

# BlackRock Global Bond

Quarterly Investment Option Update

31 March 2019

## Aim and Strategy

To generate capital and income return for investors seeking exposure to international fixed income markets, including Australia. The option aims to outperform the Bloomberg Barclays Global Aggregate Index (Australian dollar hedged) over rolling three-year periods. The option invests predominantly in international debt securities and foreign currency exposures. These include a broad universe of investment instruments, including fixed interest securities, mortgage securities, asset-backed securities, derivatives, repurchase agreements, stock lending and units in pooled investment funds.

## Investment Option Performance

To view the latest investment performances for each product please visit [amp.com.au](http://amp.com.au)

## Investment Option Overview

Investment category	Global Fixed Interest
Suggested investment timeframe	2 years
Relative risk rating	4 / Medium
Investment style	Core

Asset Allocation	Benchmark (%)	Actual (%)
Australian/ International Fixed Interest and Cash	0-100	100

Regional Allocation	%
United States	38.3
Japan	16.5
United Kingdom	5.1
Germany	4.5
France	5.8
Australia	3.2
Other	26.6

Sector Allocation	%
Treasuries	54.13%
Government Related	11.61%
Corporates	18.76%
Securitized	15.02%
FX	0.15%
Cash Securities	0.33%

## Market Commentary

### US

The 10-year Treasury yield fell 27 bps to 2.41%, its lowest level since December 2017, after the Fed announced a more-dovish-than-expected policy switch in March. Yields fell across the Treasuries curve, led by maturities in the range 5-10 years, and the 3-month/10-year curve inverted on 22 March for the first time since 2007.

There has been a deceleration in data, which has been exacerbated by the government shutdown and adverse weather caused by the polar vortex. Adverse weather is thought to have contributed to non-farm payrolls expanding by only 20k in February, significantly below the 180k expected. There was a significant downward revision to fourth-quarter GDP, which was amended to 2.2%. This is down from the previous estimate of 2.6% and compares with 3.4% in the quarter before. The revision reflected downgrades to consumer and business spending, and to government outlays and homebuilding investment. Preliminary PMI readings for March hinted at a continued slowdown in the first quarter as the composite reading slowed to 54.3, from 55.5 in February. The manufacturing PMI edged lower to 52.4 from 52.5.

### Eurozone

Sovereign yields fell broadly across the eurozone over the quarter. The rally accelerated in March as a worse-than-feared slump in regional manufacturing accentuated many indicators of global economic slowdown. The yield on the 10-year German bund slipped into negative territory for the first time in over two years and ended the quarter 31 bps lower at -0.07% (its lowest level since October 2016) as the country's economy was shown to be contracting at a faster pace than expected. The yield curve flattened led by maturities in the range 10-20 years.

Notwithstanding the downgraded projections, policymakers surprised markets by announcing further stimulus sooner than expected in the form of a third round of targeted longer-term refinancing operations (TLTROs). These are cheap loans to banks that are designed to encourage lending that will hopefully stimulate activity. However, the new loans are not as generous as the second-round loans that expire in June 2020. Under the new terms, banks will be able to borrow for two years (previously four), and the interest rate will be indexed to the main refinancing rate (currently 0%), as opposed to previously as low as the deposit rate (currently -0.4%). ECB President Mario Draghi explained the apparent meanness as being due to uncertainty over the worsening outlook, saying: "In a dark room you move with tiny steps. You don't run, but you do move."

### Japan

A steady rally in government bonds accelerated into a marked repricing in March after the US Federal Reserve delivered a dovish surprise at its policy meeting and European manufacturing activity slumped far more than feared. With the 10-year Japanese government bond yield having started 2019 barely in positive territory, the strong rally helped drive the benchmark 8 bps lower over the quarter to -0.08%. The sovereign curve bull flattened, with yields falling progressively further as maturities lengthened to 40 years.

The Bank of Japan (BoJ) as expected kept its short-term interest rate at -0.1%, yield target for the 10-year government bond at 0% and annual pace of bond-buying at ¥80 trillion. The BoJ downgraded its assessment of exports and production, recognising some recent weakness caused by the slowdown in overseas economies. The central bank owned 43% of outstanding Japanese government bonds at the end of 2018. The BoJ allows the 10-year yield to move 0.2 percentage points either side of its 0% target, so an environment in which yields continued to fall could ultimately impair the BoJ's ability to execute its monetary policy.

### UK

Gilts led sovereign bond returns over the quarter as the 10-year yield fell 28 bps to 1.00%, its lowest level since September 2017. The 5-year yield fell 14 bps to 0.76% while the 30-year yield fell 27 bps to 1.55%. The sovereign curve flattened, led predominantly by maturities of 10 years and longer.

UK growth has been slowing since last summer but stabilised at 0.2% in the rolling three-month periods to December and January. Activity remained sluggish despite the economy bouncing back from a particularly weak December. The services sector was the main driver of growth, while the production and construction sectors contracted.

## Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1102AU
AMP Flexible Super - Retirement account	AMP1338AU
AMP Flexible Super - Super account	AMP1467AU
CustomSuper	AMP1102AU
Flexible Lifetime - Allocated Pension	AMP1107AU
Flexible Lifetime - Term Pension	AMP1111AU
Flexible Lifetime Investment	AMP1116AU
Flexible Lifetime Investment (Series 2)	AMP1403AU
SignatureSuper	AMP1113AU
SignatureSuper Allocated Pension	AMP1142AU

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