BlackRock Global Bond

Quarterly Investment Option Update

31 December 2021

Aim and Strategy

To generate capital and income return for investors seeking exposure to international fixed income markets, including Australia. The option aims to outperform the Bloomberg Barclays Global Aggregate 500 Index (Australian dollar hedged) over rolling three-year periods. The option invests predominantly in international debt securities and foreign currency exposures. These include a broad universe of investment instruments, including fixed interest securities, mortgage securities, asset-backed securities, derivatives, repurchase agreements, stock lending and units in pooled investment funds.

Investment Option Performance

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

Investment Option Overview

Investment Category	Global Fixed Interest
Suggested Investment timeframe	2 years
Relative risk rating	5 / Medium to high
Investment style	Core
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
International Fixed Interest and Cash	100	100

Sector Allocation	%
Government	33.95
Corporate	31.52
Securitised	34.23
Other	0.30

Regional Allocation	%
UK	4.12
Europe (ex UK)	21.71
North America	51.09
Japan	6.74
Asia (ex Japan)	8.30
Other*	8.04

*includes EM exposure and Cash

Quality Allocation	%
AAA	34.00
AA	10.87
A	24.74
BBB	20.01
BB>	8.00
Not Rated/Cash	2.38

Portfolio Summary

The Fund outperformed its benchmark over the quarter driven by its macro rates strategies.

Macro rates strategies ended the period with positive returns, driven by the Fund's yield curve positioning in the US and off-benchmark allocation to US inflation-linked bonds. The fund's underweight exposure to US, UK and overweight exposure to Canada and Australia duration added over the quarter. Positive performance was partially offset by the fund's underweight exposure to Germany and Italy duration, as well as its overweight exposure to Greece and Spain duration. The Fund's yield curve positioning in Germany, Australia and Canada detracted. The fund's underweight exposure to UK inflation-linked bonds also modestly detracted.

The fund's developed market active currency positions posted modestly positive returns, with the main contributor being its short euro position. In addition, the fund's short positions in sterling, Canadian dollar and Swedish krona currency also contributed. This was partially offset by the Fund's long US dollar and short Japanese yen and Swiss franc currency positions.

Within credit strategies, the main detractors were the fund's overweight allocations to securitized assets, predominantly through US CMBS and ABS. Negative performance was partially offset by its overweight allocations to select high yield names and US dollar denominated investment grade industrials.

Emerging market strategies posted negative returns over the quarter led by its overweight allocations to Russia, Mexico, China and South Korea local currency government bonds. This was partially offset by the fund's overweight allocation to emerging market hard currency debt.

Investment Option Commentary

2021 ended on a positive note for riskier assets. After a bout of risk aversion towards the end of November following the outbreak of Omicron, financial markets quickly rebounded in the beginning of December and were further supported by evidence that the new variant was less severe than previous Covid-19 strains, despite being more infectious. It was also a significant quarter for central bank action with the US Federal Reserve (Fed) announcing the tapering of its asset purchases, and the European Central Bank (ECB) revealing a commitment to an ongoing loose monetary policy stance for quite some time. The Bank of England (BoE) meanwhile hiked interest rates for the first time since the beginning of the pandemic, while the Norges Bank in Norway raised interest rates for a second time following a hike in the third quarter.

As widely anticipated, the Federal Open Market Committee (FOMC) announced the tapering of its asset purchase programme by $15billion (bn) a month in November, which was subsequently increased to $30bn a month in an announcement in December. All FOMC participants now expect the maximum employment portion of the mandate to be met in 2022. However, the committee could raise rates before reaching maximum employment. Relatedly, inflation is no longer described as 'transitory' and the risk of more persistent, higher inflation has increased in the eyes of the committee.

