# Macquarie Wholesale Australian Fixed Interest

Quarterly Investment Option Update

31 December 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 | 88.5 |
| High yield credit | 6.9 |
| Emerging markets debt | 4.6 |
| Cash | 15.5 |

| Quality Allocation | % |
|---|---|
| AAA | 14.9 |
| AA | 5.9 |
| A | 12.9 |
| BBB | 42.1 |
| BB and below | 8.3 |
| Unrated | 0.4 |
| Cash | 15.5 |

| Top Holdings | % |
|---|---|
| ING Bank | 1.8 |
| BNP Paribas | 1.8 |
| BPCE | 1.8 |
| Metro 19-1 | 1.1 |
| Transurban | 1.0 |
| Fannie Mae | 1.0 |
| Time Warner | 1.0 |
| Oneok | 1.0 |
| Ventr | 1.0 |
| Cigna | 0.9 |

## Investment Option Commentary

The Fund outperformed the benchmark during the December quarter, driven predominantly by the Fund's investment grade (IG) holdings.

Holdings of global IG credit were the key driver of the returns, with spreads on US corporate credit around 20bps tighter to finish the year at the tightest level since early 2018. Government bond yields were modestly higher over the quarter, which detracted slightly from the Fund's returns – Macquarie used higher yields to begin rebuilding their duration position, which they had trimmed meaningfully as global yields fell sharply. Tentative agreement on a Phase 1 trade agreement, which at the least avoided a meaningful increase in tariffs scheduled for December, and policy stimulus were the biggest influence on the market – with the Fed in particular ramping up its balance sheet into year end to avoid any potential liquidity stresses.

Macquarie made some modest changes to the Fund over the quarter but maintained their broad position in global IG credit, offset somewhat with a modest interest rate duration position. Key changes over the quarter were adding further to their structured securities holdings. This was mostly in US Agency mortgage-backed securities, as this portion of the market lagged corporate credit for most of 2019 and they viewed it as an attractive, higher quality place to allocate. Structured additions also included Australian RMBS, which offer value and will be fundamentally supported by local house price gains. In turn, the total corporate credit exposure was trimmed, on lower valuations – though it remains their largest position overall.

In outright terms the Fund began October with broadly neutral duration positioning, though they began to build a modest overweight to duration as yield levels became more attractive over the quarter.

## Market Commentary

The Phase 1 trade deal between the US and China led risk assets to close the quarter at or near record highs, with US investment grade (IG) spreads closing the year at 93bps, the tightest level since February 2018 when the market was positive about the impact of US President Trump's corporate tax cuts. In summarising US earnings season, industrial demand ex aerospace and defence was weak as a result of trade and global growth, the transportation sector and commodity chemicals were notably continuing their recent weakness, the US consumer remains strong, and some very poor results were being given a 'pass' by the market, for example Caterpillar missed expectations and cut guidance, but shares were up almost 10% over the month. Focusing on financials, bank performance continues to beat expectations, despite fears about lower net interest margins as rates have fallen, while capital markets, loan growth, and asset quality is very strong. The YoY earnings decline was around 2.2% with mixed outlooks, as many companies guided to the lower end of previous ranges.

The Fed expanded its balance sheet by $US112bn over the month, capping off an increase of over $US400bn since they began buying Treasury bills in September. This change in Fed direction has reversed more than half of the total balance sheet reduction that occurred through 2018 and the first half of 2019, though the new purchases are of a lower duration. The balance sheet expansion was initially targeted at avoiding a year end liquidity squeeze in funding markets, after the September quarter end revealed market liquidity was thin.

## 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?

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 fixed income investment strategy. They reduced their overweight duration positions significantly into the rallying bond market environment of past quarters and this has provided the opportunity to gradually add back as bond yields rise. In this context they remain mindful that the coming year is likely to prove more difficult and therefore their debate of the investment themes in January will be critical to any reassessment of their current positioning.

## Availability

| Product name | APIR |
|---|---|
| SignatureSuper | AMP0964AU # |

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