

# BlackRock Global Allocation

Quarterly Investment Option Update

31 March 2022

## Aim and Strategy

The option aims to maximise capital growth and investment income returns by investing in global shares, fixed income and cash. The strategy may short sell securities and use financial derivatives to protect against risks and enhance returns.

Currency is actively managed in the Fund around a fully hedged Australian dollar benchmark.

## Investment Option Performance

To view the latest investment performances for each product please visit [www.amp.com.au/performance](http://www.amp.com.au/performance)

Equity Sector Allocation	%
Communication Services	4.84%
Consumer Discretionary	8.02%
Consumer Staples	1.94%
Energy	5.05%
Financials	5.75%
Healthcare	8.07%
Industrials	5.47%
Information Technology	11.66%
Materials	4.49%
Real Estate	0.81%
Utilities	1.30%
Index Related	0.00%

## Investment Option Overview

<b>Investment Category</b>	Multi Sector
<b>Suggested Investment timeframe</b>	5 years
<b>Relative risk rating</b>	5 / Medium to high
<b>Investment style</b>	Specialist
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Equities	60	57.39
Fixed Income	40	16.88
Precious Metals	0	0.33
Cash Equivalents	0	25.40

## Portfolio Summary

Global market performance was mixed in March, as global stocks staged a partial recovery, while global bonds continued to endure losses for the eighth consecutive month. Market prices were significantly impacted, on almost a daily basis, by periodic news reports of sporadic ceasefire negotiations between Russia and Ukraine, however, those efforts have yet to bear any substantive peace agreement. Meanwhile, inflation around the world continues to exceed elevated expectations, and as a result, several U.S. Federal Reserve officials have strongly suggested that the FOMC may vote to hike the Fed Funds rate by as much as 50 bps at the next scheduled meeting in early May.

## Investment Option Commentary

- Across global equities, U.S. large-cap stocks, as represented by the S&P 500 Index, advanced +3.7%, led higher by Utility and Energy stocks. U.S. small-cap stocks, as represented by the Russell 2000 Index, also enjoyed modest gains, but lagged large-cap peers. Meanwhile, in Europe, equity markets generally experienced modest declines, as the economic consequences of the Russia/Ukraine conflict are leading to sharply accelerating inflation across the region, caused by abnormally higher energy prices (particularly natural gas). Turning to Asia, Chinese stocks, as represented by the Shanghai Composite Index, suffered sharp losses during March as new COVID-19 related lockdowns raised concerns that both mobility and economic activity could become curtailed across meaningful portions of the country.
- As mentioned, global bonds suffered their eighth consecutive monthly loss, culminating in the worst quarter for fixed income since the early 1980s, as news that inflation hit a 40-year high in February (reported during March) caused heavy selling of fixed income securities throughout the month. During Q1'22, the yield on the U.S. 2-year Treasury bond rose nearly +169 bps, its largest quarterly advance since 1984. Nearly all sectors of the global bond market suffered price declines in March, with some of the most substantial losses suffered in longer dated U.S. Treasuries and international sovereign bonds.
- Anticipation of a less accommodative central bank policy led to the manager lowering its exposure to equity within the Fund beginning in mid-January. The potential for overly aggressive monetary policy remains a material risk for equity investors. In addition, geopolitical challenges have recently arisen that pose material risks to both real global growth and global supply chains. Russia's invasion of Ukraine has resulted in sharply higher energy, food, and metals prices around the world. The risk exists that this conflict could be prolonged, keeping prices of these necessities elevated. Meanwhile, although COVID-19 has been marginalized for the time being across much of the world, China is currently experiencing another aggressive outbreak. The country's zero tolerance policy toward the virus poses a substantial risk to global supply chains which are already dealing with sharply higher input prices - and in some regions (e.g. the U.S.) - the tightest labor market in decades.
- In BlackRock's view, the likelihood of a near-term recession is unlikely, as aggregate demand remains robust. Very strong U.S. labor markets and high household savings rates have the potential to continue to support growth going forward. However, rapidly rising price levels are starting to impact consumer sentiment and discretionary spending. Perhaps more significantly, rapidly rising input costs are putting increased pressure on U.S. corporate profit margins. If supply chain related issues deteriorate in the near-term, rather than improve, companies may find it increasingly difficult to get their goods to market, while simultaneously facing rising input costs. While consumers and companies deal with these challenges, the possibility always exists that a diplomatic agreement could be reached in regard to Ukraine and/or that China's COVID outbreak will ultimately subside, potentially reducing both pricing and margin pressures. Nevertheless, BlackRock believes a more measured posture toward risk is appropriate at the current time, as near-term uncertainty remains elevated. Consequently, the manager continued to lower equity exposure in March and were below benchmark weight by month end.
- BlackRock continue to believe that the world's central banks remain committed to reducing policy accommodation. Even despite the historic rise in interest rates during the course of Q1'22, real interest rates remain decidedly negative across much of the U.S. Treasury curve, and throughout developed world bond markets. Thus, the investment manager remains skeptical that duration can provide a durable and effective

hedge against equity volatility and prefers to remain materially underweight fixed income (and duration), while continuing to rely on elevated cash allocations (32%) and maintaining an overweight to the U.S. dollar (66% vs. 60%) to help manage volatility.

