AMP Australian Bond

Quarterly Investment Option Update

30 June 2022

Aim and Strategy

Aims to provide total returns (income and capital growth) after costs and before tax, above the Fund's performance benchmark on a rolling 12 month basis. to deliver regular monthly income, whilst seeking to provide capital stability to investors over the medium term. The Fund provides investors with access to a diversified portfolio of fixed income securities. The Fund invests primarily in Australian government bonds and credit securities. Diversification is achieved mainly through investment in securities across a range of sectors, industries and issuers.
The Fund may also have exposure to global fixed income securities. The Fund aims to generate investment returns through: allocation between sectors of government and credit investment across a range of industries such as financials, utilities and telecommunication providers, and active management to take advantage of movements in interest rates and credit.

Investment Option Performance

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

Investment Option Overview

Investment Category	Aust. Fixed Interest
Suggested Investment timeframe	3 years
Relative risk rating	4 / Medium
Investment style	Active
Manager style	Single Manager

Asset Allocation	%
Government (incl. supranational)	13.9
Semi-Government	16.7
Credit	63.1
Cash	6.3

Quality Allocation	%
AAA	26.1
AA	23.5
A	21.1
BBB	22.6
BB and below	0.4
Unrated	0.0
Cash	6.3

Top Holdings	%
Australian Government	11.0
Treasury Corp of Victoria	5.7
Queensland Treasury Corp	5.3
Bank of Montreal	2.1
Westpac Banking Corporation	2.0
The Toronto-Dominion Bank	2.0
Banco Santander SA	2.0
NSW Treasury Corporation	1.9
Suncorp Metway	1.8
UBS AG	1.5

Investment Option Commentary

The Fund produced a negative return in the June quarter, underperforming the benchmark. Performance reflected both the sharp moves higher in bond yields as the market priced in a series of hikes in the cash rate and the RBA began to hike, as well as the broad widening in credit spreads.

At the sector level, underweight allocations to supranationals and exposure to consumer staples the main contributors to performance. Overweight allocations to subordinated banks, real estate and diversified financials were the main detractors. At the security level, underweight exposure to NSW Treasury Corporation, Lloyds Banking Group, BNG Bank NV and an overweight exposure to Loy Yang Power Project were the main contributors to performance. Overweight exposures to Scentre Group Trust, ING Groep NV, Commonwealth Bank of Australia and Svenska Handelsbanken AB were the main detractors.

The Fund maintained a moderate long duration position versus benchmark to capitalise on rising recessionary fears, along with a small, long breakeven inflation duration position to hedge against increasing concerns of stagflation. We continue to increase the Fund's curve flattening bias based on the view that central bank actions combined with supply-driven inflation will result in slowing growth and increase the risk of a recession, which should see the yield curve flatten. Market pricing of RBA rate hikes now look less stretched, further increasing the attractiveness of flatteners, while front-loading of hikes increases the possibility that the RBA may have to start cutting sooner than previously expected. Over the quarter, the Fund's exposure to credit was decreased, this was done via combination of increased hedging and a reduction in physical credit securities.

The Fund has exhibited discipline in taking profit in securities we view as fully priced, reducing the average spread sensitivity. During the period, we participated in a primary issue from Lloyds Banking Group.

Market Commentary

Inflation is the 'problem' facing central bankers and their action during the second quarter illustrated their commitment to bringing inflation back down to target ranges. Globally, central bank target rates rose throughout the quarter, though the Bank of Japan stands in contrast by remaining committed to its yield curve control target. Whilst inflation and central bank action remain dominant themes, for asset markets there has been a rapidly emerging concern that this combination will push economies into recession in 2023. Economic data released during the quarter has begun to suggest that growth is already slowing. With inflation being underpinned by a second supply shock stemming from the war in Ukraine, asset markets fear central bankers are heading for a policy mistake by over-tightening. We have already seen consumer confidence drop lower to well below average levels, and parts of the housing market have begun to turn. There have been some tentative signs, in spending data too, of some softening demand, and this is a difficult investment climate where volatility will continue.

Outlook

Macquarie's outlook for the Australian economy is that we expect that the Reserve Bank of Australia will not be able to deliver the rate hiking cycle that is currently priced in and will face a lower terminal rate than other developed markets. There is a significant difference in the inflation outlook domestically versus overseas (e.g. headline consumer price index in Australia is 5.1% YoY, compared to 8.6% YoY in the US), and the Reserve Bank of Australia hikes will have a sharper impact on household spending given we have a higher proportion of variable-rate mortgages and are far more indebted than other countries. The futures market has the overnight cash rate at 3.0% by December 2022 and 3.6% by June 2023, which if passed onto mortgage holders, would see Australia's average discount variable mortgage rate climb to 6.9% under the market forecasts (doubling its level of 3.45% before the tightening cycle). This would significantly increase monthly mortgage repayments, negatively impact house prices, and see household consumption – the main driver of the Australian economy – fall sharply, risking a painful recession which would likely see the Reserve Bank of Australia stop out before the overnight cash rate hits such levels.

Availability

Product name	APIR
SignatureSuper	AMP0738AU*
SignatureSuper – Allocated Pension	AMP1128AU*
SignatureSuper – Term Pension	AMP1128AU*

*Closed to new investors

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267

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