

# Macquarie Dynamic Bond Fund

Monthly report – 30 April 2023

## 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.

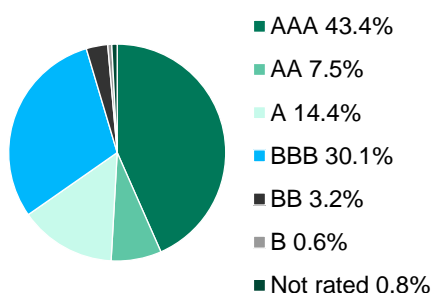
## Key information

### Fund details

APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$910.5m
Distribution frequency	Quarterly
Management fee*	0.614% pa
Minimum investment (Direct)	\$20,000
Unit prices and spreads	<a href="https://macquarie.com.au/unit_prices">macquarie.com.au/unit_prices</a>

\*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 2023

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
<b>1 month (%)</b>	0.51	0.46	0.41	0.05
<b>3 months (%)</b>	0.98	0.83	0.69	0.14
<b>1 year (%)</b>	0.67	0.05	-2.28	2.33
<b>3 years (% pa)</b>	-0.43	-1.04	-3.17	2.13
<b>5 years (% pa)</b>	2.20	1.58	0.43	1.15
<b>10 years (% pa)</b>	3.07	2.44	2.35	0.09

### 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 1 January 2023, the benchmark is Bloomberg Barclays Global Aggregate Index (Hedged to AUD). From 7 January 2019 to 31 December 2022, the benchmark was 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 benchmarks is available on request.

## Asset allocation

	Fund (%)
Sovereign bonds <sup>^</sup>	44.3
Investment grade credit*	49.4
High yield	2.1
Emerging markets debt <sup>+</sup>	4.2

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

\*Includes Australian and global investment grade credit

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

## Fund statistics

Credit spread duration	2.4 years
Interest rate duration	5.4 years
Standard deviation <sup>^</sup>	3.5% pa
Yield to maturity*	4.0% 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	59.3
Europe (ex UK)	11.9
UK	4.9
Australia/New Zealand	23.0
Japan	-4.6
Others	5.5

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

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## Fund highlights

The Fund's interest rate duration remained steady during April at 5.4 years, with little change in geographical allocations. US Treasury bonds remain the largest allocation in the Fund as the US Federal Reserve's (Fed) tightening cycle looks set to end at the within the next month or so, likely sooner than both the European Central Bank and the Bank of England. Interest rate strategies made a small positive contribution to the Funds outperformance in April.

The Fund's credit allocations also modestly contributed to the Fund's outperformance during the month. This was reflective of smaller moves in both credit and bond markets month-on-month, despite still overall elevated volatility. Amongst credit sectors, investment grade (IG) was the largest positive contributor, reflecting continued excess running yield. Most other credit segments provided very small impacts either way. Financials were the strongest sector performer this month, reflecting some rebound in overall sentiment, especially amongst larger US and Australian exposures. Emerging markets security selection was a very small negative contribution, with some higher beta issuers (such as Egypt) weakening.

The Fund made modest adjustments to credit exposures during the month, slightly reducing exposure to European and US IG credit. Spreads in this sector, particularly outside financials, recovered much of their March weakness. As such, re-assessing credits such as Honeywell (a high quality US industrial, but trading at one-year tights) was appropriate. The Fund also added downside protection in credit derivatives, to offer some offset if broad market weakness were to resume. The cost of option hedging, in particular, has fallen sharply as implied volatilities have reduced after the March volatility. The outlook continues to be uncertain and likely to be volatile. We continue to expect opportunities to add to credit positions over time, but at higher spread levels, given the likelihood of economic weakness or recession later this year. The Fund remains positioned with significant liquidity to take advantage of opportunities as they arise. We believe markets will continue to be volatile as we navigate the challenges of bringing inflation down, while trying to avoid overtightening policy. The Fund's credit exposures overall are heavily weighted to IG, with small emerging markets and very modest high yield holdings. We think that best reflects the environment looking ahead and look forward to opportunities to add to higher beta sectors.

## Market overview

Fears within the banking system gradually dissipated this month as volatility subsided and calm returned to asset markets, although spots of vulnerability arose due to fears of credit tightening. Risk markets recovered the significant ground that was lost in March, whilst sovereign bond yields retraced higher, they remain well below the levels of February end. As stated last month, we don't anticipate 2023 to be a repeat of 2008 and think that a major banking crisis is unlikely, despite the fact that inverted yield curves have been signalling, for many months that the economic environment has been deteriorating. In this environment things get broken, and the imbalances of this fragile environment have seen the US regional banks come under significant pressure, yet it is important to remember that the problems in US regional banks are symptom not the cause of the problems being faced.

The broad economic data released during April are building evidence towards the case that there will be a recession later this year. The manufacturing sector is either already in or close to recession. Goods prices are moving into deflation mode. The resilient service sector is now slowing as consumer spending disappointed. Meanwhile, the labour market data showed that labour supply is now trending higher just at the time that labour demand is beginning to soften. There was never any wage-price spiral and while wage inflation remains elevated the labour dynamics are pointing towards a softer outlook in coming quarters. This picture of continued improvement in supply and demand deceleration points to lower inflation. This backdrop is underpinning bond yields, where our strategy is to continue to add duration across funds on any meaningful back up.

## Outlook

The economic data continues to point to more supply recovery and greater demand deceleration. This mix will deliver lower inflation, always. However, central banks continue to fear inflation and further rate hikes are expected in upcoming meeting in May. These actions, against the deteriorating economic backdrop, simply increase the probability of recession later this year.

Asset markets can see this picture and are therefore speculating that the expected further rate hikes in May are likely to be soon followed by rate cuts. This 'hope' is underpinning risk markets despite the historical data pointing to 'risk off' if a recession actually materialises. This contrast between hope and likely reality points to further spikes in volatility in the coming months and affirms a key recommendation from our January Strategic forum, that current high level of sovereign yields implies that duration now offers attractive protection against risk assets.

Looking forward, the 'mini' financial crisis during May is expected to see increased scrutiny on central bank reports on the state of financial conditions. Early May will see the release of the US Senior Loan Officers Survey where regional evidence is pointing to further tightening, of already tighter financial conditions. Interest will also be on 'loan demand' from both households and businesses. While this data is actually 'lagging' that is, largely relates to activity in the first quarter, history shows that if loan demand trends weaker a recession typically follows. The earnings season is underway, and while this too largely reflects 'lagging' information there is 'leading' information in the forward guidance provided by companies. Both these data sets will add important detail to the traditional macroeconomic indicators that are watched and feed into the key central bank meetings that will take place in the month of May. We suspect the old adage "sell in May" and go away will be heard several times, but for fixed income clients this should be read as buy duration and feel protected.

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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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