# Wellington Opportunistic Fixed Income 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 credit rose on account of higher auto and student loan balances. According to the Conference Board Index, consumer confidence outpaced expectations, and personal income and spending edged higher. An increase in exports of industrial supplies contributed to a narrower US trade balance, while retail sales posted modest gains owing to lackluster auto sales. 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. Conversely, the services sector posted gains with strong details across new orders and prices paid. Durable goods orders spiked amid a surge in transportation equipment orders. Pending home sales plunged as affordability remained an issue for homebuyers. Refinancing activity picked up considerably earlier in the month, but then declined as mortgage rates stabilized.
- Eurozone core and headline CPI edged lower year-over-year. Eurozone manufacturing PMI receded deeper into contractionary territory. Germany'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.

## FUND PERFORMANCE AND ATTRIBUTION

- The portfolio generated positive total returns during the month of August.
- Positive total returns were driven by our Strategic sector positions, followed by Tactical and Relative Value positions. Duration drove positive total returns at the portfolio level, while credit exposure modestly benefitted performance.
- Within our Strategic sector, exposure to EM Opportunities and Activist Governments were the largest contributors. Within emerging markets, local markets debt outperformed external debt. 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.
- Within our Relative value theme, exposure to Global Credit Absolute Return, and Opportunistic Currencies had a positive impact on results. The USD experienced a broad-based weakening against all major developed-market currencies, driven by expectations that the Fed will cut rates in September. Among the G10, high beta currencies (NZD, SEK, AUD) led the gains. Carry trade unwind and safe-haven demand boosted CHF and JPY. European currencies (EUR, GBP) appreciated against the US dollar, partly due to reduced domestic political noise, but the move was primarily driven by the repricing of the Fed rate-cut expectations. Within EM, many high-yielding currencies (such as MXN, TRY) depreciated because of the global unwinding of currency trades.
- Within our Tactical sector, exposure to Agency Mortgages and Duration Management contributed to performance over the period.

## FUND POSITIONING AND OUTLOOK

- Over the last year, we have been positioning the portfolio for decelerating US data particularly compared to the rest of the world. This has largely not occurred because of robust fiscal spending in the US despite very high level of interest rates. However, the growth rate of government spending is slowing and consumer excess savings accumulated during Covid have been largely exhausted, leading US economic data to start weakening markedly.
- We also believe that the inflation data has now come in weak enough to justify the beginning of a Fed cutting cycle. The June core CPI print showed a month-over-month change of only 0.065%; this is the lowest monthly change since the US economy was in the throes of the pandemic. In addition, core CPI less shelter has been in deflation over the past two months, and has only grown 1.8% over the past year, which is similar to its growth rate pre-pandemic. Shelter inflation, which is the largest component of CPI, has been very high and sticky, but even this component is starting to decelerate. Shelter tends to be the most lagging part of inflation, and it makes very little sense for the Fed to wait to cut interest rates until shelter inflation returns to trend. In our opinion, the Fed already has enough data that inflation will converge to its 2% target over the medium term.
- We view the opportunity set in fixed income as one of the most attractive we have seen in our careers, and although volatile, it is an environment where our philosophy and process have served us well in the past. Despite the initiation of rate cutting cycles around the world, we believe that clients have not yet missed the opportunity to add fixed income to their portfolios. History has demonstrated that bonds outperform cash after the Federal Reserve stops hiking, making now an opportune time to move out on the risk spectrum from cash to high quality total return fixed income strategies like Opportunistic Fixed Income.

**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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**BELOW INVESTMENT GRADE:** Lower rated or unrated securities may have a significantly greater risk of default than investment grade securities, can be more volatile, less liquid, and involve higher transaction costs. **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. **CONCENTRATION:** Concentration of investments within securities, sectors or industries, or geographical regions may impact performance. **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. **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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