

Bond navigators: Why now is the time for global government bonds

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In a world of heightened volatility — driven by protectionism, geopolitical realignment, and diverging monetary policies — we believe that fixed income investors need more than just duration management. They need global diversification and multiple alpha levers.

An asset class where we see this opportunity in this environment is global government bonds.

The case for going global

Recent years have seen a dramatic shift in the global macroeconomic landscape. Central banks moved from ultra-accommodative policies following the Global Financial Crisis in 2008, to aggressive tightening in response to inflationary pressures exacerbated by the Covid pandemic in 2020 and ongoing geopolitical tensions. This has created a complex environment for bond investors, where traditional strategies may fall short.

After decades of trying to grow and boost inflation, central banks were suddenly on the back foot and saw prices balloon and lost control of consumer spending. This sent bond yields higher and valuations lower, as central banks eventually came round to the realisation that this bout of inflation was not transitory and monetary conditions had to be tightened to prevent further escalation.

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Today's environment is defined by sticky inflation, diverging central bank paths, frequent policy pivots, and geopolitical shocks. In this landscape, investing in single-country government bond funds can limit the opportunities for investors, notably relying on getting the interest rate call right. A global approach, by contrast, opens up a broader opportunity set — across yield curves, regions, and relative value trades — reducing reliance on any one market or macro view.

Multiple levers for alpha

Reminding ourselves of the backdrop is important, as it sets the scene for what we are experiencing in current global macro financial markets. For bond investors, the lesson to take away from this period of heightened volatility, and various pivots in central bank policies, is the enhanced opportunities for the nimble active manager.

Our active management approach allows us to rotate across sovereign markets to capture relative value, adjust duration dynamically to manage risk and seize opportunity, and exploit cross-market inefficiencies created by diverging fiscal and monetary policies. This flexibility means we're not pinned to the fate of a single central bank or economy.

Having the ability to tactically differentiate exposures across global markets can result in the fund having lower interest rate sensitivity. We believe this has become more important than ever in times of increased volatility, sticky inflation and volatile interest rates.

Diversification that works harder

A global benchmark typically carries a shorter duration than, say, the UK gilt market — offering a more balanced interest rate exposure. For example, a global benchmark may have a duration of around 6.5 years, compared to 7.6 years for UK gilts. This helps reduce volatility and enhances the fund's ability to generate consistent alpha, even in turbulent markets.

Generally, we believe that the more diverse a portfolio, the better its ability to navigate duration effects, as it is not exposed to the behaviour and trends of a single market. This gives an active manager the opportunity to take advantage of discrepancies and inefficiencies on a tactical basis to add alpha to the portfolio.

Why now?

With global interest rates still elevated but easing at different speeds, our view is that the timing is right to be long duration — but that this needs to be done selectively. A global exposure gives you the option to express that view without overexposing to any one market. Trade tensions, supply chain shifts, and data-dependent central banks are keeping markets on edge, and volatility appears here to stay.

We do not see this as a risk — it's an opportunity. For active managers, volatility is the fuel for alpha. A global government bond portfolio offers the right levers to pull, where you can be long duration in overall terms but not exposed to the extremities of a single market or a single central bank.

Looking ahead, our view is that global macro trends are unlikely to stabilise in the near term, and trade policies, inflation dynamics, and central bank actions will continue to drive volatility. In this environment, a globally diversified government bond fund — actively managed with multiple sources of alpha — offers investors a resilient and opportunistic solution. It's a strategy aiming not just to weather uncertainty, but to thrive in it.

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Investment risks

Past performance is not a guide to future performance. The value of investments and any income from them may go down as well as up and is not guaranteed. Investors may not get back the amount invested.

Credit risk: Should the issuer of a fixed income security become unable to make income or capital payments, or their rating is downgraded, the value of that investment will fall. Fixed income securities that have a lower credit rating can pay a higher level of income and have an increased risk of default.

Derivative risk: Derivatives are highly sensitive to changes in the value of the underlying asset which can increase both fund losses and gains. The impact to the fund can be greater where they are used in an extensive or complex manner, where the fund could lose significantly more than the amount invested in derivatives.

EPM techniques: The fund may engage in EPM techniques including holdings of derivative instruments. Whilst intended to reduce risk, the use of these instruments may expose the fund to increased price volatility.

