

# Macquarie Dynamic Bond Fund

Monthly report – 30 September 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.

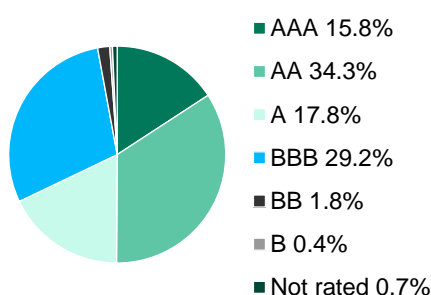
## Key information

### Fund details

APIR code	MAQ0274AU
Inception date	30 September 2002
Fund size	\$1,037.6m
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 September 2023

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
<b>1 month (%)</b>	-1.43	-1.48	-1.84	0.36
<b>3 months (%)</b>	-0.67	-0.82	-2.14	1.32
<b>1 year (%)</b>	2.87	2.24	0.53	1.71
<b>3 years (% pa)</b>	-2.48	-3.08	-4.55	1.47
<b>5 years (% pa)</b>	1.34	0.72	-0.24	0.96
<b>10 years (% pa)</b>	2.86	2.23	2.17	0.06

### 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 <sup>^</sup>	40.9
Investment grade credit*	54.4
High yield	1.1
Emerging markets debt*	3.6

<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	2.6 years
Interest rate duration	5.6 years
Standard deviation <sup>^</sup>	3.5% pa
Yield to maturity*	4.9% 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	48.5
Europe (ex UK)	17.5
UK	5.7
Australia/New Zealand	21.6
Japan	1.9
Others	4.8

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

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## Fund highlights

Fund duration was relatively stable in September at around 5.5 years. Our medium-term view is to add duration as yields rise though we did not take advantage of the recent rise for a number of reasons. Firstly, the relaxation of fiscal policy this year has led to a significant increase in bond supply, and we feel that this is in the process of being priced into the market. Further the US Federal Reserve (Fed) has guided markets to move away from potential easing of policy in 2024 and the data has mostly supported this. One of the reasons why bond markets performed earlier this year while the Fed was still hiking was that rate cuts were being priced into the market for 2024. These cuts are in the process of being unwound which has led to higher yields at the end of a policy rate hiking cycle – which is unusual.

The Fund made some changes to its geographical allocations. Gilts have recently performed very strongly against peers as better than expected inflation data is likely to lead to fewer Bank of England rate hike. This saw the Fund move gilt exposure back into European duration. The Fund also added to long end Japanese exposure given the high yields on offer on a hedged basis. Our holdings of Canadian securities performed well against US Treasuries and the Fund shifted those back into US Treasuries on a valuation's basis. The Fund continues to hold most duration in short to intermediate sections of the yield curve and the Fund has benefited from recent yield curve steepening.

The Fund's credit positions contributed to outperformance over the benchmark for September. Positive contributions were spread amongst sectors, reflecting positive security selection in investment grade (IG), mortgage-backed securities, and a small contribution from the modest high yield (HY) position. Key individual contributors included credit hedges (as volatility began to increase late in the month), and selected mortgage and asset backed securities. The Fund made small changes to credit exposure over the month, reducing some remaining higher beta credits after very strong performance. This included trimming transport-related exposures in Europe, such as Heathrow airport and Abertis, a toll road operator – with spreads fully reflecting the more positive outlook and not compensating for the risk of volatility, in our view. The Fund added lower beta sectors such as utilities and healthcare in place of the sales. We continue to expect opportunities to add to credit positions over time – particularly as we see spreads as relatively tight, against a backdrop of high economic uncertainty and increasing volatility in the underlying bond market.

## Market overview

Higher bond yields and broadly steeper yield curves dominated September, as credit spreads drifted in range to end the month little changed to slightly wider, though equity markets posted more significant losses, however, September is seasonally the worst month for equity returns. Most major central banks kept policy rates on hold, though the European Central Bank delivered what is being commonly termed as a 'dovish hold'. But it was the Fed 'hawkish hold' that dominated price action in rate markets, with the central bank guiding that while policy may not have actually peaked, the stronger message was that rates likely need to stay high for much longer than markets had previously been expecting.

The other major driver of markets in September has been the rise of oil prices, by roughly 10% in the month and by almost 30% through the quarter. With Gas prices and base metal prices giving a more mixed picture, the move in oil prices is more likely driven by production constraints rather than demand. Such a sharp move high in oil prices will impact headline inflation measures, and while this may ultimately prove temporary, there is concern that this re-enforces the "higher for longer" message coming from central banks at present.

## Outlook

During September our global team conducted the third iteration of our Strategic Forum process for 2023. Our macro session concluded with a restatement of 'recession' as our base case outlook, noting that easier US fiscal policy has underpinned the more resilient growth that was expected in recent quarters. This has been in contrast with Europe in particular, where the slowdown has broadened. Thus, with the new fiscal year process in the US (from 1 October) rekindling the difficult political environment and rolling off student loan forbearance, our expectation is for fiscal policy to ease back to a more neutral impact on demand, therefore resulting in the overall policy mix (that is, in combination with monetary policy) to again move tighter. Thus, the growth slowdown should gradually emerge through the coming quarter and into 2024.

Our base case is for a cyclical recession, such as experienced in 2001. However, what happened in 2001 was the 'tech crash' which resulted in a more dramatic impact on asset markets than would have been expected given a mild recession for the economy. For this cycle we note similar risk environment for asset markets even if the economy does experience a mild recession. This risk stems from an environment of prolonged overtightening of monetary policy and tight credit conditions. Here we note that credit conditions are nothing like that of 2008, as here loan demand is already quite weak which offsets the fact that lenders have tightened lending conditions significantly. That said, we are alert to financial risk as a consequence of the current environment.

Managing duration has continued to be difficult with bond yields marching to levels not seen since 2007. Yet history guides that bond yields decline once the rate hike cycle has clearly peaked. Credit spreads have proved resilient despite the fact that earnings have entered a recession due to slowing revenue growth. While most companies entered this slowdown well prepared there has been a steady 'chipping away' at this resilience and the longer the tighter financial conditions persist the risks will continue to grow. Thus, the current pricing across asset markets when combined with our base case outlook is guiding our investment process to remain cautious despite the buying from the narrative that "this time (might) be different".

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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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