

# Macquarie Corporate Bond Fund - Class A Units

Monthly report – 31 July 2022

## 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 <sup>+</sup>	\$698.6m
Distribution frequency	Monthly
Management fee <sup>*</sup>	0.56% pa
Minimum investment (Direct)	\$500,000
Unit prices and spreads	<a href="https://www.macquarie.com.au/unit_prices">macquarie.com.au/unit_prices</a>

<sup>+</sup>Read the Product Disclosure Statement for more details on fees and costs.

<sup>\*</sup>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 July 2022

	Total Class return (gross)	Total Class return (net)	Benchmark return	Total excess return (net)
<b>1 month (%)</b>	0.37	0.33	0.12	0.21
<b>3 months (%)</b>	-0.02	-0.15	0.21	-0.36
<b>1 year (%)</b>	-1.53	-2.06	0.22	-2.28
<b>3 years (% pa)</b>	1.35	0.76	0.33	0.43
<b>5 years (% pa)</b>	2.18	1.58	0.94	0.64
<b>10 years (% pa)</b>	3.79	3.17	2.78	0.39
<b>Since inception (% pa)</b>	5.15	4.82	3.92	0.90

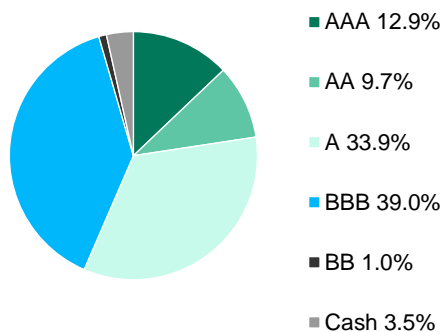
### Past performance is not a reliable indicator of future performance.

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	43.0
Residential Mortgage	9.9
REITs	8.7
Transportation	6.6
Electric	5.3

## Fund statistics

Credit spread duration	2.0 years
Interest rate duration	0.6 years
Yield to maturity <sup>1</sup>	4.2% pa
Allocation to global securities (ex-Australia)	2.8%

<sup>1</sup> Pre-fee returns Class 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 Fund outperformed the benchmark in July as rates and credit spreads stabilised. Persistent demand saw major bank senior paper outperform in the Australian credit market, and this contributed positively to performance as the Fund started accumulating major bank senior paper since the start of the year. While spreads of higher-beta bonds generally ended the month sideways to slightly wider, higher-than-benchmark carry and steep rolldown of the credit curve continued to contribute positively to performance. The Fund's modest protective duration positioning also helped drive performance as rates rallied 45bps and 60bps in the 3-year and 10-year part of the curve, respectively, as the shift towards a more balanced rhetoric from central banks, combined with softer tier 1 data, drove the rally. It was a healthy month of supply in the primary market, and the Fund participated in transactions from issuers such as Canadian Imperial Bank of Commerce and John Deere.

## Market overview

### Australian cash market

The Reserve Bank of Australia increased the cash rate again at the July Board meeting by 0.50% to 1.35%, in line with consensus. The post-meeting Statement was similar to June, again noting the "increase in interest rates by the Board is a further step in the withdrawal of the extraordinary monetary support", though stated that "medium-term inflation expectations remain well anchored and it is important that this remains the case". Further interest rate hikes continue to be flagged as the Statement noted that the "Board expects to take further steps in the process of normalising monetary conditions in Australia over the months ahead". The Bank also noted the "size and timing of future interest rate increases will be guided by the incoming data and the Board's assessment of the outlook for inflation and the labour market".

Inflation data was keenly watched as an indicator for the path of monetary policy going forward. The headline consumer price index slightly missed estimates of 1.9% QoQ by coming in at 1.8%, which brought the YoY figure up to 6.1%. However, the trimmed mean inflation measure that the Reserve Bank of Australia closely observes was in line with the survey, at 1.5% QoQ and 4.9% YoY. Employment data was unexpectedly strong, with the jobless rate falling to 3.5%, the lowest level in almost 50 years. Employment jumped 88k over June, largely driven by full-time roles, and the participation rate rose to 66.8%.

### Australian credit market

Australian credit underperformed its global peers in July, with credit index spread moving only 5 basis points tighter, mostly driven by retracement of swap spreads. Major bank senior spreads traded with high level of conviction as spreads tightened anywhere between 3-5 basis points across the curve, with front-end paper outperforming as the sell-side broker inventory was depleted quickly throughout the month. Otherwise, most of the other sectors traded with a heavy tone throughout most of the month. In particular, bank subordinated notes drifted materially wider for the better part of the month as investors braced for potential supply. This supply eventuated in the National Australia Bank's recent '10NC5' (10 year maturity, callable in 5 years) deal which was issued at a spread to 3-month bank bill yield of 280 basis points, the widest print since 2016 by any of the Australian major banks. The National Australia Bank subordinated 10NC5 spreads have since pulled tighter over the month. Elsewhere, corporate paper generally traded without much vigour over the month, with spreads edging marginally wider as there was very little issuance to provide any pricing clarity in the corporate sector. Structured securities were marked wider in spreads again as a number of non-ADI (authorised deposit-taking institution) issuers came to the mark with non-conforming deals printing at wider spread levels. Over the month, primary issuance picked up to \$A7.8bn in the investment grade market, with all the deals concentrated in the banking sector except for one \$A300m deal from John Deere.

## Outlook

'Stagflation' is increasingly being used to describe the current macroeconomic environment. We have been warning of stagflation all year, and the market narrative is now evolving towards recession. We have stated that recession is indeed a risk but was not a certainty, the key lies with how central banks conduct monetary policy. The US Federal Reserve believes at a 2.5% rate that policy is neutral, however, they are signalling that policy rates need to go higher in order to bring inflation back to the target of 2% on average. Although this is a challenge, as the Federal Reserve's own forecasts show rates rising to 3.75% during 2023 before falling modestly in 2024. In contrast, the market's discount for the Federal Reserve policy has rates peaking at around 3.30% in 2022 and falling to around 2.75% in 2023. This reveals a significant mismatch, which is likely to result in further asset volatility.

With leading indicators already signalling that the economy is slowing, a Federal Reserve focused on inflation and rates hikes is very likely to lead to a recession becoming reality. Central banks are in a tough position, as even though the double supply shocks (from the pandemic and then the Ukraine war) are largely responsible for inflation ramping higher, it is their mandate to bring it back towards target. The problem is that the supply situation needs to repair to ease many of the inflation pressures (e.g., gas). Hiking rates will dampen demand and using this tool to lower inflation means that demand will have to fall lower, probably into recession to even partly achieve their goal. Markets see a benevolent environment yet that is delicately and correctly managed by policy makers. We see the risks around this benevolent assumption as significant, particularly for risk markets.

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**For more information speak to your financial adviser, call us on 1800 814 523, email [mam.clientservice@macquarie.com](mailto:mam.clientservice@macquarie.com) or visit [macquarieim.com](http://macquarieim.com)**

### Important information

Macquarie Investment Management Australia Limited ABN 55 092 552 611 AFS Licence 238321 is the issuer of units in, and responsible entity of the Fund. Macquarie Investment Management Global Limited ABN 90 086 159 060 AFSL 237843 is the investment manager of the Fund.

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