

AB Dynamic Global Fixed Income

Quarterly Investment Option Update

31 March 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	87.0
Aust. Fixed Interest	N/A	11.0
Cash	N/A	2.0

Sector Allocation	%
Investment Grade Corporates	36.3
Global Sovereign	29.0
Other (inc. Derivatives & Currency)	12.6
Securitised	9.3
High Yield Credits	9.3
Emerging Markets	3.5

Regional Allocation	%
North America	47.8
Europe (excl. Great Britain)	21.3
Australia & New Zealand	12.0
Great Britain	10.7
Other (incl. Supranationals)	5.4
Japan	1.3
Latin America	0.8

Top Holdings	%
CANADA HOUSING 12/15/2025	4.5
EURO-BUND FUTURE 06/08/2022	3.8
AUSTRALIA BOND 07/15/2022	2.6
UNITED KINGDOM 10/22/2026	2.2
AUSTRALIA BOND 06/21/2035	2.0
UNITED KINGDOM BOND 07/31/2053	1.6
AUSTRALIA NOTE 12/21/2030	1.6
INTERNATIONAL BANK FOR RECONST 02/27/2024	1.5
KREDITANSTALT FUER WIEDERAUFBA 03/19/2024	1.1
AUSTRALIA BOND 04/21/2026	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

Country/yield-curve positioning weighed on performance. The Portfolio's long duration exposure 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. Long duration exposure in Australia had a negative effect, as yields rose due to the easing of pandemic restrictions and flooding in major agricultural areas. Duration positioning in the Eurozone detracted driven by the fund's long positions in Italian duration and Spanish duration. Long duration positioning in the UK weighed on returns as yields rose after the Bank of England (BoE) initiated back-to-back rate hikes

Sector/security selection hampered returns, led by the fund's allocations to investment-grade corporate bonds and high yield credit detracted as spreads widened over the quarter. Exposure to emerging-markets (EM) sovereigns also detracted over the period. Offsetting this somewhat was the fund's allocation to commercial mortgage-backed securities (CMBS), which was positive. Exposure to inflation linked bonds also added to performance, as breakevens widened.

Currency positioning was positive, mostly the result of the fund's long positions in the South African rand, Mexican peso, US dollar and Indonesian rupiah. Meanwhile, the fund's short positions in the New Zealand dollar, Australian dollar, Polish zloty and Swedish krona detracted over the period.

Market Commentary

The year 2022 began with a focus on high inflation and a shift in central banks' willingness to tolerate it. Russia's invasion of Ukraine in late February caused inflationary and growth concerns to mount, as already stressed supply chains came under further strain, leading to soaring commodity prices. Central banks shifted focus to combatting inflation even at the expense of growth.

In the first quarter, yields moved significantly higher and generally flattened as more aggressive hiking schedules were priced into the front end of curves, and longer maturities lagged with reduced growth expectations. Longer-term yields rose the most in Australia and Canada. In the US, the yield curve flattened significantly as two-year US Treasury yields rose much faster than 10-year yields, converging on the last day of the quarter. In the eurozone, longer-term yields rose more in the Italian and Spanish periphery compared to German Bunds. UK yields rose as well but were more contained than broader European rates given the more aggressive BoE policy. Yield-curve control in Japan remains intact after being tested this quarter with modest increases.

Risk asset returns were mixed on a relative basis to government bonds. Securitized assets generally outperformed other credit sectors. Overall, developed-market (DM) investment-grade and high-yield corporate bonds underperformed global treasuries. However, high-yield corporate bonds in the US and eurozone outperformed their respective treasury markets on a relative basis.

Among commodities, Brent crude advanced about 39%, closing at about \$108 per barrel, due to the sanctions on Russian energy and the fact that the Organization of the Petroleum Exporting Countries Plus only raised April's planned 400,000-barrel production increase by 32,000 barrels per day. At the end of the period, President Joe Biden announced that the US would release one million barrels per day from its strategic reserve for six months to help alleviate higher gasoline prices at the pump, resulting in prices easing from their earlier highs. Copper gained about 6%. Gold increased by 3%.

Outlook

The Russian invasion of Ukraine has altered the economic outlook for growth and inflation. Key factors impacting the global economy are how much energy prices will increase and how long they will remain elevated. Downward pressure on global growth and upward pressure on inflation will continue until commodity prices reach a new equilibrium. Consumer demand for food- and energy-related commodities is largely inelastic—so higher prices for food and energy will not reduce demand for those necessities but will slow growth by forcing consumers to spend less on other goods and services.

The economic impact of the war will fall disproportionately on the European economy and select EM countries with significant exposure to agricultural goods and energy from Russia and Ukraine. Geographical proximity and non-commodity trade linkages are clear challenges facing the economic outlook for Europe, along with Western Europe's overreliance on commodity exports from Russia and Ukraine. Roughly one-third of Western Europe's natural gas needs currently rely on imports from Russia.

Economic sanctions and the associated rise in energy costs are likely to exacerbate global shipping impediments, which had only just started to recover from the pandemic. As a result, any relief from the easing of supply-chain constraints is now further away than it appeared only weeks ago. China's zero-tolerance pandemic policy has led to more lockdowns in major cities and the potential for additional significant impacts on global trade, further delaying supply-chain normalization.

A historical perspective remains key in evaluating the current state of the global economy. The reopening from the pandemic pushed global economic growth well above its long-term trend. A slowdown need not be a disaster—monetary policy may be tightening, but it is tightening from very accommodative levels that should still provide some ongoing support. History suggests that geopolitical events typically do not disrupt the global economy for very long. If the war in Ukraine is resolved in coming months, the negative impact on growth is likely to be temporary rather than permanent. A protracted military conflict will dampen investor sentiment throughout Europe and beyond. Inflation expectations could also de-anchor, forcing very aggressive monetary-policy tightening.

Aggregate global growth will still likely be above trend, but with meaningful divergences. Inflation is the highest it has been in 40 years and is set to stay that way for the time being. Rising commodity prices suggest that it will be at least several months before there is any significant inflation relief. Monetary policy remains easy by historical standards but is tightening quickly, and it will accelerate in the second quarter as central banks respond to persistently elevated inflation with rate hikes and changes to balance-sheet policies.

Availability

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

*Closed to new investors

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