WESTERN ASSET
A LEGG MASON COMPANY

2Q 2019 | Product Commentary

WESTERN ASSET GLOBAL HIGH YIELD BOND FUND

Team-managed

Average annual total returns and fund expenses (%)

as of June 30, 2019

					Since Incept.	Expenses	
Class A	3-mo	1-yr	5-yr	10-yr	(02/22/95)	Gross	Net
Excluding sales charges	3.47	8.77	2.82	7.99	6.91	1.16	1.16
Including effects of maximum sales charges	-1.00	4.20	1.93	7.53	6.72	1.16	1.16
Bloomberg Barclays Global High Yield Index	2.94	8.81	5.16	9.61	N/A	-	-

Performance shown represents past performance and is no guarantee of future results. *Current performance may be higher or lower than the performance shown. Investment return and principal value will fluctuate, so shares, when redeemed, may be worth more or less than the original cost. Class A shares have a maximum front-end sales charge of 4.25%.Total returns assume the reinvestment of all distributions at net asset value and the deduction of all Fund expenses. Total return figures are based on the NAV per share applied to shareholder subscriptions and redemptions, which may differ from the NAV per share disclosed in Fund shareholder reports. Performance would have been lower if fees had not been waived and/or reimbursed in various periods. Returns for less than one year are cumulative. For the most recent month-end information, please visit* www.leggmason.com.

Gross expenses are the Fund's total annual operating expenses for the share class(es) shown. Because the Fund does not currently have fee waivers or reimbursements, gross and net expense ratios are the same. Please see the prospectus for more details on fees, expenses and expense limitation arrangements, if any. In periods of market volatility, assets may decline significantly, causing total annual fund operating expenses to become higher than the numbers shown in the table above.

The **Bloomberg Barclays Global High Yield Index** is a multi-currency measure of the global high-yield debt market. The Index represents the union of the U.S. High-Yield, Pan-European High-Yield, U.S. Emerging Markets (EM) Hard Currency High Yield Indices. Investors cannot invest directly in an index, and unmanaged index returns do not reflect any fees, expenses or sales charges.

Market overview

U.S. Treasurys generated a positive return during the second quarter, as both short- and long-term yields declined (yields and prices move in the opposite direction). The spread sectors (non-U.S. Treasurys) also rallied over the quarter. After yields generally moved higher in April, trade concerns dominated May and led to a risk-off environment for much of the month. Yields then moved sharply lower as the Federal Reserve Board ("Fed")[1] indicated it was getting closer to lowering interest rates. Similar accommodative messaging by the European Central Bank (ECB)[2] also contributed to falling global bond yields.

Looking at the U.S. economy, according to the Commerce Department, first quarter 2019 gross domestic product (GDP)[3] annualized growth was 3.1%. In contrast, the economy expanded 2.2% during the fourth quarter of 2018. The acceleration in GDP growth during the first quarter of 2019 was attributed to positive contributions from exports, personal consumption expenditures, nonresidential fixed investment, private inventory investment, and state and local government spending. These movements were slightly offset by a negative

[1] The Federal Reserve Board ("Fed") is responsible for the formulation of policies designed to promote economic growth, full employment, stable prices, and a sustainable pattern of international trade and payments.

[2] The European Central Bank is responsible for the monetary system of the European Union and the euro currency.

[3] Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time.

contribution from residential fixed investment. Imports, which are a subtraction in the calculation of GDP, decreased.[4]

Turning to the global economy, in its April 2019 *World Economic Outlook Update*, the International Monetary Fund (IMF) said, "After strong growth in 2017 and early 2018, global economic activity slowed notably in the second half of last year, reflecting a confluence of factors affecting major economies...Trade tensions increasingly took a toll on business confidence and, so, financial market sentiment worsened, with financial conditions tightening for vulnerable emerging markets in the spring of 2018 and then in advanced economies later in the year, weighing on global demand. Conditions have eased in 2019 as the U.S. Federal Reserve signaled a more accommodative monetary policy stance and markets became more optimistic about a U.S.–China trade deal, but they remain slightly more restrictive than in the fall [of 2018]." From a regional perspective, the IMF projects 2019 growth in the eurozone will be 1.3%, versus 1.8% in 2018. Japan's economy is expected to expand 1.0% in 2019, compared to 0.8% in 2018. Elsewhere, the IMF projects that overall growth in emerging market countries will decelerate to 4.4% in 2019, versus 4.5% in 2018.[5]

