

Macquarie Dynamic Bond Fund

Monthly report – 31 October 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.

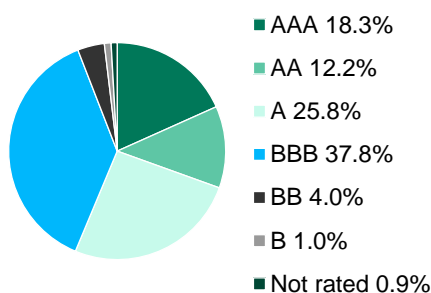
Key information

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
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 31 October 2022

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.30	0.25	-0.14	0.39
3 months (%)	-5.05	-5.20	-4.88	-0.32
1 year (%)	-9.37	-9.93	-9.05	-0.88
3 years (% pa)	-1.72	-2.32	-2.33	0.01
5 years (% pa)	1.30	0.68	-0.02	0.70
10 years (% pa)	2.78	2.15	2.13	0.02

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 [^]	20.3
Investment grade credit*	71.7
High yield	2.7
Emerging markets debt*	5.3

[^]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	3.0 years
Interest rate duration	5.4 years
Standard deviation [^]	3.3% pa
Yield to maturity*	4.8% 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 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 [^] (%)
North America	39.1
Europe (ex UK)	8.9
UK	5.4
Australia/New Zealand	46.0
Japan	-5.0
Others	5.6

[^]Calculated based on security's currency

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Fund highlights

The Fund made a meaningful increase in interest rate duration during October as bond yields continue to rise. After aggressively raising policy rates this year in an attempt to combat inflation, policy rates are beginning to enter restrictive territory. This comes as economic growth is clearly showing signs of slowing and financial conditions are tightening. It's anticipated that future policymaking will start to take that into consideration and begin to moderate. In terms of allocation, the Fund began to accumulate European duration – an area which the Fund has been lightly exposed and where fundamentals now look the most tepid. The Fund also increased its core holdings in both US Treasuries and Australian government bonds and reduced its exposure to long maturity UK gilts, following the UK governments mini budget. The Fund maintains its exposure to shorter dated gilts where aggressive Bank of England policy pricing is unlikely to be met.

The Fund's credit exposures positively contributed to outperformance for the month. All credit sectors contributed to the result, particularly investment grade, which the Fund had been gradually building exposure to over time. On interest rate positioning, allocations to Australian rates contributed positively to performance, significantly outperforming global yields (which overall ended the month weaker). Amongst individual issuers, holdings of US banks, European tollroads (including a holding receiving an upgrade from high yield to investment grade), and oil refiner Valero were contributors.

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 added to European credit, particularly in new issuance, taking advantage of attractive spreads in non-European or companies less exposed to the European economic cycle in that market: for example, adding Morgan Stanley and US industrial conglomerate Honeywell.

Market overview

Cries of '*Pivot!*' were on everyone's lips as central banks around the world enacted their rate hiking cycles, though with more cautious outlooks, reflecting the competing forces of persistent inflation and deteriorating economic activity. The term 'pivot' can be defined in a number of ways – decelerated pace of tightening, declining implied terminal funds rate, increased implied pace of normalisation after terminal rate is achieved – and whilst there was no reversal in the direction of monetary policy, markets bounced around on the prospect of a 'soft' versus 'hard' landing. The Reserve Bank of Australia (RBA), Bank of Canada (BoC) and European Central Bank (ECB) all delivered dovish hikes, either slowing the pace of tightening or suggesting that they were nearing the peak in the tightening cycle.

Markets remain wary of the growing prospect the unintended consequence of central banks efforts to bring inflation under control could be recession, and a general risk-off sentiment was evident with weaker equity markets and wider credit spreads. There was mixed data and even more mixed fiscal policy announcements, as consumer and business sentiment remained weak and personal income and spending data have deteriorated. The improving LNG gas price situation in Europe will be a relief for households and policymakers as storage facilities have filled up significantly, however markets will want to wait until after winter before assessing the long-term situation. The Japanese Yen meanwhile continues to depreciate, 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 by first the pandemic shock and then later by the energy price shock resulting from the war in Ukraine. However, at our September Strategic Forum our analysis 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 repair 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/UK the hardest hit and the US proving relatively resilient. The hiking cycle underway will impact demand, and we expect central bank overtightening 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 and offering an attractive entry point and strong protection levels for multi asset strategies. Credit fundamentals have softened in Q3 but remain at robust levels. The outlook suggests 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 or visit 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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