

Australian Fixed Interest Index

Quarterly Investment Option Update

31 March 2022

Aim and Strategy

The strategy aims to provide returns that closely match the Bloomberg AusBond Composite 0+ Yr Index with net dividends reinvested before fees and taxes. Exposure to the Australian fixed interest asset class will be attained through the use of low cost index-focused investment managers.

Investment Option Performance

To view the latest investment performances for each product, please visit www.amp.com.au/performance

Investment Option Overview

Investment category	Australian Fixed Interest
Suggested minimum investment timeframe	3 years
Relative risk rating	Medium
Investment style	Index
Manager style	Single

Asset Allocation	Benchmark (%)
Australian fixed interest	100
Cash	0

Market Review

Australian government bond yield movements mirrored those in the US in the March quarter, both in terms of cause and outcome. As in the US, Australian 4Q21 inflation rose strongly, prompting an upward movement in yields. At its first Board meeting of the year, the RBA acknowledged the rise in inflation, noting the "persistence of the disruptions to supply chains and distribution networks and their ongoing effects on prices". The central bank also announced an end to its bond purchase program, citing "faster-than-expected progress" towards its employment and inflation goals. Although domestic inflationary pressure has yet to accelerate to US levels, the RBA appears to be laying the groundwork for an interest rate move. Governor Lowe recently noted that it's "plausible" the cash rate will be increased later this year and that it's "prudent to plan" for a hike, alluding to the risk of sustained supply shocks further boosting inflation expectations. Fiscal stimulus measures announced in the Federal Budget focus on providing near-term relief to cost of living pressures, but it is unclear whether it will do enough to dampen inflation sustainably. The Commonwealth Government 2-year bond yield ended the quarter 122 basis points higher at 1.81% while the Commonwealth Government 10-year bond yield ended 117 basis points higher at 2.84%. Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, returned -5.88% during the period, in Australian dollar terms.

Outlook

The RBA held monetary policy steady at their March meeting after ending the bond purchase program at the previous meeting. The central bank continues to stress patience with inflation, distancing itself from the extremely high inflation in other developed markets, with domestic trimmed mean inflation only just returning to the midpoint of the target band. Nonetheless, the central bank's rhetoric has turned mildly hawkish, acknowledging that a hike in 2022 is plausible, albeit not their base case. Governor Lowe shifted the focus away from the Wage Price Index to labour costs. Labour data surprised to the upside again in February with the unemployment rate falling 0.2% to 4.0%. Whilst the invasion of Ukraine by Russia continues to introduce uncertainty into the global economy, markets appear to have shifted focus towards inflation and the actions of central banks, seeing several hikes priced for the RBA for 2022. It is unlikely the central bank shifts its rhetoric to meet these expectations.

Availability

Product Name	APIR
SignatureSuper	AMP1300AU
SignatureSuper - Allocated Pension	AMP1307AU
SignatureSuper Term Pension	AMP1307AU

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