AMP Lifecycle Active Capital Stable

Quarterly Investment Option Update

31 March 2019

Aim and Strategy

Aims to achieve a rate of return of 1.5% above the Consumer Price Index, after fees and superannuation tax, over the suggested investment timeframe.

This investment option is an aged-based investment, meaning that its strategy has been designed to meet the investment needs of the average investor born before 1950. As capital stability is the priority of this investment option, it will hold mostly defensive assets such as fixed interest and cash.

International investments may be partially or fully hedged back to Australian dollars. Subject to certain conditions, the underlying investments may use derivatives (such as options, futures, forwards and swaps) and engage in short selling.

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	No Minimum
Relative risk rating	Medium
Investment style	Active

Asset Allocation	Benchmark (%)
International shares	16
Australian shares	15
Listed property & infrastructure	8
Unlisted property & infrastructure	0
Growth alternatives	6
International fixed interest	18
Australian fixed interest	18
Defensive alternatives	6
Cash	13

Actual Allocation	%
International shares	19.26
Australian shares	14.34
Listed property & infrastructure	7.83
International fixed interest	17.21
Australian fixed interest	17.23
Cash	15.09
Others	9.04

Fund Performance

The year started on a positive note for investors as the option delivered a strong 5.6% return for the March quarter. Performance was sufficiently strong to offset the losses experienced in the final quarter of 2018, reinstating positive annual returns.

The start of the new year brought with it a fresh wave of optimism across most asset classes. Equities, fixed income and listed real assets all experienced a positive March quarter. Developed equity markets rallied 12.7% on the back of improved trade rhetoric between the US and China, supportive central bank comments, and a positive reporting season. Emerging markets also experienced a strong uplift, up 9.8%, boosted by Chinese stimulus measures. The Australian market ended just shy of 11% up for the quarter, helped by the conclusion of the Banking Royal Commission and a robust domestic profit reporting season. Bonds and other fixed income assets were supported by a continuation of lower interest rates. Interest rates were largely rangebound for most of the quarter but softer economic data releases in March accompanied by the more dovish tone from central banks drove global rates down. Alternative strategies such as hedge funds also performed well over the quarter.

We continue to believe the current environment should be supportive of share market performance through 2019 as global valuations are not overstretched and monetary and fiscal policy remain accommodative. However, we expect that trading conditions will be volatile and the recent strength in equity markets increases the risk of a short-term pullback. We have a broadly neutral exposure to global equities but continue to favour international markets over Australia. We have also increased our weight to bonds, having maintained a significant underweight exposure for some time. We maintain that diversification and active management across asset classes will be important in navigating through this late cycle phase.

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.

Availability

Product name	APIR
AMP Flexible Super - Super account	AMP2064AU

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