

# DEC 2021 | 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 (%)						Fund details	
	1 mth	3 mths	1 yr	3 yr pa	5 yr pa	Inception date	August 2016
Fund (net)	2.08	-0.01	-0.92	7.12	5.57	ISIN	AU60SSB00702
Calendar year performance (%)						APIR	SSB0070AU
	2020	2019	2018	2017			
Fund (net)	5.45	15.94	-5.42	14.47			

### Monthly review

#### What happened in the market?

Global DM government bond yields ended the month higher. This was largely driven by an increase in optimism regarding the new COVID-19 omicron variant. Reports showed that despite high transmission rates, hospitalization and severe illness rates associated with the new variant are considerably lower than for earlier variants. At the European Central Bank meeting, the Governing Council started a gradual reduction of monetary policy stimulus. In the UK, the Bank of England (BoE) somewhat surprised markets by raising the Bank Rate to 0.25% (up 15 basis points) as BoE Monetary Policy Committee members voted 8-1 in favour of the hike. In the US, the Federal Reserve (Fed) announced it would double the pace of its tapering program to \$30 billion per month as had been widely expected. This will see the tapering completed by the end of 1Q22. This change in rhetoric also reflected the fact that the Federal Open Market Committee median member revised up their interest rate forecast to now see three hikes in 2022.

#### What happened in the Fund?

The Fund was up 2.08% in December and flat for the December quarter. Within the Fund duration and yield-curve positioning was the most significant contributor on a net basis mainly due to short German duration exposure. Emerging market (EM) debt was a positive contributor mainly as a result of exposure to Brazilian rates. High-yield, mainly energy exposures, and investment grade credit, mainly financial and energy exposures, also contributed significantly to performance. Within EM FX, long Mexican peso and Brazilian real exposures helped performance the most, and offset the negative effect of Russian ruble exposure. Within developed market (DM) FX, long Australian and Canadian dollar exposures helped the most and offset the negative effect of Japanese yen exposure.

Within the Fund headline duration increased by almost 5.5 years taking the portfolio's effective duration close to seven years by month-end. Although duration was added across the curve, the majority of it was added in the three- to five-year area. The swap spread position (payer) was reduced as swap spreads tightened early in the month. The US-German 10-year position was reduced by 1.6 years and the Italian-German 10-year position was reduced by 0.25 year. Positions in credit and EM debt were held constant. In EM currencies the long Indian rupee position increased by 1.2% as inflation continued to be benign (1.9%), while the currency offers high carry (6.0%) and relatively low volatility (5.1%). Additionally, Mexican peso exposures increased by 1.5% as the currency rallied through the month.

#### What is the outlook?

Western Asset expects the second half of the year will produce more moderate global GDP growth than earlier expectations, even as world economies reopen and amid continued progress on Covid vaccination and infection rates. Western Asset remains cautious about the effects of supply chain issues on price levels and impediments to growth from the gradual reduction in monetary accommodation and fiscal support. 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' middle-class 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 will remain cautious as they attempt to reduce policy accommodation into the new year.

## 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



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