# EdenTree Global Sustainable Government Bond Fund
Q2 2025 Commentary

## 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, notably for US Treasuries and Japanese government bonds where concern around the supply of longer-maturity debt was more acute. The anticipation of central bank interest rate cuts, albeit at a more gradual pace, supported shorter-dated tenors but did not assuage fiscal concerns attached to longer-dated bonds. Rising debt was, in fact, the principal reason behind Moody's downgrade of the US' credit rating from AAA to AA+ in May.

The US Federal Reserve (Fed) held its key interest rate at a target range of 4.25% to 4.5% during the period, as it awaited data on the economic impact of US trade tariffs. The European Central Bank (ECB) cut its main interest rate by 25 basis points (bps) in April and 25 bps in June, as headline inflation fell and corresponding price fears subsided. ECB policymakers remain data-dependent, but a growing number have signalled the rate-cutting cycle may be nearing its end. The Bank of England cut its benchmark interest rate by 25 bps to 4.25% in May, a close decision given the uncertain backdrop of geopolitical tensions and trade negotiations. The Reserve Bank of Australia cut its benchmark interest rate by 25 bps to 3.85%, and the Swiss National Bank cut its policy rate to 0% in June. The Bank of Canada maintained its benchmark interest rate at 2.75%. The Bank of Japan also left its main policy rate unchanged at 0.5%.

## PERFORMANCE & ACTIVITY

As European government bonds rebounded, the Fund's overweight positioning in euros contributed positively to performance. This was offset by adverse contributions from its Canadian dollar and Japanese government bond allocations. The sharp rise in longer-dated Japanese government bond yields saw policymakers move to alter the issuance profile of government debt towards shorter-term maturities, as fears about investor demand grew. With fiscal concerns rising across multiple major governments, other countries may also revisit their longer-dated debt issuance plans.

The Fund reduced various positions in April to fund a redemption. It then increased its exposures in June to invest larger inflows, including initiating holdings in the Japanese Government 0.3% 2028 transition bond, the newly issued Community of Madrid 2.487% 2030 green bond and the International Development Association 4% 2030 sustainable bond. The Fund replaced its maturity of the International Finance Facility for Immunisation (IFFIm) 2.75% 2025 bond with a newly issued sterling denominated bond from the same entity, the IFFIm 4.25% 2028.

## OUTLOOK

With economic growth, employment and headline inflation data not yet reflecting possible disruptions to global trade, the rebound in risky assets suggests a sanguine stance by market participants. This could reflect that worst-case scenarios seem to have been averted for now. However, elevated levels of uncertainty continue to warrant caution, not least given ongoing geopolitical tensions and conflict in the Middle East.

Although risk sentiment has recovered, this may be masking the potential for recession, particularly as the reduction in business investment begins to weigh on economic growth. In credit markets, risk premiums have nearly reversed the widening seen earlier this year, as corporates navigate the more volatile re-financing environment, albeit while reducing debt issuance.

Global growth is being downgraded, and it's unclear how trade dynamics will evolve. While the likelihood of further interest rate cuts from major central banks may support the shorter end of yield curves, yields could remain elevated, notably in longer-dated tenors.

The Fund continues to be positioned overweight in European sovereign debt, largely driven by the overweight allocation to German, Netherlands and Spanish government debt, with a bias to shorter relative duration. Any potential shift away from US dollar denominated assets resulting from trade disruption would further support the Fund's allocation to Europe as a region.

Attractive sovereign bond yields, with credit risk premia having reverted towards historic tights, strengthens the investment case for government debt. Monetary policy is still likely to be eased further across most major economies, although some geographies, including the UK and Australia, have more scope to act than Europe or Canada. Heightened policy uncertainty notwithstanding, we favour shorter- and intermediate maturity tenors as compared to exposures further out on the yield curve on account of deteriorating fiscal outlooks and likely supply.

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