# Invesco Global Targeted Returns

Quarterly Investment Option Update

30 June 2021

## Aim and Strategy

The strategy is a fundamental, unconstrained, global macro style approach focused on blending a diversified, value-adding set of investment ideas into a single risk-managed portfolio. It aims to achieve a positive total return in all market conditions, targeting a gross return of cash + 5% p.a. with less than half the volatility of global equities over rolling three-year periods.

The strategy invests in an underlying fund that is hedged to Australian dollars. This underlying fund may invest in shares, equity related securities, debt securities, real estate investment trusts (REITs), ETFs and other funds, cash and cash equivalents, money market instruments, and any other eligible instrument that could include indirect exposure to commodities. This exposure to the major asset classes can be taken via long and short positions in the underlying fund, both directly and indirectly. The underlying fund's use of derivatives will create economic leverage (not financial leverage) which under normal market circumstances is typically expected to range between 100% to 350%. The underlying fund's use of derivatives may include exchange traded or OTC derivatives on currencies, interest rates, credit, commodity indices, other eligible indices or equities.

## Investment Option Performance

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

## Investment Option Overview

| | |
|---|---|
| **Investment Category** | Alternatives |
| **Suggested Investment timeframe** | 3-5 years |
| **Relative risk rating** | 6 / High |
| **Investment style** | Global Macro |
| **Manager style** | Single Manager |

| Asset Allocation | Benchmark (%) | Actual (%) |
|---|---|---|
| Multi-Assets | 100 | 100 |

| Regional Allocation | % |
|---|---|
| Other | 14.4 |
| US | 16.9 |
| Europe | 12.6 |
| UK | 7.7 |
| Hong Kong | 6.0 |
| Australia | 5.1 |
| Mexico | 4.8 |
| Asia | 4.6 |
| Germany | 4.5 |
| Taiwan | 4.0 |
| Japan | 3.8 |
| Brazil | 3.5 |
| Hungry | 3.5 |
| Norway | 3.4 |
| Poland | 2.9 |
| South Korea | 2.3 |

| Top Holdings – Independent Risk | % |
|---|---|
| Inflation - Short US Real Yields | 6.6 |
| Equity - China | 5.7 |
| Inflation - Short UK | 5.4 |
| Equity – European Energy vs Market | 4.5 |
| Interest Rates – Yield Compression | 4.5 |
| Equity – European Banks vs Market | 4.4 |
| Equity – Long European Mid Caps | 4.4 |
| Equity – Japan | 4.4 |
| Equity – Taiwan Carry | 4.2 |
| Interest Rates - Australia | 4.1 |

## Portfolio Summary

- Performance was positive over the quarter, with June the standout month.
- The US dollar had a volatile quarter, falling sharply in the first two months before recovering most of the dip in the third month.
- A number of the directional equity ideas contributed significantly: Australia, China, European Mid-Caps, UK, US. Better than expected earnings recovery, very strong fund flows and record levels of M&A activity all helped most equity markets deliver another quarter of gains.

## Investment Option Commentary

Performance ended the quarter in positive territory, following a strong June. From an asset class perspective, Invesco's interest rates, equity and credit exposures helped performance, whilst the currency and inflation ideas broadly detracted. Importantly, the hit rate (positive ideas vs negative ideas) was positive in each month during the quarter, with skew (average size of the attributors vs average size of the detractors) not in Invesco's favour in two of the three months.

Government bond markets had a mixed quarter. Despite a sharp rise in inflation in the US the expectation that this was just transitory in nature and wouldn't engender an aggressive response from the Fed saw 10yr US Treasuries unwind some of the 83bp rise seen during Q1, with yields down 30bp in Q2. Against this backdrop, a number of Invesco's interest rate ideas broadly performed well in the quarter. Invesco's 'Interest Rates – Yield Compression' was the top contributor for the quarter as the idea benefited from the yield spread narrowing between the US and European bond positions, driven by US leg falling whereas the European leg finished the quarter roughly where it started, in yield terms. Emerging Market sovereigns had a strong quarter, which saw Invesco's Selective EM debt idea benefit, mainly from the portfolio's South African government bond holdings with rates moving lower, resulting in a capital gain. Credit markets also had a positive quarter. Investment Grade benefitted from lower government bond yields. US Investment Grade outperformed (+3.6%) with yields and spreads declining 24bp and 11bp respectively, and US High Yield also delivered positive returns. Against this backdrop, all of Invesco's credit ideas delivered positive returns.

Elsewhere in the portfolio, a number of Invesco's directional equity ideas contributed significantly: Australia, China, European Mid-Caps, UK, US. Better than expected earnings recovery, very strong fund flows and record levels of M&A activity all helped most equity markets deliver another quarter of gains.

On the downside, the sharp rise in inflation over the quarter (seen by many as transitionary) meant the portfolio's 'Inflation – Short US Real Yields' idea was the biggest detractor, as the US real yield fell even more considerably negative in April and May, only for that to see some reversal and benefit the idea in June against a backdrop of a more hawkish Fed. Nonetheless, the idea ended the quarter with a negative print. Given the higher inflation prints, Invesco's Short UK inflation idea also worked against us in Q2.

