IMAP Webinar Series

So – How's it going in 2023?

Fixed Income Update

Jonathon Costello – Western Asset Management
Alex Cousley – Russell Investment Management
Moderated by
Brad Creighton – North

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Advice in Action topics

Earn tomorrow's clients

Did the managed account improve my business?

What does a sustainable HNW client offer look like?

How to talk to your clients about ESG investing

Dealing with NFP clients

Practice management and business strategy

What do Licensees have to do to continue to offer their own portfolios?

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Upcoming webinars

Friday 30th June – Physical assets and Infrastructure

Mary Power, JANA Investment Advisers

Shane Hurst, ClearBridge

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How to ask a Question

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So – How's it going in 2023?

Jonathon Costello
Western Asset

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IMAP Webinar

Jonathon Costello, CFA

MONEY|MANAGEMENT
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WINNER
Australian Fixed Income

MORNINGSTAR Awards 2020™
Fund Manager Of The Year: Fixed Interest Category, Australia
Winner: Legg Mason Western Asset

MORNINGSTAR Awards 2021™
Winner – disclaimer
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Franklin Templeton is a global leader in asset management serving clients in over 160 countries

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We are the sixth largest independent asset manager in the world, with[1]:

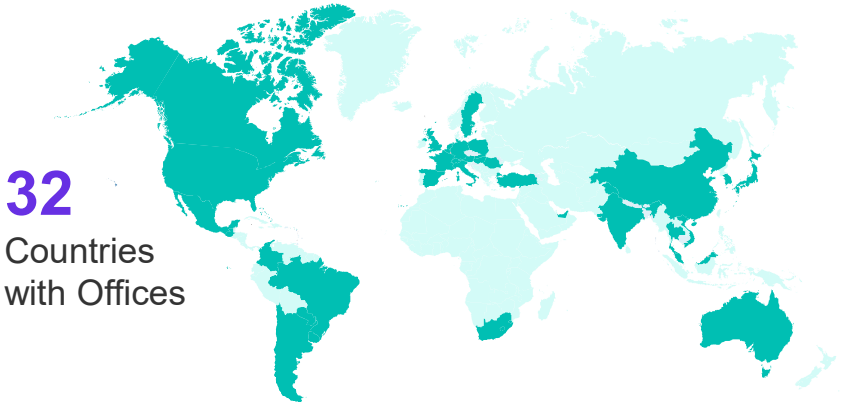
75+
years of asset management experience

$2.1 Trillion
(AUD) total assets under management

1,250+
investment professionals[2]

8,500+
employees globally

We have one of the industry's broadest global footprints



32
Countries with Offices

The strength and experience of a global leader

- We are the world's top cross-border fund manager[3]

1. As of 31/03/2023. Source: Morningstar.
2. Investment professionals include portfolio managers, research analysts, research associates, investment support and executives of Franklin Templeton and subsidiary investment management groups.
3. As of March 2022. Franklin Templeton was ranked first in the cross-border management group category by PwC in their 2022 Benchmark Your Global Fund Distribution Report, which ranks asset managers on the number of countries in which their cross-border funds are distributed. Franklin Templeton has not paid any compensation for obtaining or using the ranking provide by PwC.

About Western Asset

Western Asset is a globally integrated fixed-income manager, sourcing ideas and investment solutions worldwide.

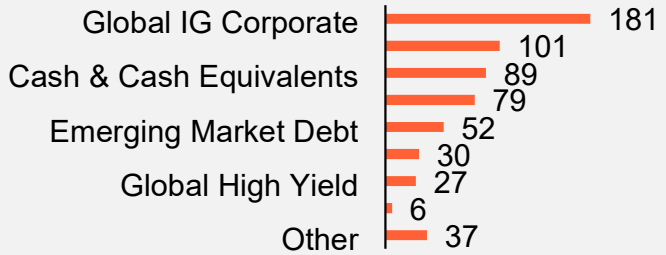
Western Asset At a Glance

- Founded in 1971. Specialist Investment Manager of Franklin Resources, Inc. since July 31, 2020
- Fixed-income value investors
- $600.4 billion (AUD) AUM
  - $511.7 billion (AUD) long-term assets
  - $88.7 billion (AUD) cash and cash equivalent assets
- 738 employees

Organizational Pillars

- Clients first
- Globally integrated
- Team-based
- Active fixed-income
- Integrated risk management

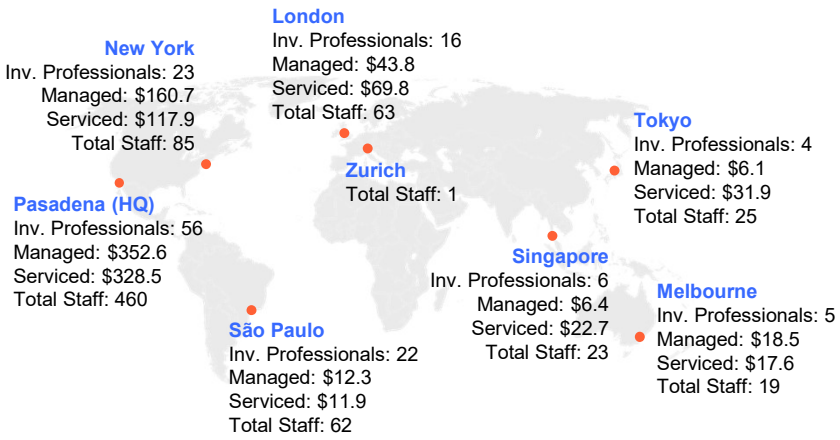
AUM by Sector – Total $600.4 billion (AUD)



Western Asset's Deep Global Integration Allows Us to Source Investment Ideas and Investment Solutions Across Regions

Investment Management	• 133 investment professionals on five continents and in seven offices • 25 years average experience • 42 portfolio and quantitative analysts in portfolio operations
Client Service & Marketing	• 166 staff dedicated to client service • Specialized teams to meet individual client needs
Risk Management & Operations	• Independent risk management function with 35 professionals including 12 PhDs • 290 staff dedicated to globally integrated operations

Global Footprint (AUM in AUD billions)



Source: Western Asset. As of 31 Mar 23
*Splits time between Hong Kong and Singapore offices

Index History for Context

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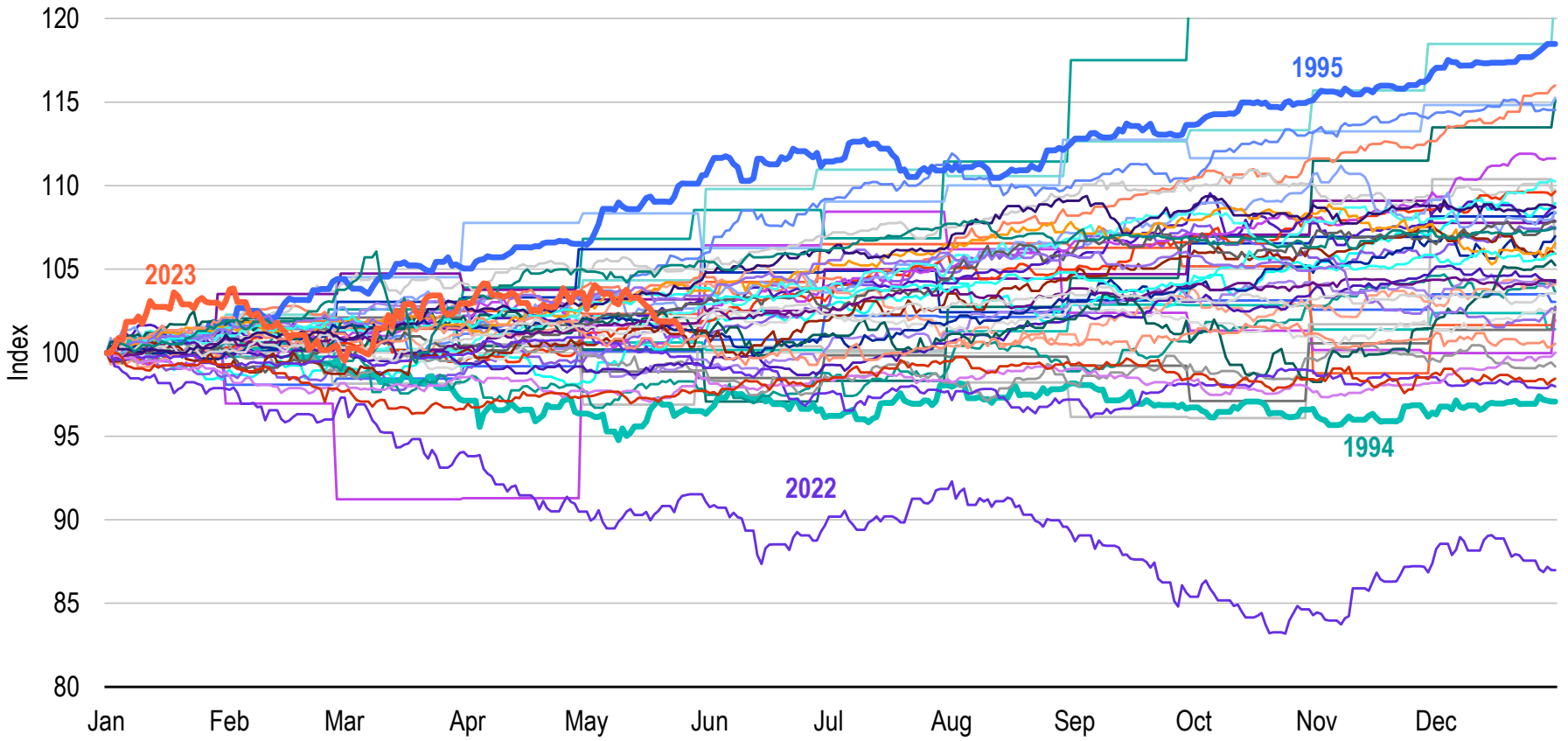

Source: Bloomberg. As of 31 May 2023
US Global Aggregate Index
Past performance is no guarantee of future results.

