



Portfolio report

UBS Cash Fund

AUD Money Markets

Client report from 01.07.2024 to 30.09.2024



Summary

as at 30-Sep-24

Performance

After expenses and fees, the portfolio returned 1.22% on a net basis over the quarter, outperforming the Bloomberg AusBond Bank Bill Index, which returned 1.11%.

% Return (Net)	Fund¹	Benchmark*	Difference
3 months	1.22	1.11	0.11
1 year	4.65	4.41	0.24
3 years	3.01	2.81	0.20
5 years	1.98	1.80	0.18
10 years	2.08	1.90	0.18
Calendar Year to Date	3.51	3.32	0.19
Since inception (05/89)	5.21	5.10	0.11

¹ 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 30-Sep-24

Portfolio Positioning

	30-Jun-24	30-Sep-24
Portfolio Modified Duration	0.20	0.19
Benchmark Modified Duration	0.12	0.12
Portfolio Average Rating	AA-	AA-
Benchmark Average Rating	AAA	AAA
Portfolio Yield to Maturity	4.62%	4.57%
Benchmark Yield to Maturity	4.37%	4.36%
Portfolio Average Term to Maturity	0.24	0.22
Portfolio Average Coupon	0.42%	0.44%
Benchmark Average Coupon	0.00%	0.00%
Portfolio Spread Duration	0.24	0.22
Benchmark Spread Duration	0.00	0.00

Fixed Income analytics

as at 30-Sep-24

Yield Curve Distribution

	Portfolio	Benchmark	Difference
0 - 1 years	100.00%	0.00%	100.00%
Total	100.00%	100.00%	

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*	8.80%	0.00%	8.80%
Asset Backed	0.00%	0.00%	0.00%
Cash, Money Market & Other*	91.20%	100.00%	(8.80%)
Total	100.00%	100.00%	

* Effective exposure may include derivatives

Yield Curve Distribution

Modified Duration Contribution			
	Portfolio	Benchmark	Difference
0 - 1 years	0.20	0.00	0.20
n/a	0.00	0.12	(0.12)
Total	0.20	0.12	0.08

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*	0.18	0.12	0.06
Total	0.19	0.12	0.08

* Effective exposure may include derivatives

Fixed Income analytics

as at 30-Sep-24

Credit Diversification

Credit Rating	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-	4.86%	0.00%	4.86%
A+	1.31%	0.00%	1.31%
A	1.94%	0.00%	1.94%
A-	0.69%	0.00%	0.69%
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	91.20%	100.00%	(8.80%)
Total	100.00%	100.00%	

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-	0.01	0.00	0.01
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	0.18	0.12	0.06
Total	0.19	0.12	0.08

Market review

Economic

- Australian sovereign bond yields rose over the quarter with a flattening bias in the medium to long end of the curve.
- Australian credit spreads tightened modestly over the quarter.
- The RBA maintained the cash rate target at 435bps.

Global Economies

The most notable development for global markets in Q3 was the beginning of the much-anticipated US rate-cutting cycle. Market was looking for direction before the Fed's rate decision, but quickly turned risk-on after the larger-size rate cut was announced. Fixed income performances were strongly positive across the board supported by the US rates rally as well as tightening credit spreads. Macro data in US were mixed, but generally reflected a cooling yet still resilient US economy. Another significant development took place in China late in the quarter, when the announcement of significant monetary and potentially fiscal stimulus measures sparked an impressive rally in Chinese risk assets, which also supported global risk sentiment. Yields on 5-year and 10-year US government bonds fell by 87 and 68 bps, respectively. Yields on the German 10-year Bunds followed suit and traded 48 bps lower, while those on the UK 10-year Gilts were 28 bps lower. On the credit side, US investment grade credits outperformed their European counterparts with both stronger credit spreads compression and rates rally by the former. This was also the case for US and Euro high yield. Within emerging markets, both sovereigns and corporates generated positive returns with sovereigns leading the charge.

Market review

Australian Economy

The Australian 3-year Government bond yield fell 54bp to end the quarter at 3.54% while the 10-year Government bond yield fell 34bp to end the quarter at 3.97%. Australian 10-year Government bonds underperformed US equivalents with the spread ending September at +20bp from close to flat the previous quarter. Credit spreads tightened modestly (Bloomberg AusBond Credit 0+ index tightened from 103bps to 95bps) and the Bloomberg AusBond Composite 0+ year Index returned 3.02%.

The RBA kept the official cash rate target unchanged at 4.35% over the quarter. Communication from the Board and the Governor continued to convey a message of vigilance on inflation risks with nothing ruled "in or out" with regards to future changes in the cash rate. During the quarter there was some market expectation that the RBA would need to raise the cash rate in August in response to less favourable inflation dynamics. However this did not realized as the inflation fears

were not borne out in the official data and actually by the end of the quarter the Board's rhetoric shifted to be more balanced. In particular, it was revealed at the September meeting that the Board did not actively discuss hiking the cash rate as it had been doing in recent meetings.

In terms of economic data, the main market focus was Australia's Q2 inflation release which printed below market expectations with the important underlying trimmed mean coming in at 0.8% q/q vs 1.0% expected. While this still represented an above-target 3.9% y/y rate, it was enough to act as a catalyst for a strong rally in bonds as the market discounted the chance of a final rate hike and moved to pricing in an easing cycle more in line with global counterparts. Otherwise the data showed a continuation of the trend of weak economic growth (Q2 GDP decelerated to a new cycle low of 1.0% y/y) and a gradual loosening of the labour market (unemployment rate increased 0.1%pt to 4.2% over the quarter).

Outlook and strategy

We continue to favour long duration strategies and remain active in global rates markets such as New Zealand, US and Europe where we see the most scope for the global easing cycle to deepen. These strategies continued to pay off in September as the US Federal Reserve commenced its easing cycle with an outsized 50bp rate cut and the bond market has begun to anticipate an acceleration in easing by the likes of the Reserve Bank of New Zealand and European Central Bank.

It is well understood that the RBA will lag its peers, similar to the tightening phase. Australia is in the “last mile” of the inflation battle with underlying inflation having trended around 3.5-4.0% for the last year. We expect disinflation to resume in the second half of the year and for the RBA to gain more confidence that its 2-3% inflation target will be achieved. High inflation in non-discretionary services such as rents and insurance will take time to ease whereas there has been much faster progress in curbing price increases in discretionary sectors. A weak consumer means growth is set to stay below trend for the foreseeable future with an unhealthy reliance on government spending, while we continue to see evidence that the labour market is gradually loosening.

We think the bigger picture for Australian bonds is that monetary policy is restrictive, and we see better opportunities in positioning for the RBA to join the global trend and commence an easing cycle likely starting early next year. This idea has started to get better reflected in the market, although the current pricing of a 100bps cutting cycle still looks shallow relative to peers. As the cutting cycle comes into clearer view we would expect three-year bond yields to trade down towards 3% (currently 3.54%) while we see longer-term value with 10-year yields at or above 4%.

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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