This is a marketing communication. Please refer to the prospectus of the UCITS and to the KIID / KID before making any final investment decisions.

FUND COMMENTARY – Q1 2024

CT (Lux) Global Corporate Bond

Alasdair Ross
Fund Manager
Since: 17/06/2014

Fund Information

You are investing in a fund that is actively managed in reference to the benchmark below. Please refer to the Prospectus and KIID for the Fund objective.

Fund Benchmark: Bloomberg Global Aggregate Corporate Index (USD Hedged)

Inception Date: 17/06/2014

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- Global investment grade credit indices were little changed over the quarter.
- Gross of fees, the fund delivered a positive return fractionally ahead of its benchmark.
- While IG spreads are no longer cheap, the yield on the market remains attractive, providing an interesting entry point for those seeking income.

Market Background

In total return terms, global investment-grade (IG) corporate credit indices were little changed over the first quarter (Q1). Underlying government bonds gave back some recent gains, but corporate bonds benefited from tightening credit spreads.

For much of the quarter, stronger-than-expected economic and inflation data, particularly in the US, dampened expectations about the pace of monetary easing this year. In January, hopes for a March rate cut by the Federal Reserve receded as US GDP, jobs and inflation data came in hotter than expected; they all but evaporated in February as the Fed said more time was needed to confirm that the disinflationary trend was sustainable, and as US inflation was once again higher than anticipated. Inflation also remained stubbornly above target in the eurozone and (especially) the UK. Although their respective economies were much weaker, policymakers at the European Central Bank and Bank of England echoed the Fed's call for patience.

March saw core bonds recoup some of their earlier losses, helped by a perceived dovish shift at the key central banks. All three kept rates on hold as expected, but although US consumer price inflation for February again surprised on the upside, investors were reassured by the outcome of the Fed's policy meeting. The Federal Open Market Committee raised its median forecasts for US GDP and core inflation this year, but left its median interest-rate projection for the end of 2024 unchanged at 4.6%. In contrast to the Fed, the ECB lowered its 2024 eurozone growth and inflation forecasts, while ECB President Lagarde strongly hinted that the first rate cut could come in June. Given the relative weakness of the eurozone economy, speculation mounted that the ECB might cut rates before the Fed. At the BoE, the last two hawks on the Monetary Policy Committee dropped their call for a rate increase; a day earlier, the headline UK inflation measure had unexpectedly fallen to a two-and-a-half-year low.

Throughout Q1, meanwhile, credit spreads continued to tighten as strong US economic data and corporate results bolstered sentiment. While IG issuance picked up even more strongly than anticipated, demand remained robust as investors looked to lock in elevated yields before the rate cuts expected later this year. In risk-adjusted spread terms, euro IG fared best, followed by sterling IG, with their US counterpart some way behind. Real estate, insurance and banking were the top-performing sectors on this basis.

*The Fund promotes environmental or social characteristics and is categorised as Article 8 under the EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). Please refer to www.columbiathreadneedle.co.uk for further disclosures. The decision to invest in the promoted fund should take into account all the characteristics or objectives of the promoted fund as described in its prospectus.

Performance

12M Rolling Period Return in (USD) - as at 31 March 2024

Past performance does not predict future returns and future returns are not guaranteed.

	03/23-03/24	03/22-03/23	03/21-03/22	03/20-03/21	03/19-03/20	03/18-03/19	03/17-03/18	03/16-03/17	03/15-03/16
Fund (Gross) %	5.81	-4.80	-4.16	10.76	5.89	4.89	2.85	6.24	1.32
Index (Gross) %	5.89	-4.98	-4.42	9.21	3.16	5.08	2.97	3.99	1.03

Source: Columbia Threadneedle Investments as at 31/03/2024. Gross of fee fund returns are time-weighted rates of return net of commissions transactions costs and non-reclaimable taxes on dividends interest and capital gains using pricing of investments which is either the last traded price or a bid basis. Cash flows are factored as of the end of the day and exclude entry and exit charges. Index returns include capital gains and assume reinvestment of any income. The index does not include fees or charges and you cannot invest directly in it. The return of your investment may change as a result of currency fluctuations if your investment is made in a currency other than that used in the past performance calculation.

