

Macquarie Income Opportunities

Quarterly Investment Option Update

30 June 2022

Aim and Strategy

Aims to outperform the Bloomberg AusBond Bank Bill Index over the medium term (before fees). It aims to provide higher income returns than traditional cash investments at all stages of interest rate and economic cycles. This strategy provides exposure to a wide range of Australian credit-based securities (predominantly floating and fixed rate corporate bonds, and asset-backed securities) and cash. 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	5 / Medium to High
Investment style	Income
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Investment Grade credit	n/a	90
Global High Yield	n/a	4
Emerging Market Debt	n/a	6

Sector Allocation	%
Banking	28.6
Residential Mortgage	11.1
Transportation	4.1
Insurance	3.1
Non-Agency CMBS	3.0

Regional Allocation	%
Australia	34.3
United States	18.2
UK	3.8
Europe Ex UK	14.9
Other	9.1
Cash	19.7

Top Holdings	%
ING Group	2.2
ABN AMRO Bank	2.1
BNP Paribas	2.0
Groupe BPCE	1.9
Province of Ontario	1.4
DBS Group	1.1
DBS Group	1.1
AAI	1.0
Barclays	1.0
Westpac Banking Corporation	0.9

Investment Option Commentary

The Fund underperformed the benchmark for the quarter. Fixed income markets continued to be extremely volatile, a theme which kicked up a notch late in the quarter: government bonds had their second widest monthly trading range and credit markets had their worst month for the already weak year so far in June. Weakness in both credit markets and government bonds contributed approximately equally to the result. Amongst sectors and individual issuers, there was similar contributions from investment grade, high yield and emerging markets holdings, and some European holdings (which are modest overall) were the worst individual performers, given the weaker growth outlook in that market and very sharp credit market moves over the quarter. Among individual underperformers, EUR-denominated bonds from US utility Southern Company and toll road operator Abertis were some of the largest detractors in Europe – Macquarie remain fundamentally comfortable with the issuers, but market pricing has moved aggressively wider in anything denominated in EUR, even where the business operates outside that region. In addition, small high yield exposures such as Carnival, a cruise operator, detracted, with concerns over consumer spending and cost inflation.

The Fund remains positioned with significant liquidity (with cash at almost 20%) and significant allocations to short-dated investment grade credit, offering meaningful opportunities to begin to look at opportunities in a sharply higher yield environment. The Fund reduced exposure to high yield issuers early in June, before the most aggressive spread widening, judging that the higher beta exposures offered more downside in this environment. Offsetting this, small additions to investment grade have begun to be made late in the quarter, with spreads much wider and in issuers (such as Morgan Stanley) where Macquarie have strong fundamental conviction, and see more balanced risk-reward outlooks.

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
Flexible Lifetime Investment (Series 2)**	AMP2038AU
SignatureSuper*	AMP1549AU
SignatureSuper Allocated Pension*	AMP1561AU
SignatureSuper Term Pension*	AMP1561AU

*Closed to new investors

**Closed to new and existing investors

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