

# Portfolio report

UBS Cash Fund

AUD Money Markets

Client report from 01.01.2024 to 31.03.2024



# Summary

as at 31-Mar-24

## Performance

After expenses and fees, the portfolio returned 1.11% on a net basis over the quarter, outperforming the Bloomberg AusBond Bank Bill Index, which returned 1.09%.

<b>% Return (Net)</b>	<b>Fund<sup>1</sup></b>	<b>Benchmark*</b>	<b>Difference</b>
3 months	1.11	1.09	0.02
1 year	4.24	4.19	0.05
3 years	2.12	2.07	0.05
5 years	1.52	1.51	0.01
10 years	1.78	1.82	(0.04)
Calendar Year to Date	1.11	1.09	0.02
Since inception (05/89)	4.94	5.11	(0.17)

<sup>1</sup> Performance figures are net of ongoing fees and expenses

\* Bloomberg AusBond Bank Bill Index

The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile and future returns can vary from past returns.

Source: UBS Asset Management. These figures refer to the past. Past performance is not a reliable indicator of future results.

# Fixed Income analytics

as at 31-Mar-24

## Portfolio Positioning

	31-Dec-23	31-Mar-24
Portfolio Modified Duration	0.20	0.21
Benchmark Modified Duration	0.12	0.12
Portfolio Average Rating	AA	AA
Benchmark Average Rating	AAA	AAA
Portfolio Yield to Maturity	4.48%	4.60%
Benchmark Yield to Maturity	4.33%	4.32%
Portfolio Average Term to Maturity	0.22	0.24
Portfolio Average Coupon	0.28%	0.34%
Benchmark Average Coupon	0.00%	0.00%
Portfolio Spread Duration	0.22	0.24
Benchmark Spread Duration	0.00	0.00

# Fixed Income analytics

as at 31-Mar-24

## Yield Curve Distribution

	Portfolio	Benchmark	Difference
0 - 1 years	100.00%	0.00%	100.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	

## Sector Diversification

Sector	Portfolio	Benchmark	Difference
Commonwealth*	0.00%	0.00%	0.00%
Semi-govt	0.00%	0.00%	0.00%
Govt Related	0.00%	0.00%	0.00%
Corporate*	6.51%	0.00%	6.51%
Asset Backed	0.00%	0.00%	0.00%
Cash, Money Market & Other*	93.49%	100.00%	(6.51%)
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	

\* Effective exposure may include derivatives

## Yield Curve Distribution

	Modified Duration Contribution		
	Portfolio	Benchmark	Difference
0 - 1 years	0.21	0.00	0.21
n/a	0.00	0.12	(0.12)
<b>Total</b>	<b>0.21</b>	<b>0.12</b>	<b>0.09</b>

## Sector Diversification

	Modified Duration Contribution		
Sector	Portfolio	Benchmark	Difference
Commonwealth*	0.00	0.00	0.00
Semi-govt	0.00	0.00	0.00
Govt Related	0.00	0.00	0.00
Corporate*	0.01	0.00	0.01
Asset Backed	0.00	0.00	0.00
Cash, Money Market & Other*	0.20	0.12	0.08
<b>Total</b>	<b>0.21</b>	<b>0.12</b>	<b>0.09</b>

\* Effective exposure may include derivatives

# Fixed Income analytics

as at 31-Mar-24

## Credit Diversification

Credit Rating	Portfolio	Benchmark	Difference
AAA	0.00%	0.00%	0.00%
AA+	0.68%	0.00%	0.68%
AA	0.00%	0.00%	0.00%
AA-	1.58%	0.00%	1.58%
A+	2.09%	0.00%	2.09%
A	1.25%	0.00%	1.25%
A-	0.00%	0.00%	0.00%
BBB+	0.23%	0.00%	0.23%
BBB	0.00%	0.00%	0.00%
BBB-	0.00%	0.00%	0.00%
HY	0.00%	0.00%	0.00%
NR	0.68%	0.00%	0.68%
A1+/A1 - Cash, Money Market & Other	93.49%	100.00%	(6.51%)
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	

## Credit Diversification

Credit Rating	Modified Duration Contribution		
	Portfolio	Benchmark	Difference
AAA	0.00	0.00	0.00
AA+	0.00	0.00	0.00
AA	0.00	0.00	0.00
AA-	0.00	0.00	0.00
A+	0.00	0.00	0.00
A	0.00	0.00	0.00
A-	0.00	0.00	0.00
BBB+	0.00	0.00	0.00
BBB	0.00	0.00	0.00
BBB-	0.00	0.00	0.00
HY	0.00	0.00	0.00
NR	0.00	0.00	0.00
A1+/A1 - Cash, Money Market & Other	0.20	0.12	0.08
<b>Total</b>	<b>0.21</b>	<b>0.12</b>	<b>0.09</b>

# Market review

## Economic

- Australian sovereign bond yields tracked sideways over Q1, notably outperforming US equivalents.
- Australian credit spreads tightened slightly over the quarter.
- The RBA maintained the cash rate target at 435bps.

