AB Dynamic Global Fixed Income

Quarterly Investment Option Update

30 June 2021

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	5 / Medium to High
Investment style	Opportunistic
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	N/A	84.9
Aust. Fixed Interest	N/A	12.3
Cash	N/A	2.8

Sector Allocation	%
Investment Grade Corporates	34.6
Global Sovereign	28.6
Emerging Markets	9.5
Securitised	11.0
High Yield Credits	10.0
Other (inc. Derivatives & Currency)	6.3

Regional Allocation	%
North America	41.0
Europe (excl. Great Britain)	28.4
Australia & New Zealand	13.5
Other (incl. Supranationals)	5.8
Great Britain	5.8
Latin America	3.6
Japan	1.9

Top Holdings	%
Germany I/L .1% 04/15/2026	4.6
Australia Bond 5.75% 07/15/2022	4.4
Canada Housing Trust No. 1 1.95% 12/15/25	4.1
AB SICAV China Bond	3.8
Italy .95% 09/15/2027	3.8
Australia Bond 4.25% 04/21/2026	2.5
Australia Note 1% 12/21/2030	1.7
Australia Bond 2.75% 06/21/35	1.7
Mexico Bond 7.75% 05/29/2031	1.2
France I/L INFX.1% 03/01/2026	1.1

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 contributed to relative outperformance. Our allocations to investment-grade and high-yield credit added, as the rally across risk assets continued. Exposure to credit risk–transfer securities (CRTs) also contributed, driven by a negative net supply technical, rate stability, strong performance in risk assets and continuously improving fundamentals. Further boosting returns was our exposure to eurozone inflation-linked securities, as break-evens continued to widen. Our select emerging-markets (EM) corporate exposure was positive as well.

Country/yield-curve positioning was also additive for the period. Our duration exposure in Australia contributed as rates rallied. Our long duration positions in the US and UK also helped performance.

Currency decisions were positive, mostly the result of long positions in the Brazilian real, Russian ruble and Chinese yuan. Offsetting this somewhat were our short positions in the South African rand, Mexican peso and Polish zloty, which detracted from relative returns.

Market Commentary

Fixed-income markets varied as longer-term developed-market (DM) yields diverged, based on growth and inflation expectations, and the relative success in vaccine rollouts. In many regions, after a meaningful rise in longer-term yields during the first quarter, yields declined and curves flattened as investors looked through near-term “transitory” surges and moderated their intermediate-term inflation expectations. The largest divergence from this trend was in the eurozone, where rates generally rose and yield curves steepened, based on increased growth expectations as the economic bloc made substantial vaccination progress. The tone from global central banks also diverged somewhat. While policy remains very accommodative, the US Federal Reserve (the Fed) highlighted in its June meeting that short-term interest rate hikes may come earlier than anticipated by investors and that it is beginning to discuss the potential tapering of asset purchases, which curbed growth and inflation expectations in the US. Other DM central banks, including the European Central Bank (ECB) and the Bank of Japan (BoJ), reiterated that short-term rates would remain anchored for the foreseeable future and that asset purchases will remain at current levels.

Divergence in yield movements led to mixed DM government bond returns. Yields fell the most (and government bond returns were positive) in the US, where the 10-year Treasury yield fell by 27 basis points (b.p.) to 1.47%. Equivalent-maturity government bonds in Australia fell 26 b.p. to 1.53%. In Canada, 10-year yields declined 17 b.p. to 1.39%, while similar-maturity gilt yields in the UK dropped 13 b.p. to 0.72%. In Japan, where yields are firmly anchored, 10-year yields fell 4 b.p. to 0.05%. In sharp contrast, yield curves in the eurozone steepened, and returns were negative, with 10-year yields in Italy rising 15 b.p. to 0.82%, while equivalent yields in Spain and Germany increased 8 b.p. to 0.41% and (0.21)%, respectively. Global inflation-linked bonds outperformed DM government bonds during the quarter.

The accommodative posture by DM central banks created the backdrop for the continuation of investor demand for higher-yielding assets. DM investment-grade and high-yield corporate bonds posted positive returns and outperformed DM government bonds. Among securitized assets, CRTs outperformed in equity and last cash flow tranches. CRT returns were driven by a number of factors, including strong technicals, stability in rates and improving fundamentals. In the commercial mortgage market, lower-rated tranches in cash bonds had the strongest relative outperformance. CMBX.6 had a solid quarter helped by a supportive technical backdrop, as evidenced by investor purchases and short covering. In collateralized loan obligations (CLOs), supply remains robust but has been easily absorbed by investors looking for higher yields. EM sovereign, corporate and local-currency bonds posted strong relative performance compared with DM government bonds. The US dollar fell against most DM currencies and was mixed against EM currencies during the period. Brent crude oil prices increased by more than 8% during the quarter, while copper advanced about 7%.

Outlook

The recovery continues to gather pace. Given the expected strong recovery in economic output, AllianceBernstein (AB) raised their global GDP estimate from 5.9% to 6.1% for 2021, based on estimates of DM and EM GDP growth of 5.4% and 7.2%, respectively. The manager also expect global growth of 4.3% in 2022. Both forecasts are well above the precrisis trend of about 3.0%. However, it is important to maintain a sense of perspective. While global output is now back to pre-pandemic levels, it is still 3.0% lower than it would have been without the economic cost from COVID-19. This gap should narrow over the coming year, but AB doubt that growth will be strong enough to close it altogether.

AB have made significant upward revisions to their 2021 inflation forecasts to reflect the intensity of demand distortions and supply dislocations. AB expect advanced-economy inflation to reach 2.4%, up from 1.7%, before settling back to 1.9% in 2022 as transitory factors start to fade. This has become a finely judged inflation call. Should demand growth be stronger, pandemic scarring deeper or supply-chain pressures more persistent than we expect, inflation could easily surprise to the upside. Wage- and price-setting behavior will be the key to medium-term inflation. Persistently high inflation would muddy the monetary-policy outlook for central banks and cast a long shadow over financial markets. As things stand currently though, monetary stimulus is likely to be rolled back very slowly in coming years.

That does not mean a uniform monetary approach by DM central banks. The Fed and some others will look to gradually return monetary policy to a more “normal” setting once the crisis fades. Due to structural issues, the ECB and the BoJ appear to be in an accommodative posture for the long haul, with negative interest rates and quantitative easing as their new normal. The longer-term outlook is clouded by strong secular trends, including populism and insular trade protectionism. Deglobalization will likely increase as countries and economic blocs create independence in areas including medical equipment and supplies, batteries, semiconductor chips and rare earth minerals. Resolution of trade conflicts remains elusive, although some progress has been made between the US and the European Union (EU) in recent weeks.

Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP2027AU
AMP Flexible Super - Retirement	AMP2022AU
CustomSuper	AMP1997AU
Flexible Lifetime - Super	AMP1997AU
Flexible Lifetime - Allocated Pension	AMP2002AU
Flexible Lifetime - Investments (Series 2)**	AMP2036AU
SignatureSuper	AMP2007AU
SignatureSuper Select	AMP2007AU
SignatureSuper - Allocated Pension	AMP2014AU

**Closed to new and existing investors

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