

# Macquarie Wholesale Australian Fixed Interest Plus

Quarterly Investment Option Update

31 December 2020

## 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/performance](http://amp.com.au/performance)

## Investment Option Overview

<b>Investment Category</b>	Australian Fixed Interest
<b>Suggested Investment timeframe</b>	Medium term
<b>Relative risk rating</b>	5 / Medium to high
<b>Investment style</b>	Active
<b>Manager style</b>	Single Manager

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

Sector Allocation	%
Investment grade credit	51.4
High yield credit	4.5
Emerging markets debt	5.4
Cash	38.7

Quality Allocation	%
AAA	11.3
AA	5.7
A	7.2
BBB	30.4
BB and below	6.8
Unrated	0.0
Cash	38.7

Top Holdings	%
ING Bank	5.8%
BNP Paribas	4.6%
KINGF_16-1	2.6%
GPT Wholesale Office Fund	1.7%
Asciano	1.5%
GPT Wholesale Shopping Centre Fund	1.2%
WST_20-1	1.2%
GPT Wholesale Office Fund	1.2%
Oneok	1.2%
Verizon	1.1%

## Investment Option Commentary

The Fund outperformed the benchmark through the final quarter of the year, with financial market continuing to recover (and surpass, in many areas) levels from the beginning of 2020. Performance for the quarter was driven by credit allocations, with corporate sectors (investment grade and high yield) and emerging markets all being strong contributors.

The quarter was characterised by a strong chase for yield amongst investors, with a theme of spread compression very notable, particularly post the vaccine news in November. High yield credit outperformed investment grade credit, BBB credit outperformed single-A credit, and the 'COVID impacted' sectors outperformed the non-COVID impacted. Amongst individual issuers, selected holdings in travel and other affected sectors were generally the top performers, including European toll roads, airline lessors and selected airlines and airports.

The Fund trimmed its allocation to global investment grade through the quarter, with much less spread tightening potential going forward from 'generic' investment grade (that is, not heavily virus impacted) meaning that there are better risk-adjusted opportunities elsewhere. Offsetting this, the Fund added short-dated subordinated bonds from European banks (with call dates less than 1 year), which Macquarie believe offer some yield but much less downside. Overall, the Fund maintained its barbell approach of having strong liquidity while holding allocations to higher beta sectors and selected 'recovery' trades, which they believe is appropriate given the backdrop of modest overall spreads, low yields, and the potential for volatility in the short- to medium-term outlook.

## Market Commentary

The fourth quarter of 2020 in financial markets can be summed up as a triumph for hope over reality. Starting with the strong rebound in growth in Q3, expectations firmed on the path to recovery from the woes of the pandemic. News toward the end of the quarter that science was able to concoct multiple viable vaccines fuelled expectations that a full recovery will be in place during 2021. Though the reality was more sombre. With schools and colleges returning after the northern summer break, virus cases began to rise. At the same time, most countries had eased restrictions, hoping the falling cases in the summer meant that the worst was behind. However, the pandemic surged into a large second wave during the quarter, which again pressured hospitals and forced governments to re-tighten restrictions. Thus, the recovery began to falter during November and December, and in some parts of Europe and the UK the risk of a double-dip recession is real. Asset markets shrugged off the current problems, choosing to focus on the prospects for better times in 2021, taking significant comfort in the strong commitment of support coming from global central banks and the efforts of governments to provide fiscal support to those most impacted by the pandemic.

Interestingly, the turmoil of the US election did not derail the buoyant mood by asset markets. In fact, the prospect of a Democratic President simply added fuel to the belief that even more fiscal support will be delivered in the new year. Equities, led by tech, surged to new highs, while credit spreads tightened. Bond yields began to edge off their historic lows and inflation expectation soared, despite the actual data confirming a significant deflation shock in 2020.

## Outlook

What are the themes that will shape 2021? First, the virus is still very much with us and likely to extend through the first quarter and probably longer. The global vaccination process has begun but the pace is expected to vary across geography, particularly depending on supplies and the particular choice of vaccine being used. While the manufacturing sector has continued to recover, the service sector in much of the northern hemisphere has been devastated. The overhang of unemployment and destruction to many small businesses will likely take a number of years to get back to where things were in January 2020. Central bankers have extended their already massive level of support to unbelievable levels, with a commitment to do even more if necessary. Left wing politicians have been arguing for years for an expansive fiscal policy, and in 2020 budget deficits and debt soared globally. However, Macquarie would argue that the expansion of fiscal policy was largely due to the delivery of necessary 'support' to those most severely impacted by the pandemic, rather than 'stimulus'. This will be a challenge of 2021, that is, whether governments can shift their support to growth-generating stimulus.

What about valuations? Risk assets have ended the year at levels that seemingly ignored the fundamental shock to the economy. The solving ingredient is the overwhelming policy support. Central bankers have acted, since the financial crisis of 2008, to contain each crisis with increasing levels of stimulus. In addition, lessons have been learned from actions to reverse, for example, the taper tantrum (2013) and the Fed tightening through 2017-18, such that markets are assuming that the bar for policy reversal will be much higher in the future. Turning to fiscal policy, where politics has often been seen to get in the way of common sense, it is far less certain how the path will look in 2021. So their expectation is that the decisions made on fiscal policy could be an important driver on how asset markets re-assess their outlook through the coming year.

To date, Macquarie have acted to participate in the risk asset rally, leveraging sector rotation, assessment of credit quality, curve and name selection to generate performance. Duration holdings have been near historically low levels and they expect it to gradually accumulate if yields push higher.

## Availability

Product Name	APIR Code
SignatureSuper	AMP0964AU*

\*Closed to new investors

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