## Global Economies

The first quarter of 2024 saw losses in the global Fixed Income markets, as measured by the Bloomberg Global Aggregate index, on the back of market participants scaling back expectations on the magnitude of rate cuts for the year. Markets priced in a “higher-for-longer” rates environment following the hawkish tilt from the Federal Reserve in the beginning of this year, which was further accompanied by stronger-than-expected economic data in the United States. During the quarter, major central banks kept rates steady as the economic situation continues to evolve, reiterating the need to remain data dependent. Government bond yields mostly rose across the board with 10-year US Treasury yields rising 32bps to 4.20%. On the other hand, credit spreads tightened across most sectors over the quarter, with high yield bonds notably outperforming their investment grade peers.

In the US, the Federal Reserve held interest rates unchanged at a range of 5.25-5.50% throughout the quarter during its two meetings in late January and mid-March. The latest median projection sees 75 basis points as the most appropriate for rate reductions in 2024 given current economic conditions. According to a recent press conference, Fed Chair Jerome Powell suggested that the recent pickup in price pressures was a bump in the road amid an otherwise disinflationary trend, and that strong hiring would not be a reason to hold off on rate cuts. Powell also added that the Federal Reserve is likely to announce plans to slow the pace of its balance sheet reduction in the near future. On the other hand, the US economy remained relatively resilient throughout the quarter, with stronger-than-expected gains in non-farm payrolls while the unemployment rate edged higher to 3.9% in February from 3.7% in December. In terms of inflation, the core CPI eased to 3.8%

year-on-year in February from 3.9% in December, albeit beating market expectations and signaling that the pace of disinflation remains inconsistent. The Core PCE, the Federal Reserve’s preferred gauge of inflation, came in within market expectations for February at 2.8% year-on-year. Elsewhere, the composite PMI showed a resilient economy as it rose from 50.9 in December to 52.5 in February, supported by resilience in the services sector while the manufacturing sector remained relatively weak.

In Europe, the European Central Bank held interest rates unchanged at 4% over the quarter at the two meetings in January and March. At its latest meeting, the central bank stressed data dependency in determining the path forward for rates. The economy remained weak over the quarter as the HCOB Eurozone Composite PMI remained below 50, albeit the trend is improving due to strength in the services sector. On the other hand, the labour market remained robust as the unemployment rate fell further to 6.4% in January, from 6.5% in October. As for inflation, we saw encouraging signs of receding price pressure as the annual core CPI was down to 3.1% in February from 3.4% in December, in line with market expectations. Elsewhere, the Bank of England kept rates unchanged at 5.25% in early February and March and will continue to monitor closely the indications of inflationary pressures and resilience in the economy.

In Japan, the March meeting saw the Bank of Japan moving away from its accommodative policy, becoming the last central bank in the world to shift its policy rate out of negative territory with a hike to a range of 0 to 0.1%, its first policy rate increase in 17 years. The central bank also ended the yield curve control and ETF purchasing policies, while indicating it would still buy longer-term government bonds as needed. Governor Kazuo Ueda stressed the “importance of maintaining an accommodate environment” to achieve sustainable 2 percent inflation. In addition, the annual ‘Shunto’ wage negotiation in Japan saw the largest labour union federation securing a total pay increase of 5.3 percent compared to last year, the largest pay increase in more than 30 years, further adding to wage pressures in the country.

# Market review

## **Global Economies (continued)**

In China, economic data pointed to a solid showing for the first two months of the year, albeit with a continued drag from the property sector. Fixed asset investment, industrial production and exports all ran well above expectations for January and February on a cumulative basis relative to the same period in 2023. Retail sales were a tick below expectations at an annual growth of 5.5 percent. Property sales, however, contracted by nearly 33 percent year-on-year, while investment was down 9 percent.

Broad surveys of the economy improved by more than expected in March, with the National Bureau of Statistics' non-manufacturing PMI up to 53 versus a consensus estimate of 51.5. The corresponding manufacturing PMI came in at 50.8 (50.1 expected) and the Caixin manufacturing PMI was a touch above estimates at 51.1. On the other hand, in February, the People's Bank of China added additional monetary stimulus, cutting the five-year loan prime rate by 0.25 percent to 3.95 percent in a bid to help incentivize demand for mortgages, which should help to stabilize the struggling property market.

# Market review

## Australian Economy

The Australian 3-year Government bond yield rose marginally by 1bp to end the quarter at 3.62% while the 10-year Government bond yield stayed flat at 3.96% to end the quarter. Australian 10-year Government bonds outperformed US equivalents with the spread ending the month at -24bps from 8bps the previous quarter. Credit spreads tightened modestly (Bloomberg AusBond Credit 0+ index tightened from 112bps to 110bps). The Bloomberg AusBond Composite 0+ year Index returned 1.03%.

The RBA kept the official cash rate target unchanged at 4.35% over the quarter. Minutes from the latest meeting saw the Board acknowledging that economic data over preceding weeks had been in line with their expectations, and that it will continue to monitor developments in the economic situation. Domestic inflation continues to moderate, driven by softer goods inflation while services price inflation remains elevated. In terms of the labour market, while conditions remained tight, there had been some easing in recent months in line with softer economic growth. Going forward, the Board will continue to focus on balancing the objectives of controlling inflation and bringing the labour market to full employment.

