Q2 2021 | Putnam Global Income Trust Q&A

Mortgage holdings contribute but currency exposure weighs

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Intermediate- and longer-term interest rates declined during the quarter, boosting fixed-income returns.

Currency positioning and strategies targeting prepayment risk hampered the fund's relative performance.

We believe the environment for risk-based fixed-income assets remains generally supportive.

How did the fund perform for the three months ended June 30, 2021?

The fund's class Y shares returned -0.17%, trailing the 1.31% gain of the benchmark Bloomberg Barclays Global Aggregate Bond Index.

What was the market environment like during the second quarter of 2021?

After more than a year of pandemic-driven headlines, a massive rollout of Covid-19 vaccines during the second quarter led to an almost full reopening of the U.S. economy. With things slowly returning to normal, there appears to be a significant amount of pent-up consumer demand, which is being further fueled by government stimulus. We see evidence of this, for example, in the most recent consumer confidence levels.

With Covid-19 headlines subsiding, rebounding consumer demand sparked growing concerns about inflation. Despite this, intermediate- and long-term U.S. Treasury yields declined during the quarter after rising sharply earlier in the year. The yield on the benchmark 10-year Treasury note dropped from 1.74% to 1.45% during the quarter, while the yield on the 30-year Treasury fell from 2.41% to 2.06%. Possible factors behind the decline in rates include strong demand for longer-dated debt from investors overseas, the extent to which the economic reopening is affecting recent inflation data, and the U.S. Federal Reserve's ongoing bond-purchase program.

Lower interest rates drove fixed-income returns higher across market sectors. Investment-grade bonds managed to recover from losses suffered in the first quarter to post positive performance. High-yield corporate credit did even better, as yield spreads continued to narrow. [Spreads are the yield advantage credit-sensitive bonds offer over comparable-maturity Treasuries. Bond prices rise as yield spreads tighten and decline as spreads widen.]

Financial markets are forward looking. As a result, sectors that stand to benefit the most from the reopening of the economy — such as airlines and leisure-related goods/services — declined after posting strong gains during previous quarters in anticipation of reopening.

The price of oil on global markets rose by more than 25% during the quarter and, as of June 30, was up roughly 52% for the year, with the summer travel season underway. The prices of other commodities, including lumber, sugar, and corn, also rose markedly during the past year, but cooled off a bit in the second quarter.

Now that the U.S. economy has largely reopened, investors will have a keen eye on corporate earnings during the next few quarters. Market participants will also be watching for any hawkish shift in tone by the Fed, should inflation continue to move higher.

Which holdings and strategies hampered the fund's relative performance?

Our active currency strategy was the biggest detractor on a relative basis this quarter. Lower-than-benchmark exposure to the euro and the Canadian dollar, both of which strengthened against the U.S. dollar, hurt our positioning. Overweight positions in the weakening Australian dollar and Norwegian krone were additional negatives. Greater-than-benchmark exposure to the advancing Swedish krona and an underweight allocation to the Japanese yen provided positive offsets to the overall negative impact of our strategy.

Strategies targeting prepayment risk also weighed on relative performance. Faster-than-anticipated prepayment speeds of the mortgages underlying our holdings of interest-only [IO] and inverse IO collateralized mortgage obligations worked against their returns. Our mortgage-basis positioning — a strategy that reflects our view on the yield differential between prevailing mortgage rates and U.S. Treasuries — was another headwind amid an environment of falling interest rates and a flatter yield curve.

The fund's interest-rate and yield-curve positioning further dampened relative results. Our portfolio duration was shorter than that of the benchmark, giving the fund less relative rate sensitivity during a period when interest rates declined. Additionally, the fund was positioned for a steeper yield curve, but the curve flattened as long-term yields fell and short-term yields rose.

What about relative contributors?

Our mortgage-credit holdings added the most value versus the benchmark. Commercial mortgage-backed securities [CMBS] — both cash bonds and synthetic exposure via CMBX — as well as agency credit-risk transfer [CRT] securities performed well as spreads tightened. [CMBX is a group of tradeable indexes that each reference a basket of 25 CMBS issued in a particular year.]

Investments in investment-grade corporate credit and emerging-market debt contributed as well, albeit more modestly.

What is the team's near-term outlook?

Overall, we believe the environment for risk assets remains generally supportive. Our optimism is grounded in the rapidly growing percentage of Americans receiving Covid-19 vaccines, sustained government stimulus, and the continuing recovery of the U.S. economy. Risks to our generally constructive outlook include any new developments with Covid-19 and policy missteps from global central banks.

In light of expectations for sturdier growth, we believe U.S. Treasury yields could rise further this year. That said, we think the trend toward higher rates will be gradual as bond investors adjust their growth and inflation outlooks, leading to periods of market volatility.

What are your current views on the various sectors in which the fund invests?

Within this environment, we have a positive outlook for the fundamentals and overall supply-and-demand backdrop of investment-grade corporate credit. Our view on valuation is more neutral, however, given the relative tightness of yield spreads as of quarter-end.

