Wellington Opportunistic Fixed Income Fund

WELLINGTON MANAGEMENT®

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MARKET REVIEW

- Market volatility fell following Donald Trump's win in the US presidential election amid speculation that his economic policies would boost growth and corporate earnings. Most fixed income sectors outperformed on an excess return basis.
- US economic releases were largely positive. Consumer data was upbeat, encouraged by higher confidence in prospects for business conditions and employment. Personal income and spending grew, buoyed by an underlying trend of a well-supported consumer. Retail sales benefited from consumers ramping up spending on cars and electronics. Most employment data held steady, notwithstanding a sudden dip in job growth in October that was impacted by strikes and hurricanes. Annual inflation ticked higher, with core personal consumption expenditures (PCE) index and producer prices excluding food and energy both slightly exceeding the previous levels. A decline in demand for transportation equipment dragged down factory orders. The manufacturing PMI remained below expansionary threshold according to S&P Global, while the services PMI posted solid growth. In housing data, pending home sales beat expectations with the Northeast and West regions leading the gains.
- HCOB eurozone manufacturing PMI dipped further into contraction territory and industrial production slowed. Germany's IFO business climate index weakened and assessment of current conditions and expectations both fell. UK's annual headline inflation reached the highest level since April, while industrial production declined.

FUND PERFORMANCE AND ATTRIBUTION

- The portfolio generated positive total returns during the month of November.
- Over the month of November, positive total returns were driven by our strategic sector and tactical positions. Relative value positions had a negative impact during the period.
- Within our Strategic sector, positive performance was driven by our Core Challenges and Activist Government theme. EM Opportunities modestly benefitted performance over the month. Within emerging markets, local markets debt underperformed external debt. Spread narrowing contributed favorably to external debt performance, and a decrease in US Treasury yields also had a positive impact. EM currencies depreciation drove the negative performance within local markets, while EM rates benefited results.
- Within Relative value, exposure to Discretionary Macro Rates, Global Credit Absolute Return, and Opportunistic Currencies had a negative impact on performance. The USD appreciated against most developed-market and EM currencies, fueled by Trump's victory and a Republican sweep as investors expected the new administration's policies to have a significantly positive impact on the US dollar. Among the G10 FX, the EUR was weighed down by eurozone's heavy reliance on exports, significant exposure to China, and gloomy economic growth. The JPY gained against the USD, driven by renewed speculation of a BOJ December rate hike. In EM FX, performance was broadly negative, driven by Trump's latest threats to impose stiff tariffs on imports from China and Mexico. LATAM currencies led the underperformance. The BRL plunged to an all-time low as the proposal to cut public spending disappointed increasingly concerned investors. The ZAR slumped, affected by softer gold prices, a stagnating Chinse economy, and uncertain future US policy.
- Within Tactical strategies, positive performance was driven by our exposure to Duration Management and Agency mortgages. Agency MBS outperformed duration-equivalent Treasuries. MBS spreads tightened and rates largely moved lower, particularly after the US elections, as the market gained clarity on the political balance of power and the Fed delivered a second cut. Within the sector, conventional mortgages outperformed GNMA mortgages.

FUND POSITIONING AND OUTLOOK

- 2024 thus far has presented a favorable environment for US assets (equities and credit) as market pricing has now fully engaged with a soft landing. We are regularly asked "when will the business cycle turn and send the US into recession?" Implicit in this query is the idea that economic cycles should dictate asset-price returns. But this is rarely the case. The slowdown caused by the COVID-19 pandemic, for example, was the worst economic recession since the Great Depression yet its impact on asset prices was short-lived, thanks to the unprecedented fiscal and monetary response in the US and around the world. More recently, US housing starts — a key leading economic indicator — have been anemic, yet most homebuilder stocks have outperformed owing to a structural lack of inventory. These dynamics suggest that the relationship between asset prices and the economic cycle is tangential at best, and that individual industries and market segments can experience ups and downs independent of broader macroeconomic trends.
- The US Federal Reserve's (Fed's) recent interest-rate cut (and Chair Powell's subsequent commentary) could have a meaningful impact on the relative cycles of a number of industries, so it is first important to decipher what this last meeting could mean for future policy. The market seems enamored with the question of whether the Fed will cut 25bps or 50bps next meeting. The more salient point is that the Fed no longer believes the labor market to be a significant source of inflation and is therefore shifting to its pre-pandemic policy of aligning the fed funds rate with its view of the neutral rate of the economy — currently around 3%. This theory was all but confirmed in the Fed's September "dot plot," with the median FOMC participant indicating that future cuts would achieve the central bank's estimate of neutral by the end of 2025. Unless inflation surprises meaningfully to the upside, the state of the US labor market should continue to be the best clue of how close the Fed believes rates are neutral.
- We continue to source our duration risk globally either through global inflation-linked bonds, Emerging Market Local Bonds or our Core Challenges, where we are trying to find government bonds in countries with much more sustainable fiscal trajectories, and who will be less sensitive to the political outcome in the next few weeks. We expect continued cyclical volatility from a slowing US economy and electoral uncertainty, but perhaps more resilient global economy and believe our Relative Value allocations have the capabilities to monetize this volatility much like they did in the third quarter.

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

Fund performance is based on USD S Acc share class and are net of fees and expenses. Other share class performance may differ.| Index used in the calculation of attribution data: Non-benchmark Relative Strategy.| 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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