EdenTree Global Sustainable Government Bond Fund

Q4 2024 Commentary

PERFORMANCE & YIELDS

Note: As this Fund was only launched in October 2024 there is insufficient data to provide a useful indication of past performance to investors. Past performance information will be shown when the Fund has been in existence for a complete calendar year.

MARKET REVIEW

Global bond yields rose sharply over the quarter, amidst increasing uncertainly and with market participants expecting less interest rate cuts on resurging inflation risks. Whilst various central banks continued to cut interest rates, guidance shifted to signalling a more gradual pace to better incorporate potential economic consequences to changes in governments' trade and fiscal policies.

The US Federal Reserve cut its benchmark rate in smaller 0.25% increments in November and December to 4.5%, highlighting its cautious approach compared to an inaugural 0.5% reduction the previous quarter. Similarly, the European Central Bank cut its main interest rate by 0.25% in October and December respectively, to 3%. Whilst policymakers grew more confident that inflation was settling at the 2% target sustainably, they nonetheless flagged that risks to consumer prices were more balanced and held back from enacting a larger interest rate cut. The Bank of England cut its benchmark interest rate by 0.25% to 4.75% in November. The Bank of Canada was by far the most active on monetary policy decisions, cutting its interest rate by 0.5% consecutively in October and December to 3.25%.

The announcement of policy stimulus measures in China to support the economy, saw sovereign debt there rally considerably over the period, unlike most other developed economies whose yield curves rose.

PERFORMANCE & ACTIVITY

The Global Sustainable Government Bond Fund's total return lagged its Bloomberg Global Aggregate Treasuries Index benchmark and the IA Global Government Bond sector over the period. This was largely on account of its positioning in Euros where it was overweight and more sensitive to interest rates, its shorter relative duration position in Japanese Government Bonds as well as an adverse impact from its underweight exposure to Chinese Yuan sovereign bonds which rallied on the announcement of policy stimulus measures.

Whilst both the European Central Bank and the US Federal Reserve have delivered interest rate cuts since the Fund was launched and are still guiding to policy easing, albeit at a more gradual pace from here, heightened uncertainty around the threat of tariffs and the trajectory of US inflation has seen sovereign bond yields across most geographies rise. Market participants have since proceeded to re-calibrate assumptions on monetary policy easing for the period ahead.

Following its inception in late October, the Fund has moved to reduce its exposure to the French Republic Government 1.75% 2039 green bond and UK Treasury 1.5% 2053 green gilt, whilst adding to longer-dated green sovereign debt from Spain and the Netherlands. It bought Netherlands 0.5% 2040 green, Netherlands 3.25% 2044 green and Spanish Government 1% 2042 green bonds, whilst topping up its US Dollar-denominated KFW 4.375% 2034 green bond holding.

OUTLOOK

Policymakers have cautiously acknowledged progress on falling headline inflation by enacting interest cuts. Central banks nonetheless remain wary of reinvigorating upward price pressures in the face of a fast-evolving geopolitical backdrop. Higher energy prices also raise the risk of adverse base effects to year-on-year inflation data. That global bond yields have risen

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as benchmark interest rates are reduced highlights the scale of policy uncertainty, particularly in the aftermath of November's US presidential election. Labour market indicators continue to gain prominence in monetary policy deliberations and may well influence the pace at which further actions are enacted.

Though robust, global economic growth is set to takes more cues from fiscal policies and or tariffs announced by incoming governments across the world. Thus far, the threat of tariffs has seen Chinese government officials pledge to continue supporting growth via series of measures including guidance to allow currency weakness in 2025 and to keep monetary policy 'appropriately loose'. Debt sustainability concerns are also rightly coming to the fore for countries running large budget deficits such as the US, UK and France, resulting in higher volatility and term premia on longer-dated debt. As such, central banks are set to act cautiously, paying close attention to incoming data on not only inflation but also on economic growth. The Fund continues to be positioned overweight in European sovereign debt, largely driven by the overweight allocation to German, Netherlands and Spanish government debt alongside lower interest sensitivity to French and Italian sovereigns.

Higher sovereign bond yields, with credit risk premia at historic tights arguably increases the attractiveness of government debt. Apart from Japan, where interest rates are anticipated to rise, monetary policy is likely to eased further across most major economies. Heightened policy uncertainty warrants an incremental approach to adding interest rate sensitivity though.

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