Jupiter Dynamic Bond

ARIEL BEZALEL, Head of Strategy | **HARRY RICHARDS,** Fund Manager

Performance and positioning

Cumulative performance (%)

	YTD	1 month	3 months	1 year	3 years	5 years	Since inception*
Jupiter Dynamic Bond	0.4	1.3	2.5	3.5	14.0	16.2	55.6
Morningstar Global Flexible Bond - EUR Hedged	0.3	0.4	1.0	5.4	8.3	10.4	21.9

Past performance is no indication of current or future performance, doesn't take into account commissions and costs incurred on the issue/redemption of shares.

*Source: Morningstar, NAV to NAV, gross income reinvested, net of fees, Jupiter Dynamic Bond D EUR Q Inc, to 30.06.21. *Since inception: 08.05.2012.*

12-month rolling performance (%)

	01 Jul '16 to 30 Jun '17	01 Jul '17 to 30 Jun '18	01 Jul '18 to 30 Jun '19	01 Jul '19 to 30 Jun '20	01 Jul '20 to 30 Jun '21
Jupiter Dynamic Bond	4.0	-2.0	5.4	4.5	3.5
Morningstar Global Flexible Bond - EUR Hedged	3.9	-1.9	3.1	-0.2	5.4

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Source: Morningstar, NAV to NAV, gross income reinvested, net of fees, Jupiter Dynamic Bond D EUR Q Inc, to 30.06.21. Since inception: 08.05.2012.

Commentary:

There was quite a turnaround in the market perspective over the course of Q2. US Treasury bond yields had been moving higher since the beginning of August 2020 and had dragged other developed market yields higher as well. The reflation story had been the main impetus behind this as the vaccination programme across the major global economies had continued apace and investors had anticipated a strong global economic recovery. But as at all stages of the pandemic the outlook proved to be far more uncertain than the consensus view.

Q2 saw the continued emergence of fresh strains of the virus, more transmissible than the first wave seen in H1 2020, creating the delay of reopening or reimposition of restrictions in various regions of the globe. Adding to this renewed uncertainty, the bullish expectations around growth levels in many countries were not met by the official data releases and many forward-looking indicators (most notably the credit impulse data in China) suggested that the global economic picture was more muted than many had thought and what was priced into financial markets.

This reality check for the economic outlook had two major effects over the quarter. It saw an end to the rise in US treasury yields (10yr yields peaked on 31 March) and also an end to the rally in US inflation levels (US 10yr breakevens peaked on the 17 May). With investors increasingly realising that the economic data was more mixed than they had expected US treasury yields began to fall over the quarter. However, the biggest shock came late in the quarter at 16 June US Federal Reserve meeting when the narrative from the Fed changed dramatically. Having previously been very sanguine in their commentary around the rise in

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inflation, the Fed signalled a change in stance and brought forward their expectations of interest rate hikes, signalling a tightening of policy on the horizon. This change in communication has put a bullet in the reflation trade, at least for the time-being. The US treasury curve flattened aggressively and inflation pricing that had been moving lower since mid-May took another move to the downside.

Credit markets had a strong quarter as continuing economic optimism (though lower than previously imagined) combined with very low default rates and falling risk-free yields delivered a positive backdrop for corporate bonds. Credit spreads remain fairly tight, however this goldilocks macro-economic scenario leaves a few significant headwinds in place for material spread widening to occur absent an exogenous shock. Investment grade paper looks particularly challenged, ending the quarter close to all-time tights, however this sub-sector of the market did enjoy strong returns over the period primarily due to the move in underlying rates. At this juncture, high yield appears to offer superior relative value with the higher running yield combined with a low default rate environment driving our view.

The rebound in US front end nominal and real yields gave the US dollar a significant bounce in the middle of the month which has been maintained despite some relaxation in real yields following the initial lurch higher post-FOMC. A stronger dollar puts added pressure on emerging market economies, however for the time being this has not bled into a broader move for risk assets.

Contributors:

- All sector allocations for the fund performed positively over the quarter.
- The largest contributor to performance was from the developed market government exposure, with the Australian market exposure contributing the most to performance.
- The high yield credit exposure for the fund again did very well over the quarter, contributing strongly to performance.
    - Oil & Gas names did well for the fund as the oil price continued its upward trajectory.
    - Consumer facing businesses such as supermarkets and food producers also contributed strongly, as we saw last quarter.
    - Entertainment and communication names continued to trade well.
    - Financial names continue to be a strong performance area with UK banks doing particularly well given the success of the UK vaccination programme and the recent strength in the UK property market.
- The rally in the US Dollar was also a positive for the fund.

Detractors

- FX hedges were again a small drag on performance but are required under the mandate (at least 80% of the FX exposure must be hedged back to the fund's base fx)

Positioning:

- With **Credit Markets** looking relatively expensive and the economic outlook still uncertain, we continue to believe that a risk aware portfolio positioning is warranted which is why the significant allocation to high yield markets is balanced with an also significant allocation to developed market government bonds as part of a barbell strategy.
- **Duration** was held broadly constant over the quarter although allocation to developed market **Government Bonds** did increase slightly.
- **Spread Duration** moved slightly shorter over the quarter as **Investment grade** exposure was reduced further.
- **High yield** exposure increased over the quarter.
    - The high yield exposure remains very specific and focused in terms of sectors and names.

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  - The preference in the high yield exposure is for higher coupon securities (rather than recent lower coupon issues) and for shorter maturities. Around 50% of the high yield book matures over the next 12 months either through final maturity or an expected call.
- **Currency** exposure still centres on a long position in the USD, which acts as an additional hedge to any break in the market optimism about the long-term recovery.

Risks

The fund can invest a significant portion of the portfolio in high yield and non-rated bonds. These bonds may offer a higher income but carry a greater risk of default, particularly in volatile markets. Quarterly income payments will fluctuate. In difficult market conditions, it may be harder for the manager to sell assets at the quoted price, which could have a negative impact on performance. In extreme market conditions, the fund's ability to meet redemption requests on demand may be affected. Some share classes charge all of their expenses to capital, which can reduce the potential for capital growth. Please see the Prospectus for information. The KIID and Prospectus are available from Jupiter on request. This fund can invest more than 35% of its value in securities issued or guaranteed by an EEA state. The sub fund(s) may be subject to various other risk factors, please refer to the Prospectus for further information.

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