Nedgroup Investments Global Strategic Bond Fund

Core, Nimble, Proven

Markets were in a buoyant mood in September, much like a politician in receipt of free Taylor Swift tickets. A 50bps interest rate cut by the Fed drove most markets higher as investors grew more hopeful of further large cuts this year. Chinese stimulus towards the end of the month drove short covering in some downtrodden cyclical sectors.

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Performance and markets

Bond markets have moved to price in aggressive G7 rate cuts. That has supported most fixed income assets as well as giving a fillip to other investment classes. Total returns for the month were strong, continuing the trend of the third quarter. By the end of September markets had priced in US "terminal" Funds rate close to 2.75% by early 2026. This would represent a lower low than at any time from 1950 to 2000 but be in line with experience of the past 25 years. We remained a bit sceptical and kept overall fund risk less than index. However, we posted a small index gain (net) from successfully exploiting market volatility and through credit positioning.

Returns to (%, US$)	Fund[1]	Index[2]
September 24	1.25%	1.23%
Since Inception	6.36%	5.09%

Key performance drivers

The fund returned 1.25% against an index return of 1.23%. The majority of returns came from rising capital values as yields fell in response to central bank action. The excess return has been attributed as follows using an estimated top-down methodology.

Total excess return for the month: +2bps		
Contribution		**Positioning comments**
Duration	**-20bps**	• The fund averaged around 5 years duration, roughly 1.5 years shorter than index. Core G7 markets are priced for shallow recession. Data and central bankers do not agree.
Curve	**+10bps**	• If data deteriorates and central banks do cut really aggressively then short dated bonds will outperform. To an extent this "curve steepening" position counterbalances duration. If we had not had it, we would have had more outright duration risk.
Geography	**+5bps**	• We remained overweight Western markets. US and German bonds are a little "higher beta" than Japan, which we continue to avoid – a theme: had we owned Japan, we would have had more duration (but little more actual risk!).
Asset allocation	**+5 bps**	• Credit spreads did little over the quarter. A modest drift wider in Europe (thanks to huge supply) was more than offset by positive carry.
Credit sector/ security selection:	**+2 bps**	• No exposure to Autos which had a torrid month. • Little exposure to French credit which continued to leak wider. • Overweight defensive sectors and real estate which both outperformed.

Positioning recap and outlook

Total portfolio: Yield = 4.51% (% exc. Futures), Duration = 5.04 years, ESG rating: A

Rates (weight = 28.3% (52.2% inc. Futures), yield = 4.34%, duration = 2.54 years)

Positioning in sovereign bonds	Fund	Expected fund range	Index
	28.3%	**30 - 40%**	**53%**
Investment perspectives	**Valuations**[3] Short term expensive, Longer term fair.	**Fundamentals** Short term neutral, Medium term supportive.	**Technicals** Negative as positioning moved "long" - who is left to buy?

- At one stage eleven US rate cuts were expected.
- The Fed obliged and cut 50bps at the September meeting.
- We benefitted from an overweight to G7 (ex Japan).

Credit (IG: weight = 54.7%, yield= 4.54%, duration = 4.82 years)
(HY: weight = 12.5%, yield= 6.36%, duration = 2.57 years)

Positioning in credit	Fund	Expected fund range	Index
	Investment grade: 54.7%	**20-60%**	**19%***
	High yield: 12.5%	**20-30%**	**0%**
Investment perspectives	**Valuations** Some areas are starting to reflect a challenging manufacturing sector, but overall market remains expensive. Single As screen relatively cheap.	**Fundamentals** Fundamentals remain solid but pockets of weakness within the manufacturing sector. Autos in particular face mounting headwinds.	**Technicals** Significant issuance this month prevented spreads from tightening, but demand remains solid.

*"Pure" IG credit. Add in Structured, Agency and EM and the index has 47%

- European spreads weakened a little after huge supply weighed on the market. Auto spreads blew out after several profit warnings hit the sector on the back of disappointing EV sales. Other cyclical sectors including Luxury and Miners gained after China stimulus measures induced short covering. US spreads remained stable.

Portfolio changes and where next

There is a lot in the price for bonds now. US yields touched 3.6%, UK close to 3.75% before selling off a little into month end. We need to see more evidence that the US will cut to below 3% in less than 18 months, economic data remains robust so if the market sells off a little (for example US moving close to 4%, UK to 4.25%) we would use that modest weakening to add. Within credit, we moved spread duration a little longer in anticipation of further curve optimisation trades as rates begin to ease. We cut our UK bank exposure due to upcoming budget concerns coupled with expensive valuations. We continue to look for opportunities to switch out of some of our lower rated investment grade holdings into single A's, to take advantage of compressed spreads between the two ratings.

What to watch out for next month

Rates: Will the ECB deliver another rate cut? Markets now expect so – hence our (perhaps temporary) move slightly underweight EU rate risk. Will the UK Budget create another "Liz Truss" buying opportunity or just lead to further gentle Gilt market under performance? Could we move overweight gilts for the first time since launch?	**Credit:** Supply should ease off over the coming weeks creating a stronger technical backdrop. Autos and other cyclical sectors are repricing quite quickly. We will continue to monitor and wait for a reasonable entry point, where risks are better reflected in spreads.

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

1 Fund returns are in US$ based on Class D Accumulation, net of fees. Source: Morningstar

2 Index 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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