This is a marketing communication. Please refer to the prospectus of the UCITS and to the KIID / KID before making any final investment decisions.

FUND COMMENTARY – Q2 2025

CT (Lux) Global Corporate Bond

Alasdair Ross
Fund Manager
Since: 17/06/2014

Fund Information

You are investing in a fund that is actively managed in reference to the benchmark below. Please refer to the Prospectus and KIID/KID for the Fund objective.

Fund Benchmark: Bloomberg Global Aggregate Corporate Index (USD Hedged)

Inception Date: 17/06/2014

Fund Currency: USD

Fund Domicile: Luxembourg

SFDR: Article 8*

Summary

- Investment grade (IG) corporate bond indices rose in the second quarter (Q2).
- Gross of fees, the fund outperformed its benchmark.
- IG spreads are not cheap, but the yield on the market is attractive in our view for those seeking income without too much risk.

Market Background

Global IG corporate bonds advanced in Q2, driven by coupon income and tightening credit spreads (the yield premium over ‘risk free’ government bonds). Yields on 10-year US Treasuries were little changed, though the German and UK equivalents fell, and yield curves steepened in all three markets.

US trade policy was the key focus for much of Q2. President Trump’s 2 April ‘Liberation Day’ of reciprocal tariffs was more aggressive and wide-ranging than anticipated. Treasuries initially strengthened amid a global risk-off move but later sold off, even as equities continued to fall. This persuaded Trump to call a 90-day pause on most tariffs, sparking a recovery in equities and Treasuries alike.

Outline trade agreements with the UK and China followed, further boosting risk assets, though this came increasingly at the expense of Treasuries. Longer-dated bonds 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 debt, removing its last triple-A rating.

In June, renewed conflict in the Middle East stoked volatility. Treasury yields spiked on inflation concerns as oil priced surged, but they later fell as Iran’s token retaliation to US strikes and subsequent ceasefire with Israel saw oil prices decline. Treasuries were also supported late in Q2 by some softer-than-expected US inflation and GDP data, and by renewed attacks by Trump on Federal Reserve chair Jerome Powell, which spurred anticipation that a more dovish successor might soon be named.

The Fed’s policymakers had angered Trump by keeping US interest rates on hold since December, while respectively lowering and raising their 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 was also in action, cutting rates by 25 bps in May. Although the BoE then held fire at its June policy meeting, three of the Bank’s nine rate-setters voted for a cut – a more dovish vote split than had been anticipated.

Over Q2 as a whole, 10-year Treasury yields rose 2 bps to 4.23%, while the German and UK equivalents respectively fell 13 bps to 2.61% and 19 bps to 4.49%. Meanwhile, having widened amid the Liberation Day turmoil, global IG credit spreads retightened alongside a strong rise in equity prices as tariff fears eased and corporate results beat expectations in aggregate. Per ICE BofAML corporate bond indices, US IG spreads narrowed by around 11% in risk-adjusted terms, versus around 10% in the sterling market and just 4% in euro IG. All the sectors we monitor tightened, led by media, technology and capital goods; autos brought up the rear.

*The Fund promotes environmental or social characteristics and is categorised as Article 8 under the EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). (Please refer to www.columbiathreadneedle.co.uk for further disclosures. The decision to invest in the promoted fund should take into account all the characteristics or objectives of the promoted fund as described in its prospectus.)

Performance

The fund returned 2.10% in gross terms for the quarter versus the benchmark's return of 1.99%. Interest-rate-related factors, such as the effects of duration (sensitivity to interest rates) and yield-curve positioning, helped relative performance.

As regards credit strategies, being overweight in credit risk added value as spreads tightened. Industry effects were also positive, with positioning in media and healthcare among the positive contributors. Credit selection effects proved unfavourable, with individual detractors including Thames Water, JPMorgan, Commerzbank and Southern Water.

Positive relative contributors at the issuer level included Warner Bros Discovery, which we sold before the bulk of its recent spread-widening (on worries about the firm's planned split), as well as Berkshire Hathaway and Pfizer.

Activity

Our modest overweight in credit risk (as measured by duration times spread, or 'DTS') increased slightly over the quarter.

