Macquarie Corporate Bond Fund - Class A Units

Monthly report – 31 May 2023

Investment objective

Aims to outperform the Bloomberg AusBond Bank Bill Index, after costs but before tax, over a rolling three-year basis. It aims to provide regular monthly income with some potential for growth while aiming to preserve capital value.

Key information

Fund details	
APIR code (Class A Units)	AMP0557AU
Inception date	23 June 2009
Fund size+	$447.9m
Distribution frequency	Monthly
Management fee*	0.53% pa
Minimum investment (Direct)	$500,000
Unit prices and spreads	macquarie.com.au/unit_prices

*Read the Product Disclosure Statement for more details on fees and costs.

+As the Fund has one or more classes of units on issue, this figure represents the assets under management (AUM) of the Fund as a whole (rather than the AUM attributable to the class of units specified in this report).

Class performance to 31 May 2023

	Total Class return (gross)	Total Class return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.29	0.22	0.29	-0.07
3 months (%)	0.91	0.75	0.89	-0.14
1 year (%)	3.64	3.02	2.64	0.38
3 years (% pa)	2.32	1.72	0.91	0.81
5 years (% pa)	2.37	1.76	1.14	0.62
10 years (% pa)	3.34	2.73	2.41	0.32
Since inception (% pa)	5.36	4.75	3.87	0.88

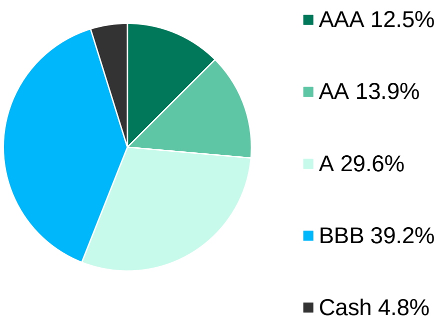
Past performance is not a reliable indicator of future performance.

Total returns are calculated based on changes in net asset values and assumes the reinvestment of distributions.

Total net Class returns are quoted after the deduction of fees and expenses. Due to individual circumstances, your net returns may differ from the net returns quoted above.

Macquarie Investment Management Global Limited (MIMGL) was appointed as the investment manager of the Fund from 26 March 2022 and Macquarie Investment Management Australia Limited (MIMAL) was appointed as the responsible entity of the Fund from 26 April 2022. Prior to these dates, the fund was managed or operated by another entity or entities. Please see the offer document of the Fund or contact Client Service on 1800 814 523 for further information.

Credit profile breakdown



Average credit rating: A

BB and below include direct holdings and residual exposure to issuers held through our investment grade and emerging markets allocation.

Top 5 asset allocation by industry

Industry	%
Banking	46.4
Residential Mortgage	10.0
REITs	9.4
Electric	5.7
Transportation	4.9

Fund statistics

Credit spread duration	1.4 years
Interest rate duration	0.5 years
Yield to maturity[1]	5.2% pa
Allocation to global securities (ex-Australia)	0.5%

[1] Pre-fee returns Fund would earn over next year based on current market conditions if there were no changes to interest rates or holdings. It is not an actual or estimated return.

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Fund highlights

The Portfolio performed broadly in line with the benchmark in May with credit spreads relatively rangebound. Financials were a positive contributor to performance while corporates provided solid performance particularly in the utilities space as several primary deals set firm spread levels and led to a broad-based sector rally. Structured securities again contributed to Portfolio returns with spreads at historically wide levels. However, this was offset by the detraction from the modest protective duration position given the material move wider in rates. Over the month, the Portfolio participated in transactions from issuers such as Ausnet, Credit Agricole, Bendigo and Adelaide Bank, National Australia Bank and Suncorp.

Market overview

Australian cash market

The Reserve Bank of Australia (RBA) surprised the market at the May Board meeting, hiking the cash rate by 25bps and taking the target to 3.85%. Following a pause in April, consensus expectations were for a continued hold with only a small chance of an increase priced. Despite maintaining a tightening bias, the May policy statement was marginally weaker than April. In May, the RBA acknowledged that “Some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will depend upon how the economy and inflation evolve.” The RBA also removed "In assessing when and how much further interest rates need to increase." The May minutes released mid-month reinforced the slightly more dovish tone, indicating that the decision to hike or hold was a “finely balanced one”. However, “strong growth in employment in March, the high rate of services price inflation in the March quarter CPI, further evidence of persistent services sector inflation abroad, and some easing in the stresses in global banking markets” led to the May outcome.

