

FUND COMMENTARY – Q2 2025

CT MANAGED BOND FOCUSED FUND



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Market Background

The second quarter (Q2) was a volatile but ultimately positive period for most asset classes, though risk assets typically outperformed perceived safe havens, and the dollar weakened significantly. The main market-moving event was President Trump's 'Liberation Day' of 'reciprocal' tariff announcements on 2 April. The levies were much more aggressive than expected in size and scope. This triggered a rout in global equities but when Treasuries joined the sell-off, Trump called a 90-day pause on most of the harshest tariffs, sparking a recovery in equities and bonds alike.

Outline trade agreements with the UK and China followed, further boosting risk assets, though this came increasingly at the expense of Treasuries, which were pressured by mounting concerns about the US deficit. As Trump's fiscally expansive tax-and-spending bill made its way through Congress, credit rating agency Moody's downgraded US sovereign debt, removing its last triple-A rating.

In June, renewed conflict in the Middle East grabbed headlines but had relatively little impact on markets. After Israel's surprise attack on Iran, equities fell and Treasury yields rose on inflation concerns as oil prices surged, but these moves were later reversed as news of Iran's ceasefire with Israel saw oil prices fall back. Treasuries were also supported late in Q2 by some softer-than-expected US inflation and GDP data, and as Trump's attacks on Federal Reserve chair Jerome Powell spurred anticipation that a more dovish successor might soon be named.

The Fed had angered Trump by keeping interest rates on hold since December, while respectively lowering and raising growth and inflation forecasts in response to his tariff plans. By contrast, the European Central Bank cut rates twice in Q2, by 50 basis points (bps) in total, as eurozone inflation returned to target levels. The Bank of England cut rates by 25 bps in May. Although the BoE then held fire at its June policy meeting, three of the nine rate-setters voted for a cut – a more dovish split than had been anticipated.

Over Q2 as a whole, the 10-year Treasury yield rose just 2 bps to 4.23%, while the German and UK equivalents respectively fell 13 bps to 2.61% and 19 bps to 4.49%. Longer-dated core government bonds underperformed amid concerns about mounting fiscal deficits and government debt. Meanwhile, having widened amid the Liberation Day turmoil, credit spreads tightened over the rest of the quarter as tariff fears eased and Q1 corporate results beat expectations. Per ICE BofAML indices, global investment-grade (IG) spreads narrowed by about 8% in risk-adjusted terms, led by US IG. Spreads in all the sectors we monitor tightened, led by media, technology and capital goods; autos brought up the rear. Euro high-yield (HY) spreads narrowed by about 6%, with higher-rated credits performing best.

The MSCI All Country World Index (ACWI) returned 5.2% in sterling terms. Growth outperformed value, with technology the strongest sector amid robust earnings from US mega-caps and renewed AI enthusiasm. The US benefited from its large exposure here but lagged the ACWI slightly in sterling as the dollar weakened. Similarly, a weaker yen bolstered sentiment towards Japanese stocks but reduced sterling returns. Europe ex UK outperformed, with gains amplified as the euro rose in anticipation of Germany's fiscal boost. Emerging markets (EMs) also fared well, thanks in part to the falling dollar; tech-heavy Korea and Taiwan were notable contributors. The UK brought up the rear, held back by its small weighting in technology and high oil & gas exposure, in a weak period for the energy sector. A stronger pound versus the dollar also weighed on the shares of the market's many overseas earners.

Performance

Gross of fees, the fund returned 3.26% over the quarter and outperformed its benchmark¹. The fund also outperformed the IA Mixed Investment 0-35% Shares peer group, sitting in the first performance quartile.

Most of the underlying allocations added value and made positive contributions. Global fixed income was the only detractor of note, as most developed government bonds lagged the broader market rally.

On a relative basis, the outperformance was mainly attributable to selection effects, although asset allocation was beneficial too. The off-benchmark position in US equities supported relative performance, but this was offset by a negative contribution from the below-benchmark allocation to US-focused global equities. Allocations to Europe ex UK, Japan and Asia ex Japan also added relative value, although this was mitigated by an underweight in UK equities, which detracted modestly. In fixed income, allocations to corporate bonds were beneficial as both IG and HY bonds fared well and outperformed comparable government securities.

Activity

In fixed income, we lowered exposure to the CT Global Bond Fund (which invests in developed government bonds) and the US Treasury-focused CT Dollar Bond Fund, reflecting concerns about governments' fiscal positions. We are more constructive on corporate credit, although we shifted some of our IG exposure into HY as risk appetite returned. We think tariffs are unlikely to result in widespread defaults – especially as we still expect positive earnings growth this year. In addition, credit should benefit from the passage of time as tariff deals and compromises are worked out.

In equities, our Asset Allocation Strategy Group upgraded its view on EMs to '*mildly positive*' during the quarter and we increased our allocation to the CT Global Emerging Markets Equity Fund, which has meaningful exposure to stocks in China and neighbouring countries. The Chinese government is likely to continue with its programme of incremental fiscal stimulus, along with interest-rate cuts. These measures should help soften the impact of tariffs once their ultimate level is known. Moreover, we expect demand for goods to improve as the tariff story settles down. EMs typically benefit from lower debt levels than 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.

We also topped up investment in US equities – which remains our favoured equity exposure – but trimmed holdings in other equity regions, locking in partial gains from the recent rally.

Outlook

We have a 'glass half-full' view of equities, though our enthusiasm is tempered by the strong recovery since the pause or reversal of many 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 earnings expectations for 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.

We are neutral on fixed income overall. Given slower growth expectations and moderating inflation concerns, we see core government bonds reprising their 'safe haven' role in some countries. That said, we remain mindful of rising fiscal deficits in the developed world and have a preference for corporate credit. We believe that most of the tariff-associated decompression in credit spreads has already reversed; however, spreads remain higher than pre-tariff levels.

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.

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.

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.

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.

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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