

Macquarie Dynamic Bond Fund

Monthly report – 30 April 2022

Investment objective

Aims to generate attractive returns by dynamically investing in global fixed income instruments. It aims to provide diversification against equity risk as well as capital growth and some income.

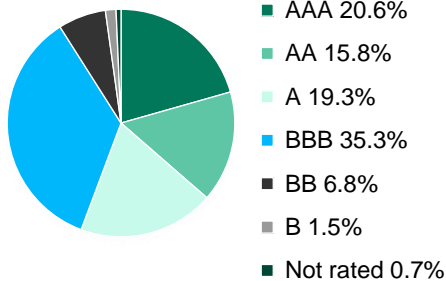
Key information

Fund details

APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$672.5m
Distribution frequency	Quarterly
Management fee*	0.614% pa
Minimum investment (Direct)	\$20,000
Unit prices and spreads	macquarie.com.au/unit_prices

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

Credit profile breakdown



Average credit rating: A

Less than BBB includes residual exposure to issuers held through global investment grade allocation

Fund performance to 30 April 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-2.01	-2.06	-1.84	-0.22
3 months (%)	-5.14	-5.28	-4.51	-0.77
1 year (%)	-5.54	-6.12	-5.55	-0.57
3 years (% pa)	1.18	0.56	-0.02	0.58
5 years (% pa)	2.63	2.00	1.09	0.91
10 years (% pa)	3.85	3.22	2.98	0.24

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 Fund 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.

From 7 January 2019, the benchmark is Bloomberg Barclays Global Aggregate 1 to 10 years Index hedged to AUD. Prior to this, the benchmark was Bloomberg AusBond Composite 0+Yr Index. The performance information shown above is against the current benchmark. Further information in relation to the performance against the previous benchmark is available on request.

Asset allocation

	Fund (%)
Sovereign bonds [^]	37.2
Investment grade credit*	52.6
High yield	5.7
Emerging markets debt ⁺	4.5

[^]Includes Australian government, Australian semi-government, supranational, global sovereign and cash

*Includes Australian and global investment grade credit

⁺May include holdings of sub-investment grade instruments

Fund statistics

Credit spread duration	2.6 years
Interest rate duration	4.2 years
Standard deviation [^]	3.1% pa
Yield to maturity*	4.3% pa

[^]Statistical measure of variance of Fund's post-fee monthly returns from its average post-fee return since inception used as gauge of volatility.

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

Geographical exposure

	Interest rate duration [^] (%)	Credit spread duration*(%)
North America	30.5	47.7
Europe (ex UK)	-4.9	13.0
UK	15.3	5.3
Australia/New Zealand	58.0	24.5
Japan	-0.6	0.0
Others	1.7	9.5

[^]Calculated based on security's currency

*Calculated based on security issuer's currency

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Fund highlights

The Fund delivered a negative return during the month amid the continued broad-based volatility in markets and rising bond yields, driven by central bank tightening and concerns around rising inflation.

The Fund continues to add duration to take advantage of rising global yields. Given the underperformance of Australian government bonds relative to global, we added to our existing Australian exposure. The Fund reduced exposure to the European front end as the European Central Bank becomes increasingly concerned about the level of inflation, which has allowed the market to price in more aggressive policy responses from the middle of the year.

The Fund's credit allocations detracted from the Fund's performance over the month. That reflects very weak trading conditions in credit markets, with US investment credit recording its worst month for spread widening since March 2020. Amongst credit sectors, modest exposures in global high yield and emerging markets led the weakness – with HY US cable operators and subordinated financials impacted by the broad sell-off. Investment grade credit had a neutral impact on returns, with positive security selection in financials offsetting the impact of the Fund's overall overweight sector allocation. Issuers that we have strong fundamental comfort with, such as toll-road operator Transurban Queensland and US bank JP Morgan, were amongst the largest single name detractors, reflecting the broad market re-pricing of credit risk.

The Fund's overall positioning remains positioned with significant liquidity within the portfolio and significantly reduced investment grade credit – offering meaningful scope to begin looking at attractive opportunities in a sharply higher yield environment. For example, US banks are now issuing at spreads near to, or wider than levels at the peak of market stress in 2018, which we think begins to offer an attractive entry point in a sector that has made significant progress in improving capital levels and simplifying operations. The Fund added Bank of America in April, which issued in EUR with a spread of almost 2% over government bonds, or an AUD-equivalent yield of approximately 5%, which we believe offers value for an issuer that should be relatively resilient in a volatile market and economic backdrop. In contrast, spread tightening from the post-Russian invasion wided offered an opportunity in the first half of the month to trim higher-beta exposures, removing selected more cyclical industrial names, such as Ford Motor Credit.

Market overview

The upward pressure on inflation and increasing hawkishness of global central banks continue to be the main theme impacting fixed income markets. The Russia-Ukraine conflict continues as does the debate about its impact. The geopolitical environment is being shaken and likely re-shaped while the global economy is having to endure another significant and broader supply shock. We have often described the investment climate in recent years as 'contained', where central bank actions were to contain risks and create stability for investors. This 'container' is not only being shaken but potentially broken with the uncertainties on the outlook piling up, and at the same time central banks have shifted focus completely embarking on a rate hike cycle, the likes of which has not been witnessed for decades.

Global government bond yields have been pulled higher by inflation. However, it has been the urgency from central banks to tame inflation that has been the key driver of current higher yields. During April, after the rapid trend of yield curve flattening, the longer-dated bonds underperformed and yield curves steepened, in some cases brutally. However, by month-end some curve flattening returned as evidence emerged that the high inflation was beginning to weaken demand. Risk markets have been under pressure, but to date this continues to be an orderly sell-off, with corporates able to pass on higher prices at this stage of the cycle and therefore maintain relatively good earnings and credit profiles.

Outlook

The impact of the pandemic supply shock continues to reverberate around the global, with attention moving back to China, who is persisting with a 'COVID-zero' policy, and as the latest variant spreads from Shanghai to other areas concerns about supply chain, growth and inflation have re-escalated. This is on top of a new supply shock stemming from the invasion of Ukraine. Inflation rates have moved even higher while just a few months ago expectations were for inflation to begin a steady trend lower by the start of Q2. Central banks have made inflation their prime focus and aggressive rate hikes are now expected. It is recognised that rate hikes will dampen demand and therefore slow growth in the medium term, but what is less understood is how inflation will react. Our view is that supply problems have been the primary driver of current high inflation and this factor is unlikely to be influenced by the central bank tightening. While economies and labour markets in particular are resilient, the medium-term outlook is clouded with uncertainty on how these colliding forces will impact both inflation and economic growth trend 2 to 4 quarters ahead.

A soft landing for the economy and inflation back towards target is the ultimate goal for policy makers. However, stagflation and recession risks are realistic scenarios for the medium-term outlook. For asset markets, the desired outcome is a soft landing but the questions overhanging investors is how to balance the risks for stagflation or recession with the knowledge that it will take considerable time before probabilities of any scenario becomes clear enough to position portfolios with conviction. Amidst this sea of uncertainties, there is one element of clarity emerging. Bond yields are becoming attractive. Timing is tricky with central banks hiking but for those investors with a longer term view, a gradual accumulation strategy of high quality sovereign bonds will add balance to a portfolio of credit and equities, which are vulnerable to any scenario that is not a soft landing.

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