

## Investment objective

Aims to provide positive returns of 3% to 5% per annum above Australian inflation<sup>1</sup> over the medium term (before fees). It also seeks to provide regular income.

<sup>1</sup> Defined as the Consumer Price Index (CPI) as measured by the Reserve Bank of Australia Trimmed Mean and as published by the Australian Bureau of Statistics.

## Key information

Fund details	
APIR code	MAQ3069AU
Inception date	30 September 2013
Fund size	\$142.6m
Distribution frequency	Monthly
Management fee*	0.70% pa
Minimum investment (Direct)	\$20,000
Unit prices and spreads	<a href="http://macquarie.com.au/unit_prices">macquarie.com.au/unit_prices</a>

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

## Fund statistics

Credit spread duration	1.8 years
Interest rate duration	1.7 years

## Fund performance to 31 January 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)	Australian inflation
1 month (%)	-0.10	-0.16	0.00	-0.16	0.10
3 months (%)	3.26	3.08	0.01	3.07	0.40
1 year (%)	11.05	10.28	0.29	9.99	1.20
3 years (% pa)	8.65	7.85	1.21	6.64	1.47
5 years (% pa)	7.71	6.89	1.48	5.41	1.53
Since inception (% pa)	6.38	5.56	1.81	3.75	1.83

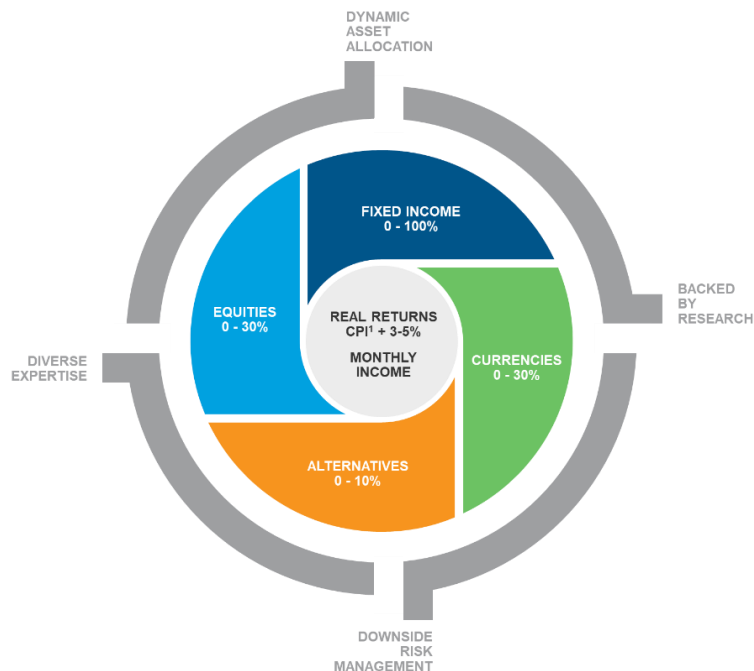
### Past performance is not a reliable indicator of future performance.

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.

Benchmark is Bloomberg AusBond Bank Bill Index.

## Asset allocation



Sector	Security type	Fund (%)
Fixed income and cash	Investment grade credit	33.2
	Structured securities	5.1
	High yield credit	12.7
	Cash and government bonds	24.7
Listed equities	Australian equities	13.7
	International equities	7.0
Alternatives	Alternative assets	3.6

# Macquarie Multi-Asset Opportunities Fund

Monthly report – 31 January 2021

## Fund highlights

The new year did not start off quietly. Surging virus cases, new variants and pressure on hospitals have caused governments to re-tighten restrictions. In parallel, the vaccination process has begun but there is significant divergence taking place between countries in terms of supply and administration. The very long US election process came to a head with the Georgia Senate run-off early in the month. The Democratic party obtained both seats and, with the casting vote of the Vice-President, have won control of Congress. That said, the margin is wafer-thin, and is not the blue-wave sweep that pollsters had suggested. This reality was overlooked by the markets as expectations are for further near-term fiscal stimulus.

All of these events did not stop equity markets from surging to new highs in the US and credit spreads from tightening back towards pre-pandemic levels. Bond yields rose and yield curves steepened as the longer-maturity bonds underperformed, but rate markets are nowhere near their pre-pandemic levels. This has put bond markets in the cross-hairs of debate in terms of the outlook for 2021, where optimists are forecasting an inflation surge and higher interest rates. Others, like ourselves, are sceptical particularly as bond markets have a long history of accurately reflecting the reality.

The Fund delivered a negative return in the month of January. The rally in Australian equities was offset by the detractor from international equities and global fixed income exposures.

The Fund maintained a higher allocation in Australian equities compared to international equities, and increased its allocation towards high quality core credit holdings. We continue to explore tail risk protection opportunities due to the uneven economic recovery, dislocation between economic fundamentals and asset prices. In January, we moderately increased the allocation to US equities as valuations improved and the potential for further US fiscal support.

As we continue to push into 2021, we retain our belief that financial markets will predominantly be influenced by continuous fiscal and monetary support. Nevertheless, these supports can lead to by-products such as wealth inequality, fundamental discordance, and political uncertainty.

