



# Future Directions International Bond

Quarterly Investment Option Update

30 September 2023

## Aim and Strategy

To provide a total return, after costs and before tax, higher than the return from the Bloomberg Global Aggregate Index (Hedged to AUD) on a rolling 3 year basis through investing in fixed or floating interest rate securities in countries around the globe. These securities may include government securities, government related securities, corporate securities, asset backed securities and hybrid securities (such as convertible notes) in both developed and emerging markets.

## Investment Option Performance

To view the latest investment performances for this product, please visit [www.amp.com.au/performance](http://www.amp.com.au/performance)

## Investment Option Overview

<b>Investment category</b>	Global fixed interest
<b>Suggested minimum investment timeframe</b>	5 years
<b>Standard Risk Measure</b>	5/Medium to High
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Cash	0
Global fixed interest	100
<b>Actual Allocation</b>	<b>%</b>
International Fixed Interest	99.68
Cash	0.32

## Fund Performance

For the September quarter, the Fund posted a negative return and underperformed the benchmark (before fees). The global government bond segment of the portfolio struggled over the period, underperforming its custom GDP weighted (ex China) sovereign bond benchmark. Underlying manager Colchester underperformed, largely driven by bond selection mid to late quarter. Kapstream also underperformed, with a long position in Mexico detracting through August and September.

The global credit segment of the portfolio meanwhile outperformed its benchmark. BlackRock beat the benchmark, with outperformance largely generated early-quarter through overweight positions in selected technology companies, as well as selected media & entertainment communication names. Morgan Stanley's return meanwhile matched the benchmark for the quarter, with credit positioning contributing early in the period being a main contributor.

Finally, the global securitised segment of the portfolio, managed by Wellington, outperformed its benchmark. The outperformance was primarily generated mid to late quarter through asset allocation, as well as security selection.

## 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).

## 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. A higher 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.

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## Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP0694AU**
Flexible Lifetime - Investments (Series 2)	AMP1420AU**

\*\*Closed to new and existing investors

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