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## MARKET REVIEW

Growing geopolitical tensions and tariff concerns dominated headlines. Credit spreads tightened and most spread sectors posted positive excess returns.

Global sovereign bond yields ended mixed, following further divergence in policy rate trajectory. Canadian bond yields led the declines, driven by the BOC's rate-cut on mounting US tariff concerns. US Treasury yields experienced volatility, rising initially on stronger employment data then plunging following equity market sell-off triggered by DeepSeek news. UK gilt yields rallied particularly on the front end of the curve, amid cooling inflation and deteriorating consumer confidence. German bund yields moved up across all tenors despite the ECB's dovish rate stance, influenced by the delayed implementation of tariffs by the Trump administration. In APAC, Japanese government bond yields (JGBs) reached a three-year high as the BOJ raised its short-term rate target to the highest level in 17 years, and signalled more hikes ahead given sustained inflationary pressures.

The USD ended mixed versus major developed- and emerging-market currencies. Among G10 currencies, the USD firmed against the CAD, GBP, CHF, and SEK. The Fed left rates unchanged awaiting further inflation and jobs data, and clarity on the impact of Trump's policies. Geopolitical tensions and challenging growth outlook outside the US further boosted the dollar's strength. Conversely, the USD weakened against the JPY, NZD, and AUD. The JPY appreciated after a stronger-than-expected wage growth announcement raised expectations for another rate hike later this year. In EM FX, performance was mixed. LATAM currencies, led by the BRL, generally gained versus the greenback amid tentative optimism about a delay in tariff announcements.

## FUND PERFORMANCE AND ATTRIBUTION

Interest rate strategies were positive. Our flattening bias in Japan was a contributor to performance this month. Japanese government bond yields reached a three-year high in January as the BOJ raised its short-term rate target to 0.5%. Our US yield curve steepener detracted from performance this month. US Treasuries flattened in response to fears over tariffs as the short end rose in response to near-term inflationary pressures, while the long end fell over muted growth expectations. Additionally, the Fed left rates unchanged, awaiting further inflation and jobs data as well as clarity on the impact of Trump's policies. Country relative value strategies modestly detracted. Our long Germany versus short France position detracted. Spreads narrowed as the French political situation further stabilized. The Prime Minister Bayrou survived a vote of no confidence and passed the budget.

Currency strategies were negative. Our tactical positioning in a basket of G10 FX (notably our longs in AUD, NZD, EUR and GBP) versus the USD detracted from performance. Stronger than expected US retail sales data and President Trump's announcement of tariffs on Canada, Mexico and China caused notable market volatility during this period which led to USD outperformance relative to these currencies. Our long USD versus JPY was a primary contributor, offsetting the negative performance. JPY weakened to a five-month low while markets digested the Fed's hawkish cut and the BoJ's rate hike uncertainty.

Credit strategies were positive. Our overweight to emerging market debt was additive to performance, as was our overweight to and security selection within investment-grade corporate credit.

## FUND POSITIONING AND OUTLOOK

We favor an underweight to US duration. In the near term, tariffs should imply higher inflation and higher volatility around that trend. We think the Fed will be more focused on guarding against upside inflation risk in the near term, and the first move from the market should be pricing out more cuts. Additionally, the flipside to the growing US trade deficit has been significant capital flows into the US, which in turn has compressed term premia over the past 2-3 decades. If tariffs are successful at reducing the US trade imbalances, the counterpart will be a reduction in net capital flows into the US. That, combined with the other structural forces at play, suggest higher risk premia and higher bond yields on the long end of the curve.

We are neutrally positioned in eurozone duration. Sentiment around eurozone growth is likely to stay negative in the near term given its exposure to US tariffs and deglobalization, political uncertainty and fiscal unsustainability. The ECB could cut rates below neutral if aggressive tariffs push the eurozone into a recession. If tariffs are not enacted, the continued stickiness of the euro area core inflation data are likely to constrain how far the ECB can cut.

We are underweight Japanese duration. There is still a large mismatch between Japan's reflating economy and market pricing for interest rates. We expect front-end yields to climb steadily towards the BOJ's target of 1% by the summer of 2025, as deflation risks have now firmly given way to a reflation story.

We are tactically overweight JPY, AUD and NZD and underweight select DM European currencies (CHF). We expect the US dollar to be rangebound in the near term and therefore will be more tactical in our dollar positioning against other G10 currencies. We are currently favoring JPY, AUD, and NZD within the G10 cohort given attractive valuations, and whilst we are more negative on CHF due to the cyclical headwinds and a central bank that is set to keep reducing interest rates.

We are underweight to APAC EM FX, notably CNH. We retain a bearish negative outlook on the Chinese currency relative to the US dollar.

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

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