

Australian Fixed Interest Index

Quarterly Investment Option Update

30 September 2018

Aim and Strategy

The strategy aims to provide returns that track the Bloomberg AusBond Composite Index (All Maturities) with net dividends reinvested. Exposure to this asset class will be attained through the use of low cost index-focused investment managers.

Investment Option Performance

To view the latest investment performances please visit www.amp.com.au

Investment Option Overview

Investment category	Australian fixed interest
Suggested investment timeframe	3 years
Relative risk rating	Low-Medium
Investment style	Index

Asset Allocation	Benchmark (%)
Australian fixed interest	100
Cash	0

Market Review

Australian banks are moving to raise their standard-variable mortgage rates following increases in shorter-term wholesale funding costs and widening spreads. Falling building approvals indicate slowing housing investment, with ongoing political uncertainty and the risk of the removal, or reduction, of negative-gearing provisions in the tax code adding to the general environment of uncertainty in the property market. In the wider economy, although business and consumer confidence have pulled-back somewhat, with wage-growth remaining anaemic, skilled-jobs data and population growth remains supportive.

Australian business investment over the quarter was relatively subdued and volatile commodity markets mean mining and resource financing has become harder to come by. Building approvals have also fallen and it is likely the housing construction cycle is nearing its peak. However, the reporting season was reasonably buoyant, with healthy profit increases from the insurance, health care, gaming and utility sectors together with those companies with exposure to US dollar revenues.

In aggregate, all this indicates a low probability that the Reserve Bank of Australia will raise interest rates in the near-to-medium term.

S&P Global Ratings' revision upwards of Australia's AAA rating outlook from negative to stable is positive; however it is unlikely to have any direct impact on funding costs or the Australian dollar. The budget deficit has been improving, but official budget assumptions look optimistic and are subject to many unpredictable variables. There also remains the risk of fiscal-discipline erosion in the run-up to a general election, although the Morrison government is currently retaining a 2019-20 target horizon by which to establish a balanced budget.

An unstable political regime has the potential to increase volatility, especially if the market perceives there will be another change of government following the general election in 2019, and given the likely impact of restrictions on negative gearing policy for the housing market.

Government bond yields in Australia followed a similar path to their overseas counterparts to drift higher in July before retracing somewhat when weak inflation data for the June quarter was confirmed. In August, bond yields were lower, driven by geopolitical factors such as ongoing global trade tensions and political instability domestically which saw the replacement of the Prime Minister. September saw this trend reverse, with local bond yields rising amid a broad bond market sell-off, as better than expected economic data globally was buoyed by stronger domestic economic growth results for the June quarter and improving labour market measures. The Commonwealth Government 2-year bond yield ended the quarter at 2.03%, while the Commonwealth Government 10-year bond yield ended at 2.67%.

Outlook

Australian yields continue to trade at a premium to those available in Japan and Europe, making Australian sovereign fixed income and corporate credit relatively attractive from an international and yield perspective. The Reserve Bank of Australia has a short-term neutral policy in regards to the timing and direction of interest rate changes. However, conflicting economic pressures and a low inflationary environment mean it is too early to be considering interest rate hikes. Housing market and household debt levels continue to be an area for concern.

Availability

Product name	APIR
CustomSuper	AMP1286AU
Flexible Lifetime - Allocated Pension	AMP1293AU
SignatureSuper	AMP1300AU
SignatureSuper - Allocated Pension	AMP1307AU
AMP Flexible Lifetime Super	AMP1286AU

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