For detailed information on Fund Changes please see Significant Events - Threadneedle (Lux) Funds PDF available on www.columbiathreadneedle.com/en/changes

The fund returned 0.14% in gross terms for the quarter versus 0.10% from the benchmark index. Positive contributions from credit strategies more than offset negative interest-rate-related effects, such as the impact of duration (sensitivity to interest rates) and yield-curve positioning. Being overweight in credit risk (as measured by duration times spread) proved favourable as credit spreads tightened. Industry positioning and credit selection also helped performance, albeit modestly. As regards the former, our banking and real estate exposures added value while an overweight in healthcare detracted. Top contributors at the issuer level included Virgin Money, packager DS Smith and property group Aroundtown. Detractors on a similarly modest scale included Northwestern Mutual and power utility NiSource.

Activity

As mentioned, it was a very busy quarter for the primary market, and we took advantage of many new issues. The biggest concentration was in pharmaceuticals, which moved the portfolio further overweight in the sector. Here, we took part in new offerings from Bristol Myers Squibb, Roche, AbbVie and AstraZeneca, though we offset this somewhat by reducing existing positions in Merck, Bayer and Pfizer.

Other sectors well represented among the new issues included banks (such as Crédit Agricole, BFCM, BPCE and AIB); utilities (Elia Transmission, United Utilities, Southern Water, Cadent Gas); autos (Volkswagen, Daimler, Stellantis); telecoms (NBN, Telefonica); and media (WPP and Pinewood Studios).

Trades in the secondary market included starting a new position in Cigna (health insurance) and increasing positions in Broadcom (semiconductors) and ING (financial services). Aside from the pharma names mentioned above, notable sales included exiting PNC Financial, Suez (water and waste), Netflix, Oracle and Cenovus Energy (oil and gas). We also reduced National Grid, Santander, Bank of Ireland and property groups P3 and Realty Income, among others.

Outlook

Monetary policy conditions will ease this year, which is welcome, but rates will likely remain restrictive for some time. Inflation is clearly on a downward trend but is still above target in most regions, with services inflation especially sticky. In terms of the economic backdrop, the low but positive growth we expect across developed markets is actually a reasonable environment for IG issuers, particularly those at the less leveraged and less cyclical end of the spectrum. As regards corporate health, we anticipate that credit quality will remain strong over the year ahead. High levels of interest cover and relatively low net debt-to-earnings ratios look likely to be maintained, while default rates are not expected to rise materially.

One area of concern is that global IG spreads ended Q1 further below (i.e. more expensive than) their five-year and 20-year averages. That said, the yield on the market – another way of looking at valuations – was still above its long-run mean of 4%, and a far cry from the sub-2% levels we were seeing only a couple of years ago. We think this provides an interesting entry point for those seeking income without too much risk.

All things considered, we see the outlook for global IG spreads as fairly neutral. The fund retains a slight overweight in credit risk in terms of beta (as measured by duration times spread) but has a lower spread duration than the index. By sector it remains tilted towards some of the more defensive areas of the market, such as regulated utilities and healthcare. Portfolio duration is close to that of the benchmark, as is normal.

Key Risks

The value of investments can fall as well as rise and investors might not get back the sum originally invested.

Where investments are in assets that are denominated in multiple currencies, or currencies other than your own, changes in exchange rates may affect the value of the investments.

The Fund may enter into financial transactions with selected counterparties. Any financial difficulties arising at these counterparties could significantly affect the availability and the value of Fund assets.

The Fund invests in securities whose value would be significantly affected if the issuer refused, was unable to or was perceived to be unable to pay.

The Fund holds assets which could prove difficult to sell. The Fund may have to lower the selling price, sell other investments or forego more appealing investment opportunities.

Changes in interest rates are likely to affect the Fund’s value. In general, as interest rates rise, the price of a fixed rate bond will fall, and vice versa.

The Fund’s assets may sometimes be difficult to value objectively and the actual value may not be recognised until assets are sold.

The Fund may invest materially in derivatives (complex instruments linked to the rise and fall of the value of other assets). A relatively small change in the value of the underlying investment may have a much larger positive or negative impact on the value of the derivative.

Leverage occurs when economic exposure through derivatives is greater than the amount invested. Such exposure, and the use of short selling techniques, may lead to the Fund suffering losses in excess of the amount it initially invested.

The Fund applies a range of measures as part of its consideration of ESG factors, including the exclusion of investments involved in certain industries and/or activities. This reduces the investable universe, and may impact the performance of the Fund positively or negatively relative to a benchmark or other funds without such restrictions.

The fund may exhibit significant price volatility.

The risks currently identified as applying to the Fund are set out in the "Risk Factors" section of the prospectus.

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