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Australian Cash Rate and Government Yields

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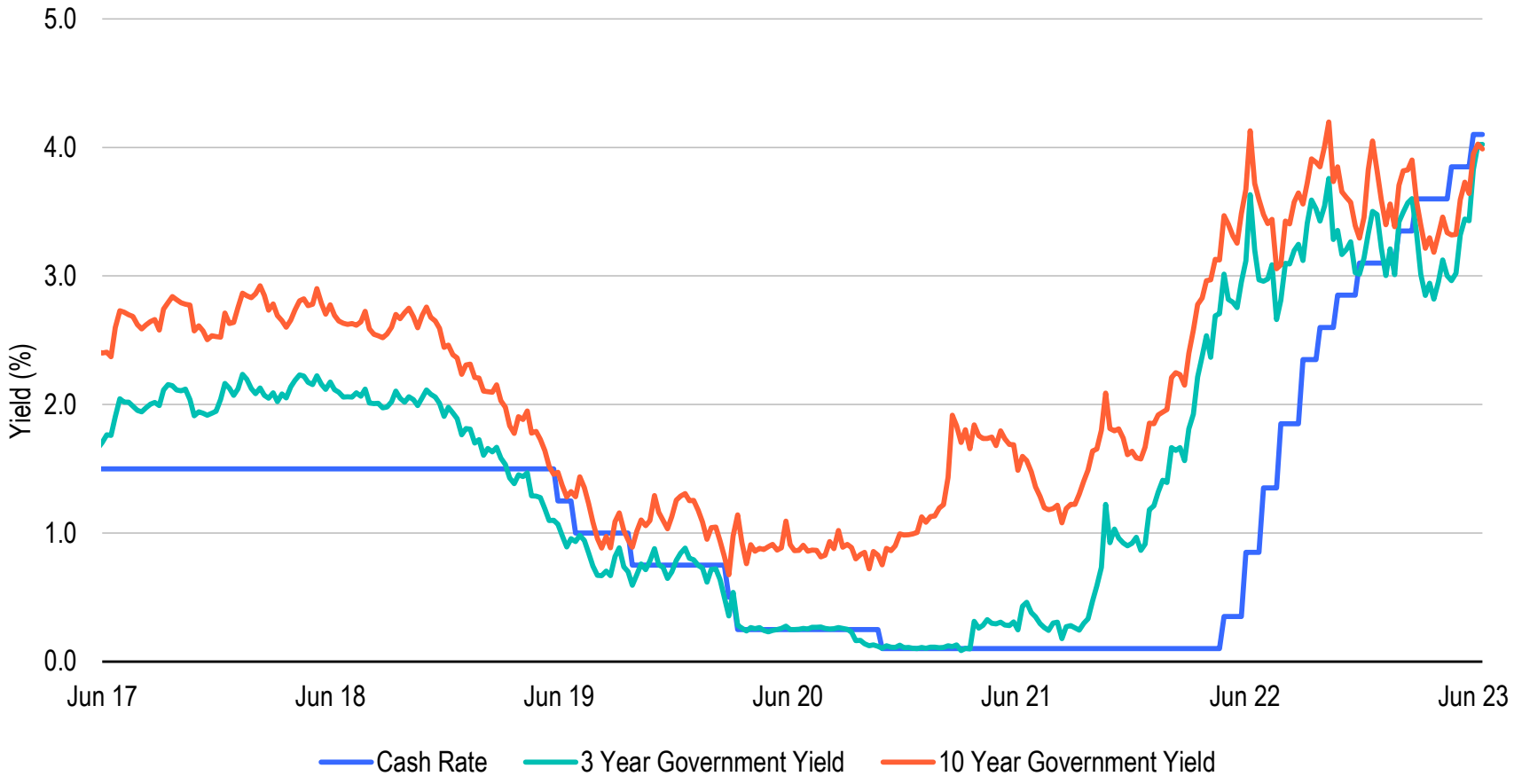

Based on weekly data.
Source: Bloomberg. As of 23 Jun 23

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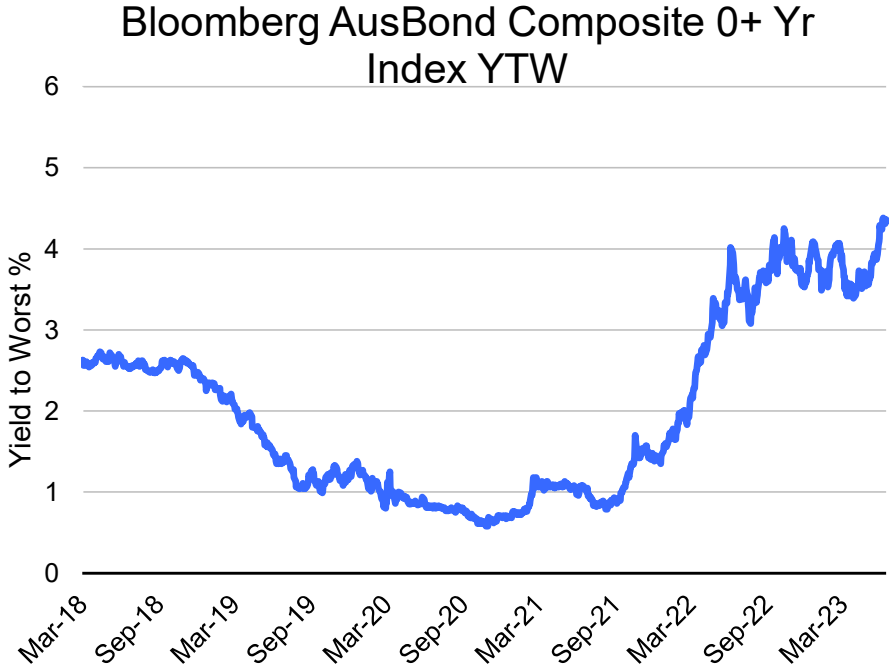
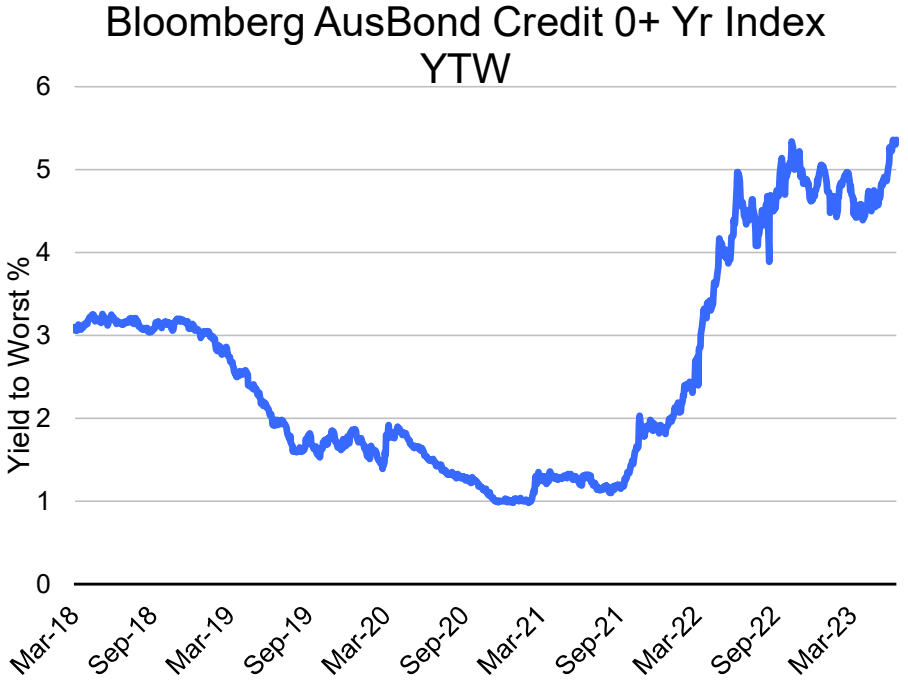
Benchmark Yields Attractive



