

# Schroder ISF\* EURO Bond

**Fund Manager: Julien Houdain, James Ringer, Martin Coucke & Global Unconstrained Fixed Income Team | Fund update: March 2025**

## Market overview

- March saw a significant change in the global macroeconomic landscape. US exceptionalism continued to be challenged as heightened policy uncertainty led to a sharp fall in sentiment and raised concerns of recession. Meanwhile, Germany's fiscal regime change drove a much-improved reflationary outlook across the eurozone.
- Germany's parliament approved plans by incoming Chancellor Friedrich Merz to loosen borrowing limits, exempting spending on defence and security from strict debt rules. It also enabled the creation of a €500 billion infrastructure fund designed to run for the next 12 years.
- German bunds bore the brunt of the ensuing sell-off across the eurozone, with yields recording their biggest daily jump since Germany's reunification in 1990 on the initial announcement. The yield curve steepened, with longer dated bonds rising in anticipation of higher borrowing costs in the future, while shorter maturities were supported by expectations of easier monetary policy conditions. The European Central Bank (ECB) cut its main interest rate by 25 basis points as expected.
- US Treasuries outperformed all other major government bond markets. Ongoing policy uncertainty continued to cloud the outlook for the US, with market participants expecting a weaker growth outcome as a result. Meanwhile, the Federal Reserve kept interest rates unchanged for a second consecutive meeting while announcing a slowing in the pace of quantitative tightening
- In investment grade credit markets, euro corporates outperformed on a spread basis, with the difference in yield between corporate and government bonds dipping below that of the US for the first time since January 2022.
- Euro corporates later unwound some of their spread tightening, as focus shifted from planned increases in fiscal spending to looming trade policy risks. This left spreads slightly wider at the end of the month, but still trading at tighter spreads compared to the US.

## Drivers of fund performance

- The Fund posted a negative total return but outperformed the benchmark in March. Both rates positioning and asset allocation were additive.
- A cross-market position in the US versus the eurozone was additive given the sharp outperformance of Treasuries.
- European curve steepening strategies worked well, driven by a more reflationary outlook.
- An overweight to euro investment grade credit contributed positively as credit spreads tightened on improved business sentiment.
- An off-benchmark position in the UK detracted slightly.
- Exposure to US mortgage-backed securities detracted given increased rate volatility.

## Portfolio activity

- Headline duration was reduced, mainly through the closure of the off-benchmark UK position, given the country's fiscal situation remains sensitive to a rise in global bond yields.
- We were strategically positioned for markets to react to an element of fiscal convergence between the eurozone and the US. This materialised sooner than we anticipated with Germany's surprise pivot on its strict debt rules. The improved eurozone outlook drove a steepening of European yield curves as investors priced in higher borrowing costs in the future. Following the market move, we locked in profits, closing an overweight position in 10-year part of the curve and an underweight in the 5-year segment
- Bond markets saw the move as reflationary and the eurozone sold off sharply in response. We closed the cross-market underweight in the eurozone versus the US position for now given the swift market reaction.
- We consider the European inflation-linked market has moved to overprice the reflationary outlook, particularly when energy and wage inflation is softening. Accordingly, we initiated a cross market short Europe versus the US in inflation swaps.

- We introduced off-benchmark exposure to US high yield to sell protection on credit default swap indices (CDX), which we consider the most liquid means of obtaining exposure.
- Elsewhere, we reduced our exposure to covered bonds, switching into SSAs (Supranational, sub-sovereigns and agencies) on relative valuations.

## Outlook

- As we enter the second quarter of the year, there remains a great deal of uncertainty around the global outlook. 'Liberation Day' proved to be worse than expected by the market. President Trump's executive order introduced a universal tariff along with a variety of country-specific reciprocal tariffs, with some exclusions.
- Nevertheless, there is a degree of scepticism around the permanency of some of these new tariffs. In fact, Trump mentioned that tariff rates could be negotiated down if other countries lower their trade barriers to US products. We await signs of negotiations aimed at lowering tariff levels to below those initially imposed. There will be much more volatility, and a clear risk that the situation escalates into a global trade war, with more severe consequences for risk assets.
- In a matter of days, the announcement on tariffs all but eradicated the fiscally-stimulated optimism priced into eurozone sovereigns following the shift in Germany's fiscal stance. We will continue to monitor developments closely.

- We continue to look for opportunities where markets are mispricing a substantial change in outlook. For now, uncertainty persists, which makes an agile approach to portfolio construction crucially important.

*Past performance does not predict future returns. The value of investments and the income from them may go down as well as up and investors may not get back the amount originally invested.*

## Calendar year performance (%)\*

Year	Fund (A Acc)	Fund (I Acc)	Target
2024	2.4	3.3	2.6
2023	6.7	7.6	7.2
2022	-20.3	-19.6	-17.2
2021	-3.3	-2.5	-2.9
2020	4.5	5.5	4.0
2019	6.6	7.5	6.0
2018	-1.1	-0.2	0.4
2017	1.1	2.0	0.7
2016	2.9	3.9	3.3
2015	0.2	1.1	1.0

Source: Schroders, net of fees (where applicable), bid-bid, with net income reinvested as at 31/12/2024. Target benchmark: Bloomberg Barclays EURO Aggregate. The fund aims to provide capital growth and income in excess of the target benchmark. The fund's investment universe is expected to overlap to a limited extent with the components of the target benchmark.

