

FUND COMMENTARY – JUNE 2025

CT DYNAMIC REAL RETURN FUND



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Fund Manager

Summary

- Gross of fees the fund returned 2.05% in June¹ versus its target of 0.61%.
- We are less concerned by tariffs than some. Ultimately this is because their impact can be overstated, especially the impact on earnings. We expect companies to end this year still showing positive earnings growth.
- Within equities, we trimmed exposure to Japan and Europe ex UK, and added to the other regions, with the biggest increases in the US and emerging Asia.

Market Review

Broadly speaking, June was a positive month for safe havens and risk assets alike. Global equity indices rose strongly, though a falling dollar eroded returns in sterling. US Treasury and UK gilt yields fell, outperforming their German counterparts. Corporate bonds also benefited from a tightening in credit spreads (the yield premium over 'risk-free' government debt). Commodity indices also posted gains.

Risk appetite was bolstered as the US and China worked towards a new trade deal and traders priced in faster interest-rate cuts by the Federal Reserve. Near month-end, China and the US signed a framework agreement to ease Chinese curbs on rare-earth exports to the US, and US restrictions on exports of advanced chip technology in the other direction. US rate-cut bets – and Treasury prices – took a knock on 6 June as key jobs figures came in hotter than expected. However, economic data thereafter tended to have the opposite effect, including a smaller-than-forecast rise in May consumer price inflation, weak retail sales for the same month, and a revision to first-quarter GDP showing a larger contraction.

On the monetary front, anticipation of a eurozone rate cut mounted as the flash inflation print for May undershot the European Central Bank's 2% target. The ECB duly cut rates by 25 basis points (bps) but struck a hawkish tone in saying that the easing cycle had 'nearly concluded'. German Bund yields rose in response. The Fed left interest rates unchanged. Policymakers respectively raised and lowered inflation and growth forecasts but continued to project two more 25-bp cuts this year. Frustrated by the Fed's caution, President Trump renewed his attacks on Chairman Jerome Powell, spurring anticipation that a more dovish successor might soon be appointed. The Bank of England also kept rates on hold, though three of its nine rate-setters voted for a cut – a more dovish split than expected. Before the meeting, May inflation came in higher than forecast and above target; however, April GDP had also shrunk more than forecast as tax increases took their toll.

The 10-year Treasury yield fell 17 bps to 4.23%, while the UK equivalent fell 16 bps to 4.49%. Germany's 10-year yield rose 11 bps to 2.61%. Per ICE BofAML indices, US and euro IG credit spreads narrowed by 6 bps and 7 bps, versus 10 bps in sterling IG; spreads tightened in all the sectors we monitor, led by media. In high yield (HY), US and euro spreads tightened by 36 bps and 15 bps respectively.

The MSCI All Country World Index (ACWI) returned 2.9% in sterling terms. Growth outperformed value, with technology the strongest sector amid renewed AI enthusiasm. The US benefited from its large exposure here, but dollar weakness reduced returns in sterling; this left emerging markets (EM) as the top performer, led by tech-heavy Korea. Europe ex UK and Japan lagged the index. The former was hit by profit-taking after a strong run, while a lack of progress on a US trade deal dampened sentiment towards Japan. UK large-caps were down fractionally, with the market suffering from a relative lack of technology exposure and as currency moves weighed on the market's many dollar earners.

¹ Past performance does not predict future returns. Please refer to the KIID document found on our website for further information on the fund performance.

Performance

The fund posted a gross return of 2.05%¹ for the month compared with 0.61% from its inflation-linked target (UK CPI +4%).

Asset allocation (including currency-hedging) effects accounted for 194 bps of the positive return, with selection effects contributing the remainder.

In line with the market developments outlined above, all the equity allocations made positive contributions, except the UK, which had a broadly neutral impact. The large allocations to global and US equities added most value here, contributing 50 bps and 36 bps, respectively. The (predominantly EM) Asia ex Japan segment was next with 21 bps, while the Japanese and Europe ex UK allocations added 8 bps and 5 bps respectively.

In fixed income, as UK government bond yields fell and credit spreads tightened, the top contributors were the allocations to sterling IG and gilts, which added 20 bps and 13 bps. The euro HY and EM local-currency debt components contributed 9 bps and 6 bps respectively.

