COMMENTARY

Janus Henderson Horizon Total Return Bond Fund

October 2023 **Marketing communication**

Fund managers

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Investment environment

- October was a weak month for markets. The yield on 10-year US Treasuries was up 36 basis points (bps) and reached a 16-year high of 4.93%, while the 10-year German bund yield edged down to 2.81% (decreasing 3 bps). In the UK, the 10-year gilt edged up to 4.51% (rising 7 bps). Meanwhile, the 10-year Japanese government bond yield surged to 0.95%, the highest level in 10 years as the Bank of Japan announced a yield curve control policy adjustment.
- The US Federal Reserve (Fed) and the Bank of England (BoE) did not meet in October, but were expected to keep interest rates steady in November. The European Central Bank (ECB) held its deposit rate in October, marking the first pause since mid-2022. Credit spreads widened across the board.

Portfolio review

The fund's negative return was largely driven by the overweight position to government bond duration (interest rate sensitivity) in the US and, to a lesser extent, Australia.

The recent rise in 10-year bond yields in the US lacks a convincing fundamental narrative, and thus has strategists leaning on the unobservable concept of 'term premium' (the extra premium investors demand for holding longer dated bonds versus shorter dated ones). What we can say with confidence is that the shape of the recent rise in bond yields – a bear steepening (the widening of the yield curve caused by long-term interest rates increasing at a faster rate than short-term rates) – is a relatively rare occurrence. It has occurred only 16 times in 60 years, and has occurred four times from an inverted yield curve, and has nearly always signalled the final death throes of an existing major bond bear market (1969, 1981 and 2007).

The fund's exposure to floating rate asset-backed and mortgage-backed securities (ABS/MBS) was positive for performance. We also took some profits on a number of the fund's short credit risk positions in both single-issuer industrials, as credit default swap (CDS) spreads widened on the month. We retain a low absolute allocation to high yield corporate debt.

Manager outlook

The last phases of the bond bear market have been driven by higher real yields (not inflation expectations) and are now reaching levels that are problematic for other asset classes. Lead economic indicators continue to languish at depressed levels, while long lead indicators have entered renewed declines from already low levels (with the exception of the yield curve). Economic growth was weak in most developed economies (excluding the US) which saw a seemingly unsustainable third quarter bounce in GDP growth, and which seems likely to see payback in the form of weaker growth in the fourth quarter. Without a rise in lead indicators it is difficult to argue for soft landing as the base case, despite the resilience in US data thus far. While credit spreads have moved higher in October, they are not far from long-term historical averages and out of sync with key macroeconomic cycle indicators. We continue to position the portfolio with long duration and remain defensive from a credit standpoint.

Source: Janus Henderson Investors, as at 31 October 2023

Janus Henderson INVESTORS

Janus Henderson Horizon Total Return Bond Fund

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