

# Macquarie Income Opportunities Fund

Monthly report – 30 June 2022

## Investment objective

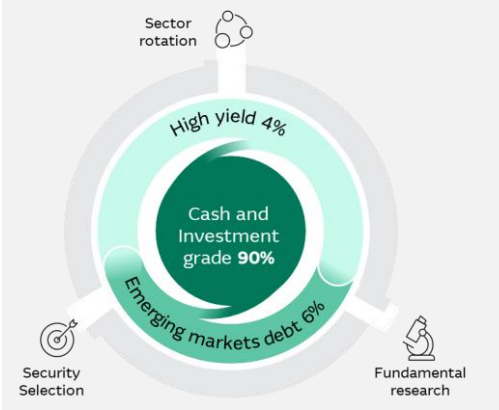
Aims to outperform the Bloomberg AusBond Bank Bill Index over the medium term (before fees). It aims to provide higher income returns than traditional cash investments at all stages of interest rate and economic cycles.

## Key information

### Fund details

APIR code	MAQ0277AU
Inception date	18 September 2003
Fund size	\$3,564.5m
Distribution frequency	Monthly
Management fee*	0.492% pa
Minimum investment (Direct)	\$20,000
Unit prices and spreads	<a href="https://www.macquarie.com.au/unit_prices">macquarie.com.au/unit_prices</a>

\*Read the Product Disclosure Statement for more details on fees and costs.



## Fund performance to 30 June 2022

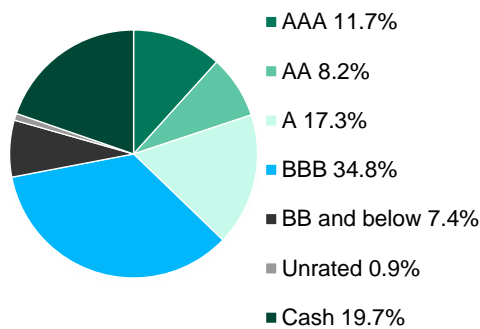
	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
<b>1 month (%)</b>	-1.64	-1.68	0.05	-1.73
<b>3 months (%)</b>	-3.00	-3.12	0.07	-3.19
<b>1 year (%)</b>	-4.78	-5.25	0.10	-5.35
<b>3 years (% pa)</b>	-0.10	-0.59	0.33	-0.92
<b>5 years (% pa)</b>	1.32	0.82	0.95	-0.13
<b>10 years (% pa)</b>	3.10	2.59	1.73	0.86
<b>Since inception (% pa)</b>	4.58	4.07	3.48	0.59

### 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.

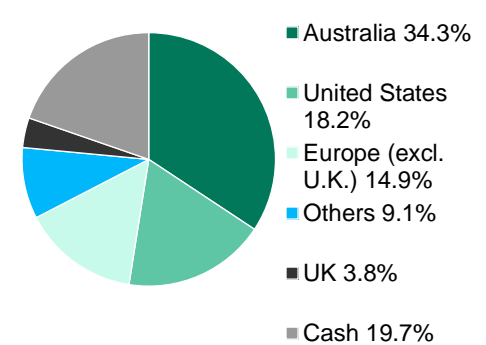
## Credit profile breakdown



Average credit rating: A-

BB and below include direct holdings and residual exposure to issuers held through our investment grade and emerging markets allocation.

## Region breakdown



## Asset allocation

Sector	Market value %
Investment grade corporates <sup>^</sup>	49.9
Investment grade government*	0.2
Asset-backed securities	20.2
High yield corporates <sup>^</sup>	3.6
Emerging markets corporates	4.5
Emerging markets government <sup>^</sup>	1.9
Cash and equivalents	19.7

Asset-backed securities include but are not limited to residential mortgage backed securities, bank loans and other credit related securities.

<sup>^</sup>Fund holds (0.0%) in investment grade, (0.8%) in high yield and (0.0%) in emerging markets credit hedges as synthetic cash (reduction in percentage of physical cash exposure)

## Fund statistics

Credit spread duration	2.5 years
Interest rate duration	1.3 years
Standard deviation <sup>1</sup>	2.0% pa
Yield to maturity <sup>2</sup>	5.4% pa
Cash	19.7%
Cash exposure through credit hedges <sup>3</sup>	0.8%

<sup>1</sup> Statistical measure of variance of Fund's post-fee monthly returns from average post-fee return since inception, used as gauge of volatility.

<sup>2</sup> Pre-fee returns Fund would earn over next year based on current market conditions if there were no changes to interest rates or holdings. It is not an actual or estimated return.

<sup>3</sup> Credit hedges swap the return for underlying credit index for cash.

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## Fund highlights

The Fund underperformed the benchmark during the month, as the investing environment for fixed income markets continued to be highly volatile. This theme was further extended in June, as government bonds had their second widest monthly trading range and credit markets had their worst month for the already weak year so far. Weakness in both credit markets and government bonds contributed to the result with both interest rate duration and credit positioning detracting. Amongst sectors and individual issuers, there was similar contributions from investment grade, high yield and emerging markets holdings, and some European holdings (which are modest overall) were the worst individual performers, given the weaker growth outlook in that market and very sharp credit market moves. Among individual underperformers, EUR-denominated bonds from Bank of America, Southern Company (a US utility) and airline IAG were a few of the largest detractors – we remain fundamentally comfortable with the issuers, but market pricing has moved aggressively wider in anything denominated in EUR, even where the business operates outside that region.

