted and offset the positive impact from short Chinese yuan exposures. While high-yield contributed mainly as a result of energy exposures. Investment-grade credit also added to returns mainly as a result of energy, financial and Credit Default Swap Index exposures. Mortgage- and asset-backed securities were a modest detractor, driven by collateralized loan obligations.

From a positioning standpoint, duration over the third quarter reflected the main theme that global inflation and growth will continue to moderate and that U.S. growth will remain positive into year-end. Specifically, duration was positioned as a butterfly along the curve, being long in both front- and long-end rates, while short in medium term maturities. As the front-loading of aggressive rate hikes by the Fed increased the likelihood of negative growth in 2023, duration was moved from short-dated to longer-dated maturities to reflect the diminished expectation for growth next year. In Japanese rates, the 10-year Japanese government bond short position increased as we believe inflation and a weakening Japanese yen will put pressure on the upper limit of the yield curve control policy. In foreign exchange, short positions were maintained in the Chinese and euro currencies, with longs in the Australian dollar, Mexican peso, Brazilian real and Canadian dollar.

What is the outlook?

The key to an improved tone and more stability in the fixed income markets is a moderation in inflation. Our base case is that supply chains will slowly continue to normalise. This trend, combined with the Fed and other major central banks around the world tightening monetary policy along with negative real incomes slowing consumption, should see inflation moderate. In the U.S., there are signs the housing market is slowing significantly as higher mortgage rates begin to bite. We anticipate inflationary pressures will decline into year-end and into 2023. As growth and inflation moderate and the risks surrounding central bank policy become more balanced, so too should the market environment for fixed income investors.

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

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.



Ratings

Qualitative



For enquiries, please contact Investor Services Team on 1800 673 776, email auclientadmin@franklintempleton.com or visit franklintempleton.com.au.

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