Specialist Diversified Fixed Income

Quarterly Investment Option Update

30 September 2023

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 0+ Yr 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	%
International Fixed Interest	43.87
Australian Fixed Interest	55.93
Cash	0.19

Region Allocation	%
Australasia	99.81
Cash	0.19

Fund Performance

The Fund posted a negative return for the quarter, though outperformed the benchmark (before fees). Two out of our three underlying managers outperformed their benchmarks, while one matched their respective benchmark.

Within the Australian bonds sector, Macquarie delivered a positive return and outperformed its benchmark. This outperformance was generated in July and August and was due to sector rotation, and duration & curve positioning.

Schroders produced a small negative absolute return, equalling its benchmark. Over the quarter, Schroders shifted duration from the US to Europe, while leaning overweight towards relatively shorter maturity bonds. They also added a small allocation to emerging market debt. This portfolio is positioned to capture solid income and is well placed for an economic downtown, given its conservative stance.

Finally, within the global bonds sector, PIMCO's return was negative in absolute terms, though comfortably outperformed its benchmark. Stock selection was a significant contributor to the outperformance; particularly in emerging markets earlier in the period, and in securitised assets towards the end of the quarter.

Market Review

The September quarter saw more volatility for bonds, with interest rate sensitive segments, such as government bonds, continuing to languish amid rising yields and volatility. Credit sectors meanwhile tended to perform better. Despite yields appearing close to peak, as indicated by market pricing, central bank rhetoric tended to be hawkish but more measured in tone, causing the market to anticipate a longer period of elevated interest rates and therefore bond yields. This was the key driver of higher yields and associated falling bond prices over the quarter. The US 10-year yield rose by 73 basis points from 3.84% to 4.57%, while the two-year yield increased from 4.87% to 5.04%. Similar moves were echoed in other global developed bond markets, including Europe and Japan.

Against this backdrop, corporate balance sheets remained relatively strong, despite a continued uptick in default rates and downgrades, albeit from a low level. Global high yield again outperformed global investment grade, as immediate recessionary concerns continued to be pared back into 2024. Global bonds, as measured by the Bloomberg Global Aggregate Index ($A hedged), returned -2.14% in Australian dollar terms over the quarter. Global investment grade and high yield credit meanwhile returned -1.97% and 0.16% respectively, as measured by the Bloomberg Global Aggregate Corporate Index ($A hedged) and Bloomberg Global High Yield Index ($A hedged).

Australian bonds meanwhile mirrored movements of global bond markets, with the Australian 10 year climbing 0.46% to end the quarter at 4.49%. Unlike other developed central banks, the Reserve Bank (RBA) held rates steady at 4.1%, viewing it prudent to adopt a 'wait and see' approach, given the extent of rate hikes already implemented and 'significant uncertainties' around the outlook. Market participants are now largely expecting that the RBA is done with respect to further rate hikes in 2023.

Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, returned -0.28% over the period, while the AusBond Credit index returned 1.26% in Australian dollar terms. The Inflation-linked market, as measured by the Bloomberg AusBond Inflation Government (All Maturities) Index, delivered a negative return of -0.61% over the same timeframe, given the increase in bond yields over the quarter.

Outlook

Global bond markets, over the medium-term, will likely be driven by the speed of economic slowdown as well as the disinflation process. Yields have spiked significantly recently as markets priced in the prospects of a 'higher for longer' rates scenario. The starting level of income, plus the fact that bond yields are trading at fairer prices, leads us to believe that bond returns going forward will likely be more attractive than recent history; and will serve as a diversifier to risk assets in the event of economic slowdown.

Like their global counterparts, Australian bond valuations have improved significantly and have moved closer to fair valuation levels as yields have risen. We therefore believe forward looking returns are now significantly more compelling than in recent history.

Availability

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

*Closed to new investors

**Closed to new and existing investors

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