

Macquarie Balanced Growth

Quarterly Investment Option Update

31 December 2019

Aim and Strategy

To outperform the Macquarie Balanced Growth Structured Benchmark over the medium term (before fees). The portfolio aims to return a balanced level of growth and income. The option provides exposure to a diversified portfolio of growth assets, including equities and alternative assets, with some exposure to cash and fixed interest. The option employs an active investment approach that identifies and pursues investment opportunities within set limits through a combination of active management within each asset class and tactical asset allocation across asset classes to meet the objectives of the portfolio. A varying portion of the foreign currency exposure is hedged through currency hedging solutions, whether passive or active.

Asset Allocation	Benchmark (%)	Actual (%)
Cash	1.5	10.7
Strategic Income*	9.0	9.7
Australian Fixed Interest	17.5	2.9
Global Fixed Interest	7.5	11.3
Inflation Linked Bonds	5.0	3.7
Australian Equities	26.0	27.5
Global Developed Markets	13.5	17.6
Global Emerging Markets Equities	12.0	8.7
Alternative Assets**	8.0	7.9

* Invests predominantly in high quality Australian and global credit securities

** may include investments in such asset classes as private equity, infrastructure or hedge funds

Investment Option Performance

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

Investment Option Overview

Investment Category	Multi Sector (Balanced)
Suggested Investment timeframe	5 years
Relative risk rating	Medium
Investment style	Active
Manager style	Single Manager

Investment Option Commentary

The final quarter of 2019 was defined by two long-standing and unsettling themes coming to conclusion. The US and China agreed on a Phase 1 trade deal to be signed in January, and in the UK, the Conservative Party won a clear majority at the election where delivery of Brexit was the key factor in determining the result. This lowering of uncertainty and a few, albeit modest, green shoots suggesting stronger growth ahead combined to drive equities, corporate bond prices higher and government bond prices lower over the quarter.

The US Federal Reserve (Fed) also announced its final 'insurance cut' in October, while in December the Fed announced they would remain on hold through 2020, a more dovish stance from their prior communications. US economic data remained weak throughout the quarter highlighted by the manufacturing Institute of Supply Management (ISM) survey declines. With central banks easing monetary policy through the quarter, these factors combined to steepen global yield curves (long maturity yields rising more than shorter maturity yields) which broadly reflected a significant easing of recession concerns that dominated the third quarter of this year.

In asset allocation, Macquarie are implementing an opportunistic approach in equities by selectively holding derivatives to protect the portfolio from downside risks. They also focusing on exploring relative value opportunities in different regional equity markets, so they can capitalise on opportunities as they arise rather than increasing the equities allocation outright at current levels which are somewhat stretched. During the quarter, Macquarie increased the equity exposure modestly in Japan and Australia in light of upcoming fiscal stimulus and easing trade tensions between the US and China. Interest rate duration was largely unchanged over the quarter with their intention to use the movement higher in bond yields to add duration exposure as they expect central banks to continue accommodative and potentially unconventional monetary policy to stimulate growth, particularly in Australia.

The Fund outperformed the benchmark in the December quarter. In terms of positioning, the Fund held an overweight bias in strategic income, international equities and Australian equities, while global and Australian fixed income were below their strategic weights.

Outlook

Asset markets across the board delivered investors positive returns for 2019. That said, the seeds for such performance were in part a response to the weakness through 2018. As Macquarie look to 2020 and prepare for their Strategic Forum in January, the key question asked is what can investors expect from the year ahead?

One starting point is to consider what market consensus is thinking. Their inbox of broker outlook pieces reveals that consensus is expecting 2020, particularly the first six months, to be characterised by a mid-cycle recovery in economic growth. It is important to delve into the context surrounding this outlook. First, Macquarie have noted that through most of 2019 investors were worried about the rising risk of recession, as the US yield curve inverted in both the 3 month/10 year and 2 year/10 year spreads. Yield curves have steepened significantly since their nadir in early September. Second, actual growth, particularly in the manufacturing and tradeable goods sectors continued to weaken into December. Thus, the hurdle for growth to surprise to the upside in the months ahead is very low.

When Macquarie consider the outlook for asset markets, they must consider what is already discounted. With credit spreads approaching their lows and equity markets at or near highs it seems that a lot of good news has already been factored into pricing. In contrast, bond yields, while certainly well above their lows posted through the middle months of 2019, are only modestly higher. If we look back through the years since the financial crisis we note that US 10 year Treasury bond yields have touched below 1.50% on three occasions (2012, 2016 and 2019) and risen substantially in subsequent year(s).

Macquarie's strategy since their September Strategic Forum has been to cautiously participate in risk markets but remain mindful that duration has, and can continue, to provide an important balance within a multi-asset investment strategy.

Availability

Product name	APIR
SignatureSuper	AMP0958AU#
AMP Flexible Lifetime Super	AMP0706AU#
CustomSuper	AMP0706AU#

Closed to new members

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