

FUND COMMENTARY – Q2 2025

CT STERLING CORPORATE BOND FUND



Alasdair Ross
Fund Manager

Summary

- Sterling investment-grade (IG) corporate credit posted positive total returns in the second quarter of 2025 (Q2).
- Gross of fees, the fund returned 2.96% over the quarter, outperforming the benchmark's return of 2.78%¹.
- Credit spreads tightened as a pause on the implementation of new import tariffs supported a broad-based rally in risk assets.
- The outright yield offered by the market is still above its long-run mean, which should continue to attract investors seeking income without too much risk.

Market Background

Sterling investment-grade (IG) corporate bonds advanced in Q2, driven by coupon income, a fall in underlying gilt yields and a tightening in credit spreads.

President Trump's 'Liberation Day' of reciprocal tariff announcements on 2 April was more aggressive and wide-ranging than anticipated. The accompanying market volatility and downgraded growth forecasts benefited core bonds at the expense of risk assets. Later, Trump softened his stance by calling a 90-day pause on most of his harshest tariffs, which bolstered risk appetite especially as the US later reached outline trade agreements with the UK and China. Forecast-beating Q1 corporate results, especially in the US, also bolstered sentiment towards credit.

Renewed conflict in the Middle East grabbed headlines but had relatively little lasting market impact. Core yields spiked on inflation concerns after Israel's surprise attack on Iran sent oil prices sharply higher, but these moves were mostly reversed in the days that followed as tensions eased.

The quarter was also marked by concern over rising government debts and deficits in the developed world. Treasury yields rose in May as Trump's fiscally expansive tax-cutting bill made its way through Congress, and US sovereign debt lost its last remaining triple-A rating. In the UK, worsening fiscal dynamics pushed up gilt yields. In early June, Prime Minister Keir Starmer had to make concessions to Labour MPs who rebelled against planned cuts to disability support and benefits, halving the fiscal "headroom" available to Chancellor Rachel Reeves. Shortly thereafter, a spending review highlighted the limited fiscal resources available to boost growth in the near term.

In terms of monetary policy, while the Federal Reserve continued to keep US rates on hold, drawing the ire of President Trump, the Bank of England (BoE) reduced interest rates by 25 basis points (bps) in May. This was perceived as a 'hawkish cut' as two of the nine-strong Monetary Policy Committee (MPC) unexpectedly voted to hold fire. The bank's message that it would follow a policy of gradualism in its easing cycle also disappointed gilt investors. By contrast, the BoE's decision to hold rates at its June meeting was seen as dovish as three MPC members voted for a cut – more than had been anticipated. Expectations of further monetary easing mounted, which benefited gilts, especially as economic data pointed to a slowdown after a strong start to 2025.

Over Q2 as a whole, the 10-year gilt yield fell 19 bps to 4.49%. The yield curve steepened amid fiscal deficit concerns, in common with US and German

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.

counterparts. Meanwhile, sterling IG spreads narrowed by around 10% over the quarter, as per ICE BofAML indices. Spreads tightened in most of the sectors we cover over the quarter, with outperformers including telecoms, technology, autos and energy, though spreads in leisure widened.

Performance

Gross of fees, the fund returned 2.96% over the quarter, compared to a benchmark return of 2.78%.

Credit strategies added relative value, partly owing to favourable credit selection. Notable contributors at the issuer level included utilities innogy and National Grid, as well as real estate firms Aroundtown and Digital Stout. Thames Water and Southern Water were among marginal detractors. The fund also benefited from an overweight in credit risk as spreads tightened.

Interest-rate-related factors, including duration and curve positioning, had a neutral influence overall. Underweight exposure to the 1–5-year part of the curve and a corresponding overweight in 15–25-year securities was unhelpful as shorter-dated issues typically outperformed, but overall duration positioning was beneficial. Industry positioning did not have a meaningful influence on performance either way.

Activity

We maintained an overweight in credit risk (measured by duration times spread, or “DTS”). Spread duration was little changed over the quarter and remained below the benchmark.

We participated in new issues from sea-cargo handler Associated British Ports and Australian motorway operator Transurban, modestly increasing the overweight in the industrial goods & services sector. We also extended the overweight in banks, buying new bonds from Commerzbank and HSBC, and topping up holdings in Bank of America, Barclays, BNP Paribas, Deutsche Bank and ING.

The fund also participated in new deals from Italian gaming company Lottomatica, Northern Ireland Electricity Networks and European retail property owner Supernova.

In the secondary market we initiated a position in University College London, buying sustainability bonds, and selectively added to existing holdings. Energy producer Apache and financial services firms Credit Suisse and Orbit were among the larger top-ups.

On the sales side, we exited telecoms provider Swisscom. We also sold out of media and entertainment conglomerate Warner Bros Discovery, as uncertainty over a potential breakup of the company prompted a downgrade of our internal credit rating on the issuer. The latter sale narrowed the overweight in media.

The utilities sector was still comfortably the biggest overweight sector position at the end of June, followed by banks and real estate. Retail, personal & household goods and travel & leisure were among underweight exposures at quarter end.

Outlook

At present, meaningful estimates of the impact of Trump’s trade tariffs are all but impossible to calculate. US inflation is likely to rise as a result but the effect on UK inflation is less clear. In any case it seems probable that economic growth will be lower across the board than previously envisioned. 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 spreads are expensive relative to historic averages (at the time of writing), the outright yield offered by the market is still 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, our outlook for IG spreads remains fairly neutral.

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 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 applies a range of measures as part of its consideration of ESG factors, including the exclusion of investments involved in certain industries and/or activities. This reduces the investable universe, and may impact the performance of the fund positively or negatively relative to a benchmark or other funds without such restrictions.

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.

IMPORTANT INFORMATION. FOR PROFESSIONAL INVESTORS ONLY (not to be used with or passed on to any third party). For marketing purposes. Your capital is at risk. Columbia Threadneedle Investment Funds (UK) ICVC ("CTIF") is an open-ended investment company structured as an umbrella company, incorporated in England and Wales, authorised and regulated in the UK by the Financial Conduct Authority (FCA) as a UK UCITS scheme. This material should not be considered as an offer, solicitation, advice or an investment recommendation. This communication is valid at the date of publication and may be subject to change without notice. Information from external sources is considered reliable but there is no guarantee as to its accuracy or completeness. The CTIF's current Prospectus, the Key Investor Information Document (KIID)/ Key Information Document (KID), latest annual or interim reports and the applicable terms & conditions are available from Columbia Threadneedle Investments at PO Box 10033, Chelmsford, Essex CM99 2AL, your financial advisor, on our website www.columbiathreadneedle.com and/or in Switzerland from our Representative and Paying Agent in Switzerland, BNP Paribas, Paris, Zurich Branch Selnastrasse 16, 8002 Zurich, Switzerland.

In the UK and in Switzerland: Issued by Threadneedle Investment Services Limited. Registered in England and Wales, Registered No. 3701768, Cannon Place, 78 Cannon Street London EC4N 6AG, United Kingdom. Authorised and regulated in the UK by the Financial Conduct Authority.

In the Middle East: This document is distributed by Columbia Threadneedle Investments (ME) Limited, which is regulated by the Dubai Financial Services Authority (DFSA). For Distributors: This document is intended to provide distributors' with information about Group products and services and is not for further distribution. For Institutional Clients: The information in this document is not intended as financial advice and is only intended for persons with appropriate investment knowledge and who meet the regulatory criteria to be classified as a Professional Client or Market Counterparties and no other Person should act upon it.

Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies.
columbiathreadneedle.com