Rathbone Greenbank Global Sustainable Bond Fund Autogenerated captions (may contain errors)

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The Global Sustainable Bond Fund has performed really well since it's launched last year.

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At the start of the launch into November, December, it was a tough time.

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There was a real rally in credit markets and government bond markets as we were trying to get money into the market.

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As we move through this year, interest rates have continued to look like they're going to fall.

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And as a result of that we've been a sort of neutral duration overall, but we've been longer duration in our low risk bucket and that's really helped.

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Also we have some, you know, good strong credits in there and a good allocation to some good quality high yield as well, which has performed extremely well.

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So the fund has done it very well and just as we'd expected it to perform and it's first quartile, second quartile over most periods since launch.

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Labelled issuance on the whole has been strong with comfortably over $500 billion of issuance in the first half of 2024 and it looks like 2024 will be just the second year where we see full year issuance in excess of $1 trillion and it could possibly exceed the 2021 record level.

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Green bond supply hit a record high for the first half of the year at $368 billion.

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Whilst the majority of this laboured issuance was from sovereigns, supranationals and agencies, $181 billion was from corporates, which was a 5% drop year on year.

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But there is a notable distinction within corporates.

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Within Europe, €117 billion has been issued, which is the highest first half figure on record.

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On the other hand, we've not seen US corporate ESG issuance keep up with issuance in the broader US credit markets.

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As an example, in the second quarter of 2024, investment grade labelled issuance fell 7% compared to the same.

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In the previous year, whilst the broader investment grade market increased 23% over the same.

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Within European corporate labelled issuance, we're seeing a continued broadening out of the sector mix.

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In terms of issuers, whilst financials and utilities continue to lead the way on green bond issuance, we've seen increasing contribution from industrials, real estate and telecoms.

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We also continue to see a fairly broad spread of issuance across maturities as well as credit ratings within investment grade debt.

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Well, it's a global fund.

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We're actually continuously looking at cross currency opportunities across all the issues that we invest in.

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We're also very mindful of hedging costs because the global sustainable bond funds base currency is in sterling.

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Throughout most of this year, we've maintained an overweight position in euro and sterling credits compared to U.S.

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dollar and this has been to our advantage because the US credit markets actually underperformed and this is partly due to the high volume of issuance that we've seen in U.S.

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dollar.

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However, at the moment, we're now exploring opportunities to reduce the underweight to U.S.

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dollar credit where it makes sense as in some cases it offers an attractive spread pick up compared to euros and sterling.

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We also expect that the US credit spreads could benefit from a soft landing in the US economy.

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As a global sustainable bond fund, we're always seeking impactful sustainable investment opportunities that align with the triple bottom line of people, planet and profits.

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One example that we're particularly proud of is our involvement as a lead investor in the World Bank Outcome Bond, which supports Amazon Reforestation.

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This groundbreaking bond is the first to link investors financial returns directly to carbon removal, while also promoting job creation, biodiversity and social benefits.

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We hope that this initiative will serve as a model for future sustainable investments.

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And then finally, as central banks are increasingly focusing on greenifying their bond portfolios, we believe that sustainable bonds will become more valuable and less volatile over time.

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So we continue to try and tilt up portfolio towards this labelled issuance.

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Historically, the euro and the sterling markets have been significantly larger in terms of labelled issuance compared to the US and therefore present more opportunities for us, although we do hope to see an increase in US labelled issuance in the future.

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Liquidity in bond markets is generally been very strong, which is made for a good environment to find relative value opportunities and take advantage of cross currency valuation differences.

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Within this fund.

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We've also seen very healthy volumes within primary markets, again offering opportunities to take advantage of new issue premiums.

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With that being said, we have generally seen extremely strong demand with heavily oversubscribed books.

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Many issuers have been able to issue with limited new issue premiums and hence we've had to be selective on the deals we participate.

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So at a fund level, we hold an underweight position in U.S.

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dollars and we offset this by an overweight allocation to euros and sterling.

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Within the dollar space, our underweight exposure is driven by the underweight to US corporates and US high yield and it's balanced to some degree by an overweight position in supers and agencies.

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This strategy has proven very effective for us during periods of volatility such as early August when we had Manic Monday sell off, which was driven by the unwind of the JPY carry trade following the weak US non farm payrolls data.

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We believe that this overweight to USD remains appropriate and this is largely given by the aggressive rate cutting profile currently priced into the US market, especially in comparison to Europe and the UK.

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The market is currently pricing in over 1% in rate cuts by year end and more than 2% by this time next year, which is above what the Taylor rule would suggest and it's typically only seen during recessionary periods.

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While we do recognise signs of slowing momentum and isolated pockets of weakness, we do not believe that the data points to a full blown recession at this time.

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The outlook for global bond markets at the moment is it's very interesting.

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We've got some quite aggressive interest rate cuts priced into the to the US Treasury market.

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In fact the front end of the US Treasury market is pricing in significant cuts.

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There is a danger that the Fed don't deliver on those cuts in which case we might see actually bond yields a little bit higher.

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If if they don't in September, for example, we have the possibility of a first interest rate cut from, from from the Fed and, and that's going to have a significant impact.

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Also, one has to look at the, the future expectations as well in the dot plot.

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The rest of the Europe for example, there's you know, more cuts priced in, but you know that most of those are, have been telegraphed quite well by the ECB.

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And interestingly, the Bank of England might not cut rates as aggressively as the US and the ECB.

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As as usual, we get sticky inflation in the UK and actually gross holding up a little bit better in the UK than some other economies.

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This is one of, if not the defining question in bond markets and arguably financial markets right now.

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Employment will be the key driver here.

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If we do not see a sharp pick up in unemployment and the negative feedback loop that entails, then we think it's likely that we'll see a soft landing, meaning that we see gradual rate cuts.

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In terms of where the new normal is, that's a difficult question or even more difficult than it usually is.

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Whilst we acknowledge central banks have the flexibility to make larger cuts early in the cycle, given we are some way from neutral, we think there's a strong case for a gradual cutting cycle generally that allows central banks to see how the economy responds to these cuts.

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We think neutral rates have shifted higher, and you shouldn't expect to see rates back to where they were for much of the last decade.

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In fact, if you assume the midpoint of many estimates of the neutral rate and assume the curve normalises, the case for long duration is perhaps not as clear as many argue.

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However, the caveat to this is that if unemployment does materially pick up and we enter a recession, central banks have significant flexibility to cut rates quickly and significantly from current levels.

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As such, long duration government and supranational bonds offer us attractive protection in a portfolio context while still offering reasonable carry to the fund.