Source: Bloomberg. As at 23 Jun 23

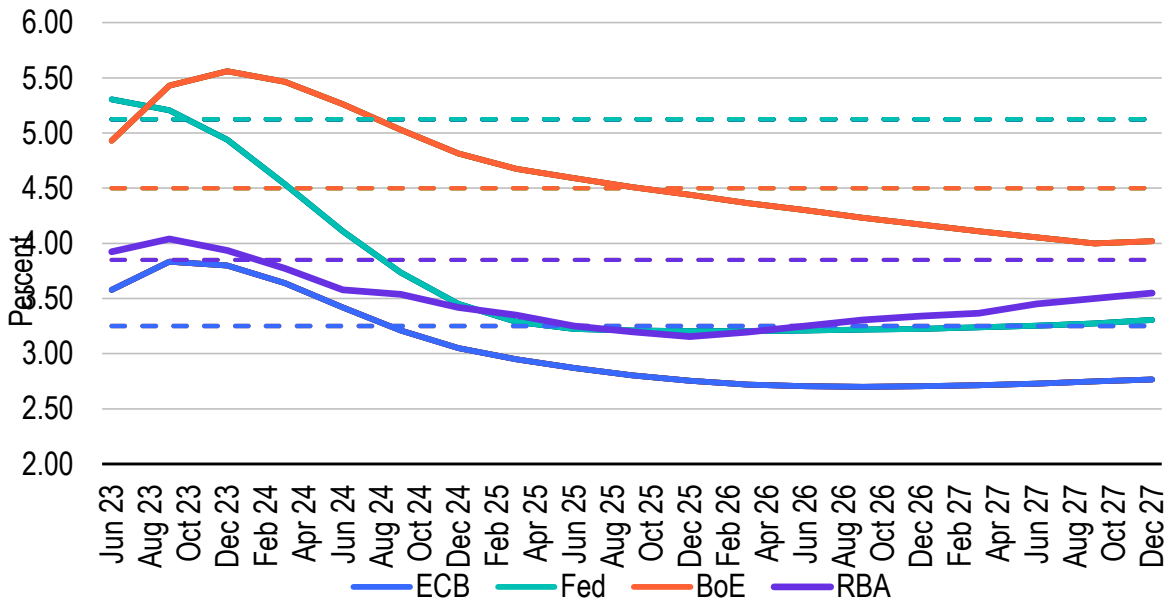


Source: Bloomberg. As at 23 Jun 23

Market Implied Policy Rate Paths

Policy rate paths implied by futures

Forward Rates Implied by Futures



- Fed: No more hikes. 2 cuts fully priced by year end.
- ECB: 2 more hikes fully priced. No cut before end Q124.
- BoE: 2 more hikes almost fully priced. No cut before Q124.

Source: Bloomberg. As 30 May 23
Dotted lines represent current policy rate levels

Implied Cash Rate Pricing

Market expectations for cash rates remain volatile

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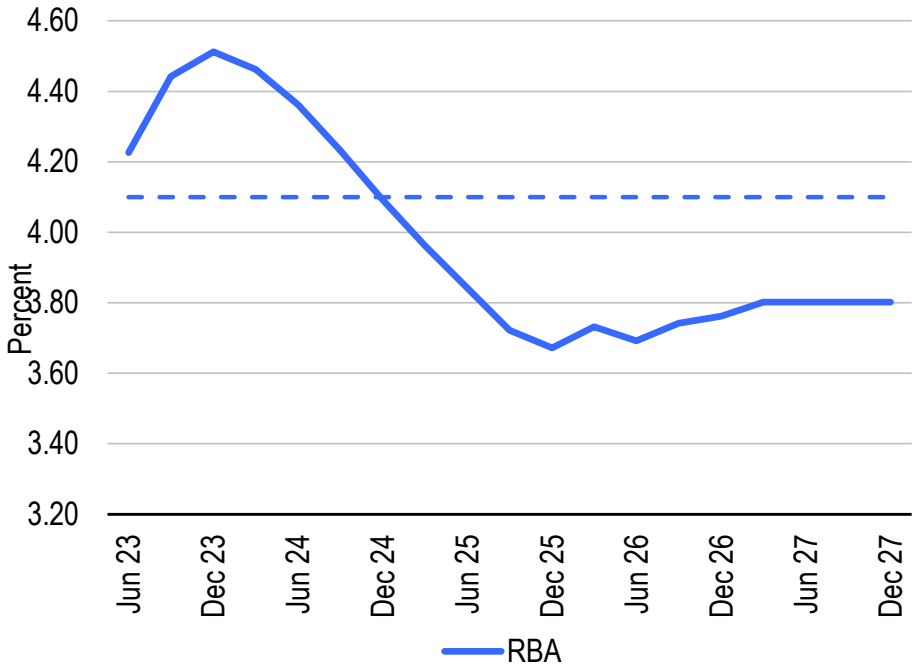
Market Implied Policy Rates				
Meeting	**Hikes**	**%Hike / Cut**	**Implied Rate Change**	**Implied Rate**
Jul 23	0.17	17.2%	0.04	4.23
Aug 23	0.67	49.4%	0.17	4.40
Sep 23	0.84	17.3%	0.21	4.53
Oct 23	0.76	-7.6%	0.19	4.56
Nov 23	0.78	1.9%	0.20	4.59
Dec 23	0.58	-20.5%	0.14	4.58
Longer Dated Market Implied Cash Rates				
Jun 25	-1.16		-0.29	3.81
Jun 26	-1.64		-0.41	3.69

Source: Bloomberg. As at June 19th 2023



Source: Bloomberg. As 19 Jun 23
Dotted line represents current policy rate

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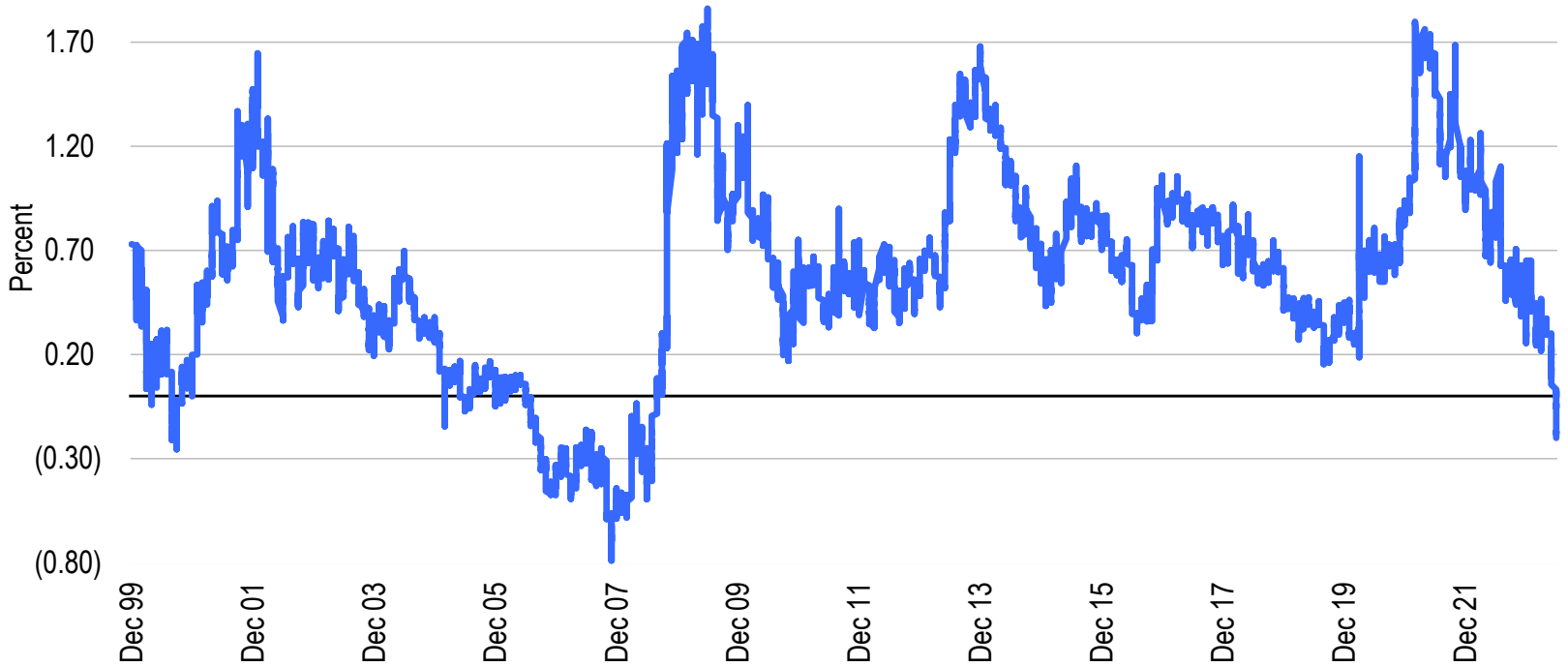
Australian Government Yields

Does yield curve inversion between the 2 and 10 Year bond portend recession?

