

# Macquarie Income Opportunities Fund

Monthly report – 30 April 2023

## 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 \$3,368.9m

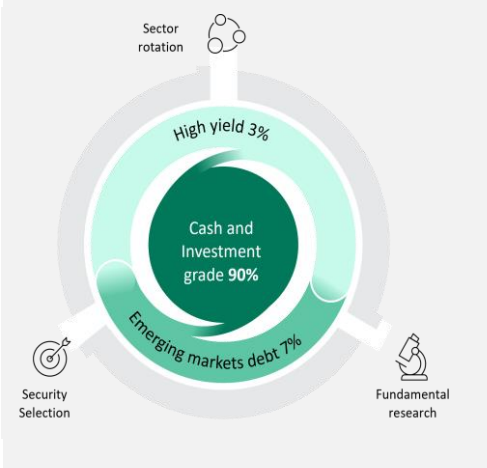
Distribution frequency Monthly

Management fee\* 0.492% pa

Minimum investment (Direct) \$20,000

Unit prices and spreads [macquarie.com.au/unit\\_prices](https://macquarie.com.au/unit_prices)

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



## Fund performance to 30 April 2023

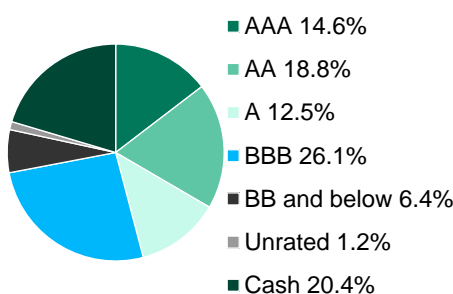
	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
<b>1 month (%)</b>	0.41	0.37	0.30	0.07
<b>3 months (%)</b>	1.04	0.92	0.83	0.09
<b>1 year (%)</b>	2.86	2.36	2.37	-0.01
<b>3 years (% pa)</b>	1.66	1.16	0.81	0.35
<b>5 years (% pa)</b>	1.78	1.28	1.11	0.17
<b>10 years (% pa)</b>	2.81	2.30	1.68	0.62
<b>Since inception (% pa)</b>	4.63	4.12	3.45	0.67

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.

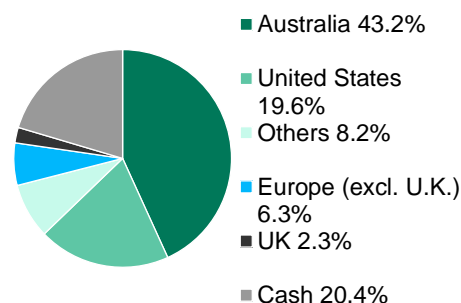
Total net Fund returns are quoted after the deduction of fees and expenses. Due to individual circumstances, your net returns may differ from the net returns quoted above.

## 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>	47.7
Investment grade government*	0.1
Asset-backed securities	21.8
High yield corporates <sup>^</sup>	2.8
Emerging market corporate	4.5
Emerging market government <sup>^</sup>	2.7
Cash and equivalents	20.4

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

<sup>^</sup>Fund holds (10.9%) in investment grade, (0.9%) 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	2.2 years
Interest rate duration	2.5 years
Standard deviation <sup>^</sup>	2.1% pa
Yield to maturity*	4.5% pa
Cash	20.4%
Cash exposure through credit hedges <sup>+</sup>	11.8%

<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.

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

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## Fund highlights

The Fund outperformed the benchmark in April, with both duration and credit positioning modestly contributing. This was reflective of smaller moves in both credit and bond markets month-on-month, despite still overall elevated volatility. USD duration positioning was a positive contributor, offset by Australian duration positioning, as the relative spread widened between these two markets. 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, while higher beta emerging markets allocations (such as Egypt) were small detractors.

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) and Celanese (a BBB- US chemical producer, also near 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 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.

Nervousness over the US regional banking sector intensified in the last week of April following earnings reports from First Republic Bank (FRC) and the news that FRC had gone into receivership and immediately sold to JP Morgan. Despite those pressures, strong Q1 earnings results reported so far in April by the US largest tech firms and some of the large US and European banks still saw risk assets generally end the month in the green.

US credit markets were slightly stronger over April, though the overall move was more modest than the months prior. The financial sector was the outperformer, rebounding somewhat after a very weak March – though remaining well off the recent tights in spreads. Supporting the generally positive performance were inflows to higher quality (IG) credit, reflecting higher yield levels and strong recent performance; as well as the start of earnings season, which so far has been better than feared (after significant pre-season revisions lower). Issuance was lighter as many companies entered earnings-related blackouts, which was also supportive. The financials sector underperformed late in the month as First Republic, one of the original smaller regional banks that had been under pressure, posted severe deposit outflows, and was taken over by JP Morgan during the last weekend of April.

European IG closed the month 7bps tighter to 162bps. There remains a backlog in supply following banking issues in March, €38bn was issued this month however we have yet to see a material uptick in regular financial issuers post earnings. New issue reception was mixed with deals coming in the latter part of the month seeing double digit concessions especially in cyclical sectors. Interestingly Australian corporate issuers have returned to the European market with Sydney Airport, Transurban and Telstra all issuing this month and CIMIC has also conducted a European roadshow. Notably in financials, UniCredit announced the call of a €1.25bn AT1 security which was the first major bank call event post the collapse of Credit Suisse. Conviction in European credit is mixed at current levels with an uptick in supply expected along with the challenge of higher cash yields as an alternative to credit.

Australian credit performed largely in line with European IG and outperformed US IG on an option-adjusted spread basis as the index spread tightened 7bps, though much of the option-adjusted spread tightening was driven by the narrowing of swap spreads. Unsurprisingly the main underperformers included REITs and long-dated corporates with most of the REITs widening 5-20bps across the curve over the month as concerns around the commercial real estate sector weighed on spreads. Meanwhile, the financial sector fared better in April across the capital structure with major bank senior and subordinated bonds 5-10bps tighter across the curve. Some of the Total Loss

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Absorbing Capacity financial paper also performed strongly after underperforming significantly in the second half of March, such as Lloyds which tightened 25-30bps in the 4-6-year part of the curve. In the primary market, there was around \$A3.5bn of IG issuance and \$A3.5bn of structured supply.

### 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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