



# RATHBONES

## RATHBONE GREENBANK GLOBAL SUSTAINABLE BOND FUND

QUARTERLY UPDATE MARCH 2025

**The first quarter saw huge shifts in investor expectations as US President Donald Trump’s blizzard of policy announcements stunned America’s allies, rivals and markets alike. By quarter-end, these had triggered fears of higher inflation, crushed business and consumer confidence and increased the risk of a full-blown recession. Those fears ratcheted still higher in April with the announcement of harsh ‘reciprocal’ tariffs on goods imported into the US.**

While the quarter was largely dominated by the fall-out from the Trump policy platform, it began and ended with a lot of focus on the health of the UK government’s finances. From late 2024 onwards, investors began demanding more compensation for the risks associated with lending to governments with big fiscal deficits (gaps between what governments spend and the income they get from taxes). That drove up the yields on a lot of a government debt (meaning the bonds’ prices fell).

In January, the UK government bond (gilt) markets got caught right in the eye of this global bond storm as investors worried that the UK was digging itself into a deepening fiscal hole. That drove an aggressive sell-off in gilts which sent the yield on the 10-year gilt soaring from 4.57% at the start of the quarter to as high as 4.90% in the first half of January. The selling pressure had eased by mid-January and gilt prices had more than recovered a month later. As we explain below, gilts then sold off again in the run-up to the government’s Spring Statement on 26 March and the 10-year yield ended the quarter at 4.68%.

### Trump tariff turmoil

By February, fiscal concerns were largely swept aside as investors got increasingly spooked by President Trump’s escalation of a trade war with virtually everyone. They feared his threats to impose sweeping tariffs on imports to the US risked stoking price pressures in the US, while also stalling growth and increasing unemployment.

Much of the economic data coming out of the US has been pretty resilient, but business and consumer confidence tell a different story. Both plummeted in the first quarter, reflecting growing worries that a trade war might prove a ‘stagflationary shock’ (stagnant growth plus relentless inflation). That drove sharp sell-offs in US equity markets from mid-February onwards. US Treasuries found favour as investors fled stocks for the ‘safe haven’ of government bonds, driving the yield on the 10-year Treasury down from 4.57% to 4.21% over the quarter.

Meanwhile, President Trump’s decision to turn off the military aid tap to Ukraine shocked Europe’s policymakers into recognising they’d need to spend a lot to rearm and bolster their commitment to regional security. Much of Europe promised to loosen the purse strings and invest heavily in its own defence and vital infrastructure. Most notably, Germany proposed amending the country’s constitution and scrapping the country’s debt brake to allow for the creation of a 10-year €500bn infrastructure fund and permit essentially unlimited borrowing for defence budgets.

The German fiscal changes have since been approved. This river of money could flow into a nation that’s parched itself of infrastructure investment for years because of a commitment to straitened government finances. Expectations of higher public spending that might ignite Europe’s growth prospects sent the 10-year German government bond yield (the benchmark for regional borrowing costs) soaring from 2.39% to 2.80% in the first couple of weeks of March. It’s hard to explain just how massive that move is!

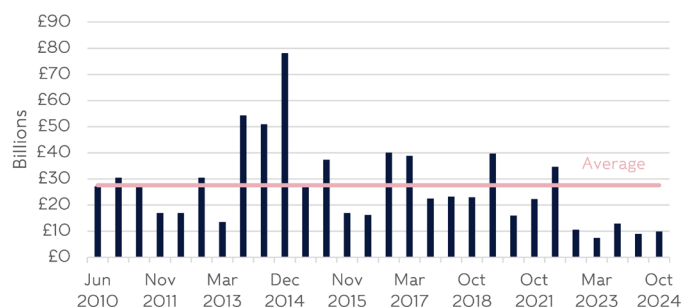
### The Spring Statement

Although President Trump’s rhetoric and Europe’s big spending plans hogged the limelight for most of the quarter, the UK came back into focus again towards its end. Gilt yields crept higher ahead of the Chancellor’s Spring Statement as investors worried that the government might have run out of fiscal headroom’ (money from its tax take to fulfil its spending ambitions without breaking its pledge to rein in borrowing over the next five years). As the chart below shows, that headroom was just over £10 billion compared with an average of almost £30bn over the last 14 years when the Chancellor gave her Autumn Budget in October. Since then, higher borrowing costs and lower economic growth (which dent the government’s tax receipts) made her fiscal arithmetic much tougher. In the event, the Statement showed that this headroom had more or less evaporated, though the Chancellor managed to claw it back by announcing hefty cuts to the government’s spending plans.

Nevertheless, there’s still a lot of uncertainty about the health of the UK’s finances. That could drive further bouts of gilt market volatility as investors demand higher yields to compensate them for their concerns about the tricky state of the government’s finances. Pressure is most intense at the long end of the gilt yield curve because of the extra uncertainties involved in lending very long-term.

What mattered more to us than the Chancellor’s sums was the Treasury’s decision to issue fewer gilts than many had expected and also to switch to issuing more with a short date to maturity rather than a long date to maturity. Both these things are supportive for gilt prices.

