Specialist Diversified Fixed Income

Quarterly Investment Option Update

31 December 2024

Aim and Strategy

The strategy aims to provide total returns (interest income and capital growth) after investment fees and costs and before taxes, above the performance benchmark (60% - Bloomberg AusBond Composite Bond 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 bonds	60
Global bonds	40

Actual Allocation	%
Fixed Income	99.79
Cash	0.21

Region Allocation	%
Australasia	99.79
Cash	0.21

Fund Performance

The Investment Option posted a small negative return for the December quarter, slightly underperforming the benchmark. Stepping back to a one-year timeframe however, performance was positive and above the benchmark (all before fees). Underlying manager performance was mixed over the three-month period.

Within the Australian bonds sector, Macquarie marginally underperformed their benchmark, largely due to duration and curve positioning, particularly towards the end of the period. Schroders meanwhile modestly outperformed their benchmark, particularly towards the end of the quarter, as the manager remained short US interest rates, looking for a 'higher for longer' environment to be priced in, before subsequently locking in some profits from this positioning.

Within the global bonds sector, JP Morgan underperformed their benchmark. The manager's duration positioning, particularly earlier in the quarter, was the major detractor despite sector and security selection contributing positively.

Market Review

The December quarter saw rising yields, increased yield volatility and negative returns for developed bond markets due to a number of factors such as geopolitics, central bank rhetoric and fluctuating inflation rates. In the US, bond yields rose across US treasury maturities. The initial reaction to Donald Trump's victory was to price in elevated US fiscal risks and a potentially higher inflation outlook. In addition, hawkish comments from Fed Chair Powell indicated less urgency to reduce rates, resulting in a scaling back of market expectations for monetary policy easing in 2025. Treasury yields fell following Trump's market-friendly Treasury Secretary nomination, but soon resumed their rise on signs of sticky inflation and more hawkish forecasts from the Fed. In Europe and the UK, bond yields rose amid elevated inflation and wage growth, as well as political turmoil in France. Japanese government bond yields also rose, as the market continued to price in expected interest rate hikes from the BoJ in 2025.

Regarding global credit, spreads tightened across both investment grade and high yield markets, with riskier sectors delivering better returns. This was driven by expectations of pro-business policies under a Trump administration and a general risk-on stance post the US election. US high yield and investment grade spreads tightened to historical lows, with strong technical demand continuing.

Global bonds, as measured by the Bloomberg Global Aggregate index ($A hedged), returned -1.22% in Australian dollar terms. Global investment grade and high yield credit meanwhile returned -1.86% and 0.87% respectively, as measured by the Bloomberg Global Aggregate Corporate index ($A hedged) and Bloomberg Global High Yield index ($A hedged).

Australian government bonds outperformed global peers over the December quarter, with the 10-year Commonwealth yield rising by 39 basis points, to 4.36%. The RBA left the cash rate unchanged at 4.35% during the quarter, though replaced its neutral policy bias of "not ruling anything in or out" with more dovish language such as "the board is gaining confidence that inflation is moving sustainably towards target". The RBA assessed that economic data had been mixed, but on balance softer than forecast earlier in the quarter. The RBA also noted further progress had been made in closing the output gap and as a result, by quarter-end, expectations grew for rate cuts earlier than previously expected in 2025.

Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) index, returned -0.26% over the period, while the AusBond Credit index returned 0.67% in Australian dollar terms. The inflation-linked market, as measured by the Bloomberg AusBond Inflation Government (All Maturities) index, delivered a return of -1.52% over the same timeframe.

Outlook

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