As mentioned earlier, at a sector level the reflation trade rotation that had dominated performance in the previous quarter lost momentum with a partial return of leadership towards the growthier areas of the market as government bond yields declined. Against this backdrop, Invesco's 'Equity – European Banks vs Market' and 'Equity – European Mid-Caps vs Large Caps' detracted. Finally, in a quarter where the US dollar fell and EM currencies benefitted by a more risk on stance, Invesco's currency idea 'US Dollar vs Brazilian Real' proved unfavourable.

## Market Commentary

A few themes dominated market sentiment during the second quarter of 2021. COVID-19 remains a significant factor driving markets across the globe, the successful rollout of vaccines and easing of lockdown measures – particularly in developed markets – buoyed asset prices as expectations of economic growth were revised upwards, however the Delta variant continues to be a focus for authorities. Moreover, continued monetary and fiscal support by central banks and governments has been supportive for most markets.

In equity markets, global equities delivered their fifth consecutive quarter of gains over 5%. Within that, developed markets (DM) comfortably outperformed emerging markets (EM), similar to last quarter. Within developed markets, outperformance was led by the US and Europe ex-UK. Meanwhile, Asian markets were the main drag across EM. At sector level, Invesco saw some reversal in the reflation trade, driven by comments from the Fed that inflation is expected to be transitory. This led to outperformance in 'Growth' stocks with areas like tech and health care outperforming traditional value sectors such as financials.

Government bond markets had a mixed quarter as initially rising inflation expectations led to a rise in yields, but this later reversed as investors grew in confidence that the Fed would not let price pressures surge as high as some market participants were fearing. Thereafter, US bond markets rallied, drawing comfort from reassuring words from various Fed speakers, including Chair Powell, who noted that the FOMC “will wait for actual evidence of actual inflation or other imbalances” before moving interest rates higher. Credit markets had a positive quarter. Investment Grade benefitted from lower government bond yields and a narrowing in spreads relative to government bonds. High Yield markets also delivered positive returns, albeit lagged Investment Grade.

Economic optimism, improving demand expectations, and ongoing supply constraints underpinned a strong performance from economically sensitive commodities, even if many of them ended the quarter well off their YTD highs. Supported by the sharp rally in oil prices – driven by improving demand and supply restraint – Brent ended the quarter up c.18.5%, hitting its highest level since 2018. Having hit an all-time high in early May, Copper struggled for the remainder of the quarter, falling over 10%, but still ending the quarter with a gain of c.6%. Gold regained some of its losses as real yields declined and flows returned to the asset class.

In currency markets, the US dollar experienced a highly volatile quarter initially falling sharply in the first two months before recovering most of the losses by the end of June, ending the quarter at -0.8%. The Euro saw some strengthening, Sterling was broadly flat, and the Yen fell for another consecutive quarter. Broadly speaking, emerging market currencies were positive over the quarter.

## Outlook

Invesco believe that the economy is entering the next phase of the recovery. The vaccine roll-out is acting as stimulus for growth while at the same time policy remains supportive. The pace of recovery is likely to slow medium term, with demand shifting from goods to services. However, longer term, high debt will be a constraint on private demand and ongoing policy intervention may dampen the cycle.
Invesco also think that the recent rise in inflation should prove to be transitory. Inflation has been boosted by base effects, but supply constraints and shifting demand patterns should produce some pricing power, however it is expected that these price pressures will ease. There are already tentative signs of US inflationary pressure rolling over but less so in other parts of the world. Nonetheless, ongoing excessive stimulus once overall spare capacity is exhausted could cause inflation to persist.

In terms of policy, Invesco are seeing a new policy paradigm of fiscal economic management with support from central banks. The emphasis on fiscal policy could drive some catch-up of the real economy with liquidity driven financial markets. Globally, the environment is approaching peak monetary stimulus and savings are unlikely to fall back to pre-pandemic levels, given ongoing uncertainty. However, not all economies have the same headroom for continued fiscal support and this is likely to create economic divergence.
Against this backdrop, new thematic opportunities are emerging as cyclical forces meet changing behavioural dynamics. Invesco see significant opportunities in equity markets that are underpinned by structural and societal trends (e.g. mid-caps, Europe, Real Estate, Asia). Real economy sectors such as energy have the scope to outperform but structural shifts in patterns of demand continue to support areas such as technology and ESG in the medium-term. Meanwhile, emerging markets should benefit from the global recovery, but structural issues could re-surface in some countries.

Higher currency volatility is likely, reflecting economic and policy divergence, with bouts of rates volatility now more likely as markets challenge central banks, but this should ultimately remain contained. Furthermore, corporate profit cyclicality alongside higher bond yields could underpin higher equity market volatility.

## Availability

| Product name | APIR |
|---|---|
| AMP Flexible Lifetime Super | AMP2049AU |
| AMP Flexible Super - Retirement account | AMP2051AU |
| AMP Flexible Super - Super account | AMP2052AU |
| CustomSuper | AMP2049AU |
| Flexible Lifetime - Allocated Pension | AMP2050AU |
| SignatureSuper | AMP4727AU |
| SignatureSuper Allocated Pension | AMP7122AU |

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