Macquarie Balanced Growth

Quarterly Investment Option Update

31 March 2019

Aim and Strategy

To outperform the Macquarie Balanced Growth Structured Benchmark over the medium term (before fees). The portfolio aims to return a balanced level of growth and income. The option provides exposure to a diversified portfolio of growth assets, including equities and alternative assets, with some exposure to cash and fixed interest. The option employs an active investment approach that identifies and pursues investment opportunities within set limits through a combination of active management within each asset class and tactical asset allocation across asset classes to meet the objectives of the portfolio. A varying portion of the foreign currency exposure is hedged through currency hedging solutions, whether passive or active.

Asset Allocation	Benchmark (%)	Actual (%)
Cash	1.5	21.6
Strategic Income*	9.0	14.3
Australian Fixed Interest	17.5	5.3
Global Fixed Interest	7.5	1.0
Inflation Linked Bonds	5.0	3.5
Australian Equities	26.0	19.3
Global Developed Markets	13.5	17.7
Global Emerging Markets Equities	12.0	9.6
Alternative Assets**	8.0	7.7

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment category	Multi Sector (Balanced)
Suggested investment timeframe	5 years
Relative risk rating	Medium
Investment style	Active

*Invests predominantly in high quality Australian and global credit securities
** may include investments in such asset classes as private equity, infrastructure or hedge funds

Investment Option Commentary

The March quarter was a very positive one for risk assets as they hit 6-month highs, at the same time bond yields dropped to their lowest levels since December 2017. These market moves were brought on by positive central bank rhetoric that was followed by action with the US Federal Reserve (Fed) pausing any further tightening, the European Central Bank (ECB) offering additional support via the new series of Targeted Longer-Term Refinancing Operations (TLTROs) and China undertaking fiscal stimulus. This collective shift in central bank policy, from a tightening bias to be more dovish, led risk assets to rally while longer dated bond yields fell. As a result yield curves flattened, as investors digested what this means against a slowing global economic backdrop.

The Fed softened its stance throughout the quarter starting with a January speech by Fed Chair Powell where he indicated that they would take a "patient" approach to tightening and "wouldn't hesitate" to change balance sheet policy if needed. The quarter finished with the March Federal Open Market Committee (FOMC) meeting where the FOMC removed two rate hikes projected for 2019 and stated that they will reduce balance sheet unwinds by $US15bn in May and stop the unwind in October. This dovish turnaround continued to take the market by surprise throughout the quarter in terms of how quickly it happened and that this dovish sentiment continued despite the backdrop of improving risk markets.

The quarter commenced with concerns over Chinese growth as gross domestic product (GDP) printed at 6.6% for Q4 2018, the slowest rate of growth since 1990. This resulted in several actions which included the People's Bank of China reducing the reserve requirement ratio to free up $US116bn for new lending, plans to set up a central bank bills swap system, an increase in total social financing, and tax cuts amounting to $US298bn were announced. The last measure was implemented after GDP forecasts were revised down from 6.5% to 6.0%.

European data was poor over the quarter finishing with both German and French Purchasing Managers' Index data printing below 50 in March. This weaker data led to more supportive action from the ECB which included introducing another round of the TLTRO program to allow cheap collateralised financing to financial institutions, along with affirming that they remain on hold. Brexit negotiations also cast a shadow over sentiment with little sign of progress as the deadline has been extended initially to 12 April and an Emergency EU summit is scheduled for 10 April. Theresa May's Withdrawal Agreement has now been rejected three times and Parliament have failed to agree on a viable alternative. However, despite the negative sentiment specific to the European macro environment, European credit performed well, buoyed by broader global risk markets.

Rates markets rallied over the quarter as central banks globally shifted to a more dovish policy outlook. The spread between US 3-month and 10-year Treasury yields inverted for the first time since 2007, which had markets concerned about global growth and US 10-year Treasury bond yields reached 2.36%, their lowest level since December 2017. In Europe, Bund yields traded as low as -0.8%, the lowest level since 2016. In the US there was a strong risk appetite over the quarter with the S&P 500 index hitting 6-month highs led by tech stocks, though financials suffered on lower yields (flatter curves) and growing expectations of long rate pauses or even rate cuts. Credit performed well with US investment grade (IG) credit rallying nearly 40bps from its wides at the start of the year and high yield (HY) credit also rallied over 100bps.This rally led BBB names like General Electric and AB Inbev to retrace from their wides.

In term of asset allocation, the Fund held an overweight bias to international equities, and an underweight bias to emerging market equities and Australian equities during the quarter. Global fixed income, Australian fixed income and the Australian dollar were also held below the strategic weights.

Outlook

The more dovish stance continuing from the Fed, and other central banks, has been encouraging given the recent slowdown in global economic indicators. Whilst there are encouraging signals from central banks pausing and delaying the reduction of support, Macquarie believes the hurdle for additional support is still high and markets may need to be weaker prior to eventuating. Given where risk assets are priced, especially the higher beta sectors, there is less urgency to add risk against this backdrop. They believe that it is important to focus on downside protection given rich asset valuations and decelerating growth in China and Europe.

Availability

Product name	APIR
SignatureSuper	AMP0958AU#
AMP Flexible Lifetime Super	AMP0706AU#
CustomSuper	AMP0706AU#

Closed to new members

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