Quarterly commentary / 30.9.2024

Vontobel Fund – Euro Short Term Bond

Marketing document for institutional investors in: AT, CH, DE, ES, FR, GB, IT, LI, LU, NL, PT, SG (Professional Investors only).

Investors in France should note that, relative to the expectations of the Autorité des Marchés Financiers, this fund presents disproportionate communication on the consideration of non-financial criteria in its investment policy.

Market developments
The summer months are typically a quiet time for markets. This year, they turned out to be anything but, and investors found themselves on a wild rollercoaster ride instead.
The quarter started out with a shaken-up political landscape in Europe, with snap elections in France and swirling speculation about a shift to the right or left. It was also a quarter in which the US presidential election, to be held in November, came more under the spotlight, with not one but two assassination attempts on former President Donald Trump, President Joe Biden pulling out of the race, and Vice President Kamala Harris taking his place as the Democratic nominee.
Meanwhile, US Federal Reserve (Fed) Chair Jerome Powell's testimony in July hinted that the Fed was beginning to see signs of a cooling US economy, signaling a shift in monetary policy stance. As the month drew to a close, the Bank of Japan surprised markets with an interest-rate hike, while the second-quarter earnings season kicked off.
At the beginning of August, it was the weaker-than-expected US jobs report that set the tone, though. The disappointing data triggered an early sell-off in risky assets and a rally in bonds, though equity markets eventually rebounded. Additionally, gold experienced a significant rally as investors sought safe-haven assets amid the uncertainty.
By September, concerns shifted to the weakening Chinese economy and its impact on global commodities, which posted disappointing performances. The most anticipated event of the month occurred when the Fed finally took the plunge into rate cuts, delivering a 50 basis-point reduction. Those concerned that the Fed might be responding to hidden economic risks with a bolder reduction may have taken comfort in Powell's comments that the US labor market is in "solid condition" and that the Fed doesn't believe it's behind in cutting rates.
And in the final week of the quarter, China, a key driver of global gross domestic product (GDP) growth, captured the market's attention. Authorities – under pressure to meet their 5% growth target for the year – moved to boost the economy with a string of stimulus measures. Some investors have long argued for the need for a more extensive package to spur growth.
For fixed income, the quarter was marked by investors' pendular expectations of how big the Fed's rate cut would be and how many times it would implement them this year, alongside concerns that the central bank was behind the curve amid signs of a weakening US economy.
During the quarter, the US yield curve shifted downward. The 2-year US Treasury rate fell 111 basis points (bps) to 3.64%. Similarly, the European yield curve also experienced a downward shift: the rate for 2-year German government bonds was 2.07%, a decrease of 77bps from the end of the previous quarter. In the UK, the rate for 2-year gilts was 3.98%, 24bps lower than in June 2024. The yield curve in JPY flattened in the reporting period. While shorter terms increased slightly, longer terms fell compared to the previous quarter. The rate for 2-year Japanese government bonds was 0.39% at the end of September, 3 basis points higher than at the end of June. CHF interest rates fell in the reporting period. At the end of the quarter, the 2-year Swiss government bond yield was 37 basis points lower at 0.44% than at the end of June.

Portfolio review
In the third quarter, we increased the duration of the fund, especially in the USD part of the fund as the Fed finally started its easing cycle. We kept our underweight in the 2-to-3-year EUR bucket since yields around 2% offer an unattractive risk-reward ratio, in our view.

Performance analysis
In absolute terms the Vontobel Fund Euro Short Term Bond gained 1.99% in the third quarter 2024, underperforming the benchmark. Main negative driver of the performance in relative terms has come from our underweight of EUR duration in the 2-to-3-year bucket compared with the benchmark.

Outlook
The Fed is clearly trying to get "ahead of the curve", having realized that an initial interest-rate cut may have been warranted as early as July. A decisive move of 50bps aims to prevent further weakening in the labor market, benefitting from the overall slowdown in inflation dynamics. However, core inflation remains stubbornly high, particularly in the wage-intensive service sector, excluding housing components.
This shows that the Fed is focused on achieving full employment. To reach this goal, the markets anticipate that additional significant interest-rate cuts will be necessary. At the

same time, the fiscal policy outlook poses challenges.
We expect central banks to cut interest rates in 2024 and 2025, as current policies appear too restrictive. Most inflation metrics have normalized over the past 12 months, and wage growth is also falling. In this context, labor market reports are highly anticipated, as they influence the pace and extent of rate of cuts.
In Switzerland, we also expect a further reduction of 25bps, bringing the key interest rate of 0.75% by the end of the year. The reasons for this are moderate inflation and the ongoing appreciation of the Swiss franc.
Additionally, as we approach the final stages of the US presidential election, markets are poised to experience more volatility.

Fund characteristics

Fund name	Vontobel Fund – Euro Short Term Bond
ISIN	LU0278091037
Share class	I EUR
Reference index	Bloomberg Euro Aggregate 1-3 Year
Inception date	7.1.2009

Historical performance (net returns, in %)

Time period	Fund	Ref. index	Time period	Fund	Ref. index
MTD	0.7%	0.8%	2023	4.7%	4.0%
YTD	3.0%	2.9%	2022	-4.3%	-5.0%
1 year	5.5%	5.5%	2021	0.5%	-0.5%
3 yrs p.a.	1.0%	0.5%	2020	0.8%	0.2%
5 yrs p.a.	0.9%	0.2%	2019	2.0%	0.4%
10 yrs p.a.	–	–	2018	-0.7%	-0.2%
ITD p.a.	0.8%	0.2%	2017	–	–
			2016	–	–
			2015	–	–
			2014	–	–

Past performance is not a reliable indicator of current or future performance. Performance data does not consider any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up due to changes in the rates of exchange between currencies.
Shares were first issued for this share class in 2009. Sub-fund launch year: 2000. The investment policy was changed significantly as at 30.6.2017. The performance previously achieved was achieved under circumstances that are no longer valid today.

Investment risks

- Using derivatives generally creates leverage and entails valuation risks and operational risks. Leverage magnifies gains but also losses. Over-the-counter derivatives involve corresponding counterparty risks.
- The sub-fund's investments may be subject to sustainability risks. The sustainability risks that the sub-fund may be subject to are likely to have an immaterial impact on the value of the sub-funds' investments in the medium to long term due to the mitigating nature of the sub-fund's ESG approach. The sub-funds' performance may be positively or negatively affected by its sustainability strategy. The ability to meet social or environmental objectives might be affected by incomplete or inaccurate data from third-party providers. Information on how environmental and social objectives are achieved and how sustainability risks are managed in this sub-fund may be obtained from vontobel.com/sfdr.

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