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Aegon Strategic Global Bond Fund

Q1 2025

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Market summary

The opening three months of the year have proved to be roller coaster ride for fixed income markets. The interplay between politics, economics and financials markets succeeded in delivering one of the most uncertain periods for investors since the Covid pandemic - and one which appears to have no near-term end in sight.

Much of the market volatility came from the new White House administration. Since the election in November last year, the prevailing market narrative was around upside risks for the US economy, equity markets and Treasury yields - this spilled into the start of this year with 10yr US Treasuries touching 4.80%, its highest level since Q4 2024.

After the inauguration, President Trump's more aggressive stance on trade tariffs (and frequent backtracking on policies), caused uncertainty to rise and sentiment to fall within businesses and consumers. This increased the downside risks to US GDP. This theme has dominated since mid-February, causing the S&P to fall sharply and 10yr US Treasury yields to fall 60bps from their year-to-date peak. Credit spreads spent much of the period unmoved by the volatility before moving wider through March – US investment grade and high yield spreads widened 20bp and 70bps respectively from their February lows.

Arguably the biggest event in Q1 took place in Germany, as a massive fiscal package was agreed and passed. Totalling over EUR500bln, the mix of defence and infrastructure spending is far in excess of any increased spending plans that had been expected. This announcement saw 10yr Bund yields surge 50bps higher, turbocharged European equity markets and added further support to European credit markets. Near term growth challenges still need to be overcome - impact of trade tariffs etc – but the longer-term outlook for the European economy looks more positive.

The UK market found itself caught between the influence of offshore markets (US and Europe) and its own domestic fundamentals. The upcoming changes to National Insurance payments and concerns over the level of fiscal headroom saw UK Gilts trade poorly in early January and then fail to keep up with the fall in US Treasury yields through the remainder of the period.

The Government's Spring Statement looks to have bought the Chancellor some time, but the medium-term challenges of sluggish economic growth coupled with rising debt interest costs has not gone away. The Bank of England cut rates to 4.50% in February and will likely do so again in the coming months unless the stickiness in inflation proves to be too much.

Fund review

The Aegon Strategic Global Bond fund returned 3.24% in Q1 outperforming the peer group median return of 1.74% and the Bloomberg Global Aggregate (USD Hedged) that returned 1.17%.*

Over the period, the fund retained a lower level of overall credit risk and duration risk at around the average level of the last 5 years – this reflected the increased level of uncertainty and volatility in fixed income markets during the quarter.

We began the year with overall duration of 5.5yrs – this was a below average level of risk in response to the increase in economic optimism following the US Presidential election and fears of fiscal sustainability in UK (and beyond). This back-up in yields increased the attraction of duration risk - we viewed the market as discounting too much good news and under-pricing the chance of further Central Bank rate cuts. In response, the headline duration was steadily increased to 7.5yrs primarily through an increase in US, Canada and Australia, as US tariff threats increased downside risks to growth. At the same time, we sharply reduced the level of European duration after the German election and fiscal package was announced.

Short-dated bonds outperformed long dated bonds over the period, causing the curve to steepen. The fund was positioned to benefit from this through its US 5yr vs 30yr curve position – one of the core positions in the fund. In addition, we added similar risk in Germany as the increase in Government borrowing to fund future fiscal spending will weigh more on longer dated bonds. These positions were supportive of performance over Q1.

Despite the volatility we saw in the latter part of the quarter, our corporate bond allocation was an important driver of performance. With the compressed level of credit spreads, we opted to focus on bottom-up sector and security selection, rather than taking any directional risk or "credit beta". We saw gains from both investment grade and high yield bond holdings, with positions in financial names performing well. Our preference for European over US corporate bonds was also additive as the relative improvement in the European economic outlook supported credit risk in this region.

With regards to individual security selection, there were strong contributions from bonds issued by Metro Bank and Raiffeisen Bank within our banking exposure. In our now 14% allocation to Emerging Market debt, we saw stock selection gains from a range of positions within this area. After a strong run of performance, we took the opportunity to trim and book profits in some of our strong performing European Real Estate positions.

"The fund retained a lower level of overall credit risk and duration risk at around the average level of the last 5 years"

Fund positioning and outlook

The increase in uncertainty around the macroeconomic outlook has created a more challenging backdrop for fixed income markets in the coming period but one which still offers a "cushion" from a compelling level of yield or income over the longer term.