- Some substantive changes were made in sector positioning during March in response to rapidly changing geopolitical events and the impact that those changes are having – and likely to have – on interest rates. Notably, the investment manager has shifted aggregate equity exposure to be underweight relative to the reference benchmark by -306 bps.
- From a country/regional perspective, the largest reductions in equity positioning occurred in Europe and China. This reflects the relatively higher price that the European economies are paying as a result of the war in Ukraine, relative to most other developed markets.
- As many countries in Europe rely heavily on Russia for their oil and natural gas imports, the price of these commodities (especially gas) has increased input costs across a number of dimensions, putting pressure on profit margins. Consequently, one of the more substantial portfolio adjustments in March was to reduce exposure to European Industrial stocks.
- Meanwhile, in China, another outbreak of COVID-19, and the government's zero-tolerance response to it has created some trepidation that restrictions on mobility and economic activity may impede Chinese growth and detrimentally impair global supply chains. Reductions in exposure to Chinese equities were modest in March from an absolute perspective given the already limited exposure.
- From a sector perspective, the most significant adjustments made in March included a reduction in Consumer Discretionary stocks. While the U.S. consumer remains in very strong financial shape and will continue to be supported by a robust U.S. jobs market, rapidly rising food and energy costs may result in lower spending on discretionary items. Consequently, exposure to home builders, in-home electronics, and certain apparel makers was trimmed.
- As alluded to above, exposure to Industrials was reduced in March. Rising input costs, primarily among European manufacturing firms, were the catalyst behind the decision to trim holdings. Exposure to U.S. Industrial companies was also reduced, including home equipment and industrial power control providers.
- Finally, exposure to the Financial sector was trimmed in March. Some of these reductions occurred in China, particularly among some of the region's larger insurance providers. Exposure to both U.S. and European banks was reduced, as the flattening of regional yield curves (despite meaningfully higher interest rates) may place pressure on the net interest margins.
- Exposure to the Energy sector was increased materially in March, adding to an existing overweight. This is consistent with the manager's view that energy prices may stay elevated over the intermediate-term, due to supply disruptions and Western sanctions.
- The manager remains mindful of inflationary risks associated with supply chain disruptions and higher wages; and is anticipating above average levels of price increases through the first half of 2022. BlackRock also predicts that major central banks are inclined to raise interest rates more quickly than in prior cycles in an effort to combat inflation at its highest levels since the early 1980s.
- In the current environment, the portfolio is significantly underweight quality fixed income assets such as U.S. Treasuries and developed market sovereigns in Europe and Japan. Total portfolio duration was +0.2 years as of March month-end, a reduction from a level of +0.5 years the prior quarter, and a significant underweight relative to a benchmark duration of 2.6 years.
- The manager continues to emphasize spread assets with exposure in a diversified basket of credit, securitized debt, and EM sovereigns. The aggregate exposure of these off-benchmark fixed income asset classes represented ~7% of AUM and is a differentiator vs. more traditional "60/40" portfolios.
- Within emerging markets, exposure is diversified across select markets, notably Chinese government bonds, and in Latin America which has the potential for capital appreciation/spread compression. As a major Energy

and commodity exporting region, a variety of Latin American sovereign bonds offer attractive valuations relative to their developed market peers.

- The fund has minimal exposure to gold-related securities (0.2% of assets) given the expectation that real interest rates are likely to rise from historically low levels. While gold can be an effective partial hedge for inflation long-term, the manager would rather increase exposure to companies with pricing power, that can raise prices as inputs costs rise, as a hedge against near-term inflation.
- Given the current environment, the fund is maintaining an elevated exposure to cash equivalents, on the belief that cash is a more efficient means to hedge equity risk relative to duration sensitive U.S. Treasuries. Considering the current elevated level of market volatility, the fund's sizable cash balances also act as a source of funding which can be opportunistically deployed.
- Overweight to the U.S. Dollar (66% vs 60% for benchmark). In an environment where few asset classes are likely to be effective hedges against equity market volatility, the manager believes an overweight position in the USD can help mitigate aggregate portfolio risk.

## Availability

Product name	APIR
SignatureSuper*	AMP1803AU
SignatureSuper Allocated Pension*	AMP1797AU

\*Closed to new investors

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