

# Nedgroup Investments Global Strategic Bond Fund

*Core, Nimble, Proven*

*I've always found post-election analysis and market movements fascinating. Trump's victory and the subsequent bond rally wasn't supposed to happen, yet in hindsight, it was inevitable. As policy uncertainty weighs on investors' minds, we prepare to take advantage of rates volatility.*



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## Performance and markets

Late October, bond markets became “oversold” ahead of the US Presidential election. It was little surprise that despite a purportedly unfriendly outcome, they subsequently rallied. Reading strategist comments, one might think all investors were short or underweight fixed income. Many were and that crowded position, combined with mixed to soft economic data, set the stage for the November rally.

The fund price moved higher, recovering much of the total return lost in October. Western European government bond markets led the way with G7 yields falling, excluding Japan. There were diverging outcomes for European and US credit. Spread compression drove lower rated credit to outperform in US credit. Conversely, European subordinated financials took a hit towards the end of the month with French names bearing the brunt of a move wider in spreads.

Past performance is not indicative of future performance and does not predict future return.

Returns to (% , US\$)	Fund <sup>1</sup>	Bloomberg Global Aggregate (US\$ hedged) <sup>2</sup>
November 24	1.33%	1.19%
Since Inception	5.93%	4.90%

## Key performance drivers

Over the month, the fund returned 1.3%, and Bloomberg Global Aggregate (US\$ hedged), 1.2%. The majority of returns came from rising capital values as yields fell. Credit spreads remained stable, continuing the recent trend of carry-enhanced returns. Our focus stayed on Western markets, and we added a bit of duration during the late October sell-off. The market rally concealed a few themes: Europe outperformed significantly, Japan lagged, and interest rate curves did not reverse the October flattening. Relative gains were modest, (in line with annualised targets) leaving more potential for the year-end.

The excess return has been attributed roughly as follows using a top-down methodology:

Total excess return for the month: +14bps		
Contribution		Positioning comments
Duration	-5bps	<ul style="list-style-type: none"> <li>Remained close to 6 years, slightly shorter than Bloomberg Global Aggregate (6.5 years), but all focused in Western markets.</li> </ul>
Curve	-5bps	<ul style="list-style-type: none"> <li>US and EU curves flattened aggressively in October and we retained a bias to shorter maturities.</li> <li>Despite yields falling, curves failed to steepen.</li> </ul>
Geography	+10bps	<ul style="list-style-type: none"> <li>Benefitted from all duration in “western” markets.</li> <li>Offset to an extent by Canada</li> </ul>
Asset allocation	+9bps	<ul style="list-style-type: none"> <li>US credit spreads tightened modestly, delivering positive excess returns. We are overweight Europe.</li> </ul>
Credit sector/ security selection:	+5bps	<ul style="list-style-type: none"> <li>European utilities outperformed helping excess return.</li> <li>Financials spreads – particularly subordinated – widened marginally. We remain underweight subordinated paper.</li> </ul>

- We benefited from new issue outperformance.

## Positioning recap and outlook

**Total portfolio: Yield = 5.2% (% exc. Futures), Duration = 5.7 years, ESG rating: AA**

**Rates** (weight = 26.9% (52.8% inc. Futures), yield = 4.4%, duration = 3.0 years)

Positioning in sovereign bonds	Fund	Expected fund range	Bloomberg Global Aggregate
	26.93% (52.8% inc. Futures)	30 - 40%	53%
Investment perspectives	<b>Valuations<sup>3</sup></b> Significantly above inflation, cheap.	<b>Fundamentals</b> Mixed but supportive of lower yields.	<b>Technicals</b> Neutral – the “short base” offset by expected supply.

- G7 rates rallied from oversold levels as the Trump trade was unwound.
- Key Trump appointments less aggressive than anticipated.
- Data, not least in EU, bond supportive.

**Credit** (IG: weight = 53.1%, yield = 5.4%, duration = 5.3 years)

(HY: weight = 16.3%, yield = 6.9%, duration = 3.3 years)

Positioning in credit	Fund	Expected fund range	Bloomberg Global Aggregate
	Investment grade: 53.1%	20-60%	19%*
	High yield: 16.3%	20-30%	0%
Investment perspectives	<b>Valuations</b> Continue to be expensive, particularly US.	<b>Fundamentals</b> Deteriorating interest rate cover but overall solid.	<b>Technicals</b> Into year-end technicals will continue to improve as new issue deals dry up.

\*Pure IG credit. Add in Structured, Agency and EM and the Bloomberg Global Aggregate has 47%

- A Republican victory drove spread compression within US credit. US investors also extended spread duration into the belly of the curve.
- Overweight European credit hindered performance however, our sector allocation was positive; utilities outperformed and we had little exposure to French names.
- We took advantage of new issue discounts to generate alpha within the primary market. Bookings and Takko at either end of the ratings spectrum both came with a decent new issue premium and traded very well on the break.

## Portfolio changes and where next

We added some duration in late October and despite the rebound, we continue to run duration close to 6 years. We like Australia and have added. We still favour Germany versus Japan, France or even the UK at current differentials, with few reasons to still buy ultra long bonds. A collapse in dispersion within credit means we continue to seek opportunities to trade up in quality without giving up significant spread. We are currently finding those opportunities in the primary market where is some spread discount and believe this will continue into the year-end.

## What to watch out for next month

**Rates:** It's been all about the US elections with policy uncertainty a driver for ongoing volatility. G7 data is not strong enough to warrant current yield levels. The market is rightly concerned about expansionary fiscal policy and the potential that has to curb rate cuts. We would use any material bounce and curve flattening to tactically reduce existing positions.

**Credit:** With spreads trading at multi-year tights, we will continue to look for opportunities to trade up in quality. Political uncertainty may give us an opportunity to change tact if credit markets finally react.

Contribution and positioning information as at 30 November 2024. Yield shown is yield to worst and indicative. Source: Nedgroup Investments

1 Fund returns are in US\$ based on Class D Accumulation. Source: Morningstar

2 Returns in US\$ based on Bloomberg Global Aggregate Total Return Index (hedged to US\$). Source: Morningstar

3 Valuations are based on a medium-term outlook. For government bonds, this is determined by market returns (beta) relative to inflation/inflation expectations and real growth. For corporates, this is determined by adjusting expected excess returns for risk (default and volatility). Valuation based strategic positioning may be adjusted for shorter term technical or fundamental economic factors.

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