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Capital is at risk. Please read full risk warning at the end of this document.

Monthly Commentary: July 2024

Bond Income

- Cautious approach designed to capture upside while limiting effects of market falls
- Unconstrained strategy – invests in government and corporate bonds globally
- Portfolio is diversified by geography, credit rating and duration

The fund returned +0.02% over the second quarter of 2024, modestly underperforming the IA Sterling Corporate Bond sector return of +0.10%.

Market Review

Volatility in bond markets was evident once again as investors and policy makers struggled to interpret incoming economic data and thus form accurate expectations for the future path of growth, inflation and monetary policy. Despite this, yields largely ended somewhat higher over the period.

While none of the world's most significant central banks have cut interest rates yet, some of the smaller developed market central banks began this process towards the end of the period. The Swiss National Bank, the Riksbank in Sweden and the Bank of Canada have now all begun their easing cycles with more cuts expected from all. Many emerging market central banks had also already begun their easing cycles.

Corporate bond markets exhibited greater volatility and some weakness during the quarter – largely in response to political events in France. The right-wing victories in the European Elections led President Macron to call a snap election with the decisive second round to take place in early July. The shock of the announcement, and fears about the extent of popular support for extreme parties of the left and right, saw a dramatic negative repricing of risky assets across Europe and France in particular.

Fund Performance and Activity

The fund maintained a 100% weighting to corporate bonds denominated in GBP over the quarter. Activity was focused on the reduction of credit risk as we anticipate a less risk-asset friendly environment as we approach the end of the economic cycle. Notable sales included **Volkswagen**, **Wells Fargo, Investec** and **IG Group**.

Market Outlook

Like other investors we have, at times, found it difficult to credibly weave all the new information on the economy into a credible and complete narrative. It seems highly likely that we have continued to observe disruption resulting from the pandemic and its aftereffects – not only in terms of data direction, interplay and magnitude but the quality of that data too.

Notwithstanding this fact, our analysis and assessment continues to suggest several key considerations. Firstly, that we are late in the economic cycle and as such we anticipate slowing growth, weakening labour markets and ultimately falling wage growth and inflation. The timings remain uncertain, but the direction of travel seems clearer. Secondly core government bond yields are attractive relative to the rich valuations (price-to-earnings ratios) observed in equity markets and corporate bond markets (tight spreads).

Data source: Morningstar and Marlborough.

The combination of these conclusions informs our belief that a more defensive posture is warranted as we move through the second half of this year and the major central banks begin easing policy in the face of weaker economies.

Risk Warnings

Regulatory Information

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