Specialist Diversified Fixed Income

Quarterly Investment Option Update

31 December 2022

Aim and Strategy

The strategy aims to provide total returns (interest income and capital growth) after costs and before taxes, above the performance benchmark (60% - Bloomberg AusBond Composite Bond All Maturities Index / 40% - Bloomberg Global Aggregate Bond Index (hedged to Australian dollars)), on a rolling 3-year basis.The strategy provides exposure to a diversified portfolio of Australian and international fixed income securities including government securities, government-related securities, inflation-linked securities, corporate securities, asset-backed securities, cash, derivatives and foreign currency. The strategy diversifies manager risk across a range of investment managers by using a multi-manager approach.Exposures are to managers who demonstrate competitive advantages, within the various investment styles used when investing in the Australian and international fixed income markets.

Investment Option Performance

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

Investment Option Overview

Investment category	Global fixed interest
Suggested minimum investment timeframe	3 years
Standard Risk Measure	4/Medium
Investment style	Active
Manager style	Multi-manager

Asset Allocation	Benchmark (%)
Cash	0
Australian fixed interest	60
Global fixed interest	40

Actual Allocation	%
Global Fixed Interest	39.62
Australian Fixed Interest	60.36
Cash	0.02

Region Allocation	%
Australasia	99.98
Cash	0.02

Fund Performance

The Fund posted a positive return (before fees) for the December quarter and outperformed the benchmark.

Within the Australian bonds sector, Macquarie outperformed its benchmark. The manager has further increased its tilt towards the semi-government sector, which has been offering relatively attractive yields vs commonwealth government bonds. Towards the end of the quarter, overweight exposure to major bank senior debt was a positive contributor, with spreads historically wide of government bonds, particularly in the short end.

Schroders also outperformed its benchmark. The manager's long duration position added value as yields retreated from the highs reached in October, while an overweight to Australian investment grade and an underweight to US high yield credit detracted from performance. The manager increased their interest rate duration over the quarter and began positioning for steepening of the yield curve.

Within the global bonds sector, PIMCO contributed positively. Earlier in the quarter an underweight to the front end of US rates contributed as yields rose, as did exposure to financials within corporate credit later in the quarter.

Market Review

Globally, government bond yield curves were volatile towards the end of 2022. Over the December quarter, investors generally pushed bond prices higher on the back of recent data showing global inflation levels may have peaked; and are expecting central banks, in particular the US Federal Reserve (Fed), to end their rate hiking process earlier than expected and perhaps look to reduce rates later in 2023. Whilst inflation levels may have peaked, many central banks argue they're still elevated, and far above target (generally around 2-3%). The Fed Chair is acutely aware of experience of the 1970s, where the Fed backed away from the fight against inflation too soon, only for greater bouts of inflation to return. As a result, developed market central banks remain steadfast in maintaining higher interest rates for longer and have pushed back against market expectations of an earlier end to the rate rise cycle. The Fed's focus has gradually turned to the strength of the US labour market, where a softening job market would help to cool the economy. Global bond yields mostly ended the quarter higher, aside from the UK, where the appointment of a new prime minister and chancellor calmed investors from the local market turmoil experienced in previous months. The Bank of Japan (BoJ) meanwhile made a surprising amendment of its easy monetary policy, via adjusting the cap within which it allows the 10-year bond yield to trade. This saw the yield on longer dated Japanese government bonds jump.

Credit markets were largely driven by the same interpretations of central banks being closer to the end of their rate rising cycle. Markets are expecting investment grade credit spreads at current levels to provide sufficient excess returns to withstand a moderate growth slowdown in 2023, so long as the Fed does not continue to raise rates materially higher from current levels. Markets are now delineating between strong borrowers with quality balance sheets in the investment grade sector from the weakest borrowers in the high yield sector facing more significant margin pressure in the weakening economic environment. US investment grade and high yield spreads rallied 29 and 83 basis points, respectively, over the quarter.

Global bonds, as measured by the Bloomberg Global Aggregate Index ($A hedged), gained 0.64%, in Australian dollar terms. Global investment grade and high yield credit meanwhile gained 2.67% and 5.95% respectively, as measured by the Bloomberg Global Aggregate Corporate Index ($A hedged) and Bloomberg Global High Yield Index ($A hedged).

Outlook

Inflation, the path of interest rate movements and recession risk are likely to continue to be the dominant themes driving bond markets over the medium-term. Whilst there is still scope for central banks to increase rates higher than current market expectations, yields have now reverted to more attractive valuation levels. We believe there is scope for improved returns from the asset class over the medium to long-term.

Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 2)	AMP1991AU**
SignatureSuper	AMP1975AU
SignatureSuper - Allocated Pension	AMP1977AU
SignatureSuper Term Pension	AMP1977AU

**Closed to new and existing investors

Contact Details

Web: **www.amp.com.au**
Email: askamp@amp.com.au
Phone: 131 267

INSIGHTS
IDEAS
RESULTS