AMP Income Generator

Portfolio Manager Update – March Quarter 2024

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Quarterly commentary

Performance

The AMP Income Generator (the Fund) returned 4.1% for the March quarter. Global share markets continued to rise strongly over the period, fuelled by improving growth numbers from the US and a dovish US central bank. Europe, US, and Japanese share markets were particularly robust. Australian share markets also gained strength, rising for five consecutive months. However, the domestic market has lagged the global market this year, held back in part by a struggling materials sector and poorer earnings outlook. Unsurprisingly, income indices also lagged the broader share market as the rally was led by technology.

Alongside stronger growth numbers, US inflation also continues to surprise higher, notably in core service areas such as healthcare and insurance. As a result, expected rate cuts in the US for this year have been reduced from around six to seven to fewer than three at the end of March. This has weighed on bond markets as well as on interest rate sensitive markets such as listed infrastructure and global listed property.

The Fund's performance was solid over the quarter given the underperformance in income-type shares. Core managers in Australia outperformed the market on average, while the GQG Quality Income strategy mildly underperformed global shares. Corporate bond strategies also performed well, solidly outperforming broader bond indices. Franking credit performance to the end of February is on budget at just under 0.8%.

Portfolio management

The portfolio has been tilted marginally toward corporate bond strategies, away from cash and to a smaller extent away from Australian equities. This is to take advantage of the significant yield available on Australia corporate bonds. Global equities have remained overweight and have lifted returns at an asset allocation level.

The Fund retains exposure to sectors such as insurance where QBE and Suncorp have contributed strongly to overall performance. Positively, Suncorp has gained approval of the sale of its banking business to ANZ which has the potential to offers capital return to shareholders.

The Fund continues to favour exposure to direct infrastructure via the Dexus Community Infrastructure Fund. Listed infrastructure also looks attractive, and we expect to increase this holding as interest rates peak.

Outlook

The US economy has remained, on balance, surprisingly resilient. Unemployment remains low, GDP growth is surprising to the upside and some economic surveys suggest ongoing expansion. There are, nonetheless, some signs of weakness including softening wages growth, falling liquidity, tight policy settings, negative leading indicators, and some still positive recessionary indicators. Perhaps the largest immediate threat is the bounce in inflation which has pushed back expected rate cuts and forced bond yields higher. While this is likely to create some turbulence, it is not likely to derail markets unless inflation forces a pivot to more rate hikes rather than delay, or growth starts to disappoint.

The Middle East remains a flashpoint with fears of escalation remaining. The US earnings season also kicks off in April with a relatively high bar for US tech sectors. However, overall expectations are that sales growth will remain solid and margins healthy. Areas of weakness remain apparent in some very large stocks such as Tesla and Apple, where sales and earnings growth have slowed. In contrast, companies such as Amazon, Nvidia, and Microsoft look strong.

The portfolio is positioned relatively neutrally in terms of overall risk, with a bias to adding bond duration once inflation turns over. International shares have been favoured relative to Australia and this remains the case. Within International shares, positioning favours both typical income sectors such as financials and utilities, but also includes an overweight to information technology.

A reminder that the Fund's corporate bond strategies tend to run lower duration than the index, so will not fall as much in value as yields rise. The flip side of this is that higher yields, once achieved, directly imply a better return going forward. As yields rise, the Fund's exposure will also move further overweight, providing an eventual buffer in the face of a downturn.

Manager allocation

Asset Class	Exposure %	Manager	Strategy	Exposure Q4 23 %	Exposure Q1 24 %	Change %
Australian Equities	34.9	**Plato**	Income	17.5	17.1	0.4
		Martin Currie	Income	15.6	15.8	-0.3
International Equities		**Yarra**	Value Income	1.8	1.9	-0.1
	9.4	**Epoch**	Shareholder Yield	2.0	2.1	-0.1
Infrastructure		**GQG**	Quality Income	7.4	6.5	0.9
	11.2	**IPAC (Dimensional)**	Listed Infrastructure	3.8	4.1	-0.3
Fixed Income & cash		**Dexus**	Community Infrastructure	7.4	7.5	-0.1
	45.0	**Pendal**	Corporate Bond	22.1	22.0	0.1
		Macquarie	Corporate Bond	22.9	22.5	0.4
		Cash	Cash	0.0	0.5	-0.5

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.

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