

Macquarie Fixed Income Strategy

Monthly report – 30 September 2025

Model portfolio details

Investment objective	Aims to provide investors with capital growth and some income over the medium term by using an active investment strategy through investments in a diversified portfolio of global and domestic fixed income securities.
Inception date	4 October 2016

The performance information and commentary is based on a model portfolio. The information does not take into account differences between the model portfolio and the actual portfolio implemented by the operator of your managed account or any fees, expenses or other costs charged by the operator of your managed account.

The performance of your managed account will differ to that of the model portfolio (and may differ significantly) due to factors including an incomplete implementation of all trades, the timing of trades, the individual circumstances of an investor as well as the fees, expenses and other costs charged by the operator of your managed account.

All references to selling, investing, participating, positioning or similar are references to the model portfolio only and may not reflect the holdings in your actual portfolio.

Please contact the operator of your managed account for further information.

Model Portfolio performance to 30 September 2025

	Total model portfolio return	Bloomberg AusBond Composite Bond Index returns	Bloomberg AusBond Bill Index returns
1 month (%)	0.51	0.10	0.29
3 months (%)	1.13	0.40	0.92
1 year (%)	3.80	4.09	4.19
3 years (% pa)	5.10	4.25	4.05
5 years (% pa)	1.26	-0.23	2.53

Past performance is not a reliable indicator of future performance.

Performance over 3 years assumes the same allocations as at the date of inception in October 2016 (70% Macquarie Income Opportunities, 15% Macquarie Australian Fixed Interest and 15% Macquarie Dynamic Bond Fund).

Portfolio statistics

Yield to maturity (%)*	4.64%
Interest rate duration (years)	5.37
Credit duration (years)	2.40
Average credit rating	A+

*The pre-fee return the Portfolio would earn over the next year based on current market conditions if there were no changes to interest rates or the current Portfolio. It is not an actual return.

Sub-sector exposure

	%
Government bonds*	48.60
Investment grade**	46.50
High yield	1.50
Emerging market debt	3.40

*Includes Australian government, semi-government, supranational, global sovereign and cash

** Includes Australian and global investment grade credit

Tactical fund allocation

	%
Macquarie Income Opportunities Fund	10.00
Macquarie Dynamic Bond Fund*	55.00
Macquarie Australian Fixed Interest Fund	35.00

*Formerly Macquarie Diversified Fixed Interest Fund

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Model portfolio highlights

The Model Portfolio outperformed the benchmark over the month of September, driven predominately by credit positioning.

The Model Portfolio's credit positions contributed to outperformance over the benchmark for September. USD and AUD IG holdings were the largest individual sector contributors, also supported by contributions from HY, amid a modest but broad-based spread tightening globally. Amongst individual issues, global banks in subordinated format were strong contributors, reflecting the overall spread compression theme.

The Model Portfolio made changes to positioning over the month, predominantly focused on trimming its Agency MBS position as spreads in that sector tightened further, returning to close to the tights of the last several years.

Moderate relative underperformance from interest rate positioning last month was largely due to the yield curve flattening in the US as the Fed resumed policy easing after a 9 month pause. However, stronger economic data lowered expectations on future interest rate cuts while the back end of the yield curve increasingly gathered support from investors concerned about the looming US government shutdown. Buying from investors who were underweight in the sector also contributed to the flattening. Global duration positioning benefited from the general fall in yields, in particular the Model Portfolio's Canadian and NZ positions which performed well. Positioning over September remained relatively stable as duration ticked up slightly. Ahead of the upcoming UK budget the Model Portfolio reduced UK gilt exposure in favour of European bonds, where lower supply should favour the region on a relative basis.

Market overview

Global credit market

Risk markets rallied in September, supported by attractive all-in yields, strong investor demand and light dealer inventories.

US credit performed well in September, with IG spreads tightening 5bps to 74bps and HY also tightening by 5bps to 267bps. Similar to recent months, this keeps the overall spread levels near post-financial crisis tights. Continued positive flows and light dealer balance sheets supported the market, even as issuance increased sharply to over US\$200bn in IG. Issuance was led by Oracle, which attracted US\$88bn of orders and priced a total of \$18bn. Amongst sectors, energy was an outperformer despite modest falls in oil price; metals and mining also outperformed.

In European credit, Bloomberg EuroAgg Corporate OAS (EUR IG) closed 5bps tighter at 79bps and Bloomberg Euro High Yield Index (EUR HY) closed 17bps tighter at 265bps. Credit curves closed unchanged while paper, packaging and miners underperformed and financials outperformed in IG. Ratings compression was evident in both IG and HY this month. Issuance accelerated as issuers took advantage of the tighter spread environment for the highest September issuance since 2020. Like last month, technicals remain firm despite underwhelming valuations as higher yields remain attractive.

