

FUND COMMENTARY – JUNE 2025

CT GLOBAL SOCIAL BOND FUND



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Summary

- Global investment-grade (IG) credit indices advanced in June.
- Gross of fees, the fund performed in line with its benchmark.
- We bought a range of new labelled issues including a green bond from the Community of Madrid and a social bond from bLEND.
- Valuations (credit spreads) are looking expensive, but we view the current elevated yields as attractive for investors seeking income without too much risk.

Market Background

Indices of global IG corporate bonds advanced in June. The benefit of falling US Treasury and UK gilt yields more than offset the impact of a rise in their German equivalents, while corporate bonds also benefited from a further tightening in credit spreads (the yield premium over risk-free government bonds).

The 10-year Treasury yield hit its highest close of the month on 6 June as hotter-than-expected US jobs data weighed on rate-cut hopes. Economic data that emerged thereafter tended to put downward pressure on yields, 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.

The conflict between Israel and Iran had little lasting market impact. Bond investors' concern appeared to flipflop between the likely hit to growth and the inflationary impact. Treasury yields rose when Israel's surprise attack on Iran sent oil prices higher but these moves were largely reversed as a ceasefire was announced.

On the policy front, anticipation of a rate cut in the eurozone mounted early in the month as the preliminary inflation print for the region came in below the European Central Bank's 2% target. The ECB duly reduced borrowing costs by 25 basis points (bps) two days later but the bank's president struck an unexpectedly hawkish tone in suggesting that rate cuts had 'nearly concluded'. Bund yields rose in response.

The Federal Reserve left interest rates unchanged, as expected. Policymakers respectively raised and lowered their inflation and growth forecasts but continued to project two more 25 bps cuts this year. Frustrated by the Fed's caution, President Trump renewed his attacks on Chairman Jerome Powell, and Treasuries strengthened in anticipation that Trump might soon name a more dovish successor.

In the UK, GDP shrank more than forecast in April as tax increases took their toll. May inflation was higher than expected and well above the Bank of England's target. At its policy meeting the next day, the BoE left rates on hold, though three of its nine rate-setters voted for a cut – a more dovish vote split than anticipated.

Overall, 10-year Treasury yields fell 17 bps to 4.23%, while the UK equivalent fell 16 bps to 4.49%. Bunds underperformed, with the 10-year yield rising 11 bps to 2.61%. Per ICE BofAML indices, US and euro IG credit spreads each narrowed by about 7% in risk-adjusted terms, versus 11% in sterling IG.

In ESG news, the Trump administration announced plans to repeal pollution rules for power plants, making it easier and cheaper to build fossil fuel facilities, especially natural gas plants. The move would eliminate a Biden-era rule requiring utilities to curb greenhouse gas emissions, easing costs tied to carbon capture. It may also extend the life of coal plants previously set for retirement. Some utility firms argue that natural gas is needed to meet rising power demand from AI data centres. However, clean energy advocates warn the rollback could undermine long-term energy reliability and climate goals.

Performance

The fund returned 1.26% in gross terms for the month versus 1.25% from the index.

A very marginal negative contribution from interest-rate-related factors – such as the effects of duration (sensitivity to interest rates) and yield-curve positioning – was offset by a similarly small positive contribution from credit strategies.

Asset allocation effects were neutral overall, as positive contributions from exposure to high-yield credit and an overweight to agency/quasi government debt were offset by the underweight in IG credit risk, which hindered performance slightly as credit spreads tightened.

At the industry level, our positioning in media and healthcare proved mildly favourable. In terms of credit/issuer selection, positive contributors included educational publishing and services company Pearson and UK banking group NatWest. The fund also benefited from its lack of exposure to US entertainment company Warner Bros Discovery, which weakened amid concerns about its upcoming split. Detractors included holdings in the Belgian region of Wallonia and pharmaceutical company Amgen and the lack of exposure to Charter Communications.

Activity

We were active in the primary market during the month, participating in new green bond issues from the Community of Madrid, Dutch property developer Amvest, and banking groups Commerzbank and BPCE. We also took part in a new social bond offering from bLEND and new sustainability issues from the International Development Association and Spain's Galicia region.

The Community of Madrid is the first European region to issue a public green bond aligned with the EU Green Bond regulation. Proceeds from the €500 million, five-year bond, will be used to fund low-carbon transport projects, contributing to the EU's climate change mitigation objectives and supporting Madrid's Energy, Climate and Air Strategy Horizon 2030.

bLEND's £260 million, seven-year bond is the shortest maturity achieved for a secured housing association bond of this size. The proceeds will be used for housing associations to finance the building of affordable new homes and environmental improvements to existing homes.

Trades in the secondary market included adding to positions in social bonds from Yorkshire Building Society and German development bank BayernLabo; and sustainability bonds from pharmaceuticals giant Pfizer, food-services company Compass and the German state of North Rhine-Westphalia.

On the sales side, we exited UnitedHealth and Telefonica, while reducing exposure to insurer Bupa, banking groups Nationwide and BBVA, and utilities Oncor and Consolidated Edison. We also swapped out of an existing bond from the Community of Madrid to take advantage of the region's new issue.

Duration remained fractionally overweight versus the benchmark. Credit risk – as measured by duration times spread – remained marginally underweight.

Outlook

At present, meaningful estimates of the impact of Trump's trade tariffs are all but impossible to calculate. What seems most likely, however, is that inflation will be higher, at least in the US, and growth lower than previously envisioned. This complicates the picture for central bankers looking to support their economies by cutting interest rates. Lower growth, with the risk of recession, would be a less positive – or even negative – environment for spreads, especially for more levered and cyclical issuers.

While credit spreads (at the time of writing) are still inside (i.e. more expensive than) historic averages, the outright yield offered by the market is comfortably above its long-run mean, which should continue to attract investors seeking income without too much risk.

The market is also supported by robust credit fundamentals, such as low leverage for corporates and high levels of capital for banks. All things considered, the rewards for taking credit risk appear relatively low at present; rather, sources of performance such as issuer and security selection – our traditional focus – are more likely to yield results in our view.

Key Risks

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

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.

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 holds assets which could prove difficult to sell. The fund may have to lower the selling price, sell other investments or forego more appealing investment opportunities.

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 in derivatives (complex instruments linked to the rise and fall of the value of other assets) with the aim of reducing risk or minimising the cost of transactions. Such derivative transactions may benefit or negatively affect the performance of the fund. The Manager does not intend that such use of derivatives will affect the overall risk profile of the fund.

The fund may exhibit significant price volatility.

The fund aims to invest in assets that are deemed to be supporting and funding socially beneficial activities and development and utilises a Social Assessment Methodology. This will influence the fund's exposure to certain issuers, industries, sectors and regions, and may affect the relative performance of the fund positively or negatively.

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

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