Wellington Global Bond Fund

WELLINGTON MANAGEMENT®

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MARKET REVIEW

Broadly encouraging economic releases contributed to rising sovereign yields, against the backdrop of political uncertainty stemming from the US elections and intensifying tension in the Middle East. Most fixed income sectors outperformed duration-equivalent government bonds.

US economic data releases were mixed, strained in part by the impact of two major hurricanes. The unemployment rate held steady and weekly jobless claims were range bound, while nonfarm payrolls fell short of expectation. Retail sales broadly gained across most categories, however consumer remained frustrated by persistently high prices. The ISM manufacturing index continued in contraction territory as production and demand cooled, while cost of inputs remained a hinderance. Eurozone annual inflation edged higher, while constrained new orders and backlogs weighed on manufacturing PMI. Germany's IFO business climate index rose, with assessment of current conditions and expectations both improving. UK's S&P global manufacturing PMI dipped slightly but stayed in expansionary territory as an improvement in new orders was offset by the increased cost of raw materials. China's Caixin manufacturing PMT beat expectations as new orders grew at the fastest rate in four months. Industrial production advanced, owing to equipment sector and high-tech manufacturing. Japan's machine tool orders, a leading indicator of future capital spending, declined on the year. In Canada, auto purchases lifted retail sales, the unemployment rate ticked down, and urban housing starts advanced.

Major central banks' paths to policy normalization diverged; however, global developments pointed to a potential slowdown in rate cuts. The ECB cut rates for a third time, as anticipated. In the UK, Chancellor Rachel Reeves' Budget announcements would add up to £141 billion net borrowing over the next five years, significantly higher than the levels expected in the March Budget and the £85 billion consensus. Most other major central banks left policy rates unchanged.

FUND PERFORMANCE AND ATTRIBUTION

Interest rate strategies were positive. Our underweight to long-dated US Treasury yields contributed favorably to performance as US yields moved higher over the month. The resilient US labor market, resurgent oil prices on fears of an escalating Middle East conflict, and the prospect of a prolonged US port strike raised concerns about revived inflationary pressures, resulting in markets pricing fewer rate cuts by the Fed. Mounting uncertainty surrounding US election also added to the upward pressure facing Treasure yields. The positive performance was partially offset by our overweight to the front-end of the curve.

Currency strategies were negative. Our short USD bias against a basket of G10 currencies (primarily EUR, NZD and AUD) detracted from performance. The US dollar appreciated against major developed market currencies in October, helped by tempered expectations for Fed rate cuts and betting markets increasingly pointing to a Trump second term. Partially offsetting the negative performance was our short SEK and CHF as the currencies depreciated over the month.

Credit strategies were positive, Our overweight to investment grade credit was additive, as credit spreads tightened over the month generating positive excess returns relative to duration-equivalent bonds.

FUND POSITIONING AND OUTLOOK

We favor a curve steepening bias in US duration, and eurozone duration. We still see misalignment between cyclical and structural forces, although the gap has been closing since the Fed's September rate-cut. The US election is a binary event, and a Republic Sweep would be a critical catalyst for the longer end of bond markets to start engaging with higher risk premia and higher yields, given the combination of much higher fiscal budget deficits and more constrained supply (tariffs and immigration restrictions)

We are overweight duration in smaller, open economies (Australia, New Zealand). Smaller, open economies have significantly higher level of household debt than their developed-market counterparts. Labor markets and inflation are also weaker in many of these countries. In the event of meaningful growth slowdown, we expect rates to fall at a more rapid pace and by a greater magnitude in in these countries.

We are underweight Japanese duration with a curve flattener. In Japan, we believe current policy rates are still too low given the reflation forces at play in the economy. The probability is skewed to a faster normalization through 2025, and the policy rate should be nearer 1% over the next 12 months.

We are underweight UK. The Bank of England has shown a clear dovish bias in its interpretation of data. With loose fiscal policy due to an expansionary budget alongside easing credit conditions, sticky inflation, and multi-decade low unemployment rate, we expect the BOE to scale back its rate-cutting cycle.

We continue to to hold a short USD bias versus G10 FX is primarily expressed via overweight exposures to AUD and JPY. We think a gradually slowing US economy and Fed stance on rate cuts will weaken the US dollar from its current elevated level against other G10 FX.

We are underweight low-yielding APAC EM FX (CNH) while maintaining long exposures to an overall diversified basket of EM FX. We remain bearish on Chinese currency against a backdrop of weak growth and low inflation, though we are mindful of policymakers' pro-growth stance and the impact of Fed easing.

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