The Fed kept its target rate unchanged in a range between 2.25% and 2.50% during the second quarter. However, at its meeting in June the Fed said, "The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective as the most likely outcomes, but uncertainties about this outlook have increased." In his press conference after the meeting Fed Chair Powell stated, "The case for somewhat more accommodative policy has strengthened."[6]

Elsewhere, central banks outside the U.S. generally pursued accommodative monetary policies during the reporting period. The ECB left interest rates unchanged and, in June, extended the period it expects rates to remain on hold through at least the first half of 2020. The ECB had previously indicated rates would remain on hold through the end of 2019. In other developed countries, the Bank of England[7] kept rates on hold at 0.75% throughout the quarter. After holding rates steady at 0.10% for more than five years, in January 2016 the Bank of Japan[8] announced that it cut the rate on current accounts that commercial banks hold with it to -0.10% and kept rates on hold during the period. Elsewhere, the People's Bank of China[9] kept rates steady at 4.35% during the quarter.[10]

The global high-yield bond market posted strong results during the second quarter. As measured by the Bloomberg Barclays Global High Yield Index (USD Hedged),[11] global high-yield bonds returned 2.94% during the quarter. After a positive start in April, the high-yield market then moved lower in May, as trade negotiations between the U.S. and China stalled. However, this was temporary setback, as the high-yield market again rallied in June, as the Fed and a number of other central banks leaned toward introducing more accommodative monetary policies. In addition, there were some signs of progress on the trade war front. For comparison purposes, the overall taxable bond market, as measured by the Bloomberg Barclays U.S. Universal Index,[12] returned 3.11% during the second quarter.[13]

Contributors/detractors

The Fund generated a positive absolute return (excluding sales charges) and outperformed its benchmark during the quarter. Our ratings positioning was positive for results, given a bias for higher quality in the portfolio. In particular, an allocation to investment-grade corporate bonds and an underweight to CCC-rated securities were rewarded. Subsector allocation, overall, contributed to performance, due in large part to an overweight to communications. This was partially offset by an underweight to consumer cyclicals. Currency allocation was additive for returns, due to exposures to the Russian ruble, Polish zloty and Brazilian real, all of which appreciated versus the U.S. dollar.

Duration[14] positioning contributed to performance, as the Fund maintained a long duration stance and interest rates fell over the quarter. Regional positioning slightly aided the Fund's returns, given an overweight to emerging market high yield.

[4] Source of data in this paragraph: Bloomberg, 7/19.

[5] Source of data in this paragraph: Bloomberg, 6/19.

[6] Source of data in this paragraph: Bloomberg, 6/19.

[7] The Bank of England (BoE), formally the Governor and Company of the BoE, is the central bank of the United Kingdom. The BoE's purpose is to maintain monetary and financial stability.

[8] The Bank of Japan is the Japanese central bank. It is responsible for issuing and handling currency and treasury securities, implementing monetary policy, maintaining the stability of the Japanese financial system, and providing settling and clearing services.

[9] The People's Bank of China is the central bank of the People's Republic of China with the power to control monetary policy and regulate financial institutions in mainland China.

[10] Source of data in this paragraph: Bloomberg, 6/19.

[11] The Bloomberg Barclays U.S. Corporate High Yield 2% Issuer Cap Index is an index of the 2% Issuer Cap component of the Barclays U.S. Corporate High Yield Index, which covers the U.S. dollar-denominated, non-investment-grade, fixed-rate, taxable corporate bond market.

[12] The Bloomberg Barclays U.S. Universal Index is an unmanaged index comprised of U.S. dollar-denominated taxable bonds that are rated investment grade or below investment grade.

[13] Source of data in this paragraph: Bloomberg, 7/19.

[14] Duration is an estimated measure of the price sensitivity of a bond to a change in interest rates.

