Q1 2019 | Putnam Global Income Trust Q&A

# Fund outperforms as investors reembrace risk

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(Photo not available)

***Federal Reserve signals more flexible approach, helping fuel a robust rebound in risk assets.***

***Positions in corporate and mortgage credit drove the fund's solid relative performance.***

***A more conciliatory approach to monetary policy by global central banks could lead to an uptick in economic growth.***

**What was the fund's investment environment like during the first quarter of 2019?**

Following a pronounced downturn in 2018's fourth quarter, markets rebounded impressively in the first quarter. In fact, January was one of the strongest months for risk assets in nearly 30 years.

Investor sentiment improved markedly following comments from U.S. Federal Reserve Chair Jerome Powell that mild inflation would give the central bank greater flexibility to set policy in 2019. Market participants also welcomed Powell's announcement that the Fed was not on a "pre-set" path to push its benchmark rate higher, after hiking rates every quarter in 2018. Progress in U.S.-China trade talks provided a further boost to sentiment across risk-driven markets.

After fluctuating in a fairly narrow range in January and February, bond yields around the world declined in March. Central banks signaled that they were willing to keep interest rates low for longer than investors were expecting. In large part, the moves were spurred by signs of slowing economic growth, particularly in the eurozone and China. In the United States, however, where growth remains relatively steady, the Fed's argument for potentially delaying rate increases until next year has been strengthened by signs that inflationary pressures remain muted.

Within this environment, corporate credit — both high-yield and investment-grade — emerging-market [EM] debt, and mortgage credit outperformed U.S. Treasuries and other government securities.

### For the quarter, the fund posted a solidly positive return and outpaced its benchmark. Which holdings and strategies fueled relative performance?

Our corporate credit holdings — both investment-grade and high-yield bonds — were the biggest contributors by far. Following a sharp downturn in 2018's fourth quarter, investment-grade credit had it best start in 20 years in 2019's first quarter. A more dovish Fed, optimism surrounding U.S.-China trade talks, and a substantial rebound in oil prices drove renewed demand for corporate bonds.

Our mortgage-credit strategies also notably aided relative performance this quarter, led by positions in commercial mortgage-backed securities [CMBS]. The fund's holdings of cash bonds, as well as exposure via CMBX — an index that references a basket of CMBS issued in a particular year — rallied along with other risk-driven assets.

Our global term-structure strategies were another meaningful contributor. The fund's longer-than-benchmark duration positioned it well for declining intermediate- and long-term yields in the eurozone and the United Kingdom. We also benefited as yield curves became flatter in those regions. Holdings of Greek government bonds also meaningfully contributed.

Overseas, EM debt provided a further modest boost to the fund's results amid improved risk sentiment. Bonds issued by countries that are heavily influenced by oil prices, such as Brazil and Mexico, performed particularly well.

### How did the fund's currency positioning influence results?

Our active currency strategy also added value versus the benchmark, led by underweight exposure to the euro. Lighter-than-benchmark allocations to the Swedish krona and the Japanese yen also helped. All three of these currencies weakened versus the U.S. dollar during the quarter.

### What detracted from performance this quarter?

There were no detractors of note this period. Strategies targeting prepayment risk had a neutral impact on relative performance, partly due to declining interest rates in March, but did not detract.

### What is your near-term outlook?

With the Fed, the European Central Bank, and a number of Asian central banks adopting a more conciliatory monetary policy stance, we think there could be an uptick in global economic growth. Various leading indicators are also suggesting this possibility. Overall, we expect the global growth trend to be steady, rather than accelerating.

There has been a considerable amount of press related to the yield curve inverting, meaning shorter-term interest rates become higher than longer-term rates. Historically, an inverted yield curve has been an accurate forecaster of recession roughly 12 to 18 months in the future. Although the U.S. Treasury yield curve flattened and became slightly inverted at certain points during the quarter, we believe the risk of recession in the United States is quite low. In our view, supply-and-demand dynamics are having an outsized influence on the yield curve. For example, there is strong global demand for longer-term bonds to meet benefit obligations for retirees who are living considerably longer than in the past. Also, investors overseas have been buying U.S. bonds due to the extremely low or even negative bond yields in other countries. As a result, we think the predictive value of an inverted yield curve in signaling recession may be weaker than in previous economic cycles.

### Given this outlook, how are you positioning the fund?

We continue to favor mortgage credit, prepayment risk, and corporate credit. In our view, the yield premiums provided by CMBS, agency IO CMOs, non-agency residential mortgage-backed securities, and high-yield corporate bonds give the fund an attractive risk/reward profile.

After deemphasizing interest-rate risk for many years, we are now taking a more neutral posture, rather than keeping the fund's duration significantly shorter than that of the benchmark. As noted above, the fund benefited this quarter from having a duration that was longer than the benchmark. Given the late stage of both the economic and credit cycles, along with slowing economic growth, we don't believe rates are likely to rise substantially over the intermediate term.

## Putnam Global Income Trust (PGGYX)

Annualized total return performance as of 3/31/19

| **Class Y shares** Inception 10/4/05 | **Net asset value** | **Bloomberg Barclays Global Aggregate Bond Index** |
|---|---|---|
| Last quarter | 3.56% | 2.20% |
| 1 year | 0.06 | -0.39 |
| 3 years | 3.24 | 1.49 |
| 5 years | 1.66 | 1.04 |
| 10 years | 6.61 | 3.05 |
| Life of fund | 6.32 | — |

Total expense ratio: 0.99%

What you pay: 0.97%

“What you pay” reflects Putnam Management's decision to contractually limit expenses through 2/28/20.

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.

The views and opinions expressed are those of the portfolio managers as of March 31, 2019, 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. Bond prices may fall or fail to rise over time for several reasons, including general financial market conditions, changing market perceptions (including perceptions about the risk of default and expectations about monetary policy or interest rates), changes in government intervention in the financial markets, and factors related to a specific issuer or industry. These and other factors may lead to increased volatility and reduced liquidity in the fund's portfolio holdings. 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.**

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