Wellington Global Total Return Fund (UCITS)

WELLINGTON MANAGEMENT®

MARKET REVIEW

Mounting concerns over weaker US economic growth contributed to a sharp rise in volatility in early August, though stability returned after more constructive global economic releases and US Fed rhetoric signaling rate cuts. Most fixed income sectors generated positive excess returns over duration-equivalent government bonds.

US economic data releases were mixed. Consumer confidence outpaced expectations, and personal income and spending edged higher. Employment data was generally stable as jobless claims fluctuated modestly but remained rangebound, while continuing claims moved higher. Manufacturing PMI fell below estimates and further into contractionary territory, and industrial production was adversely impacted by hurricane activity causing power outages and facility closures in the eastern Texas region. Eurozone core and headline CPI edged lower year-over-year. HCOB eurozone manufacturing PMI receded into contractionary territory. German's ZEW survey expectation showed the largest decline in economic expectation in two years. UK's S&P global manufacturing PMI beat expectations, while the house price index fell as high borrowing costs stalled growth. China's year-over-year industrial profits rose owing to increased overseas orders. Consumer inflation edged up slightly from a year ago due to extreme weather and flooding disruptions, while producer prices fell over the same period. Japan's industrial production rebounded driven by semiconductor equipment and electrical devices. Canada's annual inflation dropped to a 40-month low. Australia's Westpac leading index declined, indicating a sub-trend economic growth trajectory.

Major central banks' paths to policy normalization continued to diverge across countries and region. US Fed Chair Powell issued the strongest signal yet at the Jackson Hole Symposium that rate cuts are coming. The Bank of England and the Reserve Bank of New Zealand cut interest rates for the first time in over four years and flagged more easing over the coming months. The Riksbank cut rates by 25 basis points and sketched out more easing than previously expected in response to weaker growth. The Bank of Japan's governor Ueda reaffirmed that more rate hikes are on the table if inflation remains on track to hit the 2% target.

FUND PERFORMANCE AND ATTRIBUTION

Interest rate strategies detracted. Our short duration positions in Japan detracted. Japan bond yields moved lower over the course of August, mainly driven by softening labor market data in the US. Our tactical long to UK duration also detracted from performance as the UK Gilt yields were the exception during the global bond rally and ended higher amid sticky inflation print. The negative performance was partially offset by our tactical exposures to US duration, primarily short exposure to the intermediate and longer-dated US yields.

Currency strategies were positive. Our short USD bias against a basket of G10 currencies (primarily JPY, CAD, and NOK) contributed as the dollar experienced a broad-based depreciation against major developed-market currencies. Also additive to performance was our short MXN vs USD position as MXN continued to depreciate over the month, weighed down by concerns about the judicial reform and carry trade unwind. Partially offsetting the positive currency performance were our short ZAR and SEK exposures as both currencies appreciated in August.

Credit strategies were also positive, Our exposure to high-yield credit and investment-grade credit contributed favorably to performance over the month.

FUND POSITIONING AND OUTLOOK

We favor a curve steepening bias in US duration. We continue to believe that markets will engage with cyclical headwinds in the near term as economic data softens in the near term. It is unclear over the medium term and we anticipate rates will be higher at the long end of the yield curve, with the fiscal implications of the US election being a key catalyst.

We are short in Japanese duration with a curve flattener. We believe current policy rates are still too low given the reflation forces at play in the Japanese economy, and the probability is heavily skewed to more hikes needing to be priced in by Q1 2025.

We are short in UK duration. UK inflation is proving sticky with an improving economic growth outlook through renewed housing activity, strong consumer spending and resilient household balance sheets. We expect the BoE to engage in a more measure cutting cycle than what markets are pricing in.

Within relative value strategies, we are long Greece vs Italy, long Germany vs Italy. With regards to the Euro Area, we believe the main themes for the second half of the year are geopolitical uncertainties and fiscal trajectories. German growth continues to disappoint, while France faces a significant challenge in consolidating its public finances. Spreads will likely widen between countries and curves may steepen.
Our medium-term view remains that a stagnation of growth accompanied by structurally higher inflation would create an environment where linkers tend to outperform.

We are short in EM FX (MXN, HUF, ZAR) vs USD. We remain bearish on low-yielding APAC EM currencies, particularly HKD and CNH, on the view that wide yield differentials and weak fundamentals in the region should weigh on these currencies.

Within G10 FX, we are currently favoring AUD, NZD, and JPY versus USD. We are also short SEK. We think a gradually slowing US economy and Fed rate-cut expectations will weaken the US dollar from its current elevated level against other G10 FX.

RISKS

CAPITAL: Investment markets are subject to economic, regulatory, market sentiment and political risks. All investors should consider the risks that may impact their capital, before investing. The value of your investment may become worth more or less than at the time of the original investment. The Fund may experience a high volatility from time to time. **CREDIT:** The value of a bond may decline, or the issuer/guarantor may fail to meet payment obligations. Typically lower-rated bonds carry a greater degree of credit risk than higher-rated bonds. **CURRENCY:** The value of the Fund may be affected by changes in currency exchange rates. Unhedged currency risk may subject the Fund to significant volatility. **DERIVATIVES (D+E) (MKT):** Derivatives may provide more market exposure than the money paid or deposited when the transaction is entered into (sometimes referred to as Leverage). Market movements can therefore result in a loss exceeding the original amount invested. Derivatives may be difficult to value. Derivatives may also be used for efficient risk and portfolio management, but there may be some mismatch in exposure when derivatives are used as hedges. The use of derivatives forms an important part of the investment strategy. **EMERGING MARKETS:** Emerging markets may be subject to custodial and political risks, and volatility. Investment in foreign currency entails exchange risks. **HEDGING:** Any hedging strategy using derivatives may not achieve a perfect hedge. **INTEREST RATES:** The value of bonds tends to decline as interest rates rise. The change in value is greater for longer term than shorter term bonds. **LEVERAGE:** The use of leverage can provide more market exposure than the money paid or deposited when the transaction is entered into. Losses may therefore exceed the original amount invested. **MANAGER:** Investment performance depends on the investment management team and their investment strategies. If the strategies do not perform as expected, if opportunities to implement them do not arise, or if the team does not implement its investment strategies successfully; then a fund may underperform or experience losses. **QUANTITATIVE MODEL/SYSTEMS:** The Fund uses quantitative investment models in the management of this investment strategy. Assumptions employed in the models used could over time prove to be incorrect which may have a negative impact on the investment performance. **SHORT SELLING:** A short sale exposes the Fund to the risk of an increase in market price of a security sold short; this could result in a theoretically unlimited loss. **SUSTAINABILITY:** A Sustainability Risk can be defined as an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

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