Macquarie Balanced Growth

Quarterly Investment Option Update

30 September 2020

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	7.0
Strategic Income*	9.0	11.0
Australian Fixed Interest	17.5	10.8
Global Fixed Interest	7.5	9.2
Inflation Linked Bonds	5.0	3.9
Australian Equities	26.0	30.1
Global Developed Markets	13.5	13.6
Global Emerging Markets Equities	12.0	7.3
Alternative Assets**	8.0	7.1

* 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:
www.amp.com.au/performance

Investment Option Overview

Investment Category	Multi Sector (Balanced)
Suggested Investment timeframe	5 years
Relative risk rating	6/ High
Investment style	Active
Manager style	Single Manager

Investment Option Commentary

The strategy outperformed the benchmark in the September quarter. In terms of portfolio positioning, the strategy held an overweight bias in strategic income, while global and Australian equities were below their strategic weights.

The asset allocation of the strategy maintained a defensive stance with a higher allocation to income sectors and a lower allocation to growth sectors. From an asset allocation standpoint, the strategy has been positioned with a modestly defensive bias in light of the declining fundamentals, however, we took the recent correction in equity markets as an opportunity to move the strategy to a more neutral positioning.

Asset prices, particularly those of growth assets, have deviated significantly from the real economy since March. In the real economy, businesses are grappling with the 'second wave' or 'second lock-down' with no end in sight, and the labour market recovery has stalled, particularly in areas with worsening COVID-19 spread. Asset markets, on the other hand, are dominated by the theme of 'chase for yield'. Indeed, ultra-loose monetary policy has resulted, and will continue to result, in increasing difficulties for investors to seek higher yielding assets to match their growing liabilities.

Consequently, investors can feel forced to increase their investments to the higher end of the risk spectrum. The logical outcomes can be threefold. Firstly, asset prices across the risk spectrum have increased and will continue to increase should monetary policy remain extremely accommodative. Secondly, asset price behaviour will continue to deviate from the real economic activity.

Finally, asset price volatility behaviour will change as the market continues to anticipate a prolonged period of ultra-loose monetary easing. Indeed, in the period between 2009 and 2019, where the US Federal Reserve kept ultra-loose monetary policies, equity markets experienced a long period of low volatility and moderate returns.

Market Commentary

With the current economic outlook of slow economic recovery and astonishing levels of public and private debt at a global scale, monetary easing policies will likely continue for years to come. As a result, the investment manager believe markets are entering into a prolonged period of low volatility and moderate positive returns. However, tail risks in asset prices have also increased due to their dislocation from the real economy, where increasing geopolitical tension, social unrest due to inequalities, political uncertainty and sovereign default risks persist.

In the real economy, they also witnessed uneven economic recovery at a global level since March. China recovered robustly at all levels, whereas Europe and the US are experiencing a considerably uneven economic 'stop-start' recovery as some areas experience a second wave. Looking forward, they expect China to remain a relatively dominant force in global growth, even in the slow growth world the investment manager envision. In Australia, they also expect a robust economic recovery as the country's COVID-19 situation continues to improve.

In theory, this can lead to a similar rebound to that witnessed in China. Putting these altogether, they took the recent weakness in equities as an opportunity to increase their allocation to Australian and international equities. Furthermore, the investment manager continue to look to increase their growth assets allocation should valuations improve further, while utilising cost-efficient, out-of-money put options during periods of low volatility to mitigate against the risk of sudden market shifts.

Outlook

Summarising the economic outlook, the investment manager observed that there is a noticeable bounce in economic activity, however it is uneven across countries and sectors. The depth of decline in growth was severe and it will take multiple quarters (if not more) to get back to where the investment manager were in January, due in part to the persistence of the virus and the need for social distancing, before the virus impacted the economy and they recognise that this starting point was one where the pace of economic growth was already lacklustre.

They also considered the outlook for inflation given the incredible policy action delivered. They noted that the structural factors that have worked to depress inflation for the past decade(s) are still present and if anything worse and are now coupled with a significant output gap. Also, simply doing more monetary easing is unlikely to improve its lack of effectiveness. Thus, low inflation is likely to persist, but the investment manager recognise that if fiscal support turns into sustained and substantive stimulus this could change the current environment.

With the 'lower for longer' environment likely to continue the absence of yield theme is expected to characterise fixed income investment for a considerable period. This is expected to strongly influence credit and emerging markets in particular, though the investment manager believes that the uncertainty surrounding the US election is likely to encourage caution in the short term. On duration we are tactical during this period, adding if yields back up on the promise of more stimulus.

Availability

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

Closed to new members

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