

# Close Select Fixed Income Fund

## Monthly fund manager update

OCTOBER 2021

**ERAN HASSON**  
Investment Director**STEPHEN HAYDE**  
Managing Director

### FUND PERFORMANCE

The Close Select Fixed Income Fund fell slightly in October, returning -0.64%. This took the year-to-date (YTD) return to +3.61%. In comparison, the IA Sterling Strategic Bond sector returned -0.44% in October, while the YTD return is now +0.52%. The Fund has therefore outperformed the sector by +3.09% YTD.

### MACRO BACKDROP

News flow in October was dominated by global supply-chain disruptions, expected central bank actions, and the continued re-opening of economies across the developed world. As such, forward-looking data is balancing the positive impact from reduced restrictions, against the potential threat that supply-demand imbalances – and central bank actions – could pose to the global economic recovery. Current year Gross Domestic Product (GDP) growth forecasts in the UK, US and the Eurozone are +7%, +5.7%, and +5%, respectively.

In the UK, the October composite Purchasing Managers' Index (PMI) rose to 56.8 (September = 54.9), after a strong rebound in Services (October = 58; September = 55.4) and a robust reading for Manufacturing (October = 57.7; September = 57.1). The GDP consensus forecast for 2021 was upgraded from 6.8% to 7%. Inflation is forecast to reach 4.1% in Q4 2021; and unemployment is now expected to peak at 5% in Q4 2021.

In the US, forward-looking data remained solid – with the October composite PMI rising to 57.3 (September = 55). Inflation is now expected to reach 5.4% in Q4 2021 before progressively falling to 2.9% by Q3 2022. Unemployment is forecast to fall from the September figure of 4.8% to 4% by Q3 2022.

In the Eurozone, the October composite PMI continued to normalise after a strong re-opening boost earlier in the year. The composite PMI stood at 54.3 (September = 56.2), falling

for the second consecutive month: Manufacturing was stable at 58.5, while Services softened to 54.7 (September = 56.4). The GDP consensus forecast for 2021 was upgraded to 5% from 4.7%. The October Consumer Prices Index (CPI) of 4.1% came in above expectations and inflation is now expected to reach 3.6% in Q4 2021, before falling back below the ECB's 2% target. Unemployment is expected to remain stable at 7.5%.

### PORTFOLIO ACTIVITY

On the portfolio construction side, cash levels remain elevated at 14%; duration is 3.3 years; and yield to expected call is 2.7% (the yield to maturity is 3.2%, but we believe the lower figure is a more accurate measure of yield). The average rating on the rated portion of the portfolio is BBB+; the unrated portion of the fund is now just 5%.

### OUTLOOK AND STRATEGY

All Fixed Income sub-asset classes now appear rich:

- **Sovereign bond yields** remain low across the US, UK, and Eurozone.
- **Sterling Investment Grade** bonds are rich versus all historical timeframes, with sterling 'BBB' credit spreads at 128bps, versus their 5yr average of 174bps; 10yr average of 210bps; and 20yr average of 216bps.
- **Sterling High Yield** spreads are rich versus history, with 'BB' spreads at 257bps (5yr average of 321bps; 10yr average of 374bps; 20yr average of 438bps).

In an effort to attempt to preserve capital and deliver a good level of monthly income, we continue to seek out the best risk / reward ideas across investment grade, unrated and high yield bond sectors. We maintain our focus on stock selection reinforced by in-depth credit research.

---

**IMPORTANT INFORMATION**

This document is only intended for use by UK investment professionals and should not be distributed to or relied upon by retail clients. The value of investments will go up and down and clients may get back less money than they invested. Past performance is not a reliable indicator of future returns. The information contained in this document is believed to be correct but cannot be guaranteed. Opinions constitute our judgment as at the date shown and are subject to change without notice. This document is not intended as an offer or solicitation to buy or sell securities, nor does it constitute a personal recommendation.

Close Brothers Asset Management is a trading name of Close Asset Management Limited (Registered number: 01644127) and Close Asset Management (UK) Limited (Registered number: 02998803). Both companies are part of Close Brothers Group plc, are registered in England and Wales and are authorised and regulated by the Financial Conduct Authority. Registered office: 10 Crown Place, London EC2A 4FT. VAT registration number: 245 5013 86.

CBAM5425