

# CT STERLING SHORT-DATED CORPORATE BOND FUND: Q2 2025 COMMENTARY



**Alasdair Ross**  
Fund Manager

## Summary

- Short-dated sterling investment-grade (IG) corporate credit posted positive total returns in the second quarter of 2025 (Q2).
- Gross of fees, the fund returned 2.25% over the quarter, slightly underperforming the benchmark's return of 2.35%<sup>1</sup>.
- 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

Short-dated 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 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 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.

<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.

Over Q2 as a whole, the three-year gilt yield fell 36 bps to 3.81%. The yield curve steepened amid fiscal deficit concerns, in common with US and German 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 2.25% over the quarter, compared to a benchmark return of 2.35%.

Interest-rate-related factors, including duration and curve positioning, detracted from relative performance. Underweight exposure to the 1–5-year part of the curve and a corresponding overweight in 5–15-year securities was unhelpful as shorter-dated issues typically outperformed. Industry positioning also detracted, particularly in the banking and services sectors.

More positively, credit strategies added relative value. An overweight in credit risk was helpful as spreads narrowed and credit selection was beneficial at the margin. Notable contributors at the issuer level included drinks maker Bacardi, distribution firm Bunzl and utility Cadent. On the other side, utility Thames Water was among detractors.

## Activity

An overweight in credit risk (measured by duration times spread, or 'DTS') was maintained throughout the quarter. Spread duration moved a little lower over the period but remained slightly above the benchmark.

The fund participated in a new issue from insurer Corebridge, partially switching out of existing holdings in the name. The purchase removed most of the fund's underweight in insurance, with exposure to the sector broadly in line with the benchmark at quarter end. Among other financials, we bought newly issued bonds from Amvest, establishing a new holding in the name, and Morgan Stanley.

We extended the overweight in real estate by buying newly issued bonds from property owner Aroundtown and topping up our Grand City Properties exposure via the secondary market. In other sectors, we took part in new deals from fintech provider Fiserv, gaming company Lottomatica and energy infrastructure firm Kinder Morgan, all of which were new names in the portfolio. The latter purchase extended the fund's existing overweight in oil & gas.

New positions were also established in paper and packaging business DS Smith, film and TV production company Pinewood and shopping centre operator Westfield, all via the secondary market. We also added selectively to existing holdings, topping up investment in issuers including Commerzbank and Heathrow Airport, for example.

On the sales side, we exited utilities Eurogrid and Southern Gas Networks, banking group TD, air conditioning and refrigeration company Carrier, information services firm Wolters Kluwer and Kraft Heinz Foods, among others.

The technology, healthcare and oil & gas sectors were the biggest overweight positions at the end of June. Banks was the biggest underweight exposure at quarter end, followed by personal & household goods and financial services.

## 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.

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