Macquarie Wholesale Australian Fixed Interest

Quarterly Investment Option Update

30 September 2019

Aim and Strategy

To outperform the Bloomberg AusBond Composite Index over the medium term (before fees) by using an active investment strategy.

Investment Option Performance

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

Investment Option Overview

Investment Category	Aust. Fixed Interest
Suggested Investment timeframe	Medium term
Relative risk rating	4 / Medium
Investment style	Active
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian and global fixed income	100%	100%

Sector Allocation	%
Investment grade credit	71.7%
High yield credit	8.8%
Emerging markets debt	6.2%
Cash	13.3%

Quality Allocation	%
AAA	11.2
AA	5.2
A	16.4
BBB	42.7
BB and below	10.2
Unrated	0.9
Cash	13.3

Top Holdings	%
Transurban	1.8%
NAB	0.9%
Time Warner	0.8%
Oneok	0.8%
PSEG Power	0.8%
MPLX	0.8%
L3Harris Technologies	0.8%
United Technologies	0.8%
Cigna Corp	0.8%
DTE Energy	0.8%

Investment Option Commentary

The Fund outperformed the benchmark in September. The outperformance was driven by the Fund's credit holdings which offset the impact of a move higher in bond yields.

The Fund participated in the abundance of new issuance during the month. In the US, the Fund bought Apple and Disney in the primary market along with a modest allocation to high quality emerging market names. In the European market, the Fund rotated out of some high quality corporates into bank AT1, along with selling out of toll road operator Atlantia prior to bonds hitting their monthly lows following the announcement of the probe into the Genoa bridge collapse. Whilst a number of corporates came to the Australian market, the Fund only participated in Pacific National and a tap of a Downer issue, with a lot the AUD interest being allocated to ABS/RMBS. The long duration position was a slight detractor this month, but was minimised as duration was trimmed early in the month when bond yields approached their lows, with some of this added back close to the recent highs in yields.

Market Commentary

After bond yields plunged dramatically over the prior four months, September witnessed a correction, though it faltered fairly quickly. Better economic data ignited the correction, fuelled by speculation that Germany would ease fiscal policy and furthered by rumours that the upcoming European Central Bank (ECB) meeting would disappoint. However, the month was later characterised by weaker economic data and central bank easing from the ECB and the US Federal Reserve. This combined to re-establish the trend toward lower bond yields.

The trade dispute between the US and China is never far from the mind of financial markets and the battle rages between hopes for a near term resolution, and the reality of more tariffs being imposed and stand-offs in negotiations. Global trade data continues to deteriorate, and this is pulling the global manufacturing sector towards recession. While this fact is driving the pivot by central banks in 2019 back to easier policy, the resilience of the larger services sector and labour markets is tempering enthusiasm within central banks to pursue an aggressive easing of policy. Financial markets expect the trend toward easier policy to continue and therefore the focus will be on the services and labour data to maintain resilience to confound market expectations.

In the Australian market, reduced issuance demand from the major banks is seeing total issuance volumes down. However, this void is partially being filled with a diverse array of offshore banks coming to the market such as MUFG, Banco Santander, Crédit Agricole, DBS, HSBC, Agricultural Bank of China, Société Générale and BPCE. Corporate issuance also returned following reporting season making September the second largest month of the year behind February with $1.7bn. Issuance names included Pacific National, Spark NZ and John Deere.

Outlook

During September Macquarie's global investment team gathered to discuss their medium term investment outlook at the Strategic Forum. The primary focus of their macroeconomic discussion was to determine the facts surrounding the discussion in financial markets on the probability of recession in 2020. The plunge in bond yields in recent months was screaming 'recession', and this cry received validation when the US yield curve inverted. Yet there is an eerie calm in risk markets.

The yield curve inverting is a reliable warning of rising recession risk, and history shows that the timing on average from inversion to recession is 11-15 months. That said, many voices are calling that 'this time is different'. The team have come to the conclusion that while risks for a US recession had certainly risen through 2019 to-date, there is an absence of corroborating factors to convince that a recession 12 months ahead is a high conviction call. Importantly, our research suggests that if the US did enter recession in 2020, it is most likely to be short and shallow. Further, if Macquarie apply their process to the rest of the world, they find that the risk for recession is higher in some countries, particularly those exposed to global trade.

For rates markets the conclusion, again, is to not fear duration as global bond yields are set to remain 'lower for longer'. While duration positioning was steadily reduced as bond yields plunged in recent months, their rates team's guidance is to gradually accumulate into any back up in yields in coming months.

For risk markets, the good news is that central banks are back into the easy policy game. While Macquarie are sceptical as to whether another round of monetary easing will help stimulate growth and inflation, the behaviour of the past 10 years has guided that central bank policy easing and ever lower interest rates encourage investors to chase for yield. Our strategy is therefore to participate in credit markets but note that fundamentals have weakened in recent quarters. Macquarie are paying attention to any shift in signal from the credit markets. Thus, our position is biased to be cautious, and selective on name and sector weights.

Availability

Product name	APIR
Signature Super	AMP0964AU #

Closed to new members

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267

INSIGHTS
IDEAS
RESULTS