Professional Conservative

Quarterly Investment Option Update

31 March 2019

Aim and Strategy

To provide modest investment returns, with reasonably limited fluctuations in the value of the investment from year to year. The portfolio will primarily invest in a diversified mix of defensive and growth assets managed by professional asset managers.

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	3 years
Relative risk rating	Low
Investment style	Multi-Manager

Asset Allocation	Benchmark (%)
International shares	11
Australian shares	11
Listed property & infrastructure Unlisted property & infrastructure	5
Growth alternatives	3
International fixed interest Australian fixed interest	43
Defensive alternatives	3
Cash	24

Actual allocation	%
International shares	11.95
Australian shares	10.27
Listed property & infrastructure Unlisted property & infrastructure	4.86
Growth alternatives	2.98
International fixed interest Australian fixed interest	37.39
Defensive alternatives	4.16
Cash	28.39

Fund Performance

Global government bond yields fell in January amid a rebound in risk assets. Led by the US, market expectations pivoted to a pause in US Fed rate hikes after the central bank signalled a more dovish tone. Yields were largely rangebound in February, with geopolitical influences such as improved confidence of a positive resolution to the US-China trade conflict appearing to outweigh largely poor economic data releases and further economic growth forecast downgrades by central banks. March saw a significant bond market rally, with fears of a global growth slowdown gaining further traction as softer economic data releases on balance were accompanied by a shift to a more dovish tone from key central banks. Notably, markets saw an inversion of the 3-month to 10-year US Treasury yield curve late in the period, an event which can sometimes be a signal for recession.

Early in the March quarter, Australian government bonds largely mirrored their overseas counterparts as risk assets rebounded, with the domestic rally also reflecting growing concerns around house prices and ongoing mixed economic data releases including weak December quarter inflation. Diverging from offshore moves, domestic bond yields continued to fall in February, as markets reacted to the RBA changing its cash rate guidance to a neutral stance lowering its economic growth and inflation forecasts. Bond yields continued to fall in March on the back of fears of slowing global economic growth and dovish central banks. Furthermore, local bonds rallied amid the release of largely soft domestic economic data, including a disappointing December quarter GDP reading. Similar to their US peers, Australian bonds saw an inversion of the 3-month to 10-year yield curve late in the period.

Australian cash and deposits are still providing poor returns, with interest rates remaining on hold at 1.5% for what has become a protracted period of time. Reserve bank commentary has progressively become more dovish during in recent months, with a fall in interest rates now looking likely, particularly if inflation or growth continues to disappoint, or if unemployment were to surprise on the downside. Three and six-month Australian bank bill rates closed the quarter at 1.77% and 1.84% respectively, down from 2.06% and 2.18% three months prior.

Global shares posted extremely strong gains in the March quarter, the MSCI World ex Australia index finishing up by 12.66%. Markets around the globe remain optimistic on the back of reasonably good global economic growth and a somewhat dovish US Federal Reserve (Fed).

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 Lifetime Super	AMP1954AU
AMP Flexible Super - Retirement account	AMP1961AU
AMP Flexible Super - Super account	AMP1968AU
Flexible Lifetime - Allocated Pension	AMP1947AU
Flexible Lifetime - Term Pension	AMP1947AU
Flexible Lifetime - Investments (Series 2)	AMP1979AU
SignatureSuper	AMP1729AU

Contact Details

Web: www.amp.com.au
Email: askamp@amp.com.au
Phone: 131 267 (Mon. to Fri. 8:30am to 6:00pm AEST)

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