AB Dynamic Global Fixed Income

Quarterly Investment Option Update

30 June 2022

Aim and Strategy

The strategy is designed for investors with higher risk tolerances and who want income returns exceeding Australian bank bill rates over the long term by investing in global debt and fixed income securities. It implements a global, multi-sector strategy investing in a broad range of fixed income securities. The strategy may hold corporate bonds, government bonds, asset-backed securities, mortgage-backed securities, closed and open-ended mutual funds (up to 5% of the assets) and bank loans located anywhere in the world, including developed and emerging countries. Up to 40% of the strategy's assets may be higher risk and rated below investment grade. The strategy intends to hedge to Australian dollars most of the foreign currency exposures of its debt and fixed income securities, however up to 10% of the strategy's net asset value may be exposed to the risks and returns of international currencies.

Derivatives may be used to manage risk exposures, invest cash and gain or reduce investment and currency exposures. Derivatives will not be used for leveraging or gearing purposes.

Investment Option Performance

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

Investment Option Overview

Investment Category	Specialist Fixed Interest
Suggested Investment timeframe	5 years
Relative risk rating	6 / High
Investment style	Opportunistic
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	N/A	85.1
Aust. Fixed Interest	N/A	11.9
Cash	N/A	3.0

Sector Allocation	%
Investment Grade Corporates	43.0
Global Sovereign	29.1
High Yield Credits	11.0
Securitised	10.4
Other (inc. Derivatives & Currency)	3.3
Emerging Markets	3.2

Regional Allocation	%
North America	42.7
Europe (excl. Great Britain)	21.2
Australia & New Zealand	13.0
Great Britain	8.1
Japan	7.9
Other (incl. Supranationals)	6.5
Latin America	0.6

Top Holdings	%
JAPAN #59 BOND 1.7% 12/20/2022	4.1
AUSTRALIA BOND 3.25% 04/21/2025	2.8
JAPAN #58 BOND 1.9% 09/20/2022	2.2
AUSTRALIA BOND 2.75% 06/21/2035	1.9
AUSTRALIA NOTE 1% 12/21/2030	1.7
EURO-BUND SEP22 FUT () 0% 09/08/2022	1.7
KREDITANSTALT FUER 5% 03/19/2024	1.4
AUSTRALIA BOND 4.25% 04/21/2026	1.3
NORDIC INV. BANK BOND 4.75% 02/28/2024	1.2
AUSTRALIA BOND 3.75% 04/21/2037	1.2

Portfolio Summary

It remains important for fixed-income investors to be selective given tightening financial conditions. Rising trade tensions and tighter financial conditions signpost a step down in the pace of global growth.

Investment Option Commentary

Sector/security selection hampered returns, led by our allocations to investment-grade and high-yield corporate bonds in the eurozone and US, as spreads widened meaningfully over the quarter when markets priced in recession risk in the US and Europe.

Country/yield-curve positioning weighed on performance. The Portfolio's long duration exposure in Australia had a negative effect, as the Reserve Bank of Australia (RBA) hiked rates and yields rose. Positioning in the eurozone detracted as yields rose across the currency bloc. Long duration positions in the US detracted as yields rose, led by a more hawkish Fed that has followed through with rate hikes. With inflation at 40-year highs, further tightening is expected throughout 2022.

Currency positioning was positive, mostly the result of overweights to the US dollar, Brazilian real, Indonesian rupiah, Singapore dollar and offshore Chinese renminbi. Underweights in the Polish zloty, Canadian dollar and Mexican peso offset some of the currency gains during the period.

Market Commentary

Fixed-income yields in developed markets (DM) rose sharply in the second quarter on heightened inflation concerns—then started to taper off in the middle of June on indications of slowing growth and recession apprehension. Global DM treasury returns fell 3.82%, as measured by the Bloomberg Global Treasury Index on a hedged basis.

