EdenTree Global Sustainable Government Bond Fund
Q1 2025 Commentary

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PERFORMANCE & YIELDS

Note: As this fund was only launched in October 2024 there is insufficient data to provide a useful indication of past performance to investors. Past performance information will be shown when the fund has been in existence for a complete calendar year.

MARKET REVIEW

Global yield curves steepened over the quarter; shorter-dated yields fell, as market participants anticipated interest rate cuts, and longer-dated yields rose, due to fiscal concerns. Central banks grew reluctant to commit to further monetary policy easing in the near term due to increasing uncertainty and ongoing geopolitical tensions.

The US Federal Reserve maintained its benchmark interest rate at 4.5%, signalling a gradual approach to policy easing. The European Central Bank cut its main interest rate by 25 basis points (bps) in January and 25 bps in March, acknowledging the progress of inflation towards its 2% target despite some downward revision to growth estimates. However, a data-dependent approach to upcoming monetary policy decisions was highlighted, particularly in the aftermath of the significant increases in fiscal expenditures that have been announced to fund defence spending programmes across Europe. The Bank of England cut its benchmark interest rate by 25 bps to 4.5% in February but then held rates at its March meeting, citing inflationary pressure and economic uncertainty as reasons for caution. The Bank of Canada cut its main policy rate by 25 bps in both January and March to 2.75%.

The Bank of Japan raised its interest rate by 25 bps to 0.5% in January in a bid to combat inflation. It remains unique amongst the major central banks that have thus far embarked on an interest rate cutting cycle.

PERFORMANCE & ACTIVITY

The Global Sustainable Government Bond Fund underperformed its Bloomberg Global Aggregate Treasuries Index benchmark and the IA Global Government Bond sector over the period despite rallying as the period ended. The fund's positioning in euros, where it was overweight and more sensitive to interest rates, adversely affected its performance. This offset positive contributions from its US dollar allocation and security selection.

Europe's announcement to significantly increase fiscal spending towards defence saw yield curves in the region steepen, with the longer-dated tenors registering sharper price declines as compared to shorter maturities. Policy uncertainty rose considerably over the period from tariffs and potential retaliatory measures and their implications on growth, inflation and employment. Whilst market participants are still anticipating interest rate cuts, the timing of such policy actions has been pushed further out in 2025.

A large cash inflow into the fund at the end of January was deployed by increasing the size of existing holdings and adding various new positions, including the Republic of Austria 2029 and 2049 green bonds, Kingdom of Belgium 2033 and 2039 green bonds, Netherlands 2.5% 2030, UK Treasury 3.5% 2068 and Province of Ontario 3.65% 2034 green bond. The fund reduced its exposure to the 1.8% 2053 green bund, switching into the shorter OBL 1.3% 2027 due to the anticipated higher German sovereign debt issuance to fund defence spending.

OUTLOOK

The disruptions to global trade stemming from the recent tariff announcements are not only inflationary but also have the potential to adversely affect economic growth and employment. The heightened macro-economic uncertainty created by the fallout from such policies warrants caution. Central bankers will weigh the benefits of any monetary policy actions against

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the risks of reinvigorating price pressures, with recent lessons from the pandemic-induced inflation experience limiting the likelihood of a quick response.

Risk sentiment is deteriorating alongside consumer and business confidence. Even though some of the real-world implications are yet to come through, the lack of certainty is already paralysing business investment decisions and increasing the chances of lower corporate earnings. Safe-haven assets such as sovereign debt are rallying. Concerns around higher bond issuance and fiscal discipline, combined with emerging upside inflation risks support the case for shorter- and intermediate-maturity tenors as compared to exposures further out of the yield curve.

The likelihood of further interest rate cuts, amidst rising risk premia, is particularly supportive of sovereign debt. The fund continues to be positioned overweight in European sovereign debt, largely driven by the overweight allocation to German, Netherlands and Spanish government debt, alongside lower interest sensitivity to French and Italian sovereigns. The Fund's allocation to the latter countries, with a deteriorating fiscal backdrop, is crucial.

Higher sovereign bond yields, with credit risk premia only beginning to widen from historic tights, strengthens the investment case for government debt. Apart from Japan, where interest rates are anticipated to rise, monetary policy is still likely to be eased further across most major economies. Heightened policy uncertainty and market volatility warrants an incremental approach to adding interest rate sensitivity though.

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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