## Risk considerations

- **Capital risk / distribution policy:** As the fund intends to pay dividends regardless of its performance, a dividend may represent a return of part of the amount you invested.
- **Contingent convertible bonds:** The fund may invest in contingent convertible bonds. If the financial strength of the issuer of a contingent convertible bond falls in a prescribed way, the value of the bond may fall significantly and, in the worst case, may result in losses to the fund.
- **Counterparty risk:** The fund may have contractual agreements with counterparties. If a counterparty is unable to fulfil their obligations, the sum that they owe to the fund may be lost in part or in whole.
- **Credit risk:** A decline in the financial health of an issuer could cause the value of its bonds to fall or become worthless.
- **Currency risk:** The fund may lose value as a result of movements in foreign exchange rates.
- **Derivatives risk:** Derivatives may be used to manage the portfolio efficiently. The fund may also materially invest in derivatives including using short selling and leverage techniques with the aim of making a return. A derivative may not perform as expected, may create losses greater than the cost of the derivative and may result in losses to the fund.
- **High yield bond risk:** High yield bonds (normally lower rated or unrated) generally carry greater market, credit and liquidity risk.
- **IBOR risk:** The transition of the financial markets away from the use of interbank offered rates (IBORs) to alternative reference rates may impact the valuation of certain holdings and disrupt liquidity in certain instruments. This may impact the investment performance of the fund.
- **Interest rate risk:** The fund may lose value as a direct result of interest rate changes.

- **Issuer risk:** The fund is permitted to invest more than 35% of its scheme property in transferable securities and money market instruments issued or guaranteed by an EEA State / governments of the following countries: France and Germany.
- **Liquidity risk:** In difficult market conditions, the fund may not be able to sell a security for full value or at all. This could affect performance and could cause the fund to defer or suspend redemptions of its shares.
- **Market risk:** The value of investments can go up and down and an investor may not get back the amount initially invested.
- **Operational risk:** Operational processes, including those related to the safekeeping of assets, may fail. This may result in losses to the fund.
- **Performance risk:** Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro economic environment, investment objectives may become more difficult to achieve.
- **Sustainability Risk:** The fund has environmental and/or social characteristics. This means it may have limited exposure to some companies, industries or sectors and may forego certain investment opportunities, or dispose of certain holdings, that do not align with its sustainability criteria. Therefore, the fund may underperform other funds that do not apply similar criteria. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

## Important information

Marketing material for professional clients only. This document does not constitute an offer to anyone, or a solicitation by anyone, to subscribe for shares of Schroder International Selection Fund (the “Company”). Nothing in this document should be construed as advice and is therefore not a recommendation to buy or sell shares. An investment in the Company entails risks, which are fully described in the prospectus. Subscriptions for shares of the Company can only be made on the basis of its latest Key Investor Information Document and prospectus, together with the latest audited annual report (and subsequent unaudited semi-annual report, if published), copies of which can be obtained, free of charge, from Schroder Investment Management (Europe) S.A. These documents may be obtained in English, free of charge, from the following link: [www.eifs.lu/schroders](http://www.eifs.lu/schroders). Schroders may decide to cease the distribution of any fund(s) in any EEA country at any time but we will publish our intention to do so on our website, in line with applicable regulatory requirements. The fund has environmental and/or social characteristics within the meaning of Article 8 of Regulation (EU) 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (the “SFDR”). For the UK only: This product is based overseas and is not subject to UK sustainable investment labelling and disclosure requirements. The fund maintains a higher overall sustainability score than its sustainability benchmark based on the investment manager’s rating system. Any reference to sectors/countries/stocks/securities are for illustrative purposes only and not a recommendation to buy or sell any financial instrument/securities or adopt any investment strategy. Past Performance is not a guide to future performance and may not be repeated. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of investments to fall as well as rise. Schroders has expressed its own views and opinions in this document and these may change. Schroders will be a data controller in respect of your personal data. For information on how Schroders might process your personal data, please view our Privacy Policy available at [www.schroders.com/en/privacy-policy/](http://www.schroders.com/en/privacy-policy/) or on request should you not have access to this webpage. A summary of investor rights may be obtained from <https://www.schroders.com/en/lu/professional-investor/footer/complaints-handling/>. For your security, communications may be recorded or monitored. Issued by Schroder Investment Management (Europe) S.A., 5, rue

Höhenhof, L-1736 Senningerberg, Luxembourg. Registration No B 37.799. Distributed in the UK by Schroder Investment Management Ltd, 1 London Wall Place, London EC2Y 5AU. Registration No 1893220 England. Authorised and regulated by the Financial Conduct Authority. Information for Switzerland: Schroder Investment Management (Switzerland) AG is the Swiss representative («Swiss Representative») and Schroder & Co Bank AG is the paying agent in Switzerland of the Luxembourg domiciled Schroder International Selection Fund. The prospectus for Switzerland, the key information documents, the articles of association and the annual and semi-annual reports may be obtained free of charge from the Swiss Representative.