

# Schroder ISF\* Global Credit Income

Fund Managers: Julien Houdain & Martin Coucke | Fund update: March 2026

## Market overview

- The war in the Middle East dominated bond markets in March, although investment grade credit remained resilient with US dollar markets performing broadly in line with government bonds. The prospect of tighter financial conditions weighed on European credit, which underperformed the US.
- It was a similar trend in high yield credit, with the European market selling-off and underperforming the US where returns were far more resilient, as technology, energy and insurance sectors performed well with spreads compressing.
- While there was some regional divergence, government bond yields rose across the board, with short-dated yields the worst affected, as the energy price shock and the potential lead through into inflation saw the market pricing in interest rate hikes, where previously rate cuts were priced.
- Central banks reacted cautiously. The US Federal Reserve (Fed) kept interest rates on hold at 3.50-3.75%, with chair Powell noting that the Fed would need to see further “progress on inflation” in order to cut rates again this year in view of its dual mandate.
- European government bond markets underperformed the US, with the region’s reliance on energy imports raising market concerns over more persistent inflation. The European Central Bank (ECB) left the deposit rate unchanged at 2%, with President Lagarde stating that they are “well positioned and well equipped to deal with a major shock”.
- Elsewhere, the Bank of England (BoE) delivered a more hawkish response to higher energy prices with all nine committee members voting for the base rate to be held at 3.75%. Gilt yields rose sharply over the month, particularly at the short end of the market as investors revised UK monetary policy expectations.

## Drivers of fund performance

- The fund delivered a negative total return, underperforming the reference benchmark during March.
- In terms of asset allocation and credit, exposure to investment grade and high yield generated negative performance overall as spreads widened, however

the fund’s more defensive positioning in investment grade credit mitigated losses in this area.

- An overweight allocation to US agency MBS also detracted as Treasury bond yields rose.
- The contribution from duration strategy was positive, specifically underweight European duration versus the benchmark as yields moved from pricing rate cuts to discounting interest rate hikes on inflationary concerns linked to the conflict in the Middle East.
- Cross-market positioning detracted as an overweight to the UK versus both the US and Germany underperformed, with exposure versus the US detracting the most.
- Exposure to real estate and financial hybrids detracted from returns as concerns around higher interest rates in Europe weighed on both sectors.

## Portfolio activity

- Going into the month, the fund was defensively positioned, and we used the market sell-off as an opportunity to selectively increase credit risk within the portfolio.
- The fund added selectively to high yield names, with a focus on issuers across emerging markets, Europe and the US. This was funded primarily through a reduction in US Treasuries, alongside taking profits on European covered bond positions.
- Over the month, the portfolio participated in several new issues that came to market at attractive valuations, including a US-based company that designs, builds and operates high-performance compute and AI data centres. Demand for AI compute infrastructure continues to grow rapidly, and the issuer has a strong track record in developing such facilities.
- The fund established a holding in a new issue from a leading video game publisher. Proceeds from the bonds will fund the acquisition of the business by a consortium of private investors. The company is fundamentally strong, with a business model that is relatively insulated from potential AI disruption and well positioned to benefit from developments in AI.
- The fund also added a position in a new issue from a North American company focused on specialty materials and chemicals used in construction, manufacturing, and pharmaceuticals. The holding is a strong strategic fit given increased defence

spending and growth in aerospace, including AI-related applications.

- The fund increased its position in an auto manufacturer through adding a euro-denominated issue of hybrid securities, which strengthens the company's balance sheet as the business pivots away from the electric vehicle (EV) market. We are positive on the prospects for a stabilisation in cash flows over the next 12-18 months.

## Outlook/Positioning

- Bond markets have repriced significantly since the onset of the Middle Eastern conflict at the end of February. This is more pronounced in shorter-dated securities, as investors have now discounted the prospect of monetary tightening over the next 12 months having previously anticipated further interest rate cuts in the US, and in the UK.
- From a fundamental viewpoint, the US economy appears most at risk of higher inflation becoming ingrained particularly as the Fed's preferred measure of inflation –the Personal Consumption Expenditures index (PCE) – is still elevated at around 3%. However, as a net energy exporter, the US may be insulated to some extent from the energy price shock.
- Elsewhere however, it appears less likely that there can be a sustained energy price shock with little or no impact on growth. Given the eurozone's reliance on energy imports, there is a high vulnerability to disruption of both oil and gas supplies and any sustained rise in energy prices would have a significant impact on inflation. However, prolonged disruption to energy supplies could also derail any recovery in the manufacturing sector, while squeezing real incomes and negating the risks of second round effects, such as rising medium-term inflation expectations and wages.
- Nevertheless, in comparison to the 2022 energy price shock after the start of the Russia-Ukraine conflict, the starting point now is better. Four years ago, supply chains were already highly disrupted in the aftermath of the pandemic, inflation expectations were dis-anchored while wage growth was far above

levels consistent with central banks inflation targets. Yield levels are also elevated compared to the start of 2022, providing a meaningful buffer against volatility.

- While valuations have improved in credit markets following recent weakness, spreads remain at low levels historically. Furthermore, the technical backdrop is not as favourable with investors more circumspect and reluctant to increase allocations to riskier asset classes, given the current elevated levels of geopolitical uncertainty where various outcomes to the conflict in the Middle East remain possible. Accordingly, the fund retains a meaningful amount of liquidity ready to reinvest in credit markets should valuations better reflect inflation/growth challenges.

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	A DisMF	I DisMF	BM1	BM2	BM3	BM4
2025	8.5	9.7	7.7	10.3	0.2	1.4
2024	5.7	7.6	4.2	1.1	9.2	5.7
2023	9.5	11.0	9.7	9.6	14.0	10.5
2022	-12.7	-11.5	-14.1	-14.1	-12.7	-16.5
2021	0.9	2.3	-0.2	-2.9	1.0	-1.5
2020	6.6	8.0	7.9	10.4	7.0	5.9
2019	11.3	12.9	13.2	11.5	12.6	14.4
2018	-1.6	-0.3	-1.4	-3.6	-4.1	-4.6
2017	7.8	9.3	6.7	9.1	10.4	9.3
2016	-	-	-	-	-	-
2015	-	-	-	-	-	-

Source: Schroders, NAV to NAV (bid to bid), net of fees (where applicable), USD, as at 31/12/2025. Comparator benchmarks: 1. Bloomberg (Bbg) Multiverse ex Treasury A+ to B- USD Hedged, 2. Bbg Global Aggregate Corp TR, 3. Bbg Global **High Yield TR USD**, 4. **JP Morgan EMBI Global TR**. Comparator benchmarks included for performance comparison purposes and do not have any bearing on how the manager invests the fund's assets.

## 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.
- **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. A reduction in the financial strength of the issuer of such bonds 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.
- **Emerging markets & frontier risk:** Emerging markets, and especially frontier markets, generally carry greater political, legal, counterparty, operational and liquidity risk than developed markets.
- **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.
- **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 chosen by the investment manager. The fund may invest in companies that do not reflect the beliefs and values of any particular investor.

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