Finally, issue selection was modestly beneficial for results, with holdings in the communications, consumer cyclical and capital goods sectors adding the most value. On the downside, the Fund's exposure to underperforming reorganized equity positions in the energy space was a drag on performance. Asset class allocation also detracted from results, due to an opportunistic allocation to U.S. bank loans, as they underperformed global high yield during the quarter.

There were several adjustments made to the portfolio during the quarter. We increased the Fund's allocations to bank loans and emerging market debt (both sovereigns and corporates). In contrast, we reduced the Fund's exposures to high-yield and investment-grade bonds, Treasurys and cash.

Outlook

We view the macro environment as still supportive of the global high-yield market, despite increasing concerns over the state of global growth and increasing trade tensions. Central banks have become decidedly more accommodative, and we believe that should be positive for spread product. Absent a full-blown global trade war, which is not our base case, we see no imminent threat to a continuation of the credit cycle, but we continue to monitor developments. Corporate earnings remain solid and leverage remains moderate. Global high yield continues to offer attractive carry. From a regional perspective, we remain overweight to emerging markets (EM) high yield. The EM component of the index still trades wide, and given our base case for modest, yet positive global growth and the wide real yield advantage of EM versus developed market debt, we believe EM assets look attractive. From an industry perspective, we remain cautious regarding positioning in the areas of health care, autos and retail. In contrast, we favor communications and select European banks. Our ratings positioning is on the conservative side, with an underweight to CCC-rated bonds and opportunistic exposure to investment-grade bonds. We believe our strategy is well positioned to take advantage of both up and down markets, as evidenced by performance thus far in 2019.

Top 10 fixed income holdings (%)	
Fed Republic Of Brazil 4.2500% Mat 01/07/2025	2.8
PETROBRAS GLOBAL FINANCE COMPA 5.7500% Mat 02/01/2029	2.6
Republic of Turkey 4.2500% Mat 04/14/2026	2.6
TEVA PHARMACEUTICAL FINANCE NE 2.8000% Mat 07/21/2023	2.0
REPUBLIC OF ARGENTINA 5.8750% Mat 01/11/2028	1.8
DISH DBS Corp. 7.7500% Mat 07/01/2026	1.6
Intesa Sanpaolo SpA 5.7100% Mat 01/15/2026	1.6
CHARTER COMMUNICATIONS OPER CHTR TL B 1L USD 4.3493% Mat 04/30/2025	1.5
PetSmart Inc. 6.8415% Mat 03/11/2022	1.4
FREEPORT-MCMORAN C & G 5.4500% Mat 03/15/2043	1.4

Sector allocation (%)	
High Yield Corporate Bonds	46.0
Emerging Market	41.6
Bank Loans	8.1
Government	2.1
Equity	0.7
Asset Backed	0.5
Investment Grade Corporate Bonds	0.2
Foreign Exchange	0.1
Cash & Cash Equivalents	0.7

Percentages are based on total portfolio as of quarter end and are subject to change at any time. For informational purposes only and not to be considered a recommendation to purchase or sell any security.

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What should I know before investing?

Fixed income securities involve interest rate, credit, inflation and reinvestment risks; and possible loss of principal. As interest rates rise, the value of fixed income securities falls. High-yield bonds are subject to greater price volatility, illiquidity and possibility of default. International investments are subject to special risks, including currency fluctuations and social, economic and political uncertainties, which could increase volatility. These risks are magnified in emerging markets. Derivatives, such as options and futures, can be illiquid, may disproportionately increase losses, and have a potentially large impact on Fund performance. Leverage may increase volatility and possibility of loss.

U.S. Treasurys are direct debt obligations issued and backed by the “full faith and credit” of the U.S. government. The U.S. government guarantees the principal and interest payments on U.S. Treasurys when the securities are held to maturity.

A credit rating is a measure of an issuer's ability to repay interest and principal in a timely manner. The credit ratings provided by Standard and Poor's, Moody's Investors Service and/or Fitch Ratings, Ltd. typically range from AAA (highest) to D (lowest), or an equivalent and/or similar rating. Please see www.standardandpoors.com, www.moodys.com, or www.fitchratings.com for details. Please note that, the Fund itself has not been rated by an independent rating agency.