AMP Core Retirement Fund

Portfolio Manager Update –December Quarter 2023
ARSN 613 309 925, APIR code AMP3254AU

Quarterly commentary

Performance

The AMP Core Retirement Fund (the Fund) returned 5.5% (gross of fees and taxes) in the December quarter in what was a strong finish to the year. Over the quarter global shares increased by over 9.0% and global bonds by 5.4%. Real assets such as listed infrastructure also rose sharply.

These gains were the result of a combination of an ongoing fall in inflation and what was seen as a pivot from the US Federal Reserve (the Fed) in its view that peak interest rates have likely been reached, that the job market is re-balancing, and that inflation is heading in the right direction. At the same time, the Fed noted that these trends would have to continue before the central bank could start to normalise policy. This more dovish stance drove performance gains across a wide variety of assets, including previous laggards such as small companies and listed property. Bonds outperformed notably in what was one of the strongest quarters in history for fixed income: US 10-year yields moved from around 4.6%, peaking soon thereafter at almost 5.0%, before plunging below 3.9% at year-end.

Not surprisingly, income strategies did not keep pace with the broader market in what was a predominantly valuation-driven rally. For example, the gap between the MSCI World index and the MSCI World High Dividend Index was around 15%, and this was larger again in the US.

The Fund's performance over the quarter and the year was hindered somewhat by this mismatch, with Australian equity mandates marginally underperforming benchmark indices. Elsewhere, international managers outperformed on average and volatility-related strategies also contributed strongly to returns. Other positions in alternatives and the Fund's dynamic asset allocation process were a drag on performance for the quarter.

Portfolio management

The Fund has been running at close to neutral levels of risk with no strong asset allocation positions. Interest rate exposure has been at- or above-neutral at most times, with preference for the US and Australia. We have maintained a small overweight to equities at around the 35% of total exposure, marginally favouring global shares and listed infrastructure over Australian and emerging market equities. The Fund is avoiding high yield credit and debt, favouring instead investment grade credit and some emerging market debt exposure.

During the quarter the Fund sold its holdings in short-term inflation-linked bonds as real rates rallied back toward 2%. Hedges were added in Europe in the German share market as hedging costs remained very cheap and European and Chinese economic data continued to be soft.

In currencies we retained some exposure to the Japanese yen for defensive reasons. However, given the Bank of Japan's very cautious approach to policy changes, we have trimmed this exposure back in anticipation of better levels. The yen remains cheap and offers compelling upside profit in the event of a recession or downturn in the US and globally.

In emerging markets, we added a small position in Korean equities where very high earnings growth and very cheap valuations offer an attractive alternative to the rest of emerging markets at present.

Outlook

The near-term challenge for markets is that interest rate reduction expectations appear to be overdone. In the US for example, a rate in March was being priced as a certainty, but now appears to be too soon (unless growth or employment start falling faster than they are already). A decrease in June seems more likely. However, with the US Federal Reserve expecting around three rate cuts, and the market almost six in 2024, there is room for further rate disappointment in the near term. In the longer term we do expect cuts both in the US and Australia, with the key variables being how economic data and inflation progress. Currently economic data has been as good as could be hoped for at this point, but with softer numbers expected after the surge experienced in the September in the US.

US GDP growth is forecast to drop to around 1.3% in 2024 (from 2.4% in 2023), and to 1.4% in Australia (from 1.9% in 2023). Australia has an additional burden of higher inflation (3.5% expected in 2024 versus 2.6% in the US) of which means we are at risk of having policy remain at current levels for a bit longer than the US.

In terms of market levels, global shares do look fully priced at 17.5 times 2024 earnings. However, this is being somewhat distorted by the US where multiples are above 20, whereas most other developed markets are below 15 and emerging markets are below 12. Australia appears to be very fully valued with valuations elevated but no earnings growth expected this year or next.

Given the outlook of softer growth and what is still tight credit and tight policy playing through the economy, it is difficult to justify any strong overweight to global shares or credit markets currently. Global bonds have rallied very sharply, but any bounce back offers another opportunity to add to these before the tailwinds of rate cuts eventually arrives, likely in the second half of 2024. The scale of those cuts depends on the growth and employment trajectory, with persistently higher inflation or wage growth a risk.

Manager allocation

Asset Class	Exposure %	Manager	Strategy	Exposure Q4 2023 %	Exposure Q3 2023 %	Change from Q3 2023 %
Australian Equities	12.4	Multi Manager	Australian Small Companies	2.0	2.1	-0.1
		Passive	Futures	-7.3	-9.4	2.1
		Martin Currie	Income	8.5	9.3	-0.8
		Yarra	Income	9.2	9.3	-0.1
International Equities	14.9	Orbis	Global Value	3.1	4.9	-1.8
		Arrowstreet	Quantitative Long Short	5.4	5.5	-0.1
		GQG	Quality Growth	3.2	4.5	-1.3
		Passive	Developed Market Futures	-0.6	0.0	-0.6
		Passive	Emerging Markets	3.8	3.3	0.5
Listed Real Assets	8.0	Dimensional	Listed Infrastructure	6.0	5.9	0.1
		Macquarie	Listed Property	2.0	2.0	0.0
High Yield Debt	4.4	Loomis Sayles	Senior Floating Rate Bank Loans	0.9	0.7	0.2
		Passive	Emerging Market Debt ETF	3.5	3.0	0.5
Fixed Income	16.3	Passive	Government Bonds	3.6	4.6	-1.0
		Passive	US IG Corp. Bonds ETF	12.7	7.1	5.6
		Passive	US 0–5-year TIP	0.0	10.4	-10.4
Cash	30	Cash	Cash	30.0	21.9	8.1
Alternatives	15.6	SouthPeak	Systematic Vol Risk Premia	3.2	3.9	-0.7
		AMP Multi Manager	Liquid Alternatives	12.4	17.8	-5.4
Hedges	-1.6	Passive	Equity options	-1.6	-6.8	5.2
Total	**100.0**			**100.0**	**100.0**	-

Note: Allocations and underlying investment managers may change without prior notice.

We’re here to support you

If you are a direct investor and would like to speak to someone in regards to your investment, please contact AMP Investments Client Services on 133 267 or email ampinvestments@amp.com.au

If you are an adviser, you can contact Client Services as above or your State Account Manager

AMP Limited
ABN 49 079 354 519