

AB Dynamic Global Fixed Income

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

The strategy is designed for investors with higher risk tolerances and who want income returns exceeding Australian bank bill rates over the long term by investing in global debt and fixed income securities. It implements a global, multi-sector strategy investing in a broad range of fixed income securities. The strategy may hold corporate bonds, government bonds, asset-backed securities, mortgage-backed securities, closed and open-ended mutual funds (up to 5% of the assets) and bank loans located anywhere in the world, including developed and emerging countries. Up to 40% of the strategy's assets may be higher risk and rated below investment grade. The strategy intends to hedge to Australian dollars most of the foreign currency exposures of its debt and fixed income securities, however up to 10% of the strategy's net asset value may be exposed to the risks and returns of international currencies.

Derivatives may be used to manage risk exposures, invest cash and gain or reduce investment and currency exposures. Derivatives will not be used for leveraging or gearing purposes.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment Category	Specialist Fixed Interest
Suggested Investment timeframe	5 years
Relative risk rating	3 / Low to Medium
Investment style	Opportunistic
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Fixed Interest	0	98.0
Aust. Fixed Interest	0	1.1
Cash	100	0.9

Sector Allocation	%
Investment Grade Corporates	37.7
Global Sovereign	30.0
Securitised	12.8
Emerging Markets	12.1
High Yield Credits	4.3
Other (inc. Derivatives & Currency)	3.1

Regional Allocation	%
North America	44.2
Europe (excl. Great Britain)	25.4
Other (incl. Supranationals)	12.9
Japan	9.0
Great Britain	6.1
Australia & New Zealand	1.5
Latin America	1.0

Top Holdings	%
Japan I/L .1% 03/10/2026	3.5
UST IFL .625% 01/15/2026	3.0
Japan Note 1.3% 12/20/2019	2.5
Canada Housing Trust 2.9% 2024	2.2
UST IFL 1.125% 01/15/2021	2.1
Spain Note 1.6% 04/30/2025	1.9
Canada Housing Trust 2.25% 2025	1.7
Malaysia Note 3.906% 07/15/2026	1.4
Spain Bond 2.35% 07/30/2033	1.3
Japan I/L .1% 03/10/2028	1.2

Portfolio Summary

It remains important for fixed-income investors to be selective given tightening financial conditions. Rising trade tensions and tighter financial conditions signpost a step down in the pace of global growth.

Investment Option Commentary

Sector/security selection contributed, because of selection within eurozone treasuries and eurozone and US investment-grade corporates. Country/yield-curve positioning was positive, as positioning in the US contributed. Currency decisions were negative, because of an underweight to the US dollar detracted.

Market Commentary

Bond markets faced late-cycle uncertainty in the third quarter, amid US-China trade tensions, a darkening global growth outlook, widespread political risk—including an uncertain endgame for Brexit—and record-low yields.

As central banks across the globe eased policy to counter geopolitical risks and sluggish global growth, longer-dated yields continued their decline, generating higher government bond returns than most investors expected. The value of negative-yielding bonds swelled to some \$17 trillion; the 10-year German Bund yield at one point fell as low as (0.70)%, before ending the quarter at (0.57)%. The 10-year US Treasury yield, which stood at 3.25% as recently as last November, hit a multiyear low of 1.50% during the third quarter, before edging up to 1.66%. The most closely watched part of the US yield curve—the gap between two- and 10-year yields—inverted temporarily in August, stoking fear that a recession may be coming.

Globally, high-yield and investment-grade corporates benefited from the decline in rates, while emerging-market (EM) debt had more mixed returns. Hard-currency EM assets were buoyed by interest-rate cuts and expectations for further accommodative monetary policy, as well as some minor late-period concessions by both sides of the US-China trade war. Local-currency debt came under pressure from a persistently strong US dollar and, in Latin America, fear of contagion after surprise results in Argentina's presidential primary election caused the country's assets to plunge.

Outlook

The fallout from slowing growth in China and the ongoing US-China trade war is causing collateral damage to trade, business investment and confidence in many developed and EM countries. The fund manager remains optimistic that China has the fiscal and monetary means to manage its slowdown and that the Fed will continue to cut rates to protect the US economy. Europe remains their primary concern, as the ECB has limited monetary policy options to jump-start growth or inflation by a combination of interest-rate cuts and QE. The depth and length of a potential slowdown may be tempered by continued resilient consumer spending, low inflation and fiscal stimulus. Given the slowdown of global growth and trade, the fund manager hold their 2019 global GDP forecast steady at 2.5%. Their current developed-market and EM GDP growth forecasts are 1.6% and 4.2%, respectively. They are also maintaining our 2020 forecast for global growth of 2.3% and developed-market and EM growth of 0.9% and 4.6%, respectively.

In the US, manufacturing and capital investment continue to slow. Demand remains weak, and exporters have been hindered by a persistently strong US dollar. Consumer spending is still strong, and the employment picture remains intact. However, the ISM also reported in early October that US service-sector growth weakened in September to the lowest level in three years, and consumer confidence has also decreased in recent months. Nevertheless, inflation expectations have fallen well below the Fed's 2.0% target, which supports their forecast for a series of additional Fed rate reductions totaling 100 bps over the coming year. For now, they continue to expect US GDP growth of 2.0% for this year and 1.5% in 2020.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1997AU
AMP Flexible Super - Retirement account	AMP2022AU
AMP Flexible Super - Super account	AMP2027AU
CustomSuper	AMP1997AU
Flexible Lifetime - Allocated Pension	AMP2002AU
Flexible Lifetime Investment (Series 2)	AMP2036AU
SignatureSuper	AMP2007AU
SignatureSuper Allocated Pension	AMP2014AU
SignatureSuper Select	AMP2007AU

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