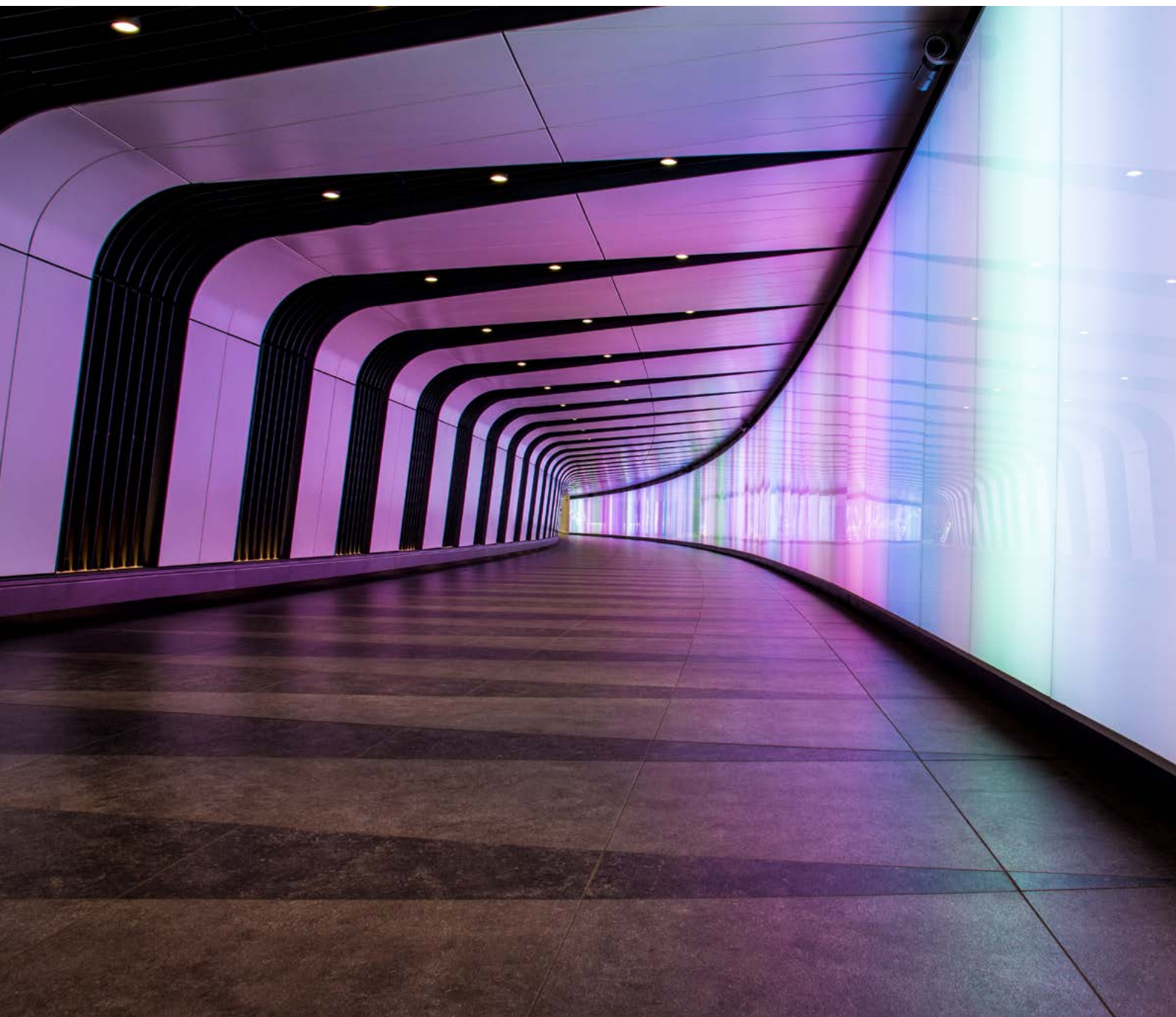
Exchange rate risk: Changes in currency exchange rates may affect the value of your investment.

Interest rate risk: Fixed interest securities are particularly affected by trends in interest rates and inflation. If interest rates go up, the value of capital may fall, and vice versa. Inflation will also decrease the real value of capital.

Liquidity risk: In difficult market conditions the value of certain fund investments may be difficult to value and harder to sell, or sell at a fair price, resulting in unpredictable falls in the value of your holding.

Emerging Markets risk: Investing in Emerging Markets may provide the potential for greater rewards but carries greater risk due to the possibility of high volatility, low liquidity, currency fluctuations, the adverse effect of social, political and economic instability, weak supervisory structures and accounting standards.

Counterparty risk: The insolvency of any institutions providing services such as safekeeping of assets or acting as counterparty to derivatives or other instruments, may expose the fund to financial loss.



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