

Janus Henderson Horizon Strategic Bond Fund

January 2021

For promotional purposes
For US Financial Professionals servicing non-US persons

Fund Managers Names

John Pattullo, Jenna Barnard, CFA

Macro backdrop

For bond investors, reflation was the dominant narrative catalysed by renewed fiscal stimulus in the US as a result of the Democrat wins in the Georgia Senate run-offs. Predictably, the Democrat wins poured fuel on the fire of a classic example of the "January reflation trade" that we have seen so many times over the years. A quick glance at Google search trends for "reflation" show how regular this market narrative is in January, and equally, just how extreme this particular version is in early 2021 (short duration, short US dollar, and long emerging markets, commodities and credit).

It is important to understand the way in which we typically frame reflation narratives: as an opportunity for bond investors. This is clearly different from the mind-set of many. An opportunity because it is only with the help of these narratives/cyclical impulses that a bond manager is provided with an opportunity to de-risk a portfolio by adding core duration at attractive levels. We remain unconvinced by the medium-term inflation regime shift argument and would point instead to the contraction in bank lending now ongoing in the US and other developed economies. This shows a distinct lack of demand for credit and was they key disinflationary impulse which has weighed down on inflation in Europe and Japan.

Fund performance and activity

In last month's commentary we concluded that a sell-off in US Treasury government bonds in response to the Georgia election likely offered an opportunity to begin averaging longer in duration in this market. We had been running the fund at the bottom end of its range at circa 3.5 - 4 years headline duration since the summer of 2020. Effective duration is lower due to the contribution from high yield bonds and perpetual financials. We did this by raising headline duration from 4.5 years to 5.6 years at the end of the month, having run duration higher than that intra-month. The more pertinent question is how and when to fade it into the Spring, when the seasonal bearish tendencies of duration typically play out and when the year-on-year base effects will be most pronounced (April/May). It is worth noting that we have little interest in the UK gilt or German bund markets, which failed to price in any reflation hopes in the second half of 2020. In addition, we reduced the fund's credit beta by taking profit on most of the long ITraxx Crossover position that we ran from the March crisis onwards. This is a reflection of relative value and the recovery in credit market valuations, rather than a view on defaults.

Outlook/strategy

Credit markets remain relatively uninspiring given valuations and the fullness of the recovery in this market: the fundamental backdrop remains benign but credit spreads are priced at cycle tights. The opportunity in the medium term will be to shift the portfolio out of credit and into government bonds as this reflation narrative runs its course.

Source: Janus Henderson Investors, as at 31 January 2021

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Fund information

Index	Not Applicable
Morningstar sector	Europe OE Global Flexible Bond - USD
Objective	The Fund aims to provide a return, from a combination of income and capital growth, over the long term (5 years or more).

Performance in (USD)

Performance %	A2 (Net)	Sector	Quartile ranking
1 month	-0.5	-0.1	4th
YTD	-0.5	-0.1	4th
1 year	8.7	4.6	1st
3 years (annualised)	6.5	4.2	1st
5 years (annualised)	-	-	-
10 years (annualised)	-	-	-
Since inception 26 Jul 2017 (annualised)	5.9	4.2	-

Source: at 31 Jan 2021. © 2021 Morningstar. All rights reserved, performance is with gross income reinvested. Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period.

Calendar year returns %	A2 (Net)	Sector
2020	10.7	5.6
2019	10.1	9.5
2018	-0.7	-1.5
2017	-	-
2016	-	-

Source: at 31 Dec 2020. © 2021 Morningstar. All rights reserved, performance is with gross income reinvested. Discrete performance data may change due to final dividend information being received after quarter end.

Source for target returns (where applicable) – Janus Henderson. Where quartiles are shown, 1st quartile means the share class is ranked in the top 25% of share classes in its sector.

Please note the performance target is to be achieved over a specific annualised time period. Refer to the performance target wording within the objective.

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For further information on the Luxembourg-domiciled Janus Henderson fund range please contact sales.support@janushenderson.com or visit our website: www.janushenderson.com.

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The information in this commentary does not qualify as an investment recommendation.

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