Australian 10 Yr vs 2 Yr Government Bond



Source: Bloomberg. As 23 Jun 23

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Benchmark Composition – Pre GFC to now

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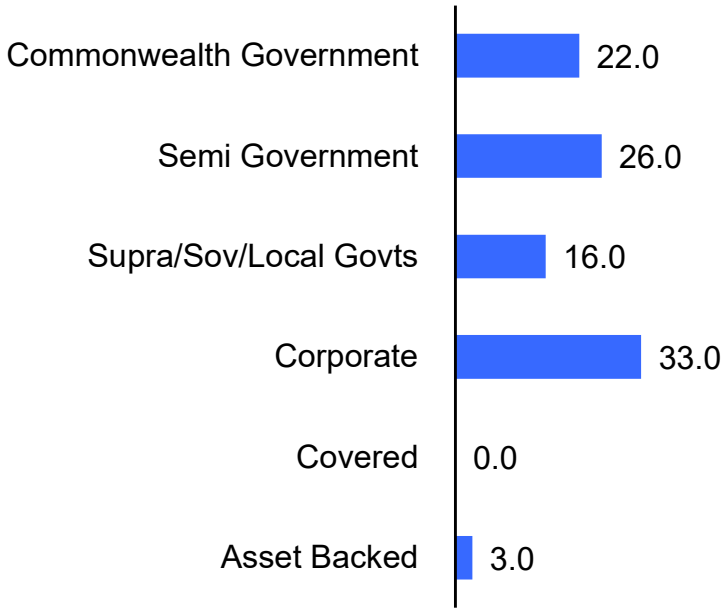
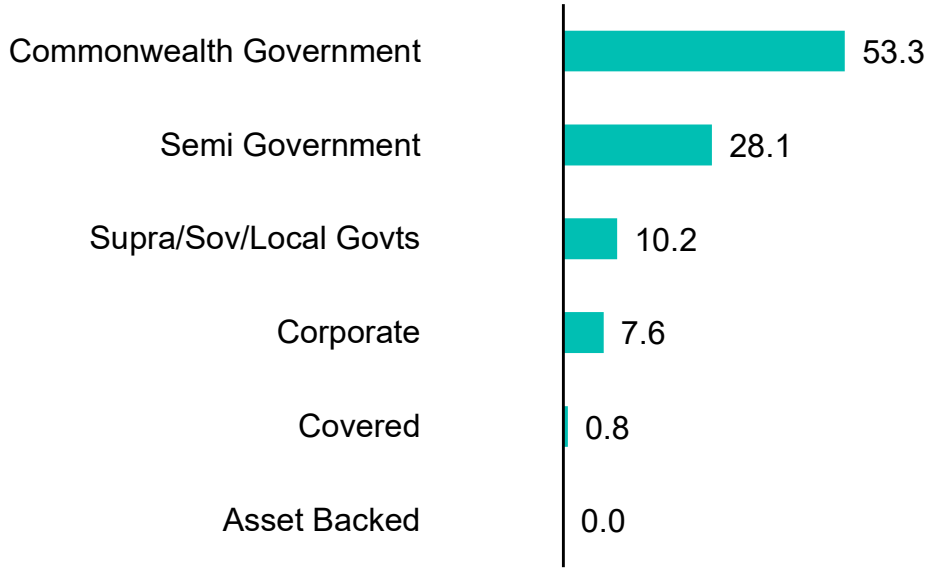
December 2006

UBS Australian Composite Bond Index (%)



May 2023

Bloomberg AusBond Composite 0+ Yr Index (%)



Source: Western Asset

Total may not sum due to rounding. Past performance is not a guarantee of future performance.

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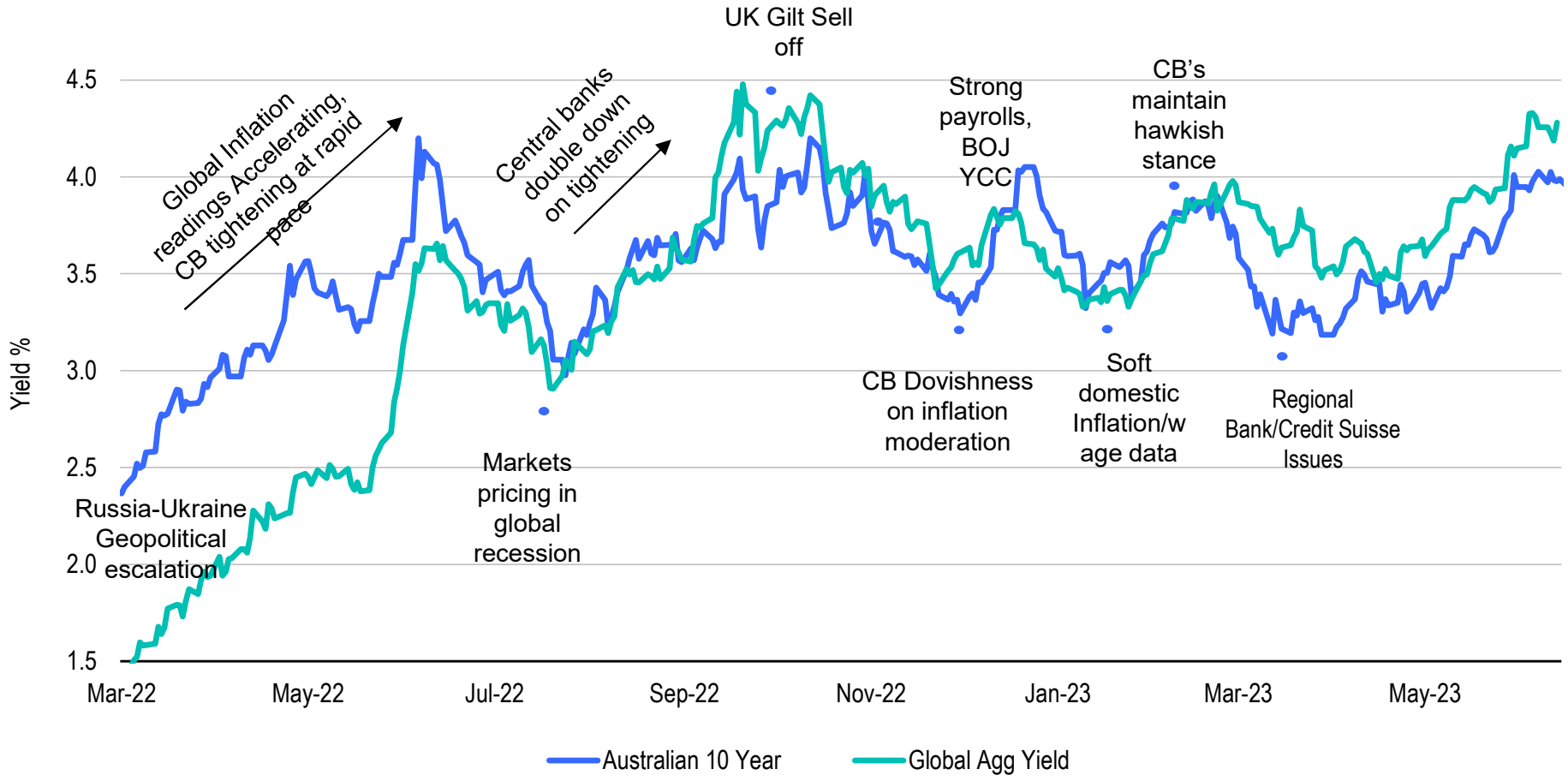
10 Year Bond Yield

A wild ride for yields with active management critical



Source: Bloomberg., Western Asset As of 23 June 23

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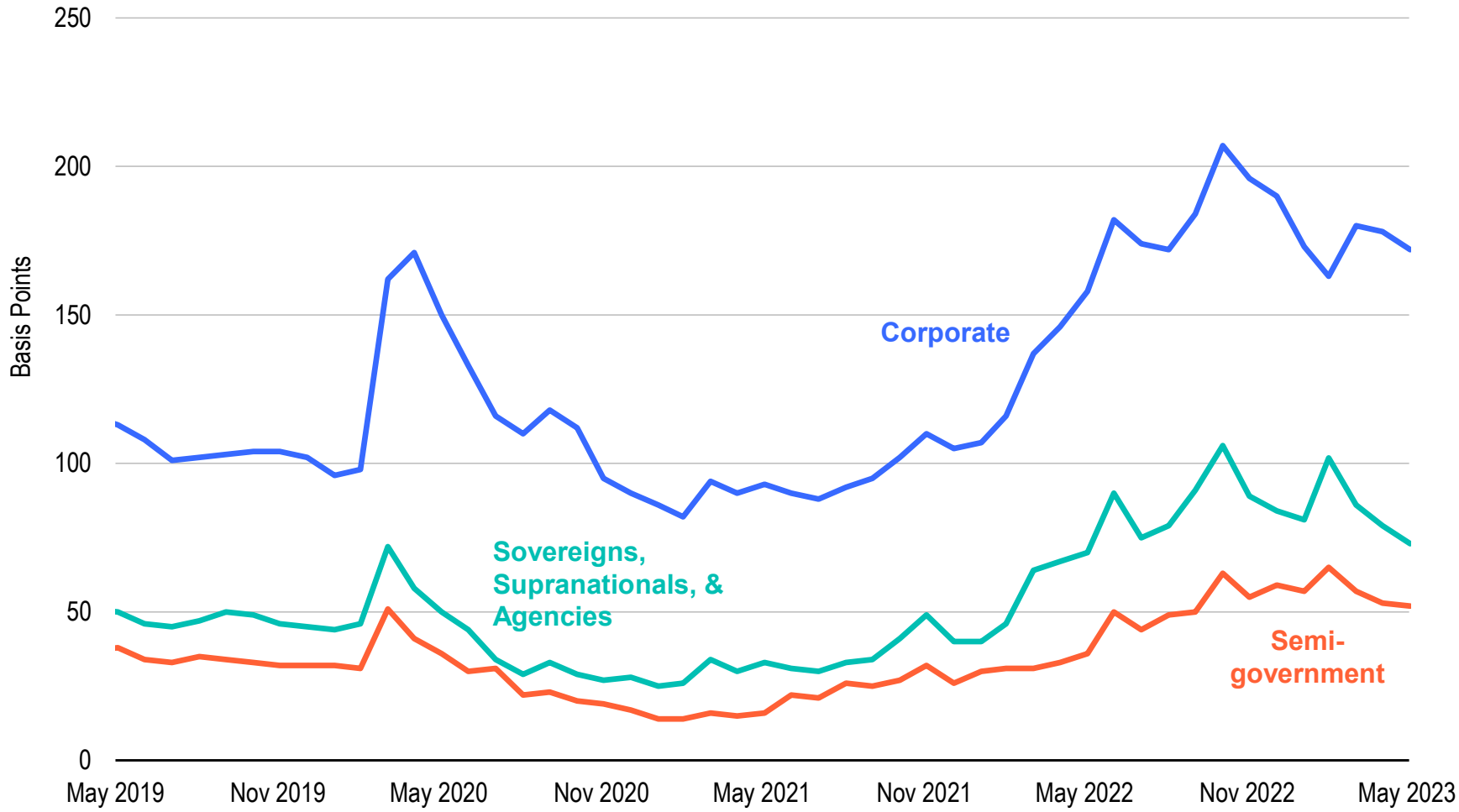
Australian Bond Spreads



