Specialist Diversified Fixed Income

Quarterly Investment Option Update

30 September 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 bonds	60
Global bonds	40

Actual Allocation	%
Fixed Income	99.90
Cash	0.10

Region Allocation	%
Australasia	99.90
Cash	0.10

Fund Performance

The Investment Option posted a positive return for the quarter, outperforming the benchmark (before fees). All three of our underlying managers again outperformed their respective benchmarks.

Within the Australian bonds sector, Macquarie's outperformance was mostly generated mid-quarter due to security selection and sector rotation.

Contrary to Macquarie, Schroders meanwhile produced most of its outperformance both early and late in the quarter. Asset allocation continued to aid returns. In July, swap spreads in Australia contracted and drove strong performance across both Australian investment grade credit and subordinated debt, benefitting the portfolio. By quarter's end, the manager had taken some risk off the table amid fuller looking valuations, including taking some profits on long US rates.

Within the global bonds sector, JP Morgan marginally outperformed its benchmark. Earlier in the quarter the manager's overweight to agency mortgage backed securities, curve steepening position in the US and an overweight to Spain contributed to this performance. Looking ahead, JP Morgan are focussing on protecting against recession risk.

Market Review

During the September quarter, global bond yields fell notably as central banks shifted to easing cycles amid moderating inflation and softer labour markets, resulting in positive returns from bonds. Yield curve steepening was a dominant theme, including the 2-10 year US treasury spreads, which uninverted for the first time in over two years. In a historically large move, the US Fed reduced its policy rate by 50 basis points in September to a target range of 4.75%-5.00%. The Fed also slightly lowered their inflation forecasts and raised their unemployment projections, maintaining a soft-landing outlook. Other key central banks followed suit in cutting rates, including the European Central Bank and those in Switzerland, Canada, the UK and New Zealand. The Bank of Japan however was an exception, raising its policy rate to 0.25% in July for the first time in decades given firmer inflation and domestic macro-economic dynamics. In other noteworthy news, Chinese policymakers showed determination to provide a cyclical boost to the economy through the use of various monetary measures, including a 20-basis point cut to the 7-day repo rate. Markets ended the quarter awaiting further details on the size and focus of these measures. Regarding global credit, spreads tightened across both investment grade and high yield markets, despite a brief disruption in August due to the "yen carry trade unwind" and volatility in French sovereign spreads. Optimism around central bank easing quickly restored demand for corporate credit, resulting in spread tightening across sectors, leading to positive returns and outperformance compared to government bonds. Global bonds, as measured by the Bloomberg Global Aggregate index ($A hedged), returned 3.99% in Australian dollar terms. Global investment grade and high yield credit meanwhile returned 4.74% and 5.16% respectively, as measured by the Bloomberg Global Aggregate Corporate index ($A hedged) and Bloomberg Global High Yield index ($A hedged).

Australian government bonds underperformed compared to global peers, with the 10-year Commonwealth yield dropping by 34 basis points to 3.97%. Unlike many global central banks, including the US, UK and the Eurozone which began to cut rates, the RBA maintained its cash rate target at 4.35%, citing persistent inflationary pressures, especially in services. The RBA highlighted economic uncertainties and rising geopolitical risks, committing to not cutting rates until inflation sustainably returns to target. Market expectations shifted towards the RBA joining the global easing cycle, with the first rate cut anticipated in Australia in early 2025. Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) index, returned 3.02% over the period, while the AusBond Credit index returned 3.06% in Australian dollar terms. The inflation-linked market, as measured by the Bloomberg AusBond Inflation Government (All Maturities) index, delivered a return of 2.96% 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 for Australian bonds 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

Contact Details

Web: **www.amp.com.au**

Email: askamp@amp.com.au

Phone: 131 267

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