In the CMBS market, we believe there are attractive risk-adjusted investment opportunities available amid an improving fundamental backdrop. In our view, borrowers with access to capital will continue to make investments in properties that were performing well before the pandemic hampered their revenue streams.

Near-term inflation expectations are significantly higher than they were prior to the pandemic. We think commercial properties can better absorb inflation pressures compared with other market sectors, such as corporate credit. Consequently, if inflation rises, we believe areas of the CMBS market may offer compelling relative-value opportunities.

Within residential mortgage credit, given low mortgage rates, high demand, and a declining inventory of available homes, we think home prices are likely to continue rising. Even with tighter spreads, we have continued to find value in investment-grade securities backed by non-agency residential loans, along with legacy residential mortgage-backed securities and lower-quality segments of the agency CRT market.

We believe prepayment-sensitive areas of the market serve as important sources of diversification for the fund. To us, the prepayment sector offers potential benefits in the event of an economic slowdown, changes in fiscal policy, and/or rising interest rates. In our view, many prepayment-sensitive investments offer attractive risk-adjusted return potential at current price levels. In terms of investment selection, we are focused on securities backed by reverse mortgages, jumbo loans, and more seasoned collateral.

As for non-U.S. sovereign debt in both developed and emerging markets, we think the economic recovery will be strongest in countries with large service sectors and effective vaccine distribution. We also prefer countries that can contain government expenditures despite political pressures to raise them.

Putnam Global Income Trust (PGGYX)

Annualized total return performance as of 6/30/21

	Class Y shares Inception 10/4/05	**Bloomberg Barclays Global Aggregate Bond Index**
Last quarter	–0.17%	1.31%
1 year	2.98	2.63
3 years	3.60	4.23
5 years	3.12	2.34
10 years	2.67	2.05
Life of fund	6.16	—
Total expense ratio: 0.95%		
What you pay: 0.64%		

Source: Bloomberg Index Services Limited.

"What you pay" reflects Putnam Management's decision to contractually limit expenses through 2/28/22.

Returns for periods of less than one year are not annualized.

Current performance may be lower or higher than the quoted past performance, which cannot guarantee future results. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes. For the most recent month-end performance, please visit putnam.com. Class Y shares before their inception are derived from the historical performance of class A shares (inception 6/1/87), which have not been adjusted for the lower expenses; had they, returns would have been higher. For a portion of the periods, this fund may have had expense limitations, without which returns would have been lower. Class Y shares are generally only available for corporate and institutional clients and have no initial sales charge.

The Bloomberg Barclays Global Aggregate Bond Index is an unmanaged index of global investment-grade fixed-income securities. You cannot invest directly in an index.

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Duration measures the sensitivity of bond prices to interest-rate changes. A negative duration indicates that a security or fund may be poised to increase in value when interest rates increase.

Diversification does not guarantee a profit or ensure against loss. It is possible to lose money in a diversified portfolio.

The views and opinions expressed are those of the portfolio managers as of June 30, 2021, are subject to change with market conditions, and are not meant as investment advice. All performance and economic information is historical and is not indicative of future results.

Consider these risks before investing: International investing involves currency, economic, and political risks. Emerging-market securities carry illiquidity and volatility risks. Lower-rated bonds may offer higher yields in return for more risk. Funds that invest in government securities are not guaranteed. Mortgage-backed investments, unlike traditional debt investments, are subject to prepayment risk, which means that they may increase in value less than other bonds when interest rates decline and decline in value more than other bonds when interest rates rise. The fund concentrates on a limited group of industries and is non-diversified. Because the fund may invest in fewer issuers than a diversified fund, it is vulnerable to common economic forces and may result in greater losses and volatility. Bond investments are subject to interest-rate risk (the risk of bond prices falling if interest rates rise) and credit risk (the risk of an issuer defaulting on interest or principal payments). Interest-rate risk is generally greater for longer-term bonds, and credit risk is generally greater for below-investment-grade bonds. Risks associated with derivatives include increased investment exposure (which may be considered leverage) and, in the case of over-the-counter instruments, the potential inability to terminate or sell derivatives positions and the potential failure of the other party to the instrument to meet its obligations. Unlike bonds, funds that invest in bonds have fees and expenses. The value of investments in the fund's portfolio may fall or fail to rise over extended periods of time for a variety of reasons, including general economic, political, or financial market conditions; investor sentiment and market perceptions; government actions; geopolitical events or changes; and factors related to a specific issuer, geography, industry, or sector. These and other factors may lead to increased volatility and reduced liquidity in the fund's portfolio holdings. Our investment techniques, analyses, and judgments may not produce the outcome we intend. The investments we select for the fund may not perform as well as other securities that we do not select for the fund. We, or the fund's other service providers, may experience disruptions or operating errors that could have a negative effect on the fund. You can lose money by investing in the fund.

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Request a prospectus or summary prospectus from your financial representative or by calling 1-800-225-1581. The prospectus includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

Putnam Retail Management

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