Source: Bloomberg. As of 31 May 23

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Cash Flow and Debt Metrics Support Investment-Grade Credit

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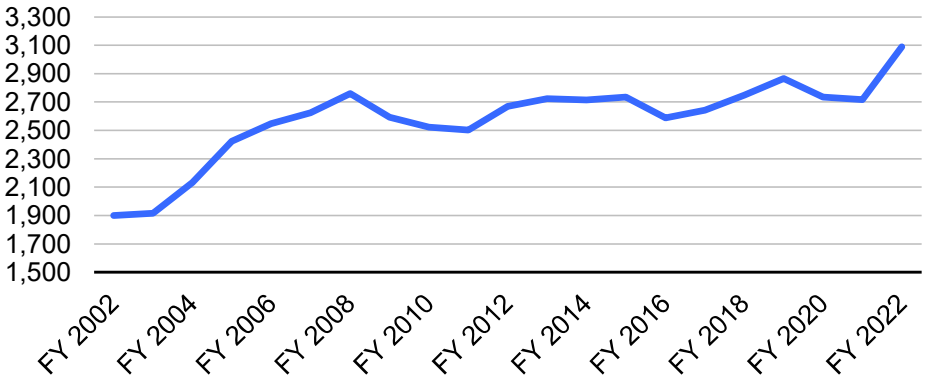
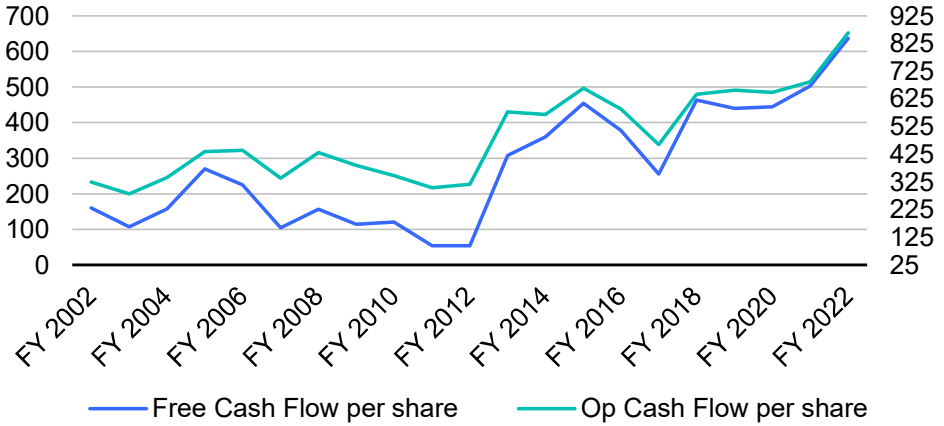
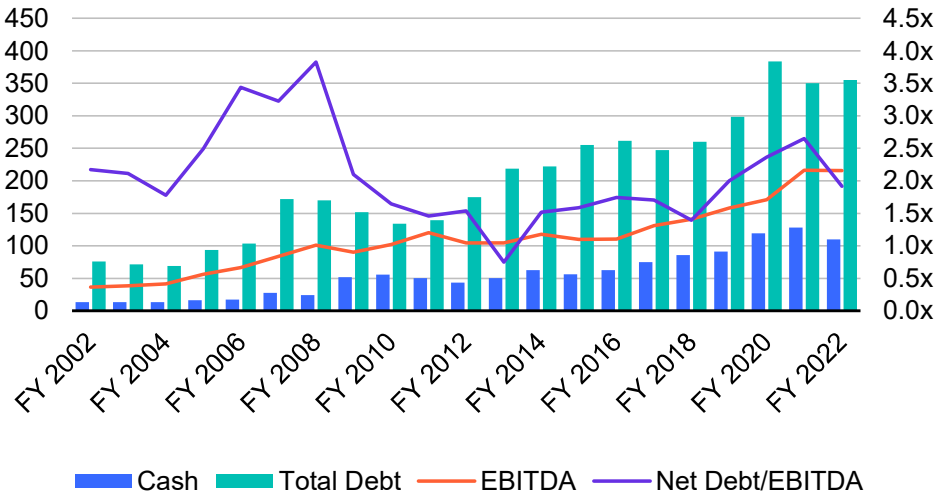
ASX 200 - Sales Revenue per Share



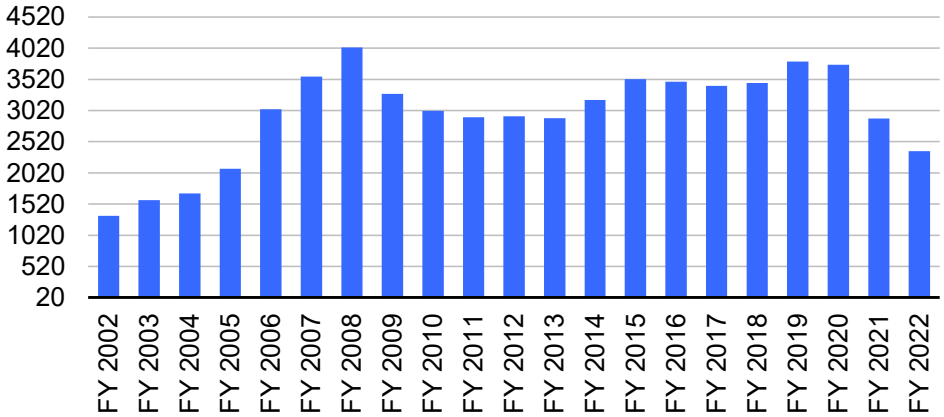
ASX 200 - Cash Flows



ASX 200 ex Financials & Energy - Leverage



ASX 200 Net Debt



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Source: ASX, Bloomberg. As of 31 Dec 22

