4Q19
Fixed Income

FUND COMMENTARY

# Developed World Bond Fund

## Market Environment

- The quarter ending December 31, 2019, was a period of range trading in government bond yields with a year-end close at the high end of the range. This was effectively a period of consolidation following an enormous downward move in yields during the previous 12 months. It coincided with a stabilization in the economic data where the rate of change in the data stopped deteriorating but equally did not show any sustained recovery.
- Effectively the global economy moved from a period of sustained deterioration to one of low-level stabilization – what we think of as a phase transition. This cycle of stabilization and stagnation could well continue through to mid-2020, after which we are more optimistic about a recovery phase for the global economy based on liquidity conditions that lead the economic data. Bond markets are therefore consistent with the incoming data.
- Equity markets have shown a greater degree of optimism that a significant turn in the cycle may occur, supported in December 2019 by a weaker U.S. dollar and a break-out in industrial metals, copper in particular.
- In contrast to government bonds, credit markets were more interesting as credit spreads tightened meaningfully, reflecting the strong performance of risk assets. In December there was a strong bid for the riskier areas of the high-yield market such as CCC rated bond credits and energy credits. This is encouraging in terms of risk appetite and financial conditions as these areas had not participated meaningfully in the credit rally earlier in the year.

## Performance Summary

The Fund underperformed its benchmark, the Bloomberg Barclays Global Aggregate Credit Index (USD Hedged), over the quarter ending December 31, 2019, as sovereign bonds sold off in a reflationary risk-on environment.

**For detailed performance information, please visit janushenderson.com/performance.**

## Portfolio Discussion

The Fund's duration was meaningfully reduced during the quarter, which mitigated drawdowns in the face of the lurch lower in bond yields. That said, we were a little surprised by the pace of the sell-off but not by the direction. The Fund is comprised of select sovereign bonds around the world, with a significant exposure to large-cap, non-cyclical, quality investment-grade bonds with a very modest high-yield weighting.

We continued to add to investment-grade credit exposure as we have through the course of 2019. Thus the Fund moved to a more cyclically positive positioning that we expect to play out over the course of 2020.

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INVESTORS

## Manager Outlook

We remain structural bulls on core bond markets but have always been pragmatic on the cyclical management of duration as viewed through the prism of the rate of change in the economic data. We also are conscious that bond yields have fallen materially this year and are wary of current levels, and we are closely watching leading economic data and client positioning to determine how much is already priced in. The current period of phase transition and bottoming in the manufacturing cycle will be choppy and potentially lengthy but we are increasingly confident that the worst of the downturn (that we anticipated in early 2018) is behind us.

## Portfolio Management

John Pattullo

Jenna Barnard, CFA

For more information, please visit **janushenderson.com.**

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Past performance is no guarantee of future results. Call 800.668.0434 or visit janushenderson.com/performance for current month-end performance.

Discussion is based on the performance of Class I Shares.

The opinions are as of 12/31/19 and are subject to change without notice. Janus Henderson may have a business relationship with certain entities discussed. The comments should not be construed as a recommendation of individual holdings or market sectors, but as an illustration of broader themes.

**Investing involves risk, including the possible loss of principal and fluctuation of value.**

**Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.**

**Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. As interest rates rise, bond prices usually fall, and vice versa. The return of principal is not guaranteed, and prices may decline if an issuer fails to make timely payments or its credit strength weakens.**

**High-yield or "junk" bonds involve a greater risk of default and price volatility and can experience sudden and sharp price swings.**

**Derivatives can be highly volatile and more sensitive to changes in economic or market conditions than other investments. This could result in losses that exceed the original investment and may be magnified by leverage.**

**Credit Spread** is the difference in yield between securities with similar maturity but different credit quality.

**Duration** measures a bond price's sensitivity to changes in interest rates. The longer a bond's duration, the higher its sensitivity to changes in interest rates and vice versa.

Credit quality ratings are measured on a scale that generally ranges from AAA (highest) to D (lowest).

**Bloomberg Barclays Global Aggregate Credit Index** measures the credit sector of the global investment grade fixed-rate bond market, including corporate, government and agency securities.

Index performance does not reflect the expenses of managing a portfolio as an index is unmanaged and not available for direct investment.



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