Marlborough

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

Monthly Commentary: November 2024

Global 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 -1.42% in October, underperforming the IA Global Mixed Bond sector average (-0.40%) and median (-0.64%).

Market Commentary

October proved to be a fairly dramatic month for bond markets as better US data, combined with rising expectations for a win for former President Trump in the upcoming US election, reignited growth and inflation concerns which may reduce the ability, or willingness, for the Federal Reserve (Fed) to ease monetary policy in the year ahead.

That's a long way of saying that yields rose significantly. The benchmark US 10y yield rose by 50bps over the month marking one of the worst months for Treasuries since the inflation-driven bond bloodbath of 2022.

UK Gilt yields rose by a similar amount – initially dragged higher by the aforementioned US forces but latterly playing catchup following Chancellor Rachel Reeves' first budget. While much of the detail had been leaked in advance, in the end markets took fright at the extent of "tax and spend". Borrowing will be higher by around £142billion over the 5-year period and this weighed on the sentiment of bond investors driving the 10y yield over 4.5%.

Bond markets were more quiescent in Europe – largely because economic data from the region has been more consistently negative when compared to the US in particular. The spread between German bunds and US Treasuries widened by around 25bps during October, pushing towards the 200bp level in the process. While communication from the European Central Bank (ECB) remains unclear and inconsistent at times there has been a definite feel among investors that the tone is shifting towards a more consistent dovish stance given the growth challenges that the region, and Germany in particular, are facing.

Portfolio Activity

Portfolio activity during October was light but we expect to use the recent rise in yields to further increase fund duration.

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. While many rate cuts are now discounted by the market, our assessment is that these represent a return to neutrality as opposed to a provision of stimulus. Thus, in most scenarios the cuts being priced are the very minimum that will be delivered. This asymmetry continues to inform our portfolio allocation.

Data source: Morningstar and Marlborough.

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 emergence of political risk in the Eurozone is a surprise to us only in its timing. Underneath the veneer of stability, the Eurozone remains a region of structural challenges, centripetal forces, economic weakness and political instability. This further informs our defensive posture.

In both the UK and the US political change is in the air and bringing a sense of renewed fiscal activism and irresponsibility. This remains a risk to our outlook but one which we anticipate will turn out to be less pronounced than feared and in extremis would simply force monetary authorities to intervene in much the same way that the Bank of England did following PM Truss' disaster mini-budget of September 2022.

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