In contrast, the ECB has retained a more dovish stance. While the Pandemic Emergency Purchase Programme (PEPP) is still due to end in March 2022, reinvestment from bonds maturing under the programme will be extended at least through to the end of 2024. In addition, to help smooth out the impact of the wind-down of PEPP, the ECB will boost its asset purchase programme (APP) to €40bn in the second quarter of 2022, tapering back down to a €20bn monthly pace by the fourth quarter. The central bank acknowledged the higher levels of inflation seen in the euro area and ongoing supply-side issues, raising its inflation forecasts. It now expects 2.6% inflation for 2021, 3.2% in 2022 and 1.8% for both 2023 and 2024. Meanwhile, the ECB predicts GDP growth of 5.1% for 2021, 4.2% for 2022, 2.9% for 2023 and 1.6% for 2024.

Developed market government bond yields were more volatile over the course of the fourth quarter given counteracting market forces driven by risk aversion from fears around Omicron, versus ongoing speculation around monetary policy normalization from major central banks in a higher inflation environment. In aggregate, yields ended the quarter higher than where they had started, including in the US, Germany and the UK. The volatility extended into riskier assets, which generally ended the month lower including in high yield credit and emerging market local and hard currency debt. Investment grade markets were also weaker with credit spreads widening. The strongest performing G10 currency was the US dollar, while the weakest performers were the Swedish krona and the Japanese yen. Energy prices ended the quarter where they had begun at $78 a barrel, despite some intra-quarter volatility seeing prices dip below $70 at one point.

Outlook

Going into 2022, Blackrock believes economic growth should surprise to the upside, underpinned by a strong labour market with significantly lower levels of unemployment. Indeed, while the numbers can be volatile, non-seasonally adjusted labour data does suggest strong employment figures this year which will likely spur aggregate demand. In the US, for instance, if Blackrock conservatively assume 200k-400k monthly nonfarm payroll gains over the course of 2022, no changes to hours worked and wage growth in line with that of 2021, the market will witness an aggregate income gain of about 7%.

Blackrock are not overly concerned about the recent monetary policy stance changes – particularly from the Fed - as there is a tremendous amount of yield-seeking capital around the world that will take up the demand for fixed income securities, especially at modestly higher yield levels. The impact from the significant liquidity withdrawal from central banks will be partly mitigated against by this dynamic.

Additionally, while inflation headlines are likely to stay worrisome until the spring, early indicators suggest that they may moderate soon when base-effects and other influences ease. Furthermore, supply chain-led inventory shortages tell a very distorted story across industries. In some sectors, inventories are growing rapidly, which could facilitate price reductions. Recent earnings reports from large corporations show inventories that are at multi-year highs, suggesting a decent ability to meet demand. Now that quantitative easing is being wounded down more quickly, and the first Fed policy rate increases are on the horizon, there will be more discussions on the potential for balance sheet runoff which could create more volatility going forward.

Putting it all together, in 2022, Blackrock is optimistic about an ability to generate attractive excess returns, despite Blackrock's view on government yields moving higher from the current levels. Yields have broadly increased throughout 2021 and currently - in the US and in the European credit markets - have become more attractive, offering enhanced yields for portfolios, especially if moving down in credit quality into high yield segments which are supported by still very strong fundamentals.

Emerging market yields are even higher in some areas although these positions need to be sized appropriately given their volatility. Blackrock still favour a long position in Chinese assets as valuations have improved and economic fundamentals have strengthened. In addition, given the size of the economy and the crucial role China will play within the investment business globally, Blackrock thinks these assets should be a structural component of the portfolio.

For these reasons, Blackrock hold select exposure to emerging market bonds and allocations globally to securitised assets, investment grade and high yield corporate bonds. Blackrock are focused on the importance of bottom-up security selection in this environment, combined with a strong understanding of liquidity and risk management, and an emphasis on stress testing and genuine portfolio diversification. Blackrock maintain its view on US rates moving higher through the year, although Blackrock has tempered its conviction somewhat. Blackrock believes financial markets are pricing a largely fair outcome as it relates to 2022, but still believe expectations from the market around Fed rate hikes in 2023 and 2024 – and the Fed's terminal rate - are underpriced

Availability

Product name	APIR
SignatureSuper	AMP1113AU*
SignatureSuper Allocated Pension	AMP1142AU*
SignatureSuper Term Pension	AMP1142AU*

* Closed to new investors

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