

AMP Capital Corporate Bond

Quarterly Investment Option Update

30 June 2022

Aim and Strategy

Aims to deliver regular monthly income, whilst seeking to provide capital stability to investors over the medium term. The Fund provides exposure to a well-diversified range of investment-grade corporate bonds (primarily Australian-dollar issued bank, corporate and asset-backed securities). It may also provide exposure to global investment grade credit securities, global high yield credit securities, emerging market debt, hybrid securities and a range of other credit opportunities when they are expected to outperform and reduce exposure to these sectors when they are expected to underperform. This strategy can hold securities either directly or indirectly through investments managed by a member of the Macquarie Group and external managers. This strategy may also be exposed to derivatives to implement its investment strategy or to hedge risk. This strategy is generally hedged to Australian dollars.

Investment Option Performance

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

Investment Option Overview

Investment Category	Aust. Fixed Interest
Suggested Investment timeframe	3 years
Relative risk rating	3 / Low to medium
Investment style	Income
Manager style	Single Manager

Asset Allocation	%
Domestic Securities	93.1
Global Securities	2.7
Cash	4.2

Quality Allocation	%
AAA	12.9
AA	7.0
A	36.0
BBB	38.9
BB and below	1.0
Unrated	0.0
Cash	4.2

Top Holdings	%
Commonwealth Bank Australia	3.5
Groupe BPCE	3.3
Banco Santander SA	3.3
National Australia Bank	3.3
Australia New Zealand Banking Group	3.2
Westpac Banking Corporation	2.9
Bank of Montreal	2.5
Sumitomo Mitsui Financial Group	2.3
NBN Co	2.0
General Property Trust	2.0

Investment Option Commentary

The Fund produced a negative return in the June quarter, underperforming the benchmark. Performance reflected both the sharp moves higher in bond yields as the market priced in a series of hikes in the cash rate and the RBA began to hike, as well as the broad widening in credit spreads. Credit positioning meant that the impacts of these spread moves more than offset the contribution from carry, with gains from credit hedging (bought CDX protection) helping to mitigate some of these negative impacts. The performance impacts from both higher bond yields and wider credit spreads led to sharp losses across Australian and global fixed income products in general, with the Fund being one of the better performers on this front.

At the sector level, allocations to consumer staples and technology were the best performers. Allocations to subordinated banks, diversified financials and industrials were the main detractors. At the security level, exposures to ABN AMRO Bank, ING and Scentre Group were the main detractors.

The Fund is currently positioned to benefit from attractive income in the period ahead, with a modest sensitivity to credit spread movements and low exposure to interest rate changes. Macquarie remain selective in their participation in primary issuance and prefer to defensively position the portfolio and to keep the credit profile to be more of income oriented. Overall, it remains the case that the bulk of the Fund's credit exposure remains inside a five-year tenor, and with very little in the low-BBB range that may be more at risk of downgrade into high yield. Macquarie's credit hedging strategy implemented via credit indices continues to also provide some insulation to the portfolio, protecting the income profile of the portfolio.

Market Commentary

Inflation is the 'problem' facing central bankers and their action during the second quarter illustrated their commitment to bringing inflation back down to target ranges. Globally, central bank target rates rose throughout the quarter, though the Bank of Japan stands in contrast by remaining committed to its yield curve control target. Whilst inflation and central bank action remain dominant themes, for asset markets there has been a rapidly emerging concern that this combination will push economies into recession in 2023. Economic data released during the quarter has begun to suggest that growth is already slowing. With inflation being underpinned by a second supply shock stemming from the war in Ukraine, asset markets fear central bankers are heading for a policy mistake by over-tightening. We have already seen consumer confidence drop lower to well below average levels, and parts of the housing market have begun to turn. There have been some tentative signs, in spending data too, of some softening demand, and this is a difficult investment climate where volatility will continue.

Outlook

Macquarie's outlook for the economy is that the global economy has entered a stagflationary environment, where inflation remains well-above target but growth slows significantly. Recession is a risk, but not a certainty, for 2023 as we have experienced twin supply-shocks to the global economy and central bankers have the potential to deliver policy overtightening with aggressive rate hikes. Central banks are attempting to solve inflation problems, which are largely a result of supply chain issues, by restricting demand, yet these demand management tools will not directly impact the source of the inflation problem. Rate hikes will weaken demand and the prospect is that a sharp downshift in demand will be needed to match reduced supply levels so as to lower inflation. This points to a difficult environment where there is scope for higher yields and flatter curves amongst the volatility and momentum but also one that will ultimately see a bid return to rates and duration.

Availability

Product name	APIR
SignatureSuper*	AMP1303AU
SignatureSuper Allocated Pension**	AMP1310AU

*Closed to new investors

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