AMP Income Generator

Portfolio Manager Update – December Quarter 2023
ARSN 140 154 981, APIR code IPA0174AU

Quarterly commentary

Performance

The AMP Income Generator (the Fund) returned 4.0% in the December quarter in what was a strong finish to the year. Global shares increased by over 9.0% over the quarter 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 has been 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 in the US.

The Fund's performance over the quarter and the year was hindered by this mismatch, with equities and bonds managers underperforming benchmark indices. This also extended to infrastructure where the community infrastructure assets are relatively immune from market movements in both directions. In a sense performance has been a mirror of 2022 where income-related strategies had outside relative performance. Over three years the Fund's performance remains solidly ahead of broader market benchmarks even before the circa 0.9% per annum of franking is considered.

Portfolio management

The portfolio maintains a tilt toward high-quality corporate bonds and away from equities. This has helped lock in some of the higher yields available as the market has reached peak interest rates.

There were no significant portfolio changes in the quarter other than a minor reduction in international equities, some of which contributed to a slight increase in infrastructure and Australian shares.

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	34.8	Plato	Income	17.1	17.1	0.1
		Martin Currie	Income	15.8	15.8	0.1
		Yarra	Value Income	1.9	1.7	0.3
International Equities	8.6	Epoch	Shareholder Yield	2.1	2.8	-0.7
		GQG	Quality Income	6.5	7.0	-0.5
Infrastructure	11.6	IPAC (Dimensional)	Listed Infrastructure	4.1	4.0	0.1
		Dexus	Community Infrastructure	7.5	7.1	0.4
Fixed Income	44.5	Pendal	Corporate Bond	22.0	24.0	-2.0
		Macquarie Asset Management	Corporate Bond	22.5	20.7	1.8
	0.5	Cash	Cash	0.5	0.0	0.5
Total	100.0			100	100	

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