FUND COMMENTARY | August 2024

Wellington Global Bond Fund

WELLINGTON MANAGEMENT®

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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 underweight exposures to Japanese duration and longer-dated US duration were the main detractor over the month. Sovereign bond yields moved lower across major developed economies including Japan and the US, mainly driven by softening labor market data in the US and markets' pent-up expectations that the Fed will start cutting rates in September. This was partially offset by our overweight exposures to front-end and intermediate US duration which helped performance during rates rally.

Currency strategies were positive. Our short USD bias against a basket of G10 currencies (primarily EUR, AUD, NZD, and NOK) contributed as the dollar experienced a broad-based depreciation against major developed-market currencies. Partially offsetting the positive performance were our underweight exposures to SEK and CHF as both currencies appreciated in August.

Credit strategies contributed, Our overweights to investment-grade corporate credit and EM debt allocation were positive. Global credit bonds outperformed duration-equivalent government bonds. Emerging market debt generated positive returns. Spread narrowing contributed favorably to external debt performance, while a decrease in US Treasury yields also had a positive impact. EM currencies appreciation drove the positive performance within local markets, and EM rates also had a positive impact.

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. Over the medium term, it is unclear whether inflation can be sustainably reduced back towards the Fed's 2% target. Later this year we anticipate rates will be higher especially at the long end of the yield curve, with the fiscal implications of the US election being a key catalyst.

We are overweight duration in smaller, open economies (Australia, New Zealand, Norway). They have significantly higher level of household debt than their DM counterparts and as a result display higher interest rate sensitivity.

We are underweight Japanese duration. 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 underweight UK. 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.

We continue to to hold a short USD bias versus G10 FX is primarily expressed via overweight exposures to AUD, NZD and EUR, GBP and JPY. We will be highly tactical in our JPY positioning. 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.

We are underweight low-yielding APAC EM FX (HKD, CNH) while maintaining exposures to an overall diversified basket of EM FX. 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.

PAST PERFORMANCE DOES NOT PREDICT FUTURE RETURNS. AN INVESTMENT CAN LOSE VALUE.

Fund performance is based on EUR S Acc Hdg share class and are net of fees and expenses. Other share class performance may differ.| Index used in the calculation of attribution data: Bloomberg Global Aggregate.| Fund performance is net of actual (but not necessarily maximum) withholding and capital gains tax but are not otherwise adjusted for the effects of taxation and assume reinvestment of dividends and capital gains.| If an investor's own currency is different from the currency in which the fund is denominated, the investment return may increase or decrease as a result of currency fluctuations.| The views expressed are in the context of the investment objective of the Fund only and should not be considered a recommendation or advice.

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