

# Future Directions Australian Bond

Quarterly Investment Option Update

31 December 2022

## Aim and Strategy

To provide a total return (income and capital growth) after costs and before tax, above the return from the benchmark over a rolling three-year basis. The portfolio invests in short and long-term fixed interest securities including inflation linked bonds, government, semi-government, bank, corporate and asset-backed securities, derivatives and currency. The portfolio may also have exposure to international securities in both developed and emerging markets. In normal circumstances the portfolio's international investments are fully hedged back to Australian dollars. The benchmark is a combination of 85% Bloomberg AusBond Government 0+ Year Index and 15% Bloomberg AusBond Inflation Government 0+ Year Index.

## Investment Option Performance

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

## Investment Option Overview

<b>Investment category</b>	Australian Fixed Interest
<b>Suggested minimum investment timeframe</b>	3 years
<b>Standard Risk Measure</b>	4/Medium
<b>Investment style</b>	Active
<b>Manager style</b>	Multi-manager

<b>Asset Allocation</b>	<b>Benchmark (%)</b>
Fixed interest securities and cash	85
Inflation linked bonds	15

<b>Actual Allocation</b>	<b>%</b>
International Fixed Interest	2.37
Australian Fixed Interest	75.40
Cash	22.23

## Fund Performance

The Fund posted a strong positive return and outperformed its benchmark (before fees) in the December quarter. Both the conventional government bond component of the portfolio managed by Macquarie, and the inflation-linked component managed by Ardea, were positive and outperformed their respective benchmarks.

Macquarie has recently modestly increased its semi-government exposure, a sector they believe is offering value as semi-governments continue to lag the narrowing in swap spreads. Their portfolio is positioned for a recession in 2023, along with falling inflation, which should benefit sovereign bond yields, though likely result in widened credit spreads.

Ardea generated most of its out-performance early to mid-quarter, largely due to its yield curve and arbitrage strategies. Later in the period however these strategies were negatively impacted by a surprising shift in Japanese monetary policy, which impacted bond markets more broadly, including Australia, amid speculation and a degree of global repositioning.

## Market Review

Australian bonds were choppy towards year-end as rising yields (from mid-December) largely offset a strong rally (falling yields) that took place over most of the December quarter. Australian 10-year government bonds reached 4.05% at the end of 2022, up 16bp over the quarter and 238bp over the calendar year.

Alongside many global peers, the focus for the RBA over the quarter was the commitment to tightening economic conditions in order to return elevated inflation towards targeted levels. Whilst jobs data remains strong and economic data releases (outside of housing) remain reasonable, inflation remains higher than targets. Following several consecutive hikes which saw the RBA cash rate target rise from 0.10% to 2.85%, market participants are expecting the end of the rate rise cycle in the first quarter of 2023.

Australian bonds, as measured by the Bloomberg AusBond Composite (All Maturities) Index, returned 0.43% during the period, in Australian dollar terms. The Inflation-linked market, as measured by the Bloomberg AusBond Inflation Government (All Maturities) Index, returned 3.72% over the same time frame, on expectations of higher inflation levels.

## Outlook

While some further interest rate hikes are still possible, the RBA has signalled a preference to slow the pace of hikes, in a bid to reduce downside risks to the economy as well as to allow for time-lags involved with monetary changes influencing the economy. Furthermore, high household debt levels and a large share of variable rate loans in Australia have made rate hikes more potent relative to many overseas economies. Recession in the year ahead remains a reasonable possibility, particularly if the RBA remains hawkish, as delayed impacts of recent rate rises come further into play.

---

## Availability

Product Name	APIR
Flexible Lifetime - Investments (Series 1)	AMP0693AU**
Flexible Lifetime - Investments (Series 2)	AMP1409AU**

\*\*Closed to new and existing investors

## Contact Details

**Web:** [www.amp.com.au](http://www.amp.com.au)

**Email:** [askamp@amp.com.au](mailto:askamp@amp.com.au)

**Phone:** 131 267



### What you need to know

This publication has been prepared by AWM Services Pty Limited ABN 15 139 353 496, AFSL No. 366121 (AWM Services). The information contained in this publication has been derived from sources believed to be accurate and reliable as at the date of this document. Information provided in this investment option update are views of the underlying investment manager only and not necessarily the views of AMP Limited ABN 49 079 354 519 (AMP Group). No representation is given in relation to the accuracy or completeness of any statement contained in it. Whilst care has been taken in the preparation of this publication, to the extent permitted by law, no liability is accepted for any loss or damage as a result of reliance on this information.

The investment option referred to in this publication is available through products issued by ipac asset management limited ABN 22 003 257 225, AFSL 234655 (ipac). Before deciding to invest or make a decision about the investment options, you should read the current Product Disclosure Statement (PDS) for the relevant product, available from the issuer or your financial planner.

Any advice in this document is of a general nature only and does not take into account your financial situation, objectives and needs. Before you make any investment decision based on the information contained in this document you should consider how it applies to your personal objectives, financial situation and needs, or speak to a financial planner. In providing any general advice, AMP Group receives fees and charges and their employees and directors receive salaries, bonuses and other benefits.

Any references to the "Fund", strategies, asset allocations or exposures are references to the underlying managed fund that the investment option either directly or indirectly invests in. The investment option's aim and strategy mirrors the objective and investment approach of the underlying fund. An investment in the investment option is not a direct investment in the underlying fund.

Neither ipac, AWM Services, any other company in the AMP Group nor the underlying fund manager guarantees the repayment of capital or the performance of any product or particular rate of return referred to in this document, unless expressly stated in the PDS. Past performance is not a reliable indicator of future performance. Any slight asset allocation deviations from 100% may be caused by rounding, asset categorisation and/or hedging.