There were some larger changes to sector exposure, however. Among increases, we closed the underweights in banks and chemicals and narrowed the underweights in oil & gas, technology and industrial goods & services. We also extended the slight overweight in real estate.

These increases were mainly the result of activity in the primary market, where we took part in new offerings from issuers including Bank of America, Credit Agricole and Commerzbank (banks); Air Products and LyondellBasell (chemicals); Woodside (oil & gas); Qualcomm and Fiserv (technology); Aeroporti di Roma, Siemens and Transurban (industrial goods & services); and Supernova and Realty Income (real estate). We also started a position in Fedex (industrial goods & services) via the secondary market.

On the other side, we reduced the large overweight in healthcare, where we sold some of the holdings in Bristol Myers Squibb and AbbVie. We also trimmed the overweight in insurance, moved to neutral in food & beverage and moved underweight in media. In insurance we added to New York Life but exited Bupa and sold some of our position in MetLife. In food & beverage, we reduced Nestle and PepsiCo, while in media we closed positions in WBD and Wolters Kluwer.

We also offset some of the new issues mentioned by exiting OP, Lloyds and BFCM (banks); Sagax (real estate); and Synopsys (technology).

As of the end of the month, the utilities and healthcare sectors were still by far our largest overweights, followed by telecoms – another defensive sector. Industrial goods & services and technology remained our largest underweights.

Outlook

Looking ahead, meaningful estimates of the impact of Trump's 'on again, off again' trade tariffs remain all but impossible to calculate. What seems very likely, however, is that inflation will be higher – at least in the US – and growth lower than previously envisioned, complicating the picture for central bankers looking to support their economies by cutting rates.

Lower growth, with the risk of recession, would also be a less positive – or even negative – environment for spreads, especially for more levered and cyclical issuers. Thankfully, credit fundamentals remain strong overall, with low leverage for corporates and high levels of capital for banks.

On the valuation front, global IG spreads remain inside (i.e. more expensive than) five- and 20-year averages. The outright yield offered by the market is more compelling. Going into the second half of 2025, ICE BofAML's main global IG corporate index offered a yield of around 4.4%, still above the 20-year average. We think this represents an attractive prospect for investors seeking income without too much risk.

The fund holds a modest overweight to credit risk as measured by relative DTS – though it is also positioned with a tilt towards more defensive industry sectors.

12M Rolling Period Return in (USD) - as at 30 June 2025

Past performance does not predict future returns and future returns are not guaranteed.

	06/24-06/25	06/23-06/24	06/22-06/23	06/21-06/22	06/20-06/21	06/19-06/20	06/18-06/19	06/17-06/18	06/16-06/17	06/15-06/16
Fund (Gross) %	7.68	6.22	2.61	-13.48	4.32	10.48	9.88	0.83	3.34	8.35
Index (Gross) %	7.30	6.10	1.78	-12.88	3.71	7.15	9.60	0.58	2.84	7.06

Source: Columbia Threadneedle Investments as at 30/06/2025. Gross of fee fund returns are time-weighted rates of return net of commissions transactions costs and non-reclaimable taxes on dividends interest and capital gains using pricing of investments which is either the last traded price or a bid basis. Cash flows are factored as of the end of the day and exclude entry and exit charges. Index returns include capital gains and assume reinvestment of any income. The index does not include fees or charges and you cannot invest directly in it. The return of your investment may change as a result of currency fluctuations if your investment is made in a currency other than that used in the past performance calculation.

For detailed information on Fund Changes please see Significant Events - Threadneedle (Lux) Funds PDF available on www.columbiathreadneedle.com/en/changes

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 may enter into financial transactions with selected counterparties. Any financial difficulties arising at these counterparties could significantly affect the availability and the value of Fund assets.

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 materially in derivatives (complex instruments linked to the rise and fall of the value of other assets). A relatively small change in the value of the underlying investment may have a much larger positive or negative impact on the value of the derivative.

Leverage occurs when economic exposure through derivatives is greater than the amount invested. Such exposure, and the use of short selling techniques, may lead to the Fund suffering losses in excess of the amount it initially invested.

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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