On the domestic economic data front, Australia's Q4 2023 headline and core CPI came in weaker-than-expected at 4.1% and 4.2% y/y respectively, both showing a marked deceleration from the 5%-plus rates of growth recorded in Q3. This was driven by a notable disinflation in tradeable prices while domestic and services inflation remained stickier. Recent monthly headline CPI had also consistently come in weaker than market expectations, with the latest read at 3.4% y/y for February (vs. C 3.5%), signaling a step in the right direction for the RBA. Elsewhere, labour market data over the quarter remains volatile, with a stronger-than-expected change in employment for February (116.5k vs. C 39.7k) as compared to January (15.3k vs. C 26.4k). The unemployment rate dropped to 3.7% in February from 3.9% in December.



# Market review

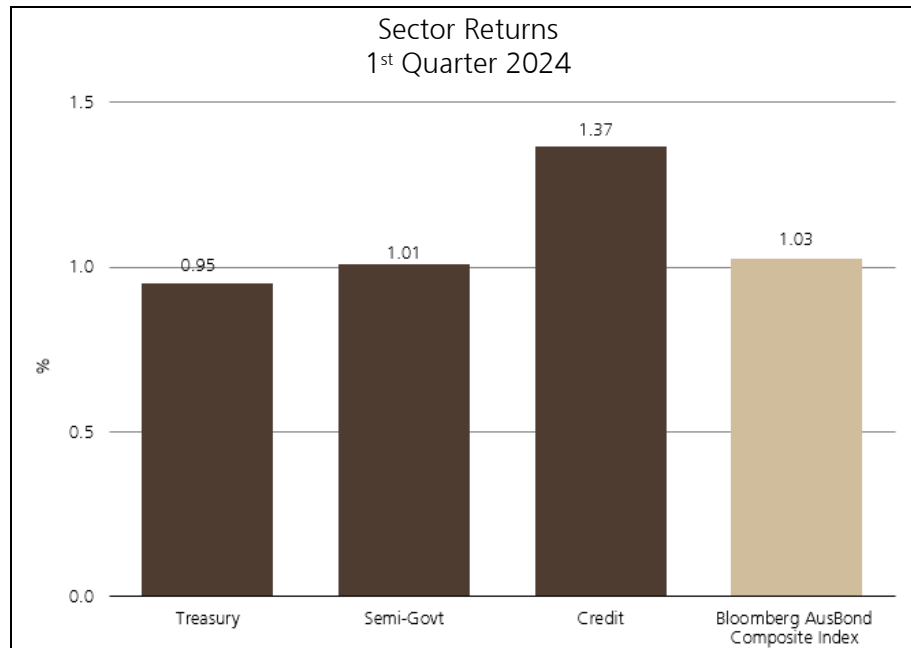
## Market Yields

	Cash	3yr*	10yr
Australia	4.35% (--)	3.62% (+1bp)	3.96% (--)
	Cash	2yr	10yr
US	5.25-5.50% (--)	4.62% (+37bps)	4.20% (+32bps)

(x)= change on the month

## Australia Index Returns

	1st Quarter 24 %	4 <sup>th</sup> Quarter 23 %	Duration (years)
Bloomberg AusBond Composite 0+ Yr Index	1.03%	3.79%	4.97
Bloomberg AusBond Treasury (CGL)	0.95%	3.98%	5.27
Bloomberg AusBond Semi Government	1.01%	4.00%	5.64
Bloomberg AusBond Credit	1.37%	3.18%	3.13



# Outlook and strategy

We favour long duration strategies on the basis that the global rate cycle has turned. The resurgence of a “higher for longer” narrative runs counter to our expectations that most major central banks (ex. Bank of Japan) will start to unwind restrictive policy from mid-2024 amid continued disinflation and soft growth.

This disinflationary trend has become increasingly evident in Australia with the recent CPI data generally surprising most forecasters, including the RBA, to the downside. The current inflation trend appears to be running at around 3.5%, a sharp deceleration from the 5%-plus annual growth rates recorded in Q3 last year. Progress may slow from here, yet we consider the RBA's 2-3% inflation target to be well within reach in the second half of this year. Meanwhile, we continue to see evidence that the labour market is gradually loosening while growth is set to stay below potential for the foreseeable future led by the consumer as the squeeze in real disposable income continues to work its way through the economy.

The RBA's cash rate is likely at its peak based on our reading of the inflation trend and already restrictive nature of current policy settings. In fact, the market has started to anticipate a pivot to an easing cycle later in the year albeit one that is considerably shallower than peers such as the Eurozone, US, UK, New Zealand and Canada where cutting cycles of 150-200bps are priced in. Given this, current Australian bond yields look attractive, and we think 3-year bond yields can trend down to at least 3% this year.

Usually, credit spreads would move wider in the latter stages of the economic and rates cycle and as recession risks linger. However, high all-in yields continue to provide strong support to the Australian and global credit markets. Market technicals have also been positive for AUD credit as cash is being deployed amid relatively low issuance.

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