Elsewhere, the commodity and property allocations had near-neutral impacts over the month, but the cash, near cash and foreign-exchange allocation added 35 bps (this includes the impact of currency-hedging positions related to several of the overseas allocations).

Activity and Positioning

The broad shape of the portfolio was little changed in June. We added further to our overall equity exposure, taking it from around 51.3% of net asset value (NAV) at the start of the month to 52.4% by the end. Within this, we sold some of the allocations to Japan and continental Europe, where we have become a little less constructive, and spread the proceeds around the other equity regions, especially EM Asia.

We continue to have a 'glass half full' view on equities as a whole, though our enthusiasm is tempered by the strong recovery seen since the pause or reversal on many of the US Liberation Day levies. The worst-case scenarios for earnings can likely be dismissed. When worked through the typical S&P 500 company, for example, we calculate that the earnings impact is roughly half the tariff rate. Based on our expectations for earnings in 2025, this would leave positive – albeit slower – growth this year. In addition, the White House has now shifted its focus towards tax cuts – the more equity-market-friendly element of Trump's election platform.

As mentioned in our May report, we have upgraded our view on EMs to 'mildly positive'. In June, we continued to increase our allocation to the CT Asia Fund – which is mainly invested in Asian EMs – from 6.0% of NAV to 7.1%. The Chinese government is likely to continue with its programme of incremental fiscal stimulus, along with interest-rate cuts. This will likely be used to soften the impact of tariffs once their ultimate level is known. We expect demand for goods to come back as the tariff story settles down. EMs typically benefit from lower debt levels than many of their developed market counterparts, and falling inflation gives many central banks scope to cut interest rates. The cheaper US dollar – and possible further weakness ahead – should also be supportive.

On the other side, we continue to have a mildly negative view on the outlook for Japanese equities. Japan faces a more uncertain inflation outlook. This means the BoJ will probably be raising interest rates, strengthening the yen. As a stronger yen is typically a headwind for the Japanese equity market, we have become less constructive on the asset class. In June, our allocation fell from 7.3% to 6.4%.

We have taken European equities down to 'neutral' from 'mildly favour'. The macroeconomic environment points to solid but not stellar growth, and we do expect a boost from fiscal stimulus, not least in Germany. In the short term, however, although European equities have seen a very strong start to 2025, we are yet to see any pickup in company earnings. We are also mindful of tariff risks in the near term, with some uncertainty around agreeing a framework with the US. Given our higher conviction in both emerging market and US equities, we have downgraded our views on Europe.

In fixed income, we maintain significant exposure to corporate credit. We think tariffs are unlikely to result in widespread defaults – especially as we still expect positive earnings growth rather than contraction this year. In addition, credit should benefit from the passage of time as tariff deals and compromises are worked out. Our focus here is on Europe (HY) and the UK (IG), rather than on the US. The reasons for this are related to both valuations and fundamentals; happily, that gives this allocation further insulation from the direct effect of White House announcements. In June, the HY and IG allocations edged up to 15.2% and 11.2% of NAV, respectively.

Key Risks

The value of investments can fall as well as rise and investors might not get back the sum originally invested.

As this fund invests into other funds you should consider the underlying investments and overall risks.

Where investments are in assets that are denominated in multiple currencies, or currencies other than your own, changes in exchange rates may affect the value of the investments.

Positive returns are not guaranteed and no form of capital protection applies.

The fund invests in securities whose value would be significantly affected if the issuer refused, was unable to or was perceived to be unable to pay.

The fund targets returns in excess of inflation. In times of heightened inflation this may not be possible to achieve.

Changes in interest rates are likely to affect the fund's value. In general, as interest rates rise, the price of a fixed rate bond will fall, and vice versa.

The fund's assets may sometimes be difficult to value objectively and the actual value may not be recognised until assets are sold.

The fund may invest materially in derivatives (complex instruments linked to the rise and fall of the value of other assets). A relatively small change in the value of the underlying investment may have a much larger positive or negative impact on the value of the derivative.

The fund may exhibit significant price volatility.

The risks currently identified as applying to the fund are set out in the "Risk Factors" section of the prospectus.

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