

# Macquarie Dynamic Bond Fund

Monthly report – 31 July 2022

## Investment objective

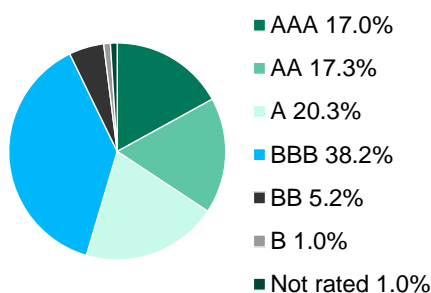
Aims to generate attractive returns by dynamically investing in global fixed income instruments. It aims to provide diversification against equity risk as well as capital growth and some income.

## Key information

Fund details	
APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$617.0m
Distribution frequency	Quarterly
Management fee*	0.614% pa
Minimum investment (Direct)	\$20,000

\*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 31 July 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
<b>1 month (%)</b>	3.13	3.07	1.94	1.13
<b>3 months (%)</b>	0.48	0.33	0.98	-0.65
<b>1 year (%)</b>	-6.38	-6.96	-5.53	-1.43
<b>3 years (% pa)</b>	0.41	-0.20	-0.41	0.21
<b>5 years (% pa)</b>	2.53	1.90	1.14	0.76
<b>10 years (% pa)</b>	3.52	2.89	2.83	0.06

### 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 <sup>^</sup>	26.0
Investment grade credit <sup>*</sup>	65.6
High yield	3.9
Emerging markets debt <sup>+</sup>	4.5

<sup>^</sup>Includes Australian government, Australian semi-government, supranational, global sovereign and cash

<sup>\*</sup>Includes Australian and global investment grade credit

<sup>+</sup>May include holdings of sub-investment grade instruments

## Fund statistics

Credit spread duration	3.0 years
Interest rate duration	4.0 years
Standard deviation <sup>^</sup>	3.2% pa
Yield to maturity <sup>*</sup>	4.6% pa

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

<sup>\*</sup>Pre-fee returns 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 <sup>^</sup> (%)
North America	37.6
Europe (ex UK)	5.4
UK	9.4
Australia/New Zealand	58.3
Japan	-12.6
Others	1.8

<sup>^</sup>Calculated based on security's currency

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## Fund highlights

The Fund delivered a positive return during the month, amid a broad-based rally in yields.

There was little movement in the Funds interest rate exposure during the month. Outright duration exposure was steady in July while the only geographical change was moving out of Canadian duration back into US Treasuries given the narrowing of the interest rate spread – reversing a strategy we had enacted the previous month given how rich Treasuries were on the spread basis. Overall duration positioning positively contributed to performance during the month.

The Fund's credit positions positively contributed to performance for July. Most developed credit markets regained a portion of their losses from June during the month, and wider spreads offered more attractive entry points to add to exposures. Amongst credit sectors, investment grade and high yield were both equal contributors. Emerging markets was also a positive contributor, though smaller, given the rebound in these markets lagged developed market credit. Duration positioning added value, led by Australian rates positioning, with CAD and USD duration also contributing. Among individual performers, a newly added NAB subordinated bond was a strong contributor, as were European infrastructure issuers such as toll roads.

The Fund's positioning remains with significant liquidity, with cash and short-dated investment grade totalling over 40% of holdings, offering meaningful possibilities to begin to look at opportunities in a sharply higher yield environment. During the month, the Fund added exposures to investment grade credit in the US and Australia, reflecting attractive spread levels even given the volatile and difficult market backdrop. Additions included a new NAB subordinated bond, which priced at the widest spread level for a new AUD issue since 2016, as well as US financials and US industrials, such as refiner Valero.

## Market overview

Central banks continued to deliver rate hikes through July as inflation has continued to make new highs in many countries. The focus was increasingly on growth risks and asset markets paid particular note to sentiment surveys where the significant concerns being expressed by consumers were increasingly being reflected by businesses. This environment is called stagflation and it does not happen very often, where growth is slowing below trend and inflation remains well above trend. While the 'flation' component of 'stagflation' dominated the first half of this year, in July the 'stag' component has taken a prominent role in the mind of asset markets. The delivery of a US 'technical recession' with a second quarter of negative growth ignited a strong rally in government bond yields, though risk markets also rallied on the belief that the path is now set for central banks to cut rates in 2023. Interestingly, despite central banks raising rates aggressively over the month, the positive moves within asset markets actually eased financial conditions.

## 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 AFSL 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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