

# FUND COMMENTARY – Q2 2025

## CT GLOBAL BOND FUND



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### Summary

- Most core government bonds posted positive returns in US dollar terms but weakened in sterling terms as the pound strengthened against the dollar.
- Gross of fees, the fund returned -1.49% in sterling, outperforming its benchmark by 49 basis points (bps)<sup>1</sup>.

### Market Background

Core government bond yields spiked early in the period after US President Donald Trump announced his sweeping “Liberation Day” import tariffs, but then some larger-than-expected declines in inflation in major economies helped most core government yields trend lower as trade tensions subsided. The 10-year Treasury yield ended 2 basis points (bps) higher at 4.23%, while 10-year gilt and Bund yields tightened by 19 bps and 13 bps, respectively.

Treasuries were volatile early in the quarter, amid fluctuations in Trump’s tariff policies and his public pressure on Fed Chair Jerome Powell to cut interest rates. Investors also grew more concerned about the US fiscal deficit and rating agency Moody’s downgraded the country’s rating from Aaa to Aa1. Despite these headwinds, inflation eased more than expected over the quarter. However, the Fed left interest rates unchanged, as expected, and Powell reiterated that policymakers “can afford to be patient” regarding rate cuts.

Gilts were impacted by concerns about higher inflation in the wake of Trump’s tariffs and broader fears about the UK’s fiscal risks. However, UK annual inflation in March also eased more than expected, paving the way for the Bank of England (BoE) to cut its key interest rate by 25 basis points (bps) to 4.25% in early May. Weakness in some key economic data reinforced expectations that the BoE would make two further interest-rate cuts this year, even though the Bank held fire in June as inflation remained above its target.

Eurozone annual inflation eased over the quarter, falling below the European Central Bank’s (ECB’s) 2% target in May. The ECB cut its key interest rate by 25 bps in both April and June. However, President Christine Lagarde noted that the monetary policy easing cycle had “nearly concluded”. Consequently, investors scaled back expectations for additional cuts this year to just one. After spiking at the beginning of the quarter amid tariff concerns, peripheral spreads tightened for most of the period as risk appetite was broadly supportive.

Elsewhere, the Bank of Japan (BoJ) kept interest rates unchanged, but yields ended higher amid rising core inflation. The BoJ also said in June that it will slow the pace at which it buys government bonds, following a spike in yields on fears of sluggish demand.

### Performance

Gross of fees, the fund returned -1.49% for the quarter in sterling, outperforming its benchmark by 49 bps<sup>1</sup>.

Rates strategies had a positive impact in aggregate, with our overall long duration making a favourable contribution as yields fell over the quarter. Our US duration exposure proved beneficial; we were underweight during the selloffs in early April and May but had moved to an overweight later when the performance of Treasuries improved. Curve positioning was also helpful, primarily due to the underweight in the 15-25-year maturity bracket during a period when shorter-dated bonds

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

outperformed. Our Australia-Canada cross-market trade (long in Australia and short in Canada), which we held for most of the period, also added value; Australian government bonds outperformed as the country's central bank lowered interest rates in May.

Credit strategies had a broadly neutral impact in aggregate. The overall credit beta overweight made a positive contribution amid the favourable backdrop for risk assets and as spreads tightened. Security selection was also positive, but country exposure detracted due to our exposures to Australian and Canadian regional government and agency debt.

## Activity

The fund began the quarter with an overall relative duration of 0.2 years short (flat excluding Japan) relative to the benchmark and ended 0.8 years long.

We began the quarter underweight US duration relative to the benchmark. We moved to an overweight in mid-May after the early-month selloff had improved valuations. We then shifted some Australian duration into Treasuries in late June, adding to the US duration overweight.

We maintained an overweight in eurozone duration throughout Q2. We participated in several new issues during the quarter, including an Austrian sovereign bond maturing in 2029 as well as a range of Spanish and Italian government bonds, which were funded by reducing our stake in outstanding debt from these sovereigns.

We kept our UK duration level with the benchmark throughout the period. We shifted our maturity profile in June, exiting a gilt maturing in 2051 in favour of a 2032 gilt.

We initiated an Australia-Canada cross-market trade (long in Australia and short in Canada) in April by selling Canada Housing Trust and province of Quebec debt and buying Australian state government debt. We later participated in an Australian-dollar new issue from Caisse de dépôt et placement du Québec (CADEPO). However, we profitably closed the cross-market trade in June and brought Australian duration level with the benchmark. We moved further underweight in Japanese duration following a rally in the wake of the "Liberation Day" tariff announcements. However, we later added to Japanese duration in June at the 2041, 2056 and 2059 maturities and ended the period broadly even with the benchmark.

Non-sovereign activity included participating in euro-denominated new issues from the Australian state of Queensland and Italian development bank CDEP. We also bought euro new issues from the Canadian province of Ontario as well as the Ontario Teachers' Finance Trust. We added new euro and US-dollar bonds from the province of British Columbia as well.

## Outlook

As the post-Covid peak in headline inflation fades in the rearview mirror, and core inflation edges towards target levels, prices are likely to remain a concern. Central banks are lowering interest rates carefully, with the debate shifting to how much further they will cut, and the extent to which assumed 'neutral' rates have been reset higher in the post-Covid environment (the neutral rate is the rate of interest that neither restricts nor stimulates the economy).

The first months of President Trump's second term have led to a chaotic, seismic shift in both domestic and international policy. This has sent shock waves through inflation expectations and market sentiment. As the path becomes just a little clearer, it appears tariffs will cause some price increases in the US, while non-US inflation may remain on a declining path as retaliatory actions have so far been muted. Monetary authorities have proceeded cautiously in recent months as they assess domestic implications of the evolving trade landscape. Central banks have either left interest rates unchanged or continued to normalise rates at a measured pace, while edging toward where 'neutral' rates may be in the post-Covid environment. Aside from inflation concerns resurfacing, fiscal positions are likely to remain strained as a swathe of countries, particularly in Europe, acknowledge the need to increase defence spending, and the Trump administration implements additional tax cuts.

The Fed's dual mandate of full employment and stable prices is judged to be in better balance and policy is still seen to be restrictive, which would otherwise set the stage for the central bank to continue easing policy. However, the path of monetary policy will ultimately be governed by the behaviour of both employment and inflation, and uncertainty around the direction of both remains elevated.

Similarly in Europe, economic data releases will continue to determine the pace and quantum of interest-rate cuts and the direction of government bond yields. The weak state of northern European economies has prompted the ECB to continue lowering interest rates in 2025. That said, the world is changing rapidly, and

increased defence spending will have positive repercussions for growth in some economies, which may offer some counterbalance to the damage that US tariffs will cause.

The BoE's easing cycle is also continuing – albeit at a slower pace – supported by benign projections for inflation over the long term. However, employment tax increases at the company level will test economic resilience, which, coupled with spending cuts and rising household bills, may trigger a downturn that the Bank will have to attempt to arrest.

## 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 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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