



Specialist Diversified Fixed Income

Quarterly Investment Option Update

30 June 2024

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	%
Fixed Income	99.61
Cash	0.39

Region Allocation	%
Australasia	99.61
Cash	0.39

Fund Performance

The Investment Option posted a small negative return for the quarter, slightly outperforming the benchmark (before fees). All three of our underlying managers outperformed their respective benchmarks. Stepping back to a one-year timeframe, the Investment Option produced a solid positive return and outperformed its benchmark.

Within the Australian bonds sector, Macquarie's outperformance was predominantly generated later in the quarter, due to management of duration, curve exposure, sector rotation and security selection. Schroders meanwhile produced most of its outperformance mid-quarter. This was due to the manager's exposures to what were narrowing Australian credit spreads in investment grade and subordinated bank debt. Within the global bonds sector, JP Morgan marginally outperformed its benchmark. The portfolio's underweight to US duration and overweight to investment grade corporate aided the relative return, particularly earlier in the period.

Market Review

The June quarter saw see-sawing government yields earlier in the period amid speculation around the magnitude and timing of expected interest rate cuts. As the quarter progressed a more conducive market environment emerged, driven by softening labour market conditions and better news on inflation. Increasing interest rate and yield divergence between developed countries was another theme. In the US, for example, the Fed kept rates on hold as expected, yet revised forecasts to suggest only one cut ahead for 2024, a decrease from three cuts previously anticipated. In June, rate cuts were seen in the Eurozone, Canada and Switzerland, while in the UK a decision to keep interest rates unchanged was noted as being finely balanced. Eurozone political events then contributed to yield divergence later in the quarter, with French spreads widening sharply versus Germany on the announcement of a snap French parliamentary election, implying investors perceived French debt as riskier. Despite volatility in yields, a relatively robust macro environment supported credit markets, which continued to do well, outperforming government bonds. Corporate balance sheets remained relatively strong and most credit segments delivered positive total returns, with floating rate products and higher volatility sectors, including leveraged loans and high yield bonds, delivering the better returns. Global bonds, as measured by the Bloomberg Global Aggregate index (\$A hedged), fell by -0.16% in Australian dollar terms. Global investment grade and high yield credit meanwhile returned -0.10% and 0.95% respectively, as measured by the Bloomberg Global Aggregate Corporate index (\$A hedged) and Bloomberg Global High Yield index (\$A hedged).

Australian bond yields mirrored global peers to rise over the June quarter, albeit to a greater degree and as a result, returns underperformed global counterparts. The main factor driving this was higher and stickier Australian inflation data than expected, which increased the risk that Australian interest rates may be held at current levels for longer than expected, or even raised higher if the resilience in inflation data does not moderate. Australian yields rose more aggressively than global counterparts as a result with the 10-year yield rising 0.35%, to end at 4.31%, while the 2-year yield rose 0.41%, to end at 4.16%. Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) index, returned -0.84% over the period, while the AusBond Credit index returned 0.23% in Australian dollar terms. The inflation-linked market, as measured by the Bloomberg AusBond Inflation Government (All Maturities) index, delivered a return of -1.58% over the same timeframe.

Outlook

Global bond markets are likely to continue to focus on the expected paths for US interest rates. Large drawdowns in recent years, resulting in bonds being available at significantly cheaper prices, continue to lead us to believe returns going forward will likely be reasonable; perhaps around current running yield or a little more, as inflation slows, and central banks cut rates. Furthermore, bonds will likely serve as a diversifier to growth assets, particularly during economic slowdown. Stickier than expected inflation remains a risk, as this could cause further delays to interest rate cuts. Like their global counterparts, Australian bond valuations have improved significantly in recent years and have moved closer to fair value as yields have risen. We therefore believe forward-looking returns are now significantly more compelling than in recent history when interest rates were close to zero.

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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