

# Macquarie Balanced Growth

## Quarterly Investment Option Update

30 June 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.

### Investment Option Performance

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

Asset Allocation	Benchmark (%)	Actual (%)
Cash	1.5	8.1
Strategic Income*	9.0	14.4
Australian Fixed Interest	17.5	6.0
Global Fixed Interest	7.5	3.9
Inflation Linked Bonds	5.0	3.6
Australian Equities	26.0	29.2
Global Developed Markets	13.5	18.0
Global Emerging Markets Equities	12.0	9.2
Alternative Assets**	8.0	7.6

### Investment Option Overview

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

\*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 June quarter was dominated by central banks responding to slower growth with a dovish pivot, while unresolved trade tension, principally between the US and China, simmered in the background. Under this backdrop risk assets performed well with the S&P 500 reaching all-time highs, while bond yields rallied to lows not seen since late 2016.

A weaker economic outlook during the quarter was met with an increase in the dovish tone emanating from global central banks. The dovish rhetoric included US Federal Reserve (Fed) Chair Powell indicating that they would 'act as appropriate to sustain expansion', while European Central Bank President Draghi announced new targeted longer-term refinancing operations and indicated that if a 'sustained return of inflation to our aim is threatened, additional stimulus will be required'. The Reserve Bank of Australia (RBA) minutes were similarly dovish, stating 'more likely than not that a further easing in monetary policy would be appropriate'.

Trade continued to be front and centre as a key market driver during the quarter, commencing with US President Trump announcing that an 'epic' trade deal would be coming soon in April. This positivity was short lived as he made a threat of increased tariffs with China from 10% to 25% on \$US200bn of goods in May. China retaliated with tariffs on \$US60bn of US goods, which was met with a further list of \$US300bn of Chinese goods to be hit with a 25% tariff. Tensions then jumped to another level after restrictions were placed on Huawei by the US, impacting suppliers both globally and in the US. These restrictions to Huawei were eased for 90 days, but reports surfaced that the US may blacklist five more Chinese companies, including video surveillance firm Hikvision. May commenced with an early breakthrough as Mexico and the US reached an immigration deal. The tension between China and the US heightened as the G20 approached, with China increasing tariffs on \$US60bn of US products and Commerce Secretary Wilbur Ross indicating that President Trump was 'perfectly happy' to impose further tariffs. However, positive rhetoric from President Trump indicated optimism on a deal as the G20 approached, and this was followed up with a statement that his meeting with Chinese President Xi on the last weekend of the month was 'excellent' and that the relationship with China was 'right back on track'. President Trump then promised that there would be no additional tariffs on Chinese imports for now.

The central bank pivot over the quarter towards a more dovish stance overrode the continued trade and geopolitical tensions. The S&P 500 index hit all-time highs at 2,954 and US 10 year Treasury bond yields dropped as low as 1.98%, the lowest level since 2016. Credit lagged the performance in equities and bonds, with US investment grade (IG) spreads wider by 4bps on the quarter to end at 120bps.

The Australian market mirrored global markets as the RBA continued to offer support and a global demand for credit securities overflowed into the new issue market. This was further assisted in May as the Coalition party unexpectedly won majority government at the Australian federal election, while the Australian Prudential Regulation Authority proposed relaxing lending requirements by removing the 7% interest rate floor when assessing mortgage affordability. This has partially offset some of the credit tightening that occurred with responsible lending following the royal commission and added to positive sentiment in the market.

In term of asset allocation, the Fund held an overweight bias to strategic income, international equities and Australian equities during the quarter, while global and Australian fixed interest were below their strategic weights.

## Outlook

The more dovish stance continuing from global central banks, including the Fed, has been encouraging given the recent slowdown in global economic indicators, unresolved trade disputes, and escalating geopolitical tension. In Australia, the lower cash rate will likely improve market sentiment particularly in riskier assets. However, there is a limit to what support from central banks can do and given that risk assets are priced above historical averages, especially in the higher beta sectors. We continue to believe there are opportunities to participate in growth asset with a strong risk management focus.

## Availability

Product name	APIR
SignatureSuper	AMP0958AU#
AMP Flexible Lifetime Super	AMP0706AU#
CustomSuper	AMP0706AU#
# Closed to new members	

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