

Pendal Dynamic Income Fund

Performance

The Dynamic Income Fund returned 0.1% in December (preliminary, net of fees), underperforming its cash benchmark. Duration was the largest detractor though this was partially offset by gains in Australian investment-grade (IG) credit, emerging market (EM) and US high yield credit.

Current positioning

Duration management:

- Entered December with less than one year of duration, concentrated at the front end, as inflation fears resurfaced despite benign underlying CPI indicators.
- A hawkish RBA tone pushed rate cuts off the table, with markets aggressively repricing close to two hikes by end-2026.
- Maintained low duration, while remaining ready to add exposure once the “hot inflation” narrative begins to fade.

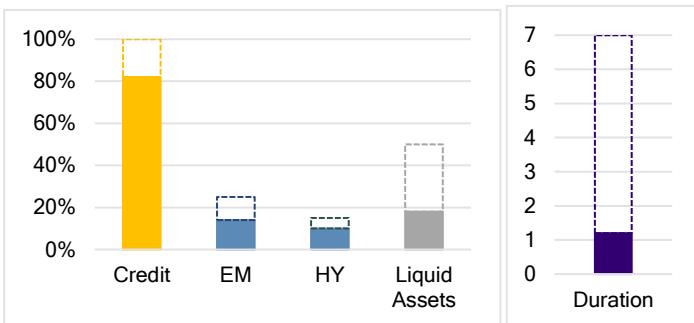
Credit markets:

- Maintained a constructive stance on IG credit, supported by strong balance sheets, contained refinancing risk, and stable fundamentals.
- Kept spread duration around 2.5 years, balancing attractive income against limited scope for further spread tightening.

Return booster allocation:

- Held maximum allocations in EM and US high yield for much of the month, supported by a favourable global macro backdrop.
- Moderating global inflation and gradual growth slowing reinforced a soft-landing narrative, particularly in the US.
- Easing financial conditions and strong carry dynamics continue to support risk-oriented fixed income exposures.

Asset allocation



Performance summary

Period	Dec 2025
Fund return	0.09%
Benchmark return	0.30%
Excess return	-0.21%

Past performance is not a reliable indicator of future performance. [Visit our website](#) for the Fund's full performance.

Outlook

Global macro environment:

- Markets grappled with how messy the easing cycle might become, as central banks diverged in tone and data sent mixed signals, driving significant volatility in global bond yields.
- The Fed's December cut exposed growing internal dissent, undermining confidence in a smooth, pre-set easing path and injecting uncertainty into rate expectations for 2026.
- US yields were volatile but ultimately stabilised as softer inflation and cooling labour-market data reinforced the view that policy rates are likely past their peak.

Australia-specific considerations:

- Australian bond yields moved higher, following the global sell-off and reflecting persistent concerns that domestic inflation has not yet been fully contained.
- Markets increasingly priced RBA divergence, with policymakers maintaining a cautious, hawkish stance and leaving open the possibility of rate hikes in 2026 if inflation continues to drift higher.

Investment strategy moving forward:

- The fund maintains an active approach to its duration positioning, preferring to stay away from any structural levels of duration for the portfolio whilst the push-and-pull forces continue to play out in higher bond market volatility.
- Credit market participation will remain selective, with a strong focus on pricing discipline, whilst maintaining a high-quality portfolio.
- The return booster allocation is towards the allowable upper limit of 30%. We anticipate this to be a favourable environment for carry.
- The fund remains committed to active asset allocation and risk-aware portfolio construction to navigate evolving market conditions effectively.

PENDAL

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