Global Fixed Income

Q4 2025 review

Liontrust Strategic Bond Fund

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The Liontrust Strategic Bond Fund returned 1.6%* in sterling terms during Q4. The average return from the IA Sterling Strategic Bond sector, the Fund's comparator benchmark, was 1.6%.

Market backdrop

This was a somewhat strange period as the market was starved of US economic data, whilst in the UK a Budget scheduled late in the year held the market's focus for weeks in advance. The market was front half loaded in terms of decent returns, and second half loaded in terms of data and information.

Ultimately, short-dated bonds outperformed as the market moved to pricing out future interest cuts. For example, two-year US government ended the quarter ~12bps lower, whilst 10yr bonds ended 2bps higher, i.e. the curve 'twist' steepened. US ten-year bonds traded in a range of 3.95% to 4.19% and ended the quarter close to the upper end of the range.

After the fairly strong start to the quarter, interest rate cut expectations were damaged by the delayed economic data released by the US post the government shutdown. In general, the data showed continued mixed signals on the health of the US jobs market, which is largely holding up better than the bond market had been expecting. That being said, quits are low and rates of hiring anaemic; the job market is not what we would call strong, rather just not obviously weak enough to require more stimulus. The Fed cut rates for the third time this year in December (to 3.75–4.00%) but signalled a pause in January, citing labour softness and sticky inflation.

The (under) performance of European government bonds is also worth highlighting. Bund yields started the period at 2.71% and ended at 2.85%, with interest rate hike expectations building going into 2026. The ECB held rates at 2% for a fourth meeting, projecting 2025 growth at 1.4%. Hawkish commentary from Isabel Schnabel reinforced market expectations that the next move could be a hike in late 2026, with inflation sticky a little above target.

In the UK, the BoE cut rates by 25bps to 3.75% in December (5–4 vote), citing easing inflation (CPI 3.2%) and rising unemployment (5.1%). Governor Bailey stressed that further cuts will be gradual. Fiscal concerns persisted post November's Budget, with gilt yields volatile, but ultimately performed well in the period coming from a low base in terms of the government's fiscal credibility, albeit there is still plenty of work to be done by the government to get the full faith of the gilt market.

Fund positioning and activity

Rates

The Fund's exposure to UK duration was beneficial, with gilt yields lower as described above. The Fund began the quarter with ~30% of the duration contribution from UK, and we reduced this to ~25% after the Budget rally.

With a significant proportion of credit in the Fund denominated in euros, there is a natural exposure to European rates, which were notably weaker during the period, with, for example, ten-year yields ~13bps higher. The underperformance of euro rates was partially mitigated by a hedge in German ten-year futures. We allocated most of the reduction in gilt duration described above to European duration, reflecting the underperformance of bunds and the extent to which interest rate expectations have re-priced.

We closed the Fund's pair trade where we had a short Canada versus long US (both at ten year, in the mid 80's in terms of spread between the two asset yields), making decent profit of ~25bps in the year to date and neutralising the paper loss on the trade in 2024.

The Fund finished the quarter with 5.87 years of duration split between 2.39 years in the US, 1.97 in Europe, and 1.51 years in the UK.

Allocation

During the quarter, we reduced the Fund's high yield exposure from 18% to close to 13%. High yield has continued to be a positive contributor to performance and with tight spreads in that higher quality basket we took the opportunity to reduce exposure, create dry powder and help fund some interesting ideas from investment grade new issue supply. Note that the reduction in cash high yield bonds was greater than 5% and we also reduced the size of the high yield index hedge.

We have increased the allocation to investment grade bonds from 68% to 80%. Investment grade spreads are also tight but we believe the outlook for credit is good in a macro environment struggling for growth but not falling off a cliff.

Selection

Good stock selection played a role during the period, including bonds issued by Kennedy Wilson, a US/Canadian real estate company which increased in price as Fairfax, a Canadian insurance company likened to Berkshire Hathaway (and a holding in the Fund) and the current CEO attempt a 'take private' of the company that would see it owned by Fairfax. We continue to like Kennedy Wilson bonds and have even made small additions as we like risk reward balance from here – if the deal completes there is 5-6 points upside; if it doesn't complete, this is a strong expression of underlying company value from the people who know it best. We topped up the bonds with a spread to maturity of 250bps and it is a 1% position.

The Fund took a new holding in Lineage, an investment grade rated company in the industrial logistics (particularly cold storage) part of the real estate market. Already held in our Short Dated Corporate Bond Fund, we bought a longer dated new issue and viewed the ~120bps spread as attractive.

We also purchased a new issue from Boardwalk, an investment grade rated mid-stream oil and gas company with visible revenue streams and limited direct commodity price exposure. The US dollar denominated 2036 bonds have a spread of 110bps.

Lastly, we purchased a new issue by FTSE 100 listed and investment grade listed Smiths Group. This £8 billion market cap diversified engineering group has strong recurring revenue base, resilient operating margins, and disciplined financial policy underpin its investment-grade profile. The 2033 bonds have a spread of 115bps.

With the spread on US investment grade ~79bps and euro investment grade at 77bps, we found these new issues to be attractive assets for the Fund and believe the opportunity cost by selling low spread high yield bonds is low.

The Fund offers a 6% yield to maturity which we believe offers attractive carry for a Fund not pointing heavily in any direction, with dry powder in each of our key levers of rates, allocation and selection.

Discrete years' performance (%) to previous quarter-end**:

Past performance does not predict future returns

	Dec-25	Dec-24	Dec-23	Dec-22	Dec-21
Liontrust Strategic Bond B Acc	8.4%	4.5%	8.4%	-11.3%	-0.5%
IA Sterling Strategic Bond	7.0%	4.6%	7.8%	-11.0%	0.8%
Quartile	2	3	2	3	4

	Dec-20
Liontrust Strategic Bond B Acc	5.9%
IA Sterling Strategic Bond	6.6%
Quartile	3

*Source: Financial Express, as at 31.12.25, accumulation B share class, total return (net of fees and income reinvested). **Source: Financial Express, as at 31.12.25, accumulation B share class, total return (net of fees and income reinvested).

For a comprehensive list of common financial words and terms, see our glossary at: https://www.liontrust.com/benefits-of-investing/guide-financial-words-terms

Key Risks

Past performance does not predict future returns. You may get back less than you originally invested. We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

The fund manager considers environmental, social and governance ("ESG") characteristics of issuers when selecting investments for the Fund.

Bonds are affected by changes in interest rates and their value and the income they generate can rise or fall as a result;

The creditworthiness of a bond issuer may also affect that bond's value. Bonds that produce a higher level of income usually also carry greater risk as such bond issuers may have difficulty in paying their debts. The value of a bond would be significantly affected if the issuer either refused to pay or was unable to pay.

Overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.

The Fund can invest in derivatives. Derivatives are used to protect against currency, credit or interest rate moves or for investment purposes. There is a risk that losses could be made on derivative positions or that the counterparties could fail to complete on transactions.

The Fund uses derivative instruments that may result in higher cash levels. Cash may be deposited with several credit counterparties (e.g. international banks) or in short-dated bonds. A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

The Fund invests in emerging markets which carries a higher risk than investment in more developed countries. This may result in higher volatility and larger drops in the value of the fund over the short term.

The Fund may encounter liquidity constraints from time to time. Participation rates on advertised volumes could fall reflecting the less liquid nature of the current market conditions.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term

Disclaimer