Firstly, wealth inequality. Global central banks have responded to the COVID-19 economic threat by significantly reducing both short and medium-to-long term costs of borrowing. This has restored financial liquidity, boosted asset prices, and supported the economy. However, the by-product of such ultra-loose easing policy is that it has expanded the wealth inequality gap significantly at a global scale. Secondly, fundamental discordance. A significant deterioration in the value of money has forced market participants to invest in riskier markets in order to maintain a similar level of expected return. Subsequently, asset prices and financial market fundamentals have deviated significantly from each other. Thirdly, political uncertainty. The rise of China has been presenting a challenge to the US in recent years, while COVID-19 has intensified this challenge, reflected through not only trade disputes but also sanctions.

History has taught us that these three factors can lead to social unrest and vulnerability in financial markets. Such concerns can persist with an uneven global economic recovery as well as monetary policies that have differentially benefited people in different wealth tiers, rather than the majority of the global population.

We continue to position the Fund with the expectation that asset prices across the risk spectrum will continue to increase should monetary policy remain extremely accommodative. Secondly, in this context, asset price behaviour can continue to deviate from the real economy. Thirdly, tail risks in asset prices have increased due to wealth inequality, fundamental discordance, and political uncertainty. Putting these altogether, we have positioned the Fund with a moderate growth orientation. Furthermore, we continue to look to increase our growth assets allocation should valuations improve further, while utilising cost-efficient, out-of-the-money put options during periods of low volatility to mitigate against the risk of sudden market shifts. Within our growth asset allocation, we maintained an underweight position in European equities against an overweight bias to domestic and US equities. We view further fiscal and monetary support from the European Union as less likely than the US whilst the economic fundamentals remain extremely impaired.

## Market review

### Australian and international equities market

Equity market volatility picked up January with Australian equities up 0.3% and international equities down 0.8%, with unhedged international equities down 0.4%. Earnings revisions continued to rise sharply across most major markets over January. However, market sentiments were negatively impacted by the discovery of new COVID-19 strains that may reduce vaccine efficacy.

### Australian and global credit markets

The US credit market finished January with a mixed tone, with generic IG credit spreads 1bp wider to 97bps. The CCC-and-below segment outperformed, while the rest of the credit rating segments traded in a tight range. It was also a benign month overall for the European IG market, as a slower-than-expected rollout of the European vaccination programme, combined with the equity market volatility, dampened sentiment. Australian credit, on the other hand, outperformed global credit markets, with both low- and higher-beta as well as A- and BBB-rated sectors tightening 5 to 15bps over the month.

### Australian and global bond markets

Global yields drifted higher over the first half of January, as markets temporarily embraced the reflation trade on early optimism about the vaccine rollout, the 'light blue wave' resulted from the Georgia Senate runoffs and ensuing hopes for further fiscal support. In Australia, the 10 year implied futures yield ended the month 12bps higher at 1.14%, while the front-end of the yield curve has remained contained given the current Reserve Bank of Australia policy. Globally North American markets led the sell-off in government bonds, while European rates remained steadfast in recent ranges as European Central Bank purchases continue to dominate, and downside risks prevail in European economies.

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## Outlook

The significant scars that will be left in the wake of the pandemic – the significant job losses, small business failures, and behavioural changes that we all have had to make – all suggest that the fundamental landscape is expected to remain challenging for some time and be dependent on the continued support from policy makers. We believe that the path of fiscal policy will play an important part in how the outlook is shaped. Continued 'support' by policy makers has prevented a worst case scenario, but the key looking forward is how can demand be kick-started? Monetary policy has little effectiveness in this regard with rates near the lower bound. With fiscal policy comes politics and we can already hear the siren voices of concern about the rise in budget deficit and debt levels. Politics is again on show in the US after President Biden outlined his first fiscal package, where debate is not just between the two parties but also within the Democratic party itself. Thus, in contrast to monetary policy, applying sufficient fiscal 'stimulus' is likely to prove more difficult than fiscal 'support' that the economies have been receiving.

What about valuations? What about positioning? Neither make a compelling case for investors, but technicals are strong, underpinned by a strong belief that central banks can continue to contain all risks. This disconnect between fundamentals and financial markets performance leaves us with an uncomfortable reality and the need to find yield. Thus, our challenge is to stay in front of consensus and not get caught up with uncomfortable positions.

What are the risks? On the upside we hope for successful vaccine rollouts, which will enable economies to re-open and supply chains to unlock. Governments can surprise by increasing spending, particularly on infrastructure, to create jobs and income and kick consumer spending sustainably higher. On the downside however, there are many risks around the virus and vaccines, while the scars left in the services sector and job markets will take years to repair. These all point to 2021 providing a challenging environment for investors, where our intention is to maintain discipline and recognise that opportunities will present themselves.

**For more information speak to your financial adviser, call us on 1800 814 523, email [mim.clientservice@macquarie.com](mailto:mim.clientservice@macquarie.com) or visit [macquarie.com](http://macquarie.com)**

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