Schroders

Marketing material
for professional clients only

Schroder ISF* Global Bond

Fund Manager: Julien Houdain, James Ringer, Martin Coucke and the Global Unconstrained Fixed Income Team | Fund update: July 2025

Market overview

- Trade negotiations dominated news flow during July, while markets were also preoccupied by renewed concerns over fiscal deficits which saw global government bond yields rise.
- The US faced conflicting pressures from tariffs and fiscal policy. President Trump signed the 'Big Beautiful Bill' into law, with the net impact from tax reductions, increased spending on defence and border security and cuts to social security judged to be negative for the country's deficit.
- Concerns over central bank independence resurfaced, although President Trump later refuted speculation that Federal Reserve (Fed) Chair Powell's position was under threat. As expected, the Fed left interest rates unchanged (4.00-4.25%) while the market interpreted Powell's press conference as relatively hawkish.
- Following weeks of negotiations between the EU and the US, a baseline tariff rate of 15% on almost all EU goods entering the US was agreed, with the EU also committing to significant spending on US military equipment and energy. Meanwhile, the European Central Bank (ECB) kept interest rates unchanged for the first time in a year, with President Lagarde striking a surprisingly hawkish tone.
- In Japan, renewed fiscal concerns ahead of the upper house elections – which saw the ruling coalition lose its majority – drove Japanese government bond yields higher. The Bank of Japan kept its policy rate unchanged at 0.5% as expected, but revised up its inflation forecast, fuelling speculation over potential rate hikes.
- Meanwhile the UK gilt market endured a degree of volatility driven by political developments as the government's concessions on welfare cuts raised doubts over fiscal discipline.
- Credit markets posted further gains, outperforming government bonds. In the US, a constructive economic outlook and robust company earnings - which exceeded expectations particularly in cyclical industries - drove solid performance across sectors and ratings (both investment grade (IG) and high yield (HY)). June's payroll data and job opening report depicted a positive picture of the US labour market, while survey data extended further into expansionary territory.
- Euro denominated corporates equally produced positive total and excess returns as spreads compressed for the third consecutive month. Spread tightening was broad based across sectors, with insurance and real estate investment trusts (REITS) among the outperformers.

Drivers for fund performance

- Although total returns were negative, the fund outperformed its benchmark, driven by asset allocation.
- In credit markets, the fund captured the compression of spreads, most significantly through off-benchmark exposure to US and EUR HY bonds.
- To a lesser degree, performance benefited from an overweight to securitised assets, specifically asset-backed securities. Exposure to off-benchmark collateralised mortgage obligations (CMO) and a focus on the high coupon mortgage-backed securities (MBS) contributed.
- In rates, an outright underweight to Germany, as well as a cross-market position favouring the UK, was beneficial. Although yields rose in both markets, the front end of the German curve underperformed the UK as a relatively hawkish sounding ECB contributed to market weakness.
- Curve positioning detracted modestly overall. While a EUR steepener contributed this was offset by a similar strategy in the US, which we had added to intra-month.

Portfolio activity

- The main change to asset allocation was the closure of our US HY position, held through credit default swap indices. Given the strong performance of HY bonds and a significant tightening in credit spreads over recent months, valuations look expensive and vulnerable to some reversal in the event of any softening in economic indicators.
- In line with our macroeconomic views, we remained modestly defensive in terms of overall duration. In terms of cross-market positioning, we reduced our short position in Germany versus the UK.

*Schroder International Selection Fund is referred to as Schroder ISF throughout this document

- Within rates, our highest conviction is in curve positioning. We rotated some of our directional German short exposure into an existing steepening strategy. This reflects our view that the disinflationary narrative in the eurozone should continue to underpin relative outperformance of the shorter end of the curve.
- We also added to our US curve steepening trade, taking advantage of mid-month Treasury curve flattening.
- We opened a tactical short position in US inflation which as well as looking expensive, helps to offset some of the more cyclical credit exposure in the portfolio.

Outlook/positioning

- From a macroeconomic perspective, we continue to see a 'soft landing', where economic growth slows and inflationary pressures ease, as the likeliest outcome.
- Nevertheless, July's US payrolls release which incorporated a significant -258,000 backward revision was one of the contributing factors to us factoring in a modestly raised risk of a 'hard landing'. A weakening of the labour market would also give the US Federal Reserve the green light to cut interest rates further.
- We're also yet to see the full impact from tariffs on inflation, and we're watching carefully to assess whether they will represent a one-off price shock or if there will be a greater and longer felt pass-through into prices.
- At least there's now greater clarity on trade, with agreements with some of the US' key trading partners, including Japan and the European Union.
- Meanwhile, we expect the Bank of England to continue its cautious approach in easing monetary policy conditions. On the fiscal side, the Chancellor continues to warn that tax rises are needed to plug the gap in public finances and we anticipate some volatility in UK assets as we approach the Autumn Budget.
- In credit markets, we have become more cautious on valuation grounds, as spreads are now trading at quite tight levels historically, making them less appealing at current prices.
- Accordingly, we have adopted a more defensive stance favouring securitised bonds, particularly high coupon agency MBS given their low volatility.

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	-2.1	-1.2	-1.7
2023	4.5	5.4	5.7
2022	-19.1	-18.4	-16.2
2021	-5.7	-4.8	-4.7
2020	8.4	9.2	9.3
2019	8.8	9.7	6.8
2018	-3.5	-2.6	-1.2
2017	7.1	8.0	7.4
2016	2.1	3.1	2.1
2015	-5.1	-4.2	-3.2

Source: Schroders, net of fees (where applicable), bid-bid, with net income reinvested as at 31 December 2024. Target is BBgBarc Global Aggregate TR.

Risk considerations

- **ABS and MBS risk:** The fund may invest in mortgage or asset-backed securities. The underlying borrowers of these securities may not be able to pay back the full amount that they owe, which may result in losses to the fund.
- **Bond Connect risk**: The fund may be investing in the China Interbank Bond Market via the Bond Connect which may involve clearing and settlement, regulatory, operational and counterparty risks.
- **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.
- **Currency risk / hedged shareclass**: The hedging of the share class may not be fully effective and residual currency exposure may remain. The cost associated with hedging may impact performance and potential gains may be more limited than for unhedged share classes.
- **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 country: United States of America.
- **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.

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. For Luxembourg, these documents can be obtained in English at www.schroders.lu. 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. This fund does not have the objective of sustainable investment or binding environmental or social characteristics as defined by 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. Any references to the integration of sustainability considerations are made in relation to the processes of the investment manager or the Schroders Group and are not specific to the fund. 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/ 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. 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. Issued by Schroder Investment Management (Europe) S.A., 5, rue Höhenhof, L-1736 Senningerberg, Luxembourg. Registration No B 37.799. 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.