Australian Bond Spreads

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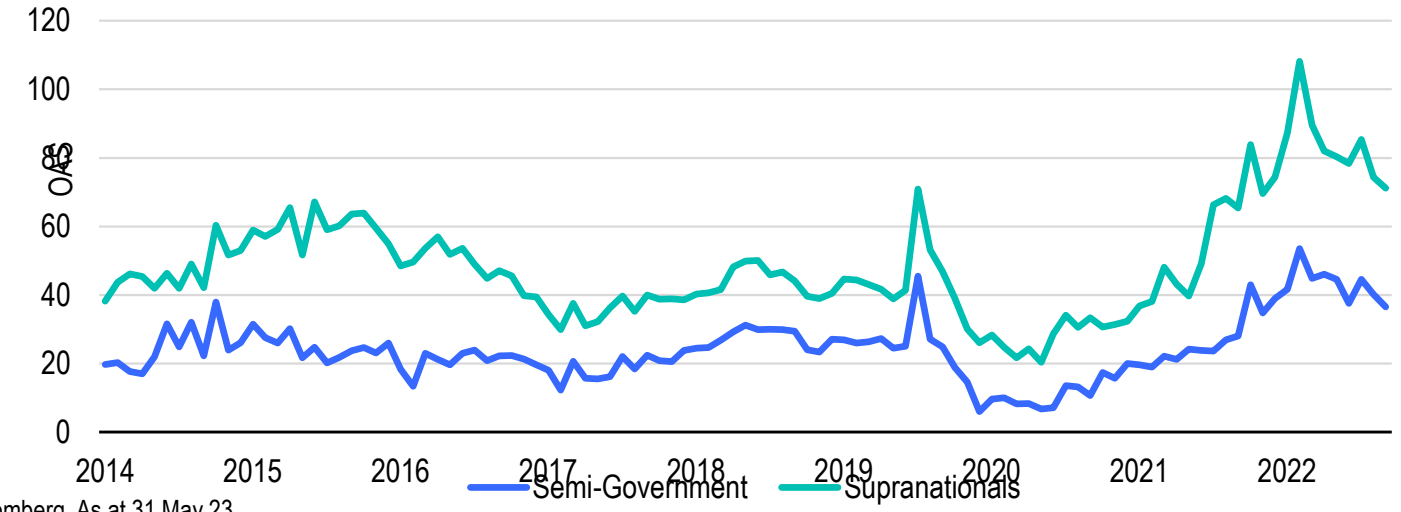
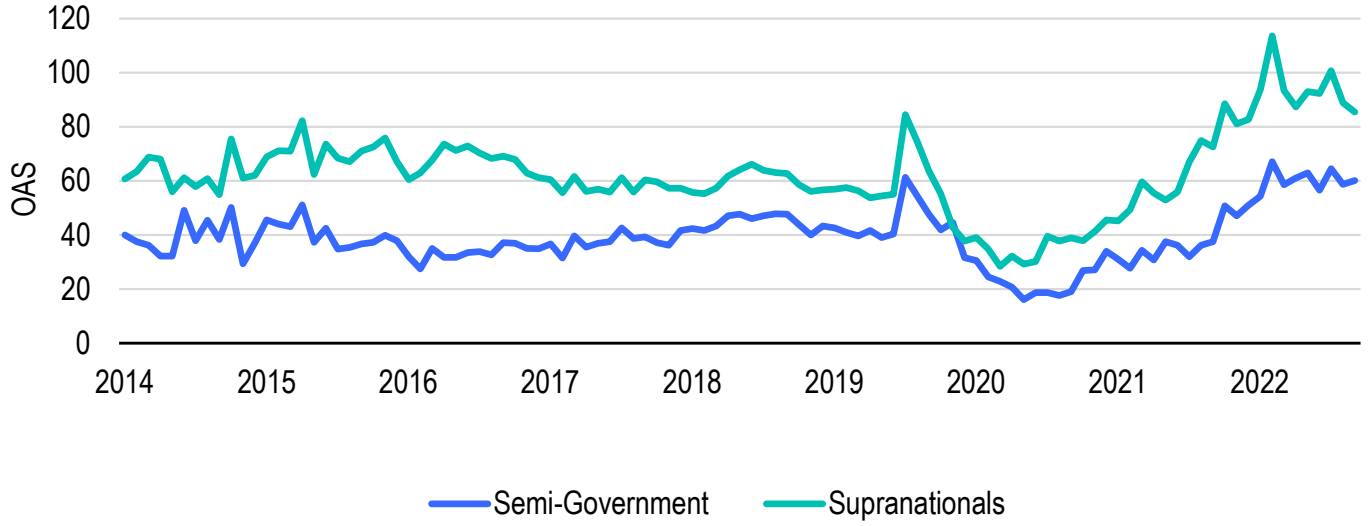
Australian Semi-Government vs. Supranational Spreads (3-5 yr)



Source: Bloomberg. As at 31 May 23

Australian Semi-Government vs. Supranational Spreads (7-10 yr)



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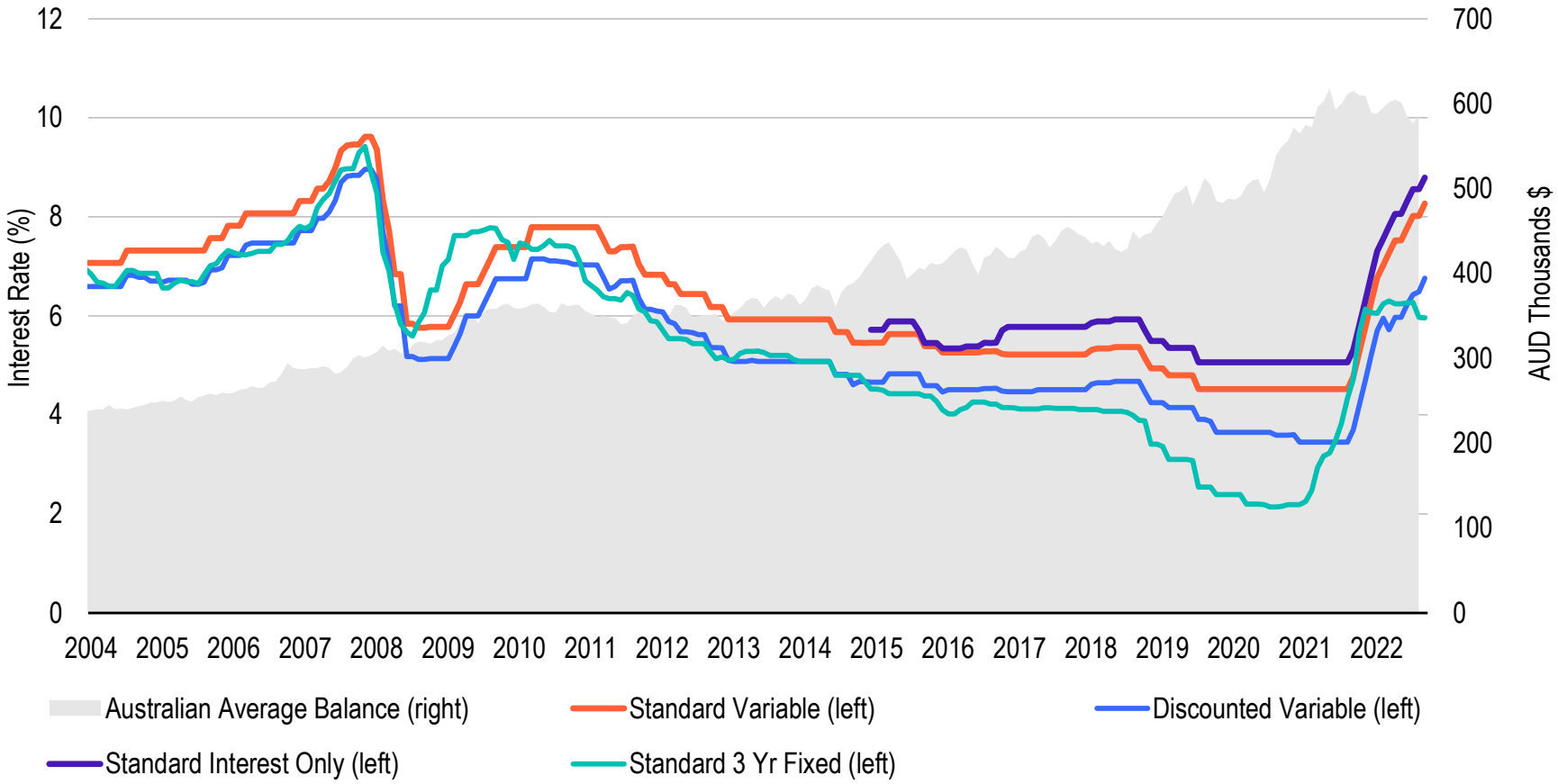
Source: Bloomberg. As at 31 May 23

Household Sector – Rates and Loan Size

Roll off of fixed-rate loans and delays to the full impact of variable rates changes a key consideration for the RBA

Average Owner Occupier Home Loan Balance vs. Mortgage Rates (LHS)



Source: RBA, ABS. As of 31 May 23. Australian Average Balance as of 30 Apr 23

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So – How's it going in 2023?

Alex Cousley
Russell Investment Management

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HOW'S FIXED INCOME GOING IN 2023

Alexander Cousley
Investment Strategist, Asia Pacific

Russell Investments

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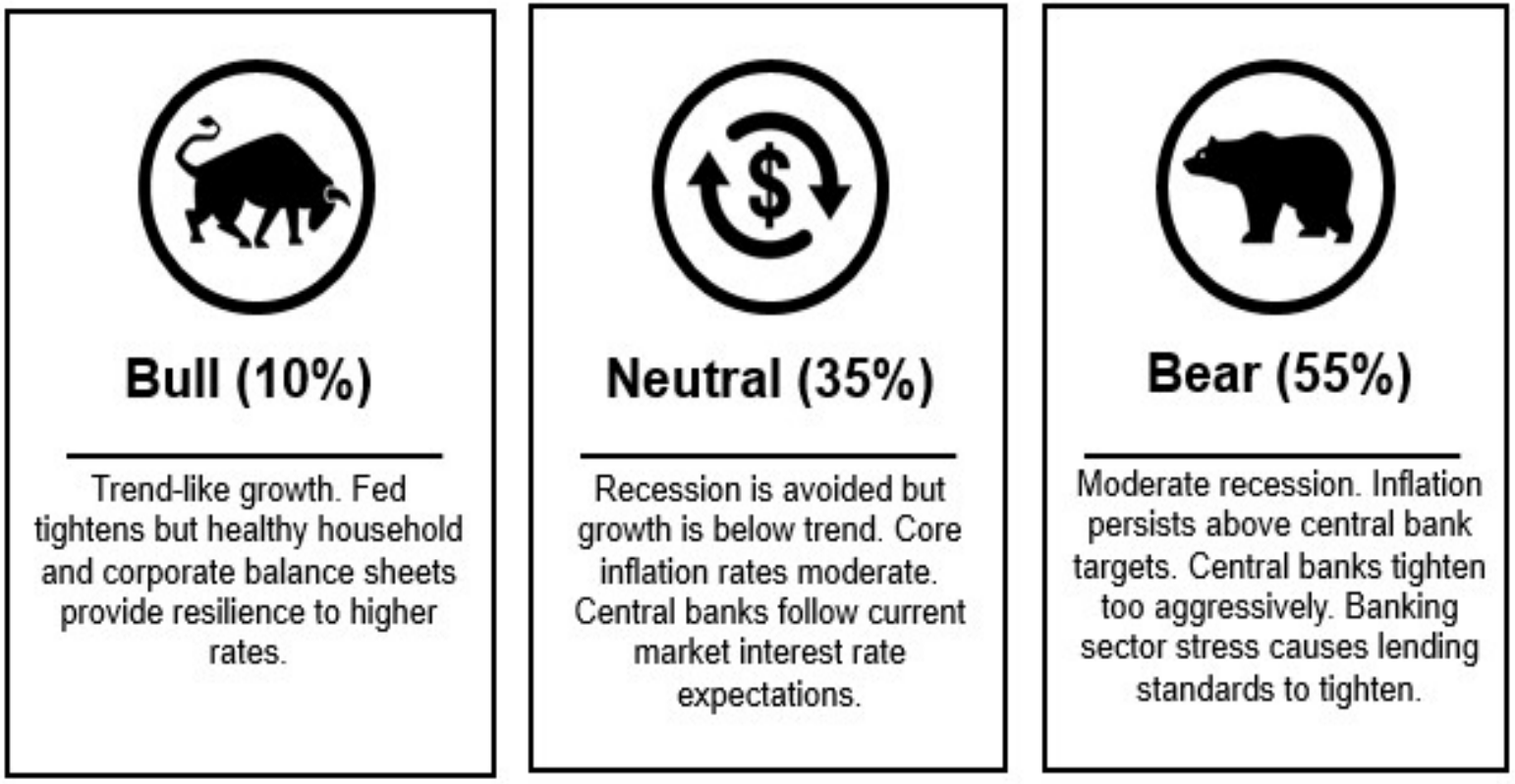
We believe a U.S. recession is more likely than not over the next 12 months

