

Macquarie Dynamic Bond Fund

Monthly report – 30 June 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.

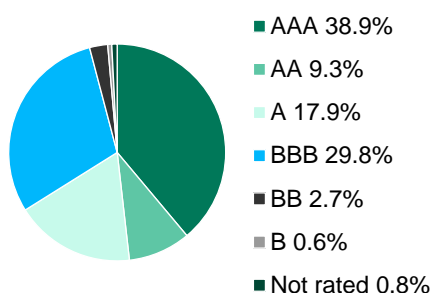
Key information

Fund details

APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$931.6m
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 30 June 2023

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-1.15	-1.20	-0.16	-1.04
3 months (%)	-1.65	-1.80	-0.30	-1.50
1 year (%)	1.10	0.48	-1.16	1.64
3 years (% pa)	-1.75	-2.35	-3.64	1.29
5 years (% pa)	1.63	1.01	0.18	0.83
10 years (% pa)	3.04	2.41	2.54	-0.13

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 24 August 2021, the Bloomberg Barclays fixed income benchmark indices were rebranded as the "Bloomberg Indices". As a result, the "Bloomberg Barclays Global Aggregate 1 to 10 years Index hedged to AUD", was renamed "Bloomberg Global Aggregate 1 to 10 years Index hedged to AUD."

From 1 January 2023, the benchmark is the Bloomberg Global Aggregate Index (Hedged to AUD). Prior to this, the Fund had different benchmarks. The Benchmark return and Total excess return (net) information shown above is based on the current benchmark. Over certain periods, these returns may be materially higher than the returns against the previous benchmarks. Further information about the performance of the Fund against the previous benchmarks is available on request.

Asset allocation

	Fund (%)
Sovereign bonds [^]	40.5
Investment grade credit [*]	53.7
High yield	1.7
Emerging markets debt [*]	4.1

[^]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	2.7 years
Interest rate duration	5.1 years
Standard deviation [^]	3.5% 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	62.1
Europe (ex UK)	8.6
UK	15.0
Australia/New Zealand	22.7
Japan	-14.0
Others	5.6

[^]Calculated based on security's currency

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Fund highlights

The total Funds duration remained broadly stable over June with a few geographical moves to note. The Fund added exposure to UK gilts as bonds cheapened after a succession of strong economic prints saw the Bank of England (BoE) surprise the market with a 50bp hike. The Fund also added Canadian exposure on a relative value basis by reducing core US Treasury holdings as the yield spread between the two narrowed. Additionally, the Fund also switched out of New Zealand bonds into Australian sovereigns, again after a reasonable narrowing of that yield spread.

The Fund's credit positioning added to performance versus the benchmark in June, as credit spreads rebounded (tighter) quite sharply. Within the Fund's credit exposures, BBB rated investment grade corporates and emerging markets were the strongest contributor, reflecting the aforementioned reduced fears of imminent recession; financials and small REIT exposures were also strong performers. Top individual performers included Australian banks such as Westpac and NAB (subordinated debt, in particular), US major banks (Bank of America and Morgan Stanley), and Carnival Corp, one of the few remaining high yield exposures, that produced very strong results and outlook.

The Fund made small changes to credit exposure over the month, adding to Australian financial issuers (where spreads remain more attractive). The Fund also further added to the US Agency Residential Mortgage-Backed Securities early in the month, with spreads on that asset class hovering near post financial crisis wides. 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.

Market overview

While the leading indicators for economic growth continue to point to slowing in the quarters ahead, the pace of slowdown continues to confound expectations. This in part has been due to the better starting position for both households and business balance sheets but also to the role of fiscal policy, which has continued to prove less contractionary than expected. In fact, in the US the debt ceiling agreement has enabled the Federal Government to maintain this stronger than expected spending through the fiscal year (ends October). Headline inflation continues to grind lower and while core inflation measures too are slowing (excluding the UK) the pace has not been sufficient to convince central banks that their job of tightening policy is done. In June, The US Federal Reserve may have paused hiking but signalled that there could be two more hikes in the pipeline. The European Central Bank, BoE (who hiked 0.5%) and Reserve Bank of Australia continued to hike and signalled more to come.

Rate markets bore the brunt of this hawkish monetary policy action, with short term yields shooting higher, dragging longer-dated yields higher. The spread (or yield curve shape) flattened further – with the Australian benchmark 3-year/10-year spread inverted for the first time since 2008. Risk markets remain surprisingly resilient with equities higher and credit spreads tighter, with the higher risk ratings outperforming.

Outlook

Given the move in asset markets over the past month our team view from the May Strategic Forum, to hold a constructive view on duration and cautious outlook for risk markets was challenged. That said, we recognised that the path forward held a high level of uncertainty. Our investment process uses our weekly global meetings to view new information and review our strategy.

At the macro level, the key change since the Forum has been on fiscal policy, where the resolution of the debt ceiling has enabled stronger than expected Federal spending through the early months of the year. This was largely due to military and cost-of-living adjustments to social benefits which has been extended through the second quarter and likely the third quarter. Government spending has a rapid transmission into the economy, compared to the long and variable lags and impact of monetary policy, and this is working to soften the slowdown in growth that is underway. However, this is placing more of the burden of reducing inflation onto monetary policy. We concluded at the Forum that for many economies, monetary policy was already near or had crossed into over-tightening territory. The action and guidance from Central Banks in the past month shows that their intent is to keep going on hiking rates. This sends a clear message that monetary policy over-tightening is now a key risk for asset markets. History shows that while tighter monetary policy does not always end in recession it does, particularly if credit conditions are tightening at the same time, end with something 'breaking'. We therefore believe that financial risk is more elevated, where the stress around US Regional Banks in Q1 could manifest in other areas of financial assets in the quarters ahead and this could be the trigger that tips economies into recession.

From a risk perspective, again history guides that risky assets do not tend to react significantly until evidence of a downturn or financial risk become clearly evident. We therefore maintain a strategically constructive view on duration and cautious of risk markets, recognising that the pathway ahead is potholed by a high level of uncertainty.

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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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