Macquarie Balanced Growth

Quarterly Investment Option Update

31 December 2022

Aim and Strategy

Aims to provide medium to long-term capital growth, together with some income, by investing in balanced level of growth and defensive assets.

The option provides exposure to a diversified portfolio of growth assets, including shares and alternative assets, with some exposure to cash and fixed interest.

The investment manager aims to deliver above index returns through an active investment approach that identifies and pursues investment opportunities within set limits through a combination of active management within each asset class and tactical asset allocation across asset classes to meet the objectives of the portfolio. A varying portion of the foreign currency exposure is hedged through currency hedging solutions, whether passive or active.

Asset Allocation	Benchmark (%)	Actual (%)
Cash	1.5	17.6
Strategic Income*	9.0	9.9
Australian Fixed Interest	17.5	7.1
Global Fixed Interest	7.5	7.6
Inflation Linked Bonds	5.0	3.3
Australian Equities	26.0	27.0
Global Developed Markets	13.5	14.5
Global Emerging Markets Equities	12.0	2.5
Alternative Assets**	8.0	10.5

* Invests predominantly in high quality Australian and global credit securities
** May include investments in such asset classes as private equity, infrastructure or hedge funds

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au/performance

Investment Option Overview

Investment Category	Multi Sector (Balanced)
Suggested Investment timeframe	5 years
Relative risk rating	6/ High
Investment style	Active
Manager style	Single Manager

Investment Option Commentary

The Fund underperformed its strategic asset allocation benchmark, which was driven by the Fund's overweight position to defensive assets and underweight position to growth assets.

In the fourth quarter, hedged international and Australian equities performed strongly with increased volatility, contributing +7.1% and +9.1%, respectively. With regard to fixed interest, the sector delivered a mixed result, contributing +0.4% domestically and detracting -0.4% offshore. Finally, Macquarie's global real estate and global infrastructure asset delivered positive result with +4.0% and +6.2% respectively.

During the quarter, markets across all asset classes were volatile. Despite the positive sentiment from lower-than-expected inflation prints, this was offset by increasing concerns of a global recession, corporate earnings downgrades, the ongoing COVID-19 outbreaks in China and the prevalence of higher terminal cash rates in the US.

Within Macquarie's Fund, Macquarie remained close to the maximum allowable level of defensiveness. Macquarie expect that the Fund may need to weather heightened volatility given current market conditions. Macquarie expect to retain this defensive positioning for some time. However, should valuations in growth assets improve significantly or the trajectory of global monetary tightening becomes notably less aggressive, Macquarie's focus will shift accordingly to focus on capturing upside opportunities within growth assets.

Market Commentary

Central banks continue to dominate, with successive rate hikes delivered by all major central banks and even the Bank of Japan wading in with an unexpected widening of its band for its yield curve control policy on the 10-year area of the curve. The background fundamental driver continued to be inflation which pushed to new cycle highs but evidence is suggesting that this pressure has peaked. Elsewhere the broad macroeconomic data was showing an increasing tilt toward slower growth, with the leading indicators suggesting further weakness in the quarters ahead. Importantly, all measures of supply imbalance were now clearly improving which further supports the evidence that inflation has peaked and will trend lower in coming quarters. The labour markets though remain tight, even though demand is beginning to wane supply remains compromised. Thus, wages growth has remained elevated but there is no evidence suggesting a wage-price spiral.

Against this background the price action across asset markets defied logic. Sovereign bond yields broadly moved higher, with the US outperforming on the belief that the Federal Reserve (FED) is nearly finished its rate hike cycle – a view that the FED has pushed back on. Meanwhile, European bonds underperformed as the European Central Bank (ECB) stated clearly its inflation busting intent which repriced expectations significantly. Risk markets surprisingly rallied through the quarter, equities higher and credit spreads tighter. This is despite the realisation that earnings are likely to fall through 2023 as the impact of demand destruction is felt. Macquarie's sense is that expectations are that the economic downturn will be short and this is where the risk lies for the year ahead.

Outlook

In 2022, hedged international and Australian equities detracted -18.3% and -1.8%, respectively. In fixed interest, domestic fixed interest detracted -9.7% and -13.1% offshore. Finally, Macquarie's global listed infrastructure asset and global listed real estate also detracted -4.2% and -24.2% respectively. Clearly, 2022 was a challenging year for investors, in which market participants placed acute focus on inflation, the risk of stagflation and the tightening of financial conditions. As a result, the majority of asset classes experienced significant drawdowns. Macquarie were defensively positioned through 2022, focusing primarily on downside risk management, which limited portfolio drawdowns to a degree. In sector allocation, Macquarie's long-held overweight bias towards Australian equities, Australian fixed interest and global infrastructure also aided in minimising portfolio losses.

As Macquarie enter 2023, Macquarie continue to expect a challenging market environment, albeit distinctive from 2022. In 2023, Macquarie expect market participants will instead focus on the risk of recession, a potential rise in unemployment, anticipated downward corporate earnings revision and liquidity risks. Therefore, Macquarie expect asset market volatility will remain elevated. However, should valuations improve, Macquarie's focus will shift accordingly aiming capture opportunities to acquire undervalued growth assets, despite the heightened volatility, or as postulated by Warren Buffet be "greedy when others are fearful". Ultimately, Macquarie believe that this mentality is appropriate based on Macquarie's current portfolio positioning and market outlook for 2023, aiming to navigate what Macquarie expect to be a challenging but potentially prosperous year.

With regard to inflation, short term indicators are suggesting that inflation has now peaked. However, given the robust labour market, inflation may remain elevated, relative to central bank targets, for a considerable period. While the prospects of continued moderating inflation without a recession (soft-landing) will be a welcomed scenario for the global markets, Macquarie are starting to see early signs of demand destruction from the current high levels of interest rates. As a result, Macquarie believe that the 'soft landing' scenario will be unlikely.

Our takeaway from the current state of play is two-fold. First, the risk of continued increases in the rate of inflation has reduced. Second, elevated inflation, while less likely to increase further, will be more persistent than Macquarie had initially anticipated. Macquarie have previously commented that Macquarie believed higher, faster increases in cash rates may elevate economic and geopolitical risks globally. Macquarie believe the likelihood of a negative tail risk event has increased significantly as cash rates have crept higher. Macquarie see these risks as being compounded by expectations of higher peak interest rates, which will also be expected to persist for longer. To sum up, the macro developments in December continue to reinforce Macquarie's market outlook, specifically that significant downside risks to growth assets remain.

Availability

Product name	APIR
SignatureSuper*	AMP0958AU

*Closed to new investors

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