Portfolio report

UBS International Bond Fund
Global Aggregate Bond
Client report from 01.10.2024 to 31.12.2024

Summary

as at 31-Dec-24

After fees and expenses, the portfolio decreased by 1.20% over the quarter, outperforming its benchmark by 0.02%.

% Return (Net)	Fund[1]	Benchmark*	Difference
3 months	(1.20)	(1.22)	0.02
1 year	2.31	2.23	0.08
3 years	(2.07)	(1.89)	(0.18)
5 years	(0.58)	(0.46)	(0.12)
10 years	1.68	1.84	(0.16)
Calendar Year to Date	2.31	2.23	0.08
Since inception (09/93)	5.08	6.06	(0.98)

[1] Performance figures are net of ongoing fees and expenses.

* Barclays Global Aggregate Index ($A hedged)

The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile and future returns can vary from past returns.

Source: UBS Asset Management. These figures refer to the past. Past performance is not a reliable indicator of future results.

Performance review

Performance Attribution

The fund overperformed its benchmark on a gross-of-fee basis (+11bps) over the quarter. Absolute performance was negative (-111bps).

Within duration management, underweight positioning in Japan added to performance as yields increased during the quarter. In contrast, overweight positioning in the UK detracted from performance as yields increased during the month.

Positioning

During the quarter, we reduced the magnitude of our underweight duration position in the US, added to our overweight duration position in Australia, and reduced our overweight to UK duration. Furthermore, we increased our overweight duration position in Europe.

Fixed Income Analytics

as at 31-Dec-24

Yield Curve Distribution

	Fund	Benchmark	Mod Duration- Fund	Mod Duration - Benchmark
0-1	5.87%	1.06%	0.03	0.01
1-3	12.64%	23.82%	0.29	0.44
3-5	23.46%	19.67%	1.41	0.72
5-7	14.73%	13.74%	0.93	0.74
7-10	16.16%	19.85%	0.23	1.41
10+	27.14%	21.86%	3.97	3.15
Total	**100.00%**	**100.00%**	**6.86**	**6.48**

Sector Diversification

	Fund	Benchmark	Mod Duration - Fund	Mod Duration - Benchmark
Treasuries	35.28%	54.30%	3.43	3.87
Gov- Related	13.45%	10.81%	0.75	0.54
Semi Govt	0.58%	2.88%	0.02	0.22
Corporate	33.43%	18.45%	1.69	1.08
Asset Backed	17.46%	13.55%	0.81	0.77
Cash, Money Markets & Other	-0.20%	0.00%	0.16	0.00
Total	**100.00%**	**100.00%**	**6.86**	**6.48**

Credit Rating

	Fund	Benchmark	Mod Duration - Fund	Mod Duration - Benchmark
AAA	13.65%	11.65%	0.83	0.70
AA	32.86%	42.62%	2.20	2.73
A	25.41%	31.51%	2.24	2.20
BBB	21.99%	14.21%	1.26	0.85
HY	6.22%	0.00%	0.17	0.00
NR	-3.36%	0.00%	0.16	0.00
Cash, Money Markets & Other	3.23%	0.00%	0.00	0.00
Total	**100.00%**	**100.00%**	**6.86**	**6.48**

Market review

In Q4, we observed some significant developments in the fixed income market. One of the most notable was the much higher US Treasury yield levels, driven by Trump's victory in the US election, which raised expectations for fiscal deficits and stickier inflation. This led to negative performance in most investment grade markets due to the treasury sell-off, while high yield markets held up relatively well. This resilience was supported by credit spread tightening as risk sentiment turned positive, a trend also evident in the equities market. The US presidential election was a key event, resulting in a Red Sweep where Republicans gained the majority in both chambers of Congress. In China, the National People’s Congress concluded after the US election, unveiling a substantial USD 1.4 trillion program aimed at resolving the local government debt crisis. Additionally, the Chinese finance minister has promised more fiscal policy support for the next year, though further details were not provided. Yields on 5-year and 10-year US government bonds rose by 82 and 79 basis points, respectively. German 10-year Bunds also saw a rise, albeit to a smaller extent, trading 24 basis points higher. Meanwhile, yields on the UK 10-year Gilts increased by 57 basis points. On the credit side, US investment grade credits underperformed their European counterparts, experiencing both less credit spread compression and larger rates sell-off. This trend was also observed in US and Euro high yield markets. Within emerging markets, both sovereigns and corporates generated negative returns.

Outlook and strategy

Yields trended higher into year-end, ending 2024 higher, amid lingering inflationary pressures that caused investors to scale back expectations for Central Bank rate cuts, particularly in the US. We are still leaning towards a bullish duration view as we expect policy rate cutting cycles will lead to lower yields. Additionally, we see a high probability that the monetary tightening cycle will become a major drag on growth as households and corporates have to roll their mortgage and debt into new debt at much higher interest rates. We believe risk reward for fixed income has shifted in a more positive direction outside of Japan as real bond yields have risen to sufficiently high level with prospect for rate cuts.

We continue to believe corporate bonds are attractive from both an income/carry, and total return perspective. We have an overweight position in the front-end and intermediate section of the credit curve, whilst we are underweight the long-end. Overall, corporate fundamentals remain stable as low unemployment and strong wages have offset tightening financial conditions.

UBS Asset Management (Australia) Ltd

ubs.com