The Fund's positioning remains with significant liquidity, with cash and short-dated investment grade totalling over 40% of holdings, offering attractive possibilities to consider new opportunities in a sharply higher yield environment. Overall, credit risk is near the low end of historical allocations for the strategy, with reductions over the last 18 months in global investment grade and more recently in high yield, building significant cash exposures. The Fund reduced exposure to high yield issuers early in the month before the material spread widening, judging that the higher beta exposures offered more downside risk in this environment. Offsetting this, small additions to investment grade were made late in the month, with spreads much wider and in issuers (such as Morgan Stanley) where we have strong fundamental conviction and see more balanced risk-reward outlooks.

## Market overview

Inflation is the 'problem' facing central bankers, a fact strongly reiterated at the recent central banking forum in Sintra, Portugal by the heads of the US Federal Reserve, the European Central Bank and the Bank of England, who are committed to bringing inflation back down to target ranges. Globally, central bank target rates rose again in June, though the Bank of Japan stands in contrast by remaining committed to its yield curve control target. Whilst inflation and central bank action remain dominant themes, for asset markets there has been a rapidly emerging concern that this combination will push economies into recession in 2023. Recent data is suggesting growth is already slowing, and with inflation being underpinned by a second supply shock stemming from the war in Ukraine, asset markets fear central bankers are heading for a policy mistake by overtightening. We have already seen consumer confidence drop lower to well below average levels, and parts of the housing market have begun to turn. There have been some tentative signs, in spending data too, of some softening demand, and this is a difficult investment climate where volatility will continue.

June was another volatile month for risk assets with equities making new lows and credit marking new wides for the year. Thinning liquidity amid concerns around further monetary policy tightening in the face of a growing recession risk exacerbated the volatility in risk markets.

US credit was weaker again in June as the benchmark investment grade (IG) index widened 25 basis points to new year-to-date wides to finish the month at 155 basis points and high yield (HY) spreads were +163 wider to 570 basis points. This marked almost the worst first half of a year for US investment grade credit on record – second only to the extreme moves around the 2020 pandemic. Spread decompression continued to be a theme, with HY underperforming IG as BB credits were +140 basis points wider on average, sharply outpacing the +35 basis points move in BBBs. Amongst industry sectors, cyclicals generally performed poorly, with materials the weakest sector, reflecting sharp falls in industrial metals prices amid lower growth expectations.

European credit ended the month materially wider closing 54 basis points wider to 218 basis points, underperforming global peers, as net purchases of corporate bonds through the Corporate Sector Purchase Programme ended in June and this coincided with the highest volatility in the credit market since March 2020. The weakness in secondary was broad based but the theme of decompression is becoming more evident as the market focuses on growth concerns. At a sector level, real estate investment trusts (REIT) continued to underperform with the ICE BofA Euro Real Estate Index through the COVID wides of March 2020 and 102 basis points wider this month. The sector is suffering from higher funding rates, very weak technical, asset valuation concerns and single name issues in the sector from Adler. Cyclical sectors such as airlines were also very weak up to 200 basis points wider in IG names and several off-the run illiquid low BBB names finished 100 basis points+ wider this month.

Australian credit sold off further in June as global central banks continued with their hawkish rhetoric amid soaring inflation numbers around the globe. In the major bank space, senior spreads remained relatively anchored as levels ended the month close to unchanged given the demand from offshore investors. Meanwhile, the higher-beta subordinated debt widened further with spreads moving 15-18 basis points wider on the month. Structured securities, particularly residential mortgage-backed securities, were remarked 10-15 basis points wider given a slew of issuance and better selling from offshore. The corporate sector softened further despite limited issuance over the month. Even though REITs underperformed over the month given a further increase in interest rates potentially impacting margins, it is worth noting there were pockets of outperformance particularly in industries that were most impacted by COVID restrictions, such as airport and airlines. Over the month, there was only \$A2bn of issuance given the extreme market volatility.

## Outlook

Our outlook for the economy is that the global economy has entered a stagflationary environment, where inflation remains well-above target but growth slows significantly. Recession is a risk, but not a certainty, for 2023 as we have experienced twin supply-shocks to the global economy and central bankers have the potential to deliver policy overtightening with aggressive rate hikes. Central banks are attempting to solve inflation problems, which are largely a result of supply chain issues, by restricting demand, yet these demand management tools will not directly impact the source of the inflation problem. Rate hikes will weaken demand and the prospect is that a sharp downshift in demand will be needed to match reduced supply levels so as to lower inflation. This points to a difficult environment where there is scope for higher yields and flatter curves amongst the volatility and momentum, but also one that will ultimately see a bid return to rates and duration.

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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 AFS 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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