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

Monthly Commentary: August 2025

## Global Corporate Bond

- 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

### Fund Performance

The fund returned +0.22% in July, modestly underperforming the IA £ Corporate Bond sector average (+0.28%) and median (+0.27%).

### Market Commentary

Bond markets continue to be trapped in a spiral of unusual, unprecedented, unorthodox, and conflicting forces. Trade policy looks like a clear economic negative almost everywhere, but with so little clarity or certainty about the end game for each country's new US tariff regime, it's impossible to accurately quantify the effects.

Meanwhile, in the US, it seems likely that the impact on prices will be in opposition to the impact on growth and confidence from the point of view of the Federal Reserve's (the Fed) mandate – what do policy makers do with lower growth and higher inflation? The answer is never clear but abundantly less so in this period of hyper-uncertainty. As if this wasn't bad enough, the President has continually raised the temperature of his public criticism of the Fed in general, and chair Jay Powell in particular. This has the potential to impede the Fed's willingness to cut rates lest they be accused of politicisation. Economic data then gives and takes away in equal measure – we see the trend as overwhelmingly towards slower growth, a weaker labour market and normalised inflation but the volatility and uncertainty around that trend, on a week-by-week basis, allows for as many interpretations as there are US tariff rates.

During July, the bond bears had the upper hand and thus yields drifted somewhat higher over the month. This assisted a countertrend recovery in the US dollar after what had been its weakest start to a year in living memory. The likelihood is that this small appreciation in the Greenback reflects the extent to which a lot of faster moving investors had piled into dollar shorts. Their tight risk tolerances resulted in a series of "stop-outs" which became a self-fulfilling prophecy. Underneath the hood, we still assess the future as looking dark for the world's reserve currency.

In Europe, we had an ECB meeting that didn't result in an interest rate cut for the first time in over a year (following eight consecutive 25bp cuts prior to their July meeting). As with other central banks, the ECB's Governing Council must weigh a melting pot of uncertain and conflicting drivers. Given the nature of the monetary union these drivers will manifest very differently at the national level. Conflicting and dissenting opinions within the committee of policy makers are inevitable in such a scenario. On balance, we therefore think that the ECB is at, or very close, to the end of their cutting cycle absent a significantly more serious downturn in the economy (a scenario we certainly do not discount).

The UK continues to face uncertainty, both within the government and the Bank of England. The government is being stretched to its limits between a desire to placate bond markets and a desire to play to the left-wing base and spend borrowed money like its going out of fashion. They therefore are currently doing a superb job of pleasing no-one. The Old Lady of Threadneedle Street isn't helping much as the 9-person monetary policy committee, like their cousins at the Fed and ECB, is home to a diverse range of opinions about what to do when debt is high, growth is soft, and inflation is too high. The old Irish joke says something about "not starting from here" unfortunately very few dissenting voices were heard when the political decisions which created this mess were being made. Both European and UK yields drifted higher along with the US resulting in a rather listless performance for bond markets in general.

Corporate bonds certainly fared better than their safer, government-issued cousins. Many investors see the lack of imminent recession as ample justification to continue buying riskier corporate securities at increasingly tight spreads (the extra yield on offer in risky bonds compared to safer government bonds). EU bonds outperformed over the month, tightening around 12bps whilst UK and US corps tightened around 6bps.

## Portfolio Activity

Activity was fairly light throughout July as we remain cautious in our outlook. Our strategy has been to diversify globally and take value opportunities when they arise. As spreads have become rather compressed, a high level of prudence is needed. There are, however, still opportunities to find value. One such case was a further addition to our holding of **PEMEX** which saw the Mexican government raise ~10bn capital to inject into the business. This further supported our view that the bonds should be priced closer to government risk and that there is value there.

## Investment Outlook

We continue to assess that the global economy is in an end of cycle process and as such we favour a defensive posture in the fund. Rate cut pricing has been ebbing and flowing as economic data and economic policy create significant confusion. However, our assessment is that these now only just represent a return to neutrality let alone a provision of stimulus. Thus, in most scenarios we expect more cuts to be delivered relative to what the market currently prices. This asymmetry continues to inform our portfolio allocation.

Our investment position however does not rely on us timing rate cuts, rather it is based on our assessment that government bonds are cheap relative to the likely range of possible outcomes, whereas corporate bonds look expensive on the same metrics.

The return of Donald Trump to the White House has created near unprecedented policy uncertainty. This presents multiple risks to the outlook with potentially dramatically divergent impacts on bond and currency markets. We remain highly vigilant to the effects of these changes and stand ready to materially amend our view and our positioning accordingly. We assess the most likely impact to be weaker near-term growth.

We are increasingly looking to the emerging market world as an attractive diversifier and value proposition. With more economic orthodoxy than the developed world in many cases, high real rates and thus attractive valuations we believe that EM debt can perform strongly within an end of cycle phase which usually presents challenges for the asset class. This view is further emboldened by our negative stance on the US dollar. There are many potential drivers of a weak US dollar. Our analysis suggests that the existence of a huge and unsustainable imbalance in US dollar exposure globally is the more likely driver of a secular decline in the Greenback. Europe, Japan, Taiwan, South Korea and others have built up historically large US asset exposures with historically low hedge ratios. The likelihood is that hedge ratios must increase and thus create a self-fulfilling decline in the value of the dollar.

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## Risk Warnings

Capital is at risk. The value and income from investments can go down as well as up and are not guaranteed. An investor may get back significantly less than they invest. Past performance is not a reliable indicator of current or future performance and should not be the sole factor considered when selecting funds. Our funds invest for the long-term and may not be appropriate for investors who plan to take money out within five years. The Fund has exposure to bonds, the prices of which will be impacted by factors including; changes in interest rates, inflation expectations and perceived credit quality. When interest rates rise, bond values generally fall. This risk is generally greater for longer term bonds and for bonds with perceived lower credit quality. The Fund invests in other currencies. Changes in exchange rates will therefore affect the value of your investment. In certain market conditions some assets may be less predictable than usual. This may make it harder to sell at a desired price and/or in a timely manner. In extreme market conditions redemptions in the underlying funds or the Fund itself may be deferred or suspended. The insolvency of any institution providing services, such as safekeeping of assets or holding investments with returns linked to financial contracts (known as derivatives), may expose the Fund to financial loss. The Fund may enter into various financial contracts (known as derivatives) in an attempt to protect the value of the Fund's assets or to reduce the costs of investing, although this may not be achieved.

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