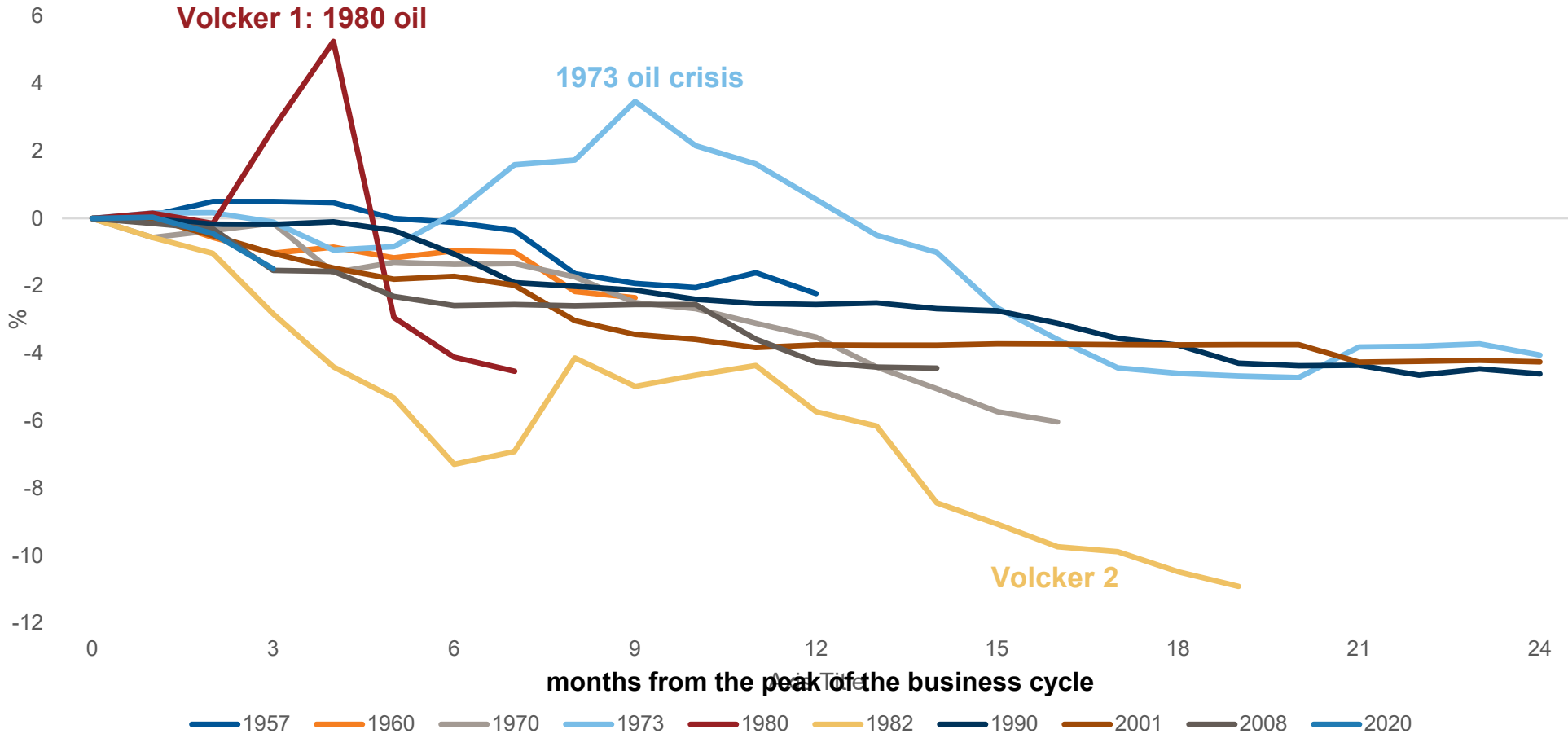


Source: Russell Investments, for illustrative purposes only

If recession ensues, central banks will cut rates

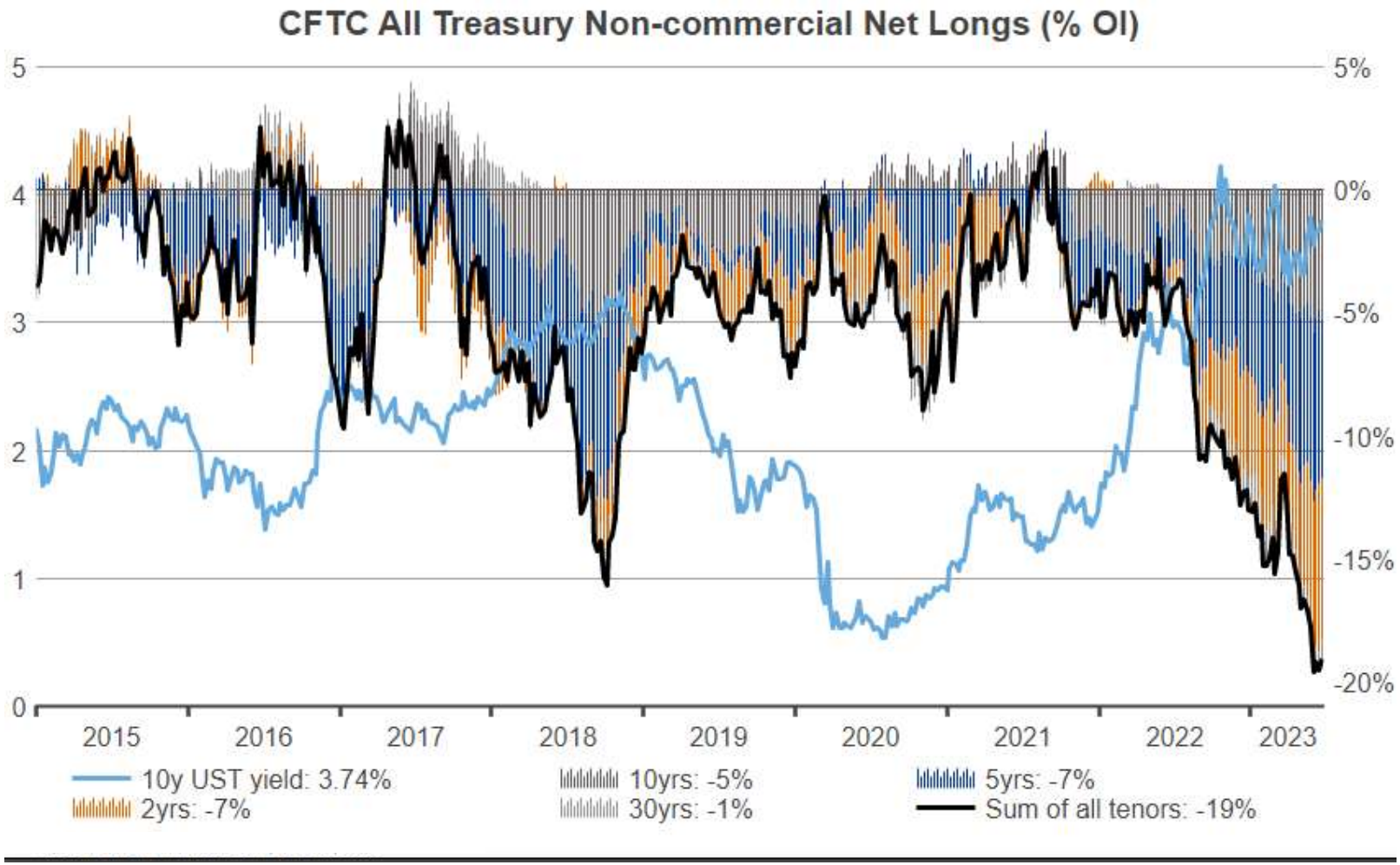
Fed policy rate always cut to support the economy in a recession

ppt change in the fed funds rate from the peak in the business cycle



Source: Russell Investments, Refinitiv. Sample 1957 to present. Dates for business cycle peaks are taken from the National Bureau of Economic Research. Each series is cut off at the trough of the fed funds rate or 24 months (whichever is first).

