

# Macquarie Dynamic Bond Fund

Monthly report – 31 August 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.

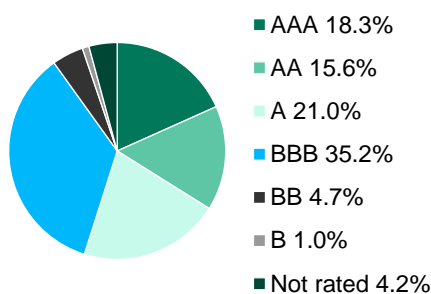
## Key information

### Fund details

APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$599.2m
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 August 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
<b>1 month (%)</b>	-2.28	-2.33	-2.15	-0.18
<b>3 months (%)</b>	-1.54	-1.70	-1.41	-0.29
<b>1 year (%)</b>	-8.68	-9.24	-7.45	-1.79
<b>3 years (% pa)</b>	-0.78	-1.39	-1.49	0.10
<b>5 years (% pa)</b>	2.12	1.50	0.56	0.94
<b>10 years (% pa)</b>	3.22	2.58	2.54	0.04

### 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>	26.5
Investment grade credit <sup>*</sup>	65.2
High yield	3.5
Emerging markets debt <sup>*</sup>	4.8

<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	2.7 years
Interest rate duration	4.8 years
Standard deviation <sup>^</sup>	0.0% pa
Yield to maturity <sup>*</sup>	5.1% 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	36.5
Europe (ex UK)	-8.5
UK	15.5
Australia/New Zealand	47.8
Japan	0.1
Others	8.6

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

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## Fund highlights

The Fund marginally underperformed the benchmark during the month, primarily driven by duration positioning.

The Fund increase its duration by circa 75bps during August. This was implemented by the removal of the JGB underweight position, given the lower probability of the Bank of Japan moving away from its yield curve control policy and also via the addition of US duration as yields rose over the month. In Europe, there was some allocation changes, with the Fund increasing its exposure to UK gilts as they cheapened against core European fixed income. Investors have been revising higher their UK inflation expectations which has been widening the spread between UK gilts and German securities. There were also opportunities to hold Denmark against German bunds as a widening FX basis earned investors a more attractive return on similarly tenured Danish securities.

The Fund's credit positions positively contributed to performance for August. Most developed credit markets continued to recover into mid-August, before giving a portion of those gains back, and emerging markets rebounded strongly after lagging the recover in July. Amongst credit sectors, investment grade and emerging markets were the largest contributors, with strong contributions from the recent NAB and ANZ subordinated bonds as well as rebounds in small allocations to corporate hybrids, such as US utility Southern Co.

The Fund's positioning remains with significant liquidity, offering meaningful opportunities to begin to look at opportunities in a sharply higher yield environment. During the month, the Fund trimmed a small number of higher beta credit exposures, after strong recovery into the middle of August – we view the outlook for markets as remaining volatile and have previously added higher quality investment grade credit during periods of spread weakness.

## Market overview

An energy crisis ignited by the Russia-Ukraine conflict has pushed inflation rates to new highs and forced central banks to talk (even) tougher about the path for target rates. Financial markets have been thinking that rate hikes in 2022 would flip into rate cuts in 2023 and this belief was fuelling a rally in risk assets. While only the Bank of England, Reserve Banks of Australia and New Zealand delivered rate hikes in August the tough talk from both the US Federal Reserve (Fed) and European Central Bank had a dramatic impact on medium term rate expectations. While this pulled bond yields higher, yield curves continue to flatten with the UK the latest country to join the inverting trend between 2 and 10 year yields. Consumer and business sentiment remain weak. Hard economic data is showing signs of softening, not enough to distract central banks from inflation. This combination has elevated recession fears for 2023. Housing data is often the first mover to tightening of financial conditions and all the data is pointing to slower activity in the sector. Personal income and spending data also disappointed as consumers battle the combined headwinds of higher energy costs and higher rates.

## Outlook

Stagflation continues to be the entrenched macroeconomic environment. Evidence is increasing that supply problems are easing, but this is a gradual process and still a long way to go. Demand is greater than supply, however, this is not driven by excess demand rather compromised supply. Central banks are being explicit in their desire to lower demand to ease the inflation pressure. They hope for a soft landing but with the energy crisis pushing inflation rates even higher the risk for a hard landing for the economy are increasing. The coming months and quarters will see a battle between slowing demand and improving supply and who wins will ultimately determine the outlook for both growth and inflation. It's a high stakes game and asset markets are at the table so expect volatility to persist.

For most countries growth has rebounded from the pandemic lows, but it has struggled to return to the pre-pandemic trend. Remember that this pre-pandemic trend was a long but uninspiring period of growth that underpinned the previous lower-for-longer interest rate environment. Against this fragile macroeconomic backdrop central banks are hiking rates rapidly. Meanwhile, fiscal stimulus of 2020-21 has given way to fiscal drag (that is, lower spending compared to the previous year) which is typical following a crisis spike in government spending. This combined policy tightening is rare and the risks for growth are firmly to the downside. Stagflation has been a bad environment for asset markets, but recession would be worse. This suggests that the upside risk for rates (ie duration) should be limited and the current higher yields offer a hedge to the downside risks facing risk markets should a recession become a reality.

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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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