There were signs of a decline in sentiment over the month. Westpac consumer confidence slumped 7.9% to 79 in May, driven by the surprise hike from the RBA and Federal Budget outcomes. Although NAB Business Confidence for April improved to 0, it remains below the historical average. Retail Sales for April were flat, with food-related retailing reporting the first fall in more than one year and suggesting that weakness may be spreading to discretionary spending.

April labour force data was significantly weaker than expected, falling by 4.5k and surprising consensus expectations (+25k). This was led by a fall in full-time employment (-27.1k). The unemployment rate increased to 3.7% from 3.5% the previous month and this marked the highest rate since May 2022. In contrast to the weaker employment print, it should be noted that hours worked lifted +2.9% to 7.4% y/y. There was some seasonality impact however, with the Australian Bureau of Statistics noting that “this was because fewer people than usual worked reduced hours over the Easter period”.

Persistently high inflation remained a concern with Australia’s monthly CPI indicator for April higher than expected, and the annual rate increasing to 6.8% YoY. This was above both consensus (6.4%) and the RBA’s Q2 forecast (6.3%). However, the halving of the fuel excise tax in April 2022 impacted the annual movement. The Wage Price Index for Q1 was 3.7% YoY, exceeding the RBA forecast of 3.6%. Including bonuses, the annual measure rose 3.9%. The share of jobs receiving a pay increase of more than 4% was 35.1% - the highest since mid-2009. Private sector wage growth was steady at 0.8%, while public sector wage growth rose from 0.7% to 0.9% QoQ.

Australian credit market

Australian credit marginally outperformed global credit tightening 4bps on an option-adjusted spread basis over the month May, though most of the outperformance came from the narrowing of swap spreads. Financial senior paper finished unchanged for the month while bank subordinated bonds drifted wider as ANZ priced $A1.15bn of 10NC5 at +235bps which came with a 15bp concession to existing secondary curves. This created some indigestion which caused longer-dated subordinated debt to widen 15bps before retracing most of the weakness in the back half of the month. Recent demand has been heavily skewed towards floating rate notes (FRNs) leading to a material outperformance relative to the fixed rate bonds. Corporate spread performance was mixed with REITs continuing to lag and telecommunications recording a more broad-based tightening. The primary market saw more than $A16bn of issuance with most of the transactions coming from banks, though we did have 3 long-dated corporate deals with the most notable being Ausnet’s 700mil 10-year deal which garnered more than $A1.2bn of final orderbook.

Outlook

During May our research and investment teams undertook a deep dive into our views using our triannual Strategic Forum process. The review of the macroeconomic outlook noted that the supply recovery continues on a slow, steady, sustainable path; and while demand has decelerated it has not turned into a destructive force. Importantly, our analysis noted the unexpected positive impulse from US fiscal policy in the early months of the year (from increased defence spending and cost of living adjustments to benefits). This combination has caused inflation to start turning lower, however it remains well above target which has induced central banks to tighten further. Our proprietary analysis suggests that US central bank policy is already in over-tightening mode, and historically when this occurs something breaks – the recent US regional bank turmoil is a good example.

A key dilemma for central banks and markets is the fact that monetary policy works with long and variable lags, and this has been the fastest and largest tightening cycle for several decades. In addition, yield curve inversion analysis had been pointing to late 2023 for recession. This highlights a key debate on the outlook- should focus be on leading or lagging indicators? Employment, inflation and wages are all lagging reflections of the economic cycle. Spending data and forward guidance are leading indicators. For the consumer, despite higher nominal wages, spending has remained constrained in real terms as the scars of the supply shocks has increased prices. Thus, with the positive impulse from government cash handouts dissipating and concurrent monetary tightening grinding, the overall impact is we still see recession as our base case outlook for late 2023.

The skew of risks debated at our Strategic forum were biased to expecting a harder landing for the economy. The first risk lay with the debt ceiling and at the time of writing this may have been neutralised. Secondly, is that monetary over-tightening persists, potentially exacerbated by the chance of another hike in June. Thirdly, credit conditions have tightened, already to levels that historically correlate with the near-term onset of recession, yet we expect even more tightening to come. Finally, economic fragility brings financial dislocation. Concerns surround Commercial Real Estate and Private markets for example.

We therefore remain constructive strategically on duration and cautious of risk markets, recognising that the pathway ahead is potholed by a high level of uncertainty.

For more information speak to your financial adviser, call us on 1800 814 523, email mam.clientservice@macquarie.com or visit macquarieim.com