

Australian Fixed Interest Index

Quarterly Investment Option Update

31 December 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 Commentary

The Australian dollar started the quarter with some weakness, amid high levels of emerging-market volatility and was unable to match the strength of the US dollar, where the economy continues to boom. Subsequently, the Australian currency regained some strength mid-quarter, benefitting from a commodity-related boost following an improvement in Australia's terms of trade. In December however, The Australian dollar experienced significant falls against most currencies. Concerns around slower global growth, weaker Chinese data and ongoing fears around the housing market in Australia contributed to the currency's weakness. Markets also began pricing in some risk of rate cuts in Australia, exacerbating the falls. Against the US dollar, the Australian dollar closed at approximately 0.70 (down from 0.72), against the euro it finished flat at 0.62, while against the UK pound it closed slightly lower, at 0.55 (down from 0.56).

Government bond yields in Australia largely mirrored their overseas counterparts to fall significantly during the December quarter, as financial markets experienced increased volatility amid predominant 'risk-off' sentiment. Earlier in the quarter, domestic bond yields showed some divergence from offshore bond movements, in particular the US, with the local market receiving support from strong local economic data on balance. However, in line with offshore moves domestic bonds rallied strongly during December, with market pessimism being further impacted by softer local economic data which included a weak gross domestic product reading for the September quarter and mixed labour market measures, while the continued fall in house prices also weighed on the domestic market. The Commonwealth Government 2-year bond yield ended the quarter at 1.90%, while the Commonwealth Government 10-year bond yield ended at 2.32%.

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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