Australian credit market

Australian credit spreads continued to compress in September, although they lagged the rally seen offshore. The index spread fell by 2bps to 101bps. Total issuance volumes remained contained during the month, with over \$9bn priced. Senior financial spreads consistently narrowed throughout September, with the 5-year major bank spread reaching a post-pandemic low of 68bps. Tier 2 financials outperformed in the first half of the month due to a pause in supply. Issuance resumed in the second half with spreads trading within a narrow range for the remainder of the month, seeing the 5-year to call reaching a four-year tight of 132bps. UBS issued the first offshore bank \$A AT1 since 2019. A coupon of 6.375% and APRA's recent phasing out of Australian AT1 securities created strong technical support for the bond, attracting a peak order book of over \$8bn and strong follow-on demand in secondary markets. Corporates displayed relatively uniform spread tightening across the main sectors in September.

Australian bond market

Australia's economy continues to cyclically improve but remain structurally subdued, as the RBA and Australian Government have continued their monetary and fiscal easing. Australia GDP for Q2 came in higher than estimated at 0.6% QoQ and 1.8% YoY, but employment stalled in August though the unemployment rate was steady at 4.2%. Australia's GDP growth was underpinned by the bounce back in cyclical elements, such as consumer spending increasing +0.9% QoQ and +2% YoY after only one cut between Q1 and Q2, though the more structural elements like business investment fell 0.4% with little growth over the year at 0.2% YoY. The weakness in Australia's labour market is adding to the poor backdrop for Australia's ongoing recovery, as the labour market has not experienced a significant 'dislocation', but has had a 'sustained weakening' and step-down to levels below the post-GFC average. Job gains have slowed to an average pace of monthly growth of 15k this year, down from 33k last year, and below the post-GFC average of 18k. There is a shift from full-time employment (which fell -40k) to part-time employment (improving +35k) and the participation rate is falling. The broader labour underutilisation rate, the sum of unemployment and underemployment, sits at 9.9%. This means there are currently 1,518,000 people in willing labour supply who are not being used, even without counting those who have moved into hidden unemployment. This is expected to continue with Australia's labour supply-demand imbalance persisting as we continue to experience a population boom due to immigration. It had been our expectation that the RBA will cut rates 4-5 times over the course of 2025. The past two monthly inflation reports though pointed towards upside risks to the Q3 CPI data, which will be key in determining whether the RBA lowers the cash rate further at its November meeting. While this suggests some chance the RBA may leave rates unchanged for the rest of the year, we still expect a gradual rise in the unemployment rate in coming months to result in at least one further cut (either at the November meeting or the February 2026 meeting).

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The AU 10-year bond future yield traded between 4.23% and 4.45%, ultimately closing the month 4bps higher at 4.30%. The ACGB 3-year/10-year yield spread flattened by 12bps, closing +74bps.

Outlook

While some of the recent activity data has been a little firmer, we remain of the view that growth will soften while the disinflationary trend is largely intact. So even though many central banks have already eased materially we remain of the view that policy will need to become more supportive in most locations. The Fed has resumed its rate cycle after having paused at its meetings earlier in the year, the Bank of Canada, ECB, SNB, Swedish Riksbank, BoE, and RBNZ have all further lowered rates in 2025, and the RBA cut rates at its February, May, and August meetings. A number of central banks have started to slow the pace of their rate cut cycles recently (or indeed signalled these cycles may now be complete) as policy rates get closer to where they see neutral as being, and as result rate cut expectations for many have been wound back. In contrast the BOJ, having hiked again in January, continues to signal that it expects to further normalise policy in coming quarters, with recent BOJ rhetoric leading to renewed expectations this could come sooner rather than later. We will continue to closely watch central bank rhetoric to help judge whether these expectations of policy changes are justified. And as usual, given the crucial role of fiscal policy, we continue to monitor government budget decisions.

We retain a bias to long duration as the earlier aggressive tightening cycles by central banks globally continues to be unwound. We continue to look to add to duration as yields rise but also remain receptive to reducing exposure when the market looks rich. On credit, the recovery in risk appetites since the April lows has seen spreads remain at historically tight levels. Although the risks to growth remain material, the prospect of further policy support (both monetary and fiscal) is likely to provide support to the medium-term growth outlook and hence valuations. Moreover, while spreads remain relatively tight all-in yields, while not as high as earlier in the year, still remain somewhat high relative to recent history and expectations of positive total returns continue to drive demand.

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For queries regarding your managed account, please contact your adviser or the managed account provider.

For any investment related queries, call us on 1800 814 523 or email mam.clientservice@macquarie.com

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