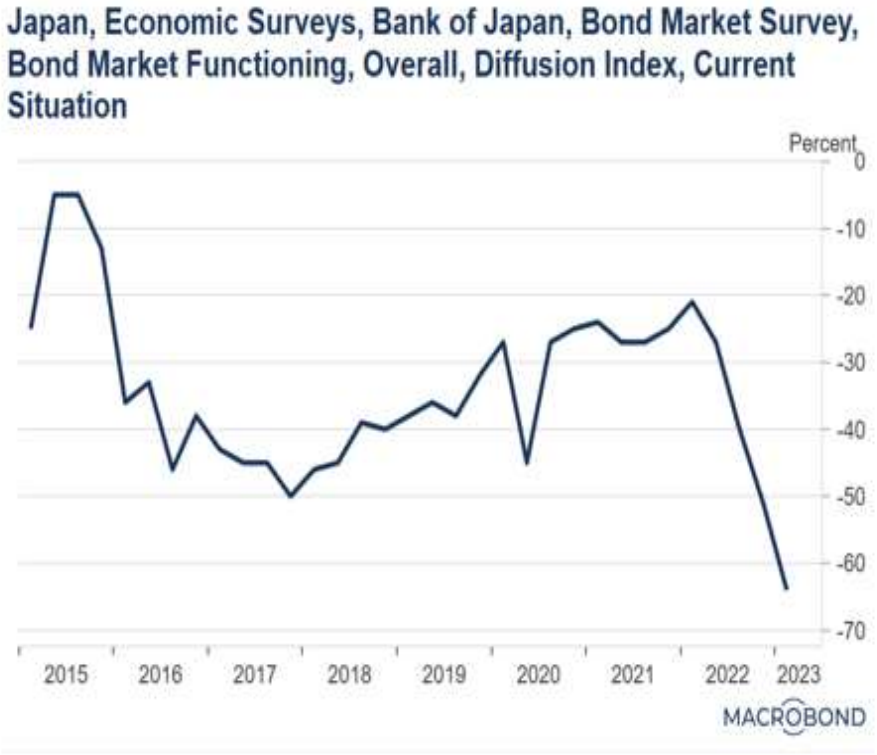
The market is quite negative on Treasuries, which historically has been a good contrarian indicator

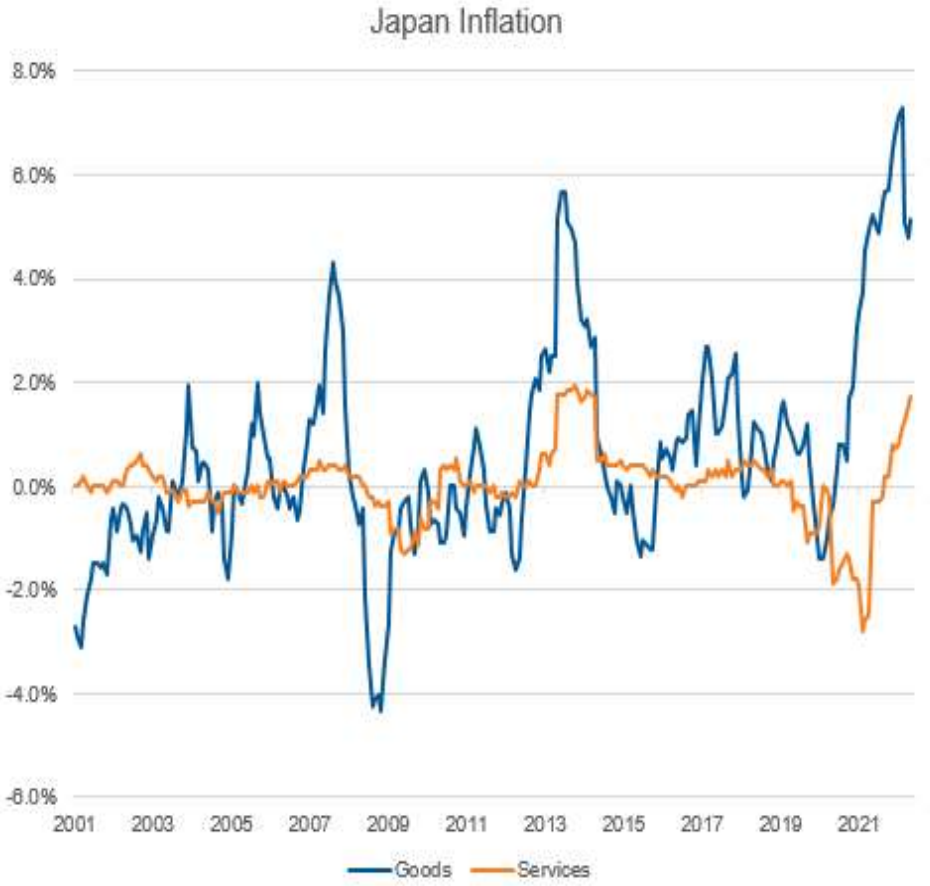


Source: Refintiv Datastream, 23 June 2023

Japan is becoming a very interesting market

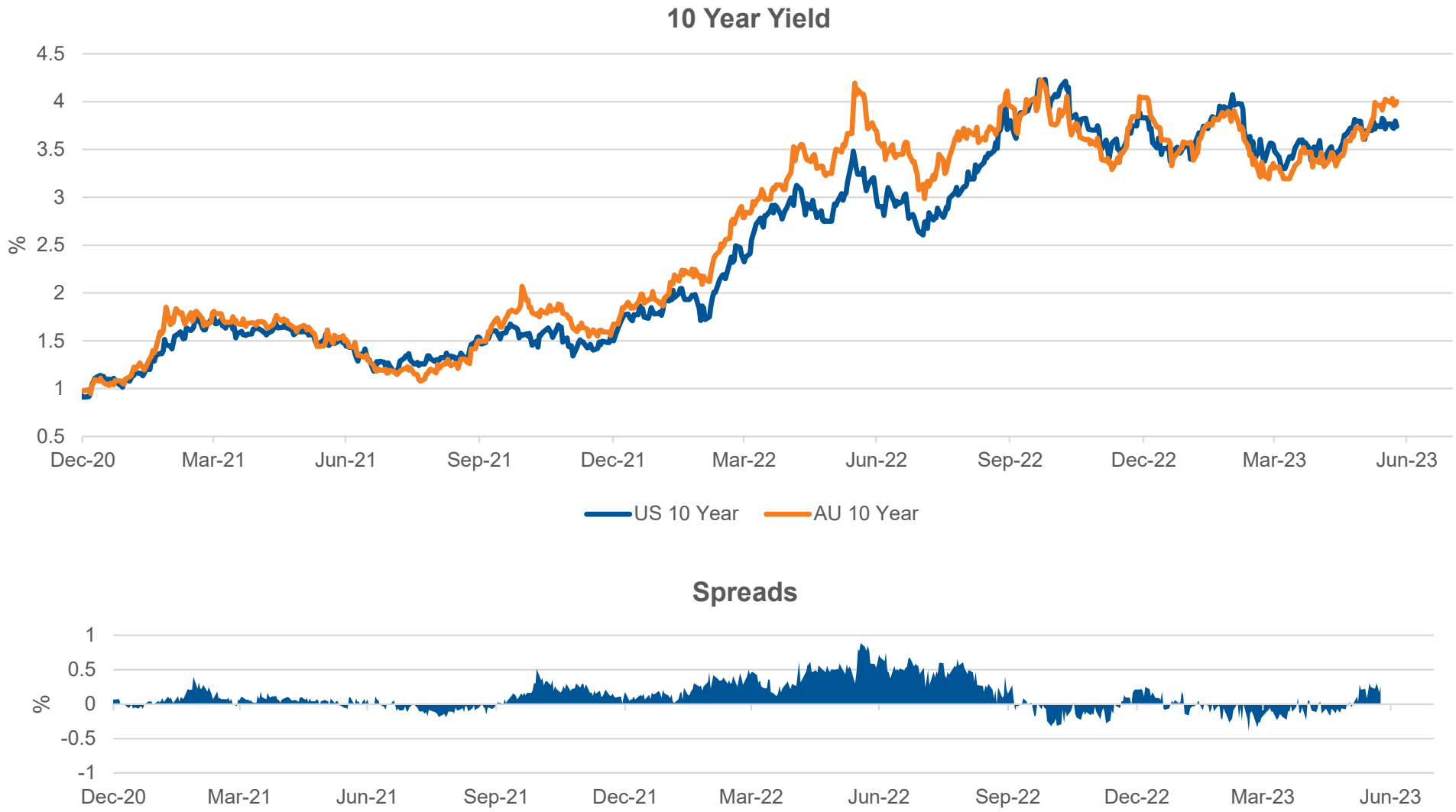
We expect the BoJ are close to making more changes to their bond purchase program





Source: Macrobond, Russell Investments, Refinitiv Eikon 23 June 2023

Australian fixed income looks attractive relative to US



Source: Russell Investments, Refinitiv Eikon 23 June 2023

Questions

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