

# Macquarie Dynamic Bond Fund

Monthly report – 30 September 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.

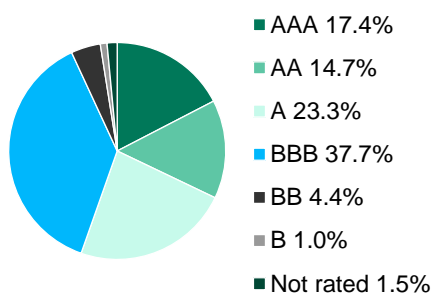
## Key information

### Fund details

APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$576.1m
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 30 September 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
<b>1 month (%)</b>	-3.13	-3.18	-2.65	-0.53
<b>3 months (%)</b>	-2.38	-2.53	-2.90	0.37
<b>1 year (%)</b>	-11.03	-11.58	-9.44	-2.14
<b>3 years (% pa)</b>	-1.73	-2.34	-2.29	-0.05
<b>5 years (% pa)</b>	1.52	0.90	0.07	0.83
<b>10 years (% pa)</b>	2.79	2.16	2.20	-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>	20.7
Investment grade credit*	71.0
High yield	3.2
Emerging markets debt*	5.1

<sup>^</sup>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	2.9 years
Interest rate duration	4.7 years
Standard deviation <sup>^</sup>	3.3% pa
Yield to maturity*	5.7% 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.

\*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	41.7
Europe (ex UK)	-1.3
UK	10.1
Australia/New Zealand	49.2
Japan	-5.7
Others	6.0

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

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## Fund highlights

Interest rate duration remained around 4.7 years, though the Fund continues to add duration in our core holdings as yields rise. Exposure to both US Treasuries and Australian sovereigns were increased, however, these moves were somewhat masked by a reduction in Japanese exposure initiated after weakness in the Yen. The Fund also reduced its exposure to UK gilts (in favour of European duration) given the size of the governments unfunded tax cuts, though the Fund maintains a healthy gilt allocation given the markets already aggressive pricing for tighter Bank of England policy and the future implications for growth if this tighter policy is fully realised. On the relative value side, the Fund closed out an overweight Danish exposure which took advantage of favourable moves in the foreign exchange basis. Going forward we expect to increase the Funds duration in line with our macroeconomic outlook of slower growth and tempering inflation.

The Fund's credit allocations detracted from performance versus the benchmark for September, with a broad acceleration of previous themes: inflation, aggressive tightening from central banks, and geopolitics; now joined by financial stability concerns as UK government bond markets suffered significant losses and illiquidity, and global currencies fell sharply all affecting credit markets. The largest single detractor was investment grade credit sector allocations, reflecting the size in the portfolio and additions though the year to this sector, given increasingly attractive spreads – security selection in investment grade was neutral. High yield and emerging markets security selection were also detractors, though to a much smaller degree. Among individual performers, US banks were a detractor (such as Bank of America, Truist and JP Morgan), with spreads reaching levels not seen in the last 10 years (outside of the brief COVID window): we see these names as offering value given the strong fundamentals and are comfortable with the position. The portfolio held no US Agency MBS for the year, a sector which has seen very significant negative performance. Given the attractive pricing now on offer, we began adding to this sector – with spreads now as wide as they have been at any point since the 2008-2009 financial crisis.

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 more cyclically exposed sectors, such as auto parts and travel – we view the outlook for markets as remaining volatile and have previously added higher quality investment grade credit during periods of spread weakness. Offsetting this, the Fund added to Agency MBS, a sector it exited in early 2021 at post-crisis tightness in spreads. Spreads are now much wider (near historical extremes), and in our view compensate for a lot of the risks surrounding this asset class).

## Market overview

Central banks around the world maintained aggressive rate hiking cycles over the month and signalled that there is more to come. This is the fastest rate hiking cycle since the early 1980s and the magnitude is rising, with 75 basis points moves delivered by the US, European, and Canadian central banks, and 50 basis points moves in the UK and Australia. These actions and statements of intent to tame inflation continue to pull bond yields higher. Risk markets are waking up to the prospect that the unintended consequence of central banks' efforts to bring inflation under control could be a recession, with major equity indices falling by 5-8% in the month. Credit spreads too are widening, with US investment grade spreads 17 basis points wider (European investment grade was 23 basis points wider) in the month, but as would be expected sub-investment grade underperformed, widening 68 basis points while emerging market sovereign spreads were 58 basis points wider.

If this was not enough for markets to contend, the new UK Prime Minister and Chancellor unveiled expected fiscal support measures to contain the impact of higher energy prices on households and businesses but tagged on significant unfunded tax cuts that are biased to benefit high income earners. The UK government bond market exploded higher, particularly the long end – which rippled around global markets and eventually prompted the Bank of England to intervene and buy bonds, reversing its intent to begin unwinding its balance sheet. The Japanese yen meanwhile continued to decline against the US dollar, despite efforts by the Bank of Japan to stem the tide.

## Outlook

Over the past two years, our analysis has determined that the economic environment was being largely defined firstly by the pandemic shock and then later by the energy price shock resulting from the war in Ukraine. However, the latest analysis at the Macquarie Fixed Income team's September Strategic Forum pointed to the outlook being increasingly defined by the aggressive stance by central banks to tame inflation.

Measures of the supply side point to continued gradual recovery, despite various setbacks, although there is still a lot of repairs to get back to pre-pandemic levels and the energy outlook is more uncertain due to geopolitics. The demand side is slowing, but the picture is varied across countries, with Europe and the UK the hardest hit and the US proving relatively resilient. The rate hiking cycle underway will impact demand, and central bank overtightening is expected to mean that demand destruction will become the dominant driver of the economic outlook in coming quarters. Unfortunately, inflation is not providing central banks with any reason to hold back, despite the hopes of asset markets for a reprieve and despite the knowledge that demand will be hit. Recession is increasingly becoming the consensus expectation for 2023.

Current stagflation and the prospect of recession in 2023 implies that high volatility will persist across asset markets. Inflation has pulled bond yields higher than expected, but we see value returning, with bonds offering an attractive entry point and strong protection levels for multi-asset strategies. Credit fundamentals remain strong, but the outlook suggests that these will come under pressure, particularly if a hard landing manifests.

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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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