Many developed market central banks aggressively hiked rates and gave clear forward guidance for further rate increases to combat high and persistent inflation. The Fed raised short-term rates to a range of 1.50% to 1.75% and is expected to raise rates by another 0.75% in July. The BoE base rate reached 1.25%, while the Bank of Canada (BoC) increased its overnight rate to 1.50%. The RBA raised rates to 0.85% and is expected to hike its target rate by another 0.5% in July. The European Central Bank has telegraphed a monetary tightening schedule that will begin in July, while the Bank of Japan (BoJ) continued to hold rates and maintained its yield-curve control strategy.

In the second quarter, yields continued to move significantly higher as aggressive hiking schedules caused the front end of yield curves to move up faster and to flatten in many DM markets, with exceptions in Europe and Japan. Longer-term yields rose the most in the eurozone periphery compared to German Bunds. In the US, 10-year US Treasury yields peaked at about 3.50%, then fell toward the end of the quarter to 3.02% on growth concerns. Government bond yields on 10-year maturities also spiked in Australia, Canada and the UK. Yields ended the period basically unchanged in Japan.

Outlook

The global economic outlook darkened in the second quarter. Inflation remains persistently high. Central bankers have responded with aggressively tighter monetary policy that will likely slow economic growth before inflation can subside to a manageable level. In response, markets are increasingly concerned that higher rates may significantly impact growth.

AB have increased their inflation forecasts and downgraded growth forecasts. Their base case is for economic growth to decline, but remain positive this year, and for global growth to expand at a rate below long-term trend potential next year. The reality is that many of the forces pushing prices higher—including supply-chain disruptions and higher commodity prices like energy and food—are beyond the control of central banks, leading to the potential for significant dispersion around the base case.

Central banks are not in an enviable position. Tightening too little or slowly could allow inflation expectations to de-anchor, potentially heralding an era of unmoored inflation. Tightening too much may lead to a recession. Major central banks started this cycle by attempting to split the difference—tightening only gradually in the hope that a balanced approach would keep inflation expectations anchored—while allowing time for supply chains to normalize, minimizing the necessary amount of demand destruction needed. Given the persistence of inflation in most regions, monetary policy is quickly veering toward the aggressively hawkish end of the spectrum. Unless the inflationary pressures subside rapidly, central banks will have little choice but to stay aggressive in slowing demand.

Given the challenging macro environment, it is not surprising that financial markets have been weakened and are more volatile as investors recalibrate their expectations with heightened attention to any data that portends a discernable trend. Higher rates, wider credit spreads and lower equity prices contribute to reducing demand. Households around the world still enjoy a solid financial position—savings are elevated, labor markets are strong and aggregate incomes remain robust. These positives provide a cushion over the immediate horizon.

Manufacturing activity in the US has fallen to trend growth, with a preliminary June PMI reading of 51.2, similar to the gradual slowdown in most DM economies. Interest-rate sensitive sectors like housing are exhibiting a sharper slowdown, with home sales activity down about 7% during the first five months of the year compared with the same period a year ago, while recent mortgage application data is pointing to further contraction since refinancing activity is down over 60% year over year on the back of higher mortgage rates. Jobless claims are beginning to rise from their lows, although the US labor market remains robust, with wages up solidly compared with the same period last year.

These and other signals point to an economy that is moderating from its recent strong growth pace but not in contraction. Indeed, as market participants, including the Fed, have noted—the starting point matters—since consumer and corporate balance sheets entered this Fed hiking cycle from a position of strength with little excess leverage that usually marks the typical end of a business cycle. However, market pricing is indicative of a major economic slowdown. Credit spreads have widened to a point where investors are overpricing the risk of a recession and a corresponding downgrade/default environment for corporations.

The next few months will be critical. If prices start to moderate to a point where the Fed can slow the pace of rate hikes, the US economy will have enough cushion to reach solid footing with lower sustainable growth.

Availability

Product Name	APIR Code
SignatureSuper*	AMP2007AU
SignatureSuper - Allocated Pension*	AMP2014AU

*Closed to new investors

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267

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