### UK’S FISCAL HEADROOM IS RAZOR-THIN VS PAST FORECASTS



Source: OBR; past headrooms standardised against forecast GDP at the time and then calculated as if the economy was the size expected at the end of 2029-30

**Performance review**

	3 months	6 months	1 year	Since launch 30 Nov 23
<b>Rathbone Greenbank Global Sustainable Bond Fund</b>	1.89%	0.55%	5.49%	9.60%
Benchmark*	1.73%	0.39%	5.46%	9.55%

\* The fund's benchmark consists of 70% ICE BofA Global Corporate Index, 15% ICE BofA Global Government ex Japan Index, 15% ICE BofA All Maturity Global High Yield Index (all GBP hedged).

Source: FE Analytics; data to 31 March, S-class, mid price to mid price.

**These figures refer to past performance, which isn't a reliable indicator of future returns.**

**Duration deliberations**

The Bank of England and other big central banks are in a tight spot. Tariffs and other Trump policy broadsides increase the risks of both slower growth (which would require lower interest rates) and also higher inflation (which would push for raising them). That leaves the outlook for government bonds seesawing between two potential outcomes. On the one hand, they could rally sharply if flagging economies and higher unemployment spur central banks into more aggressive rate-cutting. But, equally, they could come under pressure if sticky inflation stalls rate cuts. Fiscal concerns add extra complications, with investors demanding 'fiscal risk premiums' (via higher yields) to compensate them for the risks involved in lending to heavy-borrowing governments.

This highly uncertain outlook meant we didn't want to hold too much duration risk (sensitivity to the direction of rates). And we decided to pare back an increase in European duration risk that we'd made late last year and switch it over to US duration risk instead.

We felt Europe's big public spending plans could drive up regional inflation, forcing the European Central Bank to ease up on rate-cutting, while the potential hit to US growth from the Trump tariff agenda might push the US Federal Reserve towards more rate cuts. As a result, we sold some **European Union 2.75% 2033s**, **European Investment Bank 2.875% 2035s** and **German 2% 2033 Bunds**. And we bought some US dollar-denominated **Asian Development Bank 4.125% 2034s** and some **Inter-American Development Bank 3.5% 2033s**. (As a reminder, we don't invest in US Treasuries because the US government's heavy military spending means these bonds don't meet our screening criteria. Instead, we focus on US dollar-denominated debt issued by big supranational institutions like the ADB and IADB, which behave in a similar way to Treasuries.)

**Credit market jitters**

Credit spreads (the extra yield investors get for lending to companies versus 'risk-free' government bonds) narrowed pretty consistently throughout 2024, bar a few short-lived blowouts. But that tightening reversed course in the first quarter amid concerns about the impact of tariffs and the potential for a recession. The ICE Bank of America Global Corporate Bond Index, which measures credit spreads (the extra yield investors get for lending to companies versus 'risk-free' government bonds), widened from 88 basis points (bps) to 96bps over the quarter. And, as we explain below, they spiked to almost 120bps in early April when the full detail of Trump's tariffs was revealed.

We've been slightly trimming our exposure to credit risk since the last quarter of 2024 and selling some bonds from issuers that we felt might be challenged in tougher economic circumstances. When credit spreads widen, those of bonds which mature a long way ahead tend to widen most. As a result, we've also been dialling down our exposure to longer-dated credit and keeping our spread duration relatively short.

Because we wanted to dial down our European duration exposure in particular, we switched out of some issuers' euro-denominated corporate bonds to buy their US dollar-denominated bonds instead. For example, we sold some euro-denominated Swiss pharmaceutical firm **Roche 3.355% 2035s** to buy its dollar-denominated **7% 2039s** and sold some euro-denominated **Lloyds Bank 3.5% 2030s** to buy its dollar denominated **4.976% 2033s**. We also sold some **Lloyds Bank 7.5% perpetual** bonds to buy some of its **6.75% perpetuals** instead.

We sold some of our **4.0% 2030s** issued by **Motability**, the UK business that leases cars, scooters and powered wheelchairs to people with disabilities. The bonds have underperformed amid press speculation that Motability could come under pressure as the UK government seeks to rein in welfare spending. We felt some of this speculation was overdone, but decided to sell nevertheless.

**Liberation Day and beyond!**

The market volatility seen in the first quarter got yet more extreme when President Trump finally unveiled details of the 'reciprocal' tariffs the US intended to levy on its trading partners on 'Liberation Day' on 2 April. Equities bore the brunt of the selling pressure, but credit spreads spiked aggressively higher too – particularly the spreads on lower-rated, higher-yielding debt.

At the time of writing, President Trump has stunned us all yet again and announced a temporary pause to some (but not all) of the tariffs unveiled less than two weeks ago. Stock markets' immediate euphoria has subsequently cooled. At some point, all this turmoil will present some very attractive buying opportunities.

The value of investments and the income from them may go down as well as up and you may not get back what you originally invested.



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For more info on our fund, including factsheets, performance and fund manager views, please click [here](#).

If you require further clarification on this commentary, then please contact your adviser or Rathbones at the contact details below.

Any views and opinions are those of the investment manager, and coverage of any assets held must be taken in context of the constitution of the fund and in no way reflect an investment recommendation. Past performance should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and you may not get back what you originally invested.

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