Q2 2020 | Putnam Global Income Trust Q&A

Fund outperforms amid stronger market backdrop

D. William Kohli
CIO, Fixed Income
Industry since 1988

Robert L. Davis, CFA
Portfolio Manager
Industry since 1999

Michael V. Salm
Co-Head of Fixed Income
Industry since 1989

Paul D. Scanlon, CFA
Co-Head of Fixed Income
Industry since 1986

Albert Chan, CFA
Portfolio Manager
Industry since 2002

Michael J. Atkin
Portfolio Manager
Industry since 1988
(Photo not available)

Global risk assets rebounded sharply in the wake of March's market upheaval.

Corporate credit holdings and strategies targeting prepayment risk fueled the fund's relative performance. On the downside, active-currency strategies detracted.

As the second half of 2020 begins, investors will focus on economic data, corporate earnings, and signs of progress toward a coronavirus vaccine.

How did the fund perform for the three months ended June 30, 2020?

The fund's class Y shares gained 5.41%, outpacing the 3.32% return of the benchmark Bloomberg Barclays Global Aggregate Bond Index.

What was the market environment like during the second quarter of 2020?

There was a massive reversal in both market sentiment and price levels across asset classes during the quarter. Fiscal and monetary stimulus, along with hopes of a sharp economic recovery, fueled the snapback. The U.S. Federal Reserve [Fed] began implementing a series of lending programs by making asset purchases across a variety of market sectors.

Against this backdrop, investment-grade corporate bonds and high-yield credit advanced 9% and 9.7%, respectively, as investors reembraced risk. Emerging-market debt did even better, jumping 12.3% in U.S.-dollar terms. Meanwhile, more defensive areas of the market lagged, including U.S. government securities, foreign sovereign debt, and agency mortgage-backed bonds. Interest rates were rangebound throughout the quarter, with the yield on the benchmark 10-year U.S. Treasury note staying below 1%.

In April, oil prices briefly dipped into negative territory before rising on further supply cuts and hopes that demand will increase as the economy reopens. While the energy sector has been one of the biggest laggards for the year to date through June, it was by far the best-performing group in the second quarter. Other sectors that were negatively impacted by the coronavirus also recovered, except for airlines, which continued to struggle amid reduced demand for air travel.

Which holdings and strategies drove the fund's relative outperformance?

Our corporate credit holdings — primarily investment-grade — added the most relative value this quarter. Following a sizable widening of yield spreads in March, spreads tightened during the quarter. [Spreads are the yield advantage credit-sensitive bonds offer over comparable-maturity U.S. Treasuries. Bond prices rise as spreads tighten and decline as spreads widen.] Unprecedented stimulus measures implemented by government policymakers boosted investor confidence by helping to offset some of the near-term economic uncertainty sparked by the coronavirus pandemic.

Strategies targeting prepayment risk also meaningfully contributed versus the benchmark, particularly our holdings of interest-only [IO] securities and bonds backed by reverse mortgages. As new issuance resumed following March's market upheaval, these positions benefited from improving supply-and-demand dynamics.

Emerging-market debt was a further notable contributor, especially positions in Uruguay, Mexico, the Dominican Republic, and Brazil. As noted above, the sector rallied sharply in response to healthier risk appetite and demand for higher-yielding securities.

What about detractors?

The fund's active-currency strategies were the sole relative detractor over the past three months. Lower-than-benchmark exposure to several currencies that strengthened versus the U.S. dollar worked against our positioning. These included the Australian and Canadian dollars, as well as the euro.

What is your near-term outlook?

As the quarter came to a close, coronavirus cases began to reaccelerate, particularly in areas of the country that were the first to open. As a result, plans to fully reopen certain parts of the economy, such as restaurants and bars, have been put on hold in the areas most affected.

Amid stronger-than-expected economic reports, investors seem to be shrugging off the increase in infection rates, at least for now. As we begin the second half of 2020, it is likely that the coronavirus will continue to dominate the news. Investors, meanwhile, will remain focused on economic data, indications of progress toward a vaccine, and the impact of second-quarter earnings on corporate balance sheets.

How was the fund positioned as of June 30?

Reflecting the fund's relatively cautious overall positioning, we continue to hold securities across sectors that have less price sensitivity to changes in yield spreads.

Within corporate credit, the fund was modestly underweight investment-grade debt. Our emphasis here continues to be on security selection.

COVID-19 created significant headwinds for the CMBS market because commercial real estate is in the "eye of the storm." Uncertainty about the duration of social distancing measures makes for a challenging backdrop, particularly for hotel and retail properties, which have only recently begun reopening.

We believe most properties that were functioning well prior to the crisis and have reasonable levels of equity will survive, buoyed by government support, operator reserves, and/or debt-service modifications.

We continue to have conviction in the fund's CMBX positions, which we believe offer value at the single A and BBB levels for indexes representing 2012–2014 issuance. In addition, we think the relatively large sell-off in newer vintages has presented additional value in that part of the market.

In our view, prepayment-sensitive areas of the market directly benefit when there are increased frictions in the housing finance industry. Given the potential for a deepening of the recession, there are ongoing risks related to high unemployment, weaker projected home-price appreciation, lower home turnover, and reduced homeowner mobility. Even as the use of mortgage forbearance grows, cash flows to investors from agency mortgages are guaranteed by government-sponsored enterprises. As a result, we continue to have confidence in the fund's holdings of interest-only collateralized mortgage obligations and inverse IOs backed by more seasoned collateral.

Putnam Global Income Trust (PGGYX)

Annualized total return performance as of 6/30/20

Class Y shares Inception 10/4/05	**Net asset value**	**Bloomberg Barclays Global Aggregate Bond Index**
Last quarter	5.41%	3.32%
1 year	2.15	4.22
3 years	3.25	3.79
5 years	3.23	3.56
10 years	3.66	2.81
Life of fund	6.25	—

Total expense ratio: 0.99%

What you pay: 0.65%

"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.

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.

The views and opinions expressed are those of the portfolio managers as of June 30, 2020, 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.

For informational purposes only. Not an investment recommendation.

A world of investing.®

Putnam INVESTMENTS

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

Putnam Investments | 100 Federal Street | Boston, MA 02110 | putnam.com

TL031 322003 7/20