FUND COMMENTARY SICAV

Eastspring Investments - US Bond Fund

October 2021

INVESTMENT OBJECTIVE

Actively invests in a diversified portfolio of primarily fixed income/debt securities denominated in US dollars, issued in the US by both the US government and US corporations rated BBB- and above. The portfolio management team seeks to add value over the long-term primarily through sector rotation and security selection. .

FUND DETAILS

Investment Manager

Eastspring Investment (Singapore) Limited

Investment Sub Manager

PPM America, Inc

Reference Index

Bloomberg Barclays U.S. Aggregate Bond Index

Portfolio Manager

Mark Redfearn, CFA

Market review[1]

Asset class performance diverged in October; US equities and crude oil both rallied, the former driven by corporate earnings and the latter by supply issues and market expectations for future demand; meanwhile, the Treasury curve flattened while corporate credit experienced modest moves

The US Treasury curve shifted noticeably in October; yields in the belly of the curve spiked (e.g., 2-year yield up 20 bps to 0.48%, 7-year yield up 12 bps to 1.44%) while the 30-year yield declined 15 bps to 1.93%; the 10-year yield proved to be somewhat of a pivot point for curve flattening, as it rose a modest 3 bps to 1.55%[2]

The Bloomberg US Aggregate Bond Index produced a total return of -0.03% in October, as it was modestly impacted by the flattening Treasury curve; the YTD return is -1.58%; the excess return of the Index came in at 0 bps during the month, keeping the YTD return at 46 bps; the Index spread remained at 33 bps in October, tighter by 8 bps YTD

By sector on an excess return basis, the top performer in October was Transportation (46 bps) while the bottom performer was Communications (-20 bps); the top performer YTD has been Energy (452 bps) while the bottom performer has been Sovereign (-65 bps)[3]

Investment grade companies issued $143B in bonds in October, bringing year-to-date issuance to $1,497B; this is down year-over-year (-23%), given the record issuance in 2020 driven by the pandemic and economic shutdown, but elevated compared to other years (up 28% versus 2019)

The Core Plus IG category broke its inflow streak in October, experiencing an outflow of -$4B, though the YTD inflow still stands at $49B[4]

Fund review

In October, the Fund's security selection in Treasuries and Electric were the top contributors to relative spread return, each adding +2 bps. Conversely, the Fund's security selection in Conventional 30-Yr, Agency CMBS, and Gaming were the largest detractors from relative spread return, each detracting -2 bps.

Year-to-date, the Fund's overweight allocation and security selection in Airlines was the top contributor to relative spread return, adding +13 bps. Additionally, the Fund's security selection and slightly underweight allocation in Treasuries was the second largest contributor, adding +12 bps. Conversely, the Fund's security selection and overweight allocation to Gaming was the largest drag on relative spread return, detracting -4 bps. Additionally, security selection in Agency CMBS was the second largest non-cash drag, detracting -1 bp.

All data as of 31 October 2021 unless otherwise stated.

1. Unless otherwise indicated, data sourced from Barclays. 1 November 2021.
2 FactSet. 1 November 2021.
3 We excluded any level 3 sector that is less than 0.50% of the MV of the Index.
4 Morningstar. Based on estimated monthly flows for the US OE Intermediate Core-Plus Bond category (including ETFs) through 31 October 2021.

Strategy and outlook

We continue to believe that sector rotation and security selection will remain paramount to produce alpha

- Fundamentals continue to improve; we have focused on gaining exposure to sectors we believe will benefit from the economic recovery (e.g., select areas within Industrials)
- The technical picture is also positive; demand could be further supported by the recent uptick in interest rates, while we expect new issue supply to tail off into year-end
- Valuations are at historically tight levels, already reflecting our fundamental and technical views, prompting our focus on relative value

There is the potential for market volatility, especially as the Federal Reserve tapers its asset purchases and refines its messaging on rate hikes

- We will continue to look for opportunities to tactically reposition

Risks to the market includes volatility around Fed policy normalization, persistently higher inflation, and supply chain issues negatively impacting corporate margins

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