Global Impact Bond
Q4 2022 Commentary

Performance with principles®

PERFORMANCE

	3 Months	6 Months	ITD*
Fund Performance (B Class)	2.5%	-1.3%	-13.5%
iBoxx Global Green, Social, Sustainability TR GBP	0.4%	-4.6%	-16.9%
IA Global Corporate Bond	1.5%	-1.2%	-10.6%
Sector Quartile	2	3	3

Source: Morningstar. Figures compared on a Bid to Bid basis with Net Income Reinvested.
*Inception Date 24th January 2022

YIELDS

	Dec-22
Distribution	-
Underlying	-

MARKET REVIEW

In a mixed quarter for global bond markets, diverging rhetoric between central banks resulted in UK Gilts rallying, European sovereign debt declining and US Treasury bonds ending broadly flat. The US Federal Reserve raised its benchmark interest rate twice in the fourth quarter of 2022 by a combined 1.25%. Despite the downward shift in pace of rate hikes, elevated consumer prices led policymakers there to signal further tightening and emphasise commitment towards their price stability objective. The US 10-year Treasury ended the period unchanged at 3.8%.

The European Central Bank enacted interest rises of similar magnitude, increasing its policy rates by 0.75% in October and 0.5% in December. The December meeting marked an abrupt hawkish shift with President Lagarde suggesting that the ECB would be prepared to hold the deposit rate above the terminal level for a sustained period to quell inflation. The German 10-year bund yield finished the year at a high of 2.56%. The Bank of England delivered its first 'outsized' 0.75% interest rate hike in October and raised its base rate by 0.5% in December in a bid to rein in inflation. UK fiscal policy concerns eased after 2022's second change in UK leadership, which also supported gilt markets. The FTSE UK Gilts under 5-year yield began the period at 4.36% and fell to a low of 3.07% in November before rising to 3.63% and ending the quarter at 3.59%.

Credit spreads tightened notably in the period. Risky assets rebounded sharply as the debate over near-term peak benchmark interest rates gained traction. Corporate debt considerably outperformed government bonds over the period therefore, with lower-rated and higher-beta debt staging a significant rally, thereby recouping some of the relative underperformance registered in prior quarters of the year.

PERFORMANCE & ACTIVITY

The Global Impact Bond Fund's total return significantly outperformed its iBoxx Global Green, Social & Sustainability Bonds benchmark over the period and the IA Global Corporate Bond sector. The Fund's shorter relative duration proved beneficial, with the underweight position in European rates contributing positively to the relative returns of the portfolio. Returns were also supported by tightening corporate bond spreads as risk premia declined and market participants contemplated a less hawkish outlook. In a relatively quiet quarter, we added to the Fund's holdings in Co-operative group via the 5.125%

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17/05/2024 bonds.

OUTLOOK

The market remains focused on the path for inflation in anticipating the terminal level of interest rates set by global central banks. Should consumer prices slow decisively, hiking cycles may peak. In restoring price stability, central banks are also likely to be wary of 'over-tightening' given the lag with which monetary policy effects materialise.

As such, global central banks have moderated the pace of hawkish policy action for the immediate future even while maintaining guidance that there is more work to do. In addition, a slowing global economy indicated by survey data dampens the outlook for demand, which could also have adverse implications on labour markets. The latter could well persist through the year with core inflation proving stickier and as targeted temporary fiscal support on energy costs wears off, further hampering real wage growth. A cautious stance towards credit is warranted, given heightened recession risks that could well result in increased corporate default rates. We retain a bias towards higher quality corporate bonds, which now offer more attractive risk-adjusted yield, complemented by a larger allocation to government-backed debt to guard against wider risk premia as the global economy decelerates.

We remain vigilant in seeking out opportunities to add to high quality credits, scrutinising the robustness of business models and cash flows to ensure adequate compensation for risk. Whereas we are adding interest rate sensitivity, we continue to view the Fund's overall shorter relative duration profile as appropriate. Our investment approach continues to focus on good quality short-dated credits with attractive yields.

For further information please speak to your normal EdenTree representative, visit **www.edentreeim.com** or call our support team on **0800 011 3821**

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