Specialist Diversified Fixed Income

Quarterly Investment Option Update

31 March 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	99.93
Cash	0.07

Region Allocation	%
Australasia	99.93
Cash	0.07

Fund Performance

The Fund posted a positive return for the quarter, though marginally underperformed the benchmark (before fees). Two out of our three underlying managers outperformed their benchmark.

Within the Australian bonds sector, Macquarie delivered a solid absolute return and outperformed its benchmark. Outperformance was generated throughout the quarter due to strong security selection, as well as sector rotation. Macquarie will look to increase duration should rate-cut expectations further unravel.

Schroders also produced a strong absolute return, outperforming its benchmark. Much of the outperformance was generated by the manager's overweight allocation to credit spreads, primarily in Australia. Looking ahead, Schroders retains a key preference for this segment of the market, given its high credit quality and attractive income profile.

Within the global bonds sector, JP Morgan produced a negative absolute return and underperformed its benchmark. The portfolio's underweight to US duration vs an overweight to Eurozone duration, as well as a short position held in North American currencies detracted.

Market Review

Fixed income investors faced a tougher March quarter, given rising yields. Factors such as falling but sticky inflation, resilient economic activity and the Fed's cautious shift from its dovish stance in December collectively contributed to negative returns from government bonds. The macroeconomic landscape also influenced market expectations regarding interest rate reductions which had been previously factored in. Specifically, the anticipated number of US interest rate cuts for 2024 declined from close to seven (towards the end of 2023) to no more than three by the end of the quarter, with market pricing aligning with this at the end of March.

Despite the sell-off in developed government bond markets, credit markets generally performed well during the quarter. Corporate balance sheets remained relatively strong despite modest increases in default rates and downgrades, albeit from very low levels. Most credit segments delivered positive total returns, with floating-rate products, including leveraged loans and structured credit, including collateralised loan obligations, being stand-out performers. These asset classes benefited from the rise in bond yields, particularly in the US. Additionally, both US and European high-yield bonds delivered positive returns as credit spreads continued to tighten, offsetting the adverse effects of rising sovereign interest rates. In contrast, US investment-grade corporate bonds faced headwinds, posting negative total returns due to heightened sensitivity to sovereign rate movements, despite credit spreads rallying.

Global bonds, as measured by the Bloomberg Global Aggregate index ($A hedged), fell by -0.31% in Australian dollar terms. Global investment grade and high yield credit meanwhile returned -0.23% and 2.31% respectively, as measured by the Bloomberg Global Aggregate Corporate index ($A hedged) and Bloomberg Global High Yield index ($A hedged).

Australian bond yields mirrored rising yields in global peers over the quarter, albeit to a lower degree, and as a result, outperformed their global counterparts. The main factors driving bond markets around the globe, including Australia, were falling inflation numbers (despite remaining sticky in selected areas), shifting central bank rhetoric and continued signs of economic resilience. The Australian 10-year yield rose 0.01%, to end at 3.96%, while the 2-year yield rose 0.05%, to end at 3.76%. Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) index, returned 1.03% over the period, while the AusBond Credit index returned 1.37% in Australian dollar terms. The Inflation-linked market, as measured by the Bloomberg AusBond Inflation Government (All Maturities) index, delivered a return of 0.15% over the same timeframe.

Outlook

Global bond markets are likely to continue to focus on predicted paths for US interest rates. Large drawdowns in recent years, resulting in bonds being available at significantly cheaper prices, 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 in the event of further economic slowdown. Stickier than expected inflation remains a risk, as this could cause a delay 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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