Global Fixed Income

April 2024 review

Liontrust GF Strategic Bond Fund

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The Liontrust GF Strategic Bond Fund returned -2.7%* in US dollar terms in April. The average return from the EAA Fund Global Flexible Bond (Morningstar) sector, the Fund's reference sector, was -1.0%.

Market backdrop

The main theme in April 2024 was the continued stubbornness of inflation data, particularly services inflation. In recent months, the market has moved from pricing in a significant number of interest rate cuts to the point where there are barely any cuts expected by the end of the year – 28 basis points (bps) to be precise. This has translated into a substantial move in bond yields, with, for example, US ten-year treasuries around 37bps higher on the month, and c.80bps higher year-to-date.

Although equity markets reacted somewhat negatively to higher yields (with a bit of geopolitics thrown into the mix), credit has remained relatively unperturbed – indeed, US investment grade spreads are 2bps tighter over the month. It seems pretty clear that the all-in yield argument continues to win the debate (versus the tightness of spreads) in terms of the market's appetite for credit.

As mentioned, services inflation remains troublesome. This contributed 3.18% to the overall inflation (3.5%) basket in March. Within services, a large portion is in relation to shelter inflation; this is on a downward trend, but progress is very slow and the gap between observed rents and the CPI measures remains. We note the heat in so-called 'supercore' services (services inflation ex housing measures) which were up 0.65% month-on-month taking the annual rate to 4.80%.

In the UK, there were similar signs of stubbornness, with services the biggest headache. UK consumer price inflation (CPI) was up 0.6% month-on-month in March (consensus 0.4%, prior 0.6%) taking the annual rate to 3.2% (consensus 3.1%, prior 3.4%). Core CPI for the rolling year was also above expectations at 4.2% (consensus 4.1%, prior 4.5%) with the overshoot driven by services inflation at 6.0% (consensus 5.8%, prior 6.1%).

From an inflation perspective, Europe is in better shape, though data showed CPI dropping at a slower rate than expected. With core CPI at 2.7%, the conversation on the continent is whether the ECB will cut in June, not if the ECB will cut at all, as has been the case across the Atlantic.

Fund positioning and activity

Rates

There were only minor adjustments made to rates positioning during April, with Fund duration slightly over 7.5 years. This is split between 3.4 years in the US, -0.6 years in Canada, 1.3 years in New Zealand, 2.1 years in the Eurozone, and 1.3 years in the UK. We continue to prefer short-dated and medium-dated bonds; the net duration exposure in the 15+ year maturity bucket is close to zero.

Allocation

While the total yield on corporate bonds is attractive, credit spreads are expensive. We remain of the view that, although credit has shrugged off higher rates so far this year, persistently higher rates can't be sustainably good for credit fundamentals and spreads are priced pretty much for perfection. The Fund has around 40% exposure to investment grade credit; this is below our 50% neutral level. Similarly, high yield exposure is below our 20% neutral at 15%; the weighting in bonds is 20.5% and there is a 5.5% risk reducing overlay.

This aggregate underweight position in credit gives the Fund a lot of risk budget to buy once credit spreads widen. We are targeting adding exposure to corporate bonds during a period of volatility as opposed to anticipating a lurch higher in defaults and the permanent destruction of capital.

Selection

The Fund had very low turnover in corporate bonds this month. Although we did not participate, we note the new unsecured issue by CPI Property at the end of the month. Is this tangible evidence of the unthawing of credit markets for real estate issuers? We retain a holding in the hybrid bond which has been a strong performer in the year to date. Indeed, real estate bonds have added close to one percentage point to the Fund's total return this year, which has cushioned significantly the relative credit under-weight in the Fund.

Discrete years' performance (%) to previous quarter-end**:

	Mar-24	Mar-23	Mar-22	Mar-21	Mar-20
Liontrust GF Strategic Bond B5 Acc	7.7%	-3.9%	-4.0%	13.2%	-0.4%
EAA Fund Global Flexible Bond - USD Hedged	7.4%	-3.2%	-3.1%	12.7%	-1.9%

**Source Financial Express, as at 30.04.24, total return, B5 share class. Discrete data is not available for ten full 12-month periods due to the launch date of the portfolio (13.04.18).*Source: Financial Express, as at 31.03.24, B5 share class.

For a comprehensive list of common financial words and terms, see our glossary at: https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

Key Features of the Liontrust GF Strategic Bond Fund

Investment objective & policy[1]	The investment objective of the Fund is to maximise total returns over the long term through a combination of income and capital. The Fund will seek to achieve its objective by investing in bond and credit markets worldwide. The Fund invests in a wide range of bonds issued by corporates and governments, from investment grade through to high yield. The Fund invests in developed and emerging markets, with a maximum of 40% of its net assets invested in emerging markets. Investments may be made in "hard" currencies, such as US Dollar, Euro and Sterling, and up to 25% of the net assets of the Fund may be invested in soft currencies, such as those of emerging markets. Where the Fund invests in non-US Dollar assets, the currency exposure of these investments will generally be hedged back to US Dollar. Up to 10% of the Fund's currency exposure may not be hedged, i.e. the Fund may be exposed to the risks of investing in another currency for up to 10% of its assets. The Fund may invest both directly, and through the use of derivatives. The use of derivatives may generate market leverage (i.e. where the Fund takes market exposure in excess of the value of its assets). In addition, the Fund may invest in cash or cash equivalents, such as deposits and Money Market Instruments, for cash management purposes. Within the limits stated above, there are no geographical or economic sector restrictions on the Fund's investments. The Fund has both Hedged and Unhedged share classes available. The Hedged share classes use forward foreign exchange contracts to protect returns in the base currency of the Fund. The fund manager considers environmental, social and governance ("ESG") characteristics of issuers when selecting investments for the Fund.
Recommended investment horizon	5 years or more
Risk profile (SRI)[2]	3
Active/passive investment style	Active
Benchmark	The Fund is actively managed without reference to any benchmark meaning that the Investment Adviser has full discretion over the composition of the Fund's portfolio, subject to the stated investment objectives and policies.
Sustainability profile	The Fund is a financial product subject to Article 8 of the Sustainable Finance Disclosure Regulation (SFDR).

Notes: 1. As specified in the PRIIP KID of the fund; 2. SRI = Summary Risk Indicator. Please refer to the PRIIP KID for further detail on how this is calculated.

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Key Risks

Past performance does not predict future returns. You may get back less than you originally invested. We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

The fund manager considers environmental, social and governance ("ESG") characteristics of issuers when selecting investments for the Fund.

Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay.

Overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.

The Fund can invest in derivatives. Derivatives are used to protect against currency, credit or interest rate moves or for investment purposes. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions.

The Fund uses derivative instruments that may result in higher cash levels. Cash may be deposited with several credit counterparties (e.g. international banks) or in short dated bonds. A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

The Fund invests in emerging markets which carries a higher risk than investment in more developed countries. This may result in higher volatility and larger drops in the value of the fund over the short term.

The Fund may encounter liquidity constraints from time to time. Participation rates on advertised volumes could fall reflecting the less liquid nature of the current market conditions.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

Disclaimer