The aggressive stance by the US on trade tariffs has widened the range of potential economic outcomes, with a greater degree of downside risk than previously expected. The "negative sum game" of trade tariffs means that we should expect an environment of lower global growth but with higher inflation in the US and lower inflation elsewhere in the coming months. The path for policy rates still remains lower but the extent will vary from country to country and also on the final form US trade policy takes.

This backdrop favours a level of duration risk only modestly above our longer-term average of 6.5yrs. The weaker growth outlook is supportive for interest rate risk - but with inflation rates still sticky (UK) or at risk of moving higher (US) and the near-daily changes to US trade policy, conviction over taking larger duration positions is currently low.

Curve positioning and market selection has become of greater importance. The fund has a preference for short-dated bonds over long dated bonds, on the expectation of yield curves steepening. We have expressed this primarily in the US but also in Germany. Having previously favoured US duration over Europe, this has been reversed, with a greater relative support for German Bunds. In addition, we have retained exposure to Canada which clear macro headwinds from US tariffs.

Corporate bonds continue to benefit from elevated yield levels but are coming under pressure from increased recession risk and credit spreads that are still relatively low. This favours a bias towards a lower overall level of credit risk/beta to protect against any further macro or volatility shocks. Careful security selection is clearly essential from a risk management perspective but there are still also opportunities to add value in this area. We view European credit as more attractive than US credit with a preference for financials over non-financials.

*Source: Lipper as at 31 March 2025, B (Inc) USD, NAV to NAV, noon prices, income reinvested, net of ongoing charges, excluding entry or exit charges. Sector median source: Lipper. Lipper Global – Bond Global. Compiled using Lipper Primary share classes. Lipper primary share classes are generally the highest charging share classes available and are usually the ‘A’ retail share classes for Aegon AM funds. Note: peer group benchmarks have noon prices and index benchmarks have close of day prices.

Calendar year performance* (%)

	2024	2023	2022	2021	2020
Aegon Strategic Global Bond Fund USD B Inc	9.97	9.79	-14.28	1.56	18.84
Lipper Global Bond Global USD Peer Group	3.31	6.56	-11.40	-1.18	6.06
	2019	**2018**	**2017**	**2016**	**2015**
Aegon Strategic Global Bond Fund USD B Inc	11.74	-1.17	4.75	4.08	-0.58
Lipper Global Bond Global USD Peer Group	7.72	-1.32	5.26	3.39	-1.35

*Source: Lipper as at 31 December 2024. Performance shown is for the B USD Inc share class. NAV to NAV, noon prices, income reinvested, net of ongoing charges, excluding entry or exit charges. The Fund is in the Lipper Global Bond Global sector. Lipper primary share classes are generally the highest charging share classes available, and are usually the 'A' retail share classes for Aegon Asset Management UK funds.

Investment policy and risks

Below we summarise the investment policy and key risks. For more information, please refer to the Key Investor Information Document (KIID) and the Fund Supplement to the Prospectus at **www.aegonam.com/documents**.

Investment policy

The Fund invests at least two thirds in a wide range of investment grade (lower risk) bonds and high yield (higher risk) bonds issued by companies and governments worldwide. The Fund may also invest in cash, deposits and money market instruments (a form of debt security). The Fund is actively managed.

The Fund may invest in emerging markets. In investment terms, this means those economies that are still developing. The Fund has discretion in its choice of investments and is not restricted by market sector. It may also hold a limited range of other investments and it is not constrained by any benchmark or index. The Fund may use derivatives financial contracts whose value is linked to an underlying asset) for investment purposes, to benefit from changes in the price of an underlying asset without actually owning it. The Fund may use investment techniques to manage risks and costs.

Risks

The following risks are relevant to the Fund:

Credit: An issuer of bonds may be unable to make payments due to the Fund (known as a default). The value of bonds may fall as default becomes more likely. Both default and expected default may cause the Fund's value to fall. High yield bonds generally offer higher returns because of their higher default risk and investment grade bonds generally offer lower returns because of their lower default risk.

Liquidity: The Fund's value may fall if bonds become more difficult to trade or value due to market conditions or a lack of supply and demand. This risk increases where the Fund invests in high yield bonds.

Important information

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