

AMP Capital Dynamic Markets

Quarterly Investment Option Update

31 March 2019

Aim and Strategy

To provide a total return (income and capital growth) before costs and before tax above the benchmark (being the Reserve Bank of Australia inflation rate (Consumer Price Index) – trimmed mean plus 4.5% per annum), on a rolling 5 year basis, by investing in a portfolio that is diversified across asset classes. The aim is to maintain a portfolio that is relevant to market conditions, and which more closely matches the needs of the investor. The portfolio is actively managed in terms of asset allocation and currency hedging, with the flexibility to change the asset class mix and currency hedging level at any time within broad ranges. This allows AMP Capital to move the asset allocation mix across a range of asset classes in order to take advantage of opportunities arising from market mispricing. The portfolio provides investors with diversification by investing across a range of traditional asset classes such as shares, listed property, commodities, fixed income, credit and cash. The underlying asset class exposures are achieved by investing in passively managed investments such as index funds, exchange traded funds (ETFs) and derivatives.

Asset Allocation	Ranges (%)
Australian shares	0-50
Global shares	0-50
Growth alternatives	0-25
Listed property and infrastructure	0-25
Australian fixed interest securities	0-25
Global fixed interest securities	0-100
Cash	0-50

Investment Option Performance

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

Investment Option Overview

Investment category	Multi-Sector
Suggested investment timeframe	5 years
Relative risk rating	Medium to High
Investment style	Active

Fund Performance

The Fund delivered a flat return in March and has exceeded its investment objective over the first quarter of 2019. Following a pullback earlier in the month, markets rallied on dovish tilts from the US Federal Reserve (Fed) and European Central Bank (ECB), as well as on signs of progress in US-China trade talks and an improvement in fundamental data. The rally in March was not as broadly-based as earlier in the year, with the technology sector and the US outperforming. The main positive contributors during March were the Fund's bond exposures; primarily Australian bonds, as market expectations of rate cuts by the Reserve Bank of Australia (RBA) increased following some soft economic data. An allocation to yield-proxy equity sectors, such as European utilities and areas that benefit from a dovish central bank tilt, such as emerging markets, also added value. Main detractors for the month were allocations to the value theme, including the European bank and auto sectors, which lagged as the US and growth theme outperformed. However, these exposures have had solid rallies from December and have been a strong contributor to the Fund's quarterly return. These allocations retain considerable upside potential.

Market Review

In the ongoing environment of economic uncertainty, global equities have vacillated between a risk-on and a risk-off bias; exacerbated by the unresolved US-China trade negotiations. Particular sticking points on the negotiations include a requirement for adequate protection of intellectual property, a loosening up of agricultural levies and the opening up of markets in general. The sharp rally in global equities since the December 2018 pull-back also leaves them vulnerable to falls.

US economic data continues to be mixed. There were stronger capital goods orders but weaker industrial production and falling new-home sales. Inflation continues to be under control. The December reporting season completed in the first quarter of 2019 and was broadly positive. One blot is the shifting consumer landscape and changing tastes, with the ongoing structural shift to online shopping and the erosion of traditional retail brands, as evidenced by The Kraft-Heinz Company write-down.

However, there remain concerns over the widening twin deficit (trade and fiscal); especially given the elevated and increasing government and household debt levels. On a more positive note, the US administration found some succour in the conclusion of the Mueller report into Russian interference in the election process, which recommended no further prosecutions be initiated.

The US Federal Reserve (Fed) imparted some cause for market concern towards the end of the quarter with an unusual set of communications, indicating it would be unlikely to raise interest rates until 2020 at the earliest; and with an intention to halt the wind-down of its balance sheet by September 2019. This suggests it believes the US economy is more fragile than was previously believed and has also locked it into a path, reducing its flexibility. In addition, short-term changes to Fed policy, with no clearly definable data-driven rationale, has dented its credibility somewhat and raised questions in some quarters as to the independence of its decision-making structure. The yield curve is now inverted, suggesting the market is also worried about the US economy longer term.

In Asia, Japanese jobs data remains strong and consumer spending is supportive. The Bank of Japan maintained its ultra-easy monetary policy as fully factored into the market; however it downgraded its economic outlook. In China, economic data has been relatively subdued; with a further slowdown in industrial production and a rise in unemployment. The Lunar New Year also tends to distort first quarter figures. Policy stimulus effects should be more noticeable later in the year as there tends to be a delayed effect whilst measures feed into the economy. The Chinese administration has said it will implement suitable further policy stimulatory measures as and when required.

In Europe, economic sentiment and data continues to falter and, with inflation remaining benign, there is likely to be increased pressure on the European Central Bank (ECB) to remain accommodative. The ECB has revised down its growth and inflation forecasts for the Eurozone and will extend its targeted longer-term refinancing operations (TLTROs). However, TLTROs are a relatively narrow private-sector targeted approach and more general stimulatory measures may also be required, together with policies to ensure the bloc has access to sufficient funding liquidity. Of further concern is the Eurozone's engine, Germany, moving further towards recessionary territory. Germany's manufacturing sector is now contracting, particularly impacted by slowing demand for automobiles.

Brexit negotiations and the final outcome continue to be uncertain, with a short extension granted by the European Union. However, with British Members of Parliament now having taken control of the process, but failing to agree a way forward by the end of the quarter, there remains continued chaos and a potential constitutional crisis. A no-deal Brexit risk remains elevated.

Outlook

Looking ahead, with investor optimism and economic surprise indices washed out and equity market valuations in our Dynamic Asset Allocation (DAA) process the most attractive they have been since 2016, the stage may be set for an upside surprise. It will be important to assess the strength and quality of any rebound in markets, as this will provide indications of its durability and whether it will be time to increase exposure or take profit. For this, there are a number of signposts we're closely monitoring including credit spreads, inflation expectations, the yield curve for signs of inversion, the value/growth and cyclical/defensive ratios for market leadership and implementation of oil production cuts by OPEC. In addition, there are upcoming key events which have the potential to lead to volatility spikes, including the UK Parliamentary vote on the Brexit deal on January 15 (otherwise a hard exit on March 29), as well as trade negotiations between the US & China with the truce set to end on 1 March. The investment team will continue to prudently strive for the appropriate balance between managing downside risk and being assertive in taking advantage of market opportunities.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1935AU*
AMP Flexible Super - Retirement account	AMP1986AU
AMP Flexible Super - Super account	AMP1937AU
AMP Growth Bond	AMP2046AU
CustomSuper	AMP1935AU*
Flexible Lifetime - Allocated Pension	AMP1988AU*
SignatureSuper	AMP9041AU
SignatureSuper - Allocated Pension	AMP9042AU

* Closed to new investors

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